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**Integrated Report of  
KGHM Polska Miedź S.A.  
for 2020**

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# Table of Contents

Welcome to  
KGHM Polska  
Miedź S.A.

KGHM Group  
and its  
cooperation  
ecosystem

Our Strategy

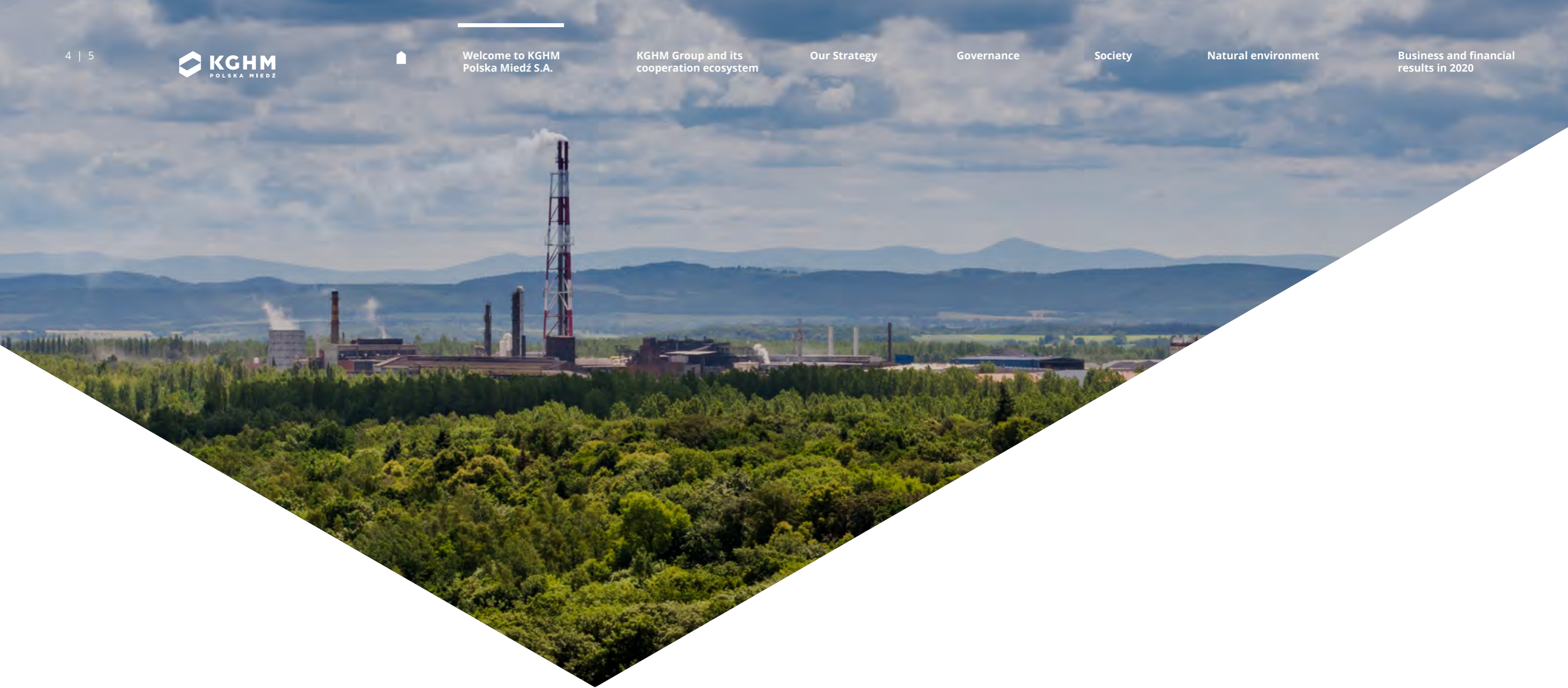
Governance

Society

Natural  
environment

Business  
and financial  
results in 2020





# Welcome to KGHM Polska Miedź S.A.

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- 6 Welcome to the Integrated Report of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group for 2020
- 22 Letter from the management board to stakeholders



# Welcome to the Integrated Report of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group for 2020

This comprehensive presentation of our business and operations describes the Parent Entity KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group, our actions and development directions in greater detail to our stakeholders and particularly to investors, financial institutions and insurers.

The 8th Integrated Report of the KGHM Polska Miedź S.A. Group presents the non-financial and financial performance of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group in the year 2020 (reporting period: 1 January – 31 December 2020) [GRI 102-50]. True to our commitment of publishing an annual integrated report every year [GRI 102-52], we are presenting our environmental, economic and social impact. The previous integrated

report for 2019 was published in 2020 [GRI 102-51]. No restatements [GRI 102-48] and no significant changes in reporting [GRI 102-49] have been made to the report. The report has been prepared using selected indicators under the Global Reporting Initiative (GRI) Standards.

## SUMMARY OF 2020

The KGHM Polska Miedź S.A. Group is a global, innovative organisation involved in technologically advanced exploration, mining and smelting operations. For several decades, the Company has been mining and processing valuable underground resources, supplying the world with products that enable its sustainable development. The Company's history began in 1957 with the discovery of one of the world's largest deposits of polymetallic ores, predominantly copper and silver, located in south-western Poland. The deposit has been effectively and rationally mined to this day. As the years went by, the KGHM Polska Miedź S.A. Group grew its business significantly both in terms of products and the market. Today, KGHM Polska Miedź S.A. is present on four continents: in Europe, South America, North America and Asia. It employs over

34 thousand staff worldwide who believe that what they do on a daily basis is significant for the world. Owing to their knowledge, courage and responsibility, the KGHM Polska Miedź S.A. Group produces valuable products, predominantly metals. Its core business is the production of copper along with other non-ferrous metals. The Group is one of the world's top producers of copper and silver. It also produces gold, molybdenum, nickel, rhenium, lead and platinum. The high quality of the copper, silver and other products have been confirmed by certificates awarded by various international commodity exchanges. By adopting a responsible approach, the KGHM Polska Miedź S.A. Group sets a good example for others, acting in accordance with its values in a transparent and socially responsible manner.

## COPPER - A STRATEGIC MATERIAL IN A CARBON NEUTRAL AND CIRCULAR ECONOMY



### Metal in a circular economy

Nearly 50% of copper produced in the EU is obtained through recycling



### Lower GHG emissions

While adding 0.4% GHG, copper contributes to reducing ~75% of emissions in EU society



### 22 million tonnes

Amount needed in the years 2020 – 2050 to make the European economy climate neutral



### Carrier of valuable metals

Copper metallurgy is needed to handle and recover many other valuable materials present in electronics, batteries, etc.



### Half a million people

Employed in the production and processing of nonferrous metals in Europe



### Green Energy generation, sustainable transport

Copper's innovative potential: wind turbines, photovoltaics, energy distribution and storage; electric cars and charging point infrastructure

### RAW MATERIALS A KEY TO SUSTAINABLE DEVELOPMENT AS WELL AS CARE FOR THE ENVIRONMENT AND ENSURING LIFE'S COMFORTS TO EMPLOYEES AND SOCIETY



In working towards our goals we concentrate on creating added value while at the same time ensuring solid and lasting foundations for the business and its people as well as successes in the long term.



We want to wisely invest our profits in newtechnology, innovative solutions, best available practice and employee development. We are aware that the sustainable development of the raw materials sector has become a global challenge for the modern world.

We operate based on the principles of sustainable development, reflecting in our daily activities obligations tied to such areas as Society, the Environment, the Economy, Safety and Resource efficiency.




**SUMMATION OF THE YEAR 2020 IN THE KGHM GROUP MAIN  
 MACROECONOMIC FACTORS AND ASPECTS OF THE GROUP  
 IN THE AGE OF THE COVID-19 PANDEMIC COMPARED TO 2019**
**Macroeconomic environment<sup>1)</sup>**
**+3%**

Copper price

**+27%**

Silver price

**+2%**
Stronger USD  
vs the PLN
**Production and C1 cost**
**+1.1%**

Copper production

**-4.5%**

Silver production

**-6.5%**

C1 cost

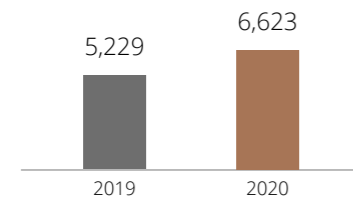
**Financial results**
**+4%**
Increase in revenues to  
PLN 23,632 mn
**+27%**
Increase in EBITDA<sup>2)</sup> to PLN  
6 623 mn

1) Macroeconomic data – average for the period  
 2) Adjusted EBITDA

**SUMMARY OF THE YEAR IN THE KGHM GROUP SELECTED KEY STATISTICS FOR 2020<sup>1)</sup>**

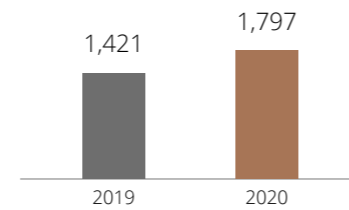
EBITDA<sup>2)</sup>  
[mln PLN]

**+27%**



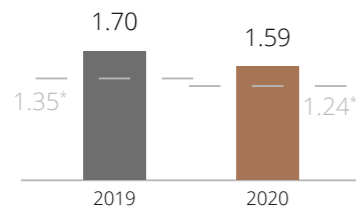
Profit for the period  
[mln PLN]

**+26%**



C1 net cost  
[USD/funt]

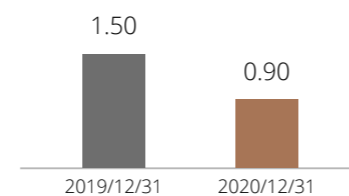
**-6%**



\*Z wyłączeniem podatku od wydobycia niektórych kopalin

Net debt/EBITDA  
[ratio]

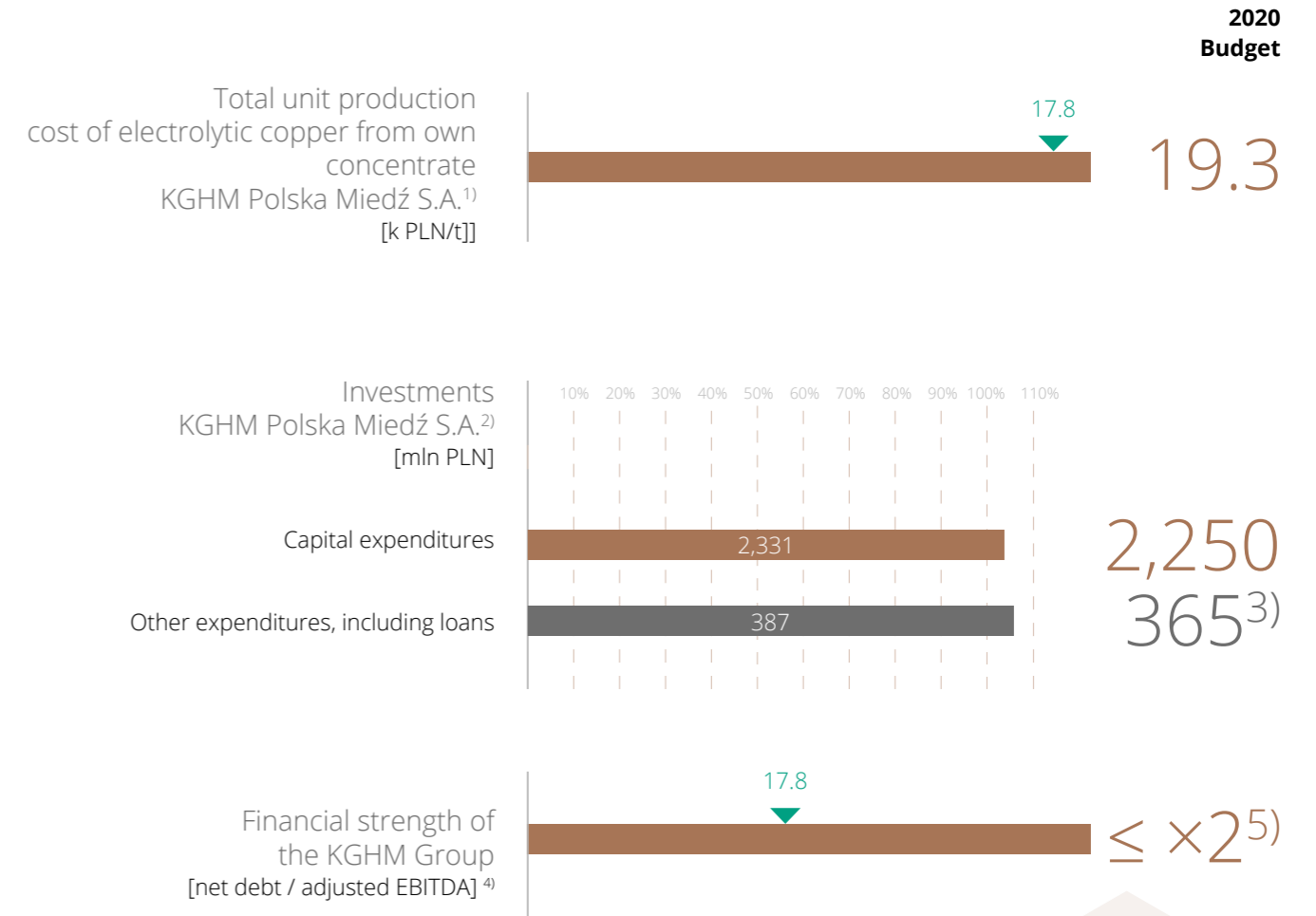
**-40%**



1) Consolidated data unless otherwise indicated, i.e. in the case of LTIFR - only KGHM Polska Miedź S.A.

2) Sum of segments; adjusted EBITDA = EBITDA (profit/(loss) on sales + depreciation/amortisation) adjusted by impairment losses on non-current assets

**THE FINANCIAL SITUATION OF THE KGHM GROUP REMAINS STABLE AND SAFE**



1) Sum of costs of extraction, floatation and metallurgical processing per cathode, together with support functions and cathode selling costs, adjusted by the value of inventories of half-finished products and work in progress, less the value of anode slimes and divided by the volume of electrolytic copper production from own concentrates

2) Capital expenditures – excluding costs of borrowing, leasing per IFRS 16 unrelated with an investment project and development work – uncompleted; Other expenditures – acquisition of shares and investment certificates of subsidiaries and associates and loans granted

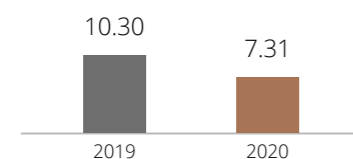
3) Reflects an adjustment of assumptions pursuant to regulatory filing 9/2020 dated 12 May 2020

4) Adjusted EBITDA for 12 months, to the end of the reporting period, excluding EBITDA of the joint venture Sierra Gorda S.C.M

5) Level of net debt/EBITDA ≤ 2 related to the Financial Liquidity Policy adopted by the Company and is not part of the budget assumptions of KGHM for 2020

LTIFR ratio  
[aktywa polskie]

**-29%**



**WE CARE, WE ACT, WE PROTECT EFFECTIVELY FIGHTING THE SPREAD OF THE CORONAVIRUS**

**Initiatives & procedures**

- COVID-19 unit at the hospital MCZ
- Two temporary hospitals in Legnica and Wałbrzych
- Help for seniors
- Home office and restricted contacts
- Protective procedures

**Preventative methods**

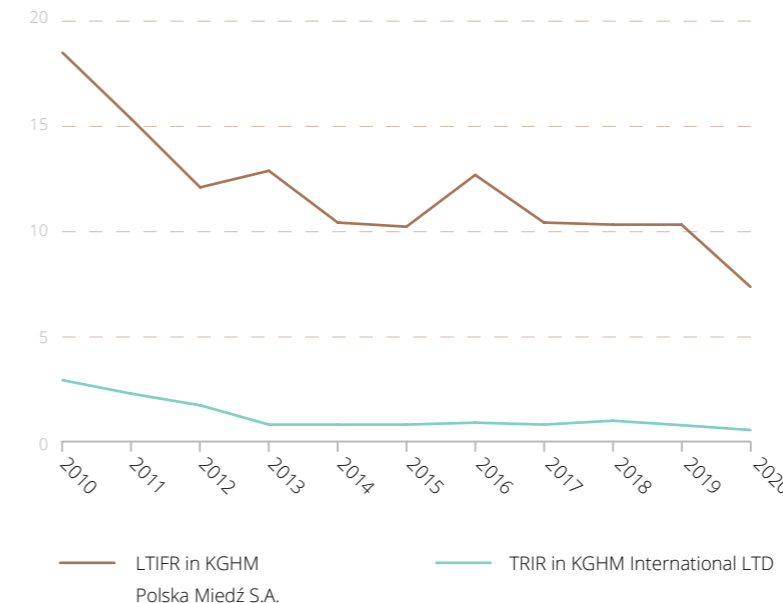
- Thermal cameras
- NITROSEPT disinfectant liquid
- Disinfection and masks in common-use areas and during transport
- Personal safety measures when travelling into/out of the mines

**Communication & education**

- Numerous communication channels
- Continuous announcements on internal procedures and sanitary services guidelines
- Billboards, educational films, handouts, newspapers and company TV
- Special Infolines for employees

**EMPLOYEE SAFETY AS A STRATEGIC PRIORITY FOR THE KGHM GROUP SUMMARY OF 2020**

**Safety and development**



**ISO 45001:2018**

Granting of an Occupational Health and Safety Management System Certificate

**Leader's Gold Card of Workplace Safety**

A 29% decrease in the number of recognised workplace accidents to 213 at year's end

**Historically-low accident ratio**

Thanks to the outstanding behaviour and commitment of all employees

**-29%**

Change in LTIFR yoy in KGHM Polska Miedź S.A.

**-32%**

Change in TRIR yoy in KGHM INTERNATIONAL







## KEY ELEMENTS OF THE STRATEGY ADVANCED IN 2020



### Production

- High production from domestic assets (mined production 442 kt; metallurgical production 560 kt)
- Stable production from international assets (Sierra Gorda 81.8 kt; Robinson 47.4 kt; Carlota 5 kt; Franke 12.5 kt; Zagłębie Sudbury 2.1 kt)
- Continuation of projects aimed at automatization



### Development

- Continuation of the Deposit Access Program (GG-1 shaft reached a depth of 1231 m)
- Continuation of Development of the Żelazny Most Tailings Storage Facility
- Continuation of exploration projects in Poland
- 22.42% of the general energy consumption of KGHM was supplied by its own internal sources and by developing RES
- The capacity to base 35% of production on purchased metal-bearing materials was achieved



### People and the Environment

- Actions to adapt to BAT Conclusions (incl. the BATAs Program dedicated to restricting emissions of arsenic)
- Continuation of the Occupational Health and Safety Program (LTIFR: 7.31, TRIR: 0.52)
- Implementation of the new BHP ISO 45001:2018 standard in the Company's Divisions
- Intensification of actions to fight COVID-19



### Financial Stability

- Greater use of factoring
- Optimisation of the financing structure
- Basing the Group's financing structure on long-term instruments
- Effective market and credit risk management in the KGHM Group



### Innovation

- Continuation of the CuBR venture
- Continuation of Implementation Doctorates Program
- Advancement of R&D work
- Start of initiatives related to testing EV mining machinery
- Continuation of projects financed under KIC Raw Materials and Horizon 2020



### Efficient Organisation

- Enhanced Energy efficiency
- Continuation of digital transformation under the KGHM 4.0 Program
- Optimisation of the international assets portfolio
- Work on improving support processes efficiency





## STRATEGY – ACTIONS TO PROTECT OUR CLIMATE

### Utilisation of waste as a resource

- Every year, KGHM's metallurgical plants generate 650-700 thousand tonnes of mastic slag – all of which is processed into a full-fledged product, for example in road building
- Over the last 10 years, KGHM Metraco has utilised around 10 million tonnes of slag - the same amount of this material did not need to be acquired from natural deposits
- Material from the metallurgical plants also found a use in the construction of the Southern Quarter of the Żelazny Most Tailings Storage Facility

### Utilisation of scrap

- Total production of anode copper at the Legnica Copper Smelter and Refinery in 2020 amounted to 167.6 thousand tonnes, including 58.8 thousand tonnes of production by the RCR furnace
- In 2020 a total of 91 thousand tonnes of scrap was processed at the Legnica Copper Smelter and Refinery into valuable copper

### Electric vehicles and low-emission mining machinery

- Introduction of electric vehicles
- Introduction in selected Divisions of several ultra-fast charging stations for commercial use, free-of-charge
- Gradual replacement of underground machinery with low-emission machines (already approx. 10%)
- Tests of electric battery-powered mining machinery

### Energy from own sources and RES

- 22.42% of the total amount of energy consumed by KGHM from internal energy generating source (nearly 1.5% more yoy)
- KGHM Zanam S.A. brought a 3.1 MWp photovoltaic power plant on-line
- Work continued on developing energy from RES (by 2030, 50% of energy from own sources and RES)

### Lower metallurgical emissions

- Actions to adapt 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



## STRATEGY EXECUTION AFTER 2 YEARS - SUMMARY



### Flexibility

We are adapting our activities to changes in our environment

- Consistent management of deposits and extraction
- Optimisation of metallurgical production – RCR furnace at Legnica, the concentrate roaster at Głogów
- New financing structure - from short-term to long-term
- Increased power generation from internal sources
- Actions were undertaken to eliminate generational gaps – HR programs
- Employee skills raised through adaptive and development projects
- Reviews of international assets



### Ecology

We rely on electromobility, the development of pro-ecological regulations, the Circular Economy and environmentally-friendly production in accordance with the highest safety standards

- Improved safety statistics in Poland and abroad
- Intelligent solutions introduced to enhance employee safety
- Numerous actions taken under the „Copper Heart” employee volunteer program
- Corporate income taxes paid by the Group to National and local budgets - around PLN 400 million annually
- Minerals extraction tax paid to the State budget – around PLN 1.5 billion annually
- New installations, in accordance with BAT (Best Available Techniques) conclusions for the nonferrous metals industry
- Investments in renewable energy sources (RES), mainly in developing photovoltaics
- Electromobility – tests of electric personnel and terrain vehicles; a switch from diesel engines to low-emission vehicle engines in the machinery park



### Efficiency

Our response to increase in competitiveness in the production and mining sector and Industry 4.0.

- Domestic mine production remains at the level of 450 kt of copper in ore; average annual metallurgical production at the level of 540 kt
- RCR furnace in Legnica – increased production capacity and the capability to process purchased materials
- Skills raised in energy development, including RES
- Development of the Żelazny Most Tailings Storage Facility by building the Southern Quarter
- External sources to finance R&D projects
- Financial efficiency increased - diversification of sources and adaptation of financing to the KGHM Group's needs



### E-Industry

We are implementing the idea of Industry 4.0., striving towards automation and robotisation of production, carrying out the digital transformation of the KGHM Group and building a knowledge-based society

- Pilot version of a „System for locating persons and machines in the underground mines”
- Development of „ Broad-band data transmission in the underground mines”
- Development of the „Centre of Advanced Data Analysis (CZAD)”
- Development of the „ Robotisation of production and auxiliary processes” - construction commenced on a CuXRF robot for scanning for copper content at the working faces
- Development of information technology to collect and transfer knowledge within the KGHM Group
- A new company - KGHM Centrum Analityki in Zielona Góra – R&D in the area of BigData to analyses industrial processes
- Projects related with the National Cybersecurity System and strengthening IT security within the Group



## Letter from the management board to stakeholders

[GRI 102-14]

Dear Stakeholders,  
KGHM in 2020, as one of the few companies in the sector which triumphed over the macroeconomic crisis, achieved its goals and ended the year with a satisfactory result. On behalf of the Management Board of KGHM Polska Miedź S.A. I hereby present you with results of the Company and of the KGHM Polska Miedź Group for 2020.



Last year, the world stood in the shadow of a wave of sickness from the COVID-19, the most serious pandemic in over a century, with an unpredictable course and impact on the economy of the entire globe. The pandemic caused a shock to the financial markets, leading to interruptions in its functioning, and even resulted in the short-term, unprecedented, complete lack of the ability to engage in financial transactions. This resulted in rapid and deep price collapses on commodities markets. Of significance for the markets was the situation on the oil market, where one of the contracts fell below zero, raising questions about the stability of the commodities pricing system.

In the case of KGHM, the turbulence on the copper market was to a large extent related to commodities logistics, which in turn were connected with the restrictions on travel and transport. The quarantines introduced in various countries caused substantial interruptions to production in many sectors. Another factor affecting the decision-making process during this time was the tremendous uncertainty as to the course and depth of the crisis. The belief was widely held that the nature of the crisis was completely different from others, in that it had not been caused by interruptions to the functioning of the financial system, but by the rapid collapse of economic activity by companies and households, as well as by restrictions to physical mobility, the consequence of which might have been a wave of bankruptcies and a long-term crisis.

The uncertainty on the financial markets and the potential threat posed to the operations required rapid and decisive actions to limit the risk to the Company's functioning.

The Strategy of the Company for the years 2019-2023 and the commitment of our employees to its advancement, sanitary discipline, flexibility in making decisions – this all played a part in the achievement of our results. Today we can proudly point to solid results in the areas of finance, development, environmental protection and energy, as well as – and pre-eminently – as regards safety and countering the effects of COVID-19.

The main source of the Group's operating results are those achieved by KGHM Polska Miedź S.A. We maintained production at a stable level; the continuity of these processes were not under threat. Prudent estimates of risk enabled us to maintain our planned level of production. I would

like here to present you with the major effects of the management and operational actions of KGHM in the past year.

The highest level of EBITDA since the acquisition of the international assets of the KGHM Group, over PLN 6.6 billion; the continued full operating capacity of our assets; excellent sales results; safety and continued employment for our thousands of workers – these are the achievements of which we are especially proud. Assets in the consolidated statement of financial position amounted to PLN 42 780 million and were higher compared to their level as at 31 December 2019 by PLN 3 371 million.

We continued actions to ensure long-term financial stability by basing the financing structure on diversified and long-term financing sources. We are consistently reducing our level of debt, and at the end of 2020 the debt ratio, measured as the relationship of net debt to EBITDA, fell to 0.9 from 1.5 at the end of the prior year. Equity of the KGHM Group amounted as at 31 December 2020 to PLN 21 081 million and was higher by PLN 879 million than at the end of 2019. The profit for the period of PLN 1 797 million was higher than last year by +26.5%.





In 2020 the KGHM Polska Miedź S.A. Group was fully capable of meeting its financial obligations. The cash and cash equivalents held by the Group and the external financing obtained guarantee continued liquidity and enable the achievement of investment goals. Cash and cash equivalents in 2020 increased by PLN 1 506 million and as at 31 December 2020 amounted to PLN 2 522 million.

Despite the pandemic, in KGHM we did not slow down. In terms of the long-term outlook, we continued to advance key investments. Our strategic investment in building the Southern Quarter of the Żelazny Most Tailings Storage Facility is on track. In mining we advanced investment projects supporting the dewatering in the Polkowice-Sieroszowice mine. We continued the Deposit Access Program, including work on sinking the GG-1 shaft.

In metallurgy we advanced investment projects involving the replacement of equipment and optimisation at the Głogów I Copper Smelter and Refinery. We completed this work ahead of schedule and despite the operational difficulties imposed by the pandemic-related restrictions. At the Legnica Copper Smelter and Refinery we invested in optimisation projects utilising the production capacity of existing infrastructure and its development aimed at increasing scrap processing. These actions are part of our plans to produce green copper and are aligned with the ecological pillar of our development strategy.

Amongst the projects in our investment portfolio which are of unwavering importance are those connected with protecting the natural environment, including investment projects aimed at limiting polluting emissions. Both at the Legnica Copper Smelter and Refinery as well as at the Głogów Copper Smelter and Refinery we carried out projects to adapt the metallurgical installations to BATAs conclusions. The new Gas Treatment installation at the Legnica Copper Smelter and Refinery, whose construction started in 2020, will ultimately reduce residual pollution by up to 99 percent. Our business model is combined with care for

the environment; every segment of this model incorporates standards which ensure the safe and environmentally-friendly conduct of operations.

In the past year we also intensified our actions in the area of energy generation, aiming to increase the amount of energy supplied by our own resources, including renewables (RES). As part of a Company Program called „Development of energy generation, including RES” we adopted among others a Spatial Planning Concept which foresees an increase in installed capacity in two photovoltaic power plant projects. These power plants will arise on land owned by KGHM’s divisions.

We initiated procedures to alter planning documentation in municipalities in which in future there will arise renewable energy sources. Meanwhile, in December 2020 KGHM ZANAM brought on-line the first photovoltaic power plant in Poland using 4.0. technology. Green energy is a global trend, one which we as a Company intend to pursue, as it brings with it many challenges and opportunities for our business. We want to produce „green copper”, utilising clean energy. We should remember that there is no climate-related transformation without copper. At the same time there is no Green Deal without KGHM.

I wish to point out that in KGHM we treat the question of our people’s safety with particular care. Thanks to the attitude and commitment of all of our employees, in 2020 we marked a record low accident rate in the form of the LTIRFKGHM (Lost Time Injury Frequency Rate KGHM). It amounted to 7.3, or a decrease by 29 percent compared to 2019 and as much as 61 percent compared to 2010. So too KGHM INTERNATIONAL LTD. in 2020, despite the exceptionally tough conditions presented by the pandemic, recorded its best result in history in terms of occupational health and safety.

In the past year, because of the coronavirus pandemic, the health and safety of employees and their families took on an exceptional significance and became an unprecedented

priority. As a result we undertook a variety of actions of a prophylactic, communications and procedural nature, aimed at minimising the negative impact of the pandemic and restricting the

possibility of the disease’s spread. Thanks to the commitment and responsibility demonstrated by our employees, both in KGHM Polska Miedź S.A. and in the international mines of the Group, there were no production shutdowns directly attributable to the pandemic. We also provided support to our communities, assisting in equipping the health services, engaging in volunteer actions or help for seniors, while the Group company Nitroerg commenced the manufacture of a disinfectant liquid which found its way into schools, institutions and hospitals throughout Poland.

At this point I would like to express my gratitude to all of our stakeholders. The dialogue we have engaged in for years enabled us to develop mutual respect, of such importance given the challenges and tough decisions we had to face so many times over the past year.

My special thanks goes to our employees, not only for their toil and hard work on behalf of the Company’s and KGHM Group’s development, but also for their enormous responsibility and discipline, as demonstrated numerous times in 2020.

Thanks also to our shareholders and customers for the trust you have shown in us. My sincere respects to our local communities for being good neighbours and for their mutual efforts to develop the regions in which we both operate.

2021 will be an exceptional year for KGHM. This year marks the 60th anniversary of the founding of our company, for which we have ambitious and courageous plans which are reflected in our budget plans. The PLN 2.9 billion targeted for the operations in Poland and PLN 0.3 billion for the international and Polish supporting operations is more than the average in recent years. We bet on development, as we know that the future is made of copper, and KGHM is one of the giants in the production of this metal. The copper and commodities that we produce build the technologies of the future, and at the same time the future of the Group and the reality that surrounds us.

I invite you to review our data and non-financial indicators, whose reporting is especially important to us, along with the attached Non-financial report for the year 2020.

Respectfully yours,

**Marcin Chludziński**

President & CEO  
 KGHM Polska Miedź S.A.

Lubin, 12 May 2021





[GRI 102-1], [GRI 102-2], [GRI 102-3],  
[GRI 102-4], [GRI 102-6], [GRI 102-7]

# KGHM Group and its cooperation environment

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- 28 About us
- 34 Organisational structure
- 38 Our assets
- 50 Our stakeholders
- 54 Market environment and trends
- 68 Impact of COVID-19 on the functioning of the Company and the Group
- 72 Our competitive advantages
- 76 KGHM in the capital market



## About us

[GRI 102-1], [GRI 102-2], [GRI 102-3], [GRI 102-4], [GRI 102-6], [GRI 102-7]

The KGHM Polska Miedź S.A. Group is a global, innovative organisation involved in technologically advanced exploration, mining and smelting operations. For several decades, the Company has been mining and processing valuable underground resources, supplying the world with products that enable its sustainable development.

The Company's history began in 1957 with the discovery of one of the world's largest deposits of polymetallic ores, predominantly copper and silver, located in south-western Poland. The deposit has been effectively and rationally mined to this day. As the years went by, the KGHM Polska Miedź S.A. Group grew its business significantly both in terms of products and the market. KGHM Polska Miedź S.A. is present on four continents: in Europe, South America, North America and Asia. The KGHM Polska Miedź S.A. Group is comprised of KGHM Polska Miedź S.A. as the Parent Entity and several dozen subsidiaries. As at 31 December 2020, the Group was composed of

KGHM Polska Miedź S.A. as the Parent Entity and 71 subsidiaries (including two closed-end, non-public investment funds), employing more than 34 thousand people globally, trusting that what they do is important for the world. Owing to their knowledge, courage and responsibility, the KGHM Polska Miedź S.A. Group produces valuable products, predominantly metals. Its core business is the production of copper along with other non-ferrous metals. We should also note the development of the resource base, which is a key element in securing the exploitation potential of geological resources. The Group is one of the world's top producers of copper and silver. It also produces gold,

molybdenum, nickel, rhenium, lead and platinum. The high quality of the copper, silver and other products have been confirmed by certificates awarded by various international commodity exchanges. By adopting a responsible approach, the KGHM Polska Miedź S.A. Group sets a good example for others, acting in accordance with its values in a transparent and socially responsible manner.

The cohesion of such a complex organisation is built on a set of common values: **ZERO HARM, TEAMWORK, RESULTS DRIVEN, ACCOUNTABILITY AND COURAGE.** KGHM is a company with 60 years of history, operating on the basis of deeply rooted values and principles which its employees follow in their daily activities. Zero harm, teamwork, results driven, accountability and courage – these values connect all of KGHM's employees, whether they work in mines, processing plants or smelters, in Poland or in other parts of the world. KGHM builds its global position in the world as a reliable producer, trusted

business partner and a company pursuing a sustainable development policy. The Company has been listed on the Warsaw Stock Exchange for nearly a quarter century and is included in the WIG20, WIG30 and WIG-ESG indices. KGHM Polska Miedź S.A. is also among companies included in the FTSE4Good Index Series.





Specifically, the business of the KGHM Polska Miedź S.A. Group covers the following areas:

1. Mining of other non-ferrous metal ores (07.29.Z),
2. Operation of gravel and sand pits; mining of clays and kaolin (08.12.Z),
3. Extraction of salt (08.93.Z),
4. Manufacture of industrial gases (20.11.Z),
5. Manufacture of other inorganic basic chemicals (20.13.Z),
6. Precious metals production (24.41.Z),
7. Lead, zinc and tin production (24.43.Z),
8. Copper production (24.44.Z),
9. Other non-ferrous metal production (24.45.Z),
10. Casting of copper and copper alloys (24.54.A),
11. Casting of other non-ferrous metals, not elsewhere classified (24.54.B),
12. Forging, pressing, stamping and roll-forming of metal; powder metallurgy (25.50.Z),
13. Repair and maintenance of machinery (33.12.Z),
14. Repair and maintenance of electrical equipment (33.14.Z),
15. Installation of industrial machinery and equipment (33.20.Z),
16. Production of electricity (35.11.Z),
17. Transmission of electricity (35.12.Z),
18. Distribution of electricity (35.13.Z),
19. Trade of electricity (35.14.Z),
20. Production of gaseous fuels (35.21.Z),
21. Distribution of gaseous fuels through mains (35.22.Z),
22. Trade of gaseous fuels through mains (35.23.Z),
23. Steam, hot water and air conditioning supply (35.30.Z),
24. Water collection, treatment and supply (36.00.Z),
25. Waste disposal and treatment (37.00.Z),
26. Collection of non-hazardous waste (38.11.Z),
27. Collection of hazardous waste (38.12.Z),
28. Treatment and disposal of non-hazardous waste (38.21.Z),
29. Treatment and disposal of hazardous waste (38.22.Z),
30. Dismantling of wrecks (38.31.Z),
31. Recovery of sorted materials (38.32.Z),
32. Remediation activities and other waste management services (39.00.Z),
33. Electrical installation (43.21.Z),
34. Agents involved in the sale of fuels, ores, metals and industrial chemicals (46.12.Z),
35. Wholesale of metals and metal ores (46.72.Z),
36. Wholesale of chemical products (46.75.Z),
37. Wholesale of waste and scrap (46.77.Z),
38. Retail sale of automotive fuel in specialised stores (47.30.Z),
39. Retail sale via mail order houses or via Internet (47.91.Z),
40. Other retail sale not in stores, stalls or markets (47.99.Z),
41. Urban and suburban passenger land transport (49.31.Z),
42. Warehousing and storage of other goods (52.10.B),
43. Holiday and other short-stay accommodation (55.20.Z),
44. Other food service activities (56.29.Z),
45. Wired telecommunications activities (61.10.Z),
46. Other telecommunications activities (61.90.Z),
47. Computer programming activities (62.01.Z),
48. Computer facilities management activities (62.03.Z),
49. Other information technology and computer service activities (62.09.Z),
50. Data processing, hosting and related activities (63.11.Z),
51. Web portals (63.12.Z),
52. Activities of holding companies (64.20.Z),
53. Financial leasing (64.91.Z),
54. Other credit granting (64.92.Z),
55. Other financial service activities, except insurance and pension funding, not elsewhere classified (64.99.Z),
56. Buying and selling of own real estate (68.10.Z),
57. Renting and operating of own or leased real estate (68.20.Z),
58. Accounting and bookkeeping activities, tax consultancy (69.20.Z),
59. Activities of head offices and holding companies, except financial holding companies (70.10.Z),
60. Business and other management consultancy activities (70.22.Z),
61. Engineering activities and related technical consultancy (71.12.Z),
62. Other research and experimental development on natural sciences and engineering (72.19.Z),
63. Renting and leasing of office machinery and equipment (including computers) (77.33.Z),
64. Renting and leasing of other machinery, equipment and tangible goods, not elsewhere classified (77.39.Z),
65. Security systems service activities (80.20.Z),
66. Fire service activities (84.25.Z),
67. Other non-scholastic forms of education, not elsewhere classified (85.59.B),
68. Growing of other non-perennial crops (01.19.Z),
69. Growing of other perennial crops (01.29.Z),
70. Silviculture and other forestry activities, except of gathering of forest products (02.10.Z),
71. Logging (02.20.Z),
72. Gathering of wild growing non-wood products (02.30.Z),
73. Support services to forestry (02.40.Z),
74. Mining of lignite (05.20.Z),
75. Extraction of natural gas (06.20.Z),
76. Mining of uranium and thorium ores (07.21.Z),
77. Mining of chemical and fertiliser minerals (08.91.Z),
78. Other mining and quarrying, not elsewhere classified (08.99.Z),
79. Support activities for other mining and quarrying (09.90.Z),
80. Manufacture of lime and plaster (23.52.Z),
81. Manufacture of plaster products for construction purposes (23.62.Z),
82. Manufacture of other articles of concrete, plaster and cement (23.69.Z),
83. Extraction of crude petroleum (06.10.Z),
84. Support activities for petroleum and natural gas extraction (09.10.Z),





mining of copper ores and nonferrous metal	production of metals, among others copper, nickel, gold, platinum, palladium	manufacturing of goods from copper and precious metals	underground construction services
recycling of non-ferrous metals			manufacturing of mining machinery and equipment
recovery of metals accompanying copper ore	production of road construction aggregate	research, analysis and design services	transportation services

The activities of the KGHM Polska Miedź S.A. Group with respect to the exploration and mining of copper and nickel ore and precious metals deposits is based on the concessions held by KGHM Polska Miedź S.A. for the mining of deposits in Poland and the legal titles held by companies belonging to the KGHM INTERNATIONAL LTD. Group for exploration and extraction of raw materials in the USA, Canada and Chile.

As at 31 December 2020, the Group was composed of KGHM Polska Miedź S.A. as the Parent Entity and 71 subsidiaries (including two closed-end, non-public investment funds) located on four continents: Europe, North America, South America and Asia. Some of these subsidiaries formed their own groups. The largest of them, both in terms of the number of members and the value of equity, is the KGHM INTERNATIONAL LTD. Group the main assets of which are located in Canada, the United States and Chile. It consisted of KGHM INTERNATIONAL LTD. and of 26 of its subsidiaries. As at the end date of the reporting period, the KGHM Polska Miedź S.A. Group held a stake in two joint ventures – Sierra Gorda S.C.M. and NANO

CARBON Sp. z o.o. w likwidacji. The detailed structure of the KGHM Polska Miedź S.A. Group, along with interconnections between its members, is depicted in the two following diagrams.

The major companies from the Group involved in the mining industry make up three basic reporting segments, each of which is subject to a separate assessment by the managing authorities. KGHM Polska Miedź S.A., KGHM INTERNATIONAL LTD. and Sierra Gorda S.C.M. Other companies, with the exception of Future 1 Sp. z o.o., Future 2 Sp. z o.o., Future 3 Sp. z o.o., Future 4 Sp. z o.o., Future 5 Sp. z o.o., Future 6 Sp. z o.o. in liquidation and Future 7 Sp. z o.o. in liquidation, are classified into the “other segments” category.

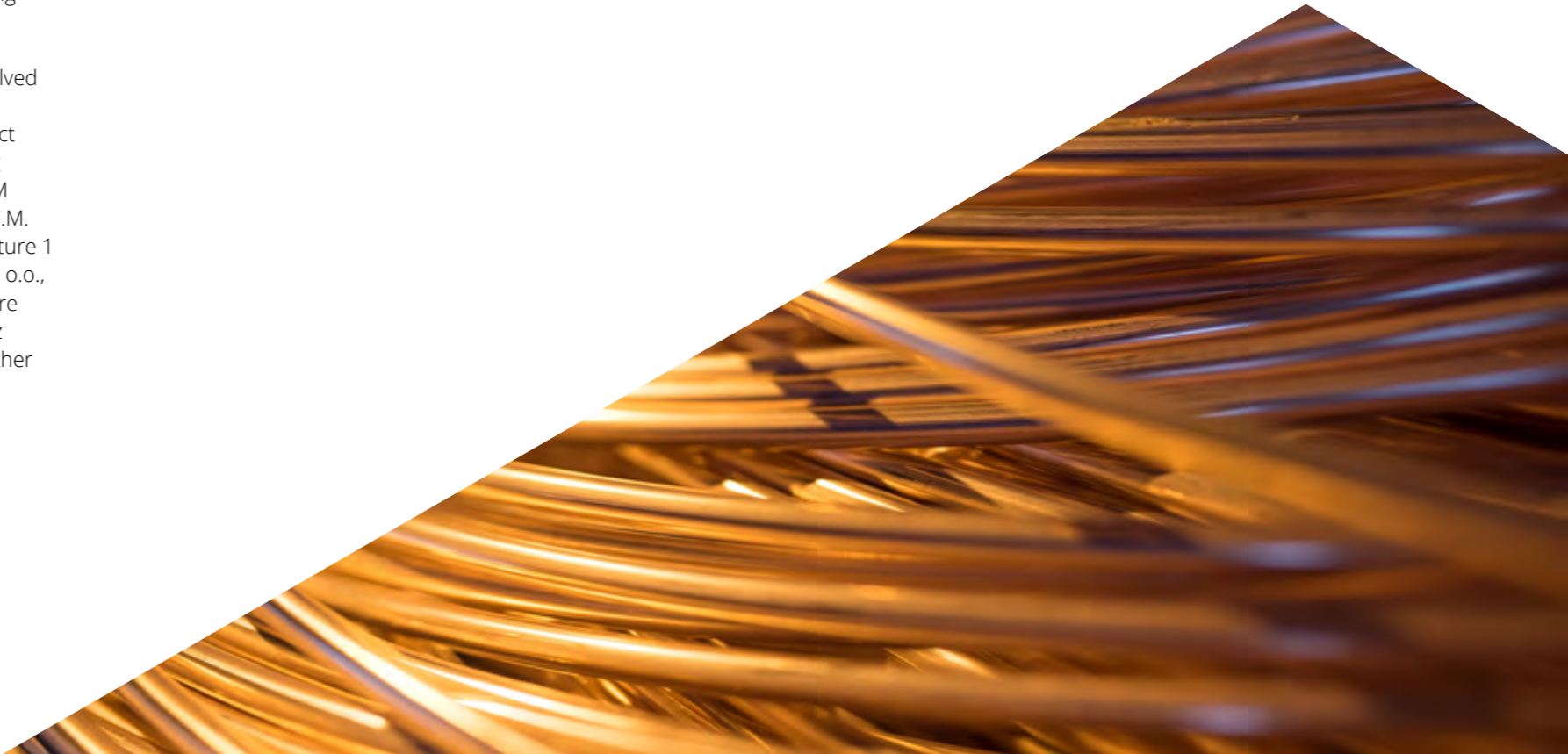
### ORGANISATIONAL STRUCTURE OF KGHM POLSKA MIEDŹ S.A.

[GRI 102-5]

The Parent Entity of the KGHM Polska Miedź S.A. Group – KGHM Polska Miedź S.A. with its registered office in Lubin at ul. M. Skłodowskiej-Curie 48, – is a joint-stock company

entered in the register of commercial undertakings kept by the District Court in Wrocław-Fabryczna, 9th Commercial Division of the National Court Register under file number KRS 23302.

In 2020, the multi-divisional enterprise operating as KGHM Polska Miedź S.A. consisted of the Head Office and 10 Divisions, as shown in the following diagram:



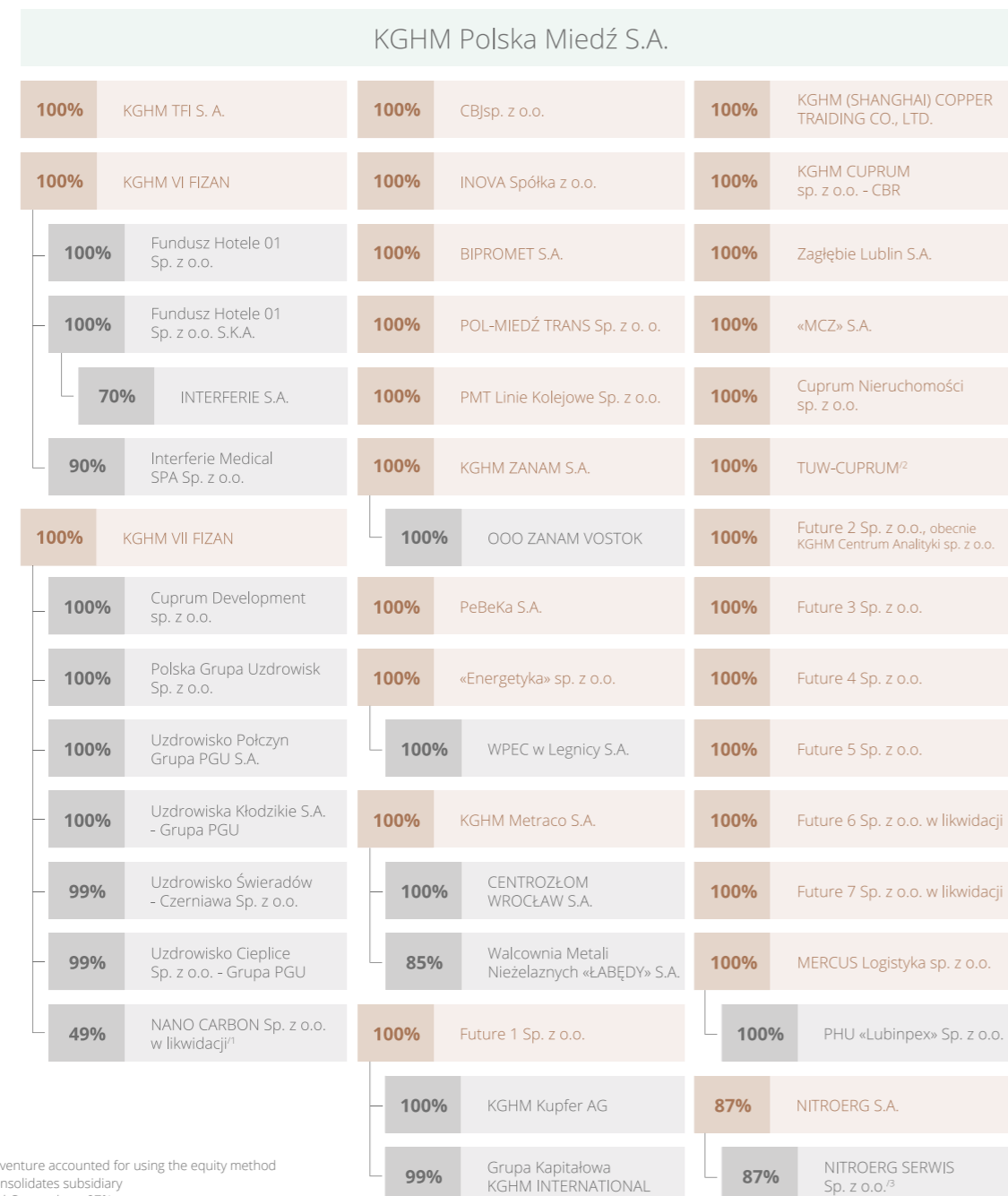


# Struktura organizacyjna

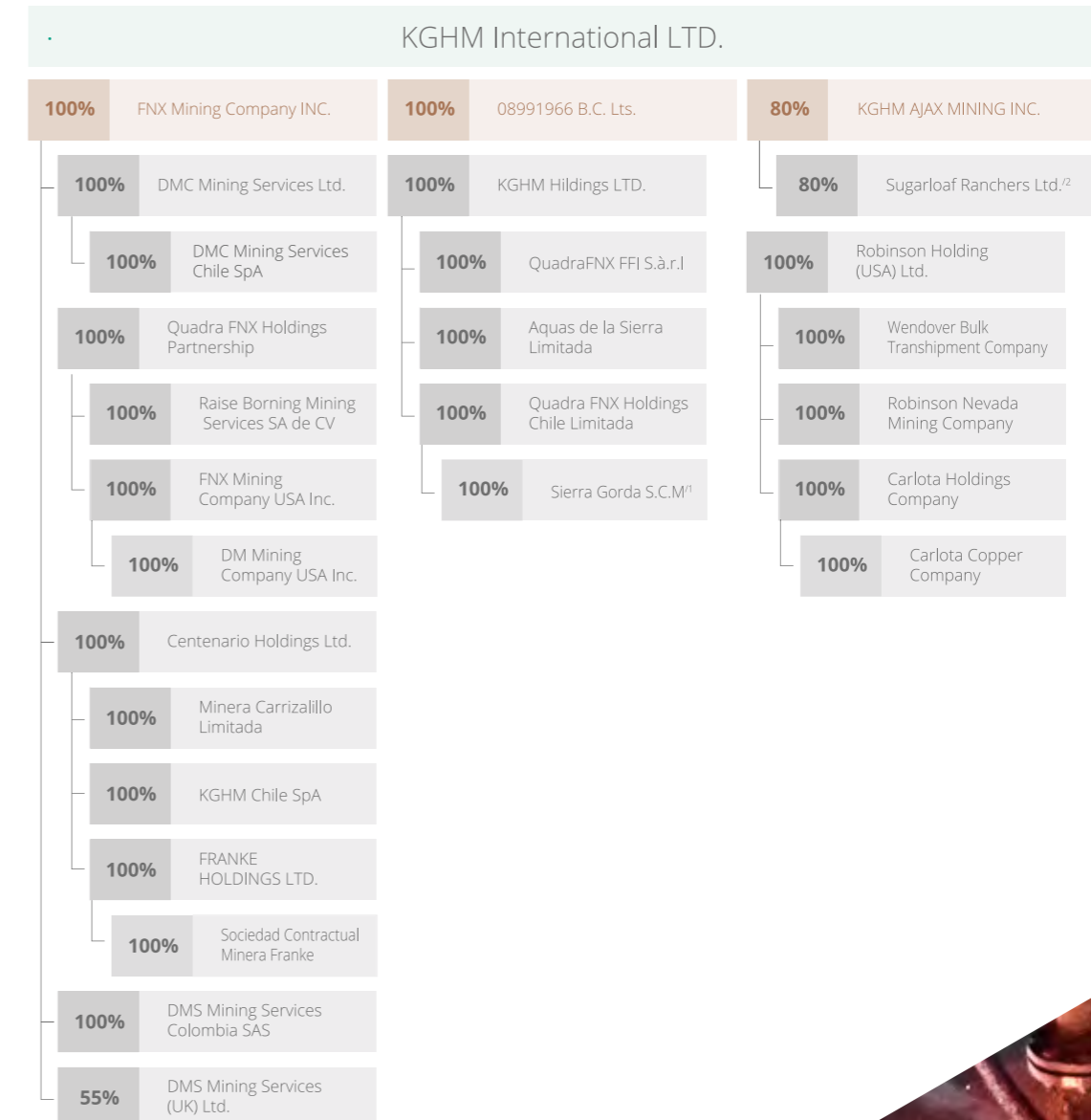
[GRI 102-1], [GRI 102-2], [GRI 102-3], [GRI 102-4], [GRI 102-6], [GRI 102-7]

## ORGANISATIONAL STRUCTURE OF THE KGHM POLSKA MIEDŹ S.A. GROUP, INCLUDING KGHM INTERNATIONAL LTD., AND THE POSITION OF KGHM POLSKA MIEDŹ S.A. AS THE PARENT ENTITY AND ITS STAKES IN EACH COMPANY

[GRI 102-5] [GRI 102-45]



1/ joint venture accounted for using the equity method  
2/ unconsolidates subsidiary  
3/ actual Group share 87%



1/ joint venture accounted for using the equity method  
2/ actual Group share 80%





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



<sup>1)</sup> a joint venture between KGHM INTERNATIONAL LTD., Sumitomo Metal Mining and the Sumitomo Corporation

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

- Future 1 Sp. z o.o., which acts as a holding company of the KGHM INTERNATIONAL LTD. Group,
- Future 2 Sp. z o.o., Future 3 Sp. z o.o., Future 4 Sp. z o.o., Future 5 Sp. z o.o., Future 6 Sp. z o.o. in liquidation, Future 7 Sp. z o.o. in liquidation, which operate within a structure associated with the establishment of a Tax Group.

These companies do not carry out any operating activities affecting the performance of the individual segments, therefore adding them could affect the data presented in this part of the consolidated financial statements, because of the significant values of internal settlements with other Group entities.

KGHM Polska Miedź S.A., KGHM INTERNATIONAL LTD. and Sierra Gorda S.C.M. Segments have separate Management Boards, which report performance of its operations to the Parent Entity's Management Board.

The KGHM Polska Miedź S.A. segment consists of the Parent Entity only and the Sierra Gorda S.C.M. segment consists of the Sierra Gorda joint venture only.

### CHANGES IN THE MAIN GROUP GOVERNANCE PRINCIPLES

[GRI 102-10]

The Group's governance model was not changed in 2020. Within the existing broadly defined governance principles, actions were taken to coordinate the processes occurring in the Group, among others in the commercial area, in order to maintain continuity and security of the core production business. Activities associated with the COVID-19 pandemic were some of the more important aspects in this area. Coordination of activities at the Parent Entity level was aimed at mitigating the impact of negative effects of the pandemic on the activity of Group entities.



<sup>1)</sup> a joint venture between KGHM INTERNATIONAL LTD., Sumitomo Metal Mining and the Sumitomo Corporation

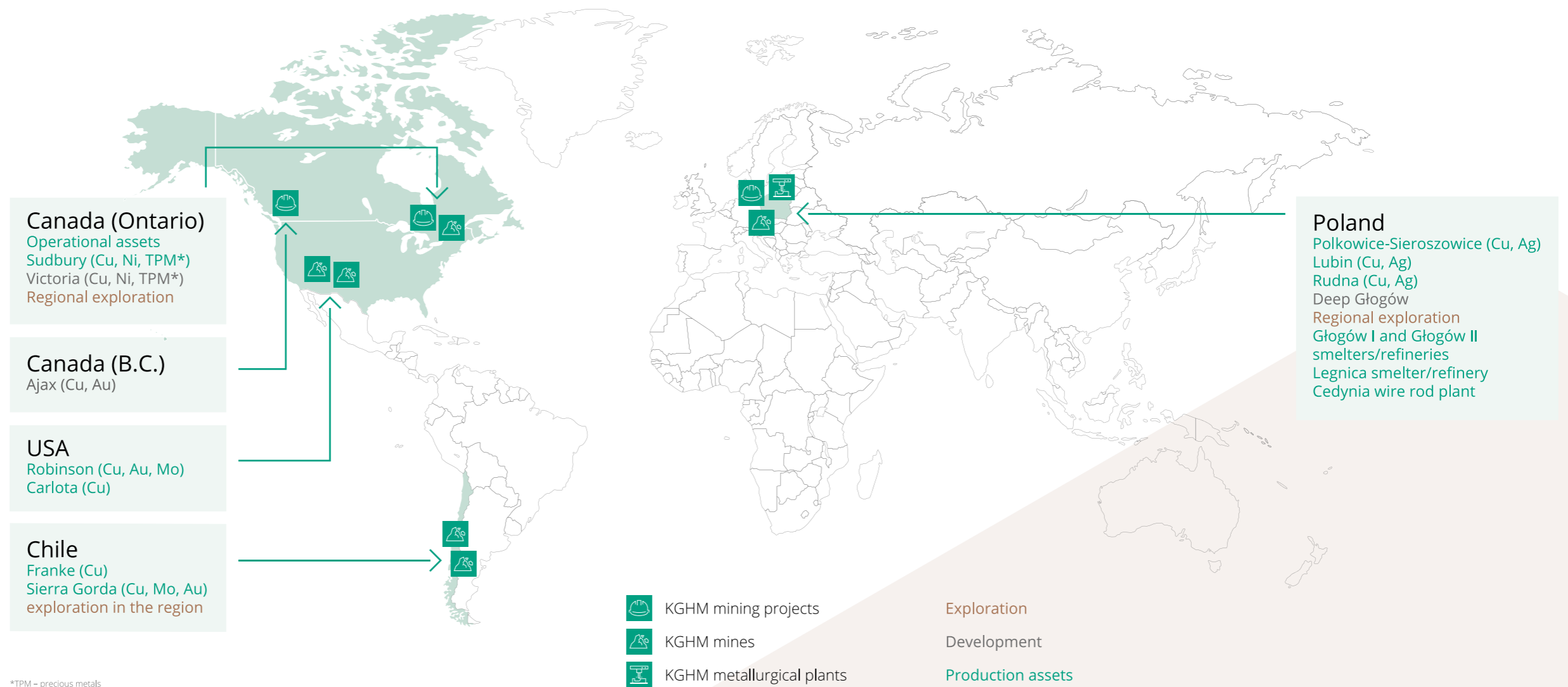
# Our assets

The KGHM Polska Miedź S.A. Group holds geographically diversified mining assets (mines of copper ore and accompanying elements, such as silver, molybdenum, nickel, gold and other precious metals) located in Poland, the USA, Chile and Canada and copper smelters in Poland.

The key international asset – the Sierra Gorda mine, which is a joint venture between KGHM INTERNATIONAL LTD., Sumitomo Metal Mining and the Sumitomo Corporation – is located in Chile. In addition, the KGHM Polska Miedź S.A. Group has mine projects which are at the preproduction

phase (among others Victoria, Sierra Gorda Oxide), as well as other exploration projects.

## PRODUCTION ACTIVITY OF THE KGHM POLSKA MIEDŹ GROUP ACROSS THE WORLD:





## POLAND

### Polkowice-Sieroszowice Mine

Location	Lower Silesia, Poland
Ownership	KGHM Polska Miedź S.A.
Type of mine	underground
Main ore type	copper ore
Accompanying mineral	Silver, lead, rock salt, gold
Type of orebody	stratiform
End product	copper ore
Copper in extracted ore in 2020	191.0 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) deposit.

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

Mining 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.

### Lubin Mine

Location	Lower Silesia, Poland
Ownership	KGHM Polska Miedź S.A.
Type of mine	underground
Main ore type	copper ore
Accompanying mineral	silver, lead, gold
Type of orebody	stratiform
End product	copper ore
Copper in extracted ore in 2020	73.5 kt

The Lubin Mine is located in Lower Silesia, to the north-west of the boundary of the town of Lubin. It mines the copper deposit in the mining area Lubin-Małomice at a depth from 550 meters to 1,006 meters.

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 million tonnes of ore per year.

### Rudna Mine

Location	Lower Silesia, Poland
Ownership	KGHM Polska Miedź S.A.
Type of mine	underground
Main ore type	copper ore
Accompanying mineral	silver, lead, gold
Type of orebody	stratiform
End product	copper ore
Copper in extracted ore in 2020	177.4 kt

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).

The copper orebody in the currently mined deposit ranges from 844 meters to 1,250 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.

### Głogów Copper Smelter

Location	Lower Silesia, Poland
Ownership	KGHM Polska Miedź S.A.
Type of metallurgical plant	smelter/refinery
End product	electrolytic copper
Electrolytic copper production in 2020	437.1 kt

This complex of metallurgical plants located in Głogów comprises two copper concentrate smelting lines based on the technology of one-stage concentrate smelting in flash furnaces. Apart from electrolytic copper, the Głogów Copper Smelter and Refinery Division produces crude lead (about 30 thousand tonnes annually), silver (around 1,218 tonnes), gold (around 2 tonnes) and sulphuric acid (over 500 thousand tonnes).



### Legnica Copper Smelter

Location	Lower Silesia, Poland
Ownership	KGHM Polska Miedź S.A.
Type of metallurgical plant	smelter/refinery
End product	electrolytic copper
Electrolytic copper production in 2020	123.3 kt

The smelter and refinery located in Legnica has a current production capacity of 120 thousand tonnes of electrolytic copper. It has been in operation since the 1950s and uses shaft furnace technology. Apart from electrolytic copper, the smelter also produces around 30 thousand tonnes annually of refined lead and also around 100 thousand tonnes of sulphuric acid, as well as copper sulphate and nickel sulphate.

### Cedynia Wire Rod Plant

Location	Lower Silesia, Poland
Ownership	KGHM Polska Miedź S.A.
Type of metallurgical plant	processing
End product	copper wire rod and Cu-OFE rod
Production in 2020	245.4 kt of copper wire rod and 14.1 kt of oxygen-free copper rod

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 the Legnica Copper Smelter. The basic product of the Cedynia Wire Rod Plant is copper wire rod produced in a Contirod line amounting to around 250 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.

## THE UNITED STATES

### Robinson Mine

Location	Nevada, USA
Ownership	100% KGHM INTERNATIONAL LTD.
Type of mine	open pit
Main ore type	copper ore
Accompanying mineral	gold and molybdenum
Type of orebody	porphyry/skarn
End product	copper and gold concentrate, molybdenum concentrate
Payable copper production in 2020	47.4 kt

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 2,130 meters a.s.l., near highway no. 50.

The mine comprises 3 large pits: Liberty, Tripp-Veteran and Ruth. Currently, Ruth is in operation. The ore is extracted by conventional methods, and is then processed into a copper and gold concentrate, and separately into molybdenum concentrate in a concentrating plant.

### Carlota Mine

Location	Arizona, USA
Ownership	100% KGHM INTERNATIONAL LTD.
Type of mine	open pit
Main ore type	copper ore
Type of orebody	porphyry
End product	copper cathodes
Payable copper production in 2020	5.0 kt

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.

In the Carlota mine copper ore is extracted by conventional methods typical for open-pit metals mines, i.e. the ore is mined by blasting and then transported by haulage trucks. In 2018 mining re-commenced in the Eder South area.



## CANADA

### Sudbury Basin

Location	Sudbury, Ontario, Canada
Ownership	100% KGHM INTERNATIONAL LTD.
Type of mine	underground
Main ore type	copper ore, nickel, platinum, palladium and gold
Type of orebody	footwall/contact Ni
End product	copper and nickel ore with precious metals
Payable copper production in 2020	2.1 kt

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; however, since April 2019, mining has only been conducted in the underground McCreedy West mine due to the fact that the Morrison/Levack mine was 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.

### Victoria Project

Location	Sudbury Basin, Ontario, Canada
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 ore, nickel and precious metals
Forecast annual production	16 kt Ni, 18 kt Cu

This project is located in the Canadian province of Ontario, approx. 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 confirmed the continuity and characteristics of the mineralisation to the level of approximately 2,200 meters below the surface.

Based on analytical work performed in 2017, the 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 sinking of the production shaft.

In 2020, exploration work continued to increase the knowledge of mineral resources in the project and measures were taken to maintain good relations with the project's key stakeholders. Work has begun on preparing and securing selected infrastructure elements as a preparatory step for further project development.





### Ajax Project

Location	Kamloops, British Columbia, Canada
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

Projekt Ajax zlokalizowany jest w Kolumbii Brytyjskiej w Kanadzie, w odległości 400 km na północny-wschód od Vancouver, w bliskim sąsiedztwie miasta Kamloops. Projekt zakłada budowę kopalni odkrywkowej miedzi i złota oraz zakładu wzbogacania rud wraz z towarzyszącą infrastrukturą. Do roku 2016 prowadzono prace nad Studium Wykonalności projektu, określające wstępne warunki ekonomiczne przedsięwzięcia.

W grudniu 2017 roku Ministrowie Środowiska oraz Energii, Górnictwa i Zasobów Ropy Naftowej Kolumbii Brytyjskiej (władze prowincjonalne) zdecydowali o nieprzyznaniu Certyfikatu Oceny Środowiskowej (EA Certificate) dla projektu Ajax.

In June 2018, the Government of Canada, through the Governor-in-Council (Cabinet), issued a negative decision regarding the implementation of the Ajax project due to its anticipated significant adverse environmental impact. The decisions were made through the environmental impact assessment process reflecting the substantial engagement of provincial and federal governmental agencies, First Nations and a broad spectrum of stakeholders, including thousands of local citizens.

Since the EA Certificate has not been granted, in 2020 the work focused mainly on monitoring and securing the project site in accordance with regulatory requirements. An Ajax project office was opened in Kamloops (British Columbia) as one of the elements of the activities focused on dialogue with the First Nations and the local community.

### CHILE

#### Sierra Gorda Mine and Sierra Gorda Oxide Project

Location	Region II, Chile
Ownership	55% KGHM INTERNATIONAL LTD, 45% SMM SIERRA GORDA INVERSIONES LIMITADA, of which, respectively: -Sumitomo Metal Mining Co., Ltd. (31.5%) -Sumitomo Corporation (13.5%)
Type of mine	open pit
Main ore type	copper ore
Associated metals	molybdenum, gold
Mine life	23 years for the current deposit based on phase I 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 2020	148.7 thousand tonnes of copper in concentrate, 16.3 million pounds of molybdenum in concentrate on a 100% basis, share of KGHM Polska Miedź S.A. is 55%

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 the altitude of 1,700 meters a.s.l. and 4 km from the town of Sierra Gorda.

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.

The end product of Sierra Gorda's processing plant is copper concentrate and molybdenum concentrate.

In 2020, despite the epidemiological situation caused by the COVID-19 pandemic, thanks to the safety measures taken and the mobilisation of employees, the Sierra Gorda mine continued its operation without significant disruptions. Sierra Gorda focused on implementing an optimisation program to improve the operation of the mine, processing plant, infrastructure and the tailings pond.

The actions increased the average annual daily sulphide ore processing volume in the mine from the baseline 110 thousand tonnes of ore per day to 124 thousand tonnes of ore per day. The Sierra Gorda mine continues to increase its cost efficiency and operational efficiency.

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, over a period of 11 years. The average production of copper will be approximately 30 thousand tonnes per year. Currently, most of the oxide ore resources planned for processing have been mined and deposited near the location of the future plant. In 2020, supplementary work was continued in order to prepare for the next phase of engineering work and further development of the project.





### Franke Mine

Location	Antofagasta Region, Chile
Ownership	100% KGHM INTERNATIONAL LTD.
Type of mine	open pit
Type of orebody	IOCG (ore type containing iron, copper and gold)
End product	copper cathodes
Payable copper production in 2020	12.5 kt
Produkt końcowy	koncentrat miedzi

The mine is located in a desert area of northern Chile, in the Altamira region, near the southern boundary of the Antofagasta region, near a public road connecting the mine with the Pan-American highway.

Mining is conducted by conventional open-pit methods. Due to the nature of the ore, it is processed using the heap leach, solvent-extraction and electrowinning method. The end product is electrolytic copper in the form of cathodes.

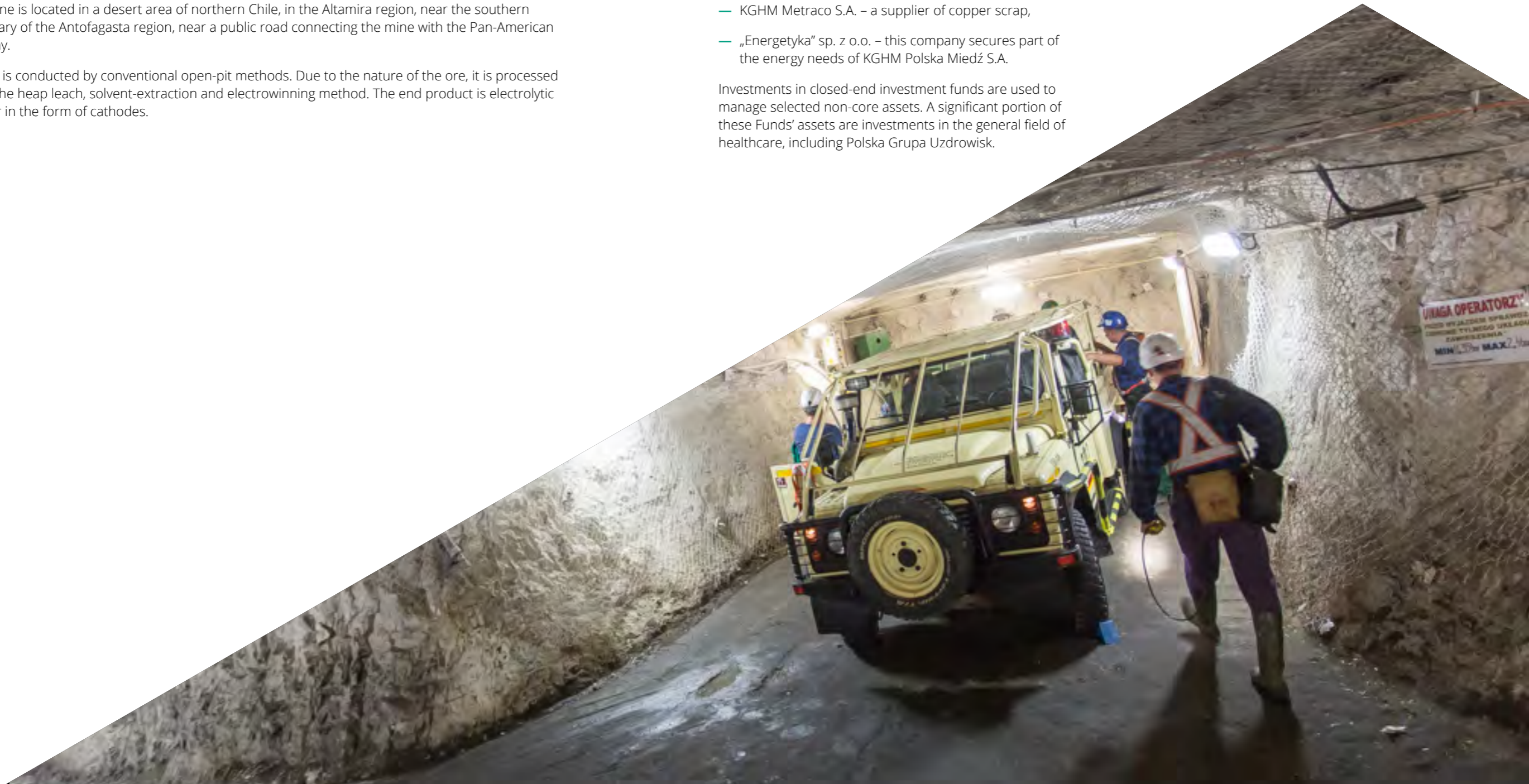
### OTHER ASSETS

No material changes in the structure of main assets in domestic companies transpired over the recent years. Domestic companies acting on behalf of KGHM Polska Miedź S.A. remain essential in securing the activity of its core business. They include:

- PeBeKa S.A. – mining work contractor,
- KGHM ZANAM S.A. – a supplier and service provider for mining machinery, it 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. – this company secures part of the energy needs of KGHM Polska Miedź S.A.

Investments in closed-end investment funds are used to manage selected non-core assets. A significant portion of these Funds’ assets are investments in the general field of healthcare, including Polska Grupa Uzdrowisk.

In addition, amongst the international companies is a group operating under the DMC Mining Services brand: DMC Mining Services Ltd., FNX Mining Company Inc., Raise Boring Mining Services 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, mine development work, above-ground and underground mine facilities, mine drilling, tunnel drilling for general construction purposes and engineering services.





# Our stakeholders

“ Dialogue and cooperation is invaluable for KGHM. As a global company, we invest in local communities and support the development strategies of our surroundings. The pandemic has not stopped our CSR activities – we moved some of the projects to the virtual world and consequently were able to maintain a broad audience. We are developing employee volunteerism, cooperating with local governments and initiating numerous educational programs benefiting not only our employees but the entire community of the Copper Basin.”

**Lidia Marcinkowska-Bartkowiak,**  
Executive Director for Communication at KGHM

[GRI 102-40], [GRI 102- 42] , [GRI 102-43],  
[GRI 102-44]

Since the inception of the KGHM Polska Miedź S.A. Group, a good relationship with our stakeholders, based on mutual understanding and trust, is crucial for the Group. The Group exerts a significant impact on its economic, social and natural environment, of which it is fully aware and for which it accepts full responsibility. Cooperation, as one of the company's values, is the basis for its success in business and social activities. The Group builds relationships with stakeholders based on partnership and complete transparency, with an awareness of their importance in its long-term strategy and sustainable approach

to business and its growth. The basis of this process is dialogue geared towards learning about mutual expectations and capabilities and implementing agreements.

In 2020, discussion meetings were held among the top management staff of KGHM Polska Miedź S.A. and the KGHM Group, in order to determine the levels of changes in the force of interest and the force of influence of individual stakeholders and the organisation in respect to key stakeholders.

It was determined during the meetings that the identification of key stakeholders of the KGHM Polska Miedź S.A. Group did not change in 2020. They are presented below:

## MAP OF KEY STAKEHOLDERS IN THE KGHM POLSKA MIEDŹ S.A. GROUP IN 2020



The above indicates that the resulting reporting aspects by the KGHM Polska Miedź S.A. Group remained without major changes in 2020 as compared to 2019. However, it was noted that even more weight should be attached to environmental issues, especially in terms of climate

protection and resource efficiency, also in the context of the European Union implementing the European Green Deal strategy.



Without copper Green Deal is impossible

In March 2020, the Management of KGHM Polska Miedź S.A. met with the representatives of EU institutions in Brussels. In the headquarters of Business & Science Poland, they discussed the future of the copper sector in the European Union. KGHM emphasizes that copper is a key raw material for implementing the idea of a climate-neutral Europe and therefore support from the mining and smelting industry is so important.

Actions aimed at achieving climate neutrality by 2050 are a priority for the European Commission. Among other things, KGHM Polska Miedź S.A. has proposed to the EU that the raw materials sector be included, as an energy-intensive industry, in the framework for which EU funds will be available as well as support for innovation and investments in advanced technologies. The Company's Strategy assumes that, by the end of 2030, 50% of KGHM Polska Miedź S.A.'s demand for electricity will be satisfied by its own sources and renewable energy sources.

In its arguments, KGHM Polska Miedź S.A. also points to, among other things, increasing competition from carbon-intensive Asian economies and the necessity to maintain the innovative character of Europe as well as its further unimpeded economic and social and cultural development.

In its relations with clients, employees, external partners and local communities, the KGHM Polska Miedź S.A. Group complies with the laws which are in effect in the countries where it operates. The Group also complies with voluntary obligations resulting from ISO and ASTM standards as well as from membership in international organisations such as the International Copper Association, the European Precious Metals Federation, Eurometaux, Euromines, the London Bullion Market Association, the European Technology Platform on Sustainable Mineral Resources, the European Innovation Partnership, and domestic organisations, including: the Polish Association of Listed Companies, Association

of Non-Ferrous Metals Engineers and Technicians, the Economic Chamber of Non-Ferrous Metals and Recycling, the Polish Committee of the World Mining Congress, the Polish Chamber of Chemical Industry, the Polish-Canadian Chamber of Commerce, the Polish Chamber of Commerce for High Technology, and the Employers' Organisation of Polish Copper. The KGHM Polska Miedź S.A. Group does not participate in undertakings which involve breaking the law and pose a threat to its reputation.

**[GRI 102-12]**

The KGHM Group is involved in the implementation of initiatives under the European Green Deal concept

announced on 13 December 2019 and Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) of June 2017 as well as the Communication from the European Commission 2019/C 209/01 of 19 June 2019, Guidelines on non-financial reporting: Supplement on reporting climate-related information. KGHM Polska Miedź S.A. notes that many of the proposals included by the above documents have already been implemented in the past as it followed the path of sustainable and environmentally responsible development.





## Market environment and trends

“ We are aware that sustainable development of the mineral resource industry has become a global challenge for the modern world. In 2020, KGHM Polska Miedź S.A. was actively involved in broad consultations accompanying the process of developing the Copper Mark standard, which is a response of the copper industry to the expectations and requirements of the broad group of stakeholders, including commodity exchanges, investors, financial institutions, and non-government organisations, regarding the compliance of registered copper producers with the principles of socially responsible business as well as with ethical, environmental and organisational standards.”

**Paweł Gruza**

Vice President of the Management Board (International Assets)

### MACROECONOMIC CONDITIONS

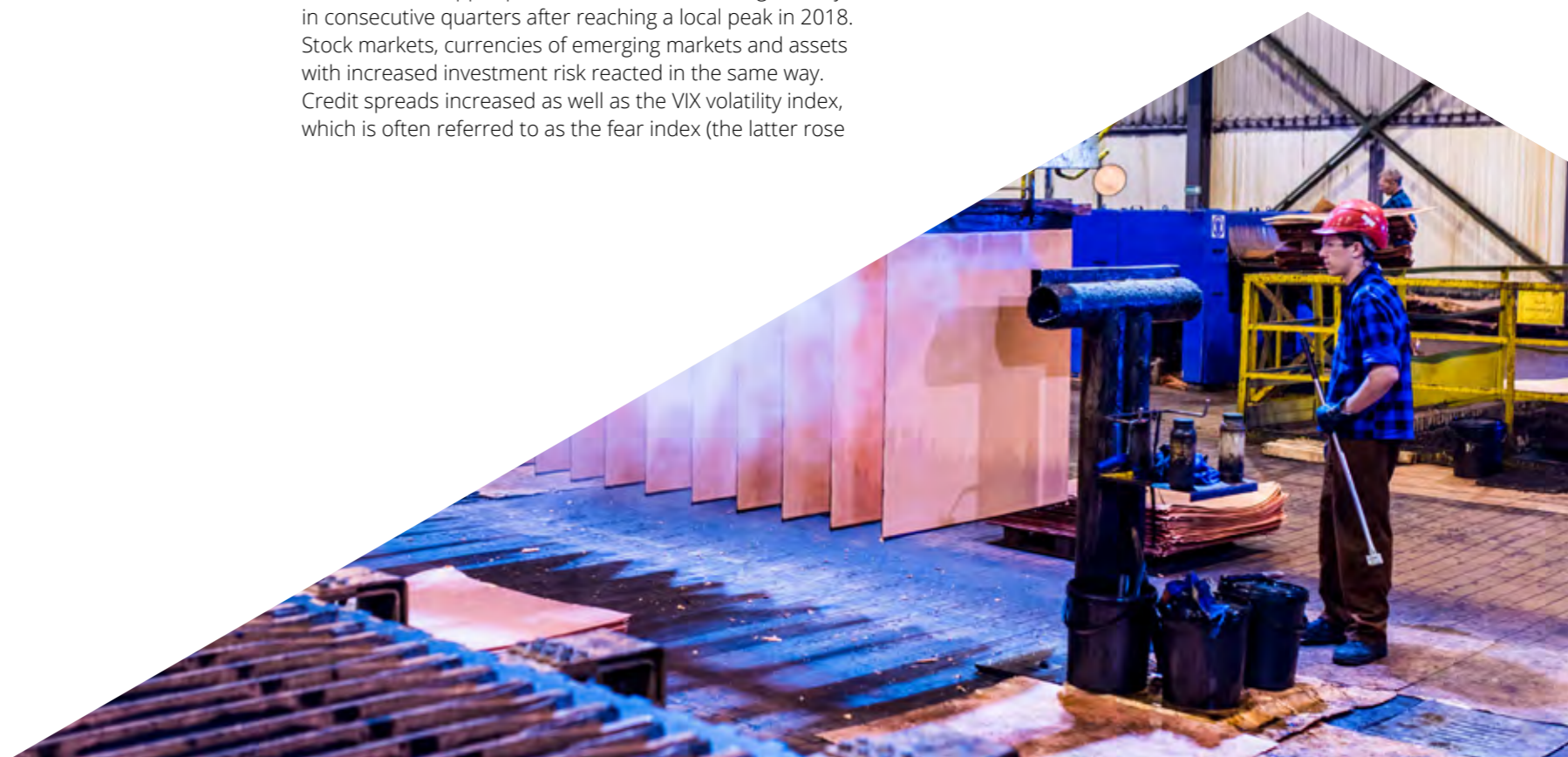
Active participants in the business ecosystem will remember January 2020 mainly because of the “ceasefire” in the trade war between Washington and Beijing. After months of friction on the top levels, both countries decided, after many rounds of negotiations, to sign publicly the first phase of the agreement, easing the conflict that has become the main theme of the Trump – Xi Jinping relationship.

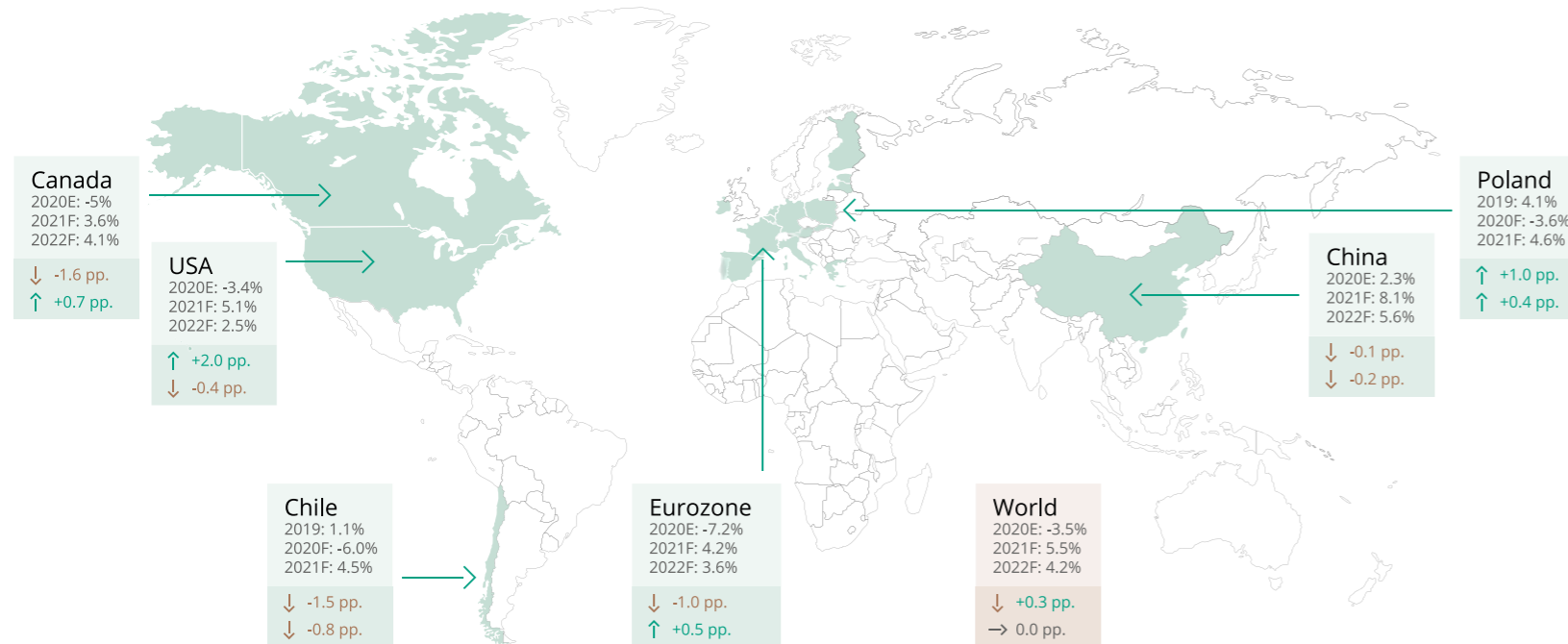
The euphoria caused by the ambitious goals of the trade agreement was however quickly marginalised by another event, which will make its mark on the history of the 21st century. In 2020, the world faced the most serious pandemic for over century and its impact will be felt for a long time, not only economically but also in terms of social contact. At the threshold of December 2019 and January 2020 a wave of pneumonia was reported in China, while on 11 and 12 January 2020, the Chinese authorities provided to WHO the genetic sequence of the SARS-CoV-2 virus. The Chinese authorities decided to react very strongly, by locking its economy down for dozens of weeks. For commodity markets and commodity consumption dynamics, the Chinese lockdown resulted in a massive oversupply in virtually every market. As further restrictions were announced in other regions of the world, the prices of assets on financial market started to decline, irrespective of their role in the global economy and the strength of their foundations. The coronavirus pandemic accelerated the decline in copper prices, which were declining steadily in consecutive quarters after reaching a local peak in 2018. Stock markets, currencies of emerging markets and assets with increased investment risk reacted in the same way. Credit spreads increased as well as the VIX volatility index, which is often referred to as the fear index (the latter rose

to record high levels). Liquidity started to decline on the market, which clearly pointed to a huge increase in risk aversion and a wave of impending crisis.

According to the most recent estimations of the International Monetary Fund (IMF), the global GDP growth rate in the crisis 2020 fell by 3.5%, compared to 2.8% growth in 2019. The projected growth rate slowed down in both developed economies (-4.9% in 2020 from 1.6% in 2019) as well as in emerging economies (-2.4% in 2020 from 3.6% in 2019). The result of the US economy in 2020 is estimated at -3.4% (2.2% in 2019), while the slow-down in the Euro zone should reach 7.2% annually. The only country, whose economy posted positive economic results was the People's Republic of China. In 2020, the growth rate of the Chinese economy was 2.3%, declining from 6% in 2019. At present, the IMF economists envisage that the global economy will return to a growth path in the coming years, however the institution has been changing its forecasts considerably over recent months.

IMF's real GDP growth forecasts in January 2021 vs. previous forecasts





The most recent update in forecasts for Poland and Chile was made in October 2020. Source: International Monetary Fund, KGHM Polska Miedź S.A.

The year 2020 was very volatile for the copper market. It is a rare occurrence for the price of copper to record both a local minimum and a local maximum within a single year.

The price of 3-month copper noted its lowest level during the year (4,371 USD/t) on March 19th. After a few days, the value of the red metal started to climb steadily. The investors saw the highest price on December 18th when it momentarily broke through the 8,000 USD/t level reaching 8,028 USD/t. The year 2020 closed with copper prices at the London Metal Exchange (LME) at 7,766 USD/t. Taking cash settlement prices into account, copper rose by 26% last year (closing of the first day vs. last day of the year), achieving in the period both the lowest price since 2016 as well as the highest level since 2013.

The decisive measures taken by most governments of developed countries in order to slow down the spread of the pandemic were the direct cause of the global economy collapse in the 2nd quarter of 2020. The macroeconomic data from that period were compared to the largest economic crises in the history of several last centuries. The assessments issued by the most reputable international financial institutions, including the International Monetary Fund (IMF), OECD or the European Central Bank mentioned an immense shock for the global economy, which will be felt for many years. Price forecasts for many assets for the next years were revised downwards several times.

For a longer period, there was no consensus as to how and how fast the global economy will get out of the crisis; some market players expected a long period of recession. Taking into account the scale of the pandemic observed in many regions of the world, information on the successful containment of the virus in China was often questioned.

The pandemic caused a shock on the financial market. It led to disruption in the operation of the market and even caused a short, unprecedented inability to conclude financial transactions. In the second half of April 2020, the situation reached a point, in which the oil price on one of the contracts fell below zero, raising questions about the stability of the commodity valuation system. On the copper market, the cargo logistics area was affected considerably, which resulted from restrictions in travel and transport with an unpredictable duration. The lockdowns introduced by individual countries caused significant interruptions to production processes in many sectors. In addition to the restrictions causing immense losses for many companies, the considerable uncertainty as to the course and depth of the crisis was an additional factor affecting the decision-making process in the period. The common view was that the crisis was completely different from the ones experienced in the past. It was not caused by disruption in the operation of the financial system or a speculative bubble, but rather by a sudden decline in economic activity of businesses and households as well restrictions

in respect to physical mobility, which could ultimately lead to a wave of bankruptcies. All attempts to predict the manner of recovery from the financial crisis were limited to the predictions of the pace and successive waves of the pandemic in subsequent quarters and years and were based on few available historical analyses and scientific studies.

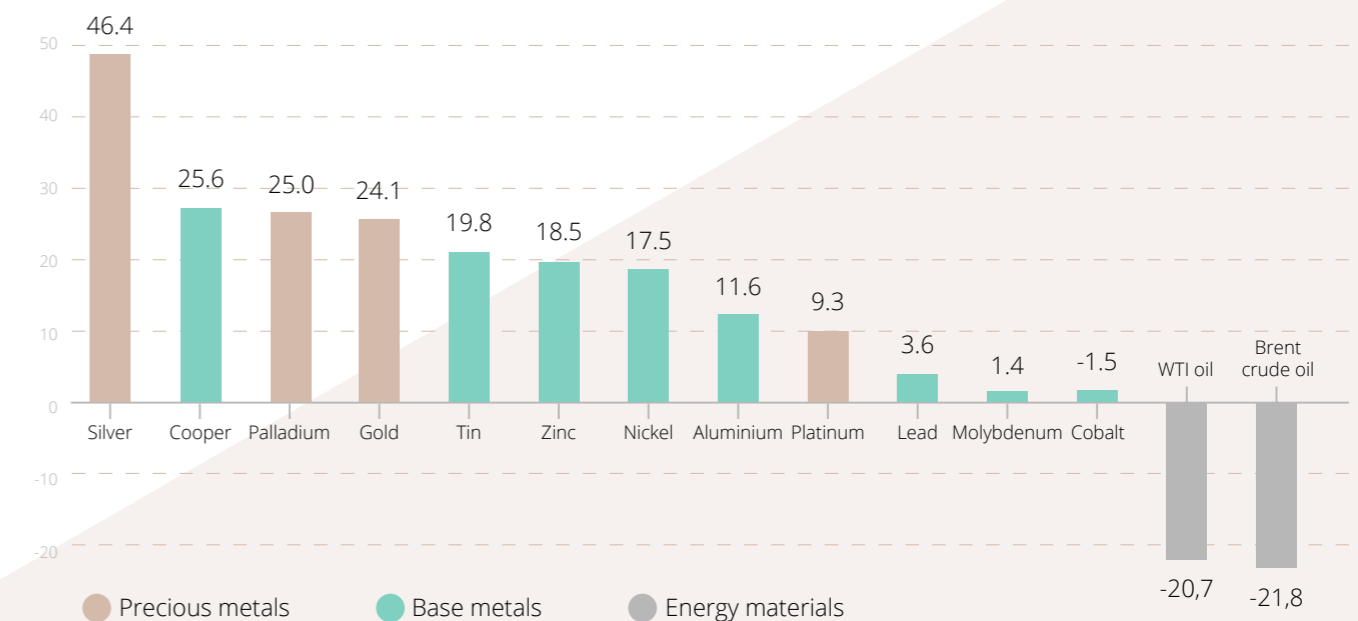
The rallying prices of the red metal starting in April resulted mainly from the stimulus packages introduced by China. This happened at a time when the rest of the world was introducing a lockdown. The increase in goods purchased by China was assessed as an opportunity to use the market opportunity to purchase at lower prices, rather than a permanent trend of increased demand. Chinese buyers, who were afraid of disruptions in the production of copper, mainly in Peruvian and to a lesser extent Chilean mines, began to purchase global surpluses of copper cathodes from the market. This nearly doubled imports of refined copper products in the individual months of Q2 and Q3 2020, which, when added to COVID-19-related disruptions in production, resulted in continuing increases in prices. The efforts of the world's scientists focused on vaccine research, but forecasts at the time indicated that the pandemic recovery period would take a few or even more than ten quarters, which also translated into expectations about future prices.

It is estimated that "apparent demand" in China, which is demand calculated on the basis of production, trade and warehousing data, increased in 2020 by double digits, while the purchases made by China's SRB, as estimated by market players, amounted to 0.5 to 1 million tons. When analysing demand for refined copper, these purchases (when we average the estimated purchases at 0.75 million

tons) is about 3% of annual demand. ICSG estimates that global mining production fell by 1.5% to 20.45 million tons, refined copper production went up by 1.6% (24.52 million tons), while apparent demand for copper was maintained at the 2019 level (24.49 million tons). This forecast implies a marginal deficit on the market at 50 thousand tons last year.

It should be noted that the increases in copper prices in the second half of 2020 did not result only from the play of physical supply and demand, but also from the considerable interest of speculative capital. As a result, in December copper prices were nearing long-term peaks. Cheap money came mainly from central banks, which, after the pandemic shock, decided to cut interest rates and resume their quantitative easing programs with a much greater force. With the almost free and continuously depreciating U.S. dollar, news of imminent vaccine production in late November further supported the direction of copper price movement and increased risk appetite even further. For raw materials associated with the "green revolution", Joe Biden's victory in the presidential race in the United States was an important event. Donald Trump's defeat ignited investor hopes for another round of fiscal easing and a chance of fulfilment of Trump's promise from the past to carry out a program of infrastructure investments, which would entail high consumption of raw materials.

### CHANGES IN COMMODITIES PRICES IN 2020 (THE FIRST VS. LAST DAY OF THE YEAR)



Source: Refinitiv, KGHM Polska Miedź S.A.



