



**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**

Lubin, March 2021

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In accordance with Art. 49b point 9 of the Accounting Act, „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” does not contain a declaration on non-financial information, due to the fact that a separate non-financial report is being prepared and published.

USEFUL TERMS AND ABBREVIATIONS

Adjusted EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation)	Profit on sales plus depreciation/amortisation recognised in profit or loss and recognition/reversal of impairment losses on non-current assets.
Barren rock	Rock which accompanies the extraction of mineral ore and is not considered as useful.
BAT (Best Available Technique)	Best Available Technique, as defined in Directive 96/61/EC, means the most effective and advanced stage in the development of activities and their methods of operation which indicate the practical suitability of particular techniques for providing in principle the basis for emission limit values designed to prevent and, where that is not practicable, generally to reduce emissions and the impact on the environment as a whole.
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 Cedyňa 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 decreases due to the action of so-called collecting agents, e.g. xanthates) collect at the surface of the froth created from froth-inducing agents.
Flotation tailings	Waste remaining after the ore enrichment process; can be utilised or stored.
ISO	International Organization for Standardization.
LTIFR_{KGHM} (Lost Time Injury Frequency Rate)	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.
RCR furnace	Revolving Casting-Refining furnace
REACH	Registration, Evaluation, Authorisation and Restriction of Chemicals - decree issued by the European Parliament and the European Council 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 Kaldo 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 <i>(solvent extraction and electrowinning)</i>	Copper cathode production technology applied in some plants of KGHM INTERNATIONAL LTD. based on solvent extraction (the process of leaching useful minerals using a solvent) of the copper ore heap, with the aid of diluted sulphuric acid, under the atmospheric conditions.
Total unit cost of producing copper from own concentrate	The sum of costs of mining, flotation, smelter processing per cathode and support functions (the Data 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. This ratio is used only in the Parent Entity.
The Group	The KGHM Polska Miedź S.A. Group
TPM <i>(Total Precious Metals)</i>	Precious metals (gold, platinum, palladium).
TRIR <i>(Total Recordable Incident Rate)</i>	Number of accidents at work meeting the conditions of registration as defined in the ICMM (International Council on Mining & Metals) standard, standardised to 200000 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.

AGGREGATED DATA OF THE COMPANY AND GROUP FOR THE YEARS 2013-2020**BASIC ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS**

		2020	2019	2018	2017	2016	2015	2014	2013
Revenues from contracts with customers	PLN mn	23 632	22 723	20 526	20 358	19 156	20 008	20 492	24 110
Profit/(loss) for the period	PLN mn	1 797	1 421	1 658	1 525	(4 449)	(5 009)	2 451	3 033
Adjusted EBITDA	PLN mn	6 623	5 229	4 972	5 753	4 666	4 710	4 890	5 948
Total assets	PLN mn	42 780	39 409	37 237	34 122	33 442	36 764	40 374	34 465
Liabilities and provisions	PLN mn	21 699	19 207	18 012	16 337	17 531	16 350	14 844	11 401
Earnings per share (EPS) ⁽¹⁾	PLN	9.00	7.11	8.29	7.84	(21.86)	(25.06)	12.25	15.18
Share price of the Company ⁽²⁾	PLN	183.00	95.58	88.88	111.20	92.48	63.49	108.85	118.00
Net debt/EBITDA ⁽³⁾		0.9	1.5	1.6	1.3	1.6	1.4	0.9	0.4
Payable copper production ⁽⁴⁾	kt	709.1	701.6	633.9	656.4	676.9	697.1	662.9	666.0
Payable silver production ⁽⁴⁾	t	1 353	1 417	1 205	1 234	1 207	1 299	1 258	1 164
Payable copper production cost C1 ⁽⁴⁾	USD/lb	1.59	1.70	1.81	1.59	1.41	1.59	1.89	1.85
Cash expenditures on property, plant and equipment and intangible assets	PLN mn	3 467	3 232	2 875	2 796	3 251	3 939	3 434	3 188

BASIC ITEMS OF THE SEPARATE FINANCIAL STATEMENTS

		2020	2019	2018	2017	2016	2015	2014	2013
Revenues from contracts with customers	PLN mn	19 326	17 683	15 757	16 024	15 112	15 939	16 633	18 579
Profit/(loss) for the period	PLN mn	1 779	1 264	2 025	1 323	-4 085	-2 788	2 414	3 058
Adjusted EBITDA	PLN mn	4 458	3 619	3 416	4 160	3 551	4 163	4 331	4 976
Total assets	PLN mn	39 342	35 989	34 250	30 947	30 100	33 120	32 312	29 038
Liabilities and provisions	PLN mn	18 616	16 100	15 205	13 691	14 200	12 841	8 035	5 740
Earnings per share (EPS) ⁽¹⁾	PLN	8.90	6.32	10.13	6.62	-20.42	-13.94	12.07	15.29
Electrolytic copper production	kt	560.4	565.6	501.8	522.0	535.6	574.3	576.9	565.2
Metallic silver production	t	1 323	1 400	1 189	1 218	1 191	1 283	1 256	1 161
Payable copper production cost C1	USD/lb	1.62	1.74	1.85	1.52	1.3	1.47	1.82	1.78
Cash expenditures on property, plant and equipment and intangible assets	PLN mn	2 422	2 366	1 907	1 991	2 604	2 481	2 203	2 174

MACROECONOMIC DATA (AVERAGE ANNUAL)

		2020	2019	2018	2017	2016	2015	2014	2013
Copper prices per the LME	USD/t	6 181	6 000	6 523	6 166	4 863	5 495	6 862	7 322
Silver prices per the LBMA	USD/koz t	20.54	16.21	15.71	17.05	17.14	15.68	19.08	23.79
Exchange rate	USD/PLN	3.90	3.84	3.61	3.78	3.94	3.77	3.15	3.17

(data for the years 2013-2018 according to annual reports for these periods, data for the years 2019-2020 according to the current annual report)

¹⁾ Attributable to shareholders of the Parent Entity

²⁾ At the end of the period

³⁾ Adjusted EBITDA for the year, excluding EBITDA of the joint venture Sierra Gorda S.C.M.

⁴⁾ Comprises Sierra Gorda S.C.M. pursuant to interest held (55%)

SIGNIFICANT EVENTS IN 2020 AND TO THE DATE OF PREPARATION OF THIS REPORT

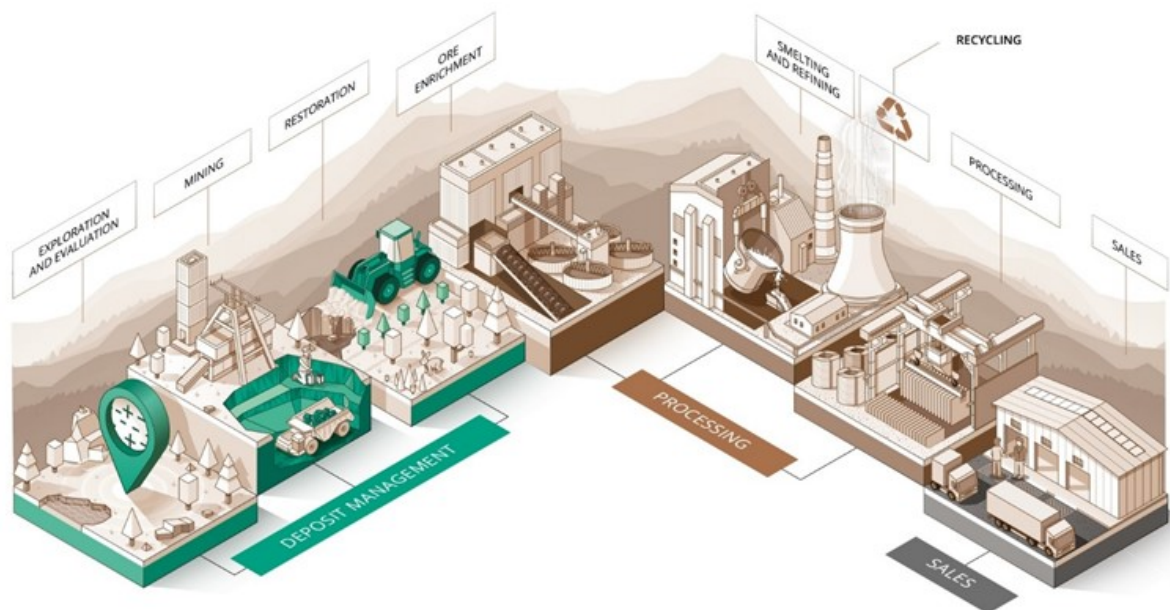
<i>Date</i>	<i>Event</i>	<i>Section</i>
CHANGE IN MACROECONOMIC CONDITIONS		
2020	An increase in average annual prices of copper and silver respectively by 3% and 27% alongside a decrease in the molybdenum price by 25%	4.1
2020	Changes in average annual exchange rates: USD/PLN by +2%, USD/CAD by +1% and USD/CLP by +13%	4.1
KGHM POLSKA MIEDŹ S.A. ON THE STOCK EXCHANGE		
2020	An increase in the share price of KGHM Polska Miedź S.A. by 91% from PLN 95.58 to PLN 183.00	11.1
CHANGES IN THE COMPOSITION OF KGHM POLSKA MIEDŹ S.A.'S BODIES		
19 June 2020	Dismissal of Leszek Banaszak from the Supervisory Board and the appointment of Katarzyna Lewandowska to the Supervisory Board	17.3
3 August 2020	Expiry of the mandate of member of the Supervisory Board Ireneusz Pasis due to his death	17.3
26 November 2020	The appointment of Przemysław Darowski to the Supervisory Board, elected in supplementary elections by the employees of the KGHM Polska Miedź S.A. Group	17.3
IMPAIRMENT OF ASSETS		
15 January 2020	Information on the identification of indications to verify the recoverable amount of international mining assets	6, 7
27 February 2020	Information on completing the major work related to testing for the impairment of international mining assets of the KGHM Polska Miedź S.A. Group as well as the assets of the company „Energetyka” sp. z o.o. (a subsidiary of KGHM Polska Miedź S.A. - 100% interest) and its subsidiary - WPEC S.A. (100% interest)	6, 7
17 February 2021	Information on the identification of indications to verify the recoverable amount of domestic and international assets of the KGHM Polska Miedź S.A. Group	
11 March 2021	Information on completing the major work related to testing for the impairment of domestic and international assets of the KGHM Polska Miedź S.A. Group	
ALLOCATION OF PROFIT		
20 May 2020	The Management Board's recommendation regarding the allocation of profit for 2019.	11.2
19 June 2020	Decision of the Ordinary General Meeting of KGHM Polska Miedź S.A. to transfer all of the profit earned in 2019 to the Company's reserve capital	11.2
SIGNIFICANT AGREEMENTS		
15 January 2020	Multi-year framework contract signed with the Nexans group for the sale of copper cathodes on the French and German markets	14
30 December 2020	Annex No. 12 to the Multi-year Agreement for the supply of copper wire rod was signed by KGHM Polska Miedź S.A. and Tele-Fonika Kable S.A.	14
FINANCING IN THE GROUP		
12 May 2020	Financing granted to Sierra Gorda	2.5
27 October 2020	Consent to extend the term of a syndicated credit facility agreement	6.7
4 December 2020	Extension of the term of a syndicated credit facility agreement	6.7
OTHER		
16 January 2020	Approval by the Supervisory Board of the Budget of KGHM Polska Miedź S.A. and the Budget of the KGHM Group for 2020	6.5
1 October 2020	Signing of a letter of intent on the sale of shares in the company PGE EJ 1 sp. z o.o.	2.5
7 October 2020	Receipt of information on the commencement by Sumitomo of preparations for the disposal of its interest in the joint venture company Sierra Gorda S.C.M.	
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	6.5

1. INTRODUCTION

KGHM Polska Miedź S.A. – is the Parent Entity of a Group which is a world-class producer of copper and silver with 60 years of experience in the copper ore mining and processing sector. In Poland, KGHM Polska Miedź S.A. operates one of the world's largest copper deposits, guaranteeing continuous production in Poland for the next several decades. KGHM Polska Miedź S.A. also produces silver, gold, molybdenum, lead and rock salt, as well as being one of the leading exporters in the country and one of the largest companies in Poland.

The Group is a global and innovative organisation, which conducts technologically advanced exploration-mining and metallurgical activities and has a geographically diversified portfolio of mining projects. The business model is divided into 7 areas, through which the Group ensures a complete chain of value creation, from exploration to the sale of finished products:

Diagram 1. Business model of the KGHM Polska Miedź S.A. Group



The KGHM Polska Miedź S.A. Group includes the Parent Entity – KGHM Polska Miedź S.A. – and 71 subsidiaries. Uniformity in such a complex organisation is ensured by KGHM's values – zero harm, teamwork, results-driven, accountability and courage. For 60 years they have been the Company's business compass, indicating the direction of development and the means of operation on the international market.

For over 20 years the Company has been listed on the Warsaw Stock Exchange. The Company is included in the WIG20 and WIG30 indices.

KGHM Polska Miedź S.A. actively supports the realms of science, the arts and sport. Through its Foundation founded in 2003, KGHM Polska Miedź engages in charitable activities.

2. GROUP STRUCTURE

2.1. GROUP STRUCTURE

As at 31 December 2020, the Group was composed of the Parent Entity – KGHM Polska Miedź S.A. – and 71 subsidiaries (including two closed-end, non-public investment funds), located on four continents: Europe, North America, South America and Asia. Some of these subsidiaries form their own groups. The largest of these, in terms both of the number of entities as well as the value of equity, is the KGHM INTERNATIONAL LTD. Group, whose main assets are located in Canada, the USA and Chile. It was comprised of KGHM INTERNATIONAL LTD. and its 26 subsidiaries. At the end of the reporting period the KGHM Polska Miedź S.A. Group owned shares in two joint ventures - Sierra Gorda S.C.M. and NANO CARBON Sp. z o.o. in liquidation.

The detailed structure of the KGHM Polska Miedź S.A. Group, together with the relationships between entities, may be found in Appendices 2 and 3.

The Group's main entities, which are engaged in the mining sector, comprise three primary reporting segments which are independently evaluated by management bodies. These are: KGHM Polska Miedź S.A., KGHM INTERNATIONAL LTD. and Sierra Gorda S.C.M. Other companies, excluding Future 1 Sp. z o.o., Future 2 Sp. z o.o., Future 3 Sp. z o.o., Future 4 Sp. z o.o., Future 5 Sp. z o.o., Future 6 Sp. z o.o. in liquidation and Future 7 Sp. z o.o. in liquidation, are part of the segment called Other segments.

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

Diagram 2. Reporting segments of the KGHM Polska Miedź S.A. Group

KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M. ⁽¹⁾	Other segments
Activities			<ul style="list-style-type: none"> - Companies supporting the core business of KGHM Polska Miedź S.A. - Closed-end investment funds and companies in their portfolios, - Companies playing an important role in advancing CSR policy, - Special purpose companies in the holding structure.
Mined and metallurgical production of metals – Cu, Ag, Au	Mined production of metals - Cu, Ni, Au, Pt, Pd, Ag, Mo	Mined production of metals - Cu, Mo, Au, Ag	
Main production assets			
Underground mines - Lubin mine - Polkowice-Sieroszowice mine - Rudna mine Metallurgical plants - Legnica Copper Smelter and Refinery - Głogów I and Głogów II Copper Smelter and Refinery Cedynia Wire Rod Plant	Robinson mine in the USA (open pit)	Sierra Gorda mine in Chile (open pit)	
Most important development projects			
- Głogów Głęboki-Przemysłowy (Deep Głogów) - Pre-production projects and exploration projects in south-west Poland	- Victoria project in the Sudbury Basin in Canada - construction of an underground copper and nickel mine - Sierra Gorda Oxide project in Chile		

¹⁾ joint venture of KGHM INTERNATIONAL LTD. and the companies Sumitomo Metal Mining and Sumitomo Corporation

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

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

These companies do not conduct operating activities which could impact the results achieved by individual segments, as a result of which their inclusion could disrupt the data presented in the consolidated financial statements due to the significant internal settlements with the other entities from the Group.

The segments KGHM Polska Miedź S.A., KGHM INTERNATIONAL LTD. and Sierra Gorda S.C.M. have separate Management Boards, which report their operational results to the Management Board of the Parent Entity.

The segment KGHM Polska Miedź S.A. only includes the Parent Entity, while the segment Sierra Gorda S.C.M. only includes the joint venture Sierra Gorda. Diagram 2 presents the remaining companies of the KGHM Polska Miedź S.A. Group with a breakdown by segment: KGHM INTERNATIONAL LTD. and Other segments.

CHANGES IN THE BASIC PRINCIPLES FOR MANAGING THE GROUP

In 2020, the management model of the Group did not change. In terms of the management principles applied to date, actions were undertaken aimed at the coordination of Group processes, including with respect to commercial turnover, in order to maintain the continuity and security of the core business. One of the more important aspects in this regard were actions related to the COVID-19 pandemic. The coordination of actions at the level of the Parent Entity was aimed at limiting the negative impact of the pandemic on the operations of the Group's entities. KGHM INTERNATIONAL LTD. was restructured by transferring management and support processes to the Company's Head Office, and this action was a result of the adopted strategy of implementation of the cooperation model and integration of key international assets with domestic activities.

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

In 2020, the multi-divisional organisational structure of the Company, acting under the name KGHM Polska Miedź S.A., comprised the Head Office of the Company and 10 Divisions.

Diagram 3. Organisational structure of the Company as at 31 December 2020



CHANGES IN THE BASIC PRINCIPLES FOR MANAGING THE COMPANY

As a result of a Resolution of the Ordinary General Meeting of KGHM Polska Miedź S.A. adopted on 19 June 2020, changes were made to the Statutes of the Company with respect to the adoption of resolutions by the Management Board in matters exceeding the scope of ordinary management.

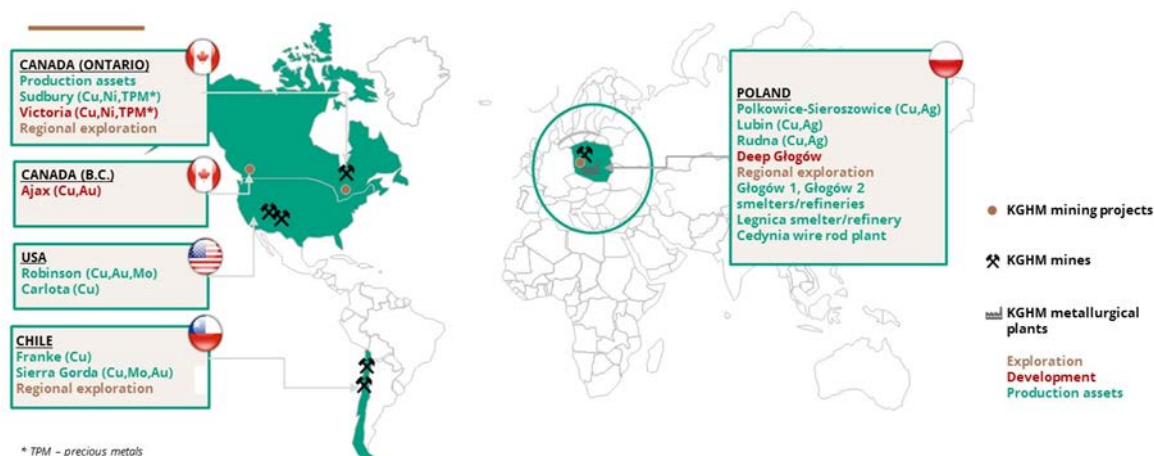
Based on changes to the Statutes registered in the National Court Register (KRS), on 12 August 2020 the Management Board introduced changes to the Bylaws of the Management Board, which were approved by the Supervisory Board on 21 January 2021.

2.3. MAJOR ASSETS

The KGHM Polska Miedź S.A. Group holds geographically diversified mining assets (copper ore mines with associated minerals, such as silver, molybdenum, nickel, gold and other precious metals) located in Poland, the USA, Chile and Canada as well as metallurgical facilities in Poland. The key international asset – the Sierra Gorda mine, which is a joint venture of KGHM INTERNATIONAL LTD., Sumitomo Metal Mining and the Sumitomo Corporation – is located in Chile. In addition, the KGHM Polska Miedź S.A. Group has mine projects which are at the preproduction phase (among others Victoria, Sierra Gorda Oxide), as well as other exploration projects.

The major assets of the KGHM Polska Miedź S.A. Group are presented in the diagram below.

Diagram 4. Location of production assets of the KGHM Polska Miedź S.A. Group



POLAND

Polkowice-Sieroszowice mine

Location	Lower Silesia, Poland
Ownership	KGHM Polska Miedź S.A.
Type of mine	underground
Main ore type	copper ore
Associated metals	silver, lead, rock salt, gold
Type of orebody	stratiform
End product	copper ore
Copper in extracted ore in 2020	191.0 kt

The Polkowice-Sieroszowice mine is located in Lower Silesia, to the west of the town of Polkowice. Currently, it conducts mining works in four mining areas: Polkowice, Radwanice Wschodnie, Sieroszowice and in a part of the Głogów Głęboki – Przemysłowy (Deep Głogów) deposit.

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

Mining of the deposit is conducted using room-and-pillar methods with natural roof settlement, using blasting technology. The Polkowice-Sieroszowice mine's current production capacity is around 12 million tonnes of ore per year.

Rudna mine

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

The Rudna mine is located in Lower Silesia, to the north of the town of Polkowice. It mines the copper deposit in the Rudna mining area as well as in parts of the mining areas of Sieroszowice, Lubin-Małomice and Głogów Głęboki-Przemysłowy (Deep Głogów).

The copper orebody in the currently mined deposit ranges from 844 meters to 1250 meters. Mining is conducted using room-and-pillar methods with natural roof settlement with hydraulic backfill, using blasting technology. The current average production capacity is approx. 12 million tonnes of ore per year.

Lubin mine

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

The Lubin mine is located in Lower Silesia, Poland, to the north-west of the town of Lubin. It mines the copper deposit in the mining area Lubin-Małomice at a depth from 550 meters to 1006 meters.

Mining is conducted using room-and-pillar methods with natural roof settlement with hydraulic backfill, in the vicinity of the support pillar of the town of Lubin, using blasting technology.

The mine's current production capacity is around 8 million tonnes of ore per year.

Głogów Copper Smelter and Refinery

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

This complex of metallurgical plants located in Głogów comprises two copper concentrate smelting lines based on the one-stage smelting of concentrate in a flash furnace directly into blister copper. Apart from electrolytic copper, the Głogów Copper Smelter and Refinery produces crude lead (around 30 thousand tonnes annually), silver (around 1400 tonnes), gold (around 2 tonnes) and sulphuric acid (over 500 thousand tonnes).

Legnica Copper Smelter and Refinery

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

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

Cedynia Wire Rod Plant

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

Production at the Cedynia Wire Rod Plant located in the vicinity of Orsk is based on the use of copper cathodes from the Głogów Copper Smelter and Refinery and from the Legnica Copper Smelter and Refinery. The basic product of the Cedynia Wire Rod Plant is copper wire rod produced in a Contirod line amounting to around 250 thousand tonnes annually and around 18 thousand tonnes annually of oxygen-free copper wire rod produced in an UPCAST line, including oxygen-free, silver-bearing copper wire rod.

THE UNITED STATES:**Robinson mine**

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

The mine is located in White Pine county, Nevada, USA, around 11 km west of Ely (approx. 400 km north of Las Vegas), in the Egan range, at an average altitude of 2130 meters a.s.l., near highway no. 50.

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

Carlota mine

Location	Arizona, USA	The Carlota mine is located in the Western part of the Miami-Globe mining region, in the state of Arizona at an altitude of 1 300 meters a.s.l. Surrounding the mine is mountainous, desert terrain.
Ownership	100% KGHM INTERNATIONAL LTD.	
Type of mine	open pit	Copper ore extraction by the Carlota mine is by conventional methods typical for open-pit metals mines, i.e. the ore is mined by blasting and then is transported by haulage trucks. In 2018 mining re-commenced in the Eder South area.
Main ore type	copper ore	
Type of orebody	porphyry/skarn	
End product	copper cathodes	
Payable copper production in 2020	5.0 kt	

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

CANADA:**Sudbury Basin**

Location	Sudbury, Ontario, Canada	The Sudbury Basin is located in central Ontario in Canada, approx. 400 km north of Toronto. In this region KGHM INTERNATIONAL LTD. owns a variety of assets, though since April 2019 mining has only been conducted in the underground McCreedy West mine, due to the fact that the Morrison/Levack mine has been placed into Care & Maintenance. Extraction is through mining methods which are dependent on the geometry of the deposit – mainly a mechanised method of selective extraction using undercutting of successive levels from bottom to top at various mine levels. All of the ore extracted from the mine, containing copper, nickel and precious metals, is processed in the Clarabelle plant in Sudbury, owned by Vale.
Ownership	100% KGHM INTERNATIONAL LTD.	
Type of mine	underground	
Main ore type	copper ore, nickel, platinum, palladium and gold	
Type of orebody	footwall/contact Ni	
End product	copper and nickel ore with precious metals	
Payable copper production in 2020	2.1 kt	

Victoria project

Location	Sudbury Basin, Ontario, Canada	This project is located in the Canadian province of Ontario, around 35 km west of the town of Sudbury. In 2002 rights were acquired to the Victoria mineral deposit and a campaign of exploration in this region commenced. The current development scenario for the project calls for the sinking of 2 shafts to access the deposit (a production shaft and a ventilation shaft). Exploration work performed thus far has confirmed the continuity and characteristics of the mineralisation to the level of approximately 2200 meters below the surface.
Ownership	100% KGHM INTERNATIONAL LTD.	
Type of mine	underground	
Main ore type	copper-nickel ore	
Associated metals	gold, platinum and palladium	
Mine life	14 years	
End product	copper ore, nickel and precious metals	
Forecasted annual production	16 kt Ni, 18 kt Cu	

Based on analytical work performed in 2017, the current base scenario assumes the Victoria project will be developed in two stages, comprised of the sinking of a first shaft along with additional exploration, followed by a second shaft for production.

In 2020, exploration work was continued to increase the level of recognition of some of the mineral resources and actions aimed at maintaining good relations with key stakeholders in the project. Work commenced on preparing and securing selected elements of the infrastructure, as a preparatory phase in the further development of the project.

Ajax project

Location	Kamloops, British Columbia, Canada
Ownership	KGHM INTERNATIONAL LTD. 80%; Abacus Mining and Exploration Inc. 20%
Type of mine	open pit
Main ore type	copper ore
Associated metals	precious metals (gold and silver)
Mine life	19 years
End product	copper concentrate
Forecasted annual production	53 kt Cu, 114 thousand ounces Au

The Ajax project is located in British Columbia, Canada, 400 km north-east of Vancouver near the town of Kamloops. The project assumes the construction of an open-pit copper and gold mine and an ore processing plant, with associated infrastructure. Up to 2016 work had been carried out on a Feasibility Study for the project, setting out the preliminary economic conditions for the venture.

In December 2017 the Ministers of Environment and of Energy, Mines and Petroleum Resources of British Columbia (provincial authorities) decided against the granting of an Environmental Assessment Certificate for the Ajax project.

In June 2018, the Government of Canada, through the Governor-in-Council (Cabinet) issued a negative decision regarding the Ajax project as the project is likely to cause significant adverse environmental effects. The decisions were made through the environmental impact assessment process, and reflect the substantial engagement of provincial and federal governmental agencies, First Nations and a broad spectrum of stakeholders, including thousands of representatives of local communities.

As a result of the decision not to grant an EA Certificate, in 2020 the work carried out was mainly related to monitoring and securing of the project terrain in accordance with law in force. An Ajax project office was opened in Kamloops (British Columbia), as one of the elements of actions aimed at dialogue with the indigenous people and local community.

CHILE**Sierra Gorda mine and Sierra Gorda Oxide project**

Location	Region II, Chile
Ownership	55% KGHM INTERNATIONAL LTD, 45% SMM SIERRA GORDA INVERSIONES LIMITADA, incl. respectively: -Sumitomo Metal Mining Co., Ltd. (31.5%) -Sumitomo Corporation (13.5%)
Type of mine	open pit
Main ore type	copper ore
Associated metals	molybdenum, gold
Mine life	23 years for the current deposit based on phase 1 of the investment, including actions to remove bottlenecks. Moreover, there is a possibility to extend the mine's life using new deposits
End product	copper concentrate, molybdenum concentrate
Payable production in 2020	148.7 thousand tonnes of copper in concentrate, 16.3 million pounds of molybdenum in concentrate – on a 100% basis, share of KGHM Polska Miedź S.A. is 55%

The Sierra Gorda mine is located in the Atacama desert, in the Sierra Gorda administrative area in the Antofagasta region, in northern Chile, approx. 60 km south-west of the city of Calama. The mine is situated at an altitude of 1 700 meters a.s.l. and 4 km from the town of Sierra Gorda.

On 1 July 2015 the Sierra Gorda mine commenced commercial production (since then it has prepared statements of profit or loss). The ore is extracted using explosives, and next is loaded and hauled away in trucks to the processing plant, where it is crushed and milled.

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

In 2020, despite the epidemiological situation caused by the COVID-19 pandemic, thanks to the safety measures implemented and the mobilisation of the workforce, the operations of the Sierra Gorda mine remained without significant interruptions. Sierra Gorda focused on implementation of the optimisation program oriented on improving the work of the mine, processing plant, infrastructure and tailings storage facility.

The actions taken resulted in an increase in the average daily volume of the mine's sulphide ore throughput from a base level of 110 thousand tonnes of ore daily to the level of 124 thousand tonnes of ore daily. Going forward the Sierra Gorda mine is aiming to increase the plant's cost and operating efficiency.

The Sierra Gorda Oxide project involves the leaching of the copper oxide ore of Sierra Gorda on a permanent heap and the production of high-quality copper cathodes in a solvent extraction and electrowinning (SX-EW) installation, over a period of approx. 11 years. Average copper production will be approx. 30 thousand tonnes/year. At present most of the oxide ore planned for processing has already been excavated and is currently stored near the site of the future plant. In 2020, supplementary work continued aimed at preparing for the next stage of engineering work and further project development.

Franke mine

Location	Region Antofagasta, Chile	The mine is located in a desert area of northern Chile, in the Altamira region, near the southern boundary of the Antofagasta region, near a public road connecting the mine with the Pan-American highway.
Ownership	100% KGHM INTERNATIONAL LTD.	
Type of mine	open pit	Mining is conducted by conventional open-pit methods. Due to the nature of the ore, it is processed using the heap leach, solvent-extraction and electrowinning method. The end product is electrolytic copper in the form of cathodes.
Type of orebody	IOCG (ore type containing iron, copper and gold)	
End product	copper cathodes	
Payable copper production in 2020	12.5 kt	

OTHER ASSETS

In recent years, in the group of the companies located in Poland, there have been no substantial changes in the structure of the main assets. In terms of assuring the operations of the core business of KGHM Polska Miedź S.A. the domestic companies operating mainly on its behalf are still significant, including:

- PeBeKa S.A. – mining work contractor,
- KGHM ZANAM S.A. – a supplier and service provider for mining machinery, and also provides production maintenance services in selected areas and participates in investment tasks,
- KGHM Metraco S.A. – a supplier of copper scrap,
- „Energetyka” sp. z o.o. – this company secures part of the energy needs of KGHM Polska Miedź S.A.

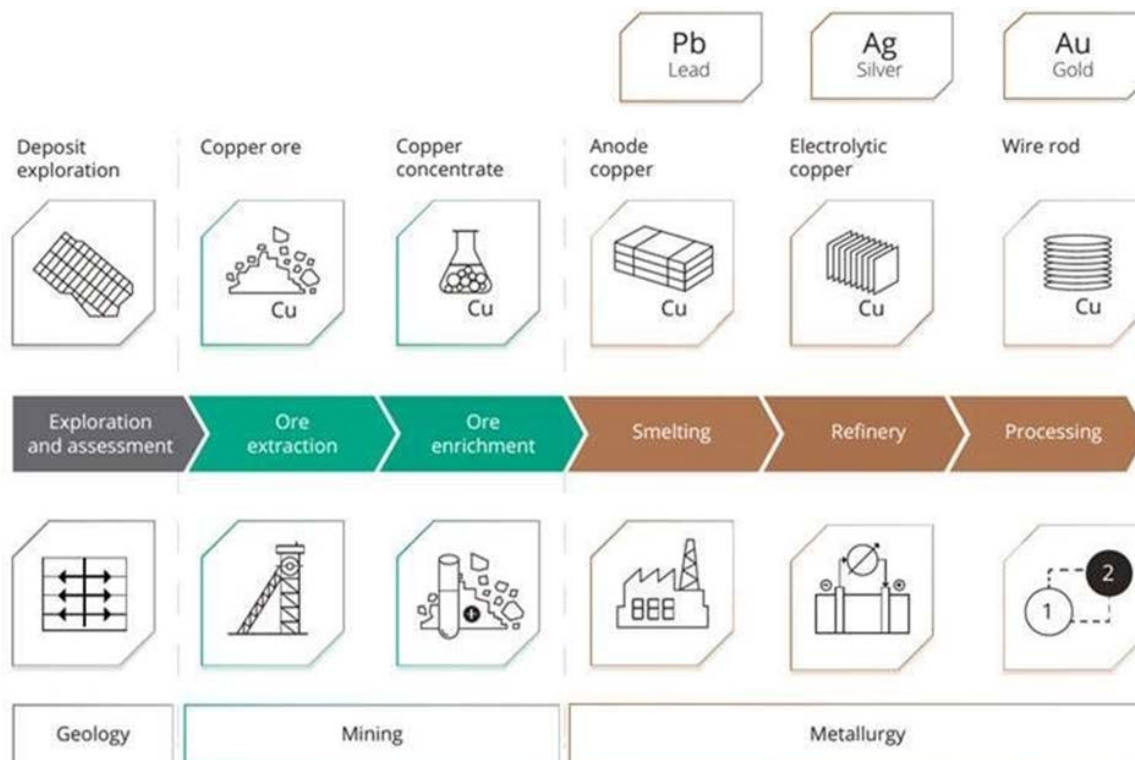
Investments in closed-end investment funds fill a role in the management of selected non-core assets. A significant portion of these Funds' assets are investments in the general field of healthcare, including the Polish Spa Group (Polska Grupa Uzdrowisk).

Moreover, amongst the international companies is a group operating under the DMC Mining Services brand: DMC Mining Services Ltd., FNX Mining Company Inc., Raise Boring Mining Services S.A. de C.V., DMC Mining Services Corporation, DMC Mining Services Colombia S.A.S., DMC Mining Services (UK) Ltd. and DMC Mining Services Chile SpA, which provide services in shaft sinking, mine development work, above-ground and underground mine facilities, mine drilling, tunnel drilling for general construction purposes and engineering services.

2.4. PRODUCTION PROCESS

Production in the Group is based on the processes illustrated in the following two diagrams:

Diagram 5. Integrated geological, mining and metallurgical activities in KGHM Polska Miedź S.A.



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

MINING

The technology of mining the copper ore in all 3 mines is based on the room-and-pillar system with the use of blasting technology for ore extraction. This involves access and preparatory work, comprised of the excavation of a drift network on all sides of the site to be mined, cutting of the unmined rock mass with rooms and drifts separating a number of operating pillars, as well as extraction of the ore followed by the transport of the ore to underground dumping stations, where the large rocks are crushed and sifted through a grate, and then the crushed muck is transported to the storage areas near the shafts, from which it is transported to the surface by skip hoisting shafts.

The work related to mining of the copper ore is fully mechanised, in a 4-shift labour system, with the use of motorised mining rigs, most of which are equipped with air-conditioned cabins and systems supporting the work of the operators. Mining work is conducted in the following cycle: drilling the blasting holes with the support of motorised drilling rigs, loading blasting material into drilled holes by motorised blasting rigs, group blasting in mining divisions, followed by the ventilation of the areas blasted (from 30 minutes to 2 hours; in seismically-sensitive areas this time may be longer). The next stage involves the loading of the muck using motorised loaders into haulage vehicles and its transport to dumping stations, along with protection of the exposed face by roof anchor bolts using bolting rigs. The crushed muck is transported by conveyor belts or mine rail trolleys to the storage sites near the shafts, and is then transported to the surface. After the muck is unloaded at the shaft top, it is transported by conveyor belts or railway to the ore concentrators located at each of the three mines.

The operations and processes applied at each of the three ore concentrators are the same. However, due to the varied lithological and mineralogical composition of the ore from individual mines, the production layout of each facility differs. The processing technologies applied include the following individual operations: screening and crushing, milling and classification, flotation and drying of the concentrate.

The flotation process results in concentrate with an average copper content of approx. 22-23%, and flotation waste. The Rudna mine concentrator produces concentrate with the highest copper content (approx. 26%), while the lowest is at the Lubin mine concentrator (approx. 13%). The Polkowice mine concentrator produces concentrate of approx. 25% copper content.

The dried concentrate of approx. 8.5% moisture content is transported by rail to the following smelter/refineries: the Legnica Copper Smelter and Refinery located in Legnica, the Głogów I Copper Smelter and Refinery and the Głogów II Copper Smelter and Refinery, located in Głogów.

The flotation waste, in the form of slimes, are transported through pipelines to the Żelazny Most Tailings Storage Facility, where the sedimentation of the solid particles takes place and the clarified water is collected and redirected to the ore concentrators. The storage site also serves as a retention-dosage reservoir for excess mine and process water in circulation. Excess water is hydrotechnically discharged (periodically) to the Odra River. This method was developed and implemented in partnership with research institutions, and it has been officially approved for use under the provisions of the Water Law. Studies demonstrate that the discharging of mine and process water to the Odra River cannot result in any changes that would make the proper functioning of water ecosystems impossible or prevent conformance with the applicable water quality requirements.

METALLURGY

The copper smelters/refineries produce electrolytic copper from own concentrates as well as from purchased metal-bearing material (copper concentrates, copper scrap, blister copper).

The Legnica Copper Smelter and Refinery uses a multi-stage process whose main stages include: preparation of the charge material, its reduction smelting in shaft furnaces to the form of matte copper, conversion to the form of blister copper with approx. 98.5% Cu content; fire refining in anode furnaces to produce anodes of 99.2% Cu content; and electrorefining. The final product is electrolytic copper cathodes with 99.99% Cu content.

The Głogów Copper Smelter and Refinery applies one-stage flash furnace technology. The concentrate dried to a moisture content of 0.3% H₂O, is smelted in a flash furnace into blister copper containing around 98.6% Cu, which is subject to fire refining in anode furnaces. The slag, which still contains on approximately 14% copper, is sent to an electric furnace, where the copper is removed while the CuPbFe alloy obtained is sent to the convertors, from which the resulting copper is sent for refining in anode furnaces. The copper anodes produced from fire refining are then sent for electrorefining, and the end product is electrolytic copper in the form of cathodes containing 99.99% Cu.

Approx. 45% of the electrolytic copper produced by KGHM's smelters and refineries are further processed in the Cedynia Copper Wire Rod Division, where copper wire rod is produced by a continuous smelting, casting and rolling process as well as oxygen-free copper rod and oxygen-free, low-alloy, silver-bearing copper rod based on UPCAST technology are produced.

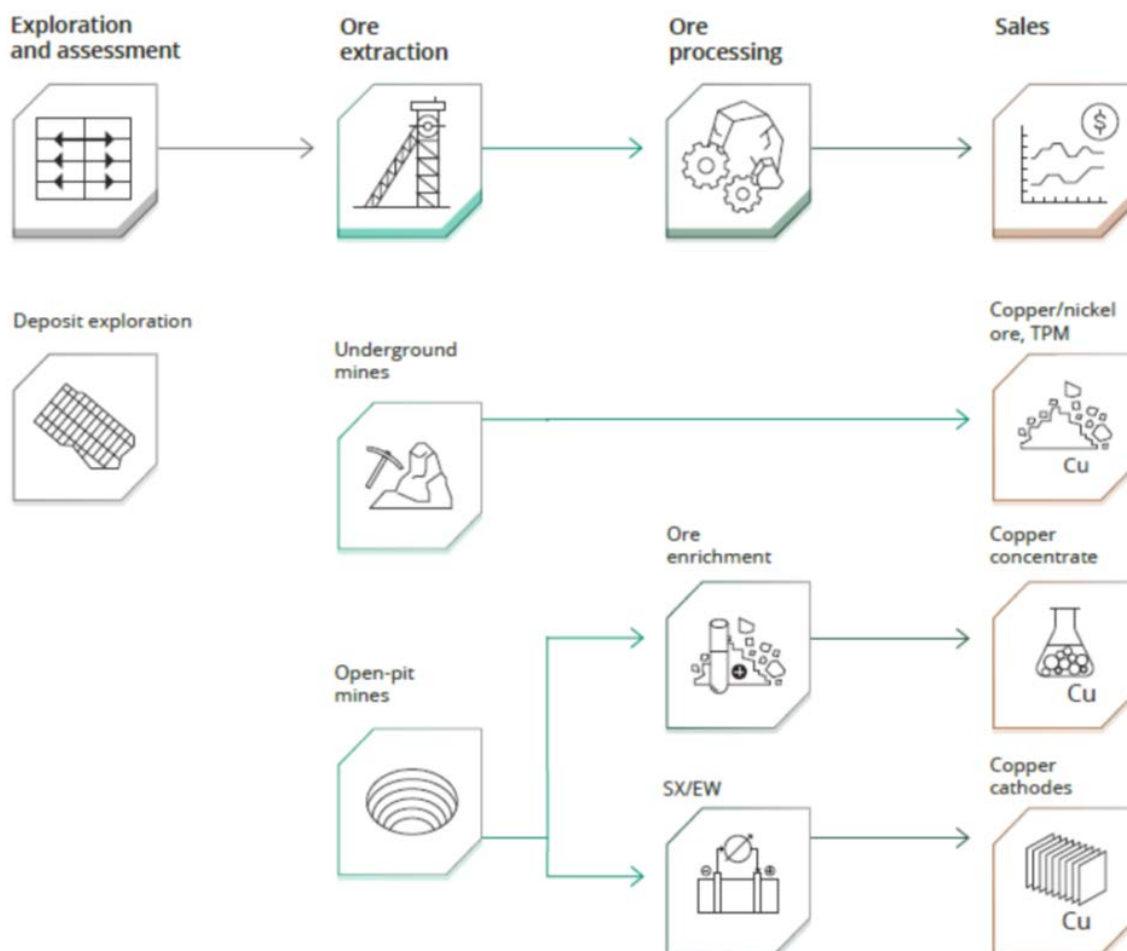
The anode slime produced during the electrorefining process at KGHM Polska Miedź S.A.'s smelters and refineries contains precious metals, and is the raw material used by the Precious Metals Plant at the Głogów Copper Smelter and Refinery to produce the following products: refined silver, gold and selenium. The electrolyte in the Tank Hall, once the copper is removed, is used to produce crude nickel sulphate.

The lead-bearing dust and slimes collected as a result of the removal of dust from technological exhaust gases at the smelters and refineries are smelted, together with decopperised convertor slag from the flash furnace production line, in Dörschel furnaces at the Lead Section of the Głogów Copper Smelter and Refinery into crude lead containing 99.3% Pb. This crude lead is then refined at the Legnica Copper Smelter and Refinery to obtain the end product - refined lead containing 99.85% Pb.

THE SEGMENT KGHM INTERNATIONAL LTD.

The core business of the KGHM INTERNATIONAL LTD. Group of companies is the mined production of metals, such as copper, nickel, gold, platinum and palladium, from both open-pit and underground mines, as well as advancement of mining and exploration projects. The following drawing shows a simplified flowchart of the core business of the KGHM INTERNATIONAL LTD. Group.

Diagram 6. Simplified flowchart of the core business of the KGHM INTERNATIONAL LTD. Group



2.5. CHANGES IN THE GROUP STRUCTURE, EQUITY INVESTMENTS AND THEIR FINANCING

EQUITY INVESTMENTS IN DOMESTIC ASSETS

In 2020, total equity investments in the Polish companies (including on the acquisition of shares and investment certificates – described in the table below), amounted to PLN 78 million. They were partially financed by dividend income from the Polish companies in the amount of PLN 20 million and by returns from payments to capital, granted in prior years, in the amount of PLN 12 million. In 2020, KGHM Polska Miedź S.A. granted loans to the Polish companies, in the total amount of PLN 72 million, which were partially financed by funds from the repayment of loans granted in prior years. The amount of loans repaid amounted to PLN 38 million.

Table 1. Changes in the Group’s structure and organisation (Polish assets) in 2020

Equity investments	
Acquisition of Investment Certificates KGHM VII FIZAN	<p>In March 2020, KGHM Polska Miedź S.A. acquired Investment Certificates, Series E of the KGHM VII FIZAN fund for the amount of PLN 4 million.</p> <p>The activities of the KGHM VII FIZAN fund are mainly focused on the broadly-defined health field and active forms of recreation. The fund’s portfolio includes, among others, companies comprising the Polish Spa Group.</p> <p>KGHM Polska Miedź S.A. is the sole participant in the KGHM VII FIZAN fund.</p>

Acquisition of shares in the increased share capital of KGHM ZANAM S.A.	<p>In July 2020, KGHM Polska Miedź S.A. acquired shares in the increased share capital of the subsidiary KGHM ZANAM S.A. and paid for them in cash in the amount of PLN 22 million, of which PLN 10 million was for replacement of the machine park in the section providing underground blasting services for KGHM Polska Miedź S.A. while PLN 12 million was for the repayment of liabilities towards KGHM Polska Miedź S.A. due to a payment to capital granted to this company. The share capital of KGHM ZANAM S.A. following the increase amounts to PLN 107 million. KGHM Polska Miedź S.A. owns 100% of the company's shares.</p>
Acquisition of shares in the increased share capital of PGE EJ 1 sp. z o.o.	<p>In November 2020, KGHM Polska Miedź S.A. acquired shares in the increased share capital of the company PGE EJ 1 sp. z o.o. (proportionally to its interest in the share capital of this entity, i.e. 10%) and paid for them in cash in the amount of PLN 38 million, to be used for the repayment of liabilities towards KGHM Polska Miedź S.A. due to granted loans and to secure the source of financing the company's operations. The share capital of PGE EJ 1 sp. z o.o. following the increase amounts to PLN 751 million, while the interest of KGHM Polska Miedź S.A. in the share capital did not change and amounts to 10%. The company PGE EJ 1 sp. z o.o. is responsible for the preparation and execution of an investment aimed at building and operating the first Polish nuclear power plant. On 1 October KGHM Polska Miedź S.A. signed a Letter of Intent with the State Treasury regarding the acquisition by the State Treasury of 100% of the shares of PGE EJ 1 sp. z o.o. The Letter of Intent was signed by all of the entities holding shares in the company PGE EJ 1 sp. z o.o. The entities signing the Letter of Intent committed themselves to carry out in good faith all actions necessary to prepare and carry out the transaction, involving the acquisition by the State Treasury of shares in the company PGE EJ 1 sp. z o.o. („Transaction”). The Letter of Intent does not obligate the parties to carry out the Transaction. Despite the failure to conclude the transaction in 2020, pursuant to the signed letter of intent, the parties are continuing efforts to finalise it in the subsequent 12 months, immediately after updating the transaction documentation and securing financing by the buyer. The sale of the PGE EJ 1 Sp. z o.o. shares will be possible provided that the Management Board of KGHM Polska Miedź S.A. obtains the approval of the Supervisory Board and the corresponding approvals are issued by the bodies of all of the Partners. Obtainment of these approvals is highly probable.</p>
Acquisition of shares in the increased share capital of PMT Linie Kolejowe Sp. z o.o.	<p>In December 2020, KGHM Polska Miedź S.A. acquired shares in the increased share capital of the subsidiary PMT Linie Kolejowe Sp. z o.o. and paid for them in cash in the amount of PLN 14 million, to be used for financing the purchase of railway infrastructure from KGHM Polska Miedź S.A. The share capital of PMT Linie Kolejowe Sp. z o.o. following the increase amounts to PLN 17 million. KGHM Polska Miedź S.A. owns 100% of the company's shares.</p>
Buyout of employees' shares in Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU	<p>In 2020, as a result of the buyout of employees' shares, the interest of the KGHM VII FIZAN fund in the company Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU slightly increased (from 98.54% to 98.85%).</p>
Liquidation of entities	
Commencement of the process of liquidating non-operating companies: – Future 6 Spółka z o.o. in liquidation – Future 7 Spółka z o.o. in liquidation	<p>In July 2020, resolutions were adopted by the Partners Meetings of the subsidiaries Future 6 Spółka z o.o. and Future 7 Spółka z o.o. regarding their liquidation. These entities have not engaged in operating activities. KGHM Polska Miedź S.A. owns 100% of the shares of Future 6 Spółka z o.o. in liquidation and of Future 7 Spółka z o.o. in liquidation.</p>
Liquidation of Staropolanka Spółka z o.o. in liquidation	<p>In 2020, the liquidation process of the company Staropolanka Spółka z o.o. which began in 2019 was completed (a portfolio company of the KGHM VII FIZAN fund) and on 30 October 2020 the entity was removed from the National Court Register. This company did not engage in operating activities. The KGHM Polska Miedź S.A. Group holds a 100% interest in this company.</p>

Change in operating profile

Change in the operating profile of the company Future 2 Sp. z o.o. <i>(currently KGHM Centrum Analityki sp. z o.o.)</i>	In 2020, the decision was made to change the operating profile of the company Future 2 Sp. z o.o., which to date has not engaged in operating activities. This company is to serve as a technological company, supporting data analysis in the Group, including the development of BigData. In February 2021 the change of the subject of activities of the company was registered by the court as „KGHM Centrum Analityki sp. z o.o.”
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EQUITY INVESTMENTS IN INTERNATIONAL ASSETS

Equity investments carried out in 2020, aimed mainly at financing Sierra Gorda S.C.M., were made by the granting of loans and/or increases in share capital.

In 2020, in terms of financing for Sierra Gorda S.C.M., KGHM Polska Miedź S.A. granted the company Quadra FNX FFI S.à r.l. (an indirect subsidiary) a loan in the amount of USD 52.25 million (PLN 196 million at the average exchange rate of the NBP from 31 December 2020). Subsequently the funds were transferred in the form of loans to the company Quadra FNX Holdings Chile Limitada (an indirect subsidiary), and next, in the form of increases in share capital, to the company Sierra Gorda S.C.M.

Table 2. Changes in the Group's structure and organisation (international assets) in 2020

Increases in share capital	
Sierra Gorda S.C.M.	In 2020, as a result of financing for the company, there were increases in share capital in the total amount of USD 95 million (PLN 357 million ¹⁾ . Proportionally to the interest held in the company Sierra Gorda S.C.M., the company Quadra FNX Holdings Chile Limitada acquired 55% of the shares in the increased share capital, while 45% were acquired by SMM SIERRA GORDA INVERSIONES LIMITADA (belonging to Sumitomo Metal Mining and Sumitomo Corporation).
Quadra FNX FFI S.à r.l.	In order for the company Quadra FNX FFI S.à r.l. to retain the status of Foreign Financial Institution under Chilean law, it was necessary to increase the company's share capital by USD 7 million (PLN 26 million ¹⁾ to the level set forth in the aforementioned law. As a result, KGHM Holdings Ltd. acquired 7 000 000 shares in the increased share capital of Quadra FNX FFI S.à r.l.
KGHMI Holdings Ltd.	Due to the need to increase the share capital of the company Quadra FNX FFI S.à r.l., KGHM INTERNATIONAL LTD. increased the share capital of the company KGHMI Holdings Ltd. by CAD 9.7 million (representing the equivalent of USD 7 million and PLN 26 million ¹⁾). As a result, KGHM INTERNATIONAL LTD. acquired 9 734 600 shares in the increased share capital of KGHMI Holdings Ltd.
Liquidation of entities	
PeBeKa Canada Inc.	The company was liquidated on 29 April 2020. This company did not engage in operating activities.

¹⁾ at the average exchange rate of the NBP from 31 December 2020

3. PRIMARY GROUP PRODUCTS



COPPER CATHODES

Copper cathodes made from electrolytic copper with a minimum copper content of 99.99% are the basic product of KGHM Polska Miedź S.A. They meet the highest quality requirements and are registered as Grade „A” on the London Metal Exchange (LME) under three brands: HMG-S, HMG-B and HML and on the Futures Contracts Exchange (SHFE) in Shanghai.

Copper cathodes are also the primary product of the Carlota mine in the USA and the Franke mine in Chile, belonging to the KGHM INTERNATIONAL LTD. Group. The main customers for the cathodes are producers of wire rod, other rods, flat bars, pipes, sheets and conveyor belts.



COPPER WIRE ROD

8 mm copper wire rod is manufactured through the Contirod continuous process of melting, casting and drawing. It is mainly produced from cathodes manufactured by KGHM Polska Miedź S.A. and is the second most numerous copper product volume-wise produced by KGHM. Wire rod is produced in five classes of quality, depending on the needs of the customer. The main customers for wire rod are the cable, electrical goods and electrotechnical industries.



SILVER

Electrolytic silver is produced mainly by KGHM Polska Miedź S.A., in the form of bars (ingots, billets) and grains containing 99.99% silver. Silver bars (weighing approx. 32 kg) hold a certificate registered on COMEX in New York as well as a Good Delivery certificate issued by the London Bullion Market Association. Grain silver is packed in bags weighing 25 kg or 500 kg. The main customers for silver are financial institutions, the jewellery industry, photographic industry, and the electronics and electrical industries as well as producers of coins and medallions.



COPPER CONCENTRATE

Produced by the Robinson mine in the USA, part of the KGHM INTERNATIONAL LTD. Group, containing about 20% of copper. This product is also produced by the Sierra Gorda mine in Chile (copper content is above 20%). Both of these concentrates also include gold as an additional product. The copper concentrates are sold for further processing as a commercial product. Occasionally KGHM Polska Miedź S.A. also sells copper concentrate produced by the Lubin, Rudna and Polkowice-Sieroszowice mines (average copper content, depending on the type of concentrate, is from approx. 13% to approx. 26%).



MOLYBDENUM OXIDES

One of the main commercial products of Sierra Gorda is molybdenum oxide, arising from the processing of the molybdenum sulphide concentrate (containing approx. 48% Mo) produced by the Sierra Gorda mine. Molybdenum is used in the aircraft, defence, oil, nuclear and electronics industries.



MOLYBDENUM CONCENTRATE

Another commercial product (apart from copper concentrate) produced by the Robinson mine in the USA, part of the KGHM INTERNATIONAL LTD. Group. Production of molybdenum concentrate is derivative of the process of copper concentrate production.



GOLD

Gold in the form of bars weighing approximately 0.5 kg, 1 kg, 4 kg, 5 kg, 6 kg and 12 kg, containing 99.99% gold is produced by KGHM Polska Miedź S.A. Gold is used in the jewellery industry, by banks and in the electrical industry.



ORE CONTAINING COPPER, NICKEL AND TPM (PRECIOUS METALS – GOLD, PLATINUM, PALLADIUM)

Ores containing copper, nickel and TPM are produced by the mines in the Sudbury Basin in Canada, part of the KGHM INTERNATIONAL LTD. Group. They are sold for further processing to one of the plants in the Sudbury Basin.



OXYGEN-FREE COPPER ROD

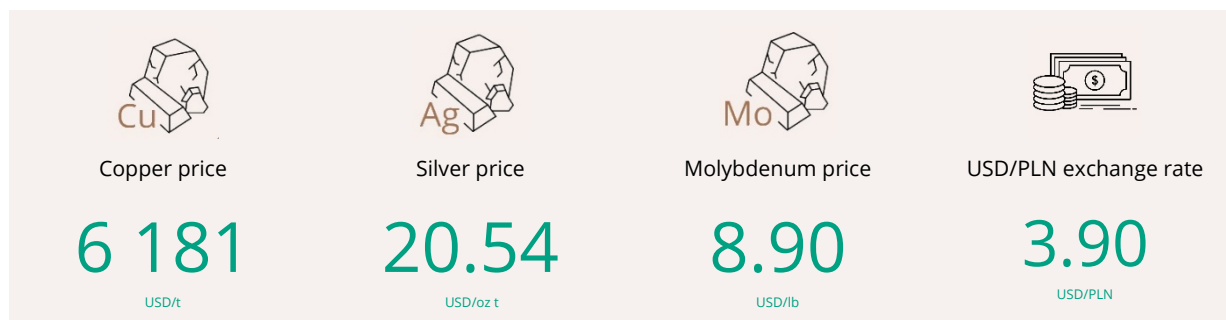
Two types of rod are produced using UPCAST technology: Cu-OFE oxygen-free rod and CuAg(OF) oxygen-free, silver-bearing rod. Depending on customer need, the rod is produced in several diameters: 8 mm, 12.7 mm, 16 mm, 20 mm, 22 mm, 24 mm and 25 mm with possible silver content. Customers for this product are in the cable industry, with application in the form of thin wires, enamelled wires and fire-resistant cables, as well as cables for transmitting audio and video signals. In addition, oxygen-free, silver-bearing rod is used in the manufacture of trolleys and commutators.



ETP/OFE NUGGETS

Nuggets obtained from Cu ETP1 (99.90% Cu) wire rod and Cu OFE (99.99% Cu) rod for use in the manufacture of alloys and in galvanisation. Sample nugget sizes: diameter of 8 mm, 12.7 mm; length of 10-35 mm.

