

POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated quarterly report QSr 1 / 2021

(in accordance with § 60 section 2 and § 62 section 1 of the Decree regarding current and periodic information)

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

For the first quarter of the financial year **2021** from **1 January 2021** to **31 March 2021** containing the condensed consolidated financial statements prepared under IAS (International Accounting Standard) 34 in PLN, and condensed financial statements prepared under IAS 34 in PLN.

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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)
59 - 301 (postal code)	LUBIN (city)
M. Skłodowskiej - Curie (street)	48 (number)
(48 76) 74 78 200 (telephone)	(48 76) 74 78 500 (fax)
ir@kghm.com (e-mail)	www.kghm.com (website address)
692-000-00-13 (NIP)	390021764 (REGON)

**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.**

SELECTED FINANCIAL DATA
data concerning the condensed consolidated financial statements of the KGHM Polska Miedź S.A. Group

	in PLN mn		in EUR mn	
	from 1 January 2021 to 31 March 2021	from 1 January 2020 to 31 March 2020	from 1 January 2021 to 31 March 2021	from 1 January 2020 to 31 March 2020
	As at 31 March 2021	As at 31 December 2020	As at 31 March 2021	As at 31 December 2020
I. Revenues from contracts with customers	6 745	5 299	1 475	1 205
II. Profit on sales	1 442	495	315	113
III. Profit before income tax	1 862	929	407	211
IV. Profit for the period	1 365	690	299	157
V. Profit for the period attributable to shareholders of the Parent Entity	1 366	692	299	158
VI. Profit for the period attributable to non-controlling interest	(1)	(2)	-	(1)
VII. Other comprehensive income	(937)	(429)	(205)	(98)
VIII. Total comprehensive income	428	261	94	59
IX. Total comprehensive income attributable to shareholders of the Parent Entity	429	263	94	60
X. Total comprehensive income attributable to non-controlling interest	(1)	(2)	-	(1)
XI. Number of shares issued (million)	200	200	200	200
XII. Earnings per ordinary share (PLN/EUR) attributable to shareholders of the Parent Entity	6.83	3.46	1.50	0.79
XIII. Net cash generated from operating activities	927	951	203	216
XIV. Net cash used in investing activities	(714)	(983)	(156)	(224)
XV. Net cash generated from/(used in) financing activities	(1 129)	1 209	(247)	275
XVI. Total net cash flow	(916)	1 177	(200)	267
XVII. Non-current assets	34 641	34 047	7 433	7 378
XVIII. Current assets	9 171	8 733	1 968	1 892
XIX. Total assets	43 812	42 780	9 401	9 270
XX. Non-current liabilities	13 184	13 792	2 828	2 989
XXI. Current liabilities	9 137	7 907	1 961	1 713
XXII. Equity	21 491	21 081	4 612	4 568
XXIII. Equity attributable to shareholders of the Parent Entity	21 403	20 992	4 593	4 549
XXIV. Equity attributable to non-controlling interest	88	89	19	19

data concerning the quarterly financial information of KGHM Polska Miedź S.A.

	in PLN mn		in EUR mn	
	from 1 January 2021 to 31 March 2021	from 1 January 2020 to 31 March 2020	from 1 January 2021 to 31 March 2021	from 1 January 2020 to 31 March 2020
	As at 31 March 2021	As at 31 December 2020	As at 31 March 2021	As at 31 December 2020
I. Revenues from contracts with customers	5 569	4 225	1 218	961
II. Profit on sales	1 359	616	297	140
III. Profit before income tax	1 425	608	312	138
IV. Profit for the period	975	399	213	90
V. Other comprehensive net income	(792)	(200)	(173)	(45)
VI. Total comprehensive income	183	199	40	45
VII. Number of shares issued (million)	200	200	200	200
VIII. Earnings per ordinary share (PLN/EUR)	4.88	2.00	1.07	0.45
IX. Net cash generated from operating activities	887	1 054	194	240
X. Net cash used in investing activities	(632)	(790)	(138)	(180)
XI. Net cash generated from/(used in) financing activities	(1 187)	1 096	(260)	249
XII. Total net cash flow	(932)	1 360	(204)	309
XIII. Non-current assets	32 764	32 367	7 030	7 014
XIV. Current assets	7 166	6 975	1 538	1 511
XV. Total assets	39 930	39 342	8 568	8 525
XVI. Non-current liabilities	11 011	11 687	2 363	2 533
XVII. Current liabilities	8 028	6 929	1 723	1 501
XVIII. Equity	20 891	20 726	4 482	4 491

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Part 1 – Condensed consolidated financial statements

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	from 1 January 2021 to 31 March 2021	from 1 January 2020 to 31 March 2020
Note 3.3 Revenues from contracts with customers	6 745	5 299
Note 4.1 Cost of sales	(4 970)	(4 486)
Gross profit	1 775	813
Note 4.1 Selling costs and administrative expenses	(333)	(318)
Profit on sales	1 442	495
Note 4.5 Profit or loss on involvement in a joint venture - interest income on loans granted to a joint venture calculated using the effective interest rate method	97	96
Note 4.2 Other operating income, including:	981	1 182
other interest calculated using the effective interest rate method	1	2
reversal of impairment losses on financial instruments	12	4
Note 4.2 Other operating costs, including:	(356)	(342)
impairment losses on financial instruments	(1)	(9)
Note 4.3 Finance costs	(302)	(502)
Profit before income tax	1 862	929
Income tax expense	(497)	(239)
PROFIT FOR THE PERIOD	1 365	690
Profit for the period attributable to:		
Shareholders of the Parent Entity	1 366	692
Non-controlling interest	(1)	(2)
Weighted average number of ordinary shares (million)	200	200
Basic/diluted earnings per share (in PLN)	6.83	3.46

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	from 1 January 2021 to 31 March 2021	from 1 January 2020 to 31 March 2020
Profit for the period	1 365	690
Measurement of hedging instruments net of the tax effect	(763)	27
Exchange differences from the translation of statements of operations with a functional currency other than PLN	(149)	(231)
Other comprehensive income which will be reclassified to profit or loss	(912)	(204)
Measurement of equity financial instruments at fair value through other comprehensive income, net of the tax effect	4	(85)
Actuarial losses net of the tax effect	(29)	(140)
Other comprehensive income, which will not be reclassified to profit or loss	(25)	(225)
Total other comprehensive income	(937)	(429)
TOTAL COMPREHENSIVE INCOME	428	261
Total comprehensive income attributable to:		
Shareholders of the Parent Entity	429	263
Non-controlling interest	(1)	(2)

CONSOLIDATED STATEMENT OF CASH FLOWS

	from 1 January 2021 to 31 March 2021	from 1 January 2020 to 31 March 2020
Cash flow from operating activities		
Profit before income tax	1 862	929
Depreciation/amortisation recognised in profit or loss	495	483
Interest on loans granted to a joint venture	(97)	(96)
Other interest	29	51
Impairment losses on non-current assets	-	27
Losses on the disposal of property, plant and equipment and intangible assets	(51)	-
Exchange differences, of which:	(323)	(554)
from investment activities and cash	(583)	(992)
from financing activities	260	438
Change in provisions for decommissioning of mines, employee benefits liabilities and other provisions	18	(47)
Change in other receivables and liabilities other than working capital	202	(164)
Change in assets and liabilities due to derivatives	(316)	238
Reclassification of other comprehensive income to profit or loss due to the realisation of hedging derivatives	371	(57)
Other adjustments	(3)	1
Exclusions of income and costs, total	325	(118)
Income tax paid	(200)	(190)
Note 4.11 Changes in working capital, including:	(1 060)	330
change in trade payables transferred to factoring	(204)	312
Net cash generated from operating activities	927	951
Cash flow from investing activities		
Expenditures on mining and metallurgical assets, including:	(678)	(823)
paid capitalised interest on borrowings	(21)	(22)
Expenditures on other property, plant and equipment and intangible assets	(136)	(140)
Expenditures on financial assets designated for decommissioning mines and other technological facilities	(24)	(22)
Proceeds from disposal of property, plant and equipment and intangible assets	73	11
Proceeds from disposal of equity instruments measured at fair value through other comprehensive income	53	-
Other	(2)	(9)
Net cash used in investing activities	(714)	(983)
Cash flow from financing activities		
Proceeds from borrowings	24	1 740
Repayments of borrowings	(1 103)	(452)
Repayment of lease liabilities	(10)	(13)
Payment of interest, including due to:	(41)	(67)
borrowings	(38)	(65)
Other	1	1
Net cash generated from/(used in) financing activities	(1 129)	1 209
NET CASH FLOW	(916)	1 177
Exchange gains/(losses)	(40)	5
Cash and cash equivalents at beginning of the period	2 522	1 016
Cash and cash equivalents at end of the period, including:	1 566	2 198
restricted cash	19	25

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 March 2021	As at 31 December 2020
ASSETS		
Mining and metallurgical property, plant and equipment	20 676	20 576
Mining and metallurgical intangible assets	2 120	2 024
Mining and metallurgical property, plant and equipment and intangible assets	22 796	22 600
Other property, plant and equipment	2 853	2 857
Other intangible assets	163	141
Other property, plant and equipment and intangible assets	3 016	2 998
Note 4.5 Involvement in joint ventures – loans granted	6 508	6 069
Derivatives	606	789
Other financial instruments measured at fair value	616	636
Other financial instruments measured at amortised cost	623	601
Note 4.6 Financial instruments, total	1 845	2 026
Deferred tax assets	332	193
Other non-financial assets	144	161
Non-current assets	34 641	34 047
Inventories	5 485	4 459
Note 4.6 Trade receivables, including:	958	834
trade receivables measured at fair value through profit or loss	523	478
Tax assets	404	295
Note 4.6 Derivatives	216	210
Other financial assets	320	210
Other non-financial assets	222	142
Note 4.6 Cash and cash equivalents	1 566	2 522
Non-current assets held for sale	-	61
Current assets	9 171	8 733
TOTAL ASSETS	43 812	42 780
EQUITY AND LIABILITIES		
Share capital	2 000	2 000
Other reserves from measurement of financial instruments, including:	(2 189)	(1 430)
accumulated losses due to fair value measurement associated with non-current assets held for sale	-	(21)
Accumulated other comprehensive income, other than from measurement of financial instruments	1 550	1 728
Retained earnings	20 042	18 694
Equity attributable to shareholders of the Parent Entity	21 403	20 992
Equity attributable to non-controlling interest	88	89
Equity	21 491	21 081
Note 4.6 Borrowings, lease and debt securities	6 106	6 928
Note 4.6 Derivatives	1 253	1 006
Employee benefits liabilities	3 048	3 016
Provisions for decommissioning costs of mines and other technological facilities	1 838	1 849
Deferred tax liabilities	381	442
Other liabilities	558	551
Non-current liabilities	13 184	13 792
Note 4.6 Borrowings, lease and debt securities	441	407
Note 4.6 Derivatives	1 265	688
Note 4.6 Trade and similar payables	3 379	3 593
Employee benefits liabilities	1 384	1 313
Tax liabilities	1 086	537
Provisions for liabilities and other charges	189	162
Other liabilities	1 393	1 202
Liabilities associated with non-current assets held for sale	-	5
Current liabilities	9 137	7 907
Non-current and current liabilities	22 321	21 699
TOTAL EQUITY AND LIABILITIES	43 812	42 780

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to shareholders of the Parent Entity				Total	Equity attributable to non-controlling interest	Total equity
	Share capital	Other reserves from measurement of financial instruments	Accumulated other comprehensive income	Retained earnings			
As at 1 January 2020	2 000	(738)	1 954	16 894	20 110	92	20 202
Profit for the period	-	-	-	692	692	(2)	690
Other comprehensive income	-	(58)	(371)	-	(429)	-	(429)
Total comprehensive income	-	(58)	(371)	692	263	(2)	261
As at 31 March 2020	2 000	(796)	1 583	17 586	20 373	90	20 463
As at 1 January 2021	2 000	(1 430)	1 728	18 694	20 992	89	21 081
Profit for the period	-	-	-	1 366	1 366	(1)	1 365
Other comprehensive income	-	(759)	(178)	-	(937)	-	(937)
Total comprehensive income	-	(759)	(178)	1 366	429	(1)	428
Reclassification of the result of disposal of equity instruments measured at fair value through other comprehensive income	-	-	-	(18)	(18)	-	(18)
As at 31 March 2021	2 000	(2 189)	1 550	20 042	21 403	88	21 491

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, 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.

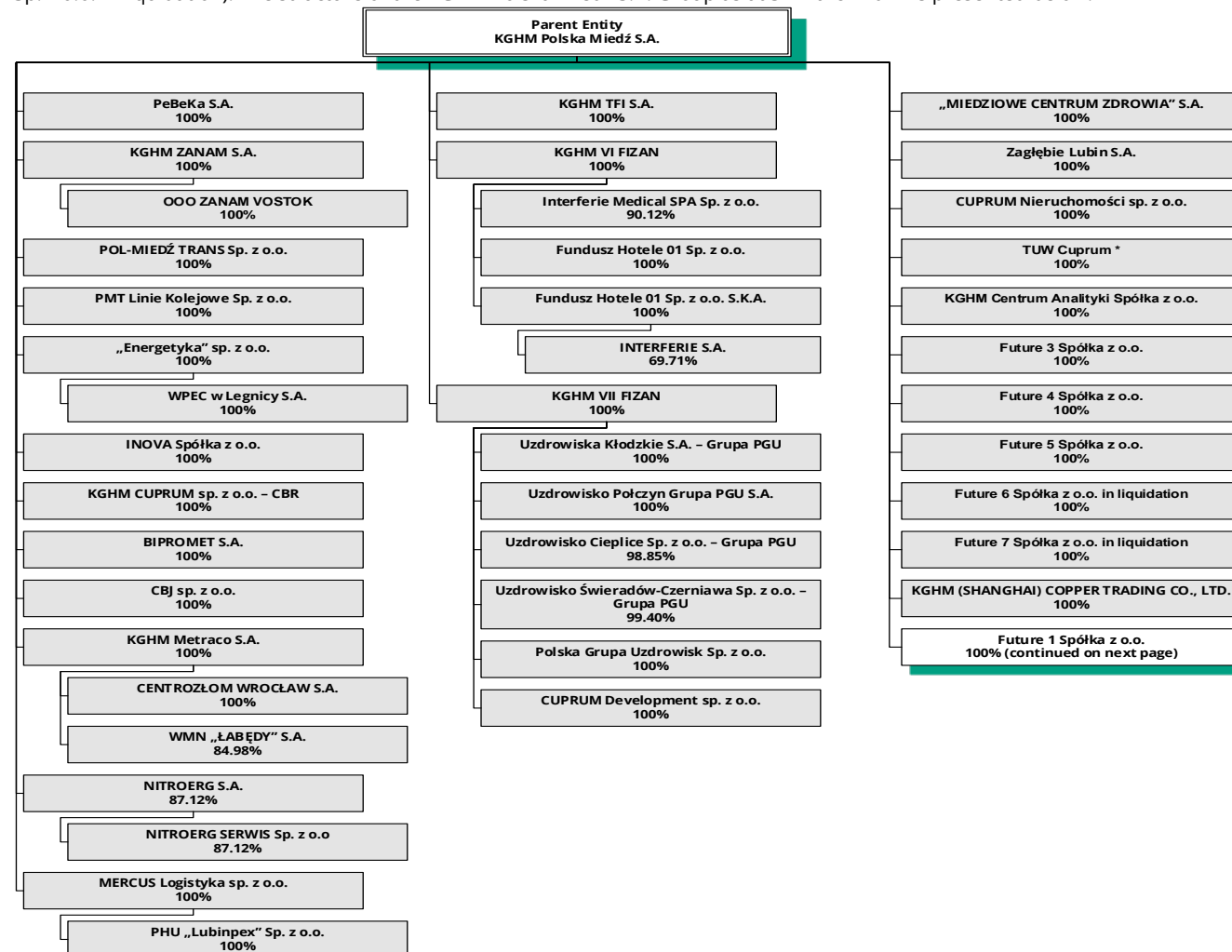
The business activities of the Group include:

- the mining of copper and non-ferrous metals ores;
- the mined production of metals, including copper, nickel, silver, gold, platinum, palladium;
- the production of goods from copper and precious metals;
- underground construction services;
- the production of machinery and mining equipment;
- transport services;
- services in the areas of research, analysis and design;
- the production of road-building materials; and
- the recovery of associated metals from copper ore.

The KGHM Polska Miedź S.A. Group (the KGHM Group, the Group) carries out exploration for and mining of copper, nickel and precious metals based on concessions for Polish deposits held by KGHM Polska Miedź S.A., and also based on legal titles held by companies of the KGHM INTERNATIONAL LTD. Group for the exploration for and mining of these resources in the USA, Canada, and Chile.

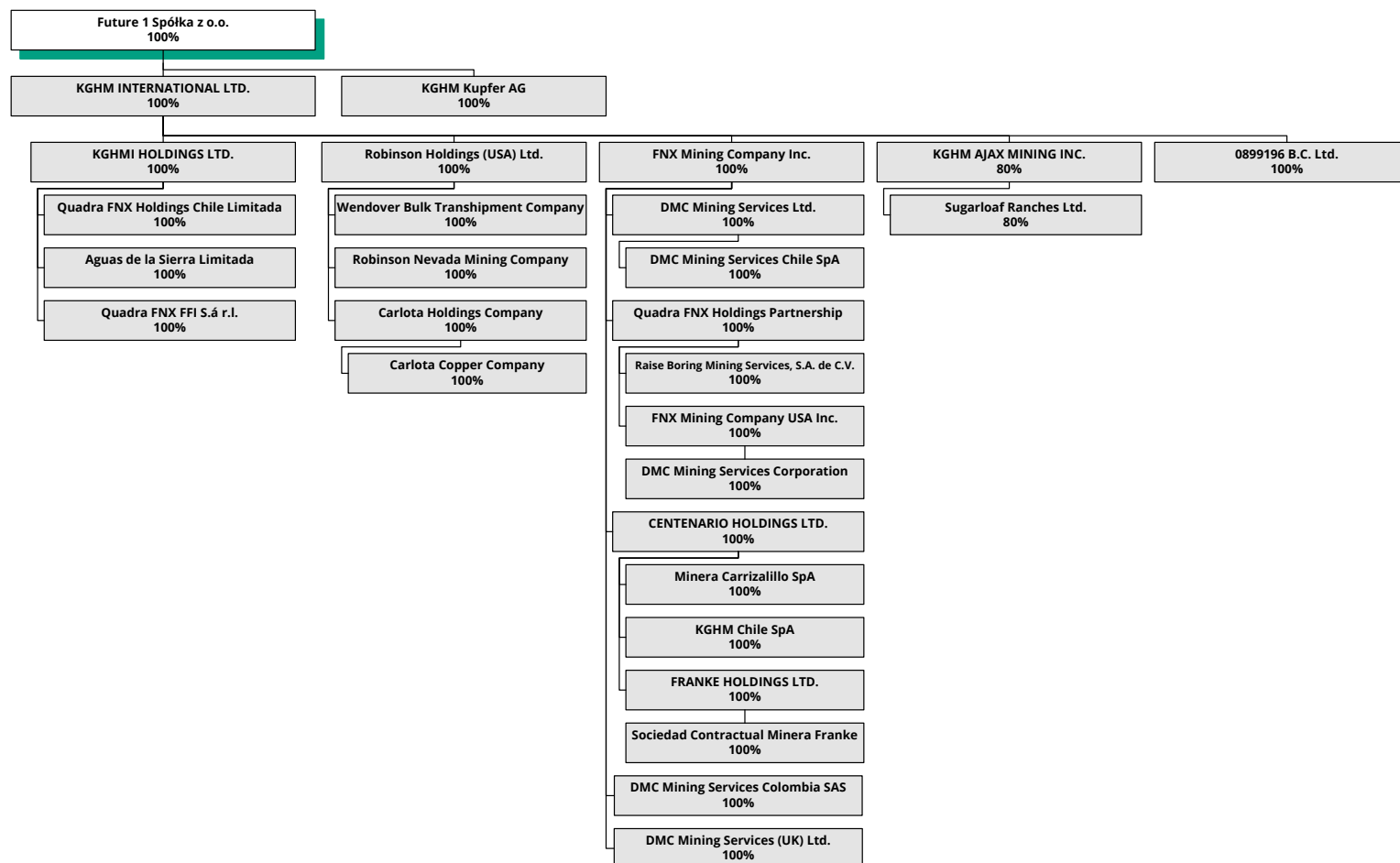
Note 1.2 Structure of the KGHM Polska Miedź S.A. Group

In the current quarter KGHM Polska Miedź S.A. consolidated 70 subsidiaries and used the equity method to account for the shares of two joint ventures (Sierra Gorda S.C.M. and NANO CARBON Sp. z o.o. in liquidation). The structure of the KGHM Polska Miedź S.A. Group as at 31 March 2021 is presented below:



The percentage share represents the total share of the Group.

