



**THE MANAGEMENT BOARD'S REPORT
ON THE ACTIVITIES OF THE GROUP IN
THE FIRST HALF OF 2022**

Lubin, August 2022

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1. USEFUL TERMS AND ABBREVIATIONS

Adjusted EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation)	Profit on sales plus depreciation/amortisation recognised in profit or loss and recognition/reversal of impairment losses on non-current assets. The KGHM Polska Miedź S.A. Group's EBITDA is a sum of EBITDAs of individual operating segments
Barren rock	Rock which accompanies the extraction of mineral ore and is not considered as useful
BAT (Best Available Technique)	Best Available Technique, as defined in Directive 96/61/EC, means the most effective and advanced stage in the development of activities and their methods of operation which indicate the practical suitability of particular techniques for providing in principle the basis for emission limit values designed to prevent and, where that is not practicable, generally to reduce emissions and the impact on the environment as a whole
Bearer shares	In accordance with the Polish legal system the term "bearer shares" has a different meaning than "bearer shares" (anonymous and unregistered shares facilitating illicit actions) eliminated from the market by certain countries, e.g. in the UK. The obligatory dematerialisation of shares carried out in Poland in 2021 abolished the anonymity of all shareholders of joint-stock companies. The necessity to register bearer shares makes it possible to identify each shareholder entitled to hold shares. The division into registered and bearer shares has been upheld largely due to the legal tradition in Poland.
BREF	"BAT REFERENCE document", the reference document of best available techniques (BAT)
Cost of producing payable copper (C1)	Unit cash cost of producing payable copper, reflecting ore mining and processing costs, transport costs, the minerals extraction tax, administrative expenses during the mining phase and smelter treatment and refining charges (TC/RC) less by-product value. C1 cost is in regard to payable copper in own concentrate in the case of the segment KGHM Polska Miedź S.A. and payable copper in end products of individual mines of the segment KGHM INTERNATIONAL LTD. and the segment Sierra Gorda S.C.M.
Copper cathodes	The basic form of electrolytically-refined copper; the product of electrolytic copper refining
Copper concentrate	The product of enriching low-grade copper ore
Copper wire rod	Drawn copper rod, usually with a diameter of 6-12 mm, universally used as a starting material in the cable industry
OFE rod	Oxygen-free copper wire rod produced at the Cedynia Wire Rod Plant using UPCAST technology
Deposit/Orebody	Natural collection of minerals in the earth, arising as a result of various geological processes
Electrolytic copper	The product of electrolytic copper refining
Electrolytic copper refining technology	A process involving the electrolytic refining of metal, in this case copper. The periodic removal of portions of the electrolyte is required to maintain the level of contaminants at an acceptable level, which is the one of decisive factors determining the quality of electrolytically-refined copper. The contaminated electrolyte and slimes are used as the raw materials in the recovery of some of the metals accompanying the copper, such as silver, gold, selenium and nickel
Electrorefining	The process of electrolysing dissoluble anodes which are produced from refinable alloys. During this process refined metal is collected on starter sheets under controlled conditions, while contaminants remain in the electrolyte as solids or liquid
Flotation (ore enrichment)	A stage in the process of breaking down ore into fragments of varying composition of useful elements which exploits differences in the degree of wettability of individual mineral grains. Well-wetted minerals fall to the bottom of the flotation tank, while the poorly-wetted grains (those whose wettability additionally decreases due to the action of so-called collecting agents, e.g. xanthates) collect at the surface of the froth created from froth-inducing agents
Flotation tailings	Waste remaining after the ore enrichment process; can be utilised or stored
ISO	International Organization for Standardization
LTIFR_{KGHM} (Lost Time Injury Frequency Rate)	Indicator of the number of accidents at work (as defined by the Act dated 30 October 2002 on social insurance in case of occupational accident or disease) in the Company KGHM Polska Miedź S.A., standardised to 1 million worked hours
Mine excavation	Open area left after the mining work
Muck	Rock removed from a mine face. Contains both ore and barren rock
NBP	National Bank of Poland
Net debt	Borrowings and debt securities less cash and cash equivalents. This category includes lease liabilities and excludes reverse factoring liabilities
Ore	Rock which contains one or more useful elements. Ore can be monometallic (containing a single metal) or polymetallic (containing more than one metal)
Payable metal	Volume of metal produced less the loss incurred in further processing to pure metal
Pillar (mining)	An unremoved mass of rock in an underground mine used to support the ceiling against collapse
Pre-precious metals credit unit cost of electrolytic copper production from own concentrate	The sum of costs of mining, flotation, smelter processing per cathode and support functions (the Data Centre Division, the Mine-Smelter Emergency Rescue Division and the Head Office), together with cathode selling costs, adjusted by the value of inventories of half-finished products and work in progress divided by the volume of electrolytic copper production from own concentrate. Used solely in the Parent Entity

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

2. SIGNIFICANT EVENTS IN THE FIRST HALF OF 2022 AND TO THE DATE OF PREPARATION OF THIS REPORT

Date	Event
Change in macroeconomic conditions	
1st half of 2022	A change, compared to the first half of 2021, in average periodic copper prices by +7%, silver by -12%, gold by +4% and molybdenum by +50%
1st half of 2022	A change, compared to the first half of 2021, in average periodic exchange rates: USD/PLN by +12%, USD/CAD by +2% and USD/CLP by +15%
KGHM Polska Miedź S.A. on the Warsaw Stock Exchange	
1st half of 2022	A decrease in the share price of KGHM Polska Miedź S.A. by 15% from PLN 187.65 to PLN 118.90
Changes in the Company's bodies	
21 February 2022	Dismissal of Dariusz Świdorski, the Vice President of the 11th-term Management Board (Production) of KGHM Polska Miedź S.A.
14 March 2022	Appointment as of 15 March 2022 of Marek Świder to the Management Board of KGHM Polska Miedź S.A. as a Member of the Management Board KGHM Polska Miedź S.A., assigning him the function of Vice President of the Management Board (Production) of KGHM Polska Miedź S.A.
21 June 2022	Appointment as of 22 June 2022 of the following persons to the Supervisory Board of KGHM Polska Miedź S.A. for the new, 11th-term: Piotr Dytko, Robert Kaleta, Andrzej Kisielowicz, Katarzyna Krupa, Agnieszka Winnik-Kalemba, Wojciech Zarzycki as well as the following persons elected by the employees of the KGHM Polska Miedź S.A. Group: Józef Czyczerski, Przemysław Darowski, Bogusław Szarek.
9 August 2022	Resignation of Paweł Gruza, the Vice President of the Management Board (International Affairs)
11 August 2022	Information on resignation of Adam Bugajczuk, the Vice President of the Management Board (Development) as of 31 August 2022
Appropriation of profit for 2021	
23 May 2022	Recommendation of the Management Board regarding appropriation of profit for financial year 2021 by the payout of a dividend in the amount of PLN 600 million (3.00 PLN/share)
21 June 2022	Resolution of the Ordinary General Meeting of KGHM Polska Miedź S.A. on the appropriation of profit in accordance with the Management Board's recommendation
14 July 2022	Payout of the dividend in the amount of PLN 600 million (3.00 PLN/share)
Other	
14 January 2022	Approval by the Supervisory Board of the Budget of KGHM Polska Miedź S.A. and the Budget of the KGHM Group for 2022
14 January 2022	Approval by the Supervisory Board of the Strategy of the KGHM Polska Miedź S.A. Group to the year 2030 with an outlook to 2040
21 February 2022	Disposal by KGHM VII Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych all of its directly held shares in the company Interferie Medical SPA sp. z o.o.
24 February 2022	Russian Federation began its invasion against Ukraine, resulting in among others an increase in fuels prices and energy carriers, indirectly impacting the results achieved by the Company
28 February 2022	Disposal by the portfolio companies of KGHM VII Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych all of their shares in INTERFERIE S.A.
9 March 2022	Publication of the Act amending the act on personal income tax, the Act on Vocational Rehabilitation and Social Rehabilitation and the Employment of Disabled Persons and the Act on the minerals extraction tax, decreasing in the period from January to November 2022 tax rates on extracting certain minerals
20 April 2022	Letter of intent signed with Tauron Polska Energia S.A., in which the parties consider undertaking strategic cooperation involving research and development and future investment projects with respect to the construction of energy generation sources utilising small modular reactor (SMR) technology
26 April 2022	Disposal by subsidiaries of KGHM INTERNATIONAL LTD. of 100% shares in Sociedad Contractual Minera Franke (SCMF), the owner of Franke mine in Chile

3. STRATEGY OF KGHM POLSKA MIEDŹ S.A.

3.1. Description and basic elements of the Strategy

On 14 January 2022 the Company's Supervisory Board approved the „Strategy of the KGHM Polska Miedź S.A. Group to the year 2030 with an outlook to 2040” as presented by the Management Board. The Company's Strategy reflects the macroeconomic environment and the geopolitical situation affecting the mining sector. In the planned activities, a particular place is held by the green transformation through renewable energy and modern technology.

The Strategy does not alter the Company's current approach to its business activities. The Parent Entity continues to act responsibly and to think long-term about the Company's future. Therefore, the Company's mission and vision remain unchanged. The goals of the Strategy are ambitious, but attainable. To reflect the changes in the environment, the four existing strategic development directions (Elasticity /flexibility, Efficiency, Ecology and E-industry) were updated to include an additional, fifth element – Energy.

Diagram 1. Mission, Vision and Development Directions of the Strategy of KGHM Polska Miedź S.A.



3.2. Development directions of the KGHM Polska Miedź S.A. Group

Policy regarding the development directions of the KGHM Group

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

With respect to implementation of the Strategy of KGHM, in the case of the international companies of the KGHM Group a variety of reorganisational actions were undertaken aimed at integration of KGHM INTERNATIONAL LTD. in Canada with the Company's activities in Poland and the transfer of some of the business functions of KGHM INTERNATIONAL LTD. to Poland. In the first half of 2022, these actions were continued, mainly in terms of developing uniform internal regulations, procedures and the standardisation of solutions in individual areas of the Company's activities. In addition, internal actions were undertaken aimed at advancing development scenarios for individual international assets in the Company's portfolio. On 26 April 2022 an Agreement to sell the shares of SCM Franke (SPA) was signed. As at the date the agreement was signed, Minera Las Cenizas became the owner and operator of the Franke mine.

Directions regarding equity investments

In the case of the domestic companies, the main development goal is to ensure continuity and safe working conditions in the Core Business of KGHM Polska Miedź S.A. and at integrating the KGHM Group around the idea of sustainable development, including the implementation of development initiatives related to the Circular Economy, aimed at limiting the environmental footprint. In the case of the international part of the Group, the Company focuses on maximising the value of the portfolio of assets owned.

Investment goals

Investment projects planned and approved for advancement in 2022 support the achievement of strategic goals in all areas of the Strategy. Maintaining cost-effective domestic production will be possible by continuing and bringing into operation key investments, such as:

- Outfitting the mines along with the construction of conveyor belts;
- Replacement of mining machinery;

- Construction of mine de-watering systems;
- Construction of air cooling systems;
- Construction of the Tailings Segregation and Compacting Station at the Źelazny Most Tailings Storage Facility;
- Modernisation and renovation during the maintenance shutdown of the Głogów II Copper Smelter and Refinery.

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

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

Moreover, following the idea of sustainable development, investment projects will be continued such as those adapting the metallurgical installations to BAT conclusions for the non-ferrous metals industry and to restrict emissions of arsenic (BATAs). In 2022 a further 6 installations are planned to be brought into operation.

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

3.3. Advancement of the Strategy in the first half of 2022

During the reporting period being discussed, KGHM Polska Miedź S.A. commenced the advancement of the „Strategy of the KGHM Polska Miedź S.A. Group to the year 2030 with an outlook to 2040”, approved in January 2022. The process of operationalisation of the Strategy continues, in which the units responsible for advancing its individual elements take part in terms of cooperation within the organisation. In the first half of 2022, work was advanced on developing a Strategy Implementation Plan (SIP), defining the initiatives, Strategic Programs, projects and tasks which are indispensable to achieving the strategic goals.

The Company's Strategy has been presented through the prism of five strategic development directions (Elasticity/Flexibility, Efficiency, Ecology, E-industry and Energy). After completion of the operationalisation process, it is likely to be reported on the basis of strategic pillars.

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

In the context of the impact of the conflict in Ukraine on the implementation of the Strategy, no significant negative consequences have been recorded and neither they are expected. The risk of disrupting the business continuity of the Group is assessed as low. Rising prices of goods and services may turn out to be potentially negative, which may result in an increase in the overall costs of implementing the Strategy, but currently they do not constitute an obstacle to its implementation.

Key achievements in terms of realised strategic actions taken in individual strategic directions of development, accomplished in the first half of 2022:

 EFFICIENCY	
Production in Poland and abroad	<ul style="list-style-type: none"> – Mined production in Poland amounted to 225.6 thousand tonnes of copper in ore with a C1 cost of 5 300 USD/t (2.40 USD/lb) of payable copper. – Payable copper production abroad in the first half of 2022 amounted to: <ul style="list-style-type: none"> – Sierra Gorda: 44.5 thousand tonnes (on a 55% basis); – Robinson: 30.8 thousand tonnes; – Carlota: 2.4 thousand tonnes; – Franke: 2.8 thousand tonnes (to 26 April 2022); – Sudbury Basin: 0.9 thousand tonnes. – Metallurgical production amounted to 296.3 thousand tonnes. – Silver production amounted to 683 tonnes.
Continued advancement of the Deposit Access Program	<ul style="list-style-type: none"> – The GG-1 shaft reached a depth of 1313.7 m. Stage 8 of shaft sinking and shaft insets in concrete construction is in progress. – Work continues on procedures involving the signing of agreements with investment contractors for tasks involving the construction of the GG-2 „Odra” Shaft. – Work continues on the procedure of purchasing land for the investment involving the construction of the „Gaworzyce” shaft. – 20.35 kilometres of tunnelling were excavated in the Rudna and Polkowice-Sieroszowice Mining Areas (48% of work planned for 2022). – In terms of the Central Air Conditioning System, work continued on building the Surface-based Air Conditioning Station at the GG-1 Shaft. The trial start-up of the installation is in progress.

	<ul style="list-style-type: none"> - The technical handover of the first part of the Ice Water Transportation System was completed. Work continued on building the second part of the System.
Development of the Żelazny Most Tailings Storage Facility	<ul style="list-style-type: none"> - Southern Quarter: operational permits were obtained. Total advancement of the physical scope of work for the Southern Quarter together with slurry, water and power infrastructure reached 95%. Tailings continue to be deposited in the Southern Quarter. - Tailings Segregation and Compacting Station (TSCS): work was completed on assembling the technological part of the Station. Work continues on developing infrastructure in the vicinity of the station. Total advancement of the physical scope of work on the TSCS is 83%. The process of segregation and compacting is underway for the purpose of deposition of waste in the Southern Quarter as well as a separate process of building up the dam in the Southern Quarter.
Maintenance shutdown of the Głogów II Copper Smelter and Refinery	<ul style="list-style-type: none"> - In the second quarter of 2022, the Głogów II Copper Smelter and Refinery was shut down for maintenance after four years of the production line's operation. Maintenance work was carried out. On 3 July 2022 concentrate was fed to the flash furnace. The maintenance shutdown lasted 70 days and was shorter than initially planned.
R&D initiatives to enhance the efficiency of the core production business	<ul style="list-style-type: none"> - R&D work continued on the utilisation of PbZn concentrate in a pilot installation at the Głogów Copper Smelter and Refinery. - The work of a scouting team was completed regarding the production of silver powders and pastes for photovoltaic purposes as well as metal powders dedicated to additive technology (so-called „3D printing”). - Actions were commenced related to building a robot to clean the area between the recovery boiler and the flash furnace at the Głogów Copper Smelter and Refinery. - Actions were completed related to the possibility of improving the properties of titanium alloys as a result of adding rhenium. - Actions were carried out under the Dolina Miedziowa “CuValley Hack” program: attempts were made to implement the solution created under last year's Hackathon involving stabilisation of the work of the Flash Furnace. The 2nd edition of the Hackathon was held. - Information technology to collect and transfer knowledge was developed.
Use of external financing for R&D&I projects	<ul style="list-style-type: none"> - Advancement of European research projects continued and applications were prepared for the subsidising of initiatives under the Horizon Europe and KIC Raw Materials Programs. The Company is currently advancing a total of 8 projects using subsidies in the amount of PLN 8 million.
Intellectual property	<ul style="list-style-type: none"> - Proceedings are underway to obtain legal protection for the selected trademarks. - Proceedings are underway in the Patent Office of the Republic of Poland for the granting of five patents to protect the submitted inventions.



FLEXIBILITY

Extension of the value chain	<ul style="list-style-type: none"> - Detailed technical and economic analyses continued with respect to the development of copper processing in the Cedynia Wire Rod Plant Division. Work is aimed at defining the design concept, assortment, selecting technology and production resources, taking into account the investment's profitability and the Company's strategic assumptions.
Hybrid Legnica Smelter and Refinery	<ul style="list-style-type: none"> - The investment project „Documentation for the Hybrid Legnica Smelter and Refinery - Legnica Smelter and Refinery Scrap Turnover Base” continued.
Exploration projects with respect to exploring for and evaluating copper ore deposits	<ul style="list-style-type: none"> - In the concession areas „Retków-Ścinawa” and „Głogów” geological work continued. In March 2022 an alteration of the concession in the Głogów area was received, extending it to March 2026. - Geological work continued within the Synklina Grodziecka and Konrad concession areas. - The restoration of terrain following the first exploratory-evaluation drilling in the Bytom Odrzański concession area was completed. - Geological work continued within the Kulów-Luboszyce concession area. - In the Radwanice concession area, evaluation work continued using underground mine workings.
Realisation of exploration projects with respect to exploring for and evaluating other deposits	<ul style="list-style-type: none"> - On the terrain of the Puck concession, laboratory and analytical work was carried out related to drilling at the end of 2021, on the basis of which two scientific reports were developed. - A concept was developed to conduct further geological work within the Nowe Miasteczko concession.
Continuation of development projects in the international assets	<ul style="list-style-type: none"> - Sierra Gorda: there were no substantial interruptions in the operations. The achieved EBITDA exceeded targets. In February 2022 a transaction was concluded for sale of all of the shares in the joint venture company Sierra Gorda S.C.M. by Sumitomo Metal Mining Co., Ltd. and Sumitomo Corporation to the Australian mining group South32. - Sierra Gorda Oxide: actions continued aimed at preparing for the next stage of project development and the decision of the owners of the project (Sierra Gorda S.C.M.) as to the further direction of project development. - Victoria project: preparatory work continued related to selected elements of the infrastructure, including the exploration shaft. Work was carried out on updating the design of the production shaft.

