POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated annual report SRR 2021

(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 **2021** comprising the period from **1 January 2021** to **31 December 2021** containing the consolidated financial statements according to International Financial Reporting Standards in PLN.

publication date: 23 March 2022

KGHM Polska Miedź Spółka Akcyjna
(name of the issuer)

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

	SELECTED FINANCIAL DATA	in PLN mn		in EUR mn	
		2021	2020	2021	2020
I.	Revenues from contracts with customers	29 803	23 632	6 511	5 282
II.	Profit on sales	4 710	3 161	1 029	706
III.	Profit before income tax	7 824	2 756	1 709	616
IV.	Profit for the period	6 155	1 797	1 345	401
V.	Profit for the period attributable to shareholders of the Parent Entity	6 156	1 800	1 345	402
VI.	Profit for the period attributable to non-controlling interest	(1)	(3)	-	(1)
VII.	Other comprehensive income	217	(918)	47	(205)
VIII.	Total comprehensive income	6 372	879	1 392	196
IX.	Total comprehensive income attributable to shareholders of the Parent Entity	6 372	882	1 392	197
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	30.78	9.00	6.73	2.01
XIII.	Net cash generated from operating activities	4 266	5 656	932	1 264
XIV.	Net cash used in investing activities	(2 526)	(3 661)	(552)	(818)
XV.	Net cash used in financing activities	(2 200)	(548)	(481)	(122)
XVI.	Total net cash flow	(460)	1 447	(101)	324
XVII.	Non-current assets	36 664	34 047	7 971	7 378
XVIII.	Current assets	11 363	8 733	2 471	1 892
XIX.	Total assets	48 027	42 780	10 442	9 270
XX.	Non-current liabilities	11 351	13 792	2 468	2 989
XXI.	Current liabilities	9 538	7 907	2 074	1 713
XXII.	Equity	27 138	21 081	5 900	4 568
XXIII.	Equity attributable to shareholders of the Parent Entity	27 046	20 992	5 880	4 549
XXIV.	Equity attributable to non-controlling interest	92	89	20	19

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

	2021	2020
Average exchange rate for the period*	4.5775	4.4742
Exchange rate at the end of the period	4.5994	4.6148

**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 2021 and 2020.*

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 2021

Lubin, March 2022

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Note 2.3	Revenues from contracts with customers	29 803	23 632
Note 4.1	Cost of sales	(23 529)	(18 981)
	Gross profit on sales	**6 274**	**4 651**
Note 4.1	Selling costs and administrative expenses	(1 564)	(1 490)
	Profit on sales	**4 710**	**3 161**
Note 6.1	Share of losses of a joint venture accounted for using the equity method	-	(204)
Note 6.2	Gains due to the reversal of allowances for impairment of loans granted to a joint venture	2 380	74
Note 6.2	Interest income on loans granted to a joint venture calculated using the effective interest rate method	494	377
	Profit or loss on involvement in a joint venture	2 874	247
Note 4.2	Other operating income, including:	1 757	702
	other interest calculated using the effective interest rate method	1	4
	reversal of impairment losses on financial instruments	27	11
Note 4.2	Other operating costs, including:	(1 046)	(1 326)
	impairment losses on financial instruments	(13)	(6)
Note 4.3	Finance income	70	259
Note 4.3	Finance costs	(541)	(287)
	Profit before income tax	**7 824**	**2 756**
Note 5.1	Income tax expense	(1 669)	(959)
	PROFIT FOR THE PERIOD	**6 155**	**1 797**
	Profit for the period attributable to:		
	Shareholders of the Parent Entity	6 156	1 800
	Non-controlling interest	(1)	(3)
	Weighted average number of ordinary shares (million)	**200**	**200**
	Basic/diluted earnings per share (in PLN)	**30.78**	**9.00**

in PLN millions, unless otherwise stated

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
	Profit for the period	**6 155**	**1 797**
Note 8.2.2	Measurement of hedging instruments net of the tax effect	(297)	(850)
	Exchange differences from translation of statements of operations with a functional currency other than PLN	(70)	39
	Other comprehensive income, which will be reclassified to profit or loss	**(367)**	**(811)**
Note 8.2.2	Measurement of equity financial instruments at fair value through other comprehensive income, net of the tax effect	22	158
	Actuarial gains/(losses) net of the tax effect	562	(265)
	Other comprehensive income which will not be reclassified to profit or loss	**584**	**(107)**
	Total other comprehensive net income	**217**	**(918)**
	TOTAL COMPREHENSIVE INCOME	**6 372**	**879**
	Total comprehensive income attributable to:		
	Shareholders of the Parent Entity	6 372	882
	Non-controlling interest	-	(3)

in PLN millions, unless otherwise stated

CONSOLIDATED STATEMENT OF CASH FLOWS

		from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
	Cash flow from operating activities		
	Profit before income tax	7 824	2 756
Note 9.3	Depreciation/amortisation recognised in profit or loss	2 123	1 963
Note 6.1	Share of losses of a joint venture accounted for using the equity method	-	204
Note 6.2	Gains due to the reversal of allowances for impairment of loans granted to a joint venture	(2 380)	(74)
Note 6.2	Interest on loans granted to a joint venture	(494)	(377)
	Other interest	120	159
	Impairment losses on non-current assets	378	239
	Other gains on reversal of impairment losses on non-current assets	(44)	(1)
	(Gains)/losses on disposal of property, plant and equipment and intangible assets	(58)	9
	Exchange differences, of which:	(446)	(101)
	from investment activities and cash	(744)	87
	from financing activities	298	(188)
	Change in provisions for decommissioning of mines, liabilities related to future employee benefits programs and other provisions	30	-
	Change in other receivables and liabilities other than working capital	610	584
Note 7.2	Change in assets and liabilities due to derivatives	(1 921)	(171)
Note 7.2	Reclassification of other comprehensive income to profit or loss due to the realisation of hedging derivatives	2 030	(42)
Note 12.8	Other adjustments	1	3
	Exclusions of income and costs, total	(51)	2 395
	Income tax paid	(740)	(667)
Note 10.4	Changes in working capital, including:	(2 767)	1 172
	change in trade payables transferred to factoring	(1 114)	652
	Net cash generated from operating activities	**4 266**	**5 656**
	Cash flow from investing activities		
Note 9.1.3	Expenditures on mining and metallurgical assets, including:	(3 383)	(3 060)
Note 8.4.2	paid capitalised interest on borrowings	(122)	(129)
	Expenditures on other property, plant and equipment and intangible assets	(507)	(397)
	Expenditures on financial assets designated for decommissioning mines and other technological facilities	(24)	(22)
	Acquisition of newly-issued shares of a joint venture	-	(207)
	Advances granted on property, plant and equipment and intangible assets	(14)	(10)
	Repayment of loans granted to a joint venture	1 259	-
	Proceeds from disposal of property, plant and equipment and intangible assets	98	74
	Proceeds from disposal of equity instruments measured at fair value through other comprehensive income	53	-
	Proceeds from financial assets designated for decommissioning mines and other technological facilities	-	11
	Other	(8)	(50)
	Net cash used in investing activities	**(2 526)**	**(3 661)**
	Cash flow from financing activities		
Note 8.4.2	Proceeds from borrowings	358	4 247
	Proceeds from derivatives related to sources of external financing	36	52
Note 8.4.2	Repayment of received borrowings	(2 078)	(4 513)
Note 8.4.2	Repayment of lease liabilities	(67)	(97)
	Expenditures due to derivatives related to sources of external financing	(79)	(78)
	Interest paid, including due to:	(94)	(177)
Note 8.4.2	borrowings	(85)	(165)
	Expenditures due to dividends paid to shareholders of the Parent Entity	(300)	-
	Other	24	18
	Net cash used in financing activities	**(2 200)**	**(548)**
	NET CASH FLOW	**(460)**	**1 447**
	Exchange gains/(losses)	(158)	59
	Cash and cash equivalents at beginning of the period	2 522	1 016
	Cash and cash equivalents at end of the period, including:	**1 904**	**2 522**
	recognised in assets held for sale (disposal group)	20	-
	restricted cash	24	21

in PLN millions, unless otherwise stated

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December 2021	As at 31 December 2020
	ASSETS		
	Mining and metallurgical property, plant and equipment	21 564	20 576
	Mining and metallurgical intangible assets	2 316	2 024
Note 9.1	Mining and metallurgical property, plant and equipment and intangible assets	23 880	22 600
	Other property, plant and equipment	2 593	2 857
	Other intangible assets	250	141
Note 9.2	Other property, plant and equipment and intangible assets	2 843	2 998
Note 6.2	Involvement in joint ventures – loans granted	7 867	6 069
Note 7.1	Derivatives	595	789
Note 7.3	Other financial instruments measured at fair value	637	636
Note 7.4	Other financial instruments measured at amortised cost	496	601
	Financial instruments, total	1 728	2 026
Note 5.1.1	Deferred tax assets	185	193
Note 12.3	Other non-financial assets	161	161
	Non-current assets	**36 664**	**34 047**
Note 10.1	Inventories	6 337	4 459
Note 10.2	Trade receivables, including:	1 009	834
	trade receivables measured at fair value through profit or loss	614	478
Note 5.3	Tax assets	364	295
Note 7.1	Derivatives	254	210
Note 6.2	Involvement in joint ventures – loans granted	447	-
Note 12.3	Other financial assets	172	210
Note 12.3	Other non-financial assets	162	142
Note 8.5	Cash and cash equivalents	1 884	2 522
Note 9.8	Assets held for sale (disposal group)	734	61
	Current assets	**11 363**	**8 733**
	TOTAL ASSETS	**48 027**	**42 780**
	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:	(1 705)	(1 430)
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	2 219	1 728
Note 8.2.2	Retained earnings	24 532	18 694
	Equity attributable to shareholders of the Parent Entity	27 046	20 992
	Equity attributable to non-controlling interest	92	89
	Equity	**27 138**	**21 081**
Note 8.4.1	Borrowings, lease and debt securities	5 409	6 928
Note 7.1	Derivatives	1 134	1 006
Note 11.1	Employee benefits liabilities	2 306	3 016
Note 9.4	Provisions for decommissioning costs of mines and other technological facilities	1 242	1 849
Note 5.1.1	Deferred tax liabilities	643	442
Note 12.4	Other liabilities	617	551
	Non-current liabilities	11 351	13 792
Note 8.4.1	Borrowings, lease and debt securities	455	407
Note 7.1	Derivatives	889	688
Note 10.3	Trade and similar payables	2 974	3 593
Note 11.1	Employee benefits liabilities	1 437	1 313
Note 5.3	Tax liabilities	1 453	537
	Provisions for liabilities and other charges	207	162
Note 12.4	Other liabilities	1 661	1 202
Note 9.8	Liabilities associated with disposal group	462	5
	Current liabilities	9 538	7 907
	Non-current and current liabilities	**20 889**	**21 699**
	TOTAL EQUITY AND LIABILITIES	**48 027**	**42 780**

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 1 January 2020	**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	**2 000**	**(1 430)**	**1 728**	**18 694**	**20 992**	**89**	**21 081**
	Transactions with non-controlling interest - owners	-	-	-	-	**-**	3	**3**
Note 12.2	Transactions with owners - Dividend	-	-	-	(300)	**(300)**	-	**(300)**
	Profit for the period	-	-	-	6 156	**6 156**	(1)	**6 155**
Note 8.2.2	Other comprehensive income	-	(275)*	491	-	**216**	1	**217**
	Total comprehensive income	-	(275)	491	6 156	**6 372**	**-**	**6 372**
	Reclassification of the result of disposal of equity instruments measured at fair value through other comprehensive income	-	-	-	(18)	**(18)**	-	**(18)**
	As at 31 December 2021	**2 000**	**(1 705)**	**2 219**	**24 532**	**27 046**	**92**	**27 138**

**PLN 18 million due to reclassification resulting from the disposal of equity instruments measured at fair value through other comprehensive income was recognised in other comprehensive income.*

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 2021.

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 COVID-19 pandemic did not have a negative impact on individual aspects of the business. Detailed information on the Group's operations during the pandemic was 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 companies of the KGHM INTERNATIONAL LTD. Group 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 2021 (point 2.4).

In 2021, the Parent Entity of the Group consolidated 67 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 2021 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 2021 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 22 March 2022.

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 appropriate observable input data is not available. Unobservable input data reflect assumptions that would be adopted by market participants in order to calculate the price of an asset or a liability, including risk assumptions. Transfer between levels of the fair value hierarchy takes place if there is a change of sources of input data used for fair value measurement, such as: – active market, – lack of an active market, but there is observable data on the market, – subjective input data. It is acknowledged that transfers between levels of the fair value hierarchy take place at the end of the reporting period.	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 operations 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 statements of operations with a functional currency other than PLN 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: • 2021 – PLN 2 619 million, • 2020 – PLN 2 690 million. (Note 8.2.2 Changes of other equity items).
Foreign currency transactions and the measurement of items denominated in foreign currencies	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.	

in PLN millions, unless otherwise stated

	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. On 1 January 2022, a change was introduced in the KGHM Polska Miedź S.A. Group concerning foreign exchange rates applied to measure currency sales and purchase transactions as well as the transactions of receivables and liabilities payment (including to measurement of transactions of borrowing receiving, granting or repayment) on the Group's currency bank accounts. To translate these transactions to the functional currency, an average exchange rate prevailing on the date of the transaction is used, and the prevailing rate on the date of the transaction is the average NBP exchange rate from the last working day preceding the transaction date. Change in the applied exchange rates is, pursuant to IAS 8, a change in estimates and its impact will be recognised prospectively for periods beginning on or after 1 January 2022.	-

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 2020 and 30 June 2021, there were no significant changes to the measurement methods. Changes in estimates as at 31 December 2021 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
		2021	2020		
2.3	Revenues from contracts with customers	29 803	23 632	X	X
3.1	Impairment of assets	(438)	(374)		X
5.1	Income tax in the statement of profit or loss	(1 669)	(959)	X	
5.1.1	Deferred income tax in the statement of profit or loss	(124)	(191)	X	X
5.3	Tax assets	368	295	X	
5.3	Tax liabilities	(1 455)	(537)	X	
6.1	Joint ventures accounted for using the equity method	-	-	X	X
6.2	Loans granted to a joint venture	8 314	6 069	X	X
7.2	Derivatives	(1 174)	(695)	X	X
7.3	Other financial instruments measured at fair value	637	636	X	X
7.4	Other financial instruments measured at amortised cost	499	601	X	X
8.2	Equity of the Parent Entity	(27 046)	(20 992)	X	
8.4.1	Borrowings	(5 949)	(7 335)	X	
8.5	Cash and cash equivalents	1 904	2 522	X	
8.6	Labilities due to guarantees granted	(1 022)	(2 384)	X	X

in PLN millions, unless otherwise stated

9.1	Mining and metallurgical property, plant and equipment and intangible	23 999	22 600	X	X
9.2	Other property, plant and equipment and intangible assets	3 085	2 998	X	
9.4	Provisions for decommissioning costs of mines and other facilities*	(1 552)	(1 884)	X	X
9.7	Lease disclosures – the Group as a lessee	703	705	X	X
9.8	Assets held for sale (disposal group) and liabilities associated with them	734	61	X	
10.1	Inventories	6 487	4 459	X	X
10.2	Trade receivables	1 026	869	X	
10.3	Trade and similar payables	(3 201)	(3 762)	X	X
10.4	Changes in working capital	(2 767)	1 172	X	X
11.1	Employee benefits liabilities	(3 756)	(4 329)	X	X
12.3	Other assets	498	513	X	
12.4	Other liabilities	(2 310)	(1 753)	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

Amendments to standards applied for the first time in the consolidated financial statements for 2021:

- **Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 on the interest rate benchmark reform (IBOR reform) - Phase 2.**

  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 2021.

  Pursuant to amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 on the interest rate benchmark reform - Phase 2, if the modifications of financial instruments result directly from the IBOR reform and the new rate is the economic equivalent of the former one, then for instruments based on the variable interest rate units will perform a prospective adjustment to the effective interest rate and if the criteria to cease the application of hedge accounting is not met, the adjustment to hedge relationships takes place and hedge accounting is continued.

  The Group analysed the impact of the IBOR reform on its consolidated financial statements. Pursuant to current decisions of entities designated to implement the reform, individual LIBOR rate indicators 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 and loans), deposit agreements, guarantee agreements, letters of credit and factoring agreements as well as trade agreements. Replacement of the LIBOR rate by an alternative ratio will result in introducing appendices to the current agreements, analysing the potential change of interest rates from variable to fixed, introducing changes to internal methodologies and procedures and adapting IT tools to new valuation 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 interest rate. In the Group's opinion, the impact of this amendment on the measurement of lease agreements will be immaterial due to the fact that the applied reference rate per the new calculated method will differ from the LIBOR rate by only 1-2 basis points, depending on the date and currency.

  The Group continuously monitors the recommendations of entities leading the IBOR reform and due to the fact that many issues have not yet been formally regulated, and the LIBOR rate indicators which are currently applied by the Group will be published up to 30 June 2023, the scale of changes to the aforementioned financial instruments and their impact on the Group's consolidated financial statements cannot currently be determined. Moreover, the IBOR reform will not have an impact on the interest rate of the Group's derivatives, because CIRS (open Cross Currency Interest Rate Swap transactions) transactions entered into and bonds issued by the Group are based on WIBOR reference rate, which will not be replaced by an alternative ratio (i.e. it was deemed to be compliant with the European Union's Regulations on reference rates). In the Group, there are also borrowings drawn in EUR and based on EURIBOR reference rate, which was reformed and adjusted to regulatory requirements.

in PLN millions, unless otherwise stated

Type of financial instrument	Current reference rate	Carrying amount as at 31 December 2021
Long-term bank loans	USD LIBOR 3M	(2)
	USD LIBOR 1M	(11)
Short-term bank loans	USD LIBOR 3M	-
	USD LIBOR 1M	(3)
Reverse factoring	USD LIBOR 6M	1
	USD LIBOR 1M	2
Total		**(13)**

- **Amendments to IFRS 16 regarding COVID-19-related rent concessions after 30 June 2021 (applied by the Group prior to their entry into force).**

  Moreover, the Group decided for an earlier application of amendments to IFRS 16 regarding COVID-19-related rent concessions after 30 June 2021, which were adopted for use by the European Union and apply to annual periods which began on or after 1 April 2021. These amendments extended the optional and related to the coronavirus pandemic (COVID-19) relief of operational requirements for lessees making use of the option to temporarily suspend lease payments to 30 June 2022. Pursuant to the so-called "practical expedient", when a lessee obtains a lease relief due to COVID-19, the lessee does not have to assess whether this relief is a modification of a lease, and instead recognises this change in the accounting books as if this change was not a modification. The impact of this amendment on the consolidated financial statements is immaterial.

- **Amendments to IFRS 4 regarding the extension of the temporary exemption from IFRS 9**
  Amendments to the standard were adopted by the European Union up to the date of publication of these financial statements and they did not have an impact on the Group's accounting policy or on the consolidated financial statements for 2021.

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

Published standards and interpretations which are not yet in force, adopted for use by the European Union:

- **IFRS 17** Insurance contracts and amendments to IFRS 17 published in 2020, effective from or after 1 January 2023.
- **Amendments to IFRS 3** on references to the Conceptual Framework, effective from 1 January 2022.
- **Amendments to IAS 16** on proceeds before intended use of an item of property, plant and equipment, effective from or after 1 January 2022, and applies retrospectively to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by the management on or after the beginning of the earliest period presented in the financial statements in which an entity first applies the amendments. Pursuant to the amendments proceeds from selling items produced when an item of property, plant and equipment is brought to the necessary location and condition (e.g. test production), together with associated costs, should be recognised in profit or loss for the period. The Group will apply the amendments to IAS 16 beginning on 1 January 2022, however the Group did not identify significant items that would have to be adjusted as at or after 1 January 2021.
- **Amendments to IAS 37** on cost of fulfilling onerous contracts, specifying the concept of costs of fulfilling a contract in order to properly assess whether the contract is onerous, effective from or after 1 January 2022.
- **Amendments to IAS 1 and Practice Statement 2** on disclosures of accounting policies, effective from or after 1 January 2023. In this standard, the requirement to disclosure the entity's „significant" accounting policies was replaced by the requirement to disclose „material" accounting policies. Information on accounting policies are material if considered together with other information contained within the financial statements, could reasonably influence decisions made by their main users on the basis of these financial statements.
- **Amendments to IAS 8** on the introduction of a definition of accounting estimates, effective from or after 1 January 2023. Pursuant to the amended standard, accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty. The introduction of this definition will help entities with distinguishing between amendments to accounting policies and amendments to accounting estimates.
- **Annual amendments to IFRS, 2018-2020** – amendments to IAS 41, IFRS 1, IFRS 9, effective from 1 January 2022.

Published standards and interpretations which are not yet in force, awaiting the adoption for use by the European Union:

- **IFRS 14 Regulatory deferral accounts,** effective from or after 1 January 2016.

- **Amendments to IFRS 17** published in 2021, effective from or after 1 January 2023.
- **Amendments to IFRS 10 and IAS 28** on sale or contribution of assets between an Investor and its Associate or Joint Venture (date of entry into force was not specified).
- **Amendments to IAS 1** on classification of liabilities as current or non-current (including changes due to deferral of effective date), effective from or after 1 January 2023. The standard introduces changes clarifying conditions necessary to recognise financial liabilities as non-current. Such recognition will be possible only if the entity has the unconditional right to defer settlement of a liability for over 12 months after the reporting date and at the same time the entity's intent as to the early repayment will not have an impact on this recognition. If amendments to IAS 1 were applied by the Group in these consolidated financial statements, the presentation of borrowings as at 31 December 2021 would not change.
- **Amendments to IAS 12** on deferred tax related to assets and liabilities arising from a single transaction, effective from or after 1 January 2023. This standard introduces clarifications to paragraphs 15 and 24 that the recognition exemption on deferred tax related to assets and liabilities does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. In the Group's opinion, the first application of the aforementioned change will not have a significant impact on the consolidated financial statements.

The Group intends to apply all of the amendments at their effective dates, except for IFRS 17, which will not have an impact on the Group's consolidated financial statements. In the Group's opinion as at 31 December 2021, the other amendments to 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.

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: Victoria, 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: Victoria, 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 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,
- KGHM Centrum Analityki Sp. z o.o.

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.

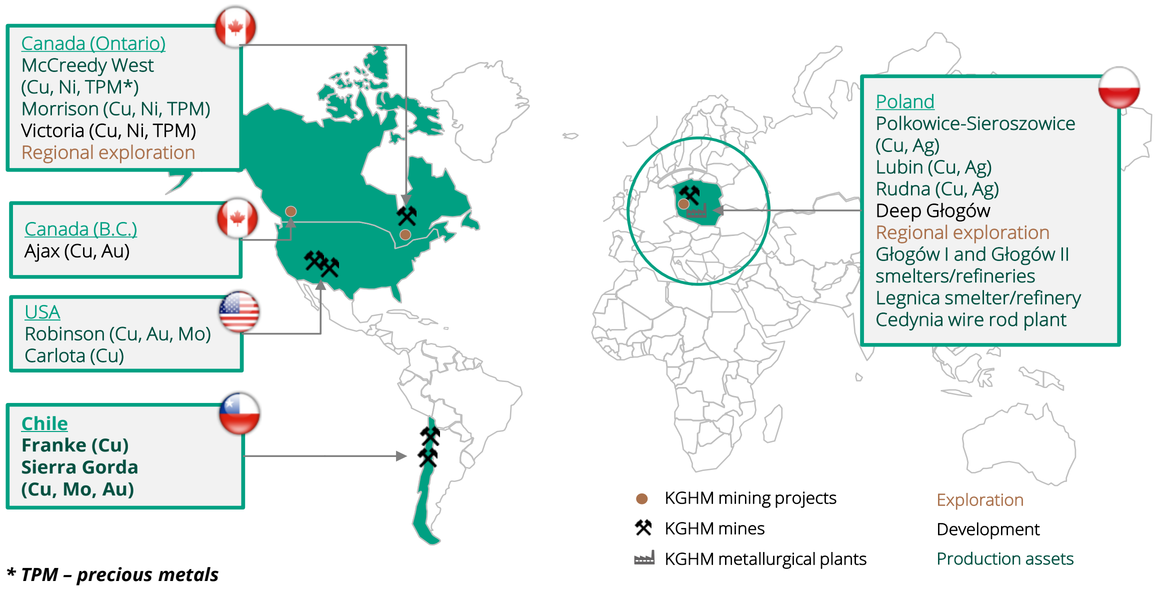
Each of the segments KGHM Polska Miedź S.A., KGHM INTERNATIONAL LTD. and Sierra Gorda S.C.M. have their own Management Board, which reports the results of their business activities to the Management Board of the Parent Entity.