* An entity excluded from consolidation due to the insignificant impact on the consolidated financial statements



Note 1.3 Exchange rates applied

The following exchange rates were applied in the conversion to EUR of selected financial data:

- for the conversion of turnover, profit or loss and cash flow for the current period, the rate of **4.5721 EURPLN***,
- for the conversion of turnover, profit or loss and cash flow for the comparable period, the rate of **4.3963 EURPLN***,
- for the conversion of assets, equity and liabilities at 31 March 2021, the current average exchange rate announced by the National Bank of Poland (NBP) as at 31 March 2021, of **4.6603 EURPLN**,
- for the conversion of assets, equity and liabilities at 31 December 2020, the current average exchange rate announced by the NBP as at 31 December 2020, of **4.6148 EURPLN**.

**the rates represent the arithmetic average of current average exchange rates announced by the NBP on the last day of each month during the period from January to March respectively of 2021 and 2020.*

Note 1.4 Accounting policies and the impact of new and amended standards and interpretations

The following quarterly report includes:

1. the condensed consolidated financial statements of the KGHM Polska Miedź S.A. Group for the period from 1 January to 31 March 2021 and the comparable period from 1 January to 31 March 2020, together with selected explanatory information (**Part 1**),
2. the quarterly financial information of KGHM Polska Miedź S.A. for the period from 1 January to 31 March 2021 and the comparable period from 1 January to 31 March 2020 (**Part 2**).

Neither the condensed consolidated financial statements for the period from 1 January to 31 March 2021 and as at 31 March 2021 nor the quarterly financial information of KGHM Polska Miedź S.A. for the period from 1 January to 31 March 2021 and as at 31 March 2021 were subject to audit by a certified auditor.

The consolidated quarterly report for the period from 1 January 2021 to 31 March 2021 was prepared in accordance with IAS 34 *Interim Financial Reporting* as approved by the European Union and for a full understanding of the financial position and operating results of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group, should be read jointly with the Annual Report RR 2020 and the Consolidated annual report SRR 2020.

This quarterly report's financial statements were prepared using the same accounting policies and valuation methods for the current and comparable periods and principles applied in annual financial statements (consolidated and separate), prepared as at 31 December 2020.

Note 1.4.1 Impact of new and amended standards and interpretations

From 1 January 2021, the Group is bound by amendments to standards resulting from amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 on the interest rate benchmark reform –Phase 2.

The aforementioned amendments to standards were adopted for use by the European Union. 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, only the LIBOR rate will be replaced, and it will be replaced by a risk-free rate based on the overnight rate. The Group identified agreements with clauses based on the LIBOR rate and which will be amended following the replacement of the reference rate. These are mainly borrowing agreements (bank loans, loans), deposit agreements, 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 valuation of an eventual 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 lease interest rate, and to measure at fair value loans granted by applying in the discounting process the current LIBOR market interest rate from the Reuters system. In such cases, in the Group's opinion, the impact of this amendment on the measurement of loans will be immaterial due to the fact that despite the new calculation method, the new reference rate will differ from the LIBOR rate by only 1-2 basis points, depending on the date and currency.

The KGHM Polska Miedź S.A. Group continuously monitors the recommendations of entities leading the IBOR reform. Due to the fact that many issues have not yet been formally regulated, the scale 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 derivatives, because CIRS (open Cross Currency Interest Rate Swap transactions) and issued bonds are based on WIBOR reference rate, which will not be replaced by an alternative ratio.

Exposure of selected items of the consolidated financial statements based on IBOR rates to the interest rate benchmark reform

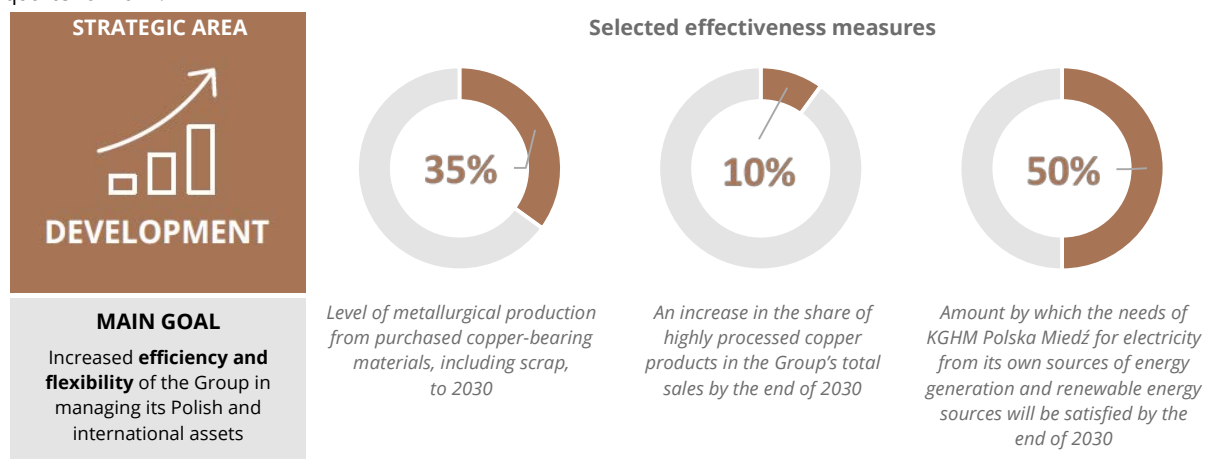
Type of financial instrument	Current reference rate	Carrying amount as at 31 March 2021
Long-term bank loans	LIBOR 3M	395
	LIBOR 1M	(13)
Short-term bank loans	LIBOR 3M	(1)
	LIBOR 1M	(3)
Reverse factoring	LIBOR 6M	22
	LIBOR 1M	0.16
Total		400

On 31 March 2021, the International Accounting Standards Board (IASB) published amendments to IFRS 16 *Leases*, which extend by one year 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. 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. These amendments are effective for periods beginning on or after 1 April 2021. The Group will apply these amendments following their adoption for use by the European Union, while in its opinion the impact of these amendments on the consolidated financial statements will be immaterial.

2 – Realisation of strategy

In advancing the Strategy, the Company endeavoured to maintain stable production in its domestic and international assets, and a level of costs guaranteeing financial security while ensuring safe working conditions and minimising its impact on the environment and surroundings, pursuant to the idea of sustainable development. To increase the effectiveness of the actions taken it was decided to define and establish Strategic Programs. In the first quarter of 2021, a portion of the Strategic Programs planned to be created in the current year were established.

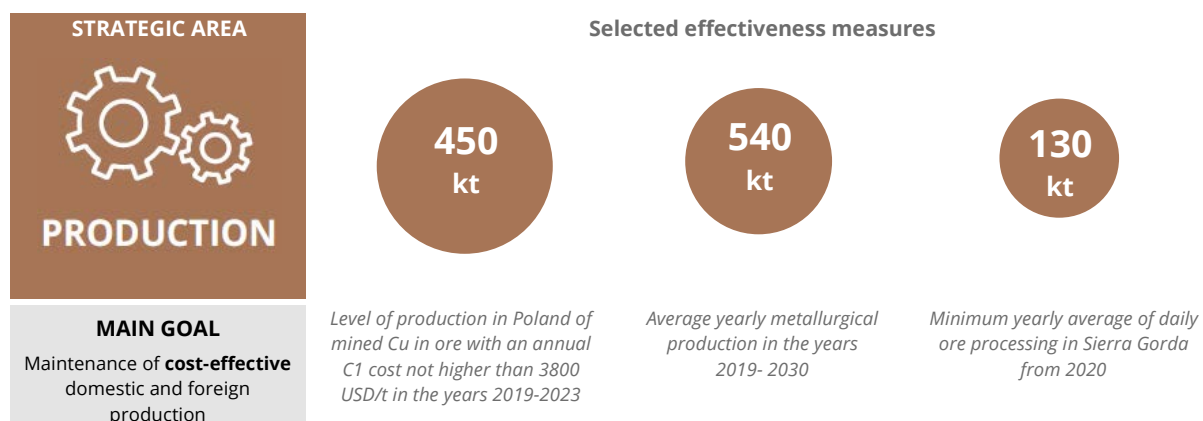
Following is information on key achievements in terms of strategic actions in individual areas of the Strategy in the first quarter of 2021:



Key actions taken in the first quarter of 2021 in the area of Development:

- Advancement of the Deposit Access Strategic Program:
 - The GG-1 shaft is at a depth of 1231.2 meters, which was achieved at the end of 2020. In the first quarter of 2021 work continued on preparing the shaft for tubing construction. Conceptual and planning work was underway on the Gaworzyce Shaft and the GG-2 „Odra” Shaft.
 - 11 kilometres of tunnelling were excavated in the Rudna and Polkowice-Sierszowice mining areas.
- Work continued on Development of the Żelazny Most Tailings Storage Facility:
 - 93% of the physical work on building the Southern Quarter together with slurry, water and power infrastructure has been carried out.
 - 90% of the physical work on building Stage 1 of the Tailings Segregation and Thickening Station has been carried out.
- Exploration projects with respect to exploring for and evaluating copper ore deposits were carried out pursuant to the concessions.
 - Preparatory work was carried out for the sinking of a subsequent drillhole respectively within the Głogów concession and the Retków-Ścinawa concession; Geological work was carried out within the Synklina Grodziecka and Konrad concessions, and an extension of the Synklina Grodziecka concession was obtained; Proceedings are underway regarding the obtainment of a concession for the Radwanice area.
 - As a result of the judgment of the Supreme Administrative Court from 2017, following the dismissal of cassation appeals regarding the concession decisions “Bytom Odrzański” and “Kulów-Luboszyce”, the concession authority continued the proceedings in the second instance, which concluded on 25 March 2021. At the end of April 2021, the Minister of Climate and the Environment issued a decision in the second instance granting KGHM Polska Miedź S.A. the concession to the Bytom Odrzański and Kulów-Luboszyce areas.
- Exploration projects were carried out with respect to exploring for and evaluating of other deposits pursuant to the concessions.
 - Preparatory work was carried out in the Puck Region for the sinking of a subsequent drillhole, which is expected to be conducted by the end of 2021. The results of the geological work conducted thus far in the Puck Region were analysed.
 - In terms of concession-related work in the area of Nowe Miasteczko, analysis was carried out on the results of geophysical research conducted.
- Projects involving development of the international assets were continued:

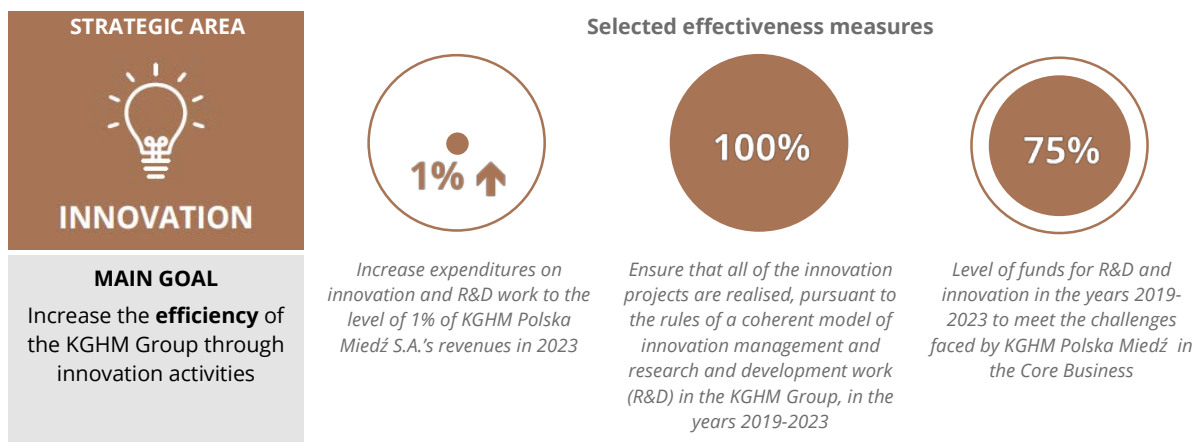
- Victoria project – negotiations were conducted involving contracts for work to be performed in the current year, and actions were taken aimed at maintaining good relations with key stakeholders in the project.
- Ajax project - monitoring and securing of project terrain pursuant to law. Actions continued aimed at dialogue with First Nations and the local community.
- Sierra Gorda Oxide - supplementary work continued aimed at preparing for the next stage of engineering work and further project development. At present, most of the oxide ore resources planned for processing have already been excavated and deposited in the vicinity of the future copper SX-EW facility.
- The investment project involving construction of a second Upcast line, which will increase the production of OFE copper at the Cedyňa wire rod plant, was continued. Analytical work is underway to confirm the investment's economic feasibility and applications were submitted in respect of requisite administrative decisions necessary to realise the project.
- Under the Strategic Program called Hybrid Legnica Smelter and Refinery an investment project commenced involving the preparation of documentation with respect to the creation of a Scrap Turnover Base.
- 20.64% of the needs of KGHM for electrical power were satisfied by internal sources and RES.



Key actions taken in the first quarter of 2021 in the area of Production:

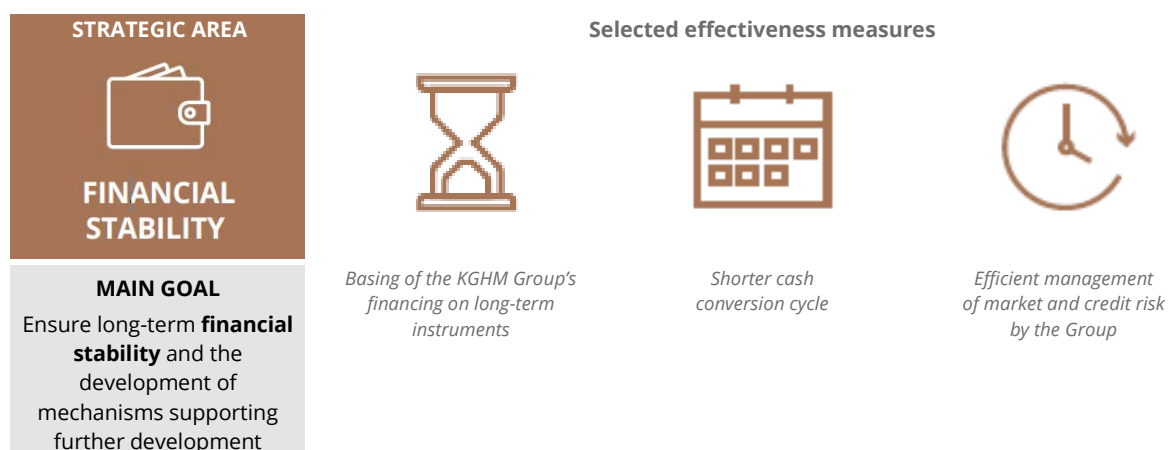
- Despite the epidemiological situation caused by the Sars-Cov-2 pandemic, operations in the domestic and international assets proceeded without substantial interruptions.
- Mined production in Poland in the first quarter of 2021 amounted to 110.4 thousand tonnes of copper in ore with a C1 cost of 4 253.5 USD/t (1.93 USD/lb) of payable copper.
- Payable copper production abroad:
 - Sierra Gorda: 22.9 thousand tonnes (on a 55% basis); Following the achievement of higher processing capacity in 2020, Sierra Gorda continued to concentrate on optimisation work, both in technical and cost terms.
 - Robinson: 11.9 thousand tonnes;
 - Carlota: 1.2 thousand tonnes;
 - Franke: 2.6 thousand tonnes;
 - Sudbury Basin: 0.5 thousand tonnes.
- Metallurgical production amounted to 146.4 thousand tonnes.
- Advancement continued on projects aimed at the automatisisation of production in KGHM's Mining Divisions, under the KGHM 4.0's Strategic Program in the Industry area.
 - A total of 78 Wi-Fi access points were built, utilised mainly in the transmission of data from mining machinery.
 - Work continues on the testing of mining machinery powered by electric batteries. Presently being tested in the Lubin mine is a bolting rig, while in the second quarter of 2021 tests will be performed on a self-propelled drilling rig.
- Work was carried out aimed at increasing energy production from internal generating sources, including RES:
 - Non-binding bids were made in 3 tenders to purchase shares in companies operating wind-powered power plants and having rights to build wind-powered power plants.
 - Work continued on developing solar power energy generation.
 - The process of obtaining administrative decisions for the construction of an 8 MW Photovoltaic Power Plant PV on the grounds of the „Obora” Sandpit continued.

- The process of obtaining administrative decisions continued for the construction of photovoltaic Power Plant PV complex West Lubin Mine, PV “Wierzba” in the municipality of Kotla, PV Warta Bolesławiecka and the construction of the HMG I-III photovoltaic Power Plant PV complex.
- Agreements were entered into to maintain confidentiality with entities holding the right to build photovoltaic power plants.



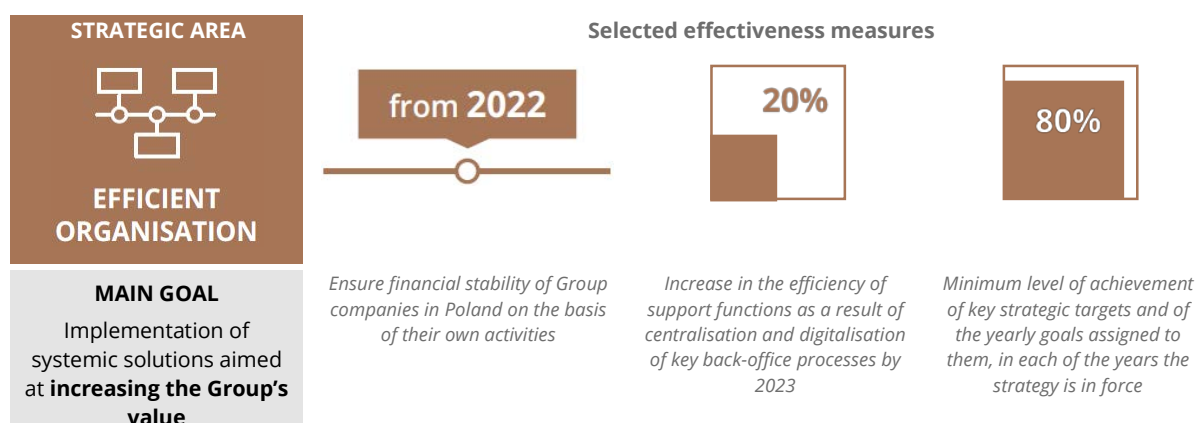
Key actions taken in the first quarter of 2021 in the area of Innovation:

- Under the CuBR venture, co-financed by the National Centre for Research and Development, R&D projects having a total value of over PLN 180 million are underway. Altogether, 25 projects have been implemented under the four editions of the competition.
 - 11 projects have been completed.
 - Currently, 10 projects are being advanced.
 - 4 projects were suspended due to the inability to implement the results of the research.
 - Work continues on announcing the fifth CuBR competition.
- Advancement of the Implementation Doctorates Program continued for 38 Doctoral Students (KGHM employees) from the two editions.
- Construction continues on a prototype, battery-powered, Self-propelled Transport Vehicle – stage of preparation of documentation permitting its introduction into mining operations.
- Initiatives continue involving the testing of battery-powered, self-propelled mining machinery.
- Work continues on the digitisation and modern archiving of knowledge resources at the Head Office of KGHM.
- Work continues on research projects under the Knowledge and Innovation Community KIC Raw Materials, 4 subsidy applications were submitted and a subsidy from the Program was obtained to realise the project called “Komora flotacyjna RFC” (“RFC flotation cell”).
- Projects subsidized under the Horizon 2020 Program:
 - Work continued on subsidised projects.
 - Financing was obtained from the Horizon 2020 Program to advance the project: „Intelligent control of underground mine production SIMS 2.” The project will commence in the second quarter of 2021.
- Intellectual property:
 - Proceedings are underway for the obtainment of protection of the word trademark „KGHM”, submitted in an international procedure, in China.
 - Monitoring is underway for the word and word-figurative trademark “KGHM” in global trademark databases in order to verify the submission for protection of similar trademarks.
 - Protection was prolonged for the European patent EP2873475 “Method of manufacturing wires of Cu-Ag alloys” which was validated in 16 European countries, in respect of which KGHM Polska Miedź S.A. holds joint rights under the CuBR project being advanced.
 - Protection was prolonged for patent no. PAT.221274 „Sposób wytwarzania drutów ze stopów CU-Ag” (Method for manufacturing rod from CU-Ag alloys) at the Patent Office of the Republic of Poland, in respect of which KGHM Polska Miedź S.A. holds joint rights under the CuBR project being advanced.
 - Proceedings are underway at the Patent Office of the Republic of Poland for the granting of patents for 8 inventions.