### MACROECONOMIC FACTORS SIGNIFICANT FOR THE OPERATIONS OF THE KGHM POLSKA MIEDŹ S.A. GROUP – AVERAGE PRICES<sup>1)</sup>

	Unit	2020	2019	Change (%)	Change			
					IVQ'20	IIIQ'20	IIQ'20	IQ'20
Copper price on the LME	USD/t	6,181	6,000	+3.0	7,166	6,519	5,356	5,637
Copper price on the LME	PLN/t	23,975	23,029	+4.1	27,073	24,789	21,871	22,056
Silver price at the LBMA	USD/oz t	20.54	16.21	+26.7	24.39	24.26	16.38	16.90
Molybdenum prices at CRU	USD/lb	8.90	11.85	(24.9)	8.84	7.98	8.94	9.86
USD/PLN exchange rate according to the NBP		3.8978	3.8399	+1.5	3.7804	3.8022	4.0946	3.9237
USD/CAD exchange rate according to the Bank of Canada		1.3415	1.3269	+1.1	1.3030	1.3321	1.3853	1.3449
USD/CLP exchange rate according to the Bank of Chile		792	703	+12.7	762	781	823	803

<sup>1)</sup> arithmetic average of daily quotations

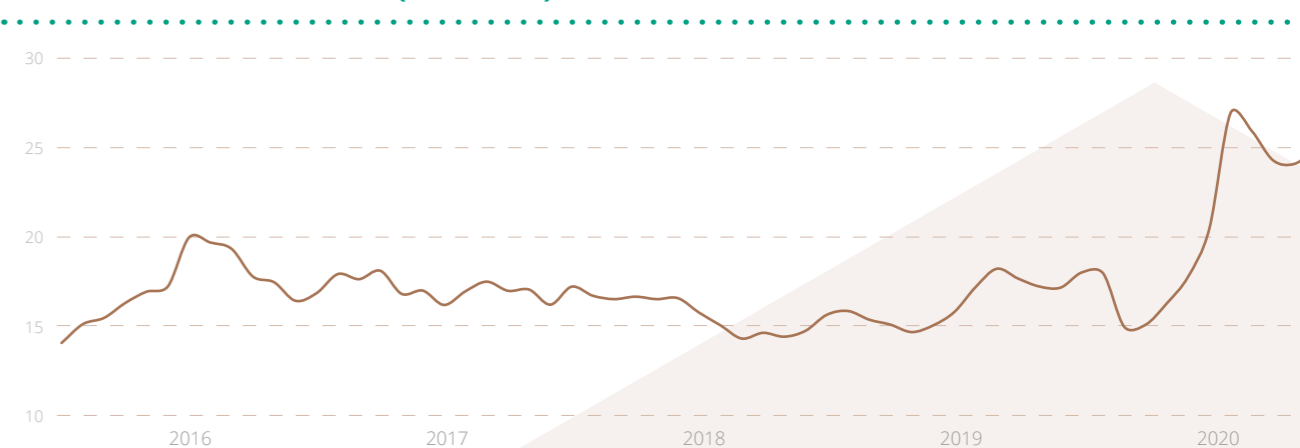
The average annual price of copper on the London Metal Exchange (LME) in 2020 was 6,181 USD/t, 3% above the average 2019 price (6,000 USD/t).

### COPPER PRICE AT THE LME (USD/T)



The beginning of 2020 on the precious metals market was characterised by a low volatility and low interest from investors. The outbreak of the SARS-CoV-2 pandemic led to a collapse of industrial activity, which resulted in a decline in silver prices on the market below 12 USD/oz t. The decline in interest rates and expansion of central banks' balance sheets drove investment demand, which steadily pushed up the value of silver until August 2020, when the metal reached the maximum price of nearly 30 USD/oz t. The upward drive slowed down, consolidating the price of silver at 23-25 USD/oz t, with slight fluctuations from this range. The increases in gold and silver prices were accompanied by a rapid inflow of investments to ETFs and a strong physical demand for coins and ingots. At the end of 2020 the price of silver reached about 26.50 USD/oz t. The average price of silver according to the London Bullion Market Association (LBMA) rose in 2020 by about 26.7%, reaching 20.54 USD/oz t, compared to 16.21 USD/oz t in 2019.

### SILVER PRICE AT THE LBMA (USD/OZ T)



The main factor affecting the price of molybdenum in 2020 was high volatility of the demand side. For a long time, the price of the metal remained within the range of 8-10 USD/lb, but low oil prices causing profitability issues in the oil industry and limited activity on the steel market (outside China) shook up the demand side for molybdenum. Consequently, the average price of the metal in 2020 was 8.90 USD/lb and was 24.9% lower than the 2019 average (11.85 USD/lb).

### MOLYBDENUM PRICE AT THE CRU (USD/LB)



2019 was relatively peaceful in terms of volatility of PLN exchange rates, but 2020 witnessed significant fluctuations in the PLN exchange rate to the Euro and the US dollar. The main players on exchange markets were central banks, including the NBP, which reduced interest rates to the vicinity of zero for the first time in history and launched a quantitative easing program. The extent of the Polish quantitative easing was however relatively small as compared to what other central banks did across the world. The USD/PLN rate reached the highest level in March 2020. At that time it was about 4.26, after which PLN started to appreciate again. The PLN closed the year 2020 at 3.7584 PLN per US dollar (NBP fixing of 31 December 2020). The average USD/PLN exchange rate (according to the NBP) in 2020 was 3.8978 and was 1.5% higher than the 2019 average exchange rate (3.8399 USD/PLN).

### USD/PLN EXCHANGE RATE ACCORDING TO THE NBP



In 2020 the Canadian dollar appreciated slightly against the US dollar, when comparing the exchange rates in this currency pair on the first and the last days of the year. The average USD/CAD exchange rate (according to the Bank of Canada) in 2020 was 1.3415, which was slightly higher (by 1.1%) than the 2019 average exchange rate (1.3269).

### USD/CAD EXCHANGE RATE ACCORDING TO THE BANK OF CANADA



In the case of the USD/CLP rate, it is worth noting that the Chilean currency depreciated in the first half of 2020 as compared to previous years. The weakening of CLP was caused mainly by a decline in prices on the raw materials market and the limited functioning of the economy, including the mining industry, which is a very profitable branch of the Chilean economy, as a result of the COVID-19 pandemic. This effect was augmented even further by the numerous social protests in the first half of the year, which adversely affected local economic growth. In the second half of the year, the steady increase in prices of commodities strategic for the Chilean economy slowed down the depreciation of the peso. The average annual USD/CLP exchange rate (according to the Bank of Chile) in 2020 amounted to 792, which meant a weakening of the local currency vs. the USD by 12.7% (703 in 2019).

### USD/CLP EXCHANGE RATE ACCORDING TO THE BANK OF CHILE





## MACROECONOMIC CONDITIONS AT THE START OF 2021

The first weeks of 2021 were rich in events of significance for the financial markets. Individual countries have already started their struggle with the second or even third wave of coronavirus infections. New cases also appeared in China, which caused a lockdown of the entire 11-million city in the Hebei province and consequently temporary concerns about the continuation of the global economic recovery.

The temporary increase in uncertainty halted the appreciation of copper prices in January. In subsequent weeks, an increasing number of financial institutions started to notice the potential problem with the market availability of the raw material in 2021 due to the increased physical demand, threats to supply and the low level of official exchange inventories. Such rhetoric, combined with a growing belief in the positive impact of the more intensive decarbonisation policy on the long-term prospects of the copper market, resulted in increased interest of investors in the copper market. One of the leading investment banks was already publishing its optimistic expectations for a new super-cycle in the commodities market starting at the end of November 2020 and in the following weeks it continued to raise its price forecasts to stay ahead of the high market dynamics at the time. The rise would not have been possible at this scale had it not been for the steadily added speculative long positions on LME, COMEX and SHFE. The interest of financial investors contributes to higher levels of market changes, both upward and downward. The current market forecasts are very diverse and point to a very broad range of price expectations for the coming periods – from ones anticipating an attack on the historical price peak, to more

balanced ones envisaging a stabilisation at much lower levels that have been observed since the beginning of the year. The increased activity of investors on the Shanghai exchange (SHFE) could have been caused by the shortening and, in some cases, absence of production shutdowns during the 7-day celebration of the Chinese New Year. The manufacturers supplying the air conditioning industry increased purchases of copper cathodes by 20% versus the same period in previous years, while Chinese plants processing semi-finished copper increased their raw material inventories before holidays to nearly twice the average historical levels.

Financial markets also experienced a rare event, which was the activity of the community of individual investors from an online forum Reddit. The coordinated actions of this community led to a so-called short squeeze on the stock of GameStop, causing multi-billion-dollar losses for mutual funds that had an immense short position in the company's stock. After the successful rally, there were rumours of another operation, this time targeting the silver market, which caused a noticeable rise in volatility and metal prices in early February 2021. Large amounts of cash flowed into ETFs, while many silver coin traders experienced significant delays in fulfilment of their orders. In the days that follow, the situation stabilised and the price of silver returned to the upper regions of the range, in which it moved since August 2020

## ANALYSIS OF THE GLOBAL MARKET FOR THE GROUP'S BASIC PRODUCTS

[GRI 102-2]

The primary products of the 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. Individual markets for the products offered by the Group have varied rules and customs concerning trading and pricing standards. Their incomparability is also due to the characteristics of individual products, which impacts their usage and the diversification of market participants.

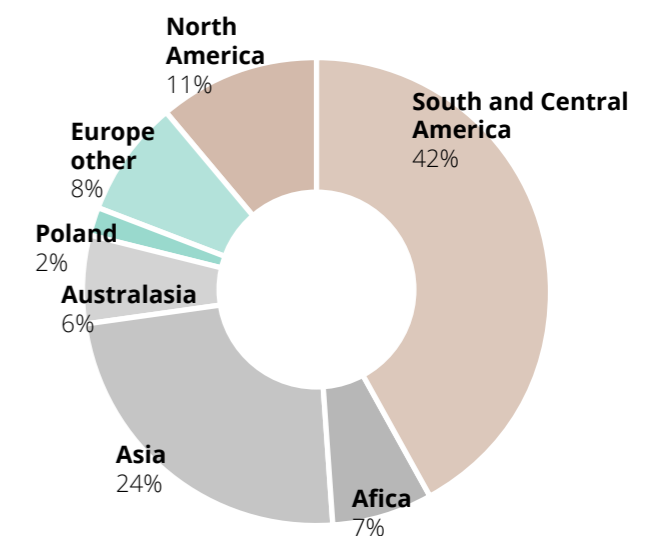
### COPPER

The primary products offered by Group companies are: copper concentrates, cathodes and copper wire rod. They are products of individual stages of copper ore processing and recycling of copper scrap. 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 stock exchanges in New York (COMEX) and Shanghai (Shanghai Futures Exchange – SHFE). Grade "A" type, with a copper content of at least 99.99% (standard BS:EN 1978:1998 – Cu-CATH-1) is quoted on the LME. In order to be able to apply stock exchange prices to purchase/sale transactions of the products to which this quality standard is not applicable (i.e. all types of copper-bearing materials like 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 make-up, 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/enriching copper ore, which usually has a relatively low metal content and is not suitable for direct metallurgical processing. Copper content in concentrate varies within the range of about 20 to 40 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 along with various by-products (mainly precious metals, sulphuric acid, lead, etc.). The main participants of the concentrate markets are mines supplying the product to the market and smelters and refineries, for which the concentrates are materials for production. Trading companies also play a role on this international market, intermediating in the purchase/sale transactions and offering additional services expected by the parties. The total global copper production in Cu concentrates in 2020 is estimated (according to CRU) at 16.8 million tons.

### Geographical structure of Cu concentrate production in 2020



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 in 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).

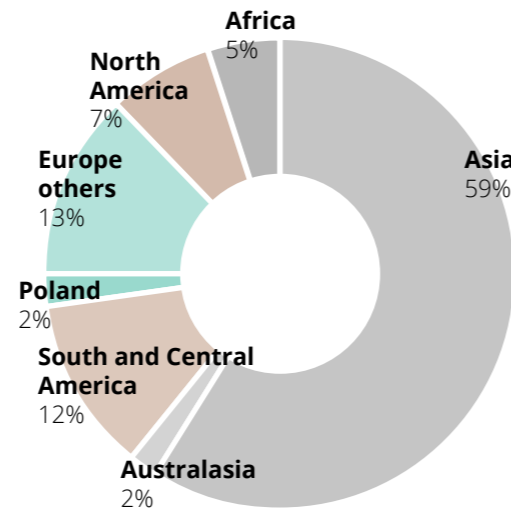
Group companies participate in the copper concentrate market mainly by selling the concentrate from Sierra Gorda in Chile and from Robinson in the USA. Occasionally, KGHM Polska Miedź S.A. also sells copper concentrate produced by the Lubin, Rudna and Polkowice-Sieroszowice mines. At the same time the Company 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 standard), and therefore their trading on exchanges and through LME-approved warehouses. 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 as well as on SHFE, 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 those from the Carlota and Franke mines. 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

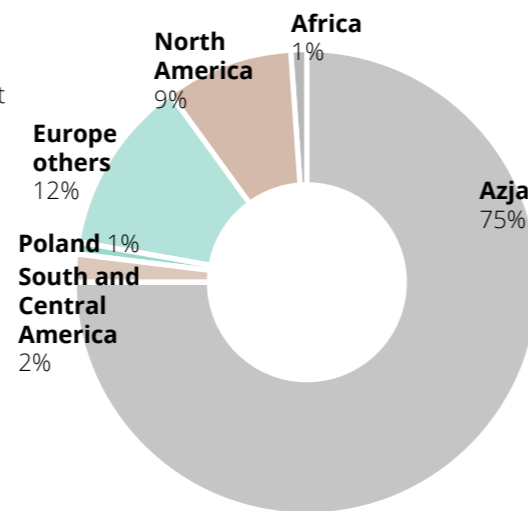
concentrates, trading companies and financial institutions intermediating in the cathodes trade also participate in the market. Total global production of refined copper is estimated by CRU at 23.3 million tonnes in 2020.

**Geographical structure of refined copper production in 2020 (source: CRU, KGHM Polska Miedź S.A.)**



Source: CRU, KGHM Polska Miedź S.A.

**Geographical structure of refined copper consumption in 2020 (source: CRU, KGHM Polska Miedź S.A.)**



Source: CRU, KGHM Polska Miedź S.A.

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

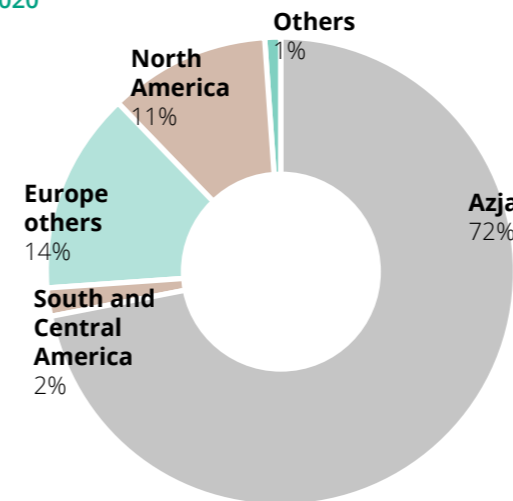
destination, and it also includes the premium for quality (of a given cathodes brand) and supply-demand situation on a given market.

The companies of the Group operate on the cathodes market mainly by selling cathodes produced by the Group's Polish assets. The Głogów Copper Smelter and Refinery produces HMG-S and HMG-B brand cathodes, while the Legnica Copper Smelter and Refinery produces HML brand cathodes registered on the exchanges in London (LME) and in Shanghai (SHFE). The Group also offers cathodes produced through the leaching and electrowinning process (SX/EW) in the Franke mine in Chile and in the Carlota mine in the United States. Production of refined copper in the Group companies amounted to 560.4 thousand tonnes, which represents approx. 2.4% of global production.

**Copper wire rod**

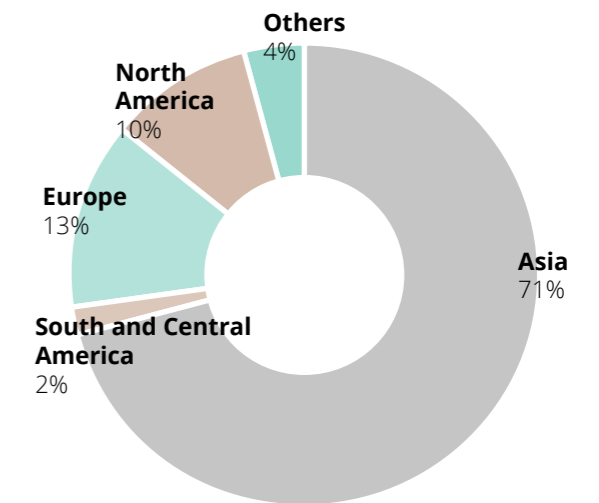
Copper wire rod is manufactured in the continuous process of melting, casting and drawing in plants processing refined copper. The material used in this part of the production cycle is mainly copper in the form of cathodes. Wire rod is a half-finished product used in the production of single wires and multiple wires used to produce conducting vines in cables and electric cables (for example: enamelled cable, car cables, power cords etc.). Similarly as for copper cathodes, trading companies are also involved in the physical trading of copper wire rod, apart from companies with wire rod plants and cable-producing companies. 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 2020, total global production of copper in the form of wire rod is estimated by CRU at 16.9 million tonnes.

**Geographical structure of copper wire rod production in 2020**



Source: CRU, KGHM Polska Miedź S.A.

**Geographical structure of global copper wire rod consumption in 2020**



Source: CRU, KGHM Polska Miedź S.A.

Wire rod's price structure, apart from the copper quotations on the London Metal 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 rod and wire are used in many sectors of the modern economy and products manufactured from them (cables and wires) represent approximately 60% of global copper consumption. The majority of copper rod and wire (estimated at more than 10 million tons per year) is used in construction and infrastructure. The principal sub-sectors include: power distribution, wiring of buildings and transmission and distribution grids. The most popular products made out of copper wire and rod include: power supply cables, cables in electrical installations of buildings and winding wires (about 70% in total).

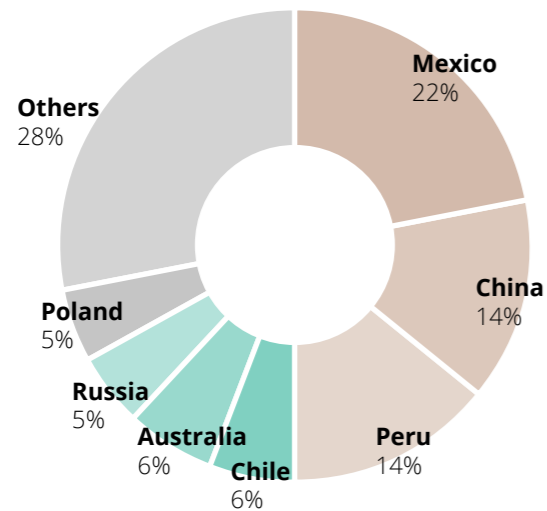
In 2020, production of copper rod and wire by KGHM Polska Miedź S.A. reached 259.5 thousand tonnes, which represented nearly 11% of the total output in Europe. This result places the Company among the top European producers of those semi-finished copper products.



## SILVER

Approx. 71% 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 newest technological solutions, among others in infrastructure, automotive industry and photovoltaics. In total, industry utilises approx. 50% of global silver production. It is also a valued investment metal. According to preliminary estimates of Metals Focus, in 2020 global production of mined silver amounted to 24.4 thousand tonnes.

### Geographical structure of global mined silver production in 2020



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 Polska Miedź S.A. produces 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 2020, KGHM produced approx. 1,200 tonnes of silver, making the Company one of the world's leading producers of silver. Silver in the form of bars is registered under the KGHM HG brand and has a registered certificate on the New York Mercantile Exchange (NYMEX) as well as Good Delivery certificates issued by the London Bullion Market Association. Silver is supplied in the form of grains to the jewellery shops and metals industries producing alloys containing silver. Silver in the form of bars (ingots) is purchased in large part by financial institutions.





# Impact of COVID-19 on the functioning of the company and the group

The largest contributors to the operations and performance of the KGHM Polska Miedź S.A. Group are the Parent Entity and, to a smaller extent, the KGHM INTERNATIONAL LTD. Group.

## KEY RISK CATEGORIES

The most important risk categories associated with the COVID-19 pandemic and affecting the operation of the Company and the Group include:

- possible infections with the SARS-CoV-2 virus and increased absences among core production business employees
- possible disruption in the supply chain of materials and services and logistics limitations, especially in international transport
- possible closure of some sales markets, a decline in demand and optimisation of inventories of raw materials and finished products with business partners
- possible extraordinary amendments to laws
- decreases in copper and silver prices on metals markets
- decreases in molybdenum, lead and sulphuric acid prices
- decreases in the USD/PLN rate
- shortages of third-party copper-bearing materials
- general uncertainty and volatility on financial markets and risk of recession on global markets

## IMPACT ON THE METALS MARKET

From the point of view of the Group, one material effect of the coronavirus pandemic was its impact on the market risk associated with the volatility of metal prices and stock market indices in 2020. At the end of 2020, the Company's stock price rose by 91% compared to the quotations at the end of 2019 and doubled as compared to the price from the end of H1 2020; at session closing on 30 December 2020 it was PLN 183.00. In the same period, WIG and WIG20 indices fell by 1% and 8%, respectively (vs. the end of 2019) and rose by 15% and 13%, respectively (vs. the end of H1 2020). As a result of the changes in stock prices, the capitalisation of the Company increased from PLN 19.2 billion at the end of 2019 to PLN 36.6 billion at the end of 2020, which was 77% and 73% higher than the net asset value of the Company and the Group, respectively.

The situation on the metals market improved from Q2 2020, which was reflected by an increase in settlement prices of copper by 26% from 4,797 USD/t at the end of Q1 2020 to 6,038 USD/t at the end of Q2 2020 and a 28% increase in H2 2020 to 7,742 USD/t at the end of 2020.

## IMPACT ON THE GROUP'S SPA ACTIVITIES

The COVID-19 pandemic had the most significant impact on the Group's ancillary activity involving hotel and spa services. Uzdrowiska Kłodzkie S.A. – the PGU Group, Uzdrowisko Połczyn Grupa PGU S.A., Uzdrowisko Cieplice Sp. z o.o. – the PGU Group, Uzdrowisko Świeradów – Czarniawa Sp. z o.o. – the PGU Group, INTERFERIE S.A. and Interferie Medical SPA Sp. z o.o. The year 2020 witnessed a significant disruption in the ongoing operation of these companies related to the mandatory lockdown and limitation of activities implemented by the Health Minister's Regulations. Accordingly, the Group had to close certain facilities temporarily. The Companies were affected by a temporary prohibition of conducting business activity twice: in the spring (from March to May/June) and in the Winter (starting in November). The activities of spa and hotel companies were also affected by the introduction of other regulations, e.g. those affecting the possibility of providing work by employees or registering some facilities owned by the spa companies on the list of facilities designated as quarantine locations.

COVID-19-related restrictions caused a decline in revenues in 2020 in spa companies by about 37% and in hotel companies by 45% as compared to the 2019 revenues and by 41% and 43%, respectively, versus the revenue plans. This performance constituted the basis for conducting impairment tests for non-current assets of those companies and recognizing impairment allowances for the assets in question. Detailed results of the tests are presented in Section 3 of the consolidated financial statements.

It is also worth noting that, as a result of the decrease in revenues and the resulting decline in the operating profit, the spa companies breached the covenant (set forth under the concluded loan agreements) to maintain the Debt Service Coverage Ratio (DSCR) at no less than 1.2. As at the end of 2020, the spa companies have obtained temporary waivers of the covenants from the lenders. Since the restrictions and the prohibition of conducting business activities were extended into 2021, there are plans to obtain the same waivers for subsequent periods as well.

We expect the companies to gradually return to their business activity, start providing services and generating pre-crisis revenues in Q2 2021. Despite the continuing state of pandemic, the spa and hotel facilities are fully prepared to provide services and welcome customers and patients under a strict sanitary regime. COVID-19 vaccination points are operating in selected spa facilities.

The spa and hotel companies from the KGHM Polska Miedź S.A. Group have joined the Polish Tourist Voucher program and submitted applications to the Polish Development Fund for financing under the Anti-Crisis Shield for large enterprises, as a result of which some of them have already received funds as part of program 1.0.





### IMPACT ON THE ACTIVITIES OF THE PARENT ENTITY AND OTHER GROUP COMPANIES

With respect to the other domestic companies comprising the KGHM Polska Miedź S.A. Group, the pandemic situation in 2020 did not materially affect the operating results generated by these entities.

The pandemic situation caused by COVID-19 did not have a material effect on the Company's and the Group's operations and, as at the publication date of this report, the Parent Entity's Management Board believes that the risk of losing business continuity due to COVID-19 is low. Individual minor deviations in the continuity of the supply chain for materials and services can be observed due to logistical restrictions in international markets. The situation on the copper scrap market in H2 2020 improved significantly as compared to H1 2020 and the volume of material supply secured the Parent Entity's production needs. Regular contact with suppliers enables quick reaction to delays, by using the supplier diversification strategy adopted by the KGHM Group and application of alternative solutions.

### PREVENTIVE MEASURES IN THE GROUP

KGHM Polska Miedź S.A. as well as all foreign mines of the KGHM Polska Miedź S.A. Group and Sierra Gorda S.C.M. undertook several preventive measures, such as maintaining a sanitary regime, monitoring of health condition and employee testing; as a result, no production stoppages caused directly by the pandemic were recorded. Consequently, the Group's copper production in 2020 did not deviate from one planned at the beginning of the year.

Moreover, a business continuity plan was developed for the KGHM Polska Miedź S.A. Group in the event that production is limited, halted, or it is temporarily put on standby. Also, the Parent Entity has complete documentation required by the "Geological and Mining Law" and the implementing regulations in this respect, relating in particular to the maintenance of the mine's core operations.

In the sales area, the Parent Entity has a long-standing and stable customer base with which it maintains regular contact. At this point, most of our customers still do not feel any strong impact of the pandemic and consequently their amounts due to the Parent Entity are paid on time.

The Group is fully capable of paying its liabilities. The cash held by the Group along with the secured external financing ensure that liquidity will be maintained. At the Parent Entity level, the Group's financing structure relies on long-term diversified financing sources. This has ensured long-term financial stability for the Company and the Group, by extending the weighted average maturity of KGHM Polska Miedź S.A.'s indebtedness.

As the process of borrowing for the entire Group has been centralised, the ownership loan debt instrument is used to transfer liquidity within the group, in order to support the investment process; the Group's current operations are financed by using local and international cash pooling.

At present, the Parent Entity does not identify a material risk of not satisfying the financial covenants set forth in external financing agreements in connection with the COVID-19 pandemic.

The Group continues to pursue its investment projects in accordance with the adopted schedules and accordingly has not identified an increased risk related to their continuation due to the coronavirus pandemic.

There were also no interruptions in the continuity of the Group's operations caused by virus infections among employees in the reporting period. There was also no material increase in pandemic-related absenteeism among employees in the Parent Entity's core business and domestic and foreign production assets. The solutions already implemented in the Group are analysed and assessed on an ongoing basis in terms of ensuring employee safety and additional solutions are continually introduced to mitigate the risk of virus transmission among the staff.

With the COVID-19 pandemic still ongoing, the rise of the next pandemic wave in Q1 2021 and the introduction of broader nationwide security rules from 20 March 2021,

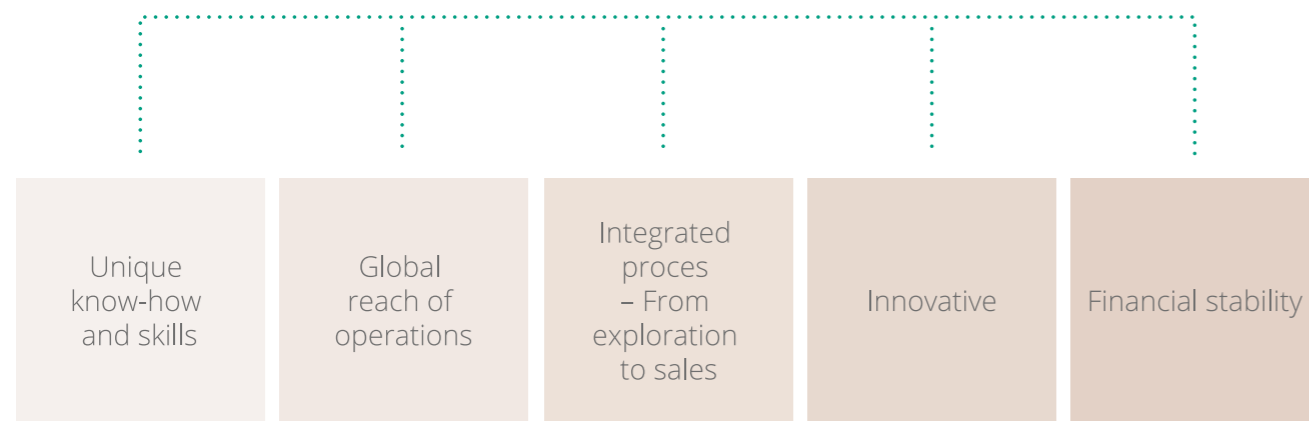
there is still uncertainty about future developments of the pandemic situation in Poland and globally. COVID-19 vaccination will be important for the national and global economy. The vaccines have been developed by several companies and are gradually admitted for use in individual countries. The availability of vaccines, their effectiveness against specific virus strains and the rate of vaccination will influence, among others, the capacity of individual countries and industries to lift restrictions that have been put in place, reduce uncertainty about the future, or increase the activity of producers and consumers. These factors may affect the operations of the Company and the Group in subsequent quarters, however the Parent Entity is monitoring the global economic situation on an ongoing basis in order to assess its potential negative impact on the KGHM Polska Miedź S.A. Group, and to take pre-emptive actions to mitigate this impact.

# Our competitive advantages

The scope of activities of the KGHM Polska Miedź S.A. Group, the unique comprehensiveness of our mining and processing operations on a global scale, our pursuit of innovation and continued financial

stability, along with our extensive in-depth experience allow us to market products and services that satisfy the expectations of even the most demanding buyers.

## Competitive advantages of KGHM Polska Miedź S.A.



### GLOBAL REACH OF OPERATIONS

In the 21st century, KGHM Polska Miedź S.A. became a global mining and processing entity with presence on four continents. On the one hand, such a large scale of operation substantially curtails the risk of disturbance in the continuity and quality of production, while on the other hand, it facilitates the continual transfer of knowledge and experience between its various units. Its mobility policy enables it to post the most prominent experts in the Group wherever their expert knowledge is needed to derive business benefits. That also leads to the diversification and enlargement of its product portfolio.

### UNIQUE KNOW-HOW AND SKILLS

During its 60 years of history, KGHM Polska Miedź S.A. has acquired experience, knowledge and skills that have enabled the Company to transform its business from a local miner into an international group acting as a major player in the global market for non-ferrous metals. The skills developed by our employees are and will be used in the future as one of the fundamental assets for winning a competitive edge in the industry and for building a strong position of Poland as an industrial centre. Also unique is the KGHM Polska Miedź S.A. Group's fully integrated business chain: from the exploration of deposits, their accessing and mining, including the manufacturing of mining machinery and explosives, through processing, recycling, smelting, refining and sales, all the while keeping in mind during the execution of these processes the principles of sustainable development and corporate social responsibility.

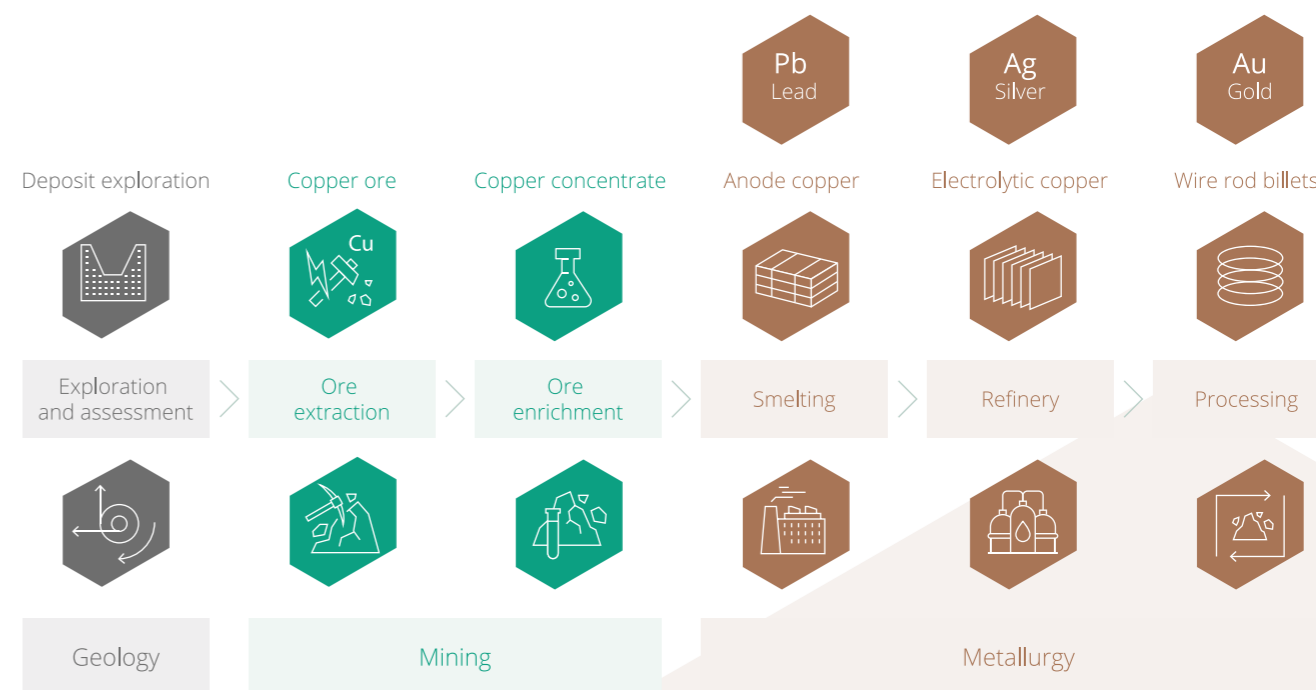
## INNOVATION

Innovation is one of the competitive advantages of the KGHM Polska Miedź S.A. Group. Work on innovative solutions is conducted at various business levels, by drawing on cooperation with independent entities, science establishments and appreciating the creative potential and ingenuity of our own employees. They are the most familiar with our specific needs and are able to identify areas and solutions that translate into better performance and greater safety, improved ergonomics of employee work and protection of the environment. The KGHM Polska Miedź S.A. Group's success hinges on the innovation, commitment and collaboration of many thousands of employees representing diverse knowledge and experience. The identification of in-house talent and the creation of individual development paths aligned to the organisation's potential and needs are the key to the future development of the KGHM Polska Miedź S.A. Group.

## INTEGRATED PROCESS - FROM EXPLORATION TO SALES

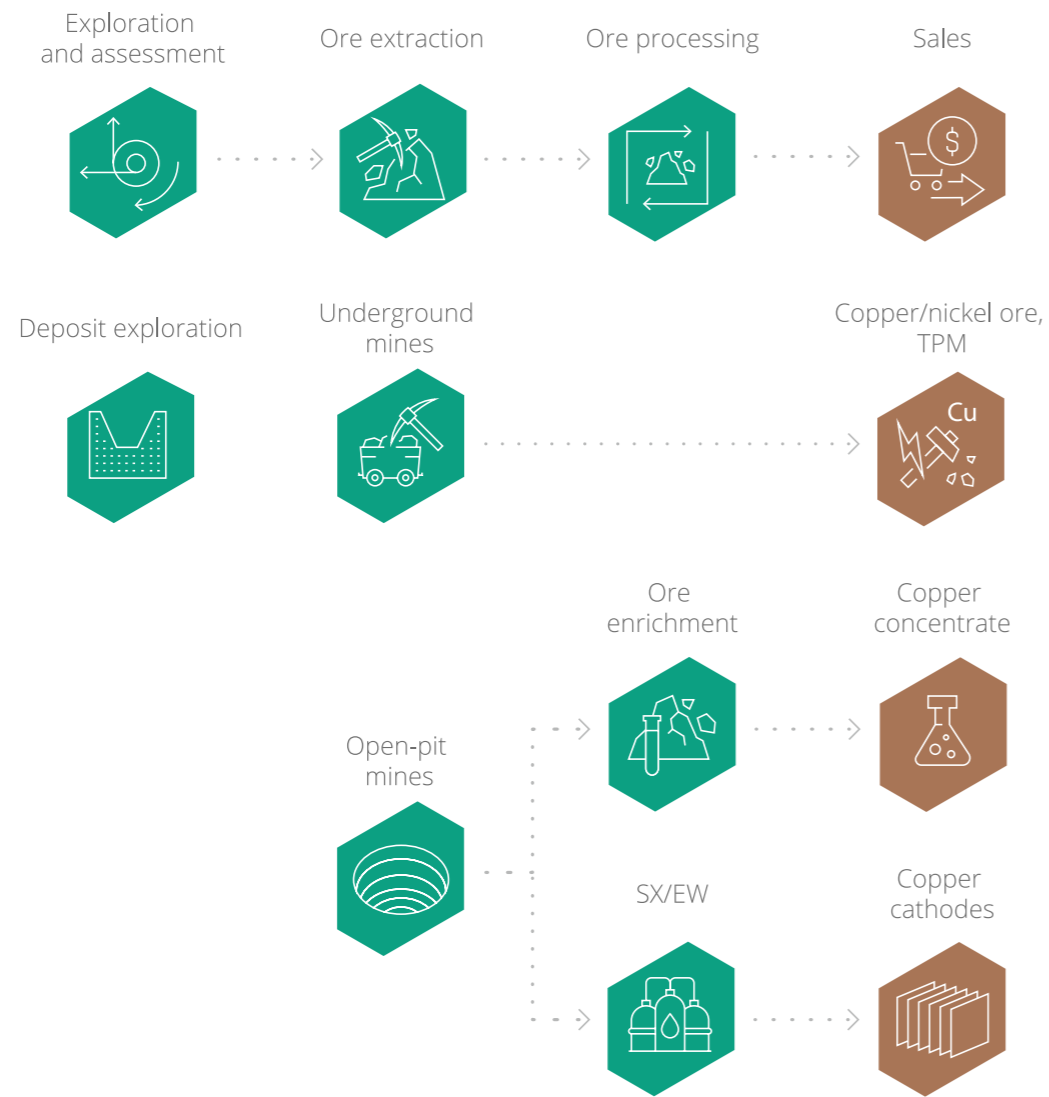
In the KGHM Polska Miedź S.A. Group, production and production-related processes are performed in accordance with the following two models:

### Integrated mining, processing, smelting and refining processes in KGHM Polska Miedź S.A.





**Simplified flowchart of the core business of the KGHM INTERNATIONAL LTD. Group**



Production at KGHM Polska Miedź S.A. is a fully integrated process whereby the end product of one technological phase forms the input (intermediate product) for the subsequent phase. Mining in KGHM Polska Miedź S.A. is performed by three mining Divisions: Lubin Mine, Rudna Mine and Polkowice-Sieroszowice Mine. In the subsequent phase the Concentrators Division prepares concentrate for the smelters and refineries, while the Tailings Division is responsible for managing the tailings generated by the copper ore enrichment process. The organisational structure of KGHM includes metallurgical facilities: the Legnica Copper Smelter and Refinery and the Głogów Copper Smelter and Refinery, as well as the Cedynia copper wire rod plant.

A fact worth noting is that recently, as part of its business, KGHM Polska Miedź S.A. has been rapidly developing and implementing certain elements of the circular economy concept. To this end, it has been making progress in the areas of recycling and further improving the utilisation of

post-production waste as the so-called secondary sources of raw materials.

The core line of business of the members of the KGHM INTERNATIONAL LTD. Group is the mining of metals, including copper, molybdenum, nickel, gold, platinum and palladium, carried out in both open-pit and underground mines, and the execution of mining and exploratory projects.





## KGHM in the capital market

“ The strategic management of investor relations fosters the attainment of long-term benefits. Active communication, and the confidence of and good relations with the market support and create KGHM’s value. The main role of the investor relations team in KGHM is to address the needs of investors, who want to have access to our financial results, up-to-date information on our operations and the strategy being implemented, or the Company’s impact in terms of ESG reporting. Both invest in the achievement of our investor relations plan and the regular reporting of non-financial data are vital to us.”

**Janusz Krystosiak**  
Investor Relations Department Director

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 included in the WIG-Mining sector index, which experienced mostly an upward trend last year. KGHM Polska Miedź S.A. is also among companies included in the prestigious FTSE4Good Index Series. FTSE4Good Index Series is part of the group of ethical investment indicators, reflecting criteria of corporate social responsibility and ESG risk management.

The year 2020 was significantly different compared to prior years. As a result of the outbreak of the COVID-19 pandemic, investor activity on the capital market was associated with uncertainty and substantial volatility in investor sentiment. By year’s end the WIG index had

fallen versus the previous year by 1.4%. During this same period the WIG20 and WIG30 indices recorded declines respectively by 7.7% and 6.5%. In contrast the London-based FTSE 350 mining index – comprised of companies from the mining sector listed on the London Stock Exchange – rose by 13.9%.

On 12 March 2020, the share price of KGHM Polska Miedź S.A. reached its minimum closing price for the year of PLN 49.40, while on 10 December 2020 the Company’s shares reached their maximum closing price for the year of PLN 189.35 marking a large, 91% increase compared to the share price at the start of the year, which at the close of trading on 30 December 2020 amounted to PLN 183. During the same period the price of copper – the Company’s main product – recorded an increase of nearly 26%, alongside a decrease in the average USD/PLN exchange rate by 1%.

### 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 2019)



Source: KGHM, Bloomberg



Key share price data of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange in 2019-2020 is presented in the following table:

### KEY SHARE PRICE DATA OF THE COMPANY ON THE WARSAW STOCK EXCHANGE

Ticker: KGH, ISIN: PLKGHM000017	Unit	2020	2019
Number of shares issued	million	200	200
Market capitalisation of the Company at year's end	PLN billion	36.6	19.1
Average trading volume per session	units	720,721	575,209
Turnover value	PLN million	18,784	13,180
Change in share price from the end of the prior year	%	91.5	7.5
Highest closing price during the year	PLN	189.35	112.00
Lowest closing price during the year	PLN	49.40	73.76
Closing price from the last day of trading in the year	PLN	183.00	95.58

Source: KGHM, WSE Statistic Bulletin for 2019 and 2020, Bloomberg

### PROFIT ALLOCATION

Pursuant to Resolution 7/2020 of the Ordinary General Meeting of KGHM Polska Miedź S.A. of 19 June 2020 regarding the allocation of profit for financial year 2019, the entire profit for the period was transferred to the Company's share capital.

### INVESTOR RELATIONS

The investor relations team maintains an on-going dialogue with the capital market pursuant to its policy of ensuring a transparent company and adherence to the Best Practices of the Warsaw Stock Exchange. 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 participants of 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 conformity with our regulatory legal obligations. The Company fulfils its disclosure obligations by publishing current and periodic reports via the official reporting system (ESPI).

2020 was another year of intense activities by KGHM Polska Miedź S.A. in terms of communicating with investors. During the COVID-19 pandemic, the Company successfully engaged in actions aimed at maintaining relations with investors using a virtual, online format. Following are the main actions taken by the Company with respect to investor relations:

## Investor conferences in Poland and abroad

Company representatives actively meet with investors and analysts in Poland and abroad during conferences organised by brokers. In 2020, the Company took part in more than a dozen investor conferences and more than 100 meetings. In 2020 the Company additionally took part in the Finance and Investing Forum organised by the Individual Investors Society in Warsaw.

## Results conferences

The Investor Relations Department organises meetings with the Management Board to discuss the financial results of the Company and the Group. In 2020, the publication of financial results was accompanied by a results conference for all stakeholders, with a live webcast in Polish and English and the possibility of asking questions by email. Video recordings of these conferences are available on the Company's website, [www.kghm.com](http://www.kghm.com), in the Investors section.

## Capital Market Days

The Investor Relations Department 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 2020, because of the COVID-19 pandemic and concerns for the health and safety of its employees and investors, the Company decided to defer the organisation of an Analyst Day and an Individual Investor Day.

## Investor chats

The Company's representatives are available to individual investors during on-line chats. These are organised on a regular basis, after the Company publishes its financial results. In 2020, four investor chats were held.







## WallStreet 24 online conference

In 2020, KGHM Polska Miedź S.A. again took an active part in the WallStreet conference. The Company was a strategic partner of the 24th edition of the conference. The largest meeting of individual investors in Poland was carried out online, with participation of about 11,000 registered participants. Amongst the activities engaged in by KGHM was our participation in the online Your Investments Forum, where we took part in the EU Green Deal discussion. In terms of opportunities and threats facing KGHM, we participated in a debate on Poland's economy in 2021 by leaders of Polish listed companies and gave an interview in the investor magazine Akcjonariusz. Individual investors also had a chance to meet with members of the KGHM Investor Relations team during a Shareholders Fair, in the form of an online chat.

## ESG

In response to the expectations of stakeholders of the Company as well as to developmental trends and the growing global commitment to reporting questions involving environmental, social and governance issues, in 2020 the Company, in line with its Strategy, initiated a variety of actions aimed at enhancing our transparency in these areas and simplifying the process of seeking information connected with the non-financial reporting of KGHM Polska Miedź S.A. These actions included the Copper Mark initiative, activities related to maintaining our certification within the FTSE4Good Index Series and participation for the first time in the CDP climate survey. In 2020 KGHM provided responses to questionnaires or information requests involving ESG-related questions from, among others: CDP, FTSE Russell, MSCI, Acadian Asset Management, HSBC, Corporate Knights, WOOD & Co., Church of England and PKO BP Securities

## Upgrade of the IR section on the KGHM website

The Investor Relations Department has decided to modernize the Investors section on the KGHM corporate website. This involved not only a substantial technical update of the section, but also represented a fundamental change in way we present content. We simplified the organisation of thematical areas and made it easier to search for key operational and financial information. A new element is the Investor Handbook, where one may find information on how to purchase KGHM's shares, answers to frequently asked questions, basic information about the Company, transcripts of quarterly chats with investors following results announcements and the latest investor presentation, as well as links to our IR Newsletter and investor events. Another new element, of particular importance, is a section devoted to ESG (Environmental, Social, Governance) issues.

## Quarterly IR Newsletter

The IR Newsletter summarises the most important quarterly events and is distributed to subscribers via email. The goal of the 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 commencement of publication of the IR Newsletter was met with appreciation by investors and other participants in the capital market. The project received commendation as an example of IR Best Practice during a webinar hosted by the Warsaw Stock Exchange, as well as by the Individual Investors Society

In 2020, analytical reports on KGHM Polska Miedź S.A. were published by 8 sell-side analysts based in Poland and 9 based abroad.

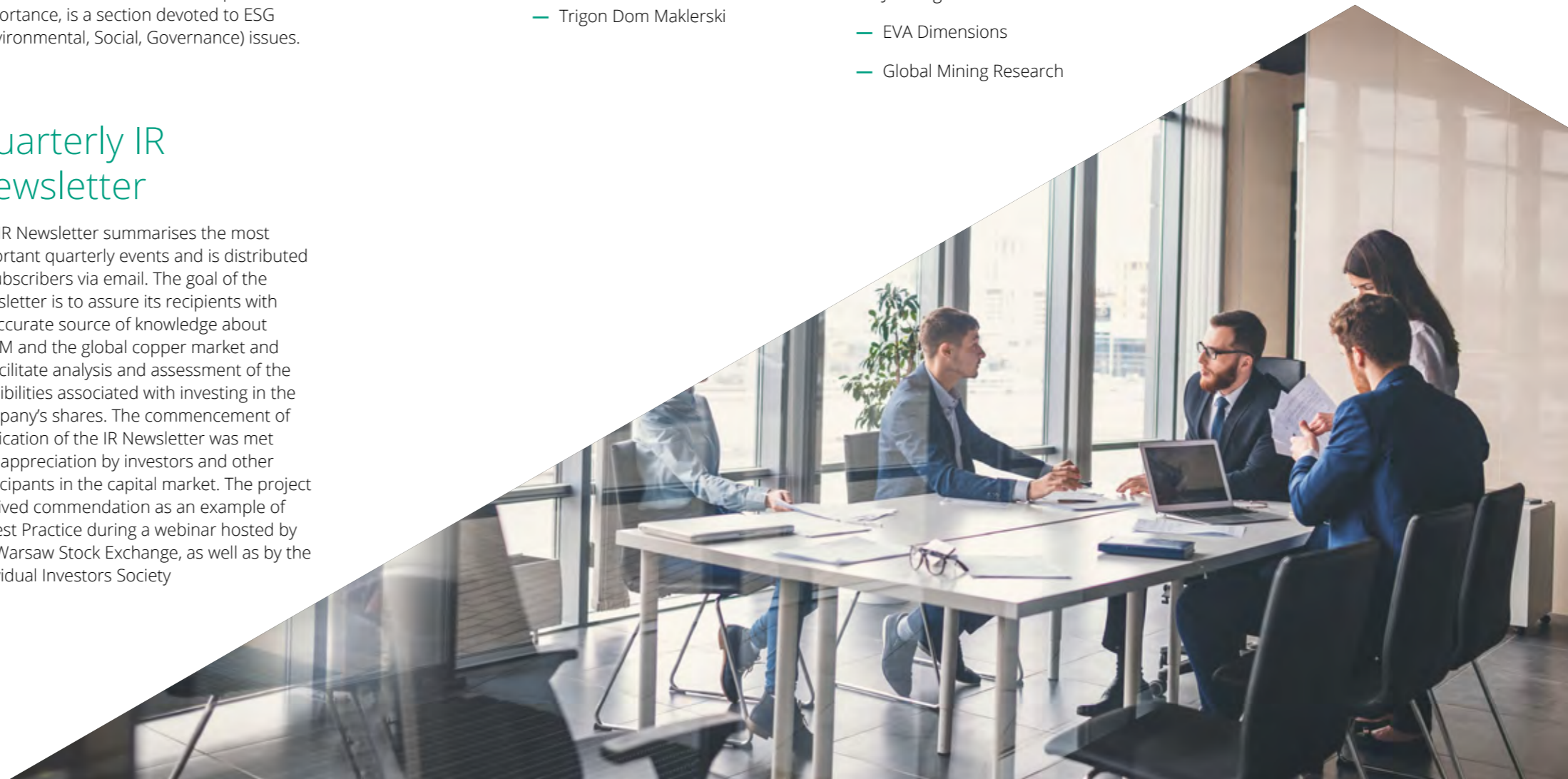
### BROKERAGES WHICH PREPARE REPORTS ON KGHM POLSKA MIEDŹ S.A.

## 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

## Abroad

- Bank of America
- Merrill Lynch
- Raiffeisen
- Goldman Sachs
- Morgan Stanley
- UBS
- WOOD & Company
- JP Morgan
- EVA Dimensions
- Global Mining Research





## AWARDS AND DISTINCTIONS IN 2020 FOR INVESTOR COMMUNICATION AND CAPITAL MARKET ACTIVITIES:

### Best Investor Relations for individual investors

3rd 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

### IR Excellence award

the Company won the maximum score in the prestigious IR Excellence Programme for its efforts on behalf of investors and its high standards of communication with them. The Company was also recognised for having sponsored the largest bond offer in 2019.

### The Best Annual Report 2019

in the contest organised by the Institute of Accounting and Taxes, KGHM Polska Miedź S.A. was awarded the title The Best of The Best.



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

As at 31 December 2020 and as at the date of signing this report, the share capital of the Company was PLN 2,000 million and was divided into 200,000,000 series A shares, fully paid-up, with a par value of PLN 10 each. All of the shares are bearer shares. The Company has not issued preference shares. Each share represents one vote at the General Meeting. The Company does not hold any treasury shares.

In the years ended 31 December 2020 and 31 December 2019, there were no changes in share capital and the number of shares.

In 2020, there were no significant changes in the shareholding of KGHM Polska Miedź S.A. In 2019, the Company was informed that the PZU „Złota Jesień” Open-End Pension Fund had reduced its share in the total number of votes at the General Meeting of KGHM Polska Miedź S.A. to below 5%.

The Company's shareholder structure as at 31 December 2020 and as at the date of signing this report, 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:

Shareholder structure as at 31 December 2020 and as at the date of signing this report

Shareholder	Number of shares/votes	% of share capital /total number of votes
State Treasury <sup>1)</sup>	63 589 900	31,79%
Nationale-Nederlanden Otwarty Fundusz Emerytalny <sup>2)</sup>	10 104 354	5,05%
Aviva Otwarty Fundusz Emerytalny Aviva Santander <sup>3)</sup>	10 039 684	5,02%
Other shareholders	116 266 062	58,14%
<b>Total</b>	<b>200 000 000</b>	<b>100,00%</b>

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

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

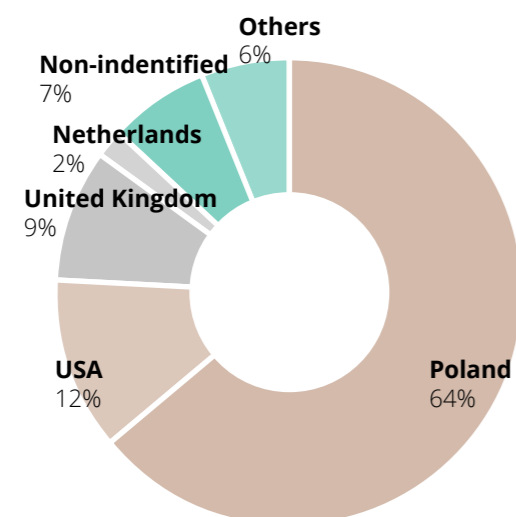
3) based on a notification of 17 July 2018 received by the Company



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.

Below we present the geographic structure of KGHM Polska Miedź S.A.'s shareholders. The data is based on research into the Company's shareholder structure performed in February 2021.

### GEOGRAPHIC SHAREHOLDER STRUCTURE OF KGHM POLSKA MIEDŹ S.A. (%)



Source: CMI2I, February 2021

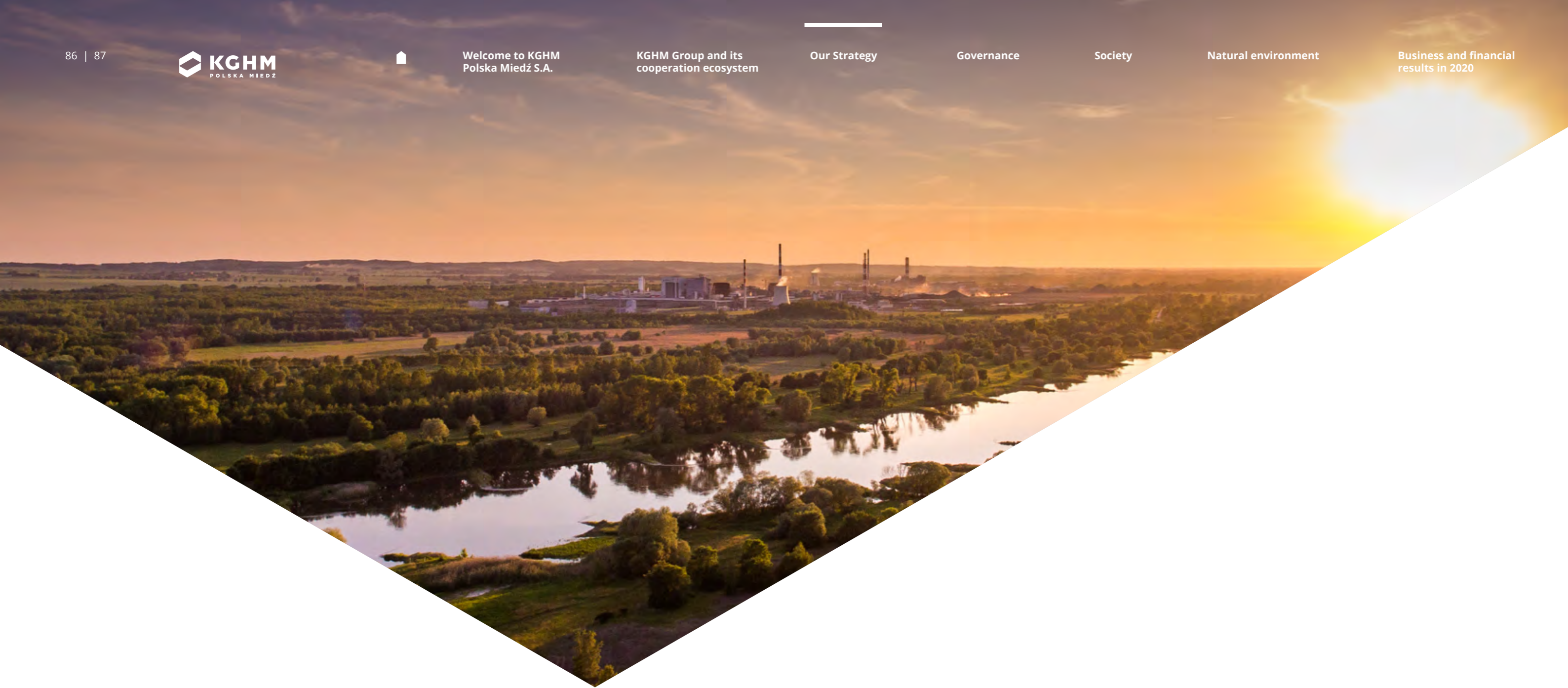
The Management Board of the Company is unaware of any agreements which could result in changes in the proportion of Company's shares held by current shareholders and bondholders. The Management Board is also unaware of any agreements between bondholders, which could result in changes in the number of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

Based on the information held by KGHM Polska Miedź S.A., as at 31 December 2020 and at the date this report was signed, no Member of the Company's Management Board held shares of KGHM Polska Miedź S.A. or rights to such shares.

Among the Company's Supervisory Board Members, as at 31 December 2020 and as at the date of signing this report, only Józef Czyczerski held 10 shares of KGHM Polska Miedź S.A. with a total par value of PLN 100. According to information held by the Company, the remaining Members of the Company's Supervisory Board held no shares of KGHM Polska Miedź S.A. or rights to such shares.

According to the Company's knowledge, as at 31 December 2020 and as at the date of signing this report, the Management Board Members and the Supervisory Board Members did not hold any shares in the related entities of KGHM Polska Miedź S.A. The Company did not operate an employee stock ownership plan in 2020.





# Our Strategy

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- 88** Mission and vision of the organisation
- 90** Business model
- 92** KGHM Polska Miedź S.A.'s Strategy for 2019-2023
- 100** Benefits from the 4E Strategy after 2 years of its application
- 104** Strategy and actions for climate
- 112** Sustainable development integration
- 118** Key non-financial indicators of KGHM Polska Miedź S.A. identified and reported in accordance with the Sustainable Development concept for 2019-2020
- 120** Innovation ecosystem
- 122** Comprehensive risk management system in the KGHM Group
- 152** Risks and opportunities related to climate change



## Mission and vision of the organisation



### Mission

To Always Have  
Copper

We believe that copper and the other minerals that we provide to our customers on every continent are, and will remain, critical for the development of all sectors in the foreseeable future. For this reason, our mission is “To always have copper” with the vision “To use our resources efficiently to become a leader in sustainable development”.

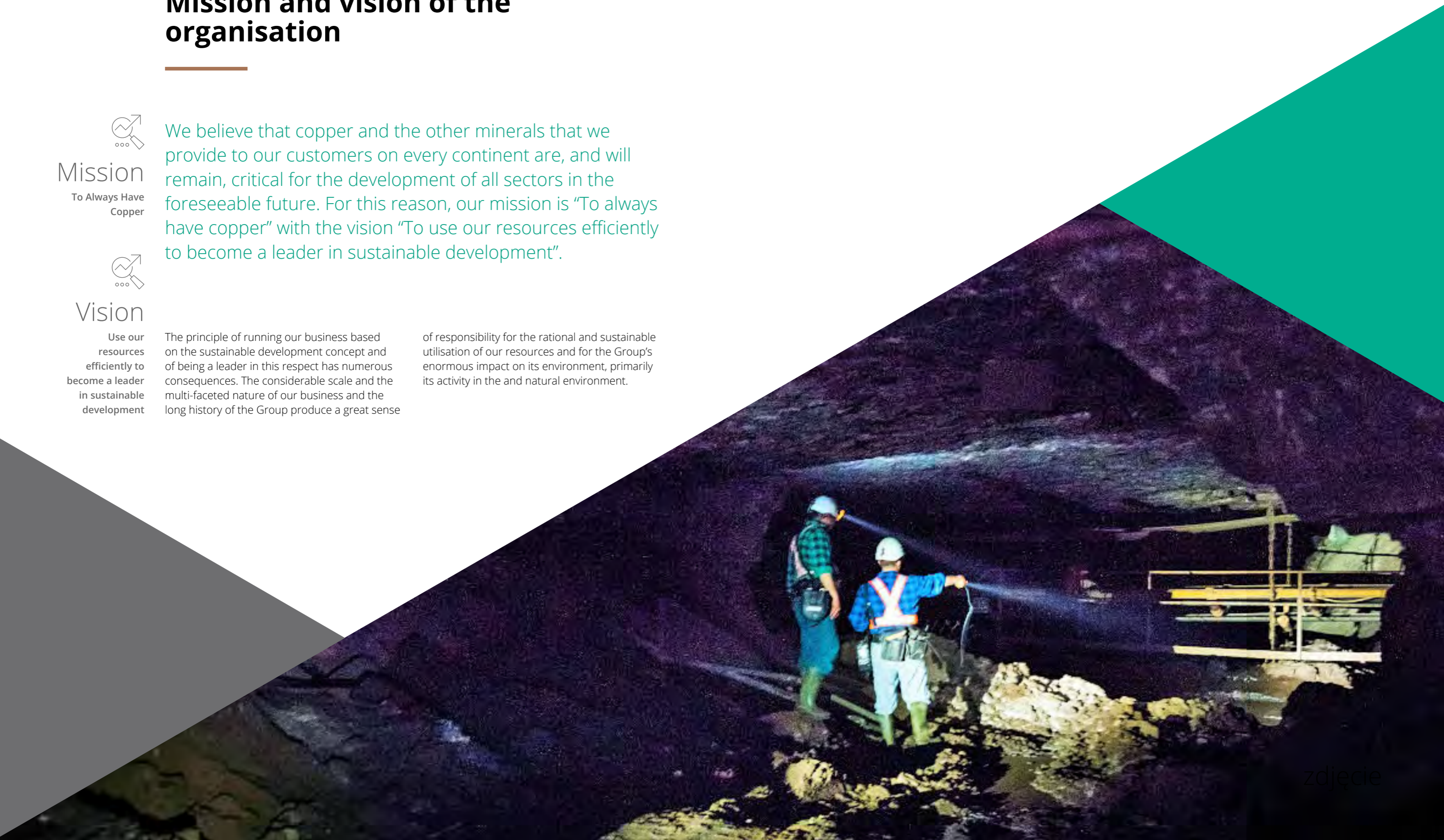


### Vision

Use our  
resources  
efficiently to  
become a leader  
in sustainable  
development

The principle of running our business based on the sustainable development concept and of being a leader in this respect has numerous consequences. The considerable scale and the multi-faceted nature of our business and the long history of the Group produce a great sense

of responsibility for the rational and sustainable utilisation of our resources and for the Group's enormous impact on its environment, primarily its activity in the and natural environment.



# Business model

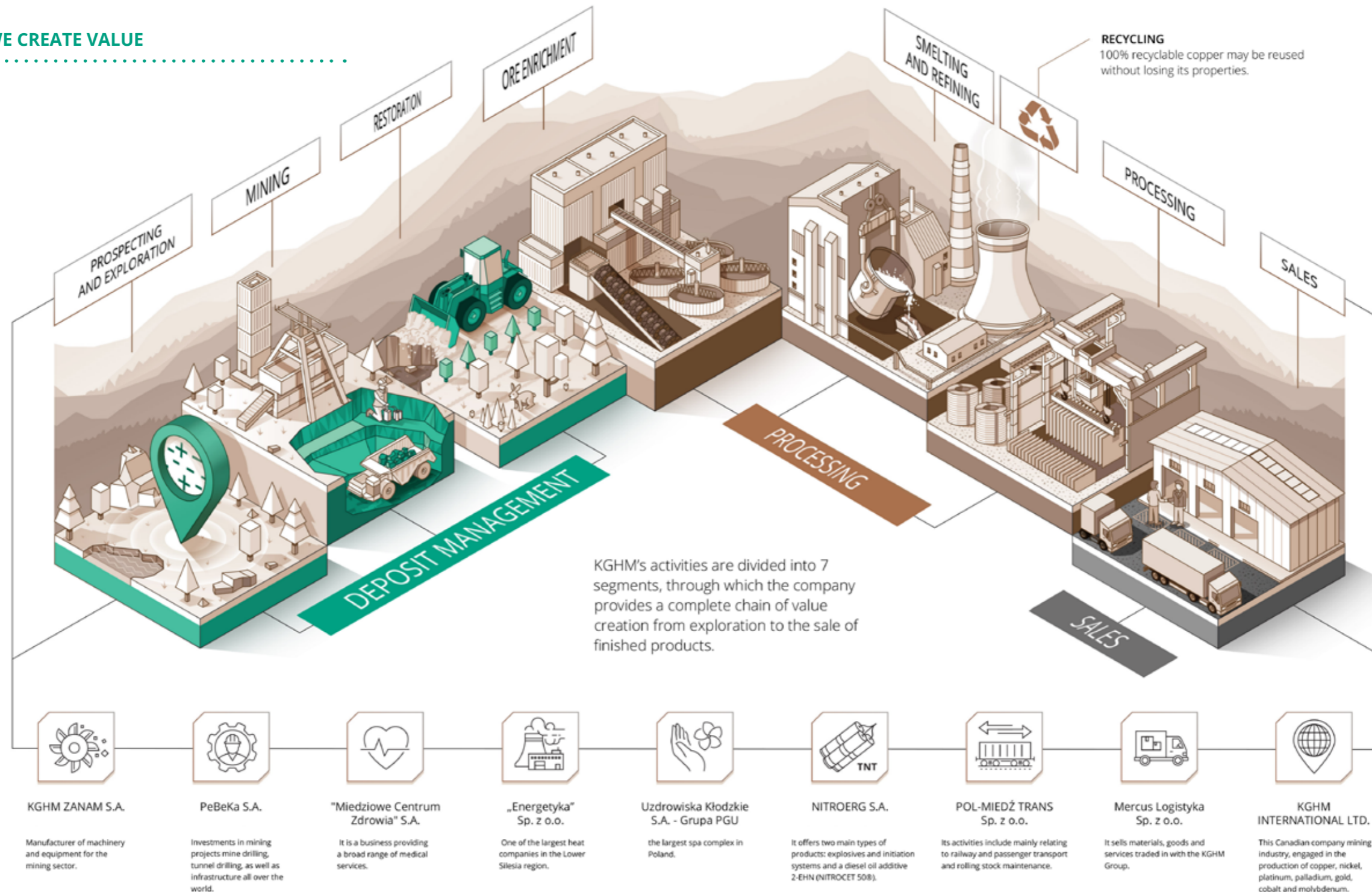
## BUSINESS MODEL OF THE KGHM POLSKA MIEDŹ S.A. GROUP

[GRI 102-9]

### HOW WE CREATE VALUE

The Group's Parent Entity KGHM Polska Miedź S.A. is a global leading producer of copper and silver, with 60 years of experience in the copper ore mining and processing industry. In Poland, KGHM Polska Miedź S.A. exploits one of the world's largest copper deposits the capacity of which will enable the Company to continue production in Poland for the next several decades. KGHM Polska Miedź S.A. also produces silver, gold, molybdenum, lead and rock

salt and is one of Poland's leading exporters and largest companies. The Group is a global, innovative organisation involved in technologically advanced prospecting, mining and smelting operations. We have a geographically diversified portfolio of mining projects. The business model is divided into 7 segments through which the Group ensures a full value creation chain – from exploration to sales of finished goods.



# KGHM Polska Miedź S.A.'s strategy for 2019-2023

In 2020 the Company continued to implement the "Strategy of KGHM Polska Miedź S.A. for the years 2019-2023" which was approved by the KGHM Polska Miedź S.A. Supervisory Board on 19 December 2018. The Strategy is based

on four strategic development directions: elasticity (flexibility), efficiency, environment and e-industry (the so-called 4Es), resulting from global market trends. This is presented comprehensively in the chart below:

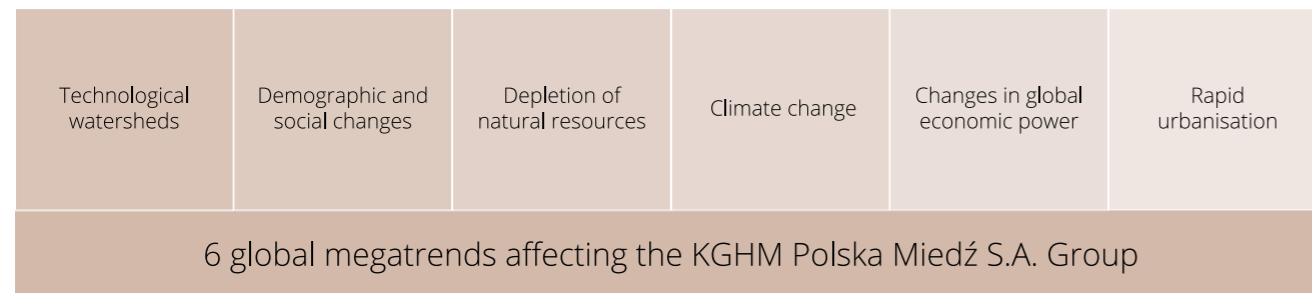
During the reporting period, policy regarding the development directions of the Group was continued. Further actions were also taken aimed at adapting the Group's organisational functioning model to the business model of KGHM Polska Miedź S.A. and the market environment. In terms of the domestic companies,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

To implement the KGHM Polska Miedź S.A. Strategy for 2019-2023, a number of reorganisation measures was undertaken in the area of the Group's international companies. The actions were aimed at integrating KGHM INTERNATIONAL LTD. in Canada with the Company's activity in Poland and transferring some of the KGHM INTERNATIONAL LTD.'s business functions to Poland. These efforts are continued, mainly in respect to the development of consistent internal regulations, procedures and standardised solutions in the individual areas of the Company's activity. Also, internal actions were undertaken to devise further growth scenarios for the respective international assets in the Company's portfolio.

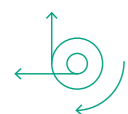
" When updating KGHM's strategy for 2019-23, we thoroughly identified trends as well as possible economic turmoil, even though we could not predict the impact of the pandemic on the global economy. We achieve our goals because we boldly and consistently implement the assumptions contained in the document: day after day, month after month. We plan to maintain a high level of production and increase employee safety, while - at the same time - striving towards green energy. KGHM is a global giant, we are the leader in many areas, we are the first to implement new solutions and technologies "

**Marcin Chludziński,**  
President of KGHM Polska Miedź S.A

## STRATEGIC DIRECTIONS OF KGHM POLSKA MIEDŹ S.A.



## FOUR DEVELOPMENT DIRECTIONS, RESULTING FROM GLOBAL MARKET TRENDS



### Flexibility

- Industry 4.0
- Digitalisation
- Electromobility



### Effectiveness

- Increase in competitiveness
- Industry 4.0



### Environment

- Focus on ecological production
- Circular economy
- Development of pro-ecological regulations
- Electromobility



### E-industry

- Robotisation
- Industry 4.0
- Society based on knowledge
- Digitalisation

## ADVANCEMENT OF THE STRATEGY IN 2020

Implementing the Strategy the Company aimed to maintain a stable production level from domestic and international assets and a cost level guaranteeing financial safety, while ensuring safe working conditions and minimizing the burden on the environment and surroundings, in line with the sustainable development concept. In 2020 work was conducted on a new approach to Strategy monitoring through the prism of Strategic Programs which will be successively implemented in the periods to come.



Below is presented information about the key activities taken in individual strategic areas in 2020:

## Strategic area

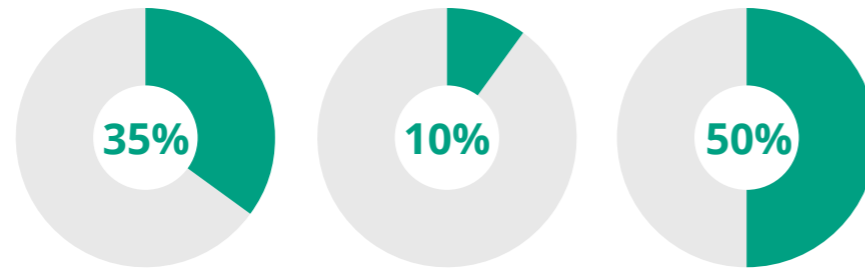


## Development

### MAIN OBJECTIVE

Increase the KGHM Group's efficiency and flexibility in terms of its Polish and international assets

## Selected effectiveness measures



Level of metallurgical production from purchased copper-bearing materials, including scrap, to 2030

An increase in the share of highly processed copper products in the Group's total sales by the end of 2030

Amount by which the needs of KGHM Polska Miedź for electricity from its own sources of energy generation and renewable energy sources will be satisfied by the end of 2030

## Key activities in the Development area in 2020:

- The Deposit Access Program was continued.
- The GG-1 shaft sinking has reached the depth of 1,231.2 meters. Conceptual and planning work on the construction of the Gaworzyce Shaft and the GG-2 "Odra" Shaft is under way.
- 40.3 kilometres of tunnelling were excavated in the Rudna and Polkowice-Sieroszowice Mining Areas.
- The work on Development of the Żelazny Most Tailings Storage Facility was continued:
  - » The total progress of the construction of the Southern Quarter with the sludge, water and electricity infrastructure is 88% (as at 31 December 2020).
  - » The total progress of the construction of the Tailings Segregation and Compacting Station, Stage 1, is 78% (as at 31 December 2020).
  - » A level of 35% of external inputs into production was achieved (as at 31 December 2020).
- The exploration projects regarding prospecting and exploration of copper ore deposits were executed according to the concessions.
  - » In the Głogów and Retków-Ścinawa concession area, geological work was continued – two prospecting and exploration drillholes were made.
- » Geological work was conducted and the Synklina Grodziecka concession amendment process was under way; the Konrad concession was amended.
- » The concession-related proceedings are underway before the Minister of Climate and Environment. The Company awaits re-examination of the Bytom-Odrzański and Kulów-Luboszyce concessions and the issuance of the concession decisions.
- The exploration projects regarding prospecting and exploration of the remaining deposits were executed according to the concessions.
  - » The prospecting and exploration work in the Puck Region were continued – another drillhole was made.
  - » As part of the concession work in the Nowe Miasteczko area, geological work was continued, as part of which geophysical studies were carried out.
- Development projects in foreign assets were continued:
  - » Victoria Project – exploration work continued to increase the knowledge of mineral resources in the project and measures were taken to maintain good relations with the project's key stakeholders.

- » Sierra Gorda Oxide – supplementary work was continued in order to prepare for the next phase of engineering work and further development of the project. Currently, most of the oxide ore resources planned for processing have been mined and deposited near the location of the future copper leaching and recovery plant (SX-EW).

- KGHM's demand for energy was satisfied from own resources in the range of 22.42% of total consumption. For more information on this topic see the section on energy from in-house sources and RES in section 5.2.

## Strategic area



## Production

### MAIN OBJECTIVE

Maintain cost-effective Polish and international production

## Selected effectiveness measures



Level of production in Poland of mined Cu in ore with an annual C1 cost not higher than 3800 USD/t in the years 2019-2023

Average yearly metallurgical production in the years 2019- 2030

Minimum yearly average of daily ore processing in Sierra Gorda from 2020

## Key activities in the Production area in 2020:

- Despite the epidemiological situation caused by the COVID-19 pandemic, the operations in local and foreign assets were continued without major disruptions.
- Mining production in Poland stood at 442 thousand tonnes of extracted Cu ore, at the cost of C1 1.62 USD/lb.
- Production of Cu payable abroad stood at:
  - » Sierra Gorda: 81.8 thousand tonnes (for the 55% stake)
  - » Robinson: 47.4 thousand tonnes
  - » Carlota: 5 thousand tonnes
  - » Franke: 12.5 thousand tonnes
  - » Sudbury Basin: 2.1 thousand tonnes
- Metallurgical production amounted to 560 thousand tonnes.
- The average annualised daily ore processing in Sierra Gorda amounted to 124 thousand tonnes (capacity in the range of 130 thousand tonnes was reached in Q4 2020).
- The Metallurgy Development Program was settled and closed.
- Execution of projects aimed at automation of the production lines of the Company's Mining Divisions, as part of the KGHM 4.0 program in the Industry was continued.
- 5 energy efficiency audits were carried out for projects with significant energy saving potential.
- The Company's Energy Management System (EMS) was adapted to the new standard PN-EN ISO 50001:2018-09 and a certificate issued by an authorised entity (UDT Cert) was obtained.
- Work on increasing electricity production from our own sources, including RES, was conducted:
  - » Construction of the Photovoltaic Power Plant with the capacity of 5 MW in the Obora Sandpit.
  - » Construction of the photovoltaic power plant complex HMG I-III.





## Strategic area

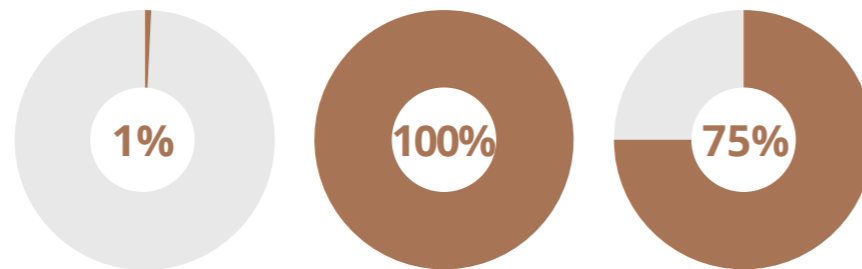


## Innovation

## MAIN OBJECTIVE

KGHM Group's efficiency  
through innovation

## Selected effectiveness measures



Increase expenditures on innovation and R&D work to the level of 1% of KGHM Polska Miedź S.A.'s revenues in 2023

Ensure that all of the innovation projects are realised, pursuant to the rules of a coherent model of innovation management and research and development work (R&D) in the KGHM Group, in the years 2019-2023

Level of funds for R&D and innovation in the years 2019-2023 to meet the challenges faced by KGHM Polska Miedź in the Core Business

## Key activities in the Innovation area in 2020:

- R&D projects with the total value exceeding PLN 180 million were pursued as part of the CuBR venture co-financed by the National Centre for Research and Development. Overall, 25 projects were launched in four editions of the competition.
  - » Currently, 15 projects are pursued.
  - » 8 projects were completed.
  - » 2 projects were halted since it was impossible to implement the research results.
- The Implementation Doctorates Program was continued for 38 doctoral students (Company's employees) from two editions of the program.
- A prototype of a battery-powered Self-Propelled Transport Vehicle (SWT) is being constructed.
- Initiatives concerned with testing battery electric self-propelled mining machines are implemented.
- The project of building a self-driving robot for measuring copper content at the working faces in the mines was launched as part of the project to robotise production and auxiliary processes.
- Projects subsidised under KIC Raw Materials:
  - » The execution of the subsidised research projects was continued.
  - » A subsidy for "The Reflux Flotation Cell Technology RFC" project concerning intensification of the recovery of grains of useful minerals was obtained.
- Projects subsidised under the Horizon 2020 Program:
  - » Continued the execution of the subsidised project.
  - » Launched the "Development of monitoring systems for buildings" project, in which the Group intends to test machine learning and artificial intelligence in the systems monitoring the condition of the Żelazny Most Tailings Storage Facility.
  - » Obtained a subsidy of EUR 753 thousand for the execution of the project entitled "Smart management of mining production 2" to develop and implement innovative solutions aimed at improving the efficiency and safety of works in underground mining processes using state-of-the-art technologies.
- Obtained protection for the "KGHM" word trademark notified in the international procedure in the territory of: the USA, Switzerland, Ukraine, Japan, India and Turkey. Proceedings regarding protection of the "KGHM" word trademark in China are under way.
- Registered the "KGHM" figurative trademark with the Canadian Intellectual Property Office.
- The protection of the "KGHM" figurative trademark in the European Union was extended.
- Filed applications for patents for 3 inventions.

— The patent procedures for 5 inventions are pending in the Patent Office of the Republic of Poland.

— More than 70 new invention projects were acquired as part of the Invention Market 2020 in KGHM Polska Miedź S.A.

## Strategic area



## Financial Stability

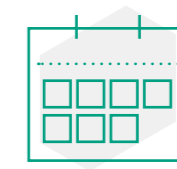
## MAIN OBJECTIVE

Ensure long-term financial stability and the development of mechanisms supporting further development

## Selected effectiveness measures



Basing of the KGHM Group's financing on long-term instruments



Shorter cash conversion cycle



Efficient management of market and credit risk by the Group

## Key activities in the Financial Stability area in 2020:

- The Company consistently continued activities aimed at basing the Group's financing structure on long-term instruments.
  - » The tenor of the unsecured revolving syndicate loan in the amount of USD 1,500 million was extended by one year. The current maturity falls on 19 December 2025.
  - » The financial needs of Group companies were satisfied using intra-group cash transfers based on the cash pooling tool, long-term owner loans, and long-tenor bonds.
- Actions aimed at shortening the receivables recovery period and extending the liabilities payment period were continued. At the end of Q4 2020, the balance of trade payables handed over for debt factoring was PLN 1,263 million and the utilisation of receivables factoring was PLN 2,237 million.
- To effectively manage the Group's market and credit risk, hedging strategies in the copper, silver and FX market were implemented.
- » In the copper market future sales revenues were hedged for 2021-2023 for the nominal volume of 402 thousand tonnes, while in the silver market sales revenues were hedged for 2021-2023 for the nominal volume of 24.6 million ounces. In addition, in 2020, option structures were implemented to hedge against the USD/PLN exchange rate fluctuations in 2022-2023 for the total nominal value of USD 720 million.
- » In addition, in 2020, the Company managed its opened hedging position, restructuring option structures in the copper and FX market.



## Strategic area

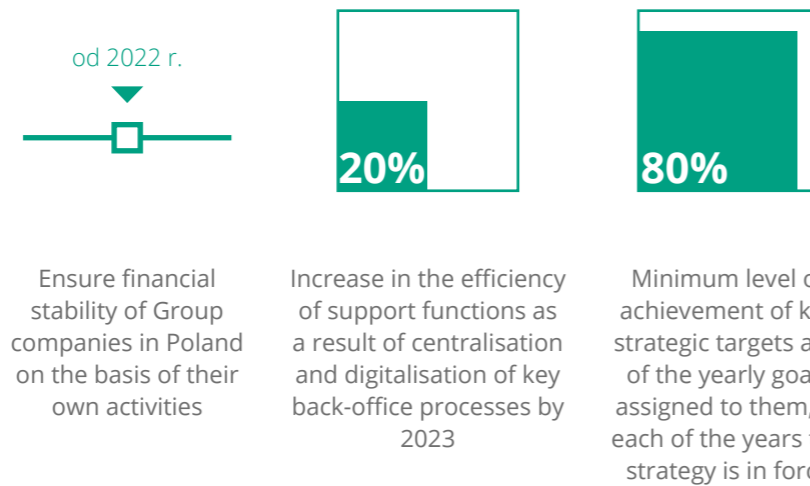


## Efficient Organisation

### MAIN OBJECTIVE

Implement systemic solutions aimed at increasing the KGHM Group's value

### Selected effectiveness measures



### Key activities in the Efficient Organisation area in 2020:

The execution of the KGHM 4.0 Program was continued in three key areas:

#### — Industry area (industrial production)

- » The full scope of the "Localisation system of people and machinery in underground mines" project was completed.
- » Broadband data transmission was ensured on the mining front in all mines.
- » The CMMS system (computerised maintenance management system) was successfully launched in selected Divisions. The implementation of the system in all KGHM Polska Miedź S.A. Divisions was started.

#### — ICT (Information and Communication Technology) area

- » The CRM system was implemented – as part of the project, full integration of the systems using the corporate integration platform (data bus) was carried out, end user training was completed.
- » The "Production Planning and Settlement Process Optimisation" project was completed – production planning, monitoring and settlement processes were improved at all stages of the core production business.

- » uSearch was implemented – tool improving the search and acquisition of information in the KGHM Group and 10 tools (based on the Case Manager platform) were developed to support back-office processes and process digitalisation.
- #### — Supporting Projects area
- » Work is under way to develop a commercial contract repository system.
  - » The SAP Ariba platform for tender proceedings was implemented.
- #### — The work on the Support Process Efficiency Strategic Program was started:
- » 12 support areas in the organisation were selected.
  - » A team was appointed and initiatives improving the efficiency of the processes in the respective areas were identified for execution.
  - » Execution work in some of the selected support areas was started (e.g. simplifications and unification of selected processes were introduced, traditional document circulation was replaced with electronic circulation etc.).

## Strategic area

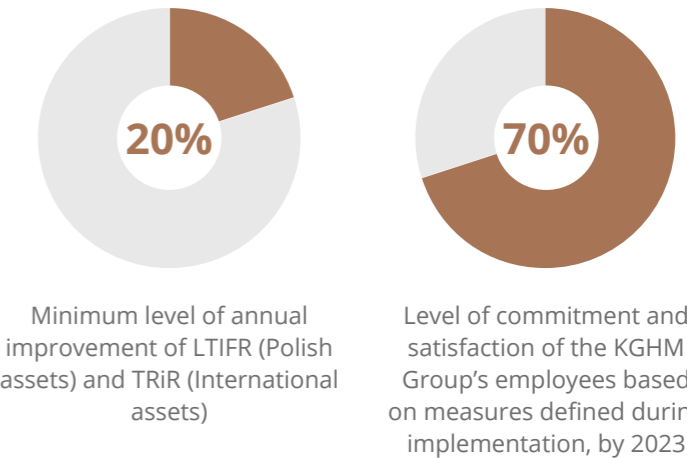


## People and the environment

### MAIN OBJECTIVE

Growth based on the idea of **sustainable development and safety** as well as enhancing the Group's image of social responsibility

### Selected effectiveness measures



### Key activities in the Man and Environment area in 2020:

- The Company strived to lower the LTIFR and TRIR accident ratios by no less than 20% by 2023 relative to the figures recorded in 2018.
  - The total number of accidents at work dropped by 28.7% from 299 injuries in 2019 to 213 in 2020.
  - The LTIFR ratio in KGHM stood at 7.31 in relation to 10.30 in 2019.
  - The consolidated TRIR stood at 0.52 compared to 0.77 in 2019.
  - The Program to Improve Occupational Health and Safety in KGHM Polska Miedź S.A. was continued.
  - The implementation of the new OSH standard ISO 45001:2018 was completed in the Company's Divisions.
  - The "Occupational Safety Leader Golden Card" Certificate was obtained for 2021-2022.
  - Rules of conduct in the conditions of the COVID-19 pandemic were promoted.
  - A uniform card for assessment of external risk associated with the COVID-19 pandemic was implemented.
  - A broad range of measures were implemented to mitigate the hazards resulting from the COVID-19 pandemic.
- The program to adapt the Company's technological installations to the requirements of BAT Conclusions for the non-ferrous metals industry and to restrict emissions of arsenic (BATAs) was continued.
  - In the Głogów Copper Smelter and Legnica Copper Smelter, 14 projects were being executed and the following projects were completed in 2020:
    - An installation to eliminate arsenic-bearing dust from concentrate drier gases was constructed and commissioned (Legnica Copper Smelter).
    - An installation to eliminate arsenic-bearing dust from the anode casting machine was constructed and commissioned (Legnica Copper Smelter).
    - A de-lead slag transportation installation was constructed and commissioned (Głogów Copper Smelter).
    - Construction of bypass pipelines for gases from flash furnaces was completed (Głogów Copper Smelter).
    - Warehouse and storage area for lead-bearing materials was constructed (Głogów Copper Smelter).



## Benefits from the 4E strategy after 2 years of its application

In December 2020, two years passed from the adoption and approval by the Supervisory Board of the Update for the KGHM Polska Miedź S.A.'s Strategy for 2019-2023. This summary presents the key achievements of this period

from the "4E" perspective. A video summarizing the Strategy after two years is available on our website at <https://media.kghm.com/pl>.

### KEY ACHIEVEMENTS OF THE KGHM POLSKA MIEDŹ S.A.'S STRATEGY FOR 2019-2023 AFTER TWO YEARS OF PURSUING IT



## Efficiency

### Our response to increase in competitiveness in the production and mining sector and Industry 4.0

- Carried out investment activities to maintain domestic mining production at the level of 450 thousand tonstones of Cu in ore and the annual average metallurgical production at the level of 540 thousand tonstones,
- The Revolving-Casting-Refining (RCR) Furnace in the Legnica Copper Smelter improved the division's capacity to process materials purchased from third parties and increased the overall production capacity.
- Energy reviews in all Divisions and the Head Office pointed to new areas for energy savings projects in accordance with the Energy Management System.
- Built the competence to develop the power engineering area, including RES (investments in photovoltaic power plants in Legnica Copper Smelter, Głogów Copper Smelter and the Piaskownia Obora Sandpit).
- Increased the efficiency of tailings storage in the Żelazny Most Tailings Storage Facility expansion project, by building the Southern Quarter.
- Used external sources to co-finance research and innovation projects.
- Built an effective and diverse organisational culture based on KGHM Group's values.
- Streamlined the Group' structure, by ensuring a more efficient use of its potential from the viewpoint of the operation of the entire Group.
- Maintained cost discipline and introduced saving initiatives.
- Achieved higher efficiency of financing through diversification of its sources and adaptation of the financing to the needs of the Group.
- Took action to shorten the receivables turnover and extend the liability turnover period (by using debt factoring).
- Ensured continuous and secure availability of factoring for the Group.

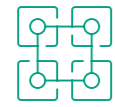


## Ecology, safety and sustainable development

We rely on electromobility, the development of pro-ecological regulations, the Circular Economy and pro-ecological production in accordance with the highest safety standards

- Introduced smart solutions to enhance employee safety.
- Implemented the same OSH procedures in Group companies and KGHM Polska Miedź S.A. divisions, including a uniform occupational safety management system for all assets of KGHM INTERNATIONAL LTD.
- Took numerous actions as part of the "Copper Heart" employee volunteerism program.
- The Group paid corporate income tax to the state budget and to local budgets: approx. PLN 400 million per year.
- The Group paid tax on extraction of certain minerals to the state budget: approx. PLN 1.5 billion per year.
- Created development and training opportunities for employees, in the form of various training courses, development programs and HR projects (e.g. "4E Skills Academy").
- Implemented new installations compliant with the BAT (Best Available Techniques) conclusions for the non-ferrous metals industry.
- Made investments in renewable energy sources (RES), mainly development of photovoltaic plants.
- Developed electromobility – electrical passenger cars and off-road vehicles are being tested; as part of the replacement of machinery resources, diesel engines in SMG are being replaced with low-carbon ones.
- Extended the non-financial reporting area to ensure consistent internal and external communication in the Company.
- Achieved high standards of active communication with the market and investors.





## Elasticity/Flexibility

We adapt our activities to changes in our environment

- Ensured consistent management of the deposit and mining operations, adapting them to the geological structure.
- Optimised metallurgical production – an RCR furnace in the Legnica Copper Smelter, a roasting furnace in the Głogów Copper Smelter.
- Introduced a new financing structure, changing it from a long-term to a short-term one.
- Consolidated procurement programs and digitalised logistics operations.
- Ensured efficient planning and execution of overhaul downtimes.
- Increased electricity production from our own sources.
- Pursued the Implementation Doctorates program and other programs in cooperation with higher education institutions and research institutes and oriented towards improvement of the operation of the core production business.
- Took measures to bridge generation and competence gaps, by carrying out the “Competent in the mining-metallurgical sector” program in cooperation with the Ministry of National Education.
- Continuously broadened employee competences through adaptation and development projects.



## E-Industry

We implement the idea of Industry 4.0., we are striving towards automation and robotisation of production, we are digitally transforming the KGHM Group, we are building a knowledge-based society

- Launched the pilot of the “Localisation system of people and machinery in underground mines”.
- Developed the “Broadband data transmission in underground mines” in mining divisions.
- Developed the “Centre of Advanced Data Analysis (CZAD)”: the application of algorithms to the analysis of belt conveyor loading in mines has been tested.
- Developed the “Robotisation of production and auxiliary processes”: started the construction of a CuXRF robot for scanning for copper content at the working faces in mines.
- Implemented projects associated with the National Cybersecurity System and improvement of the IT security of the Group.
- Developed a Project Management System (PMS 2.0.).
- Promoted digitisation, automation and circulation of electronic documents and information in areas such as: administration, logistics, procurement, IT, legal service, data archiving, HR and payroll, communication and PR, contracts and agreements, finance management, properties.
- Developed IT technologies for accumulating and transferring knowledge in the Group and archiving research and project documentation in the area of invention and patent proceedings in the 1959-2020 period.

### PLANS REGARDING EQUITY INVESTMENTS

With respect to domestic companies, the main goal of the development intent is to ensure continuity of operations and occupational safety within the KGHM Polska Miedź S.A.’s core production business and to integrate the Group around the sustainable development concept, which included implementation of growth initiatives consistent with the Circular Economy concept in order to reduce the Group’s adverse environmental impact. In the case of the international part of the Group, the Company is concentrating on maximising the value of its asset portfolio.

### PLANS REGARDING CAPITAL EXPENDITURES

In terms of the development directions adopted in the Company’s Strategy, investments focus on projects leading to improved efficiencies in the core production business. The investment policy of KGHM Polska Miedź S.A. is based on advancing the Company’s five-year investment plan, enabling execution of the long-term production plan.

