POLISH FINANCIAL SUPERVISION AUTHORITY

Annual report RR 2022

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

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

for the financial year **2022** comprising the period from **1 January 2022** to **31 December 2022** containing the separate financial statements according to International Accounting Standards in PLN.

Publication date: 22 March 2023

KGHM Polska Miedź Spółka Akcyjna
(name of the issuer)

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

	SELECTED FINANCIAL DATA	in PLN mn		in EUR mn	
		2022	2021	2022	2021
I.	Revenues from contracts with customers	28 429	24 618	6 064	5 378
II.	Profit on sales	3 966	4 104	846	897
III.	Profit before income tax	4 996	6 716	1 066	1 467
IV.	Profit for the period	3 533	5 169	754	1 129
V.	Other comprehensive income	902	263	192	57
VI.	Total comprehensive income	4 435	5 432	946	1 186
VII.	Number of shares issued	200 000 000	200 000 000	200 000 000	200 000 000
VIII.	Earnings per ordinary share	17.67	25.85	3.77	5.65
IX.	Net cash generated from operating activities	1 791	1 963	382	429
X.	Net cash used in investing activities	(1 629)	(607)	(347)	(133)
XI.	Net cash used in financing activities	(506)	(2 091)	(108)	(457)
XII.	Total net cash flow	(344)	(735)	(73)	(161)
XIII.	Non-current assets	36 707	34 671	7 827	7 538
XIV.	Current assets	11 288	8 787	2 407	1 910
XV.	Total assets	47 995	43 458	10 234	9 448
XVI.	Non-current liabilities	10 311	9 707	2 199	2 110
XVII.	Current liabilities	8 009	7 911	1 708	1 720
XVIII.	Equity	29 675	25 840	6 327	5 618

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

	2022	2021
Average exchange rate for the period*	4.6883	4.5775
Exchange rate at the end of the period	4.6899	4.5994

**Exchange rates are the arithmetical average of the current average exchange rates announced by the National Bank of Poland on the last day of each month respectively of 2022 and 2021*

Polish Financial Supervision Authority

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

SEPARATE FINANCIAL STATEMENTS FOR 2022

Lubin, March 2023

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SEPARATE STATEMENT OF PROFIT OR LOSS

		from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021
Part 2	Revenues from contracts with customers	28 429	24 618
Note 4.1	Cost of sales	(23 157)	(19 441)
	Gross profit	**5 272**	**5 177**
Note 4.1	Selling costs and administrative expenses	(1 306)	(1 073)
	Profit on sales	**3 966**	**4 104**
Note 4.2	Other operating income, including:	2 172	4 273
	fair value gains on financial assets measured at fair value through profit or loss	631	1 070
	reversal of impairment losses on financial instruments	213	807
Note 4.2	Other operating costs, including:	(873)	(1 185)
	impairment losses on financial instruments	(7)	(4)
Note 4.3	Finance income	148	70
Note 4.3	Finance costs	(417)	(546)
	Profit before income tax	**4 996**	**6 716**
Note 5.1	Income tax expense	(1 463)	(1 547)
	PROFIT FOR THE PERIOD	**3 533**	**5 169**
	Weighted average number of ordinary shares (million)	**200**	**200**
	Basic/diluted earnings per share (in PLN)	**17.67**	**25.85**

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

		from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021
Note 8.2.2	**Profit for the period**	**3 533**	**5 169**
Note 8.2.2	Measurement of hedging instruments net of the tax effect	1 354	(297)
	Other comprehensive income which will be reclassified to profit or loss	**1 354**	**(297)**
Note 8.2.2	Measurement of equity financial instruments at fair value through other comprehensive income, net of the tax effect	(79)	17
Note 8.2.2	Actuarial gains/(losses) net of the tax effect	(373)	543
	Other comprehensive income, which will not be reclassified to profit or loss	**(452)**	**560**
	Total other comprehensive net income	**902**	**263**
	TOTAL COMPREHENSIVE INCOME	**4 435**	**5 432**

in PLN millions, unless otherwise stated

SEPARATE STATEMENT OF CASH FLOWS

		from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021
	Cash flow from operating activities		
	Profit before income tax	4 996	6 716
Note 9.3	Depreciation/amortisation recognised in profit or loss	1 434	1 363
	Interest on investment activities	(268)	(289)
	Other interest	61	120
	Dividends income	(29)	(37)
	Profits on the disposal of shares and investment certificates	(1)	(25)
Note 6.2	Fair value (gains)/losses on financial assets measured at fair value through profit or loss	(600)	(1 029)
Note 3.2 Note 9.1	Impairment losses on non-current assets	6	202
Note 6.1 Note 6.2	Reversal of impairment losses on non-current assets	(213)	(1 762)
	Exchange differences, of which:	(231)	28
	from investment activities and cash	(410)	(310)
	from financing activities	179	338
	Change in provisions for decommissioning of mines, liabilities related to employee benefits and other provisions	(2)	(29)
	Change in other receivables and liabilities other than working capital	(165)	66
	Change in assets and liabilities due to derivatives	(351)	(1 861)
Note 7.2	Reclassification of other comprehensive income to profit or loss due to the realisation of hedging derivatives	492	2 030
Note 12.8	Other adjustments	114	7
	Exclusions of income and costs, total	247	(1 216)
	Income tax paid	(1 575)	(707)
Note 10.4	Changes in working capital, including:	(1 877)	(2 830)
	change in trade payables transferred to factoring	(55)	(1 154)
	Net cash generated from operating activities	**1 791**	**1 963**
	Cash flow from investing activities		
Note 9.1.2	Expenditures on mining and metallurgical assets, including:	(2 689)	(2 381)
	paid capitalised interest on borrowings	(173)	(112)
	Expenditures on other property, plant and equipment and intangible assets	(42)	(26)
	Expenditures due to acquisition of shares and investment certificates	(375)	(38)
	Expenditures on financial assets designated for decommissioning of mines and other technological facilities	-	(24)
	Loans granted	(23)	(20)
	Advances granted on property, plant and equipment and intangible assets	(40)	(28)
	Proceeds from disposal of equity instruments measured at fair value through other comprehensive income	-	53
	Proceeds from disposal of shares and redemption of investment certificates	367	46
	Dividends received	29	37
	Proceeds from financial assets designated for decommissioning of mines and other technological facilities	26	-
Note 7.5.2.5	Proceeds from repayment of loans granted (principal)	1 066	1 675
	Interest received on loans granted	34	95
	Other	18	4
	Net cash used in investing activities	**(1 629)**	**(607)**
	Cash flow from financing activities		
	Proceeds from borrowings	605	205
	Proceeds from cash pooling	-	76
	Proceeds from derivatives related to sources of external financing	130	36
Note 8.4.2	Repayment of received borrowings	(352)	(1 889)
	Repayment of lease liabilities	(44)	(51)
	Interest paid, including due to:	(117)	(89)
Note 8.4.2	borrowings	(116)	(80)
	Expenditures due to derivatives related to sources of external financing	(89)	(79)
	Dividends paid to shareholders of the Company	(600)	(300)
	Expenditures on cash pooling	(40)	-
	Other	1	-
	Net cash used in financing activities	**(506)**	**(2 091)**
	NET CASH FLOW	**(344)**	**(735)**
	Exchange differences on cash and cash equivalents	(3)	(68)
	Cash and cash equivalents at beginning of the period	1 332	2 135
Note 8.5	**Cash and cash equivalents at end of the period, including:**	**985**	**1 332**
	restricted cash	14	14

in PLN millions, unless otherwise stated

SEPARATE STATEMENT OF FINANCIAL POSITION

	ASSETS	As at 31 December 2022	As at 31 December 2021
	Mining and metallurgical property, plant and equipment	21 091	19 744
	Mining and metallurgical intangible assets	1 251	1 093
Note 9.1	Mining and metallurgical property, plant and equipment and intangible assets	22 342	20 837
	Other property, plant and equipment	104	98
	Other intangible assets	51	60
Note 9.2	Other property, plant and equipment and intangible assets	155	158
Note 6.1	Investments in subsidiaries, other than loans granted	3 701	3 691
Note 6.2	Loans granted, including:	8 763	8 249
	measured at fair value through profit or loss	3 233	2 959
	measured at amortised cost	5 530	5 290
Note 7.2	Derivatives	714	595
Note 7.3	Other financial instruments measured at fair value through other comprehensive income	483	581
Note 7.4	Other financial instruments measured at amortised cost	432	506
	Financial instruments, total	10 392	9 931
Note 12.3	Other non-financial assets	117	54
	Non-current assets	**36 707**	**34 671**
Note 10.1	Inventories	7 523	5 436
Note 10.2	Trade receivables, including:	620	600
	trade receivables measured at fair value through profit or loss	455	467
Note 5.3	Tax assets	312	301
Note 7.2	Derivatives	796	254
Note 7.1	Cash pooling receivables	588	498
Note 12.3	Other financial assets	322	289
Note 12.3	Other non-financial assets	142	77
Note 8.5	Cash and cash equivalents	985	1 332
	Current assets	**11 288**	**8 787**
	TOTAL ASSETS	**47 995**	**43 458**
	EQUITY AND LIABILITIES		
Note 8.2.1	Share capital	2 000	2 000
Note 8.2.2	Other reserves from measurement of financial instruments	(395)	(1 670)
Note 8.2.2	Accumulated other comprehensive income	(702)	(329)
Note 8.2.2	Retained earnings	28 772	25 839
	Equity	**29 675**	**25 840**
Note 8.4.1	Borrowings, lease and debt securities	5 000	5 180
Note 7.2	Derivatives	719	1 133
Note 11.1	Employee benefits liabilities	2 394	2 040
Note 9.4	Provisions for decommissioning costs of mines and other technological facilities	1 233	811
	Deferred tax liabilities	705	290
Note 12.4	Other liabilities	260	253
	Non-current liabilities	10 311	9 707
Note 8.4.1	Borrowings, lease and debt securities	1 124	382
Note 8.4.1	Cash pooling liabilities	321	360
Note 7.2	Derivatives	434	888
Note 10.3	Trade and similar payables	2 819	2 613
Note 11.1	Employee benefits liabilities	1 365	1 130
Note 5.3	Tax liabilities	1 061	1 291
	Provisions for liabilities and other charges	110	98
Note 12.4	Other liabilities	775	1 149
	Current liabilities	8 009	7 911
	Non-current and current liabilities	**18 320**	**17 618**
	TOTAL EQUITY AND LIABILITIES	**47 995**	**43 458**

in PLN millions, unless otherwise stated

SEPARATE 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**
	Transactions with owners - dividend	-	-	-	(300)	**(300)**
	Profit for the period	-	-	-	5 169	**5 169**
Note 8.2.2	Other comprehensive income	-	(280)*	543	-	**263**
	Total comprehensive income	-	(280)	543	5 169	**5 432**
	Reclassification of the result on disposal of equity instruments measured at fair value through other comprehensive income	-	-	-	(18)	**(18)**
	As at 31 December 2021	**2 000**	**(1 670)**	**(329)**	**25 839**	**25 840**
Note 12.2	Transactions with owners - dividend	-	-	-	(600)	**(600)**
	Profit for the period	-	-	-	3 533	**3 533**
Note 8.2.2	Other comprehensive income	-	1 275	(373)	-	**902**
	Total comprehensive income	-	1 275	(373)	3 533	**4 435**
	As at 31 December 2022	**2 000**	**(395)**	**(702)**	**28 772**	**29 675**

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

PART 1 – General information

Note 1.1 Corporate information

KGHM Polska Miedź S.A. ("the Company") with its registered office in Lubin at 48 M.Skłodowskiej-Curie Street is a joint stock company registered at the Regional Court for Wrocław Fabryczna, Section IX (Economic) of the National Court Register, entry no. KRS 23302, on the territory of the Republic of Poland.
KGHM Polska Miedź S.A. has a multi-divisional organisational structure, comprised of a Head Office and 10 divisions: 3 mines (Lubin Mine Division, Polkowice-Sieroszowice Mine Division, Rudna Mine Division), 3 metallurgical plants (Głogów Smelter/Refinery, Legnica Smelter/Refinery, Cedynia Wire Rod Division), the Concentrator Division, the Tailings Division, the Mine-Smelter Emergency Rescue Division and the Data Center Division.
The shares of KGHM Polska Miedź S.A. are listed on the Warsaw Stock Exchange.
The Company's principal activities include:

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

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

KGHM Polska Miedź S.A. is a parent entity of the KGHM Polska Miedź S.A. Group ("Group").
The separate financial statements were prepared under the assumption of continuing as a going concern during a period of at least 12 months from the end of the reporting period in an unaltered form and business scope, and there are no reasons to suspect any intentional or forced discontinuation or significant limitation of its current activities. As at the date of signing of the financial statements the Management Board of the Company is not aware of any facts or circumstances that may cast doubt about the going concern in the foreseeable future.

The COVID-19 pandemic and the war in Ukraine did not have a direct, negative impact on individual aspects of the Company's business activities. There were neither production stoppages or slowdowns nor any reductions in the scope of services provided. However the COVID -19 pandemic, in particular the pandemic situation in China, and Russia's aggression against Ukraine were reflected in the increased inflation pressure. In 2022, prices of technological materials, energy, fuels and services increased significantly, which influenced the level of costs generated by the Company. On the other hand, the uncertainty as to the future global economic situation resulted in the weakening of the PLN and the increase in PLN-denominated copper prices, which translated into an increase in revenues from sales. As a result, the achieved EBITDA was at a level similar to the EBITDA achieved in 2021. The production and financial results of individual segments were presented in the Management Board's report on the activities of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group in 2022.

Detailed information on the Company's operations during the pandemic and the on-going armed conflict in Ukraine in 2022 was presented in Note 12.12 of this report.

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

The Management Board of KGHM Polska Miedź S.A. declares that according to its best judgement the annual separate financial statements for 2022 and the comparable data have been prepared in accordance with accounting principles currently in force, and give a true, fair and clear view of the financial position of KGHM Polska Miedź S.A. and the profit for the period of the Company.
The Management Board's report on the activities of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group in 2022 presents a true picture of the development and achievements, as well as the condition, of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group, including a description of the basic exposures and risks.

The separate financial statements were authorised for issue and signed by the Management Board of the Company on 21 March 2023.

Note 1.2 Basis of preparation

These separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, on the basis of historical cost, except for financial instruments classified as measured at fair value. These financial statements are the separate financial statements of KGHM Polska Miedź S.A. pursuant to IAS 27.

In order to fully understand the financial position and results of the Company's activities as the Parent Entity of the Group, these separate financial statements should be read jointly with the annual consolidated financial statements of the KGHM Polska Miedź S.A. Group for the year ended on 31 December 2022. These financial statements are available at the Company's website www.kghm.com from the dates indicated in the regulatory filing on publication dates for the Company's annual report and the Group's consolidated annual report for 2022.

in PLN millions, unless otherwise stated

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

Note 12.11 of these separate financial statements contains information on the Company's activities regulated by the Act on Energy, pursuant to article 44 section 2 of the Act dated 10 April 1997. For a greater understanding of the data recognised in the financial statements, the accounting policy and important estimates, assumptions and judgments are presented in individual, detailed notes as in the table below. As compared to the period ended on 31 December 2021, there were no significant changes to the measurement methods. Changes in estimates as at 31 December 2022 as compared to the aforementioned period arise from changes in assumptions as a result of changes in business circumstances and/or other variables.

Note	**Title**	**Amount recognised in the financial statements**		**Accounting policy**	**Important estimates, assumptions and judgements**
		2022	**2021**		
2	Revenues from contracts with customers	28 429	24 618	x	x
5.1	Income tax in the statement of profit or loss	(1 463)	(1 547)	x	
5.1.1	Deferred income tax in the statement of profit or loss	(203)	(152)	x	x
5.3	Tax assets	312	301	x	
5.3	Tax liabilities	(1 061)	(1 291)	x	
6.1	Investments in subsidiaries	3 701	3 691	x	x
6.2	Loans granted*	8 785	8 366	x	x
7.2	Derivatives	357	(1 172)	x	x
7.3	Other financial instruments measured at fair value	483	581	x	x
7.4	Other non-current financial instruments measured at amortised cost	432	506	x	x
8.2	Equity	(29 675)	(25 840)	x	
8.4	Borrowings	(6 445)	(5 922)	x	
8.5	Cash and cash equivalents	985	1 332	x	
8.6	Labilities due to guarantees granted	(1 609)	(1 236)	x	x
9.1	Mining and metallurgical property, plant and equipment and intangible assets	22 342	20 837	x	
9.2	Other property, plant and equipment and intangible assets	155	158	x	
9.4	Provision for decommissioning costs of mines and other facilities**	(1 261)	(824)	x	x
9.6	Lease disclosures – the Company as a lessee	681	585	x	x
10.1	Inventories	7 523	5 436	x	x
10.2	Trade receivables	620	600	x	x
10.3	Trade and similar payables	(3 005)	(2 800)	x	x
10.4	Changes in working capital	(1 877)	(2 830)	x	x
11.1	Employee benefits liabilities	(3 759)	(3 170)	x	x
12.3	Other assets	581	420	x	
12.4	Other liabilities	(1 035)	(1 402)	x	

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

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

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

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

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

- at the actual exchange rate applied, i.e. at the buy or sell exchange rate applied by the bank in which the transaction occurs, in the case of the sale or purchase of currencies and the payment of receivables or liabilities, whereby on 1 January 2022, a change was introduced in KGHM Polska Miedź S.A. concerning foreign exchange rates applied to measure currency sales and purchase transactions as well as payments of receivables and liabilities (including in the measurement of transactions involving the receipt, granting or repayment of borrowings) on the Company's currency bank accounts. To translate these transactions to the functional currency, an average exchange rate prevailing on the date of the transaction is used, and the prevailing rate on the date of the transaction is the average NBP exchange rate from the last working day preceding the transaction date. Any change in the applied exchange rates is, pursuant to IAS 8, a change in estimates, and its impact is recognised prospectively for periods beginning on or after 1 January 2022;
- at the average exchange rate set for a given currency, prevailing on the date of the transaction for other transactions. The exchange rate prevailing on the date of the transaction is the average NBP rate announced on the last working day preceding the transaction date.

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

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

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

Foreign exchange gains or losses on non-monetary items, such as equity instruments classified as financial assets measured at fair value through other comprehensive income, are recognised in other comprehensive income.

Foreign exchange gains or losses on monetary items measured at fair value through profit or loss (e.g. loans granted measured at fair value) are recognised as a part of the fair value measurement.

Note 1.4 Impact of new and amended standards and interpretations

Amendments to standards applied for the first time in the separate financial statements for 2022:

- **Amendments to IFRS 3** on references to the Conceptual Framework,
- **Amendments to IAS 16** on proceeds prior to the 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 separate financial statements, the aforementioned amendments to the standards were adopted for use by the European Union. In the Company's opinion, the amendments to the standards will be applicable to the Company's activities in the scope of future economic operations, transactions or other events, towards which the amendments to the standards will be applicable.

In particular, the application of **amendments to IAS 16** on proceeds prior to the intended use of an item of property, plant and equipment will result in a change in the Company's accounting policy in this regard. In accordance with the current policy, the Company 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 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 Company applied amendments to IAS 16 from 1 January 2022. With respect to the application of transitional provisions, the Company did not identify significant items of property, plant and equipment that would be subject to adjustments on or after 1 January 2021.

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

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

- **IFRS 17** Insurance contracts and amendments to IFRS 17 published in 2020 and 2021, effective on or after 1 January 2023.
- **Amendments to IAS 1 and Practice Statement 2** on disclosures of accounting policies, effective on or after 1 January 2023. In this standard, the requirement to disclosure the entity's „significant" accounting policies was replaced by the requirement to disclose „material" accounting policies. Information on accounting policies is material if considered together with other information contained within the financial statements, it could reasonably influence decisions made by their main users on the basis of these financial statements.
- **Amendments to IAS 8** on the introduction of a definition of accounting estimates, effective on or after 1 January 2023. Pursuant to the amended standard, accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty. The introduction of this definition will help entities in distinguishing between amendments to accounting policies and amendments to accounting estimates.
- **Amendments to IAS 12** on deferred tax related to assets and liabilities arising from a single transaction, effective on or after 1 January 2023. This standard introduces clarifications to paragraphs 15 and 24 that the recognition exemption on deferred tax related to assets and liabilities does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. In the Company's opinion, the first application of the aforementioned change will not have a significant impact on the separate financial statements.

