POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated annual report SRR 2020

(in accordance with § 60 sec. 2 of the Decree regarding current and periodic information)

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

for the financial year **2020** comprising the period from **1 January 2020** to **31 December 2020** containing the consolidated financial statements according to International Accounting Standards approved in the EU in PLN.

publication date: 24 March 2021

KGHM Polska Miedź Spółka Akcyjna
(name of the issuer)

KGHM Polska Miedź S.A.	**Mining**
(name of the issuer in brief)	(issuer branch title per the Warsaw Stock Exchange)
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PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt Sp.k.
(auditing company)

SELECTED FINANCIAL DATA		in PLN mn		in EUR mn	
		2020	2019	2020	2019
I.	Revenues from contracts with customers	23 632	22 723	5 282	5 282
II.	Profit on sales	3 161	2 455	706	571
III.	Profit before income tax	2 756	2 122	616	493
IV.	Profit for the period	1 797	1 421	401	330
V.	Profit for the period attributable to shareholders of the Parent Entity	1 800	1 421	402	330
VI.	Profit for the period attributable to non-controlling interest	(3)	-	(1)	-
VII.	Other comprehensive income	(918)	(444)	(205)	(103)
VIII.	Total comprehensive income	879	977	196	227
IX.	Total comprehensive income attributable to shareholders of the Parent Entity	882	977	197	227
X.	Total comprehensive income attributable to non-controlling interest	(3)	-	(1)	-
XI.	Number of shares issued	200 000 000	200 000 000	200 000 000	200 000 000
XII.	Earnings per ordinary share (in PLN/EUR) attributable to shareholders of the Parent Entity	9.00	7.11	2.01	1.65
XIII.	Net cash generated from operating activities	5 656	5 048	1 264	1 173
XIV.	Net cash used in investing activities	(3 661)	(3 643)	(818)	(847)
XV.	Net cash generated from/(used in) financing activities	(548)	(1 308)	(122)	(304)
XVI.	Total net cash flow	1 447	97	324	22
XVII.	Non-current assets	34 047	31 669	7 378	7 436
XVIII.	Current assets	8 733	7 740	1 892	1 818
XIX.	Total assets	42 780	39 409	9 270	9 254
XX.	Non-current liabilities	13 792	13 171	2 989	3 093
XXI.	Current liabilities	7 907	6 036	1 713	1 417
XXII.	Equity	21 081	20 202	4 568	4 744
XXIII.	Equity attributable to shareholders of the Parent Entity	20 992	20 110	4 549	4 722
XXIV.	Equity attributable to non-controlling interest	89	92	19	22

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

	2020	2019
Average exchange rate for the period*	4.4742	4.3018
Exchange rate at the end of the period	4.6148	4.2585

**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 2020 and 2019.*

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

CONSOLIDATED FINANCIAL STATEMENTS FOR 2020

Lubin, March 2021

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		from 1 January 2020 to 31 December 2020	from 1 January 2019 to 31 December 2019
Note 2.3	Revenues from contracts with customers	23 632	22 723
Note 4.1	Cost of sales	(18 981)	(18 767)
	Gross profit on sales	**4 651**	**3 956**
Note 4.1	Selling costs and administrative expenses	(1 490)	(1 501)
	Profit on sales	**3 161**	**2 455**
Note 6.1	Share of losses of a joint venture accounted for using the equity method	(204)	(438)
Note 6.2	Gains due to the reversal of allowances for impairment of loans granted to a joint venture	74	106
Note 6.2	Interest income on loans granted to a joint venture calculated using the effective interest rate method	377	341
	Profit or loss on involvement in a joint venture	247	9
Note 4.2	Other operating income, including:	702	809
	other interest calculated using the effective interest rate method	4	9
Note 4.2	Other operating costs, including:	(1 326)	(623)
	impairment losses on financial instruments	(6)	(17)
Note 4.3	Finance income	259	38
Note 4.3	Finance costs	(287)	(566)
	Profit before income tax	**2 756**	**2 122**
Note 5.1	Income tax expense	(959)	(701)
	PROFIT FOR THE PERIOD	**1 797**	**1 421**
	Profit for the period attributable to:		
	Shareholders of the Parent Entity	1 800	1 421
	Non-controlling interest	(3)	-
	Weighted average number of ordinary shares (million)	**200**	**200**
	Basic/diluted earnings per share (in PLN)	**9.00**	**7.11**

in PLN millions, unless otherwise stated

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		from 1 January 2020 to 31 December 2020	from 1 January 2019 to 31 December 2019
	Profit for the period	**1 797**	**1 421**
Note 8.2.2	Measurement of hedging instruments net of the tax effect	(850)	(315)
	Exchange differences from translation of foreign operations statements with a functional currency other than PLN	39	(6)
	Other comprehensive income, which will be reclassified to profit or loss	**(811)**	**(321)**
Note 8.2.2	Measurement of equity financial instruments at fair value through other comprehensive income, net of the tax effect	158	(78)
	Actuarial losses net of the tax effect	(265)	(45)
	Other comprehensive income which will not be reclassified to profit or loss	**(107)**	**(123)**
	Total other comprehensive income	**(918)**	**(444)**
	TOTAL COMPREHENSIVE INCOME	**879**	**977**
	Total comprehensive income attributable to:		
	Shareholders of the Parent Entity	882	977
	Non-controlling interest	(3)	-

in PLN millions, unless otherwise stated

CONSOLIDATED STATEMENT OF CASH FLOWS

		from 1 January 2020 to 31 December 2020	from 1 January 2019 to 31 December 2019
	Cash flow from operating activities		
	Profit before income tax	2 756	2 122
Note 9.3	Depreciation/amortisation recognised in profit or loss	1 963	1 920
Note 6.1	Share of losses of a joint venture accounted for using the equity method	204	438
Note 4.4	Gains due to the reversal of allowances for impairment of loans granted to a joint venture	(74)	(106)
Note 6.2	Interest on loans granted to a joint venture	(377)	(341)
	Other interest	159	244
	Impairment losses on non-current assets	239	51
	Exchange differences, of which:	(101)	184
	from investment activities and cash	87	(29)
	from financing activities	(188)	213
	Change in provisions for decommissioning of mines, employee benefits liabilities and other provisions	-	114
	Change in other receivables and liabilities other than working capital	584	(176)
	Change in assets and liabilities due to derivatives	(171)	(31)
	Reclassification of other comprehensive income to profit or loss due to the realisation of hedging derivatives	(42)	(86)
Note 12.9	Other adjustments	11	2
	Exclusions of income and costs, total	2 395	2 213
	Income tax paid	(667)	(410)
Note 10.4	Changes in working capital, including:	1 172	1 123
	change in trade payables transferred to factoring	652	595
	Net cash generated from operating activities	**5 656**	**5 048**
	Cash flow from investing activities		
Note 9.1.3	Expenditures on mining and metallurgical assets, including:	(3 060)	(2 872)
	paid capitalised interest on borrowings	(129)	(123)
	Expenditures on other property, plant and equipment and intangible assets	(397)	(360)
	Expenditures on financial assets designated for decommissioning mines and other technological facilities	(22)	(293)
	Acquisition of newly-issued shares of joint ventures	(207)	(439)
	Proceeds from financial assets designated for decommissioning mines and other technological facilities	11	335
	Other	14	(14)
	Net cash used in investing activities	**(3 661)**	**(3 643)**
	Cash flow from financing activities		
	Proceeds from borrowings	4 247	4 730
	Proceeds from issue of debt financial instruments	-	2 000
	Proceeds from derivatives related to sources of external financing	52	-
	Repayment of borrowings	(4 513)	(7 746)
	Repayment of lease liabilities	(97)	(52)
	Expenditures due to derivatives related to sources of external financing	(78)	-
	Interest paid, including due to:	(177)	(239)
Note 8.4.2	borrowings	(165)	(238)
	Other	18	(1)
	Net cash used in financing activities	**(548)**	**(1 308)**
	NET CASH FLOW	**1 447**	**97**
	Exchange gains/(losses)	59	(38)
	Cash and cash equivalents at beginning of the period	1 016	957
	Cash and cash equivalents at end of the period, including:	**2 522**	**1 016**
	restricted cash	21	34

in PLN millions, unless otherwise stated

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December 2020	As at 31 December 2019
	ASSETS		
	Mining and metallurgical property, plant and equipment	20 576	19 498
	Mining and metallurgical intangible assets	2 024	1 966
Note 9.1	Mining and metallurgical property, plant and equipment and intangible assets	22 600	21 464
	Other property, plant and equipment	2 857	2 829
	Other intangible assets	141	155
Note 9.2	Other property, plant and equipment and intangible assets	2 998	2 984
Note 6.2	Involvement in joint ventures – loans granted	6 069	5 694
Note 7.1	Derivatives	789	124
Note 7.3	Other financial instruments measured at fair value	636	448
Note 7.4	Other financial instruments measured at amortised cost	601	656
	Financial instruments, total	2 026	1 228
Note 5.1.1	Deferred tax assets	193	157
Note 12.3	Other non-financial assets	161	142
	Non-current assets	**34 047**	**31 669**
Note 10.1	Inventories	4 459	4 741
Note 10.2	Trade receivables, including:	834	688
	Trade receivables measured at fair value through profit or loss	478	300
Note 5.3	Tax assets	295	571
Note 7.1	Derivatives	210	293
Note 12.3	Other financial assets	210	280
Note 12.3	Other non-financial assets	142	151
Note 8.5	Cash and cash equivalents	2 522	1 016
Note 9.8	Non-current assets held for sale	61	-
	Current assets	**8 733**	**7 740**
	TOTAL ASSETS	**42 780**	**39 409**
	EQUITY AND LIABILITIES		
Note 8.2.1	Share capital	2 000	2 000
Note 8.2.2	Other reserves from measurement of financial instruments, including:	(1 430)	(738)
Note 9.8	Accumulated losses due to fair value measurement associated with non-current assets held for sale	(21)	-
Note 8.2.2	Accumulated other comprehensive income, other than from measurement of financial instruments	1 728	1 954
Note 8.2.2	Retained earnings	18 694	16 894
	Equity attributable to shareholders of the Parent Entity	20 992	20 110
	Equity attributable to non-controlling interest	89	92
	Equity	**21 081**	**20 202**
Note 8.4.1	Borrowings, lease and debt securities	6 928	7 525
Note 7.1	Derivatives	1 006	183
Note 11.1	Employee benefits liabilities	3 016	2 613
Note 9.4	Provisions for decommissioning costs of mines and other technological facilities	1 849	1 774
Note 5.1.1	Deferred tax liabilities	442	445
Note 12.4	Other liabilities	551	631
	Non-current liabilities	13 792	13 171
Note 8.4.1	Borrowings, lease and debt securities	407	348
Note 7.1	Derivatives	688	91
Note 10.3	Trade and similar payables	3 593	2 766
Note 11.1	Employee benefits liabilities	1 313	1 150
Note 5.3	Tax liabilities	537	433
	Provisions for liabilities and other charges	162	222
Note 12.4	Other liabilities	1 202	1 026
Note 9.8	Liabilities associated with non-current assets held for sale	5	-
	Current liabilities	7 907	6 036
	Non-current and current liabilities	**21 699**	**19 207**
	TOTAL EQUITY AND LIABILITIES	**42 780**	**39 409**

in PLN millions, unless otherwise stated

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Equity attributable to shareholders of the Parent Entity						
		Share capital	Other reserves from measurement of financial instruments	Accumulated other comprehensive income	Retained earnings	Total	Equity attributable to non-controlling interest	Total equity
	As at 31 December 2018	**2 000**	**(444)**	**2 005**	**15 572**	**19 133**	**92**	**19 225**
	Profit for the period	-	-	-	1 421	**1 421**	-	**1 421**
Note 8.2.2	Other comprehensive income	-	(393)	(51)	-	**(444)**	-	**(444)**
	Total comprehensive income	-	(393)	(51)	1 421	**977**	-	**977**
	Reclassification of the result of measurement of equity instruments measured at fair value through other comprehensive income	-	99	-	(99)	-	-	-
	As at 31 December 2019	**2 000**	**(738)**	**1 954**	**16 894**	**20 110**	**92**	**20 202**
	Profit for the period	-	-	-	1 800	**1 800**	(3)	**1 797**
Note 8.2.2	Other comprehensive income	-	(692)	(226)	-	**(918)**	-	**(918)**
	Total comprehensive income	-	(692)	(226)	1 800	**882**	**(3)**	**879**
	As at 31 December 2020 – including:	**2 000**	**(1 430)**	**1 728**	**18 694**	**20 992**	**89**	**21 081**
Note 9.8	*accumulated losses due to fair value measurement associated with non-current assets held for sale*	-	*(21)*	-	-	***(21)***	-	***(21)***

Part 1 – General information

Note 1.1 Corporate information

KGHM Polska Miedź S.A. ("the Parent Entity", "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 in Wrocław, 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 Parent Entity's principal activities include:

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

In addition, the KGHM Polska Miedź S.A. Group ("the Group") conducts other activities, which are described in Appendix no. 4 to the Management Board's Report on the activities of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group in 2020.

The consolidated financial statements were prepared under the assumption that the Group's companies will continue as a going concern during a period of at least 12 months from the end of the reporting period in an unaltered form and business scope, and there are no reasons to suspect any intentional or forced discontinuation or significant limitation of its current activities. As at the date of signing of the consolidated financial statements the Management Board of the Parent Entity is not aware of any facts or circumstances that may cast doubt about the going concern in the foreseeable future.

The pandemic's impact on individual aspects of the business and the going concern assumption are described in note 12.12.

The KGHM Polska Miedź S.A. Group carries out exploration and the mining of copper, nickel and precious metals based on concessions given for the Polish deposits to KGHM Polska Miedź S.A., and also based on legal titles held by KGHM INTERNATIONAL LTD. and KGHM AJAX MINING INC. for the exploration for or mining of these resources in the USA, Canada, and Chile. Detailed information is presented in the Management Board's report on the activities of KGHM Polska Miedź S.A and of the KGHM Polska Miedź S.A. Group in 2020 (point 2.4).

In 2020, the Parent Entity of the Group consolidated 70 subsidiaries and used the equity method to account for the shares of two joint ventures (Sierra Gorda S.C.M. and NANO CARBON Sp. z o.o. in liquidation). TUW Cuprum is excluded from consolidation.

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 consolidated financial statements for 2020 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 the KGHM Polska Miedź S.A. Group and the profit for the period of the Group.

The Management Board's report on the activities of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group in 2020 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 consolidated financial statements were authorised for issue and signed by the Management Board of the Parent Entity on 23 March 2021.

Note 1.2 Basis of preparation and presentation

These consolidated 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 and investment properties measured at fair value.

Accounting Policies

The accounting policies of the Group which apply to the consolidated financial statements as a whole, as well as significant estimates and their impact on amounts presented in the consolidated financial statements, are presented in the following note.

Topic	Accounting policies	Significant estimates and judgments
Consolidation principles	The consolidated financial statements include the financial statements of the Parent Entity and its subsidiaries. Subsidiaries are understood as being entities which are either directly controlled by the Parent Entity or indirectly through its subsidiaries. Obtaining control of a subsidiary, which is a business, is accounted for using the acquisition method. Subsidiaries are fully consolidated from the date on which control is obtained to the date on which control is lost. Balances, incomes, expenses and unrealised gains recognised in assets from intra-group transactions, are eliminated.	Determining whether the Parent Entity has control over a company requires an assessment as to whether it has rights to direct relevant activities of the company. Determining what constitutes relevant activities of the company and by which investor it is controlled requires a judgment. Among others, the following factors are taken into consideration when assessing the situation and determining the nature of relationships: voting rights, relative voting power, dilution of voting rights of other investors and their ability to appoint members of key management personnel or members of the supervisory board.
Fair value measurement	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: Level 1 Value is based on inputs from active markets, as they are seen as the most reliable source of data. Level 2 Value is based on inputs other than from active markets, which are nevertheless observable (unbiased, measurable). 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. Certain assumptions and estimates are necessary to determine to which level of fair value hierarchy a given instrument should be classified.

Financial statements of subsidiaries with a functional currency other than PLN	For purposes of preparing the consolidated financial statements in the presentation currency of the KGHM Polska Miedź S.A. Group, i.e. in PLN, individual items of financial statements of foreign operations whose functional currencies are other than PLN are translated in the following manner: (i) assets and liabilities – at the closing rate, i.e. at the average exchange rate for that currency announced by the NBP at the end of the reporting period, (ii) items of the statement of profit or loss, the statement of comprehensive income and the statement of cash flows - at the arithmetical average of average exchange rates announced for a given currency by the NBP at the end of each month of a given reporting period. If there is a significant volatility of exchange rates in a given period, revenues and costs in the statement of profit or loss and the statement of comprehensive income are translated using the exchange rates as at the transaction date. Exchange differences from the translation of foreign operations statements are recognised in other comprehensive income of a given period.	The consolidated financial statements are presented in PLN, which is also the functional currency of the Parent Entity and the Group's subsidiaries, with the exception of: the subsidiary Future 1 Sp. z o.o. and subsidiaries of the subgroup KGHM INTERNATIONAL LTD. in which mainly the US dollar (USD) is the functional currency. The balance of exchange differences from the translation of financial statements of the aforementioned entities: • 2020 – PLN 2 690 million, • 2019 – PLN 2 651 million.

<table>
<tr>
<td>Foreign currency transactions and the measurement of items denominated in foreign currencies</td>
<td>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.
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.
Foreign exchange gains or losses on non-monetary items, such as equity instruments classified as financial assets measured at fair value through other comprehensive income, are recognised in other comprehensive income.
Foreign exchange gains or losses on monetary items measured at fair value through profit or loss (e.g. loans granted measured at fair value) are recognised as a part of the fair value measurement.</td>
<td>-</td>
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</table>

in PLN millions, unless otherwise stated

For a greater understanding of the data recognised in the consolidated financial statements, an accounting policy and important estimates, assumptions and judgments are presented in individual, detailed notes as in the table below. As compared to the periods ended on 31 December 2019 and 30 June 2020, there were no significant changes to the measurement methods. Changes in estimates as at 31 December 2020 as compared to the aforementioned periods arise from changes in assumptions as a result of changes in business circumstances and/or other variables.

Note	Title	Amount recognised in the financial statements		Accounting policies	Important estimates, assumptions and judgements
		2020	2019		
2.3	Revenues from contracts with customers	23 632	22 723	X	X
3.1	Test for impairment of assets	(374)	106		X
5.1	Income tax in the statement of profit or loss	(959)	(701)	X	
5.1.1	Deferred income tax in the statement of profit or loss	(191)	(168)	X	X
5.3	Tax assets	295	571	X	
5.3	Tax liabilities	(537)	(433)	X	
6.1	Joint ventures accounted for using the equity method	-	-	X	X
6.2	Loans granted to a joint venture	6 069	5 694	X	X
7.2	Derivatives	(695)	143	X	
7.3	Other financial instruments measured at fair value	636	448	X	
7.4	Other financial instruments measured at amortised cost	601	656	X	X
8.2	Equity	(21 081)	(20 202)	X	
8.4.1	Borrowings	(7 335)	(7 873)	X	
8.5	Cash and cash equivalents	2 522	1 016	X	
8.6	Labilities due to guarantees granted	(2 384)	(2 614)	X	X
9.1	Mining and metallurgical property, plant and equipment and intangible	22 600	21 464	X	X
9.2	Other property, plant and equipment and intangible assets	2 998	2 984	X	
9.4	Provisions for decommissioning costs of mines and other facilities*	(1 884)	(1 794)	X	X
10.1	Inventories	4 459	4 741	X	X
10.2	Trade receivables	869	795	X	
10.3	Trade and similar payables	(3 762)	(2 940)	X	X
10.4	Changes in working capital	1 172	1 123	X	X
11.1	Employee benefits liabilities	(4 329)	(3 763)	X	X
12.3	Other assets	513	573	X	
12.4	Other liabilities	(1 753)	(1 657)	X	

** 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.*

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

Note 1.3 Impact of new and amended standards and interpretations

The International Accounting Standards Board approved the following amendments to standards for use from 1 January 2020:

- Amendments to IAS 1 and IAS 8 on the definition of "material",
- Amendments to IFRS 9, IAS 39 and IFRS 7 on the interest rate benchmark reform,
- Amendments to IFRS 3 on the definition of a business,
- Amendments to References to the Conceptual Framework in IFRS.

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 they did not have an impact on the Group's accounting policy or on the consolidated financial statements for 2020.

Moreover, the Group decided for an earlier application of an amendment to IFRS 16 on Covid-19-Related Rent Concessions, which is in force for financial years starting from or after 1 June 2020.

Note 1.4 Published standards and interpretations, which are not yet in force and were not applied earlier by the Group

The Group 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 and amendments to IFRS 17,
- Amendments to IFRS 4 on extension of the temporary exemption from applying IFRS 9,
- Amendments to IAS 1 on classification of liabilities as current or non-current.
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 on the interest rate benchmark reform – Phase 2,
- Amendments to IFRS 3 on references to the Conceptual Framework,
- Amendments to IAS 16 on proceeds before intended use of an item of property, plant and equipment,
- Amendments to IAS 37 on cost of fulfilling onerous contracts,
- Amendments to IAS 1 on the disclosure of accounting policies,
- Amendments to IAS 8 on the definition of accounting estimates,
- Annual amendments to IFRS, 2018-2020.

The aforementioned standards, with the exception of amendments to IFRS 4 on extension of the temporary exemption from applying IFRS 9 and amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 on the interest rate benchmark reform – Phase 2, are awaiting adoption by the European Union. The Group aims to apply all of the amendments at their effective dates. Except for IFRS 17 and amendments to IFRS 4, which will not have an impact on the Group's financial statements, in the Group's opinion as at 31 December 2020, these standards will be applicable to its activities in the scope of future economic operations, transactions or other events, towards which the amendments to standards are applicable.

In particular, in the case of amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 on the interest rate benchmark reform – Phase 2, the Group analysed present items in the consolidated financial statements with regards to the impact of the IBOR reform on its consolidated financial statements. Pursuant to current decisions of entities designated to implement the reform, only the LIBOR rate will be replaced, and it will be replaced by a risk-free rate based on the overnight rate. The Group identified agreements with clauses based on the LIBOR rate and which will be amended following the replacement of the reference rate. These are mainly borrowing agreements (bank loans, loans), deposit agreements, agreements for bank guarantees and letters of credit as well as factoring agreements. Replacement of the LIBOR rate by an alternative ratio will also result in introducing appendices to the current agreements, analysing the eventual change of interest rates from variable to fixed, introducing changes to internal methodologies and procedures and adapting IT tools to new calculation methods.

Moreover, the Group uses the LIBOR rate to estimate the incremental borrowing rate of the lessee in lease agreements based on USD, for which it is not possible to otherwise determine the lease interest rate, and to measure to fair value loans granted by applying in the discounting process the current LIBOR market interest rate from the Reuters system. In such cases, there is no formal risk and in the Company's opinion, the impact of this amendment on the measurement of loans will be immaterial due to the fact that despite the new calculation method, the new reference rate will differ from the LIBOR rate by only 1-2 basis points, depending on the date and currency.

The KGHM Polska Miedź S.A. Group continuously monitors the recommendations of entities leading the IBOR reform. Due to the fact that many issues have not yet been formally regulated, the scale and scope of changes to the aforementioned financial instruments and their impact on the Group's consolidated financial statements cannot currently be determined. The IBOR reform will not have an impact on the interest rate of derivatives, because CIRS and bonds are based on WIBOR, which will not be replaced by an alternative ratio.

Part 2 – Information on segments and revenues

Note 2.1 Operating segments

The operating segments identified in the KGHM Polska Miedź S.A. Group reflect the structure of the Group, the manner in which the Group and its individual entities are managed and the regular reporting to the Parent Entity's Management Board.

Based on the aggregation of operating segments and taking into account the criteria stipulated in IFRS 8, the following reporting segments are currently identified within the KGHM Polska Miedź S.A. Group:

Reporting segment	Operating segments aggregated in a given reporting segment	Indications of similarity of economic characteristics of segments, taken into account in aggregations
KGHM Polska Miedź S.A.	KGHM Polska Miedź S.A.	Not applicable (it is a single operating and reporting segment)
KGHM INTERNATIONAL LTD.	Companies of the KGHM INTERNATIONAL LTD. Group, where the following mines, deposits or mining areas constitute the operating segments: Sudbury Basin, Robinson, Carlota, Franke and Ajax.	Operating segments within the KGHM INTERNATIONAL LTD. Group are located in North and South America. The Management Board analyses the results of the following operating segments: Sudbury Basin, Robinson, Carlota, Franke, Ajax and others. In addition, the Management Board receives and analyses reports on the whole KGHM INTERNATIONAL LTD. Group. Operating segments are engaged in the exploration and mining of copper, molybdenum, silver, gold and nickel deposits. The operating segments were aggregated based on the similarity of long term margins achieved by individual segments, and the similarity of products, processes and production methods.
Sierra Gorda S.C.M.	Sierra Gorda S.C.M. (joint venture)	Not applicable (it is a single operating and reporting segment)
Other segments	This item includes other Group companies (every individual company is a separate operating segment).	Aggregation was carried out as a result of not meeting the criteria necessitating the identification of a separate additional reporting segment.

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

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

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

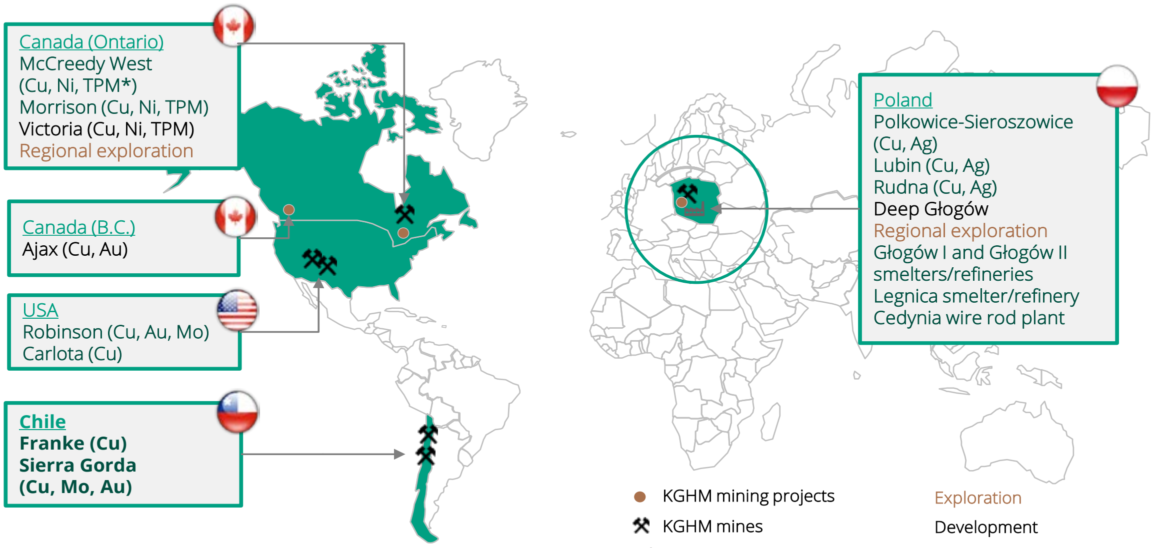
Each of the segments KGHM Polska Miedź S.A., KGHM INTERNATIONAL LTD. and Sierra Gorda S.C.M. have their own Management Board, which reports the results of their business activities to the Management Board of the Parent Entity.

The segment KGHM Polska Miedź S.A. is composed only of the Parent Entity, and the segment Sierra Gorda S.C.M. is composed only of the joint venture Sierra Gorda. Other companies of the KGHM Polska Miedź S.A. Group are presented below by segment: KGHM INTERNATIONAL LTD. and Other segments.

The SEGMENT KGHM INTERNATIONAL LTD.	
Location	**Company**
The United States of America	Carlota Copper Company, Carlota Holdings Company, DMC Mining Services Corporation, FNX Mining Company USA Inc., Robinson Holdings (USA) Ltd., Robinson Nevada Mining Company, Wendover Bulk Transhipment Company
Chile	Aguas de la Sierra Limitada, Minera Carrizalillo SpA, KGHM Chile SpA, Quadra FNX Holdings Chile Limitada, Sociedad Contractual Minera Franke, DMC Mining Services Chile SpA
Canada	KGHM INTERNATIONAL LTD., 0899196 B.C. Ltd., Centenario Holdings Ltd., DMC Mining Services Ltd., FNX Mining Company Inc., Franke Holdings Ltd., KGHM AJAX MINING INC., KGHMI Holdings Ltd., Quadra FNX Holdings Partnership, Sugarloaf Ranches Ltd.
Mexico	Raise Boring Mining Services S.A. de C.V.
Colombia	DMC Mining Services Colombia SAS
The United Kingdom	DMC Mining Services (UK) Ltd.
Luxembourg	Quadra FNX FFI S.à r.l.

OTHER SEGMENTS	
Type of activity	**Company**
Support of the core business	BIPROMET S.A., CBJ sp. z o.o., Energetyka sp. z o.o., INOVA Spółka z o.o., KGHM CUPRUM sp. z o.o. – CBR, KGHM ZANAM S.A., KGHM Metraco S.A., PeBeKa S.A., POL-MIEDŹ TRANS Sp. z o.o., WPEC w Legnicy S.A.
Sanatorium-healing and hotel services	Interferie Medical SPA Sp. z o.o., INTERFERIE S.A., Uzdrowiska Kłodzkie S.A. - Grupa PGU, Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU, Uzdrowisko Połczyn Grupa PGU S.A., Uzdrowisko Świeradów - Czerniawa Sp. z o.o. – Grupa PGU
Investment funds, financing activities	Fundusz Hotele 01 Sp. z o.o., Fundusz Hotele 01 Sp. z o.o. S.K.A., KGHM TFI S.A., KGHM VI FIZAN, KGHM VII FIZAN, Polska Grupa Uzdrowisk Sp. z o.o.
Other activities	CENTROZŁOM WROCŁAW S.A., CUPRUM Development sp. z o.o., CUPRUM Nieruchomości sp. z o.o., KGHM (SHANGHAI) COPPER TRADING CO., LTD., KGHM Kupfer AG, MERCUS Logistyka sp. z o.o., MIEDZIOWE CENTRUM ZDROWIA S.A., NITROERG S.A., NITROERG SERWIS Sp. z o.o., PHU "Lubinpex" Sp. z o.o., PMT Linie Kolejowe Sp. z o.o., WMN "ŁABĘDY" S.A., Zagłębie Lubin S.A., OOO ZANAM VOSTOK

Location of mining assets of the KGHM Polska Miedź S.A. Group



*** TPM – precious metals**

The Parent Entity and the KGHM INTERNATIONAL LTD. Group (a subgroup) have a fundamental impact on the assets and the generation of revenues in the KGHM Polska Miedź S.A. Group. The activities of KGHM Polska Miedź S.A. are concentrated on the mining industry in Poland, while those of the KGHM INTERNATIONAL LTD. Group are concentrated on the mining industry in the countries of North and South America. The profile of activities of the majority of the remaining subsidiaries of the KGHM Polska Miedź S.A. Group differs from the main profile of the Parent Entity's activities.

The Parent Entity's Management Board monitors the operating results of individual segments in order to make decisions on allocating the Group's resources and to assess the financial results achieved.

Financial data prepared for management reporting purposes is based on the same accounting policies as those applied when preparing the consolidated financial statements of the Group, while the financial data of individual reporting segments constitutes the amounts presented in appropriate financial statements prior to consolidation adjustments at the level of the KGHM Polska Miedź S.A. Group, i.e.:

- The segment KGHM Polska Miedź S.A. – comprises data from the separate financial statements of the Parent Entity prepared in accordance with IFRSs. In the separate financial statements, investments in subsidiaries (including the investment in KGHM INTERNATIONAL LTD.) are measured at cost, including impairment losses,
- The segment KGHM INTERNATIONAL LTD. – comprises consolidated data of the KGHM INTERNATIONAL LTD. Group prepared in accordance with IFRSs. The involvement in Sierra Gorda S.C.M. is accounted for using the equity method,
- The segment Sierra Gorda S.C.M. – comprises the 55% share of assets, liabilities, revenues and costs of this venture presented in the separate financial statements of Sierra Gorda S.C.M. prepared in accordance with IFRSs,
- Other segments – comprises aggregated data of individual subsidiaries after excluding transactions and balances between them.

The Management Board of the Parent Entity assesses a segment's performance based on adjusted EBITDA and the profit or loss for the period.

The Group defines adjusted EBITDA as profit/loss for the period pursuant to IFRS, excluding income tax (current and deferred), finance income and costs, other operating income and costs, profit or loss on involvement in joint ventures, impairment losses on interest in a joint venture, depreciation/amortisation and recognition/reversal of impairment losses on property, plant and equipment included in the cost of sales, selling costs and administrative expenses. Since adjusted EBITDA is not a measure defined by IFRS, it is not a standardised measure and therefore its method of calculation may vary between entities, and consequently the presentation and calculation of adjusted EBITDA applied by the Group may not be comparable to that applied by other market entities.

Revenues from transactions with external entities and inter-segment transactions are carried out at arm's length. Eliminations of mutual settlements, revenues and costs between segments were presented in the item "Consolidation adjustments".