CuBR venture	<ul style="list-style-type: none"> Under the four editions of the competition, 25 R&D projects having a total value of over PLN 180 million were launched: 6 projects are currently being advanced while 19 projects have been completed.
Implementation Doctorates Program	<ul style="list-style-type: none"> Advancement of the Implementation Doctorates Program for employees of the Group was continued. At the end of the first half of 2022, 28 doctoral students from the two editions had participated in the program.

 ECOLOGY, SAFETY AND SUSTAINABLE DEVELOPMENT	
Continuation of the Occupational Health and Safety's Improvement Program in KGHM	<ul style="list-style-type: none"> LTIFR ratio of KGHM Polska Miedź S.A.: 4.23 (lower than the amount recorded for the same period of 2021 by 0.96). Number of workplace accidents : 63. TRiR ratio for the international assets (total for the employees of the KGHM INTERNATIONAL LTD. Group and Sierra Gorda S.C.M. as well as contractors for these entities): 0.3 (the same level as that recorded in the corresponding period of 2021). Cooperation with domestic and international academic institutions and opinion makers was engaged in. An active model of coordination of the work of OHS units was applied. Active forms of education and employee support were prepared. The work of a Team appointed to prepare definitions of tasks for a Workplace Environment Reports Generator was completed.
Program to adapt the technological installations of the Company to the requirements of BAT conclusions for the nonferrous metals industry and to restrict emissions of arsenic (BATAs)	<ul style="list-style-type: none"> The Program to adapt the technological installations of the Głogów Copper Smelter and Refinery and the Legnica Copper Smelter and Refinery was continued. In the first half of 2022, 7 projects were advanced.

 E-INDUSTRY	
Continued advancement of projects to automate the production lines of the mining divisions of KGHM	<ul style="list-style-type: none"> Work continued related to the electromobility of mining machinery. Work continued connected with testing electric battery-powered mining machinery. The anti-collision system was integrated as well as the system for locating and identifying machinery and people in the underground mines. Robotisation of production and auxiliary processes was continued. Work is underway on building a CuXRF robot to scan for copper content at the working faces. The acquisition of equipment and elements of the dewatering monitoring system, which was built and brought into operation at the Polkowice-Sieroszowice mine with visualisation in the dispatcher's office, was completed. An Energy Review for 2021 was conducted under the Energy Management System.
KGHM 4.0 Program	<p>Advancement of the KGHM 4.0 Program was continued, divided into two main areas:</p> <p>In the area of ICT (Information and Communication Technology) and Cybersecurity:</p> <ul style="list-style-type: none"> Work was carried out in terms of ensuring ICT security due to the war in Ukraine, as well as the growing threat of cybercrime. Thanks to this there were no interruptions recorded in the business operations of the KGHM Group, and security processes were supported. <p>In the area of Digitalisation of business processes:</p> <ul style="list-style-type: none"> The process of adapting the organisation to digital change was carried out - Digital Workplaces in the IT environment of the Company under the Microsoft 365 package. The project „Optimisation of the Production Planning and Settlement Process“: the entire path of testing the process of production planning in the Company for 2022 was carried out in the ePlan SAP BPC model. The third stage of the CMMS system was operationally launched, supporting production and material logistics in the Metallurgical Plants, Concentrator Division and Tailings Division. The project is aimed at increasing the Company's organisational and cost efficiency in terms of maintaining operational continuity. The project entitled „Development of an automatic system to control the composition of air using unmanned aerial vehicles“: an automatic docking station was installed on the terrain of the Głogów Copper Smelter and Refinery and a series of measurement flights with a quality detector were performed.



ENERGY

Development of solar energy	<ul style="list-style-type: none"> - Actions continued involving construction of the HMG I-III photovoltaic power plants complex: in June 2022 applications were submitted for the issuance of an environmental permit for each of the 3 photovoltaic power plant sites on the terrain of the Głogów Copper Smelter and Refinery. - Actions continued involving construction of the Obora I Sandpit photovoltaic power plant: work began on developing the documentation necessary for realisation of the investment. - In the second quarter of 2022, two new projects were initiated at the preparatory phase involving the construction of photovoltaic power plants on the terrain of the Rudna mine and the Tailings Division. Applications are being prepared aimed at initiating the preparatory phase for further two projects involving photovoltaic power plants for the Company.
Development of wind energy, including offshore	<ul style="list-style-type: none"> - A Memorandum of Understanding was entered into with Total Energies Renewables SAS. Joint engagement was agreed in proceedings involving the obtaining of location decisions for the construction of Offshore Wind Farms. In the first half of 2022, seven applications were submitted for the issuance of siting permits. Work is underway on documentation for decision-making proceedings by the Ministry of Infrastructure.
Development of hydrogen technology	<ul style="list-style-type: none"> - A „Sector Agreement for the development of hydrogen power in Poland“ was signed under the patronage of the Minister of Climate and Environment of the Republic of Poland, and establishment of the Lower Silesia Hydrogen Association was initiated. Technical dialogue was commenced with suppliers of metallurgical technology in terms of the possibility of utilising hydrogen in metallurgical processes.
Development of nuclear energy	<ul style="list-style-type: none"> - In February 2022, an agreement with NuScale Power LLC (a supplier of nuclear technology) was signed for preliminary work, constituting the first step in the process of implementing SMR technology in the business activities of KGHM. KGHM and TAURON Polska Energia S.A. in April 2022 signed a letter of intent regarding cooperation in the construction of low-carbon energy sources, including with the use of small modular nuclear reactors (SMR). In July 2022 an application was submitted to the National Atomic Energy Agency regarding an evaluation of SMR technology.
Self-generation of electricity	<ul style="list-style-type: none"> - In the first half of 2022, 12.95% of the Parent Entity's need for electricity was met by its own internal sources, including RES.

4. MACROECONOMIC SALES CONDITIONS

The start of 2022 was rich in further events of importance for the development of the global economy. The world is dealing with the highly-contagious omicron variant, although a regional director of the World Health Organisation (WHO) stated at the end of January that the end of the pandemic in Europe is highly probable. The level of vaccinations in societies and the immunity gained following infection convinced most European countries to ease or completely remove restrictions. While this was a positive signal for economic activity, the spread of the new variant in China, given the imposition by China of a zero covid policy, led to testing on a massive scale and to costly restrictions in social and economic activities in the major cities of this economy. This showed that the coronavirus remains a threat to the continuity of international supply chains and continues to be a cause of potential interruptions to commercial trade. The global economy is continuing to deal with the energy crisis which, given the limited capacity to diversify and increase supply, is driving up energy prices. These in turn, given still-strained supply chains for other goods as well as increased consumer demand, is driving up inflation on a global scale and a substantial rise in costs, which are being felt ever more in subsequent parts of the global economy. Moreover, in response to rising prices and the risk of inflationary expectations getting out of control, central banks are increasingly tightening their monetary policies. The question that is troubling market participants is not „if“ central banks will raise interest rates, but rather „how large“ the scale of tightening will be and the impact of these rises on global economic activity.

Doubts as to the further development of the situation are not lacking, and the events to the east of Europe and the Russian invasion of Ukraine are not simplifying assessment of the market environment. Especially in the context of prices of energy carriers, including those of natural gas, coal and crude oil, whose significant supplier to Europe to now has been Russia. There has also been above-average volatility in the currency market. The weakening currencies of countries in our region, combined with the jump in prices of energy commodities, are fuelling inflation, which already at the turn of the year was the highest in many years. An additional problem for European industry are the prices of European CO₂ emission rights, which are higher than in prior years.

It is also worth noting that both Ukraine and Russia are amongst the largest exporters of foodstuff. The problems associated with the sowing of fields in Ukraine and the blockade of Ukrainian ports by the Russians are also driving inflationary pressures and increases the risk of hunger in the world's poorest countries. Additionally, Russia's invasion of Ukraine led to the mass emigration of Ukrainian citizens to neighbouring countries, the majority of which came to Poland. This has led to a considerable increase in retail sales in countries which have taken in the refugees, at the same time creating the final component in higher readings of inflation.

The macroeconomic environment has clearly deteriorated, mainly due to a change in the approach of central banks from an ultra-accommodative policy to a strongly restrictive one, as well as to the reversal of quantitative easing programs. The highest inflation readings in decades led to rapid rises in interest rates, substantially increasing the costs of financing economic and investment activities. A catalyst for fears of a stagflation or recession scenario, mainly in Europe but also

globally, are high prices for coal, natural gas and electricity. In the second quarter the European Union adopted a new climate strategy called RePowerEU, which is aimed at accelerating investments in renewable energy sources and diversifying from Russian hydrocarbons as quickly as possible. The concerns about a sudden cessation of Russian export of natural gas or crude oil is forcing European economies into crisis planning, and in the subsequent half-year perhaps even energy rationing. The outlook for the rate of global economic growth has substantially waned, with the threat of recession growing in many countries.

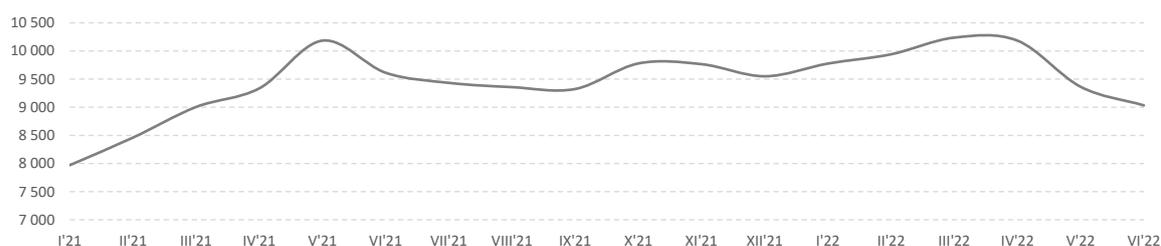
Against this backdrop, the fundamental situation on the copper market remains quite solid. In the short term (the next 2 years), new mine production from active projects and the potential economic slowdown may move the market balance towards surplus and result in negative price pressure. However, over the medium and long term there continue to be substantial limitations in terms of supply resulting from the small number of new investments in future mining projects, plans to raise mining royalties in countries with the greatest production potential (Chile and Peru) and the general trend towards tightening environmental demands connected with sustainable development policy (ESG). The aforementioned supply limitations, together with the strong trend towards electromobility and the green revolution supporting the growing level of demand for copper over the long term, will support copper prices in the long term.

The cash settlement price of **copper** on the London Metal Exchange (LME) in the first half of 2022 ranged between 8 245 – 10 730 USD/t. The first five months saw an increase in the price of the red metal, with prices remaining above 10 000 USD/t, with the historic high of 10 730 USD/t set on 7 March 2022. In May the price of copper began to drop, falling in the second half of June to below 9 000 USD/t. The price of copper rose initially due to expectations of post-pandemic demand acceleration alongside a relatively low level of global metal inventory. Also, in January very optimistic copper price forecasts were published by investment banks, which led to heightened interest in this market, a higher volume of transactions on the LME and temporarily higher prices. Another piece of positive news for copper producers was the vote cast by the Chilean Senate on a draft royalty bill in a lighter form than initially proposed.

Russia's aggression against Ukraine initially brought an increase in uncertainty to markets and heightened investor demand for copper, on a wave of fears about the metal's availability. Further events on the red metal's market included the reaction of central banks to the high prices of energy and energy commodities, which exacerbated the already-high inflationary pressures and led to a tightening of monetary policy. The metals markets were amongst the few which continued to rise whereas shares and bonds globally decreased in value, which encouraged short-term, speculative capital to return to the copper market and increased this metal's volatility. In the second quarter of 2022 on the demand side, fears arose from the development of the Covid-19 pandemic in China, where in March a severe lockdown was imposed in Shanghai as well as restrictions in many other cities. Concerns arose about the state of the economy and the building sector, which had not yet resolved the structural problems connected with the serious financial condition of most developers. Problems resulting partially from the zero covid policy adopted by China, in connection with the war in Ukraine and the global wave of interest rate hikes began to make investors increasingly concerned about the stability and rate of growth of the global economy. These fears were reflected in subsequent months in the form of a general deterioration in the value of most assets classes and an escape to the USD which is considered to be a safe haven in troubled times. A strong USD also means increased pressure on the prices of commodities quoted in this currency.

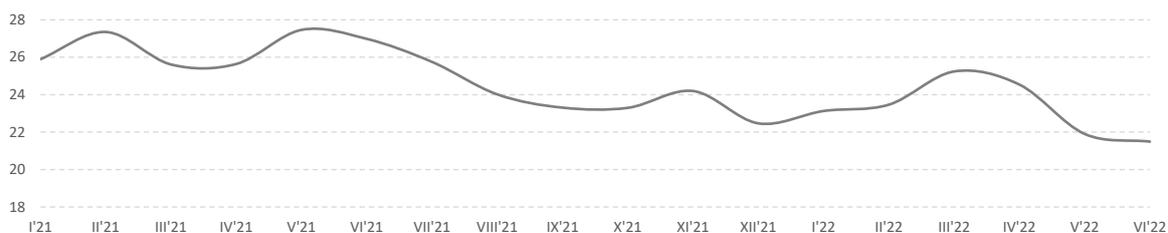
The average cash settlement price of copper in the first half of 2022 on the LME amounted to 9 761 USD/t and was more than 7% higher than in the comparable period of 2021, when it reached on average 9 092 USD/t.

Chart 1. Average monthly copper price on the London Metal Exchange (USD/t)



The average price of **silver** according to the London Bullion Market Association (LBMA) in the first half of 2022 reached the level of 23.32 USD/oz t, meaning a decrease by 12% as compared to prices in the first half of 2021 – 26.47 USD/oz t. The first half of 2022 on the precious metals market was marked by an escape from risky assets due to the Russian aggression against Ukraine, on the back of which the price of silver reached a maximum of 26.17 USD/oz t in March. On the other hand, silver prices came under growing pressure from rising negative real interest rates in the global economy and the rapidly-rising profitability of government bonds. Fears about economic stability and rates of growth, and at a certain moment the growing risk of recession, were seen as a negative signal of lower-than-expected industrial demand. In the second quarter silver, along with gold, fell in value to close to 20 USD/oz t. In the first half of 2022 a gradual outflow of funds from silver-based ETFs was seen, while the assets of gold market ETFs remained stable. The price of gold during the reporting period rose at first to approx. 2 000 USD/oz t, and then stabilised at around 1 850 USD/oz t. The gold to silver ratio, after the drop in silver prices, distanced itself from the long-term average towards 90.

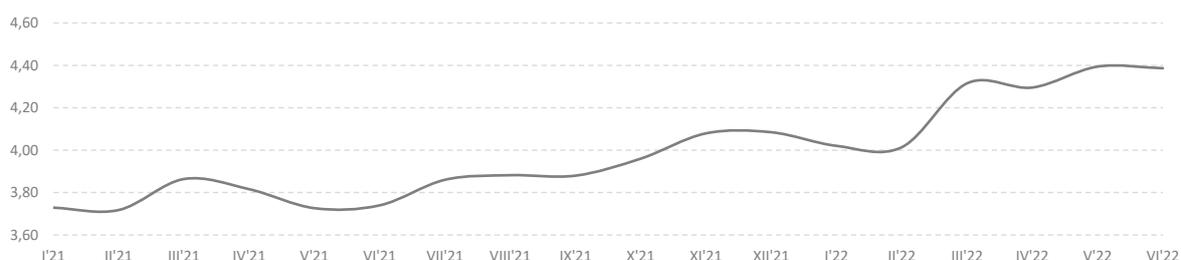
Chart 2. Average monthly silver price per the London Bullion Market (USD/oz t)



The average **USD/PLN exchange rate** (NBP) in the first half of 2022 amounted to 4.24 and was higher compared to the corresponding period of 2021 by more than 12% (3.77). The Monetary Policy Council began a cycle of interest rates hikes in the fourth quarter of 2021, continuing the increases in the first half of 2022 by a total of 425 bp. Nonetheless, the rate of inflation in Poland was more dynamic than the interest rate hikes, and at mid-year real interest rates remained at record negative levels. At the same time the Federal Reserve, given the increasingly higher level of inflation and pressures from commodities prices, in March 2022 commenced the process of monetary policy tightening, ended the asset buyback program and by June raised interest rates by 150 bp. The increase in interest rates in Poland failed to protect the value of the Polish złoty, while the commencement on 24 February of Russia's aggression against Ukraine led to heightened risk aversion on the financial market. After this date the PLN began to rapidly weaken, with the sell-off of the Polish currency caused by the flight of investors from currencies in our region of Europe who feared the spread of the conflict or the occurrence of negative economic effects in the countries neighbouring Ukraine.

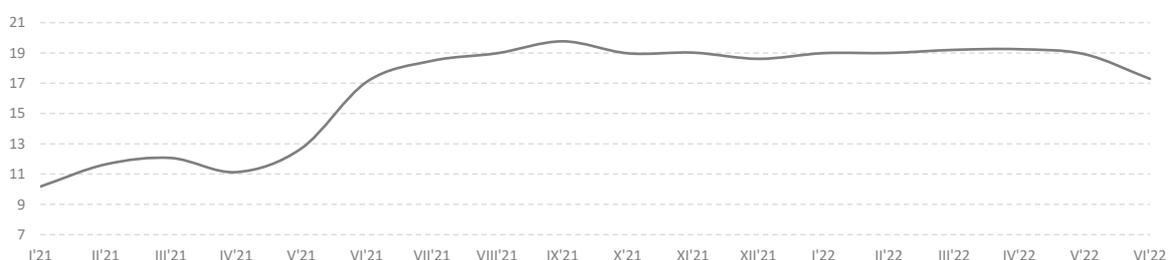
In the first half of 2022, the minimum USD/PLN exchange rate of 3.9218 USD/PLN was recorded at the beginning of February, and the maximum at the start of March, following Russia's aggression against Ukraine – 4.5722.