Key actions taken in the first quarter of 2021 in the area of Financial Stability:

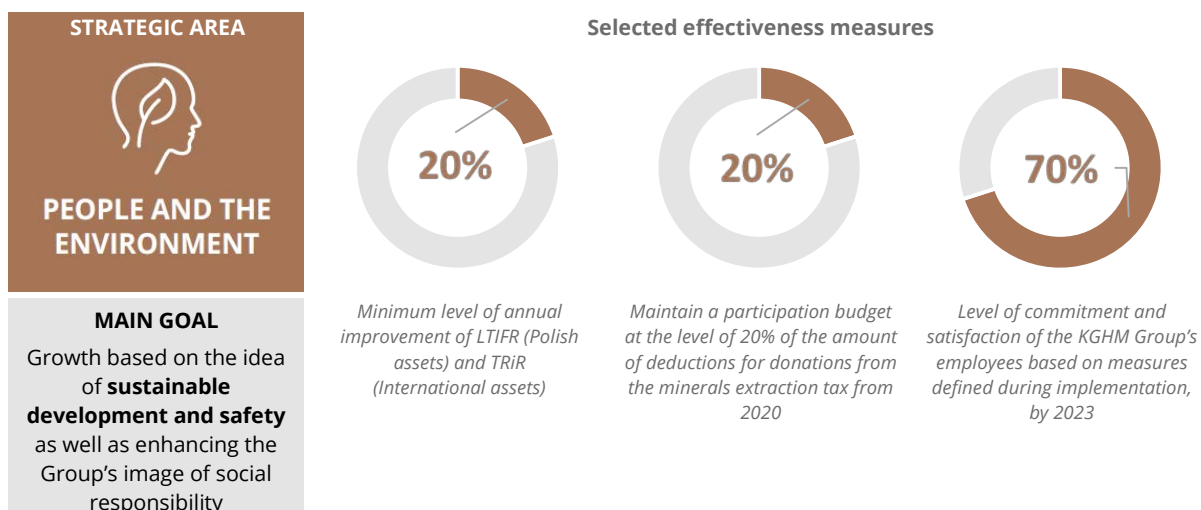
- The Company consistently continued actions aimed at basing the Group's financing structure on long-term instruments.
 - In January 2021 agreements were signed for overdraft facilities in the total amount of USD 80 million. The financing is available for 2 years with the option to extend for a subsequent year.
- Actions continued in respect of shortening the receivables recovery period and extending the payables payment period. In the Parent Entity, at the end of the first quarter of 2021 the balance of trade payables transferred to reverse factoring amounted to PLN 1 045 million, and the balance of receivables transferred to factoring amounted to PLN 2 271 million.
- To ensure effective market and credit risk management in the KGHM Group, hedging strategies were implemented on the copper, silver and currency markets.
 - Put options were purchased for the total amount of USD 870 million with maturities from February to December 2021.
 - The Company bought back previously sold put options for the same period with a notional amount of USD 495 million.
 - The Company also restructured a hedging position on the copper market. The Company purchased call options for the period from March to June 2021 for the total notional amount of 62 thousand tonnes, at the same time opening participation in potential further price increases for the collar and seagull options structures held.



Key actions taken in the first quarter of 2021 in the area of Efficient organisation:

- Advancement of the KGHM 4.0 Program continued, divided into two main areas:
 - INDUSTRY (industrial production)
 - The final phase of analytical work on and configuration of the CMMS system was advanced, supporting production and material logistics in selected divisions in the Metallurgical Plants, Concentrators and in the Tailings Division, which concluded with acceptance tests. At the end of April 2021 the operational launch of the system was commenced in all organisational units of the indicated Divisions.
 - ICT (Information and Communication Technology) AREA

- Performance and integration tests of the production modules for the measurement sector in the mines were conducted with positive results with respect to the copper and rock salt deposits.
- Implementation of the FIORI eReport services system was completed. The actions are aimed at improving the quality of working time planning in the Concentrators Division.
- No interruptions were recorded in the business services of the KGHM Group, and safety-related processes were supported as a result of work related with ensuring continuity of core business operations and administrative services due to the pandemic situation.



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

- An investment project supporting workplace safety called „Dostawa, montaż i uruchomienie systemu wspierania pracy operatora w zakresie antykolizji” (Supply, assembly and start-up of an anti-collision operator support system) was continued. Assembly of the system is underway on mining machinery and mining lamps are being tagged.
- The Occupational Health and Safety Program continued in KGHM Polska Miedź S.A.
 - The LTIFR KGHM ratio¹ amounted to 4.21. The TRiR ratio² for the international assets amounted to 0.3.
 - Planned activities related to mitigating the threat arising from the SarsCov-2 pandemic were carried out, including vaccinations for Company employees, in compliance with national guidelines.
 - A uniform approach was made to evaluating the threat of nitrous oxide emissions from diesel engines in the mines of KGHM.
 - A uniform means of communicating the current status of accidents was introduced in the Company's Divisions, using „Days since last accident calculator” boards.
- The Program to adapt the technological installations of KGHM to the requirements of BAT conclusions for the nonferrous metals industry and to restrict emissions of arsenic (BATAs) was continued.
 - 11 projects were advanced at the Głogów Copper Smelter and Refinery and the Legnica Copper Smelter and Refinery, of which in the first quarter of 2021 realisation of the following was completed:
 - A de-lead slag transport installation (Głogów Copper Smelter and Refinery).
 - A warehouse and storage area for lead-bearing materials (Głogów Copper Smelter and Refinery).

¹ The LTIFR_{KGHM} ratio (Lost Time Injury Frequency Rate KGHM) in 2020, or the total number of workplace accidents* in the Company KGHM Polska Miedź S.A., standardised to 1 million hours worked by the employees of KGHM Polska Miedź S.A., *workplace accident as defined by the Act dated 30 October 2002 on social insurance due to workplace accidents and occupational illnesses (Journal of Laws of 2002, No. 199, item 1673 with subsequent amendments).

² The TRIR (Total Recordable Incident Rate) is a ratio calculated according to the adopted methodology as the number of accidents at work meeting the conditions of registration as defined in the ICMM (International Council on Mining & Metals) standard, for all employees of KGHM INTERNATIONAL LTD., KGHM Chile SpA and Sierra Gorda S.C.M. as well as subcontractors of these entities, standardised to 200 000 worked hours.

3 – Information on operating segments and revenues

Note 3.1 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.

As a result of 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, in which the following mines, deposits or mining areas constitute operating segments: Sudbury Basin, Robinson, Carlota, Franke and Ajax.	Operating segments within the KGHM INTERNATIONAL LTD. Group are located in North and South America. The Management Board analyses the results of the following operating segments: Sudbury Basin, Robinson, Carlota, Franke, Ajax and other. Moreover, it receives and analyses reports of 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,
- KGHM Centrum Analityki sp. z o.o. (formerly Future 2 Sp. z o.o.), Future 3 Sp. z o.o., Future 4 Sp. z o.o., Future 5 Sp. z o.o., which operate in the structure related to the establishment of a Tax Group,
- Future 6 Sp. z o.o. in liquidation, Future 7 Sp. z o.o. in liquidation.

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

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

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

THE SEGMENT KGHM INTERNATIONAL LTD.	
Location	Company
The United States of America	Carlota Copper Company, Carlota Holdings Company, DMC Mining Services Corporation, FNX Mining Company USA Inc., Robinson Holdings (USA) Ltd., Robinson Nevada Mining Company, Wendover Bulk Transshipment 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 - Czarniawa Sp. z o.o. - Grupa PGU
Investment funds, financing activities	Fundusz Hotele 01 Sp. z o.o., Fundusz Hotele 01 Sp. z o.o. S.K.A., KGHM TFI S.A., KGHM VI FIZAN, KGHM VII FIZAN, Polska Grupa Uzdrowisk Sp. z o.o.
Other activities	CENTROZŁOM WROCŁAW S.A., CUPRUM Development sp. z o.o., CUPRUM Nieruchomości sp. z o.o., KGHM (SHANGHAI) COPPER TRADING CO., LTD., KGHM Kupfer AG, MERCUS Logistyka sp. z o.o., MIEDZIOWE CENTRUM ZDROWIA S.A., NITROERG S.A., NITROERG SERWIS Sp. z o.o., PHU "Lubinpex" Sp. z o.o., PMT Linie Kolejowe Sp. z o.o., WMN "ŁABĘDY" S.A., Zagłębie Lubin S.A., OOO ZANAM VOSTOK

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 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 investment in KGHM INTERNATIONAL LTD.) are measured at cost, including the impairment losses,
- The segment KGHM INTERNATIONAL LTD. – comprises consolidated data of the KGHM INTERNATIONAL LTD. Group prepared in accordance with IFRSs. The involvement in Sierra Gorda S.C.M. is accounted for using the equity method,

- The segment Sierra Gorda S.C.M. – comprises the 55% share of assets, liabilities, revenues and costs of this venture presented in the separate financial statements of Sierra Gorda S.C.M. prepared in accordance with IFRSs,
- Other segments – comprises aggregated data of individual subsidiaries after excluding transactions and balances between them.

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

The Group defines adjusted EBITDA as profit/loss for the period pursuant to IFRS, excluding income tax (current and deferred), finance income and costs, other operating income and costs, profit or loss on involvement in joint ventures, impairment losses on interest in a joint venture, depreciation/amortisation and recognition/reversal of impairment losses on property, plant and equipment included in the cost of sales, selling costs and administrative expenses. Adjusted EBITDA – as a financial indicator not defined by IFRSs – 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 corporate tax liabilities.

Note 3.2 Financial results of reporting segments

		from 1 January 2021 to 31 March 2021						
		KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Reconciliation items to consolidated data		Consolidated financial statements
						Elimination of data of the segment Sierra Gorda S.C.M	Consolidation adjustments****	
Note 3.3	Revenues from contracts with customers, of which:	5 569	750	942	2 372	(942)	(1 946)	6 745
	- inter-segment	99	-	3	1 812	(3)	(1 911)	-
	- external	5 470	750	939	560	(939)	(35)	6 745
	Segment result - profit/(loss) for the period	975	(33)	160	13	(160)	410	1 365
Additional information on significant revenue/cost items of the segment								
	Depreciation/amortisation recognised in profit or loss (Recognition)/reversal of impairment losses on non-current assets, including:	(309)	(126)	(191)	(62)	191	2	(495)
	impairment losses on investments in subsidiaries	(3)	-	-	-	-	3	-
	reversal of allowances for impairment of loans granted	4	-	-	-	-	(4)	-
		As at 31 March 2021						
	Assets, including:	39 930	11 468	10 576	5 889	(10 576)	(13 475)	43 812
	Segment assets	39 930	11 468	10 576	5 889	(10 576)	(13 482)	43 805
	Assets unallocated to segments	-	-	-	-	-	7	7
	Liabilities, including:	19 039	18 635	14 138	2 967	(14 138)	(18 320)	22 321
	Segment liabilities	19 039	18 635	14 138	2 967	(14 138)	(18 356)	22 285
	Liabilities unallocated to segments	-	-	-	-	-	36	36
Other information								
	Cash expenditures on property, plant and equipment and intangible assets – cash flows	663	173	147	125	(147)	(147)	814
Production and cost data								
	Payable copper (kt)	146.4	16.2	22.9				
	Molybdenum (million pounds)	-	0.1	1.9				
	Silver (t)	298.6	0.6	7.8				
	TPM (koz t)	16.6	12.2	6.6				
	C1 cash cost of producing copper in concentrate (USD/lb PLN/lb)**	1.93 7.28	2.32 8.75	0.93 3.52				
	Segment result - adjusted EBITDA	1 675	238	643	52	-	-	2 608
	EBITDA margin***	30%	32%	68%	2%	-	-	34%

* 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 (34%), the consolidated revenues from sales were increased by revenues from sales of the segment Sierra Gorda S.C.M. [2 608 / (6 745 + 942) * 100]

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

Financial results of reporting segments for the comparable period

	from 1 January 2020 to 31 March 2020						
	KGHM Polska Miedz S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Reconciliation items to consolidated data		Consolidated financial statements
					Elimination of data of the segment Sierra Gorda S.C.M	Consolidation adjustments****	
Note 3.3							
Revenues from contracts with customers, of which:	4 225	632	360	1 902	(360)	(1 460)	5 299
- inter-segment	84	5	-	1 348	-	(1 437)	-
- external	4 141	627	360	554	(360)	(23)	5 299
Segment result - profit/(loss) for the period	399	(263)	(226)	(30)	226	584	690
Additional information on significant revenue/cost items of the segment							
Depreciation/amortisation recognised in profit or loss	(284)	(145)	(224)	(60)	224	6	(483)
Impairment losses on non-current assets, including:	(215)	-	-	-	-	188	(27)
impairment losses on investments in subsidiaries	(42)	-	-	-	-	42	-
allowances for impairment of loans granted	(173)	-	-	-	-	173	-
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
Other information							
from 1 January 2020 to 31 March 2020							
Cash expenditures on property, plant and equipment and intangible assets – cash flows	744	192	150	106	(150)	(79)	963
Production and cost data							
from 1 January 2020 to 31 March 2020							
Payable copper (kt)	141.0	14.1	19				
Molybdenum (million pounds)	-	0.2	1.6				
Silver (t)	329.2	0.5	5.7				
TPM (koz t)	25.2	17.8	8.5				
C1 cash cost of producing copper in concentrate (USD/lb PLN/lb)**	1.58 6.20	2.19 8.59	1.15 4.51				
Segment result - adjusted EBITDA	900	52	104	73	-	-	1 129
EBITDA margin***	21%	8%	29%	4%	-	-	20%

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

** Unit cash cost of payable copper production, reflecting ore mining and processing costs, transport costs, the minerals extraction tax, administrative expenses during the mining phase and smelter treatment and refining charges (TC/RC) less by-product value. C1 cost is in regard to payable copper in own concentrate in the case of the segment KGHM Polska Miedz 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 (20%), the consolidated revenues from sales were increased by revenues from sales of the segment Sierra Gorda S.C.M.

[1 129 / (5 299 + 360) * 100]

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

Reconciliation of adjusted EBITDA

from 1 January 2021 to 31 March 2021

	KGHM Polska Miedz 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	975	(33)	13	410	1 365	160	
[-] Profit or loss on involvement in joint ventures	-	97	-	-	97	-	
[-] Current and deferred income tax	(450)	(8)	(20)	(19)	(497)	(90)	
[-] Depreciation/amortisation recognised in profit or loss	(309)	(126)	(62)	2	(495)	(191)	
[-] Finance income and (costs)	(302)	(246)	(5)	251	(302)	(202)	
[-] Other operating income and (costs)	368	8	47	202	625	-	
[-] (Recognition)/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	(7)	4	1	-	(2)	-	
Segment result - adjusted EBITDA	1 675	238	52	(26)	1 939	643	2 608

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

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

Reconciliation of adjusted EBITDA

from 1 January 2020 to 31 March 2020

	KGHM Polska Miedz 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	399	(263)	(30)	584	690	(226)	
[-] Profit or loss on involvement in joint ventures	-	96	-	-	96	-	
[-] Current and deferred income tax	(209)	(12)	(15)	(3)	(239)	85	
[-] Depreciation/amortisation recognised in profit or loss	(284)	(145)	(60)	6	(483)	(224)	
[-] Finance income and (costs)	(496)	(260)	(8)	262	(502)	(209)	
[-] Other operating income and (costs)	488	6	(20)	366	840	18	
[-] (Recognition)/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	-	-	-	-	-	
Segment result - adjusted EBITDA	900	52	73	(47)	978	104	1 129

* 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.

Note 3.3 Revenues from contracts with customers of the Group – breakdown by products

from 1 January 2021 to 31 March 2021

				Reconciliation items to consolidated data			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	
Copper	4 300	544	766	2	(766)	(5)	4 841
Silver	900	3	24	-	(24)	-	903
Gold	129	59	45	-	(45)	-	188
Services	36	108	-	545	-	(478)	211
Energy	15	-	-	108	-	(70)	53
Salt	8	-	-	-	-	21	29
Blasting materials and explosives	-	-	-	49	-	(20)	29
Mining machinery, transport vehicles and other types of machinery and equipment	-	-	-	55	-	(45)	10
Fuel additives	-	-	-	24	-	-	24
Lead	68	-	-	-	-	-	68
Products from other non-ferrous metals	-	-	-	23	-	(2)	21
Steel	-	-	-	137	-	(14)	123
Petroleum and its derivatives	-	-	-	71	-	(61)	10
Merchandise and materials	65	-	-	1 259	-	(1 224)	100
Other products	48	36	107	99	(107)	(48)	135
TOTAL	5 569	750	942	2 372	(942)	(1 946)	6 745

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

from 1 January 2020 to 31 March 2020

				Other segments	Reconciliation items to consolidated data		Consolidated data
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*		Elimination of data of the segment Sierra Gorda S.C.M	Consolidation adjustments	
Copper	3 083	351	210	2	(210)	(4)	3 432
Silver	748	5	10	-	(10)	-	753
Gold	196	74	46	-	(46)	-	270
Services	29	124	-	555	-	(442)	266
Energy	-	-	-	65	-	(26)	39
Salt	9	-	-	-	-	(5)	4
Blasting materials and explosives	-	-	-	53	-	(19)	34
Mining machinery, transport vehicles and other types of machinery and equipment	-	-	-	35	-	(35)	-
Fuel additives	-	-	-	29	-	-	29
Lead	59	-	-	-	-	-	59
Products from other non-ferrous metals	-	-	-	21	-	-	21
Steel	-	-	-	116	-	(11)	105
Petroleum and its derivatives	-	-	-	72	-	(65)	7
Merchandise and materials	54	-	-	927	-	(873)	108
Other products	47	78	94	27	(94)	20	172
TOTAL	4 225	632	360	1 902	(360)	(1 460)	5 299

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

Note 3.4 Revenues from contracts with customers of the Group – breakdown by type of contracts

from 1 January 2021 to 31 March 2021

	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Reconciliation items to consolidated data		Consolidated data
					Elimination of data of the segment Sierra Gorda S.C.M	Consolidation adjustments	
Total revenues from contracts with customers	5 569	750	942	2 372	(942)	(1 946)	6 745
Revenues from sales contracts, for which the price is set after the date of recognition of the sales (M+ principle), of which:	4 259	643	872	-	(872)	(18)	4 884
settled	3 499	379	8	-	(8)	(17)	3 861
unsettled	760	264	864	-	(864)	(1)	1 023
Revenues from realisation of long-term contracts	-	102	-	59	-	(55)	106
Revenues from other sales contracts	1 310	5	70	2 313	(70)	(1 873)	1 755
Total revenues from contracts with customers, of which:	5 569	750	942	2 372	(942)	(1 946)	6 745
in factoring	2 082	-	-	12	-	-	2 094
not in factoring	3 487	750	942	2 360	(942)	(1 946)	4 651

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

	from 1 January 2020 to 31 March 2020						
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Reconciliation items to consolidated data		Consolidated data
					Elimination of data of the segment Sierra Gorda S.C.M	Consolidation adjustments	
Total revenues from contracts with customers	4 225	632	360	1 902	(360)	(1 460)	5 299
Revenues from sales contracts, for which the price is set after the date of recognition of the sales (M+ principle), of which:	3 017	508	463	-	(463)	(14)	3 511
settled	2 771	90	8	-	(8)	(13)	2 848
unsettled	246	418	455	-	(455)	(1)	663
Revenues from realisation of long-term contracts	-	120	-	59	-	(53)	126
Revenues from other sales contracts	1 208	4	(103)	1 843	103	(1 393)	1 662
Total revenues from contracts with customers, of which:	4 225	632	360	1 902	(360)	(1 460)	5 299
in factoring	1 242	10	-	-	-	-	1 252
not in factoring	2 983	622	360	1 902	(360)	(1 460)	4 047

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

Note 3.5 Revenues from contracts with customers of the Group – geographical breakdown reflecting the location of end customers

from 1 January 2021 to 31 March 2021

from 1 January 2020
to 31 March 2020

	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Reconciliation items to consolidated data		Consolidated data	KGHM Polska Miedź S.A. Group
					Elimination of data of the segment Sierra Gorda S.C.M	Consolidation adjustments		
Poland	1 189	-	3	2 299	(3)	(1 943)	1 545	1 286
Austria	111	-	-	4	-	-	115	55
Belgium	2	-	-	2	-	-	4	53
Bulgaria	18	-	-	1	-	-	19	8
Czechia	482	-	-	3	-	-	485	366
Denmark	7	-	-	-	-	-	7	4
France	243	-	-	1	-	-	244	102
Spain	-	-	-	1	-	-	1	86
Netherlands	1	-	12	-	(12)	-	1	1
Germany	757	-	3	20	(3)	-	777	774
Romania	76	-	-	-	-	-	76	41
Slovakia	29	-	-	5	-	-	34	21
Slovenia	39	-	-	1	-	-	40	17
Sweden	18	-	-	9	-	-	27	8
Hungary	267	-	-	2	-	-	269	195
The United Kingdom	194	-	-	1	-	-	195	490
Italy	428	-	-	5	-	-	433	263
Australia	323	-	-	-	-	-	323	176
Chile	-	14	65	-	(65)	-	14	6
China	590	156	691	-	(691)	-	746	250
India	-	-	10	-	(10)	-	-	-
Japan	-	143	127	-	(127)	-	143	1
Canada	5	144	-	-	-	(3)	146	139
South Korea	-	-	24	-	(24)	-	-	84
Russia	-	-	-	5	-	-	5	4
The United States of America	360	293	(1)	2	1	-	655	340
Switzerland	193	-	-	-	-	-	193	219
Turkey	28	-	-	1	-	-	29	27
Taiwan	-	-	-	-	-	-	-	166
Brazil	-	-	8	-	(8)	-	-	4
Thailand	114	-	-	-	-	-	114	36
Philippines	3	-	-	-	-	-	3	46
Malaysia	15	-	-	-	-	-	15	-
Vietnam	71	-	-	-	-	-	71	-
Other countries	6	-	-	10	-	-	16	31
TOTAL	5 569	750	942	2 372	(942)	(1 946)	6 745	5 299

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

Note 3.6 Main customers

In the period from 1 January 2021 to 31 March 2021 and in the comparable period the revenues from no single contractor exceeded 10% of the revenues from contracts with customers of the Group.