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

- **IFRS 14 Regulatory deferral accounts,** effective on or after 1 January 2016, however the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.
- **Amendments to IFRS 10 and IAS 28** on the sale or contribution of assets between an Investor and its Associate or Joint Venture (date of entry into force was not specified).
- **Amendments to IFRS 16** on lease liabilities in a sale and leaseback, effective on or after 1 January 2024.
- **Amendments to IAS 1** on classification of liabilities as current or non-current (including changes due to deferral of effective date), effective on or after 1 January 2024. The standard introduces changes clarifying conditions necessary to recognise financial liabilities as non-current. Such recognition will be possible only if the entity has the unconditional right to defer settlement of a liability for over 12 months after the reporting date and at the same time the entity's intent as to the early repayment will not have an impact on this recognition. If the amendments to IAS 1 were applied by the Company in these separate financial statements, the presentation of borrowings as at 31 December 2022 would not change.
- **Amendments to IAS 1** on non-current liabilities with covenants, effective on or after 1 January 2024. The amendments aim to clarify that covenants, whose conditions have to be met by an entity after the reporting date, and which refer to the rights of an entity to defer settlement of a liability by at least twelve months from the end of the reporting period, do not have an impact on the classification of liabilities as current or non-current at the end of the reporting period. However, it will be necessary to disclose information on such covenants in notes to the financial statements in order to allow users of financial statements to understand the risk that a particular liability may become due in the period of 12 months from the end of the reporting period. In such a situation, the Standard requires the disclosure of a description of a covenant's conditions, the amount of liabilities it is related to and facts and circumstances, if they occur, indicating the occurrence of risk that an entity may not meet the conditions of the covenant within the deadline indicated after the end of the reporting period.

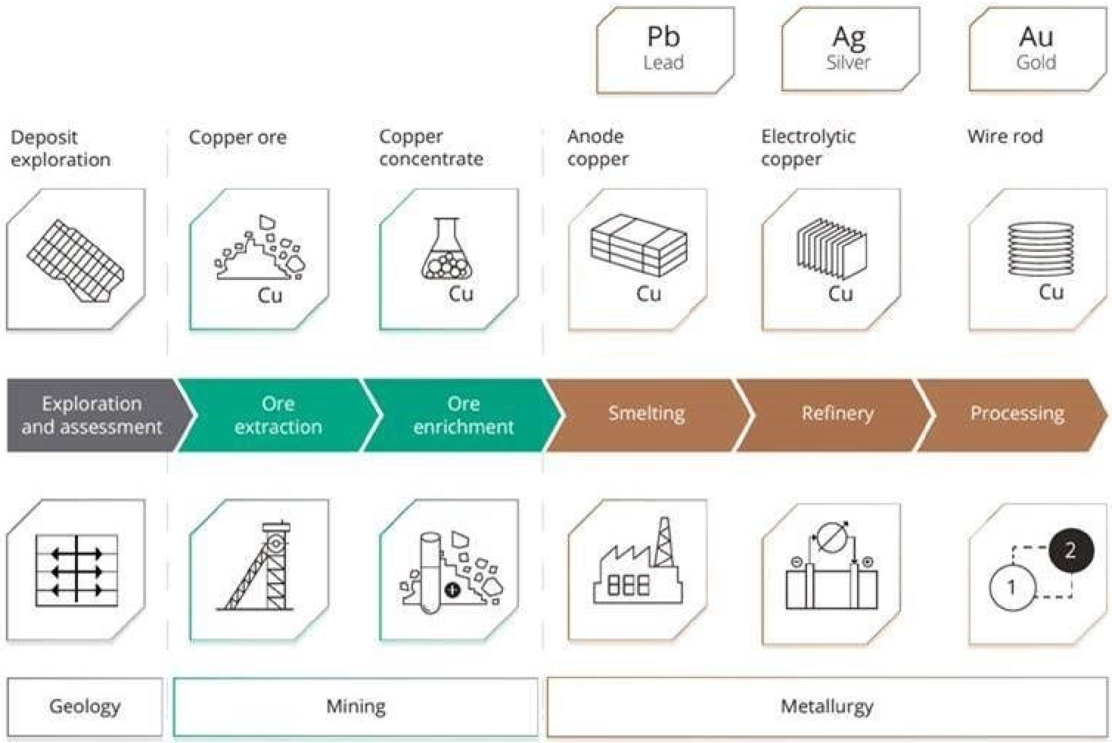
The Company intends to apply all of the amendments at their effective dates, except for IFRS 17, which will not have an impact on the Company's separate financial statements, in the Company's opinion as at 31 December 2022, the other amendments to the standards will be applicable to its activities in the scope of future economic operations, transactions or other events, towards which the amendments to the standards are applicable, while the Amendments to IAS 1 and Practice Statement 2 on accounting policies (principles) presented in the financial statements will not have a significant impact on the scope of accounting policies which will be disclosed by the Company in the financial statements published for the reporting periods beginning after 1 January 2023.

PART 2 – Operating segments and information on revenues

Operating segments

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

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



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

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

The organisational structure of KGHM Polska Miedź S.A. has the Head Office and 10 Divisions, including: mines, concentrators and metallurgical plants. The Head Office carries out sales of the Company's basic products, i.e. electrolytic copper cathodes, wire rod and silver, and support functions, particularly including the management of financial assets, centralised finance and accounting services, marketing, legal and other services.
The Management Board of the Company assesses a segment's performance based on Adjusted EBITDA and the profit or loss for the period. The manner of calculating Adjusted EBITDA is presented in the table "Reconciliation of Adjusted EBITDA".

in PLN millions, unless otherwise stated

Production of main products

	from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021
Electrolytic copper (kt), of which:	**586.0**	**577.6**
- electrolytic copper from own concentrates (kt)	381.5	381.4
Silver (t)	**1 298.4**	**1 332.2**
C1 unit cash cost of production of payable copper in own concentrate (USD/lb)*	**2.38**	**2.26**
C1 unit cash cost of production of payable copper in own concentrate (PLN/lb)*	**10.62**	**8.73**

**C1 cost reflects ore mining and processing costs, transport costs, the minerals extraction tax, administrative expenses during the mining phase and smelter treatment and refining charges (TC/RC) less by-product value. C1 cost was calculated using the average exchange rate by the NBP (arithmetical average of daily quotations per the NBP's tables).*

Segment financial results

	from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021
Total revenues from contracts with customers, including:	**28 429**	**24 618**
Revenues from sales, for which the sales price is set after the date of recognition of the sales (M+ principle), of which:	21 767	19 837
settled	21 045	18 952
unsettled	722	885
Cost of sales, selling costs and administrative expenses*	**(24 463)**	**(20 514)**
Depreciation/amortisation recognised in profit or loss	(1 434)	(1 363)
(Recognition)/reversal of an impairment loss on non-current assets, recognised in cost of sales, selling costs and administrative expenses	-	(7)
Adjusted EBITDA	**5 400**	**5 474**
Profit for the period, including:	**3 533**	**5 169**
reversal/(recognition) of impairment losses on non-current assets	207	1 560

**Cost of products, merchandise and materials sold plus selling costs and administrative expenses.*

	from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021
Total revenues from contracts with customers, of which:	**28 429**	**24 618**
in factoring	8 677	8 575
not in factoring	19 752	16 043

	from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021
Revenues from contracts with customers, of which:	**28 429**	**24 618**
transferred at a certain moment	27 986	24 262
transferred over time	443	356

in PLN millions, unless otherwise stated

Reconciliation of "Adjusted EBITDA" (which is not defined in IFRSs) with "Profit/(loss) for the period" (which is defined in IFRSs) and "Profit on sales" is presented in the following tables:

Reconciliation of Adjusted EBITDA

	from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021
Profit for the period	**3 533**	**5 169**
[–] Current and deferred income tax	(1 463)	(1 547)
[–] Depreciation/amortisation recognised in profit or loss	(1 434)	(1 363)
[–] Finance income and (costs)	(269)	(476)
[–] Other operating income and (costs)	1 299	3 088
[–] (Recognition)/reversal of an impairment loss on non-current assets, recognised in cost of sales, selling costs and administrative expenses	-	(7)
[=] Adjusted EBITDA*	**5 400**	**5 474**

	from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021
Profit on sales	**3 966**	**4 104**
[–] Depreciation/amortisation recognised in profit or loss	(1 434)	(1 363)
[–] (Recognition)/reversal of an impairment loss on non-current assets, recognised in cost of sales, selling costs and administrative expenses	-	(7)
[=] Adjusted EBITDA*	**5 400**	**5 474**

** The Company defines adjusted EBITDA as profit/loss for the period pursuant to IFRS, excluding income tax (current and deferred), finance income and (costs), other operating income and (costs), depreciation/amortisation and recognition/reversal of impairment losses on property, plant and equipment included in the cost of sales, selling costs and administrative expenses.*

Segment assets and liabilities

	As at 31 December 2022	As at 31 December 2021
Assets	47 995	43 458
Liabilities	18 320	17 618

Accounting policies
Revenues arising from ordinary operating activities of the Company, i.e. revenues from sales of products, merchandise and materials, are recognised in the statement of profit or loss as revenues from contracts with customers. The Company generates its revenues mainly from the sale of: copper, silver and gold. Other, smaller streams of revenues arise from the sale of services (including distribution of electricity, other utilities and IT services) and other products, merchandise and materials (including refined lead, sulphuric acid, heat and electricity as well as other production waste). The Company recognises revenue from contracts with customers when the Company satisfies a performance obligation by transferring a promised good or providing a service to a customer, which is when the customer obtains control of that asset, i.e. the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset, as well as the ability to prevent other entities from directing the use of, and obtaining the benefits from, the asset. Since in every case, following the shipment of the promised good and transferring control over it, the Company has an unconditional right to consideration from the customer, and the only condition of receiving it is time lapse, the Company recognises the consideration from contracts with customers as receivables and therefore the Company does not recognise contractual assets. The Company recognises as a performance obligation every contractual promise to transfer to a customer a good or provide a service that is distinct, or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. For each performance obligation, the Company determines (based on contractual terms), whether the obligation will be performed over time or at a specified moment. In particular, in contracts for the sale of copper, silver and gold, every measurement unit of a transferred good (e.g. 1 tonne of copper or 1 kg of silver) is a separate performance obligation. Therefore, for every sale or transfer of goods, constituting a multiplication of a measurement unit of a transferred product, which is realised at the same time, the Company fulfils its performance obligation and at the same time recognises revenues. Apart from contracts for supplying goods with transport services, there are no other contracts including more than one performance obligation. The attribution of transaction prices to individual performance obligations are made on the basis of unit sale prices. In trade contracts in which the performance obligation is met at a specified time, the Company uses various payment conditions, including prepayments of up to several days before delivery and deferred payments of up to 120 days, although the deferred payments do not concern sale transactions of silver and gold. Payment dates depend on the evaluation of the recipient’s credit risk and the possibility of securing receivables. The consideration becomes due depending on contractual conditions, that is prior to the realisation of the delivery (prepayment) or after the Company meets its performance obligation. If the Company receives payment from the customer before it meets its performance obligation, it recognises it as contractual payables. However, in the case of deferred payments terms, the Company recognises due consideration from the customer as a receivable only after the transfer of promised products to the customer and the issuance of the invoice. Revenues from sales of other services, such as distribution of utilities, rentals, leases, sharing IT systems and other are recognised over time by the Company as it meets its obligations, as the customers simultaneously receive and gain economic benefits arising from the Company’s performance and the Company has an unconditional right to consideration. Revenues from contracts with customers are recognised in the amount of the transaction price, consisting of the amount of consideration to which – in accordance with the Company’s expectations – it will be given in return for the transfer of promised goods or services to the customer, excluding consideration collected on behalf of third parties. The transaction price also reflects the effects of the time value of money if a contract with a customer contains a significant financing element, which is determined based on the contractual payment terms, regardless of whether the promise of financing is explicitly stated in the contract. In determining whether a financing component is significant for a given agreement, all of the facts and circumstances are taken into consideration, including the eventual difference between the promised consideration and the cash selling price of the promised goods and services, as well as the total impact of the following two factors: (i) the estimated period from the moment an entity transfers the promised goods or services to a customer to the moment the customer pays for these goods or services, and (ii) prevailing interest rates on a given market. The Company did not identify significant financing components in sales transactions to customers realised in 2022 and 2021. In the case of copper and silver products sales transaction for which the price is set after the date of recognition of a given sale, at the moment of initial recognition of a transaction an adjustment of revenues from sales is made, arising from the difference between the forward price of a metal expressed in USD from the date of recognition of a sale in the period corresponding to the period of settlement of the transaction, and the price from provisional invoice. This adjustment brings the amount of the transaction to the expected amount as a transaction price at the moment of initial recognition. This only concerns cases where the change in transaction price arises from a change in the metal’s price. For these types of variable revenues, the limitation of IFRS 15 on recognising variable consideration only to the amount in respect of which it is highly probable that a reversal will not be recognised, is not applicable.

in PLN millions, unless otherwise stated

Changes to the accounted amount after the moment of recognition do not impact the revenues from sales but are fair value gains/losses on measurement of receivables pursuant to the accounting policies presented in Note 10.2. Sales revenue is adjusted for the gain or loss on the settlement of future cash flow hedging derivatives, in accordance with the general principle that the portion of gain or loss on a derivative hedging instrument that is determined to be an effective hedge is recognised in the same position of profit or loss in which the gain or loss on the hedged item is recognised at the moment when the hedged item affects profit or loss

Important estimates, assumptions and judgments

The Company recognises revenues from the sale of products, merchandise and materials in profit or loss once, when the performance obligation is satisfied (in particular in accordance with the applied INCOTERMS principles).In the majority of contracts, control is transferred to the customer after delivery of the goods, which is also understood as delivery of the goods to the carrier or to a designated place (DAP, FCA and EX WORKS bases). In other contracts, control is transferred to the customer at the moment it is handed over to the carrier and loaded aboard a ship (CFR, CIF, CPT and CIP bases). In these contracts, the Company is also obliged to organise a shipping service. In these cases, the obligation to sell goods and the obligation to provide a shipping service are treated as separate services promised in the contract. With respect to transport services, the Company acts as a principal, as it has control over the service before its completion.
Revenues from sales of other services, such as distribution of utilities, rentals, leases, sharing IT systems and other are recognised over time by the Company as it meets its obligations, as the customers simultaneously receive and gain economic benefits arising from the Company's performance and the Company has an unconditional right to consideration.

As at 1 January 2022, the balance of trade payables due to contracts with customers amounted to PLN 5 million and was wholly recognised in revenues for 2022. As at 31 December 2022, the balance of trade payables due to contracts with customers amounted to PLN 9 million.

In 2022, the Company recognised an adjustment to revenues on performance obligations realised in 2021 in the amount of PLN 19 million, which arose due to the final determination of sales price in 2022.

In 2021, the Company recognised revenues on performance obligations realised in 2020 in the amount of PLN 58 million, which arose due to the final determination of sales price in 2021.

If the Company has remaining performance obligations as at the end of the reporting period that are unsatisfied, it is necessary to disclose the transaction price allocated to these obligations (IFRS 15.120). The Company uses a practical approach and does not disclose performance obligations that are part of contracts with initial period of one year or less. Moreover, the Company has several long-term contracts, the price of which is based mainly on variable consideration that the Company does not include in estimating the transaction price.

Revenues from contracts with customers – breakdown by products

	from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021
Copper	22 207	19 079
Silver	4 341	3 990
Gold	649	548
Lead	295	271
Services	174	143
Merchandise	232	181
Waste and production materials	132	96
Other	399	310
TOTAL, including:	**28 429**	**24 618**
Impact of derivatives and hedging transactions on revenues from contracts with customers	(182)	(1 651)

in PLN millions, unless otherwise stated

Sales revenue – geographical breakdown reflecting the location of end customers

		from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021
Europe			
	Poland	7 157	5 896
	Germany	5 502	3 702
	Italy	2 319	1 999
	Czechia	2 250	1 804
	The United Kingdom	1 676	1 283
	Hungary	1 408	1 123
	France	896	790
	Switzerland	790	589
	Austria	541	428
	Romania	138	255
	Slovenia	129	147
	Slovakia	178	123
	Belgium	51	17
	Bulgaria	29	36
	Denmark	27	43
	Bosnia and Herzegovina	23	-
	Estonia	14	19
	Finland	7	-
	Sweden	5	19
	The Netherlands	7	3
	Other countries (dispersed sale)	3	1
North America			
	The United States of America	997	1 361
	Canada	50	16
South America		7	8
Australia		787	1 020
Asia			
	China	2 146	2 875
	Thailand	437	463
	Vietnam	231	336
	Turkey	282	123
	Malesia	72	47
	Taiwan	69	-
	South Korea	67	54
	Japan	64	-
	Hong Kong	15	-
	Philippines	-	4
	Other countries (dispersed sale)	-	1
Africa		55	33
TOTAL		**28 429**	**24 618**

in PLN millions, unless otherwise stated

Main customers

In the period from 1 January to 31 December 2022 and in the comparable period, revenues from no single customer exceeded 10% of the sales revenue of the Company.

Non – current assets – geographical breakdown

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

Cash expenditures on property, plant and equipment and intangible assets

	from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021
Cash expenditures on mining and metallurgical assets	(2 689)	(2 381)
Cash expenditures on other property, plant and equipment and intangible assets	(42)	(26)

PART 3 – Impairment of assets

Note 3.1 Impairment losses on assets as at 31 December 2022

Pursuant to IAS 36, as at 31 December 2022 the Company assessed the occurrence of indications of impairment of the Company's assets. Key non-current assets of the Company were subjected to the analysis, including shares in subsidiaries. As a result of the performed evaluation, no indications of impairment of these assets were identified. Because of the Company's market capitalisation remaining below the level of its net assets for a significant part of 2022, this area was subjected to a further analysis.

Assessment of the risk of impairment of assets of KGHM Polska Miedź S.A. in the context of the market capitalisation of KGHM Polska Miedź S.A.

In 2022, a general deterioration in sentiment was seen in stock markets due to the substantial uncertainty as to the development of the global macroeconomic situation in reaction to the start of the armed conflict in Ukraine and the tangible consequences of the COVID-19 (coronavirus) pandemic. As a result, stock market indices, amongst others, suffered greatly. In 2022, the share price of KGHM Polska Miedź S.A. fell by 9% compared to the share price at the end of 2021, and as at 31 December 2022 it amounted to PLN 126.75. During the same period the WIG and WIG 20 indices fell respectively by 17% and 21%. As a result, the Company's market capitalisation fell from PLN 27 880 million to PLN 25 350 million, which means that as at 31 December 2022 it remained 15% below the level of the Company's net assets. As at 15 March 2023, the Company's share price amounted to PLN 113.30 and as a result, the market capitalisation amounted to PLN 22 660 million and was 24% lower than the level of the Company's net assets.

Due to the fact that, during a significant part of the reporting period, the Company's market capitalisation remained below the carrying amount of its net assets, in accordance with IAS 36 Impairment of assets, the Management Board of KGHM Polska Miedź S.A. conducted an analysis to determine whether any area of KGHM Polska Miedź S.A.'s activities could be impaired.

The analysis of the assets located in Poland indicated that not all of the factors which affect the market capitalisation of KGHM Polska Miedź S.A. are factors which are related to the conducted economic activities.

The drop in share prices affected companies in the majority of sectors, in different economies, and reflected investor uncertainty as to the future. In particular, the armed conflict in Ukraine caused withdrawal of foreign investors from areas bordering the war zone, which can be seen not only in the situation on the Warsaw stock exchange, but also on exchanges in the region, such as in Czechia, Slovakia and Hungary, and also had a significant impact on the weakening of the PLN versus the USD.

