**POLISH FINANCIAL SUPERVISION AUTHORITY**

# Annual report R 2019

(in accordance with § 60 sec. 1 point 3 of the Decree regarding current and periodic information)

**for issuers of securities involved in production, construction, trade or services activities**

for the financial year **2019** comprising the period from **1 January 2019** to **31 December 2019**
containing the financial statements according to International Financial Reporting Standards in PLN.

Publication date: 17 March 2020


**KGHM** Polska Miedź Spółka Akcyjna
(name of the issuer)

**KGHM** Polska Miedź S.A.
(name of the issuer in brief)

**Mining**
(issuer branch title per the Warsaw Stock Exchange)

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(postal code)

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PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt Sp.k.
(auditing company)

| | SELECTED FINANCIAL DATA | in PLN mn | | in EUR mn | |
|---|---|---|---|---|---|
| | | 2019 | 2018 | 2019 | 2018 |
| I. | Revenues from contracts with customers | 17 683 | 15 757 | 4 111 | 3 693 |
| II. | Profit on sales | 2 392 | 2 297 | 556 | 538 |
| III. | Profit before income tax | 1 927 | 2 672 | 448 | 626 |
| IV. | Profit for the period | 1 264 | 2 025 | 294 | 475 |
| V. | Other comprehensive income | ( 420) | ( 90) | ( 98) | ( 21) |
| VI. | Total comprehensive income | 844 | 1 935 | 196 | 454 |
| VII. | Number of shares issued | 200 000 000 | 200 000 000 | 200 000 000 | 200 000 000 |
| VIII. | Earnings per ordinary share (in PLN/EUR) | 6.32 | 10.13 | 1.47 | 2.37 |
| IX. | Net cash generated from operating activities | 4 043 | 2 815 | 940 | 660 |
| X. | Net cash used in investing activities | ( 2 854) | ( 2 399) | ( 663) | ( 562) |
| XI. | Net cash used in financing activities | ( 1 265) | ( 48) | ( 294) | ( 11) |
| XII. | Total net cash flow | ( 76) | 368 | ( 17) | 87 |
| XIII. | Non-current assets | 30 111 | 28 098 | 7 071 | 6 534 |
| XIV. | Current assets | 5 878 | 6 152 | 1 380 | 1 431 |
| XV. | Total assets | 35 989 | 34 250 | 8 451 | 7 965 |
| XVI. | Non-current liabilities | 11 105 | 10 240 | 2 608 | 2 381 |
| XVII. | Current liabilities | 4 995 | 4 965 | 1 173 | 1 155 |
| XVIII. | Equity | 19 889 | 19 045 | 4 670 | 4 429 |

**Average EUR/PLN exchange rate announced by the National Bank of Poland**

| | 2019 | 2018 |
|---|---|---|
| Average exchange rate for the period* | 4.3018 | 4.2669 |
| Exchange rate at the end of the period | 4.2585 | 4.3000 |

**Exchange rates are the arithmetical average of the current average exchange rates announced by the National Bank of Poland on the last day of each month respectively of 2019 and 2018*

Polish Financial Supervision Authority

**This report is a direct translation from the original Polish version.**
**In the event of differences resulting from the translation, reference should be made to the official Polish version.**

# FINANCIAL STATEMENTS FOR 2019

Lubin, March 2020

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## STATEMENT OF PROFIT OR LOSS

| | | from 1 January 2019 to 31 December 2019 | from 1 January 2018 to 31 December 2018 |
|---|---|---|---|
| Part 2 | Revenues from contracts with customers | 17 683 | 15 757 |
| Note 4.1 | Cost of sales | (14 296) | (12 537) |
| | **Gross profit** | **3 387** | **3 220** |
| Note 4.1 | Selling costs and administrative expenses | ( 995) | ( 923) |
| | **Profit on sales** | **2 392** | **2 297** |
| Note 4.2 | Other operating income, including: | **1 228** | 2 799 |
| | interest income calculated using the effective interest rate method | 269 | 242 |
| | reversal of impairment losses on financial instruments | 156 | 1 048 |
| Note 4.2 | Other operating costs, including: | (1 189) | (1 650) |
| | recognition of impairment losses on financial instruments | ( 54) | ( 778) |
| Note 4.3 | Finance income | 37 | 11 |
| Note 4.3 | Finance costs | ( 541) | ( 785) |
| | **Profit before income tax** | **1 927** | **2 672** |
| Note 5.1 | Income tax expense | ( 663) | ( 647) |
| | **PROFIT FOR THE PERIOD** | **1 264** | **2 025** |
| | **Weighted average number of ordinary shares (million)** | **200** | **200** |
| | **Basic/diluted earnings per share (in PLN)** | **6.32** | **10.13** |

## STATEMENT OF COMPREHENSIVE INCOME

| | | from 1 January 2019 to 31 December 2019 | from 1 January 2018 to 31 December 2018 |
|---|---|---|---|
| Note 8.2.2 | **Profit for the period** | **1 264** | **2 025** |
| Note 8.2.2 | Measurement of hedging instruments net of the tax effect | ( 315) | 283 |
| | **Other comprehensive income which will be reclassified to profit or loss** | **( 315)** | **283** |
| | Measurement of equity financial instruments at fair value through other comprehensive income, net of the tax effect | **( 76)** | ( 128) |
| Note 8.2.2 | Actuarial losses net of the tax effect | ( 29) | ( 245) |
| | **Other comprehensive income, which will not be reclassified to profit or loss** | **( 105)** | **( 373)** |
| | **Total other comprehensive net income** | **( 420)** | **( 90)** |
| | **TOTAL COMPREHENSIVE INCOME** | **844** | **1 935** |

in PLN millions, unless otherwise stated

## STATEMENT OF CASH FLOWS

| | | from 1 January 2019 to 31 December 2019 | from 1 January 2018 to 31 December 2018 |
|---|---|---|---|
| | **Cash flow from operating activities** | | |
| | Profit before income tax | 1 927 | 2 672 |
| Note 9.3 | Depreciation/amortisation recognised in profit or loss | 1 220 | 1 119 |
| | Interest on investment activities | ( 239) | ( 219) |
| | Other interest | 232 | 150 |
| | Dividends income | ( 37) | ( 239) |
| | Fair value (gains)/losses on financial assets measured at fair value through profit or loss | ( 97) | 63 |
| Note 4.4 | Impairment losses on non-current assets | 512 | 825 |
| Note 4.4 | Reversal of impairment losses on non-current assets | ( 155) | (1 448) |
| | Exchange differences, of which: | 200 | 181 |
| | from investment activities and cash | ( 13) | ( 411) |
| | from financing activities | 213 | 592 |
| | Change in provisions and employee benefits liabilities | 59 | 222 |
| | Change in other receivables and liabilities | ( 73) | ( 345) |
| | Change in derivatives | 12 | ( 74) |
| | Reclassification of other comprehensive income to profit or loss due to the realisation of hedging derivatives | ( 86) | 31 |
| Note 12.9 | Other adjustments | 60 | 34 |
| | Exclusions of income and costs, total | 1 608 | 300 |
| | Income tax paid | ( 465) | ( 710) |
| Note 10.4 | Changes in working capital, including: | 973 | 553 |
| | change in trade payables transferred to factoring | 595 | - |
| | **Net cash generated from operating activities** | **4 043** | **2 815** |
| | **Cash flow from investing activities** | | |
| Note 9.1.2 | Expenditures on mining and metallurgical assets, including: | (2 294) | (1 884) |
| | paid capitalised interest on borrowings, including: | ( 123) | ( 123) |
| | leases | ( 12) | - |
| | Expenditures on other property, plant and equipment and intangible assets | ( 72) | ( 23) |
| | Expenditures due to acquisition of investment certificates and shares in subsidiaries | ( 430) | ( 10) |
| | Loans granted | ( 445) | ( 682) |
| | Proceeds from redemption of investment certificates | 404 | - |
| | Dividends received | 37 | 239 |
| | Other | ( 54) | ( 39) |
| | **Net cash used in investing activities** | **(2 854)** | **(2 399)** |
| | **Cash flow from financing activities** | | |
| | Proceeds from borrowings | 4 669 | 2 257 |
| | Proceeds from the issue of debt financial instruments | 2 000 | - |
| | Proceeds from cash pooling | 50 | - |
| | Expenses due to cash pooling | - | ( 80) |
| | Repayments of borrowings | (7 726) | (2 073) |
| | Repayment of lease liabilities | ( 30) | - |
| | Payment of interest, including due to: | ( 228) | ( 152) |
| | borrowings and debt securities | ( 212) | ( 152) |
| | leases | ( 15) | - |
| | **Net cash used in financing activities** | **(1 265)** | **( 48)** |
| | **TOTAL NET CASH FLOW** | **( 76)** | **368** |
| | Foreign exchange gains/(losses) on cash and cash equivalents | ( 35) | 25 |
| Note 8.5 | Cash and cash equivalents at beginning of the period | 627 | 234 |
| | **Cash and cash equivalents at end of the period, including:** | **516** | **627** |
| | restricted cash | 27 | 2 |

in PLN millions, unless otherwise stated

## STATEMENT OF FINANCIAL POSITION

| | ASSETS | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|---|
| | Mining and metallurgical property, plant and equipment | 18 092 | 16 382 |
| | Mining and metallurgical intangible assets | 651 | 576 |
| Note 9.1 | Mining and metallurgical property, plant and equipment and intangible assets | 18 743 | 16 958 |
| | Other property, plant and equipment | 103 | 92 |
| | Other intangible assets | 61 | 52 |
| Note 9.2 | Other property, plant and equipment and intangible assets | 164 | 144 |
| Note 6.1 | Investments in subsidiaries | 2 946 | 3 510 |
| Note 6.2 | Loans granted, including: | 7 217 | 6 262 |
| | measured at fair value through profit or loss | 2 271 | 1 724 |
| | measured at amortised cost | 4 946 | 4 538 |
| Note 7.2 | Derivatives | 123 | 319 |
| Note 7.3 | Other financial instruments measured at fair value through other comprehensive income | 403 | 496 |
| Note 7.4 | Other financial instruments measured at amortised cost | 457 | 376 |
| | Financial instruments, total | 8 200 | 7 453 |
| Note 5.1.1 | Deferred tax assets | - | 9 |
| Note 12.3 | Other non-financial assets | 58 | 24 |
| | **Non-current assets** | **30 111** | **28 098** |
| Note 10.1 | Inventories | 3 783 | 4 102 |
| Note 10.2 | Trade receivables, including: | 243 | 310 |
| | trade receivables measured at fair value through profit or loss | 139 | 139 |
| Note 5.3 | Tax assets | 435 | 275 |
| Note 7.2 | Derivatives | 291 | 300 |
| Note 7.1 | Cash pooling receivables | 335 | 247 |
| Note 12.3 | Other financial assets | 221 | 242 |
| Note 12.3 | Other non-financial assets | 54 | 49 |
| Note 8.5 | Cash and cash equivalents | 516 | 627 |
| | **Current assets** | **5 878** | **6 152** |
| | **TOTAL ASSETS** | **35 989** | **34 250** |
| | **EQUITY AND LIABILITIES** | | |
| Note 8.2.1 | Share capital | 2 000 | 2 000 |
| Note 8.2.2 | Other reserves from measurement of financial instruments | (698) | (307) |
| Note 8.2.2 | Accumulated other comprehensive income | (622) | (593) |
| Note 8.2.2 | Retained earnings | 19 209 | 17 945 |
| | **Equity** | **19 889** | **19 045** |
| Note 8.4.1 | Borrowings, lease and debt securities | 7 215 | 6 758 |
| Note 7.2 | Derivatives | 131 | 68 |
| Note 11.1 | Employee benefits liabilities | 2 363 | 2 235 |
| Note 9.4 | Provisions for decommissioning costs of mines and other technological facilities | 1 119 | 980 |
| | Deferred tax liabilities | 60 | - |
| Note 12.4 | Other liabilities | 217 | 199 |
| | Non-current liabilities | 11 105 | 10 240 |
| Note 8.4.1 | Borrowings, lease and debt securities | 275 | 1 035 |
| Note 8.4.1 | Cash pooling liabilities | 130 | 80 |
| Note 7.2 | Derivatives | 60 | 13 |
| Note 10.3 | Trade and similar payables | 2 460 | 1 920 |
| Note 11.1 | Employee benefits liabilities | 890 | 783 |
| Note 5.3 | Tax liabilities | 258 | 233 |
| | Provisions for liabilities and other charges | 158 | 190 |
| Note 12.4 | Other liabilities | 764 | 711 |
| | Current liabilities | 4 995 | 4 965 |
| | **Non-current and current liabilities** | **16 100** | **15 205** |
| | **TOTAL EQUITY AND LIABILITIES** | **35 989** | **34 250** |

in PLN millions, unless otherwise stated

## STATEMENT OF CHANGES IN EQUITY

| | | Share capital | Other reserves from measurement of financial instruments | Accumulated other comprehensive income | Retained earnings | Total equity |
|---|---|---|---|---|---|---|
| | **As at 31 December 2017** | **2 000** | **142** | **( 348)** | **15 462** | **17 256** |
| | Change in accounting policies – application of IFRS 9 | - | ( 604) | - | 458 | **( 146)** |
| | **As at 1 January 2018** | **2 000** | **( 462)** | **( 348)** | **15 920** | **17 110** |
| | Profit for the period | - | - | - | 2 025 | **2 025** |
| Note 8.2.2 | Other comprehensive income | - | 155 | ( 245) | - | **( 90)** |
| | Total comprehensive income | - | 155 | ( 245) | 2 025 | **1 935** |
| | **As at 31 December 2018** | **2 000** | **( 307)** | **( 593)** | **17 945** | **19 045** |
| | Profit for the period | - | - | - | 1 264 | **1 264** |
| Note 8.2.2 | Other comprehensive income | - | ( 391) | ( 29) | - | **( 420)** |
| | Total comprehensive income | - | ( 391) | ( 29) | 1 264 | **844** |
| | **As at 31 December 2019** | **2 000** | **( 698)** | **( 622)** | **19 209** | **19 889** |

in PLN millions, unless otherwise stated

# PART 1 – General information

## Note 1.1 Corporate information

KGHM Polska Miedź S.A. ("the Company") with its registered office in Lubin at 48 M.Skłodowskiej-Curie Street is a joint stock company registered at the Regional Court for Wrocław Fabryczna, Section IX (Economic) of the National Court Register, entry no. KRS 23302, on the territory of the Republic of Poland.

KGHM Polska Miedź S.A. has a multi-divisional organisational structure, comprised of a Head Office and 10 divisions: 3 mines (Lubin Mine Division, Polkowice-Sieroszowice Mine Division, Rudna Mine Division), 3 metallurgical plants (Głogów Smelter/Refinery, Legnica Smelter/Refinery, Cedynia Wire Rod Division), the Concentrator Division, the Tailings Division, the Mine-Smelter Emergency Rescue Division and the Data Center Division.

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

The Company's principal activities include:

- the mining of copper and non-ferrous metals ores; and
- the production of copper, precious and non-ferrous metals.

KGHM Polska Miedź S.A. carries out copper ore mining activities based on concessions given for specific mine deposits, and also based on mining usufruct agreements and mine operating plans.

KGHM Polska Miedź S.A. is a parent entity of the KGHM Polska Miedź S.A. Group ("Group").

## Declaration by the Management Board on the accuracy of the prepared financial statements

The Management Board of KGHM Polska Miedź S.A. declares that according to its best judgement the annual financial statements for 2019 and the comparative data have been prepared in accordance with accounting principles currently in force, and give a true, fair and clear view of the financial position of KGHM Polska Miedź S.A. and the profit for the period of the Company.

The Management Board's report on the activities of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group in 2019 presents a true picture of the development and achievements, as well as the condition, of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group, including a description of the basic exposures and risks.

**The financial statements were authorised for issue and signed by the Management Board of the Company on 16 March 2020.**

## Note 1.2 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, on the basis of historical cost, except for financial instruments classified as measured at fair value.

The accounting policies described in this note and in individual notes were applied by the Company in a continuous manner for all presented periods.

Note 12.12 of the following financial statements contains information on the Company's activities regulated by the Act on Energy, pursuant to article 44 section 2 of the Act dated 10 April 1997.

The accounting policies and important estimates and judgements for significant items of the financial statements were presented in individual notes of these financial statements.

| Note | Title | Amount recognised in the financial statements | | Accounting policies | Important estimates and judgements |
|---|---|---|---|---|---|
| | | 2019 | 2018 | | |
| 2 | Revenues from contracts with customers | 17 683 | 15 757 | x | |
| 4.4 | Impairment losses on assets | (553) | (841) | | |
| 4.4 | Reversal of impairment losses | 191 | 1 480 | | |
| 5.1 | Income tax in the statement of profit or loss | (663) | (647) | x | |
| 5.1.1 | Deferred income tax in the statement of profit or loss | (168) | (57) | x | x |
| 5.3 | Tax assets | 435 | 275 | x | |
| 5.3 | Tax liabilities | (258) | (233) | x | |
| 6.1 | Investments in subsidiaries | 2 946 | 3 510 | x | |
| 6.2 | Loans granted* | 7 227 | 6 279 | x | x |
| 7.2 | Derivatives | 223 | 538 | x | |
| 7.3 | Other financial instruments measured at fair value | 403 | 496 | x | |

in PLN millions, unless otherwise stated

| | | | | | |
|---|---|---|---|---|---|
| **7.4** | Other non-current financial instruments measured at amortised cost | 457 | 376 | x | x |
| **8.2** | Equity | (19 889) | (19 045) | x | |
| **8.4** | Borrowings | (7 620) | (7 873) | x | |
| **8.5** | Cash and cash equivalents | 516 | 627 | x | |
| **9.1** | Mining and metallurgical property, plant and equipment and intangible assets | 18 743 | 16 958 | x | |
| **9.2** | Other property, plant and equipment and intangible assets | 164 | 144 | x | |
| **9.4** | Provision for decommissioning costs of mines and other facilities** | (1 131) | (988) | x | x |
| **10.1** | Inventories | 3 783 | 4 102 | x | |
| **10.2** | Trade receivables | 243 | 310 | x | |
| **10.3** | Trade and similar payables | (2 625) | (2 082) | x | x |
| **10.4** | Changes in working capital | 973 | 553 | x | x |
| **11.1** | Employee benefits liabilities | (3 253) | (3 018) | x | x |
| **12.3** | Other assets | 333 | 315 | x | |
| **12.4** | Other liabilities | (981) | (910) | x | |

* Amounts include data on long-term and short-term loans, in the statement of financial position short-term loans are recognised in the item "other financial assets".

** Amounts include data on non-current and current provisions for decommissioning costs of mines and other technological facilities, in the statement of financial position, current provisions for decommissioning costs of mines and other technological facilities are recognised in the item "provisions for liabilities and other charges".

### Note 1.3 Foreign currency transactions and the measurement of items denominated in foreign currencies

The financial statements are presented in Polish zloty (PLN), which is both the functional and presentation currency of the Company.

At the moment of initial recognition, foreign currency transactions are translated into the functional currency:

- at the actual exchange rate applied, i.e. at the buy or sell exchange rate applied by the bank in which the transaction occurs, in the case of the sale or purchase of currencies and the payment of receivables or liabilities;
- at the average exchange rate set for a given currency, prevailing on the date of the transaction for other transactions. The exchange rate prevailing on the date of the transaction is the average NBP rate announced on the last working day preceding the transaction date.

At the end of each reporting period, foreign currency monetary items are translated at the closing rate prevailing on that date.

Foreign exchange gains or losses on the settlement of foreign currency transactions, and on the measurement of foreign currency monetary assets and liabilities (other than derivatives), are recognised in profit or loss.

Foreign exchange gains or losses on the measurement of foreign currency derivatives are recognised in profit or loss as a fair value measurement, provided they do not represent a change in the fair value of the effective cash flow hedge. In such a case, they are recognised in other comprehensive income in accordance with hedge accounting policies.

### Note 1.4 Impact of new and amended standards and interpretations

The International Accounting Standards Board approved the following new standards for use from 1 January 2019:

- IFRS 16 Leases,
- Amendments to IAS 19 on plan amendment, curtailment or settlement,
- Amendments to IAS 28 on long-term interests in associates and joint ventures,
- IFRIC 23 interpretation on uncertainty over income tax treatments,
- Amendments to IFRS 9 on early repayment with negative compensation,
- Annual improvements to IFRS Standards, 2015-2017 cycle.

Up to the date of publication of these financial statements, the aforementioned amendments to the standards were adopted for use by the European Union and with the exception of IFRS 16 and amendments to IAS 23 introduced as part of annual improvements to IFRS Standards, 2015-2017 cycle, they will not have an impact on the Company's accounting policy or on the separate financial statements.

## Impact of application of IFRS 16 "Leases" and amendments to IAS 23 on the Company's accounting policy and on the Company's separate financial statements.

### IFRS 16

Basic information on the standard

| Date of implementation and transitional rules |
|---|
| IFRS 16 is effective for annual periods beginning on or after 1 January 2019 and has been adopted by the European Union. It superseded the IAS 17 standard, interpretations IFRIC 4 and SIC 15 and 27. The Company applies IFRS 16 from 1 January 2019. |

| Main changes introduced by the standard |
|---|
| The new standard introduced a single model for recognising a lease in a lessee's accounting books, conforming to the recognition of a finance lease under IAS 17. Pursuant to IFRS 16, an agreement is a lease or contains a lease if it transfers the rights to control the use of an identified asset for a given period in exchange for consideration.<br>The essential element differentiating the definition of a lease from IAS 17 and from IFRS 16 is the requirement to have control over the used, specific asset, indicated directly or implied in the agreement.<br>Transfer of the right to use takes place when we have an identified asset, with respect to which the lessee has the right to obtain substantially all of the economic benefits from its use, and controls the use of a given asset in a given period.<br>If the definition of a "lease" is met, the right to use an asset is recognised alongside a corresponding lease liability, set in the amount of future discounted payments – for the duration of the lease.<br>Expenses related to the use of lease assets, the majority of which were previously recognised in external services costs, are currently classified as depreciation/amortisation and interest costs.<br>Right-to-use assets are depreciated in accordance with IAS 16, while lease liabilities are settled using the effective interest rate.<br><br>The requirements of the new standard with respect to recognition and measurement by the lessor are similar to the requirements of IAS 17. A lease is classified as financial or operational, which is also in accordance with IFRS 16. Compared to IAS 17, the new standard changed the principles of classification of a sublease and requires the lessor to disclose additional information. |

### Impact of IFRS 16 on the financial statements

The Company had completed the work related to implementation of the new standard IFRS 16 in the fourth quarter of 2018. The project to implement IFRS 16 (project), was executed in three stages:

- stage I – analysis of all executed agreements for the purchase of services, regardless of their classification, the goal of which was to identify agreements based on which the Company uses assets belonging to suppliers; in addition, this stage comprised the analysis of perpetual usufruct rights to land as well as land easements and transmission easements,

- stage II – the evaluation of each agreement identified in stage I in terms of its meeting the criteria to be recognised as a lease pursuant to IFRS 16,

- stage III - implementation of IFRS 16 based on the developed concept.

All agreements involving a finance lease, operating lease, rentals, leases, perpetual usufruct rights to land or transmission easements and land easements were analysed. Also analysed were transactions involving purchased services (external service costs under operating activities) in terms of any occurrence of use of the identified assets.
Under this project the Company carried out appropriate changes in accounting policy and operating procedures. Methods were developed and implemented for the proper identification of lease agreements and for gathering data needed in order to properly account for such transactions.
The Company decided to apply the standard from 1 January 2019. In accordance with the transition rules described in IFRS 16.C5 (b), the new principles were adopted retrospectively, and the accumulated impact of initial application of the new standard was recognised in equity as at 1 January 2019. Consequently, comparable data for financial year 2018 were not restated (the modified retrospective approach).

Following are the individual adjustments arising from the implementation of IFRS 16.

### Description of adjustments

#### a) Recognition of lease liabilities

Following the adoption of IFRS 16, the Company recognises lease liabilities related to agreements which were previously classified as "operating leases" in accordance with IAS 17 *Leases*. These liabilities were measured at the present value of lease payments due to be paid as at the date of commencement of the application of IFRS 16. For purposes of implementation of IFRS 16 and disclosure with respect to the impact of implementation of IFRS 16, discounting was applied using the Company's incremental borrowing rate as at 1 January 2019.

At their date of initial recognition, lease payments contained in the amount of lease liabilities comprise the following types of payments for the right to use the underlying asset for the life of the lease:

- fixed lease payments less any lease incentives,
- variable lease payments which are dependent on indices or market interest rates,
- amounts expected to be payable under guaranteed residual value of the leased object,
- the strike price of a purchase option, if it is reasonably certain that the option will be exercised, and
- payment due to contractual penalties for terminating the lease, if the lease period reflects the lessee's use of the option of terminating the lease.

For the purposes of calculating the discount rate under IFRS 16, the Company assumed that the discount rate should reflect the cost of financing which would be drawn to purchase an asset with a similar value to right to use of the object of a given lease. To estimate the amount of the discount rate, the Company considered the following contractual parameters: the type and life of an agreement, the currency applied and the potential margin which would have to be paid to financial institutions to obtain financing.

As at 1 January 2019, the discount rates calculated by the Company were within the following ranges (depending on the life of the agreement):

- for PLN-denominated agreements: from 4.25% to 5.86%,
- for EUR-denominated agreements: 2.10%.

The Company used expedients with respect to short-term leases (up to 12 months) as well as in the case of leases in respect of which the underlying asset has a low value (up to PLN 20 000) and for which agreements the Company does not recognise financial liabilities nor any respective right-to-use assets. These types of lease payments are recognised as costs using the straight-line method during the life of the lease.

#### b) Recognition of right-to-use assets

Right-to-use assets are measured at cost.

The initial cost of a right-to-use asset comprises:

- the amount of the initial measurement of lease liabilities,
- any lease payments paid at the commencement date or earlier, less any lease incentives received,
- initial direct costs incurred by the lessee as a result of entering into a lease agreement,
- estimates of costs which are to be incurred by the lessee as a result of an obligation to disassemble and remove an underlying asset or to carry out renovation.

On the day of initial application, in the case of leases previously classified as operating leases under IAS 17, right-to-use assets were measured by the Company at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments related to that lease, recognised in the statement of financial position directly preceding the date of the initial application of IFRS 16.

Following initial recognition, right-to-use assets are depreciated under IAS 16 and are subjected to impairment testing pursuant to IAS 36.

#### c) Application of estimates

The implementation of IFRS 16 required making certain estimates and calculations which effected the measurement of lease liabilities and of right-to-use assets. These include among others:

- determining which agreements are subject to IFRS 16,
- determining the remaining life of leases for agreements entered into before 1 January 2019 (including for agreements with unspecified lives or which may be prolonged),
- determining the incremental borrowing rates applied for the purpose of discounting future cash flows, and
- determining useful lives and the depreciation rates of right-to-use assets, recognised as at 1 January 2019.

in PLN millions, unless otherwise stated

### d) Application of practical expedients

In applying IFRS 16 for the first time, the Company used the following practical expedients permitted by the standard:

- application of a single discount rate to a portfolio of leases with similar characteristics,
- assessment as to whether leases are onerous as defined by IAS 37 at the moment of implementation of the standard as an alternative to performing impairment testing of a leased asset,
- the treatment of operating lease agreements for which the remaining lease term is less than 12 months as at 1 January 2019 as short-term leases, and
- the use of hindsight (i.e. knowledge gained after the fact) in determining the lease period if the agreement contains options to prolong or terminate the lease.

### e) Impact of implementation of IFRS 16 on the financial statements

As at 31 December 2018, the Company had non-cancellable, off-balance sheet operating lease liabilities in respect of the following agreements: perpetual usufruct of land, lease of land, lease of machines and equipment and other leases. As at 31 December 2018, their notional amount was PLN 1 084 million, of which the amount of PLN 1 082 million concerns lease agreements in accordance with IFRS 16, and excludes short-term leases and the lease of low-value assets.

For the aforementioned agreements, the Company measured the present value of assets used under these agreements and recognised, as at 1 January 2019, right-to-use assets in the amount of PLN 511 million and a corresponding lease liability in the same amount.

Off-balance sheet lease liabilities in the amount of PLN 1 082 million were written-off.

In the case of agreements in which the Company is a lessor, application of IFRS 16 did not necessitate the recognition of adjustments as at 1 January 2019.

Summary of the financial impact of the implementation of IFRS 16 (this only concerns lease agreements entered into or amended before 1 January 2019);

| Reconciliation of transition from IAS 17 to IFRS 16: | | Amount |
|---|---|---|
| Finance lease liabilities* | IAS 17 | - |
| Off-balance sheet operating lease liabilities (excluding discount) | IAS 17 | 1 084 |
| **Total - 31 December 2018** | | **1 084** |
| (-) Impact of the discount using the incremental borrowing rate as at 1 January 2019 with respect to leases other than perpetual usufruct | IFRS 16 | (149) |
| (-) Impact of the discount of perpetual usufruct right to land as at 1 January 2019 | IFRS 16 | (422) |
| (-) Short-term lease agreements recognised as a cost in the period | IFRS 16 | (2) |
| (-) Lease agreements of low value assets recognised as a cost in the period | IFRS 16 | - |
| **Lease liabilities – 1 January 2019** | | **511** |

** As at 31 December 2018, the Company did not have contracts classified as financial leases under IAS 17.*

| Impact on items of the statement of financial position as at 1 January 2019 | As at 1 January 2019 |
|---|---|
| Right-to-use assets – property, plant and equipment | 517 |
| Intangible assets – reclassification of purchased perpetual usufruct right to land in the amount of PLN 2 million and transmission easements in the amount of PLN 4 million to property, plant and equipment | (6) |
| Lease liability | 511 |

Impact on the financial statements as at 31 December 2019

| Right-to-use assets – by asset | As at 1 January 2019 | As at 31 December 2019 |
|---|---|---|
| Land* | 246 | 243 |
| Perpetual usufruct right to land ** | 199 | 200 |
| Buildings | 35 | 36 |
| Technical equipment and machines | 36 | 27 |
| Other fixed assets | 1 | 1 |
| **Total** | **517** | **507** |

** including the reclassified transmission easements – PLN 4 million,*
*** including the reclassified purchased perpetual usufruct right to land – PLN 2 million.*

in PLN millions, unless otherwise stated

| | from 1 January 2019 to 31 December 2019 |
|---|---|
| **Impact on the statement of comprehensive income:** | |
| - decrease in taxes, charges and services | (58) |
| - increase in interest costs | 15 |
| - increase in depreciation/amortisation | 36 |
| **Impact on the statement of cash flows:** | |
| - increase in net cash flows from operating activities | 57 |
| - decrease in net cash flows from investing activities | (12) |
| - decrease in net cash flows from financing activities | (45) |

In 2019, the Company additionally allocated a lease interest cost in the amount of PLN 12 million to the initial value of fixed assets under construction as capitalised costs of external financing.

The costs of short-term lease agreements and of low-value assets lease agreements entered into or modified in 2019 are immaterial.

Agreements for 2019 were measured using the following discount rates:

- for PLN-denominated agreements: from 3.75% to 5.86%,
- for EUR-denominated agreements: 2.10%.

### Impact on financial ratios

Given the fact that the Company recognises lease agreements in its statement of financial position, the implementation of IFRS 16 by the Company affected its balance sheet ratios, including the debt to equity ratio. Moreover, as a result of the implementation of IFRS 16 there were changes in profit ratios (such as operating profit, EBITDA), as well as in cash flow from operating activities. The Company has analysed the impact of all of these changes in terms of compliance with covenants contained in credit agreements to which the Company is a party, and did not identify any risk of breaches in these covenants.

### Amendments to IAS 23

Amendments to IAS 23, introduced as part of annual improvements to IFRS Standards, 2015-2017 Cycle, clarify that, in the case of general financing, in order to apply a capitalisation rate to expenditures incurred on individual assets, all borrowing costs related to items of external financing representing liabilities of an entity in a given period, other than borrowing drawn specifically in order to obtain an adjusted asset, are recognised. This means that only borrowing costs related to items of borrowing drawn specifically in order to obtain an adjusted asset up to the moment of finalisation of its adjustment are not included when calculating the capitalisation rate. In accordance with transition rules, the change is applied to borrowing costs incurred from the beginning of the annual period in which an entity applies these changes for the first time. Because of this, from 1 January 2019 the Company additionally included in the capitalisation rate calculation the costs of financing related to specific purpose bank loans, insofar as they did not finance the construction of specified adjusted assets and lease finance costs in 2019. The application of the amendments to IAS 23 did not have a significant impact on the financial statements of the Company.

### Note 1.5 Published standards and interpretations, which are not yet in force and were not applied earlier by the Company

The Company did not decide to apply early published standards, interpretations or amendments to existing standards before their entry into force in these financial statements.

**Other standards and interpretations published but not yet in force**:

- Amendments to IFRS 10 and IAS 28 with respect to the sale or contribution of assets between an investor and its associate or joint venture,
- IFRS 17 Insurance contracts,
- Revision of IFRS Conceptual Framework,
- Amendments to IFRS 3 on the definition of a business,
- Amendments to IAS 1 and IAS 8 on the definition of "material",
- Amendments to IFRS 9, IAS 39 and IFRS 7 in connection with interest rate benchmark reform,
- Amendments to IAS 1 on classification of liabilities as current or non-current.

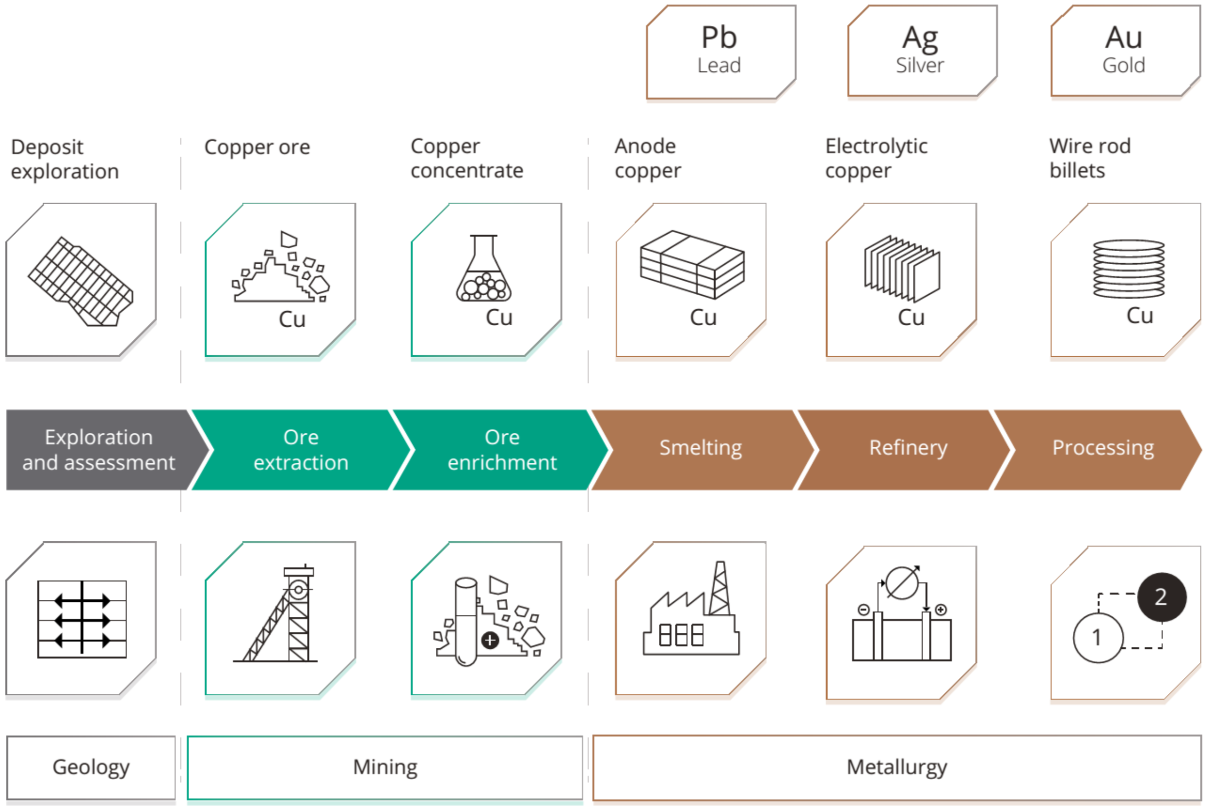
The aforementioned standards, with the exception of the Revision of the IFRS Conceptual Framework, amendments to IAS 1 and IAS 8 on the definition of "material" and amendments to IFRS 9, IAS 39 and IFRS 7 in connection with interest rate benchmark reform, are awaiting adoption by the European Union. The Company aims to apply all of the amendments at their effective dates. Except for IFRS 17, which will not have an impact on the Company's financial statements, in the Company's opinion as at 31 December 2019, these standards will be applicable to its activities in the scope of future economic operations, transactions or other events, towards which these amendments to standards are applicable.