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 S.C.M. 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 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 taxes (current and deferred income tax as well as the mining tax), finance income and costs, other operating income and costs, profit or loss on involvement in joint ventures, depreciation/amortisation and recognition/reversal of impairment losses on property, plant and equipment and intangible assets 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 2021 to 31 December 2021						
						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:**	**24 618**	**3 125**	**4 585**	**10 329**	**(4 585)**	**(8 269)**	**29 803**
	- inter-segment	408	-	-	7 861	-	(8 269)	-
	- external	24 210	3 125	4 585	2 468	(4 585)	-	29 803
	Segment result – profit/(loss) for the period	**5 169**	**2 632**	**3 178**	**(140)**	**(3 178)**	**(1 506)**	**6 155**
	Additional information on significant revenue/cost items of the segment							
	Depreciation/amortisation recognised in profit or loss	(1 363)	(516)	(777)	(258)	777	14	(2 123)
	(Recognition)/reversal of impairment losses on non-current assets, including:	1 742	2 200	2 639	(216)	(2 639)	(1 680)	2 046
	(recognition)/reversal of impairment losses on investments in subsidiaries	1 010	-	-	(86)	-	(924)	-
	(recognition)/reversal of allowances for impairment of loans granted	752	2 380	-	-	-	(752)	2 380
		As at 31 December 2021						
	Assets, including:	**43 458**	**13 646**	**12 232**	**6 066**	**(12 232)**	**(15 143)**	**48 027**
	Segment assets	43 458	13 646	12 232	6 066	(12 232)	(15 172)	47 998
	Assets unallocated to segments	-	-	-	-	-	29	29
	Liabilities, including:	**17 618**	**18 185**	**12 844**	**3 339**	**(12 844)**	**(18 253)**	**20 889**
	Segment liabilities	17 618	18 185	12 844	3 339	(12 844)	(18 299)	20 843
	Liabilities unallocated to segments	-	-	-	-	-	46	46

	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
Other information	from 1 January 2021 to 31 December 2021						
Cash expenditures on property, plant and equipment and intangible assets – cash flows	2 407	1 014	605	490	(605)	(21)	3 890
Production and cost data	from 1 January 2021 to 31 December 2021						
Payable copper (kt)	577.6	71.7	104.4				
Molybdenum (million pounds)	-	0.2	8.2				
Silver (t)	1 332.2	2.0	31.9				
TPM (koz t)	81.3	51.3	30.9				
(C1) cash cost of producing payable copper (USD/lb PLN/lb)**	2.26 8.73	2.01 7.78	0.78 3.01				
Segment result - adjusted EBITDA	**5 474**	**1 340**	**3 167**	**346**	**-**	**-**	**10 327**
EBITDA margin* **	**22%**	**43%**	**69%**	**3%**	**-**	**-**	**30%**

** 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 (30%), the consolidated revenues from contracts with customers were increased by revenues from contracts with customers of the segment Sierra Gorda S.C.M. [10 327 / (29 803 + 4 585) * 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

		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						
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

	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 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				
Silver (t)	1 322.9	1.8	27.6				
TPM (koz t)	96.8	66.0	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 contracts with customers were increased by revenues from contracts with customers 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

Reconciliation of adjusted EBITDA

	from 1 January 2021 to 31 December 2021						
	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	**5 169**	**2 632**	**(140)**	**(1 506)**	**6 155**	**3 178**	
[-] Profit or loss on involvement in joint ventures	**-**	**2 874**	**-**	**-**	**2 874**	**-**	
[-] Current and deferred income tax	(1 547)	1	(63)	(60)	(1 669)	(1 059)	
[-] Depreciation/amortisation recognised in profit or loss	(1 363)	(516)	(258)	14	(2 123)	(777)	
[-] Finance income and (costs)	(476)	(974)	(19)	998	(471)	(787)	
[-] Other operating income and (costs)	3 088	69	(19)	(2 427)	711	(5)	
[-] (Recognition)/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	(7)	(162)	(127)	(3)	(299)	2 639	
Segment result - adjusted EBITDA	**5 474**	**1 340**	**346**	**(28)**	**7 132**	**3 167**	**10 327**

** 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.*

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)	1 019	(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.*

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 2021:

- 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 (including distribution of electricity, other utilities and mine construction 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. Since in the majority of sales transactions, following the shipment of the promised good and transferring control over it, the Group has an unconditional right to consideration from the customer, and the only condition of receiving it is time lapse, the Group recognises the consideration from contracts with customers as receivables and therefore the Group does not recognise contractual assets.

Moreover, 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 particular, in contracts for the sale of copper, silver and gold, every measurement unit of a transferred good (e.g. 1 tonne of copper or 1 kg of silver) is a separate performance obligation. Therefore, for every sale or transfer of goods, constituting a multiplication of a measurement unit of a transferred product, which is realised at the same time, the Group fulfils its performance obligation and at the same time recognises revenues.

In trade contracts in which the performance obligation is met at a specified time, the Group uses various payment conditions, 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. The consideration becomes due depending on contractual conditions, that is prior to the realisation of the delivery (prepayment) by the Group or after the Group meets its performance obligation. If the Group receives payment from the customer before it meets its performance obligation, it recognises it as contractual payables. However, in the case of deferred payments terms, the Group recognises due consideration from the customer as a receivable only after the transfer of promised products to the customer and the issuance of the 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 2021 and 2020, 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. At the same time, the Group allocates a part of the transaction price to the transport service and recognises these revenues over time.

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. to measure meters of drilled tunneling).

The contract with Franco Nevada

Performance obligation

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 to the customer 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.

Determination of the transaction price allocated to other performance obligations

If the Group has other performance obligations at the end of the reporting period, it is required to disclose the transaction price allocated to these performance obligations (IFRS 15.120-122). The Group applies a practical expedient and does not disclose performance obligations which are a part of a contract that has an original expected duration of one year or less. Moreover, the Group has long-term contracts with prices based mainly on a variable consideration, which is not included by the Group when estimating the transaction price.

Moreover, the Group (via the DMC company) advances long-term contracts 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 remained unsatisfied at the end of the reporting period, amounted to PLN 411 million, of which the amount of PLN 249 million will be realised in 2022, the amount of PLN 112 million will be realised in 2023 and the amount of PLN 50 million will be realised in or after 2024. These contracts do not have an element of variable consideration.

in PLN millions, unless otherwise stated

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

	from 1 January 2021 to 31 December 2021						
					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	19 079	2 325	3 756	8	(3 756)	(32)	**21 380**
Silver	3 990	8	95	-	(95)	-	**3 998**
Gold	548	243	212	-	(212)	-	**791**
Services	143	426	-	2 089	-	(1 581)	**1 077**
Energy	51	-	-	250	-	(167)	**134**
Salt	29	-	-	-	-	32	**61**
Blasting materials and explosives	-	-	-	219	-	(168)	**51**
Mining machinery, transport vehicles and other types of machinery and equipment	-	-	-	212	-	(171)	**41**
Fuel additives	-	-	-	123	-	-	**123**
Lead	271	-	-	-	-	-	**271**
Products from other non-ferrous metals	-	-	-	114	-	(4)	**110**
Steel	-	-	-	604	-	(66)	**538**
Petroleum and its derivatives		-	-	325	-	(275)	**50**
Other merchandise and materials	278	-	-	5 703	-	(5 518)	**463**
Other products	229	123	522	682	(522)	(319)	**715**
TOTAL	**24 618**	**3 125**	**4 585**	**10 329**	**(4 585)**	**(8 269)**	**29 803**

** 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						
					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**
Other 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

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

	from 1 January 2021 to 31 December 2021						
					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	**24 618**	**3 125**	**4 585**	**10 329**	**(4 585)**	**(8 269)**	**29 803**
Revenues from sales contracts, for which the sales price is set after the date of recognition of the sales (M+ principle), of which:	19 838	2 690	4 369	4 751	(4 369)	(4 648)	**22 631**
settled	18 952	2 621	1 874	4 751	(1 874)	(4 648)	**21 676**
unsettled	886	69	2 495	-	(2 495)	-	**955**
Revenues from realisation of long-term contracts for mine construction	-	403	-	220	-	(211)	**412**
Revenues from other sales contracts	4 780	32	216	5 358	(216)	(3 410)	**6 760**
Total revenues from contracts with customers, of which:	**24 618**	**3 125**	**4 585**	**10 329**	**(4 585)**	**(8 269)**	**29 803**
in factoring	8 575	-	-	106	-	(46)	**8 635**
not in factoring	16 043	3 125	4 585	10 223	(4 585)	(8 223)	**21 168**

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

	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Revenues from contracts with customers, of which:	**29 803**	**23 632**
Transferred at a certain moment	28 592	22 411
Transferred over time	1 211	1 221

in PLN millions, unless otherwise stated

	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 mine construction 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.*

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 2021 to 31 December 2021							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	KGHM Polska Miedź S.A. Group
Poland	5 896	-	11	9 966	(11)	(8 254)	7 608	5 680
Austria	428	-	-	29	-	-	457	182
Belgium	17	-	-	12	-	-	29	62
Bulgaria	36	-	-	5	-	-	41	19
Czechia	1 804	-	-	24	-	-	1 828	1 435
Denmark	43	-	-	1	-	-	44	20
Estonia	19	-	-	1	-	-	20	18
France	790	-	-	4	-	-	794	640
Spain	-	-	49	2	(49)	-	2	244
The Netherlands	3	-	87	1	(87)	-	4	2
Lithuania	2	-	-	10	-	-	12	-
Germany	3 702	-	2	85	(2)	-	3 787	3 155
Romania	255	-	-	3	-	-	258	179
Slovakia	123	-	-	17	-	-	140	98
Slovenia	147	-	-	3	-	-	150	73
Sweden	19	-	-	37	-	-	56	53
Hungary	1 123	-	-	6	-	-	1 129	693
The United Kingdom	1 283	-	-	7	-	-	1 290	2 255
Italy	1 999	-	-	23	-	-	2 022	1 118
Australia	1 020	-	-	-	-	-	1 020	843
Chile	-	202	573	-	(573)	(1)	201	34
China	2 875	1 283	2 768	-	(2 768)	-	4 158	3 388
India	-	-	28	-	(28)	-	-	1
Japan	1	138	879	-	(879)	-	139	61
Canada	16	519	-	-	-	(8)	527	473
South Korea	54	4	147	-	(147)	-	58	150
Norway	-	-	-	15	-	-	15	14
Russia	-	-	-	31	-	(5)	26	29
The United States of America	1 361	892	-	9	-	(1)	2 261	1 140
Switzerland	589	-	-	1	-	-	590	715
Turkey	123	-	-	7	-	-	130	92
Vietnam	336	-	-	-	-	-	336	95
Philippines	4	87	-	-	-	-	91	159
Malaysia	47	-	-	-	-	-	47	46
Brazil	8	-	41	-	(41)	-	8	4
Taiwan	-	-	-	-	-	-	-	220
Thailand	463	-	-	-	-	-	463	186
Other countries	32	-	-	30	-	-	62	56
TOTAL	24 618	3 125	4 585	10 329	(4 585)	(8 269)	29 803	23 632

**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 2021 to 31 December 2021 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 2021	As at 31 December 2020
Poland	23 545	22 502
Canada	1 577	1 441
The United States of America	1 765	1 416
Chile	229	353
Other countries	94	16
TOTAL*	**27 210**	**25 728**

**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 9 813 million as at 31 December 2021 (PLN 8 319 million as at 31 December 2020).*

Part 3 – Impairment of assets

Note 3.1. Impairment of assets as at 31 December 2021

TEST FOR THE IMPAIRMENT OF ASSETS OF THE KGHM INTERNATIONAL LTD. GROUP – the Segment KGHM INTERNATIONAL LTD.
As at 30 June 2021, as a result of the identification of indications of a possible change in the recoverable amount of some of the international mining assets of the KGHM INTERNATIONAL LTD. Group, the Parent Entity's Management Board performed impairment testing of these assets. The following cash generating units (CGUs) have been selected for the purpose of evaluation of the recoverable amount of the assets of the KGHM INTERNATIONAL LTD. Group, in which indications of a possible change in the recoverable amount were identified: • The Robinson mine, • The Sudbury Basin, comprising the Morrison mine and the McCreedy mine, • The pre-operational Victoria project, • The Ajax project. The key indications to perform impairment testing were: • a change in market forecasts of commodities prices, • the decision to commence the process of preparing to sell some of the assets located in the Sudbury CGU (this does not include the Victoria project in the pre-operational phase, which remains within the KGHM INTERNATIONAL LTD. Group as a strategic asset), • a change in technical and economic parameters for the KGHM INTERNATIONAL LTD. Group's CGU Sudbury mine assets in terms of production volumes, planned operating costs and capital expenditures during the life of a mine. The main indications that the recoverable amount may be higher than the carrying amount, with the consequent justification for the reversal of previously recognised impairment losses, were increases in the price paths for copper, gold, palladium and silver. The main indications that the recoverable amount may be lower than the carrying amount, with the consequent necessity for the recognition of an additional impairment loss, were as follows: • a decrease in the price paths for nickel, • a change in technical and economic parameters of assets of the CGU Sudbury, among others the deferment of re-commencement of production, lower expected production volume, an increase in the expected capital expenditures during the life of a mine. In order to determine the recoverable amount of assets of individual CGUs, in the test conducted the fair value (decreased by estimated costs to sell) was calculated using the DCF method, i.e. the method of discounted cash flows, for the following CGUs: Sudbury, Victoria and the value in use for the CGU Robinson.

Basic macroeconomic assumptions adopted for impairment testing as at 30 June 2021 – metal prices
Price paths were adopted on the basis of long-term forecasts available from financial and analytical institutions. A detailed forecast is being prepared for the period 2022-2026, while for the period 2027-2031 a technical adjustment of prices was applied between the last year of the detailed forecast and 2032, from which a long-term metal price forecast is used as follows: – for copper – 7 000 USD/t (3.18 USD/lb); – for gold – 1 500 USD/oz; – for nickel – 7.25 USD/lb.

Assumption adopted for impairment testing as at 30 June 2021	Victoria	Sudbury	Robinson
Mine life / forecast period	14	14	7
Level of copper production during mine life (kt)	249	43	358
Level of nickel production during mine life (kt)	221	23	-
Level of gold production during mine life (koz t)	157	27	263
Average operating margin during mine life	62%	27%	43%
Capital expenditures to be incurred during mine life [USD million]	1 530	157	410
Applied discount rate after taxation for assets in the operational phase*	-	7.5%	7.5%
Applied discount rate after taxation for assets in the pre-operational phase	10.5%	-	-
Costs to sell	2%		
Level of fair value hierarchy to which the measurement at fair value was classified	Level 3		

** The presented data of the CGU Robinson is post-taxation despite the model of measuring the value in use. The use of pre-taxation data does not significantly impact the recoverable amount.*

Key factors responsible for the modification of technical and economic assumptions adopted for impairment testing as at 30 June 2021	
Sudbury	The inclusion in production of copper and precious metals mineralisation zones („700 Zone" and „PM Zone") and exclusion of a nickel zone („Intermain Orebody"). Deferment of re-commencement of the Levack mine up to 2027 and a decrease of the production volume.

Results of the test performed as at 30 June 2021 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
Victoria	KGHM INTERNATIONAL LTD.	280	1 065	280	1 065	-	-
Sudbury		43	164	43	164	-	-
Robinson		369	1 404	614	2 335	10**	38**

** The carrying amount of non-current assets decreased by the provision for future decommissioning costs of mines.*

***Despite estimating the recoverable amount of CGU Robinson at the level of USD 614 million (PLN 2 335 million), which was higher than the carrying amount of this CGU's assets by the amount of USD 245 million (PLN 932 million), the Group reversed, pursuant to IAS 36.117, impairment losses on assets of this CGU recognised in prior periods in the amount of USD 10 million (PLN 38 million), that is to the level of the carrying amount of assets, which would be determined (after deducting any accumulated depreciation/amortisation), if there was no recognition of impairment losses on these assets in prior periods.*

As a result of the conducted test, there was a reversal of an impairment loss on the assets of the CGU Robinson in the amount of PLN 38 million, which decreased the item "Cost of sales".

The results of tests performed as at 30 June 2021 for the CGU Victoria and the CGU Sudbury confirmed that their recoverable amounts are equal to their carrying amounts.

Sensitivity analysis of the recoverable amount of CGU Victoria (USD mn)	Recoverable amount
Discount rate 11%	247
Discount rate 10.5% (test)	**280**
Discount rate 10%	329

Sensitivity analysis of the recoverable amount of CGU Victoria (USD mn)	Recoverable amount
Copper price -0.10 $/lb	275
Copper price (test)	**280**
Copper price +0.10 $/lb	299

Sensitivity analysis of the recoverable amount of CGU Victoria (USD mn)	Recoverable amount
Nickel price -0.10 $/lb	238
Nickel price (test)	**280**
Nickel price +0.10 $/lb	336

Sensitivity analysis of the recoverable amount of CGU Robinson (USD mn)	Recoverable amount
Discount rate 8%	604
Discount rate 7.5% (test)	**614**
Discount rate 7%	625

Sensitivity analysis of the recoverable amount of CGU Robinson (USD mn)	Recoverable amount
Copper price -0.10 $/lb	564
Copper price (test)	**614**
Copper price +0.10 $/lb	665

The sensitivity analysis of the recoverable amount of the CGU Sudbury, due to the low carrying amount of assets, was not presented.

In the second half of 2021, as a result of the identification of indications of a possible change in the recoverable amount of the CGU Sudbury's mining assets of the KGHM INTERNATIONAL LTD. Group, the Parent Entity's Management Board performed impairment testing of these assets. The key indications to perform impairment testing and indicating that that the recoverable amount of assets may be lower than their carrying amount, and therefore it may be necessary to recognise an additional impairment loss, were the decision to abandon mining operations on the additional deposit and the decrease in efficiency of these assets. Production was halted in two of the mines in the CGU Sudbury, that is Morrison and Podolsky, and they are maintained without conducting mining operations. Moreover, results of another mine of this CGU – McCreedy – were below expectations in 2021, mainly due to a significant decrease in metal content in mined ore.

In order to determine the recoverable amount of the CGU Sudbury's assets, in the test conducted the fair value (decreased by estimated costs to sell) was calculated using the DCF method, i.e. the method of discounted cash flows.

The basic macroeconomic assumptions adopted for impairment testing as at 31 December 2021, that is metal prices, did not significantly change as compared to those adopted for impairment testing as at 30 June 2021.

Assumption adopted for impairment testing as at 31 December 2021	Sudbury
Mine life / forecast period	5
Level of copper production during mine life (kt)	14.8
Level of nickel production during mine life (kt)	3.7
Level of gold production during mine life (koz t)	14.1
Average operating margin during mine life	7%
Capital expenditures to be incurred during mine life [USD million]	14.28
Applied discount rate after taxation	7.5%
Costs to sell	2%
Level of fair value hierarchy to which the fair value measurement was classified	Level 3

Key factors responsible for the modification of technical and economic assumptions adopted for impairment testing as at 31 December 2021	
Sudbury	A decrease in production volume of McCreedy and Morrison/Levack, a decrease in the life of McCreedy mine to 2026.

Results of the test performed as at 31 December 2021 are presented in the following table:

CGU	Segment (Part 2)	Carrying amount*		Recoverable amount		Impairment loss	
		USD mn	PLN mn	USD mn	PLN mn	USD mn	PLN mn
Sudbury	KGHM INTERNATIONAL LTD.	41	166	0	0	41	166

** The carrying amount of non-current assets decreased by the provision for future decommissioning costs of mines.*

As a result of the conducted test, an impairment loss was recognised on the assets of CGU Sudbury in the following items: “Cost of sales” in the amount of PLN 162 million and “Other operating costs” in the amount of PLN 4 million.
The sensitivity analysis of the recoverable amount of CGU Sudbury was not presented due to the low carrying amount of assets.

Due to the fact that as at 30 June 2021 the Carlota and Franke mines (assets of the KGHM INTERNATIONAL LTD. Group) were reclassified to assets held for sale, their recognition and measurement at the moment of reclassification and as at 31 December 2021 were performed pursuant to IFRS 5 (Note 9.8).

in PLN millions, unless otherwise stated

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 2021, 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 2020. The carrying amount of water rights amounted to PLN 67 million as at 31 December 2021 (as at 31 December 2020: PLN 65 million).

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 of these assets. The main indications to perform impairment testing in the current reporting period were losses on principal activities, a significant increase in prices of CO_2 emissions rights and a risk of prolongation of the investment process related to the gas source in Legnica. As at 31 December 202, the carrying amount of the property, plant and equipment and intangible assets of WPEC S.A., decreased by the carrying amount of subsidies and land located in the town of Lubin and the carrying amount of CO_2 emission rights, amounted to PLN 106 million. For the purpose of estimating the recoverable amount, in the conducted test the fair value decreased by estimated costs to sell was measured, using the DCF method, i.e. the method of discounted cash flows.

Basic assumptions adopted for impairment testing	
Assumption	**Level adopted in testing**
Detailed forecast period	2022-2031
Operating margin range during the detailed forecast period	-3.24% - +3.25%
Capital expenditures during the detailed forecast period	PLN 202 million
Discount rate	3.86 % (real rate after taxation)
Growth rate following the forecast period	0%

The recoverable amount of tested property, plant and equipment was determined using an analysis of discounted forecasted cash flows. The adopted forecast period is 10 years. Extension of the forecast period is justified mainly, among others, by the significant and long-term impact of expected changes in the regulatory environment and in order to fully reflect the impact of planned capital expenditures,

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 and modernisation of heating networks.

in PLN millions, unless otherwise stated

For the forecast of costs for the years 2022 – 2031, the change in the heat generation technology in Legnica from 2024 and reduction of transmission losses will have a significant impact, and in particular:

- a 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 the amount of CO_2 emissions by approx. 50%;
- reorganisation of employment due the switch to a natural gas-based technology;
- reduction of heat losses in owned transmission infrastructure, related to the on-going modernisation of transmission infrastructure.

The aforementioned forecast takes into account significant changes in prices of CO_2 emission rights and energy which took place in the last period.

As the result of the aforementioned assumptions and with due prudence, the estimated EBIT will increase in the period 2022 – 2032 from the yearly level of –PLN 5 million to PLN 8 million.

The EBIT in 2032 in the amount of PLN 8 million is a basis to calculate free cash flows necessary to determine the residual value, which is estimated to be PLN 115 million.

As a result of the impairment testing of property, plant and equipment and intangible assets, the recoverable amount of assets was determined to be at the level of PLN 56 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 50 million 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 and the measurement of the residual value, which was determined based on EBIT from 2032. 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 for a given discount rate		
	lower by 1%	**per test**	**higher by 1%**
Discount rate 3.86 % (test)	**113**	**56**	**23**
	Recoverable amount for a given EBIT in a residual period		
	lower by 5%	**per test**	**higher by 5%**
EBIT in the residual period PLN 8 million (test)	**50**	**56**	**62**

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 0.91% or if EBIT increased by 43.2%.

in PLN millions, unless otherwise stated

TEST FOR THE IMPAIRMENT OF 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 property, plant and equipment and intangible assets of the company “Energetyka” sp. z o.o., the Company performed impairment testing of these assets. The key indication to perform impairment testing in the current reporting period were the following: worse than expected economic results and a significant increase in prices of CO_2 emissions rights. As at 31 December 2021, the carrying amount of tested non-current assets of “Energetyka” sp. z o.o. amounted to PLN 386 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	
Assumption	**Level adopted in testing**
Detailed forecast period	2022-2031
Operating margin range during the detailed forecast period	-0.43% - +2.07%
Capital expenditures during the detailed forecast period	PLN 313 million
Discount rate*	3.80% (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 a significant impact on the recoverable amount.*

The recoverable amount of tested property, plant and equipment was determined using an analysis of discounted forecasted cash flows. The adopted forecast period is 10 years. Extension of the forecast period is justified mainly by the significant and long-term impact of expected changes in the regulatory environment. Moreover, in the detailed forecast period it is necessary to present the impact of incurred capital expenditures, the increase in their amounts in the first forecast period (for the years 2022/2023) and the lack of necessity to incur them in similar amounts in subsequent years.

The approved Budget of the company for the years 2022 – 2026, adjusted due to significant changes in prices of CO_2 emissions rights and energy which took place recently , is the basis for the preparation of forecasts of revenues and costs.

The adopted level of capital expenditures in the forecast period concerns mainly modernisation and replacement tasks.

As the result of the aforementioned assumptions and with due prudence, the estimated EBIT will increase in the period 2022 – 2024 from the level of -PLN 3 million to PLN 17 million, while from 2025 to 2032 EBIT will be at the yearly level of PLN 16 million.

As a result of the impairment testing of the property, plant and equipment and intangible assets, the recoverable amount of tested assets was determined to be at the level of PLN 307 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 79 million in the item “Cost of sales”.

The measurement of tested non-current assets indicated a significant sensitivity to the adopted levels of discount rates and a moderate sensitivity to a change in EBIT which is a basis used to determine the residual value. The following table presents the impact of changes of these parameters on the measurement of assets.

in PLN millions, unless otherwise stated

Sensitivity analysis of the recoverable amount of property, plant and equipment of "Energetyka" sp. z o.o.			
	Recoverable amount for a given discount rate		
	lower by 1%	per test	higher by 1%
Discount rate 3.80 % (test)	431	307	234
	Recoverable amount for a given EBIT in a residual period		
	lower by 5%	per test	higher by 5%
EBIT in the residual period of PLN 16 million PLN (test)	292	307	322

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 to fell by 0.71 percentage point or EBIT increased by 26.3%.

Other impairment losses on assets

Other impairment losses on assets concern:

- fixed assets and intangible assets, PLN 49 million,
- fixed assets under construction and other intangible assets not yet available for use, PLN 34 million,
- write-down of inventories, PLN 47 million,
- allowances for impairment of receivables, PLN 13 million.

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

Note 3.2. 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 detailed 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 a 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 fair value decreased by estimated costs to sell was measured, using the DCF method, i.e. the method of discounted cash flows.

Basic assumptions adopted for impairment testing	
Assumption	**Level adopted in testing**
Detailed forecast period	2021-2030
Average operating margin during the detailed forecast period	0.02%
Capital expenditures during the detailed 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 town.

Currently applied prices and fee 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:

- a 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.

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.

in PLN millions, unless otherwise stated

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**
Detailed forecast period*	2021 - 2026	2021 - 2026	2021 - 2026	2021 - 2026
Average EBITDA margin during the detailed forecast period	18%	18%	16%	18%
EBITDA margin during the residual period	20%	21%	17%	20%
Capital expenditures during the detailed forecast period	PLN 60 mn	PLN 17 mn	PLN 11 mn	PLN 8 mn
Average notional discount rate during the detailed 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 detailed forecast period	2.0%	2.0%	2.0%	2.0%

** A 6-year detailed 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

in PLN millions, unless otherwise stated

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.

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 PLN millions, unless otherwise stated

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%

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 detailed forecast period and in the residual period**	9.12%
Notional growth rate following the detailed forecast period	2.00%
Average operating margin -during the detailed 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.*

in PLN millions, unless otherwise stated

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.