From the point of view of the Company's operations, the key factor influencing the level of market capitalisation is the copper price. In December 2021, the average price of copper amounted to 9 550 USD/t, and following the initial continuation of the upward trend in the first months of 2022 it recorded a significant decline. The minimum was recorded in July 2022, when the average copper price was at the level of 7 530 USD/t. But over time, as reassuring information as to the demand for this metal kept coming, prices returned to the trend observed at the start of the year and in December 2022 the average price for copper amounted to 8 367 USD/t. The share prices of companies involved in the mining and processing of copper are strongly correlated with the price of this metal.

It should be pointed out that in the case of the Polish assets, of significance are PLN-expressed metals prices, which are also affected by the USD/PLN exchange rate. Fluctuations in the price of copper related to the turbulence on the financial markets, whose origins may often be found not only in macroeconomics but also in broadly understood geopolitics, are usually to a large extent offset by changes in the USD/PLN exchange rate, which additionally remains under the influence of the armed conflict in Ukraine.

Despite the continued uncertainty in the economic environment, KGHM Polska Miedź S.A. maintains full operational capacity and consistently advances planned production and sales targets. The financial results achieved by the Company significantly exceed the budget targets, which is also a result of conducted optimisation initiatives and cost discipline applied in response to macroeconomic conditions.

As a result of the assessment, it was judged that there was no relation between the fall in the share price of KGHM Polska Miedź S.A. both in terms of the activities of KGHM Polska Miedź S.A. in Poland as well as abroad. The Company realises production and sales targets in Poland as well as abroad. Consequently, there were no indications identified suggesting the risk of impairment of the Polish and international production assets, therefore there were no tests for impairment conducted for these assets as at 31 December 2022.

Due to the uncertainty and the significant volatility of basic economic parameters, including metals prices and currency exchange rates, and dynamic development of the pandemic situation in Poland and globally, and its impact on the economic situation, the Company is continuously monitoring the global situation.

in PLN millions, unless otherwise stated

Note 3.2 Impairment losses on assets as at 31 December 2021

Assessment of the risk of impairment of assets of KGHM Polska Miedź S.A. in the context of the market capitalisation of KGHM Polska Miedź S.A.
The Company's share price as at 30 December 2021 amounted to PLN 139.40 and was 24% lower compared to the price as at 30 December 2020. At the end of 2021 WIG and WIG 20 indices were higher than on 30 December 2020 respectively by 22% and 14%. As a result, the Company's market capitalisation decreased from PLN 36 600 million to PLN 27 880 million, which means that on 31 December 2021 it was at a level 7% higher than the net value of the Company's assets. Moreover, during 2021 the Company's market capitalisation was higher than net assets. The Company continuously monitors the global situation as to its potential impact on KGHM Polska Miedź S.A.

TESTING FOR THE IMPAIRMENT OF THE VALUE OF SHARES IN FUTURE 1 SP. Z O.O.

KGHM Polska Miedź S.A. is involved in Future 1 Sp. z o.o. in the form of loans granted in the amount of PLN 3 548 million as well as shares. The value of the shares in Future 1 Sp. z o.o. is presented at cost less impairment losses and as at 30 June 2021, before the recognition of the results of impairment testing, amounted to PLN 1 101 million, including PLN 4 770 million at cost and PLN 3 669 million - the impairment loss.

In the reporting period (that is as at 30 June 2021), due to indications of the possibility of changes in the recoverable amount of shares in the company Future 1 Sp. z o.o., the Company performed impairment testing of these shares. Future 1 Sp. z o.o. is a holding company through which the Company holds shares in KGHM INTERNATIONAL LTD. (main assets are: the Victoria project in the pre-operational phase, the Robinson mine and less significant CGU Sudbury) and provides financing for the KGHM INTERNATIONAL LTD. Group and Sierra Gorda S.C.M.

The key indications to perform impairment testing were:

- a change in market forecasts of commodities prices,
- the decision to commence the process of preparing to sell some of the assets located in CGU Sudbury (this does not include the Victoria project in the pre-operational phase, which remains within the KGHM INTERNATIONAL LTD. Group),
- a change in technical and economic parameters for the KGHM INTERNATIONAL LTD. Group's CGU Sudbury mine assets in terms of production volumes, planned operating costs and capital expenditures during the life of a mine.

The main indications that the recoverable amount may be higher than the carrying amount, with the consequent justification for the reversal of previously recognised impairment losses, were increases in the price paths of copper and gold.

The main indications that the recoverable amount may be lower than the carrying amount, with the consequent necessity for the recognition of an additional impairment loss, were as follows:

- a decrease in the price paths for nickel,
- a change in technical and economic parameters of assets of the CGU Sudbury, among others the deferment of re-commencement of production, lower expected production volume, an increase in the expected capital expenditures during the life of a mine.

For the purpose of estimating the recoverable amount, in the conducted test the fair value of the CGU was measured using the DCF method (the method of discounted cash flows). The same method was used in prior years.

The fair value measurement was classified to the level 3 of the fair value hierarchy.

Basic macroeconomic assumptions adopted for cash flow estimation – metal prices

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

- for copper – 7 000 USD/t (3.18 USD/lb);
- for gold – 1 500 USD/oz;
- for nickel – 7.25 USD/lb.

Other key assumptions used for cash flow estimation

Assumption	Sierra Gorda	Victoria	Sudbury	Robinson
Mine life / forecast period	22	14	14	7
Level of copper production during mine life (kt)	3 752	249	43	358
Level of nickel production during mine life (kt)	-	221	23	-
Level of gold production during mine life (koz t)	1 017	157	27	263

Average operating margin during mine life	42.6%	62%	27%	43%
Capital expenditures to be incurred during mine life [USD million]	1 487	1 530	157	410

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

Results of the test performed as at 30 June 2021 are presented in the following table:

Test elements	**PLN million**
Discounted future cash flows of the KGHM INTERNATIONAL LTD. Group less by all of liabilities (including the repayment of loans towards KGHM Polska Miedź S.A.)	1 937
Recoverable amount of other assets	214
Recoverable amount of investment in KGHM INTERNATIONAL LTD. (Enterprise value) after the repayment of liabilities towards KGHM Polska Miedź S.A. due to loans granted	**2 151**
Less receivables due to return payment to capital of Future 1 Sp. z o.o.	(40)
Carrying amount of shares in Future 1 Sp. z o.o. (before the test for impairment)	1 101
Recoverable amount of shares in Future 1 Sp. z o.o. (test result)	**2 111**
Reversal of impairment loss on shares in Future 1	**1 010**

The reversal of the impairment loss on the shares in the amount of PLN 1 010 million was recognised in the statement of financial position in other operating activities (Note 4.2).

Sensitivity analysis of the recoverable amount of the shares of Future 1 Sp. z o.o. determined that the key assumptions adopted for the impairment testing were the assumed price paths and discount rates. The assumptions regarding the price paths and discount rate were adopted while taking into account the professional judgement of the Management Board as to the performance of these amounts in the future, and was reflected in the estimated recoverable amounts. For the purposes of monitoring the risk of impairment of the tested assets in subsequent periods, the following determinations were made:

- discount rates – adoption at a level higher by 1 percentage point would result in a reversal of the impairment loss in the total amount of PLN 792 million, and at a level lower by 1 percentage point would result in a reversal of the impairment loss in the total amount of PLN 1 261 million,
- price paths for copper – the adoption of prices at a level lower by 0.1 USD/lb would result in a reversal of the impairment loss in the amount of PLN 717 million, and at a level higher by 0.1 USD/lb would result in a reversal of the impairment loss in the amount of PLN 1 321 million.
- price paths for nickel – the adoption of prices at a level lower by 0.45 USD/lb would result in a reversal of the impairment loss in the amount of PLN 925 million, and at a level higher by 0.45 USD/lb would result in a reversal of the impairment loss in the total amount of PLN 1 095 million.

In the second half of 2021, assumptions adopted for estimating cash flows to perform impairment testing of the shares of Future 1 Sp. z o.o. as at 30 June 2021 for main CGUs did not change significantly, and therefore the Company did not identify any indications of changes in the recoverable amount of shares of Future 1 Sp. z o.o. as at 31 December 2021 and did not estimate the recoverable amount of the shares of Future 1 Sp. z o.o. for the second time. As at 31 December 2021, the value of shares amounted to PLN 2 111 million.

On 22 February 2022, the 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 was concluded. The transaction was completed 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 in the consolidated financial statements the value of loans by directly referring to the transaction price from the sale of the 45% interest in Sierra Gorda S.C.M. (i.e. participation in equity and loan receivables) by the seller following the end of the reporting period.

in PLN millions, unless otherwise stated

Nevertheless, the Company made an additional comparison of the carrying amount of its own involvement in the joint venture Sierra Gorda S.C.M. (i.e. receivables due to a loan and investments in equity instruments) in order to verify that the total carrying amount does not differ substantially from the value that would result from the transaction price, taking into account: (i) limitations as to the Company's ability to obtain full knowledge of the process of reaching the transaction price, and (ii) differences in the applied discount rates for future expected cash flows obtainable from the JV (i.e. the effective interest rate for loan measurement according to IFRS 9, versus the rate of return expected by the investor in the valuation of the transaction price).

In the opinion of the Management Board, the value of loans estimated by the Company and presented in the consolidated financial statements, which in the current holding structure are recognised as fair value of shares in Future 1 Sp. z o.o. in the separate financial statements, does not differ significantly from the value that would be determined by reference to the transaction price.

The Company continuously monitors the global situation and its impact on activities of the KGHM INTERNATIONAL LTD. Group and will perform re-measurement of involvement in Future 1 Sp. z o.o. if there are any significant changes.

TESTING FOR THE IMPAIRMENT OF THE VALUE OF SHARES IN "ENERGETYKA" SP. Z O.O.

KGHM Polska Miedź S.A. has receivables from the company "Energetyka" sp. z o.o. in the form of return payments to capital and shares. In the current reporting period, due to indications of the possibility of changes in the recoverable amount, impairment testing of the equity involvement in shares of "Energetyka" sp. z o.o. was performed. The key indications to perform impairment testing in the current reporting period were the following: a significant increase in prices of CO_2 emissions rights and worse than expected economic results by a given asset, including the impairment of the value of the investment in shares of WPEC S.A. (a subsidiary of the company "Energetyka" sp. z o.o.).
The carrying amount of shares of "Energetyka" sp. z o.o. as at 31 December 2021 amounted to PLN 299 million. For the purpose of estimating the recoverable amount, in the conducted test the value in use of the shares was measured using the DCF method, i.e. the method of discounted cash flows.

Basic assumptions adopted for impairment testing	
Assumption	**Level adopted in testing**
Detailed forecast period	2022-2031
Operating margin range during the detailed forecast period	-0.43% - +2.07%
Capital expenditures during the detailed forecast period	PLN 313 million
Discount rate*	3.80% (real rate after taxation)
Growth rate following the forecast period	0%

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

The recoverable amount of the enterprise was calculated on the basis of the value in use of net assets of the enterprise, with the adopted forecast period of 10 years. Extension of the forecast period is justified mainly by the significant and long-term impact of expected changes in the regulatory environment. Moreover, in the detailed forecast period it is necessary to present the impact of incurred capital expenditures, the increase in their amounts in the first forecast period (for the years 2022/2023) and the lack of necessity to incur them in similar amounts in subsequent years.
The approved Budget of the Company for the years 2022 – 2026, adjusted due to significant changes in prices of CO_2 emissions rights and energy which took place recently, is the basis for the preparation of forecasts of revenues and costs, The adopted level of capital expenditures in the forecast period concerns mainly modernisation and replacement tasks.
As the result of the aforementioned assumptions and with due prudence, the estimated EBIT will increase in the period 2022 – 2024 from the level of -PLN 3 million to PLN 17 million, while from 2025 to 2032 EBIT will be at the yearly level of PLN 16 million.
As a result of the impairment testing of the shares of "Energetyka" sp. z o.o., the recoverable amount of shares was determined to be at the level of PLN 117 million, which was lower than the carrying amount of the tested assets, which was the basis for recognising an impairment loss in the amount of PLN 182 million.

The measurement of shares of "Energetyka" sp. z o.o. indicated a significant sensitivity to the adopted level of discount rates and a moderate sensitivity to a change in EBIT which is a basis used to determine the residual value.

The following table presents the impact of changes of these parameters on the measurement.

in PLN millions, unless otherwise stated

Sensitivity analysis of the recoverable amount of shares of “Energetyka” sp. z o.o.			
	Recoverable amount for a given discount rate		
	lower by 1 pp	per test	higher by 1 pp
Discount rate 3.80 % (test)	241	117	45
	Recoverable amount for a given EBIT in residual period		
	lower by 5%	per test	higher by 5%
EBIT in the residual period of PLN 16 million PLN (test)	102	117	132

In order to monitor the risk of impairment of assets in subsequent reporting periods, it was determined that the recoverable amount would be equal to the carrying amount of the assets if the discount rate were to fall by 1.31 percentage point or EBIT were to increase by 60.2%.

in PLN millions, unless otherwise stated

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

Note 4.1 Expenses by nature

		from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021
Note 9.3	Depreciation of property, plant and equipment and amortisation of intangible assets	1 504	1 435
Note 11.1	Employee benefits expenses	4 832	4 249
	Materials and energy, including:	13 687	10 242
	purchased metal-bearing materials	8 859	7 132
	electrical and other energy	1 921	1 230
	External services, including:	2 238	1 884
	transport	328	278
	repairs, maintenance and servicing	699	569
	mine preparatory work	617	510
Note 5.2	Minerals extraction tax	3 046	3 548
Note 5.2	Other taxes and charges	487	398
	Advertising costs and representation expenses	80	63
	Property and personal insurance	39	35
	Reversal of write down of inventories	(52)	(20)
	Write down of inventories	13	41
	Other costs	21	26
	Total expenses by nature	**25 895**	**21 901**
	Cost of merchandise and materials sold (+)	449	339
	Change in inventories of products and work in progress (+/-)	(1 665)	(1 562)
	Cost of products for internal use (-)	(216)	(164)
	Total cost of sales, selling costs and administrative expenses, including:	**24 463**	**20 514**
	Cost of sales	23 157	19 441
	Selling costs	173	156
	Administrative expenses	1 133	917

in PLN millions, unless otherwise stated

Note 4.2 Other operating income/(costs)

		from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021
	Gains on derivatives, of which:	268	323
Note 7.1	measurement	108	209
Note 7.1	realisation	160	114
	Exchange differences on measurement and realisation of assets and liabilities other than borrowings	500	511
	Interest on loans granted and other financial receivables	348	304
	Fees and charges on re-invoicing of bank guarantees costs securing payments of liabilities	31	68
	Reversal of impairment losses on financial instruments measured at amortised cost, including:	213	807
Note 6.2	loans	213	752
	Fair value gains on financial assets measured at fair value through profit or loss, including:	631	1 070
Note 6.2	loans	601	1 056
	Reversal of impairment losses on shares in subsidiaries	-	1 010
	Dividends income	29	37
	Profit on disposal of shares in subsidiaries	2	25
	Release of provisions	12	22
	Refund of excise tax for previous years	1	5
	Overpayment of property tax	25	8
	Other	112	83
	Total other operating income	**2 172**	**4 273**
	Losses on derivatives, of which:	(490)	(768)
Note 7.1	measurement	(116)	(141)
Note 7.1	realisation	(374)	(627)
	Impairment losses on financial instruments measured at amortised cost	(7)	(4)
	Fair value losses on financial assets measured at fair value through profit or loss, including:	(87)	(63)
	loans	-	(9)
	Financial support granted to municipalities	(100)	-
	Impairment losses on shares and investment certificates in subsidiaries	-	(182)
	Provisions recognised	(16)	(58)
	Donations granted	(53)	(29)
	Losses on disposal of property, plant and equipment (including costs associated with disposal of fixed assets)	(22)	(13)
	Compensations, fines and penalties paid and costs of litigation	(28)	(6)
	Impairment losses on fixed assets under construction and intangible assets not yet available for use	(6)	(5)
	Other	(64)	(57)
	Total other operating costs	**(873)**	**(1 185)**
	Other operating income / (costs)	**1 299**	**3 088**

in PLN millions, unless otherwise stated

Note 4.3 Finance income/(costs)

		from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021
Note 7.1	Gains on derivatives - realisation	130	70
	Result of the settlement of a transaction hedging against interest rate risk due to the issue of bonds with a variable interest rate	18	-
	Total finance income	**148**	**70**
	Interest on borrowings including:	(48)	(92)
	leases	(10)	(8)
	Fees and charges on external financing	(30)	(28)
	Exchange differences on measurement and realisation of borrowings	(179)	(338)
	Losses on derivatives, of which:	(149)	(80)
Note 7.1	measurement	-	(1)
Note 7.1	realisation	(149)	(79)
	Unwinding of the discount effect	(11)	(8)
	Total finance costs	**(417)**	**(546)**
	Finance income /(costs)	**(269)**	**(476)**

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

Reversal of impairment losses on assets recognised in:	from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021
cost of sales, of which:	**52**	**20**
reversal of write-down of inventories	52	20
other operating income, of which:	**213**	**1 820**
reversal of impairment losses on shares in subsidiaries	-	1 010
reversal of allowance for impairment of loans measured at amortised cost	213	752
reversal of allowance for impairment of trade receivables	-	3
reversal of allowance for impairment of other financial receivables	-	52
reversal of allowance for impairment of other non-financial receivables	-	3
Reversal of impairment losses, total	**265**	**1 840**

Impairment losses on assets recognised in:		
cost of sales, of which:	**13**	**48**
impairment losses on property, plant and equipment and intangible assets	-	7
write-down of inventories	13	41
other operating costs, of which:	**13**	**199**
impairment losses on fixed assets under construction and intangible assets not yet available for use	6	13
impairment losses on shares in subsidiaries	-	182
allowance for impairment of trade receivables	-	3
allowance for impairment of other financial receivables	7	1
Impairment losses, total	**26**	**247**

in PLN millions, unless otherwise stated

PART 5 – Taxation

Note 5.1 Income tax in the statement of profit or loss

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

Income tax

		from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021
	Current income tax	1 228	1 414
Note 5.1.1	Deferred income tax	203	152
	Current tax adjustments for prior periods	32	(19)
	Income tax	**1 463**	**1 547**

In 2022, KGHM Polska Miedź S.A. paid income tax in the amount of PLN 1 575 million (in 2021: PLN 707 million) to the appropriate tax office. In 2021 as well as in 2022, income tax advances were incurred by the Company using the simplified formula, that is in the fixed amount calculated on the basis of income achieved in 2020 – for the advances in 2022, and on the basis of income achieved in 2019 - for the advances in 2021.

The difference between the amount of tax paid by the Company in 2022 and the amount of tax paid in 2021 arises mainly from the additional income tax paid in 2022 in the amount of PLN 826 million due to the annual settlement of income tax for 2021, performed as at 30 June 2022.