4. MACROECONOMIC CONDITIONS AND ANALYSIS OF THE MARKET



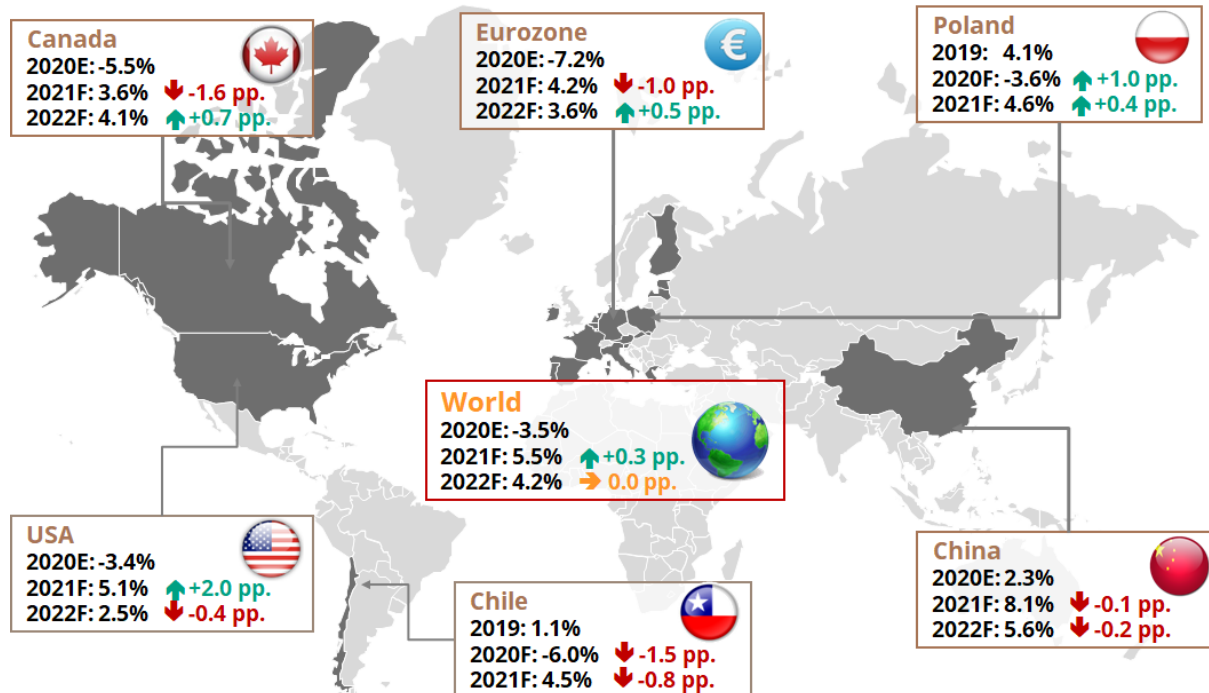
4.1. MACROECONOMIC ENVIRONMENT

Active participants in the economic sphere will remember January 2020 mainly because of the “cease-fire” in the trade war between Washington and Beijing. After months of prodding at the highest levels, both countries decided, following numerous rounds of negotiations, to publically sign the first phase of an agreement, easing a conflict which for quite some time had been the main theme in relations between Trump and Xi Jinping.

The euphoria associated with the ambitious goals of the trade agreement was quickly marginalised by another event which will be written into the history of the 21st century. In 2020 the world was forced to confront the most serious pandemic in over a century, while its consequences will long continue to be felt not only in economic terms but also in the area of social contact. At the turn of December 2019 and January 2020, a series of illnesses were reported in China involving inflammation of the lungs, while on 11th and 12th January 2020 the government of the People’s Republic of China provided the WHO with the genetic sequencing of the SARS-CoV-2 virus. Chinese authorities decided to take decisive steps in the form of the complete shutdown of their economy for over a dozen weeks. For the commodities market and the rate of consumption the Chinese lockdown was equivalent to the shadow of a potential massive surplus in almost every market. Along with the announcement of further restrictions in other regions of the globe, the prices of assets on the financial markets, regardless of their role in the global economy and their fundamental strengths, began to rapidly collapse. The coronavirus pandemic to a significant extent accelerated the rate of the drop in copper prices which, after reaching a local peak in 2018, systematically decreased in subsequent quarters. There was a similar reaction on stock exchanges, in the currencies of emerging markets and in high-risk investment assets. Credit spreads rose along with the VIX volatility index, frequently referred to as the fear ratio (in the latter case to record high levels). The market liquidity began to decline, which at the same time meant a massive rise in risk aversion and a wave of the coming crisis.

According to the latest estimates of the International Monetary Fund (IMF), the rate of dynamics of global GDP during the 2020 crisis fell by 3.5%, versus a 2.8% rise in 2019. The forecasted rate of growth slowed down significantly both in developed economies (-4.9% in 2020 from 1.6% in 2019), as well as in emerging markets (-2.4% in 2020 from 3.6% in 2019). The economic result of the United States in 2020 is estimated at -3.4% (2.2% in 2019), while the slowdown in the Eurozone is expected to reach 7.2% year-to-year. The only country, whose economy recorded a positive economic result was the People’s Republic of China. The rate of Chinese growth in 2020 amounted to 2.3%, down from 6% in 2019. Currently, the IMF’s economists expect that the global economy will return to the path of growth in subsequent years, although forecasts of this institution have dynamically changed in the last few months.

Chart 1. Forecasts of real GDP growth per the International Monetary Fund from January 2021 versus previous forecasts



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

For the copper market, 2020 was a year full of volatility. It rarely happens that in a single year the price of copper attains both a multi-year minimum and maximum.

The lowest level of the year (4 371 USD/t) for the 3-month copper price was recorded on 19 March. After several days the value of the red metal began to systematically rise. Investors saw the highest price on 18 December, when the price momentarily exceeded 8 000 USD/t, reaching 8 028 USD/t. The year 2020 concluded with the price of copper on the London Metal Exchange (LME) at the level of 7 766 USD/t. Taking into account the cash settlement price, copper in 2020 rose by 26% (the closing price on the first versus the last day of the year), recording during this period both a multi-year minimum (the lowest price since 2016) and the highest level since 2013. The decisive actions taken by most of the governments of developed countries aimed at slowing the spread of the pandemic were the main cause of the global economic collapse in the second quarter of 2020. The macroeconomic data available at that time were compared to the largest economic crises in the last several hundred years. Assessments made by the most important financial institutions, including the International Monetary Fund, the OECD and the European Central Bank, spoke of an enormous shock to the global economy, one which will be felt for many years to come. Price forecasts for many assets for the next several years were revised downward many times. For an extended period of time, there was no consensus as to the way out from the crisis and the rate of recovery of the global economy, with some market participants expecting a long-term recession. In the face of the scale of the pandemic observable in many regions of the world, information on successfully limiting the spread of the virus in China was often doubted.

The pandemic caused a shock to the financial market which interfered with its functioning, and even for a brief time to the unprecedented, complete inability to carry out financial transactions. In the second half of April 2020 it even transpired that the price of oil in one of the contracts fell below zero, raising the question of the stability of the commodities pricing system. On the copper market it was the area of commodities logistics that was most affected, resulting from restrictions in travel and transport of unknown duration. The quarantines introduced by various countries led to substantial production halts in many sectors. Apart from the restrictions introduced, which resulted in enormous losses for numerous companies, a factor affecting the decision-making process at that time was the tremendous uncertainty about the course and depth of the crisis. The belief was widely held that the nature of the crisis was completely different from others, in that it had not been caused by interruptions to the functioning of the financial system, or by a speculative bubble, but by the rapid collapse of economic activity by companies and households, as well as by restrictions to physical mobility, the consequence of which might have been a wave of bankruptcies. All attempts at predicting the shape of how the financial crisis might end led to forecasts of the speed and the size of the waves of the pandemic's progress in subsequent quarters and years, and were based on the small number of available historical analyses and research studies.

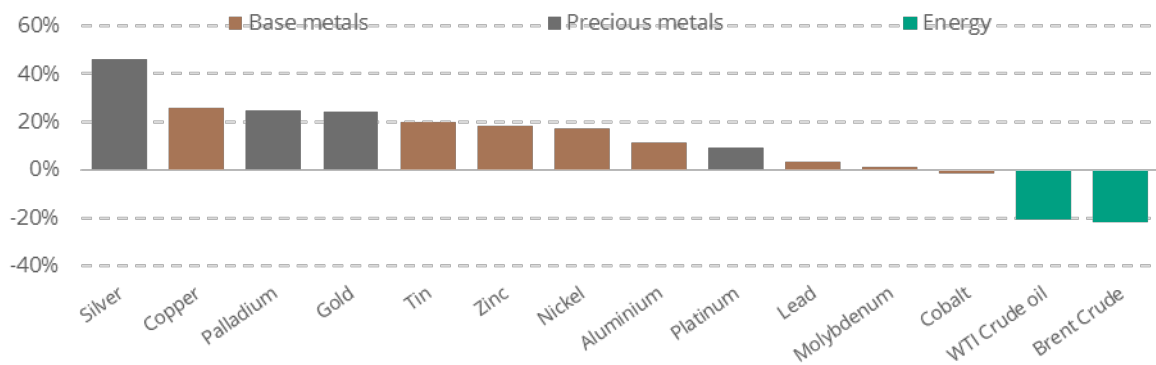
The increase in the price of the red metal since April was mainly due to stimulus packages introduced by China. This was happening at a time when the rest of the world was going into lockdown on a massive scale. Increased purchases of merchandise by China were judged to be using market opportunities to make purchases at lower prices, and not necessarily a constant increase in the demand trend. The Chinese buyers, fearing interruptions in copper production, mainly in Peruvian and, to a lesser extent, Chilean mines, began to buy the global surplus of copper cathodes from the market, and as a result

the import of refined copper products in individual months of the second and third quarters of 2020 increased nearly twofold, which along with manufacturing interruptions related to COVID-19, enabled a continued rise in prices. The global efforts of scientists focused on research into a vaccine, but at that time forecasts indicated that getting out of the pandemic would take at least a few or several quarters, which was reflected in expectations as to the future prices.

It is estimated that so-called apparent demand in China, or calculated based on production, trading and warehouse data, increased in 2020 by double digits, while estimated purchases just by the SRB according to market participants was around 0.5-1 million tonnes. In terms of demand for refined copper, these purchases (assuming an average level of 0.75 million tonnes) were approx. 3% of annual demand. According to estimates of the ICSG, mined global production fell by 1.5% to 20.45 million tonnes and refined production rose by 1.6% (24.52 million tonnes), while „apparent demand” for the red metal remained at the level of 2019 (24.49 million tonnes). Such a forecast implies a marginal market deficit in the amount of 50 thousand tonnes in the previous year.

It should be noted that the increase in the price of copper in the second half of 2020 was not solely the result of physical supply and demand, but also of the great interest from speculative capital, thanks to which the copper price in December was at multi-year highs. Cheap money mainly came from central banks, which subsequent to the pandemic shock decided to reduce interest rates and to restart quantitative easing programs at vastly expanded levels. Given the nearly free and systematically weakening US dollar, information about the imminent production of vaccines at the end of November provided additional support for the direction of copper price moves and spurred risk appetite to an even greater degree. For commodities related to the „green revolution” an important point in time was the victory of Joe Biden in the race for the Presidency of the United States. The removal of Donald Trump from office enflamed the hopes of investors for another round of quantitative easing and realisation of the unfulfilled promises of the former president with respect to the implementation of a commodities-intensive infrastructural investments program.

Chart 2. Change in commodities prices in 2020 (first vs last day of the year)



Source: Refinitiv, KGHM Polska Miedź S.A.

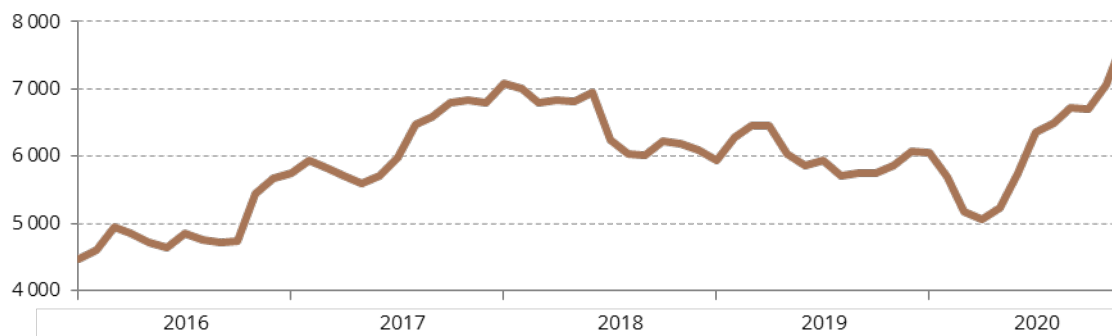
Table 3. Macroeconomic factors significant for the operations of the KGHM Polska Miedź S.A. Group – average prices¹⁾

	Unit	2020	2019	Change (%)	4Q'20	3Q'20	2Q'20	1Q'20
Copper price on the LME	USD/t	6 181	6 000	+3.0	7 166	6 519	5 356	5 637
Copper price on the LME	PLN/t	23 975	23 029	+4.1	27 073	24 789	21 871	22 056
Silver price per the LBMA	USD/oz t	20.54	16.21	+26.7	24.39	24.26	16.38	16.90
Molybdenum price per the CRU	USD/lb	8.90	11.85	(24.9)	8.84	7.98	8.94	9.86
USD/PLN exchange rate per the NBP		3.8978	3.8399	+1.5	3.7804	3.8022	4.0946	3.9237
USD/CAD exchange rate per the Bank of Canada		1.3415	1.3269	+1.1	1.3030	1.3321	1.3853	1.3449
USD/CLP exchange rate per the Bank of Chile		792	703	+12.7	762	781	823	803

¹⁾ arithmetic average of daily quotations

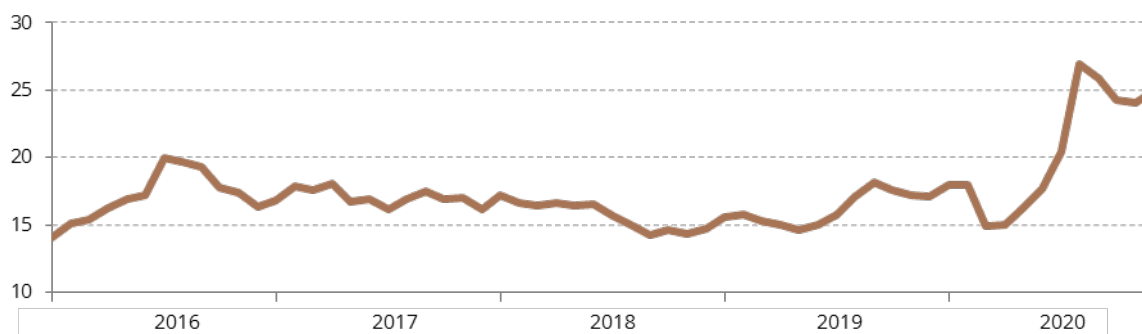
The average annual price of copper on the London Metal Exchange (LME) in 2020 was 6 181 USD/t, 3% higher than the average price in 2019 (6 000 USD/t).

Chart 3. Copper price per the LME (USD/t)



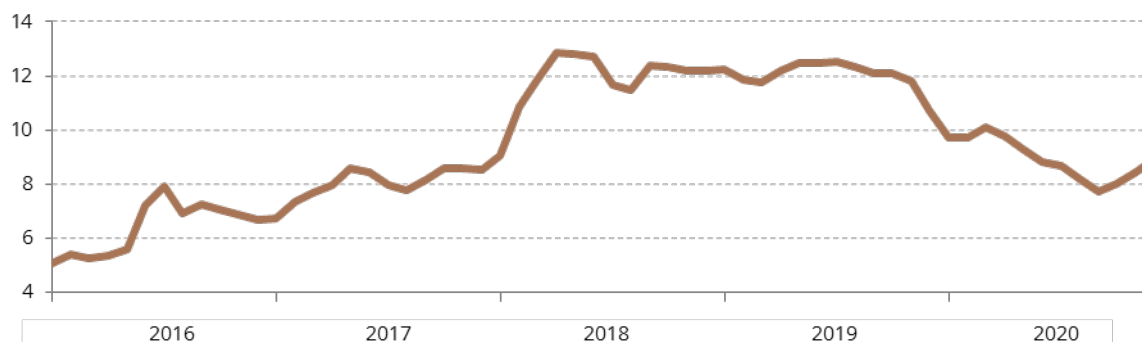
The start of 2020 on the precious metals market was characterised by minor fluctuations and low investor interest. The outbreak of the SARS-CoV-2 pandemic led to a collapse in industrial activity, resulting in a price collapse on the silver market to below 12 USD/oz t. The decrease in interest rates and the expansion of balance sheets by central banks reawakened investor demand, resulting in a systematic increase in the value of silver until August 2020, when the metal reached a maximum price of nearly 30 USD/oz t. The loss of upward momentum consolidated the price of silver in the last quarter in the range of 23-25 USD/oz t, with sporadic deviations from this range. The increases in the prices of gold and silver were accompanied by a rapid influx of cash to ETFs and strong physical demand for coins and bars. The price of silver ended 2020 at around 26.50 USD/oz t. The average price of silver according to the London Bullion Market Association (LBMA) in 2020 rose by around 26.7% and amounted to 20.54 USD/oz t versus 16.21 USD/oz t in 2019.

Chart 4. Silver price per the LBMA (USD/oz t)



The high volatility in demand for molybdenum was the main factor affecting its price in 2020. Although for an extended period the price of the metal remained within the range of 8-10 USD/lb, nevertheless the low price of oil, generating profitability problems in the oil sector, and limited activity on the steel market (except for China) caused some volatility in demand for molybdenum. As a result the average price of the metal in 2020 amounted to 8.90 USD/lb and was 24.9% lower than the average price recorded in 2019 (11.85 USD/lb).

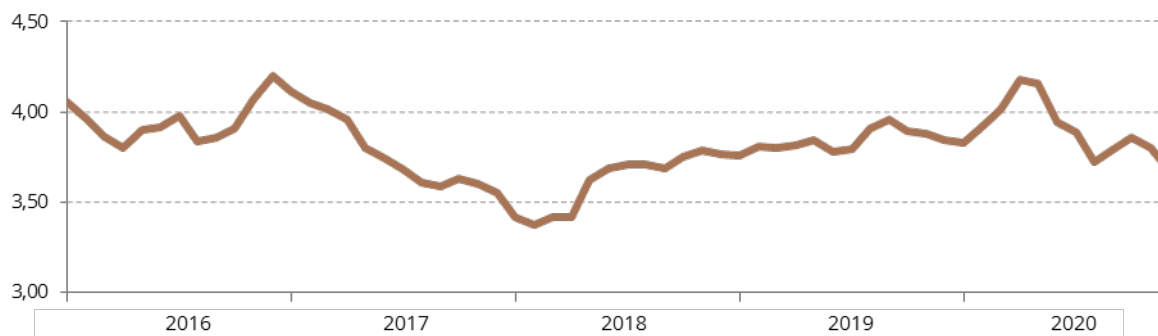
Chart 5. Molybdenum price per the CRU (USD/lb)



Following a period of relative tranquility in terms of PLN pairing in 2019, 2020 to a large extent brought a shake-up in the PLN to EUR rate, as well as compared to the USD. The main players on the currency markets turned out to be central banks, including the NBP, which for the first time in history lowered interest rates to near zero and commenced a program of quantitative easing. The scale of the Polish quantitative easing was however relatively small compared to what other central banks around the world were doing. The USD/PLN exchange rate reached its highest level in March 2020. At that time it was around 4.26, followed by a gradual appreciation of the PLN.

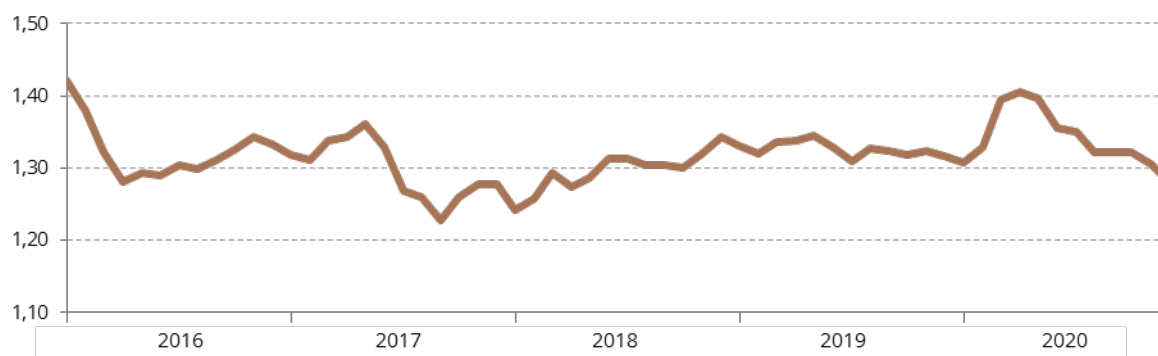
The Polish złoty ended 2020 at around 3.7584 to the USD (fixing by the NBP as at 31 December 2020). The average USD/PLN exchange rate (per the NBP) in 2020 amounted to 3.8978 and was higher by 1.5% than the rate in 2019 (3.8399 USD/PLN).

Chart 6. USD/PLN exchange rate per the NBP



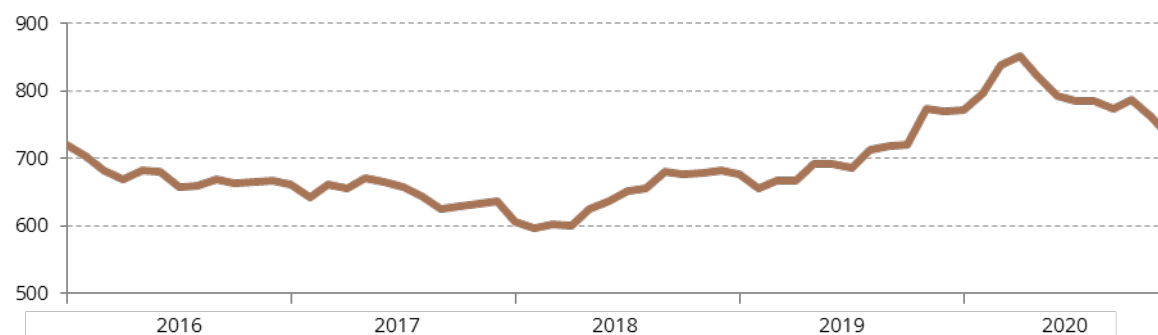
In 2020, the Canadian dollar strengthened slightly versus the USD, taking into consideration the quotations of this currency pair in the first and last days of the year. The average USD/CAD exchange rate (per the Bank of Canada) in 2020 amounted to 1.3415 and was slightly higher (by 1.1%) than the rate recorded in 2019 (1.3269).

Chart 7. USD/CAD exchange rate per the Bank of Canada



In the case of the USD/CLP exchange rate, worth noting is the substantial depreciation of the Chilean currency in the first half of 2020 compared to prior years. The weakening of the CLP was mainly caused by the fall in prices on the commodities market and by the economic restrictions, including the highly-profitable branch of the Chilean economy which is the mining sector, resulting from the COVID-19 pandemic. It was also undoubtedly influenced by numerous social protests in the first half of the year, which negatively impacted the local economic growth. In the second half of the year, the systematic increase in prices of goods of strategic importance for Chile slowed down the peso's depreciation. The average annual USD/CLP exchange rate (per the Bank of Chile) in 2020 amounted to 792, meaning a weakening of the local currency as compared to the USD by 12.7% (703 in 2019).

Chart 8. USD/CLP exchange rate per the Bank of Chile



MACROECONOMIC CONDITIONS AT THE START OF 2021

The first weeks of 2021 were rich in events of significance for the financial markets. Various countries began to deal with the second or third waves of coronavirus infections. New infections also appeared in China, which led to the closing of a city of 11-million people in the province of Hebei, and as a result to momentary concerns about the continuation of the world's path to economic recovery.

The temporary increase in uncertainty put a brake on copper price rises in January. In subsequent weeks an increasing number of financial institutions began to identify a possible problem with the availability of this commodity on the market in 2021, arising from increased physical demand, threats to supply and the low level of official exchange inventories. Such rhetoric, combined with the increased certainty of the positive impact of intensification of the decarbonisation policy on the long-term perspectives of the copper market, resulted in an increase in investors' interest in the copper market. One of the leading investment banks has already been publishing since the end of November 2020 its optimistic expectations regarding the commodities super-cycle, and in subsequent weeks raised its prices forecast in an effort to keep ahead of the high market dynamics in this respect. Such increases would not however been possible on such a scale without the systematic, speculative build-up of long positions on the LME, COMEX and SHFE exchanges. Interest by financial investors is leading to increased volatility of market fluctuations, in terms of both increases and possible decreases. Current market forecasts are very diverse and exhibit a broad expanse of ranges as regards price expectations in future periods, with some predicting attempts to surpass historic records while others take a more cautious note and suggest stabilization at substantially lower levels than seen since the start of 2021. The increase in investor activity on the Shanghai exchange (SHFE) may have been connected with the shortening or in some cases with the lack of breaks in production during the 7-day Chinese New Year. Producers which supply the air-conditioning sector increased their purchases of copper cathodes by 20% compared to the same period in prior years, while fabricators of copper semi-products in China nearly doubled their raw material inventories prior to the holiday compared to the average historical level.

A seldom seen event on the financial markets were the actions of individual investors associated through 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. Exchange traded funds (ETFs) experienced an enormous inflow of cash, while many entities involved in the sale of silver coinage experienced significant delays in meeting orders. On subsequent days 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.

4.2. ANALYSIS OF THE GLOBAL MARKET FOR THE GROUP'S BASIC PRODUCTS

The primary products of the Group, i.e. copper concentrates, cathodes, copper wire rod and silver in the form of bars and grains, are traded on the highly-competitive global market as well as in reference to the commodity markets. Individual markets for the products offered by the Group have varied rules and customs concerning trading and standard prices. Their incomparability is also due to the characteristics of individual products, which impacts their usage and the diversification of market participants.

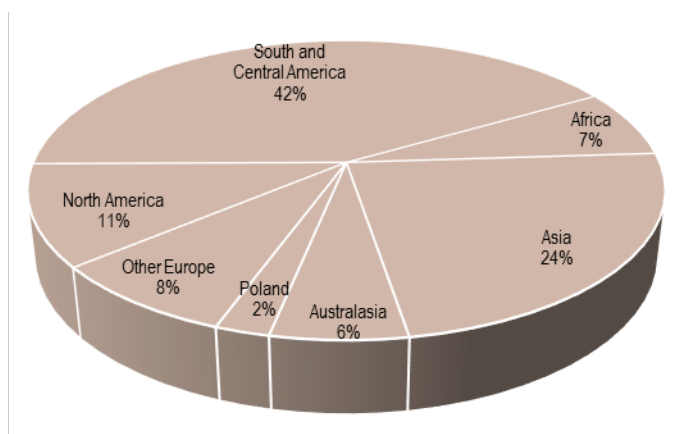
COPPER

The primary products offered by the companies of the Group are concentrates, cathodes and copper wire rod. They are products of individual stages of copper ore processing and recycling of copper scrap. For all of these products, the price benchmark (i.e. the global benchmark of copper prices for physical sales contracts of copper-bearing materials and products) is stock market quotations, with the cash settlement of the London Metal Exchange (LME) being most commonly used. Less commonly used are alternative quotations of copper on stock exchanges in New York (COMEX) and Shanghai (Shanghai Futures Exchange -SHFE). Grade "A" type, with a copper content of at least 99.99% (standard BS:EN 1978:1998 - Cu-CATH-1) is quoted on the LME. In order to be able to apply stock exchange prices to purchase/sale transactions of the products to which this quality standard is not applicable (i.e. all types of copper-bearing materials such as copper concentrates, copper scrap or more processed products like copper wire rod), market participants have developed a premium and discount system, which adjusts stock quotations. It allows setting of a market price for a product which takes into account its processing stage, its physical state and chemical makeup, as well as costs of transport and insurance to an agreed delivery destination and the current availability of the metal in a given location.

Copper concentrates

Copper concentrate is a product made by processing/enriching copper ore, which usually has a relatively low metal content and is not suitable for direct metallurgical processing. Usually, copper content in concentrate varies from percentages in the teens to several tens of percent, which enables further processing in copper smelters and refineries. The cost of transporting products with a lower copper content (for example copper ore) basically eliminates them from trade in the global market (with certain exceptions), therefore it may be assumed that copper concentrate is the first product of processing copper ore that may be generally traded. As a result of metallurgical processes copper is produced as well as the by-products of processing (mainly precious metals, sulphuric acid, lead etc.). The main participants of the concentrate markets are mines supplying the product on the market and smelters and refineries, for which the concentrates are materials for production. Trading companies also play a role on this international market, intermediating in the purchase/sale transactions and offering additional services expected by the parties. In 2020, the total global production of copper in copper concentrate is estimated at 16.8 million tonnes (according to CRU).

Chart 9. Geographical breakdown of copper concentrates production in 2020 (source: CRU, KGHM Polska Miedź S.A.)



Copper concentrates require processing into refined copper, which leads to incurring processing costs and the incomplete recovery of metals at individual production stages. Therefore, the transaction price should have a set of discounts as compared to quoted prices for refined copper. The benchmark of these discounts (for TC/RC) is determined during negotiations with the main producers of concentrates (Freeport McMoRan, Antofagasta) and their customers (mainly Chinese and Japanese smelters and refineries).

Companies of the Group participate in the copper concentrate markets mainly by selling concentrate from Sierra Gorda in Chile and from Robinson in the USA. Occasionally, KGHM Polska Miedź S.A. also sells copper concentrate produced by the Lubin, Rudna and Polkowice-Sieroszowice mines. At the same time the Company purchases copper concentrates from the market with characteristics suitable for more efficient utilisation of the production capabilities of the smelters and refineries in Poland.

Copper cathodes

Refined copper in the form of copper cathodes is the end product of the smelting and refining processes to which the copper-bearing materials are subjected (including concentrate, copper blister, anodes and copper scrap). Primary commodities exchanges (including the LME and SHFE) enable cathodes to be registered (Grade A type, with a copper content of at least 99.99% under the BS:EN 1978:1998 - Cu-CATH-1 standard), and therefore their trading on exchanges and through LME-approved warehouses. The copper cathodes produced by KGHM are registered on the LME as well as on SHFE, under the brands: HML, HMG-B and HMG-S. Unregistered cathodes are also traded on the physical market (for example those that do not meet quality parameters or the minimal yearly production conditions set by exchanges). One example of unregistered cathodes produced by KGHM are those from the Carlota and Franke mines. The main participants in the cathodes market are mining and smelting companies producing copper in the form of cathodes and wire rod plants and other companies engaged in copper processing, which use cathodes to produce wire rod, other rods, flat bars, pipes, sheets and belts. Similarly as in the case of copper concentrates, trading companies and financial institutions intermediating in the cathodes trade also participate in the market. In 2020, CRU estimated total global production of refined copper at 23.3 million tonnes.

Chart 10. Geographical breakdown of refined copper production in 2020 (source: CRU, KGHM Polska Miedź S.A.)

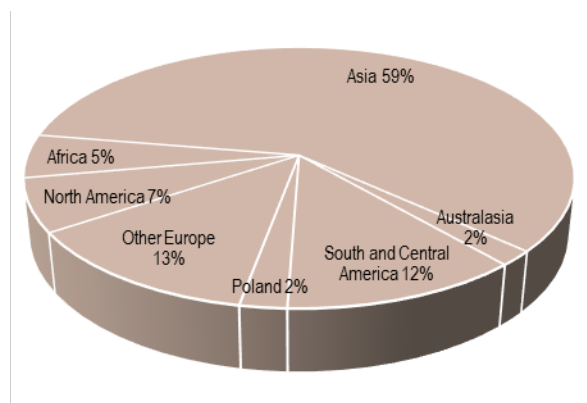
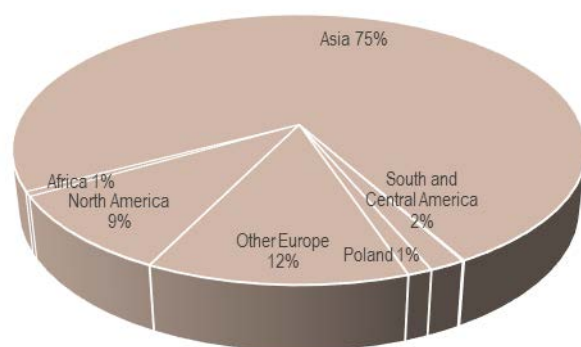


Chart 11. Geographical breakdown of refined copper consumption in 2020 (source: CRU, KGHM Polska Miedź S.A.)



It is a standard practice on the Grade "A" copper cathodes market to add a producer's premium to the prices set by global exchanges. Its level allows the producer to cover the cost of transport and insurance to the agreed delivery destination, and it also includes the premium for quality (of a given cathodes brand) and supply-demand situation on a given market.

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

Copper wire rod

Copper wire rod is manufactured in the continuous process of melting, casting and drawing in plants processing refined copper. The material used in this part of the production cycle is mainly copper in the form of cathodes, although higher-grade copper scrap may also be used. Wire rod is a half-finished product used in the production of single wires and strands used to produce conducting cores in cables and electric wires (for example: enamelled cable, car cables, power cords etc.). Similarly as for copper cathodes, trading companies are also involved in the physical trading of copper wire rod, apart from companies with wire rod plants and cable-producing companies. The wire rod market, due to the quality characteristics of the product, is more of a local market, which also means that it is highly competitive and demanding. In 2020, total global production of copper in the form of wire rod is estimated by CRU at 16.9 million tonnes.

Chart 12. Geographical breakdown of copper wire rod production in 2020 (source: CRU, KGHM Polska Miedź S.A.)

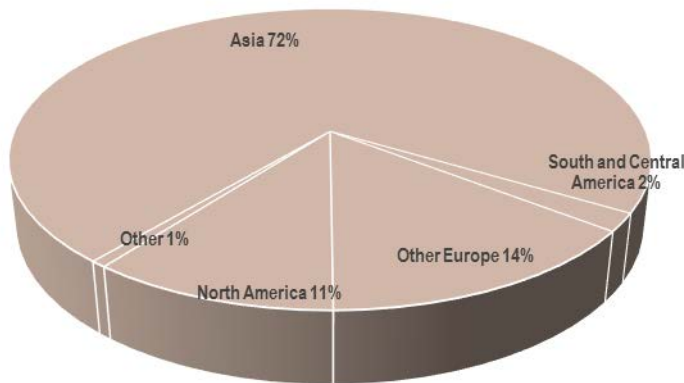
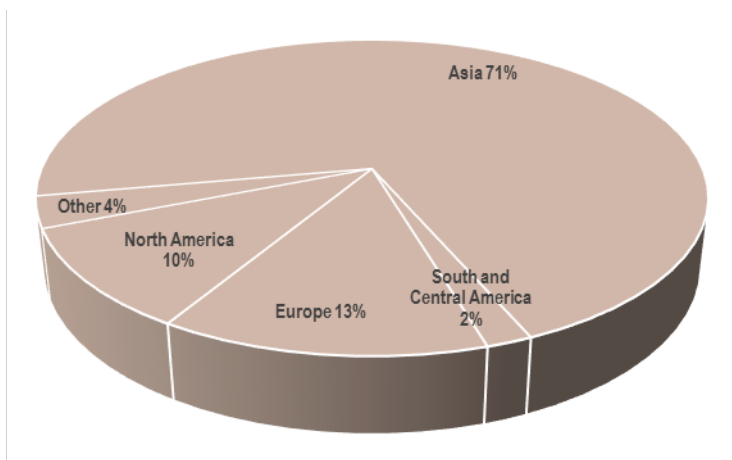


Chart 13. Geographical breakdown of global wire rod consumption in 2020 (source: CRU, KGHM Polska Miedź S.A.)



Wire rod’s price structure, apart from the copper quotations on the London Metals Exchange, also includes a producer’s fee (added to cathodes) and the refining charges due to the costs of processing cathodes into wire rod. KGHM Polska Miedź S.A. produces wire rod in the Cedynia Wire Rod Plant in Orsk.

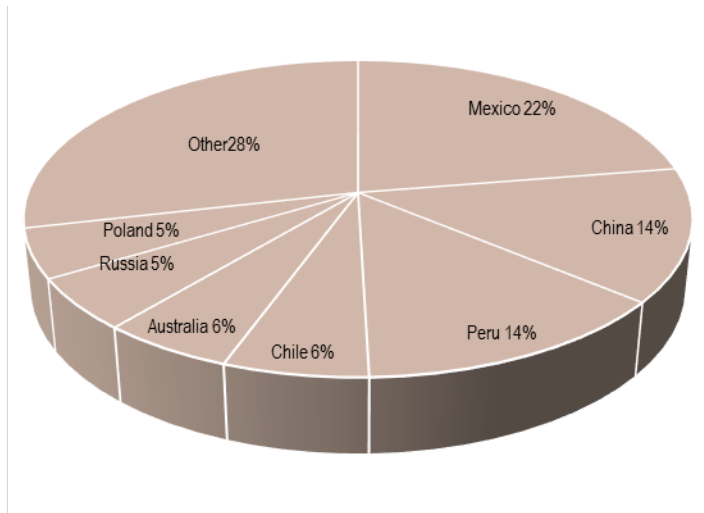
Copper wire rod and wires are utilised in numerous sectors of the modern economy, while the products created from them (cables and bundled wires) account for approx. 60% of world copper consumption. The vast majority of wire rod and wires (estimated at over 10 million tonnes annually), is used in construction and infrastructure. Dominant sub-sectors include the distribution of electricity and the wiring of buildings as well as power transmission and distribution networks. Amongst the most popular products manufactured from wire rod and wires are power lines, cables in the electrical installations in buildings and winding wires (together approx. 70%).

In 2020, production of wire rod and cable by KGHM Polska Miedź S.A. amounted to 259.5 thousand tonnes, or nearly 11% of European production. This result makes the Company one of Europe’s leading producers of these copper semi-products.

SILVER

Approx. 71% of global metallic silver production is a by-product of mining ores of other metals. Silver, due to its unique physical characteristics, is used in the jewellery, electronics and electrical industries, as well as in medicine, optics, the energy industry and many others. It is also applied in the latest technological solutions, among others in infrastructure, the automotive industry and photovoltaics. In total, industry utilises approx. 50% of global silver production. It is also a valued investment metal. According to Metals Focus preliminary estimates, in 2020 global production of mined silver amounted to 24.4 thousand tonnes.

Chart 14. Geographical breakdown of global mined silver production in 2020 (source: Metal Focus – preliminary data, KGHM Polska Miedź S.A.)

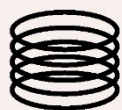


Usually, participants in the silver market make use of London Bullion Market Association quotations when setting the price for silver in physical transactions, after adjusting for current market conditions.

KGHM Polska Miedź S.A. sells silver in the form of bars and grains (produced at the Głogów Copper Smelter and Refinery) and is one of the largest producers of metallic silver. In 2020, KGHM produced approx. 1300 tonnes of silver, making the Company one of the world's leading producers of silver. This metal in the form of bars is registered under the brand KGHM HG and has a registered certificate on the New York Mercantile Exchange (NYMEX) as well as Good Delivery certificates issued by the London Bullion Market Association. Silver is supplied in the form of grains to the jewellery and metals industries, which produce alloys containing silver. Silver in the form of bars (ingots) is mainly purchased by financial institutions.

5. STRATEGY OF KGHM POLSKA MIEDŹ S.A.

Four development directions



Flexibility



Efficiency



Ecology



E-Industry

5.1. BASIC ELEMENTS AND REALISATION OF THE STRATEGY OF KGHM POLSKA MIEDŹ S.A.

The Company continued the advancement of 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 – 4E Strategy) arising from global market trends. The aforementioned directions are reflected in six identified strategic areas, with individualised and measurable main goals:

Diagram 7. Strategic areas and primary goals of the Strategy of KGHM Polska Miedź S.A.



MISSION VISION AND VALUES OF KGHM POLSKA MIEDŹ S.A.

MISSION

„To Always Have Copper”

VISION

„Use our resources efficiently to become a leader in sustainable development”



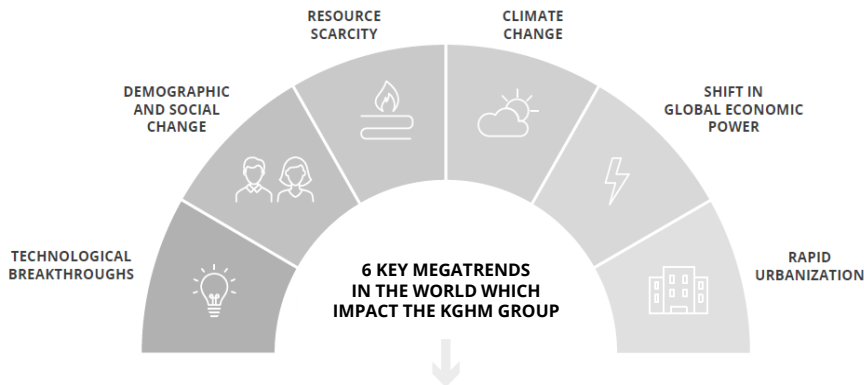
POLICY REGARDING THE DEVELOPMENT DIRECTIONS OF THE GROUP

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

With respect to implementation of the Strategy of KGHM Polska Miedź S.A. for the years 2019-2023, in the case of the international companies of the Group, a variety of reorganisational actions were undertaken aimed at the integration of KGHM INTERNATIONAL LTD. in Canada with the activities of the Company in Poland and with transference of some of the business functions of KGHM INTERNATIONAL LTD. to Poland. These activities are being continued, mainly with respect to developing joint internal rules and procedures and the standardisation of solutions in individual areas of the Company’s activities. Moreover, internal actions were undertaken aimed at identifying additional scenarios for the development of individual international assets in the Company’s portfolio.

Diagram 8. Strategic directions of KGHM Polska Miedź S.A.

STRATEGIC DIRECTIONS



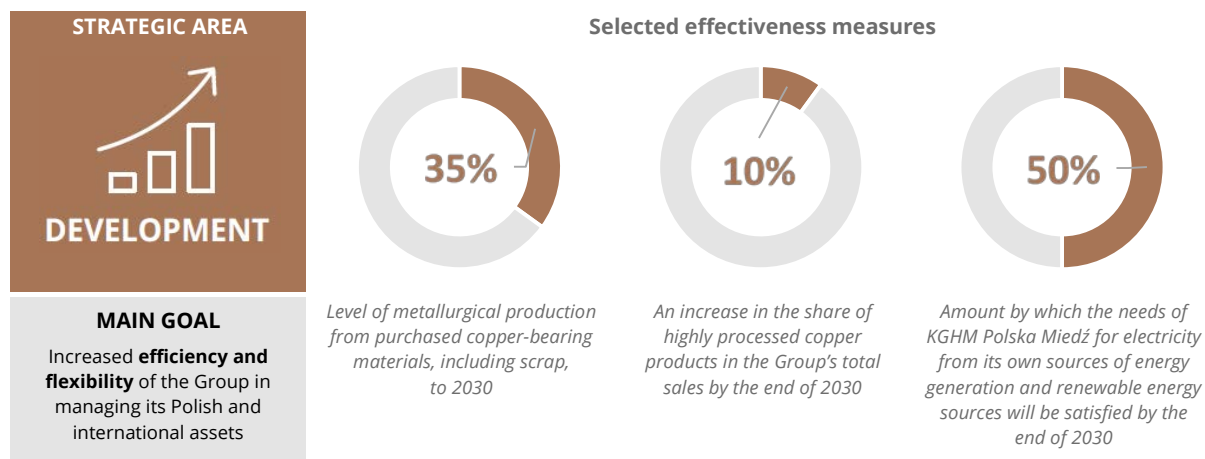
4 strategic directions for the KGHM Group’s development were indicated as a result of the analysis of global megatrends



ADVANCEMENT OF THE STRATEGY IN 2020

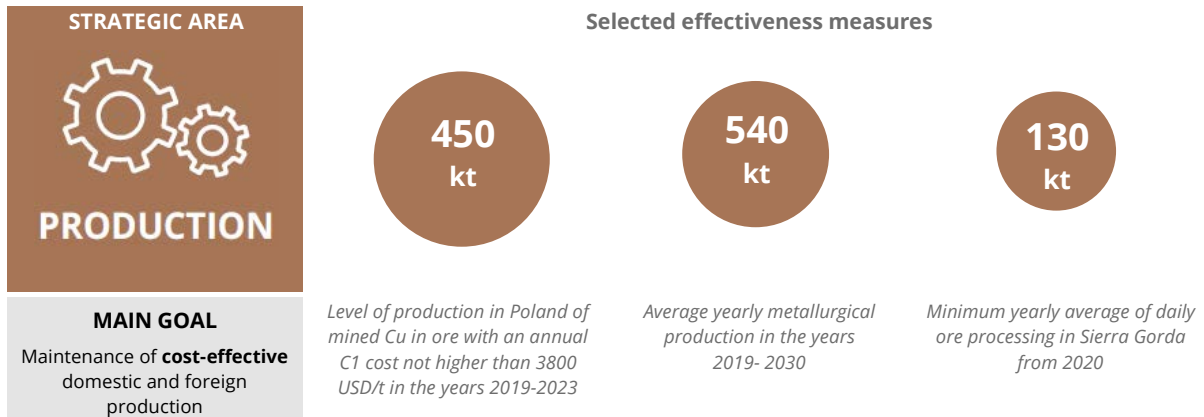
In advancing the Strategy, the Company endeavoured to maintain stable production in its domestic and international assets, and a level of costs guaranteeing financial security while ensuring safe working conditions and minimising its impact on the environment and surroundings, pursuant to the idea of sustainable development. In 2020, work was carried out on a new approach to monitoring the Strategy, through the Strategic Programs Prism, which will be successively implemented in subsequent periods.

Following is information on key actions taken in 2020 in individual strategic areas:



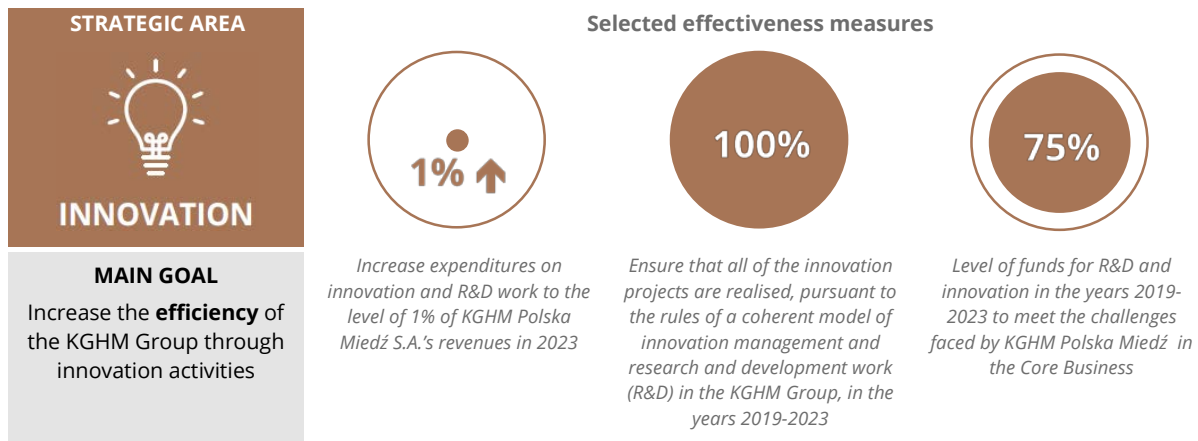
Key actions taken in 2020 in the area of Development:

- Advancement of the Deposit Access Program:
 - Work on sinking the GG-1 shaft reached a depth of 1231.2 m. Conceptual and planning work is underway on the Gaworzyce Shaft and the GG-2 „Odra” Shaft.
 - 40.3 kilometers of tunneling were excavated in the Rudna and Polkowice-Sieroszowice mining areas.
- Work continued on Development of the Żelazny Most Tailings Storage Facility:
 - 88% of the physical work on building the Southern Quarter together with slurry, water and power infrastructure has been carried out.
 - 78% of the physical work on building Stage 1 of the Tailings Segregation and Thickening Station (TSTS) has been carried out.
- The capacity to base 35% of production on purchased metal-bearing materials was achieved.
- Exploration projects with respect to exploring for and evaluating copper ore deposits were carried out pursuant to the concessions.
 - Geological work continued within the Głogów and Retków – Ścinawa concessions, which included the sinking of two drillholes for exploratory and evaluation purposes.
 - Geological work was carried out along with the process of altering the Synklina Grodziecka concession, and an alteration of the Konrad concession was obtained.
 - Concession-related proceedings are underway before the Minister of Climate and the Environment. The Company expects a re-assessment of issues related to the Bytom-Odrzański and Kulów-Luboszyce concessions and the issuance of concession decisions.
- Exploration projects were carried out with respect to exploring for and evaluating of other deposits pursuant to the concessions.
 - Exploratory and evaluation work continued in the Puck Region, another drillhole was sunk.
 - In terms of concession-related work in the area of Nowe Miasteczko, geological work was carried out which included geophysical research.
- Projects involving development of the international assets were continued:
 - Victoria project - Exploratory work continued, aimed at increasing knowledge of a part of the project's mineral resources and actions aimed at maintaining good relations with key stakeholders in the project.
 - Sierra Gorda Oxide - further 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.
- 22.42% of the general energy consumption of KGHM was supplied by its own internal sources. Further information on this subject may be found in the information on energy from own sources and RES in section 5.2.



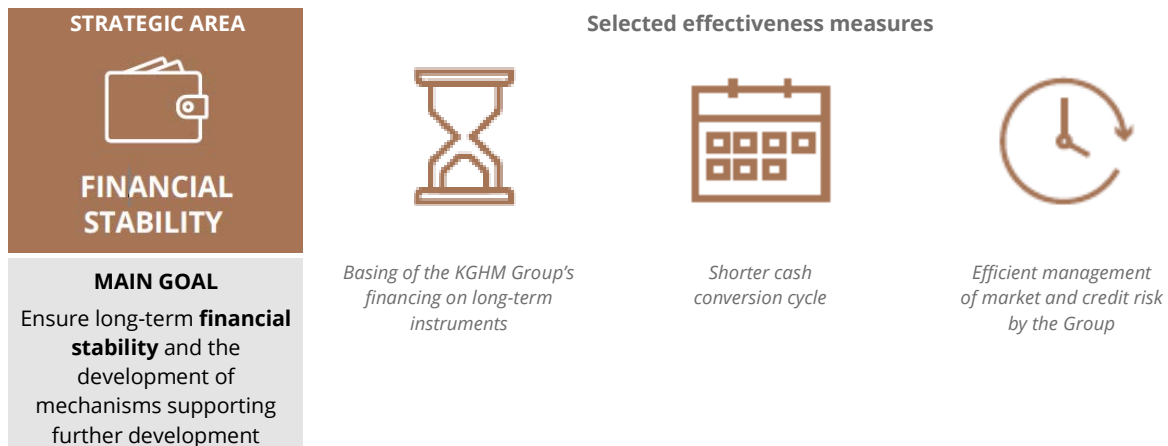
Key actions taken in 2020 in the area of Production:

- Despite the epidemiological situation caused by the COVID-19 pandemic, operations in the domestic and international assets proceeded without substantial interruptions.
- Mined production in Poland amounted to 442 thousand tonnes of copper in ore with a C1 cost of 1.62 USD/lb.
- Payable copper production abroad:
 - Sierra Gorda: 81.8 thousand tonnes (on a 55% basis);
 - Robinson: 47.4 thousand tonnes;
 - Carlota: 5 thousand tonnes;
 - Franke: 12.5 thousand tonnes;
 - Sudbury Basin: 2.1 thousand tonnes.
- Metallurgical production amounted to 560 thousand tonnes.
- Average annual daily ore processing by Sierra Gorda amounted to 124 thousand tonnes (the capacity level of 130 thousand tonnes daily was achieved in the fourth quarter of 2020).
- The Metallurgy Development Program was settled and concluded.
- Advancement continued on projects aimed at the automatisisation of production in the Company's Mining Divisions, under the KGHM 4.0 program in the area Industry.
- 5 energy efficiency audits were performed in respect of ventures with a substantial potential for energy savings.
- The Company's Energy Savings Program (ESP) was adapted to the new PN-EN ISO 50001:2018-09 standard and a certificate was issued by an authorised body (UDT Cert).
- Work was carried out aimed at increasing energy production from internal generating sources, including RES:
 - Construction of a 5 MW Photovoltaic Power Plant PV on the grounds of the „Obora” Sandpit.
 - Construction of the HMG I-III photovoltaic Power Plant PV complex.



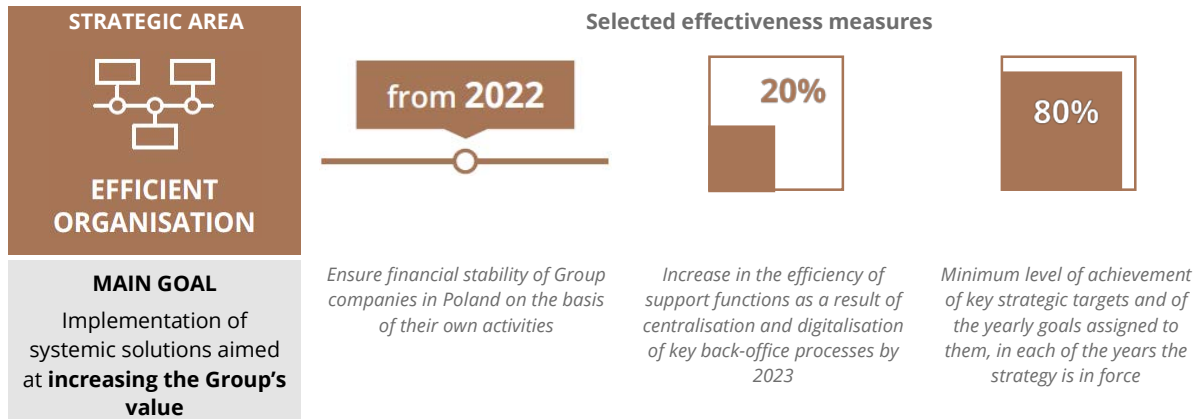
Key actions taken in 2020 in the area of Innovation:

- 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.
 - Currently, 15 projects are being advanced.
 - 8 projects have been completed.
 - 2 projects were suspended due to the inability to implement the results of the research.
- Advancement of the Implementation Doctorates Program continued for 38 Doctoral Students (Company employees) from the two editions.
- Construction continues on a prototype, battery-powered, Self-propelled Transport Vehicle.
- Initiatives continue involving the testing of battery-powered, self-propelled mining machinery.
- With respect to the robotisation of production and auxiliary processes, construction commenced on a self-propelled robot for measuring copper content at the working faces.
- Projects subsidised under KIC Raw Materials:
 - Subsidised research projects were continued.
 - A subsidy was obtained for the project „The Reflux Flotation Cell Technology RFC” involving intensification of the recovery of useful mineral grains.
- Projects subsidized under the Horizon 2020 Program:
 - The subsidised research project was continued.
 - Advancement commenced on the project „Development of systems for the monitoring of constructed facilities”, under which it is planned to test machine learning and artificial intelligence in the systems monitoring the condition of the Żelazny Most Tailings Storage Facility.
 - Subsidies in the amount of EUR 753 thousand were obtained to advance the project „Intelligent control of mine production 2”, involving the development and implementation of innovative solutions aimed at improving the efficiency and safety of work in underground mines utilising the latest technology.
- Protection was received for the word trademark „KGHM”, submitted in an international procedure, for the following countries: the USA, Switzerland, Ukraine, Japan, India and Turkey. Proceedings are pending to protect the word trademark “KGHM” in China.
- The word and figurative trademark „KGHM” was registered in the Canadian Intellectual Property Office.
- Protection of the word and figurative trademark „KGHM” was prolonged on the European Union’s territory.
- Patent applications were made for 3 inventions.
- Proceedings are underway at the Patent Office of the Republic of Poland for the granting of patents for 5 inventions.
- Over 70 new invention projects were acquired as part of the Invention Market 2020 in KGHM Polska Miedź S.A.



Key actions taken in 2020 in the area of Financial Stability:

- The Company is consistently continuing actions aimed at basing the Group's financing structure on long-term instruments.
 - The maturity of the unsecured, revolving syndicated credit facility in the amount of USD 1 500 million was extended by one year. The current maturity falls on 19 December 2025.
 - The financing needs of Group companies are met using intra-Group transfers of cash based on the cash pooling tool, long-term owner loans and bonds with long-term maturities.
- Actions continued in respect of shortening the receivables recovery period and extending the liabilities payment period. At the end of the fourth quarter of 2020 the balance of trade payables transferred to reverse factoring amounted to PLN 1 263 million, and the level of factoring amounted to PLN 2 237 million.
- To ensure effective market and credit risk management in the Group, hedging strategies were implemented on the copper, silver and currency markets.
 - On the copper market, future revenues from sales for the years 2021-2023 were hedged in the notional amount of 402 thousand tonnes, while revenues from the sale of silver for the years 2021-2023 were hedged in the notional amount of 24.6 million ounces. In 2020 option structures were also implemented hedging against a change in the USD/PLN exchange rate in the years 2022-2023 with a total notional amount of USD 720 million.
 - In addition, in 2020 the Company managed an open hedged position, restructuring options structures on the copper and currency markets.



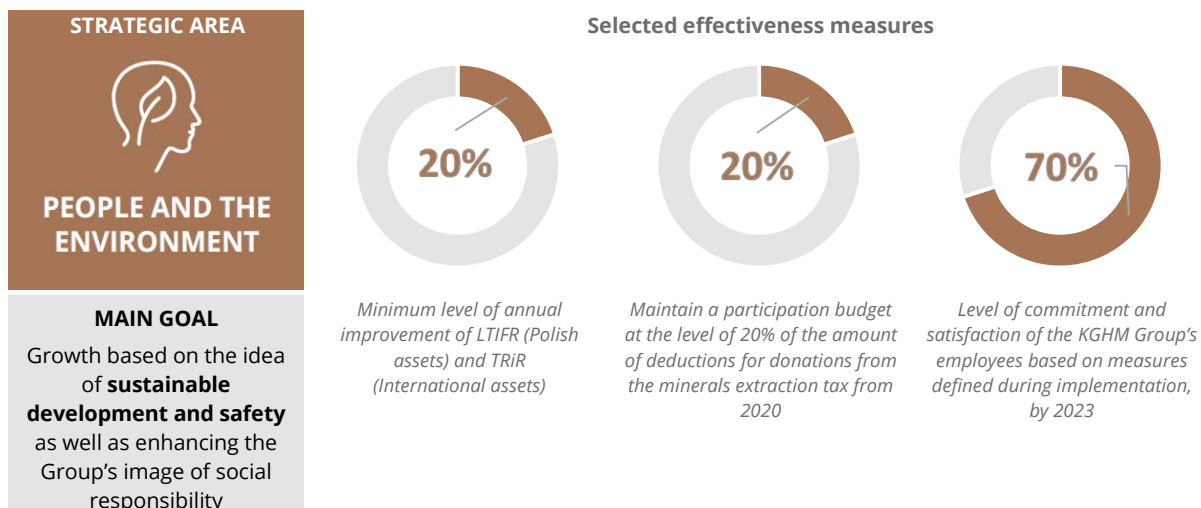
Key actions taken in 2020 in the area of Efficient organisation:

Advancement of the KGHM 4.0 Program continued, divided into three main areas:

- Industry (industrial production)
 - The full scope of the project „Locating persons and machines in the underground mines“ was completed.
 - The broad-band transmission of data to the mining faces in all of the mines was assured.
 - The CMMS system (an automated production support system) was successfully implemented in selected Divisions. The stage of implementation of the system in all of the Divisions of KGHM Polska Miedź S.A. commenced.
- ICT (Information and Communication Technology)
 - A CRM system was implemented – under the project the systems were fully integrated using a corporate integration platform (data buses), and the training of end-users was completed.
 - The project „Optimisation of the Production Planning and Settlement Process“ was completed – the processes of planning, monitoring and settling production at every stage of the core business was improved.
 - uSearch was implemented – a tool for improving the process of searching for and acquiring information in the KGHM Group, and 10 tools were created (based on the Case Manager platform) supporting back-office and digitalisation processes.
- Support Projects
 - Work continues on building a commercial contracts repository system.
 - A SAP Ariba platform was implemented for tenders proceedings.