Unallocated assets and liabilities concern companies which have not been allocated to any segment. Assets which have not been allocated to the segments comprise cash, trade receivables and deferred tax assets. Liabilities which have not been allocated to the segments comprise trade liabilities and current tax liabilities.

in PLN millions, unless otherwise stated

Note 2.2 Financial results of reporting segments

		from 1 January 2020 to 31 December 2020						
						Reconciliation items to consolidated data		
		KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Elimination of data of the segment Sierra Gorda S.C.M	Consolidation adjustments****	Consolidated financial statements
Note 2.3	**Revenues from contracts with customers, of which:**	**19 326**	**2 703**	**2 599**	**7 881**	**(2 599)**	**(6 278)**	**23 632**
	- inter-segment	313	20	-	5 955	-	(6 288)	-
	- external	19 013	2 683	2 599	1 926	(2 599)	10	23 632
	Segment result – profit/(loss) for the period	**1 779**	**(691)**	**(125)**	**(37)**	**125**	**746**	**1 797**
	Additional information on significant revenue/cost items of the segment							
	Depreciation/amortisation recognised in profit or loss	(1 293)	(456)	(804)	(241)	804	27	(1 963)
	(Recognition)/reversal of impairment losses on non-current assets, including:	(192)	66	-	(162)	-	125	(163)
	(recognition)/reversal of impairment losses on investments in subsidiaries	(141)	-	-	-	-	141	-
	(recognition)/reversal of allowances for impairment of loans granted	(18)	74	-	-	-	18	74
	Share of losses of joint ventures accounted for using the equity method	-	(204)	-	-	-	-	(204)
		As at 31 December 2020						
	Assets, including:	**39 342**	**10 811**	**9 701**	**5 636**	**(9 701)**	**(13 009)**	**42 780**
	Segment assets	39 342	10 811	9 701	5 636	(9 701)	(13 017)	42 772
	Joint ventures accounted for using the equity method	-	-	-	-	-	-	-
	Assets unallocated to segments	-	-	-	-	-	8	8
	Liabilities, including:	**18 616**	**17 569**	**13 232**	**2 778**	**(13 232)**	**(17 264)**	**21 699**
	Segment liabilities	18 616	17 569	13 232	2 778	(13 232)	(17 290)	21 673
	Liabilities unallocated to segments	-	-	-	-	-	26	26

** 55% of the Group's share in Sierra Gorda S.C.M.'s financial and production data.*
*** Unit cash cost of payable copper production, reflecting ore mining and processing costs, transport costs, the minerals extraction tax, administrative expenses during the mining phase and smelter treatment and refining charges (TC/RC) less by-product value. C1 cost is in regard to payable copper in own concentrate in the case of the segment KGHM Polska Miedź S.A. and payable copper in end products of individual mines of the segment KGHM International Ltd. and the segment Sierra Gorda S.C.M. C1 cost in PLN/lb was calculated using the average exchange rate by the NBP (arithmetical average of daily quotations per the NBP's tables).*
**** Adjusted EBITDA to revenues from sales. For the purposes of calculating the Group's EBITDA margin (25%), the consolidated revenues from sales were increased by revenues from sales of the segment Sierra Gorda S.C.M. [6 623/ (23 632 + 2 599) * 100]*
***** Adjustments arise from consolidation eliminations and financial data of companies unallocated to any segment.*

	from 1 January 2020 to 31 December 2020				Reconciliation items to consolidated data		
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Elimination of data of the segment Sierra Gorda S.C.M	Consolidation adjustments****	Consolidated financial statements
Other information	from 1 January 2020 to 31 December 2020						
Cash expenditures on property, plant and equipment and intangible assets – cash flows	2 432	597	544	351	(544)	78	3 458
Production and cost data	from 1 January 2020 to 31 December 2020						
Payable copper (kt)	560.4	66.9	81.8				
Molybdenum (million pounds)	-	0.4	9.0				
Silver (t)	1 322.9	1.8	27.6				
TPM (koz t)	96.8	66.1	31.4				
(C1) cash cost of producing payable copper (USD/lb PLN/lb)**	1.62 6.30	1.91 7.43	1.19 4.66				
Segment result - adjusted EBITDA	**4 458**	**608**	**1 346**	**211**	**-**	**-**	**6 623**
EBITDA margin* **	**23%**	**22%**	**52%**	**3%**	**-**	**-**	**25%**

** 55% of the Group's share in Sierra Gorda S.C.M.'s financial and production data.*

*** Unit cash cost of payable copper production, reflecting ore mining and processing costs, transport costs, the minerals extraction tax, administrative expenses during the mining phase and smelter treatment and refining charges (TC/RC) less by-product value. C1 cost is in regard to payable copper in own concentrate in the case of the segment KGHM Polska Miedź S.A. and payable copper in end products of individual mines of the segment KGHM International Ltd. and the segment Sierra Gorda S.C.M. C1 cost in PLN/lb was calculated using the average exchange rate by the NBP (arithmetical average of daily quotations per the NBP's tables).*

**** Adjusted EBITDA to revenues from sales. For the purposes of calculating the Group's EBITDA margin (25%), the consolidated revenues from sales were increased by revenues from sales of the segment Sierra Gorda S.C.M. [6 623/ (23 632 + 2 599) * 100]*

***** Adjustments arise from consolidation eliminations and financial data of companies unallocated to any segment.*

in PLN millions, unless otherwise stated

Financial results of reporting segments for the comparable period

		from 1 January 2019 to 31 December 2019						
						Reconciliation items to consolidated data		
		KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Elimination of data of the segment Sierra Gorda S.C.M	Consolidation adjustments****	Consolidated financial statements
Note 2.3	**Revenues from contracts with customers, of which:**	**17 683**	**3 084**	**2 002**	**7 448**	**(2 002)**	**(5 492)**	**22 723**
	- inter-segment	315	19	-	5 147	-	(5 481)	-
	- external	17 368	3 065	2 002	2 301	(2 002)	(11)	22 723
	Segment result - profit/(loss) for the period	**1 264**	**(555)**	**(556)**	**(275)**	**556**	**987**	**1 421**
	Additional information on significant revenue/cost items of the segment							
	(Recognition)/reversal of impairment losses on non-current assets, including:	(1 220)	(409)	(522)	(242)	522	(49)	(1 920)
	(recognition)/reversal of impairment losses on investments in subsidiaries	(357)	169	-	(202)	-	339	(51)
	(recognition)/reversal of allowances for impairment of loans granted	(460)	-	-	-	-	460	-
	reversal of allowances for impairment of loans granted	113	-	-	-	-	(113)	-
	Share of losses of joint ventures accounted for using the equity method	-	(433)	-	-	-	(5)	(438)
		As at 31 December 2019						
	Assets, including:	**35 990**	**10 689**	**9 156**	**5 386**	**(9 156)**	**(12 656)**	**39 409**
	Segment assets	35 990	10 689	9 156	5 386	(9 156)	(12 665)	39 400
	Joint ventures accounted for using the equity method	-	-	-	-	-	4	4
	Assets unallocated to segments	-	-	-	-	-	5	5
	Liabilities, including:	**16 100**	**16 849**	**12 801**	**2 552**	**(12 801)**	**(16 294)**	**19 207**
	Segment liabilities	16 100	16 849	12 801	2 552	(12 801)	(16 314)	19 187
	Liabilities unallocated to segments	-	-	-	-	-	20	20

** 55% of the Group's share in Sierra Gorda S.C.M.'s financial and production data.*
*** Unit cash cost of payable copper production, reflecting ore mining and processing costs, transport costs, the minerals extraction tax, administrative expenses during the mining phase and smelter treatment and refining charges (TC/RC) less by-product value. C1 cost is in regard to payable copper in own concentrate in the case of the segment KGHM Polska Miedź S.A. and payable copper in end products of individual mines of the segment KGHM International Ltd. and the segment Sierra Gorda S.C.M. C1 cost in PLN/lb was calculated using the average exchange rate by the NBP (arithmetical average of daily quotations per the NBP's tables).*
**** Adjusted EBITDA to revenues from sales. For the purposes of calculating the Group's EBITDA margin (21%), the consolidated revenues from sales were increased by revenues from sales of the segment Sierra Gorda S.C.M. [5 229 / (22 723 + 2 002) * 100]*
***** Adjustments arise from consolidation eliminations and financial data of companies unallocated to any segment.*

	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Reconciliation items to consolidated data: Elimination of data of the segment Sierra Gorda S.C.M	Reconciliation items to consolidated data: Consolidation adjustments****	Consolidated financial statements
	from 1 January 2020 to 31 December 2020						
Other information	from 1 January 2019 to 31 December 2019						
Cash expenditures on property, plant and equipment and intangible assets – cash flows	2 366	654	629	289	(629)	(77)	3 232
Production and cost data	from 1 January 2019 to 31 December 2019						
Payable copper (kt)	565.6	76.5	59.5				
Molybdenum (million pounds)	-	0.8	11.2				
Silver (t)	1 400.2	2.4	14.6				
TPM (koz t)	103.7	85.2	31.2				
(C1) cash cost of producing payable copper (USD/lb PLN/lb)**	1.74 6.69	1.74 6.69	1.41 5.42				
Segment result - adjusted EBITDA	**3 619**	**709**	**660**	**241**	**-**	**-**	**5 229**
EBITDA margin* **	**20%**	**23%**	**33%**	**3%**	**-**	**-**	**21%**

** 55% of the Group's share in Sierra Gorda S.C.M.'s financial and production data.*

*** Unit cash cost of payable copper production, reflecting ore mining and processing costs, transport costs, the minerals extraction tax, administrative expenses during the mining phase and smelter treatment and refining charges (TC/RC) less by-product value. C1 cost is in regard to payable copper in own concentrate in the case of the segment KGHM Polska Miedź S.A. and payable copper in end products of individual mines of the segment KGHM International Ltd. and the segment Sierra Gorda S.C.M. C1 cost in PLN/lb was calculated using the average exchange rate by the NBP (arithmetical average of daily quotations per the NBP's tables).*

**** Adjusted EBITDA to revenues from sales. For the purposes of calculating the Group's EBITDA margin (21%), the consolidated revenues from sales were increased by revenues from sales of the segment Sierra Gorda S.C.M.*
*[5 229 / (22 723 + 2 002) * 100]*

***** Adjustments arise from consolidation eliminations and financial data of companies unallocated to any segment.*

in PLN millions, unless otherwise stated

Reconciliation of adjusted EBITDA	from 1 January 2020 to 31 December 2020						
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Other segments	Consolidation adjustments*	Consolidated financial statements	Sierra Gorda S.C.M. **	Adjusted EBITDA (segments, total)
	1	2	3	4	5 (1+2+3+4)	6	7 (5+6-4)
Profit/(Loss) for the period	**1 779**	**(691)**	**(37)**	**746**	**1 797**	**(125)**	
[-] Profit or loss on involvement in joint ventures	**-**	**247**	**-**	**-**	**247**	**-**	
[-] Current and deferred income tax	(988)	(1)	(21)	51	(959)	207	
[-] Depreciation/amortisation recognised in profit or loss	(1 293)	(456)	(241)	27	(1 963)	(804)	
[-] Finance income and (costs)	-	(1 027)	(20)	1019	(28)	(843)	
[-] Other operating income and (costs)	(398)	(54)	100	(272)	(624)	(31)	
[-] (Recognition)/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	(8)	(66)	(89)	(163)	-	
Segment result - adjusted EBITDA	**4 458**	**608**	**211**	**10**	**5 287**	**1 346**	**6 623**

** Adjustments arise from consolidation eliminations and financial data of companies unallocated to any segment.*
***55% share of the Group in the financial data of Sierra Gorda S.C.M.*

Reconciliation of adjusted EBITDA	from 1 January 2019 to 31 December 2019						
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Other segments	Consolidation adjustments*	Consolidated financial statements	Sierra Gorda S.C.M. **	Adjusted EBITDA (segments, total)
	1	2	3	4	5 (1+2+3+4)	6	7 (5+6-4)
Profit/(Loss) for the period	**1 264**	**(555)**	**(275)**	**987**	**1 421**	**(556)**	
[-] Profit or loss on involvement in joint ventures	**-**	**14**	**-**	**(5)**	**9**	**-**	
[-] Current and deferred income tax	(663)	(102)	10	54	(701)	156	
[-] Depreciation/amortisation recognised in profit or loss	(1 220)	(409)	(242)	(49)	(1 920)	(522)	
[-] Finance income and (costs)	(504)	(961)	(18)	955	(528)	(841)	
[-] Other operating income and (costs)	39	175	(64)	36	186	(9)	
[-] (Recognition)/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	(7)	19	(202)	(8)	(198)	-	
Segment result - adjusted EBITDA	**3 619**	**709**	**241**	**4**	**4 573**	**660**	**5 229**

** Adjustments arise from consolidation eliminations and financial data of companies unallocated to any segment.*
***55% share of the Group in the financial data of Sierra Gorda S.C.M.*

A detailed description of the results of individual segments is presented in the following sections of the Management Board's report on the activities of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group in 2020:

- the segment KGHM Polska Miedź S.A. – in section 7,
- the segment KGHM INTERNATIONAL LTD. – in section 8,
- the segment Sierra Gorda S.C.M. – in section 9.

Note 2.3 Revenues from contracts with customers of the Group – breakdown by products

Accounting policies
Revenues arising from ordinary operating activities of the Group, 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. The Group 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 (including electricity), merchandise and materials (including steel, petroleum and its derivatives). The Group recognises revenue from contracts with customers when the Group 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. Revenues from the sale of services are recognised by the Group in profit or loss over time if one of the following criteria is met: - the customer simultaneously receives and consumes the benefits provided by the Group's performance to the extent that it performs its obligations, or - the Group satisfies a performance obligation and creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced, or - the Group satisfies a performance obligation and creates an asset without an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. If the Group recognises revenues on the basis of assessment pursuant to the adopted method of measurement the degree of advancement, prior to the issue of the invoice, it recognises due consideration as a contractual asset and transfers it to receivables at the moment the right to consideration becomes unconditional. The Group 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 Group determines (based on contractual terms), whether the obligation will be performed over time or at a specified moment. In trade contracts in which the performance obligation is met at a specified time, the Group uses various payment dates, 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. Payment dates depend on the evaluation of the recipient's credit risk and the possibility of securing receivables. Due to the above, the payment dates are not contingent on the moment of satisfying a performance obligation. The Group recognises received prepayments as contractual payables, while in the case of deferred payments the Company recognises due consideration as receivables at the moment the invoice is issued, if the only condition of receiving payment is the time lapse. The date on which the consideration becomes due depends on the payment conditions specified in individual contracts, or 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 contracts with customers are recognised in the amount of the transaction price, consisting of the amount of consideration to which – in accordance with the Group'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. In the realised contracts of sales to customers in 2020 and 2019, the Group identified a significant financing component in the contract with Franco Nevada (contract described below in Important estimates, assumptions and judgments).
The Group presents the results of financing (interest costs) in revenues from contracts with customers in the statement of comprehensive income. In the Franco Nevada contract, there is also an element of variable consideration. In such a situation, the Group recognises revenues by estimating the amount of consideration, to which it will be entitled to in exchange for transferring the good to the customer and includes a part or all of the amount of variable consideration in the transaction price only to such an extent to which it is highly probable that there will not be a reversal of a significant part of previously recognised accumulated revenues at the moment when uncertainty as to the amount of consideration ceases to be.

In the case of copper and silver products sales transactions 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. Changes to the booked 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 accounting policies 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.

Important estimates, assumptions and judgments
The Group 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 Group is also obliged to organise the shipment. In these cases, the Group acts as a principal, as it has control over the service before its completion and transfer to the customer. The Group recognises revenues over time due to realised mine construction services and other geological work. The Group meets liabilities in time, because the customer simultaneously receives and makes use of economic benefits arising from the performed service as it is performed, or because components are made which do not have an alternative application for the Group and simultaneously the Group has an enforceable right to payment. To measure the degree of advancement of performance obligation, the Group applies a method based on expenses incurred while meeting the performance obligation on the basis of incurred costs and for other contracts, a method based on results, where the unit cost set in advance is applied to measure the unit of production (e.g. meters of drilled tunneling). <u>The contract with Franco Nevada</u> The Group realises the streaming arrangement contract, which is a source of financing available on the market for entities operating in the mining sector. The contract concerns the sale of half of the production of gold, platinum and palladium contained in the ore extracted during the lives of the following mines: Morrison, McCreedy West and Podolsky, which are within the CGU Sudbury. Pursuant to the terms of the contract, Quadra FNX Mining Ltd. received a prepayment in the amount of CAD 400 million. Moreover, pursuant to the contract, the selling price for one ounce of gold equivalent is the lower of these two amounts: (a) USD 400, increased by 1% each year beginning from 2011, or (b) the market price of gold. The received prepayment covers the difference between the market price of ore sold and its fixed selling price. The Group recognised a liability due to the contract in the amount of prepayment due to the obligation put on the entity to meet the obligation to transfer or be ready to transfer goods or services in the future. The entity will cease to recognise this contractual obligation (and will recognise revenues) at the moment it transfers these goods or services and therefore meet its performance obligation. *Variable consideration* In the contract with Franco Nevada the total transaction price is variable and depends on the amount of the raw material sold, and this in turn depends on ore extraction in the future throughout the life of the mine (including for example on the size of the deposit). Therefore, if in subsequent reporting periods the Group enacts any changes to the planned amount of ore to be extracted, and consequently to the amount of raw material sold, the transaction price will also be updated. The Group recognises amounts related to satisfied performance obligations as revenue or as a decrease of revenue in the period in which the transaction price was changed. *Significant financing component* In the context of the contract with Franco Nevada, taking into consideration the expected period from the moment when prepayment is received to the moment when the Group transfers the promised good (the life of the mine, or several decades) and the nature of this contract, it was determined that the extension of payments over time provides benefits to the Group due to the financing of deliveries of raw material by the buyer (Franco Nevada), and as a result the contract includes a significant financing element. The Group presents the effects of financing (interest costs) separately from revenue from contracts with customers in the statement of profit or loss. Interest costs are recognised solely to the extent to which the liabilities related to the contract with Franco Nevada were recognised. <u>Contract advanced by DMC</u> The Group advances a long-term contract for mine construction, in which it uses a method based on expenditures to recognise revenues, which meets the criteria for recognising revenues in the amount the Group has a right to invoice. The total transaction price allocated to performance obligations, which were not met at the end of the reporting period, amounted to PLN 172 million, of which the amount of PLN 144 million will be realised in 2021 and PLN 28 million in 2022. The transaction price does not include the revenues from contracts with customers corresponding to the estimated amount of variable consideration, at the level of 5% of the contract’s value, subject to restrictions in recognition pursuant to paragraph 56 of IFRS 15.

in PLN millions, unless otherwise stated

Revenues from contracts with customers of the Group – breakdown by products

	from 1 January 2020 to 31 December 2020						
					Reconciliation items to consolidated data		
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Elimination of data of the segment Sierra Gorda S.C.M	Consolidation adjustments	Consolidated data
Copper	14 258	1 610	1 996	7	(1 996)	(14)	**15 861**
Silver	3 453	21	75	-	(75)	-	**3 474**
Gold	690	303	224	-	(224)	-	**993**
Services	116	584	-	2 110	-	(1 693)	**1 117**
Energy	47	-	-	193	-	(136)	**104**
Salt	25	-	-	-	-	-	**25**
Blasting materials and explosives	-	-	-	221	-	(81)	**140**
Mining machinery, transport vehicles and other types of machinery and equipment	-	-	-	201	-	(161)	**40**
Fuel additives	-	-	-	91	-	-	**91**
Lead	220	-	-	-	-	-	**220**
Products from other non-ferrous metals	-	-	-	75	-	(2)	**73**
Steel	-	-	-	402	-	(32)	**370**
Petroleum and its derivatives	-	-	-	247	-	(219)	**28**
Merchandise and materials	369	-	-	3 962	-	(3 761)	**570**
Other products	148	185	304	372	(304)	(179)	**526**
TOTAL	**19 326**	**2 703**	**2 599**	**7 881**	**(2 599)**	**(6 278)**	**23 632**

* 55% of the Group's share in revenues of Sierra Gorda S.C.M.

in PLN millions, unless otherwise stated

	from 1 January 2019 to 31 December 2019						
					Reconciliation items to consolidated data		
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Elimination of data of the segment Sierra Gorda S.C.M	Consolidation adjustments	Consolidated data
Copper	13 474	1 565	1 311	5	(1 311)	(18)	**15 026**
Silver	2 789	10	30	-	(30)	-	**2 799**
Gold	543	249	176	-	(176)	-	**792**
Services	110	998	-	2 185	-	(1 558)	**1 735**
Energy	43	-	-	170	-	(118)	**95**
Salt	37	-	-	62	-	(37)	**62**
Blasting materials and explosives	-	-	-	215	-	(80)	**135**
Mining machinery, transport vehicles and other types of machinery and equipment	-	-	-	181	-	(144)	**37**
Fuel additives	-	-	-	94	-	-	**94**
Lead	247	-	-	3	-	(3)	**247**
Products from other non-ferrous metals	-	-	-	79	-	(3)	**76**
Steel	-	-	-	463	-	(39)	**424**
Petroleum and its derivatives	-	-	-	289	-	(241)	**48**
Merchandise and materials	236	-	-	3 260	-	(3 025)	**471**
Other products	204	262	485	442	(485)	(226)	**682**
TOTAL	**17 683**	**3 084**	**2 002**	**7 448**	**(2 002)**	**(5 492)**	**22 723**

* 55% of the Group's share in revenues of Sierra Gorda S.C.M.

in PLN millions, unless otherwise stated

Note 2.4 Revenues from contracts with customers of the Group – breakdown by category

	from 1 January 2020 to 31 December 2020						
					Reconciliation items to consolidated data		
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Elimination of data of the segment Sierra Gorda S.C.M	Consolidation adjustments	Consolidated data
Total revenues from contracts with customers	**19 326**	**2 703**	**2 599**	**7 881**	**(2 599)**	**(6 278)**	**23 632**
Revenues from sales contracts, for which the sales price is set after the date of recognition of the sales (M+ principle), of which:	14 393	2 119	2 439	76	(2 439)	(76)	**16 512**
settled	13 520	1 463	887	76	(887)	(76)	**14 983**
unsettled	873	656	1 552	-	(1 552)	-	**1 529**
Revenues from realisation of long-term contracts	-	529	-	262	-	(249)	**542**
Revenues from other sales contracts	4 933	55	160	7 543	(160)	(5 953)	**6 578**
Total revenues from contracts with customers, of which:	**19 326**	**2 703**	**2 599**	**7 881**	**(2 599)**	**(6 278)**	**23 632**
in factoring	7 234	25	-	756	-	(685)	**7 330**
not in factoring	12 092	2 678	2 599	7 125	(2 599)	(5 593)	**16 302**

* 55% of the Group's share in revenues of Sierra Gorda S.C.M.

	from 1 January 2020 to 31 December 2020	from 1 January 2019 to 31 December 2019
Revenues from contracts with customers, of which:	**23 632**	**22 723**
Transferred at a certain moment	22 411	20 893
Transferred over time	1 221	1 830

in PLN millions, unless otherwise stated

	from 1 January 2019 to 31 December 2019						
					Reconciliation items to consolidated data		
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Elimination of data of the segment Sierra Gorda S.C.M	Consolidation adjustments	Consolidated data
Total revenues from contracts with customers	**17 683**	**3 084**	**2 002**	**7 448**	**(2 002)**	**(5 492)**	**22 723**
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	2 085	2 009	-	(2 009)	(75)	**16 484**
settled	13 745	1 355	1 053	-	(1 053)	(75)	**15 025**
unsettled	729	730	956	-	(956)	-	**1 459**
Revenues from realisation of long-term contracts	-	979	-	194	-	(173)	**1 000**
Revenues from other sales contracts	3 209	20	(7)	7 254	7	(5 244)	**5 239**
Total revenues from contracts with customers, of which:	**17 683**	**3 084**	**2 002**	**7 448**	**(2 002)**	**(5 492)**	**22 723**
in factoring	6 985	74	-	-	-	-	**7 059**
not in factoring	10 698	3 010	2 002	7 448	(2 002)	(5 492)	**15 664**

* 55% of the Group's share in revenues of Sierra Gorda S.C.M.

in PLN millions, unless otherwise stated

Note 2.5 Revenues from contracts with customers of the Group – geographical breakdown reflecting the location of end customers

	from 1 January 2020 to 31 December 2020							from 1 January 2019 to 31 December 2019
					Reconciliation items to consolidated data			
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Elimination of data of the segment Sierra Gorda S.C.M	Consolidation adjustments	Consolidated data	KGHM Polska Miedź S.A. Group
Poland	4 370	-	6	7 582	(6)	(6 272)	5 680	6 100
Austria	161	-	-	21	-	-	182	224
Belgium	51	-	-	11	-	-	62	56
Bulgaria	13	(1)	-	7	-	-	19	280
Czechia	1 423	-	-	12	-	-	1 435	1 333
Denmark	19	-	-	1	-	-	20	62
Estonia	17	-	-	1	-	-	18	-
Finland	-	-	-	4	-	-	4	68
France	636	-	-	4	-	-	640	715
Spain	-	241	39	3	(39)	-	244	300
Netherlands	2	-	54	-	(54)	-	2	6
Germany	3 093	-	39	62	(39)	-	3 155	2 514
Romania	176	-	-	3	-	-	179	198
Slovakia	88	-	-	10	-	-	98	99
Slovenia	70	-	-	3	-	-	73	74
Sweden	21	-	-	32	-	-	53	43
Hungary	689	-	-	4	-	-	693	652
The United Kingdom	1 960	287	-	9	-	(1)	2 255	2 844
Italy	1 109	-	-	9	-	-	1 118	946
Australia	843	-	-	-	-	-	843	165
Bosnia and Hercegovina	-	-	-	2	-	-	2	34
Chile	-	34	291	-	(291)	-	34	20
China	2 611	777	1 435	-	(1 435)	-	3 388	2 619
India	-	-	22	1	(22)	-	1	-
Japan	1	60	634	-	(634)	-	61	261
Canada	2	471	-	1	-	(1)	473	587
South Korea	-	150	46	-	(46)	-	150	118
Norway	-	-	-	14	-	-	14	-

*55% of the Group’s share in revenues of Sierra Gorda S.C.M.

in PLN millions, unless otherwise stated

	from 1 January 2020 to 31 December 2020							from 1 January 2019 to 31 December 2019
					Reconciliation items to consolidated data			
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Elimination of data of the segment Sierra Gorda S.C.M	Consolidation adjustments	Consolidated data	KGHM Polska Miedź S.A. Group
Russia	-	-	-	32	-	(3)	29	41
The United States of America	600	534	(2)	7	2	(1)	1 140	965
Switzerland	713	-	-	2	-	-	715	692
Turkey	87	-	-	5	-	-	92	250
Singapore	7	-	-	-	-	-	7	9
Vietnam	95	-	-		-	-	95	-
Philippines	13	146	-		-	-	159	176
Malaysia	46	-	-		-	-	46	-
Brazil	-	4	34		(34)	-	4	51
Taiwan	220	-	-		-	-	220	48
Thailand	184	-	-	2	-	-	186	80
Other countries	6	-	1	37	(1)	-	43	93
TOTAL	**19 326**	**2 703**	**2 599**	**7 881**	**(2 599)**	**(6 278)**	**23 632**	**22 723**

*55% of the Group's share in revenues of Sierra Gorda S.C.M.

in PLN millions, unless otherwise stated

Note 2.6 Main customers

In the period from 1 January 2020 to 31 December 2020 and in the comparable period the revenues from no single customer exceeded 10% of the sales revenue of the Group.

Note 2.7 Non-current assets – geographical breakdown

	As at 31 December 2020	As at 31 December 2019
Poland	22 502	21 349
Canada	1 441	1 368
The United States of America	1 416	1 418
Chile	353	388
Other countries	16	16
TOTAL*	**25 728**	**24 539**

**non-current assets, excluding: derivatives, other financial instruments, other non-financial assets and deferred tax assets (IFRS 8.33b) in the total amount of PLN 8 319 million as at 31 December 2020 (PLN 7 130 million as at 31 December 2019).*

Part 3 – Impairment of assets

Note 3.1. Impairment of assets as at 31 December 2020

ASSESSMENT OF THE RISK OF IMPAIRMENT OF ASSETS IN THE CONTEXT OF MARKET CAPITALISATION OF KGHM Polska Miedź S.A.
In 2020, the COVID-19 (coronavirus) pandemic was spreading across the world, and its impact was noticeable in many areas. Detailed information on the impact of COVID–19 on the Group's operations is presented in note 12.12. Among others, due to the coronavirus market indices drastically fell. The share price of KGHM Polska Miedź S.A. in 2020 initially fell to PLN 49.40 (on 12 March 2020) or by 48% as compared to the share price from the end of 2019 and then rose to PLN 183.00 as at 31 December 2020. In 2020, the WIG and WIG20 indices on 12 March 2020 fell by 36% and 39%, and on 31 December 2020 by 1% and 8% as compared to 30 December 2019, respectively. As a result, the Parent Entity's market capitalisation increased from PLN 19 116 million to PLN 36 600 million, and therefore as at 31 December 2020 it was 74% above the value of the net assets of the Group. The drop in share prices caused by the COVID-19 pandemic affected shares of companies in the majority of sectors, in various sectors of the economy, and reflected investor uncertainty as to the future. This was confirmed by the increase in the value of typically conservative instruments such as gold and the exchange rates of certain currencies. From the perspective of the Parent Entity's operations, the copper price is the first and foremost key factor. From the start of the pandemic, this metal was substantially undervalued. As at 31 December 2019, the price of copper amounted to 6 156 USD/t, and during 2020, as at 23 March 2020 it had fallen to 4 618 USD/t. Nonetheless, as time passed, with the inflow of more hopeful information as respects demand for this commodity, prices returned to their level at the start of 2020 and on 31 December 2020 the copper price reached the level of 7 742 USD/t. The share prices of companies involved in the mining and processing of copper are strongly correlated with the price of this metal. The decrease in the market capitalisation of companies in this sector, including KGHM Polska Miedź S.A., was therefore of a temporary nature, and reflected the initial panic of investors related with the coronavirus pandemic and the associated drop in the prices of the major metals. Once it became evident that the pandemic would not have a significant impact, on either the production or sales of these entities, share prices returned to their former levels and then increased alongside the increase in metal prices. It is also worth mentioning that in the case of the Polish assets, of significance are PLN-expressed metals prices, which are also affected by the USD/PLN exchange rate. Fluctuations in the price of copper related to the volatility on the financial markets, whose origins may often be found not only in macroeconomics but also in geopolitics, are usually to a large extent offset by changes in the USD/PLN exchange rate. Since the outbreak of the pandemic at the turn of February and March 2020, KGHM Polska Miedź S.A. has maintained full operational capability and has been advancing its production and sales plans. Analysis of the occurrence of indications with respect to the international assets of the Group (the KGHM INTERNATIONAL LTD. Group) also indicated the copper price as a key factor from the point of view of the operations of the KGHM INTERNATIONAL LTD. Group. Nonetheless, despite the temporary fall in the first half of 2020 of metals prices which lead directly to lower revenues of the international assets, there were no indications identified to perform impairment testing. The Group undertook austerity measures aimed at mitigating the negative impact of the decrease in revenues. A number of procedures aimed at swift identification of infected persons and at limiting the spread of COVID-19 were introduced. This enabled the avoidance of outbreaks of the disease and uninterrupted production. COVID-19 did not disrupt the activities of any of the mines and did not lead to any decrease in mining production. As a result of the assessment, it was judged that there was no relation in the first half of 2020 between the temporary fall in share price of KGHM Polska Miedź S.A. both in terms of the activities of KGHM Polska Miedź S.A. in Poland as well as abroad. Due to the uncertainty and the significant volatility of basic economic parameters, including metals prices and currency exchange rates, and dynamic development of the pandemic situation in Poland and globally, and its impact on the economic situation, the Parent Entity is continuously monitoring the global situation in order to assess its potential impact on the Group.

TEST FOR THE IMPAIRMENT OF ASSETS OF THE KGHM INTERNATIONAL LTD. GROUP - the Segment KGHM INTERNATIONAL LTD.
In the current period, the Management Board of the Parent Entity analysed indications for all international assets of the KGHM INTERNATIONAL LTD. Group and did not identify a need to perform impairment testing, with the exception of the Franke mine. As a result of the identification of indications of a possible change in the recoverable amount of the Franke mine, the Parent Entity's Management Board performed impairment testing of this asset. The key indication to perform impairment testing was a change in the technical and economic parameters of the Franke mine with respect to production volumes, assumed operating costs and the level of capital expenditures during the mine life. The key indications that the recoverable amount of the Franke mine may be lower than the carrying amount, and therefore it may be necessary to recognise an additional impairment loss, were: • the level of capital expenditures during the life of the Franke mine, • the volume of production of the Franke mine. To determine the recoverable amount of assets during the testing, the method of discounted cash flows to the value in use was used for the CGU Franke.

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 specified forecast was prepared for the period 2021 – 2023, in which currently mining operations are planned: - for copper – 6 300 – 6 500 USD/t; - for gold – 1 600 – 1 900 USD/oz; - for nickel – 6.25 - 7.00 USD/lb.

Key assumptions used for recoverable amount estimation of assets of CGU Franke

Assumption	**Franke**
Mine life / forecast period (in years)	3
Level of copper production during mine life (kt)	29
Level of nickel production during mine life (kt)	-
Level of gold production during mine life (koz t)	-
Capital expenditures to be incurred during mine life (USD million)	5
Applied discount rate for assets in the operational phase (real rate after taxation)*	10.5%

** Data is presented after taxation, despite the measurement model of value in use. The application of data before taxation does not have a significant impact on the recoverable amount of assets of CGU Franke.*

Key factors responsible for modification of technical and economic assumptions	
Franke	Due to a substantial change in market conditions and exploration work conducted, the Company is in the process of analysing alternative means of mining the sulphide deposits held, i.e. flotation and leaching (SX/EW). Both methods are characterised by differing production costs, required investment expenditures and production results. As a result the decision was made to exclude the sulphide ore from production plans. Following the completion of analysis and selection of the method of further exploitation, the decision to include utilisation of the sulphide ore in the plans will be re-considered.

Results of the test performed as at 31 December 2020 are presented in the following table:

CGU	**Carrying amount**		**Recoverable amount**		**Impairment loss**	
	USD mn	**PLN mn**	**USD mn**	**PLN mn**	**USD mn**	**PLN mn**
Franke*	(8)	(30)	(20)	(75)	12	45

** the carrying amount was calculated as book value of fixed assets tested in CGU Franke, decreased by the provision for future decommissioning costs of mines of USD 20 million (PLN 75 million). The recoverable amount was calculated as a value in use for CGU Franke, decreased by the provision for future decommissioning costs of CGU Franke, which amounts to USD 20 million (PLN 75 million).*

As a result of the conducted test, an impairment loss on the CGU Franke was recognised in the items: "Other operating costs" in the amount of PLN 37 million and "Cost of sales" in the amount of PLN 8 million.

in PLN millions, unless otherwise stated

TEST FOR THE IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT OF WPEC S.A. – Segment – Other segments
In the current period, due to indications of the possibility of changes in the recoverable amount of the property, plant and equipment and intangible assets of the company WPEC S.A., the Company performed impairment testing on these assets. The key indication to perform impairment testing in the current reporting period was a disclosure of information on the possible delay of commissioning of the company's investment in a new heat source in Legnica. The carrying amount of the property, plant and equipment and intangible assets of WPEC S.A. as at 31 December 2020 amounted to PLN 157 million. For the purpose of estimating the recoverable amount, in the conducted test the value in use of the CGU was measured, using the DCF (discounted cash flows) method.

Basic assumptions adopted for impairment testing	
Assumption	**Level adopted in testing**
Specified forecast period	2021-2030
Average operating margin during the specified forecast period	0.02%
Capital expenditures during the specified forecast period	PLN 90 million
Discount rate*	2.86% (real rate after taxation)
Growth rate following the forecast period	0%

** Data is presented after taxation, despite the measurement model of value in use. The application of data before taxation does not have an impact on the recoverable amount.*

The adopted level of capital expenditures during the forecast period mainly concerns the realisation of a task – Modernisation of a heat supply system for the Legnica city.

Currently applied prices and price rates applied in tariffs for heat were used in the revenue forecast for the years 2021 – 2030. Due to the fact that from 2023 the company aims to change the heat generation technology in Legnica while retaining the method of shaping prices required by law, it will recalculate the entire heat price system, being able to use in this regard average heat prices announced by the President of the Energy Regulatory Office, recognised in the process of setting the tariffs as reference levels.

For the forecast of costs for the years 2021 – 2030, the change in the heat generation technology in Legnica from 2023 will have a significant impact, and in particular:

- the decrease in costs of raw materials and production processes of a coal-based economy and the associated current maintenance, operations, overhauls and shut-downs;
- a decrease in costs of CO_2 emissions by approx. 50%;
- reorganisation of employment – the switch to a natural gas-based technology does not require maintaining the same amount of employees as is required by a coal-based economy – this concerns both the heat production unit as well as maintenance services.

As the result of the above assumptions, the EBIT level was as follows:

Years	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
EBIT	-15	-11	-7	-5	-1	1	2	3	4	5

The EBIT value in 2030 is a basis to calculate free cash flows necessary to settle the residual value, which amounts to PLN 107 million.

As a result of the impairment testing conducted on property, plant and equipment and intangible assets, the recoverable amount of assets was determined to be at the level of PLN 116 million, which was lower than the carrying amount of the tested assets, which was the basis for recognising an impairment loss on "Cost of sales" in the amount of PLN 41 million.

in PLN millions, unless otherwise stated

The measurement of non-current assets and intangible assets of the company indicated a significant sensitivity to the adopted discount rates and the measurement of the residual value, which was determined based on EBIT from 2030. The following table presents the impact of changes to these parameters on the measurement of the assets.

Sensitivity analysis of the recoverable amount of property, plant and equipment and intangible assets of WPEC w Legnicy S.A.			
	Recoverable amount by a given discount rate		
	lower by 1 pp.	**per test**	**higher by 1 pp.**
Discount rate 2.86 % (test)	**193**	**116**	**78**
	Recoverable amount by a given change in EBIT		
	lower by 5 pp.	**per test**	**higher by 5 pp.**
EBIT PLN 5 million (test)	**112**	**116**	**122**

In order to monitor the risk of impairment of the operating assets in subsequent reporting periods, it was determined that the recoverable amount would be equal to the carrying amount of assets if the discount rate fell by 0.63% or if EBIT increased by 38%.

TEST FOR THE IMPAIRMENT OF NON-CURRENT ASSETS OF SPA COMPANIES – Segment – Other segments

The outbreak of the COVID-19 pandemic had a substantial impact on the Group's secondary activities with respect to the providing of spa services by the following companies (CGUs): Uzdrowiska Kłodzkie S.A. - Grupa PGU, Uzdrowisko Połczyn Grupa PGU S.A., Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU, Uzdrowisko Świeradów - Czerniawa Sp. z o.o. – Grupa PGU.

In 2020, there were significant disruptions to the on-going operations of these companies related to the mandatory lockdown and restrictions of activities implemented by the Decrees of the Minister of Health. Decisions were made to temporarily suspend the activities of individual facilities. Companies were subjected to a temporary prohibition on conducting activities in the spring period (March-May/June) and in the winter period (from November).

The restrictions related to COVID-19 resulted in a decrease in revenues in 2020 in the spa companies of approx. 38% and in the hotel companies of 45% as compared to the revenues in 2019, and as compared to the revenue plan at the level of 41% and 43%, respectively.

The economic impact of this situation, meaning the losses of spa companies incurred in 2020, which significantly deviate from budgetary targets, represented a key indication to conduct impairment testing of the non-current assets of the spa companies. For the purpose of estimating the recoverable amount, in the conducted test the value in use of the cash generating units, comprised of property, plant and equipment and intangible assets of all of the aforementioned companies, was measured using the DCF method, i.e. the method of discounted cash flows.

in PLN millions, unless otherwise stated

Basic assumptions adopted for impairment testing				
Assumption	**Uzdrowiska Kłodzkie S.A. - Grupa PGU**	**Uzdrowisko Połczyn Grupa PGU S.A.**	**Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU**	**Uzdrowisko Świeradów - Czerniawa Sp. z o.o. – Grupa PGU**
Specified forecast period*	2021 - 2026	2021 - 2026	2021 - 2026	2021 - 2026
Average EBITDA margin during the specified forecast period	18%	18%	16%	18%
EBITDA margin during the residual period	20%	21%	17%	20%
Capital expenditures during the specified forecast period	PLN 60 mn	PLN 17 mn	PLN 11 mn	PLN 8 mn
Average notional discount rate during the specified forecast period**	7.7%	8.3%	8.4%	8.5%
Discount rate during the residual period**	7.8%	8.7%	8.7%	8.8%
Notional growth rate following the specified forecast period	2.0%	2.0%	2.0%	2.0%

** a 6-year specified forecast period was adopted instead of a 5-year one, pursuant to the approach applied by KGHM VII FIZAN for the measurement of portfolio deposits, in order to maintain the comparability over time (the methodology applied in previous periods).*
*** Data is presented after taxation, despite the measurement model of value in use. The application of data before taxation does not have an impact on the recoverable amount.*

The results of the conducted tests are presented in the following table:

CGU	Carrying amount	Recoverable amount	Impairment loss
Uzdrowiska Kłodzkie S.A. - Grupa PGU	180	129	51
Uzdrowisko Połczyn Grupa PGU S.A	72	54	25
Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU	40	30	10
Uzdrowisko Świeradów - Czerniawa Sp. z o.o. – Grupa PGU	52	44	8

As a result of the tests conducted, an impairment loss on non-current assets was recognised in the total amount of PLN 94 million – by comparing the carrying amount with the recoverable amount, excluding Uzdrowisko Połczyn Grupa PGU S.A. As a result of the cautious approach to the measurement, an impairment loss on Uzdrowisko Połczyn Grupa PGU S.A. which was recognised in the first half of 2020 remained in the amount of PLN 25 million, despite the fact that the recoverable amount indicated the reversal of an impairment loss in the amount of PLN 7 million.