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

Reconciliation of effective tax rate

	from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021
Profit/(loss) before tax	**4 996**	**6 716**
Tax calculated using a rate of 19%	949	1 276
Tax effect of non-taxable income, including:	(104)	(494)
reversal of allowances for impairment of loans granted to subsidiaries	(94)	(294)
Tax effect of expenses not deductible for tax purposes, including:	589	794
minerals extraction tax	579	674
impairment losses on shares in subsidiaries and allowances for impairment of loans	1	40
Tax adjustments for prior periods	32	(19)
Current tax from settlement of the Tax Group	(3)	(10)
Income tax in profit or loss: 29.28% for 2022, 20.03% for 2021	**1 463**	**1 547**

in PLN millions, unless otherwise stated

Note 5.1.1 Deferred income tax

Accounting policies	Important estimates, assumptions and judgments
Deferred tax is determined using tax rates and tax laws that are expected to be applicable when the asset is realised or the liability is settled based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period. Deferred tax liabilities and deferred tax assets are recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the exception of temporary differences arising from initial recognition of assets or liabilities in transactions other than business combinations, which do not have an impact either on profit/(loss) before tax nor on the taxable profit/(tax loss) at the moment they are concluded. Deferred tax assets are recognised if it is probable that taxable profit will be available against which the temporary differences and unused tax losses can be utilised. Deferred tax assets and deferred tax liabilities are offset if the Company has a legally enforceable right to set off current tax assets and current tax liabilities, and if the deferred tax assets and deferred tax liabilities relate to income taxes levied on the Company by the same taxation authority.	The assessment of probability that deferred tax assets will be realised with future tax income is based on the Company's budget. The Company recognises deferred tax assets in its accounting books to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

	from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021
Deferred tax at the beginning of the period, of which:	**(290)**	**(81)**
Deferred tax assets	1 482	1 554
Deferred tax liabilities	(1 772)	(1 635)
Deferred tax in the period:	**(415)**	**(209)**
Recognised in profit or loss	(203)	(152)
Recognised in other comprehensive income	(212)	(57)
Deferred tax at the end of the period, of which:	**(705)**	**(290)**
Deferred tax assets	1 280	1 482
Deferred tax liabilities	(1 985)	(1 772)

Maturities of deferred tax assets/(deferred tax liabilities)

	As at 31 December 2022	As at 31 December 2021
Maturity over the 12 months from the end of the reporting period, net	(808)	(666)
Maturity of up to 12 months from the end of the reporting period, net	103	376

in PLN millions, unless otherwise stated

Deferred tax assets and liabilities

Deferred tax assets	As at 1 January 2021	Credited/(Charged) profit or loss	Credited/(Charged) other comprehensive income	As at 31 December 2021	Credited/(Charged) profit or loss	Credited/(Charged) other comprehensive income	As at 31 December 2022
Accrued and unpaid interest on borrowings	43	(20)	-	23	(3)	-	20
Provision for decommissioning of mines and other technological facilities	239	(67)	-	172	-	-	172
Measurement of forward transactions other than hedging instruments as understood by hedge accounting	31	38	-	69	(27)	-	42
Difference between the depreciation rates of property, plant and equipment for accounting and tax purposes	59	2	-	61	4	-	65
Future employee benefits	540	(2)	(126)	412	-	87	499
Equity instruments measured at fair value	103	-	-	103	-	18	121
Allowances for impairment/reversal of allowances for impairment of loans	40	(31)	-	9	(6)	-	3
Re-measurement of hedging instruments	234	-	70	304	-	(291)	13
Lease liabilities	55	13	-	68	20	-	88
Short-term accruals for remuneration	85	16	-	101	10	-	111
Liability related to the fixed fee due to setting mining usufruct	32	4	-	36	-	-	36
Recognition/reversal of other impairment losses on assets	14	3	-	17	(11)	-	6
Other	79	29	(1)	107	(3)	-	104
Total	**1 554**	**(15)**	**(57)**	**1 482**	**(16)**	**(186)**	**1 280**

in PLN millions, unless otherwise stated

Deferred tax liabilities	As at 1 January 2021	(Credited)/Charged profit or loss	As at 31 December 2021	(Credited)/Charged profit or loss	(Credited)/Charged other comprehensive income	As at 31 December 2022
Measurement of forward transactions other than hedging instruments as understood by hedge accounting	34	15	49	(10)	-	39
Re-measurement of hedging instruments	-	-	-	-	26	26
Difference between the depreciation rates for accounting and tax purposes, including:	1 162	72	1 234	87	-	1 321
difference between the depreciation rates of leases for accounting and tax purposes	54	15	69	19	-	88
Accrued and unpaid interest on loans	291	(43)	248	50	-	298
Measurement of financial assets at fair value	35	50	85	(7)	-	78
Difference between the carrying amount and tax base of expenditures on fixed assets under construction and intangible assets not yet available for use	101	26	127	51	-	178
Other	12	17	29	16	-	45
Total	**1 635**	**137**	**1 772**	**187**	**26**	**1 985**

in PLN millions, unless otherwise stated

Note 5.2 Other taxes and charges

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

					Presentation in the statement of profit or loss		
	from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021	Basis for calculating tax	Tax rate	from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021	
Minerals extraction tax, of which:	**3 046**	**3 548**			2 951	3 238	tax recognised in cost of sold products
- copper	2 650	3 012	Amount of copper in produced concentrate, expressed in tonnes	tax rate calculated for every reporting period*	95	310	tax recognised in inventories
- silver	396	536	Amount of silver in produced concentrate, expressed in kilograms				

** In accordance with conditions specified by the Act dated 2 March 2012 on the minerals extraction tax and the Act dated 24 February 2022 on amending the Act on personal income tax, Act on Vocational and Social Rehabilitation and Employment of Persons with Disabilities and the Act on the minerals extraction tax, which decreased the tax rates by approx. 30% from January to November 2022. In 2022, tax rates for copper ranged from PLN 5 136.69 to PLN 8 657.15 and for silver from PLN 352.90 to PLN 453.03 (in the comparable period for copper they ranged from PLN 4 926.27 to PLN 9 629.78, while for silver from PLN 369.76 to PLN 449.38).*

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

Other taxes and charges:

	from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021
Royalties	122	116
Excise tax	5	6
Real estate tax	231	214
Other taxes and charges	129*	62
Total	**487**	**398**

**Including costs of surrender of CO_2 emission allowances in the amount of PLN 56 million.*

Note 5.3 Tax assets and liabilities

Accounting policies
Tax assets comprise current income tax assets and the settlement related to VAT. Assets not representing financial assets are initially recognised at nominal value and are measured at the end of the reporting period at the amount due. Tax liabilities comprise the Company's liabilities towards the Polish Tax Office arising from the corporate income tax, including due to the withholding tax, personal income tax and liabilities towards Customs Chamber due to the minerals extraction tax and the excise tax. Liabilities not representing financial liabilities are measured at the amount due.

in PLN millions, unless otherwise stated

Tax assets

	As at 31 December 2022	As at 31 December 2021
VAT receivables	**312**	**301**

Tax liabilities

	As at 31 December 2022	As at 31 December 2021
Current corporate income tax liabilities	601	838
Other tax liabilities	460	453
Tax liabilities	**1 061**	**1 291**

Tax authorities may audit accounting books and tax settlements during the 5 years since the end of the year in which the tax declarations were submitted and charge the Company with an additional tax together with penalties and interest. In the Management Board's opinion, there are no circumstances indicating the possibility that significant tax liabilities may occur.

in PLN millions, unless otherwise stated

PART 6 – Investments in subsidiaries

Note 6.1 Subsidiaries

Accounting policies	Important estimates, assumptions and judgments
In the financial statements of the Company, subsidiaries are those entities which are directly controlled by the Company. Investments in subsidiaries are measured at cost plus any granted non-returnable increases in share capital, including for the coverage of losses presented in the financial statements of a subsidiary and as a result of discounting interest-free returnable payments, less any impairment losses. Pursuant to IAS 36, impairment is measured by comparing the carrying amount with the higher of the following amounts: • fair value, decreased by costs to sell; and • value in use. The Company controls an entity if it simultaneously: • has power over the entity it invested in; • is exposed to variable returns or has rights to them; and • can use its power over the entity to affect the amount of its returns.	In the Company's opinion, power over individual entities recognised as subsidiaries is exercised through ownership of the majority of the total number of votes in the governing bodies of such entities. Important estimates, assumptions and judgments related to the assessment of the risk of impairment were presented in part 3 of these financial statements.

	2022	2021
As at 1 January	**3 691**	**2 848**
Acquisition of shares and increases in share capital, of which:	375	38
KGHM Centrum Analityki sp. z o.o.	7	-
Cuprum Zdrowie sp. z o.o. (formerly Cuprum Nieruchomości sp. z o.o.)	368	-
KGHM ZANAM S.A.	-	38
Reversal of impairment losses on Future 1 Sp. z o.o.	-	1 010
Impairment losses - of which:	-	(182)
"Energetyka" sp. z o.o.	-	(182)
Repurchase of investment certificates of KGHM VII FIZAN	(365)	(31)
Other decreases	-	8
As at 31 December	**3 701**	**3 691**

As at 30 June 2022, the Company performed impairment testing of investment certificates of KGHM VII FIZAN, which did not indicate any impairment (there was no change in the recoverable amount). As a result of repurchase of investment certificates of KGHM VII FIZAN, as at 31 December 2022 the Company did not hold any other certificates in Closed-End Non-Public Investment Funds (Fundusz Inwestycji Zamkniętych Aktywów Niepublicznych, FIZAN).

The balance of impairment losses on the investments as at 31 December 2022 amounted to PLN 3 232 million (as at 31 December 2021: PLN 3 272 million). The decrease in the balance of investment losses was a result of the repurchase of certificates and the liquidation of KGHM VII FIZAN, which the impairment losses concerned. A more detailed description may be found in Part 3. Change in the balance of impairment loss on the investment in subsidiaries is presented in the following table.

in PLN millions, unless otherwise stated

	2022	2021
As at 1 January	**3 272**	**4 117**
Impairment losses, of which:	-	182
"Energetyka" sp. z o.o.	-	182
Reversal of impairment losses, of which:	-	(1 010)
Future 1 Sp. z o.o.	-	(1 010)
Repurchase of investment certificates of KGHM VII FIZAN	(40)	(5)
Other decreases	-	(12)
As at 31 December	**3 232**	**3 272**

The balance of impairment losses on the investments as at 31 December 2022 and as at 31 December 2021 by individual investments in subsidiaries Is presented in the following table

	As at 31 December 2022	As at 31 December 2021
Energetyka sp. z o.o.	388	388
MCZ S.A.	14	14
KGHM Metraco S.A.	86	86
Zagłebie Lubin S.A.	81	81
Future 1	2 663	2 663
KGHM VII FIZAN	-	40
Total	**3 232**	**3 272**

The most significant investments in subsidiaries (direct share)

Entity	Head Office	Scope of activities	Carrying amount of shares/investment certificates	
			as at 31 December 2022	as at 31 December 2021
FUTURE 1 Sp. z o.o.	Lubin	management and control of other companies, including the KGHM INTERNATIONAL LTD. Group	2 111	2 111
KGHM VII FIZAN	Wrocław	cash investing in securities, money market instruments and other property rights	-	365*
CUPRUM Zdrowie Sp. z o.o. (formerly Cuprum Nieruchomości sp. z o.o)	Wrocław	management of assets in the form of, among others, companies conducting spa activities	376**	7
KGHM Metraco S.A.	Legnica	trade, agency and representative services	335	335
"Energetyka" sp. z o.o.	Lubin	generation, distribution and sale of electricity and heat	117	117

As at 31 December 2022 and as at 31 December 2021, the % of share capital held as well as the % of voting power in the above-mentioned subsidiaries was 100%.

* In 2021 (third quarter), within the fund structure, a reorganisation was performed within the Group with respect to portfolio companies of the KGHM VI FIZAN Fund and the KGHM VII FIZAN Fund, which arose from the need to adjust the structure of the Funds' investment portfolios to the statutory requirements. As a result of these actions, the KGHM VI FIZAN and KGHM VII FIZAN Funds were merged, whereas KGHM VI FIZAN was the acquired fund and KGHM VII FIZAN was the acquiring fund. As a result of this merger, the carrying amount of the investments in KGHM VII FIZAN as at 31 December 2021 increased to the amount of PLN 365 million (an increase by PLN 110 million).

**The process of reorganisation of the KGHM VII FIZAN Fund's portfolio companies was continued in 2022. The Extraordinary Shareholders' Meeting of the direct subsidiary CUPRUM Nieruchomości sp. z o.o. increased the entity's share capital by the amount of PLN 368 million. All of the shares in the increased share capital were acquired by KGHM Polska Miedź S.A. At the same time, the name of the company was changed from CUPRUM Nieruchomości sp. z o.o. to CUPRUM Zdrowie sp. z o.o. Subsequently, sales transactions were concluded by KGHM VII FIZAN to the company CUPRUM Zdrowie sp. z o.o. of shares in all of the Fund's portfolio companies, including four spa companies: Uzdrowiska Kłodzkie S.A. - Grupa PGU, Uzdrowisko Połczyn Grupa PGU S.A., Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU, Uzdrowisko Świeradów - Czerniawa Sp. z o.o. – Grupa PGU.

KGHM VII FIZAN acquired from KGHM Polska Miedź S.A., on the Company's demand, the Fund's Investment Certificates for the amount of PLN 367 million and on 19 September 2022 the Investor's Meeting of KGHM VII FIZAN adopted a resolution of the dissolution of the Fund. The liquidation of the Fund was completed on 22 November 2022 and on 20 December 2022 the KGHM VII FIZAN Fund was removed from the Register of Funds.

Note 6.2 Receivables due to loans granted

Accounting policies
The Company classifies loans granted to individual categories using the following policies: Loans measured at amortised cost – to this category, the Company classifies loans that met two conditions: they are in a business model whose objective is to collect contractual cash flows due to holding assets, and have passed the SPPI (solely payments of principal and interest) test, that is they are maintained in order to collect the principal amount and interest. They are initially recognised at fair value adjusted by costs directly associated with the loan and are measured at the end of the reporting period at amortised cost using the effective interest rate method, including impairment calculated using the model of expected credit losses on the basis of discounted cash flows. POCI loans –the Company classifies as POCI, at the moment of initial recognition, financial assets that are credit-impaired due to high credit risk at the moment they are granted or if the loans were purchased at a significant discount. POCI loans are measured at the end of the reporting period at amortised cost using the effective interest rate adjusted by the credit risk, including impairment calculated using the model of expected credit losses (ECL) on the basis of discounted cash flows in the horizon of the expected repayment of the loan. The loss allowance for ECL is calculated on the basis of expected credit losses during the whole life of the instrument. Accumulated changes to the expected credit losses are recognised as an increase or a reversal of an already recognised loss allowance for expected credit losses. Currently presented POCI loans are loans granted (not acquired). Classification was set due to the implementation of IFRS 9 in 2018 due to the recognised impairment at the moment of initial recognition. The loans measured at fair value through profit or loss – to this category, the Company classifies loans that did not pass the SPPI (solely payments of principal and interest) test. The fair value of these loans is set at present value of future cash flows, including the change of market risk and credit risk factors during the loans' life. Financial assets, for which the Company has to calculate the expected credit losses pursuant to IFRS 9, are classified to one of three degrees of a model of impairment. Classification to individual degrees of impairment model is at the level of a single financial instrument (a single exposure). To the degree 2, the Company classifies financial instruments with an identified significant increase in credit risk, understood as a significant increase in probable default in the remaining time of the instrument as compared to the date of its initial recognition, but there were no objective indicators of impairment. The expected credit losses for the degree 2 are estimated during the entire life of these instruments. If at the end of the reporting period the analysis proves that for a given financial instrument, since the day of its initial recognition, there was not a significant increase in credit risk and no default status was granted, the instrument is classified to the degree 1 of a model of impairment. For exposures classified to the degree 1, the expected credit losses are estimated in a horizon of 12 months. Balances with an identified, objective indication of impairment are included in the degree 3. At the end of the reporting period, no financial instrument was defaulted (criteria classifying to the degree 3) and therefore, the Company did not classify any of the loans granted to the degree 3.

Important estimates, assumptions and judgments
Failed SPPI test - The Company assumes that the solely payments of principal and interest (SPPI) test for loans granted is not passed if, among others, in the structure of financing the target recipient of funds, debt is changed at the last stage into an equity investment. Indications to classify the loan to the degree 2 of impairment model is the occurrence of one of the following: • for exposition of the borrower's rating - at the level of Baa3 (per the Moody's methodology or a corresponding one for the S&P/Fitch ratings) or better (investment rating) – a drop in the borrower's rating by at least 5 levels, • for exposition of the borrower's rating - at the level of Ba1 (per the Moody's methodology or a corresponding one for the S&P/Fitch ratings) or worse (below investment rating) – a drop in the borrower's rating by at least 3 levels,

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- deterioration of operational cash flows forecasts of a borrower – in the time horizon of the exposure, which does not result in the impossibility of settling the liability arising from a given loan,
- change in conditions of the loan due to the worsening financial position of the borrower, which has an impact of less than 1% of the value of the loan at the date of change (a change in the conditions of the loan from reasons other than the worsening financial position of the borrower are not included in the assessment of occurrence of a given indication),
- delay in the repayment of over 30 days (after the maturity date of interest or capital).

Balances with an identified, objective indication of impairment are included in the degree 3. The Company recognises occurrence of at least one of the following events as an objective indication of default:

- borrower's rating at the level of Ca (per the Moody's methodology or a corresponding one for the S&P/Fitch ratings) or lower,
- deterioration of operational cash flows forecasts of a borrower – in the time horizon of the exposure, which results in the impossibility of settling the liability arising from a given loan,
- change in conditions of the loan due to the worsening financial position of the borrower, which has an impact of more than 1% of the value of the loan at the date of change (a change in the conditions of the loan from reasons other than the worsening financial position of the borrower are not included in the assessment of occurrence of a given indication),
- delay in the repayment of over 30 days (after the maturity date of interest or capital) – if at the date of analysis the loan was at stage 2 of calculating the allowance for impairment,
- delay in the repayment of over 90 days (after the maturity date of interest or capital) – if at the date of analysis the loan was at stage 1 of calculating the allowance for impairment.

In order to calculate expected credit losses (ECL), the Company uses, among others, the following parameters:

- the borrower's rating - is granted using internal methodology of the Company based on the Moody's methodology. The Company granted loans mainly to subsidiaries, of which over 99% of borrowers were assigned ratings between A2 – Baa2 (in the comparable period: Baa1 – Baa3).
- the curve of accumulated parameters of PD (parameter of probability of default, used to calculate the expected credit losses) for a given borrower is set on the basis of market sector quotations of Credit Default Swap contracts from the Reuters system, which quantify the market expectations as for the potential probability of default in a given sector and in a given rating. As at 31 December 2022, PD parameters for the adopted ratings were as follows:

A2 to Baa2 ratings according to Moody's (31 December 2022)

Up to one year	0.69% - 1.39%
1-3 years	1.84% - 3.22%
More than 3 years (at the date of loans' maturity)	1.84% - 9.92%

Baa1 to Baa3 ratings according to Moody's (31 December 2021)

Up to one year	0.76% - 1.15%
1-3 years	3.52% - 5.35%
More than 3 years (at the date of loans' maturity)	3.52% - 15.57%

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

As at 31 December 2022 no decision was made whether to demand the repayment of loans with a contractual on-demand payment clause, including in the period of 12 months from the end of the reporting period, and no joint decision was made by the owners of Sierra Gorda S.C.M. in this regard.

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

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

in PLN millions, unless otherwise stated

Loans that at the last stage of cash flows between companies in the Future 1 Sp. z o.o. holding structure or KGHM INTERNATIONAL LTD. were transferred as loans to a joint venture Sierra Gorda S.C.M., advanced by the KGHM INTERNATIONAL LTD. Group, were classified as POCI loans (identified allowance for impairment due to a credit risk at the moment of granting). These loans, pursuant to contractual terms, are paid on demand, but not later than 15 December 2024 and at the end of the reporting period, presented as long-term loan receivables, since at the end of the reporting period no decision was made whether to demand the repayment of these loans, including in the period of 12 months from the end of the reporting period, and no joint decision was made by the owners of Sierra Gorda S.C.M. in this regard.

The Company presents, in the category of loans classified as measured at fair value through profit or loss, loans that at the last stage of cash flows between companies in the Future 1 Sp. z o.o. holding structure or KGHM INTERNATIONAL LTD. were transferred mainly as increases in share capital of Sierra Gorda S.C.M. The maturity of these loans falls in December 2024.

At the end of the reporting period, the Company performed a measurement of loans classified to level 3 of the fair value hierarchy (measured at fair value as well as at amortised cost (for disclosure purposes)) designated mainly for financing the joint venture Sierra Gorda S.C.M. The basis of measuring the level of recoverability of loans at the level of the separate financial statements of KGHM Polska Miedź S.A. is the estimation of cash flows generated by Sierra Gorda S.C.M and other significant international production assets, which are subsequently allocated by the Company in individual loans at various levels of the current financing structure. The estimate of cash flows generated by Sierra Gorda S.C.M. and other mines was determined on the basis of current forecasts of pricing paths of commodities and current mining plans.