Work commenced on a Support Processes Efficiency Strategic Program:

- 12 support areas within the organisation were selected,
- a team was established and initiatives resulting in an improvement in the efficiency of processes performed in given areas for realisation were identified,
- work began on advancing a portion of the selected support areas (e.g. selected processes were simplified and unified, the traditional circulation of documents was replaced by electronic workflow, etc.).



Key actions taken in 2020 in the area of People and the environment:

- The Company strove to reduce the LTIFR and TRIR accidents ratios, by a minimum of 20% by 2023, compared to the levels recorded in 2018.
 - A decrease was recorded in the total number of workplace accidents by 28.7%, from 299 injuries in 2019 to 213 injuries in 2020.
 - The LTIFR_{KGHM} ratio amounted to 7.31 compared to 10.30 in 2019.
 - The consolidated TRiR ratio amounted to 0.52 compared to 0.77 in 2019.
- The Occupational Health and Safety Program continued in KGHM Polska Miedź S.A.
 - Implementation of the new OHS ISO 45001:2018 standard was completed in the Company's Divisions.
 - A „Leader's Gold Card of Workplace Safety” Certificate was awarded for the years 2021-2022.
 - Principles for behaving in the conditions of the COVID-19 pandemic were promoted.
 - A uniform card to assess external risks related to the COVID-19 pandemic was implemented.
 - A broad scope of activities related to mitigating the threat arising from the COVID-19 pandemic were carried out.
- The Program to adapt the technological installations of the Company to the requirements of BAT Conclusions for the nonferrous metals industry and to restrict emissions of arsenic (BATAs) was continued.
 - 14 projects were advanced at the Głogów Copper Smelter and Refinery and the Legnica Copper Smelter and Refinery, of which in 2020 realisation of the following was completed:
 - An installation to eliminate arsenic-bearing dusts from concentrate drier gases (Legnica Copper Smelter and Refinery) was built and brought on-line.
 - An installation to eliminate arsenic-bearing dusts from above the anode casting machine (Legnica Copper Smelter and Refinery) was built and brought on-line.
 - A de-lead slag transport installation (Głogów Copper Smelter and Refinery) was built and brought on-line.
 - The construction of bypass gases pipelines from the flash furnaces (Głogów Copper Smelter and Refinery) was completed.
 - A warehouse and storage area for lead-bearing materials (Głogów Copper Smelter and Refinery) was built.

5.2. THE STRATEGY AND CLIMATE-RELATED ACTIONS

UTILISATION OF WASTE MATERIALS

Every year, the Company endeavours to implement effective solutions in demonstration of its concern to operate in compliance with the Circular Economy idea. One of the elements representing a substantial expression of the circular economy is the production of road-building material from de-copperised slag. This slag is waste (a by-product) from the metallurgical production process. Every year, the Legnica Copper Smelter and Refinery produces around 200 thousand tonnes, and the Głogów Copper Smelter and Refinery approx. 450 – 500 thousand tonnes, of mastic slag. Thanks to our know-how and technology, this material does not end up on a waste heap, but finds a second life. Thanks to the technology employed by companies in the Group, this waste is processed into a full-fledged product, used in road building as a high-quality aggregate. In this way all of the de-copperised slag which arises in the Company is put to use. What is more, the process of producing aggregate based on material supplied by the Company's smelters also helps to reduce emissions which would otherwise be generated from the traditional process of producing aggregate. Over the last 10 years, the Group company KGHM Metraco has utilised around 10 million tonnes of slag, meaning that the same amount of this material did not need to be acquired from natural deposits, and at the same time such a large volume of waste did not end up being stored on a waste heap.

The aggregate produced in the Group has been utilised in investments such as the building of the S3, S5 and S6 expressways as well as in the S11 expressway currently under construction. Material from the metallurgical plants, after undergoing required processing, also found a use in the construction of the Southern Quarter of the Żelazny Most Tailings Storage Facility. A substantial amount of this material is also used by local customers involved in infrastructural investments ordered by local governments. The main customers are the largest construction firms specialising in roadway construction.

UTILISATION OF SCRAP

At the Legnica Copper Smelter and Refinery a high-quality copper scrap processing line was built, as the first step for the planned Hybrid Metallurgical Plant in Legnica. The plant will include a Scrap Turnover Base, where charge material for a dedicated installation for the casting of other copper-bearing materials from recycling will be prepared.

As part of the first step in the Hybrid Metallurgical Plant in Legnica, copper scrap processing technology was employed using a Revolving-Casting-Refining (RCR) furnace. The RCR furnace enables the processing of copper scrap with average copper content of 95% and a capacity of at least 80 thousand tonnes of copper anode per year. The total production of anode copper at the Legnica Copper Smelter and Refinery in 2020 amounted to 167.6 thousand tonnes, including 58.8 thousand tonnes of production by the RCR furnace. In 2020 a total of 91 thousand tonnes of scrap was processed at the Legnica Copper Smelter and Refinery, and which therefore was brought back into use pursuant to the idea of the Circular Economy.

ELECTROMOBILITY AND LOW-EMISSION MINING MACHINERY

One of the main infrastructural barriers to the development of electromobility is the current lack of a sufficient number of rapid charging points covering an incomplete road network in Poland and Europe. The rapid development of transportation based on electricity will represent an enormous challenge for electricity producers and distributors, but will also guarantee them an increase in their customer base by up to 20%. In light of the above considerations, KGHM Polska Miedź S.A. in 2018 commenced definitive actions in the sphere of electromobility, not only by the successive and consistent replacement of its own transportation fleet with zero-emission electric vehicles, but above all by developing a network of generally available, ultra-fast charging stations in the Legnica-Głogów Copper Belt. The first station arose at the Head Office of KGHM in December 2018, with the next coming in 2019 at the Głogów and Legnica Copper Smelters and Refineries and the Lubin mine. Each „charger” has three types of plugs, which ensures full compatibility with the vehicles available on the market. The stations are connected to the IT system of Tauron Dystrybucja Serwis. To support the development of the electromobility program, acting to protect the environment and climate, the charging is freely provided to users.

Additionally, to support actions aimed at protecting the environment and climate, as well as the health and workplace comfort of employees, work is underway in the Company aimed at reducing emissions from mining machinery, in particular nitrous oxide and particulate matter. The goal is to reduce employee exposure to nitrous oxide in the workplace and achieve concentrations of below 2.5 mg/m³ as well as to reduce exposure to carcinogenic factors to the level of 0.05 mg/m³ converted to elemental carbon.

Currently the Company is in the process of purchasing machinery, which includes the gradual introduction of Stage IV- and V-standard engines, thanks to which it is possible to reduce emissions by several times. At present, of the 1261 machines used by the Company around 10% are low-emission machines. All of the newly-purchased machines have engines of the highest emissions cleanliness standards. Replacement of the entire machinery park will be possible by the end of 2026.

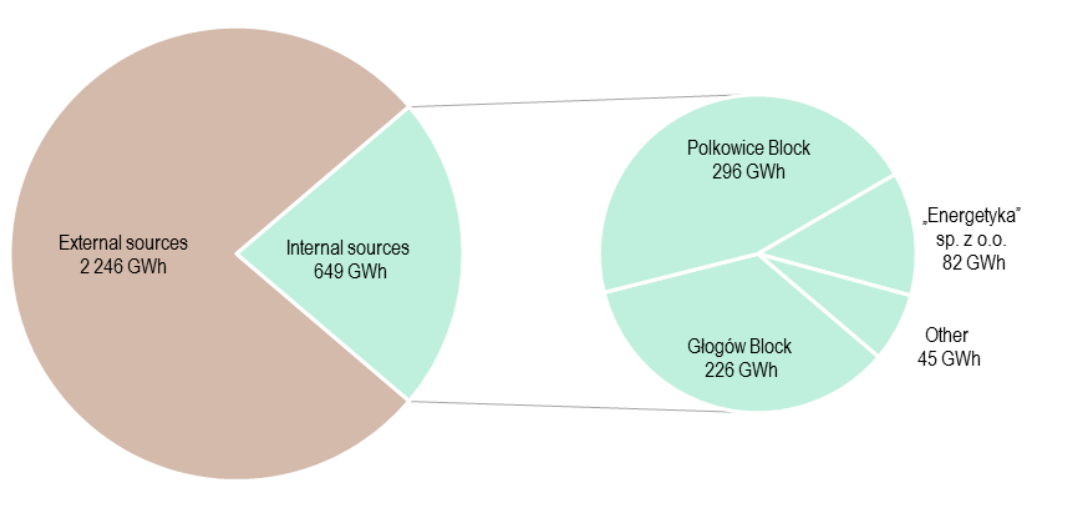
The Company is also working with external producers on testing the functionality and efficiency of electric battery-powered mining machinery. As a result of these actions, tests are underway in the Lubin mine of a battery-powered bolting rig. In the first quarter of 2021 an electric drilling rig and a transport vehicle will undergo testing. In addition, arrangements on the commencement in the Rudna mine of trials of electric loaders are at an advanced stage.

ENERGY FROM INTERNAL SOURCES AND RES

In 2020, the Company achieved record power production by the Gas-fired Steam Power Blocks. Altogether they produced over 0.5 TWh of energy, or nearly 16% of the Company's total need for electricity. Such a substantial contribution of cheap, ecological energy (compared to energy from the burning of coal) from these blocks in the portfolio of KGHM provides for both the acquisition of environmentally-friendly energy as well as savings on the order of tens of millions of PLN annually. The recipients of this energy are the Rudna and Polkowice-Sieroszowice mines and the Głogów Copper Smelter and Refinery. The power produced by the Gas-fired Steam Power Blocks comes from four 14.7 MWe Titan 130 Gas Turbines and two Siemens Steam Turbines, each with a capacity of 12.3 MWe.

The Group also has other internal energy generating sources, which together with the aforementioned Gas-fired Steam Power Blocks, provided 22.42% of the total amount of energy consumed by KGHM in 2020 (nearly 1.5% more than in 2019). Following is a breakdown of the sources of internally-generated energy in 2020.

Chart 15. Power sources of KGHM Polska Miedź S.A. in 2020



KGHM Polska Miedź S.A. in 2020 engaged in a variety of actions aimed at developing renewable energy sources:

- Applications were submitted for amendments to municipal planning documentation for permission for the siting of photovoltaic installations with a capacity of over 100 kW on land belonging to KGHM Polska Miedź S.A. in:
 - the municipality of Lubin with potential installed capacity of around 20 MW,
 - the municipality of Warta Bolesławiecka for sites with potential capacity of more than 50 MW.
- The simultaneous pilot start-up of two gas turbines in the gas-steam block in Głogów producing 16 GWh more of electricity as compared to the initial planned production schedule, which resulted in:
 - Lower power acquisition costs by around PLN 1.8 million,
 - The avoidance of more than 4 thousand tonnes of CO₂ emissions.
- The subsidiary KGHM Zanam S.A. brought a 3.1 MWp photovoltaic power plant on-line.

REDUCTION OF EMISSIONS FROM THE METALLURGICAL PLANTS

To minimise the negative impact of metallurgical technology on the environment and to maintain the full technical functionality of equipment to protect the environment, the Company is engaged in the successful adaptation of these installations to BAT conclusions for the nonferrous metals industry together with the restriction of arsenic emissions. The parameters achieved thanks to a broad range of investments remain at substantially better levels than is required by law. The following table presents the details on end results of these investments.

Table 4. End results of investments with respect to actions to adapt installations to BAT conclusions requirements for the nonferrous metals industry

<i>Name of task/initiative</i>	<i>Expected adaptation to BAT Emissions associated with BAT (BAT-AEL)</i>	<i>Task completion deadline Parameters achieved (during parameter guarantee tests)</i>
Modernisation of the bag filter dedusting unit Psz.1 and cassette filters PSZ 2 and Psz3 at the Shaft Furnaces	BAT 39: PM - 2-5 (mg/Nm ³) As - 0.05 (mg/Nm ³)	December 2019 PM - below 1 (mg/Nm ³), As - below 0.05 (mg/Nm ³), average 0.02 (mg/Nm ³)
Construction of a 2nd-stage wet dedusting of driers installation to reduce As and Hg to the level specified in BAT Conclusions	BAT 38: PM - 3-5 (mg/Nm ³), As - 0.05 (mg/Nm ³) BAT 11: Hg - 0.01 - 0.05 (mg/Nm ³)	December 2020 PM - below 1 (mg/Nm ³), As - below 0.02 (mg/Nm ³), average 0.01 (mg/Nm ³) Hg - below 0.004 (mg/Nm ³) average 0.002 (mg/Nm ³)
Design and execution of an installation to eliminate arsenic from gases above the TM-16 casting machine	BAT 44: PM - below 15 (mg/Nm ³)	December 2020 PM - below 2 (mg/Nm ³), average 1.6 (mg/Nm ³)
P-1 Sealing of the copper concentrate conveyor belt tightening station and ore blending warehouse	BAT 8 and BAT 25: These describe the required means of adaptation to prevent fugitive emissions from preliminary processing of natural, primary and secondary materials, as well as conveyors for fixed materials and their transport, or to reduce such emissions.	October 2019 Closed conveyance systems were applied for the transport and servicing of concentrates, being a source of PM and fluxes and of fine-grained materials which are not PM sources (compliance with BAT8a, BAT8b, BAT25)
PG Installation to feed milled de-lead slag to a flash furnace	BAT54: Describes the means to limit the amount of waste from primary and secondary copper production designated for storage BAT90: Describes the required means of adaptation to prevent fugitive emissions from the preparation of primary and secondary materials or to restrict such emissions (for lead production)	December 2020 The installation enables hermetic transport of waste in the form of de-lead slag to a flash furnace for metal recovery (compliance with BAT54). A pneumatic transport system was applied for materials generating PM (compliance with BAT90a).

5.3. BENEFITS OF THE 4E STRATEGY AFTER TWO YEARS IN ACTION



Efficiency

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

- Investments were carried out to ensure that domestic mine production remains at the level of 450 thousand tonnes of copper in ore and average annual metallurgical production at the level of 540 thousand tonnes,
- The Revolving-Casting-Refining (RCR) furnace at the Legnica Copper Smelter and Refinery increased the capacity of the purchased materials processing unit and increased production capacity,
- Energy reviews in all of the Divisions and at the Head Office indicated new areas where energy consumption could be reduced, pursuant to the Energy Management System,
- Skills were developed in energy development, including RES (investments in photovoltaic power plants at the Legnica and Głogów Copper Smelters and Refineries and at the Obora Sandpit),
- The efficiency of waste deposition was increased as part of the Project to Develop the Żelazny Most Tailings Storage Facility by building the Southern Quarter,
- External sources were used to finance R&D and innovation projects,
- An effective and diverse organisational culture was developed, based on the Group's values,
- The Group's structure was rationalised to more effectively utilise its potential from the perspective of operations of the entire Group,
- Cost discipline was maintained and savings initiatives were implemented,
- Financial efficiency was increased thanks to the diversification of its sources and to the adaptation of financing to the Group's needs,
- Actions were taken to shorten the receivables recovery period and extend the liabilities payment period (we utilise factoring),
- Continuous, safe access to factoring for the Group was assured.



Ecology, safety and sustainable development

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

- Intelligent solutions were introduced to enhance employee safety,
- The same OHS procedures were introduced in the Group's companies and divisions, including a consistent safety management system for all of the assets of KGHM INTERNATIONAL LTD.,
- Numerous actions were taken under the „Copper Heart” employee volunteer program,
- Corporate income taxes were paid by the Group to the State and local budgets - around PLN 400 million annually,
- A minerals extraction tax was paid to the State budget – around PLN 1.5 billion annually,
- Employees were provided with development and educational opportunities through numerous training sessions, development programs and HR projects (e.g. the „4E Skills Academy”),
- New installations were applied, in accordance with BAT conclusions (Best Available Techniques) for the nonferrous metals industry,
- Investments were made in renewable energy sources (RES), mainly in the development of photovoltaics,
- Electromobility was developed – we are testing electric personnel and terrain vehicles; in terms of replacing the machinery park, there is a switch from diesel engines to low-emission vehicle engines,
- Non-financial reporting was expanded to ensure that the Company's internal and external communication remains consistent,
- High standards were achieved in communicating with the market and investors.



Elasticity/Flexibility

We adapt our activities to changes in our environment

- Consistent management of deposits and extraction, adapting to the geological structure,
- Metallurgical production was optimised – the RCR furnace at the Legnica Copper Smelter and Refinery, the concentrate roaster at the Głogów Copper Smelter and Refinery,
- A new financing structure was introduced, from short-term to long-term,
- Procurement programs were consolidated and logistics were digitalised,
- Maintenance shutdowns were efficiently planned and performed,
- Power generation from internal sources was increased,
- Implementation Doctorates and other programs were carried out in cooperation with institutions of learning and research institutes, aimed at improving the functioning of the core business,
- Actions were undertaken to eliminate generational and know-how gaps - a program was conducted in cooperation with the Ministry of National Education - „Skilled in the mining-metallurgical sector”,
- Employee skills were consistently raised through adaptive and development projects.



E-Industry

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

- A pilot version of a „System for locating persons and machines in the underground mines” was put into operation,
- „Broad-band data transmission in underground mines” was expanded in the mines,
- The „Centre of Advanced Data Analysis (Centrum Zaawansowanych Analiz Danych - CZAD)” was expanded – the use of algorithms was tested in the analysis of conveyor belt loads in the mines,
- The „Robotisation of production and auxiliary processes” was expanded – construction commenced on a CuXRF robot for scanning for copper content at the working faces,
- Projects related with the National Cybersecurity System and strengthening IT security within the Group were implemented,
- A Projects Management System 2.0. was developed,
- The digitalisation, automatisisation and electronic workflow of documents and information was expanded for such areas as administration, logistics, procurement, IT, legal services, data archiving, personnel and wages, communications and PR, agreements/contracts, financial management, real estate, HR,
- IT technologies were developed for the collection and transfer of knowledge within the Group and the archiving of R&D and project documentation in terms of inventions and patent proceedings in the years 1959-2020.

INTENTIONS REGARDING EQUITY INVESTMENTS

In the case of the companies in Poland, the primary development goal is to ensure continuity and safe working conditions in the core business of KGHM Polska Miedź S.A. and at integrating the Group around the idea of sustainable development, including the implementation of development initiatives under the Circular Economy aimed at limiting the environmental footprint. In the case of the international part of the Group, the Company is concentrating on maximising the value of its assets portfolio.

INTENTIONS REGARDING CAPITAL EXPENDITURES

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

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

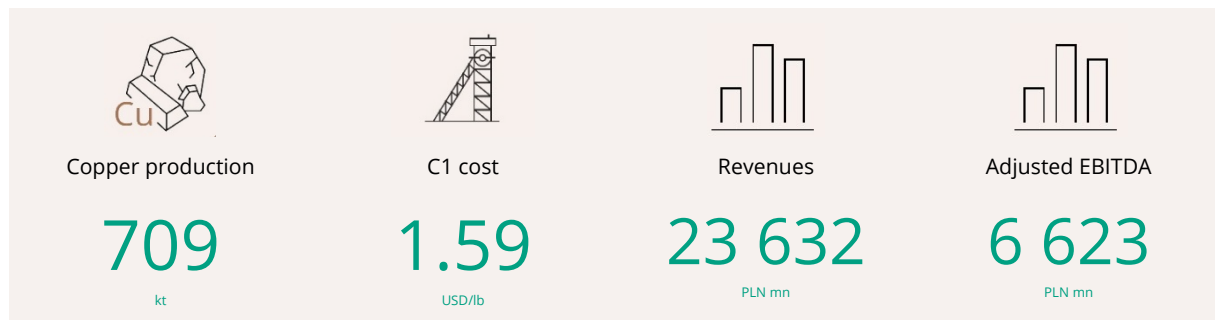
- The Deposit Access Program (Deep Głogów along with access and development tunnels),
- Development of the Żelazny Most Tailings Storage Facility,
- Investment projects aiding in de-watering in the Polkowice-Sieroszowice mine,
- Investment projects to adapt the metallurgical installations to the BAT Conclusions for the nonferrous metals industry and to restrict emissions of arsenic (BATAs),
- Projects to optimise utilisation of the production capacity of the Legnica Copper Smelter and Refinery (utilising and developing existing infrastructure to increase the processing of scrap),
- Investment projects related to replacing equipment and optimisation at the Głogów I Copper Smelter/Refinery.

In addition, with respect to development of the resource base, the Company continued exploratory work under the existing concessions to search for and explore copper ore deposits.

The directions adopted also include the advancement of actions under the Circular Economy. Additionally the Company is engaged in unceasing 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 assumptions of the KGHM 4.0 Strategic Program.

The Company is also intensifying actions aimed at improving energy efficiency through investments in its internal generating capacity, in particular those which have low to zero emissions. Investments commenced in energy projects involving photovoltaics. Pursuant to the current Strategy of the Group for the years 2019-23, it is expected that by the end of 2030, 50% of KGHM Polska Miedź S.A.'s demand for electricity will be met by its own sources of energy generation and renewable energy sources.

6. ECONOMIC PERFORMANCE OF THE GROUP



6.1. PRODUCTION

In 2020, copper production by the Group was slightly higher (by 7.5 thousand tonnes, or 1%) compared to 2019. The increase was in respect of the segment Sierra Gorda S.C.M. (+22.3 thousand tonnes on a 55% basis), mainly the result of higher ore processing and higher copper content. Meanwhile in the segments KGHM INTERNATIONAL LTD. and KGHM Polska Miedź S.A. production was lower respectively by 9.6 thousand tonnes and 5.2 thousand tonnes of copper.

The decrease in production by KGHM Polska Miedź S.A. versus the previous year was due to the lower grade and thickness of the mined deposit, as well as to the restricted supply of copper scrap in the first half of 2020 and the maintenance shutdown at the Głogów I Copper Smelter and Refinery.

The decrease in production by KGHM INTERNATIONAL LTD. was due to lower production in the Sudbury Basin, by the Franke mine and by the Robinson mine.

Detailed information on production results may be found in the sections dedicated to individual segments. The Group's production is shown below.

Table 5. Production in the Group

	2020	2019	Change (%)	4Q'20	3Q'20	2Q'20	1Q'20
Payable copper (kt)							
Group	709.1	701.6	+1.1	188.1	170.3	176.6	174.1
- KGHM Polska Miedź S.A.	560.4	565.6	(0.9)	148.5	131.1	139.8	141.0
- KGHM INTERNATIONAL LTD.	66.9	76.5	(12.5)	17.7	18.5	16.6	14.1
- Sierra Gorda S.C.M. ⁽¹⁾	81.8	59.5	+37.4	21.9	20.7	20.2	19.0
TPM (koz t)							
Group	194.3	220.1	(11.7)	49.0	45.3	48.5	51.5
- KGHM Polska Miedź S.A.	96.8	103.7	(6.7)	29.7	21.5	20.4	25.2
- KGHM INTERNATIONAL LTD.	66.1	85.2	(22.4)	11.7	16.2	20.4	17.8
- Sierra Gorda S.C.M. ⁽¹⁾	31.4	31.2	+0.6	7.6	7.6	7.7	8.5
Silver (t)							
Group	1 353	1 417	(4.5)	356	288	373	335
- KGHM Polska Miedź S.A.	1 323	1 400	(5.5)	347	280	366	329
- KGHM INTERNATIONAL LTD.	2	2	-	1	-	-	1
- Sierra Gorda S.C.M. ⁽¹⁾	28	15	+86.7	8	8	7	6
Molybdenum (mn lbs)							
Group	9.4	11.9	(21.0)	2.2	1.9	3.5	1.8
- KGHM Polska Miedź S.A.	-	-	x	-	-	-	-
- KGHM INTERNATIONAL LTD.	0.4	0.8	(50.0)	0.1	0.1	0.1	0.2
- Sierra Gorda S.C.M. ⁽¹⁾	9.0	11.2	(19.6)	2.1	1.9	3.4	1.6

¹⁾ 55% share of the Group

6.2. STRUCTURE OF CONSOLIDATED SALES REVENUE

The geographic and product structure of the consolidated sales revenue of the Group is presented in the following charts. In accordance with the adopted principle of consolidation by the equity method, sales revenue do not include revenues of the segment Sierra Gorda S.C.M. Detailed information on segment sales is presented in the sections devoted to the results of individual segments.

Chart 16. Geographic structure of Group sales

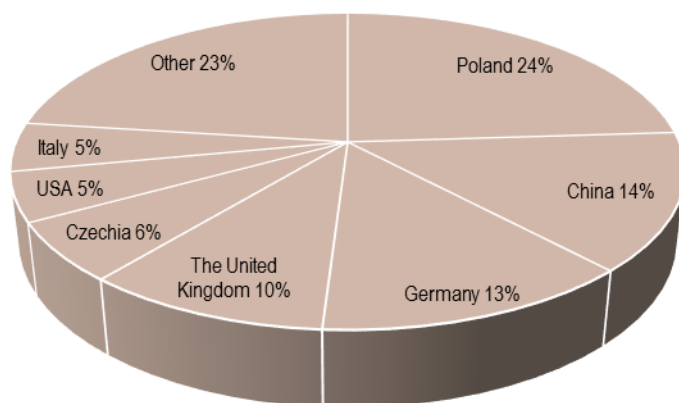
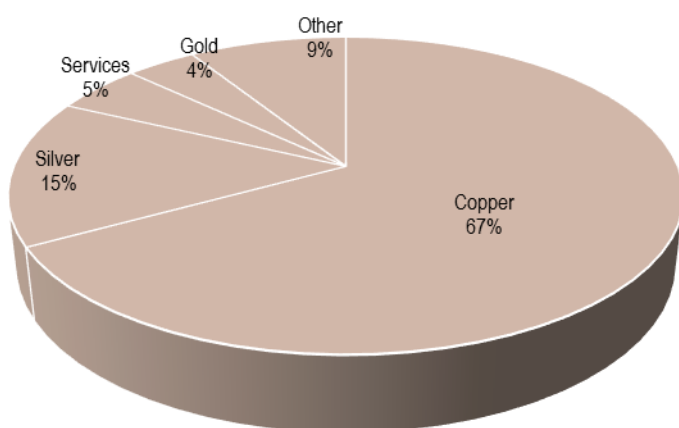


Chart 17. Product structure of Group sales



6.3. C1 COST OF PRODUCING PAYABLE COPPER IN THE GROUP

Unit costs by Group segments are presented in the table below. Detailed descriptions of individual items are presented in the sections devoted to individual segments.

Table 6. C1 cost of producing payable copper in the Group (USD/lb)

	2020	2019	Change (%)	4Q'20	3Q'20	2Q'20	1Q'20
Group	1.59	1.70	(6.5)	1.61	1.56	1.58	1.61
- KGHM Polska Miedź S.A.	1.62	1.74	(6.9)	1.68	1.61	1.59	1.58
- KGHM INTERNATIONAL LTD.	1.91	1.74	+9.8	2.00	1.62	1.83	2.19
- Sierra Gorda S.C.M.	1.19	1.41	(15.6)	1.08	1.21	1.34	1.15

6.4. FINANCIAL RESULTS

STATEMENT OF PROFIT OR LOSS

Table 7. Financial results of the Group (in PLN million)

	2020	2019	Change (%)	4Q'20	3Q'20	2Q'20	1Q'20
Revenues from contracts with customers	23 632	22 723	+4.0	7 052	5 632	5 649	5 299
Cost of sales, selling costs and administrative expenses	(20 471)	(20 268)	+1.0	(5 997)	(4 666)	(5 004)	(4 804)
Profit on sales	3 161	2 455	+28.8	1 055	966	645	495
Profit or loss on involvement in a joint venture	247	9	×27.4	169	95	(113)	96
Other operating income and (costs)	(624)	186	×	(395)	(389)	(680)	840
Finance income / (costs)	(28)	(528)	(94.7)	48	100	326	(502)
Profit before income tax	2 756	2 122	+29.9	877	772	178	929
Income tax expense	(959)	(701)	+36.8	(252)	(299)	(169)	(239)
Profit for the period	1 797	1 421	+26.5	625	473	9	690
Adjusted EBITDA⁽¹⁾	6 623	5 229	+26.7	2 205	1 767	1 522	1 129

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 8. 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	+909	An increase in revenues mainly due to an increase in revenues from copper sales +PLN 835 million, silver +PLN 675 million and gold +PLN 201 million alongside a decrease in revenues from the sale of services by -PLN 618 million. Detailed reasons for the change in revenues in the segments KGHM Polska Miedź S.A. and KGHM INTERNATIONAL LTD. are described in sections 7 and 8 of this report.
Cost of sales, selling costs and administrative expenses	(203)	The increase in costs of sales, selling costs and administrative expenses was mainly comprised of higher expenses by nature by PLN 47 million alongside an increase in the change in product inventories and work in progress by PLN 137 million and a decrease in the adjustment for the manufacture of products for own use by PLN 28 million. Detailed reasons for the change in costs in the segments KGHM Polska Miedź S.A. and KGHM INTERNATIONAL LTD. are described in sections 7 and 8 of this report.
Profit or loss on involvement in a joint venture	+238	The increase in profit on involvement in joint ventures from PLN 9 million to PLN 247 million was due to: <ul style="list-style-type: none"> - a decrease in gains due to a reversal of allowances for impairment of loans granted to a joint venture by PLN 32 million, - a lower share of losses of a joint venture accounted for using the equity method by PLN 234 million, - higher interest income on loans granted to a joint venture by PLN 36 million.
Other operating income/ (costs)	(810)	The decrease in the result on other operating activities from PLN 186 million to -PLN 624 million was mainly due to: <ul style="list-style-type: none"> - lower foreign exchange gains/losses on the measurement of assets and liabilities other than borrowings by PLN 562 million, - a lower result on the measurement and realisation of derivatives by PLN 140 million, - a lower result on the recognition and reversal of impairment losses on fixed assets under construction and intangible assets not yet available for use by PLN 224 million, - a higher balance of provisions recognised and released by PLN 65 million.
Finance income/(costs)	+500	The change in finance income and costs from -PLN 528 million to -PLN 28 million was mainly due to: <ul style="list-style-type: none"> - a higher result on exchange differences from the measurement and realisation of borrowings by PLN 396 million, - lower interest costs on borrowings by PLN 59 million, - a higher result on the measurement and realisation of derivatives by PLN 15 million.

Income tax	(258)	An increase in income tax due to: - higher current tax by PLN 77 million, - higher deferred tax by PLN 23 million, - lower adjustment of tax for prior periods by PLN 158 million.
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Chart 18. Change in profit/loss for 2020 (in PLN million)

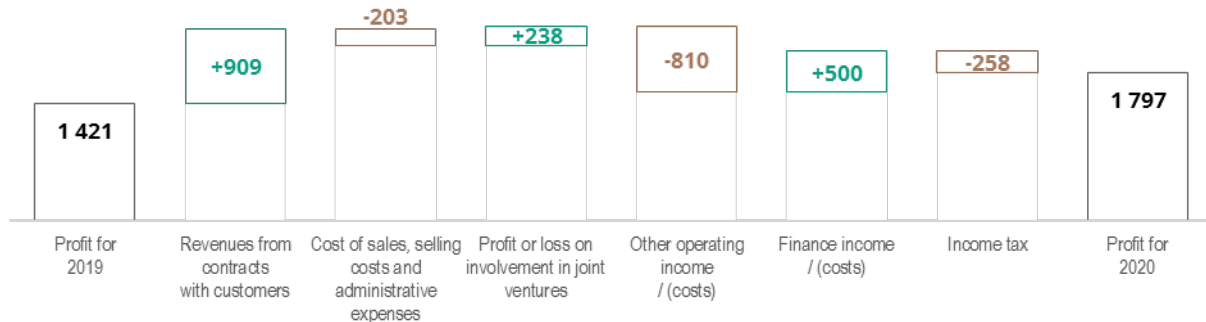
**CASH FLOW**

Table 9. Cash flow of the Group (in PLN million)

	2020	2019	Change (%)	4Q'20	3Q'20	2Q'20	1Q'20
Profit before income tax	2 756	2 122	+29.9	877	772	178	929
Depreciation/amortisation recognised in profit or loss	1 963	1 920	+2.2	572	438	470	483
Share of losses of a joint venture accounted for using the equity method	204	438	(53.4)	(2)	(4)	210	-
Gains due to the reversal of allowances for impairment of loans granted to a joint venture	(74)	(106)	(30.2)	(74)	-	-	-
Interest on loans granted to joint ventures	(377)	(341)	+10.6	(93)	(91)	(97)	(96)
Other interest	159	244	(34.8)	39	7	62	51
Impairment losses on non-current assets	239	51	×4.7	145	2	65	27
Exchange differences	(101)	184	×	154	212	87	(554)
Change in provisions and employee benefits liabilities	-	114	×	(29)	44	32	(47)
Change in other receivables and liabilities other than working capital	584	(176)	×	525	132	91	(164)
Change in assets and liabilities due to derivatives	(171)	(31)	×5.5	(219)	(225)	35	238
Reclassification of other comprehensive income to profit or loss due to the realisation of hedging instruments	(42)	(86)	(51.2)	80	32	(97)	(57)
Other adjustments	11	2	×5.5	(3)	(25)	38	1
Exclusions of income and costs, total	2 395	2 213	+8.2	1 095	522	896	(118)
Income tax paid	(667)	(410)	+62.7	(223)	(58)	(196)	(190)
Change in working capital	1 172	1 123	+4.4	653	87	102	330
Net cash generated from operating activities	5 656	5 048	+12.0	2 402	1 323	980	951
Expenditures on mining and metallurgical assets	(3 060)	(2 872)	+6.5	(861)	(810)	(566)	(823)
Expenditures on other property, plant and equipment and intangible assets	(397)	(360)	+10.3	(109)	(96)	(52)	(140)
Expenditures on financial assets designated for mine decommissioning and other technological facilities	(22)	(293)	(92.5)	-	-	-	(22)
Acquisition of newly-issued shares of joint ventures	(207)	(439)	(52.8)	-	-	(207)	-
Proceeds from financial assets designated for mine decommissioning and other technological facilities	11	335	(96.7)	8	2	-	1
Other	14	(14)	×	(24)	54	(17)	1
Net cash used in investing activities	(3 661)	(3 643)	+0.5	(986)	(850)	(842)	(983)
Proceeds from borrowings	4 247	4 730	(10.2)	66	24	2 417	1 740
Proceeds from the issue of debt financial instruments	-	2 000	×	-	-	-	-
Proceeds from derivatives related to sources of external financing	52	-	×	18	1	33	-
Repayment of borrowings	(4 513)	(7 746)	(41.7)	(84)	(1 282)	(2 695)	(452)
Repayment of lease liabilities	(97)	(52)	+86.5	(12)	(41)	(31)	(13)
Expenditures due to derivatives related to sources of external financing	(78)	-	×	(38)	-	(40)	-
Payment of interest	(177)	(239)	(25.9)	(28)	(14)	(68)	(67)
Other	18	(1)	×	12	4	1	1
Net cash used in financing activities	(548)	(1 308)	(58.1)	(66)	(1 308)	(383)	1 209
Net cash flow	1 447	97	×14.9	1 350	(835)	(245)	1 177
Exchange differences	59	(38)	×	53	3	(2)	5
Cash and cash equivalents at beginning of the period	1 016	957	+6.2	1 119	1 951	2 198	1 016
Cash and cash equivalents at end of the period	2 522	1 016	×2.5	2 522	1 119	1 951	2 198

Net cash generated from operating activities in 2020 amounted to +PLN 5 656 million and was mainly comprised of profit before income tax of PLN +2 756 million, increased by adjusted depreciation/amortisation in the amount of +PLN 1 963 million, the change in working capital in the amount of +PLN 1 172 million, the change in other receivables and liabilities other than working capital of +PLN 584 million, the adjustment of the impairment loss on non-current assets of +PLN 239 million, the adjustment of the share of losses of a joint venture accounted for using the equity method of PLN +204 million and the adjustment of other interest in the amount of +PLN 159 million.

Cash generated from operating activities was mainly decreased due to income tax paid in the amount of -PLN 667 million, the adjustment of interest on loans granted to a joint venture of -PLN 377 million, the change in assets and liabilities due to derivatives -PLN 171 million, the adjustment of gains due to the reversal of allowances for impairment of loans granted to a joint venture of -PLN 74 million and the reclassification of other comprehensive income to profit or loss due to the realisation of hedging instruments of -PLN 42 million.

Net cash used in investing activities in 2020 amounted to -PLN 3 661 million and mainly comprised expenditures on the acquisition of property, plant and equipment and intangible assets in the amount of -PLN 3 457 million and expenditures on the acquisition of newly-issued shares of a joint venture in the amount of -PLN 207 million.

Net cash used in financing activities in 2020 amounted to -PLN 548 million and mainly comprised proceeds from borrowings in the amount of +PLN 4 247 million, repayments of borrowings in the amount of -PLN 4 513 million, repayments of interest in the amount of -PLN 177 million, repayments of lease liabilities of -PLN 97 million and expenditures due to derivatives related to sources of external financing of -PLN 78 million.

After reflecting exchange differences on cash and cash equivalents, in 2020 cash and cash equivalents increased by PLN 1 506 million and as at 31 December 2020 amounted to PLN 2 522 million.

Chart 19. Cash flow in 2020 (in PLN million)



ASSETS

Table 10. Consolidated assets (in PLN million)

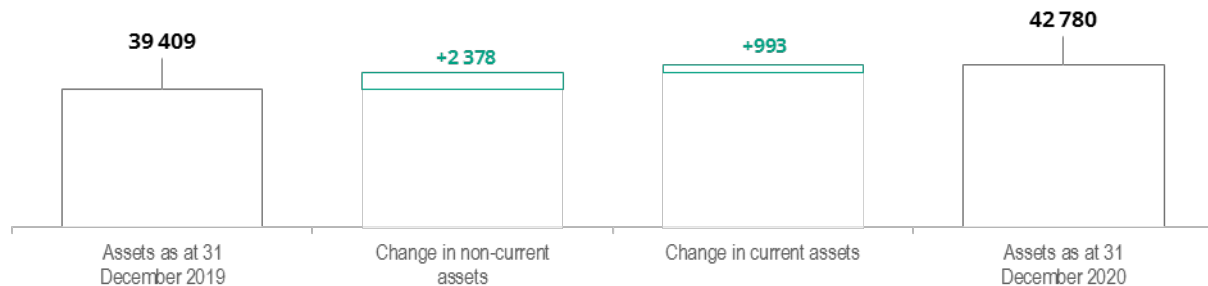
	31.12.2020	31.12.2019	Change (%)	30.09.2020	30.06.2020	31.03.2020
Mining and metallurgical property, plant and equipment	20 576	19 498	+5.5	20 291	19 945	19 793
Mining and metallurgical intangible assets	2 024	1 966	+3.0	2 048	2 076	2 197
Other property, plant and equipment	2 857	2 829	+1.0	2 795	2 779	2 852
Other intangible assets	141	155	(9.0)	133	134	178
Loans granted to joint ventures	6 069	5 694	+6.6	6 075	6 159	6 317
Derivatives	789	124	+6.4	864	243	24
Other financial instruments measured at fair value	636	448	+42.0	532	581	345
Other financial instruments measured at amortised cost	601	656	(8.4)	699	710	688
Deferred tax assets	193	157	+22.9	150	141	163
Other non-financial assets	161	142	+13.4	139	135	128
Non-current assets	34 047	31 669	+7.5	33 726	32 903	32 685
Inventories	4 459	4 741	(5.9)	4 854	4 615	4 951
Trade receivables	834	688	+21.2	745	747	667
Tax assets	295	571	(48.3)	426	498	482
Derivatives	210	293	(28.3)	269	222	892
Other financial assets	210	280	(25.0)	298	301	394
Other non-financial assets	142	151	(6.0)	248	347	327
Cash and cash equivalents	2 522	1 016	+2.5	1 119	1 951	2 198
Non-current assets held for sale	61	-	x	31	-	-
Current assets	8 733	7 740	+12.8	7 990	8 681	9 911
TOTAL ASSETS	42 780	39 409	+8.6	41 716	41 584	42 596

At the end of 2020, total assets in the consolidated statement of financial position amounted to PLN 42 780 million and were higher as compared to 31 December 2019 by PLN 3 371 million.

Non-current assets as at 31 December 2020 amounted to PLN 34 047 million and were higher by PLN 2 378 million compared to the end of 2019. The increase in non-current assets was mainly on property, plant and equipment and intangible assets by PLN 1 150 million, derivatives by PLN 665 million, loans granted to joint ventures by PLN 375 million and other financial instruments measured at fair value by PLN 188 million. Compared to 2019 other financial instruments measured at amortised cost decreased by PLN 55 million.

Current assets increased by PLN 993 million, including cash and cash equivalents by PLN 1 506 million, trade receivables by PLN 146 million and non-current assets held for sale by PLN 61 million (at the end of 2019 the Group did not present non-current assets held for sale). Compared to the end of 2019, the main decreases were in inventories by PLN 282 million, tax assets by PLN 276 million, derivatives by PLN 83 million and other financial assets by PLN 70 million.

Chart 20. Change in assets in 2020 (in PLN million)



EQUITY AND LIABILITIES

Table 11. Consolidated equity and liabilities (in PLN million)

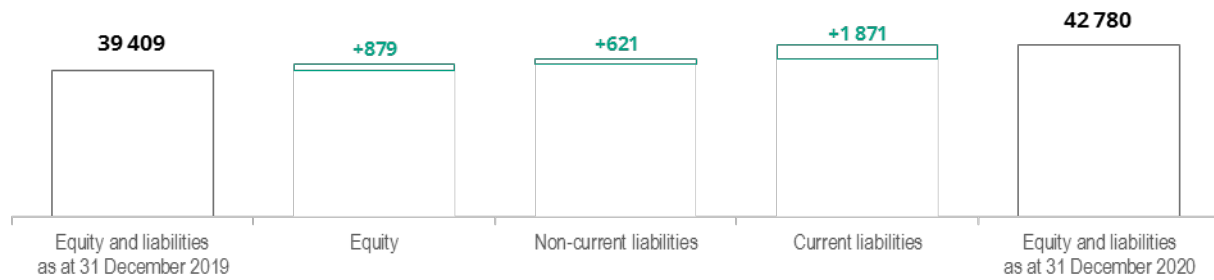
	31.12.2020	31.12.2019	Change (%)	30.09.2020	30.06.2020	31.03.2020
Share capital	2 000	2 000	-	2 000	2 000	2 000
Other reserves from measurement of financial instruments	(1 430)	(738)	+93.8	(786)	(897)	(796)
Accumulated other comprehensive income other than from measurement of financial instruments	1 728	1 954	(11.6)	1 657	1 616	1 583
Retained earnings	18 694	16 894	+10.7	18 068	17 596	17 586
Equity attributable to shareholders of the Parent Entity	20 992	20 110	+4.4	20 939	20 315	20 373
Equity attributable to non-controlling interest	89	92	(3.3)	90	89	90
Equity	21 081	20 202	+4.4	21 029	20 404	20 463
Borrowings, leases and debt securities	6 928	7 525	(7.9)	7 093	7 697	9 218
Derivatives	1 006	183	+5.5	825	574	588
Employee benefits liabilities	3 016	2 613	+15.4	2 986	2 874	2 772
Provisions for decommissioning costs of mines and other facilities	1 849	1 774	+4.2	1 862	1 870	1 855
Deferred tax liabilities	442	445	(0.7)	544	428	397
Other liabilities	551	631	(12.7)	611	627	641
Non-current liabilities	13 792	13 171	+4.7	13 921	14 070	15 471
Borrowings, leases and debt securities	407	348	+17.0	404	1 201	404
Derivatives	688	91	+7.6	252	205	341
Trade and similar payables	3 593	2 766	+29.9	3 146	2 856	2 879
Employee benefits liabilities	1 313	1 150	+14.2	1 189	1 178	1 211
Tax liabilities	537	433	+24.0	545	411	422
Provisions for liabilities and other charges	162	222	(27.0)	178	193	203
Other liabilities	1 202	1 026	+17.2	1 048	1 066	1 202
Liabilities due to assets held for sale	5	-	x	4	-	-
Current liabilities	7 907	6 036	+31.0	6 766	7 110	6 662
Non-current and current liabilities	21 699	19 207	+13.0	20 687	21 180	22 133
TOTAL EQUITY AND LIABILITIES	42 780	39 409	+8.6	41 716	41 584	42 596

Equity as at 31 December 2020 amounted to PLN 21 081 million and was higher by PLN 879 million than at the end of 2019, mainly due to an increase in retained earnings by PLN 1 800 million.

Non-current liabilities of the KGHM Polska Miedź S.A. Group as at 31 December 2020 amounted to PLN 13 792 million and were higher by PLN 621 million compared to the end of 2019, mainly due to an increase in liabilities due to derivatives by PLN 823 million and employee benefits liabilities by PLN 403 million. Compared to the end of 2019, the main decreases were due to borrowings, leases and debt securities by PLN 597 million.

Current liabilities of the KGHM Polska Miedź S.A. Group as at 31 December 2020 amounted to PLN 7 907 million and were higher by PLN 1 871 million compared to the end of 2019, mainly due to an increase in trade and similar payables by PLN 827 million, liabilities due to derivatives by PLN 597 million, other liabilities by PLN 176 million, employee benefits liabilities by PLN 163 million and tax liabilities by PLN 104 million.

Chart 21. Change in equity and liabilities in 2020 (in PLN million)



CONTINGENT ASSETS AND LIABILITIES DUE TO GUARANTEES GRANTED

As at 31 December 2020, the Group held contingent assets due to guarantees received in the amount of PLN 526 million, which mainly related to the guarantee of proper performance of agreements in the amount of PLN 297 million and promissory notes receivables in the amount of PLN 117 million.

As at 31 December 2020, the Group held liabilities due to guarantees and letters of credit in the amount of PLN 2 213 million and promissory notes payables in the amount of PLN 160 million.

The most important items are collateral securing liabilities:

Sierra Gorda S.C.M.:

- financial guarantees:
 - corporate guarantees in the amount of PLN 1 140 million securing the repayment of short-term working capital facilities,
 - corporate guarantees in the amount of PLN 18 million granted to secure the payments from lease agreements,
- other guarantees:
 - a letter of credit in the amount of PLN 517 million granted to secure obligations due to a long-term contract for the off-take of electricity,
 - a corporate guarantee in the amount of PLN 104 million securing repayment of a specified part of payment to guarantees set by Sumitomo Metal Mining Co., Ltd and Sumitomo Corporation, securing repayment of a corporate loan drawn by the joint venture Sierra Gorda S.C.M.,
 - a corporate guarantee in the amount of PLN 35 million securing claims arising from the obligation to restore post-mining terrain following mine closure,

other Group entities, including the Parent Entity:

- guarantees in the amount of PLN 188 million securing the proper performance by DMC Mining Services (UK) Ltd. and DMC Mining Services Ltd. of a contract for sinking shafts under a project underway in the United Kingdom,
- a guarantee in the amount of PLN 175 million securing the proper performance of future environmental obligations of the Parent Entity to restore the area, following the conclusion of operations of the Żelazny Most tailings storage facility,
- guarantees and letters of credit in the total amount of PLN 21 million securing the proper performance of agreements entered into by the Parent Entity and companies in the Group.

6.5. 2020 TARGETS VERSUS ACHIEVEMENTS AND TARGETS FOR 2021

KGHM Polska Miedź S.A. does not publish forecasts of financial results. However, in regulatory filings dated 16 January 2020 and 28 January 2021, the Company published its basic Budget targets respectively for 2020 and 2021. Achievement of the targets for 2020 and the targets for 2021 are presented in the table below.

Table 12. 2020 targets versus achievements and targets for 2021

		Execution 2020	Budget 2020	Execution (%)	Budget 2021	Change (%)
KGHM Polska Miedź S.A.						
Production of copper in concentrate	kt	392.7	399.2	(1.6)	390.0	(0.7)
Production of silver in concentrate	t	1 218	1 448	(15.9)	1 200	(1.5)
Electrolytic copper production, including:	kt	560.4	563.0	(0.5)	573.0	+2.2
- from own concentrate	kt	413.3	410.3	+0.7	385.0	(6.8)
Metallic silver production	t	1 323	1 432	(7.6)	1 197	(9.5)
Copper products sales volume	kt	561.0	565.7	(0.8)	566.3	+0.9
- including in concentrate	kt	-	4.9	x	-	x
Silver products sales volume	t	1 369	1 451	(5.7)	1 165	(14.9)
- including in concentrate	t	-	14	x	-	x
Total unit cost of electrolytic copper production from own concentrate	PLN/t	17 827	19 297	(7.6)	20 248	+13.6
Capital expenditures on property, plant and equipment ⁽¹⁾	PLN mn	2 331	2 250	+3.6	2 853	+22.4
Other expenditures, including loans ⁽²⁾	PLN mn	387	133	x2.9	306	(20.9)
KGHM INTERNATIONAL LTD.						
Payable copper production	kt	66.9	71.7	(6.7)	73.9	+10.5
TPM production	koz t	66.1	62.8	+5.3	53.7	(18.8)
Sierra Gorda (55%)						
Payable copper production	kt	81.8	78.8	+3.8	98.9	+20.9
Molybdenum production	mn lbs	9.0	8.9	+1.1	6.7	(25.6)

¹⁾ excluding costs of borrowing, leases per IFRS 16 unrelated to an investment project as well as expenditures on development work - uncompleted

²⁾ acquisition of shares and investment certificates of subsidiaries and loans granted to them; the Management Board of KGHM Polska Miedź S.A. adjusted the Budget targets for 2020 in this regard, increasing the base amount from PLN 133 million to PLN 365 million due to the intention to provide financing to Sierra Gorda S.C.M. (regulatory filing no. 9/2020 dated 12 May 2020)

ACHIEVEMENT OF TARGETS IN 2020

In 2020, production of electrolytic copper by the Company was 2.6 thousand tonnes of copper (-1%) lower than the target in the 2020 Budget, with higher production from own concentrate by 3.0 thousand tonnes and lower production from purchased metal-bearing materials by 5.6 thousand tonnes. Silver production was however lower, by 109 tonnes (-8%). As a result, sales of both copper and silver were lower than planned (respectively by 4.7 thousand tonnes, or 1%, and 82 tonnes, or 6%).

The total unit cost of electrolytic copper production from own concentrate was lower than planned by 8%, mainly due to the 20% higher valuation of anode slimes resulting from higher precious metals prices.

Capital expenditures on property, plant and equipment in 2020 (excluding costs of borrowing, leases per IFRS 16 unrelated to an investment project and expenditures on uncompleted development work) were PLN 81 million (+4%) higher than planned (mainly due to the reclassification of some operating expenditures as investment expenditures).

Other expenditures were higher by PLN 254 million (2.9-times). The Management Board of KGHM Polska Miedź S.A. adjusted the budget targets with respect to other expenditures, increasing the base amount from PLN 133 million to PLN 365 million as a result of the intention to provide financing to Sierra Gorda S.C.M. (regulatory filing no. 9/2020 dated 12 May 2020). The budget was exceeded due to a higher level of investments in domestic companies.

Production of payable copper by KGHM INTERNATIONAL LTD. was lower than assumed in the Budget by 4.8 thousand tonnes (-7%) due to lower production by the Franke mine and Sudbury Basin mines. Meanwhile, the production of precious metals was higher by 3.3 thousand troy ounces (+5%) than planned in the Budget, due to an increase in the production of these metals in the Robinson mine and the Sudbury Basin mines.

Sierra Gorda ended 2020 with payable copper production of 3.0 thousand tonnes (+4%) higher than planned in the Budget, due to an increase in the volume of ore processed and higher copper recovery.

TARGETS FOR 2021

Production - higher copper production by the Group in 2021 by 36.7 thousand tonnes (+5%) compared to the amount recorded in 2020, of which from:

- KGHM Polska Miedź S.A. by 12.6 thousand tonnes (+2%),
- KGHM INTERNATIONAL LTD. by 7.0 thousand tonnes of copper (+10%) – an increase by the majority of mines,
- Sierra Gorda by 17.1 thousand tonnes (+21%), due to an increase in ore processing capacity and higher copper content in extraction zones in 2021.

Sales of KGHM Polska Miedź S.A. – as a result of higher production the volume of expected copper sales is higher by 5.3 thousand tonnes (+1%).

Total unit cost of electrolytic copper production from own concentrate (KGHM Polska Miedź S.A.) – a planned increase by 14%, mainly due to a planned decrease in production from own concentrate.

Investments - an increase in capital expenditures (excluding costs of borrowing, leases per IFRS 16 unrelated to an investment project and expenditures on uncompleted development work) in KGHM Polska Miedź S.A. by PLN 522 million (+22%) due to an increase in the material scope of investments. The Budget with respect to Sierra Gorda for 2021 reflects updated expenditures to increase daily processing capacity to 130/140 thousand tonnes in subsequent years.

6.6. INFORMATION ON THE IMPACT OF COVID-19 ON THE FUNCTIONING OF THE COMPANY AND GROUP

The greatest impact on the functioning and results of the KGHM Polska Miedź S.A. Group is from the Parent Entity and, to a lesser extent, from the KGHM INTERNATIONAL LTD. Group.

KEY RISK CATEGORIES

The most significant risk factors related to the COVID-19 pandemic and impacting the Company's and the Group's activities are:

- possible infections by the SARS-CoV-2 virus and increased absenteeism amongst employees of the core production line,
- potential interruptions in the materials and services supply chain as well as logistical restrictions, especially as regards international transport,
- possible closure of certain sales markets, a drop in demand and optimisation of inventories of raw materials and finished products amongst customers,
- potential exceptional legal changes,
- a decrease in copper and silver prices on the metals markets,
- a decrease in molybdenum prices
- a decrease in the USD/PLN exchange rate,
- shortages of purchased copper-bearing materials, and
- the general uncertainty and volatility on financial markets and the risk of recession on global markets.

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. As a result, only some of the aforementioned factors had a negative impact on the Group's operations in the first half of the year, and in subsequent months the situation improved substantially so that in the end there were no significant deviations from achievement of the budget targets for 2020 in any of the operating segments of the KGHM Polska Miedź S.A. Group, with the exception of the spa-hotel sector.

IMPACT ON THE METALS MARKET

From the Group's point of view, an important impact of the coronavirus pandemic was its effect on market risk related to volatility in metals and share prices in 2020. The Company's share price at the end of 2020 was 91% higher compared to the price at the end of 2019 and twice as high compared to the price at the end of the first half of 2020, and at the close of trading on 30 December 2020 amounted to PLN 183.00. During these same periods the WIG and WIG20 indices fell respectively by 1% and 8% (compared to the end of 2019) and rose by 15% and 13% (compared to the end of the first half of 2020). As a result of these changes in the share price, the Company's capitalisation increased from PLN 19.2 billion at the end of 2019 to PLN 36.6 billion at the end of 2020, meaning a level 77% higher and 73% higher than the net value of the assets of the Company and Group, respectively.

Starting from the second quarter of 2020 there was an improvement in the metals market, reflected in an increase in the settlement price of copper by 26%, from 4 927 USD/t at the end of the first quarter of 2020 to 6 038 USD/t at the end of the second quarter of 2020, along with an increase by 28% in the second half of 2020 to 7 742 USD/t at the end of 2020.

IMPACT ON THE ACTIVITIES OF THE GROUP'S SPA COMPANIES

The greatest impact of the COVID-19 pandemic was on the Group's secondary activities involving the hotel and spa services of the companies Uzdrowiska Kłodzkie S.A. - Grupa PGU, Uzdrowisko Połczyn Grupa PGU S.A., Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU, Uzdrowisko Świeradów - Czerniawa Sp. z o.o. - Grupa PGU, INTERFERIE S.A. and Interferie Medical SPA Sp. z o.o. In 2020 there occurred substantial interruptions to the daily operations of these companies, caused by the forced lockdown and the restrictions imposed on their activities by Decrees of the Minister of Health. As a result, decisions were made to temporarily close certain facilities. These companies were required to temporarily close twice: in the spring (March - May / June) and in the winter (from November). The activities of these spa and hotel companies were also affected by the introduction of other regulations, such as those affecting the ability of employees to work, or adding selected facilities of the spa companies to the list of facilities designated to serve as quarantine facilities.

Restrictions related to COVID-19 caused lower revenues in 2020 in spa companies by approx. 37%, and in hotel companies by 45%, compared to revenues for 2019, and in comparison to planned revenues respectively at the level of 41% and 43%. This represented indications for the performance of impairment testing on the non-current assets of these companies and the recognition of impairment losses on these assets. The detailed results of the tests are presented in this report in Part 3 of the consolidated financial statements.

Moreover, it should be noted that the recorded decrease in revenues, and therefore the decrease in operating profit, resulted in a breaching by the spa companies of the commitment (arising from signed bank loan agreements) to maintain a DSCR (Debt Service Coverage Ratio) at the level of not less than 1.2 as at the end of 2020. The spa companies obtained statements from the creditors that, because of the situation, they will temporarily not impose the sanctions stipulated in the bank loan agreements. Due to the extension of the restrictions and the ban on conducting operations for 2021, it is planned that these declarations will also be extended for subsequent periods.

In the second quarter of 2021 it is expected that there will be a gradual return to the conduct of activities, the providing of services and the generation of revenues as was the case prior to the crisis. Despite the ongoing state of epidemic, the spa and hotel facilities are fully prepared to provide services and welcome customers and spa guests under a comprehensive sanitary regime. Additionally, COVID-19 vaccination points have been set up on the grounds of selected spa facilities.

The spa and hotel companies of KGHM Polska Miedź S.A. have also joined the Polski Bon Turystyczny (Polish Tourist Voucher) program and have submitted applications to the Polski Fundusz Rozwoju (Polish Development Fund) for financing under the Anti-Crisis Shield for large enterprises, as a result of which some of the companies have already received financing from the 1.0. program.

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

In terms of the other domestic companies of the KGHM Polska Miedź S.A. Group in Poland, the pandemic situation in 2020 did not have a material impact on the operating results generated by these entities.

The pandemic situation caused by COVID-19 did not have a material impact on the operations of either the Company or the Group, and at the date of publication of this report the Management Board of the Parent Entity estimates the risk of loss of going concern caused by COVID-19 as low. Only individual, immaterial interruptions to the continuity of the supply chain for materials and services have been observed, caused by logistical restrictions in international markets. The situation on the market for copper scrap in the second half of 2020 compared to the first half of 2020 was substantially better, and the volume of deliveries satisfied the production needs of the Parent Entity. Regular contact with suppliers enables prompt reaction to delays by utilisation of the strategy of supplier diversification applied in the Group as well as the use of alternative solutions.