The Company continues to advance key mining and metallurgical investments, such as:

- The Deposit Access Program (Deep Głogów along with access and development tunnels)
- Development of the Żelazny Most Tailings Storage Facility
- Investment projects supporting drainage of the Polkowice-Sieroszowice Mine
- Investment projects adapting metallurgical installations to BAT conclusions for the non-ferrous metals industry and to restrict emissions of arsenic (BAT-As)

- Projects optimizing the utilisation of Legnica Hybrid Smelter’s production capacity (using the existing infrastructure and expanding it to increase its processing of scrap)
- Investment projects related to replacing equipment and optimisation at the Głogów I Copper Smelter and Refinery

In addition, with respect to development of the domestic resource base, the Company conducted further exploration work under the existing concessions for deposit prospecting and exploration.

The directions adopted also include the advancement of actions under the circular economy concept. Additionally the Company continues to engage in the work on new smart technologies and production management systems based on online communication between elements of the production process and advanced data analysis, in accordance with the assumptions for the KGHM 4.0 Strategic Program.

The Company is also intensifying actions aimed at improving energy efficiency through investments in its own generating capacity, in particular those which have little to no emissions. Investment projects were also commenced in the photovoltaic energy sector. In accordance with the current Strategy of the Group for the years 2019-23, it is expected that by the end of 2030, 50% of KGHM Polska Miedź S.A.’s demand for electricity is to be met by its own sources of energy generation and renewable energy sources.





# Strategy and actions for climate

## USE OF RAW MATERIALS BEING WASTE

KGHM Polska Miedź S.A. operations are consistent with the general rules of circular economy, such as: saving resources, minimizing waste production, using waste as raw materials for other processes in the company's technologies and outside, low emissions or hermetic sealing of technological processes to reduce industrial burden for the environment.



Every year the Company strives to introduce effective solutions to manifest its efforts to operate in line with the idea of circular economy. One of the components, which are excellent manifestations of circular economy, is production of road aggregates from copper slag. Slag is a waste (by-product) of the production process in smelters. Each year the Legnica Copper Smelter produces approx. 200 thousand tonnes and the Głogów Copper Smelter approx. 450-500 thousand tonnes of slag. Thanks to our knowledge and technology, this material is not dumped on a landfill site but it is given a second life. Owing to the technologies at the disposal of Group companies, the waste

is converted into a full-value product used in road construction: high quality aggregate. In this way it is possible to manage the entire copper slag produced by the Company. Furthermore, the process of aggregate production based on the material supplied by the Company's smelters also permits a reduction of emissions that would be released during the traditional process of aggregate creation. Over the past 10 years, KGHM Metraco, a Group subsidiary, has managed approx. 10 million tonnes of slag, which means that it was not necessary to obtain this amount of raw material from natural deposits, and at the same time such a huge waste volume was not dumped on landfill sites.

Aggregate produced by the Group were used for the execution of such projects as the construction of S3, S5, S6 or S11 express road, which is in progress at present. Material coming from smelters after an appropriate production process was used also for the expansion of the southern quarter of the Żelazny Most Tailings Storage Facility. Considerable quantities of the material are used also by local consumers that execute infrastructure projects commissioned by local authorities. The primary consumers are the largest construction companies specializing in road construction.



## SCRAP MANAGEMENT

A high-quality copper scrap processing plant was installed within the core production line of the Legnica Copper Smelter and Refinery, which is the first stage for the Hybrid Smelter being designed in Legnica. Ultimately, it will be supplemented with the Scrap Trading Base, where the feedstock will be prepared for a dedicated installation for the remelting of the remaining copper-bearing materials coming from recycling.

As part of the first stage of the Hybrid Smelter in Legnica, the copper scrap processing technology with the use of a Revolving Casting-Refining (RCR) furnace was applied. The applied RCR furnace permits remelting copper scrap with the average 89% Cu content with the efficiency of at least 90 thousand tonnes of anode copper per year. The total production of anode copper at the Legnica Copper Smelter and Refinery in 2020 was 167.6 thousand tonnes, including 58.8 thousand tonnes produced by the RCR furnace. In 2020, in total 91 thousand tonnes of scrap were processed by the Legnica Copper Smelter and Refinery, which were thus returned to use in line with the circular economy concept.

## ELECTROMOBILITY AND LOW-CARBON MINING MACHINES

One of the primary infrastructure-related obstacles in the development of electromobility is currently the deficit of fast charging points, whose range should cover the road network in Poland and whole Europe. The rapid development of transport based on electricity will pose an enormous challenge for electricity producers and distributors but will also give them an even 20% increase in the market of consumers. Bearing the above aspects in mind, KGHM Polska Miedź S.A. commenced decisive actions towards broadly understood electromobility in 2018. Through the gradual and consistent replacement of own transport fleet with zero-emissions electric vehicles, but above all through the development of ultra-fast charging stations available to the public in the LGOM area. The first station was created at the KGHM Head Office already in December 2018 and it was followed in 2019 by successive ones at the Głogów Copper Smelter, Legnica

Copper Smelter and Lubin Mine Divisions. Each "charger" has three types of connectors, which ensures full compatibility with the vehicles that are available on the market. The stations are included in the IT system of Tauron Dystrybucja Serwis. The support for the electromobility development program provides for free charging for the users, which is beneficial to the environment and climate.

In addition, as part of actions for protection of the environment and climate as well as health and working comfort of the employees, the Company performs works aimed to reduce gas emissions from mining machine engines, in particular of nitrogen oxide and particulate matter. The objective is to reduce employees' exposure to nitrogen oxide at workplaces and to achieve concentrations below 2.5 mg/m<sup>3</sup> and to reduce the exposure to carcinogens to the level of 0.05 mg/m<sup>3</sup> in terms of elemental carbon.

At present, the Company pursues an investment process related to the purchase of machinery, as part of which engines according to the Stage IV and V are gradually introduced, which enables several-fold reduction of emissions. Currently out of the 1,261 machines used in the Company, approx. 10% are low-emission machines. All new machines are purchased complete with engines complying with strictest flue gas purity standards. Replacement of all the machinery will be possible by the end of 2026.

The Company cooperates also with external manufacturers to test the functionality and effectiveness of mining machines with a battery electric drive. The effects of these measures include tests of a battery anchoring car at the Lubin Mine. A drilling car and a self-propelled electric transport vehicle will be delivered for testing in Q2 2021. Moreover, arrangements concerning commencement of testing of an electric charger at the Rudna Mine are at an advanced stage.

## ENERGY FROM OWN SOURCES AND RES

**In 2020, the first photovoltaic power plant in Poland using the 4.0 technology was launched. This is an element of implementation of KGHM's strategy aiming to increase the energy self-sufficiency and the use of Renewable Energy Sources.**

KGHM's ZANAM photovoltaic power plant is the first in Poland fully computerised and automated power plant using the 4.0 technology. The facility is equipped with a virtual Control Room and a modern High Resolution Monitoring System which supports full, precise, 24/7 diagnostics of the technical condition. The monitoring system works on the level of individual panels and not on level of strings, as before. This supports very precise identification of failures, if any, and reduction of maintenance trips and, consequently, reduction of maintenance costs.

Annual energy production will amount to approx. 3 GWh. The power plant was built in accordance with the directions of development of photovoltaic power sector recommended by the International Energy Agency. This is a contribution to implementation of the low-emission energy management policy at KGHM and a tangible source of energy for our plant in Legnica.

The solutions applied in the photovoltaic power plant offer numerous possibilities, among others the possibility of configuration of automatic alerts. This shortens the failure response time. The monitoring of the technical condition of the photovoltaic panels and inverters uses advanced analytical algorithms based on the processing of Big Data, Machine Learning and Artificial Intelligence.

### KGHM ZANAM PHOTOVOLTAIC POWER PLANT IN NUMBERS:

3.146 MWp  
capacity of the PV  
generator

solar energy  
energy source

39,535.00 mkw  
development area

KGHM ZANAM division  
in Legnica  
location

9,534  
number of panels

3 GWh  
annual production  
level

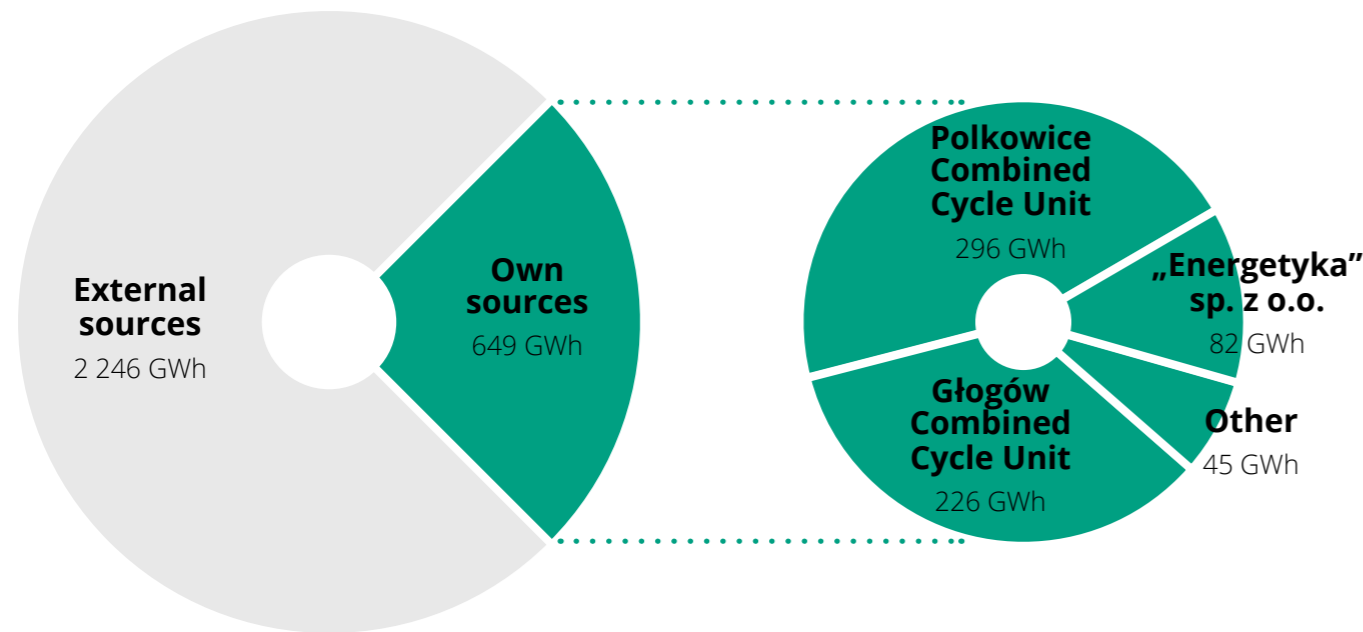


In 2020 the Company reached a record electricity production level from Combined Cycle Units. The units generated in total over 0.5 TWh of energy, i.e. almost 16% of the Company's total electricity demand. This significant share of cheap and ecological (compared to the burning of coal) energy from the units in the KGHM portfolio will allow the Company to both generate environmentally friendly energy and achieve savings of several dozen million PLN. The energy is used by: the Rudna Mine Division, Polkowice-Sieroszowice Mine Division and Głogów Copper Smelter Division. Electricity in Combined Cycle Units is generated by 4 Titan

130 Gas Turbines, with the capacity of 14.7 MWe, and 2 Siemens Steam Turbines, each with the capacity of 12.3 MWe.

The Group also has other in-house energy sources, which together with the Combined Cycle Units mentioned above covered 22.42% of KGHM's total energy consumption in 2020 (nearly 1.5% more than in 2019). The figure below presents a breakdown of energy from own sources in 2020.

### ELECTRICITY SOURCES OF KGHM POLSKA MIEDŹ S.A. IN 2020



In 2020, KGHM Polska Miedź S.A. also took a range of actions to develop renewable energy sources:

- Applications for modifications in the urban design documentation have been submitted in order to commission photovoltaic units of the capacity of over 100 kW, located on land owned by KGHM Polska Miedź S.A. in:
  - » Lubin Municipality, of installed capacity of about 20MW.
  - » Warta Bolesławiecka Municipality, of installed capacity of over 50 MW.

- A pilot concurrent operation of two gas turbines in a combined cycle (gas and steam) unit in Głogów was conducted, generating 16 GWh of electricity more than in the originally planned generation schedule, which contributed to:
  - » Lower electricity production costs by about PLN 1.8 million.
  - » Lower CO<sub>2</sub> emissions by over 4 thousand tonnes.
- KGHM ZANAM S.A, a subsidiary of KGHM, commissioned a photovoltaic plant of the capacity of 3.1 MWp.

### REDUCTION OF EMISSIONS FROM SMELTERS AND REFINERIES

In order to minimize the negative environmental impact of metallurgical technologies and maintain fully operational equipment protecting the environment, the Company has successfully implemented adaptation of the units to

the BAT Conclusions for the non-ferrous metals industry, including limitation of arsenic emissions. The parameters achieved thanks to a number of investment projects are much higher than the levels required by the law. The table below presents detailed results achieved by the completed investment projects in this area.

### RESULTS OF INVESTMENT PROJECTS IN THE AREA OF UNIT ADAPTATION TO MEET BAT CONCLUSIONS FOR THE NON-FERROUS METALS INDUSTRY

Name of task/initiative	Expected adaptation to BAT Emission levels under BAT (BAT-AEL)	Task completion date Parameters achieved (in guaranteed parameter tests)
Modernisation of the PSz.1 bag filter dedusting system and Psz.2 and PSz.3 cartridge filters in Shaft Furnaces	<b>BAT 39:</b> Dust - 2-5 (mg/Nm <sup>3</sup> ) As - 0.05 (mg/Nm <sup>3</sup> )	<b>December 2019</b> Dust - below 1 (mg/Nm <sup>3</sup> ), As - below 0.05 (mg/Nm <sup>3</sup> ), average 0.02 (mg/Nm <sup>3</sup> )
Construction of 2nd-degree wet dedusting system on the dryer dedusting units to reduce As and Hg emissions down to the BAT Conclusion levels	<b>BAT 38:</b> Dust - 3-5 (mg/Nm <sup>3</sup> ) As - 0.05 (mg/Nm <sup>3</sup> ) <b>BAT 11:</b> Hg - 0.01 - 0.05 (mg/Nm <sup>3</sup> )	<b>December 2020</b> Dust - below 1 (mg/Nm <sup>3</sup> ), As - below 0.02 (mg/Nm <sup>3</sup> ), average 0.01 (mg/Nm <sup>3</sup> ) Hg - below 0.004 (mg/Nm <sup>3</sup> ), average 0.002 (mg/Nm <sup>3</sup> )
Design and construction of installation to eliminate arsenic from gases above TM-16 casting machines	<b>BAT 44:</b> Dust - below 15 (mg/Nm <sup>3</sup> )	<b>December 2020</b> Dust - below 2 (mg/Nm <sup>3</sup> ), average (mg/Nm <sup>3</sup> )
P-1 Air-tight sealing of conveyor belt pulling stations for carrying copper concentrate and bedding and blending store	<b>BAT 8 and BAT 25:</b> Specify the required adaptation method to prevent diffuse emissions from pre-treatment of raw materials, primary and secondary materials and their transport, or to reduce the emissions.	<b>October 2019</b> Sealed conveyor systems were applied for transport and handling of dust generating concentrates, as well as fluxes and fine materials; mounting of roofs over conveyors for handling non-dust emitting solids (compliance with BAT8a, BAT8b, BAT25).
PG Installation feeding de-leaded slag into flash furnace	<b>BAT54:</b> Specifies methods to reduce the amount of copper production primary and secondary waste materials to be stored. <b>BAT90:</b> Specifies the required adaptation method to prevent diffuse emissions from pre-treatment of raw materials, primary and secondary materials or to reduce the emissions (for lead production).	<b>December 2020</b> The installation enables air-sealed transport of the waste material, i.e. de-leaded slag, to flash furnace for metal recovery (compliance with BAT54). A pneumatic transport system applied for dust-generating materials (compliance with BAT90a).



## 161 mln PLN

### Program to adapt the technological installations to BAT Conclusions

Construction and start-up of the following completed:

- Głogów plant – (1) an installation for the transport of de-lead slag for processing in the flash furnace, (2) bypass gases pipelines from the flash furnaces to the sulphuric acid plant, (3) a warehouse and storage area for lead-bearing materials to eliminate fugitive dust emissions
- Legnica plant – an installation to eliminate arsenic-bearing dusts from concentrate drier gases and from above the anode casting machine







## Sustainable development integration

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KGHM operates based on the principles of sustainable development, reflecting in its daily activities obligations in areas such as Society, the Environment, the Economy, Safety and Resource Efficiency. The principle of running our business in line with the sustainable development concept and of being a leader in this respect affect, among others, the level of business activity and long-term operation of the KGHM Group. This, in turn, entails the awareness of responsibility for rational and sustainable utilisation of our resources and for the Group's enormous impact on its environment, both social and natural. The Group provides employment to over 34 thousand people, which supports the development of cooperating entities and drives the economy.





**KGHM POLSKA MIEDŹ S.A. IS A GLOBAL COMPANY, OPEN TO DEVELOPMENT AIMED AT ENSURING ITS STABLE OPERATION FOR MANY DECADES TO COME FOR THE BENEFIT OF PRESENT AND FUTURE GENERATIONS**

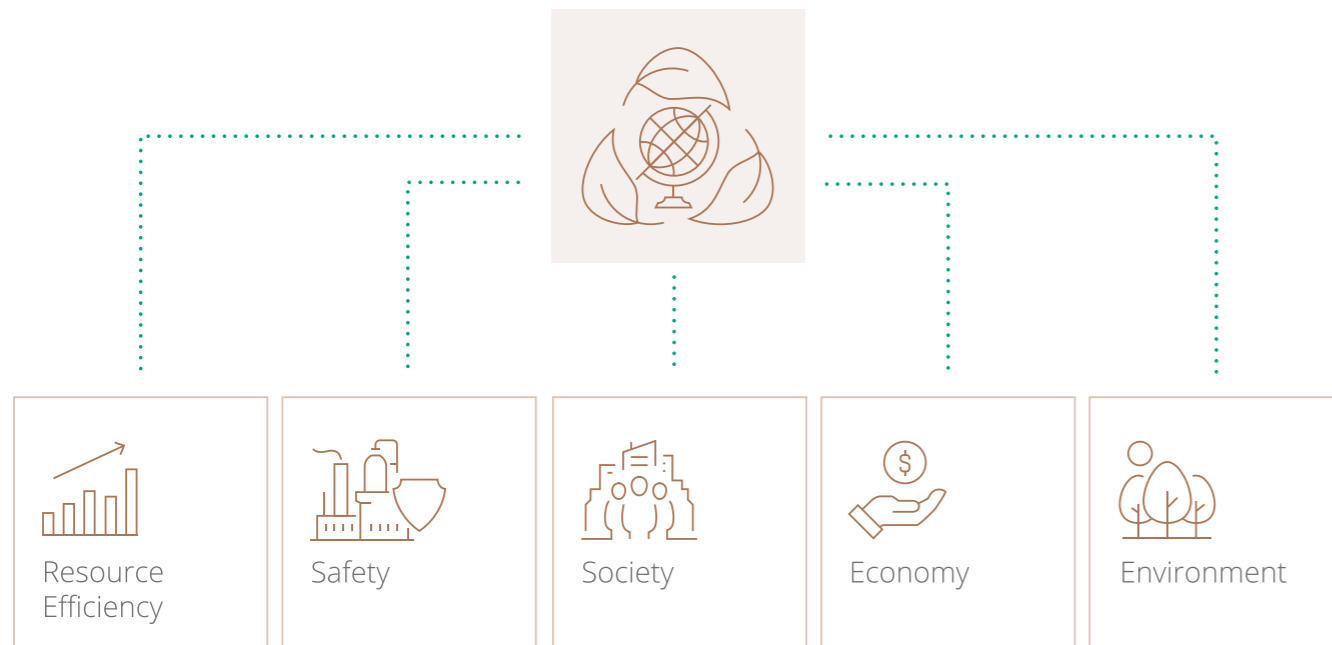
[GRI 102-13]

In the pursuit of its objectives, KGHM Polska Miedź S.A. focuses on creating added value while ensuring solid foundations for its enterprise and employees and achieving long-term success. The Company wants to make smart investments in new technologies, innovative solutions, best available practices and

employee development. KGHM Polska Miedź S.A. is aware that sustainable development of the mineral resource industry has become a global challenge for the modern world. Sustainable development is essential to our mineral resource safety and to ensuring the comfort of life of our employees and society as a whole as well as to protecting the natural environment. The Company operates based on the principles of sustainable development, reflecting in its daily activities obligations in areas such as Society, the Environment, the Economy, Safety and Resource Efficiency.

The diagram below presents the Sustainable Development Areas of KGHM Polska Miedź S.A.

**SUSTAINABLE DEVELOPMENT AREAS OF KGHM POLSKA MIEDŹ S.A.**



KGHM Polska Miedź S.A. pursues sustainable development principles among others through cooperation with European partners as part of international organisations grouped together around the European Commission. The Company creates and supports the measures of the EU new industrial policy as part of the European Innovation Partnership (EIP), through participation in High Level Group meetings. This also involves the Company's active participation in the Master Programs of the European Union and the programs of the European Institute of Innovation and Technology for EIT KIC Raw Materials. A representative of KGHM also serves as the President of the European Technology Platform on Sustainable Mineral Resources in Brussels. Implementation of the Platform's

objectives contributes to the medium- and long-term security of stable procurement of raw materials (including key raw materials, industrial mineral materials and wooden materials) which are indispensable for the fulfilment of the basic needs of any modern society striving to achieve efficient resource utilisation. The Platform also has an advisory role in the creation of the EIP's raw materials policy.

The sustainable development activities undertaken by KGHM Polska Miedź S.A. are fully and comprehensively consistent with the United Nation's sustainable development goals (2030 Agenda), as presented below:

**KGHM'S ACTIVITY AND THE UNITED NATIONS' SUSTAINABLE DEVELOPMENT GOALS FOR 2030 (2030 AGENDA FOR SUSTAINABLE DEVELOPMENT)**



The positive aspects of KGHM Polska Miedź S.A.'s activity drive economic growth in the region. The Group employs more than 34 thousand people, most of them in the area of the so-called "Copper Basin". The Company's business drives the development of cooperating companies and the economy, which has direct effect on reduction of poverty, elimination of hunger and development of the areas neighbouring the Company's operations. The Company also takes care of the health and well-being of not only its employees and their families, but of all the region's residents. To this end it operates Miedziowe Centrum Zdrowia ("Copper Health Care Centre"), implements health promotion programs and awards grants to health care providers. KGHM Polska Miedź S.A. has a direct effect on the quality education goal. The region, in which the Company operates, is relatively affluent, mainly because of its presence. As a result, more people can afford to get additional education and obtain additional qualifications. Furthermore, KGHM cooperates with many universities and academics. The Company encourages its employees to pursue continuous development, offering many attractive paths of competence improvement. Actions taken by KGHM contribute directly to reduced inequalities among people. Access to health care, dignified employment and education helps to level out such inequalities that may develop in the

society. Consequently, KGHM is also involved in the implementation of the sustainable cities and communities goal.

Other objectives pursued by the Company include responsible consumption and innovative production. KGHM strives to ensure that the entire technological process is as optimal, safe, innovative and sustainable as possible. It seeks methods to improve it even further. It manages resources rationally, but at the same time strives to eliminate waste. The Company has been committed to the concept of circular economy moving away from the linear economy towards the closed cycle of material consumption. To this end the Circular Economy program is also developed in the Company. The practices of KGHM Polska Miedź S.A. indicate that the mineral resource industry is inextricably linked to many more sustainable development goals than those considered to be typical for the sector. Partnership for the goals is an important part of the 2030 Agenda. As a Company, we wish to join forces and intensify the activities designed to cooperate with institutions who equally cherish the idea of sustainable development.

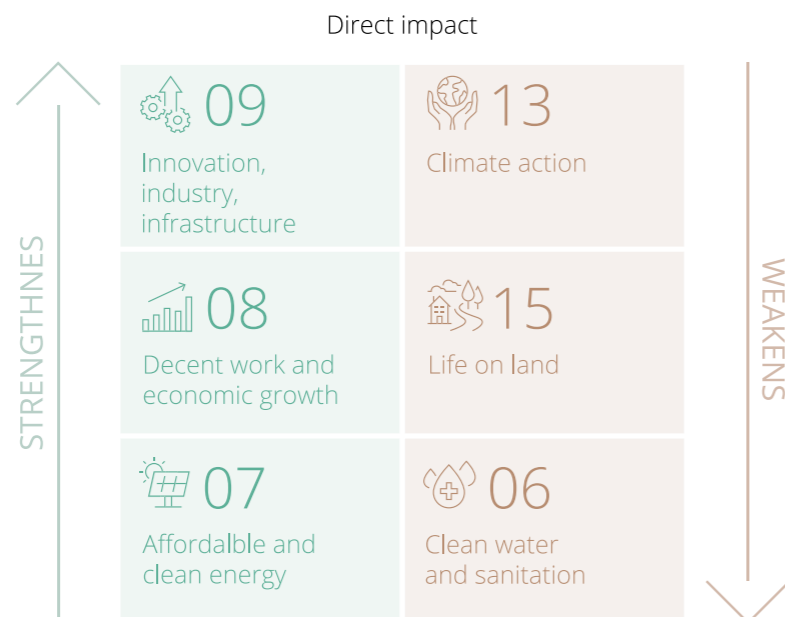
In this context, KGHM Polska Miedź S.A. is obviously aware of the impact of these goals on mining activity; accordingly, it focuses mainly on the implementation of the measures presented below:

The activities described above resulted in the development of KGHM Polska Miedź S.A.'s sustainable value chain, as presented in the diagram below.

**KGHM POLSKA MIEDŹ S.A.'S SUSTAINABLE VALUE CHAIN**



**IMPACT OF EACH GOAL SET UNDER THE 2030 AGENDA FOR SUSTAINABLE DEVELOPMENT ON THE MINING INDUSTRY**





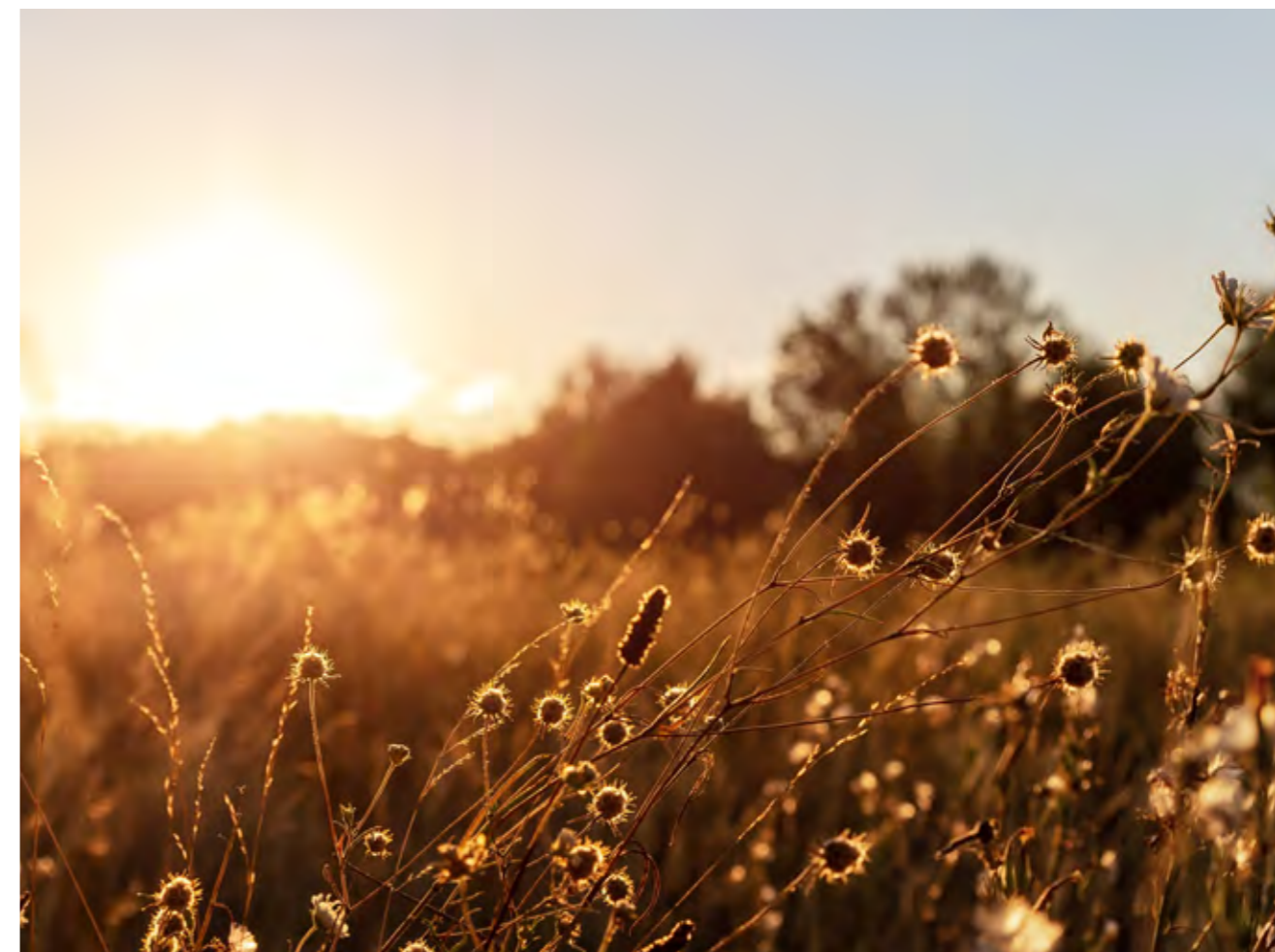
## Key non-financial indicators of KGHM Polska Miedź S.A. identified and reported in accordance with the sustainable development concept for 2019-2020

Society	2019	2020
Maintaining membership in WIG-ESG (previously the RESPECT Index)	YES	YES
Maintaining position in the FTSE4Good Index Series	YES	YES
0% investment activity without a social dialogue policy	YES	YES
Conclusion and maintaining of long-term contracts; achievement of a proper sales structure ensuring long-term relations with customers	YES	YES
Sponsorship and charitable activities in building corporate social responsibility (sponsorship expenses for the purposes of the Company's promotion and regional support, i.e. sports/culture/science)	PLN 33.3 million	PLN 36.8 million
<b>Resource efficiency</b>		
Ore extraction (wet weight) per mine employee (tonne)	2 527	2 509
Production of electrolytic Cu per Company / metallurgical employee (tonne)	31 / 156	30 / 155
Maintaining Cu smelting yields (%)	97,96	98,30
<b>Zero harm</b>		
LTIRFKGHM (Lost Time Injury Frequency Rate KGHM)	10,3	7,3

Since 3 September 2019, the Company has been part of the WIG-ESG index, which includes companies from WIG20 and mWIG40 indices on the Warsaw Stock Exchange that observe the principles of corporate social responsibility. From 19 November 2009 until the final calculation and publication date, i.e. 1 January 2020, the Company was continuously included in the RESPECT Index. Additionally, since September 2018, KGHM Polska Miedź S.A. has been included in the FTSE4Good Index Series, which is part of the group of ethical investment indices taking into account the criteria of corporate social responsibility and ESG risk management. In 2020, for the first time ever and as one of the first companies in Poland, the Company took part in the CDP rating program (previously: Carbon Disclosure Project) focused on communicating the impact of businesses on greenhouse gas emissions.

The new Strategy of KGHM Polska Miedź S.A. for the years 2019-2023 comprises 6 strategic areas. One of those areas is "People and the Environment", which refers, among others, to sustainable development of the Company. Its major objective is to grow based on the idea of sustainable development and safety and to enhance the Group's image as a socially responsible organisation. The effectiveness of the "People and the Environment" strategic area is measured by:

- a minimum level of annual improvements in LTIFR (for domestic assets) and TRIR (for overseas assets),
- the level of the KGHM Group's employees' dedication and satisfaction, based on pre-defined measures being implemented until 2023





## INNOVATION ECOSYSTEM

“ The development of technology and raising the level of innovation are very important for KGHM. We are building our future on the basis of e-industry. The implemented solutions include robotisation, digitisation, knowledge management and targets for the 4.0 industry, including data mining, building a consistent supply

KGHM Polska Miedź S.A. intends to be an innovation leader in Poland and internationally. As an international corporation KGHM is obligated to pursue broad research and development activity. Innovation is one of the competitive advantages of the KGHM Polska Miedź S.A. Group.

KGHM consistently increases the knowledge it has accumulated over 60 years of its activity. Its success is based on rich tradition as well as on innovation. The Company continuously seeks technologies to help it, reduce production costs, enable higher rates of recovery of copper and associated metals or contribute to higher productivity. The Company is committed to the safety of its employees and protection of the natural environment.

In 2023, KGHM Polska Miedź S.A. intends to allocate 1% of the Company's annual revenue towards innovation and research and development projects, which amounts to nearly PLN 200 million. This constitutes a significant increase of R&D expenditures, which currently

chain, energy savings and safety. The KGHM 4.0 Strategic Program includes nearly 50 projects. We undertake work on cutting-edge technologies, which will change the method and nature of mining copper in the future.”

### Adam Bugajczuk

Vice President of the Management Board  
 (Development)

are at approximately PLN 40 million per annum. The Company focuses on improving the quality of the tasks it performs and the results it achieves. The main stream of R&D finance and innovation is directed to activities of the core production business (at least 75% in the 2019-2023 period), which have a higher implementation or commercialisation potential. KGHM has in place a consistent management model for innovation and research and development work.

The development of technology and raising the level of innovation are very important for the Company. The projects undertaken by KGHM focus on developing new copper ore mining systems in deep deposits as well as efficient technologies for their processing and for producing end materials. Actions are also taken to increase automation of mining processes, develop energy-efficient technologies or reduce the environmental impact of the mining industry.

The Company is building its future on the basis of e-industry. The implemented solutions include robotisation, digitisation, knowledge management and targets for the 4.0 industry (including data mining aimed at better utilisation of machinery and equipment, building a consistent supply chain, energy savings and safety). KGHM does not only promote projects that can be implemented in the short term. The company is not afraid of ambitious challenges and is undertaking work on cutting-edge technologies, which may change the method and nature of copper production in the future.

KGHM grows by combining the experience and intellectual potential of its employees with external research entities, businesses and institutions. The Company uses its resources and funds efficiently, creating value and building its image as a global leader in the mining industry.

### KEY ACTIVITIES IN THE INNOVATION AREA IN 2020:

- Continuation of activities within the CuBR project co-financed by the NCBR (National Centre for Research and Development). R&D projects with the total value exceeding PLN 180 million are pursued. So far, 25 projects have been launched in four editions of the competition.
  - » Currently, 15 projects are being pursued.
  - » 8 projects were completed.
  - » 2 projects were halted since it was impossible to implement the research results.
- The Implementation Doctorates Program was continued for 38 doctoral students (KGHM employees) from two editions of the program.
- Initiatives concerned with testing battery electric self-propelled mining machines are implemented.
- The project of building a self-driving robot for measuring copper content at the working faces in the mines was launched as part of the project to robotise production and auxiliary processes.

- Projects subsidised under KIC Raw Materials:
  - » The execution of the subsidised research projects was continued.
  - » A subsidy for “The Reflux Flotation Cell Technology RFC” project concerning intensification of the recovery of grains of useful minerals was obtained. intensyfikacji odzysku ziaren minerałów użytecznych.
- Projects co-funded by the Horizon 2020, the EU Scientific Research and Innovation Framework Programme:
  - Launched the “Development of monitoring systems for buildings” project, in which the Group intends to test machine learning and artificial intelligence in the systems monitoring the condition of the Żelazny Most Tailings Storage Facility.
  - Obtained a subsidy of EUR 753 thousand for the execution of the project entitled “Smart management of mining production 2” to develop and implement innovative solutions aimed at improving the efficiency and safety of works in underground mining processes using state-of-the-art technologies.
  - Obtained protection for the “KGHM” word trademark notified in the international procedure in the territory of: the USA, Switzerland, Ukraine, Japan, India and Turkey.
  - Registered the “KGHM” figurative trademark with the Canadian Intellectual Property Office.
  - The protection of the “KGHM” figurative trademark in the European Union was extended.
  - Filed applications for patents for 3 inventions.
  - The patent procedures for 5 inventions are pending in the Patent Office of the Republic of Poland.
  - More than 70 new invention projects were acquired as part of the Invention Market 2020 in KGHM Polska Miedź S.A.

# Comprehensive risk management system in the KGHM group

[GRI 102-11]

“ You can't manage what is not measurable'. This is one of the basic principles of management which aids in the constant improvement of advanced risk management methods developed over the years in the KGHM Group. We are building an organisation aware of the risks and striving to constantly improve and systematically grow and protect the value for our shareholders. We focus on threats and opportunities in the short and long run, taking into account the functional and project-based structure of the

KGHM Group. We apply solutions adapted to our uniqueness, supporting systematic identification, assessment and analysis of risk, whose results allow us to design our response to the risks, keeping them at the expected level.

**Monika Wolniewicz**  
Director of the Corporate Risk and Compliance Management Department

The KGHM Polska Miedź S.A. Group defines risk as the effect of uncertainty inherent in its operations that may give rise to both opportunities and threats to the attainment of business objectives. We assess the current and future, actual and potential impact of risk on the KGHM Polska Miedź S.A. Group's activities. Based on the assessment, management practices are verified and adapted in response to risks.

The process of corporate risk management in the KGHM Polska Miedź S.A. Group is consistently performed on the basis of the Corporate Risk Management Policy and Procedure and the applicable Rules of the Corporate Risk and Compliance Committee. KGHM Polska Miedź S.A. oversees the corporate risk management process in the KGHM Polska

Miedź S.A. Group; while the documents regulating the corporate risk management process in the Group companies are consistent with those of the Parent Entity.

The Corporate Risk Management Policy in the KGHM Polska Miedź S.A. Group is available on the KGHM website at [www.kghm.com](http://www.kghm.com) in the Investor Relations tab.

The corporate risk management system is subject to an annual effectiveness assessment as required in the "Best Practice for WSE Listed Companies 2016".

Risks occurring in various areas of the KGHM Polska Miedź S.A. Group's operations are continuously identified, assessed and analysed in terms of their possible mitigation. Each key risk factor in the KGHM Polska Miedź S.A. Group

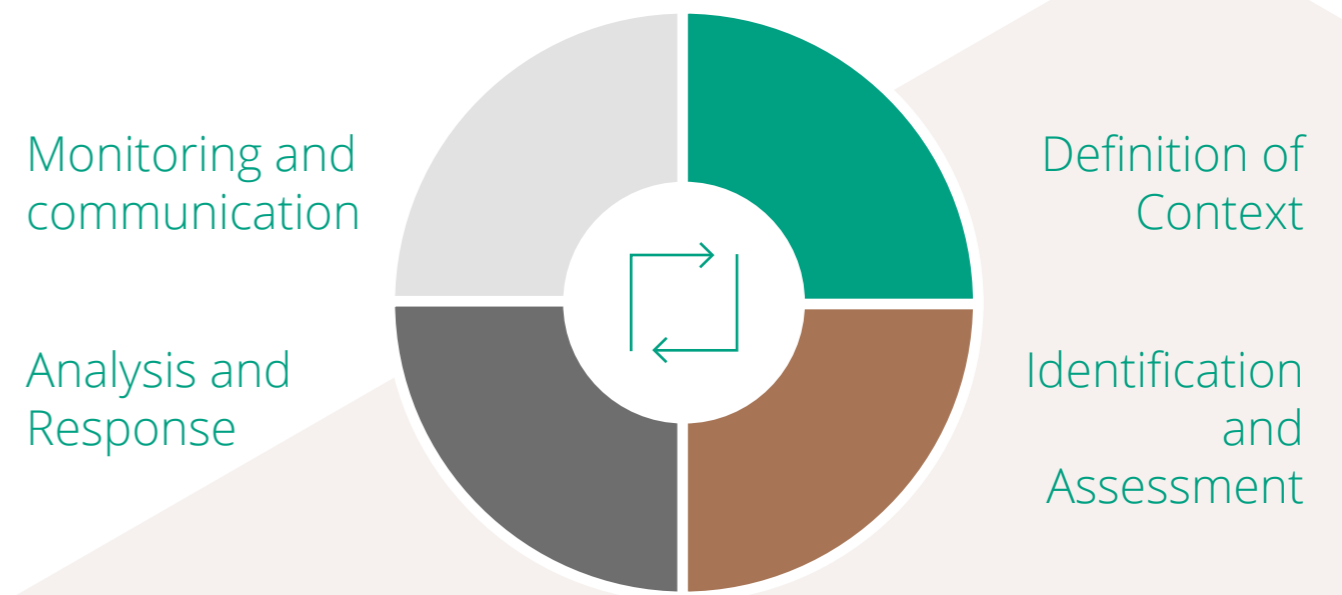
undergoes in-depth analysis in order to develop a Risk Response Plan and Corrective Actions. Other risk factors undergo monitoring by the Corporate Risk and Compliance Management Department, and in terms of financial risk by the division of the Executive Director for Treasury Operations - Corporate Treasurer.

In order to standardize the approach to the systematic identification, assessment and analysis of compliance risk, defined as compliance with the requirements arising from the applicable legal (external and internal) regulations or voluntarily assumed legal obligations and standards (including ethical standards), the Management Board of KGHM Polska Miedź S.A. 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. in 2020.

The compliance management process, which is linked to the corporate risk management process in the KGHM Polska Miedź S.A. Group, is an important business tool for preventing events which could result in sanctions.

The corporate risk management process adopted in the KGHM Group is inspired by the solutions adopted in the ISO 31000:2018 standards, by best risk management practices and the unique characteristics of the KGHM Group, and it is composed of the following stages:

## RISK MANAGEMENT PROCESS IN THE KGHM POLSKA MIEDŹ S.A. GROUP





## Stage 1

### Definition of Context

- The first step in the process consists of three actions: identification of the external context, the internal context and the risk management context.
- The external context is the environment, in which the KGHM Polska Miedź S.A. Group is pursuing its Strategy. Identification of the context requires an update of the understanding of the social, political, legal, regulatory, financial, economic and technological aspects of the environment that affect the business activity.
- Identification of the internal context requires an analysis of (strategic/business) goals, planned and implemented changes in the organisational structure, new areas of the business activity, projects, etc.
- The final action within this step is to define the risk management context, which comprises setting or updating goals, scope, responsibility as well as procedures and methodologies applied in the risk management process.

## Stage 3

### Analysis and Response

- The aim of this stage is to expand the knowledge and gain an understanding of the specific nature of the key risks selected at the previous stage. Cause and effect analyses and an in-depth description of risk management methods are supposed to enable the decision to continue or change the present method.
- Applicable Key Risk Indicators (KRIs), that is sets of business process parameters or environment parameters reflecting changes of a given risk profile, are also defined at this stage.
- A directional decision is called a Risk Response. A change of the method requires specification of Corrective Actions, that is organisational, process, systemic and other changes aimed to mitigate the key risk.

## Stage 2

### Identification and Assessment

- At this stage of the process, the risks that could affect the achievement of goals at the level of the KGHM Polska Miedź S.A. Group are identified and assessed. The main task at this stage is to prepare a complete list of threats, which might facilitate, hamper, accelerate or delay the attainment of goals. Each identified risk is systematised by categories and subcategories in the form of a Risk Model, which serves the KGHM Polska Miedź S.A. Group as a standardised risk taxonomy.
- When identified, each corporate risk is subjected to assessment using the Risk Assessment Matrix, which provides scaled assessment ranges for the dimensions of impact, vulnerability and probability. Risk may bring diverse effects and therefore, in order to ensure as a broad identification of the potential impact as possible and to restrict the subjectivism of the assessment, the following impact assessment dimensions have been defined:
  - Finance – impact of the effects of a given risk in the financial dimension through the application of value ranges.
  - Strategy – assessment the risk impact on the attainability of strategic goals.
  - Reputation and Stakeholders – risk impact on the Company's reputation, brand trust, investor relationships, stakeholder relationships, including effectiveness of the activities related to building responsible business and sustainable development.
  - Health and Safety – direct impact on people's health & safety and life.
  - Natural Environment – risk materialisation impact on climate and natural environment as well as ecosystem activity.
  - Laws and Regulations – assessment of the compliance of occurrences with the applicable laws, the necessity to participate in proceedings before public administration authorities responsible for supervision and regulation and potential sanctions resulting from such proceedings.
  - Business Continuity – assessment of the impact of risk on business interruptions causing severe/irreversible consequences and loss of access to information that is critical for the business.
- The risk identification and assessment results are presented graphically, i.e. in the form of Risk Maps. They outline the risk profile and support the key risk selection process.

## Stage 4

### Monitoring and Communication

- The aim of the monitoring and communication process is to ensure that the applied Risk Response Plan is efficient (ad-hoc and periodic reports), new risks have been identified (Risk Register update), changes in the internal and external environments and their impact on the business activity have been found, and appropriate measures have been taken in response to incidents (Incident Information update).
- An efficient, well planned and properly executed risk monitoring enables flexible and quick reactions to the changes occurring in the external and internal environments (e.g. risk escalation, changes in the measures related to risk response, or risk assessment parameters, etc.).
- The execution of the stage provides the assurance that risk management in the KGHM Polska Miedź S.A. Group meets the expectations of the KGHM Polska Miedź S.A. Management Board, the Audit Committee of the KGHM Polska Miedź S.A. Supervisory Board and other stakeholders by delivering reliable information about risk, ensuring continuous improvement and aligning the quality and efficiency of the Risk Response to the requirements of the external and internal contexts.



The allocation of powers and responsibilities conforms to the best Corporate Governance practices and the universally recognised Three Lines of Defence model, as shown on the following graph:

The best Corporate Governance practices and the universally recognised Three Lines of Defence model were adopted in the allocation of powers and responsibilities. This is presented in the figure below:

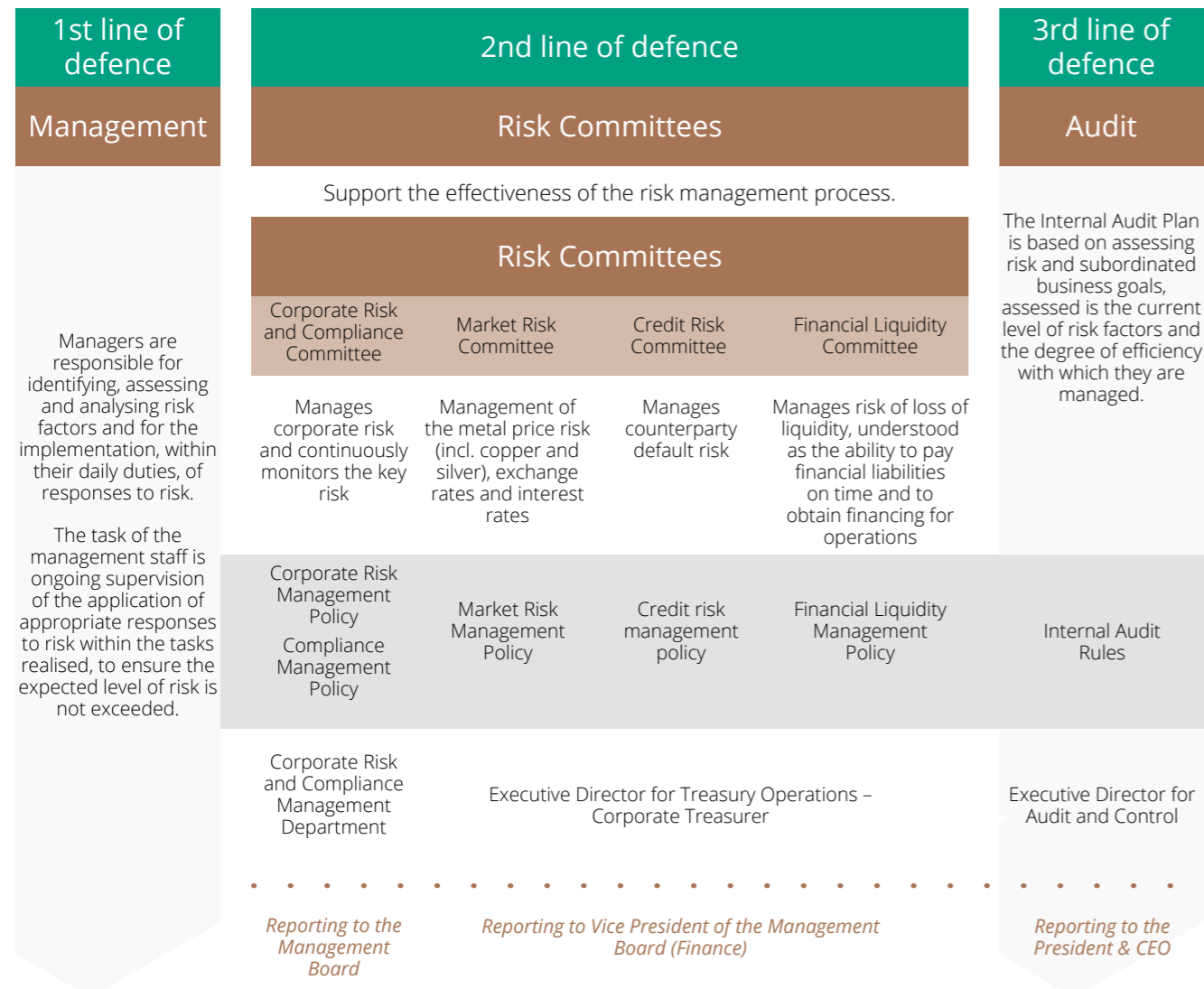
**RISK MANAGEMENT ORGANISATIONAL STRUCTURE OF KGHM POLSKA MIEDŹ S.A.**

**Supervisory Board (Audit Committee)**

Performs annual assessment of the effectiveness of the risk management process and monitors the level of risk factors and ways to address them.

**Management Board**

Has ultimate responsibility for the risk management system and for supervision over its individual elements.



**CORPORATE RISK: KEY RISKS AND MITIGATION [GRI 102-15]**

The holistic approach to risk management is consistent with the growth strategy, continuous aspiration for operational excellence and with the principles of sustainable and responsible business. It has been designed to support the KGHM Polska Miedź S.A. Group in building a resilient corporate structure. The Risk Model is a tool used to identify risk in the KGHM Polska Miedź S.A. Group. Its structure is based on the sources of risk and is divided into the following 5 categories: **technological, value chain, market, internal and external**, which are described in detail in the chart below.

In reference to Article 49a of the Accounting Act, it must be stated that, because of the long value chain of the KGHM Polska Miedź S.A. Group, the geographical footprint of the Group's activities and the resulting considerable complexity and multi-faceted nature, the detailed description of risks and their management, in the context of the Group's social, labour, environmental, human rights, corruption prevention policies, is presented in this section, rather than in the sections devoted to the individual topics in the areas listed above. We have decided that the combined comprehensive presentation of this matter will offer the readers of this Report a better chance to fully understand it.

Several dozen sub-categories have been identified and defined at the level of each Risk Model category, covering particular areas of operations or management. The KGHM Polska Miedź S.A. Group acts with due diligence when taking measures for minimizing risk exposure by reducing vulnerability to the individual risk factors and probability of materialisation of the events which might be triggered by such factors. However, threat identification and assessment is always accompanied by the uncertainty about the effectiveness of the applied and intended preventive measures, in particular in an area outside the direct control of the KGHM Polska Miedź S.A. Group.







## RISK CATEGORIES IN THE RISK MODEL OF KGHM POLSKA MIEDŹ S.A. AND THEIR DEFINITIONS

### Technology

This category covers changes in competitiveness resulting from the application of industrial technologies, IT, innovation management, protection and/or management of intellectual property and impact of investment projects related to technology efficiency and quality and change in the IT infrastructure quality and efficiency influencing business units, support functions and infrastructure.

### Value chain

This category covers changes in the operational efficiency of logistics and warehousing, in production and services, sales management, waste management and reclamation and correlated with the supply chain management process, availability of utilities and materials in the production process, change of exploration and management of ore resources, or execution of research and prospecting projects.

### Market

This category covers changes in the value of assets, level of liabilities or financial result leading to a change in the sensitivity to the volatility of interest rates, currencies, liquidity, inflation rate, insolvency of counterparties, prices of goods, energy and proprietary interests. The category refers also to changes in demand for and supply of the KGHM Polska Miedź S.A. Group's products, selection of appropriate tools for implementing a marketing strategy, a change in achieving the expected rate of return on equity investments or efficiency of risk transfer to insurers.

### External

This category covers the conditions of pursuing a business activity arising from a change of economic conditions, amendments to laws and regulations (compliance), political decisions, environmental or climate change (transition risk) as well as natural disasters and force majeure (physical risk). The category encompasses also changes in market shares or margin as a result of changes in the competitive environment or substitutes, the risk of the consequences of decisions in court or arbitration proceedings, the risk of unfavourable administrative decisions, change in burdens, setting of tax liabilities or payment deadlines.

### Internal

This category covers with changes in a business activity under the influence of changes in its structure, organisation, procedures, processes or business model, and the risk of change of the company's image, its products or services, effectiveness of the rules of conduct related to ethics and anticorruption, the company's interest, and safeguards against loss of confidentiality, integrity, availability and authenticity of information assets.



Following is the description of key risks inherent in the activity of the KGHM Polska Miedź S.A. Group in 2020, broken down into individual categories along with means for their mitigation, including identification of the specific risk for the Parent Entity and the KGHM INTERNATIONAL LTD. Group. The key risk is future uncertain events exerting the greatest impact on the attainment of the business goals of the KGHM Polska Miedź S.A. Group taking into account

## Category – Technology

### (Parent Entity)

**Risk of failure to adhere to the efficient working time parameter and of failure to fully utilise the capacity of metallurgical equipment to process own concentrate.**

#### Risk and description of risk factors

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.

the assessment of vulnerability, i.e. the organisation's ability to reduce the probability that a risk materializes and mitigate its effects.

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

#### Mitigation

Optimum utilisation of infrastructure, maintaining an appropriate mix 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. Action is taken on an ongoing basis to ensure technical working order of maintenance and service systems. An overhaul policy and emergency procedures are in place and suppliers are monitored on an ongoing basis within the scope described in instructions and contracts. 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 KGHM's operations.

## Category – Value Chain

### (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.**

#### Risk and description of risk factors

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 forecast results, at the same time shortening the time for taking appropriate corrective actions. Sources of risk are linked to potential ineffectiveness of the mechanisms controlling these processes. In 2020, a significant factor affecting the exposure to the risk was the general uncertainty in financial markets and the risk of recession in global markets in connection with 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. Monthly 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. The assessment of key risks affected by the coronavirus pandemic was subjected to particular analysis, through ongoing monitoring of selected information in the production, sales, supply chain, personnel management and finance areas, in order to support the management processes in the conditions of increased uncertainty caused by the pandemic.

### (KGHM INTERNATIONAL Group)

**Risk related to the precision of estimated costs of decommissioning certain mines.**

#### Risk and description of risk factors

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.

#### Mitigation

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 of insufficient understanding of the parameters and characteristics of deposits, both in exploration projects (estimation of inputs to deposit valuation models) and in ongoing production.**

#### Risk and description of risk factors

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

#### Mitigation

Preliminary modelling data are collected in accordance with geological documentation held and prepared based on existing law as well as reviewed and consulted internally with experienced staff. Detailed analyses are performed on the results of on-going work, with a project's initial assumptions being updated. Incurring expenditures on prospecting and evaluation enables the assessment of ore resources and research into geological-mining conditions, aimed at planning subsequent mining activities.


**(Parent Entity)**

**Risk of the inability to store mine tailings.**

**Risk and description of risk factors**

The KGHM Group is exposed to the risk of a lack of sufficient tailings storage capacity due to delays in the expansion of the Żelazny Most Tailings Storage Facility. The risks are associated with the management and control of the project and may affect its budget, schedule and the intended outcome and may lead to a failure to adhere to the technological regime for designing and execution. Another source of risk are external factors attributable to administrative bodies, as implementation of such a project requires the Group to obtain the necessary administrative decisions. Some risk exposure is also linked to the possible unscheduled shutdowns resulting from infrastructure breakdowns, which may impact the continuity of KGHM's operations.

**Mitigation**

Operating, building and expanding the Tailings Storage Facility in accordance with the operating instructions. Cooperation with a team of international experts (TIE) and a General Designer during the investment process. Application of an observational method based on the assessment of geotechnical parameters obtained from monitoring results, which offers the possibility of making conclusions on the behaviour of the facility being built or operated. Systematic supervision and control over the entire investment process of the expansion of the Żelazny Most Tailings Storage Facility.

**(KGHM Group)**

**Risk of unavailability of the necessary power sources.**

**Risk and description of risk factors**

The KGHM Group is exposed to the risk of unavailability of power sources necessary for its operations. Potential disruptions in the supply of key power sources is related mainly to risks affecting external suppliers and breakdowns of their transmission infrastructure. This risk also entails the possibility of power supply being suspended as a result of seasonal, prolonged droughts. Global climate changes may result in, among other things, lower rainfall, resulting in temporary reduction of water levels in rivers, which in turn may restrict the operations of power plants supplying KGHM if cooling water is not available or if the permitted temperature of water released back into rivers is exceeded. Amongst internal factors, the most important involve questions of maintaining operations, utilisation and investments and modernisation work.

**Mitigation**

Ensuring that emergency supply systems are in place for key utilities and conduct ongoing evaluation of security of grid power supply. Conducting a number of investment projects to strengthen 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, PN-EN ISO50001:2018-compliant Energy Management System and Energy Savings Program (POE). 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") by the end of 2030.

**(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.**

**Risk and description of risk factors**

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 (also as a result of climate changes causing more frequent occurrence of extreme weather) as well as internal factors dependent on the KGHM Group (on-going operations, maintaining production, key suppliers, servicing).

**Mitigation**

Preventive management of key infrastructure elements affecting production continuity. Appointment of a task and expert teams in the area of counteracting infrastructure breakdowns. 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.

**(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.**

**Risk and description of risk factors**

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, TC/RCS, selling premiums and costs of services and of electricity, gas and water. 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 2020, a significant factor affecting the exposure to the risk was the general uncertainty in financial markets and the risk of recession in global markets in connection with the COVID-19 pandemic.

**Mitigation**

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, securing the Company against changes in the USD/PLN exchange rate and metals prices (mainly copper). Creating multi-year plans and budgets enabling the achievement of profitability under conditions prevailing on the market. The assessment of key risks affected by the coronavirus pandemic was subjected to particular analysis, through ongoing monitoring of selected information in the production, sales, supply chain, personnel management and finance areas, in order to support the management processes in the conditions of increased uncertainty caused by the pandemic.



### (KGHM Group)

Risk of disruptions of the continuity of sales and service processes (also due to the COVID-19 pandemic)

#### Risk and description of risk factors

Due to its extensive sales and service structure, the KGHM Group is at risk of disruptions of the continuity of these processes caused primarily by external factors. The sources of the risk is changes in the demand for individual product ranges and in individual geographic markets, production limitations, disruptions in transport and logistics (in particular in international transport), force majeure (extreme weather events) and limitation of the business activity as a result of the introduced legal regulations at the national and international levels. The risk substantially contributes to decreased revenues of the KGHM Group and, what follows, lower operating profits.

In 2020, a significant factor influencing exposition to risk was the general uncertainty in financial markets, the risk of recession in global markets and legal restrictions connected with the COVID-19 pandemic.

#### Mitigation

Ongoing monitoring of customers' situation, which enables a dynamic response to customer needs (such as regular conference calls, employee availability and mobilisation, use of various information exchange channels and reaction to the occurring disruptions), analysis of the situation affecting customers' activity and logistics in individual countries of consumers and transit routes, dynamic formation of the sales structure (changes in sales in individual product ranges, among customers from individual sectors and in individual geographic markets enabling a response to demand changes, if any, in individual sectors of consumption). Customer portfolio diversification resulting in the possibility to neutralize the reduced number of orders from some consumers through additional sales to others, the presence in the spot market (it enables immediate product allocation as part of the current demand among counterparties) apart from the main strategy, which relies on long-term and annual contracts based on a long-term business relationship.

In 2020, the COVID-19 pandemic had the most significant impact on the Group's ancillary activity involving hotel and spa services. During the periodic closure of facilities, a range of safety procedures were introduced to the KGHM Polska Miedź S.A. Group's spas and hotels to protect patients, hotel guests and employees of the companies against COVID-19 infections. KGHM Polska Miedź S.A.'s spa and hotel companies have joined the Polish Tourist Voucher program and submitted applications to the Polish Development Fund for financing under the Anti-Crisis Shield, as a result of which some of them have already received funds. Since it was not possible to counteract the risks, the temporary lockdown and stopping of the core activities of the spa and hotel companies has contributed to a drop of their revenues. Despite the continuing state of epidemic, the spa and hotel facilities are fully prepared to provide services and welcome customers and patients under a strict sanitary regime.

## Category - Market

### (KGHM Group)

Market risk related to volatility in metal prices, exchange rates and interest rates.

#### Risk and description of risk factors

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 2020, a significant factor affecting the exposure to the risk was the general uncertainty in financial markets and the risk of recession in global markets in connection with the COVID-19 pandemic.

#### Mitigation

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 derivative instruments. Natural hedging is also applied.

From the point of view of the KGHM Group, one material effect of the coronavirus epidemic in 2020 was its impact on the market risk related to the variation of metal prices and stock market indices. Information on the impact of Covid-19 on the activity of the Company and the Group is described in detail in Section 6.6 of the Management Board's Report on activities.

More on the market risk in section 12.3 Market, credit and liquidity risk of the Management Board's Report on activities of KGHM Polska Miedź S.A.

### (KGHM Group)

Credit risk related to trade receivables.

#### Risk and description of risk factors

The KGHM Group sells some of its products with deferred payment terms, as a result of which there is a risk that the buyers might not pay the price for the products on time.

In 2020, a significant factor affecting the exposure to the risk was the general uncertainty in financial markets and the risk of recession in global markets in connection with the COVID-19 pandemic.

#### Mitigation

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 for many years cooperated with a large number of customers, leading to the geographic diversification of trade receivables.

From the point of view of the KGHM Group, one material effect of the coronavirus epidemic in 2020 was its impact on the risk related to the timely payment of amounts due by buyers. Information on the impact of Covid-19 on the activity of the Company and the Group is described in detail in Section 6.6 of the Management Board's Report on activities.

More on the credit risk in section 12.3 Market, credit and liquidity risk of the Management Board's Report on activities of KGHM Polska Miedź S.A.



### (KGHM Group)

#### Liquidity risk.

##### Risk and description of risk factors

Manages risk of loss of liquidity, understood as the ability to pay financial liabilities on time and to obtain financing for operations

In 2020, a significant factor affecting the exposure to the risk was the general uncertainty in financial markets and the risk of recession in global markets in connection with the COVID-19 pandemic.

##### Mitigation

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

From the point of view of the Group, one material effect of the coronavirus epidemic in 2020 was its impact on the risk of liquidity loss linked to the variation of metal prices and stock market indices. Information on the impact of COVID-19 on the activity of the Company and the Group is described in detail in Section 6.6 of the Management Board's Report on activities.

More on the liquidity risk in section 12.3 Market, credit and liquidity risk of the Management Board's Report on activities of KGHM Polska Miedź S.A.

## Category – External risks

### (KGHM Group)

#### Risk of reduced production due to seismic tremors and associated roof collapses or distressings of the rock mass, and the occurrence of uncontrolled rock bursts.

##### Risk and description of risk factors

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 involves 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 rock bursts and roof collapses. 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 resulting in reduced production.

##### Mitigation

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.

### (Parent Entity)

#### Risk of reduced production or slower progress of preparatory work as a result of gas-related geodynamic hazards and naturally occurring gases.

##### Risk and description of risk factors

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 resulting in reduced production.

##### Mitigation

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. Preparation of reserve fields in the orebody which could handle limited production.

### (Parent Entity)

#### Risk of reduced production due to unfavourable climate conditions in mines.

##### Risk and description of risk factors

KGHM is exposed to a specific risk related to the underground climate, limiting activities or increasing costs, involving geological conditions, the temperature of the air sent into the mines and underground mining conditions.

##### Mitigation

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. Ongoing monitoring of the microclimate parameters and introduction of remote control and visualisation and surveillance systems (CCTV cameras) in workplaces with particularly adverse climate parameters. Reduction of external and internal losses and relative humidity and increase in airing intensity. The use of shortened working time.

### (Parent Entity)

#### Risk of losing functionality of mining areas as a result of underground water hazards

##### Risk and description of risk factors

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 drainage equipment, human error (actions contrary to the project or technology) or mistaken geological conclusions.

##### Mitigation

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. Review 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. In order to minimize the risk of uncontrolled inflow of water underground, the Group implements the project entitled "Construction of the main drainage system in the area of the SW-4 shaft", which ultimately should increase the capacity of draining the mine.


**(KGHM Group)**

Risk of failure to uphold air quality standards (including with respect to arsenic).

**Risk and description of risk factors**

The KGHM Group is exposed to the risk of negative impact on various components of the natural environment resulting from the mining of copper ore, followed by its processing at all stages of the production process, which could lead to the breaching of permissible emissions limits.

**Mitigation**

Undertaking actions under the Air Protection Programs and R&D work. Execution of the Program to adapt the technological installations of KGHM to the requirements of BAT Conclusions for the non-ferrous metals industry and to restrict emissions of arsenic (BATAs)

**(Jednostka Dominująca)**

Risk of restrictions to the ability to sell sulphuric acid (due to loss of market/customers and/or a drop in demand, also due to the COVID-19 pandemic).

**Risk and description of risk factors**

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.

**Mitigation**

Increase the number of internal storage facilities at the metallurgical plants as well as of warehouses in the port in Szczecin. Search for new sales markets. Long term contracts. Payments to customers and incur transport costs. Search for alternative ways to manage the acid and utilise it in the Concentrators. In 2020, ongoing actions were taken to address the fertilizer market situation as a result of the COVID-19 pandemic, i.e., slowed shipments and high inventory levels of raw materials and fertilizers by contractors.

In 2020, a significant factor affecting the exposure to risk was the situation on the fertilizer market in connection with the COVID-19 pandemic.


**(KGHM Group)**

Risks associated with disruptions in the supply of strategic materials and components affecting the continuity of the Core Production Business (also as a result of the COVID-19 pandemic)

**Risk and description of risk factors**

The KGHM Group is exposed to the risk of disruptions in the management of the supply chain resulting mainly from external factors causing an increase in the sensitivity of the supply chain. These factors include, but are not limited to, unpredictable variations in supply and demand (including those that may result from customer expectations for products, whose production process does not contribute to climate change), changes in supplier bases, technological changes, changing buffers in inventory and lead times, dependence on suppliers, as well as logistical disruptions, force majeure (supply chain disruptions and logistical disruptions in deliveries as a result of more frequent extreme weather events on land and sea as a result of climate change) and fluctuations in currency exchange rates and metal prices.

In 2020, a significant factor affecting the exposure to the risk was the general uncertainty in financial markets and the risk of recession in global markets in connection with the COVID-19 pandemic.

**(KGHM Group)**

Risk of failure to adhere to established principles and standards of conduct with respect to counteracting corruption, business ethics and with respect to the procurement process as well as the risk of incurring losses from actions which are harmful to KGHM.

**Risk and description of risk factors**

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, e.g. 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 by employees of the KGHM Group (such as corruption, conflicts of interest, abuse, discrimination, illegality, nepotism).

**Mitigation**

Constant contact with suppliers is maintained to enable a quick reaction to delays through the supplier and supply direction diversification strategy employed in the KGHM Group and application of alternative solutions, e.g. substitutes, changes in production/assembly schedules. Moreover, a business continuity plan has been developed for the KGHM Group in the event that production is limited, halted, or it is temporarily put on standby. An ongoing monitoring of suppliers and inventories is performed. In connection with the COVID-19 pandemic, regular measures are taken to eliminate the rare instances of delays on the side of suppliers due to unavailability of components, logistics limitations or delays at the side of the manufacturers of materials and machinery or parts.

**Mitigation**

Implementation of the Code of Ethics of the KGHM Polska Miedź 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. Compliance management as part of a comprehensive compliance management system.


**(KGHM Group)**

Risk of non-compliance with the requirements (general law, internal corporate regulations and voluntarily adopted legal obligations and standards)

**Risk and description of risk factors**

The KGHM Group operates in unstable regulatory environments in many jurisdictions. A consequence of the need for technological and organisational adaptation to a volatile legal environment (including environmental requirements) may be higher operating costs or restriction of such activities. The risk of interruptions to operations or the need to reorganize work due to new legislation may have a substantial impact on the operations of the KGHM Group (such as the risk of transitioning to the low-carbon economy, circular economy).

**Mitigation**

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 membership of national and international organisations). 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 standardize the approach to ensuring compliance defined as observance of the requirements arising from the applicable legal (external and internal) regulations or voluntarily assumed legal obligations and standards (including ethical standards), the Management Board of KGHM Polska Miedź S.A. 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. in 2020. A consistent compliance system in the KGHM Polska Miedź S.A. Group is an element of effective management as part of corporate governance through e.g. a more efficient response and readiness for regulatory changes, care for reputation and ethical culture building in the organisation as well as awareness raising and enhancement of the sense of responsibility for compliance among employees.

**(KGHM Group)**

Risk of climate change related to the negative impact of climate change on the KGHM Group's activity.

**Risk and description of risk factors**

The KGHM Group is exposed to climate risk related to the adverse impact on the enterprise. The risk exposure is associated with factors arising from certain events, in particular ones related to extreme weather events, such as storms, floods, fires or heat waves, which may disrupt the value chain, continuity of the Core Production Business. The risk is associated with the changes in the conditions of running business activity due to environmental or climate changes.

**Mitigation**

Commencement of work to prepare a climate policy which will be a systemic solution for implementing the Communication of the European Commission being Guidelines on non-financial reporting: Supplement on reporting climate-related information (2019/C 209/01), including an Annex on the Task Force on Climate-related Financial Disclosures (TCFD), in the part applicable to the Metals and Mining sector. It will also include medium-term (2030) and long-term (2050) quantitative goals aimed at minimizing activities in regions exposed to a long-term or severe physical risk. Driving systemic solutions that take a forward-looking approach to environmental sustainability in line with the Regulations of the European Parliament and of the Council (EU) on establishing a framework to facilitate sustainable investment and on sustainability-related disclosures in the financial services sector (2020/852, 2019/2088)

The KGHM Group Strategy takes into account the global trends that define the environmental challenges. Efficient risk management system encompassing also climate risk management allowing for risk categorisation, identification, assessment and management as well as plans for its mitigation.





## Category – Internal risks

### (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.

#### Risk and description of risk factors

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 essential professional preparation, that employees possess appropriate qualifications in terms of health, physical ability and 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 industrial illnesses as a consequence of the effect of the working environment on people. Enhanced exposure to risk is also related to external factors in terms of sub-contractors and their safety culture.

#### Mitigation

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 current Strategy. Actions performed in the self-improvement cycle in order to continuously seek and prepare for implementation the catalogue of initiatives aimed at further improvement of OHS, to advance the long-term goal of the Company, "Zero accidents due to human and technical errors". Optimisation of health care for employees, in particular following workplace accidents and systematic searching for new organisational and technical initiatives to enable the achievement of a higher level of safety of employees in the Divisions of KGHM Polska Miedź S.A. The Group regularly identifies threats and evaluates professional risk, including the risks linked to the SARS-CoV-2 virus pandemic.

### (KGHM Group)

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

#### Risk and description of risk factors

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 KGHM Group. In extreme cases, the materialisation of this risk may lead to the blocking of development plans. Risk associated with raised expectations and awareness of stakeholders as regards climate and environmental issues, which could lead to increased operating and investment costs and, in extreme cases, to limitation of the business activity. The changing consumer requirements involve also a focus on the production method rather than merely the quality and price of the final good.

#### Mitigation

Advancement of CSR Strategy and close cooperation with government bodies. Meetings and negotiations with stakeholders, informational campaigns, conferences, publications. Cooperation with academic and trade institutions and authorities in order to meet the highest standards of communication and PR management. Care and due diligence in identification of expectations and requirements of the external stakeholders concerning the climate and environmental issues. Establishment of trade and business relationships with entities that declare care about environmental protection and comply with the regulations applicable in this regard.





**(KGHM Group)**

Risk of not being able to secure appropriate staff to achieve the Group's business goals (including lack of sufficient HR resources to maintain continuity of operations of the Core Production business because of the COVID-19 pandemic)

**Risk and description of risk factors**

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 ageing society and a market deficit of certain professions.

In 2020, the COVID-19 pandemic and its effect on the availability of, in particular, the key employees needed to maintain the continuity of operations of the Core Production Business.

**Mitigation**

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 company's business goals.

In 2020, after the first reports about the coronavirus, the solutions already in place in the KGHM Group were analysed and assessed in terms of ensuring employee safety and additional solutions were introduced to mitigate the risk of virus transmission among the staff. The analysis covered, among others, maintenance of the continuity of processes associated with the Core Production Business. Additionally, the procedure in case of the necessity to limit or discontinue the production was developed, assumptions for new work systems enabling contact between individual shifts were made, employees/specialists required for ensuring the continuity of the processes were identified and their potential replacements were designated. Limitations on direct contact and rules of keeping distance between employees were introduced and procedures of conduct in case of detecting SARS CoV-2 infections among employees were implemented in accordance with the guidelines of the competent government institutions. The solutions already implemented in the KGHM Group are regularly analysed and assessed in terms of ensuring employee safety and additional solutions are continually introduced to mitigate the risk of virus transmission among the staff.

**(KGHM Group)**

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

**Risk and description of risk factors**

The KGHM Group, due to its well-developed IT structure, is exposed to the risk of a breach in the confidentiality, integrity, authenticity 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 loss of reputation of the KGHM Group.

**Mitigation**

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 loss of the confidentiality, integrity, authenticity or availability of informational assets which have been collected, stored or processed on IT resources. On-going monitoring of the usefulness of existing infrastructure as well as the analysis of and planning for the implementation of ICT 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.

**(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.

**Risk and description of risk factors**

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 methodical 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.

**Mitigation**

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.



## MARKET, CREDIT AND LIQUIDITY RISKS

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. Risk management 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 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
- 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 in a comprehensive manner regulates financial liquidity management in the Group 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 and its goal is to introduce a comprehensive, joint approach and the most important elements of the credit risk management process.

## 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 2020, 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 2020 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, currency 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.

As part of implementation of the strategic plan hedging the Parent Entity against market risk in 2020, hedging strategies in the copper and silver markets were implemented. In the copper market, seagull hedging strategies were implemented and put options were purchased to hedge future sales revenues for 2021-2023 for the total nominal volume of 402 thousand tonnes. The main aim of the implemented strategies in the copper market was to secure the Company's revenues in 2021 against the negative pricing scenario, as a result of the economic crisis caused by the pandemic. In the silver market, seagull option structures were implemented to hedge sales revenues for 2021-2023 for the nominal volume of 24.6 million ounces. In addition, in 2020, the Parent Entity managed its opened hedging position, restructuring option structures in the copper market.

As part of strategic management of currency risk, in 2020 the Parent Entity implemented option structures to hedge against the USD/PLN exchange rate fluctuations in 2022-2023 for the total nominal value of USD 720 million. Seagull option structures were purchased. In addition, in 2020, the Parent Entity managed its opened hedging position, restructuring option structures in the currency market.

As at 31 December 2020, the Parent Entity had also 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 2020 drawn in USD, following their translation into PLN, amounted to PLN 4,321 million (as at 31 December 2019: PLN 4,980 million).

In 2020 none of the Group's mining subsidiaries implemented forward transactions in the metal and currency markets or had any open positions as at 31 December 2020. The commodity risk pertained to derivative instruments embedded in long-term sulphuric acid and water supply contracts and derivative instruments embedded in purchased material purchase contracts.

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.



## Interest rate risk

Interest rate risk is the possibility of the negative impact of changes in interest rates on the Group's position and results. In 2020, the Group was exposed to such risk due to loans granted, free cash invested on deposits, the reverse factoring program and borrowings.

As at 31 December 2020, the following positions were exposed to interest rate risk by impacting the amount of interest income and costs:

- PLN 2,924 million, including the deposits of special purpose funds: the Mine Closure Fund and the Tailings Storage Facility Restoration Fund,
- borrowings: PLN 3,431 million,
- trade and similar payables: PLN 1,264 million.

## Price risk related to the change in share prices of listed companies

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.

As at 31 December 2020, the following positions were exposed to interest rate risk due to changes in the fair value of instruments with fixed interest rates:

- receivables due to loans granted by the Group: PLN 18 million,
- borrowings: PLN 3,904 million.

As at 31 December 2020, the Parent Entity had 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.

As at 31 December 2020, the carrying amount of shares of companies which were listed on the Warsaw Stock Exchange and on the TSX Venture Exchange amounted to PLN 523 million.

## Result on derivatives and hedging transactions

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 2020 amounted to PLN 79 million, of which:

- PLN 323 million adjusted revenues from contracts with customers,
- PLN 219 million decreased the result on other operating activities,
- PLN 25 million decreased the result on financing activities.

Moreover, in 2020 other comprehensive income decreased by PLN 1,050 million (impact of hedging instruments).

As at 31 December 2020, 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 -695 million.

## 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

### Credit risk related to trade receivables

The Group's companies have been cooperating for many years with a large number of customers, which affects the geographical diversification of trade receivables.

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 receivables and the internal reporting system.

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.

In 2020, 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.

### Credit risk related to cash and cash equivalents and bank deposits

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.

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

policy in this regard. The main body involved in actions in this area is the Credit Risk Committee.

In 2020, the KGHM Polska Miedź S.A. Group was exposed to this risk, mainly in four areas:

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 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 2020 the Parent Entity had secured 75% of its trade receivables (as at 31 December 2019: 64%).

The concentration of credit risk in the Group is related to the terms of payment granted to key clients. Consequently, as at 31 December 2020 the balance of receivables from 7 of the Group's largest clients, in terms of trade receivables at the end of the reporting period, represented 42% of the trade receivables balance (as at 31 December 2019: 29%). 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.

cooperates, and by limitation of the level of concentration in individual institutions. As at 31 December 2020, 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 25% (as at 31 December 2019: 19%)



## Credit risk related to derivatives transactions

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 2020, the maximum share of a single entity with respect to credit risk arising from open derivative transactions entered into by the Group and receivables and liabilities from

settled derivatives amounted to 36% (31 December 2019: 15%). 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.

## Credit risk related to loans granted

As at 31 December 2020, the balance of loans granted by the Parent Entity amounted to PLN 7,648 million. The most important of these are long-term loans in the total amount of PLN 5,112 million granted to the company Future 1 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).

KGHM INTERNATIONAL LTD. Group for the financing of a mining joint venture in Chile.

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 determined by the Management Board of the Parent Entity as moderate.

As at 31 December 2020, the balance of loans granted by the Group amounted to PLN 6,087 million. The most important of these are long-term loans in the total amount of PLN 6,069 million, or USD 1,615 million, granted by the



## 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 main 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 2020 the Parent Entity obtained the consent of the syndicate participants to extend the term of the agreement by 1 year, i.e. till 19 December 2025. The limit of available financing during the extension period will amount to 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 900 million with financing periods of 12 years from the date the instalments are drawn,

- bilateral bank loans to the amount of PLN 2,379 million, supporting both the management of liquidity of companies, for the financing of working capital as well as of investments,
- the bond issue program of the Parent Entity on the Polish market, based on an issue agreement dated 27 May 2019. The first issue of bonds with a nominal value of PLN 2,000 million took place on 27 June 2019, 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 2020 may be found in Section 6.6 of this Report.

The aforementioned sources of financing fully cover the liquidity needs of the Group. During 2020, 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 2020 amounted to PLN 6,679 million.

### Management of capital

In order to maintain the ability to operate, taking into consideration the execution of planned investments, the Group manages capital so as to be able to generate returns for shareholders and provide benefits for other stakeholders.

The Group aims to maintain the equity ratio, in the long-term, at a level of not less than 0.5, and the ratio of Net Debt/EBITDA at a level of up to 2.0.



# Risks and opportunities related to climate change

[GRI 201-2]

The process of corporate risk management in the KGHM Polska Miedź S.A. Group is consistently performed on the basis of the Corporate Risk Management Policy and Procedure and the applicable Rules of the Corporate Risk and Compliance Committee. The goals of Corporate Risk Management in the KGHM Polska Miedź S.A. Group are consistent with the adopted Strategy of the KGHM Polska Miedź S.A. Group. They are shaped by global megatrends and determine the environmental challenges to be met by the KGHM Polska Miedź S.A. Group. The strategic goals and initiatives have been grouped into strategic areas each of which reflects the global megatrends, including Ecology, Safety and Sustainable Development. The care for the natural environment and protection of the employees' life and health are the foundation of an organisation which is aware of the assumed risk and which strives for continuous improvement.

As part of the system, the current and future, actual and potential impact of risk on the KGHM Polska Miedź S.A. Group's activities is assessed. Based on the assessment, management practices are verified and adapted in response to risks. **According to the risk assessment matrix, environmental impact is one of 7 categories used to assess each identified risk.** Hence, each identified risk is considered on a multi-level scale from events which do not have an adverse impact on climate and natural

environment to ones which might have a serious adverse impact on climate, natural environment (also outside the KGHM Polska Miedź S.A. Group's areas) and cause major disruptions of the functioning of the ecosystem.

## IMPACT OF CLIMATE CHANGE ON THE KGHM POLSKA MIEDŹ S.A. GROUP

The identified key risks related to the adverse impact of climate change. Following is the description of key risks and risk factors inherent in the activity of the KGHM Polska Miedź S.A. Group in 2020, broken down into individual categories along with means for their mitigation.

## Physical risk

is a risk for the KGHM Group's activity arising from the physical effects of climate change.



### Risks related to the environment, natural hazards and force majeure from the short-term perspective

Certain events, in particular ones related to weather, such as storms, floods, fires, gales, which might destroy the infrastructure and disrupt the supply chain (severe physical risk).

(Corporate risk category: Value Chain, External, Internal)

#### Threats

A consequence of the increased frequency of extreme weather events can be an infrastructure breakdown disrupting the Core Production Business.

KGHM Polska Miedź S.A. is exposed to a specific risk related to the underground climate, limiting activities or increasing costs, involving geological conditions, the temperature of the air sent into the mines and underground mining conditions.

A possible disruption of the supply chain and logistics as a result of extreme weather events onshore and offshore.

#### Mitigation

Preventive management of key infrastructure elements affecting production continuity. Appointment of a task and expert teams in the area of counteracting infrastructure breakdowns.

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. Ongoing monitoring of

the microclimate parameters and introduction of remote control and visualisation and surveillance systems (CCTV cameras) in workplaces with particularly adverse climate parameters. Reduction of external and internal losses and relative humidity and increase in airing intensity. The use of shortened working time.

Constant contact with suppliers is maintained to enable a quick reaction to delays through the supplier and supply direction diversification strategy employed in the KGHM Group and application of alternative solutions, e.g. substitutes, changes in production/assembly schedules.



**Risks related to the environment, natural hazards and force majeure from the long-term perspective.**

Certain events, in particular ones related to the long-term climate change, such as temperature change and limited availability of water, might disrupt the continuity of the Core Production Business and lead to changes in the conditions of pursuing business activities (long-term physical risk).

(Corporate risk category: Value Chain, External)

**Threats And Opportunities**

The KGHM Group is exposed to climate risk related to the adverse impact on the enterprise. The risk exposure is associated with factors arising from certain events, in particular ones related to the long-term climate change which may disrupt the value chain, continuity of the Core Production Business. The risk is associated with the changes in the conditions of running business activity due to environmental or climate changes.

The KGHM Group is exposed to the risk of unavailability of power sources necessary for its operations. This risk entails, among others, the possibility of power supply being suspended as a result of prolonged droughts. Global climate changes may result in, among other things, lower rainfall, resulting in temporary reduction of water levels in rivers, which in turn may restrict the operations of power plants supplying KGHM if cooling water is not available or if the permitted temperature of water released back into rivers is exceeded.

The opportunity coming from investments in our own renewable energy sources, which result in reducing production costs and ensuring continuity of operation with the simultaneous reduction of greenhouse gases (photovoltaics / wind farms).

**Mitigation**

Systematic limitation of energy consumption under the implemented, PN-EN ISO50001:2018-compliant Energy Management System and Energy Savings Program (POE). 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") by the end of 2030.

Commencement of work to prepare a climate policy which will be a systemic solution for implementing the Communication of the European Commission being Guidelines on non-financial reporting: Supplement on reporting climate-related information (2019/C 209/01), including an Annex on the Task Force on Climate-related Financial Disclosures (TCFD), in the part applicable to the Metals and Mining sector. It will also include medium-term (2030) and long-term (2050) quantitative goals aimed at minimizing activities in regions exposed to a long-term or severe physical risk.

The KGHM Group Strategy takes into account the global trends that define the environmental challenges. Efficient risk management system encompassing also climate risk management allowing for risk categorisation, identification, assessment and management as well as plans for its mitigation (also at the long-term, strategic level).

# Transition risk

is the enterprise's risk arising from transitioning to a low-carbon and climate change resilient economy.



**Legal and regulatory risk.**

The risk of non-compliance, which might result in sanctions, legal disputes and claims in respect of failure to avoid or reduce the adverse impact on climate or to adapt to climate change.

(Corporate risk category: External)

**Threats**

The risk involved in the increasing legal requirements regarding climate, potential wrong interpretation of new laws and regulations or non-compliance with legal requirements.

**Mitigation**

As part of the Corporate Risk Management process in the KGHM Group, each identified risk is assessed in terms of impact on Laws and Regulations – assessment of the compliance of occurrences with the applicable laws, the necessity to participate in proceedings before public administration authorities responsible for supervision and regulation and potential sanctions resulting from such proceedings. In order to standardize the approach

to ensuring compliance defined as observance of the requirements arising from the applicable legal (external and internal) regulations or voluntarily assumed legal obligations and standards (including ethical standards), the Management Board of KGHM Polska Miedź S.A. 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. in 2020. A consistent compliance system in the KGHM Polska Miedź S.A. Group is an element of effective management as part of corporate governance through e.g. a more efficient response and readiness for regulatory changes, care for reputation and ethical culture building in the organisation as well as awareness raising and enhancement of the sense of responsibility for compliance among employees.



#### Political risk.

The risk of change in the conditions of pursuing a business activity arising from energy efficiency requirements, mechanisms of setting greenhouse gas emission fees or policy supporting sustainable economy.

(Corporate risk category: External)

#### Threats And Opportunities

The KGHM Group is exposed to the risk of non-compliance with future legal requirements. The risk of interruptions to operations or the need to reorganize work due to new legislation may have a substantial impact on the operations of the KGHM Group (such as the risk of transitioning to the low-carbon economy, circular economy).

The opportunity coming from increased consumption and capability to process a volume of copper scrap and copper-bearing materials by KGHM's smelters and refineries, which results in improved efficiency of waste management in global terms in the context of resource use and longer copper life cycle – a change in the customer's and the Regulator's approach in favour of circular economy and low-carbon economy.

#### Mitigation

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 membership of national and international organisations). Taking preventive actions aimed at adapting to organisational, infrastructural and technological changes.



#### Volumetric risk.

The risk involved in the awareness about climate change and choices of business consumers leading to shifting interest to products and services which are less harmful to the environment.

(Corporate risk category: Internal)

#### Threats And Opportunities

A threat of raised expectations and awareness of stakeholders as regards climate and environmental issues, which could lead to increased operating and investment costs and, in extreme cases, to limitation of the business activity. The changing consumer requirements involve also a focus on the production method rather than merely the quality and price of the final good.

The opportunity coming from increased demand for copper arising from the necessity to supply it to meet the needs of the low-carbon economy as a result of a higher level of electrification (e.g. increased copper consumption for purposes related to manufacturing components for electrical vehicles and development of electromobility). A stable growth of the global demand for copper is expected

until 2030. The forecast growth will be an effect of, among others, the dynamically increasing demand from industries associated with renewable energy sources.

#### Mitigation

Care and due diligence in identification of expectations and requirements of the external stakeholders concerning the climate and environmental issues and consideration given to these issues in the long-term, strategic perspective. Establishment of trade and business relationships with entities that declare care about environmental protection and comply with the regulations applicable in this regard.



#### Reputation loss risk.

Potential difficulties in attracting customers, employees, business partners and investors if the KGHM Polska Miedź S.A. Group activity is found harmful to the climate.

(Corporate risk category: External, Internal)

#### Threats And Opportunities

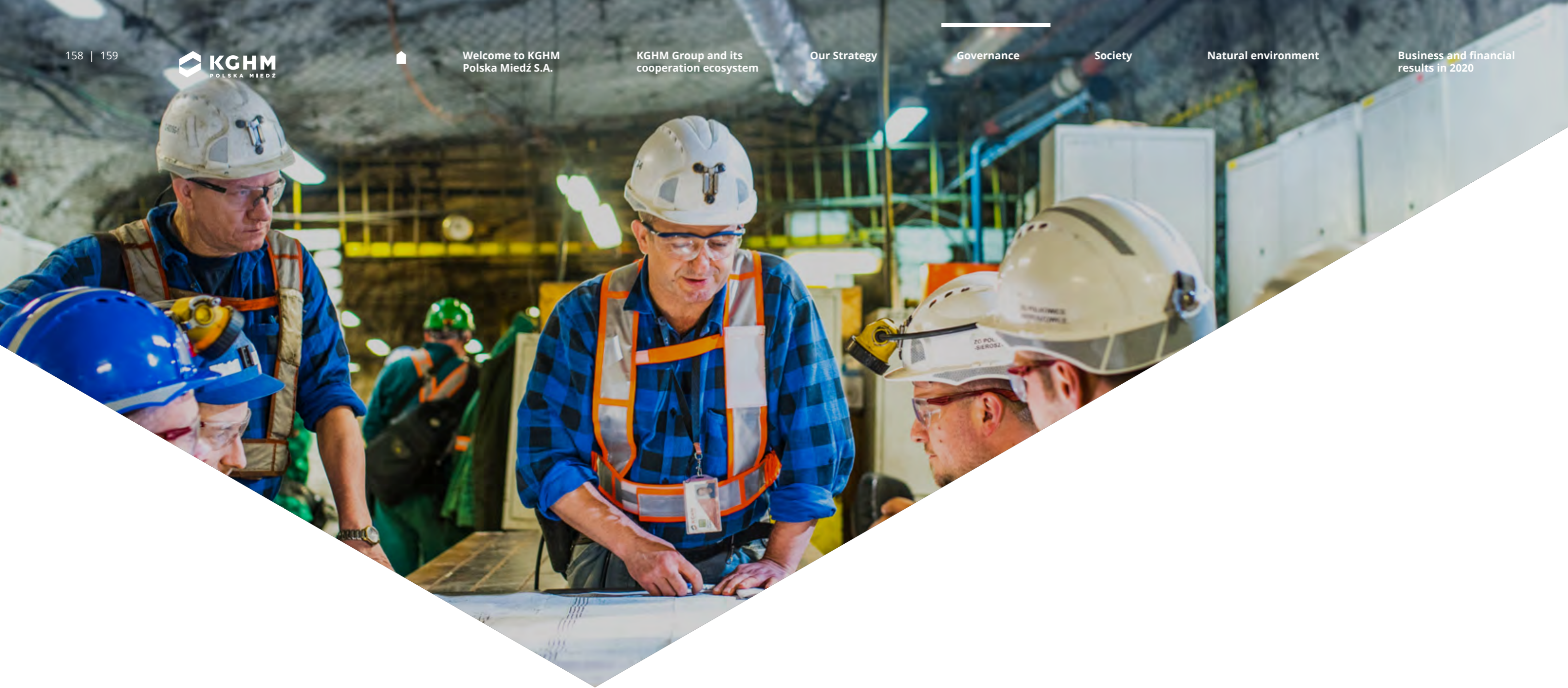
The KGHM Group is exposed to the risk of exposure to external factors involving the environment in which it operates and consequently, it is exposed to changes in the image of the organisation and its products or services. Risk of ineffective management of relations with stakeholders, which affects the willingness of the environment and the taking of actions towards the KGHM Group. In extreme cases, the materialisation of this risk may lead to the blocking of development plans.

The opportunity (positive risk) arising from investments in renewable energy, which support combating greenhouse gas emissions – an image- and market-related opportunity with respect to the industry, i.e. the image of a company caring for the natural environment and striving for limiting the global climate change (green energy / green copper /

green KGHM); a change in the customer's approach but also legislative changes in favour of the KGHM Polska Miedź S.A.'s attitude.

#### Mitigation

Care and due diligence in identification of expectations and requirements of the external stakeholders concerning the climate and environmental issues. Establishment of trade and business relationships with entities that declare care about environmental protection and comply with the regulations applicable in this regard.



# Governance

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**160** Corporate governance

General Meeting

Supervisory Board

Management Board

Changes in the Parent Entity's bodies

Remuneration of Members of the Parent Entity's  
bodies and of other key managers of the Group

Diversity policy applied to the administrative,  
management and supervisory bodies of the Company

**190** Organisational culture

Code of Ethics



# Corporate governance

In 2020, KGHM Polska Miedź S.A., a company listed on the Warsaw Stock Exchange, applied the corporate governance principles set forth in the document entitled Code of Best Practice for WSE Listed Companies 2016 (hereinunder “Best Practice”) adopted by Resolution no. 26/1413/2015 of the Warsaw Stock Exchange Supervisory Board on 13 October 2015.

The wording of the principles is available on the official website of the Warsaw Stock Exchange devoted to this topic: <https://www.gpw.pl/best-practice>, as well as on the KGHM Polska Miedź S.A.’s corporate website, in the corporate governance section at <https://kghm.com/en/investors/corporate-governance>.