# PART 2 – Operating segments and information on revenues

## Operating segments

Based on an analysis of the Company's organisational structure, its system of internal reporting and the management model, it was determined that the Company's activity constitutes a single operating and reporting segment, which may be defined as "Production of copper, precious metals and other metallurgical products".

The core business of the Company is the production of copper and silver. Production is a fully integrated process, in which the end-product of one stage is the half-finished product used in the next stage. Copper ore extracted in the mines is transported to concentrators where the enrichment process is carried out. As a result of this process, copper concentrate is produced, which is then supplied to the metallurgical plants where it is smelted and fire refined into copper anodes, which is then subjected to electrolytic refining into copper cathodes. From these cathodes wire rod and round billets are produced. Anode slimes, which arise from the process of copper electrorefining, is a raw material used to produce precious metals. Lead-bearing dust which is generated from the smelting processes is used to produce lead. Nickel sulphate and copper sulphate are recovered from the processing of used electrolyte. Gases generated from the smelting furnaces are used to produce sulphuric acid. Economic use is also made of smelter slags, which are sold as road-building materials.




Settlements between organisational units are carried out based on measurement of production at cost, and as a result the internal organisational units (i.e. mines, concentrators, metallurgical plants) in the production cycle do not generate profit on sales.

The financial data prepared for management accounting purposes is based on the same accounting policies which are used to prepare the financial statements. The Management Board of the Company, which is responsible for allocating resources and for the financial results of the Company, regularly reviews financial reports in the process of making major operational decisions.

The organisational structure of KGHM Polska Miedź S.A. has 11 Divisions, including: mines, concentrators, metallurgical plants and the Head Office. The Head Office carries out sales of the Company's basic products, i.e. electrolytic copper cathodes, round billets, wire rod and silver, and support functions, particularly including the management of financial assets, centralised finance and accounting services, marketing, legal and other services.
The Management Board of the Company assesses a segment's performance based on Adjusted EBITDA and the profit or loss for the period. The manner of calculating Adjusted EBITDA and EBITDA is presented in the table "Reconciliation of Adjusted EBITDA".

in PLN millions, unless otherwise stated

**Production of main products**

| | from 1 January 2019 to 31 December 2019 | from 1 January 2018 to 31 December 2018 |
|---|---|---|
| **Electrolytic copper (kt), of which:** | 565.6 | 501.8 |
| - electrolytic copper from own concentrates (kt) | 418.3 | 385.3 |
| **Silver (t)** | 1 400.2 | 1 188.8 |
| **C1 unit cash cost of production of payable copper in own concentrate (USD/lb)*** | 1.74 | 1.85 |
| **C1 unit cash cost of production of payable copper in own concentrate (PLN/lb)*** | 6.69 | 6.69 |

*C1 cost reflects 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 was calculated using the average exchange rate by the NBP (arithmetical average of daily quotations per the NBP's tables).

**Segment financial results**

| | from 1 January 2019 to 31 December 2019 | from 1 January 2018 to 31 December 2018 |
|---|---|---|
| **Total revenues from contracts with customers, including:** | 17 683 | 15 757 |
| Revenues from sales contracts, for which the sales price is set after the date of recognition of the sales (M+ principle), of which: | 14 474 | 12 221 |
| settled | 13 745 | 11 390 |
| unsettled | 729 | 831 |
| **Cost of sales, selling costs and administrative expenses*** | (15 291) | (13 460) |
| Depreciation/amortisation recognised in profit or loss | (1 220) | (1 119) |
| **EBITDA** | 3 612 | 3 416 |
| (Recognition)/reversal of an impairment loss on non-current assets, recognised in cost of sales, selling costs and administrative expenses | ( 7) | - |
| **Adjusted EBITDA** | 3 619 | 3 416 |
| **Profit for the period, including:** | 1 264 | 2 025 |
| reversal/(recognition) of impairment losses on non-current assets | **( 357)** | 623 |

*Cost of products, merchandise and materials sold plus selling costs and administrative expenses.
Reconciliation of "EBITDA" and "Adjusted EBITDA" (which are not defined in IFRSs) with "Profit/(loss) for the period" (which is defined in IFRSs) and "Profit on sales" is presented in the following tables:

| | from 1 January 2019 to 31 December 2019 | from 1 January 2018 to 31 December 2018 |
|---|---|---|
| **Total revenues from contracts with customers, of which:** | 17 683 | 15 757 |
| in factoring | 6 985 | 5 162 |
| not in factoring | 10 698 | 10 595 |

in PLN millions, unless otherwise stated

**Reconciliation of Adjusted EBITDA**

| | from 1 January 2019 to 31 December 2019 | from 1 January 2018 to 31 December 2018 |
|---|---|---|
| **Profit for the period** | 1 264 | 2 025 |
| [–]Current and deferred income tax | ( 663) | ( 647) |
| [–]Depreciation/amortisation recognised in profit or loss | (1 220) | (1 119) |
| [–] Finance income and (costs) | ( 504) | ( 774) |
| [–] Other operating income and (costs) | 39 | 1 149 |
| [=] EBITDA | 3 612 | 3 416 |
| [–] (Recognition)/reversal of an impairment loss on non-current assets, recognised in cost of sales, selling costs and administrative expenses | ( 7) | - |
| **[=] Adjusted EBITDA*** | **3 619** | **3 416** |

| | from 1 January 2019 to 31 December 2019 | from 1 January 2018 to 31 December 2018 |
|---|---|---|
| **Profit on sales** | 2 392 | 2 297 |
| [–] Depreciation/amortisation recognised in profit or loss | (1 220) | (1 119) |
| [=] EBITDA | 3 612 | 3 416 |
| [–] (Recognition)/reversal of an impairment loss on non-current assets, recognised in cost of sales, selling costs and administrative expenses | ( 7) | - |
| **[=] Adjusted EBITDA*** | **3 619** | **3 416** |

* Adjusted EBITDA is EBITDA adjusted by (recognition)/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses.

in PLN millions, unless otherwise stated

## Segment assets and liabilities

| | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|
| Assets | 35 989 | 34 250 |
| Liabilities | 16 100 | 15 205 |

## Accounting policies

The Company generates its revenues mainly from the sale of: copper, silver and gold. Other, smaller streams of revenues arise from the sale of services and other products, merchandise and materials.

In accordance with IFRS 15, from 1 January 2018 the Company recognises revenue from contracts with customers when the Company satisfies a performance obligation by transferring a promised good or providing a service to a customer, which is when the customer obtains control of that asset, i.e. the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset, as well as the ability to prevent other entities from directing the use of, and obtaining the benefits from, the asset.

The Company recognises as a performance obligation every contractual promise to transfer to a customer a good or provide a service that is distinct, or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. For each performance obligation, the Company determines (based on contractual terms), whether the obligation will be performed over time or at a specified moment.

The Company recognises revenues from the sale of products, merchandise and materials in profit or loss once, when the performance obligation is satisfied (in particular in accordance with the applied INCOTERMS principles). In the majority of contracts, control is transferred to the customer after delivery of the goods, which is also understood as delivery of the goods to the carrier or to a designated facility (DAP, FCA and EX WORKS bases). In other contracts, control is transferred to the customer at the moment it is handed over to the carrier and loaded aboard a ship (CFR, CIF, CPT and CIP bases). In these contracts, the Company is also obliged to organise a shipping service. In these cases, the obligation to sell goods and to provide a shipping service are treated as separate services promised in the contract. With respect to transport services, the Company acts as a principal, as it has control over goods before they are transferred to the client. Apart from contracts for supplying goods with transport services, there are no other contracts including more than one performance obligation. The attribution of transaction prices to individual performance obligations are made on the basis of unit sale prices. However, due to the insignificant share of transportation costs in the value of a given sale, the Company recognises revenue at the moment the control of sold goods is transferred.

The Company uses various payment dates in trade contracts, including prepayments of up to several days before delivery and deferred payments of up to 120 days, although the deferred payments do not concern silver. The payment dates depend on the evaluation of the recipient's credit risk and the possibility of securing receivables. The payment dates are not contingent on the moment of satisfying a performance obligation. The Company recognises received prepayments as contractual payables, while in the case of deferred payments the Company recognises due consideration as contractual assets and transfers them to receivables at the moment the right to consideration becomes unconditional. The date on which the consideration comes due depends on the payment conditions specified in individual contracts, or comes before the realisation of the delivery (prepayment) or is set as a specified number of days after the date of sale indicated in a given invoice.

Revenues from sales of other services, such as distribution of utilities, rentals, leases, sharing IT systems and other are recognised continuously while the Company meets its obligations, as the clients simultaneously receive and gain economic benefits arising from the Company's performance and the Company has an unconditional right to consideration.

Revenues arising from ordinary operating activities of the Company, i.e. revenues from sales of products, merchandise and materials, are recognised in the statement of profit or loss as revenues from contracts with customers.

Revenues from contracts with customers are recognised in the amount of the transaction price, consisting of the amount of consideration to which – in accordance with the Company's expectations – it will be given in return for the transfer of promised goods or services to the customer, excluding consideration collected on behalf of third parties.

The transaction price also reflects the effects of the time value of money if a contract with a customer contains a significant financing element, which is determined based on the contractual payment terms, regardless of whether the promise of financing is explicitly stated in the contract. In determining whether a financing component is significant for a given agreement, all of the facts and circumstances are taken into consideration, including the eventual difference between the promised consideration and the cash selling price of the promised goods and services, as well as the total impact of the following two factors: (i) the estimated period from the moment an entity transfers the promised goods or services to a customer to the moment the customer pays for these goods or services, and (ii) prevailing interest rates on a given market. The Company did not identify significant financing components in sales transactions to customers realised in 2019 and 2018.

In the case of copper and silver products sales transaction for which the price is set after the date of recognition of a given sale, at the moment of initial recognition of a transaction an adjustment of revenues from sales is made, arising from the difference between the forward price of a metal expressed in USD from the date of recognition of a sale in the period corresponding to the period of settlement of the transaction, and the price from provisional invoice. This adjustment brings the amount of the transaction to the expected amount as a transaction price at the moment of initial recognition. This only concerns cases where the change in transaction price arises from a change in the metal's price. For these types of variable revenues, the limitation of IFRS 15 on recognising variable consideration only to the amount in respect of which it is highly probable that a reversal will not be recognised, is not applicable. In 2019, changes to the accounted amount after the moment of recognition do not impact the revenues from sales but are fair value gains/losses on measurement of receivables pursuant to the policy presented in Note 10.2. Sales revenue is adjusted for the gain or loss on the settlement of cash flow hedging derivatives, in accordance with the general principle that the portion of gain or loss on a derivative hedging instrument that is determined to be an effective hedge is recognised in the same position of profit or loss in which the gain or loss on the hedged item is recognised at the moment when the hedged item affects profit or loss.

in PLN millions, unless otherwise stated

As at 1 January 2019, the balance of trade payables due to contracts with customers amounted to PLN 3 million and was wholly recognised in revenues for 2019. As at 31 December 2019 the balance of trade payables due to contracts with customers amounted to PLN 1 million.

The Company recognised revenues on performance obligations realised in the previous reporting period in the amount of PLN 21 million. This amount arises due to the final determination of sales price in 2019.

**Revenues from contracts with customers – breakdown by products**

| | from 1 January 2019 to 31 December 2019 | from 1 January 2018 to 31 December 2018 |
|---|---|---|
| Copper | 13 474 | 11 942 |
| Copper in concentrate | - | 400 |
| Silver | 2 789 | 2 101 |
| Silver in concentrate | - | 141 |
| Gold | 543 | 381 |
| Lead | 247 | 262 |
| Services | 110 | 88 |
| Merchandise | 172 | 119 |
| Waste and production materials | 63 | 64 |
| Other | 285 | 259 |
| **TOTAL, including:** | 17 683 | 15 757 |
| Impact of derivatives and hedging transactions on revenues from contracts with customers | 245 | 125 |

in PLN millions, unless otherwise stated

**Sales revenue – geographical breakdown reflecting the location of end clients**

| | | from 1 January 2019 to 31 December 2019 | from 1 January 2018 to 31 December 2018 |
|---|---|---|---|
| **Europe** | | | |
| | Poland | 4 427 | 4 131 |
| | Germany | 2 505 | 1 968 |
| | The United Kingdom | 2 157 | 1 870 |
| | Czechia | 1 314 | 1 325 |
| | Italy | 937 | 551 |
| | France | 712 | 699 |
| | Switzerland | 688 | 532 |
| | Hungary | 648 | 667 |
| | Austria | 204 | 235 |
| | Romania | 196 | 112 |
| | Slovakia | 90 | 104 |
| | Slovenia | 71 | 70 |
| | Denmark | 60 | 57 |
| | Belgium | 49 | - |
| | Sweden | 16 | 41 |
| | Bulgaria | 11 | 14 |
| | Spain | 1 | 552 |
| | Other countries (dispersed sale) | 60 | 110 |
| **North America** | | | |
| | The United States of America | 420 | 177 |
| | Other countries (dispersed sale) | 1 | 1 |
| **South America** | | - | 4 |
| **Australia** | | 164 | - |
| **Asia** | | | |
| | China | 2 523 | 2 001 |
| | Turkey | 247 | 323 |
| | Thailand | 80 | - |
| | Taiwan | 48 | - |
| | Malesia | 24 | - |
| | Singapore | 9 | 158 |
| | South Korea | - | 30 |
| | Other countries (dispersed sale) | 14 | 13 |
| **Africa** | | 7 | 12 |
| **TOTAL** | | **17 683** | **15 757** |

**Main customers**

In the period from 1 January 2019 to 31 December 2019 and in the period from 1 January 2018 to 31 December 2018, there was a single customer from whom revenues exceeded 10% (in 2019: 10.97%, in the comparable period: 12.6%) of the sales revenue of the Company.

**Non – current assets – geographical breakdown**

The property, plant and equipment of KGHM Polska Miedź S.A. are located in Poland.

in PLN millions, unless otherwise stated

### Cash expenditures on property, plant and equipment and intangible assets

| | from 1 January 2019 to 31 December 2019 | from 1 January 2018 to 31 December 2018 |
|---|---|---|
| Cash expenditures on mining and metallurgical assets | 2 294 | 1 884 |
| Cash expenditures on other property, plant and equipment and intangible assets | 72 | 23 |

# PART 3 – Impairment of assets

## Note 3.1 Impairment losses on assets as at 31 December 2019

| ASSESSMENT OF THE RISK OF IMPAIRMENT OF ASSETS IN TERMS OF MARKET CAPITALISATION |
|---|
| Due to the periodic maintenance in 2019 of the Company's market capitalisation below the carrying amount of net assets, in accordance with IAS 36 the Management Board of KGHM Polska Miedź S.A. conducted an analysis to determine which areas of the Company's activities may be impaired. As the result of the conducted analysis, it was determined that impairment testing of the investment in KGHM INTERNATIONAL LTD. was necessary (held by Future 1 Sp. z o.o., a subsidiary of KGHM Polska Miedź S.A.). A description of adopted assumptions and results of the test conducted on the investment in Future 1 Sp. z o.o. is presented below. The Management Board of KGHM Polska Miedź also analysed whether Polish production assets of KGHM Polska Miedź S.A. were impaired. In the assessment in particular the following were analysed: past financial results of the Company, forecasts of the copper price adopted for subsequent years of the Company's operations, USD/PLN exchange rate fluctuations and their impact on the level of results achieved by the Company, ore deposit availability, production technology, production costs, levels of market interest rates, level of debt and the share price of KGHM Polska Miedź S.A. versus other parameters such as the main stock exchange indices in Poland, and copper price and one-off events that did not have any connection with the fundamentals of the Company's operations in Poland. As a result of the assessment, it was judged that there was no relation between the fall in share price of the Company with the Polish activities of KGHM Polska Miedź S.A., and as a result, it was decided that there was no risk of impairment of the Polish production assets of KGHM Polska Miedź S.A. |

**TEST FOR THE IMPAIRMENT OF INVOLVEMENT IN THE COMPANY FUTURE 1**

In the current period, as a result of the identification of indications of a possible change in the recoverable amounts, the Company performed impairment testing of the Company's equity involvement (shares in Future 1), and took into account the results of these tests in the calculation of: expected credit losses and fair value of loans granted to Future 1 and the KGHM INTERNATIONAL LTD. Group (these loans are not a part the net investment in a subsidiary and an allowance for impairment of loans measured at amortised cost is set pursuant to principles described in Note 6.2).

The key indications to perform impairment testing were:

- a change to the market paths of commodities prices forecasts,
- a change in risk assessment of individual projects and risk free rates which are the basis used to determine discount rates for testing purposes, and
- a change in the technical and economic parameters of the mining assets of the KGHM INTERNATIONAL LTD. Group and Sierra Gorda S.C.M (a joint venture in the KGHM INTERNATIONAL LTD. Group) as respects production volumes, assumed operating costs and the level of capital expenditures during a mine's life.

The key indications that the recoverable amount may be higher than the carrying amount, and therefore it may be justifiable to reverse previously recognised impairment losses were:

- a change in risk free rates,
- a change in price paths for gold, palladium, silver and nickel,
- the assumed level of operating cost of Sierra Gorda,
- risk evaluation of the CGU Robinson,
- extension of the Life of Mine of the CGU Robinson.

The key indications that recoverable amount may be lower than the carrying amount, and therefore it may be necessary to recognise an additional impairment loss, were:

- a change in copper price paths,
- the level of capital expenditures during the life of mine of Sierra Gorda,
- the volume of production of the CGU Sierra Gorda,
- risk evaluation of the CGU Sierra Gorda – Oxide project.

Future 1 is a holding company via which the Company has shares in KGHM INTERNATIONAL LTD. and provides financing to the KGHM INTERNATIONAL LTD. Group and Sierra Gorda S.C.M. In order to assess impairment, the fair value of the investment in KGHM INTERNATIONAL LTD. (reflecting the equity investment in Future 1 and loans granted to Future 1 and KGHM INTERNATIONAL LTD) was estimated based on the sum of the recoverable amounts of individual CGUs (Cash Generating Units) within KGHM INTERNATIONAL LTD., decreased by liabilities and increased by other assets.

The value of shares in Future 1 was recognised at cost and as at 31 December 2019 amounted to PLN 1 439 million (Note 6.1), while the balance of loans granted to the KGHM INTERNATIONAL LTD. Group, together with accrued and unpaid interest, amounted to PLN 2 773 million, and those granted to the subsidiary Future 1 amounted to PLN 4 390 million (Note 6.2).

The following CGUs have been selected for the purpose of assessment of the recoverable amount of the investment in the KGHM INTERNATIONAL LTD. Group within the KGHM INTERNATIONAL LTD. Group:

- the Robinson mine,
- the Sudbury Basin, comprising the Morrison mine, the McCreedy mine and the pre-operational Victoria project,
- the Franke mine,
- the Carlota mine,
- involvement in the joint venture Sierra Gorda, including loans granted, and
- the Ajax project.

To determine the recoverable amount of assets in individual CGUs during the testing, their fair value (decreased by costs to sell) was calculated, using the DCF method, i.e. the method of discounted cash flows for the CGU Sudbury and involvement in Sierra Gorda and at the value in use for the following CGUs: Franke, Robinson and Carlota. As for the recoverable amount of the CGU KGHM Ajax, due to a lack of indications of changes in the recoverable amount, they were set at their carrying amounts.

Disclosures on assumptions and models adopted for measurement of receivables due to loans granted were presented in note 6.2.

**Basic macroeconomic assumptions adopted in the impairment testing – metal prices**

Price paths were adopted on the basis of long-term forecasts available from financial and analytical institutions. A detailed forecast is being prepared for the period 2020-2024, while for the period 2025-2029 a technical adjustment of prices was applied between the last year of the detailed forecast, and 2030, from which a long-term metal price forecast is used follows:

- for copper – 6 614 USD/t (3.00 USD/lb);
- for gold – 1 500 USD/oz;
- for nickel – 8.00 USD/lb.

**Assumptions adopted for testing of mineral reserves and resources**

In its annual budgeting process, in order to determine its Reserves and Resources, the Company uses block models based on the price paths current at the moment of commencing work. Moreover, it takes into account information obtained, from the moment of preparation of the previous budget to the day the work commenced on the new budget, as a result of supplementary drilling (quality information, e.g. % Cu) and metallurgical drilling (e.g. Cu recovery). Moreover, geotechnical and hydrogeological information is used.
The Victoria project's deposit has copper-nickel ore with a significant percentage of precious metals. The identified mineralisation zone of the Victoria project was classified as "Inferred". Exploration work commenced in 2008. Moreover, in the years 2015 – 2016 exploration work was performed on the deep part of the deposit, the so-called Deep Drilling Program. In 2019, exploration work took place, aimed at deepening the knowledge on the project's reserves and resources.
The Pampa Lina deposit's mineralisation potential (CGU Sierra Gorda S.C.M.'s deposit) was estimated based on the executed scope of exploration work, in particular on the basis of drilling performed, geophysical analyses and geological hypotheses.
The estimation of Pampa Lina's mineralisation potential is based on the work of specialist external companies and work executed by the Company itself. Sierra Gorda S.C.M. has rights to the mineralisation of Pampa Lina.

**Other key assumptions used for fair value estimation of assets of CGUs**

| Assumption | Sierra Gorda S.C.M. | Sudbury | Robinson | Franke | Carlota |
|---|---|---|---|---|---|
| Mine life / forecast period | 24 | 18** | 9 | 5 | 3 |
| Level of copper production during mine life [kt] | 4 241 | 276 | 435 | 94 | 12 |
| Level of nickel production during mine life (kt) | - | 249 | - | - | - |
| Level of gold production during mine life (koz t) | 1 100 | 7 | 324 | - | - |
| Average operating margin during mine life* | 40.2% | 58% | 38% | 23% | 1% |
| Capital expenditures to be incurred during mine life [USD million] | 2 110 | 1 619 | 563 | 75 | 4 |
| Applied discount rate after taxation for assets in the operational phase* | 8% | 7.5% | 7.5% | 10.5% | 9.5% |

| | | | | | |
|---|---|---|---|---|---|
| Applied discount rate after taxation for assets in the pre-operational phase | 9% | 10.5% | - | - | - |
| Costs to sell | USD 9 million | 2% | | | |

* In order to maintain data cohesion between individual CGUs, the presented data is post-taxation despite the model of measuring the value in use for the CGU Robinson, CGU Franke and CGU Carlota. The use of pre-taxation data does not significantly impact on the recoverable amount.

** In total for all assets of the CGU, i.e. McCreedy, Morrison and Victoria.

| **Key factors responsible for modification of technical and economic assumptions** | |
|---|---|
| **Sierra Gorda S.C.M.** | Increase in average operating margin due to a decrease in operating costs for the processing plant and mine. |
| **Sudbury** | Increase in the ore resource base of copper and precious metals of the McCreedy mine thanks to drilling carried out in 2019. In addition, the commencement of mining of nickel ore from the McCreedy deposit was deferred from the year 2020 to 2021. |
| **Robinson** | The inclusion in the mining plans of the Liberty pit, at which mining has been suspended since 2013. This was thanks to additional drilling, geotechnical and metallurgical tests in the years 2018 and 2019 as well as to technical and feasibility analyses of the Liberty deposit prepared on their basis. Another factor is the introduction of changes in gold recovery calculations, due to the higher-than-assumed historical execution of forecast in this regard. |
| **Franke** | Documentation of additional oxide ore resources and the update of mining plans, which enabled the extension of mine life by an additional production year. |
| **Carlota** | Increase in the resource base for the Eder deposit and the delay in commencement of operations there. In addition, recovery calculations for copper leaching using SSL (sub-surface leaching) technology were updated. |

Results of the test performed as at 31 December 2019 are presented in the following table:

| **Test elements** | **PLN million** |
|---|---|
| Discounted future cash flows of the KGHM INTERNATIONAL LTD. Group less liabilities (excluding liabilities towards KGHM Polska Miedź S.A.) and increased by other assets (Enterprise value) (USD 2 216 million *3.7977) | 8 416 |
| Estimated costs to sell | 30 |
| **Recoverable amount of investment in KGHM INTERNATIONAL LTD. (Enterprise value) before the repayment of liabilities towards KGHM Polska Miedź S.A. due to loans granted** | **8 386** |
| Less estimated repayment of liabilities of KGHM INTERNATIONAL LTD towards KGHM Polska Miedź S.A. due to loans granted | (7 201) |
| **The recoverable amount of investment in KGHM INTERNATIONAL LTD. (Enterprise value) after the repayment of liabilities towards KGHM Polska Miedź S.A. due to loans granted** | **1 185** |
| Carrying amount of shares in Future 1 | 1 439 |
| **Impairment loss on shares in Future 1** | **254** |

Impairment loss on shares in the amount of PLN 254 million was recognised in other operating activities in the statement of profit or loss (Note 4.2).

The conducted sensitivity analysis of recoverable amount of the involvement in Future 1 (including loans granted to the KGHM INTERNATIONAL LTD. Group) indicated that key assumptions adopted for impairment testing were adopted price curves and the discount rate. Assumptions adopted for price paths, as well as the discount rate were adopted together with the professional judgment of the Management Board with respect to the fluctuations of these amounts in the future, which was reflected in the estimate of the recoverable amount. For the purposes of monitoring the risk of loss of the tested assets in subsequent periods, it was determined that with respect to:

– discount rate – adoption at the level higher by 1 percentage point would result in an impairment loss and a change in the measurement of financial assets due to loans granted in the total amount of PLN 1 053 million (loss), while at the level lower by 1 percentage point would result in a reversal of an impairment loss and changes in the measurement of financial assets due to loans granted in the total amount of PLN 752 million (profit),

in PLN millions, unless otherwise stated

– price paths – adoption at the level lower in average by 1% would result in an impairment loss and a change in the measurement of financial assets due to loans granted in the total amount of PLN 560 million (loss), while at the level on average higher by 1% would result in a reversal of an impairment loss and a change in the measurement of financial assets due to loans granted in the amount of PLN 130 million (profit).

**TEST FOR IMPAIRMENT OF SHARES OF "ENERGETYKA" SP. Z O.O.**

In the current reporting period, due to indications of the possibility of changes in the recoverable amount, the Company performed impairment testing of the equity involvement in shares of "Energetyka" sp. z o.o. The key indication to perform impairment testing in the current reporting period was a negative change in forecasted operating cash flows of "Energetyka" sp. z o.o.

The carrying amount of shares of "Energetyka" sp. z o.o. as at 31 December 2019 amounted to PLN 505 million. For the purpose of estimating the recoverable amount, in the conducted test the value in use was measured using the DCF method, i.e. the method of discounted cash flows.

**Basic assumptions adopted for impairment testing**

| Assumption | Level adopted in testing |
|---|---|
| Forecast period | 2020-2029 |
| Average operating margin during the forecast period | 1.15% |
| Capital expenditures during the forecast period | PLN 282 million |
| Discount rate | 5.6% (nominal rate after taxation) |
| Growth rate following the forecast period | 0% |

As a result of the impairment testing conducted on the shares of "Energetyka" Sp. z o.o., the recoverable amount of shares was determined to be at the level of PLN 299 million, which was lower than the carrying amount of the tested assets, which was the basis for recognising an impairment loss in the amount of PLN 206 million.

The measurement of shares of "Energetyka" sp. z o.o. indicated a significant sensitivity to the adopted discount rates. The following table presents the impact of changes to this parameter on the measurement of the shares:

**Sensitivity analysis of the recoverable amount of shares of "Energetyka" sp. z o.o.**

| | Discount rate 4.6% | Discount rate 5.60% (test) | Discount rate 6.60% |
|---|---|---|---|
| Recoverable amount | 465 | **299** | 212 |

In order to monitor the risk of impairment of assets in subsequent reporting periods, it was determined that the recoverable amount would be equal to the carrying amount of the shares if the discount rate were to fall to 4.44%.

**TEST FOR IMPAIRMENT OF SHARES OF POL-MIEDŹ TRANS Sp. z o.o.**

In the current reporting period, due to indications of the possibility of changes in the recoverable amount, the Company performed impairment testing of the equity involvement in shares of POL-MIEDŹ TRANS Sp. z o.o. The key indication to perform impairment testing in the current reporting period was a loss for the period.

The carrying amount of shares of POL-MIEDŹ TRANS Sp. z o.o. as at 31 December 2019 amounted to PLN 63 million. For the purpose of estimating the recoverable amount, in the conducted test the recoverable amount was measured using the DCF method i.e. the method of discounted cash flows.

**Basic assumptions adopted for impairment testing**

| Assumption | Level adopted in testing |
|---|---|
| Forecast period | 2020-2024 |
| Average operating margin during the forecast period | 1.49% |
| Capital expenditures during the forecast period | PLN 287 million |
| Discount rate | 5.99% (nominal rate after taxation) |
| Growth rate following the forecast period | 0% |

in PLN millions, unless otherwise stated

As a result of the impairment testing conducted on the shares of POL–MIEDŹ TRANS Sp. z o.o., the recoverable amount of shares was determined to be higher than the carrying amount of the tested asset, which did not give a basis to recognise an impairment loss.
The measurement of shares of POL–MIEDŹ TRANS Sp. z o.o. indicated a significant sensitivity to the adopted discount rates. The following table presents the impact of changes to this parameter on the measurement of the shares:

| Sensitivity analysis of the recoverable amount of shares in POL-MIEDŹ TRANS Sp. z o.o. | | | |
|---|---|---|---|
| | Discount rate 4.99% | Discount rate 5.99% (test) | Discount rate 6.99% |
| Recoverable amount | 354 | **247** | 188 |

In order to monitor the risk of impairment of assets in subsequent reporting periods, it was determined that the recoverable amount would be equal to the carrying amount of shares if the discount rate were to increase to 13.3%.

## Note 3.2 Impairment losses on assets as at 31 December 2018

### TEST FOR THE IMPAIRMENT OF INVOLVEMENT IN THE COMPANY FUTURE 1

As at 31 December 2018, as a result of the identification of indications of a possible change in the recoverable amounts, the Company performed impairment testing of the Company's equity involvement (shares in Future 1) and of loans granted to Future 1 and the KGHM INTERNATIONAL LTD. Group. The key indication to perform an impairment test was a significant change to the technical and economic parameters of mining assets of the KGHM INTERNATIONAL LTD. Group concerning mine lives, production volumes, reserves and resources, assumed operating costs and the level of capital expenditures during a mine's life. In order to assess impairment, the fair value of the investment in KGHM INTERNATIONAL LTD. was estimated based on the sum of the fair values of individual CGUs (Cash Generating Units) within KGHM INTERNATIONAL LTD., decreased by liabilities and increased by other assets. As the result, the recoverable amount of involvement in the company Future 1 (including loans granted to KGHM INTERNATIONAL LTD) was determined on the basis of net assets of KGHM INTERNATIONAL LTD, measured to fair value.

The value of shares in Future 1 was recognised at cost and as at 31 December 2018 amounted to PLN 1 037 million, while the amount of loans granted to the KGHM INTERNATIONAL LTD. Group, together with accrued and unpaid interest, amounted to PLN 2 078 million, and those granted to the subsidiary Future 1 amounted to PLN 3 927 million.

The following CGUs have been selected for the purpose of assessment of the recoverable amount of the assets of the KGHM INTERNATIONAL LTD. Group:

- the Robinson mine,
- the Sudbury Basin, comprising the operating Morrison mine, the McCreedy mine which is in the process of closure and the pre-operational Victoria project,
- the Franke mine,
- the Carlota mine,
- involvement in the joint venture Sierra Gorda S.C.M., and
- the Ajax project.

To determine the recoverable amount of assets in individual CGUs during the testing, their fair value (decreased by costs to sell) was calculated using the DCF method, i.e. the method of discounted cash flows for the CGUs Sudbury and involvement in the joint venture Sierra Gorda S.C.M. and at the value in use for the CGU Franke. As for the recoverable amount of CGUs Robinson, Carlota and KGHM Ajax, due to a lack of indications of changes in the recoverable amount, they were set at their carrying amounts.