The impairment loss was recognised in the items: "Other operating costs" in the amount of PLN 2 million and "Cost of sales" in the amount of PLN 92 million.

The recoverable amount of individual CGUs indicated a significant sensitivity to changes in the adopted discount rate, the average EBITDA margin, and the growth rate following the forecast period. Due to the very conservative approach in testing with respect to financial projections for the years 2021 – 2026, the Company refrained from testing the sensitivity of the recoverable amount during the lockdown period. The sensitivity to the change in level of revenues is reflected in the sensitivity to changes in the EBITDA margin.

in PLN millions, unless otherwise stated

The impact of the other key assumptions is immaterial. The impact of changes to key parameters on the recoverable amount of individual CGUs is presented in the following table:

	Recoverable amount		
Average EBITDA margin during the forecast period	**decrease by 2 pp.**	**per test**	**increase by 2 pp.**
Uzdrowiska Kłodzkie S.A. - Grupa PGU	84	**129**	176
Uzdrowisko Połczyn Grupa PGU S.A.	43	**54**	66
Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU	23	**30**	38
Uzdrowisko Świeradów - Czerniawa Sp. z o.o. – Grupa PGU	36	**44**	52
Average discount rate during the forecast period	**decrease by 1 pp.**	**per test**	**increase by 1 pp.**
Uzdrowiska Kłodzkie S.A. - Grupa PGU	165	**129**	105
Uzdrowisko Połczyn Grupa PGU S.A.	67	**54**	45
Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU	37	**30**	26
Uzdrowisko Świeradów - Czerniawa Sp. z o.o. – Grupa PGU	53	**44**	37
Growth rate following the forecast period	**decrease by 1 pp.**	**per test**	**increase by 1 pp.**
Uzdrowiska Kłodzkie S.A. - Grupa PGU	110	**129**	157
Uzdrowisko Połczyn Grupa PGU S.A.	47	**54**	63
Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU	27	**30**	35
Uzdrowisko Świeradów - Czerniawa Sp. z o.o. – Grupa PGU	39	**44**	50

In order to monitor the risk of further impairment of operating assets in subsequent reporting periods as well as to monitor the possibility of reversing the impairment loss, it was determined that the recoverable amount would be equal to the carrying amount of individual companies if the discount rate were to be as presented below:

Uzdrowiska Kłodzkie S.A. - Grupa PGU	6.34%
Uzdrowisko Połczyn Grupa PGU S.A.	7.00%
Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU	7.03%
Uzdrowisko Świeradów - Czerniawa Sp. z o.o. – Grupa PGU	7.58%

in PLN millions, unless otherwise stated

EVALUATION OF RISK OF IMPAIRMENT OF ASSETS OF THE COMPANY INTERFERIE S.A. – Segment – Other segments
The market capitalisation of the subsidiary Interferie S.A. in 2020 was below the carrying amount of the company's net assets, which in accordance with the adopted accounting policy was recognised by the company to be an indication to perform impairment testing of the company's assets (the carrying amount of the tested assets was PLN 146 million). In order to assess the impairment, the Company identified the following CGUs: INTERFERIE in Ustronie Morskie – Leisure and Sanatorium Cechsztyn, INTERFERIE in Kołobrzeg Leisure and Sanatorium Chalkozyn, INTERFERIE in Dąbki Sanatorium Argentyt, INTERFERIE in Świeradów Zdrój – Hotel Malachit, INTERFERIE Hotel in Głogów and INTERFERIE Hotel Bornit in Szklarska Poręba. In order to assess the impairment, the fair value of the assets was estimated on the basis of the sum of future cash flows of individual CGUs discounted by the rate estimated on the basis of ratios used by the hotel industry, with the exception of CGU INTERFERIE Hotel in Głogów, CGU INTERFERIE Hotel Malachit in Świeradów Zdrój and CGU INTERFERIE Hotel Bornit in Szklarska Poręba, for which the fair value was determined on the basis of valuation reports. The fair value was classified to level 3 of the fair value hierarchy.

Basic assumptions adopted for impairment testing	
Assumption	**Level adopted in testing**
Forecast period INTERFERIE in Ustronie Morskie – Leisure and Sanatorium Cechsztyn INTERFERIE in Kołobrzeg Leisure and Sanatorium Chalkozyn INTERFERIE in Dąbki Sanatorium Argentyt	2021-2025 2021-2032 2021-2031
Notional discount rate for tests based on the DCF method during the specified forecast period and in the residual period**	9.12%
Notional growth rate following the specified forecast period	2.00%
Average operating margin -during the specified forecast period: INTERFERIE in Ustronie Morskie - Leisure and Sanatorium Cechsztyn INTERFERIE in Kołobrzeg Leisure and Sanatorium Chalkozyn INTERFERIE in Dąbki Sanatorium Argentyt -in the residual period: INTERFERIE in Ustronie Morskie - Leisure and Sanatorium Cechsztyn INTERFERIE in Kołobrzeg Leisure and Sanatorium Chalkozyn INTERFERIE in Dąbki Sanatorium Argentyt	24% 31% 36% 28% 44% 37%

**The difference in the forecast periods arises from the realisation of investment projects in the Argentyt facility and Chalkozyn.*

*** Data is presented after taxation, despite the measurement model of value in use. The application of data before taxation does not have an impact on the recoverable amount.*

As a result of the impairment testing of the company's assets, the estimated fair value of the assets was determined to be higher than their carrying amount, which did not provide a basis to recognise an impairment loss, which is presented in the table below.

in PLN millions, unless otherwise stated

The measurement indicated a significant sensitivity of fair value to adopted discount rates, growth rates following the forecast period and volatility of operating profit in the forecasted period of the following CGUs. The sensitivity to changes in the level of revenues, arising from the lockdown period, is reflected in the sensitivity to changes in the operating profit.

Sensitivity analysis of fair value						
CGU	Carrying amount	Recoverable amount	Discount rate		Operating profit	
			higher by 6%	lower by 6%	higher by 6%	lower by 6%
INTERFERIE in Ustronie Morskie - Leisure and Sanatorium Cechsztyn	10	15	14	17	16	14
INTERFERIE in Kołobrzeg Leisure and Sanatorium Chalkozyn	19	39	33	47	44	35
INTERFERIE in Dąbki Sanatorium Argentyt	69	107	100	116	113	101
CGU	Carrying amount	Recoverable amount	Notional growth rate following the specified forecast period			
			1%		3%	
INTERFERIE in Ustronie Morskie - Leisure and Sanatorium Cechsztyn	10	15	14		17	
INTERFERIE in Kołobrzeg Leisure and Sanatorium Chalkozyn	19	39	33		47	
INTERFERIE in Dąbki Sanatorium Argentyt	69	107	101		115	

The discount rate and a change in the operating profit, alongside which the value of assets would be equal to the carrying amount is as follows:

Level of change in assumptions implicating an impairment loss		
CGU	Increase in discount rate (by pp.)	Percentage decrease in operating profit
INTERFERIE in Ustronie Morskie - Leisure and Sanatorium Cechsztyn	3.8	36.5
INTERFERIE in Kołobrzeg Leisure and Sanatorium Chalkozyn	2.2	25.9
INTERFERIE in Dąbki Sanatorium Argentyt	4.1	37.5

Costs to sell were adopted in the total amount of 3% (including: cost of legal services, real estate agency and other charges related to the sales transaction).

A valuation report was prepared for the property of INTERFERIE in Głogów, estimating the fair value of the subject of measurement at PLN 2.5 million (PLN 2.4 million after including the 3% costs to sell). The valuation was prepared using the comparative approach, the average price adjustment method and, for the land element , the pairs comparison method. As at 31 December 2020, the carrying amount of the hotel(value of fixed assets, intangible assets and fixed assets under construction) is PLN 2.3 million.

A valuation report was prepared for the property of INTERFERIE Hotel Bornit in Szklarska Poręba, estimating the fair value of the subject of measurement to amount to PLN 25.9 million. The valuation was prepared using the comparative approach, the average price adjustment method and the pairs comparison method. As at 31 December 2020, the carrying amount of the hotel (value of fixed assets, intangible assets and fixed assets under construction) is PLN 23.8 million.

A valuation report was prepared for the property of INTERFERIE Hotel Malachit in Świeradów Zdrój, estimating the fair value of the subject of measurement to amount to PLN 23.1 million. The valuation was prepared using the comparative approach, and the pairs comparison method. As at 31 December 2020, the carrying amount of the hotel (value of fixed assets, intangible assets and fixed assets under construction) is PLN 22.2 million.

in PLN millions, unless otherwise stated

TEST FOR IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT OF POL-MIEDŹ TRANS Sp. z o.o. – Segment – Other segments
As at 31 December 2020, due to indications of the possibility of changes in the recoverable amount of property, plant and equipment of the company POL-MIEDŹ TRANS Sp. z o.o., the Company performed impairment testing on these assets. The key indication to perform a test was a loss incurred in 2020, deviating from the financial results assumed for that period. The result of the conducted test did not indicate a need to increase the impairment loss recognised as at 30 June 2020. The carrying amount of property, plant and equipment of POL-MIEDŹ TRANS Sp. z o.o. as at 30 June 2020 amounted to PLN 246 million. For the purpose of estimating the recoverable amount, in the conducted test the value in use of the cash generating unit was measured using the DCF method i.e. the method of discounted cash flows.

Basic assumptions adopted for impairment testing as at 30 June 2020	
Assumption	**Level adopted in testing**
Specified forecast period	07.2020-12.2024
Operating margin	0.3% during the forecast period 1.9% in the residual value
Capital expenditures during the forecast period	PLN 237 million
Discount rate*	4.64% (nominal rate after taxation)
Growth rate following the forecast period	0%

** Data is presented after taxation, despite the measurement model of value in use. The application of data before taxation does not have an impact on the recoverable amount.*

As a result of the impairment testing conducted on the property, plant and equipment of POL–MIEDŹ TRANS Sp. z o.o., the recoverable amount of the tested assets was determined as PLN 225 million, which was lower than the carrying amount of these assets, which provided a basis for the recognition of an impairment loss on “Cost of sales” in the amount of PLN 21 million.

The measurement of the property, plant and equipment of POL–MIEDŹ TRANS Sp. z o.o. indicates a significant sensitivity to the adopted discount rates and the operating margin. The following table presents the impact of changes to these parameters on the measurement of the assets.

in PLN millions, unless otherwise stated

Sensitivity analysis of the recoverable amount of property, land and equipment of POL-MIEDŹ TRANS Sp. z o.o.			
	The recoverable amount for a given discount rate		
	lower by 1 pp.	per test	higher by 1 pp.
Discount rate 4.64% (test)	396	**225**	162
	The recoverable amount for a given operating margin		
	lower by 1 pp.	per test	higher by 1 pp.
Operating margin 0.3%, 1.9% in residual value (test)	120	**225**	329

As at 31 December 2020, the achievement of the budgeted financial results of POL-MIEDŹ TRANS Sp. z o.o was reassessed, and as a result an indication of a possible change in recoverable amount of property, plant and equipment of the company was identified. The incurred loss for the period of the 12 months of 2020 differed from the budgeted financial results for that period and gave a basis to perform impairment testing of these assets.

The carrying amount of property, plant and equipment of POL-MIEDŹ TRANS Sp. z o.o. as at 31 December 2020 amounted to PLN 214 million. For the purpose of estimating the recoverable amount, in the conducted test the value in use of the CGU was measured using the DCF method i.e. the method of discounted cash flows.

Basic assumptions adopted for impairment testing as at 31 December 2020	
Assumption	Level adopted in testing
Specified forecast period	01.2021-12.2025
Operating margin	0.9% during the forecast period, 1.3% in the residual value
Capital expenditures during the forecast period	PLN 189 million
Discount rate*	4.27% (nominal rate after taxation)
Growth rate following the forecast period	0%

** Data is presented after taxation, despite the measurement model of value in use. The application of data before taxation does not have an impact on the recoverable amount.*

As a result of the impairment testing conducted on the property, plant and equipment of POL–MIEDŹ TRANS Sp. z o.o., the recoverable amount of the tested assets was determined to amount to PLN 218 million, which was higher than the carrying amount of these assets, which did not provide a basis to increase the impairment loss on property, plant and equipment and intangible assets recognised as at 30 June 2020.

The measurement of the property, plant and equipment of POL–MIEDŹ TRANS Sp. z o.o. indicates a significant sensitivity to the adopted discount rates and the operating margin. The following table presents the impact of changes to these parameters on the measurement of the assets.

Sensitivity analysis of the recoverable amount of property, land and equipment of POL-MIEDŹ TRANS Sp. z o.o.			
	The recoverable amount for a given discount rate		
	lower by 1 pp.	per test	higher by 1 pp.
Discount rate 4.27% (test)	414	**218**	162
	The recoverable amount for a given operating margin		
	lower by 1 pp.	per test	higher by 1 pp.
Operating margin 0.9%, 1.3% in residual value (test)	104	**218**	331

In order to monitor the risk of impairment of property, plant and equipment in subsequent reporting periods, it was determined that the recoverable amount would be equal to the carrying amount of property, plant and equipment if the discount rate were to increase to 4.32% or if the operating margin were to decrease by 0.04 pp.

EVALUATION OF IMPAIRMENT OF WATER RIGHTS
In the Group, water rights in Chile are annually subjected to impairment testing by comparing their carrying amount to the recoverable amount, which is set as fair value decreased by costs to sell. The fair value of water rights is classified under level 2 of the fair value hierarchy, in which fair value measurements are based on significant observable input data, other than market prices. For the year ended on 31 December 2020, the Group assessed the factors impacting the recoverable amount of the asset and concluded that there are no grounds for recognising an impairment loss, as the water price and the estimated amount of water available for extraction did not change compared to the level of these factors adopted for measurement as at 31 December 2019. The carrying amount of water rights amounted to PLN 65 million as at 31 December 2020 (as at 31 December 2019: PLN 65 million).

Other impairment losses on assets

Other impairment losses on assets concern:

- fixed assets under construction and intangible assets not yet available for use – PLN 38 million
- write-down of inventories – PLN 129 million
- allowances for impairment of receivables – PLN 6 million

Information on the item in which impairment losses are recognised in the statement of profit or loss is presented in note 4.4.

Note 3.2. Impairment of assets as at 31 December 2019

ASSESSMENT OF THE RISK OF IMPAIRMENT OF ASSETS IN TERMS OF MARKET CAPITALISATION OF KGHM Polska Miedź S.A.
Due to the fact that the Parent Entity's market capitalisation remained below the carrying amount of net assets in 2019, 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 the KGHM INTERNATIONAL LTD. Group was necessary (held by Future 1 Sp. z o.o., a subsidiary of KGHM Polska Miedź S.A.). A description of the 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 S.A. also analysed whether the Polish production assets of KGHM Polska Miedź S.A. might have been impaired. In the assessment in particular the following were analysed: past financial results of the Parent Entity, forecasts of the copper price adopted for subsequent years of KGHM Polska Miedź S.A.'s operations, USD/PLN exchange rate fluctuations and their impact on the level of results achieved by the Parent Entity, 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 Parent Entity's operations in Poland. As a result of the assessment, it was judged that there was no relation between the fall in the share price of KGHM Polska Miedź S.A. with the Polish activities of the Parent Entity, 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 ASSETS OF THE KGHM INTERNATIONAL LTD. GROUP

In the current period, as a result of the identification of indications of a possible change in the recoverable amounts of the international mining assets of the KGHM INTERNATIONAL LTD. Group, the Parent Entity's Management Board performed impairment testing of these assets and took into account the results of these tests in the calculation of expected credit losses on loans granted to Sierra Gorda S.C.M. (these loans are not part of the net investment in the joint venture Sierra Gorda S.C.M., and an allowance for the impairment of loans measured at amortised cost is set pursuant to principles presented in note 6.2). The key indications to perform impairment testing were:

- a significant change to the market paths of commodities prices forecasts,
- a change in the assessed risk 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 the CGU Sierra Gorda,
- risk evaluation of the CGU Robinson, and
- extension of the Life of Mine of the CGU Robinson.

The key indications that the 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.

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 Morrison mine, the McCreedy mine and the pre-operational Victoria project,
- the Franke mine,
- the Carlota mine,
- involvement in the joint venture Sierra Gorda S.C.M., including loans granted, and
- the Ajax project.

To determine the recoverable amount of assets 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 the joint venture Sierra Gorda S.C.M. and 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, it was set at its carrying amount.

The fair value of the CGU Sudbury and the CGU Sierra Gorda S.C.M. were classified to level 3 of the fair value hierarchy.

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 specified 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 specified forecast and 2030, from which a long-term metal price forecast is used, as 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 Group 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. copper grade) and metallurgical drilling (e.g. copper 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, under the so-called Deep Drilling Program. In 2019, exploration work took place, aimed at deepening the knowledge of the project's reserves and resources. The mineralisation potential of the Pampa Lina deposit (CGU Sierra Gorda S.C.M 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 recoverable amount estimation of the assets of the CGUs

Assumption	Sierra Gorda	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%			
Level of fair value hierarchy to which the measurement at fair value was classified	Level 3				

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

Key factors responsible for the modification of technical and economic assumptions	
Sierra Gorda	Increase in average operating margin due to a decrease in operating costs for the processing plant and mine.
Sudbury	Increase in the copper and precious metals ore resource base 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 forecasts 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:

CGU	Segment (Part 2)	Carrying amount		Recoverable amount		Reversal of impairment loss	
		USD mn	PLN mn	USD mn	PLN mn	USD mn	PLN mn
Sierra Gorda S.C.M.**	Sierra Gorda S.C.M.	1 471	5 588	1 499	5 694	28	106
Sudbury*	KGHM INTERNATIONAL LTD.	227.4	864	272	1 033	44.6	169
Robinson*		267	1 114	267	1 114	-	-
Franke*		(12)	(46)	(12)	(46)	-	-
Carlota*		(37)	(141)	(37)	(141)	-	-

** the carrying amount of fixed assets decreased by the provision for future decommissioning costs of mines, which in the case of the CGU Franke and the CGU Carlota was higher than the carrying amount of the tested assets,*

*** the carrying amount of CGU Sierra Gorda S.C.M. consists only of the amount of the loan granted to Sierra Gorda S.C.M., because the carrying amount of the Group's investment in Sierra Gorda S.C.M. equals 0 (Part 6. Involvement in joint ventures).*

The following took place as a result of the conducted test:

- for the CGU Sudbury, a reversal of an impairment loss, which was recognised in the following items: "Other operating income" in the amount of PLN 150 million and "Cost of sales" in the amount of PLN 19 million,
- for the CGU Sierra Gorda S.C.M., a reversal of an allowance for impairment, which was recognised in the consolidated statement of profit or loss, in the item "gains due to reversal of allowances for impairment of loans granted to joint ventures". On the basis of estimates on the repayment of loans granted, an increase in the recoverable amount of receivables due to loans was identified, which was the basis to partially reverse an allowance for impairment recognised at the moment of initial recognition of a loan (POCI). The conducted test showed a recoverable amount for the investment in Sierra Gorda S.C.M. of 0.

The results of tests performed as at 31 December 2019 for the CGUs Robinson, Franke and Carlota confirmed that their recoverable amounts are equal to their carrying amounts.

Sensitivity analysis of the fair value of CGU Sierra Gorda S.C.M. USD million	Recoverable amounts per price paths adopted for testing as at 31 December 2019	Recoverable amounts per price paths adopted for testing as at 31 December 2018
Discount rate (8%, for Oxide – 9%) – adopted for testing	**1 499**	1 758
Discount rate (8.5%, for Oxide – 9.5%) – increase in the rate by 0.5 percentage points	1 398	1 656

Sensitivity analysis of the fair value of CGU Sudbury	Recoverable amount
Discount rate for assets at the operational phase 8%, at the pre-operational phase 11%	888
Discount rate for assets at the operational phase 7.5%, at the pre-operational phase 10.5% (test)	**1 033**
Discount rate for assets at the operational phase 7%, at the pre-operational phase 10%	1 188

The results of the sensitivity analysis of the recoverable amount of the CGU Franke and CGU Carlota due to their low carrying amounts, are immaterial.

TEST FOR IMPAIRMENT ON PROPERTY, PLANT AND EQUIPMENT OF ENERGETYKA SP. Z O.O. – Segment – Other segments

In the current period, due to indications of the possibility of changes in the recoverable amount of the property, plant and equipment and intangible assets of the company Energetyka sp. z o.o., the Management Board of the Parent Entity performed impairment testing on these assets. 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 property, plant and equipment and intangible assets of Energetyka sp. z o.o. as at 31 December 2019 amounted to PLN 563 million. For the purpose of estimating the recoverable amount, in the conducted test the value in use of the cash generating unit, comprised of the property plant and equipment and intangible assets of the company, was measured using the DCF (discounted cash flows) method.

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	5.60% (nominal rate after taxation)
Growth rate following the forecast period	0%

As a result of the impairment testing conducted on the property, plant and equipment and intangible assets, the recoverable amount of assets was determined to be at the level of PLN 373 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 190 million. The impairment loss was recognised in the consolidated statement of profit or loss in the item “Cost of sales”.

The measurement of non-current assets and intangible assets of the company 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 assets.

in PLN millions, unless otherwise stated

Sensitivity analysis of the recoverable amount of property, plant and equipment and intangible assets of Energetyka Sp. z o.o.			
	Discount rate 4.6%	Discount rate 5.6% (test)	Discount rate 6.6%
Recoverable amount	539	**373**	287

In order to monitor the risk of impairment of operating assets in subsequent reporting periods, it was determined that the recoverable amount would be equal to the carrying amount of the assets if the discount rate were to fall to 4.5%.

TEST FOR IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT OF WPEC w Legnicy S.A. – Segment – Other segments

In the current period, due to indications of the possibility of changes in the recoverable amount of the property, plant and equipment and intangible assets of the company WPEC w Legnicy S.A., the Management Board of the Parent Entity performed impairment testing on these assets. The key indication to perform impairment testing in the current reporting period was a negative change in forecasted operating cash flows of WPEC w Legnicy S.A. The carrying amount of the property, plant and equipment and intangible assets of WPEC w Legnicy S.A. as at 31 December 2019 amounted to PLN 157 million. For the purpose of estimating the recoverable amount, in the conducted test the value in use of the cash generating unit, comprised of the property, plant and equipment and intangible assets of the company, was measured using the DCF (discounted cash flows) method.

Basic assumptions adopted for impairment testing	
Assumption	**Level adopted in testing**
Forecast period	2020-2029
Average operating margin during the forecast period	-0.36%
Capital expenditures during the forecast period	PLN 89 million
Discount rate	6.10% (nominal rate after taxation)
Growth rate following the forecast period	0%

As a result of the impairment testing conducted on property, plant and equipment and intangible assets, the recoverable amount of assets was determined to be at the level of PLN 146 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 12 million. Moreover, an impairment loss on goodwill was recognised in the amount of PLN 9 million due to the acquisition of shares of WPEC w Legnicy S.A. These impairment losses were recognised in the consolidated statement of profit or loss in the item "Cost of sales".

in PLN millions, unless otherwise stated

The measurement of non-current assets and intangible assets of the company 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 assets.

Sensitivity analysis of the recoverable amount of property, plant and equipment and intangible assets of WPEC w Legnicy S.A.			
	Discount rate 5.10%	Discount rate 6.10% (test)	Discount rate 7.10%
Recoverable amount	212	**146**	108

In order to monitor the risk of impairment of the operating assets in subsequent reporting periods, it was determined that the recoverable amount would be equal to the carrying amount of assets if the discount rate were to fall to 5.87%.

EVALUATION OF RISK OF IMPAIRMENT OF ASSETS OF THE COMPANY INTERFERIE S.A. IN THE CONTEXT OF MARKET CAPITALISATION – Segment – Other segments
The market capitalisation of the subsidiary Interferie S.A. in 2019 was below the carrying amount of the company's net assets, which in accordance with the adopted accounting policy was recognised by the company to be an indication to perform impairment testing of the company's assets (the carrying amount of the tested assets was PLN 106 million). In order to assess the impairment, the Company identified the following CGUs: INTERFERIE in Ustronie Morskie – Leisure and Sanatorium Cechsztyn, INTERFERIE in Kołobrzeg Leisure and Sanatorium Chalkozyn, INTERFERIE in Dąbki Sanatorium Argentyt, INTERFERIE in Świeradów Zdrój – Hotel Malachit, INTERFERIE Hotel in Głogów and INTERFERIE Hotel Bornit in Szklarska Poręba. In order to assess the impairment, the fair value of the assets was estimated on the basis of the sum of future cash flows of individual CGUs discounted by the rate estimated on the basis of ratios used by the hotel industry, with the exception of CGU INTERFERIE Hotel in Głogów and CGU INTERFERIE Hotel Bornit in Szklarska Poręba, for which the fair value was determined on the basis of valuation reports. The fair value was classified to level 3 of the fair value hierarchy.

Basic assumptions adopted for impairment testing	
Assumption	**Level adopted in testing**
Discount rate	7.5% 8.5% for objects with planned significant investments
Costs to sell	3%

As a result of the impairment testing conducted on the company's assets, the estimated fair value of the assets was determined to be higher than the carrying amount of the assets, which did not provide a basis to recognise an impairment loss.

The measurement indicated a significant sensitivity of fair value to adopted discount rates and the volatility of operating profit in the forecasted period of the following CGUs:

Sensitivity analysis of fair value					
CGU	Carrying amount	Discount rate		Operating profit	
		+6%	-6%	+6%	-6%
INTERFERIE in Ustronie Morskie - Leisure and Sanatorium Cechsztyn	10	11	13	12	11
INTERFERIE in Kołobrzeg Leisure and Sanatorium Chalkozyn	19	59	72	70	60
INTERFERIE in Dąbki Sanatorium Argentyt	27	49	60	58	50
INTERFERIE in Świeradów Zdrój – Hotel Malachit	23	23	27	26	23

The fair values of the CGU INTERFERIE Hotel in Głogów and the CGU INTERFERIE Hotel Bornit in Szklarska Poręba demonstrated low sensitivity to changes in key parameters.

Level of change in assumptions implicating an impairment loss		
CGU	Increase in discount rate by one percent	% decrease in operating profit
INTERFERIE in Ustronie Morskie - Leisure and Sanatorium Cechsztyn	1.4	18.9
INTERFERIE in Kołobrzeg Leisure and Sanatorium Chalkozyn	8.6	61.1
INTERFERIE in Dąbki Sanatorium Argentyt	4.9	40.4
INTERFERIE in Świeradów Zdrój – Hotel Malachit	0.5	8.8

in PLN millions, unless otherwise stated

TEST FOR IMPAIRMENT OF PROPERTY, PLANT AND EQUIPEMENT OF POL MIEDŹ TRANS Sp. z o.o. – Segment – Other segments
In the current period, due to indications of the possibility of changes in the recoverable amount of the property, plant and equipment and intangible assets of the company POL MIEDŹ TRANS Sp. z o.o., the Management Board of the Parent Entity performed impairment testing on these assets. The key indication to perform impairment testing in the current reporting period was a loss for the period incurred by POL MIEDŹ TRANS Sp. z o.o. The carrying amount of property, plant and equipment and intangible assets of POL MIEDŹ TRANS Sp. z o.o. as at 31 December 2019 amounted to PLN 238 million. For the purpose of estimating the recoverable amount, in the conducted test the value in use of property plant and equipment and intangible assets of the company was measured using the DCF (discounted cash flows) method.

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 260 million
Discount rate	5.99% (nominal rate after taxation)
Growth rate following the forecast period	0%

As a result of the impairment testing conducted on property, plant and equipment and intangible assets, the recoverable amount of assets was determined to be higher than the carrying amount of the tested assets, which did not give a basis to recognise an impairment loss.

The recoverable amount of the non-current assets and intangible assets of the company indicates a sensitivity to the adopted discount rate. The following table presents the impact of changes to this parameter on the measurement of the assets.

Sensitivity analysis of the recoverable amount of property, plant and equipment and intangible assets of POL-MIEDŹ TRANS Sp. z o.o.			
	Discount rate 4.99%	**Discount rate 5.99% (test)**	**Discount rate 6.99%**
Recoverable amount	378	**272**	212

In order to monitor the risk of impairment of property, plant and equipment and intangible assets in subsequent reporting periods, it was determined that the recoverable amount would be equal to the carrying amount of assets if the discount rate were to increase to 6.48%.

EVALUATION OF IMPAIRMENT OF WATER RIGHTS
In the Group, water rights in Chile are annually subjected to impairment testing by comparing their carrying amount to the recoverable amount, which is set as fair value decreased by costs to sell. The fair value of water rights is classified under level 2 of the fair value hierarchy, in which fair value measurements are based on significant observable input data, other than market prices. For the year ended on 31 December 2019, the Group assessed the factors impacting the recoverable amount of the asset and concluded that there are no grounds for recognising an impairment loss, as the water price and the estimated amount of water available for extraction did not change compared to the level of these factors adopted for measurement as at 31 December 2018. The carrying amount of water rights amounted to PLN 65 million as at 31 December 2019 (as at 31 December 2018: PLN 65 million).

It was determined that there are no indications of impairment of the other non-current assets of the Group.

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 2020 to 31 December 2020	from 1 January 2019 to 31 December 2019
Note 9.3	Depreciation of property, plant and equipment and amortisation of intangible assets	2 062	2 013
Note 11.1	Employee benefits expenses	5 884	5 594
	Materials and energy	7 914	7 945
	External services	2 226	2 655
Note 5.2	Minerals extraction tax	1 625	1 520
	Other taxes and charges	544	521
Note 4.4	Reversal of impairment losses on property, plant and equipment and intangible assets	(2)	(19)
Note 4.4	Reversal of write-down of inventories	(29)	(38)
	Advertising costs and representation expenses	61	71
	Property and personal insurance	65	59
Note 4.4	Impairment losses on property, plant and equipment and intangible assets*	162	217
Note 4.4	Write-down of inventories	127	38
	Other costs	62	78
	Total expenses by nature	**20 701**	**20 654**
	Cost of merchandise and materials sold (+)	672	681
	Change in inventories of finished goods and work in progress (+/-)	474	337
	Cost of products for internal use of the Group (-) **	(1 376)	(1 404)
	Total costs of sales, selling costs and administrative expenses, of which:	**20 471**	**20 268**
	Cost of sales	18 981	18 767
	Selling costs	432	432
	Administrative expenses	1 058	1 069

* relates to companies of the Group, details are presented in note 3

**The amount is mainly comprised of cost of manufacturing fixed assets by the Group – mainly stripping costs in open-pit mines

in PLN millions, unless otherwise stated

Note 4.2 Other operating income and (costs)

		from 1 January 2020 to 31 December 2020	from 1 January 2019 to 31 December 2019
Note 7.1	Gains on derivatives, of which:	378	199
	measurement of derivatives	208	87
	realisation of derivatives	170	112
	Interest income calculated using the effective interest rate method	4	9
Note 7.1	Exchange differences on measurement and realisation of assets and liabilities other than borrowings	-	171
Note 3.2	Reversal of impairment losses on intangible assets not yet available for use	-	150
	Reversal of impairment losses on other financial receivables	9	7
	Release of provisions	54	85
	Gains on the sale of intangible assets	30	7
	Government grants received	18	21
	Income from servicing of letters of credit and guarantees	49	12
	Compensation, fines and penalties received	19	27
	Refund of excise tax for previous years	53	4
	Other	88	117
	Total other operating income	**702**	**809**
Note 7.1	Losses on derivatives, of which:	(597)	(278)
	measurement of derivatives	(121)	(27)
	realisation of derivatives	(476)	(251)
Note 4.4	Recognition of impairment losses on financial instruments	(6)	(17)
Note 4.4	Impairment losses on fixed assets under construction and intangible assets not yet available for use	(77)	(3)
Note 7.1	Foreign exchange losses on assets and liabilities other than borrowings	(391)	-
	Provisions recognised	(52)	(148)
	Losses on the sale of property, plant and equipment	(39)	(15)
	Donations granted	(41)	(30)
	Other	(123)	(132)
	Total other operating costs	**(1 326)**	**(623)**
	Other operating income and (costs)	**(624)**	**186**

in PLN millions, unless otherwise stated

Note 4.3 Finance income and (costs)

		from 1 January 2020 to 31 December 2020	from 1 January 2019 to 31 December 2019
Note 7.1	Exchange differences on measurement and realisation of borrowings	188	-
Note 7.1	Gains on derivatives - realisation of derivatives	70	37
	Other	1	1
	Total finance income	**259**	**38**
Note 7.1	Interest on borrowings including:	(131)	(190)
	leases	(13)	(23)
	Unwinding of the discount effect on provisions	(14)	(48)
	Bank fees and charges on borrowings	(22)	(48)
Note 7.1	Losses on derivatives, of which:	(77)	(59)
	measurement of derivatives	-	(11)
	realisation of derivatives	(77)	(48)
Note 7.1	Exchange differences on measurement and realisation of borrowings	-	(208)
	Other	(43)	(13)
	Total finance costs	**(287)**	**(566)**
	Finance income and (costs)	**(28)**	**(528)**

Note 4.4 Reversal and recognition of impairment losses on assets recognised in the statement of profit or loss

		from 1 January 2020 to 31 December 2020	from 1 January 2019 to 31 December 2019
	Reversal of impairment losses on assets recognised in:		
	cost of sales, of which:	**31**	**57**
Note 4.1	reversal of impairment loss on property, plant and equipment and intangible assets	2	19
	reversal of write-down of inventories	29	38
Note 6.2	**gains due to reversal of allowances for impairment of loans granted to a joint venture**	**74**	**106**
	other operating income, of which:	**12**	**160**
	reversal of impairment losses on fixed assets under construction and intangible assets not yet available for use	-	150
	reversal of an allowance for impairment of trade receivables	2	1
	reversal of an allowance for impairment of other financial receivables	9	7
	reversal of an allowance for impairment of other non-financial receivables	1	2
	Reversal of impairment losses, total	**117**	**323**
	Impairment losses on assets, recognised in:		
	cost of sales, of which:	**291**	**255**
Note 4.1	impairment loss on property, plant and equipment and intangible assets	162	217
	write-down of inventories	129	38
	other operating income, of which:	**83**	**20**
Note 4.2	impairment losses on fixed assets under construction and intangible assets not yet available for use	77	3
Note 4.2	allowance for impairment of other financial receivables	5	17
	allowance for impairment of loans granted	1	-
	Impairment losses, total	**374**	**275**

in PLN millions, unless otherwise stated

Part 5 - Taxation

Note 5.1 Income tax in the consolidated 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. On the basis of an agreement entered into on 25 October 2018, a Tax Group "PGK KGHM II" was established for a period of 3 tax years, that is from 2019 to 2021. It is the second Tax Group founded within the KGHM Polska Miedź S.A. Group. The "PGK KGHM I" Tax Group operated in the years 2016-2018. Real benefits were noted in the period of operation of the first PGK KGHM, including the possibility of current utilisation of losses generated by some of the companies within PGK to settle them with the profits of other companies, and the positive result of an analysis of companies of the KGHM Group with respect to meeting the criteria indicated in the act on the corporate income tax were a basis to found a new tax group – PGK KGHM II. PGK KGHM II is comprised of: 1) KGHM Polska Miedź S.A. 2) Energetyka sp. z o.o. 3) Zagłębie Lubin S.A. 4) Miedziowe Centrum Zdrowia S.A. 5) KGHM CUPRUM sp. z o.o. – Centrum Badawczo-Rozwojowe 6) INOVA Centrum Innowacji Technicznych sp. z o.o. 7) PeBeKa S.A. 8) KGHM ZANAM S.A. 9) POL-MIEDŹ TRANS Sp. z o.o./ PMT Linie Kolejowe 2 Sp. z o.o./ PMT Linie Kolejowe Sp. z o.o. 10) Mercus Logistyka sp. z o.o. 11) KGHM Metraco S.A. 12) special purpose companies: Future 1 Sp. z o.o., Future 3 Sp. z o.o., Future 4 Sp. z o.o., Future 5 Sp. z o.o., 13) KGHM Centrum Analityki Sp. z o.o. 14) Centrum Badań Jakości Sp. z o.o. 15) BIPROMET S.A.

