

POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated quarterly report QSr 1 / 2022

(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 **2022** from **1 January 2022** to **31 March 2022** 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.

publication date: 12 May 2022

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**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 2022 to 31 March 2022	from 1 January 2021 to 31 March 2021	from 1 January 2022 to 31 March 2022	from 1 January 2021 to 31 March 2021
	As at 31 March 2022	As at 31 December 2021	As at 31 March 2022	As at 31 December 2021
I. Revenues from contracts with customers	8 993	6 745	1 935	1 475
II. Profit on sales	1 801	1 442	388	315
III. Profit before income tax	2 508	1 862	540	407
IV. Profit for the period	1 899	1 365	409	299
V. Profit for the period attributable to shareholders of the Parent Entity	1 900	1 366	409	299
VI. Profit for the period attributable to non-controlling interest	(1)	(1)	-	-
VII. Other comprehensive income	(339)	(937)	(73)	(205)
VIII. Total comprehensive income	1 560	428	336	94
IX. Total comprehensive income attributable to shareholders of the Parent Entity	1 560	429	336	94
X. Total comprehensive income attributable to non-controlling interest	-	(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	9.50	6.83	2.05	1.50
XIII. Net cash generated from operating activities	1 725	927	371	203
XIV. Net cash used in investing activities	(195)	(714)	(42)	(156)
XV. Net cash used in financing activities	(76)	(1 129)	(16)	(247)
XVI. Total net cash flow	1 454	(916)	313	(200)
XVII. Non-current assets	37 167	36 664	7 989	7 971
XVIII. Current assets	12 874	11 363	2 767	2 471
XIX. Total assets	50 041	48 027	10 756	10 442
XX. Non-current liabilities	10 418	11 351	2 239	2 468
XXI. Current liabilities	10 962	9 538	2 356	2 074
XXII. Equity	28 661	27 138	6 161	5 900
XXIII. Equity attributable to shareholders of the Parent Entity	28 606	27 046	6 149	5 880
XXIV. Equity attributable to non-controlling interest	55	92	12	20

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

	in PLN mn		in EUR mn	
	from 1 January 2022 to 31 March 2022	from 1 January 2021 to 31 March 2021	from 1 January 2022 to 31 March 2022	from 1 January 2021 to 31 March 2021
	As at 31 March 2022	As at 31 December 2021	As at 31 March 2022	As at 31 December 2021
I. Revenues from contracts with customers	7 555	5 569	1 626	1 218
II. Profit on sales	1 602	1 359	345	297
III. Profit before income tax	1 838	1 425	396	312
IV. Profit for the period	1 325	975	285	213
V. Other comprehensive net income	(362)	(792)	(78)	(173)
VI. Total comprehensive income	963	183	207	40
VII. Number of shares issued (million)	200	200	200	200
VIII. Earnings per ordinary share (PLN/EUR)	6.63	4.88	1.43	1.07
IX. Net cash generated from operating activities	1 839	887	396	194
X. Net cash used in investing activities	(381)	(632)	(82)	(138)
XI. Net cash used in financing activities	(122)	(1 187)	(26)	(260)
XII. Total net cash flow	1 336	(932)	287	(204)
XIII. Non-current assets	34 429	34 671	7 400	7 538
XIV. Current assets	10 300	8 787	2 214	1 910
XV. Total assets	44 729	43 458	9 614	9 448
XVI. Non-current liabilities	8 740	9 707	1 879	2 110
XVII. Current liabilities	9 186	7 911	1 974	1 720
XVIII. Equity	26 803	25 840	5 761	5 618

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Part 1 – Condensed consolidated financial statements

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	from 1 January 2022 to 31 March 2022	from 1 January 2021 to 31 March 2021
Note 3.3 Revenues from contracts with customers	8 993	6 745
Note 4.1 Cost of sales	(6 831)	(4 970)
Gross profit	2 162	1 775
Note 4.1 Selling costs and administrative expenses	(361)	(333)
Profit on sales	1 801	1 442
Note 4.5 Gains due to the reversal of allowances for impairment of loans granted to a joint venture	64	-
Note 4.5 Interest income on loans granted to a joint venture calculated using the effective interest rate method	183	97
Profit or loss on involvement in a joint venture	247	97
Note 4.2 Other operating income, including:	762	981
other interest calculated using the effective interest rate method	4	1
reversal of impairment losses on financial instruments	1	12
Note 4.2 Other operating costs, including:	(195)	(356)
impairment losses on financial instruments	(1)	(1)
Note 4.3 Finance costs	(107)	(302)
Profit before income tax	2 508	1 862
Income tax expense	(609)	(497)
PROFIT FOR THE PERIOD	1 899	1 365
Profit for the period attributable to:		
Shareholders of the Parent Entity	1 900	1 366
Non-controlling interest	(1)	(1)
Weighted average number of ordinary shares (million)	200	200
Basic/diluted earnings per share (in PLN)	9.50	6.83

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	from 1 January 2022 to 31 March 2022	from 1 January 2021 to 31 March 2021
Profit for the period	1 899	1 365
Measurement of hedging instruments net of the tax effect	(285)	(763)
Exchange differences from the translation of statements of operations with a functional currency other than PLN	-	(149)
Other comprehensive income which will be reclassified to profit or loss	(285)	(912)
Measurement of equity financial instruments at fair value through other comprehensive income, net of the tax effect	41	4
Actuarial losses net of the tax effect	(95)	(29)
Other comprehensive income, which will not be reclassified to profit or loss	(54)	(25)
Total other comprehensive net income	(339)	(937)
TOTAL COMPREHENSIVE INCOME	1 560	428
Total comprehensive income attributable to:		
Shareholders of the Parent Entity	1 560	429
Non-controlling interest	-	(1)

CONSOLIDATED STATEMENT OF CASH FLOWS

	from 1 January 2022 to 31 March 2022	from 1 January 2021 to 31 March 2021
Cash flow from operating activities		
Profit before income tax	2 508	1 862
Depreciation/amortisation recognised in profit or loss	493	495
Gains due to the reversal of allowances for impairment of loans granted to a joint venture	(64)	-
Interest on loans granted to a joint venture	(183)	(97)
Other interest	24	29
Gains on disposal of property, plant and equipment and intangible assets	(133)	(51)
Gain on disposal of subsidiaries	(38)	-
Exchange differences, of which:	(241)	(323)
from investment activities and cash	(305)	(583)
from financing activities	64	260
Change in provisions for decommissioning of mines, liabilities related to future employee benefits programs and other provisions	(63)	18
Change in other receivables and liabilities other than working capital	188	202
Change in assets and liabilities due to derivatives	(221)	(316)
Reclassification of other comprehensive income to profit or loss due to the realisation of hedging derivatives	279	371
Other adjustments	4	(3)
Exclusions of income and costs, total	45	325
Income tax paid	(181)	(200)
Changes in working capital, including:	(647)	(1 060)
change in trade payables transferred to factoring	(10)	(204)
Net cash generated from operating activities	1 725	927
Cash flow from investing activities		
Expenditures on mining and metallurgical assets, including:	(936)	(678)
paid capitalised interest on borrowings	(24)	(21)
Expenditures on other property, plant and equipment and intangible assets	(148)	(136)
Expenditures on financial assets designated for decommissioning mines and other technological facilities	(29)	(24)
Repayment of loans granted to a joint venture	431	-
Proceeds from disposal of property, plant and equipment and intangible assets	330	73
Proceeds from disposal of subsidiaries	151	-
Proceeds from disposal of equity instruments measured at fair value through other comprehensive income	-	53
Other	6	(2)
Net cash used in investing activities	(195)	(714)
Cash flow from financing activities		
Proceeds from borrowings	44	24
Repayments of borrowings	(87)	(1 103)
Repayment of lease liabilities	(9)	(10)
Payment of interest, including:	(31)	(41)
borrowings	(30)	(38)
Other	7	1
Net cash used in financing activities	(76)	(1 129)
NET CASH FLOW	1 454	(916)
Exchange gains/(losses)	(3)	(40)
Cash and cash equivalents at beginning of the period	1 904	2 522
Cash and cash equivalents at end of the period, including:	3 355	1 566
recognised in assets held for sale (disposal group)	18	-
restricted cash	26	19

Note 4.11

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 March 2022	As at 31 December 2021
ASSETS		
Mining and metallurgical property, plant and equipment	21 414	21 564
Mining and metallurgical intangible assets	2 370	2 316
Mining and metallurgical property, plant and equipment and intangible assets	23 784	23 880
Other property, plant and equipment	2 646	2 593
Other intangible assets	277	250
Other property, plant and equipment and intangible assets	2 923	2 843
Note 4.5 Involvement in joint ventures – loans granted	8 348	7 867
Derivatives	536	595
Other financial instruments measured at fair value	687	637
Other financial instruments measured at amortised cost	540	496
Note 4.6 Financial instruments, total	1 763	1 728
Deferred tax assets	191	185
Other non-financial assets	158	161
Non-current assets	37 167	36 664
Inventories	6 892	6 337
Note 4.6 Trade receivables, including:	1 405	1 009
trade receivables measured at fair value through profit or loss	924	614
Tax assets	246	364
Note 4.6 Derivatives	192	254
Other financial assets	180	172
Other non-financial assets	281	162
Note 4.6 Cash and cash equivalents	3 337	1 884
Note 4.12 Assets held for sale (disposal group)	341	734
Current assets	12 874	11 363
TOTAL ASSETS	50 041	48 027
EQUITY AND LIABILITIES		
Share capital	2 000	2 000
Other reserves from measurement of financial instruments	(1 949)	(1 705)
Accumulated other comprehensive income, other than from measurement of financial instruments	2 123	2 219
Retained earnings	26 432	24 532
Equity attributable to shareholders of the Parent Entity	28 606	27 046
Equity attributable to non-controlling interest	55	92
Equity	28 661	27 138
Note 4.6 Borrowings, lease and debt securities	4 809	5 409
Note 4.6 Derivatives	1 163	1 134
Employee benefits liabilities	2 353	2 306
Provisions for decommissioning costs of mines and other technological facilities	884	1 242
Deferred tax liabilities	577	643
Other liabilities	632	617
Non-current liabilities	10 418	11 351
Note 4.6 Borrowings, lease and debt securities	1 145	455
Note 4.6 Derivatives	1 149	889
Note 4.6 Trade and similar payables	2 858	2 974
Employee benefits liabilities	1 536	1 437
Tax liabilities	1 904	1 453
Provisions for liabilities and other charges	203	207
Other liabilities	1 781	1 661
Note 4.12 Liabilities associated with disposal group	386	462
Current liabilities	10 962	9 538
Non-current and current liabilities	21 380	20 889
TOTAL EQUITY AND LIABILITIES	50 041	48 027

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 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 measurement 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
As at 1 January 2022	2 000	(1 705)	2 219	24 532	27 046	92	27 138
Profit for the period	-	-	-	1 900	1 900	(1)	1 899
Other comprehensive income	-	(244)	(96)	-	(340)	1	(339)
Total comprehensive income	-	(244)	(96)	1 900	1 560	-	1 560
Changes due to loss of control of subsidiaries	-	-	-	-	-	(37)	(37)
As at 31 March 2022	2 000	(1 949)	2 123	26 432	28 606	55	28 661

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

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 Centre 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.

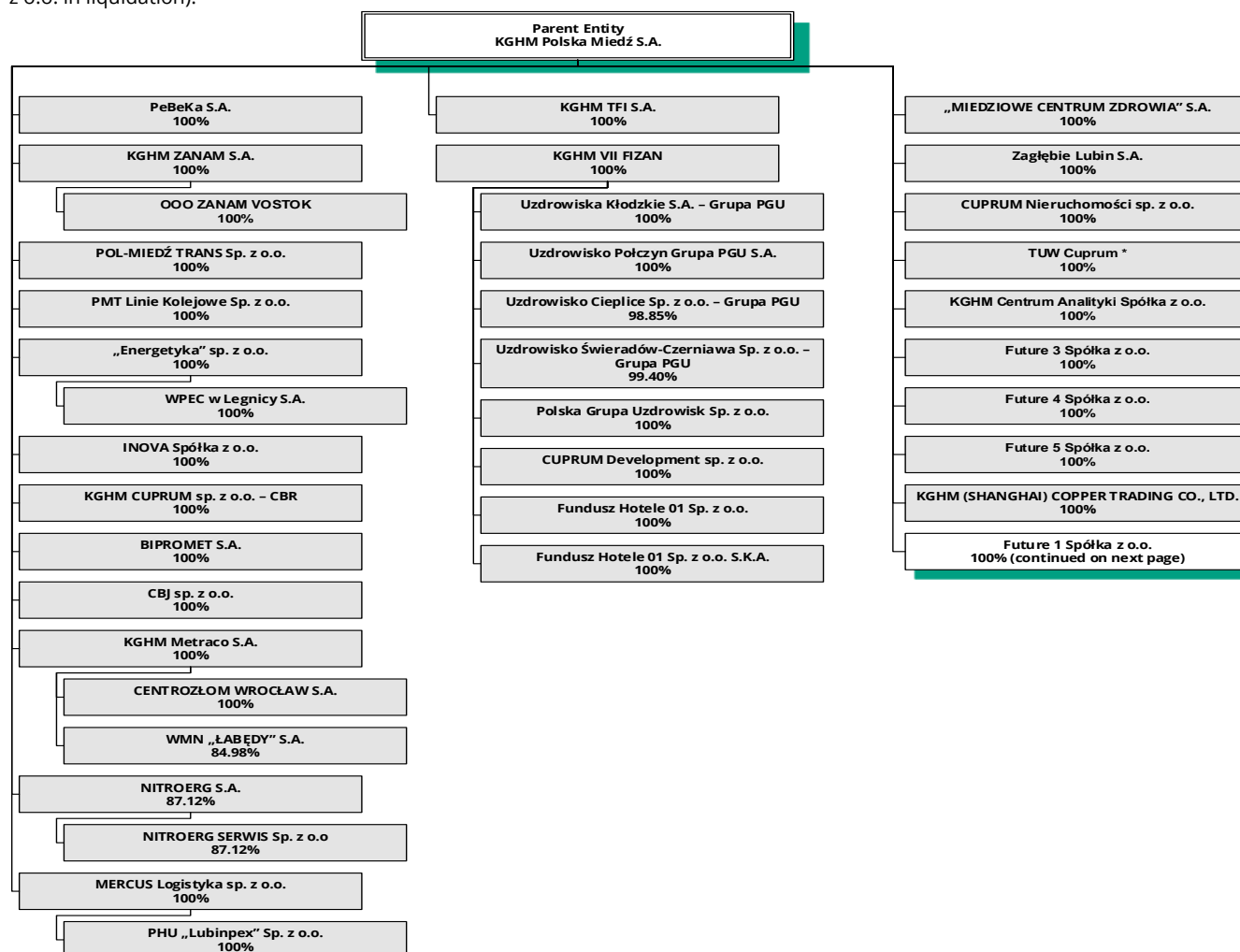
The business activities of the Group include:

- 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 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.

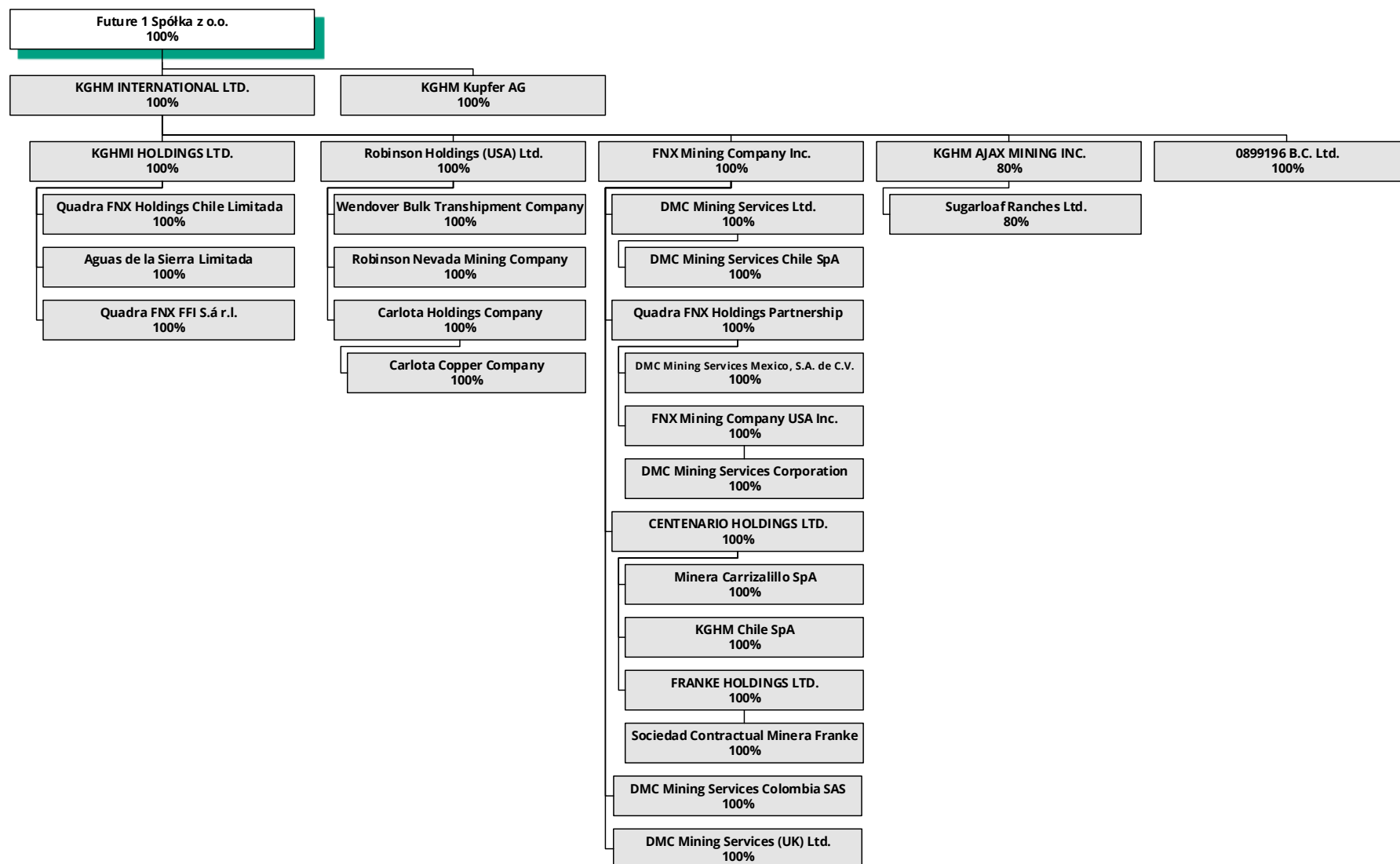
Note 1.2 Structure of the KGHM Polska Miedź S.A. Group

As at 31 March 2022, KGHM Polska Miedź S.A. consolidated 65 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 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 **4.6472 EURPLN***,
- for the conversion of turnover, profit or loss and cash flow for the comparable period, the rate of **4.5721 EURPLN***,
- for the conversion of assets, equity and liabilities at 31 March 2022, the current average exchange rate announced by the National Bank of Poland (NBP) as at 31 March 2022, of **4.6525 EURPLN**,
- for the conversion of assets, equity and liabilities at 31 December 2021, the current average exchange rate announced by the NBP as at 31 December 2021, of **4.5994 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 2022 and 2021.*

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 2022 and the comparable period from 1 January to 31 March 2021, 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 2022 and the comparable period from 1 January to 31 March 2021 (**Part 2**).

