



**THE MANAGEMENT BOARD'S REPORT
ON THE ACTIVITIES OF THE GROUP IN
THE FIRST HALF OF 2021**

Lubin, August 2021

Table of contents

1. USEFUL TERMS AND ABBREVIATIONS	3
2. SIGNIFICANT EVENTS IN THE FIRST HALF OF 2021 AND TO THE DATE OF PREPARATION OF THIS REPORT	5
3. STRATEGY OF KGHM POLSKA MIEDŹ S.A.	6
3.1. Basic elements of the Strategy of KGHM Polska Miedź S.A.	6
3.2. Policy regarding the development directions of the KGHM Group	6
3.3. Directions regarding equity investments	6
3.4. Investment goals	6
3.5. Advancement of the Strategy in the first half of 2021	7
4. MACROECONOMIC SALES CONDITIONS	12
5. RESULTS OF THE SEGMENT KGHM POLSKA MIEDŹ S.A.	16
5.1. Production	16
5.2. Revenues	16
5.3. Costs	16
5.4. Financial results	17
5.5. Capital expenditures	19
6. RESULTS OF THE SEGMENT KGHM INTERNATIONAL LTD.	20
6.1. Production	20
6.2. Revenues	21
6.3. Costs	21
6.4. Financial results	22
6.5. Cash expenditures	23
7. RESULTS OF THE SEGMENT SIERRA GORDA S.C.M.	24
7.1. Production	24
7.2. Sales	24
7.3. Costs	25
7.4. Financial results	25
7.5. Cash expenditures	27
8. CONSOLIDATED FINANCIAL RESULTS OF THE KGHM POLSKA MIEDŹ S.A. GROUP	27
8.1. Financial results	27
8.2. Financing of Group activities	32
9. RISK MANAGEMENT IN THE GROUP	34
9.1. Comprehensive Risk Management System in the KGHM Polska Miedź S.A. Group	34
9.2. Corporate risk – key risks, risk factors and their mitigation	36
10. OTHER INFORMATION	40
10.1. Factors which, in the issuer's opinion, will impact its results over at least the following quarter	40
10.2. Position of the Management Board with respect to the possibility of achieving previously published forecasts of results	41
10.3. Significant contracts for the Group	41
10.4. Information on transactions entered into between related parties, under other than arm's length conditions	42
10.5. Human resources in the Company and Group	42
10.6. Litigation and claims	43
10.7. Shareholders and the capital market	43
10.8. Organisational changes in the Group	45
APPENDIX 1 KGHM POLSKA MIEDŹ S.A. GROUP STRUCTURE	47
APPENDIX 2 KGHM INTERNATIONAL LTD. GROUP STRUCTURE	48

1. USEFUL TERMS AND ABBREVIATIONS

Adjusted EBITDA <i>(Earnings Before Interest, Taxes, Depreciation and Amortisation)</i>	Profit on sales plus depreciation/amortisation recognised in profit or loss and recognition/reversal of impairment losses on non-current assets.
Barren rock	Rock which accompanies the extraction of mineral ore and is not considered as useful.
BAT <i>(Best Available Technique)</i>	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.
BREF	"BAT Reference Document", the reference document of best available techniques (BAT).
Cash 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 refineable 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} <i>(Lost Time Injury Frequency Rate)</i>	Number of accidents at work (as defined in Poland) 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 free 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 Center 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).
SX-EW (solvent extraction and electrowinning)	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 Center 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 (Total Precious Metals)	Precious metals (gold, platinum, palladium).
TRIR (Total Recordable Incident Rate)	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 2021 AND TO THE DATE OF PREPARATION OF THIS REPORT

Date	Event
Change in macroeconomic conditions	
1st half of 2021	An increase, compared to the first half of 2020, in average annual copper prices by 65%, silver by 59%, gold by 10% and molybdenum by 38%
1st half of 2021	A change, compared to the first half of 2020, in average annual exchange rates: USD/PLN by -6%, USD/CAD by -9% and USD/CLP by -11%
KGHM Polska Miedź S.A. on the Warsaw Stock Exchange	
1st half of 2021	An increase in the share price of KGHM Polska Miedź S.A. by 3%, from PLN 183.00 to PLN 187.65
Changes in the Company's bodies	
23 March 2021	Appointment as of 16 April 2021 to the Management Board of KGHM Polska Miedź S.A.: Marcin Chludziński, Andrzej Kensbok, Adam Bugajczuk and Paweł Gruza
20 April 2021	Resignation of Katarzyna Lewandowska from serving in the function of Member of the Supervisory Board of KGHM Polska Miedź S.A.
14 May 2021	Appointment as of 15 May 2021 of Dariusz Świdorski to the Management Board of KGHM Polska Miedź S.A.
6 July 2021	Appointment to the Supervisory Board of KGHM Polska Miedź S.A. of Robert Kaleta and Katarzyna Krupa
16 August 2021	Resignation of Andrzej Kisielewicz from the function of Chairperson of the Supervisory Board of KGHM Polska Miedź S.A. and appointment of Agnieszka Winnik-Kalemba to the function of Chairperson of the Supervisory Board of KGHM Polska Miedź S.A.
Verification of assets' value	
17 February 2021	Information on the identification of indications to verify the recoverable amount of the Franke mine and the assets of domestic subsidiaries
11 March 2021	Information on the completion of the major work related to impairment testing of the Franke mine, the shares of subsidiaries and the Investment Certificates of Funds managed by KGHM TFI S.A. as well as of assets belonging to these entities
12 July 2021	Information on identification of indications to verify the recoverable amount of international mining assets
5 August 2021	Information on the results of the conducted tests for impairment of key international assets leading to the reversal of a part of the impairment losses recognised in prior years
Allocation of profit for 2020	
10 May 2021	Recommendation of the Management Board regarding allocation of profit for financial year 2020 by the payout of a dividend in the amount of PLN 300 million (1.50 PLN/share)
7 June 2021	Resolution of the Ordinary General Meeting of KGHM Polska Miedź S.A. on the allocation of profit in accordance with the Management Board's recommendation
29 June 2021	Payout of the dividend in the amount of PLN 300 million (1.50 PLN/share)
Other	
28 January 2021	Approval by the Supervisory Board of the Budget of KGHM Polska Miedź S.A. and the Budget of the KGHM Group for 2021
26 March 2021	Signing of the sales agreement for the shares in the company PGE EJ 1 sp. z o.o. to the State Treasury
29 March 2021	Signing of a bank loan agreement between Sierra Gorda S.C.M. and Bank Gospodarstwa Krajowego
25 June 2021	Signing of an annex to a Loan agreement with the European Investment Bank

3. STRATEGY OF KGHM POLSKA MIEDŹ S.A.

3.1. Basic elements of the Strategy of KGHM Polska Miedź S.A.

The Company advanced the "Strategy of KGHM Polska Miedź S.A. for the years 2019-2023" which was approved on 19 December 2018. The Strategy is based on four development directions (elasticity/flexibility, efficiency, ecology and e-industry) arising from global market trends. The aforementioned directions are reflected in six identified strategic areas, with individualised and measurable main goals:

Strategic area	Main goal
PRODUCTION	Maintain cost-effective Polish and international production
DEVELOPMENT	Increase the KGHM Group's efficiency and flexibility in terms of its Polish and international assets
INNOVATION	Increase the KGHM Group's efficiency through innovation
FINANCIAL STABILITY	Ensure long-term financial stability and the development of mechanisms supporting further development
EFFICIENT ORGANISATION	Implement systemic solutions aimed at increasing the KGHM Group's value
PEOPLE AND THE ENVIRONMENT	Growth based on the idea of sustainable development and safety as well as enhancing the KGHM Group's image of social responsibility

3.2. 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 for the years 2019-2023, in the case of the international companies of the Group, KGHM aims at developing unified reporting principles, coherent internal regulations and standardised solutions with respect to individual functional areas of the international entities.

3.3. 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 terms of implementation of the Strategy of KGHM for the years 2019-2023, in the case of the international companies of the KGHM Group, a variety of actions of a reorganisation nature were aimed at integrating KGHM INTERNATIONAL LTD. in Canada with the Company's activities in Poland by transferring some of the management and support processes of KGHM INTERNATIONAL LTD. to the Company's Head Office. In the first half of 2021 these actions were continued, mainly with respect to developing coherent internal regulations and procedures as well as the standardisation of solutions in individual areas of the company's operations. In addition, internal actions were carried out aimed at advancing development scenarios for individual international assets in the KGHM INTERNATIONAL LTD.'s portfolio.

3.4. Investment goals

Investment projects planned and approved for advancement in 2021 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:

- development of the Żelazny Most Tailings Storage Facility - the Southern Quarter and the Tailings Segregation and Thickening Station,
- replacement of mining machinery,
- outfitting the mines along with the construction of conveyor belts,
- construction of mine de-watering systems,
- construction of air cooling systems,
- modernisation of the electrorefining sections in the metallurgical plants.

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),
- development of the Żelazny 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,
- searching for and exploring deposits under areas of exploration concessions.

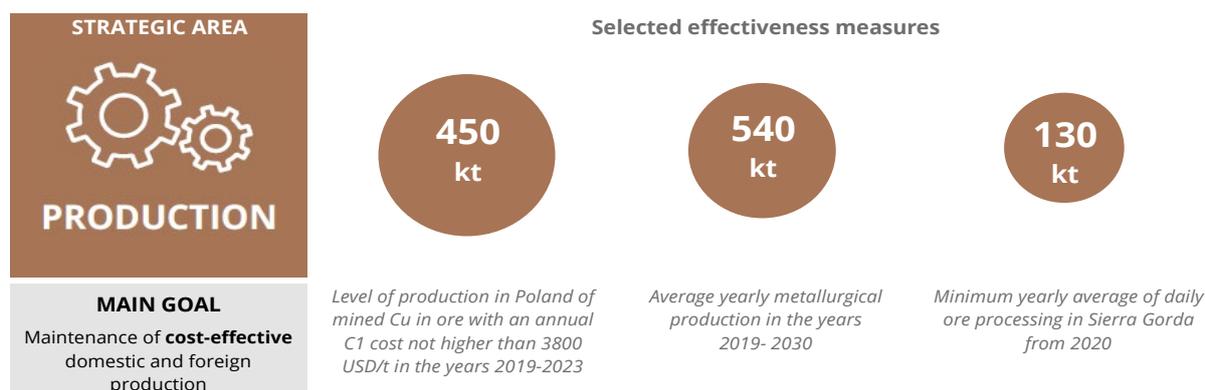
Moreover, following the idea of sustainable development, investment projects will be continued such as those adapting the metallurgical installations to BAT conclusions for the non-ferrous metals industry and to restrict emissions of arsenic (BATAs).

In 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.

3.5. Advancement of the Strategy in the first half of 2021

In advancing the Strategy, the Company in the first half of 2021 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 Strategic Programs. In the first half of 2021, a portion of the Strategic Programs planned to be created in the current year were established.

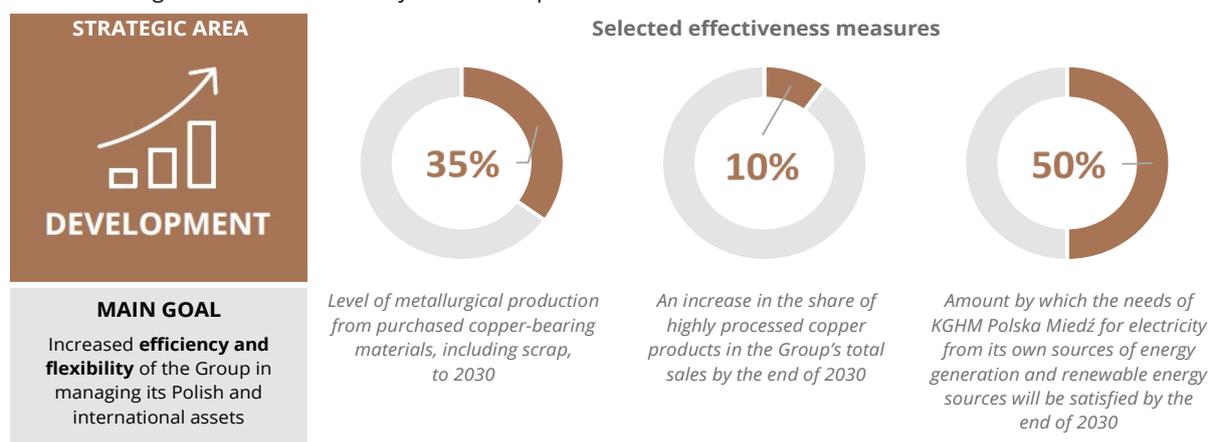
Following is information on key achievements in terms of strategic actions in individual areas of the Strategy obtained in the first half of 2021:



Key actions taken in the first half of 2021 in the area of Production

- Despite the epidemiological situation caused by the Sars-Cov-2 pandemic, operations in the domestic and international assets proceeded without substantial interruptions.
- Mined production in Poland in the first half of 2021 amounted to 220.9 thousand tonnes of copper in ore with a C1 cost of 4 663 USD/t (2.12 USD/lb) of payable copper.
- Payable copper production abroad:
 - Sierra Gorda: 51.2 thousand tonnes (on a 55% basis); EBITDA and payable copper production exceeded planned amounts.
 - Robinson: 27.7 thousand tonnes;
 - Carlota: 2.5 thousand tonnes;
 - Franke: 5.0 thousand tonnes;
 - Sudbury Basin: 1.0 thousand tonnes.
- Metallurgical production amounted to 293.2 thousand tonnes.
- Advancement continued on projects aimed at the automatization of production in KGHM's Mining Divisions, under the KGHM 4.0 Strategic Program in the Industry area:
 - A total of 78 Wi-Fi access points were built, utilised mainly in the transmission of data from mining machinery.
 - Work continues on the testing of mining machinery powered by electric batteries. A bolting rig is being tested along with a prototype vehicle for the transport of people and materials, which was adapted to work on the surface. At the same time an underground unit is undergoing the process of certification and approval of entry into service in underground mines. Preparations are underway for testing loaders and a self-propelled drilling rig.
 - „Center of Advanced Data Analysis (Centrum Zaawansowanych Danych Analitycznych - CZAD)” – proper functioning of the algorithms developed, involving analysis of the loads borne by the conveyor belts in the mines, was confirmed. The algorithms developed by KGHM Cuprum will be implemented in a production environment.
 - „The placement and identification of machinery and persons in underground mines” – adaptation of the implemented anti-collision system with the system for the placement and identification of machinery and persons in underground mines is underway.
 - Internal audits along with an external supervisory audit were conducted of the compliance of the Energy Management System (EMS) of KGHM with PN-EN ISO 50001:2018-09. The audits did not identify any discrepancies, and the indicated potential for improvement will be assessed by the appropriate expert leaders.

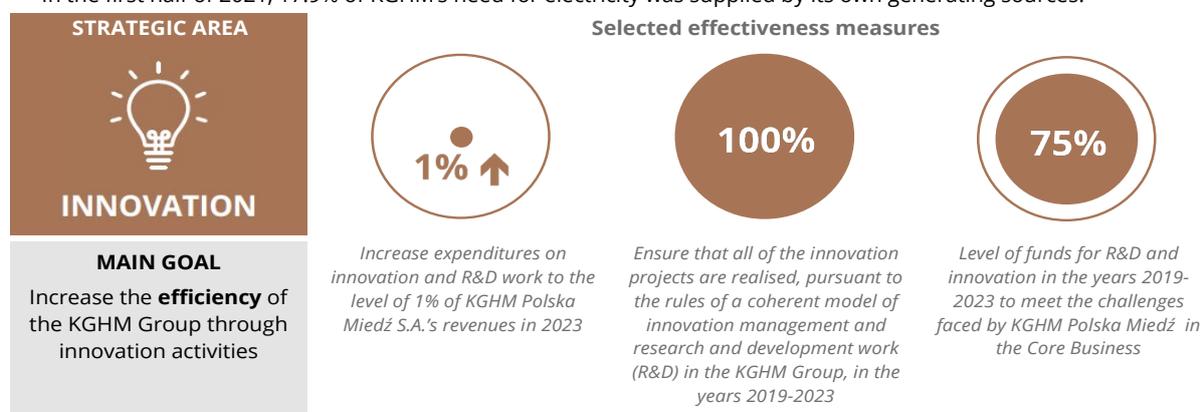
- Work was advanced on increasing the generation of power from internal sources, including renewable energy sources (RES):
 - Talks were held with entities involved in developing the photovoltaic projects with total capacity of approx. 100 MWp.
 - An internal structure was developed for the acquisition of assets of existing or ready-to-build wind farms.
 - A decision was obtained from the Starosta Lubiński (Head of Lubin County), setting forth the scope, manner and direction of restoration of post-mining terrain of the Obora Sandpit, which enables construction of the photovoltaic farm.
 - The process continued of obtaining administrative decisions for the construction of the PV HMG I-III photovoltaic power plant complex: The scope of the project was altered, increasing the capacity of the photovoltaic plant from 5 MW to 6.5 MW. Expert opinions were developed regarding the impact of the photovoltaic plant on the network of the Głogów Smelter and Refinery for all three planned sites.