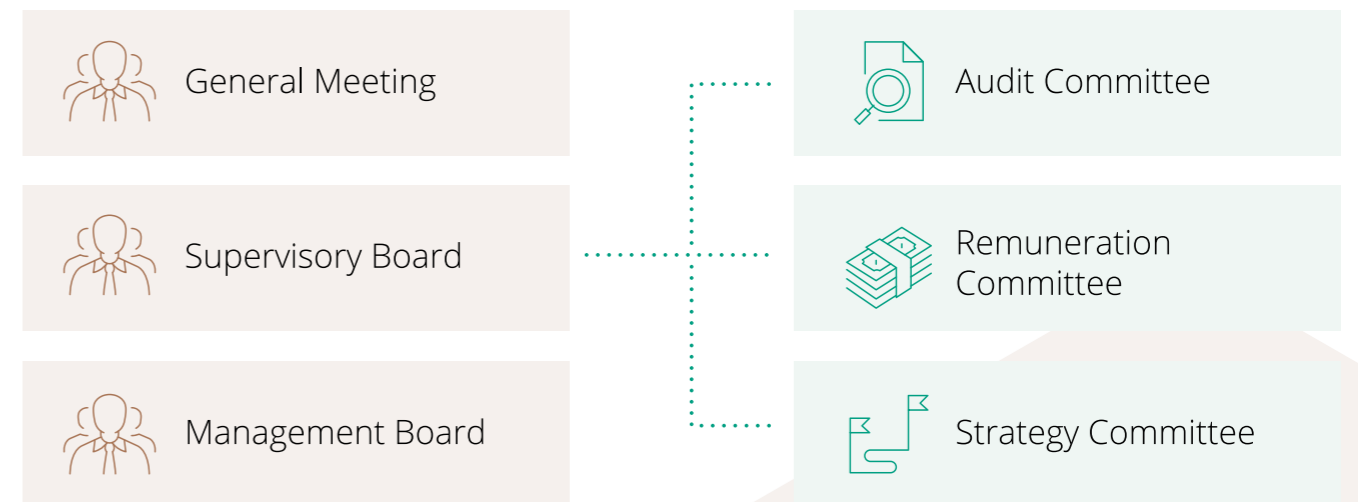
At every level of its operation, the Company aims at applying the recommendations and the principles included in the “Best Practice” for listed companies. The detailed principles from the “Best Practice” collection, which do not apply to the Company, are specified below:

Detailed principle	Explanation
Detailed principle I.Z.1.10. on posting financial projections, if the company has decided to publish them, published at least in the last 5 years, including information about the degree of their implementation, on the corporate website;	The Company did not publish financial projections in the last 5 years.
Detailed principle III.Z.6. stating that, where the company has no separate internal audit function in its organisation, the audit committee (or the supervisory board if it performs the functions of the audit committee) should review on an annual basis whether such function needs to be separated.	KGHM Polska Miedź S.A. has an organisationally-separate internal audit function, i.e. the Internal Audit Department.
Detailed principle IV.R.3., according to which, where securities issued by a company are traded in different countries (or in different markets) and in different legal systems, the company should strive to ensure that corporate events related to the acquisition of rights by shareholders take place on the same dates in all the countries where such securities are traded.	Securities issued by the Company are listed on the Warsaw Stock Exchange only.

## IN 2020, KGHM POLSKA MIEDŹ S.A. DID NOT APPLY THE FOLLOWING RECOMMENDATION FROM THE “BEST PRACTICE” COLLECTION:

Recommendation not applied	Explanation
Recommendation IV.R.2, which states that, if justified, the company should enable its shareholders to participate in a general meeting using electronic communication means, in particular through: a real-life broadcast of the general meeting; real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting; and exercise of the right to vote during a general meeting either in person or through a plenipotentiary.	The company believes that enabling participation in general meetings using electronic communication means may carry the risk of technical and legal nature, leading to a disruption in the efficient course of the general meeting and potentially to adopted resolutions being challenged. The company believes that the principles governing participation in general meetings of KGHM Polska Miedź S.A. allow for the exercise of rights from shares and protect interests of all shareholders. The Company is considering a process to implement the above recommendation in a situation when its legal and technical aspect no longer raises concern and when it is justified by the actual need for this form of communication on the part of the shareholders. Nevertheless, since 2016 KGHM Polska Miedź S.A. has provided a real-time broadcast of the general meeting.

## CORPORATE GOVERNANCE STRUCTURE AT KGHM POLSKA MIEDŹ S.A.





### DESCRIPTION OF THE PRIMARY ATTRIBUTES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS USED IN THE COMPANY IN REFERENCE TO THE PREPARATION OF FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In order to ensure reliability, accuracy and compliance with the generally applicable law and internal regulations, the process of preparing financial statements and consolidated financial statements is covered by internal control and risk management systems, which are comprised of:

Detailed principle	Explanation
Oversight over the application of uniform accounting principles by the Parent Entity and KGHM Polska Miedź S.A. Group companies during the process of preparing reporting packages for the preparation of the consolidated financial statements of the KGHM Polska Miedź S.A. Group.	<p>In order to ensure correctness and accuracy of keeping of accounting ledgers by the Parent Entity as well as conformity of the accounting policies used to prepare financial statements in the Group's subsidiaries, the Management Board of the Parent Entity has introduced for continuous application the Group's Accounting Policy consistent with the International Financial Reporting Standards approved by the European Union, which is updated on an ongoing basis based on new regulations.</p> <p>Oversight over the applied accounting principles in the process of preparation of financial statements in KGHM Polska Miedź S.A. and in the Group's subsidiaries relies on the control mechanisms built into the functionality of reporting systems.</p> <p>The reporting packages of the subsidiaries are also reviewed by the pertinent functions within the Parent Entity.</p>
Centralised finance and accounting function	<p>KGHM Polska Miedź S.A. keeps accounting ledgers in a centralised finance and accounting function. The accounting records of the Parent Entity are kept in the Accounting Services Centre separated in the Head Office structures of KGHM Polska Miedź S.A. Centralised accounting carried out using a process model minimizes the risk of errors in accounting error and ensures high quality of financial statements, through a transparent allocation of powers and responsibilities. Measures optimizing the operation of the accounting function's structures and increasing the safety of records are undertaken on an ongoing basis.</p>
Finance and accounting systems	<p>KGHM Polska Miedź S.A. keeps accounting ledgers in a centralised finance and accounting function. The system's modular structure ensures a transparent division of processes and powers, coherent records of operation in the ledgers and verification of the reporting, main and auxiliary ledgers. Access to data in different cross-sections and layouts is available through an extensive reporting system. Parent Entity adapts its IT system to the changing accounting rules and other legal standards. The solutions applied by the Parent Entity are implemented in the IT systems of Group companies.</p> <p>In order to ensure the proper operation and protection of systems, data, secure access to data and computer hardware, appropriate organisational and systemic solutions have been implemented. Access to resources of the finance and accounting records system and the financial reporting system is restricted by a system of rights, which are awarded to authorised employees only to the extent of duties performed by them. The rights are subject to regular reviews and audits. Control of access is exercised at every stage of preparation of the financial statements, starting from entry of source data to data processing to generating output information.</p> <p>The actions undertaken to increase the use of IT tools to automate the control and settlement of purchasing processes in the Company are an important element in mitigating the risk of errors and irregularities in the registration of economic operations. These actions include, among others:</p> <ul style="list-style-type: none"> <li>— Workflow – the electronic circulation system supporting settlements and document approval,</li> <li>— the system supporting data transmission between the Parent Entity's system and IT systems of Group companies,</li> <li>— counterparty settlements based on purchase e-invoices and sales e-invoices.</li> </ul>

Detailed principle	Explanation
Corporate risk management	<p>Under the existing Corporate Risk Management Policy and Procedure and the Rules of the Corporate Risk and Compliance Committee, the process of corporate risk management in the Group is consistently performed. We identify, assess and analyse on a continuous basis the risks in different areas of the Group's operations in the context of the possibility to mitigate them.</p> <p>The Corporate Risk and Compliance Management Department, which monitors and escalates risks and reports incidents, is responsible for coordinating the whole corporate risk management process and for developing methods and tools to be used by managers in the Parent Entity, in all subsidiaries and projects.</p> <p>The measures also include the management of risk pertaining to the process of preparation of the Group's consolidated financial statements.</p> <p>The corporate risk management process is subject to an annual effectiveness assessment as required in the "Best Practice for WSE Listed Companies 2016".</p> <p>A detailed information on the risk management system in the KGHM Polska Miedź S.A. Group is presented in Chapter 12 of the Management Board Report on the Activity of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group in 2020.</p>
Internal audit	<p>The main risk management element in the process of preparing financial statements relating to the functioning of control mechanisms and the occurrence of risks in the operations of KGHM Polska Miedź S.A. is the work performed by the Internal Audit Department. Its work indirectly strengthens the process of preparation of financial statements and the accuracy of the statements.</p> <p>The Internal Audit Department performs its tasks in accordance with the Audit Plan for the calendar year, which is approved by the Management Board of KGHM Polska Miedź S.A. and opined by the Audit Committee.</p> <p>The purpose of audit is to provide the KGHM Polska Miedź S.A. Management Board and its Supervisory Board Audit Committee with independent and objective information about the internal control system and risk management systems and analysis of business processes within KGHM Polska Miedź S.A. and in Group companies. Irrespective of the internal audit and institutional control tasks, KGHM Polska Miedź S.A. has in maintained the obligation of full self-control of employees and functional control exercised by all levels of management as part of its coordination and supervisory duties.</p>





## External audit

As required by law, the consolidated financial statements of the KGHM Polska Miedź S.A. Group are subject to half-year reviews and annual audits conducted by statutory auditors. The statutory auditor is selected by the Supervisory Board through a tender procedure, based on a recommendation of the Supervisory Board's Audit Committee and a report on the tender procedure conducted by the Committee.

The financial statements of KGHM Polska Miedź S.A. for 2019-2021 are audited by PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. Within the framework of its audit work, the statutory auditor makes an independent assessment, based on the applicable audit methodology, of the accounting policies applied by the Parent Entity in the preparation of the financial statements and of the fairness and accuracy of the standalone and consolidated financial statements.

The effectiveness of the internal control and risk management system in the process of preparation of financial statements is confirmed by the auditor's reports on the standalone and consolidated financial statements of KGHM Polska Miedź S.A., which are issued by the statutory auditor without qualifications.

## Supervision over the process of financial reporting

The body exercising supervision over the financial reporting process in KGHM Polska Miedź S.A. and cooperating with the statutory auditor is the Supervisory Board Audit Committee appointed by the power of the Parent Entity's Supervisory Board. Pursuant to the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2017 item 1089, as amended), responsibilities of the Audit Committee include, in particular:

- monitoring the financial reporting process in terms of its conformity with the Accounting Policy adopted in the in KGHM Polska Miedź S.A. Group and the law,
- monitoring the effectiveness of internal control, internal audit and risk management systems
- monitoring the independence of the statutory auditor and the entity authorised to audit financial statements
- carrying out the process of selecting an entity authorised to audit the Parent Entity's financial statements in order to submit a recommendation to the Supervisory Board.

The final stage of review and control effected by the body is the monitoring of the financial reporting process and assessment of the financial statements by the Supervisory Board. It ensures correctness and accuracy of the information presented in the standalone and consolidated financial statements of the KGHM Polska Miedź S.A. Group.

The correct management of the accounting process and the financial statements preparation process ensures security and high quality of information.

## GENERAL MEETING

The General Meeting (GM) of KGHM Polska Miedź S.A. is the highest corporate body of the Company. It is held as an Ordinary or Extraordinary General Meeting based on the prevailing law, the Statutes of the Company and the Bylaws of the General Meeting of KGHM Polska Miedź S.A. with its registered office in Lublin. General Meetings are convened by the Company's Management Board. In the instances set forth by the Commercial Company Code (CCC), a General Meeting may be convened by a Supervisory Board or by shareholders. Pursuant to § 23 sec. 21 of the Statutes of the KGHM Polska Miedź S.A., the Polish State Treasury may convene an Ordinary General Meeting if the Management Board fails to do so in the statutory timeframe, as well as an Extraordinary General Meeting if it considers its convening as warranted. The General Meeting of the Company is convened by an

announcement made on the Company's website and in a manner set forth in the Commercial Company Code and in the Act of 29 July 2005 on Public Offering and the Terms and Conditions for Introducing Financial Instruments to an Organised Trading System and on Public Companies (Journal of Laws of 2020, item 2080, as amended). The 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 Company 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 office in Lubin" adopted by the GM on 17 May 2010, which are available on the Company's website, [www.kghm.com](http://www.kghm.com).



## The duties of the General Meeting include in particular:

- 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,
- adopting resolutions on the distribution of profits or coverage of losses,
- granting a discharge to members of the Company's bodies on the performance of their duties,
- changing the subject matter of the Company's activity,
- amending the Company's Statutes
- increasing or decreasing the share capital,
- the manner and conditions for retiring shares,
- merging, splitting up or transforming the Company,
- dissolving and liquidating the Company,
- issuing convertible bonds or senior bonds,
- expressing consent to sell or lease the enterprise or an organised part thereof or establishing a limited material right thereon,
- all decisions relating to claims for redress of damage suffered during the foundation of the Company, or from management or supervisory activities,
- purchasing the Company's own shares, which are to be offered for purchase to employees or persons who were employed by the company or a related company for a period of at least three years,
- establishing the principles of remunerating members of the Supervisory Board,
- establishing the principles of remunerating Management Board members.



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 National Court Register. Changes in the Company Statutes are made by the General Meeting in accordance with the applicable laws, in the manner and form prescribed by the Commercial Company 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 Company Code, in respect of the organisation of General Meetings and shareholder rights, the Company applies the obligatory regulations only, 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

A detailed information on the ownership structure is provided in Chapter 11 of the Management Board Report on the Activity of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group in 2020.

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:

- 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,
- to announce draft resolutions and their justifications during a General Meeting which are in regard to matters introduced to the agenda of the General Meeting,
- 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,
- to request that a matter included in the agenda be removed or not considered,
- 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 [GRI 102-18] [GRI102-22]

The Supervisory Board of KGHM Polska Miedź S.A. is a corporate body of KGHM Polska Miedź S.A. authorised to exercise supervision in all areas of the Company's activity. 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. Supervisory Board Members are appointed for a mutual term in the office, which lasts three years. The Supervisory Board selects from among its members a Chairperson of the Supervisory Board, his/her 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.

The Supervisory Board's powers include in particular:

- assessing the standalone and consolidated financial statements and the Management Board Activity Report for the financial year
- reviewing the Management Board's recommendations on profit distribution or coverage of losses
- presenting an annual written statement on results of the reviews mentioned in items 1) and 2) to the General Meeting





- submitting annual applications to the General Meeting to grant a discharge to Management Board Members on the performance of their duties in the financial year.
- reviewing and controlling the activity and financial standing of the Company and submitting, annually, a brief assessment of the Company's standing to the Shareholder Meeting
- selecting a statutory auditor to audit the financial statements referred to in item 1
- setting the number of Management Board members for a given term of office
- appointing and dismissing Management Board members, subject to provisions of § 12 of the Company's Statutes
- suspending individual or all Management Board members in their duties for important reasons,
- delegating one or more Supervisory Board members or to temporarily perform the duties of those Company's Management Board members who are unable discharge their functions
- setting the remuneration of Management Board members and other terms and conditions of agreements signed with them
- approving the Bylaws of the Company's Management Board
- approving the Company's annual and long-term business plans, including the Strategy and the annual budget
- issuing opinions on Management Board motions to the General Meeting
- On request of the Management Board, giving consent for:
  - » purchasing or selling real property, right of perpetual usufruct or a share in real property (no General Meeting resolution is required in this respect)
  - » extending sureties and loans to business entities, in which the Company holds less than 1/3 of votes from shares at General Meetings of those companies
  - » creating and joining commercial companies
  - » selling shares in the Company's subsidiaries
- » creating branches, companies, representative offices and other organisational units or business entities abroad
- » subscribing for or acquiring shares in another company
- » setting-up and liquidating foundations
- » signing an agreement to provide legal, marketing, public relations and public communication services or management consulting services if the total net fee to be paid for such services is greater than PLN 500 thousand annually
- » signing amendments to agreements to provide legal, marketing, public relations and social communication services and management consulting services increasing the fee above the amount referred to in item h
- » executing an agreement to provide legal, marketing, public relations and public communication services and management consulting services which do not specify the maximum amount of the fee
- » signing a donation agreement or other agreement with similar effect, with the value exceeding PLN 20 thousand or 0.1% of total assets within the meaning of the Accounting Act of 29 September 1994, determined on the basis of the most recent approved financial statements
- » signing a debt release agreement or other agreement with similar effect, with the value exceeding PLN 50 thousand or 0.1% of total assets within the meaning of the Accounting Act of 29 September 1994, determined on the basis of the most recent approved financial statements
- defining the method of exercise of voting rights by KGHM Polska Miedź S.A.'s representative at the General Meetings of the companies in relation to which the Company is a parent undertaking within the meaning of Article 4 Sec. 3 of the Competition and Consumer Protection Act of 16 February 2007 (Journal of Laws of 2017, item 229), in the following matters:
  - » the company setting up another company,
  - » amending the statutes or articles of partnership and the company's line of business,
  - » merger, transformation, demerger, dissolution or liquidation of the company,
  - » increase or decrease of the company's share capital,

- » sale or lease of the company's business or an organised part thereof or establishment of a limited right in rem thereon,
- » retirement of shares,
- » setting the compensation of members of Management Boards and Supervisory Boards;
- » decisions on claims to remedy damages incurred when setting up a company or in its management or oversight,
- » in the matters mentioned in Article 17 Section 1 of the Act on Rules for Managing State Property of 16 December 2016 (Journal of Laws of 2016 Item 2259), subject to § 34 section 4 of the Statutes,
- expressing opinions on the Company's investments in fixed assets, which meet one of the following conditions:
  - » investment with a value exceeding 10% of the Company's capital expenditure budget for fixed assets for the financial year
  - » investment with a value exceeding 5% of the Company's capital expenditure budget for fixed assets for the financial year, if the investment does

not satisfy the planned effectiveness criterion versus the accepted rate of return on equity in the Company

- issuing opinions on the Management Board reports on representation expenditures and expenses incurred on the purchase of legal services, marketing services, public relations and social communication services and management consulting services,
- issuing opinions on the rules for sponsorship activity conducted by the Company and evaluating efficiency of such sponsorship activity,
- issuing opinions on the amendments to the rules governing the disposal of non-current assets set forth in §331 of the Statutes,
- approving the compensation policy for the Group,
- preparation of annual reports on compensation for Management Board and Supervisory Board members.

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 of the Supervisory Board and the Statutes of the Company are available on the Company's website, [www.kghm.com](http://www.kghm.com)

#### IN 2020 THE COMPOSITION OF THE SUPERVISORY BOARD WAS AS FOLLOWS:

##### <sup>1</sup> Elected by employees

	1 January- 19 June	19 June- 3 August	3 August- 26 November	26 November- 31 December
Agnieszka Winnik-Kalemba	●	●	●	●
Bartosz Piechota	●	●	●	●
Marek Pietrzak	●	●	●	●
Bogusław Szarek <sup>1</sup>	●	●	●	●
Leszek Banaszak	●			
Jarosław Janas	●	●	●	●
Ireneusz Pasis <sup>1</sup>	●	●		
Józef Czyczerski <sup>1</sup>	●	●	●	●
Andrzej Kisielewicz	● (Chairman)	● (Chairman)	● (Chairman)	● (Chairman)
Katarzyna Lewandowska		●	●	●
Przemysław Darowski <sup>1</sup>				●



The following members of the KGHM Polska Miedź S.A. Supervisory Board submitted declarations on meeting the independence criteria specified in detailed principle no. II.Z.4. of "Best Practice of GPW Listed Companies 2016": Andrzej Kisielewicz, Jarosław Janas, Bartosz Piechota, Marek Pietrzak and Agnieszka Winnik-Kalemba. Annex II to European Commission Recommendation No. 2005/162/EC of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board applies to the independence criteria of Supervisory Board Members.

## BIOGRAMS OF THE SUPERVISORY BOARD MEMBERS

### ANDRZEJ KISIELEWICZ – SUPERVISORY BOARD CHAIRMAN

(Member of the Supervisory Board of KGHM Polska Miedź S.A. since 2018)

A graduate of the Faculty of Mathematics and Computer Science of the University of Wrocław. Obtained a doctorate degree in mathematics at the Polish Academy of Sciences in Warsaw. He obtained his title of doctor habilitatus from the University of Wrocław, and he obtained the title of professor in mathematics in 2001. He currently holds the position of a professor at the Wrocław University of Science and Technology.

He gained professional experience in international science facilities: the University of Manitoba (Winnipeg, Canada, 1989–1990), Technische Hochschule Darmstadt (Germany, 1990–1992) and Vanderbilt University (Nashville, USA, 2001–2002). In addition, he has had many short-term international internships, among others in France, Italy, Austria and Israel. He obtained two of the most prestigious science scholarships in the world: the Alexander von Humboldt scholarship and the Fulbright scholarship.

He also has many years of experience in working in supervisory boards. He used to be a member and chairman of the supervisory boards of "Spedtrans" sp. z o.o. and "Teta" S.A. and is a member of the supervisory board of PKO BP S.A.

He is an author of over seventy scientific publications in mathematics, logic and computer sciences in international publications, as well as an author of 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").

### KATARZYNA LEWANDOWSKA – SUPERVISORY BOARD DEPUTY CHAIRWOMAN

(Member of the Supervisory Board of KGHM Polska Miedź S.A. since 2020)

For more than 20 years, her career was focused on expanding her knowledge and experience in exercising ownership supervision over State Treasury companies. Katarzyna Lewandowska is a graduate of the Warsaw School of Economics, Internal Trade Faculty. She currently serves as the Head of the Corporate Governance Department at the Ministry of State Property, responsible for corporate governance activities over companies with significant importance for the state economy. She managed corporate governance departments at the Ministry of Entrepreneurship and Technology and the Ministry of the State Treasury.

At the Prime Minister's Office (KPRM) in addition to corporate governance responsibilities she also organised the work of the State Treasury Department, introducing systemic corporate governance solutions in accordance with the new legal order introduced by the Act on the Rules for Managing State Property. During her work for KPRM, as the Head of the State Treasury Department, she coordinated the exercise of rights from shares held by the State Treasury.

She has many years of experience as a member of supervisory bodies of commercial law companies, including defence industry entities, PZU SA, Bank Ochrony Środowiska S.A. She is currently a member of the Supervisory Board of Grupa LOTOS SA.

### JAROSŁAW JANAS – SUPERVISORY BOARD SECRETARY

(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 since 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) since 2016, and an expert in healthcare reform (2018); since 2020 member of the Supervisory Board of the National Health Care 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 CZYCHERSKI

(Member of the Supervisory Board of KGHM Polska Miedź S.A. since 2012)

Secondary technical education. He has been employed in KGHM Polska Miedź S.A. since 1979 at the Rudna Mine Division, working as an electrician underground. Chairman of the National Board of the Copper Ore Mining Section of the NSZZ "Solidarność" trade union. Employee-elected member of the Supervisory Board of KGHM Polska Miedź S.A. from 1999 to 2011, and then since 2014.

### PRZEMYSŁAW DAROWSKI

(Member of the Supervisory Board of KGHM Polska Miedź S.A. since 2020)

He has technical university education. He started his professional career in 1997 as a fitter and then a rolling stock specialist in Pol-Miedź Trans Sp. z o.o. Since 2003, he has been the Manager of the Repairs Planning and Settlement and Repairs Inspection Unit, and then Manager of the Railway Operation Unit in Głogów. Since 2006 a Senior Specialist/Acceptance Inspector at the Wagon Maintenance Unit. He cooperated with the Legnica Municipality, in the name of which the Henryk Pobożny Complex of Technical and Comprehensive Schools in Legnica operates, in operating a training and testing centre for locomotive drivers and locomotive driver candidates.

Former member of the railroad committees operating at Pol-Miedź Trans, investigating railroad accidents and incidents. Additionally, from 2017 to 2019 he served as a Social Labour Inspector. Currently he is the Chairman of the NSSZ "Solidarność" Intercompany Commission in Pol-Miedź Trans. Member of the National Section of the NSSZ "Solidarność" trade union - Copper Ore Mining. Member of the Copper Basin Regional Management Board of the NSZZ "Solidarność" trade union.

### BARTOSZ PIECHOTA

(Member of the Supervisory Board of KGHM Polska Miedź S.A. since 2018)

Bartosz Piechota is a lawyer, a graduate of the Faculty

of Law and Administration of the University of Warsaw and also of Cardiff University Law School (Diploma in Legal Studies) as well as IESE Business School Barcelona (Advanced Management Program AMP). Also completed the School of American Law conducted by the University of Florida Levin College of Law and the University of Warsaw. He has many years of experience in providing legal services to the largest Polish and foreign companies. International rankings, including Legal500 2019 and 2020 refer to him as a leading lawyer in the field of dispute resolution and restructuring/bankruptcies. He has acted as a consultant, among others, in the implementation of a number of key infrastructural investment projects and many restructuring procedures. He was a founding partner of a leading law firm in Poland involved in resolving disputes and restructuring. Previously he worked for international and Polish law firms, among others Allen & Overy and Wardyński i Wspólnicy.

In the period from 2014 to 2016 he served as Liaison Officer for the International Bar Association in the restructuring and bankruptcy section responsible for Central and Eastern Europe. He was a member of the International Bar Association and is also the author of publications, as well as a lecturer at international and Polish conferences.

Since August 2019, he has been the Vice President of the Management Board of Polska Grupa Lotnicza.

In the years 2016–2019 he was a member of the Supervisory Board of PLL LOT S.A., and from October 2018 to July 2019 was delegated to serve in the function of member of the Management Board of PLL LOT S.A. For many years he has cooperated in the role of expert with Fundacja Republikańska (Republican Foundation).

### MAREK PIETRZAK

(Member of the Supervisory Board of KGHM Polska Miedź S.A. since 2016)

Legal Adviser. A graduate of the Faculty of Law and Administration of the Lazarski University in Warsaw and the Economics Faculty of the Private Higher School of Business and Administration in Warsaw. In 2013, he completed his legal adviser apprenticeship in the District Chamber of Legal Advisers in Warsaw and was licensed to work in the profession. He completed 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. He has also completed post-graduate studies in accounting and corporate finance at the SGH Warsaw School of Economics.

He has professional experience in public administration



and practical experience in supervision and management of commercial law companies, including those where the State Treasury is one of the shareholders.

In his professional practice he concentrates on providing legal services to businesses. His chief specialisations are civil and economic law, in particular company law, as well as labour law.

Currently, Marek Pietrzak serves as President of the Management Board of Orlen Asphalt Sp. z o.o. and a Supervisory Board Member at Alior Bank S.A.

**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.

From 1992 he served as the Chairman of the Plant Committee of the NSZZ "Solidarność" trade union in the Sieroszowice Mine, and following the merger of the Polkowice and Sieroszowice mines, Chairman of the Plant Committee of the NSZZ "Solidarność" trade union in the Polkowice-Sieroszowice mine since 1996. Since 2012 an employee-elected Member of the Supervisory Board of KGHM Polska Miedź S.A.

Deputy Chairman of the National Board of the Copper Ore Mining Section of the NSZZ "Solidarność" trade union. Treasurer of the Board of the Secretariat for Mining and Energy of the NSZZ "Solidarność" trade union. Member of the National Committee of the NSZZ "Solidarność" trade union.

**AGNIESZKA WINNIK-KALEMBA**

(Member of the Supervisory Board of KGHM Polska Miedź S.A. since 2016)

Attorney, graduate of the Law Department at the University of Wrocław. 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 she served as an advisor and permanent associate of the late Member of Parliament Aleksandra Natalli-Świat. In the years 1999–2003 gained experience as an apprentice attorney-at-law at Kazimierz Cyrklewicz's Law Office in Wrocław. Previously she was 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, Parliament of the Voivodeship of Wrocław. Also gained experience

as Legal Assistant in the Law Offices of Bowles, Keating, Matuszewich & Fiordalisi Chicago – Milan – Rome, a Partnership of Professional Corporation, Chicago USA.

Was Deputy Chairwoman and member of the Supervisory Board of PKO BP S.A.

**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 2020:**

	1 January- 19 June	19 June- 16 July	16 July- 3 August	3 August- 10 Decem- ber	10 December- 31 December
Agnieszka Winnik-Kalembe (Chairwoman)	●	●	●	●	●
Bartosz Piechota	●	●	●	●	●
Marek Pietrzak	●	●	●	●	●
Bogusław Szarek	●	●	●	●	●
Leszek Banaszak	●				
Jarosław Janas	●	●	●	●	●
Ireneusz Pasis	●	●	●		
Katarzyna Lewandowska			●	●	●
Przemysław Darowski					●

The Audit Committee is responsible for supervision in the areas of financial reporting, the internal control system, risk management and internal and external audits.

In accordance with the Bylaws of the Supervisory Board the tasks of the Audit Committee are as follows:

- monitoring of:
  - » the financial reporting process
  - » the effectiveness of internal control systems, risk management systems, compliance and internal audit, including in the area of financial reporting,
  - » performance of financial review activities, including conducting the audit by an audit firm, taking into consideration any and all conclusions and findings of the Polish Agency for Audit Oversight ensuing from inspections conducted in the audit firm,

- conducting reviews of transactions carried out by the Company, which the Audit Committee considers as significant for the Company
- 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 another Member of the Management Board;
- analysis of the conclusions and recommendations of the Company's internal audit, including monitoring of the degree of implementation of recommendations made by the Company's Management Board;
- controlling and monitoring of the independence of the statutory auditor and audit firm, in particular if the audit firm provides the Company with non-audit services;
- 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;

- assessing the independence of the statutory auditor and expressing consent for the certified auditor to provide permitted non-auditing services in the Company;
- preparation of a policy governing the selection of an audit firm to perform the audit,
- preparation of a policy governing the provision of permitted non-audit services by the audit firm performing the audit, by its related parties and by a member of the audit firm's chain,
- defining the procedure for the Company to select an audit firm,
- presenting the Supervisory Board with the recommendations referred to in art. 16 sec. 2 of Decree no. 537/2014 (i.e. recommendations regarding the appointment of a statutory auditor or auditing firms), in accordance with the policies referred to above in items 8 and 9,
- submitting recommendations aimed at ensuring the transparency of the Company's financial reporting process; and
- other tasks as directed by the Supervisory Board.

With respect to the Members of the Audit Committee serving in the function from 1 January 2020 to 31 December 2020, Agnieszka Winnik-Kalemba, Marek Pietrzak, Bartosz Piechota and Jarosław Janas met the criteria for independence as defined by art. 129 sec. 3 of

the Act dated 11 May 2017 on statutory auditors, auditing firms and public oversight (Journal of Laws from 2017 item 1089, as amended).

The qualifications of 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.

Marek Pietrzak was selected as a member having 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).

Bogusław Szarek was selected as a member having knowledge and skills in the sector in which KGHM Polska Miedź S.A. operates resulting from many years of employment in KGHM Polska Miedź S.A. (since 1982) as well as sitting on the Supervisory Board of KGHM Polska Miedź S.A. since 2012 as an employee-elected Member of the KGHM Polska Miedź S.A.'s Supervisory Board.

8 meetings of the Audit Committee were held in 2020.

## REMUNERATION COMMITTEE

The Remuneration Committee is responsible for supervising the performance of the duties set forth in the contracts signed with the Management Board, the remuneration system and benefits paid out in KGHM

Polska Miedź S.A. and the Group, training and other benefits provided by the Company, as well as audits performed by the Supervisory Board in this regard.



### Remuneration Committee

#### COMPOSITION OF THE REMUNERATION COMMITTEE IN 2020:

	1 January-19 June	19 June-16 July	16 July-3 August	3 August-10 December	10 December-31 December
Józef Czyczerski	●	●	●	●	●
Marek Pietrzak	●	●	●	●	●
Bogusław Szarek	●	●	●	●	●
Andrzej Kisielewicz	● Chairman	● Chairman	● Chairman	● Chairman	● Chairman
Leszek Banaszak	●				
Jarosław Janas	●	●	●	●	●
Ireneusz Pasis	●	●	●		
Katarzyna Lewandowska			●	●	●
Przemysław Darowski					●

In accordance with the Bylaws of the Supervisory Board the tasks of the Remuneration Committee are as follows:

- recruiting and hiring Management Board members by drafting and preparing draft versions of documents and processes to be submitted to the Supervisory Board for approval;
- preparing draft versions of contracts and other model documents in connection with establishing legal relationships with a Management Board member/ members and overseeing the performance of the contractual obligations taken by the parties;
- overseeing the implementation of the Management Board's compensation system, in particular preparing settlement documents concerning variable and

bonus elements of compensation for the purpose of submitting recommendations to the Supervisory Board;

- monitoring and periodically analysing the compensation system for the management of the Company and if necessary articulating recommendations for the Supervisory Board;
- overseeing the proper implementation of perquisites for the Management Board stemming from their employment contracts such as: insurance, cars, apartments and others;
- other tasks as directed by the Supervisory Board.






**STRATEGY  
 COMMITTEE**
**COMPOSITION OF THE STRATEGY COMMITTEE IN 2020:**

	1 January- 19 June	19 June- 16 July	16 July- 3 August	3 August- 10 December	10 December- 31 December
Józef Czyczerski	●	●	●	●	●
Marek Pietrzak	●	●	●	●	●
Bogusław Szarek	●	●	●	●	●
Bartosz Piechota	● Chairman	● Chairman	● Chairman	● Chairman	● Chairman
Leszek Banaszak	●				
Ireneusz Pasis	●	●	●		
Agnieszka Winnik- Kalembe	●	●	●	●	●
Katarzyna Lewandowska			●	●	●
Przemysław Darowski					●

The Strategy Committee supervises the implementation of the Company's strategy, its annual and multi-year operating plans, supervising the coherence of these documents, and also provides its opinion to the Supervisory Board on the strategic projects presented by the Management Board of the Company and any changes thereto, as well as on the Company's annual and multi-year operating plans.

In accordance with the Bylaws of the Supervisory Board the tasks of the Strategy Committee are as follows:

- on behalf of the Company's Supervisory Board performing tasks in the area of oversight over issues related to the Company's strategy and the annual and long-term operating plans of the Company;
- 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;

- 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;

- 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 documents;

- 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;

- other tasks as directed 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 [GRI 102-20] [GRI 102-26]**

The duties of the Management Board include all matters pertaining to the functioning of the Company which have not been reserved by the Commercial Company 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 Management Board's term of office is three years. The number of members of the Management Board is set by the Supervisory Board, which appoints and dismisses the President and the Vice Presidents of the Management Board. 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, subject to provisions of § 12 sec. 5 and sec. 7 to 12 of the Statutes concerning the appointment or dismissal of an employee-elected member of the Management Board. Management Board members, including the Management Board member elected by employees, may be dismissed 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 dismissing, shall be binding upon the Supervisory Board, as long as in the said voting

for either their appointment or dismissing at least 50% of the Company's employees have participated. The election and dismissal 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 & CEO casts the deciding vote.

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 retired upon shareholder consent through acquisition by the Company. A resolution of the General Meeting on the retirement of shares may be preceded by an agreement entered into with a shareholder. Pursuant to §29 sec. 1 item 6 of the Company's Statutes, any increase in share capital or issuance of shares requires the approval of the General Meeting. The same holds true for the issuance of convertible bonds or senior bonds (§29 sec. 1 item 10 of the Company's Statutes). 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 Company Code.


**No changes were made in the Management Board in 2020 and its composition was as follows:**

- **Marcin Chludziński** — President of KGHM Polska Miedź S.A., appointed as of 6 July 2018
- **Adam Bugajczuk** — Vice President of the Management Board (Development), appointed as of 24 August 2018
- **Paweł Gruza** — Vice President of the Management Board (International Assets), appointed as of 10 September 2018
- **Katarzyna Kreczmańska-Gigol** — Vice President of the Management Board (Finance), appointed as of 6 July 2018
- **Radosław Stach** — Vice President of the Management Board (Production), appointed as of 6 July 2018



## BIOGRAMS AND RESPONSIBILITIES OF MANAGEMENT BOARD MEMBERS

### MARCIN CHLUDZIŃSKI – PRESIDENT

(APPOINTED AS OF 6 JULY 2018)



Graduate of the Institute of Social Policy and the European Institute of Regional and Local Development at the University of Warsaw. He finished his MBA at the Institute of Economics, Polish Academy of Sciences. He has experience in the management of commercial law companies, restructuring projects and corporate supervision. Since 2005 he has been on the management boards and supervisory boards of commercial law companies.

President & CEO of KGHM Polska Miedź S.A. and chairman of the Employers' Organisation of Polish Copper.

**In the years 2016-2018 President of the Management Board of Agencja Rozwoju Przemysłu S.A., where he successfully restructured the following companies:**

Przewozy Regionalne, H. Cegielski – Fabryka Pojazdów Szynowych and Świętokrzyskie Kopalnie Surowców Mineralnych. Since January 2016 a member of the Supervisory Board of PZU S.A. 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 Fundacja Republikańska (Republican Foundation) economic think tank from 2011 to 2015. Member of Narodowa Rada Rozwoju (the National Development Council), an advisory body to the President of the Republic of Poland.

#### The President is responsible for:

- activities related to overall risk management at the corporate level as well as auditing and internal 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,
- corporate supervision standards and compliance with the corporate governance standards adopted by the Company,
- overall corporate oversight over the Group's subsidiaries in Poland and abroad,
- compliance with formal reporting and publishing obligations within the scope required by law,
- activities related to creating, updating and maintaining the uniformity of the organisation's internal regulations to maintain consistent operating principles,
- providing organisational and legal services to the Company's bodies,
- providing legal services to the Company,
- activities related to communications and image-building within the Group,
- the shaping of relations with the Company's external business environment,
- on the Founder's behalf – supervision of the functioning of the KGHM Polska Miedź Foundation as well as other organisations serving the public, which support achievement of the Group's business goals,
- the activities of the Data Centre Division (COPI) with respect to:
  - » supplying and developing information and communication services required for the proper functioning of the Head Office,
  - » the management's rational utilisation of ordered and contracted goods and services,
- activities related to human capital management.

### ADAM BUGAJCZUK, VICE PRESIDENT OF THE MANAGEMENT

#### BOARD (DEVELOPMENT)

(appointed as of 24 August 2018)



Graduate of the Wrocław University of Economics, Faculty of Economics, Management and Tourism. He completed the Executive MBA-Business Trends at the School of Computer Science, Management and Administration 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 Bank Zachodni WBK S.A., where he cooperated in the implementation of investment projects. He was also responsible for the optimisation 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:

- implementation of the Company's research and development 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 Group's equity investments plan,
- shaping of the Company's products portfolio,
- initiation, development and implementation of management standards in the process of managing projects and programs,
- acquisition and development of the mining resources base in Poland,
- management of real estate,
- overseeing the Company's administrative services,
- the work of the Central Procurement Unit.



## PAWEŁ GRUZA, VICE PRESIDENT OF THE MANAGEMENT BOARD (INTERNATIONAL ASSETS)

(appointed as of 10 September 2018)



Graduate of the University of Warsaw, Faculty of Law and Administration.

An Undersecretary of State in the Ministry of Finance from November 2016 to September 2018. Co-author of the tax reform. As a representative of the minister responsible for financial institutions he was also a member of the Polish Financial Supervision Authority.

Undersecretary of State at the State Treasury Ministry 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. He was a shareholder and a management board member of MMR Consulting sp. z o.o., as well as a partner in the tax consultancy office GWW Tax from 2007 to 2016. He worked for the Artur Andersen and Ernst & Young consultancy firms 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 concerning international resource base projects,
- coordination of tasks with respect to the plan of the Company's equity investments in 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.

## KATARZYNA KRECZMAŃSKA-GIGOL – VICE PRESIDENT OF THE MANAGEMENT BOARD (FINANCE)

(APPOINTED AS OF 6 JULY 2018)



She has experience in the areas of finance, planning, budgeting, accounts receivable management and financial reporting. From 2016 to 2018 she worked for Poczta Polska S.A. as director managing the Finance Division and director of the Treasury Office. Long-time employee in the banking sector in the area of corporate banking. She is a supporting member of the Polish Corporate Treasurers Association. For many years, she combined business practice with academic activity. She is a professor at the Finance Institute of the Warsaw School of Economics.

An expert in financial liquidity, financing sources, factoring and debt collection.

She authored and co-authored more than one hundred academic and business publications on corporate finance and banking. They included, among others: "Analiza płynności finansowej przedsiębiorstwa" (Analysis of financial liquidity of a company), "Podstawy finansowania spółki akcyjnej" ("Basics of financing a joint-stock company"), "Skarbnik korporacyjny" ("Corporate Treasurer"), "Płynność finansowa. Istota, pomiar, zarządzanie" ("Financial liquidity of a company. Essence, measurement, management"), "Windykacja polubowna i przymusowa. Proces, rynek, wycena wierzytelności" ("Amicable and compulsory collection of debt. The process, market and debt valuation"), "Finanse spółki akcyjnej" ("Finances of a joint-stock company"), "Windykacja należności – ujęcie interdyscyplinarne" ("Collection of debt – the interdisciplinary approach"), "Aktywne zarządzanie płynnością finansową przedsiębiorstwa" ("Active management of financial liquidity"), "Faktoring w prawie cywilnym, podatkowym i bilansowym" ("Factoring in civil, tax and accounting law"), as well as "Bank a leasing" ("Bank and leasing"), "Opłacalność działalności kredytowej banku" ("Profitability of bank lending activities"), "Podstawy tworzenia planu finansowego banku" ("Basics of creating a bank finance plan").

### The Vice President of the Management Board (Finance) is responsible for

- the shaping of the Group's financial policy;
- review of the Main Strategy's projects in terms of their financial feasibility;
- finances in all of the Group's operations and activities;
- the creation of Group's tax policy; and
- the Company's accounting services.



## RADOSŁAW STACH – VICE PRESIDENT OF THE MANAGEMENT BOARD (PRODUCTION) (APPOINTED AS OF 6 JULY 2018)



Graduate of the AGH University of Science and Technology in Kraków, Department of Mining and Geology – underground mining. He finished his MBA at the Wielkopolska Business School of the Poznań University of Economics and Business as well as the KGHM Executive Academy, managed jointly with IMD Business School in Switzerland. He completed the prestigious management program, “Personal Leadership Academy” at the ICAN Institute in Warsaw.

Involved with the KGHM Polska Miedź S.A. Group since the beginning of his professional career. He was gradually promoted at the Polkowice-Sieroszowice Mine: from intern, to senior miner, shift foreman, section foreman, manager of mining operations unit, chief mining engineer/ deputy manager of mining plant operation.

He served as the Vice President (operations development) at KGHM INTERNATIONAL LTD. in Canada, and was responsible for the portfolio of international assets in North and South America from 2015 to 2016. Subsequently, he was executive director of the Polkowice-Sieroszowice Mine. He has also served as a vice president of the management board of MBA CLUB of the Wielkopolska Business School of the Poznań University of Economics and Business since 2017.

He has been an active member of the KGHM's rescue team since 2000. He won the third place in team competition in the International Mines Rescue Competition, which took place in the USA (2008). As a captain, he led his team to victory in the competition called “Virtual Rooms” in the International Mines Rescue Competition in Australia (2010).

Co-author of the following publications: “Wdrożenie zarządzania procesowego w KGHM Polska Miedź S.A.” (“Implementation of process management in KGHM Polska Miedź S.A.”) and “Koncepcje biznesowe branży wydobywczej. Studium KGHM Polska Miedź S.A.” (“Business concepts of the mining industry. Study of KGHM Polska Miedź S.A.”). He also published articles on production and finance issues, focusing on an increase in the efficiency of processes in a mining company, management of occupational health and safety costs in a mining company and managing the risk of increasing costs of a mining company.

### 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 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 development of the primary mine and metallurgical production;
- overseeing activities connected with the implementation, maintenance and improvement of management systems in the Company;
- and integrated supply chain management.

## CHANGES IN THE PARENT ENTITY'S BODIES

### MANAGEMENT BOARD OF THE COMPANY

According to the Statutes of KGHM Polska Miedź S.A., Management Board members are appointed and dismissed by the Supervisory Board. The KGHM Polska Miedź S.A. Management Board of the 10th term from 1 January 2020 to 31 December 2020 was as follows:

<b>Marcin Chludziński</b>	President
<b>Adam Bugajczuk</b>	Vice President of the Management Board (Development)
<b>Paweł Gruza</b>	Vice President of the Management Board (International Assets)
<b>Katarzyna Kreczmańska-Gigol</b>	Vice President of the Management Board (Finance)
<b>Radosław Stach</b>	Vice President of the Management Board (Production)

The tenth term of office of the Management Board started on 6 July 2018. As the current year was the third year of that term and considering its final date, which is after June 30th, i.e. after the date when, pursuant to Article 395 § 1 of the Commercial Company Code, the Ordinary General Meeting of the Company should be held, on 5 March 2021 the Supervisory Board of KGHM Polska Miedź S.A. adopted a resolution to commence a recruitment procedure for Management Board Members of the new, 11th term of office. The Announcement on commencing the recruitment procedure for members of the KGHM Polska Miedź S.A.'s Management Board for the 11th term of office was published in the Public Information Bulletin of the Ministry of State Assets and on the corporate website at [www.kghm.com](http://www.kghm.com).

On 23 March 2021, the Supervisory Board, in order to synchronize the period of the term of office and of the mandate, dismissed all Management Board Members of the 10th term of office effective on 15 April 2021 and appointed the following for the next, 11th term of office: Marcin Chludziński, appointing him to the position of the President & CEO effective as of 16 April 2021, Adam Bugajczuk, appointing him to the position of the Vice President of the Management Board (Development) effective as of 16 April 2021, Andrzej Kensbok, appointing him to the position of the Vice President of the Management Board (Finance) effective as of 16 April 2021

and Paweł Gruza, appointing him to the position of the Vice President of the Management Board (International Assets) effective as of 16 April 2021. At the same time, the Supervisory Board of KGHM Polska Miedź S.A. adopted a resolution to commence the recruitment procedure for the position of the Vice President of the Management Board (Production) of KGHM Polska Miedź S.A. for the new, 11th term of office. The Announcement on commencing the recruitment procedure was published in the Public Information Bulletin of the Ministry of State Assets and on the corporate website at [www.kghm.com](http://www.kghm.com).

### SUPERVISORY BOARD OF THE COMPANY

In accordance with the Statutes of the Company Supervisory Board members are appointed and dismissed by the General Meeting.

As at 1 January 2020, the composition of the KGHM Polska Miedź S.A.'s Supervisory Board of the 10th term of office was as follows:

<b>Andrzej Kisielewicz</b>	Chairman
<b>Leszek Banaszak</b>	Deputy Chairman
<b>Jarosław Janas</b>	Secretary
<b>Bartosz Piechota</b>	
<b>Marek Pietrzak</b>	
<b>Agnieszka Winnik-Kalemba</b>	

and the members elected by employees:

<b>Józef Czyczerski,</b>	
<b>Ireneusz Pasis</b>	
<b>Bogusław Szarek</b>	

On 19 June 2020 the General Meeting dismissed Leszek Banaszak from the Supervisory Board and appointed Katarzyna Lewandowska.

On 3 August 2020, the mandate of Ireneusz Pasis as a Supervisory Board member expired due to his death.

On 26 November 2020, the Extraordinary General Meeting appointed Mr. Przemysław Darowski elected by Employees of the KGHM Polska Miedź S.A. Group in supplementary elections to the Supervisory Board of KGHM Polska Miedź S.A.



From 26 November 2020 to 31 December 2020, the composition of the Supervisory Board was as follows:

**Andrzej Kisielewicz** Chairman

**Katarzyna Lewandowska** Deputy Chairwoman

**Jarosław Janas** Secretary

**Bartosz Piechota**

**Marek Pietrzak**

**Agnieszka Winnik-Kalemba**

and the members elected by employees:

**Józef Czyzerski**

**Bogusław Szarek**

**Przemysław Darowski**

## REMUNERATION OF MEMBERS OF THE PARENT ENTITY'S BODIES AND OF OTHER KEY MANAGERS OF THE GROUP

[GRI 102-35]

### REMUNERATION OF THE KGHM POLSKA MIEDŹ S.A. MANAGEMENT BOARD MEMBERS

The detailed rules for setting remuneration of Management Board members have been defined by the Supervisory Board which, acting under the authority granted by the Extraordinary General Meeting of KGHM Polska Miedź S.A., approved the forms of management services contracts for members of the Company's Management Board. The provisions in the contract forms are consistent with the "Remuneration Policy for Members of the KGHM Polska Miedź S.A. Management Board and Supervisory Board" adopted by the General Meeting, and prior to its adoption they were consistent with resolutions adopted by the General Meeting on the rules for setting remuneration of Management Board and Supervisory Board Members.

The management services contracts were signed for the period, in which Management Board members discharge their functions in the Management Board during one term of office. 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.

The total remuneration received on their basis consists

of a fixed component constituting the monthly base salary and a variable component constituting additional compensation for the Company's financial year.

The monthly fixed remuneration for individual Management Board Members is within the range from seven to fifteen times the average monthly remuneration in the corporate sector without profit-sharing in the fourth quarter of the previous year, as announced by the President of Statistics Poland.

Variable remuneration depends on the level of achievement of the management goals set by the Supervisory Board for each financial year and may not exceed 100% of the fixed remuneration in the period when the subject matter of the contract was performed (provided that it is longer than 3 months).

In 2020, new rules were introduced for granting bonuses to general directors, Divisions and departments. The changes were driven by both market trends as well as the need to update the existing rules.

In Q4 2020, the conceptual work on the Performance Management process platform was launched. The work on the platform should be completed at mid-year.

Based on the Statutes of KGHM Polska Miedź S.A., the Supervisory Board Bylaws, the management services contracts, resolution no. 8/2016 of the Extraordinary General Meeting, the Supervisory Board set Management Objectives for the KGHM Polska Miedź S.A. Management Board for 2020.

Management Objectives to be fulfilled as the condition for receiving the variable part of the remuneration for the financial year:

1. application of the principles of remunerating members of management and supervisory bodies, pursuant to the Act of 9 June 2016 on the terms of setting the remuneration of individuals managing certain companies, in all of the Group's companies;

2. performance of the duties described in art. 17–20, art. 22 and art. 23 of the Act dated 16 December 2016 on the rules for managing state property.

The Supervisory Board also set the additional Management Objectives for the individual Management Board members based on their responsibilities, which included:

business metrics (KPI)

- Adjusted EBITDA of the KGHM Polska Miedź S.A. Group
- volume of electrolytic Cu production from own concentrate

— C1 cost for KGHM SA

— net debt / EBITDA ratio for the Group

— reduction of value of all procurement procedures by at least 8% (excluding Group Companies) as compared to the budgeted CAPEX and OPEX

— LTIFR

— the assumed level of KGHM copper product sales by quantity

— achievement of average daily ore processing numbers at Sierra Gorda

— other Management Objectives relating to the performance of key strategic projects such as:

— preparing a restructuring concept for the Company in the event of deteriorating macroeconomic conditions

— preparing and launching the implementation of an energy independence strategy

— establishing a specialised new technology company to provide data analysis and modelling service and innovative e-Industry technologies

— preparing and implementing an integrated controlling model for the Group

— developing the Support Processes Effectiveness Program

— preparing and implementing a consistent model for planning, carrying out, settling and measuring efficiency

of investment projects

— preparing and implementing a concept for recovering metals from KGHM's sedimentation tanks and reservoirs

— implementing the next stage of the strategy for supply chain management units Achieving savings from local procedures at the level of 8% as compared to the starting level

— preparing and implementing a renovation policy ensuring greater processing capacity in the smelting division

— contracting third party concentrates to cover the smelting capacity available in 2021

— preparing and implementing the concept for structural and costs restructuring of KGHM INTERNATIONAL LTD and KGHM Chile

Payment of variable remuneration is made following the submission by individual members of the Management Board of reports on the achievement of the Management Objective. Payment of this variable remuneration is contingent on the approval by the General Meeting of Shareholders of: the Management Board Report on the Company's activity, the Company's financial statements for the prior financial year, and the granting of a discharge to the Management board member on his or her performance of duties. On this basis, the Supervisory Board evaluates the fulfilment of the aforementioned goals and determines the amount of the variable remuneration due.

### REMUNERATION OF THE OF KGHM POLSKA MIEDŹ S.A. MANAGEMENT BOARD MEMBERS POTENTIALLY DUE FOR 2020

Name	Position	Variable remuneration potentially due
		(in PLN thousands)
Marcin Chludziński	Member of the Management Board – President	966,19
Katarzyna Kreczmańska-Gigol	Member of the Management Board – Vice President of the Management Board	901,78
Radosław Stach	Member of the Management Board – Vice President of the Management Board	901,78
Adam Bugajczuk	Member of the Management Board – Vice President of the Management Board	901,78
Paweł Gruza	Member of the Management Board – Vice President of the Management Board	901,78
<b>Total</b>		<b>4 573,29</b>



Members of the Management Board may join the Employee Pension Programme under the terms of the existing Collective Agreement, with the proviso that the amount of the monthly contribution under this Programme is included in the amount of the fixed remuneration for the given period.

By decision of the Supervisory Board, since 2020 a Manager has been allowed to be covered, at the Company's expense, with life insurance under the group life insurance policies in place in the Company, including death, accident or illness insurance. The scope of this insurance is analogous to that provided to the management staff, the sole difference being that if a Management Board Member selects a unit-linked life insurance product then the premium corresponding to the unit-linked part 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 costs of travel 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 Chairperson of the Supervisory Board.

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 any additional remuneration for this function. In addition, the Management Board Member is obligated to inform the Supervisory Board of the possession of shares in publicly-listed companies and to gain the consent of the Supervisory Board 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 a labour 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 pay severance pay of no more than three times the amount of the fixed part of monthly remuneration (if the management board member discharged the function for at least 12 months).

The contracts with Management Board Members contain regulations forbidding engagement in competitive activity both during the period of employment as well as following the period of employment. 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 activities which would represent a conflict of interest. On account of the non-compete clauses, KGHM will pay to the former Management Board member, for the non-compete period, monthly compensation of 50% (100% in the case of the Management Board President) of the fixed monthly 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 Management Board Member breaches this clause in the contract, he/she will be required to pay a contractual penalty equal to the full amount of the 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.

### REMUNERATION OF SUPERVISORY BOARD MEMBERS

The remuneration of Supervisory Board members was set on 7 June 2019 by the General Meeting pursuant to the provisions of the Act of 9 June 2016 on the terms of setting the remuneration of individuals managing certain

companies and then in the "Remuneration Policy for Members of the KGHM Polska Miedź S.A. Management Board and Supervisory Board" adopted by the Ordinary General Meeting in 2020. 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 Statistics Poland. Supervisory Board Members 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.

In addition to the above remuneration, Supervisory Board Members do not receive any additional remuneration, including bonuses or other cash benefits.

According to the Commercial Company Code, the Company covers or reimburses costs incurred by Supervisory Board Members in relation to participation in the work of the Supervisory Board.

Detailed information on the amount of remuneration, bonuses or benefits for Supervisory Board members and Management Board members are presented in note 12.10 to the standalone and consolidated financial statements.

### GENERAL INFORMATION ON THE REMUNERATION SYSTEM FOR KEY MANAGERS

Key managers receive remuneration based on employment contracts. During their term, employees are entitled to:

- basic monthly remuneration, which amounts – depending on the function served – from 5- to 11-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 Statistics Poland.
- an annual bonus, paid in accordance with the principles for bonuses set by the Management Board, based on a system of business measures (KPIs) and individual goals (MBO). Principles of setting and granting annual bonuses (STIP - Short-Term Incentive Plan) have been in place in KGHM Polska Miedź S.A. since 2013. In 2020, new rules were introduced for granting bonuses to general directors, Divisions and departments. The changes were driven by both market trends as well as the need to update the existing rules. This system is based on collective, individual and task-related KPIs, which were derived from the key performance indicators for the Management Board as

well as on goals arising from the Company's strategy. At present the STIP system applies to 117 managers in the Company

- additional benefits, such as life insurance, the Employee Pension Programme, a Health Care Package, and a company car.

### LIABILITIES UNDER PENSIONS AND SIMILAR BENEFITS FOR FORMER PERSONS DISCHARGING MANAGING AND SUPERVISORY FUNCTIONS

KGHM Polska Miedź S.A. has no liabilities under pensions and similar benefits for former persons discharging managing and supervisory functions or liabilities incurred in connection with those pensions.

### AUDIT FIRM AUDITING FINANCIAL STATEMENTS

The audit firm auditing the Company's financial statements rendered permitted non-audit services to the Company. In each instance, the Audit Committee assessed the independence of the audit firm and gave its consent for the provision of the services.

Detailed information on the amount of the fees payable to the entity authorised to audit financial statements for the review and audit of financial statements and the fees for other services is provided in Note 12.10 to the standalone and consolidated financial statements.

The Company has implemented the policy of selecting an audit firm to audit financial statements (hereinafter: the Selection Policy) and the policy for the provision of permitted non-audit services by the audit company conducting the audit, entities related to this audit company and a member of the audit company's network (hereinafter: the Provision Policy).

Key principles underlying the Selection Policy:

- the maximum uninterrupted period of providing financial statements audit services is 5 years, which must be followed by a grace period of at least 4 years,
- all procedures in the audit firm selection process must be transparent, accurate and fair
- all audit firms, which meet the Company's requirements, must have equal opportunity of selection



- persons designated within the Company to implement the Selection Policy must have the appropriate expertise and exercise due care
- the selection and evaluation procedures must be documented in a manner that ensures the transparency of activities

Key principles underlying the Provision Policy:

- the scope of permitted non-audit services contracted with the audit firm or its affiliates must be limited; the maximum aggregate fees for providing such services are limited to 70% of the average annual fee paid over the last three financial years for the provision of statutory audit services.
- each purchase of a non-audit service from an audit firm or its affiliate must be verified in terms of justification and necessity
- the Audit Committee actively participates in the process of assessing threats to and safeguards of the audit firm's independence during the provision of permitted non-audit services
- an agreement may be signed and services provided, or the scope of the services or remuneration may be changed only after the required consent of the Audit Committee

The entity authorised to audit the financial statements for 2019-2021 is PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. The audit firm was selected following an organised selection procedure that met the applicable criteria.

**DIVERSITY POLICY APPLIED TO THE ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES OF THE COMPANY**  
[GRI 102-22]

KGHM Polska Miedź S.A. applies best practice in promoting diversity with respect to its employees. As a global Group active on global markets, it employs labour and employee relations standards that are consistent with applicable local law, as well as standards set by international institutions. Existing regulations and policies take into account the well-being of employees and mutual relations, based on best practice, irrespective of the jurisdiction in which KGHM Polska Miedź S.A. operates.

KGHM Polska Miedź S.A. creates a work environment and workplace free from discrimination. It does not tolerate any form of discrimination, especially as regards gender, age, ethnicity, nationality, citizenship, religion, political views 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 "Diversity Declaration 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 staff are diverse in terms of gender, age and experience:

**DIVERSITY STRUCTURE AMONG MANAGEMENT AND SUPERVISORY STAFF AS AT 31 DECEMBER 2020**

**Gender diversity**

	Women	Men
Supervisory Board	2	7
Management Board	1	4

**Age diversity**

	<40 years	40-50 years	51-60 years	>60 years
Supervisory Board	1	3	3	2
Management Board	-	4	1	-

**Length of experience in KGHM Polska Miedź S.A.**

	<5 years	5-10 years	11-20 years	> 20 years
Supervisory Board	7	-	-	2
Management Board	4	-	-	1





# Organisational culture

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## CODE OF ETHICS [GRI 102-16] [GRI 102-17]

The Code of Ethics of the KGHM Polska Miedź S.A. Group is the main tool in the Group's corporate culture, which helps to define priorities and select the set of principles that apply to all Employees in their daily work.

The Code of Ethics aims to ensure compliance of the conduct of employees with the highest standards based on the values adopted by KGHM Group employees: safety, cooperation, performance orientation, responsibility and courage.



Additionally, other relevant policies and procedures are employed to effectively implement the rules and values included in the Code of Ethics globally at the KGHM Polska Miedź S.A. Group level. Their implementation satisfies global corporate governance standards as well as the increasing expectations of our stakeholders, including our clients and financial institutions.

In order to standardize the approach to ensuring compliance defined as observance of the requirements arising from the applicable legal (external and internal) regulations or voluntarily assumed legal obligations and standards, the Management Board of KGHM Polska Miedź S.A. adopted the Compliance Management Policy at the KGHM Polska Miedź S.A. Group and the Compliance Management Procedure and Methodology at KGHM Polska Miedź S.A. in 2020. A consistent compliance system in the KGHM Polska Miedź S.A. Group is an element of effective management as part of corporate governance through e.g. a more efficient response and readiness for regulatory changes, care for reputation and ethical culture building in the organisation as well as awareness raising and enhancement of the sense of responsibility for compliance among employees. The work supporting and raising

standards of the compliance function will be continued in 2021.

In order to improve the standards of compliance with the competition law, in 2020 the Management Board of KGHM Polska Miedź S.A. adopted the Instructions to prevent violations under competition law, which expand on and detail the Competition Law Policy in the KGHM Polska Miedź S.A. Group, which was updated in 2019. In December 2020, a training was conducted for Local Competition Law Representatives in the KGHM Group. The work supporting and raising the standards of compliance with the competition law will continue in 2021.

In 2020, the Procedure for assessing the supply chain for gold and silver in KGHM Polska Miedź S.A. was updated to increase efficiency of the process while maintaining compliance with the current LBMA Responsible Gold Guidance V8 and LBMA Responsible Silver Guidance V1. The system for managing the responsible gold and silver supply chain is subject to an annual, independent, external assessment to confirm 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. and the Report on an independent assurance service is available on the website at: <https://kg hm.com/pl/biznes/produkty/odpowiedzialny-lancuch-dostaw>.

In previous years, KGHM Polska Miedź S.A. was actively involved in broad consultations accompanying the process of developing the Copper Mark standards, in which it presented its own observations on the wording and content of the standard. Obtaining the Copper Mark is required for KGHM Polska Miedź S.A. to continue its free commercial exchange, in particular to ensure easier maintenance of its registration of cathodes on the London Metal Exchange (LME), which is introducing additional responsible supply chain requirements in 2021. Creation of the Copper Mark standard is a response of the copper industry to the expectations and requirements of the broad group of stakeholders (commodity exchanges, investors, financial institutions, non-government organisations, etc.) regarding the compliance of registered copper producers with the principles of socially responsible business as well as with ethical, environmental and organisational standards. In 2020, the Management Board of KGHM Polska Miedź S.A. adopted a resolution giving its consent to launch the process of acquiring the right to use the Copper Mark by its selected Divisions. The agreement signed on 17 July 2020 by KGHM Polska Miedź S.A. and The Copper Mark and the Letter of Commitment signed on the same date constitute a commitment of KGHM Polska Miedź S.A. to go through the whole accreditation process to confirm compliance with the requirements of the Copper Mark standard in 2021.

In 2018, the Management Board of KGHM Polska Miedź S.A. adopted the 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 domestic and international companies of the KGHM Polska Miedź S.A. Group, the Anticorruption Policy and the Corruption Threat Prevention Procedure in the KGHM Polska Miedź S.A. Group were updated. The Procedure sets forth in

detail the standards of conduct in situations, in which corruption may arise and points to criminal responsibility for violations. It is applied in order to minimise the risk of corruption and situations that encourage corruption, including the conflict of interest, which may arise during the functioning of the KGHM Group. The Business Gifts Instruction is attached to the procedure.

In 2019, the wording of the procedure regulating conflicts of interest and acceptable gifts was updated. In the Divisions and in seven of the domestic companies, units for overseeing security and loss prevention were created, whose operations are regulated by the Instruction implemented in 2020. Ethics and Anticorruption Representatives have been appointed in all of KGHM's entities, domestic and international. In 2019, the Procedure for Disclosing Improprieties and Protecting Whistleblowers in the KGHM 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 improprieties representing an abuse of regulations applied in the KGHM Group, in particular the Code of Ethics of the KGHM Group, the Security Policy, the Anticorruption Policy and the Corruption Threat Prevention Procedure.

In 2019, an additional channel for whistleblowers was launched – the "KGHM Ethics Line" platform available on the corporate website for both employees and third parties, including contractors and customers. The platform is available in four languages – Polish, English, Spanish and Russian. It enables the anonymous disclosure of improprieties and is an alternative channel for other forms of contact – telephone lines, email addresses and addresses for correspondence.

Entities of the KGHM Polska Miedź S.A. Group implemented an Internal Control Procedure for the Security and Loss Prevention Section at KGHM Polska





Miedź S.A. Audits conducted by the Security and Loss Prevention Section comprise the identification and uncovering of fraud, improprieties, abuse, corruption, personal abuse and breaches of the Group's Code of Ethics.

A review of business partners, including in terms of corruption risk and the possible conflicts of interest, is conducted in accordance with the "Procedure of review in procurement, sales and investment proceedings" implemented in 2019 and pursued by the Security Department at KGHM Polska Miedź S.A.

In 2020, the Management Board of KGHM Polska Miedź S.A. decided to implement the Anticorruption Management System in the Divisions and Head Office of KGHM Polska Miedź S.A. and in the Subsidiaries in accordance with the PN-ISO 37001:2017 standard. The decision was followed by a series of training workshops for employees, including training for prospective internal auditors and Representatives on the Anticorruption Management System in accordance with PN-ISO 37001:2017. The implementation is planned at the end of 2021.

In 2020, the Group developed and published the "ABCs of Conflict of Interest. Ethics Manual of KGHM Polska Miedź S.A.". The publication presents a concise description of

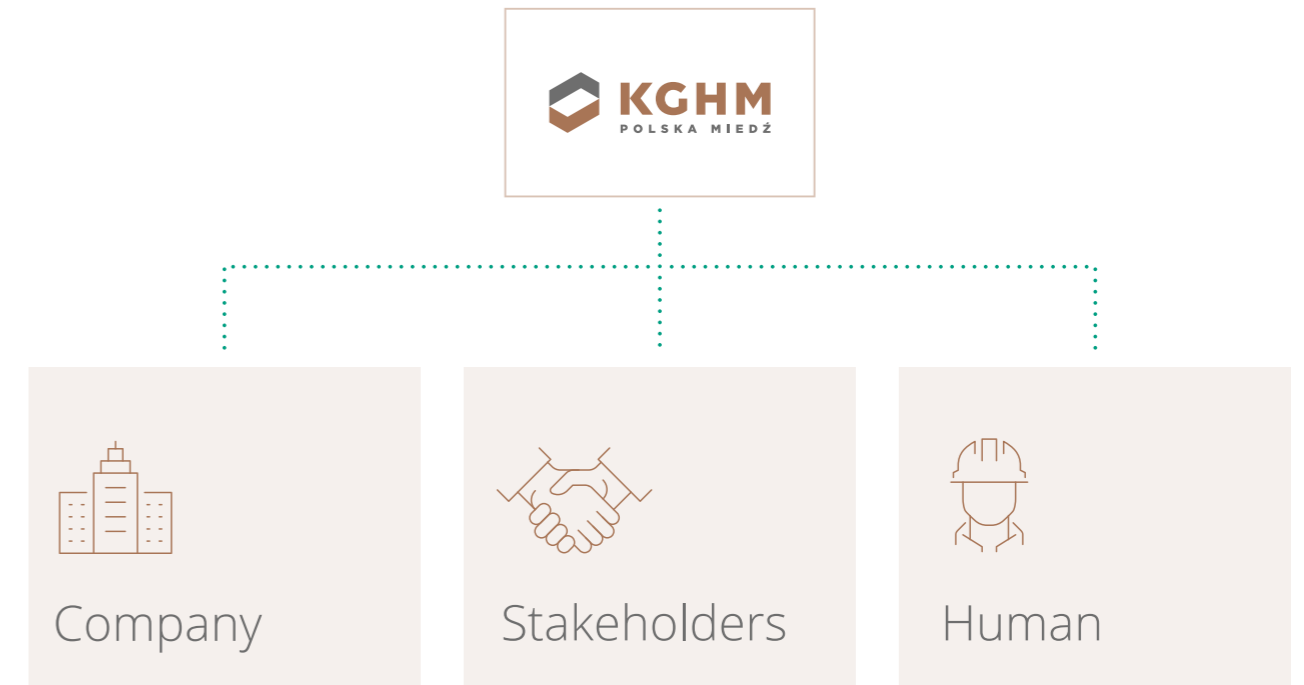
the conflict of interest and the Company's regulations for preventing this phenomenon. It contains a questionnaire, with which any employee may check for themselves whether the issue of conflict of interest applies to them.

The KGHM Polska Miedź S.A. Group also implemented an Anti-Personal Abuse Procedure, enabling the effective prevention of personal abuse in the workplace. In the area of preventing personal abuse, discrimination and violation of employee rights, the employer is supported by Ethics Committees appointed in KGHM Polska Miedź S.A. Group entities, which investigate suspicions of breaches of ethical standards in place in the KGHM Group.

The work to support and raise ethical and corporate governance standards will continue in 2021.

The fundamental Ethical Standards are implemented through the principles of ethical conduct, which are described in the diagram below:

### KEY ETHICAL STANDARDS TRANSLATING INTO PRINCIPLES OF CONDUCT IN KGHM POLSKA MIEDŹ S.A.



"The Code of Ethics of the KGHM Group is aligned with our vision of building a modern firm capable of handling challenges. It is one of the pillars of KGHM's organisational culture, which is deeply rooted in the mining and metallurgical traditions. They constitute the genetic code of our community, building its professional identity. As a global leader of the mining industry, we are committed to the highest ethical standards. As an

international corporation we also appreciate the challenges resulting from the richness of the national cultures within which we operate".

**Andrzej Skąlecki**  
Executive Director for Security and Loss Prevention

**KEY ETHICAL STANDARDS TRANSLATING INTO PRINCIPLES OF CONDUCT IN KGHM POLSKA MIEDŹ S.A.**



The communication and implementation of Ethical Standards in the KGHM Polska Miedź S.A. Group is facilitated by a system of codes, policies and procedures. Their implementation satisfies global corporate governance standards as well as the increasing expectations of our stakeholders, including our clients and financial institutions.

In accordance with the best corporate governance practices, we have adopted the following principles, policies and instructions, which introduce global, unified standards adapted to the laws applicable in all jurisdictions in which the entities of the KGHM Polska Miedź S.A. Group operate.

<p>Compliance Management Policy in the KGHM Polska Miedź S.A. Group.</p>	<p>The Compliance Management Policy of the KGHM Polska Miedź S.A. Group sets forth the framework of the compliance management system and the approach encompassing the whole organisation, based on recognised international standards and best industry practices. The solution selected to build the compliance system has been adapted to the unique nature of operations of the KGHM Polska Miedź S.A. Group and is an important business tool used to prevent occurrences that might result in sanctions being imposed on the Group. It enables systematic identification, assessment and analysis of the risk of non-compliance or possible illegality with the generally applicable law, internal corporate regulations and voluntarily adopted legal obligations and standards, including ethical norms, to ensure that the process produces a design and an implementation of measures ensuring compliance.</p>
<p>Competition Law Policy in the KGHM Polska Miedź S.A. Group</p>	<p>The goal of the Competition Law Policy is to create a functional framework for a system that will enable the KGHM Polska Miedź S.A. Group to remain in conformity with the competition laws which are applicable in all the countries in which it operates. In this way, the KGHM Polska Miedź S.A. Group accepts the commitment to compete in the markets in a legal and ethical manner and to prevent, counteract and detect any violations in accordance with the applicable law.</p>
<p>Procurement Policy in the KGHM Polska Miedź S.A. Group</p>	<p>The goal of the Procurement Policy is to set out the key principles, which should guide all the participants of the procurement process in the KGHM Polska Miedź S.A. Group and adopt general regulations governing this process. The policy sets forth supervisory measures mitigating the risk of irregularities in the procurement process.</p>
<p>Anti-Corruption Policy in the KGHM Polska Miedź S.A. Group</p>	<p>The Anticorruption Policy establishes basic principles and standards, whose goal is to prevent any breaches of the anticorruption laws in the jurisdictions in which the KGHM Polska Miedź S.A. Group operates. The Group applies a zero tolerance policy towards corruption and bribery. The Policy also regulates the issue of making reports on violations, which constitute corruption or may cause corruption.</p>
<p>Responsible Supply Chain Policy in the KGHM Polska Miedź S.A. Group</p>	<p>The Responsible Supply Chain Policy is aimed at securing the selection of only responsible suppliers, especially in the case of acquiring so-called conflict minerals (gold, tin, tungsten and tantalum) and at ensuring that the merchandise and services purchased by the KGHM Polska Miedź S.A. Group are not utilised to finance terrorism, and are manufactured or provided in accordance with laws respecting basic human rights, labour standards, protecting the environment and counteracting corruption.</p>
<p>Security Policy in the KGHM Polska Miedź S.A. Group</p>	<p>The Security Policy sets forth common principles and goals for the entities and organisational units of the KGHM Group related to security and loss prevention. Pursuant to its clauses, all of the KGHM Group's employees operate in accordance with basic principles: professional integrity, accuracy in the execution of official duties, loyalty to the employer, a results oriented approach, courage, teamwork, accountability, shared responsibility for security and loss prevention and avoidance of actions harmful to the employer.</p>



In order to standardize the approach to ensuring compliance defined as observance of the requirements arising from the applicable legal (external and internal) regulations or voluntarily assumed legal obligations and standards, the Management Board of KGHM Polska Miedź S.A. adopted the Compliance Management Policy at the KGHM Polska Miedź S.A. Group and the Compliance Management Procedure and Methodology at KGHM Polska Miedź S.A. in 2020. A consistent compliance system in the KGHM Polska Miedź S.A. Group is an element of effective management as part of corporate governance through e.g. a more efficient response and readiness for regulatory changes, care for reputation and ethical culture building in the organisation as well as awareness raising and enhancement of the sense of responsibility for compliance among employees. The work supporting and raising standards of the compliance function will be continued in 2021.

In order to improve the standards of compliance with the competition law, in 2020 the Management Board of KGHM Polska Miedź S.A. adopted the Instructions to prevent violations under competition law, which expand

on and detail the Competition Law Policy in the KGHM Polska Miedź S.A. Group, which was updated in 2019. In December 2020, a training was conducted for Local Competition Law Representatives in the KGHM Polska Miedź S.A. Group. The work supporting and raising the standards of compliance with the competition law will continue in 2021.

In 2020, the Procedure for assessing the supply chain for gold and silver in KGHM Polska Miedź S.A. was updated to increase the efficiency of the process while maintaining compliance with the current LBMA Responsible Gold Guidance V8 and LBMA Responsible Silver Guidance V1. The system for managing the responsible gold and silver supply chain is subject to an annual, independent, external assessment to confirm 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. and the Report on an independent assurance service is available on the website at: <https://kghm.com/pl/biznes/produkty/odpowiedzialny-lancuch-dostaw>.



In previous years, KGHM Polska Miedź S.A. was actively involved in broad consultations accompanying the process of developing the Copper Mark standards, in which it presented its own observations on the wording and content of the standard. Obtaining the Copper Mark is required for KGHM Polska Miedź S.A. to continue its free commercial exchange, in particular to ensure easier maintenance of its registration of cathodes on the London Metal Exchange (LME), which is introducing additional responsible supply chain requirements in 2021. Creation of the Copper Mark standard is a response of the copper industry to the expectations and requirements of the broad group of stakeholders (commodity exchanges, investors, financial institutions, non-government

organisations, etc.) regarding the compliance of registered copper producers with the principles of socially responsible business as well as with ethical, environmental and organisational standards. In 2020, the Management Board of KGHM Polska Miedź S.A. gave its consent to launch the process of acquiring the right to use the Copper Mark by its selected Divisions. The agreement signed on 17 July 2020 by KGHM Polska Miedź S.A. and The Copper Mark and the Letter of Commitment signed on the same date constitute a commitment of KGHM Polska Miedź S.A. to go through the whole accreditation process to confirm compliance with the requirements of the Copper Mark standard in 2021.

## SECURITY AND LOSS PREVENTION SYSTEM IN THE KGHM POLSKA MIEDŹ S.A. GROUP

[GRI 102-17] [GRI 205-1] [GRI 205-3] [GRI 205-2]

KGHM Polska Miedź S.A. takes ongoing actions to support and raise standards under the Security and Loss Prevention System in the KGHM Polska Miedź S.A. Group introduced in 2018.

The system is designed first of all to protect the employer's interests by preventing acts that expose the company to material loss and reputational harm, and secondly to optimize expenses and investments to generate savings for the KGHM Polska Miedź S.A. Group. The key elements of the system include:

- defined procedures and control mechanisms,
- standardisation of procedures and processes in the aforementioned area across the KGHM Group,
- effective prevention of abuse that can lead to losses for the KGHM Group.
- effective detection of committed abuse, inspection and control activities and implementation of corrective mechanisms,
- anti-corruption
- improving the ethical awareness of employees.

The Security and Loss Prevention Section in the KGHM Polska Miedź S.A. Head Office is responsible for the implementation, functioning and oversight of the system. Currently, the Section is made up of two Departments:

- The Security Department, in which, among others, the Ethics and Anti-Corruption Procedures Unit, the Loss Prevention and Control Unit, and the Physical and Technical Security Unit have been established.
- The Supply Chain Security Department, in which the Supply Chain Monitoring Unit and the Analyses Unit have been established.

In 2018, Ethics and Anticorruption Representatives were appointed in the Divisions and the Polish and international subsidiaries of the KGHM Group. Their work is monitored, supervised and coordinated by the Ethics and Anticorruption Representative for the KGHM Group (as per the applicable procedure, the function is discharged by the Director of the KGHM Security Department).

In the years 2019-2020, security and loss prevention units were established in KGHM Polska Miedź S.A. Divisions and in seven companies in Poland selected on the basis

of their level of expenses and domestic threats. The unit heads are responsible for implementation and supervision over the security and loss prevention system, ethics and anticorruption procedures, supply chain security and physical and technical security. They report to the Executive Director for Security and Loss Prevention in KGHM Polska Miedź S.A.

Since 2017, regular security and loss prevention training has been organised, which included the topics of corruption prevention and conflict of interest, for employees of all KGHM Group entities. The training covers all employees newly employed in KGHM Group entities. Topical training is also organised. In 2018, a specialised training course was carried out, addressed to senior management and their representatives (40 people). All materials and instructions are readily available to Employees on the corporate Intranet site via a dedicated tab devoted to ethics and corruption prevention.

In 2019, on-site training on anticorruption was conducted by an expert from the Central Anticorruption Bureau for persons in managerial and executive positions as well as persons responsible for the procurement processes in companies in the KGHM Group. 5 training courses were held in total, attended by 143 persons.

Regular meetings and training sessions are also organised for the Ethics and Anticorruption Representatives (40 persons). 5 such training sessions were held in 2020. The objective was to improve the abilities of the Representatives and to share knowledge. The Representatives are responsible for the organisation and performance of training sessions on ethics and anticorruption in KGHM Group companies.

In 2020, KGHM Polska Miedź S.A. (the Head Office and the Divisions) launched two e-learning training modules on ethics, prevention of irregularities (in particular, corruption, abuse, and discrimination) and receiving whistleblower reports in its Head Office and Divisions:

1. for senior management, the Ethics and Anticorruption Representatives and Members of the Ethics Committee – 636 people completed the training and 98 are currently undergoing the training (as at 31 December 2020).
2. for remaining employees with access to the e-learning platform – the training was completed by 4452 people and 1207 are currently in training (as at 31 December 2020).

Because of the decision of the Management Board to implement the Anticorruption Management System in the Divisions and Head Office of KGHM Polska Miedź S.A. and in the Subsidiaries in accordance with the PN-ISO 37001:2017 standard, online training workshops were conducted in the last quarter of 2020 on the requirements



of this standard for Ethics and Anticorruption Representatives and Management System Representatives in KGHM Polska Miedź S.A.

- Practical interpretation of the requirements of the Anticorruption Management System standard according to ISO 37001: 3 one-day training sessions, number of participants: 71;
- Internal Auditor of the Ethics and Anticorruption Management System based on the international standard ISO 37001, the KGHM Polska Miedź S.A. Code of Ethics and the draft standard ISO/DIS 37002:2020: 2 two-day training sessions, number of participants: 34;
- Anticorruption Management System Representative according to ISO 37001: 1 two-day training, number of participants: 17;

In 2019-2020, a number of communication activities were also carried out, addressed to the employees of the KGHM Group, promoting ethical standards and contributing to the culture of the organisation:

- 6 educational films were published on the topic of the Code of Ethics, abuse prevention, the Whistleblower Platform and protection of Whistleblowers, rules of acceptance and giving of business gifts, as well as prevention of corruption and conflict and interest,

- several articles on related topics were published in the internal Curier magazine and in the Group's Intranet,
- a special supplement focusing on Whistleblowers was published in Curier,
- the updated Anticorruption Manual was published in an electronic version,
- "ABCs of Conflict of Interest. Ethics Manual of KGHM" was developed, published and distributed; the publication presents a concise description of the conflict of interest and the company's regulations for preventing this phenomenon.
- a questionnaire has been developed allowing employees to carry out on their own a voluntary, individual assessment of the risk of conflict of interest,
- an information campaign on the handing of business gifts was conducted.

## THE CODE OF ETHICS OF THE KGHM POLSKA MIEDŹ S.A. GROUP [GRI 102-16]

The fundamental document of the Security and Loss Prevention System of the KGHM Group is the KGHM Polska Miedź Code of Ethics, the amended and extended version of which was adopted by a Resolution adopted by the Management Board of KGHM Polska Miedź S.A. in June 2018. It is the basis for actions and conduct in the Group, hence the frequent reference to the Code in this document.

The KGHM Group's Code of Ethics is based on the aforementioned values and constitutes a guidepost for all the decisions and actions taken in the Parent Entity and the KGHM Group. There are supporting acts regulating the areas of: prevention of corruption, prevention of conflict of interests, security and transparency of procurement processes, verification of external counterparties and prevention of employee rights violations, including discrimination and abuse. The Code of Ethics of the KGHM Group is a collection of rules applicable to the employees of the Parent Entity, KGHM Group companies and cooperating entities. It is one of the pillars of KGHM's organisational culture, deeply rooted in mining and smelting traditions. They constitute the genetic code of our community, building its professional identity.

The KGHM Group's Code of Ethics aims to ensure that the employees follow the highest standards based on the adopted values. The status of a global leader and international corporation obligates us to keep the highest business ethics standards. It is also related to the challenges resulting from the richness of national cultures within which we operate.

### KGHM POLSKA MIEDŹ S.A. CODE OF CONDUCT (CODE OF CONDUCT)

In keeping with current business practice, including in the mineral resource industry, our business partners, suppliers, customers and stakeholders expect companies to have clearly declared ethical regulations.

In June 2018, the Management Board of KGHM Polska Miedź S.A. adopted the KGHM Polska Miedź S.A. Code of Conduct. By doing this, the Company declared its commitment to sustainable development and respect for principles of ethics and transparency and best industry practices of socially and environmentally responsible enterprises. The Code of Conduct is based on the KGHM Group Code of Ethics. Both documents regulate standards of conduct observed by the Company. The Codes are an integral, mutually interconnected whole, based on consistent assumptions and values followed by the Company.

The Code of Conduct is a powerfully practical document. Its purpose is to be a guide and support for the employees, showing where to look for answers and who to approach if in doubt about decisions made in everyday situations. The Code of Conduct provides an easy to understand presentation of the Company's values for all employees, regardless of their position.

The idea of adopting and pursuing the Code of Conduct and the Code of Ethics was presented in 2018 and is continuously repeated to employees via the internal portal (intranet: "KGHM to My" at extranet.kghm.com). The Codes are distributed in the printed version during training sessions held by the Ethics and Anticorruption Representatives in all Divisions and Companies of the KGHM Polska Miedź S.A. Group. The Code of Conduct and the Code of Ethics are published for the general audience on [www.kghm.com](http://www.kghm.com), in the Investors/Corporate Governance/Code of Ethics and ESG Code of Conduct tab: <https://kghm.com/pl/inwestorzy/esg>.

### ETHICS COMMITTEES IN THE KGHM POLSKA MIEDŹ S.A. GROUP

Every KGHM Group Entity establishes an Ethics Committee. The primary task of the Committee is to conduct investigations in response to reports on irregularities consisting in violation of the ethical standards defined in the Code of Ethics, and to recommend corrective and disciplinary actions to the workplace manager.

A report can be filed by:

1. every Employee who has been harmed by actions described in the list of issues reportable to the Ethics Committee;
2. every person who has witnessed actions described in the list of issues reportable to the Ethics Committee;

The investigation conducted by the Committee covers issues that require determination of the actual facts of the matter, in other words disputable issues or those having unclear causes. The investigation is not in conflict with, nor does it replace, the right to pursue claims in accordance with generally applicable laws. Members of the Committee are obliged to resolve the breaches of ethical principles given in the KGHM Group Code of Ethics in an impartial and efficient manner, giving equal treatment to all parties to the proceedings. The Committee operates pursuant to its Regulations, and observing the generally applicable laws and internal regulations of a given KGHM Group Entity.



The list of issues reportable to the Ethics Committee is as follows:

1. actions displaying features of abuse, discrimination, harassment or other type of unequal treatment of the Company's employee or a group of employees;
2. breaches of employee duties arising from the Labour Code as well as internal regulations of a given KGHM Group Entity, regardless of the position held;
3. breaches of the rules of community life;
4. improper performance of professional duties;
5. unethical behaviour towards other employees and third persons in the work place and outside of the working hours;
6. exposing the good name of the Company to harm.

**PROCEDURE FOR DISCLOSING IMPROPRIETIES AND PROTECTING WHISTLEBLOWERS IN THE KGHM POLSKA MIEDŹ S.A. GROUP [GRI 102-17]**

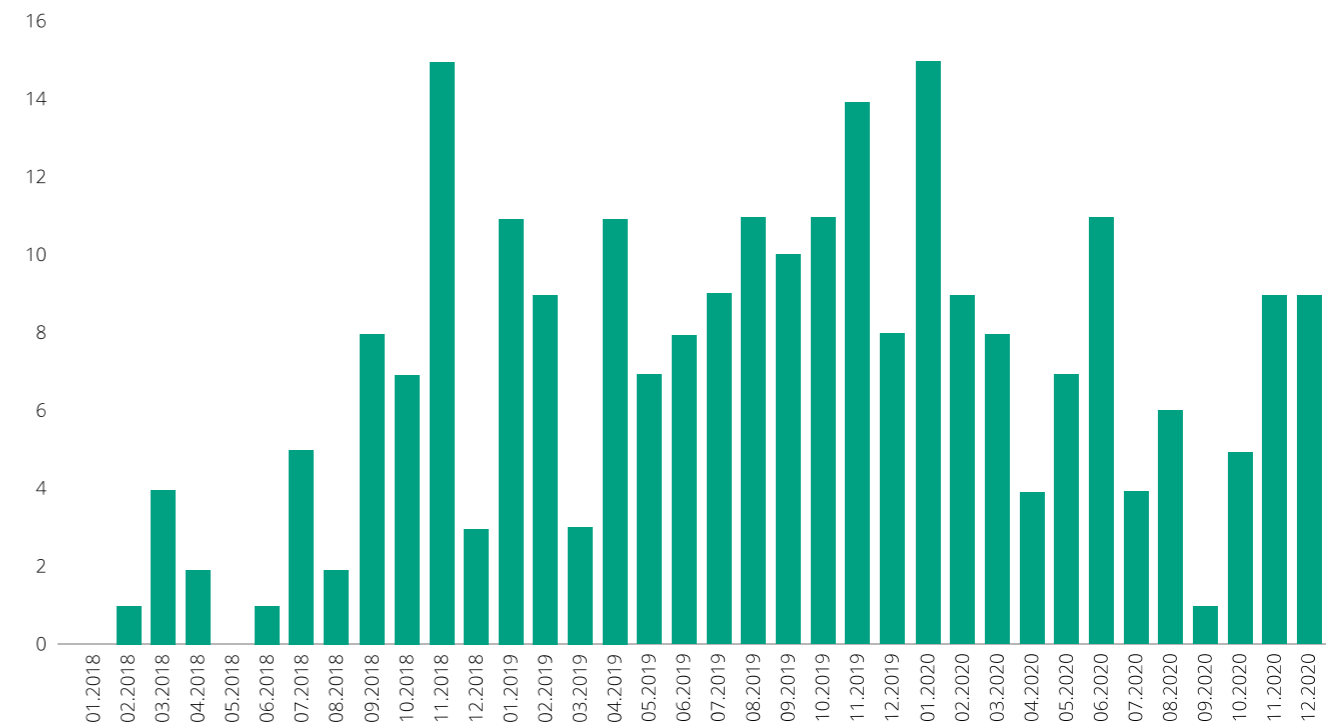
In order to enable effective detection of breaches, confidential channels for reporting of irregularities by so called Whistleblowers have been created, both within the Company, as well as from outside of its organisation. Persons who report irregularities and who do so in good faith and non-anonymously (Whistleblowers) are protected under the KGHM Group Procedure of Disclosing Irregularities and Protection of Whistleblowers. Anonymous reports are also accepted and followed up. The channels allow reporting without disclosing one's personal details.

In 2019, the Procedure for Disclosing Improproprieties and Protecting Whistleblowers in the KGHM Group was 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 improprieties representing an abuse of regulations applied in the KGHM Group, in particular the Code of Ethics of the KGHM Group, the Security Policy, the Anticorruption Policy and the Corruption Threat Prevention Procedure. In 2019, an additional channel for whistleblowers was launched – the "KGHM Ethics Line" platform available on the corporate website for both employees and third parties, including contractors and customers. The platform is available in four languages – Polish, English, Spanish and Russian. It enables the anonymous disclosure of improprieties and is an alternative channel for other forms of contact – telephone lines, email addresses and addresses for correspondence.

The charts below show the increase in Whistleblower reports in the 2018-2020 period, with events that affected the result marked on the timeline, as well as the procedure, which is followed in the event of a breach of ethical principles in the KGHM Group:

**NUMBER OF REPORTS OF BREACH OF ETHICAL PRINCIPLES IN THE KGHM POLSKA MIEDŹ S.A. GROUP IN 2018-2020**



**PROCEDURE FOLLOWED IN THE EVENT OF A BREACH OF ETHICAL PRINCIPLES IN THE KGHM POLSKA MIEDŹ S.A. GROUP**



1

Have you witnessed breaches of ethical principles?



2

Report it to your superior or use the confidential channels.



3

Our employees will take appropriate actions and maintain full discretion.



### ANTICORRUPTION POLICY IN THE KGHM POLSKA MIEDŹ S.A. GROUP [GRI 102-17]

The Anticorruption Policy in effect in the KGHM Polska Miedź S.A. Group was adopted in July 2018, pursuant to the Resolution of the Management Board of KGHM Polska Miedź S.A. The Policy establishes detailed standards of conduct in corruption-prone situations and identifies the criminal liability in case of abuse. The KGHM Polska Miedź S.A. Group underscores its commitment to fighting corruption in business, by the way of adopting and uncompromising observance of the “zero tolerance for corruption and bribery” rule.

Employees are prohibited from offering or accepting any material benefits in relation to the performance of professional duties. The only exception is giving and accepting business gifts in line with the local norms and cultural customs, provided that the giving and accepting of gifts cannot lead to a situation in which such behaviour could be considered as an attempt to exert pressure or persuade the recipient to act against their duties. Detailed rules pertaining to giving and acceptance of customary business gifts have been defined as the Corruption Threat Prevention Procedure, laid out in the form of instructions. Employees are required to avoid any actions or decisions in a situation of a conflict of interests. Particular control under the Policy is over business procurement transactions, including an option of a third party audit, in order to ensure that such transactions meet the highest standards of ethical and transparent business operations.

The Policy also states that the Group entities and their representatives are obliged to observe all statutory provisions, guidelines of state administration and other authorities, as well as domestic and international anticorruption laws. The Policy also states that KGHM Polska Miedź S.A. and the Group Entities and cooperating entities are obliged to follow international legal acts designed to fight corruption, e.g. the U.K. Bribery Act of 2010, the U.S. Foreign Corrupt Practices Act, Canadian Corruption of Foreign Public Officials Act of 1999 and guidelines contained in international agreements, e.g. the OECD Convention or the guidelines of UN Global Compact as regards responsible business and fight with corruption.

The document stipulates that Employees of the Group and external partners are obliged to report any suspicion of breaches to the Policy and the Corruption Threat Prevention Procedure, directly to the Security Department of KGHM Polska Miedź S.A. or via the dedicated channels of abuse reporting. Every report is confidential and followed up with due diligence. The KGHM Polska Miedź S.A. Group uses a range of tools to effectively implement the Policy's objectives, including first of all procedures, instructions, remedies and control mechanisms, which

specify in detail the standards of conduct in corruption-prone situations and situations in which accountability for abuse may be involved.

The Group's employees and its representatives are obliged to follow and apply both the Anticorruption Policy as well as the accompanying documents referred to above, in particular the Corruption Threat Prevention Procedure.

### CORRUPTION THREAT PREVENTION PROCEDURE IN THE KGHM POLSKA MIEDŹ S.A. GROUP

The procedure was adopted by the Management Board of KGHM Polska Miedź S.A. in July 2018. Provisions of the Corruption Threat Prevention Procedure are applied in order to minimise the risk of Corruption and to limit all corruption-related phenomena which could arise in relation to the functioning of the KGHM Group. The Procedure further elaborates on the provisions of the KGHM Group Anticorruption Policy. The rules defined in the Procedure are addressed to all Employees, as well as Representatives, and are applicable in contacts with clients, counterparties and State authorities. The Procedure stipulates precisely the proper manner of conduct, remedies and control mechanisms, which together with other regulations of the Policy make up the Corruption Threat Prevention System. Employees of KGHM Group companies and its representatives are obliged to observe all statutory provisions, guidelines of state administration and other authorities, as well as acts of relevant organisations, in which the KGHM Group entity is a member, addressing anticorruption principles and measures. Employees are familiarised with the content of the Anticorruption Policy and the Corruption Threat Prevention Procedure at the time of hiring and periodically, as part of classroom and e-learning training courses.

The Security Department Director plays the role of the Ethics and Anticorruption Representative in the KGHM Group and is responsible for supervision of the implementation and compliance with the Procedure. The Ethics and Anticorruption Representatives were appointed in the Polish and international subsidiaries, the KGHM Polska Miedź S.A. Head Office and the KGHM Polska Miedź S.A. Divisions in order to monitor the implementation of the anti-corruption regulations.