Income tax

		from 1 January 2020 to 31 December 2020	from 1 January 2019 to 31 December 2019
	Current income tax	770	693
Note 5.1.1	Deferred income tax	191	168
	Tax adjustments for prior periods	(2)	(160)
	Income tax	**959**	**701**

Current tax adjustments for prior periods, recognised in the statement of profit or loss for 2019, concern CIT adjustments for 2016 – 2018, prepared and settled with the tax office. The tax adjustment was prepared because, among others, the Parent Entity recognised the following expenses as tax deductible costs:

- expenditures incurred due to changes introduced to plans involving the reclassification of land, 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,
- to obtain a concession for the exploration, evaluation and mining of minerals,
- expenditures on components and major overhauls,
- expenditures on the exploration for and evaluation of mineral deposits.

These expenses were recognised in the Parent Entity's adjustment of the annual tax return as tax deductible costs after receiving positive judgments of the Administrative Court issued due to the Parent Entity's complaints regarding negative interpretations of the Director of the National Revenue Administration.
In 2020, Group entities paid income tax in the amount of PLN 667 million (in 2019: PLN 410 million) to the appropriate tax offices.

in PLN millions, unless otherwise stated

The table below presents differences between income tax from profit before income tax for the Group and the income tax which could be achieved if the Parent Entity's tax rate was applied:

Reconciliation of effective tax rate

	from 1 January 2020 to 31 December 2020	from 1 January 2019 to 31 December 2019
Profit before income tax	**2 756**	**2 122**
Tax calculated using the Parent Entity's rate (2020: 19%, 2019: 19%)	524	403
Effect of applying other tax rates abroad	(57)	(43)
Tax effect of non-taxable income	(39)	(93)
Tax effect of expenses not deductible for tax purposes, including:	441	478
the minerals extraction tax, which is not deductible for corporate income tax purposes	309	289
Deductible temporary differences in respect of which tax assets were not recognised	117	101
Utilisation in the period of previously-unrecognised tax losses	(22)	(2)
Adjustments of current income tax for prior periods	(2)	(160)
Tax losses and tax credits in the period from which there was no recognition of deferred tax assets	135	112
Deferred tax on eliminated interest on intra-Group loans	(110)	(100)
Other	(28)	5
Income tax in profit or loss [the effective tax rate amounted to 34.8% of profit before income tax (in 2019: 33.0% of profit before income tax)]	**959**	**701**

In Poland, tax bodies are empowered to audit tax declarations for a period of five years, although during this period companies may offset tax assets with tax liabilities being the income of the State Treasury (including due to current income tax). In Canada, tax declarations may be audited for a period of three years without the right to offset assets with liabilities due to current income tax.

Note 5.1.1 Deferred income tax

Accounting policies	Significant estimates, assumptions and judgments
Deferred income 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. 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, which do not have an impact either on profit/(loss) before tax or on the taxable profit/(tax loss) at the moment they are concluded. Deferred tax assets are recognised if it is probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilised. 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 tax authority.	The probability of realising deferred tax assets with future tax income is based on the budgets of the companies of the Group. Companies of the Group recognised deferred tax assets in their accounting books to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Companies of the Group which historically have generated losses, and whose financial projections do not foresee the achievement of taxable profit enabling the deduction of deductible temporary differences, do not recognise deferred tax assets in their accounting books.

in PLN millions, unless otherwise stated

	from 1 January 2020 to 31 December 2020	from 1 January 2019 to 31 December 2019
Deferred net income tax at the beginning of the period, of which:	**(288)**	**(189)**
Deferred tax assets	157	309
Deferred tax liabilities	(445)	(498)
Change in accounting policies		
application of IFRS 16 of which:	**-**	**-**
Deferred tax assets	-	64
Deferred tax liabilities	-	(64)
Deferred income tax after change in policies, of which:	**(288)**	**(189)**
Deferred tax assets	157	373
Deferred tax liabilities	(445)	(562)
Deferred income tax during the period:	**39**	**(99)**
Recognised in profit or loss	(191)	(168)
Recognised in correspondence with current tax assets*	-	(34)
Recognised in other comprehensive income	226	102
Exchange differences from translation of foreign operations statements with a functional currency other than PLN	4	1
Deferred net income tax at the end of the period, of which:	**(249)**	**(288)**
Deferred tax assets	193	157
Deferred tax liabilities	(442)	(445)

**The amount: PLN (34) million in 2019 concerns deferred tax assets reclassified to current tax assets due to the tax credit used by the KGHM INTERNATIONAL LTD. Group as a result of a tax reform in the USA*

Maturities of deferred tax assets and deferred tax liabilities were as follows:

	Deferred tax assets		Deferred tax liabilities	
	As at 31 December 2020	As at 31 December 2019	As at 31 December 2020	As at 31 December 2019
Maturity over the 12 months from the end of the reporting period	101	72	(791)	(736)
Maturity of up to 12 months from the end of the reporting period	92	85	349	291
Total	**193**	**157**	**(442)**	**(445)**

in PLN millions, unless otherwise stated

Expiry dates of unused tax losses and tax credits, for which deferred tax assets were not recognised in individual countries, are presented in the following table:

	As at 31 December 2020				As at 31 December 2019			
	Unused tax losses	Expiry date	Unused tax credits	Expiry date	Unused tax losses	Expiry date	Unused tax credits	Expiry date
Luxembourg	2 442	indefinite	-	-	2 467	indefinite	-	-
	1 282	2034-2037	-	-	873	2034-2036	-	-
Chile	975	indefinite	-	-	894	indefinite	-	-
Canada	1 127	2026-2039	43	2030-2039	992	2026-2039	61	2020-2038
Other	135	2021-2037	-	-	148	2034-2037	-	-
Total	**5 961**		**43**		**5 374**		**61**	

As at 31 December 2020, the amount of deductible temporary differences in respect of which the Group did not recognise a deferred tax asset amounted to PLN 2 575 million (as at 31 December 2019: PLN 3 610 million).

As at 31 December 2020, at the level of the consolidated financial statements, there was no recognition of deferred tax liabilities on taxable temporary differences in the amount of PLN 806 million (as at 31 December 2019: PLN 958 million) related to investments in subsidiaries and shares in joint ventures, as the conditions stipulated in IAS 12.39 were met.

The following tables present deferred income tax assets and liabilities before their compensation at the level of individual companies of the Group.

in PLN millions, unless otherwise stated

Deferred tax assets (deferred tax assets prior to offsetting with deferred tax liabilities at the level of individual companies of the Group)

	As at 31 December 2018	Change in accounting policies – application of IFRS 16	As at 1 January 2019	Credited/(Charged)			As at 31 December 2019	Credited/(Charged)			As at 31 December 2020
				profit or loss	other comprehensive income and current tax assets	exchange differences from translation of foreign operations statements with a functional currency other than PLN		profit or loss	other comprehensive income	exchange differences from translation of foreign operations statements with a functional currency other than PLN	
Provision for decommissioning of mines and other technological facilities	**211**	**-**	**211**	29	-	-	**240**	13	-	-	**253**
Measurement of forward transaction other than hedging instruments	**14**	**-**	**14**	7	-	-	**21**	15	-	-	**36**
Difference between the depreciation rates of property, plant and equipment for accounting and tax purposes	**61**	**-**	**61**	6	-	-	**67**	13	-	-	**80**
Future employee benefits	**497**	**-**	**497**	18	10	-	**525**	13	62	-	**600**
Equity instruments measured at fair value	**122**	**-**	**122**	-	18	-	**140**	-	(36)	-	**104**
Lease liabilities	**-**	**64**	**64**	(1)	-	-	**63**	(2)	-		**61**
Interest	**106**	**-**	**106**	51	-	-	**157**	43	-	(3)	**197**
Recognition/reversal of impairment losses on assets	**63**	**-**	**63**	(32)	-	-	**31**	13	-	-	**44**
Short-term accruals for remuneration	**55**	**-**	**55**	17	-	-	**72**	24	-	-	**96**
Re-measurement of hedging instruments	**25**	**-**	**25**	-	10	-	**35**	-	200	-	**235**
Liabilities related to fixed fee due to setting mining usufruct	**37**	**-**	**37**	(6)	-	-	**31**	(1)	-	-	**30**
Other	**439**	**-**	**439**	(153)	(34)*	2	**254**	7	-		**261**
Total	**1 630**	**64**	**1 694**	**(64)**	**4**	**2**	**1 636**	**138**	**226**	**(3)**	**1 997**

** deferred tax assets reclassified to current tax assets due to the tax credit used by the KGHM INTERNATIONAL LTD. Group as a result of a tax reform in the USA*

in PLN millions, unless otherwise stated

Deferred tax liabilities (deferred tax liabilities prior to offsetting with deferred tax assets at the level of individual companies of the Group)

				(Credited)/Charged				(Credited)/Charged			
	As at 31 December 2018	Change in accounting policies – application of IFRS 16	As at 1 January 2019	profit or loss	other comprehensive income	exchange differences from translation of foreign operations statements with a functional currency other than PLN	As at 31 December 2019	profit or loss	other comprehensive income	exchange differences from translation of foreign operations statements with a functional currency other than PLN	As at 31 December 2020
Measurement of forward transactions other than hedging instruments	**16**	**-**	**16**	1	-	-	**17**	18	-	-	**35**
Re-measurement of hedging instruments	**64**	**-**	**64**	-	(64)	-	**-**	-	-	-	**-**
Difference between the depreciation rates for accounting and tax purposes, including:	**1 228**	**64**	**1 292**	117	-	2	**1 411**	106	-	(3)	**1 514**
related to amortisation of right-to-use (IFRS 16)	**-**	**64**	**64**	1	-	-	**65**	(5)	-	-	**60**
Accrued interest	**309**	**-**	**309**	53	-	(1)	**361**	113	-	(4)	**470**
Other	**202**	**-**	**202**	(67)	-	-	**135**	92	-	-	**227**
Total	**1 819**	**64**	**1 883**	**104**	**(64)**	**1**	**1 924**	**329**	**-**	**(7)**	**2 246**

in PLN millions, unless otherwise stated

Note 5.2 Other taxes and charges

	from 1 January 2020 to 31 December 2020	from 1 January 2019 to 31 December 2019	Basis for calculating tax	Tax rate	Presentation in the consolidated statement of profit or loss
Minerals extraction tax, of which:	**1 625**	**1 520**			
- copper	1 236	1 217	Amount of copper in produced concentrate, expressed in tonnes	tax rate calculated for every reporting period *	Minerals extraction tax in expenses by nature (Note 4.1.)
- silver	389	303	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 rate by 15% since July 2019. Until 30 June 2019, the tax rate was calculated using the following formula: 0.033 x average copper price + (0.001 x average copper price)^{2,5}. Since 1 July 2019, the tax rate has been calculated using the following formula: [(0.033 x average copper price + (0.001 x average copper price)^{2,5}] x 85%.

The minerals extraction tax paid by the Parent Entity 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 is accounted for under manufacturing costs of basic products and is not deductible for corporate income tax purposes.

Other taxes and charges, with a breakdown by geographical location, were as follows:

	from 1 January 2020 to 31 December 2020	from 1 January 2019 to 31 December 2019
Poland	**484**	**471**
Real estate tax	234	224
Royalties	111	110
Excise tax	6	10
Environmental fees	18	23
Other taxes and charges	115	104
Other countries	**78**	**63**
Total	**562**	**534**

in PLN millions, unless otherwise stated

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 Group's liabilities towards the tax office arising from the corporate income tax, including due to the withholding tax, personal income tax and liabilities due to the minerals extraction tax and the excise tax. Liabilities not representing financial liabilities are measured at the amount due.

	As at 31 December 2020	As at 31 December 2019
Current corporate income tax assets	32	78
Assets due to other taxes, social and health insurance and other benefits	263	493
Tax assets	**295**	**571**

	As at 31 December 2020	As at 31 December 2019
Current corporate income tax liabilities	87	37
Liabilities due to other taxes	450	396
Tax liabilities	**537**	**433**

in PLN millions, unless otherwise stated

Part 6 – Involvement in joint ventures

Accounting policies
The item "involvement in joint ventures" comprises investments in joint ventures accounted for using the equity method and loans granted to joint ventures. The Group classifies as investments accounted for using the equity method interests in joint ventures which are joint contractual arrangements, in which the parties sharing control have the right to the net assets of a given entity. Joint control occurs when decisions on the relevant activities of joint ventures require the unanimous consent of the parties sharing control. Investments are initially recognised at cost. The Group's share in the profit or loss of entities accounted for using the equity method (assessed while taking into account the impact of measurements to fair value at the investment's acquisition date) from the acquisition date is recognised in profit or loss, while its share in changes of accumulated other comprehensive income from the acquisition date is recognised in the relevant item of accumulated comprehensive income. Unrealised gains and losses on transactions between the investor and the joint venture are eliminated in an amount proportional to the investor's share in these profits/losses. If there are any indications of a possibility of impairment, an investment is tested for impairment by calculating the recoverable amount in accordance with the accounting policies presented in Part 3.

Significant estimates, assumptions and judgments
Joint control The Group classifies Sierra Gorda S.C.M. as a joint venture under IFRS 11, in which KGHM INTERNATIONAL LTD.'s share equals 55%. Classification of Sierra Gorda S.C.M. as a joint venture, despite the 55% share of the Group, was made based on analysis of the terms of the agreements between the parties and contractual stipulations which indicated joint control. Pursuant to the terms of the agreements, all relevant activities of Sierra Gorda S.C.M. require the unanimous consent of both owners. The Group and other owners have three members each in the appointed Owners Council. The Owners Council makes strategic decisions and is responsible for overseeing their execution. Moreover, it approves the appointment of senior management. In the reporting period, there were no changes to provisions that were the basis of classifying the investment as a joint venture. Pursuant to the Group's judgment, loans granted to the joint venture Sierra Gorda S.C.M. do not meet the criteria of recognition as net investments in a joint venture, because the loan's settlement is planned and probable in the foreseeable future.

Note 6.1 Joint ventures accounted for using the equity method

	2020			2019		
	Sierra Gorda S.C.M.	Other entities	Total	Sierra Gorda S.C.M.	Other entities	Total
As at 1 January	**-**	**-**	**-**	**-**	**4**	**4**
Acquisition of newly-issued shares	207	-	207	439	-	439
Share of losses of joint ventures accounted for using the equity method (including share of loss for the current year and unrecognised accumulated loss for prior years)	(204)	-	(204)	(434)	(4)	(438)
Exchange differences from the translation of foreign operation statements with a functional currency other than PLN	(3)	-	(3)	(5)	-	(5)
As at 31 December	**-**	**-**	**-**	**-**	**-**	**-**

in PLN millions, unless otherwise stated

	from 1 January 2020 to 31 December 2020	from 1 January 2019 to 31 December 2019
The Group's share (55%) in net losses, of which:	**(125)**	**(556)**
recognised share of losses of joint ventures	(125)	(434)
unrecognised share of losses of joint ventures	-	(122)

Unsettled losses from prior years	2020	2019
As at 1 January	(4 988)	(4 866)
The Group's share in net losses not recognised in the share of losses of joint ventures	-	(122)
Settlement of the Group's share of unsettled losses from prior years	79	-
As at 31 December	**(4 909)**	**(4 988)**

As at 31 December 2020, the KGHM Polska Miedź S.A. Group's share in the unsettled accumulated losses of Sierra Gorda S.C.M amounted to PLN 4 909 million (as at 31 December 2019: PLN 4 988 million). The Group stopped recognising its share of losses of Sierra Gorda S.C.M. at the moment the value of this share exceeded the carrying amount of the interest in the investment in Sierra Gorda S.C.M. Recognition of the Group's share of losses of Sierra Gorda S.C.M. caused the carrying amount of shares in Sierra Gorda S.C.M. to be equal to PLN 0. After reducing the share to zero, the Group performed an analysis as to whether there is a legal or customary obligation to pay on Sierra Gorda S.C.M.'s behalf, which would result in an obligation of the Group to recognise a liability for this reason. Moreover, the Group analysed the terms of guarantees granted to Sierra Gorda S.C.M. to secure the payments due to lease contracts entered into, payment guarantees with respect to working capital facilities which meet the definition of financial guarantees and letters of credit to secure the proper performance of a long-term contract for the supply of electricity, which does not meet the definition of a financial guarantee pursuant to IFRS 9. Details on the guarantees granted to Sierra Gorda S.C.M. are described in Note 8.6.

On the basis of conducted analyses, the Group does not identify the existence of a legal or customary obligation to pay on Sierra Gorda S.C.M.'s behalf, which is described in IAS 28.39.

Information on entities accounted for using the equity method

	Main place of business	% of share capital held by the Group	% of voting power	Value of the investment in the consolidated statement of financial position	
Jointly controlled entities				As at 31 December 2020	As at 31 December 2019
Sierra Gorda S.C.M.	Chile	55	50	-	-
Other	Poland	49	50	-	-
Total				**-**	**-**

in PLN millions, unless otherwise stated

Condensed financial data of Sierra Gorda S.C.M. is presented in the table below

	As at 31 December 2020	As at 31 December 2019
Non-current assets	**15 532**	**15 459**
Current assets, including:	**2 106**	**1 188**
Cash and cash equivalents	966	336
Non-current liabilities, including:	**20 618**	**19 837**
Borrowings and lease	543	857
Liabilities due to loans granted by jointly-controlling entities	18 985	17 965
Current liabilities, including:	**3 441**	**3 438**
Borrowings and lease	2 389	2 494
Carrying amount of net assets (incorporating the fair value measurement from date of obtaining joint control)	**(6 421)**	**(6 628)**
The Group's share in net assets (55%)	(3 532)	(3 645)
Total unrecognised accumulated share of losses of Sierra Gorda S.C.M.	4 909	4 988
Balance of impairment loss on interest in Sierra Gorda S.C.M.	(671)	(671)
Exchange differences from the translation of changes of the investment in Sierra Gorda S.C.M. to the PLN presentation currency	(706)	(672)
Value of the investment in the consolidated statement of financial position	**-**	**-**
	from 1 January 2020 to 31 December 2020	**from 1 January 2019 to 31 December 2019**
Revenues from contracts with customers	4 726	3 640
Depreciation/amortisation	(1 462)	(949)
Interest costs	(1 355)	(1 455)
Other incomes/(costs)	(2 513)	(2 533)
Loss before income tax	**(604)**	**(1 297)**
Income tax	376	284
Loss for the period	**(228)**	**(1 013)**
Exchange differences from the translation of Sierra Gorda S.C.M.'s net assets to the PLN presentation currency	**(38)**	**29**
Total comprehensive income	**(266)**	**(984)**

Other information on the Group's involvement in the joint venture Sierra Gorda S.C.M.

		As at 31 December 2020	As at 31 December 2019
	Group's share in commitments (investment and operating)	3 810	2 582
	Group's share in the total amount of future lease gross payments due to lease agreements for mining equipment	542	609
Note 8.6	Guarantees granted by the Group	1 814	2 046

As stated in the Common Security Agreement and share pledge agreements, as at 31 December 2020, 2 215 400 shares in Sierra Gorda S.C.M. held by the KGHM Polska Miedź S.A. Group (carrying amount of shares: PLN 0) were pledged as collateral to banks that granted an investment corporate bank loan to Sierra Gorda S.C.M. for the advancement of the Sierra Gorda project. The collateral will expire when the bank loan is fully repaid, which is expected to take place on 15 June 2021.
As at 31 December 2019, 2 215 400 shares were pledged as collateral (carrying amount: PLN 0).

in PLN millions, unless otherwise stated

Note 6.2 Loans granted to a joint venture (Sierra Gorda S.C.M.)

Accounting policies	Significant estimates, assumptions and judgments
Loans granted to Sierra Gorda S.C.M. were classified as credit-impaired financial assets due to the high credit risk at the moment of initial recognition (POCI). POCI loans are measured at amortised cost using the effective interest rate, adjusted by the credit risk using the scenario analysis and available free cash of Sierra Gorda S.C.M.	The terms of repayment of loans granted to finance operations abroad, including planned repayment dates, were set in individual agreements. Pursuant to the schedule, the principal amount and interest are paid on demand, but not later than 15 December 2024. Due to the implementation of IFRS 9 as at 1 January 2018, the expected, undiscounted credit loss at the moment of initial recognition was estimated to amount to PLN 6 105 million (USD 1 754 million per the 3.4813 USDPLN exchange rate of NBP dated 29 December 2017). The start of repayment of loans by Sierra Gorda S.C.M. will depend on that company's financial standing. It is assumed in the long-term plans of Sierra Gorda S.C.M. that the loans will be repaid with interest. The Group does not foresee a demand to repay the loan by the end of 2021, and therefore the loan is presented as a non-current receivable. Due to the fact that settling the loan is planned and probable in the foreseeable future, the loan is not a net investment under IAS 21.15. Pursuant to the requirements of IFRS 9.5.5.17, the Group performed impairment testing of the loan. To estimate the expected credit losses, scenario analysis (IFRS 9.5.5.18) was used, comprising the Group's assumptions on the repayment of the loan granted. Scenario analysis was based on cash flows adopted in December 2020 in Sierra Gorda S.C.M.'s budget, which were subsequently discounted using the effective interest rate method adjusted by the credit risk, determined at the initial recognition of the loan pursuant to IFRS 9.B5.5.45 at the level of 6.42%.

		2020	2019
	As at 1 January	**5 694**	**5 199**
	Accrued interest	377	341
Note 4.4	Gains due to the reversal of allowances for impairment	74	106
	Exchange differences from the translation of foreign operation statements with a functional currency other than PLN	(76)	48
	As at 31 December	**6 069**	**5 694**

The loan granted to Sierra Gorda S.C.M. has a fixed interest rate.

As at 31 December 2020, the Group estimated cash flows on repayment of receivables due to loans granted to Sierra Gorda S.C.M. in the amount of PLN 6 069 million, which were higher than the carrying amount of loans (PLN 5 995 million) by the amount of PLN 74 million, as a result of which there was a reversal of an allowance for impairment recognised at the moment of initial recognition of an asset (in the comparable period there was a reversal of an allowance for impairment in the amount of PLN 106 million).

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 2020					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	At fair value through other comprehensive income	At fair value through profit or loss	At amortised cost	Hedging instruments	Total
	Non-current	618	58	6 670	749	**8 095**	431	18	6 350	123	**6 922**
Note 6.2	Loans granted to a joint venture	-	-	6 069	-	**6 069**	-	-	5 694	-	**5 694**
Note 7.2	Derivatives	-	40	-	749	**789**	-	1	-	123	**124**
Note 7.3	Other financial instruments measured at fair value	618	18	-	-	**636**	431	17	-	-	**448**
Note 7.4	Other financial instruments measured at amortised cost	-	-	601	-	**601**	-	-	656	-	**656**
	Current	-	489	3 086	199	**3 774**	-	328	1 660	289	**2 277**
Note 10.2	Trade receivables	-	478	356	-	**834**	-	300	388	-	**688**
Note 7.2	Derivatives	-	11	-	199	**210**	-	4	-	289	**293**
Note 8.5	Cash and cash equivalents	-	-	2 522	-	**2 522**	-	-	1 016	-	**1 016**
Note 12.3	Other financial assets	-	-	208	-	**208**	-	24	256	-	**280**
	Total	**618**	**547**	**9 756**	**948**	**11 869**	**431**	**346**	**8 010**	**412**	**9 199**

in PLN millions, unless otherwise stated

	Financial liabilities	As at 31 December 2020 At fair value through profit or loss	At amortised cost	Hedging instruments	Total	As at 31 December 2019 At fair value through profit or loss	At amortised cost	Hedging instruments	Total
	Non-current	**205**	**7 130**	**801**	**8 136**	65	7 736	118	**7 919**
Note 8.4.1	Borrowings, lease and debt securities	-	6 928	-	**6 928**	-	7 525	-	**7 525**
Note 7.2	Derivatives	205	-	801	**1 006**	65	-	118	**183**
	Other financial liabilities	-	202	-	**202**	-	211	-	**211**
	Current	127	4 101	603	**4 831**	53	3 221	38	**3 312**
Note 8.4.1	Borrowings, lease and debt securities	-	407	-	**407**	-	348	-	**348**
Note 7.2	Derivatives	85	-	603	**688**	53	-	38	**91**
Note 10.3	Trade payables	-	2 329	-	**2 329**	-	2 170	-	**2 170**
Note 10.3	Similar payables – reverse factoring	-	1 264	-	**1 264**	-	596	-	**596**
	Other financial liabilities	42	101	-	**143**	-	107	-	**107**
	Total	332	11 231	1 404	**12 967**	**118**	**10 957**	**156**	**11 231**

in PLN millions, unless otherwise stated

Gains/(losses) on financial instruments

	from 1 January 2020 to 31 December 2020	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 Note 6.2	Interest income	-	381	-	-	**381**
Note 6.2	Gains due to the reversal of allowances for impairment of loans granted to joint ventures	-	74	-	-	**74**
Note 4.3	Interest costs	-	-	(131)	-	**(131)**
Note 4.2	Foreign exchange gains/(losses)	(43)	85	(433)	-	**(391)**
Note 4.3	Foreign exchange gains	-	-	188	-	**188**
Note 4.4	Reversal of impairment losses	-	5	-	-	**5**
Note 7.2	Revenues from contracts with customers	-	-	-	323	**323**
Note 4.2	Gains on measurement and realisation of derivatives	378	-	-	-	**378**
Note 4.2	Losses on measurement and realisation of derivatives	(597)	-	-	-	**(597)**
Note 4.3	Gains on measurement and realisation of derivatives	70	-	-	-	**70**
Note 4.3	Losses on measurement and realisation of derivatives	(77)	-	-	-	**(77)**
Note 4.3	Fees and charges on bank loans drawn	-	-	(22)	-	**(22)**
	Other losses	(10)	-	(9)	-	**(19)**
	Total net gain/(loss)	**(279)**	**545**	**(407)**	**323**	**182**

	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 Note 6.2	Interest income	-	350	-	-	**350**
Note 6.2	Gains due to the reversal of allowances for impairment of loans granted to joint ventures	-	106	-	-	**106**
Note 4.3	Interest costs	-	-	(190)	-	**(190)**
Note 4.2	Foreign exchange gains/(losses)	11	361	(201)	-	**171**
Note 4.3	Foreign exchange losses	-	-	(208)	-	**(208)**
Note 4.4	Impairment losses	-	(9)	-	-	**(9)**
Note 7.2	Revenues from contracts with customers	-	-	-	245	**245**
Note 4.2	Gains on measurement and realisation of derivatives	199	-	-	-	**199**
Note 4.2	Losses on measurement and realisation of derivatives	(278)	-	-	-	**(278)**
Note 4.3	Gains on measurement and realisation of derivatives	37	-	-	-	**37**
Note 4.3	Losses on measurement and realisation of derivatives	(59)	-	-	-	**(59)**
Note 4.3	Fees and charges on bank loans drawn	-	-	(48)	-	**(48)**
	Other losses	-	(13)	-	-	**(13)**
	Total net gain/(loss)	**(90)**	**795**	**(647)**	**245**	**303**

in PLN millions, unless otherwise stated

The fair value hierarchy of financial instruments

Classes of financial instruments	As at 31 December 2020 fair value level 1	level 2	level 3	Carrying amount	As at 31 December 2019 fair value level 1	level 2	level 3	Carrying amount
Long-term loans granted	-	18	5 998	6 087	17	5 694	-	5 711
Listed shares	523	-	-	523	326	-	-	326
Unquoted shares	-	95	-	95	-	105	-	105
Trade receivables	-	478	-	478	-	300	-	300
Other financial assets	-	-	-	-	-	24	-	24
Derivatives, of which:	-	(695)	-	(695)	-	143	-	143
Assets	-	999	-	999	-	417	-	417
Liabilities	-	(1 694)	-	(1 694)	-	(274)	-	(274)
Received long-term bank and other loans	-	(4 358)	-	(4 342)	-	(4 915)	-	(4 912)
Long-term debt securities	(2 024)	-	-	(2 000)	(2 028)	-	-	(2 000)
Other financial liabilities	-	(42)	-	(42)	-	-	-	-

Methods and measurement techniques used by the Group in determining fair values of each class of financial assets or financial liabilities.

Level 1

Listed shares

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

Long-term debt securities

Long-term debt securities are measured based on quotations from the Catalyst Market of the Warsaw Stock Exchange.

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).

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. For trade receivables transferred to non-recourse factoring, a fair value is assumed at the level of the amount of the trade receivables transferred to the factor (nominal value from the invoice) less interest, which are the factor's compensation. Due to the short term between the transfer of receivables to the factor and their payment, fair value is not adjusted by the credit risk of the factor and impact of time lapse.

Long-term loans granted

This item comprises loans measured at fair value, the fair value of which was estimated on the basis of contractual cash flows (per the contract) using the model of discounted cash flows, including the borrower's credit risk.

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's approximation to the Black-Scholes model was used for Asian options pricing on metals markets.

Received long-term bank and other loans

The fair value of bank and other loans is estimated by discounting the cash flows associated with these liabilities in timeframes and under conditions arising from agreements, and by applying current rates. Fair value differs from the carrying amount by the amount of the premium paid to acquire the financing.

Level 3

Long-term loans granted

There was a transfer in the Group of financial instruments between individual levels of the fair value hierarchy in the reporting period. Due to utilisation of forecasted cash flows from international assets in the fair value measurement (an unmeasurable assumption classified to level 3), the Group transferred the measurement of loans granted from level 2 to level 3 of the fair value hierarchy.

Pursuant to the adopted principle on transferring fair values between levels, as at 31 December 2020 an analysis of classification was made of fair value of financial instruments to levels of the fair value hierarchy. As a result of the analysis, a transfer was made from level 2 to level 3 of the fair value measurement hierarchy, of loans measured at amortised cost in the financial statements in the amount of PLN 6 069 million.

With respect to estimating the fair value of these loans, a significant element of the estimation are the forecasted cash flows of Sierra Gorda, which pursuant to IFRS 13 are unobservable input data, that is input data at level 3 of the fair value, which formed the basis for transferring the fair value of these loans to level 3 of the fair value. The discount rate used to calculate the fair value of loans measured at amortised cost is 9.58%.

Detailed disclosures on the assumptions adopted for the measurement of loans were presented in note 6.2, while the sensitivity of the fair value classified to level 3 for loans granted – in note 7.5.2.5.

The Group does not disclose the fair value of financial instruments measured at amortised cost (except for long-term loans granted, long-term bank and other loans received and long-term debt securities) in the statement of financial position, because it makes use of the exemption arising from IFRS 7, paragraph 29 (Disclosure of information on the fair value is not required when the carrying amount is approximate to the fair value) .

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, defined as trade derivatives, 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.

In the KGHM Polska Miedź S.A. Group, the Parent Entity applies hedge accounting for cash flows. Hedge accounting aims at reducing volatility in the Parent Entity’s net result, arising from periodic changes in the measurement of transactions hedging individual types of market risk to which the Parent Entity is exposed. Hedging instruments may be derivatives as well as bank and other loans in foreign currencies.

The designated hedges 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 Parent Entity 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 Parent Entity 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 Parent Entity 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.

Derivatives are no longer accounted for 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 Parent Entity 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) the 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) the 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 Parent Entity 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 2020					As at 31 December 2019				
	Financial assets		Financial liabilities			Financial assets		Financial liabilities		
	Non-current	Current	Non-current	Current	Net total	Non-current	Current	Non-current	Current	Net total
Hedging instruments (CFH)	**749**	**199**	**(801)**	**(604)**	**(457)**	**123**	**289**	**(118)**	**(38)**	**256**
Derivatives – Metals (price of copper, silver, gold)										
Options – collar (copper)	1	1	(35)	(355)	**(388)**	14	99	(8)	(30)	**75**
Options – seagull (copper)	235	14	(432)	(242)	**(425)**	14	140	-	(1)	**153**
Options – purchased put option (copper)	-	17	-	-	**17**	-	-	-	-	**-**
Options – purchased put option (silver)	311	91	(107)	(7)	**288**	1	5	-	-	**6**
Derivatives – Currency (USDPLN exchange rate)										
Options – collar	-	-	-	-	**-**	36	38	(10)	(7)	**57**
Options – seagull	202	-	(29)	-	**173**	58	-	(26)	-	**32**
Options – put spread	-	44	-	-	**44**	-	-	-	-	**-**
Options – purchased put option	-	32	-	-	**32**	-	7	-	-	**7**
Derivatives – Currency-interest rate										
Cross Currency Interest Rate Swap CIRS	-	-	(198)	-	**(198)**	-	-	(74)	-	**(74)**
Trade instruments total	**8**	**11**	**(201)**	**(75)**	**(257)**	**1**	**4**	**(65)**	**(53)**	**(113)**
Derivatives – Metals (price of copper, silver, gold)										
Options – sold put option (copper)	-	-	(41)	(1)	**(42)**	-	-	(1)	(3)	**(4)**
Options – purchased put option (copper)	-	-	-	-	**-**	-	-	-	-	**-**
QP adjustment swap transactions (copper)	-	-	-	(7)	**(7)**	-	-	-	(8)	**(8)**
Options – sold put option (silver)	-	-	(54)	(3)	**(57)**	-	-	-	-	**-**
QP adjustment swap transactions (gold)	-	1	-	(1)	**-**	-	2	-	(2)	**-**
Derivatives – Currency										
Options – sold put option (USDPLN)	-	-	(81)	(1)	**(82)**	-	-	(12)	-	**(12)**
Options – purchased put option (USDPLN)	4	-	-	-	**4**	-	-	-	-	**-**
Options – purchased call option (USDPLN)	4	10	-	-	**14**	-	-	-	-	**-**
Collar and forward/swap EUR	-	-	(1)	(2)	**(3)**	1	2	-	-	**3**
Embedded derivatives (price of copper, silver, gold)										
Acid and water supply contracts	-	-	(24)	(33)	**(57)**	-	-	(52)	(31)	**(83)**
Purchase contracts for metal-bearing materials	-	-		(27)	**(27)**				(9)	**(9)**
Instruments initially designated as hedging instruments excluded from hedge accounting	**32**	**-**	**(4)**	**(9)**	**19**	**-**	**-**	**-**	**-**	**-**
Derivatives – Currency (USDPLN exchange rate)										
Options – collar	-	-	-	(2)	**(2)**	-	-	-	-	**-**
Options – seagull	32	-	(4)	(7)	**21**	-	-	-	-	**-**
TOTAL OPEN DERIVATIVES	**789**	**210**	**(1 006)**	**(688)**	**(695)**	**124**	**293**	**(183)**	**(91)**	**143**

The table below presents detailed data on derivative transactions designated as hedging, held by the Parent Entity as at 31 December 2020.

Open hedging derivatives	Notional	Average weighted price /exchange rate/interest rate	Maturity - settlement period		Period of profit/loss impact	
Type of derivative	copper [t] silver [mn ounces] currency [USD mn] CIRS [PLN mn]	[USD/t] [USD/oz t] [USD/PLN] [USD/PLN, LIBOR]	from	to	from	to
Copper – *seagulls**	258 000	6 426-7 716	Jan '21	- Dec '22	Feb '21	- Jan '23
Copper – *collars*	84 000	5 200-6 660	Jan '21	- Dec '21	Feb '21	- Jan '22
Copper – purchased put option	60 000	6 971	Jan '21	- June '21	Feb '21	- July '21
Silver – *seagulls*	24,60	26,20-42,20	Jan '21	- Dec '23	Feb '21	- Jan '24
Currency – *seagulls**	630	3,94-4,54	Jan '22	- Dec '23	Feb '22	- Jan '24
Currency – *put spread**	540	3,70	Jan '21	- Dec '21	Jan '21	- Dec '21
Currency – purchased put option	240	3,80	Jan '21	- Dec '21	Jan '21	- Dec '21
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	June '29	- Jul '29

* Collar structures, i.e. purchased put options and sold call options were designated as hedging under *seagull* options structures (CFH – Cash Flow Hedging), while only purchased put options were designated as hedging under *put spread* structures.

in PLN millions, unless otherwise stated

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

Statement of profit or loss	from 1 January 2020 to 31 December 2020	from 1 January 2019 to 31 December 2019
Revenues from contracts with customers	323	245
Other operating and finance income / (costs):	(244)	(102)
on realisation of derivatives	(313)	(150)
on measurement of derivatives	87	49
interest on borrowings	(18)	(1)
Impact of derivatives and hedging instruments on profit or loss for the period (excluding the tax effect)	**79**	**143**
Statement of other comprehensive income		
Measurement of hedging transactions (effective portion)	(1 026)	(303)
Reclassification to revenues from contracts with customers due to realisation of a hedged item	(323)	(245)
Reclassification to finance costs due to realisation of a hedged item	18	1
Reclassification to other operating costs due to realisation of a hedged item (settlement of the hedging cost)	281	158
Impact of hedging transactions (excluding the tax effect)	**(1 050)**	**(389)**
TOTAL COMPREHENSIVE INCOME	**(971)**	**(246)**

Note 7.3 Other financial instruments measured at fair value

Accounting policies

The item “Other financial instruments measured at fair value” mainly 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, as they did not pass the contractual cash flow test (SPPI), because in the financing structure of the target recipient of funds, debt is changed into capital at the last stage, and that is why they were obligatorily classified to this category.