Key actions taken in the first half of 2021 in the area of Development

- Continued advancement of the Strategic Deposit Access Program:
 - The GG-1 shaft remains at the depth of 1231.2 meters reached at the end of 2020. Work on Stage VI: Sinking of the shaft using concrete and tubing construction in the rock salt interval, was completed. Stage VII commenced involving sinking of the shaft in the 1226-1299.6 m interval.
 - A notary act was signed for the purchase of land for the GG-2 „Odra” shaft. A Municipal Spatial Management Plan was published.
 - Work is underway on reaching an agreement regarding construction of the Gaworzycze shaft with the Gmina (Municipality) of Gaworzycze.
 - 22.4 km (versus the planned 21.7 km) of tunneling were excavated in the Rudna and Polkowice-Sieroszowice mining areas.
 - In terms of the Central Air Conditioning System, work continued on building the Surface-based Central Air Conditioning System at the GG-1 shaft and planned assembly work on the Ice Water Transportation System was completed. Commencement of Phase I of the investment, which will enable the establishment of appropriate climatic working conditions in the Deep Głogów mining area, is planned for the third quarter of 2021.
- Continued advancement of Development of the Źelazny Most Tailings Storage Facility:
 - Stage I was completed along with acquisition of an operational permit for the Southern Quarter. Total advancement of the physical scope of work together with slurry, water and power infrastructure reached 94%.
 - Total advancement of the physical scope of work to build the Tailings Segregation and Thickening Station reached 72% (including 97% for Stage I).
- Exploration projects with respect to exploring for and evaluating copper ore deposits were carried out pursuant to the concessions.
 - An exploratory drillhole was sunk in the Głogów concession and work began on a drillhole in the Retków-Ścinawa concession. Geological work continued within the Synklina Grodziecka and Konrad concessions.
 - Concession-related proceedings continued before the Minister of Climate and the Environment regarding the concessions for the Bytom Odrzański and Kulów-Luboszyce areas. In April 2021, KGHM Polska Miedź S.A. acquired exploratory concessions for both requested areas.
 - Concessions were acquired to explore for and evaluate the Radwanice-Gaworzycze deposit in the area of Radwanice.
- Exploration projects were advanced with respect to exploring for and evaluating other deposits pursuant to the concessions.
 - In the Puck Region, laboratory and analytical work as well as preparatory work was carried out and aimed at commencing the sinking of another drillhole, planned for execution by the end of 2021.

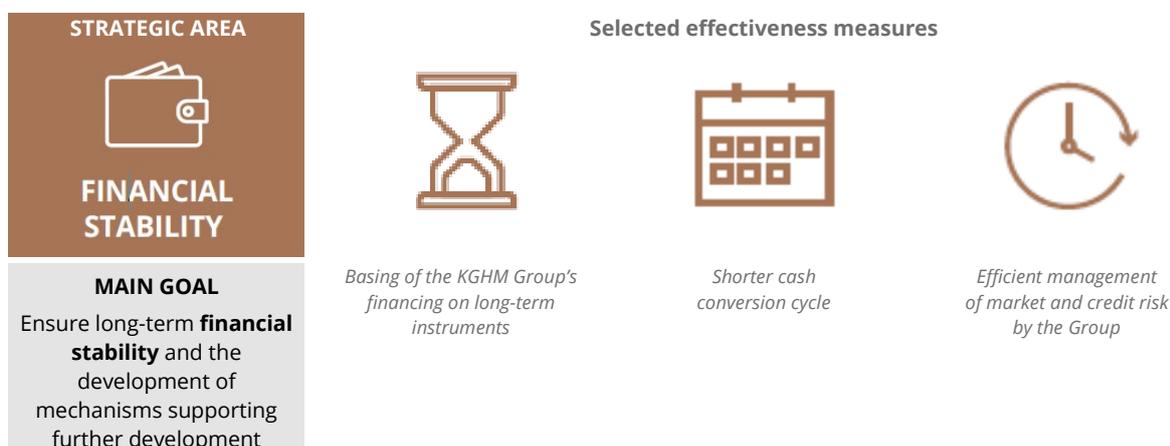
- In terms of concession-related work in the area of Nowe Miasteczko, analysis was performed on the results of geophysical research.
- Projects involving development of the international assets were continued:
 - Victoria project – actions are underway aimed at re-classification of a portion of the project's resources. Work continued aimed at maintaining good relations with key stakeholders in the project along with work related to preparing selected elements of the infrastructure, as the preparatory phase for further development of the project.
 - Ajax project – work involved monitoring and securing the project's terrain, in accordance with law in force. Actions continued aimed at dialogue with First Nations and the local community.
 - Sierra Gorda Oxide - supplementary work continued aimed at preparing for the next stage of engineering work and further project development. At present, most of the oxide ore resources planned for processing have already been excavated and deposited in the vicinity of the future copper SX-EW facility.
- Work continued on an investment project involving construction of a second Upcast line, which will increase the production of OFE copper at the Cedyňa wire rod plant. The economic feasibility study was updated and the process of obtaining the requisite administrative decisions necessary to commence the project continued.
- Under the Strategic Program called Hybrid Legnica Smelter and Refinery an investment project commenced involving the preparation of documentation with respect to the creation of a Scrap Turnover Base. In May 2021 the contractor to prepare the documentation (Bipromet S.A.) was selected. By the end of 2021 the plan foresees the execution and handover of the updated Indicative Statement of Costs and Spatial Concept Program.
- In the first half of 2021, 17.9% of KGHM's need for electricity was supplied by its own generating sources.



Key actions taken in the first half of 2021 in the area of Innovation

- Under the CuBR venture, co-financed by the National Centre for Research and Development (NCRD), R&D projects having a total value of over PLN 180 million are underway. Altogether, 25 projects have been implemented under the four editions of the competition:
 - 11 projects have been completed.
 - 10 projects are being advanced.
 - 4 projects were suspended due to the inability to implement the results of the research.
 - Work continues on announcing the fifth CuBR competition, the subject of research is being assessed.
- Advancement of the Implementation Doctorates Program continued for 38 Doctoral Students (KGHM employees) from the two editions.
- Construction was completed on a prototype, battery-powered, Self-propelled Transport Vehicle – the process of approval of entry into service of the vehicle in the underground mines is underway. Construction continues on a prototype self-propelled bolting rig, equipped with an automatic bolting turret.
- Initiatives continue involving the testing of electric, battery-powered self-propelled mining machinery.
- Work continues on the digitisation and modern archiving of knowledge resources at the Head Office of KGHM.
- The first „CuValley Hack” Hackathon was organised, under the Dolina Miedzowa (Copper Valley) program. The goal of the event was to develop practical projects and to supply innovative solutions which would serve as a response to real challenges and would improve the functioning of machines and processes in the Polish Copper Valley. Following the conclusion of the Hackathon, actions are underway to continue cooperation with the participants of the event.
- Work continues on subsidised research projects and preparing subsidy applications to the following Programs: Horizon Europe, KIC Raw Materials (Knowledge and Innovation Community), the National Environmental Protection Fund and under the European Funds for Modern Economy (successor to the Smart Growth Operational Programme), which will be submitted in the third and fourth quarters of 2021.
- Advancement commenced of the project „Intelligent control of production in underground mining SIMS 2 (NEXGEN-SIMS)”, subsidised under the Horizon 2020 program.
- Intellectual property:

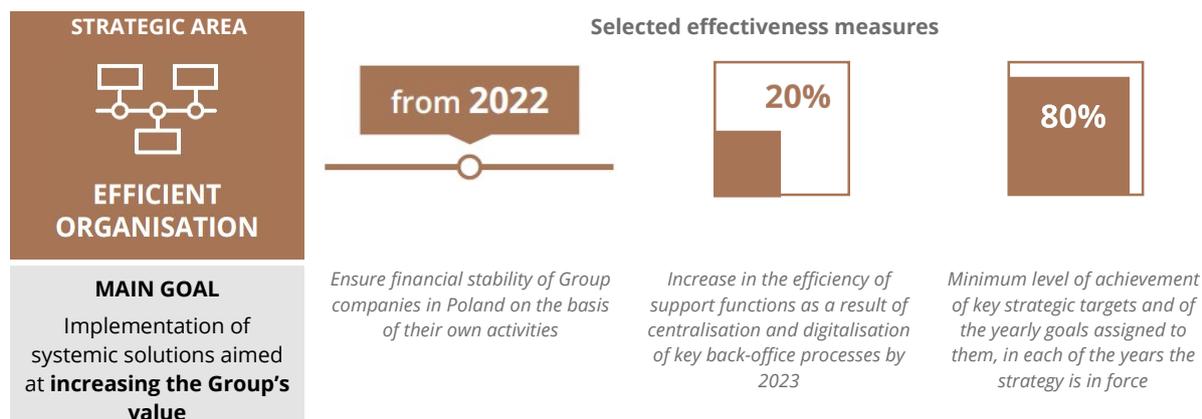
- Proceedings are underway to obtain legal protection for the trademark „KGHM”, submitted in an international procedure, in China.
- Protection was prolonged for the European patent EP2873475 "Method of manufacturing wires of Cu-Ag alloys", which was validated in 16 European countries, in respect of which KGHM holds joint rights under the CuBR project being advanced.
- Protection was prolonged for patent no. PAT.221274 „Sposób wytwarzania drutów ze stopów Cu-Ag” (Method for manufacturing rod from Cu-Ag alloys) at the Patent Office of the Republic of Poland, in respect of which KGHM Polska Miedź S.A. holds joint rights under the CuBR project being advanced.
- Two word trademarks: „KGHM” (application no.: Z.528376) and „GRUPA KGHM” (application no.: Z.528378) were submitted to the Patent Office of the Republic of Poland. Application proceedings are underway.
- Applications in respect of four trademarks: the word-figurative trademark „KGHM GROUP” (no. 018457609), the word trademark „KGHM GROUP” (no. 018457611), the word-figurative trademark „GRUPA KGHM” (no. 018457612) and the word-figurative trademark „KGHM” (no. 018457613) were submitted to the European Union Intellectual Property Office (EUIPO) in Alicante. Application proceedings are underway.
- Two word trademarks: „KGHM” (application no.: Z.528376) and „GRUPA KGHM” (application no.: Z.528378) were submitted to the Patent Office of the Republic of Poland. Application proceedings are underway.
- The Patent Office of the Republic of Poland granted a patent to an invention called: „Organ urabiający kombajnu ubierkowego” (Mining unit of the open-end miner, P.420250) to KGHM and FAMUR S.A., as well as to an invention called: „Sposób pozycjonowania urządzenia i/lub ruchomego członu urządzenia, zwłaszcza w przestrzeni wyrobiska górniczego przodka” (Method for positioning of a device and/or movable element of a device, preferably within the area of the mine face, P.423699) to KGHM and Wrocław University of Science and Technology.
- Seven proceedings are underway in the Patent Office of the Republic of Poland for the granting of patent protection for the submitted inventions.



Key actions taken in the first half of 2021 in the area of Financial stability

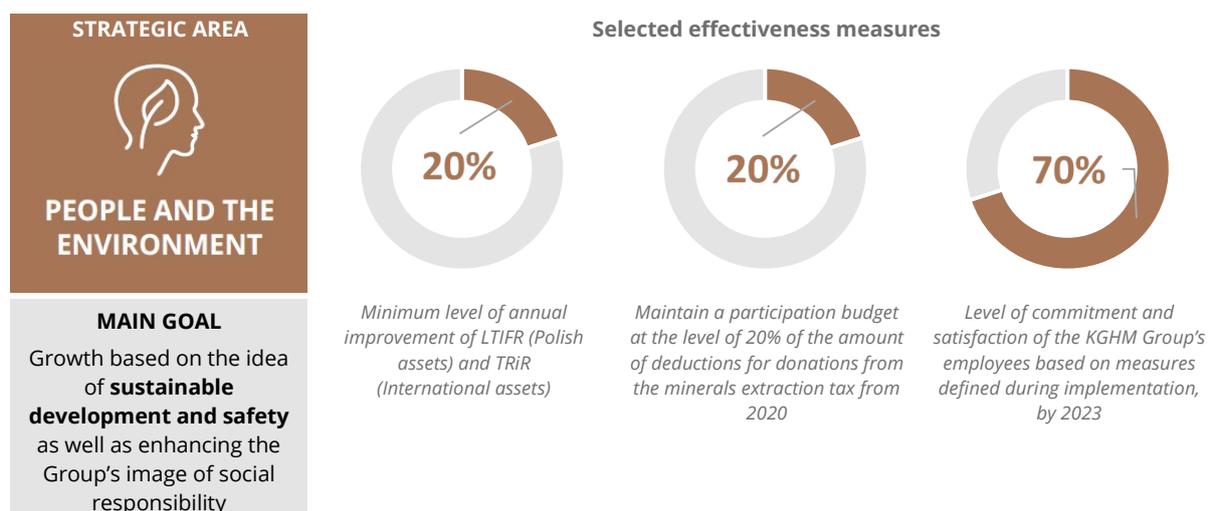
- The Company consistently continued actions aimed at basing the KGHM Group's financing structure on diversified and long-term instruments:
 - The signing of an annex was finalised for a loan from the European Investment Bank; the amount of up to PLN 440 million with flexible instalment draw-down terms and a long availability period.
 - The signing of an agreement for an overdraft facility in the amount of USD 80 million, with an availability period of 2 years with the option to extend by 1 year.
 - The financing needs of the KGHM Group companies are met using intra-Group transfers of cash. This process is mainly based on the management of the Group's current liquidity based on cash pooling, which substantially increases the effectiveness of management of cash by the KGHM Group, as well as on guarantees and letters of credit, along with long-term owner loans and bonds with long-term maturities.
- Actions continued in respect of shortening the receivables recovery period and extending the payables payment period. For the Parent Entity, at the end of the first half of 2021, the balance of trade payables transferred to reverse factoring amounted to PLN 813 million, while the level of use of factoring amounted to PLN 2 847 million.
- In terms of advancing the strategic plan of hedging the Company against market risk, in the first half of 2021 on the currency market put options were purchased in the total notional amount of USD 870 million with maturities falling from February to December 2021. In addition, the Company bought back previously sold put options for this same period in the notional amount of USD 495 million. On the copper market, a *seagull* hedging strategy was implemented for the period from July 2022 to December 2023 for the total volume of 45 thousand tonnes. In addition, as a result of restructuring a hedging position on the copper market, the Company purchased call options for the period from March to December 2021 for the total volume of 155 thousand tonnes, opening at the same time participation in potential further price rises for the *collar* and *seagull* options structures held for 2021. As part of this restructuring, the level of execution of structures hedging revenues from the sale of copper for the period from October to December 2021 for

the total volume of 25.5 thousand tonnes was also raised. A position on the forward silver market was also restructured for the period from July 2021 to December 2022. A portion of the notional, previously sold put options (11.7 million troy ounces) and call options (5.1 million troy ounces) was bought back, embedded in *seagull* hedge structures, while the level of execution of sold call options for 2022 (6.6 million troy ounces) was raised.



Key actions taken in the first half of 2021 in the area of Efficient organisation

- Advancement of the KGHM 4.0 Program continued, divided into two main areas:
 - INDUSTRY (industrial production):
 - The CMMS system was launched, supporting production and material logistics in the metallurgical plants, concentrators and tailings storage facility. Stage II of the project was completed on schedule and the planned functionalities were implemented in all of the Divisions.
 - Stage I is being advanced of the agreement on building an optimised operating head for measuring copper content at the working faces, which will be built onto the CuXRF robotic frame. The planned date for completion of Stage I is 31 August 2021.
 - ICT (Information and Communication Technology):
 - The Planning and Handover Application and the Geological Data Base were adapted to the new technology, production modules for the measurement sector were launched in the mines with respect to copper and rock salt deposits, and the first handovers of mining work using the new tools were carried out.
 - In terms of the systemic FIORI eRaport services: production reporting was implemented in the Mine Production Area, while the Area of Metallurgical and Concentrator Production achieved readiness for the implementation of production reporting.
 - There were no interruptions recorded in the business operations of the KGHM Group and safety processes were supported as a result of work related to ensuring the continuity of the core production business and administrative services due to the pandemic.



Key actions taken in the first half of 2021 in the area of People and the environment

- An investment project supporting workplace safety called „Dostawa, montaż i uruchomienie systemu wspierania pracy operatora w zakresie antykolizji” (Supply, assembly and start-up of an anti-collision operator support system) was continued. Assembly of the system is underway on mining machinery and mining lamps are being tagged. Work on the project in all mining divisions reached 85%.
- The Occupational Health and Safety Program was continued in KGHM Polska Miedź S.A.
 - The LTIFR KGHM ratio amounted to 5.19. The TRiR ratio for the international assets amounted to 0.3.
 - Planned activities related to mitigating the threat arising from the SarsCov-2 pandemic were carried out, including vaccinations for a group of Company's employees, in compliance with national guidelines.
 - With respect to cooperation with domestic and international academic institutions and opinion makers, the proposal of the Company regarding „Strategic EU frameworks in the area of occupational health and safety for the years 2021 – 2027” was prepared.
- The Program to adapt the technological installations of KGHM to the requirements of BAT conclusions for the nonferrous metals industry and to restrict emissions of arsenic (BATAs) was continued.
 - 12 projects were advanced at the Głogów and Legnica Copper Smelters and Refineries, of which in the first in the first half of 2021 realisation of the following was completed:
 - A de-lead slag transport installation (Głogów Copper Smelter and Refinery).
 - A warehouse and storage area for lead-bearing materials (Głogów Copper Smelter and Refinery).
 - An installation to remove sulphur from gases from the Kaldo furnace (Głogów Copper Smelter and Refinery).
 - Work commenced on the Climate Policy of KGHM. The Company is aware of the necessity of having an integrated plan aimed at the protection of the climate and environment. Work continues. It should be completed in this year.

4. MACROECONOMIC SALES CONDITIONS

The first weeks of 2021 were full of events of importance for the financial markets. Individual countries began to deal with the second or third waves of the coronavirus infections. Further infections also appeared in China, which led to the closure of a city of 11 million people in the province of Hebei, and consequently temporary fears about the further course of the world's economic recovery. However, China quickly dealt with the situation and the number of cases returned to levels considered immaterial from the point of view of the entire population of the People's Republic of China.

The momentary rise in uncertainty slowed the increase in copper prices in January. In subsequent weeks an increasing number of financial institutions began to notice a problem with the availability of raw materials on the market in 2021, taking into account the continued high physical demand, threats to supply and the low level of official market inventories. Such rhetoric, combined with the overriding theme of green investing, zero emission economies and the development of electromobility with copper as one of the most important minerals related to the scenario of development of the aforementioned trends, led to further strong rises in the red metal price. Price rises on such a scale would not however be possible were it not for the systematically opened speculative long positions on the LME, COMEX and SHFE markets. The increase in investor activity on the Shanghai (SHFE) market may have been connected with the lack of interruptions in the production during the 7-day Chinese New Year celebrations. Immediately following the new year festivities, the enormous accumulated speculative Chinese investor demand led to a rapid increase in the copper price to above 9 500 USD/t. Following consolidation of the metal's price in March, a subsequent wave of price increases at the turn of April and May resulted in a new historic record being attained.