Neither the condensed consolidated financial statements for the period from 1 January to 31 March 2022 and as at 31 March 2022 nor the quarterly financial information of KGHM Polska Miedź S.A. for the period from 1 January to 31 March 2022 and as at 31 March 2022 were subject to audit by a certified auditor.

The consolidated quarterly report for the period from 1 January 2022 to 31 March 2022 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 2021 and the Consolidated annual report SRR 2021.

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 2021.

Note 1.4.1 Impact of new and amended standards and interpretations

From 1 January 2022, the Group is bound by:

- **Amendments to IFRS 3** on references to the Conceptual Framework,
- **Amendments to IAS 16** on proceeds before intended use of an item of property, plant and equipment,
- **Amendments to IAS 37** on cost of fulfilling onerous contracts,
- **Annual amendments to IFRS 2018-2020** – amendments to IAS 41, IFRS 1, IFRS 9.

Up to the date of publication of these consolidated financial statements, the aforementioned amendments to the standards were adopted for use by the European Union. In the Group's opinion, amendments to standards will be applicable to the Group's activities in the scope of future economic operations, transactions or other events, towards which the amendments to standards will be applicable.

In particular, the application of **amendments to IAS 16** on proceeds before intended use of an item of property, plant and equipment will result in a change in the Group's accounting policy in this regard. In accordance with the current policy, the Group decreased expenditures by the amount of revenues achieved before an item of property, plant and equipment was brought into use, which incidentally took place during the shaft sinking. Pursuant to the amendments, revenues from sales of products manufactured while an asset is brought to the desired location and condition (e.g. test production), together with associated costs, should be recognised in profit or loss for the period. Transitional provisions on the implementation of these amendments are applied retrospectively to items of property, plant and equipment brought into use on or after the beginning of the earliest presented period. The Group applied amendments to IAS 16 from 1 January 2022. With respect to the application of transitional provisions, the Group did not identify significant items of property, plant and equipment that would be subject to adjustments on or after 1 January 2021.

2 – Realisation of strategy

2.1 Strategy description – basic elements of the Strategy of KGHM Polska Miedź S.A.

On 14 January 2022, the Company's Supervisory Board approved the „Strategy of the KGHM Polska Miedź S.A. Group to the year 2030 with an outlook to 2040” as presented by the Management Board, reflecting the macroeconomic environment and the geopolitical situation affecting the mining sector. In the planned activities, a particular place is held by the green transformation through renewable energy and modern technology. The Strategy does not alter the Company's current approach to its business activities, the Parent Entity continues to act responsibly and to think long-term about the Company's future. Therefore, the Company's mission and vision remain unchanged. The goals of the Strategy are ambitious, but attainable. To reflect the changes in the environment, the four existing strategic development directions (Elasticity /flexibility, Efficiency, Ecology and E-industry) were updated to include an additional, fifth element – Energy.

Diagram 1. Mission, Vision and Development Directions of the Strategy of KGHM Polska Miedź S.A.



2.2 Advancement of the Strategy in the first quarter of 2022


During the reporting period being discussed, KGHM Polska Miedź S.A. commenced the advancement of the „Strategy of the KGHM Polska Miedź S.A. Group to the year 2030 with an outlook to 2040”, approved in January 2022. The process of operationalisation of the Strategy continues, in which the units responsible for advancing its individual elements take part in terms of cooperation and collaboration within the organisation. As a result of the indicated activities, a Strategy Implementation Plan (SIP) will be developed, defining the Initiatives, Strategic Programs, projects and tasks which are indispensable to achieving the strategic goals defined in the Strategy, together with setting forth their execution over time, their means of financing and the persons responsible for their accomplishment.

The Company's Strategy has been presented through the prism of five strategic development directions (Flexibility, Efficiency, Ecology, E-industry and Energy). After completion of the operationalisation process, it is likely to be reported on the basis of strategic pillars.

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 enhance the effectiveness of the actions taken, the decision was made to define and establish subsequent Strategic Programs.

In the context of the impact of the conflict in Ukraine on the implementation of the Strategy, no significant negative consequences have been recorded and neither they are expected. The risk of disrupting the business continuity of the Group is assessed as low. Rising prices of goods and services may turn out to be potentially negative, which may result in an increase in the overall costs of implementing the Strategy, but currently they do not constitute an obstacle to its implementation.

Key achievements in terms of realised strategic actions taken in individual strategic directions of development, accomplished in the first quarter of 2022:

	<h3>EFFICIENCY</h3>
<p>Production in Poland and abroad</p>	<ul style="list-style-type: none"> - Mined production in Poland amounted to 114.4 thousand tonnes of copper in ore with a C1 cost of 5 281.30 USD/t (2.40 USD/lb) of payable copper. - Payable copper production abroad in the first quarter of 2022 amounted to: <ul style="list-style-type: none"> ▪ Sierra Gorda: 23.9 thousand tonnes (on a 55% basis); ▪ Robinson: 14.3 thousand tonnes; ▪ Carlota: 1.2 thousand tonnes; ▪ Franke: 2.3 thousand tonnes; ▪ Sudbury Basin: 0.4 thousand tonnes. - Metallurgical production amounted to 151.1 thousand tonnes.

	<ul style="list-style-type: none"> - Silver production amounted to 348 tonnes.
Continued advancement of the Deposit Access Program	<ul style="list-style-type: none"> - The GG-1 shaft reached a depth of 1313.7 m. The Stage 8 of shaft sinking is in progress. - Work continues on procedures involving the selection of contractors for tasks involving the construction of the GG-2 „Odra” Shaft. - Work continues on the procedure of purchasing land for the investment involving the construction of the „Gawrzyce” Shaft. - 10.3 kilometres of tunnelling were excavated in the Rudna and Polkowice-Sierszowice Mining Areas (25% of work planned for 2022). - In terms of the Central Air Conditioning System, work continued on building the Surface-based Air Conditioning Station at the GG-1 Shaft. The main technological and installation work as well as on electrical and automated equipment work was completed. The technological start-up of the installation is in progress. - The technical handover of the first part of the Ice Water Transportation System was completed. Construction continues on building the second part of the System.
Development of the Żelazny Most Tailings Storage Facility	<ul style="list-style-type: none"> - Southern Quarter: operational permits were obtained. Total advancement of the physical scope of work for the Southern Quarter together with slurry, water and power infrastructure reached 99.5%. Tailings continue to be deposited in the Southern Quarter. - Tailings Segregation and Compacting Station (TSCS): work was completed on assembling the technological part of the Station. Work continues on developing infrastructure in the vicinity of the station. Total advancement of the physical scope of work on the TSCS is 81%. The process of segregation and compacting is underway for the purpose of deposition of waste in the Southern Quarter as well as a separate process of building up the dam in the Southern Quarter.
Preparations for the maintenance shutdown of the Głogów II Copper Smelter and Refinery	<ul style="list-style-type: none"> - The shutdown of the flash furnace for maintenance occurred in the last week of April 2022. It is planned that the shutdown will last for 78 days.
R&D initiatives to enhance the efficiency of the core production business	<ul style="list-style-type: none"> - Tests are underway on pilot flotation machinery rotors in the Concentrators. - R&D work commenced on the utilisation of PbZn concentrate in pilot installations at the Głogów Copper Smelter and Refinery. - The work of a scouting team was completed regarding the production of silver powders and pastes for photovoltaic purposes as well as metal powders dedicated to additive technology (so-called „3D printing”). - Actions were completed related to the possibility of improving the properties of titanium alloys as a result of adding rhenium. - Activities were carried out under the Dolina Miedziowa “CuValley Hack” program: attempts to implement the solution created under last year’s Hackathon were made and the 2nd edition of the event was carried out.
Use of external financing for R&D&I	<ul style="list-style-type: none"> - Advancement of European research projects continued and applications were prepared for the subsidising of initiatives under the Horizon Europe and KIC Raw Materials Programs.
Intellectual property	<ul style="list-style-type: none"> - Proceedings are underway to obtain legal protection for the selected word trademarks. - Proceedings are underway in the Patent Office of the Republic of Poland for the granting of seven patents to protect the submitted inventions.



FLEXIBILITY

Extension of the value chain	<ul style="list-style-type: none"> - Detailed technical and economic analyses continued with respect to the development of copper processing in the Cedynia Wire Rod Plant Division. Work is aimed at defining the design concept, assortment, selecting technology and production resources, taking into account the investment’s profitability and strategic assumptions of KGHM Polska Miedź S.A.
Hybrid Legnica Smelter and Refinery	<ul style="list-style-type: none"> - The investment project „Documentation for the Hybrid Legnica Smelter and Refinery - Legnica Smelter and Refinery Scrap Turnover Base” was launched.

Exploration projects with respect to exploring for and evaluating copper ore deposits	<ul style="list-style-type: none"> - In the concession areas „Retków-Ścinawa” and „Głogów” geological work continued. An alteration of the concession in the Głogów area was received in March 2022. - Geological work continued within the Synklina Grodziecka and Konrad concession areas. - The restoration of terrain following the first exploratory-evaluation drilling in the Bytom Odrzański concession area was completed. - Geological work continued within the Kulów-Luboszyce concession area. - In the Radwanice concession area, evaluation work continued using underground mine workings.
Realisation of exploration projects with respect to exploring for and evaluating other deposits	<ul style="list-style-type: none"> - On the terrain of the Puck concession laboratory and analytical work was carried out related to drilling at the end of 2021, on the basis of which two scientific reports were developed. - A concept was developed to conduct further geological work within the Nowe Miasteczko concession.
Continuation of development projects in the international assets	<ul style="list-style-type: none"> - Sierra Gorda: there were no substantial interruptions in work. The achieved EBITDA and payable copper production exceeded targets. - Sierra Gorda Oxide: actions continued aimed at preparing for the next stage of project development and the decision of the owners of the project (Sierra Gorda S.C.M.) as to the further direction of project development. - Victoria project: preparatory work continued related to selected elements of the infrastructure. Work commenced on updating the design of the production shaft.
CuBR venture	<ul style="list-style-type: none"> - Under the four editions of the competition, 25 R&D projects having a total value of over PLN 180 million were launched: 6 projects are currently being in progress, 19 projects have been completed.
Implementation Doctorates Program	<ul style="list-style-type: none"> - Advancement of the Implementation Doctorates Program for employees of the Group was continued. At the end of the first quarter of 2022, 29 doctoral students from the two editions had participated in the program.



ECOLOGY, SAFETY AND SUSTAINABLE DEVELOPMENT

Continuation of the Occupational Health and Safety's Improvement Program in KGHM Polska Miedź S.A.	<ul style="list-style-type: none"> - The LTIFR ratio of the Company: 3.94 (lower than the amount recorded for the same period of 2021 by 0.27). The number of workplace accidents: 30. The TRIR ratio for the international assets (total for the employees of the KGHM INTERNATIONAL LTD. Group and Sierra Gorda S.C.M. as well as contractors for these entities): 0.2. - Planned activities related to mitigating the threat arising from the SARS-CoV-2 pandemic were successively carried out, and a program of vaccinations for Company employees was carried out. - Cooperation with domestic and international academic institutions and opinion makers was engaged. - An active model of coordination of the work of OHS units was applied. Active forms of education and employee support were prepared.
Program to adapt the technological installations of the Company to the requirements of BAT conclusions for the nonferrous metals industry and to restrict emissions of arsenic (BATAs)	<ul style="list-style-type: none"> - The Program to adapt the technological installations of the Głogów Copper Smelter and Refinery and the Legnica Copper Smelter and Refinery was continued. In the first quarter of 2022, 7 projects were advanced.




E-INDUSTRY

Continued advancement of projects to automate the production lines of the mining divisions of KGHM	<ul style="list-style-type: none"> - Work continued related to the electromobility of mining machinery. - A letter of intent was signed involving cooperation on hydrogen drives. - The anti-collision system was integrated as well as the system for locating and identifying machinery and people in the underground mines.
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	<ul style="list-style-type: none"> - In terms of work on the broad-band transmission of data in the mines, a total of 78 wi-fi access points were built, mainly used for the transmission of data from mining machinery. - Robotisation of production and auxiliary processes were continued.
	<ul style="list-style-type: none"> - Advancement of the KGHM 4.0 Program was continued, divided into two main areas: <i>In the area of ICT (Information and Communication Technology) and Cybersecurity:</i> <ul style="list-style-type: none"> - Due to the war in Ukraine, as well as the growing threat of cybercrime, work was carried out in terms of ICT security. <i>In the area of Digitalisation of business processes:</i> <ul style="list-style-type: none"> - The process of adapting the organisation to digital change was carried out - a Digital Workplace in the IT environment of the Company under the Microsoft 365 packet. - The project „Optimisation of the Production Planning and Settlement Process“: the entire path of testing the process of production planning in the Company for 2022 was carried out in the ePlan SAP BPC model. - The implementation of the CMMS system supporting production and material logistics in the Metallurgical Plants, Concentrator Division and Tailings Division: work was continued on the efficiency of the process between operational continuity services and external companies. - The project entitled „Development of an automatic system to control the composition of air using unmanned aerial vehicles“: a Specific Operation Risk Assessment (SORA) was performed for the approved scenario of flights developed on the basis of analysing zones surrounding the Głogów Copper Smelter and Refinery, and all requisite legal permits were obtained in order to carry out cyclical flights over the terrain of the Głogów Copper Smelter and Refinery.

KGHM 4.0 program

	<h2>ENERGY</h2>
<p>Development of solar energy</p>	<ul style="list-style-type: none"> - A project to construct a photovoltaic power plant of approx. 1.5 MWe at the Cedynia Wire Rod plant was initiated. Preparatory work is underway for the commencement of two subsequent photovoltaic farm projects on the Parent Entity's grounds with a total capacity of around 6.5 Mwe as well as analytical work on the utilisation of other terrain of the Company to develop renewable energy sources. - Construction work of the photovoltaic power plants complex HMG I-III was continued: a technical project on the conditions for connecting to the network was prepared. - Construction work of the Obora I Sandpit photovoltaic power plant was continued: work began on developing the documentation necessary for realisation of the investment.
<p>Development of wind energy, including offshore</p>	<ul style="list-style-type: none"> - The Memorandum of understanding was entered into with Total Energies Renewables SAS. Joint engagement was agreed in proceedings involving the obtaining of location decisions for the construction of Offshore Wind Farms.
<p>Development of hydrogen technology</p>	<ul style="list-style-type: none"> - „Sector Agreement for the development of hydrogen power in Poland“ was signed under the patronage of the Minister of Climate and Environment of the Republic of Poland, the Lower Silesia Hydrogen Association was initiated as well.
<p>Development of nuclear energy</p>	<ul style="list-style-type: none"> - In February 2022, an agreement with NuScale Power, LLC (a supplier of nuclear technology) was signed for preliminary work, constituting the first step in the process of implementing SMR technology in the business activities of the Group.
<p>Self-generation of electricity</p>	<ul style="list-style-type: none"> - In the first quarter of 2022, 12.75% of the Parent Entity's need for electricity was met by its own internal sources, including RES.

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: Victoria, Sudbury Basin, Robinson, Carlota, Franke and Ajax.	Operating segments within the KGHM INTERNATIONAL LTD. Group are located in North and South America. The Management Board analyses the results of the following operating segments: Victoria, Sudbury Basin, Robinson, Carlota, Franke, Ajax and 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,
- 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.

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 Management Board of the Parent Entity.

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

THE SEGMENT KGHM INTERNATIONAL LTD.	
Location	Company
The United States of America	Carlota Copper Company, Carlota Holdings Company, DMC Mining Services Corporation, FNX Mining Company USA Inc., Robinson Holdings (USA) Ltd., Robinson Nevada Mining Company, Wendover Bulk 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	DMC Mining Services Mexico, 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 VII FIZAN, Polska Grupa Uzdrowisk Sp. z o.o.
Other activities	CENTROŹŁOM 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, KGHM Centrum Analityki Sp. z o.o.