PREVENTATIVE ACTIONS IN THE GROUP

In KGHM Polska Miedź S.A., as well as in all of the international mines of the KGHM Polska Miedź S.A. Group as well as Sierra Gorda S.C.M., thanks to the implementation of a variety of preventative measures, such as enforcing a sanitary regime and monitoring and testing the health of employees, there were no production stoppages which would have been directly attributable to the pandemic. As a result, copper production by the Group in 2020 was in line with the targets set at the start of the year.

Moreover, a plan was prepared for the KGHM Polska Miedź S.A. Group to maintain operational continuity in the case of production restrictions or stoppages, or to a temporary shift to maintenance of operations. The Parent Entity also has complete documentation as required by the „Act on geology and mining” as well as executive decrees in this regard, respecting in particular maintaining mining operations.

In terms of sales the Parent Entity has a long term, stable base of customers with whom it is in constant contact. Most customers at the moment remain free of any highly negative impact of the pandemic on their operations, thanks to which sales liabilities towards the Parent Entity are regulated on time.

The Group is fully capable of meeting its financial obligations. The financial resources held by the Group and available borrowings guarantee its continued financial liquidity. Basing the Group's financing structure at the level of the Parent Entity on long-term and diversified financing sources ensured the Company and Group of long-term financial stability by extending the average-weighted period for debt maturity of KGHM Polska Miedź S.A.

In order to centralise the process of obtaining external financing to meet the entire Group's needs, debt instruments are used for intra-Group liquidity transfers in the form of owner loans which support the investing process, while local and international cash pooling is used to support the Group's current operations.

At present the Parent Entity is not aware of any significant risk of a breach in the financial covenants contained in loan agreements related to the COVID-19 pandemic.

The Group continues to advance its investment projects on time and is not aware of any increase in risk related to their continuation as a result of the coronavirus pandemic.

During the reported period there were likewise no interruptions in the continuity of the Group's operations caused by infections of this virus amongst the employees. There continues to be a lack of any substantial heightened level of absenteeism amongst employees of the Parent Entity's core business and of the domestic and international production assets. Solutions already implemented within the Group which are aimed at ensuring employee safety are constantly being assessed along with ongoing evaluation of already-implemented solutions, while additional solutions are continuously being implemented to reduce the risk of spread of the virus amongst employees.

Due to the ongoing COVID-19 pandemic and the appearance in the first quarter of 2021 of a subsequent wave as well as the implementation of new, enhanced security measures throughout Poland, there still remains uncertainty as to the further development of the pandemic situation both domestically and globally. An important factor for the domestic and global economies will be the vaccinations of populations against COVID-19 using vaccines developed by several companies, and which are gradually being distributed for use in various countries. The availability of these vaccines, their effectiveness in relation to individual viral strains and the rate of vaccinations will have an impact among others on the possibility of lifting the restrictions imposed in various countries and sectors, reducing uncertainty as regards future periods and increasing activity amongst producers as well as consumers. Although the aforementioned factors may have an impact on the functioning of the Company and Group in subsequent quarters, the Parent Entity continues to constantly monitor the global economic situation, in order to assess its potential negative impact on the KGHM Polska Miedź S.A. Group and to take actions to mitigate this impact.

6.7. FINANCING IN THE GROUP

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

Liabilities due to borrowings of the Group at the end of 2020 amounted to PLN 7 335 million and decreased as compared to 2019, while maintaining a structure based on diversified and long-term financing sources, ensuring financial stability over the long term.

The Group's free cash and cash equivalents, which at 31 December 2020 amounted to PLN 2 501 million, are of a short term nature.

Table 13. Net debt structure of the Group (in PLN million)

	31.12.2020	31.12.2019	Change (%)	30.09.2020	30.06.2020	31.03.2020
Liabilities due to:	7 335	7 873	(6.8)	7 497	8 898	9 622
Bank loans	1 994	2 386	(16.4)	2 016	3 257	3 808
Other loans	2 685	2 794	(3.9)	2 806	2 937	3 073
Debt securities	2 000	2 001	-	2 010	2 000	2 017
Leases	656	692	(5.2)	665	704	724
Free cash and cash equivalents	2 501	982	x2.5	1 084	1 922	2 173
Net debt	4 834	6 891	(29.9)	6 413	6 976	7 449

Table 14. Net debt structure of the Parent Entity (in PLN million)

	31.12.2020	31.12.2019	Change (%)	30.09.2020	30.06.2020	31.03.2020
Liabilities due to:	7 115	7 620	(6.6)	7 258	8 588	9 235
Bank loans	1 860	2 294	(18.9)	1 913	3 164	3 711
Other loans	2 461	2 686	(8.4)	2 591	2 729	2 888
Debt securities	2 000	2 001	-	2 009	2 000	2 017
Cash pooling	284	130	x2.2	230	180	80
Leases	510	509	+0.2	515	515	539
Free cash and cash equivalents	2 120	489	x4.3	761	1 688	1 882
Net debt	4 995	7 131	(30.0)	6 497	6 900	7 353

SOURCES OF FINANCING IN THE GROUP

As at 31 December 2020, the Group held open lines of credit, loans and debt securities with a total available amount of PLN 13 145 million, out of which PLN 6 679 million had been drawn.

Unsecured, revolving syndicated credit facility in the amount of USD 1.5 billion	<p>Credit in the amount of USD 1 500 million (PLN 5 638 million), acquired on the basis of a financing agreement entered into by the Parent Entity with a syndicate banks group in 2019, with maturity falling on 19 December 2024 and the option of extending for a further 2 years (5+1+1). In 2020, the Parent Entity obtained the 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 (PLN 5 405 million). Interest is based on LIBOR plus a margin, which depends on the level of the net debt/EBITDA ratio.</p> <p>The funds acquired under this credit were used to finance general corporate goals.</p>
Investment loans, including from the European Investment Bank in the total amount of PLN 2.9 billion with financing periods of up to 12 years	<p>Financing agreements 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 are being 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, with availability of instalments of 34 months from the date the agreement was signed. Under this loan the Company drew three instalments with maturities falling on 28 June 2030, 23 April 2031 and 11 September 2031. The funds acquired through this loan are being used to finance the Parent Entity's development and replacement projects at various stages of the production line. <p>Interest on the instalments drawn is based on a fixed interest rate.</p>
Debt securities in the amount of PLN 2.0 billion	<p>The program to issue bonds on the Polish market was established under an issue agreement dated 27 May 2019. The issue had a nominal value of PLN 2 000 million, under which 5-year bonds were issued in the amount of PLN 400 million with maturity falling on 27 June 2024 and 10-year bonds in the amount of PLN 1 600 million with maturity falling on 27 June 2029. Interest is based on WIBOR plus a margin.</p> <p>The funds obtained from the bond issue were used to finance general corporate goals.</p>
Bilateral bank loans in the amount of up to PLN 2.4 billion	<p>The Group has open lines of credit in the form of bilateral agreements in the total amount of PLN 2 379 million. These are working capital facilities and overdraft facilities with availability of up to 4 years. Interest is based on a fixed interest rate or on the variable interest rates WIBOR, LIBOR, EURIBOR plus a margin.</p> <p>The funds obtained under the aforementioned bank loan agreements are a tool supporting the management of current financial liquidity.</p>

Detailed information on the above loans is presented in notes 8.4.3 of the financial statements.

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

DEBT POSITION AS AT 31 DECEMBER 2020

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

Table 15. Amount available and drawn by the Group (in PLN million)

	Amount drawn as at 31.12.20 ¹⁾	Amount drawn as at 31.12.19 ²⁾	Change (%)	Amount available as at 31.12.20	Amount drawn (%) as at 31.12.20
Unsecured, revolving syndicated credit facility	-	18	-	5 638	-
Loans	2 685	2 794	(3.9)	3 128	85.8
Bilateral bank loans	2 011	2 368	(15.1)	2 379	84.5
Debt securities	2 000	2 001	-	2 000	100.0
Total	6 696	7 181	(7.0)	13 145	50.9

¹⁾ amount drawn excludes the preparatory fee paid less financial liabilities due to bank loans drawn;

²⁾ amount drawn includes costs related to entering a syndicated credit facility in 2019.

As at 31 December 2020, 60% of the Group's debt came from loans drawn in USD, 38% in PLN, and 1% each in the currencies EUR and CAD.

EVALUATION OF FINANCIAL RESOURCES MANAGEMENT

In 2020, the KGHM Polska Miedź S.A. Group was fully capable of meeting its obligations with respect to liabilities drawn. The cash and cash equivalents held by the Group along with the external financing obtained ensure that liquidity will be maintained and will enable the achievement of investment goals.

As at 31 December 2020, the Group held PLN 2 501 million of free cash and cash equivalents and had open credit lines for total available financing in the amount of PLN 13 145 million, out of which PLN 6 679 million had been drawn.

In 2020, the Group continued activities aimed at ensuring long-term financial stability by basing the financing structure on diversified, long-term sources of financing.

In December 2020, the Parent Entity utilised the option to extend by 1 year the maturity of an unsecured revolving syndicated credit facility agreement in the amount of USD 1 500 million (PLN 5 638 million) entered into in 2019. As a result of the Syndicate Members' decision, the amount of credit available under this facility during the extension period will amount to USD 1 438 million (PLN 5 405 million).

In 2020, activities were also continued aimed at optimising the process of managing financial liquidity, by concentrating on the efficient management of working capital. The Group utilises reverse and receivables factoring, the result of which is a shortening of the receivables recovery period and extension of the liabilities payment period. As at 31 December 2020, the balance of trade liabilities transferred to reverse factoring amounted to PLN 1 264 million.

Under the unsecured, syndicated credit facility, the two bilateral bank loans and the investment loans from the European Investment Bank, the Group is obliged to maintain financial covenants at specified levels. At the balance sheet date, during the financial year and following the balance sheet date, as at the date of publication of this report, the level of reportable financial covenants as at 30 June 2020 and 31 December 2020, met the amounts specified in agreements.

Table 16. Net debt / EBITDA of the Group

	31.12.20	31.12.19	Change (%)	30.09.20	30.06.20	31.03.20
Net debt / EBITDA¹⁾	0.9	1.5	(40.0)	1.4	1.6	1.7

¹⁾ adjusted EBITDA for the 12 month period, ending on the last day of the reporting period, excluding EBITDA of the joint venture Sierra Gorda S.C.M.

LOANS GRANTED BY GROUP COMPANIES

In 2020, KGHM Polska Miedź S.A. granted the following loans:

- To the company Quadra FX S.à r.l. in the amount of USD 52.25 million (or PLN 196.4 million at the average exchange rate announced by the NBP as at 31 December 2020), for the purpose of financing Sierra Gorda S.C.M. Interest on the loan is based on a fixed interest rate, with maturity of 31 December 2024;
- To the company POL-MIEDŹ TRANS Sp. z o.o. in the amount of PLN 25 million, for the purpose of advancing investments. Interest on the loan is based on the variable interest rate WIBOR 1M, with maturity of 31 December 2025;
- To the company KGHM ZANAM S.A. in the amount of PLN 30 million, for the purpose of advancing investments. Interest on the loan is based on the variable interest rate WIBOR 1M, with maturity of 29 May 2025;
- To the company Future 2 Sp. z o.o. in the amount of PLN 7 million, for the purpose of commencing operations. Interest on the loan is based on the variable interest rate WIBOR 1M, with maturity of 24 August 2025.

The following table presents the major loans granted between Group companies together with the balance of receivables due to loans granted as at the end of 2020 (including accrued interest, write-offs and measurement per IFRS 9).

Table 17. Loans granted by companies of the Group as at 31 December 2020

Lender	Borrower	Year granted	Total amount of loans	Total balance of receivables due to loans granted (including accrued, unpaid interest) as at 31.12.2020		Maturity
Loans granted within the Group						
KGHM Polska Miedź S.A.	KGHM ZANAM S.A.	2020	PLN 30 mn		PLN 30 mn	29.05.2025
KGHM Polska Miedź S.A.	POL-MIEDŹ TRANS Sp. z o.o.	2020	PLN 25 mn		PLN 25 mn	31.12.2025
KGHM Polska Miedź S.A.	Future 2 Sp. z o.o.	2020	PLN 7 mn		PLN 7 mn	24.08.2025
KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	2014-2017	USD 142 mn	USD 171 mn	PLN 641 mn	31.12.2024 31.12.2027
KGHM Polska Miedź S.A.	Future 1 Sp. z o.o.	2013-2016	USD 874 mn	USD 1 225 mn	PLN 4 602 mn	31.12.2024
		2017	PLN 9 mn		PLN 10 mn	31.12.2024
KGHM Polska Miedź S.A.	Quadra FNX Holdings Chile Limitada	2015-2017	USD 442 mn	USD 0 mn	PLN 0 mn	31.12.2024
KGHM Polska Miedź S.A.	KGHM Chile SpA	2015	USD 3 mn	USD 4 mn	PLN 16 mn	31.12.2024
KGHM Polska Miedź S.A.	Quadra FNX FFI S.à r.l.	2017-2020	USD 893 mn	USD 617 mn	PLN 2 319 mn	15.12.2024 31.12.2024
Future 1 Sp. z o.o.	KGHM INTERNATIONAL LTD.	2012	USD 453 mn	USD 535 mn	PLN 2 009 mn	31.12.2027
Future 1 Sp. z o.o.	Quadra FNX FFI S.à r.l.	2017	USD 1 419 mn	USD 983 mn	PLN 3 695 mn	15.12.2024
KGHM INTERNATIONAL LTD.	Sociedad Contractual Minera Franke	2010	USD 100 mn	USD 88 mn	PLN 331 mn	on demand
KGHM INTERNATIONAL LTD.	0899196 B.C.Ltd.	2011	CAD 0,01 mn	CAD 0,008 mn	PLN 0,024 mn	on demand
KGHM INTERNATIONAL LTD.	FNX Mining Company Inc.	2015	USD 140 mn	USD 81 mn	PLN 305 mn	on demand
KGHM INTERNATIONAL LTD.	Robinson Holdings USA Ltd.	2017	USD 51 mn	USD 70 mn	USD 262 mn	on demand, no later than to 30.06.2025
FNX Mining Company Inc.	KGHM Chile SpA	2012	USD 56 mn	USD 46 mn	PLN 174 mn	on demand
FNX Mining Company Inc.	KGHM INTERNATIONAL LTD.	2014	USD 200 mn	USD 111 mn	PLN 419 mn	on demand, no later than to 30.06.2025
FNX Mining Company Inc.	Quadra FNX Holdings Chile Limitada	2015	USD 3 mn	USD 3 mn	PLN 12 mn	on demand
KGHM AJAX MINING INC.	Sugarloaf Ranches Ltd.	2012	CAD 4 mn	CAD 4 mn	PLN 13 mn	on demand
Carlota Copper Company	Robinson Holdings USA Ltd.	2016	USD 10 mn	USD 2 mn	PLN 9 mn	on demand
Robinson Nevada Mining Company	Robinson Holdings USA Ltd.	2016	USD 200 mn	USD 106 mn	PLN 397 mn	on demand
Wendover Bulk Transshipment Company	Robinson Holdings USA Ltd.	2016	USD 10 mn	USD 2 mn	PLN 7 mn	on demand
Quadra FNX Holdings Chile Limitada	KGHM Chile SpA	2016-2017	USD 5 mn	USD 8 mn	PLN 28 mn	31.12.2024
Sociedad Contractual Minera Franke	KGHM Chile SpA	2017	USD 14 mn	USD 14 mn	PLN 54 mn	on demand
Sociedad Contractual Minera Franke	Aguas de la Sierra Limitada	2017	USD 1 mn	USD 0,2 mn	PLN 1 mn	on demand
Sociedad Contractual Minera Franke	Quadra FNX Holdings Chile Limitada	2018	USD 5 mn	USD 2 mn	PLN 9 mn	on demand
Quadra FNX FFI S.à r.l.	Quadra FNX Holdings Chile Limitada	2018-2020	USD 348 mn	USD 388 mn	PLN 1 459 mn	31.12.2024
Quadra FNX FFI S.à r.l.	Robinson Nevada Mining Company	2020	USD 6 mn	USD 6 mn	PLN 23 mn	31.12.2024
DMC Mining Services Ltd.	DMC Mining Services Chile SpA	2019-2020	USD 6 mn	USD 6 mn	PLN 24 mn	on demand
DMC Mining Services UK	FNX Mining Company Inc./ DMC Division	2020	USD 0.42 mn	USD 0.43 mn	PLN 2 mn	30.06.2021
DMC Mining Services UK	FNX Mining Company Inc./ DMC Division	2020	CAD 2 mn	CAD 2 mn	PLN 6 mn	30.06.2021
DMC Mining Services UK	FNX Mining Company Inc./ DMC Division	2020	GBP 0.40 mn	GBP 0.40 mn	PLN 2 mn	30.06.2021
DMC Mining Services UK	FNX Mining Company Inc./ DMC Division	2020	EUR 1 mn	EUR 1 mn	PLN 5 mn	30.06.2021

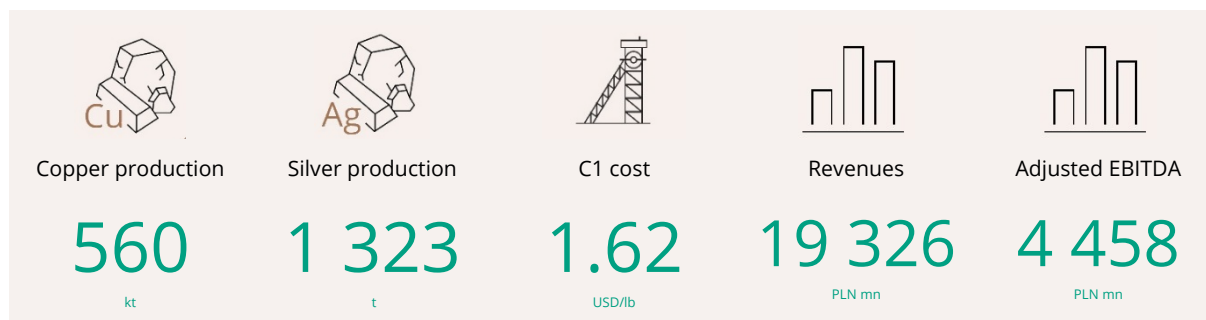
FNX Mining Company Inc./Oddział DMC	DMC Mining Services Ltd.	2019-2020	CAD 57 mn	CAD 57 mn	PLN 168 mn	on demand
Loans granted to other entities						
Quadra FNX FFI S.à r.l.	Sierra Gorda S.C.M.	2012	USD 1 700 mn	USD 1 615 mn	PLN 6 069 mn	on demand, no later than to 15.12.2024
KGHM INTERNATIONAL LTD.	Abacus Mining & Exploration Corporation	2015	CAD 12 mn	CAD 19 mn	PLN 57 mn	31.12.2021

The above table presents loans granted by the Parent Entity and other companies of the Group. As at 31 December 2020, the balance of receivables due to loans granted by the Parent Entity, in accordance with IFRS 9, amounted to PLN 7 650 million, while the balance of receivables due to loans granted by the Group, in accordance with IFRS 9, amounted to PLN 6 087 million.

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.

7. ECONOMIC RESULTS OF KGHM POLSKA MIEDŹ S.A.



7.1. PRODUCTION

The main goals set by the Management Board in terms of production and occupational health and safety for 2020 were:

- optimal utilisation of the resource base and of the production capacity of the Company, and
- optimisation of copper content in ore and concentrate.

The goals set required completion or continuation of the following actions:

- | | |
|--------------------------|--|
| in mining | <ul style="list-style-type: none"> - expanding mining operations within the Deep Głogów (Głogów Głęboki-Przemysłowy) area, - improvement of the ore extraction technology, greater mining efficiency and improved occupational health and safety, by: <ul style="list-style-type: none"> - adapting the geometry of mining systems to local geological and mining conditions, - improving the efficiency of technological and active methods of limiting the threat of rock bursts and of other associated natural threats, and - proper barren rock management in mining areas (selective extraction, siting of rock, mechanical ore mining), - a greater scope of work with respect to identifying gas-related threats and the use of new technical solutions and means of prevention to counteract this threat, - commencing work related to assessing the Retków copper ore deposit in the Grodziszczce area, - continued work on connecting the T/W-469 tunnel network with the projected sub-shaft area of the GG-1 shaft (intersection of the T/W-169 network with the D declines), - construction of the GG-1 shaft, shaft sinking has reached a depth of 1231 meters, through the rock salt interval, - continued construction of the Central Air Conditioning System at the GG-1 shaft, with construction of a Surface-based Air Conditioning Station and Ice Water Transportation System, - advancement of Stage 1 of the Project „Construction of the GG-2 Shaft” – planning-related work continued along with negotiations on commercial conditions with land owners. Geological project work advanced, - advancement of Stage 1 of the Project „Construction of the Gaworzyce Shaft” – Stage 1 was advanced on the Area Planning Concept and the site of the shaft was approved, - maintaining the efficiency of mining vehicles in an assortment required to execute production tasks, and - realisation of the planned scope of mine development and access work using the commissioning system at the level of 53.5 thousand meters, |
| in ore processing | <ul style="list-style-type: none"> - maintaining the production capacity of individual Concentrators Division Areas to process the amount and quality of ore supplied, - maintaining the production of concentrates in an amount and quality necessary for optimal use of the production capacity of the furnace sections of the smelters and refineries, - improving flotation enrichment technology, - trials involving the processing of ore from the Lubin mine in the Polkowice Concentrator, - replacement of ore sifting units for ore from the R1 and R3 shafts in the Rudna Concentrator, |

	<ul style="list-style-type: none"> - completing the replacement of hydrocyclone batteries in the Polkowice Concentrator, under the strategic task „Modernisation of classification systems”, - the construction and start-up of SMH-type 12 synchronous servo motors of medium voltage with permanent magnets to drive the mills, - start of over 60 technical-technological tests,
in metallurgy	<ul style="list-style-type: none"> - optimum utilisation of infrastructure enabled production targets to be fully met with respect to basic products, - minimising of environmental impact by actions aimed at improving the efficiency of dedusting and hermetic sealing processes to reduce fugitive emissions, - maintaining metallurgical recovery levels for copper and silver, - shortening the period for the maintenance shutdown of the flash furnace complex at the Głogów I Copper Smelter and Refinery by 8 days with full accomplishment of the scope of maintenance, - continuation of investments aimed at renovating the tankhouse at the Głogów I Copper Smelter and Refinery and at the same time increasing electrorefining production capacity due to changes in the organisation of work during replacement of the roof of the building, - increasing the share of recycling in copper production due to an increase in scrap processing in the furnaces of the Głogów Copper Smelter and Refinery as well as maximising the processing of scrap at all firing stages at the Legnica Copper Smelter and Refinery, - optimum management of half-finished products between the metallurgical divisions,
in occupational health and safety	<ul style="list-style-type: none"> - advancement, in line with the Company's new strategy, of the Program to improve occupational health and safety in KGHM Polska Miedź S.A. „Think About the Consequences” to the year 2023, - implementation of the agreed elements of a Program to negate the most common safety hazards by using innovative technology, - implementation of a uniform approach to communicating the Policy, Vision, Mission and the Golden Principles with respect to OHS, - constant monitoring of occupational hazards and execution of organisational and technical goals aimed at limiting occupational risks and accidents, - continuous improvement of the occupational safety and hygiene management system by the Divisions of KGHM Polska Miedź S.A. and implementation of the new OHS ISO 45001:2018 standard, and, - commencing new organisational and research initiatives aimed at improving occupational health and safety, in particular in the Company's mines.

MINE PRODUCTION

In 2020 extraction of ore (dry weight) amounted to 29.7 million tonnes, which was 0.2 million tonnes less than in 2019.

Average copper content in extracted ore amounted to 1.49% and was slightly lower than the level achieved in 2019. In the case of silver in ore, content was at a lower level than in 2019 and amounted to 48.0 g/t.

As a result the amount of copper in extracted ore was lower than in 2019 by 7.3 thousand tonnes of copper and amounted to 442.0 thousand tonnes. The volume of silver in ore decreased by 33 tonnes and amounted to 1 423 t.

In 2020, 29.7 million tonnes of ore (dry weight) were processed (or 0.2 million tonnes less than in 2019). The lower amount of ore extracted by the mines directly affected the amount of copper in concentrate, which amounted to 392.7 thousand tonnes.

The production of concentrate (dry weight) decreased as compared to 2019 by 23.4 thousand tonnes.

The amount of silver in concentrate was lower than 2019 by 2.5%.

Table 18. Mine production of KGHM Polska Miedź S.A.

	Unit	2020	2019	Change (%)	4Q'20	3Q'20	2Q'20	1Q'20
Mined ore (wet weight)	mn t	31.2	31.4	(0.6)	7.7	8.0	7.8	7.7
Mined ore (dry weight)	mn t	29.7	29.9	(0.7)	7.2	7.6	7.5	7.4
Copper grade	%	1.49	1.50	(0.7)	1.47	1.48	1.50	1.52
Copper in ore	kt	442.0	449.3	(1.6)	106.5	111.9	111.8	111.8
Silver grade	g/t	48.0	48.7	(1.4)	48.0	46.8	47.6	49.5
Silver in ore	t	1 423	1 456	(2.3)	349	354	355	365
Production of concentrate (dry weight)	kt	1 740	1 763	(1.3)	426	438	439	437
Copper in concentrate	kt	392.7	398.9	(1.6)	95.9	98.0	99.7	99.1
Silver in concentrate	t	1 218	1 249	(2.5)	301	300	305	312

METALLURGICAL PRODUCTION

The production of electrolytic copper as compared to 2019 decreased by 5.2 thousand tonnes, or by 0.9%. The lower production of electrolytic copper was the result of the limited supply of copper scrap in the first half of the year and the maintenance shutdown at the Głogów I Copper Smelter and Refinery. By supplementing own concentrate with purchased metal-bearing materials in the form of scrap, copper blister and imported concentrate, existing technological capacity was effectively used in the second half of the year.

The production of other metallurgical products (silver, wire rod and OFE rod) derives from the level of electrolytic copper production and depends on the type of raw material used, and above all on market demand.

In comparison to 2019, the production of metallic gold decreased by 215 kg, or 6.7%, and metallic silver production was lower by 77 tonnes, closing the year at 1 323 t.

Table 19. Metallurgical production of KGHM Polska Miedź S.A.

	Unit	2020	2019	Change (%)	4Q'20	3Q'20	2Q'20	1Q'20
Electrolytic copper, including:	kt	560.4	565.6	(0.9)	148.5	131.1	139.8	141.0
- production from own concentrates	kt	413.3	418.3	(1.2)	126.2	81.3	102.8	103.0
- production from purchased metal-bearing materials	kt	147.0	147.3	(0.2)	22.1	49.9	37.0	38.0
Wire rod, OFE and CuAg rod	kt	259.5	266.1	(2.5)	62.9	65.4	61.2	70.0
Round billets	kt	-	14.9	x	-	-	-	-
Metallic silver	t	1 323	1 400	(5.5)	348	280	366	329
Metallic gold	koz t	96.8	103.7	(6.7)	29.7	21.5	20.4	25.2
Refined lead	kt	30.2	30.1	+0.3	8.0	6.4	7.9	7.9

MAIN PRODUCTION GOALS

The main goals set by the Management Board in terms of production and occupational health and safety for 2021 are a continuation of actions taken in 2020, i.e.:

- optimal utilisation of the resource base and of the production capacity of the Company, and
- optimisation of copper content in ore and concentrate.

Key tasks in 2021:

in mining	<ul style="list-style-type: none"> - access and development work to intersect the deposit in the Deep Głogów mining area, - continuation of work related to exploration of the Retków copper ore deposit in the Grodziszczce area, - continuation of work related to prevention of gas-related threats (hydrogen sulphide and methane) and the use of new technical solutions and means of prevention to counteract this threat, - continuation of work related to utilising the capacity of the input and output ventilation shafts in the interconnected mine ventilation system, - achieving a level of dilution of the extracted ore which is adequate to the deposit's parameters, - continuation of the GG-1 shaft construction project, - continued construction of the central air conditioning station at the GG-1 shaft, - continuation of Stage 1 of the Project „Construction of the GG-2 Shaft” – completion of planning work, acquisition of legal title to land, start of design work, - continuation of Stage 1 of the Project „Construction of the Gaworzyce Shaft” – signing of an agreement with the Municipality, acquisition of legal title to land, - maintaining the efficiency of mining vehicles in an assortment required to execute production tasks, - realisation of the planned scope of mine development and access work using the commissioning system in 2021,
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in ore processing	<ul style="list-style-type: none"> - improving the energy performance of the machinery park in the Concentrators Division, - optimising control of visual product parameters during the production process, - start-up of the carbonate removal installation of the Polkowice Concentrator - optimisation of production in the 1st line following introduction of a new stream to the diagram, - optimising the milling, classification and flotation process, - maintaining the availability of the machine park and the production capacity of individual Concentrators Division Areas to the amount of ore supplied, - maintaining the production of concentrates in an amount and quality necessary for optimal use of the production capacity of the smelters and refineries, - searching for ways to utilise alternative and renewable energy sources in the Concentrators Division, - monitoring and assessing the impact of technological water to the technological parameters and state of technical infrastructure,
in metallurgy	<ul style="list-style-type: none"> - increasing the share of imported concentrates to achieve high levels of electrolytic copper production given a decrease in own concentrates production, - further increases in the processing of scrap in the furnaces of the Głogów Copper Smelter and Refinery, - the planned execution of a 2-week maintenance shutdown of the flash furnace complex at the Głogów II Copper Smelter and Refinery in April, - completing replacement of the roof and walls of the tankhouse at Głogów I Copper Smelter and Refinery which was commenced in the fourth quarter of 2019, with almost complete minimisation of its impact on the availability of the electrolyzers and cathode copper production capacity, - maintaining the high level of electrolytic copper production by the Legnica Copper Smelter and Refinery despite the shutdown of one of the shaft furnaces in the second half of the year, related to intensification of the process of smelting own concentrates using modern Flash Furnace technology, - further minimisation of environmental impact by actions directed towards improving the effectiveness of the dedusting and hermetic sealing processes to decrease fugitive emissions as well as optimisation of water-effluents management, - maintaining recovery levels of copper and silver in metallurgical processes and the availability of metallurgical equipment, - optimum management of half-finished products between the metallurgical facilities,
in occupational health and safety	<ul style="list-style-type: none"> - continued implementation of initiatives included in the Program to improve occupational health and safety in KGHM Polska Miedź S.A. „Think About the Consequences”, - advancing actions which further effectively mitigate the external threat of the COVID-19 pandemic, - improvement of the occupational safety and hygiene management system implemented by the Company in 2020 pursuant to the OHS ISO 45001:2018 standard, - continued research into an anti-collision system for supporting operators (warning the machine's operator of a potential collision with people or another machine) under a Program to negate the most common safety hazards by using innovative technology, - the preparation and distribution of a new packet of instructional and educational materials to improve employee habits, - continuous improvements in the monitoring of workplace hazards and the advancement of organisational and technical goals aimed at further limitation of professional risks and accident rates, - searching for new innovative organisational and technical solutions aimed at enhancing workplace safety to meet the challenges of Industry 4.0, - efficient transposition of new European and domestic requirements with respect to OHS in the Company.

7.2. SALES

In 2020, the Company recorded a nearly 1-percent increase in sales of copper products, which amounted in total to 561.0 thousand tonnes, compared to 557.0 thousand tonnes in the prior year. In 2020, sales of copper cathodes increased to 300.7 thousand tonnes, meaning a 9% increase compared to 2019. Sales of copper wire rod and OFE rod decreased however by 3%, amounting in 2020 to 258.6 thousand tonnes.

Sales of metallic silver in 2020 amounted to 1 369 t, meaning a 2-percent decrease compared to 2019. In 2020 there were no sales of silver in concentrate.

Gold sales in 2020 amounted to 100.1 thousand troy ounces, which means a slight decrease compared to data for 2019 (-1%).

Table 20. Sales volume of basic products of KGHM Polska Miedź S.A.

	Unit	2020	2019	Change (%)	4Q'20	3Q'20	2Q'20	1Q'20
Cathodes and cathodes parts	kt	300.7	275.7	+9.1	89.0	63.9	80.3	67.5
Copper wire rod and OFE rod	kt	258.6	267.4	(3.3)	66.8	63.5	64.2	64.1
Other copper products	kt	1.7	13.9	(87.8)	0.4	0.5	0.3	0.5
Total copper and copper products	kt	561.0	557.0	+0.7	156.2	127.9	144.8	132.1
Metallic silver	t	1 369	1 393	(1.7)	379	281	364	345
Metallic gold	koz t	100.1	101.4	(1.3)	32.8	17.1	19.8	30.4
Refined lead	kt	29.0	30.0	(3.3)	7.7	6.7	7.2	7.4

Total revenues from sales by KGHM Polska Miedź S.A. in 2020 amounted to PLN 19 326 million, an increase of 9-percent compared to 2019, when revenues reached PLN 17 683 million.

Revenues from sales of copper products in 2020 increased by 6% and amounted to PLN 14 258 million (compared to PLN 13 474 million in 2019). The change in the volumes and revenues from sales of „Other copper products” was due to the suspension of production of copper billets by the Legnica Copper Smelter and Refinery. Due to the low profitability of producing and selling copper billets, the limited sales market for the assortment produced and the inability to significantly restructure the costs, production of billets has ceased from 2020. The possibility of utilising this installation for the production of other products, to meet the market demand, is currently being assessed.

Revenues from metallic silver sales in 2020 also increased (+24%) to PLN 3 453 million compared to PLN 2 789 million in 2019.

Despite a decrease in the volume of sales of metallic gold, revenues from sales of this metal increased by 27% to PLN 690 million, compared to PLN 543 million in 2019.

Table 21. Revenues from contracts with customers of KGHM Polska Miedź S.A. (in PLN million)

	2020	2019	Change (%)	4Q'20	3Q'20	2Q'20	1Q'20
Cathodes and cathodes parts	7 593	6 533	+16.2	2 478	1 662	1 912	1 541
Copper wire rod and OFE rod	6 623	6 611	+0.2	1 874	1 678	1 540	1 531
Other copper products ¹⁾	42	330	(87.3)	9	14	8	11
Total copper and copper products	14 258	13 474	+5.8	4 361	3 354	3 460	3 083
Metallic silver	3 453	2 789	+23.8	1 127	802	776	748
Metallic gold	690	543	+27.1	233	125	136	196
Refined lead	220	247	(10.9)	58	51	52	59
Other goods and services	336	394	(14.7)	93	76	82	85
Merchandise and materials	369	236	+56.4	94	55	166	54
Total sales revenue	19 326	17 683	+9.3	5 966	4 463	4 672	4 225

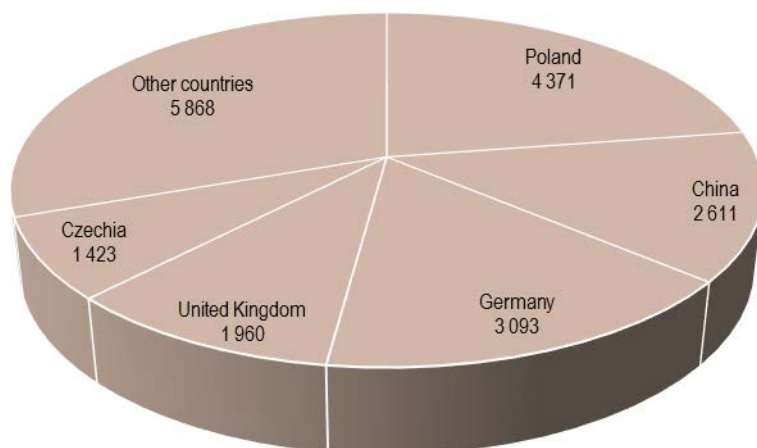
¹⁾ In 2020 there was no production of round billets

GEOGRAPHICAL BREAKDOWN OF SALES

In 2020, KGHM Polska Miedź S.A. earned most of its revenues from domestic sales, which amounted to 23% of total revenues. The remaining major customers of the Company came from Germany (16%), China (14%), the United Kingdom (10%) and Czechia (7%).

The following chart shows the geographic structure of revenues in 2020. Sales revenue includes the result from the settlement of hedging instruments.

Chart 22. Sales revenue of KGHM Polska Miedź S.A. by market (in PLN million)



7.3. COSTS

The Company's cost of sales, selling costs and administrative expenses (cost of products, merchandise and materials sold plus selling costs and administrative expenses) in 2020 amounted to PLN 16 161 million and was 6% higher as compared to the corresponding period of 2019. The Company's cost of sales, selling costs and administrative expenses was substantially affected by the utilisation of inventories, which led to a higher sales volume.

Total expenses by nature in 2020 as compared to 2019 were higher by 3% mainly due to higher consumption of purchased metal-bearing materials by PLN 196 million (a higher amount by 5 thousand tonnes and a higher price by 3%) as well as a higher minerals extraction tax (PLN 105 million).

Table 22. Expenses by nature of KGHM Polska Miedź S.A. (in PLN million)

	2020	2019	Change (%)	4Q'20	3Q'20	2Q'20	1Q'20
Depreciation of property, plant and equipment and amortisation of intangible assets	1 364	1 298	+5.1	408	309	322	325
Employee benefits expenses	3 835	3 594	+6.7	1 061	952	932	890
Materials and energy, including:	6 326	6 196	+2.1	1 706	1 719	1 377	1 524
- purchased metal-bearing materials	3 974	3 778	+5.2	1 100	1 145	810	919
- electrical and other energy	988	939	+5.2	260	235	243	250
External services	1 716	1 767	(2.9)	457	416	413	430
Minerals extraction tax	1 625	1 520	+6.9	505	442	334	344
Other taxes and charges	397	397	-	108	83	99	107
Other costs	123	124	(0.8)	51	20	36	16
Total expenses by nature	15 386	14 896	+3.3	4 296	3 941	3 513	3 636

Expenses by nature, excluding purchased metal-bearing materials and the minerals extraction tax, amounted to PLN 9 787 million and were higher as compared to the corresponding period of 2019 by PLN 189 million, mainly due to:

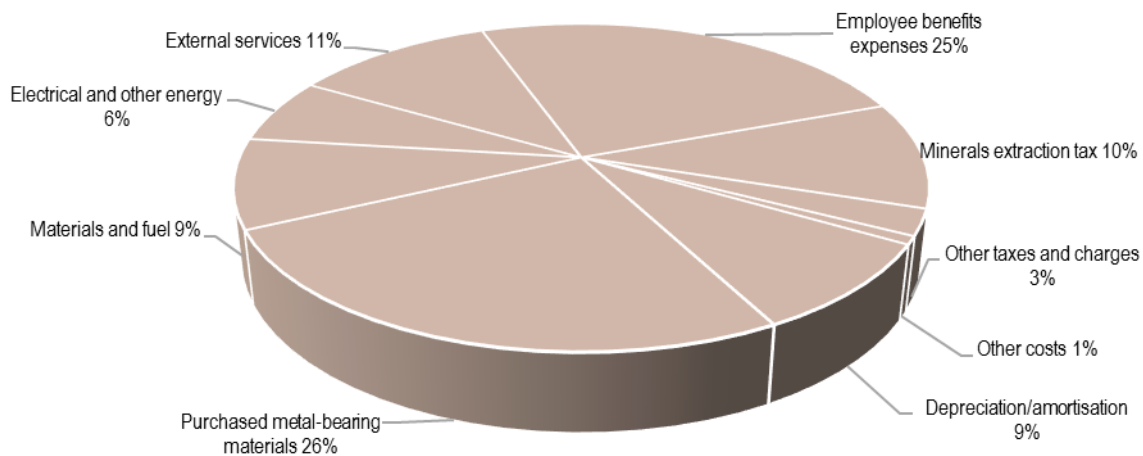
- labour costs (+PLN 241 million) – due to an increase in remuneration and a higher provision for the annual bonus,
- depreciation /amortisation (+PLN 66 million) - an increase due to investments advanced in prior periods,

alongside lower costs:

- cost of materials and energy consumed (-PLN 66 million) – mainly due to lower natural gas and coke prices, but also due to the lower consumption volume of technological materials,
- external services (-PLN 51 million) – mainly due to lower costs of mine development work and transport services.

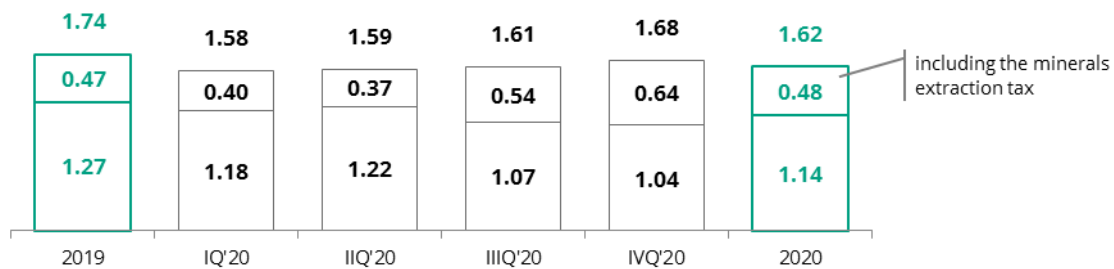
The structure of expenses by nature in 2020 is presented below. As compared to the prior year, they were at a very similar level.

Chart 23. Structure of expenses by nature in 2020



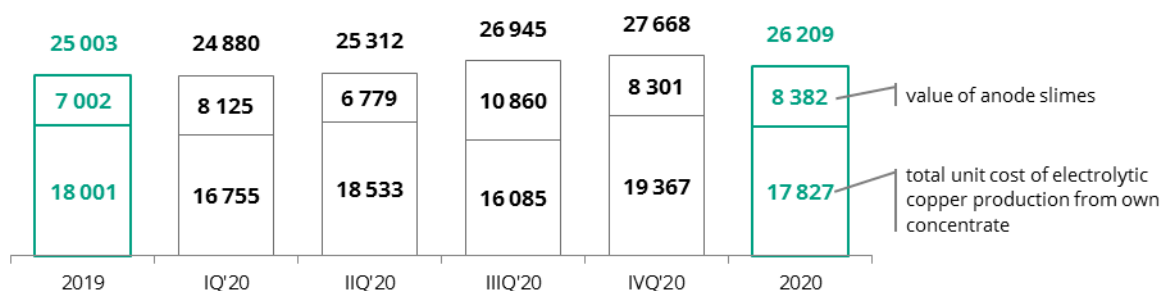
The Company's operating costs are decisively impacted by the costs of electrolytic copper production (prior to decrease by the value of by-products), whose share is around 90%.

Chart 24. Cost of producing payable copper in concentrate – C1 (USD/lb)



Cost of producing copper in concentrate - C1 (unit cash cost of producing payable copper in concentrate, reflecting costs of ore extraction and processing, transport costs, the minerals extraction tax, administrative costs during the mining stage, and smelter treatment and refining charges (TC/RC), less the value of by-products) was as follows: in 2019, 1.74 USD/lb and in 2020 1.62 USD/lb. The cost was impacted by a weakening in the PLN as compared to the USD and higher silver and gold prices, which led to an increase in the valuation of by-products.

Chart 25. Pre-precious metals credit unit cost of electrolytic copper production – from own concentrate (PLN/t)



The pre-precious metals credit unit cost of copper production from own concentrate (unit cost prior to decrease by the value of anode slimes containing among others silver and gold) was higher than that recorded in 2019 by 1 206 PLN/t (5%), alongside lower production from own concentrate by 5 thousand tonnes of copper (1.2%). The increase in the unit cost was mainly due to higher costs of labour and depreciation/amortisation costs. The total unit cost of copper production from own concentrate was lower compared 2019 by 174 PLN/t (-1%) due to higher precious metals prices, which led to an increase in the valuation of anode slimes.

7.4. FINANCIAL RESULTS

STATEMENT OF PROFIT OR LOSS

The Company recorded a profit for 2020 in the amount of PLN 1 779 million, or PLN 515 million (+41%) higher than in the prior year.

Table 23. Basic items of the statement of profit or loss of KGHM Polska Miedź S.A. (in PLN million)

	2020	2019	Change (%)	4Q'20	3Q'20	2Q'20	1Q'20
Revenues from contracts with customers	19 326	17 683	+9.3	5 966	4 463	4 672	4 225
- adjustment to revenues from contracts with customers due to realisation of a hedged item	323	245	+31.8	(6)	38	169	123
Cost of sales, selling costs and administrative expenses	(16 161)	(15 291)	+5.7	(4 957)	(3 643)	(3 952)	(3 609)
Profit on sales	3 165	2 392	+32.3	1 009	820	720	616
Other operating income and (costs)	(398)	39	x	(131)	(223)	(532)	488
- exchange differences on assets and liabilities other than borrowings	(269)	168	x	(150)	(145)	(420)	446
- interest on loans granted and other financial receivables	269	272	(1.1)	64	64	68	73
- dividend income	20	37	(45.9)	5	-	15	-
- provisions (recognised)/released	14	(39)	x	20	-	(3)	(3)
- measurement and realisation of derivatives	(240)	(122)	+96.7	(32)	(74)	(45)	(89)
- fees and charges on re-invoicing of costs of bank guarantees securing the payment of liabilities	53	31	+71.0	3	23	7	20
- (recognition)/reversal of impairment losses on financial instruments measured at amortised cost	(61)	102	x	(1)	25	91	(176)
- impairment losses on shares and investment certificates in subsidiaries	(141)	(460)	(69.3)	(10)	-	(89)	(42)
- fair value gains/(losses) on financial assets measured at fair value through profit or loss	(20)	84	x	(33)	(99)	(175)	287
- donations granted	(40)	(30)	+33.3	(2)	(15)	(3)	(20)
- refund of excise tax from prior years	53	4	x13.3	5	-	48	-
- other	(36)	(8)	x4.5	-	(2)	(26)	(8)
Finance income/(costs)	-	(504)	x	62	89	345	(496)
- exchange differences on borrowings	190	(209)	x	109	81	401	(401)
- interest on borrowings	(148)	(183)	(19.1)	(37)	(111)	(48)	48
- fees and commissions on bank and other loans	(27)	(49)	(44.9)	(6)	(21)	(10)	10
- measurement and realisation of derivatives	(7)	(22)	(68.2)	(2)	(5)	(3)	3
- unwinding of the discount effect	(8)	(41)	(80.5)	(2)	145	5	(156)
Profit before income tax	2 767	1 927	+43.6	940	686	533	608
Income tax expense	(988)	(663)	+49.0	(317)	(277)	(185)	(209)
Profit for the period	1 779	1 264	+40.7	623	409	348	399
Depreciation/amortisation recognised in profit	(1 293)	(1 220)	+6.0	(397)	(301)	(311)	(284)
Adjusted EBITDA¹⁾	4 458	3 619	+23.2	1 406	1 121	1 031	900

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 24. Main reasons for the change in profit or loss of KGHM Polska Miedź S.A.

Item	Impact on change in profit or loss (in PLN million)	Description
Increase in revenues from contracts with customers by PLN 1 643 million	+1 216	An increase in revenues due to higher prices of copper (+181 USD/t, +3%), silver (+4.33 USD/koz t, +27%) and gold (+370 USD/koz t, +27%)
	+258	An increase in revenues from sales of basic products (Cu, Ag, Au) due to a more favourable average annual USD/PLN exchange rate (a change from 3.84 to 3.90 USD/PLN)
	+78	Higher adjustment of revenues due to hedging transactions, from PLN 245 million to PLN 323 million
	+42	An increase in revenues due to a higher volume of sales of copper (+4.0 kt, +1%), with a lower volume of sales of silver (-24 t, -2%) and gold (-1.2 koz t, -1%)
	+49	An increase in other revenues from sales, including from the sale of merchandise, waste and production materials (+PLN 132 million) with lower revenues from the sale of refined lead (-PLN 27 million), sulphuric acid (-PLN 13 million) and rock salt (-PLN 12 million)

	(207)	Utilisation of inventories (change in 2020: +PLN 576 million; in 2019: +PLN 369 million)
An increase in cost of sales, selling costs and administrative expenses ⁽¹⁾ (-PLN 870 million)	(196)	Higher consumption of purchased metal-bearing materials by 4.9 thousand tonnes of copper (+3%) at a purchase price higher by 3%
	(467)	Mainly an increase in the value of goods and materials sold by PLN 159 million and in other expenses by nature by PLN 294 million, mainly due to a change in costs: employee benefits (an increase of PLN 241 million), the minerals extraction tax (an increase of PLN 105 million), depreciation/amortisation (an increase of PLN 66 million), electrical and other energy (an increase of PLN 49 million), mine development work (a decrease of PLN 47 million)
	+319	A decrease in impairment losses on shares and investment certificates, from -PLN 460 million to -PLN 141 million
Impairment losses on shares and investment certificates in subsidiaries (+PLN 319 million)		
Impairment losses (recognised)/reversed on financial instruments measured at amortised cost (-PLN 163 million)	(163)	A change in differences between impairment losses recognised and reversed on financial instruments measured at amortised cost, from +PLN 102 million to -PLN 61 million
Fair value gains/(losses) on financial assets measured at fair value through profit or loss (-PLN 104 million)	(104)	Deterioration of the result on changes in the fair value of financial assets measured at fair value through profit or loss, from +PLN 84 million to -PLN 20 million
Impact of derivatives and hedging transactions (-PLN 103 million)	(118)	Change in the result on the measurement and realisation of derivatives in other operating activities from -PLN 122 million to -PLN 240 million
	+15	Change in the result on the measurement and realisation of derivatives in financing activities, from -PLN 22 million to -PLN 7 million
Provisions (recognised)/released (+PLN 53 million)	+100	A decrease in provisions recognised, from -PLN 107 million to -PLN 7 million
	(47)	A decrease in provisions released, from PLN 68 million to PLN 21 million
Refund of excise tax from prior years (+PLN 49 million)	+49	An increase in the amount of refunded excise tax from prior years, from PLN 4 million to PLN 53 million
Impact of exchange differences (-PLN 38 million)	(437)	A change in the result due to exchange differences from the measurement of assets and liabilities other than borrowings – in other operating activities
	+399	A change in the result due to exchange differences from the measurement of liabilities due to borrowings (presented in finance costs)
Unwinding of the discount effect (+PLN 33 million)	+33	A change in the amount, from -PLN 41 million in 2019 to -PLN 8 million in 2020
Change in the balance of income and costs due to interest on borrowings (+PLN 32 million)	(3)	A decrease in income due to interest on loans granted
	+35	Lower interest costs on borrowings
Increase in income tax (-PLN 325 million)	(325)	The increase in income tax results from an increase in current income tax by PLN 92 million, deferred income tax by PLN 75 million and a lower negative adjustment of current tax for prior periods by PLN 158 million

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

Chart 26. Change in profit for the period of KGHM Polska Miedź S.A. (in PLN million)



CASH FLOWS

Table 25. Statement of cash flows of KGHM Polska Miedź S.A. (in PLN million)

	2020	2019	Change (%)	4Q'20	3Q'20	2Q'20	1Q'20
Profit or loss before income tax	2 767	1 927	×1.4	940	686	533	608
- Depreciation/amortisation recognised in profit or loss	1 293	1 220	×1.1	397	301	311	284
- Exchange differences	(204)	200	×	(25)	31	(177)	(33)
- Other adjustments	620	188	×3.3	232	150	241	(3)
Exclusions of income and costs, total	1 709	1 608	×1.1	604	482	375	248
Income tax paid	(730)	(465)	×1.6	(295)	(63)	(186)	(186)
Change in working capital	1 070	973	×1.1	707	(170)	149	384
Net cash generated from operating activities	4 816	4 043	×1.2	1 956	935	871	1 054
Expenditures on mining and metallurgical assets	(2 373)	(2 294)	×1.0	(576)	(627)	(461)	(709)
Expenditures on other property, plant and equipment and intangible assets	(49)	(72)	×0.7	(5)	(6)	(3)	(35)
Expenditures on the acquisition of shares and investment certificates	(43)	(430)	×0.1	(14)	(22)	(3)	(4)
Loans granted	(288)	(445)	×0.6	(3)	(15)	(270)	-
Proceeds from the redemption of investment certificates	-	404	×	-	-	-	-
Other	(11)	(17)	×0.6	(6)	55	(18)	(42)
Net cash used in investing activities	(2 764)	(2 854)	×1.0	(604)	(615)	(755)	(790)
Proceeds from borrowings	4 052	4 669	×0.9	-	-	2 390	1 662
Proceeds from the issue of debt financial instruments	-	2 000	×	-	-	-	-
Proceeds from cash pooling	154	50	×3.1	54	50	50	-
Repayments of borrowings	(4 478)	(7 726)	×0.6	(61)	(1 275)	(2 693)	(449)
Interest paid	(173)	(228)	×0.8	(25)	(20)	(65)	(63)
Other	(62)	(30)	×2.1	(23)	(3)	18	(54)
Net cash generated from/(used in) financing activities	(507)	(1 265)	×0.4	(55)	(1 248)	(300)	1 096
Net cash flow	1 545	(76)	×	1 297	(928)	(184)	1 360
Foreign exchange gains/(losses) on cash and cash equivalents	74	(35)	×	57	2	(8)	23
Cash and cash equivalents at the beginning of the period	516	627	×0.8	781	1 707	1 899	516
Cash and cash equivalents at the end of the period	2 135	516	×4.1	2 135	781	1 707	1 899

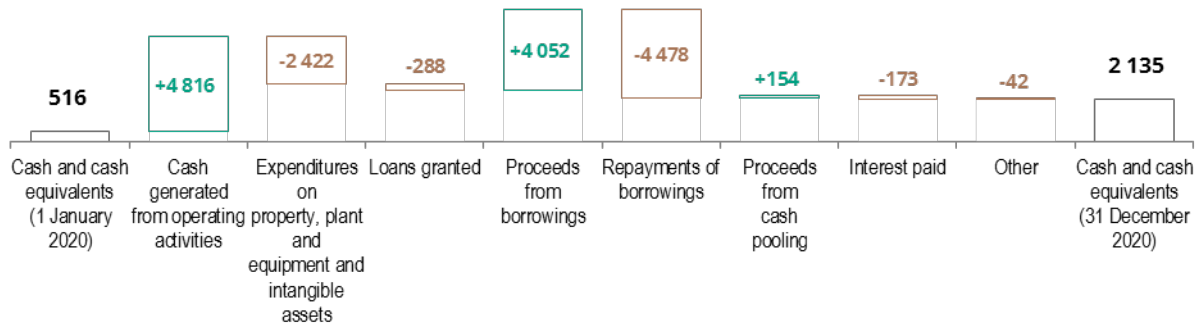
Net cash generated from operating activities in 2020 amounted to +PLN 4 825 million and mainly comprised profit before income tax in the amount of PLN 2 767 million, adjusted among others by depreciation/amortisation in the amount of +PLN 1 293 million, less income tax paid in the amount of -PLN 730 million and the change in working capital in the amount of +PLN 1 070 million.

Net cash used in investing activities in 2020 amounted to -PLN 2 764 million and mainly comprised expenditures on property, plant and equipment and intangible assets in the amount of -PLN 2 422 million, loans granted of -PLN 288 million and expenditures on the acquisition of investment certificates and shares in subsidiaries in the amount of -PLN 43 million.

Net cash used in financing activities during the same period amounted to -PLN 507 million and mainly comprised proceeds from borrowings in the amount of +PLN 4 052 million alongside repayments of borrowings of -PLN 4 478 million and interest paid in the amount of -PLN 173 million.

After reflecting foreign exchange gains/losses on cash and cash equivalents, in 2020 cash and cash equivalents increased by PLN 1 619 million and amounted to PLN 2 135 million.

Chart 27. Cash flows of KGHM Polska Miedź S.A. (in PLN million)



ASSETS, EQUITY AND LIABILITIES

Table 26. Assets of KGHM Polska Miedź S.A. (in PLN million)

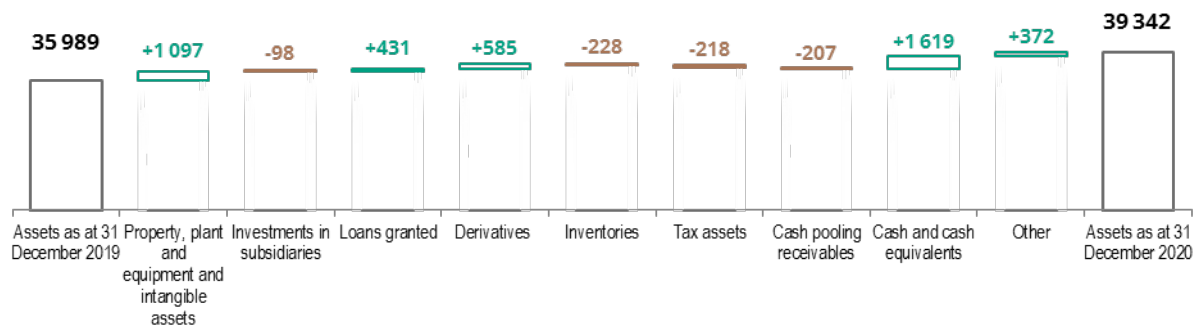
	31.12.2020	31.12.2019	Change (%)	30.09.2020	30.06.2020	31.03.2020
Mining and metallurgical property, plant and equipment	19 162	18 092	+5.9	18 791	18 459	18 212
Mining and metallurgical intangible assets	675	651	+3.7	671	671	748
Other property, plant and equipment	102	103	(1.0)	96	99	99
Other intangible assets	65	61	+6.6	57	58	60
Investments in subsidiaries	2 848	2 946	(3.3)	2 844	2 823	2 908
Financial instruments, including:	9 459	8 200	+15.4	9 581	9 133	8 643
- loans granted	7 648	7 217	+6.0	7 750	7 871	7 886
- derivatives	789	123	×6.4	863	242	24
Other non-financial assets	56	58	(3.4)	64	60	67
Non-current assets	32 367	30 111	+7.5	32 104	31 303	30 737
Inventories	3 555	3 783	(6.0)	3 910	3 624	3 996
Trade receivables	351	243	+44.4	406	334	153
Tax assets	217	435	(50.1)	282	343	355
Derivatives	210	291	(27.8)	269	222	892
Cash pooling receivables	128	335	(61.8)	131	265	341
Other financial assets	268	221	+21.3	262	295	361
Other non-financial assets	66	54	+22.2	115	192	163
Cash and cash equivalents	2 135	516	×4.1	781	1 707	1 899
Non-current assets held for sale	45	-	×	15	-	-
Current assets	6 975	5 878	+18.7	6 171	6 982	8 160
TOTAL ASSETS	39 342	35 989	+9.3	38 275	38 285	38 897

As at 31 December 2020, total assets amounted to PLN 39 342 million, or an increase as compared to the end of 2019 by PLN 3 353 million, or by 9%, mainly due to increases in the following items:

- cash and cash equivalents by PLN 1 619 million,
- property, plant and equipment and intangible assets by PLN 1 097 million, including mining and metallurgical property, plant and equipment by PLN 1 070 million, arising from the realisation of investments – expenditures on property, plant and equipment and intangible assets in 2020 amounted to PLN 2 422 million,
- non-current financial instruments by PLN 1 259 million, including derivatives (+PLN 666 million) and loans granted (+PLN 431 million),

alongside a decrease in the value of inventories (-PLN 228 million), tax assets (-PLN 218 million) and cash pooling (-PLN 207 million).