Shares 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 accumulated 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 ceases 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 the 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 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.

The translation of shares expressed in a foreign currency is performed according to the accounting policies described in Note 1.2.

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.

in PLN millions, unless otherwise stated

	As at 31 December 2020	As at 31 December 2019
Shares of listed companies (Warsaw Stock Exchange and TSX Venture Exchange), including:	523	326
TAURON POLSKA ENERGIA S.A.	496	299
GRUPA AZOTY S.A.	22	23
ABACUS MINING & EXPLORATION CORPORATION	1	1
Other shares quoted on TSX Venture Exchange	4	3
Unquoted shares	95	105
Loans granted	18	17
Other financial instruments measured at fair value	**636**	**448**

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 observable data, not deriving from an active market).
The measurement of loans granted is classified to level 2 of the fair value hierarchy.
In 2020 as well as in 2019, there were no dividends or transfers of accumulated profit or loss within the equity of companies in which the Group had shares classified as other financial instruments measured at fair value.
Due to investments in listed companies, the Group 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 2020	Percentage change of share price		As at 31 December 2019	Percentage change of share price	
		14%	-13%		13%	-13%
	Carrying amount	Other comprehensive income	Other comprehensive income	Carrying amount	Other comprehensive income	Other comprehensive income
Listed shares	**523**	71	(66)	**326**	42	(42)

Sensitivity analysis for significant types of market risk to which the Group 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 standard deviations from the WIG20 index for a period of 3 calendar years ended on the reporting date.

Note 7.4 Other financial instruments measured at amortised cost

Accounting policies	Important estimates, assumptions and judgements
The item other financial instruments measured at amortised cost includes financial assets designated to cover the costs of decommissioning mines and restoring tailings storage facilities (accounting policies with respect to the obligation to decommission mines and storage facilities are presented in Note 9.4) and other financial assets not classified to other items. 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 and of investments in debt securities is presented in Note 7.5.1.4.

in PLN millions, unless otherwise stated

		As at 31 December 2020	As at 31 December 2019
	Non-current financial assets designated for decommissioning mines and restoring tailings storage facilities	**401**	**390**
	Cash held in the Mine Closure Fund and Tailings Storage Facility Restoration Fund*	401	390
	Debt securities	-	-
	Other non-current financial receivables, including:	**200**	**266**
	Trade receivables, including:	35	107
	management fee for Sierra Gorda S.C.M.	32	103
	Other loans granted	-	4
Note 7.1	**Total**	**601**	**656**

** cash collected by the Parent Entity and the KGHM INTERNATIONAL LTD. Group based on obligations resulting from law, among others the Law on Geology and Mining and the Waste Act as well as from laws applicable in the United States of America and Canada*

Financial assets designated for decommissioning mines and restoring tailings storage facilities are exposed to the credit risk described in Note 7.5.2.5.

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 Group 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 Group identifies and measures financial risk on an ongoing basis, and also takes actions aimed at minimising its impact on the financial position.

The Parent Entity manages identified financial risk factors in a conscious and responsible manner, using the adopted Market Risk Management Policy, the Financial Liquidity Management Policy and the Credit Risk Management Policy. The process of financial risk management in the Parent Entity 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 Group is exposed to is understood as the possible occurrence of negative impact on the Group's results arising from changes in the market prices of commodities, exchange rates, interest rates, and debt securities, as well as the share prices of listed companies.

Note 7.5.1.1 Principles and techniques of market risk management

In market risk management (especially commodity and currency risk) the scale and profile of activities of the Parent Entity and of mining companies of KGHM INTERNATIONAL LTD. is of the greatest significance and impact the results of the KGHM Polska Miedź S.A. Group.

The Parent Entity actively manages market risk by taking actions and making decisions in this regard within the context of the KGHM Polska Miedź S.A. Group's global exposure as a whole.

In accordance with the adopted policy, the goals of the market risk management process in the Group are as follows:

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

The objectives of market risk management should be considered as a whole, and their realisation is determined mainly by the Group's internal situation and market conditions.
The goals of market risk management at the Group level are achieved through their realisation in individual mining companies of the Group, with the coordination of these activities at the Parent Entity's level, in which key tasks related to the process of market risk management in the Group were centralised (such as coordination of the identification of sources of exposure to market risk, proposing hedging strategies, contacting financial institutions in order to sign, confirm and settle derivative transactions, and calculating measurements to fair value).

The primary technique used by the Parent Entity in market risk management is the utilisation of hedging strategies involving derivatives. Natural hedging is also used. Some other domestic companies of the Group make use of derivatives. However, only the Parent Entity applies hedging strategies, as understood by hedge accounting.

Taking into account the potential scope of their impact on the Group'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 Group'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	From the Group's point of view, this group is comprised of less significant risks, although sometimes these risks are significant from an individual entity points of view. Therefore, it is tactically managed - on an ad-hoc basis, taking advantage of favourable market conditions.
Note 7.2		Other exchange rates	
Note 7.2		Interest rates	

In market risk management various approaches are applied for particular, identified exposure groups.
The Parent Entity considers the following factors when selecting hedging strategies or restructuring hedging positions: current and forecasted market conditions, the internal situation of the Entity, the effective level and cost of hedging, and the impact of the minerals extraction tax.

The Parent Entity 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 Parent Entity only executes those derivatives which it has the ability to evaluate 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 the market valuation of a given instrument, the Parent Entity uses information obtained from leading information services, banks, and brokers.

The Market Risk Management Policy in the Group 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). The primary instruments 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 Parent Entity in the reporting period is continually monitored and assessed (details in Note 7.2 Derivatives - accounting policies).

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 Parent Entity aims to ensure a maximal match between these parameters to minimise the sources of ineffectiveness.

The Parent Entity quantifies its market risk exposure using a consistent and comprehensive measure. Market risk management in the Group 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 to market risk.

One of the measures used as an auxiliary tool in making decisions in the market risk management process in the Parent Entity 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. EBITDA-at-Risk ratio is calculated for both the KGHM INTERNATIONAL LTD. Group and the JV Sierra Gorda S.C.M.

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, limits with respect to commitment in derivatives have been set.

in PLN millions, unless otherwise stated

For the Parent Entity limits on metals and currency markets were set at:

- up to 85% of planned, monthly sales volumes 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 Parent Entity (for financing the hedging strategy), and up to 85% with respect to instruments representing the rights of the Parent Entity,
- 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 the 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.

With respect to the risk of changes in interest rates, the Parent Entity 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.

For selected mining companies in the Group, limits were set for commitment in derivatives on the copper and currency markets at the same levels as those functioning in the Parent Entity, while with respect to transactions on the nickel, silver and gold markets the limits were set as up to 60% of planned, monthly sales volume from own concentrates.

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 Group 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 Group.

Note 7.5.1.2 Commodity risk

The Parent Entity is exposed to the risk of changes in the prices of the metals it sells: copper, silver, gold and lead. Furthermore, the KGHM INTERNATIONAL LTD. Group is exposed to the risk of changes in the prices of copper, gold, nickel, molybdenum, platinum and palladium.

In the Parent Entity and the KGHM INTERNATIONAL LTD. Group, the price formulas used in physical delivery contracts are mainly based on average monthly quotations from the London Metal Exchange for copper and other common metals and from the London Bullion Market for precious metals. Within the commercial policy, the Parent Entity and KGHM INTERNATIONAL LTD. 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 Group's benchmark profile, in particular in terms of the reference prices and the quotation periods.

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

The Group's strategic exposure to the risk of changes in the price of copper and silver in the years 2019-2020 is presented in the table below:

	2020			2019		
	Net	Sales	Purchases	Net	Sales	Purchases
Copper [t]	**468 623**	**634 042**	**165 419**	**472 218**	631 584	159 366
Silver [t]	**1 352**	**1 376**	**24**	**1 378**	1 397	19

in PLN millions, unless otherwise stated

The notional amount of copper price hedging strategies settled in 2020 represented approx. 34% (in 2019: 22%) of the total sales of this metal realised by the Parent Entity (it represented approx. 47% of net sales[1] in 2020 and 30% in 2019), while the notional amount of silver price hedging strategies settled in 2020 represented approx. 8% of the total sales of this metal realised by the Parent Entity (in 2019 revenues from silver sales were not hedged by derivatives).

As part of the realisation of the strategic plan to hedge the Parent Entity against market risk, in 2020 hedging strategies were implemented on the copper and silver markets.

On the copper market, *seagull* hedging strategies were implemented and put options were purchased hedging future sales revenues for years 2021-2023 for a total notional amount of 402 thousand tonnes. On the other hand, *seagull* structures were implemented on the silver market, hedging sales revenues for years 2021-2023 for a total notional amount of 24.6 million ounces. Additionally, in 2020 the Parent Entity managed the open hedging position by restructuring option structures on the copper market[2]. Part of the *seagull* options structure hedging revenues from sales in the period from March to December 2020 with a total notional amount of 20 thousand tonnes was closed. Hedging transactions covered by restructuration were excluded from hedge accounting as of the date the opposite restructuring transactions were entered into. In addition, sold put options were redeemed with a strike price of 4 000 USD/t in the total notional amount of 84 thousand tonnes, entered into in previous periods in terms of *seagull* strategies hedging revenues from copper sales in 2021.

In 2020 QP adjustment swap transactions were entered into on the copper and gold markets with maturities of up to June 2021, as part of the management of a net trading position[3].

As a result, as at 31 December 2020 the Parent Entity held open derivatives positions for 406.4 thousand tonnes of copper (of which: 402 thousand tonnes came from strategic management of market risk, while 4.4 thousand tonnes came from the management of a net trading position) and 24.6 million troy ounces of silver.

The condensed tables of open derivatives transactions held by the Parent Entity on the copper and silver markets as at 31 December 2020, 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			Average weighted premium	Effective hedge price	Hedge limited to	Participation limited to
			Sold put option	Purchased put option	Sold call option				
		[tonnes]	[USD/t]	[USD/t]	[USD/t]	[USD/t]	[USD/t]	[USD/t]	[USD/t]
1st half	Collar	42 000	-	5 200	6 600	-204	4 996	-	6 600
	Seagull	21 000	4 200	5 700	7 000	-130	5 570	4 200	7 000
	Seagull	30 000	4 600	6 300	7 500	-193	6 107	4 600	7 500
	Purchased put option	42 750	-	7 000	-	-247	6 753	-	-
	Purchased put option	17 250	-	6 900	-	-235	6 665	-	-
2nd half	Collar	42 000	-	5 200	6 600	-204	4 996	-	6 600
	Seagull	21 000	4 200	5 700	7 000	-130	5 570	4 200	7 000
	Seagull	30 000	4 600	6 300	7 500	-193	6 107	4 600	7 500
	TOTAL 2021	**246 000**							

[1] *Copper sales less copper in purchased metal-bearing materials.*
[2] *Through entering into opposite transactions.*
[3] *Applied in order to react to changes in contractual arrangements with customers, non-standard pricing terms as regards metals sales and the purchase of copper-bearing materials.*

in PLN millions, unless otherwise stated

2022	Seagull	60 000	4 600	6 300	7 500	-160	6 140	4 600	7 500
	Seagull	48 000	5 200	6 900	8 300	-196	6 704	5 200	8 300
	TOTAL 2022	**108 000**							
2023	Seagull	48 000	5 200	6 900	8 300	-196	6 704	5 200	8 300
	TOTAL 2023	**48 000**							

Hedging against silver price risk

	Instrument	Notional	Option strike price			Average weighted premium	Effective hedge price	Hedge limited to	Participation limited to
			Sold put option	Purchased put option	Sold call option				
		[mn ounces]	[USD/oz t]	[USD/oz t]	[USD/oz t]	[USD/oz t]	[USD/oz t]	[USD/oz t]	[USD/oz t]
2021	Seagull	2.40	16.00	27.00	43.00	-1.42	25.58	16.00	43.00
	Seagull	7.80	16.00	26.00	42.00	-1.04	24.96	16.00	42.00
	TOTAL 2021	**10.20**							
2022	Seagull	2.40	16.00	27.00	43.00	-1.42	25.58	16.00	43.00
	Seagull	7.80	16.00	26.00	42.00	-1.04	24.96	16.00	42.00
	TOTAL 2022	**10.20**							
2023	Seagull	4.20	16.00	26.00	42.00	-1.19	24.81	16.00	42.00
	TOTAL 2023	**4.20**							

In 2020 and in 2019, neither KGHM INTERNATIONAL LTD. nor any of the mining companies implemented any forward transactions on the commodity market.

As at 31 December 2020, the risk of changes in metals prices was also related to derivatives embedded in the long-term contracts for supply of sulphuric acid and water and in the purchase contracts for metal-bearing materials.

An analysis of the Group's sensitivity to the risk of changes in copper, silver and gold prices as at 31 December 2020 is presented in the table below.

	Value at risk	Carrying amount 31 December 2020	Change in COPPER price [USD/t] 9 204 (+19%)		Change in COPPER price [USD/t] 6 033 (-22%)		Change in SILVER price [USD/oz t] 34.37 (+30%)		Change in SILVER price [USD/oz t] 18.44 (-30%)		Change in GOLD price [USD/oz t] 2 216 (+17%)	Change in GOLD price [USD/oz t] 1 576 (-17%)
Financial assets and liabilities	[PLN mn]	[PLN mn]	Profit or loss	Other comprehensive income	Profit or loss	Other comprehensive income	Profit or loss	Other comprehensive income	Profit or loss	Other comprehensive income	Profit or loss	Profit or loss
Derivatives (copper)	**(844)**	**(844)**	(25)	(985)	(172)	2 040	-	-	-	-	-	-
Derivatives (silver)	**231**	**231**	-	-	-	-	39	(456)	(106)	475	-	-
Derivatives (gold)	**-**	**-**	-	-	-	-	-	-	-	-	(3)	3
Embedded derivatives	**(84)**	**(84)**	(75)	-	76	-	(2)	-	2	-	(18)	18
		Impact on profit or loss	**(100)**	**-**	**(96)**	**-**	**37**	**-**	**(104)**	**-**	**(21)**	**21**
		Impact on other comprehensive income	**-**	**(985)**	**-**	**2 040**	**-**	**(456)**	**-**	**475**	**-**	**-**

An analysis of the Group's sensitivity to the risk of changes in copper, silver and gold prices as at 31 December 2019 is presented in the table below.

	Value at risk	Carrying amount 31 December 2019	Change in COPPER price [USD/t] 7 425 (+21%)		Change in COPPER price [USD/t] 4 785 (-22%)		Change in SILVER price [USD/oz t] 23.00 (+27%)		Change in SILVER price [USD/oz t] 13.39 (-26%)		Change in GOLD price [USD/oz t] 1 785 (+17%)	Change in GOLD price [USD/oz t] 1 269 (-17%)
Financial assets and liabilities	[PLN mn]	[PLN mn]	Profit or loss	Other comprehensive income	Profit or loss	Other comprehensive income	Profit or loss	Other comprehensive income	Profit or loss	Other comprehensive income	Profit or loss	Profit or loss
Derivatives (copper)	**216**	**216**	4	(398)	(89)	932	-	-	-	-	-	-
Derivatives (silver)	**6**	**6**	-				-	(6)	-	42	-	-
Embedded derivatives	**(92)**	**(92)**	(55)	-	49	-	-	-	-	-	(9)	8
		Impact on profit or loss	**(51)**		**(40)**		-	-	-	-	**(9)**	**8**
		Impact on other comprehensive income		**(398)**		**932**	**-**	**(6)**	**-**	**42**	-	-

In order to determine the potential changes in metals prices for purposes of sensitivity analysis of commodity risk factors (copper, silver, gold), 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 within the KGHM Polska Miedź S.A. Group, the following types of exposures were identified:

- transaction exposure related to the volatility of cash flows in the base currency;
- exposure related to the volatility of selected items of the statement of financial position in the base (functional) currency;
- the exposure to net investments in foreign operations as concerns the volatility of consolidated equity in the Group's base currency (presentation 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. 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 exposure to currency risk in the Parent Entity's business operations are the proceeds from sales of products (with respect to metals prices, processing and producer margins).

The exposure to currency risk also derives from items in the consolidated statement of financial position denominated in foreign currencies, which under the existing accounting regulations must be translated, upon settlement or periodic valuation, including the translation of foreign operations statements, 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 consolidated 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. 25% (in 2019: 21%) of the total revenues from sales of copper and silver realised by the Parent Entity in 2020.

As part of the realisation of the strategic plan to hedge the Company against market risk, in 2020 the Parent Entity implemented *Seagull* option structures hedging against a change in the USD/PLN exchange rate in years 2022-2023 with a total notional amount of USD 720 million.

Additionally, in 2020 the Parent Entity managed the open hedging position by restructuring option structures on the currency market[4]. Sold call options were redeemed with a strike price of USDPLN 4.25 from the collar options structure, with maturities from May to December 2020 in the total notional amount of USD 300 million. In terms of restructuration, *seagull* options structure with a total notional amount of USD 90 million and maturities from January 2022 to December 2023 were closed and at the same time sold call options with strike prices of USDPLN 4.30 and 4.40 in the total notional amount of USD 780 million and maturities from January 2021 to December 2021 were redeemed, which were earlier entered into as part of the *seagull* structures. Thereby these structures were transformed in the *put spread* structures. Hedging transactions covered by restructuration were excluded from hedge accounting as of the date the opposite restructuring transactions were entered into.

As a result, as at 31 December 2020 the Company held an open hedging position on the currency market for USD 1 410 million, and in 2019 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[5].

The condensed table of open transactions in derivatives of the Parent Entity on the currency market as at 31 December 2020 is presented below (the hedged notional in the presented periods is allocated evenly on a monthly basis).

[4] *Through entering into opposite transactions.*

[5] *The debt due to PLN-denominated bonds generates a currency risk because most of the sales revenues of the Parent Entity are USD-denominated.*

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 mn]	[USD/PLN]	[USD/PLN]	[USD/PLN]	[PLN for USD 1]	[USD/PLN]	[USD/PLN]	[USD/PLN]
2021	Put spread	540	3.20	3.70	-	-0.09	3.61	3.20	-
2021	Purchased put option	240	-	3.80	-	-0.07	3.73	-	-
	TOTAL 2021	**780**							
2022	Seagull	135	3.30	4.00	4.60	-0.01	3.99	3.30	4.60
2022	Seagull	180	3.50	3.90	4.50	0.04	3.94	3.50	4.50
	TOTAL 2022	**315**							
2023	Seagull	135	3.30	4.00	4.60	0.00	4.00	3.30	4.60
2023	Seagull	180	3.50	3.90	4.50	0.04	3.94	3.50	4.50
	TOTAL 2023	**315**							

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

	Instrument	Notional	Average interest rate	Average exchange rate
		[PLN mn]	[LIBOR]	[USD/PLN]
≤ 2024	CIRS	400	3.23%	3.78
≤ 2029	CIRS	1 600	3.94%	3.81
	TOTAL	**2 000**		

Some of the Group's Polish companies managed the currency risk related to their core business (among others trade) by opening transactions in derivatives, among others on the USD/PLN and EUR/PLN markets. The table of open transactions as at 31 December 2020 is not presented, due to its immateriality for the Group.

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

The currency structure of financial instruments exposed to currency risk (change in the USD/PLN, EUR/PLN, CAD/PLN and GBP/PLN exchange rates) of the KGHM Polska Miedź S.A. Group and sensitivity analysis to the risk of changes in the exchange rates are presented in the tables below. In order to determine the potential changes in the USD/PLN, EUR/PLN, CAD/PLN and GBP/PLN exchange rates for sensitivity analysis purposes, the Black-Scholes model (the geometrical Brownian motion) was used.

Financial instruments	Value at risk as at 31 December 2020				
	total PLN million	USD million	EUR million	CAD million	GBP million
Shares	**5**	-	-	2	-
Trade receivables	**615**	115	35	6	1
Cash and cash equivalents	**1 999**	455	28	23	18
Loans granted to joint ventures	**6 069**	1 615	-	-	-
Other financial assets	**322**	74	1	13	-
Derivatives *	**(695)**	(184)	(1)	-	-
Trade payables	**(1 283)**	(127)	(171)	(7)	1
Borrowings	**(4 518)**	(1 171)	(15)	(17)	-
Other financial liabilities	**(53)**	(12)	(2)	-	-

Financial instruments	Value at risk as at 31 December 2019				
	total PLN million	USD million	EUR million	CAD million	GBP million
Shares	**4**	-	-	1	-
Trade receivables	**523**	112	21	3	-
Cash and cash equivalents	**510**	80	25	20	8
Loans granted to joint ventures	**5 694**	1 499	-	-	-
Other financial assets	**369**	70	2	21	6
Derivatives *	**143**	34	-	-	-
Trade payables	**(794)**	(105)	(91)	(6)	2
Borrowings	**(5 113)**	(1 321)	(14)	(13)	-
Other financial liabilities	**(17)**	(2)	(2)	-	(1)

**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 which are denominated solely in PLN.*

An analysis of the Company's sensitivity to the currency risk in years 2019-2020

Financial assets and liabilities as at 31 December 2020	Value at risk [PLN million]	Carrying amount 31 December 2020 [PLN million]	Change in the USD/PLN exchange rate 4.20 (+12%) profit or loss	4.20 (+12%) other comprehensive income	3.33 (-11%) profit or loss	3.33 (-11%) other comprehensive income	Change in the EUR/PLN exchange rate 4.96 (+8%) profit or loss	4.31 (-7%) profit or loss	Change in the CAD/PLN exchange rate 3.32 (+12%) profit or loss	2.61 (-12%) profit or loss	Change in the GBP/PLN exchange rate 5.80 (+13%) profit or loss	4.58 (-7%) profit or loss
Shares	**5**	**618**	-	-	-	-	-	-	1	(1)	-	-
Trade receivables	**615**	**834**	41	-	(40)	-	10	(9)	2	(2)	1	(1)
Cash and cash equivalents	**1 999**	**2 522**	163	-	(157)	-	8	(7)	7	(6)	10	(8)
Loans granted to joint ventures	**6 069**	**6 069**	580	-	(557)	-	-	-	-	-	-	-
Other financial assets	**322**	**809**	27	-	(26)	-	-	-	4	(4)	-	-
Derivatives	**(695)**	**(695)**	114	(733)	147	816	(8)	6	-	-	-	-
Trade and similar payables	**(1 283)**	**(3 593)**	(46)	-	44	-	(48)	43	(2)	2	1	-
Borrowings	**(4 518)**	**(7 335)**	(421)	-	404	-	(4)	4	(5)	5	-	-
Other financial liabilities	**(53)**	**(345)**	(4)	-	4	-	-	-	-	-	-	-
		Impact on profit or loss	**454**	**-**	**(181)**	**-**	**(42)**	**37**	**7**	**(6)**	**12**	**(9)**
		Impact on other comprehensive income	**-**	**(733)**	**-**	**816**	**-**	**-**	**-**	**-**	**-**	**-**

Financial assets and liabilities as at 31 December 2019	Value at risk [PLN million]	Carrying amount 31 December 2019 [PLN million]	Change in the USD/PLN exchange rate 4.28 (+13%)		Change in the USD/PLN exchange rate 3.33 (-12%)		Change in the EUR/PLN exchange rate 4.64 (+9%)	Change in the EUR/PLN exchange rate 3.98 (-6%)	Change in the CAD/PLN exchange rate 3.31 (+14%)	Change in the CAD/PLN exchange rate 2.55 (-13%)	Change in the GBP/PLN exchange rate 5.71 (+14%)	Change in the GBP/PLN exchange rate 4.42 (-8%)
			profit or loss	other comprehensive income	profit or loss	other comprehensive income	profit or loss	profit or loss	profit or loss	profit or loss	profit or loss	profit or loss
Shares	**4**	**431**	-	-	-	-	-	-	-	-	-	-
Trade receivables	**523**	**688**	44	-	(43)	-	7	(5)	1	(1)	-	-
Cash and cash equivalents	**510**	**1 016**	31	-	(30)	-	8	(6)	6	(6)	5	(4)
Loans granted to joint ventures	**5 694**	**5 694**	590	-	(568)	-	-	-	-	-	-	-
Other financial assets	**369**	**936**	28	-	(27)	-	1	(1)	7	(6)	3	(3)
Derivatives	**143**	**143**	1	(591)	(41)	816	(8)	7	-	-	-	-
Trade and similar payables	**(794)**	**(2 766)**	(41)	-	40	-	(28)	20	(2)	2	1	(1)
Borrowings	**(5 113)**	**(7 873)**	(520)	-	501	-	(4)	3	(4)	4	-	-
Other financial liabilities	**(17)**	**(318)**	(1)	-	1	-	(1)	-	-	-	-	-
		Impact on profit or loss	**132**	**-**	**(167)**	**-**	**(25)**	**18**	**8**	**(7)**	**9**	**(8)**
		Impact on other comprehensive income	**-**	**(591)**	**-**	**816**	**-**	**-**	**-**	**-**	**-**	**-**

in PLN millions, unless otherwise stated

Note 7.5.1.4 Interest rate risk

In 2020 the Group was exposed to the risk of changes in interest rates due to loans granted to joint ventures, investing cash, the reverse factoring program and using borrowings.

Positions with variable interest rates expose the Group 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 profit or loss). Positions with fixed interest rates expose the Group to the risk of fair value changes of a given position, excluding positions 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 2020			As at 31 December 2019		
		Cash flow risk	Fair value risk	Total	Cash flow risk	Fair value risk	Total
	Cash and cash equivalents*	2 924	-	**2 924**	1 373		**1 373**
	Loans granted	-	18	**18**	-	17	**17**
Note 7.1	Borrowings	(3 463)	(3 872)	**(7 335)**	(3 873)	(4 000)	**(7 873)**
	Similar payables**	(1 264)	-	**(1 264)**	(596)	-	**(596)**

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

** *In order to improve financial liquidity of the Parent Entity, during the period ended 31 December 2020, the Parent Entity was carried out a reverse factoring agreement entered into in 2019 and implemented another reverse factoring agreement. Consequently, for a part of the portfolio of trade payables, an extension of payment dates was 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.*

As part of the strategic management of interest rate risk, in 2019 the Parent Entity 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[6]. CIRS transactions open as at 31 December 2020 are presented in note 7.5.1.3.

[6] *The debt due to PLN-denominated bonds generates a currency risk because most of the sales revenues of the Parent Entity are USD-denominated.*

in PLN millions, unless otherwise stated

An analysis of the Group's sensitivity to interest rates risk in relation to items with a variable interest rate is presented in the following table

	2020				2019			
	+100 basis points		-50 basis points		+100 basis points		-50 basis points	
	profit or loss	other comprehensive income	profit or loss	other comprehensive income	profit or loss	other comprehensive income	profit or loss	other comprehensive income
Cash and cash equivalents	25	-	(13)	-	10	-	(5)	-
Borrowings	(34)	-	17	-	(39)	-	19	-
Financial derivatives – interest rate	-	150	-	(80)	17	131	-	(72)
Similar payables	(1)	-	-	-	-	-	-	-
Impact on profit or loss	**(10)**	**-**	**4**	**-**	**(12)**	**-**	**14**	**-**
Impact on other comprehensive income	**-**	**150**	**-**	**(80)**	**-**	**131**	**-**	**(72)**

An expert method including recommendations of the ARMA model was used to determine the potential 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 instruments, 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 2019-2020. In hedging relations, only the intrinsic value of the option is designated as a hedging instrument. The balance of other comprehensive income, presented below, shows a full change in the value of options, including the intrinsic value (effective part) and time value (understood as hedging cost). The time value approximates zero in the horizon of a hedging relation.

The hedge's inefficiency recognised in the statements of profit or loss in the reporting periods 2019-2020 was immaterial.

	As at 31 December 2020		from 1 January 2020 to 31 December 2020	from 1 January 2020 to 31 December 2020	As at 31 December 2019		from 1 January 2019 to 31 December 2019	from 1 January 2019 to 31 December 2019
	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 *risk type* *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	(1 213)	-	409	(1 261)	40	-	(124)	(115)
Commodity risk (silver)								
Options – Sales revenue	89	-	(8)	88	(4)	-	(4)	(4)
Currency risk (USD)								
Options – Sales revenue	164	22	(154)	149	(33)	-	(39)	(39)
Loans – Sales revenue	-	(96)	-	-	-	(113)	-	-
Currency-interest rate risk								
Options – Sales revenue	(61)	-	28	(21)	(39)	-	(44)	(39)
Options – Finance income/costs	(138)	-	122	(104)	(34)	-	(43)	(34)
Total	**(1 159)**	**(74)**	**397**	**(1 149)**	**(70)**	**(113)**	**(254)**	**(231)**

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 (excluding the tax effect).

relation type / *risk type* / *instrument type*	from 1 January 2020 to 31 December 2020		from 1 January 2019 to 31 December 2019	
	Profit or (loss) due to hedging recognised in other comprehensive income	**Amount reclassified from other comprehensive income to the statement of 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 the statement of profit or loss as a reclassification adjustment, due to realisation of a hedged item in the period**
Cash flow hedging				
Commodity risk (copper)				
Options*	(1 108)	145	(140)	141
Commodity risk (silver)				
Options*	89	(3)	(4)	-
Currency risk (USD)				
Options*	144	(76)	(80)	(34)
Loans**	-	(16)	-	(16)
Currency-interest rate risk				
CIRS***	(151)	(26)	(79)	(5)
Total	**(1 026)**	**24**	**(303)**	**86**

Item of the statement of profit or loss which includes a reclassification adjustment

* *revenues from contracts with customers, other operating income and (costs),*

** *revenues from contracts with customers,*

*** *revenues from contracts with customers, other finance income and (costs).*

in PLN millions, unless otherwise stated

The following table contains information on changes in other comprehensive income (excluding the tax effect) in the period in connection with the application of hedge accounting in 2020.

	Other comprehensive income due to cash flow hedging		
	Effective value *	Cost of hedging **	Total
Other comprehensive income – transactions hedging against commodity and currency risk – as at 1 January 2020	**(33)**	**(150)**	**(183)**
Impact of measurement of hedging transactions (effective part)	(397)	(629)	(1 026)
Reclassification to profit or loss due to realisation of hedged item	(305)	281	(24)
Other comprehensive income – transactions hedging against commodity and currency risk – as at 31 December 2020	**(735)**	**(498)**	**(1 233)**

* *Effective portions of changes in the fair value of hedging instruments due to hedged risk - intrinsic value of option.*

** *Time value of option.*

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

	Other comprehensive income due to cash flow hedging		
	Effective value *	Cost of hedging **	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)	(67)	(236)	(303)
Reclassification to profit or loss due to realisation of hedged item	(244)	158	(86)
Other comprehensive income – transactions hedging against commodity and currency risk – as at 31 December 2019	**(33)**	**(150)**	**(183)**

* *Effective portions of changes in the fair value of hedging instruments due to hedged risk - intrinsic value of option.*

** *Time value of option.*

Note 7.5.2 Credit risk

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

- the creditworthiness of the customers with whom physical sales 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 sources of exposure to credit risk are:

- 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 Group 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 Group 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 Group 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 Group does not monitor changes in the level of credit risk during an 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 Group allocates periodically free cash in accordance with the requirements to maintain financial liquidity and limit risk and in order to protect capital and maximise interest income.

As at 31 December 2020, the total amount of free and restricted cash and cash equivalents of PLN 2 522 million was held in bank accounts and in short-term deposits.

All entities with which deposit transactions are entered into by the Group operate in the financial sector. Analysis of exposure to this type of risk indicated that these are solely banks with the highest, medium-high and medium ratings, and which have an appropriate level of equity and a strong, stable market position. The credit risk in this regard is monitored through the on-going review of the financial standing and by maintaining an appropriately low concentration levels 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 2020	As at 31 December 2019
Highest	from AAA to AA- according to S&P and Fitch, and from Aaa to Aa3 according to Moody's	10%	16%
Medium-high	from A+ to A- according to S&P and Fitch, and from A1 to A3 according to Moody's	51%	81%
Medium	from BBB+ to BBB- according to S&P and Fitch, and from Baa1 to Baa3 according to Moody's	39%	3%

**Weighed by amount of cash deposited in current accounts and deposits.*

Risk level of the financial institution arising from depositing cash on bank accounts or deposits, and taking into consideration the risk of these instruments, is almost the same, and therefore they are presented jointly.

in PLN millions, unless otherwise stated

As at 31 December 2020 the maximum single entity share of the amount exposed to credit risk arising from cash and bank deposits amounted to 25%, or PLN 642 million (as at 31 December 2019: 19%, or PLN 189 million).

	As at 31 December 2020	As at 31 December 2019
Counterparty 1	642	189
Counterparty 2	519	183
Counterparty 3	338	178
Counterparty 4	244	82
Counterparty 5	155	82
Other	624	300
Total	**2 522**	**1 014**

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 Group 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. These assets are classified to Degree 1 of the impairment model.

Nota 7.5.2.2 Credit risk related to derivative transactions

All entities with which derivative transactions (excluding embedded derivatives) are entered into by the Group operate in the financial sector.

The Group's credit exposure related to derivatives by main counterparties is presented in the table below[7].

	As at 31 December 2020				As at 31 December 2019			
	Financial receivables	Financial liabilities	Fair value	Exposure to credit risk	Financial receivables	Financial liabilities	Fair value	Exposure to credit risk
Counterparty 1	268	(195)	73	**158**	69	(20)	49	**49**
Counterparty 2	317	(431)	(114)	**124**	60	(13)	47	**47**
Counterparty 3	137	(272)	(135)	**56**	61	(36)	25	**47**
Counterparty 4	129	(359)	(230)	**40**	54	(19)	35	**44**
Other	148	(395)	(247)	**60**	197	(101)	96	**138**
Total	**999**	**(1 652)**	**(653)**	**438**	**441**	**(189)**	**252**	**325**
Open derivatives	999	(1 610)	(611)		417	(182)	235	
Settled derivatives	-	(42)	(42)		24	(7)	17	

Taking into consideration the fair value of open derivatives transactions entered into by the Group and receivables and liabilities due to settled derivatives, as at 31 December 2020 the maximum single entity share of the amount exposed to credit risk arising from these transactions amounted to 36%, or PLN 158 million (as at 31 December 2019: 15%, or PLN 49 million).

[7] *Net positive fair value (financial receivables – financial liabilities) of open and settled derivatives is taken into account, including a breakdown by hedged market risk factors.*

in PLN millions, unless otherwise stated

In order to reduce cash flows and at the same time to limit credit risk, the Parent Entity carries out net settlements (based on standard framework agreements entered into with its customers, regulating the trade of financial instruments, meaning ISDA or based on a formula of the Polish Bank Association). Moreover, the resulting credit risk is continuously monitored by reviewing 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 Parent Entity has determined that, due to its cooperation solely 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 Group had derivatives transactions, representing exposure to credit risk.

Rating level		As at 31 December 2020	As at 31 December 2019
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	95%	90%
Medium	from BBB+ to BBB- according to S&P and Fitch, and from Baa1 to Baa3 according to Moody's	5%	8%

Note 7.5.2.3 Credit risk related to trade receivables

The following Group companies have significant trade receivables: the KGHM INTERNATIONAL LTD. Group PLN 353 million, KGHM Polska Miedź S.A. PLN 305 million, CENTROZŁOM WROCŁAW S.A. PLN 72 million, NITROERG S.A. PLN 33 million, WPEC w Legnicy S.A. PLN 30 million, „MCZ" S.A. PLN 15 million, and WMN "Łabędy" PLN 10 million.

The Parent Entity 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 2020, the amount of receivables transferred to factoring, for which payment from factors was not received, amounted to PLN 15 million (as at 31 December 2019: PLN 22 million). Information on the amount of revenues from sales subjected to factoring in the financial period is presented in note 2.4.

An inseparable element of the credit risk management process performed by the Parent Entity 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 Parent Entity 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 above forms of collateral and the credit limits received from the insurance company, as at 31 December 2020 the Parent Entity had secured 75% of its trade receivables (as at 31 December 2019, 64%).

Moreover, the Parent Entity enters into net settlement framework agreements, when it recognises both receivables and liabilities with the same customer.

in PLN millions, unless otherwise stated

Although KGHM INTERNATIONAL LTD. does not use collateral, credit risk connected with trade receivables is subject to monitoring, and the majority of sales are to proven, long-term customers conducting international activities.

