

**Assessment of the standing of the Company for 2021 on a consolidated basis, including an evaluation of the internal control, risk management and compliance systems and the internal audit function, with information on the actions taken by the Supervisory Board of KGHM Polska Miedź S.A. in performing this assessment**

*Resolution No. 36/X/22 of the Supervisory Board of KGHM Polska Miedź S.A.  
dated 25 April 2022*

April, 2022

## **Table of contents**

1. Introduction .....	2
2. Economic results of the Company in 2021 .....	2
2.1 Production .....	2
2.2 Macroeconomic conditions in 2021 .....	2
2.3 Revenues from sales .....	3
2.4 Cost of sales, selling costs and administrative expenses .....	3
2.5 Financial result and the Company's financial situation at the end of 2021 .....	3
3. Assessment of the risk management system for 2021 .....	5
Market, credit and liquidity risk .....	6
4. Evaluation of the compliance management system for 2021 .....	7
5. Evaluation of the internal audit and internal control system for 2021 .....	9

## **1. Introduction**

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

This assessment of the standing of KGHM Polska Miedź S.A. (hereafter: „the Company”) for 2021 on a consolidated basis, including an evaluation of the internal control, risk management and compliance systems and the internal audit function, was prepared among others based on documents received from the Management Board of KGHM Polska Miedź S.A. (hereafter: „the Management Board”) and from persons managing risk and compliance and also managing internal audit regarding information on the effectiveness of these functions, discussions held with the participation of the Management Board and other individuals invited to attend meetings of the Supervisory Board of KGHM Polska Miedź S.A. (hereafter: „the Supervisory Board”), and also takes into account the financial statements and the reports of the Management Board on the activities of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group, and based on the conclusions from the audit of the Company’s accounts by a Certified Auditor and other audits.

## **2. Economic results of the Company in 2021**

In 2021, the Company functioned under conditions of an ongoing pandemic and increasing inflationary pressures, as reflected by the rise, in particular in the last quarter of the year, in prices of materials, fuel and energy. Despite the unfavourable circumstances, on which the Company had no direct impact, there was an increase in production and financial results compared to the prior year 2020. The main budgetary targets for 2021 were also achieved, including the level of production of electrolytic copper and metallic silver as well as of EBITDA and profit for the period.

Following is a summary of the most important parameters affecting the Company’s economic standing in 2021.

### **2.1 Production**

In 2021, ore extraction increased by more than 1% compared to the prior year which, alongside slightly lower copper content, resulted in a slightly higher amount of copper in extracted ore than in 2020, and amounted in 2021 to 442.6 thousand tonnes.

The Company produced 577.6 thousand tonnes of electrolytic copper, exceeding the amount produced in 2020 by 3%. The improvement was achieved through the optimum utilisation of production capacity by an increase in the consumption of purchased metal-bearing materials.

The production of metallic silver amounted to 1 332 tonnes, which was 1% higher than the amount recorded in 2020. The achievement of this result was aided by the aforementioned increase in extraction, as well as by higher silver content in extracted ore.

The production of other metallurgical products derives from the level of electrolytic copper production and on the Company’s response to market demand. Of particular note is the increase in the share of more highly-processed copper products, as can be seen in the nearly 9% increase in the production of copper wire rod, OFE rod and CuAg rod in 2021 compared to 2020.

### **2.2 Macroeconomic conditions in 2021**

The average annual price of copper (cash settlement on the LME) in 2021 amounted to 9 317 USD/t compared to 6.181 USD/t in 2020. The highest price was recorded on 10 May 2021 and amounted to 10 724.50 USD/t, at the same time setting an historic record. The lowest price was recorded on 2 February 2021 and amounted to 7 755.50 USD/t.

It is also worth noting that 2021 was also a record year in terms of the price of copper expressed in the Polish zloty. The average price in 2021 amounted to 36 017 PLN/t (average daily LME prices set after NBP fixing).

The average annual USD/PLN exchange rate (per the NBP) in 2021 amounted to 3.86 USD/PLN and was 1% lower than in 2020 (3.90 USD/PLN).