Other important assumptions used in the measurement of loans concern the following:

- the probability of realisation of individual measurement scenarios,
- the level of production,
- the level of costs,
- the level of capital expenditures,
- the external financing of Sierra Gorda,
- the form and level of financing Sierra Gorda by owners,
- taxation at the level of Sierra Gorda S.C.M.,
- the distribution of cash,

Future realisation, or not, of assumptions will depend on many macroeconomic, operational and financial factors, as well as agreements made between JV partners

The expected repayments of loans were discounted using:

- the effective interest rate adjusted by the credit risk, determined at the initial recognition of the loan pursuant to IFRS 9.B5.5.45 at the level of 3.69% - 6.64% - for loans measured at amortised cost
- the market interest rate at the level of 5.87% - 9.75% - for loans measured at fair value.

In the period from 1 January to 31 December 2022, the following was recognised:

- gains on reversal of an allowance for impairment of loans granted classified as POCI in the amount of PLN 162 million (USD 37 million translated at exchange rates from the date of recognition of the reversal of an allowance for impairment);

- for loans measured at fair value – an increase in fair value in the amount of PLN 600 million was recognised, of which the increase in the fair value due to measurement in the amount of PLN 337 million (USD 83 million) and exchange differences in the amount of PLN 263 million.

The increase in the fair value of loans is mainly a result of an increase in expected future cash flows of Sierra Gorda S.C.M. estimated on the basis of current at the end of the reporting period forecasts of price paths of commodities.

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

	as at 31 December 2022	as at 31 December 2021
Loans measured at amortised cost – gross amount	5 603	5 505
Allowances for impairment	(51)	(98)
Loans measured at fair value	3 233	2 959
Total, including:	**8 785**	**8 366**
- long-term loans	8 763	8 249
- short-term loans	22	117

The most significant items are loans granted to companies of the KGHM Polska Miedź S.A. Group, which are connected with the realisation of mining projects executed by indirect subsidiaries of KGHM Polska Miedź S.A. from the KGHM INTERNATIONAL LTD. Group. Credit risk related to loans granted was described in Note 7.5.2.5.

in PLN millions, unless otherwise stated

PART 7 – Financial instruments and financial risk management

Note 7.1 Financial Instruments

	Financial assets:	As at 31 December 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	483	3 238	5 962	709	**10 392**	581	2 969	5 796	585	**9 931**
Note 6.2	Loans granted	-	3 233	5 530	-	**8 763**	-	2 959	5 290	-	**8 249**
Note 7.2	Derivatives	-	5	-	709	**714**	-	10	-	585	**595**
Note 7.3	Other financial instruments measured at fair value	483	-	-	-	**483**	581	-	-	-	**581**
Note 7.4	Other financial instruments measured at amortised cost	-	-	432	-	**432**	-	-	506	-	**506**
	Current	-	496	2 060	755	**3 311**	-	472	2 252	249	**2 973**
Note 10.2	Trade receivables	-	455	165	-	**620**	-	467	133	-	**600**
Note 7.2	Derivatives	-	41	-	755	**796**	-	5	-	249	**254**
Note 8.5	Cash and cash equivalents	-	-	985	-	**985**	-	-	1 332	-	**1 332**
	Cash pooling receivables*	-	-	588	-	**588**	-	-	498	-	**498**
Note 12.3	Other financial assets	-	-	322	-	**322**	-	-	289	-	**289**
	Total	**483**	**3 734**	**8 022**	**1 464**	**13 703**	**581**	**3 441**	**8 048**	**834**	**12 904**

** Receivables from companies within the KGHM Polska Miedź S.A. Group which indebted themselves in the cash pooling system.*

in PLN millions, unless otherwise stated

	Financial liabilities:	As at 31 December 2022 At fair value through profit or loss	As at 31 December 2022 At amortised cost	As at 31 December 2022 Hedging instruments	As at 31 December 2022 Total	As at 31 December 2021 At fair value through profit or loss	As at 31 December 2021 At amortised cost	As at 31 December 2021 Hedging instruments	As at 31 December 2021 Total
	Non-current	**19**	**5 223**	**700**	**5 942**	**77**	**5 386**	**1 056**	**6 519**
Note 8.4	Borrowings, lease and debt securities	-	5 000	-	**5 000**	-	5 180	-	**5 180**
Note 7.2	Derivatives	19	-	700	**719**	77	-	1 056	**1 133**
	Other financial liabilities	-	223	-	**223**	-	206	-	**206**
	Current	**188**	**4 401**	**280**	**4 869**	**199**	**3 466**	**848**	**4 513**
Note 8.4	Borrowings, lease and debt securities	-	1 124	-	**1 124**	-	382	-	**382**
Note 8.4	Cash pooling liabilities*	-	321	-	**321**	-	360	-	**360**
Note 12.4	Other liabilities due to settlement under cash pooling contracts **	-	29	-	**29**	-	25	-	**25**
Note 7.2	Derivatives	154	-	280	**434**	40	-	848	**888**
Note 10.3	Trade payables	-	2 819	-	**2 819**	-	2 558	-	**2 558**
Note 10.3	Similar payables – reverse factoring	-	-	-	**-**	-	55	-	**55**
	Other financial liabilities	34	108	-	**142**	159	86	-	**245**
	Total	**207**	**9 624**	**980**	**10 811**	**276**	**8 852**	**1 904**	**11 032**

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

in PLN millions, unless otherwise stated

Gains/(losses) on financial instruments

	from 1 January 2022 to 31 December 2022	Financial assets/liabilities measured at fair value through profit or loss	Financial assets measured at amortised cost	Financial liabilities measured at amortised cost	Hedging instruments	Total
Note 4.2	Interest income	-	348	-	-	348
Note 4.3	Interest income/(costs)	-	-	(90)	60	(30)
Note 4.2	Foreign exchange gains/(losses) other than borrowings	-	549	(49)	-	500
Note 4.3	Foreign exchange losses on borrowings	-	-	(179)	-	(179)
Note 4.2	Fair value gains/(losses) on financial assets measured at fair value through profit or loss	544	-	-	-	544
Note 4.4	Reversal/(recognition) of impairment losses	-	206	-	-	206
Note 7.2	Revenues from contracts with customers	-	-	-	(182)	(182)
Note 4.2 Note 4.3	Gains on measurement and realisation of derivatives	398	-	-	-	398
Note 4.2 Note 4.3	Losses on measurement and realisation of derivatives	(329)	-	-	(310)	(639)
Note 4.3	Fees and charges on bank loans drawn	-	-	(30)	-	(30)
	Other	-	-	(11)		(11)
	Total net gain/(loss)	**613**	**1 103**	**(359)**	**(432)**	**925**

in PLN millions, unless otherwise stated

	from 1 January 2021 to 31 December 2021	Financial assets/liabilities measured at fair value through profit or loss	Financial assets measured at amortised cost	Financial liabilities measured at amortised cost	Hedging instruments	Total
Note 4.2	Interest income	-	304	-	-	304
Note 4.3	Interest costs	-	-	(92)	-	(92)
Note 4.2	Foreign exchange gains/(losses) other than borrowings	-	1 056	(545)	-	511
Note 4.3	Foreign exchange losses on borrowings	-	-	(338)	-	(338)
Note 4.2	Fair value gains/(losses) on financial assets measured at fair value through profit or loss	1 007	-	-	-	1 007
Note 4.4	Reversal/(recognition) of impairment losses	-	803	-	-	803
Note 7.2	Revenues from contracts with customers	-	-	-	(1 651)	(1 651)
Note 4.2 Note 4.3	Gains on measurement and realisation of derivatives	393	-	-	-	393
Note 4.2 Note 4.3	Losses on measurement and realisation of derivatives	(848)	-	-	-	(848)
Note 4.3	Fees and charges on bank loans drawn	-	-	(28)	-	(28)
	Other	-	-	(8)	-	(8)
	Total net gain/(loss)	**552**	**2 163**	**(1 011)**	**(1 651)**	**53**

Fair value measurement

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

in PLN millions, unless otherwise stated

The fair value hierarchy of financial instruments

Classes of financial instruments	As at 31 December 2022 fair value level 1	level 2	level 3	carrying amount	As at 31 December 2021 fair value level 1	level 2	level 3	carrying amount
Loans granted measured at fair value	-	-	3 233	3 233	-	0	2 959	2 959
Loans granted measured at amortised cost	-	143	5 409	5 552	-	224	5 340	5 407
Listed shares	386	-	-	386	484	-	-	484
Unquoted shares	-	97	-	97	-	97	-	97
Trade receivables	-	455	-	455	-	467	-	467
Other financial assets	-	37	-	37	-	10	-	10
Derivatives	-	357	-	357	-	(1 172)	-	(1 172)
Assets	-	1 510	-	1 510	-	849	-	849
Liabilities	-	(1 153)	-	(1 153)	-	(2 021)	-	(2 021)
Long-term bank and other loans	-	(2 387)	-	(2 387)	-	(2 669)	-	(2 656)
Long-term debt securities	(1 952)	-	-	(2 000)	(2 034)	-	-	(2 000)
Other financial liabilities	-	(34)	-	(34)	-	(159)	-	(159)

Discount rate adopted for disclosure of fair value of loans granted measured at amortised cost.

Loans granted measured at amortised cost

Loans per impairment model	As at 31 December 2022 discount rate level 2	level 3	carrying amount
2nd degree (fixed interest rate)	6.92%	x	55
1st degree (variable interest rate)	6.94% (Wibor 1M)	x	88
2nd degree (fixed interest rate)	x	5.87%	3 572
POCI (fixed interest rate)*	x	9.75%	1 837
		Total	**5 552**

*Real discount rate

Loans per impairment model	As at 31 December 2021 discount rate level 2	level 3	carrying amount
1st and 2nd degree (fixed interest rate)	6.10%	x	151
1st degree (variable interest rate)	1.70% (Wibor 1M)	x	80
2nd degree (fixed interest rate)	x	2.29%	3 547
POCI (fixed interest rate)*	x	8.00%	1 629
		Total	**5 407**

*Real discount rate

Methods and measurement techniques used by the Company 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

Long-term loans granted
The fair value of loans measured at amortised cost 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. IBOR current market interest rare acquired from the Reuters system is used in the discounting process.

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.

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

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

Metals derivatives

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

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

Level 3

Long-term loans granted

The fair value of loans was estimated using the forecasted cash flows of international assets (Sierra Gorda S.C.M.), which pursuant to IFRS 13 are unobservable input data, and the fair value of assets determined using the same data is classified to level 3 of the fair value hierarchy.

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

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

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

Note 7.2 Derivatives

Accounting policies
Derivatives are classified as financial assets/liabilities measured at fair value through profit or loss, unless they have not been designated as hedging instruments. Purchases or sales of derivatives are recognised at the transaction date. Derivatives not designated as hedges, defined as trade derivatives, are initially recognised at fair value and at the end of the reporting period are measured at fair value, with recognition of the gains/losses on measurement in profit or loss. The Company applies hedge accounting for cash flows. Hedge accounting aims at reducing volatility in the Company's net result, arising from periodic changes in the measurement of transactions hedging individual types of market risk to which the Company is exposed. Hedging instruments may be derivatives as well as bank and other loans in foreign currencies. The designated hedges mostly relate to the future sales transactions forecasted as assumed in the Sales Plan for a given year. These plans are prepared based on the production capacities for a given period. The Company estimates that the probability that transactions included in the production plan will occur is very high, as from the historical point of view sales were always realised at the levels assumed in Sales Plans. Future cash flows arising from interest on bonds issued in PLN also represent a hedged position. The Company may use natural currency risk hedging through the use of hedge accounting for bank and other loans denominated in USD, and designates them as positions hedging foreign currency risk, which relates to future revenues of the Company from sales of copper, silver and other metals, denominated in USD. Gains and losses arising from changes in the fair value of the cash flow hedging instrument are recognised in other comprehensive income, to the extent by which the change in fair value represents an effective hedge of the associated hedged item. In addition, as a cost of hedging, the Company recognises in other reserves from measurement of financial instruments a part of the change of the hedging instrument arising from changes in the time value of the option, the forward element and currency margin. The portion which is ineffective is recognised in profit or loss as other operating income or costs. Gains or losses arising from the cash flow hedging instrument are recognised in profit or loss as a reclassification adjustment, in the same period or periods in which the hedged item affects profit or loss. The Company ceases to account for derivatives as hedging instruments when they expire, are sold, terminated or settled, or when the goal of risk management for a given relation has changed. The Company may designate a new hedging relationship for a given derivative, change the intended use of the derivative, or designate it to hedge another type of risk. In such a case, for cash flow hedges, gains or losses which arose in the periods in which the hedge was effective are retained in accumulated other comprehensive income until the hedged item affects profit or loss. If the hedge of a forecasted transaction ceases to function because it is probable that the forecasted transaction will not occur, then the net gain or loss recognised in other comprehensive income is immediately transferred to profit or loss as a reclassification adjustment. If a hybrid contract has an underlying instrument, which is not a financial asset, the derivative is separated from the underlying instrument and is measured pursuant to rules for derivatives only, if (i) the economic characteristic and risk of the embedded instrument are not strictly related to the character of the host contract and its risks, (ii) a separate instrument, whose characteristics reflect the traits of the embedded derivative, would fulfil the conditions of the derivatives, and (iii) the combined instrument is not classified to financial assets measured at fair value, whose results of revaluation are recognised in other income or other operating costs in the reporting period. If an embedded derivative is separated, the underlying instrument is measured pursuant to appropriate accounting principles. The Company separates embedded derivatives in commodities transactions with settlement periods in the future, after the date of recognising a purchase invoice in the books up to the date of final settlement of the transaction. If a hybrid contract has an underlying instrument, which is a financial asset, the criteria for classification of financial assets are applied to the whole contract.

Important estimates and assumptions
Assumptions and estimates adopted for the measurement of fair value of derivatives were presented in Note 7.1, in point „Methods and measurement techniques used by the Company in determining fair values of each class of financial assets or financial liabilities" and in tables in Note 7.2. below.

in PLN millions, unless otherwise stated

Derivatives – open items as at the end of the reporting period

Type of derivative	As at 31 December 2022					As at 31 December 2021				
	Financial assets		Financial liabilities			Financial assets		Financial liabilities		
	Non-current	Current	Non-current	Current	Total	Non-current	Current	Non-current	Current	Total
Hedging instruments (CFH), including:	**709**	**755**	**(700)**	**(280)**	**484**	**585**	**249**	**(1 056)**	**(848)**	**(1 070)**
Derivatives – Metals (price of copper, silver)										
Options – *seagull** (copper)	60	440	(36)	(232)	**232**	299	89	(578)	(837)	**(1 027)**
Options – *collar* (silver)	-	-	-	-	**-**	11	97	-	-	**108**
Options – *seagull** (silver)	5	50	(1)	(3)	**51**	92	49	(14)	-	**127**
Derivatives – Currency (USDPLN exchange rate)										
Options – *collar*	328	262	(88)	(11)	**491**	1	5	(2)	(6)	**(2)**
Options – *seagull**	1	3	(6)	(34)	**(36)**	20	9	(31)	(5)	**(7)**
Derivatives – Currency-interest rate										
Cross Currency Interest Rate Swap CIRS	315	-	(569)	-	**(254)**	162	-	(431)	-	**(269)**
Trade instruments, including:	**5**	**41**	**(14)**	**(118)**	**(86)**	**6**	**3**	**(72)**	**(39)**	**(102)**
Derivatives – Metals (price of copper, silver, gold)										
Sold put option (copper)	-	-	(13)	(49)	**(62)**	-	-	(57)	(6)	**(63)**
Purchased put option (copper)	-	1	-	-	**1**	-	-	-	-	**-**
Purchased call option (copper)	4	32	-	-	**36**	-	-	-	-	**-**
QP adjustment *swap* transactions (copper)	-	-	-	(10)	**(10)**	-	-	-	(5)	**(5)**
Sold put option (silver)	-	-	(1)	(1)	**(2)**	-	-	(10)	(3)	**(13)**
Purchased put option (silver)	-	-	-	-	**-**	-	2	-	-	**2**
Purchased call option (silver)	-	-	-	-	**-**	1	-	-	-	**1**
QP adjustment *swap* transactions (gold)	-	4	-	(14)	**(10)**	-	-	-	(2)	**(2)**
Derivatives – Currency (USDPLN exchange rate)										
Sold put option	-	-	-	(1)	**(1)**	-	-	(5)	(2)	**(7)**
Purchased put option	-	-	-	-	**-**	1	1	-	-	**2**
Purchased call option	1	4	-	-	**5**	4	-	-	-	**4**
Embedded derivatives (price of copper, silver, gold)										
Purchase contracts for metal-bearing materials	-	-	-	(43)	**(43)**	-	-	-	(21)	**(21)**
Instruments initially designated as hedging instruments excluded from hedge accounting, including:	**-**	**-**	**(5)**	**(36)**	**(41)**	**4**	**2**	**(5)**	**(1)**	**-**
Derivatives – Currency (USDPLN exchange rate)										
Options – *seagull*	-	-	(1)	(4)	**(5)**	4	2	(4)	(1)	**1**
Derivatives – Metals (price of copper and silver)										
Options – *seagull (silver)*	-	-	-	-	**-**	-	-	(1)	-	**(1)**
Options – *seagull (copper)*	-	-	(4)	(32)	**(36)**	-	-	-	-	**-**
TOTAL OPEN DERIVATIVES	**714**	**796**	**(719)**	**(434)**	**357**	**595**	**254**	**(1 133)**	**(888)**	**(1 172)**

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

The table below presents detailed data on derivative transactions designated as hedging, held by the Company as at 31 December 2022.

Open hedging derivatives	**Notional**	**Average weighted price /exchange rate/interest rate**	**Maturity settlement period**		**Period of profit/loss impact*** **	
Type of derivative	copper [t] silver [mn ounces] currency [USD mn] CIRS [PLN mn]	[USD/t] [USD/ounce] [USD/PLN] [USD/PLN, fixed interest rate for USD]	from	to	from	to
Copper – *seagulls**	189 000	8 075 - 9 759	Jan'23	- Dec'23	Jan'23	- Jan'24
Silver – *seagulls**	4.20	26.00 - 42.00	Jan'23	- Dec'23	Jan'23	- Jan'24
Currency – *collars*	2 640	4.58 - 5.78	Jan'23	- Dec'24	Jan'23	- Jan'25
Currency – *seagulls**	315	3.94 - 4.54	Jan'23	- Dec'23	Jan'23	- 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.*
**** Reclassification of profits or losses on a cash flow hedging instrument from other comprehensive income to the statement of profit or loss takes place in the reporting period in which the hedged position impacts profit or loss (as an adjustment of a hedged position and to other operating income/costs for the settled hedging cost). However, the recognition of the result on the settlement of the transaction takes place on the date of its settlement.*

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

Open hedging derivatives	**Notional**	**Average weighted price /exchange rate/interest rate**	**Maturity - settlement period**		**Period of profit/loss impact*** **	
Type of derivative	copper [t] silver [mn ounces] currency [USD mn] CIRS [PLN mn]	[USD/t] [USD/ounce] [USD/PLN] [USD/PLN, fixed interest rate for USD]	from	to	from	to
Copper – *seagulls* *	243 000	7 553-9 227	Jan'22	- Dec'23	Jan'22	- Jan'24
Silver – *collars*	6.60	26.36-55.00	Jan'22	- Dec'22	Jan'22	- Jan'23
Silver – *seagulls**	7.80	26.00-42.00	Jan'22	- Dec'23	Jan'22	- Jan'24
Currency – collars	240	3.85-4.60	July'22	- Dec'22	July'22	Jan'23
Currency – *seagulls**	630	3.94-4.54	Jan'22	- Dec'23	Jan'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.*
**** Reclassification of profits or losses on a cash flow hedging instrument from other comprehensive income to the statement of profit or loss takes place in the reporting period in which the hedged position impacts profit or loss (as an adjustment of a hedged position and to other operating income/costs for the settled hedging cost). However, the recognition of the result on the settlement of the transaction takes place on the date of its settlement.*

in PLN millions, unless otherwise stated

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

Statement of profit or loss	from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021
Revenues from contracts with customers (reclassification adjustment)	(182)	(1 651)
Other operating income / (costs) (including the reclassification adjustment):	(222)	(445)
realisation of derivatives	(214)	(513)
measurement of derivatives	(8)	68
Finance income / (costs):	41	(44)
realisation of derivatives	(19)	(9)
measurement of derivatives	-	(1)
interest on borrowings (reclassification adjustment)	60	(34)
Impact of derivatives and hedging instruments on profit or loss for the period (excluding the tax effect)	**(363)**	**(2 140)**
Statement of other comprehensive income		
Measurement of hedging transactions (effective portion)	1 239	(2 431)
Reclassification to revenues from contracts with customers due to realisation of a hedged item	182	1 651
Reclassification to finance costs due to realisation of a hedged item	(60)	34
Reclassification to other operating costs due to realisation of a hedged item (settlement of the hedging cost)	310	379
Impact of hedging transactions (excluding the tax effect)*	**1 671**	**(367)**
TOTAL COMPREHENSIVE INCOME	**1 308**	**(2 507)**

**Amounts of income tax corresponding to individual items of other comprehensive income are presented in Note 8.2.2.*

Note 7.3 Other financial instruments measured at fair value

Accounting policies
The item "Other financial instruments measured at fair value" includes: shares (listed and unquoted) which were not acquired for trading purposes, for which the option of measurement at fair value through other comprehensive income was selected in order to limit the volatility of the result. These assets are initially recognised at fair value increased by transaction costs, and at the end of the reporting period they are measured at fair value with recognition of gains/losses from measurement in other comprehensive income. The amounts recognised in accumulated other comprehensive income are not transferred later to profit or loss, while accumulated gains/losses on a given equity instrument are transferred within equity to retained earnings at the moment an equity instrument ceases to be recognised. Dividends from such investments are recognised in profit or loss. The fair value of listed shares is calculated based on the closing price as at the end of the reporting period. The translations of shares expressed in a foreign currency is performed according to the accounting policies described in Note 1.3.