A rarely seen event on the financial markets were the actions of individual investors on the Reddit internet forum. The coordinated actions of participants of this social medium led to a so-called short squeeze on the shares of GameStop, and at the same time caused multi-billion losses by investment funds which had taken up extensive short positions on the shares of this company. After this successful attack, rumours arose of another operation, this time aimed at the silver market, resulting in a very evident jump in the volatility and prices of this metal at the start of February 2021. Large amount of cash flowed into ETFs (Exchange traded funds), while many entities involved in the sale of silver coinage experienced significant delays in meeting orders. The attack was however not successful and after reaching in subsequent days the level of 29 USD/oz the situation became calmer, and the silver price returned to the upper limit of the range in which it had been in since August 2020.

In its June „Global economic outlook“ report the World Bank emphasised that while the global economy is in an especially-strong period of growth, this growth is not evenly spread amongst individual countries and regions. According to the World Bank forecast, global GDP growth in 2021 will amount to 5.6%, the highest level seen since any crisis in the last 80 years. The post-pandemic economic recovery is concentrated in several of the largest global economies, although most of the developing countries remain behind. It is expected that in 2022 global GDP will be at a level of 2% lower than expected prior to the pandemic, while nearly two-thirds of developing countries will not make up the losses incurred in 2020. The International Monetary Fund also points out that a threat to further development comes from the „substantial inequality“ between the economic recovery in individual countries, indicating the imbalance between developed countries. Examples of the aforementioned inequality are Germany and the Netherlands, which already in 2021 are supposed to return to GDP levels from prior to the pandemic, while recovery in Italy and Spain from their losses will take at least another year. The increase in infections seen since the end of June and delays in vaccinations may further deepen this difference. To achieve a more equitable distribution of incomes in the global economy, an initiative has arisen amongst the leaders of the G-20 countries to introduce a global, consistent corporate tax rate of 15%, aimed at making it more difficult for trans-national companies to avoid paying taxes in those countries in which they earn revenues and to weaken the position of so-called tax havens.

The June forecasts of economists from the European Central Bank indicate economic growth of 4.6% in the eurozone, and were raised as compared to the forecast from March 2021 by +0.6 percentage point. Likewise the path of forecast inflation HICP (Harmonised Index of Consumer Prices) for the eurozone was raised by the ECB to 1.9% in 2021 and 1.5% in 2022, and as compared to the March forecasts amounted respectively to +0.4 and 0.3 percentage points. The May inflation reading in the eurozone amounted to 2.0%, in the United States to 5%, and in Germany to 2.4%. The increase in prices is the strongest in many years. In the case of the United States inflation remains at its highest level since the Great Financial Crisis of 2008, which poses a question about the advisability of further monetary easing by central banks. In the first half of 2021 the largest central banks did not raise interest rates and continued to carry out quantitative easing programs, and in response to charges of fuelling inflation they announced in concert that in their opinion, the increase in price dynamics is temporary, and in the second half of the year it will return to desired levels. Nonetheless, some central banks in developing countries have already commenced a cycle of interest rate hikes in the first half of 2021. Brazil has raised its rates three times, Mexico surprised markets with a hike of 25 percentage points to 4.25%, and Czechia and Hungary became the first countries within the European Union to raise interest rates in recent years.

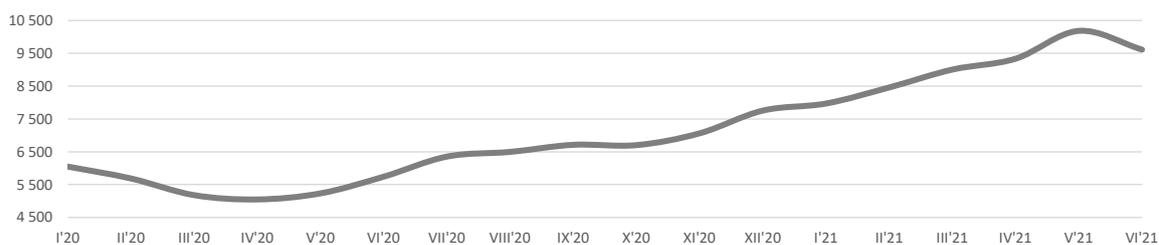
From the point of view of the copper market, of particular importance were the discussions in Chile in the first half of 2021 regarding the introduction of a metals extraction tax whose rate is meant to rise as does the price of copper. The tax is aimed at accumulating funds for social expenses and for supporting the economy of a country which is experiencing difficulties resulting from the COVID-19 pandemic. Likewise Peru, where Pedro Castillo won the election, a candidate with leftist views, has declared that it will start to work on imposing the fiscal burden to producers involved in extracting natural resources in that country and who are taking advantage of recent strong price rises on world markets.

The cash settlement price of **copper** on the London Metal Exchange (LME) in the first half of 2021 ranged between 7 755 - 10 724 USD/t. The first half of the year brought a steady rise in the price of the red metal, to the historic maximum of 10 724 USD/t on 10 May 2021. The copper price rose on a wave of good economic data from China and prompted by perspectives for large investments in infrastructure, the green energy sector and electric vehicles resulting from stimulus packets in the world's largest economies. In terms of supply, the first half of 2021 was characterised by uncertainty about the return of the pandemic in Chile and Peru and declarations regarding the introduction of additional minerals extraction royalties in these countries, which could restrict investments in the development of new mining projects. Another substantial factor responsible for the rise in copper prices was the inflow of speculative capital onto the commodities market. This capital is characterised however by high volatility, and at any moment could begin to flow out of the market.

The increase in metals prices, as well as of many other raw materials, disturbed Chinese authorities, who began a verbal intervention aimed at reducing speculation on commodities prices. The verbal commentary cooled investors' sentiment and an announcement of sales of inventories of selected metals accumulated by the Chinese Strategic Reserve Bureau (SRB), together with a strengthening of the USD, impacted on an adjustment in the price of the red metal. The rising trend was halted and the price of copper consolidated between 9 000 and 10 000 USD/t. Apart from the signs of weakening demand in China, this was one of the factors hampering higher prices. The price of the red metal fell in June by -9%, in the meantime recording a monthly minimum of almost 9 100 USD/t. June turned out to be the worst month for the copper price dynamics since March 2020 and the outbreak of the COVID-19 pandemic.

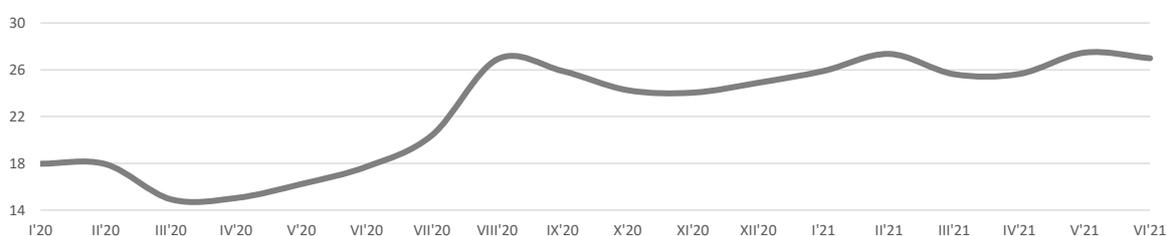
The average cash settlement price of copper in the first half of 2021 on the LME amounted to 9 092 USD/t and was nearly 65% higher than in the comparable period of 2020, when it reached on average 5 500 USD/t.

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 2021 reached the level of 26.47 USD/oz t, meaning an increase by 59% as compared to prices in the first half of 2020 – 16.65 USD/oz t. The first half of 2021 began with increases in the metal's price. In particular, silver saw a one-day price rise of over 2 USD/oz t on 1 February when a group of investors from the internet forum Reddit coordinated their actions to focus on silver, and on that day the fixing price reached a maximum of 29.59 USD/oz t, the highest level since 2013. On the following day the price however returned to around 27 USD/oz t and until the end of the first half of the year remained between 24 and 28 USD/oz t. The price of gold during this period initially fell but subsequently stabilised around 1 800 USD/oz t. The gold to silver ratio returned to the vicinity of the long-term average of 60.

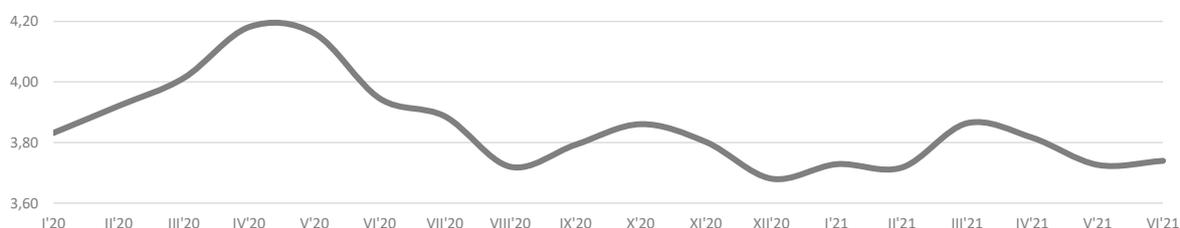
Chart 2. Average monthly silver price per the London Bullion Market (USD/oz t)



The average **USD/PLN exchange rate** (NBP) in the first half of 2021 amounted to 3.77 and was lower compared to the corresponding period of 2020 by 6% (4.01). Investors on the USD market in the first half of 2021 began to ask questions about the possibility of the USD remaining at a high level given such a large scale of money being printed by the Fed. Fears arose of inflation and the first expectations of a change in the monetary policy of the Federal Reserve to a more hawkish one. The interest rate of American bonds rose to the highest level in years. The USD exchange rate compared to the basket of currencies was volatile in the first half of 2021, and as respects the Polish zloty, the USD mainly remained at a level close to 3.80. In turn the National Bank of Poland made it clear on the currency markets that it is planning to prevent a significant strengthening of the PLN exchange rate and maintained its dovish rhetoric, keeping interest rates at an unchanged, low level. The first statements about a potential hike in interest rates in Poland at the beginning of 2022 appeared only at the end of the first half of 2021.

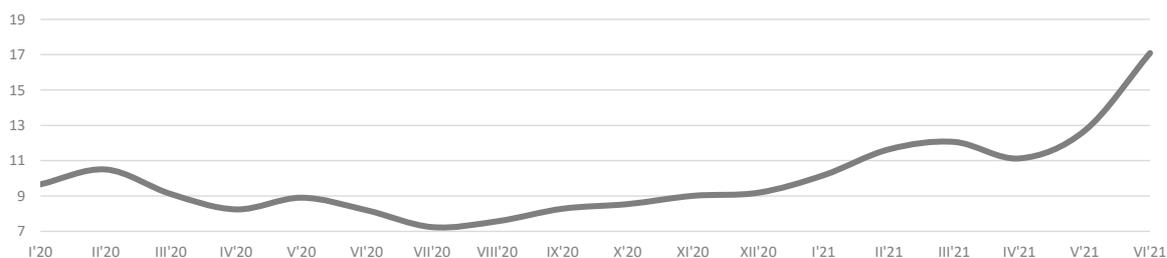
The minimum USD/PLN exchange rate of 3.6545 was recorded at the beginning of June, and the maximum at the end of March – 3.9676.

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



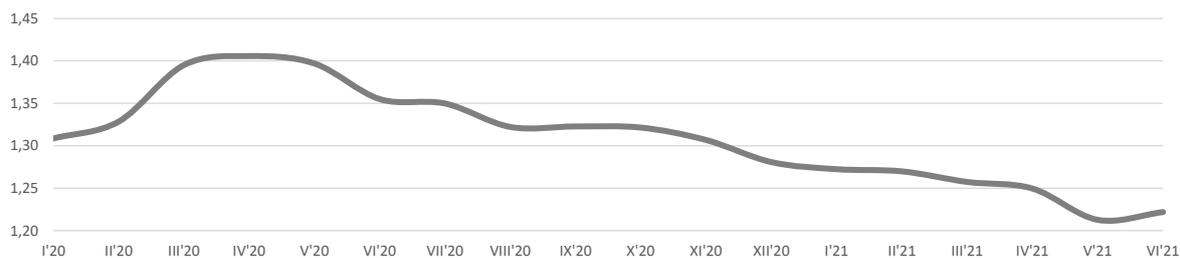
In 2021 the **molybdenum** market saw a reversal of the sideways trend from 2020. The average price of molybdenum in the first half of 2021 amounted to 12.53 USD/lb, meaning an increase by nearly 38% as compared to the corresponding period of 2020 (9.1 USD/lb). In the first half of the year the price of molybdenum was supported by supply-side problems. A series of hurricanes off the coast of Chile interrupted the transport of material from this producing country. Logistical interruptions and production restrictions in the mines of South America, the closure of a large Chinese mine due to flooding and a clear increase in demand in China led to further rises in molybdenum prices. The price of molybdenum was also impacted by increasing demand, mainly from the steel market. At the end of June the price exceeded the high level of 18 USD/lb.

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



The average **USD/CAD exchange rate** (per the Bank of Canada) in the first half of 2021 amounted to 1.25 and was 8.7% lower compared to the corresponding period of 2020 (1.37).

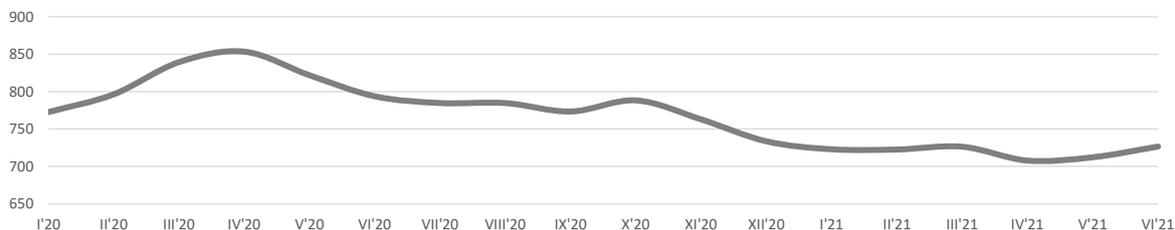
Chart 5. Average monthly USD/CAD exchange rate per the Bank of Canada



The increase in the value of the Canadian dollar and the Chilean peso was due to the depreciation of the USD resulting from inflationary fears in the USA as a result of the loose monetary policy of the Fed and the extremely large fiscal packages advanced by the Biden administration. Both currencies were also impacted by the increase in raw materials prices in the first half of 2021, especially copper and crude oil. Both in Chile as well as in Canada there arose the risk of inflation, which could force the central banks of these countries to increase interest rates sooner than initially expected.

The average **USD/CLP exchange rate** (per the Bank of Chile) in the first half of 2021 amounted to 720 and was more than 11% lower than recorded in the first half of 2020 (813).

Chart 6. 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. Macroeconomic factors significant for the operations of the KGHM Polska Miedź S.A. Group – average prices⁽¹⁾

	Unit	1st half 2021	1st half 2020	Change (%)	2Q 2021	1Q 2021
Copper price on the LME	USD/t	9 092	5 500	+65.3	9 700	8 504
Copper price on the LME	PLN/t	34 242	21 966	+55.9	36 438	32 115
Silver price per the LBMA	USD/oz t	26.47	16.65	+59.0	26.69	26.26
Molybdenum price per the CRU	USD/lb	12.53	9.10	+37.7	13.77	11.33
USD/PLN exchange rate per the NBP		3.7700	4.0100	(6.0)	3.7600	3.7800
USD/CAD exchange rate per the Bank of Canada		1.2500	1.3700	(8.8)	1.2300	1.2700
USD/CLP exchange rate per the Bank of Chile		720	813	(11.4)	715	724

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 2021	1st half 2020	Change (%)	2Q 2021	1Q 2021
Mined ore (dry weight)	mn t	15.0	14.8	+1.4	7.5	7.5
Copper content in ore	%	1.48	1.51	(2.0)	1.47	1.48
Production of copper in concentrate	kt	195.1	198.8	(1.9)	98.2	96.9
Production of silver in concentrate	t	640.3	617.0	+3.8	327.3	313.0
Production of electrolytic copper	kt	293.2	280.8	+4.4	146.8	146.4
- including from own concentrate	kt	192.2	205.8	(6.6)	92.6	99.6
Production of metallic silver	t	659.4	695.0	(5.1)	360.8	298.6
Production of gold	koz t	38.1	45.6	(16.4)	21.5	16.6

Compared to the Company's Budget targets, in the first half of 2021 production was higher for all parameters presented above.

Compared to the corresponding period of 2020, in the first half of 2021 extraction of ore was higher (dry weight). Copper content in ore decreased to 1.48%.

Production of copper in concentrate was lower by around 3.7 thousand tonnes as compared to the first 6 months of 2020 and was due to a lower quality of feed.

Compared to the corresponding period of 2020, electrolytic copper production increased by 12.4 thousand tonnes, thanks to the higher availability of production lines and of feed material.

The lower production of metallic silver in the first half of 2021 as compared to the first 6 months of 2020 was due to the lower availability of feed material.

5.2. Revenues

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

	Unit	1st half 2021	1st half 2020	Change (%)	2Q 2021	1Q 2021
Revenues from contracts with customers, including:	PLN mn	12 144	8 897	+36.5	6 575	5 569
- copper	PLN mn	9 408	6 543	+43.8	5 108	4 300
- silver	PLN mn	1 996	1 524	+31.0	1 096	900
Copper sales volume	kt	285.0	277.0	+2.9	148.4	136.6
Silver sales volume	t	619.2	709.4	(12.7)	340.4	278.8

Revenues in the first half of 2021 amounted to PLN 12 144 million and were higher than in the corresponding period of 2020 by 36%. The main reasons for the increase in revenues were more favourable metals prices (copper by 65%, silver by 59% and gold by 10%) and an increase in volume of sales of copper products, alongside a less favourable USD/PLN exchange rate (-6%) and a lower volume of sales of silver and gold. The main factors responsible for the change in revenues compared to the first half of 2020 are presented in table 6 (section 5.4 Financial results).

5.3. Costs

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

	Unit	1st half 2021	1st half 2020	Change (%)	2Q 2021	1Q 2021
Cost of sales, selling costs and administrative expenses	PLN mn	9 650	7 561	27,6	5 440	4 210
Expenses by nature	PLN mn	10 678	7 149	49,4	5 724	4 954
Pre-precious metals credit unit cost of copper production from own concentrate ¹⁾	PLN/t	30 410	25 092	21.2	32 984	28 095
Total unit cost of electrolytic copper production from own concentrate	PLN/t	19 219	17 640	9.0	21 461	17 214
C1 unit cost²⁾	USD/lb	2.12	1.59	33.3	2.30	1.93

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 2021 amounted to PLN 9 650 million and were higher by 27.6% as compared to the corresponding period of 2020, mainly due to the increase in cost of consumption of

purchased metal-bearing materials and an increase in minerals extraction tax, alongside a lower than in the prior year utilisation of inventories of half-finished products and work in progress.