### **2.3 Revenues from sales**

In 2021, the volume of sales of copper products did not differ substantially from the amount achieved in the prior year and amounted to 561.5 thousand tonnes, compared to 561.0 thousand tonnes in 2020. Similarly as in the case of production, an increase was recorded in sales of more highly-processed products, meaning wire rod and OFE rod.

Revenues from metallic silver sales in 2021 amounted to 1 249 tonnes, or a decrease by 9% compared to the volume recorded in 2020, alongside slightly-higher production. Inventories of silver at the end of 2021 were aimed at achieving the schedule of deliveries to customers in 2022.

Revenues from sales by KGHM Polska Miedź S.A. in 2021 amounted to PLN 24 618 million, or an increase by PLN 5 292 million (+27%) compared to 2020. The main factor was the improvement in prices of copper, silver and gold, whose increase resulted in higher revenues by PLN 7 807 million. Negative impact came from the change in the volume of sales, mainly silver (in total -PLN 443 million), a less favourable USD/PLN exchange rate (-PLN 173 million) and the adjustment due to hedging transactions (which lowered revenues by PLN 1 974 million).

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

The Company's cost of sales, selling costs and administrative expenses (cost of products, merchandise and materials sold plus selling costs and administrative expenses) in 2021 amounted to PLN 20 514 million, or 27% higher than the amount recorded in 2020. The largest increases were recorded in the following expenses by nature:

- materials and energy, including mainly purchased copper-bearing materials due to higher consumption and purchase price; the price of natural gas, electricity, coke and technological materials were also significantly higher,
- the minerals extraction tax charge,
- labour costs – an increase in remuneration and a higher annual bonus,
- external services – mainly due to an increase in transport services, repairs and maintenance and mine development work,
- depreciation/amortisation – due to investments carried out in prior periods.

The aforementioned factors, including mainly the higher minerals extraction tax charge, led to an increase in the pre-precious metals credit unit cost of copper production and in the cash cost of producing copper in concentrate (C1), which amounted to 2.26 USD/lb (1.62 USD/lb in 2020). C1 cost excluding this tax rose by only 2.6% and was due to a strengthening in the PLN as compared to the USD and slightly lower production of copper from own concentrate.

### **2.5 Financial result and the Company's financial situation at the end of 2021**

In 2021, the Company achieved adjusted EBITDA in the amount of PLN 5 474 million and profit for the period in the amount of PLN 5 169 million. The increase in EBITDA by 23% compared to 2020 was mainly due to the revenues and costs factors mentioned above.

Apart from operating activities, the main factor responsible for the increase in profit for the period were the impairment losses reversals recognised at the end of 2021:

- on shares in the subsidiary Future 1 Sp. z o.o. in the amount of PLN 1 010 million (this entity indirectly holds 100% of the shares of KGHM INTERNATIONAL LTD.)

- financial instruments measured at amortised cost (an increase in valuation from PLN 21 million to PLN 807 million), mainly in respect of loans granted to entities of the KGHM Polska Miedź S.A. Group (hereafter: „KGHM Group”).

Also important was the increase in fair value gains on financial assets measured at fair value through profit or loss, from PLN 149 million to PLN 1 070 million (mainly in respect of loans).

The improvement in the economic situation in companies of the KGHM Group and in Sierra Gorda S.C.M. enabled the partial repayment to the Company of loans and a decrease in Company debt:

- proceeds/expenditures due to loans granted recognised in the statement of cash flows amounted to +PLN 1 655 million,
- a decrease in the balance of proceeds/expenditures due to loans drawn of -PLN 1 684 million.

Net cash generated from/(used in) operating activities amounted to +PLN 1 963 million, with expenditures on property, plant and equipment and intangible assets of -PLN 2 407 million. As a result, reflecting other proceeds and expenditures, net cash flow in 2021 amounted to -PLN 735 million, while cash and cash equivalents at end of the period amounted to PLN 1 332 million.