* Entities disposed of on 21 and 28 February 2022 (Note 4.12)

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 indirect 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 taxes (current and deferred income tax as well as the mining tax), finance income and costs, other operating income and costs, profit or loss on involvement in joint ventures, depreciation/amortisation and recognition/reversal of impairment losses on property, plant and equipment and intangible assets included in the cost of sales, selling costs and administrative expenses. 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 2022 to 31 March 2022					Reconciliation items to consolidated data		Consolidated financial statements
		KGHM Polska Miedz 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****		
Note 3.3	Revenues from contracts with customers, of which:	7 555	876	1 194	3 055	(1 194)	(2 493)	8 993	
	- inter-segment	153	-	-	2 340	-	(2 493)	-	
	- external	7 402	876	1 194	715	(1 194)	-	8 993	
	Segment result - profit/(loss) for the period	1 325	390	239	(53)	(239)	237	1 899	
Additional information on significant revenue/cost items of the segment									
	Depreciation/amortisation recognised in profit or loss	(322)	(110)	(253)	(68)	253	7	(493)	
	Reversal of impairment losses on non-current assets, including:	53	64	-	-	-	(53)	64	
	reversal of allowances for impairment of loans granted	53	64	-	-	-	(53)	64	
		As at 31 March 2022							
	Assets, including:	44 729	13 769	12 699	6 087	(12 699)	(14 544)	50 041	
	Segment assets	44 729	13 769	12 699	6 087	(12 699)	(14 545)	50 040	
	Assets unallocated to segments	-	-	-	-	-	1	1	
	Liabilities, including:	17 926	18 060	13 090	3 550	(13 090)	(18 156)	21 380	
	Segment liabilities	17 926	18 060	13 090	3 550	(13 090)	(18 213)	21 323	
	Liabilities unallocated to segments	-	-	-	-	-	57	57	
Other information		from 1 January 2022 to 31 March 2022							
	Cash expenditures on property, plant and equipment and intangible assets – cash flows	781	263	342	139	(342)	(99)	1 084	
Production and cost data		from 1 January 2022 to 31 March 2022							
	Payable copper (kt)	151.1	18.2	23.9					
	Molybdenum (million pounds)	-	0.1	1.2					
	Silver (t)	339.8	0.3	7.5					
	TPM (koz t)	21.1	15.1	6.6					
	C1 cash cost of producing copper in concentrate (USD/lb PLN/lb)**	2.40 9.88	2.23 9.19	1.35 5.57					
	Segment result - adjusted EBITDA	1 924	361	821	27	-	-	3 133	
	EBITDA margin***	25%	41%	69%	1%	-	-	31%	

* 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 (31%, i.e. $3\ 133 / (8\ 993 + 1\ 194) * 100$), the consolidated revenues from sales were increased by revenues from sales of the segment Sierra Gorda S.C.M.

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

Reconciliation of adjusted EBITDA

from 1 January 2022 to 31 March 2022

	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Other segments	Consolidation adjustments*	Consolidated financial statements	Sierra Gorda S.C.M. **	Adjusted EBITDA (segments, total)
	1	2	3	4	5 (1+2+3+4)	6	7 (5+6-4)
Profit/(Loss) for the period	1 325	390	(53)	237	1 899	239	
[-] Profit or loss on involvement in joint ventures	-	247	-	-	247	-	
[-] Current and deferred income tax, mining tax	(513)	(50)	(10)	(36)	(609)	(120)	
[-] Depreciation/amortisation recognised in profit or loss	(322)	(110)	(68)	7	(493)	(253)	
[-] Finance income and (costs)	(105)	(216)	(8)	222	(107)	(192)	
[-] Other operating income and (costs)	341	158	6	62	567	(17)	
[-] (Recognition)/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	-	-	-	-	-	
Segment result - adjusted EBITDA	1 924	361	27	(18)	2 294	821	3 133

* 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 2021 to 31 March 2021

	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Other segments	Consolidation adjustments*	Consolidated financial statements	Sierra Gorda S.C.M. **	Adjusted EBITDA (segments, total)
	1	2	3	4	5 (1+2+3+4)	6	7 (5+6-4)
Profit/(Loss) for the period	975	(33)	13	410	1 365	160	
[-] Profit or loss on involvement in joint ventures	-	97	-	-	97	-	
[-] Current and deferred income tax, mining 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.

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

from 1 January 2022 to 31 March 2022

				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	5 824	605	1 050	3	(1 050)	(14)	6 418
Silver	1 214	4	24	-	(24)	-	1 218
Gold	190	75	52	-	(52)	-	265
Services	42	140	-	496	-	(381)	297
Energy	9	-	-	108	-	(55)	62
Salt	7	-	-	-	-	1	8
Blasting materials and explosives	-	-	-	56	-	(27)	29
Mining machinery, transport vehicles and other types of machinery and equipment	-	-	-	49	-	(32)	17
Fuel additives	-	-	-	44	-	-	44
Lead	70	-	-	-	-	-	70
Products from other non-ferrous metals	-	-	-	40	-	-	40
Steel	-	-	-	194	-	(24)	170
Petroleum and its derivatives	-	-	-	111	-	(89)	22
Other merchandise and materials	92	-	-	1 775	-	(1 766)	101
Other products	107	52	68	179	(68)	(106)	232
TOTAL	7 555	876	1 194	3 055	(1 194)	(2 493)	8 993

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

from 1 January 2021 to 31 March 2021

				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	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
Other 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.

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

from 1 January 2022 to 31 March 2022

	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	7 555	876	1 194	3 055	(1 194)	(2 493)	8 993
Revenues from sales contracts, for which the price is set after the date of recognition of the sales (M+ principle), of which:	5 935	736	1 093	-	(1 093)	(39)	6 632
settled	4 856	521	16	-	(16)	(39)	5 338
unsettled	1 079	215	1 077	-	(1 077)	-	1 294
Revenues from realisation of long-term contracts	-	132	-	43	-	(40)	135
Revenues from other sales contracts	1 620	8	101	3 012	(101)	(2 414)	2 226
Total revenues from contracts with customers, of which:	7 555	876	1 194	3 055	(1 194)	(2 493)	8 993
in factoring	2 238	-	-	1 555	-	(1 486)	2 307
not in factoring	5 317	876	1 194	1 500	(1 194)	(1 007)	6 686

from 1 January 2022
to 31 March 2022from 1 January 2021
to 31 March 2021

	from 1 January 2022 to 31 March 2022	from 1 January 2021 to 31 March 2021
Revenues from contracts with customers, of which:	8 993	6 745
transferred at a certain moment	8 634	6 481
transferred over time	359	264

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

	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.

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

	from 1 January 2022 to 31 March 2022							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	KGHM Polska Miedź S.A. Group
					Elimination of data of the segment Sierra Gorda S.C.M	Consolidation adjustments		
Poland	1 938	-	3	2 955	(3)	(2 484)	2 409	1 545
Austria	186	-	-	8	-	-	194	115
Belgium	17	-	-	5	-	-	22	4
Bulgaria	14	-	-	3	-	-	17	19
Czechia	600	-	-	3	-	-	603	485
France	104	-	-	-	-	-	104	244
The Netherlands	2	-	29	-	(29)	-	2	1
Germany	1 380	-	-	28	-	-	1 408	777
Romania	45	-	-	-	-	-	45	76
Slovakia	50	-	-	4	-	-	54	34
Slovenia	42	-	-	-	-	-	42	40
Sweden	-	-	-	8	-	-	8	27
Hungary	396	-	-	3	-	-	399	269
The United Kingdom	516	-	-	2	-	-	518	195
Italy	549	-	-	8	-	-	557	433
Australia	195	-	-	-	-	-	195	323
Chile	-	29	286	-	(286)	-	29	14
China	663	312	593	-	(593)	-	975	746
Japan	60	-	243	-	(243)	-	60	143
Canada	14	177	-	-	-	(9)	182	146
South Korea	-	-	30	-	(30)	-	-	-
The United States of America	183	167	1	3	(1)	-	353	655
Switzerland	206	-	-	-	-	-	206	193
Turkey	77	-	-	2	-	-	79	29
Taiwan	11	-	-	-	-	-	11	-
Morocco	17	-	-	-	-	-	17	2
Mexico	-	91	-	-	-	-	91	-
Brazil	-	-	6	-	(6)	-	-	-
Thailand	219	-	-	-	-	-	219	114
Philippines	-	100	-	-	-	-	100	3
Malaysia	-	-	-	-	-	-	-	15
Vietnam	62	-	-	-	-	-	62	71
Other countries	9	-	3	23	(3)	-	32	27
TOTAL	7 555	876	1 194	3 055	(1 194)	(2 493)	8 993	6 745

* 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 2022 to 31 March 2022 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 2022	As at 31 December 2021
Poland	23 126	23 545
Canada	1 705	1 577
The United States of America	1 861	1 765
Chile	242	229
Other countries	33	94
TOTAL*	26 967	27 210

*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 10 335 million as at 31 March 2022 (PLN 9 813 million as at 31 December 2021).

Note 3.8 Information on segments' results

3.8.1 The segment KGHM Polska Miedź S.A.

Production results

	Unit	1 st quarter of 2022	1 st quarter of 2021	Change %
Ore extraction (dry weight)	mn t	7.7	7.5	+2.7
Copper content in ore	%	1.48	1.48	-
Copper production in concentrate	kt	100.0	96.9	+3.2
Silver production in concentrate	t	330.3	313.0	+5.5
Production of electrolytic copper	kt	151.1	146.4	+3.2
- including from own concentrate	kt	96.6	99.6	(3.0)
Production of metallic silver	t	339.8	298.6	+13.8
Production of gold	koz t	21.1	16.6	+27.1

In the first 3 months of 2022, there was an increase in ore extraction by 280.0 thousand tonnes (dry weight) as compared to the corresponding period of 2021. Copper content in ore decreased slightly as a result of lower content of the mined deposit. Copper production in concentrate amounted to 100.0 thousand tonnes and was higher by 3.1 thousand tonnes (+3.2%) as compared to the first 3 months of 2021. The increase in production was a result of higher extraction and processing of ore. As compared to the corresponding period of 2021, there was an increase in electrolytic copper production by 4.7 thousand tonnes. The increase in cathode production was a result of meeting the targets stipulated in the production plan for 2022. Metallic silver production amounted to 339.8 tonnes and was higher by 41.2 tonnes (+13.8%) as compared to the first quarter of 2021. The increase in metallic silver production was a result of higher availability of feed in the Precious Metals Plant. Metallic gold production amounted to 21.1 thousand troy ounces and was higher by 4.5 thousand troy ounces (+27.2%) as compared to the first quarter of 2021. The higher metallic gold production was a result of the higher amount of gold-bearing materials processed.

Sales

Revenues from contracts with customers

	Unit	1 st quarter of 2022	1 st quarter of 2021	Change %
Revenues from contracts with customers, including:	PLN mn	7 555	5 569	+35.7
- copper	PLN mn	5 824	4 300	+35.4
- silver	PLN mn	1 214	900	+34.9
Volume of copper sales	kt	143.2	136.6	+4.8
Volume of silver sales	t	380.5	278.8	+36.5

Revenues in the first quarter of 2022 amounted to PLN 7 555 million and were higher than in the corresponding prior year period by 36%. The main reasons for this increase in revenues were mainly higher prices of copper (+18%) and gold (+5%) alongside a more favourable USD/PLN exchange rate (+9%) as well as the higher volume of sales of copper (+5%) and silver (+36%).

Costs

	Unit	1 st quarter of 2022	1 st quarter of 2021	Change (%)
Cost of sales, selling costs and administrative expenses	PLN mn	5 953	4 210	+41.4
Expenses by nature	PLN mn	6 207	4 954	+25.3
Pre-precious metals credit unit cost of electrolytic copper production from own concentrate ¹⁾	PLN/t	33 492	28 095	+19.2
Total unit cost of electrolytic copper production from own concentrate	PLN/t	21 977	17 214	+27.7
C1 unit cost C1²⁾	USD/lb	2.40	1.93	+24.4

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 quarter of 2022 amounted to PLN 5 953 million and were higher by 41% as compared to the corresponding period of 2021, mainly due to higher sales of copper and silver products and higher costs, mainly due to higher purchase prices of materials (including purchased metal-bearing materials), fuels and energy.

In the first three months of 2022, total expenses by nature as compared to the corresponding period of 2021 were higher by PLN 1 253 million, alongside higher costs of consumption of purchased metal-bearing materials by PLN 537 million (due to the 36% higher purchase price alongside a lower by 1.7 thousand tonnes of copper volume of consumption) and a minerals extraction tax higher by PLN 126 million (due to an increase in copper price and weakening of the PLN versus USD).

The result of the higher tax due to higher prices, was partially offset by the statutory decrease of rates from 1 January to the end of November 2022 by 30%.

The increase in expenses by nature, excluding cost of consumption of purchased metal-bearing materials and the minerals extraction tax, amounted to PLN 590 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 (due to an increase in wage rates) as well as fees for emissions of CO₂.

C1 cost for the first three months of 2022 amounted to 2.40 USD/lb and was higher than in the corresponding period of 2021 by 24%. The increase in this cost was mainly due to higher costs of materials, fuels and energy, lower valuation of by-products due to the lower prices of silver and higher minerals extraction tax.

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 33 492 PLN/t (in the corresponding period of 2021: 28 095 PLN/t) and was higher by 19% mainly due to higher costs of materials, fuels and energy, higher minerals extraction tax and lower production from own concentrate by 3%. The pre-precious metals credit unit cost of electrolytic copper production from own concentrate, excluding the minerals extraction tax, amounted to 26 000 PLN/t (in the corresponding period of 2021: 22 767 PLN/t).

The total unit cost of electrolytic copper production from own concentrate amounted to 21 977 PLN/t and was higher than for the first quarter of 2021 by 28%, and after excluding the minerals extraction tax, this cost was at the level of 14 485 PLN/t (in the corresponding period of 2021: 11 886 PLN/t).

Financial results

In the first quarter of 2022, the Company recorded a profit for the period of PLN 1 325 million, or PLN 350 million higher than in the corresponding prior-year period.

Basic items of the statement of profit or loss (PLN million)

	1 st quarter of 2022	1 st quarter of 2021	Change (%)
Revenues from contracts with customers, including:	7 555	5 569	+35.7
- adjustment of revenues due to hedging transactions	(216)	(266)	(18.8)
Cost of sales, selling costs and administrative expenses	(5 953)	(4 210)	+41.4
Profit on sales (EBIT)	1 602	1 359	+17.9
Other operating income and (costs), including:	341	368	(7.3)
Interest on loans granted and other financial receivables	63	67	(6.0)
Realisation of derivatives	(64)	(113)	(43.4)
Measurement of derivatives	7	(67)	x
Exchange gains/(losses) on assets and liabilities other than borrowings	219	358	(38.8)
Reversal of impairment losses on financial instruments measured at amortised cost	53	14	x3.8
- including due to loans	53	4	x13.3
Fees and charges on re-invoicing of costs of bank guarantees securing the payment of liabilities	12	48	(75.0)
Fair value gains/(losses) on financial assets measured at fair value through profit or loss	20	70	(71.4)
- including due to loans	26	91	(71.4)
Other	31	(9)	x
Finance costs, including:	(105)	(302)	(65.2)
Exchange gains/(losses) on borrowings	(78)	(273)	(71.4)
Interest on borrowings	(15)	(18)	(16.7)
Measurement of derivatives	-	(1)	-
Other	(12)	(10)	+20.0
Profit before income tax	1 838	1 425	+29.0
Income tax expense	(513)	(450)	+14.0
Profit for the period	1 325	975	+35.9
Adjusted EBITDA¹	1 924	1 675	+14.8

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

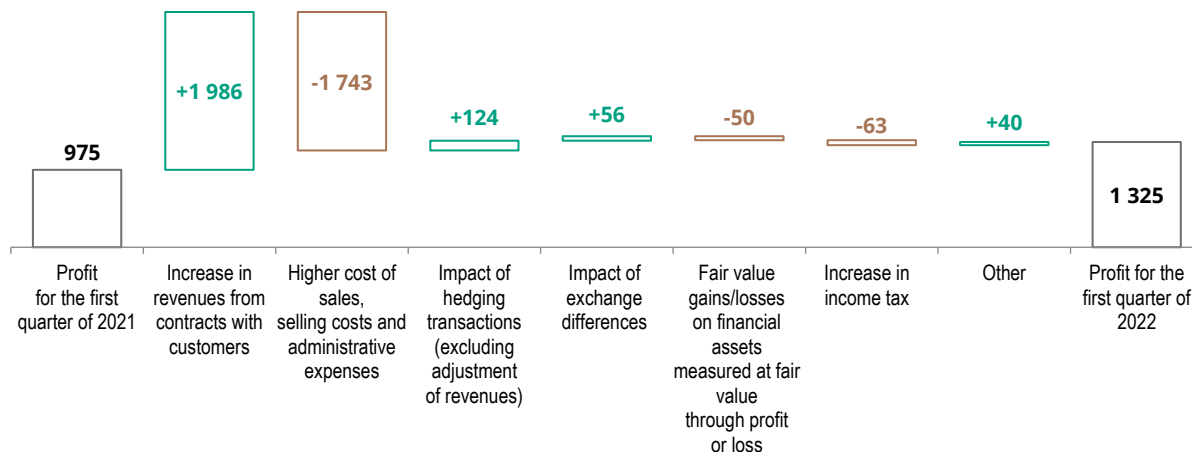
The main factors affecting the change in the financial result

<i>Item</i>	<i>Impact on change in result (PLN million)</i>	<i>Description</i>
	+696	An increase in revenues due to higher achieved prices of copper and gold
	+50	Change in the adjustment of revenues due to hedging transactions, from -PLN 266 million to -PLN 216 million
Increase in revenues from contracts with customers (+PLN 1 986 million)	+568	An increase in revenues from sales of basic products (copper, silver, gold) due to a more favourable average USD/PLN exchange rate (a change from 3.78 to 4.13 USD/PLN)
	+586	An increase in revenues due to a higher volume of sales of copper (+6.6 thousand tonnes, +5%), silver (+102 tonnes, +36%) and gold (+5.5 thousand troy ounces, +30%)
	+86	An increase in other revenues from sales, including from the sale of sulphuric acid (+PLN 37 million), rhenium (+PLN 12 million) and merchandise and materials (+PLN 27 million)
	(446)	A decrease in change in products and work in progress from -PLN 770 million in the first quarter of 2021 to -PLN 324 million in the first quarter of 2022
Increase in cost of sales, selling costs and administrative expenses¹ (-PLN 1 743 million)	(537)	An increase in costs of consumption of purchased metal-bearing materials due to a 36% higher purchase price, despite a decrease in consumption by 1.7 thousand tonnes of copper
	(760)	An increase in other operating costs by PLN 760 million, including expenses by nature by PLN 716 million, mainly due to increases of the following costs: consumption of materials other than purchased metal-bearing materials (by PLN 240 million), energy and energy carriers (by PLN 186 million), minerals extraction tax (by PLN 126 million) and other taxes and charges (by PLN 73 million)
Impact of derivatives and hedging transactions² (+PLN 124 million)	+123	Change in gains/losses on measurement and realisation of derivatives in other operating activities from -PLN 180 million to -PLN 57 million
	+1	Change in gains/losses on measurement and realisation of derivatives in financing activities from -PLN 1 million to PLN 0 million
Effect of exchange differences (+PLN 56 million)	(139)	Change in foreign exchange gains/losses on measurement of assets and liabilities other than borrowings – in other operating activities
	+195	Change in foreign exchange gains/losses on measurement of liabilities due to borrowings (presented in finance costs)
Fair value gains/(losses) on financial assets measured at fair value through profit or loss (-PLN 50 million)	(50)	Decrease in fair value gains/(losses) on financial assets measured at fair value through profit or loss from +PLN 70 million to +PLN 20 million, including due to loans from +PLN 91 million to + PLN 26 million
Reversal of impairment losses on financial instruments measured at amortised cost (+PLN 39 million)	+39	Increase in this item from +PLN 14 million to +PLN 53 million, including due to loans from +PLN 4 million to +PLN 53 million
Fees and charges on re-invoicing of costs of bank guarantees securing the payment of liabilities (-PLN 36 million)	(36)	Decrease in revenues generated in this item from PLN 48 million in the first quarter of 2021 to PLN 12 million in the first quarter of 2022
Increase in income tax (-PLN 63 million)	(63)	Increase in income tax mainly resulted from an increase in current income tax by PLN 40 million

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

²⁾ Excluding adjustment to revenues due to hedging transactions

Change in profit for the period (PLN million)



Capital expenditures

In the first quarter of 2022, expenditures on property, plant and equipment amounted to PLN 486 million and were higher by 9% than in the corresponding prior-year period.