The fair value was classified to level 3 of the fair value hierarchy.
The approach applied by the Company in 2018 with respect to the measurement of loans pursuant to IFRS 9 was consistent with the approach in 2019. Detailed description in Part 3. Test for the impairment of involvement in the company Future 1 as at 31 December 2019.

| Basic macroeconomic assumptions adopted in the impairment testing | |
|---|---|
| **Assumption** | **Level adopted for testing** |
| Copper price | The price path for copper was set based on internal macroeconomic assumptions developed with the use of long-term forecasts available from financial and analytical institutions. A detailed forecast is being prepared for the period 2019-2023, while for the period 2024-2028 a technical adjustment of prices was applied between the last year of the detailed forecast, and 2029, from which a long-term metal price forecast of 6 614 USD/t (3.00 USD/lb) is used. |

| | |
|---|---|
| | The long-term forecasted copper price has not changed as compared to the price adopted for conducting testing as at 31 December 2017. |

| OTHER KEY ASSUMPTIONS USED FOR FAIR VALUE ESTIMATION OF ASSETS OF CGUs | | | |
|---|---|---|---|
| **Assumption** | **Sierra Gorda S.C.M.** | **Sudbury** | **Franke** |
| Mine life / forecast period | 25 | 18** | 2 |
| Level of copper production during mine life [kt] | 4 372 | 276 | 37 |
| Average operating margin during mine life* | 35% | 57% | 7% |
| Capital expenditures to be incurred during mine life [USD million] | 2 219 | 1 630 | 4 |
| Applied discount rate after taxation for assets in the operational phase* | 8% | 8% | 11% |
| Applied discount rate after taxation for assets in the pre-operational phase | | 11% | |
| Costs to sell | USD 9 million | 2% | |

* In order to maintain data cohesion between individual CGUs, the presented data is post-taxation despite the model of measuring the value in use for the CGU Franke. The use of pre-taxation data does not significantly impact on the recoverable amount.
** In total for all assets of the CGU, that is McCreedy, Morrison/Levack and Victoria.

| Key factors responsible for modification of the technical and economic assumptions | |
|---|---|
| **Sierra Gorda S.C.M.** | Postponement to subsequent years of capital expenditures from 2017-2018 related to the debottlenecking program and from the oxide ore processing project. In the previous test, expenditures on the aforementioned projects were included in the period not covered by current assumptions. The update of the multi-year mine plan resulted in the prolongation of the mine's life by 3 years. |
| **Sudbury** | On-going optimisation of the multi-year plan of operating activities in the Sudbury Basin. Among others, as a result of the activities undertaken, the extraction of ore from the Morrison deposit is planned to be halted in the first quarter of 2019 along with a recommencement of production by the McCreedy West mine. The update of the multi-year plans resulted in an increase in capital expenditures, a change in the production volumes of individual metals and an extension of the production period by one year. The assumptions adopted for the Victoria project have not changed significantly as compared to the testing conducted as at 31 December 2017. |
| **Franke** | Identification of additional deposits of oxide ore and an update of the mining plans, which allows for a prolongation of the mine's life by an additional production year. |

| **RESULTS OF THE TEST** | **PLN million** |
|---|---|
| Discounted future cash flows of KGHM INTERNATIONAL LTD. (Enterprise value) (USD 2 053 million *3.7597) | 7 720 |
| Estimated costs to sell | 30 |
| **Recoverable amount of investment in KGHM INTERNATIONAL LTD. (Enterprise value)** | **7 690** |
| Carrying amount of loans granted to Future 1 and the KGHM INTERNATIONAL LTD. Group, together with interest | 6 005 |
| Carrying amount of shares in Future 1 | 1 037 |
| **Reversal of impairment loss on shares in Future 1** | **402** |
| **Reversal of allowances for impairment of receivables due to loans granted to the KGHM INTERNATIONAL LTD Group** | **246** |

Reversal of an impairment loss on shares in the amount of PLN 402 million and the reversal of allowances for impairment of loans granted in the amount of PLN 246 million were recognised in the statement of profit or loss in other operating activities.

in PLN millions, unless otherwise stated

# PART 4 – Explanatory notes to the statement of profit or loss

## Note 4.1 Expenses by nature

| | | from 1 January 2019 to 31 December 2019 | from 1 January 2018 to 31 December 2018 |
|---|---|---|---|
| Note 9.3 | Depreciation of property, plant and equipment and amortisation of intangible assets | 1 298 | 1 173 |
| Note 11.1 | Employee benefits expenses | 3 594 | 3 324 |
| | Materials and energy, including: | 6 196 | 5 312 |
| | purchased metal-bearing materials | 3 778 | 3 040 |
| | electrical and other energy | 939 | 803 |
| | External services, including: | 1 767 | 1 649 |
| | transport | 239 | 216 |
| | repairs, maintenance and servicing | 538 | 511 |
| | mine preparatory work | 534 | 477 |
| Note 5.2 | Minerals extraction tax | 1 520 | 1 671 |
| Note 5.2 | Other taxes and charges | 397 | 412 |
| | Advertising costs and representation expenses | 53 | 43 |
| | Property and personal insurance | 28 | 23 |
| | Other costs | 43 | 26 |
| | **Total expenses by nature** | **14 896** | **13 633** |
| | Cost of merchandise and materials sold (+) | 200 | 177 |
| | Change in inventories of products and work in progress (+/-) | 369 | ( 236) |
| | Cost of products for internal use (-) | ( 174) | ( 114) |
| | **Total cost of sales, selling costs and administrative expenses, including:** | **15 291** | **13 460** |
| | Cost of sales | 14 296 | 12 537 |
| | Selling costs | 124 | 115 |
| | Administrative expenses | 871 | 808 |

in PLN millions, unless otherwise stated

## Note 4.2 Other operating income/(costs)

| | | from 1 January 2019 to 31 December 2019 | from 1 January 2018 to 31 December 2018 |
|---|---|---|---|
| Note 7.2 | Measurement and realisation of derivatives | 155 | 167 |
| | Exchange differences on assets and liabilities other than borrowings | 168 | 386 |
| | Interest on loans granted and other financial receivables | 272 | 244 |
| | Fees and charges on re-invoicing of bank guarantees costs securing payments of liabilities | 31 | 53 |
| | Reversal of impairment losses on financial instruments including: | 156 | 1 048 |
| | reversal of allowances for impairment of loans measured at amortised cost | 155 | 961 |
| | Reversal of impairment losses on shares in subsidiaries | - | 402 |
| | Fair value gains on financial assets measured at fair value through profit or loss | 268 | 184 |
| | Dividends income | 37 | 239 |
| | Release of provisions | 68 | 12 |
| | Other | 73 | 64 |
| | **Total other operating income** | **1 228** | **2 799** |
| Note 7.2 | Measurement and realisation of derivatives | ( 277) | ( 303) |
| | Impairment losses on financial instruments | ( 54) | ( 778) |
| | Provisions recognised | ( 107) | ( 162) |
| | Fair value losses on financial assets measured at fair value through profit or loss | ( 184) | ( 247) |
| | Impairment losses on shares and investment certificates in subsidiaries | ( 460) | ( 47) |
| | Other | ( 107) | ( 113) |
| | **Total other operating costs** | **(1 189)** | **(1 650)** |
| | **Other operating income and (costs)** | **39** | **1 149** |

in PLN millions, unless otherwise stated

## Note 4.3 Finance income/(costs)

| | | from 1 January 2019 to 31 December 2019 | from 1 January 2018 to 31 December 2018 |
|---|---|---|---|
| Note 7.2 | Measurement and realisation of derivatives | 37 | 11 |
| | **Total income** | **37** | **11** |
| | | | |
| | Interest on borrowings including: | ( 183) | ( 127) |
| | lease | ( 15) | - |
| | Bank fees and charges on borrowings | ( 49) | ( 23) |
| | Exchange differences on borrowings | ( 209) | ( 592) |
| Note 7.2 | Measurement and realisation of derivatives | ( 59) | - |
| | Unwinding of the discount effect | ( 41) | ( 43) |
| | **Total costs** | **( 541)** | **( 785)** |
| | | | |
| | **Finance income and (costs)** | **( 504)** | **( 774)** |

in PLN millions, unless otherwise stated

### Note 4.4 Reversal / recognition of impairment losses on assets in the statement of profit or loss

| Reversal of impairment losses on assets recognised in | from 1 January 2019 to 31 December 2019 | from 1 January 2018 to 31 December 2018 |
|---|---|---|
| **cost of sales, of which:** | **33** | **28** |
| reversal of write-down of inventories | 33 | 28 |
| **other operating income, of which:** | **158** | **1 452** |
| reversal of impairment loss on shares in subsidiaries | - | 402 |
| reversal of allowances for impairment of loans measured at amortised cost | 155 | 1 046 |
| reversal of allowance for impairment of other financial receivables | 1 | 2 |
| reversal of allowance for impairment of other non-financial receivables | 2 | 2 |
| **Reversal of impairment losses, total** | **191** | **1 480** |

| Impairment losses on assets recognised in: | | |
|---|---|---|
| **cost of sales, of which:** | **36** | **5** |
| impairment losses on property, plant and equipment and intangible assets | 7 | - |
| write-down of inventories | 29 | 5 |
| **other operating costs, due to:** | **517** | **836** |
| allowance for impairment of loans measured at amortised cost | 42 | 767 |
| impairment losses on fixed assets under construction and intangible assets not yet available for use | 3 | 11 |
| impairment losses on shares and investment certificates in subsidiaries | 460 | 47 |
| allowance for impairment of trade receivables | 1 | 8 |
| allowance for impairment of other financial receivables | 11 | 3 |
| **Impairment losses, total** | **553** | **841** |

in PLN millions, unless otherwise stated

# PART 5 – Taxation

## Note 5.1 Income tax in the statement of profit or loss

**Accounting policies**

Income tax recognised in profit or loss comprises current income tax and deferred income tax.
Current income tax is calculated in accordance with current tax laws.

### Income tax

| | | from 1 January 2019 to 31 December 2019 | From 1 January 2018 to 31 December 2018 |
|---|---|---|---|
| | Current income tax | 655 | 590 |
| Note 5.1.1 | Deferred income tax | 168 | 57 |
| | Current tax adjustments for prior periods | ( 160) | 0 |
| | **Income tax** | **663** | **647** |

Current tax adjustments for prior periods concern CIT adjustments for 2016 – 2018, prepared and settled with the tax office. The tax adjustment was prepared because, among others, the Company recognised the following expenses as tax deductible costs:

- costs incurred due to changes introduced to plans of land conversion, on which an investment is being advanced – these are expenses related, among others, to excluding land from agricultural and forestry production, and one-off compensations for premature forestry logging,
- costs incurred to obtain a concession for exploration, evaluation and mining of minerals,
- costs incurred on components and major overhauls,
- costs incurred on exploration and evaluation of mineral deposits.

These expenses were recognised in the Company's adjustment of the annual tax return as tax deductible costs after receiving positive judgments of the Administrative Court issued due to the Company's complaints on negative interpretations of the Director of the National Tax and Customs Information Office.
In 2019, KGHM Polska Miedź S.A. paid income tax in the amount of PLN 465 million (in 2018: PLN 710 million) to the appropriate tax office. The difference between the tax paid by the Company in 2019 as compared to the tax paid in 2018 is mainly due to a change in the manner of payment of tax advances in 2019 as compared to 2018.
In 2018, tax advances were determined on a simplified basis, monthly in fixed amounts, on the basis of income achieved in 2016.
In 2019, due to the change in composition of companies comprising the KGHM's Tax Group, and therefore the creation of a new taxpayer commencing its activities, the Company changed the method of determining tax advances to one based on actually achieved quarterly income which resulted in a decrease in advances paid in 2019, because the advance for the fourth quarter of 2019 will be paid in 2020.
Pursuant to current law, tax authorities have a right to verify the taxpayer's settlements (including verification of tax declarations) in the period in which the tax liabilities did not expire.

The table below presents an identification of differences between income tax from profit before tax and the income tax calculated according to the principles resulting from the Corporate Income Tax Act:

in PLN millions, unless otherwise stated

### Reconciliation of effective tax rate

| | from 1 January 2019 to 31 December 2019 | from 1 January 2018 to 31 December 2018 |
|---|---|---|
| **Profit/(loss) before tax** | **1 927** | **2 672** |
| **Tax calculated using the given rate (2019: 19%, 2018: 19%)** | 366 | 508 |
| Tax effect of non-taxable income, including: | ( 99) | ( 363) |
| capital income – non-taxable due to the tax loss | ( 84) | - |
| reversal of allowances for impairment of loans granted to subsidiaries | ( 9) | ( 217) |
| Tax effect of expenses not deductible for tax purposes, including: | 556 | 558 |
| the minerals extraction tax | 289 | 317 |
| capital costs which are not deductible for tax purposes, due to the tax loss | 83 | - |
| impairment losses on shares in subsidiaries and allowances for impairment of intra-group loans | 118 | 201 |
| Tax adjustments for prior periods | ( 160) | - |
| Current tax from settlement of the Tax Group | - | ( 56) |
| **Income tax in profit or loss [effective tax rate amounted to: 34.41% (in 2018 (24.21)%]** | **663** | **647** |

### Note 5.1.1 Deferred income tax

| Accounting policies | Important estimates and assumptions |
|---|---|
| Deferred tax is determined using tax rates and tax laws that are expected to be applicable when the asset is realised or the liability is settled based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.<br><br>Deferred tax liabilities and deferred tax assets are recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the exception of temporary differences arising from initial recognition of assets or liabilities in transactions other than business combinations.<br><br>Deferred tax assets are recognised if it is probable that taxable profit will be available against which the temporary differences and unused tax losses can be utilised.<br><br>Deferred tax assets and deferred tax liabilities are offset if the Company has a legally enforceable right to set off current tax assets and current tax liabilities, and if the deferred tax assets and deferred tax liabilities relate to income taxes levied on a given entity by the same taxation authority. | The probability of realising the deferred tax assets with future tax income is based on the Company's budget. The Company recognises deferred tax assets in its accounting books to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. |

| | from 1 January 2019 to 31 December 2019 | from 1 January 2018 to 31 December 2018 |
|---|---|---|
| **Deferred tax at the beginning of the period, of which:** | **9** | **31** |
| Deferred tax assets | 1 159 | 1 034 |
| Deferred tax liabilities | (1 150) | (1 003) |
| **Change in accounting policies:** | | |
| -application of IFRS 9, of which: | - | 13 |
| Deferred tax assets | - | ( 41) |
| Deferred tax liabilities | - | 54 |
| - application of IFRS 16, of which: | - | - |
| Deferred tax assets | 60 | - |
| Deferred tax liabilities | ( 60) | - |
| **Deferred tax after the change in policies, of which:** | **9** | **44** |
| Deferred tax assets | 1 219 | 993 |
| Deferred tax liabilities | (1 210) | ( 949) |
| **Deferred tax in the period:** | **( 69)** | **( 35)** |
| Recognised in profit or loss | ( 168) | ( 57) |
| Recognised in other comprehensive income | 99 | 22 |
| **Deferred tax at the end of the period, of which:** | **( 60)** | **9** |
| Deferred tax assets | 1 279 | 1 159 |
| Deferred tax liabilities | (1 339) | (1 150) |

**Maturities of deferred tax assets and (deferred tax liabilities) were as follows:**

| | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|
| Maturity over the 12 months from the end of the reporting period, net | ( 363) | ( 279) |
| Maturity of up to 12 months from the end of the reporting period, net | 303 | 288 |

in PLN millions, unless otherwise stated

### Deferred tax assets and liabilities

| Deferred tax assets | As at 31 December 2017 | Change in accounting policies – application of IFRS 9 | As at 1 January 2018 | Credited/(Charged) profit or loss | Credited/(Charged) other comprehensive income | As at 31 December 2018 | Change in accounting policies – application of IFRS 16 | As at 1 January 2019 | Credited/(Charged) profit or loss | Credited/(Charged) other comprehensive income | As at 31 December 2019 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Interest | 20 | - | 20 | 15 | - | 35 | - | 35 | 8 | - | 43 |
| Provision for decommissioning of mines and other technological facilities | 161 | - | 161 | 36 | - | 197 | - | 197 | 29 | - | 226 |
| Measurement of forward transactions | 83 | ( 70) | 13 | - | - | 13 | - | 13 | 3 | - | 16 |
| Difference between the depreciation rates of property, plant and equipment for accounting and tax purposes | 58 | - | 58 | ( 8) | - | 50 | - | 50 | 5 | - | 55 |
| Future employee benefits | 377 | - | 377 | 16 | 58 | 451 | - | 451 | 15 | 7 | 473 |
| Re-measurement of available-for-sale financial assets | 108 | ( 108) | - | - | - | - | - | - | - | - | - |
| Equity instruments measured at fair value | - | 92 | 92 | - | 29 | 121 | - | 121 | - | 18 | 139 |
| Allowances for impairment/reversal of allowances for impairment of loans | - | 44 | 44 | - | - | 44 | - | 44 | ( 12) | - | 32 |
| Re-measurement of hedging instruments | 27 | - | 27 | - | ( 3) | 24 | - | 24 | - | 10 | 34 |
| Lease liabilities | - | - | - | - | - | - | 60 | 60 | ( 1) | - | 59 |
| Short-term accruals for remuneration | 62 | - | 62 | ( 16) | - | 46 | - | 46 | 15 | - | 61 |
| Liability related to the fixed fee due to setting mining usufruct | 36 | - | 36 | 1 | - | 37 | - | 37 | ( 5) | - | 32 |
| Recognition/reversal of other impairment losses on assets | 42 | - | 42 | ( 4) | - | 38 | - | 38 | ( 24) | - | 14 |
| Other | 60 | 1 | 61 | 42 | - | 103 | - | 103 | ( 8) | - | 95 |
| **Total** | **1 034** | **( 41)** | **993** | **82** | **84** | **1 159** | **60** | **1 219** | **25** | **35** | **1 279** |

in PLN millions, unless otherwise stated

| Deferred tax liabilities | As at 31 December 2017 | Change in accounting policies – application of IFRS 9 | As at 1 January 2018 | (Credited)/Charged profit or loss | (Credited)/Charged other comprehensive income | As at 31 December 2018 | Change in accounting policies – application of IFRS 16 | As at 1 January 2019 | (Credited)/Charged profit or loss | (Credited)/Charged other comprehensive income | As at 31 December 2019 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Measurement of forward transactions | 41 | ( 25) | 16 | - | - | 16 | - | 16 | - | - | 16 |
| Re-measurement of hedging instruments | 43 | ( 42) | 1 | - | 62 | 63 | - | 63 | - | ( 63) | - |
| Difference between the depreciation rates for accounting and tax purposes, including: | 833 | - | 833 | 97 | - | 930 | 60 | 990 | 84 | - | 1 074 |
| difference between the depreciation rates of leases for accounting and tax purposes | - | - | - | - | - | - | 60 | 60 | 1 | - | 61 |
| Re-measurement of available-for-sale financial assets | 18 | ( 18) | - | - | - | - | - | - | - | - | - |
| Interest | 62 | 30 | 92 | 44 | - | 136 | - | 136 | 108 | - | 244 |
| Other | 6 | 1 | 7 | ( 2) | - | 5 | - | 5 | 1 | ( 1) | 5 |
| **Total** | **1 003** | **( 54)** | **949** | **139** | **62** | **1 150** | **60** | **1 210** | **193** | **( 64)** | **1 339** |

in PLN millions, unless otherwise stated

### Note 5.2 Other taxes and charges

The following table presents the minerals extraction tax incurred by the Company.

| | from 1 January 2019 to 31 December 2019 | from 1 January 2018 to 31 December 2018 | Basis for calculating tax | Tax rate | Presentation in the statement of profit or loss |
|---|---|---|---|---|---|
| Minerals extraction tax, of which: | **1 520** | **1 671** | | | |
| - copper | 1 217 | 1 373 | Amount of copper in produced concentrate, expressed in tonnes | tax rate calculated for every reporting period* | expenses by nature, note 4.1. |
| - silver | 303 | 298 | Amount of silver in produced concentrate, expressed in kilograms | | |

* In accordance with conditions specified by the Act dated 2 March 2012 on the minerals extraction tax and the Act dated 12 April 2019 on changing the act on the minerals extraction tax, which decreased the tax rates by 15% from July 2019.

The minerals extraction tax is calculated from the amount of copper and silver in produced concentrate and depends on the prices of these metals as well as on the USD/PLN exchange rate. The tax increases costs of basic products and is not deductible for corporate income tax purposes.

Other taxes and charges:

| | from 1 January 2019 to 31 December 2019 | from 1 January 2018 to 31 December 2018 |
|---|---|---|
| Royalties | 110 | 108 |
| Excise tax | 10 | 37 |
| Real estate tax | 188 | 167 |
| Other taxes and charges | 89 | 100 |
| **Total** | **397** | **412** |

### Note 5.3 Tax assets and liabilities

**Accounting policies**

Tax assets comprise current income tax assets and the settlement related to VAT.

Assets not representing financial assets are initially recognised at nominal value and are measured at the end of the reporting period at the amount due.

Tax liabilities comprise the Company's liabilities towards the Polish Tax Office arising from the corporate income tax, including due to the withholding tax, personal income tax and liabilities towards Customs Chamber due to the minerals extraction tax and the excise tax.

Liabilities not representing financial liabilities are measured at the amount due.

in PLN millions, unless otherwise stated

### Tax assets

| | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|
| Current corporate income tax assets | - | 17 |
| Receivables due to taxes, social and health insurance and other benefits | 435 | 258 |
| **Tax assets** | **435** | **275** |

### Tax liabilities

| | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|
| Current corporate income tax liabilities | 31 | - |
| Other tax liabilities | 227 | 233 |
| **Tax liabilities** | **258** | **233** |

in PLN millions, unless otherwise stated

# PART 6 – Investments in subsidiaries

## Note 6.1 Subsidiaries

**Accounting policies**

In the financial statements of the Company, subsidiaries are those entities which are directly controlled by the Company. Investments in subsidiaries, which are not classified as available-for-sale are measured at cost plus any granted non-returnable payments, including for the coverage of losses presented in the financial statements of a subsidiary, less any impairment losses. Impairment is measured by comparing the carrying amount with the higher of the following amounts:

- fair value, decreased by costs to sell; and
- value in use.

| | 2019 | 2018 |
|---|---|---|
| **As at 1 January** | 3 510 | 3 013 |
| Reversal of impairment losses on FUTURE 1 Sp. z o.o. | - | 402 |
| Acquisition of investment certificates, of which: | 295 | 142 |
| KGHM VI FIZAN | 46 | 64 |
| KGHM VII FIZAN | 249 | 78 |
| Other increases | 25 | - |
| Impairment losses - of which: | ( 460) | ( 47) |
| KGHM I FIZAN | - | ( 47) |
| FUTURE 1 Sp. z o.o. | ( 254) | - |
| "Energetyka" sp. z o.o. | ( 206) | - |
| Redemption of investment certificates, of which: | ( 400) | - |
| KGHM I FIZAN | ( 390) | - |
| KGHM IV FIZAN | ( 10) | - |
| Other decreases | ( 24) | - |
| **As at 31 December** | **2 946** | **3 510** |

in PLN millions, unless otherwise stated

### The most significant investments in subsidiaries (direct share)

| Entity | Head Office | Scope of activities | Carrying amount of shares/investment certificates | |
|---|---|---|---|---|
| | | | as at 31 December 2019 | as at 31 December 2018 |
| FUTURE 1 Sp. z o.o. | Lubin | management and control of other companies, including the KGHM INTERNATIONAL LTD. Group | 1 185 | 1 439 |
| "Energetyka" sp. z o.o. | Lubin | generation, distribution and sale of electricity and heat | 299 | 505 |
| KGHM I FIZAN | Wrocław | cash investing in securities, money market instruments and other property rights | - | 390 |
| KGHM Metraco S.A. | Legnica | trade, agency and representative services | 335 | 335 |
| KGHM VII FIZAN | Wrocław | cash investing in securities, money market instruments and other property rights | 327 | 78 |

As at 31 December 2019 and as at 31 December 2018, the % of share capital held as well as the % of voting power in the above-mentioned subsidiaries was 100%.

As the result of the process of liquidating the KGHM I FIZAN Fund advanced in 2018 (due to the expiry of the founding period of the Fund), all of the Fund's Investment Certificates were redeemed in January 2019. As a result of this KGHM Polska Miedź S.A. received the amount of PLN 391 million and was removed from the registry of participants. In June 2019, the Fund was removed from the registry.

In May 2019, the process of liquidating the KGHM IV FIZAN began, due to the expiry of the founding period of the Fund. All of the Fund's Investment Certificates were redeemed in September 2019. As a result of this the Company received the amount of PLN 13 million. In November, the Fund was removed from the registry.

In 2019, KGHM Polska Miedź S.A. acquired Investment Certificates, Series C, of the following funds: KGHM VI FIZAN and KGHM VII FIZAN, for the total amount of PLN 258 million, due to the liquidation of the KGHM I FIZAN fund and Investment Certificates, Series D of the KGHM VII FIZAN for the amount of PLN 38 million, due to the liquidation of the KGHM IV FIZAN fund. Acquisition of the aforementioned Certificates was aimed at financing the acquisition of deposits of liquidated funds by new funds founded in 2018. Liquidation of funds was due to the expiry of their founding periods.
The Main Source of financing the acquisition of Investment Certificates of KGHM VI and KGHM VII FIZAN were funds from the redemption of Investment Certificates of liquidated Funds.
At the end of 2019, the KGHM I FIZAN and KGHM IV FIZAN funds were liquidated and their deposits were transferred to the assets of the KGHM VI FIZAN and KGHM VII FIZAN funds. KGHM Polska Miedź S.A. is the sole participant in the aforementioned funds.

### Note 6.2 Receivables due to loans granted

**Accounting policies**

Loans measured at amortised cost – loans that met two conditions: they are in a business model whose objective is to collect contractual cash flows due to holding financial assets, and have passed the SPPI (solely payments of principal and interest) test, that is they are maintained in order to collect the principal amount and interest. They are initially recognised at fair value adjusted by costs directly associated with the loan and are measured at the end of the reporting period at amortised cost using the effective interest rate method, including impairment calculated using the model of expected losses.

POCI loans – financial assets that are credit-impaired due to high credit risk at the moment of initial recognition of financial assets or if they were purchased at a significant discount. POCI loans are measured at amortised cost using the effective percentage rate adjusted by the credit risk, including impairment calculated using the model of expected losses.

The loans measured at fair value through profit or loss – loans that did not pass the SPPI (solely payments of principal and interest) test, which means that they are maintained in order to collect the principal amount and interest. The fair value of loans is set at present value of future cash flows, including the change of market risk and credit risk factors during the loans' life.

in PLN millions, unless otherwise stated

Pursuant to IFRS 9, financial assets subject to the requirement of calculating the expected credit losses are classified to one of three degrees of a model of impairment. Classification to individual degrees of impairment model is at the level of a single financial instrument (exposure).

To the degree 2, the Company classifies financial instruments with an identified significant increase in credit risk, understood as an increase in probable default in the remaining time of the instrument as compared to the date of initial recognition, but there are no objective indicators of impairment. The expected credit losses for this degree are estimated during the entire life of these instruments.

If at the end of the reporting period the analysis proves that for a given financial instrument, since the day of its initial recognition, there was not a significant increase in credit risk and no default status was granted, then the instrument is classified to the degree 1.

Balances with objective indications of impairment are included in the degree 3. An objective indicator of impairment is, among others, an overdue period of over 90 days.

At the end of the reporting period, no financial instrument was defaulted (criteria classifying to the degree 3), the Company did not classify any of the loans granted to the degree 3.

For exposures classified to degree 2, expected credit losses are estimated in an exposure's life horizon, while for exposures classified to degree 1, the expected credit losses are estimated in a horizon of 12 months.

### Important estimates and assumptions

The Company assumes that the solely payments of principal and interest (SPPI) test for loans granted is not passed if in the structure of financing the target recipient of funds, debt is changed at the last stage into an equity investment.

Indications, based on which the Company classifies the loan granted to the degree 2 are: downgrading of the borrower's rating, deterioration of operational cash flows forecasts of borrowers, change in conditions of the loan due to the worsening financial position of the borrower, delay in the repayment of the loan of over 30 days.

In order to calculate expected credit losses (ECL), the Company uses, among others, the following parameters: the borrower's rating and the curve of accumulated PDs and LGDs.

The borrower's rating is granted using internal methodology of the Company based on the methods adopted by Moody's. The Company granted loans mainly to subsidiaries, of which over 99% of borrowers were assigned ratings between A3 – Baa3.

The curve of accumulated PDs (parameter of probability of default, used to calculate the expected credit losses) for a given borrower is set on the basis of market sector quotations of Credit Default Swap contracts from the Reuters system, which quantify the market expectations as for the potential probability of default in a given sector and in a given rating. PD parameters for the adopted ratings were as follows:

| **A3 to Baa3 ratings according to Moody's** | |
|---|---|
| Up to one year | 0.29% - 0.63% |
| 1-3 years | 1.70% - 2.97% |
| More than 3 years (at the date of loans' maturity) | 4.96% - 18.01% |

LGD parameter (loss given default, expressed as the percentage of the amount outstanding) for the purposes of estimating expected credit losses for loans classified to the stage 1 and 2 is adopted at the level of LGD of 75% (based on estimations from Moody's Annual Default Study: Corporate Default and Recovery Rates, 1920 – 2016).

In the years 2015 – 2017, the Company provided funding to Quadra FNX Holdings Chile Limitada (a subsidiary in the KGHM INTERNATIONAL LTD. Group) in the amount of USD 442 million in order to inject capital in the project Sierra Gorda. As a result of restructurisation of stream of loans in December 2017 and on the basis of an analysis of profitability of the Sierra Gorda investment, the Company measured the fair value of these loans to be equal to PLN 0 on the reporting dates of 31 December 2018 and 31 December 2019.

The Company classifies loans granted to one of the three following categories:

1. Measured at amortised cost, which were determined to be credit-impaired at the moment of initial recognition (POCI),
2. Measured at amortised cost, which were not determined to be credit-impaired at the moment of initial recognition,
3. Measured at fair value through profit or loss.

Loans that at the last stage of cash flows between companies in the Future 1 holding structure or KGHM INTERNATIONAL LTD. were transferred as loans to a joint venture Sierra Gorda S.C.M., advanced by the KGHM INTERNATIONAL LTD. Group, were classified as POCI loans. These loans, pursuant to contractual terms, are paid on demand, but not later than 15 December 2024.

in PLN millions, unless otherwise stated

Loans classified as measured at fair value through profit or loss include also loans that at the last stage of cash flows between companies in the Future 1 holding structure or KGHM INTERNATIONAL LTD. were transferred as increases in share capital in the joint venture Sierra Gorda S.C.M.

For POCI loans and measured at fair value, the Company used the recoverable amount calculated pursuant to IAS 36 on the basis of the model of discounted cash flows (assumptions are described in part 3 of these financial statements) to calculate the amount of expected repayments of these loans (for POCI) and the fair value (for loans measured at fair value).

The level of market rate for loans measured at fair value, taking into account the credit risk of an entity to which the funds in question were transferred (as increases in capital) corresponds to the level of discount rate determined in order to discount cash flows (IAS 36).

In the case of POCI loans that are paid on demand, the fair value reflecting the amount that could be acquired from the immediate sale of Sierra Gorda S.C.M. at the balance sheet date was calculated.

In the case of other loans measured at amortised cost, the Company calculated the allowance for impairment on the basis of the model of expected credit losses.

| | as at 31 December 2019 | as at 31 December 2018 |
|---|---|---|
| Loans measured at amortised cost – gross amount | 5 118 | 4 827 |
| Allowances for impairment | ( 162) | ( 272) |
| Loans measured at fair value | 2 271 | 1 724 |
| **Total, including:** | **7 227** | **6 279** |
| - long-term loans | 7 217 | 6 262 |
| - short-term loans | 10 | 17 |

The most significant items are loans granted to the companies of the KGHM Polska Miedź S.A. Group, which are connected with the realisation of mining projects executed by indirect subsidiaries of KGHM Polska Miedź S.A. from the KGHM INTERNATIONAL LTD. Group. Credit risk related to loans granted was described in note 7.5.2.5.
As at 31 December 2019, the Company estimated cash flows due to loans granted to the KGHM INTERNATIONAL LTD. Group to amount to PLN 7 201 million, and they were higher than the carrying amount together with interest of these loans (PLN 7 163 million) by the amount of PLN 38 million, which was the basis of a reversal of an allowance for impairment of POCI loans in the amount of PLN 26 million, and revaluation of loans measured at fair value in the amount of PLN 12 million. In the comparable period, there was a reversal of an allowance for impairment in the amount of PLN 246 million (details in note 7.5.2.5).

in PLN millions, unless otherwise stated

# PART 7 – Financial instruments and financial risk management

## Note 7.1 Financial Instruments

| | Financial assets: | As at 31 December 2019 At fair value through other comprehensive income | At fair value through profit or loss | At amortised cost | Hedging instruments | Total | As at 31 December 2018 At fair value through other comprehensive income | At fair value through profit or loss | At amortised cost | Hedging instruments | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Non-current** | 403 | 2 271 | 5 403 | 123 | **8 200** | 496 | 1 735 | 4 914 | 308 | **7 453** |
| Note 6.2 | Loans granted | - | 2 271 | 4 946 | - | **7 217** | - | 1 724 | 4 538 | - | **6 262** |
| Note 7.2 | Derivatives | - | - | - | 123 | **123** | - | 11 | - | 308 | **319** |
| Note 7.3 | Other financial instruments measured at fair value | 403 | - | - | - | **403** | 496 | - | - | - | **496** |
| Note 7.4 | Other financial instruments measured at amortised cost | - | - | 457 | - | **457** | - | - | 376 | - | **376** |
| | **Current** | - | 165 | 1 152 | 289 | **1 606** | - | 162 | 1 279 | 285 | **1 726** |
| Note 10.2 | Trade receivables | - | 139 | 104 | - | **243** | - | 139 | 171 | - | **310** |
| Note 7.2 | Derivatives | - | 2 | - | 289 | **291** | - | 15 | - | 285 | **300** |
| Note 8.5 | Cash and cash equivalents | - | - | 516 | - | **516** | - | - | 627 | - | **627** |
| | Cash pooling receivables* | - | - | 335 | - | **335** | - | - | 247 | - | **247** |
| Note 12.3 | Other financial assets | - | 24 | 197 | - | **221** | - | 8 | 234 | - | **242** |
| | **Total** | **403** | **2 436** | **6 555** | **412** | **9 806** | **496** | **1 897** | **6 193** | **593** | **9 179** |

* Receivables from companies which indebted themselves in the cash pooling system

in PLN millions, unless otherwise stated

| | Financial liabilities: | As at 31 December 2019 At fair value through profit or loss | At amortised cost | Hedging instruments | Total | As at 31 December 2018 At fair value through profit or loss | At amortised cost | Hedging instruments | Total |
|---|---|---|---|---|---|---|---|---|---|
| | **Non-current** | **13** | **7 408** | **118** | **7 539** | **39** | **6 941** | **29** | **7 009** |
| Note 8.4 | Borrowings, lease and debt securities | - | 7 215 | - | **7 215** | - | 6 758 | - | **6 758** |
| Note 7.2 | Derivatives | 13 | - | 118 | **131** | 39 | - | 29 | **68** |
| | Other financial liabilities | - | 193 | - | **193** | - | 183 | - | **183** |
| | **Current** | 22 | 3 048 | 38 | **3 108** | 7 | 3 104 | 6 | **3 117** |
| Note 8.4 | Borrowings, lease and debt securities | - | 275 | - | **275** | - | 1 035 | - | **1 035** |
| Note 8.4 | Cash pooling liabilities* | - | 130 | - | **130** | - | 80 | - | **80** |
| Note 12.4 | Other liabilities due to settlement under cash pooling contracts ** | - | 74 | - | **74** | - | - | - | **-** |
| Note 7.2 | Derivatives | 22 | - | 38 | **60** | 7 | - | 6 | **13** |
| Note 10.3 | Trade and similar payables | - | 2 460 | - | **2 460** | - | 1 920 | - | **1 920** |
| | Other financial liabilities | - | 109 | - | **109** | - | 69 | - | **69** |
| | **Total** | 35 | 10 456 | 156 | **10 647** | **46** | **10 045** | **35** | **10 126** |

* Liabilities of KGHM Polska Miedź S.A. towards the Group companies within the credit limit of the group of accounts participating in the cash pooling system.
** Other current liabilities towards participants in the cash pooling system to return, after the end of the reporting period, of cash transferred by them which were not used by KGHM Polska Miedź S.A. for its own needs.

in PLN millions, unless otherwise stated

## Gains/(losses) on financial instruments

| | from 1 January 2019 to 31 December 2019 | Financial assets/liabilities measured at fair value through profit or loss | Financial assets measured at amortised cost | Financial liabilities measured at amortised cost | Hedging instruments | Total |
|---|---|---|---|---|---|---|
| Note 4.2 | Interest income | - | 272 | - | - | 272 |
| Note 4.3 | Interest costs | - | - | ( 183) | - | ( 183) |
| Note 4.2 | Foreign exchange gains/(losses) | 9 | 424 | ( 265) | - | 168 |
| Note 4.3 | Foreign exchange losses | - | - | ( 209) | - | ( 209) |
| Note 4.2 | Fair value losses on financial assets measured at fair value through profit or loss | ( 184) | - | - | - | ( 184) |
| Note 4.4 | Reversal/(recognition) of impairment losses | - | ( 102) | - | - | ( 102) |
| Note 7.2 | Revenues from contracts with customers | - | - | - | 245 | 245 |
| Note 4.2<br>Note 4.3 | Gains on measurement and realisation of derivatives | 192 | - | - | - | 192 |
| Note 4.2 | Losses on measurement and realisation of derivatives | ( 336) | - | - | - | ( 336) |
| Note 4.3 | Fees and charges on bank loans drawn | - | - | ( 49) | - | ( 49) |
| | Other | - | - | ( 8) | - | ( 8) |
| | **Total net gain/(loss)** | **( 319)** | **594** | **( 714)** | **245** | **( 194)** |

in PLN millions, unless otherwise stated

| | from 1 January 2018 to 31 December 2018 | Financial assets/liabilities measured at fair value through profit or loss | Financial assets measured at amortised cost | Financial liabilities measured at amortised cost | Hedging instruments | Total |
|---|---|---|---|---|---|---|
| Note 4.2 | Interest income | - | 244 | - | - | 244 |
| Note 4.3 | Interest costs | - | - | ( 127) | - | ( 127) |
| Note 4.2 | Foreign exchange gains/(losses) | 93 | 544 | ( 251) | - | 386 |
| Note 4.3 | Foreign exchange losses | - | - | ( 592) | - | ( 592) |
| Note 4.2 | Fair value losses on financial assets measured at fair value through profit or loss | ( 247) | - | - | - | ( 247) |
| Note 4.4 | Reversal/(recognition) of impairment losses | - | 270 | - | - | 270 |
| Note 7.2 | Revenues from contracts with customers | ( 17) | - | - | 125 | 108 |
| Note 4.2 Note 4.3 | Gains on measurement and realisation of derivatives | 178 | - | - | - | 178 |
| Note 4.2 | Losses on measurement and realisation of derivatives | ( 303) | - | - | - | ( 303) |
| Note 4.3 | Fees and charges on bank loans drawn | - | - | ( 23) | - | ( 23) |
| | Other | - | - | ( 9) | - | ( 9) |
| | **Total net gain/(loss)** | **( 296)** | **1 058** | **(1 002)** | **125** | **( 115)** |

in PLN millions, unless otherwise stated

## Fair value measurement

| Accounting policies | Important estimates and assumptions |
|---|---|
| Fair value is the price that would be received from selling an asset or would be paid for a transfer of a liability in an orderly transaction between market participants at the measurement date. For financial reporting purposes, a fair value hierarchy was established that categorises the inputs into three levels. The fair value hierarchy levels are as follows:<br>Level 1 Value is based on inputs from active markets, as they are seen as the most reliable source of data.<br>Level 2 Value is based on inputs other than from active markets, which are nevertheless observable (unbiased, measurable).<br>Level 3 Value is based on unobservable inputs, used when it is not possible to acquire data from the first two measurement levels. It includes all measurements based on subjective inputs. | Fair value presents current estimates which may be subject to change in subsequent reporting periods due to market conditions or due to other factors. There are many methods of measuring fair value, which may result in differences in fair values. Moreover, assumptions constituting the basis of fair value measurement may require estimating the changes in costs/prices over time, the discount rate, inflation rate or other significant variables.<br><br>Certain assumptions and estimates are necessary to determine to which level of fair value hierarchy a given instrument should be classified. |

## The fair value hierarchy of financial instruments

| | As at 31 December 2019 | | As at 31 December 2018 | |
|---|---|---|---|---|
| **Classes of financial instruments** | level 1 | level 2 | level 1 | level 2 |
| Loans granted | - | 271 | - | 1 724 |
| Listed shares | 300 | - | 399 | - |
| Unquoted shares | - | 103 | - | 97 |
| Trade receivables | - | 139 | - | 139 |
| Other financial assets | - | 24 | - | 8 |
| Derivatives | - | 223 | - | 538 |
| Assets | - | 414 | - | 619 |
| Liabilities | - | (191) | - | (81) |

Methods and measurement techniques used by the Company in determining fair values of each class of financial asset or financial liability.