As at 31 December 2021, total assets amounted to PLN 43 458 million, of which PLN 34 671 million were non-current assets, and PLN 8 787 million current assets. The increase in non-current assets by PLN 2 304 million (+7%) compared to the situation at the end of 2020 was mainly due to reversals of impairment on loans and investments carried out – expenditures in this regard, as mentioned above, amounted to PLN 2 407 million and were at a similar level to those realised in 2020. Current assets mainly comprised inventories, whose value rose from PLN 3 555 million to PLN 5 436 million (+53%), mainly due to an increase in inventories of half-finished products and work in progress, including anodes due to preparations to carry out maintenance at the Głogów Copper Smelter and Refinery in 2022.

In terms of liabilities, there was a decrease in non-current liabilities by PLN 1 980 million (-17%), mainly due to the repayment of bank and other loans, and an increase in current liabilities by PLN 982 million (+14%) due to an increase in tax liabilities.

The good condition of the Company and of the KGHM Group is also attested to by the debt ratios, including mainly net debt to EBITDA, which decreased for the KGHM Group from 0.9 at the end of 2020 to 0.6 at the end of 2021.

It should be noted that the Company achieved high results under conditions of the ongoing COVID-19 pandemic. Thanks to a variety of preventative actions engaged in, such as enforcing a sanitary regime and monitoring and testing the health of employees, there were no production stoppages which would have been directly attributable to the pandemic. There were also no recorded instances of significantly heightened absenteeism amongst employees of the core business due to the pandemic. As a result, copper production was in line with the targets set at the start of 2021.

**The full scope of the Company's financial and economic results is presented in the separate and consolidated financial statements for 2021, and 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 2021. The Supervisory Board, in resolutions 24/X/2022, 25/X/2022 and 26/X/2021 dated 22 March 2022, positively evaluated the financial statements in question, and recommended their approval by the Ordinary General Meeting of KGHM Polska Miedź S.A.**

In 2021, the Supervisory Board oversaw the process of assessment and control of the economic situation of the Company both directly and through committees: Audit, Remuneration and Strategy, comprised of members of the Supervisory Board.

The first stage of this process was the review and approval of the Budget for 2021 adopted by the Management Board, which identified the main economic and financial goals to be achieved in 2021. The Budget was approved by the Supervisory Board by resolution no. 4/X/2021 dated 28 January 2021, following a review by the Strategy Committee of the Supervisory Board.

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

A subsequent phase of the assessment of the Company's standing comprised an analysis of current reports on the results achieved and the achievement of budgetary goals in the Company's individual operational and financial areas, including production, sales, investments, borrowing and the results of the Company and the KGHM Group. Reports are prepared by the Company after each reporting month and are subject to approval by the Management Board and are immediately presented to the Supervisory Board. Moreover, the Supervisory Board participated in the process of assessing the Company's standing beyond the fixed scope of the aforementioned areas. In 2021, questions such as monitoring and assessing the execution of key investments, expenditures on advisory, legal and marketing services incurred by the Company, exposure to market risk, and the situation in the international assets required the particular attention of the Supervisory Board.