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

	As at 31 December 2022	As at 31 December 2021
Shares of listed companies (Warsaw Stock Exchange and TSX Venture Exchange) of which:	386	484
TAURON POLSKA ENERGIA S.A.	386	483
ABACUS MINING & EXPLORATION	-	1
Unquoted shares	97	97
Other financial instruments measured at fair value	**483**	**581**

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

In 2022 as well as in 2021, there were no dividends from companies in which the Company had shares classified as other financial instruments measured at fair value.

In 2022 there were no transfers of accumulated gain or loss within equity in respect of companies in which the Company holds shares classified as other financial instruments measured at fair value. In 2021, following the sale of shares of the company PGE EJ1 Sp. z o.o., the result on the sale of these shares was reclassified in the amount of PLN 18 million.

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

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

	As at 31 December 2022	Percentage change of share price		As at 31 December 2021	Percentage change of share price	
		14%	-14%		13%	-13%
	Carrying amount	Other comprehensive income	Other comprehensive income	Carrying amount	Other comprehensive income	Other comprehensive income
Listed shares	**386**	54	(54)	**484**	58	(58)

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

Potential changes in share prices at the end of the reporting period were determined at the level of standard deviations from the WIG20 index for a period of 3 calendar years ended on the reporting date.

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

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

in PLN millions, unless otherwise stated

	As at 31 December 2022	As at 31 December 2021
Cash held in the Mine Closure Fund and Tailings Storage Facility Restoration Fund* on separate bank accounts	356	382
Increases in share capital	41	79
Other financial receivables	35	45
Total	**432**	**506**

**As of 15 July 2022, the Company changed the form of the Tailings Storage Facility Restoration Fund in the amount of PLN 98 million from a bank account to a bank guarantee.*

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

Note 7.5 Financial risk management

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

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

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

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

Note 7.5.1 Market risk

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

Note 7.5.1.1 Principles and techniques of market risk management

The Company actively manages the market risk to which it is exposed.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

in PLN millions, unless otherwise stated

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

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

These limits are in respect both of hedging transactions as well as of the instruments financing these transactions. The maximum time horizon within which the Company decides to limit market risk is set in accordance with the technical and economic planning process and amounts to 5 years, whereas in terms of interest rate risk, the time horizon reaches up to the maturity date of the long-term financial liabilities of the Company.

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

Note 7.5.1.2. Commodity risk

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

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

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

The Company's strategic exposure to the risk of changes in the price of copper and silver in the years 2021-2022 is presented in the table below.

	from 1 January 2022 to 31 December 2022			from 1 January 2021 to 31 December 2021		
	Net	Sales	Purchase	Net	Sales	Purchase
Copper [t]	**344 065**	564 969	220 904	**365 705**	561 495	195 790
Silver [t]	**1 298**	1 338	40	**1 206**	1 249	43

The notional amount of copper price hedging strategies settled in 2022 represented approx. 25% (44% in 2021) of the total sales of this metal realised by the Company (it represented approx. 42% of net sales[1] in 2022 and 67% in 2021).

The notional amount of silver price hedging strategies settled in 2022 represented approx. 24% of the total sales of this metal realised by the Company (25% in 2021).

As part of the realisation of the strategic plan to hedge the Company against market risk, in 2022 strategies hedging the planned revenues from copper sales were implemented. S*eagull* hedging strategies were entered into for the period from January 2023 to December 2023 for a total tonnage of 90 thousand tonnes. Moreover, an open hedging position on the copper market was restructured for the same period with a total tonnage of 12 thousand tonnes by raising the sold options' strike price from a seagull structure entered into in 2020.

In 2022, the Company did not implement any hedging strategies on the silver market.

In 2022 QP adjustment *swap* transactions were entered into on the copper and gold markets with maturities of up to June 2023, as part of the management of a net trading position[2].

As a result, as at 31 December 2022 the Company held open derivatives positions for 193.5 thousand tonnes of copper (of which: 189 thousand tonnes came from strategic management of market risk, while 4.3 thousand tonnes came from the management of a net trading position) and 4.2 million troy ounces of silver.

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

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

in PLN millions, unless otherwise stated

The condensed tables of open derivatives transactions held by the Company on the copper and silver markets as at 31 December 2022, entered into as part of the strategic management of market risk, are presented below (the hedged notional in the presented periods is allocated evenly on a monthly basis).

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

	Instrument/ option	Notional	Average weighted option strike price – sold put option	Average weighted option strike price – purchased put option	Average weighted option strike price – sold call option	Average weighted premium	Effective hedge price
			hedge limited to	*copper price hedging*	*participation limited to*		
		[tonnes]	[USD/t]	[USD/t]	[USD/t]	[USD/t]	[USD/t]
1st half of 2023	seagull	18 000	5 200	6 900	8 300	(196)	6 704
	seagull	6 000	6 000	6 900	10 000	(296)	6 604
	seagull	15 000	6 000	9 000	11 400	(248)	8 752
	seagull	10 500	6 700	9 286	11 486	(227)	9 059
	seagull	45 000	6 000	8 120	9 120	(143)	7 977
2nd half of 2023	seagull	18 000	5 200	6 900	8 300	(196)	6 704
	seagull	6 000	6 000	6 900	10 000	(296)	6 604
	seagull	15 000	6 000	9 000	11 400	(248)	8 752
	seagull	10 500	6 700	9 286	11 486	(227)	9 059
	seagull	45 000	6 000	8 100	9 600	(172)	7 928
	TOTAL 2023	**189 000**					

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

	Instrument/ option	Notional	Average weighted option strike price – sold put option	Average weighted option strike price – purchased put option	Average weighted option strike price – sold call option	Average weighted premium	Effective hedge price
			hedge limited to	*silver price hedging*	*participation limited to*		
		[mn ounces]	[USD/ounce]	[USD/ounce]	[USD/ounce]	[USD/ounce]	[USD/ounce]
2023	seagull	4.20	16.00	26.00	42.00	(1.19)	24.81
	TOTAL 2023	**4.20**					

The condensed tables of open derivatives transactions held by the Company on the copper and silver markets as at 31 December 2021, entered into as part of the strategic management of market risk, are presented below (the hedged notional in the presented periods is allocated evenly on a monthly basis).

in PLN millions, unless otherwise stated

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

	Instrument/ option	Notional	Average weighted option strike price: Sold put option	Purchased put option	Sold call option	Average weighted premium	Effective hedge price
			hedge limited to	*copper price hedging*	*participation limited to*		
		[tonnes]	[USD/t]	[USD/t]	[USD/t]	[USD/t]	[USD/t]
1st half	seagull	30 000	4 600	6 300	7 500	(160)	6 140
	seagull	24 000	5 200	6 900	8 300	(196)	6 704
	seagull	10 500	6 700	9 286	11 486	(227)	9 059
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	10 500	6 700	9 286	11 486	(227)	9 059
	TOTAL 2022	**144 000**					
1st half	seagull	24 000	5 200	6 900	8 300	(196)	6 704
	seagull	15 000	6 000	9 000	11 400	(248)	8 752
	seagull	10 500	6 700	9 286	11 486	(227)	9 059
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	10 500	6 700	9 286	11 486	(227)	9 059
	TOTAL 2023	**99 000**					

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

	Instrument/ option	Notional	Average weighted Option strike price: sold put option	purchased put option	sold call option	Average weighted premium	Effective hedge price
			hedge limited to	*silver price hedging*	*participation limited to*		
		[mn ounces]	[USD/ounce]	[USD/ounce]	[USD/ounce]	[USD/ounce]	[USD/ounce]
2022	seagull	3.60	16.00	26.00	42.00	(0.88)	25.12
	collar	6.60	-	26.36	55.00*	(1.96)	24.40
	TOTAL 2022	**10.20**					
2023	seagull	4.20	16.00	26.00	42.00	(1.19)	24.81
	TOTAL 2023	**4.20**					

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

in PLN millions, unless otherwise stated

An analysis of the Company's sensitivity to the risk of changes in copper, silver and gold prices in the years 2021-2022

Financial assets and liabilities as at 31 December 2022	Value at risk	Carrying amount 31 December 2022	Change in COPPER price [USD/t] 10 293 (+23%)		Change in COPPER price [USD/t] 6 463 (-23%)		Change in SILVER price [USD/ ounce] 31.69 (+32%)		Change in SILVER price [USD/ ounce] 17.06 (-29%)		Change in GOLD price [USD/ ounce] 2 107 (+15%)	Change in GOLD price [USD/ ounce] 1 524 (-16%)
			Profit or loss	Other comprehensive income	Profit or loss	Other comprehensive income	Profit or loss	Other comprehensive income	Profit or loss	Other comprehensive income	Profit or loss	Profit or loss
Derivatives (copper)	**161**	**161**	(49)	(1 026)	17	935	-	-	-	-	-	-
Derivatives (silver)	**50**	**50**	-	-	-	-	2	(67)	(17)	106	-	-
Derivatives (gold)	**(10)**	**(10)**	-	-	-	-	-	-	-	-	(22)	29
Embedded derivatives (copper, silver, gold)	**(43)**	**(43)**	(164)	-	161	-	-	-	-	-	(24)	27
		Impact on profit or loss	**(213)**	**-**	**178**	**-**	**2**	**-**	**(17)**	**-**	**(46)**	**56**
		Impact on other comprehensive income	**-**	**(1 026)**	**-**	**935**	**-**	**(67)**	**-**	**106**	**-**	**-**

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

In order to determine the potential changes in metals prices for purposes of sensitivity analysis of commodity risk factors (copper, silver, gold), the mean reverting Schwarz model (the geometrical Ornstein-Uhlenbeck process) was used.

Note 7.5.1.3 Risk of changes in foreign exchange rates

Regarding the risk of changes in foreign exchange rates, the following types of exposures were identified:

- transaction exposure related to the volatility of cash flows in the base currency; and
- exposure related to the volatility of selected items of the statement of financial position in the base (functional) currency.

The transaction exposure to currency risk derives from cash flow-generating contracts, the value of which expressed in the base (functional) currency depend on future levels of exchange rates of the foreign currencies with respect to the base currency (for KGHM Polska Miedź S.A. it is the Polish zloty). Cash flows exposed to currency risk may possess the following characteristics:

- denomination in the foreign currency – cash flows are settled in foreign currencies other than the functional currency; and
- indexation in the foreign currency – cash flows may be settled in the base currency, but the price (i.e. of a metal) is set in a different foreign currency.

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

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

Items in the statement of financial position which are exposed to currency risk include in particular:

- trade receivables and trade payables related to purchases and sales denominated in foreign currencies;
- financial receivables due to loans granted in foreign currencies;
- financial liabilities due to borrowings in foreign currencies;
- cash and cash equivalents in foreign currencies; and
- derivatives on metals market.

As for the currency market, the notional amount of settled transactions hedging revenues from metals sales amounted to approx. 20% (in 2021: 28%) of the total revenues from sales of copper and silver realised by the Company in 2022.

As part of the realisation of the strategic plan to hedge the Company against market risk, in 2022 the following were purchased: put options on the currency market for USD 205 million of planned sales revenues with maturities from April 2022 to December 2022, collar option structures on the currency market for USD 400 million of planned sales revenues with maturities from August 2022 to December 2022, and collar structures for USD 2 640 million with maturities from January 2023 to December 2024.

In addition, as part of on-going management of the currency risk, short-term forward sale transactions were entered into for the planned current cash flows, aimed at hedging against risk connected with USD/PLN rate fluctuations. Forward transactions were settled in the third quarter of 2022.

As a result, as at 31 December 2022 the Company held an open position on the currency market for the notional amount of USD 2 955 million (USD 1 050 million as at 31 December 2021), and *Cross Currency Interest Rate Swap* (CIRS) transactions for the notional amount of PLN 2 billion, hedging revenues from sales in the currency as well as the variable interest of issued bonds.

The condensed table of open transactions in derivatives on the currency market as at 31 December 2022 is presented below (the hedged notional in the presented periods is allocated evenly on a monthly basis).

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

	Instrument/ option	Notional	Average weighted option strike price – sold put option	Average weighted option strike price – purchased put option	Average weighted option strike price – sold call option	Average weighted premium	Effective hedge price
			hedge limited to	*exchange rate hedging*	*participation limited to*		
		[USD mn]	[USD/PLN]	[USD/PLN]	[USD/PLN]	[PLN per USD 1]	[USD/PLN]
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
	collar	660.00	-	4.48	5.48	(0.03)	4.45
	collar	660.00	-	4.69	6.09	(0.05)	4.64
	TOTAL 2023	**1 635.00**					
2024	collar	660.00	-	4.48	5.48	(0.00)	4.48
	collar	660.00	-	4.69	6.09	(0.01)	4.68
	TOTAL 2024	**1 320,00**					

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

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

Hedging against currency-interest rate risk connected with the issue of bonds with a variable interest rate in PLN – open derivatives as at 31 December 2022 and as at 31 December 2021

	Instrument/ option	Notional	Average interest rate	Average exchange rate
		[PLN mn]	[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**		

As for managing currency risk, the Company applies natural hedging by borrowing in the currency in which it has revenues. As at 31 December 2022, following their translation to PLN, the bank loans and the investment loans which were drawn in USD amounted to PLN 3 435 million (as at 31 December 2021: PLN 2 980 million).

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

	Value at risk as at 31 December 2022				Value at risk as at 31 December 2021			
Financial instruments	**total PLN million**	USD million	EUR million	GBP million	**total PLN million**	USD million	EUR million	GBP million
Trade receivables	**337**	52	23	-	**282**	36	21	8
Cash and cash equivalents	**688**	136	19	-	**1 061**	241	16	1
Loans granted	**8 687**	1 974	-	-	**8 169**	2 012	-	-
Cash pooling receivables	**588**	134	-	-	**498**	123	-	-
Other financial assets	**80**	18	-	-	**182**	45	-	-
Derivatives*	**357**	36	-	-	**(1 172)**	220	-	-
Trade and similar payables	**(767)**	(124)	(48)	-	**(834)**	(140)	(58)	-
Borrowings	**(3 450)**	(780)	(3)	-	**(3 053)**	(734)	(16)	-
Other financial liabilities	**(46)**	(8)	(2)	-	**(193)**	(42)	(5)	-

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

An analysis of the Company's sensitivity to the currency risk as at 31 December 2022 and 31 December 2021 is presented in the tables on the next page. In order to determine the potential changes in the USD/PLN, EUR/PLN and GBP/PLN exchange rates for sensitivity analysis purposes, the Black-Scholes model (the geometrical Brownian motion) was used.

An analysis of the Company's sensitivity to the currency risk in the years 2021-2022

Financial assets and liabilities as at 31 December 2022	Value at risk	Carrying amount 31 December 2022	Change in USD/PLN exchange rate 5.03 (+14%) profit or loss	Change in USD/PLN exchange rate 5.03 (+14%) other comprehensive income	Change in USD/PLN exchange rate 3.91 (-11%) profit or loss	Change in USD/PLN exchange rate 3.91 (-11%) other comprehensive income	Change in EUR/PLN exchange rate 5.18 (+10%) profit or loss	Change in EUR/PLN exchange rate 4.48 (-5%) profit or loss	Change in GBP/PLN exchange rate 6.05 (+14%) profit or loss	Change in GBP/PLN exchange rate 4.71 (-11%) profit or loss
Trade receivables	**337**	**620**	33	-	(26)	-	11	(5)	-	-
Cash and cash equivalents	**688**	**985**	85	-	(66)	-	9	(4)	-	-
Loans granted	**8 687**	**8 763**	1 241	-	(963)	-	-	-	-	-
Cash pooling receivables	**588**	**588**	84	-	(65)	-	-	-	-	-
Other financial assets	**80**	**1 237**	11	-	(9)	-	-	-	-	-
Derivatives	**357**	**357**	(3)	(1 197)	(6)	1 193	-	-	-	-
Trade and similar payables	**(767)**	**(2 819)**	(78)	-	60	-	(23)	10	-	-
Borrowings	**(3 450)**	**(6 445)**	(491)	-	381	-	(2)	1	-	-
Other financial liabilities	**(46)**	**(394)**	(5)	-	4	-	(1)	-	-	-
Impact on profit or loss			**877**	**-**	**(690)**	**-**	**(6)**	**2**	**-**	**-**
Impact on other comprehensive income			**-**	**(1 197)**	**-**	**1 193**	**-**	**-**	**-**	**-**

Financial assets and liabilities as at 31 December 2021	Value at risk [PLN mn]	Carrying amount 31 December 2021 [PLN mn]	Change in USD/PLN exchange rate 4.57 (+13%) profit or loss	Change in USD/PLN exchange rate 4.57 (+13%) other comprehensive income	Change in USD/PLN exchange rate 3.66 (-10%) profit or loss	Change in USD/PLN exchange rate 3.66 (-10%) other comprehensive income	Change in EUR/PLN exchange rate 5.01 (+9%) profit or loss	Change in EUR/PLN exchange rate 4.37 (-5%) profit or loss	Change in GBP/PLN exchange rate 6.15 (+12%) profit or loss	Change in GBP/PLN exchange rate 4.98 (-9%) profit or loss
Trade receivables	**282**	**600**	18	-	(14)	-	8	(5)	5	(4)
Cash and cash equivalents	**1 061**	**1 332**	124	-	(97)	-	7	(4)	1	(1)
Loans granted	**8 169**	**8 249**	1 035	-	(812)	-	-	-	-	-
Cash pooling receivables	**498**	**498**	63	-	(50)	-	-	-	-	-
Other financial assets	**182**	**1 376**	23	-	(18)	-	-	-	-	-
Derivatives	**(1 172)**	**(1 172)**	10	(646)	2	527	-	-	-	-
Trade and similar payables	**(834)**	**(2 613)**	(72)	-	56	-	(24)	13	-	-
Borrowings	**(3 053)**	**(5 922)**	(378)	-	296	-	(7)	4	-	-
Other financial liabilities	**(193)**	**(476)**	(22)	-	17	-	(2)	1	-	-
Impact on profit or loss			**801**	**-**	**(620)**	**-**	**(18)**	**9**	**6**	**(5)**
Impact on other comprehensive income			**-**	**(646)**	**-**	**527**	**-**	**-**	**-**	**-**

in PLN millions, unless otherwise stated

Note 7.5.1.4 Interest rate risk

In 2022 the Company was exposed to the risk of changes in interest rates due to loans granted, investing free cash, participating in a cash-pooling service and borrowing.