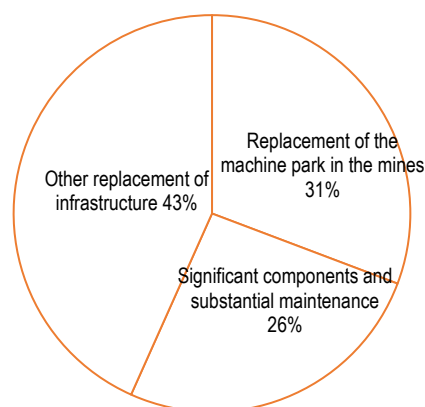
Structure of expenditures on property, plant and equipment and intangible assets (in PLN million)

	1st quarter of 2022	1st quarter of 2021	Change (%)
Mining	384	327	+17.0
Metallurgy	84	85	(1.2)
Other activities	5	15	(33.3)
Development work - uncompleted	4	1	x4.0
Leases per IFRS 16	9	19	(47.0)
Total	486	447	9.0%
<i>including borrowing costs</i>	46	31	48.0%

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

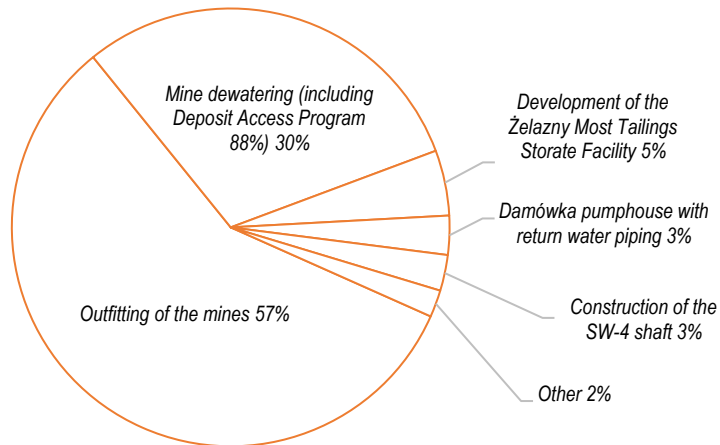
Projects related to replacement aimed at maintaining production equipment in an undeteriorated condition, represent 35% of total expenditures incurred.

Structure of expenditures on replacement:



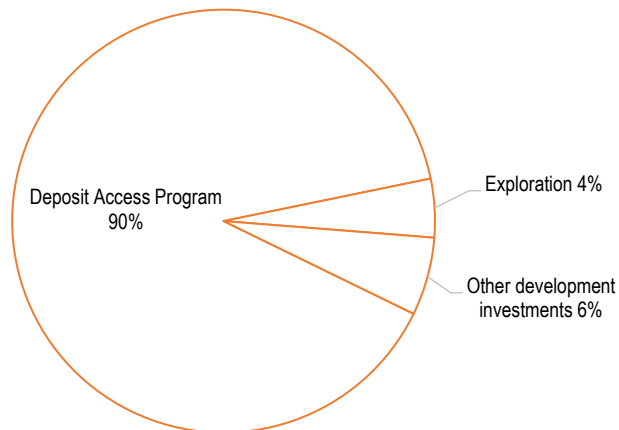
Projects related to maintenance aimed at maintaining mine production at the level set in the approved Production Plan (development of infrastructure to match mine advancement) represent 35% of total expenditures incurred.

Structure of expenditures on maintenance:



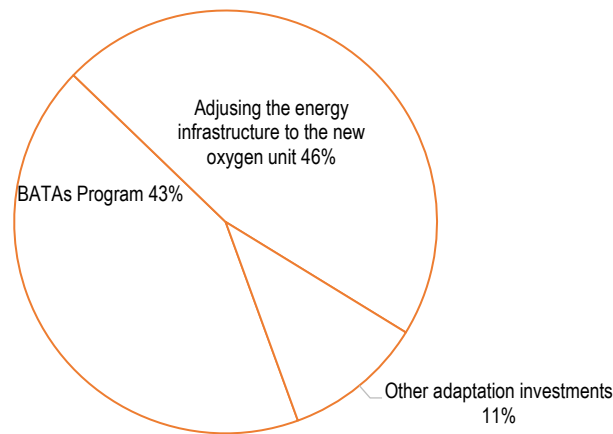
Development projects aimed at increasing the production volume of the core business, implementation of technical and technological activities optimising the use of existing infrastructure, maintaining production costs and adaptation of the company's operations to changes in standards, laws and regulations (adaptation projects and those related to environmental protection) represent 28% of total expenditures incurred.

Structure of expenditures on development:



Adaptation projects aimed at adjusting the company's activities to obligations under the law, applicable standards or other regulations, in particular in the area of occupational health and safety, property protection, cybersecurity, ethical and anticorruption standards, environmental protection, quality standards and management systems by the construction of new or reinforcement of current infrastructure by new technical, technological and IT solutions, represent 2% of total expenditures incurred.

Structure of adaptation expenditures:



Detailed information on the advancement of key projects may be found in part 1, Note 2 of these consolidated financial statements in the section on advancement of the Strategy in 2022.

3.8.2 The segment KGHM INTERNATIONAL LTD.

Production results

	Unit	1 st quarter of 2022	1 st quarter of 2021	Change (%)
Payable copper, including:	kt	18.2	16.2	+12.3
- Robinson mine (USA)	kt	14.3	11.9	+20.2
- Franke mine (Chile)	kt	2.3	2.6	(11.5)
- Sudbury Basin mines (Canada) ⁽¹⁾	kt	0.4	0.5	(20.0)
Payable nickel	kt	0.1	0.1	0.0
Precious metals (TPM), including:	koz t	15.1	12.2	+23.8
- Robinson mine (USA)	koz t	12.3	8.7	+41.4
- Sudbury Basin mines (Canada) ⁽¹⁾	koz t	2.8	3.5	(20.0)

1) *McCreeedy West mine*

Copper production in the segment KGHM INTERNATIONAL LTD. in the first quarter of 2022 amounted to 18.2 thousand tonnes and was higher than the level achieved in the corresponding period of 2021 by 2.0 thousand tonnes, of which 2.4 thousand tonnes was due to the higher production in the Robinson and Carlota mines, while 0.4 thousand tonnes was a result of lower production in other assets of the KGHM International Ltd. segment (Franke and Sudbury).

Geologic conditions (mining in areas with higher copper and gold content) and higher recovery of these metals were main factors contributing to the increase in copper (+20%) and gold (+41%) production in the Robinson mine. The increase in production was achieved alongside a slightly lower than in 2021 volume of processed ore.

Revenues

Volume and sales revenue

	Unit	1 st quarter of 2022	1 st quarter of 2021	Change (%)
Revenues from contracts with customers ⁽¹⁾ , including:	USD mn	210	197	+6.6
- copper	USD mn	145	143	+1.4
- nickel	USD mn	4	2	x2.0
- TPM – precious metals	USD mn	26	23	+13.0
Copper sales volume	kt	14.0	17.4	(19.0)
Nickel sales volume	kt	0.1	0.1	0.0
TPM sales volume – precious metals	koz t	11.0	12.0	(8.3)

1) *Reflects processing premium*

Sales revenue

	Unit	1 st quarter of 2022	1 st quarter of 2021	Change (%)
Revenues from contracts with customers ⁽¹⁾ , including:	PLN mn	876	750	+16.8
- copper	PLN mn	605	544	+11.2
- nickel	PLN mn	15	8	+87.5
- TPM – precious metals	PLN mn	108	88	+22.7

¹⁾ Reflects processing premium

The sales revenue of the segment KGHM INTERNATIONAL LTD. in the first quarter of 2022 amounted to USD 210 million, or an increase by USD 13 million (+7%) compared to the level achieved in the previous year. Consequences arising from the lower volume of copper sales were balanced by the result arising from higher metal prices. Among other factors, the following had the greatest impact on the increase in revenues: higher revenues from mining services provided by DMC Mining Services, more favourable level of refining premiums and a decrease in deferred settlements.

The 19% decrease in sales volume of copper was mostly a result of realisation of the schedule of concentrate sales by the Robinson mine (production of payable copper was higher than the one achieved in the first quarter of 2021).

Costs

C1 payable copper production cost

	Unit	1 st quarter of 2022	1 st quarter of 2021	Change (%)
C1 payable copper production cost ⁽¹⁾	USD/lb	2.23	2.32	(3.9)

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

Cash cost of copper production for all mines in the segment KGHM INTERNATIONAL LTD. in the first quarter of 2022 amounted to 2.23 USD/lb and was lower by nearly 4% as compared to the corresponding period of 2021. This improvement was achieved alongside lower copper production volume of copper than in the previous year. Robinson mine had the greatest impact on the decrease in the C1 cost, mainly due to higher deductions due to sales of gold arising from higher prices of this metal.

Financial performance

Financial results (USD million)

	1 st quarter of 2022	1 st quarter of 2021	Change (%)
Revenues from contracts with customers	210	197	+6.6
Cost of sales, selling costs and administrative expenses, including: ⁽¹⁾	(150)	(166)	(9.6)
- (recognition)/reversal of impairment losses on non-current assets	-	1	x
Profit/(loss) on sales	60	31	+93.5
Profit/(loss) before taxation	106	(6)	x
Income tax	(12)	(2)	x 6.0
Profit/(loss) for the period	94	(9)	x
Depreciation/amortisation recognised in profit or loss	(26)	(33)	(21.2)
Adjusted EBITDA⁽²⁾	87	63	+38.1

Financial results (PLN million)

	1 st quarter of 2022	1 st quarter of 2021	Change (%)
Revenues from contracts with customers	876	750	+16.8
Cost of sales, selling costs and administrative expenses, including: ⁽¹⁾	(625)	(634)	(1.5)
- (recognition)/reversal of impairment losses on non-current assets	-	4	x
Profit/(loss) on sales	251	116	x 2.2
Profit/(loss) before taxation	440	(25)	x
Income tax	(50)	(8)	x 6.3
Profit/(loss) for the period	390	(33)	x
Depreciation/amortisation recognised in profit or loss	(110)	(126)	(12.7)
Adjusted EBITDA⁽²⁾	361	238	+51.7

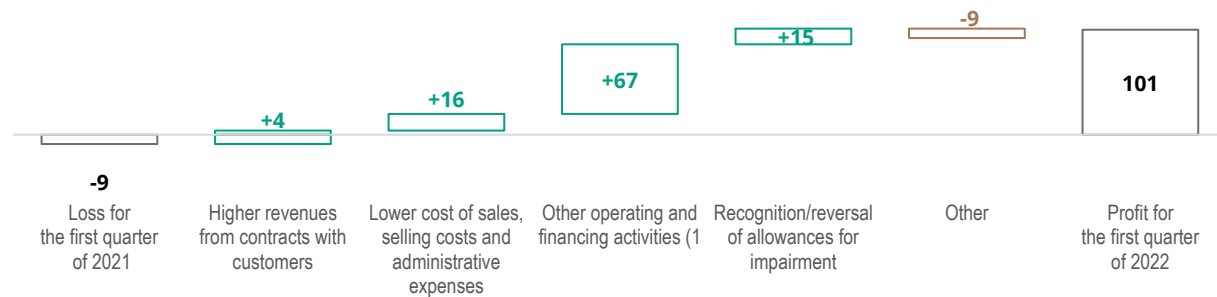
¹⁾ Cost of products, merchandise and materials sold, selling costs and administrative expenses

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 from contracts with customers (+USD 13 million)	+39	Higher revenues due to higher prices of basic products, including copper +USD 36 million
	(39)	Lower revenues due to lower sales volume, including copper (-USD 37 million)
	+5	Higher revenues of companies operating under the DMC brand
	+4	Lower deductions due to refining premiums
	+4	Other factors
Lower cost of sales, selling costs and administrative expenses (+USD 16 million)	+20	Lower depreciation/amortisation (mainly the Robinson mine)
	(6)	Higher costs of materials and energy
	(2)	Higher labour costs
	(3)	Higher administrative expenses
	(2)	Higher costs to sell
	+10	Change in inventories
Impact of other operating activities and financing activities (+USD 82 million)	(1)	Other factors
	+15	Reversal of an allowance for impairment of loans granted for the construction of the Sierra Gorda mine
	+19	Higher interest on a loan granted to Sierra Gorda S.C.M. as a result of a reversal of allowance for impairment
	+35	Gain on disposal of the Oxide Project to Sierra Gorda S.C.M.
Income tax (-USD 10 million)	+13	Other factors, mostly lower interest and exchange gains.
	(10)	Higher tax, mainly as a result of improved operating results of the Robinson mine.

Change in profit or loss (USD million)



¹⁾ Excluding recognition/reversal of allowances for impairment on loans granted for the construction of the Sierra Gorda mine

Cash expenditures

Cash expenditures (USD million)	1 st quarter of 2022	1 st quarter of 2021	Change (%)
Victoria project	10	4	x2.5
Stripping and other	53	42	+21.4
Total	63	45	+40.0

Cash expenditures (PLN million)	1 st quarter of 2022	1 st quarter of 2021	Change (%)
Victoria project	44	15	x2.9
Stripping and other	219	158	+35.4
Total	263	173	+52.0

Cash expenditures by the segment KGHM INTERNATIONAL LTD. in the first quarter of 2022 amounted to USD 63 million, or an increase by USD 18 million (+40%) as compared to the corresponding period of 2021. This increase concerned mainly expenditures on the advancement of the Victoria project.

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.) and the Australian mining group South 32, which on 22 February 2022 acquired shares of Sumitomo Metal Mining and Sumitomo Corporation. The following production and financial data are for the 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 of the consolidated financial statements.

Production results

Sierra Gorda S.C.M. increased production of copper compared to production in the first quarter of 2021 by 4%.

Production of copper, molybdenum and precious metals

	Unit	1 st quarter of 2022	1 st quarter of 2021	Change (%)
Copper production ⁽¹⁾	kt	43.4	41.6	+4.3
Copper production – segment (55%)	kt	23.9	22.9	+4.3
Molybdenum production ⁽¹⁾	mn lbs	2.1	3.5	(40.0)
Molybdenum production – segment (55%)	mn lbs	1.2	1.9	(40.0)
TPM production – gold ⁽¹⁾	koz t	12.1	12.1	0.0
TPM production – gold -segment (55%)	koz t	6.6	6.6	0.0

¹⁾ Payable metal in concentrate.

Efficiency ratio of utilisation of assets improved as compared to the situation from the first quarter of 2021, and therefore it was possible to increase the volume of ore processed by nearly 13%. Copper recovery increased as well. A significant decrease in molybdenum production was due to a realisation of mining plan in areas with lower molybdenum content as compared to the first quarter of 2021.

Sales

Revenues from sales in the first quarter of 2022 amounted to USD 521 million (on a 100% basis), or PLN 1 194 million proportionally to the interest held in the company Sierra Gorda S.C.M. (55%).