Chart 28. Change in assets of KGHM Polska Miedź S.A. in 2020 (in PLN million)



The carrying amounts of equity and liabilities as at 31 December 2020 are presented below.

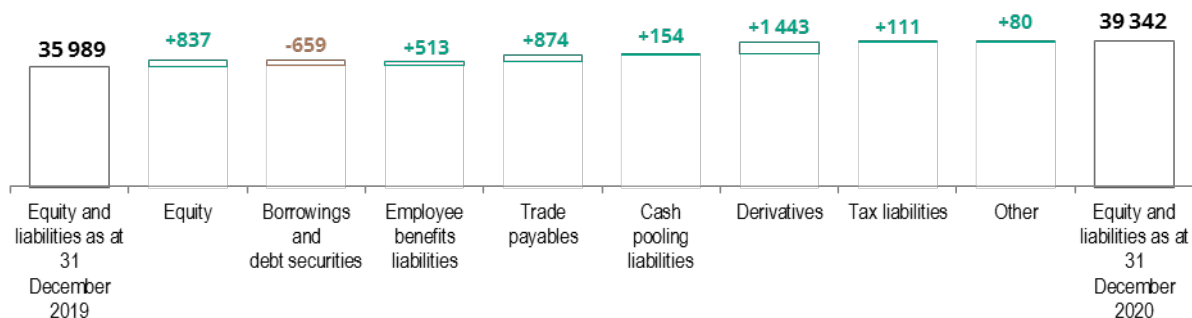
Table 27. Equity and liabilities of KGHM Polska Miedź S.A. (in PLN million)

	31.12.2020	31.12.2019	Change (%)	30.09.2020	30.06.2020	31.03.2020
Share capital	2 000	2 000	-	2 000	2 000	2 000
Other reserves from measurement of financial instruments	(1 390)	(698)	+99.1	(743)	(860)	(748)
Accumulated other comprehensive income	(872)	(622)	+40.2	(887)	(855)	(772)
Retained earnings	20 988	19 209	+9.3	20 365	19 956	19 608
Equity	20 726	19 889	+4.2	20 735	20 241	20 088
Borrowings, lease and debt securities	6 525	7 215	(9.6)	6 711	7 304	8 845
Derivatives	981	131	×7.5	789	532	537
Employee benefits liabilities	2 724	2 363	+15.3	2 732	2 626	2 532
Provisions for decommissioning costs of mines and other technological facilities	1 185	1 119	+5.9	1 154	1 150	1 146
Other non-current liabilities	272	277	(1.8)	353	248	195
Non-current liabilities	11 687	11 105	+5.2	11 739	11 860	13 255
Borrowings, lease and debt securities	306	275	+11.3	317	1 104	311
Cash pooling liabilities	284	130	×2.2	230	180	80
Derivatives	653	60	×10.9	226	179	315
Trade and similar payables	3 334	2 460	+35.5	2 811	2 640	2 572
Employee benefits liabilities	1 042	890	+17.1	917	905	956
Tax liabilities	369	258	+43.0	378	263	279
Provisions for liabilities and other charges	77	158	(51.3)	111	123	139
Other current liabilities	864	764	+13.1	811	790	902
Current liabilities	6 929	4 995	+38.7	5 801	6 184	5 554
Non-current and current liabilities	18 616	16 100	+15.6	17 540	18 044	18 809
TOTAL EQUITY AND LIABILITIES	39 342	35 989	+9.3	38 275	38 285	38 897

There was an increase in equity and liabilities, mainly due to increases in the following items:

- equity by PLN 837 million, including with respect to the profit for 2020 in the amount of PLN 1 779 million and an increase in negative capital from the measurement of financial instruments (-PLN 692 million),
 - derivatives (+PLN 1 443 million),
 - trade and similar payables (+PLN 874 million),
 - employee benefits liabilities (+PLN 513 million),
- alongside a decrease in liabilities due to borrowings, lease and debt securities by PLN 659 million.

Chart 29. Change in equity and liabilities of KGHM Polska Miedź S.A. in 2020 (in PLN million)



CONTINGENT ASSETS AND LIABILITIES DUE TO GUARANTEES GRANTED

As at 31 December 2020, contingent assets amounted to PLN 505 million and related mainly to promissory notes receivables in the amount of PLN 208 million and guarantees received by the Company in the amount of PLN 208 million.

As at 31 December 2020, liabilities due to guarantees granted amounted to PLN 2 570 million and due to promissory notes payable PLN 16 million, including:

- a security for the performance of contracts entered into by Sierra Gorda S.C.M. in the amount of PLN 1 814 million,
- a security for the costs of restoring the areas of the Robinson mine, Podolsky mine and the Victoria project, in the amount of PLN 372 million,
- a security for the proper performance by DMC Mining Services (UK) Ltd. and DMC Mining Services Ltd. of a contract for sinking shafts under a project underway in the United Kingdom, in the amount of PLN 188 million,

- a security for the proper performance by KGHM Polska Miedź S.A. of future environmental obligations to restore the area, following the conclusion of operations of the Żelazny Most tailings storage facility, in the amount of PLN 175 million.

As far as the Company is aware, at the end of the reporting period the Company determined the probability of paying the amounts related to the contingent liabilities of Sierra Gorda S.C.M. as relatively low, and that of the remaining entities of the Group as low.

Other liabilities not recognised in the statement of financial position represent liabilities towards local government entities due to expansion of the tailings storage facility in the amount of PLN 100 million.

7.5. CAPITAL EXPENDITURES

In 2020, capital expenditures on property, plant and equipment amounted to PLN 2 476 million and were comparable to those of the prior year. Together with expenditures incurred on uncompleted development work, capital expenditures amounted to PLN 2 480 million.

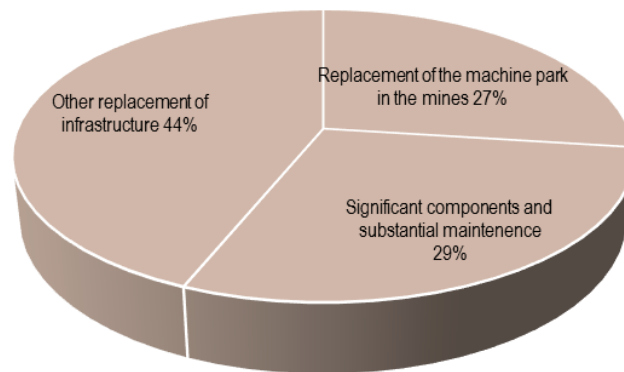
Table 28. Structure of expenditures on property, plant and equipment and intangible assets of KGHM Polska Miedź S.A. (in PLN million)

	2020	2019	Change (%)	4Q'20	3Q'20	2Q'20	1Q'20
Mining	1 649	1 683	(2.0)	550	412	380	307
Metallurgy	732	660	+10.9	239	218	191	84
Other activities	32	74	(56.8)	18	1	10	3
Development work - uncompleted	4	6	(33.3)	3	-	1	-
Leases per IFRS 16	63	58	+8.6	7	7	42	7
Total	2 480	2 481	(0.0)	817	637	624	401
<i>including borrowing costs</i>	<i>116</i>	<i>135</i>	<i>(14.1)</i>	<i>16</i>	<i>32</i>	<i>31</i>	<i>37</i>

Investment activities comprised projects related to the replacement of equipment and maintaining mine production, as well as development projects:

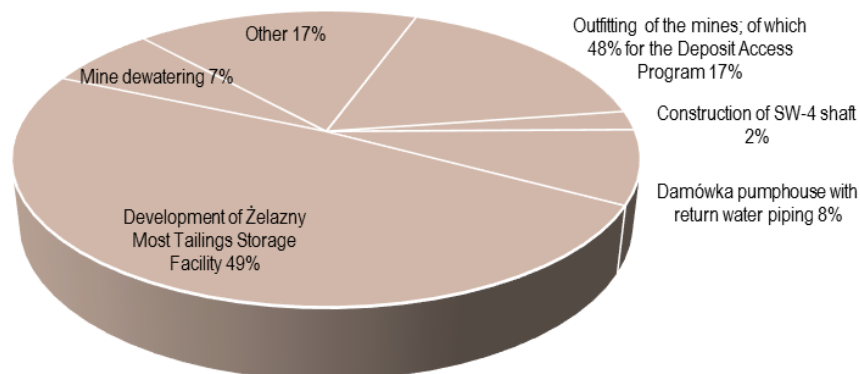
Projects related to the replacement of equipment aimed at maintaining production equipment in an undeteriorated condition, represent 31% of total expenditures incurred.

Chart 30. Structure of expenditures on the replacement of equipment



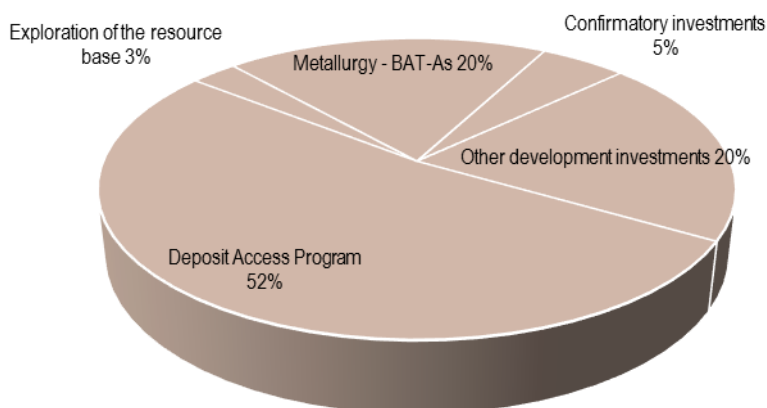
Projects related to maintaining mine production aimed at maintaining mine production on the level set in approved Production Plan (development of infrastructure to match mine advancement) represent 35% of total expenditures incurred.

Chart 31. Structure of expenditures on maintaining mine production



Development projects aimed at increasing production volume of the core business, implementation of technical and technological activities optimising use of existing infrastructure, maintaining production costs and adaptation of the company's operations to changes in standards, laws and regulations (confirmatory projects and those related to environmental protection) represent 34% of total expenditures incurred.

Chart 32. Structure of expenditures on development



Detailed information on the advancement of key investment projects may be found in part 5 of this Report in the section on advancement of the Strategy in 2020.

8. ECONOMIC RESULTS OF KGHM INTERNATIONAL LTD.



8.1. PRODUCTION

Table 29. Production of KGHM INTERNATIONAL LTD.

	Unit	2020	2019	Change (%)	4Q'20	3Q'20	2Q'20	1Q'20
Payable copper, including:	kt	66.9	76.5	(12.5)	17.7	18.5	16.6	14.1
- Robinson mine (USA)	kt	47.4	48.8	(2.9)	12.6	13.3	12.3	9.2
- Sudbury Basin mines (CANADA) ⁽¹⁾	kt	2.1	4.2	(50.0)	0.5	0.5	0.4	0.7
Payable nickel	kt	0.4	0.7	(42.9)	0.1	0.1	0.1	0.1
Precious metals (TPM), including:	koz t	66.1	85.2	(22.4)	11.7	16.2	20.4	17.8
- Robinson mine (USA)	koz t	36.1	47.9	(24.6)	7.6	10.5	10.7	7.3
- Sudbury Basin mines (CANADA) ⁽¹⁾	koz t	29.9	37.3	(19.8)	4.0	5.7	9.7	10.5

¹⁾ Comprised of the Morrison and McCreedy West mines in the Sudbury Basin

Copper production in the segment KGHM INTERNATIONAL LTD. in 2020 amounted to 66.9 thousand tonnes, or a decrease by 9.6 thousand tonnes (-13%) compared to 2019, due to lower production by the Franke mine, the Robinson mine and by the Sudbury Basin mines.

The Franke mine recorded a drop in copper production, from 19.0 thousand tonnes in 2019 to 12.5 thousand tonnes in 2020 (-34%) due to the extraction of lower-quality ore, which led to lower recoveries, as well as to the strike at this mine in May 2020.

Lower copper production by the Robinson mine by 1.4 thousand tonnes (-3%) and gold by 11.8 thousand troy ounces (-25%) was the result of extracting ore with lower metals content and lower recoveries. An increase in the volume of ore processed led to the partial offsetting of the aforementioned factors on the production level.

The decrease in the volume of ore extracted (suspension of mining from the Morrison deposit after the first quarter of 2019) and the lower content of copper, gold, platinum and palladium led to lower production of copper (-50%) and TPM (-20%) in the Sudbury Basin mines.

8.2. REVENUES

Table 30. Volume and sales revenue of KGHM INTERNATIONAL LTD. (in USD million)

	Unit	2020	2019	Change (%)	4Q'20	3Q'20	2Q'20	1Q'20
Revenues from contracts with customers ⁽¹⁾ , including:	USD mn	692	802	(13.7)	177	199	157	159
- copper	USD mn	412	407	+1.2	119	123	82	88
- nickel	USD mn	6	10	(40.0)	1	2	1	2
- TPM – precious metals	USD mn	115	114	+0.9	18	33	29	35
Copper sales volume	kt	71.9	74.1	(3.0)	17.7	19.2	17.0	18.0
Nickel sales volume	kt	0.4	0.7	(42.9)	0.1	0.1	0.1	0.1
TPM sales volume	koz t	71.3	77.7	(8.2)	12.7	17.5	19.9	21.2

¹⁾ reflects processing premium

Table 31. Sales revenue of KGHM INTERNATIONAL LTD. (in PLN million)

	Unit	2020	2019	Change (%)	4Q'20	3Q'20	2Q'20	1Q'20
Revenues from contracts with customers ⁽¹⁾ , including:	PLN mn	2 703	3 084	(12.4)	677	757	637	632
- copper	PLN mn	1 610	1 565	+2.9	458	465	336	351
- nickel	PLN mn	23	38	(39.5)	3	8	4	8
- TPM – precious metals	PLN mn	449	438	+2.5	67	125	117	140

¹⁾ reflects processing premium

The sales revenue of the segment KGHM INTERNATIONAL LTD. in 2020 amounted to USD 692 million, or a decrease by USD 110 million (-14%), mainly due to a decrease in revenues from the sale of services of companies operating under the brand of DMC Mining Services („DMC”).

Revenues from the sale of copper amounted to USD 412 million and were higher by USD 5 million compared to 2019. The increase in revenues from the sale of copper was caused among others by an increase in the achieved sales price by 3% (6 209 USD/t in 2020 compared to 6 018 USD/t in 2019), which was limited by a drop in the volume of sales of this metal (-3%).

Revenues from TPM sales amounted to USD 115 million and remained at a level similar to that recorded in 2019. The decrease in the volume of sales of precious metals by 6.4 thousand troy ounces was offset by a higher achieved sales price.

Revenues from the sales of services by DMC decreased from USD 255 million in 2019 to USD 144 million in 2020, due among others to the completion of a contract on 28 August 2020 related to a project carried out in the United Kingdom.

8.3. COSTS

Table 32. C1 payable copper production cost of KGHM INTERNATIONAL LTD.

	Unit	2020	2019	Change (%)	4Q'20	3Q'20	2Q'20	1Q'20
C1 payable copper production cost ⁽¹⁾	USD/lb	1.91	1.74	+9.8	2.00	1.62	1.83	2.19

⁽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 2020 amounted to 1.91 USD/lb, or an increase by 10% compared to 2019. The increase in C1 was due to higher mine operating costs and a lower copper sales volume. The impact of these factors was partially offset by higher revenues from sales of associated metals (+5%), which decrease C1.

8.4. FINANCIAL PERFORMANCE

Table 33. Financial results of KGHM INTERNATIONAL LTD. (in USD million)

	2020	2019	Change (%)	4Q'20	3Q'20	2Q'20	1Q'20
Revenues from contracts with customers	692	802	(13.7)	177	199	157	159
Cost of sales, selling costs and administrative expenses, including: ⁽¹⁾	(655)	(719)	(8.9)	(156)	(162)	(155)	(182)
- recognition/reversal of impairment losses on non-current assets	(2)	5	x	(2)	0	0	0
Profit/(loss) on sales	37	83	(55.4)	21	38	1	(23)
Profit/(loss) before taxation, including:	(177)	(118)	+50.0	(11)	(3)	(100)	(63)
- share of losses of Sierra Gorda S.C.M. accounted for using the equity method	(52)	(113)	(54.0)	-	-	(52)	-
Income tax	0	(27)	(100.0)	5	(3)	1	(3)
Profit/loss for the period	(177)	(145)	+22.1	(7)	(5)	(99)	(66)
Depreciation/amortisation recognised in profit or loss	(117)	(106)	+10.4	(32)	(23)	(26)	(36)
Adjusted EBITDA⁽²⁾	156	184	(15.2)	55	61	27	13

Table 34. Financial results of KGHM INTERNATIONAL LTD. (in PLN million)

	2020	2019	Change (%)	4Q'20	3Q'20	2Q'20	1Q'20
Revenues from contracts with customers	2 703	3 084	(12.4)	677	757	637	632
Cost of sales, selling costs and administrative expenses, including: ⁽¹⁾	(2 559)	(2 765)	(7.5)	(595)	(608)	(631)	(725)
- recognition/reversal of impairment losses on non-current assets	(8)	19	x	(8)	-	-	-
Profit/(loss) on sales	144	319	(54.9)	82	149	6	(93)
Profit/(loss) before taxation, including:	(690)	(453)	+52.3	(38)	2	(403)	(251)
- share of losses of Sierra Gorda S.C.M. accounted for using the equity method	(204)	(433)	(52.9)	2	4	(210)	-
Income tax	(1)	(102)	(99.0)	16	(8)	3	(12)
Profit/loss for the period	(691)	(555)	+24.5	(21)	(7)	(400)	(263)
Depreciation/amortisation recognised in profit or loss	(456)	(409)	+11.5	(123)	(84)	(104)	(145)
Adjusted EBITDA⁽²⁾	608	709	(14.2)	213	233	110	52

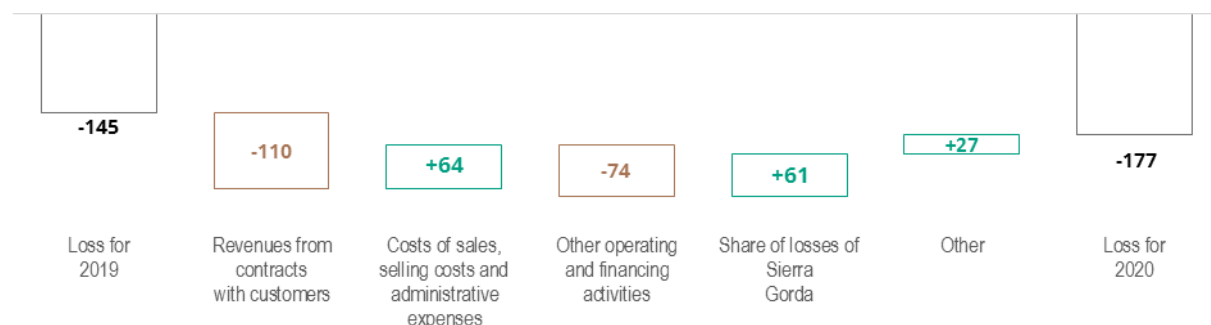
⁽¹⁾ Cost of products, merchandise and materials sold, selling costs and administrative expenses

⁽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 35. Key factors impacting the change in financial result of KGHM INTERNATIONAL LTD.

Item	Impact on change of profit or loss (in USD million)	Description
Lower revenues by USD 110 million	(111)	Lower revenues realised by companies operating under the DMC brand
	(23)	Lower revenues due to lower sales volumes, including copper (-USD 12 million) and TPM (-USD 8 million)
	(14)	Lower revenues from the streaming contract in the Sudbury Basin mines
	+33	Higher revenues due to higher prices of basic products, including copper (+USD 14 million) and TPM (+USD 23 million)
	+5	Other factors
Lower cost of sales, selling costs and administrative expenses by USD 64 million	+104	Lower costs of external services mainly due to companies operating under the DMC brand
	+11	Lower costs of materials and energy (+USD 8 million) and administrative expenses (+USD 3 million)
	(34)	Higher costs of labour by USD 17 million and depreciation/amortisation by USD 17 million
	(12)	Change in inventories
	(7)	Impact of impairment losses on non-current assets recognised/reversed. A reversal of an impairment loss was recorded as at 31 December 2019 in the amount of USD 5 million (impairment loss in respect of the Sudbury Basin mines), compared to an impairment loss as at 31 December 2020 in the amount of USD 2 million (impairment loss in respect of the Franke mine)
Impact of other operating activities and financing activities (-USD 74 million)	+2	Other factors
	(9)	Impact of reversal of allowances for impairment of loans for construction of the Sierra Gorda mine (the amount of the reversal as at 31 December 2020 amounted to USD 19 million compared to a reversal of USD 28 million as at 31 December 2019).
	(40)	Impact of reversal of an impairment loss (respecting intangible assets not yet available for use). The amount of the reversal as at 31 December 2020 amounted to USD 0 million compared to a reversal of USD 40 million as at 31 December 2019).
	(9)	Recognition of an impairment loss on non-current assets under construction (respecting the Franke mine)
Share of losses of joint ventures accounted for using the equity method	(16)	Other factors
	+61	Recognition in 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 2019 the share of the loss of Sierra Gorda S.C.M. was also recognised in the amount of the increase in capital, i.e. in the amount of USD 113 million).
Income tax	+27	Changes due to current and deferred income tax.

Chart 33. Change in profit or loss of KGHM INTERNATIONAL LTD. (in USD million)



8.5. CASH EXPENDITURES

Table 36. Cash expenditures of KGHM INTERNATIONAL LTD. (in USD million)

	2020	2019	Change (%)	4Q'20	3Q'20	2Q'20	1Q'20
Victoria project	7	4	+75.0	3	1	2	1
Sierra Gorda Oxide project	1	2	(50.0)	1	-	-	-
Stripping and other	145	164	(11.6)	39	35	24	47
Total	153	170	(10.0)	43	36	26	48
Financing for Sierra Gorda S.C.M. - increase in the share capital	52	113	(54.0)	-	-	52	-

Table 37. Cash expenditures of KGHM INTERNATIONAL LTD. (in PLN million)

	2020	2019	Change (%)	4Q'20	3Q'20	2Q'20	1Q'20
Victoria project	27	15	+80.0	11	4	8	4
Sierra Gorda Oxide project	4	8	(50.0)	4	-	-	-
Stripping and other	566	631	(10.3)	151	131	96	188
Total	597	654	(8.7)	166	135	104	192
Financing for Sierra Gorda S.C.M. - increase in the share capital	204	433	(52.9)	(2)	(4)	210	-

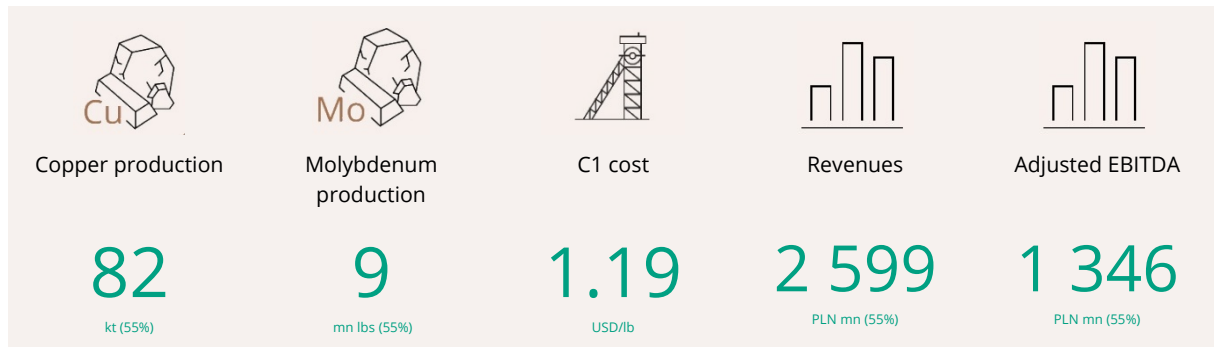
Cash expenditures by the segment KGHM INTERNATIONAL LTD. in 2020 amounted to USD 153 million, or a decrease by USD 17 million (-10%) compared to 2019.

Around 75% of cash expenditures were incurred by the Robinson mine. These expenditures were incurred among others on work related to stripping and to replacement of the machine park.

Expenditures on the Victoria project amounted to USD 7 million (among others exploratory work was continued aimed at increasing knowledge of the project's mineral resources, and work commenced on preparing and securing selected infrastructural elements), while USD 1 million was incurred on the Sierra Gorda Oxide project.

Financing for the Sierra Gorda mine (in the form of increases in the share capital) in 2020 amounted to USD 52 million (in respect of the 55% share controlled by the KGHM Polska Miedź S.A. Group).

9. ECONOMIC RESULTS OF 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 of 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 note 2 of the consolidated financial statements.

9.1. PRODUCTION

In 2020, Sierra Gorda S.C.M. substantially increased its production of copper compared to the amount produced in 2019, while molybdenum production was lower.

Table 38. Production of copper, molybdenum and precious metals by Sierra Gorda S.C.M.

	Unit	2020	2019	Change (%)	4Q'20	3Q'20	2Q'20	1Q'20
Copper production ⁽¹⁾	kt	148.7	108.2	37.4	39.7	37.7	36.8	34.5
Copper production – segment (55%)	kt	81.8	59.5	37.4	21.9	20.7	20.2	19.0
Molybdenum production ⁽¹⁾	mn lbs	16.3	20.3	(19.7)	3.8	3.4	6.1	3.0
Molybdenum production – segment (55%)	mn lbs	9.0	11.2	(19.7)	2.1	1.9	3.4	1.6
TPM production – gold ⁽¹⁾	koz t	57.2	56.7	0.9	14.0	13.7	14.0	15.5
TPM production – gold – segment (55%)	koz t	31.4	31.2	0.9	7.6	7.6	7.7	8.5

¹⁾ Payable metal in concentrate.

In 2020, work continued aimed at improving asset utilisation efficiency and increasing production capacity. As a result there was a decrease in the number of unplanned maintenance shutdowns caused by breakdowns and an increase in daily average ore throughput from 130 thousand tonnes in the fourth quarter of 2020 (average of 124 thousand tonnes in the entire 2020 as compared to the average of 115 thousand tonnes in 2019), which in turn led to an increase in the amount of ore processed by 8% compared to 2019. The amount of copper in the ore was also higher, and therefore copper recovery was also higher.

These factors led to an increase in payable copper production of more than 37% compared to the amount recorded in 2019.

Despite the higher level of ore processed there was a drop in molybdenum production by 4.0 million pounds, or by nearly 20% compared to 2019, as a result of lower molybdenum content in ore and lower recovery.

9.2. SALES

In 2020, sales revenues amounted to USD 1 210 million (on a 100% basis), or PLN 2 599 million respectively to the 55% interest held by KGHM Polska Miedź S.A.

Table 39. Sales volume and revenues of Sierra Gorda S.C.M.

	Unit	2020	2019	Change (%)	4Q'20	3Q'20	2Q'20	1Q'20
Revenues from contracts with customers,⁽¹⁾ including from the sale of:	USD mn	1 210	947	27.8	436	300	310	164
- copper	USD mn	929	620	49.8	352	232	249	96
- molybdenum	USD mn	142	230	(38.3)	42	30	27	43
- TPM (gold)	USD mn	104	83	25.3	29	25	29	21
Copper sales volume	kt	147.6	111.3	32.6	44.6	33.9	42.1	27.0
Molybdenum sales volume	mn lbs	16.9	21.2	(20.3)	4.6	4.0	3.6	4.7
TPM (gold) sales volume	koz t	56.6	58.1	(2.6)	14.9	12.6	15.9	13.2
Revenues from contracts with customers⁽¹⁾ - segment (55%)	PLN mn	2 599	2 002	29.8	925	625	689	360

¹⁾ reflecting treatment/refining and other charges

The increase in revenues by USD 263 million (+28%) compared to 2019 was mainly due to an increase in the volume of copper sales. Molybdenum sales revenue was lower, mainly due to lower prices and a lower sales volume as a result of mining in areas with lower content of this metal than in 2019.

The impact of individual factors on sales revenue is described in detail in the section discussing the financial results of Sierra Gorda S.C.M.

9.3. COSTS

The cost of sales, selling costs and administrative expenses incurred by Sierra Gorda S.C.M. amounted to USD 958 million, of which USD 71 million were selling costs and USD 39 million administrative expenses. Proportionally to the interest held (55%) the costs of the segment Sierra Gorda amounted to PLN 2 057 million.

Table 40. Costs (prior to the impairment loss on non-current assets) and production cost of payable copper (C1) of Sierra Gorda S.C.M.

	Unit	2020	2019	Change (%)	4Q'20	3Q'20	2Q'20	1Q'20
Cost of sales, selling costs and administrative expenses	USD mn	958	882	8.6	278	212	249	219
Cost of sales, selling costs and administrative expenses – segment (55%)	PLN mn	2 057	1 864	10.4	587	434	556	480
C1 payable copper production cost⁽¹⁾	USD/lb	1.19	1.41	(15.6)	1.08	1.21	1.34	1.15

⁽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 2019, the cost of sales, selling costs and administrative expenses expressed in USD million was 9% higher, with higher processing of ore (+8%) and a 33% higher copper sales volume than recorded in 2019.

The main reason for the increase in costs compared to 2019 was depreciation/amortisation, including mainly the amortisation of capitalised stripping costs due to the scope of work and changes to the mining plan, which impacted expected mining periods and extraction plans for specific mining zones. Depreciation/amortisation costs increased by 52% compared 2019.

In terms of the other main costs items (prior to the change in inventories and less capitalised stripping) the following changes were recorded compared to 2019:

- labour costs – a decrease by 27% due to the impact of wage negotiations reflected in 2019,
- external services – a decrease by 10% due to changes in service providers, changes in agreements and the restriction of certain services of lesser importance due to the epidemiological threat,
- energy – an increase in costs by 1% among others due to a higher volume of ore processing,
- fuel, lubricants and oils – a decrease by 26% due to lower diesel fuel prices which offset an increase in costs due to the extension of ore transport routes and higher extraction,
- spare parts – a decrease in costs by 5% due to a change in the maintenance strategy (the early replacement of components and similar initiatives)
- third-party molybdenum processing costs - a decrease by 29% due to the lower volume of molybdenum production,
- transport and shipping costs – an increase by 17%, mainly with respect to transport by land and sea as well as port-related costs due to the higher volume of copper sales.

The aforementioned percentage changes are referenced to costs expressed in million USD.

The increase in extraction and processing led to a decrease in the unit costs of ore mining and processing. The C1 unit cost of payable copper production was also lower, which in 2020 amounted to 1.19 USD/lb (a decrease by 16% compared to 2019). This improvement was achieved despite a lower deduction from revenues from the sale of associated metals as a result of the lower price and sales volume of molybdenum.

9.4. FINANCIAL RESULTS

STATEMENT OF PROFIT OR LOSS

In 2020, adjusted EBITDA amounted to USD 626 million, of which proportionally to the interest held (55%) PLN 1 346 million is attributable to the KGHM Group.

Table 41. Results of Sierra Gorda S.C.M. in USD million (on a 100% basis)

	2020	2019	Change (%)	4Q'20	3Q'20	2Q'20	1Q'20
Revenues from contracts with customers	1 210	947	27.8	436	300	310	164
Cost of sales, selling costs and administrative expenses	(958)	(882)	8.6	(278)	(212)	(249)	(219)
Profit/(loss) on sales	252	65	x3.9	158	88	61	(55)
Profit/loss for the period	(58)	(263)	(77.9)	94	(13)	(36)	(103)
Depreciation/amortisation recognised in profit or loss	(374)	(247)	51.4	(108)	(78)	(86)	(102)
Adjusted EBITDA⁽¹⁾	626	312	x2.0	266	166	147	47

Table 42. Results of the segment Sierra Gorda S.C.M. proportionally to the interest held (55%) in PLN million

	2020	2019	Change (%)	4Q'20	3Q'20	2Q'20	1Q'20
Revenues from contracts with customers	2 599	2 002	29.8	925	625	689	360
Cost of sales, selling costs and administrative expenses	(2 057)	(1 864)	10.4	(587)	(434)	(556)	(480)
Profit/(loss) on sales	542	138	x3.9	338	191	133	(120)
Profit/loss for the period	(125)	(556)	(77.5)	204	(21)	(82)	(226)
Depreciation/amortisation recognised in profit or loss	(804)	(522)	54.0	(229)	(160)	(191)	(224)
Adjusted EBITDA⁽¹⁾	1 346	660	x2.0	567	351	324	104

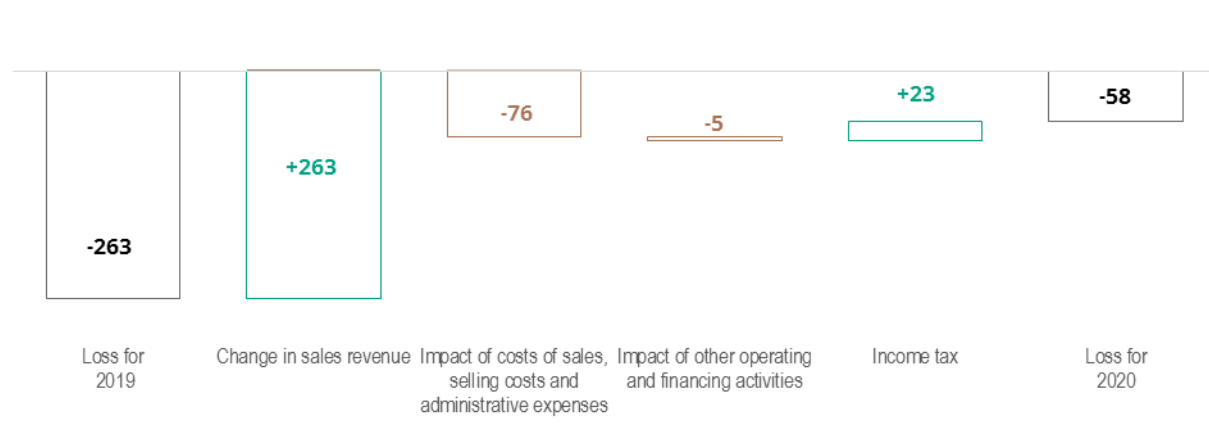
¹⁾ Adjusted EBITDA = profit on sales + depreciation/amortisation (recognised in profit or loss) + impairment loss (-reversal of impairment losses) on non-current assets recognised in cost of sales, selling costs and administrative expenses

A summary of the major factors affecting revenues and costs, and therefore EBITDA, is presented in the following list of the major factors responsible for the lower loss for the period of Sierra Gorda S.C.M. by USD 205 million.

Table 43. Main factors impacting the change in the financial result 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 263 million	+309	Higher revenues from copper sales, including due to an increase in sales volume (+USD 235 million), higher sales prices (+USD 59 million), with a more favourable than in 2019 „Mark to Market“ adjustment (+USD 21 million)
	-88	Lower revenues from molybdenum sales, including due to a lower sales volume (-USD 36 million) and lower prices (-USD 73 million), partially offset by a more favourable „Mark to Market“ adjustment (+USD 20 million)
	+42	Higher revenues from sales of gold and silver, mainly due to higher prices and a higher volume of silver sales
Higher cost of sales, selling costs and administrative expenses - impact on result -USD 76 million	-128	Higher depreciation/amortisation costs
	+72	Change in other cost items, mainly a decrease in: labour costs (+USD 35 million), external services (+USD 20 million) and fuel and oil (+USD 14 million)
	+42	Change in inventories
	-62	Lower capitalised stripping costs which at the same time lower costs in profit or loss, among others due to a lower physical scope and lower unit cost
Impact of other operating and finance activities	-5	A lower result on other operating activities by USD 10 million, with a higher result on financing activities by USD 5 million, mainly due to lower interest on loans drawn to build the mine
Income tax	+23	Mainly impact of reversal of an impairment loss on the deferred tax asset

Chart 34. Change in profit/loss (in USD million)



9.5. CASH EXPENDITURES

In 2020, 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 253 million, of which the majority, or USD 166 million (66%) 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 44. Cash expenditures of Sierra Gorda S.C.M.

	Unit	2020	2019	Change (%)	4Q'20	3Q'20	2Q'20	1Q'20
Cash expenditures on property, plant and equipment	USD mn	253	298	(15.1)	79	58	48	68
Cash expenditures on property, plant and Equipment – segment (55% interest)	PLN mn	544	629	(13.5)	168	120	106	150

The decrease in cash expenditures (expressed in USD) by 15% was due to capitalised stripping costs due to the lower scope of work carried out, and a lower unit cost. Other investment expenditures were higher, mainly due to the advancement of investments related to increasing ore processing capacity.

Proceeds from operating activities in 2020 were nearly twice as high as investment expenditures. Due to the uncertainty associated with the course of the COVID-19 pandemic in the first months of the year, Sierra Gorda took advantage of Owner financing in the amount of USD 95 million (USD 205 million in 2019). During the year Sierra Gorda also drew loans, including USD 200 million granted in the form of a bank loan by Bank Gospodarstwa Krajowego.

10. FINANCIAL RESULTS OF OTHER SEGMENTS

Companies in the remaining segments are very diversified in their operations. They include companies supporting the core business and others of an equity investment nature, as well as companies playing an important role in fulfilling the policy of corporate social responsibility. The segment in addition includes closed-end non-public investment funds and their portfolio companies (including those forming the Polska Grupa Uzdrowisk).

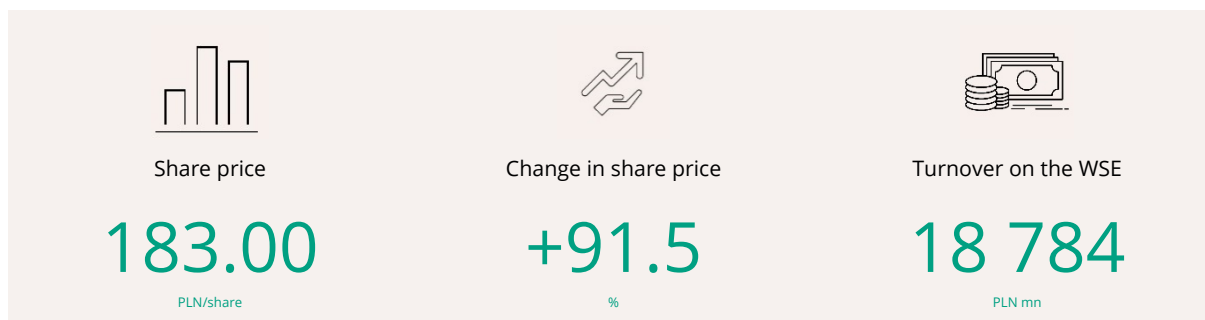
Table 45. Financial results of other segments (prior to consolidation adjustments)

	2020	2019	Change (%)	4Q '20	3Q '20	2Q '20	1Q '20
Sales revenue	7 881	7 448	5.8	2 252	2 117	1 610	1 902
- including from external clients	1 926	2 301	(16.3)	459	482	431	554
Profit/loss on sales	(96)	(203)	(×2.1)	(17)	3	(95)	13
Profit/loss for the period	(35)	(275)	(×7.9)	52	33	(90)	(30)
Depreciation/amortisation recognised in profit or loss	(241)	(242)	(0.4)	(62)	(60)	(59)	(60)
Adjusted EBITDA¹⁾	211	241	(12.4)	19	62	57	73

¹⁾ Adjusted EBITDA = profit/(loss) 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)

In 2020, other segments recorded a loss on sales, prior to recognition of consolidation adjustments, in the amount of PLN 35 million, or an improvement as compared to 2019 by PLN 240 million (the loss for 2019 amounted to PLN 275 million). The significant decrease in the loss for the period was mainly due to the lower impairment losses recognised on the assets of companies of the segment in 2020 compared to 2019.

11. SHAREHOLDERS AND THE CAPITAL MARKET



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

As at 31 December 2020 and as at the date of signing this report, the share capital of the Company, 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, fully paid, 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 does not hold any treasury shares.

In the years ending 31 December 2020 and 31 December 2019 there was no change in either registered share capital or in the number of outstanding shares issued.

In 2020 there were no changes in the ownership structure of significant blocks of shares of KGHM Polska Miedź S.A. In 2019 the Company was informed of a decrease in the share of the total number of votes at the General Meeting of KGHM Polska Miedź S.A. below 5% by the pension fund Otwarty Fundusz Emerytalny PZU „Złota Jesień”.

The Company's shareholder structure as at 31 December 2020 and at the date this report was signed, established on the basis of notifications received by the Company pursuant to art. 69 of the Act on public offerings and conditions governing the introduction of financial instruments to organised trading, and on public companies, was as follows:

Table 46. Shareholder structure as at 31 December 2020 and at the date this report was signed

Shareholder	Number of shares/votes	Interest in the 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	58.14%
Total	200 000 000	100.00%

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

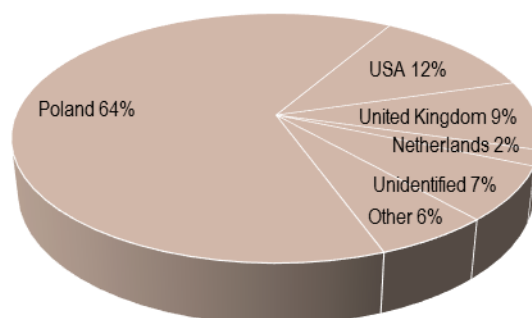
²⁾ based on a notification received by the Company dated 18 August 2016

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 58.14%, are mainly institutional investors, both international and domestic.

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

Chart 35. Geographic shareholder structure of KGHM Polska Miedź S.A. (%)



Source: CMiZi, February 2021

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 and bondholders. Similarly, the Management Board is unaware of any agreements between bondholders, which could result in changes in the number of bonds held by them.

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

Amongst the Members of the Company's Supervisory Board, as at 31 December 2020 and at the date this report was signed, only Józef Czyczerski held 10 shares of KGHM Polska Miedź S.A. with a total nominal value of PLN 100. Based on information held by the Company, the remaining Members of the Company's Supervisory Board did not hold shares of KGHM Polska Miedź S.A. or rights to them.

As far as the Company is aware, Members of the Management Board and Supervisory Board did not hold shares of the related entities of KGHM Polska Miedź S.A. as at 31 December 2020 and at the date this report was signed.

The Company did not have an employee share incentive program in 2020.

11.2. KGHM POLSKA MIEDŹ S.A. ON THE STOCK EXCHANGE

THE SHARES OF KGHM POLSKA MIEDŹ S.A. ON THE WARSAW STOCK EXCHANGE

KGHM Polska Miedź S.A. debuted on the Warsaw Stock Exchange (WSE) in July 1997. The Company's shares are traded on the primary market of the WSE in the continuous trading system and are a component of the WIG, WIG20 and WIG30 main indices as well as the WIG-ESG index published since 3 September 2019, comprising listed companies which adhere to the principles of corporate social responsibility.

KGHM Polska Miedź S.A. is also a component of the sector index WIG-Mining, which in the past year was generally in a rising trend. Moreover, KGHM Polska Miedź S.A. is a component company of the prestigious 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.

The year 2020 was significantly different compared to prior years. As a result of the outbreak of the COVID-19 pandemic, investor activity on the capital market was associated with uncertainty and substantial volatility in investor sentiment. By year's end the WIG index had fallen versus the previous year by 1.4%. During this same period the WIG20 and WIG30 indices recorded declines respectively by 7.7% and 6.5%. In contrast the London-based FTSE 350 mining index – comprised of companies from the mining sector listed on the London Stock Exchange – rose by 13.9%.

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

Chart 36. Percentage change of share price of KGHM Polska Miedź S.A. versus the WIG index and FTSE 350 mining index (compared to the quotations from the last trading day in 2019)



Source: own work, Bloomberg

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

Table 47. Key share price data of the Company on the Warsaw Stock Exchange

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

Source: own work, WSE Statistic Bulletin for 2019 and 2020, Bloomberg

ALLOCATION OF PROFIT

In accordance with Resolution No. 7/2020 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 19 June 2020 regarding the allocation of profit from financial year 2019, all of the profit from this period was transferred to the Company's share capital.

11.3. INVESTOR RELATIONS

The investor relations team maintains an on-going dialogue with the capital market pursuant to its policy of ensuring a transparent company and adherence to stock exchange Best Practices. For KGHM Polska Miedź S.A., as a global company operating on four continents, it is a priority to ensure equal access to information to all members of the global capital markets. KGHM Polska Miedź S.A.'s actions are aimed at maintaining regular communication and transparent dialogue with analysts, institutional and individual investors as well as at ensuring conformance with regulatory legal obligations. The Company fulfils its disclosure obligations by publishing regulatory filings and periodic reports via the official reporting system (ESPI).

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

Domestic and international investor conferences	Company representatives actively meet with investors and analysts in Poland and abroad during conferences organised by brokers. In 2020, the Company took part in more than a dozen investor conferences and more than 100 meetings. Moreover, in 2020 the Company took part in the Finance and Investing Forum organised by the Individual Investors Society in Warsaw.
Results conferences	The Investor Relations Department organises meetings with the Management Board to discuss the financial results of the Company and Group. In 2020 the publication of financial results was accompanied by results conferences open to all stakeholders via webcasts in Polish and English, with the possibility of submitting questions by email. Video recordings of these conferences are available on the Company's website, www.kghm.com , in the section Investors.
Capital Market Days	The Investor Relations Department regularly organises events for the capital market. This type of meeting is aimed at familiarising investors with the degree of advancement of the development strategy as well as with the current operating and financial situation of the KGHM Group and its individual assets. In 2020, due to the COVID-19 pandemic as well as concern for the health and well-being of our employees and investors, the Company decided to defer the organisation of an Analyst Day and an Individual Investor Day.
WallStreet 24 online conference	In 2020 KGHM Polska Miedź S.A. once again actively participated in the WallStreet conference. The Company was a strategic partner for the 24th edition of the conference. This is the largest meeting of individual investors in Poland and was conducted online, with attendance by approx. 11 000 registered participants. Amongst the activities engaged in by KGHM was our participation in the online Your Investments Forum, where we took part in the EU Green Deal discussion. In terms of opportunities and threats facing KGHM, we participated in a debate on Poland's economy in 2021 by leaders of Polish listed companies and gave an interview in the investor magazine Akcjonariusz. Individual investors also had a chance to meet with members of the KGHM Investor Relations team during a Shareholders Fair, in the form of an online chat.
Investor chats	Representatives of the Company are available to individual investors during on-line chats. These are organised on a regular basis following the publication of the Company's financial statements. In 2020, four investor chats were held.

Updating of the IR section on the KGHM website	The Investor Relations Department decided to modernise the Investors section of the KGHM corporate website. This involved not only a substantial technical update of the section, but also represented a fundamental change in way we present content. We simplified the organisation of thematical areas and made it easier to search for key operational and financial information. A new element is the Investor Handbook, where one may find information on how to purchase KGHM's shares, answers to frequently asked questions, basic information about the Company, transcripts of quarterly chats with investors following results announcements and the latest investor presentation, as well as links to our IR Newsletter and investor events. Another new element, of particular importance, is a section devoted to ESG (Environmental, Social, Governance) issues.
ESG	In response to the expectations of stakeholders of the Company as well as to developmental trends and the growing global commitment to reporting questions involving environmental, social and governance issues, in 2020 the Company, in line with its Strategy, initiated a variety of actions aimed at enhancing our transparency in these areas and simplifying the process of seeking information connected with the non-financial reporting of KGHM Polska Miedź S.A. These actions included the Copper Mark initiative, activities related to maintaining our certification within the FTSE4Good Index Series and participation for the first time in the CDP climate survey. In 2020 KGHM provided responses to questionnaires or information requests involving ESG-related questions from, among others: CDP, FTSE Russell, MSCI, Acadian Asset Management, HSBC, Corporate Knights, WOOD & Co., Church of England and PKO BP Securities.
Quarterly IR Newsletter	The IR Newsletter summarises the most important quarterly events and is distributed to subscribers via email. The goal of the Newsletter is to assure its recipients with an accurate source of knowledge about KGHM and the global copper market and to facilitate analysis and assessment of the possibilities associated with investing in the Company's shares. The commencement of publication of the IR Newsletter was met with appreciation by investors and other participants in the capital market. The project received commendation as an example of IR Best Practice during a webinar hosted by the Warsaw Stock Exchange, as well as by the Individual Investors Society.

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

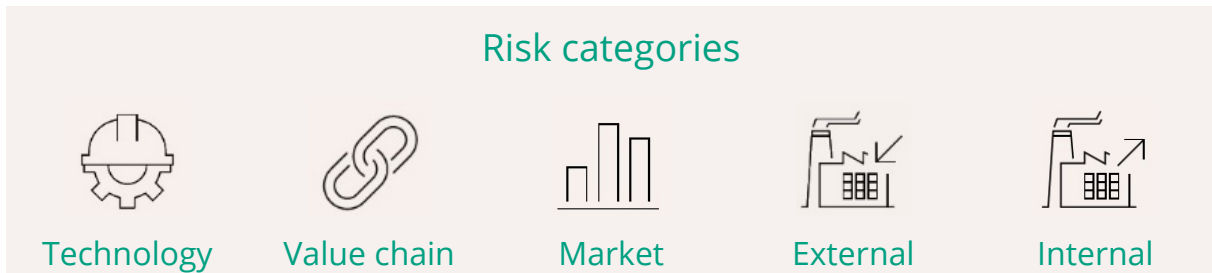
Table 48. Brokerages which prepare reports on KGHM Polska Miedź S.A.

Poland		
Biuro Maklerskie mBanku	Dom Maklerski BOŚ	Santander Biuro Maklerskie
Dom Maklerski Banku Handlowego	Erste Group	IPOPEMA Securities
Biuro Maklerskie PKO BP	Trigon Dom Maklerski	
Abroad		
Bank of America Merrill Lynch	Raiffeisen	Goldman Sachs
Morgan Stanley	UBS	WOOD & Company
JP Morgan	EVA Dimensions	Global Mining Research

AWARDS AND DISTINCTIONS IN 2020 FOR ACTIVITIES RELATED TO COMMUNICATING WITH INVESTORS AND BEING PRESENT ON THE CAPITAL MARKET:

- **Best Investor Relations amongst individual investors** – 3rd place for the KGHM IR Team as judged by individual investors, in a survey on IR quality by the magazine „Parkiet” and the Brokerages Council.
- **IR Excellence award** – the Company earned the maximum number of points in the prestigious IR Excellence Programme for its efforts on behalf of investors and its high standards of communication with them. The Company was also recognised for having sponsored the largest bond offer in 2019.
- **The Best Annual Report 2019** – in a competition organised by the Institute of Accounting and Taxes, KGHM Polska Miedź S.A. was awarded the title The Best of The Best.

12. RISK MANAGEMENT IN THE GROUP



12.1. COMPREHENSIVE RISK MANAGEMENT SYSTEM IN THE KGHM POLSKA MIEDŹ S.A. GROUP

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

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

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

Each year, the process of managing corporate risk is subjected to an efficiency audit compliant with the guidelines of Best Practice for WSE Listed Companies 2016.

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

Diagram 9. Corporate risk management process



STEP 1
Defining the
context

The first step in the process is comprised of three actions: defining the external context, defining the internal context and the risk management context.

The external context is the environment in which the KGHM Polska Miedź S.A. Group advances its Strategy. Here the definition needs to update the understanding of the social, political, legal, regulatory, financial, economic and technological aspects of the environment which affect its activities.

During 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.

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.

STEP 2
Identification
and Evaluation

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.

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:

- **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.
- **Operational continuity** – evaluation of the impact of risk on interruptions to activities resulting in significant/irreversible effects and loss of access to information important from the point of view of conducted activities.

The results of the identification and evaluation of risk is presented in a graphic form, i.e. Risk Maps. These provide a profile of the given risk and support the process of identifying the key risk.

STEP 3
Analysis and
Response

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.

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.

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.

STEP 4
Monitoring and Communication

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).

Effective, well-planned and appropriately performed monitoring of risk enables flexible and prompt reaction to impending changes in the external and internal environments (e.g. risk escalation, changes in actions related to risk response, or risk evaluation parameters, etc.).

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.

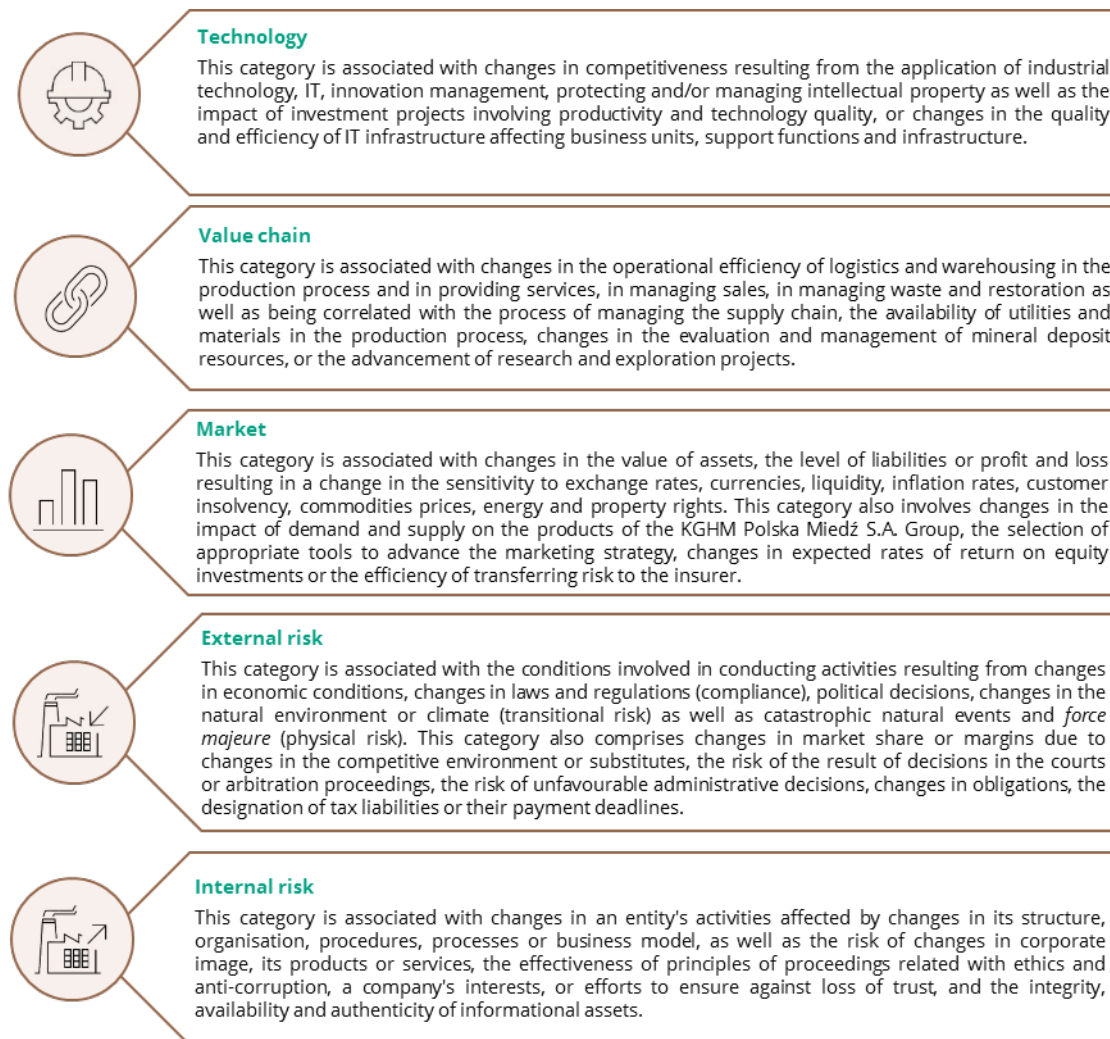
Diagram 10. Organisational structure of risk management in KGHM Polska Miedź S.A

Supervisory Board (Audit Committee)					
Performs annual assessment of the effectiveness of the risk management process and monitors the level of risk factors and ways to address them.					
Management Board					
Has ultimate responsibility for the risk management system and supervision of its individual elements.					
1st line of defense	2nd line of defense				3rd line of defense
Management	Risk Committees				Audit
Managers are responsible for identifying, assessing and analysing risk factors and for the implementation, within their daily duties, of responses to risk. The task of the management staff 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 subordinated business goals, assessed is the current level of risk factors and the degree of efficiency with which they are managed.
	Corporate Risk and Compliance Committee	Market Risk Committee	Credit Risk Committee	Financial Liquidity Committee	
	Manages corporate risk and continuously monitors key risk factors.	Manages risk of changes in metals prices (e.g.: copper and silver) as well as exchange and interest rates.	Manages risk of failure of customers to meet their obligations.	Manages risk of loss of liquidity, understood as the ability to pay financial liabilities on time and to obtain financing for operations.	
	<i>Corporate Risk Management Policy</i> <i>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			
Reports to the Management Board	Reports to the Vice President of the Management Board (Finance)			Reports to the President of the Management Board	

12.2. CORPORATE RISK – KEY RISK FACTORS AND THEIR MITIGATION

A comprehensive approach to risk management is consistent with a strategy of growth as well as with continuous striving to achieve operational excellence and the principles of a sustainable and responsible business. It was designed in such a way as to support the KGHM Polska Miedź S.A. Group in building a resistant corporate structure. A tool used in identifying risk in the KGHM Polska Miedź S.A. Group is the Risk Model. 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 11. Risk categories in the Risk Model of KGHM Polska Miedź S.A.



Following is the description of the key risk factors in the KGHM Polska Miedź S.A. Group in 2020, broken down into individual categories along with means for their mitigation, including identification of specific risks for the Parent Entity and the KGHM INTERNATIONAL LTD. Group. Key risks are future uncertain events having the greatest impact on the achievement of the business goals of the KGHM Polska Miedź S.A. Group, reflecting an evaluation of vulnerabilities, i.e. the ability of the organisation to limit the possibility of the occurrence of risk and the impact of its materialisation.

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

CATEGORY – TECHNOLOGY

Risk and description of risk factors

Mitigation

(Parent Entity)

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

Sources of risk include potential breakdowns of key elements of the core production line and failure to adapt technology to production requirements, which could affect the availability of metallurgical infrastructure. An important risk factor is the need to maintain the production of concentrates in an amount and quality required to optimise the utilisation of the metallurgical facilities. Exposure to risk is also associated with the need to ensure required utilities to maintain the expected level of infrastructure availability.