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

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

		As at 31 December 2022			As at 31 December 2021		
		Cash flow risk	Fair value risk	Total	Cash flow risk	Fair value risk	Total
	Cash and cash equivalents	1 356	-	**1 356**	1 733	-	**1 733**
Note 6.2	Loans granted	76	3 233	**3 309**	80	2 959	**3 039**
Note 7.1	Borrowings	(2 530)	(3 594)	**(6 124)**	(1 985)	(3 577)	**(5 562)**
	Cash pooling receivables	588	-	**588**	498	-	**498**
	Cash pooling liabilities	(321)	-	**(321)**	(360)	-	**(360)**

As at 31 December 2022 the Company had CIRS transactions (Cross Currency Interest Rate Swap) with maturities falling in June 2024 and June 2029, 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. The open hedging position as at 31 December 2022 and as at 31 December 2021 is presented in the table in Note 7.5.1.3.

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

	31 December 2022 change in interest rate				31 December 2021 change in interest rate			
	+150 bps (PLN, USD, EUR)		-100 bps (PLN, USD, EUR)		+250 bps (PLN) +150 bps (USD, EUR)		-100 bps (PLN) -50 bps (USD, EUR)	
	profit or loss	other comprehensive income	profit or loss	other comprehensive income	profit or loss	other comprehensive income	profit or loss	other comprehensive income
Cash and cash equivalents*	20	-	(14)	-	33	-	(12)	-
Borrowings	(38)	-	25	-	(95)	-	35	-
Cash pooling	4	-	(3)	-	(1)	-	1	-
Loans granted measured at fair value	(299)	-	237	-	(106)	-	37	-
Derivatives – interest rate	-	134	-	(97)	-	186	-	(66)
Impact on profit or loss	**(313)**	**-**	**245**	**-**	**(169)**	**-**	**61**	**-**
Impact on other comprehensive income	**-**	**134**	**-**	**(97)**	**-**	**186**	**-**	**(66)**

**Presented amounts include cash accumulated in special purpose funds: Mine Closure Fund and Social Fund*

Impact of the reference rates reform

The Company uses financial instruments based on variable interest rates, which fall under the reference rates reform. As a result of the reform, publication of certain IBOR rates ceased from 1 January 2022 and the next ones will cease to be published from 30 June 2023.

The Company identified agreements which include clauses based on LIBOR and which will be changed once the reference rates are superseded. These are mainly borrowing and factoring agreements. In 2022 some of the bilateral financing agreements were annexed in order to introduce SOFR or CME Term SOFR rates. Negotiations are underway with other financial institutions aimed at replacing LIBOR rates with an alternative benchmark.

in PLN millions, unless otherwise stated

On 7 July 2022, an Act on crowdfunding for business and support for borrowers, which is a basis to change the WIBOR and WIBID rates applicable to instruments in PLN, was adopted. As a result of legislative changes in September 2022, the Steering Committee of the National Work Group for reform of the reference rates selected WIRON as the target Risk-Free Rate (RFR) for the Polish financial market. Details on the replacement of current rates by an alternative one will be published in 2023, and the publication of old WIBOR and WIBID rates will end in 2025.

Until 2025, the IBOR reform will not have an impact on the interest rate applied in the Company's derivatives, because the CIRS transactions entered into (open cross currency interest rate swaps) and bonds issued by the Company are based on the WIBOR reference rate. In the case of this benchmark, until 2025 we are in the transitional period, during which adjustments to transactions entered into before the reform will not be required. After 2025, the IBOR reform may have an impact on cash flow hedging of variable interest of issued bonds (Tranche B) in the amount of PLN 1.6 billion, based on WIBOR 6M, that is CIRS transactions (cross currency swap) with maturity falling in 2029. The Company applied temporary exemptions from application of specific requirements of hedge accounting under IFRS 9 due to the IBOR reform and adopted an assumption that it may continue the hedge relationships. The notional amounts of hedging instruments to which these exemptions apply are disclosed in the following table.

As at 31 December 2022, the Company estimated that the impact of IBOR reform on the financial statements will be immaterial.

As at 31 December 2022, the Company held financial instruments based on variable interest rates, which were not yet replaced by alternative rates.

Type of instrument		**Carrying amount as at 31 December 2022**
Loans granted	WIBOR 1M	88
Bank loans	USD LIBOR 1M	(528)
Debt securities	WIBOR 6M	(2 002)
Derivatives (CIRS for 2029, PLN 1 600 million)	WIBOR 6M	(198)
Total		**(2 640)**

in PLN millions, unless otherwise stated

Note 7.5.1.5 Impact of hedge accounting on the financial statements

The following table contains information on changes in the fair value of instruments, as well as corresponding changes in the fair value of hedged positions during the reporting period, being the basis for recognising the effective and ineffective portions of changes in the fair value of hedging instruments in the years 2021-2022 (net of the tax effect).

	As at 31 December 2022		from 1 January 2022 to 31 December 2022	from 1 January 2022 to 31 December 2022	As at 31 December 2021		from 1 January 2021 to 31 December 2021	from 1 January 2021 to 31 December 2021
	Balance of other comprehensive income due to cash flow hedging for relations				Balance of other comprehensive income due to cash flow hedging for relations			
relation type / *risk type* / *instrument type – hedged item*	remaining in hedge accounting	for which hedge accounting was ceased	Change in the value of hedged item	Change in the value of hedging instrument	remaining in hedge accounting	for which hedge accounting was ceased	Change in the value of hedged item	Change in the value of hedging instrument
Cash flow hedging								
Commodity risk (copper)								
Options – Sales revenue	(21)	(11)	(327)	255	(1 357)	-	979	(981)
intrinsic value	152	-	-	325	(1 027)	-	-	(976)
time value	(173)	(11)	-	(70)	(330)	-	-	(5)
Commodity risk (silver)								
Options – Sales revenue	19	-	16	(21)	92	15	(172)	14
intrinsic value	30	-	-	(16)	163	12	-	172
time value	(11)	-	-	(5)	(71)	3	-	(158)
Currency risk (USD)								
Options – Sales revenue	402	-	(183)	403	(1)	-	115	(192)
intrinsic value	193	-	-	182	23	-	-	(114)
time value	209	-	-	221	(24)	-	-	(78)
Loans – Sales revenue	-	(64)	-	-	-	(80)	-	-
intrinsic value	-	(64)	-	-	-	(80)	-	-
Currency-interest rate risk								
Options – Sales revenue	(569)	-	154	(137)	(431)	-	406	(371)
intrinsic value	(569)	-	-	(137)	(431)	-	-	(371)
Options – Finance income/costs	315	-	(181)	152	162	-	(332)	300
intrinsic value	315	-	-	152	162	-	-	300
Total, including:	**146**	**(75)**	**(521)**	**652**	**(1 535)**	**(65)**	**996**	**(1 230)**
Total intrinsic value	121	-	-	506	(1 110)	(68)	-	(989)
Total time value	25	(75)	-	146	(425)	3	-	(241)

The inefficiency of the hedging which was recognised in profit or loss in the reporting periods 2021-2022 was immaterial.

in PLN millions, unless otherwise stated

The table below presents information on the impact of hedge accounting on profit or loss and other comprehensive income (net of the tax effect).

relation type *risk type* *instrument type*	**from 1 January 2022 to 31 December 2022** **Profits or (losses) due to hedging recognised in other comprehensive income**	**from 1 January 2022 to 31 December 2022** **Amount reclassified from other comprehensive income to the statement of profit or loss as a reclassification adjustment, due to realisation of a hedged item in the period**	**from 1 January 2021 to 31 December 2021** **Profit or (loss) due to hedging recognised in other comprehensive income**	**from 1 January 2021 to 31 December 2021** **Amount reclassified from other comprehensive income to the statement of profit or loss as a reclassification adjustment, due to realisation of a hedged item in the period**
Cash flow hedging				
Commodity risk (copper)				
Options*	800	(525)	(2 047)	(1 903)
Commodity risk (silver)				
Options*	26	114	(11)	(30)
Currency risk (USD)				
Options*	357	(46)	(260)	(72)
Loans**	-	(16)	-	(16)
Currency-interest rate risk				
CIRS***	56	41	(113)	(43)
Total	**1 239**	**(432)**	**(2 431)**	**(2 064)**

Item of the statement of profit or loss which includes a reclassification adjustment:
** revenues from contracts with customers, other operating income and (costs),*
*** revenues from contracts with customers,*
**** revenues from contracts with customers, other finance income and (costs).*

in PLN millions, unless otherwise stated

The following table contains information on changes in other comprehensive income (excluding the tax effect) in the period in connection with the application of hedge accounting in 2021 and 2022.

	2022			2021		
	Effective value *	**Cost of hedging ****	**Total**	**Effective value ***	**Cost of hedging ****	**Total**
Other comprehensive income – transactions hedging against commodity and currency risk – as at 1 January	**(1 178)**	**(422)**	**(1 600)**	**(735)**	**(498)**	**(1 233)**
Impact of measurement of hedging transactions (effective part)	1 124	115	1 239	(2 128)	(303)	(2 431)
Reclassification to profit or loss due to realisation of hedged item	122	310	432	1 685	379	2 064
Other comprehensive income – transactions hedging against commodity and currency risk – as at 31 December	**68**	**3**	**71**	**(1 178)**	**(422)**	**(1 600)**

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

** *Time value of option + CCBS (Cross Currency Basis Swap).*

Note 7.5.2 Credit risk

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

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

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

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

Accounting policies
The Company recognises impairment loss on expected credit losses on financial assets measured at amortised cost. Expected credit losses are credit losses weighed by the default probability. The Company applies the following models for designating impairment losses: - the simplified model – for trade receivables, - the general (basic) model – for other financial assets. Under the general model the Company monitors changes in the level of credit risk related to a given financial asset and classifies financial assets to one of three stages of determining impairment losses – based on observations of changes in the level of credit risk compared to an instrument's initial recognition. In particular, the following are monitored: the credit rating and the financial condition of the customer and the payment delay period. Depending on which degree it is classified to, an impairment loss is estimated for a 12-month period (degree 1) or in the horizon of lifetime (degree 2 and degree 3). The absolute indicator of default is an overdue period of more than 90 days. The detailed principles of classification of loans granted to individual degrees of loss allowance for expected credit losses was described in note 6.2. Under the simplified model the Company does not monitor changes in the level of credit risk during an instrument's life and estimates the expected credit loss over the time horizon of maturity of the instrument based on historical data respecting the repayments of receivables.

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

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

As at 31 December 2022, the total amount of free and restricted cash and cash equivalents of PLN 985 million (as at 31 December 2021, PLN 1 332 million) was held in bank accounts and in short-term deposits. The detailed structure of cash and cash equivalents is presented in note 8.5.

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

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

in PLN millions, unless otherwise stated

Rating level		As at 31 December 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	85%	71%
Medium	from BBB+ to BBB- according to S&P and Fitch, and from Baa1 to Baa3 according to Moody's	15%	29%

Weighed by amount of deposits.

As at 31 December 2022 the maximum single entity share of the amount exposed to credit risk arising from cash and bank deposits amounted to 36%, or PLN 354 million (as at 31 December 2021: 58%, or PLN 778 million).

	As at 31 December 2022	As at 31 December 2021
Counterparty 1	354	778
Counterparty 2	335	255
Counterparty 3	70	120
Counterparty 4	68	104
Other	158	75
Total	**985**	**1 332**

Impairment losses on cash and cash equivalents were determined individually for each balance of a given financial institution. External bank ratings were used to measure credit risk. The analysis determined that these assets have a low credit risk at the reporting date. The Company used a simplification permitted by the standard and the impairment loss was determined on the basis of 12-month credit losses. The calculation of impairment determined that the amount of the impairment loss is insignificant. These assets are classified to Degree 1 of the impairment model.

Note 7.5.2.2 Credit risk related to derivatives transactions

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

The Company's credit exposure related to derivatives by main counterparties is presented in the table below.

	As at 31 December 2022				As at 31 December 2021			
	Financial receivables	Financial liabilities	Fair value	Exposure to credit risk	Financial receivables	Financial liabilities	Fair value	Exposure to credit risk
Counterparty 1	260	(250)	10	**260**	227	(195)	32	**227**
Counterparty 2	226	(172)	54	**226**	162	(112)	50	**162**
Counterparty 3	154	(33)	121	**154**	113	(437)	(324)	**113**
Counterparty 4	120	(53)	67	**120**	78	(57)	21	**78**
Other	787	(636)	151	**787**	279	(1 358)	(1 079)	**279**
Total	**1 547**	**(1 144)**	**403**	**1 547**	**859**	**(2 159)**	**(1 300)**	**859**
Open derivatives*	1 510	(1 110)	400		849	(2 000)	(1 151)	
Settled derivatives, net	37	(34)	3		10	(159)	(149)	

**excluding embedded derivatives*

Taking into consideration the receivables due to open derivatives transactions entered into by the Company (excluding embedded derivatives) as at 31 December 2022 and net receivables[4] due to settled derivatives, the maximum single entity share of the amount exposed to credit risk arising from these transactions amounted to 17%, or PLN 260 million (as at 31 December 2021: 26%, or PLN 227 million).

[3] *Does not concern embedded derivatives in purchase contracts for metal-bearing materials.*

[4] *The Company offsets receivables and liabilities due to settled derivatives, for which the future flows are known at the end of the reporting period, pursuant to the principles of net settlements of cash flows adopted in framework agreements with individual customers.*

in PLN millions, unless otherwise stated

In order to reduce cash flows and at the same time to limit credit risk, the Company 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 template of the Polish Bank Association). Moreover, the resulting credit risk is continuously monitored by reviewing the credit ratings and is limited by striving to diversify the portfolio while implementing hedging strategies.

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

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

Rating level		As at 31 December 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	84%	98%
Medium	from BBB+ to BBB- according to S&P and Fitch, and from Baa1 to Baa3 according to Moody's	16%	2%

Note 7.5.2.3 Credit risk related to trade receivables

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

Trade receivables (net)	As at 31 December 2022	As at 31 December 2021
Poland	60%	73%
European Union (excluding Poland)	15%	12%
Asia	22%	13%
Other countries	3%	2%

Accounting policies

The Company applies the simplified model of calculating the allowance for impairment of trade receivables (regardless of their maturity). The expected credit loss on trade receivables is calculated at the closest ending date of the reporting period following the recognition of a receivable in the statement of financial position and is updated at every subsequent reporting period ending date. In order to estimate the expected credit loss on trade receivables, the Company applies a provision matrix, made on the basis of historical levels of payment of trade receivables, which is periodically recalibrated in order to update it.

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

The Company defines default as being a failure by a customer to meet its liabilities after a period of 90 days from the due date. In order to estimate the loss allowance for expected credit losses, the Company takes into account also collaterals by allocating expected recovery rates to the particular types of collaterals.

Moreover, the Company takes into account forward-looking information in the applied parameters of the model for estimating expected losses, by adjusting the base coefficients of default probability. This means that if as a result of analysis of macroeconomic data, such as for example: current GDP dynamics, inflation, unemployment rate, or WIG index, the Company recognises any deterioration in them in comparison to the previous period, in the ECL calculation the looking *forward* factor, which corrects the risk connected with any decrease in receivables recovery, is taken into account. Despite the growing inflation, alongside the favourable performance of among others the GDP, unemployment rate, and also forecasts of these indicators, the Company did not note any deterioration of macroeconomic factors as at the end of the reporting period, that is on 31 December 2022.

in PLN millions, unless otherwise stated

Important estimates and assumptions					
		31 December 2022		**31 December 2021**	
Time frame	**Percent (allowance for impairment)**	**Gross amount of receivables**	**Allowance for impairment in individual time frames**	**Gross amount of receivables**	**Allowance for impairment in individual time frames**
Not overdue	0.69	69	(1)	77	(1)
<1,30)	3	2	-	1	-
<30,60)	30.42	1	-	-	-
<60,90)	64.83	-	-	-	-
Default	100	-	-	-	-
Total		**72**	**(1)**	**78**	**(1)**

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

		2022	2021
	Gross amount as at 1 January	134	101
	Change in the balance of receivables	32	33
Note 10.2	**Gross amount as at 31 December**	166	134

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

		2022	2021
	Loss allowance for expected credit losses as at 1 January	1	10
	Allowance utilised	-	(9)
Note 10.2	**Loss allowance for expected credit losses as at 31 December**	1	1

The Company limits its exposure to credit risk related to trade receivables by evaluating and monitoring the financial condition of its customers, setting credit limits, requiring collateral and non-recourse factoring. The terms of factoring agreements entered into meet the criteria of removing receivables from the books at the moment of their purchase by the factor. As at 31 December 2022, the amount of receivables transferred to factoring, for which payment from factors was not received, amounted to PLN 4 million (as at 31 December 2021: PLN 17 million). Information on the amount of revenues from sales subjected to factoring in the financial period is presented in part 2.

An inseparable element of the credit risk management process performed by the Company is the continuous monitoring of receivables and the internal reporting system.

Buyer's credit is only provided to proven customers. In the case of new customers, an effort is made to ensure that sales are based on prepayments or trade financing instruments which transfer the credit risk to financial institutions.

The Company makes use of the following forms of collateral:

- registered pledges, bank guarantees, promissory notes, notarial enforcement declarations, corporate guarantees, cessation of receivables, mortgages and documentary collection;
- ownership rights to goods to be transferred to the buyer only after payment is received;
- a receivables insurance contract, which covers receivables from entities with buyer's credit which have not provided strong collateral or have provided collateral which does not cover the total amount of the receivables.

Taking into account the aforementioned forms of collateral and the credit limits received from the insurance company, as at 31 December 2022 the Company had secured 76% of its trade receivables (as at 31 December 2021: 84%).

The total net value of the Company's trade receivables as at 31 December 2022, excluding the fair value of collaterals, up to the value of which the Company may be exposed to credit risk, amounts to PLN 620 million (as at 31 December 2021: PLN 600 million).

The concentration of credit risk in the Company is related to the terms of payment allowed to key clients. Consequently, as at 31 December 2022 the balance of receivables from the Company's 7 largest clients, in terms of trade receivables at the end of the reporting period, represented 64% of the balance of trade receivables (as at 31 December 2021: 69%). Despite the concentration of this type of risk, the Company believes that due to the available historical data and the many years of experience in cooperating with its clients, as well as to securities used, the level of credit risk is low.

in PLN millions, unless otherwise stated

Note 7.5.2.4 Credit risk related to other financial assets

As at 31 December 2022, the major items in other financial assets were:

- cash accumulated in the special purpose Mine Closure Fund in the amount of PLN 358 million (as at 31 December 2021: PLN 384 million, including the bank account of the Tailings Storage Facility Restoration Fund);
- receivables due to cash pooling in the amount of PLN 588 million (as at 31 December 2021: PLN 498 million). Credit risk in this regard is continuously monitored through the review of the financial standing and assets of the subsidiaries participating in the cash pooling.

The account of the special purpose fund, used to accumulate cash in order to cover the costs of decommissioning of mines is managed by a bank with a medium-high rating (principles of credit risk management connected with allocation of cash in financial institutions are described in Note 7.5.2.1).

Impairment losses on cash accumulated on the bank account of the Mine Closure Fund was determined based on an external bank rating. The analysis determined that these assets have a low credit risk at the reporting date. The Company used a simplification permitted by the standard and the impairment loss was determined on the basis of 12-month credit losses. The calculation of impairment determined that the amount of expected impairment loss is insignificant.

Note 7.5.2.5 Credit risk related to loans granted

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

Rating level		As at 31 December 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	99%	-
Medium	from BBB+ to BBB- according to S&P and Fitch, and from Baa1 to Baa3 according to Moody's	1%	100%

Loans granted measured at amortised cost

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

Loans granted do not have collaterals limiting the exposure to credit risk, therefore the maximum amount exposed to loss due to credit risk is the gross amount of the loans, less expected credit losses recognised pursuant to IFRS 9.

The following tables present the change in the gross amount of loans granted measured at amortised cost.