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 detailed 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**
Detailed 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.

Sensitivity analysis of the recoverable amount of property, land and equipment of POL-MIEDŹ TRANS Sp. z o.o.			
	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
	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.

in PLN millions, unless otherwise stated

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**
Detailed 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.			
	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
	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 consolidated statement of profit or loss is presented in note 4.4.

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 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Note 9.3	Depreciation of property, plant and equipment and amortisation of intangible assets	2 254	2 062
Note 11.1	Employee benefits expenses	6 443	5 884
	Materials and energy, including:	11 962	7 914
	purchased metal-bearing materials	7 132	3 974
	External services	2 200	2 226
Note 5.2	Minerals extraction tax	3 548	1 625
	Other taxes and charges	661	544
Note 4.4	Reversal of impairment losses on property, plant and equipment and intangible assets	(42)	(2)
Note 4.4	Reversal of write-down of inventories	(88)	(29)
	Advertising costs and representation expenses	72	61
	Property and personal insurance	76	65
Note 4.4	Impairment losses on property, plant and equipment and intangible assets*	340	162
Note 4.4	Write-down of inventories	47	127
	Other costs	64	62
	Total expenses by nature	**27 537**	**20 701**
	Cost of merchandise and materials sold (+)	790	672
	Change in inventories of finished goods and work in progress (+/-)	(1 544)	474
	Cost of products for internal use of the Group (-) **	(1 690)	(1 376)
	Total costs of sales, selling costs and administrative expenses, of which:	**25 093**	**20 471**
	Cost of sales	23 529	18 981
	Selling costs	450	432
	Administrative expenses	1 114	1 058

** 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 of open-pit mines.*

in PLN millions, unless otherwise stated

Note 4.2 Other operating income and (costs)

		from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Note 7.1	Gains on derivatives, of which:	383	378
	measurement of derivatives	208	208
	realisation of derivatives	175	170
	Interest income calculated using the effective interest rate method	1	4
Note 7.1	Exchange differences on assets and liabilities other than borrowings	994	-
	Reversal of impairment losses on fixed assets under construction	2	-
	Reversal of impairment losses on financial instruments	27	11
	Release of provisions	34	54
	Gains on disposal of intangible assets	1	30
	Gains on disposal of property, plant and equipment	57	-
	Government grants received	24	18
	Income from servicing of letters of credit and guarantees	66	49
	Compensation, fines and penalties received	34	19
	Refund of excise tax for previous years	5	53
	Compensation received due to the purchase of electricity for 2020*	39	-
	Other	90	86
	Total other operating income	**1 757**	**702**
Note 7.1	Losses on derivatives, of which:	(768)	(597)
	measurement of derivatives	(141)	(121)
	realisation of derivatives	(627)	(476)
Note 4.4	Recognition of impairment losses on financial instruments	(13)	(6)
	Fair value losses on financial assets	(39)	(10)
Note 4.4	Impairment losses on fixed assets under construction and intangible assets not yet available for use	(38)	(77)
Note 7.1	Exchange differences on assets and liabilities other than borrowings	-	(391)
	Provisions recognised	(88)	(52)
	Losses on disposal of property, plant and equipment	-	(39)
	Donations granted	(33)	(41)
	Other	(67)	(113)
	Total other operating costs	**(1 046)**	**(1 326)**
	Other operating income and (costs)	**711**	**(624)**

**Compensation granted as a result of allocating the costs of purchasing greenhouse gases emission rights to the price of electricity consumed in the production of products.*

in PLN millions, unless otherwise stated

Note 4.3 Finance income and (costs)

		from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Note 7.1	Exchange differences on measurement and realisation of borrowings	-	188
Note 7.1	Gains on derivatives - realisation of derivatives	70	70
	Other	-	1
	Total finance income	**70**	**259**
Note 7.1	Interest on borrowings including:	(94)	(131)
	leases	(13)	(13)
	Unwinding of the discount effect on provisions	(15)	(14)
	Bank fees and charges on drawn borrowings	(25)	(22)
Note 7.1	Losses on derivatives, of which:	(80)	(77)
	measurement of derivatives	(1)	-
	realisation of derivatives	(79)	(77)
Note 7.1	Exchange differences on measurement and realisation of borrowings	(299)	-
	Other	(28)	(43)
	Total finance costs	**(541)**	**(287)**
	Finance income and (costs)	**(471)**	**(28)**

in PLN millions, unless otherwise stated

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

		from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
	Reversal of impairment losses on assets recognised in:		
	cost of sales, of which:	**130**	**31**
Note 4.1	reversal of impairment loss on property, plant and equipment and intangible assets	42	2
	reversal of write-down of inventories	88	29
Note 6.2	**gains due to reversal of allowances for impairment of loans granted to a joint venture**	**2 380**	**74**
	other operating income, of which:	**32**	**12**
	reversal of impairment losses on fixed assets under construction	2	-
	reversal of an allowance for impairment of trade receivables	8	2
	reversal of an allowance for impairment of other financial receivables	19	9
	reversal of an allowance for impairment of other non-financial receivables	3	1
	Reversal of impairment losses, total	**2 542**	**117**
	Impairment losses on assets, recognised in:		
	cost of sales, of which:	**387**	**291**
Note 4.1	impairment loss on property, plant and equipment and intangible assets	340	162
	write-down of inventories	47	129
	other operating costs, of which:	**51**	**83**
Note 4.2	impairment losses on fixed assets under construction and intangible assets not yet available for use	38	77
Note 4.2	allowance for impairment of trade receivables	5	-
Note 4.2	allowance for impairment of other financial receivables	8	5
	allowance for impairment of loans granted	-	1
	Impairment losses, total	**438**	**374**

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. 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. On 6 October 2021, an agreement to extend the functioning of PGK KGHM II by 3 more tax years, that is from 2022 to 2024 was signed. The composition of PGK KGHM II did not change.

Income tax

		from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
	Current income tax	1 564	770
Note 5.1.1	Deferred income tax	124	191
	Tax adjustments for prior periods	(19)	(2)
	Income tax	**1 669**	**959**

In 2021, Group entities paid income tax in the amount of PLN 740 million (in 2020: PLN 667 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 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Profit before income tax	**7 824**	**2 756**
Tax calculated using the Parent Entity's rate (2021: 19%, 2020: 19%)	1 487	524
Effect of applying other tax rates abroad	118	(57)
Tax effect of non-taxable income	(19)	(39)
Tax effect of expenses not deductible for tax purposes, including:	798	441
the minerals extraction tax, which is not deductible for corporate income tax purposes	674	309
Deductible temporary differences in respect of which tax assets were not recognised	10	117
Utilisation in the period of previously-unrecognised tax losses	(590)	(22)
Adjustments of current income tax for prior periods	(19)	(2)
Tax losses and tax credits in the period from which there was no recognition of deferred tax assets	5	135
Deferred tax on eliminated interest on intra-Group loans	(92)	(110)
Other	(29)	(28)
Income tax in profit or loss [the effective tax rate amounted to 21.3% of profit before income tax (in 2020: 34.8% of profit before income tax)]	**1 669**	**959**

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.

in PLN millions, unless otherwise stated

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 assessment of 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.

	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Deferred net income tax at the beginning of the period, of which:	**(249)**	**(288)**
Deferred tax assets	193	157
Deferred tax liabilities	(442)	(445)
Deferred income tax during the period:	**(209)**	**39**
Recognised in profit or loss	(124)	(191)
Recognised in other comprehensive income	(62)	226
Exchange differences from translation of statements of operations with a functional currency other than PLN	(23)	4
Deferred net income tax at the end of the period, of which:	**(458)**	**(249)**
Deferred tax assets	185	193
Deferred tax liabilities	(643)	(442)

in PLN millions, unless otherwise stated

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

	Deferred tax assets		Deferred tax liabilities	
	As at 31 December 2021	As at 31 December 2020	As at 31 December 2021	As at 31 December 2020
Maturity over the 12 months from the end of the reporting period	86	101	(996)	(791)
Maturity of up to 12 months from the end of the reporting period	99	92	353	349
Total	**185**	**193**	**(643)**	**(442)**

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 2021				As at 31 December 2020			
	Unused tax losses	Expiry date	Unused tax credits	Expiry date	Unused tax losses	Expiry date	Unused tax credits	Expiry date
Luxembourg	333	indefinite	-	-	2 442	indefinite	-	-
	1 359	2034-2037			1 282	2034-2037	-	-
Chile	1 056	indefinite	-	-	975	indefinite	-	-
Canada	1 443	2026-2040	42	2030-2039	1 127	2026-2039	43	2030-2039
Other	17	2025	-	-	135	2021-2037	-	-
Total	**4 208**		**42**		**5 961**		**43**	

As at 31 December 2021, the amount of deductible temporary differences in respect of which the Group did not recognise a deferred tax asset amounted to PLN 2 704 million (as at 31 December 2020: PLN 2 575 million).

As at 31 December 2021, 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 962 million (as at 31 December 2020: PLN 806 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)

		Credited/(Charged)				Credited/(Charged)			
	As at 31 December 2019	profit or loss	other comprehensive income	exchange differences from translation of statements of operations with a functional currency other than PLN	As at 31 December 2020	profit or loss	other comprehensive income	exchange differences from translation of statements of operations with a functional currency other than PLN	As at 31 December 2021
Provision for decommissioning of mines and other technological facilities	**240**	13	-	-	**253**	(63)	-	1	**191**
Measurement of forward transaction other than hedging instruments	**21**	15	-	-	**36**	35	-	-	**71**
Difference between the depreciation rates of property, plant and equipment for accounting and tax purposes	**67**	26	-	-	**93**	(5)	-	-	**88**
Future employee benefits	**525**	13	62	-	**600**	(3)	(132)	-	**465**
Equity instruments measured at fair value	**140**	-	(36)	-	**104**	-	-	-	**104**
Lease liabilities	**63**	(2)	-	-	**61**	14	-		**75**
Interest	**157**	43	-	(3)	**197**	24	-	14	**235**
Recognition/reversal of impairment losses on assets	**31**	13	-	-	**44**	(41)	-	-	**3**
Short-term accruals for remuneration	**72**	24	-	-	**96**	17	-	-	**113**
Re-measurement of hedging instruments	**35**	-	200	-	**235**	-	70	-	**305**
Liabilities related to fixed fee due to setting mining usufruct	**31**	(1)	-	-	**30**	5	-	-	**35**
Employee benefits (holidays)	**11**	2	-	-	**13**	-	-	-	**13**
Unpaid remuneration with surcharges	**24**	-	-	-	**24**	-	-	-	**24**
Other	**219**	(8)	-	-	**211**	58	-		**269**
Total	**1 636**	**138**	**226**	**(3)**	**1 997**	**41**	**(62)**	**15**	**1 991**

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 2019	profit or loss	exchange differences from translation of statements of operations with a functional currency other than PLN	As at 31 December 2020	profit or loss	exchange differences from translation of statements of operations with a functional currency other than PLN	As at 31 December 2021
Measurement of forward transactions other than hedging instruments	**17**	18	-	**35**	15	-	**50**
Difference between the depreciation rates for accounting and tax purposes, including:	**1 411**	106	(3)	**1 514**	122	23	**1 659**
related to depreciation of right-to-use assets (IFRS 16)	**65**	(5)	-	**60**	11	-	**71**
Accrued interest	**361**	113	(4)	**470**	17	17	**504**
Other	**135**	92	-	**227**	11	(2)	**236**
Total	**1 924**	**329**	**(7)**	**2 246**	**165**	**38**	**2 449**

in PLN millions, unless otherwise stated

Note 5.2 Other taxes and charges

	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020	Basis for calculating tax	Tax rate	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020	
Minerals extraction tax, of which:	**3 548**	**1 625**			3 238	1 574	tax recognised in cost of sold products
- copper	3 012	1 236	Amount of copper in produced concentrate, expressed in tonnes	tax rate calculated for every reporting period*			
- silver	536	389	Amount of silver in produced concentrate, expressed in kilograms		310	51	tax recognised in inventories

** 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% from July 2019.*

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 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Poland	**572**	**484**
Real estate tax	250	234
Royalties	116	111
Excise tax	7	6
Environmental fees	21	18
Costs of surrender of CO_2 emission allowances	109	46
Other taxes and charges	69	69
Other countries	**118**	**78**
Total	**690**	**562**

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 2021	As at 31 December 2020
Current corporate income tax assets	16	32
Assets due to other taxes, social and health insurance and other benefits	352	263
Tax assets, of which:	**368**	**295**
recognised in assets held for sale (disposal group)	4	-
recognised as "deferred tax assets"	364	-

	As at 31 December 2021	As at 31 December 2020
Current corporate income tax liabilities	881	87
Liabilities due to other taxes	574	450
Tax liabilities, of which:	**1 455**	**537**
recognised in liabilities related to disposal group	2	-
recognised as "deferred tax liabilities"	1 453	-

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

	2021	2020
	Sierra Gorda S.C.M.	Sierra Gorda S.C.M.
As at 1 January	**-**	**-**
Acquisition of newly-issued shares	-	207
Share of net profit/(losses) of joint ventures accounted for using the equity method	3 178	(125)
Settlement of the Group's share of unsettled losses from prior years (accumulated comprehensive losses)	(2 920)	(114)
Exchange differences from the translation of statements of operations with a functional currency other than PLN	(258)	32
As at 31 December	**-**	**-**

in PLN millions, unless otherwise stated

	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
The Group's share (55%) of net profits/(losses) of Sierra Gorda S.C.M. for the reporting period, of which:	**3 178**	**(125)**
recognised in the valuation of the joint venture	3 178	(125)

Unsettled share of the Group of losses of Sierra Gorda S.C.M.	2021	2020
As at 1 January	(4 203)	(4 317)
Settlement of the Group's share of unsettled losses from prior years (accumulated comprehensive losses)	2 920	114
As at 31 December	**(1 283)**	**(4 203)**

As at 31 December 2021, the KGHM Polska Miedź S.A. Group's share of the unsettled accumulated losses of Sierra Gorda S.C.M amounted to PLN 1 283 million (USD 389 million), as at 31 December 2020: PLN 4 203 million (USD 1 178 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 the guarantee granted to Sierra Gorda S.C.M. to secure repayment of an instalment of the credit facility, which meets 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 2021	As at 31 December 2020
Sierra Gorda S.C.M.	Chile	55	50	-	-

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 2021	As at 31 December 2020
Non-current assets	**19 848**	**15 532**
Current assets, including:	**2 393**	**2 106**
Cash and cash equivalents	776	966
Non-current liabilities, including:	**21 768**	**20 618**
Borrowings and lease	1 713	543
Liabilities due to loans granted by jointly-controlling entities	19 531	18 985
Current liabilities, including:	**1 585**	**3 441**
Borrowings and lease	106	2 389
Carrying amount of net assets (incorporating the fair value measurement from date of obtaining joint control)	**(1 112)**	**(6 421)**
The Group's share in net assets (55%)	(612)	(3 532)
Total unrecognised accumulated share of losses of Sierra Gorda S.C.M. (accumulated comprehensive losses)	1 283	4 203
Balance of impairment loss on interest in Sierra Gorda S.C.M.	(671)	(671)
Value of the investment in the consolidated statement of financial position	**-**	**-**
	from 1 January 2021 to 31 December 2021	**from 1 January 2020 to 31 December 2020**
Revenues from contracts with customers	8 335	4 726
Depreciation/amortisation	(1 413)	(1 462)
Reversal of an impairment loss on property, plant and equipment*	4 799	-
Interest costs	(1 349)	(1 355)
Other incomes/(costs)	(2 670)	(2 513)
Profit/(loss) before income tax	**7 702**	**(604)**
Income tax	(1 924)	376
Profit/(loss) for the period	**5 778**	**(228)**
Exchange differences from the translation of Sierra Gorda S.C.M.'s net assets to the PLN presentation currency	**(469)**	**59**
Total comprehensive income	**5 309**	**(169)**

** As at 31 December 2021, due to the occurrence of indications that the recoverable amount of assets may be higher than their carrying amount, pursuant to IAS 36 Sierra Gorda S.C.M. performed impairment testing of assets. The key indications to perform testing were changes to forecasts of market pricing paths of commodities and change in technical and economic parameters of assets of the Cash Generating Unit (CGU) Sierra Gorda – Sierra Gorda is a single CGU. To determine the recoverable amount of assets during the testing, the fair value (decreased by costs to sell) was calculated using the DCF method, i.e. the method of discounted cash flows.*

Basic macroeconomic assumptions adopted for cash flow estimation – copper prices

Price paths were adopted on the basis of long-term forecasts available from financial and analytical institutions. A detailed forecast is being prepared for the period 2022-2026, while for the period 2027-2031 a technical adjustment of prices was applied between the last year of the detailed forecast and 2032, from which a long-term metal price forecast is used:

Period	2022	2023	2024	2025	2026	LT
Copper price [USD/t]	8 500	8 000	7 500	7 500	7 500	7 000
Gold price [USD/oz]	1 700	1 700	1 700	1 600	1 550	1 500

Other key assumptions used for estimation of cash flows	
Mine life / forecast period	23
Level of copper production during mine life [kt]	3 779
Level of molybdenum production during mine life [mn lbs]	227
Level of gold production during mine life (koz t)	1 035
Average operating margin during mine life	42.75%
Applied discount rate after taxation	7.50%
Capital expenditures to be incurred during mine life [USD million]	1 617

As a result of the testing, the recoverable amount of property, plant and equipment and intangible assets of the CGU Sierra Gorda was determined to be at the level of USD 3 670 million (PLN 14 900 million), which was higher than the carrying amount of the tested assets, which was the basis for recognising a reversal of an impairment loss in the amount of USD 1 181.9 million (PLN 4 799 million). The reversal of an impairment loss was recognised in the statement of profit or loss of Sierra Gorda S.C.M. in the item "Cost of sales".

The change in the recoverable amount of assets of Sierra Gorda S.C.M., resulting from a significant volatility of forecasted cash flows of Sierra Gorda S.C.M. to copper prices would not result in a reversal of impairment losses on shares of Sierra Gorda S.C.M. accounted for using the equity method, however it would have an impact on the measurement of fair value of loans granted to Sierra Gorda S.C.M. Such an analysis was presented in Note 7.5.2.4.

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

		As at 31 December 2021	As at 31 December 2020
	Group's share in commitments (investment and operating)	5 865	3 810
	Group's share in the total amount of future lease gross payments due to lease agreements for mining equipment	495	542
Note 8.6	Guarantees granted by the Group	670	1 814

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 repayments of loans by Sierra Gorda S.C.M. depends 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. Due to the good financial situation of the company, in 2021 there were first repayments in the total amount of USD 308 million (PLN 1 259 million). Other payments are planned for 2022, and therefore a part of the loan, in the amount of USD 110 million (PLN 447 million) was classified as a current receivable (payment took place in February 2022 – note 12.14 Subsequent events), and the other part, in the amount of USD 1 937 million (PLN 7 867 million) the Group presents 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 2021 in Sierra Gorda S.C.M.'s budget, which were subsequently discounted using the effective interest rate 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%.

		2021	2020
	As at 1 January	**6 069**	**5 694**
	Repayment of loans	(1 259)	-
	Accrued interest	494	377
Note 4.4	Gains due to the reversal of allowances for impairment	2 380	74
	Exchange differences from the translation of statements of operation with a functional currency other than PLN	630	(76)
	As at 31 December	**8 314**	**6 069**

The loan granted to Sierra Gorda S.C.M. has a fixed interest rate of 8%.

As at 31 December 2021, the Group estimated the expected cash flows on repayment of receivables due to loans granted to Sierra Gorda S.C.M., updated by more favourable metal prices as a result of which an allowance for impairment recognised at the moment of initial recognition of an asset was reversed in the amount of PLN 2 380 million (in the first half of 2021 an allowance for impairment was reversed in the amount of PLN 1 655 million, and in the second half of 2021 in the amount of PLN 725 million). In the comparable period an allowance for impairment was reversed in the amount of PLN 74 million. As at 31 December 2021, the unreversed amount of an allowance for impairment of the loan at the moment of initial recognition amounted to PLN 796 million (as at 31 December 2020: PLN 3 043 million).

Assumptions adopted for the estimation of cash flows of Sierra Gorda S.C.M. (commodity prices and other key assumptions) were presented in note 6.1.

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 2021: At fair value through other comprehensive income	At fair value through profit or loss	At amortised cost	Hedging instruments	Total	As at 31 December 2020: At fair value through other comprehensive income	At fair value through profit or loss	At amortised cost	Hedging instruments	Total
Non-current	615	32	8 366	585	**9 598**	618	58	6 670	749	**8 095**
Loans granted to a joint venture	-	-	7 867	-	**7 867**	-	-	6 069	-	**6 069**
Derivatives	-	10	-	585	**595**	-	40	-	749	**789**
Other financial instruments measured at fair value	615	22	-	-	**637**	618	18	-	-	**636**
Other financial instruments measured at amortised cost*	-	-	499	-	**499**	-	-	601	-	**601**
Current	-	632	2 920	249	**3 801**	-	489	3 086	199	**3 774**
Loans granted to a joint venture	-	-	447	-	**447**	-	-	-	-	**-**
Trade receivables*	-	627	397	-	**1 024**	-	478	356	-	**834**
Derivatives	-	5	-	249	**254**	-	11	-	199	**210**
Cash and cash equivalents*	-	-	1 904	-	**1 904**	-	-	2 522	-	**2 522**
Other financial assets	-	-	172	-	**172**	-	-	208	-	**208**
Total	**615**	**664**	**11 286**	**834**	**13 399**	**618**	**547**	**9 756**	**948**	**11 869**

** Including balances of assets and liabilities held for sale, presented in the tables below.*

in PLN millions, unless otherwise stated

Financial liabilities	As at 31 December 2021 At fair value through profit or loss	At amortised cost	Hedging instruments	Total	As at 31 December 2020 At fair value through profit or loss	At amortised cost	Hedging instruments	Total
Non-current	78	5 696	1 056	**6 830**	205	7 130	801	**8 136**
Borrowings, lease and debt securities*	-	5 475	-	**5 475**	-	6 928	-	**6 928**
Derivatives	78	-	1 056	**1 134**	205	-	801	**1 006**
Other financial liabilities	-	221	-	**221**	-	202	-	**202**
Current	200	3 587	848	**4 635**	127	4 101	603	**4 831**
Borrowings, lease and debt securities*	-	474	-	**474**	-	407	-	**407**
Derivatives	41	-	848	**889**	85	-	603	**688**
Trade payables*	-	2 919	-	**2 919**	-	2 329	-	**2 329**
Similar payables – reverse factoring**	-	95	-	**95**	-	1 264	-	**1 264**
Other financial liabilities*	159	99	-	**258**	42	101	-	**143**
Total	**278**	**9 283**	**1 904**	**11 465**	**332**	**11 231**	**1 404**	**12 967**

**Including balances of assets and liabilities held for sale presented in tables below.*
*** The main goal in implementing the reverse factoring program was to guarantee the efficient management of working capital while ensuring the timely repayment of trade payables towards the Group's suppliers. It should be assumed that reverse factoring in the Group represents a tool which is utilised as needed. In particular, in 2019, given the conditions of economic uncertainty resulting from the pandemic, the use of this tool substantially supported the goal set.*
As the economic situation stabilised and macroeconomic conditions improved, the Parent Entity reduced debt drawn to cover potential problems on the financial market and at the same time gradually restricted participation in the reverse factoring program (detailed information in Note 10.3).

in PLN millions, unless otherwise stated

Financial assets held for sale (disposal group)	As at 31 December 2021 At fair value through profit or loss	At amortised cost	Total
Non-current	-	3	**3**
Other financial instruments measured at amortised cost	-	3	**3**
Current	13	22	**35**
Trade receivables	13	2	**15**
Cash and cash equivalents	-	20	**20**
Total	**13**	**25**	**38**

Financial liabilities at amortised cost – liabilities related to disposal group	As at 31 December 2021
Non-current	**66**
Borrowings, lease and debt securities	66
Current	**66**
Borrowings, lease and debt securities	19
Trade payables	40
Other financial liabilities	7
Total	**132**

Financial assets – excluding assets held for sale (disposal group)	As at 31 December 2021 At fair value through other comprehensive income	At fair value through profit or loss	At amortised cost	Hedging instruments	Total
Non-current	615	32	8 363	585	**9 595**
Loans granted to a joint venture	-	-	7 867	-	**7 867**
Derivatives	-	10	-	585	**595**
Other financial instruments measured at fair value	615	22	-	-	**637**
Other financial instruments measured at amortised cost	-	-	496	-	**496**
Current	-	619	2 898	249	**3 766**
Loans granted to a joint venture	-	-	447	-	**447**
Trade receivables	-	614	395	-	**1 009**
Derivatives	-	5	-	249	**254**
Cash and cash equivalents	-	-	1 884	-	**1 884**
Other financial assets	-	-	172	-	**172**
Total	**615**	**651**	**11 261**	**834**	**13 361**

in PLN millions, unless otherwise stated

Financial liabilities – excluding liabilities related to disposal group	As at 31 December 2021 At fair value through profit or loss	At amortised cost	Hedging instruments	Total
Non-current	78	5 630	1 056	**6 764**
Borrowings, lease and debt securities	-	5 409	-	**5 409**
Derivatives	78	-	1 056	**1 134**
Other financial liabilities	-	221	-	**221**
Current	200	3 521	848	**4 569**
Borrowings, lease and debt securities	-	455	-	**455**
Derivatives	41	-	848	**889**
Trade payables	-	2 879	-	**2 879**
Similar payables – reverse factoring	-	95	-	**95**
Other financial liabilities	159	92	-	**251**
Total	**278**	**9 151**	**1 904**	**11 333**

in PLN millions, unless otherwise stated

Gains/(losses) on financial instruments

	from 1 January 2021 to 31 December 2021	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	-	495	-	-	**495**
Note 6.2	Gains due to the reversal of allowances for impairment of loans granted to a joint venture	-	2 380	-	-	**2 380**
Note 4.3	Interest costs	-	-	(94)	-	**(94)**
Note 4.2	Foreign exchange gains/(losses)	181	1 358	(545)	-	**994**
Note 4.3	Foreign exchange losses	-	-	(299)	-	**(299)**
Note 4.4	Reversal of impairment losses	-	27	-	-	**27**
Note 4.4	Impairment losses	-	(13)	-	-	**(13)**
Note 7.2	Revenues from contracts with customers	-	-	-	(1 651)	**(1 651)**
Note 4.2	Gains on measurement and realisation of derivatives	383	-	-	-	**383**
Note 4.2	Losses on measurement and realisation of derivatives	(768)	-	-	-	**(768)**
Note 4.3	Gains on realisation of derivatives	70	-	-	-	**70**
Note 4.3	Losses on measurement and realisation of derivatives	(80)	-	-	-	**(80)**
Note 4.3	Fees and charges on bank loans drawn	-	-	(25)	-	**(25)**
	Other losses	(39)	-	(8)	-	**(47)**
	Total net gain/(loss)	**(253)**	**4 247**	**(971)**	**(1 651)**	**1 372**

in PLN millions, unless otherwise stated

	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 a joint venture	-	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 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**

in PLN millions, unless otherwise stated

The fair value hierarchy of financial instruments

Classes of financial instruments	As at 31 December 2021 fair value level 1	level 2	level 3	carrying amount	As at 31 December 2020 fair value level 1	level 2	level 3	carrying amount
Loans granted	-	22	8 193*	8 336	-	18	5 998	6 087
Listed shares	516	-	-	516	523	-	-	523
Unquoted shares	-	99	-	99	-	95	-	95
Trade receivables	-	627	-	627	-	478	-	478
Derivatives, of which:	-	(1 174)	-	(1 174)	-	(695)	-	(695)
Assets	-	849	-	849	-	999	-	999
Liabilities	-	(2 023)	-	(2 023)	-	(1 694)	-	(1 694)
Received long-term bank and other loans	-	(2 913)	-	(2 901)	-	(4 358)	-	(4 342)
Long-term debt securities	(2 034)	-	-	(2 000)	(2 024)	-	-	(2 000)
Other financial liabilities	-	(159)	-	(159)	-	(42)	-	(42)

**Details may be found in: Methods and measurement techniques used by the Group in determining fair values of each class of financial assets or financial liabilities, Level 3, Loans granted*

The Group does not disclose the fair value of financial instruments measured at amortised cost (except for 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 7.29. (Disclosure of information on fair value is not required when the carrying amount is approximate to the fair value).