Optimum utilisation of infrastructure, maintaining an appropriate selection of concentrates, R&D initiatives and advancement of programs and projects to adapt metallurgical structure and technology to ensure higher processing capacity for own concentrates, imported copper-bearing materials and purchased scrap. Actions are continuously undertaken aimed at guaranteeing the technical efficiency of production continuity and servicing systems. A maintenance policy is applied, breakdown procedures have been developed and suppliers are continuously monitored within the scope set forth in instructions and agreements. Actions undertaken are aimed at maintaining the availability of metallurgical equipment at the expected level and improving the productivity parameters of metallurgical infrastructure, as well as limiting the negative impact of this risk on KGHM's operations.

CATEGORY – VALUE CHAIN

Risk and description of risk factors

Mitigation

(KGHM Group)

Risk related to an ineffective process of monitoring and providing early warning to management staff on deviations from the budget and financial plans as well as with respect to adopting inappropriate economic parameters related to production, investments, macroeconomics and finance, for forecasts of company results.

An ineffective process of monitoring and providing early warning to management staff on deviations from the budget and financial plans may impede or delay the appropriate early identification of deviations in respect of forecasted results, at the same time shortening the time for taking appropriate corrective actions. Sources of risk are related to the possibility of ineffective mechanisms to control these processes. In 2020, an important factor impacting exposure to risk was the general uncertainty on financial markets and the risk of recession in global markets related to the COVID-19 pandemic.

Forecasts related to specific areas of the operations prepared by appropriate specialised units and ensuring the uniformity of operating plans with strategic plans. Monthly reporting of execution on forecasts in all critical areas. Regular contacts with and systematic streamlining of the communication process together with setting criteria enabling the identification of symptoms of potential deviations from the expected results of the KGHM Group. Evaluation of key risk factors, on which the coronavirus pandemic has an impact, were subjected to specific analysis by the on-going monitoring of selected information in terms of production, sales, supply chains, management of personnel and finances, aimed at supporting management processes in conditions of heightened uncertainty caused by the pandemic.

(KGHM INTERNATIONAL Group)

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

With respect to risk factors related to the precision of estimated costs of decommissioning certain mines, there are questions related to the need to meet obligatory environmental conditions connected with realistic concepts for such liquidation.

Estimated costs of restoration and mine decommissioning based on expert reports and providing guarantees of future environmental obligations related to the closure and restoration of mining areas in accordance with existing laws and regulations.

(KGHM INTERNATIONAL Group)**Risk related to the insufficient recognition of deposit parameters and characteristics, both in exploration projects (estimation of preliminary data for deposit evaluation models) as well as in current operations.**

The risk of changes in the evaluation and management of ore resources involves, among others, geological factors related to the reliable estimation of resources or mining conditions. Risk factors related to the limited reliability and completeness of data, based on which new resource projects are evaluated, may lead to the taking of less than optimal decisions on advancing or suspending a particular project.

Input data for models are collected in accordance with geological documentation possessed, which is prepared pursuant to laws in force as well as reviewed and consulted internally with experienced staff. The results of current work undergo particular analysis and preliminary project assumptions are updated. Expenditures incurred on exploration and evaluation enable the estimation of mineral resources and investigation of geological-mining conditions aimed at planning further mining activities.

(Parent Entity)**Risk of the inability to store mine tailings.**

The KGHM Group is exposed to the risk of a lack of sufficient tailings storage capacity due to delays in the expansion of the Żelazny Most Tailings Storage Facility. Risk factors involve the management and control of the project and may affect its budget, schedule and assumed results and may lead to a failure to adhere to the technological regime for designing and execution. Another source of risk are external factors with respect to administrative bodies, as for the advancement of such a project it is necessary to obtain required administrative decisions. Exposure to risk is also related with eventual unplanned shutdowns resulting from infrastructure breakdowns, which could impact the continuity of KGHM's operations.

Operating, building and expanding the storage facility in accordance with the operating instructions. Cooperation with a team of international experts (TIE) and a General Designer during the investment process. Applying observational methods based on assessing the geotechnical parameters obtained on the basis of evaluations of the results of monitoring, enabling conclusions to be drawn about the functioning of the expanded and operated facility. Systematic supervision and control over the entire investment process of the expansion of the Żelazny Most Tailings Storage Facility.

(KGHM Group)**Risk related to the lack of availability of required energy sources.**

The KGHM Group is exposed to the risk of lack of availability of power sources for its operations. Potential disruptions in the supply of key power sources is mainly related to risk on the part of external suppliers and breakdowns of their distribution infrastructure. Risk is also related to the suspension of delivery of power supplies as a result of periodic, long-lasting droughts. A consequence of global climate change may be among others a lack of rainfall, leading to periodically lower water levels in rivers, which could cause restrictions in the operations of power plants belonging to KGHM's suppliers, due to a deficit in water which is required for cooling or as a result of breaches of the acceptable temperature for water discharged to rivers. Amongst internal factors, the most important involve questions of maintaining operations, utilisation and investments and modernisation work.

Ensuring back-up systems for the supply of critical utilities and on-going assessment of the security of the power network. Conducting a variety of investments aimed at strengthening energy security. A framework agreement with the company Polskie Górnictwo Naftowe i Gazownictwo S.A. for the sale of natural gas to increase the security of natural gas supply. Systematic limitation of energy consumption under the implemented, PN-EN ISO50001:2018 compliant Energy Management System and Energy Savings Program (POE). Planned increase in the efficiency and flexibility of the KGHM Group in terms of its Polish and international assets, among others by partially satisfying the needs for electricity from its own sources as well as from renewable energy sources („RES”) by the end of 2030.

(KGHM Group)**Risk related to infrastructure breakdowns which disrupt the core production operations, related to natural hazards as well as internal factors related to the applied technology.**

The KGHM Group is exposed to risk related to the technological potential and efficiency of its infrastructure to meet the needs of the production process. By utilising infrastructure required to maintain its operations, KGHM is exposed to the risk of industrial breakdowns resulting in unplanned shutdowns. Such breakdowns could result both from natural hazards, i.e. catastrophic natural events and *force majeure* (including as a result of climate-related changes leading to frequent occurrences of extreme weather phenomena), as well as internal factors dependent on the KGHM Group (on-going operations, maintaining production, key suppliers, servicing).

Preventive management of key infrastructure elements affecting production continuity. Appointment of a taskforce and expert teams with respect to counteracting breakdowns of metallurgical infrastructure. On-going analysis of geotechnical risk and the verification of planned recoveries. In terms of ICT (information-communication technology) separating groups of projects related to reducing technological debt. Gradual replacement of older technology with newer solutions, reflecting the corporate architecture standard.

(KGHM Group)**Risk related to the cost efficiency of the production process, mining projects, processing of copper-bearing materials, reflecting the risk of a substantial rise in prices of materials, services, electricity, gas and water and restoration costs.**

The KGHM Group is exposed to the risk of external and internal factors, such as metals prices, exchange rates, costs of supply of purchased metal-bearing materials, the level of TC/RCs and selling premiums and costs of services and of electricity, gas and water. This risk is also related to the estimation of costs of provisions for the restoration of mining terrain based on existing law for the territories in which the KGHM Group operates.

On-going control of processing costs, monitoring the market situation, optimising costs, including supplies of purchased metal-bearing materials, hedging transactions and management of the net position. Hedging to secure the Company against changes in the USD/PLN exchange rate and metals prices (mainly copper and silver). Creating multi-year plans and budgets enabling the achievement of profitability under conditions prevailing on the market. Evaluation of key risk factors, on which the coronavirus pandemic has an impact, were subjected to specific analysis by the on-going monitoring of selected information in terms of production, sales, supply chains, management of personnel and finances, aimed at supporting management processes in conditions of heightened uncertainty caused by the pandemic.

In 2020, an important factor affecting exposure to risk was the general uncertainty on financial markets and the risk of recession in global markets related to the COVID-19 pandemic.

(KGHM Group)**The risk of interruptions to the continuity of sales and services (including due to the COVID-19 pandemic).**

The KGHM Group, due to its well-developed sales and services structure, is exposed to the risk of interruptions to the continuity of these processes, mainly due to external factors. Sources of risk are changes in demand for certain product groups and on individual geographic markets, production restrictions, transport and logistical interruptions (especially in terms of international transport), *force majeure* (extreme weather phenomena) and operational restrictions due to laws introduced at the domestic and international level. This risk has a substantial potential to decrease the revenues generated by the KGHM Group, and consequently lower operating profits.

In 2020, an important factor affecting exposure to risk was the general uncertainty on financial markets and the risk of recession in global markets related to the COVID-19 pandemic.

On-going monitoring of the situation prevalent amongst customers, enabling a rapid response to customer needs (such as regular teleconferences, the availability and mobilisation of employees, the utilisation of various channels to exchange information and react to interruptions), analysis of the situation's impact on customers and logistics in individual customer countries as well as transit routes, rapid changes in the structure of sales (changes of sales in individual assortments, amongst customers from individual sectors and on individual geographic markets enabling reaction to potential changes in demand in individual consumer sectors). Diversification made to customer portfolios, providing the possibility to neutralise smaller orders from some customers by selling more to others, participation in the spot market (enabling immediate product allocation given actual customer demand) apart from the main strategy based on carrying out long-term and annual contracts on the basis of long-term business relationships.

In 2020, the COVID-19 pandemic had the greatest impact on the Group's secondary activities comprised of hotel and spa services. During the temporary shutdown of these facilities, the KGHM Polska Miedź S.A. Group's hotels and spas implemented a variety of safety procedures, aimed at protecting hotel and spa customers as well as employees of these companies from the risk of infection by the COVID-19 virus. The spa and hotel companies of KGHM Polska Miedź S.A. took part in the Polish Tourist Voucher program and applied to the Polish Development Fund for subsidies under the Anti-Crisis Shield, as a result of which some of these companies have already received funds. Due to the inability to offset these risk factors, the temporary lockdown and freezing of the basic activities of the spa and hotel companies led to a drop in their revenues. Despite the on-going state of pandemic, the spa and hotel facilities are fully prepared to provide services and welcome customers under a full sanitary regime.

CATEGORY - MARKET*Risk and description of risk factors***(KGHM Group)****Market risk related to volatility in metals prices and risk of changes in exchange rates and interest rates.**

Market risk is understood as the possibility of a negative impact on the results of the KGHM Group resulting from changes in the market prices of goods, exchange rates and interest rates, as well as changes in the value of debt securities and in the share prices of listed companies.

In 2020, an important factor affecting exposure to risk was the general uncertainty on financial markets and the risk of recession in global markets related to the COVID-19 pandemic.

Mitigation

This risk is actively managed by the Parent Entity, in accordance with the Market Risk Management Policy. A basic technique for managing market risk in the company are hedging strategies utilising derivative instruments. Natural hedging is also applied.

From the KGHM Group's point of view, an important effect of the coronavirus pandemic in 2020 was its impact on market risk related to volatility in metals prices and in stock exchange indices. Information on the impact of COVID-19 on the functioning of the Company and Group is described in detail in section 6.6.

Expanded information on market risk is presented in section 12.3 Market, credit and liquidity risk.

(KGHM Group)**Credit risk related to trade receivables.**

The KGHM Group sells some of its products to commercial entities with deferred payment terms, as a result of which there may arise the risk of late payments for products delivered.

In 2020, an important factor affecting exposure to risk was the general uncertainty on financial markets and the risk of recession in global markets related to the COVID-19 pandemic.

This risk is actively managed by the Parent Entity, in accordance with the Credit Risk Management Policy. Exposure to credit risk is limited by evaluating and monitoring the financial condition of customers, setting credit limits and applying creditor security. The companies of the KGHM Group have been working for many years with a large number of customers, which affects the geographic diversification of trade receivables.

From the KGHM Group's point of view, an important effect of the coronavirus pandemic in 2020 was its impact on risk related to the payment of liabilities by customers on time. Information on the impact of COVID-19 on the functioning of the Company and Group is described in detail in section 6.6.

Expanded information on credit risk is presented in section 12.3 Market, credit and liquidity risk.

(KGHM Group)**Liquidity risk.**

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

In 2020, an important factor affecting exposure to risk was the general uncertainty on financial markets and the risk of recession in global markets related to the COVID-19 pandemic.

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

From the KGHM Group's point of view, an important effect of the coronavirus pandemic in 2020 was its impact on the risk of loss of liquidity related to volatility in metals prices and in stock exchange indices in 2020. Information on the impact of COVID-19 on the functioning of the Company and Group is described in detail in section 6.6.

Expanded information on liquidity risk is presented in section 12.3 Market, credit and liquidity risk.

CATEGORY – EXTERNAL RISKS*Risk and description of risk factors**Mitigation***(KGHM Group)****Risk of seismic tremors and associated roof collapses or distressings of the rock mass, and the occurrence of uncontrolled rock bursts.**

The KGHM Group is exposed to the risk of natural hazards and *force majeure* and related insufficient geological knowledge of the rockmass. Key risk factors which affect the materialisation of such risk also involve the results of periodic analyses of the mining situation and the state of hazard and applied measurement methods. Natural hazards associated with the underground mining of copper ore deposits, in particular hazards related to mining tremors and their potential effects in the form of roof and wall collapses. These factors affect safety, as their occurrence can lead to serious or even fatal injuries as well as damage to underground machinery, equipment and infrastructure, along with production downtimes.

Actions aimed at preventing rock bursts and roof collapses, such as systematic seismological observations, on-going assessment of the rock mass and the marking off of areas of particular threat of roof collapse. Use of active methods of preventing rock bursts and roof collapses based on provoking dynamic events through mass blasting of mining faces and through blasting to release stress in the orebody or its roof. Preparation of reserve fields in the orebody which could handle limited production.

(Parent Entity)**Risk of restrictions to production or to the advancement of development work due to geodynamic gas-related events and the occurrence of naturally-occurring gases.**

KGHM is exposed to the specific risk of natural hazards and *force majeure* (gas-related geodynamic hazards and the occurrence of naturally-occurring hazardous gases) leading to restrictions in realising production plans and the advance of preparatory work. These factors affect safety, as their occurrence can lead to serious or even fatal injuries as well as damage to underground machinery, equipment and infrastructure, along with production downtimes.

The risk of gas hazards occurring is being assessed and principles are being developed for working under the risk of such hazards. Individual employee safety measures are applied as well as equipment and means for reducing concentrations of hydrogen sulphides and neutralising oppressive odours. The preparation of reserve fields which could take over the restricted production.

(Parent Entity)**Risk of production restrictions due to unfavourable climatic conditions in the mines.**

KGHM is exposed to a specific risk related to climatic conditions restricting activities or increasing costs, related to geological conditions, the temperature of the air sent into the mines and the conditions prevalent in the underground mines.

The use of solutions to counteract underground climate risk using neutral means (e.g. the use of short airways and directing air from the lowest temperature rockmass, high-speed air) and through the use of central, workplace and personal air conditioning. The on-going monitoring of microclimate parameters and the introduction of remote control and visualisation systems and monitoring (industrial cameras) in working areas subject to particularly unfavourable climatic parameters. Decreasing external and internal losses and relative air moisture, as well as increasing air movement intensity. The use of shortened working time.

(Parent Entity)**Risk of loss of mine functionality due to underground water hazards.**

KGHM is exposed to the risk of natural hazards and *force majeure* in the form of underground water hazards resulting from breakdowns of the main dewatering equipment, human error (actions contrary to the project or technology) or mistaken geological conclusions.

Research into hydrogeological conditions and water hazards, measuring water inflow to the mines, conducting mining operations pursuant with technology for the safe conduct of mining operations in underground mines. Systematic control of mining areas threatened by water inflow, control of water flow pathways and dams according to a set schedule. The preparation and updating of the Rescue Plan in case of water inflow. Development of regional pumps and the piping system, construction of water dams aimed at restricting water inflow, drilling exploratory holes to stabilise uncontrolled water inflow. To minimise the risk of uncontrolled underground water inflow, a project is underway called „Construction of a main dewatering complex in the region of the SW-4 shaft“, aimed at increasing the dewatering capabilities of the mines.

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

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

Undertaking actions under the Air Protection Programs and R&D work. Advancement of the Program to adapt the technological installations of KGHM to BAT conclusions for the nonferrous metals industry together with restriction of arsenic emissions (BAT'As).

(Parent Entity)**Risk of restrictions to the ability to sell sulphuric acid (due to loss of market/customers and/or a drop in demand as well as due to the COVID-19 pandemic).**

Risk related to macro- and microeconomic factors involving political actions which result in privileges for a specific group of producers or the introduction of additional fees/legal restrictions. Risk related to unfavourable prices (volatility to the disadvantage of KGHM), high requirements in terms of market parameters for selling sulphuric acid and lower demand for the product on international markets, including as a result of the deterioration in the financial condition of a key customer.

In 2020, an important factor affecting exposure to risk was the situation on the fertilizers market related to the COVID-19 pandemic.

Increase the number of internal storage facilities at the metallurgical plants as well as of warehouses in Szczecin. Search for new sales markets. Long term contracts. Incur costs of additional storage. Payments to customers and incur transport costs. Search for alternative ways to manage the acid and utilise it in the Concentrators. In 2020 actions were continuously taken related to the situation on the fertilizers market as a result of the COVID-19 pandemic, i.e. delayed pick-ups and maintaining high inventories of raw materials and fertilizers by customers.

(KGHM Group)**Risk related to interruptions in the supply of strategic materials and components affecting the continuity of production by the Core Business (including due to the COVID-19 pandemic)**

The KGHM Group is exposed to the risk of interruptions in the management of the supply chain resulting mainly from external factors, resulting in an increase in supply chain sensitivity. These factors include unpredictable volatility in supply and demand (which could also be due to customer expectations towards goods whose process of production does not negatively impact climate change), changes in supplier bases, technological changes, changes in inventory buffers and in timeframes for realising orders, dependency on suppliers, as well as logistical interruptions, *force majeure* (breaks in the supply chain and logistical interruptions in being supplied as a result of more frequent extreme weather phenomena on land and sea as a result of climate change) and volatility in exchange rates and metals prices.

In 2020, an important factor affecting exposure to risk was the general uncertainty on financial markets and the risk of recession in global markets related to the COVID-19 pandemic.

Continuous contact is maintained with suppliers, which enables prompt reaction to delays by utilising the strategy of diversification of suppliers and directions of deliveries applied by the KGHM Group and by applying alternative solutions, for example by using substitutes, changes in production/assembly schedules. Moreover, a plan has been developed for the KGHM Group to maintain operational continuity in case of restrictions, production suspensions or the temporary switch to a stand-by operating mode. Suppliers and inventory levels are continuously monitored. As a result of the COVID-19 pandemic actions are being systematically taken to eliminate sporadic instances of delays by suppliers due to lack of availability of components, logistical restrictions or delays by producers of materials and equipment or parts thereof.

(KGHM Group)**Risk of failure to adhere to established principles and standards of behaviour with respect to counteracting corruption and with respect to the procurement process as well as the risk of incurring losses from actions which are harmful to KGHM.**

The KGHM Group is exposed to the risk of actions which are harmful to KGHM taken by external entities participating in the processes of procurement, sales and investment. Threats are in the form of potential losses by the KGHM Group resulting from the intentional actions of external entities, i.e. collusion over minimum pricing, the insufficient technical and economic potential of contractors, falsification of documentation, fictional contractors, conflicts of interest. Other important risk factors include threats as regards all types of improprieties related to breaching anti-corruption and ethical standards by employees of the KGHM Group (such as corruption, conflicts of interest, abuse, discrimination, illegality, nepotism).

Implementation of the Code of Ethics of the KGHM Polska Miedź S.A. Group as the main tool in the corporate culture of the KGHM Group, and other appropriate policies and procedures ensuring the efficiency of implemented principles and values. Meeting global corporate governance standards and increased stakeholder expectations, including above all those of customers and financial institutions. Application under the Responsible Supply Chain Policy of guarantees of the selection of responsible suppliers, especially in the case of acquiring so-called conflict minerals and ensuring that the goods and services acquired by the KGHM Group will not be used to finance terrorism, and that they will be manufactured or provided while respecting human rights, labour standards, environmental protection and counteracting corruption. Proactive monitoring and analysis of procurement processes in terms of identifying abuse and threats of corruption within the organisation and the supply chain, as well as undertaking actions with respect to ethics and counteracting corruption along with the implementation of corrective actions. Internal control with respect to the identification and uncovering of fraud, abuse and corruption in KGHM Group entities and the prevention of such based on the Internal Control Procedure in order to eliminate risk at the level of prevention. The management of compliance under a comprehensive compliance management system.

(KGHM Group)**Risk of loss of compliance with requirements (general laws in force, internal corporate regulations and voluntarily-adopted legal obligations and standards)**

The KGHM Group operates in unstable regulatory environments in many jurisdictions. A consequence of the need for technological and organisational adaptation to a variable legal environment (including environmental requirements) may be higher costs of activities or their limitation. Risk of interruptions to operations or the need to reorganise work as a result of new laws may have a significant impact on the KGHM Group's activities (including the risk of switching to a low-emissions economy, a circular economy).

Active cooperation with the academic environment, which issues opinions on changes to legal acts, and the on-going providing of positions and opinions with respect to numerous areas subject to legislative change (including as part of the membership of numerous organisations at the national and EU level). Cooperation with renowned law firms and the creation of specialised organisational units which monitor the regulatory environment. Taking preventive actions aimed at adapting to organisational, infrastructural and technological changes. In order to have a consistent approach to ensuring compliance, defined as adherence to requirements arising from laws in force (external and internal) or voluntarily-adopted 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. Having a consistent compliance system in the KGHM Polska Miedź S.A. Group is an element of effective corporate governance management by among others more efficient reaction to and preparedness for regulatory changes, protecting reputation and building an ethical culture in the organisation as well as increasing awareness and a sense of accountability for compliance amongst employees.

(KGHM Group)**Climate risk related to the negative impact of climate change to the activities of the KGHM Group.**

The KGHM Group is exposed to the risk of climate change due to its negative impact on the company. Exposure to this risk is related to factors arising from specified events, in particular related to extreme weather phenomena, such as storms, floods, fires or heat waves, which could interrupt the values chain or the continuity of operations by the Core Business. This risk is related to changes in the conditions under which activities are conducted as a result of environmental or climate change.

The commencement of work on the preparation of a climate policy, which will represent a systemic solution for the implementation of the Communication of the European Commission, representing Guidelines on non-financial reporting: Supplement on reporting climate-related information (2019/C 209/01) together with an annex in the form of Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), in that part comprising Metals and Mining. It will also comprise medium-term (to 2030) and long-term (to 2050) timeframes with quantitative goals with respect to minimising actions in regions exposed to long-term or severe physical risk. Carrying out systemic solutions reflecting potential approaches to environmental sustainability pursuant to the EU Regulation of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment and on sustainability-related disclosures in the financial services sector (2020/852, 2019/2088).

Inclusion in the KGHM Group's Strategy of global trends related to determinative, climate-related environmental challenges. An effective risk management system which also comprises climate risk management reflecting the categorisation, identification, evaluation and means of dealing with these risks with plans for their mitigation.

CATEGORY – INTERNAL RISKS*Risk and description of risk factors**Mitigation***(KGHM Group)****The risk of serious accidents or industrial illnesses caused by improper workplace organisation, the failure to follow procedures or the use of improper protective measures.**

The failure to adhere to occupational health and safety rules and procedures, as well as the employment of persons lacking an appropriate psychophysical predisposition, could be a source of potential accidents. Exposure to unfavourable natural conditions together with associated natural hazards requires, apart from the high requirements in terms of essential professional preparation, that employees possess appropriate qualifications in terms of health, physical ability and psychological fitness. Risk is also associated with the possibility of temporary production stoppages caused by serious accidents, which could potentially affect the operations of the KGHM Group financially, legally and image-wise. The KGHM Group is also exposed to the risk of professional illnesses as a result of the impact of the workplace environment on people. Enhanced exposure to risk is also associated with external factors in the form of sub-contractors and their safety culture.

A detailed division of obligations between management and supervisory staff on the one hand and entities providing services to the Company on the other, to ensure safe working conditions and the proper coordination of work. Systematic discussion of workplace safety with the participation of representatives of sub-contractors and mining oversight authorities. Engaging employees and sub-contractors in campaigns carried out in the KGHM Group aimed at improving OHS standards. Advancement of development initiatives based on the idea of sustainable development and safety and enhancing the Group's image as being socially responsible under the adopted Strategy. Actions consistent with the cycle of self-improvement in order to continuously seek and prepare for implementation the catalogue of initiatives aimed at further improvement of OHS and advancement of the long-term goal of the Company, „Zero accidents due to human and technical errors“. Optimisation of health care for employees, especially following workplace accidents and the systematic search for new organisational and technical initiatives enabling achievement of a high level of safety for employees in the divisions of KGHM Polska Miedź S.A. Threats are identified and professional risk is evaluated on a cyclical basis as well as in accordance with the needs of the moment, including those related to the SARS-CoV-2 virus pandemic.

(KGHM Group)**The risk of lack of acceptance by the public, local governments or other stakeholders for the conduct of development and exploration work.**

The KGHM Group is exposed to the risk of exposure to external factors involving the environment in which it operates and consequently, exposure to changes in the image of the organisation and its products or services. Risk of ineffective management of relations with stakeholders, which affects the willingness of the environment and the taking of actions towards the Group. In extreme cases, the materialisation of this risk may lead to the blocking of development plans. Risk related to the heightened expectations and awareness by stakeholders of questions related to the climate and the environment, which could lead to higher operating and investment costs, and in extreme cases to their limitation. Variable consumer requirements, which is also connected with paying attention to the manner of production, and not only to the quality and price of the final good.

Advancement of CSR Strategy and close cooperation with government bodies. Meetings and negotiations with stakeholders, informational campaigns, conferences, publications. Cooperation with academic and sector bodies and authorities in order to meet the highest communication-public relations standards. Caring about and paying due diligence to the identification of expectations and demands by the external environment in terms of climate and environmental questions. Establishing commercial and business relationships with entities who openly declare an attitude of caring about environmental protection and compliance with existing laws in this regard.

(KGHM Group)**The risk of not being able to secure appropriate staff to advance the Group's business goals (including the lack of sufficient human resources to maintain the continuity of the Core Business operations due to the COVID-19 pandemic)**

The risk of not being able to acquire and keep human resources, among others to support on-going operations and development projects. The KGHM Group is exposed to risk related to the availability of qualified staff in the market as well as on-going identification of staffing needs in terms of required qualifications and supplying them while reflecting staffing fluctuations. Of significance is access to qualified employees in the future in the context of an aging society and a market deficit of certain professions.

In 2020, an important factor affecting exposure to risk was the COVID-19 pandemic and its impact on the availability in particular of key employees necessary to maintain the continuity of the Core Business.

Advancing a variety of HR projects, identification of potential successors for key positions (including in terms of mobility) and preparations for advancement. On-going comparison of remuneration packages (including in relation to working conditions) to offers on the market. Cooperation with schools and universities to promote the company as an employer and to ensure qualified employees. Implementation of programs to develop employee skills and to secure funds for this purpose. Development of recruiting tools and the identification of key skills to advance the company's business goals.

In 2020, following the appearance of the initial information on the coronavirus, existing solutions in the KGHM Group underwent analysis and evaluation in terms of ensuring employee safety and the implementation of additional solutions aimed at limiting the risk of spreading the virus amongst the staff. Among others the operations of the Core Business were analysed in terms of the processes involved in maintaining their continuity, operating procedures were developed in case of the need to limit or cease production, concepts were prepared for new working systems enabling contact between working shifts, key employees/specialists were identified who are vital to ensuring the operational continuity of these processes as well as potential substitutes for these individuals. Restrictions were introduced to direct contact along with distancing rules between employees, and procedures were implemented on what to do in the case of detection of SARS CoV-2 amongst the employees in line with the guidelines of appropriate governmental institutions. Solutions already implemented in the KGHM Group are systematically analysed and evaluated in terms of ensuring employee safety, and additional solutions are continuously being implemented to limit the risk of spreading the virus amongst the staff.

(KGHM Group)

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

The KGHM Group, due to its well-developed IT structure, is exposed to the risk of a breach in the confidentiality, integrity or availability of informational assets which have been collected, stored or processed on IT resources. The sources of this risk are both forces of nature (e.g. fires, construction catastrophes, downpours) as well as hazards arising from human activities (intentional or not). The KGHM Group is exposed to the risk of an unauthorised loss, change or destruction of critical data and information as well as loss of the possibility of the operational control of equipment and systems as a result of cybernetic attacks on the infrastructure of the KGHM Group. Such incidents could generate the risk of production shutdowns, leading to production and financial losses and claims due to the loss/disclosure of personal data. This risk has a large impact on the reputation of the KGHM Group.

Strict adherence to and application of principles arising among others from the IT Security Policy and from Facility Protection Plans. The systematic evaluation of risk of loss of the confidentiality, integrity or availability of informational assets which have been collected, stored or processed on IT resources. On-going monitoring of the usefulness of existing infrastructure as well as the analysis of and planning for the implementation of teleinformational solutions to increase security, in accordance with global trends and best practice in this regard. Implementation of security systems and adequate organisational solutions at various levels of the company's infrastructure, aimed at staying ahead of any decrease in the utility of systems at risk and minimising the potential losses of the KGHM Group.

(KGHM Group)

The risk of exceeding project/program budgets and schedules, deviating from defined scopes and failing to meet defined quality parameters as a result of the improper management of portfolios and projects. Risk related to the operational management and development of key mining projects, reflecting the question of incurred costs, permits and infrastructural requirements.

The KGHM Group is exposed to risk related to the advancement of projects and programs as a result of their improper management. The risk of changes in budgets, schedule, scope and deviations from the expected quality of project products and/or programs is related to a variety of factors of an internal nature involving both the methodical approach and the projected structure of management and supervision. Improperly selected tools and techniques, lack of established criteria and principles for evaluating projects, or inconsistency in their application or adherence to them may restrict or prevent the achievement of the KGHM Group's strategic goals. In terms of external factors, there remains the question of meeting legal and formal requirements which could generate deviations from the assumed schedule, and in extreme instances may halt the advancement of a project/program.

Improve standards in the management of portfolios and projects and implement a projects management system aimed at supporting the organisation in the planning and management of portfolios and projects. Standardisation of planning and preparation processes and in the advancement of investment projects, comprising such aspects as scheduling, preparing costs projections, technical designing, project review, investment handover documentation, risk analysis of projects/programs. Management of projects in accordance with international standards and conducting on-going monitoring of progress. On-going evaluation of the economic feasibility of existing and anticipated development projects.

12.3. MARKET, CREDIT AND LIQUIDITY RISK

The goal of market, credit and liquidity risk management in the KGHM Polska Miedź S.A. Group is to restrict the undesired impact of financial factors on cash flow and results in the short and medium terms and to enhance the Group's value over the long term. The management of risk includes both the elements of risk identification and measurement as well as its restriction to acceptable levels. The process of risk management is supported by an appropriate policy, organisational structure and procedures. In the Parent Entity these issues are covered in the following documents:

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

The „Market Risk Management Policy in the KGHM Polska Miedź S.A. Group“ covers selected mining companies in the Group (KGHM Polska Miedź S.A., KGHM INTERNATIONAL LTD., FNX Mining Company Inc., Robinson Nevada Mining Company, KGHM AJAX MINING Inc. and Sociedad Contractual Minera Franke).

Financial liquidity management is carried out in accordance with the „Financial Liquidity Management Policy in the KGHM Group“ which in a comprehensive manner regulates financial liquidity management in the Group carried out by individual Group companies, while its organisation and coordination as well as the supervision thereof is performed in the Parent Entity.

Credit risk management in the Parent Entity is carried out in accordance with the Management Board-approved Credit Risk Management Policy. The Parent Entity serves as an advisor to the Group's companies with respect to managing credit risk. The „Credit Risk Management Policy in the KGHM Polska Miedź S.A. Group“ applies to selected Group companies, the goal of which is to introduce a comprehensive, joint approach and the most important elements of the credit risk management process.

12.4. MARKET RISK MANAGEMENT

Market risk is understood as the possible negative impact on the Group's results arising from changes in the market prices of commodities, exchange rates and interest rates, as well as from changes in the value of debt securities and share prices of listed companies.

In terms of market risk management (in particular the risk of changes in metals prices and exchange rates) of greatest significance and impact on the results of the Group are the scale and nature of the activities of the Parent Entity and the mining companies of KGHM INTERNATIONAL LTD.

The Parent Entity actively manages market risk, undertaking actions and decisions in this regard within the context of the global exposure throughout the KGHM Polska Miedź S.A. Group.

The Management Board is responsible for market risk management in the Parent Entity and for adherence to policy in this regard. The main body involved in performing market risk management is the Market Risk Committee, which makes recommendations to the Management Board in this area.

Commodity risk, currency risk

In 2020, the Group was mainly exposed to the risk of the changes in the prices of metals it sells: copper and silver. Of major significance for the Parent Entity was the risk of changes in currency rates, in particular the USD/PLN exchange rate. The Group's companies are additionally exposed to the risk of volatility in the prices of other metals. Market risk related to changes in metals prices arises from the formula for setting prices in physical metals sales contracts, which are usually based on the average monthly market prices for the relevant future month.

In accordance with the Market Risk Management Policy, in 2020 the Parent Entity continuously identified and measured market risk related to changes in metals prices, exchange rates and interest rates (analysis of the impact of market risk factors on the Parent Entity's activities – profit or loss, statement of financial position, statement of cash flows), and also analysed the metals, currencies and interest rates markets. These analyses, along with assessment of the internal situation of the Parent Entity and Group, represented the basis for taking decisions on the application of hedging strategies on the metals, currency and interest rates markets.

With respect to strategic management of market risk, in 2020 the Parent Entity implemented strategies hedging against market risk on the copper and silver markets. On the copper market, seagull hedging strategies were implemented and put options were purchased hedging future sales revenues for the years 2021-2023 with a total notional amount of 402 thousand tonnes. The main goal of the implemented strategies on the copper market was to secure the Company's revenues in 2021 against the realisation of a negative pricing scenario resulting from the economic crisis caused by the pandemic. On the silver market, a seagull structure was implemented hedging future sales revenues for the years 2021-2023 with a notional amount of 24.6 million ounces. In addition, in 2020 the Parent Entity managed an open hedging position by restructuring an options structure on the copper market.

In terms of managing currency risk, in 2020 the Parent Entity implemented options structures hedging against a change in the USD/PLN exchange rate for the years 2022-2023 with a total notional amount of USD 720 million. Seagull options structures were purchased. In addition, in 2020 an open hedging position was managed by restructuring an options structure on the currency market.

As at 31 December 2020, the Parent Entity also held open CIRS (Cross Currency Interest Rate Swap) transactions for the notional amount of PLN 2 billion, hedging against market risk related to the issue of bonds in PLN with a variable interest rate. Debt due to bonds denominated in PLN generate currency risk due to the fact that most of the Parent Entity's sales revenue is denominated in USD.

In terms of managing currency risk, the Parent Entity applies natural hedging by borrowing in currencies in which it has revenues. The value of bank and investment loans as at 31 December 2020 drawn in USD, following their translation into PLN, amounted to PLN 4 321 million (as at 31 December 2019: PLN 4 980 million).

In 2020, none of the Group's mining subsidiaries implemented forward transactions on the metals and currency markets and did not hold open positions as at 31 December 2020. Risk related to changes in metals prices did however exist in the case of embedded derivative instruments in long-term contracts for the supply of sulphuric acid and water as well as embedded derivative instruments in contracts for the purchase of metal-bearing materials.

Some of the Group's Polish companies managed the currency risk related to their core businesses by opening derivative transactions on the EUR/PLN and USD/PLN markets.

Interest rate risk

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

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

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

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

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

As at 31 December 2020, the Parent Entity held open CIRS (Cross Currency Interest Rate Swap) transactions for the notional amount of PLN 2 billion, hedging against market risk related to the issue of bonds in PLN with a variable interest rate.

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

Price risk related to the shares of listed companies held by the Group is understood as the change in their fair value due to changes in their quoted share prices.

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

Result on derivatives and hedging transactions

The total impact of derivatives and hedging instruments (transactions on the copper, silver, currency and interest rate markets as well as embedded derivatives and USD-denominated loans designated as a hedge against a change in the exchange rate) on the Group's profit or loss for 2020 amounted to PLN 79 million, of which:

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

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

As at 31 December 2020, the fair value of open positions in derivatives of the Group (on the metals, currency and interest rate markets and in embedded derivatives) amounted to -PLN 695 million.

CREDIT RISK MANAGEMENT

Credit risk is defined as the risk that counterparties will not be able to meet their contractual liabilities.

The Management Board is responsible for credit risk management in the Parent Entity and for compliance with policy in this regard. The main body involved in actions in this area is the Credit Risk Committee.

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

Credit risk related to trade receivables

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

The Parent Entity limits its exposure to credit risk related to trade receivables by evaluating and monitoring the financial standing of its customers, setting credit limits, using debtor security and non-recourse factoring. An inseparable element of the credit risk management process realised by the Parent Entity is the on-going monitoring of receivables and the internal reporting system.

Buyer's credit is only provided to proven, long-term customers. In the case of new customers, an effort is made to ensure that sales are based on prepayments or trade financing instruments which wholly transfer the credit risk to financial institutions.

In 2020, the Parent Entity secured its receivables by promissory notes, registered pledges, bank guarantees, corporate guarantees, mortgages and documentary collection. Moreover, the majority of customers who hold buyer's credit on contracts have ownership rights confirmed by a date certain.

To reduce the risk of insolvency by its customers, the Parent Entity has a receivables insurance contract, which covers receivables from entities with buyer's credit which have not provided strong collateral or have provided collateral which does not cover the total amount of the receivables. Taking into account the collateral held and the credit limits received from the insurance company, as at 31 December 2020 the Parent Entity had secured 75% of its trade receivables (as at 31 December 2019: 64%).

The concentration of credit risk in the Group is related to the terms of payment granted to key clients. Consequently, as at 31 December 2020 the balance of receivables from 7 of the Group's largest customers, in terms of trade receivables at the end of the reporting period, represented 42% of the trade receivables balance (as at 31 December 2019: 29%). Despite the concentration of this type of risk, it is considered that due to the availability of historical data and the many years of experience cooperating with clients, as well as above all due to the security used, the level of credit risk is low.

Credit risk related to cash and cash equivalents and bank deposits

The Group allocates periodically free cash in accordance with the requirements to maintain financial liquidity and limit risk and in order to protect capital and maximise interest income.

Credit risk related to deposit transactions is continuously monitored by the on-going review of the credit ratings of those financial institutions with which the Group cooperates, and by limitation of the level of concentration in individual institutions. As at 31 December 2020, the maximum share of a single entity in terms of credit risk arising from financial institutions in which the Group has deposited funds amounted to 25% (as at 31 December 2019: 19%).

Credit risk related to derivatives transactions

All of the entities with which the Group enters into derivative transactions (with the exception of embedded derivatives) operate in the financial sector. These are mainly financial institutions, with a medium-high rating. According to fair value as at 31 December 2020, the maximum share of a single entity with respect to credit risk arising from open derivative transactions entered into by the Group and from unsettled derivatives amounted to 36% (as at 31 December 2019: 15%). Due to diversification of risk in terms both of the nature of individual entities and of their geographical location, as well as taking into consideration the fair value of assets and liabilities arising from derivative transactions, the Group is not materially exposed to credit risk as a result of derivative transactions entered into.

Credit risk related to loans granted

As at 31 December 2020, the balance of loans granted by the Parent Entity amounted to PLN 7 648 million. The most important of these are long-term loans in the total amount of PLN 5 112 million granted to the company Future 1 and to the KGHM INTERNATIONAL LTD. Group. Detailed information on the loans granted by KGHM Polska Miedź S.A. is presented in the Financial Statements, Note 6.2

As at 31 December 2020, the balance of loans granted by the Group amounted to PLN 6 087 million. The most important of these are long-term loans in the total amount of PLN 6 069 million, or USD 1 615 million, granted by the KGHM INTERNATIONAL LTD. Group for the financing of a mining joint venture in Chile.

Credit risk related to the loans granted to the joint venture Sierra Gorda S.C.M. is dependent on the risk related to mine project advancement and is assessed by the Management Board of the Parent Entity as moderate.

MANAGEMENT OF FINANCIAL LIQUIDITY RISK AND OF CAPITAL

The management of capital in the Group aims at securing funds for development and at securing relevant liquidity.

Financial liquidity management

Management of the Group's liquidity is conducted in accordance with the Financial Liquidity Management Policy in the KGHM Group. This document describes the process of financial liquidity management in the Group, which is realised by the Group's companies, while its organisation and coordination as well as the supervision thereof is performed in the Parent Entity.

The basic principles resulting from this document are:

- the need to ensure stable and effective financing for the Group's operations,
- constant monitoring of the Group's level of debt, and
- effective management of working capital.

Borrowing by the Group is based on the following pillars:

- an unsecured, revolving syndicated credit facility, obtained by the Parent Entity in the amount of USD 1 500 million with a 5-year tenor with the option of extending for another 2 years (5+1+1). In 2020, the Parent Entity obtained the consent of the syndicate's participants to extend the tenor by 1 year, or to 19 December 2025. The available financing limit during the period of extension will be USD 1 438 million,
- two investment loans granted to the Parent Entity by the European Investment Bank in the amount of PLN 2 000 million and PLN 900 million with financing periods of up to 12 years from the date the instalments are drawn,
- bilateral bank loans to the amount of PLN 2 379 million, supporting the management of liquidity of companies and the financing of working capital as well as the financing of investments,
- the bond issue program of the Parent Entity on the Polish market, based on an issue agreement dated 27 May 2019. On 27 June 2019 the first issue was made in the nominal amount of PLN 2 000 million, under which 5-year bonds were issued in the amount of PLN 400 million and 10-year bonds in the amount of PLN 1 600 million.

Detailed information regarding available sources of financing and their utilisation in 2020 may be found in Section 6.6 of this report.

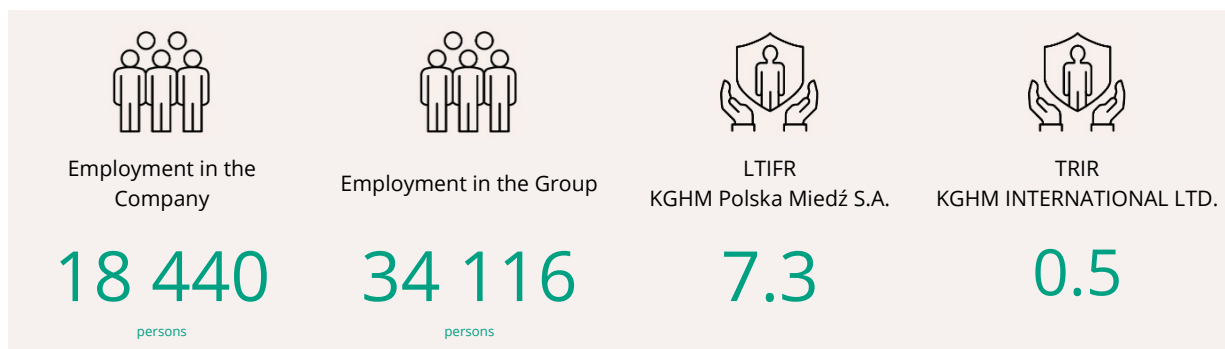
The aforementioned sources of financing fully cover the liquidity needs of the Parent Entity and the Group. During 2020, the Group made use of borrowing which was available from all of the above categories, while liabilities of the Group due to bank and other loans drawn and to bonds issued as at 31 December 2020 amounted to PLN 6 679 million.

Management of capital

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

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

13. HUMAN RESOURCES IN THE COMPANY AND GROUP



13.1. EMPLOYMENT

GROUP

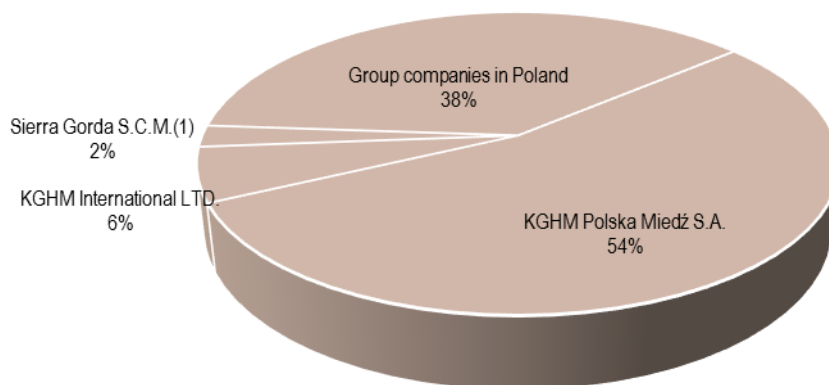
In 2020, the companies of the Group employed 34 116 people, or a decrease by 0.6% compared to the prior year. The employment structure is shown in the following table and chart:

Table 49. Average employment in the Group

	2020	2019	Change (%)
KGHM Polska Miedź S.A.	18 440	18 444	(0.0)
KGHM INTERNATIONAL LTD.	2 006	1 944	+3.2
Sierra Gorda S.C.M. ¹⁾	789	794	(0.6)
Group companies in Poland	12 872	13 137	(2.0)
Other Group companies	9	9	-
Total	34 116	34 328	(0.6)

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

Chart 37. Structure of employment in the Group in 2020



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

KGHM Polska Miedź S.A.

Employment in KGHM Polska Miedź S.A. was at a stable level and at the end of 2020 amounted to 18 531 persons (0.4% higher than at the end of 2019). Average annual employment in KGHM Polska Miedź S.A. amounted to 18 440.

Table 50. Average employment in KGHM Polska Miedź S.A.

	2020	2019	Change (%)
Mines	12 430	12 440	(0.1)
Metallurgical plants	3 604	3 635	(0.9)
Other divisions	2 406	2 369	+1.6
KGHM Polska Miedź S.A.	18 440	18 444	(0.0)

Companies in Poland

In 2020, average employment in the companies of the KGHM Polska Miedź S.A. Group in Poland decreased as compared to 2019 by 265 positions (or by 2%). This change was mainly in respect of blue-collar positions and was due to matching employment to current needs, due among others to the market situation and to changes in the organisation of work.

Companies abroad

In the companies outside Poland, average employment in 2020 increased as compared to 2019 by 57 positions (or by 2%), while in Sierra Gorda S.C.M. employment decreased by 0.6%, with an increase in the companies of the KGHM INTERNATIONAL LTD. Group by 3%.

The drop in employment in Sierra Gorda S.C.M. was due to a reduction in employment in individual areas as a result of the savings plan. The increase in employment in KGHM INTERNATIONAL LTD. was mainly due to an increase in production capacity in the Sudbury Basin mines in Canada and in the Robinson mine in the USA.

13.2. HUMAN RESOURCES PROJECTS

KGHM Polska Miedź S.A.

Digitalisation of HR processes	To enhance operational efficiency the digitalisation of HR systems became a priority, with some of the processes being implemented in 2020 and work on subsequent ones planned over the next two years.
Start of an on-board training program for new employees (also online)	Cyclical training dedicated to newly-hired employees, with the goal of familiarising them with the company, their rapid integration into the organisation and a smooth transition to accomplishing tasks. During this training the subjects raised are related to the Mission, Vision and Strategy of our Company, the subject of activities and the production process, the principles involved in moving within the organisation, and HR questions.
Advancement of a development project for the COPI Division	Under a project dedicated to employees of the COPI Division, managerial competence was evaluated using the 360 degree method. As a result of this evaluation individual development plans were created for each manager, representing a basis and foundation for organising individual development paths for each of them. Also carried out under the project were two training sessions, „Constructive feedback” and „Facilitating communicating in teams”.
Continuation of the project „Competent in the sector”.	This project is aimed at preparing future staff in professions which were designated by the Division as critical for maintaining production. The program in numbers: <ul style="list-style-type: none"> - academic scholarships were subsidised in the amount of PLN 145 thousand, - 1 912 students in in sponsored classes in the 2020/2021 school year, - 9 sponsored schools, - outfitting of school workshops in the amount of PLN 170 thousand, - organisation of apprenticeships for 388 students and 242 practical training sessions.
Dual education	The drop in students studying subjects related to mining at the major universities may in future lead to problems for the Company in hiring persons with appropriate qualifications to serve in functions related to the general area of supervision. For this reason the decision was made to commence cooperation with Jan Wyżykowski University and to commence classes in Mining and Geology under the dual studies profile. As a result of this agreement and under the dual studies profile, traditional studies can be combined with the possibility of gaining professional experience. KGHM Polska Miedź S.A. has a real impact on the shape of educational programs, with employees of the Company serving as lecturers at the University. Student internships are held on the grounds of the Company, which enables students to gain knowledge and skills which are critical from the point of view of KGHM's needs.
Participation in AGH work fairs	At the start of 2020, KGHM Polska Miedź S.A. participated in work fairs organised by the Career Center of the AGH University of Science and Technology in Kraków. The copper company promoted its main products: copper grains from the Cedynia Wire Rod Plant and silver grains from the Głogów Copper Smelter and Refinery. Also on offer was the possibility of engaging in virtual trips to KGHM's mines and plants utilising VR technology.
Restructurisation of HR processes in KGHM INTERNATIONAL LTD.	The reorganisation of processes in KGHM INTERNATIONAL LTD. is related to HR and administrative services. Under this Reorganisation the following actions were undertaken in the area of HR: <ul style="list-style-type: none"> - Changes to the organisational structure along with a change in labour contracts. - KGHM Polska Miedź S.A. manages the HR and administrative processes in KGHM INTERNATIONAL LTD. and maintains on-going supervision of these processes in cooperation with the President of KGHM INTERNATIONAL LTD.

Group

Companies in Poland

In 2020, projects introduced in prior years in the domestic companies continued, including a project comprising all of the companies in Poland, i.e. e-Recruitment. In addition, each of these companies engaged in their own HR projects. These involved subjects such as enhancing professional skills and qualifications, know-how and improving productivity, utilising motivational tools. To deal with problems in acquiring employees, cooperation was initiated with external institutions: professional schools and work offices. Agreements were also signed with schools of higher learning, which enables the advancement of joint R&D projects, such as the organisation of workshops, training, lectures and sector panels.

The Company POL-MIEDŹ TRANS Sp. z o.o. in Lubin engaged in actions aimed at creating a Training and Examinations Center for Machinists and Machinist Candidates. The Training and Examinations Center for Machinists will commence operations within the Company's structures once it is entered into the list of centers of learning maintained by the President of the Office of Railway Transport (expected date of registration: Q2 2021). The Company will provide professional and financial support to the schools and centers of learning providing training in railway-related professions. The support provided to these schools is aimed at developing professional training for the railway sector and a staff of qualified employees for the Company in the future.

As a result of the Government-implemented decrees, orders and lock-downs related to the COVID-19 epidemiological situation and due to the need to ensure safety and workplace continuity, the companies implemented internal decrees which among others provided for the organisation of work, including the principles of remote working and other rules arising from needs dictated by the pandemic situation. These concentrated mainly on creating safe working conditions and protecting employees from infection.

KGHM INTERNATIONAL LTD.

In 2020, the following HR projects were advanced in the companies of the KGHM INTERNATIONAL LTD. Group in Canada and the USA:

Assets in the Sudbury Basin in Canada	<ul style="list-style-type: none"> - a cycle of training workshops for leaders of the production assets and HR teams with respect to communicating, conflict management and employee welfare, - development of a plan of staff succession for key leadership positions in the mines, comprising the following processes: identification of key leadership roles within the organisation, creation of leader competence profiles, determination of employee potential and assessment of their development needs, talent development plans and the monitoring of their achievement.
Robinson and Carlota mines in the USA	<ul style="list-style-type: none"> - implementation of a modern recruitment platform and automatisisation of the process of selecting candidates, - a dedicated program of training for 75 leader representatives in cooperation with the University of Nevada, Reno Extended Studies, - the descriptions of workplaces in the mines were updated – matched to organisational needs and actual market trends, - an employee appreciation program for those supporting leaders in developing an employee appreciation culture within the organisation, - an audit of the process of employee training and the process of legalising non-citizen employment in the USA.
KGHM INTERNATIONAL LTD. in Canada	<ul style="list-style-type: none"> - reallocation of a portion of the functions of KGHM INTERNATIONAL LTD. to the Head Office of KGHM Polska Miedź S.A. and to other business units of the KGHM INTERNATIONAL LTD. Group.
Sierra Gorda S.C.M.	<p>In 2020, the following HR projects were advanced in the company Sierra Gorda S.C.M.:</p> <ul style="list-style-type: none"> - implementation of new working systems: 14x14 and 8x6, as well as renewal of permission for the 4x3 and 7x7 working systems, and approval of new working positions in special conditions, - implementation of a diversity and integration policy, - implementation of a new model of skills based on successes in production, - transformation of HR processes into online form, - implementation of a remote work system for administrative positions, - construction of new social facilities for mine employees, - implementation of internet applications with respect to: the system for applying for employee transport, applying for working clothing, an informational campaign on COVID-19, online surveys and voting, a module on employee welfare to simplify quarantine for employees and their families, - implementation of a campaign and projects related to the COVID-19 pandemic with respect to employee safety, information about the pandemic situation, preventative measures, information for external companies on the current pandemic situation in the company and existing procedures.

13.3. RELATIONS WITH THE TRADE UNIONS

KGHM POLSKA MIEDŹ S.A.

In 2020, KGHM Polska Miedź S.A. continued its dialogue with the trade unions. The most important event with respect to relations with the trade unions was the signing in February 2020 of an agreement on wages and employee benefits. The main point of the agreement was the signing of an additional protocol the Collective Labour Agreement for the Employees of KGHM Polska Miedź S.A., which among others increased basic wage rates by 6% as at 1 January. Another point in the agreement was setting the minimum level of upward employee categorisation at 15%.

Given the restrictions related to the COVID-19 pandemic, meetings were held through teleconferences. Apart from the usual subjects arising from the Collective Labour Agreement for the Employees of KGHM Polska Miedź S.A., the discussions involved the actions taken by the Company as regards employee health and safety.

During the wage negotiations with the trade unions, which were held from 25 January to 4 February 2021, wage agreements were reached and signed as well as an additional protocol to the CLA introducing the following wage elements in the current year:

- an increase in the monthly basic wage rate by 5.2%,
- upward employee categorisation covering 15% of employees,
- an increase in the basis for calculating the bonus for night work, and
- changes in the principles for paying a special annual bonus for Metallurgical Workers Day.

GROUP COMPANIES IN POLAND

With few exceptions, trade unions are active in the Group companies in Poland. In 2020, talks were held in these companies with the trade unions regarding questions of remuneration, rules for granting bonuses, the level of pension plan contributions, employment conditions and social matters. In most cases they concluded with the signing of agreements and additional protocols to the Collective Labour Agreements and with changes to remuneration regulations. In companies exposed to the impact of the COVID-19 pandemic agreements were entered into with the trade unions regarding the economic shutdown and the means of remunerating employees during this period.

In 2020, there were no new collective disputes in the companies in Poland, while a collective dispute initiated in 2019 in the company PHU „Lubinpex” Sp. z o.o. was concluded. It was not however possible to conclude in 2020 a collective dispute initiated in 2019 in the company MERCUS Logistyka sp. z o.o.

PHU „Lubinpex” Sp. z o.o. – On 15 January 2020 a collective dispute initiated on 5 December 2019 by the trade union Związek Zawodowy NSZZ Pracowników PHU „Lubinpex” Sp. z o. o., involving wage demands, was concluded.

MERCUS Logistyka sp. z o.o. – In 2020 a collective dispute was continued which initiated in the company in 2019, resulting from the failure to meet demands, among others on wages, put forth by the trade union Związek Zawodowy NSZZ „Solidarność” 80. Under the negotiations several meetings were held, which however did not lead to an agreement, and on 17 December 2019 the parties declared that each of them maintains their position, and that the dispute will continue with the participation of a mediator. On 9 January 2020 a letter was submitted to the Ministry of Family, Labour and Social Policy in Warsaw requesting the selection of a mediator in order to pursue mediation as regards the collective dispute. On 24 January 2020 the Ministry of Family, Labour and Social Policy designated a mediator. On 12 February 2020 a meeting was held at the company’s head office with the mediator and Representatives of the trade union Międzyzakładowa Komisja NSZZ „Solidarność” 80 at Głogów Copper Smelter and Refinery, Section Mercus Logistyka sp. z o.o. and a company representative. During the meeting an agreement was not reached regarding covering the costs of the mediator in equal parts, in consequence of which the mediator refused to engage in the mediation. On 31 March 2020 another letter was sent to the trade union Komisja NSZZ „Solidarność” 80, in respect of which the company did not receive a reply from the trade union.

INTERNATIONAL COMPANIES OF THE GROUP

KGHM INTERNATIONAL LTD.

In the companies of the KGHM INTERNATIONAL LTD. Group in Canada and the United States, the interests of employees are represented by trade unions only in the assets in the Sudbury Basin in Canada, while employees in the Robinson and Carlota mines and at the Ajax and Victoria projects are not represented by trade unions.

In the Sudbury Basin, the trade union Local 2020 represents 90 employees. On 1 July 2020 a new collective agreement came into force, which will expire on 30 June 2023.

In the companies of the KGHM INTERNATIONAL LTD. Group in South America, there is trade union representation in the Franke mine. Two independent trade unions are active at the mine, covering altogether 310 employees. The parties to the collective agreement negotiated a 2-year extension to the agreement.

In the companies acting under the DMC Mining Services brand, employees are not represented by trade unions.

Sierra Gorda S.C.M.

There are 3 independent trade unions active in Sierra Gorda S.C.M.: a Supervisory Union and two trade unions representing operators and production support employees. 1229 employees are represented in the company by trade unions.

The principles of communicating with the trade unions are based on the clauses and declarations specified in the collective labour agreements.

The process of communication between the parties is based on an open door policy. Typical practices applied to maintain effective communication include:

- weekly meetings of the Labour Relations Section of the HR department with each of the unions,
- if requested by the trade unions, meetings are arranged with various company managers or sectional representatives,
- meetings with the Extraordinary Committee on the Coronavirus,
- participation in important mine events (inaugurations, ecumenical meetings, mass meetings),
- on-site visits,
- annual meetings with the General Director.

13.4. OCCUPATIONAL HEALTH AND SAFETY

The life and health of employees and workplace safety in general is the chief priority in the hierarchy of values of the KGHM Polska Miedź S.A. Group. For several years the Company has advanced its vision of „Zero accidents due to human and technical errors, zero occupational illnesses among our employees and contractors“. In 2020, the Employee Safety Improvement Program „Think About The Consequences“ continued as well as the Program to prevent the most common hazards to workplace safety by utilising innovative technology, in accordance with the updated Company Strategy to the year 2023.