Chart 3. Average monthly USD/PLN exchange rate per the National Bank of Poland



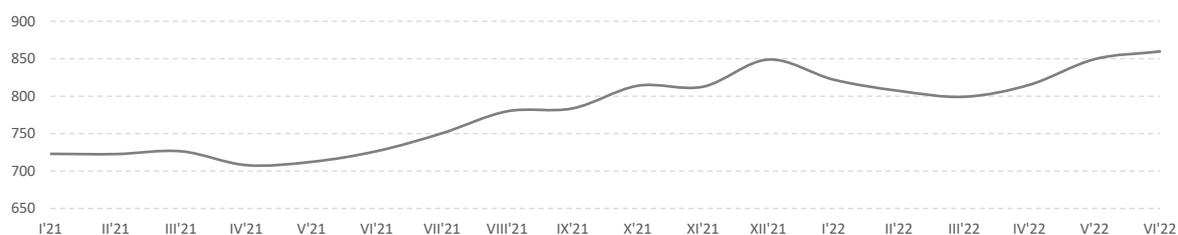
In the first half of 2022, the price of **molybdenum** moved in a sideways trend. The average price of molybdenum in the first half of 2022 amounted to 18.78 USD/lb, meaning an increase by nearly 50% as compared to the corresponding period of 2021 (12.53 USD/lb). In the first half of the year the price of molybdenum was supported by supply-side problems and restrictions in production (during the Chinese New Year, and subsequently during the Winter Olympics in Beijing). The price of molybdenum was also impacted by increasing demand, mainly from the steel market. This enabled molybdenum prices to remain at around 19 USD/lb for most of the first half of the year. In June, on the back of the drop in base metals prices, the price of molybdenum fell below 18 USD/lb.

Chart 4. Average monthly molybdenum price per Platts (USD/lb)



The average **USD/CLP exchange rate** (per the Bank of Chile) in the first half of 2022 amounted to 825 and was nearly 15% higher than recorded in the first half of 2021 (720).

Chart 5. Average monthly USD/CLP exchange rate per the Bank of Chile



The macroeconomic factors of the greatest significance for the operations of the Group are presented in the following table.

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

	Unit	1st half 2022	1st half 2021	Change (%)	2Q 2022	1Q 2022
Copper price on the LME	USD/t	9 761	9 092	+7.4	9 997	9 513
Copper price on the LME	PLN/t	41 376	34 242	+20.8	41 273	41 485
Silver price per the LBMA	USD/oz t	23.32	26.47	(11.9)	24.01	22.60
Molybdenum price per the CRU	USD/lb	18.78	12.53	+49.9	19.07	18.48
USD/PLN exchange rate per the NBP		4.24	3.77	+12.6	4.13	4.36
USD/CLP exchange rate per the Bank of Chile		825	720	+14.7	809	842

¹⁾ arithmetic average of daily quotations

5. RESULTS OF THE SEGMENT KGHM POLSKA MIEDŹ S.A.

5.1. Production

Table 2. Production results of KGHM Polska Miedź S.A.

	Unit	1st half 2022	1st half 2021	Change (%)	2Q 2022	1Q 2022
Mined ore (dry weight)	mn t	15.3	15.0	+2.0	7.6	7.7
Copper content in ore	%	1.47	1.48	(0.7)	1.47	1.48
Production of copper in concentrate	kt	198.9	195.1	+1.9	98.9	100.0
Production of silver in concentrate	t	662.2	640.3	+3.4	331.9	330.3
Production of electrolytic copper	kt	296.3	293.2	+1.1	145.2	151.1
- including from own concentrate	kt	177.7	192.2	(7.5)	81.1	96.6
Production of metallic silver	t	668.5	659.4	+1.4	328.7	339.8
Production of gold	koz t	40.9	38.1	+7.3	19.8	21.1

Compared to the corresponding period of 2021, in the first half of 2022 extraction of ore was higher (dry weight). Copper content in ore slightly decreased to 1.47%.

Production of copper in concentrate was higher by 3.8 thousand tonnes as compared to the first 6 months of 2021 and was due to higher processing of ore by the Concentrator Plants.

Compared to the corresponding period of 2021, electrolytic copper production increased by 3.1 thousand tonnes, despite the 70-day maintenance shutdown of the concentrate processing installation at the Głogów II Copper Smelter and Refinery.

The higher production of metallic silver in the first half of 2022 was due to the higher availability of feed material.

5.2. Revenues

Table 3. Revenues from contracts with customers of KGHM Polska Miedź S.A.

	Unit	1st half 2022	1st half 2021	Change (%)	2Q 2022	1Q 2022
Revenues from contracts with customers, including:	PLN mn	15 211	12 144	+25.3	7 656	7 555
- copper	PLN mn	11 913	9 408	+26.6	6 089	5 824
- silver	PLN mn	2 332	1 996	+16.8	1 117	1 214
Copper sales volume	kt	292.6	285.0	+2.7	149.5	143.2
Silver sales volume	t	713.6	619.2	+15.2	333.1	380.5

Revenues in the first half of 2022 amounted to PLN 15 211 million and were higher than in the corresponding period of 2021 by 25%. The main reasons for the increase in revenues were a more favourable USD/PLN exchange rate (+13%), an

increase in volume of sales of basic products, more favourable copper prices (+7%) and a lower negative adjustment of revenues due to hedging transactions. The main factors responsible for the change in revenues compared to the first half of 2021 are presented in detail in table 6 (section 5.4 Financial results)

5.3. Costs

Table 4. Costs of KGHM Polska Miedź S.A.

	Unit	1st half 2022	1st half 2021	Change (%)	2Q 2022	1Q 2022
Cost of sales, selling costs and administrative expenses	PLN mn	12 467	9 650	+29.2	6 514	5 953
Expenses by nature	PLN mn	12 950	10 678	+21.3	6 743	6 207
Pre-precious metals credit unit cost of copper production from own concentrate ⁽¹⁾	PLN/t	37 296	30 410	+22.6	41 827	33 492
Total unit cost of electrolytic copper production from own concentrate	PLN/t	24 895	19 219	+29.5	28 372	21 977
C1 unit cost⁽²⁾	USD/lb	2.40	2.12	+13.2	2.42	2.40

¹⁾ Unit cost prior to decrease by the value of anode slimes containing, among others, silver and gold

²⁾ 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 the sold payable copper in concentrate

The Parent Entity's cost of sales, selling costs and administrative expenses (total cost of products, merchandise and materials sold, selling costs and administrative expenses) in the first half of 2022 amounted to PLN 12 467 million and were higher by 29% as compared to the corresponding period of 2021, mainly due to higher costs of consumption of purchased metal-bearing materials and higher costs of materials, fuels and energy factors.

In the first half of 2022, total expenses by nature were higher by PLN 2 272 million as compared to the first half of 2021, with higher costs of consumption of purchased metal-bearing materials by PLN 968 million (due to a higher volume of consumption by 1.2 thousand tonnes of copper and a higher purchase price by 25%) and the minerals extraction tax, which was higher by PLN 18 million (due to higher copper prices and weakening of the Polish zloty versus the US dollar). The impact of a higher tax due to higher prices was partially offset by the legal decrease of rates by 30% from 1 January to the end of November 2022.

The increase in expenses by nature, after excluding purchased metal-bearing materials and the minerals extraction tax, amounted to PLN 1 286 million and was mainly due to an increase in costs of consumption of materials and technological fuels by PLN 625 million (mainly due to higher purchase prices), costs of electrical and other energy by PLN 337 million (mainly due to higher prices and higher purchases related to the restriction of own production from natural gas) labour costs by PLN 251 million (higher wages due to higher rates and a higher provision for the annual bonus) and higher external services costs, mainly due to maintenance and conservation and transport services.

C1 cost in the first half of 2022 amounted to 2.40 USD/lb and was higher than in the corresponding period of 2021 by 13%. The increase in cost was mainly due to a lower valuation of by-products (due to lower silver prices) and higher costs of extraction and metallurgical processing due to the aforementioned factors.

The pre-precious metals credit unit cost of electrolytic copper production from own concentrate (unit cost prior to decrease by the value of anode slimes containing, among others, silver and gold) amounted to 37 296 PLN/t (in the corresponding period of 2021: 30 410 PLN/t) and was higher by 23% mainly due to the higher extraction and processing costs described above, with lower copper production from own concentrate by 8%.

The total unit cost of electrolytic copper production from own concentrate amounted to 24 895 PLN/t and was higher than in the first half of 2021 by 30%.

5.4. Financial results

Table 5. Basic items of the statement of profit or loss of KGHM Polska Miedź S.A. (in PLN million)

	1st half 2022	1st half 2021	Change (%)	2Q 2022	1Q 2022
Revenues from contracts with customers, including:	15 211	12 144	+25.3	7 656	7 555
- adjustment to revenues due to hedging transactions	(377)	(742)	(49.2)	(161)	(216)
Cost of sales, selling costs and administrative expenses	(12 467)	(9 650)	+29.2	(6 514)	(5 953)
Profit on sales (EBIT)	2 744	2 494	+10.0	1 142	1 602
Other operating income and (costs)	1 393	2 793	(50.1)	1 052	341
Finance income and (costs)	(361)	(209)	+72.7	(256)	(105)
Profit before income tax	3 776	5 078	(25.6)	1 938	1 838
Income tax expense	(968)	(852)	+13.6	(455)	(513)
Profit for the period	2 808	4 226	(33.6)	1 483	1 325
Depreciation/amortisation recognised in profit or loss	695	656	+5.9	373	322
Adjusted EBITDA⁽¹⁾	3 439	3 157	+8.9	1 515	1 924

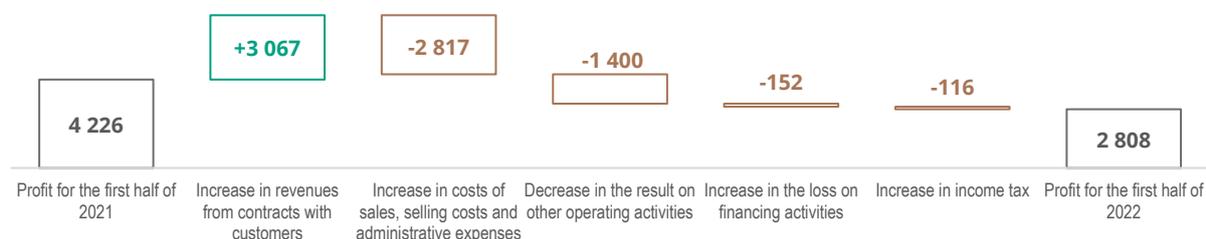
¹⁾ Adjusted EBITDA = profit on sales + depreciation/amortisation (recognised in profit or loss) + impairment loss (-reversal of impairment losses) on non-current assets, recognised in cost of sales, selling costs and administrative expenses

Table 6. Main factors impacting the change in profit or loss of KGHM Polska Miedź S.A.

Item	Impact on change in result (in PLN million)	Description
An increase in revenues from contracts with customers	+3 067	An increase in revenues due to: <ul style="list-style-type: none"> – sales of basic products (copper, silver, gold) with a more favourable average USD/PLN exchange rate – a change from 3.77 to 4.24 USD/PLN (+PLN 1 632 million) – a higher copper sales volume by 7.6 kt, i.e. 3%, silver by 94 t, i.e. 15% and gold by 116 kg, i.e. 10% (+PLN 602 million) – a decrease in the negative adjustment of revenues due to hedging transactions by +PLN 365 million – higher copper prices by 669 USD/t, i.e. 7% and gold by 69 USD/oz t, i.e. 4% with lower silver prices by 3.15 USD/oz t, i.e. 12% (+PLN 313 million) – an increase in other revenues from sales, including from the sale of sulphuric acid (+PLN 66 million), refined lead (+PLN 17 million) and merchandise and materials (+PLN 46 million)
An increase in cost of sales, selling costs and administrative expenses¹⁾	(2 817)	An increase in costs due to: <ul style="list-style-type: none"> – lower make-to-stock production than in the previous year (-PLN 561 million) – a higher volume of consumption of purchased metal-bearing materials by 1.2 thousand tonnes of copper at a purchase price higher by 25% (-PLN 968 million) – an increase in other costs by PLN 1 288 million, including an increase in costs of consumption of materials other than purchased metal-bearing materials (by PLN 625 million), electricity and other energy (by PLN 337 million) and employee benefits (by PLN 251 million),
A decrease in the result on other operating activities	(1 400)	The decrease in the result was mainly due to: <ul style="list-style-type: none"> – no reversal of impairment losses on shares in subsidiaries in 2022 while the amount of -PLN 1 010 million was recognised in the first half of 2021, – a decrease in reversal of impairment losses on financial instruments measured at amortised cost (-PLN 316 million) – a decrease in fair value gains on financial assets measured at fair value through profit or loss (-PLN 669 million, including loans -PLN 678 million) – an increase in fair value losses on financial assets measured at fair value through profit or loss (-PLN 57 million) – an increase in the result on exchange differences on assets and liabilities other than borrowings (+PLN 549 million) – an impact of derivatives and hedging transactions (+PLN 140 million) – an increase in income due to interest on loans granted (+PLN 26 million) – a decrease in income due to fees and charges on re-invoicing of costs of bank guarantees securing payments of liabilities (-PLN 49 million), – a decrease in income due to dividends (-PLN 37 million)
An increase in the loss on financing activities	(152)	An increase in losses on financing activities mainly due to changes in the result on exchange gains/(losses) on borrowings (-PLN 163 million) with a lower interest cost on borrowings by PLN 13 million
An increase in income tax	(116)	An increase in income tax resulted from an increase in current income tax (-PLN 103 million), from the adjustment of current income tax for prior periods (-PLN 37 million) and a decrease in deferred income tax (+PLN 31 million)

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

Chart 6. Change in profit for the period of KGHM Polska Miedź S.A. (in PLN million)



5.5. Capital expenditures

In the first half of 2022, capital expenditures on property, plant and equipment amounted to PLN 1 129 million.

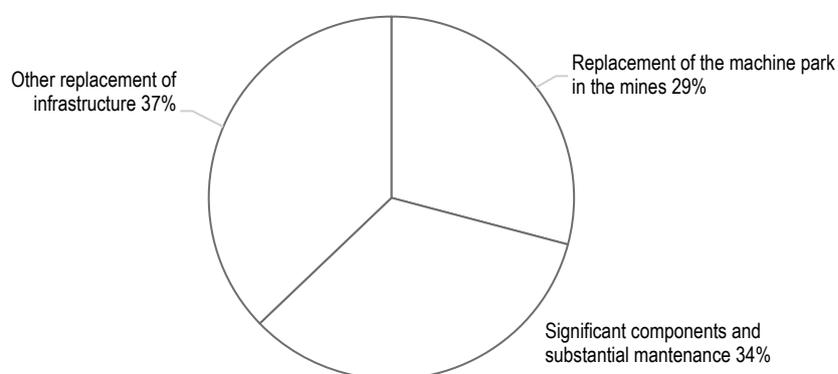
Table 7. Structure of expenditures on property, plant and equipment and intangible assets by Division (in PLN million)

	1st half 2022	1st half 2021	Change (%)	2Q 2022	1Q 2022
Mining	804	726	+10.7	420	384
Metallurgy	261	217	+20.3	177	84
Other activities	16	32	(50.0)	11	5
Development work - uncompleted	5	1	+5.0	1	4
Leases per IFRS 16	43	60	(28.3)	34	9
Total	1 129	1 036	+9.0	643	486
including borrowing costs	71	62	+14.5	25	46

Investment activities comprised projects related to replacement, maintenance and development in mining, metallurgy and other activities.

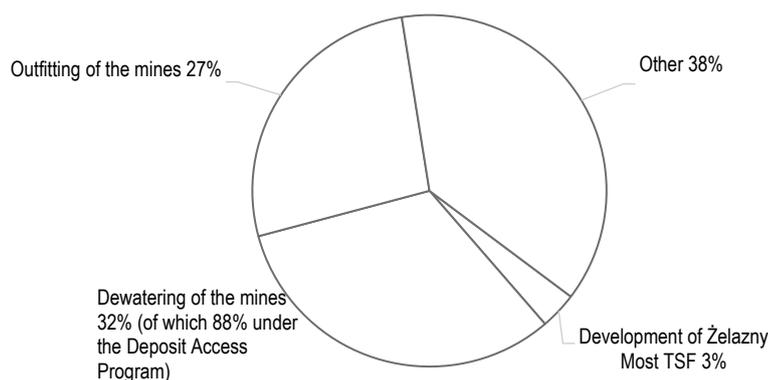
Projects related to the replacement aimed at maintaining production equipment in an undeteriorated condition, represent 43% of total expenditures incurred.

Chart 7. Structure of expenditures on the replacement



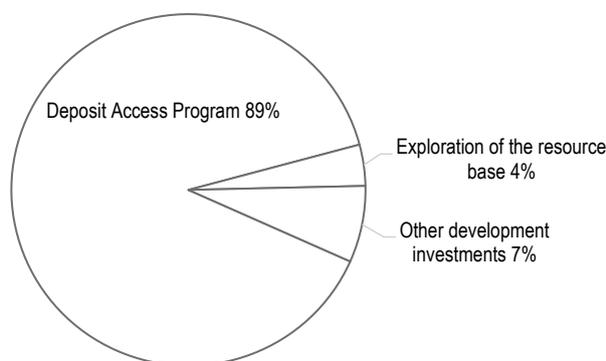
Projects related to maintenance aimed at maintaining mine production on the level set in approved Production Plan (development of infrastructure to match mine advancement) represent 30% of total expenditures incurred.

Chart 8. Structure of expenditures on maintenance



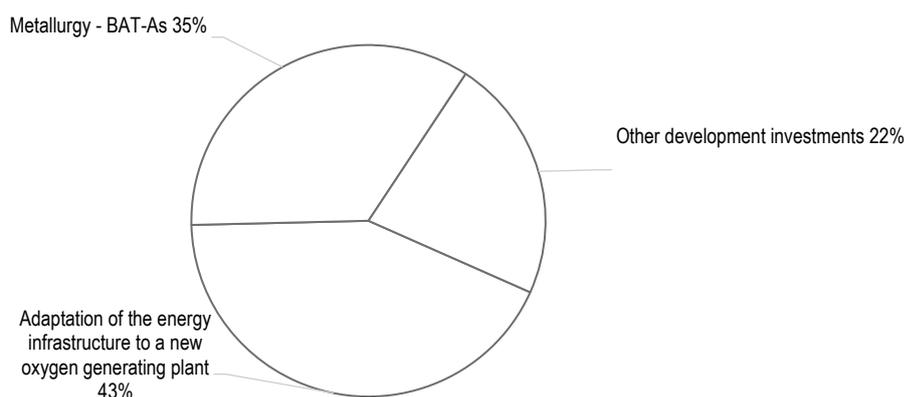
Development projects aimed at increasing the level of revenues from sales or maintaining them at the current level, at the implementation of technical and technological activities optimising the use of existing infrastructure, and at reducing operating costs, represent 25% of expenditures incurred.

Chart 9. Structure of expenditures on development



Adaptation projects aimed at adapting the company's operations to changes in laws, existing standards or other regulations, especially as regards occupational health and safety, securing property, cybersecurity, ethical and anti-corruption standards, environmental impact, quality standards and management systems, represent 2% of expenditures incurred.

Chart 10. Structure of adaptation projects



Detailed information on the advancement of key projects may be found in part 3 of this Report on advancement of the Strategy in 2022.