There was no transfer in the Group of financial instruments between individual levels of the fair value hierarchy in the current reporting period.

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
The fair value of receivables/payables due to the settlement of derivatives, whose date of payment falls two working days after the end of the reporting period was set per the reference price applied in the settlement of these transactions.

Currency and currency-interest derivatives
To determine the fair value of derivatives on the currency market and currency-interest transactions (CIRS), the forward prices from the maturity dates of individual transactions were used. 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 options on currency markets.

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

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

Loans granted
Loans granted measured at amortised cost in the statement of financial position are included in this category, because of the use of unobservable assumptions in the fair value measurement. With respect to estimating the fair value of these loans, a significant element of the estimation are the forecasted cash flows of Sierra Gorda S.C.M., which are unobservable input data, and pursuant to IFRS 13 the fair value of these assets is classified to level 3 of the hierarchy. The discount rate adopted to calculate the fair value of loans measured at amortised cost is 8%.

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.

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 Group recognises in other reserves from measurement of financial instruments a part of the change of the hedging instrument arising from changes in the time value of the option, the forward element and currency margin. 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 the 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.

Important estimates, assumptions and judgments
Assumptions and estimates adopted for the measurement of fair value of derivatives were presented in note 7.1, in point „Methods and measurement techniques used by the Group in determining fair values of each class of financial asset or financial liability” and in tables in point 7.2. of this part.

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 2021					As at 31 December 2020				
	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), including:	**585**	**249**	**(1 056)**	**(848)**	**(1 070)**	**749**	**199**	**(801)**	**(604)**	**(457)**
Derivatives – Metals (price of copper, silver)										
Options – *collar* (copper)	-	-	-	-	**-**	1	1	(35)	(355)	**(388)**
Options – *seagull** (copper)	299	89	(578)	(837)	**(1 027)**	235	14	(432)	(242)	**(425)**
Purchased put option (copper)	-	-	-	-	**-**	-	17	-	-	**17**
Options – *collar* (silver)	11	97	-	-	**108**	-	-	-	-	**-**
Options – *seagull** (silver)	92	49	(14)	-	**127**	-	-	-	-	**-**
Purchased put option (silver)	-	-	-	-	**-**	311	91	(107)	(7)	**288**
Derivatives – Currency (USDPLN exchange rate)										
Options – *collar*	1	5	(2)	(6)	**(2)**	-	-	-	-	**-**
Options – *seagull**	20	9	(31)	(5)	**(7)**	202	-	(29)	-	**173**
Options – *put spread**	-	-	-	-	**-**	-	44	-	-	**44**
Purchased put option	-	-	-	-	**-**	-	32	-	-	**32**
Derivatives – Currency-interest rate										
Cross Currency Interest Rate Swap CIRS	162	-	(431)	-	**(269)**	-	-	(198)	-	**(198)**
Trade instruments, including:	**6**	**3**	**(73)**	**(40)**	**(104)**	**8**	**11**	**(201)**	**(75)**	**(257)**
Derivatives – Metals (price of copper, silver, gold)										
Sold put option (copper)	-	-	(57)	(6)	**(63)**	-	-	(41)	(1)	**(42)**
QP adjustment *swap* transactions (copper)	-	-	-	(5)	**(5)**	-	-	-	(7)	**(7)**
Sold put option (silver)	-	-	(10)	(3)	**(13)**	-	-	(54)	(3)	**(57)**
Purchased put option (silver)	-	2	-	-	**2**	-	-	-	-	**-**
Purchased call option (silver)	1	-	-	-	**1**	-	-	-	-	**-**
QP adjustment *swap* transactions (gold)	-	-	-	(2)	**(2)**	-	1	-	(1)	**-**
Derivatives – Currency										
Sold put option (USDPLN)	-	-	(5)	(2)	**(7)**	-	-	(81)	(1)	**(82)**
Purchased put option (USDPLN)	1	1	-	-	**2**	4	-	-	-	**4**
Purchased call option (USDPLN)	4	-	-	-	**4**	4	10	-	-	**14**
Collars and *forwards/swaps* (EURPLN)	-	-	(1)	(1)	**(2)**	-	-	(1)	(2)	**(3)**
Embedded derivatives (price of copper, silver, gold)										
Acid and water supply contracts	-	-	-	-	**-**	-	-	(24)	(33)	**(57)**
Purchase contracts for metal-bearing materials	-	-	-	(21)	**(21)**	-	-		(27)	**(27)**
Instruments initially designated as hedging instruments excluded from hedge accounting, including:	**4**	**2**	**(5)**	**(1)**	**-**	**32**	**-**	**(4)**	**(9)**	**19**
Derivatives – Currency (USDPLN exchange rate)										
Options – *collar*	-	-	-	-	**-**	-	-	-	(2)	**(2)**
Options – *seagull*	4	2	(4)	(1)	**1**	32	-	(4)	(7)	**21**
Derivatives – Metals (price of silver)										
Options – *seagull*	-	-	(1)	-	**(1)**	-	-	-	-	-
TOTAL OPEN DERIVATIVES	**595**	**254**	**(1 134)**	**(889)**	**(1 174)**	**789**	**210**	**(1 006)**	**(688)**	**(695)**

** 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 opened as at 31 December 2020.*

The table below presents detailed data on derivative transactions designated as hedging, held by the Parent Entity as at 31 December 2021.

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/ounce] [USD/PLN] [USD/PLN, LIBOR]	from	to	from	to
Copper – *seagulls**	243 000	7 553-9 227	Jan'22	- Dec'23	Feb'22	- Jan'24
Silver – *collars*	6.60	26.36-55.00	Jan'22	- Dec'22	Feb'22	- Jan'23
Silver – *seagulls**	7.80	26.00-42.00	Jan'22	- Dec'23	Feb'22	- Jan'24
Currency – *collars*	240	3.85-4.60	July'22	- Dec'22	Aug'22	Jan'23
Currency – *seagulls**	630	3.94-4.54	Jan'22	- Dec'23	Feb'22	- Jan'24
Currency – interest rate – CIRS**	400	3.78 and 3.23%		June '24		June '24
Currency - interest rate – CIRS**	1 600	3.81 and 3.94%		June '29	June '29	- July '29

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

** Settlements of interest payments are made periodically, on a half-year basis, until the moment of the realisation of the transaction.

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/ounce] [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 options	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 options	240	3.80	Jan '21	- Dec '21	Jan '21	- Dec '21
Currency – interest rate – CIRS**	400	3.78 and 3.23%		June '24		June '24
Currency – interest rate – CIRS**	1 600	3.81 and 3.94%		June '29	June '29	- July '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.

** Settlements of interest payments are made periodically, on a half-year basis, until the moment of the realisation of the transaction.

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 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Revenues from contracts with customers	(1 651)	323
Other operating and finance income / (costs):	(429)	(244)
realisation of derivatives	(461)	(313)
measurement of derivatives	66	87
interest on borrowings	(34)	(18)
Impact of derivatives and hedging instruments on profit or loss for the period (excluding the tax effect)	**(2 080)**	**79**
Statement of other comprehensive income		
Impact of measurement of hedging transactions (effective portion)	(2 431)	(1 026)
Reclassification to revenues from contracts with customers due to realisation of a hedged item	1 651	(323)
Reclassification to finance costs due to realisation of a hedged item	34	18
Reclassification to other operating costs due to realisation of a hedged item (settlement of the hedging cost)	379	281
Impact of hedging transactions (excluding the tax effect)	**(367)**	**(1 050)**
TOTAL COMPREHENSIVE INCOME	**(2 447)**	**(971)**

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

in PLN millions, unless otherwise stated

Important estimates, assumptions and judgments
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 loan's fair value is set at the present value of future cash flows, including any change in market risk and credit risk factors during the loans' life.

	As at 31 December 2021	As at 31 December 2020
Shares of listed companies (Warsaw Stock Exchange and TSX Venture Exchange), of which:	516	523
TAURON POLSKA ENERGIA S.A.	483	496
GRUPA AZOTY S.A.	27	22
ABACUS MINING & EXPLORATION CORPORATION	1	1
Other shares quoted on TSX Venture Exchange	5	4
Unquoted shares	99	95
Loans granted	22	18
Other financial instruments measured at fair value, of which:	**637**	**636**
recognised in assets held for sale (disposal group)	-	-
recognised as "other financial instruments measured at fair value"	637	-

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 2021 as well as in 2020, 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.

in PLN millions, unless otherwise stated

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

	As at 31 December 2021	Percentage change of share price		As at 31 December 2020	Percentage change of share price	
		12%	-12%		14%	-13%
	Carrying amount	Other comprehensive income	Other comprehensive income	Carrying amount	Other comprehensive income	Other comprehensive income
Listed shares	**516**	63	(63)	**523**	71	(66)

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.

		As at 31 December 2021	As at 31 December 2020
	Non-current financial assets designated for decommissioning mines and restoring tailings storage facilities	**427**	**401**
	Cash held in the Mine Closure Fund and Tailings Storage Facility Restoration Fund*	427	401
	Other non-current financial receivables, including:	**72**	**200**
	Trade receivables, including:	2	35
	management fee for Sierra Gorda S.C.M.	-	32
Note 7.1	**Total, of which:**	**499**	**601**
	recognised in assets held for sale (disposal group)	3	-
	recognised as "other financial instruments measured at amortised cost"	496	-

** 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 exposure 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.

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.

in PLN millions, unless otherwise stated

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 2020-2021 is presented in the table below:

	from 1 January 2021 to 31 December 2021			from 1 January 2020 to 31 December 2020		
	Net	Sales	Purchase	Net	Sales	Purchase
Copper [t]	432 910	628 011	195 101	468 623	634 042	165 419
Silver [t]	1 222	1 251	29	1 352	1 376	24

The notional amount of copper price hedging strategies settled in 2021 represented approx. 44% (in 2020: 34%) of the total sales of this metal realised by the Parent Entity (it represented approx. 67% of net sales[1] in 2021 and 47% in 2020). The notional amount of silver price hedging strategies settled in 2021 represented approx. 25% of the total sales of this metal realised by the Parent Entity (in 2020: 8%).

As part of the realisation of the strategic plan to hedge the Company against market risk, in 2021 *seagull* hedging strategies were implemented on the copper market for the period from January 2022 to December 2023 for a total notional amount of 87 thousand tonnes. Moreover, a hedging position on the copper market was restructured. Call options were purchased for the period from March to December 2021 for a total notional amount of 155 thousand tonnes, and therefore the participation in potential further prices rises of *collar* and *seagull* option structures for 2021 owned was opened. As a part of restructuration the strike price for structures hedging revenues from sales of copper in the period from October to December 2021 for a total notional amount of 25.5 thousand tonnes was also increased. Moreover, a position on the forward silver market for the period from July 2021 to December 2022 was restructured. A part of previously-sold put options (11.7 million ounces) and call options (5.1 million ounces) entered into under *seagull* hedging strategies were redeemed, and also the strike price for sold call options for 2022 (6.6 million ounces) was increased.

In 2021 QP adjustment *swap* transactions were entered into on the copper and gold markets with maturities of up to June 2022, as part of the management of a net trading position[2].

As a result, as at 31 December 2021 the Parent Entity held open derivatives positions for 248.3 thousand tonnes of copper (of which: 243 thousand tonnes came from strategic management of market risk, while 5.3 thousand tonnes came from the management of a net trading position) and 14.4 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 2021, 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).

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

[2] *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

Hedging against copper price risk – open derivatives as at 31 December 2021

	Instrument/ Option	Notional	Option strike price: sold put option	purchased put option	sold call option	purchased call option	Average weighted premium	Effective hedge price
			hedge limited to	*copper price hedging*	*participation limited to*	*participation opened*		
		[tonnes]	[USD/t]	[USD/t]	[USD/t]	[USD/t]	[USD/t]	[USD/t]
1st half	seagull	30 000	4 600	6 300	7 500	-	(160)	6 140
	seagull	24 000	5 200	6 900	8 300	-	(196)	6 704
	seagull	6 000	6 700	9 200	11 400	-	(210)	8 990
	seagull	4 500	6 700	9 400	11 600	-	(250)	9 150
2nd half	seagull	30 000	4 600	6 300	7 500	-	(160)	6 140
	seagull	24 000	5 200	6 900	8 300	-	(196)	6 704
	seagull	15 000	6 000	9 000	11 400	-	(248)	8 752
	seagull	6 000	6 700	9 200	11 400	-	(210)	8 990
	seagull	4 500	6 700	9 400	11 600	-	(250)	9 150
	TOTAL 2022	**144 000**						
1st half	seagull	24 000	5 200	6 900	8 300	-	(196)	6 704
	seagull	15 000	6 000	9 000	11 400	-	(248)	8 752
	seagull	6 000	6 700	9 200	11 400	-	(210)	8 990
	seagull	4 500	6 700	9 400	11 600	-	(250	9 150
2nd half	seagull	24 000	5 200	6 900	8 300	-	(196)	6 704
	seagull	15 000	6 000	9 000	11 400	-	(248)	8 752
	seagull	6 000	6 700	9 200	11 400	-	(210)	8 990
	seagull	4 500	6 700	9 400	11 600	-	(250)	9 150
	TOTAL 2023	**99 000**						

Hedging against silver price risk – open derivatives as at 31 December 2021

	Instrument/ option	Notional	Option strike price: sold put option	purchased put option	sold call option	Average weighted premium	Effective hedge price
			hedge limited to	*silver price hedging*	*participation limited to*		
		[mn ounces]	[USD/ounce]	[USD/ounce]	[USD/ounce]	[USD/ounce]	[USD/ounce]
2022	seagull	3.60	16.00	26.00	42.00	(0.88)	25.12
	collar	2.40	-	27.00	55.00*	(2.08)	24.92
	collar	4.20	-	26.00	55.00*	(1.89)	24.11
	TOTAL 2022	**10.20**					
2023	seagull	4.20	16.00	26.00	42.00	(1.19)	24.81
	TOTAL 2023	**4.20**					

** As part of restructuration the strike price of sold call options was increased from 42 and 43 USD/ounce to 55 USD/ounce.*

in PLN millions, unless otherwise stated

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 – open derivatives as at 31 December 2020

	Instrument/ option	Notional	Option strike price: Sold put option	Option strike price: Purchased put option	Option strike price: Sold call option	Option strike price: Purchased call option	Average weighted premium	Effective hedge price
			hedge limited to	*copper price hedging*	*participation limited to*	*participation opened*		
		[tonnes]	[USD/t]	[USD/t]	[USD/t]	[USD/t]	[USD/t]	[USD/t]
1st half	Collar	42 000	-	5 200	6 600	-	(204)	4 996
1st half	Seagull	21 000	4 200	5 700	7 000	-	(130)	5 570
1st half	Seagull	30 000	4 600	6 300	7 500	-	(193)	6 107
1st half	Purchased put option	42 750	-	7 000	-	-	(247)	6 753
1st half	Purchased put option	17 250	-	6 900	-	-	(235)	6 665
2nd half	Collar	42 000	-	5 200	6 600	-	(204)	4 996
2nd half	Seagull	21 000	4 200	5 700	7 000	-	(130)	5 570
2nd half	Seagull	30 000	4 600	6 300	7 500	-	(193)	6 107
	TOTAL 2021	**246 000**						
2022	Seagull	60 000	4 600	6 300	7 500	-	(160)	6 140
2022	Seagull	48 000	5 200	6 900	8 300	-	(196)	6 704
	TOTAL 2022	**108 000**						
2023	Seagull	48 000	5 200	6 900	8 300	-	(196)	6 704
	TOTAL 2023	**48 000**						

Hedging against silver price risk – open derivatives as at 31 December 2020

	Instrument/ option	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	*silver price hedging*	*participation limited to*		
	[mn ounces]	[mn ounces]	[USD/ounce]	[USD/ounce]	[USD/ounce]	[USD/ounce]	[USD/ounce]
2021	Seagull	2.40	16.00	27.00	43.00	(1.42)	25.58
2021	Seagull	7.80	16.00	26.00	42.00	(1.04)	24.96
	TOTAL 2021	**10.20**					
2022	Seagull	2.40	16.00	27.00	43.00	(1.42)	25.58
2022	Seagull	7.80	16.00	26.00	42.00	(1.04)	24.96
	TOTAL 2022	**10.20**					
2023	Seagull	4.20	16.00	26.00	42.00	(1.19)	24.81
	TOTAL 2023	**4.20**					

In 2021 and in 2020, neither KGHM INTERNATIONAL LTD. nor any of the mining companies implemented any forward transactions on the commodity market.

As at 31 December 2021, the risk of changes in metals prices was also related to derivatives embedded in the purchase contracts for metal-bearing materials entered into by the Parent Entity.

in PLN millions, unless otherwise stated

An analysis of the Group's sensitivity to the risk of changes in copper, silver and gold prices in the years 2020-2021

Financial assets and liabilities as at 31 December 2021	Value at risk	Carrying amount 31 December 2021	Change in COPPER price [USD/t]				Change in SILVER price [USD/ ounce]				Change in GOLD price [USD/ ounce]	
			11 614 (+19%)		7 495 (-23%)		30.52 (+31%)		16.55 (-29%)		2 122 (+17%)	1 523 (-16%)
			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)	**(1 096)**	**(1 096)**	(74)	(1 770)	173	1 701	-	-	-	-	-	-
Derivatives (silver)	**224**	**224**	-	-	-	-	9	(192)	(39)	334		
Derivatives (gold)	**-**	**-**	-	-	-	-	-	-	-	-	(20)	20
Embedded derivatives (copper, silver, gold)	**(21)**	**(21)**	(129)	-	165	-	(1)	-	1	-	(11)	11
		Impact on profit or loss	**(203)**	**-**	**338**		**8**	**-**	**(38)**	**-**	**(31)**	**31**
		Impact on other comprehensive income	**-**	**(1 770)**	**-**	**1 701**	**-**	**(192)**	**-**	**334**	**-**	**-**

Financial assets and liabilities as at 31 December 2020	Value at risk	Carrying amount 31 December 2020	Change in COPPER price [USD/t]				Change in SILVER price [USD/ounce]				Change in GOLD price [USD/ounce]	
			9 204 (+19%)		6 033 (-22%)		34.37 (+30%)		18.44 (-30%)		2 216 (+17%)	1 576 (-17%)
			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 (copper, silver, gold)	**(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**	**-**	**-**

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. 28% (in 2020: 25%) of the total revenues from sales of copper and silver realised by the Parent Entity in 2021.

As part of the realisation of the strategic plan to hedge against market risk, in 2021 the Parent Entity purchased put options for a total of USD 1 050 million of planned sales revenues with maturities from February 2021 to June 2022 (including: USD 180 million for the period from January to June 2022). Moreover, collar option strategies were implemented with a total notional amount of USD 240 million and maturities from July 2022 to December 2022. Additionally, in terms of restructuration of an open position in derivatives, previously-sold put options with strike prices of USD/PLN 3.20 for the period from February to December 2021 and the notional amount of USD 495 million (USD 45 million monthly) were redeemed, and also put spread structures were entered into (put options were purchased with a strike price of USD/PLN 3.50 and simultaneously put options were sold with a strike price of USD/PLN 3.30) for the notional amount of USD 270 million, aimed at decreasing the strike price of put options sold as part of *seagull* option structures hedging revenues in the period from July 2022 to December 2023.

As a result, as at 31 December 2021 the Company held an open hedging position on the currency market for the notional amount of USD 1 050 million, and *Cross Currency Interest Rate Swap* (CIRS) transactions for the notional amount of PLN 2 billion, hedging revenues from sales in the currency as well as the variable interest of issued bonds.

The condensed table of open transactions in derivatives of the Parent Entity on the currency market as at 31 December 2021 is presented below (the hedged notional in the presented periods is allocated evenly on a monthly basis).

Hedging against USD/PLN currency risk - open derivatives as at 31 December 2021

	Instrument/ option	Notional	Option strike price: sold put option (hedge limited to)	purchased put option (exchange rate hedging)	sold call option (participation limited to)	Average weighted premium	Effective hedge price
		[USD mn]	[USD/PLN]	[USD/PLN]	[USD/PLN]	[PLN per USD 1]	[USD/PLN]
1st half	seagull	67.5	3.30	4.00	4.60	(0.01)	3.99
	seagull	90	3.50	3.90	4.50	0.04	3.94
	purchased put option	180	-	3.75	-	(0.04)	3.71
2nd half	seagull	67.5	3.30	4.00	4.60	(0.01)	3.99
	seagull	90	3.30	3.90	4.50	0.03	3.93
	collar	240	-	3.85	4.60	(0.04)	3.81
	TOTAL 2022	735					
2023	seagull	135	3.30	4.00	4.60	(0.00)	4.00
	seagull	180	3.30	3.90	4.50	(0.03)	3.93
	TOTAL 2023	315					

Hedging against USD/PLN currency risk – open derivatives as at 31 December 2020

	Instrument/ option	Notional	Option strike price: sold put option (hedge limited to)	purchased put option (exchange rate hedging)	sold call option (participation limited to)	Average weighted premium	Effective hedge price
		[USD mn]	[USD/PLN]	[USD/PLN]	[USD/PLN]	[PLN per USD 1]	[USD/PLN]
2021	Put spread	540	3.20	3.70	-	(0.09)	3.61
	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
	seagull	180	3.30	3.90	4.50	0.04	3.94
	TOTAL 2022	315					
2023	seagull	135	3.30	4.00	4.60	(0.00)	4.00
	seagull	180	3.30	3.90	4.50	(0.03)	3.93
	TOTAL 2023	315					

Hedging against currency-interest rate risk connected with the issue of bonds with a variable interest rate in PLN - open derivatives as at 31 December 2021 and as at 31 December 2020

	Instrument	Notional	Average interest rate	Average exchange rate
		[PLN mn]	[LIBOR]	[USD/PLN]
VI 2024	CIRS	400	3.23%	3,78
VI 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 2021 and 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 2021, following their translation to PLN, the bank loans and the investment loans which were drawn in USD amounted to PLN 2 980 million (as at 31 December 2020: PLN 4 321 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 2021				
	total PLN million	USD million	EUR million	CAD million	GBP million
Shares	**5**	-	-	2	-
Trade receivables	**515**	80	30	4	8
Cash and cash equivalents	**1 558**	341	20	23	2
Long-term loans granted to joint ventures	**7 867**	1 938	-	-	-
Short-term loans granted to joint ventures	**447**	110	-	-	-
Other financial assets	**150**	26	-	12	-
Derivatives *	**(1 174)**	220	-	-	-
Trade and similar payables	**(1 132)**	(167)	(87)	(16)	-
Borrowings	**(3 121)**	(736)	(18)	(15)	-
Other financial liabilities	**(177)**	(41)	(3)	-	-

**Transactions on the commodities market 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.*

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 and similar payables	**(1 283)**	(127)	(171)	(7)	1
Borrowings	**(4 518)**	(1 171)	(15)	(17)	-
Other financial liabilities	**(53)**	(12)	(2)	-	-

**Transactions on the commodities market 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.*

in PLN millions, unless otherwise stated

An analysis of the Group's sensitivity to the currency risk in 2021

Financial assets and liabilities as at 31 December 2021	Value at risk	Carrying amount 31 December 2021	Change in the USD/PLN exchange rate				Change in the EUR/PLN exchange rate		Change in the CAD/PLN exchange rate		Change in the GBP/PLN exchange rate	
			4.57 (+13%)		3.66 (-10%)		5.01 (+9%)	4.37 (-5%)	3.55 (+11%)	2.90 (-9%)	6.15 (+12%)	4.98 (-9%)
			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	**5**	**615**	-	-	-	-	-	-	1	-	-	-
Trade receivables	**515**	**1 026**	41	-	(32)	-	12	(7)	1	(1)	5	(4)
Cash and cash equivalents	**1 558**	**1 904**	175	-	(138)	-	8	(4)	8	(7)	1	(1)
Long-term loans granted to joint ventures	**7 867**	**7 867**	997	-	(782)	-	-	-	-	-	-	-
Short-term loans granted to joint ventures	**447**	**447**	57	-	(44)	-	-	-	-	-	-	-
Other financial assets	**150**	**671**	14	-	(11)	-	-	-	4	(3)	-	-
Derivatives	**(1 174)**	**(1 174)**	10	(646)	2	527	(7)	4	-	-	-	-
Trade and similar payables	**(1 132)**	**(3 201)**	(86)	-	67	-	(36)	20	(6)	5	-	-
Borrowings	**(3 121)**	**(5 949)**	(379)	-	297	-	(7)	4	(6)	4	-	-
Other financial liabilities	**(177)**	**(479)**	(21)	-	16	-	(1)	1	-	-	-	-
		Impact on profit or loss	**808**	**-**	**(625)**	**-**	**(31)**	**18**	**2**	**(2)**	**6**	**(5)**
		Impact on other comprehensive income		**(646)**		**527**	**-**	**-**	**-**	**-**	**-**	**-**

in PLN millions, unless otherwise stated

An analysis of the Group's sensitivity to the currency risk in 2020

Financial assets and liabilities as at 31 December 2020	Value at risk	Carrying amount 31 December 2020	Change in the USD/PLN exchange rate				Change in the EUR/PLN exchange rate		Change in the CAD/PLN exchange rate		Change in the GBP/PLN exchange rate	
			4.20 (+12%)		3.33 (-11%)		4.96 (+8%)	4.31 (-7%)	3.32 (+12%)	2.61 (-12%)	5.80 (+13%)	4.58 (-7%)
			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	**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**	**-**	**-**	**-**	**-**	**-**	**-**

in PLN millions, unless otherwise stated

Note 7.5.1.4 Interest rate risk

In 2021 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 2021			As at 31 December 2020		
		Cash flow risk	Fair value risk	Total	Cash flow risk	Fair value risk	Total
	Cash and cash equivalents*	2 333	-	**2 333**	2 924	-	**2 924**
	Loans granted	-	22	**22**	-	18	**18**
Note 7.1	Borrowings	(2 153)	(3 796)	**(5 949)**	(3 463)	(3 872)	**(7 335)**
	Similar payables**	(55)	-	**(55)**	(1 264)	-	**(1 264)**

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

** *In order to effectively manage the working capital and realise mutual payables arising from binding agreements with suppliers on time, during the period ended 31 December 2021, the Parent Entity performed reverse factoring agreements entered into in 2019 and 2020. 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. CIRS transactions opened as at 31 December 2021 and 31 December 2020 are presented in note 7.5.1.3.