In the first half of 2021 total expenses by nature were higher by PLN 3 529 million as compared to the first half of 2020, alongside a higher minerals extraction tax charge by PLN 957 million due to the increase in copper and silver prices and higher costs of consumption of purchased metal-bearing materials by PLN 1 927 million (due to a higher volume of consumption by 35 thousand tonnes of copper and a higher purchase price by 43%).

Expenses by nature, after excluding purchased metal-bearing materials and the minerals extraction tax, were higher by PLN 645 million, mainly due to higher labour costs by PLN 247 million (higher remuneration and a higher provision for the annual bonus), higher costs of electrical and other energy by PLN 102 million (mainly due to introduction of a capacity fee) and higher costs of materials and technological fuels consumed by PLN 90 million (mainly due to higher purchase prices).

C1 cost in the first half of 2021 amounted to 2.12 USD/lb and was higher than in the corresponding period of 2020 by 33%. The increase in cost was mainly due to a higher minerals extraction tax charge (1st half 2020: 0.38 USD/lb; 1st half 2021: 1.02 USD/lb). Excluding the minerals extraction tax, C1 was 9% lower as compared to the cost in the corresponding prior year period, mainly due to the higher valuation of by-products.

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 30 410 PLN/t (in the corresponding period of 2020: 25 092 PLN/t) and was higher by 21% mainly due to an increase in minerals extraction tax charge with lower copper production from own concentrate.

The total unit cost of electrolytic copper production from own concentrate amounted to 19 219 PLN/t and was higher than in the first half of 2020 by 9% due to a higher minerals extraction tax charge. After deducting the minerals extraction tax, this cost was 16% lower than in the first half of 2020, mainly due to the valuation of associated metals (higher silver and gold prices).

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 2021	1st half 2020	Change (%)	2Q 2021	1Q 2021
Revenues from contracts with customers, including:	12 144	8 897	+36.5	6 575	5 569
- adjustment to revenues due to hedging transactions	(742)	292	x	(476)	(266)
Cost of sales, selling costs and administrative expenses	(9 650)	(7 561)	+27.6	(5 440)	(4 210)
Profit on sales (EBIT)	2 494	1 336	+86.7	1 135	1 359
Other operating income and (costs), including:	2 793	(44)	x	2 425	368
Fair value gains/(losses) on financial assets measured at fair value through profit or loss	1 059	112	×9.5	989	70
Impairment losses reversed/(recognised) on investment certificates and shares in subsidiaries	1 010	(131)	x	1 013	(3)
Impairment losses reversed/(recognised) on financial instruments measured at amortised cost	500	(88)	x	487	13
Measurement of derivatives	146	(27)	x	213	(67)
Realisation of derivatives	(279)	(107)	×2.6	(166)	(113)
Exchange differences on assets and liabilities other than borrowings	147	26	×5.7	(211)	358
Interest on loans granted and other financial receivables	131	141	(7.1)	64	67
Fees and charges on re-invoicing of costs of bank guarantees securing the payment of liabilities	61	27	×2.3	13	48
Other	18	3	×6.0	23	(5)
Finance income and (costs), including:	(209)	(151)	+38.4	93	(302)
Exchange differences on measurement of borrowings	(138)	(36)	×3.8	135	(273)
Interest on borrowings	(48)	(89)	(46.1)	(30)	(18)
Measurement of derivatives	(1)	(1)	-	-	(1)
Realisation of derivatives	(3)	(5)	(40.0)	(3)	-
Other	(19)	(20)	(5.0)	(9)	(10)
Profit before income tax	5 078	1 141	×4.5	3 653	1 425
Income tax expense	(852)	(394)	×2.2	(402)	(450)
Profit for the period	4 226	747	×5.7	3 251	975
Depreciation/amortisation recognised in profit or loss	656	595	+10.3	347	309
Adjusted EBITDA⁽¹⁾	3 157	1 931	+63.5	1 482	1 675

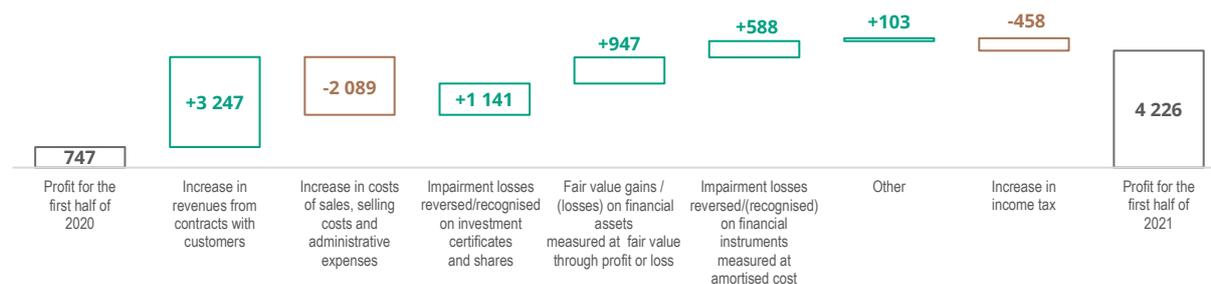
¹⁾ Adjusted EBITDA = profit on sales + depreciation/amortisation (recognised in profit or loss) + impairment loss (-reversal of impairment losses) on non-current assets, recognised in cost of sales, selling costs and administrative expenses

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
Increase in revenues from contracts with customers by PLN 3 247 million	+4 881	An increase in revenues due to higher prices of copper (+3 592 USD/t, +65%), silver (+9.82 USD/oz t, +59%) and gold (+160 USD/oz t, +10%)
	(1 034)	Change in the adjustment of revenues due to hedging transactions, from +PLN 292 million to -PLN 742 million
	(487)	A decrease in revenues from sales of basic products (copper, silver, gold) due to a less favourable average annual USD/PLN exchange rate (a change from 4.01 to 3.77 USD/PLN)
	(93)	A decrease in revenues due to a lower volume of sales of silver (-90 t, -13%) and gold (-12.1 koz t, -24%), with a higher copper sales volume (+8.0 kt, +3%)
	(20)	A decrease in other revenues from sales, including from the sale of merchandise, waste and production materials (-PLN 96 million) with an increase in revenues from the sale of refined lead (+PLN 24 million) and rhenium (+PLN 20 million)
An increase in cost of sales, selling costs and administrative expenses¹⁾ (-PLN 2 089 million)	+1 361	Lower utilisation of inventories (change in 2021: -PLN 1 080 million; in 2020:+PLN 281 million)
	(1 927)	Higher volume of consumption of purchased metal-bearing materials by 35 thousand tonnes of copper at a purchase price higher by 43%
	(1 523)	Including an increase in other expenses by nature by PLN 1 602 million, mainly due to an increase in costs: the minerals extraction tax charge (by PLN 957 million), employee benefits (by PLN 247 million), electrical and other energy (by PLN 102 million), other taxes and charges (by PLN 77 million) and depreciation/amortisation (by PLN 69 million)
Impairment losses reversed/ (recognised) on investment certificates and shares in subsidiaries (+PLN 1 141 million)	+1 141	A change in differences between impairment losses recognised and reversed on shares and investment certificates, from -PLN 131 million to +PLN 1 010 million
Fair value gains/(losses) on financial assets measured at fair value through profit or loss (+PLN 947 million)	+947	An improvement of the result on changes in the fair value of financial assets measured at fair value through profit or loss, from +PLN 112 million to +PLN 1 059 million
Impairment losses reversed/ (recognised) on financial instruments measured at amortised cost (+PLN 588 million)	+588	A change in differences between impairment losses recognised and reversed on financial instruments measured at amortised cost, from -PLN 88 million to +PLN 500 million
Fees and charges on re-invoicing of costs of bank guarantees securing the payment of liabilities (+PLN 34 million)	+34	An increase in fees and charges on re-invoicing of costs of bank guarantees securing the payment of liabilities, from +PLN 27 million to +PLN 61 million
Change in the balance of income and costs due to interest on borrowings (+PLN 31 million)	(10)	A decrease in income due to interest on loans granted
	+41	Lower interest costs on borrowings
Impact of exchange differences (+PLN 19 million)	+121	A change in the result due to exchange differences from the measurement of assets and liabilities other than borrowings – in other operating activities
	(102)	A change in the result due to exchange differences from the measurement of liabilities due to borrowings (presented in finance costs)
Increase in income tax (-PLN 458 million)	(458)	The increase in income tax resulted from an increase in current income tax (-PLN 460 million)

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

Chart 7. Change in profit for the period of KGHM Polska Miedź S.A. (in PLN million)



5.5. Capital expenditures

In the first half of 2021, capital expenditures on property, plant and equipment amounted to PLN 1 036 million.

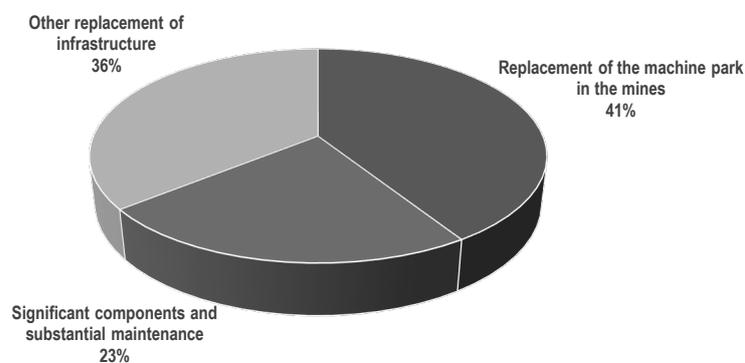
Table 7. Structure of expenditures on property, plant and equipment and intangible assets by Division (in PLN million)

	1st half 2021	1st half 2020	Change (%)	2Q 2021	1Q 2021
Mining	726	687	+5.7	399	327
Metallurgy	217	275	(21.1)	132	85
Other activities	32	13	×2.5	17	15
Development work - uncompleted	1	1	-	-	1
Leases per IFRS 16	60	49	+22.4	41	19
Total	1 036	1 025	+1.1	589	447
including borrowing costs	62	68	(8.8)	31	31

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

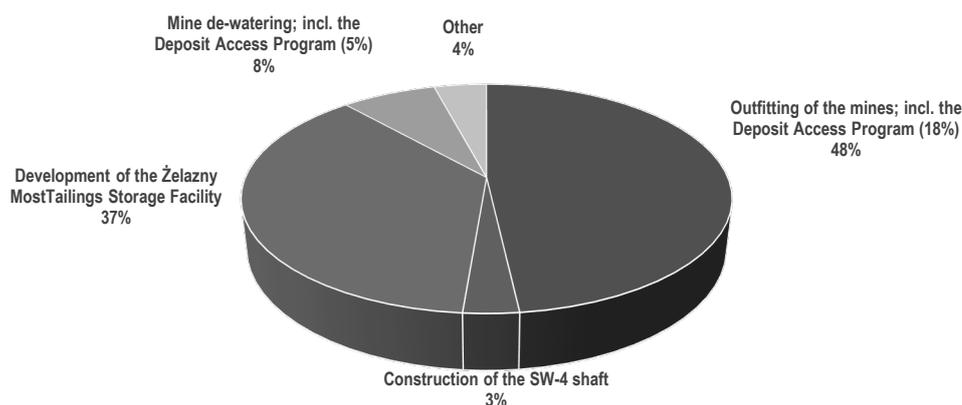
Projects related to replacement aimed at maintaining production equipment in an undeteriorated condition, represent 29% of expenditures incurred.

Chart 8. Structure of expenditures on replacement



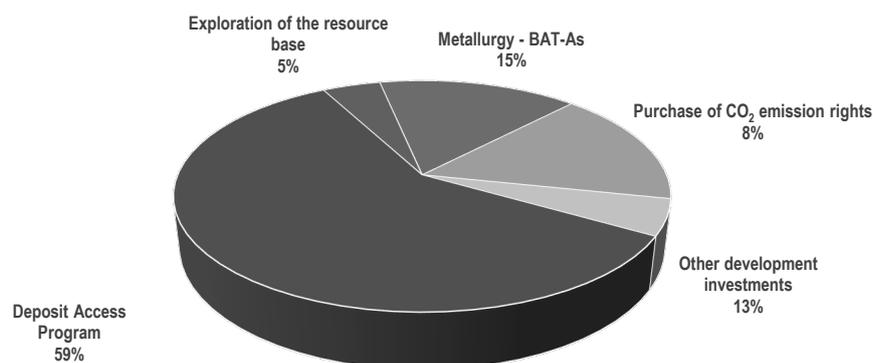
Projects related to maintenance aimed at maintaining mine production at the level set in the approved Production Plan (development of infrastructure to match mine advancement) represent 32% of total expenditures incurred.

Chart 9. Structure of expenditures on maintenance



Development projects aimed at increasing the production volume of the core business, implementation of technical and technological activities optimising the use of existing infrastructure, maintaining production costs and adaptation of the company's operations to changes in standards, laws and regulations (conformatory projects and those related to environmental protection) represent 39% of expenditures incurred.

Chart 10. Structure of expenditures on development



Detailed information on the advancement of key investment projects may be found in part 3 of this Report in the section on advancement of the Strategy in 2021.

6. RESULTS OF THE SEGMENT KGHM INTERNATIONAL LTD.

6.1. Production

Table 8. Production results of KGHM INTERNATIONAL LTD.

	Unit	1st half 2021	1st half 2020	Change (%)	2Q 2021	1Q 2021
Payable copper, including:	kt	36.3	30.7	+18.2	20.1	16.2
- Robinson mine (USA)	kt	27.7	21.5	+28.8	15.8	11.9
- Franke mine (Chile)	kt	5.0	5.7	(12.3)	2.4	2.6
- Sudbury Basin mines (CANADA) ⁽¹⁾	kt	1.0	1.1	(9.1)	0.5	0.5
Payable nickel	kt	0.2	0.2	0.0	0.1	0.1
Precious metals (TPM), including:	koz t	26.3	38.2	(31.2)	14.1	12.2
- Robinson mine (USA)	koz t	19.1	18.0	+6.1	10.4	8.7
- Sudbury Basin mines (CANADA) ⁽¹⁾	koz t	7.2	20.2	(64.4)	3.7	3.5

1) Morrison and McCreedy West mines in the Sudbury Basin

Copper production in the segment KGHM INTERNATIONAL LTD. in the first half of 2021 amounted to 36.3 thousand tonnes, or an increase by 5.6 thousand tonnes (+18%) compared to the corresponding prior-year period. The increase in copper production by the segment was mainly due to higher production by the Robinson mine.

The increase in copper production in the Robinson mine by 6.2 thousand tonnes (+29%) was due to the extraction of ore with a higher copper content and higher recovery. These factors were partially offset by a lower volume of ore processed. The increase in TPM production by 1.1 thousand troy ounces (+6%) was due to the higher recovery of gold by this mine.

The decrease in copper production in the Franke mine by 0.7 thousand tonnes (-12%) is mainly the result of mining a lower quality ore, which led to lower copper recovery.

The decrease in copper production by 0.1 thousand tonnes (-9%) and TPM by 13.0 thousand troy ounces (-64%) in the McCreedy West mine was due to the lower volume of ore extracted and also, in the case of precious metals, to their lower content in extracted ore.

6.2. Revenues

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

	Unit	1st half 2021	1st half 2020	Change (%)	2Q 2021	1Q 2021
Revenues from contracts with customers ⁽¹⁾ , including:	USD mn	372	316	+17.7	175	197
- copper	USD mn	272	170	+60.0	129	143
- nickel	USD mn	3	3	0.0	1	2
- TPM – precious metals	USD mn	41	64	(35.9)	18	23
Copper sales volume	kt	31.1	35.0	(11.1)	13.7	17.4
Nickel sales volume	kt	0.2	0.2	0.0	0.1	0.1
TPM sales volume	koz t	22.6	41.1	(45.0)	10.6	12.0

¹⁾ reflects processing premium

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

	Unit	1st half 2021	1st half 2020	Change (%)	2Q 2021	1Q 2021
Revenues from contracts with customers ⁽¹⁾ , including:	PLN mn	1 407	1 269	+10.9	657	750
- copper	PLN mn	1 028	687	+49.6	484	544
- nickel	PLN mn	11	12	(8.3)	3	8
- TPM – precious metals	PLN mn	155	257	(39.7)	67	88

¹⁾ reflects processing premium

The sales revenue of the segment KGHM INTERNATIONAL LTD. in the first half of 2021 amounted to USD 372 million, or an increase by USD 56 million (+18%). The increase in revenues was mainly due to higher copper prices. This factor was partially limited by a lower metals sales volume and lower revenues from the sale of services of companies operating under the brand DMC Mining Services („DMC”).

Revenues from the sale of copper amounted to USD 272 million and were increased by USD 102 million (+60%) compared to the corresponding period of 2020. The increase was due to a higher achieved sales price by 70% (9 188 USD/t in the first half of 2021 compared to 5 417 USD/t in the first half of 2020) and was partially limited by a lower copper sales volume by 3.9 thousand tonnes (-11%).

The lower revenues from TPM sales by USD 23 million (-36%) are the result of a decrease in the volume of sales by 18.5 thousand troy ounces (-45%), which was partially offset by higher achieved sales prices.

Revenues from the sales of services by DMC decreased from USD 72 million in the first half of 2020 to USD 52 million in the first half of 2021, due among others to the completion of a contract on 28 August 2020 related to a project carried out in the United Kingdom.

6.3. Costs

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

	Unit	1st half 2021	1st half 2020	Change (%)	2Q 2021	1Q 2021
C1 payable copper production cost ⁽¹⁾	USD/lb	2.10	2.01	+4.5	1.83	2.32

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 2021 amounted to 2.10 USD/lb, or an increase by 5% compared to the corresponding period of 2020. The increase in C1 is due to a decrease in copper sales volume and lower revenues from sales of associated metals (-32%), which decrease C1.