Assessment of concentration of credit risk in the Group:

Sector concentration	While KGHM Polska Miedź S.A. and KGHM INTERNATIONAL LTD. operate in the same sector, these two companies are different both in terms of their portfolios of products as well as in terms of the geographic location and nature of their customers, and consequently this sector concentration of credit risk is considered to be acceptable. Other companies of the Group operate in various economic sectors, such as transport, construction, commerce, industrial production and energy. As a consequence, in the case of most Group companies, in terms of sectors, there is no concentration of credit risk.
Customers concentration	As at 31 December 2020 the balance of receivables from the 7 largest customers represented 42% of trade receivables (2019: 29%). Despite the concentration of this type of risk, it is believed that due to the availability of historical data and the many years of experience cooperating with its customers, as well as to the securing used, the level of credit risk is low.
Geographical concentration	Companies of the Group have been cooperating for many years with a large number of customers, which affects the geographical diversification of trade receivables. Geographical concentration of credit risk for trade receivables is presented in the table below:

Trade receivables (net)	As at 31 December 2020	As at 31 December 2019
Poland	38%	40%
European Union (excluding Poland)	14%	17%
Asia	13%	4%
Other countries	35%	39%

Accounting policies

The Group 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. In order to estimate the expected credit loss on trade receivables, the Group's entities apply provision matrices, made on the basis of historical levels of payment of trade receivables, which are periodically recalibrated in order to update them.

Loss allowance for expected credit losses is measured at the amount equal to expected credit losses during the whole life of the receivables. The Group adopted an assumption that the receivable risk is characterised by the number of days of delay and this parameter determines the estimated PD, i.e. the probability of a delay in payment of trade receivables by at least 90 days. For the purpose of estimating PD, 5 risk groups have been selected based on the criteria of number of days in payment, according to ranges presented below as "Important estimates and assumptions".

Default is defined as being a failure by a customer to meet its liabilities after a period of 90 days from the due date. In order to estimate the loss allowance for expected credit losses, collateral is also taken into account by allocating expected recovery rates to the particular types of collateral.

Moreover, forward-looking information is taken into account in the applied parameters of the model for estimating expected losses, by adjusting the base coefficients of default probability. This means that if as a result of analysis of macroeconomic data, such as for example: current GDP dynamics, inflation, unemployment rate, or WIG index, the Group recognises any deterioration in them in comparison to the previous period, in the ECL calculation the *looking forward* factor, which corrects risk connected with any decrease in receivables recovery, is taken into account. As at 31 December 2020, or the end of the reporting period, no deterioration of macroeconomic factors was noted.

in PLN millions, unless otherwise stated

Important estimates and assumptions			
Time frame	**Percent of allowance for impairment***	**Gross amount of receivables**	**Allowance for impairment in individual time frames****
Not overdue	0.2-5.3	404	(5)
<1,30)	0.2-16	28	-
<30,60)	5.5-52.9	2	-
<60,90)	23.9-81.5	1	-
Default	100	51	(45)
Total		**486**	**(50)**

**Probability of default is represented in thresholds, calculated individually by Group companies on the basis of real historical data as respects the number of days of delay, pursuant to the model for calculating expected credit losses adopted by the Group for trade receivables.*
***The amount of allowance for impairment includes the recovery due to collateral.*

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

		Gross amount
	Gross amount as at 1 January 2020	**548**
	Change in the balance of receivables	(102)
	Utilisation of a loss allowance in the period	(2)
Note 10.2	**Gross amount as at 31 December 2020**	**444**

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 2020	**53**
	Change in allowance in the period recognised in profit or loss	(2)
	Utilisation of a loss allowance in the period	(2)
Note 10.2	**Loss allowance for expected credit losses as at 31 December 2020**	**53**

As at 31 December 2020, disputed receivables amounted to PLN 38 million (as at 31 December 2019, PLN 38 million). The Group is taking actions aimed at recovering these receivables or explaining the validity of pursuing claims.

Note 7.5.2.4 Credit risk related to loans granted to the joint venture Sierra Gorda S.C.M. (POCI)

Credit risk related to loans granted depends on risk related to the realisation of the joint mining venture in Chile (Sierra Gorda S.C.M.). These loans, as a result of the impairment recognised at the moment of initial recognition due to credit risk, were classified as POCI, and are measured at the end of the subsequent reporting periods at amortised cost using the effective interest rate method and the effective discount rate adjusted by credit risk.

The basis for accruing interest on POCI loans is their gross value less any allowance for impairment at the moment of initial recognition.

The loan granted does not have collateral limiting the exposure to credit risk, therefore the amount exposed to potential loss due to credit risk is the gross amount of the loan.

in PLN millions, unless otherwise stated

The following table presents the change in the period in the gross value of POCI loans.

	2020	2019
Gross amount as at 1 January	**5 694**	**5 199**
Interest accrued	377	341
Gains on reversal of allowances for impairment	74	106
Exchange differences from the translation of statements of operations with a functional currency other than PLN	(76)	48
Gross amount as at 31 December	**6 069**	**5 694**

There was no expected impairment of loans in respect of which impairment was recognised at the moment of initial recognition in any of the presented reporting periods.

Sensitivity analysis of the fair value of loans due to the change in forecasted cash flows of Sierra Gorda S.C.M.

As at 31 December 2020, the Group classified the measurement to fair value of loans granted to level 3 of the fair value hierarchy because of the utilisation in the measurement of a significant unmeasurable parameter, being the forecasted cash flows of Sierra Gorda S.C.M. These cash flows are the most sensitive to changes in copper prices, which implies other assumptions such as forecasted production and operating margin. Therefore, the Group performed a sensitivity analysis of the fair value of loans to changes in copper prices.

Because of the significant sensitivity of the forecasted cash flows of Sierra Gorda S.C.M. to changes in copper price, pursuant to IFRS 13 p.93.f the Group performed a sensitivity analysis of the fair value (level 3) of loans to changes in copper prices.

	Copper prices [USD/t]					
Scenarios	2 021	2 022	2 023	2 024	2 025	LT
Base	6 500	6 300	6 400	6 614	6 614	6 834
Pessimistic	5 500	5 000	5 200	5 500	5 800	6 834
Optimistic	8 000	8 500	8 500	8 500	8 500	6 834

Classes of financial instruments	Carrying amount 31 December 2020	Fair value	Fair value	
			Optimistic scenario	Pessimistic scenario
Loans granted measured at amortised cost	**6 069**	**5 998**	**7 133**	**5 094**

Note 7.5.2.5 Credit risk related to other financial assets

As at 31 December 2020, the most significant item in other financial assets was cash accumulated on bank deposits in the special purpose funds: Mine Closure Fund and Tailings Storage Facility Restoration Fund in the amount of PLN 402 million.

All special purpose deposits of the Group, which are dedicated to collection of cash for future decommissioning costs of mines and other technological facilities and restoration of tailing storage facilities, are carried out by banks with the highest or medium-high ratings confirming the security of the deposited cash.

The tables below presents the level of cash concentration within special purpose funds dedicated to the collection of cash by the Group for future decommissioning costs of mines and other technological facilities and restoration of tailing storage facilities, according to the credit ratings of financial institutions holding special purpose deposits and according to institutions in which this cash is held.

in PLN millions, unless otherwise stated

Rating level		As at 31 December 2020	As at 31 December 2019
Highest	AAA to AA- according to S&P and Fitch, and from Aaa to Aa3 according to Moody's	10%	13%
Medium-high	from A+ to A- according to S&P and Fitch, and from A1 to A3 according to Moody's	90%	87%

	As at 31 December 2020	As at 31 December 2019
Counterparty 1	314	339
Counterparty 2	47	50
Counterparty 3	41	-
Total	**402**	**389**

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 Group 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. These assets are classified to Degree 1 of the impairment model

in PLN millions, unless otherwise stated

Part 8 – Borrowings and the management of liquidity and capital

Note 8.1 Capital management policy

In accordance with market practice, the Group monitors the level of financial security, among others on the basis of the Net Debt/EBITDA ratio presented in the table below:

Ratios	Calculations	31 December 2020	31 December 2019
Net Debt/EBITDA	relation of net debt to EBITDA	**0.9**	**1.5**
Net Debt*	borrowings, debt securities and lease liabilities less free cash and its equivalents	4 834	6 891
Adjusted EBITDA**	profit on sales plus depreciation/amortisation recognised in profit or loss and impairment losses on non-current assets	5 277	4 569

**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 excluding EBITDA of the joint venture Sierra Gorda S.C.M.*

In the management of liquidity and capital, the Group also pays attention to adjusted operating profit, which is the basis for calculating the financial covenant and which is comprised of the following items:

	from 1 January 2020 to 31 December 2020	from 1 January 2019 to 31 December 2019
Profit on sales	3 161	2 455
Interest income on loans granted to a joint venture	377	341
Other operating income and (costs)	(624)	186
Adjusted operating profit*	**2 914**	**2 982**

** presented amount does not include the reversal of allowances for impairment of loans granted to joint ventures*

As at the end of the reporting period, in the financial period and after the end of the reporting period, up to the date of publication of these consolidated financial statements, the value of the financial covenant subject to the obligation to report as at 30 June 2020 and 31 December 2020, met the conditions stipulated in the credit agreements.

In order to maintain financial liquidity and the creditworthiness enabling the obtainment of external financing with the optimum level of costs, the Group's long term aim for the level of the Net Debt/EBITDA ratio is to be not more than 2.0.

in PLN millions, unless otherwise stated

Note 8.2 Equity

Accounting policies
Share capital is recognised at nominal value. 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 at fair value through other comprehensive income (Note 7.3, accounting policies) less any deferred tax effects. Accumulated other comprehensive income consists of exchange differences from the translation of foreign operations statements with a functional currency other than PLN (Note 1.2, accounting policies) and actuarial gains/losses on post-employment benefits programs less any deferred tax effect (Part 11, accounting policies). Retained earnings are the sum of profit for the current financial year and accumulated profits from previous years, which have not been paid out as dividends, but were transferred to the reserve capital or were not distributed.

Note 8.2.1 Share capital

As at 31 December 2020 and at the date of signing of these financial statements, the Parent Entity'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 Parent Entity has not issued preference shares. Each share grants the right to one vote at the general meeting. The Parent Entity does not have treasury shares. Subsidiaries and joint ventures do not have shares of KGHM Polska Miedź S.A.

In the years ended 31 December 2020 and 31 December 2019 there were no changes in either registered share capital or in the number of issued shares.

In 2020, there were changes in the ownership of significant blocks of shares of KGHM Polska Miedź S.A.

As far as the Parent Entity is aware, as at 31 December 2020 and as at the date of signing of these financial statements, the Parent Entity'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%
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

		Other reserves from measurement of financial instruments					
		Investments in equity instruments measured at fair value through other comprehensive income	Other reserves from measurement of future cash flow hedging financial instruments	Other reserves from measurement of financial instruments, total	Actuarial gains /(losses) on post-employment benefits programs	Exchange differences from the translation of foreign operations statements with a functional currency other than PLN	Retained earnings
	As at 31 December 2018	**(611)**	**167**	**(444)**	**(652)**	**2 657**	**15 572**
	Profit for the period	-	-	-	-	-	1 421
	Fair value losses on financial assets measured at fair value through other comprehensive income	(96)	-	(96)	-	-	-
Note 7.2	Impact of effective cash flow hedging transactions entered into	-	(303)	(303)	-	-	-
Note 7.2	Amount transferred to profit or loss due to settlement of hedging instruments	-	(86)	(86)	-	-	-
Note 11.2	Actuarial losses on post-employment benefits	-	-	-	(56)	-	-
	Exchange differences from the translation of foreign operations statements with a functional currency other than PLN	-	-	-	-	(6)	-
Note 5.1.1	Deferred income tax	18	74	92	11	-	-
	Other comprehensive income	(78)	(315)	(393)	(45)	(6)	-
	Total comprehensive income	(78)	(315)	(393)	(45)	(6)	1 421
	Reclassification of measurement of equity instruments measured at fair value through other comprehensive income	99	-	99	-	-	(99)
	As at 31 December 2019	**(590)**	**(148)**	**(738)**	**(697)**	**2 651**	**16 894**
	Profit for the period	-	-	-	-	-	1 800
	Fair value gains on financial assets measured at fair value through other comprehensive income	194	-	194	-	-	-
Note 7.2	Impact of effective cash flow hedging transactions entered into	-	(1 026)	(1 026)	-	-	-
Note 7.2	Amount transferred to profit or loss due to settlement of hedging instruments	-	(24)	(24)	-	-	-
Note 11.2	Actuarial losses on post-employment benefits	-	-	-	(327)	-	-
	Exchange differences from the translation of foreign operations statements with a functional currency other than PLN	-	-	-	-	39	-
Note 5.1.1	Deferred income tax	(36)	200	164	62	-	-
	Other comprehensive income	158	(850)	(692)	(265)	39	-
	Total comprehensive income	158	(850)	(692)	(265)	39	1 800
	As at 31 December 2020	**(432)**	**(998)**	**(1 430)**	**(962)**	**2 690**	**18 694**

Based on the Act of 15 September 2000, the Commercial Partnerships and Companies Code, the Parent Entity 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 2020 the statutory reserve capital in the Group's entities amounts to PLN 778 million, of which PLN 667 million relates to the Parent Entity, and is recognised in retained earnings.

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

Note 8.3 Liquidity management policy

The Management Board of the Parent Entity is responsible for financial liquidity management in the Group and compliance with adopted policy. The Financial Liquidity Committee is a body supporting the Management Board in this regard.

The management of financial liquidity in the Group is performed in accordance with the Financial Liquidity Management Policy in the KGHM Group. This document comprehensively describes processes of managing financial liquidity in the Group, which are realised by Group companies, while their organisation, coordination and supervision is performed by the Parent Entity by using appropriate procedures and instruments. The basic principles resulting from this document are:

- assuring the stable and effective financing of the Group's activities,
- continuous monitoring of the Group's debt level,
- effective management of working capital, and
- coordination, by the Parent Entity, of processes of financial liquidity management in the Group companies.

Under the liquidity management process, the Group utilises instruments which enhance its effectiveness. One of the instruments used by the Group to deal with on-going operating activities 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 2020, the Group continued actions aimed at ensuring long-term financial stability by basing the financial structure on diversified and long term financing sources. In December 2020, the Parent Entity used the option to extend the term of an unsecured revolving syndicated credit facility agreement by one year, in the amount of USD 1 500 million (PLN 5 638 million) signed in 2019. As a result of Syndicate Members' decision, the available amount of financing granted in the extension period will amount to USD 1 438 million (PLN 5 405 million).

In 2020, actions were also continued aimed at optimising the financial liquidity management process by concentrating mainly on the effective management of working capital by using reverse factoring and factoring. The effect of implementation of factoring transactions is shortening the receivables turnover cycle and an extension of the turnover cycle of liabilities.

in PLN millions, unless otherwise stated

Note 8.3.1 Contractual maturities for financial liabilities

Financial liabilities – as at 31 December 2020

	Contractual maturities from the end of the reporting period				Total (without discounting)	Carrying amount
	up to 3 months	over 3 months to 12 months	over 1 to 3 years	over 3 years		
Borrowings	109	337	1 503	3 187	**5 136**	**4 679**
Debt securities liabilities	-	36	72	2 170	**2 278**	**2 000**
Lease liabilities	26	54	139	1 246	**1 465**	**656**
Trade payables	2 239	35	26	341	**2 641**	**2 498**
Similar payables – reverse factoring	653	611	-	-	**1 264**	**1 264**
Derivatives – currency contracts*	1	1	22	1	**25**	**127**
Derivatives – commodity contracts – metals*	98	411	96	-	**605**	**1 285**
Derivatives – interest rates	-	40	75	65	**180**	**198**
Embedded derivatives	35	26	25	-	**86**	**84**
Other financial liabilities	132	12	15	18	**177**	**176**
Total	**3 293**	**1 563**	**1 973**	**7 028**	**13 857**	**12 967**

Financial liabilities – as at 31 December 2019

	Contractual maturities from the end of the reporting period				Total (without discounting)	Carrying amount
	up to 3 months	over 3 months to 12 months	over 1 to 3 years	over 3 years		
Borrowings	108	305	928	4 599	**5 940**	**5 180**
Debt securities liabilities	-	67	134	2 377	**2 578**	**2 001**
Lease liabilities	32	64	159	1 429	**1 684**	**692**
Trade payables	2 148	22	29	350	**2 549**	**2 344**
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	18	27	55	-	**100**	**92**
Other financial liabilities	92	15	20	18	**145**	**144**
Total	**2 581**	**921**	**1 358**	**8 836**	**13 696**	**11 231**

**Financial liabilities arising from derivatives are calculated at their intrinsic values excluding the discount effect.*

The above tables regarding maturities do not include financial guarantees, details on financial guarantees and their maturity dates were described in Note 8.6.

in PLN millions, unless otherwise stated

Note 8.3.2 Overdue liabilities

Financial liabilities – as at 31 December 2020

	Overdue period				
	up to 1 month	over 3 to 12 months	over 1 year to 3 years	more than 1 year	Total
Trade payables	21	19	11	4	55

Financial liabilities – as at 31 December 2019

	Overdue period				
	up to 1 month	over 3 to 12 months	over 1 year to 3 years	more than 1 year	Total
Trade payables	26	10	8	2	46

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 2020	As at 31 December 2019
	Bank loans	1 965	2 337
	Loans	2 377	2 575
	Debt securities	2 000	2 000
	Leases	586	613
Note 7.1	**Non-current liabilities due to borrowings**	**6 928**	**7 525**
	Bank loans	29	49
	Loans	308	219
	Debt securities	-	1
	Leases	70	79
Note 7.1	**Current liabilities due to borrowings**	**407**	**348**
	Total borrowings	**7 335**	**7 873**
Note 8.5	Free cash and cash equivalents	2 501	982
	Net debt	**4 834**	**6 891**

in PLN millions, unless otherwise stated

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

	As at 31 December 2020	As at 31 December 2019
PLN/WIBOR	2 119	2 095
EUR/EURIBOR	26	45
EUR/fixed	42	12
USD/USD LIBOR	1 305	1 762
PLN/fixed	694	665
USD/fixed	3 094	3 256
CAD/fixed	51	22
Other	4	16
Total	**7 335**	**7 873**

As at 31 December 2020, the Group's liabilities due to borrowing, debt securities issued and leases amounted to PLN 7 335 million, or USD 1 171 million, PLN 2 813 million, EUR 15 million, CAD 17 million and in other currencies in the amount of PLN 4 million (as at 31 December 2019 liabilities amounted to PLN 7 873 million, or USD 1 321 million, PLN 2 744 million, EUR 14 million, CAD 12 million and in other currencies in the amount of PLN 16 million).

As at 31 December 2020, the balance of trade payables transferred to reverse factoring by the Parent Entity amounted to PLN 1 264 million (as at 31 December 2019: PLN 596 million).
Trade payables transferred to reverse factoring are presented in the statement of financial position as "Trade and similar payables" and are in the category of "similar", as due to the significant judgment of the Management Board of the Parent Entity presented in Note 10.4 of these Consolidated financial statements, such a presentation most accurately presents the nature of these transactions.

The structure of debt confirms the effective advancing of the strategy of the Group, 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 2019	Cash flows	Accrued interest	Exchange differences	Other changes	As at 31 December 2020
Bank loans	2 386	(302)	109	(181)	(18)	1 994
Loans	2 794	(175)	84	(15)	(3)	2 685
Debt securities	2 001	(52)	51	-	-	2 000
Leases	692	(128)	35	2	55	656
Total debt	**7 873**	**(657)**	**279**	**(194)**	**34**	**7 335**
Free cash and cash equivalents	982	1 519	-	-	-	2 501
Net debt	**6 891**	**(2 176)**	**279**	**(194)**	**34**	**4 834**

Liabilities due to borrowing	As at 31 December 2018	Change in accounting policies – implementation of IFRS 16	As at 1 January 2019	Cash flows	Accrued interest	Exchange differences	Other changes	As at 31 December 2019
Bank loans	5 676	-	5 676	(3 759)	246	217	6	2 386
Loans	2 246	-	2 246	450	78	(4)	24	2 794
Debt securities	-	-	-	1 966	35	-	-	2 001
Leases	27	637	664	(86)	35	-	79	692
Total debt	**7 949**	**637**	**8 586**	**(1 429)**	**394**	**213**	**109**	**7 873**
Free cash and cash equivalents	949	-	949	33	-	-	-	982
Net debt	**7 000**	**637**	**7 637**	**(1 462)**	**394**	**213**	**109**	**6 891**

in PLN millions, unless otherwise stated

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

	from 1 January 2020 to 31 December 2020	from 1 January 2019 to 31 December 2019
Financing activities		
Proceeds from borrowings	4 247	4 730
Proceeds from the issue of debt financial instruments	-	2 000
Repayment of borrowings	(4 513)	(7 746)
Repayment of lease liabilities	(97)	(52)
Repayment of interest on borrowings and debt securities	(152)	(215)
Repayment of interest on leases	(13)	(23)
Investing activities		
Paid capitalised interest on borrowings	(129)	(123)
TOTAL	**(657)**	**(1 429)**

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

Note 8.4.3 Detailed information concerning the main sources of borrowings

As at 31 December 2020, the Group had open credit lines, loans and debt securities with a total balance of available financing in the amount of PLN 13 145 million, out of which PLN 6 679 million had been drawn (as at 31 December 2019 the Group had open credit lines and investment loans with a total balance of available financing in the amount of PLN 14 567 million, out of which PLN 7 181 million had been drawn).

The structure of financing sources is presented below.

Unsecured, revolving syndicated credit facility

A credit facility in the amount of USD 1 500 million (PLN 5 638 million), obtained on the basis of a financing agreement concluded by the Parent Entity with a syndicate of banks in 2019 with a maturity of 19 December 2024 and an option to extend it by a further 2 years (5+1+1). In 2020 the Parent Entity received consent from Syndicate Members to extend the term of the agreement by one year, i.e. to 19 December 2025. The amount of available financing during the extension period will amount to USD 1 438 million (PLN 5 405 million). The funds acquired through this credit facility are used to finance general corporate purposes. Interest is based on LIBOR plus a bank margin, depending on the net debt/EBITDA ratio.

The credit facility agreement obliges the Group 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 Parent Entity 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 Parent Entity 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 after the reporting date, up to the publication of these Consolidated financial statements, the value of the financial covenant subject to the obligation to report as at 30 June 2020 and as at 31 December 2020, complied with the provisions of the agreement.

	2020	2020	2019
	Amount granted	Amount of the liability	Amount of the liability
	5 638	-	-
	Preparatory fee	(17)	18
Carrying amount of liabilities due to bank loans		**(17)**	**18**

in PLN millions, unless otherwise stated

Investment loans

Loans, including investment loans granted to the Parent Entity 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 Parent Entity 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 in December 2017 with a financing period of 12 years. The Parent Entity has drawn three instalments under this loan with the payback periods expiring on 28 June 2030, 23 April 2031 and 11 September 2031. The funds acquired through this loan are used to finance the Parent Entity'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 Group to comply with the financial covenant and non-financial covenants commonly stipulated in such types of agreements. Pursuant to contractual terms and conditions, the Parent Entity 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 Parent Entity 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 after the reporting date, up to the publication of these Consolidated financial statements, the value of the financial covenant subject to the obligation to report as at 30 June 2020 and as at 31 December 2020, complied with the provisions of the loan agreements.

2020	2020	2019
Amount granted	Amount of the liability	Amount of the liability
3 128	2 685	2 794

Other bank loans

Bilateral bank loans in the total amount of PLN 2 379 million, are used for financing working capital and are a supporting tool in the management of financial liquidity and support financing of advanced investment undertakings. The Group holds lines of credit in the form of short-term and long-term credit agreements. 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.

	2020	2020	2019
	Amount granted	Amount of the liability	Amount of the liability
	2 379	2 013	2 371
Preparatory fee		(2)	(3)
Carrying amount of liabilities due to bank loans		**2 011**	**2 368**

in PLN millions, unless otherwise stated

Debt securities			
A bond issue program of the Parent Entity was established on the Polish market by an issue agreement on 27 May 2019. The 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 rates based on variable WIBOR plus a margin. The funds from the issue of the bonds are used to finance general corporate purposes.			
	2020	**2020**	**2019**
	Nominal value of the issue	**Amount of the liability**	**Amount of the liability**
	2 000	2 000	2 001

Total bank and other loans, debt securities	**13 145**	**6 698**	**7 166**
Preparation fee which decreases liabilities due to bank loans		(19)	(3)
Preparation fee which increases liabilities due to bank loans		-	18
Carrying amount of liabilities due to bank and other loans, debt securities		**6 679**	**7 181**

The aforementioned sources ensure the availability of external financing in the amount of PLN 13 145 million. The funds available for use from these sources fully cover the liquidity needs of the Group.

The syndicated credit in the amount of USD 1 500 million (PLN 5 638 million), the investment loans in the amount of PLN 2 900 million, and bilateral bank loans granted to the Parent Entity in the amount of PLN 2 255 million, are unsecured.

Repayment of a part of the liabilities of other Group companies due to bilateral bank loans and other loans are secured amongst others by statements on submitting to an enforcement regime, contractual mortgages, registered pledges or the assignment of receivables. The carrying amount of guarantees of repayment of external financing as at 31 December 2020 amounted to PLN 1 082 million (as at 31 December 2019: PLN 1 085 million).

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 (Note 7.5.2.1).

	As at 31 December 2020	As at 31 December 2019
Cash in bank accounts	1 841	630
Other financial assets with a maturity of up to 3 months from the date of acquisition - deposits	675	384
Other cash	6	2
Total cash and cash equivalents	**2 522**	**1 016**
Restricted cash	21	34
Free cash and cash equivalents	**2 501**	**982**

As at 31 December 2020, the Group had cash in bank deposits in the amount of PLN 71 million (as at 31 December 2019 PLN 85 million), which are funds in separate VAT accounts, designated for servicing split payments. These funds are gradually used, mainly to pay the VAT payables to suppliers and other payments mandated by law.

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 Group 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 which are measured and recognised as financial instruments pursuant to this standard. 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 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 amount of expected credit losses – set pursuant to the principles of the general model, described in accounting policies in Note 7.5.2.

Important estimates, assumptions and judgements
For the calculation of expected credit losses (ECL), the Group adopts estimates for the rating, PD (probability of default) and LGD (loss given default) parameters. Calculation of the expected credit losses takes place in the horizon remaining to the end of the guarantee, while the rating of a guarantee's beneficiary is adopted as the rating of the entity used for the purposes of calculating the PD parameter.

As at 31 December 2020, the Group held liabilities due to guarantees and letters of credit granted in the total amount of PLN 2 213 million (as at 31 December 2019, PLN 2 470 million) and due to promissory note liabilities in the amount of PLN 171 million (as at 31 December 2019, PLN 144 million).

The most significant items are liabilities of the Parent Entity aimed at securing the following obligations:

Sierra Gorda S.C.M. – securing the performance of concluded agreements in the amount of PLN 1 814 million:

- financial guarantees in the amount PLN 1 158 million*:
  - PLN 18 million (USD 5 million) as corporate guarantees set as security on the payment of concluded lease agreements (as at 31 December 2019 in the amount of PLN 60 million, or USD 16 million), for the guarantee's validity period of up to 5 years. The carrying amount of the recognised liability due to a financial guarantee granted amounts to PLN 0.4 million,
  - PLN 1 140 million (USD 303 million) as corporate guarantees securing repayment of short-term working capital facilities (as at 31 December 2019 in the amount of PLN 803 million, or USD 211 million), the guarantee's validity period of up to 2 years. The carrying amount of the recognised liability due to a financial guarantee granted amounts to PLN 21.2 million,
- other liabilities due to guarantees granted and letters of credit in the amount of PLN 656 million:
  - a letter of credit of PLN 517 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 2019 in the amount of PLN 522 million, or USD 138 million),
  - PLN 104 million (USD 28 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 loan drawn by the joint venture Sierra Gorda S.C.M. (as at 31 December 2019 in the amount of PLN 627 million, or USD 165 million),
  - PLN 35 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 (as at 31 December 2019 in the amount of PLN 34 million, or USD 9 million),

other entities, including the Parent Entity:

- PLN 188 million (USD 50 million) securing the proper execution by DMC Mining Services (UK) Ltd. and DMC Mining Services Ltd. of a contract for shaft sinking under a project advanced in the United Kingdom (as at 31 December 2019 in the amount of PLN 190 million, or USD 50 million)
- PLN 175 million to secure the proper execution by the Parent Entity 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 2019 in the amount of PLN 179 million),
- PLN 21 million (PLN 3 million, USD 3 million and CAD 2 million) securing the obligations related to proper execution of agreements concluded (as at 31 December 2019 in the amount of PLN 23 million, or PLN 5 million, USD 3 million and CAD 2 million).

** 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 Group 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 Group 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, in underground mines: shafts, wells, galleries, drifts, primary chambers), backfilling, drainage and firefighting pipelines, piezometric holes and electricity, signal and optical fiber cables. Pre-stripping costs in open pit mines and 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 right-to-use assets, are recognised at cost less accumulated depreciation and accumulated impairment losses.

In the initial cost of items of property, plant and equipment the Group includes discounted decommissioning costs of fixed assets related to underground and surface 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 and necessary regular major overhauls, including costs of overhauls for the purpose of certification and significant periodic repairs, the performance of which determines further use of the asset.

Costs are increased by borrowing costs (i.e. interest and exchange differences 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, which is 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 Group, 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 ore extracted from the deposit or quantity of units produced, and this extraction or production is not spread evenly through the period of their usage. In particular it relates to buildings and structures of the mines machines and mining equipment, except for the items of property, plant and equipment used in metallurgical plants, where their usage results from the useful economic life of the given item of property, plant and equipment.

in PLN millions, unless otherwise stated

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 assets 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 Group 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 with respect to deposit content 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,	40-100 years
	- sheds, reservoirs, container switchgears	20-30 years
	Primary mine tunnels	22-90 years
	Pipelines:	
	- backfilling to transfer sand with water,	6-9 years
	- technological, drainage, gas and firefighting	22-90 years
	Electricity, signal and optical fiber cables	10-70 years
Technical equipment, machines, motor vehicles and other fixed assets	Technical equipment, machines:	
	- mining vehicles, mining roof support	4-10 years
	- conveyor belts, belt weigher	10-66 years
	- switchboards, switchgears	4-50 years
	Motor vehicles:	
	- underground electric locomotives,	20-50 years
	- mining vehicles, railway vehicles, tankers, transportation platforms	7-35 years
	- trolleys, forklift, battery-electric truck	7-22 years
	- cars, trucks, special vehicles	5-22 years
	- underground diesel locomotives	10-20 years
	Other fixed assets, including tools and equipment	5-25 years
Pre-stripping costs	Total useful life depends on the expected individual mine life:	
	- Robinson	7 years
	- Carlota	2 years

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.

For the property, plant and equipment due to right-to-use 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 and Structures	3-5 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

Accounting policies – intangible assets

Mining and metallurgical intangible assets are mainly comprised of exploration and evaluation assets, and water rights in Chile.

Exploration and evaluation assets

The following expenditures are classified as exploration and evaluation assets:
- 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.

Expenditures on exploration and evaluation assets are measured at cost less accumulated impairment losses and are recognised as intangible assets not yet available for use.

The Group 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.

Significant estimates, assumptions and judgments

Significant estimates and assumptions relating to impairment of mining and metallurgical property, plant and equipment and intangible assets are presented in Note 3.

The net value of mining and metallurgical property, plant and equipment which is subject to depreciation using the natural method as at 31 December 2020 amounted to PLN 1 115 million (as at 31 December 2019, PLN 1 188 million).

in PLN millions, unless otherwise stated

Mining and metallurgical property, plant and equipment and intangible assets

		Property, plant and equipment			Intangible assets			
		Buildings and land	Technical equipment, machines, motor vehicles and other fixed assets	Fixed assets under construction	Water rights	Exploration and evaluation assets	Other	Total
	As at 31 December 2018							
	Gross carrying amount	17 186	14 041	4 318	237	2 736	785	**39 303**
	Accumulated depreciation/amortisation	(8 284)	(6 700)	-	-	-	(259)	**(15 243)**
	Impairment losses	(2 405)	(643)	(6)	(172)	(1 646)	(24)	**(4 896)**
	Net carrying amount	**6 497**	**6 698**	**4 312**	**65**	**1 090**	**502**	**19 164**
	Change in accounting policies – application of IFRS 16							
	Gross carrying amount	451	54	-	-	-	(1)	**504**
	As at 1 January 2019							
	Gross carrying amount	17 637	14 095	4 318	237	2 736	784	**39 807**
	Accumulated depreciation/amortisation	(8 284)	(6 700)	-	-	-	(259)	**(15 243)**
	Impairment losses	(2 405)	(643)	(6)	(172)	(1 646)	(24)	**(4 896)**
	Net carrying amount	**6 948**	**6 752**	**4 312**	**65**	**1 090**	**501**	**19 668**
	Changes in 2019 net							
	Settlement of fixed assets under construction	626	1 230	(1 856)	(6)	-	6	**-**
	Purchases	-	-	1 506	6	34	44	**1 590**
	Leases – new contracts, modification of existing contracts	24	40	-	-	-	-	**64**
	Stripping cost in surface mines	376	-	-	-	-	-	**376**
	Self-constructed	-	-	888	-	21	-	**909**
Note 9.4	Change in provisions for decommissioning costs	166	-	-	-	-	-	**166**
Note 4.1	Depreciation/amortisation, of which:	**(549)**	**(1 069)**	**-**	**-**	**-**	**(31)**	**(1 649)**
	own fixed assets	(526)	(1 043)	-	-	-	(31)	**(1 600)**
	leased fixed assets (right-to-use)	(23)	(26)	-	-	-	-	**(49)**
Note 4.4	(Recognition)/reversal of impairment losses	(1)	13	(2)	-	150	(1)	**159**
	Exchange differences from the translation of foreign operations statements with a functional currency other than PLN	5	3	2	-	9	-	**19**
	Other changes	(15)	36	63	-	32	46	**162**
	As at 31 December 2019							
	Gross carrying amount	18 857	14 954	4 918	239	2 876	879	**42 723**
	Accumulated depreciation/amortisation	(8 835)	(7 307)	-	-	-	(290)	**(16 432)**
	Impairment losses	(2 442)	(642)	(5)	(174)	(1 540)	(24)	**(4 827)**
	Net carrying amount, of which:	**7 580**	**7 005**	**4 913**	**65**	**1 336**	**565**	**21 464**
	own fixed assets and intangible assets	7 128	6 930	4 913	65	1 336	565	**20 937**
	leased fixed assets (right-to-use)	452	75	-	-	-	-	**527**

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	Water rights	Exploration and evaluation assets	Other	Total
	As at 31 December 2019							
	Gross carrying amount	18 857	14 954	4 918	239	2 876	879	**42 723**
	Accumulated depreciation/amortisation	(8 835)	(7 307)	-	-	-	(290)	**(16 432)**
	Impairment losses	(2 442)	(642)	(5)	(174)	(1 540)	(24)	**(4 827)**
	Net carrying amount, of which:	**7 580**	**7 005**	**4 913**	**65**	**1 336**	**565**	**21 464**
	own fixed assets and intangible assets	7 128	6 930	4 913	65	1 336	565	**20 937**
	leased fixed assets (right-to-use)	452	75	-	-	-	-	**527**
	Changes in 2020 net							
	Settlement of fixed assets under construction	676	1 215	(1 891)	-	-	-	**-**
	Purchases	-	-	1 578	2	47	16	**1 643**
	Leases – new contracts, modification of existing contracts	31	10	-	-	-	-	**41**
	Stripping cost in surface mines	224	-	-	-	-	-	**224**
	Self-constructed	-	-	955	-	23	2	**980**
	Capitalised borrowing costs			150		1	1	**152**
Note 9.4	Change in provisions for decommissioning costs	76	-	-	-	-	-	**76**
Note 4.1	Depreciation/amortisation, of which:	(654)	(1 101)	-	**-**	**-**	(15)	**(1 770)**
	own fixed assets and intangible assets	(630)	(1 075)	-	-	-	(15)	**(1 720)**
	right-to-use (leased fixed assets)	(24)	(26)	-	-	-	-	**(50)**
Note 4.4	(Recognition)/reversal of impairment losses	(1)	(6)	(69)	-	-	(5)	**(81)**
	Exchange differences from the translation of foreign operations statements with a functional currency other than PLN	(5)	(10)	(3)	-	(15)	-	**(33)**
	Other changes	(19)	(28)	(50)	(2)	4	(1)	**(96)**
	As at 31 December 2020							
	Gross carrying amount	19 711	15 627	5 631	237	2 933	893	**45 032**
	Accumulated depreciation/amortisation	(9 396)	(7 905)	-	-	-	(302)	**(17 603)**
	Impairment losses	(2 407)	(637)	(48)	(172)	(1 537)	(28)	**(4 829)**
	Net carrying amount, of which:	**7 908**	**7 085**	**5 583**	**65**	**1 396**	**563**	**22 600**
	own fixed assets and intangible assets	7 450	7 055	5 583	65	1 396	563	**22 112**
	leased fixed assets (right-to-use)	458	30	-	**-**	**-**	**-**	**488**

in PLN millions, unless otherwise stated

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

	As at 31 December 2020	As at 31 December 2019
Deposit Access Program	2 420	2 048
Investment activity related to the development and operation of the Żelazny Most Tailings Storage Facility	1 133	856
Construction of the SW-4 shaft	589	595
Damówka pumping station with a backwater pipeline in the Tailings Division	103	34
Optimisation of the Flash Furnace technology in the Głogów I Copper Smelter and Refinery, STAGE 2	65	28
Modernisation of a recovery boiler at the Głogów I Copper Smelter and Refinery	58	27

Note 9.1.2 Exploration and evaluation assets

Significant expenditures on exploration and evaluation assets are presented in the table below.