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.

An analysis of the Company's sensitivity to interest rate risk, assuming changes in interest rates for the balance sheet items in PLN, USD and EUR (presented in basis points, bps) is presented in the following table. An expert method including recommendations of the ARMA model was used to determine the potential volatility of interest rates.

	31 December 2021 change in interest rate				31 December 2020 change in interest rate			
	+250 bps (PLN) +150 bps (USD, EUR)		-100 bps (PLN) -50 bps (USD, EUR)		+100 bps (PLN, USD, EUR)		-50 bps (PLN, EUR, USD)	
	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	32	-	(11)	-	25	-	(13)	-
Borrowings	(54)	-	21	-	(34)	-	17	-
Financial derivatives – interest rate	-	186	-	(66)	-	150	-	(80)
Similar payables	-	-	-	-	(1)	-	-	-
Impact on profit or loss	**(22)**	**-**	**10**	**-**	**(10)**	**-**	**4**	**-**
Impact on other comprehensive income	**-**	**186**	**-**	**(66)**	**-**	**150**	**-**	**(80)**

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 2020-2021.

In hedging relations, only the intrinsic value of the option is designated as a hedging instrument. 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 2020-2021 was immaterial.

	As at 31 December 2021		from 1 January 2021 to 31 December 2021	from 1 January 2021 to 31 December 2021	As at 31 December 2020		from 1 January 2020 to 31 December 2020	from 1 January 2020 to 31 December 2020
	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	(1 357)	-	979	(981)	(1 213)	-	630	(1 261)
intrinsic value	(1 027)	-	-	(976)	(595)	-	-	(635)
time value	(330)	-	-	(5)	(618)	-	-	(626)
Commodity risk (silver)								
Options – Sales revenue	92	15	(172)	14	89	-	(8)	88
intrinsic value	163	12	-	172	8	-	-	8
time value	(71)	3	-	(158)	81	-	-	80
Currency risk (USD)								
Options – Sales revenue	(1)	-	115	(192)	164	22	(147)	149
intrinsic value	23	-	-	(114)	132	15	-	125
time value	(24)	-	-	(78)	32	7	-	24
Loans – Sales revenue	-	(80)	-	-	-	(96)	-	-
intrinsic value	-	(80)	-	-	-	(96)	-	-
Currency-interest rate risk								
Options – Sales revenue	(431)	-	406	(371)	(61)	-	28	(21)
intrinsic value	(431)	-	-	(371)	(61)	-	-	(21)
Options – Finance income/costs	162	-	(332)	300	(138)	-	122	(104)
intrinsic value	162	-	-	300	(138)	-	-	(104)
Total, including:	**(1 535)**	**(65)**	**996**	**(1 230)**	**(1 159)**	**(74)**	**625**	**(1 149)**
Total intrinsic value	(1 110)	(68)	-	(989)	(654)	(81)	-	**(627)**
Total time value	(425)	3	-	(241)	(505)	7	-	**(522)**

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).

	from 1 January 2021 to 31 December 2021		from 1 January 2020 to 31 December 2020	
relation type *risk type* *instrument type*	**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*	(2 047)	(1 903)	(1 108)	145
Commodity risk (silver)				
Options*	(11)	(30)	89	(3)
Currency risk (USD)				
Options*	(260)	(72)	144	(76)
Loans**	-	(16)	-	(16)
Currency-interest rate risk				
CIRS***	(113)	(43)	(151)	(26)
Total	**(2 431)**	**(2 064)**	**(1 026)**	**24**

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 2021.

	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 2021	**(735)**	**(498)**	**(1 233)**
Impact of measurement of hedging transactions (effective part)	(2 128)	(303)	(2 431)
Reclassification to profit or loss due to realisation of hedged item	1 685	379	2 064
Other comprehensive income – transactions hedging against commodity and currency risk – as at 31 December 2021	**(1 178)**	**(422)**	**(1 600)**

* *Effective portion of changes in the fair value of hedging instruments due to hedged risk - intrinsic value of option.*
** *Time value of option + CCBS.*

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 portion of changes in the fair value of hedging instruments due to hedged risk - intrinsic value of option.*
** *Time value of option + CCBS.*

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 2021, the total amount of free and restricted cash and cash equivalents of PLN 1 904 million was held in bank accounts and in short-term deposits (in total as at 31 December 2020: PLN 2 522 million).

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 2021	As at 31 December 2020
Highest	from AAA to AA- according to S&P and Fitch, and from Aaa to Aa3 according to Moody's	22%	10%
Medium-high	from A+ to A- according to S&P and Fitch, and from A1 to A3 according to Moody's	53%	51%
Medium	from BBB+ to BBB- according to S&P and Fitch, and from Baa1 to Baa3 according to Moody's	25%	39%

**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 2021 the maximum single entity share of the amount exposed to credit risk arising from cash and bank deposits amounted to 41%, or PLN 778 million (as at 31 December 2020: 25%, or PLN 642 million).

	As at 31 December 2021	As at 31 December 2020
Counterparty 1	778	642
Counterparty 2	322	519
Counterparty 3	259	338
Counterparty 4	156	244
Counterparty 5	121	155
Other	268	624
Total	**1 904**	**2 522**

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[3].

	As at 31 December 2021				As at 31 December 2020			
	Financial receivables	Financial liabilities	Fair value	Exposure to credit risk	Financial receivables	Financial liabilities	Fair value	Exposure to credit risk
Counterparty 1	227	(195)	32	227	317	(431)	(114)	**317**
Counterparty 2	162	(112)	50	162	268	(195)	73	**268**
Counterparty 3	113	(437)	(324)	113	137	(272)	(135)	**137**
Counterparty 4	78	(57)	21	78	129	(359)	(230)	**129**
Other	279	(1 360)	(1 081)	279	148	(395)	(247)	**148**
Total	**859**	**(2 161)**	**(1 302)**	**859**	**999**	**(1 652)**	**(653)**	**999**
Open derivatives*	849	(2 002)	(1 153)		999	(1 610)	(611)	
Settled derivatives, net	10	(159)	(149)		-	(42)	(42)	

**excluding embedded derivatives*

Taking into consideration the receivables due to open derivatives transactions entered into by the Company (excluding embedded derivatives) as at 31 December 2021 and net receivables[4] due to settled derivatives, the maximum single entity share of the amount exposed to credit risk arising from these transactions amounted to 26%, or PLN 227 million (as at 31 December 2020: 32%, or PLN 317 million).[5]

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.

[3] Does not concern embedded derivatives.
[4] The Parent Entity offsets receivables and liabilities due to settled derivatives, for which the future flows are known at the end of the reporting period, pursuant to the principles of net settlements of cash flows adopted in framework agreements with individual customers.
[5] In 2021 the method of calculating the value at credit risk related to derivatives was changed – instead of the positive net fair value, only receivables due to open derivatives (excluding embedded derivatives) are taken into account as well as net receivables due to settled derivatives. The data as at 31 December 2020 were calculated in accordance with the new method.

in PLN millions, unless otherwise stated

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 2021	As at 31 December 2020
Medium-high	from A+ to A- according to S&P and Fitch, and from A1 to A3 according to Moody's	98%	97%
Medium	from BBB+ to BBB- according to S&P and Fitch, and from Baa1 to Baa3 according to Moody's	2%	3%

Note 7.5.2.3 Credit risk related to trade receivables

The following Group companies had significant trade receivables as at 31 December 2021: KGHM Polska Miedź S.A. PLN 537 million, the KGHM INTERNATIONAL LTD. Group PLN 219 million, CENTROZŁOM WROCŁAW S.A. PLN 88 million, WPEC w Legnicy S.A. PLN 39 million, NITROERG S.A. PLN 37 million, „MCZ" S.A. PLN 22 million, Metraco S.A. PLN 14 million, and WMN "Łabędy" PLN 12 million (as at 31 December 2020: 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, WMN "Łabędy" S.A. 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 2021, the amount of receivables transferred to factoring, for which payment from factors was not received, amounted to PLN 17 million (as at 31 December 2020: PLN 15 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 customers. In the case of new customers, an effort is made to ensure that sales are based on prepayments or trade financing instruments which 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 2021 the Parent Entity had secured 84% of its trade receivables (as at 31 December 2020, 75%).

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

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.

in PLN millions, unless otherwise stated

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 2021 the balance of receivables from the 7 largest customers represented 49% of trade receivables (2020: 42%). 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 2021	As at 31 December 2020
Poland	59%	38%
European Union (excluding Poland)	10%	14%
Asia	17%	13%
Other countries	14%	35%

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 2021, or the end of the reporting period, no deterioration of macroeconomic factors was noted. Despite the growing inflation, alongside the favourable performance of among others the GDP, unemployment rate, and also forecasts of these indicators, the Parent Entity did not note any deterioration of macroeconomic factors as at the end of the reporting period on 31 December 2021.

Important estimates and assumptions

	31 December 2021			31 December 2020		
Time frame	Percent of allowance for impairment*	Gross amount of receivables	Allowance for impairment in individual time frames**	Percent of allowance for impairment*	Gross amount of receivables	Allowance for impairment in individual time frames**
Not overdue	0.2-5.1	373	(3)	0.2-5.3	362	(8)
<1,30)	0.4-7.8	23	(1)	0.2-16	28	-

in PLN millions, unless otherwise stated

<30,60)	3.1-34.2	2	-	5.5-52.9	2	-
<60,90)	42.9-75.5	-	-	23.9-81.5	1	-
Default	100	37	(32)	100	51	(45)
Total		**435**	**(36)**		**444**	**(53)**

**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.

		2021	2020
	Gross amount as at 1 January	**444**	**548**
	Change in the balance of receivables	5	(102)
	Utilisation of a loss allowance in the period	(14)	(2)
Note 10.2	**Gross amount as at 31 December 2021**	**435**	**444**

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

		2021	2020
	Loss allowance for expected credit losses as at 1 January	**53**	**53**
	Change in allowance in the period recognised in profit or loss	(3)	2
	Utilisation of a loss allowance in the period	(14)	(2)
Note 10.2	**Loss allowance for expected credit losses as at 31 December**	**36**	**53**

As at 31 December 2021, disputed receivables amounted to PLN 35 million (as at 31 December 2020, 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.

in PLN millions, unless otherwise stated

The loan granted does not have collateral limiting the exposure to credit risk, therefore the maximum amount exposed to potential loss due to credit risk is the gross amount of the loan, less expected credit losses recognised pursuant to IFRS 9.

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

	2021	2020
Amount as at 1 January	**6 069**	**5 694**
Loans repaid	(1 259)	-
Interest accrued	494	377
Gains on reversal of allowances for impairment	2 380	74
Exchange differences from the translation of statements of operations with a functional currency other than PLN	630	(76)
Amount as at 31 December	**8 314**	**6 069**

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 2021, 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 - 2021	**2022**	**2023**	**2024**	**2025**	**2026**	**LT**
Base	8 500	8 000	7 500	7 500	7 500	7 000
Base minus 0.1 USD/lb during mine life (220 USD/tonne)	8 280	7 780	7 280	7 280	7 280	6 780
Base plus 0.1 USD/lb during mine life (220 USD/tonne)	8 720	8 220	7 720	7 720	7 720	7 220

Scenarios - 2020	**2021**	**2022**	**2023**	**2024**	**2025**	**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

in PLN millions, unless otherwise stated

Classes of financial instruments	Fair value	Carrying amount 31 December 2021	Sensitivity analysis of the fair value to changes in copper price*	
			Base plus 0.1 USD/lb during mine life	Base minus 0.1 USD/lb during mine life
Loans granted measured at amortised cost	**8 193** **	**8 314**	8 916	7 474

** Approximate estimation of fair value on the basis of an estimation of the total cash flows available on the level of Sierra Gorda S.C.M.*
*** USD 2 018 million*

The above approximate estimation of the fair value of cash flows available for the repayment of loans granted to Sierra Gorda S.C.M. was prepared on the basis of the total cash flows available to Sierra Gorda S.C.M. (55% attributable to the KGHM Group).
Business scenarios assumed by the Parent Entity's Management Board to measure the carrying amount of loans adopt a conservative approach, among others as to the moment the cash flows occur, and assuming that not all of the cash flows generated by Sierra Gorda S.C.M. will be used to repay the loans., Pursuant to the equity method, as at 31 December 2021 the Group measures the value of the interest in Sierra Gorda S.C.M. at the level of 0.

On 22 February 2022 the transaction was concluded for sale of the 45% share in the company Sierra Gorda S.C.M. by Sumitomo Metal Mining Co., Ltd. and Sumitomo Corporation to South32, the Australian mining group with its registered head office in Perth. The transaction was finished on the basis of sales agreements concluded on 14 October 2021.

Due to a number of factors, such as the lack of knowledge about the details of the negotiation process, the valuation assumptions made by the buyer and seller, and the fact that shares of Sierra Gorda S.C.M. are not listed, it is not justifiable to assess the value of loans by directly referring to the transaction price from the sale of the 45% interest in Sierra Gorda S.C.M. (i.e. participation in equity and loan receivables) by the seller following the end of the reporting period (the change of the partner in the joint venture Sierra Gorda S.C.M. is described in detail in note 12.14). Nevertheless, the Group made an additional comparison of the carrying amount of its own involvement in the joint venture Sierra Gorda S.C.M. (i.e. receivable due to a loan and investments in equity instruments) in order to verify that the total carrying amount does not differ substantially from the value that would result from the transaction price, taking into account: (i) limitations as to the Group's ability to obtain full knowledge of the process of reaching the transaction price, and (ii) differences in the applied discount rates for future expected cash flows obtainable from the JV (i.e. the effective interest rate for loan measurement according to IFRS 9, versus the rate of return expected by the investor in the valuation of the transaction price).
In the opinion of the Management Board, the value of loans estimated by the Group does not differ significantly from the value that would be determined by reference to the transaction price.

As a result, the estimated approximate fair value of total cash flows available to Sierra Gorda S.C.M. reflects the best possible estimate of the value of loans received from the owners as well as the value of interest held.

Classes of financial instruments	Fair value	Carrying amount 31 December 2020	Sensitivity analysis of the fair value to changes in copper price	
			Pessimistic	Optimistic
Loans granted measured at amortised cost	**5 998**	**6 069**	7 133	5 094

in PLN millions, unless otherwise stated

Note 7.5.2.5 Credit risk related to other financial assets

As at 31 December 2021, 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 429 million (as at 31 December 2020: 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.

Rating level		As at 31 December 2021	As at 31 December 2020
Highest	AAA to AA- according to S&P and Fitch, and from Aaa to Aa3 according to Moody's	10%	10%
Medium-high	from A+ to A- according to S&P and Fitch, and from A1 to A3 according to Moody's	90%	90%

	As at 31 December 2021	As at 31 December 2020
Counterparty 1	331	314
Counterparty 2	53	47
Counterparty 3	45	41
Total	**429**	**402**

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/Adjusted EBITDA ratio presented in the table below:

Ratios	Calculations	31 December 2021	31 December 2020
Net Debt/Adjusted EBITDA	relation of net debt to adjusted EBITDA	**0,6**	**0,9**
Net Debt*	borrowings, debt securities and lease liabilities less free cash and its equivalents	4 069	4 834
Adjusted EBITDA**	profit on sales plus depreciation/amortisation recognised in profit or loss and impairment losses on non-current assets	7 160	5 277

**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 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Profit on sales	4 710	3 161
Interest income on loans granted to a joint venture	494	377
Other operating income and (costs)	711	(624)
Adjusted operating profit*	**5 915**	**2 914**

** Presented amount does not include the profit due to reversal of allowances for impairment of loans granted to a joint venture.*

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 2021 and 31 December 2021, 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/Adjusted 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 statements of operations 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 2021 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 2021 and 31 December 2020 there were no changes in either registered share capital or in the number of issued shares.

In 2021, 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 2021 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 statements of operations with a functional currency other than PLN	Retained earnings
	As at 1 January 2020	**(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)	-	-
Note 1.2	Exchange differences from the translation of statements of operations 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**
	Transactions with owners - Dividend	-	-	-	-	-	(300)
	Profit for the period	-	-	-	-	-	6 156
	Fair value gains /(losses) on financial assets measured at fair value through other comprehensive income	22*	-	22	-	-	-
Note 7.2	Impact of effective cash flow hedging transactions entered into	-	(2 431)	(2 431)	-	-	-
Note 7.2	Amount transferred to profit or loss due to settlement of hedging instruments	-	2 064	2 064	-	-	-
Note 11.2	Actuarial gains on post-employment benefits	-	-	-	694	-	-
Note 1.2	Exchange differences from the translation of statements of operations with a functional currency other than PLN	-	-	-	-	(71)	-
Note 5.1.1	Deferred income tax	-	70	70	(132)	-	-
	Other comprehensive income	22	(297)	(273)	562	(71)	-
	Total comprehensive income	22	(297)	(273)	562	(71)	6 156
	Reclassification of the result on the disposal of equity instruments measured at fair value through other comprehensive income	-	-	-	-	-	(18)
	As at 31 December 2021	**(410)**	**(1 295)**	**(1 705)**	**(400)**	**2 619**	**24 532**

**PLN 18 million due to reclassification resulting from the disposal of equity instruments measured at fair value through other comprehensive income was recognised in other comprehensive income.*

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 2021 the statutory reserve capital in the Group's entities amounted to PLN 786 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 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 2021, 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 2021, the Parent Entity used the option to extend for the second time the term of an unsecured revolving syndicated credit facility agreement by one year, in the amount of USD 1 500 million (PLN 6 090 million) signed in 2019. As a result of Syndicate Members' decision, the available amount of financing granted in another extension period, that is from 20 December 2025 to 20 December 2026, will amount to USD 1 438 million (PLN 5 838 million).

in PLN millions, unless otherwise stated

Note 8.3.1 Contractual maturities for financial liabilities

Financial liabilities – as at 31 December 2021

	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	118	370	1 518	1 598	**3 604**	**3 303**
Debt securities liabilities	-	84	561	1 910	**2 555**	**2 001**
Lease liabilities	26	55	139	1 231	**1 451**	**645**
Trade payables	2 749	118	25	353	**3 245**	**3 106**
Similar payables – reverse factoring	26	69	-	-	**95**	**95**
Derivatives – currency contracts*	-	1	1	-	**2**	**57**
Derivatives – commodity contracts – metals*	144	611	313	-	**1 068**	**1 514**
Derivatives – interest rates	-	-	20	294	**314**	**431**
Embedded derivatives	21	-	-	-	**21**	**21**
Other financial liabilities	242	16	22	13	**293**	**292**
Total	**3 326**	**1 324**	**2 599**	**5 399**	**12 648**	**11 465**

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

Overdue liabilities

	Overdue period				
	up to 1 month	over 3 months to 12 months	over 1 year to 3 years	over 3 years	Total
Borrowings	-	1	7	3	11
Trade payables	29	1	21	1	52

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

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

in PLN millions, unless otherwise stated

Overdue liabilities

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

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 2021	As at 31 December 2020
	Bank loans	703	1 965
	Loans	2 198	2 377
	Debt securities	2 000	2 000
	Leases	574	586
Note 7.1	**Non-current liabilities due to borrowings**	**5 475**	**6 928**
	Bank loans	32	29
	Loans	370	308
	Debt securities	1	-
	Leases	71	70
Note 7.1	**Current liabilities due to borrowings**	**474**	**407**
	Total borrowings, of which:	**5 949**	**7 335**
	recognised in liabilities related to the disposal group	85	-
	recognised as “borrowings, lease and debt securities”	5 864	-
Note 8.5	Free cash and cash equivalents	1 880	2 501
	Net debt	**4 069**	**4 834**

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 2021	As at 31 December 2020
PLN/WIBOR	2 133	2 119
EUR/EURIBOR	20	26
EUR/fixed	63	42
USD/USD LIBOR	(16)	1 305
PLN/fixed	694	694
USD/fixed	3 004	3 094
CAD/fixed	49	51
Other	2	4
Total	**5 949**	**7 335**

As at 31 December 2021, the Group's liabilities due to borrowing, debt securities issued and leases, translated into PLN, amounted to PLN 5 949 million, or divided into currencies: USD 736 million, PLN 2 827 million, EUR 18 million, CAD 15 million and in other currencies in the amount of PLN 2 million (as at 31 December 2020 liabilities, translated into PLN, amounted to PLN 7 335 million, or divided into currencies: 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 2021, the balance of trade payables transferred to reverse factoring by the Group amounted to PLN 95 million (as at 31 December 2020: PLN 1 264 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 Group 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.

Note 8.4.2 Net debt changes

Liabilities due to borrowing	As at 31 December 2020	Cash flows	Accrued interest	Exchange differences	Other changes	As at 31 December 2021
Bank loans	1 994	(1 470)	62	150	(1)	735
Loans	2 685	(388)	79	190	2	2 568
Debt securities	2 000	(36)	37	-	-	2 001
Leases	656	(100)	31	-	58	645
Total debt	**7 335**	**(1 994)**	**209**	**340**	**59**	**5 949**
Free cash and cash equivalents	2 501	(621)	-	-	-	1 880
Net debt	**4 834**	**(1 373)**	**209**	**340**	**59**	**4 069**

in PLN millions, unless otherwise stated

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**

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

	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
I. Financing activities	**(1 872)**	**(528)**
Proceeds from borrowings	358	4 247
Repayment of borrowings	(2 078)	(4 513)
Repayment of lease liabilities	(67)	(97)
Repayment of interest on borrowings and debt securities	(70)	(152)
Repayment of interest on leases	(15)	(13)
II. Investing activities	**(122)**	**(129)**
Paid capitalised interest on borrowings	(122)	(129)
III. Changes in free cash and cash equivalents	**(621)**	**1 519**
TOTAL (I+II+III)	**(1 373)**	**(2 176)**

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 2021, the Group had open credit lines, loans and debt securities with a total balance of available financing in the amount of PLN 14 505 million, out of which PLN 5 304 million had been drawn (as at 31 December 2020 the Group had open credit lines and investment loans 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).

The structure of financing sources is presented below.

in PLN millions, unless otherwise stated

Unsecured, revolving syndicated credit facility

A credit facility in the amount of USD 1 500 million (PLN 6 090 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 2021 the Parent Entity received consent from Syndicate Members to extend the term of the agreement by another year, i.e. to 20 December 2026. The amount of available financing during the extension period will amount to USD 1 438 million (PLN 5 838 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 2021 and as at 31 December 2021, complied with the provisions of the agreement.

	2021	2021	2020
	Amount granted	Amount of the liability	Amount of the liability
	6 090	-	-
Preparatory fee		(14)	(17)
Carrying amount of liabilities due to bank loans		**(14)**	**(17)**

Investment loans

Loans, including investment loans granted to the Parent Entity by the European Investment Bank in the total amount of PLN 3 340 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 1 340 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 unutilised part of the loan in the amount of PLN 440 million, by which the amount of financing granted to the Parent Entity was increased in June 2021, is available until April 2023. 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 with the European Investment Bank 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 2021 and as at 31 December 2021, complied with the provisions of the loan agreements.