6.4. Financial results

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

	1st half 2021	1st half 2020	Change (%)	2Q 2021	1Q 2021
Revenues from contracts with customers	372	316	+17.7	175	197
Cost of sales, selling costs and administrative expenses, including: ¹⁾	(287)	(337)	(14.8)	(121)	(166)
- reversal/(recognition) of impairment losses on non-current assets	8	-	x	7	1
Profit/(loss) on sales	85	(22)	x	54	31
Profit/(loss) before taxation, including:	446	(163)	x	452	(6)
- share of losses of Sierra Gorda S.C.M. accounted for using the equity method	-	(52)	(100.0)	-	-
Income tax	(4)	(2)	x2.0	(2)	(2)
Profit/loss for the period	442	(165)	x	451	(9)
Depreciation/amortisation recognised in profit or loss	(64)	(62)	+3.2	(31)	(33)
Adjusted EBITDA²⁾	141	40	x3.5	78	63

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

	1st half 2021	1st half 2020	Change (%)	2Q 2021	1Q 2021
Revenues from contracts with customers	1 407	1 269	+10.9	657	750
Cost of sales, selling costs and administrative expenses, including: ¹⁾	(1 086)	(1 356)	(19.9)	(452)	(634)
- reversal/(recognition) of impairment losses on non-current assets	30	-	x	26	4
Profit/(loss) on sales	321	(87)	x	205	116
Profit/(loss) before taxation, including:	1 688	(654)	x	1 713	(25)
- share of losses of Sierra Gorda S.C.M. accounted for using the equity method	-	(210)	(100.0)	-	-
Income tax	(15)	(9)	+66.7	(7)	(8)
Profit/loss for the period	1 673	(663)	x	1 706	(33)
Depreciation/amortisation recognised in profit or loss	(242)	(249)	(2.8)	(116)	(126)
Adjusted EBITDA²⁾	533	162	x3.3	295	238

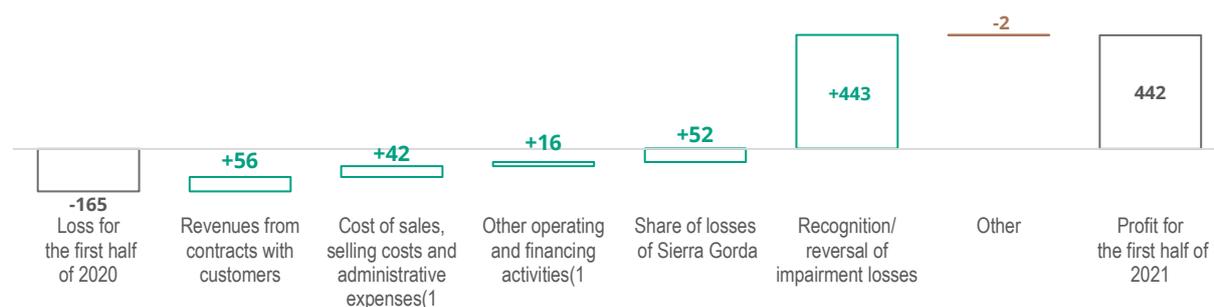
1) Cost of products, merchandise and materials sold, selling costs and administrative expenses

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 by USD 56 million	+147	Higher revenues due to an increase in prices of basic products, including copper +USD 132 million
	(78)	Lower revenues due to a decrease in sales volumes, including copper (-USD 35 million) and TPM (-USD 39 million)
	(20)	Lower revenues realised by companies operating under the DMC brand
	+7	Other factors
Lower cost of sales, selling costs and administrative expenses by USD 50 million	+23	Lower costs of external services related mainly to companies operating under the DMC brand
	+20	Lower costs of materials and energy
	+32	Change in inventories
	+8	Impact of recognition/reversal of impairment losses on non-current assets (of which: +USD 10 million is a reversal of impairment losses on the Robinson mine, +USD 2 million is a reversal of impairment losses on the Franke mine and -USD 4 million is recognition of an impairment loss on the Carlota mine). In the first half of 2020 these items did not occur.
	(35)	Higher depreciation/amortisation
Impact of other operating activities and financing activities (+USD 451 million)	+2	Other factors
	+435	Impact of reversal of allowance for impairment of loans granted for the construction of the Sierra Gorda mine. In the first half of 2020 such item did not occur.
Share of losses of joint ventures accounted for using the equity method	+16	Other factors
	+52	Recognition in the first half of 2020 of the share of the loss of Sierra Gorda S.C.M. to the amount of the increase in capital, i.e. in the amount of USD 52 million (in the first half of 2021 there were no capital increases in Sierra Gorda S.C.M.).
Income tax	(2)	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 2021	1st half 2020	Change (%)	2Q 2021	1Q 2021
Victoria project	11	3	x3.7	7	4
Sierra Gorda Oxide project	1	0	x	1	-
Stripping and other	97	71	+36.6	55	42
Total	109	74	+47.3	64	45
Financing for Sierra Gorda S.C.M. – increase in the share capital	-	52	(100.0)	-	-

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

	1st half 2021	1st half 2020	Change (%)	2Q 2021	1Q 2021
Victoria project	42	12	x3.5	27	15
Sierra Gorda Oxide project	4	0	x	4	-
Stripping and other	365	284	+28.5	207	158
Total	411	296	+38.9	238	173
Financing for Sierra Gorda S.C.M. – increase in the share capital	-	210	(100.0)	-	-

Cash expenditures by the segment KGHM INTERNATIONAL LTD. in the first half of 2021 amounted to USD 109 million, or an increase by USD 35 million (+47%) compared to the corresponding period of 2020.

Around 78% of cash expenditures were incurred by the Robinson mine. These expenditures were incurred among others on work related to stripping to prepare for further mining of the deposit.

Expenditures on the Victoria project amounted to USD 11 million, among others on work related to preparing selected infrastructural elements as a preparatory stage for further project development.

In the first half of 2021, there was no financing provided to the Sierra Gorda mine.

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.) of KGHM INTERNATIONAL LTD. (55%) and Sumitomo Metal Mining and Sumitomo Corporation (45%).

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 part 2 of the consolidated financial statements.

7.1. Production

In the first half of 2021, Sierra Gorda S.C.M. substantially increased its production of copper compared to production in the corresponding period of 2020, while molybdenum production was lower.

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

	Unit	1st half 2021	1st half 2020	Change (%)	2Q 2021	1Q 2021
Copper production ⁽¹⁾	kt	93.1	71.3	30.6	51.5	41.6
Copper production – segment (55%)	kt	51.2	39.2	30.6	28.3	22.9
Molybdenum production ⁽¹⁾	mn lbs	8.4	9.1	(7.7)	4.9	3.5
Molybdenum production – segment (55%)	mn lbs	4.6	5.0	(7.7)	2.7	1.9
TPM production – gold ⁽¹⁾	koz t	26.0	29.5	(11.9)	13.9	12.1
TPM production – gold - segment (55%)	koz t	14.3	16.2	(11.9)	7.7	6.6

¹⁾ Payable metal in concentrate.

The increase in copper production by 31% compared to the amount achieved in the first half of 2020 was the result of higher copper content in processed ore by 27% and improved copper recovery by 2%, with the volume of ore processed not substantially different from that achieved in the prior year.

Molybdenum production was 8% lower compared to the first half of 2020, resulting from the planned mining of areas with lower molybdenum content. It should be noted that molybdenum recovery was higher than in the first half of 2020 by 6%.

7.2. Sales

Revenues in the first half of 2021 amounted to USD 1 031 million (on a 100% basis), or PLN 2 144 million respectively to the 55% interest held.

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

	Unit	1st half 2021	1st half 2020	Change (%)	2Q 2021	1Q 2021
Revenues from contracts with customers,⁽¹⁾ including from the sale of:	USD mn	1 031	474	×2.2	582	449
- copper	USD mn	849	345	×2.5	484	365
- molybdenum	USD mn	113	70	61.4	62	51
- TPM (gold)	USD mn	45	50	(10.0)	24	21
Copper sales volume	kt	88.7	69.1	28.4	49.3	39.4
Molybdenum sales volume	mn lbs	7.7	8.3	(7.2)	3.5	4.2
TPM sales volume (gold)	koz t	25.5	29.1	(12.4)	13.3	12.2
Revenues from contracts with customers⁽¹⁾ - segment (55%)	PLN mn	2 144	1 049	×2.0	1 202	942

¹⁾ reflecting treatment/refining and other charges

The more than doubled increase in revenues (+USD 557 million) compared to the level achieved in the first half of 2020 was mainly due to the higher prices of metals sold by Sierra Gorda S.C.M. Also of significance was the increase in copper sales volume by 19.6 thousand tonnes.

With regard to molybdenum, although sales volume was lower (lower production due to a decrease in molybdenum content in ore), revenues were higher by 61%, mainly due to higher prices.

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 498 million, of which USD 425 million were costs of sales and USD 73 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 1 036 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 2021	1st half 2020	Change (%)	2Q 2021	1Q 2021
Cost of sales, selling costs and administrative expenses	USD mn	498	468	6.4	264	234
Cost of sales, selling costs and administrative expenses – segment (55%)	PLN mn	1 036	1 036	0.0	546	490
C1 payable copper production cost ⁽¹⁾	USD/lb	0.87	1.26	(31.0)	0.81	0.93

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 2020, the cost of sales, selling costs and administrative expenses expressed in USD million was higher by USD 30 million (+6%), with a copper sales volume higher by 28%.

Changes compared to the corresponding period of 2020 were mainly in respect of the following expenses by nature prior to the change in inventories and less capitalised stripping:

- depreciation/amortisation – a decrease by USD 9 million (-5%), mainly as regards capitalised stripping,
- spare parts – a decrease by USD 3 million (-9%) mainly as regards spare parts for machinery and mining equipment,
- materials – a decrease by USD 3 million (-6%), mainly due to improved utilisation of explosives and lower consumption of milling materials (steel balls),
- labour costs – an increase by USD 32 million (73%) resulting from incorporation of the results of wage negotiations and a lower CLP/USD exchange rate,
- external services – an increase by USD 12 million (+13%) due to higher extraction, and therefore a higher scope of work by mining machinery and consumption of tires (the maintenance of mining machinery and servicing of tires are subject to contracts)
- energy – an increase by USD 4 million (+4%) among others due to higher consumption of energy resulting from the hardness of the material processed,
- fuel, lubricants and oils – an increase by USD 6 million (+30%), mainly due to higher prices of oils by 27%,
- transport and shipping costs – an increase by USD 13 million (+41%), with respect to transport by land and sea as well as port-related costs due to the higher volume of concentrate sales and higher sea transport rates.

As a result of the strengthening of the PLN, the costs of the segment Sierra Gorda for the first half of 2021 expressed in PLN amounted to PLN 1 036 million, meaning they were at the level of the comparable period of 2020.

The C1 cash cost of copper production for the first half of 2021 amounted to 0.87 USD/lb. The decrease compared to the corresponding period of 2020 by 31% was due to a higher volume of copper sales (+28%) and higher revenues from the sale of associated metals (+29%).

7.4. Financial results

In the first half of 2021, adjusted EBITDA amounted to USD 711 million, of which proportionally to the interest held (55%) PLN 1 478 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 2021	1st half 2020	Change (%)	2Q 2021	1Q 2021
Revenues from contracts with customers	1 031	474	×2.2	582	449
Cost of sales, selling costs and administrative expenses	(498)	(468)	6.4	(264)	(234)
Profit/(loss) on sales	533	6	×88.8	318	215
Profit/loss for the period	229	(139)	×	153	76
Depreciation/amortisation recognised in profit or loss	(178)	(188)	(5.3)	(87)	(91)
Adjusted EBITDA⁽¹⁾	711	194	×3.7	405	306

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

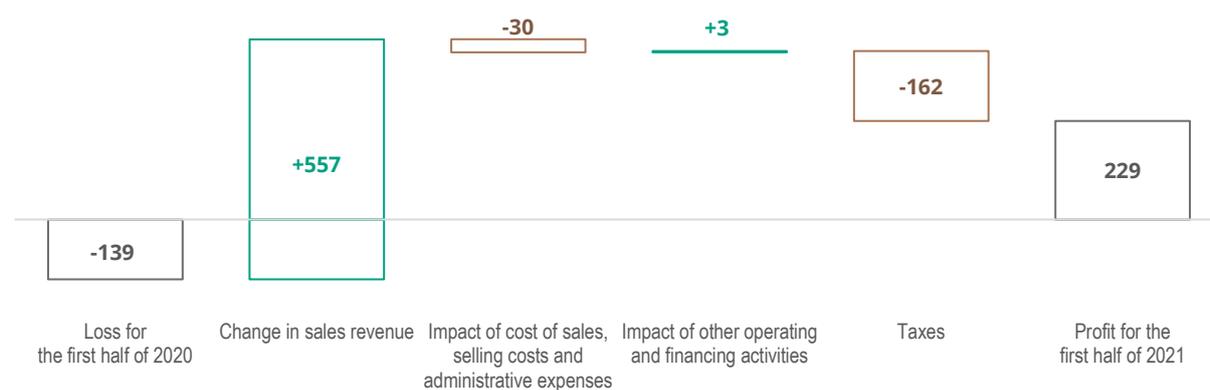
	1st half 2021	1st half 2020	Change (%)	IIQ'21	IQ'21
Revenues from contracts with customers	2 144	1 049	×2.0	1 202	942
Cost of sales, selling costs and administrative expenses	(1 036)	(1 036)	-	(546)	(490)
Profit/(loss) on sales	1 108	13	×85.2	656	452
Profit/loss for the period	476	(308)	×	316	160
Depreciation/amortisation recognised in profit or loss	(370)	(415)	(10.8)	(179)	(191)
Adjusted EBITDA⁽¹⁾	1 478	428	×3.5	835	643

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
Higher sales revenue - impact on result +USD 557 million	+357	Higher revenues due to higher prices of copper, molybdenum, gold and silver (+ USD 423 million), with a Mark to Market adjustment (-USD 66 million)
	+200	Higher revenues due to a higher sales volume of copper and silver (USD 213 million) and a decrease in the volume of sales of molybdenum and gold (-USD 13 million)
Higher cost of sales, selling costs and administrative expenses - impact on result -USD 30 million	-72	Higher costs, including mainly transport, external services, labour costs, energy and fuels
	+18	Lower costs, mainly materials, spare parts and amortisation/depreciation
	+7	Change in inventories
	+17	Higher capitalised stripping costs, mainly due to a higher scope of work
Impact of other operating and finance activities +USD 3 million	+3	A lower result on other operating activities by USD 4 million, with a higher result on financing activities by USD 7 million
Impact of taxes -USD 162 million	-137	A change in income tax (-USD 88 million in the first half of 2021 versus +USD 49 million for the prior year) due to an achieved positive result prior to taxation versus a loss incurred in the corresponding period of 2020.
	-25	Mining tax (in the first half of 2020 this item did not occur)

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



7.5. Cash expenditures

In the first half of 2021, 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 145 million, of which the majority, or USD 92 million (63%) were cash expenditures incurred on stripping to gain access to further areas of the deposit, with the rest related to development work and the replacement of property, plant and equipment.

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

	Unit	1st half 2021	1st half 2020	Change (%)	2Q 2021	1Q 2021
Cash expenditures on property, plant and equipment	USD mn	145	116	25.0	75	70
Cash expenditures on property, plant and equipment – segment (55% share)	PLN mn	301	256	17.6	154	147

The increase in cash expenditures (expressed in USD) by 25% was due to capitalised stripping costs due to the higher scope of work carried out as well as to other expenditures on reconstruction and development,, including on advancing a project involving renovation of the tailings storage facility and development of social infrastructure.

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 2021	1st half 2020	Change (%)	2Q 2021	1Q 2021
Revenues from contracts with customers	14 506	10 948	+32.5	7 761	6 745
Cost of sales, selling costs and administrative expenses	(11 700)	(9 808)	+19.3	(6 397)	(5 303)
Profit on sales	2 806	1 140	×2.5	1 364	1 442
Profit or loss on involvement in a joint venture	1 849	(17)	×	1 752	97
Other operating income / (costs)	183	160	+14.4	(442)	625
Finance income / (costs)	(209)	(176)	+18.8	93	(302)
Profit before income tax	4 629	1 107	×4.2	2 767	1 862
Income tax expense	(906)	(408)	×2.2	(409)	(497)
Profit for the period	3 723	699	×5.3	2 358	1 365
Adjusted EBITDA⁽¹⁾	5 313	2 651	×2.0	2 705	2 608

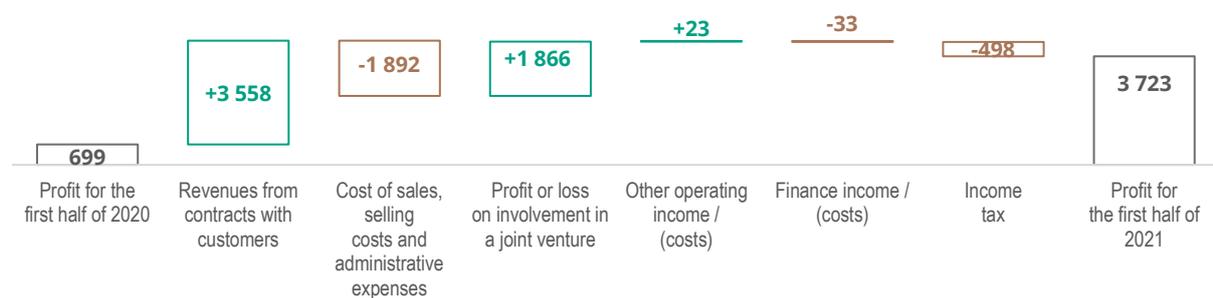
¹⁾ Adjusted EBITDA = profit on sales + depreciation/amortisation (recognised in profit or loss) + impairment loss (-reversal of impairment losses) on non-current assets recognised in cost of sales, selling costs and administrative expenses) according to part 2 of the consolidated financial statements – 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	+3 558	An increase in revenues mainly due to an increase in revenues from copper sales +PLN 3 201 million and silver +PLN 465 million alongside a decrease in revenues from the sale of gold -PLN 112 million and merchandise and materials -PLN 105 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	(1 892)	The increase in costs of sales, selling costs and administrative expenses was mainly comprised of higher expenses by nature by PLN 3 592 million, mainly due to higher costs of purchased metal-bearing materials by PLN 1 927 million and the minerals extraction tax by PLN 957 million, with a change in adjustment due to the change in inventories of products and work in progress by -PLN 1 424 million and an adjustment for the manufacture of products for own use by -PLN 234 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	+1 866	The increase in profit on involvement in a joint venture from -PLN 17 million to PLN 1 849 million was mainly due to: <ul style="list-style-type: none"> – gains due to a reversal of allowances for impairment of loans granted to a joint venture in the amount of PLN 1 655 million, – no participation in losses of a joint venture accounted for using the equity method (in the first half of 2020: -PLN 210 million),
Other operating income/ (costs)	+23	The decrease in the result on other operating activities from PLN 160 million to PLN 183 million was mainly due to:

	<ul style="list-style-type: none"> - a lower result on exchange differences on the measurement of assets and liabilities other than borrowings by PLN 37 million, - a lower result on the measurement and realisation of derivatives by PLN 16 million, - a higher result on the disposal of property, plant and equipment by PLN 87 million, - losses due to changes in the fair value of financial assets, in the amount of -PLN 64 million (in the first half of 2020 this item did not occur), - a higher balance of provisions recognised and released by PLN 31 million.
Finance income/(costs)	(-33) The change in finance income and costs from -PLN 176 million to -PLN 209 million was mainly due to: <ul style="list-style-type: none"> - a lower result on exchange differences from the measurement and realisation of borrowings by PLN 83 million, - lower interest costs on borrowings by PLN 48 million.
Income tax	(498) An increase in income tax due to a change in profit before taxation.