6. RESULTS OF THE SEGMENT KGHM INTERNATIONAL LTD.

6.1. Production

Table 8. Production results of KGHM INTERNATIONAL LTD.

	Unit	1st half 2022	1st half 2021	Change (%)	2Q 2022	1Q 2022
Payable copper, including:	kt	36.9	36.3	+1.7	18.7	18.2
- Robinson mine (USA)	kt	30.8	27.7	+11.2	16.5	14.3
- Franke mine (Chile)	kt	2.8	5.0	(44.0)	0.5	2.3
- Sudbury Basin mines (Canada) ⁽¹⁾	kt	0.9	1.0	(10.0)	0.5	0.4
Payable nickel	kt	0.2	0.2	-	0.1	0.1
Precious metals (TPM), including:	koz t	34.7	26.3	+31.9	19.6	15.1
- Robinson mine (USA)	koz t	27.0	19.1	+41.4	14.7	12.3
- Sudbury Basin mines (Canada) ⁽¹⁾	koz t	7.7	7.2	+6.9	4.9	2.8

1) McCreehy West mine in the Sudbury Basin

Copper production in the segment KGHM INTERNATIONAL LTD. in the first half of 2022 amounted to 36.9 thousand tonnes, or nearly 2% above the amount recorded in the corresponding period of 2021. The main reason for the increase was the

mining of better-quality ore by the Robinson mine (higher copper content than in the prior year). The increase in copper production by Robinson more than offset the negative impact of lower production by the segment's other mines, including due to the sale of the assets of the Franke mine, which occurred on 26 April 2022.

The increase in production of precious metals by 32% was mainly due to the Robinson mine which, due to an improvement on gold content and recovery, increased production of payable gold by 41% compared to the amount recorded in the first half of 2021.

6.2. Revenues

Table 9. Volumes and sales revenues of KGHM INTERNATIONAL LTD. (in USD million)

	Unit	1st half 2022	1st half 2021	Change (%)	2Q 2022	1Q 2022
Revenues from contracts with customers⁽¹⁾, including:	USD mn	378	372	+1.6	168	210
- copper	USD mn	252	272	(7.4)	107	145
- nickel	USD mn	6	3	×2.0	2	4
- TPM – precious metals	USD mn	51	41	+24.4	25	26
Copper sales volume	kt	28.2	31.1	(9.9)	14.2	14.0
Nickel sales volume	kt	0.2	0.2	-	0.1	0.1
TPM sales volume	koz t	26.9	22.6	+19.0	15.9	11.0

¹⁾ reflects processing premium

Table 10. Sales revenue of KGHM INTERNATIONAL LTD. (in PLN million)

	Unit	1st half 2022	1st half 2021	Change (%)	2Q 2022	1Q 2022
Revenues from contracts with customers⁽¹⁾, including:	PLN mn	1 616	1 407	+14.9	740	876
- copper	PLN mn	1 075	1 028	+4.6	470	605
- nickel	PLN mn	27	11	×2.5	12	15
- TPM – precious metals	PLN mn	218	155	+40.6	110	108

¹⁾ reflects processing premium

The sales revenue of the segment KGHM INTERNATIONAL LTD. in the first half of 2022 amounted to USD 378 million, or a slight increase compared to the corresponding period of 2021 (+USD 6 million; +2%) due to higher achieved sales prices, higher revenues from the mining services provided by DMC Mining Services and other factors, including more favourable refining premiums. Negative impact came from the decrease in copper sales volume due to delays in railway transport services for the shipment of concentrate from the Robinson mine.

6.3. Costs

Table 11. C1 payable copper production cost of KGHM INTERNATIONAL LTD.

	Unit	1st half 2022	1st half 2021	Change (%)	2Q 2022	1Q 2022
C1 payable copper production cost ⁽¹⁾	USD/lb	2.00	2.10	(4.8)	1.77	2.23

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

The average weighted unit cash cost of copper production for all operations in the segment KGHM INTERNATIONAL LTD. in the first half of 2022 amounted to 2.00 USD/lb, or a decrease by 5% compared to the corresponding period of 2021, mainly due to revenues from sales of associated metals which decrease C1 (increase in the amount of gold sold and in its price). C1 was also positively impacted by a decrease in refining and processing premiums as well as by the sale of the Franke mine.

6.4. Financial results

Table 12. Financial results of KGHM INTERNATIONAL LTD. (in USD million)

	1st half 2022	1st half 2021	Change (%)	2Q 2022	1Q 2022
Revenues from contracts with customers	378	372	+1.6	168	210
Cost of sales, selling costs and administrative expenses, including: ⁽¹⁾	(297)	(287)	+3.5	(147)	(150)
- reversal/(recognition) of impairment losses on non-current assets	0	8	×	0	-
Profit/(loss) on sales	81	85	(4.7)	21	60
Profit/(loss) before taxation, including:	273	446	(38.8)	167	106
Income tax	(22)	(4)	×5.5	(10)	(12)
Profit/loss for the period	251	442	(43.2)	157	94
Depreciation/amortisation recognised in profit or loss	(53)	(64)	(17.2)	(27)	(26)
Adjusted EBITDA⁽²⁾	134	141	(5.0)	47	87

Table 13. Financial results of KGHM INTERNATIONAL LTD. (in PLN million)

	1st half 2022	1st half 2021	Change (%)	2Q 2022	1Q 2022
Revenues from contracts with customers	1 616	1 407	+14.9	740	876
Cost of sales, selling costs and administrative expenses, including: ⁽¹⁾	(1 270)	(1 086)	+16.9	(645)	(625)
- reversal/(recognition) of impairment losses on non-current assets	0	30	x	0	-
Profit/(loss) on sales	346	321	+7.8	95	251
Profit/(loss) before taxation, including:	1 164	1 688	(31.0)	724	440
Income tax	(93)	(15)	x6.2	(43)	(50)
Profit/loss for the period	1 071	1 673	(36.0)	681	390
Depreciation/amortisation recognised in profit or loss	(228)	(242)	(5.8)	(118)	(110)
Adjusted EBITDA⁽²⁾	574	533	+7.7	213	361

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

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

Table 14. Main factors impacting the change in profit or loss of KGHM INTERNATIONAL LTD.

Item	Impact on change of profit or loss (in USD million)	Description
Higher revenues from contracts with customers	+6	The increase in revenues was mainly due to: <ul style="list-style-type: none"> - higher revenues by USD 7 million due to an increase in prices of basic products, including copper +USD 6 million - lower revenues by USD 18 million due to a decrease in sales volumes, including copper (-USD 29 million) - impact of other factors +USD 17 million, including revenues realised by DMC Mining Services (+USD 8 million) and more favourable refining and processing premiums (+USD 3 million)
Higher cost of sales, selling costs and administrative expenses	(10)	The increase in costs was mainly due to: <ul style="list-style-type: none"> - higher costs of materials and energy (-USD 13 million) - higher costs of sales, mainly in Robinson due to maritime transport rates (-USD 6 million) - higher administrative expenses (-USD 9 million) – mainly reclassification from other cost items and changes in settlement methods of certain services - a reversal of impairment losses on property, plant and equipment as at 30 June 2021 (-USD 8 million) - lower depreciation/amortisation (+USD 27 million)
Impact of other operating activities and financing activities	(170)	Main factors impacting the change in other operating activities and financing activities: <ul style="list-style-type: none"> - reversal of allowance for impairment of loans granted for the construction of the Sierra Gorda mine (+USD 176 million in the first half of 2022 versus +USD 435 million in the first half of 2021) - result from the sale of the Oxide project (to Sierra Gorda S.C.M.) and of the Franke mine (in total +USD 51 million)
Income tax	(17)	Changes due to current and deferred income tax.

Chart 11. Change in profit or loss of KGHM INTERNATIONAL LTD. (in USD million)



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

6.5. Cash expenditures

Table 15. Cash expenditures of KGHM INTERNATIONAL LTD. (in USD million)

	1st half 2022	1st half 2021	Change (%)	2Q 2022	1Q 2022
Victoria project	25	11	+2.3	15	10
Stripping and other	91	98	(7.6)	38	53
Total	116	109	+6.4	53	63

Table 16. Cash expenditures of KGHM INTERNATIONAL LTD. (in PLN million)

	1st half 2022	1st half 2021	Change (%)	2Q 2022	1Q 2022
Victoria project	107	42	+2.5	63	44
Stripping and other	387	369	+4.9	168	219
Total	494	411	+20.2	231	263

Cash expenditures by the segment KGHM INTERNATIONAL LTD. in the first half of 2022 amounted to USD 116 million and were higher by USD 7 million (+6%) compared to the corresponding period of 2021, mainly in respect of expenditures incurred on advancement of the Victoria project in Canada, with lower investments in Robinson, mainly due to a lower scope of stripping.

7. RESULTS OF THE SEGMENT SIERRA GORDA S.C.M.

The segment Sierra Gorda S.C.M. is a joint venture (under the JV company Sierra Gorda S.C.M.) and the Australian mining group South32, which on 22 February 2022 acquired the shares from Sumitomo Metal Mining and Sumitomo Corporation.

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

7.1. Production

In the first half of 2022, Sierra Gorda S.C.M. conducted mining in accordance with the mining plan in areas characterised by lower copper and molybdenum content compared to 2021.

Table 17. Production of copper, molybdenum and precious metals by Sierra Gorda S.C.M.

	Unit	1st half 2022	1st half 2021	Change (%)	2Q 2022	1Q 2022
Copper production ⁽¹⁾	kt	80.9	93.1	(13.1)	37.5	43.4
Copper production – segment (55%)	kt	44.5	51.2	(13.1)	20.6	23.9
Molybdenum production ⁽¹⁾	mn lbs	3.5	8.4	(58.3)	1.4	2.1
Molybdenum production – segment (55%)	mn lbs	1.9	4.6	(58.3)	0.7	1.2
TPM production – gold ⁽¹⁾	koz t	28.4	26.0	+9.2	16.3	12.1
TPM production – gold - segment (55%)	koz t	15.6	14.3	+9.2	9.0	6.6

¹⁾ Payable metal in concentrate.

Lower copper and molybdenum content in processed ore and lower recovery of these metals was the main reason for the decrease in payable copper production by 13% and molybdenum by 58%. In the first half of 2022, there were fewer unplanned shutdowns due to breakdowns than in the corresponding first half of 2021, which in turn enabled an increase in the volume of ore processed by 2%.

7.2. Sales

Revenues in the first half of 2022 amounted to USD 824 million (on a 100% basis), or PLN 1 938 million respectively to the 55% interest held.

Table 18. Volumes and sales revenues of Sierra Gorda S.C.M.

	Unit	1st half 2022	1st half 2021	Change (%)	2Q 2022	1Q 2022
Revenues from contracts with customers,⁽¹⁾ including from the sale of:	USD mn	824	1 031	(20.1)	303	521
- copper	USD mn	682	849	(19.7)	223	459
- molybdenum	USD mn	72	113	(36.3)	42	30
- TPM (gold)	USD mn	52	45	+15.6	29	23
Copper sales volume	kt	80.4	88.7	(9.4)	37.0	43.4
Molybdenum sales volume	mn lbs	3.9	7.7	(49.4)	2.3	1.6
TPM sales volume (gold)	koz t	27.2	25.5	+6.7	15.2	12.0
Revenues from contracts with customers⁽¹⁾ - segment (55%)	PLN mn	1 938	2 144	(9.6)	744	1 194

¹⁾ reflecting treatment/refining and other charges

Sierra Gorda S.C.M. recorded a lower volume of copper and molybdenum sales than in the corresponding period of 2021, as a result of lower production results due to the quality parameters of the deposit mined in the first half of 2022.

The decrease in sales volume was the main reason for the decrease in revenues by USD 207 million, i.e. by 20%.

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

7.3. Costs

The cost of sales, selling costs and administrative expenses incurred by the company Sierra Gorda S.C.M. amounted to USD 540 million, of which USD 471 million were costs of sales and USD 68 million were the total selling costs and administrative expenses. Proportionally to the interest held (55%) the costs of the segment Sierra Gorda amounted to PLN 1 268 million.

Table 19. Costs (prior to the impairment loss on non-current assets) and C1 payable copper production cost of Sierra Gorda S.C.M.

	Unit	1st half 2022	1st half 2021	Change (%)	2Q 2022	1Q 2022
Cost of sales, selling costs and administrative expenses	USD mn	540	498	+8.4	267	273
Cost of sales, selling costs and administrative expenses – segment (55%)	PLN mn	1 268	1 036	+22.4	642	626
C1 payable copper production cost⁽¹⁾	USD/lb	1.38	0.87	+58.6	1.41	1.35

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

Compared to the first half of 2021, the cost of sales, selling costs and administrative expenses expressed in USD million was higher by USD 42 million (+8%), in respect of which market factors had the largest impact, including mainly:

- higher diesel fuel prices by 94%
- higher energy prices by 64%
- higher prices of materials, including blending materials (an increase by 13%) and explosives (an increase by 70%).

In addition there was a substantial increase in depreciation/amortisation (by 16%) due to the reversal of impairment losses on non-current assets, which were recognised as at 31 December 2021.

Lower costs were recorded among others in regard to labour costs (the impact of wage agreements resulting in the payment of a one-time bonus in 2021) and spare parts due to fewer breakdowns and preventive actions taken in order to extend the life of technological components.

The above factors led to higher unit costs of mining, ore processing and C1 cash cost of copper production. Another factor increasing C1 cost was the lower deduction for associated metals than in the prior year, mainly due to the lower volume of molybdenum sales.

7.4. Financial results

In the first half of 2022, adjusted EBITDA amounted to USD 491 million, of which proportionally to the interest held (55%) PLN 1 154 million is attributable to the KGHM Group.

Table 20. Results of Sierra Gorda S.C.M. in USD million (on a 100% basis)

	1st half 2022	1st half 2021	Change (%)	2Q 2022	1Q 2022
Revenues from contracts with customers	824	1 031	(20.1)	303	521
Cost of sales, selling costs and administrative expenses	(540)	(498)	+8.4	(267)	(273)
Profit/(loss) on sales	284	533	(46.7)	36	248
Profit/loss for the period	76	229	(66.8)	(28)	104
Depreciation/amortisation recognised in profit or loss	(206)	(178)	+15.7	(96)	(110)
Adjusted EBITDA⁽¹⁾	491	711	(30.9)	133	358

Table 21. Results of the segment Sierra Gorda S.C.M. proportionally to the interest held (55%) in PLN million

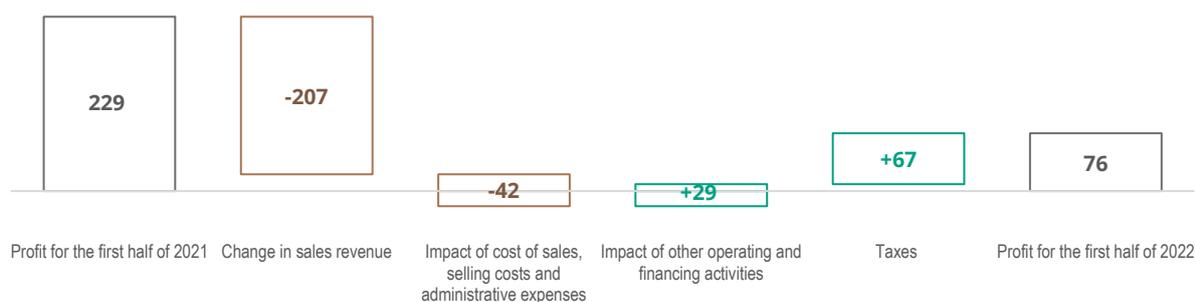
	1st half 2022	1st half 2021	Change (%)	2Q 2022	1Q 2022
Revenues from contracts with customers	1 938	2 144	(9.6)	744	1 194
Cost of sales, selling costs and administrative expenses	(1 268)	(1 036)	+22.4	(642)	(626)
Profit/(loss) on sales	670	1 108	(39.5)	102	568
Profit/loss for the period	179	476	(62.4)	(60)	239
Depreciation/amortisation recognised in profit or loss	(484)	(370)	+30.8	(231)	(253)
Adjusted EBITDA⁽¹⁾	1 154	1 478	(21.9)	333	821

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

Table 22. Main factors impacting the change in profit or loss of the segment Sierra Gorda S.C.M.

Item	Impact on change of profit or loss (in USD million)	Description
Lower sales revenue	(207)	The decrease in revenues was due to: <ul style="list-style-type: none"> – macroeconomic conditions – lower revenues by USD 46 million due to lower copper prices (-USD 65 million), with higher molybdenum prices (+USD 53 million) and total Mark to Market adjustment (-USD 34 million) – lower volume of copper and molybdenum sales – lower revenues by USD 158 million)
Higher cost of sales, selling costs and administrative expenses	(42)	The increase in costs of sales, selling costs and administrative expenses was mainly due to: <ul style="list-style-type: none"> – higher costs of energy (-USD 30 million), fuels (- USD 26 million), materials (-USD 13 million) and depreciation/amortisation (-USD 28 million) with lower labour costs (+USD 27 million) – Change in inventories (+USD 60 million) – Lower capitalised stripping costs, mainly due to a lower scope of work (-USD 35 million)
Impact of other operating and financing activities	+29	Improvement in the result on other operating activities by USD 7 million and the result on financing activities by USD 21 million, mainly due to lower interest due to the partial repayment of Owner loans to build the mine.
Impact of taxes	+67	Lower income tax by USD 60 million (-USD 28 million in the first half of 2022 versus -USD 88 million in 2021) due to lower profit before tax and lower mining tax by USD 7 million (-USD 19 million versus -USD 26 million in the first half of 2021)

Chart 12. Change in profit/loss for the period (in USD million)



The Company's financial condition in the first half of 2022 enabled payments to be made to the Owners due to the loans drawn to build the mine. The total amount transferred amounted to USD 350 million, of which USD 193 million was attributable to the KGHM Polska Miedź S.A. Group.

7.5. Cash expenditures

In the period January-June 2022, cash expenditures on property, plant and equipment and intangible assets, reflected in the statement of cash flows of Sierra Gorda S.C.M., amounted to USD 223 million, of which USD 59 million (26%) were cash expenditures incurred on stripping to gain access to further areas of the deposit.

Table 23. Cash expenditures of Sierra Gorda S.C.M.

	Unit	1st half 2022	1st half 2021	Change (%)	2Q 2022	1Q 2022
Cash expenditures on property, plant and equipment	USD mn	223	145	+53.8	74	149
Cash expenditures on property, plant and equipment – segment (55% share)	PLN mn	524	301	+74.1	182	342

Cash expenditures were higher than in the corresponding period of 2021 by 54% due to the takeover from KGHM INTERNATIONAL LTD. of the Oxide project, investments in mining equipment and implementation of a program to increase processing capacity. However, lower expenditures were recorded as regards capitalised stripping costs due to a lower scope of work.