Sales volume and revenues

	Unit	1 st quarter of 2022	1 st quarter of 2021	Change (%)
Revenues from contracts with customers,⁽¹⁾ including from the sale of:	USD mn	521	449	+16.0
- copper	USD mn	459	365	+25.8
- molybdenum	USD mn	30	51	(41.2)
- TPM (gold)	USD mn	23	21	+9.5
Copper sales volume	kt	43.4	39.4	+10.2
Molybdenum sales volume	mn lbs	1.6	4.2	(61.9)
TPM (gold) sales volume	koz t	13.8	12.2	+13.1
Revenues from contracts with customers⁽¹⁾ - segment (55% share)	PLN mn	1 194	942	+26.8

¹⁾ Reflects metallurgical and refining processing premium and other

The increase in revenues as compared to the level achieved in the corresponding period of 2021 by USD 72 million is mostly a result of favourable conditions on the commodity market (higher prices), which contributed to the increase in revenues by USD 88 million (including the MtM measurement). A significant factor which contributed to the increase in revenues was the higher volume of copper sales (+USD 40 million). Since ore with lower molybdenum content was processed, the volume of sales of this metal decreased, and therefore revenues decreased by USD 52 million. A decrease in revenues in this regard was offset by the increase in prices of this metal (+USD 36 million).

The detailed impact of individual factors on changes in revenues was presented in the part 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 273 million, including cost of sales of USD 238 million and total selling costs and administrative expenses of USD 36 million. The costs of the segment, proportionally to the interest held (55%), amounted to PLN 626 million.

Costs and payable copper production cost (C1)

	Unit	1 st quarter of 2022	1 st quarter of 2021	Change (%)
Cost of sales, selling costs and administrative expenses	USD mn	273	234	+16.7
Cost of sales, selling costs and administrative expenses – segment (55% share)	PLN mn	626	490	+27.8
C1 payable copper production cost¹⁾	USD/lb	1.35	0.93	+45.2

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 period from January to March 2021, the cost of sales, selling costs and administrative expenses expressed in USD million was higher by USD 39 million (+17%). The increase was mainly in respect of depreciation/amortisation due to reversal of impairment losses recognised at the end of 2021 and costs of energy, fuels and materials (higher prices). Due to the lower amount of shutdowns caused by breakdowns, the cost of spare parts was lower. Capitalised stripping costs amounted to USD 24 million as compared to USD 49 million in the first quarter of 2021. The aforementioned factors contributed to the increase in cash cost of payable copper production (C1) by 45%. Lower production volume of molybdenum and the resulting lower deductions due to the sale of associated metals also had a negative impact.

Financial results

In the first quarter of 2022, adjusted EBITDA amounted to USD 358 million, of which proportionally to the interest held (55%) PLN 821 million is attributable to the KGHM Polska Miedź S.A. Group.

Results in USD million (on a 100% basis)

	1 st quarter of 2022	1 st quarter of 2021	Change (%)
Revenues from contracts with customers	521	449	+16.0
Cost of sales, selling costs and administrative expenses	(273)	(234)	+16.7
Profit/(loss) on sales	248	215	+15.3
Profit/(loss) for the period	104	76	+36.8
Depreciation/amortisation recognised in profit or loss	(110)	(91)	+20.9
Adjusted EBITDA¹⁾	358	306	+17.0

Results proportionally to the interest held (55%) in PLN million

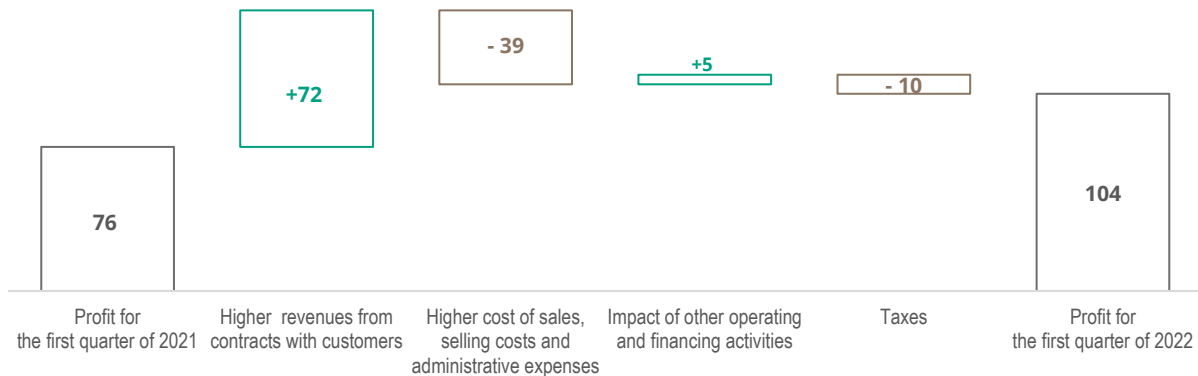
	1 st quarter of 2022	1 st quarter of 2021	Change (%)
Revenues from contracts with customers	1 194	942	+26.8
Cost of sales, selling costs and administrative expenses	(626)	(490)	+27.8
Profit/(loss) on sales	568	452	+25.7
Profit/(loss) for the period	239	160	+49.4
Depreciation/amortisation recognised in profit or loss	(253)	(191)	+32.5
Adjusted EBITDA¹⁾	821	643	+27.7

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 profit or loss

Item (impact on the results)	Impact on change of profit or loss (in USD million)	Description
Higher revenues from contracts with customers (+USD 72 million)	+98	Copper – higher revenues due to higher sales prices (+USD 58 million including the Mark to Market adjustment), higher sales volume (+USD 40 million)
	(21)	Molybdenum – lower revenues due to lower sales volume (-USD 52 million) alongside higher sales prices (+USD 31 million including the Mark to Market adjustment)
	(5)	Other factors, including mostly higher refining and processing premiums adjusting the revenues (-USD 4 million)
Higher cost of sales, selling costs and administrative expenses (-USD 39 million)	(19)	Higher depreciation/amortisation
	(32)	Higher costs of energy, fuels and materials
	+3	Lower costs of spare parts
	(25)	Lower capitalised stripping costs
	+42	Impact of changes in inventories and work in progress
	(8)	Change in other items of expenses by nature
Impact of other operating and financing activities (+USD 5 million)	+5	Mainly lower interest cost due to a loan drawn from the Owners for the mine construction
Impact of taxation (-USD 10 million)	(10)	Higher income tax -USD 12 million (profit before income tax USD 157 million versus USD 119 million in the first quarter of 2021)
		Other +USD 2 million, including mining tax

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



Cash expenditures

In the period from January to March 2022, 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 149 million, of which USD 21 million (14%), represented expenditures on stripping to gain access to further areas of the deposit.

Cash expenditures

	Unit	1 st quarter of 2022	1 st quarter of 2021	Change (%)
Cash expenditures on property, plant and equipment	USD mn	149	70	x2.1
Cash expenditures on property, plant and equipment – segment (55% share)	PLN mn	342	147	x2.3

The level of cash expenditures was two times higher than in the corresponding period of 2021 due to the acquisition of the Oxide project from KGHM International Ltd., investments in mining equipment and realisation of the program to increase processing capacity. However, there was a decrease in expenditures with respect to capitalised stripping costs due to lower scope of the performed work.

In the first quarter of 2022, the Company did not make use of financing in the form of increases in the share capital, however it transferred cash towards the Owners due to the repayment of a loan drawn for the mine construction. The total transferred amount is USD 200 million, of which USD 110 million is attributable to the KGHM Polska Miedź S.A. Group.

4 – Selected additional explanatory notes

Note 4.1 Expenses by nature

	from 1 January 2022 to 31 March 2022	from 1 January 2021 to 31 March 2021
Depreciation of property, plant and equipment and amortisation of intangible assets	578	623
Employee benefits expenses	1 578	1 486
Materials and energy, including:	3 886	2 740
purchased materials	2 204	1 667
External services	528	469
Minerals extraction tax	844	718
Other taxes and charges	320	220
Revaluation of inventories	(4)	(10)
Impairment losses on property, plant and equipment and intangible assets	-	3
Other costs	41	36
Total expenses by nature	7 771	6 285
Cost of merchandise and materials sold (+)	243	164
Change in inventories of finished goods and work in progress (+/-)	(412)	(799)
Cost of manufacturing products for internal use of the Group (-)	(410)	(347)
Total costs of sales, selling costs and administrative expenses, of which:	7 192	5 303
Cost of sales	6 831	4 970
Selling costs	123	109
Administrative expenses	238	224

Note 4.2 Other operating income and (costs)

	from 1 January 2022 to 31 March 2022	from 1 January 2021 to 31 March 2021
Gains on derivatives, of which:	95	105
measurement of derivatives	89	104
realisation of derivatives	6	1
Interest income calculated using the effective interest rate method	4	1
Exchange differences on assets and liabilities other than borrowings	389	709
Reversal of impairment losses on financial instruments	1	12
Provisions released	14	8
Gains on disposal of intangible assets	135	-
Gains on disposal of property, plant and equipment	-	51
Gains on disposal of subsidiaries	38	-
Income from servicing of letters of credit and guarantees	11	51
Other	75	44
Total other operating income	762	981
Losses on derivatives, of which:	(151)	(290)
measurement of derivatives	(82)	(176)
realisation of derivatives	(69)	(114)
Fair value losses on financial assets	(7)	(21)
Impairment losses on financial instruments	(1)	(1)
Provisions recognised	(7)	(25)
Losses on disposal of property, plant and equipment	(2)	-
Donations given	(6)	(3)
Other	(21)	(16)
Total other operating costs	(195)	(356)
Other operating income and (costs)	567	625

Note 4.3 Finance costs

	from 1 January 2022 to 31 March 2022	from 1 January 2021 to 31 March 2021
Interest on borrowings, including:	(16)	(21)
leases	(4)	(4)
Unwinding of the discount effect on provisions	(4)	(4)
Exchange gains/(losses) on measurement and realisation of borrowings	(64)	(260)
Losses on derivatives - measurement of derivatives	-	(1)
Bank fees and charges on borrowings	(8)	(9)
Other	(15)	(7)
Total finance costs	(107)	(302)

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

	from 1 January 2022 to 31 March 2022	from 1 January 2021 to 31 March 2021
Purchase of property, plant and equipment, including:	827	653
leased assets	75	7
Purchase of intangible assets	56	51

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

	As at 31 March 2022	As at 31 December 2021
Payables due to the purchase of property, plant and equipment and intangible assets	432	835

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

	As at 31 March 2022	As at 31 December 2021
Purchase of property, plant and equipment	1 223	1 056
Purchase of intangible assets	24	26
Total capital commitments	1 247	1 082

Note 4.5 Involvement in joint ventures**Joint venture Sierra Gorda S.C.M. accounted for using the equity method**

	from 1 January 2022 to 31 March 2022	from 1 January 2021 to 31 March 2021
As at the beginning of the reporting period	-	-
Share of net profit of joint ventures accounted for using the equity method	239	160
Settlement of the Group's share of unsettled losses from prior years (accumulated comprehensive losses)	(221)	30
Exchange differences from the translation of statements of operations with a functional currency other than PLN	(18)	(190)
As at the end of the reporting period	-	-

The Group's unrecognised share of losses of Sierra Gorda S.C.M.

	from 1 January 2022 to 31 March 2022	from 1 January 2021 to 31 December 2021
As at the beginning of the reporting period	(1 283)	(4 203)
Settlement of the Group's share of unsettled losses from prior years (accumulated comprehensive losses)	221	2 920
Unrecognised adjustment due to unrealised gains on a transaction between the Group and the joint venture (sale of the SG Oxide project)	(74)	-
As at the end of the reporting period	(1 136)	(1 283)

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

	from 1 January 2022 to 31 March 2022	from 1 January 2021 to 31 December 2021
As at the beginning of the reporting period	8 314	6 069
Repayment of loans	(431)	(1 259)
Accrued interest	183	494
Gains due to the reversal of allowances for impairment	64*	2 380
Exchange differences from the translation of statements of operations with a functional currency other than PLN	218	630
As at the end of the reporting period	8 348	8 314

*Mainly due to better than planned as at 31 December 2021 actual free cash flows in the first quarter of 2022 and a resulting subsequent repayment of a part of a loan in the reporting period in the amount of USD 110 million.

Note 4.6 Financial instruments

Financial assets	As at 31 March 2022					As at 31 December 2021				
	At fair value through other comprehensive income	At fair value through profit or loss	At amortised cost	Hedging instruments	Total	At fair value through other comprehensive income	At fair value through profit or loss	At amortised cost	Hedging instruments	Total
Non-current	664	33	8 891	526	10 114	615	32	8 366	585	9 598
Loans granted to a joint venture	-	-	8 348	-	8 348	-	-	7 867	-	7 867
Derivatives	-	10	-	526	536	-	10	-	585	595
Other financial instruments measured at fair value	664	23	-	-	687	615	22	-	-	637
Other financial instruments measured at amortised cost*	-	-	543	-	543	-	-	499	-	499
Current	-	962	3 999	179	5 140	-	632	2 920	249	3 801
Loans granted to a joint venture	-	-	-	-	-	-	-	447	-	447
Trade receivables*	-	932	481	-	1 413	-	627	397	-	1 024
Derivatives	-	13	-	179	192	-	5	-	249	254
Cash and cash equivalents*	-	-	3 355	-	3 355	-	-	1 904	-	1 904
Other financial assets	-	17	163	-	180	-	-	172	-	172
Total	664	995	12 890	705	15 254	615	664	11 286	834	13 399

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

Financial liabilities	As at 31 March 2022				Total	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	45	5 020	1 118	6 183	78	5 696	1 056	6 830	
Borrowings, leases and debt securities	-	4 809	-	4 809	-	5 475	-	5 475	
Derivatives	45	-	1 118	1 163	78	-	1 056	1 134	
Other financial liabilities	-	211	-	211	-	221	-	221	
Current	172	4 142	1 066	5 380	200	3 587	848	4 635	
Borrowings, leases and debt securities*	-	1 147	-	1 147	-	474	-	474	
Derivatives	83	-	1 066	1 149	41	-	848	889	
Trade payables*	-	2 820	-	2 820	-	2 919	-	2 919	
Similar payables – reverse factoring	-	85	-	85	-	95	-	95	
Other financial liabilities	89	90	-	179	159	99	-	258	
Total	217	9 162	2 184	11 563	278	9 283	1 904	11 465	

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

Financial assets - held for sale (disposal group)	As at 31 March 2022		Total
	At fair value through profit or loss	At amortised cost	
Non-current	-	3	3
Other financial instruments measured at amortised cost	-	3	3
Current	8	18	26
Trade receivables	8	-	8
Cash and cash equivalents	-	18	18
Total	8	21	29

Financial liabilities - liabilities related to disposal group	As at 31 March 2022		Total
	At amortised cost		
Current	49		49
Borrowings, lease and debt securities	2		2
Trade payables	47		47
Total	49		49

Financial assets – excluding assets held for sale (disposal group)	As at 31 March 2022				Total
	At fair value through other comprehensive income	At fair value through profit or loss	At amortised cost	Hedging instruments	
Non-current	664	33	8 888	526	10 111
Loans granted to a joint venture	-	-	8 348	-	8 348
Derivatives	-	10	-	526	536
Other financial instruments measured at fair value	664	23	-	-	687
Other financial instruments measured at amortised cost	-	-	540	-	540
Current	-	954	3 981	179	5 114
Trade receivables	-	924	481	-	1 405
Derivatives	-	13	-	179	192
Cash and cash equivalents	-	-	3 337	-	3 337
Other financial assets	-	17	163	-	180
Total	664	987	12 869	705	15 225

Financial liabilities – excluding liabilities related to disposal group	As at 31 March 2022			Total
	At fair value through profit or loss	At amortised cost	Hedging instruments	
Non-current	45	5 020	1 118	6 183
Borrowings, lease and debt securities	-	4 809	-	4 809
Derivatives	45	-	1 118	1 163
Other financial liabilities	-	211	-	211
Current	172	4 093	1 066	5 331
Borrowings, lease and debt securities	-	1 145	-	1 145
Derivatives	83	-	1 066	1 149
Trade payables	-	2 773	-	2 773
Similar payables – reverse factoring	-	85	-	85
Other financial liabilities	89	90	-	179
Total	217	9 113	2 184	11 514

The fair value hierarchy of financial instruments

Classes of financial instruments	As at 31 March 2022				As at 31 December 2021			
	fair value			carrying amount	fair value			carrying amount
	level 1	level 2	level 3		level 1	level 2	level 3	
Long-term loans granted	-	23	8 147*	8 371	-	22	8 193	8 336
Listed shares	565	-	-	565	516	-	-	516
Unquoted shares	-	-	99	99	-	99	-	99
Trade receivables	-	932	-	932	-	627	-	627
Derivatives, of which:	-	(1 584)	-	(1 584)	-	(1 174)	-	(1 174)
Assets	-	728	-	728	-	849	-	849
Liabilities	-	(2 312)	-	(2 312)	-	(2 023)	-	(2 023)
Received long-term bank and other loans	-	(2 242)	-	(2 230)	-	(2 913)	-	(2 901)
Long-term debt securities	(1 993)	-	-	(2 000)	(2 034)	-	-	(2 000)
Other financial liabilities	-	(89)	-	(89)	-	(159)	-	(159)

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

The Group does not disclose the fair value of financial instruments measured at amortised cost in the statement of financial position (except for loans granted, long-term bank and other loans received and long-term debt securities), because it makes use of the exemption arising from IFRS 7.29 (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**

Loans granted measured at amortised cost in the statement of financial position are included in this category, because of the use of unobservable assumptions in the fair value measurement. With respect to estimating the fair value of these loans, a significant element of the estimation are the forecasted cash flows of Sierra Gorda S.C.M., which are unobservable input data, and pursuant to IFRS 13 the fair value of these assets is classified to level 3 of the hierarchy. The discount rate adopted to calculate the fair value of loans measured at amortised cost is 7.5%.

The forecasted cash flows of Sierra Gorda S.C.M. which are the basis for the estimation of fair value of loans measured at amortised cost are the most sensitive to changes in copper prices, which implies other assumptions such as forecasted production and operating margin. Therefore the Group performed a sensitivity analysis of the fair value of loans to changes in copper prices, pursuant to IFRS 13 p.93.f.