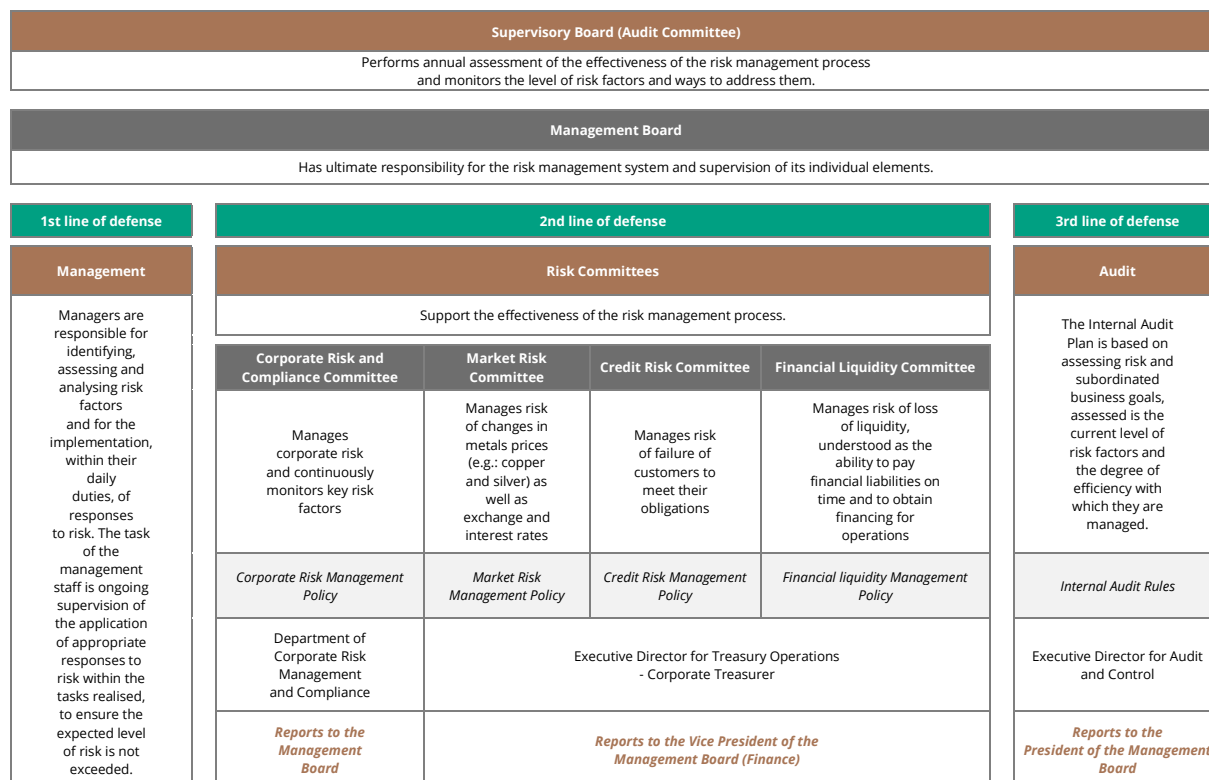
### 3. Assessment of the risk management system for 2021

#### Comprehensive corporate risk management system

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

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

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



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

**The comprehensive risk management system in the KGHM Group was described in detail in the Management Board's Report on the activities of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group in 2021 together with an indication of the key risks, risk factors and mitigation.**

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

**Market, credit and liquidity risk**

The goal of market, credit and liquidity risk management in the KGHM Group is to restrict the undesired impact of financial factors on cash flow, the results in the short and medium terms and to enhance the KGHM Group's value over the long term. The management of risk includes both 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. These are regulated in the Company by the following documents:

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

The „Market Risk Management Policy in the KGHM Polska Miedź S.A. Group” covers selected mining companies in the KGHM Group, KGHM INTERNATIONAL LTD., FNX Mining Company Inc., Robinson Nevada Mining Company, KGHM AJAX MINING Inc., Sociedad Contractual Minera Franke. Key tasks connected with the process of market risk management in the KGHM Group, such as coordinating the identification of sources of exposure to market risk, proposing hedging strategies, contacting financial institutions to enter into, confirm and settle derivatives transactions, and calculating measurements to fair value, were centralised in the Company.

The Company actively manages market risk connected with changes in the prices of metals, exchange rates and interest rates, taking actions and decisions in this regard in the context of global exposure throughout the KGHM Group. In accordance with the „Market Risk Management Policy in the KGHM Polska Miedź S.A. Group” in 2021 the Company continually identified and measured market risk connected with changes in the prices of metals, exchange rates and interest rates (analysis of the impact of market risk factors on the activities of the Company and the KGHM Group – financial result, balance sheet, cash flow), and also analysed the metals, currency and interest rates markets. These analyses, along with assessment of the internal situation of the Company and the KGHM Group, represented the basis for taking decisions on applying hedging strategies on the metals, currency and interest rates markets.