Undertaking, participation in, promotion of, and inciting to any kind of corruptive actions is strictly forbidden. The conduct, which is considered in the KGHM Polska Miedź S.A. Group to constitute corruption includes:

- bribery
- influence peddling
- unacceptable preferential treatment – an action

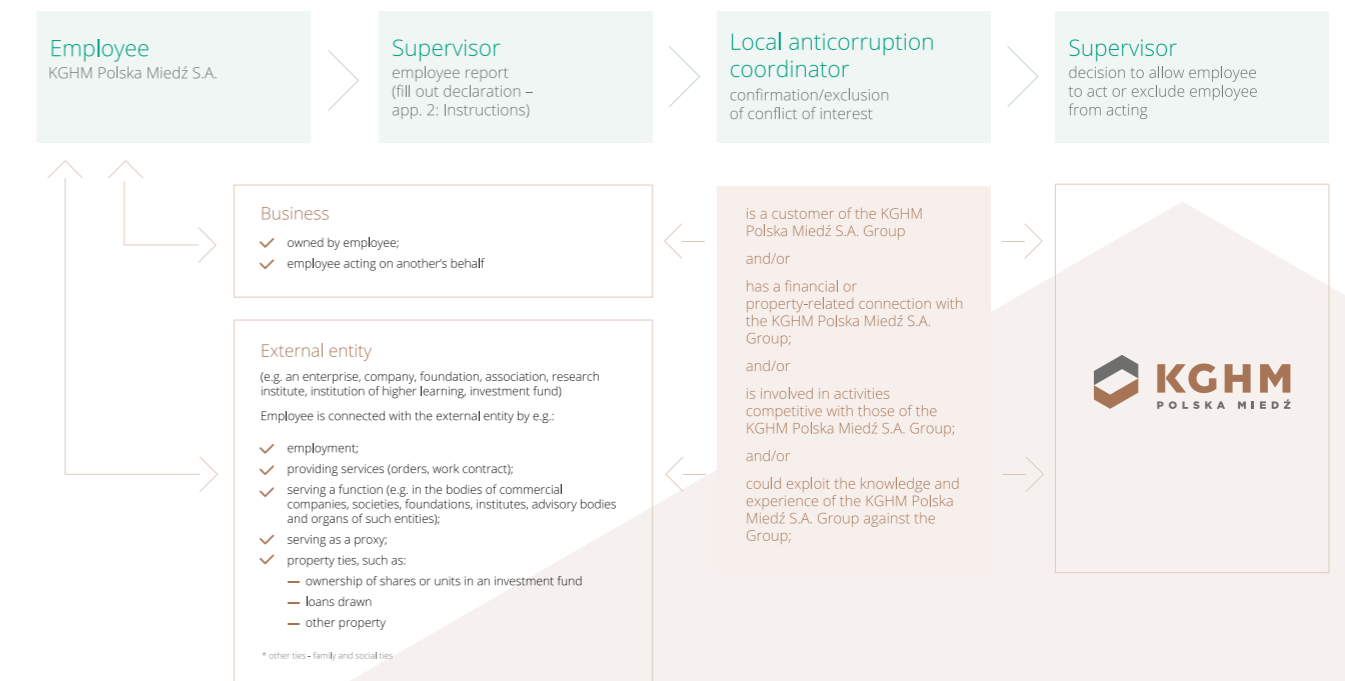
leading to putting a counterparty, product or service in a privileged position, extended against the interests of the KGHM Group, in return for providing, or a promise to provide, material benefit;

- abuse of authority;
- negligence;
- receipt of benefits;
- receipt of a promise;
- making performance of a professional duty conditional;
- demand of benefits;
- conflict of interests;
- nepotism;

- cronyism;
- thwarting or impeding a public tender.

The algorithm for reporting conflicts of interests, including a list of situations that may lead to a conflict of interests, is shown in the diagram below:

### THE PLAN OF ACTION FOR REPORTING A CONFLICT OF INTERESTS, INCLUDING A LIST OF SITUATIONS THAT MAY LEAD TO A CONFLICT OF INTERESTS IN THE KGHM POLSKA MIEDŹ S.A. GROUP





## BUSINESS GIFTS INSTRUCTION

Attached to the Corruption Threat Prevention Procedure is the Business Gifts Instruction, adopted in 2018. Offering or receiving business gifts is a frequent way of expressing mutual kindness and respect by business partners. Therefore, in principle an exchange of gifts in purely business relations is allowed, provided that:

- the gift is in line with customary business practice;
- the gift is compliant with the law.

Failure to observe the rules laid down in the Instruction may lead to a conflict of interests and undermine confidence in business decisions made by the gift recipients.

The Instruction does not replace the rules laid down in other internal acts of KGHM Polska Miedź S.A. (e.g. the KGHM Polska Miedź S.A. Group Procurement Policy), but rather provides further clarifications.

In 2020, KGHM Polska Miedź S.A. created a Valuable Gifts Storage in its Head Office and implemented the Instructions for running the storage. Every employee, in a situation, in which a refusal to accept a gift, whose value exceeds the accepted threshold, was not possible for important reasons, is obligated to transfer such a gift to the storage warehouse. The gifts transferred to the Storage are donated to charity.

## PROCUREMENT POLICY OF THE KGHM POLSKA MIEDŹ S.A. GROUP

KGHM Polska Miedź S.A. is guided by high ethical standards across the procurement process. The Code's main message is to guarantee the professionalism and honesty of the persons responsible for the procurement processes. The document also contemplates issues such as preventing conflicts of interest as well as equal treatment of suppliers to ensure compliance with the principles of fair competition.

The procurement procedures in effect in KGHM are precisely defined in the Procurement Policy and business partners are selected in accordance with the principle of equal treatment.

In tender documentation, the Company reserves the right to audit its suppliers and to assess their activities in terms of compliance with human rights and regulations governing the hiring of minors. External entities are also checked in order to secure the interests of KGHM, in the context of money laundering, breaches of fair competition rules, prevention of conflict of interests, etc.

## PROCEDURE OF COUNTERACTING MONEY LAUNDERING AND PREVENTION OF FRAUD AND EXTORTION IN TRADING TRANSACTIONS REGARDING THE SALE OF PRODUCTS AND THE PROCUREMENT OF ORE AND COPPER-BEARING MATERIALS IN KGHM POLSKA MIEDŹ S.A.

KGHM uses a diverse range of external counterparty verification in the procurement, sales and investment processes, which are regulated by a number of consistent and uniform internal policies and procedures. The procedure of counteracting money laundering and prevention of fraud and extortion in trading transactions regarding the sale of products and the procurement of ore and copper-bearing materials in KGHM Polska Miedź S.A. addresses the verification measures taken by the Company when it enters into trading transactions.

To protect its image and the Company's security, KGHM takes measures to prevent the Company from being used by third parties for unlawful purposes, such as money laundering, financing of terrorism, or VAT extortion.

The security measures undertaken in this respect consist of:

- client identification and verification of its identity based on the data provided by the client, publicly available information and/or reports of credit bureaus;
- undertaking, with due diligence, actions to determine the ownership as well as organisational structures or the client's links to other entities, in order to identify the Beneficial Owner of the transaction and verify its identity, using publicly available information and/or reports of credit bureaus;
- obtaining information on the client's objective and intended character of the business relationship, using publicly available information;
- monitoring of the business relationship with the client, including completed transactions, in order to check if they are consistent with the Company's knowledge of the client and its business profile, and - if possible - examining the source of funds.

## PROCUREMENT PROCESS CONTROL INSTRUCTION OF THE SUPPLY CHAIN SECURITY DEPARTMENT OF THE KGHM POLSKA MIEDŹ S.A. GROUP

The Instruction has been issued as an Appendix to the Internal Control Procedure of the Security and Loss Prevention Section of the KGHM Polska Miedź S.A. Group. Pursuant to the Organisational Regulations of KGHM Polska Miedź S.A., tasks of the Supply Chain Security Department include: control of the transparency of procurement processes, monitoring of procurement processes with increased risk of abuse and control of completed procurement processes - if abuse is suspected - to verify the correctness of those processes and detect corruption threats.

The document regulates a detailed scope of activities of the Supply Chain Security Department, resulting from the aforementioned tasks, and incorporating the stipulations of the KGHM Polska Miedź S.A. Procurement Policy. The Instruction also applies to procurement excluded from the Procurement Policy which has not been regulated in other internal Company acts – to the extent allowed by the unique specificity of individual procurement processes. For procurement excluded from the Procurement Policy which is regulated by other internal Company acts, the control activities proceed in accordance with those acts.

## ANTI-ABUSE PROCEDURE OF THE KGHM POLSKA MIEDŹ S.A. GROUP

The procedure was adopted by Resolution of the KGHM Polska Miedź S.A. Management Board in September 2018. The objective of the Procedure is to prevent abuse at work, by way of implementation of a prevention system and definition of a procedure to be followed if abuse does occur. The procedure is designed to build and enhance an organisational culture based on good interpersonal relations between and among employees.

The procedure describes a catalogue of actions designed to prevent abuse, actions to be taken if abuse does occur, and defines obligations of the employer and employees in this respect. The Procedure applies to all employees of KGHM Polska Miedź S.A. Group companies, regardless of the type of contract or position held. Every employee who believes they have experienced abuse or have witnessed behaviour displaying features of abuse, has the right to lodge an Abuse Report. An Abuse Report is lodged in a process defined in the Procedure of Disclosing Irregularities and Protection of Whistleblowers, using dedicated channels, subject to the stipulation that in this case the personal details of the reporting employee, the employee/employees who may have been subjected to

abuse and the employee/employees who have committed actions or behaviour displaying the features of abuse, must be disclosed. The case is examined by the Ethics Committee of the relevant entity of the KGHM Group.

Employees are familiarised with the content of the procedure at the time of hiring and periodically, as part of classroom and e-learning training courses.

Compliance with the Procedure is supervised by the work place manager, who is also responsible for the appointment of the Ethics Committee members. The Committee carries out the proceedings related to abuse initiated on the basis of an Abuse Report. The Ethics and Anticorruption Representative plays an important role in counteracting abuse. The Ethics and Anticorruption Representative conducts preventive actions, including organisation of training for Employees, participates in investigation of the abuse reports, is responsible for receiving the reports and initiating further proceedings in accordance with the Procedure of Disclosing Irregularities and Protection of Whistleblowers. A number of abuse reports that have been examined by the Ethics Committee pertained mostly to conflicts at the work place. Early detection of such cases, possible thanks to the solutions implemented by KGHM, has helped to avoid escalation and prevented occurrence of abuse.

## PERSONAL DATA PROTECTION POLICY IN KGHM POLSKA MIEDŹ S.A.

In 2018, the Management Board of KGHM Polska Miedź S.A. adopted by resolution a Personal Data Protection Policy. The Policy lays down the rules of processing and securing personal data in KGHM Polska Miedź S.A., pursuant to Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation, hereinafter: GDPR). The Policy has been adopted to ensure that data processing in KGHM proceeds in compliance with the GDPR and other personal data protection regulations, and to be able to demonstrate this compliance. The Policy is subject to reviews and updates, in keeping with the rules laid down therein. Under the Policy, the object of protection is personal data, processed in IT systems, as well as recorded otherwise on media, including paper form and electronic media. The places where personal data is so processed must be secured in a manner defined by the Policy. The Policy applies to all the personal data processed in KGHM for the purposes of the Company's activities. The duty to protect personal data processed by KGHM and to apply the Policy covers all persons with access to personal data, regardless



of their position, place of work and type of employment relationship. Every person about to have access to personal data may process the data exclusively based on an authorisation (delegation). All persons having access to personal data are obliged to familiarize themselves with the Policy and other related documents, and to apply the provisions thereof.

The Policy is consistent with other internal regulations regarding security of information and IT systems applicable in KGHM. Updates to the Policy are supervised by the Data Protection Officer of KGHM Polska Miedź S.A.

### PROCEDURE FOR VERIFICATION OF COMPLIANCE WITH THE ETHICAL PRINCIPLES OF KGHM POLSKA MIEDŹ S.A.

As a socially responsible company, KGHM Polska Miedź S.A. applies due diligence procedures. In doing so, it attaches importance not only to respect for human rights, lawful terms of employment, environmental norms, freedom of establishing trade unions, compliance of operations with generally applicable laws, no child labour and no extraction of production raw materials from conflict sources (the so-called conflict minerals) but also wants to cooperate with business partners who share these values. For this reason, KGHM's customers and suppliers are obligated to declare in writing their compliance with the aforementioned principles, by signing the so-called Customer Card and Supplier Card, which is an important factor of the business decisions on undertaking cooperation with the given partner.

### INTERNAL AUDIT RULES (FOR ETHICS) IN KGHM POLSKA MIEDŹ S.A.

The Internal Audit Department follows the international internal audit standards. The standards cover 14 areas, with ethics being one of them. When performing internal audit tasks, the risks of potential fraud, conflict of interests or other activities which are not compliant with the Code of Ethics and other internal regulations are analysed. Any areas with increased risk of unethical behaviour are consistently identified and taken into account in the development of the annual audit plan.

### INTERNAL CONTROL PROCEDURE OF THE SECURITY AND LOSS PREVENTION SECTION OF KGHM POLSKA MIEDŹ S.A.

The purpose of the Procedure is to define consistent and uniform rules for conducting Internal Control by the Security and Loss Prevention Section.

The Procedure defines how the Control Process is performed by the Section's units, defines and assigns roles in the Control Process, delineates the framework of cooperation of its participants, as well as lists the scope of activities to be performed in the Process. The scope of control carried out by the Security and Loss Prevention Section includes identification and detection of fraud, irregularities, malpractice, corruption, abuse, breaches of the Code of Ethics in the Group, as well as threats related to IT and information security.

### CONFIRMED INCIDENTS OF CORRUPTION AND ACTIONS TAKEN TO ADDRESS THEM

[GRI 205-3]

Recorded corruption cases ended in:	2020	2020	2019	2019
disciplinary dismissal or punishment of employees	7	0	2	0
refusal to renew contracts with business partners due to breach of corruption rules	0	0	0	0
legal actions pertaining to corruption practices taken against the reporting organisation or its employees in the reporting period	0	0	0	0
<b>Total</b>	<b>7</b>	<b>0</b>	<b>2</b>	<b>0</b>







# Society

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**210** Activity in the labour and human rights area

- HR Policy of KGHM Polska Miedź S.A.
- Safety Policy in the KGHM Polska Miedź S.A. Group
- Accountability for product and service quality
- Selected GRI Standards performance indicators

**232** Social engagement

- Social dialogue and cooperation with local communities in the KGHM Polska Miedź S.A. Group
- Support of the public by the KGHM Polska Miedź S.A. Group during the COVID-19 pandemic
- Foundations, sports and CSR activities in the KGHM Polska Miedź S.A. Group
- KGHM Polska Miedź S.A. CSR Programs

# Activity in the labour and human rights area

Human capital is our crucial and most important resource and as such people are subject to special protection and are at the centre of attention of the Company's corporate bodies. KGHM Polska Miedź S.A. aspires to create an organisational culture whose cornerstone is cultivating relations predicated on absolute respect for employees' dignity and personal rights regardless of their place of work and professional status.

KGHM Polska Miedź S.A. recognizes, respects and observes human rights - including employee rights. The Company has undertaken to operate in accordance with the UN Universal Declaration of Human Rights. The KGHM Declaration on Human Rights Protection defines our approach to human rights protection. Employee dignity and personal rights are subject to absolute protection, and any mutual relations are based on respect thereof. As a global Group active across the world's markets, KGHM applies standards of work and employee relations as required by local law, as well as by international institutions, such as the International Labour Organization (ILO) or UN Global Compact. Regulations and policies take account of the interests of employees and mutual relationships, based on the best practices, irrespectively of the jurisdiction of the Group company's place of operation.

KGHM Polska Miedź S.A. applies impartial and fair criteria of employee assessment, being guided by knowledge, professional skills, social skills and the quality of work. The Company's culture has created a work environment and venue free from discrimination. No form of discrimination is tolerated, in particular due to gender, race, age, origin, religion, handicap,

world view, social status, marital status, disability, political party and trade union membership and the form of employment.

In the KGHM Group, people – employees - are the most valuable asset

**The rules:**

- Compliance with the labour laws of the jurisdictions in which the KGHM Polska Miedź S.A. Group operates, as well as with the standards of our internal labour regulations.
- Compliance with the regulations concerning working time and minimum wage.
- Respect for employees' rights to associate in employee organisations and trade unions, and to engage in collective bargaining.
- To foster employee development and support them in improving their skills through a variety of training forms and possibility to participate in new projects.
- Respect for human rights and not allowing any forms of illegal or forced labour, including child labour.

## GROUP

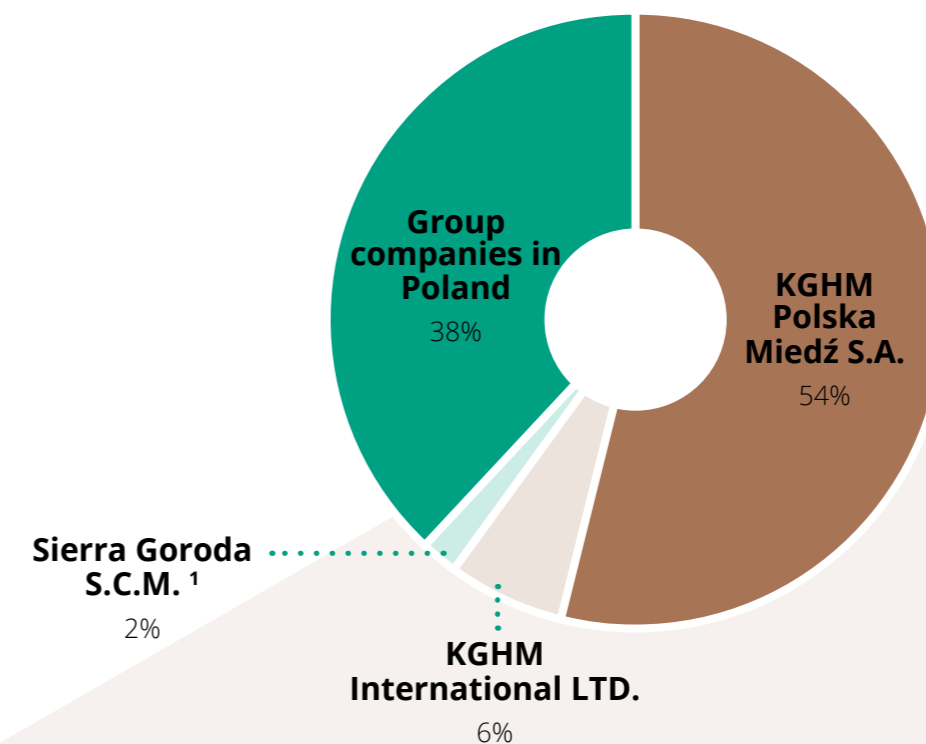
In 2020, the companies of the Group employed 34,116 people, i.e. 0.6% less than in the prior year. The employment structure is presented below:

### AVERAGE HEADCOUNT IN THE KGHM POLSKA MIEDŹ S.A. GROUP IN 2019-2020

	2020	2019	Change (%)
KGHM Polska Miedź S.A.	18 440	18 444	(0,0)
KGHM INTERNATIONAL LTD.	2 006	1 944	+3,2
Sierra Gorda S.C.M.1	789	794	(0,6)
Domestic Group companies	12 872	13 137	(2,0)
Other Group companies	9	9	-
Total	34 116	34 328	(0,6)

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

### EMPLOYMENT STRUCTURE IN THE KGHM POLSKA MIEDŹ S.A. GROUP IN 2020



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



## KGHM POLSKA MIEDŹ S.A.

[GRI 102-8]

Employment in KGHM Polska Miedź S.A. was stable and at the end of 2020 it was 18,531 people (0.4% more than at the end of

2019) The annual average employment in KGHM Polska Miedź S.A. was 18,440, as shown in detail in the following table:

### AVERAGE EMPLOYMENT IN KGHM POLSKA MIEDŹ S.A. IN 2019-2020

	2020	2019	Change (%)
Mines	12 430	12 440	(0,1)
Metallurgical plants	3 604	3 635	(0,9)
Other divisions	2 406	2 369	+1,6
KGHM Polska Miedź S.A.	18 440	18 444	(0,0)

## ACTIVITY IN THE KGHM POLSKA MIEDŹ S.A. GROUP

### Companies in Poland

In 2020, average employment in the companies of the KGHM Polska Miedź S.A. Group in Poland decreased as compared to 2019 by 265 FTEs (or by 2%). This change affected mainly blue-collar positions and was caused by adjusting employment to current needs resulting, among others, from market situation and changes in the organisation of work.

### Companies abroad

In 2020, average employment in international companies of the Group rose as compared to 2019 by 57 FTEs (or by 2%): the headcount in Sierra Gorda S.C.M. fell by 0.6%, while in KGHM International LTD. Group it went up by 3.2%.

The decline in employment in Sierra Gorda S.C.M. was caused by reduction of employment in the individual areas in connection with the cost savings plan. The rising headcount in KGHM INTERNATIONAL LTD. was mainly due to an

increase in production capacity in the Robinson mine in the USA.

## INTERNATIONAL MOBILITY POLICY IN THE KGHM POLSKA MIEDŹ S.A. GROUP

Following the acquisition of assets outside Poland, since 2015 KGHM Polska Miedź S.A. has implemented an employee mobility program. In view of the international operations of the KGHM Polska Miedź S.A. Group, a policy of international mobility has been adopted as the basis for action in conformity with the due diligence procedures. In order to unify the rules for international delegation of employees and improve the functioning of the mobility process, the International Mobility Policy in the KGHM Polska Miedź S.A. Group was introduced on 27 April 2020. The Group also adopted the Procedure for Implementing International Mobility Policy in the KGHM Polska Miedź S.A. Group. Delegation of employees to companies in Chile, Canada and the US represents an investment of major significance for the KGHM Polska Miedź S.A. Group. The policy not only

satisfies the local requirement for personnel, but also develops the employee's professional potential, which increases the Company's competitive edge. In 2020, 15 employees in total were delegated, of which 4 returned, 8 continued the delegation started before 2020, while 3 started their delegation.

## HUMAN CAPITAL AND RISK ON THE INTERNATIONAL MARKET

The global nature of the KGHM Group also translates into risk related to human capital. The Company wants to recruit and retain the best employees necessary among other things for the execution of development projects. The effectiveness of recruitment processes is also undergoing constant improvement. Since 2015 an employee mobility program has also been in place. It defines in detail the rules of delegating employees abroad. The program guarantees the consistency of human resources management policy with best market practices and ensures continuity of risk management (including legal, tax, immigration risks) in the process of delegating personnel to work abroad. In employee international mobility there is an opportunity to transfer knowledge, experience and best practices among the KGHM Polska Miedź S.A. Group's companies.

## WORK REGULATIONS AT KGHM POLSKA MIEDŹ S.A.

KGHM Polska Miedź S.A. has in place the Work Regulations which define the organisation and management of the labour process as well as the related rights and obligations of the employer and employees. The regulations define the manner and rules of accounting for working time, and granting of holidays, as well as the time and manner of remuneration. They define rules of occupational health and safety. Moreover, the work regulations describe the practice with regard to rewards and distinctions, as well as penalties for breaches of work order and discipline. [GRI 401-2]

## HR POLICY OF KGHM POLSKA MIEDŹ S.A.

[GRI 103-1] [GRI 103-2] [GRI 103-3]

“ KGHM's Employees are its most valuable capital – it is they who create the unique corporate culture and build the Company's market position, but also engage in environmental activity and activity for local communities. For years now, we have consistently invested in the labour market and actively influenced the process of educating young people, creating an integrated future-oriented organisation”.

### Magdalena Wróbel

Executive Director for Human Relations

The HR Policy has been defined for the Parent Entity, which underscores that the Employees of KGHM are its most valuable capital – it is they who create the unique corporate culture and build the Company's market position. In order to secure the achievement of its strategic objectives, the Company has for many years consistently invested in the labour market and actively influenced the process of young people's education. The company acts with due diligence towards its employees, since it is people that play a key role in the development of all areas of the business model, build the global standing of the Company and make us an integrated organisation open to the future. KGHM recruits the best experts and specialists. As a result, the Company employs people with the greatest potential, who can truly address its needs. The work of each of these persons is equally important to the success of the entire organisation.

The uniqueness of the pursued HR policy is attested to by the fact that KGHM Employees are people who not only are talented and highly qualified, but also act in conformity with KGHM values, are open to changes, seek innovative solutions, and are willing to share their knowledge and experience. Most importantly, however, KGHM Employees, regardless of their job titles, see their personal development as a challenge which contributes to the benefits achieved by the entire organisation.



The development of KGHM has also driven changes in human capital management inside the Company. Recently, the implementation of the HR policy has been modified. A consistent set of key processes and tools have been implemented to support long-term development of skills, new solutions have been prepared for employee performance and assessment management, internal communication has been improved, and focus has been made on modern project, program and portfolio systems. In view of the Company's swift development, it has become a priority to identify the best employees efficiently, and then systemically prepare them to assume key roles and functions in all business operations.

In 2020, KGHM Polska Miedź S.A. provided its employees with opportunities to pursue educational programs to develop professional, managerial and specialist competencies, including:

- the opportunity to improve their qualifications through co-financing of university education, including:
  - » co-financing of MBA studies – 30 people,
  - » group post-graduate studies entitled “Financial security of a company” in cooperation with the Warsaw School of Economics – 62 people,
  - » co-financing of individually chosen post-graduate studies – 30 people,
  - » co-financing of higher education – 27 people,
- improvement of language skills for all Company employees through access to online e-learning tools – the program is available to all employees,
- improvement of language skills for all Company employees through the possibility to participate in traditional language courses: English, Spanish and German languages,
- implementation of the performance management process for managers and development of an employee assessment system to the level of department directors,
- IT tools to support recruitment of the best quality staff, mainly e-Recruitment,

KGHM as a global Group gives a unique opportunity to persons who want to gain access to state-of-the art technologies and equipment. They can do so by participating in the work of specialist project teams. Working in such a team is also a perfect opportunity to share knowledge and experience within the company.

KGHM Polska Miedź S.A. is cooperating with external stakeholders in projects aimed at adjusting the way prospective employees are educated. It runs a project entitled “Competent in the industry”, which is addressed to students of technical and industry schools. It also cooperates with the Ministry of National Education in creating new key professions for the company, as KGHM representatives took part in the project of developing the Sectoral Qualifications Framework (SQF) for the Mining Industry. SQF sets out the expected effects of education at each stage of formal and informal education in building competences needed by employees working in the mining industry. SQF is one of the elements that guarantee proper relations between employee qualifications and competences and their theoretical and practical knowledge.

In cooperation with schools we are engaged in the shaping of educational programs, expanding the scope and form of vocational schooling in actual working environments, helping students to earn professional qualifications, providing vocational counseling and motivating students, as well as enhancing teacher qualifications.

We act as a patron for the following:

- A Scholarship Program for the best students, the rules of which are described in Regulations available as an appendix,
- Workshops aimed at developing interpersonal skills,
- The possibility of participating in professional awareness visits, lectures and meetings with experts,
- Participating in conferences, workshops and seminars organised by KGHM Polska Miedź S.A. for its employees as well as other initiatives aimed at employee social groups.
- We also support teachers by:

- Visits to our Divisions to see what we do as well as to other recommended institutions,
- Subsidising participation in conferences, training sessions, courses and other educational initiatives which have an impact on teacher professional development,
- The possibility of participating in conferences, workshops and seminars organised by KGHM Polska Miedź S.A. as well as other initiatives aimed at the Company's employees,
- Cooperation in the development of didactic materials, and
- The organisation of school and inter-school competitions.

KGHM works with the Ministry of National Education to create new professions which are critical for the copper company. Representatives of KGHM participated in the project to create a Sector Qualification Framework for Mining (SQF). The SQF sets out the anticipated educational effects at every stage of formal and informal education in building the skills required by employees working in the mining industry. The SQF is one of the elements guaranteeing a proper relationship between the qualifications and skills of employees and theoretical versus practical knowledge.

In 2020, KGHM Polska Miedź S.A. and Jan Wyżykowski University signed a dual education agreement. The cooperation will include engineering studies in three specialisations of the Mining and Geology field: Deposit Exploitation Techniques, Mining Machines & Equipment and Prospecting. The agreement with the Jan Wyżykowski University stipulates, among other things, that the courses will be co-financed by KGHM and students from the Mining and Geology faculty will be able to benefit from apprenticeships in the company's divisions. Students who are KGHM employees will be able to formally classify their professional work as apprenticeships. The best students will qualify for a scholarship program and, at the end of the academic year, KGHM as the Patron may additionally award a one-time scholarship payment of PLN 3000 for special achievements to one student of the University.

The project was carried out under the auspices of the Education Research Institute and run by the consortium of the Mining and Geoengineering Department of the AGH University of Science and Technology and JSW Szkolenie i Górnictwo Sp. z o.o. The project involved consultations with representatives of the mining industry. It utilised questionnaires, in-depth interviews and workshops. The experts involved in the project included, in addition to KGHM Polska Miedź S.A. representatives, also the representatives of AGH, PGNiG, LW Bogdanka, JSW, PGE, JSW Innowacje, GIPH, WUG and GiG.

A Curriculum Committee will be established comprised of KGHM and University representatives, which will adapt the curriculum to the needs of the copper industry and analyse student apprenticeship programmes.

Dual education programs are a modern form of education which follows the effective education trends adopted in countries of Western Europe. It combines traditional academic studies with professional practice in a business enterprise. Linking theoretical knowledge with practical aspects shortens the period of professional adaptation and prepares students for full-time work immediately after graduation. Cooperation with the Jan Wyżykowski University is the first such initiative of the copper company at the higher education level. Among students of vocational and technical schools, KGHM runs the programme entitled “Competent in the mining and smelting industry”.



## HR PROJECTS IN KGHM POLSKA MIEDŹ S.A. IN 2020

[GRI 404-2]

Digitisation of HR processes	To improve efficiency, digitisation of HR systems became a priority: some processes were introduced already in 2020, while others will be implemented in the next two years.
Launch of onboarding training program for new employees (also online)	Periodic training courses are dedicated to newly engaged employees, and their objective is to get to know the company, induct into the organisation quickly and proceed smoothly to perform tasks. The training addresses topics related to the Mission, Vision and Strategy of our Company, the object of activity and the production process, the rules of movement around the organisation, HR matters.
Execution of development project for COPI Division	As part of the project dedicated to the employees of the COPI Division, the management competencies were evaluated by the 360 degrees method. As a result of this evaluation, individual development plans for each manager were created and are the basis for organizing an individual development path for each of them. As part of the project, also two training courses were delivered: "Constructive feedback" and "Streamlining team communication."
Continuation of the "Competent in the industry" project.	The project is aimed at preparing the future staff in professions that were defined by the Division as crucial for maintaining the production line. Program figures: - educational scholarships granted in the amount of PLN 145 thousand, - 1,912 pupils in patronage classes in school year 2020/2021, - 9 patronage schools, - provision of equipment to school workshops in the amount of PLN 170 thousand, - organisation of apprenticeships for 388 pupils and of 242 practical classes.
Dual education	The declining number of students in mining-related majors at the key universities might cause problems for the Company in the future as it may be difficult to recruit people with relevant qualifications for performing broadly defined supervision functions. Therefore, a decision has been made to establish cooperation with the Jan Wyzykowski University and to launch the Mining and Geology profile in a dual education procedure. Pursuant to the agreement, the dual program will allow students to combine traditional university studies with the opportunity to gain professional experience. KGHM Polska Miedź S.A. has a real impact on the contents of curricula and the company's employees are lecturers at the University. Student apprenticeships are held with the Company, which allows students to gain knowledge and skills that are important in terms of KGHM's needs.
Participation in AGH-UST Job Fair	In early 2020, KGHM Polska Miedź S.A. participated in the job fair organised by the AGH Career Centre in Kraków. Selected Company products were presented: copper granulate from Cedynia Wire Rod Division and silver granulate from Głogów Copper Smelter. The offer included also a possibility to go on a virtual trip to the mines and plants of Polska Miedź with the use of the VR technology.
HR process restructuring at KGHM INTERNATIONAL LTD.	Reorganisation of KGHM INTERNATIONAL LTD.'s processes related to HR and administrative services. As part of reorganisation in HR areas: - the organisational structure was modified along with modifications of employment contracts, - KGHM Polska Miedź S.A. manages the HR and administration processes of KGHM INTERNATIONAL LTD. and exercises ongoing supervision over these processes in cooperation with the President & CEO of KGHM INTERNATIONAL LTD.

## ACTIVITY IN THE KGHM POLSKA MIEDŹ S.A. GROUP

### Companies in Poland

In 2020, the companies in Poland continued the projects implemented in the previous years, among others the project covering all Group companies in Poland, i.e. the e-Recruitment system. In addition, each company advanced its own HR projects. Those involved areas such as enhancing professional abilities and qualifications, skills and improving productivity, alongside the utilisation of motivational tools. To address problems associated with acquiring employees, cooperation was launched with external institutions: vocational schools and employment offices. Agreements were concluded also with institutions of higher education, which enable execution of joint research & development projects, among others, organisation of workshops, training courses, lectures and industry panel discussions.

POL-MIEDŹ TRANS Sp. z o.o. in Lubin took actions aimed to establish a Centre for Training and Examination of Train Drivers and Train Driver Candidates. The Centre for Training and Examination of Train Drivers will start its operation within the Company's structures upon being entered in the list of centres maintained by the President of the Office of Rail Transport (assumed date of entry: Q2 2021). The Company provides substantive and financial support to schools and universities offering education in railroad professions. The support given to schools is aimed at rebuilding vocational education in the railroad industry and ensuring qualified personnel in the future.

### ANTI-COVID MEASURES IMPLEMENTED BY THE HR DIVISION

In connection with the regulations, recommendations and restrictions introduced by the Government regarding the state of epidemic associated with the spread of the SARS-CoV-2 virus and since it was necessary to ensure safety and continuity of work, the companies introduced internal orders defining, among others, work organisation, including rules of remote working, and other regulations arising from the needs driven by the state of epidemic. They focused mainly on the creation of safe work conditions and protection of employees from infection.

The HR Division became actively involved in the measures preventing the effects of the SARS-CoV-2 virus pandemic. Guided by two goals: safety of people and production, initiatives were undertaken in several key areas:

### Communication:

- Organised and operated communication channels for employees (HR hotline open 24/7, e-mail box for employees pytania@kghm.com, through which employees were able to receive answers to questions about the state of pandemic, the safety procedures in effect in the Company, work organisation during the pandemic and other). Coordinated the flow of information between employees and the OHS function (coordination of access to personal protective equipment, implementation of employee ideas, etc.)
- Managed the flow of information (regular conference calls with Head Office and Branch managers)
- Developed the SAP absenteeism report which enabled an ongoing analysis of the scale of infections and helped in decisions on precautionary delegation to remote working if an employee was in contact with an infected person (implemented by COPI in cooperation with the HR Service Unit)
- Updated and introduced a new functionality of the "Holiday leave requests" application, which made it possible to monitor potential risk of infection by employees who went on holidays to places that were considered to be potential infection sources (implemented by COPI in cooperation with the HR Service Unit)
- Prepared and published a newsletter for mid-level managers providing key information about the pandemic situation (biweekly)

### Training and development:

- Conducted a study on the effectiveness of remote work
- Organised training sessions on "Remote team Management" (for managers), "Improving efficiency of remote work" (for employees)
- Organised a webinar entitled "How to survive the lockdown without going crazy"
- Changed the procedure for carrying out professional courses on the TEAMS platform
- Introduced e-learning OHS and GDPR courses
- Developed and implemented the rules for safely referring employees to vocational courses
- Inspected and supervised over courses executed by external providers in the times of COVID-19 – visits to verify compliance with safety/sanitary standards adopted by the Company



- Cooperated with the Copper Health Care Centre and developed the best procedure for the times of COVID-19 for safely referring employees for medical examination
- Managed the process of apprenticeships for students from schools benefiting from endorsed schools (reorganisation/halting of apprenticeships/practical courses for students)

**Recruitment and onboarding:**

- Developed and implemented methods and tools used for online recruitment.
- Developed methods and tools used in the online onboarding process.

**KGHM INTERNATIONAL LTD.**
**IN 2020, THE FOLLOWING HR PROJECTS WERE ADVANCED IN THE COMPANIES OF THE KGHM INTERNATIONAL LTD. GROUP IN CANADA AND THE USA:**

Assets in the Sudbury Basin in Canada	<ul style="list-style-type: none"> <li>- cycle of training workshops for leaders of production assets and HR teams in the field of communication, conflict management and employee wellbeing,</li> <li>- preparation of a staff succession plan for key management functions in mines, covering the following processes: identification of key leadership roles in the organisation, creation of competency profiles of leaders, determination of potential of employees and assessment of their development needs, talent development plans and monitoring of their accomplishment progress.</li> </ul>
Robinson and Carlota mines in the USA	<ul style="list-style-type: none"> <li>- deployment of a modern recruitment platform and automation of candidate selection process,</li> <li>- training program dedicated to 75 representatives of the management staff, delivered in cooperation with the University of Nevada, Reno Extended Studies,</li> <li>- update of descriptions of jobs in mines: adaptation to organisational needs and current market trends,</li> <li>- employee appreciation program supporting the leaders in developing the culture of employee engagement appreciation in the organisation,</li> <li>- audit of the employee training process and of the process of foreigner employment legalisation in the USA.</li> </ul>
KGHM INTERNATIONAL LTD. in Canada	<ul style="list-style-type: none"> <li>- relocation of certain functions from KGHM INTERNATIONAL LTD. to KGHM Polska Miedź S.A. Head Office and other business units of the KGHM International LTD. Group.</li> </ul>
Sierra Gorda S.C.M.	<p>In 2020, in particular the following HR projects were advanced in Sierra Gorda S.C.M.:</p> <ul style="list-style-type: none"> <li>- introduction of new work systems: 14x14 and 8x6, and renewal of permit for 4x3 and 7x7 work systems, approval of new jobs for work in special conditions,</li> <li>- introduction of a diversity and integration policy,</li> <li>- introduction of a new competency model based on production successes,</li> <li>- transformation of HR processes into the online form,</li> <li>- introduction of a remote work system for administrative jobs,</li> <li>- construction of new welfare facilities for mine employees,</li> <li>- deployment of web applications for: employee transport requesting system, workwear requesting system, COVID-19 information campaigns, online surveys and polls, module concerning employee wellbeing for the purpose of facilitating quarantine of employees and their families,</li> <li>- introduction of a campaign and projects in connection with the COVID-19 pandemic regarding employee safety, information about pandemic situation, preventive measures, information for external companies about current pandemic situation in the company and the applicable procedures.</li> </ul>

**MANAGEMENT OF CAREER PATHS AND RECRUITMENT IN KGHM POLSKA MIEDŹ S.A.**

[GRI 404-3]

KGHM Polska Miedź S.A. secures highly qualified personnel through the process of internal and external recruitment. It protects the KGHM brand as an employer of first choice for current and prospective employees.

The company acts in accordance with due diligence rules. It keeps an electronic register of job candidates based on the announcements published at <https://kg hm.com/pl/kariera>. The electronic registration of candidates comprises job vacancies announced by all Divisions of KGHM Polska Miedź S.A. In order to submit an application the candidate should complete the electronic template containing the necessary personal data and the requirements for the job for which the candidate is applying. Online registration is considered as valid if the application was completed within the set term, after entering by the candidate of all necessary data, confirmed in accordance with the information sent to the candidate by the system.

The Company ensures full discretion to candidates who submit applications and reserves the right to contact only selected persons. No information within the term set in the job announcement means that the application was not accepted. Candidates whose applications have been accepted are notified separately of the date of their job interview. Candidates who successfully pass their job interview may be, upon the candidate's consent, entered in the Central Base of Candidates. The application is stored in the Central Base of Candidates for a period of 12 months. Changes and updates of the stored application are made on the candidate's request. Personal data collected during electronic recruitment of candidates are used only for these processes and are not made available to third parties. The Candidate's Communication via the <https://rekrutacja.kghm.pl> portal is encrypted with SSL protocol with the use of a certificate issued by a trusted certification centre. The electronic recruitment system in KGHM provides for the safety of the candidates' stored data and for compliance with the requirements of the Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation, hereinafter: GDPR).

**TRAINING PROCESSES IN KGHM POLSKA MIEDŹ S.A.** [GRI 404-1]

Given the international scale of business, cultural differences and unique characteristics of the industries, in which the Group operates, each company undertakes

many different activities associated with employee training. The purpose of employee development activities in KGHM in 2020 was to retain and improve human capital and to manage the Company's intellectual capital taking into account the Company's new strategic directions in this process: 4E (Elasticity (flexibility), EffectivenessEfficiency, Ecology - safety and sustainable development, E-industry) as well as its long-term development plans through:

- - securing fulfilment of the requirements defined in regulations by the employees' participation in periodic training courses on occupational health and safety, courses and examinations entitling to take up jobs in underground mines which require specialist actions as well as other jobs in the company,
- improving employee skills by the organisation of training courses and other development activities, with particular focus on linguistic, managerial and interpersonal skills, as well as training on business process orientation in management.
- improving the qualifications of the Company's employees and changing their education structure by continuing to co-fund graduate and post-graduate studies.

The Company's employees may improve their qualifications in the context of expected organisational and technological changes by participating in training courses, conferences, studies and post-graduate studies. The employer ensures high level of training among others by aligning the contents of the training courses with the business goals.

When planning activities, the Company focuses on ensuring that they fit in the best possible way to the execution of the adopted strategic priorities.

Systemic competence development activities are performed by a centralised unit specialised in this area. Development needs are established regularly and constitute the basis for building a training plan and calculation of the resources needed for its performance. These actions are performed on the basis of the procedures existing in the Company and are registered for purposes of internal and external accounting. Both the competence development activity and the utilisation of the allocated budget are regularly monitored and the results are reported.

In 2020 the number of employees participating in a single training event was 32,384.

To reach the largest group of employees we are launchingconduct e-learning training courses. One of the greatest advantages of e-learning is that training can be conducted at a convenient time. Moreover, e-training



contains interactive elements to facilitate comprehension and committing to memory the needed information. In 2020 KGHM Polska Miedź S.A.'s employees obtained access to the following e-learning training courses:

- Training on ethics:
  - » Training for employees in managerial jobs (people who manage other people) on ethics, prevention of irregularities in the company (in particular, corruption, abuse and discrimination) and receiving whistleblower reports,
  - » Training for employees in white-collar and blue-collar positions (people with computer access) on ethics, prevention of irregularities in the company (in particular, corruption, abuse and discrimination) and submitting whistleblower reports concerning irregularities utilizing the channels in place in the company.
- Training on Information Security Policy (Information Security Policy based on the ISO 27000 standard family).
- GDPR training,
- Periodic OHS training:
  - » for employers and individuals supervising employees,
  - » for administration and office staff
  - » for administration and office staff

The Information Security Policy training, the GDPR training and the periodic OHS training have been designed for all employees of KGHM Polska Miedź S.A. who use computers in their daily work. This course aims to inculcate safe behaviours on the web. E-learning training courses provide for an interactive form of learning and contain numerous additional materials, short video clips, case studies and decision-making exercises.

#### E-learning language courses

In 2020, foreign language courses conducted by the e-learning method were launched. The employees of KGHM Polska Miedź S.A. are able to participate, free of charge, in English and German courses on two independent language

platforms. As an employee benefit, the service is fully financed by the Employer.

Both platforms offer nearly endless learning material in the form of ready-made lessons for practising language skills for everyday life, such as Travel English, and for professional purposes, e.g. Business English. The platforms offer complementary ranges of exercises: one platform has been designed for self-studying, while the other is geared more towards communication in the world of business, through direct conversations with native speakers.

The pilots of the platforms generated a lot of interest among the Company's employees. In 2020, more than 2 thousand employees took advantage of both platforms. In order to reach the largest possible number of employees, the campaign was regularly promoted through flyers, posters and press and media releases, among others on Intranet and Extranet employee portals and in the CUrier internal magazine.

Interest in online learning continues to grow, especially during the still persisting COVID-19 pandemic and in connection with safety restrictions among employees. The idea of online courses was a good fit with the reality that the year 2020 has brought us. Hopefully the pandemic situation in Poland and globally will soon change for the better, but online language courses will remain as a tried and tested form of learning accepted by KGHM Polska Miedź S.A. employees.

#### SAFETY POLICY IN THE KGHM POLSKA MIEDŹ S.A. GROUP [GRI 403-2]

“ The life and health of our employees are our priority and the previous year and the pandemic have brought new challenges in the work safety area. We have proved that well-thought out decisions, consistency in implementing procedures and above all the cooperation and responsibility of all employees are an effective solution for times as difficult as these. In 2021, we follow the motto of “Be responsible for others”, we have continued our activities, striving in particular to continue reducing the number of workplace accidents due to technical, organisational or human reasons”.

##### Adam Chyliński

Director of the OHS and Occupational Risk Department.

The life and health of employees and workplace safety in general is the top 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 2020, the Group continued the implementation of the Employee Safety Improvement Program – “Think About The Consequences” as well as a Program to prevent the most common hazards to workplace safety by utilising innovative technologies in accordance with the Business Strategy of KGHM Polska Miedź S.A. for 2019-2023.

[GRI 403-1] The Company has high occupational health and safety standards that apply equally to its employees and the employees of other service providers operating on the premises of KGHM Polska Miedź S.A., which was confirmed by the fact that in 2020 the Company received a certificate for its occupational health and safety management system under the ISO 45001:2018 standard. All work stations have identified threats. The Company has assessed the professional risk and updates it on an ongoing basis. The conditions of the working environment are continuously monitored and periodic reviews and assessments of possible hazards, equipment overhauls and required technical inspections and type approvals are conducted. Employees undergo systematic training and continually enhance their qualifications. The company

promptly implements new legal requirements and regulations in the area of occupational health and safety.

In 2020, the Company recorded a significant reduction in the number of workplace accidents and occupational diseases (as this term is defined in the social security act of 30 October 2002), measured year over year, from 299 to 213 injured persons (down by 86 accidents). The number of workplace accidents in 2020 in KGHM Polska Miedź S.A., excluding accidents due to natural causes (rock bursts, destressings, tremors, roof collapses) was lower by 54 (a drop from 248 to 194). Most of the registered workplace accidents (about 97.2%) qualified as light injuries, caused mainly by loss of balance by employees, contact with (being hit by) moveable/ immoveable objects and rock falls.

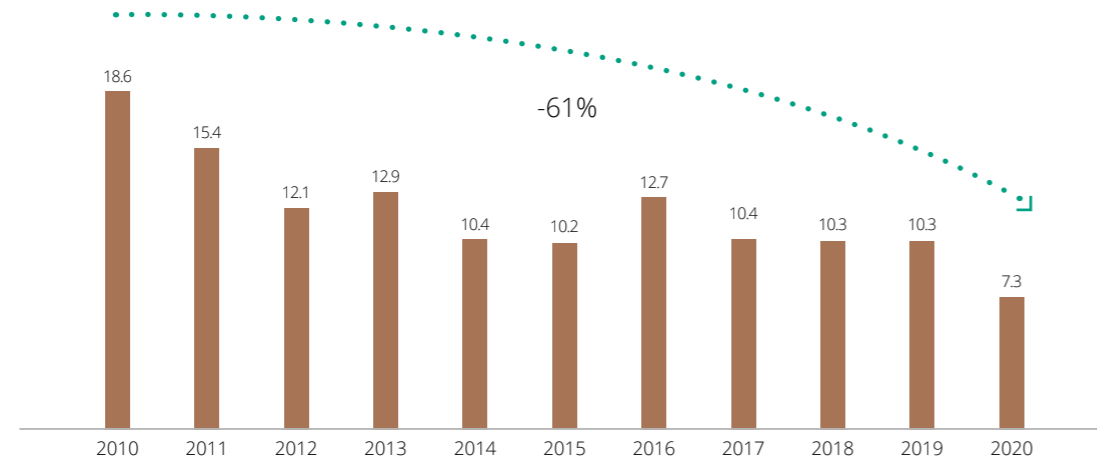
Mining activities KGHM Polska Miedź S.A. are inherently accompanied by natural hazards. They primarily result from mining tremors and their potential effects in the form of rock bursts, roof collapses and destressing. These factors affect employee safety, as their occurrence can lead to serious or even fatal injuries as well as damage to underground machinery, equipment and infrastructure and also production downtimes. For many years, the Company has been undertaking numerous preventive actions in its mines, including systematic seismological observations, ongoing assessment of the rock mass and identification of areas of elevated roof collapse hazard. The Company selects the sizes, shapes and numbers of chambers and intra-chamber pillars, designs the most favourable direction of advancing mine work and the optimum order of extracting ore from deposits to minimise local concentrations of stress in the rock mass. It also applies “active” methods of preventing uncontrolled roof collapses and rock falls, which involve provoking dynamic events through mass blasting of mining faces and through blasting to release stress in the orebody or its roof.

In 2020, 19 workplace accidents were recorded in the mines of KGHM Polska Miedź S.A., which were caused by natural hazards inherent in the rock mass. These incidents represented 11.3% of all workplace accidents in the mines during this period. KGHM Polska Miedź S.A. is continuously improving its safety record in the mining of the copper ore deposit.

[GRI 403-2] The LTIFRKGHM ratio (Lost Time Injury Frequency Rate KGHM) in 2020, which is the total number of workplace accidents (as defined by the Social Security Act of 30 October 2002) in the Company, which is the number of accidents per million hours worked by KGHM Polska Miedź S.A. employees, was at 7.3 and at the same time it was 61% less than the 2010 figure and 29% less than the 2019 figure (10.3). So far, this has been the best result in the Company's history, achieved as a result of the attitude and commitment of all company employees.



## LTIFR<sub>KGHM</sub> in KGHM Polska Miedź S.A. in the years 2010-2020



In 2020, despite the exceptionally difficult conditions caused by the COVID-19 pandemic, KGHM INTERNATIONAL LTD. recorded the best occupational health and safety performance in its history.

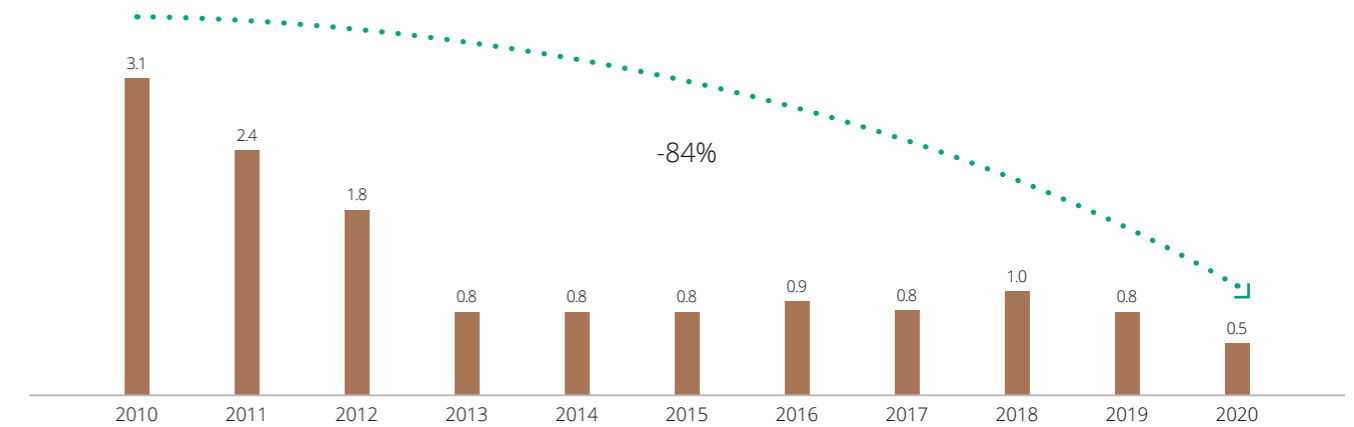
In 2020, a total of 19 workplace accidents were recorded in the mines supervised by KGHM INTERNATIONAL LTD. in Canada and the USA, compared to 31 in 2019; the TRIR was 1.8. They were all minor incidents without serious consequences for the employees.

In Chile, the KGHM Polska Miedź S.A. Group conducts mining operations through two entities, which have separate OHS management systems adjusted to the legal requirements and mining conditions in that country. The systems cover employees in those entities as well as

sub-contractors, and are aimed at achieving the long-term "Zero Harm" vision. KGHM Chile SpA, which oversees the Franke mine and also engages in its own exploration and other undertakings, recorded 4 workplace accidents in 2020 (vs. 3 in 2019) and the TRIR was 0.44. The Sierra Gorda S.C.M. joint venture recorded 11 workplace accidents in 2020 (compared to 16 registered in 2019), with the TRIR of 0.24.

In 2020, the entities in which KGHM Polska Miedź S.A. conducts mining operations in Canada, the United States and Chile, recorded in aggregate 16 less workplace accidents (down from 50 in 2019 to 34). The consolidated TRIR (Total Recordable Incident Rate) for these operations was 0.52. It was 0.25 lower than in 2019 and 84% lower than the figure recorded in 2010.

## TRIR<sup>1</sup> in KGHM INTERNATIONAL LTD. in 2010-2020



<sup>1</sup> 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 S.C.M. and sub-contractors for these entities, per 200,000 worked hours.

The KGHM Polska Miedź S.A. Group has defined significant risks and their mitigation in the area of safety. Information about key risks and their mitigation are described in this Report in the section "Comprehensive Risk Management System in the KGHM Group".







## OHS GOLDEN RULES

KGHM Polska Miedź S.A. has prepared and applies the Golden Rules of OHS, as presented below:

### THE GOLDEN RULES OF OHS IN EFFECT IN KGHM POLSKA MIEDŹ S.A.

 <p>I think before i act</p>	 <p>I use appropriate protective equipment</p>
 <p>I come to work rested and sober, and not under the influence of intoxicants</p>	 <p>I work with properly -functioning tools, machinery and equipment</p>
 <p>I react when i see unsafe behaviour or situations</p>	 <p>I am aware of the occupational hazards and risks</p>
 <p>I maintain harmony and order at my workplace</p>	 <p>I think of my family</p>

## OCCUPATIONAL SAFETY COUNCIL OF KGHM POLSKA MIEDŹ S.A. [GRI 103-1] [GRI 103-2] [GRI 103-3]

The Parent Entity's employees are represented in the Occupational Safety Council whose functioning is based on the principles of mutual trust and cooperation. The Council is the opinion-making and advisory authority with respect to matters of occupational safety and health. It consists of 40 persons, including representatives of the employers (Divisions), representatives of the trade unions operating in the Company and the Company Voluntary Labour Inspectors in KGHM Polska Miedź S.A.'s Divisions. The scope of operation of the Occupational Safety Council encompasses, among other things, periodic evaluation of the state of occupational safety and health at the Company, submitting opinions on preventive actions and formulating conclusions with respect to improvement of the working conditions. At each facility of KGHM Polska Miedź S.A., the representatives of the employer, employees and medical services who are members of the Company Committees for Occupational Safety and Health perform periodic reviews of the working conditions, assess occupational safety and health and draw conclusions with respect to improvement of the Divisional working conditions. In 2020 and previous years the OHS area was analysed many times using a variety of procedures. The occupational safety status is monitored on an ongoing and regular basis. An ongoing assessment of occupational safety in the Company is made at weekly meetings of the Vice President of the Management Board (Production), weekly meetings of the OHS and Occupational Risk Department, monthly meetings of the Management Board with the management of all the Divisions and during regular meetings of the Company's management with the people involved in the OHS process.

## ZERO HARM POLICY OF KGHM POLSKA MIEDŹ S.A.

Risk management, including the principle of prudence, is an essential element of our business. KGHM strives for minimisation of any threats to its employees, local communities and the environment (Zero Harm Approach). The best facilities are those with the highest level of safety. Employees in the copper ore mines of KGHM Polska Miedź S.A. work in difficult conditions and are exposed to a great number of various hazards. Natural hazards connected with underground mining of copper ore deposits are among the most important threats to the life and health of employees of KGHM Polska Miedź S.A. Specifically, the threats connected with rock mass tremors and their potential impact in the form of rock bursts and roof collapses are considered to be very important in terms of safety as they may lead to serious or fatal accidents,

damage to machinery, equipment, and underground infrastructure, as well as mining downtimes. Since employee safety is our priority, the KGHM Polska Miedź S.A. Group has undertaken various preventive measures. Regular seismic observations are conducted in the mines based on a well-developed network of underground and surface-based seismic monitoring stations, encompassing all the regions and mining areas. The Company has implemented an integrated model of occupational health and safety management. The following entities are involved in it:

- Company Occupational Health and Safety service;
- the Mine-Smelter Emergency Rescue Unit of proven world-class excellence;
- Miedziowe Centrum Zdrowia S.A., an entity providing specialised medical services;
- research and development unit, KGHM Cuprum Sp. z o.o. CB-R;
- accredited laboratory of Centrum Badań Jakości Sp. z o.o.;
- An entity specialised in rescue services equipped with its own medical facilities.

## GOOD COOPERATION PRACTICE WITHIN THE KGHM POLSKA MIEDŹ S.A. GROUP

The life and health of employees and workplace safety in general is the top 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". It is also one of the pillars of our Corporate Social Responsibility Strategy. The Company has high occupational health and safety standards that apply equally to its employees and the employees of other service providers operating on the premises of KGHM Polska Miedź S.A., which was confirmed this year by the fact that the Company received a certificate for its Occupational health and safety management system under the ISO 45001:2018 standard. In view of our business profile, interference in the environment and care for our employees, we set ourselves ambitious goals, the achievement of which translates into concrete effects in terms of improvement of work and occupational safety conditions. Our focus on respect for life and health improves efficiency and effectiveness and ensures continuity of production, which is essential in the mining and metallurgy industry. Moreover, the highest standards in the OHS area apply not only to the Company, but to all entities providing services to the KGHM Polska Miedź S.A. Group.



## DIVERSITY DECLARATION OF KGHM POLSKA MIEDŹ S.A.

Taking into consideration the international nature of our activities, cultural differences and specific natures of the Group's industries, each company has been performing a number of actions in the area of respect for diversity. In view of the above, the independent Diversity Declaration has been defined at KGHM Polska Miedź S.A. The Company complies with the prohibitions of discrimination and takes actions in order to ensure respect of diversity in the workplace. It creates an organisational culture based on mutual respect, equality, access to development opportunities and optimal use of employee talent regardless of ethnic origin, age, gender, nationality, citizenship, religious confession, political convictions or trade union membership, among others. It aims at ensuring reasonable diversity both in the selection of personnel (including in the recruitment process), with special focus on knowledge, technical competence and social skills.

The Parent Entity guarantees the implementation of the diversity principle across the KGHM Polska Miedź S.A. Group, and promotes and popularizes these values among its stakeholders and business partners.

Diversity management applies also to members of the KGHM Polska Miedź S.A. Supervisory Board and Management Board. The management and supervisory staff are diverse in terms of gender, age and experience. More information on the approach to diversity in the supervisory bodies is presented in the Statement on Corporate Governance 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 2020.

## DECLARATION ON HUMAN RIGHTS PROTECTION OF KGHM POLSKA MIEDŹ S.A.

Taking into consideration the international nature of our activities, cultural differences and specific natures of the Group's industries, each company engages in a number of actions to protect human rights. Given that, the independent Declaration on Human Rights Protection has been defined at KGHM Polska Miedź S.A. The Company declares that it recognizes, respects and promotes human

rights wherever it conducts its business and does not tolerate human rights violations. We undertake to operate in compliance with the United Nations' Universal Declaration of Human Rights and other norms and standards, including the statutory and executive regulations of the home countries of our business operations.

KGHM is a global organisation, which is aware how important respect for human rights is in the modern world. The Company accepts responsibility for protection and respect for fundamental human rights and implements such standards across the KGHM Polska Miedź S.A. Group. It also assumes that respect for human rights by other entities is a vital element of mutual relationships.

In compliance with the adopted principles, each employee and collaborator of the KGHM Polska Miedź S.A. Group is responsible for ensuring that in his/her closest environment human rights are respected, and any infringements are reported according to the agreed procedure. This Declaration is the basis of our approach to human rights. It supplements and consolidates the human rights issues contemplated in other policies and guidelines of the Company, such as the Code of Ethics, the Diversity Declaration, HR and the Responsible Supply Chain Policy.

The Declaration is implemented in the following manner:

- each employee provided with access to a computer receives the adopted declaration electronically, via the Company Document Circulation System.
- employees with no access to a computer for work purposes are informed of the declaration implementation via extranet (accessible to all employees) and by their direct superior.

Infringements are reported as follows:

- an employee has the right and obligation to report an infringement of the Declaration on Human Rights Protection to his/her direct superior.
- employees may report infringement to the trade unions operating in the Company. (in KGHM Polska Miedź S.A. there are 15 trade unions, which have established 48 company

trade organisations; the trade union membership percentage ratio in the Company is 88.6%). KGHM Polska Miedź S.A. acts in compliance with the collective bargaining agreement;

- infringements may be reported to the Occupational Safety and Health Committee.
- the Company has in place formal institutions of the Employee Council and a Whistleblower.
- to the National Labour Inspectorate (PIP).

## COMPANY COLLECTIVE BARGAINING AGREEMENT (CBA) OF KGHM POLSKA MIEDŹ S.A.

The Collective Bargaining Agreement specifies the conditions to be met by the employment relationship, in particular: working hours, holiday and additional leave, remuneration rules, protection of working conditions, benefits associated with employment and rules of their assignment and provision, benefits for former employees, old-age and disability pensioners and members of their families, and mutual obligations of the parties to the Agreement.

## ACCOUNTABILITY FOR PRODUCT AND SERVICE QUALITY

In its relations with clients, employees, external partners and local communities, the KGHM Polska Miedź S.A. Group complies with the laws which are in effect in the countries where it operates. The Group also complies with voluntary obligations resulting from ISO and ASTM standards as well as from membership in international organisations such as International Copper Association, European Precious Metals Federation, Eurometaux, Euromines, the London Bullion Market Association, the European Technology Platform on Sustainable Mineral Resources, the European Innovation Partnership, and domestic organisations, including: the Polish Association of Listed Companies, Association of Non-Ferrous Metals Engineers and Technicians, the Economic Chamber of Non-Ferrous Metals and Recycling, the Polish Committee of the World Mining Congress, the Polish Chamber of Chemical Industry, the Polish-Canadian Chamber of Commerce, the Polish Chamber of Commerce for High Technology, and the Employers' Organisation of Polish Copper. The KGHM Polska Miedź S.A. Group does not participate in undertakings which involve breaking the law and pose a threat to its reputation.

## The rules:

- We comply with the provisions of law and internal regulations in effect in KGHM Polska Miedź S.A.
- We keep our obligations written in contracts as well as verbal promises made to our clients, suppliers and social partners.
- We duly perform our professional duties.
- We do not offer or accept bribes or other material or personal benefits; we also do not cooperate with companies of doubtful reputation.

In accordance with its Code of Ethics, in relationships with its business partners KGHM observes the principles of ethical conduct. The KGHM Polska Miedź S.A. Group holds to high ethical standards not only its own employees, but also its business partners who receive and must familiarize themselves with the Code of Ethics.

In mutual relationships, the KGHM Polska Miedź S.A. Group follows the principle of "zero tolerance for corruption". The Group has in place the Corruption Threat Prevention System which, in accordance with the Management Board decision, will be improved and adjusted to the PN-ISO 37001:2017 standard in 2021. KGHM puts special focus on transparency of transactions and prevention of conflict of interest. It monitors the supply chain and product life. Companies competing for cooperation with the KGHM Polska Miedź S.A. Group and those already working with the Group are assessed for, among others, corruption risk. KGHM conducts business with entities of proven reputation. Through appropriate procedural arrangements, the KGHM Polska Miedź S.A. Group prevents money laundering and the financing of criminal activities, including terrorism. It specifically protects the personal data of partners as well as commercial, technical or organisational information entrusted to it. The KGHM Polska Miedź S.A. Group is guided by the principles of fair competition.

## COMPETITION LAW POLICY IN THE KGHM POLSKA MIEDŹ S.A. GROUP

There is a Competition Law Policy in the KGHM Polska Miedź S.A. Group. Its purpose is to establish the operational framework for the system to ensure compliance with the competition laws prevailing in all the countries of its operations.



## RESPONSIBLE SUPPLY CHAIN POLICY IN THE KGHM POLSKA MIEDŹ S.A. GROUP

The KGHM Polska Miedź S.A. Group complies with the highest standards of production and business ethics and business activity. We are guided by those principles across our value creation chain, which is reflected in the Code of Ethics of the KGHM Polska Miedź S.A. Group. We are aware that the selection of responsible suppliers, especially as regards the sourcing of conflict minerals (such as gold, tin, tungsten and tantalum) and silver, is of key importance for conducting activity oriented on sustainable development. A document regulating these issues is the KGHM Group's Responsible Supply Chain Policy. Its purpose is not only to guarantee the selection of only responsible suppliers, especially with respect to the conflict minerals listed above, but also to ensure that the goods and services procured do not contribute to financing terrorism and are manufactured or provided in compliance with basic human rights, labour standards, standards of environmental protection and preventing corruption.

The Parent Entity has fully implemented an internal responsible gold and silver supply chain management system which is comprised of the Responsible Supply Chain Policy in the KGHM Polska Miedź S.A. Group and the Procedure for assessing responsible supply chain for gold and silver in KGHM Polska Miedź S.A. In 2020, the Procedure for assessing the supply chain for gold and silver in KGHM Polska Miedź S.A. was updated to increase the efficiency of the process while maintaining compliance with the current LBMA Responsible Gold Guidance V8 and LBMA Responsible Silver Guidance V1. The system for managing the responsible gold and silver supply chain is subject to an annual, independent, external assessment to confirm 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. and the Report on an independent assurance service is available on the website at: <https://kghm.com/en/our-business/products/responsible-supply-chain>.

In order to ensure due diligence, the Parent Entity introduced an internal system of responsible supply chain management, which is comprised of the scope of the system's application, the system's organisation, the participants of the process, the criteria for acknowledging a business relationship as being a high risk relationship, the supply chain audit process (taking into account the procedure of business partner reliability assessment), transaction monitoring, documentation storage and employee training. The management of the process has been entrusted to the Head of the Corporate Risk and Compliance Management Department, reporting directly to the Company's Management Board. An e-mail address [conflict.minerals@kghm.com](mailto:minerals@kghm.com) was also set up to which any comments and observations related to the supply chain may be sent by employees, business partners and other stakeholders. Responsible Supply Chain Policy in the KGHM Polska Miedź S.A. Group is available on the website at: <https://kghm.com/en/our-business/products/responsible-supply-chain>.

The Risk of failure to adhere to established principles and standards of conduct with respect to counteracting corruption, business ethics and in the procurement process and the risk of incurring losses from actions which are harmful to the KGHM Polska Miedź S.A. Group was described in more detail in this Report in the section "Comprehensive Risk Management System in the KGHM Polska Miedź S.A. Group".

## [GRI 102-8] TOTAL NUMBER OF EMPLOYEES

Total number of employees (headcount) as at 31 December	2020		2019	
	KGHM Polska Miedź S.A. Group	KGHM Polska Miedź S.A.	KGHM Polska Miedź S.A. Group	KGHM Polska Miedź S.A.
Total	34 116	18 440	34 328	18 444

## [GRI 401-1] NUMBER OF NEW HIRES AND EMPLOYEE DEPARTURES

		Number of employees (in FTEs)		Number of new hires		% of new hires (in FTEs)	
		KGHM Pol- ska Miedź S.A. Group	KGHM Polska Miedź S.A.	KGHM Pol- ska Miedź S.A. Group	KGHM Polska Miedź S.A.	KGHM Pol- ska Miedź S.A. Group	KGHM Polska Miedź S.A.
New hires:	2020	33 526	18 529*	2 898	1 022	8,64 %	5,52 %
	2019	34 345	18 536	2 519	988	7,33 %	5,33 %

		Number of employees (head count)		Number of employee departures (head count)		Percentage of employee departures	
		KGHM Pol- ska Miedź S.A. Group	KGHM Polska Miedź S.A.	KGHM Pol- ska Miedź S.A. Group	KGHM Polska Miedź S.A.	KGHM Pol- ska Miedź S.A. Group	KGHM Polska Miedź S.A.
Departures:	2020	33 526	18 529*	3 183	1 031	9,49 %	5,56 %
	2019	34 345	18 536*	2 570	952	7,48 %	5,14 %

\* workers for whom KGHM Polska Miedź S.A. is the main place of employment (the total number of KGHM Polska Miedź S.A. employees as at 31 December 2020 was 18,529)



### SELECTED GRI STANDARDS PERFORMANCE INDICATORS

#### [GRI 403-2] NUMBER OF WORK-RELATED ACCIDENTS BY GENDER:

	2020				2019			
	KGHM Polska Miedź S.A. Group		KGHM Polska Miedź S.A.		KGHM Polska Miedź S.A. Group		KGHM Polska Miedź S.A.	
	Women	Men	Women	Men	Women	Men	Women	Men
Total number of work accidents (incidents)	64	361	3	210	78	464	4	295
Number of fatal accidents (incidents)	0	3	0	3	0	3	0	3
Number of severe accidents (incidents)	0	4	0	3	0	3	0	2
Number of minor accidents (incidents)	64	354	3	204	74	450	0	290
Total number of people injured in accidents	425		213		531		299	

#### [GRI 404-1] AVERAGE HOURS OF TRAINING PER YEAR PER EMPLOYEE

	2020		2019	
	KGHM Polska Miedź S.A. Group	KGHM Polska Miedź S.A.	KGHM Polska Miedź S.A. Group	KGHM Polska Miedź S.A.
Total number of training hours	395 309	326 817	575 861	431 949
Number of employees	33 526	18 529	34 345	18 536*
Average number of training hours	11,80	17,60	16,77	23,30

\* workers for whom KGHM Polska Miedź S.A. is the main place of employment (the total number of KGHM Polska Miedź S.A. employees as at 31 December 2020 was 18,529)



## Social engagement

The social dialogue and cooperation with Copper Basin local governments is reflected in the KGHM Polska Miedź S.A.'s Strategy for 2019-2023, where "People and the Environment" is one of the 6 strategic areas. The major objective for this area is to grow based on the idea of sustainable development and safety and to enhance the Group's image as a socially responsible organisation. The social dialogue goal is achieved through cooperation with municipalities, non-governmental organisations; we employ people from local towns and carry out our activities through sponsorship and donations.

### SOCIAL DIALOGUE AND COOPERATION WITH LOCAL COMMUNITIES IN THE KGHM POLSKA MIEDŹ S.A. GROUP

[GRI 203-2]

In 2020, a number of pro-family initiatives for employees and the local community was launched:

- In the event of a childbirth, written congratulations are sent to employees in a personalised letter, along with an inspirational book on parenting topics and a few gifts: something copper, something silver, something practical.
- Fathers are able to participate in parenting training through Tato.Net workshops and they have the opportunity to participate in an annual fathers' forum organised by the same foundation.
- In 2020, 18 thousand employees of KGHM Polska Miedź S.A. but also 18 companies of the KGHM Group participated in the Two

Hours for a Family campaign celebrating the International Family Day.

In October 2020, an employee survey was conducted in KGHM Polska Miedź S.A. and PLN 5 was donated to orphanages specified by the employee for each completed questionnaire. This way more than PLN 40 thousand was donated to those in need in the Copper Basin.

Despite the pandemic, pro-family activities were continued in 2020. The activities were adapted to the epidemic situation and were conducted for the most part in an online format:

- 800 students, 400 teachers and 400 parents participated in the "Navigating a Crisis" online prevention program,
- 6,700 Leader100 tutorials were downloaded,
- 350 educational institutions received and were provided with "Kids on the Web" manual,

In 2020, the naMIEDZI application was launched, which promotes family and individual tourism

in the Copper Basin (24 routes and over 270 sites created mostly by local governments). It is a way for youth to identify with their "small homeland".

In January 2020 KGHM Polska Miedź S.A. and most of the local governments signed a joint Declaration for family in the Copper Basin, which confirmed the completion of joint projects and anticipated their further expansion. A social campaign was organised to find foster parents for 40 children from the Copper Basin. This multifaceted undertaking resulted in finding 14 foster parent candidates.

In November, 2020, KGHM Polska Miedź S.A. organised the second conference "To have an impact – 2nd Lower Silesia CSR Conference 'Sustainable Development in the Service of Family and Humanity'". The online discussions featured topics such as changes in the approach to business and sustainability and the increasing role of humanity and family-centred CSR. All these aspects are related to the ongoing social transformation caused by the technological revolution, climate change and demographic trends.

KGHM supports local municipalities among others in the preparation of their development strategies, among other topics, it supports their growth through payment of taxes, hiring residents of local communities and implements a number of Social Agreements to augment the living standard of residents.

The Company's representatives participate in meetings and sessions of City and Town Councils, and in events organised by local governments. Every year, mayors of municipalities, towns and cities participate in festivities organised to commemorate the Miner's Day and the Metallurgy Worker's Day. The Company sponsors events organised by municipalities; the KGHM Polska Miedź Foundation provides support by covering the costs of children's summer and winter day camps, school field trips and outings to a swimming pool.

In 2020, KGHM Polska Miedź continued its agreement with the Żukowice Municipality on the construction of the GG-2 shaft. In addition to financial resources for the development of the municipality, KGHM ensured health care and recreational cards to residents.

Meetings held between the Company's representatives and local governments are focused on the projects carried out by KGHM Polska Miedź S.A. benefiting the local communities, including social programmes, regional brand building, environmental protection, electromobility or power generation projects.

In September 2020, KGHM Polska Miedź S.A. held a conference with local governments entitled "The Copper Basin Development Strategy – Opportunities and Threats,"

raising, among others, economic and social topics related to the consequences of the COVID-19 pandemic. A letter of intent was signed at the meeting, in which KGHM Polska Miedź S.A. and local governments expressed their commitment to cooperation for the development of renewable energy sources in the Copper Basin by:

- initiating and holding consultations to develop administrative and organisational solutions for development of RES,
- identifying land designated for RES installations shared by KGHM Polska Miedź S.A. and local governments,
- informing all the parties about any actions taken in this respect.

In 2020, KGHM continued its activities promoting health, ecology and a healthy lifestyle for residents of the region. The company contributed PLN 3.2 million for these goals. Types of supported activities:

- the municipality of Legnica received support for the social education campaign entitled "Take your health into your own hands" addressed to families living in the city, and for the social education campaign entitled "I am a miracle" for children and youth. The goal of the campaign was, among other things, to prevent addictions.
- the municipality of Głogów received funds for planting trees and bushes, for nephrology, pulmonology and endocrinology tests as well as promotion of physical, cultural and social engagement.

The remaining local governments received funds for social prevention activities for the youth, development of a website taking into account the needs of the disabled, implementation of regular courses in the Senior+ Club, for equipping schools and Voluntary Fire Brigades. The municipality of Polkowice used some of the donated funds to purchase a modern ultrasound machine for imaging diagnostics.

### ACTIVITY IN INTERNATIONAL PROJECTS

#### Victoria Project

In 2020, exploration work continued to increase the knowledge of mineral resources in the project and construction work was executed on the first phase of the water treatment plant. The activities aimed at keeping good relationships with key stakeholders in this project were also continued.



### Ajax Project

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. In June 2018, the Government of Canada, through the Governor-in-Council (Cabinet), issued a negative decision regarding the implementation of the Ajax project due to its anticipated significant adverse environmental impact. The decisions were made through the environmental impact assessment process reflecting the substantial engagement of provincial and federal governmental agencies, First Nations and a broad spectrum of stakeholders, including thousands of local citizens.

In 2020, the Ajax project office was opened in Kamloops (British Columbia) a person responsible for liaising with local stakeholders was hired as one of the key elements of the project focused on dialogue with the First

Nations and the local community. Work was also conducted on monitoring and securing the project site in accordance with regulatory requirements.

Information about risk in the area of social dialogue of the KGHM Polska Miedź S.A. Group was described in this Report in the section "Comprehensive Risk Management System in the KGHM Polska Miedź S.A. Group".

### SUPPORT OF THE PUBLIC BY THE KGHM POLSKA MIEDŹ S.A. GROUP DURING THE COVID-19 PANDEMIC

KGHM Polska Miedź S.A. as well as all foreign mines of KGHM Polska Miedź S.A. Group and Sierra Gorda S.C.M. took a number of measures in connection with the announced state of epidemic.

As part of the measures, KGHM Polska Miedź S.A. together with the companies of the KGHM Polska Miedź S.A. Group became involved, among others, in the production of disinfectants (a special production line was launched by NITROERG S.A. to produce NITROSEPT liquid) or the production of protective masks and aprons (KGHM ZANAM S.A. and MERCUS Logistyka Sp. z o.o.).

In 2020, the KGHM Polska Miedź Foundation donated 20 thousand litres of Nitrosept disinfectant to hospitals, hospices and other medical facilities throughout Poland. The first donations of the liquid produced by a company from the KGHM Group were made to the staffs of medical institutions.

The KGHM Foundation also donated over PLN 1.2 million for the purchase of equipment necessary to save health and life in connection with the sudden increase in infected people, including ventilators, testing kits and oxygen dispensers. Assistance was provided to the Copper Health Centre Hospital in Lubin and the Regional Specialised Hospital in Legnica.

Batches of sterilised protective masks sewn by KGHM ZANAM S.A. and MERCUS Logistyka Sp. z o.o. were provided to those in need, including the RCZ Hospital. PHU Lubinpex Sp. z o.o., a KGHM Group company, supplied lunches to the staff of the hospital in Legnica – up to 200 lunches per day were served to the medical personnel. The KGHM Group also donated FFP2 masks to the Lower Silesian Voivode, who coordinates activities in the region aiming to prevent the spread of the coronavirus. The Group also provided the Powiat Starost's Office in Głogów with a building that can be used for quarantine purposes.

KGHM Polska Miedź S.A., together with regional Social Assistance Centres, Caritas and local organisations, planned measures to increase the safety and comfort of the elderly in Lower Silesia. The total involvement of KGHM in Solidarity Senior Support Service has so far amounted

to over PLN 400 thousand. Over 28 thousand older people in the region received assistance. The KGHM Polska Miedź Foundation provides funds for social assistance centres in the region, among others, to purchase food products. These activities are supported by the Company's volunteers, who are actively involved in the preparation and distribution of the individual gifts. In November 2020, the KGHM Foundation provided support to four Caritas units: the Archdiocese of Wrocław, the Diocese of Legnica, the Diocese of Świdnica and the Diocese of Zielona Góra and Gorzów. In this way, nearly 400 food packets were delivered among others to senior citizens in Wrocław and the surrounding area. The packages contained the most needed products, mainly food with long expiry dates. This is crucial as during the pandemic it is quite difficult to do shopping and may be also risky for one's health.

In late November/early December 2020, KGHM Polska Miedź S.A., in observance of the government instructions, opened a temporary ward for COVID-19 patients in Wałbrzych in a building complex on Batorego Street. The ward has 50 beds for sick residents of the region.

At Miedziove Centrum Zdrowia (Copper Health Centre) in Lubin, which belongs to the KGHM Group, a ward for patients with COVID-19 and suspected infection has been operating since November 2020. The hospital can take more than 50 patients.

## WE CARE, WE ACT, WE PROTECT EFFECTIVELY FIGHTING THE SPREAD OF THE CORONAVIRUS



### Initiatives & procedures

- COVID-19 unit at the hospital MCZ
- Two temporary hospitals in Legnica and Wałbrzych
- Help for seniors
- Home office and restricted contacts
- Protective procedures



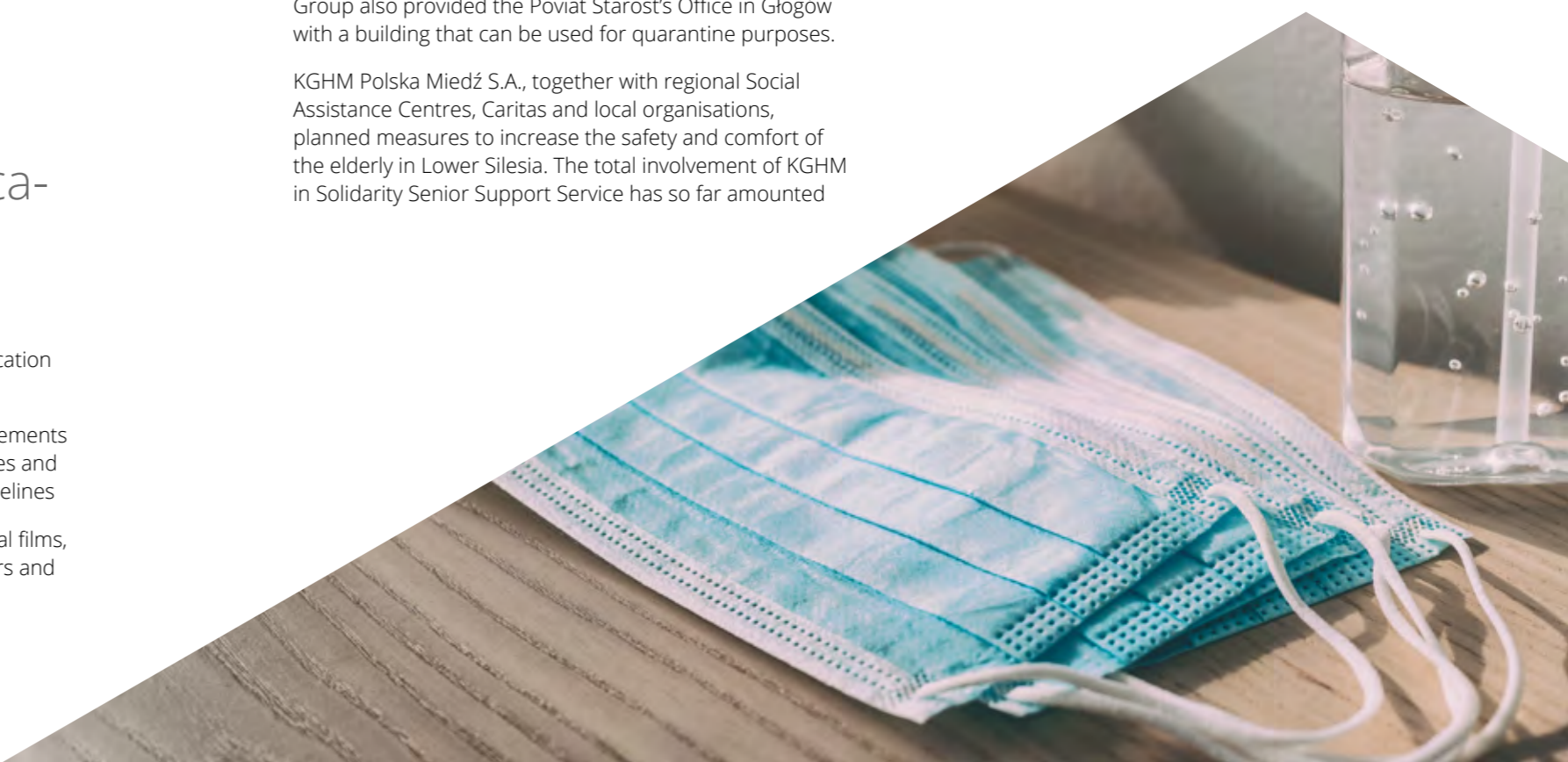
### Preventative methods

- Thermal cameras
- NITROSEPT disinfectant liquid
- Disinfection and masks in common-use areas and during transport
- Personal safety measures when travelling into/out of the mines



### Communication & education

- Numerous communication channels
- Continuous announcements on internal procedures and sanitary services guidelines
- Billboards, educational films, handouts, newspapers and company TV
- Special Infolines for employees





## FOUNDATIONS, SPONSORSHIP AND CSR ACTIVITIES IN THE KGHM POLSKA MIEDŹ S.A. GROUP

“ The year 2020 taught us how to deal with unexpected situations. The “Copper Heart” employee volunteerism program has been operating in KGHM POLSKA MIEDŹ S.A. since 2014 and this year it showed that we can count on the noble hearts of KGHM employees. In 2020, the volunteers, while complying with the sanitary requirements, supported senior citizens, prepared food parcels and collected money for those in need. This required exceptional commitment.”

**Lidia Marcinkowska-Bartkowiak**  
Executive Director for Communicatio

KGHM is a “good neighbour and trustworthy investor”. It supports local communities, social organisations and institutions related to science, culture and sport. It promotes an active lifestyle and helps people in need.

One of the pillars of our efforts in the area of corporate social responsibility is the KGHM Polska Miedź Foundation which is engaged in pro publico bono and charitable activities. It helps in performance of socially useful projects, and it supports the people who are experiencing hardships.

### KGHM POLSKA MIEDŹ FOUNDATION

The KGHM Polska Miedź Foundation was established in 2003 to continue the tradition formed over many years of pro publico bono activity conducted by its Founder, i.e. KGHM Polska Miedź S.A. and implement local and regional initiatives and projects with a national and global reach. The Foundation's day-to-day activities are informed by the values held by the Founder, which include zero harm, teamwork,

results driven, accountability and courage. The basis for the operation of the KGHM Polska Miedź Foundation are financial and material donations granted to:

- individuals in the field of health care and natural disaster relief;
- institutions for project execution.

The projects pursued by the KGHM Polska Miedź Foundation in 2020 were a natural continuation of its activities to date and a result of program changes agreed in the course of consultations between the Management Board and the Supervisory Board of the Foundation and the corporate bodies of the Founder, KGHM Polska Miedź S.A. The Foundation's activities focused on granting donations and overseeing how they are spent as well as on running social support programs. The commitments undertaken by the Foundation in 2020 were carried out with utmost care, following an in-depth analysis of the submitted requests and with a detailed consideration of the capacity to help, in pursuit of the Foundation's goals in four main areas:

## Health and safety

## Sports and recreation

## Culture and tradition

## Science and education



In 2020, the KGHM Polska Miedź Foundation made every effort to identify various social needs, in line with the assumptions of its articles of association and within its capabilities. The support, in the form of monetary and material donations, reached the total amount of **PLN 25,097,363.68**, of which

**390 institutions** received **PLN 24,393,753.09** and **74 individuals** received donations of **PLN 703,610.59**, as shown in detail in the table below:

### FINANCIAL SUPPORT AWARDED BY THE KGHM POLSKA MIEDŹ FOUNDATION IN 2020

	2020		2019	
	KGHM Polska Miedź S.A. Group	KGHM Polska Miedź S.A.	KGHM Polska Miedź S.A. Group	KGHM Polska Miedź S.A.
Łączna liczba pracowników (w przeliczeniu na osoby) na 31 grudnia danego roku				
Total number of training hours	395 309	326 817	575 861	431 949
Number of employees	33 526	18 529	34 345	18 536*
Average number of training hours	11,80	17,60	16,77	23,30

No.	AREA	Donations	
		Amount awarded PLN	Number projects/individuals
<b>DONATIONS FOR INSTITUTIONS</b>		<b>24 393 753,09</b>	<b>390</b>
1	HEALTH AND SAFETY	8 314 769,20	69
2	“COVID-19 Countermeasures” Campaign	2 419 517,91	134
3	SCIENCE AND EDUCATION	3 501 217,16	51
4	SPORTS AND RECREATION	2 027 508,51	35
5	CULTURE AND TRADITION	8 130 740,31	101
<b>DONATIONS FOR INDIVIDUALS</b>		<b>703 610,59</b>	<b>74</b>
1	HEALTH CARE	7 030,59	74
2	SOCIAL ASSISTANCE	-	-
TOTAL DONATION AMOUNT		25 097 363,68 PLN	



Within the **“Health and Safety”** area, the KGHM Polska Miedź Foundation provides financial support to healthcare institutions and private individuals. Most of the funds are used to purchase state-of-the-art equipment and specialist medical apparatuses for hospitals, rehabilitation centres and other healthcare facilities. This resulted in significant improvement of quality and effectiveness of pro-health prophylaxis. As regards health protection, the Foundation’s activities are not reduced merely to provision of equipment to healthcare facilities but it also finances preventive examinations for residents as well as initiates and supports projects promoting blood donation and hemotherapy, and co-funds scientific conferences in the field of medicine. Individuals receive financial aid from the KGHM Polska Miedź Foundation for health care, including in particular: purchase of hearing aids and wheelchairs, medicines, surgical treatment, including treatment abroad, and inpatient rehabilitation.

With the wellbeing and safety in view, the KGHM Polska Miedź Foundation is involved also in numerous projects and actions related to public safety. Modern rescue and fire-fighting equipment and special vehicles for local emergency rescue facilities, e.g. fire and police stations. State-of-the-art equipment contributes to increased safety and enables efficient operation of institutions that protect our life, health and property. As part of its social activity, the KGHM Polska Miedź Foundation tries to counteract social exclusion of people and families that found themselves in a difficult life situation. Cash donations are made for projects related to organisation of Christmas actions for those in need, e.g. Christmas Eve for the homeless or gifts for children.

In 2020, due to the epidemic situation related to the spread of SARS-CoV-2 virus, “Health and Safety” became the priority area of the KGHM Polska Miedź Foundation’s operations. The majority of donations was granted in this area. **74** individuals received funds in the total amount of **PLN 703,610.59** and co-financing was provided to **69** projects in the total amount of **PLN 8,314,769.20**.

Moreover, concerned about the safety and health of the society, the Foundation’s Management Board initiated the **“COVID-19**

**Countermeasures” Campaign** in 2020, assuming the purchase and in-kind donation of means necessary for preventing, counteracting and fighting the SARS-CoV-2 virus and COVID-19. In-kind donations with the total value of **PLN 2,419,517.91** were provided to **134** institutions, including:

- 16 voivodeship offices, which forwarded the received in-kind donations to 1,038 institutions operating in individual voivodeships,
- 22 voivodeship or powiat hospitals and healthcare facilities,
- complexes of schools located in the Copper Basin,
- 44 city and municipal social assistance centres and local authority units, Caritas branches, social assistance homes, hospices, foundations and other entities caring for the elderly and disabled and acting for the benefit of local communities.

**The following were given as part of in-kind donations:**

- 107,810 litres of Nitrosept disinfectant,
- 440,880 sachets of Nitrosept disinfectant,
- 43,800 protective masks,
- 1,485 protective suits,
- 250 medical visors,
- 20 protective goggles,
- 3 ventilators.

For the purpose of preventing, counteracting and fighting the COVID-19 contagious disease, the financial donations given to institutions were related to financial support for the purchase of specialist equipment, i.e. ventilators, patient monitors, oxygen cylinders, the provision of equipment for the diagnostic line for laboratory tests, thermal imaging cameras, equipment of performance of tests to increase the diagnostic capacities, and for the purpose of personal protective equipment, provision of additional meals to healthcare practitioners, support for seniors during the COVID-19 pandemic in the form of packages with food products, consumer chemicals and medical products.

In the **“Science and Education”** area, the KGHM Polska Miedź Foundation focuses on promoting these domains. Support from the KGHM Foundation is received by educational facilities, which purchase teaching aids for the received funds, thereby contributing to an increased education level. Scientific projects supported by the Foundation include also scientific publications or organisation of scientific conferences, contests, as well as educational and integration classes for children and youth.

Science and education is the area of comprehensive actions of the KGHM Polska Miedź Foundation to support the development of education, science, and economy based on knowledge, innovation, social capital, and learning society. As part of a broad range of initiatives, the amount of **PLN 3,501,217.16** was spent to run **51** projects in 2020.

In the **“Sports and Recreation”** area, the KGHM Polska Miedź Foundation supports all actions for the development of physical activity of young people undertaken by local institutions, associations and sports clubs. The cash donations provided by the Foundation enabled the purchase of sports equipment and delivery of numerous sport training courses, various tournaments and competitions, and establishment of new recreational and sports facilities, such as outdoor gyms. Moreover, some of the funds were dedicated to co-funding the organisation of summer and winter holidays for children and youth by local divisions of the Society of the Friends of Children (TPD), the Polish Scouting and Guiding Association (ZHP), associations, orphanages, and churches. The participants are mainly children and youth from underprivileged, dysfunctional, and poor families, who, thanks to the Foundation’s support, have the opportunity to go to the seaside or the mountains for the first time in their lives and learn about another culture.

Sports and recreation is the area of operation for the KGHM Polska Miedź Foundation which supports all sports initiatives and popularizes social attitudes and behaviours based on values propagated by physical culture and sport. In 2020, the amount of **PLN 2,027,508.51** was expended on the execution of **35** projects.

The Foundation considers popularisation of physical culture and sport as well as education in preventive health care an important field of social life and therefore intends to continue activities promulgating an active and healthy lifestyle.

The **“Culture and Tradition”** area is a very important part of the KGHM Polska Miedź Foundation’s activities, in which the Foundation supports projects cultivating mining and smelting traditions, commemorating Polish cultural and historical heritage and strengthening local cultural identity

at the local, regional and national levels. The supported projects entail rescuing cultural heritage and tradition and contribute to a considerable improvement of the condition of many historic buildings, even saving some from collapse. To support culture and art, the KGHM Polska Miedź Foundation also provides financial aid to diverse artistic and cultural events organised by various associations, cultural societies, cultural centres and museums.

The Foundation respects the cultural heritage of previous generations, as it forms the basis for building identity; its overriding value is supporting traditions of communities and traditions cultivated by various social, religious and cultural groups. In 2020, it co-financed 101 projects in the area of culture and tradition with the total amount of PLN 8,130,740.31.

### KGHM POLSKA MIEDŹ S.A. HEALTH PROMOTION AND ENVIRONMENTAL HAZARDS PREVENTION PROGRAM

The program has been implemented for four years in cooperation with an external company. In 2020, PLN 127,520.00 was allocated to this program, which supported 49 people from towns neighbouring the future Southern Quarter of the Źelazny Most Tailings Storage Facility, who took winter vacation in February 2020.

Because of the epidemic situation in Poland and the spread of the SARS-CoV-2 virus, in the 2020/2021 school year, the Management Board of the KGHM Polska Miedź Foundation suspended the organisation of group prevention and health trips for children and youth as part of the Foundation’s statutory activity and the Health Promotion and Environmental Hazards Prevention Program. The measures undertaken by the Foundations resulted from its care for the safety and health of the participants, their families and all the people involved in the organisation of prevention and health trips for children and youth.

In connection with the significant interest shown both by the participants and the local community, the Management Board of the Foundation hopes that, in the academic year 2021/2022, it will be able to restore the program, which has been a long-term staple of the KGHM Polska Miedź Foundation’s statutory activity.