Level 1

Listed shares

Shares are measured based on quotations from the Warsaw Stock Exchange and the TSX Venture Exchange in Toronto.

Level 2

Unquoted shares

Unquoted shares are measured using the adjusted net assets. Observable Input data other than the ones from the active market were used in the measurement (e.g. transaction prices of real estate similar to the one subjected to measurement, market interest rates of State Treasury bonds and term deposits in financial institutions, and the risk-free discount rate published by the European Insurance and Occupational Pensions Authority).

Loans granted

Loans granted are measured using the discounted cash flows model, taking into account the borrower's credit risk. IBOR current market interest rare acquired from the Reuters system is used in the discounting process (details on the assumptions adopted for measurement may be found in note 6.2).

Trade receivables

Receivables arising from the realisation of sales under contracts which are finally settled using future prices were measured using forward prices, depending on the period/month of contractual quoting. Forward prices are from the Reuters system.

Trade receivables transferred to factoring, due to the short term between the transfer of receivables to the factor and their payment and to the low credit risk of the counterparty (factor), the fair value of these receivables includes the transaction costs, which are the factor's compensation, and therefore corresponds to the amount of trade receivables transferred to the factor (nominal value from the invoice) less interest.

Other financial assets/liabilities

Receivables/payables due to the settlement of derivatives, whose date of payment falls two working days after the end of the reporting period were recognised in this item. These instruments were measured to fair value set per the reference price applied in the settlement of these transactions.

Currency and currency-interest derivatives

In the case of currency derivatives on the currency market and currency-interest transactions (CIRS), the forward prices from the maturity dates of individual transactions were used to determine their fair value. The forward price for currency exchange rates was calculated on the basis of fixing and appropriate interest rates. Interest rates for currencies and the volatility ratios for exchange rates were taken from Reuters. The standard Garman-Kohlhagen model is used to measure European options on currency markets.

Metals derivatives

In the case of derivatives on the commodity market, forward prices from the maturity dates of individual transactions were used to determine their fair value. In the case of copper, official closing prices from the London Metal Exchange were used, and with respect to silver and gold - the fixing price set by the London Bullion Market Association. Volatility ratios and forward prices for measurement of derivatives at the end of the reporting period were obtained from the Reuters system. Levy approximation to the Black-Scholes model was used for Asian options pricing on metals markets.

### Level 3

No financial instruments were measured at fair value which were classified to level 3 in either the reporting or the comparable period in the Company.

There was no transfer in the Company of financial instruments between individual levels of the fair value hierarchy, in either the reporting or the comparable periods, nor was there any change in the classification of instruments as a result of a change in the purpose or use of these instruments.

## Note 7.2 Derivatives

**Accounting policies**

Derivatives are classified as financial assets/liabilities held for sale, unless they have not been designated as hedging instruments.

Purchases or sales of derivatives are recognised at the transaction date.

Derivatives not designated as hedges are initially recognised at fair value and at the end of the reporting period are measured at fair value, with recognition of the gains/losses on measurement in profit or loss.

The Company applies hedge accounting for cash flows. Hedge accounting aims at reducing volatility in the Company's net result, arising from periodic changes in the measurement of transactions hedging individual types of market risk to which the Company is exposed. Hedging instruments may be derivatives as well as bank and other loans in foreign currencies.

The designated hedges mostly relate to the future sales transactions forecasted as assumed in the Sales Plan for a given year. These plans are prepared based on the production capacities for a given period. The Company estimates that the probability that transactions included in the production plan will occur is very high, as from the historical point of view sales were always realised at the levels assumed in Sales Plans. Future cash flows arising from interest on bonds issued in PLN also represent a hedged position.

The Company may use natural currency risk hedging through the use of hedge accounting for bank and other loans denominated in USD, and designates them as positions hedging foreign currency risk, which relates to future revenues of the Company from sales of copper, silver and other metals, denominated in USD.

Gains and losses arising from changes in the fair value of the cash flow hedging instrument are recognised in other comprehensive income, to the extent by which the change in fair value represents an effective hedge of the associated hedged item. The portion which is ineffective is recognised in profit or loss as other operating income or costs. Gains or losses arising from the cash flow hedging instrument are recognised in profit or loss as a reclassification adjustment, in the same period or periods in which the hedged item affects profit or loss.

The Company ceases to account for derivatives as hedging instruments when they expire, are sold, terminated or settled, or when the goal of risk management for a given relation has changed.

The Company may designate a new hedging relationship for a given derivative, change the intended use of the derivative, or designate it to hedge another type of risk. In such a case, for cash flow hedges, gains or losses which arose in the periods in which the hedge was effective are retained in accumulated other comprehensive income until the hedged item affects profit or loss.
If the hedge of a forecasted transaction ceases to function because it is probable that the forecasted transaction will not occur, then the net gain or loss recognised in other comprehensive income is immediately transferred to profit or loss as a reclassification adjustment.

If a hybrid contract has a basic instrument, which is not a financial asset, the derivative is separated from a basic instrument and is measured pursuant to rules for derivatives only, if (i) economic characteristic and risk of the embedded instrument are not strictly related to the character of the host contract and its risks, (ii) a separate instrument, whose characteristics reflect the traits of the embedded derivative, would fulfil the conditions of the derivatives, and (iii) combined instrument is not classified to financial assets measured at fair value, whose results of revaluation are recognised in other income or other operating costs in the reporting period. If an embedded derivative is separated, the host instrument is measured pursuant to appropriate accounting principles. The Company separates embedded derivatives in commodities transactions with settlement periods in the future, after the date of recognising a purchase invoice in the books up to the date of final settlement of the transaction.
If a hybrid contract has a basic instrument, which is a financial asset, the criteria for classification of financial assets are applied to the whole contract.

in PLN millions, unless otherwise stated

## Hedging derivatives – open items as at the end of the reporting period

| Type of derivative | As at 31 December 2019 | | | | | As at 31 December 2018 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Financial assets | | Financial liabilities | | Net total | Financial assets | | Financial liabilities | | Net total |
| | Non-current | Current | Non-current | Current | | Non-current | Current | Non-current | Current | |
| **Derivatives – Commodity contracts -Copper** | | | | | | | | | | |
| Options – collar | 14 | 99 | (8) | (30) | 75 | 11 | 104 | - | (1) | 114 |
| Options – seagull | 14 | 140 | - | (1) | 153 | 245 | 143 | (10) | (1) | 377 |
| **Derivatives – Commodity contracts - Silver** | | | | | | | | | | |
| Purchased put option | 1 | 5 | - | - | 6 | - | - | - | - | - |
| **Derivatives – Currency contracts** | | | | | | | | | | |
| Options USD – collar | 36 | 38 | (10) | (7) | 57 | 52 | 38 | (19) | (4) | 67 |
| Options USD – seagull | 58 | - | (26) | - | 32 | - | - | - | - | - |
| Purchased put option | - | 7 | - | - | 7 | - | - | - | - | - |
| **Derivatives – Currency-interest rate** | | | | | | | | | | |
| Cross Currency Interest Rate Swap (CIRS) | - | - | (74) | - | (74) | - | - | - | - | - |
| **TOTAL HEDGING INSTRUMENTS** | **123** | **289** | **(118)** | **(38)** | **256** | **308** | **285** | **(29)** | **(6)** | **558** |

## Trade derivatives – open items as at the end of the reporting period

| Type of derivative | As at 31 December 2019 | | | | | As at 31 December 2018 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Financial assets | | Financial liabilities | | Net total | Financial assets | | Financial liabilities | | Net total |
| | Non-current | Current | Non-current | Current | | Non-current | Current | Non-current | Current | |
| **Derivatives – Commodity contracts - Copper** | | | | | | | | | | |
| Options – seagull (sold put option) | - | - | (1) | (3) | (4) | - | - | (39) | (5) | (44) |
| QP adjustment swap transactions | - | - | - | (8) | (8) | - | 4 | - | - | 4 |
| **Derivatives – Commodity contracts - Gold** | | | | | | | | | | |
| QP adjustment swap transactions | - | 2 | - | (2) | - | - | 2 | - | (2) | - |
| **Derivatives – Currency contracts** | | | | | | | | | | |
| Sold put options USD | - | - | (12) | - | (12) | - | - | - | - | - |
| **Derivatives – Interest rate** | | | | | | | | | | |
| Options – purchased CAP | - | - | - | - | - | - | - | - | - | - |
| **Embedded derivatives** | | | | | | | | | | |
| Purchase contracts for metal-bearing materials | - | - | - | (9) | **(9)** | 11 | 9 | - | - | 20 |
| **TOTAL TRADE INSTRUMENTS** | **-** | **2** | **(13)** | **(22)** | **(33)** | **11** | **15** | **(39)** | **(7)** | **(20)** |

| Open hedging derivatives | Notional | Average weighted price /exchange rate/interest rate % | Maturity/ settlement period | | Period of profit/loss impact | |
|---|---|---|---|---|---|---|
| Type of derivative | copper [t]<br>silver [mn ounces]<br>currency [USD mn]<br>CIRS [PLN mn] | [USD/t]<br>[USD/oz t]<br>[USD/PLN]<br>[USD/PLN, LIBOR] | from | to | from | to |
| Copper – *seagulls* | 54 000 | 6 854-8 842 | Jan '20 | - Dec '20 | Feb '20 | - Jan '21 |
| Copper – *collars* | 135 000 | 6 053-7 107 | Jan '20 | - Dec '20 | Feb '20 | - Jan '21 |
| Silver – purchased put option | 3.60 | 17.00 | Jan '20 | - Dec '20 | Feb '20 | - Jan '21 |
| Currency – *seagulls* | 540 | 3.70-4.30 | Jan '21 | - Dec '21 | Jan '21 | - Dec '21 |
| Currency – *collars* | 1 260 | 3.66-4.34 | Jan '20 | - Dec '21 | Jan '20 | - Dec '21 |
| Currency – purchased put option | 120 | 3.80 | Jan '20 | - Jun '20 | Jan '20 | - Jun '20 |
| Currency – interest rate – CIRS | 400 | 3.78 and 3.23% | | Jun '24 | | Jun '24 |
| Currency - interest rate – CIRS | 1 600 | 3.81 and 3.94% | | Jun '29 | Jun '29 | - Jul '29 |

The impact of derivatives and hedging transactions on the items of the statement of profit or loss and on the items of the statement of comprehensive income is presented below:

| Statement of profit or loss | from 1 January 2019 to 31 December 2019 | from 1 January 2018 to 31 December 2018 |
|---|---|---|
| Revenues from contracts with customers | 245 | 125 |
| Interest on borrowings | 1 | - |
| Other operating and finance income/costs: | (144) | (125) |
| on realisation of derivatives | (151) | (140) |
| on measurement of derivatives | 7 | 15 |
| **Impact of derivatives and hedging instruments on profit or loss for the period** | **100** | **-** |
| **Statement of comprehensive income** | | |
| Impact of measurement of hedging transactions (effective portion) | (303) | 318 |
| Reclassification to revenues from contracts with customers due to realisation of a hedged item | (245) | (125) |
| Reclassification to other operating costs due to realisation of a hedged item (settlement of the hedging cost) | 159 | 156 |
| **Impact of hedging transactions** | **(389)** | **349** |
| **TOTAL COMPREHENSIVE INCOME** | **(289)** | **349** |

## Note 7.3 Other financial instruments measured at fair value

**Accounting policies**

The item "Other financial instruments measured at fair value" includes: shares (listed and unquoted) which were not acquired for trading purposes, for which the option of measurement at fair value through other comprehensive income was selected in order to limit the volatility of the result and loans granted measured at fair value through profit or loss, because they did not pass the SPPI test as in the financing structure of the target recipient of funds, debt is changed in the last stage into capital.

These assets are initially recognised at fair value increased by transaction costs, and at the end of the reporting period they are measured at fair value with recognition of gains/losses from measurement in other comprehensive income. The amounts recognised in other comprehensive income are not transferred later to profit or loss, while accumulated gains/losses on a given equity instrument are transferred within equity to retained earnings at the moment an equity instrument is ceased to be recognised. Dividends from such investments are recognised in profit or loss.

The fair value of unquoted shares is calculated using the adjusted net assets method. The application of this method is due to the specific nature of assets of companies, whose shares are subject to measurement. Observable Input data other than the ones from the active market were used in the measurement (e.g. transaction prices of real estate similar to the one subjected to measurement, market interest rates of State Treasury bonds and fixed-term deposits in financial institutions, and the risk-free discount rate published by the European Insurance and Occupational Pensions Authority).

The fair value of listed shares is calculated based on the closing price as at the end of the reporting period.

in PLN millions, unless otherwise stated

The translation of shares expressed in a foreign currency is performed according to the accounting policies described in Note 1.3.

The fair value of loans is set at the present value of future cash flows, including any change in market risk and credit risk factors during the loans' life.

| | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|
| Shares of listed companies (Warsaw Stock Exchange and TSX Venture Exchange) including: | 300 | 399 |
| TAURON POLSKA ENERGIA S.A. | 299 | 398 |
| ABACUS MINING & EXPLORATION | 1 | 1 |
| Unquoted shares | 103 | 97 |
| **Other financial instruments measured at fair value** | **403** | **496** |

The measurement of listed shares is classified to level 1 of the fair value hierarchy (i.e. measurement is based on the prices of these shares listed on an active market at the measurement date), while the measurement of unquoted shares is classified to level 2 (i.e. measurement based on non-observable data).

Due to investments in listed companies, the Company is exposed to price risk. Changes in the listed share prices of these companies resulting from the current macroeconomic situation may have a significant impact on the level of other comprehensive income and on the accrued amount recognised in equity.

The following table presents the sensitivity analysis of listed companies shares to price changes.

| | As at 31 December 2019 | Percentage change of share price 48% | -13% | As at 31 December 2018 | Percentage change of share price 50% | -24% |
|---|---|---|---|---|---|---|
| | Carrying amount | Other comprehensive income | Other comprehensive income | Carrying amount | Other comprehensive income | Other comprehensive income |
| **Listed shares** | **300** | 144 | (38) | **399** | 200 | (95) |

Sensitivity analysis for significant types of market risk to which the Company is exposed presents the estimated impact of potential changes in individual risk factors (at the end of reporting period) on profit or loss and other comprehensive income.

Potential changes in share prices at the end of the reporting period were determined at the level of maximum deviations in a given year.

in PLN millions, unless otherwise stated

### Note 7.4 Other non-current financial instruments measured at amortised cost

| Accounting policies | Important estimates and assumptions |
|---|---|
| The item other non-current financial instruments measured at amortised cost includes financial assets designated to cover the costs of decommissioning mines and restoring tailings storage facilities (accounting policy with respect to the obligation to decommission mines and storage facilities is presented in Note 9.4) and other financial assets not classified to other items.<br><br>Assets included, in accordance with IFRS 9, in the category "measured at amortised cost", are initially recognised at fair value adjusted by transaction costs, which can be directly attributed to the purchase of these assets and measured at amortised cost at the end of the reporting period using the effective interest rate method, reflecting impairment. | Sensitivity analysis of the risk of changes in interest rates of cash accumulated on bank accounts of the Mine Closure Fund and Tailings Storage Facility Restoration Fund is presented in Note 7.5.1.4. |

| | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|
| Cash held in the Mine Closure Fund and Tailings Storage Facility Restoration Fund on separate bank accounts | 337 | 312 |
| Other financial receivables | 120 | 64 |
| **Total** | **457** | **376** |

Details regarding revaluation of the provision for the decommissioning costs of mines and other technological facilities are described in Note 9.4.

### Note 7.5 Financial risk management

In the course of its business activities the Company is exposed to the following main financial risks:

- market risks:
  - commodity risk,
  - risk of changes in foreign exchange rates,
  - risk of changes in interest rates,
  - price risk related to investments in shares of listed companies (Note 7.3),
- credit risk, and
- liquidity risk (the process of financial liquidity management is described in Note 8).

The Company's Management Board manages identified financial risk factors in a conscious and responsible manner, using the Market Risk Management Policy, the Financial Liquidity Management Policy and the Credit Risk Management Policy adopted by the Company.  Understanding the threats arising from the Company's exposure to risk and maintaining an appropriate organisational structure and procedures enable an effective achievement of tasks. The Company identifies and measures financial risk on an ongoing basis, and also takes actions aimed at minimising their impact on the financial position.

The process of financial risk management in the Company is supported by the work of the Market Risk Committee, the Financial Liquidity Committee and the Credit Risk Committee.

### Note 7.5.1 Market risk

The market risk to which the Company is exposed to is understood as the possible occurrence of negative impact on the Company's results arising from changes in the market prices of commodities, exchange rates and interest rates, as well as the share prices of listed companies.

### Note 7.5.1.1 Principles and techniques of market risk management

The Company actively manages the market risk to which it is exposed.
In accordance with the adopted policy, the goals of the market risk management process are as follows:

- limit volatility in the financial result;
- increase the probability of meeting budget targets;
- decrease the probability of losing financial liquidity;
- maintain the financial health of the Company; and
- support the process of strategic decision making related to investing, including financing sources.

The objectives of market risk management should be considered as a whole, and their realisation is determined mainly by the Company's internal situation and market conditions. Actions and decisions concerning market risk management in the Company should be analysed in the context of the KGHM Polska Miedź S.A. Group's global exposure to market risk.

The primary technique used in market risk management is the utilisation of hedging strategies involving derivatives. Natural hedging is also used.

Taking into account the potential scope of their impact on the Company's results, market risk factors were divided into the following groups:

| | Group | Market risk | Approach to risk management |
|---|---|---|---|
| Note 7.2 | Group I – factors having the greatest impact on the Company's total exposure to market risk | Copper price | A strategic approach is applied to this group, aimed at systematically building up a hedging position comprising production and revenues from sales for subsequent periods while taking into account the long-term cyclical nature of various markets. A hedging position may be restructured before it expires. |
| Note 7.2 | | Silver price | |
| Note 7.2 | | USD/PLN exchange rate | |
| Note 7.2 | Group II – other exposures to market risk | Prices of other metals and merchandise | This group is comprised of less significant risks, therefore it is tactically managed - on an ad-hoc basis, often taking advantage of favourable market conditions. |
| Note 7.2 | | Other exchange rates | |
| Note 7.2 | | Interest rates | |

The Company manages market risk by applying various approaches to particular, identified exposure groups.
The Company considers the following factors when selecting hedging strategies or restructuring hedging positions: current and forecasted market conditions, the internal situation of the Company, the effective level and cost of hedging, and the impact of the minerals extraction tax.

The Company applies an integrated approach to managing the market risk to which it is exposed. This means a comprehensive approach to market risk, and not to each element individually. An example is the hedging transactions on the currency market, which are closely related to contracts entered into on the metals market. The hedging of metals sales prices determines the probability of achieving specified revenues from sales in USD, which represent a hedged position for the strategy on the currency market.

The Company executes derivative transactions only if it has the ability to assess their value internally, using standard pricing models appropriate for a particular type of derivative, and which can be traded without significant loss of value with a counterparty other than the one with whom the transaction was initially entered into. In evaluating the market value of given instruments, the Company uses information obtained from leading information services, banks, and brokers.

The Company's internal policy, which regulates market risk management principles, permits the use of the following types of instruments:

- swaps;
- forwards and futures;
- options; and
- structures combining the above instruments.

The instruments applied may be, therefore, either of standardised parameters (publicly traded instruments) or non-standardised parameters (over-the-counter instruments). Primarily applied are cash flow hedging instruments meeting the requirements for effectiveness as understood by hedge accounting. The effectiveness of the financial hedging instruments applied by the Company in the reporting period is continually monitored and assessed (details in Note 7.2 Derivatives – accounting policies).

in PLN millions, unless otherwise stated

The economic relationship between a hedging instrument and a hedged position is based on the sensitivity of the value of the position to the same market factors (metals prices, exchange rates or interest rates) and on matching appropriate key parameters of the hedging instrument and the hedged position (volume/notional amount, maturity date).

The hedge ratio of the established hedging relationship is set at the amount ensuring the effectiveness of the relationship and is consistent with the actual volume of the hedged position and the hedging instrument. Sources of potential ineffectiveness of the relationship arise from a mismatch of the parameters of the hedging instrument and the hedged position (e.g. the notional amount, maturity, base instrument, impact of credit risk). When structuring a hedging transaction, the Company aims to ensure a maximal match between these parameters to minimise the sources of ineffectiveness.

The Company quantifies its market risk exposure using a consistent and comprehensive measure. Market risk management is supported by simulations (such as scenario analysis, stress-tests, backtests) and calculated risk measures. The risk measures being used are mainly based on mathematical and statistical modelling, which uses historical and current market data concerning risk factors and takes into consideration the current exposure of the Company to market risk.

One of the measures used as an auxiliary tool in making decisions in the market risk management process is EaR - Earnings at Risk. This measure indicates the lowest possible level of profit for the period for a selected level of confidence (for example, with 95% confidence the profit for a given year will be not lower than…). The EaR methodology enables the calculation of profit for the period incorporating the impact of changes in market prices of copper, silver and foreign exchange rates in the context of budget plans.

Due to the risk of production cutbacks (for example because of force majeure) or failure to achieve planned foreign currency revenues, as well as purchases of metals contained in purchased materials, the Company has set limits with respect to commitment in derivatives:

- up to 85% of planned, monthly sales volume of copper, silver and gold from own concentrates, while: for copper and silver - up to 50% with respect to instruments which are obligations of the Company (for financing the hedging strategy), and up to 85% with respect to instruments representing the rights of the Company.
- up to 85% of planned, monthly revenues from the sale of products from own concentrates in USD or of the monthly, contracted net currency cash flows in case of other currencies. For purposes of setting the limit, expenses for servicing the debt denominated in USD decrease the nominal amount of exposure to be hedged.

These limits are in respect both of hedging transactions as well as of the instruments financing these transactions.

The maximum time horizon within which the Company decides to limit market risk is set in accordance with the technical and economic planning process and amounts to 5 years, whereas in terms of interest rate risk, the time horizon reaches up to the maturity date of the long-term financial liabilities of the Company.

With respect to the risk of changes in interest rates, the Company has set a limit of commitment in derivatives of up to 100% of the debt's nominal value in every interest period, as stipulated in the signed agreements.

### Note 7.5.1.2. Commodity risk

The Company is exposed to the risk of changes in the prices of the metals it sells: copper, silver, gold and lead. The price formulas used in physical delivery contracts are mainly based on average monthly quotations from the London Metal Exchange for copper and lead and from the London Bullion Market Association for silver and gold. The Company's commercial policy is to set the price base for physical delivery contracts as the average price of the appropriate future month.

The permanent and direct link between sales proceeds and metals prices, without similar relationships on the expenditures side, results in a strategic exposure. In turn, operating exposure is a result of possible mismatches in the pricing of physical contracts with respect to the Company's benchmark profile, in particular in terms of the reference prices and the quotation periods.

On the metals market, the Company has a so-called long position, which means it has higher sales than purchases. The analysis of the Company's exposure to market risk should be performed by deducting from the volume of metals sold the amount of metal in purchased materials.

The Company's strategic exposure to the risk of changes in the price of copper and silver in years 2018-2019 is presented in the table below:

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **Net** | **Sales** | **Purchases** | **Net** | **Sales** | **Purchases** |
| **Copper [t]** | **399 919** | 556 966 | 157 047 | **390 691** | 514 403 | 123 712 |
| **Silver [t]** | **1 362** | 1 393 | 31 | **1 198** | 1 227 | 29 |

The notional amount of copper price hedging strategies settled in 2019 represented approx. 22% (in 2018: 19%) of the total sales of this metal realised by the Company (it represented approx. 30% of net sales[1] in 2019 and 25% in 2018). In 2019 and 2018 revenues from silver sales were not hedged by derivatives.

With respect to strategic management of market risk in 2019, copper price hedging transactions were implemented with a total notional amount of 153 thousand tonnes and a maturity period from July 2019 to December 2020 (of which: 135 thousand tonnes were in respect of hedging copper price for 2020) and also silver price hedging transactions with a total notional amount of 3.6 million ounces and a maturity period from January 2020 to December 2020. In addition, as part of the management of a net trading position in 2019, QP adjustment swap transactions were entered into on the copper and gold markets with maturities of up to June 2020. As a result, as at 31 December 2019 the Company held an open derivatives position for 199.5 thousand tonnes of copper (of which: 189 thousand tonnes came from strategic management of market risk, while 10.5 thousand tonnes came from the management of a net trading position) and 3.6 million troy ounces of silver.

The condensed tables of open derivatives transactions held by the Company on the copper and silver markets as at 31 December 2019, entered into as part of the strategic management of market risk, are presented below (the hedged notional in the presented periods is allocated evenly on a monthly basis).

**Hedging against copper price risk**

| | Instrument | Notional | Option strike price: Sold put option | Option strike price: Purchased put option | Option strike price: Sold call option | Average weighted premium | Effective hedge price | Hedge limited to | Participation limited to |
|---|---|---|---|---|---|---|---|---|---|
| | | [tonnes] | [USD/t] | [USD/t] | [USD/t] | [USD/t] | [USD/t] | [USD/t] | [USD/t] |
| 1st half | Seagull | 12 000 | 5 000 | 6 900 | 9 000 | -250 | 6 650 | 5 000 | 9 000 |
| 1st half | Seagull | 2 460 | 5 000 | 6 900 | 8 800 | -250 | 6 650 | 5 000 | 8 800 |
| 1st half | Seagull | 12 540 | 5 000 | 6 800 | 8 700 | -220 | 6 580 | 5 000 | 8 700 |
| 1st half | Collar | 18 000 | | 6 400 | 7 800 | -248 | 6 152 | | 7 800 |
| 1st half | Collar | 45 000 | | 6 000 | 7 000 | -243 | 5 757 | | 7 000 |
| 2nd half | Seagull | 12 000 | 5 000 | 6 900 | 9 000 | -250 | 6 650 | 5 000 | 9 000 |
| 2nd half | Seagull | 2 460 | 5 000 | 6 900 | 8 800 | -250 | 6 650 | 5 000 | 8 800 |
| 2nd half | Seagull | 12 540 | 5 000 | 6 800 | 8 700 | -220 | 6 580 | 5 000 | 8 700 |
| 2nd half | Collar | 72 000 | | 6 000 | 7 000 | -232 | 5 768 | | 7 000 |
| | **TOTAL 2020** | **189 000** | | | | | | | |

**Hedging against silver price risk**

| Instrument | Notional | Option strike price: Sold put option | Option strike price: Purchased put option | Option strike price: Sold call option | Average weighted premium | Effective hedge price | Hedge limited to | Participation limited to |
|---|---|---|---|---|---|---|---|---|
| | [mn ounces] | [USD/oz t] | [USD/oz t] | [USD/oz t] | [USD/oz t] | [USD/oz t] | [USD/oz t] | [USD/oz t] |
| Purchased put option | 3.60 | - | 17.00 | - | -0.67 | 16.33 | - | - |
| **TOTAL 2020** | **3.60** | | | | | | | |

An analysis of the Company's sensitivity to the risk of changes in copper prices is presented in the tables below.

| Financial assets and liabilities | Value at risk [PLN million] | Carrying amount 31.12.2019 [PLN million] | Copper price change [USD/t] 7 425 (+21%): Profit or loss | 7 425 (+21%): Other comprehensive income | 4 785 (-22%): Profit or loss | 4 785 (-22%): Other comprehensive income |
|---|---|---|---|---|---|---|
| Derivatives - copper | **216** | **216** | 4 | (398) | (89) | 932 |
| Embedded derivatives | **(9)** | **(9)** | (28) | - | 19 | - |
| | | **Impact on profit or loss** | (24) | | (70) | |
| | | **Impact on other comprehensive income** | | (398) | | 932 |

[1] Copper sales less copper in purchased metal-bearing materials.

| Financial assets and liabilities | Value at risk [PLN million] | Carrying amount 31.12.2018 [PLN million] | 7 352 (+24%) | | 4 573 (-22%) | |
|---|---|---|---|---|---|---|
| | | | Profit or loss | Other comprehensive income | Profit or loss | Other comprehensive income |
| Derivatives - copper | 451 | 451 | 35 | (456) | (148) | 668 |

An analysis of the Company's sensitivity to the risk of changes in silver prices as at 31 December 2019 is presented in the table below:

| Financial assets and liabilities | Value at risk [PLN million] | Carrying amount 31.12.2019 [PLN million] | Silver price change [USD/oz t] 23.00 (+27%) | | 13.39 (-26%) | |
|---|---|---|---|---|---|---|
| | | | Profit or loss | Other comprehensive income | Profit or loss | Other comprehensive income |
| Derivatives – silver | 6 | 6 | - | (6) | - | 42 |

As at 31 December 2018, the Company did not hold any open positions in derivatives on the silver market.
In order to determine the potential changes in metals prices for purposes of sensitivity analysis of commodity risk factors (copper, silver), the mean reverting Schwarz model (the geometrical Ornstein-Uhlenbeck process) was used.

### Note 7.5.1.3 Risk of changes in foreign exchange rates

Regarding the risk of changes in foreign exchange rates, the following types of exposures were identified:
- transaction exposure related to the volatility of cash flows in the base currency; and
- exposure related to the volatility of selected items of the statement of financial position in the base (functional) currency.

The transaction exposure to currency risk derives from cash flow-generating contracts, whose values expressed in the base (functional) currency depend on future levels of exchange rates of the foreign currencies with respect to the base currency (for KGHM Polska Miedź S.A. it is the Polish zloty). Cash flows exposed to currency risk may possess the following characteristics:
- denomination in the foreign currency – cash flows are settled in foreign currencies other than the functional currency; and
- indexation in the foreign currency – cash flows may be settled in the base currency, but the price (i.e. of a metal) is set in a different foreign currency.

The key source of transaction exposure to currency risk in the Company's business operations are the proceeds from sales of products (with respect to metals prices, processing and producer margins).

The Company's exposure to currency risk derives also from items in the statement of financial position denominated in foreign currencies, which under the existing accounting regulations must be translated, upon settlement or periodic valuation, by applying the current exchange rate of the foreign currencies versus the base (functional) currency. Changes in the carrying amounts of such items between valuation dates result in the volatility of profit or loss for the period or of other comprehensive income.

Items in the statement of financial position which are exposed to currency risk include in particular:
- trade receivables and trade payables related to purchases and sales denominated in foreign currencies;
- financial receivables due to loans granted in foreign currencies;
- financial liabilities due to borrowings in foreign currencies;
- cash and cash equivalents in foreign currencies; and
- derivatives on metals market.

As for the currency market, the notional amount of settled transactions hedging revenues from metals sales amounted to approx. 21% (in 2018: 32%) of the total revenues from sales of copper and silver realised by the Company in 2019.

In 2019 the Company entered into transactions hedging against a change in the USD/PLN exchange rate with a total notional amount of USD 1 560 million and maturity falling from July 2019 to December 2021 (of which: USD 1 380 million related to the hedging of the exchange rate for the years 2020-2021). Put options and collar and seagull options structures (European options) were purchased. Furthermore, in 2019 the Company entered into *Cross Currency Interest Rate Swap* (CIRS) transactions for the notional amount of PLN 2 billion, hedging against the market risk connected with the issue of bonds in PLN with a variable interest rate[2].

The condensed table of open transactions in derivatives on the currency market as at 31 December 2019 is presented below (the hedged notional in the presented periods is allocated evenly on a monthly basis).

## Hedging against USD/PLN currency risk

| | Instrument | Notional | Option strike price: Sold put option | Option strike price: Purchased put option | Option strike price: Sold call option | Average weighted premium | Effective hedge price | Hedge limited to | Participation limited to |
|---|---|---|---|---|---|---|---|---|---|
| | | [USD million] | | [USD/PLN] | | [PLN for USD 1] | [USD/PLN] | [USD/PLN] | [USD/PLN] |
| 1st half | Collar | 360 | | 3.50 | 4.25 | -0.06 | 3.44 | | 4.25 |
| 1st half | Collar | 180 | | 3.75 | 4.40 | -0.08 | 3.67 | | 4.40 |
| 1st half | Purchased put option | 120 | | 3.80 | | -0.05 | 3.75 | | |
| 2nd half | Collar | 180 | | 3.50 | 4.25 | -0.04 | 3.46 | | 4.25 |
| 2nd half | Collar | 180 | | 3.75 | 4.40 | -0.08 | 3.67 | | 4.40 |
| 2nd half | Collar | 120 | | 3.80 | 4.40 | -0.04 | 3.76 | | 4.40 |
| | **TOTAL 2020** | **1 140** | | | | | | | |
| 1st half | Seagull | 270 | 3.20 | 3.70 | 4.30 | -0.07 | 3.63 | 3.20 | 4.30 |
| 1st half | Collar | 120 | | 3.80 | 4.40 | -0.05 | 3.75 | | 4.40 |
| 2nd half | Seagull | 270 | 3.20 | 3.70 | 4.30 | -0.07 | 3.63 | 3.20 | 4.30 |
| 2nd half | Collar | 120 | | 3.80 | 4.40 | -0.05 | 3.75 | | 4.40 |
| | **TOTAL 2021** | **780** | | | | | | | |

## Hedging against currency-interest rate risk connected with the issue of bonds with a variable interest rate in PLN

| | Instrument | Notional | Average exchange rate |
|---|---|---|---|
| | | [PLN mn] | [USD/PLN] |
| VI 2024 | CIRS | 400 | 3.78 |
| VI 2029 | CIRS | 1 600 | 3.81 |
| | **TOTAL** | **2 000** | |

As for managing currency risk, the Company applies natural hedging by borrowing in the currency in which it has revenues. As at 31 December 2019, following their translation to PLN, the bank loans and the investment loans which were drawn in USD amounted to PLN 4 980 million (as at 31 December 2018: PLN 7 655 million).

[2] The debt due to bond issue in PLN generates a currency risk because most of the sales revenues of the Company are USD-denominated.