The Company applies high OHS standards, both towards its own employees as well as towards those providing services on the grounds of KGHM Polska Miedź S.A., as demonstrated by the Company's receipt in the current year of certification of a safety management system which is compliant with the ISO 45001:2018 standard. All work stations have identified threats. The Company has assessed occupational risks and updates them continually. Working environments are continually monitored and periodic reviews and potential threat assessments are conducted, as well as reviews of equipment and required technical checks and approvals. Employees undergo systematic training and continually enhance their qualifications. The Company immediately implements new regulations and legal requirements regarding occupational health and safety.

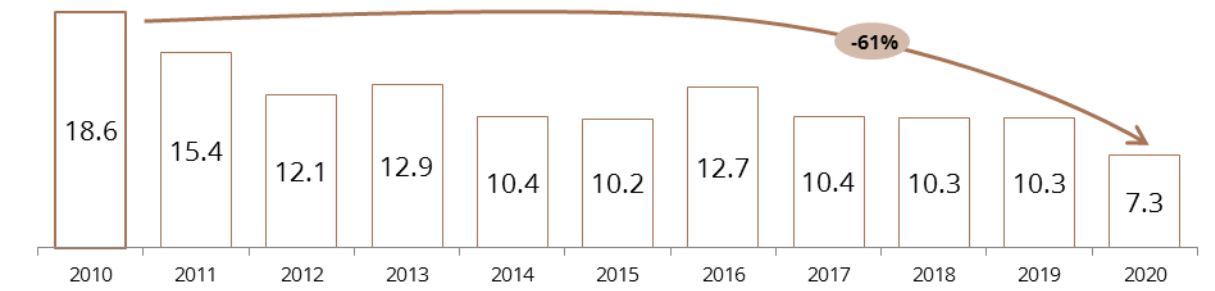
In 2020 the Company recorded a substantial decrease in the total number of workplace accidents (as defined by the Act dated 30 October 2002 on social insurance) due to workplace accidents and occupational illnesses, with a year-on-year change from 299 to 213 injured (a decrease by 86 accidents). The number of workplace accidents in 2020 in KGHM Polska Miedź S.A., excluding accidents due to natural causes (roof collapses, distressings, tremors, rock falls) was lower by 54 (a decrease from 248 to 194). The vast majority of workplace accidents (around 97.2%) qualified as light injuries, caused mainly by loss of balance by employees, contact (striking) with or by moveable/ immoveable objects, as well as the breaking off of pieces of rock from the rockmass.

The mining operations of KGHM Polska Miedź S.A. are associated with natural threats. In particular they arise from the occurrence of mining tremors and their potential impact in the form of roof and wall collapses and de-stressings. These are very important from the safety point of view, as their occurrence can lead to serious or even fatal injuries as well as damage to underground machinery, equipment and infrastructure, along with production downtimes. The Company for many years has carried out a variety of preventive actions in its mines involving the intentional provoking of roof collapses and rock falls, comprising systematic seismological observations, on-going assessment of the rock mass and the marking off of areas of particular threat of roof collapse. The size, shape and number of chambers and inter-chamber pillars is selected, as well as the most advantageous direction of mine work advance and the optimum order of ore selection to minimise local concentrations of stress in the rock mass. So-called active methods of preventing uncontrolled roof collapses and rock falls are also applied, based on provoking dynamic events through mass blasting of mining faces and through blasting to release stress in the orebody or its roof.

In 2020, in the mines of KGHM Polska Miedź S.A. a total of 19 workplace accidents were recorded, resulting from natural hazards from the rockmass. These incidents represented 11.3% of all workplace accidents in the mines during this period. The Company is continuously improving its safety record in the mining of the copper ore deposit.

The LTIRF_{KGHM} ratio (Lost Time Injury Frequency Rate KGHM) in 2020, or the total number of workplace accidents (as defined by the Act dated 30 October 2002 on social insurance) in the Company, being the number of accidents per million hours worked by the employees of KGHM Polska Miedź S.A., amounted to 7.3 and was lower by 61% than the amount recorded in 2010, and also 29% lower than the amount recorded in 2019 (10.3). This is the best result to date in the Company's history, one achieved thanks to the attitude and commitment of all of the Company's employees.

Chart 38. LTIFR_{KGHM} ratio in the Parent Entity



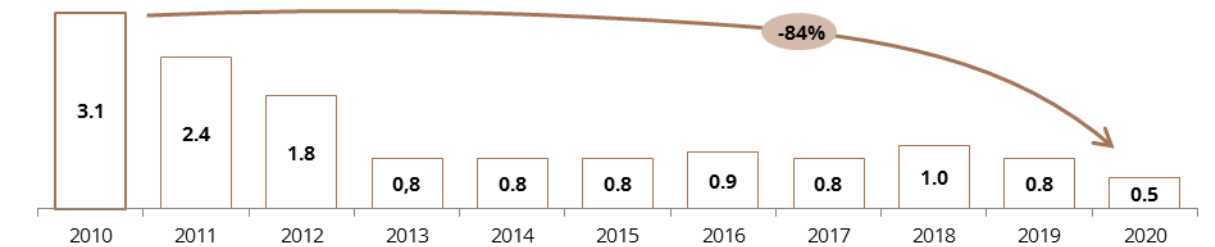
In 2020 KGHM INTERNATIONAL LTD., despite the exceptionally difficult conditions imposed by the pandemic, recorded its best result in history in terms of occupational health and safety.

In 2020, a total of 19 incidents at work were registered in the mines supervised by KGHM INTERNATIONAL LTD. in Canada and the United States of America compared to 31 registered in 2019, while the TRIR ratio amounted to 1.8. In 100% of the cases these were incidents of a minor nature without serious consequences for the employees.

In Chile, KGHM Polska Miedź S.A. conducts mining operations in two entities, which have separate systems of OHS management adapted to the legal requirements and mining conditions in this country. These systems encompass both the employees in these entities as well as sub-contractors, and are aimed at achieving the long-term vision „Zero harm”. In KGHM Chile SpA, which oversees the Franke mine, and which also engages in its own exploration and other activities, four workplace accidents were recorded in 2020 (compared to 3 registered in 2019), with a TRIR ratio of 0.44. In the company Sierra Gorda S.C.M., 11 workplace accidents were recorded in 2020 (compared to 16 registered in 2019), with a TRIR ratio of 0.24.

In 2020, in the entities in which the KGHM Polska Miedź S.A. Group conducts mining operations in Canada, the United States and Chile, compared to 2019 a total of 16 fewer workplace accidents were registered (a drop from 50 to 34 workplace accidents). The consolidated TRIR ratio (Total Recordable Incident Rate) for these operations reached 0.52. This was 0.25 lower compared to 2019 and at the same time 84% lower than the level recorded in 2010.

Chart 39. TRIR¹⁾ ratio in KGHM INTERNATIONAL LTD.



1) TRIR (Total Recordable Incident Rate) calculated using accepted methodology as the number of accidents at work meeting the conditions of registration as defined in the ICMM (International Council on Mining & Metals) standard, in total for the employees of KGHM INTERNATIONAL LTD., KGHM Chile SpA and Sierra Gorda S.C.M. and sub-contractors for these entities, per 200 000 worked hours.

14. SIGNIFICANT CONTRACTS FOR THE COMPANY AND GROUP

In 2020, Group companies entered into the following significant contracts:

Date	Description
15 January 2020	On 15 January 2020 the Company entered into a multi-year framework agreement for the sale of copper cathodes on the French and German markets with the Nexans group for the years 2020-2022. Estimated minimal value of the framework agreement: PLN 1 624 million, estimated maximal value of the framework agreement: PLN 2 197 million, depending on the usage of the quantitative option by the customer. The contract signed is a standard commercial agreement with a steady customer of the Company, which was entered into under arm's length conditions.
30 December 2020	Annex No. 12 to the Multi-year Agreement for the supply of copper wire rod was signed by KGHM Polska Miedź S.A. and Tele-Fonika Kable S.A. The annex came into force as at 29 December 2020 and is in force for the years 2021-2025. The value of the subject of the Agreement in the period 2021-2025 is estimated at PLN 5 889 million to PLN 10 304 million depending on the volume of options used. The aforementioned amount in respect of the years 2021-2025 was calculated based on the forward copper price curve from 29 December 2020 as well as on the forward curve of average USD/PLN and EUR/PLN exchange rates from 29 December 2020. The annex signed is a typical sales transaction.

14.1. INFORMATION ON TRANSACTIONS ENTERED INTO BETWEEN RELATED PARTIES, UNDER OTHER THAN ARM'S LENGTH CONDITIONS

In 2020, neither the Parent Entity nor its subsidiaries entered into related party transactions under other than arm's length conditions.

14.2. INFORMATION ON CONTRACTS WITH THE ENTITY ENTITLED TO AUDIT THE FINANCIAL STATEMENTS

The entity entitled to audit the separate financial statements of KGHM Polska Miedź S.A. and the consolidated financial statements of the KGHM Polska Miedź S.A. Group is PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt Sp.k. with its registered head office in Warsaw at the address ul. Polna 11.

The contract with PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt Sp.k. (PwC), signed on 27 February 2019 for the period from 1 January 2019 to 31 December 2021, is for the audit and review of the financial statements of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group. The auditing firm was selected by the Supervisory Board of KGHM Polska Miedź S.A.

Based on a declaration by the Supervisory Board, the Management Board of the Company announces that the selection of the auditing firm auditing the annual financial statements for 2020 and the annual consolidated financial statements for 2020 was conducted in compliance with the rules, including those respecting the selection of, and procedures regulating the selection of, the auditing firm, indicating that:

- the auditing firm and the members of the team conducting the audit met the terms for the preparation of an unbiased and independent report on the audit of the annual financial statements and the annual consolidated financial statements in accordance with prevailing laws in force, professional standards and professional ethical principles,
- rules related to the rotation of the auditing firm and the key certified accountant, as well as the mandatory mandate periods, are adhered to, and
- the Company has a policy covering the selection of the auditing firm as well as a policy covering permitted non-auditing services provided by the auditing firm, the entity related to the auditing firm or a member of its network, including services conditionally freed from the ban on services provided by the auditing firm.

The Company made use of the services of PwC in the years 2010-2015 for the audit and review of the financial statements of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group, and in the years 2016-2018 with respect to tax advising and financial-accounting services.

Detailed information on remuneration of the entity entitled to audit the financial statements for the review and audit of financial statements and other remuneration is presented in note 12.10 of the separate and consolidated financial statements.

14.3. INFORMATION ABOUT SUPPLIERS AND CUSTOMERS

The procurement procedures in force in KGHM Polska Miedź S.A. are precisely defined in the „Procurement Policy of the KGHM Polska Miedź S.A. Group”, while the selection of suppliers is carried out in compliance with the principle of transparency and the equal treatment of economic entities. The goals set forth in the Procurement Policy are: to ensure transparency in the process of making decisions, monitoring all purchases by introducing a joint system for managing the procurement process and by ensuring the efficient optimisation of costs, mainly by standardising the assortment, optimising technical specifications and market diversification.

This joint Procurement Policy applies to all of the Divisions of KGHM Polska Miedź S.A. and to all of the companies of the KGHM Polska Miedź S.A. Group which are critical elements of the production process. The basic tenets set forth in the aforementioned document are carried out with the aid of IT tools.

In 2020, in the area covered by the Procurement Policy, 1 676 suppliers (being the number of bidders taking active part in our tender proceedings) cooperated with the KGHM Polska Miedź S.A. Group, out of which 1 223 suppliers were selected.

The share of suppliers outside of Poland is relatively low. The number of non-Polish suppliers in 2020, in respect of the aforementioned information, amounted respectively to 95 and 55, or around 5% of all suppliers to the Company.

KGHM works with all types of suppliers: contractors, intermediaries, wholesalers. These include suppliers of raw materials, components, end producers and distributors. Additionally, within the Group, KGHM Polska Miedź S.A. utilises the services of a Logistics Operator – specialised companies providing supply-related functions (Mercus Logistyka, KGHM Metraco, ENERGETYKA).

In 2020 there were no significant changes in the sources of supply of materials, merchandise and services to KGHM Polska Miedź S.A. There was no recorded dependence on a single or multiple customers or suppliers.

KGHM Polska Miedź S.A. is strengthening its position as an honest and ethical business partner, which cares about the Company's image as well as social matters. In terms of procurement subject to the aforementioned Policy, the Company strives to ensure that those with whom the Company cooperates meet ethical business standards and operate in a socially responsible manner.

The copper smelters and refineries of KGHM Polska Miedź S.A. produce electrolytic copper from their own concentrates as well as from purchased copper-bearing material (concentrates, copper scrap and blister copper). In 2020, the production of electrolytic copper from purchased copper-bearing material amounted to 147.0 thousand tonnes, and represented 26% of total electrolytic copper production.

For the most part, this production came from copper scrap (106.6 thousand tonnes of copper; 19% of total electrolytic copper production), which is supplied to KGHM's metallurgical plants by KGHM Metraco S.A. – a 100%-owned subsidiary of KGHM Polska Miedź S.A.

KGHM Metraco S.A., due to its specialisation and familiarity with the scrap market, as well as to its equity relationship with KGHM Polska Miedź S.A., supplies scrap to the metallurgical plants of KGHM based on exclusivity and as a result revenues of this company from sales to KGHM Polska Miedź S.A. are significant and represent 16% of KGHM Polska Miedź S.A.'s sales revenue and 13% of sales revenue of the Group. This company was the only one whose turnover with the Company exceeded 10% of the sales revenues of KGHM Polska Miedź S.A.

15. 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 by the Company of invention project no. 1/97/KGHM pt. „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 elektrorafinacji Huty Miedzi” (Method for increasing the production capacity of the electrorefining sections of the Metallurgical Plants) for the 8th period of the application, together with interest due. The amount of the claim (principal amount) was set by the Plaintiffs in the claim in the amount of PLN 42 million (principal amount without interest and court costs). Interest as at 31 March 2019 amounted to around PLN 55 million. 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 return of undue royalties paid for the 6th and 7th periods 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, for the total amount of PLN 54 million. Both sides of the proceedings filed appeals to the 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>
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16. ENVIRONMENTAL PROTECTION

16.1. KGHM POLSKA MIEDŹ S.A.

ACTIONS TAKEN BY THE COMPANY TO PROTECT THE ENVIRONMENT

KGHM Polska Miedź S.A. as one of the largest, socially responsible companies in Lower Silesia, is aware of the goals and challenges related to the impact of our activities on climate change. We are developing our activities based on innovative, low-emission technology in compliance with circular economy principles. We are advancing this goal by investing in the best available environmental technology (BAT), and conduct our business with the aim of achieving the highest possible ecological neutrality in our production processes.

The extraction of copper ore, followed by its processing at all stages of production, is inextricably linked to its impact on various aspects of the natural environment. Adherence to strict environmental standards, mandated by law, is possible thanks to the systematic modernisation of installations protecting the environment, both those built in the past as well as new investments in this area. During the year intensive efforts were made aimed at complying with the European Commission's Implementing Decision, establishing best available techniques (BAT) conclusions for the non-ferrous metals industry. Adaptation of the metallurgical installations to BAT conclusions also involves the further reduction in particulates and gases emissions. In 2020 the Company spent more than PLN 186 million on investments to protect the natural environment, of which the largest expenditure, in the amount of over PLN 43 million, was incurred on construction of an installation to remove arsenic and mercury from gases at the desulphurisation installation of the Legnica Copper Smelter and Refinery.

ENVIRONMENTAL FEES

Environmental fees paid by the Divisions of KGHM Polska Miedź S.A. in 2020 amounted to PLN 14.5 million. In 2020, in the structure of fees, the highest amount incurred was the waste storage fee: PLN 5.2 million. Another item of costs, over PLN 4.5 million, is the fee for the discharge of effluents.

LEGAL STATUS, PARTICIPATION IN THE EU ETS SYSTEM AND FUTURE ACTIONS

KGHM Polska Miedź S.A. operates ten installations whose functioning, in accordance with the Act on Environmental Protection, requires integrated permits.

In addition, the Tailings Division holds permits for the operation of the Żelazny Most Tailings Storage Facility, and sector permits required by law. The mines operate on the basis of current sector permits with respect to airborne emissions and waste management.

Metallurgical installations at the Głogów and Legnica Copper Smelters and Refineries as well as the gas-steam blocks in Polkowice and Głogów also hold permits to participate in the CO₂ emissions trading system, as since 2013 KGHM Polska Miedź S.A. has been participating in the obligatory European Union Emissions Trading System (EU ETS).

In 2020, emissions in the previous year (2019) in the amount of 1.297 million tonnes of CO₂ will be settled thanks to freely-acquired rights (around 903 kt of CO₂ for 2019 and from reserve rights) augmented by purchases of rights (EUA – EU emissions rights, and CER – units dedicated to reducing emissions).

It is expected that 2020 emissions at the level of around 1.23 million tonnes of CO₂ will be settled thanks to freely-acquired rights for the Głogów and Legnica Copper Smelters and Refineries as well as rights for the Gas-Steam Blocks in Polkowice and Głogów (in total around 890 kt of CO₂) and reserves of rights from prior years and purchases of rights (EUA and CER) in the amount of around PLN 6.5 million.

The most important planned undertakings related to environmental protection in the near term are as follows:

- the continuation of investments involving the need to adapt the metallurgical installations to BAT conclusions. Advancement of these investments is also related to further reductions in particulates and gas emissions, including arsenic emissions,
- updating the integrated permits for the operated installations,
- overseeing the system for trading CO₂ emissions, along with obtaining rights for these emissions,
- the continuation of a program to promote health and prevent environmental threats, aimed at the people living in the nearest proximity to our metallurgical facilities, and
- construction of the southern quarter of the Żelazny Most tailings storage facility.

ACTIVITIES ASSOCIATED WITH THE MANUFACTURE AND APPLICATION OF CHEMICAL SUBSTANCES

KGHM Polska Miedź S.A., as one of Europe's leading nonferrous metals producers, applies the principles of responsible management of chemicals introduced by the EU's REACH and CLP regulations.

The REACH and CLP regulations are aimed at:

- committing enterprises that produce or import chemicals to provide clear descriptions and information on the properties of their substances, as well as to provide information on their use and in respect of whom they may pose a danger.

- controlling the risk of threats to people and the environment represented by hazardous chemicals, by limiting their amounts,
- ensuring that hazardous substances are classified and have been included in the publically-available list on the website of the European Chemicals Agency, and that any product which includes such substances is appropriately labelled and packaged in a manner guaranteeing its safe use, and that consumers and employees are properly informed, and
- ensuring the gradual withdrawal from use of the most hazardous chemicals.

KGHM Polska Miedź S.A. has successfully implemented the REACH system in its activities in order to maintain compliance with the REACH regulations and to ensure the uninterrupted supply of KGHM's products to its customers, and has made it a part of its daily activities.

As part of the REACH system, the Company has registered all of the substances it has introduced to trading with the European Chemicals Agency. Under the REACH implementation strategy, KGHM became a member of several REACH consortia, which manage the process of registering substances and half-finished products included in the consortia.

KGHM is currently a member of six international REACH substances consortia:

- the Copper REACH consortium,
- the European Precious Metals Federation,
- the Lead REACH consortium,
- the Nickel REACH consortium,
- the Selenium and Tellurium REACH consortium,
- the Copper Compounds REACH consortium.

In 2020, the consortia worked on updating the registration documentation for substances and half-finished products, reflecting the newest results of research and the newest guidelines of the European Chemicals Agency.

Under these consortia activities were carried out with respect to the harmonised classification of copper, lead and silver, procedures for granting lead permits, copper endocrine properties and permissible lead and copper concentrations in the workplace environment. The consortia, together with Eurometaux, commenced an analysis called „EU Strategy on chemicals for sustainable development”, which was presented to the European Commission in October 2020. The goal of this document is to increase safety and to achieve zero polluting emissions for a non-toxic environment, contained in the European Green Deal. The new strategy carries with it many challenges and is being broadly commented on throughout Europe.

In 2020, the Company's costs incurred from cooperation with the consortia amounted to EUR 79 thousand. The main item was a fee paid to the Copper Consortium, related with updating the registration documentation.

Due to changes in the REACH regulations requirements, the Company updated its substances properties cards, which were then provided to customers.

16.2. KGHM INTERNATIONAL LTD. GROUP

In 2020, entities of the KGHM INTERNATIONAL LTD. Group also engaged in activities related to environmental protection.

In the case of the Robinson mine (USA), activities were aimed at monitoring air and water quality, waste management and the restoration of mining areas – total expenditures amounted to around PLN 18 million, including just under PLN 3 million due to environmental permits held.

At the Carlota mine in the USA, activities were mainly related to environmental monitoring and preparing for the process of restoration – total expenditures for this purpose amounted to around PLN 6 million.

In the Sudbury Basin mines (Canada) activities focused on environmental monitoring. A total of PLN 3 million was incurred for this purpose.

At the Franke mine (Chile) activities focused on acquiring required permits and environmental monitoring. Total expenditures for this purpose amounted to just under PLN 5 million.

FINANCIAL RESOURCES FOR MINE DECOMMISSIONING AND RESTORATION OF MINING AREAS

Pursuant to laws in force in the United States and Canada, the KGHM INTERNATIONAL LTD. Group is obligated to provide security in the form of blocked cash or guarantees/letters of credit at the amount of the estimated liabilities for decommissioning of mines and technological facilities.

As at 31 December 2020, the value of assets for decommissioning the mines of KGHM INTERNATIONAL LTD. (cash) amounted to PLN 67 million (as at 31 December 2019: PLN 68 million).

In addition, as at 31 December 2020, KGHM Polska Miedź S.A. had issued letters of credit to secure liabilities related to covering the costs of decommissioning mines and restoring mining areas in the amount of PLN 404 million (as at 31 December 2019 – PLN 397 million). Letters of credit issued by KGHM INTERNATIONAL LTD. as at 31 December 2020 amounted to PLN 179 million (as at 31 December 2019 – PLN 202 million).

16.3. OTHER GROUP COMPANIES IN POLAND

The Polish companies of the Group operate in compliance with environmental laws. Companies which are required to do so hold valid environmental permits, with the exceptions described below.

The company Uzdrowiska Kłodzkie S.A. – Grupa PGU does not possess a water rights permit for the discharge of post-bathing water for Zakład Przyrodolecznicy in Polanica-Zdrój. Because of this the fee paid by the company for the discharge of post-bathing water is higher by 500%. There is also no water rights permit for the discharge of excess mineral water from the „Pieniawa Józefa I” and „Pieniawa Józefa II” outlets. The discharge of this water to the river is not subject to fees. In order to resolve the formal and legal aspects of this situation, in terms of obtaining legal water rights for the discharge of the aforementioned water to the river, the company is engaged in discussions with the Town Hall, as the owner of the sewage system.

The company Uzdrowiska Kłodzkie S.A. – Grupa PGU is awaiting the issuance of a water rights permit for the discharge of water following bathing for the unit Zakład Przyrodolecznicy and the discharge of excess mineral water from the „Górne” outlet in Kudowa-Zdrój. In October 2019, the company appealed the decision received, due to the classification of unutilised mineral water from the „Górne” outlet as industrial effluents. In 2020, a decision was received from the regional water management office Zarząd Zlewni in Nysa of the National Water Management Office (Państwowe Gospodarstwo Wodne Wody Polskie) which the company appealed to the Regional Director of the Water Management Office in Wrocław through the Director of the regional water management office Zarząd Zlewni in Nysa. The company is awaiting the final decision of the Regional Director of the Water Management Office in Wrocław.

The discharge of industrial effluents from Mineral Water Bottling Plant no. II in Polanica-Zdrój to the municipal sewage system has not been regulated by law. The Miejski Zakład Komunalny (municipal services office) in Polanica-Zdrój did not respond to the company’s request for the clarification of conditions for the discharge of industrial effluents to the municipal sewage system due to the lack of a signed agreement. The company is considering building a waste treatment plant on the grounds of the bottling plant.

Amongst the Polish companies of the Group, the largest environmental impact comes from the activities of the company „Energetyka” sp. z o.o. In 2020, this company incurred the highest environmental fees. These amounted to PLN 2.8 million and mainly comprised payments for water intake and effluents discharge (PLN 2.4 million) and for emission of contaminants to the atmosphere (approx. PLN 0.4 million). In 2020, monetary fines were imposed on the company, including: a fine for exceeding permissible amounts of particulates into the atmosphere from the Power Plant in Polkowice in 2018, a fine for the discharge in 2018 of effluents from the effluents treatment plant of Section W-4 in Legnica to the Pawłówka stream (Białynia) with a breach of the terms of the integrated permit, and a fine for the utilisation of waste in a manner inconsistent with the terms set forth in the integrated permit from the Voivode of Lower Silesia.

In 2020, „Energetyka” sp. z o.o. carried out investments aimed at: 1) adapting existing equipment and installations of the Polkowice Power Plant to the emissions requirements of the IED Directive and BAT Conclusions; 2) modernisation of two steam boilers at the Głogów Unit – adaptation to new conditions and technological processes related to a halt in the incineration of throat gases (the modernisation involves adapting equipment to changes in incineration fuel in the boilers from throat gas to nitrogen-rich natural gas to the extent necessary for reserving steam for the Głogów Copper Smelter and Refinery, the supply of heat for the city of Głogów and increased coverage of the need for power supplied to the Głogów Copper Smelter and Refinery, 3) modernisation of the industrial effluents separation chamber at the Legnica Unit – ensuring uninterrupted production by the Legnica Copper Smelter and Refinery and increasing the efficiency of the industrial effluents treatment plant.

Due to the specific nature of the products manufactured by the company NITROERG S.A. (explosives, initiation systems, fuel additives), it has an impact on the environment. The environmental fees incurred in 2020 amounted to PLN 0.3 million. In April 2020 in the vicinity of Krupski Młyn there occurred a leak of a hazardous substance to the environment, i.e. to the Mała Panew river. As a result of the immediate response taken by NITROERG S.A., the impact of this incident on the environment was effectively eliminated, as confirmed by the oversight intervention of the Regional Environmental Protection Inspectorate. As a result of the incident, the National Water Management Office (PGW Wody Polskie) required the company to pay an increased fee in the amount of PLN 60 thousand. This amount was paid on time.

As part of its proactive environmental investments, in 2020 the company KGHM ZANAM S.A., on the grounds of the plant in Legnica, commenced the operation of a photovoltaic power plant. It is expected that the operations of this investment will result in a substantial reduction of the air pollution generated by this company as a result of the ecological manner of energy generation for its own needs, which had previously been provided by the Legnica Copper Smelter and Refinery.

Following the reporting date, i.e. on 8 February 2021, the subsidiary POL-MIEDŹ TRANS Sp. z o.o. was issued a summons in the form of group proceedings (15 members) on establishing responsibility for the pollution of agricultural fields of the group’s members during the performance of services by the company in the form of the railway transport of copper ore and copper concentrate. The estimated value of the claim is around PLN 150 thousand. The case is at the pre-trial stage.

17. THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD OF THE PARENT ENTITY

17.1. BIOS AND RESPONSIBILITIES OF MEMBERS OF THE MANAGEMENT BOARD

MARCIN CHLUDZIŃSKI – PRESIDENT OF THE MANAGEMENT BOARD (APPOINTED AS AT 6 JULY 2018)



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

President of the Management Board of KGHM Polska Miedź S.A. and chairman of the Employers' Organization of Polish Copper.

In the years 2016-2018 President of the Management Board of Agencja Rozwoju Przemysłu S.A., where he successfully restructured the following companies: Przewozy Regionalne, H. Cegielski – Fabryka Pojazdów Szynowych and Świętokrzyskie Kopalnie Surowców Mineralnych. Since January 2016 a member of the Supervisory Board of PZU S.A. Co-founder and President of the Management Board of Invent Grupa Doradztwa i Treningu Sp. z o.o. in the years 2006–2015. President of the economic think tank Fundacja Republikańska (Republican Foundation) in the years 2011–2015.

Member of Narodowa Rada Rozwoju (the National Development Council), an advisory body to the President of the Republic of Poland.

The President of the Management Board is responsible for:

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

ADAM BUGAJCZUK – VICE PRESIDENT OF THE MANAGEMENT BOARD (DEVELOPMENT) (APPOINTED AS AT 24 AUGUST 2018)



Graduate of the Wrocław University of Economics, Faculty of Economics, Management and Tourism. He completed an Executive MBA – Business Trends program at WSB University in Wrocław.

Involved with PKO Bank Polski S.A. from January 2011, where he served as a manager and director. Among others, he was responsible for supervision over the execution of investment projects and optimisation of business processes, as well the preparation of development plans and improvements in supervised areas.

Co-responsible for execution of cost optimisation under the bank's business strategy.

Supported the process of business expansion of PKO Bank Polski S.A. Responsible for the implementation of procurement policy in the Group's companies.

He was employed from 2002 to 2010 in the company Bank Zachodni WBK S.A., where he cooperated in the implementation of investment projects. He was also responsible for the optimisation of and supervision over the realisation of network contracts. He has extensive experience in the areas of standardisation and normalisation of business processes.

The Vice President of the Management Board (Development) is responsible for:

- advancement of the Company's R&D policy,
- advancement of the Company's innovation and intellectual property protection policy,
- coordination of the Company's investments and development projects,
- development, updating and monitoring of execution of the Group's equity investments plan,
- shaping of the Company's products portfolio,
- initiation, development and implementation of management standards in the process of managing projects and programs,
- acquisition and development of the mining resources base in Poland,
- management of real estate,
- overseeing the Company's administrative services,
- work of the Central Procurement Office.

PAWEŁ GRUZA – VICE PRESIDENT OF THE MANAGEMENT BOARD (INTERNATIONAL ASSETS) (APPOINTED AS AT 10 SEPTEMBER 2018)



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

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

Undersecretary of State in the Ministry of the State Treasury from April to November 2016. He managed a portfolio of companies with State Treasury ownership and state legal entities. He worked on reforming supervision over State Treasury companies

An expert and a management board member of Fundacja Republikańska (Republican Foundation) from 2007 to 2016. He was a partner and a management board member of MMR Consulting sp. z o.o., as well as a partner in the tax consultant office GWW Tax from 2007 to 2016. He worked in the Arthur Andersen and Ernst & Young consultancy companies from 2000 to 2006. He managed interdisciplinary consultant projects for Polish and international companies from the industrial and financial sector.

Author and co-author of numerous publications on taxes and social security.

The Vice President of the Management Board (International Assets) is responsible for:

- preparation and implementation of strategy for international assets,
- activities related to acquiring and developing the international resource base,
- analysis, assessment and preparation of new international exploration projects,
- preparation of studies and expert opinions concerning international resource base projects,
- coordination of tasks with respect to the plan of the Company's equity investments in international subsidiaries,

- substantive oversight over the Group's international production subsidiaries, including the creation and execution of their production plans,
- shaping of the Company's commercial and logistics policies.

KATARZYNA KRECZMAŃSKA-GIGOL – VICE PRESIDENT OF THE MANAGEMENT BOARD (FINANCE) (APPOINTED AS AT 6 JULY 2018)



Expertise in the area of finance, planning, budgeting, debt management and financial reporting. In the years 2016-2018 involved with Poczta Polska S.A., where she held an office of Managing Director of the Finance Section and Director of the Treasury Office. Long-time employee in the banking sector in the area of corporate banking. Supporting Member of Stowarzyszenie Polskich Skarbników Korporacyjnych (Polish Corporate Treasurers Association). For years has combined business practice with academic work. Professor in the Finance Institute of the SGH Warsaw School of Economics.

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

Author and co-author of over one hundred scientific and business publications in the scope of corporate finance and banking. Among others monographs: „Analiza płynności finansowej przedsiębiorstwa” („Analysis of the financial liquidity of the company”), „Podstawy finansowania spółki akcyjnej” (“Basics of financing a joint-stock company”), „Skarbnik korporacyjny” (“Corporate Treasurer”), „Płynność finansowa przedsiębiorstwa. Istota, pomiar, zarządzanie” (“Financial liquidity of a company. Essence, measurement, management”), „Windykacja polubowna i przymusowa. Proces, rynek, wycena wierzytelności” (“Amicable and compulsory collection of debt. The process, market and debt valuation”), „Finanse spółki akcyjnej” (“Finances of a joint-stock company”), „Windykacja należności – ujęcie interdyscyplinarne” (“Collection of debt – the interdisciplinary approach”), „Aktywne zarządzanie płynnością finansową” (“Active management of financial liquidity”), „Factoring w prawie cywilnym, podatkowym i bilansowym” (“Factoring in civil, tax and balance sheet law”), and also „Bank a leasing”, „Opłacalność activities kredytowej banku” („Profitability of bank lending activities”) and „Podstawy tworzenia planu finansowego banku” („Basics of creating a bank finance plan”).

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

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

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



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

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

chief mining engineer/deputy manager of mining plant operation. He served in the function of vice president (operation development) in the company KGHM INTERNATIONAL LTD. in Canada, and was responsible for the portfolio of international assets in North and South America in the years 2015 - 2016. Subsequently, he was executive director in the Polkowice-Sieroszowice mine. He also serves as a vice president of the management board of MBA CLUB of Wielkopolska Business School of Poznań University of Economics and Business since 2017. An active member of KGHM's rescue team since 2000. He achieved third place in team competition in the International Mines Rescue Competition which took place in the USA (2008). As a captain, he led his team to victory in the competition called “Virtual Comory” in the International Mines Rescue Competition in Australia (2010).

Co-author of the following publications: „Wdrożenie zarządzania procesowego w KGHM Polska Miedź S.A.” (“Implementation of process management in KGHM Polska Miedź S.A.”) and „Konceptje biznesowe branży wydobywczej. Studium KGHM Polska Miedź S.A.” (“Business concepts of the mining industry. Study of KGHM Polska Miedź S.A.”). Author of articles

concerning production and financial issues on increasing the efficiency of processes in a mining company, managing health and safety costs in a mining company and managing the risk of increasing costs in a mining company.

The Vice President of the Management Board (Production) is responsible for:

- integrated planning and optimisation of the Company's production,
- occupational health and safety and control of environmental risks,
- activities with respect to maintaining readiness of the production and non-production assets and achievement of the main goals of the Energy Strategy,
- activities with respect to manufacturing products and development of the primary mine and metallurgical production,
- overseeing activities connected with the implementation, maintenance and improvement of management systems in the Company,
- integrated supply chain management.

17.2. BIOGRAMS OF MEMBERS OF THE SUPERVISORY BOARD

ANDRZEJ KISIELEWICZ – CHAIRMAN OF THE SUPERVISORY BOARD

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

Graduate of the Faculty of Mathematics and Computer Science of Wrocław University. Obtained a doctorate degree in mathematics at the Polish Academy of Sciences in Warsaw. He obtained his title of doctor habilitatus from Wrocław University, and he obtained the title of professor in mathematics in 2001. Currently, he is a professor at Wrocław University.

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

He also has many years of experience in working on supervisory boards. Among others, he has been a member and chairman of the supervisory boards of companies such as „Spedtrans” sp. z o.o., „Teta” S.A. and PKO BP S.A.

He is an author of over seventy scientific publications in mathematics, logic and computer sciences in international publications, as well as an author of three books in Polish („Logika i argumentacja” (“Logic and argumentation”), „Sztuczna inteligencja i logika” (“Artificial intelligence and logic”), „Wprowadzenie do informatyki” (“Introduction to computer science”).

KATARZYNA LEWANDOWSKA – DEPUTY CHAIRMAN OF THE SUPERVISORY BOARD

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

In her professional career, for over 20 years, she has been focused on broadening her knowledge and gaining experience in the scope of corporate governance over entities with State Treasury shareholding. Graduate of SGH Warsaw School of Economics, where she graduated from the Department of Internal Commerce. Currently, the Director of the Governance Supervision Department at the Ministry of State Assets, responsible for the performance of governance supervision duties towards, among others, companies of significant importance to the State economy. She managed the work of corporate governance departments at the Ministry of Economic Development and Technology and the Ministry of State Treasury.

In the Chancellery of the Prime Minister, apart from exercising governance supervision, she organised the work of the State Treasury Department by introducing systemic solutions for exercising supervision in accordance with the new legal order resulting from the Act on the principles of state property management. As part of her work at the Chancellery of the Prime Minister, as the Director of the State Treasury Department, she coordinated the exercise of the rights of the State Treasury due to holding shares in entities.

Has extensive experience as a member of supervisory authorities of commercial companies, including defence industry entities, PZU SA, Bank Ochrony Środowiska S.A. Currently, a Member of the Supervisory Board of Grupa LOTOS SA.

JAROSŁAW JANAS – SECRETARY OF THE SUPERVISORY BOARD

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

An attorney with a doctorate in law from Wrocław. From 2009 to 2010 he researched British public healthcare at the University of Exeter School of Law (UK), resulting in a doctorate, „Prywatyzacja brytyjskiego sektora publicznego na przykładzie National Health Service” (“Privatisation of the British public sector, illustrated by the National Health Service”). An entrepreneur continuously from 1999, an academic teacher, member of the management board of Fundacja Sancta Familia (Sancta Familia Foundation) in Wrocław since 2005, Chairman of the Estate Council of Biskupin-Sępólno-Bartoszewice-Dąbie in the years 2009-2013, a volunteer in Ilford Park Polish Home (UK) 2009-2010, member of the Wrocławska Rada ds. Budżetu Obywatelskiego (Wrocław Citizen's Budget Council) in the years 2015-2017, member of the Supervisory Board of Polska Agencja Inwestycji i Handlu S.A. (State Treasury) since 2016, and an expert in healthcare reform (2018), since 2020 Member of the Council of Narodowy Fundusz Zdrowia (National Health Fund).

In the years 2011-2019 he was an author of research papers on British law, privatisation of the public sector, judicial control of public administration and healthcare law. He has more than twenty years of experience in management.

JÓZEF CZYCZERSKI

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

Secondary technical education. Since 1979 employed in the Rudna mine of KGHM Polska Miedź S.A., an underground electromechanic. Chairman of the trade union Krajowa Sekcja Górnictwa Rud Miedzi NSZZ Solidarność. Employee-elected member of the Supervisory Board of KGHM Polska Miedź S.A. in the years 1999-2011, and then from 2014.

PRZEMYSŁAW DAROWSKI

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

He has higher technical education. Started his professional career in 1997 as a locksmith, thereafter as a Specialist of railway rolling stock at Pol-Miedź Trans Sp. z o.o. From 2003, he was the Head of the Planning and Settlement of Renovations Department and Renovations Control, subsequently the Manager of the Railway Operations Department in Głogów. Since 2006, Senior Specialist/Commissioner of the Carriage Maintenance Department. He cooperated with Legnica Municipality, on behalf of which the Complex of Technical and Comprehensive School of Henryk Pobożny in Legnica is run, in the field of conducting trainings and examinations for train drivers and candidates for train drivers.

Former member of railway commissions at Pol-Miedź Trans that investigate railway accidents and incidents. In addition, in 2017-2019, he held an office of a Social Labour Inspector. Currently, Chairman of the Intercompany Committee of NSZZ "Solidarność" in Pol-Miedź Trans. Member of the National Section of Copper Ore Mining of NSZZ "Solidarność". Member of the Board of the Copper Basin Region of NSZZ "Solidarność".

BARTOSZ PIECHOTA

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

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

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

Since August 2019 he is a Vice President of the Management Board of Polska Grupa Lotnicza

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

MAREK PIETRZAK

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

Legal Adviser. Graduate of the Department of Law and Administration of Łazarski University in Warsaw and the Economics Faculty of the Private Higher School of Business and Administration in Warsaw. In 2013, he completed his legal adviser apprenticeship in the District Chamber of Legal Advisers in Warsaw and was licensed to work in the profession. He also finished management and business studies (MBA) at the Warsaw Management University, accredited by the Apsley Business School of London and was granted the title of Executive Master of Business Administration. He has also completed post-graduate studies in accounting and corporate finance at the SGH Warsaw School of Economics.

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

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

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

BOGUSŁAW SZAREK

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

Secondary technical education.

Since 1982 employed at the Sieroszowice Mine of KGHM Polska Miedź S.A. in the position: mining machinery and tools mechanic.

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

Deputy Chairman of the Board of the trade union Sekcja Górnictwa Rud Miedzi NSZZ „Solidarność”. Treasurer of the Board of the Secretary Office for Mining and Energy of the trade union NSZZ „Solidarność”. Member of the National Committee of the trade union NSZZ „Solidarność”.

AGNIESZKA WINNIK-KALEMBA

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

Attorney, graduate of the Department of Law of Wrocław University. Also a graduate of the faculty of Public Administration at Georgetown University in Washington D.C.; and of the faculty of Public Administration and Business Law at the University of Kentucky.

She passed her bar exam in 2003 under the District Bar Council in Wrocław and was licensed to work in the profession.

Since 2003 owner of a Law Office. In the years 2006 - 2010 served as an advisor and regular associate of the late Member of Parliament Aleksandra Natalii – Świat. In the years 1999 - 2003 gained experience as an apprentice attorney-at-law at Kazimierz Cyrklewicz's Law Office in Wrocław. In addition, was previously Manager of the Legal Services Office of the Lower Silesia Marshal's Office in Wrocław and was Legal Assistant to the Chairman of the Chamber of Regions of the European Council in Strasbourg, Parliament of the Voivodeship of Wrocław. Also gained experience as Legal Assistant in the Law Offices of Bowles, Keating, Matuszewich & Fiordalisi Chicago – Milan – Rome, a Partnership of Professional Corporation, Chicago USA.

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

17.3. CHANGES IN THE PARENT ENTITY'S BODIES**MANAGEMENT BOARD OF THE COMPANY**

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

- Marcin Chłudziński President of the Management Board,
- Adam Bugajczuk Vice President of the Management Board (Development),
- Paweł Gruza Vice President of the Management Board (International Assets),
- Katarzyna Kreczmańska-Gigol Vice President of the Management Board (Finance),
- Radosław Stach Vice President of the Management Board (Production).

On 6 July 2021, the current 10th term of the Management Board of KGHM Polska Miedź S.A. expires. Therefore, on 5 March 2021 the Supervisory Board of KGHM Polska Miedź S.A. adopted a resolution on initiating qualification proceedings for members of the Management Board of KGHM Polska Miedź S.A. for the new, 11th term. The announcement of qualification proceedings on Members of the 11th term Management Board of KGHM Polska Miedź S.A. was published in the Public Information Bulletin of the Ministry of State Assets and on the corporate website www.kghm.com

SUPERVISORY BOARD OF THE COMPANY

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

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

- Andrzej Kisielewicz Chairman,
- Leszek Banaszak Deputy Chairman,
- Jarosław Janas Secretary,
- Bartosz Piechota,
- Marek Pietrzak,
- Agnieszka Winnik-Kalemba,

and elected by employees:

- Józef Czyczerski,
- Ireneusz Pasis,

- Bogusław Szarek.

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

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

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

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

- Andrzej Kisielewicz Chairman,
- Katarzyna Lewandowska Deputy Chairman,
- Jarosław Janas Secretary,
- Bartosz Piechota,
- Marek Pietrzak,
- Agnieszka Winnik-Kalemba

and elected by employees:

- Józef Czyczerski,
- Bogusław Szarek,
- Przemysław Darowski.

17.4. REMUNERATION OF THE PARENT ENTITY'S BODIES AND OF OTHER KEY MANAGERS OF THE GROUP

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

Detailed principles for setting the terms of remuneration of the Management Board Members were established by the Supervisory Board which, acting under the authority granted by the Extraordinary General Meeting of the Company KGHM Polska Miedź S.A., approved the templates for the management services contracts for the Company's Management Board. The provisions included therein are in accordance with the Act dated 9 June 2016 on the principles of setting the remuneration of individuals managing certain companies and the adopted "Policy of remuneration of Management Board and Supervisory Board Members of KGHM Polska Miedź S.A."

The management services contracts were signed with the members of the Management Board for the time in which they served as a member of the Management Board, within one term. This means that the termination of a contract will occur on the final day on which the function is served, with no notice period and without the need to take additional actions.

The Members of the Management Board receive basic monthly remuneration as well as variable remuneration representing supplementary remuneration for the Company's financial year.

The fixed monthly remuneration for individual members of the Company's Management Board is within a range of seven- to fifteen times of the average monthly salary in the corporate sector, excluding payments from profit in the fourth quarter of the previous year, announced by the President of the Central Statistical Office.

Variable remuneration depends on the level of achievement of the management goals set by the Supervisory Board for a given year and may not exceed 100% of the annual fixed remuneration for the time during which the subject of a given contract is performed (with the provision that the contract was performed for a period longer than three months).

In 2020, new principles for awarding bonuses to executive directors, directors of Divisions and departments were introduced. The changes were dictated by both market trends and the need to update the existing principles.

In the fourth quarter of 2020 conceptual work commenced on a platform for the Performance Management process. Work on the platform is expected to be completed by mid-year.

Based on the Statutes of KGHM Polska Miedź S.A., the Bylaws of the Supervisory Board, the management services contracts, resolution no. 8/2016 of the Extraordinary General Meeting and the Act on the terms of setting the remuneration of individuals managing certain companies, the Supervisory Board set Management Goals for the Members of the Management Board for 2020.

The Management Goals under which the variable remuneration for the financial year may be received are the following:

- application of the principles of remunerating members of management and supervisory bodies, pursuant to the act dated 9 June 2016 on the terms of setting the remuneration of individuals managing certain companies, in all of the Group's companies;
- execution of the duties described in art. 17-20, art. 22 and art. 23 of the act dated 16 December 2016 on the principles of state assets management.

The Supervisory Board also established additional management goals for individual members of the Management Board according to the areas of competence assigned to them, including:

- business measures (KPIs)
 - adjusted EBITDA of the KGHM Polska Miedź S.A. Group;
 - volume of electrolytic copper production from own concentrate;
 - C1 cost of KGHM SA;
 - Net debt/ EBITDA ratio for the Group;
 - reduction of the value of all procurement procedures by a min. 8% (excluding Group Companies) in relation to the budgeted CAPEX and OPEX targets;
 - LTIFR;
 - assumed quantitative sales volume of copper products of KGHM;
 - achievement of average daily ore processing in Sierra Gorda;
- other management goals related to the implementation of key strategic projects, such as:
 - preparation of a restructuring concept for the Company in the event of deteriorating macroeconomic conditions;
 - preparation and commencement of implementation of the energy independence strategy;
 - creation of a new specialized technology company, providing services in the field of data analytics and modelling, as well as innovative technologies in the scope of e-Industry;
 - preparation and implementation of an integrated controlling model for the Group;
 - development of the Support Processes Effectiveness Program;
 - preparation and implementation of a coherent model of planning, conducting, accounting for and assessing the effectiveness of investments;
 - preparation and implementation of a concept of metal recovery from sedimentation tanks in KGHM;
 - implementation of the next stage of the strategy for supply chain management departments. Generating savings from the implementation of local proceedings at the level of 8% in relation to the baseline value;
 - preparation and implementation of a renovation policy ensuring greater processing capacity in metallurgy;
 - contracting third party concentrates to cover the metallurgical processing capacities available in 2021;
 - preparation and implementation of a concept for structure and cost restructuring of KGHM INTERNATIONAL LTD and KGHM Chile.

Payment of variable remuneration is made following the submission by individual members of the Management Board of reports on the achievement of the KPIs and goals. Payment of this variable remuneration is contingent on the achievement by a Management Board member of the management goals, approval of the Management Board's report on the activities of the Company and the Company's financial statements for the prior year, and the granting of approval by the General Meeting for the given Management Board Member's performance of duties. On this basis, the Supervisory Board evaluates the execution of the aforementioned goals and, assuming the conditions have been met for granting the right to variable remuneration, sets the amount of the variable remuneration due.

Potentially-due remuneration of Members of the Management Board of KGHM Polska Miedź S.A. for 2020.

Table 51. Potentially-due remuneration of Members of the Management Board of KGHM Polska Miedź S.A. for 2020.

<i>First, last name</i>	<i>Position</i>	<i>Potentially-due variable remuneration (PLN thousand)</i>
Marcin Chludziński	Member of the Management Board - President of the Management Board	966.19
Katarzyna Kreczmańska-Gigol	Member of the Management Board - Vice President of the Management Board	901.78
Radosław Stach	Member of the Management Board - Vice President of the Management Board	901.78
Adam Bugajczuk	Member of the Management Board - Vice President of the Management Board	901.78
Paweł Gruza	Member of the Management Board - Vice President of the Management Board	901.78
TOTAL		4 573.29

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

From 2020, by a decision of the Supervisory Board, it is permissible for the cost of a Management Board Member's life insurance policy, under the group life insurance policies in place in the Company, including in the case of death, accident or illness, to be covered by the Company. The scope of this insurance is analogous to that provided to management staff, the sole difference being that in the case of the selection by a particular Management Board Member of life insurance with a so-called equity insurance fund (ubezpieczeniowy fundusz kapitałowy), that portion of the contribution under this option will not be financed by the Company.

The management services contracts also regulate issues involving the application (utilisation) of all of the Company's resources (tools) required to carry out the contractual duties and to maintain the requirements of security in terms of collecting and transmitting data, including in particular:

- office space together with technical equipment and infrastructure, including a personal computer with wireless Internet access and other necessary equipment, means of communication, including a mobile phone;
- local housing appropriate to the function served (in respect of which the Company covers the cost of such housing to the net amount of PLN 2 500);
- participation in conferences, seminars or business meetings related to the Company's operations and, if necessary to carry out these obligations, business trips in Poland and abroad;
- the incurring by the Company of costs related to services performed outside of the Head Office which must be incurred to properly perform the services, in particular such as travel costs and quartering in a standard appropriate to the function performed;
- use of a company car for business purposes;
- civil liability insurance for the Management Board Member related to serving in the function; and
- incurring or refinancing costs of individual training for the Management Board Member related to the Contract in question and contractual obligations of the Management Board Member, in each case with the prior consent of the Chairman of the Supervisory Board.

The Contracts also provide that if the Management Board Member serves as a member of a body in a subsidiary of the Company within the Group, the Management Board Member will not receive additional remuneration for this function, apart from the remuneration provided for in the management services contract connecting the Member with the Company. In addition, the Management Board Member is obligated to inform the Supervisory Board of the possession of shares in publically-listed companies and to gain the consent of the Supervisory Board for accepting a position or serving in a function in the body of another commercial law company – excluding companies of the Group, the acquisition or possession of shares in another commercial law company, as well as performing work or services on behalf of other entities based on an employment contract, mandate contract or based on any other legal relationship.

The contracts signed with the Members of the Management Board regulate the question of compensation in the case of termination, with or without notice, of the management services contract for reasons other than breach of the contract's basic obligations. The contracts foresee that the Company will provide severance pay of no higher than three times the amount of the fixed part of remuneration (if the contract was in force for at least 12 months).

The contracts with the Members of the Management Board – both during the period of employment as well as following the period of employment – deal with the question of forbidding any activities which would represent a conflict of interest. In particular, they establish that for a period of six months from the date when employment in the function ceases, the Management Board Member is not allowed to engage in any activities which would represent a conflict of interest. For adherence to the clause on forbidding competitive activities, KGHM pays the Management Board Member compensation throughout the period during which competitive activities are banned in the amount of 50% (and in the case of the President of the Management Board 100%) of the monthly fixed remuneration. The payment of compensation is conditional on the Management Board Member's having served in the function for at least 6 months. If a Member of the Management Board breaches the contract, he or she will be required to pay a contractual penalty in the amount of the entire compensation received. Payment of the contractual penalty does not deprive the Company of the right to seek compensation in an amount exceeding that amount under general rules.

INFORMATION ON REMUNERATION OF SUPERVISORY BOARD MEMBERS

The remuneration of members of supervisory boards was set on 7 June 2019 by the General Meeting based on the Act dated 9 June 2016 on the terms of setting the remuneration of individuals managing certain companies. The amount of monthly remuneration of individual members of the Supervisory Board depends on the function served and is set as 2.2x or twice the average monthly remuneration in the corporate sector excluding payments from profit in the fourth quarter of the previous year, announced by the President of the Central Statistical Office. Members of the Supervisory Board are not remunerated for any month in which they did not attend any of the formally convened meetings for unjustified reasons, which are assessed and qualified by the Supervisory Board.

Apart from the above-mentioned remuneration, Members of the Supervisory Board are not entitled to receive any additional remuneration components, including bonuses or other cash benefits.

According to the Commercial Partnerships and Companies Code, the Company also covers or reimburses costs related to participation in the work of the Supervisory Board.

Detailed information on the amount of remuneration, bonuses or benefits for Supervisory Board members may be found in note 12.10 of the separate and consolidated financial statements.

INFORMATION ON THE ADOPTED AND APPLIED REMUNERATION SYSTEM FOR KEY MANAGERS

Key managers receive remuneration based on employment contracts. During the lives of these contracts employees receive:

- basic monthly remuneration, which amounts – depending on the function served – from 5- to 11-times the average monthly remuneration in the corporate sector, excluding payments from profit, in the fourth quarter of the previous year, announced by the President of the Central Statistical Office.
- an annual bonus, paid in accordance with the principles for bonuses set by the Management Board, based on a system of business measures (KPIs) and individual goals (MBO). Principles for setting and granting annual bonuses (STIP - Short-Term Incentive Plan) in KGHM Polska Miedź S.A. have been functioning since 2013. In 2020, new principles were introduced for awarding bonuses to executive directors, directors of Divisions and departments. The changes were dictated by both market trends and the need to update the existing principles. The system is based on collective and individual KPIs and goals, the basis of which are the key performance indicators of the Management Board and goals resulting from the Company's strategy. Currently, the STIP system covers the 117-person group of management staff in the Company.
- additional benefits, such as life insurance, the Employee Pension Program, a Health Care Package, and
- a company car.

PENSION OBLIGATIONS AND RELATED BENEFITS IN RESPECT OF FORMER MANAGEMENT AND SUPERVISORY STAFF

KGHM Polska Miedź S.A. has no pension obligations or related benefits in respect of former management and supervisory staff or liabilities drawn in respect of such pensions.

18. ETHICS AND CORPORATE GOVERNANCE

The Code of Ethics of the KGHM Polska Miedź S.A. Group is the main tool, in the corporate Group culture, which assists in defining priorities and in establishing a collection of principles which are binding for all employees in their daily work.

The objective of the Code of Ethics is to ensure that the behaviour of employees conforms to the highest standards based on the values which guide the Group's employees: zero harm, teamwork, results-driven, accountability and courage.

Additionally, in order to enable effective implementation of the principles and values set forth in the Code of Ethics across the KGHM Polska Miedź S.A. Group other appropriate policies and procedures are in force. Their implementation meets world corporate governance standards as well as the increasing demands of stakeholders, including above all customers and financial institutions.

Based on best practices in corporate governance, the following policies are in force, introducing global, unified standards which have been adapted to the laws applicable in all of the jurisdictions in which the KGHM Polska Miedź S.A. Group operates:

Compliance Management Policy in the KGHM Polska Miedź S.A. Group	The Compliance Management Policy in the KGHM Polska Miedź S.A. Group serves as the framework of the compliance management system and an organization-wide approach to compliance management, based on recognised international standards and industry best practices. The adopted solution has been tailored to the specific case of the KGHM Group and is an important business tool for preventing the occurrence of events that could result in sanctions being imposed. It enables the systematic identification, assessment and analysis of the risk of compliance loss or possible non-compliance with generally applicable law, internal corporate regulations and voluntarily adopted legal obligations and standards, including ethical standards, in order to design and implement actions to ensure compliance.
Competition Law Policy in the KGHM Polska Miedź S.A. Group	The purpose of the Competition Law Policy is to establish an operational framework for a system that will enable the KGHM Polska Miedź S.A. Group to remain in conformity with the competition laws prevailing in all the countries in which the KGHM Polska Miedź S.A. Group operates. By this, the KGHM Polska Miedź S.A. Group undertakes an obligation to compete in the markets in a legal and ethical manner, as well as to prevent, counteract and detect violations in accordance with the applicable legal regulations.
Procurement Policy in the KGHM Polska Miedź S.A. Group	The aim of the Procurement Policy is to establish the principles that should be followed by all participants of the procurement process in the KGHM Polska Miedź S.A. Group, as well as the general regulations of this process. The Policy specifies supervision measures limiting the risk of improprieties in the procurement process.
Anticorruption Policy in the KGHM Polska Miedź S.A. Group	The Anticorruption Policy establishes basic principles and standards, whose goal is to prevent any breaches of the anticorruption laws in the jurisdictions in which the KGHM Polska Miedź S.A. Group operates. The Group applies a zero tolerance policy towards corruption and bribery. The Policy also regulates the reporting of violations of corruption and corruption-related phenomena.
Responsible Supply Chain Policy in the KGHM Polska Miedź S.A. Group	The Responsible Supply Chain Policy is aimed at securing the selection of only responsible suppliers, especially in the case of acquiring so-called conflict minerals (gold, tin, wolfram and tantalum) and at ensuring that the merchandise and services purchased by the KGHM Polska Miedź S.A. Group are not utilised to finance terrorism, and are manufactured or provided in accordance with laws respecting basic human rights, labour standards, protecting the environment and counteracting corruption.
Security Policy in the KGHM Polska Miedź S.A. Group	The Security Policy sets forth joint principles and goals for the entities and organisational units of the KGHM Group related to safety and preventing losses. Pursuant to its clauses, all of the KGHM Group's employees operate in accordance with basic principles: professional integrity, accuracy in the execution of official duties, loyalty to the employer, a results oriented approach, courage, teamwork, accountability, mutual responsibility for safety and preventing losses and avoidance of actions harmful to the employer.

In order to standardise the approach to compliance, defined as compliance with the requirements resulting from applicable legal regulations (external and internal) or voluntarily accepted legal obligations and standards, in 2020 the Management Board of KGHM Polska Miedź S.A. adopted the Compliance Management Policy in the KGHM Polska Miedź S.A. Group along with the Compliance Management Procedure and Methodology in KGHM Polska Miedź S.A. Having a coherent compliance system in the KGHM Polska Miedź S.A. Group is a constituent of effective corporate governance management through, inter alia, more efficient response and readiness to regulatory changes, protecting reputation and building an ethical culture in the organisation, as well as increasing awareness and a sense of responsibility for compliance among employees. Work to support and improve the standards of the compliance function will be continued in 2021.

As part of improving the standards of maintaining compliance with the competition law, in 2020 the Management Board of KGHM Polska Miedź S.A. adopted the Instruction of Conduct in order to prevent violations resulting from competition law, which is an extension and clarification of the content of the KGHM Polska Miedź S.A. Group's Competition Law Policy updated in 2019. In December 2020, training was conducted for Local Plenipotentiaries for Competition Law in the KGHM Group. Work to support and raise the standards of compliance with the competition law will be continued in 2021.