More information on the activity and projects of the KGHM Polska Miedź Foundation may be found at <http://www.fundacjakghm.pl/>

### REVIMINE INNOVATION AND CULTURAL HERITAGE FOUNDATION

The Revimine Foundation was established in 2014 by KGHM Polska Miedź S.A. In 2020, the foundation





supported undertakings counteracting the effects of the SARS-CoV-2 virus epidemic, social initiatives in the Copper Basin area, local tourism by launching the naMIEDZI mobile app and development of competences of young people entering the labour market.

**SPONSORSHIP**

KGHM's sponsorship strategy is closely associated with the activity pursued in the area of Corporate Social Responsibility (CSR) and assumes that most funds will be allocated to the performance of the planned actions for promoting the Company and the region on the one hand and for supporting valuable cultural, sports, scientific, and social initiatives and undertakings contributing to Lower Silesia marking its presence on the map of Poland and Europe on the other hand.

Efficient operation of important cultural or scientific institutions today depends largely on the support from sponsors. Without support from companies such as KGHM, many valuable projects would have no chance of successful completion.

**The areas falling within the scope of KGHM Polska Miedź S.A.'s sponsorship activity are culture, science, and sports.**

The Company considers sport an important area of social life and therefore it supports both top-class professional sports and amateur sports. As the largest employer in the region, it appreciates the significance of sport in forming the culture of leisure for adults and its educational role for youth. The Parent Entity is the major sponsor and at the same time the owner of Zagłębie Lubin S.A., a football team playing in the top Polish football league (which is the top league in Poland).

For years, KGHM Polska Miedź S.A. has been one of the sponsors of "Bieg Piastów", a cross-country skiing marathon, in Jakuszyce. KGHM also supports other running events, such as "Cross Straceńców" (Cross-Country Race

of Desperados), the New Year running and walking event in Głogów, the Wolf's Trail Run to commemorate Polish "Disowned Soldiers", as well as local sports organisations whose members include employees of the KGHM Group.

KGHM Polska Miedź S.A. is perceived as a patron of culture and art. It participates in organisation of significant projects addressed to the society in the region and the whole country and takes patronage over them. In 2019, KGHM took patronage over the Royal Castle in Warsaw, which was inaugurated by the exhibition "To rule and to dazzle. Jewels and jewellery in Poland in the 16th and 17th centuries". The patronage was continued in 2020.

As regards science, KGHM Polska Miedź S.A. supports higher education institutions and scientific institutes, thus tightening cooperation and building a bridge between the industry and the academia. The Company provides financial and subject-matter aid to projects thematically related to the problems solved to meet the needs of KGHM and the region.

To ensure transparent rules of taking decisions to support a given project, offers are analysed by the Sponsorship Committee. Decisions issued by the Committee are recorded in a report, which is approved each time by the President of the Management Board of KGHM Polska Miedź S.A.

The sponsorship activity of the KGHM Group is subject to regulations given in the Sponsorship Policy of KGHM Polska Miedź S.A. and the procedure of obtaining an opinion from the Sponsorship Committee.

Amounts granted by KGHM Polska Miedź S.A. through its Sponsorship function in 2020, by area:

**Sport**  
28,977,000 PLN

**Science**  
1,477,110 PLN

**Culture**  
6,357,000 PLN

**Total**  
36,811,110 PLN

**THE AMOUNT SPENT BY THE KGHM GROUP COMPANIES (EXCLUDING THE PARENT ENTITY) AS PART OF ITS SPONSORSHIP ACTIVITY IN 2020 WAS:**

	Companies in Poland	KGHM International	Total
Sponsorship	64,546	61,692	126,238
Donations	902,797	470,235	1,373,032
<b>Total</b>	<b>967,343</b>	<b>531,927</b>	<b>1,499,270</b>



## KGHM POLSKA MIEDŹ S.A. CSR PROGRAMS

Social responsibility and sustainable development are important elements of business operations today. A company that cares for the development of its own organisation must take into account activities aimed at achieving a balance between its profitability and the broadly understood social interest.

CSR is particularly important in the mining industry. Due to the special character of their operations, companies such as KGHM Polska Miedź S.A. carry have a special responsibility for the projects they are implementing.

By planning and pursuing CSR activities the addressees and direct recipients of which are social beneficiaries of its environment, the Company upholds the “license for operation”, which is important for the group and which is manifested in the social acceptance of KGHM’s business activity in the mining sector.

The ECO-Health program was launched in 2014 as part of corporate social responsibility. The priority of the ECO-Health program are in particular promotion of preventive health care and active lifestyle among residents of the Copper Basin. The purpose of the program is to undertake projects/initiatives promoting preventive health care, active lifestyle, physical activity and recreation, in order to improve the physical condition and health of the children, adults and the elderly living in the region.

“ Sports is my passion, my profession and my life. It is also a recipe for health for everyone – it keeps you fit and helps reduce stress. That is why I am a big proponent of the ECO-Health program, which promotes an active lifestyle among the residents of the Copper Basin”.

### Radosław Kawęcki

Polish swimmer, triple 200m short course world champion, triple European champion, two-time vice-champion of the world, 7-time short course European champion in 100m and 200m events, beneficiary of the KGHM “Copper Competition” scholarship.

The program’s efforts to advance include regular activities: Nordic Walking for adults, recreational gymnastics for elderly citizens, and swimming lessons for children.

The Nordic Walking project is addressed to people over 35 years of age. It assumes cyclic activities with the participation of qualified and experienced instructors in various cities and towns of the Copper Basin. The participants acquire or improve the basic skills of walking with the poles and take part in lectures on Nordic Walking techniques and principles of healthy nutrition.

The impact of Nordic Walking on the body is similar to that of jogging without putting excessive strain on joints and the spine. It relieves hip and knee joints, the lumbar spine, and releases shoulder, neck, and back muscle tension. Additionally, it does not require specialised equipment and engages up to 90 per cent of muscles safely (with a low risk of injury).

**So far, 10 editions of the Nordic walking project have been held in which more than 1,500 people participated.**

The swimming teaching program assumes regular basic swimming classes for children aged 5-10. The classes are held in indoor swimming pools in several towns of the Copper Basin: Chojnów, Legnica, Lubin, Polkowice, Głogów, and Rudna, and children develop their basic swimming

skills under the supervision of qualified instructors from swimming clubs in the region. Swimming is a sport strongly recommended to children. It helps ensure the correct posture and reverse scoliosis. This discipline makes a child develop healthily, be physically fit, have a good stamina and motor coordination. Water exercises have a highly positive influence on the respiratory and circulatory systems, too.

**So far, 10 editions of the swimming learning project have been held in which approx. 3,000 children participated.**

Recreational gymnastics with specialised hammocks, a project dedicated to the elderly, is implemented in a few towns in the region: Lubin, Legnica, Polkowice, Głogów, Chojnów, Ścinawa, and Złotoryja. Fitness instructors and physiotherapists participate in the classes.

The specialist classes project offers many benefits, such as:

- it strengthens and stretches muscles;
- restores natural mobility of the joints;
- minimizes back and muscle pain;
- improves circulation of blood;
- stimulates the immune system;
- strengthens internal organs;
- improves memory and concentration;
- addresses sleep issues;
- prevents depression.

**Over 250 people aged 55-80 have taken part in three editions of the recreational gymnastics project so far.**

In 2020, because of the epidemic conditions, within the ECO-Health program the Company implemented a number of online projects addressed to employees and residents of the region. Instructional materials on Nordic walking, swimming, rollerblading, classes for seniors or general physical activity with well-known sports figures were designed to inspire viewers to spend their free time actively.





**Volunteerism is gaining strength in KGHM – several dozen support activities were carried out in spite of the pandemic. During the difficult year 2020, the activity of employee volunteers in KGHM Polska Miedź S.A. has did not declined. Employees of the copper giant took part in several dozen projects for the needy Copper Basin residents.**

As they do every year, the Company's employees became involved in the "Noble Package" nationwide campaign on a spectacular scale. Gifts for families were prepared in KGHM's divisions but also individually. There were more than 100 of them prepared by employee groups. Aid and contacts with families are continued also after the final of the campaign.

After the end of the "Noble Package" activities, KGHM volunteers joined in the campaign to help victims of a fire in Lubin. A single mother received food supplies and the necessary items such as clothes and hygiene products.

KGHM employees took special care of the elderly in the Lower Silesia region. Volunteers prepared nearly 3 thousand food parcels. They did not end with that, since seniors needed human contact more often than material aid. Karolina, a volunteer, was supposed to walk a dog. "Ultimately, even though I never walked that dog, our numerous phone conversations were incredibly inspiring," said Karolina who is a KGHM employee.

KGHM's volunteers also became involved in helping their colleagues from KGHM. One of the beneficiaries was Daniel, an employee at the Polkowice-Sieroszowice Mine. After his colleagues organised a fund-raising campaign, he was able to take part in a rehabilitation camp in one of the best facilities in Poland. Currently volunteers on their own carry out a renovation and adapt his house to the needs of a disabled person.

It is also worth noting that KGHM employees associated in blood donation clubs donated more than one thousand litres of blood this year. This impressive result should be supplemented also by individual donors and donors of plasma, in particular from recovered patients. Volunteers responded without hesitation to appeals from blood collection stations across the region.

The activities of KGHM's employees were recognised by the County Starost's Office in Lubin. The company won this year's award in the CORPORATE VOLUNTEERISM PROGRAM category. The officials honoured the Company for promoting various forms of social engagement and for pro-community attitudes.





The “Copper Heart” employee volunteerism program has been operating in KGHM POLSKA MIEDŹ S.A. since 2014. The support is provided by the employer to employees for their personal development and pursuit of their passions, and joint engagement in socially significant actions enhances integration and job satisfaction. Volunteering activities reinforce the values guiding KGHM employees on a day-to-day basis: responsibility, safety, performance orientation, courage, and collaboration. Employees engaging in organizing and participating in charity actions become ambassadors of the KGHM Polska Miedź S.A. brand and they are the best evidence of the effectiveness and appropriate implementation of the corporate social responsibility policy.

The year 2020 showed that nothing is certain. It taught us how to deal with unexpected situations. It also showed that one can always count on the noble hearts of KGHM employees involved in the “Copper Heart” employee volunteerism project. In 2020, the volunteers, while complying with the sanitary requirements, supported senior citizens, prepared food parcels and collected money for those in need. This required exceptional commitment. Marcin Chludziński, President of the Management Board of KGHM Polska Miedź S.A. expressed his gratitude to all volunteers and each one individually.

The activities of KGHM’s employees were recognised by the County Starost’s Office in Lubin. KGHM Polska Miedź S.A. won the award in the CORPORATE VOLUNTEERISM PROGRAM 2020 category. The officials honoured the Company for promoting various forms of social engagement and for pro-community attitudes.

On 27 March 2019, KGHM Polska Miedź S.A. inaugurated the “Copper Competition” scholarship program. The second edition of the program was held in 2020. The basis for granting the scholarship by the President of the Management Board of KGHM Polska Miedź S.A. is exemplary sporting achievements and orientation towards increasingly better results. The program supports the athletes who have already achieved considerable success. In 2020, in cooperation with the Ministry of Sports, scholarships were awarded to 24 athletes, of which 7 originated from the Copper Basin. The support allows them to focus on training and achieving the best possible performance.

Unique on the Polish scale, the “Leaders” KGHM Leadership School Project is an action that consists in training the future leaders of the business and social sphere and preparing them for fulfilling a significant role in the dynamically changing world. Course participants will acquire the knowledge and skills that are necessary for

contemporary managers. The lecturers and trainers who educate the future “Leaders” place a special emphasis on the practical aspect of management of organisations, whose environment imposes continual adaptation, innovation and creativity. The “Leaders” KGHM Leadership School Project is addressed to students of the final year of Master’s studies (or equivalent second cycle studies) and to recent graduates (up to 3 years after graduation). Additionally, doctoral students can be candidates for the program until they finish their studies.

The “Leaders” KGHM Leadership School Project entailed: lectures, training sessions and workshops in the field of politics and economy, analysis and formulation of conclusions, rules of free market economy and basic phenomena related to its operation, financial mechanisms of enterprises and institutions, strategic management, project management and work organisation, communication, discussion and public speeches, innovation and creativity, as well as leadership. The classes at the School are delivered by the leading managers of KGHM, professional trainers and advisers, as well as retired generals and admirals of the US Armed Forces, who are currently working for the renowned consulting firm, The Spectrum Group.

In 2020, 30 students and graduates began classes in the second edition of the “Leaders” Leadership School of KGHM. More information about the project: <http://przewodnicykghm.pl/>

# Natural environment

**250** Actions aimed at protecting the natural environment, including the climate, and implementation of a Circular Economy:

Protection of the natural environment

Water and wastewater management

Waste management and implementation of the idea of Circular Economy

Activities to preserve biodiversity

Environmental activities in KGHM Polska Miedź S.A.

Energy from own sources and RES

**266** Energy Policy of KGHM Polska Miedź S.A.

**280** KGHM Polska Miedź S.A. health promotion and environmental hazards prevention program

**282** Selected GRI Standards performance indicators

# Actions aimed at protecting the natural environment, including the climate, and implementation of a circular economy

KGHM Polska Miedź S.A., as one of the largest socially responsible companies, takes action to reduce its impact on the environment.

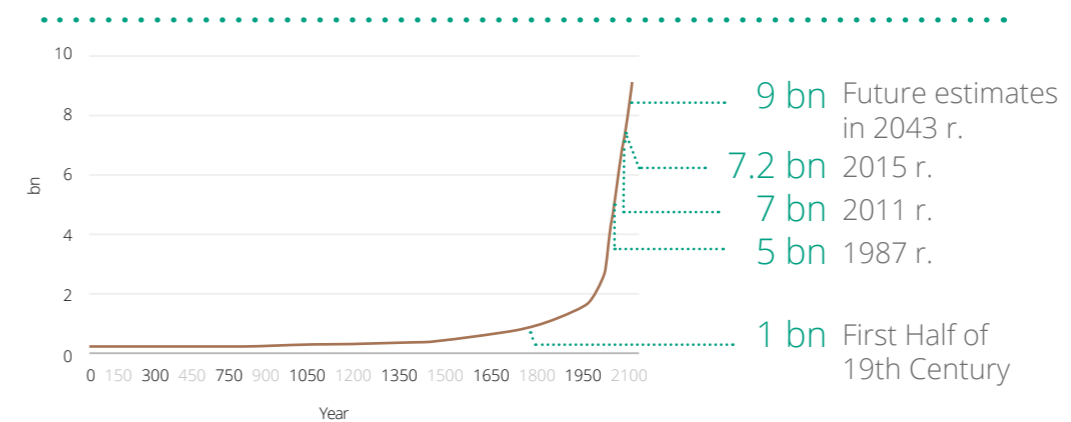
The concept of sustainable development, including conservation of the natural environment, is one of the most significant values driving the Company's activities.

We care for the natural environment and minimize our adverse impact.

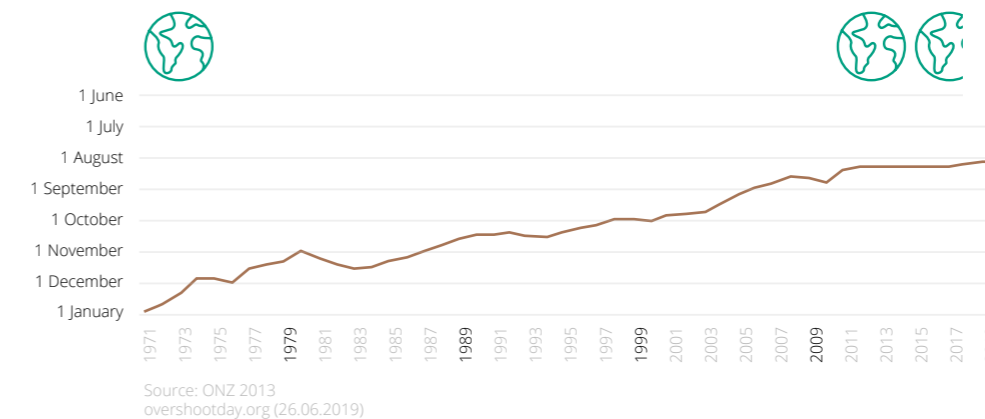
In pursuing the slogans and values presented above, we are also guided by an awareness of our responsibility not only to the current generations but also to future ones. Therefore, as regards sustainable development actions, we endeavour to find the best solutions serving the purpose of satisfying the demand for copper and other metals in connection

with the growing human population (which is estimated to exceed 9 billion by 2040). At the same time, we are aware of the constant growth of the Earth Overshoot Day (for 2019, demand for the Earth's resources exceeds what it can regenerate by 75%). The trend is shown by the graphs below:

## WORLD POPULATION



## EARTH OVERSHOOT DAY 1970 - 2019



This tells us to seek solutions for satisfying the existing market demand and also protecting the natural environment.

We prepare and implement the actions in compliance with regulations in force, sometimes even going beyond specific trends and laws. Informing about our activity concerning broadly-conceived environmental protection, we follow

the guidelines of the document entitled "Implementing the Recommendations of the Task Force on the Climate-related Financial Disclosures (TCFD)" of June 2017 as well as the Communication from the European Commission 2019/C 209/01 of 19 June 2019 Guidelines on non-financial reporting: Supplement on reporting climate-related information.



“ Although KGHM Polska Miedź S.A. has consistently implemented all the changing regulations about environmental protection for years, now it is a completely new situation. As a result of the dynamism, momentum and comprehensive nature of the European Green Deal, businesses are faced with challenges unknown so far.

The first and most fundamental of these is the rapidly growing number of regulations relating to climate and environmental protection. This is compounded by an increase in their complexity, resulting in additional costs and risks to production processes. In effect, regardless of the intentions of the initiators and creators of these standards, the continuity of European value chains is at risk.

Another issue relates to the impact that the central political objective of the EU has on the wider business environment. Its scale increasingly goes beyond the literal requirements of particular items of legislation. What is going on here is that there emerges a set of unwritten (but frequently required on a par with formally binding) rules and expectations concerning broadly conceived environmental protection. As a result, it is not only important now just to comply with formally binding standards, but also to keep abreast of trends and the associated social and market expectations. For business, this is another risk, but also an opportunity. Those who will accurately diagnose the development of such trends will be able to adapt to them in advance,

improving their own competitive position.

An important issue is also the connection between the standards and trends on the one hand and the actual possibilities of their implementation on the other. In some areas relating to environmental protection, we observe today that the rapid process of making requirements stricter is not accompanied by adequate technological progress to achieve the desired objectives.

All these trends and regulations must be approached in a systemic and reasonable manner. We must not panic, but neither should we ignore the opportunities and threats. Since 2019, I have been the head of a regulatory team at KGHM Polska Miedź S.A., whose task is just to identify the risks appropriately so as to be able to defend ourselves against them or use them as weapons on the competitive market. Our Company, because of conducting business responsibly, is already now the European leader in the production of non-ferrous metals. Our clients appreciate the fact that the products bought by them are produced in a company operating in accordance with the highest global standards, in compliance with the principles of sustainable development. I am deeply convinced that we will manage also in a new green Europe defined by the New Green Deal.”

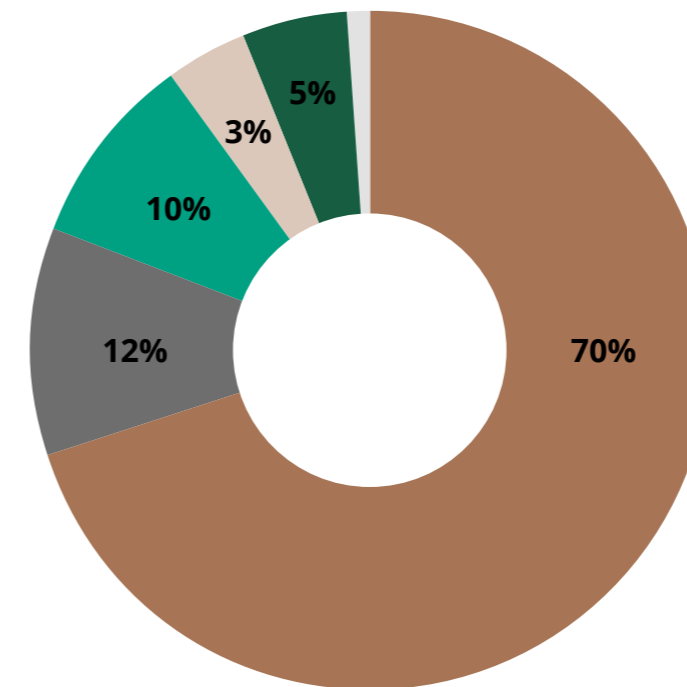
**Radosław Żydok**  
Director of the Regulatory and Strategic  
Analyses Department

PRO-ECOLOGICAL INVESTMENTS KGHM GROUP



Over  
186 mn PLN

spent in 2020  
by KGHM on  
pro-ecological  
investments <sup>1</sup>



[including more than PLN 43 million on construction of an installation to eliminate arsenic and mercury from gases at the Solinox installation in the Legnica Smelter/Refinery under the BATAs Program]

- BATAs
- Biechów III
- WPA Deduster Głogów
- other projects at HMG
- other projects at HML
- environmental expen. on projects at the TSF and Head Office

Using the definition and the methodology of identification of natural capital prepared by Natural Capital Coalition, the KGHM Group has considered the following natural resources as the source of its economic and social benefits: mineral resources (ferrous and non-ferrous metal ores, sodium as well as potassium and magnesium salts, organic or mineral aggregates, and petroleum products), water, trees (wood) and air.

Based on the idea of sustainable use of natural capital, we have defined three key areas of interest for the KGHM Group:

- protection of climate and ambient air
- water and sewage management
- waste management and implementation of the idea of a circular economy

<sup>1</sup> Reducing emissions of pollutants to the atmosphere



## PROTECTION OF CLIMATE AND AMBIENT AIR

The KGHM Group perceives the occurrence of significant climate changes caused by an increase in average temperatures. We are also aware of the fact that the main cause of this process is the growing emission and accumulation of greenhouse gases (GHG) in the atmosphere (according to the IPCC scientific consensus). This disturbed the natural circulation of these gases, consisting in their emission being balanced by the level of assimilation in the environment. As a result, in particular in recent years, we have observed an increased dynamics of the so-called greenhouse effect. These phenomena cause the occurrence of dynamic weather events (thunderstorms, rainstorms, hurricanes, droughts) and climate changes (increase in the average annual temperature, decrease in the average precipitation, and further lowering of water tables as well as the progressing steppe formation).

Feeling responsible for the way of conducting its business activity, the KGHM Group is commencing work on slowing down the pace of the adverse climate changes. By this, we are joining global actions of the international community as well as individual countries and companies aiming to achieve the sustainable development goals which are part of the so-called 2030 Agenda for Sustainable Development adopted by the UN.

We will ultimately perform these actions in a fully systematic manner, as recommended in the Communication of the European Commission. It has established guidelines on non-financial reporting: Supplement on reporting climate-related information (2019/C 209/01), including an Annex on Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), in the part applicable to the Metals and Mining sector. Despite the non-compulsory, till now, nature of the documents listed above, the Group commenced work for the introduction of the resulting systematic actions and reporting method.

Their point of departure was to determine the significance of the information related to climate for the KGHM Group. Based on the guidelines set by the experts from the AGH University of Science and Technology and using a reporting factor significance examination tool, we have determined the level of significance of the information related to climate to be very high for the KGHM Group. We have also pointed out that its significance will continue at the same level in the short, medium, and long term as well as in the entire value chain of the KGHM Group.

Defining each timeframe, we have assumed the following:

- the short term is the timeframe of the current strategy of the KGHM S.A. Group
- the medium term is the 2030 horizon, i.e. the year when the emission targets set by the European Union under the Paris Agreement (COP21) should be met
- the long term is the 2050 horizon, i.e. the year when the European Union intends to achieve climate neutrality

We have also assessed that the KGHM Group does not and will not have a very high direct impact on climate in the reporting period and in future periods. The main products manufactured by the Group are provided as raw materials to the industries which will be strongly affected by the low-carbon transformation (construction, automotive production, power engineering). The transformation will involve the use of new technologies reducing greenhouse gas emissions and replacement of the current high-emission technologies. Compared to the solutions used to date, low-emission technologies utilize the Group's products to a greater extent, in particular copper, silver or lead. Accordingly, achieving climate neutrality will be possible only if sufficient volumes of metals produced by the Group are available. In 2017, the World Bank pointed out in its report that by 2050, 300% more metal will be needed for wind turbines, 200% more to produce solar panels and as much as 1000% more to manufacture batteries. In the period of 2020-2050, the technologies that are expected to

reduce the EU's greenhouse gas emissions by 75% will require 22 million tons of copper. Market trends caused by the above conditions will have a positive effect on the demand for the Group's products.

Looking at climate change more broadly, the KGHM Group also recognizes the impact of environmental conditions on its own financial position and the resulting significant and long-term physical risks. The observed intensification of weather anomalies might influence the Group's production process, among others, through the lowering of the water level in rivers, which will affect possibilities of discharging excess salinated over-sediment water from the Żelazny Most Tailings Storage Facility (the discharge volume is strictly linked to the flow of water in the Odra river). It was also determined that the risk of electricity and other energy carrier supply interruptions due to rainstorms and hurricane winds was a significant issue.

It must be stated that the KGHM Group has the sufficient resources, knowledge, skills, and attitude to join in the application of low- and zero-emission energy sources, emission reduction, and energy efficiency improvement.

These statements are made by the KGHM Group based on the following facts:

1. The Company's participation in the European emissions trading system (ETS), through monitoring and reporting carbon emissions and purchasing emission allowances. This builds the awareness of the influence of climate conditions on the Company's financial standing and stimulates it to seek and implement new low-emission solutions and technologies. As a result of such actions, KGHM has reduced CO<sub>2</sub> emissions from metallurgical processes by changing the shaft furnace technology into the flash furnace one and also has replaced some fine coal-fired units by low-emission natural gas-fired combined cycle units.
2. In accordance with the best available techniques "BAT" conclusions for the non-ferrous metals industries published in the EC Implementing Decision 2016/1032, KGHM is carrying out investment processes in order to adapt the installations to a further reduction of emissions and the adverse environmental impact.
3. The KGHM Group has initiated works on a climate policy which will be a systemic solution for implementing the Communication of the European Commission being Guidelines on non-financial reporting: Supplement on reporting climate-related

information (2019/C 209/01), including an Annex on the Task Force on Climate-related Financial Disclosures (TCFD) (in the section concerning Metals and Mining). In the medium- and long-term perspective, it will also address quantitative goals regarding:

- reduction of direct GHG emissions (scope 1), and indirect ones (scope 2 and 3)
  - energy efficiency improvement
  - increase in the use of energy from renewable sources
  - minimisation of actions in regions exposed to a long-term or acute physical risk
  - increase in the percentage of products related to activities satisfying the criteria of a significant contribution to mitigating the effects of climate changes or adjustment to mitigating the effects of such changes
  - engagement in the green finance system resulting from the new taxonomy
4. The KGHM Group has taken and will continue to take its own actions, also in the future, for climate and ambient air protection without any regulatory enforcement. A summary of these activities for 2020 is presented below in this section.



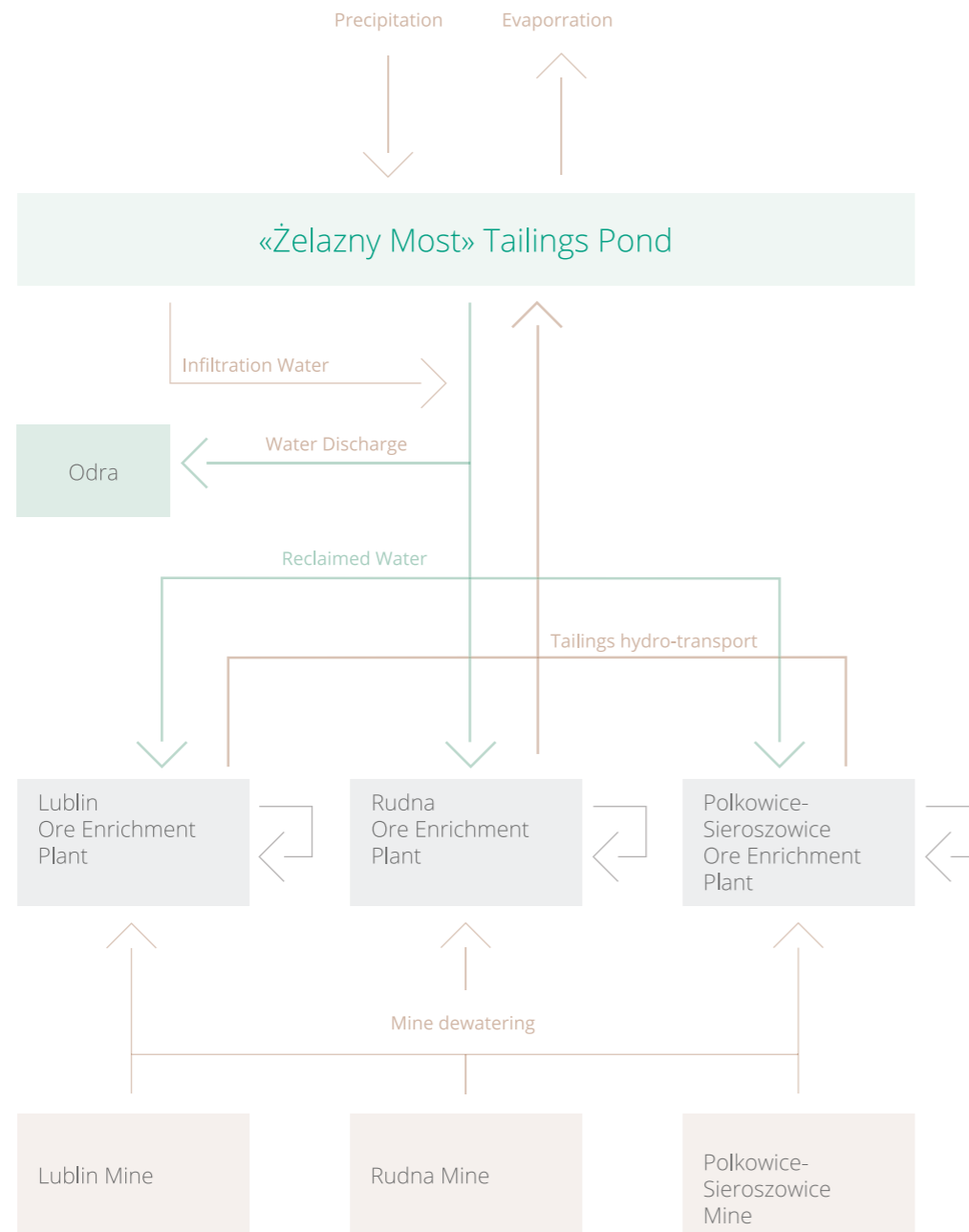


## WATER AND WASTEWATER MANAGEMENT

Water is one of the most valuable natural resources. To confirm that the company's activities comply with strict environmental standards, KGHM Polska Miedź S.A. regularly monitors the quality of ground and surface water in the vicinity of its plants.

To produce copper, it is necessary to use water, among others, to enrich ore (by flotation), to transport waste by water, and also in the production process in smelters.

### WATER IN THE ORE ENRICHMENT (FLOTATION) PROCESS



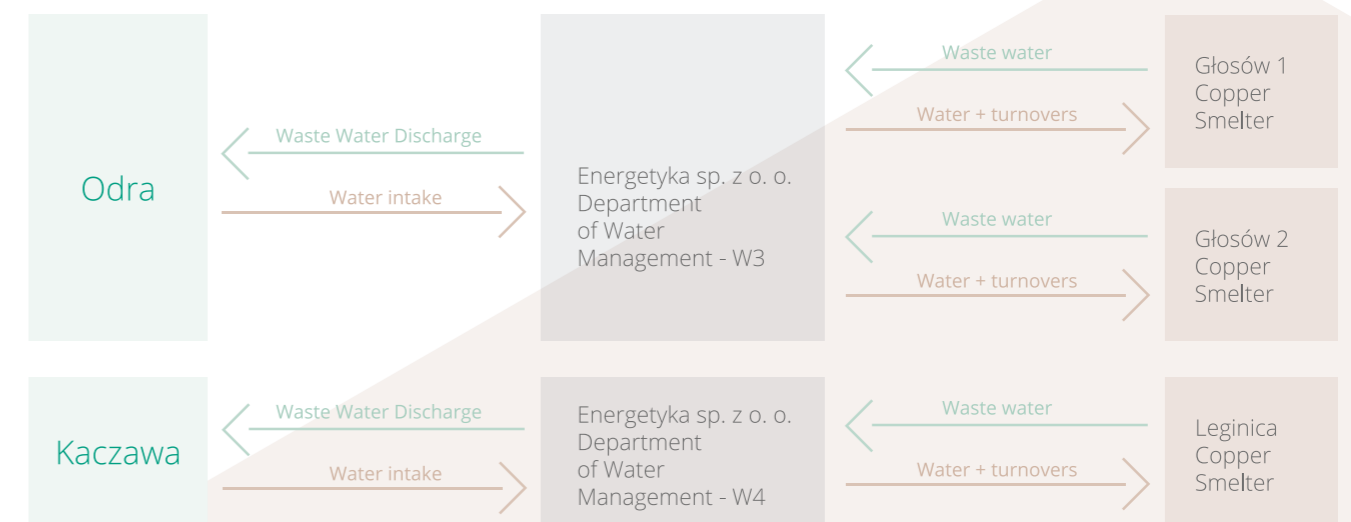
KGHM Polska Miedź S.A. has three operational underground copper mines, which mine the ore at depths of 400-1200 m. Because of the constant inflow of water from the rock mass into the mine workings, in order to make it possible for the mines to operate, it is necessary to pump water to the surface all the time (every 24 hours, we remove approximately 85,000 m<sup>3</sup> of saline mine water). Depending on the depth of the ore deposit, water may contain from 0.2 to 140 g/l of Cl<sup>-</sup> and about 2.8 g/l of SO<sub>4</sub><sup>2-</sup>. Mine water extracted from deeper parts of the deposit are more salinated, but the volumes are smaller.

On the surface, retention reservoirs are located next to every mine and every ore enrichment plant. They collect rainwater, overflows of cooling water as well as extracted mine water. Water from the reservoirs is pumped into the flotation tailings ponds (in some cases mine water goes there directly). As a result, neither mine water nor wastewater is discharged into local rivers. At ore enrichment plants, all water is stored in closed systems and used for hydrotransporting flotation tailings to the Żelazny Most tailings storage facility, where suspended solid particles are sedimented. Water from the Żelazny Most Tailings Storage Facility returns, through a system of decantation towers, to the ore enrichment plants.

Because there is a constant inflow of mine water and rainwater into the system, excess water must be removed. Water from the Żelazny Most Tailings Storage Facility is discharged by gravity through a 20 km long pipeline to the Odra river. The volume and quality of discharged

water is closely monitored. The general rule is to keep the concentration of the sum of Cl<sup>-</sup> and SO<sub>4</sub><sup>2-</sup> below 1 g/l in the mixed water of the Odra river below the point of discharge. In practice, the discharged water volume is controlled based on a formal table, which takes into account the current flow and salinity of the Odra river. The discharge permit also contains other provisions concerning the concentration of dissolved substances and the water flow rate. Water may be discharged only if the flow of the Odra river is greater than 17.5 m<sup>3</sup>/s and the flow of the discharged decanted water is less than 2 m<sup>3</sup>/s. The total level of suspended solids in the discharged water must be maintained under 35 mg/dm<sup>3</sup>. The size of the flotation tailings pond, especially its surface area, makes the sedimentation of tailings very effective and the overall level of suspended solids is usually kept below 35 mg/dm<sup>3</sup>. During windy weather, however, higher concentrations of suspended solids can be observed, which requires additional treatment. This situation is monitored through continuous measurements of turbidity of the discharged water. If it is too high then the decanted water is transferred to a nearby wastewater treatment plant to reduce the volume of suspended solids. After this treatment, the water is pumped into a pipeline which discharges it into the Odra river.

### WATER IN THE ELECTROLYTIC COPPER PRODUCTION PROCESS





KGHM Polska Miedź S.A. has two operational smelters: the Legnica Copper Smelter and Refinery with a shaft furnace and the Głogów Copper Smelter and Refinery with two flash furnace installations.

Both smelters consume significant amounts of water (approximately 11 million m<sup>3</sup> per year), which is supplied by Energetyka Sp. z o.o., a KGHM Group company (water collected from the Kaczawa river is directed to the Legnica Copper Smelter and Refinery, while for the needs of the Głogów Copper Smelter and Refinery, water drawn from the Odra river is supplied).

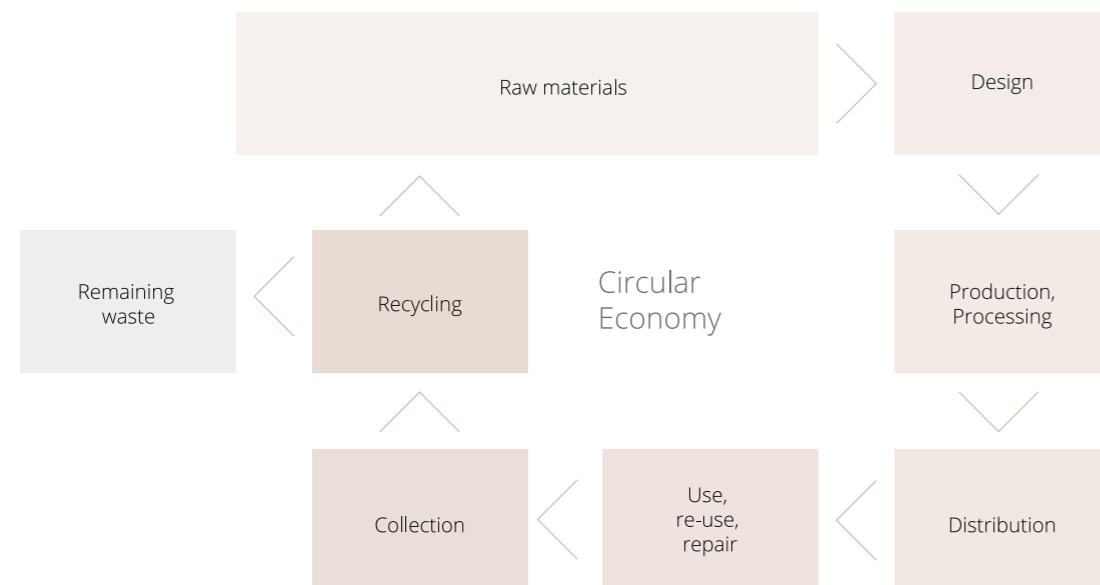
The water used in production processes is routed back to Energetyka for treatment. The industrial wastewater treatment plants operating for the needs of the Głogów and Legnica Smelters specialize in the removal of heavy metals, including arsenic, mercury and cadmium compounds, which are especially problematic. The wastewater treatment technology relies mainly on neutralisation processes supported by coagulants and flocculants.

Because of the high quality of wastewater, approximately 30% of its global stream is reused for production processes in the smelters.

Approximately 8 million m<sup>3</sup> of the remaining treated wastewater is discharged to the Odra river (in the case of the Głogów Copper Smelter and Refinery) and to the Pawłówka stream, which feeds the Kaczawa river (in the case of the Legnica Copper Smelter and Refinery).

### WASTE MANAGEMENT AND IMPLEMENTATION OF THE IDEA OF CIRCULAR ECONOMY

Striving towards a circular economy is one of the priorities of the KGHM Polska Miedź Group. It is connected with the Earth Overshoot Day indicator discussed above in this section. The Group accepted the roadmap published on 24 September 2019 for the development of a circular economy in Poland, as well as the publication of the European Green Deal on 13 September 2019, which included the Sustainable Industry package understood as presented below:



KGHM has for many years been pursuing the approach resulting from the circular economy (CE) and wants to join its development. The Group bases this assertion on the following facts:

1. 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. The minimisation of this impact, made possible thanks to the implementation of circular economy, allows for protecting the environment and improving and developing KGHM industrial installations built in the past as well as pursuing new investments in this field, with simultaneous engagement in local, national, sector and international initiatives for the environment. In order to quantify the above, the KGHM Group constantly monitors data related to the environmental impact of its operations. The Group complies with all requirements resulting from regulations and best practice standards with regard to environment protection, and to a large extent takes proactive steps in this respect.
2. KGHM Polska Miedź S.A. fully understands and implements the definition of circular economy, understanding it as the value of products, materials and resources in economy sustained as long as possible and waste production reduced to a minimum, aiming at the development of sustainable, low-emission, resource-saving and competitive economy. It also accepts and wants to pursue the European Union goals thanks to circular economy: savings in the amount of EUR 600 billion for firms from the EU, which accounts for 8% of their annual turnover, creation of 580 thousand jobs, reduction of CO<sub>2</sub> emissions by 450 million tons by 2030.
3. KGHM Polska Miedź S.A. wants to participate in the implementation of the Polish roadmap to achieve circular economy. Therefore, it wants to identify all possible activities in the Company aimed at increasing the efficiency of resource utilisation and reducing waste production. Key elements of building circular economy in KGHM Polska Miedź S.A. include:
  - innovation, strengthening of cooperation between the Company and science sector, and consequently implementation of innovative solutions related to circular economy
  - participating in the growth of the market for secondary metallic raw materials and increasing the share of such materials in production
  - minimizing the volume of post-production waste to residual waste levels

- seeking and implementing solutions that allow utilisation of waste storage sites as secondary deposits
- 4. The idea of creating circular economy is put into practice in the KGHM Group in the following groups of actions:
  - commercialisation of flotation waste towards recovering metal from such waste, as well as economic utilisation of rock forming minerals, as sealing material for the Żelazny Most Tailings Storage Facility, as filling in post-mining goafs, and material for applications in construction, road building and agriculture
  - development of the technology of recycling copper smelting in RCR furnace
  - closing the circulation of water in ore processing
  - full reclamation of post-production areas
  - development and implementation of environmentally-friendly flotation reagents and improvement of metal recovery from fine-grained feed
  - utilisation of heat energy contained in the mined deposit
  - development of the Company's own research and development activity towards Circular Economy
  - development of the CuBR Joint Venture towards Circular Economy
  - research and development within the Horizon Europe program towards Circular Economy
  - development of the Company's own investments towards Circular Economy
- 5. KGHM Polska Miedź S.A. implements the requirements introduced by the amended Waste Act, which include: launching a National Waste Database (BDO), surveillance system for waste storage and disposal sites and measures to secure claims to cover costs of removing negative environmental effects. Compliance with the requirements of the amended act entails registration of waste in a way that is transparent to audit authorities, while mitigating its adverse effect on the natural environment.
- 6. KGHM Polska Miedź S.A. has for many years conducted and will conduct a series of its own activities, not forced by legal regulations, aimed at the implementation of circular economy. An overview of these activities for 2020 is presented below in this section.



The aforementioned activities in three thematic groups related to natural environment protection and minimisation of inconvenience related to its operations are implemented in KGHM Polska Miedź S.A. thanks to the KGHM environmental policy and KGHM energy policy, which set the highest ecological and environmental standards for the Company.

### USE OF RAW MATERIALS BEING WASTE

Every year KGHM makes attempts to introduce effective solutions to manifest its efforts to operate in line with the idea of circular economy. One of the components, which are excellent manifestations of circular economy, is production of road aggregates from copper slag. Slag is a waste (by-product) of the production process in smelters. Every year Legnica Copper Smelter and Refinery produces approx. 200 thousand and Głogów Copper Smelter approx. 450–500 thousand tons of slag and about 450 thousand tons of granulated slag. Thanks to our knowledge and technology, this material is not dumped on a landfill site but it is given a second life. Owing to the technologies at the disposal of KGHM Group companies, the waste is converted into a full-value product used in road construction: high quality aggregate. In this way, it is possible to manage the entire copper slag produced by KGHM. Furthermore, the process of aggregate production based on the material supplied by KGHM's smelters also permits a reduction of dust and gas emissions that would be released during the traditional process of aggregate creation. Over the past 10 years, KGHM Metraco S.A., a KGHM subsidiary, has managed approx. 10 million tons of slag, which means that it was not necessary to obtain this amount of raw material from natural deposits, and at the same time such a huge waste volume was not dumped on landfill sites.

Aggregate produced by the KGHM Group were used for the execution of such projects as the construction of S3, S5, S6 or S11 express road, which is in progress at present. Material coming from smelters after an appropriate production process was used also for the expansion of the southern quarter of the Żelazny Most Tailings Storage Facility. Considerable volumes of material of this type are also used by local buyers executing infrastructure projects

commissioned by local authorities. The primary consumers are the largest construction companies specializing in road construction.

### SCRAP MANAGEMENT

A high-quality copper scrap processing plant was installed within the core production line of the Legnica Copper Smelter and Refinery, which is the first stage for the Hybrid Smelter being designed in Legnica. Ultimately, it will be supplemented with the Scrap Trading Base, where the feedstock will be prepared for the successive furnace for the remelting of the remaining copper-bearing materials coming from recycling.

As part of the first stage of the Hybrid Smelter in Legnica, the copper scrap processing technology with the use of a Revolving Casting-Refining (RCR) furnace was applied. The applied RCR furnace permits remelting copper scrap with the average 95% Cu content with the efficiency of at least 80 thousand tons of anode copper per year. The total production of anode copper at the Legnica Copper Smelter and Refinery in 2020 was 167.6 thousand tons, including 58.8 thousand tons produced by the RCR furnace. In 2020, a total of 91 thousand tons of scrap were processed by the Legnica Copper Smelter and Refinery, which were thus returned to use in line with the idea of circular economy and did not become waste that would require disposal.

### ELECTROMOBILITY AND LOW-CARBON MINING MACHINES

One of the primary infrastructure-related obstacles in the development of electromobility is currently the deficit of fast charging points, whose range would cover the incomplete road network in Poland and whole Europe. The rapid development of transport based on electricity will pose an enormous challenge for electricity producers and distributors but will also give them an even 20% increase in the market of consumers. Bearing the above aspects in mind, KGHM Polska Miedź S.A. commenced decisive actions towards broadly understood electromobility in 2018 through the gradual and consistent replacement of own transport fleet with zero-emissions electric vehicles, but above all through the

development of ultra-fast charging stations available to the public in the LGOM area. The first station was created at the KGHM Head Office already in December 2018 and it was followed in 2019 by successive ones at the Głogów Copper Smelter, Legnica Copper Smelter and Lubin Mine Divisions. Each "charger" has three types of connectors, which ensures full compatibility with the vehicles that are available on the market. The stations are included in the IT system of Tauron Dystrybucja Serwis. The support for the electromobility development program provides for free charging for the users, which is beneficial to the environment and climate.

In addition, as part of actions for protection of the environment and climate as well as health and working comfort of the employees, KGHM Polska Miedź S.A. performs works aimed to reduce dust and gas emissions from mining machine engines, in particular of nitrogen oxides and solid particles. The objective is to reduce employees' exposure to nitrogen oxide at workplaces and to achieve concentrations below 2.5 mg/m<sup>3</sup> and to reduce the exposure to carcinogens to the level of 0.05 mg/m<sup>3</sup> in terms of elemental carbon.

At present, KGHM pursues an investment process related to the purchase of machinery, as part of which engines according to the Stage IV and V are gradually introduced, which enables several-fold reduction of emissions. Currently (in 2020), about 10% out of 1,261 machines used at KGHM are low-emission. All new machines are purchased complete with engines complying with strictest flue gas purity standards. Replacement of all the machinery will be possible at the end of 2026.

KGHM Polska Miedź S.A. also cooperates with external manufacturers on testing the functionality and effectiveness of mining machines with a battery-powered electric drive. The effects of these measures include tests of a battery anchoring car at the Lubin Mine. A drilling car and a self-propelled electric transport vehicle will be delivered for testing in Q2 2021. Moreover, determinations concerning the commencement of testing of an electric charger at the Rudna Mine are at an advanced stage.



## ENERGY FROM OWN SOURCES AND RES

### ENERGY DEVELOPMENT PROGRAM, INCLUDING RES ACTIONS IN 2020

## Development of renewable Energy sources

- A contractor was selected for the project „Design for a PV power plant together with obtaining a construction permit“ for the Obora Sandpit and HM Głogów I-III sites1)
- The terrain use concept adopted foresees an increase in installed capacity to:
  - » 8 MWp from 5 MWp for the Obora Sandpit
  - » 6.5 MWp from 4 MWp for the HM Głogów I-III site
- Applications were submitted to alter the urban planning documentation to enable the siting of a PV installation with a capacity of over 100 kW on terrain belonging to KGHM in:
  - » The Lubin municipality with a potential installed capacity of approx. 20 MWp
  - » The Warta Bolesławiecka municipality for a site with a potential of over 50 MWp

## Optimisation and development of conventional sources

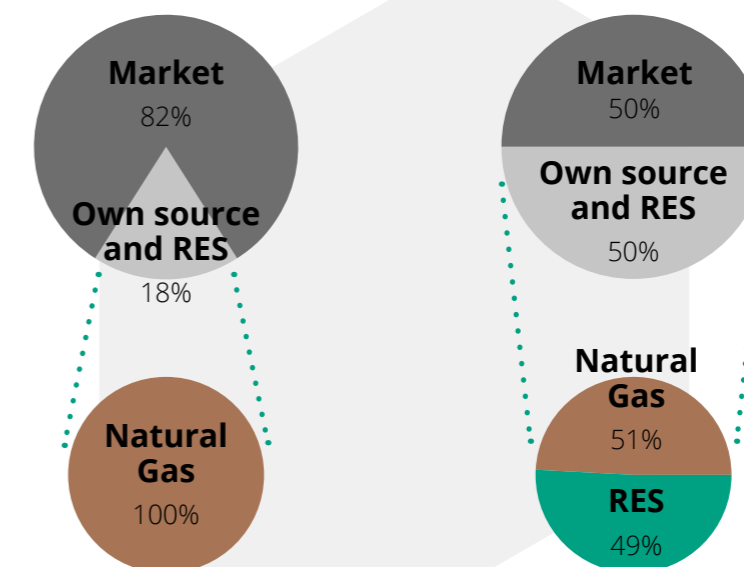
- The simultaneous pilot start-up of two gas-fired turbines at the gas-steam block in Głogów
  - » A lower cost to obtain power by approx. PLN 1.8 mn
  - » Avoiding of more than 4 kt of CO<sub>2</sub> emissions
- This increase in electricity production by approx. 16 GWh, resulted in:

*The numerical designation HM Głogów I-III refers to the plot numbers*

## BY 2030 THE INCREASE IN SHARE OF RES WILL LEAD TO A SUBSTANTIAL REDUCTION IN CO<sub>2</sub> EMISSIONS CO<sub>2</sub>

Share of power source in supplies to KGHM Polska Miedź S.A.

2019:



2020:

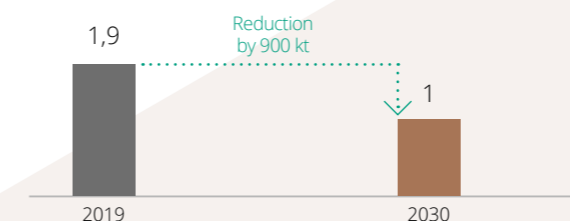
Own generation sources covered 22.42% of KGHM's total power needs in 2020 (almost 1.5% more than in 2019)



100% of electricity to be generated by RES in the Sierra Gorda mine from 2023

Estimated CO<sub>2</sub> emissions due to electricity consumption

[mn tonnes]



Implementation of the „Development of Energy generation, incl. RES“ Program alongside changes in the national energy system structure will enable the avoidance of approx. 900 kt of CO<sub>2</sub> annually

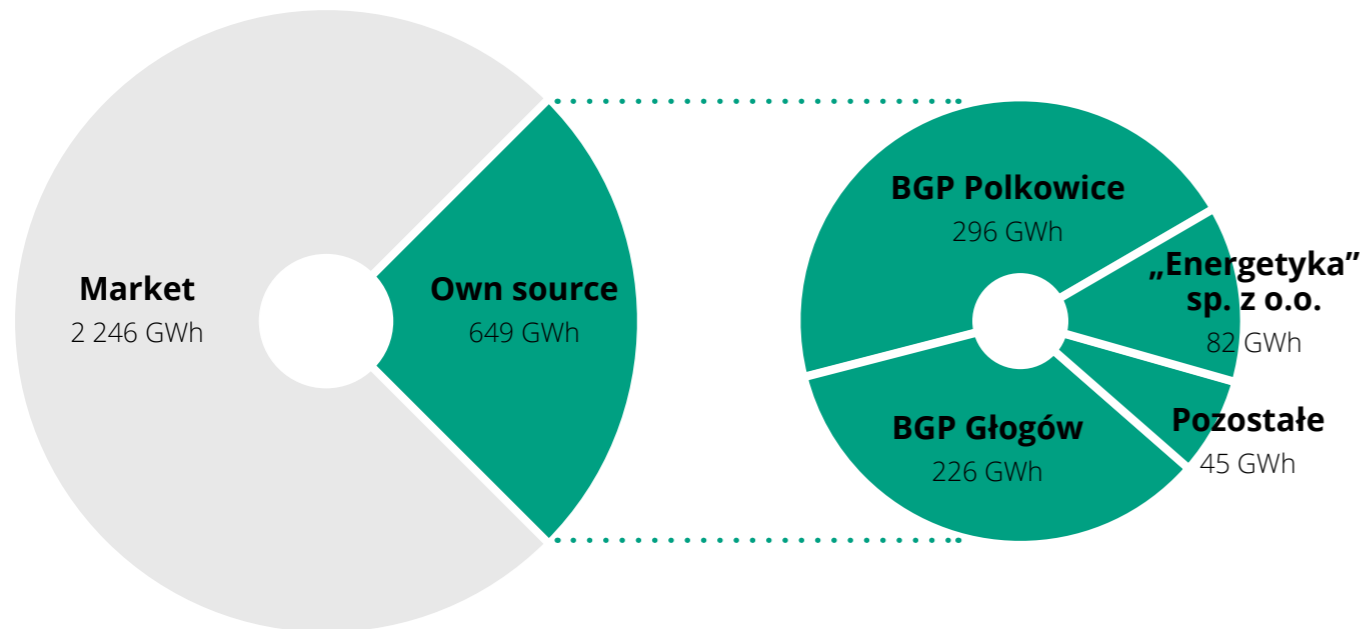


In 2020, KGHM Polska Miedź S.A. achieved a record high production of electricity from Combined Cycle Units of the KGHM Head Office. The units generated in total over 0.5 TWh of energy, i.e. almost 16% of KGHM's total electricity demand. This significant share of cheap and ecological (compared to the burning of coal) energy from the units in KGHM Polska Miedź S.A.'s portfolio will allow the Company to both generate environmentally friendly energy and achieve savings of several dozen million PLN. The energy is used by: the ZG Rudna Mine, ZG Polkowice-Sieroszowice Mine and Głogów Copper Smelter and Refinery. Electricity in

Combined Cycle Units is generated by 4 Titan 130 gas Turbines, of the capacity of 14.7 MWe, and 2 Steam Turbines, each of the capacity of 12.3 MWe.

KGHM Polska Miedź S.A. also has other in-house energy sources, which together with the Combined Cycle Units mentioned above covered 22.42% of KGHM's total energy consumption in 2020 (almost 1.5% more than in 2019). The graph below presents a detailed breakdown of energy from own sources in 2020:

**ELECTRICITY SOURCES OF KGHM POLSKA MIEDŹ S.A. IN 2020**



In 2020, KGHM Polska Miedź S.A. also undertook a number of measures to develop renewable energy capacity, namely:

- Applications for modifications in the urban design documentation have been submitted in order to commission photovoltaic units of the capacity of over 100 kW, located on land owned by KGHM Polska Miedź S.A. in:
  - » Lubin Municipality, of installed capacity of about 20MW
  - » Warta Bolesławiecka Municipality, of installed capacity of over 50 MW.
- A pilot concurrent operation of two gas

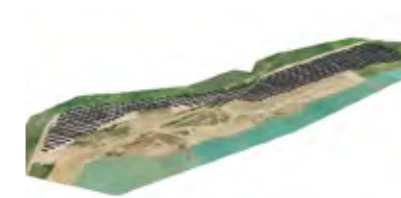
turbines in a combined cycle unit in Głogów was conducted, generating 16 GWh of electricity more than in the originally planned generation schedule, which contributed to:

- » Lower electricity production costs by about PLN 1.8 million
  - » Lower CO<sub>2</sub> emissions by over 4 thousand tons.
- KGHM Zanam S.A, a subsidiary of KGHM, commissioned a photovoltaic plant with the peak capacity of 3.1 MWp.

**THE FIRST PHOTOVOLTAIC POWER PLANTS PROJECTS**

**PVPP Piaskownia Obora**

Installed power 8 MW  
Estimated production 8,5 GWh



**Projected avoided emissions over 25 years:**

CO <sub>2</sub>	more than 80 kt
SOx	more than 70 tonnes
NOx	more than 70 tonnes
CO	more than 30 tonnes
PM	more than 4 tonnes

**PVPP HMG I-III complex**

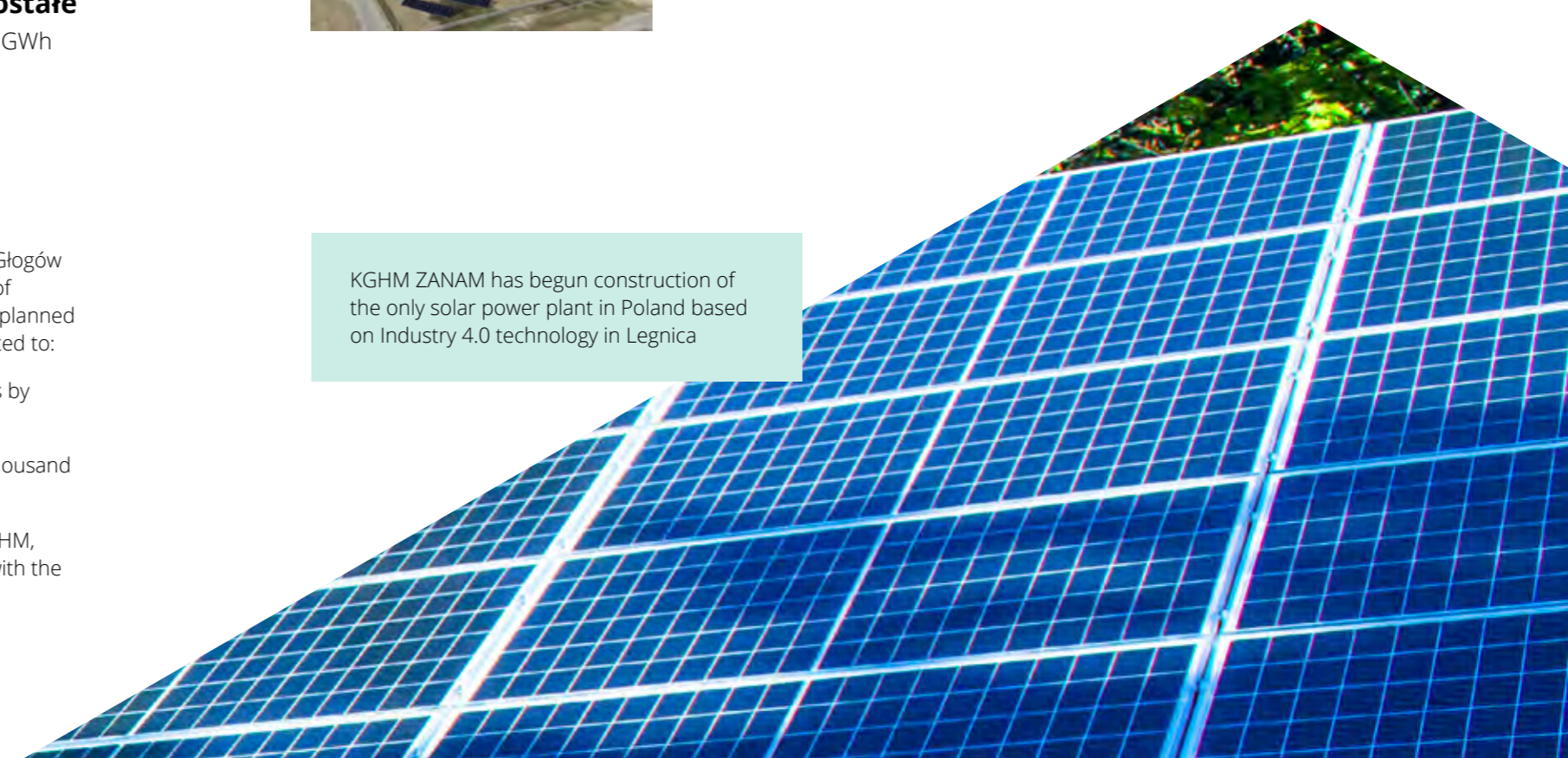
Installed power 6,5 MW  
Estimated production 6,9 GWh



**Projected avoided emissions over 25 years:**

CO <sub>2</sub>	more than 70 kt
SOx	more than 60 tonnes
NOx	more than 60 tonnes
CO	more than 25 tonnes
PM	more than 3 tonnes

KGHM ZANAM has begun construction of the only solar power plant in Poland based on Industry 4.0 technology in Legnica





## Energy policy of KGHM Polska Miedź S.A.

The primary objective of KGHM Polska Miedź S.A. in respect of energy management and pro-climate activities is to implement rational energy management while ensuring security of energy supply to facilities and installations within the Company's production line. The process of implementing the international standard of energy utility management in accordance with the ISO 50001 standard began with the adoption of the Energy Policy of KGHM Polska Miedź S.A. by the President of the Management Board. (28 November 2016). At present, the second edition of the policy, approved on 28 February 2019, is in effect.

It is the ambition of KGHM Polska Miedź S.A. to continually grow the share of renewable energy sources and in-house energy production in covering our energy demand.

The Energy Policy stipulates the most important principles of energy management in KGHM Polska Miedź S.A. By observing these principles, the Company's management undertakes to:

- ensure resources necessary to achieve the planned energy objectives and outcomes
- operate in accordance with the law and other energy requirements relating to energy use
- create desirable attitudes, build awareness and continually improve the skills of the Company's employees and collaborators performing tasks for KGHM Polska Miedź S.A.

- prevent waste in the area of energy consumption
- cooperate with partners and suppliers in procurement of material goods and services having regard to energy efficiency as an important selection criterion

The principles adopted in the Energy Policy of KGHM Polska Miedź S.A. are observed by all employees of the Company, as well as other persons and entities performing tasks needed for its operation.

As a result of the Energy Policy, the Company pursues activities designed to manage the energy used by KGHM rationally and in compliance with the law, including:

- specification of procedures for the investment and procurement process
- energy overhauls in KGHM Divisions and the Head Office, performed in accordance with the approved methodology
- actions to achieve the approved energy objectives
- implementation of the regulations: Legal and other requirements in the field of power generation and evaluation of their conformity for the purposes of the Energy Management System at KGHM Polska Miedź S.A.

### ENERGY MANAGEMENT SYSTEM (EMS) IN KGHM POLSKA MIEDŹ S.A. AND ENERGETYKA SP. Z O.O.

In 2017 the Parent Entity and Energetyka Sp. z o.o. implemented ENERGY MANAGEMENT SYSTEM (SZE), in conformity with PN-EN ISO 50001:2012. The re-certification audit conducted in KGHM Polska Miedź S.A. in September 2020 confirmed that KGHM Polska Miedź S.A. has adapted its Energy Management System to comply with the requirements of the new edition of the standard: PN-EN ISO 50001:2018. The re-certification audit in Energetyka" sp. z o.o. conducted in September 2020 confirmed that the system is undergoing continual improvement, as are the energy results. Based on the auditors' team findings, it was concluded that the Energy Management System in Energetyka" sp. z o.o. is fit to achieve the planned objectives, and its certificate has been renewed.

As a result of the EMS implementation, the costs of energy audits are avoided, which must be performed pursuant to the Energy Efficiency Act if no certified Energy Management System is in place. Another result of the EMS operation is the possibilities to implement a comprehensive improvement of the energy management process and improve KGHM's energy result, which in 2019 generated energy savings of 72 GWh.

The EMS also reduces the costs of purchase and consumption of power utilities, including the cost of CO<sub>2</sub> emission rights, as a result of lower greenhouse gas emissions. We intend to raise the skills of our human resources, achieve further savings in future years and, most importantly, improve occupational safety for all KGHM Polska Miedź S.A.'s employees through implementation of standards and improvement of procedures.

### REDUCTION OF EMISSIONS FROM SMELTERS AND REFINERIES

In order to minimize the negative environmental impact of metallurgical technologies and maintain fully operational equipment protecting the environment, KGHM Polska Miedź S.A. has successfully implemented adaptation of the units to the BAT Conclusions for the non-ferrous metals industry, including limitation of arsenic emissions. The parameters achieved thanks to a number of investment projects are much higher than the levels required by the law. The table below presents detailed results achieved by the completed investment projects in this area:



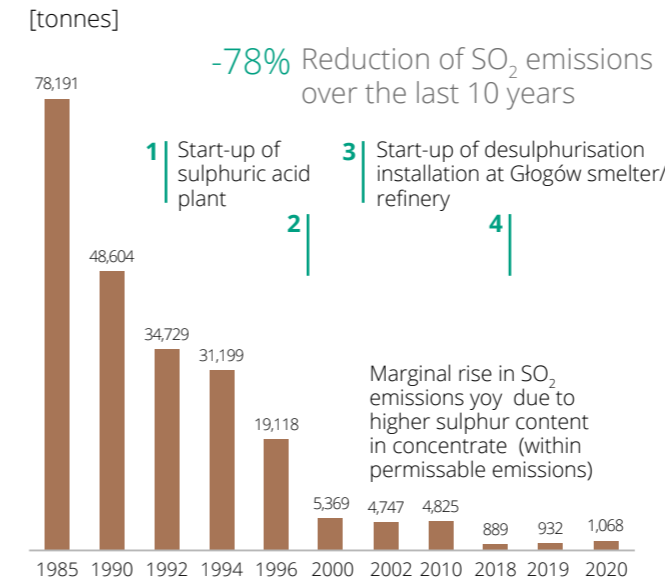


## RESULTS OF INVESTMENT PROJECTS COMPLETED IN KGHM POLSKA MIEDŹ S.A. IN THE AREA OF ADAPTING INSTALLATIONS TO MEET BAT CONCLUSIONS FOR THE NON-FERROUS METALS INDUSTRY

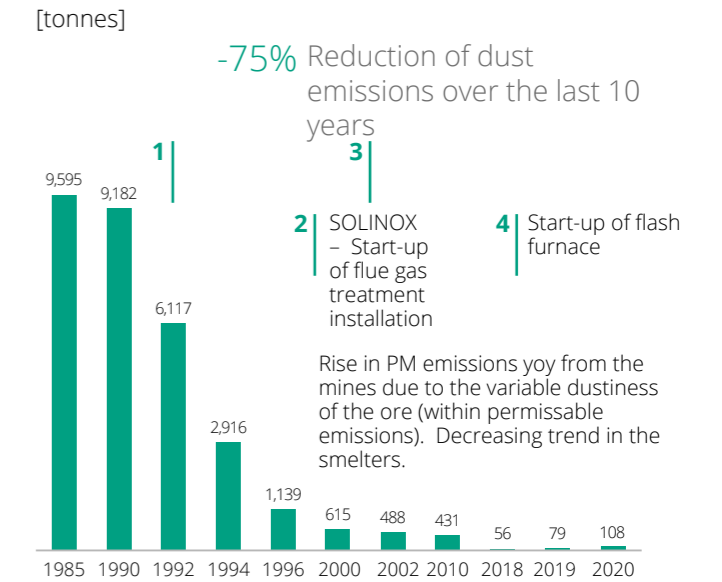
Name of task/initiative	Expected adaptation to BAT Emission levels under BAT (BAT-AEL)	Task completion date Parameters achieved (in guaranteed parameter tests)
Modernisation of the Psz.1 bag filter dedusting system and PSZ2 and Psz3 cartridge filters in Shaft Furnaces	<b>BAT 39:</b> Dust - 2-5 (mg/Nm <sub>3</sub> ) As - 0,05 (mg/Nm <sub>3</sub> )	<b>December 2019</b> Dust - below 1 (mg/Nm <sub>3</sub> ), As - below 0,05 (mg/Nm <sub>3</sub> ), average 0,02 (mg/Nm <sub>3</sub> )
Construction of 2nd-degree wet dedusting system on the dryer dedusting units to reduce As and Hg emissions down to the BAT Conclusion levels	<b>BAT 38:</b> Dust - 3-5 (mg/Nm <sub>3</sub> ), As - 0,05 (mg/Nm <sub>3</sub> ) <b>BAT 11:</b> Hg - 0,01 - 0,05 (mg/Nm <sub>3</sub> )	<b>December 2020</b> Dust - below 1 (mg/Nm <sub>3</sub> ), As - below 0,02 (mg/Nm <sub>3</sub> ), average 0,01 (mg/Nm <sub>3</sub> ) Hg - below 0,004 (mg/Nm <sub>3</sub> ) average 0,002 (mg/Nm <sub>3</sub> )
Design and construction of installation to eliminate arsenic from gases above TM-16 casting machines	<b>BAT 44:</b> Dust - below 15 (mg/Nm <sub>3</sub> )	<b>December 2020</b> Dust - below 2 (mg/Nm <sub>3</sub> ), average 1,6 (mg/Nm <sub>3</sub> )
P-1 Air-tight sealing of conveyor belt pulling stations for carrying copper concentrate and bedding and blending store	<b>BAT 8 i BAT 25:</b> Specify the required adaptation method to prevent diffuse emissions from pre-treatment of raw materials, primary and secondary materials and their transport, or to reduce the emissions.	<b>October 2019</b> Sealed conveyor systems were applied for transport and handling of dust generating concentrates, as well as fluxes and fine materials; mounting of roofs over conveyors for handling non-dust emitting solids (compliance with BAT8a, BAT8b, BAT25).
PG Installation feeding de-leaded slag into flash furnace	<b>BAT54:</b> Specifies methods to reduce the amount of copper production primary and secondary waste materials to be stored <b>BAT90:</b> Specifies the required adaptation method to prevent diffuse emissions from pre-treatment of raw materials, primary and secondary materials or to reduce the emissions (for lead production).	<b>December 2020</b> The installation enables air-sealed transport of the waste material, i.e. de-leaded slag, to flash furnace for metal recovery (compliance with BAT54). A pneumatic transport system applied for dust-generating materials (compliance with BAT90a).

## EMISSIONS BY THE DIVISIONS OF KGHM POLSKA MIEDŹ S.A. SO<sub>2</sub> AND DUST EMISSIONS<sup>1)</sup>

### SO<sub>2</sub> emissions by KGHM Polska Miedź S.A.

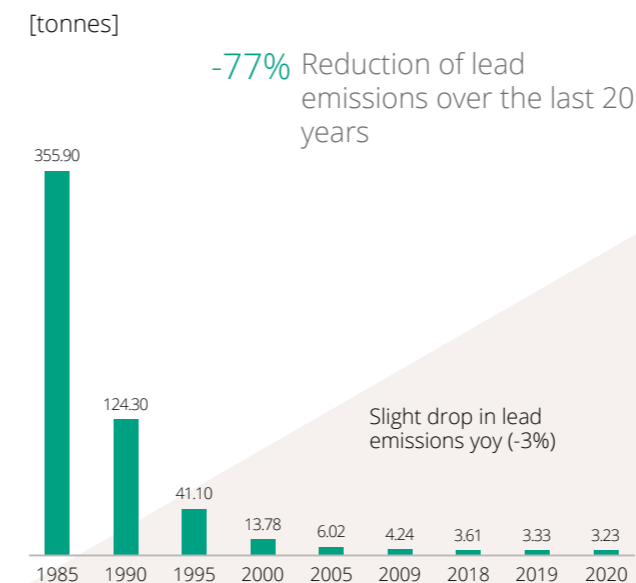


### Dust emissions by KGHM Polska Miedź S.A.

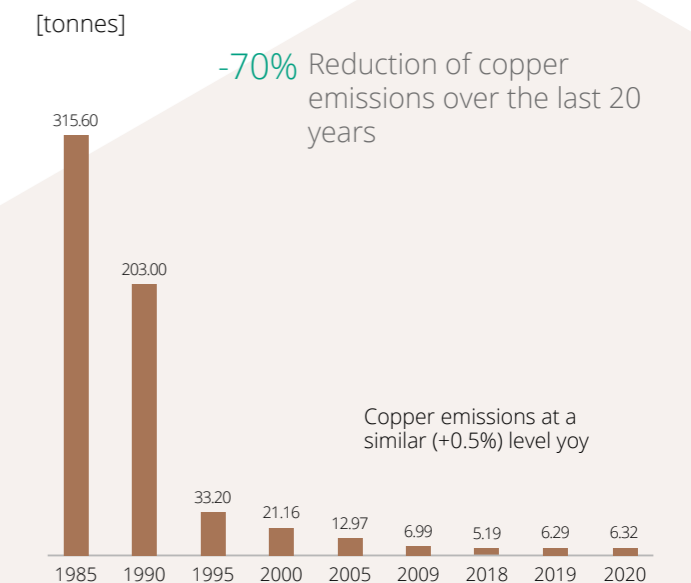


## EMISSIONS BY THE DIVISIONS OF KGHM POLSKA MIEDŹ S.A. LEAD AND COPPER EMISSIONS

### Lead emissions by KGHM Polska Miedź S.A.



### Copper emissions by KGHM Polska Miedź S.A.



<sup>1</sup> Pył pozostały (bez metali) z produkcji metali nieżelaznych, w tym PM 2,5 i PM 10



## ACTIVITIES TO PRESERVE BIODIVERSITY

“ At KGHM, we endeavour to protect valuable natural resources as much as possible. Preserving the balance of the natural environment in coexistence with industry creates a unique socio-economic value. In order to meet the environmental requirements placed on us, we continuously strive to reduce our impact on the areas adjacent to our installations by taking measures that

eliminate potential risks. In this way, we pursue a strategy of rational shaping of the environment and management of natural resources.”

### Janusz Piątkowski

Director of the KGHM Ecological Policy Department

said Janusz Piątkowski, Director of the KGHM Ecological Policy Department

KGHM Polska Miedź takes proactive measures to preserve - and where it is not possible - to compensate for lost biodiversity, and to ensure responsible management of land and forests.

The Divisions of KGHM Polska Miedź S.A. do not operate in, or in the direct vicinity of, areas of outstanding natural heritage (defined as national parks, nature reserves or Nature 2000 areas). Further away, i.e. from a few to over a dozen kilometers away, are areas of high natural habitat or landscape value, covered by various forms of protection schemes, amongst which it is worth noting the following

#### Nature 2000 Special Bird Protection Areas:

- “Łęgi Odrzańskie” PLB020008 (11 km - Tailings Division, 2 km - Cedynia Wire Rod Plant, 7 km - Głogów Copper Smelter and Refinery)

#### Nature 2000 Special Habitat Conservation Areas:

- Kozioróg in Czerna PLH020100 (2.7 km - Głogów Copper Smelter and Refinery)
- “Łęgi Odrzańskie” PLH020018 (11 km - Tailings Division, 2 km - Cedynia Wire Rod Plant, 7 km - Głogów Copper Smelter and Refinery)

- “Pątnów Legnicki” PLH020052 (9 km - Legnica Copper Smelter and Refinery)

#### Nature reserves

- Buczyzna Jakubowska (within the concession area of the Polkowice-Sieroszowice Mine)
- Uroczysko Obiszów (within the licensed area of the Polkowice-Sieroszowice Mine)
- Żukowskie Śnieżyce (within the licensed area of the Rudna Mine)
- Skarpa Storczyków (approx. 1 km - Cedynia Wire Rod Plant)
- Dalkowskie Jary (6 km - Głogów Copper Smelter and Refinery)

#### Nature and landscape conservation areas:

- Grodowiec (licensed area of the Rudna Mine)
- Guzicki Potok (licensed area of the Rudna Mine)
- Trzebcz (licensed area of the Rudna Mine)

#### Ecological sites:

- Łęgi Głogowskie (former protection zone of the Głogów Copper Smelter and Refinery)
- Glinki in Lasek Złotoryjski (1 km - Legnica Copper Smelter and Refinery)
- Lena (in the vicinity of areas managed by the Tailings Division)

## Animate and inanimate nature monuments (all divisions).

All investment projects executed by KGHM Polska Miedź S.A. which require an environmental impact assessment, pursuant to the Act of 3 October 2008 on the availability of information about the environment and its protection, participation of the public in environmental protection and on environmental impact assessments (consolidated text: Journal of Laws of 2021, item 247) include detailed documents which describe the impact of the project on the natural environment. This work involves experts from many fields (including: ornithology, zoology, botany), who highlight potential risks and present recommendations for actions ensuring maximum extent of mitigation of the impact of a given project.

## FORESTED AREAS

Forests have been created in the areas of former protective zones currently managed by the smelters. Near the Legnica Copper Smelter and Refinery, forested areas cover about 385 ha, and near the Głogów Copper Smelter and Refinery - 872 ha. At present, this area is a unique “ecological niche”, being the habitat to birds, small amphibians and lush vegetation.

Moreover, the Tailings Division manages forests over the area of about 212 ha in the municipalities of: Lubin (about 58 ha), Polkowice (about 6 ha), Rudna (about 38 ha) and Warta Bolesławiecka (about 110 ha).

## KGHM covers Lower Silesia with forests

**Almost 60 thousand tree saplings were planted as commissioned by KGHM. Thousands of oaks, pines and birches will make green an area around three villages in the Copper Basin.**

Nearly 9 hectares of land around the Żelazny Most Tailings Storage Facility was subject to forestation to compensate for the green areas occupied by the Southern Quarter being built. The project of forestation of post-agricultural areas owned by the State Treasury has been performed by the Lubin

Forest District (Nadleśnictwo), commissioned by KGHM. The project has covered surroundings of the villages of Rudna, Stara Rudna and Pieszkowice. By 2022, KGHM plans further plantings within the Lubin Forest District on the surface area of nearly 100 hectares.

#### 57,510 plants altogether were planted, including:

- Almost 35 thousand pines
- Over 7.5 thousand birches
- Nearly 12 thousand oaks
- 3.5 thousand alders
- 1 thousand elms

The planting around the Żelazny Most reservoir is not the only action on the part of the Company for the environment. Forestations were also carried out in the Forest Districts of Wołów, Chocianów and Przemków. KGHM also participates, among others, in the project of the so called “Forest

Coal Farms”, developed and managed by the General Directorate of State Forests, whose idea is to reconstruct forests and introduce new forestations to limit the amount of carbon dioxide in the atmosphere by increasing CO<sub>2</sub> absorption by forest complexes.





### PEREGRINE FALCON

In 2008, the Głogów Copper Smelter and Refinery recorded an unsuccessful nesting attempt of a peregrine falcon. To allow falcons to breed safely, a decision was taken to mount a breeding box on one of the smelter's stacks. In autumn 2008, a breeding box was mounted on the stack of Głogów II Copper Smelter and Refinery, the so-called "little clover".

The felicitous nature of this location was confirmed on 31 March 2009, when 3 peregrine falcon eggs were found in the mounted nest. Three nestlings hatched after a month. They were ringed in mid-May, and left their home for good in August.

In 2011, the Company took actions to allow the falcon family to be watched on-line. Since 2012, the life of Głogów falcons can be viewed online on the "Sokół" Association website. Every year, the names for the birds are chosen in a contest held on the "Sokół" Association website. KGHM is a co-organizer of the contest and funds awards for the winners. Since the breeding box was mounted in Głogów II Copper Smelter and Refinery, 36 falcons have successfully hatched, and 35 of them have been leg-banded.

### ECOLOGICAL SITE - ŁĘGI GŁOGOWSKIE

On 28 October 2005, at the request of the Głogów Copper Smelter and Refinery the Lower Silesia Voivode formally established the "Łęgi Głogowskie" ecological site, to protect the important natural features of, among others, the old Odra riverbed, vegetation clusters, from water plants and reedbeds to rich deciduous forests with a multitude of protected flora and fauna species. The site covers a terrace area of 605.6 ha between the Odra River's embankments, and stretches over land to which KGHM holds a legal title.

Every year, the Głogów Copper Smelter and Refinery undertakes treatment measures to maintain the area, restore habitats and protect the species living in the "Łęgi Głogowskie" ecological site. The measures include, among others, cutting grasslands in a manner retaining patches of late-maturing vegetation (Cnidion meadows) and cutting away reeds in meadow habitats, removal of self-sown trees and shrubs which tend to expand into grassland habitats,

planting of trees and shrubs of native species typical for the forest habitats in locations of former foreign trees plantations. Construction of habitat rows for birds, hanging daytime shelters for bats and breeding boxes for birds, building of clay and wood structures as substitute habitats for insects nesting in clay, tidying up works – regular removal of illegally dumped waste.

### ENVIRONMENTAL ACTIVITIES IN KGHM POLSKA MIEDŹ S.A.

KGHM Polska Miedź S.A., as one of the largest socially responsible enterprises in Lower Silesia, is aware of the objectives and challenges related to the impact our activities have on climate change. We develop our operations based on innovative, low-emission technologies, in line with circular economy principles. We pursue this objective by investing in best available environmental techniques (BAT), and running our business with the view to the highest achievable environmental neutrality of production processes.

The extraction of copper ore and its subsequent processing at all production stages is inextricably associated with affecting all components of the natural environment. Compliance with rigorous environmental standards laid down by the law is possible thanks to the consistent modernisation of our existing installations to protect the environment, as well as new investments in this area. Over the year, intensive work was carried out to implement the European Commission Implementing Decision establishing best available techniques (BAT) conclusions for the non-ferrous metals industry. The on-going adaptation of smelter facilities to the BAT conclusions also results in continued lowering of dust and gas emissions. In 2020, the Company spent more than PLN 186 million on investments to protect the natural environment, of which the largest expenditure, in the amount of over PLN 43 million, was incurred on the construction of an arsenic and mercury elimination installation before the desulphurisation plant at "Legnica" Copper Smelter and Refinery.

At **KGHM Polska Miedź S.A.**, care for the natural environment is connected with

the business model in which all its segments – from exploration to extraction and smelting of metals – apply the standards ensuring safe and environmentally friendly operations.

The key commitments of **KGHM Polska Miedź S.A.** in the area of environmental protection:

- We supply metals and related products to achieve environmental goals of the modern society, including climate action and efficient energy use
- We minimize the consumption of limited resources, such as soil, water and energy
- We operate our installations in conformity with our environmental permits
- We monitor the pollution of air, water and soil
- We minimize production of waste and continue to develop waste management techniques to ensure the best possible environmental performance

- We conduct an objective, open and respectful dialogue for the environment with our local community and relevant authorities
- We take active measures to preserve and – where it is not possible – to compensate for lost biodiversity, and to ensure responsible management of our land and forests.
- We observe the principles of responsible chemical substance management introduced by the EU Regulations REACH and CLP
- We reinforce the feeling of responsibility for the environment in our employees

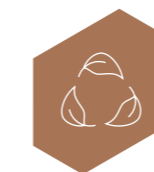
### ENVIRONMENTAL PROTECTION PRIMARY OBLIGATIONS OF KGHM POLSKA MIEDŹ S.A.



We supply metals and related products in order to achieve the environmental goals of contemporary society, including actions on behalf of the climate and efficient energy use



We keep abreast of new technologies to reduce industrial impact on the environment and introduce them according to our needs and possibilities



We minimise waste generation and are constantly developing techniques to manage waste in order to achieve the greatest degree of environmental protection



We strengthen our employees' sense of accountability to protect the environment



We apply the principles of responsible management of chemicals introduced by the EU's REACH and CLP regulations



We conduct objective, open and respectful dialogue with our local communities and appropriate government bodies concerning the environment



We operate our installations in compliance with the environmental permits held. We monitor emissions to the air, water and soil. We minimise the utilisation of limited resources, such as soil, water and energy



We take active measures to preserve and – where it is not possible – to compensate for lost biodiversity, and to ensure responsible management of our land and forests.



As a socially responsible company, KGHM Polska Miedź S.A. cannot and does not want to ignore its responsibility for the condition of the environment. 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. Compliance with stringent legal standards is possible due to the consistent modernisation of existing installations and construction of new ones, to reduce and minimize impact on the environment.

Most of KGHM's divisions have implemented the ISO 14001 environmental management system, which shows that their operations are safe both to the employees as well as the environment. In 2021, the environmental management system is to be implemented in KGHM's Head Office and mines. This way, the environmental management system will cover the entire company.

### ENVIRONMENTAL USAGE FEES

In 2020, the Divisions of KGHM Polska Miedź S.A. incurred PLN 14.5 million in charges for the use of the environment. This year, the landfill fee of PLN 5.2 million was the largest part of the charges. The sewage disposal charge, at over PLN 4.5 million, was the second largest item.

### THE FORMAL AND LEGAL STATUS QUO, PARTICIPATION IN EU ETS SYSTEM, PLANS FOR THE FUTURE

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 a permit for the operation of the disposal of extractive waste facility at Żelazny Most and sector permits required by law. The mines operate on the basis of up-to-date 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 combined cycle units in Polkowice and Głogów also hold permits to participate in the CO<sub>2</sub> emissions trading system because KGHM Polska Miedź S.A. has been participating in the

obligatory European Union Emissions Trading System (EU ETS) since 2013.

In 2020, emissions in the previous year (2019) in the amount of 1.297 million tonnes of CO<sub>2</sub> were settled by freely-acquired rights (around 903 thousand tonnes of CO<sub>2</sub> for 2019 and from reserves) supplemented by purchases of rights (EUAs or European Emission Allowances and CERs – Certified Emission Reduction units).

It is expected that 2020 emissions at the level of around 1.23 million tonnes of CO<sub>2</sub> will be settled in freely-acquired rights for the Głogów and Legnica Copper Smelters and Refineries as well as rights for the Combined Cycle Units in Polkowice and Głogów (in total around 890 thousand tonnes of CO<sub>2</sub>) as well as reserves of rights from prior years and purchases of rights (EUA and CER) in the amount of around PLN 6.5 million.

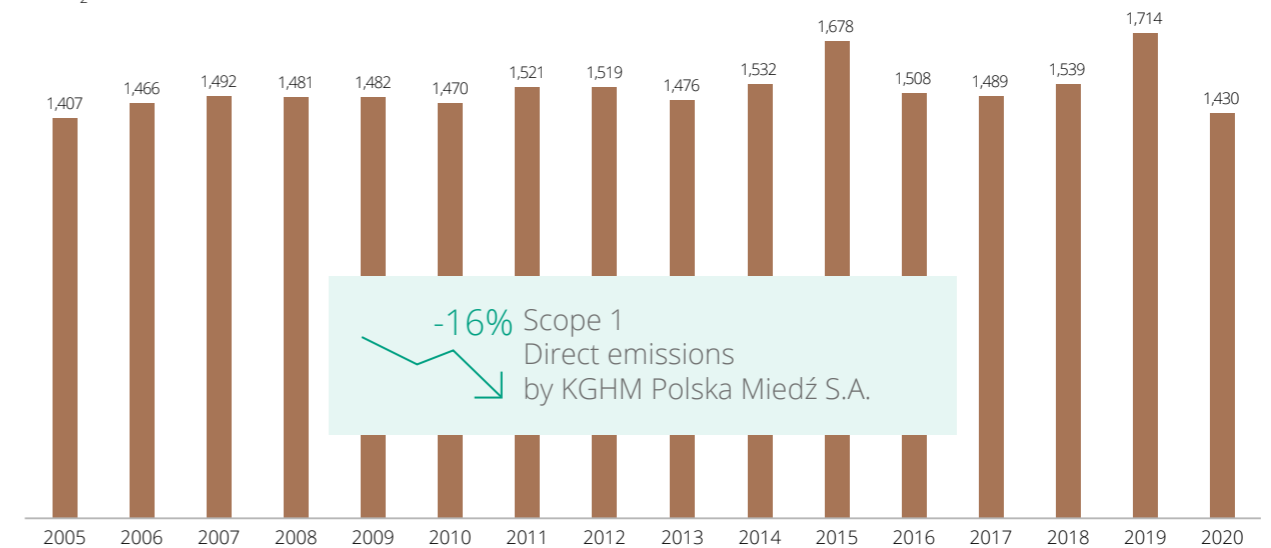
The most important projects related to environmental protection, both current and planned in the near term, include:

- continuation of investments in response to the required adaptation of metallurgical installations to BAT conclusions. Advancement of these investments is also related to further reductions in dust and gas emissions, including emissions of arsenic
- updating the integrated permits for installations in operation
- overseeing the system for CO<sub>2</sub> emissions trading, along with obtaining rights for these emissions
- continuation of the program to promote health and prevent environmental hazards, addressed to communities living in the nearest proximity to our metallurgical facilities
- construction of the southern quarter of the Żelazny Most Tailings Storage Facility

### CO<sub>2</sub> EMISSIONS BY KGHM POLSKA MIEDŹ S.A.<sup>1)</sup>

#### ETS<sup>2)</sup> direct emissions + non-ETS equivalent

[kt CO<sub>2</sub>]



<sup>1)</sup> For further information, including on Scope 2 emissions, please see our Non-financial Report

<sup>2)</sup> ETS – European Union Emission Trading Scheme

### ACTIVITIES IN THE AREA OF PRODUCTION AND USE OF CHEMICAL SUBSTANCES

As one of the leading European non-ferrous metals producers, KGHM Polska Miedź S.A. follows principles of responsible chemical substance management introduced by the EU Regulations REACH and CLP.

The REACH and CLP regulations are designed to:

- commit enterprises which produce or import chemicals to provide transparent clarifications and information on the properties of these substances, as well as to inform about how they are used and to whom they may pose hazard
- control risks to humans and the environment caused by hazardous chemicals, by limiting their use
- ensure that hazardous substances have been classified and feature in the generally available list published on the European Chemicals Agency's website, and

that every product containing such substances is adequately marked and packaged in a manner guaranteeing safe use, as well as to ensure that consumers and workers receive adequate information

- ensure that the most hazardous chemicals are gradually phased out

KGHM Polska Miedź S.A. has successfully implemented the REACH system into its operations to ensure compliance with the regulation of the same name and continuity of KGHM's product supply to its customers. At present, REACH is bread and butter of our everyday operations.

Under the REACH system, the Company has registered all the substances introduced into trade with the European Chemicals Agency. Pursuing its REACH implementation strategy, KGHM has become a member of a number of REACH consortia which manage the registration process for the substances and semi-finished products introduced by the consortium members.



At present, KGHM is a member of six consortiums:

- REACH Copper Consortium
- European Precious Metals Federation
- Lead REACH Consortium
- Nickel REACH Consortium
- REACH Selenium and Tellurium Consortium
- REACH Copper Compounds Consortium

In 2020, the consortia worked on the revised edition of the registration dossiers for substances and semi-finished products, taking account of the newest research results and the most recent guidelines of the European Chemicals Agency.

The consortia undertook activities in the area of harmonised classification for copper, lead and silver; permit procedures for lead; endocrine properties of copper and permissible concentrations of lead and copper in the work environment. With the Eurometaux association, the consortia started an analysis of the "EU chemicals strategy for sustainability", presented by the European Commission in October 2020. The purpose of this document is to increase safety and achieve a zero-level pollution for a toxic-free environment, postulated in the European Green Deal.

In 2020, the Company's costs of cooperation with the consortia amounted to EUR 79 thousand. The main item was the fee payable to the Copper Consortium in respect of updating the registration dossier.

In view of the changing requirements of the REACH Regulation, the Company has updated its substance properties cards, which are provided to customers.

## MEASURES REDUCING THE GROUP'S ENVIRONMENTAL FOOTPRINT

### KGHM INTERNATIONAL LTD.

In 2020, entities of the KGHM INTERNATIONAL LTD. Group also conducted activities related to protection of the environment.

In the case of the Robinson mine (USA), these activities focused on monitoring of air and water quality, waste management and reclamation of mining areas – approx. PLN 18 million was spent on these goals, including almost PLN 3 million in charges under the permits to use the environment. At the Carlota mine in the USA, the activities involved mainly environmental monitoring and preparations for the reclamation process – total expenditures for this purpose amounted to around PLN 6 million. In the Sudbury mines (Canada), the activities focused on environmental monitoring. In total, over PLN 3 million was incurred for this purpose. At the Franke mine (Chile), the activities focused on obtaining the required permits and on environmental monitoring. Total expenditures for this purpose amounted to nearly PLN 5 million.



**KGHM's American mine awarded for management of the natural environment.**

**The Robinson mine in the US, owned by KGHM, received the Nevada Excellence in Mine Reclamation Award. The award was given in the category "Legacy Waste Rock Remediation" for reclamation of the Lane City Waste Rock Facility (WRF).**

The Lane City WRF facility was constructed in the mid-1950s and late 1970s, before the entry into force of environmental regulations in the State of Nevada. The need for WRF reclamation was initiated by both the Robinson Mine and Nevada's administrative authorities.

As part of the completed Lane City WRF reclamation, slopes of the waste rock were shaped and covered with limestone and plants were planted on the top and slopes of the site. A rainwater drainage system has been put in place to prevent water from the landfill coming into contact with natural waters. This method of reclamation not only protects the site in terms of stability but also protects state waters, which is one of Nevada's top priorities in the area of environmental protection. The changes are visible to the naked eye – the planting has helped to restore the natural landscape of the area.

The reclamation award demonstrates Robinson Mine's commitment to protecting the environment and the community in which KGHM operates. The company's efforts in the area of responsible management of the environment were recognised by the Nevada state administration, with Governor Steve Sisolak congratulating the mine on Twitter, writing that the award was well deserved.

The Robinson open pit mine is located in White Pine County, Nevada, US, at an average elevation of 2,130 metres above sea level. Its main product is a concentrate of copper, molybdenum and gold.