Note 3.7 Non-current assets – geographical breakdown

	As at 31 March 2021	As at 31 December 2020
Poland	22 549	22 502
Canada	1 539	1 441
The United States of America	1 440	1 416
Chile	376	353
Other countries	20	16
TOTAL*	25 924	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 8 717 million as at 31 March 2021 (PLN 8 319 million as at 31 December 2020).

Note 3.8 Information on segments' results

3.8.1 The segment KGHM Polska Miedź S.A.

Production results

	Unit	1 st quarter of 2021	1 st quarter of 2020	Change %
Ore extraction (dry weight)	mn t	7.5	7.4	+1.3
Copper content in ore	%	1.48	1.52	(2.5)
Copper production in concentrate	kt	96.9	99.1	(2.3)
Silver production in concentrate	t	313	312	+0.3
Production of electrolytic copper	kt	146.4	141.0	+3.8
- including from own concentrate	kt	99.6	103.0	(3.3)
Production of metallic silver	t	299	329	(9.3)
Production of gold	koz t	16.6	25.2	(34.2)

In the first 3 months of 2021, there was an increase in ore extraction (dry weight) as compared to the corresponding period of 2020. Copper content in ore decreased to 1.48% as a result of lower content and thickness of the mined deposit.

Copper production in concentrate was lower by approximately 2.2 thousand tonnes as compared to the first 3 months of 2020 as a result of processing lower quality ore from the Mines.

As compared to the corresponding period of 2020, there was an increase in electrolytic copper production by 5.4 thousand tonnes. The increase in cathode production was due to the higher availability of feed and increased availability of the production line.

Metallic silver production amounted to 299 tonnes and was lower by 30.6 tonnes (-9.3%) as compared to the first quarter of 2020. The lower metallic silver production was a result of the lower availability of feed.

Metallic gold production amounted to 16.6 thousand troy ounces and was lower by 8.6 thousand troy ounces (-34.2%) as compared to the first quarter of 2020. The lower metallic gold production was a result of the lower amount of gold-bearing materials processed.

Sales

	Unit	1 st quarter of 2021	1 st quarter of 2020	Change %
Revenues from contracts with customers, including	PLN mn	5 569	4 225	+31.8
- copper	PLN mn	4 300	3 083	+39.5
- silver	PLN mn	900	748	+20.3
Volume of copper sales	kt	136.6	132.1	+3.4
Volume of silver sales	t	278.8	345.3	(19.3)

Revenues in the first quarter of 2021 amounted to PLN 5 569 million and were higher than in the corresponding prior year period by 32%. The main reasons for this increase in revenues were higher prices of copper (+51%), silver (+55%) and gold (+13%).

Costs

	Unit	1 st quarter of 2021	1 st quarter of 2020	Change (%)
Cost of sales, selling costs and administrative expenses	PLN mn	4 210	3 609	+16.6
Expenses by nature	PLN mn	4 954	3 636	+36.3
Pre-precious metals credit unit cost of electrolytic copper production from own concentrate ⁽¹⁾	PLN/t	28 095	24 880	+12.9
Total unit cost of electrolytic copper production from own concentrate	PLN/t	17 214	16 755	+2.7
C1 unit cost C1⁽²⁾	USD/lb	1.93	1.58	+22.2

1) Unit cost prior to decrease by the value of anode slimes containing, among others, silver and gold

2) Cash cost of concentrate production reflecting the minerals extraction tax, plus administrative expenses and smelter treatment and refining charges (TC/RC), less depreciation/amortisation cost and the value of by-product premiums, calculated for sold payable copper in concentrate

The Parent Entity's cost of sales, selling costs and administrative expenses (total cost of products, merchandise and materials sold, selling costs and administrative expenses) for the first three months of 2021 amounted to PLN 4 210 million and were higher by 16.6% as compared to the corresponding period of 2020, mainly due to higher sales of copper products with the utilisation of a higher amount of purchased metal-bearing materials and a higher minerals extraction tax.

In the first three months of 2021, total expenses by nature as compared to the first three months of 2020 were higher by PLN 1 318 million, alongside a minerals extraction tax higher by PLN 374 million due to an increase in copper and silver prices and higher costs of consumption of purchased metal-bearing materials by PLN 748 million (due to a higher volume of consumption by 15 thousand tonnes of copper alongside a 31.8% higher purchase price).

The increase in expenses by nature, excluding purchased metal-bearing materials and the minerals extraction tax, amounted to PLN 196 million and resulted mainly from an increase in costs of technological materials, fuel and energy and energy carriers due to an increase in prices, as well as labour costs as a result of an increase in wage rates, fees for emissions of CO₂ and depreciation/amortisation.

C1 cost for the first three months of 2021 amounted to 1.93 USD/lb and was higher than in the corresponding period of 2020 by 22.2%. The increase in this cost was mainly due to a higher minerals extraction tax charge (first 3 months of 2020: 0.40 USD/lb; first 3 months of 2021: 0.90 USD/lb). C1 cost, excluding the minerals extraction tax, was lower compared to 2020 by 12.6% mainly due to the valuation of by-products resulting from higher precious metals prices.

The pre-precious metals credit unit cost of electrolytic copper production from own concentrate (unit cost prior to decrease by the value of anode slimes containing, among others, silver and gold) amounted to 28 095 PLN/t (in the corresponding period of 2020: 24 880 PLN/t) and was higher by 12.9% mainly due to the higher minerals extraction tax and the lower production from own concentrate by 3.3%. The pre-precious metals credit unit cost of electrolytic copper production from own concentrate, excluding the minerals extraction tax, amounted to 22 767 PLN/t (in the corresponding period of 2020: 22 138 PLN/t).

The total unit cost of electrolytic copper production from own concentrate amounted to 17 214 PLN/t and was higher than for the first 3 months of 2020 by 2.7%. After excluding the minerals extraction tax, this cost was lower by 15.2% due to the higher valuation of associated metals (higher prices of silver and gold).

Financial results

Statement of profit or loss

In the first quarter of 2021, the Company recorded a profit for the period of PLN 975 million, or PLN 576 million (2.4-times) higher than in the corresponding prior-year period.

PLN mn	1 st quarter of 2021	1 st quarter of 2020	Change (%)
Revenues from contracts with customers, including:	5 569	4 225	+31.8
- adjustment of revenues due to hedging transactions	(266)	123	x
Cost of sales, selling costs and administrative expenses	(4 210)	(3 609)	+16.7
- including the minerals extraction tax	718	344	x2.1
Profit on sales (EBIT)	1 359	616	x2.2
Other operating income and (costs), including:	368	488	(24.6)
Interest on loans granted and other financial receivables	67	73	(8.2)
Realisation of derivatives	(113)	(58)	+94.8
Measurement of derivatives	(67)	(31)	x2.2
Exchange gains/(losses) on assets and liabilities other than borrowings	358	446	(19.7)
Fees and charges on re-invoicing of costs of bank guarantees securing the payment of liabilities	48	20	x2.4
Fair value gains/(losses) on financial assets measured at fair value through profit or loss	70	287	(75.6)
Reversal/(recognition) of impairment losses on financial instruments measured at amortised cost	13	(176)	x
Impairment losses on shares and investment certificates in subsidiaries	(3)	(42)	(92.9)
Other	(5)	(31)	(83.9)
Finance costs	(302)	(496)	(39.1)
Exchange gains/(losses) on borrowings	(273)	(437)	(37.5)
Interest on borrowings	(18)	(41)	(56.1)
Measurement of derivatives	(1)	(3)	(66.7)
Other	(10)	(15)	(33.3)
Profit before income tax	1 425	608	x2.3
Income tax expense	(450)	(209)	x2.2
Profit for the period	975	399	x2.4
Adjusted EBITDA¹	1 675	900	+86.1

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

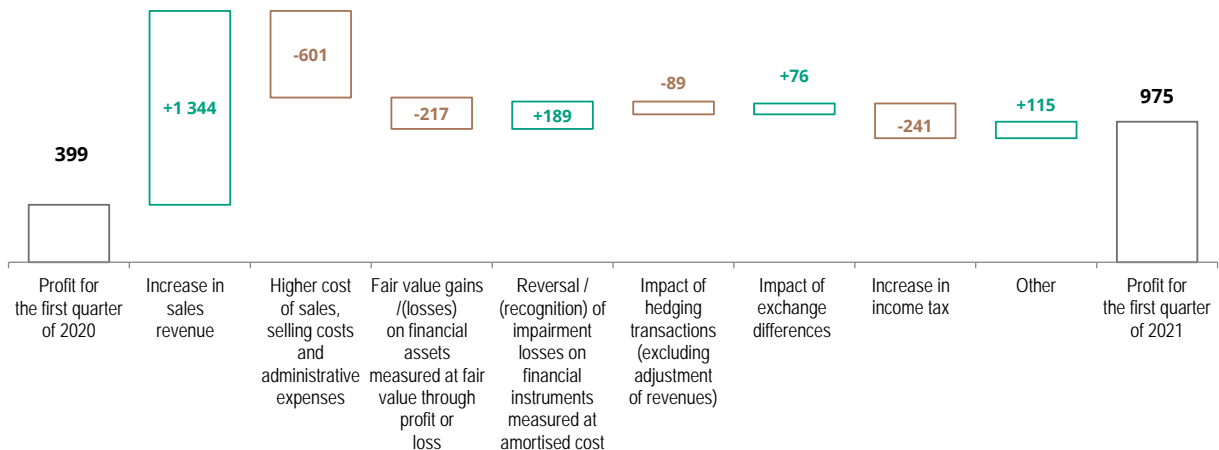
The main factors affecting the change in the financial result in the first quarter of 2021 versus the corresponding prior-year period were as follows:

Item	Impact on change in result (PLN million)	Description
Increase in revenues from contracts with customers (+PLN 1 344 million)	+1 957	An increase in revenues due to higher prices of copper (+2 867 USD/t, +51%), silver (+9.35 USD/koz t, +55%) and gold (+213 USD/koz t, +13%)
	(147)	A decrease in revenues from sales of basic products (copper, silver, gold) due to a less favourable average annual USD/PLN exchange rate (a change from 3.92 to 3.78 USD/PLN)
	(389)	A change in the adjustment of revenues due to hedging transactions, from +PLN 123 million to -PLN 266 million
	(119)	A decrease in revenues due to a lower volume of sales of silver (-66 t, -19%) and gold (-366 kg, -39%), with a higher volume of sales of copper (+4.5 kt, +3%)
	+42	An increase in other revenues from sales, including from the sale of merchandise, waste and production materials (+PLN 11 million)
Increase in cost of sales, selling costs and administrative expenses⁽¹⁾ (-PLN 601 million)	+736	A higher increase than in the prior year in inventories of half-finished products (mainly anodes due to the planned overhauls in metallurgical plants in April), work in progress (mainly anode slimes due to the overhaul shutdown in the Precious Metals Plant) and finished goods (mainly silver due to the lower achieved sales)
	(748)	Higher consumption volume of purchased metal-bearing materials by 15.3 thousand tonnes of copper (+39%) alongside a 32% higher purchase price

	(589)	An increase in other costs by PLN 589 million – mainly an increase in other expenses by nature, including the minerals extraction tax (PLN 374 million), costs of consumption of other materials and energy (PLN 75 million) and employee benefits costs (PLN 65 million)
Fair value gains/(losses) on financial assets measured at fair value through profit or loss	(217)	A decrease in the balance of gains and losses due to changes in the fair value of financial assets measured at fair value through profit or loss, from PLN 287 million to PLN 70 million
Reversal/(recognition) of impairment losses on financial instruments measured at amortised cost	+189	A change in gains and losses on the reversal of and recognition of the impairment loss on financial instruments measured at amortised cost, from -PLN 176 million to +PLN 13 million
Impact of hedging transactions (-PLN 89 million)	(91)	Change in the result on the measurement and realisation of derivatives in other operating activities, from -PLN 89 million to -PLN 180 million
	+2	Change in the result on the measurement and realisation of derivatives in financing activities, from -PLN 3 million to -1 PLN million
Impact of exchange differences (+PLN 76 million)	(88)	Change in the result due to exchange differences from the measurement of assets and liabilities other than borrowings – in other operating activities
	+164	Change in the result due to exchange differences from the measurement of liabilities due to borrowings (presented in finance costs)
Impairment losses on shares and investment certificates in subsidiaries	+39	A decrease in impairment losses on shares and investment certificates in subsidiaries, from -PLN 42 million to -PLN 3 million
Fees and charges on re-invoicing of costs of bank guarantees securing the payment of liabilities	+28	An increase in fees and charges on re-invoicing of costs of bank guarantees securing the payment of liabilities, from PLN 20 million to PLN 48 million
Balance of interest (+PLN 17 million)	(6)	A decrease in revenues due to interest on loans granted
	+23	Lower costs of interest on debt
Increase in income tax	(241)	The increase in income tax mainly results from an increase in current income tax by PLN 253 million

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

Chart 1. Change in profit for the period of KGHM Polska Miedź S.A. (PLN million)



Capital expenditures

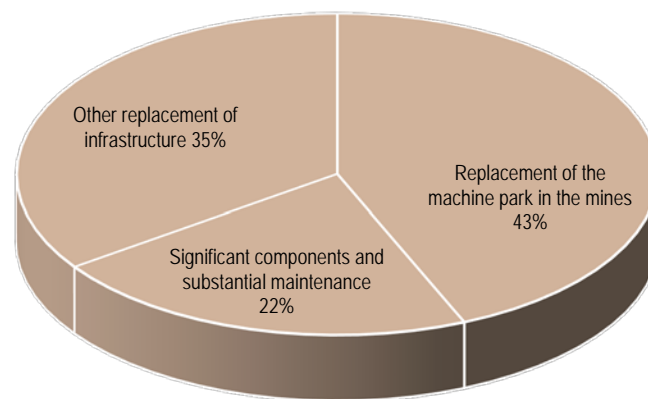
In the first quarter of 2021, expenditures on property, plant and equipment and intangible assets amounted to PLN 427 million and were higher by 8% than in the corresponding prior-year period. Total capital expenditures, together with expenditures incurred on leases per IFRS 16 and on uncompleted development work, amounted to PLN 447 million.

PLN mn	1st quarter of 2021	1st quarter of 2020	Change (%)
Mining	327	307	+6.5
Metallurgy	85	84	+1.2
Other activities	15	3	+5.0
Development work - uncompleted	1	-	-
Leases per IFRS 16	19	7	+2.7
Total	447	401	+11.5
<i>including borrowing costs</i>	31	37	(16.2)

Investment activities comprised projects related to the replacement, maintenance and development:

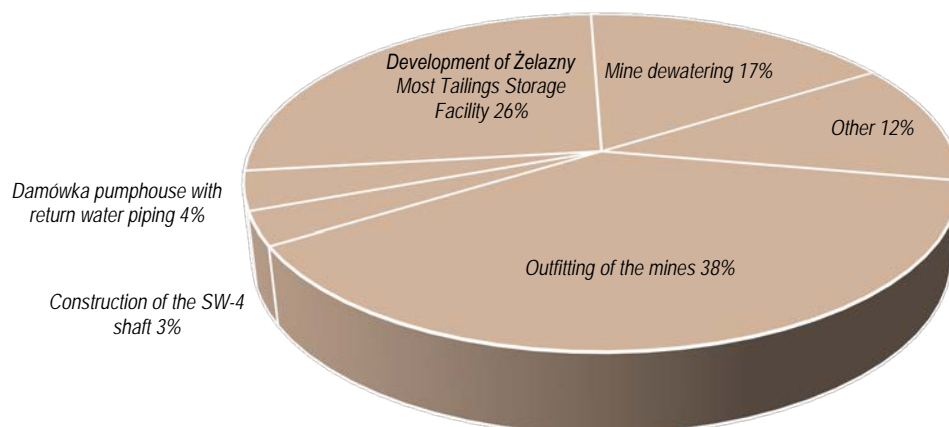
Projects related to replacement aimed at maintaining production equipment in an undeteriorated condition, represent 30% of total expenditures incurred.

Chart 2. Structure of expenditures on replacement



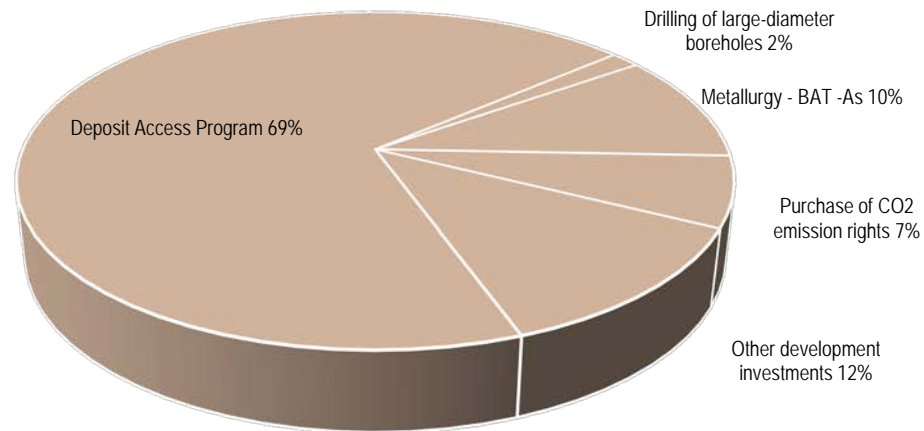
Projects related to maintenance aimed at maintaining mine production at the level set in the approved Production Plan (development of infrastructure to match mine advancement) represent 29% of total expenditures incurred.

Chart 3. Structure of expenditures on maintenance



Development projects aimed at increasing the production volume of the core business, implementation of technical and technological activities optimising the use of existing infrastructure, maintaining production costs and adaptation of the company's operations to changes in standards, laws and regulations (conformatory projects and those related to environmental protection) represent 41% of total expenditures incurred.

Chart 4. Structure of expenditures on development



Detailed information on the advancement of key investment projects may be found in Part 1 Note 2 of this Report in the section on advancement of the Strategy in 2021.

3.8.2 The segment KGHM INTERNATIONAL LTD.

Production results

	Unit	1 st quarter of 2021	1 st quarter of 2020	Change (%)
Payable copper, including:	kt	16.2	14.1	+14.9
- Robinson mine (USA)	kt	11.9	9.2	+29.3
- Franke mine (Chile)	kt	2.6	3.2	(18.8)
- Sudbury Basin mines (CANADA) ⁽¹⁾	kt	0.5	0.7	(28.6)
Payable nickel	kt	0.1	0.1	0.0
Precious metals (TPM), including:	koz t	12.2	17.8	(31.5)
- Robinson mine (USA)	koz t	8.7	7.3	+19.2
- Sudbury Basin mines (CANADA) ⁽¹⁾	koz t	3.5	10.5	(66.7)

1) *McCreeedy West mine in the Sudbury Basin*

Copper production in the segment KGHM INTERNATIONAL LTD. in the first quarter of 2021 amounted to 16.2 thousand tonnes, or an increase by 2.1 thousand tonnes (+15%) compared to the corresponding period of 2020. This was mainly a result of higher production by the Robinson mine.