8. CONSOLIDATED FINANCIAL RESULTS OF THE KGHM POLSKA MIEDŹ S.A. GROUP

8.1. Financial results

Statement of profit or loss

Table 24. Financial results of the Group (in PLN million)

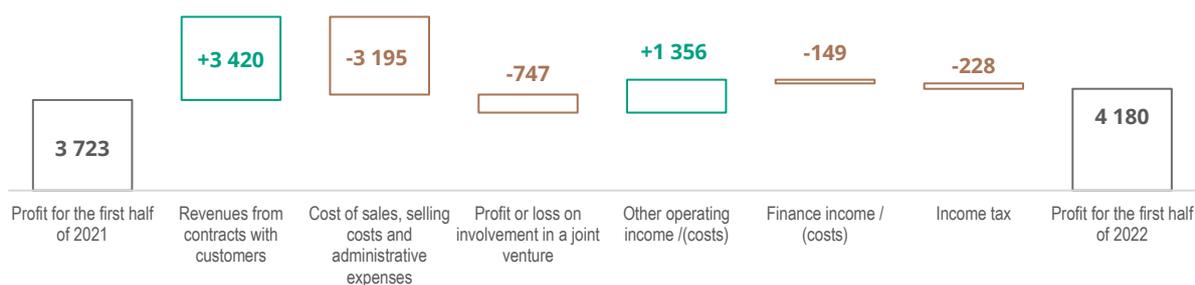
	1st half 2022	1st half 2021	Change (%)	2Q 2022	1Q 2022
Revenues from contracts with customers	17 926	14 506	+23.6	8 933	8 993
Cost of sales, selling costs and administrative expenses	(14 895)	(11 700)	+27.3	(7 703)	(7 192)
Profit on sales	3 031	2 806	+8.0	1 230	1 801
Profit or loss on involvement in a joint venture	1 102	1 849	(40.4)	855	247
Other operating income / (costs)	1 539	183	×8.4	972	567
Finance income / (costs)	(358)	(209)	+71.3	(251)	(107)
Profit before income tax	5 314	4 629	+14.8	2 806	2 508
Income tax expense	(1 134)	(906)	+25.2	(525)	(609)
Profit for the period	4 180	3 723	+12.3	2 281	1 899
Adjusted EBITDA¹⁾	5 309	5 313	(0.1)	2 176	3 133

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

Table 25. Main factors impacting the change in profit or loss of the Group

Item	Impact on change of profit or loss (in PLN million)	Description
Revenues from contracts with customers	+3 420	An increase in revenues mainly due to revenues from sales of copper +PLN 2 539 million, silver +PLN 346 million and gold +PLN 120 million. Detailed reasons for the change in revenues in the segments KGHM Polska Miedź S.A. and KGHM INTERNATIONAL LTD. are described in sections 5 and 6 of this report.
Cost of sales, selling costs and administrative expenses	(3 195)	The increase in costs of sales, selling costs and administrative expenses was mainly comprised of higher expenses by nature by PLN 2 777 million, mainly due to higher costs of materials and energy by PLN 2 226 million, employee benefits expenses by PLN 396 million and external services by PLN 159 million, with a change in adjustment due to the change in products and work in progress by PLN 471 million and an adjustment for the manufacture of products for own use by -PLN 139 million. Detailed reasons for the change in costs in the segments KGHM Polska Miedź S.A. and KGHM INTERNATIONAL LTD. are described in sections 5 and 6 of this report.
Profit or loss on involvement in a joint venture	(747)	The decrease in the result on involvement in a joint venture from PLN 1 849 million to PLN 1 102 million was mainly due to: <ul style="list-style-type: none"> - a decrease in reversal of allowances for impairment of loans granted to a joint venture by PLN 872 million as compared to the corresponding period, - an increase in interest income on loans granted by PLN 125 million.
Other operating income/ (costs)	+1 356	The increase in the result on other operating activities from PLN 183 million to PLN 1 539 million was mainly due to: <ul style="list-style-type: none"> - an increase by PLN 1 021 million in the result on exchange differences on assets and liabilities other than borrowings, - an increase by PLN 139 million in the result from the measurement and realisation of derivatives, - a gain from the disposal of subsidiaries of PLN 173 million (in the first half of 2021 this item did not occur), - a gain from the disposal of intangible assets of PLN 135 million (in the first half of 2021 this item did not occur), - an increase by PLN 60 million in fair value losses on financial assets, - a decrease by PLN 54 million in income from the servicing of letters of credit and guarantees.
Finance income/(costs)	(149)	The change in finance income and costs from -PLN 209 million to -PLN 358 million was mainly due to: <ul style="list-style-type: none"> - an increase by PLN 183 million in exchange differences from the measurement and realisation of borrowings, - lower interest costs on borrowings by PLN 37 million.
Income tax	(228)	An increase in income tax due to a change in profit before taxation.

Chart 13. Change in profit/loss for the first half of 2022 (in PLN million)



Cash flow

Table 26. Cash flow of the Group (in PLN million)

	1st half 2022	1st half 2021	Change (%)	2Q 2022	1Q 2022
Profit before income tax	5 314	4 629	+14.8	2 806	2 508
Exclusions of income and costs, total	(994)	(212)	×4.7	(1 039)	45
Income tax paid	(1 299)	(390)	×3.3	(652)	(647)
Changes in working capital	(1 431)	(1 710)	(16.3)	(1 250)	(181)
Net cash generated from/(used in) operating activities	1 590	2 317	(31.4)	(135)	1 725
Expenditures on property, plant and equipment and intangible assets	(1 968)	(1 663)	+18.3	(884)	(1 084)
Repayment of loans granted to a joint venture, together with interest	789	-	×	358	431
Proceeds from the disposal of property, plant and equipment and intangible assets	373	77	×4.8	43	330
Proceeds from the disposal of subsidiaries	243	-	×	92	151
Other cash flow from investing activities	(47)	19	×	(24)	(23)
Net cash used in investing activities	(610)	(1 567)	(61.1)	(415)	(195)
Proceeds from / expenditures on borrowings	(141)	(1 526)	(90.8)	(98)	(43)
Interest paid	(40)	(64)	(37.5)	(9)	(31)
Repayment of lease liabilities	(42)	(49)	(14.3)	(33)	(9)
Dividends paid to shareholders of the Parent Entity	-	(300)	×	-	-
Other cash flow from financing activities	6	(16)	×	(1)	7
Net cash used in financing activities	(217)	(1 955)	(88.9)	(141)	(76)
NET CASH FLOW	763	(1 205)	×	(691)	1 454
Exchange differences	(32)	(49)	(34.7)	(29)	(3)
Cash and cash equivalents at beginning of the period	1 904	2 522	(24.5)	3 355	1 904
Cash and cash equivalents at end of the period	2 635	1 268	×2.1	2 635	3 355

Net cash generated from operating activities in the first half of 2022 amounted to +PLN 1 590 million and was comprised of profit before income tax of +PLN 5 314 million, increased mainly by adjusted depreciation/amortisation in the amount of +PLN 1 044 million and an adjustment due to the reclassification of other comprehensive income to profit or loss due to the realisation of hedging derivatives, +PLN 508 million.

The decrease in net cash generated from operating activities was mainly due to an adjustment of gains due to the reversal of allowances for impairment of loans granted to a joint venture of -PLN 783 million, accrued interest on loans granted to a joint venture of -PLN 319 million, exchange differences of -PLN 745 million, a change in assets and liabilities due to derivatives of -PLN 509 million, a change in working capital of -PLN 1 431 million and income tax paid of -PLN 1 299 million.

Net cash used in investing activities in the first half of 2022 amounted to -PLN 610 million and mainly comprised expenditures on property, plant and equipment and intangible assets in the amount of -PLN 1 968 million, the repayment of loans granted to a joint venture, together with interest, of PLN 789 million, proceeds from the disposal of property, plant and equipment and intangible assets of PLN 373 million and proceeds from the disposal of subsidiaries of PLN 243 million.

Net cash used in financing activities in the first half of 2022 amounted to -PLN 217 million and mainly comprised the balance of proceeds and repayment of borrowings of -PLN 141 million, interest paid in the amount of -PLN 40 million and repayment of lease liabilities of -PLN 42 million.

After reflecting exchange differences on cash and cash equivalents, cash and cash equivalents presented in the statement of cash flows increased in the first half of 2022 by PLN 731 million and at 30 June 2022 amounted to PLN 2 635 million.

Chart 14. Cash flows in the first half of 2022 (in PLN million)



Assets

Table 27. Consolidated assets (in PLN million)

	30.06.2022	31.12.2021	Change (%)	31.03.2022
Property, plant and equipment and intangible assets	27 679	26 723	+3.6	26 707
Joint ventures – loans granted	9 438	7 867	+20.0	8 348
Financial instruments	2 200	1 728	+27.3	1 763
Deferred tax assets	205	185	+10.8	191
Other non-financial assets	157	161	(2.5)	158
Non-current assets	39 679	36 664	+8.2	37 167
Inventories	7 810	6 337	+23.2	6 892
Trade receivables	1 524	1 009	+51.0	1 405
Tax assets	290	364	(20.3)	246
Derivatives	587	254	×2.3	192
Joint ventures – loans granted	-	447	×	-
Other financial assets	245	172	+42.4	180
Other non-financial assets	336	162	×2.1	281
Cash and cash equivalents	2 635	1 884	+39.9	3 337
Assets held for sale	-	734	×	341
Current assets	13 427	11 363	+18.2	12 874
TOTAL ASSETS	53 106	48 027	+10.6	50 041

At the end of the first half of 2022, total assets in the consolidated statement of financial position amounted to PLN 53 106 million and were higher as compared to 31 December 2021 by PLN 5 079 million.

Non-current assets as at 30 June 2022 amounted to PLN 39 679 million and compared to the end of 2021 were higher by PLN 3 015 million. The increase in non-current assets was mainly with respect to loans granted to joint ventures by PLN 1 571 million, property, plant and equipment and intangible assets by PLN 956 million, and financial instruments by PLN 472 million.

Current assets increased by PLN 2 064 million, mainly due to inventories by PLN 1 473 million, cash and cash equivalents by PLN 751 million, trade receivables by PLN 515 million, derivatives by PLN 333 million and other non-financial assets by PLN 174 million, alongside a decrease in the value of assets held for sale by PLN 734 million and loans granted to joint ventures by PLN 447 million (current part).

Chart 15. Change in assets in the first half of 2022 (in PLN million)



Equity and liabilities

Table 28. Consolidated equity and liabilities (in PLN million)

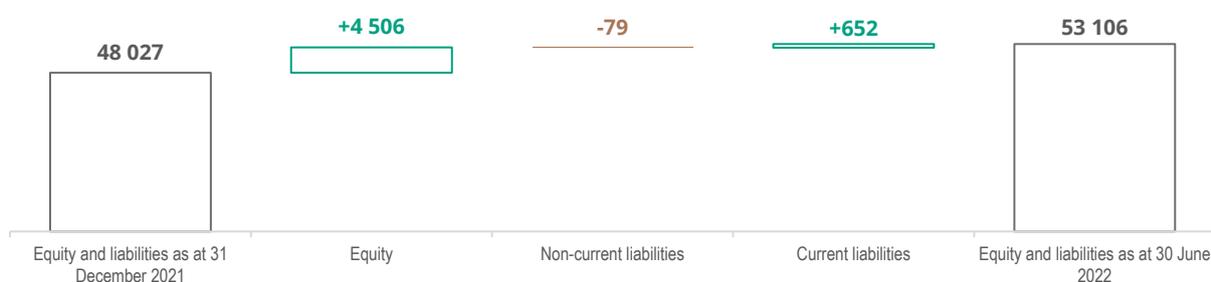
	30.06.2022	31.12.2021	Change (%)	31.03.2022
Share capital	2 000	2 000	-	2 000
Other reserves from measurement of financial instruments	(670)	(1 705)	(60.7)	(1 949)
Accumulated other comprehensive income	2 145	2 219	(3.3)	2 123
Retained earnings	28 112	24 532	+14.6	26 432
Equity attributable to shareholders of the Parent Entity	31 587	27 046	+16.8	28 606
Equity attributable to non-controlling interest	57	92	(38.0)	55
Equity	31 644	27 138	+16.6	28 661
Borrowings, leases and debt securities	4 786	5 409	(11.5)	4 809
Derivatives	1 079	1 134	(4.9)	1 163
Employee benefits liabilities	2 292	2 306	(0.6)	2 353
Provisions for decommissioning costs of mines and other facilities	1 508	1 242	+21.4	884
Deferred tax liabilities	978	643	+52.1	577
Other liabilities	629	617	+1.9	632
Non-current liabilities	11 272	11 351	(0.7)	10 418
Borrowings, leases and debt securities	1 250	455	+2.7	1 145
Derivatives	371	889	(58.3)	1 149
Trade and similar payables	3 138	2 974	+5.5	2 858
Employee benefits liabilities	1 681	1 437	+17.0	1 536
Tax liabilities	1 212	1 453	(16.6)	1 904
Provisions for liabilities and other charges	205	207	(1.0)	203
Other liabilities	2 333	1 661	+40.5	1 781
Liabilities associated with assets held for sale	-	462	x	386
Current liabilities	10 190	9 538	+6.8	10 962
Non-current and current liabilities	21 462	20 889	+2.7	21 380
TOTAL EQUITY AND LIABILITIES	53 106	48 027	+10.6	50 041

Equity as at 30 June 2022 amounted to PLN 31 644 million and was higher by PLN 4 506 million than at the end of 2021, mainly due to an increase in retained earnings by PLN 3 580 million and a decrease in the negative measurement of other reserves from the measurement of financial instruments by PLN 1 035 million.

Non-current liabilities of the KGHM Polska Miedź S.A. Group as at 30 June 2022 amounted to PLN 11 272 million and were lower by PLN 79 million compared to the end of 2021, mainly due to a decrease in liabilities due to borrowings and leases by PLN 623 million, alongside an increase in deferred income tax liabilities by PLN 335 million and provisions for decommissioning costs of mines by PLN 266 million.

Current liabilities of the KGHM Polska Miedź S.A. Group as at 30 June 2022 amounted to PLN 10 190 million and were higher by PLN 652 million compared to the end of 2021, mainly due to an increase in liabilities due to borrowings by PLN 795 million, other liabilities by PLN 672 million, employee benefits liabilities by PLN 244 million and trade and similar payables by PLN 164 million. Current liabilities were decreased mainly in respect of derivatives by PLN 518 million, liabilities associated with assets held for sale by PLN 462 million and tax liabilities by PLN 241 million.

Chart 16. Change in equity and liabilities (in PLN million)



Contingent assets and liabilities due to guarantees granted

As at 30 June 2022, the Group held contingent assets in the amount of PLN 397 million, which mainly related to the securities received for the proper execution of agreements in the amount of PLN 207 million and promissory notes receivables in the amount of PLN 142 million.

As at 30 June 2022, the Group held liabilities due to guarantees and letters of credit granted in the amount of PLN 1 174 million and promissory notes payables in the amount of PLN 144 million.

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

Sierra Gorda S.C.M. – a corporate guarantee in the amount of PLN 986 million securing the repayment of a long-term bank loan and other entities, including the Parent Entity:

- a guarantee in the amount of PLN 117 million securing the proper execution of future environmental obligations of the Parent Entity to restore terrain, following the conclusion of operations of the Żelazny Most tailings storage facility,
- guarantees and letters of credit in the total amount of PLN 54 million securing the proper execution of agreements entered into by the Parent Entity and companies in the Group.

8.2. Financing of Group activities

The Group manages its financial resources based on the approved Financial Liquidity Management Policy in the KGHM 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

Borrowings of the Group as at 30 June 2022 amounted to PLN 6 036 million, of which 93% represented debt of the Parent Entity. The amount of free cash and cash equivalents held by the Group increased by PLN 739 million compared to the end of 2021 and as at 30 June 2022 amounted to PLN 2 620 million. The Group's free cash and cash equivalents are of a short term nature.

Table 29. Net debt in the Group (in PLN million)

	30.06.2022	31.12.2021	Change (%)
Liabilities due to:	6 036	5 949	+1.5
Bank loans	736	735	+0.1
Other loans	2 675	2 568	+4.2
Debt securities	2 001	2 001	-
Leases	624	645	(3.3)
Free cash and cash equivalents	2 619	1 880	+39.3
Net debt	3 417	4 069	(16.0)

Sources of financing in the Group

As at 30 June 2022, the Group held open lines of credit, loans and bonds with a total available PLN-equivalent amount of PLN 15 468 million, out of which PLN 3 411 million had been drawn in the form of bank and other loans, while liabilities due to bonds issued by the Parent Entity amounted to PLN 2 001 million.

Unsecured, revolving syndicated credit facility in the amount of USD 1.5 billion	Financing agreement entered into by the Parent Entity with a syndicate banks group in 2019 in the amount of USD 1 500 million, with maturity falling on 20 December 2024 and the option of extending for a further 2 years (5+1+1). The Parent Entity twice obtained the consent of the Participants of the Syndicate to extend the term of the agreement. The agreement expires on 20 December 2026, and the amount of available financing during the extension period will amount to USD 1 438 million. The funds acquired through this credit facility are being used to finance general corporate goals.
Investment loans, including loans from the European Investment Bank in the total amount of PLN 3.34 billion with financing periods of up to 12 years	Financing agreement signed by the Parent Entity with the European Investment Bank: <ul style="list-style-type: none"> – in August 2014 in the amount of PLN 2 000 million, which was drawn in the form of three instalments with maturities falling on 30 October 2026, 30 August 2028 and 23 May 2029 and used to the full available amount. The funds acquired through this loan were used to finance the Parent Entity's investment projects related to modernisation of metallurgy and development of the Żelazny Most tailings storage facility, – in December 2017 in the amount of PLN 900 million which was increased up to PLN 1 340 million in June 2021. Under this loan the Company drew three instalments with maturities falling on 28 June 2030, 23 April 2031 and 11 September 2031. As at 30 June 2022, the available, undrawn limit of the loan amounted to PLN 440 million, with availability to April 2023. 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.

Bilateral bank loans in the amount of up to PLN 3.2 billion

The Group has open lines of credit in the form of bilateral agreements in the total amount of PLN 3 207 million. These are overdraft facilities with availability of up to 2 years, the maturities of which are successively extended for subsequent periods, as well as long-term investment bank loans.

The funds obtained under the aforementioned bank loan agreements are a tool supporting the management of current financial liquidity and support the financing of investments advanced by the Group's companies.