## FINANCIAL RESOURCES FOR MINE DECOMMISSIONING AND RECLAMATION OF MINING AREAS

Pursuant to the laws in force in the United States and Canada, the KGHM INTERNATIONAL LTD. Group is obligated to present collateral in the form of frozen cash, or provide bank guarantees/letters of credit in the amount of the estimated provision for decommissioning of mines and technological facilities. As at 31 December 2020, the value of assets (cash) earmarked for liquidation of KGHM INTERNATIONAL LTD. mines amounted to PLN 67 million (as at 31 December 2019: PLN 68 million). Moreover, as at 31 December 2020, KGHM Polska Miedź S.A. issued letters of credit for the amount of PLN 404 million (as at 31 December 2019 – PLN 397 million) to secure liabilities under liquidation and reclamation of mining areas. As at 31 December 2020, the letters of credit issued by KGHM INTERNATIONAL LTD. amounted to PLN 179 million (as at 31 December 2019 – PLN 202 million).

## COMPANIES IN POLAND

The Polish companies of the Group operate in compliance with environmental laws. The companies that are obliged to do so hold valid permits to use the environment, except for the entities described below.

The company Uzdrowiska Kłodzkie S.A. – PGU Group does not have a water rights permit for discharging bathing waters from the Natural Medicine Centre in Polanica-Zdrój. Because of this the fee paid by the company for the discharge of such waste water is 500% higher. There is also no water rights permit for the discharge of excess mineral water from the “Pieniawa Józefa I” and “Pieniawa Józefa II” intakes. The discharge of that water to the river is not subject to charges. In order to resolve the formal and legal aspects of this situation, in terms of obtaining a water rights permit for the discharge of the aforementioned water to the river, the Company is engaged in discussions with the Polanica-Zdrój Town Hall, which is the owner of the sewage system.

Uzdrowiska Kłodzkie S.A. - the PGU Group awaits granting of a water rights permit to discharge after-bathing water from the Natural Treatment Resort and the discharge excess mineral water from the “Górne” intake in Kudowa-Zdrój. In October 2019, the Company appealed against the Decision received, due to the classification of unutilised mineral water from the “Górne” intake as industrial effluents. In 2020, a decision was handed down by the State Polish Waters Board – the Water Board in Nysa, against which the Company appealed to the Regional Director of the Water Board in Wrocław, through the Director of the Water Board in Nysa. The Company awaits the final decision of the Regional Water Board Director in Wrocław.

The discharge of industrial effluents from the Mineral Water Bottling Plant no. II in Polanica-Zdrój to the municipal sewage system has not been regulated by law. The Miejski Zakład Komunalny (municipal services office) in Polanica-Zdrój did not respond to the company's request for the clarification of conditions for the discharge of industrial waste to the municipal sewage system due to the lack of a signed agreement. The company is also considering building a waste treatment plant on the grounds of the bottling plant.

Amongst the domestic companies of the Group, the largest environmental impact comes from the activities of “Energetyka” Sp. z o.o. In 2020, this company incurred the highest environmental charges. They amounted to PLN 2.8 million and mainly comprised payments for water intake and wastewater discharge (PLN 2.4 million), and for pollutant emissions into the air (approx. PLN 0.4 million). In 2020, the Company was fined for having exceeded in 2018 the permissible limits of dust emissions into the air from the Polkowice Heat and Power Plant, and for the discharge in 2018 of wastewater from the W-4 Division wastewater treatment plant in Legnica to the Pawłówka (Białynia) stream, which was in breach of the terms and conditions of the relevant integrated permit.

In 2020, the Company pursued investment projects with the aim to:

1. Adapt the existing equipment and installations of the Polkowice heat and power plant to the IED Directive emission requirements and the so-called BAT Conclusions
2. Modernize two steam boilers at the Głogów Division – adaptation to new technological conditions and processes as a result of discontinuation of top gas burning (the modernisation consists in adaptation of the equipment to new fuel for the boiler, from top gas to natural gas enriched with nitrogen) to the extent necessary to ensure supply of steam reserve for the Głogów Copper Smelter and Refinery, heat supply to the city of Głogów and increased electricity supply to the Głogów Copper Smelter and Refinery
3. Modernize the industrial effluent distribution chamber at the Legnica Division - to ensure continuity of production at the Legnica Copper Smelter and Refinery and increase the effectiveness of industrial effluents treatment

Due to the specific nature of its production (explosives, initiation systems, fuel additives), the NITROERG S.A. Company has an impact on the environment. The environmental charges incurred by the company in 2020 amount to PLN 0.3 million. In April 2020, there was an emergency incident in the Krupski Młyn plant, involving a leak of hazardous substance into the environment, i.e. the Mała Panew river. NITROERG S.A. took immediate action and the environmental effects of the incident have been effectively removed, which was verified by an ad hoc inspection of the Voivodeship Inspectorate of Environmental Protection. As a result of the incident, the State Polish Waters Board (PGW Wody Polskie) imposed an increased charge on the Company, of PLN 60 thousand. The charge has been paid.

As part of its environmental investment projects in 2020, KGHM ZANAM S.A. launched a photovoltaic power plant at the Legnica Plant. The project is designed to significantly reduce the contribution of the Plant to air pollution, by switching to environmentally friendly in-house energy production from the existing supply source of the Legnica Copper Smelter and Refinery.





## KGHM Polska Miedź S.A. Health promotion and environmental hazards prevention program

The purpose of the Program is to provide preventive care for the inhabitants of the Copper Basin with a special focus on children and young people through the implementation of tasks such as:

- prophylactic and health trips to mountain or seaside spas as part of the “Green School” program
- year-long rehabilitation and sports activities at a swimming pool
- tests monitoring the presence of lead in blood

- tests monitoring the presence of arsenic in the bodies of the region's inhabitants
- environmental education combined with promotion of health

The “Health Promotion and Environmental Hazards Prevention Program” has been implemented for two years by the KGHM Polska Miedź Foundation in cooperation with an external enterprise.





## Selected GRI standards performance indicators

Selected GRI Standards indicators for 2020 presenting actions in the area of environmental issues:

### [GRI 303-3] - Water withdrawal by the Organisation

	2020		2019	
	KGHM Polska Miedź S.A. Group	KGHM Polska Miedź S.A.	KGHM Polska Miedź S.A. Group	KGHM Polska Miedź S.A.
<b>Water withdrawal by source (m³)</b>				
Surface water (total)	9 273 960	-	9 787 124	-
Groundwater (total)	31 055 637	158 149	33 942 726	176 405
Seawater (total)	30 714 866	-	25 048 901	-
Water withdrawn as a result of operations, e.g. mine water (total)	31 034 027	31 031 562	27 186 375	27 186 375
Fresh water (≤1 000 mg/l of total dissolved substances)	2 465	-	-	-
Other water (>1.000 mg/l total dissolved solids)	31 031 562	31 031 562	27 186 375	27 186 375
Water from third parties (total)	304 596	11 049 080	246 587	11 301 142
Fresh water (≤1 000 mg/l of total dissolved substances)	98 145	11 049 080	18 317	11 301 142
Other water (>1.000 mg/l total dissolved solids)	207 329	-	228 270	-
<b>Total water withdrawal (m³)</b>				
Surface water (total) + groundwater (total) + seawater (total) + post-production water (total) + water from other sources (total)	102 383 087	42 238 791	96 211 713	38 663 922

### [GRI 303-4] - Water (wastewater) discharge

		2020		2019	
		KGHM Polska Miedź S.A. Group	KGHM Polska Miedź S.A.	KGHM Polska Miedź S.A. Group	KGHM Polska Miedź S.A.
<b>Water (wastewater) discharge by destination (m³)</b>					
Surface water		41 473 468	24 829 044	37 040 279	19 498 439
Ground and soil		61 222	-	79 529	-
Sea		-	-	-	-
Water provided to third parties		84 836	8 856 278	818 986	10 050 454
<b>Total water (wastewater) discharge (m³)</b>	Surface water + groundwater + seawater + third party water (total)	41 619 526	33 685 322	37 938 794	29 548 893
<b>Water (wastewater) discharge - fresh and other water (m³)</b>					
Fresh water (≤1 000 mg/l of total dissolved substances)		16 817 279	8 913 666	18 492 273	10 105 915
Other water (>1.000 mg/l total dissolved solids)		24 799 629	24 771 656	19 442 978	19 442 978

### GRI 303-5 - Water consumption

	2020		2019	
	KGHM Polska Miedź S.A. Group	KGHM Polska Miedź S.A.	KGHM Polska Miedź S.A. Group	KGHM Polska Miedź S.A.
<b>Total water consumption (m³)</b>	60 040 901	8 553 469	58 272 919	9 115 029

### GRI 304-1 - Operational sites adjacent to protected areas and areas of high biodiversity value

	2020
<b>Operational sites adjacent to protected areas and areas of high biodiversity value</b>	15

### GRI 305-1 - Direct greenhouse gas emissions

	2020		2019	
	KGHM Polska Miedź S.A.			
<b>Direct emissions (ETS + nonETS equivalent) (tCO<sub>2</sub>e)</b>	1 430 234		1 714 122	


**GRI 305-2 – Indirect greenhouse gas emissions**

Indirect emissions, by source	2020		2019	
	KGHM S.A. Group	KGHM Polska Miedź S.A.	KGHM S.A. Group	KGHM Polska Miedź S.A.
Emissions resulting from electricity purchased for own needs	1 838 716,21	1 614 949,00	1 946 213,58	1 815 871,13
Emissions resulting from heat purchased for own needs	299 544,54		480 568,78	
Emissions resulting from cooling energy or steam purchased for own needs	23 859,30	191 132	21 284,06	014,64
<b>Total indirect emissions (tCO<sub>2</sub>e)</b>	<b>2 162 120,05</b>	<b>1 614 949,00</b>	<b>2 448 066,43</b>	<b>1 976 885,77</b>

\*\*Because of the provisions of Polish law associated with the obligation to prepare reports on a detailed breakdown of indirect emissions in Scope 2 by the end of the quarter of the year following the reporting year, detailed

data on emission levels associated with the purchased heat, shown separately for the part related to cooling or steam will be known after this Report is published.

**GRI 307-1 – Significant fines and non-monetary sanctions for non-compliance with environmental laws and/or regulations**

Among the evidence confirming the effectiveness of environmental protection initiatives and less onerousness of the business carried out, there was no non-financial sanction in the KGHM Polska Miedź S.A. Group or in the Parent Entity.

Information on administrative and court sanctions imposed on the organisation for non-compliance with environment protection regulations	2020		2019	
	KGHM S.A. Group	KGHM Polska Miedź S.A.	KGHM S.A. Group	KGHM Polska Miedź S.A.
<b>Total monetary value of significant fines for non-compliance with environmental laws and regulations [PLN]</b>	448 117,00	0	357 940,00	0,00
<b>Number of non-financial, administrative and court sanctions imposed on the organisation for non-compliance with environment protection regulations, including international declarations / conventions / treaties and national, regional and local laws, as well as voluntary arrangements with regulatory bodies that are considered binding</b>	2	0	2	0





## GRI 306-2 - Total weight of waste by type and disposal method

1 Waste storage by group, in metric tons (t)	2020			2019		
	KGHM Polska Miedź S.A.					
	Generated waste	Waste for recovery	Waste for disposal	Generated waste	Waste for recovery	Waste for disposal
Group "01" – waste resulting from exploration, mining, physical and chemical processing of ores and other minerals	27 948 802	17 887 232	10 061 570	28 144 055	18 012 194	10 131 861
Group "10" – waste from thermal processes	1 230 983	1 175 548	55 435	1 298 977	1 234 817	64 160
Other waste	142 253	108 272	33 981	141 435	62 709	78 726
<b>Total</b>	<b>29 322 038</b>	<b>19 171 052</b>	<b>10 150 986</b>	<b>29 584 467</b>	<b>19 309 720</b>	<b>10 274 747</b>

## On site Waste for recovery by recovery process, in metric tons (t)

On site	2020		2019	
	KGHM Polska Miedź S.A.			
	Hazardous waste (all forms of recovery)	Waste other than hazardous waste (all forms of recovery)	Hazardous waste (all forms of recovery)	Waste other than hazardous waste (all forms of recovery)
On site	18 646	18 834 517	19 299	18 397 003
Out of site	35 259	282 630	49 816	843 602
<b>Total</b>	<b>53 905</b>	<b>19 117 147</b>	<b>69 115</b>	<b>19 240 605</b>

## 3 Waste for disposal by disposal process, in metric tons (t)

3	2020		2019	
	KGHM Polska Miedź S.A.			
	Hazardous waste (landfill)	Waste other than hazardous waste (landfill)	Hazardous waste (landfill)	Waste other than hazardous waste (landfill)
On site	82 756	10 052 545	76 234	10 197 644
Out of site	15 218	467	73	796
<b>Total</b>	<b>97 974</b>	<b>10 053 012</b>	<b>76 307</b>	<b>10 198 440</b>

## GRI 306-2 - Total weight of waste by type and disposal method

1 Waste storage by group, in metric tons (t)	2020			2019		
	KGHM Polska Miedź S.A.					
	Generated waste	Waste for recovery	Waste for disposal	Generated waste	Waste for recovery	Waste for disposal
Group "01" – waste resulting from exploration, mining, physical and chemical processing of ores and other minerals	113 737 132	17 893 767	95 843 365	116 996 969	18 018 729	98 978 240
Group "10" – waste from thermal processes	1 268 783	1 213 348	55 435	1 336 777	1 272 617	64 160
Group „19” – waste from waste storage installations and equipment, from effluents treatment plants and from treatment of potable and industrial water	166 259		70 858			
		95 401		166 259	95 401	70 858
Other waste	194 627	159 988	34 639	193 409	114 425	78 984
<b>Total</b>	<b>115 366 801</b>	<b>19 362 503</b>	<b>96 004 297</b>	<b>118 693 413</b>	<b>19 501 171</b>	<b>99 192 242</b>

## 2 Waste for recovery by recovery process, in metric tons (t)

2	2020		2019	
	KGHM Polska Miedź S.A.			
	Hazardous waste (all forms of recovery)	Waste other than hazardous waste (all forms of recovery)	Hazardous waste (all forms of recovery)	Waste other than hazardous waste (all forms of recovery)
On site	18 646	18 874 571	19 299	18 437 057
Out of site	35 489	433 693	50 046	994 665
<b>Total</b>	<b>54 135</b>	<b>19 308 264</b>	<b>69 345</b>	<b>19 431 722</b>

## 3 Waste for disposal by disposal process, in metric tons (t)

3	2020		2019	
	KGHM Polska Miedź S.A.			
	Hazardous waste (landfill)	Waste other than hazardous waste (landfill)	Hazardous waste (landfill)	Waste other than hazardous waste (landfill)
On site	4 321 358	91 595 738	4 720 924	94 399 332
Out of site	86 010	1 296	70 858	1 231
<b>Total</b>	<b>4 407 368</b>	<b>91 597 034</b>	<b>4 791 782</b>	<b>94 400 563</b>




**GRI 302-1 - Direct and indirect energy consumption by the organization\***

		Values (MWh)
		KGHM Polska Miedź S.A.
<b>1</b>	<b>Total consumption of non-renewable raw materials (own or purchased) in Joules or multiples thereof, by type of raw material in 2020</b>	
Non-renewable	coal	0
	natural gas	2 578 089
	heating oil	0
	Diesel fuel	0
<b>Total</b>	<b>Total consumption</b>	<b>2 578 089</b>

		Values (MWh)
		KGHM Polska Miedź S.A.
<b>2</b>	<b>Total consumption of renewable raw materials (own or purchased) in Joules or multiples thereof, by type of raw material</b>	
Renewable	biomass	0
	Biofuels	0
	wind energy	0
	solar energy	0
	geothermal energy	0
	Hydro energy	0
	Other (t)	0
<b>Total</b>	<b>Total consumption</b>	<b>0</b>

		Values (MWh)
		KGHM Polska Miedź S.A.
<b>3</b>	<b>Total consumption of energy produced or purchased, by electricity, heat in Joules or multiples thereof</b>	
	electricity	2 895 029
	heat (including consumption of steam, consumption of cooling energy)	820 239
<b>Total</b>	<b>Energy consumption</b>	<b>3 715 268</b>

		Values (MWh)
		KGHM Polska Miedź S.A.
<b>4</b>	<b>Total energy sales: electricity, heat, cooling and steam, in Joules or multiples thereof</b>	
	Total sales of electricity	211 594
	Total sales of heat (including: heat in steam, heat in water, cooling energy)	427 916
<b>Total</b>	<b>Sales</b>	<b>639 510</b>

		Values (MWh)
<b>5</b>	<b>Total energy consumption within the organization according to the formula</b>	<b>5 653 847</b>





# Business and financial results in 2020

- 292 Financing model
- 298 Business summary
- 310 Investments
- 320 Operating results
- 342 Financial results
- 352 Financial results of the KGHM Group



## Financing model

The 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 for monitoring the level of the Group's debt, and provides for the centralisation of borrowing at the level of the Parent Entity. 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 2020 amounted to PLN 7,335 million and decreased as compared to the end of 2019, with the structure based on diversified and long-term financing sources ensuring financial stability in the long run.

The Group's free cash and cash equivalents, which at 31 December 2020 amounted to PLN 2,501 million, are of a short term nature.

### NET DEBT STRUCTURE OF THE GROUP (PLN MILLION)

	31.12.2020	31.12.2019	Change (%)	30.09.2020	30.06.2020	31.03.2020
<b>Liabilities due to:</b>	<b>7,335</b>	<b>7,873</b>	<b>(6.8)</b>	<b>7,497</b>	<b>8,898</b>	<b>9,622</b>
Bank loans	1,994	2,386	(16.4)	2,016	3,257	3,808
Other loans	2,685	2,794	(3.9)	2,806	2,937	3,073
Debt securities	2,000	2,001	-	2,010	2,000	2,017
Leases	656	692	(5.2)	665	704	724
<b>Free cash and cash equivalents</b>	<b>2,501</b>	<b>982</b>	<b>x2,5</b>	<b>1,084</b>	<b>1,922</b>	<b>2,173</b>
Net debt	4,834	6,891	(29.9)	6,413	6,976	7,449

### NET DEBT STRUCTURE OF THE PARENT ENTITY (PLN MILLION)

	31.12.2020	31.12.2019	Change (%)	30.09.2020	30.06.2020	31.03.2020
<b>Liabilities due to:</b>	<b>7,115</b>	<b>7,620</b>	<b>(6.6)</b>	<b>7,258</b>	<b>8,588</b>	<b>9,235</b>
Bank loans	1,860	2,294	(18.9)	1,913	3,164	3,711
Other loans	2,461	2,686	(8.4)	2,591	2,729	2,888
Debt securities	2,000	2,001	-	2,009	2,000	2,017
Cash pooling	284	130	x2,2	230	180	80
Leases	510	509	+0.2	515	515	539
<b>Free cash and cash equivalents</b>	<b>2,120</b>	<b>489</b>	<b>x4,3</b>	<b>761</b>	<b>1,688</b>	<b>1,882</b>
Net debt	4,995	7,131	(30.0)	6,497	6,900	7,353



## SOURCES OF FINANCING IN THE GROUP

As at 31 December 2020, the Group held open lines of credit, loans and debt securities with a total available amount of PLN 13,145 million, out of which PLN 6,679 million had been drawn.

Unsecured, revolving syndicated credit facility in the amount of USD 1.5 billion

Credit in the amount of USD 1,500 million (PLN 5,638 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 2020 the Parent Entity obtained the consent of the Syndicate Participants to extend the term of the agreement by 1 year, i.e. till 19 December 2025. The limit of available financing during the extension period will amount to USD 1,438 million (PLN 5,405 million). Interest is based on LIBOR plus a margin, which depends on the level of the net debt/EBITDA ratio. The funds acquired under this credit were used to finance general corporate goals.

Investment loans, including from the European Investment Bank in the total amount of PLN 2.9 billion with a financing periods of up to 12 years

Financing agreements signed by the Parent Entity with the European Investment Bank: 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 raised under the loan were earmarked to finance the Company's investment projects associated with modernisation of metallurgy and expansion of the Żelazny Most mining waste neutralisation facility. in December 2017, in the amount of PLN 900 million, under which the Company drew three instalments with maturities falling on 28 June 2030, 23 April 2031 and 11 September 2031. The funds acquired through this loan are being used to finance the Parent Entity's development and replacement projects at various stages of the production line. Interest on the instalments drawn is based on a fixed interest rate.

Debt securities in the amount of PLN 2.0 billion

The program to issue bonds on the Polish market was established under an issue agreement dated 27 May 2019. Issue with 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 LIBOR plus a margin. The funds acquired under this bond issue are earmarked to finance general corporate goals.

Bilateral bank loans in the amount of up to PLN 2.4 billion

The Group has open lines of credit in the form of bilateral agreements in the total amount of PLN 2,379 million. These are working capital facilities and overdraft facilities with availability of up to 4 years. Interest is based on a fixed interest rate or on the variable interest rates WIBOR, LIBOR, EURIBOR plus a margin. The funds obtained under the aforementioned bank loan agreements are a tool supporting the management of current financial liquidity.

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

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

## UTILISATION OF EXTERNAL FINANCING AS AT 31 DECEMBER 2020

The following table presents the structure of borrowings used by the Group and the extent to which they were utilised.

### AMOUNT AVAILABLE AND DRAWN BY THE GROUP (IN PLN MILLION)

	Amount drawn as at 31.12.20 <sup>1</sup>	Amount drawn as at 31.12.19 <sup>2</sup>	Change (%)	Amount available as at 31.12.20	Amount drawn (%)
Unsecured, revolving syndicated credit facility	-	18	-	5,638	-
Loans	2,685	2,794	(3.9)	3,128	85.8
Bilateral bank loans	2,011	2,368	(15.1)	2,379	84.5
Debt securities	2,000	2,001	-	2,000	100.0
<b>Total</b>	<b>6,696</b>	<b>7,181</b>	<b>(7.0)</b>	<b>13,145</b>	<b>50.9</b>

<sup>1</sup> Presented without the paid preparatory commission reducing the financial liabilities under received loans.

<sup>2</sup> \* Presented taking into account the costs associated with conclusion of the syndicate loan agreement in 2019.

As at 31 December 2020, 60% of the Group's debt came from loans drawn in USD, 38% in PLN, and 1% in EUR and CAD, each.

## EVALUATION OF FINANCIAL RESOURCES MANAGEMENT

In 2020, the KGHM Polska Miedź S.A. Group was fully capable of meeting its obligations associated with contracted liabilities. The cash and cash equivalents held by the Group along with the secured external financing ensure that liquidity will be maintained and enable the implementation of its investment plans.

As at 31 December 2020, the Group held PLN 2,501 million of free cash and cash equivalents and had open credit lines for total available financing of PLN 13,145 million, out of which PLN 6,679 million had been drawn.

In 2020, the Group continued activities aimed at ensuring long-term financial stability by basing the financing structure on diversified, long-term sources of financing.

In December 2020 the Parent Entity took advantage of the option to extend by 1 year the term of the unsecured revolving syndicate facility agreement in the amount of USD 1,500 million (PLN 5,638 million) concluded in 2019. As a result of the decision of Syndicate Participants, the available limit of funds under the granted financing during the extension period will amount to USD 1,438 million (PLN 5,405 million).

In addition, in 2020 efforts were continued to optimize the financial liquidity management process through focusing on efficient working capital management. The Group uses factoring and reverse factoring resulting in shortening the days receivable cycle and extending the days payable cycle. As at 31 December 2020, the balance of trade receivables transferred to reverse factoring amounted to PLN 1,264 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 the financial covenant at specified level. At the balance sheet date, during the financial year and following the

balance sheet date, as at the date of this report, the level of the reportable financial covenant as at 30 June 2020 and 31 December 2020 complied with the provisions of the agreements.

### NET DEBT / EBITDA OF THE GROUP

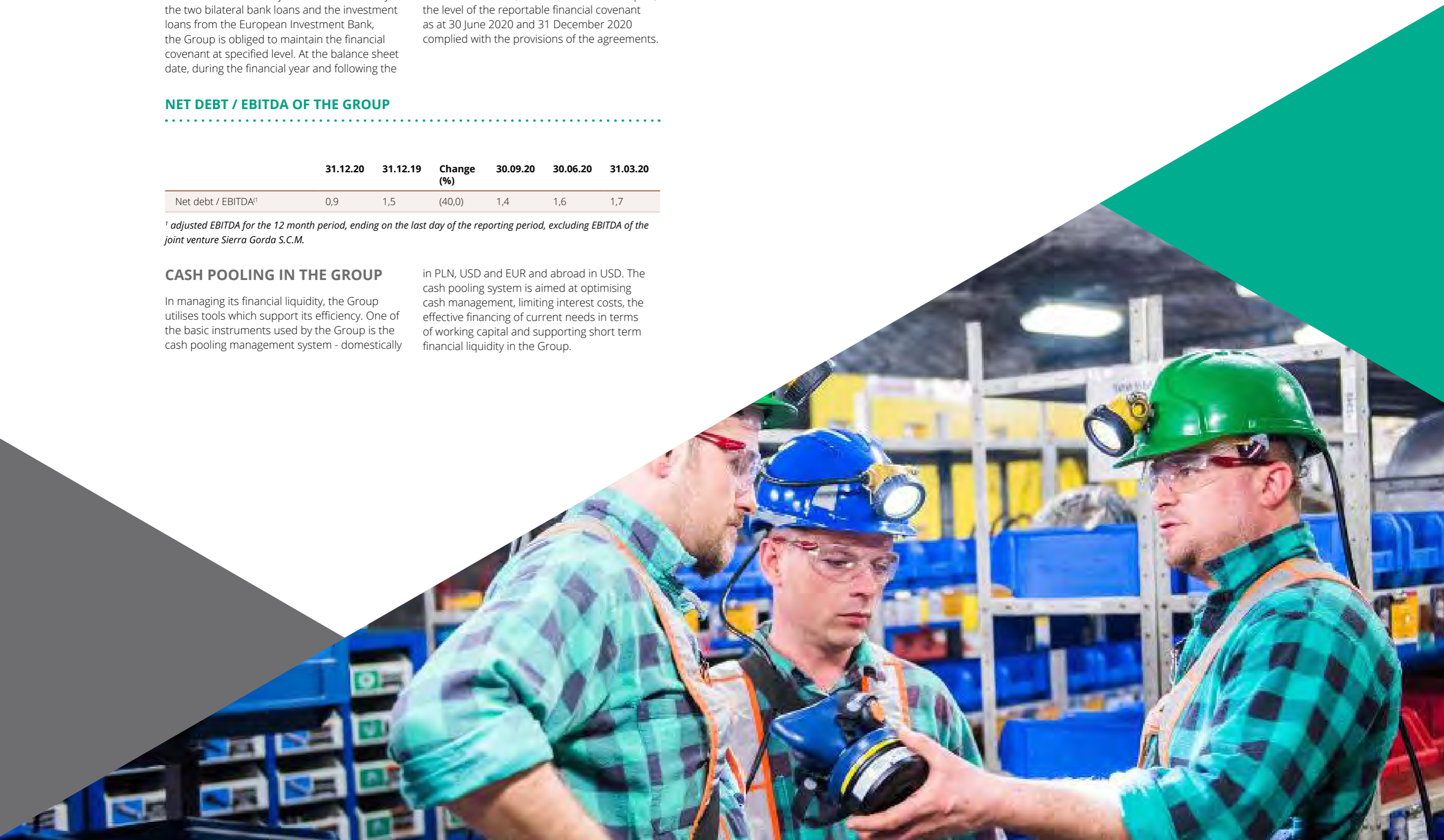
	31.12.20	31.12.19	Change (%)	30.09.20	30.06.20	31.03.20
Net debt / EBITDA <sup>1</sup>	0,9	1,5	(40,0)	1,4	1,6	1,7

<sup>1</sup> 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.

### 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. 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.



# Business summary

[GRI 201-1]

“ We put a lot of work into improving our financial and accounting reporting system, striving to ensure transparency of our activities and openness in communication with our stakeholders. For KGHM, a company listed at the Warsaw Stock Exchange, adherence in our activities to corporate governance standards and ethics is a guarantee of safe and long-term investments.”

**Agnieszka Sinior**

Dyrektor Naczelny Centrum Usług Księgowych, Główny Księgowy KGHM Polska Miedź S.A.

Higher revenues from sales by PLN 1 643 million (+9%) were achieved in 2020 compared to 2019 mainly due to:

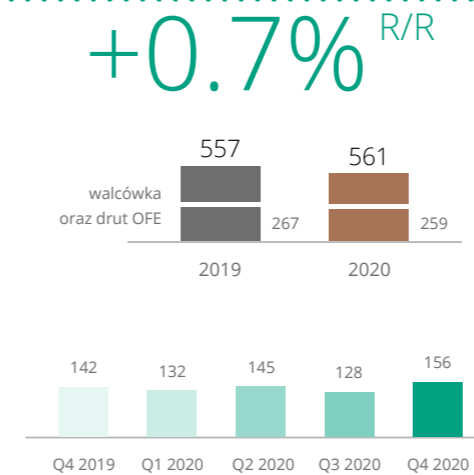


Higher metals prices  
(copper +3%, silver +27%)

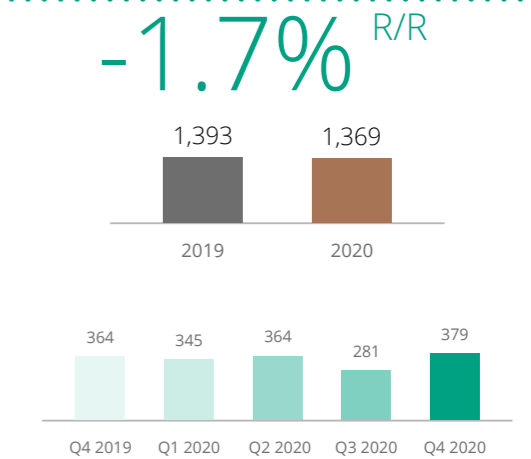


a more favourable USD/PLN  
exchange rate (+2%)

### SALES OF COPPER AND COPPER PRODUCTS [KT]



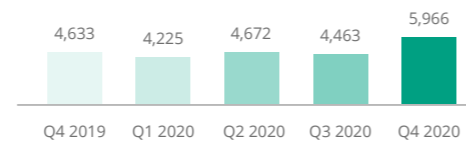
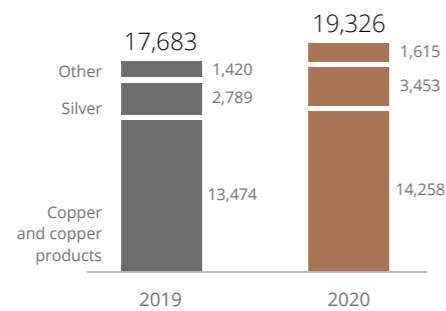
### SILVER SALES [T]



## SALES REVENUE KGHM POLSKA MIEDŹ S.A.

### SALES REVENUE [MN PLN]

**+9.3%<sup>Y/Y</sup>**





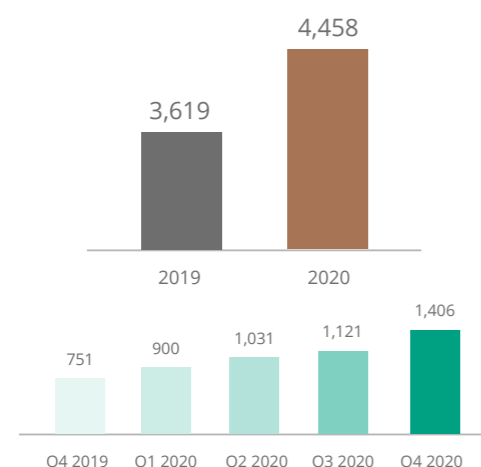
### EBITDA AND PROFIT FOR THE PERIOD KGHM POLSKA MIEDŹ S.A.

Higher EBITDA,  
higher net profit

- EBITDA higher by 23% vs the corresponding period of 2019
- Higher net profit by PLN 515 mn(+41%) than in 2019 mainly due to higher operating profit

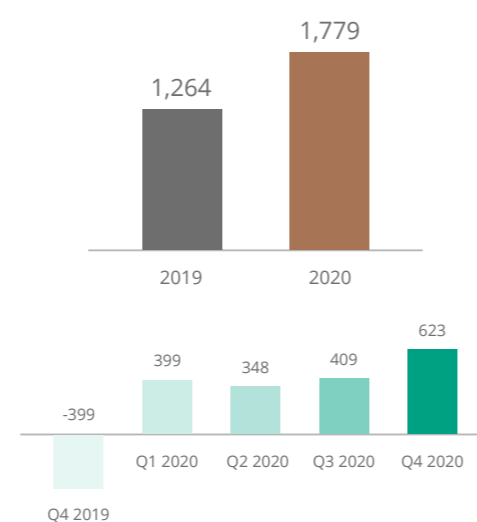
#### ADJUSTED EBITDA [MN PLN]

+23.2%<sup>Y/Y</sup>



#### PROFIT FOR THE PERIOD [MN PLN]

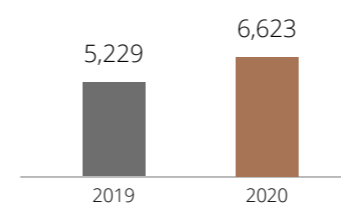
+40.7%<sup>Y/Y</sup>



### SUMMARY OF THE YEAR IN THE KGHM GROUP SELECTED KEY STATISTICS FOR 2020<sup>1)</sup>

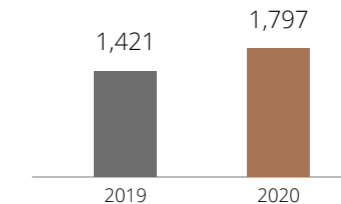
#### EBITDA<sup>2)</sup> [mn PLN]

+26.7%<sup>Y/Y</sup>



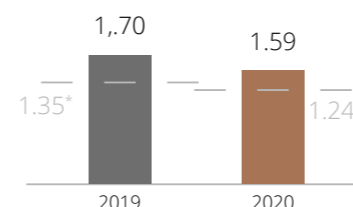
#### Profit for the period [mn PLN]

+26.5%<sup>Y/Y</sup>



#### C1 net cost [USD/lb]

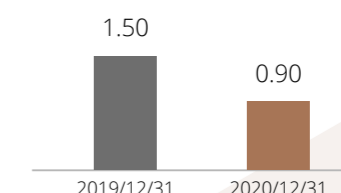
-6.5%<sup>Y/Y</sup>



\*Z wyłączeniem podatku od wydobycia niektórych kopalni

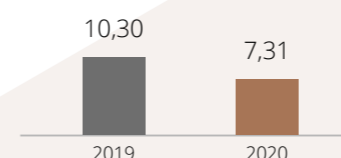
#### Net debt/EBITDA [ratio]

-40%<sup>Y/Y</sup>



#### LTIFR ratio [Polish assets]

-29%<sup>Y/Y</sup>



1) Consolidated data unless otherwise indicated, i.e. in the case of LTIFR - only KGHM Polska Miedź S.A.

2) Sum of segments; adjusted EBITDA = EBITDA (profit/(loss) on sales + depreciation/amortisation) adjusted by impairment losses on non-current assets

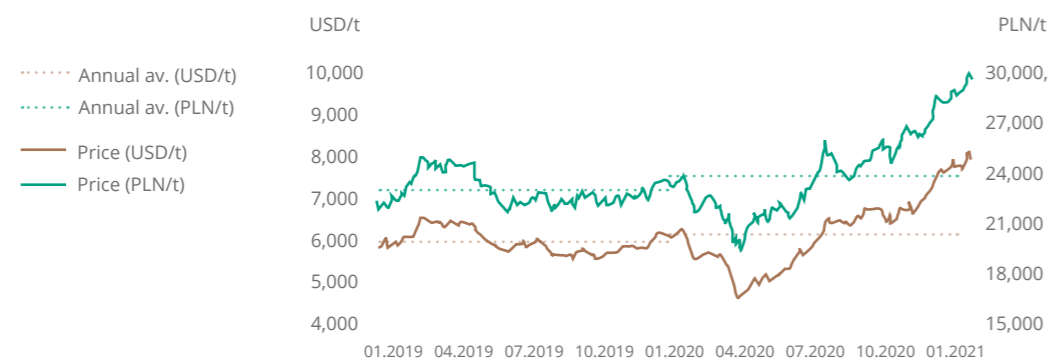


## MACROECONOMIC ENVIRONMENT

Commodities and currencies prices

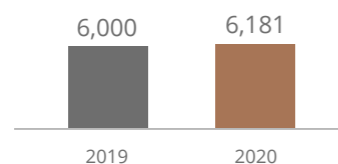
The average price of copper in 2020 in PLN and USD was at levels similar to 2019, but with extremely large volatility in metals prices

- While the average price of copper in 2020 amounted to 6 181 USD/t, or 3% higher compared to the prior year, the highs and lows set by the copper price differ by up to 70% (a low of 4 617 USD/t vs a high of 7 964 USD/t)
- The average price of copper in 2020 expressed in PLN amounted to 23 975 PLN/t, which due to a slight weakening of the PLN was 4% higher than in 2019
- The high volatility in prices in 2020 was caused by the COVID-19 pandemic and its impact on the global economy, along with the response of central banks and governments which introduced further fiscal packages and liquidity for the financial markets

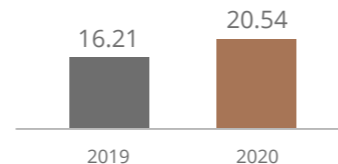


Source: Thomson Reuters, KGHM Polska Miedź S.A.

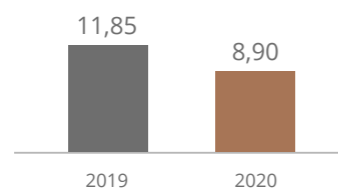
### COPPER PRICE [USD/T]



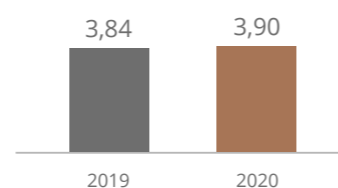
### SILVER PRICE [USD/TROZ]



### MOLYBDENUM PRICE [USD/LB]



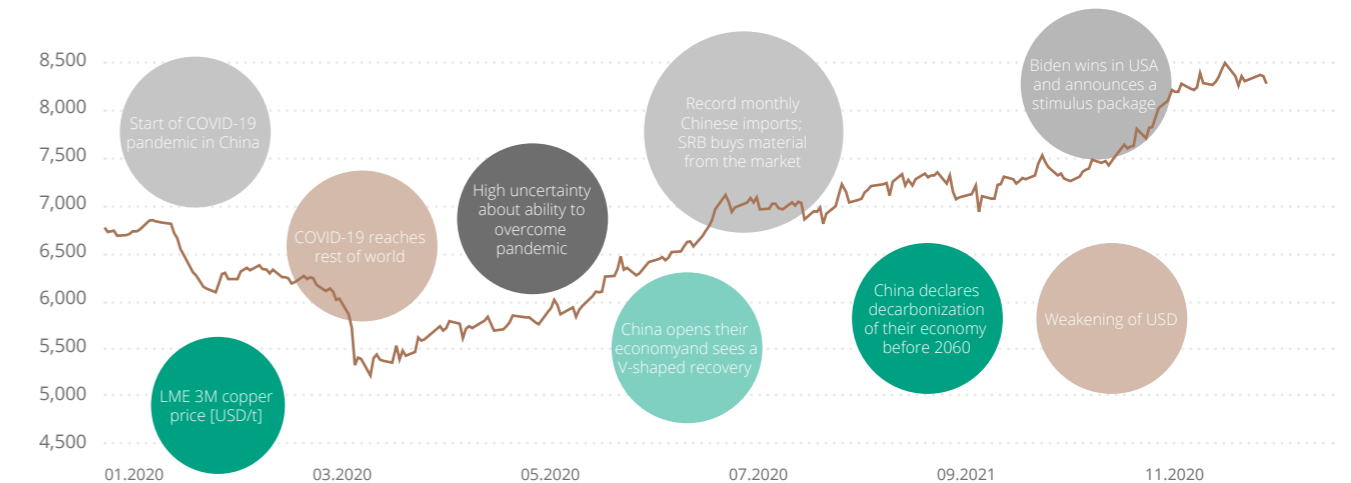
### EXCHANGE RATE [USD/PLN]



## 2020 A YEAR OF ENORMOUS COPPER PRICE VOLATILITY

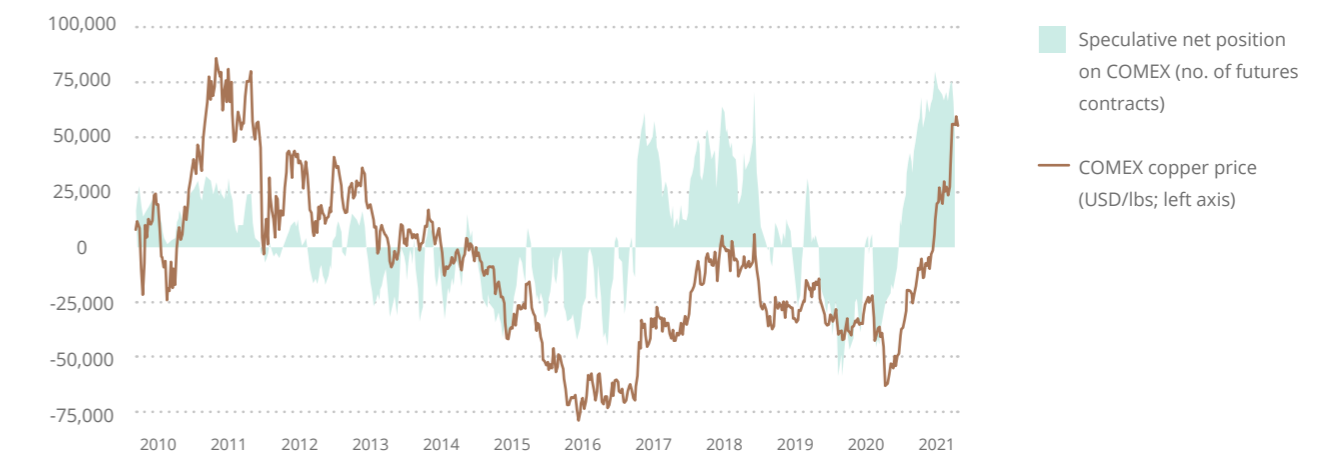
Inventories of the metal also volatile in recent months

In 2020 copper prices reached their lowest levels in 4 years and their highest since 2012, increasing by nearly double



- Closure of economies in Q1 and Q2 2020 caused the copper price to collapse and led to a jump in metal inventories
- Opening of the Chinese economy and its quick return to balance, and in particular record purchases by the agency responsible for materials inventories in China led to higher prices for the red metal
- In Q4 2020 the victory of Joe Biden and the Democrats in the USA, together with announced fiscal packages and a weaker USD supported copper prices

Speculative net position at historic records confirms exceptional investor interest in copper



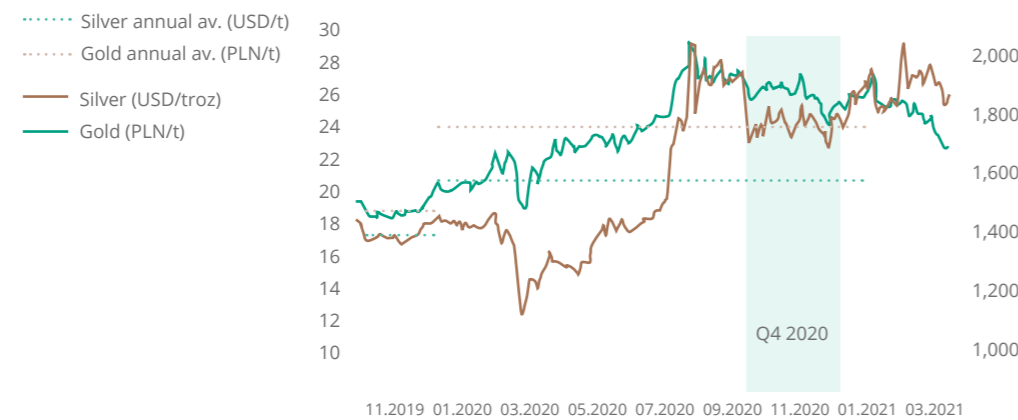
Source: Bloomberg, KGHM Polska Miedź S.A.

- Initially, copper's recovery was connected with the rise of imports into China, which fizzled out in the 4 quarter
- The above-average interest by investors, demonstrated by historically-high long positions, was the main factor supporting increases in subsequent months
- The over-heated copper market is drawing speculative capital on other metals markets as well, e.g. in Shanghai



### IN Q4 2020 PRECIOUS METALS PRICES WERE SLIGHTLY LOWER COMPARED TO THE RECORDS OF THE PREVIOUS QUARTER

Silver and gold fell in Q4 2020 but remain above the yearly average



Due to the increase in silver prices the gold to silver ratio returned to the level of the 40-year average



Source: Thomson Reuters, KGHM Polska Miedź S.A.

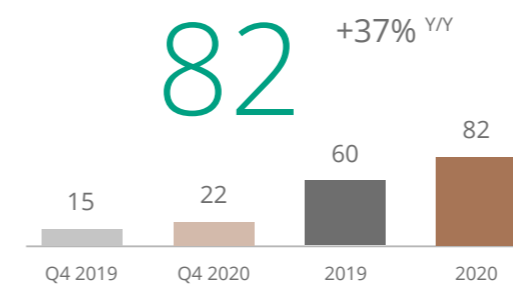
- Silver prices, which a year ago, at the start of the COVID-19 pandemic, failed to rise as quickly as gold, made up for lost time, with stability coming in Q4 2020 below the historic (gold), or multi-year (silver) peaks, but still at historically-high levels
- The gold/silver ratio, after reaching record levels in March and April, returned to the 40-year average
- The drop in precious metals prices, after reaching record levels, was due to the development and approval of the COVID-19 vaccine and the start of vaccination programs. This resulted in a better outlook for the global economy. This impact was more strongly felt by gold than silver due to the industrial nature of the latter metal.

### KEY PRODUCTION INDICATORS

Payable copper production Higher by 1.1% yoy by the KGHM Group

- KGHM Polska Miedź – lower quality and thickness of deposit and restricted copper scrap supply in H1 2020
- Sierra Gorda – higher ore throughput and recovery, higher copper content in ore
- KGHM INTERNATIONAL – lower production by Franke mainly due to ore quality, and by the Sudbury Basin, where ore with higher TPM content was extracted; in 1Q 2019 extraction from the Morrison mine was suspended

#### PAYABLE COPPER PRODUCTION SIERRA GORDA<sup>1)</sup> [KT]

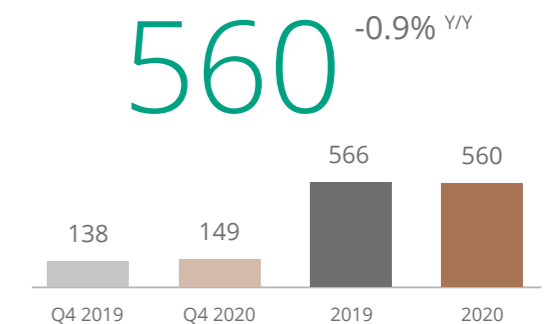


1) On a 55% basis

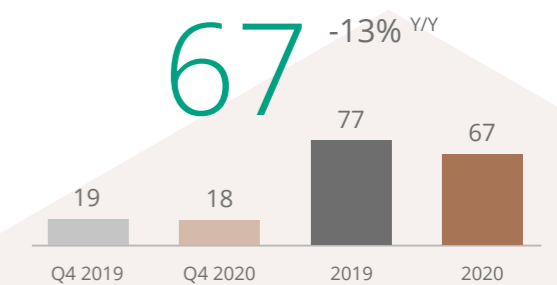
#### KGHM POLSKA MIEDŹ S.A. GROUP

709 +1.1% yoy [kt]

#### PAYABLE COPPER PRODUCTION KGHM POLSKA MIEDŹ [KT]



#### PAYABLE COPPER PRODUCTION KGHM INTERNATIONAL [KT]





## KEY FINANCIAL INDICATORS 2020

Adjusted Group EBITDA for 2020 the highest in the last 7 years

The increase compared to 2019 (+PLN 1 394 million; +27%) was from the following segments:

- KGHM Polska Miedź +PLN 839 mn (+23%) – higher sales volume and higher copper prices
- Sierra Gorda<sup>1)</sup> +PLN 686 mn – more than twice as high due to improvements in mine operating parameters (processed ore volume and recovery), the implementation of optimisation and savings programs, better quality ore mined, higher copper prices

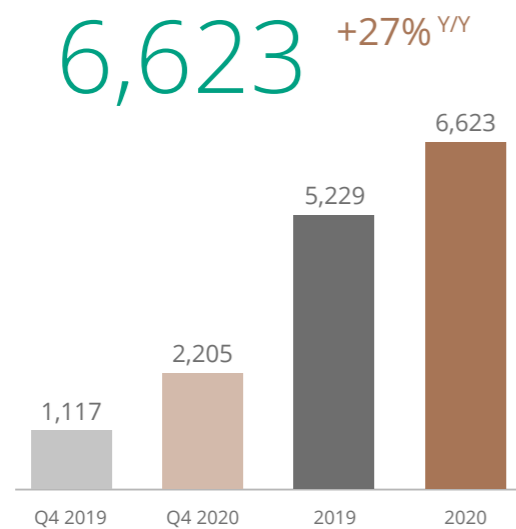
### Higher Group revenues

- Impact of higher copper sales by KGHM Polska Miedź and Sierra Gorda with higher copper and silver prices

### Higher Group net profit

- Improved EBITDA supported achievement of a higher profit for the year by PLN 376 mn (+26%) than in 2019

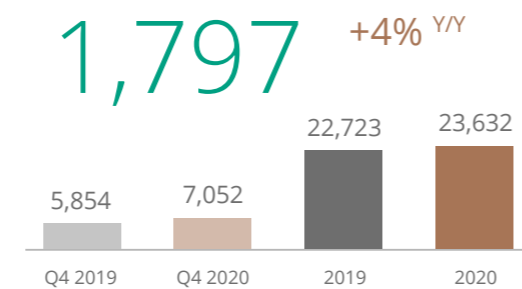
### GROUP EBITDA<sup>2)</sup> [MN PLN]



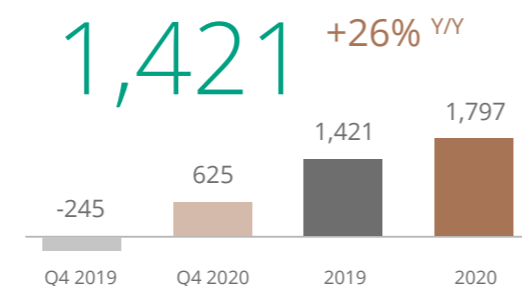
1) On a 55% basis

2) Sum of segments; adjusted EBITDA = EBITDA (profit/loss on sales + depreciation/amortisation) adjusted by impairment losses/reversals of impairment losses on non-current assets

### GROUP REVENUES [MN PLN]

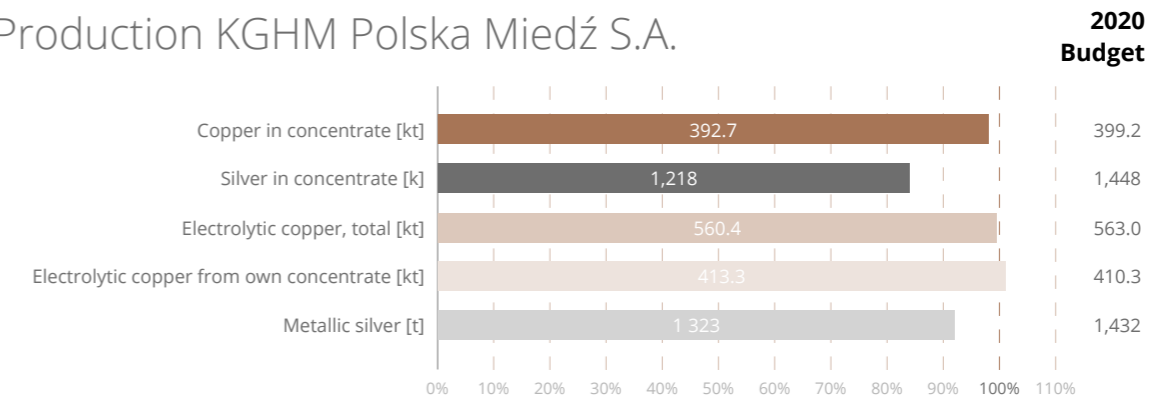


### GROUP PROFIT [MN PLN]

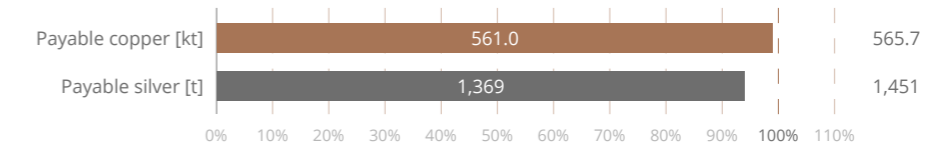


## GROUP PRODUCTION AND SALES IN 2020 EXECUTION OF ANNUAL TARGETS

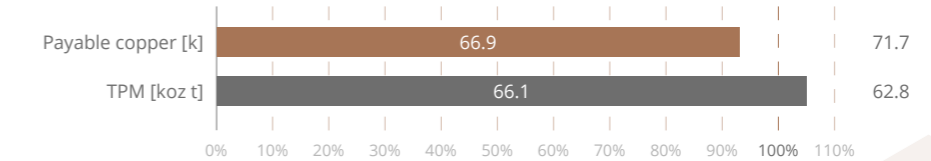
### Production KGHM Polska Miedź S.A.



### Sales KGHM Polska Miedź S.A.

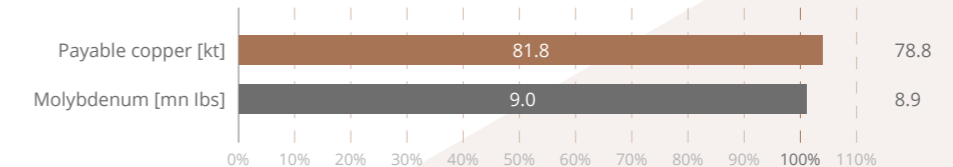


### Production KGHM INTERNATIONAL



### Production Sierra Gorda

(on a 55% basis)



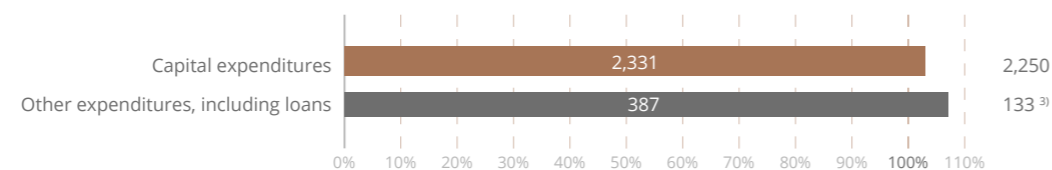


## THE FINANCIAL SITUATION OF THE KGHM GROUP REMAINS STABLE AND SAFE

### Total unit production cost

 of electrolytic copper from own concentrate KGHM  
 Polska Miedź S.A.<sup>1)</sup> [k PLN/t]


### Investments

 KGHM Polska Miedź S.A.<sup>2)</sup> [mn PLN]


### Financial strength of the KGHM Group

 [net debt / adjusted EBITDA]<sup>4)</sup>


1) Sum of costs of extraction, floatation and metallurgical processing per cathode, together with support functions and cathode selling costs, adjusted by the value of inventories of half-finished products and work in progress, less the value of anode slimes and divided by the volume of electrolytic copper production from own concentrates

2) Capital expenditures – excluding costs of borrowing, leasing per IFRS 16 unrelated with an investment project and development work – uncompleted; Other expenditures – acquisition of shares and investment certificates of subsidiaries and associates and loans granted

3) Reflects an adjustment of assumptions pursuant to regulatory filing 9/2020 dated 12 May 2020

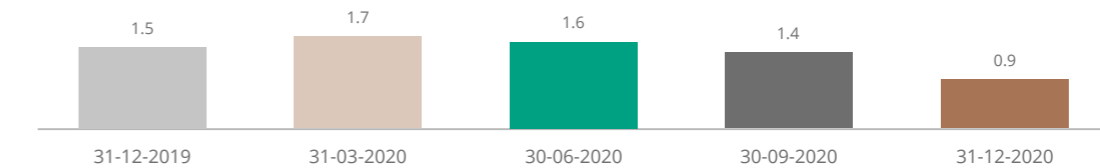
4) Adjusted EBITDA for 12 months, to the end of the reporting period, excluding EBITDA of the joint venture Sierra Gorda S.C.M.

5) Level of net debt/EBITDA ≤ 2 related to the Financial Liquidity Policy adopted by the Company and is not part of the budget assumptions of KGHM for 2020

## NET DEBT OF THE KGHM GROUP

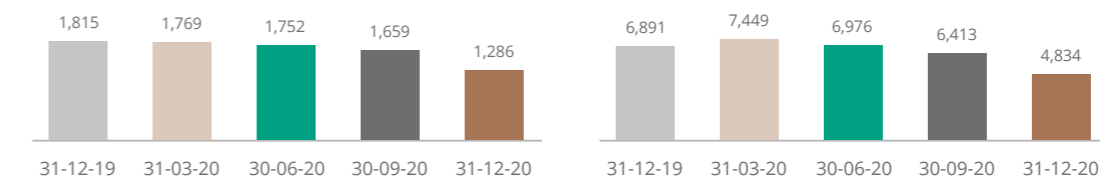
As at the end of 2020

Net debt / adjusted EBITDA



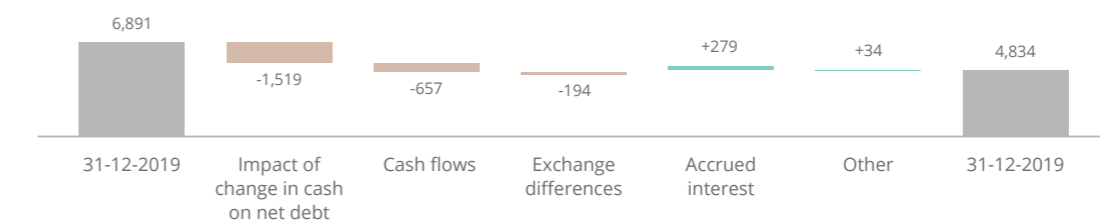
### KGHM Group net debt

[mn USD]



### Change in net debt

[mn, PLN]



## Main factors affecting net debt in 2020



### Increases in debt

- Cash expenditures on property, plant and equipment (PLN 3 458 mn)
- The minerals extraction tax (PLN 1 625 mn)
- Equity increase in Sierra Gorda (PLN 216 mn)
- Borrowing costs recognised in cash flow (PLN 177 mn)



### Decreases in debt

- Positive cash flow from operating activities, excluding the change in working capital and the minerals extraction tax (PLN 5 526 mn)
- Change in trade and other payables, incl. trade liabilities transferred to the factor (higher by PLN 1 287 mn)
- Change in inventories (lower by PLN 295 mn)
- Positive exchange differences (a decrease in PLN-denominated debt by PLN 194 mn)
- Change in trade and other receivables (lower by PLN 173 mn)

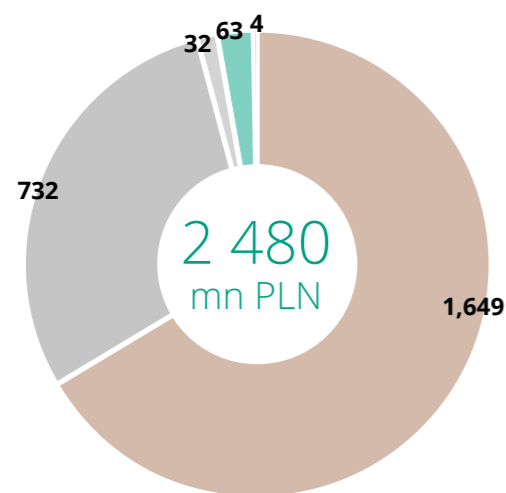
# Investments

A RATIONALE AND RESPONSIBLE INVESTMENT PROGRAM

CAPITAL EXPENDITURES BY KGHM POLSKA MIEDŹ S.A. IN 2020

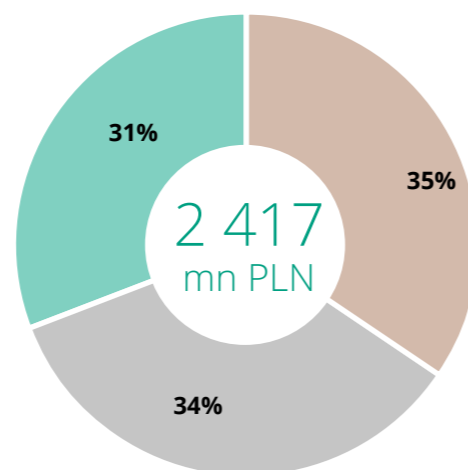
**PLN 2,480 mn** CAPEX execution in 2020

**PLN 2,250 mn** CAPEX target for 2020



CAPEX execution in 2020  
by area

- Mining (66%)
- Metallurgy (30%)
- Other activities (1%)
- Leasing IFRS 16 (3%)
- Development - uncompleted



CAPEX execution in 2020  
by category

- Maintaining mine production
- Development
- Replacement

## SELECTED DEVELOPMENT PROJECTS CAPEX EXECUTION 2020

### Development of Żelazny Most TSF

PLN 389 mn

- Southern Quarter  
88% of physical work completed
- Tailings Segregation and Thickening Station  
78% of physical work completed

### Deposit Access Program

PLN 484 mn

- 40.3 km of tunneling were excavated
- GG-1 shaft reached a depth of 1 231.2 m
- GG-2 „Odra” shaft - commercial terms set for the purchase of terrain to build the shaft
- Gaworzyce shaft - based on the spatial plan, the site for the shaft was confirmed





## Program to adapt the technological installations to BAT Conclusions

# PLN 161 mn

Construction and start-up of the following completed:

### — Głogów plant

- 1) an installation for the transport of de-lead slag for processing in the flash furnace
- 2) ) bypass gases pipelines from the flash furnaces to the sulphuric acid plant,
- 3) ) a warehouse and storage area for lead-bearing materials to eliminate fugitive dust emissions

### — Legnica plant

- an installation to eliminate arsenic-bearing dusts from concentrate drier gases and from above the anode casting machine

## Mining machinery

- Purchase of machines, incl. 26 – Lubin mine, 62 – Polkowice-Sieroszowice mine, 73–Rudna mine

- 2020/2019 > 161/220

## Purchase/ construction of press filters

- F-1 press filter renovated in Rudna Concentrator with operational testing commenced



## Damówka Pumphouse

- Construction/assembly underway (building roof and sides),
- Outfitting of the pumphouse underway,
- Reinforced concrete parts of the DW-04 water filtration unit completed
- Rainwater catches and effluents elements built

## Modernisation of WPA II deduster

- Main installations and equipment of the deduster process line built (exchangers, reactors, bag filters, chimneys, ventilators, separators)
- Final assembly of installations and equipment underway

## Construction of Biechów III TSF

- In H1 2020 final handover completed and operation commenced by the facility for non-hazardous waste and neutral waste and with a separate area for hazardous waste (code 19 08 13\*).

## Modernisation of Głogów I Tankhouse

- Assembly of new roof undercarriage, 11 of 16 steps
- Work underway on tankhouse walls (disassembly of old tiles, cleaning/painting, assembly of new windows and sidewall tiling)

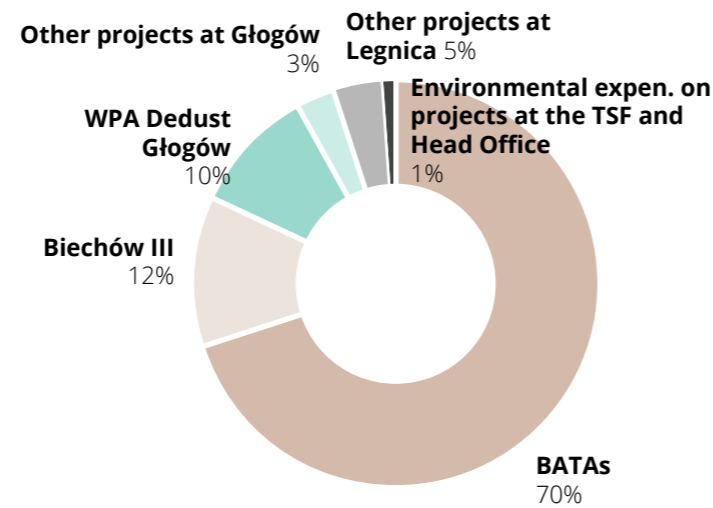


PRO-ECOLOGICAL INVESTMENTS KGHM GROUP

over  
**186 million PLN**  
spent in 2020 by KGHM on pro-ecological investments<sup>1</sup>

[including more than PLN 43 million on construction of an installation to eliminate arsenic and mercury from gases at the Solinox installation in the Legnica Smelter/Refinery under the BATAs Program]

PRO-ECOLOGICAL INVESTMENTS  
KGHM GROUP



1) Ograniczające emisję zanieczyszczeń do atmosfery



CAPITAL EXPENDITURES

[GRI 203-1]

Capital Expenditures of KGHM Polska Miedź S.A.

In 2020, capital expenditures on property, plant, and equipment amounted to PLN 2,476 million, and was similar to that in the previous year. The total capital expenditures, including the expenditures incurred on uncompleted development work, amounted to PLN 2,480 million.

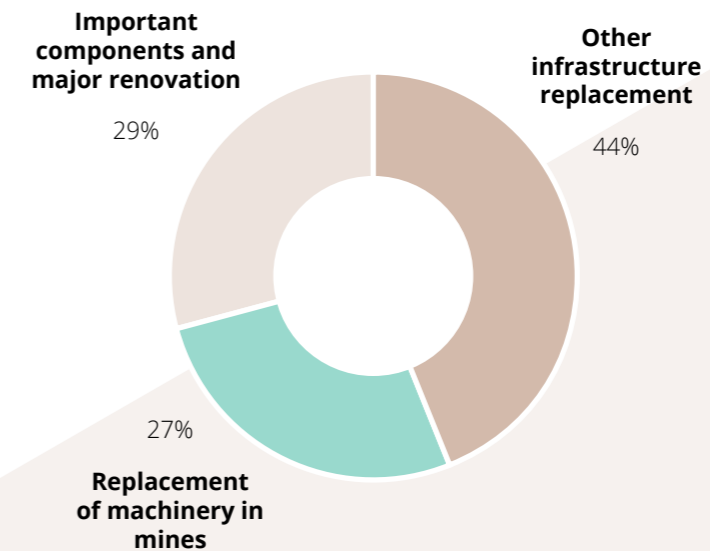
STRUCTURE OF EXPENDITURES ON PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS OF KGHM POLSKA MIEDŹ S.A. (PLN MILLION)

Shareholder	2020	2019	Zmiana (%)	IVQ'20	IIIQ'20	IIQ'20	IQ'20
Mining	1,649	1,683	(2,0)	550	412	380	307
Metallurgy	732	660	+10,9	239	218	191	84
Other activities	32	74	(56,8)	18	1	10	3
Development work - uncompleted	4	6	(33,3)	3	-	1	-
Leases per IFRS 16	63	58	+8,6	7	7	42	7
<b>Total</b>	<b>2,480</b>	<b>2,481</b>	<b>(0,0)</b>	<b>817</b>	<b>637</b>	<b>624</b>	<b>401</b>
including costs of external financing	116	135	(14,1)	16	32	31	37

Investment activities comprised replacement, maintenance and development projects:

**Replacement projects**, aiming to maintain production equipment in an undeteriorated condition, represent 31% of the total expenditures incurred.

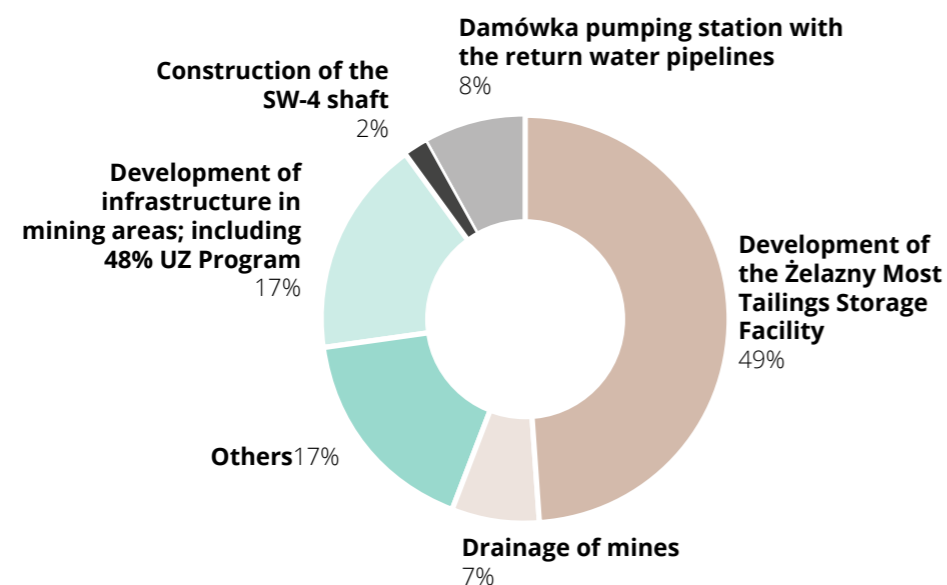
STRUCTURE OF REPLACEMENT EXPENDITURES





**Maintenance projects** – aiming to maintain mining production at a level defined in the approved Production Plan (expansion of infrastructure according to the progress of mining works) make up 35% of the total expenditures incurred.

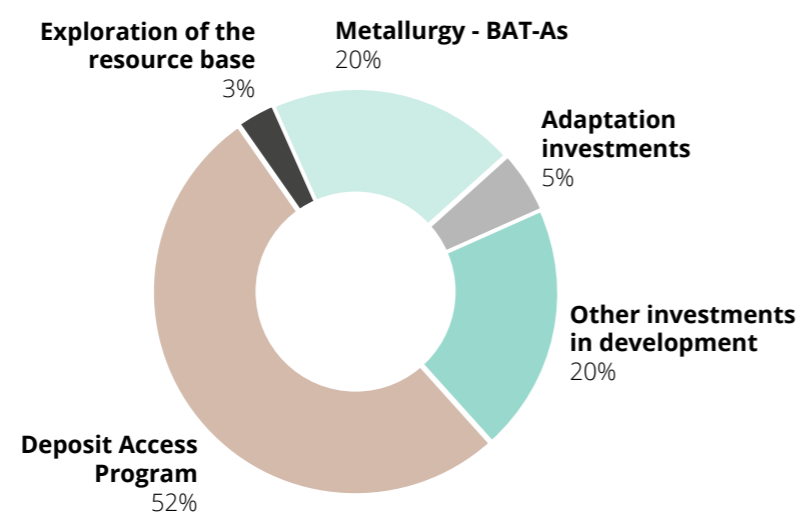
### STRUCTURE OF MAINTENANCE EXPENDITURES



UZ – Deposit Access Program

**Development projects** aiming to increase production volume of the core production line, implement technical and technological activities optimizing utilisation of the existing infrastructure, maintain production costs and adapt the company's operations to changes in standards, laws and regulations (adaptation and environmental projects) represent 34% of the total expenditures incurred.

### STRUCTURE OF DEVELOPMENT EXPENDITURES



Detailed information on the progress of key investment projects may be found in the section on the implementation of the Strategy in 2020.

### CAPITAL EXPENDITURE OF KGHM INTERNATIONAL LTD. (IN USD MILLION)

	2020	2019	Change (%)	IVQ'20	IIIQ'20	IIQ'20	IQ'20
Victoria Project	7	4	+75,0	3	1	2	1
Sierra Gorda Oxide project	1	2	(50,0)	1	-	-	-
Removal of superlayer and other	145	164	(11,6)	39	35	24	47
<b>Total</b>	<b>153</b>	<b>170</b>	<b>(10,0)</b>	<b>43</b>	<b>36</b>	<b>26</b>	<b>48</b>
Cash flows to Sierra Gorda S.C.M - increase of capital	52	113	(54,0)	-	-	52	-

### CAPITAL EXPENDITURE OF KGHM INTERNATIONAL LTD. (PLN MILLION)

	2020	2019	Change (%)	IVQ'20	IIIQ'20	IIQ'20	IQ'20
Victoria Project	27	15	+80,0	11	4	8	4
Sierra Gorda Oxide project	4	8	(50,0)	4	-	-	-
Removal of superlayer and other	566	631	(10,3)	151	131	96	188
<b>Total</b>	<b>597</b>	<b>654</b>	<b>(8,7)</b>	<b>166</b>	<b>135</b>	<b>104</b>	<b>192</b>
Cash flows to Sierra Gorda S.C.M - increase of capital	204	433	(52,9)	(2)	(4)	210	-

Capital expenditures of the KGHM INTERNATIONAL LTD. segment in 2020 amounted to USD 153 million, which represents a decrease by USD 17 million (-10%), compared to 2019.

Circa 75% of the expenditure was in the Robinson mine. They covered, among others, works related to removal of the superlayer and replacement of a part of machinery.

Project Victoria received USD 7 million (to, among others, continue exploration works aiming to increase the scope of deposit appraisal and start work connected to the preparation and securing of selected elements of the infrastructure). The Sierra Gorda Oxide project received USD 1 million.

The financing of the Sierra Gorda mine (in the form of a capital increase) in 2020 amounted to USD 52 million (in relation to the 55% share controlled by the KGHM Polska Miedź S.A. Group).



## CAPITAL EXPENDITURE ON SIERRA GORDA S.C.M.

In 2020, expenditures on property, plant and equipment, and intangible assets, included in the cash flow statement of Sierra Gorda S.C.M., amounted to USD 253 million, the majority of which, i.e. USD 166 million (66%) was expenditure on removal of the superlayer to access further parts of the deposit, and the remaining amount was incurred on development and replacement of property, plant and equipment..

### CAPITAL EXPENDITURE ON SIERRA GORDA S.C.M.

	J.m.	2020	2019	Change (%)	IVQ'20	IIIQ'20	IIQ'20	IQ'20
Expenditure on property, plant and equipment	USD million	253	298	(15,1)	79	58	48	68
Expenditure on property, plant and equipment - segment (55% share)	PLN million	544	629	(13,5)	168	120	106	150

A decrease of capital expenditure (denominated in USD) by 15% was related to the capitalised costs of removal of the superlayer, as a result of a smaller scope of the works and lower unit cost. Other capital expenditures grew, primarily as a result of investments to increase ore processing capacities.

In 2020, proceeds from operating activities were almost twice as high as capital expenditure. In view of the uncertainty caused by the spread of the COVID-19 pandemic in the first months of the year, Sierra Gorda received Owners' financing of USD 95 million (USD 205 million in 2019). In the course of the year, Sierra Gorda also took out loans, including USD 200 million granted by Bank Gospodarstwa Krajowego.







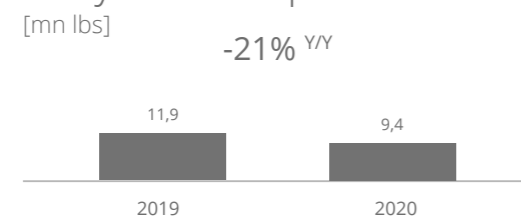
# Operating results

## METALS PRODUCTION

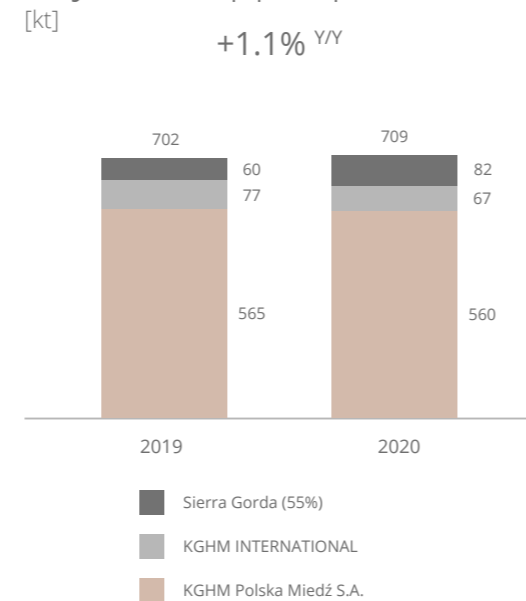
### KGHM Group

- Slightly lower production vs 2019:
  - » by KGHM Polska Miedź due to the lower grade and thickness of the mined deposit, as well as due to the restricted supply of copper scrap in the first half of 2020
  - » by KGHM INTERNATIONAL due to lower production by the Franke mine (lower quality ore, lower recovery) and the Sudbury Basin (lower extraction from deposits rich in TPM); in Q1 2019 extraction from the Morrison mine was suspended
- Higher copper production by the Sierra Gorda mine due to a higher volume of ore processed, higher recovery and a higher copper grade in ore,
- Lower molybdenum production both by Sierra Gorda (extraction of ore with a lower Mo grade and lower recovery), and by Robinson (extraction of lower-quality ore)

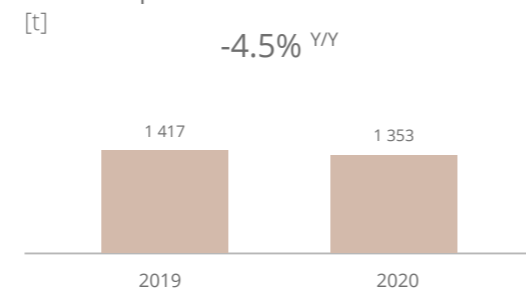
### Molybdenum production



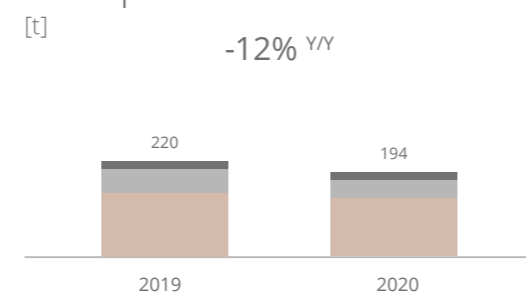
### Payable copper production



### Silver production



### TPM production <sup>1)</sup>

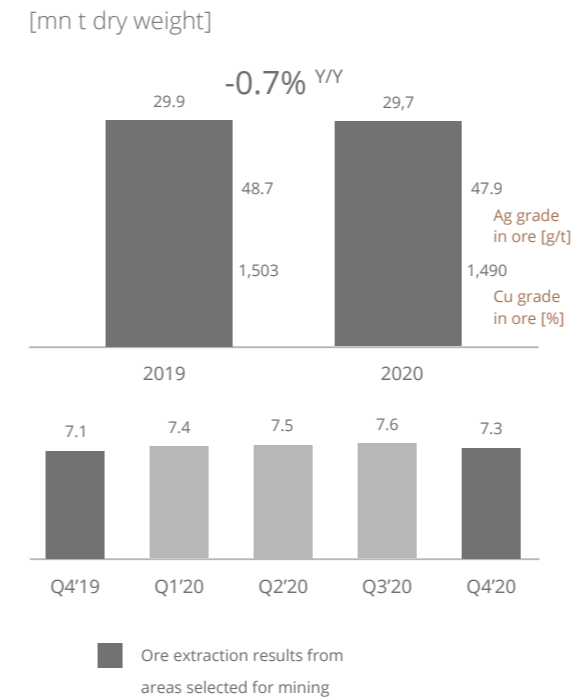


TPM – Total Precious Metals, comprising gold, platinum and palladium

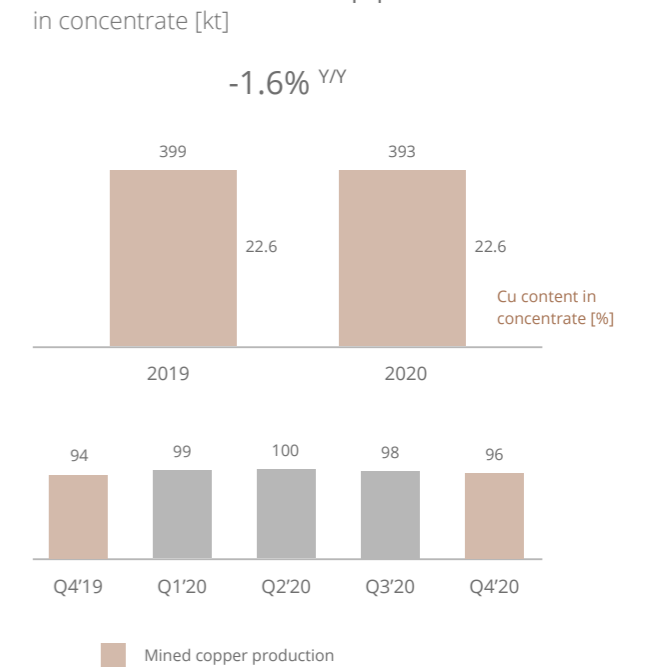
## PRODUCTION RESULTS

### KGHM Polska Miedź S.A.

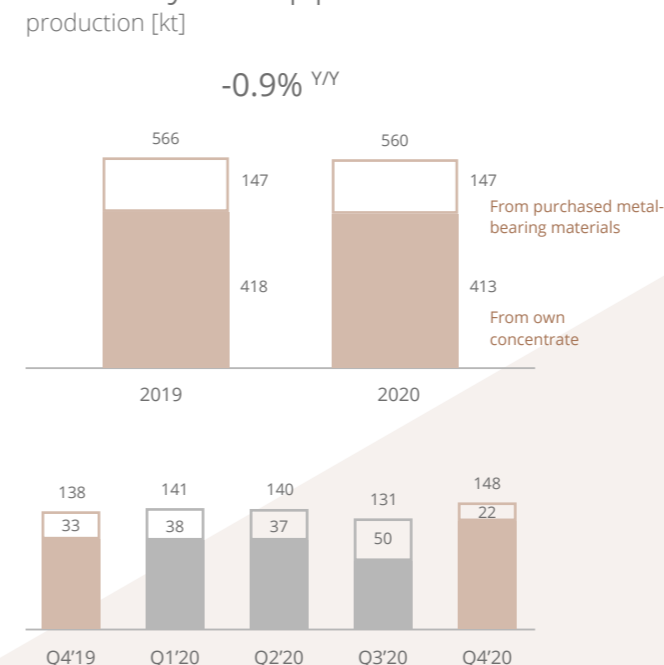
### Ore extraction



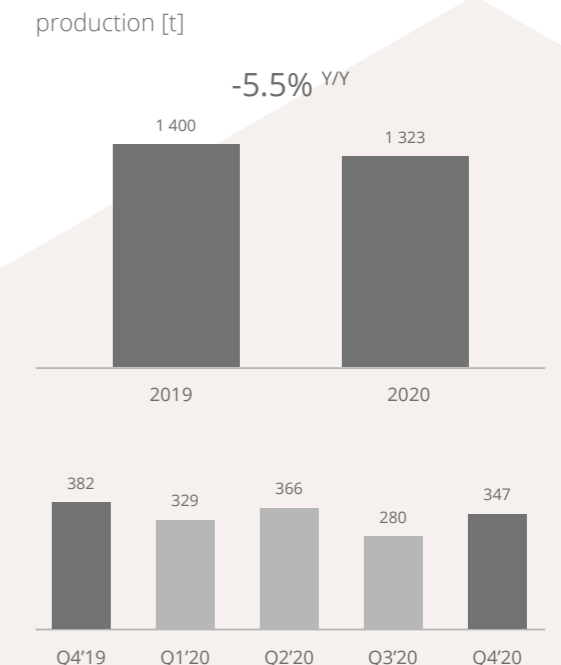
### Production of copper



### Electrolytic copper



### Metallic silver



Lower production due to a restricted supply of copper scrap in the first half of 2020 and to the maintenance shutdown at the Głogów I Smelter/Refinery

Lower production due to lower silver content in charge materials



## PRODUCTION INITIATIVES IMPLEMENTED IN KGHM POLSKA MIEDŹ S.A.

Full integration of processes in management of the supply chain

### Integrated planning of material needs

- Implementation of an integrated material planning system based on the structure of where costs arise
- Implementation of systemic tools to evaluate deviations from the execution of plans in real time
- Organisation and restriction of materials base indices utilised in planning and deliveries

### Management of an integrated procurement and materials utilisation system

- Construction and integration of IT tools supporting the process of ordering materials from suppliers
- Monitoring of integrated materials utilisation processes
- Utilisation of advanced analytical models in the area of materials utilisation

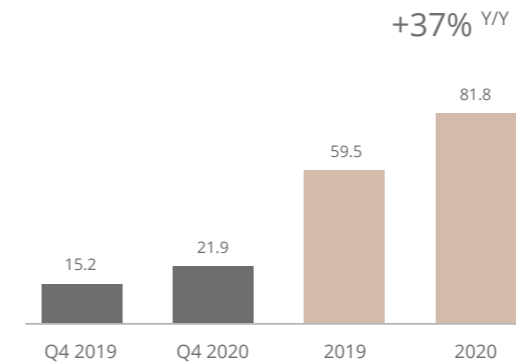
### Integrated management of inventories

- Digitalisation and automatisisation of the processes of distribution and replenishment of inventories using EDI (Electronic Data Interchange) and VMI (Vendor Managed Inventory)
- Systemic forecasting and modelling of inventories levels based on historic utilisation as well as actual and announced needs
- Transfer of RW documents to electronic form

## PRODUCTION RESULTS

Sierra Gorda<sup>1)</sup>

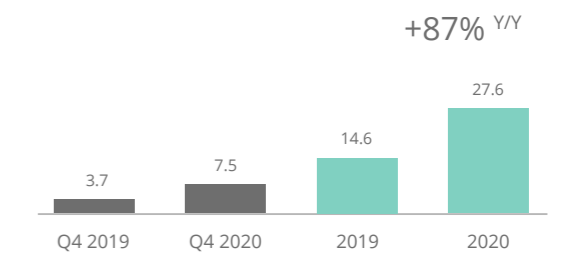
### PAYABLE COPPER PRODUCTION [KT]



#### Higher than expected copper production in 2020

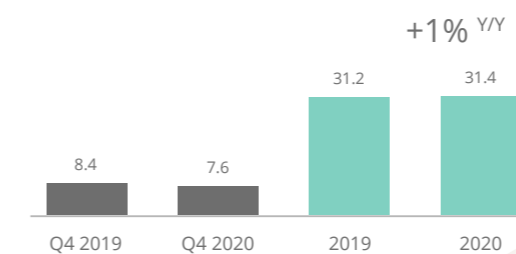
- Higher payable copper production in 2020 versus 2019 thanks to higher ore throughput, improved recoveries and higher metal content in mined ore

### SILVER PRODUCTION [T]



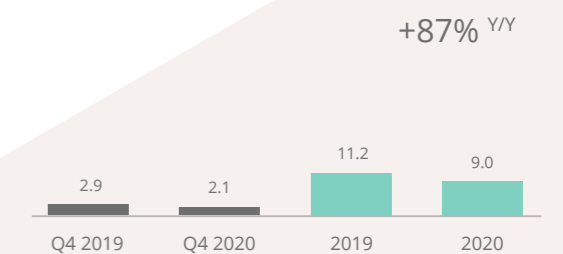
- Higher extraction by the Sierra Gorda mine led to higher production of copper, silver and gold in 2020 compared to 2019
- Lower molybdenum production due to extraction in areas with lower molybdenum content compared to ore extracted in prior periods; this factor was partially offset by higher ore throughput

### TPM PRODUCTION [KOZ T]



<sup>1)</sup> On a 55% basis

### MOLYBDENUM PRODUCTION [MN LBS]

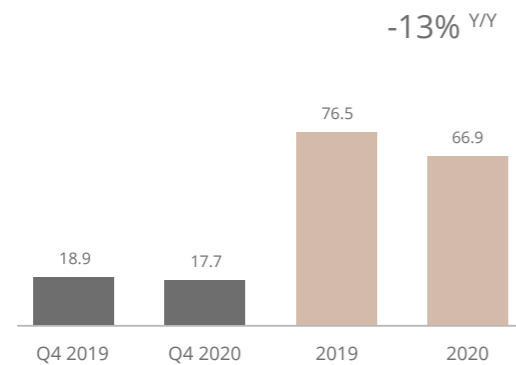




## PRODUCTION RESULTS

### KGHM INTERNATIONAL

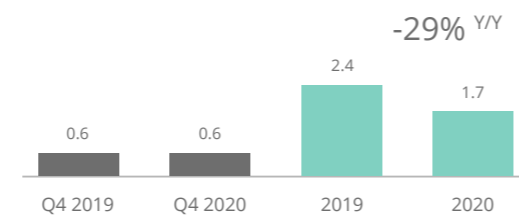
#### PAYABLE COPPER PRODUCTION [KT]



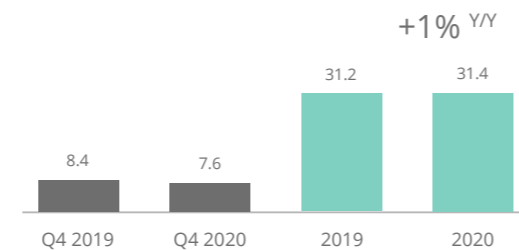
#### Copper production lower by 6.5% than targeted in the 2020 budget

- Lower production mainly by the Franke mine (lower-quality ore extracted – high carbonates content in the deposit), the Sudbury Basin (lower extraction and lower copper content in ore) and by the Robinson mine (extraction of lower copper-grade ore)

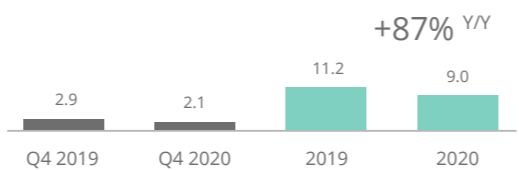
#### SILVER PRODUCTION [T]



#### TPM PRODUCTION [KOZ T]



#### MOLYBDENUM PRODUCTION [MN LBS]



- Lower silver production in the Sudbury Basin due to lower extraction and lower silver content in ore
- Lower gold production by the Robinson mine (lower gold content in ore, lower recovery) and TPM in the Sudbury Basin (lower extraction, lower TPM content in ore)
- Lower molybdenum production by the Robinson mine due to mining lower-quality ore from a transitional zone, with lower recovery due to higher clay minerals content

## PRODUCTION RESULTS OF KGHM POLSKA MIEDŹ S.A.

### In 2020, the main objectives set by the Management Board in terms of production and occupational health and safety were:

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

### The objectives set required the following actions:

#### in mining

- expansion of mining operations within the Głogów Głęboki-Przemysłowy (Deep Głogów) Mining Area
- improvement of the ore extraction technology, greater mining efficiency and improved occupational health and safety, achieved by:
  - » adaptation of the geometry of mining systems to local geological and mining conditions
  - » improvement of the efficiency of technological and active methods of limiting the threat of rock bursts and of other associated natural hazards
  - » 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 hazards, and the use of new technical solutions and means of prevention to counteract this hazard,
- commencement of work related to exploration of the "Retków" copper ore deposit in the "Grodziszczce" area
- continued work on connecting the T/W-469 tunnel network with the projected sub-shaft area of the GG-1 shaft (T/W-169 tunnel network with D slopes)
- construction of the GG-1 shaft, shaft sinking has reached a depth of 1231 meters, sinking of a shaft in the rock salt interval
- continuation of the construction of the Central Air Conditioning System in shaft GG-1, in respect of construction of the Surface-based Central Air Conditioning System and the Ice Water Transportation System
- implementation of Stage 1 of the "GG-2 Shaft Construction" Project - continuation of planning work and negotiation of transaction terms with the owner of the land plot. A design of geological works was produced
- for the implementation of Stage 1 of the "Gaworzyce Shaft Construction" Project - Stage 1 of the Programming and Spatial Concept was completed and the shaft's location was approved
- maintaining the efficiency of self-propelled 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 53.5 thousand running meters,





## in-ore processing

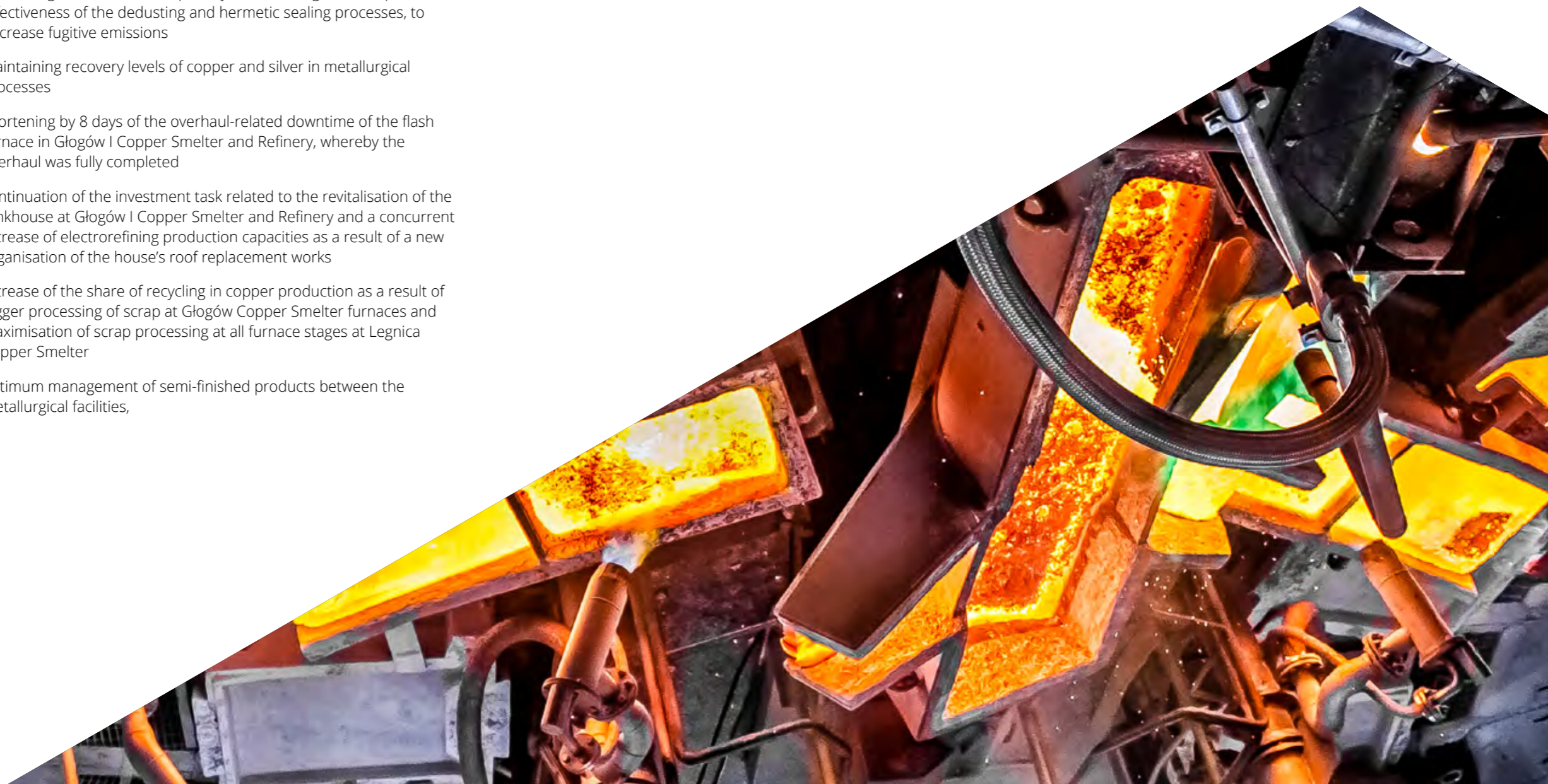
- maintaining the production capacity of individual Ore Enrichment Plants to process up to the amount and quality of ore supplied
- maintaining the production of concentrates in an amount and quality necessary for optimal use of the production capacity of the furnace sections of the smelters
- improving flotation enrichment technology,
- processing trial of ore from the Lubin Mine - Polkowice Concentrator Division
- exchange of ore screening systems from shafts RI and RIII in the Rudna Concentrator Division

## in metallurgy

- optimum utilisation of infrastructure, which enabled production targets to be fully met with respect to the main products
- minimizing environmental impact by actions designed to improve the effectiveness of the dedusting and hermetic sealing processes, to decrease fugitive emissions
- maintaining recovery levels of copper and silver in metallurgical processes
- shortening by 8 days of the overhaul-related downtime of the flash furnace in Głogów I Copper Smelter and Refinery, whereby the overhaul was fully completed
- continuation of the investment task related to the revitalisation of the tankhouse at Głogów I Copper Smelter and Refinery and a concurrent increase of electrorefining production capacities as a result of a new organisation of the house's roof replacement works
- increase of the share of recycling in copper production as a result of bigger processing of scrap at Głogów Copper Smelter furnaces and maximisation of scrap processing at all furnace stages at Legnica Copper Smelter
- optimum management of semi-finished products between the metallurgical facilities,

## in occupational health and safety

- implementation, in line with the Company's new strategy, of the planned task package of the Program to improve occupational health and safety at KGHM Polska Miedź S.A. "Think About Consequences" to the year 2023
- implementation of the agreed components of the Program to remove the most common occupational safety hazards by using innovative technologies
- implementation of a uniform approach to communicating the Policy, Vision, the OHS Golden Principles
- ongoing monitoring of occupational hazards and execution of organisational and technical goals aimed at limiting occupational risks and accident rate
- continuous improvement of the occupational safety and hygiene management system by the Divisions of KGHM Polska Miedź S.A. and implementation of the new OHS ISO 45001:2018 standard
- commencement of new organisational and research initiatives aimed at improving occupational health and safety, in particular in the Company's mines





## MINING PRODUCTION

[GRI 301-1]

In 2020, extraction of ore (dry weight) amounted to 29.7 million tonnes, which was 0.2 million tonnes less than in 2019.