2021	2021	2020
Amount granted	Amount of the liability	Amount of the liability
3 538	2 568	2 685

in PLN millions, unless otherwise stated

Other bank loans

Bilateral bank loans in the total amount of PLN 2 877 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.

	2021	2021	2020
	Amount granted	Amount of the liability	Amount of the liability
	2 877	751	2 013
Preparatory fee		(2)	(2)
Carrying amount of liabilities due to bank loans		**749**	**2 011**

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.

	2021	2021	2020
	Nominal value of the issue	Amount of the liability	Amount of the liability
	2 000	2 001	2 000

Total bank and other loans, debt securities	**14 505**	**5 320**	**6 698**
Preparation fee which decreases liabilities due to bank loans		(16)	(19)
Carrying amount of liabilities due to bank and other loans, debt securities		**5 304**	**6 679**

The aforementioned sources ensure the availability of external financing in the amount of PLN 14 505 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 6 090 million), the investment loans in the amount of PLN 3 340 million, and bilateral bank loans granted to the Parent Entity in the amount of PLN 2 761 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 2021 amounted to PLN 343 million, including property, plant and equipment in the amount of PLN 217 million (as at 31 December 2020: PLN 454 million, including property, plant and equipment in the amount of PLN 325 million).

in PLN millions, unless otherwise stated

Note 8.5 Cash and cash equivalents

Accounting policies
Cash and cash equivalents include mainly cash in bank accounts and deposits with maturities of up to three months from the date of their placement (the same applies to the statement of cash flows). Cash is measured at its nominal amount plus interest, including a loss allowance for expected credit losses (Note 7.5.2.1).

		As at 31 December 2021	As at 31 December 2020
	Cash in bank accounts	1 151	1 841
	Other financial assets with a maturity of up to 3 months from the date of acquisition - deposits	744	675
	Other cash	9	6
	Total cash and cash equivalents, of which:	**1 904**	**2 522**
	recognised in assets held for sale (disposal group)	20	-
	recognised as "cash and cash equivalents"	1 884	-
	Restricted cash	24	21
Note 8.4.1	**Free cash and cash equivalents**	**1 880**	**2 501**

As at 31 December 2021, the Group had cash in bank deposits in the amount of PLN 31 million (as at 31 December 2020 PLN 71 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 of profits recognised in profit or loss on guarantees, or the amount of an allowance for 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 2021, the balance of liabilities of the Group due to guarantees and letters of credit granted amounted to a total of PLN 849 million (as at 31 December 2020, PLN 2 213 million) and due to promissory note payables amounted to PLN 173 million (as at 31 December 2020, PLN 171 million).

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

Sierra Gorda S.C.M. – a corporate guarantee in the amount of PLN 670 million (USD 165 million) set as security on the repayment of a tranche of a bank loan drawn by Sierra Gorda S.C.M. The guarantee's validity period falls on September 2024. The carrying amount of the liability due to a financial guarantee granted was recognised in the amount of PLN 58 million*,

other entities, including the Parent Entity:

- PLN 124 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 2020 in the amount of PLN 175 million),
- PLN 39 million (PLN 32 million and CAD 2 million) securing the obligations related to proper execution of agreements concluded (as at 31 December 2020 in the amount of PLN 21 million, or PLN 3 million, USD 3 million and CAD 2 million).

** the financial guarantee was recognised 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 liabilities due to guarantees and letters of credit granted 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.

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.

in PLN millions, unless otherwise stated

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

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. <u>Exploration and evaluation assets</u> 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 are subject to depreciation using the natural method as at 31 December 2021 amounted to PLN 1 169 million (as at 31 December 2020: PLN 1 115 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 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)	-	-	-	**-**
	Purchase	-	-	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 provision for decommissioning costs of mines and tailings storage facilities	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)**
	Reversal of impairment losses	-	-	-	-	-	-	**-**
	Exchange differences from the translation of statements of operations 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

		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
	Changes in 2021 net							
	Settlement of fixed assets under construction	1 320	1 213	(2 533)	-	-	-	**-**
	Purchase	-	-	1 832	6	71	224*	**2 133**
	Leases – new contracts, modification of existing contracts	24	14	-	-	-	-	**38**
	Stripping cost in surface mines	537	-	-	-	-	-	**537**
	Self-constructed	-	-	687	-	45	1	**733**
	Capitalised borrowing costs	-	-	171	-	1	1	**173**
Note 9.4	Change in provisions for decommissioning costs of mines and tailings storage facilities	(356)	-	-	-	-	-	**(356)**
Note 4.1	Depreciation/amortisation, of which:	(782)	(1 127)	-	-	-	(15)	**(1 924)**
	own fixed assets and intangible assets	(757)	(1 115)	-	-	-	(15)	**(1 887)**
	right-to-use (leased fixed assets)	(25)	(12)	-	-	-	-	**(37)**
Note 4.4	(Recognition)/reversal of impairment losses	(80)	(82)	(20)	-	(10)	(2)	**(194)**
	Exchange differences from the translation of statements of operations with a functional currency other than PLN	71	50	25	5	107	1	**259**
	Reclassification to assets held for sale	-	-	-	-	(176)	-	**(176)**
	Donations and gratuitous receipt of other entities' assets	-	-	-	-	-	268	**268**
	Other changes	6	33	(15)	(9)	(3)	(104)	**(92)**
	As at 31 December 2021							
	Gross carrying amount	21 852	16 851	5 791	253	3 095	1 295	**49 137**
	Accumulated depreciation/amortisation	(10 438)	(8 859)	-	-	-	(333)	**(19 630)**
	Impairment losses	(2 766)	(806)	(61)	(186)	(1 664)	(25)	**(5 508)**
	Net carrying amount, of which:	**8 648**	**7 186**	**5 730**	**67**	**1 431**	**937**	**23 999**
	own fixed assets and intangible assets, of which:	**8 191**	**7 152**	**5 730**	**67**	**1 431**	**937**	**23 508**
	recognised in assets held for sale (disposal group)	-	-	-	-	119	-	119
	recognised as "mining and metallurgical property, plant and equipment and intangible assets"	8 191	7 152	5 730	67	1 312	937	23 389
	leased fixed assets (right-to-use), of which:	**457**	**34**	**-**	**-**	**-**	**-**	**491**
	recognised in assets held for sale (disposal group)	-	-	-	**-**	**-**	**-**	-
	recognised as "mining and metallurgical property, plant and equipment and intangible assets"	457	34	-	**-**	**-**	**-**	491

**Purchase of the CO_2 emission rights*

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 2021	As at 31 December 2020
Deposit Access Program	2 796	2 420
Construction of the SW-4 shaft	565	589
Investment activity related to the development and operation of the Żelazny Most Tailings Storage Facility	424	1 133
Damówka pumping station with a backwater pipeline in the Tailings Division	131	103
BAT As – Installation for arsenic and mercury removal from gases before Solinox installation	113	52
Modernisation of the tankhouse at Głogów I Copper Smelter and Refinery – reconstruction of the roof and walls of the tankhouse	89	54
Optimisation of the Flash Furnace technology in the Głogów I Copper Smelter and Refinery, STAGE 2	12	65
Modernisation of a recovery boiler cleaning system at the Głogów I Copper Smelter and Refinery	-	58

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 2021		As at 31 December 2020	
		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	1 838	768	1 666	711
KGHM INTERNATIONAL LTD.	Expenditures related to exploratory work within the Ajax project	661	661	609	609

Note 9.1.3 Expenses related to mining and metallurgical assets

	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Purchase	(2 133)	(1 643)
Self-constructed fixed assets	(733)	(980)
Stripping costs of surface mines	(537)	(224)
Costs of external financing	(173)	(152)
Change in liabilities due to purchases	100	(134)
Other	93	73
Total*	**(3 383)**	**(3 060)**

** Including expenses on exploration and evaluation assets in the amount of PLN 91 million (in 2020: PLN 61 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 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**
	Settlement of fixed assets under construction	97	240	(337)	-	**-**
	Purchase	-	-	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

		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 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**
	Changes in 2021 net					
	Settlement of fixed assets under construction	83	385	(468)	-	**-**
	Purchase	-	-	307	138	**445**
	Self-constructed	-	-	78	1	**79**
	Leases – new contracts, modification of existing contracts	2	14	-	-	**16**
Note 4.1	Depreciation/amortisation, of which:	(84)	(221)	-	(25)	**(330)**
	own fixed assets and intangible assets	(83)	(203)	-	(25)	**(311)**
	right-to-use (leased fixed assets)	(1)	(18)	-	-	**(19)**
Note 4.4	(Recognition)/reversal of impairment losses	(55)	(81)	(4)	-	**(140)**
	Reclassification to assets held for sale	(2)	-	-	-	**(2)**
	Other changes	11	-	11	(5)	**17**
	As at 31 December 2021					
	Gross carrying amount	2 897	3 058	216	624	**6 795**
	Accumulated depreciation/amortisation	(993)	(1 676)	-	(230)	**(2 899)**
	Impairment losses	(404)	(258)	(5)	(144)	**(811)**
	Net carrying amount, of which:	**1 500**	**1 124**	**211**	**250**	**3 085**
	own fixed assets and intangible assets, of which:	**1 334**	**1 078**	**211**	**250**	**2 873**
	recognised in assets held for sale (disposal group)	197	11	2	-	210
	recognised as “other property, plant and equipment and intangible assets”	1 137	1 067	209	250	2 663
	leased fixed assets (right-to-use) , of which:	**166**	**46**	**-**	**-**	**212**
	recognised in assets held for sale (disposal group)	32	-	-	-	32
	recognised as “other property, plant and equipment and intangible assets”	134	46	-	-	180

in PLN millions, unless otherwise stated

Note 9.3 Depreciation/amortisation

		Property, plant and equipment		Intangible assets	
		from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020	from 1 January 2021 to 31 December 2021	From 1 January 2020 to 31 December 2020
Note 4.1	**Total**	**2 214**	**2 028**	**40**	**36**
	settled in profit or loss	2 086	1 931	37	32
	cost of manufacturing products	2 043	1 885	34	31
	administrative expenses	33	33	3	1
	selling costs	10	11	-	-
	other operating costs	-	2	-	-
	being part of the manufacturing cost of assets	128	97	3	4

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 provision for mine decommissioning.

Revaluation of this provision is made in two stages:

1) estimation of the costs of decommissioning mines to the current value in connection with the change in prices using the price change indices of construction-assembly production published by the Central Statistical Office.
2) discounting of the decommissioning costs to the current value using effective discount rates calculated based on the nominal interest rates and the inflation rate (quotient of the nominal rate and the inflation rate), whereby:
   – the nominal interest rate in the Parent Entity is based on the yield on treasury bonds at the end of the reporting period, with maturities nearest to the planned financial outflow; in the KGHM INTERNATIONAL LTD. Group - is the rate of return on investments in ten- and twenty-year treasury bills of the US Federal Reserve and the rate of return on investments in five–year treasury bonds issued by the governments of Canada and Chile.
   – the inflation rate is based on the forecast of future inflation used in the calculation of future employee benefits liabilities.

Important estimates, assumptions and judgments

At the end of the reporting period, with a bond yield of +/- 3.6% and inflation of +/- 7.6% (at the end of the comparable period: respectively +/-1.3% and +/-2.6%), the Parent Entity would receive a negative effective discount rate for 2021 and, in accordance with the adopted accounting policy for the purpose of the measurement of the provision for mine decommissioning and other technological facilities located in Poland, it applied an effective discount rate of "0%". The Parent Entity foresees that the situation will be similar in 2022, for which the "0%" rate was also adopted. Taking into account long-term inflation forecasts and the NBP's inflation target, it was assumed that from 2023 the effective discount rate would be slightly positive, and for the discount from 2023 and upwards, the rate was assumed to the level on 1.07%

In the current and comparable periods, for the purpose of the measurement of the provision for mine decommissioning and other technological facilities located in the United States of America and Canada, an effective discount rate of "0" was adopted due to the maintaining inflation at the level of the nominal discount rate.

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

Discount rates (nominal and inflation) are set separately for future periods, i.e. one, two and three years, and jointly for periods from the fourth year, provided that the effective discount rate cannot be lower than 0% (zero%). A change in the discount rate or in the estimated decommissioning cost adjusts the value of the relevant item of a fixed asset, unless it exceeds the carrying amount of the item of a fixed asset (any surplus above this amount is recognised in other operating income). The increase in the provision due to the time lapse is recognised in finance costs.	

		from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
	Provisions at the beginning of the reporting period	**1 884**	**1 794**
Note 9.1	Changes in estimates recognised in fixed assets	(356)	76
	Other	24	14
	Provisions at the end of the reporting period, of which:	**1 552**	**1 884**
	- non-current provisions, of which:	**1 531**	**1 849**
	recognised in liabilities related to disposal group	289	-
	recognised as "provisions for decommissioning costs of mines and other technological facilities"	1 242	1 849
	- current provisions, of which:	**21**	**35**
	recognised in liabilities related to disposal group	1	-
	recognised as "provisions for liabilities and other charges"	20	35

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

	As at 31 December 2021	As at 31 December 2020
increase in discount rate by 1 percentage point	(338)	(433)
decrease in discount rate by 1 percentage point*	4	4

**Assuming that the discount rate cannot fall below 0%.*

Note 9.5 Capitalised borrowing costs

During the period from 1 January 2021 to 31 December 2021, the Group recognised PLN 173 million of borrowing costs in property, plant and equipment and intangible assets.
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.
The capitalisation rate applied by the Group to determine borrowing costs in 2021 amounted to 2.98%, in 2020: 3.25%.

in PLN millions, unless otherwise stated

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

	As at 31 December 2021	As at 31 December 2020
Fixed assets under construction	-	49
Buildings	308	279
Motor vehicles	-	30
Technical equipment and machines	38	25
Land	6	6
Total	**352**	**389**

The carrying amount of assets representing collateral of repayment of financial liabilities as at 31 December 2021 amounted to PLN 352 million, including the carrying amount of assets set as collaterals of repayment of external financing of the companies of the KGHM Polska Miedź S.A. Group as at 31 December 2021 amounted to PLN 217 million(as at 31 December 2020: PLN 389 million and PLN 325 million, respectively).

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.

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.

in PLN millions, unless otherwise stated

		from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Note 9.1 Note 9.2	Depreciation/amortisation cost	56	69
Note 4.3	Interest cost	13	13
	Short-term lease cost	6	7
	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 measurement of lease liabilities	11	13
Note 8.4.2	Total cash outflows due to leases	100	128
Note 9.1 Note 9.2	Increase in right-to-use assets	54	58
		As at 31 December 2021	**As at 31 December 2020**
Note 9.1 Note 9.2	Carrying amount of right-to-use assets (division by underlying assets in notes, pursuant to references), of which:	703	705
	recognised in assets held for sale (disposal group)	32	-
	recognised as “mining and metallurgical property, plant and equipment and intangible assets” and “other property, plant and equipment and intangible assets”	671	-
Note 8.4.2	Carrying amount of right-to-use liabilities, of which:	645	656
	recognised in liabilities related to disposal group	16	-
	recognised as “borrowings, lease and debt securities”	629	-

In 2021, the Group entered into sales and leaseback transactions in the amount of PLN 11 million (in 2020: PLN 29 million). These transactions were entered into in order to obtain funds to finance current operating activities of the Group’s subsidiaries.

As at 31 December 2021, the Group had lease agreements that contained extension options and termination options, and the estimated value of future cash outflows, to which the Group is potentially exposed and are not included in the measurement of lease liabilities amount to PLN 19 million and PLN 41 million respectively. The Group has lease agreements with guaranteed residual values, but they were included in the measurement of lease liabilities. Moreover, the Group has not yet started lease agreements, to which it is obliged as a lessee, and the value of future cash outflows in this respect amounts to PLN 59 million.

Note 9.8 Assets held for sale (disposal group) and liabilities associated with them

Accounting policies
Non-current assets (or disposal groups) are classified by the Group as held for sale, if their carrying amount will be recovered rather by the sale transaction than by the continued usage, contingent on their availability for immediate sale in their current condition and maintaining conditions that are customarily applied in the sale of these assets (or disposal groups) and their sale is highly probable. The sale is understood as highly probable if the Group is determined to fulfil the plan to sell an asset or a disposal group, actions were undertaken to actively search for a buyer, an asset is offered at cost, which is rational as compared to its current fair value, the Group intends to sell an asset in a year since the classification day. Extension of the period required to conclude the sale by more than 1 year is possible only if the delay was caused by events or circumstances outside of the Group's control, and the Group itself may prove that it is determined to fulfil the plan to sell an asset. At the moment of reclassification, these assets are measured at the lower of the following values: the carrying amount or the fair value decreased by costs to sell. The difference between the measurement at fair value is recognised in other operating costs. At the moment of later measurement, the potential reversal of fair value is recognised in other operating income.

S.C.M. Franke and Carlota Copper Company

In accordance with the ongoing process of selling international mining assets of the KGHM INTERNATIONAL LTD. Group - the companies S.C.M. Franke and Carlota Copper Company and meeting the criteria set forth in IFRS 5 (i.e. they are available for immediate sale in the current condition, sale is highly probable, and it is expected that it will be concluded in the period of 1 year since the date of classification as held for sale), as at 30 June 2021 the Management Board of the Parent Entity reclassified the assets and liabilities of these companies as held for sale.

Pursuant to IFRS 5. 15, directly before the reclassification, the fair value of assets and liabilities of S.C.M. Franke and Carlota Copper Company were determined and at these amounts they were recognised as held for sale, since they were lower than their carrying amounts. As a result, an impairment loss was recognised on property, plant and equipment in the amount of PLN 18 million in the items: "Cost of sales" in the amount of PLN 14 million and "Other operating costs" in the amount of PLN 4 million. As at 31 December 2021, due to indications of changes in fair value of assets, they were re-measured and an additional impairment loss was recognised in the amount of PLN 28 million, in the items: "Cost of sales" in the amount of PLN 27 million and "Other operating costs" in the amount of PLN 1 million.

With respect to the assets of the companies S.C.M. Franke and Carlota Copper Company, due to the difference between the carrying amount of the assets and their tax base, there arose deductible temporary differences. Because of these differences the Group did not recognise a deferred tax asset, as the criteria set forth in IAS 12.44b were not met.

No significant costs were identified that would necessitate the recognition of provisions as a result of the planned sale of the Franke and Carlota assets.

Activities of the companies S.C.M. Franke and Carlota Copper Company were presented in the segment KGHM INTERNATIONAL LTD.

The financial data of companies classified as held for sale were presented together with continued operations in the consolidated financial statement of profit or loss, in the consolidated statement of cash flows and explanatory notes to these statements because they do not represent a separate major line of business and they are not a part of a bigger plan to dispose of a major line of business (IFRS 5.32 a and b).

in PLN millions, unless otherwise stated

Financial data of the companies S.C.M. Franke and Carlota Copper Company classified as held for sale

Main groups of assets and liabilities classified as held for sale

	As at 31 December 2021
ASSETS	
Mining and metallurgical intangible assets	119
Other financial instruments measured at amortised cost	3
Non-current assets	**122**
Inventories	149
Trade receivables, including:	13
trade receivables measured at fair value through profit or loss	13
Tax assets	3
Other non-financial assets	3
Cash and cash equivalents	5
Current assets	**173**
TOTAL ASSETS HELD FOR SALE (DISPOSAL GROUP)	**295**
LIABILITIES	
Borrowings, leases and debt securities	1
Provisions for decommissioning costs of mines and other technological facilities	289
Non-current liabilities	**290**
Borrowings, leases and debt securities	3
Trade payables	33
Employee benefits liabilities	8
Tax liabilities	1
Provisions for liabilities and other charges	1
Other liabilities	25
Current liabilities	**71**
TOTAL LIABILITIES RELATED TO DISPOSAL GROUP	**361**

Statement of profit or loss of operations held for sale

	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Revenues	706	440
Costs	(554)	(548)
Profit/(loss) on operating activities	**152**	**(108)**
Finance costs	(8)	(6)
Profit/(loss) before income tax	**144**	**(114)**
Income tax expense	-	-
PROFIT/(LOSS) FOR THE PERIOD	**144**	**(114)**

in PLN millions, unless otherwise stated

Cash flow of operations held for sale	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Net cash generated from/(used in) operating activities, including:	4	(32)
change in provision for decommissioning of mines	(11)	136
Net cash used in investing activities	(15)	(36)
Net cash used in financing activities	(4)	(14)
TOTAL NET CASH FLOW	**(15)**	**(82)**

Interferie S.A. and Interferie Medical SPA Sp. z o.o.

On 17 November 2021, the conditional investment agreement for the sale of shares of Interferie S.A. and shares of Interferie Medical SPA Spółka z o.o. was concluded between Fundusz Hotele 01 Sp. z o.o. and Fundusz Hotele 01 Sp. z o.o. S.K.A. and Polski Holding Hotelowy spółka z ograniczoną odpowiedzialnością.

The closing of the transaction depends on the fulfilment of the conditions precedent agreed between the parties of the above-mentioned agreements, i.e. obtaining corporate approvals, obtaining financing by Polski Holding Hotelowy Sp.z o.o. and obtaining approvals from the Polish Development Fund and Pekao S.A. on the change of the ownership structure of Interferie S.A.
In light of the aforementioned fact, in the opinion of the Management Board of the Parent Entity. the criteria set forth in IFRS 5 were met and as at 31 December 2021 the assets and liabilities of the companies Interferie S.A. and Interferie Medical SPA Spółka z o.o. were reclassified as held for sale. In accordance with IFRS 5.15, immediately prior to reclassification, the carrying amount of the assets and liabilities of these companies were determined, and those amounts were recognised in assets held for sale and related liabilities, as they were lower than their fair value decreased by costs to sell.

With respect to the assets of the companies Interferie S.A. and Interferie Medical SPA Spółka z o.o., due to the difference between the carrying amount of the assets and their tax base, there arose taxable (in case of Interferie S.A.) and deductible (in case of Interferie Medical SPA Spółka z o.o.) temporary differences. Because of these differences the Group did not recognise a deferred tax asset, due to their immateriality.

No significant costs were identified that would necessitate the recognition of provisions in connection with the planned sale.

Activities of the companies Interferie S.A. and Interferie Medical SPA Spółka z o.o. were presented in the segment - Other segments.
The financial data of companies classified as held for sale were presented together with continued operations in the consolidated financial statement of profit or loss, in the consolidated statement of cash flows and explanatory notes to these statements because they do not represent a major line of business and they are not a part of a bigger plan to dispose of a major line of business (IFRS 5.32 a and b).

The shares of these companies were sold on 21 and 28 February 2022. Detailed information on these transactions may be found in Note 12.13 Subsequent events.

in PLN millions, unless otherwise stated

Financial data of the companies Interferie S.A. and Interferie Medical SPA Sp. z o.o. classified as held for sale

Main groups of assets and liabilities classified as held for sale

	As at 31 December 2021
ASSETS	
Other property, plant and equipment	244
Other property, plant and equipment	244
Non-current assets	**244**
Inventories	1
Trade receivables	2
Tax assets	1
Cash and cash equivalents	15
Current assets	**19**
TOTAL ASSETS HELD FOR SALE (DISPOSAL GROUP)	**263**
LIABILITIES	
Borrowings, leases and debt securities	65
Employee benefits liabilities	1
Other liabilities	3
Non-current liabilities	**69**
Borrowings, leases and debt securities	16
Trade payables	7
Employee benefits liabilities	4
Tax liabilities	1
Other liabilities	4
Current liabilities	**32**
TOTAL LIABILITIES RELATED TO DISPOSAL GROUP	**101**

Statement of profit or loss of operations held for sale

	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Revenues	71	44
Costs	(68)	(53)
Profit/(loss) on operating activities	**3**	**(9)**
Finance costs	(2)	(4)
Profit/(loss) before income tax	**1**	**(13)**
Income tax expense	-	2
PROFIT/(LOSS) FOR THE PERIOD	**1**	**(11)**

in PLN millions, unless otherwise stated

Cash flows of operations held for sale	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Net cash generated from operating activities	4	1
Net cash used in investing activities	(11)	(45)
Net cash generated from financing activities	17	21
TOTAL NET CASH FLOW	**10**	**(23)**

The SG Oxide project in the KGHM INTERNATIONAL LTD. Group

In the fourth quarter of 2021, the agreement on sale of the SG Oxide project to Sierra Gorda S.C.M. was concluded between KGHM Polska Miedź S.A. and the other partner in the joint venture Sierra Gorda S.C.M. – Sumitomo (Sumitomo Metal Mining Co., Ltd. and Sumitomo Corporation). On 15 December 2021 the sales agreement was signed, with the sale date set at 1 January 2022. The payment took place at the beginning of March 2022.
Due to the above, the Management Board of the Parent Entity assessed that in accordance with IFRS 5, the criteria of reclassification of the SG Oxide project from the intangible assets not yet available for use (assets related to exploration and evaluation of mineral resources) to non-current assets held for sale were met. The asset was recognised at its carrying amount, i.e. PLN 176 million, which was lower than its fair value decreased by costs to sell.