In 2020, the „Procedure for assessing the supply chain for gold and silver in KGHM Polska Miedź S.A.” was updated in order to increase the process' efficiency and assure its compliance with the current LBMA Responsible Gold Guidance V8 and LBMA Responsible Silver Guidance V1. The system for managing the responsible gold and silver supply chain is subject to an annual, independent, external audit to confirm the Company's adherence to the principles of conflict-free gold and silver under the LBMA Responsible Gold Guidance and the LBMA Responsible Silver Guidance. The current Compliance Report of KGHM Polska Miedź S.A. along with the Report on the independent assurance service is available on the website at: <https://kghm.com/en/our-business/products/responsible-supply-chain>.

In 2020, KGHM Polska Miedź S.A. was actively involved in extensive consultations accompanying the Copper Mark standard development process, during which the company provided its own observations on the shape and content of the standard. Acquiring the "Copper Mark" is essential for KGHM Polska Miedź S.A. to continue to engage in unrestricted commercial activities, including in particular to facilitate the maintenance of cathode registration on the LME (London Metal Exchange), which from 2021 is introducing additional responsible supply chain requirements. The establishment of the Copper Mark standard is a response of the copper industry to the expectations and requirements of a broad group of stakeholders (commodity exchanges, investors, financial institutions, NGOs, etc.) regarding the compliance of registered copper producers with the principles of socially responsible business, as well as compliance with ethical, environmental and organisational standards. In 2020, the Management Board of KGHM Polska Miedź S.A. adopted a resolution granting consent to conduct a process aimed at obtaining the right to use the Copper Mark standard by selected KGHM Polska Miedź S.A. Divisions. The agreement signed on 17 July 2020 by the Management Board of KGHM Polska Miedź S.A. and The Copper Mark and the Letter of Commitment signed on the same day constitute the commitment of KGHM Polska Miedź S.A. to undergo the complete accreditation procedure in 2021 confirming compliance with the Copper Mark standard.

In 2018, the Management Board of KGHM Polska Miedź S.A. adopted a new „Code of Ethics of the KGHM Polska Miedź S.A. Group”. In order to comply with the most important principles related to counteracting corruption in the KGHM Polska Miedź S.A. Group and in the companies of the KGHM Polska Miedź S.A. Group located in Poland and abroad, the Anticorruption Policy and the Procedure for Counteracting the Threat of Corruption in the KGHM Polska Miedź S.A. Group were updated. The Procedure sets forth in detail the standards of behaviour in situations where corruption may arise and informs about criminal penalties for abuse. It is applied in order to minimise the risk of corruption and to limit all corruption-related phenomena, including conflict of interests, which could arise in relation to the functioning of the KGHM Group. The Instruction for dealing with business gifts is an annex to the procedure.

In 2019, the wording of the procedure regulating conflicts of interest and acceptable gifts was updated. In the Divisions and in seven of the domestic companies, units for overseeing safety and preventing losses were created, whose work is regulated by the Instruction implemented in 2020. Ethics and Anticorruption Representatives are in place in all of KGHM's entities, domestic and international. In 2019, the Procedure for Disclosing Improprieties and Protecting Whistle-blowers in the KGHM Group was also updated, adapting it to the requirements of the amended Act on public offerings and conditions governing the introduction of financial instruments to organised trading, and on public companies. This procedure is aimed at enhancing the effectiveness of uncovering and resolving situations related to the occurrence of improprieties representing an abuse of regulations applied in the KGHM Group, in particular the Code of Ethics of the KGHM Group, the Security Policy, the Anticorruption Policy and the Procedure Counteracting the Threat of Corruption.

In 2019, an additional channel for whistleblowers was implemented – the „KGHM Ethics Line” platform, available on the corporate website for both employees and third parties, including contractors and customers. The platform is available in four languages – Polish, English, Spanish and Russian. It enables the anonymous disclosure of improprieties and is an alternative channel for other forms of contact – telephone lines, email addresses and addresses for correspondence.

In the entities of the KGHM Polska Miedź S.A. Group an Internal Control Procedure for the Safety and Prevention of Losses Section of KGHM Polska Miedź S.A. was implemented. The audit conducted by the Safety and Prevention of Losses Section comprise the identification and uncovering of fraud, improprieties, abuse, corruption, personal abuse and breaches of the Group's Code of Ethics.

Verification of contractors, including in terms of the risk of corruption and the possibility of a conflict of interest, is executed in accordance with the Verification Procedure in procurement, sales and investment processes implemented in 2019 by the Security Department of KGHM Polska Miedź S.A.

In 2020, the Management Board of KGHM Polska Miedź S.A. made a decision, based on a resolution, to implement the Anti-Corruption Management System in accordance with the PN-ISO 37001:2017 standard in the Divisions, the Head Office and the subsidiaries. Therefore, a number of training sessions were conducted for employees, including those preparing to perform the functions of internal auditors and Plenipotentiaries for the Anti-Corruption Management System according to PN-ISO 37001:2017. The implementation date is scheduled for the end of 2021.

In 2020, the "ABCs of Conflicts of Interest. Corporate ethical handbook of KGHM Polska Miedź S.A." was developed and published. The publication describes in a concise form the issue of conflicts of interest and the company's regulations in the scope of counteracting this phenomenon. It includes a questionnaire, thanks to which each employee can easily check whether the problem of a conflict of interest applies to them.

In all entities of the KGHM Polska Miedź S.A. Group the Anti-Personal Abuse Procedure was implemented, enabling the effective prevention of personal abuse in the workplace. A tool which supports the employer in the question of prevention of personal abuse, discrimination and breaches of employee rights are the Ethics Committees appointed in the entities of the KGHM Group, and examining suspected violations of ethical standards applicable in the KGHM Group.

Work supporting and raising ethical standards and corporate governance will be continued in 2021.

19. REGULATORY FILINGS PUBLISHED AFTER THE BALANCE SHEET DATE

<i>Date of report</i>	<i>Contents</i>	<i>Section</i>
28 January 2021	<p>Information on the main Budget targets for 2021</p> <p>The Management Board of the Company announced the approval of the Budget of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group's Budget for 2021 by the Company's Supervisory Board and provided information on the main budgetary assumptions.</p>	6.5
17 February 2021	<p>Identification of indications to verify the recoverable amount of Polish and international assets of the KGHM Polska Miedź S.A. Group</p> <p>The Management Board of the Company announced that as a result of reviewing the technical and economic parameters of key international mining assets belonging to the KGHM Polska Miedź S.A. Group and current forecasts of pricing paths of commodities, indications of a possible change in the recoverable amount of the Franke mine were identified.</p>	
11 March 2021	<p>Information on the results of the conducted tests for impairment of domestic and international assets of the KGHM Polska Miedź S.A. Group</p> <p>The Management Board of the Company announced that the major work was completed related to testing for the impairment of the Franke mine belonging to the KGHM Polska Miedź S.A. Group and the major work related to the verification of the recoverable amount of:</p> <ul style="list-style-type: none"> - the assets of KGHM Polska Miedź S.A. in the form of shares in subsidiaries and Investment Certificates of Funds managed by KGHM TFI S.A. (to be recognised in the separate financial statements of KGHM Polska Miedź S.A.), - the assets of units described in point 1), including shares in portfolio companies of the Funds and their assets (to be recognised in the consolidated financial statements of the KGHM Polska Miedź S.A. Group), <p>in respect of which indications of possible impairment were identified.</p>	
22 March 2021	<p>Information on the Member of the Company's Management Board not taking part in the on-going qualification proceedings</p> <p>The Management Board of the Company announced that the Member of the Management Board of the Company, Katarzyna Kreczmańska-Gigol – Vice President of the Management Board (Finance), resigned from taking part in the on-going qualification proceedings for the position of the Member of the 11th term Management Board of KGHM Polska Miedź S.A.</p>	

In addition, in 2021 regulatory filings were published concerning:

- publication dates for periodic reports in 2021 (11 January 2021),
- preliminary production and sales data of the KGHM Polska Miedź S.A. Group for December 2020 (26 January 2021), for January 2021 (22 February 2021) and February 2021 (22 March 2021).

APPENDIX 1 CORPORATE GOVERNANCE STATEMENT

INDICATION of legal basis and COLLECTION OF CORPORATE GOVERNANCE PRINCIPLES WITH THE SCOPE OF ITS APPLICATION

The following Statement on the application of Corporate Governance was prepared in accordance with § 70 sec. 6 point 5) of the Decree of the Minister of Finance dated 29 March 2018 on current and periodic information published by issuers of securities and conditions for recognising as equivalent information required by the laws of a non-member state (Journal of Laws of 2018, item 757).

KGHM Polska Miedź S.A., whose shares are listed on the Warsaw Stock Exchange, in 2020 was subject to the corporate governance principles described in the document „Best Practice for WSE Listed Companies 2016” (hereafter „Best Practice”) which was adopted by Resolution No. 26/1413/2015 of the Warsaw Stock Exchange Supervisory Board on 13 October 2015. The content of these principles is available at the official website of the Warsaw Stock Exchange devoted to this subject (<https://www.gpw.pl/best-practice>) as well as at the corporate website of KGHM Polska Miedź S.A. under the section devoted to corporate governance (<https://kg hm.com/en/investors/corporate-governance>).

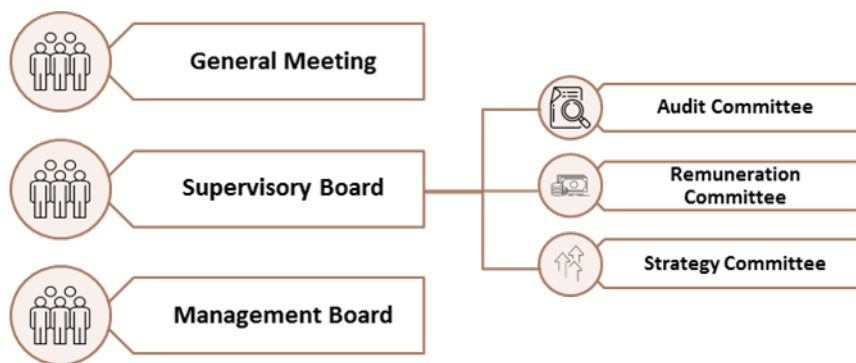
KGHM Polska Miedź S.A. endeavours at every stage of its operations to carry out the recommendations and principles respecting “Best Practice” for listed companies. Detailed principles from „Best Practice” which do not apply to the Company are presented below:

<i>Detailed principle</i>	<i>Explanation</i>
Detailed principle I.Z.1.10. which states that the Company should publish, on its corporate website, financial projections published at least in the last 5 years, if the company has decided to publish them, including information about the degree of their implementation.	The Company did not publish financial projections in the last five years.
Detailed principle III.Z.6. which states that, where the company has no separate internal audit function in its organisation, the audit committee (or the supervisory board if it performs the functions of the audit committee) should review on an annual basis whether such function needs to be separated.	In KGHM Polska Miedź S.A. the internal audit function has been organisationally separated as the Internal Audit Department.
Detailed principle IV.R.3. according to which the Company attempts to ensure that, in a situation where securities issued by a company are traded in different countries (or in different markets) and in different legal systems, the company should strive to ensure that corporate events related to the acquisition of rights by shareholders take place on the same dates in all the countries where such securities are traded.	The securities issued by the Company are listed solely on the Warsaw Stock Exchange.
Detailed principle VI.Z.2. which states that, in order to tie the remuneration of members of the management board and key managers to the company's long-term business and financial goals, the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years.	There is no incentive program in KGHM based on options or other instruments linked to the Company's shares.

In 2020, KGHM Polska Miedź S.A. did not comply with the following recommendation from „Best Practice”:

<i>Recommendation not applied</i>	<i>Explanation</i>
Recommendation IV.R.2 which states that, if justified, a company should enable its shareholders to participate in general meetings using electronic means of communication, in particular through the real-time broadcast of general meetings, real-time bilateral communication whereby shareholders may take the floor during a general meeting from a location other than the general meeting, and also exercise the right to vote during a general meeting either in person or through a proxy.	In the Company's opinion, introduction of the possibility of participation in General Meetings using electronic means of communication may carry risk factors of a legal and technical nature leading to interference with the efficient conduct of General Meetings, and as a result to the possible questioning of any resolutions adopted. In the Company's opinion, principles of participation in the General Meetings of KGHM Polska Miedź S.A. enable to exercise the rights attached to owning the shares and protect the interests of all shareholders. The Company is considering introducing the aforementioned recommendation in situations when their technical and legal aspect no longer raises any doubts, and when such introduction will be justified by a real need for this form of communication with shareholders. Since 2016 KGHM Polska Miedź S.A. has been providing real-time streaming webcasts of its General Meetings.

Diagram 12. Corporate governance structure in KGHM Polska Miedź S.A.



MAIN CHARACTERISTICS OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS AS APPLIED BY THE COMPANY IN THE PROCESS OF PREPARING SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS

To ensure reliability and accuracy as well as compliance with general laws in force and internal regulations, the process of preparing the separate and consolidated financial statements is subject to internal audit and risk management systems, comprised of the following:

Detailed principle	Explanation
<p>Supervision of the application of uniform accounting principles by the Parent Entity and the companies of the KGHM Polska Miedź S.A. Group during the process of preparing reporting packets to prepare the consolidated financial statements of the KGHM Polska Miedź S.A. Group</p>	<p>In order to ensure truthfulness and accuracy in the keeping of the accounting records of the Parent Entity and the uniformity of the accounting principles applied when preparing the financial statements of Group subsidiaries, the Management Board of the Parent Entity has introduced for continuous use an Accounting Policy for the Group in accordance with International Financial Reporting Standards approved by the European Union which is regularly updated in compliance with new regulations.</p> <p>Control over the accounting policies applied in the process of preparing the financial statements of KGHM Polska Miedź S.A. and of the Group subsidiaries is based on the control mechanisms embedded in the functioning of the reporting systems.</p> <p>The reporting packets of subsidiaries are also reviewed by appropriate services in the Parent Entity.</p>
<p>Centralised financial and accounting services</p>	<p>KGHM Polska Miedź S.A. performs its accounting activities within a centralised financial and accounting services structure. Bookkeeping in the Parent Entity is performed by the Accounting Services Center under the Head Office of KGHM Polska Miedź S.A. The centralisation of accounting services under a process model which provides for the transparent breakdown of duties and responsibilities ensures minimisation of the risk of bookkeeping errors and high-quality of financial statements. Actions are systematically being taken aimed at optimising the functioning of the accounting services structures and enhancing the security of the process of bookkeeping accounting services.</p>

Finance and accounting systems

KGHM Polska Miedź S.A. keeps accounting records in an integrated IT system. The modular structure of this system ensures a transparent segregation of processes and duties, coherence of accounting records and control over ledgers: special purpose ledger, general ledger and sub-ledgers. Access to this data at various levels and in various units is available via a well-developed reporting system. The Parent Entity continuously adapts the IT information system to changing accounting principles or other legal standards. The Parent Entity's solutions are implemented in the IT systems of the Group's entities.

To ensure the legitimate utilisation and protection of systems, data, secure access to data and computer equipment, appropriate organisational and systemic solutions have been introduced. Access to the resources of the financial and accounting system, as well as financial reporting, is limited by a system of authorisations that are granted to authorised employees solely with respect to the duties which they carry out. These entitlements are subject to regular review and audits. Control over this access is carried out at each stage of financial statements preparation, beginning with the entering of source data, through the processing of data, to the generation of output information.

A key element in limiting the risk of errors and misstatements in accounting for economic activities are the actions taken which are aimed at increasing the use of IT tools to automate control over and the settlement of purchases by the Company. These actions include:

- the Workflow system of electronic document settlement and approval,
- the system for transmitting data between the system in the Parent Entity and IT systems in Group companies, and
- customer settlement based on e-invoices for procurement and sales.

Corporate risk management

Under the Corporate Risk Management Policy and Procedures and the Corporate Risk and Compliance Committee Rules, corporate risk management is an on-going process in the KGHM Polska Miedź S.A. Group. Risk factors associated with the Group's various operations are continuously identified, assessed and analysed in terms of their possible limitation.

The Department of Corporate Risk Management and Compliance is responsible for coordination of the entire corporate risk management process and for developing the methods and tools used by managers in the Parent Entity, its subsidiaries and projects, as well as for risk monitoring and escalation, and for reporting incidents.

These activities also comprise risk management with respect to the process of preparing the consolidated financial statements of the Group.

The process of corporate risk management is annually subjected to an effectiveness audit (in compliance with the guidelines of "Best Practice for WSE Listed Companies 2016").

Detailed information regarding the risk management system applied in the KGHM Polska Miedź S.A. Group is presented in section 12 of this report.

Internal audit

A fundamental element of risk management with respect to the functioning of control mechanisms and the existence of risks in the operations of KGHM Polska Miedź S.A. is the work carried out by the Internal Audit Department. This work also indirectly strengthens the process of preparing financial statements as well as their accuracy.

The Internal Audit Department carries out its tasks based on the "Audit Plan" for the given calendar year approved by the Management Board of KGHM Polska Miedź S.A. and assessed by the Audit Committee of KGHM Polska Miedź S.A.

The goal of an audit is to provide the Management Board and the Audit Committee of the Supervisory Board of KGHM Polska Miedź S.A. with independent and objective information on internal control and risk management systems as well as with analyses of business processes within KGHM Polska Miedź S.A. and in the Group's companies. Independently from internal audit and institutional control, the obligation fully remains in KGHM Polska Miedź S.A. for each employee to exercise self-control in respect of their duties and for every level of management staff to exercise their control as part of their coordination and supervision duties.

External audit

In accordance with prevailing law, KGHM Polska Miedź S.A. submits its consolidated financial statements for half-year review and annual auditing by a certified auditor. The Supervisory Board selects the certified auditor through a tender process, based on the recommendations of the Supervisory Board's Audit Committee and the report on the tender conducted by the Committee.

The appropriate entity to audit the financial statements of KGHM Polska Miedź S.A. for the years 2019-2021 is PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. As part of the audit work performed the certified auditor performs, on the basis of prevailing audit methodology, an independent evaluation of the accounting principles applied by Parent Entity in preparing the financial statements and the accuracy and reliability of the consolidated financial statements.

The effectiveness of the internal control system and the risk management system in the process of preparing the financial statements is confirmed by the unqualified report on the audit issued by the certified auditor from its audit of the separate and consolidated financial statements of KGHM Polska Miedź S.A.

Supervision over the process of financial reporting

The body which supervises the process of financial reporting in KGHM Polska Miedź S.A. and which cooperates with the independent auditor is the Supervisory Board's Audit Committee, which is appointed by the Supervisory Board of the Parent Entity. The Audit Committee, in accordance with its duties as set forth in the Act dated 11 May 2017 on certified auditors, auditing firms and public oversight (Journal of Laws from 2017, item 1089 with subsequent amendments.) in particular:

- monitors the process of financial reporting in terms of compliance with the Accounting Policy approved by the KGHM Polska Miedź S.A. Group and prevailing laws,
- monitors the effectiveness of internal control systems, internal audit and risk management,
- monitors the independence of the certified auditor and of the entity entitled to audit financial statements, and
- conducts the process of selecting the entity entitled to audit financial statements of the Parent Entity to provide a recommendation to the Supervisory Board.

Monitoring of the process of financial reporting and assessment of the financial statements by the Supervisory Board is the final step of the review and control carried out by this body, ensuring the reliability and accuracy of the data presented in the separate and consolidated financial statements of the KGHM Polska Miedź S.A. Group.

Proper management of the process of keeping records and preparing financial statements ensures the security and the high quality of the information.

GENERAL MEETING

The General Meeting (GM) of KGHM Polska Miedź S.A. is the Company's highest authority. It meets in either Ordinary or Extraordinary form, based on generally prevailing law, the Statutes of the Company and the "Bylaws of the General Meeting of KGHM Polska Miedź S.A. with its registered head office in Lubin". GMs are convened by the Company's Management Board. In situations defined by the Commercial Partnerships and Companies Code, General Meetings may be convened by the Supervisory Board or by shareholders. The Statutes of KGHM Polska Miedź S.A. also authorise the Polish State Treasury to convene a General Meeting. The General Meeting of the Company is convened by an announcement published on the Company website and in the manner set forth in the Act dated 29 July 2005 on public offerings and conditions governing the introduction of financial instruments to organised trading, and on public companies (Journal of Laws from 2005, No. 184, item 1539, with subsequent amendments). A General Meeting may adopt resolutions if at least one-fourth of the share capital is represented. Resolutions are adopted by a simple majority of votes cast, unless the law or the Company's Statutes state otherwise. The principles for conducting a General Meeting are set forth by the Commercial Partnerships and Companies Code and the Company's Statutes. Additional issues related to the functioning of the General Meeting are regulated by the "Bylaws of the General Meeting of KGHM Polska Miedź S.A. with its registered head office in Lubin" adopted by the GM on 17 May 2010, which are available on the Company's website, www.kghm.com.

The duties of the General Meeting include in particular:

- 1) examining and approving the report of the Management Board on the Company's activity and the financial statements, including the financial statements of the Group, for the past financial year,
- 2) adopting resolutions on the distribution of profits or coverage of losses,
- 3) acknowledging the fulfilment of duties performed by members of the bodies of the Company,
- 4) changing the subject of the Company's activity,

- 5) changes in the Company Statutes,
- 6) increasing or decreasing the share capital,
- 7) the manner and conditions for retiring shares,
- 8) merging, splitting and transforming the Company,
- 9) dissolving and liquidating the Company,
- 10) issuing convertible bonds or senior bonds,
- 11) consenting to the disposal and lease of an enterprise or of an organised part thereof, as well as the attachment of limited property rights to same,
- 12) all decisions relating to claims for redress of damage suffered during the foundation of the Company, or from management or supervisory activities,
- 13) purchase of the Company's own shares, which are to be offered to employees or persons who were employed by the company or by related companies for a period of at least three years,
- 14) establishing principles of the remuneration of members of the Supervisory Board, and
- 15) establishing principles of the remuneration of members of the Management Board.

The schedule of work on organising the General Meetings of the Company is planned in such a way as to ensure that the obligations towards shareholders are properly met and to enable them to exercise their rights.

The introduction of changes to the Company Statutes requires a resolution by the General Meeting and an entry in the National Court Register. Changes in the Company Statutes are made by the General Meeting in accordance with generally prevailing laws, in the manner and form prescribed by the Commercial Partnerships and Companies Code, i.e. by a majority three-fourths of the votes cast in the presence of persons representing at least half of the share capital.

Amongst the regulations of the Commercial Partnerships and Companies Code, in respect of the organisation of General Meetings and shareholder rights, the Company applies only those regulations which are obligatory, i.e. those which require the publication of announcements and relevant materials for the General Meeting on the Company website and the use of electronic forms of contact with shareholders. Regulations enabling shareholders to participate in General Meetings using electronic means of communication are not applied.

SHAREHOLDERS AND THEIR RIGHTS

Detailed information on the ownership structure is presented in Section 11 of this report.

Shareholders of the Company exercise their rights in a manner and within the limits prescribed by prevailing law, the Statutes of the Company and the Bylaws of the General Meeting of KGHM Polska Miedź S.A.

Shareholders are entitled to exercise their voting rights either personally or through a proxy. The authority to participate in a General Meeting and to exercise voting rights should be granted in writing or in electronic form. All of the shares are bearer shares. Each share represents one vote.

There is no limitation to the transfer of ownership rights to the shares of the Company or with respect to the execution of voting rights on the shares of the Company, other than those generally prescribed by laws in force.

The Company has not issued securities which would grant special control rights in respect of the Company.

A shareholder is entitled in particular to the following:

- 1) to convene an Extraordinary General Meeting if the said shareholder represents at least half of the share capital or has been authorised by a court of registration and represents at least one-twentieth of the share capital,
- 2) to announce draft resolutions and their justification during a General Meeting which are in regard to matters introduced to the agenda,
- 3) in accordance with the Statutes, the Polish State Treasury as a shareholder may convene an Ordinary General Meeting if the Management Board does not do so in the statutory timeframe as well as an Extraordinary General Meeting if it considers its convening as warranted,
- 4) to request that a matter included in the agenda be removed or not considered,
- 5) to order the inclusion of specified matters on the agenda of the next General Meeting, if the shareholder or shareholders represent at least one-twentieth of the share capital.

SUPERVISORY BOARD

The Supervisory Board of KGHM Polska Miedź S.A. is the permanent supervisory authority of KGHM Polska Miedź S.A., in all of the Company's functional areas. According to the Statutes of the Company, the Supervisory Board is composed of 7 to 10 members appointed by the General Meeting, 3 of whom are elected by the Company's employees. The Members of the Supervisory Board are appointed for a mutual term in the office, which lasts three years. The Supervisory Board selects from among its members a Chairman of the Supervisory Board, his Deputy and, if needed, a Secretary. The Supervisory Board should meet at least once a quarter. For resolutions of the Supervisory Board to be valid all of the members of the Supervisory Board must be invited to attend and resolutions must be adopted by an absolute majority of votes in the presence of at least one-half of the members.

The duties of the Supervisory Board include in particular the following:

- 1) evaluating the separate and consolidated financial statements and the report of the Management Board on the activity of the Company for the given financial year,
- 2) evaluating the proposals of the Management Board with respect to the distribution of profits or coverage of losses,
- 3) submitting to the General Meeting an annual written report on the results of the evaluations of the documents referred to in the first two points above,
- 4) submitting to the General Meeting annual requests for granting approval of performance of duties of the Management Board's members with respect to their activities in a financial year,
- 5) examining and controlling the activity and financial condition of the Company, and submitting to the Ordinary General Meeting an annual, brief assessment of the standing of the Company,
- 6) choosing an auditor to audit the statements referred to in point 1,
- 7) setting the number of members of the Management Board,
- 8) appointing and dismissing the members of the Management Board, with due regard to §12 of the Company's Statutes,
- 9) suspending from their duties for important reasons some or all of the members of the Management Board,
- 10) temporarily delegating a member or members of the Supervisory Board to carry out the duties of members of the Management Board who are unable to carry out their duties,
- 11) establishing the remuneration of members of the Management Board, as well as the other conditions of management services contracts,
- 12) approving the Bylaws of the Management Board of the Company,
- 13) approving the Company's annual and multi-year operating plans, including the Company's Strategy and annual budget,
- 14) stating its opinion on any request of the Management Board addressed to the General Meeting,
- 15) at the request of the Management Board, expressing its consent to:
 - a) the purchase and sale of real estate, of perpetual usufruct or of a stake in real estate (this does not require a resolution of the General Meeting),
 - b) the granting of guarantees and loans to commercial entities in which the Company owns less than 1/3 of the voting rights at the General Meeting of such entities,
 - c) establishing and acceding to commercial partnerships and companies,
 - d) disposing of shares in subsidiaries of the Company,
 - e) founding branches, companies, representative offices and other organisational or economic entities abroad,
 - f) obtaining or acquiring shares of another Company,
 - g) the establishment and liquidation of foundations,
 - h) agreements for legal services, marketing services, public relations services and social communication services, and advisory services associated with management, if the total expected remuneration for providing such services exceeds the net amount of PLN 500 000 per year,
 - i) changes in agreements for legal services, marketing services, public relations services and social communication services, and advisory services associated with management which increase the amount of remuneration above the amount referred to in letter h,
 - j) agreements for legal services, marketing services, public relations services and social communication services, and advisory services associated with management, in which the maximum amount of remuneration is not determined,
 - k) donations or other agreements with similar implications, with a value exceeding PLN 20 000 or 0.1% of total assets pursuant to the Act of 29 September 1994 on accounting, determined based on the most recently approved financial statements,
 - l) discharge of debt or other agreements with similar implications with a value exceeding PLN 50 000 or 0.1% of total assets pursuant to the Act of 29 September 1994 on accounting, determined based on the most recently approved financial statements.
- 16) determining the manner of voting by a representative of KGHM Polska Miedź S.A. at the General Meetings of companies in respect of which the Company is a parent entity pursuant to art. 4 point 3 of the Act of 16 February 2007 on competition and consumer protection (Journal of Laws from 2017, item 229), regarding:
 - a) the founding by a company of another company,
 - b) amendments in the statutes or articles of association and in the subject of a company's activities,
 - c) the merger, transformation, splitting, dissolution and liquidation of a company,
 - d) increasing or decreasing a company's share capital,
 - e) the disposal and lease of an enterprise or of an organised part thereof, as well as the attachment of limited property rights to same,
 - f) the retirement of shares,

- g) setting the remuneration of members of the management boards and supervisory boards,
 - h) decisions relating to claims for redress of damage suffered during the founding of the company, or from management or supervisory activities,
 - i) regarding issues referred to in art. 17 of the Act of 16 December 2016 on the principles of state assets management (Journal of Laws from 2016, item 2259), with due regard to § 34 sec. 4 of the Statutes.
- 17) expressing an opinion on investments by the Company in fixed assets, which meet one of the following conditions:
 - a) investments having a value of more than 10% of the budget for expenditures on investments in tangible assets of the Company for a given financial year,
 - b) investments of more than 5% of the budget for expenditures on investments in tangible assets of the Company for a given financial year, if the investment does not meet the criteria for planned effectiveness in comparison to the accepted rate of return on equity in the Company,
 - 18) providing an opinion on reports prepared by the Management Board on representative expenses, expenses for legal services, marketing services, public relations services and social communication services and advisory services associated with management,
 - 19) providing an opinion on the principles of sponsoring activities and assessing the effectiveness of the sponsoring activities conducted by the Company,
 - 20) providing an opinion on changes to the principles for the disposal of non-current assets, set forth in § 33¹ of the Statutes,
 - 21) confirmation of remuneration policy for the Group,
 - 22) approving the consolidated text of the Company's Statutes, submitted by the Management Board.

The Supervisory Board operates on the basis of generally prevailing law, the Statutes of the Company and the Bylaws of the Supervisory Board. The Bylaws and Statutes of the Company are available on the Company's website, www.kghm.com.

The composition of the Supervisory Board in 2020 was as follows:

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

¹⁾ Elected by employees

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

SUPERVISORY BOARD COMMITTEES

Within the structure of the Supervisory Board are three committees which serve in an auxiliary role to the Supervisory Board in the preparation of assessments, opinions and other actions aimed at reaching decisions which must be made by the Supervisory Board.

Audit Committee

The composition of the Audit Committee in 2020:

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

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

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

- 1) monitoring of:
 - a) the financial reporting process,
 - b) the effectiveness of internal control systems and risk management systems as well as internal auditing, including financial reporting,
 - c) the conduct of financial review, in particular the conduct of audits by the auditor, reflecting all of the conclusions and recommendations of the Polish Audit Supervision Agency arising from audits conducted in the Company;
- 2) conducting reviews of transactions carried out by the Company, which the Audit Committee considers as significant for the Company,
- 3) providing an opinion on the Company's internal audit plan and the internal audit bylaws, as well as changes in the position of Internal Audit Director who reports directly to the President or other Member of the Management Board,
- 4) analysis of the conclusions and recommendations of the Company's internal audit from monitoring the degree of implementation of recommendations made by the Company's Management Board,
- 5) auditing and monitoring the independence of the certified auditor and the auditing firm, in particular if the auditing firm provides services to the Company apart from auditing,
- 6) informing the Supervisory Board of audit results and explaining to what degree such audits have resulted in the transparency of financial reporting in the Company, and also the role of the Audit Committee in this process,
- 7) assessing the independence of the certified auditor and expressing consent for the certified auditor to provide permitted non-auditing services in the Company,
- 8) developing a policy to select the auditing firm for conducting audits,
- 9) developing a policy for the auditing firm conducting audits, through entities related to the said auditing firm and by a member of the auditing firm's network, to provide permitted non-auditing services,
- 10) setting forth the Company's procedures for selecting an auditing firm,
- 11) presenting the Supervisory Board with the recommendations referred to in art. 16 section 2 of Decree no. 537/2014 (i.e. recommendations regarding the appointment of a certified auditor or auditing firms), in accordance with the Policies in points 8 and 9 above,
- 12) submitting recommendations aimed at ensuring the transparency of the Company's financial reporting process,
- 13) other tasks ordered by the Supervisory Board.

With respect to the Members of the Audit Committee serving in the function from 1 January 2020 to 31 December 2020 Agnieszka Winnik-Kalemba, Marek Pietrzak, Bartosz Piechota and Jarosław Janas met the criteria for independence as defined by art. 129 sec. 3 of the Act dated 11 May 2017 on certified auditors, auditing firms and public oversight (Journal of Laws from 2017 item 1089, with subsequent amendments).

The qualifications of the Committee's members in the areas of accounting or the auditing of financial statements, as well as knowledge and skills in the sector in which KGHM Polska Miedź S.A. operates, resulted from the education, experience and professional practice of the Committee's members. Following is detailed information on their qualifications in the areas of accounting or the auditing of financial statements as well as their knowledge and skills in the sector in which KGHM Polska Miedź S.A. operates.

Marek Pietrzak was selected as a member possessing qualifications in the field of accounting or the auditing of financial statements, resulting from his education (among others the title of legal adviser and Executive Master of Business Administration and completion of post-graduate studies in accounting and corporate finance at the SGH Warsaw School of Economics), experience and professional practice (among others supervision and management of commercial law companies).

Bogusław Szarek was selected as a member possessing knowledge and skills in the sector in which KGHM Polska Miedź S.A. operates resulting from many years of employment (since 1982) in KGHM Polska Miedź S.A. as well as being a member of the Supervisory Board of KGHM Polska Miedź S.A. since 2012, as a Member of the KGHM Polska Miedź S.A. Supervisory Board elected by employees.

In 2020 there were 8 meetings of the Audit Committee.

Remuneration Committee

Composition of the Remuneration Committee in 2020:

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

The Remuneration Committee is responsible for supervising the performance of the duties set forth in the contracts signed with the Management Board, the remuneration system and benefits paid out in KGHM Polska Miedź S.A. and the Group, training and other benefits provided by the Company, as well as audits performed by the Supervisory Board in this regard.

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

- 1) the management of issues related to the recruitment and employment of members of the Management Board by preparing and arranging draft documents and processes to be submitted for the acceptance of the Supervisory Board,
- 2) the preparation of draft contracts/agreements and other sample documents related to the establishment of an employment relationship with members of the Management Board and oversight of the execution of the contractual obligations by the parties,
- 3) oversight of the execution of the Management Board remuneration system, in particular the preparation of settlement documents with respect to variable elements and bonus-based remuneration in order to submit recommendations to the Supervisory Board,
- 4) monitoring and periodic assessment of the remuneration system for the Company's senior management and, if necessary, the preparation of recommendations for the Supervisory Board,
- 5) oversight of the proper execution of additional benefits for the Management Board resulting from employment contracts, such as insurance, company cars, housing, etc.,
- 6) other tasks ordered by the Supervisory Board.

Strategy Committee

Composition of the Strategy Committee in 2020:

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

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

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

- 1) execution on behalf of the Company's Supervisory Board of tasks in the area of oversight of issues associated with the Company's strategy and the annual and long-term operating plans of the Company,
- 2) monitoring execution of the Company's strategy by the Management Board and issuing opinions on the degree to which the existing strategy is able to deal with changes in the actual situation,
- 3) monitoring execution of the annual and long-term operating plans of the Company by the Management Board, and assessment of whether these plans need to be modified,
- 4) assessment of the consistency of the annual and long-term operating plans of the Company with the Company's strategy as executed by the Management Board, and the presentation of any proposed changes in all such Company's documents,
- 5) submission to the Company's Supervisory Board of its opinions regarding the draft strategies of the Company and any changes thereto and of the annual and multi-year operating plans of the Company, as presented by the Company's Management Board,
- 6) other tasks ordered by the Supervisory Board.

The detailed rights, scope of activities and manner of work of these Committees are described by bylaws approved by the Supervisory Board. After the end of the year the Audit, Remuneration and Strategy Committees submit reports on their activities to the Supervisory Board.

MANAGEMENT BOARD

The duties of the Management Board include all matters pertaining to the functioning of the Company which have not been reserved by the Commercial Partnerships and Companies Code and the Statutes of the Company to the duties of the General Meeting and the Supervisory Board. A detailed description of the Management Board's scope of duties and obligations and the manner in which it functions may be found in the Bylaws of the Management Board.

According to the Statutes of KGHM Polska Miedź S.A., the Company's Management Board may be composed of 1 to 7 persons, appointed for a mutual term of office. The term of office of the Management Board lasts three consecutive years. The number of members of the Management Board is set by the Supervisory Board, which appoints and dismisses the President of the Management Board and the Vice Presidents. The Supervisory Board appoints the members of the Management Board following the conduct of qualification proceedings, the goal of which is to review and evaluate the qualifications of candidates and to select the best candidate for Member of the Management Board, with due regard being given to sec. 5 and sections 7 to 12 of Statutes concerning the appointment or recall of an employee-elected member of the Management Board. The members of the Management Board, including any such chosen by the employees, may be recalled by the Supervisory Board prior to the expiration of their term, which in no way shall interfere with their rights arising from their employment contract or other legal relationship relating to their functioning as a member of the Management Board. The result of elections of an employee-elected member of the Management Board, or the result of voting for their recalling, shall be binding upon the Supervisory Board, as long as in the said voting for either their appointment or recalling at least 50% of the Company's employees have participated. The election and recall of an employee-elected member of the Management Board requires an absolute majority of the votes cast.

The Management Board operates based on generally prevailing law, the Statutes of the Company and the Bylaws of the Management Board of KGHM Polska Miedź S.A. For resolutions of the Management Board to be valid at least two-thirds of the members of the Management Board must be present. Resolutions of the Management Board are approved by a simple majority of the votes cast. In the case of a tie vote being cast either for or against a given resolution, the President of the Management Board casts the deciding vote.

A detailed list of the matters requiring a resolution of the Management Board is included in the Bylaws of the Management Board of KGHM Polska Miedź S.A. approved by the Supervisory Board.

The authority of the Management Board to pass decisions on the issuance or redemption of shares is statutorily limited. The shares of the Company may be redeemed given shareholder consent through their acquisition by the Company. A resolution of the General Meeting on the redemption of shares may be preceded by an agreement entered into with a shareholder. In accordance with §29 sec. 1 point 6 of the Statutes of the Company, any increase in share capital or issuance of shares requires the approval of the General Meeting. The same holds true for the issuance of bonds (§29 sec. 1 point 10 of the Statutes of the Company). The Management Board of the Company does not have the authority to increase the share capital or issue the shares of the Company under conditions specified in art. 444-446 of the Commercial Partnerships and Companies Code.

The delegation of duties of the Management Board is presented in Section 17 of this report. In 2020 there were no changes in the Management Board and the composition of the Management Board was as follows:

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

AUDIT FIRM AUDITING THE FINANCIAL STATEMENTS

Permitted non-auditing services were provided to the Company by the firm auditing its financial statements. In each case the Audit Committee evaluated the independence of the auditing firm and expressed its consent to the provision of these services.

Detailed information on remuneration of the entity entitled to audit the financial statements for the review and audit of financial statements and other remuneration is presented in note 12.10 of the separate and consolidated financial statements.

The Company implemented a policy for the selection of the auditing firm to conduct audits of the financial statements (hereafter: Selection policy) and a policy for permitted non-auditing services to be provided by the auditing firm conducting audits through entities associated with the auditing firm through members of the auditing firm's network (hereafter: Services policy).

Main assumptions of the Selection policy:

- maximum uninterrupted period of providing services by a given auditing firm of audits of the financial statements amounting to 5 years followed by a grace period of at least 4 years,
- transparency, accuracy and honesty in all procedures involving the selection of the auditing firm,
- equal opportunity for all of the auditing firms meeting the Company's requirements to be selected,
- appropriate substantive preparation and due diligence of persons selected within the Company to carry out the Selection policy,
- documentation of selection procedures performed and evaluation of offers in a manner which ensures the transparency of the actions taken.

Main assumptions of the Services policy:

- limitation of the scope of permitted non-auditing services ordered from the auditing firm or a related entity thereof; maximum total remuneration for the services provided in this regard is limited to 70% of the average annual remuneration paid out during the last three financial years due to providing statutory auditing services,
- need to review the purpose and necessity for purchasing permitted non-auditing services from the auditing firm or a related entity thereof on an individual basis,
- active participation of the Audit Committee in the process of evaluating threats to and the security of the independence of the auditing firm in providing permitted non-auditing services,
- signing of an agreement and the providing of services, as well as any change in the scope of the services or remuneration thereof, will be possible only after the Audit Committee has provided the requisite consent.

The entity authorised to audit the financial statements for the years 2019-2021 is PricewaterhouseCoopers Polska sp. Z o.o. Audyt sp.k. The selection of the auditing firm was made as a result of an organised procedure of selection, which met the existing criteria.

DIVERSITY POLICY APPLIED TO THE ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES OF THE COMPANY

KGHM Polska Miedź S.A. applies best practice in promoting diversity with respect to its employees. As a global company, active on global markets, labour and employee relations standards are applied which are consistent with local laws in force, as well as with those defined by international institutions. Existing regulations and policies reflect the good of employees and mutual relations, based on best practice, regardless of the jurisdiction in which KGHM Polska Miedź S.A. operates.

KGHM Polska Miedź S.A. creates a non-discriminatory environment and workplace, and consequently no form of discrimination is tolerated, especially as regards gender, age, origin, citizenship, religion, political opinion and trade union membership.

KGHM Polska Miedź S.A. manages diversity by aiming at creating an organisational culture based on mutual respect, equal treatment, access to development opportunities and the utilisation of employee potential. The approach to management of diversity is defined by the „Declaration of Diversity of KGHM Polska Miedź S.A.“.

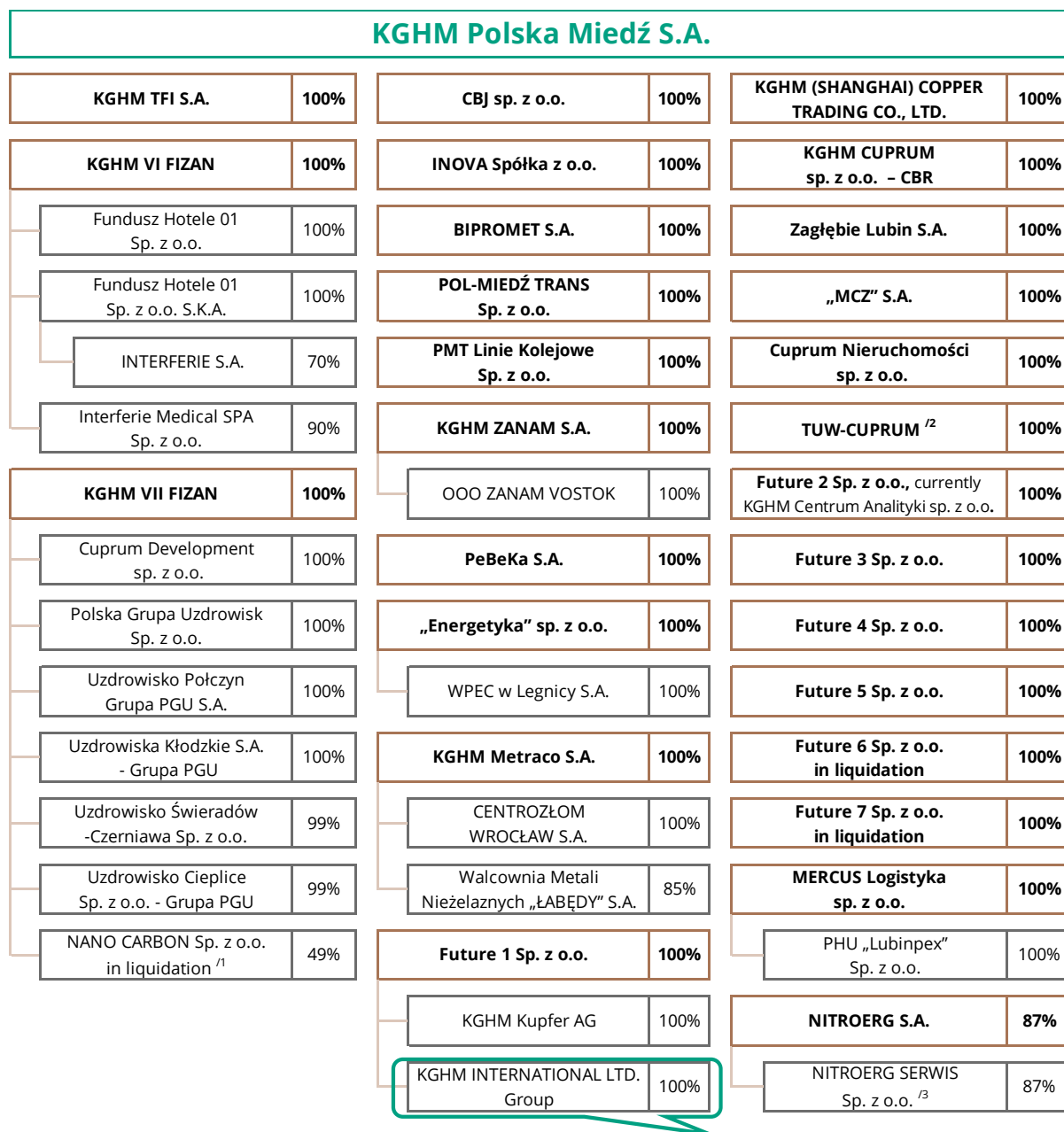
Moreover, in KGHM Polska Miedź S.A. the process of recruitment is conducted with full respect to the principles of diversity and equal access to employment. All candidates meeting the criteria set forth for a given recruitment process are treated equally. The participants in this process adhere to the ban on discrimination. They endeavour to ensure a rational degree of diversity in the process of selecting individual employees, while maintaining the primacy of knowledge, substantive skills and social ability.

The management of diversity also applies to members of the Supervisory Board and Management Board of KGHM Polska Miedź S.A. The management and supervisory staff are diverse in terms of gender, age and experience:

Table 52. Structure of diversity amongst management and supervisory staff of the Company as at 31 December 2020

Structure of gender diversity	Women		Men	
	Supervisory Board	Management Board	Supervisory Board	Management Board
	2	1	7	4
Structure of age diversity	<40 years	40-50 years	51-60 years	>60 years
	Supervisory Board	1	3	3
Management Board		4	1	
Length of experience in KGHM Polska Miedź S.A.	<5 years	5-10 years	11-20 years	>20 years
	Supervisory Board	7		
Management Board	4			1

APPENDIX 2 KGHM POLSKA MIEDŹ S.A. GROUP STRUCTURE

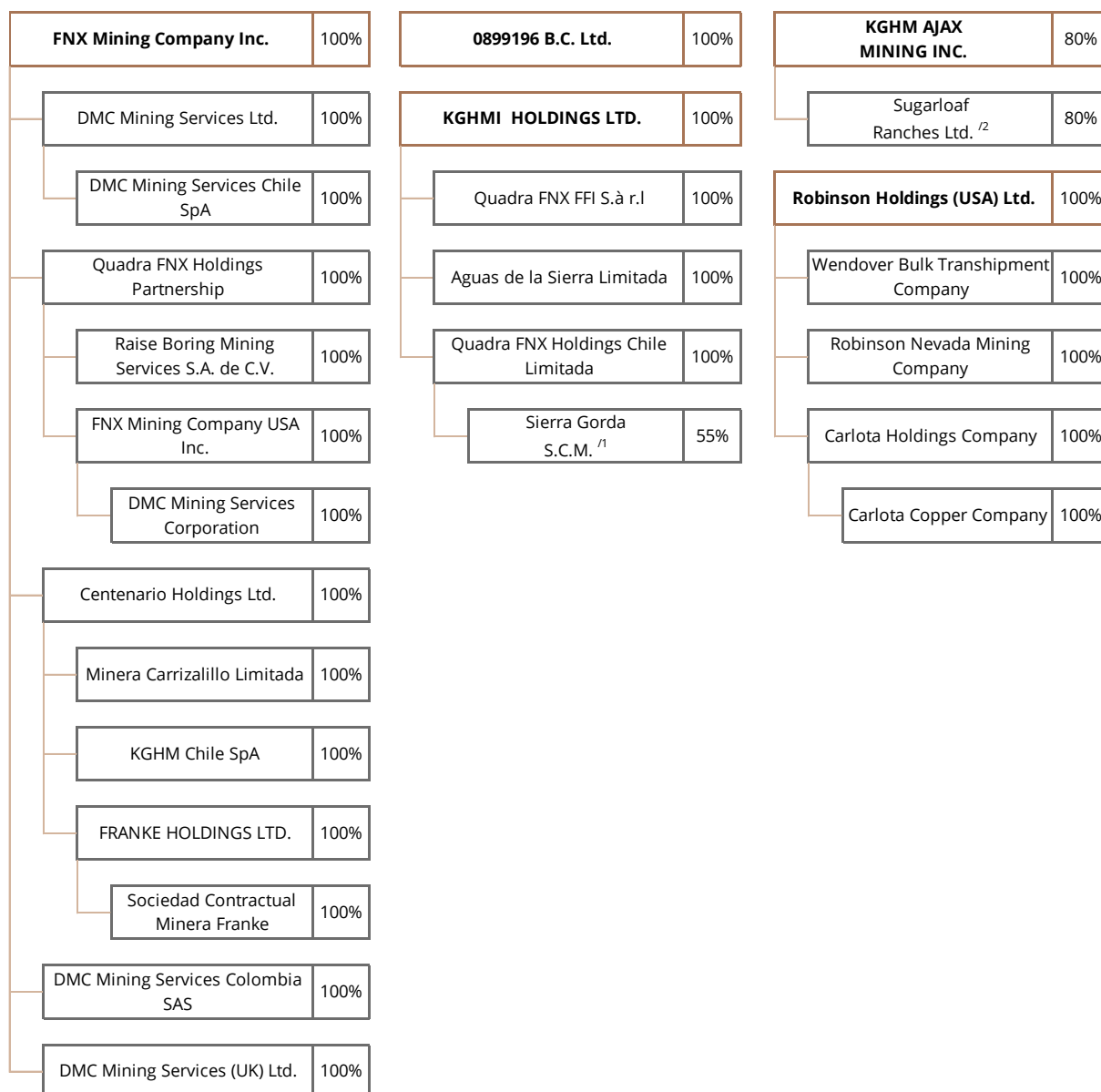


Group structure presented in Appendix 3

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

^{2/} unconsolidated subsidiary

^{3/} actual Group interest 87%

APPENDIX 3 KGHM INTERNATIONAL LTD. GROUP STRUCTURE
KGHM INTERNATIONAL LTD.


1/ joint venture accounted for using the equity method

2/ actual Group interest 80%

APPENDIX 4 ACTIVITIES OF SUBSIDIARIES AND JOINT VENTURES OF KGHM POLSKA MIEDŹ S.A.**COMPANIES IN POLAND**

<i>Entity</i>	<i>Head Office</i>	<i>Activities</i>
KGHM Polska Miedź S.A.	Poland	mining of copper ore, excavation of salt, production of copper and precious metals
„Energetyka” sp. z o.o.	Poland	generation, transmission and distribution of electrical and heating energy; water-sewage management; trade in oil-based products
PeBeKa S.A.	Poland	mine construction (construction of shafts and drifts), construction of roadway/railway tunnels; specialist construction, drilling services (geological/exploration drilling)
KGHM ZANAM S.A.	Poland	production of mining machinery and equipment, construction machinery; machinery repairs; production maintenance services; advancement of investments; steel construction services; roadway cargo transport
KGHM CUPRUM sp. z o.o. - CBR	Poland	design and R&D activities
CBJ sp. z o.o.	Poland	research and chemical-physical analysis; measurement of imissions and emissions; industrial research
INOVA Spółka z o.o.	Poland	design and production – innovative solutions in electrical engineering, automated equipment and communication systems; certification and attestation of machinery and equipment
KGHM Metraco S.A.	Poland	trade and processing of non-ferrous metals scrap; rhenium recovery from acidic industrial waste; processing of shaft slag into road-building material and sale of such; trading in salt; recovery of copper and silver from smelter tiles; trading in chemical factors
POL-MIEDŹ TRANS Sp. z o.o.	Poland	railway cargo transport
NITROERG S.A.	Poland	production of explosives, Nitroacet 50 and initiating systems
MERCUS Logistyka sp. z o.o.	Poland	materials logistics; trade in consumer goods; production of bundled electrical cables and hydraulic cables; passenger roadway transport
NITROERG SERWIS Sp. z o.o.	Poland	comprehensive drilling and blasting work for mines, sales of explosives and initiating systems
CENTROZŁOM WROCŁAW S.A.	Poland	recovery of raw materials from segregated materials – purchase and sale of metal scrap, waste recycling, sale of metallurgical products and production of reinforcing building materials
Walcownia Metali Nieżelaznych „ŁABĘDY” S.A.	Poland	production of pressed goods from copper and its alloys; rolling services
PHU „Lubinpex” Sp. z o.o.	Poland	gastronomic, commercial and catering services
PMT Linie Kolejowe Sp. z o.o.	Poland	authorized management of railway infrastructure
KGHM TFI S.A.	Poland	creation and management of investment funds
INTERFERIE S.A.	Poland	hotel services combining active recreation with sanatorium-healing, rehabilitation, SPA and wellness services
Interferie Medical SPA Sp. z o.o.	Poland	hotel, recreation, rehabilitation, health tourism and wellness services
WPEC w Legnicy S.A.	Poland	production of heat from its own sources, transmission and distribution of heat, servicing
Uzdrowiska Kłodzkie S.A. - Grupa PGU	Poland	services in the following areas: spa-healing, sanatorium, preventative medicine, rehabilitation, biological renewal, recreation based on natural healing materials and bioclimatic conditions
Uzdrowisko Połczyn Grupa PGU S.A.		
Uzdrowisko Cieplice sp. z o.o. – Grupa PGU		
Uzdrowisko Świeradów-Czerniawa Sp. z o.o. - Grupa PGU		
Fundusz Hotele 01 Sp. z o.o.	Poland	special-purpose companies operating within the structures of the KGHM VI FIZAN investment fund
Fundusz Hotele 01 Sp. z o.o. S.K.A.		
Polska Grupa Uzdrowisk Sp. z o.o.	Poland	center of common services for entities operating within the structures of the investment fund

Entity	Head Office	Activities
KGHM VI FIZAN KGHM VII FIZAN	Poland	closed-end, non-public investment funds - investing cash
„MCZ” S.A.	Poland	hospital services; medical practice; activities related to protecting human health; occupational medicine
Zagłębie Lubin S.A.	Poland	management of a football club, organisation of professional sporting events
BIPROMET S.A.	Poland	design services, consulting, technical conceptual work, general realisation of investments, rental of real estate
Cuprum Development sp. z o.o.	Poland	activities related to real estate market services, construction services, design work and financing
Cuprum Nieruchomości sp. z o.o.	Poland	company not engaged in operations
Future 2 Sp. z o.o. (currently KGHM Centrum Analityki sp. z o.o.)	Poland	In 2020 the business profile was changed into a technological company supporting data analysis, including BigData creation. In February 2021 the change of the business profile and name to „KGHM Centrum Analityki sp. z o.o.” was registered by the court.
Future 3 Sp. z o.o.		
Future 4 Sp. z o.o.		
Future 5 Sp. z o.o.		
Future 6 Sp. z o.o. in liquidation	Poland	companies not engaged in operations
Future 7 Sp. z o.o. in liquidation		
NANO CARBON Sp. z o.o. in liquidation	Poland	production of graphene and research into its properties

INTERNATIONAL COMPANIES (AND FUTURE 1 SP. Z O.O.)

Entity	Head Office	Activities
DIRECT SUBSIDIARIES		
Future 1 Sp. z o.o.	Poland	management and control of other companies, including the KGHM INTERNATIONAL LTD. Group
KGHM (SHANGHAI) COPPER TRADING CO. LTD.	China	Service and coordination activities involving copper/rhenium merchandise
INDIRECT SUBSIDIARIES		
COMPANIES BELONGING TO Future 1 Sp. z o.o.		
KGHM INTERNATIONAL LTD.	Canada	the founding, development, management or control of companies in the KGHM INTERNATIONAL LTD. Group
KGHM Kupfer AG	Germany	in 2020 did not engage in operations
COMPANIES BELONGING TO KGHM INTERNATIONAL LTD.		
KGHM Ajax Mining Inc.	Canada	exploration for and assessment of mineral deposits
Sugarloaf Ranches Ltd.	Canada	agricultural activities (this company owns assets in the form of land designated for future mining activities related to the Ajax project)
Robinson Nevada Mining Company	USA	copper ore mining, production and sale of copper
Carlota Copper Company	USA	copper ore leaching, production and sale of copper
FNX Mining Company Inc.	Canada	mining of copper and nickel ore, production and sale of copper and nickel
Sociedad Contractual Minera Franke	Chile	copper ore leaching, production and sale of copper
Aguas de la Sierra Limitada	Chile	the ownership and exercise of water rights in Chile
Robinson Holdings (USA) Ltd.	USA	technical and management services
DMC Mining Services Corporation	USA	contract mining services
KGHM Chile SpA	Chile	management and exploration services
Minera Carrizalillo Limitada	Chile	the ownership of water and deposits rights
Wendover Bulk Transshipment Company	USA	shipment services
Raise Boring Mining Services, S.A. de C.V.	Mexico	mine drilling services

<i>Entity</i>	<i>Head Office</i>	<i>Activities</i>
KGHMI Holdings Ltd.	Canada	the management and control of other companies
Carlota Holdings Company	USA	the management and control of other companies
Quadra FNX FFI S.à r.l.	Luxembourg	financial services
Centenario Holdings Ltd.	Canada	the management and control of other companies
Franke Holdings Ltd.	Canada	the management and control of other companies
Quadra FNX Holdings Chile Limitada	Chile	the management and control of other companies
FNX Mining Company USA Inc.	USA	the management and control of other companies
Quadra FNX Holdings Partnership	Canada	the management and control of other companies
0899196 B.C. Ltd.	Canada	the management and control of other companies
DMC Mining Services Ltd.	Canada	contract mining services
DMC Mining Services Chile SpA	Chile	contract mining services
Sierra Gorda S.C.M.	Chile	the operation of an open-pit copper and molybdenum mine
DMC Mining Services Colombia SAS	Colombia	contract mining services
DMC Mining Services (UK) Ltd.	United Kingdom	contract mining services
COMPANY BELONGING TO Przedsiębiorstwo Budowy Kopalń PeBeKa Spółka Akcyjna		
PEBEKA CANADA INC.	Canada	in 2020 did not engage in operations, in April 2020 the company was liquidated
COMPANY BELONGING TO KGHM ZANAM S.A. (99%) and to Przedsiębiorstwo Budowy Kopalń PeBeKa S.A. (1%)		
Obszczenie s ograniczennoj otwietstwiennostju ZANAM VOSTOK	Russian Federation	sale and after-sales service of mining machinery produced by KGHM ZANAM S.A.

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SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

This report was authorised for issue on 23 March 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

Katarzyna Kreczmańska-Gigol

Vice President
of the Management Board

Radosław Stach