The currency structure of financial instruments exposed to currency risk (changes in the USD/PLN and EUR/PLN exchange rates) is presented in the table below. An analysis for the remaining currencies is not presented due to its immateriality.

| **Financial instruments** | **Value at risk as at 31 December 2019** | | | **Value at risk as at 31 December 2018** | | |
|---|---|---|---|---|---|---|
| | **total PLN million** | USD million | EUR million | **total PLN million** | USD million | EUR million |
| Trade receivables | **127** | 18 | 13 | **209** | 31 | 20 |
| Cash and cash equivalents | **141** | 20 | 16 | **588** | 123 | 14 |
| Loans granted | **7 192** | 1 894 | - | **6 241** | 1 660 | - |
| Cash pooling receivables | **335** | 88 | - | **247** | 62 | 3 |
| Other financial assets | **226** | 59 | - | **188** | 49 | - |
| Derivatives* | **223** | 56 | - | **538** | 126 | - |
| Trade and similar payables | **(625)** | (74) | (80) | **(406)** | (70) | (33) |
| Borrowings | **(4 991)** | (1 314) | - | **(7 793)** | (2 036) | (32) |
| Other financial liabilities | **(41)** | (2) | (8) | **(28)** | (4) | (3) |

**Transactions on the commodities and interest rate markets which are denominated in USD and translated to PLN at the exchange rate as at the end of the reporting period are presented in the item "derivatives", in the column "USD million", while the column "total PLN million" also includes the fair value of derivatives exposed to the currency risk which are denominated solely in PLN.*

An analysis of the Company's sensitivity to the currency risk as at 31 December 2019 is presented in the table below.

| Financial assets and liabilities | Value at risk [PLN million] | Carrying amount 31.12.2019 [PLN million] | Change in USD/PLN exchange rate 4.28 (+13%) profit or loss | Change in USD/PLN exchange rate 4.28 (+13%) other comprehensive income | Change in USD/PLN exchange rate 3.33 (-12%) profit or loss | Change in USD/PLN exchange rate 3.33 (-12%) other comprehensive income | Change in EUR/PLN exchange rate 4.64 (+9%) profit or loss | Change in EUR/PLN exchange rate 3.98 (-6%) profit or loss |
|---|---|---|---|---|---|---|---|---|
| Trade receivables | 127 | 243 | 7 | - | (7) | - | 4 | (3) |
| Cash and cash equivalents | 141 | 516 | 8 | - | (7) | - | 5 | (4) |
| Loans granted | 7 192 | 7 227 | 745 | - | (718) | - | - | - |
| Cash pooling receivables | 335 | 335 | 35 | - | (33) | - | - | - |
| Other financial assets | 226 | 1 071 | 23 | - | (23) | - | - | - |
| Derivatives | 223 | 223 | 11 | (591) | (51) | 816 | - | - |
| Trade and similar payables | (625) | (2 625) | (29) | - | 28 | - | (25) | 18 |
| Borrowings | (4 991) | (7 490) | (517) | - | 498 | - | - | - |
| Other financial liabilities | (41) | (341) | (1) | - | 1 | - | (2) | 2 |
| | | **Impact on profit or loss** | **282** | | **(312)** | | **(18)** | **13** |
| | | **Impact on other comprehensive income** | | **(591)** | | **816** | | |

An analysis of the Company's sensitivity to the currency risk as at 31 December 2018 is presented in the table below.

| Financial assets and liabilities | Value at risk [PLN million] | Carrying amount 31.12.2018 [PLN million] | Change in USD/PLN exchange rate 4.27 (+13%) profit or loss | Change in USD/PLN exchange rate 4.27 (+13%) other comprehensive income | Change in USD/PLN exchange rate 3.24 (-14%) profit or loss | Change in USD/PLN exchange rate 3.24 (-14%) other comprehensive income | Change in EUR/PLN exchange rate 4.68 (+9%) profit or loss | Change in EUR/PLN exchange rate 3.99 (-7%) profit or loss |
|---|---|---|---|---|---|---|---|---|
| Trade receivables | 209 | 310 | 13 | - | (13) | - | 6 | (5) |
| Cash and cash equivalents | 588 | 627 | 50 | - | (52) | - | 4 | (4) |
| Loans granted | 6 241 | 6 279 | 680 | - | (705) | - | - | - |
| Cash pooling receivables | 247 | 247 | 25 | - | (26) | - | 1 | (1) |
| Other financial assets | 188 | 601 | 20 | - | (21) | - | - | - |
| Derivatives | 538 | 538 | (3) | (156) | (10) | 327 | - | - |
| Trade payables | (406) | (2 082) | (29) | - | 30 | - | (10) | 8 |
| Borrowings | (7 793) | (7 793) | (834) | - | 864 | - | (10) | 8 |
| Other financial liabilities | (28) | (170) | (2) | - | 2 | - | (1) | 1 |
| | | **Impact on profit or loss** | **(80)** | | **69** | | **(10)** | **7** |
| | | **Impact on other comprehensive income** | | **(156)** | | **327** | | |

In order to determine the potential changes in the USD/PLN, and EUR/PLN exchange rates for sensitivity analysis purposes, the Black-Scholes model (the geometrical Brownian motion) was used.

### Note 7.5.1.4 Interest rate risk

In 2019 the Company was exposed to the risk of changes in interest rates due to loans granted, investing free cash, participating in a cash-pooling service, reverse factoring program and borrowing.

Positions with variable interest rates expose the Company to the risk of changes in cash flow from a given position as a result of changes in interest rates (i.e. it has an impact on the interest costs or income recognised in the profit or loss). Positions with fixed interest rates expose the Company to the risk of fair value changes of a given position, excluding items measured at amortised cost, for which the change in fair value does not affect their measurement and profit or loss.

The main items which are exposed to interest rate risk are presented below:

| | | As at 31 December 2019 | | | As at 31 December 2018 | | |
|---|---|---|---|---|---|---|---|
| | | **Cash flow risk** | **Fair value risk** | **Total** | **Cash flow risk** | **Fair value risk** | **Total** |
| | Cash and cash equivalents | 870 | - | **870*** | 955 | - | **955*** |
| Note 6.2 | Loans granted | 18 | 2 271 | **2 289** | 20 | 1 724 | **1 744** |
| Note 7.1 | Borrowings | (3 725) | (3 765) | **(7 490)** | (5 011)** | (2 782) | **(7 793)** |
| | Cash pooling receivables | 335 | - | **335** | 247 | - | **247** |
| | Cash pooling liabilities | 130 | - | **130** | 80 | - | **80** |
| | Similar payables | (596)*** | - | **(596)** | - | - | **-** |

* *Presented amounts include cash accumulated in special purpose funds: Mine Closure Fund, Tailings Storage Facility Restoration Fund and Social Fund*

** *Presented amounts include the preparation fee paid which decreases financial liabilities due to bank loans*

*** *In order to improve financial liquidity of the Company and provide suppliers with an additional source of financing, the Company implemented reverse factoring in the period ended on 31 December 2019. Due to the above, for a part of the portfolio of trade payables, extension of payment dates were agreed upon in exchange for additional consideration in the form of interest. Interest is calculated with a variable rate, based on a fixed margin increased by a specified reference rate determined for individual currencies. Details on reverse factoring may be found in note 8.4.1, note 10.3 and note 10.4.*

In 2019 the Company entered into *Cross Currency Interest Rate Swap* (CIRS) transactions for the notional amount of PLN 2 billion, hedging against the market risk connected with the issue of bonds in PLN with a variable interest rate.

| | **Instrument** | **Notional** | **Average interest rate** |
|---|---|---|---|
| | | [PLN million] | [LIBOR] |
| VI 2024 | CIRS | 400 | 3.23% |
| VI 2029 | CIRS | 1 600 | 3.94% |
| | **TOTAL** | **2 000** | |

Moreover, as at 31 December 2019, the Company held open derivatives CAP transactions on the interest rate market for 2020 (the maturity dates of options fall on the end of the subsequent quarters), presented in the table below.

| **Instrument** | **Notional** | **Option strike price** | **Average weighted premium** | | **Effective hedge price** |
|---|---|---|---|---|---|
| | [USD million] | [LIBOR 3M] | [USD per USD 1 million hedged] | [%] | [LIBOR 3M] |
| Purchase of interest rate cap options **QUARTERLY IN 2020** | 1 000 | 2.50% | 381 | 0.15% | 2.65% |

in PLN millions, unless otherwise stated

The table below presents an analysis of the Company's sensitivity to the interest rate risk.

| | 2019 | | | | 2018 | |
|---|---|---|---|---|---|---|
| | +1.00% | | -0.5% | | +1.25% | -0.5% |
| | profit or loss | other comprehensive income | profit or loss | other comprehensive income | profit or loss | profit or loss |
| Cash | 9 | - | (4) | - | 12 | (5) |
| Borrowings | (37) | - | 19 | - | (63) | 25 |
| Derivatives – interest rate | 17 | 131 | - | (72) | 95 | (19) |
| Cash pooling | 2 | - | (1) | - | 2 | (1) |
| Loans granted measured at fair value | (88) | - | 86 | - | (129) | 54 |
| **Impact on profit/loss** | **(97)** | | **100** | | **(83)** | **54** |
| **Impact on other comprehensive income** | | **131** | | **(72)** | | |

Due to the immateriality of the amount of interest on reverse factoring for 2019, no sensitivity analysis of this position to changes in interest rates was presented.

An expert method including recommendations of the ARMA model was used to determine the volatility of interest rates.

in PLN millions, unless otherwise stated

### Note 7.5.1.5 Impact of hedge accounting on the financial statements

The following table contains information on changes in the fair value of derivatives and of loans received, designated as hedging instruments under hedge accounting, as well as corresponding changes in the fair value of hedged positions during the reporting period, being the basis for recognising the effective and ineffective portions of changes in the fair value of hedging instruments in the years 2018-2019.

The hedge's inefficiency recognised in the statements of profit or loss in the reporting periods 2018-2019 was immaterial.

| | As at 31 December 2019 | | from 1 January 2019 to 31 December 2019 | from 1 January 2019 to 31 December 2019 | As at 31 December 2018 | | from 1 January 2018 to 31 December 2018 | from 1 January 2018 to 31 December 2018 |
|---|---|---|---|---|---|---|---|---|
| | Balance of other comprehensive income due to cash flow hedging for relations: | | | | Balance of other comprehensive income due to cash flow hedging for relations | | | |
| *relation type*<br>*risk type*<br>*instrument type – hedged item* | remaining in hedge accounting | for which hedge accounting was ceased | Change in the value of hedged item | Change in the value of hedging instrument | remaining in hedge accounting | for which hedge accounting was ceased | Change in the value of hedged item | Change in the value of hedging instrument |
| **Cash flow hedging** | | | | | | | | |
| **Commodity risk (copper)** | | | | | | | | |
| Options – Sales revenue | 40 | - | (124) | 115 | 322 | - | (411) | 411 |
| **Commodity risk (silver)** | | | | | | | | |
| Options – Sales revenue | (4) | - | (4) | 4 | - | - | - | - |
| **Currency risk (USD)** | | | | | | | | |
| Options – Sales revenue | (33) | - | (39) | 39 | 13 | - | 53 | (53) |
| Loans – Sales revenue | - | (113) | - | - | - | (129) | - | - |
| **Currency-interest rate risk** | | | | | | | | |
| Options – Sales revenue | (39) | - | (44) | 39 | - | - | - | - |
| Options – Finance income/costs | (34) | - | (43) | 34 | - | - | - | - |
| **Total** | **(70)** | **(113)** | **(254)** | **231** | **335** | **(129)** | **(358)** | **358** |

in PLN millions, unless otherwise stated

The table below presents information on the impact of hedge accounting on profit or loss and other comprehensive income

| *relation type* / *risk type* / *instrument type* | from 1 January 2019 to 31 December 2019 | | from 1 January 2018 to 31 December 2018 | | |
|---|---|---|---|---|---|
| | Profit or (loss) due to hedging recognised in other comprehensive income | Amount reclassified from other comprehensive income to profit or loss as a reclassification adjustment, due to realisation of a hedged item in the period | Profit or (loss) due to hedging recognised in other comprehensive income | Amount reclassified from other comprehensive income to profit or loss as a reclassification adjustment, due to realisation of a hedged item in the period | Item of the statement of profit or loss which includes a reclassification adjustment |
| **Cash flow hedging** | | | | | |
| **Commodity risk (copper)** | | | | | |
| Options | (140) | 141 | 488 | (78) | - revenues from contracts with customers<br>- other operating income and (costs) |
| **Commodity risk (silver)** | | | | | |
| Options | (4) | - | - | - | - revenues from contracts with customers<br>- other operating income and (costs) |
| **Currency risk (USD)** | | | | | |
| Options | (80) | (34) | (170) | 63 | - revenues from contracts with customers<br>- other operating income and (costs) |
| Loans | - | (16) | - | (16) | - revenues from contracts with customers |
| **Currency-interest rate risk** | | | | | |
| CIRS | (79) | (5) | - | - | - revenues from contracts with customers<br>- other finance income and (costs) |
| **Total** | **(303)** | **86** | **318** | **(31)** | |

in PLN millions, unless otherwise stated

The following table contains information on changes in other comprehensive income in the period in connection with the application of hedge accounting in 2019.

| | Other comprehensive income due to cash flow hedging | | |
|---|---|---|---|
| | **Effective value**<br>Effective portions of changes in the fair value of hedging instruments due to hedged risk - intrinsic value of option | **Cost of hedging**<br>time value of option | **Total** |
| **Other comprehensive income – transactions hedging against commodity and currency risk – as at 1 January 2019** | **278** | **(72)** | **206** |
| Impact of measurement of hedging transactions (effective part) | (65) | (238) | (303) |
| Reclassification to profit or loss due to realisation of hedged item | (245) | 159 | (86) |
| **Other comprehensive income – transactions hedging against commodity and currency risk – as at 31 December 2019** | **(32)** | **(151)** | **(183)** |

The following table contains information on changes in other comprehensive income in the period in connection with the application of hedge accounting in 2018.

| | Other comprehensive income due to cash flow hedging | | |
|---|---|---|---|
| | **Effective value**<br>Effective portions of changes in the fair value of hedging instruments due to hedged risk - intrinsic value of option | **Cost of hedging**<br>time value of option | **Total** |
| **Other comprehensive income – transactions hedging against commodity and currency risk – as at 1 January 2018** | **81** | **(224)** | **(143)** |
| Impact of measurement of hedging transactions (effective part) | 322 | (4) | 318 |
| Reclassification to profit or loss due to realisation of hedged item | (125) | 156 | 31 |
| **Other comprehensive income – transactions hedging against commodity and currency risk – as at 31 December 2018** | **278** | **(72)** | **206** |

### Note 7.5.2 Credit risk

Credit risk is defined as the risk that the Company's counterparties will not be able to meet their contractual liabilities and involves three main areas:

- the creditworthiness of the customers with whom physical sale transactions are undertaken;
- the creditworthiness of the financial institutions (banks/brokers) with whom, or through whom, hedging transactions are undertaken, as well as those in which free cash and cash equivalents are deposited; and
- the financial standing of subsidiaries - borrowers.

In particular, the Company is exposed to credit risk due to:

- cash and cash equivalents and deposits;
- derivatives;
- trade receivables;
- loans granted (Note 6.2);
- guarantees granted (Note 8.6); and
- other financial assets.

in PLN millions, unless otherwise stated

**Accounting policies**

The Company recognises impairment loss on expected credit losses on financial assets measured at amortised cost. Expected credit losses are credit losses weighed by the default probability. The Company applies the following models for designating impairment losses:
- the simplified model– for trade receivables,
- the general (basic) model – for other financial assets.

Under the general model the Company monitors changes in the level of credit risk related to a given financial asset and classifies financial assets to one of three stages of determining impairment losses – based on observations of changes in the level of credit risk compared to an instrument's initial recognition. In particular, the following are monitored: the credit rating and the financial condition of the customer and the payment delay period. Depending on which stage it is classified to, an impairment loss is estimated for a 12-month period (stage 1) or in the horizon of lifetime (stage 2 and stage 3). The absolute indicator of default is an overdue period of more than 90 days.

Under the simplified model the Company does not monitor changes in the level of credit risk during the instrument's life and estimates the expected credit loss over the time horizon of maturity of the instrument based on historical data respecting the repayments of receivables.

### Note 7.5.2.1 Credit risk related to cash, cash equivalents and bank deposits

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

As at 31 December 2019, the total amount of free and restricted cash and cash equivalents of PLN 516 million was held in bank accounts and in short-term deposits. The detailed structure of cash and cash equivalents is presented in note 8.5.

All entities with which deposit transactions are entered into by the Company operate in the financial sector. These are solely banks registered in Poland or operating in Poland as branches of foreign banks, which belong to European and American financial institutions with the highest, medium-high and medium ratings, an appropriate level of equity and a strong, stable market position. Credit risk in this regard is continuously monitored through the on-going review of the financial standing and by maintaining an appropriately low level of concentration of resources in individual financial institutions.

The following table presents the level of concentration of cash and deposits, with the assessed creditworthiness of the financial institutions*:

| Rating level | | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|---|
| Medium-high | from A+ to A- according to S&P and Fitch, and from A1 to A3 according to Moody's | 75% | 92% |
| Medium | from BBB+ to BBB- according to S&P and Fitch, and from Baa1 to Baa3 according to Moody's | 25% | 8% |

**Weighed by amount of deposits.*

As at 31 December 2019 the maximum single entity share of the amount exposed to credit risk arising from cash and bank deposits amounted to 35%, or PLN 179 million (as at 31 December 2018: 36%, or PLN 226 million).

| | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|
| Counterparty 1 | 179 | 226 |
| Counterparty 2 | 117 | 50 |
| Counterparty 3 | 81 | 6 |
| Counterparty 4 | 66 | 77 |
| Other | 73 | 266 |
| **Total** | **516** | **625** |

Impairment losses on cash and cash equivalents were determined individually for each balance of a given financial institution. External bank ratings were used to measure credit risk. The analysis determined that these assets have a low credit risk at the reporting date. The Company used a simplification permitted by the standard and the impairment loss was determined on the basis of 12-month credit losses. The calculation of impairment determined that the amount of impairment loss is insignificant.

in PLN millions, unless otherwise stated

## Note 7.5.2.2 Credit risk related to derivatives transactions

All entities with which derivative transactions are entered into by the Company operate in the financial sector[3].

The Company's credit exposure related to open and unsettled derivatives by main counterparties is presented in the table below[4].

| | As at 31 December 2019 | | | | As at 31 December 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Financial receivables | Financial liabilities | Fair value | Exposure to credit risk | Financial receivables | Financial liabilities | Fair value | Exposure to credit risk |
| Counterparty 1 | 67 | (20) | 47 | **47** | 108 | (12) | 96 | **96** |
| Counterparty 2 | 60 | (13) | 47 | **47** | 97 | (11) | 86 | **86** |
| Counterparty 3 | 61 | (36) | 25 | **47** | 141 | (20) | 121 | **121** |
| Counterparty 4 | 54 | (19) | 35 | **44** | 80 | (10) | 70 | **70** |
| Other | 196 | (101) | 95 | **138** | 201 | (28) | 173 | **173** |
| **Total** | **438** | **(189)** | **249** | **323** | **627** | **(81)** | **546** | |
| open derivatives | 414 | (182) | 232 | | 619 | (81) | **538** | |
| unsettles derivatives | 24 | (7) | 17 | | 8 | - | **8** | |

Taking into consideration the fair value of open derivatives transactions entered into by the Company and the fair value of unsettled derivatives, as at 31 December 2019 the maximum single entity share of the amount exposed to credit risk arising from these transactions amounted to 15%, or PLN 47 million (as at 31 December 2018: 22%, or PLN 121 million).

In order to reduce cash flows and at the same time to limit credit risk, the Company carries out net settlements (based on framework agreements entered into with its customers) to the level of the positive balance of fair value measurement of transactions in derivatives with a given counterparty. Moreover, the resulting credit risk is continuously monitored by the review of the credit ratings and is limited by striving to diversify the portfolio while implementing hedging strategies.

Despite the concentration of credit risk associated with derivatives' transactions, the Company has determined that, due to its cooperation only with renowned financial institutions, as well as continuous monitoring of their ratings, it is not materially exposed to credit risk as a result of transactions concluded with them.

The following table presents the structure of ratings of the financial institutions with whom the Company had derivatives transactions, representing exposure to credit risk.

| Rating level | | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|---|
| Highest | from AAA to AA- according to S&P and Fitch, and from Aaa to Aa3 according to Moody's | 2% | - |
| Medium-high | from A+ to A- according to S&P and Fitch, and from A1 to A3 according to Moody's | 90% | 99% |
| Medium | from BBB+ to BBB- according to S&P and Fitch, and from Baa1 to Baa3 according to Moody's | 8% | 1% |

## Note 7.5.2.3 Credit risk related to trade receivables

For many years, the Company has been cooperating with a large number of customers, which affects the geographical diversification of trade receivables. The majority of sales go to EU countries.

| Trade receivables (net) | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|
| Poland | 67% | 56% |
| European Union (excluding Poland) | 23% | 18% |
| Asia | 3% | 22% |
| Other countries | 7% | 4% |

[3] Does not concern embedded derivatives in purchase contracts for metal-bearing materials.
[4] Net positive fair value (financial receivables – financial liabilities) of open and unsettled derivatives is taken into account, including a breakdown by hedged market risk factors.

in PLN millions, unless otherwise stated

| Accounting policies |
|---|
| The Company applies the simplified model of calculating the allowance for impairment of trade receivables (regardless of their maturity). The expected credit loss on trade receivables is calculated at the closest ending date of the reporting period after the moment of recognition of a receivable in the statement of financial position and is updated at every subsequent reporting period ending date, depending on the number of days a given receivable is overdue. For the purpose of estimating the expected credit loss on trade receivables, the Company applies a provision matrix, estimated based on historical levels of a customer's payments of receivables. The Company defines default as being a failure by a customer to meet its liabilities after a period of 90 days from the due date. The Company takes into account forward-looking information in the applied parameters of the model for estimating expected losses, by adjusting the base coefficients of default probability. |

| Important estimates and assumptions | | | |
|---|---|---|---|
| **Time frame** | **Percent of allowance for impairment** | **Gross amount of receivables** | **Allowance for impairment in individual time frames** |
| Not overdue | 0.31 | 98 | - |
| <1,30) | 1.15 | 3 | - |
| <30,60) | 12.82 | 2 | - |
| <60,90) | 41.22 | 1 | - |
| Default | 100 | 10 | (10) |
| **Total** | | **114** | **(10)** |

The following table presents a change in trade receivables measured at amortised cost.

| | | Gross amount |
|---|---|---|
| | **Gross amount as at 1 January 2019** | 181 |
| Note 10.2 | Change in the balance of receivables | (67) |
| | **Gross amount as at 31 December 2019** | 114 |

The following table presents the change in the estimation of expected credit losses on trade receivables measured at amortised cost.

| | | Amount of allowance |
|---|---|---|
| | **Loss allowance for expected credit losses as at 1 January 2019** | 10 |
| Note 10.2 | Change in allowance in the period recognised in profit or loss | - |
| | **Loss allowance for expected credit losses as at 31 December 2019** | 10 |

The Company limits its exposure to credit risk related to trade receivables by evaluating and monitoring the financial condition of its customers, setting credit limits, requiring collateral and non-recourse factoring. The terms of factoring agreements entered into meet the criteria of removing receivables from the books at the moment of their purchase by the factor. As at 31 December 2019, the amount of receivables transferred to factoring, for which the payment from factors was not received, amounted to PLN 22 million (as at 31 December 2018: PLN 21 million). Information on the amount of revenues from sales subjected to factoring in the financial period is presented in part 2.

An inseparable element of the credit risk management process performed by the Company is the continuous 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.

The Company makes use of the following forms of collateral:

- registered pledges, bank guarantees, promissory notes, notarial enforcement declarations, corporate guarantees, cessation of receivables, mortgages and documentary collection;
- ownership rights to goods to be transferred to the buyer only after payment is received;
- 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 aforementioned forms of collateral and the credit limits received from the insurance company, as at 31 December 2019 the Company had secured 64% of its trade receivables (as at 31 December 2018: 75%).

in PLN millions, unless otherwise stated

The total value of the Company's net trade receivables as at 31 December 2019, excluding the fair value of collaterals, to the value of which the Company may be exposed to credit risk, amounts to PLN 241 million (as at 31 December 2018: PLN 310 million).

The concentration of credit risk in the Company is related to the terms of payment allowed to key clients. Consequently, as at 31 December 2019 the balance of receivables from the Company's 7 largest clients, in terms of trade receivables at the end of the reporting period, represented 47% of the balance of trade receivables (as at 31 December 2018: 50%). Despite the concentration of this type of risk, the Company believes that due to the available historical data and the many years of experience in cooperating with its clients, as well as to securities used, the level of credit risk is low.

### Note 7.5.2.4 Credit risk related to other financial assets

As at 31 December 2019, the major items in other financial assets were:

- cash accumulated in the special purpose funds: Mine Closure Fund and Tailings Storage Facility Restoration Fund in the amount of PLN 337 million (credit risk is described in Note 7.5.2.1);
- receivables due to cash pooling in the amount of PLN 335 million. Credit risk in this regard is continuously monitored through the on-going review of the financial standing and assets of the subsidiaries participating in the cash pooling.

The following tables present the level of concentration of cash on accounts of special purpose funds, used to accumulate by the Company cash in order to cover the costs of decommissioning of mines and other technological facilities and restoration of tailings storage facilities, according to the assessed creditworthiness of the financial institutions managing special purpose accounts and according to institutions in which cash is held.

| Rating level | | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|---|
| Medium-high | from A+ to A- according to S&P and Fitch, and from A1 to A3 according to Moody's | 100% | 100% |

| | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|
| Counterparty 1 | 337 | 314 |
| **Total** | **337** | **314** |

Impairment losses on cash accumulated on bank accounts of special purpose funds: the Mine Closure Fund and Tailings Storage Facility Restoration Fund, were determined individually for each balance of a given financial institution. External bank ratings were used to measure credit risk. The analysis determined that these assets have a low credit risk at the reporting date. The Company used a simplification permitted by the standard and the impairment loss was determined on the basis of 12-month credit losses. The calculation of impairment determined that the amount of impairment loss is insignificant.

### Note 7.5.2.5 Credit risk related to loans granted

Entities which were granted loans do not have ratings assigned to them by independent rating agencies. The following table presents a structure of ratings of entities which were granted loans by the Company, per the internal methodology of the Company:

| Rating level | | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|---|
| Medium-high | from A+ to A- according to S&P and Fitch, and from A1 to A3 according to Moody's | 61% | - |
| Medium | from BBB+ to BBB- according to S&P and Fitch, and from Baa1 to Baa3 according to Moody's | 39% | 100% |

**Loans granted measured at amortised cost**

The Company estimates expected credit losses related to loans granted measured at amortised cost in accordance with the general approach.

Loans granted do not have collaterals limiting the exposure to credit risk, therefore the maximum amount exposed to loss due to credit risk is the gross amount of the loans.

in PLN millions, unless otherwise stated

The following table presents the change in the gross amount of loans granted measured at amortised cost in 2019.

| | Gross carrying amount, total | Stage 1 | Stage 2 | POCI |
|---|---|---|---|---|
| **Gross amount as at 1 January 2019** | **4 827** | **512** | **2 993** | **1 322** |
| increase in the amount of loan (granting a loan) | 5 | 5 | - | - |
| repayment | (8) | (8) | - | - |
| exchange differences | 48 | 5 | 30 | 13 |
| interest accrued using the effective interest rate | 246 | 28 | 130 | 88 |
| **Gross amount as at 31 December 2019** | **5 118** | **542** | **3 153** | **1 423** |

The following table presents the change in the gross value of loans granted measured at amortised cost in 2018.

| | Gross carrying amount, total | Stage 1 | Stage 2 | POCI |
|---|---|---|---|---|
| **Gross amount as at 1 January 2018** | **4 717** | **1 978** | **2 658** | **81** |
| increase in the amount of loan (granting a loan) | 1 003 | 5 | - | 998 |
| repayment | (12) | (9) | - | (3) |
| granting and repayment – compensation | (1 524) | (1 524) | - | - |
| exchange differences | 332 | 34 | 212 | 86 |
| interest accrued using the effective interest rate | 226 | 28 | 123 | 75 |
| other changes | 85 | - | - | 85 |
| **Gross amount as at 31 December 2018** | **4 827** | **512** | **2 993** | **1 322** |

There were no transfers of loans between stages of impairment in any of the presented reporting periods.

The following table presents the change in the loss allowances for expected credit losses for loans measured at amortised cost in 2019.

| | Value | Stage 1 | Stage 2 | POCI |
|---|---|---|---|---|
| **Loss allowance for expected credit losses as at 1 January 2019** | **272** | **4** | **268** | **-** |
| changes in risk parameters* | (112) | (1) | (153) | 42 |
| exchange differences | 2 | - | 2 | - |
| **Loss allowance for expected credit losses as at 31 December 2019** | **162** | **3** | **117** | **42** |

* The most significant impact was due to the increase in ratings of subsidiaries per the internal methodology of the Company, pursuant to the description in note 6.2.

The following table presents the change in the amount of expected credit losses for loans measured at amortised cost in 2018.

| | Value | Stage 1 | Stage 2 |
|---|---|---|---|
| **Loss allowance for expected credit losses as at 1 January 2018** | **1 197** | **787** | **410** |
| granting and repayment - compensation | (778) | (778) | - |
| changes in risk parameters | (179) | (5) | (174) |
| exchange differences | 32 | - | 32 |
| **Loss allowance for expected credit losses as at 31 December 2018** | **272** | **4** | **268** |

in PLN millions, unless otherwise stated

| Loans measured at amortised cost (Note 6.2) | Carrying amount | Stage 1 | Stage 2 | POCI |
|---|---|---|---|---|
| As at 1 January 2018 | 3 520 | 1 191 | 2 248 | 844 |
| As at 31 December 2018 / 1 January 2019 | 4 555 | 508 | 2 725 | 1 322 |
| As at 31 December 2019 | 4 956 | 539 | 3 036 | 1 381 |

In 2019 and 2018 no loans were classified to Stage 3 of the measurement, except for POCI loans.

For loans measured at amortised cost (excluding POCI), interest is accrued on the gross value using the IRR rate set at the moment of initial recognition of the loan.

For POCI loans, interest is accrued on the gross value less any allowance for impairment recognised at the moment of initial recognition.

**Loans granted measured at fair value**

The carrying amount of loans measured at fair value as at 31 December 2019 amounted to PLN 2 271 million. As at 1 January 2019, the carrying amount was PLN 1 724 million. More disclosures on the fair value measurement were presented in note 7.1.

The loans granted do not have collaterals limiting exposure to credit risk, therefore the Company estimates the maximum, potential losses due to credit risk to be at the nominal value of loans granted in the amount of USD 582 million and accrued interest (USD 85 million), USD 667 million in total, or PLN 2 532 million as at 31 December 2019 per the exchange rate of the National Bank of Poland.

The following table presents changes in the carrying amount of loans granted measured at fair value during the period.

| | | 2019 | 2018 |
|---|---|---|---|
| | **Carrying amount as at 1 January** | **1 724** | **1 255** |
| | Loan granted | 440 | 677 |
| Note 4.2 | Gains on measurement to fair value | 251 | 184 |
| | Repayment of the loan | - | (238) |
| Note 4.2 | Fair value losses | (154) | (247) |
| | Other | 10 | 93 |
| | **Carrying amount as at 31 December** | **2 271** | **1 724** |

**Concentration risk**

The Company estimated the concentration risk to be at the level of 100%, as receivables due to loans granted arise from intra-group loans (Note 12.1). Detailed information on the loan granting transactions were presented in note 6.2.

in PLN millions, unless otherwise stated

# PART 8 – Borrowings and the management of liquidity and capital

## Note 8.1 Capital management policy

Capital management in the Company is aimed at securing funds for business development and maintaining the appropriate level of liquidity.
The Company monitors the Group's capital, among others using ratios presented below, which were calculated on the basis of data presented in the Consolidated Financial Statements of the KGHM Group.

| Ratios | Calculations | 31.12.2019 | 31.12.2019 | 31.12.2018 |
|---|---|---|---|---|
| **Net Debt/EBITDA** | relation of net debt to EBITDA | **1.5** | **1.4*** ** | **1.6** |
| Net Debt* | borrowings, debt securities and lease liabilities less free cash and its equivalents | 6 891 | 6 265*** | 7 000 |
| EBITDA** | profit on sales plus depreciation/amortisation recognised in profit or loss and impairment losses on non-current assets | 4 569 | 4 569 | 4 339 |
| **Equity ratio** | relation of equity less intangible assets to total assets | **0.5** | **0.5** | **0.5** |
| Equity | assets of the Group after deducting all of its liabilities | 20 202 | 20 202 | 19 225 |
| Intangible assets | identifiable non-cash items of assets without a physical form | 2 121 | 2 121 | 1 881 |
| Equity less intangible assets | | 18 081 | 18 081 | 17 344 |
| Total assets | sum of non-current and current assets | 39 409 | 39 409 | 37 237 |

**Net debt does not include reverse factoring liabilities*

*** Adjusted EBITDA for the period of 12 months ended on the last day of the reporting period and does not include the EBITDA of the joint venture Sierra Gorda S.C.M. Data as at 31 December 2018 and 31 December 2019 is not comparable because it does not include the results of implementation of IFRS 16 in EBITDA achieved in 2018.*

**** Presented data do not include lease liabilities as at 31 December 2019 in the amount of PLN 627 million, arising from the implementation of IFRS 16.*

In the process of managing liquidity and capital, the Group also pays attention to adjusted operating profit, calculated on the basis of data from the Consolidated Financial Statements of the KGHM Group, which is the basis for calculating the financial covenants and which is comprised of the following items:

| | from 1 January 2019 to 31 December 2019 | from 1 January 2018 to 31 December 2018 |
|---|---|---|
| Profit on sales | 2 455 | 2 591 |
| Interest income on loans granted to joint ventures | 341 | 257 |
| Other operating income and (costs) | 186 | 308 |
| **Adjusted operating profit*** | **2 982** | **3 156** |

**Presented amount does not include reversal of allowances for impairment of loans granted to joint ventures.*

in PLN millions, unless otherwise stated

As at the balance sheet date, in the financial period and after the balance sheet date, up to the date of publication of these financial statements, the values of financial covenants resulting in the obligation to report as at 30 June and 31 December, met the conditions stipulated in the credit agreements.

In order to maintain financial liquidity and the creditworthiness, the Group's long term aim for the equity ratio is to be at the level of not less than 0.5, and the level of the ratio of Net Debt/EBITDA not more than 2.0.

### Note 8.2 Equity

| Accounting policies |
|---|
| Share capital is recognised at nominal value.<br>Other reserves from the measurement of financial instruments arise from the measurement of cash flow hedging instruments (Note 7.2, accounting policies) and the measurement of financial assets measured at fair value through other comprehensive income (Note 7.3, accounting policies) less any deferred tax effect.<br>Accumulated other comprehensive income consists of actuarial gains/losses on post-employment benefits less any deferred tax effect (Part 11, accounting policies).<br>Retained earnings are the sum of profit for the current year and accumulated profits from previous years, which has not been paid out as dividends, but increased the reserve capital or was not distributed. |

### Note 8.2.1 Share capital

As at 31 December 2019 and at the date of signing of these financial statements, the Company's share capital, in accordance with the entry in the National Court Register, amounted to PLN 2 000 million and was divided into 200 000 000 shares, series A, fully paid, each having a face value of PLN 10. All of the shares are bearer shares. The Company has not issued preference shares. Each share grants the right to one vote at the general meeting. The Company does not have treasury shares.

In the years ended 31 December 2019 and 31 December 2018 there were no changes in either registered share capital or in the number of issued shares.