The average copper content in extracted ore amounted to 1.49% and was slightly lower than the level achieved in 2019. The content of silver in the ore extracted was at a lower level than in 2019 and amounted to 48.0 g/ton.

As a result, the volume of copper in extracted ore was lower than in 2019 by 7.3 thousand tonnes of Cu, and amounted to 442.0 thousand tonnes. The volume of silver in extracted ore decreased down to 1,423 tonnes.

In 2020, 29.7 million tonnes of ore (dry weight) were processed (0.2 thousand tonnes less than in 2019). The lower amount of ore extracted by the Mining Divisions directly affected the amount of copper in concentrate, which was 392.7 thousand tonnes.

The concentrate production (dry weight) decreased against 2019 by 23.4 thousand tonnes.

The Silver content in concentrate was lower by 2.5% than in 2019.

### MINING PRODUCTION OF KGHM POLSKA MIEDŹ S.A.

	Unit	2020	2019	Change (%)	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Mined ore (wet weight)	million tonnes	31,2	31,4	(0,6)	7,7	8,0	7,8	7,7
Ore extraction (dry weight)	million tonnes	29,7	29,9	(0,7)	7,2	7,6	7,5	7,4
Copper grade	%	1,49	1,50	(0,7)	1,47	1,48	1,50	1,52
Copper in ore	thousand tonnes	442,0	449,3	(1,6)	106,5	111,9	111,8	111,8
Silver grade	g/t	48,0	48,7	(1,4)	48,0	46,8	47,6	49,5
Silver in ore	tonnes	1 423	1 456	(2,3)	349	354	355	365
Production of concentrate (dry weight)	thousand tonnes	1 740	1 763	(1,3)	426	438	439	437
Copper in concentrate	thousand tonnes	392,7	398,9	(1,6)	95,9	98,0	99,7	99,1
Silver in concentrate	tonnes	1 218	1 249	(2,5)	301	300	305	312

## METALLURGICAL PRODUCTION

The production of electrolytic copper fell by 5.2 thousand tonnes, i.e. 0.9%, compared to 2019. The lower production of electrolytic copper was a result of limited supply of copper scrap in H1 2020 which led to underutilisation of production capacities and overhaul downtime in Głogów I Copper Smelter and Refinery. In H2 2020, own concentrate was supplemented with purchased metal-bearing materials in the form of scrap, blister copper and imported concentrate, and the existing technological capacity was effectively used.

The production of other metallurgical products (silver, wire rod, 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 2019, the production of metallic gold fell by 215 kg, i.e. by 6.7%, and metallic silver production was lower by 77 tonnes, closing the year at 1,323 tonnes.

### METALLURGICAL PRODUCTION OF KGHM POLSKA MIEDŹ S.A.

	Unit	2020	2019	Change (%)	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Electrolytic copper, including:	thousand tonnes	560,4	565,6	(0,9)	148,5	131,1	139,8	141,0
production from own concentrates	thousand tonnes	413,3	418,3	(1,2)	126,2	81,3	102,8	103,0
production from purchased materials	thousand tonnes	147,0	147,3	(0,2)	22,1	49,9	37,0	38,0
Wire rod, OFE rod and CuAg rod	thousand tonnes	259,5	266,1	(2,5)	62,9	65,4	61,2	70,0
Round billets	thousand tonnes	-	14,9	×	-	-	-	-
Metallic silver	tonnes	1 323	1 400	(5,5)	348	280	366	329
Metallic gold	koz t	96,8	103,7	(6,7)	29,7	21,5	20,4	25,2
Refined lead	thousand tonnes	30,2	30,1	+0,3	8,0	6,4	7,9	7,9



## MAIN PRODUCTION GOALS

The main goals set by the Management Board in terms of production and occupational health and safety for 2021 are a continuation of actions taken in 2020, i.e.:

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

Key tasks in 2021 are:

### in mining

- access and development work to intersect the deposit in the Deep Głogów mining area,
- continuation of work related to exploration of the Retków copper ore deposit in the Grodziszczce area,
- continuation of work related to prevention of gas-related threats (hydrogen sulphide and methane) and the use of new technical solutions and means to counteract this threat,
- continuation of work to utilize the capacity of the input and output ventilation shafts in the interconnected mine ventilation system,
- achieving a level of dilution of the extracted ore which is adequate to the deposit's parameters,
- continuation of the GG-1 shaft construction project,
- continued construction of the central air conditioning system at the GG-1 shaft,
- continuation of Stage 1 of the Project „Construction of the GG-2 shaft” – completion of planning work, acquisition of legal title to land, commencement of project works,
- continuation of Stage 1 of the Project “Construction of the Gaworzyce Shaft” – conclusion of an agreement with the Municipality, acquisition of legal title to land,
- maintaining the operational readiness of mining vehicles in an assortment required to execute production tasks,
- realisation of the planned scope of mine development and access work using the 2021 commissioning system,

### in-ore processing

- improvement of energy performance of the machinery park in the Concentrators Division,
- optimisation of vision parameters control in the technological process,
- launch of the carbonate removal installation in Polkowice Concentrator - optimisation of the technological process of flow I after introduction of a new stream,
- optimisation of the milling, classification and flotation process,
- maintaining availability of the machine park and production capacity of individual Concentrators Division Areas to match 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 possibilities to use alternative and renewable energy sources in Ore Concentrators,
- monitoring and examination of the impact of technological water on technological parameters and condition of technical infrastructure;

### in metallurgy

- increase of the share of imported concentrates in order to achieve high production levels of electrolytic copper, in the situation of lower own concentrate production,
- continued increase of scrap processing in Głogów Copper Smelter furnaces,
- planned implementation of the two-week overhaul of the flash furnace complex in Głogów II Copper Smelter and Refinery in April,
- completion of the roof and wall replacement project in the tankhouse of Głogów I Copper Smelter and Refinery, started in Q4 2019, with practically minimised impact on the availability of electrolyzers and copper cathodes production capacity,
- maintaining high production of electrolytic copper in Legnica Copper Smelter, despite the shutdown of the only shaft furnace in H2 2020, connected with the growth in smelting own concentrates in modern Flash Furnace technology,
- continued minimisation of environmental impacts by actions designed to improve the effectiveness of the dedusting and hermetic sealing processes, as well as optimisation of water and sewage management,
- maintaining recovery levels of copper and silver in metallurgical processes and the availability of metallurgical equipment,
- optimum management of semi-finished products between the metallurgical facilities,



## in occupational health and safety

- continued implementation of the Program to improve occupational health and safety in KGHM Polska Miedź S.A. “Think About Consequences”,
- implementation of an action package to continue to effectively mitigate the external threats due to the COVID-19 pandemic,
- improvement of the occupational health and safety management system according to the ISO 45001:2018 standard, implemented in 2020,
- continuation of pilot research into an anti-collision system for supporting operators (warning the machine's operator of a potential collision with people or another machine) under a Program to remove the most common occupational safety hazards by using innovative technologies,
- preparation and distribution of a new package of educational and instruction materials, to improve employee habits,
- continual improvement of occupational hazards monitoring and execution of organisational and technical goals aimed at further limiting occupational risks and the accident rate,
- searching for new innovative organisational and technical solutions designed to improve occupational safety, in order to meet the industry 4.0 challenges,
- efficient transposition of new European and domestic requirements with respect to OHS into the Company's internal regulations.



## SALES

In 2020, the Company recorded a 1-percent increase in sales of copper products, which amounted in total to 561.0 thousand tonnes, compared to 557.0 thousand tonnes in the previous year. In 2020, the sales of copper cathodes increased to 300.7 thousand tonnes, or by 9% compared to 2019. Sales of copper wire rod and OFE rod fell by 3%, amounting to 258.6 thousand tonnes in 2020.

In 2020, the sales of metallic silver amounted to 1,369 tonnes, which represents a 2% fall in comparison to the 2019 volume. In 2020, there were no silver concentrate sales.

Gold sales in 2020 amounted to 100.1 koz t, which represents a slight fall relative to the previous year (-1%).

### SALES VOLUME OF BASIC PRODUCTS OF KGHM POLSKA MIEDŹ S.A.

	Unit	2020	2019	Change (%)	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Cathodes and cathode parts	thousand tonnes	300,7	275,7	+9,1	89,0	63,9	80,3	67,5
Copper wire rod and OFE rod	thousand tonnes	258,6	267,4	(3,3)	66,8	63,5	64,2	64,1
Other copper products	thousand tonnes	1,7	13,9	(87,8)	0,4	0,5	0,3	0,5
<b>Total copper and copper products</b>	<b>thousand tonnes</b>	<b>561,0</b>	<b>557,0</b>	<b>+0,7</b>	<b>156,2</b>	<b>127,9</b>	<b>144,8</b>	<b>132,1</b>
Metallic silver	tonnes	1 369	1 393	(1,7)	379	281	364	345
Metallic gold	koz t	100,1	101,4	(1,3)	32,8	17,1	19,8	30,4
Refined lead	thousand tonnes	29,0	30,0	(3,3)	7,7	6,7	7,2	7,4

The total sales revenue of KGHM Polska Miedź S.A. in 2020 was PLN 19,326 million, which represents a 9% growth in comparison to 2019, when the sales revenue was PLN 17,683 million.

Revenues from copper product sales rose by 6% in 2020 and amounted to PLN 14,258 million (compared to PLN 13,474 million in 2019). The change in the sales volume and revenue of the “Other copper products” is related to the suspended production of copper billets in Legnica Copper Smelter. In view of the low profitability of copper billets production and sales, limited sales demand and lack of any possibility of significant costs restructuring, the billets production was discontinued as from 2020. At present, possibilities are examined to use the existing installation for production of other products, in line with market demand.

Revenues from metallic silver sales in 2020 were also higher (+24%) and amounted to PLN 3,453 million compared to PLN 2,789 million in 2019.

Despite the lower volume of metallic gold sales, sales revenues in this regard increased by 27%, or PLN 690 million, compared to PLN 543 million in 2019.



## REVENUES FROM CONTRACTS WITH CUSTOMERS OF KGHM POLSKA MIEDŹ S.A. (PLN MILLION)

	2020	2019	Change (%)	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Cathodes and cathode parts	7,593	6,533	+16.2	2,478	1,662	1,912	1,541
Copper wire rod and OFE rod	6 623	6,611	+0.2	1,874	1,678	1,540	1,531
Other copper products <sup>1</sup>	42	330	(87.3)	9	14	8	11
<b>Total copper and copper products</b>	<b>14,258</b>	<b>13,474</b>	<b>+5.8</b>	<b>4,361</b>	<b>3,354</b>	<b>3,460</b>	<b>3,083</b>
Metallic silver	3 453	2,789	+23.8	1,127	802	776	748
Metallic gold	690	543	+27.1	233	125	136	196
Refined lead	220	247	(10.9)	58	51	52	59
Other goods and services	336	394	(14.7)	93	76	82	85
Merchandise and materials	369	236	+56.4	94	55	166	54
<b>Total sales revenue</b>	<b>19,326</b>		<b>+9.3</b>	<b>5,966</b>	<b>4,463</b>	<b>4,672</b>	<b>4,225</b>

<sup>1</sup>) No production of round billets in 2020

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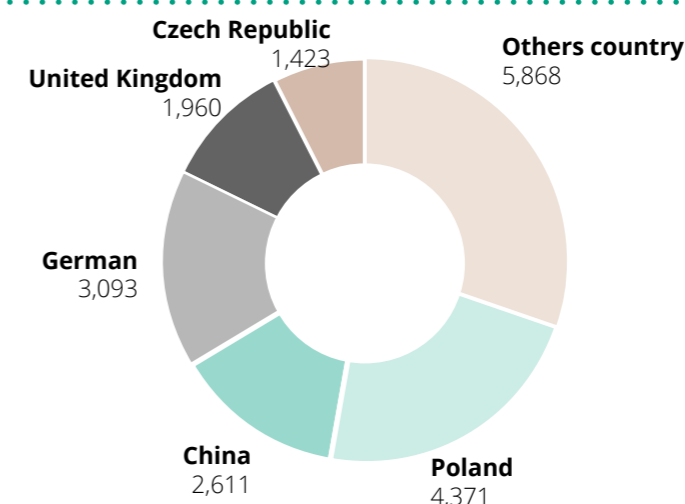
Despite the lower volume of metallic gold sales, sales revenues in this regard increased by 27%, or PLN 690 million, compared to PLN 543 million in 2019.

## GEOGRAPHICAL BREAKDOWN OF SALES

In 2020, KGHM Polska Miedź S.A. earned most of its revenues from domestic sales, which amounted to 23% of total revenues. Amongst the Company's other customers, the largest came from Germany (16%), China (14%), the United Kingdom (10%) and the Czech Republic (7%).

The figure below presents the geographical breakdown of sales revenues in 2020. Sales revenues also include results from the settlement of hedging instruments.

## SALES REVENUE OF KGHM POLSKA MIEDŹ S.A. BY MARKET (PLN MILLION)



## COSTS

In 2020, the Company's cost of sales, selling costs and administrative expenses (cost of products sold, goods and materials sold, as well as selling costs and overheads) amounted to PLN 16,161 million, and was 6% higher as compared to 2019. The Company's cost of sales, selling costs and administrative expenses were substantially affected by the use of inventories, which translated in to a higher sales volume.

Total expenses by nature in 2020, as compared to 2019, were higher by 3%, mainly due to higher by PLN 196 million consumption of purchased materials (an increase of 5 thousand tonnes and a price higher by 3%), as well as a higher minerals extraction tax (PLN 105 million).

## COSTS BY NATURE OF KGHM POLSKA MIEDŹ S.A. (PLN MILLION)

	2020	2019	Change (%)	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Depreciation of fixed assets and intangible assets	1,364	1,298	+5.1	408	309	322	325
Employee benefits expenses	3,835	3,594	+6.7	1,061	952	932	890
Materials and energy, including:	6,326	6,196	+2.1	1,706	1,719	1,377	1,524
external inputs	3,974	3,778	+5.2	1,100	1,145	810	919
Energy and energy factors	988	939	+5.2	260	235	243	250
External services	1,716	1,767	(2.9)	457	416	413	430
Minerals extraction tax	1,625	1,520	+6.9	505	442	334	344
Other taxes and charges	397	397	-	108	83	99	107
Other costs	123	124	(0.8)	51	20	36	16
<b>Total costs by nature</b>	<b>15,386</b>	<b>14,896</b>	<b>+3.3</b>	<b>4,296</b>	<b>3,941</b>	<b>3,513</b>	<b>3,636</b>



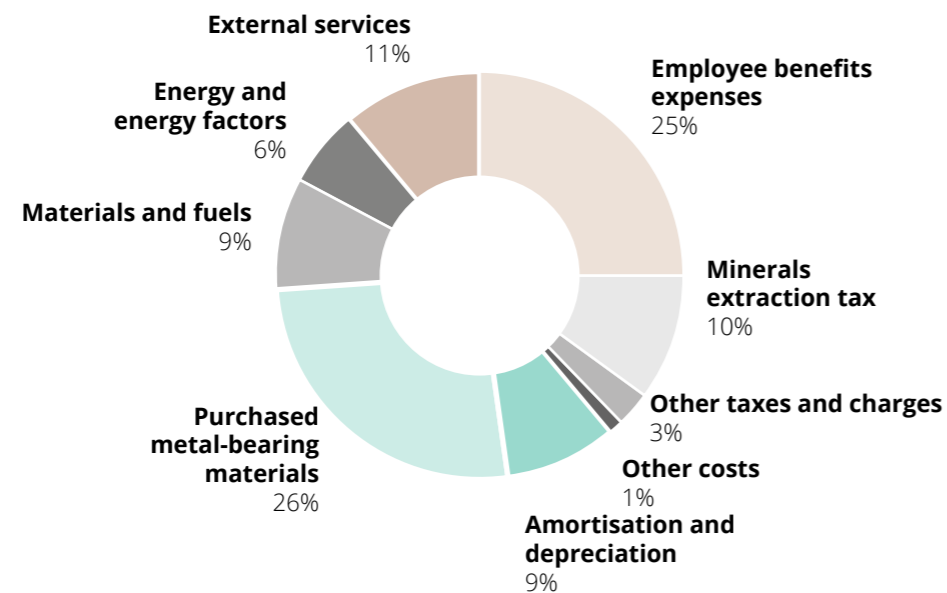


Expenses by nature, excluding external inputs and the minerals extraction tax, amounted to PLN 9,787 million and were higher as compared to the corresponding period of the previous year by PLN 189 million, mainly due to:

- labour costs (PLN +241 million) – due to an increase in remuneration and a higher provision for the annual bonus,
- depreciation/amortisation (PLN +66 million) - an increase due to investments completed in prior periods, at lower costs of:
- consumption of materials and energy (-PLN 66 million) - mainly due to lower gas and coke prices, as well as lower consumption volume of technological materials,
- external services (PLN -51 million) – mainly due to lower costs of mine development work and transport services.

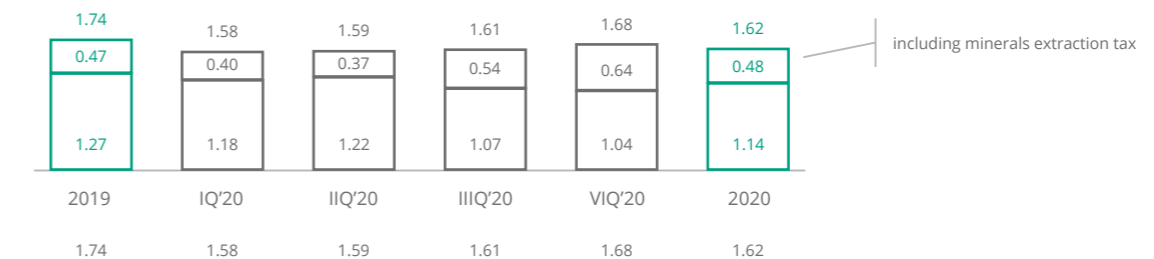
The structure of expenses by nature in 2020 is presented below. As compared to the prior year, they were at a very similar level.

### STRUCTURE OF EXPENSES BY NATURE IN 2020



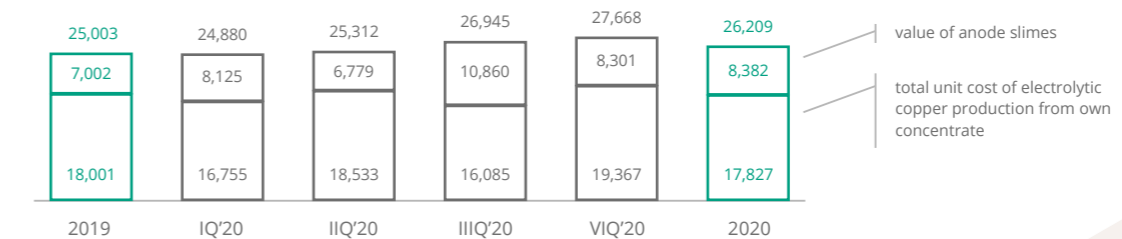
The Company's operating costs are decisively impacted by the costs of electrolytic copper production (before deduction of the value of by-products), whose share is about 90%.

### PRODUCTION COSTS OF PAYABLE COPPER 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) was as follows: in 2019, 1.74 USD/lb and in 2020, 1.62 USD/lb, respectively. The cost was impacted by a weakening in the PLN relative to the USD, and higher silver and gold prices, which has an impact on the higher value of by-products.

### 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 before the deduction of the value of anode slimes containing, among others, silver and gold) is higher than that recorded in 2019 by 1,206 PLN/t (5%), alongside a lower production from own concentrate by 5 thousand tonnes of Cu (1.2%). The increase in unit cost was affected mainly by higher costs of labour and depreciation and amortisation. The total unit cost of electrolytic copper production from own concentrate is lower than in 2019 by PLN/t 174 (-1%), due to higher market prices of precious metals, which caused an increase in anode slimes prices.

## PRODUCTION RESULTS OF THE KGHM POLSKA MIEDŹ S.A. GROUP

In 2020, a slight (by 7.5 thousand tonnes, i.e. 1%) increase in the Group's copper production was noted relative to 2019. The increase is applicable to the Sierra Gorda S.C.M. segment (+22.3 thousand tonnes for the share of 55%), primarily as a result of bigger ore processing and higher CU content. On the other hand, in the KGHM INTERNATIONAL LTD and KGHM Polska Miedź S.A. segments, there was a fall in production by 9.6 thousand and 5.2 thousand tonnes Cu, respectively.

The lower output of KGHM Polska Miedź S.A. was a result of a lower capacity and thickness of the ore seam, as well as the limited supply of copper scrap in H1 2020 and an overhaul downtime in Głogów I Copper Smelter and Refinery.

Lower production in KGHM INTERNATIONAL LTD. was noted in the Sudbury Basin, and Franke, and the Robinson mine.

Detailed information about production results can be found in the chapters devoted to the individual segments. Production results of the Group are given below.

## PRODUCTION RESULTS IN THE GROUP

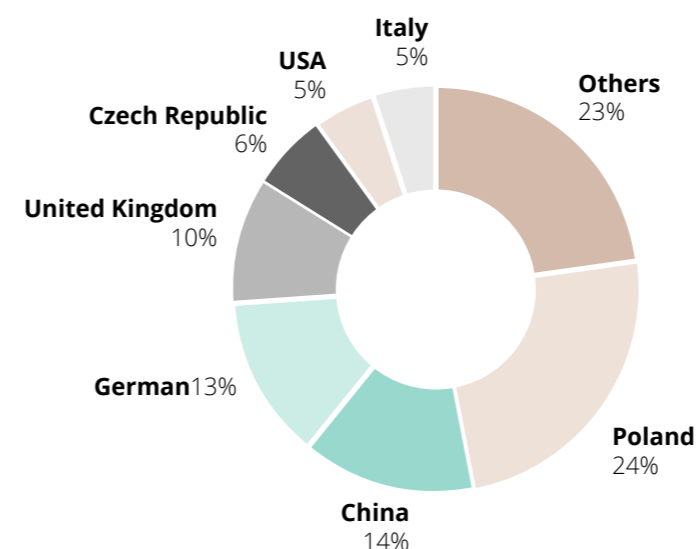
	2020	2019	Zmiana (%)	IVQ'20	IIIQ'20	IIQ'20	IQ'20
<b>Payable copper (thousand tonnes) Group</b>	<b>709.1</b>	<b>701.6</b>	<b>+1.1</b>	<b>188.1</b>	<b>170.3</b>	<b>176.6</b>	<b>174.1</b>
KGHM Polska Miedź S.A.	560.4	565.6	(0.9)	148.5	131.1	139.8	141.0
KGHM INTERNATIONAL LTD.	66.9	76.5	(12.5)	17.7	18.5	16.6	14.1
Sierra Gorda S.C.M. <sup>(1)</sup>	81.8	59.5	+37.4	21.9	20.7	20.2	19.0
<b>Total precious metals [koz t] Group</b>	<b>194.3</b>	<b>220.1</b>	<b>(11.7)</b>	<b>49.0</b>	<b>45.3</b>	<b>48.5</b>	<b>51.5</b>
KGHM Polska Miedź S.A.	96.8	103.7	(6.7)	29.7	21.5	20.4	25.2
KGHM INTERNATIONAL LTD.	66.1	85.2	(22.4)	11.7	16.2	20.4	17.8
Sierra Gorda S.C.M. <sup>(1)</sup>	31.4	31.2	+0.6	7.6	7.6	7.7	8.5
<b>Silver (tonnes) Group</b>	<b>1,353</b>	<b>1,417</b>	<b>(4.5)</b>	<b>356</b>	<b>288</b>	<b>373</b>	<b>335</b>
KGHM Polska Miedź S.A.	1,323	1,400	(5.5)	347	280	366	329
KGHM INTERNATIONAL LTD.	2	2	-	1	-	-	1
Sierra Gorda S.C.M. <sup>(1)</sup>	28	15	+86.7	8	8	7	6
<b>Molybdenum (million pounds) Group</b>	<b>9.4</b>	<b>11.9</b>	<b>(21.0)</b>	<b>2.2</b>	<b>1.9</b>	<b>3.5</b>	<b>1.8</b>
KGHM Polska Miedź S.A.	-	-	x	-	-	-	-
KGHM INTERNATIONAL LTD.	0.4	0.8	(50.0)	0.1	0.1	0.1	0.2
Sierra Gorda S.C.M. <sup>(1)</sup>	9.0	11.2	(19.6)	2.1	1.9	3.4	1.6

1) 55% share of the Group

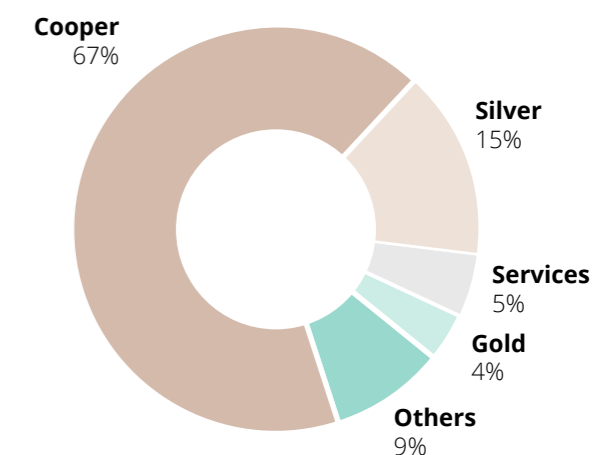
## STRUCTURE OF CONSOLIDATED SALES REVENUE

The geographic and product structures of the consolidated sales revenue of the Group are presented in the charts below. In accordance with the adopted principle of consolidation by the equity method, sales revenue do not include revenues of the Sierra Gorda S.C.M. segment. Detailed information about sales by segment can be found in the chapters devoted to the results of individual segments.

### GEOGRAPHICAL STRUCTURE OF THE GROUP'S SALES



### STRUCTURE OF THE GROUP'S SALES BY PRODUCT



## PRODUCTION COSTS OF PAYABLE COPPER C1 IN THE GROUP

Unit costs in the Group's segments are presented in the table below. Detailed description of the individual items can be found in the chapters devoted to the individual segments.

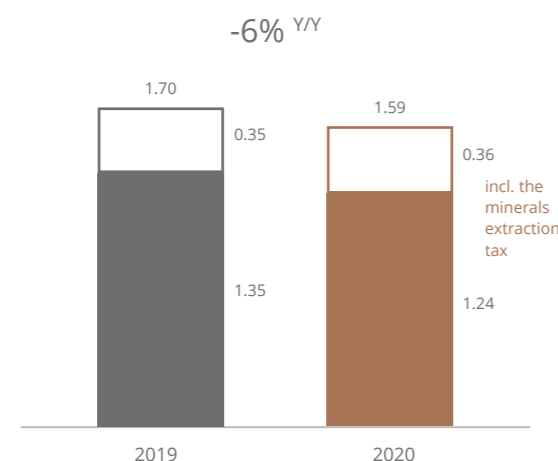
### PRODUCTION COSTS OF PAYABLE COPPER C1 IN THE GROUP (USD/LB)

	2020	2019	Change (%)	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Group	1.59	1.70	(6.5)	1.61	1.56	1.58	1.61
KGHM Polska Miedź S.A.	1.62	1.74	(6.9)	1.68	1.61	1.59	1.58
KGHM INTERNATIONAL LTD.	1.91	1.74	+9.8	2.00	1.62	1.83	2.19
Sierra Gorda S.C.M.	1.19	1.41	(15.6)	1.08	1.21	1.34	1.15

### C1 UNIT COST <sup>1)</sup>

KGHM Group

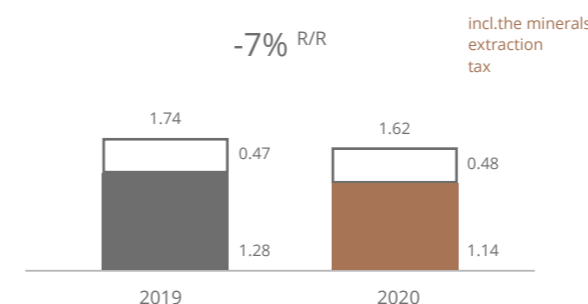
#### C1 - GROUP [USD/LB]



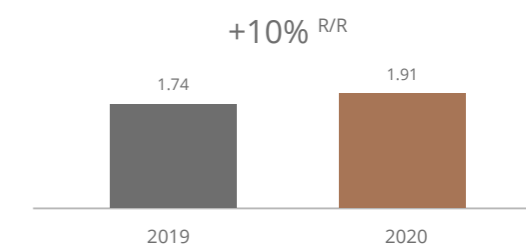
- The decrease in C1 cost in KGHM Polska Miedź versus 2019 was due to the weakening of the PLN vs the USD and to higher silver and gold prices, meaning a higher valuation of by-products
- The increase in C1 by 10% in KGHM INTERNATIONAL was due to lower copper sales volume which was partially offset by higher revenues from sales of associated metals (+5%)
- The decrease in C1 cost in Sierra Gorda by 16% was due to a higher copper sales volume, lower fuel prices, lower labour costs and lower costs of external services, materials and other costs categories
- The decrease in C1 was achieved alongside a decrease in revenues from sales of associated metals

<sup>1)</sup> C1 cost - cash cost of concentrate production reflecting the minerals extraction tax, plus administrative expenses and smelter treatment and refining charges (TC/RC), less depreciation/amortisation and the value of by-product premiums, calculated for payable copper in concentrate

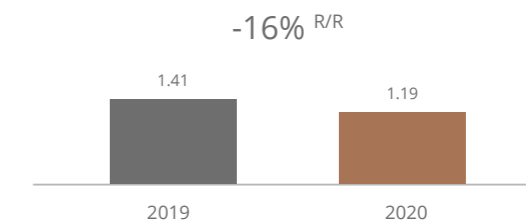
#### C1 - KGHM POLSKA MIEDŹ S.A. [USD/LB]



#### C1 - KGHM INTERNATIONAL [USD/LB]



#### C1 - SIERRA GORDA [USD/LB]





# Financial results

## FINANCIAL RESULTS OF KGHM POLSKA MIEDŹ S.A.

[GRI 201-1]

### Statement of profit or loss

In 2020, KGHM Polska Miedź S.A. recorded a net profit of PLN 1,779 million, i.e. by PLN 515 million (+41%) higher than in the previous year.

### PODSTAWOWE ELEMENTY SPRAWOZDANIA Z ZYSKÓW LUB STRAT KGHM POLSKA MIEDŹ S.A. (MLN PLN)

	2020	2019	Change (%)	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Revenues from contracts with customers	19,326		+9.3	5 966	4 463	4 672	4 225
reclassification of revenues from contracts with customers following	1.62	1.74	(6.9)	1.68	1.61	1.59	1.58
realisation of hedging position	323	245	+31.8	(6)	38	169	123
Cost of sales, selling costs and administrative expenses	(16)	(15,291)	+5.7	(4,957)	(3,643)	(3,952)	(3,609)
<b>Net profit on sales</b>	<b>3,165</b>	<b>2,392</b>	<b>+32.3</b>	<b>1,009</b>	<b>820</b>	<b>720</b>	<b>616</b>
<b>Other operating income and (costs)</b>	<b>(398)</b>	<b>39</b>	<b>×</b>	<b>(131)</b>	<b>(223)</b>	<b>(532)</b>	<b>488</b>
foreign exchange differences on assets and liabilities other than borrowings	(269)	168	×	(150)	(145)	(420)	446
interest on loans granted and other financial receivables	269	272	(1.1)	64	64	68	73
dividend income	20	37	(45.9)	5	-	15	-
provisions (recognised)/reversed	14	(39)	×	20	-	(3)	(3)
measurement and realisation of derivatives	(240)	(122)	+96.7	(32)	(74)	(45)	(89)
fees and charges on re-invoicing of costs of bank guarantees securing payment of liabilities	53	31	+71.0	3	23	7	20
(recognition)/reversal of impairment losses on financial instruments measured at amortised cost	(61)	102	×	(1)	25	91	(176)

impairment losses on shares and investment certificates in subsidiaries	(141)	(460)	(69.3)	(10)	-	(89)	(42)
Fair value gains/(losses) on financial assets measured at fair value through profit or loss	(20)	84	×	(33)	(99)	(175)	287
donations given	(40)	(30)	+33.3	(2)	(15)	(3)	(20)
refund of excise tax for previous years	53	4	×13.3	5	-	48	-
other	(36)	(8)	×4.5	-	(2)	(26)	(8)
<b>Finance income and (costs)</b>	<b>-</b>	<b>(504)</b>	<b>×</b>	<b>62</b>	<b>89</b>	<b>345</b>	<b>(496)</b>
- foreign exchange differences on borrowings	190	(209)	×	109	81	401	(401)
- interest on borrowings	(148)	(183)	(19.1)	(37)	(111)	(48)	48
- bank fees and commissions on external financing	(27)	(49)	(44.9)	(6)	(21)	(10)	10
- measurement and realisation of derivatives	(7)	(22)	(68.2)	(2)	(5)	(3)	3
- unwinding of the discount effect	(8)	(41)	(80.5)	(2)	145	5	(156)
<b>Profit before tax</b>	<b>2,767</b>	<b>1,927</b>	<b>+43.6</b>	<b>940</b>	<b>686</b>	<b>533</b>	<b>608</b>
Income tax	(988)	(663)	+49.0	(317)	(277)	(185)	(209)
<b>Net profit</b>	<b>1,779</b>	<b>1,264</b>	<b>+40.7</b>	<b>623</b>	<b>409</b>	<b>348</b>	<b>399</b>
Depreciation/amortisation recognised in profit or loss	(1,293)	(1,220)	+6.0	(397)	(301)	(311)	(284)
<b>Adjusted EBITDA<sup>1)</sup></b>	<b>4,458</b>	<b>3,619</b>	<b>+23.2</b>	<b>1 406</b>	<b>1,121</b>	<b>1,031</b>	<b>900</b>

1) Adjusted EBITDA = net 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


**PRIMARY FACTORS OF CHANGE IN PROFIT/(LOSS) OF KGHM POLSKA MIEDŹ S.A.**

Wyszczególnienie	Impact on change of profit or loss (PLN million)	2019
Increase in revenue from contracts with customers by PLN 1,643 million	+1,216	Increase in revenues due to higher prices of copper (+181 USD/tonne, +3%), silver (+4.33 USD/oz t, +27%) and gold (+370 USD/oz t, +27%)
	+258	Increase in revenues from sales of core products (Cu, Ag, Au) due to a more favourable average annual USD/PLN exchange rate (a change from 3.84 to 3.90 USD/PLN)
	+78	Increase in adjustments to revenues from hedging transactions, from PLN 245 million to PLN 323 million
	+42	Increase in revenues due to a higher volume of sales of copper (+4.0 thousand tonnes, +1%), lower volume of sales of silver (-24 tonnes, -2%) and gold (-1.2 koz t, -1%).
	+49	Increase in other sales revenues, including revenues from the sales of merchandise, waste and production materials (PLN +132 million), alongside a decrease in sales of refined lead (PLN -27 million), sulphuric acid (PLN -13 million) and rock salt (PLN -12 million)
Increase in cost of sales, selling costs and administrative expenses <sup>1)</sup> (-PLN 870 million)	(207)	Utilisation of inventories (change in 2020: PLN +576 million; in 2019: PLN +369 million)
	(196)	Higher consumption volume of external inputs by 4.9 thousand tonnes of Cu (+3%), at higher purchase price by 3%
	(467)	Primarily, an increase in the value of merchandise and materials sold by PLN 159 million and other expenses by nature by PLN 294 million, mainly due to a change in costs: employee benefits (increase by PLN 241 million), minerals extraction tax (increase by PLN 105 million) depreciation/amortisation (increase by PLN 66 million), energy and energy factors (increase by PLN 49 million), and mine development works (decrease by PLN 47 million)
Impairment losses on shares and investment certificates in subsidiaries (PLN +319 million)	+319	Lower impairment losses on shares and investment certificates in subsidiaries from -PLN 460 million to -PLN 141 million
(Recognition)/reversal of impairment losses on financial instruments measured at amortised cost (-PLN 163 million)	(163)	Change in the balance of impairment losses recognised reversed on financial instruments measured at amortised costs from PLN +102 million to PLN +61 million.

Fair value gains/(losses) on financial assets measured at fair value through profit or loss (-PLN 104 million)

(104) Fall resulting in movement in fair value of financial assets measured at fair value through profit or loss, from PLN +84 million to PLN -20 million.

Impact of derivatives and hedging transactions (PLN -103 million)

(118) Change in the result due to the measurement and realisation of derivatives in other operating activities, from -PLN 122 million to -PLN 240 million

+15 Change in the result due to the measurement and realisation of derivatives in finance activities, from PLN -22 million to PLN -7 million

Provisions (recognised)/reversed (PLN +53 million)

+100 Decrease of added provisions from PLN -107 million to PLN -7 million

(47) Decrease in reversed provisions from PLN 68 million to PLN 21 million

Zwrot podatku akcyzowego za lata ubiegłe (+49 mln PLN)

+49 Increase in excise tax for previous years from PLN 4 million to PLN 53 million

Impact of foreign exchange differences (PLN +38 million)

(437) Change to the result due to foreign exchange differences on the measurement of assets and liabilities other than borrowings – in other operating activities.

+399 A change in the result due to foreign exchange differences on borrowings (presented in finance costs).

Effect of unwinding of the discount (PLN +33 million)

+33 Change in value from PLN -41 million in 2019 to PLN -8 million in 2020.

Change in interest income and cost on loans and borrowings (PLN +32 million)

(3) Decrease in interest income on loans granted

+35 Lower interest cost on borrowings

Increase in income tax (PLN -325 million)

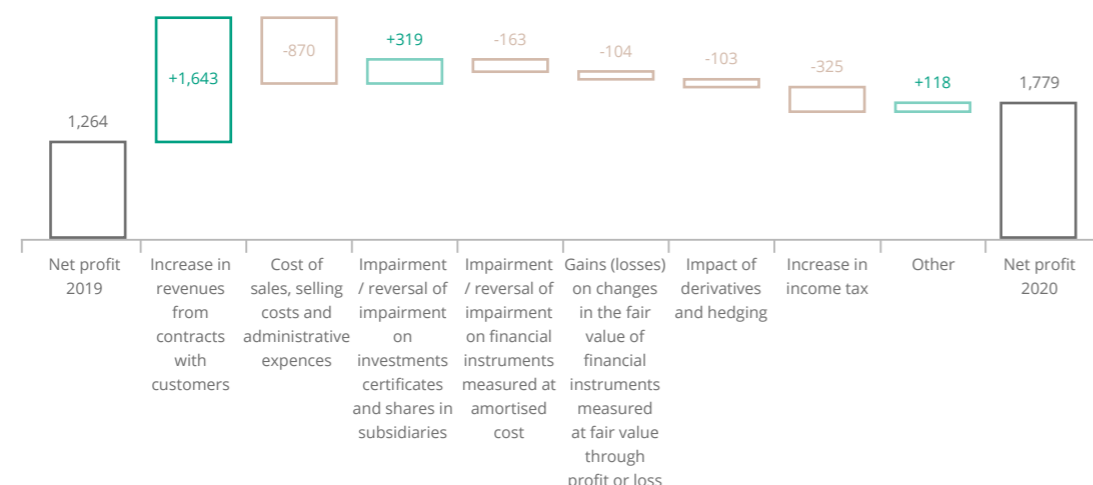
(325) The increase in income tax results from an increase in current income tax by PLN 92 million, alongside an increase in deferred income tax by PLN 75 million and a lower negative adjustment of current tax for prior periods by PLN 158 million.

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



## CHANGE IN NET RESULT OF KGHM POLSKA MIEDŹ S.A. (PLN MILLION)

Chart 1. Profit for the period [mn PLN]



## CASH FLOWS

### CASH FLOWS STATEMENT OF KGHM POLSKA MIEDŹ S.A. (PLN MILLION)

	2020	2019	Change (%)	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Profit before tax	2,767	1 927	×1.4	940	686	533	608
- Depreciation/amortisation recognised in profit or loss	1,293	1 220	×1.1	397	301	311	284
- FX differences	(204)	200	×	(25)	31	(177)	(33)
- Remaining adjustments	620	188	×3.3	232	150	241	(3)
Total exclusions of income and costs	1,709	1 608	×1.1	604	482	375	248
Income tax paid	(730)	(465)	×1.6	(295)	(63)	(186)	(186)
Changes in working capital	1,070	973	×1.1	707	(170)	149	384
<b>Net cash flows from operating activities</b>	<b>4,816</b>	<b>4,043</b>	<b>×1.2</b>	<b>1,956</b>	<b>935</b>	<b>871</b>	<b>1,054</b>
Expenditures on mining and metallurgical assets	(2,373)	(2,294)	×1.0	(576)	(627)	(461)	(709)
Expenditures on other property, plant and equipment and intangible assets	(49)	(72)	×0.7	(5)	(6)	(3)	(35)
Expenditures on the acquisition of shares and investment certificates	(43)	(430)	×0.1	(14)	(22)	(3)	(4)
Payments on loans granted	(288)	(445)	×0.6	(3)	(15)	(270)	-
Proceeds from the redemption of investment certificates	-	404	×	-	-	-	-
Other	(11)	(17)	×0.6	(6)	55	(18)	(42)
<b>Net cash flows from investing activities</b>	<b>(2,764)</b>	<b>(2,854)</b>	<b>×1.0</b>	<b>(604)</b>	<b>(615)</b>	<b>(755)</b>	<b>(790)</b>

Proceeds from loans and borrowings	4,052	4,669	×0.9	-	-	2,390	1,662
Proceeds from the issue of debt financial instruments	-	2,000	×	-	-	-	-
Proceeds from cash pool	154	50	×3.1	54	50	50	-
Repayment of loans and borrowings	(4,478)	(7,726)	×0.6	(61)	(1,275)	(2,693)	(449)
Interest paid	(173)	(228)	×0.8	(25)	(20)	(65)	(63)
Other	(62)	(30)	×2.1	(23)	(3)	18	(54)
<b>Net cash flows from financing activities</b>	<b>(507)</b>	<b>(1,265)</b>	<b>×0.4</b>	<b>(55)</b>	<b>(1,248)</b>	<b>(300)</b>	<b>1 096</b>
Net cash flows	1,545	(76)	×	1,297	(928)	(184)	1 360
Foreign exchange gains/(losses) on cash and cash equivalents	74	(35)	×	57	2	(8)	23
Cash and cash equivalents at the beginning of the period	516	627	×0.8	781	1,707	1,899	516
Cash and cash equivalents at the end of the period	2,135	516	×4.1	2,135	781	1,707	1,899

Net cash flows from operating activities in 2020 amounted to PLN +4,825 million and mainly comprised profit before income tax in the amount of PLN 2,767 million, adjusted by, among others, depreciation/amortisation in the amount of PLN +1,293 million, less income tax paid in the amount of PLN -730 million and the change in working capital in the amount of PLN +1070 million.

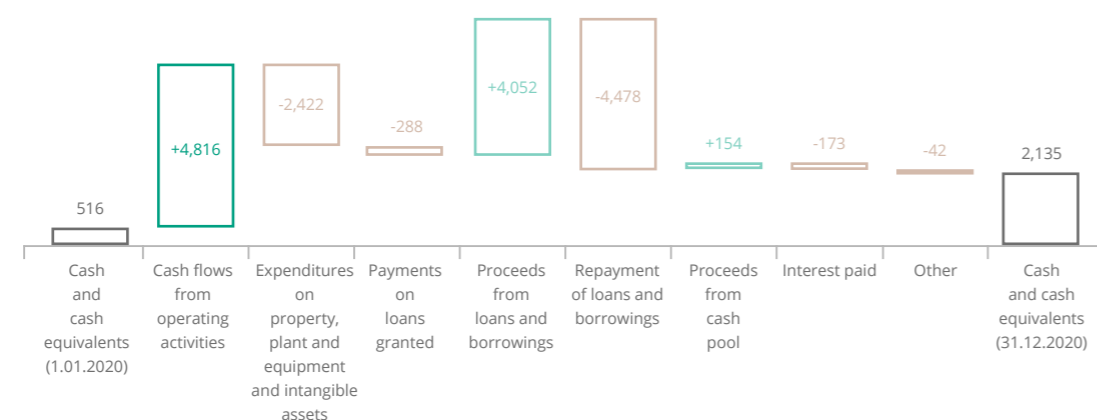
Net cash flows in investing activities in 2020 amounted to PLN -2,764 million and mainly comprised expenditures on property, plant and equipment and intangible assets in the amount of PLN -2,422 million, payments on the account of loans granted of PLN -288 million, and expenditures on the acquisition of investment certificates and shares in subsidiaries in the amount of PLN -43 million.

Net cash flows in financing activities during the same period amounted to PLN -507 million and mainly comprised proceeds from loans and borrowings in the amount of PLN +4,052 million, alongside repayments of loans and borrowings of PLN -4,478 million and interest paid in the amount of PLN -173 million.

After reflecting foreign exchange differences on cash and cash equivalents, in 2020, cash and cash equivalents increased by PLN 1,619 million and amounted to PLN 2,135 million.



### CASH FLOWS STATEMENT OF KGHM POLSKA MIEDŹ S.A. (PLN MILLION)



### ASSETS AND SOURCES OF ASSET FINANCING

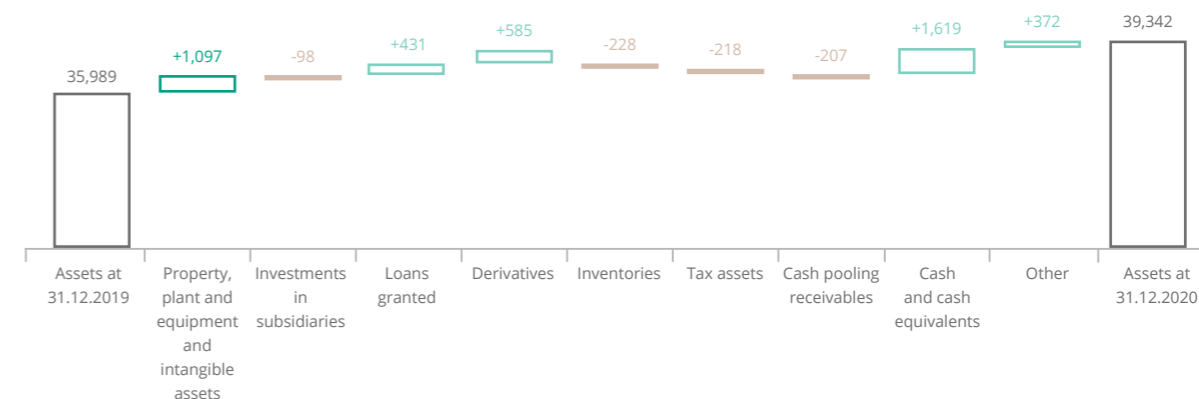
#### ASSETS OF KGHM POLSKA MIEDŹ S.A. (PLN MILLION)

	31.12.2020	31.12.2019	Change (%)	30.09.2020	30.06.2020	31.03.2020
Mining and metallurgical property, plant and equipment	19,162	18,092	+5.9	18,791	18,459	18,212
Mining and metallurgical intangible assets	675	651	+3.7	671	671	748
Other property, plant and equipment	102	103	(1.0)	96	99	99
Other intangible assets	65	61	+6.6	57	58	60
Investments in subsidiaries	2,848	2,946	(3.3)	2,844	2,823	2,908
Financial instruments, including:	9,459	8,200	+15.4	9,581	9,133	8,643
- loans granted	7,648	7,217	+6.0	7,750	7,871	7,886
- derivatives	789	123	×6.4	863	242	24
Other non-financial assets	56	58	(3.4)	64	60	67
<b>Non-current assets</b>	<b>32,367</b>	<b>30,111</b>	<b>+7.5</b>	<b>32,104</b>	<b>31,303</b>	<b>30,737</b>
Inventories	3,555	3,783	(6.0)	3,910	3,624	3,996
Trade receivables	351	243	+44.4	406	334	153
Tax assets	217	435	(50.1)	282	343	355
Derivatives	210	291	(27.8)	269	222	892
Cash pooling receivables	128	335	(61.8)	131	265	341
Other financial assets	268	221	+21.3	262	295	361
Other non-financial assets	66	54	+22.2	115	192	163
Cash and cash equivalents	2,135	516	×4.1	781	1,707	1,899
Fixed assets held for sale	45	-	×	15	-	-
<b>Current assets</b>	<b>6,975</b>	<b>5,878</b>	<b>+18.7</b>	<b>6,171</b>	<b>6,982</b>	<b>8,160</b>
<b>TOTAL ASSETS</b>	<b>39,342</b>	<b>35,989</b>	<b>+9.3</b>	<b>38,275</b>	<b>38,285</b>	<b>38,897</b>

As at 31 December 2020, total assets amounted to PLN 39,342 million, which represents an increase as compared to the end of 2019 by PLN 3,353 million, i.e. by 9%, mainly due to increases in the following items:

- cash and cash equivalents by PLN 1,619 million,
  - property, plant and equipment and intangible assets by PLN 1,097 million, including mining and metallurgical property, plant and equipment by PLN 1,070 million, arising from the completion of investments – expenditures on property, plant and equipment and intangible assets in 2020 amounted to PLN 2,422 million,
  - non-current financial instruments by PLN 1,259 million, including derivative financial assets (PLN +666 million) and loans granted (PLN +431 million),
- decrease in inventories (PLN -228 million), tax assets (PLN -218 million) and cash pooling receivables (PLN -207 million).

### CHANGE IN THE VALUE OF ASSETS OF KGHM POLSKA MIEDŹ S.A. IN 2020 (PLN MILLION)





The balance sheet value of equity and liabilities as at 31 December 2020 is presented below:

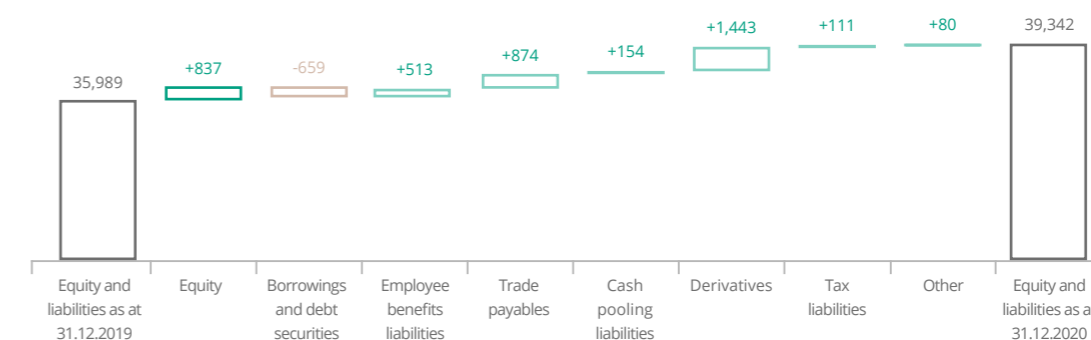
### EQUITY AND LIABILITIES OF KGHM POLSKA MIEDŹ S.A. (PLN MILLION)

	31.12.2020	31.12.2019	Change (%)	30.09.2020	30.06.2020	31.03.2020
Share capital	2,000	2,000	-	2,000	2,000	2,000
Other reserves from measurement of financial instruments	(1,390)	(698)	+99.1	(743)	(860)	(748)
Accumulated other comprehensive income	(872)	(622)	+40.2	(887)	(855)	(772)
Retained earnings	20,988	19,209	+9.3	20,365	19,956	19,608
<b>Equity</b>	<b>20,726</b>	<b>19,889</b>	<b>+4.2</b>	<b>20,735</b>	<b>20,241</b>	<b>20,088</b>
Liabilities on account of loans, borrowings, leasing and debt securities	6,525	7,215	(9.6)	6,711	7,304	8,845
Derivatives	981	131	×7.5	789	532	537
Employee benefit liabilities	2,724	2,363	+15.3	2,732	2,626	2,532
Provisions for decommissioning costs of mines and other technological facilities	1,185	1,119	+5.9	1,154	1,150	1,146
<b>Other non-current liabilities</b>	<b>272</b>	<b>277</b>	<b>(1.8)</b>	<b>353</b>	<b>248</b>	<b>195</b>
Non-current liabilities	11,687	11,105	+5.2	11,739	11,860	13,255
Liabilities on account of loans, borrowings, leasing and debt securities	306	275	+11.3	317	1,104	311
Cash pooling liabilities	284	130	×2.2	230	180	80
Derivatives	653	60	×10.9	226	179	315
Trade and similar payables	3,334	2,460	+35.5	2,811	2,640	2,572
Employee benefit liabilities	1,042	890	+17.1	917	905	956
Tax liabilities	369	258	+43.0	378	263	279
Provisions for liabilities and other charges	77	158	(51.3)	111	123	139
Other current liabilities	864	764	+13.1	811	790	902
<b>Current liabilities</b>	<b>6,929</b>	<b>4,995</b>	<b>+38.7</b>	<b>5,801</b>	<b>6,184</b>	<b>5,554</b>
<b>Non-current and current liabilities</b>	<b>18,616</b>	<b>16,100</b>	<b>+15.6</b>	<b>17,540</b>	<b>18,044</b>	<b>18,809</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>39,342</b>	<b>35,989</b>	<b>+9.3</b>	<b>38,275</b>	<b>38,285</b>	<b>38,897</b>

The higher equity and liabilities was mainly due to increases in the following items:

- equity by PLN 837 million, including as a result of the net profit for 2020 in the amount of PLN 1,779 million, and increase in the negative other reserves from measurement of financial instruments (PLN -692 million),
  - financial derivatives (PLN + 1,443 million),
  - trade and similar payables (PLN +874 million),
  - employee benefits liabilities (PLN +513 million),
- alongside lower liabilities on account of loans, borrowings, leasing and debt securities by PLN 659 million.

### CHANGE IN EQUITY AND LIABILITIES OF KGHM POLSKA MIEDŹ S.A. IN 2020 (PLN MILLION)



### CONTINGENT ASSETS AND LIABILITIES UNDER GUARANTEES AND WARRANTIES GRANTED

As at 31 December 2020, contingent assets amounted to PLN 505 million and related mainly to promissory notes receivables in the amount of PLN 208 million and guarantees received by the Company in the amount of PLN 208 million.

As at 31 December 2020, liabilities under guarantees and warranties granted amounted to PLN 2,570 million, and liabilities under promissory notes amounted to PLN 16 million, including:

- a security for the performance of contracts entered into by Sierra Gorda S.C.M. in the amount of PLN 1,814 million,
- a security for the costs of restoring the areas of the Robinson mine, Podolsky mine and the Victoria project, in the amount of PLN 372 million,
- a security for the proper performance by DMC Mining Services (UK) Ltd. and DMC Mining Services Ltd. of a contract for sinking shafts under a project underway in the United Kingdom, in the amount of PLN 188 million,
- a security for the proper performance by KGHM Polska Miedź S.A. of future environmental obligations to restore the area, following the closure of operations of the Żelazny Most tailings storage facility, in the amount of PLN 175 million.

As far as the Company is aware, as at the end of the reporting period the Company determined the likelihood of paying the amounts related to the contingent liabilities of Sierra Gorda S.C.M. as moderately low, and that of the remaining entities of the Group as low.

Other liabilities not recognised in the statement of financial position represent liabilities to local government entities due to expansion of the tailings storage facility, in the amount of PLN 100 million.





# Financial results of the KGHM Group

## STATEMENT OF PROFIT OR LOSS

[GRI 201-1]

### FINANCIAL RESULTS OF THE GROUP (PLN MILLION)

	2020	2019	Change (%)	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Revenues from contracts with customers	23,632	22,723	+4.0	7,052	5,632	5,649	5,299
Cost of sales, selling costs and administrative expenses	(20,471)	(20,268)	+1.0	(5,997)	(4,666)	(5,004)	(4,804)
<b>Net profit on sales</b>	<b>3,161</b>	<b>2,455</b>	<b>+28.8</b>	<b>1,055</b>	<b>966</b>	<b>645</b>	<b>495</b>
Result on participation in a joint venture	247	9	×27,4	169	95	(113)	96
Other operating income and (costs)	(624)	186	×	(395)	(389)	(680)	840
Finance income and (costs)	(28)	(528)	(94.7)	48	100	326	(502)
<b>Profit before tax</b>	<b>2,756</b>	<b>2,122</b>	<b>+29.9</b>	<b>877</b>	<b>772</b>	<b>178</b>	<b>929</b>
Income tax	(959)	(701)	+36.8	(252)	(299)	(169)	(239)
<b>Net profit</b>	<b>1,797</b>	<b>1,421</b>	<b>+26.5</b>	<b>625</b>	<b>473</b>	<b>9</b>	<b>690</b>
<b>Adjusted EBITDA<sup>1)</sup></b>	<b>6,623</b>	<b>5,229</b>	<b>+26.7</b>	<b>2,205</b>	<b>1,767</b>	<b>1,522</b>	<b>1,129</b>

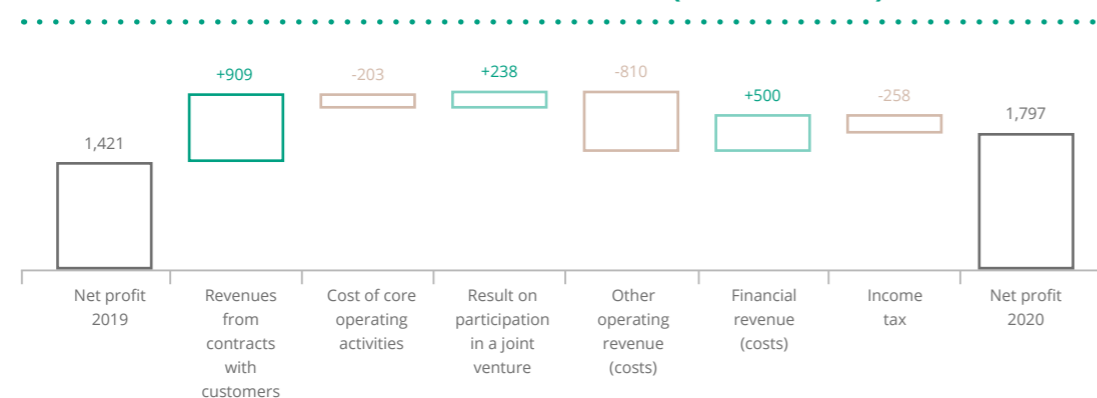
1) Adjusted EBITDA = net profit + depreciation/amortisation (recognised in profit or loss) + impairment loss (-reversal of impairment losses) on non-current assets recognised in cost of sales, selling costs and administrative expenses) according to part 2 of the consolidated financial statements - including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

## MAIN FACTORS IMPACTING THE CHANGE IN PROFIT OR LOSS OF THE GROUP

Item	Impact on change of profit or loss (PLN million)	2019
Revenues from contracts with customers	+909	The increase in revenue results primarily from sales revenue of copper in the amount of PLN +835 million, silver - PLN +675 million, and gold - PLN +201 million, alongside a decrease in the revenue from sales of services - PLN -618 million. Detailed explanation of the changes in revenues of the segments of KGHM Polska Miedź S.A. and KGHM INTERNATIONAL LTD. can be found in section 7 and 8 of this statement.
Cost of sales, selling costs and administrative expenses	(203)	The increase in cost of sales, selling costs and administrative expenses results primarily from higher costs by nature by PLN 47 million, alongside a change in products and production in progress by PLN 137 million and a lower adjustment to cost of production of goods for own use by PLN 28 million. Detailed explanation of the changes in the costs of the segments of KGHM Polska Miedź S.A. and KGHM INTERNATIONAL LTD. can be found in section 7 and 8 of this statement.
Result on participation in a joint venture	+238	The change in profit/loss on involvement in joint ventures from PLN 9 million to PLN 247 million was due to: <ul style="list-style-type: none"> <li>— a decrease in gains due to reversal of impairment losses on loans granted to joint ventures, by PLN 32 million,</li> <li>— a lower share of losses of joint ventures accounted for using the equity method, by PLN 234 million,</li> <li>— a higher interest income on loans granted to joint ventures, by PLN 36 million.</li> </ul>
Other operating income and (costs)	(810)	The decrease in the result on other operating activities from PLN 186 million to PLN -624 million was mainly due to: <ul style="list-style-type: none"> <li>— a lower foreign exchange gain/loss on the measurement of assets and liabilities other than borrowings, by PLN 562 million,</li> <li>— a lower result on the measurement and realisation of derivatives, by PLN 140 million,</li> <li>— a higher result on the recognition and reversal of losses due to impairment of fixed assets under construction and intangible assets not yet available for use, by PLN 224 million,</li> <li>— a higher negative balance of provisions recognised and reversed, by PLN 65 million.</li> </ul>
Finance income and (costs)	+500	The change in finance income and costs from PLN -528 million to PLN -28 million was mainly due to: <ul style="list-style-type: none"> <li>— a higher foreign exchange gain/loss on the measurement and realisation of borrowings, by PLN 396 million,</li> <li>— lower interest costs on borrowings, by PLN 59 million,</li> <li>— a higher result on the measurement and realisation of derivatives, by PLN 15 million.</li> </ul>
Income tax	(258)	The increase in income tax results from: <ul style="list-style-type: none"> <li>— higher current tax, by PLN 77 million,</li> <li>— higher deferred tax, by PLN 23 million,</li> <li>— lower adjustment of tax for previous periods, by PLN 158 million.</li> </ul>



### CHANGE IN FINANCIAL PROFIT/LOSS IN 2020 (PLN MILLION)



### CASH FLOWS

#### CASH FLOWS OF THE GROUP (PLN MILLION)

	2020	2019	Change (%)	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Profit before tax	2,756	2,122	+29.9	877	772	178	929
Depreciation/amortisation recognised in profit or loss	1,963	1,920	+2.2	572	438	470	483
Share of losses of joint ventures accounted for with the equity method	204	438	(53.4)	(2)	(4)	210	-
Gains due to reversal of impairment losses on loans granted to joint ventures	(74)	(106)	(30.2)	(74)	-	-	-
Interest on loans granted to joint ventures	(377)	(341)	+10.6	(93)	(91)	(97)	(96)
Other interest	159	244	(34.8)	39	7	62	51
Impairment losses on non-current assets	239	51	×4,7	145	2	65	27
FX differences	(101)	184	×	154	212	87	(554)
Change in employee benefits provisions and liabilities	-	114	×	(29)	44	32	(47)
Change in receivables and payables other than working capital	584	(176)	×	525	132	91	(164)
Changes in assets / liabilities on account of derivative instruments	(171)	(31)	×5,5	(219)	(225)	35	238
Re-classification of other comprehensive income to the profit and loss as a result of realisation of hedging derivatives	(42)	(86)	(51.2)	80	32	(97)	(57)
Other adjustments	11	2	×5,5	(3)	(25)	38	1
<b>Total exclusions of income and costs</b>	<b>2,395</b>	<b>2,213</b>	<b>+8.2</b>	<b>1,095</b>	<b>522</b>	<b>896</b>	<b>(118)</b>

Income tax paid	(667)	(410)	+62.7	(223)	(58)	(196)	(190)
Changes in working capital	1,172	1,123	+4.4	653	87	102	330
Net cash flows from operating activities	5,656	5,048	+12.0	2,402	1,323	980	951
Expenditures on mining and metallurgical assets	(3,060)	(2,872)	+6.5	(861)	(810)	(566)	(823)
Expenditures on other property, plant and equipment and intangible assets	(397)	(360)	+10.3	(109)	(96)	(52)	(140)
Expenditures on financial assets designated for decommissioning of mines and other technological facilities	(22)	(293)	(92.5)	-	-	-	(22)
Acquisition of shares in joint ventures	(207)	(439)	(52.8)	-	-	(207)	-
Proceeds from financial assets designated for decommissioning of mines and other technological facilities	11	335	(96.7)	8	2	-	1
Other	14	(14)	×	(24)	54	(17)	1
<b>Net cash flows from investing activities</b>	<b>(3,661)</b>	<b>(3,643)</b>	<b>+0.5</b>	<b>(986)</b>	<b>(850)</b>	<b>(842)</b>	<b>(983)</b>
Proceeds from loans and borrowings	4,247	4,730	(10.2)	66	24	2,417	1,740
Proceeds from the issue of debt financial instruments	-	2,000	×	-	-	-	-
Proceeds from derivative instruments linked to external financing sources	52	-	×	18	1	33	-
Repayment of loans and borrowings	(4,513)	(7,746)	(41.7)	(84)	(1,282)	(2,695)	(452)
Repayment of lease liabilities	(97)	(52)	+86.5	(12)	(41)	(31)	(13)
Expenditure on derivative instruments linked to external financing sources	(78)	-	×	(38)	-	(40)	-
Interest paid	(177)	(239)	(25.9)	(28)	(14)	(68)	(67)
Other	18	(1)	×	12	4	1	1
<b>Net cash flows from financing activities</b>	<b>(548)</b>	<b>(1,308)</b>	<b>(58.1)</b>	<b>(66)</b>	<b>(1,308)</b>	<b>(383)</b>	<b>1,209</b>
<b>Net cash flows</b>	<b>1,447</b>	<b>97</b>	<b>×14,9</b>	<b>1,350</b>	<b>(835)</b>	<b>(245)</b>	<b>1,177</b>
FX differences	59	(38)	×	53	3	(2)	5
Cash and cash equivalents at the beginning of the period	1,016	957	+6.2	1,119	1,951	2,198	1,016
<b>Cash and cash equivalents at the end of the period</b>	<b>2,522</b>	<b>1,016</b>	<b>×2,5</b>	<b>2,522</b>	<b>1,119</b>	<b>1,951</b>	<b>2,198</b>



Net cash flows from operating activities in 2020 amounted to PLN +5,656 million and mainly comprised profit before income tax of PLN +2,756 million, increased by adjusted depreciation/amortisation in the amount of PLN +1,963 million, a change in working capital in the amount of PLN +1,172 million, the adjustment in the balance of remaining receivables and payables other than working capital in the amount of PLN +584 million, the adjustment of loss from impairment of non-current assets by PLN 239 million, the adjustment to the share in the losses of joint ventures measured with the equity methods by PLN +204 million, and the adjustment of other interests by PLN +159 million.

The lower flows from operating activities are due primarily to the income tax paid of PLN -667 million, an adjustment of interests on loans granted to joint ventures by PLN -377 million, a change in the balance of assets and liabilities on the account of derivative instruments of PLN -171 million, an adjustment to the gain from the reversal of impairment of loans granted to joint ventures by PLN -74 million, and reclassification of other comprehensive income to the profit and loss as a result of realisation of hedging instruments in the amount of PLN -42 million.

Net cash flows from investing activities in 2020 amounted to PLN -3,661 million and mainly comprised expenditures on purchase of property, plant and equipment and intangible assets in the amount of PLN -3,457 million, and expenditures on the acquisition of shares in joint ventures in the amount of PLN -207 million.

Net cash flows from financing activities in 2020 amounted to PLN -548 million and mainly comprised proceeds from loans and borrowings in the amount of PLN -4,247 million, repayments of loans and borrowings in the amount of PLN -4,513 million, interest paid in the amount of PLN -177 million, repayment of leasing liabilities of PLN 97 million, as well as expenditure on derivative instruments linked to external financing sources of PLN -78 million.

After reflecting foreign exchange differences on cash and cash equivalents, cash and cash equivalents increased in 2020 by PLN 1,506 million and amounted to PLN 2,522 million as at 31 December 2020.

### CASH FLOWS IN 2020 (PLN MILLION)



## ASSETS

### CONSOLIDATED ASSETS (PLN MILLION)

	31.12.2020	31.12.2019	Change (%)	30.09.2020	30.06.2020	31.03.2020
Mining and metallurgical property, plant and equipment	20,576	19,498	+5.5	20,291	19,945	19,793
Mining and metallurgical intangible assets	2,024	1,966	+3.0	2,048	2,076	2,197
Other property, plant and equipment	2,857	2,829	+1.0	2,795	2,779	2,852
Other intangible assets	141	155	(9.0)	133	134	178
Loans granted to joint ventures	6,069	5,694	+6.6	6,075	6,159	6,317
Derivatives	789	124	+6.4	864	243	24
Other financial instruments measured at fair value	636	448	+42.0	532	581	345
Other financial instruments measured at amortised cost	601	656	(8.4)	699	710	688
Deferred tax assets	193	157	+22.9	150	141	163
Other non-financial assets	161	142	+13.4	139	135	128
<b>Non-current assets</b>	<b>34,047</b>	<b>31,669</b>	<b>+7.5</b>	<b>33,726</b>	<b>32,903</b>	<b>32,685</b>
Inventories	4,459	4,741	(5.9)	4,854	4,615	4,951
Trade receivables	834	688	+21.2	745	747	667
Tax assets	295	571	(48.3)	426	498	482
Derivatives	210	293	(28.3)	269	222	892
Other financial assets	210	280	(25.0)	298	301	394
Other non-financial assets	142	151	(6.0)	248	347	327
Cash and cash equivalents	2,522	1,016	+2.5	1,119	1,951	2,198
Fixed assets held for sale	61	-	x	31	-	-
<b>Current assets</b>	<b>8,733</b>	<b>7,740</b>	<b>+12.8</b>	<b>7,990</b>	<b>8,681</b>	<b>9,911</b>
<b>TOTAL ASSETS</b>	<b>42,780</b>	<b>39,409</b>	<b>+8.6</b>	<b>41,716</b>	<b>41,584</b>	<b>42,596</b>

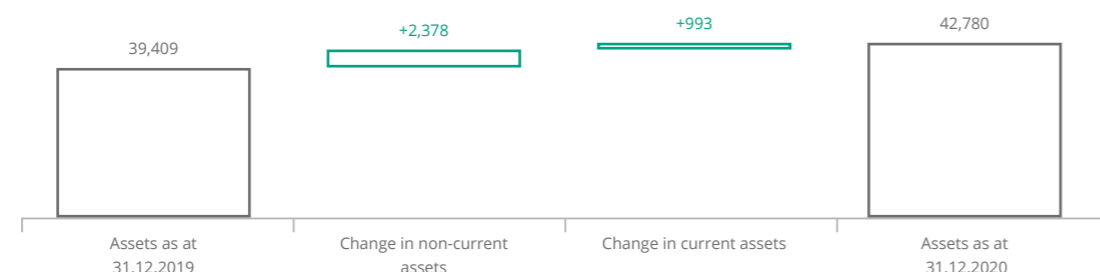
At the end of 2020, total assets in the consolidated statement of financial position amounted to PLN 42,780 million and were higher as compared to 31 December 2019 by PLN 3,371 million.

Non-current assets as at 31 December 2020 amounted to PLN 34,047 million and were higher by PLN 2,378 million compared to the end of 2019. The increase in non-current assets mainly applied to property, plant and equipment and intangible assets - by PLN 1,150 million, financial derivative instruments - by PLN 665 million, loans granted to joint ventures - by PLN 375 million, and other financial instruments measured at fair value - by PLN 188 million. Compared to 2019, there was a decrease in other financial instruments measured at amortised cost - by PLN 55 million.

The increase in the value of current assets by PLN 993 million refers to cash and cash equivalents - by PLN 1,506 million, trade receivables - by PLN 146 million, and non-current assets held for sale - by PLN 61 million (the Group did not have non-current assets held for sale as at the end of 2019). Compared to the end of 2019, there was a decrease primarily in the value of inventories - by PLN 282 million, tax assets - by PLN 276 million, derivative financial instruments - by PLN 83 million, and other financial assets - by PLN 70 million.



### CHANGE IN THE VALUE OF ASSETS OF IN 2020 (PLN MILLION)



### EQUITY AND LIABILITIES

#### CONSOLIDATED EQUITY AND LIABILITIES (PLN MILLION)

	31.12.2020	31.12.2019	Change (%)	30.09.2020	30.06.2020	31.03.2020
Share capital	2,000	2,000	-	2,000	2,000	2,000
Other reserves from measurement of financial instruments	(1,430)	(738)	+93.8	(786)	(897)	(796)
Accumulated other comprehensive income other than from measurement of financial instruments	1,728	1,954	(11.6)	1,657	1,616	1,583
Retained earnings	18,694	16,894	+10.7	18,068	17,596	17,586
<b>Equity attributable to shareholders of the Parent Entity</b>	<b>20,992</b>	<b>20,110</b>	<b>+4.4</b>	<b>20,939</b>	<b>20,315</b>	<b>20,373</b>
<b>Equity attributable to non-controlling interests</b>	<b>89</b>	<b>92</b>	<b>(3.3)</b>	<b>90</b>	<b>89</b>	<b>90</b>
<b>Equity</b>	<b>21,081</b>	<b>20,202</b>	<b>+4.4</b>	<b>21,029</b>	<b>20,404</b>	<b>20,463</b>
Liabilities on account of loans, borrowings, leasing and debt securities	6,928	7,525	(7.9)	7,093	7,697	9,218
Derivatives	1,006	183	×5.5	825	574	588
Employee benefit liabilities	3,016	2,613	+15.4	2,986	2,874	2,772
Provisions for decommissioning costs of mines and other facilities	1,849	1,774	+4.2	1,862	1,870	1,855
Deferred tax liabilities	442	445	(0.7)	544	428	397
Other liabilities	551	631	(12.7)	611	627	641
<b>Non-current liabilities</b>	<b>13,792</b>	<b>13,171</b>	<b>+4.7</b>	<b>13,921</b>	<b>14,070</b>	<b>15,471</b>
Liabilities on account of loans, borrowings, leasing and debt securities	407	348	+17.0	404	1,201	404
Derivatives	688	91	×7.6	252	205	341
Trade and similar payables	3,593	2,766	+29.9	3,146	2,856	2,879
Employee benefit liabilities	1,313	1,150	+14.2	1,189	1,178	1,211
Tax liabilities	537	433	+24.0	545	411	422

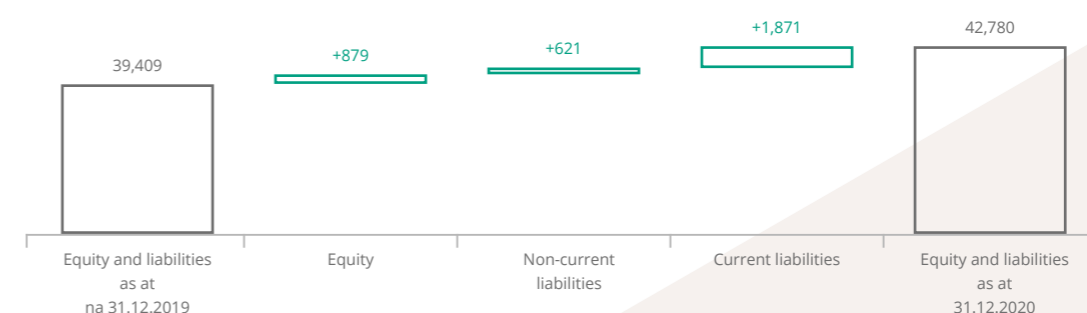
Provisions for liabilities and other charges	162	222	(27.0)	178	193	203
Other liabilities	1,202	1,026	+17.2	1,048	1,066	1,202
Liabilities linked to assets held for sale	5	-	×	4	-	-
<b>Current liabilities</b>	<b>7,907</b>	<b>6,036</b>	<b>+31.0</b>	<b>6,766</b>	<b>7,110</b>	<b>6,662</b>
<b>Non-current and current liabilities</b>	<b>21,699</b>	<b>19,207</b>	<b>+13.0</b>	<b>20,687</b>	<b>21,180</b>	<b>22,133</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>42,780</b>	<b>39,409</b>	<b>+8.6</b>	<b>41,716</b>	<b>41,584</b>	<b>42,596</b>

As at 31 December 2020, equity amounted to PLN 21,081 million and was higher by PLN 879 million than at the end of 2019, mainly due to an increase in retained earnings by PLN 1,800 million.

Non-current liabilities of the KGHM Polska Miedź S.A. Group as at 31 December 2020 amounted to PLN 13,792 million and were higher by PLN 621 million compared to the end of 2019, mainly due to an increase in liabilities on the account of financial derivative instruments - by PLN 823 million, and employee benefits liabilities - by PLN 403 million. In comparison with the end of 2019, there was a decrease primarily of loan, borrowings, leasing, and debt securities liabilities - by PLN 597 million.

Current liabilities of the KGHM Polska Miedź S.A. Group as at 31 December 2020 amounted to PLN 7,907 million and were higher by PLN 1,871 million compared to the end of 2019, mainly due to an increase in trade and similar payables - by PLN 827 million, liabilities on the account of financial derivative instruments - by PLN 597 million, other liabilities - by PLN 176 million, employee benefits liabilities - by PLN 163 million, and tax liabilities - by PLN 104 million.

### CHANGE IN EQUITY AND LIABILITIES IN 2020 (PLN MILLION)





## CONTINGENT ASSETS AND LIABILITIES UNDER GUARANTEES AND WARRANTIES GRANTED

As at 31 December 2020, the Group held contingent assets under guarantees and warranties received in the amount of PLN 526 million, which mainly related to proper performance of agreements in the amount of PLN 297 million and promissory notes receivables in the amount of PLN 117 million.

As at 31 December 2020, the Group held liabilities under guarantees granted and letters of credit in the amount of PLN 2,213 million and promissory notes payables of PLN 160 million.

The most important items are securing the following liabilities:

### Sierra Gorda S.C.M.:

- financial guarantees:
- corporate guarantees in the amount of PLN 1,140 million securing the repayment of short-term working capital facilities,
- corporate guarantees in the amount of PLN 18 million, granted to secure the payments from lease agreements,

other guarantees:

- a letter of credit in the amount of PLN 517 million, granted to secure performance under a long-term electricity off-take contract,
- a corporate guarantee in the amount of PLN 104 million, securing repayment of a specified part of payment to a guarantee granted by Sumitomo Metal Mining Co., Ltd. and Sumitomo Corporation, securing repayment of a corporate loan drawn by the joint venture Sierra Gorda S.C.M.,
- a corporate guarantee in the amount of PLN 35 million, securing claims arising from the obligation to restore post-mining terrain following mine closure;

of other Group entities, including the Parent Entity:

- guarantees in the amount of PLN 188 million, securing proper performance by DMC Mining Services (UK) Ltd. and DMC Mining Services Ltd. of a contract for sinking shafts under a project underway in the United Kingdom,

- a guarantee in the amount of PLN 175 million, securing proper performance of future environmental obligations of the Parent Entity to restore the area, following the conclusion of operations of the Żelazny Most tailings storage facility,
- guarantees and letters of credit in the total amount of PLN 21 million, securing proper performance of agreements entered into by the Parent Entity and Group companies.

## EXECUTION OF THE 2020 BUDGET AND ASSUMPTIONS FOR 2021 BUDGET

KGHM POLSKA MIEDŹ S.A. does not publish forecasts of financial results. However, the Company published the fundamental assumptions for the 2020 and 2021 Budgets in the current reports of 16 January 2020 and 28 January 2021, respectively. The execution of the 2020 assumptions and the assumptions for the 2021 Budget are given below.

## EXECUTION OF THE 2020 BUDGET AND ASSUMPTIONS FOR 2021 BUDGET

		Execution 2020	2020 Budget	Perfor- mance (%)	2021 Budget	Change (%)
KGHM Polska Miedź S.A.						
Production of copper in concentrate	thousand tonnes	392.7	399.2	(1.6)	390.0	(0.7)
Production of silver in concentrate	tonnes	1,218	1,448	(15.9)	1,200	(1.5)
<b>Production of electrolytic copper, including:</b>	<b>thousand tonnes</b>	<b>560.4</b>	<b>563.0</b>	<b>(0.5)</b>	<b>573.0</b>	<b>+2.2</b>
- from own inputs	thousand tonnes	413.3	410.3	+0.7	385.0	(6.8)
Production of metallic silver	tonnes	1,323	1,432	(7.6)	1,197	(9.5)
Sales volume of copper products	thousand tonnes	561.0	565.7	(0.8)	566.3	+0.9
- including in concentrate	thousand tonnes	-	4.9	×	-	×
Sales volume of silver products	tonnes	1,369	1,451	(5.7)	1,165	(14.9)
- including in concentrate	tonnes	-	14	×	-	×
Total unit cost of production of electrolytic copper from own inputs	PLN/t	17 827	19 297	(7.6)	20 248	+13.6
Capital expenditures on property, plant and equipment <sup>(1)</sup>	PLN million	2,331	2,250	+3.6	2,853	+22.4
Other expenditures, including loans <sup>(2)</sup>	PLN million	387	133	×2.9	306	(20.9)
<b>KGHM INTERNATIONAL LTD.</b>						
Payable copper production	thousand tonnes	66.9	71.7	(6.7)	73.9	+10.5
TPM production	koz t	66.1	62.8	+5.3	53.7	(18.8)
<b>Sierra Gorda (55%)</b>						
Payable copper production	thousand tonnes	81.8	78.8	+3.8	98.9	+20.9
Molybdenum production	million pounds	9.0	8.9	+1.1	6.7	(25.6)

<sup>1)</sup> excluding the external financing costs, leases as per IFRS 16 not linked to the investment project and expenditure on uncompleted development work

<sup>2)</sup> acquisition of interest, shares and investment certificate in subsidiaries, including loans to these entities; the Management Board of KGHM Polska Miedź S.A. adjusted the assumptions for the 2020 Budget, raising the baseline amount from PLN 133 million to PLN 365 million in respect of the plan to provide financing to Sierra Gorda S.C.M. (current report no. 9/2020 of 12 May 2020)



## EXECUTION OF THE BUDGET IN 2020

In 2020, the Company's execution of electrolytic copper production was by 2.6 thousand tonnes Cu (-1%) lower than assumed in the 2020 Budget, whereby the production from own inputs was higher by 3.0 thousand tonnes and the production from external inputs was lower by 5.6 thousand tonnes. A lower production of silver was achieved, by 109 tonnes (-8%). As a result, the sales of copper and silver were lower than planned (by 4.7 thousand tonnes, i.e. 1%, and 82 tonnes, i.e. 6%, respectively).

Total unit cost of electrolytic copper production from own concentrates was 8% lower than planned, mainly due to a 20% increase in the price of anode slimes resulting from higher prices of precious metals.

In 2020, capital expenditures on property plant and equipment (excluding external financing costs, leases as per IFRS 16 not linked to the investment project and expenditure on uncompleted development work) were executed at a level by PLN 81 million (+4%) higher than assumed (primarily as a result of reclassification of a part of operating expenses to capital expenditures).

The other expenditures were higher by PLN 254 million (2.9 times). The Management Board of KGHM Polska Miedź S.A. adjusted the budget assumptions for the other expenditures, raising the baseline amount from PLN 133 million to PLN 365 million in respect of the plan to provide financing to Sierra Gorda S.C.M. (current report no. 9/2020 of 12 May 2020). The overrun of the budget is a result of increased investment in domestic companies.

KGHM INTERNATIONAL LTD.'s payable copper production was lower than planned in the Budget by 4.8 thousand tonnes (-7%), as a result of lower production in the Franke and the Sudbury Basin mines. On the other hand, production of precious metals was by 3.3 koz t (+5%) higher than planned in the Budget, ensuing from the growth of metals production in the Robinson mine and the Sudbury Basin mines.

In 2020, Sierra Gorda produced 3.0 thousand tonnes (+4%) of payable copper more than planned in the Budget, as a result of higher volume of ore processing and higher copper yield.

## ASSUMPTIONS OF THE 2021 BUDGET

**Production** - increase of copper production in the Group in 2021 by 36.7 thousand tonnes, (+5%) relative to the level achieved in 2020, including:

- KGHM Polska Miedź S.A. - by 12.6 thousand tonnes (+2%),
- KGHM INTERNATIONAL LTD. - by 7.0 thousand tonnes Cu (+10%) - the increase applies to the majority of the mines,
- Sierra Gorda - by 17.1 thousand tonnes (+21%), as a result of increased ore processing capacity and higher content of Cu in the zones operated in 2021,

**Sales** KGHM Polska Miedź S.A. - in view of the increased production, the planned sales of copper is higher by 5.3 thousand tonnes (+1%).

**Total unit cost of electrolytic copper production** from own concentrate (KGHM Polska Miedź S.A.) - planned growth by 14%, primarily due to the planned decrease in production from own concentrate.

**Investments** - higher capital expenditures on property plant and equipment (excluding external financing costs, leases as per IFRS 16 not linked to the investment project and expenditure on uncompleted development work) in KGHM Polska Miedź S.A. by PLN 522 million (+22%), attributable to a broader material scope of planned investments. The Sierra Gorda 2021 Budget include the updated expenditure on increased processing capacity, up to 130/140 thousand tonnes of ore per day in the successive years.





## INDICATORS IN THE 2020 INTEGRATED REPORT

[GRI 102-55]

		INDICATORS IN THE 2020 INTEGRATED REPORT	PAGE
GRI 102-1	Name of the organisation	YES	28, 34
GRI 102-2	Primary brands, products and services	YES	26, 28, 34, 63
GRI 102-3	Location of headquarters	YES	26, 28, 34
GRI 102-4	Number of countries where the organisation operates, and the names of countries where it has significant operations and/or that are relevant to the topics of sustainable development covered in the report	YES	26, 28, 34
GRI 102-5	Ownership and legal form	YES	33, 34
GRI 102-6	Markets served by the organisation (including geographic locations, sectors served and types of customers and beneficiaries)	YES	26, 28, 34
GRI 102-7	Scale of the organisation	YES	26, 28, 34
GRI 102-8	Information on employees and other workers	YES	212, 229
GRI 102-9	Supply chain	YES	90
GRI 102-10	Significant changes in the reporting period to the organisation's size, structure, ownership, or supply chain	YES	37
GRI 102-11	Explanation of whether and how the organisation applies the precautionary principle	YES	122
GRI 102-12	A list of externally-developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes, or which it endorses	YES	53
GRI 102-13	Membership of associations	YES	114
GRI 102-14	"Statement from senior decision-maker"	YES	22
GRI 102-15	Key impacts, risks, and opportunities	YES	127
GRI 102-16	Internally articulated mission of values of the organisation, code of conduct and code of ethics	YES	190, 199
GRI 102-17	Internal and external mechanisms for seeking advice about ethical and lawful behaviour, and organisational integrity	YES	190, 197, 200, 202
GRI 102-18	Governance structure of the organisation, including committees of the highest governance body, which are responsible for decision-making on economic, environmental, and social topics.	YES	167
GRI 102-19	Delegating authority The reporting organisation shall report the following information: a. Process for delegating authority for economic, environmental, and social topics from the highest governance body to senior executives and other employees - closely related to GRI 102-14		
GRI 102-20	"Executive-level responsibility for economic, environmental, and social topics. The reporting organisation shall report the following information:"	YES	177
GRI 102-22	Number and gender of members of the highest governance body and its committees	YES	189
GRI 102-26	Role of highest governance body in setting purpose, values, and strategy	YES	177

GRI 102-35	Remuneration policies	YES	184
GRI 102-40	A list of stakeholders groups engaged by the organisation	YES	50
GRI 102-42	The basis for identifying and selecting stakeholders with whom to engage	YES	50
GRI 102-43	Approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group	YES	50
GRI 102-44	Key topics and concerns that have been raised through stakeholder engagement	YES	50
GRI 102-45	A list of all entities included in the organisation's consolidated financial statements or equivalent documents	YES	34
GRI 102-48	The effect of any restatements of information given in previous reports, and the reasons for such restatements	YES	7
GRI 102-49	Significant changes from previous reporting periods	YES	7
GRI 102-50	Reporting period	YES	6
GRI 102-51	If applicable, the date of the most recent previous report	YES	4
GRI 102-52	Reporting cycle	YES	6
GRI 102-53	Contact point for questions regarding the report	YES	367
GRI 102-54	Claims of reporting in accordance with the GRI Standards The reporting organisation shall report the following information: a. The claim made by the organisation, if it has prepared a report in accordance with the GRI Standards, either: i. This report has been prepared in accordance with the GRI Standards: Core option; ii. This report has been prepared in accordance with the GRI Standards: Comprehensive option.		not: the company does not meet the Core option standards, therefore there are only "selected indicators according to the GRI Standards"
GRI 102-55	GRI Content Index		364
GRI 103-1	Explanation of the material topic and its Boundary	YES	212, 225
GRI 103-2	The management approach and its components	YES	212, 225
GRI 103-3	Evaluation of the management approach, for each material topic	YES	212, 225
GRI 201-1	Direct economic value generated and distributed (including revenue, operating costs, employee wages and benefits, donations and other community investments, retained earnings, payments to providers of capital, and payments to government)	YES	298, 342, 352
GRI 201-2	Financial implications and other risks and opportunities due to climate change	YES - PARTIALLY	152
GRI 203-1	Infrastructure investments and services supported for communities as commercial, in-kind, or pro bono engagements Impacts of these engagements on communities	YES	315,
GRI 203-2	Identified indirect economic impacts with a description of scale and scope of the impact	YES	232
GRI 205-1	Total number and percentage of operations assessed for risks related to corruption and the risks identified	YES	197
GRI 205-2	Communication and training about anti-corruption policies and procedures	YES	197
GRI 205-3	Confirmed incidents of corruption and actions taken	YES	197, 207
GRI 301-1	Materials used by weight or volume	YES	328
GRI 302-1	Direct and indirect energy consumption by the organization	YES	288
GRI 303-3	Total water withdrawal per production unit and a breakdown of this total by source	YES	282, 283
GRI 303-4	Total water withdrawal per production unit and a breakdown of this total by source	YES	283, 284
GRI 303-5	Total water withdrawal per production unit and a breakdown of this total by source	YES	283, 284, 285



GRI 304-1	Biodiversity	YES	285
GRI 305-1	Direct (Scope 1) GHG emissions	YES	286
GRI 305-2	Energy indirect (Scope 2) GHG emissions	YES	286
GRI 306-2	Total waste by type and disposal method	YES	286
GRI 307-1	Significant fines and non-monetary sanctions for non-compliance with environmental laws and/or regulations	YES	286
GRI 401-1	New employee hires and employee turnover	YES	228
GRI 401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	YES	212
GRI 403-1	"Occupational health and safety management system"	YES	220
GRI 403-2	Rates of injury, work-place related illnesses, lost days, and absenteeism, as well as number of work-related fatalities	YES	220, 230
GRI 404-1	Average hours of training per year per employee	YES	219, 230
GRI 404-2	Management skills training programs and lifelong learning that supports the continued employability of employees and facilitate the retirement process	YES	109
GRI 404-3	Percentage of employees receiving regular performance and career development reviews by gender	YES	218
GRI 405 -1	Percentage of individuals within the organisation's governance bodies and of employees per employee category by gender, age and other indicators of diversity	YES	

## CONTACT DETAILS

[GRI 102-53]

We appreciate all comments and opinions about the report, the presentation of data and activities undertaken by KGHM Polska Miedź S.A.

Please address all information, questions and queries to:

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**KGHM**

**POLSKA MIEDŹ**