The increase in copper production by the Robinson mine by 2.7 thousand tonnes (+29%) was due to the mining of ore having a higher content of this metal, with higher recovery, which was partially offset by a lower volume of ore processed. The higher recovery of gold resulted in an increase in TPM production by 1.4 thousand troy ounces (+19%) by this mine.

The Franke mine recorded a drop in copper production, from 3.2 thousand tonnes in the first quarter of 2020 to 2.6 thousand tonnes in the first quarter of 2021, due to the lower volume of ore extracted, a decrease in metal content in ore and lower copper recovery.

The decrease in copper production in the Sudbury Basin mines by 0.2 thousand tonnes (-29%) and TPM by 7 thousand troy ounces (-67%) was due to a decrease in the volume of ore extracted and to lower metal content in mined ore.

Revenues

	Unit	1 st quarter of 2021	1 st quarter of 2020	Change (%)
Revenues from contracts with customers ⁽¹⁾ , including:	USD mn	197	159	+23.9
- copper	USD mn	143	88	+62.5
- nickel	USD mn	2	2	0.0
- TPM – precious metals	USD mn	23	35	(34.3)
Copper sales volume	kt	17.4	18.0	(3.3)
Nickel sales volume	kt	0.1	0.1	0.0
TPM sales volume – precious metals	koz t	12.0	21.2	(43.4)

¹⁾ reflects processing premium

	Unit	1 st quarter of 2021	1 st quarter of 2020	Change (%)
Revenues from contracts with customers ⁽¹⁾ , including:	PLN mn	750	632	+18.7
- copper	PLN mn	544	351	+55.0
- nickel	PLN mn	8	8	0.0
- TPM – precious metals	PLN mn	88	140	(37.1)

¹⁾ reflects processing premium

The sales revenue of the segment KGHM INTERNATIONAL LTD. in the first quarter of 2021 amounted to USD 197 million, or an increase by USD 38 million (+24%) compared to the corresponding period of 2020, mainly due to higher copper prices.

Revenues from the sale of copper amounted to USD 143 million and were higher by USD 55 million (+63%). The increase was due to higher achieved sales prices by 58% (8 626 USD/t in the first quarter of 2021 compared to 5 444 USD/t in the first quarter of 2020), which was partially limited by a drop in the volume of sales by 0.6 thousand tonnes (-3%).

The lower revenues from the sale of precious metals by USD 12 million (-34%) was due to a decrease in the volume of sales of TPM by 9.2 thousand troy ounces (-43%), with higher achieved sales prices.

Costs

	Unit	1 st quarter of 2021	1 st quarter of 2020	Change (%)
C1 payable copper production cost ⁽¹⁾	USD/lb	2.32	2.19	+5.9

¹⁾ C1 unit production cost of copper - cash cost of payable copper production, reflecting costs of ore extraction and processing, the minerals extraction tax, transport costs, administrative expenses during the mining phase and smelter treatment and refining charges (TC/RC) less by-product value

The average weighted unit cash cost of copper production for all operations in the segment KGHM INTERNATIONAL LTD. in the first quarter of 2021 amounted to 2.32 USD/lb, or an increase by 6% compared to the corresponding period of 2020. The increase in C1 was due to a lower copper sales volume and to lower revenues from sales of associated metals (-30%), which decrease this cost.

Financial performance

USD million	1 st quarter of 2021	1 st quarter of 2020	Change (%)
Revenues from contracts with customers	197	159	+23.9
Cost of sales, selling costs and administrative expenses, including: ⁽¹⁾	(166)	(182)	(8.8)
- recognition/reversal of impairment losses on non-current assets	1	-	x
Profit/(loss) on sales	31	(23)	x
Profit/(loss) before taxation, including:	(6)	(63)	(90.5)
- share of profits/(losses) of investment Sierra Gorda S.C.M. accounted for using the equity method	-	-	x
Income tax	(2)	(3)	(33.3)
Profit/loss for the period	(9)	(66)	(86.4)
Depreciation/amortisation recognised in profit or loss	(33)	(36)	(8.3)
Adjusted EBITDA⁽²⁾	63	13	x4.8

PLN million	1 st quarter of 2021	1 st quarter of 2020	Change (%)
Revenues from contracts with customers	750	632	+18.7
Cost of sales, selling costs and administrative expenses, including: ⁽¹⁾	(634)	(725)	(12.6)
- recognition/reversal of impairment losses on non-current assets	4	-	x
Profit/(loss) on sales	116	(93)	x
Profit/(loss) before taxation, including:	(25)	(251)	(90.0)
- share of profits/(losses) of investment Sierra Gorda S.C.M. accounted for using the equity method	-	-	x
Income tax	(8)	(12)	(33.3)
Profit/loss for the period	(33)	(263)	(87.5)
Depreciation/amortisation recognised in profit or loss	(126)	(145)	(13.1)
Adjusted EBITDA⁽²⁾	238	52	x4.6

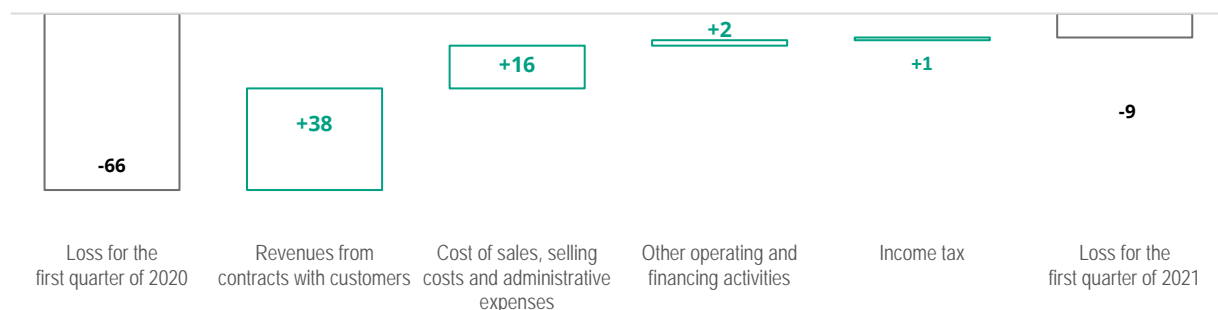
¹⁾ Cost of products, merchandise and materials sold, selling costs and administrative expenses

²⁾ Adjusted EBITDA = profit on sales + depreciation/amortisation (recognised in profit or loss) + impairment losses (-reversal of impairment losses) on non-current assets, recognised in cost of sales, selling costs and administrative expenses

Main factors impacting the change in profit or loss:

Item	Impact on change of profit or loss (in USD million)	Description
Higher revenues (+USD 38 million)	+63	Higher revenues due to higher prices of basic products, including copper (+USD 57 million) and TPM (+USD 5 million)
	(26)	Lower revenues due to a lower sales volume, including copper (-USD 5 million) and TPM (-USD 19 million)
	+1	Other factors
Lower cost of sales, selling costs and administrative expenses (+USD 16 million)	+22	Lower costs of external services (+USD 11 million) and materials and energy (+USD 11 million)
	(29)	Higher depreciation/amortisation by USD 24 million and labour costs by USD 5 million
	+23	Change in inventories
Impact of other operating activities and financing activities (+USD 2 million)	+6	Impact of exchange differences
	(4)	Other factors
Income tax	+1	Changes due to current and deferred income tax

Chart 5. Change in profit or loss of KGHM INTERNATIONAL LTD. (USD million)



Cash expenditures

<i>USD million</i>	<i>1st quarter of 2021</i>	<i>1st quarter of 2020</i>	<i>Change (%)</i>
Victoria project	4	1	x4.0
Sierra Gorda Oxide project	-	-	x
Stripping and other	42	47	(10.6)
Total	45	48	(6.3)
Financing for Sierra Gorda S.C.M. – increase in share capital	-	-	x

<i>PLN million</i>	<i>1st quarter of 2021</i>	<i>1st quarter of 2020</i>	<i>Change (%)</i>
Victoria project	15	4	x3.8
Sierra Gorda Oxide project	-	-	x
Stripping and other	158	188	(16.0)
Total	173	192	(9.9)
Financing for Sierra Gorda S.C.M. – increase in share capital	-	-	x

Cash expenditures by the segment KGHM INTERNATIONAL LTD. in the first quarter of 2021 amounted to USD 45 million and were lower by USD 3 million (-6%) compared to the corresponding period of 2020.

Around 87% of cash expenditures were related to the Robinson mine and mainly comprised work related to stripping to access ore for future mining.

Expenditures on the Victoria project amounted to USD 4 million, among others on the continuation of work to prepare infrastructure to further develop the project and to secure it.

In the first three months of 2021 there was no financing provided to the Sierra Gorda mine.

3.8.3 The segment Sierra Gorda S.C.M.

The segment Sierra Gorda S.C.M. is a joint venture (under the JV company Sierra Gorda S.C.M.) of KGHM INTERNATIONAL LTD. (55%) and Sumitomo Metal Mining and Sumitomo Corporation (45%).

The following production and financial data are presented on the basis of full ownership of the joint venture (100%) and proportionally to the interest in the company Sierra Gorda S.C.M. (55%), pursuant to the methodology of presentation of data in Note 3.2.

Production results

In the first quarter of 2021, Sierra Gorda S.C.M. increased production of copper and molybdenum compared to production in the corresponding period of 2020.

	<i>Unit</i>	<i>1st quarter of 2021</i>	<i>1st quarter of 2020</i>	<i>Change (%)</i>
Copper production ⁽¹⁾	kt	41.6	34.5	+20.6
Copper production – segment (55%)	kt	22.9	19.0	+20.6
Molybdenum production ⁽¹⁾	mn lbs	3.5	3.0	+16.7
Molybdenum production – segment (55%)	mn lbs	1.9	1.6	+16.7
TPM production – gold ⁽¹⁾	koz t	12.1	15.5	(21.9)
TPM production – gold -segment (55%)	koz t	6.6	8.5	(21.9)

¹⁾ Payable metal in concentrate.

The increase in copper production (+21% compared to the first quarter of 2020) was achieved despite a lower amount of ore processed due to less efficient utilisation of the production assets (stoppages caused by breakdowns as well as accelerated maintenance which was originally planned for April 2021). The main reason for the higher copper production was mining in areas of higher content of this metal and higher recovery.

Higher recovery was also recorded in the case of molybdenum, and as a result molybdenum production increased by nearly 17% compared to the corresponding period of 2020.

Sales

Revenues from sales in the first quarter of 2021 amounted to USD 449 million (on a 100% basis), or PLN 942 million proportionally to the interest held in the company Sierra Gorda S.C.M. (55%).

	Unit	1 st quarter of 2021	1 st quarter of 2020	Change (%)
Revenues from contracts with customers,¹ including from the sale of:	USD mn	449	164	x2.7
- copper	USD mn	365	96	x3.8
- molybdenum	USD mn	51	43	+18.6
- TPM (gold)	USD mn	21	21	0.0
Copper sales volume	kt	39.4	27.0	+45.9
Molybdenum sales volume	mn lbs	4.2	4.7	(10.6)
TPM (gold) sales volume	koz t	12.2	13.2	(7.6)
Revenues from contracts with customers¹ - segment (55% share)	PLN mn	942	360	x2.6

¹⁾ reflects metallurgical and refining processing premium and other

The near-tripling of revenues (+USD 285 million) in the first quarter of 2021 compared to the corresponding period of 2020 was due to the substantial increase in prices of all metals sold. A significant reason for the increase in revenues was also the higher volume of copper sales.

The detailed impact of individual factors on changes in revenues is described in the subsection discussing the financial results of Sierra Gorda S.C.M.

Costs

The cost of sales, selling costs and administrative expenses incurred by the company Sierra Gorda S.C.M. amounted to USD 234 million, including selling costs of USD 204 million and total cost of sales and administrative expenses of USD 30 million. The costs of the segment amounted to PLN 490 million, proportionally to the interest held (55%).

	Unit	1 st quarter of 2021	1 st quarter of 2020	Change (%)
Cost of sales, selling costs and administrative expenses	USD mn	234	219	+6.8
Cost of sales, selling costs and administrative expenses – segment (55% share)	PLN mn	490	480	+2.1
C1 payable copper production cost¹	USD/lb	0.93	1.15	(19.1)

¹⁾ C1 unit production cost of copper - cash cost of payable copper production, reflecting costs of ore extraction and processing, the minerals extraction tax, transport costs, administrative expenses during the mining phase and smelter treatment and refining charges (TC/RC) less by-product value

Compared to the first quarter of 2020, the cost of sales, selling costs and administrative expenses expressed in USD million was 7% higher, with a 46% higher copper sales volume.

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

- depreciation/amortisation – a decrease by 11% (-USD 11 million), mainly due to the amortisation of capitalised stripping costs,
- transport costs – an increase by 51% (+USD 7 million) mainly due to an increase in sales volume and higher freight prices,
- external services - an increase by 11% (+USD 5 million) due to higher extraction (+9%) and the related increase in the scope of commissioned repairs,
- materials – a decrease by 11% (-USD 3 million) due to lower prices of explosives, lower use of ore blending materials and of other materials,
- labour costs – an increase by 11% (+USD 2 million) mainly due to a change in the USD/CLP exchange rate,
- third-party molybdenum processing costs – an increase by 62% (+USD 2 million) due to a higher volume of molybdenum production.

Other expenses by nature were not substantially different from the amounts recorded in the corresponding period of 2020. The C1 unit cash cost of payable copper production amounted to 0.93 USD/lb, meaning a decrease by 19%. The improvement in this regard was due to a substantial degree to the higher volume of copper sales. Because of the higher prices of molybdenum, silver and gold, there was also an increase in revenues from sales of associated metals which are deducted when calculating this cost, which also had a significant impact on the level of C1 cash cost achieved.

Financial results

Statement of profit or loss

In the first quarter of 2021, adjusted EBITDA amounted to USD 306 million, of which proportionally to the interest held (55%) PLN 643 million is attributable to the KGHM Polska Miedź S.A. Group.

<i>Results of Sierra Gorda S.C.M. - on a 100% basis (USD mn)</i>	<i>1st quarter of 2021</i>	<i>1st quarter of 2020</i>	<i>Change (%)</i>
Revenues from contracts with customers	449	164	x2.7
Cost of sales, selling costs and administrative expenses	(234)	(219)	+6.8
Profit/(loss) on sales	215	(55)	x
Profit/loss for the period	76	(103)	x
Depreciation/amortisation recognised in profit or loss	(91)	(102)	(10.8)
Adjusted EBITDA⁽¹⁾	306	47	x6.5

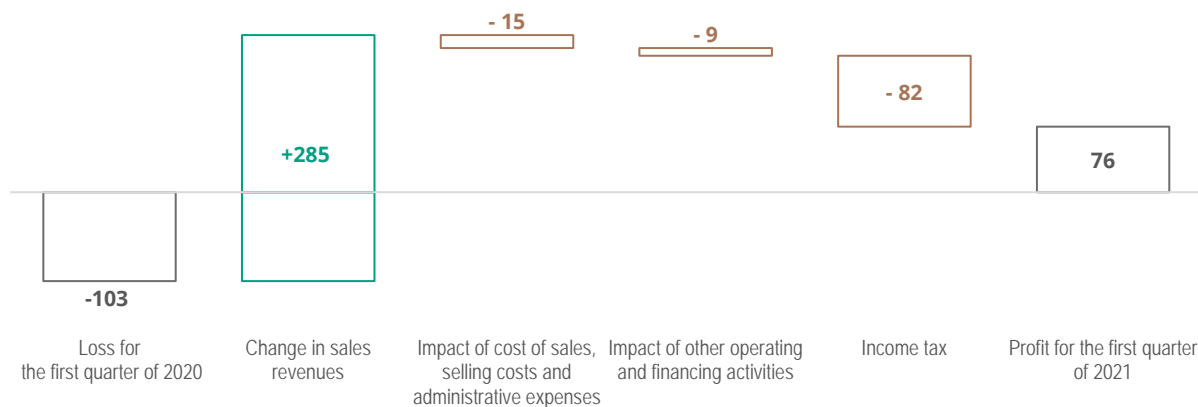
<i>Results of the segment Sierra Gorda S.C.M. - proportionally to the interest held - 55% (PLN mn)</i>	<i>1st quarter of 2021</i>	<i>1st quarter of 2020</i>	<i>Change (%)</i>
Revenues from contracts with customers	942	360	x2.6
Cost of sales, selling costs and administrative expenses	(490)	(480)	+2.1
Profit/(loss) on sales	452	(120)	x
Profit/loss for the period	160	(226)	x
Depreciation/amortisation recognised in profit or loss	(191)	(224)	(14.7)
Adjusted EBITDA⁽¹⁾	643	104	x6.2

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

Main factors impacting the change in the financial result of the segment Sierra Gorda S.C.M.:

<i>Item (impact on the results)</i>	<i>Impact on change of profit or loss (in USD million)</i>	<i>Description</i>
Higher sales revenue (+USD 285 million)	+271	Higher revenues from copper sales, including due to an increase in sales volume (+USD 130 million) and higher sales prices (+USD 129 million), with a more favourable „Mark to Market“ adjustment than in the comparable prior period of 2020 (+USD 12 million)
	+9	Higher revenues from molybdenum sales due to higher prices (+PLN 15 million together with „Mark to Market“ adjustment), with an unfavourable impact from a lower volume of molybdenum sales (-USD 6 million)
	+5	Other, including higher revenues from sales of silver and gold (+USD 7 million)
Higher cost of sales, selling costs and administrative expenses (-USD 15 million)	(18)	Higher costs, among others of external services, labour, molybdenum processing and transport
	+16	Lower costs, among others of depreciation/amortisation and materials
	(13)	Change in inventories
Impact of other operating and financing activities (-USD 9 million)	(9)	A lower result on other operating activities by USD 8 million (mainly due to exchange differences) and the result on financing activities by USD 1 million
Taxation (-USD 82 million)	(82)	Impact of a positive result prior to income tax expense compared to a loss incurred in the corresponding period of 2020.

Chart 6. Change in profit/loss for the period (in USD million)



Cash expenditures

In the first quarter of 2021, cash expenditures on property, plant and equipment and intangible assets, presented in Sierra Gorda S.C.M.'s statement of cash flows, amounted to USD 70 million, of which the majority, or USD 44 million (63%), represented expenditures on stripping to gain access to further areas of the deposit, with the rest related to development work and the replacement of property, plant and equipment.

	Unit	1 st quarter of 2021	1 st quarter of 2020	Change (%)
Cash expenditures on property, plant and equipment	USD mn	70	68	+2.9
Cash expenditures on property, plant and equipment – segment (55% share)	PLN mn	147	150	(2.0)

The level of cash expenditures did not differ significantly from the amount recorded in the corresponding period of 2020.