In the same period, there were changes in the ownership of significant blocks of shares of KGHM Polska Miedź S.A. As far as the Company is aware, as at 31 December 2018, the Company's shareholder structure was as follows:

| shareholder | number of shares/votes | total nominal value of shares (PLN) | percentage held in share capital/total number of votes |
|---|---|---|---|
| State Treasury | 63 589 900 | 635 899 000 | 31.79% |
| Nationale-Nederlanden Otwarty Fundusz Emerytalny | 10 104 354 | 101 043 540 | 5.05% |
| Otwarty Fundusz Emerytalny PZU „Złota Jesień" | 10 099 003 | 100 990 030 | 5.05% |
| Aviva Otwarty Fundusz Emerytalny Aviva Santander | 10 039 684 | 100 396 840 | 5.02% |
| Other shareholders | 106 167 059 | 1 061 670 590 | 53.09% |
| Total | 200 000 000 | 2 000 000 000 | 100.00% |

On 18 February 2019, the Company was notified that the share of Otwarty Fundusz Emerytalny PZU "Złota Jesień"' decreased below the 5% threshold in the total number of votes at the General Meeting of KGHM Polska Miedź S.A.

in PLN millions, unless otherwise stated

The Company's shareholder structure as at 31 December 2019 and as at the date of signing of these financial statements was as follows:

| shareholder | number of shares/votes | total nominal value of shares (PLN) | percentage held in share capital/total number of votes |
|---|---|---|---|
| State Treasury | 63 589 900 | 635 899 000 | 31.79% |
| Nationale-Nederlanden Otwarty Fundusz Emerytalny | 10 104 354 | 101 043 540 | 5.05% |
| Aviva Otwarty Fundusz Emerytalny Aviva Santander | 10 039 684 | 100 396 840 | 5.02% |
| Other shareholders | 116 266 062 | 1 162 660 620 | 58.14% |
| Total | 200 000 000 | 2 000 000 000 | 100.00% |

in PLN millions, unless otherwise stated

## Note 8.2.2 Changes of other equity items in the period

| | Other reserves from measurement of financial instruments | | | | Retained earnings | | |
|---|---|---|---|---|---|---|---|
| | Investments in equity instruments measured at fair value through other comprehensive income | Other reserves from measurement of cash flow hedging financial instruments | Total other reserves from measurement of financial instruments | Accumulated other comprehensive income | Reserve capital created in accordance with the Commercial Partnerships and Companies Code, art. 396 | Reserve capital created from profit in accordance with the Company's Statutes | Profit/(loss) from previous years |
| **As at 31 December 2017** | **78** | **64** | **142** | **( 348)** | **660** | **13 479** | **1 323** |
| Changes in accounting principles – application of IFRS 9 | ( 424) | ( 180) | ( 604) | - | - | - | 458 |
| **As at 1 January 2018** | **( 346)** | **( 116)** | **( 462)** | **( 348)** | **660** | **13 479** | **1 781** |
| Transfer of profit for the period to reserve capital | - | - | - | - | - | 1 324 | (1 324) |
| **Total comprehensive income, of which:** | **( 128)** | **283** | **155** | **( 245)** | **-** | **-** | **2 025** |
| **Profit for the year** | - | - | - | - | - | - | 2 025 |
| **Other comprehensive income** | ( 128) | 283 | 155 | ( 245) | - | - | - |
| Change in fair value of investments in equity instruments | ( 158) | - | ( 158) | - | - | - | - |
| Impact of effective cash flow hedging transactions entered into | - | 318 | 318 | - | - | - | - |
| Amount transferred to profit or loss | - | 31 | 31 | - | - | - | - |
| Actuarial losses on post-employment benefits | - | - | - | ( 303) | - | - | - |
| Deferred income tax | 30 | ( 66) | ( 36) | 58 | - | - | - |
| **As at 31 December 2018** | **( 474)** | **167** | **( 307)** | **( 593)** | **660** | **14 803** | **2 482** |

in PLN millions, unless otherwise stated

| | Other reserves from measurement of financial instruments | | | | Retained earnings | | |
|---|---|---|---|---|---|---|---|
| | Investments in equity instruments measured at fair value through other comprehensive income | Other reserves from measurement of cash flow hedging financial instruments | Total other reserves from measurement of financial instruments | Accumulated other comprehensive income | Reserve capital created in accordance with the Commercial Partnerships and Companies Code, art. 396 | Reserve capital created from profit in accordance with the Company's Statutes | Profit/(loss) from previous years |
| **As at 1 January 2019** | **( 474)** | **167** | **( 307)** | **( 593)** | **660** | **14 803** | **2 482** |
| Dividends paid | - | - | - | - | - | - | - |
| Transfer of profit for the period to reserve capital | - | - | - | - | - | 2 025 | (2 025) |
| **Total comprehensive income, of which:** | **( 76)** | **( 315)** | **( 391)** | **( 29)** | **-** | **-** | **1 264** |
| **Profit for the year** | - | - | - | - | - | - | 1 264 |
| **Other comprehensive income** | ( 76) | ( 315) | ( 391) | ( 29) | - | - | - |
| Change in fair value of investments in equity instruments | ( 94) | - | ( 94) | - | - | - | - |
| Impact of effective cash flow hedging transactions entered into | - | ( 303) | ( 303) | - | - | - | - |
| Amount transferred to profit or loss | - | ( 86) | ( 86) | - | - | - | - |
| Actuarial losses on post-employment benefits | - | - | - | ( 36) | - | - | - |
| Deferred income tax | 18 | 74 | 92 | 7 | - | - | - |
| **As at 31 December 2019** | **( 550)** | **( 148)** | **( 698)** | **( 622)** | **660** | **16 828** | **1 721** |

Based on the Act of 15 September 2000 the Commercial Partnerships and Companies Code, the Company is required to create reserve capital for any potential (future) or existing losses, to which no less than 8% of a given financial year's profit is transferred until the reserve capital has been built up to no less than one-third of the registered share capital. The reserve capital created in this manner may not be employed otherwise than in covering the loss reported in the financial statements.

As at 31 December 2019 the statutory reserve capital in the Company amounts to PLN 660 million, and is recognised in retained earnings in the item reserve capital created in accordance with art. 396 of the Commercial Partnerships and Companies Code.

Information related to dividends paid may be found in Note 12.2.

## Note 8.3 Liquidity management policy

The Management Board is responsible for financial liquidity management in the Company. The Financial Liquidity Committee is a body supporting the Management Board.

The management of financial liquidity is performed in accordance with the Financial Liquidity Management Policy (Policy) approved by the Management Board. This document describes in a comprehensive way the process of managing the financial liquidity in the Company, indicating best practice procedures and instruments. The basic principles resulting from this Policy are:

- assuring the stable and effective financing of the Company's activities,
- investment of financial surpluses in safe financial instruments,
- limits for individual financial investment categories,
- limits for the concentration of funds in financial institutions,
- a required investment level rating for banks in which the funds are deposited, and
- effective management of working capital.

Under the liquidity management process, the Company utilises instruments which enhance its effectiveness. One of the instruments used by the Company is cash pooling - local in PLN, USD and EUR and international - in USD and CAD. The Cash Pooling service is aimed at optimising the management of cash resources, limiting interest costs, the effective financing of current working capital needs and the support of short-term financial liquidity in the Group.

In 2019, the Company continued actions aimed at ensuring long-term financial stability by basing the financial structure on diversified and long term financing sources. The following significant events had an impact on the financial structure:

- Conclusion of agreement of an unsecured, revolving syndicated credit facility in the amount of USD 1 500 million (PLN 5 696 million) with a 5 year tenor and an option to extend it by further 2 years (5+1+1). The credit facility replaced the revolving, syndicated credit facility in the amount of USD 2 500 million (PLN 9 494 million) dated 11 July 2014;
- Opening of a revolving credit facility of the renewable credit line in the amount of USD 450 million (PLN 1 709 million) within the agreement signed with Bank Gospodarstwa Krajowego for a period of 7 years;
- Loan instalments drawn from the EIB in the amount of USD 65 million (PLN 247 million) and in the amount of USD 90 million (PLN 342 million) with maturity falling in 2031;
- The issue of bonds, Series A, in the amount of PLN 400 million with a 5-year maturity and Series B in the amount of PLN 1 600 million with a 10-year maturity;
- Implementation of a Reverse Factoring Program, which resulted in extending turnover of liabilities.

in PLN millions, unless otherwise stated

### Note 8.3.1 Contractual maturities for financial liabilities

#### Financial liabilities – as at 31 December 2019

| Financial liabilities | Contractual maturities from the end of the reporting period: up to 3 months | from 3 to 12 months | 1-3 years | over 3 years | Total (without discounting) | Carrying amount |
|---|---|---|---|---|---|---|
| Borrowings | 97 | 271 | 834 | 4 528 | **5 730** | **4 980** |
| Debt securities liabilities | - | 67 | 134 | 2 377 | **2 578** | **2 001** |
| Lease liabilities | 20 | 39 | 106 | 1 040 | **1 205** | **509** |
| Cash pooling payables** | 130 | - | - | - | **130** | **130** |
| Other liabilities due to settlement under cash pooling contracts*** | 74 | - | - | - | **74** | **74** |
| Trade payables | 1 844 | 20 | 19 | 350 | **2 233** | **2 029** |
| Similar payables – reverse factoring | 183 | 413 | - | - | **596** | **596** |
| Derivatives – currency contracts* | - | - | - | - | **-** | **55** |
| Derivatives – commodity contracts – metals* | - | - | - | - | **-** | **53** |
| Derivatives – interest rates | - | 8 | 33 | 63 | **104** | **74** |
| Embedded derivatives | 9 | - | - | - | **9** | **9** |
| Other financial liabilities | 100 | 9 | 13 | 17 | **139** | **137** |
| **Total** | **2 457** | **827** | **1 139** | **8 375** | **12 798** | **10 647** |

**Financial liabilities arising from derivatives are calculated at their intrinsic values excluding the discount effect.*
*** Liabilities of KGHM Polska Miedź S.A. towards the Group companies within the cash pooling's credit limit.*
**** Other current financial liabilities due to the return of cash deposits towards all participants in cash pooling which presented a positive balance at the end of the reporting period.*

*Details on financial guarantees and their maturity dates were described in Note 8.6.*

in PLN millions, unless otherwise stated

**Financial liabilities – as at 31 December 2018**

| Financial liabilities | Contractual maturities from the end of the reporting period: up to 3 months | from 3 to 12 months | 1-3 years | over 3 years | Total (without discounting) | Carrying amount |
|---|---|---|---|---|---|---|
| Borrowings | 794 | 302 | 4 689 | 2 354 | **8 139** | **7 793** |
| Cash pooling payables** | 80 | - | - | - | **80** | **80** |
| Trade payables | 1 907 | 13 | 17 | 357 | **2 294** | **2 082** |
| Derivatives – currency contracts* | - | - | - | - | **-** | **24** |
| Derivatives – commodity contracts – metals* | - | - | - | - | **-** | **57** |
| Other financial liabilities | 63 | 6 | 7 | 18 | **94** | **90** |
| **Total** | **2 844** | **321** | **4 713** | **2 729** | **10 607** | **10 126** |

**Financial liabilities arising from derivatives are calculated at their intrinsic values excluding the discount effect.*
*** Liabilities of KGHM Polska Miedź S.A. towards Group companies under the cash pooling's credit limit.*

## Note 8.3.2 Overdue liabilities

**Financial liabilities – as at 31 December 2019**

| | Overdue period: up to 1 month | from 1 month to 3 months | from 3 months to 12 months | more than 1 year | Total |
|---|---|---|---|---|---|
| Trade payables | 26 | 7 | 9 | 4 | 46 |

**Financial liabilities – as at 31 December 2018**

| | Overdue period: up to 1 month | from 1 month to 3 months | from 3 months to 12 months | more than 1 year | Total |
|---|---|---|---|---|---|
| Trade payables | 3 | 7 | - | 2 | 12 |

in PLN millions, unless otherwise stated

## Note 8.4 Borrowings

| Accounting policies |
|---|
| Liabilities arising from borrowings are initially recognised at fair value less (in the case of payment) or plus (in the case of accrual) transaction costs, and are measured at amortised cost at the reporting date. Accrued interest is recognised in finance costs, unless it is capitalised through property, plant and equipment or intangible assets. |

### Note 8.4.1 Net debt

| | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|
| Bank loans* | 2 276 | 4 691 |
| Loans | 2 478 | 2 067 |
| Debt securities | 2 000 | - |
| Leases | 461 | - |
| Total non-current liabilities due to borrowings | **7 215** | **6 758** |
| Bank loans** | 18 | 885 |
| Loans | 208 | 150 |
| Cash pooling liabilities*** | 130 | 80 |
| Debt securities | 1 | - |
| Leases | 48 | - |
| Total current liabilities due to borrowings | **405** | **1 115** |
| **Total borrowings** | **7 620** | **7 873** |
| Free cash and cash equivalents | 489 | 625 |
| **Net debt** | **7 131** | **7 248** |

** Presented amounts include the preparation fee paid in the amount PLN 3 million which decreases financial liabilities due to bank loans (in 2018: PLN 15 million).*
*** Presented amounts include the preparation fee paid in the amount of PLN 18 million which increases financial liabilities due to bank loans, paid in 2019.*
**** Liabilities of KGHM Polska Miedź S.A. towards the Group companies within the credit limit in the group of accounts participating in the cash pooling system*

### Liabilities due to borrowings, debt securities and leases by currency (translated into PLN) and by type of interest rate

| | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|
| USD/LIBOR | 1 724 | 4 875 |
| EUR/EURIBOR | - | 137 |
| PLN/WIBOR* | 2 131 | 80 |
| USD/fixed | 3 256 | 2 781 |
| EUR/fixed | 12 | - |
| PLN/fixed | 497 | - |
| **Total** | 7 620 | 7 873 |

** Presented amounts include KGHM Polska Miedź S.A.'s liabilities towards Group companies due to cash pooling within the credit limit in the amount of PLN 130 million (PLN 80 million in 2018).*

As at 31 December 2019, the Company's liabilities due to borrowing, issued debt securities, leases and cash pooling amounted to PLN 7 620 million, or USD 1 312 million, PLN 2 628 million and EUR 3 million (as at 31 December 2018 liabilities amounted to PLN 7 873 million, or USD 2 036 million, EUR 32 million and PLN 80 million).

Trade payables transferred to reverse factoring are presented in the statement of financial position as "Trade and similar payables" (these payables are in the category of "similar"), as due to the significant judgment of the Management Board of the Company presented in note 10.4 of these Financial statements, such a presentation more accurately presents the nature of these transactions.
The structure of debt changed, as there was an increase in non-current liabilities, pursuant to the adopted strategy, aimed at ensuring long term financial stability by basing the financial structure on diversified and long term financing sources.

in PLN millions, unless otherwise stated

### Note 8.4.2 Net debt changes

| Liabilities due to borrowing | As at 31 December 2018 | Change in accounting policy – implementation of IFRS 16 | As at 1 January 2019 | Cash flows | Accrued interest | Exchange differences | Other changes* | As at 31 December 2019 |
|---|---|---|---|---|---|---|---|---|
| Bank loans | 5 576 | - | 5 576 | (3 741) | 242 | 217 | - | **2 294** |
| Loans | 2 217 | - | 2 217 | 395 | 77 | ( 3) | - | **2 686** |
| Debt securities | - | - | - | 1 966 | 35 | - | - | **2 001** |
| Leases | - | 511 | 511 | ( 57) | 27 | - | 28 | **509** |
| Cash pooling liabilities | 80 | - | 80 | 50 | - | - | - | **130** |
| **Total debt** | **7 873** | **511** | **8 384** | **(1 387)** | **381** | **214** | **28** | **7 620** |
| Free cash and cash equivalents | 625 | - | 625 | ( 136) | - | - | - | **489** |
| **Net debt** | **7 248** | **511** | **7 759** | **(1 251)** | **381** | **214** | **28** | **7 131** |

* Other changes are comprised of lease assets recognised in the reporting period in the amount of PLN 28 million.

| Liabilities due to borrowing | As at 31 December 2017 | Cash flows | Accrued interest | Exchange differences | As at 31 December 2018 |
|---|---|---|---|---|---|
| Bank loans | 5 067 | ( 158) | 214 | 453 | **5 576** |
| Loans | 1 941 | 68 | 63 | 145 | **2 217** |
| Cash pool liabilities | 160 | ( 81) | 1 | - | **80** |
| **Total debt** | **7 168** | **( 171)** | **278** | **598** | **7 873** |
| Free cash and cash equivalents | 231 | 394 | - | - | **625** |
| **Net debt** | **6 937** | **( 565)** | **278** | **598** | **7 248** |

Currency risk and interest rate risk are related to borrowings. A description of exposures to financial risks may be found in Note 7.5.

in PLN millions, unless otherwise stated

### Reconciliation of cash flows recognised in net debt change to the statement of cash flows

| | from 1 January 2019 to 31 December 2019 | from 1 January 2018 to 31 December 2018 |
|---|---|---|
| **Financing activities** | | |
| Proceeds from borrowings | 4 669 | 2 257 |
| Proceeds from the issue of debt financial instruments | 2 000 | - |
| Proceeds from cash pooling | 50 | - |
| Cash pooling expenses | - | ( 81) |
| Repayments of borrowings | (7 726) | (2 072) |
| Repayment of lease liabilities | ( 30) | - |
| Repayment of interest on borrowings and debt securities | ( 212) | ( 152) |
| Repayment of interest on leases | ( 15) | - |
| **Investing activities** | | |
| Paid capitalised interest on borrowings | ( 123) | ( 123) |
| **TOTAL** | **(1 387)** | **( 171)** |

### Note 8.4.3 Detailed information concerning the main sources of borrowings

As at 31 December 2019, the Company had open credit lines, investment loans and debt securities with a total balance of available financing in the amount of PLN 14 365 million, out of which PLN 6 966 million had been drawn (as at 31 December 2018 the Company had open credit lines and an investment loan with a total balance of available financing in the amount of PLN 15 753 million, out of which PLN 7 808 million had been drawn).
The structure of financing sources is presented below.

in PLN millions, unless otherwise stated

**Unsecured, revolving syndicated credit facility**

A credit facility in the amount of USD 1 500 million (PLN 5 696 million), obtained on the basis of a financing agreement concluded with a syndicate of banks in 2019 with a maturity of 19 December 2024 and an option to extend it by further 2 years (5+1+1). The credit facility replaced the unsecured, syndicated credit facility in the amount of USD 2 500 million (PLN 9 494 million) from 2014. The funds acquired through this credit facility are used to finance general corporate purposes. Interest on the credit facility is based on LIBOR plus a bank margin, depending on the net debt/EBITDA ratio.

The credit facility agreement obliges the Company to comply with the financial covenant and non-financial covenants. Financing parameters meet the standard conditions of these types of transactions. Pursuant to contractual terms and conditions, the Company is obliged to report the level of financial covenant for the reporting periods, i.e. as at 30 June and as at 31 December. The Company continuously monitors the risk of exceeding the levels of the financial covenant stipulated in the credit facility agreement. As at the reporting date, during the financial year and up to the publication of this Report, the value of the financial covenant resulting in the obligation to report as at 30 June and as at 31 December, complied with the provisions of the agreement.

| | 2019 | 2019 | 2018 |
|---|---|---|---|
| | Amount granted | Amount of the liability | Amount of the liability |
| | 5 696 | - | - |
| Syndicated credit facility entered into in 2014 (agreement ended on 27 December 2019) | | - | 4 136 |
| Preparatory fee | | 18 | (15) |
| Carrying amount of liabilities due to bank loans | | **18** | **4 121** |

**Investment loans**

Loans granted by the European Investment Bank in the total amount of PLN 2 900 million.

1. Investment loan in the amount of PLN 2 000 million, with three instalments drawn and the payback periods expiring on 30 October 2026, 30 August 2028 and 23 May 2029 and utilised to the maximum available amount. The funds acquired through this loan were used to finance Company investment projects related to modernisation of metallurgy and development of the Żelazny Most tailings storage facility. The loan's instalments have a fixed interest rate.
2. Investment loan in the amount of PLN 900 million granted by the European investment Bank in December 2017 with a financing period of 12 years, and the availability of instalments for a period of 34 months from the date of signing of the agreement.

To date, the Company has drawn three instalments under this loan with the payback periods expiring on 28 June 2030, 23 April 2031 and 11 September 2031. As at 31 December 2019, the remaining available limit amounted to PLN 62 million. The funds acquired through this loan are used to finance the Company's projects related to development and replacement at various stages of the production process. The loan's instalments have a fixed interest rate.

The loan agreements oblige the Company to comply with the financial covenant and non-financial covenants commonly stipulated in such types of agreements. Pursuant to contractual terms and conditions, the Company is obliged to report the level of the financial covenant for the reporting periods, i.e. as at 30 June and as at 31 December. The Company continuously monitors the risk of exceeding the levels of the financial covenant stipulated in the loan agreements.

As at the reporting date, during the financial year and up to the publication of this Report, the value of the financial covenant resulting in the obligation to report as at 30 June and as at 31 December, complied with the provisions of the loan agreements.

| | 2019 | 2019 | 2018 |
|---|---|---|---|
| | Amount granted | Amount of the liability | Amount of the liability |
| | 2 900 | 2 686 | 2 217 |

in PLN millions, unless otherwise stated

## Other bank loans

Bank loans in the total amount of PLN 3 769 million, used for financing working capital and supporting the management of current financial liquidity. The Company holds lines of credit in the form of short-term and long-term credit agreements. These are working capital facilities and credit accounts with availability of up to 4 years. The funds under open lines of credit are available in PLN, USD and EUR, with interest based on a fixed interest rate or variable WIBOR, LIBOR and EURIBOR plus a margin.

| | 2019 | 2019 | 2018 |
|---|---|---|---|
| | Amount granted | Amount of the liability | Amount of the liability |
| | 3 769 | 2 279 | 1 455 |
| Preparatory fee | | (3) | |
| Carrying amount of liabilities due to bank loans | | **2 276** | **1 455** |

## Debt securities

A bond issue program was established on the Polish market by an issue agreement on 27 May 2019.
The first issue with a nominal value of PLN 2 000 million took place on 27 June 2019, under which bonds were issued with a maturity of 5 years in the amount of PLN 400 million and a redemption date of 27 June 2024 as well as bonds with a maturity of 10 years in the amount of PLN 1 600 million and a redemption date of 27 June 2029.
The nominal value of one bond is PLN 1 000, and the issue price is equal to the nominal value. The bonds' interest rate is based on variable WIBOR plus a margin.
The funds from the issue of the bonds are used to finance general corporate purposes.

| | 2019 | 2019 | 2018 |
|---|---|---|---|
| | Nominal value of the issue | Amount of the liability | Amount of the liability |
| | 2 000 | 2 001 | - |

| | | | |
|---|---|---|---|
| **Total bank and other loans, debt securities** | **14 365** | **6 966** | **7 808** |
| Preparation fee which decreases liabilities due to bank loans | | (3) | (15) |
| Preparation fee which increases liabilities due to bank loans | | 18 | - |
| **Carrying amount of liabilities due to bank and other loans, debt securities** | | **6 981** | **7 793** |

The aforementioned sources ensure the availability of external financing in the amount of PLN 14 365 million. The funds available for use from these sources cover the liquidity needs of the Company and the Group.

The syndicated credit in the amount of USD 1 500 million (PLN 5 696 million), the investment loans in the amount of PLN 2 900 million, and other bank loans in the amount of PLN 3 769 million, are unsecured.

in PLN millions, unless otherwise stated

## Note 8.5 Cash and cash equivalents

| Accounting policies |
|---|
| Cash and cash equivalents include mainly cash in bank accounts and deposits with maturities of up to three months from the date of their placement (the same applies to the statement of cash flows). Cash is measured at its nominal amount plus interest, including a loss allowance for expected credit losses. |

| | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|
| Cash in bank accounts | 245 | 326 |
| Other financial assets with a maturity of up to 3 months from the date of acquisition - deposits | 271 | 301 |
| **Total cash and cash equivalents** | **516** | **627** |
| Restricted cash | **27** | 2 |
| **Free cash and cash equivalents** | **489** | 625 |

As at 31 December 2019, the Company had cash in bank deposits in the amount of PLN 45 million (as at 31 December 2018 PLN 1 million), which are funds in separate VAT accounts, designated for servicing split payments. These funds are gradually used to pay the VAT payables to suppliers.

## Note 8.6 Liabilities due to guarantees granted

Guarantees and letters of credit are an essential financial liquidity management tool of the Group.

| Accounting policies |
|---|
| The Company issued guarantees which meet the definition of contingent liabilities pursuant to IAS 37 and recognises them in contingent liabilities and guarantees, which meet the definition of financial guarantees under IFRS 9, and therefore are recognised pursuant to IFRS 9.<br>The financial guarantee agreement is an agreement obliging its Issuer to make certain payments compensating the Holder of the guarantee for the loss they will incur due to a Debtor's failure to pay on the due date, pursuant to the initial or amended terms of a debt instrument. The Company recognised financial guarantee agreements as financial instruments falling under IFRS 9.<br>The liability due to the financial guarantee granted as at the end of the reporting period is recognised at the higher of two amounts: the initial value of the issued guarantee less the amount recognised in profit or loss on guarantees, or the ECL amount – set pursuant to the principles of the general model. |
| **Important estimates and assumptions** |
| For the calculation of ECL, the Company adopts estimates for the rating, PD (probability of default), LGD (loss given default) similarly as for the loans granted (note 6.2). Calculation of the expected credit losses takes place in the horizon remaining to the end of the guarantee, while the rating of the entity used for the purposes of calculating the PD parameter is a rating of an entity whose credit risk effectively burdens the guarantee, and therefore the Company's rating. |

As at 31 December 2019, the Company held liabilities due to guarantees and letters of credit granted in the total amount of PLN 2 813 million and due to promissory note liabilities in the amount of PLN 16 million.
The most significant items secure the following obligations:

**Sierra Gorda S.C.M.** – securing the performance of concluded agreements in the amount of PLN 2 046 million:

- a letter of credit of PLN 522 million (USD 138 million) granted as security for the proper performance of a long-term contract for the off-take of electricity (as at 31 December 2018 in the amount of PLN 517 million, or USD 138 million),
- PLN 60 million (USD 16 million) as corporate guarantees (financial) set as security on the payment of concluded lease agreements (as at 31 December 2018 in the amount of PLN 125 million, or USD 33 million), for the guarantee's validity period of up to 5 years, the amount of calculated ECL credit risk (Stage 2) amounts to PLN 4.5 million*
- PLN 803 million (USD 211 million) as corporate guarantees (financial) securing repayment of short-term working capital facilities (as at 31 December 2018 in the amount of PLN 496 million, or USD 132 million), the guarantee's validity period of up to 2 years, the amount of calculated ECL credit risk (stage 2) amounts to PLN 4.7 million*
- PLN 627 million (USD 165 million) as a corporate guarantee 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 credit drawn by the joint venture Sierra Gorda S.C.M. (as at 31 December 2018 in the amount of PLN 677 million, or USD 180 million).

- PLN 34 million (USD 9 million) as a corporate guarantee securing claims arising from the obligation to restore post-mining terrain, following the conclusion of mining operations,

**other entities:**

- PLN 190 million (USD 50 million) securing the proper execution by DMC Mining Services (UK) Ltd. and DMC Mining Services Ltd. of the contract for shaft sinking under the project conducted in the United Kingdom (as at 31 December 2018 in the amount of PLN 188 million, or USD 50 million)
- PLN 179 million to secure the proper execution by the Company of future environmental obligations related to the obligation to restore terrain, following the conclusion of operations of the Żelazny Most tailings storage facility (as at 31 December 2018 in the amount of PLN 160 million),
- PLN 375 million (USD 90 million, CAD 12 million) securing the restoration costs of the Robinson mine, the Podolsky mine and the Victoria project (as at 31 December 2018 in the amount of PLN 369 million, or USD 90 million, CAD 12 million),
- PLN 23 million (PLN 5 million, USD 3 million and CAD 2 million) securing the obligations related to proper execution of agreements concluded by KGHM Polska Miedź S.A. and the companies of the Group (as at 31 December 2018 in the amount of PLN 32 million, or PLN 3 million, USD 3 million and CAD 6 million).

** In analysing the impact of IFRS 9 on the financial statements, the Company determined that, with respect to the financial guarantees granted to Sierra Gorda S.C.M., it is necessary to recognise these guarantees pursuant to par. 4.2.1. point c of IFRS 9.*

Based on the knowledge held, at the end of the reporting period the Company assessed the probability of payments resulting from contingent liabilities related to:

- Sierra Gorda S.C.M. as moderately low,
- other entities of the Group as low.

# PART 9 – Non-current assets and related liabilities

## Note 9.1 Mining and metallurgical property, plant and equipment and intangible assets

**Accounting policies – property, plant and equipment**

The most important property, plant and equipment of the Company is property, plant and equipment related to the mining and metallurgical operations, comprised of land, buildings, water and civil engineering structures, such as: primary mine tunnels (including shafts, wells, galleries, drifts, primary chambers), backfilling, drainage and firefighting pipelines, piezometric holes and electricity, signal and optical fiber cables. Machines, technical equipment, motor vehicles and other movable fixed assets, as well as right-to-use assets recognised in accordance with IFRS 16 Leases, including perpetual usufruct rights to land, are also included in mining and metallurgical property, plant and equipment.

Property, plant and equipment, excluding usufruct rights, are recognised at cost less accumulated depreciation and accumulated impairment losses. In the initial cost of items of property, plant and equipment the Company includes discounted decommissioning costs of fixed assets related to mining and other facilities which, in accordance with binding laws, will be incurred following the conclusion of activities. Principles of recognition and measurement of decommissioning costs are presented in Note 9.4.

An asset's carrying amount includes costs of spare parts, necessary regular major overhauls, including costs of overhauls for the purpose of certification and repairs.

Costs are increased by borrowing costs (i.e. interest, exchange differences and fees representing an adjustment to interest cost) that were incurred for the purchase or construction of a qualifying item of property, plant and equipment.

Right-to-use assets are initially measured at cost, which comprises the initial lease liability and all lease payments paid on the date the lease began and before that date, less any lease incentives received, any initial direct costs incurred by the lessee and an estimate of costs which will be incurred by the lessee due to the disassembly or removal of a base asset or renovation of the site in which it was placed. The perpetual usufruct right to land is measured at the amount of the liability on the perpetual usufruct right to land measured using the perpetual rent method and all lease payments paid on the date the lease began or before that date (including payments for acquisition of this right on the market).

After the initial recognition, a right-to-use asset, excluding the perpetual usufruct right to land measured using the perpetual rent method, is measured at cost decreased by accumulated depreciation/amortisation and accumulated impairment losses, adjusted by the updated measurement of lease liabilities.

Items of property, plant and equipment (excluding land and perpetual usufruct rights to land) are depreciated by the Company, pursuant to the model of consuming the economic benefits from the given item of property, plant and equipment:

– using the straight-line method**,** for items which are used in production at an equal level throughout the period of their usage,
– using the units of production method**,** for items in respect of which the consumption of economic benefits is directly related to the quantity of units produced, and this production is not spread evenly through the period of their usage. In particular it relates to machines and mining equipment in gas-steam blocks.

The useful lives, and therefore the depreciation rates of fixed assets used in the production of copper, are adapted to the plans for the closure of operations, and in the case of right-to-use to the earlier of these two dates – either to the useful life end date or to the lease end date, unless the ownership of an asset is transferred to the Company before the end of the lease, in which case depreciation rates are adjusted to the estimated useful life end date.

For individual groups of fixed assets, the following useful lives have been adopted, estimated based on the anticipated useful lives of mines and metallurgical plants:

For own fixed assets:

| Group | Fixed assets type | Total useful lives |
|---|---|---|
| Buildings and land | Land | Not subject to depreciation |
| | Buildings: | |
| | – Buildings in mines and metallurgical plants, | 90-100 years |
| | – Sheds, reservoirs, container switchgears | 20-30 years |
| | Primary mine tunnels | 22-90 years |

in PLN millions, unless otherwise stated

| | | |
|---|---|---|
| | Pipelines:<br>– backfilling to transfer sand with water,<br>– technological, drainage, gas and firefighting<br>Electricity, signal and optical fiber cables | 6-9 years<br>22-90 years<br><br>10-70 years |
| Technical equipment, machines, motor vehicles and other fixed assets | Technical equipment, machines:<br>– mining vehicles, mining roof support<br>– conveyor belts, belt weigher<br>– switchboards, switchgears | <br>4-10 years<br>10-66 years<br>4-50 years |
| | Motor vehicles:<br>– underground electric locomotives,<br>– mining vehicles, railway vehicles, tankers, transportation platforms<br>– trolleys, forklift, battery-electric truck<br>– cars, trucks, special vehicles<br>– underground diesel locomotives | <br>20-50 years<br>7-35 years<br><br>7-22 years<br>5-22 years<br>10-20 years |
| | Other fixed assets, including tools and equipment | 5-25 years |

For right-to-use fixed assets:

| Group | Type of right-to-use | Total period of use |
|---|---|---|
| Buildings and land | Perpetual usufruct right to land measured using the perpetual rent method | Not subject to depreciation |
| | Transmission easements | 6-54 years (period of depreciation depends on the period of depreciation of an asset in respect of which a transmission easement was established) |
| | Land | 5-30 years |
| | Buildings – warehouses | 22 years |
| | Other buildings | 3-5 years |
| | Structures | 3 years |
| | Computer sets | 3 years |
| Technical equipment, machines, motor vehicles and other fixed assets | Machines and technical equipment | 3-4 years |
| | Motor vehicles | 3 years |
| | Equipment and other | 5 years |

The Company performs regular reviews of its property, plant and equipment in terms of the adequacy of applied useful lives to current operating conditions.

The individual significant parts of a fixed asset (significant components), whose useful lives are different from the useful life of the given fixed asset as a whole are depreciated separately, applying a depreciation rate which reflects its anticipated useful life.

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

An impairment loss is recognised as the amount by which the carrying amount of the given asset or cash-generating unit exceeds its recoverable amount.

For the purpose of impairment analysis, assets are grouped at the lowest level at which they generate cash inflows, independently from other assets (cash-generating units). Cash-generating units are determined separately, each time an impairment test is to be performed.

If an impairment test indicates that the recoverable amount (i.e. the higher of: the fair value decreased by costs to sell and its value in use) of a given asset or cash-generating unit is lower than its carrying amount, an impairment loss is recognised as the difference between the recoverable amount and the carrying amount of a given asset or cash-generating unit. The impairment loss is allocated to individual assets within the cash-generating units, proportionally to the share of an individual asset's carrying amount in the carrying amount of the entire unit. If such an allocation is made, the carrying amount of the asset may not be lower than the highest of the following values: fair value decreased by costs to sell, value in use and zero.

**Accounting policies – intangible assets**

Mining and metallurgical intangible assets are mainly comprised of exploration and evaluation assets.

Exploration and evaluation assets

Exploration and evaluation assets are measured at cost less accumulated impairment losses.

The following expenditures are recognised in the cost of the asset:
- geological projects;
- obtaining environmental decisions;
- obtaining concessions and mining usufruct for geological exploration;
- work related to drilling (drilling; geophysical and hydrogeological research; geological, analytical and geotechnical services; etc.);
- the purchase of geological information;
- the preparation of geological documentation and its approval;
- the preparation of economic and technical assessments of resources for the purpose of making decisions regarding applying for mine operating concessions; and
- equipment usage costs (property, plant and equipment) used in exploratory work.

Exploration and evaluation assets are measured at cost less accumulated impairment losses.

The Company is required to test an individual entity (project) for impairment when:
- the technical feasibility and commercial viability of extracting mineral resources is demonstrable; and
- the facts and circumstances indicate that the carrying amount of exploration and evaluation assets may exceed their recoverable amount.