Debt securities in the amount of PLN 2.0 billion

An issue agreement dated 27 May 2019 established the bond issue program on the Polish market. 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 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. The funds obtained from the bond issue were used to finance general corporate goals.

Another source supporting the Group's liquidity is reverse factoring. The main goal of the reverse factoring program was to guarantee the effective management of working capital while ensuring the timely execution of trade payables towards the Group. Reverse factoring is a tool used by the Group as reasonably needed. Agreements with factors were entered into for an unspecified period of time and remain active with the possibility of immediately utilising the offered limits. Reverse factoring is one of the available elements of debt financing and the Group treats the available program as an effective tool to manage working capital in a situation of negative changes in the economic environment or other factors.

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

Debt position as at 30 June 2022

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

Table 30. Amount available and drawn by the Group (in PLN million)

	Amount drawn as at 30.06.2022	Amount drawn as at 31.12.21	Change (%)	Amount available as at 30.06.2022	Amount drawn (%) 30.06.2022
Unsecured, revolving syndicated credit facility	(12)	(14)	(14.3)	6 724	(0.2)
Loans	2 675	2 568	+4.2	3 537	75.6
Bilateral bank loans	748	749	(0.1)	3 207	23.3
Debt securities - bonds	2 001	2 001	-	2 000	100.1
Total	5 412	5 304	+2.0	15 468	35.0

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 - locally in PLN, USD and EUR and abroad in USD, and additionally in CAD in the KGHM INTERNATIONAL LTD. Group. The cash pooling system is aimed at optimising cash management, limiting interest costs, the effective financing of current needs in terms of financing working capital and supporting short term financial liquidity in the Group.

Loans granted

As at 30 June 2022, the balance of loans granted by the Group amounted to PLN 9 461 million. This item mainly comprises long-term loans with interest based on a fixed interest rate, granted by the KGHM INTERNATIONAL LTD. Group to finance mining assets in Chile and Canada.

Liabilities due to guarantees granted

As at 30 June 2022, the Group held liabilities due to guarantees and letters of credit granted in the total amount of PLN 1 174 million and due to promissory notes liabilities in the amount of PLN 144 million.

Detailed information on the amount and nature of liabilities due to guarantees granted may be found in part 4.5 of the half-year condensed consolidated financial statements – Liquidity risk and capital management.

Evaluation of Group liquidity

In the first half of 2022, the KGHM Polska Miedź S.A. Group was fully capable of repaying its liabilities towards other entities. The cash and cash equivalents held by the Group along with the external financing obtained ensure that liquidity will be maintained and enables the achievement of investment goals.

9. RISK MANAGEMENT IN THE GROUP

9.1. Comprehensive Risk Management System in the KGHM Polska Miedź S.A. Group

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

Under the implemented Corporate Risk Management Policy and Procedure and the current 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 this area are consistent with those of the Parent Entity.

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

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

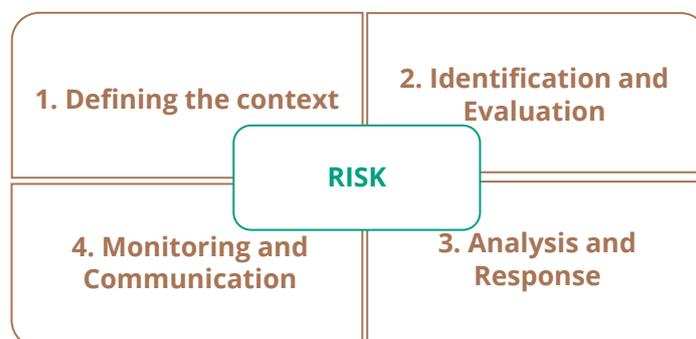
Risk factors in various areas of the KGHM Polska Miedź S.A. Group's operations are continuously identified, assessed and analysed in terms of their possible limitation. Key risk factors in the KGHM Polska Miedź S.A. Group undergo in-depth analysis in order to develop a Risk Response Plan and Corrective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

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

In the first half of 2022, the process continued of implementing a comprehensive business continuity management system, which also enables a detailed breakdown of the scope of actions undertaken as regards managing corporate risk in terms of the risk of a catastrophic impact and the small probability of their occurrence. This is expressed in the Operational continuity management policy of KGHM Polska Miedź S.A. along with the Procedure and Methodology of managing compliance in KGHM Polska Miedź S.A., adopted by the Management Board of KGHM Polska Miedź S.A. The prepared documentation of the comprehensive business continuity management system sets forth the principles and requirements to build the robustness of KGHM as regards catastrophic events by sorting out and unifying the existing approach to management of the risk of loss of operational continuity of the core production business and preparing for unforeseen events.

The corporate risk management process adopted in the KGHM Polska Miedź S.A. Group is inspired by the solutions adopted by the ISO 31000:2018 standard, best practice in risk management and the specific nature of the KGHM Polska Miedź S.A. Group, and is comprised of the following steps:

Diagram 2. Corporate risk management process



STEP 1 Defining the context	<p>The first step in the process is comprised of three actions: defining the external context, the internal context and the risk management context.</p> <p>The external context is the environment in which the KGHM Polska Miedź S.A. Group advances its Strategy. Here the definition needs to update the understanding of the social, political, legal, regulatory, financial, economic and technological aspects of the environment which affect its activities. During this step also assessed, based on the results of scenario analysis, are the most important factors for transitioning to a low-emission economy and the paths of climate change and weather models, which are processed in subsequent steps of the process.</p> <p>During the process of defining the internal context, goals are analysed (strategic/business), changes in the organisational structure are planned and performed, new areas of activities, projects, etc.</p> <p>The last part of this step is to define the risk management context, which comprises the setting or updating of goals, the scope, responsibilities and procedures and methods applied in the risk management process.</p>
STEP 2 Identification and Evaluation	<p>In this step of the process we identify and evaluate risks which could impact the achievement of goals at the level of the KGHM Polska Miedź S.A. Group. The main task in this step is to prepare a complete list of threats which could facilitate, impede, accelerate or delay the achievement of goals. Each identified risk is assigned to a category and a sub-category in the form of a Risk Model, which provides the KGHM Polska Miedź S.A. Group with a consistent risk taxonomy.</p> <p>Following its identification, each corporate risk is evaluated using a Risk Evaluation Matrix, containing a scaled breakdown of assessments by impact, vulnerability and probability. A risk may have various effects, and therefore in order to ensure the broadest recognition of potential impact and the limitation of subjective evaluation, the following Impact evaluation measures have been defined:</p> <ul style="list-style-type: none"> - Finance – impact of the effects of a given risk in its financial aspect by applying value ranges. - Strategy – evaluation of the risk's impact on the ability to achieve strategic goals. - Reputation and Stakeholders – impact of the risk on the Company's reputation, trust in the brand, investor relations, relations with stakeholders, also including on the effectiveness of actions related to building a responsible business and sustainable development. - Health and Safety – direct impact on health and safety and human life. - Natural environment – impact of the materialisation of risk on climate and natural environment as well as the functioning of the ecosystem. - Regulations and Laws – evaluation of the compliance of events with existing laws, the need to participate in proceedings before bodies of public administration of a supervisory and regulatory nature as well as potential sanctions as a result of such proceedings. - Operational continuity – evaluation of the impact of risk on interruptions to activities resulting in significant/irreversible effects and loss of access to information important from the point of view of conducted activities. <p>The results of the identification and evaluation of risk is presented in a graphic form, i.e. Risk Maps. These provide a profile of the given risk and support the process of identifying the key risk.</p>
STEP 3 Analysis and Response	<p>The goal of this step is to deepen knowledge and to understand the specific nature of the types of key risks identified in the previous step. Cause and effect analyses and a more substantive description of the means of dealing with risk are aimed at facilitating decision making on whether to maintain or eventually change current actions.</p> <p>A directional decision is called a Response to risk. A change in the way an action is taken requires the determination of Corrective Actions, meaning organisational, process, systemic and other changes which are aimed at reducing the level of the key risk.</p> <p>During this step KRIs – Key Risk Indicators – are also defined, being a set of business process parameters or environmental parameters which reflect changes to a given risk profile.</p>
STEP 4 Monitoring and Communication	<p>The goal of this step is to ensure that the adopted Risk Response Plan is effective (ad hoc and periodic reports), new risks are identified (updating of the Risk Registry), changes in the internal and external environments and their impact on activities are identified, and appropriate actions are taken in response to incidents (updating of information on Incidents).</p> <p>Effective, well-planned and appropriately performed monitoring of risk enables flexible and prompt reaction to changes occurring in the external and internal environments (e.g. risk escalation, changes in actions related to risk response, or risk evaluation parameters, etc.).</p> <p>Achievement of this step provides the assurance that risk management in the KGHM Polska Miedź S.A. Group fulfils the expectations of the Management Board of KGHM Polska Miedź S.A., the Audit Committee of the Supervisory Board of KGHM Polska Miedź S.A. and other stakeholders by supplying reliable information about risk, continuous improvement and adaptation of the quality and effectiveness of Risk Response to the demands of the external and internal context.</p>

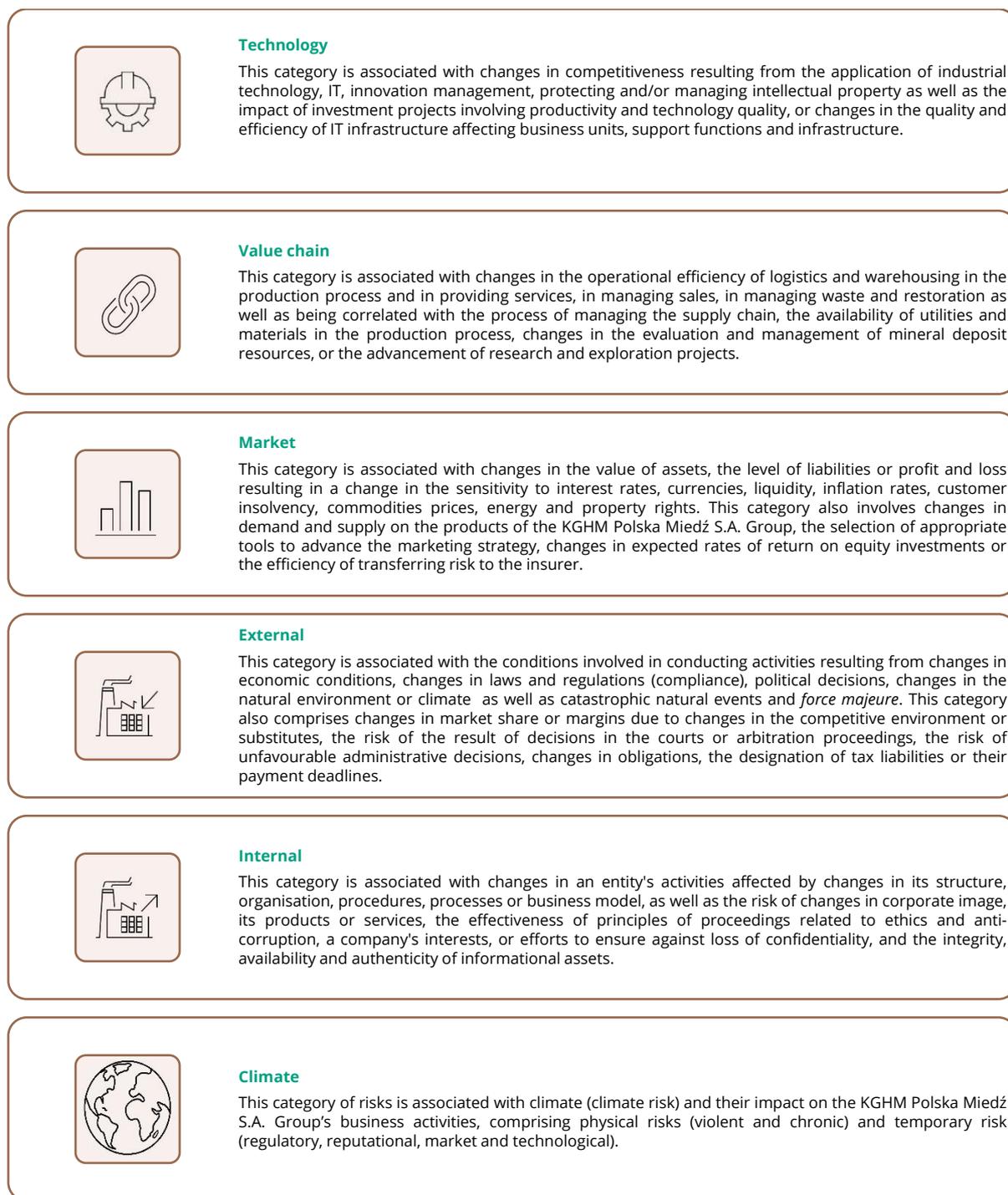
Diagram 3. Organisational structure of risk management in KGHM Polska Miedź S.A

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 supervision of its individual elements.				
1st line of defence	2nd line of defence			3rd line of defence
Management	Risk Committees			Audit
<p>Managers are responsible for identifying, assessing and analysing risk factors and for the implementation, within their daily duties, of responses to risk. Managers are tasked with ongoing supervision over the application of appropriate responses to risk within the realised tasks, to ensure the expected level of risk is not exceeded.</p>	Support the effectiveness of the risk management process.			
	Corporate Risk and Compliance Committee	Market Risk Committee	Credit Risk Committee	Financial Liquidity Committee
	Manages corporate risk and continuously monitors key risk factors	Manages risk of changes in metals prices (e.g.: copper and silver) as well as exchange and interest rates	Manages risk of failure of customers to meet their obligations	Manages risk of loss of liquidity, understood as the ability to pay financial liabilities on time and to obtain financing for operations
	<i>Corporate Risk Management Policy</i>	<i>Market Risk Management Policy</i>	<i>Credit Risk Management Policy</i>	<i>Liquidity Management Policy</i>
	<i>Compliance Management Policy</i>			
	<i>Operational Continuity Management Policy</i>			
Department of Corporate Risk Management and Compliance	Executive Director for Financial Management			Executive Director for Audit
Reports to the Management Board	Reports to the Vice President of the Management Board (Finance)			Reports to the President of the Management Board

9.2. Corporate risk – key risk factors and their mitigation

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

Diagram 4. Risk categories in the Risk Model of KGHM Polska Miedź S.A. and their definitions



The key risk in the KGHM Polska Miedź S.A. Group, along with its detailed description, mitigating activities and identification of specific risk for the Parent Entity and the KGHM INTERNATIONAL LTD. Group, were presented 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 in section 12 „Risk management in the Group”, available on the Company's website at [www.kghm.com \(https://kghm.com/en/investors/results-center/financial-reports\)](https://kghm.com/en/investors/results-center/financial-reports).

Risks and opportunities related to climate change

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, and are shaped by global megatrends and determine the environmental challenges which the KGHM Polska Miedź S.A. Group must face. The impact of climate change on the KGHM Polska Miedź S.A. Group along with its detailed description and mitigating actions were presented in the Non-financial report of KGHM Polska Miedź

S.A. and the KGHM Polska Miedź S.A. Group for 2021 in section 2.2 "Approach to climate risk management", available on the Company's website at www.kghm.com (<https://kghm.com/en/investors/results-center/financial-reports>).

Moreover, in 2021 the KGHM Group adopted a Climate Policy which represents a systemic solution enabling the implementation of reporting guidelines for non-financial information. As part of this work a comprehensive analysis is underway to further identify threats and opportunities related to climate change which are currently impacting or will have an impact on KGHM Polska Miedź S.A., as well as threats and opportunities related to the impact of KGHM Polska Miedź S.A. on the climate. A detailed categorisation of physical risks and transformational risks related to climate change was also conducted utilising the TCFD recommendations.

Impact of the COVID-19 (coronavirus) pandemic on risk assessment

Evaluation of the key categories of risk, which are impacted by the coronavirus pandemic, underwent detailed analysis by the on-going monitoring of selected information in the areas of production, sales, supply chains, personnel management and finance, in order to support the process of reviewing the current financial and operating situation of the KGHM Polska Miedź S.A. Group.

From the Company's point of view, a significant effect of the COVID-19 pandemic as well as the impact of the war in Ukraine was their impact on market risk related to the volatility of metals prices and market indices in the first half of 2022. The Company's share price at the end of the first half of 2022 decreased by 31% compared to prices at the end of the first quarter of 2022 and by 15% compared to the end of 2021, and at the close of trading on 30 June 2022 amounted to PLN 118.90. During these same periods the WIG index fell by 17% and 23%, and the WIG20 index by 20% and 25%. As a result of these changes in share price, the Company's market capitalisation decreased from PLN 27.88 billion at the end of 2021 to PLN 23.78 billion at the end of the first half of 2022.

As at the date of publication of this report, the Management Board of the Parent Entity assesses the risk of interruptions to its operations due to the coronavirus as low. The observed, slight interruptions to the supply chains for materials and services continue to be without impact on the continuity of the Core Production Business' operations.

In terms of sales, the majority of customers do not feel any strong negative impact from the epidemic on their activities, thanks to which their liabilities due to sales to the Parent Entity are being regulated on time, while deliveries to customers continue without interruption.

The Group is fully capable of regulating its liabilities. The cash held by the Group along with its external financing guarantee its continued financial liquidity. Basing the Group's financing structure at the level of the Parent Entity on long-term and diversified sources of financing has ensured the Company and the Group of long-term financial stability by prolonging the average weighted maturity of the debt of KGHM Polska Miedź S.A.

As a result of centralisation of the process of acquiring external financing to meet the needs of the entire Group, for the purpose of intra-Group liquidity transfers a debt instrument is used in the form of owner loans, supporting the investment process, and in terms of servicing current activities the Group makes use of local and international cash pooling.

At present the Parent Entity has not identified any substantial risk of failure to adhere to the financial covenants contained in borrowing agreements arising from the COVID-19 pandemic.

The Group continues to advance investment projects in accordance with the adopted schedules, and at the same time has not identified any heightened risk related to their continuation resulting from the coronavirus pandemic.

During the reported period there have not occurred any interruptions to operations of the Group as a result of infections from the virus amongst the employees. There has still not been any substantial increase recorded in absenteeism either amongst the employees of the Parent Entity's core production business or in the domestic and international production assets due to the pandemic.

Given the threat of subsequent waves of the COVID-19 pandemic, the Parent Entity maintains on-going monitoring of the global economic situation in order to evaluate its impact on the KGHM Polska Miedź S.A. Group and to undertake actions mitigating this impact. Questions related to the COVID-19 pandemic and its impact on the operations of the KGHM Polska Miedź S.A. Group are described in section 10.1 of this Report „Factors which, in the issuer's opinion, will impact its results over at least the following quarter”.