Chart 13. Change in profit/loss in the first half of 2021 (in PLN million)



Cash flow

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

	1st half 2021	1st half 2020	Change (%)	2Q 2021	1Q 2021
Profit before income tax	4 629	1 107	×4.2	2 767	1 862
Depreciation/amortisation recognised in profit or loss	1 020	953	+7.0	525	495
Share of losses of a joint venture accounted for using the equity method	-	210	×	-	-
Gains due to the reversal of allowances for impairment of loans granted to a joint venture	(1 655)	-	×	(1 655)	-
Other gains due to reversal of impairment losses on non-current assets	(47)	(1)	×47.0	(41)	(6)
Interest on loans granted to a joint venture	(194)	(193)	+0.5	(97)	(97)
Other interest	62	113	(45.1)	33	29
Impairment losses on non-current assets	32	93	(65.6)	32	-
Gains due to the disposal of property, plant and equipment and intangible assets	(51)	29	×	-	(51)
Exchange differences	41	(467)	×	364	(323)
Change in provisions for decommissioning of mines, employee benefits liabilities and other provisions	-	(15)	×	(18)	18
Change in other receivables and liabilities other than working capital	707	(73)	×	505	202
Change in assets and liabilities due to derivatives	(1 084)	273	×	(768)	(316)
Reclassification of other comprehensive income to profit or loss due to the realisation of hedging derivatives	954	(154)	×	583	371
Other adjustments	3	10	(70.0)	-	3
Exclusions of income and costs, total	(212)	778	×	(537)	325
Income tax paid	(390)	(386)	+1.0	(190)	(200)
Change in working capital	(1 710)	432	×	(650)	(1 060)
Net cash generated from operating activities	2 317	1 931	+20.0	1 390	927
Expenditures on mining and metallurgical assets	(1 462)	(1 389)	+5.3	(784)	(678)
Expenditures on other property, plant and equipment and intangible assets	(201)	(192)	+4.7	(65)	(136)
Expenditures on financial assets designated for mine decommissioning and other technological facilities	(24)	(22)	+9.1	-	(24)
Acquisition of newly-issued shares of a joint venture	-	(207)	×	-	-
Proceeds from the disposal of property, plant and equipment and intangible assets	77	18	×4.3	4	73
Proceeds from the disposal of equity instruments measured at fair value through other comprehensive income	53	-	×	-	53
Advances granted on property, plant and equipment and intangible assets	(7)	(25)	(72.0)	(4)	(3)
Other	(3)	(8)	(62.5)	(4)	1
Net cash used in investing activities	(1 567)	(1 825)	(14.1)	(853)	(714)
Proceeds from borrowings	55	4 157	(98.7)	31	24
Repayments of borrowings	(1 581)	(3 147)	(49.8)	(478)	(1 103)
Repayment of lease liabilities	(49)	(44)	+11.4	(39)	(10)
Interest paid	(64)	(135)	(52.6)	(23)	(41)
Expenditures due to payout of a dividend to shareholders of the Parent Entity	(300)	-	×	(300)	-
Other	(16)	(5)	×3.2	(17)	1
Net cash generated from/(used in) financing activities	(1 955)	826	×	(826)	(1 129)
NET CASH FLOW	(1 205)	932	×	(289)	(916)
Exchange differences	(49)	3	×	(9)	(40)
Cash and cash equivalents at beginning of the period	2 522	1 016	×2.5	1 566	2 522
Cash and cash equivalents at end of the period	1 268	1 951	(35.0)	1 268	1 566

Net cash generated from operating activities in the first half of 2021 amounted to +PLN 2 317 million and comprised profit before income tax of +PLN 4 629 million, increased mainly by an adjustment of depreciation/amortisation in the amount of +PLN 1 020 million, a change in other receivables and liabilities other than working capital of +PLN 707 million and an adjustment due to reclassification of other comprehensive income to profit or loss due to the realisation of derivatives of +PLN 954 million.

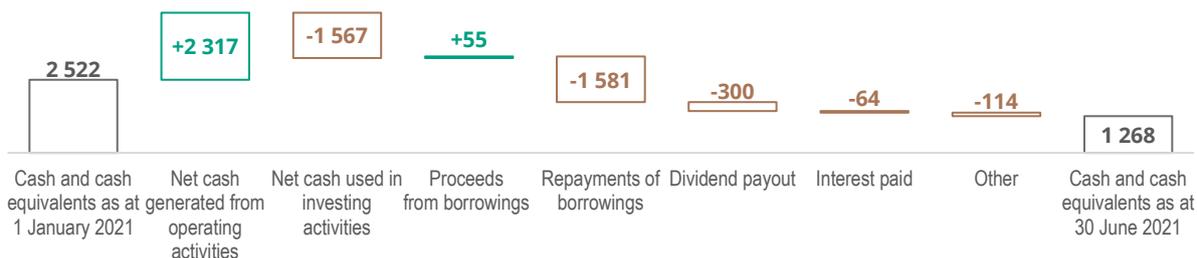
The decrease in cash generated from operating activities was mainly due to an adjustment of gains due to the reversal of allowances for impairment of loans granted to a joint venture of -PLN 1 655 million, an adjustment of interest on loans granted to a joint venture of -PLN 194 million, a change in assets and liabilities due to derivatives of -PLN 1 084 million, a change in working capital of -PLN 1 710 million and income tax paid of -PLN 390 million.

Net cash used in investing activities in the first half of 2021 amounted to -PLN 1 567 million and mainly comprised expenditures on property, plant and equipment and intangible assets in the amount of -PLN 1 663 million.

Net cash used in financing activities in the first half of 2021 amounted to -PLN 1 955 million and mainly comprised repayments of borrowings of -PLN 1 581 million, the payout of a dividend to shareholders of the Parent Entity of -PLN 300 million, interest paid in the amount of -PLN 64 million and repayment of lease liabilities of -PLN 49 million.

After reflecting exchange differences on cash and cash equivalents, cash and cash equivalents decreased by PLN 1 254 million and at 30 June 2021 amounted to PLN 1 268 million.

Chart 14. Cash flows in the first half of 2021 (in PLN million)



Assets

Table 27. Consolidated assets (in PLN million)

	30.06.2021	31.12.2020	Change (%)
Mining and metallurgical property, plant and equipment	21 033	20 576	+2.2
Mining and metallurgical intangible assets	1 875	2 024	(7.4)
Other property, plant and equipment	2 748	2 857	(3.8)
Other intangible assets	110	141	(22.0)
Joint ventures – loans granted	7 992	6 069	+31.7
Derivatives	574	789	(27.2)
Other financial instruments measured at fair value	755	636	+18.7
Other financial instruments measured at amortised cost	501	601	(16.6)
Deferred tax assets	216	193	+11.9
Other non-financial assets	165	161	+2.5
Non-current assets	35 969	34 047	+5.6
Inventories	5 794	4 459	+29.9
Trade receivables	881	834	+5.6
Tax assets	235	295	(20.3)
Derivatives	294	210	+40.0
Other financial assets	96	210	(54.3)
Other non-financial assets	251	142	+76.8
Cash and cash equivalents	1 189	2 522	(52.9)
Assets held for sale	346	61	x5.7
Current assets	9 086	8 733	+4.0
Total assets	45 055	42 780	+5.3

At the end of the first half of 2021, total assets in the consolidated statement of financial position amounted to PLN 45 055 million and were higher as compared to 31 December 2020 by PLN 2 275 million.

Non-current assets as at 30 June 2021 amounted to PLN 35 969 million and were higher by PLN 1 922 million as compared to the end of 2020. The increase in non-current assets was mainly due to loans granted to joint ventures by PLN 1 923 million, property, plant and equipment and intangible assets by PLN 168 million, and other financial instruments measured at fair value by PLN 119 million. As compared to 2020, derivatives were lower by PLN 215 million as well as other financial instruments measured at amortised cost by PLN 100 million.

The increase in current assets by PLN 353 million was mainly in respect of inventories by PLN 1 335 million and assets held for sale by PLN 285 million, with a simultaneous decrease in cash and cash equivalents by PLN 1 333 million.

Chart 15. Change in assets in the first half of 2021 (in PLN million)



Equity and liabilities

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

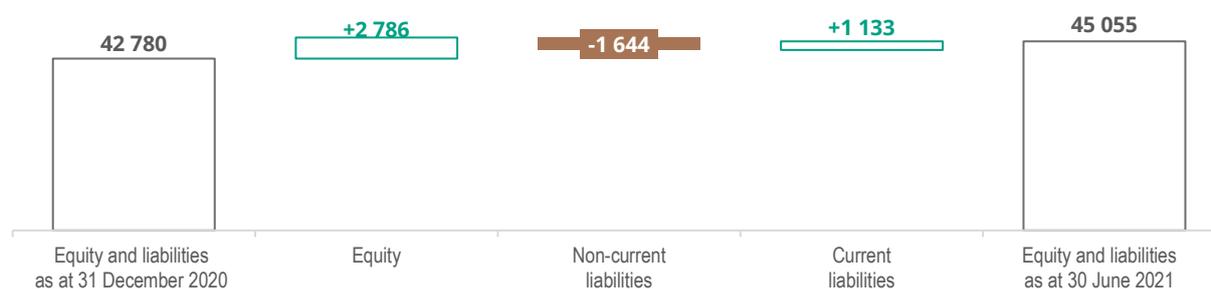
	30.06.2021	31.12.2020	Change (%)
Share capital	2 000	2 000	-
Other reserves from measurement of financial instruments	(2 076)	(1 430)	+45.2
Accumulated other comprehensive income other than from measurement of financial instruments	1 755	1 728	+1.6
Retained earnings	22 101	18 694	+18.2
Equity attributable to shareholders of the Parent Entity	23 780	20 992	+13.3
Equity attributable to non-controlling interest	87	89	(2.2)
Equity	23 867	21 081	+13.2
Borrowings, leases and debt securities	5 505	6 928	(20.5)
Derivatives	1 156	1 006	+14.9
Employee benefits liabilities	2 942	3 016	(2.5)
Provisions for decommissioning costs of mines and other facilities	1 566	1 849	(15.3)
Deferred tax liabilities	374	442	(15.4)
Other liabilities	605	551	+9.8
Non-current liabilities	12 148	13 792	(11.9)
Borrowings, leases and debt securities	428	407	+5.2
Derivatives	1 163	688	+69.0
Trade and similar payables	3 023	3 593	(15.9)
Employee benefits liabilities	1 397	1 313	+6.4
Tax liabilities	1 135	537	+2.1
Provisions for liabilities and other charges	179	162	+10.5
Other liabilities	1 304	1 202	+8.5
Liabilities associated with assets held for sale	411	5	+82.2
Current liabilities	9 040	7 907	+14.3
Non-current and current liabilities	21 188	21 699	(2.4)
Total equity and liabilities	45 055	42 780	+5.3

Equity as at 30 June 2021 amounted to PLN 23 867 million and was higher by PLN 2 786 million than at the end of 2020, mainly due to an increase in retained earnings by PLN 3 407 million with a simultaneous decrease in other reserves from the measurement of financial instruments by PLN 646 million.

Non-current liabilities of the KGHM Polska Miedź S.A. Group as at 30 June 2021 amounted to PLN 12 148 million and were lower by PLN 1 644 million compared to the end of 2020, mainly due to a decrease in liabilities due to borrowings and leases by PLN 1 423 million.

Current liabilities of the KGHM Polska Miedź S.A. Group as at 30 June 2021 amounted to PLN 9 040 million and were higher by PLN 1 133 million compared to the end of 2020, mainly due to an increase in tax liabilities by PLN 598 million and liabilities due to derivatives by PLN 475 million and liabilities associated with assets held for sale by PLN 406 million. A decrease in current liabilities mainly concerned trade and similar payables by PLN 570 million.

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



Contingent assets and liabilities

As at 30 June 2021, the value of contingent assets amounted to PLN 516 million and was lower than the amount at the end of 2020 by PLN 16 million.

As at 30 June 2021, the value of contingent liabilities amounted to PLN 604 million and was lower than the amount at the end of 2020 by PLN 745 million. The decrease was mainly due to guarantees granted and letters of credit by PLN 755 million.

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 2021 amounted to PLN 5 937 million, 91% of which represented debt of the Parent Entity. The decrease in debt in the first half of 2021 by PLN 1 398 million as compared to the end of 2020 was due to the repayment by the Parent Entity of a portion of its bank loans using the financial surplus. As a result of these actions the amount of free cash and cash equivalents held by the Group decreased by PLN 1 255 million as compared to the end of 2020 and as at 30 June 2021 amounted to PLN 1 246 million. The Group's free cash and cash equivalents are of a short term nature.

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

	30.06.2021	31.12.2020	Change (%)
Liabilities due to:	5 937	7 335	(19.1)
Bank loans	689	1 994	(65.4)
Loans	2 607	2 685	(2.9)
Debt securities - bonds	2 000	2 000	-
Leases	641	656	(2.3)
Free cash and cash equivalents	1 246	2 501	(50.2)
Net debt	4 691	4 834	(3.0)

Sources of financing in the Group

As at 30 June 2021, the Group held open lines of credit, loans and bonds with a total available PLN-equivalent amount of PLN 13 984 million, out of which PLN 5 295 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 2 000 million.

Unsecured, revolving syndicated credit facility in the amount of USD 1.5 billion	<p>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 19 December 2024 and the option of extending for a further 2 years (5+1+1). In 2020, the Parent Entity obtained the agreement of the Participants of the Syndicate to extend the maturity of the agreement by 1 year, that is to 19 December 2025. The available borrowing limit during the period of extension will amount to USD 1 438 million.</p> <p>The funds acquired under this credit are being used to finance general corporate goals.</p>
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	<p>Financing agreement signed by the Parent Entity with the European Investment Bank:</p> <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 Company'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 2021, 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 2.7 billion	<p>The Group has open lines of credit in the form of bilateral agreements in the total amount of PLN 2 709 million. These are working capital facilities and 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.</p> <p>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.</p>
Debt securities in the amount of PLN 2.0 billion	<p>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.</p>

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

Debt position as at 30 June 2021

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 30.06.21	Amount drawn as at 31.12.20	Change (%)	Amount available as at 30.06.21	Amount drawn (%)
Unsecured, revolving syndicated credit facility	(15) ¹⁾	(17) ¹⁾	(11.8)	5 705	0.0%
Loans	2 607	2 685	(2.9)	3 570	73.0%
Bilateral bank loans	704	2 011	(65.0)	2 709	26.0%
Debt securities - bonds	2 000	2 000	-	2 000	100.0%
Total	5 296	6 679	(20.7)	13 984	37.9%

¹⁾ The preparatory fee paid decreases financial liabilities due to bank loans drawn settled in time.

Cash pooling in the Group

In managing its financial liquidity, the Group utilises tools which support its efficiency. One of the basic instruments used by the Group is the cash pooling management system - domestically in PLN, USD and EUR and abroad in USD, 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 working capital and supporting short term financial liquidity in the Group.

Loans granted

As at 30 June 2021, the balance of loans granted by the Group amounted to PLN 8 011 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.

Liabilities due to guarantees granted

As at 30 June 2021, the Group held liabilities due to guarantees and letters of credit granted in the total amount of PLN 929 million and due to promissory notes liabilities in the amount of PLN 184 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.

As at 30 June 2021, the Parent Entity had guaranteed repayments of bank loans drawn by the joint venture Sierra Gorda S.C.M. in respect of the following entities:

- Bank Gospodarstwa Krajowego in the amount of PLN 629 million (USD 165 million), with the guarantee expiring in 2024,
- Sumitomo Metal Mining Co. Ltd. and Sumitomo Corporation in the amount of PLN 105 million (USD 28 million), these liabilities were repaid in June 2021, with the guarantee expiring in August 2021.

Evaluation of Group liquidity

In the first half of 2021, 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 individual risk factors.

Under the current Corporate Risk Management Policy and Procedure and the Rules of the Corporate Risk and Compliance Committee, the process of corporate risk management in the KGHM Polska Miedź S.A. Group is consistently performed. The Company oversees the process of managing corporate risk in the KGHM Polska Miedź S.A. Group, while in the companies of the KGHM Polska Miedź S.A. Group documents regulating 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 the Best Practice for GPW Listed Companies 2016, and from 2021 under the updated standard of the Best Practice for GPW Listed Companies 2021.

Risk factors in various areas of the KGHM Group Polska Miedź S.A. Group's operations are continuously identified, assessed and analysed in terms of their possible limitation. Key risks in the KGHM Group 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 Treasury Operations - Corporate Treasurer.

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), in 2020 the Management Board of KGHM Polska Miedź S.A. adopted 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. The process of managing compliance, which is connected with the process of managing corporate risk within the in KGHM Polska Miedź S.A. Group, is an important business tool for the prevention of events which could lead to the imposition of penalties.