Any potential impairment losses are recognised prior to reclassification resulting from the demonstration of the technical and economic feasibility of extracting the mineral resources.

in PLN millions, unless otherwise stated

| | | Property, plant and equipment | | | Intangible assets | | |
|---|---|---|---|---|---|---|---|
| | | Buildings and land | Technical equipment, machines, motor vehicles and other fixed assets | Fixed assets under construction | Exploration and evaluation assets | Other | Total |
| | **As at 1 January 2018** | | | | | | |
| | Gross carrying amount | 9 990 | 11 529 | 3 937 | 290 | 398 | 26 144 |
| | Accumulated depreciation/amortisation | (4 556) | (5 536) | - | - | ( 63) | (10 155) |
| | Impairment losses | - | ( 3) | ( 6) | ( 118) | - | ( 127) |
| | **Net carrying amount** | **5 434** | **5 990** | **3 931** | **172** | **335** | **15 862** |
| | **Changes in 2018 net** | | | | | | |
| | Settlement of fixed assets under construction | 510 | 1 123 | (1 633) | - | - | - |
| | Purchases | - | - | 1 848 | 12 | 29 | 1 889 |
| | Self-constructed | - | - | 47 | - | - | 47 |
| Note 9.4 | Change in provisions for decommissioning costs of mines and tailings storage facilities | 168 | - | - | - | - | 168 |
| | Depreciation/amortisation | ( 270) | ( 862) | - | - | ( 13) | (1 145) |
| | Recognition, utilisation of impairment losses | - | - | - | - | - | - |
| | Other changes | ( 5) | ( 25) | 126 | - | 41 | 137 |
| | **As at 31 December 2018** | | | | | | |
| | Gross carrying amount | 10 582 | 12 165 | 4 325 | 302 | 467 | 27 841 |
| | Accumulated depreciation/amortisation | (4 745) | (5 936) | - | - | ( 75) | (10 756) |
| | Impairment losses | - | ( 3) | ( 6) | ( 118) | - | ( 127) |
| | **Net carrying amount** | **5 837** | **6 226** | **4 319** | **184** | **392** | **16 958** |

in PLN millions, unless otherwise stated

| | | Property, plant and equipment | | | Intangible assets | | |
|---|---|---|---|---|---|---|---|
| | | Buildings and land | Technical equipment, machines, motor vehicles and other fixed assets | Fixed assets under construction | Exploration and evaluation assets | Other | Total |
| | **As at 31 December 2018** | | | | | | |
| | Gross carrying amount | 10 582 | 12 165 | 4 325 | 302 | 467 | 27 841 |
| | Accumulated depreciation/amortisation | (4 745) | (5 936) | - | - | ( 75) | (10 756) |
| | Impairment losses | - | ( 3) | ( 6) | ( 118) | - | ( 127) |
| | **Net carrying amount as at 31 December 2018** | 5 837 | 6 226 | 4 319 | 184 | 392 | 16 958 |
| | **Changes in accounting policy –application of IFRS 16** | | | | | | |
| | Gross carrying amount | 478 | 37 | - | - | ( 10) | 505 |
| | Accumulated depreciation/amortisation | - | - | - | - | 4 | 4 |
| | Impairment losses | - | - | - | - | - | - |
| | **Changes in accounting policy – net amount** | 478 | 37 | - | - | ( 6) | 509 |
| | Gross carrying amount | 11 060 | 12 202 | 4 325 | 302 | 457 | 28 346 |
| | Accumulated depreciation/amortisation | (4 745) | (5 936) | - | - | ( 71) | (10 752) |
| | Impairment losses | - | ( 3) | ( 6) | ( 118) | - | ( 127) |
| | **Net carrying amount as at 1 January 2019** | 6 315 | 6 263 | 4 319 | 184 | 386 | 17 467 |
| | **Changes in 2019 net** | | | | | | |
| | Settlement of fixed assets under construction | 664 | 1 259 | (1 923) | - | - | - |
| | Purchases | - | - | 2 082 | 18 | 44 | 2 144 |
| | Leases – new contracts, modification of existing contracts | 24 | 4 | - | - | - | 28 |
| | Self-constructed | - | - | 92 | - | - | 92 |
| Note 9.4 | Change in provisions for decommissioning costs of mines and tailings storage facilities | 129 | - | - | - | - | 129 |
| | Depreciation/amortisation, of which: | ( 321) | ( 930) | - | - | ( 12) | (1 263) |
| | own fixed assets | ( 296) | ( 926) | - | - | ( 12) | (1 234) |
| | leased fixed assets | ( 25) | ( 4) | - | - | - | ( 29) |
| | Recognition, utilisation of impairment losses | ( 1) | ( 7) | - | - | - | ( 8) |
| | Other changes | ( 18) | 8 | 133 | 1 | 30 | 154 |
| | **As at 31 December 2019** | | | | | | |
| | Gross carrying amount | 11 820 | 13 019 | 4 709 | 320 | 531 | 30 399 |
| | Accumulated depreciation/amortisation | (5 027) | (6 411) | ( 6) | - | ( 83) | (11 527) |
| | Impairment losses | ( 1) | ( 11) | - | ( 117) | - | ( 129) |
| | **Net carrying amount, of which:** | **6 792** | **6 597** | **4 703** | **203** | **448** | **18 743** |
| | own fixed assets and intangible assets | 6 315 | 6 560 | 4 703 | 203 | 448 | 18 229 |
| | Leased fixed assets and intangible assets | 477 | 37 | - | - | - | 514 |

in PLN millions, unless otherwise stated

### Note 9.1.1 Mining and metallurgical property, plant and equipment– fixed assets under construction

| | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|
| Deposit Access Program - Deep Głogów (Głogów Głęboki – Przemysłowy) | 2 049 | 1 650 |
| Investment activity related to development and operation of the Żelazny Most Tailings Storage Facility | 856 | 498 |
| Construction of the SW-4 shaft | 595 | 582 |
| Investments related to infrastructural development in the mines | 159 | 206 |
| Change in the L-VI shaft's function to a material-transport shaft | 34 | 203 |
| Metallurgy Development Program | 24 | 373 |

### Note 9.1.2 Expenses related to mining and metallurgical assets

| | from 1 January 2019 to 31 December 2019 | from 1 January 2018 to 31 December 2018 |
|---|---|---|
| Purchases | (2 144) | (1 889) |
| Change in liabilities due to purchases | 22 | 144 |
| Other | ( 172) | ( 139) |
| **Total** | **(2 294)** | **(1 884)** |

### Note 9.2 Other property, plant and equipment and intangible assets

**Accounting policies**

Other property, plant and equipment are recognised at cost less accumulated depreciation and accumulated impairment losses. The policy regarding impairment is presented in Note 9.1. Depreciation is done using the straight-line method.

For individual groups of fixed assets, the following useful lives have been adopted:

| Group | Total useful lives |
|---|---|
| Buildings | 25-60 years |
| Technical equipment and machines | 4-15 years |
| Motor vehicles | 3-14 years |
| Other fixed assets | 5-10 years |

Intangible assets presented as "other intangible assets" include in particular: acquired property rights not related to mining operations and software. These assets are measured at cost less any accumulated amortisation and impairment losses.

Intangible assets are amortised using the straight-line method over their anticipated useful lives. The useful lives of the main groups of intangible assets are as follows:

| Group | Total useful lives |
|---|---|
| Acquired property rights not related to mining activities | 5-50 years |
| Software | 2-5 years |
| Other intangible assets | 40-50 years |

in PLN millions, unless otherwise stated

| | Property, plant and equipment | | | Intangible assets | |
|---|---|---|---|---|---|
| | Buildings and land | Technical equipment, machines, motor vehicles and other fixed assets | Fixed assets under construction | Other intangible assets | Total |
| **As at 1 January 2018** | | | | | |
| Gross carrying amount | 54 | 192 | 5 | 138 | 389 |
| Accumulated depreciation/amortisation | (33) | (143) | - | (104) | (280) |
| **Net carrying amount** | **21** | **49** | **5** | **34** | **109** |
| **As at 31 December 2018** | | | | | |
| Gross carrying amount | 54 | 203 | 22 | 164 | 443 |
| Accumulated depreciation/amortisation | (35) | (152) | - | (112) | (299) |
| **Net carrying amount as at 31 December 2018** | **19** | **51** | **22** | **52** | **144** |
| **Change in accounting policies -application of IFRS 16 - change in gross carrying amount** | **2** | **-** | **-** | **-** | **2** |
| **As at 1 January 2019** | | | | | |
| Gross carrying amount | 56 | 203 | 22 | **164** | **445** |
| Accumulated depreciation/amortisation | (35) | (152) | - | **(112)** | (299) |
| **Net carrying amount** | **21** | **51** | **22** | **52** | **146** |
| **As at 31 December 2019** | | | | | |
| Gross carrying amount | 56 | 230 | 20 | 185 | 491 |
| Accumulated depreciation/amortisation | (36) | (168) | - | (123) | (327) |
| **Net carrying amount, of which:** | **20** | **62** | **20** | **62** | **164** |
| own fixed assets and intangible assets | 19 | 61 | 20 | 62 | 162 |
| leased fixed assets and intangible assets | 1 | 1 | - | - | 2 |

As at 31 December 2019 there were no assets pledged as security for liabilities.

in PLN millions, unless otherwise stated

## Note 9.3 Depreciation/amortisation

| | | Property, plant and equipment | | Intangible assets | |
|---|---|---|---|---|---|
| | | from 1 January 2019 to 31 December 2019 | from 1 January 2018 to 31 December 2018 | from 1 January 2019 to 31 December 2019 | from 1 January 2018 to 31 December 2018 |
| Note 4.1 | **Depreciation/amortisation** | **1 274** | **1 151** | **24** | **22** |
| | recognised in profit or loss | 1 197 | 1 099 | 23 | 20 |
| | cost of manufacturing products | 1 172 | 1 078 | 21 | 19 |
| | administrative expenses | 25 | 21 | 2 | 1 |
| | being part of the manufacturing costs of assets | 77 | 52 | 1 | 2 |

## Note 9.4 Provision for decommissioning costs of mines and other facilities

| Accounting policies | Important estimates and assumptions |
|---|---|
| The provision for future decommissioning costs of mines and other technological facilities is recognised based on the estimated expected costs of decommissioning of such facilities and of restoring the sites to their original condition following the end of operations. Estimation of this provision is based on specially-prepared studies using ore extraction forecasts (for mining facilities), and technical-economic studies prepared either by specialist firms or by the Company.<br>A change in the discount rate or in the estimated decommissioning cost adjusts the value of the relevant item of a fixed asset, unless it exceeds the carrying amount of the item of a fixed asset (any surplus above this amount is recognised in other operating income). | These provisions represent the estimated future decommissioning costs of mines and other technological facilities discounted to present value. Revaluation of this provision at the end of the reporting period in the Company is affected by the following indicators:<br>a) the index of changes in prices in the construction-assembly sector published by the Central Statistical Office (GUS),<br>b) the forecasted discount rate calculated based on the yield on treasury bonds with maturities nearest to the planned financial outflow (10 years).<br>The yield on treasury bonds and the inflation rate are set separately for future periods, i.e. for the first, second and third years, and jointly for periods from the fourth year.<br>At the end of the reporting period, applying the current approach, with the historically low level of profitability of 10 year bonds and an increase in inflation as well as the NBP's inflation forecasts, the Company would receive a negative effective discount rate. Due to the uncommon situation, the Company applied a cautious approach and adopted for the measurement of provisions a discount rate of "0" as at 31 December 2019. Due to the non-standard nature of current market conditions, the Company is monitoring the situation and analysing the eventual verification of its current approach. (The discount rate applied as at 31 December 2018: 0.31%) |

| | | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|---|
| | **Provisions at the beginning of the reporting period** | **988** | **804** |
| Note 9.1 | Changes in estimates recognised in fixed assets | 129 | 168 |
| | Other | 14 | 16 |
| | **Provisions at the end of the reporting period including:** | **1 131** | **988** |
| | - non-current provisions | 1 119 | 980 |
| | - current provisions | 12 | 8 |

in PLN millions, unless otherwise stated

**Impact of the change in discount rate on the provision for decommissioning costs of mines and other technological facilities**

| | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|
| increase in discount rate by 1 percentage point | (333) | ( 292) |
| decrease in discount rate by 1 percentage point | - | 114 |

### Note 9.5 Capitalised borrowing costs

During the period between 1 January 2019 to 31 December 2019, the Company recognised PLN 135 million of borrowing costs in property, plant and equipment and intangible assets (during the period from 1 January 2018 to 31 December 2018: PLN 133 million).

The capitalisation rate applied by the Company to determine borrowing costs in 2019 amounted to 4.04% (in 2018: 5.93%).

in PLN millions, unless otherwise stated

# PART 10 – Working capital

## Note 10.1 Inventories

**Accounting policies**

The Company measures inventories at cost, not higher than the sales price less costs of completing production and costs to sell.

Inventory disposals are measured at weighted average cost.

| | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|
| Materials | 447 | 400 |
| Half-finished goods and work in progress | 2 585 | 3 057 |
| Finished goods | 679 | 568 |
| Merchandise | 72 | 77 |
| **Total net carrying amount of inventories** | **3 783** | **4 102** |

### Write-down of inventories in the financial period

| | from 1 January 2019 to 31 December 2019 | from 1 January 2018 to 31 December 2018 |
|---|---|---|
| Write-down recognised in cost of sales | 29 | 5 |
| Reversed write-down recognised in cost of sales | 33 | 27 |

### Maturities of inventories

| | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|
| Maturity over the 12 months from the end of the reporting period | 116 | 147 |
| Maturity of up to 12 months from the end of the reporting period | 3 667 | 3 955 |

## Note 10.2 Trade receivables

**Accounting policies**

Trade receivables are initially recognised at the transaction price. After initial recognition, receivables are measured:

- receivables not transferred to full factoring: at amortised cost while taking into account the loss allowance for expected credit losses (trade receivables with maturity dates of less than 12 months are not discounted),
- receivables transferred to full factoring: at fair value through profit or loss, while because of the short duration between the recognition of receivables and transferral to the factor and due to the low credit risk of the counterparty (factor), the fair value of these receivables include an adjustment by the amount of transaction costs, which are the factor's compensation and therefore corresponds to the net amount received from the factor (receivables transferred to the factor (nominal value from the invoice) decreased by interest). Receivables transferred to full factoring are obligatorily designated to the category of financial assets measured at fair value through profit or loss, because they were classified to a business model, in which cash flows are realised solely by selling financial assets
- receivables based on the M+ pricing formula: at fair value through profit or loss, value is set as the nominal value (i.e. at the price in the invoice), adjusted by the impact of market and credit risks. Adjustment due to the market risk is calculated as the difference between the current market price for a given pricing period in the future (the period in which there will be a final determination of the settlement price) and the receivables' price recognised in the accounting books (multiplied by the sales volume). Adjustment due to the credit risk is calculated analogously to the calculation of expected credit losses for trade receivables measured

in PLN millions, unless otherwise stated

at amortised cost. Receivables based on the M+ pricing formula are obligatorily designated to the category of financial assets measured at fair value through profit or loss, because these receivables do not pass the SPPI (solely payments of principal and interest) test because of the element of variable price after the date of initial recognition of the receivables.

The Company is exposed to the credit risk and currency risk arising from trade receivables. Credit risk management and assessment of the credit quality of receivables is presented in Note 7.5.2.3. Information on the currency risk is presented in Note 7.5.1.3.

The following table presents the carrying amounts of trade receivables and the loss allowances for expected credit losses:

| | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|
| Trade receivables measured at amortised cost - gross value | 114 | 181 |
| Loss allowance for expected credit losses | ( 10) | ( 10) |
| Trade receivables measured at amortised cost - net value | 104 | 171 |
| Trade receivables measured at fair value | 139 | 139 |
| **Total** | **243** | **310** |

## Note 10.3 Trade and similar payables

### Accounting policies

Trade and similar payables are initially recognised at fair value less transaction cost and are measured at amortised cost at the end of the reporting period.

Accrued interest due to repayment of payables at a later date is recognised in profit or loss, in the item "finance income/(costs)".

### Important estimates and assumptions

Trade and similar payables presented in the Company's statement of financial position also contain trade payables transferred to reverse factoring, which are in the category of "similar". At the moment of transfer of the liabilities to reverse factoring, the Company recognises payables towards the factor, who due to the subrogation of receivables, from the legal point of view, assumes the rights and obligations common for trade payables. Reverse factoring is not directly regulated by IFRS, and as a result of its ambiguous nature it was necessary for the Company to make an important judgment on the presentation of balances transferred to factoring in the statement of financial position and the presentation of transactions in the statement of cash flows. In the Company's opinion, in presenting the balance of trade payables transferred to reverse factoring as „Trade and similar payables" (assigned to the category of "similar") together with other trade payables and not as debt liabilities, the following aspects had a crucial impact:

- from the legal point of view, at the moment of subrogation of the reverse factoring there is a transfer of rights and obligations arising from the liabilities, rather than their expiry and the establishment of new rights and obligations in respect of the factor;
- there is no establishment of new guarantees related to the reverse factoring, nor are there any changes in commercial terms related to any breach of the contract terms and annulment of a contract;
- the goal of the program is not only to improve the Company's liquidity, but also to provide support to suppliers engaged in obtaining favourable financing in order to build long term business relationships,
- the established payment deadlines, as well as payment models (including as regards interest and discounting) do not change in respect of trade payables towards a given supplier which are not subject to reverse factoring. In light of the above, as well as taking into account the established interest rates and discounts and extended repayment periods, cash flows related to the liabilities transferred to reverse factoring do not change more than 10%;
- costs related to reverse factoring are incurred both by the Company and its suppliers. The Company incurs interest cost arising from the payment of liabilities over an extended period, while the supplier incurs a discounted cost due to early (that is, before the end of the base term, which is usually 60 days) payment received from the factor;
- the Company, together with individual suppliers, on the basis of signed contracts, will determine which invoices will be transferred to reverse factoring, and what the deadline for early payment to the supplier through the factor will be.

Moreover, although the Company identified characteristics which indicate the nature of reverse factoring as liabilities due to financing (liability due to credit granted by a factor), they were judged by the Company to be insufficient for the purpose of recognising that, at the moment of transfer of trade payables to reverse factoring, there is a complete change in the nature of the relationship from that of a trade to a debt one, which would necessitate presentation in the Statement of financial position as debt financial liabilities and presentation in the Statement of cash flows, in financial activities:

in PLN millions, unless otherwise stated

- the factor is a bank, and at the moment of subrogation by the factor there is a change in the party being the debtor,
- in order to obtain more favourable terms, the factoring agreement was negotiated with the factor by the Company and not directly by the suppliers,
- the actual deadline for the payment of trade payables subject to reverse factoring is longer (and amounts to up to 180 days) than the deadline for the payment of other trade payables, which are not transferred to factoring (which usually amounts to 60 days),
- the main costs of reverse factoring are incurred by the Company, and suppliers are charged only if they receive payment on the date before the date stipulated in the trade contract, which usually amount to 60 days from the day of receiving the invoice by the Company (discount for the payment before 60 days or other, stipulated in the trade contract)

| | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|
| Non-current trade payables | 165 | 162 |
| Current trade payables | 1 864 | 1 920 |
| Current similar payables – reverse factoring | 596 | - |
| **Trade and similar payables** | **2 625** | **2 082** |

The Company implemented reverse factoring in the period ended on 31 December 2019 in order to make it possible for suppliers to receive repayment of receivables faster, as part of the standard procurement process executed by the Company, alongside an extension of payment dates of payables by the Company to the factor. The factor's participation limit was set at PLN 750 million. In the present financial year, from the date of implementation of reverse factoring to the end of the reporting period, liabilities in the amount of PLN 596 million were transferred to the factor and this is the value of trade payables covered by reverse factoring as at 31 December 2019; in the financial year there were no payments towards the factor. Interest costs incurred towards the factor amounted to PLN 1 million in 2019 and were recognised in the item "finance costs".

Repayment dates of receivables due to reverse factoring do not exceed 12 months, and consequently all payables transferred to reverse factoring are presented as short-term.

The item trade and similar payables contains payables due to the purchase and construction of fixed and intangible assets which, as at 31 December 2019, amounted to PLN 165 million in the non-current part and PLN 855 million in the current part (as at 31 December 2018, respectively PLN 162 million and PLN 844 million).

The Company is exposed to currency risk arising from trade and similar payables and to liquidity risk. Information on currency risk is presented in Note 7.5.1.3 and on liquidity risk in Note 8.3.
The fair value of trade and similar payables approximates the carrying amount.

### Note 10.4 Changes in working capital

**Accounting policies**

Cash flows arising from interest on reverse factoring transactions are presented in cash flows from financing activities. The actually repaid principal amounts of receivables transferred to reverse factoring to a factor are presented in cash flows from operating activities. Moreover, the Company, as regards the changes in working capital in the Statement of cash flows, presented a separate line "Change in trade payables transferred to factoring" for the purposes of clear and transparent presentation.

**Important estimates and assumptions**

The Company implemented reverse factoring in the period ended on 31 December 2019 (more information may be found in Note 10.3).
Since market practice with respect to the presentation of reverse factoring transactions in the Statement of cash flows is not uniform, the Management Board had to apply its own judgment in this regard. In the case of these transactions, the Company had to make a judgment whether expenses related to payments towards the factor should be classified to cash flows from operating activities or to cash flows from financing activities in the statement of cash flows. Pursuant to IAS 7.11, an entity should present cash flows from operating, investing and financing activities in a manner which is most appropriate to its business, because it provides information that allows users of financial statements to assess the impact of those activities on the financial position of the entity and the amount of its cash and cash equivalents.
Due to the above, in the Company's view:

in PLN millions, unless otherwise stated

- presentation of the repayment of the principal amounts of receivables in the reverse factoring in cash flows from operating activities is compliant with the objective of individual transaction elements (more information may be found in Note 10.3). When legal subrogation of receivables is made by the factor, from a legal standpoint he assumes the rights and responsibilities characteristic for trade receivables.
- however, the financial aspect related to the factoring transaction is indicated in presentation of interest in financing activities. This is consistent with recognising this interest in financing costs in the Statement of profit or loss and the accounting policy adopted by the Company for the presentation of interest cost of reverse factoring in the financial activities.

| | Inventories | Trade receivables | Trade payables | Similar payables | Total working capital |
|---|---|---|---|---|---|
| As at 1 December 2019 | (4 102) | ( 310) | 2 082 | - | **(2 330)** |
| As at 31 December 2019 | (3 783) | ( 243) | 2 029 | 596 | **(1 401)** |
| **Change in the statement of financial position** | 319 | 67 | ( 53) | 596 | **929** |
| Depreciation/amortisation recognised in inventories | 52 | - | - | - | **52** |
| Reclassified from property, plant and equipment | 1 | - | - | - | **1** |
| Liabilities due to purchase of property, plant and equipment and intangible assets | - | - | ( 8) | - | **( 8)** |
| Liabilities due to interest on reverse factoring | - | - | - | ( 1) | **( 1)** |
| **Adjustments** | 53 | - | ( 8) | ( 1) | 44 |
| **Change in the statement of cash flows *** | 372 | 67 | ( 61) | 595 | **973** |

*As at 31 December 2019, the Company had reverse factoring liabilities in its working capital in the amount of PLN 595 million. The Company drew the entirety of the liability during 2019, and there were no payments in operating activities due to reverse factoring to the factor.

| | Inventories | Trade receivables | Trade payables | Similar payables | Total working capital |
|---|---|---|---|---|---|
| As at 1 January 2018 | (3 857) | (1 050) | 1 882 | - | **(3 025)** |
| As at 31 December 2018 | (4 102) | ( 310) | 2 082 | - | **(2 330)** |
| **Change in the statement of financial position** | ( 245) | 740 | 200 | - | **695** |
| Depreciation/amortisation recognised in inventories | 49 | - | - | - | **49** |
| Liabilities due to purchase of property, plant and equipment and intangible assets | - | - | ( 191) | - | **( 191)** |
| **Adjustments** | 49 | - | ( 191) | - | **( 142)** |
| **Change in the statement of cash flows** | ( 196) | 740 | 9 | - | **553** |

in PLN millions, unless otherwise stated

# PART 11 – Employee benefits

## Accounting policies

The Company is obliged to pay specified benefits following the period of employment (retirement benefits due to one-off retirement-disability rights, post-mortem benefits and the coal equivalent) and other long-term benefits (jubilee bonuses), in accordance with the Collective Labour Agreement.
The amount of the liabilities due to both of these benefits is estimated at the end of the reporting period by an independent actuary using the projected unit credit method.
The present value of liabilities from these benefits is determined by discounting estimated future cash outflow using the interest rates on treasury bonds expressed in the currency of the future benefits payments, with maturities similar to those of the liabilities due to be paid.
Actuarial gains and losses from the measurement of specified benefits following the period of employment are recognised in other comprehensive income in the period in which they arose. Actuarial gains/losses from the measurement of other benefits (for example benefits due to jubilee bonuses) are recognised in profit or loss.

## Important estimates and assumptions

The carrying amount of the liability due to future employee benefits is equal to the present value of the liabilities due to defined benefits. The amount of the liability depends on many factors, which are used as assumptions in the actuarial method. Any changes to the assumptions may impact the carrying amount of the liability. Interest rates are one of the basic parameters for measuring the liability. At the end of the reporting period, based on the opinion of an independent actuary, an appropriate discount rate for the Company is used for setting the present value of estimated future cash outflow due to these benefits. In setting the discount rate for the reporting period, the actuary extrapolates current interest rates of treasury bonds along the profitability curve expressed in the currency of the future benefits payments, to obtain a discount rate enabling the discounting of payments with maturities which are longer than the maturities of the bonds.

Other macroeconomic assumptions used to measure liabilities due to future employee benefits, such as the inflation rate or the minimum salary, are based on current market conditions. The assumptions used to measurement as at 31 December 2019 are presented in Note 11.2.

| Impact of changes in the indicators on the balance of liabilities | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|
| an increase in the discount rate by 1 percentage point | (340) | ( 316) |
| a decrease in the discount rate by 1 percentage point | 459 | 421 |
| an increase in the coal price increase rate and the salary increase rate by 1% | 446 | 411 |
| a decrease in the coal price increase rate and the salary increase rate by 1% | (336) | ( 316) |

in PLN millions, unless otherwise stated

## Note 11.1 Employee benefits liabilities

| | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|
| Non-current | 2 363 | 2 235 |
| Current | 129 | 141 |
| **Liabilities due to future employee benefits programs** | **2 492** | **2 376** |
| Employee remuneration liabilities | 402 | 365 |
| Accruals (unused annual leave, bonuses, other) | 359 | 277 |
| **Employee liabilities** | **761** | **642** |
| **Total employee benefits liabilities** | **3 253** | **3 018** |

### Employee benefits expenses

| | | from 1 January 2019 to 31 December 2019 | from 1 January 2018 to 31 December 2018 |
|---|---|---|---|
| | Remuneration | 2 423 | 2 222 |
| | Costs of social security and other benefits | 972 | 904 |
| | Costs of future benefits | 199 | 198 |
| Note 4.1 | **Employee benefits expenses** | **3 594** | **3 324** |

## Note 11.2 Changes in liabilities related to future employee benefits programs

| | | Total liabilities | Jubilee awards | Retirement and disability benefits | Coal equivalent | Other benefits |
|---|---|---|---|---|---|---|
| | **As at 1 January 2018** | **1 990** | **303** | **286** | **1 394** | **7** |
| Note 11.1 | Total costs recognised in profit or loss | **198** | 99 | 25 | 74 | 0 |
| | Interest costs | **68** | 11 | 10 | 47 | 0 |
| | Current service costs | **63** | 21 | 15 | 27 | 0 |
| | Actuarial losses recognised in profit or loss | **67** | 67 | - | - | - |
| Note 8.2.2 | Actuarial losses recognised in other comprehensive income | **303** | - | 50 | 238 | 15 |
| | Benefits paid | **( 115)** | ( 40) | ( 28) | ( 46) | ( 1) |
| | **As at 31 December 2018** | **2 376** | **362** | **333** | **1 660** | **21** |
| Note 11.1 | Total costs recognised in profit or loss | **199** | 92 | 28 | 77 | 2 |
| | Interest costs | **67** | 10 | 9 | 47 | 1 |
| | Current service costs | **76** | 26 | 19 | 30 | 1 |
| | Actuarial losses recognised in profit or loss | **56** | 56 | - | - | - |
| Note 8.2.2 | Actuarial (gains)/losses recognised in other comprehensive income | **36** | - | 41 | ( 9) | 4 |
| | Benefits paid | **( 119)** | ( 44) | ( 26) | ( 48) | ( 1) |
| | **As at 31 December 2019** | **2 492** | **410** | **376** | **1 680** | **26** |

in PLN millions, unless otherwise stated

| As at 31 December | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Present value of liabilities due to employee benefits | **2 492** | 2 376 | 1 990 | 1 800 | 1 905 |

**Main actuarial assumptions adopted for measurement as at 31 December 2019:**

| | 2020 | 2021 | 2022 | 2023 | 2024 and beyond |
|---|---|---|---|---|---|
| - discount rate | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| - coal price increase rate | 0.80% | 2.50% | 2.50% | 2.50% | 2.50% |
| - lowest salary increase rate | 15.56% | 15.38% | 4.00% | 4.00% | 4.00% |
| - expected inflation | 2.80% | 2.60% | 2.60% | 2.60% | 2.60% |
| - future expected increase in salary | 6.30% | 4.90% | 4.00% | 4.00% | 4.00% |

**Main actuarial assumptions adopted for measurement as at 31 December 2018:**

| | 2019 | 2020 | 2021 | 2022 | 2023 and beyond |
|---|---|---|---|---|---|
| - discount rate | 2.82% | 2.82% | 2.82% | 2.82% | 2.82% |
| - coal price increase rate | 8.70% | 3.00% | 3.00% | 3.00% | 3.00% |
| - lowest salary increase rate | 7.14% | 4.89% | 5.08% | 4.00% | 4.00% |
| - expected inflation | 3.20% | 2.90% | 2.50% | 2.50% | 2.50% |
| - future expected increase in salary | 5.60% | 5.00% | 4.80% | 3.90% | 3.90% |

The change in actuarial gains/losses was caused by a change in the assumptions in respect of the decrease of the discount rate, the decrease in coal prices and the increase in the lowest salary.
For purposes of reassessment of the liabilities at the end of the current period, the parameters assumed were based on available forecasts of inflation, analysis of coal prices rates and of the lowest salary rates, and also based on the anticipated profitability of non-current treasury bonds.

**Actuarial gains/losses as at 31 December 2019 versus assumptions adopted as at 31 December 2018**

| | |
|---|---|
| Change in financial assumptions | 90 |
| Change in demographic assumptions | ( 11) |
| Other changes | 13 |
| **Total actuarial (gains)/losses** | **92** |

**Actuarial gains/losses as at 31 December 2018 versus assumptions adopted as at 31 December 2017**

| | |
|---|---|
| Change in financial assumptions | 275 |
| Change in demographic assumptions | ( 58) |
| Other changes | 153 |
| **Total actuarial (gains)/losses** | **370** |

in PLN millions, unless otherwise stated

**Maturity profile of future employee benefits liabilities**

| Year of maturity: | Total liabilities | Jubilee awards | Retirement and disability benefits | Coal equivalent | Post-mortem benefits |
|---|---|---|---|---|---|
| 2020 | **129** | 42 | 32 | 54 | 1 |
| 2021 | **163** | 32 | 69 | 61 | 1 |
| 2022 | **98** | 26 | 11 | 59 | 2 |
| 2023 | **98** | 25 | 14 | 58 | 1 |
| 2024 | **98** | 25 | 15 | 57 | 1 |
| Other years | **1 906** | 260 | 235 | 1 391 | 20 |
| **Total liabilities in the statement of financial position as at 31 December 2019** | **2 492** | **410** | **376** | **1 680** | **26** |

**Maturity profile of future employee benefits liabilities**

| Year of maturity: | Total liabilities | Jubilee awards | Retirement and disability benefits | Coal equivalent | Post-mortem benefits |
|---|---|---|---|---|---|
| 2019 | **141** | 37 | 49 | 53 | 2 |
| 2020 | **150** | 33 | 53 | 63 | 1 |
| 2021 | **97** | 23 | 12 | 61 | 1 |
| 2022 | **94** | 23 | 10 | 60 | 1 |
| 2023 | **95** | 23 | 13 | 58 | 1 |
| Other years | **1 799** | 222 | 196 | 1 364 | 17 |
| **Total liabilities in the statement of financial position as at 31 December 2018** | **2 376** | **361** | **333** | **1 659** | **23** |

in PLN millions, unless otherwise stated

# PART 12 – Other notes

## Note 12.1 Related party transactions

The accounting policies and important estimates and assumptions presented in Note 10 are applicable to transactions entered into with related parties.

| Operating income from related parties | from 1 January 2019 to 31 December 2019 | from 1 January 2018 to 31 December 2018 |
|---|---|---|
| From subsidiaries | 890 | 1 163 |
| From joint ventures | 2 | 21 |
| **Total** | **892** | **1 184** |

In 2019, dividends from subsidiaries amounted to PLN 37 million (in the comparable period: PLN 239 million).

| | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|
| **Trade and other receivables from related parties** | **7 879** | **6 818** |
| From subsidiaries, including: | 7 770 | 6 716 |
| loans granted | 7 219 | 6 271 |
| From joint ventures | 109 | 102 |
| | | |
| **Payables towards related parties** | **1 031** | **997** |
| Towards subsidiaries | 1 015 | 986 |
| Towards joint ventures | 16 | 11 |

| | from 1 January 2019 to 31 December 2019 | from 1 January 2018 to 31 December 2018 |
|---|---|---|
| **Purchases from related entities** | **5 244** | **5 039** |
| Purchase of products, merchandise, materials and other purchases from subsidiaries | 5 244 | 5 039 |

The State Treasury is an entity controlling KGHM Polska Miedź S.A. at the highest level. The Company makes use of the exemption to disclose information on transactions with the Polish Government and entities controlled or jointly controlled by the Polish Government, or over which the Polish Government has significant influence (IAS 24.25).

As at 31 December 2019, the balances of payables due to agreements necessary to conduct principal operating activities of the Company in the amount of PLN 203 million (as at 31 December 2018: PLN 200 million) were comprised of:

- setting mining usufruct – fixed fees and mining usufructs for exploration and evaluation of mineral resources – in the total amount of PLN 174 million (as at 31 December 2018: PLN 170 million),
- setting mining usufruct – variable part (recognised in costs) in the amount of PLN 29 million (in 2018: PLN 30 million).

As at 31 December 2019, the Company had reverse factoring payables towards PEKAO FAKTORING SP. Z O.O. – a company related to the State Treasury - in the amount of PLN 596 million.

In 2019, banks related to the State Treasury executed the following transactions and economic operations on the Company's behalf: spot currency exchange, depositing cash, granting bank loans and guarantees, running bank accounts, bond issuance consultancy, the purchase of bonds, the servicing of special purpose funds, entering into options and option structures as well as CIRS hedging transactions, and establishing letters of credit.

in PLN millions, unless otherwise stated

State Treasury companies may purchase bonds issued by KGHM Polska Miedź S.A.

In the current and comparable periods, no other individual transactions were identified which would be considered as significant in terms of unusual scope and amount.

The remaining transactions, which were collectively significant, between the Company and the Polish Government and with entities controlled or jointly controlled by the Polish Government, or over which the government has significant influence, were within the scope of normal, daily economic operations, carried out at arm's length. These transactions concerned the following:

- the purchase of goods to meet the needs of current operating activities. In the period from 1 January to 31 December 2019, the turnover from these transactions amounted to PLN 748 million (from 1 January to 31 December 2018: PLN 910 million), and, as at 31 December 2019, the unsettled balance of liabilities from these transactions amounted to PLN 118 million (as at 31 December 2018: PLN 131 million),
- sales to Polish State Treasury Companies. In the period from 1 January to 31 December 2019, the turnover from these sales amounted to PLN 84 million (from 1 January to 31 December 2018: PLN 41 million), and, as at 31 December 2019, the unsettled balance of receivables from these transactions amounted to PLN 7 million (as at 31 December 2018: PLN 6 million).

## Note 12.2 Dividends paid

In accordance with Resolution No. 7/2019 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 7 June 2019 regarding the appropriation of the profit for financial year 2018, the entirety of the profit was transferred to the Company's reserve capital.

In accordance with Resolution No. 10/2018 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 6 July 2018 regarding appropriation of the profit for financial year 2017, the entirety of the profit was transferred to the Company's reserve capital.

All of the Company's shares are bearer shares.