Operating segment	Description	As at 31 December 2020		As at 31 December 2019	
		Gross carrying amount	Impairment losses	Gross carrying amount	Impairment losses
KGHM INTERNATIONAL LTD.	Expenditures related to exploratory work, mainly within the Victoria project located in the Sudbury Basin in Canada	1 666	711	1 649	718
KGHM INTERNATIONAL LTD.	Expenditures related to exploratory work within the Ajax project	609	609	604	604

Note 9.1.3 Expenses related to mining and metallurgical assets

	from 1 January 2020 to 31 December 2020	from 1 January 2019 to 31 December 2019
Purchases	(1 643)	(1 590)
Self-constructed fixed assets	(980)	(909)
Stripping costs of surface mines	(224)	(376)
Costs of external financing	(152)	(141)
Change in liabilities due to purchases	(134)	76
Other	73	68
Total*	**(3 060)**	**(2 872)**

** Including expenses on exploration and evaluation assets in the amount of PLN 61 million (in 2019: PLN 53 million).*

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. Depreciation is done using the straight-line method.

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

The 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:

The 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

Other property, plant and equipment and intangible assets

		Property, plant and equipment				
		Buildings and land	Technical equipment, machines, motor vehicles and other fixed assets	Fixed assets under construction	Intangible assets	Total
	As at 31 December 2018					
	Gross carrying amount	2 440	2 331	194	555	**5 520**
	Accumulated depreciation/amortisation	(696)	(1 301)	-	(207)	**(2 204)**
	Impairment losses	(161)	(19)	1	(124)	**(303)**
	Net carrying amount	**1 583**	**1 011**	**195**	**224**	**3 013**
	Change in accounting policies – application of IFRS 16					
	Gross carrying amount	187	24	-	(117)	**94**
	Accumulated depreciation/amortisation	-	-	-	35	**35**
	Impairment losses	-	-	-	4	**4**
	As at 1 January 2019					
	Gross carrying amount	2 627	2 355	194	438	**5 614**
	Accumulated depreciation/amortisation	(696)	(1 301)	-	(172)	**(2 169)**
	Impairment losses	(161)	(19)	1	(120)	**(299)**
	Net carrying amount	**1 770**	**1 035**	**195**	**146**	**3 146**
	Changes in 2019 net					
	Settlement of fixed assets under construction	103	281	(384)	5	**5**
	Purchases	-	-	281	30	**311**
	Self-constructed	-	-	32	2	**34**
	Leases – new contracts, modification of existing contracts	3	11	-	-	**14**
Note 4.1	Depreciation/amortisation, of which:	**(126)**	**(213)**	**-**	**(25)**	**(364)**
	own fixed assets	(125)	(200)	-	(25)	**(350)**
	right-to-use (leased fixed assets)	(1)	(13)	-	-	**(14)**
Note 4.4	(Recognition)/reversal of impairment losses	(84)	(117)	(1)	(9)	**(211)**
	Other changes	(33)	26	50	6	**49**
	As at 31 December 2019					
	Gross carrying amount	2 708	2 600	173	479	**5 960**
	Accumulated depreciation/amortisation	(831)	(1 441)	-	(195)	**(2 467)**
	Impairment losses	(244)	(136)	-	(129)	**(509)**
	Net carrying amount, of which:	**1 633**	**1 023**	**173**	**155**	**2 984**
	own fixed assets and intangible assets	1 452	972	173	155	**2 752**
	leased assets (right-to-use assets)	181	51	-	-	**232**

in PLN millions, unless otherwise stated

		Property, plant and equipment				
		Buildings and land	Technical equipment, machines, motor vehicles and other fixed assets	Fixed assets under construction	Intangible assets	Total
	As at 1 January 2019					
	Gross carrying amount	2 708	2 600	173	479	**5 960**
	Accumulated depreciation/amortisation	(831)	(1 441)	-	(195)	**(2 467)**
	Impairment losses	(244)	(136)	-	(129)	**(509)**
	Net carrying amount	**1 633**	**1 023**	**173**	**155**	**2 984**
	own fixed assets and intangible assets	1 452	972	173	155	**2 752**
	leased fixed assets (right-to-use)	181	51	-	-	**232**
	Changes in 2020 net					
	Settlement of fixed assets under construction	97	240	(337)	-	**-**
	Purchases	-	-	299	21	**320**
	Self-constructed	-	-	120	1	**121**
	Leases – new contracts, modification of existing contracts	(1)	18	-	-	**17**
Note 4.1	Depreciation/amortisation, of which:	(70)	(203)	**-**	(21)	**(294)**
	own fixed assets and intangible assets	(69)	(185)	-	(21)	**(275)**
	right-to-use (leased fixed assets)	(1)	(18)	-	-	**(19)**
Note 4.4	(Recognition)/reversal of impairment losses	(96)	(45)	(2)	(13)	**(156)**
	Other changes	(20)	(6)	34	(2)	**6**
	As at 31 December 2020					
	Gross carrying amount	2 782	2 754	288	491	**6 315**
	Accumulated depreciation/amortisation	(899)	(1 549)	-	(207)	**(2 655)**
	Impairment losses	(340)	(178)	(1)	(143)	**(662)**
	Net carrying amount, of which:	**1 543**	**1 027**	**287**	**141**	**2 998**
	own fixed assets and intangible assets	1 377	976	287	141	**2 781**
	leased fixed assets (right-to-use)	166	51	-	-	**217**

in PLN millions, unless otherwise stated

Note 9.3 Depreciation/amortisation

		Property, plant and equipment		Intangible assets	
		from 1 January 2020 to 31 December 2020	from 1 January 2019 to 31 December 2019	from 1 January 2020 to 31 December 2020	From 1 January 2019 to 31 December 2019
Note 4.1	**Total**	**2 028**	**1 957**	**36**	**56**
	settled in profit or loss	1 931	1 867	32	53
	cost of manufacturing products	1 885	1 802	31	42
	administrative expenses	33	53	1	11
	selling costs	11	12	-	-
	other operating costs	2	-	-	-
	being part of the manufacturing cost of assets	97	90	4	3

Note 9.4 Provision for decommissioning costs of mines and other facilities

Accounting policies

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, which are made on the basis of ore extraction forecasts (for mining facilities), and technical-economic studies prepared either by specialist firms or by the Parent Entity.

In the case of surface mines, certain actions and costs may influence the scope of restoration work, such as costs of hauling barren rock, incurred during mine life and due to its operations, are recognised as operating costs being an integral part of the production process and are therefore excluded from costs that are a basis of calculating the provisions for mine decommissioning.

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, and any surplus above this amount is recognised in other operating income.

The increase in the provision due to the time lapse is recognised in finance costs.

Important estimates, assumptions and judgments

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 is affected by the following indicators:

1) in the Parent Entity:
   a) the index of changes in prices in the construction-assembly sector published by the Central Statistical Office (GUS),
   b) the forecasted discount rate calculated based on the yield on treasury bonds with maturities nearest to the planned financial outflow.
2) in the KGHM INTERNATIONAL LTD. Group:
   a) the rate of return on investments in US 10 and 20 year treasury notes of the Federal Reserve of the United States of America, and
   b) the rate of return on investments in 5-year government bonds issued by the governments of Canada and Chile.

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.

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, the Group received a negative effective discount rate. Due to the unusual and previously unknown situation, the Group applied a cautious approach and adopted for the measurement of provisions a discount rate of "0" as at 31 December 2020. Due to the non-standard nature of current market conditions, the Group is monitoring the situation and analysing the possible verification of its current approach to determining the effective discount rate.

In the KGHM Polska Miedź S.A Group, in order to estimate provisions for the decommissioning costs of mines and other technological facilities located in individual countries, the following discount rates were applied:

	2020	2019
- in Poland	0.00 %	0.00 %
- in the United States	0.00%	0.00% - 0.25%
- in Canada	0.00%	0.00%

With regard to the costs of some activities carried out during the exploratory work of surface mines, which at the same time serve to restore pits, the Group made a judgment and recognised that these costs are mostly current production costs, because these activities primarily determine the current mine production and revenue generation, and their restoration is a secondary effect. Therefore, the costs of such activities are not included in the measurement of the restoration provision.

in PLN millions, unless otherwise stated

		from 1 January 2020 to 31 December 2020	from 1 January 2019 to 31 December 2019
	Provisions at the beginning of the reporting period	**1 794**	**1 576**
Note 9.1	Changes in estimates recognised in fixed assets	76	166
	Other	14	52
	Provisions at the end of the reporting period including:	**1 884**	**1 794**
	- non-current provisions	**1 849**	**1 774**
	- current provisions	**35**	**20**

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

	As at 31 December 2020	As at 31 December 2019
increase in discount rate by 1 percentage point	(433)	(393)
decrease in discount rate by 1 percentage point	4	48

Note 9.5 Capitalised borrowing costs

During the period from 1 January 2020 to 31 December 2020, the Group recognised PLN 152 million of borrowing costs in property, plant and equipment and intangible assets.

During the period from 1 January 2019 to 31 December 2019, the Group recognised PLN 142 million of borrowing costs in property, plant and equipment and intangible assets.

The capitalisation rate applied by the Group to determine borrowing costs in 2020 amounted to 3.25%, in 2019: 3.70%.

Note 9.6 Carrying amount of the assets of Group companies representing collateral of repayment of liabilities

	As at 31 December 2020	As at 31 December 2019
Fixed assets under construction	49	27
Buildings	279	132
Motor vehicles	30	25
Technical equipment and machines	25	27
Land	6	4
Total carrying amount of assets representing collateral of repayment of financial liabilities	**389**	**215**

Note 9.7 Lease disclosures – The Group as a lessee

Accounting policies
As a lessee, the Group identifies leases in usufruct agreements, inter alia, land, perpetual usufruct right to land, and transmission easements, as well as technical equipment, machines, and transport vehicles. The Group applies a uniform lease accounting model, which assumes that the lessee recognises the right-to-use assets and lease liabilities related to all lease agreements, including exemptions. The Group does not recognise lease assets and liabilities in relation to: • short-term leases - applies to agreements without the option to purchase an asset, concluded for a period shorter than 12 months from the commencement of the agreement, including agreements concluded for an indefinite period with a short notice period if there is no reasonable certainty that the Group will not make use of termination. • leases in respect of which the underlying asset has a low value. In the case of an agreement that is or includes a lease, the Group recognises each lease component under the agreement as lease, separately from non-lease components. The Group defines the lease period as covering the irrevocable period of the lease agreement, including periods for which the lease can be extended if it is reasonably certain that the Group will exercise that right, and the periods for which the lease can be terminated if it is reasonably certain that the Group will not exercise that right. The right-to-use assets and the measurement policy for these assets are presented in Note 9.1. The Group initially measures the lease liability at the present value of lease payments due to be paid as at the date of initial recognition, which include: fixed lease payments, variable lease payments which are dependent on an index or rate, amounts which the lessee is expected to pay under the guaranteed residual value, the strike price call option if it is reasonably certain that the lessee will exercise the option, and penalties for terminating the lease if the given lease period was set with the assumption that the lessee will terminate the agreement. In fixed lease payments, the Group also includes payments for the exclusion of land from forestry and agricultural production, if they relate to land used under lease agreements. The lease payments exclude variable payments made by the lessee to the lessor for the right to use the underlying asset during the lease period, which depend on external factors other than payments based on a rate or index. After the date the lease began, the Group measures the carrying amount of lease liabilities by: - an increase due to interest on lease liabilities, - a decrease due to paid lease payments, - an update due to reassessment or modification of a lease agreement. Lease liabilities are presented in Note 8. Lease rate - lease payments are discounted by the Group using the incremental borrowing rate of the lessee because generally speaking, the interest rate of a lease agreement is not readily determinable.

in PLN millions, unless otherwise stated

Important estimates, assumptions and judgments
Identification of non-lease components In the agreements for the lease of mining machinery, apart from the lease component, the Group identified non-lease components related to the provision of services other than the lease of assets. To separate the lease and non-lease components, the Group made a judgment, respectively allocating the remuneration for a given agreement to both components, based on the relative unit price of the lease component and the total unit price of the non-lease components. Estimation of the incremental borrowing rate of the lease For the purpose of calculating the discount rates under IFRS 16, the Group assumes that the discount rate should reflect the cost of financing that would be incurred to purchase the leased item. The Group calculates the incremental borrowing rates, for individual time ranges of lease agreements, on a quarterly basis and this rate is used to measure lease liabilities arising from lease agreements concluded or modified during a given quarter. The materiality threshold for leases of low-value of underlying assets is set at PLN 20 000.

		from 1 January 2020 to 31 December 2020	**from 1 January 2019 to 31 December 2019**
Note 9.1 Note 9.2	Depreciation/amortisation cost	69	63
Note 4.3	Interest cost	13	23
	Short-term lease cost	7	10
	Cost associated with leases of low-value of underlying assets not recognised as short-term agreements	1	1
	Cost associated with variable lease payments not recognised in the item repayment of lease liabilities	13	11
Note 8.4.2	Total cash outflows due to leases	128	86
Note 9.1 Note 9.2	Increase in right-to-use assets	58	78
		As at 31 December 2020	**As at 31 December 2019**
Note 9.1 Note 9.2	Carrying amount of right-to-use assets (division by underlying assets in notes, pursuant to references)	705	759
Note 8.4.2	Carrying amount of right-to-use liabilities	656	692

In 2020, the Group entered into sales and leaseback transactions in the amount of PLN 29 million (in 2019: PLN 10 million). These transactions were entered into in order to obtain funds to finance current operating activities of the Group's subsidiaries.

Note 9.8 Non-current assets held for sale and liabilities associated with them

In terms of non-current assets held for sale, the most important items are non-current assets held for sale of the Parent Entity and Cuprum Development Sp. z o.o.

Shares in the company PGE EJ 1 Sp. z o.o.

As at 30 September 2020, based on a letter of intent regarding the acquisition by the State Treasury of shares in the company PGE EJ 1 Sp. z o.o. (i.e. the 10% interest held by the Parent Entity) signed on 1 October 2020 by the Partners in PGE EJ 1 (apart from KGHM Polska Miedź S.A., these are PGE S.A., Tauron Polska Energia S.A., and Enea S.A.) and the State Treasury, the Management Board of the Parent Entity determined that, in accordance with IFRS 5, conditions were met for mandatory reclassification of the shares in the company PGE EJ 1 Sp. z o.o. from non-current financial assets measured at fair value through other comprehensive income to non-current assets held for sale. Immediately prior to this reclassification, the carrying amount of the shares held in PGE EJ 1 Sp. z o.o. amounted to PLN 15 million and in this amount they were recognised in non-current assets held for sale. Accrued cost due to losses from the fair value measurement which was recognised directly in other comprehensive income amounted to PLN 14 million. In the fourth quarter of 2020, the capital of PGE EJ 1 Sp. z o.o.. was increased by PLN 38 million and as a result of the measurement at fair value as at 31 December 2020, the value of the shares was reduced by PLN 8 million. As at 31 December 2020, the value of non-current assets held for sale amounted to PLN 45 million while the accrued losses on measurement related to non-current assets held for sale amounted to PLN 21 million.

Despite the failure to conclude the transaction in 2020, pursuant to the signed letter of intent, the parties are continuing efforts to finalise it in the subsequent 12 months, immediately after updating the transaction documentation and securing financing by the buyer. The sale of the PGE EJ 1 Sp. z o.o. shares will be possible provided that the Management Board of KGHM PM S.A. obtains the approval of the Supervisory Board and the corresponding approvals are issued by the bodies of all of the Partners. Obtainment of these approvals is highly probable.

Land of the subsidiary Cuprum Development Sp. z o.o.

On 30 September 2020 an analysis was made of the process led by Cuprum Development Sp. z o.o. of selling land located in the centre of Wrocław, based on which it was determined that criteria set forth in IFRS 5 were met which require a change in the presentation of the land, from non-current assets to non-current assets held for sale. The carrying amount of the land prior to its reclassification amounted to PLN 16 million and, in that amount, was recognised in non-current assets held for sale. Liabilities directly associated with these assets amounted to PLN 4 million.
As at 31 December 2020 the aforementioned assumptions did not change.

in PLN millions, unless otherwise stated

Part 10 – Working capital

Note 10.1 Inventories

Accounting policies	Important estimates, assumptions and judgments
The Group measures inventories at cost, not higher than the sales price less costs of completing production and costs to sell. Any differences in the value of finished goods constitutes a write-down and is recognised in the costs of sold products. The costs of inventories of finished goods, half-finished goods and work in progress include costs directly related to the production and variable and fixed indirect costs of production, assigned respectively. Fixed indirect costs of production are allocated on the basis of the normal level of production capacity utilisation. Inventory disposals are measured at weighted average cost.	In the consolidated financial statements the volume of those inventories of the KGHM INTERNATIONAL LTD. Group which arise from the leaching process, is determined based on the estimated recovery of metal from ore. The nature of the process of leaching copper from ore limits the precision of monitoring the level of inventories arising during this process. In subsequent reporting periods, adjustments are made to the estimated recovery of copper from the leaching of ore in a given reporting period to the level of production achieved in the subsequent period. As at 31 December 2020 the provisionally-set value of inventories amounted to PLN 77 million (as at 31 December 2019, PLN 74 million).

	As at 31 December 2020	As at 31 December 2019
Materials	1 251	844
Half-finished goods and work in progress	2 482	2 790
Finished products	580	926
Merchandise	146	181
Total carrying amount of inventories	**4 459**	**4 741**

Note 4.4

Write-down of inventories during the reporting period	from 1 January 2020 to 31 December 2020	from 1 January 2019 to 31 December 2019
Write-down recognised in cost of sales	(129)	(38)
Write-down reversed in cost of sales	29	38

Maturities of inventories	As at 31 December 2020	As at 31 December 2019
Maturity over the 12 months from the end of the reporting period	269	283
Maturity of up to 12 months from the end of the reporting period	4 190	4 458

The value of inventories with a maturity of over 12 months, mainly includes stand-by inventories of materials and spare parts to maintain production continuity and packages of spare parts under contractual obligations in the Parent Entity and in the KGHM INTERNATIONAL LTD. Group and the finished rhenium product. Due to the collapse of the rhenium market after 2011, the demand for this product from the largest recipients dropped drastically and the period in which the inventory of rhenium in the Parent Entity will be sold was extended, while maintaining its functional properties. According to the plans to sell rhenium, the inventory should gradually decrease in the coming years

in PLN millions, unless otherwise stated

Note 10.2 Trade receivables

Accounting policies
Trade receivables are initially recognised at the transaction price (unless the receivables contains a significant financial component subject to separation and therefore the receivables are initially recognised at fair value). After initial recognition, trade receivables are measured as follows: - Receivables not transferred to non-recourse factoring and not based on the M+ pricing formula: at amortised cost while taking into account the loss allowance for expected credit losses (ECL). Trade receivables with maturity dates of less than 12 months are not discounted. - Receivables transferred to non-recourse factoring: at fair value through profit or loss, where the fair value is determined in the amount of their carrying amount less the factor's compensation, which include, among others, interest costs and risk assumption costs. Because of the short duration between the transferral of receivables to the factor and its payment and due to the low credit risk of the counterparty (factor), the fair value of these receivables does not include the impact of these factors. Receivables transferred to non-recourse 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, where fair 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 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 contractual cash flow test (solely payments of principal and interest) because of the element of variable price after the date of initial recognition of the receivables. Receivables measured at fair value may be measured based on the applied M+ pricing formula as well as due to transferral to factoring. The measurements are carried out independently of each other. The result of both measurements is recognised in the profit or loss in other operating income/(costs).

The Group is exposed to the credit risk and currency risk related to trade receivables. Credit risk management and assessment of the credit quality of receivables is presented in Note 7.5.2.3. Information on 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 2020	As at 31 December 2019
Trade receivables measured at amortised cost - gross value	444	548
Loss allowance for expected credit losses	(53)	(53)
Trade receivables measured at amortised cost - net value	391	495
Trade receivables measured at fair value	478	300
Total	**869**	**795**

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, assumptions and judgments
Trade and similar payables presented in the Statement of financial position also contain trade payables transferred to reverse factoring, which are in the category of "similar". Moreover, the item "similar liabilities" also includes intra-group trade payables transferred by the debtor to the factor, for which the debtor received payment from the factor. At the moment of transfer of the liabilities to reverse factoring, the Parent Entity 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 the ambiguous nature of the transaction, it was necessary for the Parent Entity to make an important judgment on the presentation of balances of liabilities transferred to factoring in the Statement of financial position and the presentation of transactions in the Statement of cash flows. In the Parent Entity'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 liability by 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 Parent Entity'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 Parent Entity and its suppliers. The Parent Entity 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 Parent Entity, 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 Parent Entity identified characteristics which indicate the nature of reverse factoring as liabilities due to financing (liability due to credit granted by the factor), they were judged by the Parent Entity 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:

- 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 Parent Entity 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 Parent Entity, and suppliers are charged only if they receive payment on the date before the date stipulated in the trade contract, which usually amounts to 60 days from the day of receiving the invoice (discount for the payment before 60 days or other, stipulated in the trade contract).

In December 2020, the International Financial Reporting Interpretations Committee (Committee) published its opinion on the presentation of reverse factoring transactions in the statement of financial position and statement of cash flows. The above-mentioned opinion stated that the current standards provide a sufficient basis for establishing the correct presentation of reverse factoring transactions in the financial statements, as well as for establishing the required additional disclosures. The Parent Entity analysed the summary of the key requirements of standards related to analysing the issue stated in the Committee’s position, and in the Parent Entity’s opinion the aspects indicated by the Committee do not have an impact on the conclusions of the assessment on this issue conducted by KGHM Polska Miedź S.A. in 2019. The Committee, recommending the appropriate presentation of liabilities subject to reverse factoring, indicated the same issues that were analysed and disclosed by the Parent Entity as part of important judgments in the financial statements for 2019 and above, in the current financial statements.

In particular, in the context of the areas of analysis indicated by the Committee, the Parent Entity confirms that:

- the transfer of liabilities to reverse factoring did not require the establishment of any additional collateral for the bank-factor, nor there are any additional guarantees related to reverse factoring established. Furthermore, there is no change in the trade terms and conditions related to non-compliance with the terms of the contract and the cancellation of the contract,
- taking the above into consideration, and taking into account the agreed interest and discount rates, and the extended repayment date, the cash flows related to the liability transferred to reverse factoring will not change by more than 10%; thus, the criteria of disclosing liabilities, i.e. the 10% test and the other criteria for disclosing of liabilities under IFRS 9 have not been met,
- the agreed payment dates as well as the payment pattern (including interest and discount rates) do not change in relation to trade payables towards a given supplier, which are not covered by reverse factoring,
- liabilities transferred to reverse factoring are part of the working capital used by the unit in the unit’s regular operating cycle.

The Parent Entity indicates that the actual deadline for the payment of trade payables subject to reverse factoring is longer (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, which may indicate a change in the nature of these liabilities from trade to debt. However, this characteristic has been judged by the Parent Entity to be insufficient to conclude that when the trade liability was transferred to reverse factoring, the nature of the liability changed completely. Apart from the above criteria, no other terms of liabilities covered by reverse factoring differ from the terms of other trade payables.

Therefore, the Parent Entity's assessment of the nature of trade payables transferred to reverse factoring and their presentation, made in the light of the Committee's position, remains unchanged, which means that the trade payables transferred to reverse factoring are presented by the Parent Entity in the statement of financial position under "Trade and similar payables ", including those under the " similar" category.

in PLN millions, unless otherwise stated

	As at 31 December 2020	As at 31 December 2019
Non-current trade payables	169	174
Current trade payables	2 329	2 170
Current similar payables – reverse factoring	1 264	596
Trade and similar payables	**3 762**	**2 940**

The Parent Entity 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 Parent Entity, alongside an extension of payment dates of payables by the Parent Entity to the factor. In 2020, the Parent Entity concluded the second agreement for the provision of reverse factoring services. The factors' total participation limit was set at PLN 1 500 million. Liabilities in the total amount of PLN 2 495 million were transferred to the factors. As at 31 December 2020 the value of trade payables transferred to reverse factoring amounted to PLN 1 264 million (as at 31 December 2019, amounted to PLN 596 million). In the current financial year, there were payments towards the factors in amount of PLN 1 842 million (in the financial year ended 31 December 2019 there were no payments towards the factor).
Interest costs accrued and paid towards the factor amounted to PLN 12 million in 2020 (in 2019 they amounted to PLN 1 million) 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 payables contains payables due to the purchase and construction of fixed and intangible assets which, as at 31 December 2020, amounted to PLN 162 million in the non-current part and PLN 464 million in the current part (as at 31 December 2019, respectively PLN 164 million and PLN 648 million).

The Group is exposed to currency risk arising from trade payables and to liquidity risk. Information on currency risk is presented in Note 7.5.1.3 and on liquidity risk in Note 8.3.1.
The fair value of trade payables approximates their 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, and partially also from investment activities. Moreover, the Parent Entity, as regards 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, assumptions and judgments
The Parent Entity 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 Parent Entity had to make an assessment as to 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 Parent Entity's view: - 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 and consistent with the presentation of these transactions in the Statement of financial position. When legal subrogation of receivables is made by the factor, from a legal standpoint he assumes the rights and responsibilities characteristic for trade receivables. Only cash flows from the repayment of principal amounts of receivables from liabilities due to the purchase and construction of fixed assets and intangible assets are presented under investing activities (more information may be found in Note 10.3). - however, the financial aspect related to the factoring transaction is indicated in the presentation of interest in financing activities. This is consistent with recognising this interest in financing costs in the Statement of profit or loss pursuant to the accounting policy adopted by the Parent Entity for the presentation of interest cost of reverse factoring in the financial activities. In December 2020, the International Financial Reporting Interpretations Committee (Committee) published its opinion on the presentation of reverse factoring transactions in the statement of financial position and in the statement of cash flows. In its position, the Committee emphasized that the main problem requiring a decision, in terms of presenting reverse factoring transactions in the statement of cash flow under IAS 7, is to determine whether cash flows should be presented as a part of operating or finance activities. The Committee considers that the decision regarding the classification of cash flows resulting from reverse factoring transactions may result from the previously determined classification of the relevant liabilities in the statement of financial position. If an entity concludes that a liability transfer to reverse factoring is a "Trade and similar payables", and in this way declares it as part of the working capital which is used in the core business of an entity that generates the revenues, the entity shall present the outflow from the payment for those liabilities as arising on operating activities in the Statement of cash flows. Otherwise, these cash flows should be recognised in finance activities. Consistently with the Parent Entity's assessment of the nature of trade payables transferred to reverse factoring and the method of their presentation in the Statement of financial position as "Trade and similar payables" (information presented in note 10.3), the Company's judgment as to the method of presentation adopted for these transactions in the Statement of cash flows for 2019 remains unchanged and is compliant with the approach described above.

in PLN millions, unless otherwise stated

	Inventories	Trade receivables	Trade payables	Similar payables	Total working capital
As at 1 January 2020	(4 741)	(795)	2 344	596	**(2 596)**
As at 31 December 2020	(4 459)	(869)	2 498	1 264	**(1 566)**
Change in the statement of financial position	**282**	**(74)**	**154**	**668**	**1 030**
Exchange differences from translation of foreign operations statements with a functional currency other than PLN	(5)	(3)	2	-	**(6)**
Depreciation/amortisation recognised in inventories	64	-	-	-	**64**
Liabilities due to purchase of property, plant and equipment and intangible assets	-	-	146	(16)	**130**
Reclassified to property, plant and equipment	(46)	-	-	-	**(46)**
Adjustments	**13**	**(3)**	**148**	**(16)**	**142**
Change in the statement of cash flows	**295**	**(77)**	**302**	**652**	**1 172**

	Inventories	Trade receivables	Trade payables	Similar payables	Total working capital
As at 1 January 2019	(4 983)	(961)	2 224	-	**(3 720)**
As at 31 December 2019	(4 741)	(795)	2 344	596	**(2 596)**
Change in the statement of financial position	**242**	**166**	**120**	**596**	**1 124**
Exchange differences from translation of foreign operations statements with a functional currency other than PLN	5	7	(2)	-	**10**
Depreciation/amortisation recognised in inventories	58	-	-	-	**58**
Liabilities due to purchase of property, plant and equipment and intangible assets	-	-	(68)	-	**(68)**
Liabilities due to interest on reverse factoring	-	-	-	(1)	**(1)**
Adjustments	**63**	**7**	**(70)**	**(1)**	**(1)**
Change in the statement of cash flows	**305**	**173**	**50**	**595**	**1 123**

in PLN millions, unless otherwise stated

Part 11 – Employee benefits

Note 11.1 Employee benefits liabilities

Accounting policies

The Group 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 the date of settlement for liabilities.
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 (benefits due to jubilee bonuses) are recognised in profit or loss.

Significant 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 Group's companies 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 government 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 for measurement as at 31 December 2020 are presented in Note 11.2.

The sensitivity of future employee benefits liabilities to changes in the assumptions was set based on the amounts of the Parent Entity's liabilities (the Parent Entity's liabilities represent 90% of the Group's liabilities in the current year as well as in the previous year). In the remaining Group companies, due to the immaterial amounts of liabilities in this regard, the impact of changes of the basic parameters adopted for the calculation of provisions on future employee benefits liabilities in the consolidated financial statements would be immaterial.

Impact of changes in the indicators on the balance of liabilities (the Parent Entity)

	As at 31 December 2020	As at 31 December 2019
an increase in the discount rate by 1 percentage point	(427)	(340)
a decrease in the discount rate by 1 percentage point	587	459
an increase in coal price increase rate and an increase in salary increase rate by 1 percentage point	580	446
a decrease in coal price increase rate and a decrease in salary increase rate by 1 percentage point	(422)	(336)

in PLN millions, unless otherwise stated

Components of the item: employee benefits liabilities

		As at 31 December 2020	As at 31 December 2019
	Non-current	3 016	2 613
	Current	153	157
Note 11.2	**Total liabilities due to future employee benefits programs**	**3 169**	**2 770**
	Employee remuneration liabilities	299	281
	Tax and social security liabilities	244	243
	Accruals (unused annual leave, bonuses, other)	617	469
	Other current employee liabilities	**1 160**	**993**
	Total employee benefits liabilities	**4 329**	**3 763**

Employee benefits expenses

		from 1 January 2020 to 31 December 2020	from 1 January 2019 to 31 December 2019
	Remuneration	4 214	3 979
	Costs of social security and other benefits	1 444	1 375
	Costs of future benefits	226	240
Note 4.1	**Employee benefits expenses**	**5 884**	**5 594**

in PLN millions, unless otherwise stated

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 2019	**2 618**	**468**	**395**	**1 659**	**96**
Note 11.1	Total costs recognised in profit or loss	**240**	121	34	77	8
	Interest costs	**74**	13	11	47	3
	Current service costs	**98**	40	23	30	5
	Actuarial losses recognised in profit or loss	**68**	68	-	-	-
Note 8.2.2	Actuarial losses/(gains) recognised in other comprehensive income	**56**	-	50	(9)	15
	Benefits paid	**(144)**	(58)	(34)	(48)	(4)
	As at 31 December 2019	**2 770**	**531**	**445**	**1 679**	**115**
Note 11.1	Total costs recognised in profit or loss	**227**	115	37	66	9
	Interest costs	**56**	11	9	34	2
	Current service costs	**119**	52	28	32	7
	Actuarial losses recognised in profit or loss	**52**	52	**-**	-	-
Note 8.2.2	Actuarial losses recognised in other comprehensive income	**327**	-	45	270	12
	Benefits paid	**(155)**	(61)	(42)	(49)	(3)
	As at 31 December 2020	**3 169**	**585**	**485**	**1 966**	**133**

As at 31 December	**2020**	**2019**	**2018**	**2017**	**2016**
Present value of liabilities due to employee benefits	**3 169**	2 770	2 618	2 204	2 007

in PLN millions, unless otherwise stated

Main actuarial assumptions (of the Parent Entity) adopted for measurement as at 31 December 2020:

	2021	2022	2023	2024	2025 and beyond
- discount rate	1.30%	1.30%	1.30%	1.30%	1.30%
- coal price increase rate	1.00%	2.50%	2.50%	2.50%	2.50%
- rate of increase of the lowest salary	7.69%	4.00%	4.00%	4.00%	4.00%
- expected inflation	2.60%	2.70%	2.50%	2.50%	2.50%
- future expected increase in salary	4.00%	3.20%	4.00%	4.00%	4.00%

Main actuarial assumptions (of the Parent Entity) 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%
- rate of increase of the lowest salary	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%

The change in actuarial gains/losses was caused by a change in the assumptions in respect of the decrease in the discount rate and the decrease in the rate of increase of 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 long-term treasury bonds.

Actuarial gains/losses as at 31 December 2020 versus assumptions adopted as at 31 December 2019

Change in financial assumptions	290
Change in demographic assumptions	3
Other changes	86
Total actuarial losses	**379**

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

Change in financial assumptions	116
Change in demographic assumptions	(12)
Other changes	20
Total actuarial losses	**124**

in PLN millions, unless otherwise stated

Maturity profile of employee benefits liabilities

Year of maturity:	Total liabilities	jubilee awards	retirement and disability benefits	coal equivalent	other benefits
2021	**153**	51	41	55	6
2022	**177**	45	65	63	4
2023	**123**	38	18	62	5
2024	**121**	37	19	61	4
2025	**119**	37	18	60	4
Other years	**2 476**	377	324	1 665	110
Total liabilities in the statement of financial position as at 31 December 2020	**3 169**	**585**	**485**	**1 966**	**133**

Maturity profile of employee benefits liabilities

Year of maturity:	Total liabilities	jubilee awards	retirement and disability benefits	coal equivalent	other benefits
2020	**157**	56	43	54	4
2021	**183**	44	74	61	4
2022	**115**	36	15	59	5
2023	**115**	35	18	58	4
2024	**113**	34	18	57	4
Other years	**2 087**	326	277	1 390	94
Total liabilities in the statement of financial position as at 31 December 2019	**2 770**	**531**	**445**	**1 679**	**115**

in PLN millions, unless otherwise stated

Part 12 – Other notes

Note 12.1 Related party transactions

The accounting policies and significant estimates and assumptions presented in Parts 2 and 10 are applicable to transactions entered into with related parties.
The transactions between the Group and related parties include transactions with:

- the joint venture Sierra Gorda S.C.M.,
- entities controlled or jointly controlled by the State Treasury or over which it has significant influence, and
- the management board and the supervisory board (remuneration) – Note 12.9.

Operating income from related entities

	from 1 January 2020 to 31 December 2020	from 1 January 2019 to 31 December 2019
Revenues from sales of products, merchandise and materials to a joint venture	20	19
Interest income on loans granted to a joint venture	377	341
Revenues from other transactions with a joint venture	55	33
Revenues from other transactions with other related parties	9	22
Total	**461**	**415**

Purchases from related entities

	from 1 January 2020 to 31 December 2020	from 1 January 2019 to 31 December 2019
Purchase of services, merchandise and materials from other related parties	27	25
Other purchase transactions from other related parties	2	2
Total	**29**	**27**

Trade and other receivables from related parties

	As at 31 December 2020	As at 31 December 2019
From the joint venture Sierra Gorda S.C.M. (loans)	6 069	5 694
From the joint venture Sierra Gorda S.C.M. (other)	369	397
From other related parties	4	3
Total	**6 442**	**6 094**

Trade and other payables towards related parties

	As at 31 December 2020	As at 31 December 2019
Towards joint venture	25	19
Towards other related parties	3	3
Total	**28**	**22**

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 a detailed scope of 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).

Pursuant to the scope of IAS 24.26, as at 31 December 2020, the Group concluded the following transactions with the Polish Government and entities controlled or jointly controlled by the Polish Government, unusual due to their nature or amount:

- due to an agreement on setting mining usufruct for the extraction of mineral resources – fixed fees and setting mining usufructs for exploration for and evaluation of mineral resources – total payables amounted to PLN 172 million (as at 31 December 2019: PLN 174 million), setting mining usufruct - variable fee (recognised in costs) - payables in the amount of PLN 30 million (as at 31 December 2019: PLN 29 million),
- due to a reverse factoring agreement with the company PEKAO FAKTORING SP. Z O.O. - payables in the amount of PLN 974 million, interest costs paid in the reporting period in the amount of PLN 11 million (as at 31 December 2019, payables in the amount of PLN 596 million and paid interest costs for 2019 in the amount of PLN 1 million),
- banks related to the State Treasury executed the following transactions and economic operations on the Group's behalf: spot currency exchange, depositing cash, granting bank loans, guarantees, and letters of credit (including documentary letters of credit), running bank accounts and servicing of special purpose funds.

Apart from the aforementioned transactions entered into by the Group with the Polish Government and with entities controlled or jointly controlled by the Polish Government, or over which the government has significant influence, which were significant due to their nature and the amount, there also occurred transactions arising from extraordinary administrative orders based on art. 11 of the act dated 2 March 2020 on particular solutions related to preventing and counteracting COVID-19, other infectious diseases and the crisis-related situations caused thereby (Journal of laws from 2020, item 374 with subsequent amendments), involving the sale of personal protective equipment in the amount of PLN 193 million. The unsettled balance of receivables due to these transactions as at 31 December 2020 amounted to PLN 2 million.