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 stages:

Diagram 1. 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, defining 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.</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, utility 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 the climate and natural environment and 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 penalties as a result of such proceedings. - Going concern – 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 risks are 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 Communicating	<p>The goal 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 uncovered, 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 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>

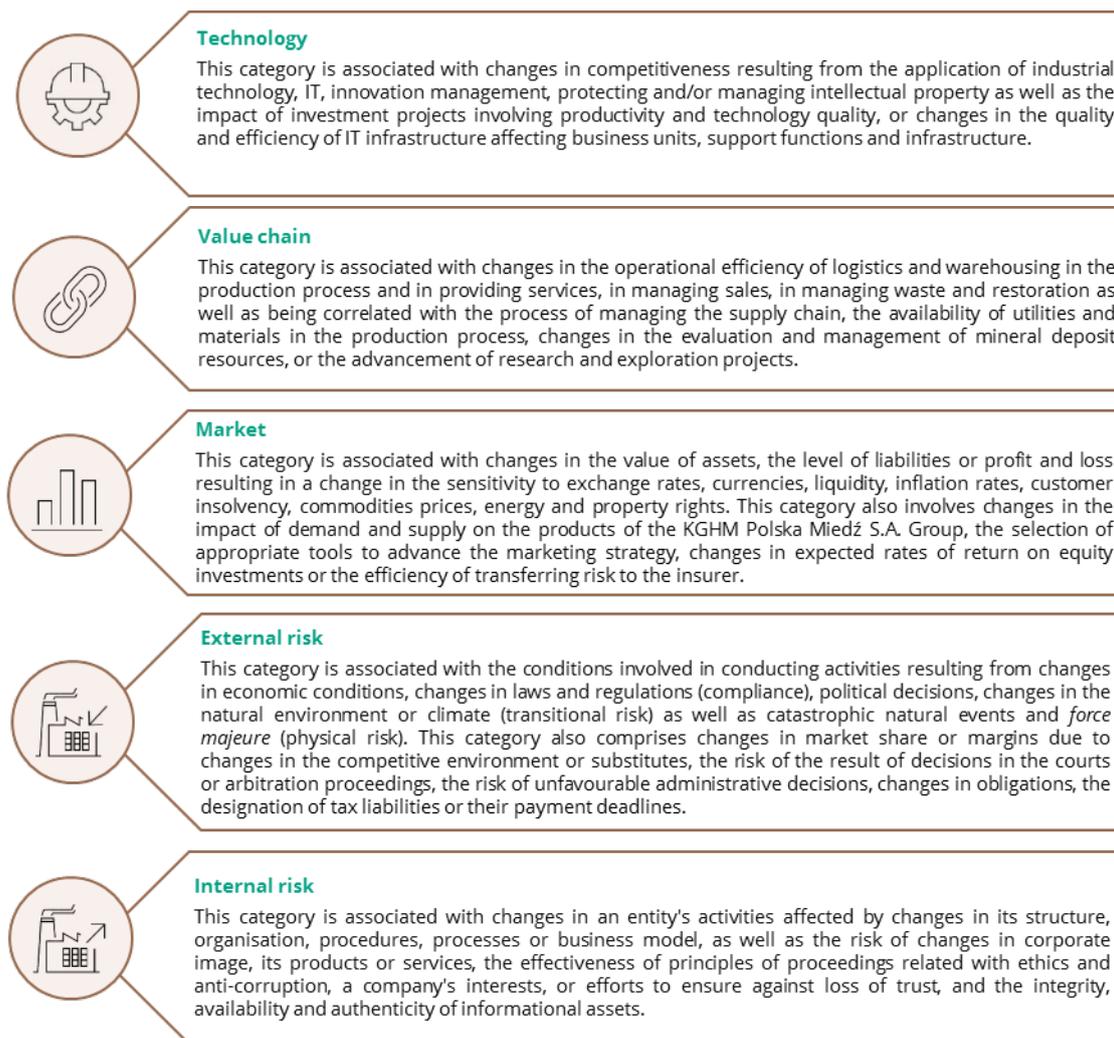
Diagram 2. Organisational structure of risk management in KGHM Polska Miedź S.A

Supervisory Board (Audit Committee)					
Performs annual assessment of the effectiveness of the risk management process and monitors the level of risk and ways to address it.					
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
Managers are responsible for identifying, assessing and analysing risks and for the implementation, within their daily duties, of responses to risk. The task of the managers is ongoing supervision of the application of appropriate responses to risk within the tasks realised, to ensure the expected level of risk is not exceeded.	Support the effectiveness of the risk management process.				The Internal Audit Plan is based on assessing risk and it is subordinated to business goals, assessed is the current level of risk and the degree of efficiency with which it is managed. Internal Audit Rules Executive Director for Audit and Control <i>Reports to the President of the Management Board</i>
	Corporate Risk and Compliance Committee	Market Risk Committee	Credit Risk Committee	Financial Liquidity Committee	
	Manages corporate risk and continuously monitors key risks	Manages risk of changes in metals prices (e.g.: copper and silver) as well as exchange and interest rates	Manages risk of failure of debtors 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>Compliance Management Policy</i>	<i>Market Risk Management Policy</i>	<i>Credit Risk Management Policy</i>	<i>Liquidity Management Policy</i>	
	Department of Corporate Risk Management and Compliance	Executive Director for Treasury Operations - Corporate Treasurer			
	<i>Reports to the Management Board</i>	<i>Reports to the Vice President of the Management Board (Finance)</i>			

9.2. Corporate risk – key risks, 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. Its structure is based on a given risk's source and is divided into the following 5 categories: **Technological, Values chain, Market, External and Internal**. 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 3. Risk categories in the Risk Model of KGHM Polska Miedź S.A.



The key risks in the KGHM Polska Miedź S.A. Group, along with their detailed description, mitigating activities and identification of specific risks 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 2020 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 2020 in section 1.11 „Comprehensive risk management system in the KGHM 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).

Moreover, the KGHM Group is preparing a Climate Policy which will represent a systemic solution enabling the implementation of reporting guidelines for non-financial information. As part of this work it is expected that a comprehensive analysis will be carried out to further identify threats and opportunities related to climate change which are currently impacting or will impact 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 will also be conducted via the planned utilisation of 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 Group's point of view, a significant effect of the coronavirus epidemic is its impact on market risk related to the volatility of metals prices and market indices. As at 30 June 2021, the price of copper amounted to 9 385 USD/t, or an increase by 21% compared to the price at the end of 2020 and an increase of 6% compared to 31 March 2021. The Company's share price in the first half of 2021 rose by 3% compared to the end of 2020 and at the close of trading on 30 June 2021 amounted to PLN 187.65. The Company's share price remained at a stable, high level during the entire first half of 2021, several times exceeding the amount of PLN 200.00 per share and reaching on 13 May 2021 the record level of PLN 223.80. The increase in the Parent Entity's share price resulted in an increase in the Company's market capitalisation, which on 30 June 2021 amounted to PLN 37 530 million compared to PLN 36 600 million at the end of 2020.

As at the date of publication of this report, the Management Board of the Parent Entity remains of the opinion that the risk of interruptions to its operations due to the coronavirus is 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 continue not to 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 the execution of deliveries to customers continues 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”.

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 against market risk, in the first half of 2021 the Parent Entity purchased put options on the currency market for the total amount of USD 870 million with maturities from February to December 2021 (of which: USD 510 million for the period from July to December 2021). In addition, previously sold put options for the same period were bought back in the notional amount of USD 495 million (at USD 45 million monthly). A seagull hedging strategy was implemented on the copper market for the period from July 2022 to December 2023 for the total volume of 45 thousand tonnes. In addition, as a result of restructuring a hedging position on the copper market, the Parent Entity purchased call options for the period from March to December 2021 for the total volume of 155 thousand tonnes (of which: 93 thousand tonnes for the second half of 2021), opening at the same time participation in potential further price rises for the collar and seagull options structures held for 2021. As part of this restructuring, the level of execution of options structures hedging revenues from the sale of copper for the period from October to December 2021 for the total volume of 25.5 thousand tonnes was also raised. In the first half of 2021 the Parent Entity also restructured a position on the forward silver market for the period from July 2021 to December 2022. A portion of the notional, previously sold

put options (11.7 million ounces) and call options (5.1 million ounces) was bought back, embedded in seagull hedging structures, while the level of execution of sold call options for 2022 (6.6 million ounces) was raised.

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 2021 drawn in USD, following their conversion into PLN, amounted to PLN 2 919 million (as at 31 December 2020: PLN 4 321 million).

As at 30 June 2021, the Parent Entity held open CIRS (Cross Currency Interest Rate Swap) transactions for the total notional amount of PLN 2 billion, hedging against market risk related to the issue of bonds in PLN with a variable interest rate. Debt due to bonds denominated in PLN generate currency risk due to the fact that most of the Parent Entity's sales revenue is denominated in USD.

In the first half of 2021, 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 2021. 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	<p>As at 30 June 2021, the balance of items exposed to interest rate risk by impacting the amount of interest income and costs was as follows:</p> <ul style="list-style-type: none"> - cash and cash equivalents: PLN 1 682 million, including the deposits of special purpose funds: the Mine Closure Fund and the Tailings Storage Facility Restoration Fund, - borrowings: PLN 118 million, - trade and similar payables (reverse factoring) PLN 839 million. <p>As at 30 June 2021, 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:</p> <ul style="list-style-type: none"> - receivables due to loans granted by the Group: PLN 19 million, - borrowings (i.e. bank and other loans drawn with fixed interest rates): PLN 3 177 million. <p>In the first half of 2021, the Parent Entity did not implement any transactions hedging against the risk of interest rate. As at 30 June 2021, it held open CIRS (Cross Currency Interest Rate Swap) transactions for the notional amount of PLN 2 billion, hedging against risk related to the issue of bonds in PLN with a variable interest rate.</p>
---------------------------	---

Result on derivatives and hedging transactions	<p>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 USD-denominated loan designated as a hedge against a change in the exchange rate) on the Group's profit or loss in the first half of 2021 amounted to -PLN 895 million, of which:</p> <ul style="list-style-type: none"> - PLN 742 million decreased revenues from contracts with customers, - PLN 132 million decreased the result on other operating activities, - PLN 21 million decreased the result on financing activities (including: -PLN 17 million as an adjustment of interest on borrowings). <p>In addition, in the first half of 2021 other comprehensive income decreased by PLN 943 million (impact of hedging instruments).</p> <p>As at 30 June 2021, 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 1 510 million.</p>
---	--

Risk related to the change in share prices of listed companies	<p>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.</p> <p>As at 30 June 2021, the carrying amount of shares of companies which were listed on the Warsaw Stock Exchange and on the TSX Venture Exchange amounted to PLN 640 million.</p>
---	--

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	<p>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 2021 the Parent Entity had secured 82% of its trade receivables (as at 31 December 2020: 75%).</p>
Credit risk related to cash and cash equivalents and bank deposits	<p>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.</p> <p>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 2021, 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 23% (as at 31 December 2020: 25%).</p>

Credit risk related to derivatives transactions	<p>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.</p> <p>In 2021 the method of calculating the value exposed to credit risk related to derivatives was changed – instead of adding the net fair value, only receivables due to open derivatives (excluding embedded derivatives) are taken into account as well as receivables due to settled derivatives.</p> <p>As at 30 June 2021, the maximum share of a single entity in the amount exposed to credit risk arising from derivatives transactions amounted to 29% (at 31 December 2020: 32%; restated data).</p> <p>Despite the concentration of credit risk related to derivatives transactions, the Parent Entity believes that due to its cooperation 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.</p>
Credit risk related to loans granted	<p>As at 30 June 2021, the balance of loans granted by the Parent Entity amounted to PLN 9 408 million. The most important of these are long-term loans in the total amount of PLN 9 349 million granted to the company Future 1 and to the KGHM INTERNATIONAL LTD. Group.</p> <p>As at 30 June 2021, the balance of loans granted by the Group amounted to PLN 8 011 million. The most important of these are long-term loans in the total amount of PLN 7 992 million, or USD 2 101 million, granted by the KGHM INTERNATIONAL LTD. Group for the financing of a mining joint venture in Chile.</p> <p>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.</p>

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:

- a subsequent wave of the COVID-19 pandemic and its potential for interruptions to the continuity of operations or restrictions in activities:
 - due to possible infections by the SARS-CoV-2 virus and increased absenteeism amongst employees of the core production line and/or a decrease in productivity,
 - due to interruptions in the materials and services supply chain and to logistical restrictions, especially as regards international transport,
 - due to restrictions on certain sales markets, a drop in demand and optimisation of inventories of raw materials and finished products amongst customers,
 - due to exceptional legal changes (e.g. special laws),
- 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 and as a result of changes in the value of consumed copper-bearing materials,
- the effects of the implemented hedging policy,
- the general uncertainty on financial markets, and
- the economic effects of the COVID-19 pandemic crisis (e.g. a decrease or delay in revenues from exports).

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

- similarly as in the case of the Parent Entity, the COVID-19 pandemic and its potential for interruptions to the continuity of operations or restrictions in activities,
- volatility in copper, silver, gold and molybdenum prices,
- volatility in the CLP/USD, CAD/USD and USD/PLN exchange rates,
- volatility in mined copper production costs,

Taking into consideration the risk of subsequent waves of the COVID-19 pandemic, there still remains uncertainty regarding the further development of the economic and social situation in Poland and globally.

The above may affect the results of the Group in subsequent quarters. It is not possible however to provide quantitative estimates of the potential impact of current conditions on the results of the KGHM Group. To date there has not been recorded a substantial, negative impact on the continuity of the Core Production Business, sales or the continuity of the materials and services supply chain. The possibility of the future, negative impact of the COVID-19 pandemic in these areas in subsequent quarters may not however be excluded, especially in the context of the conduct of operations under volatile supply and demand conditions.

An important factor for the domestic and global economies will be the potential improvement in the epidemic situation given the program of vaccinations and their effectiveness compared to newly-appearing strains of the virus, which would enable among others the further easing of restrictions in individual countries and sectors, a reduction in uncertainty as to future periods, or increasing activity amongst producers as well as consumers. The Parent Entity continuously monitors the global economic situation, in order to assess its potential negative impact on the KGHM Polska Miedź S.A. Group and to take preventive 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 2021, 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:

26 March 2021	<p>Signing of a sales agreement for 100% of the interest in the share capital of PGE EJ 1 sp. z o.o. between shareholders representing 100% of the share capital of PGE EJ 1 sp. z o.o. (including KGHM Polska Miedź S.A.), and the State Treasury. PGE EJ 1 sp. z o.o. is responsible for preparation and realisation of an investment involving the construction and operation of Poland's first nuclear power plant. The Company had 10% of the shares in PGE EJ 1 sp. z o.o.</p> <p>The sales price for the shares in the company PGE EJ 1 sp. z o.o. held by KGHM Polska Miedź S.A. amounted to PLN 53.1 million, which represented the market value of the 10% interest held by the Company as at 31 December 2020. Payment of the sales price occurred on 31 March 2021.</p> <p>In accordance with the Agreement, the sales price was adjusted, due to the necessity to update the market value of the shares of PGE EJ 1 sp. z o.o. as at the date of payment of the sales price. Based on a report on the valuation of 100% of the shares of the Company, which was updated as at 31 March 2021, the estimated sales price owed to KGHM Polska Miedź S.A. amounted to PLN 52.6 million, with the adjusted amount of PLN 0.5 million to be returned to the state. On 2 June 2021 payment of the adjusted amount was made to the State Treasury.</p> <p>In addition, the Partners and PGE EJ 1 sp. z o.o. signed an annex to the agreement dated 15 April 2015 regarding WorleyParsons, according to which the Partners are proportionally responsible for liabilities or are entitled to claims that may potentially arise as a result of resolution of a dispute with WorleyParsons, up to the level of claims together with accrued interest as at 26 March 2021.</p>
29 March 2021	<p>Signing by Sierra Gorda S.C.M. of a renewable revolving bank loan agreement with Bank Gospodarstwa Krajowego with a maximum limit of USD 700 million.</p> <p>The bank loan is being used to refinance the current debt and potentially to finance Sierra Gorda's current activities. Obligations arising from the bank loan agreement entered into by Sierra Gorda are secured by a corporate guarantee issued by the owners of Sierra Gorda (KGHM Polska Miedź S.A., Sumitomo Metal Mining Co., Sumitomo Corporation).</p> <p>The value of the guarantee which KGHM will be obliged to grant derives from the shares held in Sierra Gorda (55% share) and from the total amount of the bank loan (USD 700 million). The value of the guarantee issued by KGHM amounts to USD 385 million.</p>
25 June 2021	<p>Signing of an Annex to an unsecured loan agreement for the amount of PLN 900 million dated 11 December 2017 with the European Investment Bank.</p> <p>The signing of the Annex increased the available amount of the loan granted by the equivalent of PLN 440 million, meaning the amount of financing granted under the signed Agreement amounts to PLN 1.34 billion. The period of availability of the additional loan in the amount of PLN 440 million is 22 months from the date of signing of the Annex. The loan will be drawn through a maximum of 4 instalments, with each instalment amounting to at least the equivalent of PLN 110 million. For each of the loan instalments the Company has the option to select the currency to be drawn in: PLN or USD or EUR, as well as a fixed or variable rate. The additional amount will represent a potential reserve, which can be used to finance the Company's investment projects.</p> <p>Other terms of the Agreement were not substantially altered and are consistent with standard terms for such transactions.</p>

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 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, during the first half of 2021 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 2021 amounted to 18 530 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 2021 amounted to 18 520 people and was higher than the level of employment in the first half of 2020 by 77 people. The change in employment was due to natural movements in staff.