Impact of the war in Ukraine on risk assessment

The key risk factors which are impacted by the war in Ukraine were analysed in depth by the ongoing monitoring of selected information as regards production, sales, the supply chain and the management of personnel and finances, in order to support the process of verifying the current financial and operational condition of the KGHM Polska Miedź S.A. Group.

From the Company's point of view, the impact of the war in Ukraine and the impact of the COVID-19 pandemic discussed above is their impact on market risk related to the volatility of metals prices and market indices in the first half of 2022. The change in the Company's share price, which was significantly influenced by the condition of the global economy, largely dependent on the situation in Ukraine, is presented above in the subsection on the impact of the COVID-19 pandemic on risk assessment.

The expected increase in the near term of prices of fuels and energy carriers may continue to be the main factor generating an increase in cost of sales, selling costs and administrative expenses.

While individual deviations have been observed in the availability of raw and other materials, at the present time the KGHM Polska Miedź S.A. Group is not experiencing a substantial negative impact of this volatility on its operations. It cannot however be ruled out that a continuation of this armed conflict over an extended period of time as well as the system of economic sanctions could have a substantially greater negative impact on suppliers and customers and lead to unfavourable deviations in the continuity of materials and services supply chains in the KGHM Polska Miedź S.A. Group as well as in the receipt of products, caused among others by logistical restrictions and availability of materials (e.g. steel), fuels and energy on international markets. Taking into consideration the continuity of supply of energy carriers (natural gas, coal, coke), the KGHM Polska Miedź S.A. Group at the present time is not experiencing a negative impact from the suspension of Russian natural gas, coal and coke deliveries, and is fully capable of maintaining the continuity of the Core Production Business and of all production processes.

The geopolitical situation associated with the direct aggression of Russia on Ukraine and the implemented system of sanctions at the present time is not restricting the operations of KGHM Polska Miedź S.A. or the other companies of the Group, while the risk of interruptions to the operational continuity of the Company and the KGHM Polska Miedź S.A. Group in this regard continues to be considered as low.

KGHM Polska Miedź S.A. does not have direct substantial transactions with entities from Russia, Belarus or Ukraine, but such contacts are held by some of the Company's customers, mainly traders of wire rod, which could indirectly impact the level of purchases made by such clients.

Restriction of the availability of Russian cathodes on European markets, and at the same time the continuation of a high level of consumption of copper by the markets, was in the second quarter of 2022 one of the factors positively influencing the prices of individual copper products. The high rate of inflation in the economy and the tightening of monetary policy is however raising concerns about the rate of economic growth and the dynamics of metals prices in the second half of 2022. As of today it is impossible to estimate the impact of the potential aforementioned events on potential profit for the period and the situation is continuously monitored with the simultaneous use of possible mitigating actions.

KGHM Polska Miedź S.A. has no receivables from entities with their registered head offices in Russia or Ukraine, as Russian and Ukrainian entities are not direct recipients of the basic products sold by KGHM.

In terms of the availability of capital and the level of debt, KGHM does not hold bank loans drawn from institutions threatened with sanctions.

From the point of view of exchange differences (the revaluation of balance sheet items), a weakening of the PLN may mean positive (unrealised) exchange differences due to the fact that the amount of the loans granted by KGHM in USD is higher than the amount of borrowings in USD.

In terms of the other companies of the KGHM Polska Miedź S.A. Group, the situation in Ukraine in the first half of 2022 did not have a substantial impact on the operating results generated by these entities.

As a result of the impact of the armed conflict in Ukraine, the Parent Entity continuously monitors the global economic situation to assess its impact on the KGHM Polska Miedź S.A. Group and to take actions to mitigate this impact. Questions connected with this war and its impact on the activities of the KGHM Polska Miedź S.A. Group are described in section 10.1 of this Report „Factors which, in the issuer's opinion, will impact its results over at least the following quarter”.

Political risk in Chile

Due to the dynamic situation in Chile, including the approaching constitutional referendum, there is an observable increase in exposure to political risk, which may have an impact on, among others, the tax burden related to the activities conducted there. The Parent Entity continuously monitors the political situation in Chile and the related impact on the mining industry in order to current assessment of the potential effects on the KGHM Polska Miedź S.A. Group. Depending on the direction of changes and the decisions made by the Chilean authorities and community, various scenarios are analysed that will require appropriate adaptation measures.

Market risk management

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.

Commodity risk, currency risk

In terms of the realisation of strategic plan of hedging the Parent Entity against market risk, in the first half of 2022 transactions on the forward currency market were implemented. Put options were purchased to cover USD 135 million of planned revenues from sales with maturities from April 2022 to December 2022 as well as put options to cover USD 70 million of planned revenues in the period from June 2022 to December 2022. In the first half of 2022, collar options structures were also entered into on the currency market in the total notional amount of USD 960 million of planned revenues from sales in the period from January 2023 to December 2024.

In the first half of 2022, the Parent Entity did not enter into any derivatives transactions on the forward copper, silver and interest rate markets.

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 30 June 2022 drawn in USD, following their conversion into PLN, amounted to PLN 3 131 million (as at 31 December 2021: PLN 2 980 million).

As at 30 June 2022, the Parent Entity held open CIRS (Cross Currency Interest Rate Swap) transactions for the total notional amount of PLN 2 billion, hedging both revenues from sales in terms of currency as well as in terms of the variable interest rate of the issued bonds.

In the first half of 2022, none of the Group's mining subsidiaries implemented forward transactions on the metals and currency markets, and did not hold open positions as at 30 June 2022. There did exist risk related to metals prices involving derivatives embedded in long-term contracts for the supply of sulphuric acid and water.

Some of the Group's Polish companies managed the currency risk related to their core businesses by opening derivative transactions on the currency market.

Interest rate risk

As at 30 June 2022, the balance of items exposed to interest rate risk by impacting the amount of interest income and costs was as follows:

- cash and cash equivalents: PLN 3 078 million, including the deposits of special purpose funds: the Mine Closure Fund and the Tailings Storage Facility Restoration Fund,
- borrowings: PLN 2 065 million.

As at 30 June 2022, the balance of items exposed to interest rate risk due to changes in the fair value of instruments with fixed interest rates was as follows:

- receivables due to loans granted by the Group: PLN 23 million,
- borrowings (i.e. bank and other loans drawn with fixed interest rates): PLN 3 347 million.

In the first half of 2022, the Parent Entity did not implement any transactions hedging against the risk of changes in interest rates. As at 30 June 2022, it held open CIRS (Cross Currency Interest Rate Swap) transactions for the notional amount of PLN 2 billion, hedging both revenues from sales in terms of currency as well as in terms of the variable interest rate of the issued bonds.

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 a loan in USD designated as a hedge against a change in the exchange rate) on the Group's profit or loss in the first half of 2022 amounted to -PLN 372 million, of which:

- PLN 377 million decreased revenues from contracts with customers,
- PLN 7 million increased the result on other operating activities,
- PLN 2 million decreased the result on financing activities.

In addition, in the first half of 2022 other comprehensive income increased by PLN 1 125 million (impact of hedging instruments).

As at 30 June 2022, 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 49 million.

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 30 June 2022, the carrying amount of shares of companies which were listed on the Warsaw Stock Exchange and on the TSX Venture Exchange amounted to PLN 667 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 policy in this regard. The main body involved in actions in this area is the Credit Risk Committee.

Credit risk related to trade receivables

To reduce the risk of insolvency by its customers, the Parent Entity has entered into a receivables insurance contract, which covers receivables from entities with open 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 30 June 2022 the Parent Entity had secured 90% of its trade receivables (as at 31 December 2021: 84%).

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 cooperates, and by limitation of the level of concentration in individual institutions. As at 30 June 2022, 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 19% (as at 31 December 2021: 41%).

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.

Taking into account the receivables due to open derivative transactions held by the Group (excluding embedded derivatives) as at 30 June 2022, as well as net receivables due to settled derivatives, the maximum share of a single entity in the amount exposed to credit risk arising from these transactions amounted to 25%, i.e. PLN 350 million (as at 31 December 2021: 26%, i.e. PLN 227 million).

Despite the concentration of credit risk related to derivatives transactions, the Parent Entity believes that due to its cooperation solely with renowned financial institutions, as well as ongoing monitoring of their ratings, it is not materially exposed to credit risk as a result of transactions entered into with them.

Credit risk related to loans granted

As at 30 June 2022, the balance of loans granted by the Parent Entity amounted to PLN 8 630 million. The most important of these are long-term loans in the total amount of PLN 8 549 million granted to the company Future 1 and to the KGHM INTERNATIONAL LTD. Group.

As at 30 June 2022, the balance of loans granted by the Group amounted to PLN 9 461 million. The most important of these are long-term loans in the total amount of PLN 9 438 million, i.e. USD 2 105 million, granted by the 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 assessed by the Management Board of the Parent Entity as moderate.

Management of financial liquidity risk and of capital

Important information regarding financial liquidity risk and capital management is presented in part 4 of the condensed consolidated financial statements.

10. OTHER INFORMATION

10.1. Factors which, in the issuer's opinion, will impact its results over at least the following quarter

The most significant factors affecting the results achieved by the KGHM Polska Miedź S.A. Group, through the Parent Entity, including in particular over the following quarter, may be:

- The ongoing war in Ukraine and the system of economic sanctions and their potential impact on:
 - higher prices of fuels and energy carriers,
 - interruptions in the supply chain and the availability of materials (e.g. steel), fuels and energy on international markets,
- the dynamic political situation in Chile and its potential negative impact on the tax burden related to the activities conducted there,
- the possible for a global economic slowdown or recession,
- a subsequent wave of the COVID-19 pandemic and its potential for interruptions to the continuity of operations or restrictions in activities,
- exceptional legal changes (e.g. special laws) due to the ongoing war in Ukraine or the COVID-19 pandemic,
- volatility in copper and silver prices on the metals markets,
- volatility in the USD/PLN exchange rate,
- volatility in electrolytic copper production costs, including in particular due to the minerals extraction tax, changes in the value of consumed copper-bearing materials and volatility in prices of energy carriers and electricity,
- the effects of the implemented hedging policy,
- the general uncertainty on financial markets, and
- an increase in the prices of materials and services resulting from the observed inflation.

The most significant factors affecting the results achieved by the KGHM Polska Miedź S.A. Group through the KGHM INTERNATIONAL LTD. Group, including in particular over the following quarter, may be:

- similarly as in the case of the Parent Entity, the ongoing war in Ukraine and the global COVID-19 pandemic as well as potential impact of these factors on business continuity disruptions or business restrictions,
- a possible global economic slowdown or recession,
- volatility in metals prices: copper, silver, gold and molybdenum,
- volatility in exchange rates: CLP/USD and USD/PLN,
- volatility in the cost of copper mining production,
- an increase in the prices of materials and services resulting from the observed inflation.

Taking into consideration the ongoing military conflict in Ukraine, the risk of a subsequent wave of the COVID-19 pandemic and inflation observed, there still remains uncertainty regarding the directions of development of the economic and social situation in Europe and globally.

The above may affect the results of the Group in subsequent quarters. However, it is not possible to present quantitative estimates of the potential impact of current conditions on the results of the KGHM Group. To date, there has not yet been recorded a substantial negative impact of above-mentioned factors on the continuity of production of the Core Business, on sales or on the continuity of the supply chain for materials and services. However, their future negative impact cannot be excluded over subsequent quarters, especially in the context of conducting business in conditions of rising prices and a fluctuating demand and supply conditions or logistic restrictions.

The situation in Ukraine, in particular the conclusion of the conflict, will be important for the domestic and global economy, which could have a positive impact on the stability of the international fuel and energy market and the stability of the supply chain. The Parent Entity continues to monitor the global economic situation, in order to assess its potential negative impact on the KGHM Polska Miedź S.A. Group and to take actions to mitigate this impact.

10.2. Position of the Management Board with respect to the possibility of achieving previously published forecasts of results

KGHM Polska Miedź S.A. does not publish forecasts of financial results.

10.3. Significant contracts for the Group

In the first half of 2022, and to the date of preparation of this report, the following contracts significant for the activities of the Parent Entity and the Group were entered into:

20 April 2022	
	A Letter of Intent was signed with Tauron Polska Energia S.A. („Tauron”), in which the parties are considering undertaking strategic cooperation involving research and development and future investment projects with respect to the construction of energy generation sources utilising small nuclear reactors (SMR) technology. The objective of the cooperation between the Parties to the Letter of Intent is to set forth the possibilities, nature and particulars of potential joint involvement in the advancement of SMR-related investment projects. The subject of the cooperation will include, among others, an analysis of available technology and the possibility of placing generating installations in neighbouring receiving infrastructure, as well as the possibility of utilising the existing infrastructure of existing power blocks along with identification of the possibility of obtaining optimum technology, investing in a different manner or engaging in other forms of cooperation with third parties which are already advancing or planning to advance SMR-related investment projects. The Company sees a significant potential and possibility to achieve the effect of synergy by engaging in joint actions with Tauron aimed at investing in SMR technology. These actions are in line with the Company's strategic goals, in particular those involving Energy – the new SE development direction. According to it, the Company will implement low-emission energy sources in the Core Production Business, and in future could sell energy to third parties, at the same time generating new revenue sources. The Letter of Intent is solely an expression of the intentions of the Parties to establish cooperation, and that the resolutions of the Letter of Intent are not in any way binding for the Parties. The Letter of Intent is in force until such time as one of the Parties expresses a desire to withdraw from further cooperation.

10.4. Information on transactions entered into between related parties, under other than arm's length conditions

The KGHM Polska Miedź S.A. Group has implemented a variety of internal rules and regulations regulating the principles under which contracts between the Group's entities may be entered into, including:

- The Organisational Regulation of the Vice President of the Management Board (Finance) of KGHM Polska Miedź S.A. regarding the introduction in the organisational units of KGHM Polska Miedź S.A. of rules for setting transaction prices and procedures for preparing taxation documentation, and setting rules for the cooperation of KGHM Polska Miedź S.A. with the companies of the Group,
- The Principles of Financial Management and Economic System of KGHM Polska Miedź S.A., and
- The Procurement Policy of the KGHM Polska Miedź S.A. Group.

Acting in compliance with the aforementioned rules and regulations, during the first half of 2022 neither the Parent Entity nor its subsidiaries entered into significant transactions with related parties under other than arm's length conditions.

10.5. Human resources in the Company and Group

KGHM Polska Miedź S.A.

Employment in KGHM Polska Miedź S.A. as at 30 June 2022 amounted to 18 657 people, and was 0.7% higher than at the end of the corresponding prior year period. Average annual employment in KGHM Polska Miedź S.A. in the first half of 2022 amounted to 18 595 people and was higher than the level of employment in the first half of 2021 by 75 people.

The increase in employment was mainly due to the following reasons:

- higher employment in the IT services, in particular in the area of cybersecurity,
- an increased need for qualified workers to continue the development of the Żelazny Most tailings storage facility.

Table 31. Average employment in KGHM Polska Miedź S.A.

	1st half 2022	1st half 2021	Change (%)
Mines	12 466	12 448	+0.1
Metallurgical plants	3 615	3 621	(0.2)
Other divisions	2 514	2 451	+2.6
KGHM Polska Miedź S.A.	18 595	18 520	+0.4

Group

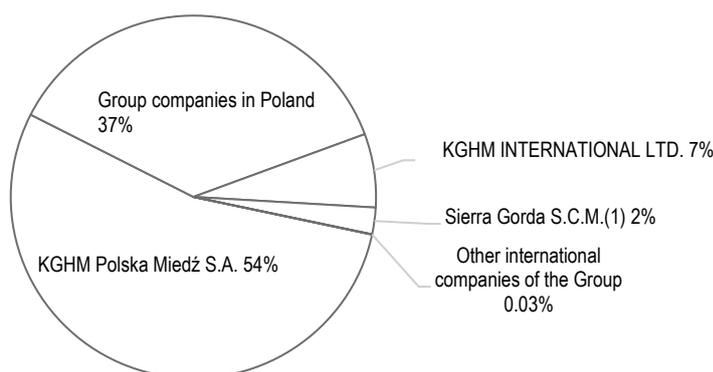
In the first half of 2022, 34 330 people were employed in the Group, or a slight increase as compared to the first half of 2021. The employment structure is shown in the following table and chart:

Table 32. Average employment in the Group

	1st half 2022	1st half 2021	Change (%)
KGHM Polska Miedź S.A.	18 595	18 520	+0.4
Companies of the KGHM Group in Poland	12 659	12 733	(0.6)
KGHM INTERNATIONAL LTD.	2 253	2 137	+5.4
Sierra Gorda S.C.M. ⁽¹⁾	814	780	+4.4
Other international companies of the KGHM Group	9	9	-
Total	34 330	34 179	+0.4

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

Chart 17. Employment structure in the Group in the first half of 2022



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

Companies in Poland

In the first half of 2022, compared to the first half of 2021, average employment in the companies of the KGHM Polska Miedź S.A. Group in Poland slightly decreased, that is by 74 positions. This decrease did not exceed 1%. This change was mainly in respect of blue-collar positions and was the result of changes in the composition of the Group and adapting employment to current needs.

Companies abroad

In the first half of 2022, compared to the first half of 2021, average employment in the companies of the KGHM INTERNATIONAL LTD. Group increased by 116 positions (i.e. by 5.4%). This change was mainly in respect of blue-collar positions in the companies acting under the DMC Mining Services brand, which provide services involving among others the sinking of shafts, the construction of mine facilities and engineering services, in particular for external customers. Employment in the companies of DMC depends on contracts currently being advanced.

In the first half of 2022, compared to the first half of 2021, average employment in Sierra Gorda S.C.M. increased by 34 positions (i.e. by 4.4%). The change in the level of employment in both blue-collar and white-collar positions was due to the decision to sign an agreement to transfer the Oxide project from the structure of KGHM Chile SpA to Sierra Gorda S.C.M., advancement of a professional apprenticeships program and a planned increase in employment, in accordance with the Company's adopted budget.