## Note 12.3 Other assets

| **Accounting policies** |
|---|
| Receivables not constituting financial assets are initially recognised at nominal value, and at the end of the reporting period they are measured in the amount receivable.<br>Accounting policies concerning financial assets were described in Note 7. |

| | | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|---|
| | **Other non-current non-financial assets** | **58** | **24** |
| | Non-financial advances | 35 | 15 |
| | Prepayments | 23 | 9 |
| | **Other current assets** | **275** | **291** |
| Note 7.1 | Other current financial assets | **221** | **242** |
| | Receivables due to guarantees granted | 84 | 97 |
| | Receivables due to payments for letters of credit | 86 | 63 |
| | Loans granted | 10 | 17 |
| | Other | 41 | 65 |
| | Other current non-financial assets | **54** | **49** |
| | Non-financial advances | 36 | 36 |
| | Other | 18 | 13 |

in PLN millions, unless otherwise stated

## Note 12.4 Other liabilities

| Accounting policies |
|---|
| Other financial liabilities are initially recognised at fair value less transaction cost, and at the end of the reporting period they are measured at amortised cost. |

| | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|
| Trade payables | 165 | 162 |
| Other | 52 | 37 |
| **Other liabilities – non-current** | **217** | **199** |
| Special funds | 360 | 335 |
| Accruals, including: | 171 | 120 |
| provision for purchase of property rights related to consumed electricity | 53 | 45 |
| charge for discharging of gases and dusts to the air | 90 | 48 |
| Non-financial advances | 1 | 3 |
| Acquisition of investment certificates | - | 133 |
| Liabilities due to the settlement of the Tax Group | 26 | 10 |
| Deferred income | 4 | 14 |
| Other liabilities due to settlements under cash pooling contracts | 74 | - |
| Other | 128 | 96 |
| **Other liabilities – current** | **764** | **711** |

## Note 12.5 Assets and liabilities not recognised in the statement of financial position

The value of contingent assets and liabilities and other liabilities not recognised in the statement of financial position were determined based on estimates.

| | | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|---|
| | **Contingent assets** | **731** | **558** |
| | Guarantees received | 256 | 168 |
| | Promissory notes receivables | 347 | 225 |
| | Other | 128 | 165 |
| | **Contingent liabilities** | **2 073** | **2 370** |
| Note 8.6 | Guarantees granted | 1 950 | 2 207 |
| Note 8.6 | A promissory note | 16 | 16 |
| | Other | 107 | 147 |
| | **Other liabilities not recognised in the statement of financial position** | **107** | **113** |
| | Liabilities towards local government entities due to expansion of the tailings storage facility | 107 | 113 |

in PLN millions, unless otherwise stated

### Note 12.6 Capital commitments related to property, plant and equipment and intangible assets

Capital commitments incurred in the reporting period, but not yet recognised in the statement of financial position, were as follows (as at 31 December of a given year):

| | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|
| Capital commitments due to the purchase of: | | |
| property, plant and equipment | 2 347 | 2 671 |
| intangible assets | 322 | 74 |
| **Total capital commitments** | **2 669** | **2 745** |

### Note 12.7 The right of perpetual usufruct of land

The Company obtained the right of perpetual usufruct of land mostly free of charge on the basis of laws in force. The land subject to perpetual usufruct is industrial area related to the core business activities, which also includes protective zones in which environmental quality standards have been exceeded as a result of the activities carried out.

Due to the nature of the use of the above-mentioned land, as at 31 December 2018 the Company had not determined fair values for these perpetual usufruct rights.

The table below contains information on future payments due to the right of perpetual usufruct of land as at 31 December 2018. The Company's liabilities due to the right of perpetual usufruct of land for 2018, which were not recognised in the statement of financial position, were estimated on the basis of annual payment rates resulting from recent administrative decisions and the useful life of the land subject to this right.

| | As at 31 December 2018 |
|---|---|
| Under one year | 11 |
| From one to five years | 44 |
| Over five years | 564 |
| **Total value of future contingent payments due to the right of perpetual usufruct of land** | **619** |

As at 1 January 2019 the Company implemented IFRS 16 Leases, and recognises perpetual usufruct rights to land in the statement of financial position. Details regarding the implementation of IFRS 16 are described in note 1.4, Impact of new and amended standards and interpretations.

### Note 12.8 Employment structure

| | from 1 January 2019 to 31 December 2019 | from 1 January 2018 to 31 December 2018 |
|---|---|---|
| White-collar employees | 4 800 | 4 745 |
| Blue-collar employees | 13 644 | 13 586 |
| **Total** (full-time) | **18 444** | **18 331** |

in PLN millions, unless otherwise stated

## Note 12.9 Other adjustments in the statement of cash flows

| | from 1 January 2019 to 31 December 2019 | from 1 January 2018 to 31 December 2018 |
|---|---|---|
| Losses on the sales of property, plant and equipment and intangible assets | 14 | 26 |
| Proceeds from income tax from the tax group companies | 49 | 10 |
| Other | ( 3) | ( 2) |
| **Total** | **60** | **34** |

| Accounting policies |
|---|
| In cash flows from operating activities in the statement of cash flows, the Company presents receivables due to cash pooling and other liabilities due to settlements within cash pooling agreements in the item "change in other receivables and liabilities". Receivables due to cash pooling are receivables from Group companies, which at the end of the reporting period incurred a debt within the cash pooling agreement. Other liabilities due to settlement within cash pooling agreements are liabilities of the Company towards participants in the cash pooling system to repay, after the end of the reporting period, of cash transferred by them, which were not used by the Company for its own needs.<br><br>Within cash flows from financing activities, the Company presents proceeds and expenses due to cash pooling and they represent the Company's debt towards participants in the cash pooling system, that is cash which the Company uses for its own needs. |

The cash pooling system was implemented in the KGHM Polska Miedź S.A. Group to actively manage the current shortages and surpluses of cash on bank accounts of companies participating in the system to possibly the most efficiently manage the cash and limits of debt with high volatility and liquidity. Because of this, KGHM Polska Miedź S.A., as a participant in the system as well as a coordinator in the system, does not treat this activity as an investment activity established in order to invest free cash and generate profits, but solely as supporting Group companies in managing their current shortages and surpluses.

## Note 12.10. Remuneration of key managers

| Remuneration of members of the Management Board (in PLN thousands) | from 1 January 2019 to 31 December 2019 | | | |
|---|---|---|---|---|
| | Period when function served | Remuneration for the period of service as a member of the Management Board | Benefits due to termination of employment | Total earnings |
| ***Members of the Management Board serving in the function as at 31 December 2019*** | | | | |
| Marcin Chludziński | 01.01-31.12 | 1 213 | - | **1 213** |
| Radosław Stach | 01.01-31.12 | 1 102 | - | **1 102** |
| Katarzyna Kreczmańska-Gigol | 01.01-31.12 | 1 132 | - | **1 132** |
| Adam Bugajczuk | 01.01-31.12 | 1 006 | - | **1 006** |
| Paweł Gruza | 01.01-31.12 | 984 | - | **984** |
| ***Members of the Management Board not serving in the function as at 31 December 2019*** | | | | |
| Stefan Świątkowski | - | - | 6 | **6** |
| Rafał Pawełczak | - | - | 6 | **6** |
| **TOTAL** | | **5 437** | **12** | **5 449** |

| Remuneration of members of the Management Board (in PLN thousands) | from 1 January 2018 to 31 December 2018 | | | |
|---|---|---|---|---|
| | Period when function served | Remuneration for the period of service as a member of the Management Board | Benefits due to termination of employment | Total earnings |
| ***Members of the Management Board serving in the function as at 31 December 2018*** | | | | |
| Marcin Chludziński | 06.07-31.12 | 405 | - | **405** |
| Radosław Stach | 06.07-31.12 | 362 | - | **362** |
| Katarzyna Kreczmańska-Gigol | 06.07-31.12 | 380 | - | **380** |
| Adam Bugajczuk | 24.08-31.12 | 263 | - | **263** |
| Paweł Gruza | 10.09-31.12 | 230 | - | **230** |
| ***Members of the Management Board not serving in the function as at 31 December 2018*** | | | | |
| Stefan Świątkowski | 01.01-06.07 | 456 | 421 | **877** |
| Rafał Pawełczak | 01.01-06.07 | 456 | 421 | **877** |
| Ryszard Jaśkowski | 01.01-06.07 | 441 | 101 | **542** |
| Radosław Domagalski - Łabędzki | 01.01-10.03 | 171 | 427 | **598** |
| Michał Jezioro | 01.01-10.03 | 165 | 427 | **592** |
| Piotr Walczak | - | - | 124 | **124** |
| **TOTAL** | | **3 329** | **1 921** | **5 250** |

| Remuneration of members of the Supervisory Board (in PLN thousands) | from 1 January 2019 to 31 December 2019 | | | |
|---|---|---|---|---|
| | Period when function served | Current employee benefits | Current benefits due to serving in the function | Total earnings |
| ***Members of the Supervisory Board serving in the function as at 31 December 2019*** | | | | |
| Andrzej Kisielewicz | 01.01-31.12 | - | 134 | **134** |
| Leszek Banaszak | 01.01-31.12 | - | 122 | **122** |
| Bogusław Szarek | 01.01-31.12 | 222 | 123 | **345** |
| Jarosław Janas | 01.01-31.12 | - | 122 | **122** |
| Marek Pietrzak | 01.01-31.12 | - | 122 | **122** |
| Agnieszka Winnik -Kalemba | 01.01-31.12 | - | 122 | **122** |
| Ireneusz Pasis | 01.01-31.12 | - | 122 | **122** |
| Józef Czyczerski | 01.01-31.12 | 174 | 122 | **296** |
| Bartosz Piechota | 01.01-31.12 | - | 122 | **122** |
| ***Members of the Supervisory Board not serving in the function as at 31 December 2019*** | | | | |
| Janusz Marcin Kowalski | 01.01-11.11 | - | 105 | **105** |
| **TOTAL** | | **396** | **1 216** | **1 612** |

| Remuneration of members of the Supervisory Board (in PLN thousands) | from 1 January 2018 to 31 December 2018 | | | |
|---|---|---|---|---|
| | Period when function served | Current employee benefits | Current benefits due to serving in the function | Total earnings |
| ***Members of the Supervisory Board serving in the function as at 31 December 2018*** | | | | |
| Andrzej Kisielewicz | 06.07-31.12 | - | 60 | **60** |
| Leszek Banaszak | 06.07-31.12 | - | 55 | **55** |
| Bogusław Szarek | 01.01-31.12 | 221 | 114 | **335** |
| Jarosław Janas | 06.07-31.12 | - | 55 | **55** |
| Marek Pietrzak | 01.01-31.12 | - | 114 | **114** |
| Agnieszka Winnik -Kalemba | 01.01-31.12 | - | 114 | **114** |
| Ireneusz Pasis | 06.07-31.12 | - | 55 | **55** |
| Józef Czyczerski | 01.01-31.12 | 135 | 114 | **249** |
| Bartosz Piechota | 06.07-31.12 | - | 55 | **55** |
| Janusz Marcin Kowalski | 01.01-31.12 | - | 114 | **114** |
| ***Members of the Supervisory Board not serving in the function as at 31 December 2018*** | | | | |
| Leszek Hajdacki | 01.01-06.07 | 109 | 59 | **168** |
| Dominik Hunek | 01.01-06.07 | - | 65 | **65** |
| Michał Czarnik | 01.01-06.07 | - | 59 | **59** |
| Jarosław Witkowski | 01.01-06.07 | - | 59 | **59** |
| Wojciech Andrzej Myślecki | 01.01-03.04 | - | 30 | **30** |
| **TOTAL** | | **465** | **1 122** | **1 587** |

### Note 12.11 Remuneration of the entity entitled to audit the financial statements and of entities related to it (in PLN thousands)

| | from 1 January 2019 to 31 December 2019 | from 1 January 2018 to 31 December 2018 |
|---|---|---|
| **Deloitte Audyt Spółka z ograniczoną odpowiedzialnością Sp. k.** | | |
| From the contract for the review and audit of financial statements, of which due to: | **-** | 896 |
| audit of annual financial statements | - | 589 |
| assurance services, of which: | **-** | **307** |
| review of financial statements | - | 256 |
| other assurance services | - | 51 |
| **Other Companies from the Deloitte Polska Group - from other contracts** | **-** | 17 |
| **PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt Sp.k.** | | |
| From the contract for the review and audit of financial statements, of which due to: | **1 037** | - |
| audit of annual financial statements | 689 | - |
| assurance services, of which: | **348** | **-** |
| review of financial statements | 324 | - |
| other assurance services | 24 | - |
| **Other Companies from the PricewaterhouseCoopers Polska Group - from other contracts** | **61** | - |

### Note 12.12 Disclosure of information on the Company's activities regulated by the Act on Energy

#### Note 12.12.1 Introduction

KGHM Polska Miedź S.A. meets the definition of an "energy enterprise" under the Act on Energy.

Pursuant to article 44 of the Act on Energy, the Company is required to prepare, on the basis of the Company's accounting records, information about its regulated activities. The scope of information concerning regulated activities, pursuant to article 44 of the aforementioned Act, constitute the Company's business activities in:

- distribution of electricity;
- distribution of gaseous fuels; and
- trade in gaseous fuels.

#### Note 12.12.2 Description of regulated activities

KGHM Polska Miedź S.A. conducts the following types of energy-related activities:

- **Distribution of electricity** – an activity which consists of distributing the electricity, used to meet the needs of clients conducting business activities;
- **Trade in gaseous fuels** – an activity which consists of trading in nitrogen-enriched natural gas and is conducted to meet the needs of clients engaged in business activities; and
- **Distribution of gaseous fuels** – an activity which consists of distributing nitrogen-enriched natural gas by utilising the distribution grids located in the Legnica and Głogów municipalities in order to meet the needs of clients conducting business activities.

#### Note 12.12.3 Basic principles of regulatory accounting

Regulatory accounting is a specific type of accounting, if compared to the accounting carried out in accordance with the Accounting Act of 29 September 1994, conducted by an entrepreneur for its regulated activities including energy activities.

In addition to the accounting policies which were described in the financial statements and were the basis for the keeping of the accounting records and for preparation of the Company's financial statements, KGHM Polska Miedź S.A. applies the following accounting policies for the purposes of regulatory accounting:

### Causality principle
The allocation of particular revenue and costs is made in accordance with a given assets' intended purpose and utilisation of assets to meet the needs of a specified type of activity or service, with the causality principle governing the recognition of items of revenue and costs in specified types of activity and with the principle of consistency between recognition by types of activity of items of revenue and costs, which stems from the fact that these items reflect different aspects of the same events.

### Objectivity and non-discrimination principle
The allocation of assets, liabilities, equity, revenue and costs is done objectively and is not aimed at making profits or incurring losses.

### Continuation and comparability principle
The methods and principles used in preparing the report on regulatory accounting are applied in a continuous manner. This report was prepared using the same principles for the current and comparable periods.

### Transparency and consistency principle
The methods applied in preparing the report on regulatory accounting are transparent and consistent with the methods and principles applied in other calculations performed for regulatory purposes and with the methods and principles applied in preparing the financial statements.

### Materiality principle (feasibility principle)
The Company permits certain simplifications in measurement, recognition and allocation of items of assets, liabilities, equity, revenue and costs as long as it does not significantly distort the true picture of the financial position and assets presented in the financial statements on regulated activities.

### Note 12.12.4 Detailed principles of regulatory policy – methods and principles governing the allocation of assets, liabilities, equity, costs and revenues

The Company prepares financial information on its regulated activities by overlapping the regulated activities' structure with the Company's organisational structure. The Company applies, in a continuous manner, various methods for the allocation of revenue, costs, assets and liabilities to specific types of regulated activities. The following methods were used:

**- specific (direct) identification method** – applied if a direct identification of value is possible, for example the level of revenue from certain activities,

**- direct allocation method** (e.g. the purchase cost of production fuel) – this method is applied if there is a direct cause-and-effect relationship between the consumed resource and the corresponding cost,

**- indirect allocation method** on the basis of a predetermined allocation key, this method is used among others, to allocate cost in a situation where no direct cause-and-effect relationship between the utilised resource and the cost item exists and there is a need to use a cost driver (an allocation key) which enables linkage of items with their respective cost. The most commonly used allocation keys are:

- revenue key – value of revenue is the allocation key;
- production key – production units are the allocation key;
- power key – the installed power of machines and equipment is used for the allocation of indirect costs;
- cost key – the value of costs is the allocation key;
- mixed keys, which combine elements of several different keys; and
- other keys appropriate for a specific case.

#### Assets

In the statement of financial position of KGHM Polska Miedź S.A. for the current and comparable periods, the following items of assets of regulated activities were recognised:

Non-current assets:

1.Fixed assets;
2.Fixed assets under construction;

Current assets:

1. Trade receivables.

Other items of assets in the Company's statement of financial position were allocated to other activities due to the lack of a link between these items and regulated activities, or because the share of these items in regulated activities is immaterial.

#### Fixed assets

The identification and allocation of specific items of fixed assets to regulated activities takes place when these items of fixed assets are brought into use. Based on the key consumption for energy carriers, being the quantitative share in sales of the energy carrier in the total volume of the purchased energy carrier less losses, the percentage in the carrying amount of fixed assets used in the energy activities is established.

$$\text{Share} = \frac{\text{Volume of energy carriers sold externally in the reporting period x 100\%}}{\text{Total volume of purchased energy carrier for the reporting period – losses}}$$

#### Fixed assets under construction

The allocation of fixed assets under construction to regulated activities is achieved by the detailed identification of expenditures on fixed assets under construction which are related to regulated activities, based on the analysis of accounting records. The remaining expenditures on fixed assets under construction are recognised in other activities of the Company.
The Company recognises the full amount of deferred tax assets due to other deductible temporary differences under other activities, due to their immaterial share in regulated activities.

### Trade receivables

Allocation of receivables in specific types of regulated activities is done on the basis of detailed identification of revenues from specific types of regulated activities, by analysing the accounting records with respect to unsettled sales invoices. The remaining amount of trade receivables is recognised in other activities. The Company recognises the full amount of other receivables (i.e. apart from trade receivables) in other activities due to their immaterial share in regulated activities.

### Equity and liabilities

In the statement of financial position, the following items were recognised in equity and liabilities for the current and comparable periods with respect to regulated activities:

Equity

Liabilities

I. Non-current liabilities:
   1. Deferred tax liabilities;
   2. Future employee benefits liabilities.

II. Current liabilities:
   1. Future employee benefits liabilities.

The full amount of other items of liabilities are recognised by the Company in other activities, due to their immaterial share in regulated activities.

### Equity

The Company allocates equity to regulated activities as an item offsetting the assets and liabilities.

### Deferred tax liabilities

With respect to regulated activities, deferred tax liabilities were identified arising from taxable temporary differences between the depreciation of property, plant and equipment and intangible assets for tax purposes and their carrying amount.

The allocation of deferred tax liabilities due to the depreciation of property, plant and equipment and the amortisation of intangible assets, with respect to regulated activities, is performed through the use of indicators set for property, plant and equipment and intangible assets. The Company allocates all deferred tax liabilities arising from other taxable temporary differences to other operating activities.

### Non-current and current liabilities due to future employee benefits

Liabilities due to future employee benefits are allocated to individual types of regulated activities using a revenue key through the indirect allocation method.

### Revenues from sales

Following an analysis of revenues in terms of their allocation to individual types of regulated activities, the Company identified groups of operations which met the following conditions:

- revenues from the sale of electricity – distribution;
- revenues from the sale of nitrogen-enriched natural gas – distribution; and
- revenues from the sale of nitrogen-enriched natural gas – trade.

Revenues from sales are allocated to individual types of regulated activities using the individual identification method.

### Operating costs

Following an analysis of costs in terms of their allocation to individual types of regulated activities, the following types of operating costs were identified:

- costs of electricity distribution services and the distribution of natural gas;
- the value of the sold merchandise related to trade in natural gas; and
- administrative expenses associated with electricity sold.

Costs of sales, selling costs and administrative expenses are allocated to separate types of regulated activities based on the Company's account of the actual costs.

### Income tax

The amount of income tax presented in the statement of profit or loss for individual types of regulated activities is set as a multiple of the financial result and the effective tax rate. The amount of current income tax decreases or increases deferred income tax, which is calculated from the difference between the carrying amount and the taxable amount of the respective assets of regulated activities.

in PLN millions, unless otherwise stated

**Statement of financial position pursuant to article 44 of the Act on Energy**

| As at 31 December 2019 | Company in total | Principal activities | Energy activities, of which: | Electricity | | Gas |
|---|---|---|---|---|---|---|
| | | | | Distribution | Trade | Distribution |
| **ASSETS** | | | | | | |
| Property, plant and equipment | 18 195 | 18 046 | 149 | 147 | - | 2 |
| Intangible assets | 712 | 712 | - | - | - | - |
| Deferred tax assets | - | - | - | - | - | - |
| Other non-current assets | 11 204 | 11 204 | - | - | - | - |
| **Non-current assets** | **30 111** | **29 962** | **149** | **147** | **-** | **2** |
| | | | | | | |
| Inventories | 3 783 | 3 783 | - | - | - | - |
| Trade receivables | 243 | 237 | 6 | 5 | 1 | - |
| Other current assets | 1 852 | 1 852 | - | - | - | - |
| **Current assets** | **5 878** | **5 872** | **6** | **5** | **1** | **-** |
| **TOTAL ASSETS** | **35 989** | **35 834** | **155** | **152** | **1** | **2** |
| **EQUITY AND LIABILITIES** | | | | | | |
| **Equity** | **19 889** | **19 745** | **144** | **141** | **1** | **2** |
| | | | | | | |
| Employee benefits liabilities | 2 363 | 2 361 | 2 | 2 | - | - |
| Provisions for decommissioning costs of mines and other technological facilities | 1 119 | 1 119 | - | - | - | - |
| Other non-current liabilities | 7 623 | 7 614 | 9 | 9 | - | - |
| **Non-current liabilities** | **11 105** | **11 094** | **11** | **11** | **-** | **-** |
| | | | | | | |
| Employee benefits liabilities | 890 | 890 | - | - | - | - |
| Other current liabilities | 4 105 | 4 105 | - | - | - | - |
| **Current liabilities** | **4 995** | **4 995** | **-** | **-** | **-** | **-** |
| **TOTAL LIABILITIES** | **16 100** | **16 089** | **11** | **11** | **-** | **-** |
| **TOTAL EQUITY AND LIABILITIES** | **35 989** | **35 834** | **155** | **152** | **1** | **2** |

in PLN millions, unless otherwise stated

| As at 31 December 2018 | Company in total | Principal activities | Energy activities, of which: | Electricity | Gas | |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | Distribution | Turnover | Distribution |
| Property, plant and equipment | 16 474 | 16 324 | 150 | 150 | - | - |
| Intangible assets | 628 | 628 | - | - | - | - |
| Deferred tax assets | 9 | 9 | - | - | - | - |
| Other non-current assets | 10 987 | 10 987 | - | - | - | - |
| **Non-current assets** | **28 098** | **27 948** | **150** | **150** | **-** | **-** |
| | | | | | | |
| Inventories | 4 102 | 4 102 | - | - | - | - |
| Trade receivables | 310 | 307 | 3 | 1 | 1 | 1 |
| Other current assets | 1 740 | 1 740 | - | - | - | - |
| **Current assets** | **6 152** | **6 149** | **3** | **1** | **1** | **1** |
| **TOTAL ASSETS** | **34 250** | **34 097** | **153** | **151** | **1** | **1** |
| **EQUITY AND LIABILITIES** | | | | | | |
| **Equity** | **19 045** | **18 899** | **146** | **144** | **1** | **1** |
| | | | | | | |
| Employee benefits liabilities | 2 235 | 2 234 | 1 | 1 | - | - |
| Provisions for decommissioning costs of mines and other technological facilities | 980 | 980 | - | - | - | - |
| Other non-current liabilities | 7 025 | 7 019 | 6 | 6 | - | - |
| **Non-current liabilities** | **10 240** | **10 233** | **7** | **7** | **-** | **-** |
| | | | | | | |
| Employee benefits liabilities | 783 | 783 | - | - | - | - |
| Other current liabilities | 4 182 | 4 182 | - | - | - | - |
| **Current liabilities** | **4 965** | **4 965** | **-** | **-** | **-** | **-** |
| **TOTAL LIABILITIES** | **15 205** | **15 198** | **7** | **7** | **-** | **-** |
| **TOTAL EQUITY AND LIABILITIES** | **34 250** | **34 097** | **153** | **151** | **1** | **1** |

in PLN millions, unless otherwise stated

## Statement of profit or loss pursuant to article 44 of the Act on Energy

| from 1 January 2019 to 31 December 2019 | Company in total | Principal activities | Energy activities, of which: | Electricity | | Gas |
|---|---|---|---|---|---|---|
| | | | | Distribution | Trade | Distribution |
| Revenues from contracts with customers | 17 683 | 17 635 | 48 | 25 | 19 | 4 |
| Cost of sales | (14 296) | (14 250) | ( 46) | ( 34) | ( 11) | ( 1) |
| **Gross profit** | **3 387** | **3 385** | **2** | **( 9)** | **8** | **3** |
| Selling costs and administrative expenses | ( 995) | ( 995) | - | - | - | - |
| **Profit on sales** | **2 392** | **2 390** | **2** | **( 9)** | **8** | **3** |
| Other operating income and costs | 39 | 39 | - | - | - | - |
| Finance income/(costs) | ( 504) | ( 504) | - | - | - | - |
| **Profit before income tax** | **1 927** | **1 925** | **2** | **( 9)** | **8** | **3** |
| Income tax expense | ( 663) | ( 654) | ( 9) | ( 6) | ( 2) | ( 1) |
| **Profit for the period** | **1 264** | **1 271** | **( 7)** | **( 15)** | **6** | **2** |

| from 1 January 2018 to 31 December 2018 | Company in total | Principal activities | Energy activities, of which: | Electricity | | Gas |
|---|---|---|---|---|---|---|
| | | | | Distribution | Trade | Distribution |
| Revenues from contracts with customers | 15 757 | 15 743 | 14 | 7 | 6 | 1 |
| Cost of sales | (12 537) | (12 516) | ( 21) | ( 14) | ( 7) | - |
| **Gross profit** | **3 220** | **3 227** | **( 7)** | **( 7)** | **( 1)** | **1** |
| Selling costs and administrative expenses | ( 923) | ( 923) | - | - | - | - |
| **Profit on sales** | **2 297** | **2 304** | **( 7)** | **( 7)** | **( 1)** | **1** |
| Other operating income and costs | 1 149 | 1 149 | - | - | - | - |
| Finance income/(costs) | ( 774) | ( 774) | - | - | - | - |
| **Profit before income tax** | **2 672** | **2 679** | **( 7)** | **( 7)** | **( 1)** | **1** |
| Income tax expense | ( 647) | ( 641) | ( 6) | ( 6) | - | - |
| **Profit for the period** | **2 025** | **2 038** | **( 13)** | **( 13)** | **( 1)** | **1** |

### Note 12.13 Subsequent events after the reporting period

#### Information on the impact of the spread of the (coronavirus) COVID–19 on KGHM Polska Miedź S.A. after the end of the reporting period

Due to the emergence at the end of 2019 in China, and the subsequent global spread of the coronavirus COVID-19, KGHM Polska Miedź S.A. is continuously monitoring the global economic situation and the potential negative impact on KGHM Polska Miedź S.A.

Concerns related to the further spread of the virus resulted in the first quarter of 2020, among others, in the fall of copper prices and the volatility of exchange rates, as well as the fall of prices of listed shares, including those of the Company.

The closing price from the last day of trading in 2019 amounted to 95.58 PLN/share, while on 13 March 2020 the share price amounted to 52.48 PLN/share, which is a decrease of 45.1%. According to the last official trading day in 2019, the cash settlement price of copper amounted to PLN 6 156 USD/t, while on 13 March 2020 the cash settlement price of copper amounted to 5 460 USD/t, which is a decrease of 11.3%.

The impact of the epidemic will be taken into account in 2020 when evaluating the risk of impairment of assets.

KGHM Polska Miedź S.A. is undertaking on-going actions to limit its exposure to risk, especially with respect to employee safety and maintaining supply chain, and systematically manages the risk of the negative impact of decreases in market copper prices.

Currently, the risk of disruptions due to coronavirus is judged to be low. Nevertheless, if the epidemic continues to impact the global economy, the situation may result in future negative financial and organisational consequences for KGHM Polska Miedź S.A.

#### Annex to agreement on reverse factoring services

On 9 March 2020 the Company signed an annex to the agreement on reverse factoring services dated 19 September 2019 entered into with Pekao Faktoring Sp. z o.o., increasing the factoring limit by PLN 250 million, i.e. to the amount of PLN 1 billion. The remaining terms of the agreement were unchanged.

# PART 13 - Quarterly financial information of KGHM Polska Miedź S.A.

## STATEMENT OF PROFIT OR LOSS

| | from 1 October 2019 to 31 December 2019 | from 1 October 2018 to 31 December 2018 | from 1 January 2019 to 31 December 2019 | from 1 January 2018 to 31 December 2018 |
|---|---|---|---|---|
| Revenues from contracts with customers | 4 633 | 4 440 | 17 683 | 15 757 |
| Cost of sales | (3 925) | (3 642) | (14 296) | (12 537) |
| **Gross profit** | **708** | **798** | **3 387** | **3 220** |
| Selling costs and administrative expenses | ( 291) | ( 269) | ( 995) | ( 923) |
| **Profit on sales** | **417** | **529** | **2 392** | **2 297** |
| Other operating income | 185 | 783 | 1 228 | 2 799 |
| interest income calculated using the effective interest rate method | 58 | 55 | 269 | 242 |
| reversal of impairment losses on financial instruments | 27 | 78 | 156 | 1 048 |
| Other operating costs, including: | (1 162) | ( 293) | (1 189) | (1 650) |
| impairment losses on financial instruments | ( 24) | 31 | ( 54) | ( 778) |
| Finance income | 300 | ( 17) | 37 | 11 |
| Finance costs | ( 183) | ( 258) | ( 541) | ( 785) |
| **Profit/(Loss) before income tax** | **( 443)** | **744** | **1 927** | **2 672** |
| Income tax expense | 44 | ( 149) | ( 663) | ( 647) |
| **PROFIT/(LOSS) FOR THE PERIOD** | **( 399)** | **595** | **1 264** | **2 025** |

| | | | | |
|---|---|---|---|---|
| **Weighted average number of ordinary shares (million)** | **200** | **200** | **200** | **200** |
| **Basic/diluted earnings per share (in PLN)** | **( 2.00)** | **2.98** | **6.32** | **10.13** |

in PLN millions, unless otherwise stated

# Explanatory notes to the statement of profit or loss

## Note 13.1 Expenses by nature

| | from 1 October 2019 to 31 December 2019 | from 1 October 2018 to 31 December 2018 | from 1 January 2019 to 31 December 2019 | from 1 January 2018 to 31 December 2018 |
|---|---|---|---|---|
| Depreciation of property, plant and equipment and amortisation of intangible assets | 335 | 305 | 1 298 | 1 173 |
| Employee benefits expenses | 936 | 805 | 3 594 | 3 324 |
| Materials and energy, including: | 1 540 | 1 471 | 6 196 | 5 312 |
| Purchased metal-bearing materials | 890 | 862 | 3 778 | 3 040 |
| Electrical and other energy | 255 | 203 | 939 | 803 |
| External services, including: | 486 | 455 | 1 767 | 1 649 |
| Transport | 59 | 58 | 239 | 216 |
| Repairs, maintenance and servicing | 167 | 150 | 538 | 511 |
| Mine preparatory work | 138 | 115 | 534 | 477 |
| Minerals extraction tax | 328 | 374 | 1 520 | 1 671 |
| Other taxes and charges | 96 | 97 | 397 | 412 |
| Advertising costs and representation expenses | 20 | 18 | 53 | 43 |
| Property and personal insurance | 7 | 6 | 28 | 23 |
| Other costs | 23 | 2 | 43 | 26 |
| **Total expenses by nature** | **3 771** | **3 533** | **14 896** | **13 633** |
| Cost of merchandise and materials sold (+) | 32 | 45 | 200 | 177 |
| Change in inventories of products and work in progress (+/-) | 475 | 366 | 369 | ( 236) |
| Cost of products for internal use (-) | ( 62) | ( 33) | ( 174) | ( 114) |
| **Total cost of sales, selling costs and administrative expenses, including:** | **4 216** | **3 911** | **15 291** | **13 460** |
| Cost of sales | 3 925 | 3 642 | 14 296 | 12 537 |
| Selling costs | 32 | 34 | 124 | 115 |
| Administrative expenses | 259 | 235 | 871 | 808 |

in PLN millions, unless otherwise stated

## Note 13.2 Other operating income/(costs)

| | from 1 October 2019 to 31 December 2019 | from 1 October 2018 to 31 December 2018 | from 1 January 2019 to 31 December 2019 | from 1 January 2018 to 31 December 2018 |
|---|---|---|---|---|
| Measurement and realisation of derivatives | 27 | 56 | 155 | 167 |
| Exchange differences on assets and liabilities other than borrowings | - | 162 | 168 | 386 |
| Interest on loans granted and other financial receivables | 60 | 56 | 272 | 244 |
| Fees and charges on re-invoicing of costs of bank guarantees securing payments of liabilities | ( 19) | 4 | 31 | 53 |
| Reversal of impairment losses on financial instruments including: | 27 | 78 | 156 | 1 048 |
| Reversal of allowances for impairment of loans measured at amortised cost | 27 | ( 6) | 155 | 961 |
| Reversal of impairment losses on shares in subsidiaries | - | 402 | - | 402 |
| Fair value gains on financial assets measured at fair value through profit or loss | 67 | 14 | 268 | 184 |
| Dividends income | - | - | 37 | 239 |
| Release of provisions | 17 | 1 | 68 | 12 |
| Other | 6 | 10 | 73 | 64 |
| **Total other income** | **185** | **783** | **1 228** | **2 799** |
| Measurement and realisation of derivatives | ( 92) | ( 105) | ( 277) | ( 303) |
| Impairment losses on financial instruments | ( 24) | 31 | ( 54) | ( 778) |
| Exchange differences on assets and liabilities other than borrowings | ( 340) | - | - | - |
| Fair value losses on financial assets measured at fair value through profit or loss | ( 120) | ( 129) | ( 184) | ( 247) |
| Provisions recognised | ( 95) | ( 10) | ( 107) | ( 162) |
| Impairment losses on shares and investment certificates in subsidiaries | ( 460) | ( 47) | ( 460) | ( 47) |
| Other | ( 31) | ( 33) | ( 107) | ( 113) |
| **Total other costs** | **(1 162)** | **( 293)** | **(1 189)** | **(1 650)** |
| **Other operating income and (costs)** | **( 977)** | **490** | **39** | **1 149** |

in PLN millions, unless otherwise stated

## Note 13.3 Finance income/(costs)

| | from 1 October 2019 to 31 December 2019 | from 1 October 2018 to 31 December 2018 | from 1 January 2019 to 31 December 2019 | from 1 January 2018 to 31 December 2018 |
|---|---|---|---|---|
| Exchange differences on measurement of borrowings | 265 | - | - | - |
| Measurement and realisation of derivatives | 35 | ( 17) | 37 | 11 |
| **Total income** | **300** | **( 17)** | **37** | **11** |
| Interest on borrowings including: | ( 108) | ( 37) | ( 183) | ( 127) |
| lease | 5 | - | ( 15) | - |
| Bank fees and charges on borrowings | ( 26) | ( 5) | ( 49) | ( 23) |
| Exchange differences on borrowings | - | ( 206) | ( 209) | ( 592) |
| Measurement and realisation of derivatives | ( 39) | - | ( 59) | - |
| Unwinding of the discount effect | ( 10) | ( 10) | ( 41) | ( 43) |
| **Total costs** | **( 183)** | **( 258)** | **( 541)** | **( 785)** |
| **Finance income/(costs)** | **117** | **( 275)** | **( 504)** | **( 774)** |

**SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD**

These financial statements were authorised for issue on 16 March 2020.

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

**SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING**

Executive Director
of Accounting Services Center
Chief Accountant

Łukasz Stelmach