Scenarios	Copper prices [USD/t]					LT
	2022	2023	2024	2025	2026	
Base	8 500	8 000	7 500	7 500	7 500	7 000
Base minus 0.1 USD/lb during mine life (220 USD/tonne)	8 280	7 780	7 280	7 280	7 280	6 780
Base plus 0.1 USD/lb during mine life (220 USD/tonne)	8 720	8 220	7 720	7 720	7 720	7 220

Classes of financial instruments	Carrying Amount	Fair value*	Sensitivity analysis of the fair value to changes in copper price	
			Base plus 0.1 USD/lb during mine life	Base minus 0.1 USD/lb during mine life
	31 March 2022			
Loans granted measured at amortised cost	8 348	8 147**	8 899	7 390

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

** USD 1 949 million

The above approximate estimation of the fair value of cash flows available for the repayment of loans granted to Sierra Gorda S.C.M. was prepared on the basis of the total cash flows available to Sierra Gorda S.C.M. (55% attributable to the KGHM Group).

Business scenarios assumed by the Parent Entity's Management Board to measure the carrying amount of loans adopt a conservative approach, among others as to the moment the cash flows occur, and assuming that not all of the cash flows generated by Sierra Gorda S.C.M. will be used to repay the loans. Pursuant to the equity method, as at 31 March 2022 the Group measures the value of the interest in Sierra Gorda S.C.M. at the level of 0.

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

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

In the opinion of the Management Board, the value of loans estimated by the Group does not differ significantly from the value that would be determined by reference to the transaction price.

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

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 KGHM Group and on the items in the statement of comprehensive income is presented below:

STATEMENT OF PROFIT OR LOSS	from 1 January 2022 to 31 March 2022	from 1 January 2021 to 31 March 2021
Revenues from contracts with customers	(216)	(266)
Other operating income / (costs):	(56)	(185)
on realisation of derivatives	(63)	(113)
on measurement of derivatives	7	(72)
Finance income / (costs):	-	(1)
on measurement of derivatives	-	(1)
Impact of derivatives and hedging instruments on profit or loss for the period (excluding the tax effect)	(272)	(452)
STATEMENT OF OTHER COMPREHENSIVE INCOME		
Measurement of hedging transactions (effective portion)	(631)	(1 314)
Reclassification to revenues from contracts with customers due to realisation of a hedged item	216	266
Reclassification to other operating costs due to realisation of a hedged item (settlement of the hedging cost)	63	105
Impact of hedging transactions (excluding the tax effect)	(352)	(943)
TOTAL COMPREHENSIVE INCOME	(624)	(1 395)

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 2022, copper sales of the Parent Entity amounted to 143 thousand tonnes (net sales of 93 thousand tonnes)¹, while the notional amount of copper price hedging strategies settled in this period amounted to 32.25 thousand tonnes, which represented approx. 23% of the total sales of this metal realised by the Parent Entity and approx. 35% of net sales in this period (in the first quarter of 2021, 56% and 90% respectively). However, the notional amount of settled silver price hedging transactions represented approx. 21% of sales of this metal by the Parent Entity (in the first quarter of 2021, 28%). In the case of currency transactions, approx. 5% of revenues from copper and silver sales realised by the Parent Entity in the first quarter of 2022 were hedged (22% - in the first quarter of 2021).

As part of the realisation of the strategic plan to hedge the Parent Entity against market risk, in the first quarter of 2022 transactions were implemented on the forward currency market. Put options were purchased for USD 135 million of planned sales revenues with maturity periods from April to December 2022.

In the first quarter of 2022, the Parent Entity did not enter into any derivatives transactions on the forward copper, silver and interest rate markets.

In the first quarter of 2022, QP adjustment swap transactions were entered into on the copper and gold markets with maturity to December 2022, as part of the management of a net trading position².

As at 31 March 2022, the Parent Entity held an open derivatives position for 226.88 thousand tonnes of copper (of which 210.75 thousand tonnes arose from the strategic management of market risk, while 16.13 thousand tonnes came from the management of a net trading position), 11.85 million troy ounces of silver, and USD 1 016 million of planned revenues from sales of metals. Furthermore, as at 31 March 2022 the Parent Entity had bank and other loans with fixed interest rates and

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

² Applied in order to react to changes in contractual arrangements with customers, non-standard pricing terms as regards metals sales and the purchase of copper-bearing materials.

open Cross Currency Interest Rate Swap (CIRS) transactions in the notional amount of PLN 2 billion, hedging both the sales revenues in the currency, as well as the variable interest rate of issued bonds. 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 2022, the bank and investment loans which were drawn in USD, following their translation to PLN, amounted to PLN 2 997 million (as at 31 December 2021: PLN 2 980 million).

In the first quarter of 2022, 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 2022.

Moreover, 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 at 31 March 2022 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 2022, 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 restructuring consistent with instrument, strike price, notional and maturity period.

Hedging against copper price risk – open derivatives as at 31 March 2022

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			
		<i>hedge limited to</i> [USD/t]	<i>copper price hedging</i> [USD/t]	<i>participation limited to</i> [USD/t]			
2nd quarter	seagull	15 000	4 600	6 300	7 500	(160)	6 140
	seagull	12 000	5 200	6 900	8 300	(196)	6 704
	seagull	3 000	6 700	9 200	11 400	(210)	8 990
	seagull	2 250	6 700	9 400	11 600	(250)	9 150
2nd half	seagull	30 000	4 600	6 300	7 500	(160)	6 140
	seagull	24 000	5 200	6 900	8 300	(196)	6 704
	seagull	15 000	6 000	9 000	11 400	(248)	8 752
	seagull	6 000	6 700	9 200	11 400	(210)	8 990
	seagull	4 500	6 700	9 400	11 600	(250)	9 150
TOTAL IV-XII 2022	111 750						
1st half	seagull	24 000	5 200	6 900	8 300	(196)	6 704
	seagull	15 000	6 000	9 000	11 400	(248)	8 752
	seagull	6 000	6 700	9 200	11 400	(210)	8 990
	seagull	4 500	6 700	9 400	11 600	(250)	9 150
2nd half	seagull	24 000	5 200	6 900	8 300	(196)	6 704
	seagull	15 000	6 000	9 000	11 400	(248)	8 752
	seagull	6 000	6 700	9 200	11 400	(210)	8 990
	seagull	4 500	6 700	9 400	11 600	(250)	9 150
TOTAL 2023	99 000						

Hedging against silver price risk – open derivatives as at 31 March 2022

	Instrument/ option structure	Notional [mn ounces]	Option strike price			Average weighted premium [USD/ounce]	Effective hedge price [USD/ ounce]
			sold put option	purchased put option	sold call option		
			<i>hedge limited to</i> [USD/ ounce]	<i>silver price hedging</i> [USD/ ounce]	<i>participation limited to</i> [USD/ ounce]		
IV-XII 2022	seagull	2.70	16.00	26.00	42.00	(0.88)	25.12
	collar	1.80	-	27.00	55.00*	(2.08)	24.92
	collar	3.15	-	26.00	55.00*	(1.89)	24.11
	TOTAL IV-XII 2022	7.65					
2023	seagull	4.20	16.00	26.00	42.00	(1.19)	24.81
	TOTAL 2023	4.20					

* As part of restructuring in 2021 the strike price of sold call options was increased from 42 and 43 USD/ounce to 55 USD/ounce.

Hedging against USD/PLN currency risk – open derivatives as at 31 March 2022

	Instrument/ option structure	Notional [USD mn]	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]		
2nd quarter	seagull	33.75	3.30	4.00	4.60	(0.01)	3.99
	seagull	45.00	3.50	3.90	4.50	0.04	3.94
	purchased put option	90.00	-	3.75	-	(0.05)	3.70
	purchased put option	45.00	-	4.00	-	(0.05)	3.95
2nd half	seagull	67.50	3.30	4.00	4.60	(0.01)	3.99
	seagull	90.00	3.30	3.90	4.50	0.03	3.93
	collar	240.00	-	3.85	4.60	(0.04)	3.81
	purchased put option	90.00	-	4.00	-	(0.05)	3.95
	TOTAL IV-XII 2022	701.25					
2023	seagull	135.00	3.30	4.00	4.60	(0.00)	4.00
	seagull	180.00	3.30	3.90	4.50	(0.03)	3.93
	TOTAL 2023	315.00					

Hedging against currency-interest rate risk connected with the issue of bonds with a variable interest rate in PLN – open derivatives as at 31 March 2022

	Instrument/ Option structure	Notional [PLN mn]	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 Company as at 31 March 2022.

Open hedging derivatives	Notional of the transaction	Average weighted price /exchange rate/interest rate	Maturity - Period of profit/loss settlement period			
			from	to	from	to
Type of derivative	copper [t] silver [mn ounces] currency [USD mn] CIRS [PLN mn]	[USD/t] [USD/ounce] [USD/PLN] [USD/PLN, interest rate for USD]				
Copper – seagulls*	210 750	7 636-9 347	Apr'22	- Dec'23	May'22	- Jan'24
Silver – collars	4.95	26.36-55.00	Apr'22	- Dec'22	May'22	- Jan'23
Silver – seagulls*	6.90	26.00-42.00	Apr'22	- Dec'23	May'22	- Jan'24
Currency – purchased put option	135	4.00	Apr'22	- Dec'22	May'22	- Jan'23
Currency – collars	240	3.85-4.60	July'22	- Dec'22	Aug'22	- Jan'23
Currency – seagulls*	551.25	3.94-4.54	Apr'22	- Dec'23	May'22	- Jan'24
Currency – interest rate – CIRS**	400	3.78 and 3.23%			June'24	- June'24
Currency – interest rate – CIRS**	1 600	3.81 and 3.94%			June'29	- June'29 - July'29

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

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

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

Taking into consideration the receivables due to open derivative transactions held by the Group (excluding embedded derivatives) as at 31 March 2022 and net receivables³ due to settled derivatives, the maximum single entity share of the amount exposed to credit risk arising from these transactions amounted to 26%, or PLN 195 million (as at 31 December 2021: 26%, or PLN 227 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 2022	As at 31 December 2021
Medium-high	from A+ to A- according to S&P and Fitch, and from A1 to A3 according to Moody's	96%	98%
Medium	from BBB+ to BBB- according to S&P and Fitch, and from Baa1 to Baa3 according to Moody's	4%	2%

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 as at 31 March 2022 broken down into hedging transactions⁴ 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 2022 has changed as compared to 31 December 2021 because of:

- the settlement of transactions in derivatives with maturities in the first quarter of 2022, which were open at the end of 2021,
- entering into new transactions on the forward currency market,
- 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).

³ The Parent Entity offsets receivables and liabilities due to settled derivatives (that is for which the future flows are known at the end of the reporting period) pursuant to the principles of net settlements of cash flows adopted in framework agreements with individual customers.

⁴ 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 2022				
	Financial assets		Financial liabilities		Net total
	Non-current	Current	Non-current	Current	
Hedging instruments (CFH), including:	526	179	(1 118)	(1 066)	(1 479)
Derivatives – Metals (price of copper, silver)					
Options – <i>seagull</i> * (copper)	172	68	(557)	(1 025)	(1 342)
Options – <i>collar</i> (silver)	-	56	-	-	56
Options – <i>seagull</i> * (silver)	61	38	(19)	(4)	76
Derivatives – Currency (USDPLN exchange rate)					
Purchased put option	-	5	-	-	5
Options – <i>collar</i>	-	4	-	(17)	(13)
Options – <i>seagull</i> *	18	8	(48)	(20)	(42)
Derivatives – Currency-interest rate					
Cross Currency Interest Rate Swap CIRS	275	-	(494)	-	(219)
Trade instruments, including:	7	11	(39)	(77)	(98)
Derivatives – Metals (price of copper, silver, gold)					
Sold put option (copper)	-	-	(27)	(3)	(30)
QP adjustment swap transactions (copper)	-	-	-	(30)	(30)
Purchased put option (silver)	-	1	-	-	1
Purchased call option (silver)	-	3	-	-	3
Sold put option (silver)	-	-	(6)	(2)	(8)
QP adjustment swap transactions (gold)	-	4	-	(13)	(9)
Derivatives – Currency					
Purchased put option (USDPLN)	1	-	-	-	1
Purchased call option (USDPLN)	6	3	-	-	9
Sold put option (USDPLN)	-	-	(5)	(2)	(7)
Collar and <i>forward/swap</i> (EURPLN)	-	-	(1)	(2)	(3)
Embedded derivatives (price of copper, silver, gold)					
Purchase contracts for metal-bearing materials	-	-	-	(25)	(25)
Instruments initially designated as hedging instruments excluded from hedge accounting, including:	3	2	(6)	(6)	(7)
Derivatives – Currency (USDPLN exchange rate)					
Options – <i>seagull</i>	3	2	(6)	(3)	(4)
Derivatives – Metals (price of silver)					
Options – <i>seagull</i>	-	-	-	(3)	(3)
TOTAL OPEN DERIVATIVES	536	192	(1 163)	(1 149)	(1 584)

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

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 Group's needs at the Parent Entity's level, intra-group liquidity transfers are realised 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 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 2022, 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/EBITDA to be no more than 2.0. The ratio level as at the balance sheet dates is as follows:

Ratio	31 March 2022	31 December 2021
Net debt/Adjusted EBITDA*	0.3	0.6

* 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 2021	Cash flows	Accrued interest	Exchange differences	Other changes	As at 31 March 2022
Bank loans	735	(17)	16	18	(60)	692
Loans	2 568	(60)	18	69	(2)	2 593
Debt securities	2 001	-	21	-	-	2 022
Leases	645	(29)	22	-	11	649
Total debt	5 949	(106)	77	87	(51)	5 956
Free cash and cash equivalents	1 880	1 449	-	-	-	3 329
Net debt	4 069	(1 555)	77	87	(51)	2 627

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

	from 1 January 2022 to 31 March 2022
I. Financing activities	(82)
Proceeds from borrowings	44
Repayment of borrowings	(87)
Repayment of lease liabilities	(9)
Repayment of interest on borrowings and debt securities	(14)
Repayment of interest on leases	(16)
II. Investing activities	(24)
Paid capitalised interest on borrowings	(24)
III. Changes in free cash and cash equivalents	1 449
TOTAL (I+II+III)	(1 555)

Structure of external financing sources

As at 31 March 2022, the Group had open credit lines, loans and debt securities with a total balance of available financing being the equivalent of PLN 14 724 million, out of which PLN 5 307 million had been drawn.

The structure of financing sources is presented below.

	As at 31 March 2022	As at 31 March 2022	As at 31 December 2021
Unsecured revolving syndicated credit facility	Amount granted	Amount of the liability	Amount of the liability
	6 270	(13)*	(14)*
Investment loans	Amount granted	Amount of the liability	Amount of the liability
	3 543	2 593	2 568
Bilateral bank loans	Amount granted	Amount of the liability	Amount of the liability
	2 911	705	749
Bonds	Nominal value of the issue	Amount of the liability	Amount of the liability
	2 000	2 022	2 001
Total bank and other loans, bonds	14 724	5 307	5 304

* 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 2022, the Group held liabilities due to guarantees and letters of credit granted in the total amount of PLN 1 141 million and due to promissory note liabilities in the amount of PLN 170 million.

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

Sierra Gorda S.C.M. – a corporate guarantee in the amount of PLN 920 million (USD 220 million) set as security on the repayment of a tranche of a bank loan drawn by Sierra Gorda S.C.M. The carrying amount of the liability due to a financial guarantee granted was recognised in the amount of PLN 70 million*,

other entities, including the Parent Entity:

- PLN 160 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 53 million (PLN 47 million, CAD 2 million and EUR 1 million) securing the obligations related to proper execution of agreements concluded.

* Financial guarantee was recognised pursuant to par. 4.2.1. point c of IFRS 9.

Based on the knowledge held, at the end of the reporting period the Group assessed the probability of payments resulting from liabilities due to guarantees and letters of credit granted as low.

Note 4.9 Related party transactions

Operating income from related entities	from 1 January 2022 to 31 March 2022	from 1 January 2021 to 31 March 2021
Revenues from sales of products, merchandise and materials to a joint venture	8	6
Interest income on loans granted to a joint venture	183	97
Revenues from other transactions with a joint venture	11	52
Revenues from other transactions with other related parties	9	7
Total	211	162

Purchases from related entities	from 1 January 2022 to 31 March 2022	from 1 January 2021 to 31 March 2021
Purchase of services, merchandise and materials	23	18
Other purchase transactions	2	1
Total	25	19

Trade and other receivables from related parties	As at 31 March 2022	As at 31 December 2021
From the joint venture Sierra Gorda S.C.M. (loans)	8 348	8 314
From the joint venture Sierra Gorda S.C.M. (other)	86	66
From other related parties	23	3
Total	8 457	8 383

Trade and other payables towards related parties	As at 31 March 2022	As at 31 December 2021
Towards a joint venture	70	58
Towards other related parties	18	1
Total	88	59

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 2022, the Group concluded the following transactions with the Polish Government and entities controlled or jointly controlled by the Polish Government, unusual due to their nature or amount:

- due to an agreement on setting mining usufruct for the extraction of mineral resources and for the exploration for and assessment of mineral resources – the balance of payables amounted to PLN 198 million (as at 31 December 2021: PLN 228 million), including payments on setting mining usufruct for the extraction of mineral resources recognised in costs in the amount of PLN 8 million (as at 31 December 2021: PLN 30 million),
- due to a reverse factoring agreement with the company PEKAO FAKTORING SP. Z O.O. - payables in the amount of PLN 58 million, interest costs from 1 January to 31 March 2022 in the amount of PLN 1 million (as at 31 December 2021, payables in the amount of PLN 68 million and interest costs from 1 January to 31 March 2021 in the amount of PLN 3 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 documentary collection, 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 services, merchandise and materials to meet the needs of current operating activities. In the period from 1 January to 31 March 2022, the turnover from these transactions amounted to PLN 864 million (from 1 January to 31 March 2021: PLN 297 million), and, as at 31 March 2022, the unsettled balance of liabilities from these transactions amounted to PLN 239 million (as at 31 December 2021: PLN 224 million),
- sales to Polish State Treasury Companies. In the period from 1 January to 31 March 2022, the turnover from these sales amounted to PLN 51 million (from 1 January 31 March 2021: PLN 92 million), and, as at 31 March 2022, the unsettled balance of receivables from these transactions amounted to PLN 27 million (as at 31 December 2021: PLN 24 million).