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. The valuation of the inventory component disposal is made according to the weighted average purchase price and the weighted average actual production cost. The Group also classifies as inventories stand-by spare parts that do not meet the criteria for recognition as property, plant and equipment in accordance with IAS 16 par. 7 and in accordance with the principles of capitalization of significant components, adopted in the accounting principles of the Parent Entity, where a materiality threshold of at least PLN 300 thousand has been set, for which the spare parts are analysed in terms of meeting the capitalization criteria of IAS 16. In relation to above, stand-by spare parts are in particular recognised as inventories, the value of which is insignificant or are not replaced at regular intervals, or which, after their installation, due to the failure of a spare part in an item of property, plant and equipment, will not contribute to obtain higher economic benefits from further use of this component, than those assumed at the moment of initial recognition of the component and putting it into use. The costs of such stand-by spare parts as a current maintenance costs of assets are recognized in profit or loss as they are used up.	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 2021 the provisionally-set value of inventories amounted to PLN 99 million (as at 31 December 2020, PLN 77 million).

in PLN millions, unless otherwise stated

		As at 31 December 2021	As at 31 December 2020
	Materials	1 562	1 251
	Half-finished goods and work in progress	3 494	2 482
	Finished products	1 195	580
	Merchandise	236	146
Note 10.4	**Total carrying amount of inventories, of which:**	**6 487**	**4 459**
	recognised in assets held for sale (disposal group)	150	-
	recognised as "inventories"	6 337	-

	Write-down of inventories during the reporting period	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Note 4.4	Write-down recognised in cost of sales	(47)	(129)
	Write-down reversed in cost of sales*	88	29

Maturities of inventories	As at 31 December 2021	As at 31 December 2020
Maturity over the 12 months from the end of the reporting period	216	269
Maturity of up to 12 months from the end of the reporting period	6 271	4 190

** Including PLN 67 million due to a write-down reversed in KGHM INTERNATIONAL LTD. since indications resulting in a write-down of inventories for previous periods ceased to occur, that is a change in estimates (an increase) of estimated copper production from the heap leach.*

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 - as at 31 December 2021 in the amount of PLN 30 million (on 31 December 2020: PLN 66 million). 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 2021	As at 31 December 2020
	Trade receivables measured at amortised cost - gross value	435	444
	Loss allowance for expected credit losses	(36)	(53)
	Trade receivables measured at amortised cost - net value	399	391
	Trade receivables measured at fair value	627	478
Note 10.4	**Total, of which:**	**1 026**	**869**
	recognised in assets held for sale (disposal group)	15	-
	recognised as "trade receivables" and "other financial instruments measured at amortised cost"	1 011	-

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, in particular transferred to reverse factoring, is recognised in profit or loss, in the item "finance 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 PLN millions, unless otherwise stated

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.

		As at 31 December 2021	As at 31 December 2020
	Non-current trade payables	187	169
	Current trade payables	2 919	2 329
	Current similar payables – reverse factoring	95	1 264
Note 10.4	**Trade and similar payables, of which:**	**3 201**	**3 762**
	recognised in liabilities related to disposal group	40	-
	recognised as "trade and similar payables" and "other non-current liabilities"	3 161	-

In 2021, the factors' total participation limit in the Group amounted to PLN 1 563 million (including PLN 1500 million in the Parent Entity). In 2020, the Parent Entity concluded the second agreement for the provision of reverse factoring services which was implemented in 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 the current financial year, liabilities in the total amount of PLN 1 055 million (in the previous year: PLN 2 495 million) were transferred to the factors by the Group. As at 31 December 2021 the value of trade payables transferred to reverse factoring amounted to PLN 95 million (as at 31 December 2020, PLN 1 264 million). Due to the stabilisation of the economic situation and improvement of the macroeconomic conditions, the Parent Entity reduced borrowings drawn under the reverse factoring program. In the current financial year, the Group made payments towards the factors in the amount of PLN 2 213 million (in the financial year ended 31 December 2020: PLN 1 842 million) . Interest costs accrued and paid towards the factor in 2021 amounted to PLN 9 million (in 2020 they amounted to PLN 12 million).

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 2021, amounted to PLN 186 million in the non-current part and PLN 649 million in the current part (as at 31 December 2020, PLN 162 million and PLN 464 million, respectively).

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 PLN millions, unless otherwise stated

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 financing 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 financing 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.

	Inventories	Trade receivables	Trade payables	Similar payables	Working capital
As at 1 January 2021	(4 459)	(869)	2 498	1 264	**(1 566)**
As at 31 December 2021	(6 487)	(1 026)	3 106	95	**(4 312)**
Change in the statement of financial position	**(2 028)**	**(157)**	**608**	**(1 169)**	**(2 746)**
Exchange differences from translation of statements of operations with a functional currency other than PLN	41	20	(15)	-	**46**
Depreciation/amortisation recognised in inventories	91	-	-	-	**91**
Change in liabilities due to purchase of property, plant and equipment and intangible assets	-	-	(176)	54	**(122)**
Change in liabilities due to interest on reverse factoring	-	-	-	1	**1**
Reclassification to property, plant and equipment	(37)	-	-	-	**(37)**
Adjustments	**95**	**20**	**(191)**	**55**	**(21)**
Change in the statement of cash flows. including:	**(1 933)**	**(137)**	**417**	**(1 114)**	**(2 767)**
assets held for sale (disposal group) and liabilities related to disposal group	**13**	**(26)**	**(34)**	**-**	**(47)**

in PLN millions, unless otherwise stated

	Inventories	Trade receivables	Trade payables	Similar payables	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 statements of operations with a functional currency other than PLN	(5)	(3)	2	-	**(6)**
Depreciation/amortisation recognised in inventories	64	-	-	-	**64**
Change in liabilities due to purchase of property, plant and equipment and intangible assets	-	-	146	(16)	**130**
Reclassification 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**

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 2021 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 88% of the Group's liabilities in the current year and 90% 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 2021	As at 31 December 2020
an increase in the discount rate by 1 percentage point	(242)	(427)
a decrease in the discount rate by 1 percentage point	308	587
an increase in coal price increase rate and an increase in salary increase rate by 1 percentage point	228	580
a decrease in coal price increase rate and a decrease in salary increase rate by 1 percentage point	(177)	(422)

in PLN millions, unless otherwise stated

Components of the item: employee benefits liabilities

		As at 31 December 2021	As at 31 December 2020
	Non-current	2 307	3 016
	Current	161	153
Note 11.2	**Total liabilities due to future employee benefits programs, of which:**	**2 468**	**3 169**
	recognised in liabilities related to disposal group	**1**	**-**
	recognised as "employee benefits liabilities"	**2 467**	**3 169**
	Employee remuneration liabilities	297	299
	Social security liabilities	272	244
	Accruals (unused annual leave, bonuses, other)	719	617
	Other current employee liabilities, of which:	**1 288**	**1 160**
	recognised in liabilities related to disposal group	**12**	**-**
	recognised as "employee benefits liabilities"	**1 276**	**1 160**
	Total employee benefits liabilities	**3 756**	**4 329**

Employee benefits expenses

		from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
	Remuneration	4 725	4 214
	Costs of social security and other benefits	1 578	1 444
	Costs of future benefits	140	226
Note 4.1	**Employee benefits expenses**	**6 443**	**5 884**

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 2020	**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**
Note 11.1	Total costs recognised in profit or loss	**140**	25	39	66	10
	Interest costs	**41**	7	6	26	2
	Current service costs	**128**	47	33	40	8
	Actuarial gains recognised in profit or loss	**(29)**	(29)	**-**	-	-
Note 8.2.2	Actuarial gains recognised in other comprehensive income	**(694)**	-	(45)	(628)	(21)
	Benefits paid	**(147)**	(58)	(37)	(50)	(2)
	As at 31 December 2021, of which:	**2 468**	**552**	**442**	**1 354**	**120**
	recognised in liabilities related to disposal group	1	-	1	-	-
	recognised as “employee benefits liabilities”	2 467	552	441	1 354	120

As at 31 December	**2021**	**2020**	**2019**	**2018**	**2017**
Present value of liabilities due to employee benefits	**2 468**	3 169	2 770	2 618	2 204

in PLN millions, unless otherwise stated

Main actuarial assumptions (of the Parent Entity) adopted for measurement as at 31 December 2021:

	2022	2023	2024	2025	2026 and beyond
- discount rate	3.60%	3.60%	3.60%	3.60%	3.60%
- coal price increase rate	10.00%	3.60%	2.50%	2.50%	2.50%
- rate of increase of the lowest salary	7.50%	5.10%	4.00%	4.00%	4.00%
- expected inflation	7.60%	3.60%	2.50%	2.50%	2.50%
- future expected increase in salary	8.00%	6.50%	4.00%	4.00%	4.00%

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%

The change in actuarial gains/losses was caused by a change in the assumptions in respect of the increase in the discount rate, the increase in coal prices and future expected increase in 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 2021 versus assumptions adopted as at 31 December 2020

Change in financial assumptions	(713)
Change in demographic assumptions	(111)
Other changes	101
Total actuarial (gains)/losses	**(723)**

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 (gains)/losses	**379**

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
2022	**161**	57	39	55	10
2023	**191**	52	69	66	4
2024	**129**	41	20	64	4
2025	**126**	41	20	60	5
2026	**125**	39	24	57	5
Other years	**1 736**	324	270	1 052	90
Total liabilities in the statement of financial position as at 31 December 2021	**2 468**	**554**	**442**	**1 354**	**118**

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**

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 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Revenues from sales of products, merchandise and materials to a joint venture	23	20
Interest income on loans granted to a joint venture	494	377
Revenues from other transactions with a joint venture	69	55
Revenues from other transactions with other related parties	11	9
Total	**597**	**461**

Purchase from related entities

	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Purchase of services, merchandise and materials	30	27
Other purchase transactions	2	2
Total	**32**	**29**

Trade and other receivables from related parties

	As at 31 December 2021	As at 31 December 2020
From the joint venture Sierra Gorda S.C.M. (loans)	8 314	6 069
From the joint venture Sierra Gorda S.C.M. (other)	66	369
From other related parties	3	4
Total	**8 383**	**6 442**

Trade and other payables towards related parties

	As at 31 December 2021	As at 31 December 2020
Towards joint venture	58	25
Towards other related parties	1	3
Total	**59**	**28**

In 2021, the Parent Entity and its subsidiaries did not conclude any significant transactions with related parties on terms other than market ones.

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 2021, 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 and for the exploration for and assessment of mineral resources – balance of payables in the amount of PLN 228 million (as at 31 December 2020: PLN 202 million); including payables due to mining usufruct for the extraction of mineral resources recognised in costs in the amount of PLN 30 million (as at 31 December 2020: PLN 30 million),
- due to a reverse factoring agreement with the company PEKAO FAKTORING SP. Z O.O. – a payable in the amount of PLN 68 million, interest costs in the amount of PLN 6 million (as at 31 December 2020, payables in the amount of PLN 974 million and interest costs for the period from 1 January to 31 December 2020 in the amount of PLN 12 million),
- other transactions and economic operations related to spot currency exchange, depositing cash, granting bank loans, guarantees, and letters of credit (including documentary letters of credit), running bank accounts, processing of a documentary collection, servicing of special purpose funds and entering into transactions on the forward currency market with banks related to the State Treasury.

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 built and equipped hospitals in the amount of PLN 17 million in 2021, while in 2020 they involved the sale of personal protective equipment in the amount of PLN 193 million. As at 31 December 2021 there was no balance of receivables due to these transactions (as at 31 December 2020 the balance 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 (energy, fuels, services) to meet the needs of current operating activities. In the period from 1 January to 31 December 2021, the turnover from these transactions amounted to PLN 1 663 million (from 1 January to 31 December 2020: PLN 1 263 million), and, as at 31 December 2021, the unsettled balance of liabilities from these transactions amounted to PLN 224 million (as at 31 December 2020: PLN 203 million),
- sales to Polish State Treasury Companies. In the period from 1 January to 31 December 2021, the turnover from these sales amounted to PLN 146 million (from 1 January to 31 December 2020: PLN 119 million), and, as at 31 December 2021, the unsettled balance of receivables from these transactions amounted to PLN 24 million (as at 31 December 2020: PLN 18 million).

in PLN millions, unless otherwise stated

Note 12.2 Dividends paid

In accordance with Resolution No. 7/2021 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 7 June 2021 regarding the appropriation of profit for the year ended 31 December 2020, the profit in the amount of PLN 1 779 million was appropriated as follows: as a shareholders dividend in the amount of PLN 300 million (PLN 1.50 per share) and transfer of PLN 1 479 million to the Company's reserve capital. The Ordinary General Meeting of KGHM Polska Miedź S.A. set a dividend date for 2020 at 21 June 2021 and a dividend payment date for 2020 at 29 June 2021.

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.

All shares of the Parent Entity are ordinary shares.

Note 12.3 Other assets

Accounting policies
Receivables not constituting financial assets are initially recognised at nominal value, and at the end of the reporting period they are measured in the amount receivable.

		As at 31 December 2021	As at 31 December 2020
	Other non-current non-financial assets	**161**	**161**
	Investment property	105	103
	Prepayments	5	7
	Other	51	51
	Other current assets, of which:	**337**	**352**
Note 7.1	**Financial**	**172**	**210**
	Amounts retained (collateral) due to long-term construction contracts	10	16
	Receivables due to guarantees granted	20	112
	Other	142	82
	Non-financial	**165**	**142**
	Non-financial prepayments	46	30
	Other	119	112
	Other non-current and current assets, total, of which:	**498**	**513**
	recognised in assets held for sale (disposal group)	3	-
	recognised as "other financial assets" and "other non-financial assets"	495	-

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 2021	As at 31 December 2020
Deferred income, including:	355	313
Liabilities due to Franco Nevada streaming contract	210	230
Trade payables	187	169
Other liabilities	78	69
Other liabilities – non-current, of which:	**620**	**551**
recognised in liabilities related to disposal group	3	-
recognised as "other liabilities"	617	-
Special funds	412	385
Deferred income, including:	147	147
Trade payables	106	99
Grants to assets	7	6
Accruals, including:	830	484
Provision for purchase of property rights related to consumed electricity	98	55
Charges for discharging gases and dusts to the air	260	120
Other accounted costs, proportional to achieved revenues, which are future liabilities estimated on the basis of contracts entered into	196	156
Other financial liabilities	258	144
Other non-financial liabilities	43	42
Other liabilities – current, of which:	**1 690**	**1 202**
recognised in liabilities related to disposal group	29	-
recognised as "other liabilities"	1 661	-
Total – non-current and current liabilities	**2 310**	**1 753**

in PLN millions, unless otherwise stated

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 2021	As at 31 December 2020
	Contingent assets	**509**	**532**
	Guarantees received	325	297
	Promissory notes receivables	134	123
	Other	50	112
	Contingent liabilities	**466**	**1 349**
Note 8.6	Guarantees and letters of credit*	179	1 055
Note 8.6	Promissory note payables	173	171
	Property tax on underground mine workings	47	55
	Other	67	68
	Other liabilities not recognised in the statement of financial position	**99**	**100**
	Liabilities towards local government entities due to expansion of the tailings storage facility	99	100

**Decrease due to the expiry of the liability towards two beneficiaries:*
Empressa Electrica Cochrane SPA – expired because Sierra Gorda S.C.M. achieved parameters defined in the agreement for the off-take of electricity between Sierra Gorda S.C.M. and the beneficiary of the letter of credit, which resulted in the expiry of the liability of Sierra Gorda S.C.M. to maintain collateral of the aforementioned agreement. The liability expired on 6 April 2021,
York Potash Ltd, London – expired because of the termination of the contract for design services and sinking four shafts along with associated infrastructure and equipment, entered into between DMC Mining Services (UK) Ltd. and DMC Mining Services Ltd. (companies of the KGHM INTERNATIONAL LTD. Group) and York Potash Ltd. The liability expired on 1 March 2021.

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 2021	As at 31 December 2020
Capital commitments due to the purchase of:		
property, plant and equipment	1 056	891
intangible assets	26	309
Total capital commitments	**1 082**	**1 200**

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 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
White-collar employees	10 618	10 527
Blue-collar employees	22 884	22 800
Total (full-time)	**33 502**	**33 327**

Note 12.8 Other adjustments in the statement of cash flows

	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Losses on measurement and realisation of derivatives related to sources of external financing	10	7
Other	(9)	(4)
Total	**1**	**3**

Note 12.9. Remuneration of key managers

Remuneration of members of the Management Board (in PLN thousands)	from 1 January 2021 to 31 December 2021				
	Period when function served	Remuneration for the period of service as a member of the Management Board	Remuneration after 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 2021					
Marcin Chludziński	01.01-31.12	2 220	-	-	**2 220**
Adam Bugajczuk	01.01-31.12	1 886	-	-	**1 886**
Paweł Gruza	01.01-31.12	1 881	-	-	**1 881**
Andrzej Kensbok	16.04-31.12	698	-	-	**698**
Marek Pietrzak	26.10-31.12	177	-	-	**177**
Dariusz Świderski	15.05-31.12	603	-	-	**603**
Members of the Management Board not serving in the function as at 31 December 2021					
Katarzyna Kreczmańska-Gigol	01.01-15.04	1 193	-	475	**1 668**
Radosław Stach	01.01-15.04	1 189	-	41	**1 230**
TOTAL		**9 847**	**-**	**516**	**10 363**

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	Remuneration after 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**
Adam Bugajczuk	01.01-31.12	1 667	-	-	**1 667**
Paweł Gruza	01.01-31.12	1 668	-	-	**1 668**
Katarzyna Kreczmańska-Gigol	01.01-31.12	1 693	-	-	**1 693**
Radosław Stach	01.01-31.12	1 680	-	-	**1 680**
TOTAL		**8 515**	**-**	**-**	**8 515**

Remuneration of members of the Supervisory Board (in PLN thousands)	from 1 January 2021 to 31 December 20201			
	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 2021				
Agnieszka Winnik -Kalemba	01.01-31.12	-	142	**142**
Katarzyna Krupa	06.07-31.12	-	66	**66**
Jarosław Janas	01.01-31.12	-	136	**136**
Józef Czyczerski	01.01-31.12	186	136	**322**
Przemysław Darowski	01.01-31.12	104	136	**240**
Robert Kaleta	06.07-31.12	-	66	**66**
Andrzej Kisielewicz	01.01-31.12	-	144	**144**
Bartosz Piechota	01.01-31.12	-	136	**136**
Bogusław Szarek	01.01-31.12	265	136	**401**
Members of the Supervisory Board not serving in the function as at 31 December 2021				
Katarzyna Lewandowska	01.01-20.04	-	42	**42**
Marek Pietrzak	01.01-25.10	-	111	**111**
TOTAL		**555**	**1 251**	**1 806**

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**
Jarosław Janas	01.01-31.12	-	129	**129**
Józef Czyczerski	01.01-31.12	144	129	**273**
Przemysław Darowski	26.11-31.12	88	12	**100**
Bartosz Piechota	01.01-31.12	-	129	**129**
Marek Pietrzak	01.01-31.12	-	129	**129**
Bogusław Szarek	01.01-31.12	231	129	**360**
Agnieszka Winnik -Kalemba	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**

	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Current employee benefits of other key managers (in PLN thousands)	3 934	2 653

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 KGHM Polska Miedź S.A. 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 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Companies of the PricewaterhouseCoopers Group	**4 376**	**4 436**
From the contract for the review and audit of financial statements, of which:	4 207	4 253
audit of annual financial statements	3 626	3 703
assurance services, of which:	581	550
review of financial statements	508	509
other assurance services	73	41
From other contracts	169	183

in PLN millions, unless otherwise stated

Note 12.11 Composition of the Group

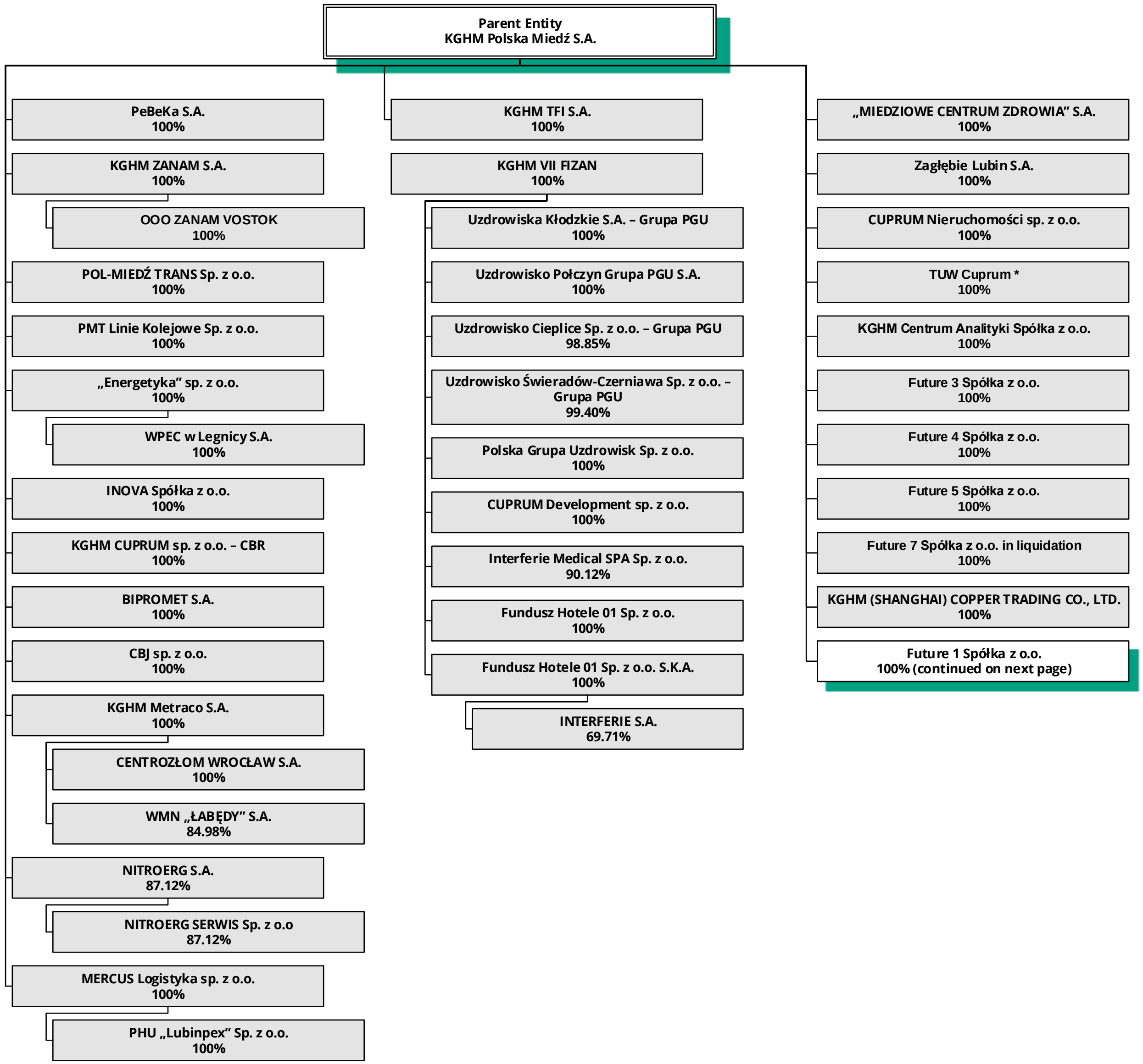
Company	Head office	% of Group's share As at 31 December 2021	% of Group's share As at 31 December 2020
BIPROMET S.A.	Katowice	100	100
CBJ sp. z o.o.	Lubin	100	100
CENTROZŁOM WROCŁAW S.A.	Wrocław	100	100
CUPRUM Nieruchomości sp. z o.o.	Wrocław	100	100
"Energetyka" sp. z o.o.	Lubin	100	100
Fundusz Hotele 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	Weißwasser	100	100
KGHM VI FIZAN	Wrocław	-	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
MERCUS Logistyka sp. z o.o.	Polkowice	100	100
PHU "Lubinpex" Sp. z o.o.	Lubin	100	100
Future 1 Sp. z o.o.	Lubin	100	100
KGHM Centrum Analityki Sp. z o.o. (formerly 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
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	98.85
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.*

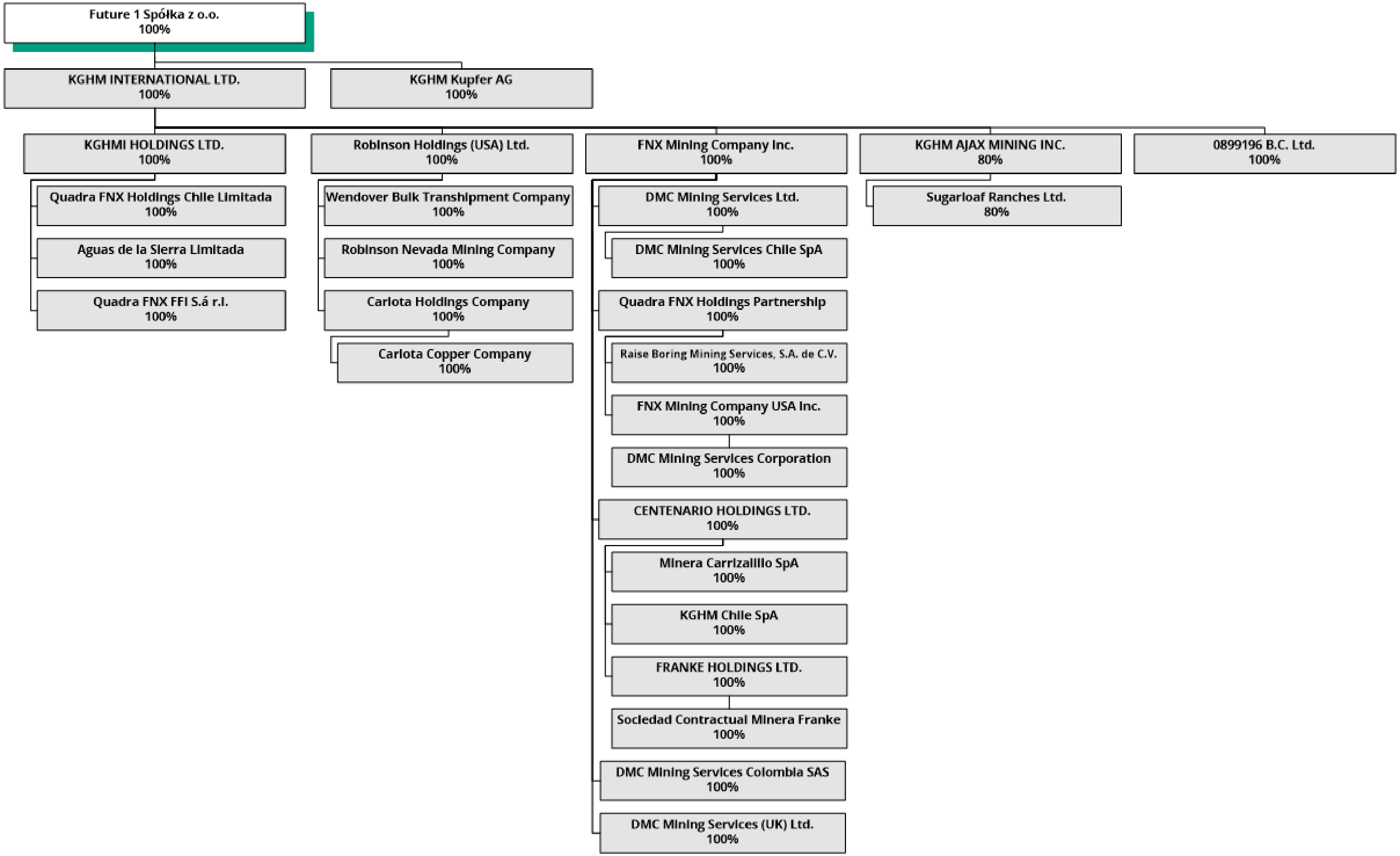
in PLN millions, unless otherwise stated

Company	Head office	% of Group's share As at 31 December 2021	% of Group's share As at 31 December 2020
KGHM INTERNATIONAL LTD. Group			
KGHM INTERNATIONAL LTD.	Canada,	100	100
KGHM AJAX MINING INC.	Canada,	80	80
Sugarloaf Ranches Ltd.	Canada,	80	80
KGHMI HOLDINGS LTD.	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.	USA,	100	100
Wendover Bulk Transhipment Company	USA,	100	100
Robinson Nevada Mining Company	USA,	100	100
Carlota Holdings Company	USA,	100	100
Carlota Copper Company	USA,	100	100
FNX Mining Company Inc.	Canada,	100	100
DMC Mining Services Ltd.	Canada,	100	100
Quadra FNX Holdings Partnership	Canada,	100	100
Raise Boring Mining Services, S.A. de C.V.	Mexico,	100	100
FNX Mining Company USA Inc.	USA,	100	100
DMC Mining Services Corporation	USA,	100	100
Centenario Holdings Ltd.	Canada,	100	100
Minera Carrizalillo SpA	Chile,	100	100
KGHM Chile SpA	Chile,	100	100
FRANKE HOLDINGS LTD.	Canada,	100	100
Sociedad Contractual Minera Franke	Chile,	100	100
0899196 B.C. Ltd.	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 2021



** 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 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

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.
Eventually, there were no substantial deviations from the achievement of the budget targets for 2021 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 (Other segments).