4 - Selected additional explanatory notes

Note 4.1 Expenses by nature

	from 1 January 2021 to 31 March 2021	from 1 January 2020 to 31 March 2020
Depreciation of property, plant and equipment and amortisation of intangible assets	623	499
Employee benefits expenses	1 486	1 368
Materials and energy, including:	2 740	1 945
purchased materials	1 667	919
External services	469	507
Minerals extraction tax	718	344
Other taxes and charges	220	139
Revaluation of inventories	(10)	68
Impairment losses on property, plant and equipment and intangible assets	3	27
Other costs	36	45
Total expenses by nature	6 285	4 942
Cost of merchandise and materials sold (+)	164	148
Change in inventories of finished goods and work in progress (+/-)	(799)	(40)
Cost of manufacturing products for internal use of the Group (-)	(347)	(246)
Total costs of sales, selling costs and administrative expenses, of which:	5 303	4 804
cost of sales	4 970	4 486
selling costs	109	103
administrative expenses	224	215

Note 4.2 Other operating income and (costs)

	from 1 January 2021 to 31 March 2021	from 1 January 2020 to 31 March 2020
Gains on derivatives, of which:	105	159
measurement of derivatives	104	141
realisation of derivatives	1	18
Interest income calculated using the effective interest rate method	1	2
Exchange differences on assets and liabilities other than borrowings	709	951
Reversal of impairment losses on financial instruments	12	4
Provisions released	8	15
Gains on the sale of intangible assets	-	8
Gains on the sale of property, plant and equipment	51	-
Government grants received	2	3
Income from servicing of letters of credit and guarantees	51	17
Compensation, fines and penalties received	12	3
Other	30	20
Total other operating income	981	1 182
Losses on derivatives, of which:	(290)	(236)
measurement of derivatives	(176)	(160)
realisation of derivatives	(114)	(76)
Fair value losses on financial assets	(21)	(42)
Impairment losses on financial instruments	(1)	(9)
Provisions recognised	(25)	(3)
Losses on the sale of property, plant and equipment	-	(8)
Donations given	(3)	(21)
Other	(16)	(23)
Total other operating costs	(356)	(342)
Other operating income and (costs)	625	840

Note 4.3 Finance costs

	from 1 January 2021 to 31 March 2021	from 1 January 2020 to 31 March 2020
Interest on borrowings, including:	(21)	(45)
leases	(4)	(5)
Unwinding of the discount effect on provisions	(4)	(11)
Exchange gains/(losses) on measurement and realisation of borrowings	(260)	(435)
Losses on derivatives - measurement of derivatives	(1)	(3)
Bank fees and charges on borrowings	(9)	(6)
Other	(7)	(2)
Total finance costs	(302)	(502)

Note 4.4 Information on property, plant and equipment and intangible assets**Purchase of property, plant and equipment and intangible assets**

	from 1 January 2021 to 31 March 2021	from 1 January 2020 to 31 March 2020
Purchase of property, plant and equipment, including:	653	649
leased assets	7	46
Purchase of intangible assets	51	28

Payables due to the purchase of property, plant and equipment and intangible assets

	As at 31 March 2021	As at 31 December 2020
Payables due to the purchase of property, plant and equipment and intangible assets	450	626

Capital commitments related to property, plant and equipment and intangible assets, not recognised in the consolidated statement of financial position

	As at 31 March 2021	As at 31 December 2020
Purchase of property, plant and equipment	837	891
Purchase of intangible assets	28	29
Total capital commitments	865	920

Note 4.5 Involvement in joint ventures**Joint ventures accounted for using the equity method**

	from 1 January 2021 to 31 March 2021		from 1 January 2020 to 31 March 2020	
	Sierra Gorda S.C.M.	Other	Sierra Gorda S.C.M.	Other
As at the beginning of the reporting period	-	-	-	-
Share of profit for the reporting period of joint ventures accounted for using the equity method	160	-	-	-
Settlement of the Group's share of unsettled losses from prior years	(160)	-	-	-
As at the end of the reporting period	-	-	-	-

	from 1 January 2021 to 31 March 2021	from 1 January 2020 to 31 March 2020
Share of the Group (55%) in profits/(losses) of Sierra Gorda S.C.M. for the reporting period, of which:	160	(226)
recognised in the measurement of joint ventures	160	-
not recognised in the measurement of joint ventures	-	(226)

Unrecognised share of losses of Sierra Gorda S.C.M.

	from 1 January 2021 to 31 March 2021	from 1 January 2020 to 31 December 2020
As at the beginning of the reporting period	(4 909)	(4 988)
Settlement of the Group's share of unsettled losses from prior years	160	79
As at the end of the reporting period	(4 749)	(4 909)

Loans granted to the joint venture (Sierra Gorda S.C.M.)

	from 1 January 2021 to 31 March 2021	from 1 January 2020 to 31 December 2020
As at the beginning of the reporting period	6 069	5 694
Accrued interest	97	377
Gains due to the reversal of allowances for impairment	-	74
Exchange differences from the translation of statements of operations with a functional currency other than PLN	342	(76)
As at the end of the reporting period	6 508	6 069

Note 4.6 Financial instruments

Financial assets	As at 31 March 2021					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	At fair value through other comprehensive income	At fair value through profit or loss	At amortised cost	Hedging instruments	Total
Non-current	597	44	7 131	581	8 353	618	58	6 670	749	8 095
Loans granted to a joint venture	-	-	6 508	-	6 508	-	-	6 069	-	6 069
Derivatives	-	25	-	581	606	-	40	-	749	789
Other financial instruments measured at fair value	597	19	-	-	616	618	18	-	-	636
Other financial instruments measured at amortised cost	-	-	623	-	623	-	-	601	-	601
Current	-	581	2 321	158	3 060	-	489	3 088	199	3 776
Trade receivables	-	523	435	-	958	-	478	356	-	834
Derivatives	-	58	-	158	216	-	11	-	199	210
Cash and cash equivalents	-	-	1 566	-	1 566	-	-	2 522	-	2 522
Other financial assets	-	-	320	-	320	-	-	210	-	210
Total	597	625	9 452	739	11 413	618	547	9 758	948	11 871

Financial liabilities	As at 31 March 2021				As at 31 December 2020			
	At fair value through profit or loss	At amortised cost	Hedging instruments	Total	At fair value through profit or loss	At amortised cost	Hedging instruments	Total
Non-current	154	6 296	1 099	7 549	205	7 130	801	8 136
Borrowings, leases and debt securities	-	6 106	-	6 106	-	6 928	-	6 928
Derivatives	154	-	1 099	1 253	205	-	801	1 006
Other financial liabilities	-	190	-	190	-	202	-	202
Current	247	3 930	1 150	5 327	127	4 101	603	4 831
Borrowings, leases and debt securities	-	441	-	441	-	407	-	407
Derivatives	115	-	1 150	1 265	85	-	603	688
Trade payables	-	2 320	-	2 320	-	2 329	-	2 329
Similar payables – reverse factoring	-	1 059	-	1 059	-	1 264	-	1 264
Other financial liabilities	132	110	-	242	42	101	-	143
Total	401	10 226	2 249	12 876	332	11 231	1 404	12 967

The fair value hierarchy of financial instruments

Classes of financial instruments	As at 31 March 2021				As at 31 December 2020			
	fair value			carrying amount	fair value			carrying amount
level 1	level 2	level 3	level 1		level 2	level 3		
Long-term loans granted	-	19	6 432	6 527	-	18	5 998	6 087
Listed shares	502	-	-	502	523	-	-	523
Unquoted shares	-	95	-	95	-	95	-	95
Trade receivables	-	523	-	523	-	478	-	478
Derivatives, of which:	-	(1 696)	-	(1 696)	-	(695)	-	(695)
assets	-	822	-	822	-	999	-	999
liabilities	-	(2 518)	-	(2 518)	-	(1 694)	-	(1 694)
Received long-term bank and other loans	-	(3 531)	-	(3 516)	-	(4 358)	-	(4 342)
Long-term debt securities	(2 026)	-	-	(2 000)	(2 024)	-	-	(2 000)
Other financial liabilities	-	(132)	-	(132)	-	(42)	-	(42)

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

In the current reporting period, there was no transfer in the Group of financial instruments between individual levels of the fair value hierarchy,

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

Level 1

Listed shares

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

Long-term debt securities

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

Level 2

Unquoted shares

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

Trade receivables

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

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

Long-term loans granted

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

Other financial assets/liabilities

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

Currency and currency-interest derivatives

In the case of currency derivatives on the currency market and currency-interest transactions (CIRS), the forward prices from the maturity dates of individual transactions were used to determine their fair value. The forward price for currency exchange rates was calculated on the basis of fixing and appropriate interest rates. Interest rates for currencies

and the volatility ratios for exchange rates were taken from Reuters. The standard Garman-Kohlhagen model is used to measure European options on currency markets.

Metals derivatives

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

Received long-term bank and other loans

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

Level 3

Long-term loans granted

As at 31 December 2020, there was a transfer in the Group of financial instruments between individual levels of the fair value hierarchy. Due to utilisation of forecasted cash flows from international assets in the fair value measurement (an unmeasurable assumption classified to level 3), the Group transferred the measurement of loans granted from level 2 to level 3 of the fair value hierarchy.

Pursuant to the adopted principle on transferring fair values between levels, as at 31 December 2020 an analysis of classification was made of fair value of financial instruments to levels of the fair value hierarchy.

As a result of the analysis, a transfer was made from level 2 to level 3 of the fair value measurement hierarchy, of loans measured at amortised cost. With respect to estimating the fair value of these loans, a significant element of the estimation are the forecasted cash flows of Sierra Gorda, which pursuant to IFRS 13 are unobservable input data, that is input data at level 3 of the fair value, which formed the basis for transferring the fair value of these loans to level 3 of the fair value.

Note 4.7 Commodity, currency and interest rate risk management in the KGHM Polska Miedź S.A. Group

In managing commodity, currency and interest rate risk, the scale and profile of activities of the Parent Entity and of the mining companies of the KGHM INTERNATIONAL LTD. Group is of the greatest significance for, and has the greatest impact on 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 whole KGHM Polska Miedź S.A. Group's global exposure.

The primary technique used by the Group in market risk management is the use of hedging strategies involving derivatives. Natural hedging is also used. The Parent Entity applies hedging transactions, as understood by hedge accounting.

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

Statement of profit or loss	from 1 January 2021 to 31 March 2021	from 1 January 2020 to 31 March 2020
Revenues from contracts with customers	(266)	123
Other operating and finance income / (costs):	(186)	(80)
on realisation of derivatives	(113)	(57)
on measurement of derivatives	(73)	(23)
Impact of derivatives and hedging instruments on profit or loss for the period (excluding the tax effect)	(452)	43
Statement of other comprehensive income		
Measurement of hedging transactions (effective portion)	(1 314)	90
Reclassification to revenues from contracts with customers due to realisation of a hedged item	266	(123)
Reclassification to other operating costs due to realisation of a hedged item (settlement of the hedging cost)	105	66
Impact of hedging transactions (excluding the tax effect)	(943)	33
TOTAL COMPREHENSIVE INCOME	(1 395)	76

The management of market risk in the Parent Entity, and especially the management of the risk of changes in metals prices, exchange rates and interest rates, should be considered through an analysis of the hedging position together with the position being hedged (hedged position). A hedging position is understood as the Parent Entity's position in derivatives. A hedged position is comprised of highly probable, future cash flows (revenues from the physical sale of products).

In the first quarter of 2021, copper sales of the Parent Entity amounted to 136.6 thousand tonnes (net sales of 84.6 thousand tonnes)³, while the notional amount of copper price hedging strategies settled in this period amounted to 76.5 thousand tonnes, which represented approx. 56% of the total sales of this metal realised by the Parent Entity and approx. 90% of net sales in this period (in the first quarter of 2020, 34% and 47% respectively). However, the notional amount of settled silver price hedging transactions represented 28% of sales of this metal by the Parent Entity (in the first quarter of 2020, 8%). In the case of currency hedging transactions, approx. 22% of revenues from copper and silver sales realised by the Parent Entity in the first quarter of 2021 (34% - in the first quarter of 2020).

As part of the realisation of the strategic plan to hedge the Parent Entity against market risk, in the first quarter of 2021 transactions were implemented on the forward currency market. Put options were purchased with maturity periods from February to December 2021 for a total notional amount of USD 870 million (including USD 765 million for the period from April to December 2021). These transactions were not designated as hedging instruments. Moreover, the Parent Entity bought back sold put options with strike prices of USD/PLN 3.20 for a notional amount of USD 495 million (USD 45 million monthly) for the period from February to December 2021.

In the first quarter of 2021, the Parent Entity also restructured a position in derivatives on the copper market. Call options were purchased with strike prices of 9 500-10 000 USD/t for the period from March to June 2021 for the total

³ Copper sales less copper in purchased metal-bearing materials.

notional amount of 62 thousand tonnes (15.5 thousand tonnes monthly), at the same time opening participation in potential further price increases for the *collar* and *seagull* options structures held with maturity periods from March to June 2021.

In the first quarter of 2021, the Parent Entity did not enter into any hedging transactions on the forward silver and interest rate markets.

In the first quarter of 2021 QP adjustment swap transactions were entered into on the copper and gold markets with maturity to December 2021, as part of the management of a net trading position⁴.

As at 31 March 2021, the Parent Entity held an open derivatives position for 331.75 thousand tonnes of copper (of which 325.5 thousand tonnes arose from the strategic management of market risk, while 6.25 thousand tonnes came from the management of a net trading position), 22.05 million troy ounces of silver, and USD 1 980 million of planned revenues from sales of metals. Furthermore, as at 31 March 2021 the Parent Entity had open Cross Currency Interest Rate Swap (CIRS) transactions in the notional amount of PLN 2 billion, hedging against market risk connected with the issuance of bonds in PLN with a variable interest rate⁵, and bank and other loans with fixed interest rates. Commodity risk was also related to derivatives embedded in the purchase contracts for metal-bearing materials.

With respect to managing currency risk, the Parent Entity uses natural hedging by borrowing in currencies in which it has revenues. As at 31 March 2021, the bank and investment loans which were drawn in USD, following their translation to PLN, amounted to PLN 3 510 million (as at 31 December 2020: PLN 4 321 million).

In the first quarter of 2021, none of the Group's mining subsidiaries had implemented any forward transactions on the commodity market or the currency market, and did not hold an open position on this market as at 31 March 2021. The risk of changes in metals prices was related to derivatives embedded in long-term contracts for the supply of sulphuric acid and water.

Some of the Group's Polish companies managed the currency risk related to their core business by opening transactions in derivatives on the currency market. A listing of the open transactions of Polish companies as 31 March 2021 is not presented due to its immateriality for the Group.

Condensed tables of open transactions in derivatives held by the Parent Entity as at 31 March 2021, entered into as part of the strategic management of market risk, are presented below. The hedged notional amounts of transactions on the copper, silver and currency markets in the presented periods are allocated evenly on a monthly basis. The condensed tables do not reflect restructured and opposite positions (purchased versus sold) of transactions entered into as part of restructuration consistent with instrument, strike price, notional and maturity period.

Hedging against copper price risk

Instrument/ Option structure	Notional [tonnes]	Option strike price				Average weighted premium [USD/t]	Effective hedge price [USD/t]	
		sold put option	purchased put option	sold call option	purchased call option			
		<i>hedge limited to</i> [USD/t]	<i>copper price hedging</i> [USD/t]	<i>participation limited to</i> [USD/t]	<i>participation opened</i> [USD/t]			
2nd quarter	collar	21 000	-	5 200	6 600	-	-204	4 996
	seagull	10 500	4 200	5 700	7 000	-	-130	5 570
	seagull	15 000	4 600	6 300	7 500	-	-193	6 107
	purchased put option	21 375	-	7 000	-	-	-247	6 753
	purchased put option	8 625	-	6 900	-	-	-235	6 665
	purchased call option	12 840	-	-	-	9 500	-322	n/a
	purchased call option	14 400	-	-	-	9 600	-315	n/a
2nd half	purchased call option	19 260	-	-	-	10 000	-325	n/a
	collar	42 000	-	5 200	6 600	-	-204	4 996
	seagull	21 000	4 200	5 700	7 000	-	-130	5 570
	seagull	30 000	4 600	6 300	7 500	-	-193	6 107
TOTAL IV-XII 2021		169 500						
- hedging		46 500						
- participation opened								

⁴ 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.

⁵ The debt due to bond issue in PLN generates a currency risk because most of the sales revenues of the Parent Entity are USD-denominated.

2022	seagull	60 000	4 600	6 300	7 500	-	-160	6 140
	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

Instrument/ Option structure	Notional [mn ounces]	Option strike price			Average weighted premium [USD/oz t]	Effective hedge price [USD/oz t]	
		sold put option	purchased put option	sold call option			
		<i>hedge limited to</i> [USD/oz t]	<i>silver price hedging</i> [USD/oz t]	<i>participation limited to</i> [USD/oz t]			
IV-XII 2021	seagull	1.80	16.00	27.00	43.00	-1.42	25.58
	seagull	5.85	16.00	26.00	42.00	-1.04	24.96
TOTAL IV-XII 2021		7,65					
2022	seagull	2.40	16.00	27.00	43.00	-1.42	25.58
	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				

Hedging against USD/PLN currency risk

Instrument/ option structure	Notional [mn USD]	Option strike price			Average weighted premium [PLN per USD 1]	Effective hedge price [USD/PLN]	
		sold put option	purchased put option	sold call option			
		<i>hedge limited to</i> [USD/PLN]	<i>exchange rate hedging</i> [USD/PLN]	<i>participation limited to</i> [USD/PLN]			
IV-XII 2021	purchased put option	405	-	3.70	-	-0.09	3.61
	purchased put option	180	-	3.80	-	-0.07	3.73
	purchased put option	180	-	3.20	-	-0.00	3.20
	purchased put option	292,5	-	3.65	-	-0.06	3.59
	purchased put option	292,5	-	3.85	-	-0.05	3.80
TOTAL IV-XII 2021		1 350					
2022	seagull	135	3.30	4.00	4.60	-0.01	3.99
	seagull	180	3.50	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	3.50	3.90	4.50	0.04	3.94
TOTAL 2023		315					

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

Instrument/ Option structure	Notional [mn PLN]	Average interest rate	Average exchange rate	
		[fixed interest rate for USD]	[USD/PLN]	
VI 2024	CIRS	400	3.23%	3.78
VI 2029	CIRS	1 600	3.94%	3.81
TOTAL		2 000		

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

Open hedging derivatives	Notional of the transaction	Average weighted price /exchange rate/interest rate	Maturity - settlement period		Period of profit/loss impact	
			from	to	from	to
Type of derivative	copper [t] silver [mn ounces] currency [USD mn] CIRS [PLN mn]	[USD/t] [USD/oz t] [USD/PLN] [USD/PLN, interest rate for USD]				
Copper – <i>seagulls</i> *	232 500	6 466-7 763	Apr'21	- Dec'23	May'21	- Jan'24
Copper – <i>collars</i>	63 000	5 200-6 660	Apr'21	- Dec'21	May'21	- Jan'22
Copper – purchased put option	30 000	6 971	Apr'21	- Jun'21	May'21	- July'21
Silver – <i>seagulls</i>	22.05	26.19-42.19	Apr'21	- Dec'23	May'21	- Jan'24
Currency – <i>seagulls</i> *	630	3.94-4.54	Jan'22	- Dec'23	Feb'22	- Jan'24
Currency – <i>put spread</i> *	405	3.70	Apr'21	- Dec'21	Apr'21	- Dec'21
Currency – purchased put option	180	3.80	Apr'21	- Dec'21	Apr'21	- Dec'21
Currency – interest rate – CIRS	400	3.78 and 3.23%		Jun'24		Jun'24
Currency - interest rate – CIRS	1 600	3.81 and 3.94%		Jun'29	Jun'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.

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

Taking into consideration the fair value of open derivative transactions entered into by the Group and receivables and liabilities due to settled derivatives, as at 31 March 2021 the maximum single entity share of the amount exposed to credit risk arising from these transactions amounted to 43%, or PLN 151 million (as at 31 December 2020: 36%, or PLN 158 million).

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.

The following table presents the structure of ratings of the financial institutions with which the Group entered into derivatives transactions, representing an exposure to credit risk.

Rating level		As at 31 March 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	99%	95%
Medium	from BBB+ to BBB- according to S&P and Fitch, and from Baa1 to Baa3 according to Moody's	1%	5%

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 fair value of open derivatives of the KGHM Polska Miedź S.A. Group broken down into hedging transactions⁶ and trade transactions (including embedded and adjustment derivatives) and instruments initially designated as hedging instruments excluded from hedge accounting, is presented in the tables below.

The fair value of open derivatives (assets and liabilities) as at 31 March 2021 has changed as compared to 31 December 2020 because of:

- the settlement of transactions in derivatives with maturities in the first quarter of 2021, which were open at the end of 2020,
- entering into new transactions on copper and currency markets,
- the change in macroeconomic conditions (e.g. forward prices of copper, silver, USD/PLN forward rates, interest rates and volatility implied at the measurement date).

⁶ Within the KGHM Polska Miedź S.A. Group, the Parent Entity applies cash flow hedge accounting (CFH).

Fair value of Group derivatives open as at the end of the reporting period

Type of derivative	As at 31 March 2021				
	Financial assets		Financial liabilities		Net total
	Non-current	Current	Non-current	Current	
Hedging instruments (CFH), including:	581	158	(1 099)	(1 150)	(1 510)
Derivatives – Metals (price of copper, silver, gold)					
Options – collar (copper)	-	1	-	(555)	(554)
Options – seagull (copper)	206	19	(775)	(585)	(1 135)
Options – purchased put option (copper)	-	1	-	-	1
Options – purchased put option (silver)	267	117	(73)	(8)	303
Derivatives – Currency (USDPLN exchange rate)					
Options – seagull	108	7	(41)	(2)	72
Options – put spread	-	7	-	-	7
Options – purchased put option	-	6	-	-	6
Derivatives – Currency-interest rate					
Cross Currency Interest Rate Swap CIRS	-	-	(210)	-	(210)
Trade instruments total, including:	7	57	(149)	(102)	(187)
Derivatives – Metals (price of copper, silver, gold)					
Options – sold put option (copper)	-	-	(44)	(1)	(45)
Options – purchased put option (copper)	-	-	-	-	-
Options – purchased call option (copper)	-	14	-	-	14
QP adjustment swap transactions (copper)	-	-	-	(7)	(7)
Options – sold put option (silver)	-	-	(42)	(4)	(46)
QP adjustment swap transactions (gold)	-	13	-	(9)	4
Derivatives – Currency					
Options – sold put option (USD)	-	-	(37)	(2)	(39)
Options – purchased put option (USD)	1	17	-	-	18
Options – purchased call option (USD)	6	13	-	-	19
Collar and forward/swap (EUR)	-	-	(1)	(2)	(3)
Embedded derivatives (price of copper, silver, gold)					
Acid and water supply contracts	-	-	(25)	(40)	(65)
Purchase contracts for metal-bearing materials	-	-	-	(37)	(37)
Instruments initially designated as hedging instruments excluded from hedge accounting	18	1	(5)	(13)	1
Derivatives – Currency (USDPLN exchange rate)					
Options – collar	-	-	-	(3)	(3)
Options – seagull	18	1	(5)	(10)	4
TOTAL OPEN DERIVATIVES	606	216	(1 253)	(1 265)	(1 696)

Note 4.8 Liquidity risk and capital management in the KGHM Polska Miedź S.A. Group

Liquidity and capital management policy

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

Capital management in the Group is aimed at securing funds for business development and maintaining the appropriate level of liquidity.