Remuneration of the Supervisory Board of the Parent Entity (in PLN thousands)	from 1 January 2022 to 31 March 2022	from 1 January 2021 to 31 March 2021
Remuneration due to service in the Supervisory Board, salaries and other current employee benefits	474	435
Remuneration of the Management Board of the Parent Entity (in PLN thousands)	from 1 January 2022 to 31 March 2022	from 1 January 2021 to 31 March 2021
Salaries and other current employee benefits due to serving in the function	1 582	1 255
Remuneration of other key managers (in PLN thousands)	from 1 January 2022 to 31 March 2022	from 1 January 2021 to 31 March 2021
Salaries and other current employee benefits	581	676

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 KGHM Polska Miedź S.A. Group arising from corporate documents and from management contracts, the members of the Board of Directors of KGHM INTERNATIONAL LTD. and the President of the 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 2022	Increase/(decrease) since the end of the last financial year
Contingent assets	392	(117)
Guarantees received	204	(121)
Promissory notes receivables	139	5
Other	49	(1)
Contingent liabilities	493	27
Note 4.8 Guarantees and letters of credit	221	42
Note 4.8 Promissory note liabilities	170	(3)
Property tax on underground mine workings	33	(14)
Other	69	2
Other liabilities not recognised in the statement of financial position - liabilities towards local government entities due to expansion of the tailings storage facility	107	8

Note 4.11 Changes in working capital

	Inventories	Trade receivables	Trade payables	Similar payables	Working capital
As at 1 January 2022	(6 487)	(1 026)	3 106	95	(4 312)
As at 31 March 2022	(7 049)	(1 415)	3 002	85	(5 377)
Change in the statement of financial position	(562)	(389)	(104)	(10)	(1 065)
Exchange differences from the translation of statements of operations with a functional currency other than PLN	16	6	(5)	-	17
Depreciation recognised in inventories	71	-	-	-	71
Payables due to the purchase of property, plant and equipment and intangible assets	-	-	331	-	331
Other	(1)	-	-	-	(1)
Adjustments	86	6	326	-	418
Change in the statement of cash flows, including:	(476)	(383)	222	(10)	(647)
due to assets held for sale (disposal group) and liabilities associated with disposal group	(4)	6	13	-	15

	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)

Note 4.12 Assets held for sale (disposal group) and liabilities associated with them**S.C.M. Franke and Carlota Copper Company**

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

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

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

On 26 April 2022 the sales transaction of the company S.C.M. Franke took place. Detailed information on this transaction may be found in Note 5.8. Subsequent events.

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

Main groups of assets and liabilities classified as held for sale

	As at 31 March 2022
ASSETS	
Mining and metallurgical property, plant and equipment	9
Mining and metallurgical intangible assets	123
Mining and metallurgical property, plant and equipment and intangible assets	132
Other financial instruments measured at amortised cost	3
Non-current assets	135
Inventories	157
Trade receivables, including:	8
trade receivables measured at fair value through profit or loss	8
Tax assets	13
Other non-financial assets	10
Cash and cash equivalents	18
Current assets	206
TOTAL ASSETS HELD FOR SALE (DISPOSAL GROUP)	341
LIABILITIES	
Provisions for decommissioning costs of mines and other technological facilities	304
Non-current liabilities	304
Borrowings, leases and debt securities	2
Trade payables	47
Employee benefits liabilities	8
Tax liabilities	2
Provisions for liabilities and other charges	1
Other liabilities	22
Current liabilities	82
TOTAL LIABILITIES RELATED TO DISPOSAL GROUP	386

Statement of profit or loss of operations held for sale

	from 1 January 2022 to 31 March 2022	from 1 January 2021 to 31 March 2021
Revenues	164	167
Costs	(176)	(184)
Loss on operating activities	(12)	(17)
Finance costs	(2)	(2)
Loss before income tax	(14)	(19)
Income tax expense	-	-
LOSS FOR THE PERIOD	(14)	(19)

Cash flow of operations held for sale	from 1 January 2022 to 31 March 2022	from 1 January 2021 to 31 March 2021
Net cash generated from/(used in) operating activities, including:	(18)	4
change in provision for decommissioning of mines	5	-
Net cash used in investing activities	(10)	(2)
Net cash generated from/(used in) financing activities	41	(2)
TOTAL NET CASH FLOW	13	-

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

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

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

Due to the above, neither the Parent Entity nor any entities of the Group has any shares in the companies: INTERFERIE S.A. and Interferie Medical SPA sp. z o.o.

The total sale price for the shares of both companies (paid in cash) amounted to PLN 167 million and exceeded the net value of assets by PLN 38 million. The result on the sale (profit) was recognised in the item „Other operating income”.

Activities of the companies Interferie S.A. and Interferie Medical SPA Spółka z o.o. were presented in the segment - Other segments.

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

The SG Oxide project in the KGHM INTERNATIONAL LTD. Group

In the fourth quarter of 2021, the agreement on sale of the SG Oxide project to Sierra Gorda S.C.M. was concluded between KGHM Polska Miedź S.A. and the other partner in the joint venture Sierra Gorda S.C.M. – Sumitomo (Sumitomo Metal Mining Co., Ltd. and Sumitomo Corporation). On 15 December 2021 the sales agreement was signed, with the sale date set at 1 January 2022.

Due to the above, the Management Board of the Parent Entity as at 31 December 2021 reclassified the SG Oxide project from the intangible assets not yet available for use (assets related to exploration and evaluation of mineral resources) to non-current assets held for sale.

The payment in cash took place at the beginning of March 2022. The profit on the sale in the amount of PLN 135 million was recognised in the item “Other operating income”. Pursuant to the consolidation principles, the Group's share in unrealised profit on the transaction between the Group and the entity accounted for using the equity method decreased the profit due to this transaction in correspondence with the carrying amount of the Group's interest in this entity. Since as at 31 March 2022 the carrying amount of the Group's interest in the joint venture Sierra Gorda S.C.M. amounts to PLN 0, elimination of the unrealised profit proportionally to the Group's interest (55%) will be recognised at the moment the carrying amount of this interest will be above PLN 0.

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

In the first quarter of 2022, sales transactions of the following subsidiaries took place: Interferie S.A. and Interferie Medical SPA Sp. z o.o. Detailed information on these transactions is presented in Note 4.12. Assets held for sale (disposal group) and liabilities associated with them.

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

Until the date of preparation of these consolidated financial statements, the Management Board of the Parent Entity has not made a decision on the recommendation of dividend payment for 2021.

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

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 2022, 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 2022.

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 2021

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 2021.

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 2021

Members of the Company's Management Board and Supervisory Board

Based on information held by KGHM Polska Miedź S.A., as at the date of preparation of this report no Member of the Management Board and the Supervisory Board of the Company 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 2021.

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” (details are presented in the section 15 Litigation and claims of the Management Board's Report on the activities of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group in 2021).

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 2022 to 31 March 2022, 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

As at 31 March 2022, KGHM Polska Miedź S.A. granted a guarantee of bank loans drawn by the joint venture Sierra Gorda S.C.M. to Bank Gospodarstwa Krajowego for the amount of PLN 920 million (USD 220 million). The maturity of the bank loan guarantee is 2024. The guarantee was granted under arm's length conditions.

Moreover, during the period from 1 January 2022 to 31 March 2022, subsidiaries of KGHM Polska Miedź S.A. did not issue sureties on bank loans or other loans, and did not issue guarantees to a single entity or a subsidiary thereof of a significant value.

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 to the Collective Labour Agreement (CLA) for the Employees of KGHM Polska Miedź S.A., during the wage negotiations which were held from 25 to 27 January 2022, wage and employee benefits agreements were reached and signed as well as an additional protocol to the CLA introducing the following wage elements in the current year:

- a) an increase in the monthly basic wage rate by 10%,
- b) upward employee categorisation covering 15% of employees,
- c) payment of a one-off gratification in the pre-tax amount of PLN 2 thousand per 1 employee, contingent on:
 - achievement of planned production in the first half-year,
 - continuation of the average copper price at a level not lower than planned in the budget.

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, through the Parent Entity, including in particular over the following quarter, may be:

- a) the ongoing war in Ukraine and the system of economic sanctions (detailed information in Note 5.7),
- b) a subsequent wave of the COVID-19 pandemic (detailed information in Note 5.6),
- c) volatility in copper and silver prices on the metals markets,
- d) volatility in the USD/PLN exchange rate,
- e) volatility in electrolytic copper production costs, including in particular due to the minerals extraction tax, changes in the value of consumed copper-bearing materials, volatility in prices of energy carriers and electricity,
- f) the effects of the implemented hedging policy,
- g) the general uncertainty on financial markets, and
- h) an increase in the prices of materials and services resulting from the observed high inflation.

The most significant factors affecting the results achieved by the KGHM Polska Miedź S.A. Group through 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 ongoing war in Ukraine and the global COVID-19 pandemic as well as potential impact of these factors on business continuity disruptions or business restrictions,
- b) volatility of the following metal prices: 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,
- e) an increase in the prices of materials and services resulting from the observed high inflation.

Taking into consideration the ongoing military conflict in Ukraine and the risk of a subsequent wave of the COVID-19 pandemic, there still remains uncertainty regarding the directions of development of the economic and social situation in Europe and globally.

The above may affect the results of the Group in subsequent quarters. However, it is not possible to present quantitative estimates of the potential impact of current conditions on the results of the Group. To date, there has not yet 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. However, it cannot be excluded that the future negative impact of the war in Ukraine or the subsequent wave of the COVID-19 pandemic in these areas over subsequent quarters, especially in the context of conducting business in a fluctuating demand and supply conditions or logistic restrictions. There is also still uncertainty related to the rate of economic recovery in the Poland and globally as the epidemiological situation improves.

The situation in Ukraine, in particular the scale and length of the conflict, will be important for the domestic and global economy. A ceasefire, the development of negotiations between Ukraine and Russia leading to an easing of the conflict, and finally to the war's end could have a positive impact on the stability of the international fuel and energy market and the stability of the supply chain. There is still uncertainty about the impact of a possible subsequent wave of the pandemic given emerging reports of further mutations of the SARS-CoV-2 virus and the effectiveness of the adopted vaccines towards them. 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

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

- increased absenteeism amongst employees of the core production line as a result of subsequent waves of the SARS CoV-2 virus,
- interruptions in the materials and services supply chain as well as logistical restrictions, especially as regards international transport,
- restrictions in certain sales markets, a drop in demand and optimisation of inventories of raw materials and finished products amongst customers,
- potential exceptional legal changes,
- volatility in copper and silver prices on the metals markets,
- volatility in molybdenum prices,
- volatility in the USD/PLN exchange rate,
- volatility in electrolytic copper production costs, including in particular due to the minerals extraction tax, changes in the value of purchased copper-bearing materials consumed and volatility in prices of energy carriers and electricity,
- the increase in prices of materials and services due to the observed high inflation,
- the effects of the implemented hedging policy, and
- the general uncertainty on financial markets and the impact of the economic crisis connected with the COVID-19 pandemic.

Evaluation of the key categories of risk which are impacted by the coronavirus pandemic underwent detailed analysis by the on-going monitoring of selected information in the areas of production, sales, supply chains, personnel management and finance, in order to support the process of reviewing the current financial and operating situation of the KGHM Polska Miedź S.A. Group. As a result, only some of the aforementioned threats had a negative impact on the Group's operations mainly resulting from increases in the prices of materials and services.

Impact on the metals market

From the Company's point of view, an important impact of the coronavirus epidemic was its effect on market risk related to volatility in metals prices and market indices in the first quarter of 2022. The Company's share price at the end of the first quarter of 2022 was 24% higher compared to the price at the end of 2021 and at the close of trading on 31 March 2022 amounted to PLN 172.90. During these same periods the WIG and WIG20 indices decreased by 6% compared to the end of 2021. As a result of these changes in the share price, the Company's capitalisation increased from PLN 27.88 billion at the end of 2021 to PLN 34.58 billion at the end of the first quarter of 2022, meaning a level 29% higher than the net value of assets.

In the first quarter of 2022 the situation on the metals markets was stable. The average price of copper in the first quarter of 2022 was 9 996.98 USD/t, which was higher than assumed in the budget.

Impact on the spa activities of the Group

The subsequent wave of the COVID-19 pandemic had the most important impact, though to a lesser extent than in prior periods, on the Group's secondary activities involving the 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 and Uzdrowisko Świeradów - Czarniawa Sp. z o.o. - Grupa PGU. Financial liabilities to creditors and lessors in the first quarter of 2022 were paid on an ongoing basis.

In the first quarter of 2022 there were no heightened restrictions and limitations recorded as regards the ability to freely conduct business operations as a result of governmental decisions. The companies conducted their business without major interruptions, though the new year's wave of illnesses caused by the Omicron strain, despite its milder symptoms and health effects, was reflected in a decline in occupancy rates in the spas (resignation from trips and stays in fear of or due to having the virus). As a result of the above, in the first quarter of 2022 the spa companies recorded a 13% lower-than-planned person days ratio, though in comparison to the first quarter of 2021, the number of person days sold rose six times.

Post-COVID visits continue to attract great interest, as the treatments – which are both intensive and matched to the patient's ailments - enable a more rapid return to health and reductions of complications after the Covid-19 infection. In the first quarter of 2022, the review of applications to receive a preferential loan from the 2.0 Shield under the Financial Shield of the Polish Development Fund (PDF) for large enterprises was completed (the applications covered the losses incurred during the so-called second lockdown, i.e. from November 2020 to March 2021). At the end of March, agreements were signed for the total amount of PLN 3.2 million for Uzdrowisko Połczyn Grupa PGU S.A. and Uzdrowiska Kłodzkie S.A. - Grupa PGU. The remaining spa companies received financing from the PDF from the Financial Shield 2.0 for the SME sector in 2021

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

The epidemic situation caused by COVID-19 did not have a significant impact on operations of the Company and the other companies of the Group, and at the date of publication of this report the Management Board of the Parent Entity estimates the risk of loss of going concern caused by COVID-19 to still be low. Individual, small deviations from the continuity of the supply chain for materials and services have been observed, caused by restrictions in the supply of certain materials and raw materials. 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 health monitoring, 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 2022 was in line with the target.

In terms of sales most customers are still free of any highly negative impact of the previous waves of epidemic on their operations, thanks to which payables towards the Parent Entity are regulated on time and the delivery of shipments to customers proceeds without any interruptions.

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 external financing 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 reporting period there were likewise no interruptions in the continuity of the Group's operations caused by infections of this virus amongst the employees. There continues to be a lack of any substantial heightened level of absenteeism amongst employees of the Parent Entity's core business or domestic and international production assets related to the epidemic.

Taking into consideration the risk of a subsequent wave of the COVID-19 pandemic, there still remains uncertainty regarding the directions of development of the economic and social situation in Europe and globally. An important factor for the domestic and global economies will be the impact of a potential subsequent wave of the pandemic given emerging reports of further mutations of the SARS-CoV-2 virus and the effectiveness of the adopted vaccines towards them. There also continues to be uncertainty as regards the rate of economic recovery in Poland and globally given the improvement in the epidemiological situation. The Parent Entity constantly monitors the global economic situation, in order to assess its potential negative impact on the KGHM Polska Miedź S.A. Group and to take preventive actions to mitigate this impact.

Note 5.7 Impact of the war in Ukraine on the Group's operations

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

Key risk categories

The most significant risk factors related to the war in Ukraine and impacting the Company's and the Group's operations are:

- the increase in prices of fuels and energy carriers,
- interruptions in the supply chain and in the availability of materials (e.g. steel), fuels and energy in international markets,
- logistical interruptions and restrictions in international transport,
- potential exceptional legal changes,
- volatility in copper prices on the metals markets,
- volatility in the USD/PLN exchange rate,
- the increase in prices of materials and services due to the observed high inflation,
- the general uncertainty on financial markets and the impact of the economic crisis connected with the ongoing conflict.

The key risk factors which are impacted by the war in Ukraine were analysed in depth by the ongoing monitoring of selected information as regards production, sales, the supply chain and the management of personnel and finances, in order to support the process of verifying the current financial and operational condition of the KGHM Polska Miedź S.A. Group. As a result, only some of the aforementioned threats had a negative impact on the Group's operations mainly resulting from increases in the prices of materials and services.

Impact on the fuels and energy carriers markets and on the availability of raw and other materials

The expected increase in the near term of prices of fuels and energy carriers may be the main factor generating an increase in cost of sales, selling costs and administrative expenses. While individual deviations have been observed in the availability of raw and other materials, at the present time the KGHM Polska Miedź S.A. Group is not experiencing a substantial impact of this volatility on its operations. It cannot however be ruled out that a continuation of this armed conflict over an extended period of time as well as the system of economic sanctions could have a substantially greater negative impact on suppliers and customers and lead to unfavourable deviations in the continuity of materials and services supply chains in the KGHM Polska Miedź S.A. Group as well as in the receipt of products, caused among others by logistical restrictions and availability of materials (e.g. steel), fuels and energy in international markets. Taking into consideration the continuity of supply of energy carriers (natural gas, coal), the KGHM Polska Miedź S.A. Group at the present time is not experiencing a negative impact from the suspension of Russian natural gas and coal deliveries, and is fully capable of maintaining the continuity of the Core Production Business and of all production processes.