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

	1st half 2021	1st half 2020	Change (%)
Mines	12 448	12 435	+0.1
Metallurgical plants	3 621	3 616	+0.1
Other divisions	2 451	2 392	+2.5
KGHM Polska Miedź S.A.	18 520	18 443	+0.4

Group

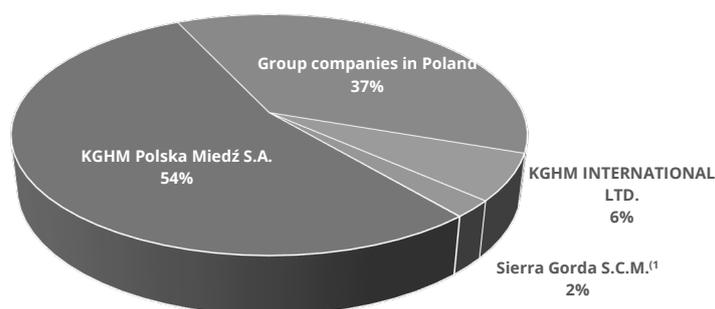
In the first half of 2021, the Group employed 34 179 people, or a slight decrease as compared to the first half of 2020. The employment structure is shown in the following table and chart:

Table 32. Average employment in the Group

	1st half 2021	1st half 2020	Change (%)
KGHM Polska Miedź S.A.	18 520	18 443	+0.4
Companies of the KGHM Group in Poland	12 733	12 986	(1.9)
KGHM INTERNATIONAL LTD.	2 137	1 994	+7.2
Sierra Gorda S.C.M. ¹⁾	780	797	(2.1)
Other international companies of the KGHM Group	9	9	-
Total	34 179	34 229	(0.1)

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 2021



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

Companies in Poland

In the first half of 2021, compared to the first half of 2020, average employment in the companies of the KGHM Polska Miedź S.A. Group in Poland decreased by 253 positions (or 1.9%). This change was mainly in respect of blue-collar positions and was the result of adapting employment to current needs and to the introduction of actions aimed at optimisation due to the outbreak of the SARS-CoV-2 coronavirus pandemic.

Companies abroad

In the first half of 2021, compared to the first half of 2020, average employment in the companies of the KGHM INTERNATIONAL LTD. Group increased by 143 positions (or 7.2%). 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 2021, compared to the first half of 2020, average employment in Sierra Gorda S.C.M. decreased by 17 positions (or 2.1%). The change in the level of employment in both blue-collar and white-collar positions was due to optimisation of employment resulting from the outbreak of the SARS-CoV-2 coronavirus pandemic.

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 elektrorefinacji 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.</p> <p>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.</p> <p>In a judgment dated 12 June 2019, the Court of Appeal in Wrocław dismissed the appeals of both sides, altering the judgment of the court of first instance solely in the matter of the resolution of court costs from the hearings at the court of first instance and charging them to KGHM Polska Miedź S.A. The judgment is binding and 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 date of the hearing regarding admission of the cassation appeal to be heard has not yet been set.</p> <p>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 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.</p>
---	--

10.7. Shareholders and the capital market

Shareholder structure of KGHM Polska Miedź S.A.

As at 30 June 2021, 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 2021, 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 2021 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 2021 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.

As far as the Company is aware, in the period since the date of publication of the consolidated report for the first quarter of 2021 there was a change in the ownership of shares of KGHM Polska Miedź S.A. and rights to them held by Józef Czyczerski – a member of the Company's Supervisory Board, who sold all of the Company's shares held by him, or 10 shares. As a result, 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.

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

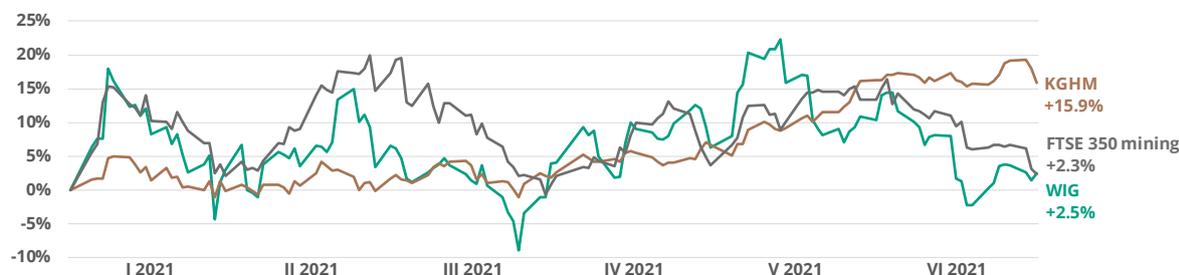
KGHM Polska Miedź S.A. debuted on the Warsaw Stock Exchange (WSE) in July 1997. The Company's shares are traded on the primary market of the WSE in the continuous trading system and are a component of the WIG, WIG20 and WIG30 indices, as well as the WIG – ESG index, comprising listed companies which 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 2021

In the first half of 2021 the share price of KGHM Polska Miedź S.A. rose by 2.5% and at the close of trading on 30 June 2021 amounted to PLN 187.65. During the same period the price of copper – the Company's main product – rose by 21.2%, alongside an increase in the average USD/PLN exchange rate by 1.2%. At the same time the following WSE indices recorded gains: the WIG index by 15.9%, the WIG20 index by 11.8% and the WIG30 index by 14.8%. The FTSE 350 mining index – comprised of companies from the mining sector listed on the London Stock Exchange – also rose, by 2.3%.

The Company's shares reached their maximum closing price of PLN 223.80 on 13 May 2021. The minimum closing price of PLN 166.70 was recorded on 25 March 2021.

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 2021	I-VI 2020	2020
Number of shares issued	million	200	200	200
Market capitalisation of the Company at period's end	PLN billion	37.5	18.2	36.6
Average trading volume per session	shares	604 105	770 494	720 721
Change in share price during the period	%	2.5	-4.9	91.5
Highest closing price during the period	PLN	223.80	101.00	189.35
Lowest closing price during the period	PLN	166.70	49.40	49.40
Closing price from the last day of trading in the period	PLN	187.65	90.90	183.00

Source: Own work, WSE Statistic Bulletins for 2020 and for the first half of 2021, Bloomberg

Allocation of profit

In accordance with a Resolution of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 7 June 2021 regarding the allocation of profit for financial year 2020, on 29 June 2021, a dividend of PLN 300 million, representing PLN 1.50 per share, was paid from profit for this period.

10.8. Organisational changes in the Group

In the first half of 2021, the following organisational changes in the Group occurred:

Disposal of the shares of PGE EJ 1 sp. z o.o.

On 26 March 2021 a sales agreement for 100% of the interest in the share capital of PGE EJ 1 sp. z o.o. ("Agreement") was signed between shareholders representing 100% of the share capital of PGE EJ 1 sp. z o.o. and the State Treasury. The Agreement was signed by all shareholders in the company PGE EJ 1 sp. z o.o., i.e. apart from KGHM Polska Miedź S.A. these were: PGE Polska Grupa Energetyczna S.A., Enea S.A. and TAURON Polska Energia S.A. (Partners).

PGE EJ 1 sp. z o.o. is responsible for preparation and realisation of an investment involving the construction and operation of Poland's first nuclear power plant.

KGHM Polska Miedź S.A. held 10% of the shares of PGE EJ 1 sp. z o.o. The final sales price for the shares of PGE EJ 1 sp. z o.o. held by KGHM Polska Miedź S.A. amounted to PLN 53 million (after reflecting the post-transaction adjustment arising from the obligation to update the market value of the shares of PGE EJ 1 sp. z o.o., as at the date of payment of the sales price).

In addition, the Partners and PGE EJ 1 sp. z o.o. signed an annex to the agreement dated 15 April 2015 regarding WorleyParsons, according to which the Partners are proportionally responsible for liabilities or are entitled to claims that may potentially arise as a result of resolution of a dispute with WorleyParsons, up to the level of claims together with accrued interest as at 26 March 2021.

Merger of the KGHM VI FIZAN Fund with the KGHM VII FIZAN Fund

On 31 May 2021 the Partners Meeting of KGHM VI FIZAN and the Investors Meeting of KGHM VII FIZAN adopted resolutions expressing their consent to a merger of the Funds.

KGHM Polska Miedź S.A. was the sole participant in the KGHM VI FIZAN and KGHM VII FIZAN Funds.

KGHM VI FIZAN was the acquired Fund, and KGHM VII FIZAN was the acquiring Fund. The merger was performed through a transfer of the assets of the acquired Fund to the acquiring Fund and distribution to the participants in the acquired Fund of investment certificates (hereafter: IC) of the acquiring fund in exchange for IC of the acquired Fund.

KGHM Polska Miedź S.A. (hereafter: Participant), in exchange for 21 290 IC of KGHM VI FIZAN with a total value of PLN 109 702 738.45, received 8 824 IC, series F of KGHM VII FIZAN with an issue price for one IC of PLN 12 431.43 and a total issue price for 8 824 IC of PLN 109 694 938.32. Due to the inability to allocate to the Participant a number of IC being an integer, the Fund shall repay KGHM Polska Miedź S.A. in cash the amount arising from a multiple of the surplus above the total number of IC and the value of net assets of the Fund attributable to one Certificate. The aforementioned multiple in the amount of PLN 7 800.13 will be repaid to KGHM Polska Miedź S.A. within 30 days of the date of allocation of the Certificates.

On 30 July 2021 the new series F of the IC of KGHM VII FIZAN was registered.

An order for removal of the KGHM VI FIZAN fund from the registry of investment funds was issued on 30 July 2021.

Redemption of Investment Certificates of KGHM VII FIZAN

On 24 June 2021, as part of the procedure of merging the KGHM VI FIZAN Fund with KGHM VII FIZAN, KGHM Polska Miedź S.A. made a call for the buyback of 421 Investment Certificates (hereafter Certificates) of the KGHM VII FIZAN Fund (hereafter Fund), from a total pool of 30 591 Certificates held by KGHM Polska Miedź S.A. On 30 June 2021 the Fund bought back the Certificates, followed on 6 July 2021 by the payout of funds in this regard in the amount of PLN 5 233 632.03, resulting from the measurement of the Certificates in accordance with their net asset value as at the date of the buyback.

As at the date of the buyback, or on 30 June 2021, the Certificates were removed from the registry of participants of the Fund and redeemed under the law.

Conclusion of liquidation proceedings in non-operating companies Future 6 sp. z o.o. in liquidation and Future 7 sp. z o.o. in liquidation and payout of funds from the liquidation

On 16 June 2021, as a result of the conclusion of liquidation proceedings by the liquidators of the companies Future 6 sp. z o.o. (Future 6) and Future 7 sp. z o.o. (Future 7), KGHM Polska Miedź S.A. as the sole partner received, as a result of the allocation of assets, a return of funds from the liquidation in the following amounts: Future 6 - PLN 25 438.52, Future 7 - PLN 29 385.70. The process of liquidating the non-operating companies Future 6 sp. z o.o. and Future 7 sp. z o.o. began in July 2020. At the end of June 2021 these companies had not yet been removed from the registry.

Change in the nature of refundable payments to Future 6 and Future 7

Prior to settlement of the liquidation of Future 6 and Future 7, due to the losses recognised in these companies' financial statements, on 31 May 2021 the Partners Meetings of the companies Future 6 and Future 7 adopted resolutions in which the refundable payments granted to them by KGHM Polska Miedź S.A. were changed into non-refundable payments. The payment to each of the companies amounted to PLN 26 000.00.

Entities subject to consolidation

As at 30 June 2021, the Group was composed of the Parent Entity – KGHM Polska Miedź S.A. – and 43 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, 71 entities (including KGHM Polska Miedź S.A.) were consolidated.

At the end of the first half of 2021 two jointly-controlled entities were accounted for using the equity method in the consolidated financial statements:

- Sierra Gorda S.C.M.,
- NANO CARBON Sp. z o.o. in liquidation.

Excluded from consolidation was Towarzystwo Ubezpieczeń Wzajemnych „CUPRUM”, whose assets, revenues and financial results have an immaterial 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 2021 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.

KGHM Polska Miedź S.A.					
KGHM TFI S.A.	100%	CBJ sp. z o.o.	100%	KGHM (SHANGHAI) COPPER TRADING CO., LTD.	100%
KGHM VI FIZAN	100%	INOVA Spółka z o.o.	100%	KGHM CUPRUM sp. z o.o. – CBR	100%
Fundusz Hotele 01 Sp. z o.o.	100%	BIPROMET S.A.	100%	Zagłębie Lubin S.A.	100%
Fundusz Hotele 01 Sp. z o.o. S.K.A.	100%	POL-MIEDŹ TRANS Sp. z o.o.	100%	„MCZ” S.A.	100%
INTERFERIE S.A.	70%	PMT Linie Kolejowe Sp. z o.o.	100%	Cuprum Nieruchomości sp. z o.o.	100%
Interferie Medical SPA Sp. z o.o.	90%	KGHM ZANAM S.A.	100%	TUW-CUPRUM ^{/2}	100%
KGHM VII FIZAN	100%	OOO ZANAM VOSTOK	100%	KGHM Centrum Analityki sp. z o.o.	100%
Cuprum Development sp. z o.o.	100%	PeBeKa S.A.	100%	Future 3 Sp. z o.o.	100%
Polska Grupa Uzdrowisk Sp. z o.o.	100%	„Energetyka” sp. z o.o.	100%	Future 4 Sp. z o.o.	100%
Uzdrowisko Połczyn Grupa PGU S.A.	100%	WPEC w Legnicy S.A.	100%	Future 5 Sp. z o.o.	100%
Uzdrowiska Kłodzkie S.A. - Grupa PGU	100%	KGHM Metraco S.A.	100%	Future 6 Sp. z o.o. in liquidation	100%
Uzdrowisko Świeradów -Czerniawa Sp. z o.o.	99%	CENTROZŁOM WROCŁAW S.A.	100%	Future 7 Sp. z o.o. in liquidation	100%
Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU	99%	Walcownia Metali Nieżelaznych „ŁABĘDY” S.A.	85%	MERCUS Logistyka sp. z o.o.	100%
NANO CARBON Sp. z o.o. in liquidation ^{/1}	49%	Future 1 Sp. z o.o.	100%	PHU „Lubinpex” Sp. z o.o.	100%
		KGHM Kupfer AG	100%	NITROERG S.A.	87%
		KGHM INTERNATIONAL LTD. Group	100%	NITROERG SERWIS Sp. z o.o.	87%

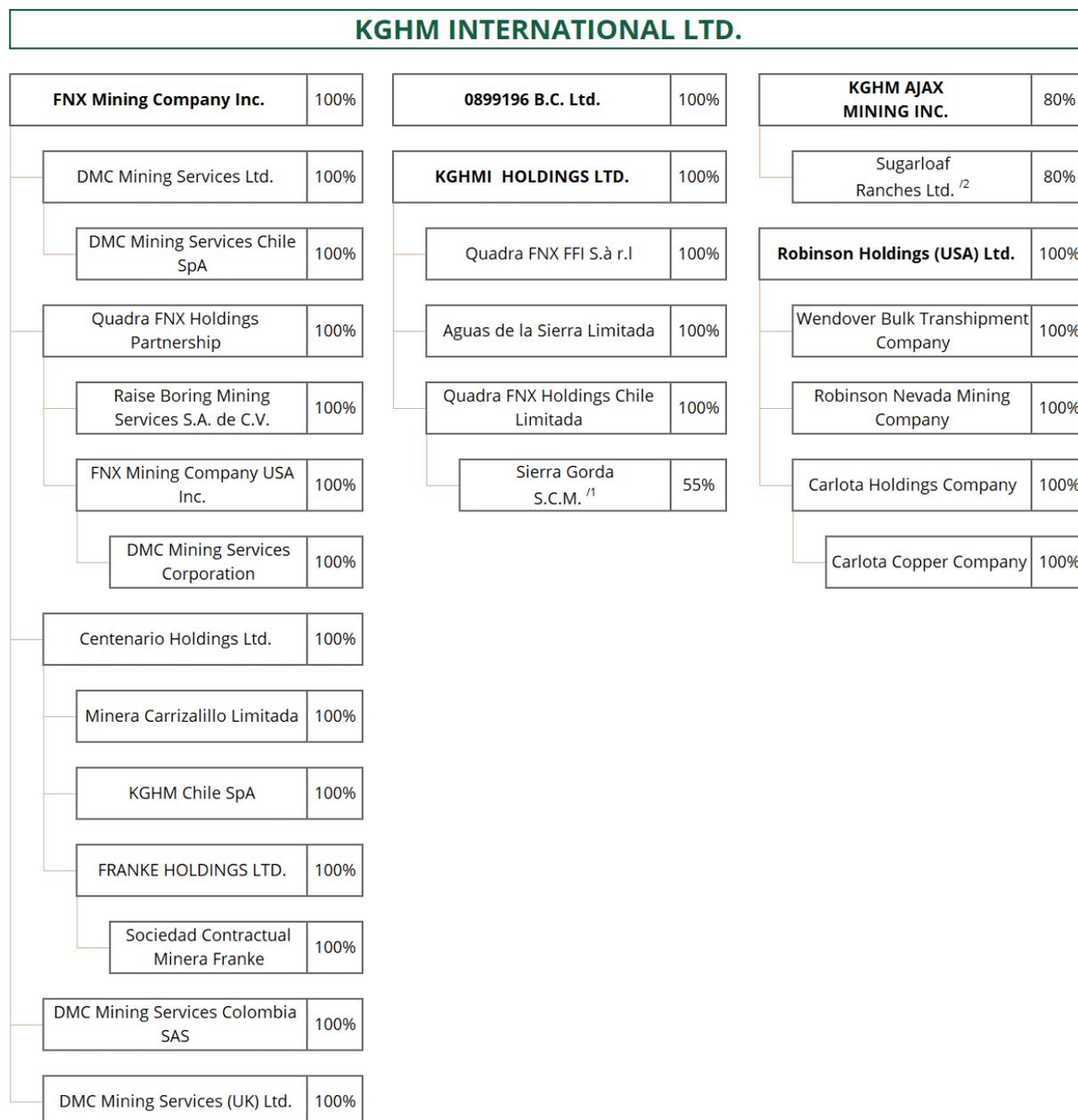
Group structure presented in Appendix 2

^{1/} joint venture accounted for using the equity method

^{2/} unconsolidated subsidiary

APPENDIX 2 KGHM INTERNATIONAL LTD. GROUP STRUCTURE

The percentages shown represent the total share of the Group.



1/ joint venture accounted for using the equity method

2/ actual Group share 80%

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

This report was authorised for issue on 16 August 2021.

President
of the Management Board

Marcin Chludziński

Vice President of the
Management Board

Adam Bugajczuk

Vice President of the
Management Board

Paweł Gruza

Vice President of the
Management Board

Andrzej Kensbok

Vice President of the
Management Board

Dariusz Świderski