Due to the centralisation of the process of obtaining external financing for the entire KGHM Group's needs at the Parent Entity's level, it is necessary to ensure the possibility of realisation of intra-group liquidity transfers using debt and equity instruments. The main debt instrument used in intra-group liquidity transfers are owner loans, which support the process of investment activities. Under the process of liquidity management, and with respect to supporting the current activities, the Group makes use of a supporting tool – local cash pooling in PLN, USD and EUR and internationally in USD, and in the KGHM INTERNATIONAL LTD. Group also in CAD. Cash pooling aims to optimise the management of cash held, limiting interest costs, efficient financing of current working capital needs and supporting short-term financial liquidity in the Group.

In the first quarter of 2021, the Group continued actions aimed at ensuring financial stability by basing the financial structure on diversified and long term financing sources. In January 2021, the Parent Entity signed credit agreements in

the form of overdraft facility for the total amount of USD 80 million, and availability for 2 years with the option to extend for a subsequent year.

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

In the first quarter of 2021, the KGHM Polska Miedź S.A. Group showed a full capacity for meeting its obligations. The cash held and obtained external financing by the Group guarantee continued liquidity and enable the realisation of investment projects.

In order to maintain financial liquidity and the creditworthiness to acquire external financing at an optimum cost, over the long term the Group's goal is for the ratio of Net Debt/Adjusted EBITDA to be no more than 2.0.

Ratio	31 March 2021	31 December 2020
Net debt*/Adjusted EBITDA**	0.8	0.9

*Net debt does not include the balance of 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.

Net debt changes

Liabilities due to borrowing	As at 31 December 2020	Cash flows	Accrued interest	Exchange differences	Other changes	As at 31 March 2021
Bank loans	1 994	(1 042)	21	141	-	1 114
Loans	2 685	(76)	19	140	-	2 768
Debt securities	2 000	-	9	-	-	2 009
Leases	656	(30)	21	2	7	656
Total debt	7 335	(1 148)	70	283	7	6 547
Free cash and cash equivalents	2 501	(954)	-	-	-	1 547
Net debt	4 834					5 000

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

from 1 January 2021 to 31 March 2021

Financing activities	
Proceeds from borrowings	24
Repayment of borrowings	(1 103)
Repayment of lease liabilities	(10)
Repayment of interest on borrowings and debt securities	(21)
Repayment of interest on leases	(17)
Investing activities	
Paid capitalised interest on borrowings	(21)
TOTAL	(1 148)

Structure of external financing sources

As at 31 March 2021, the Group had open credit lines, loans and debt securities with a total balance of available financing being the equivalent of PLN 13 896 million, out of which PLN 5 891 million had been drawn.

The structure of financing sources is presented below.

	As at 31 March 2021	As at 31 March 2021	As at 31 December 2020
Unsecured revolving syndicated credit facility	Amount granted	Amount of the liability	Amount of the liability
	5 951	(16)*	(17)*
Investment loans	Amount granted	Amount of the liability	Amount of the liability
	3 122	2 768	2 685

	Amount granted	Amount of the liability	Amount of the liability
Bilateral bank loans	2 823	1 130	2 011
	Nominal value of the issue	Amount of the liability	Amount of the liability
Bonds	2 000	2 009	2 000
Total bank and other loans, bonds	13 896	5 891	6 679

* paid service charge which decreases financial liabilities due to received bank loans settled in time.

Liabilities due to guarantees granted

Guarantees and letters of credit are essential financial liquidity management tools of the Group, thanks to which the Group's companies and the joint venture Sierra Gorda S.C.M. do not have to use their cash in order to secure their liabilities towards other entities.

As at 31 March 2021, the Group held liabilities due to guarantees and letters of credit granted in the total amount of PLN 2 096 million and due to promissory note liabilities in the amount of PLN 184 million.

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

Sierra Gorda S.C.M. – securing the performance of concluded agreements in the amount of PLN 1 880 million:

- financial guarantees in the amount PLN 1 225 million*:
 - PLN 19 million (USD 5 million) as corporate guarantees set as security on the payment of concluded lease agreements, for the guarantee's validity period of up to 5 years. The carrying amount of the recognised liability due to a financial guarantee granted amounts to PLN 0.1 million,
 - PLN 1 206 million (USD 304 million) as corporate guarantees securing repayment of short-term working capital facilities, the guarantee's validity period of up to 2 years. The carrying amount of the recognised liability due to a financial guarantee granted amounts to PLN 5.9 million,
- other liabilities due to guarantees granted and letters of credit in the amount of PLN 655 million:
 - a letter of credit of PLN 546 million (USD 138 million) granted as security for the proper performance of a long-term contract for the off-take of electricity,**
 - PLN 109 million (USD 28 million) as a corporate guarantee securing repayment of a specified part of payment to guarantees set by Sumitomo Metal Mining Co., Ltd. and Sumitomo Corporation, securing repayment of a corporate loan drawn by the joint venture Sierra Gorda S.C.M.***,

other entities, including the Parent Entity:

- PLN 148 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,
- PLN 51 million (PLN 32 million, USD 3 million and CAD 2 million) securing the obligations related to proper execution of agreements concluded.

* Financial guarantees were recognised in the accounting books pursuant to par. 4.2.1. point c of IFRS 9.

**The collateral expired on 6 April 2021.

***The date of repayment of the corporate loan drawn by the joint venture Sierra Gorda S.C.M falls in the second quarter of 2021.

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

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

Note 4.9 Related party transactions

Operating income from related entities	from 1 January 2021 to 31 March 2021	from 1 January 2020 to 31 March 2020
Revenues from sales of products, merchandise and materials to a joint venture	6	5
Interest income on loans granted to a joint venture	97	96
Revenues from other transactions with a joint venture	52	20
Revenues from other transactions with other related parties	7	4
Total	162	125
Purchases from related entities	from 1 January 2021 to 31 March 2021	from 1 January 2020 to 31 March 2020
Purchase of services, merchandise and materials from other related parties	18	20
Other purchase transactions from other related parties	1	3
Total	19	23
Trade and other receivables from related parties	As at 31 March 2021	As at 31 December 2020
From the joint venture Sierra Gorda S.C.M. (loans)	6 508	6 069
From the joint venture Sierra Gorda S.C.M. (other)	427	369
From other related parties	19	4
Total	6 954	6 442
Trade and other payables towards related parties	As at 31 March 2021	As at 31 December 2020
Towards a joint venture	6	25
Towards other related parties	13	3
Total	19	28

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 March 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: fixed fees and setting mining usufruct for the exploration for and assessment of mineral resources – total payables amounted to PLN 165 million (as at 31 December 2020: PLN 172 million); variable fee (recognised in costs) on setting mining usufruct for the extraction of mineral resources - payables in the amount of PLN 7 million (as at 31 December 2020: PLN 30 million),
- due to a reverse factoring agreement with the company PEKAO FAKTORING SP. Z O.O. - payables in the amount of PLN 810 million, interest costs in the amount of PLN 3 million (as at 31 December 2020, payables in the amount of PLN 974 million and interest costs from 1 January to 31 March 2020 in the amount of PLN 4 million),
- other transactions and economic operations: spot currency exchange, depositing cash, granting bank loans, guarantees, and letters of credit (including documentary letters of credit), running bank accounts, the servicing of special purpose funds, 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, in the reporting period and in the comparable period there were no other transactions, which were significant in terms of significance or amount.

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 March 2021, the turnover from these transactions amounted to PLN 297 million (from 1 January to 31 March 2020: PLN 314 million), and, as at 31 March 2021, the unsettled balance of liabilities from these transactions amounted to PLN 151 million (as at 31 December 2020: PLN 203 million),
- sales to Polish State Treasury Companies. In the period from 1 January to 31 March 2021, the turnover from these sales amounted to PLN 92 million (from 1 January 31 March 2020: PLN 26 million), and, as at 31 March 2021, the unsettled balance of receivables from these transactions amounted to PLN 25 million (as at 31 December 2020: PLN 18 million).

Remuneration of the Supervisory Board of the Parent Entity (in PLN thousands)	from 1 January 2021 to 31 March 2021	from 1 January 2020 to 31 March 2020
Remuneration due to service in the Supervisory Board, salaries and other current employee benefits	435	430
Remuneration of the Management Board of the Parent Entity (in PLN thousands)	from 1 January 2021 to 31 March 2021	from 1 January 2020 to 31 March 2020
Salaries and other current employee benefits due to serving in the function	1 255	1 181
Remuneration of other key managers (in PLN thousands)	from 1 January 2021 to 31 March 2021	from 1 January 2020 to 31 March 2020
Salaries and other current employee benefits	676	335

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 managers of the Group arising from corporate documents and from management contracts, the members of the Board of Directors of KGHM INTERNATIONAL LTD. and the President of the Management Board of KGHM INTERNATIONAL LTD. were recognised as other key managers of the Group.

Note 4.10 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 March 2021	Increase/(decrease) since the end of the last financial year
Contingent assets	512	(20)
Guarantees received	278	(19)
Promissory notes receivables	122	(1)
Other	112	-
Contingent liabilities	1 182	(167)
Note 4.8 Guarantees and letters of credit	871	(184)
Note 4.8 Promissory note liabilities	184	13
Property tax on underground mine workings	55	-
Other	72	4
Other liabilities not recognised in the statement of financial position	100	-
Liabilities towards local government entities due to expansion of the tailings storage facility	100	-

Note 4.11 Changes in working capital

	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 March 2021	(5 485)	(994)	2 482	1 059	(2 938)
Change in the statement of financial position	(1 026)	(125)	(16)	(205)	(1 372)
Exchange differences from the translation of statements of operations with a functional currency other than PLN	29	20	(9)	-	40
Depreciation recognised in inventories	118	-	-	-	118
Payables due to the purchase of property, plant and equipment and intangible assets	-	-	153	1	154
Adjustments	147	20	144	1	312
Change in the statement of cash flows	(879)	(105)	128	(204)	(1 060)

	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 March 2020	(4 951)	(784)	2 136	910	(2 689)
Change in the statement of financial position	(210)	11	(208)	314	(93)
Exchange differences from the translation of statements of operations with a functional currency other than PLN	47	34	(16)	-	65
Depreciation recognised in inventories	7	-	-	-	7
Payables due to the purchase of property, plant and equipment and intangible assets	-	-	353	-	353
Liabilities due to interest on reverse factoring	-	-	-	(2)	(2)
Adjustments	54	34	337	(2)	423
Change in the statement of cash flows	(156)	45	129	312	330

5 – Additional information to the consolidated quarterly report

Note 5.1 Effect of changes in the organisational structure of the KGHM Polska Miedź S.A. Group

There were no changes in the KGHM Polska Miedź S.A. Group's structure in the first quarter of 2021.

Note 5.2 Seasonal or cyclical activities

The KGHM Polska Miedź S.A. Group is not affected by seasonal or cyclical activities.

Note 5.3 Information on the issuance, redemption and repayment of debt and equity securities

There was no issuance, redemption or repayment of debt and equity securities in the Group in the current quarter.

Note 5.4 Information related to paid (declared) dividend, total and per share

Information on the proposal regarding the appropriation of profit for 2020 is presented in Note 5.7.

In accordance with Resolution No. 7/2020 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 19 June 2020 regarding appropriation of the 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 5.5 Other information to the consolidated quarterly report

Position of the Management Board with respect to the possibility of achieving previously-published forecasts of results for 2021, in the light of results presented in this consolidated quarterly report relative to forecasted results

KGHM Polska Miedź S.A. has not published a forecast of the Company's and Group's financial results for 2021.

Shareholders holding at least 5% of the total number of votes at the General Meeting of KGHM Polska Miedź S.A. as at the date of publication of this consolidated quarterly report, changes in the ownership structure of significant blocks of shares of KGHM Polska Miedź S.A. in the period since publication of the consolidated report for 2020

As at the date of preparation of this report, according to the information held by KGHM Polska Miedź S.A., the following shareholders held at least 5% of the total number of votes at the General Meeting of KGHM Polska Miedź S.A.:

shareholder	number of shares/votes	% of share capital /total number of votes
State Treasury	63 589 900	31.79%
Nationale-Nederlanden Otwarty Fundusz Emerytalny	10 104 354	5.05%
Aviva Otwarty Fundusz Emerytalny Aviva Santander	10 039 684	5.02%

As far as the Company is aware, this state did not change since the publication of the consolidated report for 2020.

Ownership of KGHM Polska Miedź S.A.'s shares or of rights to them by members of the management and supervisory boards of KGHM Polska Miedź S.A., as at the date of publication of the consolidated quarterly report. Changes in ownership during the period following publication of the consolidated report for 2020

Members of the Company's Management Board

Based on information held by KGHM Polska Miedź S.A., as at the date of preparation of this report no Member of the Company's Management Board held shares of KGHM Polska Miedź S.A. or rights to them. The aforementioned state did not change since the publication of the consolidated report for 2020.

Members of the Company's Supervisory Board

Based on information held by KGHM Polska Miedź S.A., amongst the Members of the Company's Supervisory Board, as at the date of preparation of this report only Józef Czyczerski held 10 shares of KGHM Polska Miedź S.A. The remaining Members of the Supervisory Board did not hold shares of the Company or rights to them. The aforementioned state did not change since the publication of the consolidated report for 2020.

List of material proceedings before courts, arbitration authorities or public administration authorities respecting the liabilities and debt of KGHM Polska Miedź S.A. and its subsidiaries**Proceedings regarding royalties for use of invention project no. 1/97/KGHM entitled „Method for increasing the production capacity of the electrorefining sections of the Metallurgical Plants”**

In the claim dated 26 September 2007, Plaintiffs (14 natural persons) filed a claim against KGHM Polska Miedź S.A. (Company) with the Regional Court in Legnica for the payment of royalties for the use by the Company of invention project no. 1/97/KGHM called „Sposób zwiększenia zdolności produkcyjnej wydziałów elektrorafinacji Huty Miedzi” (Method for increasing the production capacity of the electrorefining sections of the Metallurgical Plants) for the 8th calculation period, together with interest due. The amount of the claim (principal amount) was set by the Plaintiffs in the claim in the amount of approx. PLN 42 million (principal amount without interest and court costs). Interest as at 31 March 2019 amounted to approx. PLN 55 million. On 21 January 2008, in the response to the claim, KGHM Polska Miedź S.A. requested the dismissal of the claim in its entirety and filed a counter claim for the repayment of undue royalties paid for the 6th and 7th year of application of invention project no. 1/97/KGHM, together with interest due, also invoking the right of mutual set-off of claims. The amount of the claim (principal amount) in the counter claim was set by the Company in the amount of approx. PLN 25 million.

In a judgment dated 25 September 2018, the Regional Court in Legnica dismissed the counter claim and partially upheld the principal claim to the total amount of approx. PLN 24 million, and at the same time ordered the payment of interest in the amount of approx. PLN 30 million, totalling to PLN 54 million. Both parties to the proceedings appealed against this judgment.

In a judgment dated 12 June 2019, the Court of Appeal in Wrocław dismissed the appeals of both sides, altering the judgment of the court of first instance solely in the matter of the resolution of court costs from the hearings at the court of first instance and charging them to KGHM Polska Miedź S.A. The judgment is binding and was executed by KGHM on 18-19 June 2019. KGHM Polska Miedź S.A. filed a cassation appeal against the judgment of the court of second instance, i.e. with respect to the partially upheld principal claim in the amount of approx. PLN 24 million as well as with respect to the dismissed counter-claim in the amount of approx. PLN 25 million. The date of the hearing regarding admission of the cassation appeal to be heard has not yet been set.

In accordance with the Company's position, the plaintiffs' claim should be dismissed in its entirety and the counter claim is justified. The Company in this regard paid the authors of the project royalties for a longer period of application of the project than anticipated in the initial contract entered into by the parties on advancing the invention project, based on an annex to the contract, extending the period of payment of royalties, whose validity is questioned by the Company. Moreover, the Company is questioning the „rationalisation” nature of the solutions, as well as whether they were in fact used in their entirety, and also their completeness and suitability for use in the form supplied by the plaintiffs as well as the means of calculating the economic effects of this solution, which were the basis for paying the royalties.

Information on single or multiple transactions entered into with related entities by KGHM Polska Miedź S.A. or a subsidiary thereof, if they were entered into under other than arm's length conditions

During the period from 1 January 2021 to 31 March 2021, neither KGHM Polska Miedź S.A. nor subsidiaries thereof entered into transactions with related entities under other than arm's length conditions.

Information on guarantees or sureties on bank and other loans granted by KGHM Polska Miedź S.A. or its subsidiaries – jointly to a single entity or subsidiary thereof, if the total amount of existing guarantees or sureties is significant

In the first quarter of 2021 KGHM Polska Miedź S.A. did not issue guarantees or sureties on bank and other loans within the Group or to other entities.

The subsidiaries of KGHM Polska Miedź S.A. also did not issue guarantees or sureties on bank and other loans to other entities or their subsidiaries in the first quarter of 2021.

Other information which in the opinion of KGHM Polska Miedź S.A. is significant for the assessment of its employment, assets, financial position and financial result and any changes thereto, and information which is significant for assessing the ability to pay its liabilities

The Management Board of KGHM Polska Miedź S.A. and trade unions that were party of the Company Collective Labour Agreement for the Employees of KGHM Polska Miedź S.A., during the wage negotiations which were held from 25 January to 4 February 2021, reached and signed a wage agreement as well as an additional protocol to the CLA introducing the following wage elements in the current year:

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

Factors, which in the opinion of KGHM Polska Miedź S.A., will impact the results of the Group over at least the following quarter

The most significant factors affecting the results achieved by the KGHM Polska Miedź S.A. Group by the Parent Entity, including in particular over the following quarter, may be:

- a) the COVID-19 pandemic and its potential for interruptions to the continuity of operations or restrictions in activities:
 - i) due to infections by the SARS-CoV-2 virus and increased absenteeism amongst employees of the Core Business and/or decline in labour productivity,
 - ii) due to interruptions in the materials and services supply chain and to logistical restrictions, especially as regards international transport,
 - iii) due to the closure of certain sales markets, a drop in demand and optimisation of inventories of raw materials and finished products amongst customers,
 - iv) due to extraordinary changes in legal acts (e.g. special acts),
- b) metal prices volatility, including mostly copper and silver,
- c) the USD/PLN exchange rates volatility,
- d) electrolytic copper production costs volatility, in particular costs due to the minerals extraction tax and the value of purchased copper-bearing materials used,
- e) the effects of the implemented hedging policy,
- f) the general uncertainty on financial markets,
- g) the economic impact of the global recession related to the COVID-19 pandemic (e.g. decreases or delays in export revenues).

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

- a) similarly as in the case of the Parent Entity, the COVID-19 pandemic and its potential impact on business continuity disruptions or business restrictions,
- b) metal prices volatility including copper, silver, gold and molybdenum,
- c) the CLP/USD, CAD/USD and USD/PLN exchange rates volatility,
- d) volatility in the cost of copper mining production.

In consideration of the ongoing COVID-19 pandemic, there still remains uncertainty regarding the further development of the epidemic-related (subsequent waves of infections) and socio-economic situation in Poland and globally. This is in particular with reference to restrictions in sectors directly impacted by the coronavirus and the drop in consumption due to the observed economic slowdown.

Although the above may affect the results of the Group in subsequent quarters, due to the on-going development of the situation it is not possible to present quantitative estimates of the potential impact of current conditions on the results of the KGHM Group. To date, there has not been recorded a substantial negative impact on the continuity of production of the Core Business, on sales or on the continuity of the supply chain for materials and services. It is not possible to exclude the future negative impact of the COVID-19 pandemic in these areas over subsequent quarters, especially in the context of conducting a business in a fluctuating demand and supply conditions.