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

The geopolitical situation associated with the direct aggression of Russia on Ukraine and the implemented system of sanctions does not have a substantial impact on the operations of KGHM Polska Miedź S.A. and its Group, while the risk of interruptions to the operational continuity of the Company and of the KGHM Polska Miedź S.A. Group in this regard continues to be considered as low.

KGHM Polska Miedź S.A. does not have direct substantial transactions with entities from Russia, Belarus or Ukraine, but such contacts are held by some of the Company's customers, mainly traders of wire rod, which could indirectly impact the level of purchases made by such clients. In terms of the other companies of the KGHM Polska Miedź S.A. Group, they likewise do not engage in substantial transactions with clients from Russia, Belarus or Ukraine, while potential interruptions amongst clients maintaining business relationships with entities in these countries are mitigated by the strategy of diversification, especially in areas connected with the Core Production Business of KGHM Polska Miedź S.A.

The level of cathode inventories in exchange warehouses is currently very low, while the sanctions imposed on Russia and on Russian entities may limit the availability of Russian cathodes (produced among others by Nor Nickel) on European markets. The connected with the aforementioned situation potential for a supply shock and high copper prices on the metals markets may lead to higher revenues of KGHM Polska Miedź S.A., but at the same time to higher prices for purchased metal-bearing materials used in production. A similar dependency may occur in the case of a weakening of the PLN versus other currencies (USD and EUR), where the possibility exists for higher revenues and simultaneously for higher prices for imported materials and resources, for a higher copper tax, or the aforementioned costs of purchased metal-bearing materials. As of today it is impossible to estimate the impact of the potential aforementioned events on potential profit or loss; the situation is currently subject to ongoing monitoring with the simultaneous use of possible mitigating actions.

KGHM Polska Miedź S.A. has no receivables from entities with their registered head offices in Russia or Ukraine, as Russian and Ukrainian entities are not direct recipients of the basic products sold by the Company.

In terms of the availability of capital and the level of debt, the Parent Entity holds no bank loans drawn from institutions threatened with sanctions.

From the point of view of exchange differences (the revaluation of balance sheet items), a weakening of the PLN may mean positive (unrealised) exchange differences due to the fact that the amount of the loans granted by the Company in USD is higher than the amount of borrowings in USD.

In terms of the other companies of the KGHM Polska Miedź S.A. Group, the situation in Ukraine in the first quarter of 2022 did not have a substantial impact on the operating results generated by these entities.

Preventive actions in the Group

In the KGHM Polska Miedź S.A. Group and as well as in all of the 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 there were no production stoppages which would have been directly attributable to the war in Ukraine. As a result, the Group's copper production in the first quarter of 2022 was in line with the target.

KGHM Polska Miedź S.A. for years has applied procedures related to the monitoring of receivables. The timeliness of payments by customers is subject to daily reporting, while any potential recorded interruptions in cash flows from customers are immediately explained.

The strategy of diversification of suppliers applied by the KGHM Polska Miedź S.A. Group and application of alternative solutions at the present time effectively mitigates the risk of interruptions in the supply chains of raw and other materials.

In 2021, the process began in the Company of implementing a comprehensive system to manage operational continuity, which also enables a detailed breakdown of the scope of actions undertaken as regards managing corporate risk in terms of the risk of a catastrophic impact and the small probability of their occurrence.

Taking into account the armed nature of the conflict in Ukraine, the scale and length of the war will be particularly important for the domestic and global economy. A ceasefire, the development of negotiations between Ukraine and Russia leading to an easing of the conflict, and finally to the war's end could have a positive impact on the stability in prices of fuels and energy carriers in international markets. From the point of view of stability in the continuity of energy carriers supply chains, the directions of energy-climate geopolitics will be of importance, especially in the context of the independence of European countries from Russian deliveries of natural gas and coal.

Note 5.8 Subsequent events

Signing of a letter of intent regarding cooperation on generation sources utilising SMR nuclear power technology with Tauron Polska Energia S.A.

On 20 April 2022 the Management Board of KGHM Polska Miedź S.A. („the Company”) signed a letter of intent with Tauron Polska Energia S.A. („Tauron”), in which the parties consider undertaking strategic cooperation involving research and development and future investment projects with respect to the construction of energy generation sources utilising SMR nuclear power technology („Letter of Intent”).

The objective of the cooperation between the Parties to the Letter of Intent is to set forth the possibilities, nature and particulars of potential joint involvement in the advancement of SMR-related investment projects. The subject of the cooperation will include, among others, an analysis of available technology and the possibility of placing generating installations in neighbouring receiving infrastructure, as well as the possibility of utilising the existing infrastructure of existing power blocks along with identification of the possibility of obtaining optimum technology, investing in a different manner or engaging in other forms of cooperation with third parties which are already advancing or planning to advance SMR-related investment projects.

The Management Board of the Company sees a significant potential and possibility to achieve the effect of synergy by engaging in joint actions with Tauron aimed at investing in SMR technology. These actions are in line with the Company’s strategic goals, in particular those involving Energy – the new 5E development direction. According to it, the Company will implement low-emission energy sources in the Core Production Business, and in future could sell energy to third parties, at the same time generating new revenue sources.

The Letter of Intent is in force until such time as one of the Parties expresses a desire to withdraw from further cooperation.

Sale of a subsidiary of the KGHM INTERNATIONAL LTD. Group

On 26 April 2022 subsidiaries of KGHM International Ltd., i.e. Franke Holdings Ltd. and Centenario Holdings Ltd., signed an agreement for the sale of 100% of the shares of the company Sociedad Contractual Minera Franke, being the owner of the Franke mine in Chile, to the company Minera Las Cenizas S.A. for the initially-negotiated purchase price of USD 25 million. The initial purchase price will be adjusted by among others the change in net working capital, cash and cash equivalents and borrowings, between 31 March 2022 and the transaction date, i.e. 26 April 2022.

As at 31 March 2022 the net value of the assets being the subject of the transaction (after intra-group settlements) amounted to USD 25 million.

Apart from the initial payment (initial purchase price), the pricing mechanism reflects contingent payments which could be realised in subsequent periods in the maximum amount of USD 25 million and additional contingent payments, the so-called Net Smelter Return – royalty, in the maximum amount of USD 20 million, depending on the mining of ore which is not included in the resources report of Sociedad Contractual Minera Franke.

The valuation of the initial and contingent payments, as well as detailed information on the transaction, will be presented in the half-year consolidated financial statements of the KGHM Polska Miedź S.A. Group and will reflect calculation of the result of the sale transaction.

As at 31 March 2022, the company’s financial data is presented under assets held for sale (disposal group) and liabilities associated with the disposal group in Note 4.12.

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

STATEMENT OF PROFIT OR LOSS

		from 1 January 2022 to 31 March 2022	from 1 January 2021 to 31 March 2021
Note 1	Revenues from contracts with customers	7 555	5 569
Note 2	Cost of sales	(5 732)	(3 997)
	Gross profit	1 823	1 572
Note 2	Selling costs and administrative expenses	(221)	(213)
	Profit on sales	1 602	1 359
Note 3	Other operating income, including:	573	728
	interest income calculated using the effective interest rate method	62	66
	reversal of impairment losses on financial instruments	53	14
Note 3	Other operating costs, including:	(232)	(360)
	fair value losses on financial assets measured at fair value through profit or loss	(40)	(43)
Note 4	Finance costs	(105)	(302)
	Profit before income tax	1 838	1 425
	Income tax expense	(513)	(450)
	PROFIT FOR THE PERIOD	1 325	975
	Weighted average number of ordinary shares (million)	200	200
	Basic and diluted earnings per share (in PLN)	6.63	4.88

STATEMENT OF COMPREHENSIVE INCOME

		from 1 January 2022 to 31 March 2022	from 1 January 2021 to 31 March 2021
	Profit for the period	1 325	975
	Measurement of hedging instruments net of the tax effect	(285)	(763)
	Other comprehensive income, which will be reclassified to profit or loss	(285)	(763)
	Measurement of equity financial instruments at fair value through other comprehensive income, net of the tax effect	34	2
	Actuarial losses net of the tax effect	(111)	(31)
	Other comprehensive income, which will not be reclassified to profit or loss	(77)	(29)
	Total other comprehensive net income	(362)	(792)
	TOTAL COMPREHENSIVE INCOME	963	183

STATEMENT OF CASH FLOWS

	from 1 January 2022 to 31 March 2022	from 1 January 2021 to 31 March 2021
Cash flow from operating activities		
Profit before income tax	1 838	1 425
Depreciation/amortisation recognised in profit or loss	322	309
Interest on investment activities	(54)	(64)
Other interest	25	27
Fair value gains on financial assets measured at fair value through profit or loss	(24)	(91)
Impairment losses on non-current assets	1	10
Reversal of impairment losses on non-current assets	(53)	(4)
Exchange differences, of which:	(49)	39
from investing activities and cash	(127)	(234)
from financing activities	78	273
Change in provisions for decommissioning of mines, employee benefits liabilities and other provisions	(71)	(11)
Change in other receivables and liabilities other than working capital	560	398
Change in assets and liabilities due to derivatives	(221)	(321)
Reclassification of other comprehensive income to profit or loss due to the realisation of hedging derivatives	279	371
Income tax proceeds from the tax group companies	39	7
Other adjustments	11	1
Exclusions of income and costs, total	765	671
Income tax paid	(169)	(188)
Changes in working capital, including:	(595)	(1 021)
change in trade payables transferred to factoring	(1)	(219)
Net cash generated from operating activities	1 839	887
Cash flow from investing activities		
Expenditures on mining and metallurgical assets, including:	(766)	(647)
paid capitalised interest on borrowings	(20)	(22)
Expenditures on other property, plant and equipment and intangible assets	(15)	(16)
Advances granted for property, plant and equipment and intangible assets	(8)	(3)
Proceeds from sale of equity instruments measured at fair value through other comprehensive income	-	53
Repayment of loans granted	426	-
Other	(18)	(19)
Net cash used in investing activities	(381)	(632)
Cash flow from financing activities		
Cash pooling expenses	(20)	(64)
Repayments of borrowings received	(70)	(1 085)
Repayment of lease liabilities	(6)	(5)
Payment of interest, including:	(26)	(33)
borrowings	(26)	(30)
Net cash used in financing activities	(122)	(1 187)
TOTAL NET CASH FLOW	1 336	(932)
Exchange differences on measurement of cash and cash equivalents	(14)	(48)
Cash and cash equivalents at the beginning of the period	1 332	2 135
Cash and cash equivalents at the end of the period, including	2 654	1 155
restricted cash	21	13

Note 5

STATEMENT OF FINANCIAL POSITION

	As at 31 March 2022	As at 31 December 2021
ASSETS		
Mining and metallurgical property, plant and equipment	19 537	19 744
Mining and metallurgical intangible assets	1 101	1 093
Mining and metallurgical property, plant and equipment and intangible assets	20 638	20 837
Other property, plant and equipment	94	98
Other intangible assets	57	60
Other property, plant and equipment and intangible assets	151	158
Investments in subsidiaries	3 691	3 691
Loans granted, including:	8 190	8 249
measured at fair value through profit or loss	2 848	2 959
measured at amortised cost	5 342	5 290
Derivatives	537	595
Other financial instruments measured at fair value through other comprehensive income	622	581
Other financial instruments measured at amortised cost	549	506
Financial instruments, total	9 898	9 931
Other non-financial assets	51	54
Non-current assets	34 429	34 671
Inventories	5 838	5 436
Trade receivables, including:	995	600
trade receivables measured at fair value through profit or loss	837	467
Tax assets	193	301
Derivatives	192	254
Cash pooling receivables	106	498
Other financial assets	178	289
Other non-financial assets	144	77
Cash and cash equivalents	2 654	1 332
Current assets	10 300	8 787
TOTAL ASSETS	44 729	43 458
EQUITY AND LIABILITIES		
Share capital	2 000	2 000
Other reserves from measurement of financial instruments	(1 921)	(1 670)
Accumulated other comprehensive income	(440)	(329)
Retained earnings	27 164	25 839
Equity	26 803	25 840
Borrowings, lease and debt securities	4 559	5 180
Derivatives	1 163	1 133
Employee benefits liabilities	2 104	2 040
Provisions for decommissioning costs of mines and other technological facilities	460	811
Deferred tax liabilities	195	290
Other liabilities	259	253
Non-current liabilities	8 740	9 707
Borrowings, lease and debt securities	1 059	382
Cash pooling liabilities	340	360
Derivatives	1 147	888
Trade and similar payables	2 438	2 613
Employee benefits liabilities	1 244	1 130
Tax liabilities	1 660	1 291
Provisions for liabilities and other charges	96	98
Other liabilities	1 202	1 149
Current liabilities	9 186	7 911
Non-current and current liabilities	17 926	17 618
TOTAL EQUITY AND LIABILITIES	44 729	43 458

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 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
As at 1 January 2022	2 000	(1 670)	(329)	25 839	25 840
Profit for the period	-	-	-	1 325	1 325
Other comprehensive income	-	(251)	(111)	-	(362)
Total comprehensive income	-	(251)	(111)	1 325	963
As at 31 March 2022	2 000	(1 921)	(440)	27 164	26 803

Explanatory notes

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

	from 1 January 2022 to 31 March 2022	from 1 January 2021 to 31 March 2021
Europe		
Poland	1 938	1 189
Germany	1 380	757
The United Kingdom	516	194
Czechia	600	482
Italy	549	428
Switzerland	206	193
Hungary	396	267
France	104	243
Belgium	17	2
Austria	186	111
Romania	45	76
Slovakia	50	29
Slovenia	42	39
Denmark	2	7
Estonia	4	4
Bulgaria	14	18
Sweden	-	18
Bosnia and Herzegovina	2	-
The Netherlands	2	1
Other countries (dispersed sales)	1	-
North and South America		
The United States of America	183	360
Canada	14	5
Australia	195	323
Asia		
China	663	590
Japan	60	-
Taiwan	11	-
Thailand	219	114
Turkey	77	28
Vietnam	62	71
Philippines	-	3
Malaysia	-	15
Africa	17	2
TOTAL	7 555	5 569

Note 2 Expenses by nature

	from 1 January 2022 to 31 March 2022	from 1 January 2021 to 31 March 2021
Depreciation of property, plant and equipment and amortisation of intangible assets	364	356
Employee benefits expenses	988	955
Materials and energy, including:	3 310	2 347
purchased metal-bearing materials	2 204	1 667
electrical and other energy	482	296
External services, including:	476	425
transport	76	68
repairs, maintenance and servicing	138	121
mine preparatory work	131	128
Minerals extraction tax	844	718
Other taxes and charges	213	140
Write-down of inventories	(8)	(10)
Other costs	20	23
Total expenses by nature	6 207	4 954
Cost of merchandise and materials sold (+)	119	67
Change in inventories of finished goods and work in progress (+/-)	(324)	(770)
Cost of manufacturing products for internal use (-)	(49)	(41)
Total costs of sales, selling costs and administrative expenses, including:	5 953	4 210
Cost of sales	5 732	3 997
Selling costs	39	39
Administrative expenses	182	174

Note 3 Other operating income and (costs)

	from 1 January 2022 to 31 March 2022	from 1 January 2021 to 31 March 2021
Gains on derivatives, of which:	94	105
measurement	89	104
realisation	5	1
Exchange differences on assets and liabilities other than borrowings	219	358
Interest on loans granted and other financial receivables	63	67
Fees and charges on re-invoicing of costs of bank guarantees securing payments of liabilities	12	48
Reversal of impairment losses on financial instruments measured at amortised cost, including:	53	14
loans	53	4
Fair value gains on financial assets measured at fair value through profit or loss, including:	60	113
loans	43	102
Release of provisions	8	6
Other	64	17
Total other operating income	573	728
Losses on derivatives, of which:	(151)	(285)
measurement	(82)	(171)
realisation	(69)	(114)
Fair value losses on financial assets measured at fair value through profit or loss, including:	(40)	(43)
loans	(17)	(11)
Provisions recognised	(1)	(13)
Donations given	(5)	(3)
Losses due to modification of terms of the contract	(9)	-
Compensations, fines and penalties paid and costs of litigation	(9)	-
Other	(17)	(16)
Total other operating costs	(232)	(360)
Other operating income and (costs)	341	368

Note 4 Finance costs

	from 1 January 2022 to 31 March 2022	from 1 January 2021 to 31 March 2021
Interest on borrowings, including:	(15)	(18)
lease	(2)	(2)
Fees and charges on external financing	(10)	(9)
Exchange differences on borrowings	(78)	(273)
Losses on derivatives - measurement of derivatives	-	(1)
Unwinding of the discount effect	(2)	(1)
Total finance costs	(105)	(302)

Note 5 Changes in working capital

	Inventories	Trade receivables	Trade payables	Similar payables - reverse factoring	Working capital
As at 1 January 2022	(5 436)	(600)	2 745	55	(3 236)
As at 31 March 2022	(5 838)	(995)	2 565	54	(4 214)
Change in the statement of financial position	(402)	(395)	(180)	(1)	(978)
Depreciation recognised in inventories	40	-	-	-	40
Liabilities due to purchase of property, plant and equipment and intangible assets	-	-	344	-	344
Reclassification to property, plant and equipment	(1)	-	-	-	(1)
Adjustments	39	-	344	-	383
Change in the statement of cash flows	(363)	(395)	164	(1)	(595)

	Inventories	Trade receivables	Trade payables	Similar payables	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
Liabilities due to 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)

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

This report was authorised for issue on 12 May 2022

President
of the Management Board

Marcin Chludziński

Vice President
of the Management Board

Adam Bugajczuk

Vice President
of the Management Board

Paweł Gruza

Vice President
of the Management Board

Andrzej Kensbok

Vice President
of the Management Board

Marek Pietrzak

Vice President
of the Management Board

Marek Świder

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING

Executive Director
of Accounting Services Centre
Chief Accountant

Agnieszka Sinior