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

Management of liquidity is conducted in accordance with the „Financial Liquidity Management Policy in the KGHM Group” which regulates in a comprehensive manner the process of financial liquidity management in

the KGHM Group, which is realised by individual companies, while its organisation and coordination as well as the supervision thereof is performed in the Company. The basic principles arising from the „Financial Liquidity Management Policy in the KGHM Group” are:

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

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

#### **Evaluation of the Supervisory Board – the risk management system in 2021**

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

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

**Taking the above into consideration, the Supervisory Board positively assesses the risk management system implemented in the KGHM Group. In 2021 the Supervisory Board had the opportunity to analyse on an ongoing basis the Company’s approach to key risks related to the advancement of the business goals. In the Supervisory Board’s opinion, the Company appropriately endeavoured to plan and execute actions aimed at minimising exposure to risk both by decreasing susceptibility to individual risk factors as well as reducing the probability of materialisation of negative events. It should however be noted that the process of risk management is connected with uncertainty as to the mitigation of risk, especially in those areas beyond the direct control of the KGHM Group.**

#### **4. Evaluation of the compliance management system for 2021**

##### **Compliance system**

The Company recognises compliance as an important element of its efficient functioning, which requires the taking of decisive actions aimed at ensuring it. In order to unify the approach to the systematic identification, evaluation and analysis of the risk of a loss of compliance, defined as adherence to laws generally in force (external and internal) and to voluntarily adopted legal regulations and standards (including ethical standards), in 2020 the Management Board adopted the Compliance Management Policy in the KGHM Polska Miedź S.A. Group and the Compliance Management Procedure and Methodology in KGHM Polska Miedź S.A. The process of compliance management, which is connected with the process of corporate risk management in the KGHM Group, is an important business tool used to prevent the occurrence of events which could result in the imposition of sanctions.



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

The Management Board has ultimate responsibility for the compliance management system and supervision of its individual elements. In accordance with the adopted model, the Supervisory Board, through the Audit Committee of the Supervisory Board, monitored the actions of the Management Board in terms of compliance management, analysing among others the periodic Reports on Corporate Risk Management presented by the manager of the corporate risk management and compliance function, which contained information on the risk of a loss of compliance, its monitoring and how to proceed. Moreover, the Supervisory Board, both in terms of the work of this body as well as through the work of the Committees (especially the Audit Committee and the Strategy Committee), engaged in comprehensive analyses of individual questions related to the risk of the loss of compliance presented by the staff of the relevant units of the Company invited to attend the meetings of the aforementioned bodies as needed.

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

In 2021 actions commenced on enhancing the efficacy of the compliance system, such as regards the selection of complementary IT solutions necessary to advance the process.

#### **Evaluation of the Supervisory Board – compliance system in 2021**

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

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

**Taking the above into consideration, the Supervisory Board positively assesses the functioning in the KGHM Group of the compliance management system. In the Supervisory Board's opinion, the Company systematically develops the system, as reflected in the actions taken in 2021. The Supervisory Board had the opportunity to analyse on an ongoing basis the Company's approach to key risks related to the loss of compliance. The Company appropriately endeavoured to plan and execute actions aimed at minimising exposure to the risk of loss of compliance.**

## **5. Evaluation of the internal audit and internal control system for 2021**

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

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

The internal control system is supervised in the Company by:

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

In addition, in terms of institutional control, actions are undertaken by specialised units, in particular in the Security and Preventing Losses division and in the division of the Executive Director of the Head Office, such as respectively: the Security Department, the Supply Chain Security Department and the Internal Control Department.

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

The Internal Audit Department systematically evaluates and monitors the control mechanisms and identifies potential risks in individual processes occurring in the Company and in the entire Group, as well as uncovers irregularities and violations of existing procedures.

Auditing tasks in Sierra Gorda SCM (hereafter „SG”) are carried out by the internal audit team of SG, which is supervised under the corporate bodies of SG, with the participation of the Executive Director for Audit.

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

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

In 2021, 30 audits were conducted. Most of them were performed in several, or a dozen or so, KGHM Group entities simultaneously. These tasks were performed both in the divisions as well as in companies of the KGHM Group, including those outside Poland.

As a result of audits performed in 2021, recommendations were formulated for implementation. A summary of the results and recommendations from the comprehensive work were described in the Report on the Implementation of the Internal Audit Plan for 2021 of the KGHM Polska Miedź S.A. Group.

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

*Assessment of the standing of the Company for 2021 on a consolidated basis, including an evaluation of the internal control, risk management and compliance systems and the internal audit function, with information on the actions taken by the Supervisory Board of KGHM Polska Miedź S.A. in performing this assessment*

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