An important factor for the domestic and global economies will be the availability of approved vaccines, their effectiveness against emerging new virus strains, and the rate of vaccinations which will impact, among others, the possibility of lifting the restrictions imposed in various countries and sectors, reducing uncertainty as regards future periods and increasing activity amongst producers as well as consumers. The Parent Entity continues to monitor the global economic situation, in order to assess its potential negative impact on the KGHM Polska Miedź S.A. Group and to take actions to mitigate this impact.

Note 5.6 Information on the impact of COVID-19 on the Company's and the Group's operations

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

Key risk categories

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 and assessment of the current risk exposure.

As a result, there were no substantial deviations from the achievement of the budget targets for the first quarter of 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 Group's point of view, an important impact of the coronavirus pandemic was its effect on market risk related to volatility in metals prices and market indices. The Company's share price at the end of the first quarter of 2021 was 3.9% higher compared to the price at the end of 2020 and at the close of trading on 31 March 2021 amounted to PLN 190.20. During these same periods the WIG index increased by 1.8% and WIG20 index fell by 2.8% (compared to the end of 2020). As a result of these changes in the share price, the Company's capitalisation increased from PLN 36.6 billion at the end of 2020 to PLN 38.04 billion at the end of the first quarter of 2021, meaning a level 82.09% higher than the net value of assets.

Starting from the end of 2020 there was an improvement in the metals market, reflected in an increase in the price of copper by 14%, from 7 742 USD/t at the end of 2020 to the level of 8 850 USD/t at the end of the first quarter of 2021.

Impact on the spa activities of the Group

The greatest impact of the COVID-19 pandemic was on the Group's secondary activities involving the hotel and spa services of the companies: Uzdrowiska Kłodzkie S.A. - Grupa PGU, Uzdrowisko Połczyn Grupa PGU S.A., Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU, Uzdrowisko Świeradów - Czerniawa Sp. z o.o. - Grupa PGU, INTERFERIE S.A. and Interferie Medical SPA Sp. z o.o. In the first quarter of 2021 there occurred substantial interruptions to the daily operations of these companies, caused by the forced lockdown and the restrictions imposed on their activities by Decrees of the Minister of Health. As a result, some of the facilities were temporarily excluded from operating.

The inability to freely conduct business activity resulted in the achievement of low revenues which also translated into loss on operating activities. The spa and hotel companies are applying for an extension in financing institutions of the exemptions from the DSCR ratio (Debt Service Coverage Ratio) calculation obligation for the first half of 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) under the Anti-Crisis Shield 1.0 for large enterprises and under the Anti-Crisis Shield 2.0 for the sector of small and medium enterprises (SME sector). 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 first quarter of 2021, the spa companies implemented an offer of post-covid stay to the commercial sale. In April, NHF (the National Health Fund) announced a post-covid treatment program for people struggling with post-covid complications.

In the second quarter of 2021, further lifting of restrictions and a gradual return to the conduct of activities, the providing of services and the generation of revenues is expected. The main factor regulating the situation in the hotel and spa industry will undoubtedly be the progressing vaccination campaign. In the area of the selected spa facilities, vaccination points against COVID-19 are carried out.

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 the first quarter of 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, small deviations from 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 KGHM Polska Miedź S.A. and as well as in all international mines of the KGHM Polska Miedź S.A. Group and Sierra Gorda S.C.M., thanks to the implementation of a variety of preventative measures, such as: enforcing a sanitary regime and monitoring and testing the health of employees, there were no production stoppages, which would have been directly attributable to the pandemic. As a result, the Group's copper production in the first quarter of 2021 was in line with the target set at the start of the year.

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

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

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

Due to the centralisation of the process of obtaining external financing for the needs of the entire Group, in order to transfer liquidity within the Group, a debt instrument in the form of owners loans is used to support the investment process, and the Group uses local and international cash pooling to service its daily operations.

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

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

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

Due to the ongoing COVID-19 pandemic, there still remains uncertainty as to the further development of the pandemic situation both domestically and abroad as well as its potential impact on the functioning of the Company and the Group in subsequent quarters. The Parent Entity constantly monitors the global and local economic situation, in order to react in advance to events, the effects of which may be significant from the point of view of the current financial and operating situation of the KGHM Polska Miedź S.A. Group.

Note 5.7 Subsequent events

Repayment of the working capital facility by Sierra Gorda S.C.M.

On 1 April 2021, Sierra Gorda S.C.M. repaid a short-term working capital facility in the Banco Santander de Chile in the amount of USD 70 million. As a result, the corporate guarantee issued by the Parent Entity to secure 55% of all of the Bank's receivables arising from the aforementioned agreement expired.

Expiry of a letter of credit

On 6 April 2021, a letter of credit issued by the Parent Entity to secure the proper performance of a long-term contract entered into by Sierra Gorda S.C.M. for the off-take of electricity expired. The value of the aforementioned letter of credit was PLN 546 million (USD 138 million).

Resignation from the function of Member of the Supervisory Board of KGHM Polska Miedź S.A

On 20 April 2021, the Management Board of KGHM Polska Miedź S.A. announced that the Parent Entity received a letter from Katarzyna Lewandowska announcing her resignation from the function of Member of the Supervisory Board of KGHM Polska Miedź S.A., effective as of 20 April 2021, due to her new official duties.

Signing of a guarantee agreement for a renewable credit facility

On 30 April 2021, the Parent Entity signed a guarantee agreement to secure 55% of all of the receivables of Bank Gospodarstwa Krajowego (BGK) arising from the renewable credit facility signed between Sierra Gorda S.C.M. (Sierra Gorda) and BGK.

The renewable credit facility of up to the amount of USD 700 million is, for the main part, intended to replace the current short-term borrowings of Sierra Gorda, in particular bank loans secured by Owners' guarantees (that is KGHM Polska Miedź S.A., Sumitomo Metal Mining and Sumitomo Corporation). In the newly established guarantee, the Parent Entity secures the liabilities of Sierra Gorda in the amount of 55% of all receivables of BGK arising from the agreement, that is up to the amount of USD 385 million.

Repayment of the working capital facilities by Sierra Gorda S.C.M.

On 30 April 2021, Sierra Gorda S.C.M. repaid short-term working capital facilities in the Banco del Estado de Chile in the total amount of approx. USD 120 million. As a result of the repayment of the credit facilities, the corporate guarantees issued by KGHM Polska Miedź S.A. to secure 55% of all of the Bank's receivables arising from the credit agreements expired.

Results of the elections to the Supervisory Board of KGHM Polska Miedź S.A.

Due to the approaching expiry of the 10th term Supervisory Board of KGHM Polska Miedź S.A. the Management Board of the Company ordered the election of Members of the 11th term Supervisory Board, elected by Employees of the KGHM Polska Miedź S.A. Group. As a result of the elections held on 28 and 29 April 2021, the following representatives of the Employees of the Group were elected to the 11th term Supervisory Board of KGHM Polska Miedź S.A.:

- Józef Czyczerski
- Przemysław Darowski
- Bogusław Szarek

Appropriation of profit for 2020

On 10 May 2021, the Management Board of KGHM Polska Miedź S.A. adopted a resolution in which it recommends that the Ordinary General Meeting adopt a resolution on the appropriation of profit for the year ended 31 December 2020 in the amount of PLN 1 779 million, by paying out a dividend in the amount of PLN 300 million (PLN 1.50 per share) and transferring the amount of PLN 1 479 million to the Parent Entity's reserve capital. The aforementioned proposal of the Management Board was positively reviewed by the Supervisory Board of the Parent Entity.

Beginning of the process of disposal of selected international assets

On 10 May 2021, the Management Board of KGHM Polska Miedź S.A. disseminated informational materials (investment teasers) to companies potentially interested in the acquisition of international mining assets of the KGHM INTERNATIONAL LTD. Group – the Franke mine located in Chile and the Carlota mine, located in the western part of the USA.

Convening of an Ordinary General Meeting

On 11 May 2021, the Management Board of the Parent Entity announced the convening of an Ordinary General Meeting of KGHM Polska Miedź S.A. which will take place on 7 June 2021, beginning at 11:00 a.m. at the head office of the Parent Entity in Lubin, at the address ul. Marii-Skłodowskiej-Curie 48.

Part 2 - Quarterly financial information of KGHM Polska Miedź S.A.

STATEMENT OF PROFIT OR LOSS

		from 1 January 2021 to 31 March 2021	from 1 January 2020 to 31 March 2020
Note 1	Revenues from contracts with customers	5 569	4 225
Note 2	Cost of sales	(3 997)	(3 408)
	Gross profit	1 572	817
Note 2	Selling costs and administrative expenses	(213)	(201)
	Profit on sales	1 359	616
Note 3	Other operating income, including:	728	1 026
	interest income calculated using the effective interest rate method	66	72
	reversal of impairment losses on financial instruments	14	-
Note 3	Other operating costs, including:	(360)	(538)
	impairment losses on financial instruments	(1)	(176)
Note 4	Finance costs	(302)	(496)
	Profit before income tax	1 425	608
	Income tax expense	(450)	(209)
	PROFIT FOR THE PERIOD	975	399
	Weighted average number of ordinary shares (million)	200	200
	Basic and diluted earnings per share (in PLN)	4.88	2.00

STATEMENT OF COMPREHENSIVE INCOME

	from 1 January 2021 to 31 March 2021	from 1 January 2020 to 31 March 2020
Profit for the period	975	399
Measurement of hedging instruments net of the tax effect	(763)	27
Other comprehensive income, which will be reclassified to profit or loss	(763)	27
Measurement of equity financial instruments at fair value through other comprehensive income, net of the tax effect	2	(77)
Actuarial losses net of the tax effect	(31)	(150)
Other comprehensive income, which will not be reclassified to profit or loss	(29)	(227)
Total other comprehensive net income	(792)	(200)
TOTAL COMPREHENSIVE INCOME	183	199

STATEMENT OF CASH FLOWS

	from 1 January 2021 to 31 March 2021	from 1 January 2020 to 31 March 2020
Cash flow from operating activities		
Profit before income tax	1 425	608
Depreciation/amortisation recognised in profit or loss	309	284
Interest on investment activities	(64)	(67)
Other interest	27	48
Fair value gains on financial assets measured at fair value through profit or loss	(91)	(329)
Impairment losses on non-current assets	10	215
Reversal of impairment losses on non-current assets	(4)	-
Exchange differences, of which:	39	(33)
from investing activities and cash	(234)	(470)
from financing activities	273	437
Change in provisions for decommissioning of mines, employee benefits liabilities and other provisions	(11)	(36)
Change in other receivables and liabilities other than working capital	398	(35)
Change in assets and liabilities due to derivatives	(321)	249
Reclassification of other comprehensive income to profit or loss due to the realisation of hedging derivatives	371	(57)
Other adjustments	8	9
Exclusions of income and costs, total	671	248
Income tax paid	(188)	(186)
Changes in working capital, including:	(1 021)	384
change in trade payables transferred to factoring	(219)	312
Net cash generated from operating activities	887	1 054
Cash flow from investing activities		
Expenditures on mining and metallurgical assets, including:	(647)	(709)
paid capitalised interest on borrowings	(22)	(22)
Expenditures on other property, plant and equipment and intangible assets	(16)	(35)
Advances granted for property, plant and equipment and intangible assets	(3)	(21)
Proceeds from sale of equity instruments measured at fair value through other comprehensive income	53	-
Other	(19)	(25)
Net cash used in investing activities	(632)	(790)
Cash flow from financing activities		
Proceeds from borrowings	-	1 662
Cash pooling expenses	(64)	(50)
Repayments of borrowings	(1 085)	(449)
Repayment of lease liabilities	(5)	(4)
Payment of interest, including:	(33)	(63)
borrowings	(30)	(61)
Net cash generated from/(used in) financing activities	(1 187)	1 096
TOTAL NET CASH FLOW	(932)	1 360
Exchange differences on measurement of cash and cash equivalents	(48)	23
Cash and cash equivalents at the beginning of the period	2 135	516
Cash and cash equivalents at the end of the period, including	1 155	1 899
restricted cash	13	16

Note 5

STATEMENT OF FINANCIAL POSITION

	As at 31 March 2021	As at 31 December 2020
ASSETS		
Mining and metallurgical property, plant and equipment	19 194	19 162
Mining and metallurgical intangible assets	686	675
Mining and metallurgical property, plant and equipment and intangible assets	19 880	19 837
Other property, plant and equipment	101	102
Other intangible assets	64	65
Other property, plant and equipment and intangible assets	165	167
Investments in subsidiaries	2 845	2 848
Loans granted, including:	8 092	7 648
measured at fair value through profit or loss	2 569	2 477
measured at amortised cost	5 523	5 171
Derivatives	606	789
Other financial instruments measured at fair value through other comprehensive income	566	589
Other financial instruments measured at amortised cost	436	433
Financial instruments, total	9 700	9 459
Deferred tax assets	135	-
Other non-financial assets	39	56
Non-current assets	32 764	32 367
Inventories	4 522	3 555
Trade receivables, including:	427	351
trade receivables measured at fair value through profit or loss	300	260
Tax assets	337	217
Derivatives	216	210
Cash pooling receivables	12	128
Other financial assets	382	268
Other non-financial assets	115	66
Cash and cash equivalents	1 155	2 135
Non-current assets held for sale	-	45
Current assets	7 166	6 975
TOTAL ASSETS	39 930	39 342
EQUITY AND LIABILITIES		
Share capital	2 000	2 000
Other reserves from measurement of financial instruments, including:	(2 151)	(1 390)
accumulated losses due to fair value measurement associated with non-current assets held for sale	-	(21)
Accumulated other comprehensive income	(903)	(872)
Retained earnings	21 945	20 988
Equity	20 891	20 726
Borrowings, lease and debt securities	5 695	6 525
Derivatives	1 227	981
Employee benefits liabilities	2 756	2 724
Provisions for decommissioning costs of mines and other technological facilities	1 153	1 185
Deferred tax liabilities	-	81
Other liabilities	180	191
Non-current liabilities	11 011	11 687
Borrowings, lease and debt securities	334	306
Cash pooling liabilities	220	284
Derivatives	1 222	653
Trade and similar payables	3 064	3 334
Employee benefits liabilities	1 104	1 042
Tax liabilities	872	369
Provisions for liabilities and other charges	79	77
Other liabilities	1 133	864
Current liabilities	8 028	6 929
Non-current and current liabilities	19 039	18 616
TOTAL EQUITY AND LIABILITIES	39 930	39 342

STATEMENT OF CHANGES IN EQUITY

	Share capital	Other reserves from measurement of financial instruments	Accumulated other comprehensive income	Retained earnings	Total equity
As at 1 January 2020	2 000	(698)	(622)	19 209	19 889
Profit for the period	-	-	-	399	399
Other comprehensive income	-	(50)	(150)	-	(200)
Total comprehensive income	-	(50)	(150)	399	199
As at 31 March 2020	2 000	(748)	(772)	19 608	20 088
As at 1 January 2021	2 000	(1 390)	(872)	20 988	20 726
Profit for the period	-	-	-	975	975
Other comprehensive income	-	(761)	(31)	-	(792)
Total comprehensive income	-	(761)	(31)	975	183
Reclassification of the result from sale of equity instruments measured at fair value through other comprehensive income	-	-	-	(18)	(18)
As at 31 March 2021	2 000	(2 151)	(903)	21 945	20 891

Explanatory notes

Note 1 Revenues from contracts with customers – geographical breakdown reflecting the location of end customers

	from 1 January 2021 to 31 March 2021	from 1 January 2020 to 31 March 2020
Europe		
Poland	1 189	919
Germany	757	759
The United Kingdom	194	426
Czechia	482	362
Italy	428	261
Switzerland	193	219
Hungary	267	194
France	243	100
Belgium	2	50
Austria	111	48
Romania	76	40
Slovakia	29	19
Slovenia	39	17
Denmark	7	4
Estonia	4	4
Bulgaria	18	3
Sweden	18	-
Netherlands	1	1
Other countries (dispersed sales)	-	3
North and South America		
The United States of America	360	133
Other countries (dispersed sales)	5	-
Australia		
Australia	323	176
Asia		
China	590	250
Taiwan	-	165
Thailand	114	36
Turkey	28	26
Vietnam	71	8
Philippines	3	2
Malaysia	15	-
Africa	2	-
TOTAL	5 569	4 225

Note 2 Expenses by nature

	from 1 January 2021 to 31 March 2021	from 1 January 2020 to 31 March 2020
Depreciation of property, plant and equipment and amortisation of intangible assets	356	325
Employee benefits expenses	955	890
Materials and energy, including:	2 347	1 524
purchased metal-bearing materials	1 667	919
electrical and other energy	296	250
External services, including:	425	430
transport	68	57
repairs, maintenance and servicing	121	123
mine preparatory work	128	140
Minerals extraction tax	718	344
Other taxes and charges	140	107
Write-down of inventories	(10)	(10)
Other costs	23	26
Total expenses by nature	4 954	3 636
Cost of merchandise and materials sold (+)	67	52
Change in inventories of finished goods and work in progress (+/-)	(770)	(34)
Cost of manufacturing products for internal use (-)	(41)	(45)
Total costs of sales, selling costs and administrative expenses, including:	4 210	3 609
cost of sales	3 997	3 408
selling costs	39	31
Administrative expenses	174	170

Note 3 Other operating income and (costs)

	from 1 January 2021 to 31 March 2021	from 1 January 2020 to 31 March 2020
Gains on derivatives, of which:	105	143
measurement of derivatives	104	125
realisation of derivatives	1	18
Exchange differences on assets and liabilities other than borrowings	358	446
Interest on loans granted and other financial receivables	67	73
Fees and charges on re-invoicing of costs of bank guarantees securing payments of liabilities	48	20
Reversal of impairment losses on financial instruments measured at amortised cost, including:	14	-
loans	4	-
Fair value gains on financial assets measured at fair value through profit or loss, including:	113	333
loans	102	329
Release of provisions	6	-
Refund of excise tax for previous years	5	-
Other	12	11
Total other operating income	728	1 026
Losses on derivatives, of which:	(285)	(232)
measurement of derivatives	(171)	(156)
realisation of derivatives	(114)	(76)
Impairment losses on financial instruments measured at amortised cost	(1)	(176)
Fair value losses on financial assets measured at fair value through profit or loss, including:	(43)	(46)
loans	(11)	-
Impairment losses on shares and investment certificates in subsidiaries	(3)	(42)
Provisions recognised	(13)	(3)
Donations given	(3)	(20)
Other	(12)	(19)
Total other operating costs	(360)	(538)
Other operating income and (costs)	368	488

Note 4 Finance costs

	from 1 January 2021 to 31 March 2021	from 1 January 2020 to 31 March 2020
Interest on borrowings, including:	(18)	(41)
lease	(2)	(2)
Bank fees and charges on borrowings	(9)	(6)
Exchange differences on borrowings	(273)	(437)
Losses on derivatives - measurement of derivatives	(1)	(3)
Unwinding of the discount effect	(1)	(9)
Total finance costs	(302)	(496)

Note 5 Changes in working capital

	Inventories	Trade receivables	Trade payables	Similar payables - reverse factoring	Working capital
As at 1 January 2021	(3 555)	(351)	2 232	1 264	(410)
As at 31 March 2021	(4 522)	(427)	2 176	1 044	(1 729)
Change in the statement of financial position	(967)	(76)	(56)	(220)	(1 319)
Depreciation recognised in inventories	40	-	-	-	40
Payables due to the purchase of property, plant and equipment and intangible assets	-	-	257	1	258
Adjustments	40	-	257	1	298
Change in the statement of cash flows	(927)	(76)	201	(219)	(1 021)

	Inventories	Trade receivables	Trade payables	Similar payables	Working capital
As at 1 January 2020	(3 783)	(243)	2 029	596	(1 401)
As at 31 March 2020	(3 996)	(153)	1 821	910	(1 418)
Change in the statement of financial position	(213)	90	(208)	314	(17)
Depreciation recognised in inventories	34	-	-	-	34
Payables due to the purchase of property, plant and equipment and intangible assets	-	-	369	-	369
Liabilities due to interest on reverse factoring	-	-	-	(2)	(2)
Adjustments	34	-	369	(2)	401
Change in the statement of cash flows	(179)	90	161	312	384

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

This report was authorised for issue on 12 May 2021

President
of the Management Board

Marcin Chludziński

Vice President
of the Management Board

Adam Bugajczuk

Vice President
of the Management Board

Paweł Gruza

Vice President
of the Management Board

Andrzej Kensbok

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING

Executive Director
of Accounting Services Center
Chief Accountant

Agnieszka Sinior