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

The remaining transactions between the Group 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. 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 2020, the turnover from these transactions amounted to PLN 1 263 million (from 1 January to 31 December 2019: PLN 1 156 million), and, as at 31 December 2020, the unsettled balance of liabilities from these transactions amounted to PLN 203 million (as at 31 December 2019: PLN 187 million),
- sales to Polish State Treasury Companies. In the period from 1 January to 31 December 2020, the turnover from these sales amounted to PLN 119 million (from 1 January to 31 December 2019: PLN 104 million), and, as at 31 December 2020, the unsettled balance of receivables from these transactions amounted to PLN 18 million (as at 31 December 2019: PLN 12 million).

Note 12.2 Dividends paid

In accordance with Resolution No. 7/2020 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 19 June 2020 regarding the appropriation of profit for the year ended 31 December 2019, the entire amount of the profit of PLN 1 264 million was transferred to the Company's reserve capital, including PLN 7 million to the reserve capital created in accordance with art. 396 § 1 of the Commercial Partnerships and Companies Code.

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 Parent Entity's reserve capital.

All shares of the Parent Entity are ordinary shares.

As at the date of publication, no decision was made on the dividend payout or allocation of profit for 2020.

in PLN millions, unless otherwise stated

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. Accounting policies concerning receivables due to the settlement of derivatives measured at fair value through profit or loss are described in Note 7.2

		As at 31 December 2020	As at 31 December 2019
	Other non-current non-financial assets	**161**	**142**
	Investment property	103	92
	Prepayments	7	8
	Other	51	42
	Other current assets, of which:	**352**	**431**
Note 7.1	**Financial assets**	**210**	**280**
	Amounts retained (collateral) due to long-term construction contracts	16	31
	Receivables due to guarantees granted	112	111
	Other	82	138
	Non-financial assets	**142**	**151**
	Non-financial prepayments	30	47
	Other	112	104
	Other non-current and current assets, total	**513**	**573**

in PLN millions, unless otherwise stated

Note 12.4 Other liabilities

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

	As at 31 December 2020	As at 31 December 2019
Deferred income, including:	313	366
Liabilities due to Franco Nevada streaming contract	230	263
Trade payables	169	174
Other liabilities	69	91
Other liabilities – non-current	**551**	**631**
Special funds	385	363
Deferred income, including:	147	59
Trade payables	99	22
Grants to assets	6	7
Accruals, including:	484	446
Provision for purchase of property rights related to consumed electricity	55	53
Charge for discharging gases and dusts to the air	120	90
Other accounted costs, proportional to achieved revenues, which are future liabilities estimated on the basis of contracts entered into	156	156
Other financial liabilities	144	107
Other non-financial liabilities	42	51
Other liabilities - current	**1 202**	**1 026**
Total – non-current and current liabilities	**1 753**	**1 657**

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 2020	As at 31 December 2019
	Contingent assets	**532**	**630**
	Guarantees received	297	356
	Promissory notes receivables	123	120
	Other	112	154
	Contingent liabilities	**1 349**	**1 882**
Note 8.6	Guarantees and letters of credit	1 055	1 607
Note 8.6	A promissory note	171	144
	Property tax on underground mine workings	55	91
	Other	68	40
	Other liabilities not recognised in the statement of financial position	**100**	**107**
	Liabilities towards local government entities due to expansion of the tailings storage facility	100	107

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 2020	As at 31 December 2019
Capital commitments due to the purchase of:		
property, plant and equipment	891	1 290
intangible assets	309	347
Total capital commitments	**1 200**	**1 637**

The Group's share in capital commitments of joint ventures accounted for using the equity method (Sierra Gorda S.C.M.) is presented in Note 6.1.

Note 12.7 Employment structure

	from 1 January 2020 to 31 December 2020	from 1 January 2019 to 31 December 2019
White-collar employees	10 527	10 559
Blue-collar employees	22 800	22 975
Total (full-time)	**33 327**	**33 534**

Note 12.8 Other adjustments in the statement of cash flows

	from 1 January 2020 to 31 December 2020	from 1 January 2019 to 31 December 2019
Losses on the sale of property, plant and equipment and intangible assets	9	7
Gains and losses on measurement and realisation of derivatives related to sources of external financing	7	-
Other	(5)	(5)
Total	**11**	**2**

Note 12.9. Remuneration of key managers

Remuneration of members of the Management Board (in PLN thousands)	from 1 January 2020 to 31 December 2020			
	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 2020				
Marcin Chludziński	01.01-31.12	1 807	-	**1 807**
Radosław Stach	01.01-31.12	1 680	-	**1 680**
Katarzyna Kreczmańska-Gigol	01.01-31.12	1 693	-	**1 693**
Adam Bugajczuk	01.01-31.12	1 667	-	**1 667**
Paweł Gruza	01.01-31.12	1 668	-	**1 668**
TOTAL		**8 515**	**-**	**8 515**

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 Supervisory Board (in PLN thousands)	from 1 January 2020 to 31 December 2020			
	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 2020				
Andrzej Kisielewicz	**01.01-31.12**	-	142	**142**
Katarzyna Lewandowska	**19.06-31.12**	-	69	**69**
Bogusław Szarek	**01.01-31.12**	231	129	**360**
Jarosław Janas	**01.01-31.12**	-	129	**129**
Marek Pietrzak	**01.01-31.12**	-	129	**129**
Agnieszka Winnik -Kalemba	**01.01-31.12**	-	129	**129**
Przemysław Darowski	**26.11-31.12**	88	12	**100**
Józef Czyczerski	**01.01-31.12**	144	129	**273**
Bartosz Piechota	**01.01-31.12**	-	129	**129**
Members of the Supervisory Board not serving in the function as at 31 December 2020				
Leszek Banaszak	**01.01-19.06**	-	61	**61**
Ireneusz Pasis	**01.01-03.08**	120	76	**196**
TOTAL		**583**	**1 134**	**1 717**

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	191	122	**313**
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		**587**	**1 216**	**1 803**

	from 1 January 2020 to 31 December 2020	from 1 January 2019 to 31 December 2019
Current employee benefits of other key managers (in PLN thousands)	2 653	3 140

Based on the definition of key management personnel according to IAS 24 and based on an analysis of the rights and scope of responsibilities of members of management bodies of the Group arising from corporate documents and from management contracts, the members of the Board of Directors of KGHM INTERNATIONAL LTD. and the President of the Board of Directors of KGHM INTERNATIONAL LTD. were recognised as other key managers of the Group.

Note 12.10 Remuneration of the entity entitled to audit the financial statements and of entities related to it in PLN thousands

	from 1 January 2020 to 31 December 2020	from 1 January 2019 to 31 December 2019
Companies of the PricewaterhouseCoopers Group	4 436	3 920
From the contract for the review and audit of financial statements, of which due to:	4 253	3 859
audit of annual financial statements	3 703	3 329
assurance services, of which:	550	530
review of financial statements	509	506
other assurance services	41	24
From other contracts	183	61

in PLN millions, unless otherwise stated

Note 12.11 Composition of the Group

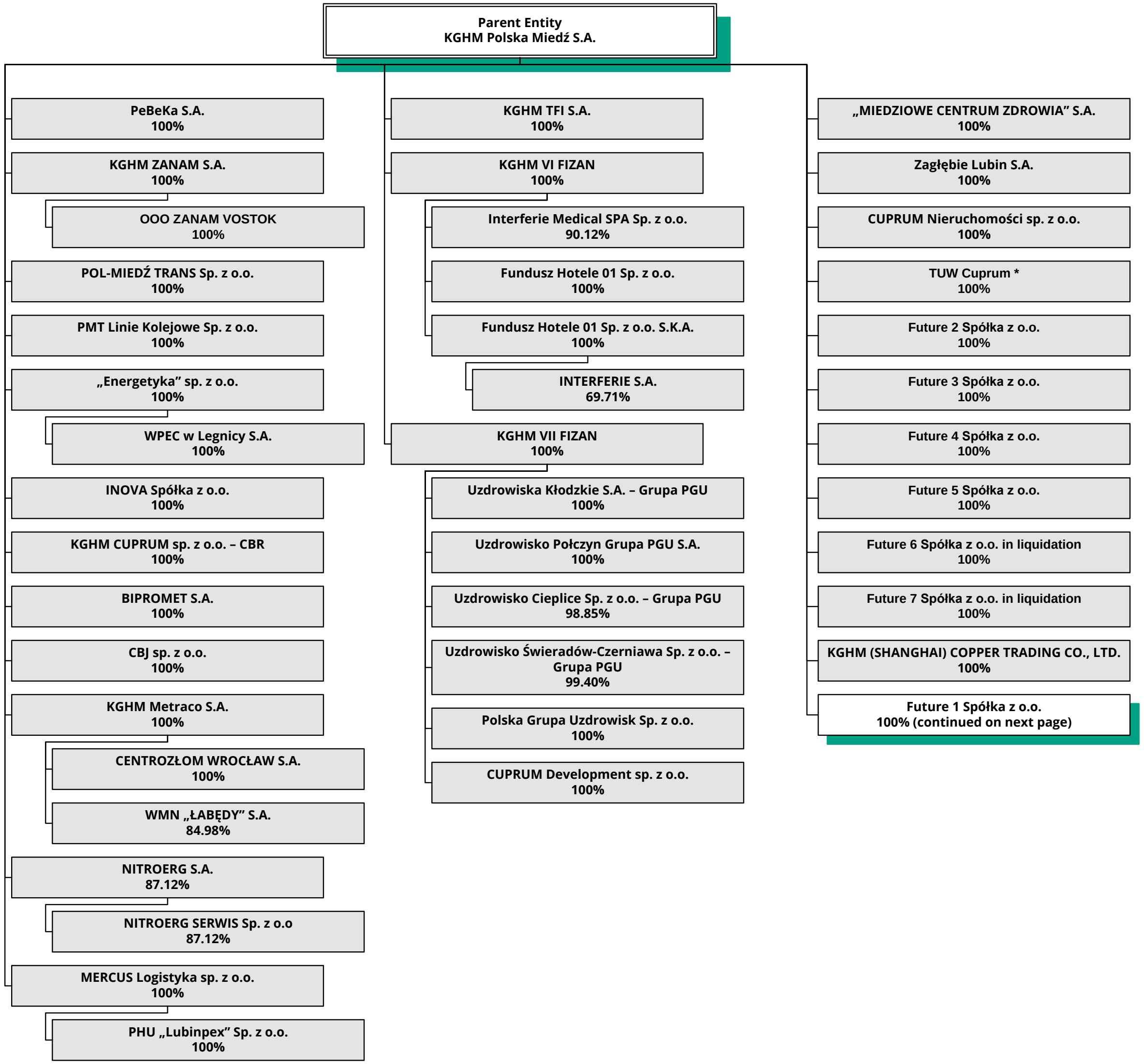
Company	Head office	% of Group's share As at 31 December 2020	As at 31 December 2019
BIPROMET S.A.	Katowice	100	100
CBJ sp. z o.o.	Lubin	100	100
CENTROZŁOM WROCŁAW S.A.	Wrocław	100	100
CUPRUM Nieruchomości sp. z o.o.	Wrocław	100	100
"Energetyka" sp. z o.o.	Lubin	100	100
Fundusz Hotele 01 Sp. z o.o.	Wrocław	100	100
Fundusz Hotele 01 Sp. z o.o. S.K.A.	Wrocław	100	100
INOVA Spółka z o.o.	Lubin	100	100
INTERFERIE S.A.	Legnica	69,71	69.71
Interferie Medical SPA Sp. z o.o.	Legnica	90,12	90.12
KGHM CUPRUM sp. z o.o. - CBR	Wrocław	100	100
CUPRUM DEVELOPMENT sp. z o.o.	Wrocław	100	100
KGHM Kupfer AG	Berlin	100	100
KGHM VI FIZAN	Wrocław	100	100
KGHM VII FIZAN	Wrocław	100	100
KGHM Metraco S.A.	Legnica	100	100
KGHM (SHANGHAI) COPPER TRADING CO., LTD.	Shanghai	100	100
KGHM TFI S.A.	Wrocław	100	100
KGHM ZANAM S.A.	Polkowice	100	100
"MIEDZIOWE CENTRUM ZDROWIA" S.A.	Lubin	100	100
NITROERG S.A.	Bieruń	87,12	87.12
NITROERG SERWIS Sp. z o.o.	Wilków	87,12	87.12
PeBeKa S.A.	Lubin	100	100
PeBeKa Canada Inc.	Vancouver	-	100
MERCUS Logistyka sp. z o.o.	Polkowice	100	100
PHU "Lubinpex" Sp. z o.o.	Lubin	100	100
Staropolanka Sp. z o.o. in liquidation	Polanica Zdrój	-	100
Future 1 Sp. z o.o.	Lubin	100	100
Future 2 Sp. z o.o.	Lubin	100	100
Future 3 Sp. z o.o.	Lubin	100	100
Future 4 Sp. z o.o.	Lubin	100	100
Future 5 Sp. z o.o.	Lubin	100	100
Future 6 Sp. z o.o. in liquidation	Lubin	100	100
Future 7 Sp. z o.o. in liquidation	Lubin	100	100
PMT Linie Kolejowe Sp. z o.o.	Owczary	100	100
POL-MIEDŹ TRANS Sp. z o.o.	Lubin	100	100
Polska Grupa Uzdrowisk Sp. z o.o.	Wrocław	100	100
"Uzdrowisko Cieplice" Sp. z o.o.-Grupa PGU	Jelenia Góra	98,85	98.54
Uzdrowiska Kłodzkie S.A. - Grupa PGU	Polanica Zdrój	100	100
Uzdrowisko Połczyn Grupa PGU S.A.	Połczyn Zdrój	100	100
Uzdrowisko "Świeradów-Czerniawa" Sp. z o.o.-Grupa PGU	Świeradów Zdrój	99,4	99.4
WMN "ŁABĘDY" S.A.	Gliwice	84,98	84.98
WPEC w Legnicy S.A.	Legnica	100	100
Zagłębie Lubin S.A.	Lubin	100	100
OOO ZANAM VOSTOK	Gay (Russia)	100	100
TUW Cuprum*	Lubin	100	100

* Unit excluded from consolidation due to the insignificant impact on the consolidated financial statements.

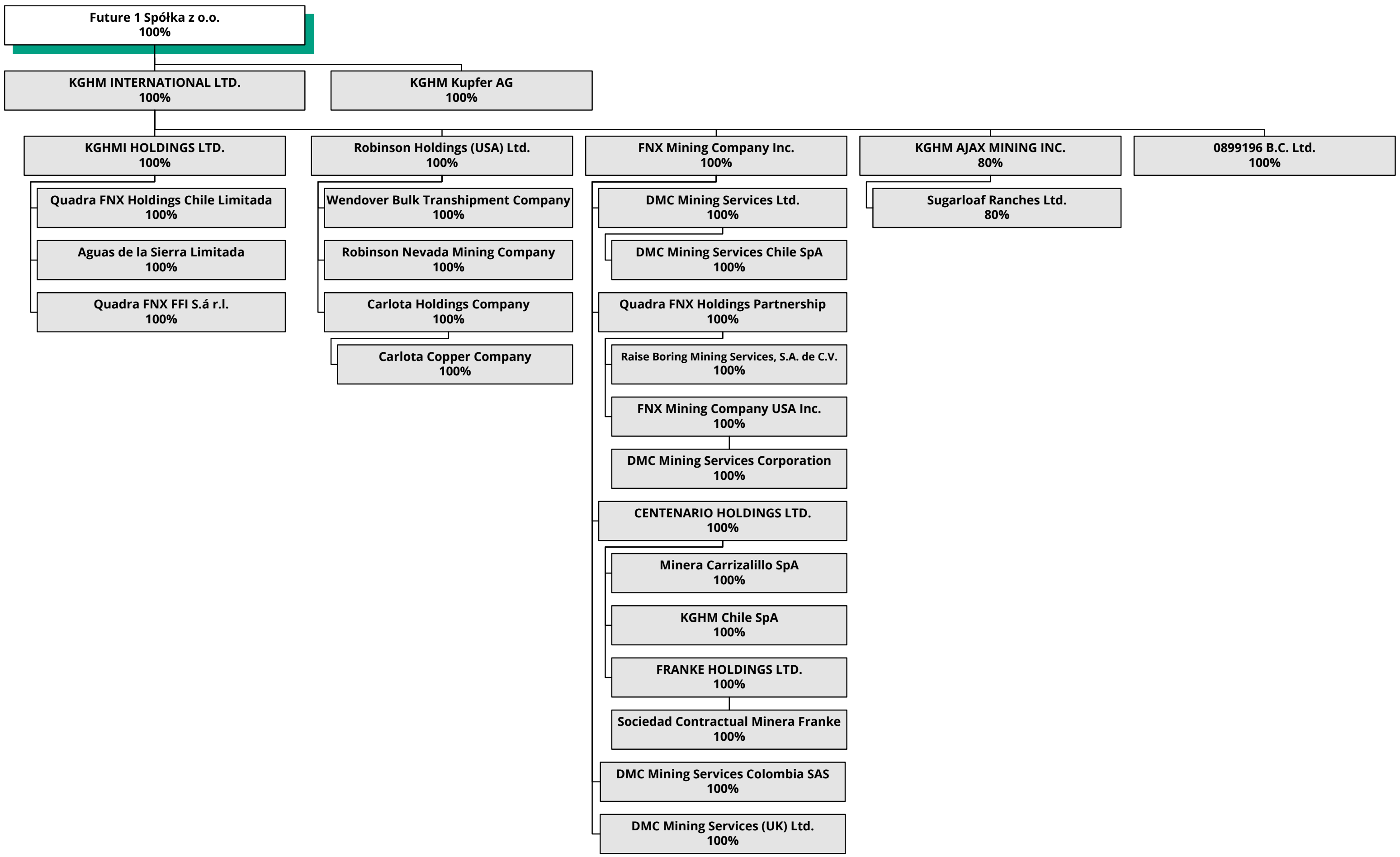
in PLN millions, unless otherwise stated

Company	Head office	% of Group's share As at 31 December 2020	As at 31 December 2019
KGHM INTERNATIONAL LTD. Group			
KGHM INTERNATIONAL LTD.	Vancouver, Canada	100	100
KGHM AJAX MINING INC.	Vancouver, Canada	80	80
Sugarloaf Ranches Ltd.	Vancouver, Canada	80	80
KGHMI Holdings LTD.	Vancouver, Canada	100	100
Quadra FNX Holdings Chile Limitada	Chile	100	100
Aguas de la Sierra Limitada	Chile	100	100
Quadra FNX FFI S.à r.l.	Luxembourg	100	100
Robinson Holdings (USA) Ltd.	Nevada, USA	100	100
Wendover Bulk Transhipment Company	Nevada, USA	100	100
Robinson Nevada Mining Company	Nevada, USA	100	100
Carlota Holdings Company	Nevada, USA	100	100
Carlota Copper Company	Nevada, USA	100	100
FNX Mining Company Inc.	Ontario, Canada	100	100
DMC Mining Services Ltd.	Vancouver, Canada	100	100
Quadra FNX Holdings Partnership	Vancouver, Canada	100	100
Raise Boring Mining Services, S.A. de C.V.	Mexico	100	100
FNX Mining Company USA Inc.	Nevada, USA	100	100
DMC Mining Services Corporation	Nevada, USA	100	100
CENTENARIO HOLDINS LTD.	Vancouver, Canada	100	100
Minera Carrizalillo SpA	Chile	100	100
KGHM Chile SpA	Chile	100	100
FRANKE HOLDINGS LTD.	Vancouver, Canada	100	100
Sociedad Contractual Minera Franke	Chile	100	100
0899196 B.C. Ltd.	Vancouver, Canada	100	100
DMC Mining Services (UK) Ltd.	The United Kingdom	100	100
DMC Mining Services Colombia SAS	Colombia	100	100
DMC Mining Services Chile SpA	Chile	100	100

Diagram of the KGHM Polska Miedź S.A. Group as at 31 December 2020



* Unit excluded from consolidation due to the insignificant impact on the consolidated financial statements.


Future 1 Spółka z o.o. 100%
KGHM INTERNATIONAL LTD. 100%
KGHM Kupfer AG 100%
KGHMI HOLDINGS LTD. 100%
Robinson Holdings (USA) Ltd. 100%
FNX Mining Company Inc. 100%
KGHM AJAX MINING INC. 80%
0899196 B.C. Ltd. 100%
Quadra FNX Holdings Chile Limitada 100%
Aguas de la Sierra Limitada 100%
Quadra FNX FFI S.á r.l. 100%
Wendover Bulk Transhipment Company 100%
Robinson Nevada Mining Company 100%
Carlota Holdings Company 100%
Carlota Copper Company 100%
DMC Mining Services Ltd. 100%
DMC Mining Services Chile SpA 100%
Quadra FNX Holdings Partnership 100%
Raise Boring Mining Services, S.A. de C.V. 100%
FNX Mining Company USA Inc. 100%
DMC Mining Services Corporation 100%
CENTENARIO HOLDINGS LTD. 100%
Minera Carrizalillo SpA 100%
KGHM Chile SpA 100%
FRANKE HOLDINGS LTD. 100%
Sociedad Contractual Minera Franke 100%
DMC Mining Services Colombia SAS 100%
DMC Mining Services (UK) Ltd. 100%
Sugarloaf Ranches Ltd. 80%

Note 12.12 Information on the impact of COVID-19 on the Company's and the Group's operations

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

Key risk categories

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

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

Evaluation of the key categories of risk which are impacted by the coronavirus pandemic underwent detailed analysis by the on-going monitoring of selected information in the areas of production, sales, supply chains, personnel management and finance, in order to support the process of reviewing the current financial and operating situation of the KGHM Polska Miedź S.A. Group. As a result, only some of the aforementioned risk factors had a negative impact on the Group's operations, and at that only in the first half of the year, as there was a significant improvement in subsequent months with the result being that in the end there were no substantial deviations from the achievement of the budget targets for 2020 in any of the operating segments of the KGHM Polska Miedź S.A. Group, with the exception of companies operating in the spa and hotel sector.

Impact on the metals market

From the Group's point of view, an important impact of the coronavirus pandemic was its effect on market risk related to volatility in metals and share prices in 2020. The Company's share price at the end of 2020 was 91% higher compared to the price at the end of 2019 and 101% higher compared to the price at the end of the first half of 2020, and at the close of trading on 30 December 2020 amounted to PLN 183.00. During these same periods the WIG and WIG20 indices fell respectively by 1% and 8% (compared to the end of 2019) and rose by 15% and 13% (compared to the end of the first half of 2020). As a result of these changes in the share price, the Company's capitalisation increased from PLN 19.20 billion at the end of 2019 to PLN 36.60 billion at the end of 2020, meaning a level 77% higher than the net value of assets.

Starting from the second quarter of 2020 there was an improvement in the metals market, reflected in an increase in the price of copper by 26%, from 4 797 USD/t at the end of the first quarter of 2020 to 6 038 USD/t at the end of the second quarter of 2020, along with an increase by 28% in the second half of 2020 to 7 742 USD/t at the end of 2020.

Impact on the spa activities of the Group

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

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

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

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

The spa and hotel companies of KGHM Polska Miedź S.A. have also joined the Polski Bon Turystyczny (Polish Tourist Voucher) program and have submitted applications to the Polski Fundusz Rozwoju (Polish Development Fund, PDF) for financing under the Anti–Crisis Shield, and as the result of which:

- some of the companies have received financing from the PDF's 1.0 program for large enterprises,
- some of the companies have received financing from the PDF's 2.0 program for micro, small and medium enterprises.

The financing received from the aforementioned programs amounted to PLN 19 million in 2020.

Impact on the activities of the Parent Entity and other companies of the Group

With regard to other domestic companies of the KGHM Polska Miedź S.A. Group, the pandemic situation in 2020 did not have a significant impact on the operating results generated by these entities**.**

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

Preventive actions in the Group

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

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

In terms of sales the Parent Entity has a long term, stable base of customers with whom it is in constant contact. Most customers at the moment remain free of any highly negative impact of the pandemic on their operations, thanks to which sales liabilities towards the Parent Entity are regulated on time.
The Group is fully capable of meeting its financial obligations. The financial resources held by the Group and available borrowings guarantee the Group's continued financial liquidity. Financing structure of the Group on the level of the Parent Entity based on the long-term and diversified sources of financing provided the Parent Entity and the Group with long-term financial stability through extending the weighted average maturity of KGHM Polska Miedź S.A.'s debt.

Due to the centralisation of the process of obtaining external financing for the needs of the entire Group, in order to transfer liquidity within the Group, a debt instrument in the form of owners loans is used to support the investment process, and the Group uses local and international cash pooling to service its daily operations.
At present the Parent Entity is not aware of any significant risk of a breach in the financial covenants contained in loan agreements related to the COVID-19 pandemic.
The Group continues to advance its investment projects on time and is not aware of any increase in risk related to their continuation as a result of the coronavirus pandemic.
During the reported period there were likewise no interruptions in the continuity of the Group's operations caused by infections of this virus amongst the employees. There continues to be a lack of any substantial heightened level of absenteeism amongst employees of the Parent Entity's core business or domestic and international production assets related to the pandemic. Solutions aimed at ensuring employee safety are constantly being assessed along with ongoing evaluation of already-implemented solutions in the Group, while additional solutions are continuously being implemented to reduce the risk of spread of the virus amongst employees.
Due to the ongoing COVID-19 pandemic and its next wave in the first quarter of 2021, there still remains uncertainty as to the further development of the pandemic situation both domestically and abroad. An important factor for the domestic and global economies will be the program of vaccinations against COVID-19 using vaccines developed by several companies, and which are gradually being distributed for use in various countries. The availability of these vaccines, their effectiveness in relation to individual viral strains and the rate of vaccinations will have an impact among others on the possibility of lifting the restrictions imposed in various countries and sectors, reducing uncertainty as regards future periods and increasing activity amongst producers as well as consumers. Although the aforementioned factors may have an impact on the functioning of the Company and the Group in subsequent quarters, the Parent Entity continues to constantly monitor the global economic situation, in order to assess its potential negative impact on the KGHM Polska Miedź S.A. Group and to take actions to mitigate this impact.

Note 12.13 Subsequent events

Signing of financing agreements

On 13 January 2021, the Parent Entity signed a credit agreement in the form of overdraft facility for the amount of USD 50 million with ING Bank Śląski S.A. in Katowice. Interest on the credit is based on LIBOR plus a margin. The credit is available for 2 years, with the option to extend it by one more year.
On 20 January 2021, the Parent Entity signed a credit agreement in the form of overdraft facility with CaixaBank S.A. Polish Branch in Warsaw for the amount of USD 30 million. Interest on the credit is based on LIBOR plus a margin. The credit is available for 2 years, with the option to extend it by one more year.

Main assumptions of the Budget for 2021

On 28 January 2021, the Management Board of the Parent Entity announced that the Supervisory Board of the Company approved KGHM Polska Miedź S.A.'s Budget and the KGHM Polska Miedź S.A. Group's Budget for 2021.

The main budgetary assumptions are presented in Note 6.5 of the Management Board's Report on the activities of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group in 2020.

Change of the business profile of Future 2 Sp. z o.o. (currently KGHM Centrum Analityki sp.z o.o.)

In 2020, decisions to change the business profile of Future 2 Sp. z o.o., which has not conducted any operating activities so far were made. The company's role is to act as a technology company supporting the area of data analysis in the Group, including the construction of BigData. In February 2021, a change in the subject of the company's business profile and name of the company to "KGHM Centrum Analityki sp. z o.o." was registered by the Court.

Termination of a guarantee agreement

On 1 March 2021 a guarantee agreement securing the proper execution by DMC Mining Services (UK) Ltd. and DMC Mining Services Ltd. (companies of the KGHM INTERNATIONAL LTD. Group) of a contract for shaft sinking under a project advanced in the United Kingdom as at 31 December 2020 in the amount of PLN 188 million (USD 50 million) was terminated.

Qualification proceedings for members of the Company's Management Board

On 6 July 2021, the current 10th term of the Management Board of KGHM Polska Miedź S.A. expires. Therefore, on 5 March 2021 the Supervisory Board of KGHM Polska Miedź S.A. adopted a resolution on initiating qualification proceedings for Members of the Management Board of KGHM Polska Miedź S.A. for the new, 11th term. The announcement of qualification proceedings on Members of the 11th term Management Board of KGHM Polska Miedź S.A. was published in the Public Information Bulletin of the Ministry of State Assets and on the corporate website www.kghm.com

Information on the Member of the Company's Management Board not taking part in the on-going qualification proceedings

On 22 March 2021, the Management Board of KGHM Polska Miedź S.A. announced that the Member of the Management Board of the Company, Katarzyna Kreczmańska-Gigol – Vice President of the Management Board (Finance), resigned from taking part in the on-going qualification proceedings for the position of the Member of the 11th term Management Board of KGHM Polska Miedź S.A.

Third wave of the COVID-19 pandemic

Due to the continuing rate of COVID-19 infections in the first quarter of 2021 and the implementation of enhanced security measures throughout Poland from 20 March 2021, which will be in force until 9 April 2021, KGHM Polska Miedź S.A. is continuously monitoring the situation in order to assess its potential negative impact on the KGHM Polska Miedź S.A. Group's operations and eventually take additional actions mitigating this impact. KGHM Polska Miedź S.A., thanks to the implementation of a wide scope of preventative actions in the areas of production, sales, supply chain, personnel management and finances, significantly mitigates the negative impact of the pandemic on the KGHM Polska Miedź S.A. Group's activities. The decision to institute restrictions could, just as in the previous periods, have an impact mainly on the hotel and spa services provided by subsidiaries of KGHM Polska Miedź S.A. by subjecting them to the temporary ban on conducting activities. The Parent Entity is continuously monitoring and analysing the impact of the restrictions related to COVID-19 on the KGHM Polska Miedź S.A. Group in subsequent quarters and at the moment, the assessment of the impact of the coronavirus pandemic on the future results of the mining activities has not changed as compared to the assessment presented in Note 12.12.

Part 13 – Quarterly financial information of the Group

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		from 1 October 2020 to 31 December 2020	from 1 October 2019 to 31 December 2019	from 1 January 2020 to 31 December 2020	from 1 January 2019 to 31 December 2019
Note 2.3	Revenues from contracts with customers	7 052	5 854	23 632	22 723
Note 4.1	Cost of sales	(5 551)	(5 190)	(18 981)	(18 767)
	Gross profit	**1 501**	**664**	**4 651**	**3 956**
Note 4.1	Selling costs and administrative expenses	(446)	(437)	(1 490)	(1 501)
	Profit on sales	**1 055**	**227**	**3 161**	**2 455**
Note 6.1	Share of losses of joint ventures accounted for using the equity method	2	(269)	(204)	(438)
Note 6.2	Gains due to the reversal of allowances for impairment of loans granted to joint ventures	74	106	74	106
Note 6.2	Interest income on loans granted to joint ventures calculated using the effective interest rate method	93	86	377	341
	Profit or loss on involvement in joint ventures	169	(77)	247	9
Note 4.2	Other operating income	208	272	702	809
	Other operating costs	(603)	(836)	(1 326)	(623)
	Finance income	144	304	259	38
Note 4.3	Finance costs	(96)	(192)	(287)	(566)
	Profit before income tax	**877**	**(302)**	**2 756**	**2 122**
Note 5.1	Income tax expense	(252)	57	(959)	(701)
	PROFIT/(LOSS) FOR THE PERIOD	**625**	**(245)**	**1 797**	**1 421**
	Profit/(loss) for the period attributable to:				
	Shareholders of the Parent Entity	626	(243)	1 800	1 421
	Non-controlling interest	(1)	(2)	(3)	-
	Weighted average number of ordinary shares (million)	**200**	**200**	**200**	**200**
	Basic/diluted earnings per share (in PLN)	**3.13**	**(1.22)**	**9.00**	**7.11**

in PLN millions, unless otherwise stated

Explanatory notes to the consolidated statement of profit or loss

Note 13.1 Expenses by nature

	from 1 October 2020 to 31 December 2020	from 1 October 2019 to 31 December 2019	from 1 January 2020 to 31 December 2020	from 1 January 2019 to 31 December 2019
Depreciation of property, plant and equipment and amortisation of intangible assets	618	571	2 062	2 013
Employee benefits expenses	1 620	1 444	5 884	5 594
Materials and energy	2 132	1 984	7 914	7 945
External services	665	720	2 226	2 655
Minerals extraction tax	505	328	1 625	1 520
Other taxes and charges	163	133	544	521
Reversal of impairment losses on property, plant and equipment and intangible assets	(1)	(19)	(2)	(19)
Reversal of write-down of inventories	(9)	(13)	(29)	(38)
Advertising costs and representation expenses	22	26	61	71
Property and personal insurance	17	15	65	59
Impairment losses on property, plant and equipment and intangible assets	70	217	162	217
Write-down of inventories	25	33	127	38
Other costs	12	15	62	78
Total expenses by nature	**5 839**	**5 454**	**20 701**	**20 654**
Cost of merchandise and materials sold (+)	121	126	672	681
Change in inventories of finished goods and work in progress (+/-)	547	476	474	337
Cost of products for internal use of the Group (-)	(510)	(429)	(1 376)	(1 404)
Total cost of sales, selling costs and administrative expenses, including:	**5 997**	**5 627**	**20 471**	**20 268**
Cost of sales	5 551	5 190	18 981	18 767
Selling costs	106	121	432	432
Administrative expenses	340	316	1 058	1 069

in PLN millions, unless otherwise stated

Note 13.2 Other operating income and (costs)

	from 1 October 2020 to 31 December 2020	from 1 October 2019 to 31 December 2019	from 1 January 2020 to 31 December 2020	from 1 January 2019 to 31 December 2019
Gains on derivatives, of which:	91	50	378	199
measurement of derivatives	16	16	208	87
realisation of derivatives	75	34	170	112
Interest income calculated using the effective interest rate method	-	2	4	9
Exchange differences on assets and liabilities other than borrowings	-	-	-	171
Reversal of impairment losses on intangible assets not yet available for use	-	150	-	150
Reversal of impairment losses on other financial receivables	1	7	9	7
Provisions released	52	26	54	85
Gains on the sale of intangible assets	(1)	-	30	7
Government grants received	4	-	18	21
Income from servicing of letters of credit and guarantees	4	-	49	12
Compensation, fines and penalties received	4	3	19	27
Refund of excise tax for prior years	5	4	53	4
Other	48	30	88	117
Total other operating income	**208**	**272**	**702**	**809**
Losses on derivatives, of which:	(124)	(93)	(597)	(278)
measurement of derivatives	46	(21)	(121)	(27)
realisation of derivatives	(170)	(72)	(476)	(251)
Impairment losses on financial instruments	(1)	(14)	(6)	(17)
Impairment losses on fixed assets under construction and intangible assets not yet available for use	(75)	(3)	(77)	(3)
Exchange differences on assets and liabilities other than borrowings	(337)	(547)	(391)	-
Provisions recognised	(9)	(121)	(52)	(148)
Losses on the disposal of property, plant and equipment	(5)	(7)	(39)	(15)
Donations given	(2)	(4)	(41)	(30)
Other	(50)	(47)	(123)	(132)
Total other operating costs	**(603)**	**(836)**	**(1 326)**	**(623)**
Other operating income/(costs)	**(395)**	**(564)**	**(624)**	**186**

in PLN millions, unless otherwise stated

Note 13.3 Finance income/(costs)

	from 1 October 2020 to 31 December 2020	from 1 October 2019 to 31 December 2019	from 1 January 2020 to 31 December 2020	from 1 January 2019 to 31 December 2019
Exchange differences on measurement and realisation of borrowings	108	266	188	-
Gains on derivatives, of which:	35	38	70	37
measurement of derivatives	-	3	-	-
realisation of derivatives	35	35	70	37
Other	1	-	1	1
Total finance income	**144**	**304**	**259**	**38**
Interest on borrowings, including:	(29)	(108)	(131)	(190)
leases	(2)	3	(13)	(23)
Unwinding of the discount of provisions effect	3	(6)	(14)	(48)
Bank fees and charges on borrowings	(4)	(24)	(22)	(48)
Losses on derivatives, of which:	(37)	(42)	(77)	(59)
measurement of derivatives	-	-	-	(11)
realisation of derivatives	(37)	(42)	(77)	(48)
Exchange differences on measurement and realisation of borrowings	-	-	-	(208)
Other	(29)	(12)	(43)	(13)
Total finance costs	**(96)**	**(192)**	**(287)**	**(566)**
Finance income /(costs)	**48**	**112**	**(28)**	**(528)**

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

These financial statements were authorised for issue on 23 March 2021.

President
of the Management Board

Marcin Chludziński

Vice President
of the Management Board

Adam Bugajczuk

Vice President
of the Management Board

Paweł Gruza

Vice President
of the Management Board

Katarzyna Kreczmańska-Gigol

Vice President
of the Management Board

Radosław Stach

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING

Executive Director
of Accounting Services Center
Chief Accountant

Agnieszka Sinior