10.6. Litigation and claims

List of significant proceedings before courts, arbitration authorities or public administration authorities respecting the liabilities and receivables of KGHM Polska Miedź S.A. and its subsidiaries

<p>Proceedings regarding royalties for use of invention project no. 1/97/KGHM called "Method for increasing the production capacity of the electrorefining sections of the Metallurgical Plants"</p>	<p>On 26 September 2007, Plaintiffs (14 natural persons) filed a claim against KGHM Polska Miedź S.A. (Company) with the Regional Court in Legnica for the payment of royalties for the use by the Company of invention project no. 1/97/KGHM called „Sposób zwiększenia zdolności produkcyjnej wydziałów elektrowydzielniczych Huty Miedzi” (Method for increasing the production capacity of the electrorefining sections of the Metallurgical Plants) for the 8th calculation period, together with interest due. The amount of the claim (principal amount) was set by the Plaintiffs in the claim in the amount of approx. PLN 42 million (principal amount without interest and court costs) and interest as at 31 March 2019 amounted to approx. PLN 55 million. On 21 January 2008, in the response to the claim, KGHM Polska Miedź S.A. requested the dismissal of the claim in its entirety and filed a counter claim for the repayment of undue royalties paid for the 6th and 7th year of application of invention project no. 1/97/KGHM, together with interest due, also invoking the right of mutual set-off of claims. The amount of the claim (principal amount) in the counter claim was set by the Company in the amount of approx. PLN 25 million. In a judgment dated 25 September 2018, the Regional Court in Legnica dismissed the counter claim and partially upheld the principal claim to the total amount of approx. PLN 24 million, and at the same time ordered the payment of interest in the amount of approx. PLN 30 million, totalling to amount of PLN 54 million. Both parties to the proceedings appealed against this judgment. In a judgment dated 12 June 2019, the Court of Appeal in Wrocław dismissed the appeals of both parties. The judgment in force was executed by KGHM on 18-19 June 2019. KGHM Polska Miedź S.A. filed a cassation appeal against the judgment of the court of second instance, i.e. with respect to the partially upheld principal claim in the amount of approx. PLN 24 million as well as with respect to the dismissed counter-claim in the amount of approx. PLN 25 million. The cassation appeal was admitted to be heard. In accordance with the Company's position, the Plaintiffs' claim should be dismissed in its entirety and the counter claim is justified. The Company in this regard paid the Plaintiffs-authors of the project royalties for a longer period of application of the project than anticipated in the initial contract entered into by the parties on advancing the invention project, based on an annex to the contract, extending the period of payment of royalties, whose validity is questioned by the Company. Moreover, the Company is questioning the „rationalisation” nature of the solutions, as well as whether they were in fact used in their entirety, and also their completeness and suitability for use in the form supplied by the Plaintiffs as well as the means of calculating the economic effects of this solution, which were the basis for paying the royalties. The matter was admitted to be heard by the Supreme Court under case number II CSKP 189/22.</p>
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10.7. Shareholders and the capital market

Shareholder structure of KGHM Polska Miedź S.A.

As at 30 June 2022, the share capital of the Company, in accordance with the entry in the National Court Register, amounted to PLN 2 000 million and was divided into 200 million shares, series A, having a face value of PLN 10 each. All shares are bearer shares. Each share grants the right to one vote at the General Meeting. The Company has not issued preference shares.

In the first half of 2022, there was no change in either registered share capital or in the number of outstanding shares issued.

During this time there was no change in the ownership structure of significant blocks of shares of KGHM Polska Miedź S.A. The Company's shareholder structure as at 30 June 2022 and at the date this report was prepared, 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, is shown in the following table. As far as the Company is aware, there was no change to this structure since the date the consolidated report for the first quarter of 2022 was published.

Table 33. Shareholder structure of the Company as at the date this report was prepared

Shareholder	number of shares /votes	% of share capital /total number of votes
State Treasury ¹⁾	63 589 900	31.79%
Nationale-Nederlanden Otwarty Fundusz Emerytalny ²⁾	10 104 354	5.05%
Aviva Otwarty Fundusz Emerytalny Aviva Santander ³⁾	10 039 684	5.02%
Other shareholders	116 266 062	58.13%
Total	200 000 000	100.00%

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

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

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

Other shareholders, whose combined interest in the share capital and in the total number of votes amounts to 58.13%, are mainly institutional investors, both international and domestic.

According to information possessed by KGHM Polska Miedź S.A., as at the date of preparation of this report none of the Members of the Company's Management Board or Supervisory Board held shares of KGHM Polska Miedź S.A. or rights to them. There was no change in this situation in the period since the date of publication of the consolidated report for the first quarter of 2022.

The Company does not hold any treasury shares. The Management Board of the Company is unaware of any agreements which could result in changes in the proportion of the Company's shares held by present shareholders in the future.

The shares of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange

KGHM Polska Miedź S.A. debuted on the Warsaw Stock Exchange (WSE) in July 1997. The Company's shares are traded on the primary market of the WSE in the continuous trading system and are a component of the WIG, WIG20 and WIG30 main indices as well as the WIG-ESG index, comprising listed companies which adhere to the principles of corporate social responsibility. The Company is also a component of the WIG-MINING index. Moreover, KGHM Polska Miedź S.A. is a component company of the FTSE4Good Index Series. The FTSE4Good Index Series is part of the group of ethical investment indicators, reflecting criteria of corporate social responsibility and ESG risk management.

Performance of the Company's shares in the first half of 2022

In the first half of 2022 the share price of KGHM Polska Miedź S.A. decreased by 15% and at the close of trading on 30 June 2022 amounted to PLN 118.90. During the same period the price of copper – the Company's main product – fell by 15%, alongside an increase in the average USD/PLN exchange rate by 10%. At the same time the following WSE indices recorded declines: the WIG index by 23%, the WIG20 index by 25% and the WIG30 index by 25%. Meanwhile, the FTSE 350 mining index – comprised of companies from the mining sector listed on the London Stock Exchange – rose by 3%.

The Company's shares reached their maximum half-year closing price of PLN 182.20 on 24 March 2022. The minimum closing price of PLN 114.30 was recorded on 23 June 2022.

Chart 18. Share price of KGHM Polska Miedź S.A. versus the WIG index and FTSE 350 mining index (percentage change)



Source: Own work, Bloomberg

Key share price data of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange are presented in the following table.

Table 34. Key share price data of the Company on the Warsaw Stock Exchange

Symbol: KGH, ISIN: PLKGHM000017	Unit	I-VI 2022	I-VI 2021	2021
Number of shares issued	million	200	200	200
Market capitalisation of the Company at period's end	PLN billion	23.8	37.5	27.9
Average trading volume per session	thousand shares	759	604	585
Change in share price during the period	%	-14.7	2.5	-23.2
Highest closing price during the period	PLN	182.20	223.80	230.80
Lowest closing price during the period	PLN	114.30	166.70	131.50
Closing price from the last day of trading in the period	PLN	118.90	187.65	139.40

Source: Own work, WSE Statistic Bulletins for 2021 and for the first half of 2022, Bloomberg

Appropriation of profit

In accordance with Resolution No. 6/2022 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 21 June 2022 regarding the appropriation of the Company's profit for financial year 2021, earned profit was appropriated in the following manner: the amount of PLN 600 million (3.00 PLN/share) as a shareholder dividend, while PLN 4 569 million was transferred to the Company's reserve capital.

The Ordinary General Meeting of KGHM Polska Miedź S.A. set the dividend date for 2021 at 7 July 2022 and the dividend payment date for 2021 at 14 July 2022.

10.8. Organisational changes in the Group

In the first half of 2022, the following organisational changes in the Group occurred:

<p>Disposal of hotel companies: INTERFERIE S.A., Interferie Medical SPA sp. z o.o.</p>	<p>On 21 February 2022, KGHM VII Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (hereafter: the Fund), with 100% of its Investment Certificates held by KGHM Polska Miedź S.A., sold all of its directly held shares in the company Interferie Medical SPA sp. z o.o. with its registered head office in Legnica, i.e. 41 309 shares representing 67.37% of the share capital and the same percent of votes at the shareholders' meeting, to Polski Holding Hotelowy sp. z o.o. The owner of the remaining 32.63% of the share capital of the company Interferie Medical SPA sp. z o.o. was the Fund's indirect subsidiary, INTERFERIE S.A.</p> <p>On 28 February 2022, as a result of the settlement of the call for the sale of shares of INTERFERIE S.A., announced by Polski Holding Hotelowy sp. z o.o., the portfolio companies of the Fund: Fundusz Hotele 01 Sp. z o.o. S.K.A. and Fundusz Hotele 01 Sp. z o.o., sold all of their shares in INTERFERIE S.A., i.e. in total 10 152 625 shares, representing 69.71% of the share capital and the same percent of votes at the general meeting.</p> <p>As a result of the above, neither KGHM Polska Miedź S.A. nor any entities of the KGHM Group has any shares in the companies: INTERFERIE S.A. and Interferie Medical SPA sp. z o.o.</p>
<p>Disposal of Sociedad Contractual Minera Franke (SCMF) – a subsidiary of the KGHM INTERNATIONAL LTD. Group</p>	<p>On 26 April 2022 subsidiaries of KGHM INTERNATIONAL LTD., i.e. Franke Holdings Ltd. and Centenario Holdings Ltd. signed an agreement for the sale of 100% of the shares of the company Sociedad Contractual Minera Franke (SCMF), being the owner of the Franke mine in Chile, to the company Minera Las Cenizas S.A. for the initial-negotiated purchase price of USD 25 million.</p> <p>The negotiated initial purchase price was adjusted by among others the change in net working capital, cash and cash equivalents and borrowings, between 31 March 2022 and the transaction date. The final purchase price for 100% of the shares of the company SCMF amounted to USD 23 million. The carrying amount of assets and liabilities which were the subject of the sales transaction as at the transaction date amounted to USD 19 million.</p> <p>Apart from the initial payment (initial purchase price), the pricing mechanism reflects contingent payments in the maximum amount of USD 45 million. Given the probability of receiving these payments and the timeframe for their execution, they were measured at a discounted amount of USD 13 million and recognised in gains from disposal.</p>
<p>De-registration of the company Future 7 sp. z o.o. in liquidation</p>	<p>On 3 January 2022 the company Future 7 sp. z o.o. in liquidation, in respect of which the liquidation process began in July 2020, was de-registered.</p>
<p>Submission of a Court application for the bankruptcy of NANO CARBON Sp. z o.o. in liquidation</p>	<p>On 21 January 2022 the liquidator of NANO CARBON Sp. z o.o. submitted a Court application for the company's bankruptcy.</p>
<p>Acquisition of shares of KGHM Centrum Analityki sp. z o.o.</p>	<p>On 28 June 2022, the Extraordinary Shareholders' Meeting of KGHM Centrum Analityki sp. z o.o. adopted a resolution on an increase in the share capital of the company by PLN 7 million. All of the new shares in the increased share capital were acquired by KGHM Polska Miedź S.A. and they were covered by cash in the amount of PLN 7 million. Following this increase, the share capital amounts to PLN 7 050 thousand. This increase was registered by the court on 11 July 2022. KGHM Polska Miedź S.A. owns 100% of the shares of this company.</p> <p>The company operates in the modern technology sector, in the area of analysis of data and their utilisation in the optimisation of business processes, production and energy efficiency.</p>
<p>Acquisition of shares of TUW-CUPRUM</p>	<p>On 30 June 2022, the Ordinary General Meeting of Towarzystwo Ubezpieczeń Wzajemnych CUPRUM adopted a resolution on the allocation of the balance sheet surplus for 2021, by allocating PLN 6 million to increase reserve capital. The shares arising from the increase in the share capital were allocated to the current shareholders of TUW-CUPRUM, proportionally to their interest in the share capital as at 30 June 2022. The shareholders of TUW-CUPRUM are six companies in the KGHM Group, in respect of which the largest interest, i.e. 96.8% in the share capital belongs to KGHM Polska Miedź S.A. KGHM Polska Miedź S.A. acquired shares with the total value of PLN 5.8 million in the increased share capital of TUW-CUPRUM, while its interest following the increase in the share capital amounts to PLN 27 million.</p>

Moreover, due to the reorganisation process of the Group which was advanced in the second quarter of 2022, the following subsequent events took place within the portfolio companies of the KGHM VII FIZAN Fund:

- on 20 July 2022, the Extraordinary Shareholders' Meeting of a direct subsidiary CUPRUM Nieruchomości sp. z o.o. increased the share capital of this entity by the amount of PLN 368.4 million. All of the shares in the increased share capital were acquired by KGHM Polska Miedź S.A. and paid for in cash on 1 August 2022. Moreover, the name of the company was changed from CUPRUM Nieruchomości sp. z o.o. to CUPRUM Zdrowie sp. z o.o. Up to the date of publication of this Report, the change in the Articles of Association of the company CUPRUM Nieruchomości sp. z o.o. has not been registered by the registry court;
- from 27 July to 1 August 2022, sales transactions were concluded by KGHM VII FIZAN to the company CUPRUM Nieruchomości sp. z o.o. of shares in all portfolio companies of the Fund, including four spa companies: Uzdrowiska Kłodzkie S.A. - Grupa PGU, Uzdrowisko Połczyn Grupa PGU S.A., Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU, Uzdrowisko Świeradów - Czerniawa Sp. z o.o. - Grupa PGU;
- as of 1 August 2022 all shares of the portfolio companies of the Fund were transferred to CUPRUM Nieruchomości sp. z o.o., while only cash remained in the Fund,
- on 2 August 2022, KGHM VII FIZAN acquired from KGHM Polska Miedź S.A., at the Parent Entity's request, 99,8% of Investment Certificates of the Fund for the amount of PLN 366.4 million (crediting of the Company's account took place on 4 and 5 August 2022).

Entities subject to consolidation

As at 30 June 2022, the Group was composed of the Parent Entity – KGHM Polska Miedź S.A. – and 38 direct and indirect subsidiaries consolidated using the simultaneous method, as well as the KGHM INTERNATIONAL LTD. Group consolidated by including its consolidated financial statements in the financial statements at the highest level of Group consolidation. Altogether, 65 entities (including KGHM Polska Miedź S.A.) were consolidated.

At the end of the first half of 2022, two jointly-controlled entities were accounted for using the equity method in the consolidated financial statements: Sierra Gorda S.C.M. and NANO CARBON Sp. z o.o. in liquidation.

Excluded from consolidation was Towarzystwo Ubezpieczeń Wzajemnych „CUPRUM”, whose assets, revenues and financial results do not have a significant impact on the consolidated statement of financial position and the consolidated statement of comprehensive income.

The detailed structure of the KGHM Polska Miedź S.A. Group as well as the KGHM INTERNATIONAL LTD. Group as at 30 June 2022 may be found in Appendices 1 and 2.

APPENDIX 1 KGHM POLSKA MIEDŹ S.A. GROUP STRUCTURE

The percentages shown represent the total share of the Group.



1) joint venture accounted for using the equity method

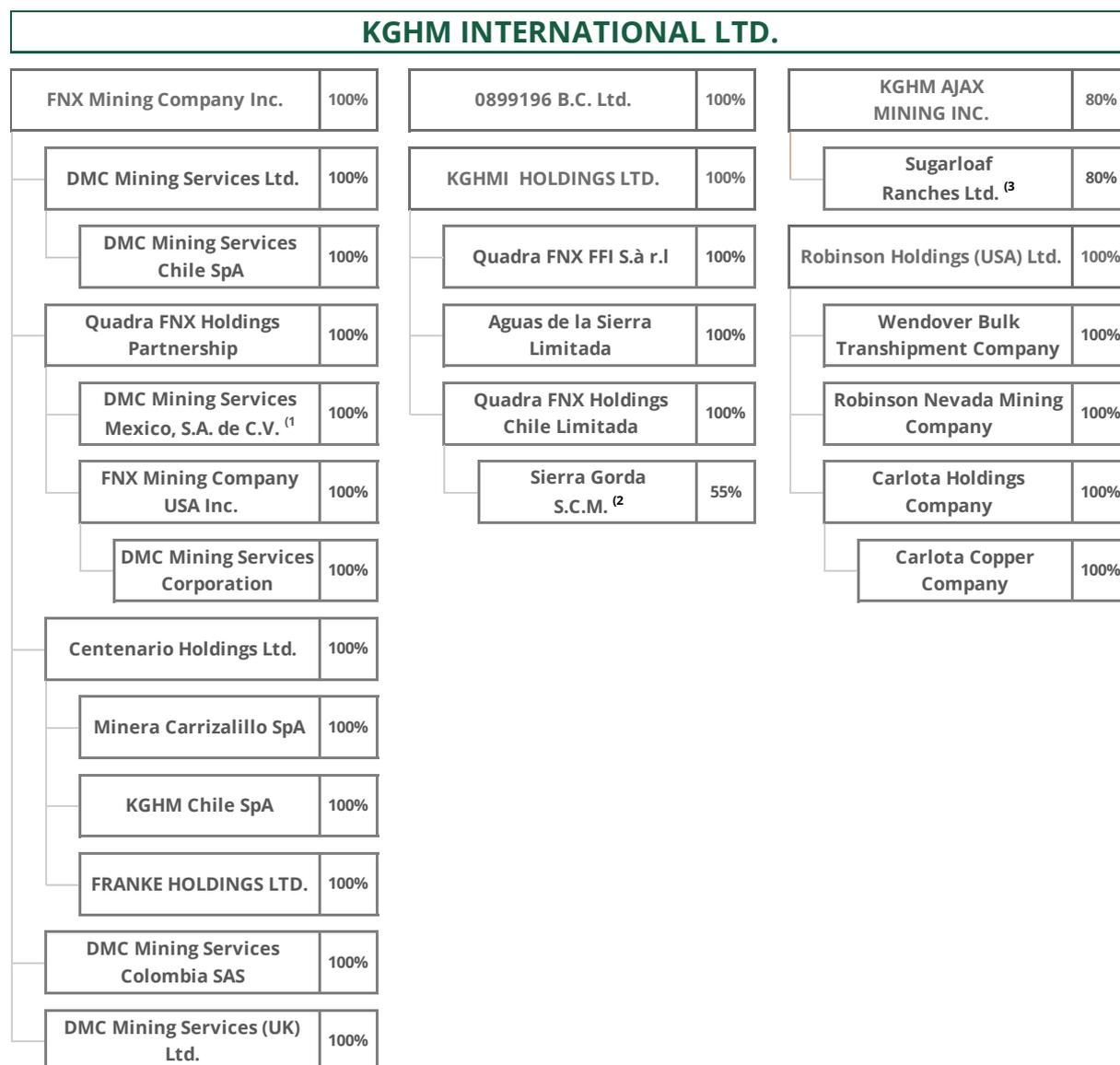
2) unconsolidated subsidiary

3) actual Group interest - 87%

KGHM INTERNATIONAL LTD. Group structure presented in Appendix 2

APPENDIX 2 KGHM INTERNATIONAL LTD. GROUP STRUCTURE

The percentages shown represent the total share of the Group.



1) name changed from 11.02.2022, previously Raise Boring Mining Services S.A. de C.V.

2) joint venture accounted for using the equity method

3) actual Group interest - 80%

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

This report was authorised for issue on 16 August 2022

President
of the Management Board

Marcin Chludziński

Vice President
of the Management Board

Adam Bugajczuk

Vice President
of the Management Board

Andrzej Kensbok

Vice President
of the Management Board

Marek Pietrzak

Vice President
of the Management Board

Marek Świder