Impact on the metals market

From the Company'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 2021. The Company's share price at the end of 2021 was 24% lower compared to the price at the end of 2020 and 26% lower compared to the price at the end of the first half of 2021, and at the close of trading on 30 December 2021 amounted to PLN 139.40. During these same periods the WIG and WIG20 indices rose respectively by 22% and 14% (compared to the end of 2020) and rose by 5% and 2% (compared to the end of the first half of 2021). As a result of these changes in the share price, the Company's capitalisation decreased from PLN 36.60 billion at the end of 2020 to PLN 27.88 billion at the end of 2021, meaning a level 7% higher than the net value of assets.

In 2021, the situation on the metals markets was stable, which was reflected in a price of copper as at 31 December 2021– 9 692 USD/t, which means an increase by 3% compared to 30 June 2021 and an increase by 25% compared to the price 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. The inability to freely conduct business activity in the first half of 2021 resulted in the achievement of low revenues which also translated into a loss on sales. The spa and hotel companies obtained exemptions from financing institutions from the obligation to calculate the DSCR ratio for the entire year - 2021. Financial liabilities to creditors and lessors are paid on an ongoing basis.

The spa and hotel companies of KGHM Polska Miedź S.A. have received financing from the Polski Fundusz Rozwoju (Polish Development Fund or PDF) under the Anti–Crisis Shield 1.0 for large enterprises and under the Anti–Crisis Shield 2.0 for the SME sector (the sector of small and medium enterprises). The financing received from the aforementioned programs amounted to PLN 13.3 million in the first quarter of 2021 (total: in 2020 and in the first quarter of 2021 – PLN 18.75 million). In the third quarter of 2021, after meeting the statutory requirements, part of the funds obtained under the financial shield 1.0 for large enterprises were remitted by the PDF decision (total amount remitted was PLN 6.5 million). In the fourth quarter of 2021, the companies which received financing from the shield for the SME sector, submitted applications for the remitting of part of the subsidies received (for a total amount of PLN 9.2 million). At present, the companies are awaiting decisions on the settlement of the subsidies received. In addition, at the end of September 2021, companies that joined the Anti-Crisis Shield 1.0 program for large enterprises, submitted applications to join the Financial Shield under the 2.0 program for large enterprises. Currently, a financial and legal analysis is carried out by dedicated teams from the PDF. The total requested amount of liquidity loans amounted to PLN 18.7 million.

In terms of sales, in the first quarter of 2021, the spa companies offered commercial post-covid stays. In April, the National Health Fund (NHF) announced a post-covid treatment program for people struggling with post-covid complications, which is offered in selected resorts of the Group's spa companies.

In the second quarter of 2021, restrictions were lifted with a gradual return to the conduct of activities, the providing of services and the generation of revenues – all facilities resumed operations. While maintaining the sanitary regime and statutory restrictions on the admissible occupancy rate in hotel facilities, the companies returned to the full realisation of commercial and medical services. The holiday period brought the expected rebound in both hotel and spa activities - the companies took advantage of the holiday season and high internal demand for leisure and treatment services, achieving the best results in history. In the long term, the progressive vaccination campaign will undoubtedly be the main factor regulating the situation in the hotel and spa industry.

Despite this, there was a breach of an obligation (arising from the concluded bank loan agreements) to maintain the DSCR (Debt Service Coverage Ratio) at the level of no less than 1.2 at the end of 2021. The spas companies obtained statements from creditors stipulating that for a certain period of time sanctions stipulated in bank loan agreements will not be applied. As at the end of the reporting period, banks refrained from the verification of DSCR.

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 2021 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. 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 the KGHM Polska Miedź S.A. Group 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 2021 was in line with the target set at the start of the year.

In terms of sales, the majority of customers continue not to feel any strong negative impact from the epidemic on their activities, thanks to which their trade payables towards the Parent Entity are being paid on time, while the execution of deliveries to customers continues without interruption.

The KGHM 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 Company and the Group with long-term financial stability through extending the weighted average maturity of the KGHM Polska Miedź S.A. Group'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 KGHM 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 epidemic.

Taking into consideration the risk of a subsequent wave of the COVID-19 pandemic, there still remains uncertainty regarding the directions of development of the economic and social situation in Europe and globally. An important factor for the domestic and global economies will be the percentage of people fully vaccinated against COVID-19, which would enable among others the further easing of restrictions in individual countries and sectors, a reduction in uncertainty as to future periods, or improving the pace of economic recovery from the recession caused by the COVID-19 pandemic. The Parent Entity constantly monitors 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 Climate change and risks associated with it

The Group continuously assesses risks associated with climate and its impact on activities of the Group, including the physical risk of climate change (such as significant weather events and impact of temperature rises), change in the policy and economic consequences of actions undertaken to decarbonise the economy. Detailed disclosure on how the risks associated with climate impact the Group's activities may be found in the Non-financial report of the Company and the KGHM Polska Miedź S.A. Group (Note 6, Actions aimed at protecting the natural environment, including the climate, and implementation of a circular economy).

Due to the specific nature of operations, KGHM Polska Miedź S.A. is one of the most energy-intensive companies in Poland. Simultaneously, the Company has been for many years successfully striving to reduce its impact on the environment, which is reflected, inter alia, in over 99% reduction of sulfuric compounds and dust emissions. Out of concern for the climate, the Parent Entity incurs expenditures on the implementation of the energy transformation program, under which it intensively develops its own renewable energy sources and researches the possibility of using electric vehicles and mining machines in its mines. Through development and implementation of the climate policy of KGHM Polska Miedź S.A. it will further reduce direct and indirect emissions and improve its energy efficiency. This means not only a further reduction of the Company's environmental footprint, but also its better adaptation to changes in the market environment resulting from the increase in energy prices and CO_2 emissions rights.
From year to year, European Union's and national legislation imposes on industrial companies more and more requirements related to minimising the negative impact on the climate and the environment. The growing cost of CO_2 emission rights resulted in higher purchases of these rights in 2021, which was reflected in the increase in assets and provisions associated with them in the Parent Entity. The increase of these costs, together with the increase in costs of among others electricity (historically and in forecasts) was one of the factors contributing to the identification of indications to perform impairment testing of the investment and assets of the energy and heat companies (WPEC w Legnicy S.A. and Energetyka sp. z o.o.). Results of the conducted tests may be found in part 3 of these statements. Despite the significant increase in the prices of CO_2 emission rights, there are currently no significant uncertainties related to the impact of this fact on the operations of KGHM Polska Miedź S.A.

Besides the aforementioned ones, no other areas were identified where changes in the climate policy would have an impact on the measurement of assets and liabilities as at 31 December 2021.

Note 12.14 Subsequent events

Approval of the Strategy of the KGHM Polska Miedź S.A. Group to 2030 with an outlook to 2040

On 14 January 2022 the Supervisory Board of the Parent Entity approved the Strategy of the KGHM Polska Miedź S.A. Group to the year 2030 with an outlook to 2040 („the Strategy") as presented by the Management Board.

The decision to update the Strategy was dictated in particular by:

- macroeconomic changes of strategic importance for the mining sector, in particular those arising from the green transformation,
- the need to clarify the Company's actions as regards the commencement of decarbonisation and commitments to protect the climate,
- a focus on securing access to the raw materials base for future copper production, but also actions aimed at developing mining capacity in terms of other metals and mineral resources,
- the intensification of actions aimed at the implementation of innovation in the production process,
- the identification of opportunities to gain competitive advantages and to develop the Company in new, promising business areas.

The result of the Company's work is the Strategy to the year 2030 with an outlook to 2040. The Company's mission and vision remained unchanged (details are described in Section 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 2021).
The Strategy of the Group to the year 2030 also includes climate-related goals as respects reducing emissions by KGHM which are consistent with the Climate Policy of KGHM Polska Miedź S.A., being a complementary document to the Strategy. The updated Strategy does not alter the Company's current approach to its business activities.

Main assumptions of the Budget for 2022

On 14 January 2022, the Supervisory Board of KGHM Polska Miedź S.A. approved the Budget of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group for 2022 (details are described in Section 6 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 2021).

Agreement with trade unions on wages and employee benefits

During wage negotiations with trade unions, which were held from 25 to 27 January 2022, a wage and employee benefits agreement as well an additional protocol to the Collective Labour Agreement were reached and signed. Details were described in section 13.3 of the Management Board's Report on the Activities of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group.

Entry into force of the Act on amending the Act on a system of compensations for energy-intensive sectors and sub-sectors

On 9 February 2022, the Act on amending the Act on a system of compensation for energy-intensive sectors and sub-sectors came into force, aimed at modifying the system of compensation pursuant to new European Commission guidelines on certain State aid measures in the context of the system for greenhouse gas emission allowance trading post 2021. As a result, currently the Parent Entity estimates that it will obtain additional compensation in the amount of approximately PLN 312 million in the years 2021-2030 due to the aforementioned regulations.

Repayment of loan granted to the joint venture Sierra Gorda S.C.M.

On 10 February 2022, the Group received from Sierra Gorda S.C.M. a payment on a loan drawn in the amount of PLN 431 million (USD 110 million).

Conclusion of an agreement with the company NuScale on the commencement of work on implementation of advanced, small modular reactors (SMR) in Poland

On 14 February 2022 the Parent Entity signed an agreement with the American company NuScale Power on the commencement of work on implementation of advanced, small modular reactors (SMR) in Poland. Under the concluded agreement, KGHM Polska Miedź S.A. in cooperation with NuScale will implement the SMR technology in Poland. The first power plant will commence operations up to 2029. The construction of small nuclear reactors up to 2029 is directly linked with the Climate Policy of KGHM Polska Miedź S.A. and the new strategic direction of the Company – energy.

Dismissal of a Member of the 11th term Management Board of KGHM Polska Miedź S.A.

On 21 February 2022 the Supervisory Board of the Parent Entity adopted a resolution on dismissal as of 21 February 2022 of Dariusz Świderski, the Vice President (Production) of the 11th term Management Board of KGHM Polska Miedź S.A.

New partner of the KGHM Polska Miedź S.A. Group in the joint venture Sierra Gorda S.C.M.

On 22 February 2022 the transaction was concluded for sale of the 45% share in the company Sierra Gorda S.C.M. by Sumitomo Metal Mining Co., Ltd. and Sumitomo Corporation to South32, the Australian mining group with its registered head office in Perth. The acquisition price includes the amount of USD 1 400 million, payable on the day the transaction is concluded and USD 500 million, contingent on the fluctuation of copper prices in the years 2022 – 2025. The Group's new partner is a globally diversified mining and metallurgical company, with its production facilities in Australia, South Africa and South America. The company produces, among others, aluminium, metallurgical coal, manganese, nickel, silver, lead and zinc.

Impact of the war in Ukraine on the Group's operations

As at the date of approval for publication of these consolidated financial statements, the geopolitical situation associated with the direct aggression of Russia in Ukraine and the implemented system of sanctions does not have a substantial impact on the operations of the KGHM Polska Miedź S.A. Group, while the risk of interruptions to the Group's operational continuity in this regard continues to be considered as low.

The Group does not engage in direct, significant transactions with entities from Russia, Belarus or Ukraine; such contracts are held by certain intermediaries, mainly traders of wire rod, which could indirectly impact the level of purchases made by such clients.

The possible increase in the near-term in prices of fuels and energy carriers could be a primary factor generating higher basic operating costs of the Group. The availability of resources and materials is currently at a stable level. It cannot however be ruled out that a continuation of this armed conflict over an extended period of time as well as the system of economic sanctions could have a negative impact on suppliers and lead to interruptions in the continuity of materials and services supply chains in the KGHM Group, caused among others by logistical restrictions and availability of materials on international markets, e.g. of steel, fuels and energy.
The level of cathode inventories in exchange warehouses is currently very low, while the sanctions imposed on Russia and on Russian entities may limit the availability of Russian cathodes (produced among others by Norilsk Nickel) on European markets. The potential for changes in supply and high copper prices on metals markets resulting from the aforementioned situation may lead to higher revenues of the KGHM Polska Miedź S.A. Group, but at the same time to higher prices for purchased metal-bearing materials used in production. A similar dependency may occur in the case of a weakening of the PLN versus other currencies (USD and EUR), where the possibility exists for higher revenues, and simultaneously for higher prices for imported materials and resources, for a higher copper tax, or the aforementioned costs of purchased metal-bearing materials. It is impossible to estimate the impact of the aforementioned, potential events on potential profit or loss; the situation is currently continuously monitored, with the simultaneous use of possible mitigating actions.
In terms of the availability of capital and the level of debt, KGHM holds no bank loans drawn from institutions threatened with sanctions.
Financial markets rapidly responded to the outbreak of the conflict in Ukraine. In the first phase, the copper price on the London market and currencies rose in response to the crisis. Within a month, the price of copper achieved the maximum level of 10 730 USD/t (7th March 2022). Currently, the market is visibly calming down and as at 18 March 2022 the copper price was at the level of 10 249 USD/t.
A similar relation occurred in the case of the weakening of the PLN as compared to the other currencies (USD and EUR). The initial appreciation of the USD reached its maximum on 7 March 2022 and amounted to PLN 4.5722, followed by easing to PLN 4.2707 as at 18 March 2022. The euro behaved correspondingly and on 7 March 2022 it reached its maximum of PLN 4.9647, then decreased to PLN 4.7221 as at 18 March 2022.
During that time, the Monetary Policy Council raised interest rates for several times, with the last changes taking place on 8 March 2022, resulting in the interest rates becoming the highest ones since 2014.

In 2021 the process of implementing a comprehensive Business Continuity Management System commenced in the Company, which also enables a more detailed scope of actions to be taken in terms of corporate risk management as regards risks having a catastrophic impact and a small likelihood of occurrence.

Sale of the subsidiaries of the KGHM Polska Miedź S.A. Group

On 21 February 2022, KGHM Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (hereafter: the Fund), with 100% of its Investment Certificates held by KGHM Polska Miedź S.A., sold all of its directly held shares in the company Interferie Medical SPA sp. z o.o. with its head office in Legnica, that is 41 309 shares representing 67.37% of the share capital and the same percent of votes at the shareholders' meeting, to Polski Holding Hotelowy sp. z o.o. The Fund's indirect subsidiary – INTERFERIE S.A. – held the remaining 32.63% of the share capital of the company Interferie Medical SPA sp. z o.o.

On 28 February 2022, as a result of the settlement of the call for the sale of shares of INTERFERIE S.A. (hereafter "the company"), announced by Polski Holding Hotelowy sp. z o.o., the portfolio companies of the Fund: Fundusz Hotele 01 Sp. z o.o. S.K.A. and Fundusz Hotele 01 Sp. z o.o sold all of their shares, that is in total 10 152 625 shares, representing 69.71% of the share capital and the same percent of votes at the general meeting.

Due to the above, neither the Parent Entity nor any entities of the Group has any shares in the companies: INTERFERIE S.A. and Interferie Medical SPA sp. z o.o. For both companies the sale price was higher than the value of net assets.

As at 31 December 2021, the financial data of the aforementioned companies were presented in assets held for sale (disposal group) and liabilities related to disposal group in Note 9.8.

Change in the Act on minerals extraction tax

On 10 March 2022 an act dated 24 February 2022 came into force, amending the Act on minerals extraction tax paid by the Parent Entity. As a result of a change in art. 3 of the Act (Act on amending the Act on personal income tax, Act on Vocational and Social Rehabilitation and Employment of Persons with Disabilities and the Act on the minerals extraction tax (Journal of Laws of 2022, item 558), the Legislator introduced an amendment to the formula for calculating the tax rates for copper and silver. The new formula, during a transitional period from 1 January to 30 November 2022, sets the tax rate based on a decrease in the coefficient by 0.25 (this coefficient amounted to 0.85, and after the change amounts to 0.6), which in consequence reduces the monthly tax charge by approx. 30%.

Appointment of a Member of the 11th term Management Board of KGHM Polska Miedź S.A.

On 14 March 2022, the Supervisory Board of KGHM Polska Miedź S.A. appointed Marek Świder as of 15 March 2022 to the Management Board of KGHM Polska Miedź S.A. as a Member of the Management Board of KGHM Polska Miedź S.A., granting him the function of Vice President of the 11th term Management Board (Production) of KGHM Polska Miedź S.A.

Part 13 – Quarterly financial information of the Group

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		from 1 October 2021 to 31 December 2021	from 1 October 2020 to 31 December 2020	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Note 2.3	Revenues from contracts with customers	8 068	7 052	29 803	23 632
Note 4.1	Cost of sales	(6 745)	(5 551)	(23 529)	(18 981)
	Gross profit	**1 323**	**1 501**	**6 274**	**4 651**
Note 4.1	Selling costs and administrative expenses	(484)	(446)	(1 564)	(1 490)
	Profit on sales	**839**	**1 055**	**4 710**	**3 161**
Note 6.1	Share of losses of a joint venture accounted for using the equity method	-	2	-	(204)
Note 6.2	Gains due to the reversal of allowances for impairment of loans granted to a joint venture	725	74	2 380	74
Note 6.2	Interest income on loans granted to a joint venture calculated using the effective interest rate method	172	93	494	377
	Profit or loss on involvement in a joint venture	897	169	2 874	247
Note 4.2	Other operating income, including:	348	208	1 757	702
	other interest calculated using the effective interest rate method	-	-	1	4
	reversal of impairment losses on financial instruments	9	2	27	11
	Other operating costs, including:	(268)	(603)	(1 046)	(1 326)
	impairment losses on financial instruments	(10)	(1)	(13)	(6)
	Finance income	35	144	70	259
Note 4.3	Finance costs	(132)	(96)	(541)	(287)
	Profit before income tax	**1 719**	**877**	**7 824**	**2 756**
Note 5.1	Income tax expense	(326)	(252)	(1 669)	(959)
	PROFIT FOR THE PERIOD	**1 393**	**625**	**6 155**	**1 797**
	Profit/(loss) for the period attributable to:				
	Shareholders of the Parent Entity	1 394	626	6 156	1 800
	Non-controlling interest	(1)	(1)	(1)	(3)
	Weighted average number of ordinary shares (million)	**200**	**200**	**200**	**200**
	Basic/diluted earnings per share (in PLN)	**6.97**	**3.13**	**30.78**	**9.00**

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 2021 to 31 December 2021	from 1 October 2020 to 31 December 2020	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Depreciation of property, plant and equipment and amortisation of intangible assets	526	618	2 254	2 062
Employee benefits expenses	1 692	1 620	6 443	5 884
Materials and energy, including:	3 110	2 132	11 962	7 914
purchased metal-bearing materials	1 769	1 100	7 132	3 974
External services	721	665	2 200	2 226
Minerals extraction tax	1 009	505	3 548	1 625
Other taxes and charges	(34)	163	661	544
Reversal of impairment losses on property, plant and equipment and intangible assets	3	(1)	(42)	(2)
Reversal of write-down of inventories	(31)	(9)	(88)	(29)
Advertising costs and representation expenses	25	22	72	61
Property and personal insurance	20	17	76	65
Impairment losses on property, plant and equipment and intangible assets	319	70	340	162
Write-down of inventories	18	25	47	127
Other costs	28	12	64	62
Total expenses by nature	**7 406**	**5 839**	**27 537**	**20 701**
Cost of merchandise and materials sold (+)	215	121	790	672
Change in inventories of finished goods and work in progress (+/-)	112	547	(1 544)	474
Cost of products for internal use of the Group (-)	(504)	(510)	(1 690)	(1 376)
Total cost of sales, selling costs and administrative expenses, of which:	**7 229**	**5 997**	**25 093**	**20 471**
Cost of sales	6 745	5 551	23 529	18 981
Selling costs	120	106	450	432
Administrative expenses	364	340	1 114	1 058

in PLN millions, unless otherwise stated

Note 13.2 Other operating income and (costs)

	from 1 October 2021 to 31 December 2021	from 1 October 2020 to 31 December 2020	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Gains on derivatives, of which:	59	91	383	378
measurement of derivatives	(31)	16	208	208
realisation of derivatives	90	75	175	170
Interest income calculated using the effective interest rate method	-	-	1	4
Exchange differences on assets and liabilities other than borrowings	218	-	994	-
Reversal of impairment losses on fixed assets under construction	2	-	2	-
Reversal of impairment losses on financial instruments	9	2	27	11
Provisions released	(1)	52	34	54
Gain on disposal of intangible assets	-	(1)	1	30
Gain on disposal of property, plant and equipment	8	-	57	-
Government grants received	11	4	24	18
Income from servicing of letters of credit and guarantees	-	4	66	49
Compensation, fines and penalties received	10	4	34	19
Refund of excise tax for prior years	-	5	5	53
Compensation received due to the purchase of electricity for 2020	-	-	39	-
Other	32	47	90	86
Total other operating income	**348**	**208**	**1 757**	**702**
Losses on derivatives, of which:	(176)	(124)	(768)	(597)
measurement of derivatives	3	46	(141)	(121)
realisation of derivatives	(179)	(170)	(627)	(476)
Impairment losses on financial instruments	(10)	(1)	(13)	(6)
Fair value losses on financial assets	34	19	(39)	(10)
Impairment losses on fixed assets under construction and intangible assets not yet available for use	(27)	(75)	(38)	(77)
Exchange differences on assets and liabilities other than borrowings	-	(337)	-	(391)
Provisions recognised	(45)	(9)	(88)	(52)
Losses on disposal of property, plant and equipment	-	(5)	-	(39)
Donations given	(15)	(2)	(33)	(41)
Other	(29)	(69)	(67)	(113)
Total other operating costs	**(268)**	**(603)**	**(1 046)**	**(1 326)**
Other operating income/(costs)	**80**	**(395)**	**711**	**(624)**

in PLN millions, unless otherwise stated

Note 13.3 Finance income/(costs)

	from 1 October 2021 to 31 December 2021	from 1 October 2020 to 31 December 2020	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Exchange differences on measurement and realisation of borrowings	-	108	-	188
Gains on derivatives - realisation of derivatives	35	35	70	70
Other	-	1	-	1
Total finance income	**35**	**144**	**70**	**259**
Interest on borrowings, including:	(29)	(29)	(94)	(131)
leases	(3)	(2)	(13)	(13)
Unwinding of the discount of provisions effect	(4)	(4)	(15)	(14)
Bank fees and charges on borrowings	(6)	(4)	(25)	(22)
Losses on derivatives, of which:	(41)	(37)	(80)	(77)
measurement of derivatives	-	-	(1)	-
realisation of derivatives	(41)	(37)	(79)	(77)
Exchange differences on measurement and realisation of borrowings	(44)	-	(299)	-
Other	(8)	(22)	(28)	(43)
Total finance costs	**(132)**	**(96)**	**(541)**	**(287)**
Finance income /(costs)	**(97)**	**48**	**(471)**	**(28)**

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

These financial statements were authorised for issue on 22 March 2022.

President
of the Management Board

Marcin Chludziński

Vice President
of the Management Board

Adam Bugajczuk

Vice President
of the Management Board

Paweł Gruza

Vice President
of the Management Board

Andrzej Kensbok

Vice President
of the Management Board

Marek Pietrzak

Vice President
of the Management Board

Marek Świder

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING

Executive Director
of Accounting Services Centre
Chief Accountant

Agnieszka Sinior