	Total	Degree 1 Medium rating	Degree 2 Medium rating	POCI Medium rating
Gross amount as at 1 January 2022	**5 505**	**213**	**3 664**	**1 628**
increase in the amount of loan (granting a loan)	22	22	-	-
repayment*	(776)	(121)	(466)	(189)
modification of terms to the agreement	(21)	-	(21)	-
exchange differences	417	12	284	121
interest accrued using the effective interest rate	297	20	162	115
reversal of loss allowance recognised at the moment of initial recognition of a loan	162	-	-	162
other changes	(2)	(1)	(1)	-
Gross amount as at 31 December 2022	**5 604**	**145**	**3 622**	**1 837**

**of which: PLN 742 million concerns the repayment of principal amount and PLN 34 million concerns the repayment of interest.*

in PLN millions, unless otherwise stated

	Total	Degree 1 Medium rating	Degree 2 Medium rating	POCI Medium rating
Gross amount as at 1 January 2021	**5 352**	**601**	**3 254**	**1 497**
increase in the amount of loan (granting a loan)	20	20	-	-
repayment	(1 178)	(448)	-	(730)
modification of terms to the agreement	2	2	-	-
exchange differences	357	9	260	88
interest accrued using the effective interest rate	295	29	150	116
reversal of loss allowance recognised at the moment of initial recognition of a loan	657	-	-	657
Gross amount as at 31 December 2021	**5 505**	**213**	**3 664**	**1 628**

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

The following tables present the change in the loss allowances for expected credit losses for loans measured at amortised cost.

	Total	Degree 1	Degree 2	POCI
Loss allowance for expected credit losses as at 1 January 2022	**98**	**2**	**96**	**0**
changes in risk parameters	(50)	-	(50)	-
exchange differences	4	-	4	-
Loss allowance for expected credit losses as at 31 December 2022	**52**	**2**	**50**	**0**

	Total	Degree 1	Degree 2	POCI
Loss allowance for expected credit losses as at 1 January 2021	**179**	**5**	**98**	**76**
changes in risk parameters	(94)	(3)	(10)	(81)
exchange differences	13	-	8	5
Loss allowance for expected credit losses as at 31 December 2021	**98**	**2**	**96**	**0**

Loans measured at amortised cost (Note 6.2)	Carrying amount	Degree 1	Degree 2	POCI
As at 1 January 2021	5 173	596	3 156	1 421
As at 31 December 2021 / 1 January 2022	5 407	211	3 568	1 628
As at 31 December 2022	**5 552**	**143**	**3 572**	**1 837**

In 2022 and 2021 no loans were reclassified to degree 3 of the measurement.

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

For POCI loans, interest is accrued on the gross value less any allowance for impairment recognised at the moment of initial recognition, an IRR rate adjusted by credit risk defined at the moment of the loan's initial recognition (CEIR, credit-adjusted effective interest rate).

Loans granted measured at fair value

The carrying amount of loans measured at fair value as at 31 December 2022 amounted to PLN 3 233 million. As at 31 December 2021, the carrying amount was PLN 2 959 million. More disclosures on the fair value measurement were presented in Note 7.1.

The loans granted do not have collaterals limiting exposure to credit risk, therefore the Company estimates the maximum, potential losses due to credit risk in the amount of 100% of their current fair value, i.e. USD 734 million (PLN 3 233 million), of which the amount of USD 634 million is due to the nominal value of loans granted.

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

		2022	2021
	Carrying amount as at 1 January	**2 959**	**2 477**
	Loan repaid	(324)	(547)
Note 4.2	Fair value gains	601	1 056
Note 4.2	Fair value losses	-	(9)
	Loss on realisation of instruments	(2)	(18)
	Other changes	(1)	-
	Carrying amount as at 31 December	**3 233**	**2 959**

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

As at 31 December 2022 and in the comparable period, the Company classified the measurement to fair value of loans granted to level 3 of the fair value hierarchy because of the utilisation in the measurement of a significant unmeasurable parameter, begin the forecasted cash flows of Sierra Gorda S.C.M. More disclosures on the main assumptions (including unobservable input data) assumed for the calculation of cash flows of Sierra Gorda were presented in the consolidated financial statements in Note 7.5.2.4.

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

	Copper price [USD/t]					
Scenarios 31 December 2022	**2023**	**2024**	**2025**	**2026**	**2027**	**LT**
Base	8 200	8 500	8 500	8 500	8 500	7 700
Base minus 0.1 [USD/lb]	7 980	8 280	8 280	8 280	8 280	7 480
Base plus 0.1 [USD/lb]	8 420	8 720	8 720	8 720	8 720	7 920

Scenarios 31 December 2021	**2022**	**2023**	**2024**	**2025**	**2026**	**LT**
Base	8 500	8 000	7 500	7 500	7 500	7 000
Base minus 0.1 [USD/lb]	8 280	7 780	7 280	7 280	7 280	6 780
Base plus 0.1 [USD/lb]	8 720	8 220	7 720	7 720	7 720	7 220

Classes of financial instruments	Fair value	Carrying amount	Fair value		Fair value	Carrying amount	Fair value	
		31 December 2022	Base plus 0.1 [USD/lb]	Base minus 0.1 [USD/lb]		31 December 2021	Base plus 0.1 [USD/lb]	Base minus 0.1 [USD/lb]
	[PLN million]	[PLN million]			[PLN million]	[PLN million]		
Loans granted measured at fair value	**3 233**	**3 233**	3 475	2 912	**2 959**	**2 959**	3 239	2 753
Loans granted measured at amortised cost	**5 090**	**5 408**	5 140	5 030	**5 340**	**5 176**	5 375	5 290

Concentration risk

The Company estimates the concentration risk to be at the level of 100%, since receivables due to loans granted are intra-group loans (Note 12.1), and 97% of the balance are loans granted to subsidiaries Future 1 Sp. z o.o., Quadra FNX FFI s.a.r.l and Quadra FNX Holding Chile Limitada, and the majority of which was transferred to finance the joint venture Sierra Gorda; 2% of the balance are loans granted to KGHM INTERNATIONAL LTD., and 1% of the balance are loans granted to companies in Poland. Detailed information on the loan granting transactions are presented in Note 6.2.

in PLN millions, unless otherwise stated

PART 8 – Borrowings and the management of liquidity and capital

Note 8.1 Capital management policy

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

The Company monitors the Group's level of financial security, among others using the Net Debt/EBITDA ratio presented in the table below, which was calculated on the basis of data presented in the Consolidated financial statements of the KGHM Group.

Ratios	Calculations	31 December 2022	31 December 2021
Net Debt/EBITDA	relation of net debt to adjusted EBITDA	**0.8**	**0.6**
Net Debt*	borrowings, debt securities and lease liabilities less free cash and its equivalents	5 264	4 069
Adjusted EBITDA**	profit on sales plus depreciation/amortisation recognised in profit or loss and impairment losses on non-current assets	6 675	7 131

**Net debt does not include reverse factoring liabilities and cash pooling liabilities in connection with the utilisation of resources under the system by KGHM Polska Miedź S.A.*

*** Adjusted EBITDA for the period of 12 months ended on the last day of the reporting period, excluding EBITDA of the joint venture Sierra Gorda S.C.M.*

In the process of managing liquidity and capital, the Group also pays attention to adjusted operating profit, calculated on the basis of data from the Consolidated financial statements of the KGHM Polska Miedź S.A. Group, which is the basis for calculating the financial covenant and which is comprised of the following items:

	from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021
Profit on sales	4 344	4 710
Interest income on loans granted to a joint venture	582	494
Other operating income and costs	962	726
Adjusted operating profit*	**5 888**	**5 930**

**Presented amount does not include gains on reversal of allowances for impairment of loans granted to a joint venture.*

As at the reporting date, in the financial period and after the reporting date, up to the date of publication of these financial statements, the value of a financial covenant subject to the obligation to report as at 30 June 2022 and 31 December 2022, met the conditions stipulated in the credit agreements.

in PLN millions, unless otherwise stated

Note 8.2 Equity

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

Note 8.2.1 Share capital

As at 31 December 2022 and at the date of signing of these financial statements, the Company's share capital, in accordance with the entry in the National Court Register, amounted to PLN 2 000 million and was divided into 200 000 000 shares, series A, fully paid, each having a face value of PLN 10. All of the shares are bearer shares. The Company has not issued preference shares. Each share grants the right to one vote at the general meeting. The Company does not have treasury shares.

In the reporting and in the comparable periods, there were no changes in either registered share capital or in the number of issued shares. Additionally, in 2022 and 2021, there were no changes in the ownership of significant blocks of shares of KGHM Polska Miedź S.A.

The Company's shareholder structure as at 31 December 2022, established on the basis of notifications received by the Company pursuant to art. 69 of the Act on public offerings and conditions governing the introduction of financial instruments to organised trading, and on public companies, is shown in the following table:

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

On 5 January 2023 the Company was informed of the merger of the companies Powszechne Towarzystwo Emerytalne Allianz Polska Spółka Akcyjna (PTE Allianz Polska S.A.) and Aviva Powszechne Towarzystwo Emerytalne Aviva Santander Spółka Akcyjna. As a result of the merger, the total number of shares of KGHM Polska Miedź S.A. recorded on the accounts of the funds managed by PTE Allianz Polska S.A.: Allianz Otwarty Fundusz Emerytalny, Allianz Polska Dobrowolny Fundusz Emerytalny and Drugi Allianz Polska Otwarty Fundusz Emerytalny amounted to 12 241 453, representing 6.12% of the Company's share capital.

The Company's shareholder structure as at the date of signing of these financial statements is presented in the following table:

shareholder	number of shares/votes	total nominal value of shares (PLN)	percentage held in share capital/total number of votes
State Treasury	63 589 900	635 899 000	31.79%
Powszechne Towarzystwo Emerytalne Allianz Polska Spółka Akcyjna*	12 241 453	122 414 530	6.12%
Nationale-Nederlanden Otwarty Fundusz Emerytalny	10 104 354	101 043 540	5.05%
Other shareholders	114 064 293	1 140 642 930	57.04%
Total	**200 000 000**	**2 000 000 000**	**100.00%**

**Total number of shares recorded on the accounts of funds managed by Powszechne Towarzystwo Emerytalne Allianz Polska Spółka Akcyjna: Allianz Otwarty Fundusz Emerytalny, Allianz Polska Dobrowolny Fundusz Emerytalny and Drugi Allianz Polska Otwarty Fundusz Emerytalny*

in PLN millions, unless otherwise stated

Note 8.2.2 Changes of other equity items in the period

		Other reserves from measurement of financial instruments				Retained earnings		
		Investments in equity instruments measured at fair value through other comprehensive income	Other reserves from measurement of cash flow hedging financial instruments	Total other reserves from measurement of financial instruments	Accumulated other comprehensive income	Reserve capital created in accordance with the Commercial Partnerships and Companies Code, art. 396	Reserve capital created from profit in accordance with the Company's Statutes	Profit/(loss) from previous years
	As at 1 January 2021	**(392)**	**(998)**	**(1 390)**	**(872)**	**667**	**18 085**	**2 236**
	Dividend paid	-	-	-	-	-	-	(300)
	Transfer of profit for the period to reserve capital	-	-	-	-	-	1 479	(1 479)
	Reclassification of the result of disposal of equity instruments measured at fair value through other comprehensive income	-	-	-	-	-	-	(18)
	Total comprehensive income, of which:	**17**	**(297)**	**(280)**	**543**	**-**	**-**	**5 169**
	Profit for the period	-	-	-	-	-	-	5 169
	Other comprehensive income	**17**	**(297)**	**(280)**	**543**	-	-	-
	Reclassification of the result of disposal of equity instruments measured at fair value through other comprehensive income	18	-	18	-	-	-	-
	Loss on the sale of equity instruments	(1)	-	(1)	-	-	-	-
Note 7.2	Impact of effective cash flow hedging transactions entered into	-	(2 431)	(2 431)	-	-	-	-
Note 7.2	Amount transferred to profit or loss in connection with realisation of derivatives	-	2 064	2 064	-	-	-	-
Note 11.2	Actuarial gains on post-employment benefits	-	-	-	670	-	-	-
Note 5.1.1	Deferred income tax	-	70	70	(127)	-	-	-
	As at 31 December 2021	**(375)**	**(1 295)**	**(1 670)**	**(329)**	**667**	**19 564**	**5 608**

in PLN millions, unless otherwise stated

		Other reserves from measurement of financial instruments				Retained earnings		
		Investments in equity instruments measured at fair value through other comprehensive income	Other reserves from measurement of cash flow hedging financial instruments	Total other reserves from measurement of financial instruments	Accumulated other comprehensive income	Reserve capital created in accordance with the Commercial Partnerships and Companies Code, art. 396*	Reserve capital created from profit in accordance with the Company's Statutes	Profit/(loss) from previous years
	As at 1 January 2022	**(375)**	**(1 295)**	**(1 670)**	**(329)**	**667**	**19 564**	**5 608**
	Dividend paid	-	-	-	-	-	-	**(600)**
	Transfer of profit for the period to reserve capital	-	-	-	-	-	4 569	**(4 569)**
	Total comprehensive income, of which:	**(79)**	**1 354**	**1 275**	**(373)**	**-**	**-**	**3 533**
	Profit for the period	-	-	-	-	-	-	3 533
	Other comprehensive income	**(79)**	**1 354**	**1 275**	**(373)**	-	-	**-**
	Change in fair value of investments in equity instruments	(97)	-	(97)	-	-	-	**-**
Note 7.2	Impact of effective cash flow hedging transactions entered into	-	1 239	1 239	-	-	-	**-**
Note 7.2	Amount transferred to profit or loss in connection with realisation of derivatives	-	432	432	-	-	-	**-**
Note 11.2	Actuarial losses on post-employment benefits	-	-	-	(460)	-	-	**-**
Note 5.1.1	Deferred income tax	18	(317)	(299)	87	-	-	**-**
	As at 31 December 2022	**(454)**	**59**	**(395)**	**(702)**	**667**	**24 133**	**3 972**

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

As at 31 December 2022 the statutory reserve capital in the Company amounted to PLN 667 million, and is recognised in retained earnings in the item reserve capital created in accordance with art. 396 of the Commercial Partnerships and Companies Code.

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

Note 8.3 Liquidity management policy

The Management Board is responsible for the management of financial liquidity in the Company, and it is performed based on the approved, appropriate Policy. The Financial Liquidity Committee is a body supporting the Management Board.

The basic principles resulting from the Financial Liquidity Management Policy are:

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

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

In 2022 the cash pooling system was modified in order to optimise the process of exchanging currencies by the domestic companies of the KGHM Polska Miedź S.A. Group. The modification of these services introduced the daily and automatic consolidation of the currency liquidity of the domestic companies of the KGHM Polska Miedź S.A. Group at the level of the Company. Consolidation is performed through the daily (automatic) conversion into PLN of the positive and negative balances in EUR and USD on the accounts of the companies participating in the cash pooling system. In order to support current liquidity and to optimise these services, the Company entered into an overdraft facility agreement with the bank in which the cash pooling system operates in the amount of PLN 200 million with availability to 15 May 2023 and the possibility of utilisation in the following currencies: PLN, USD and EUR.

In 2022, as part of the management of the special purpose fund called Tailings Storage Facility Restoration Fund, created in July 2013 in accordance with article 137 of the Act dated 14 December 2012 on waste, the Company altered the form of securing the fund, from cash-based to being based on bank guarantees (non-cash), in order to free up the cash accumulated in this fund and to reduce the costs of its servicing.

in PLN millions, unless otherwise stated

Note 8.3.1 Contractual maturities for financial liabilities

Financial liabilities – as at 31 December 2022

Contractual maturities from the end of the reporting period	Maturity period				Total (without discounting)	Carrying amount
Financial liabilities	**up to 3 months**	**over 3 to 12 months**	**over 1 to 3 years**	**over 3 years**		
Borrowings	776	327	840	1 706	**3 649**	**3 435**
Debt securities liabilities	-	174	699	2 093	**2 966**	**2 002**
Lease liabilities	22	58	156	1 160	**1 396**	**687**
Cash pooling payables**	321	-	-	-	**321**	**321**
Other liabilities due to settlement under cash pooling contracts***	29	-	-	-	**29**	**29**
Trade payables	2 801	4	26	344	**3 175**	**3 005**
Derivatives – currency contracts*	-	2	1	-	**3**	**146**
Derivatives – commodity contracts – metals*	13	26	1	-	**40**	**395**
Derivatives – interest rates	-	-	28	348	**376**	**569**
Embedded derivatives	43	-	-	-	**43**	**43**
Other financial liabilities	108	35	35	6	**184**	**179**
Total	**4 113**	**626**	**1 786**	**5 657**	**12 182**	**10 811**

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

Overdue financial liabilities as at 31 December 2022

	Overdue period				
	up to 1 month	**over 1 month to 3 months**	**over 3 months to 12 months**	**over 1 year**	**Total / Carrying amount**
Trade payables	1	-	8	4	13

The tables above regarding maturities do not include financial guarantees in the amount of PLN 969 million, which are due if there is a breach in contractual terms by parties to which the guarantees were granted and toward which the Company cannot postpone payments, that is they must be paid on demand within 3 months. Details on financial guarantees and their maturity dates were described in Note 8.6.

in PLN millions, unless otherwise stated

Financial liabilities – as at 31 December 2021

Contractual maturities from the end of the reporting period	Maturity period					
Financial liabilities	**up to 3 months**	**over 3 to 12 months**	**over 1 to 3 years**	**over 3 years**	**Total (without discounting)**	**Carrying amount**
Borrowings	93	316	1 410	1 469	**3 288**	**2 980**
Debt securities liabilities	-	84	561	1 910	**2 555**	**2 001**
Lease liabilities	20	48	126	1 082	**1 276**	**580**
Cash pooling payables**	360	-	-	-	**360**	**360**
Other liabilities due to settlement under cash pooling contracts***	25	-	-	-	**25**	**25**
Trade payables	2 504	13	25	353	**2 895**	**2 745**
Similar payables – reverse factoring	2	53	-	-	**55**	**55**
Derivatives – currency contracts*	-	-	-	-	**-**	**55**
Derivatives – commodity contracts – metals*	144	611	313	-	**1 068**	**1 514**
Derivatives – interest rates	-	-	20	294	**314**	**431**
Embedded derivatives	21	-	-	-	**21**	**21**
Other financial liabilities	234	11	10	10	**265**	**264**
Total	**3 403**	**1 136**	**2 465**	**5 118**	**12 122**	**11 031**

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

Overdue financial liabilities – as at 31 December 2021

	Overdue period				
	up to 1 month	**over 1 month to 3 months**	**over 3 months to 12 months**	**over 1 year**	**Total / Carrying amount**
Trade payables	21	8	7	6	42

in PLN millions, unless otherwise stated

Note 8.4 Borrowings

Accounting policies
Liabilities arising from borrowings are initially recognised at fair value, less (in the case of payment) or plus (in the case of accrual) transaction costs which are an integral part of the financing drawn, and are measured at amortised cost at the reporting date using the effective interest rate method. Accrued interest is recognised in finance costs, unless it is capitalised through property, plant and equipment or intangible assets.

Note 8.4.1 Net debt

	As at 31 December 2022	As at 31 December 2021
Bank loans*	528	596
Loans	1 859	2 060
Debt securities	2 000	2 000
Leases	613	524
Total non-current liabilities due to borrowings	**5 000**	**5 180**
Bank loans**	666	(3)
Loans	382	327
Cash pooling liabilities***	321	360
Debt securities	2	1
Leases	74	57
Total current liabilities due to borrowings	**1 445**	**742**
Total borrowings	**6 445**	**5 922**
Free cash and cash equivalents	971	1 318
Net debt	**5 474**	**4 604**

** In 2021 presented amounts include the preparation fee paid in the amount PLN 13 million which decreases financial liabilities due to bank loans.*
*** In 2021 presented amounts include the preparation fee paid in the amount PLN 3 million which decreases financial liabilities due to bank loans.*
**** Liabilities of KGHM Polska Miedź S.A. towards the Group companies within the credit limit in the group of accounts participating in the cash pooling system*

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

	As at 31 December 2022	As at 31 December 2021
USD/LIBOR	528	(16)
EUR/EURIBOR	-	60
PLN/WIBOR*	2 323	2 301
USD/fixed	2 907	2 996
EUR/fixed	15	14
PLN/fixed	672	567
Total	**6 445**	**5 922**

** The amount includes KGHM Polska Miedź S.A.'s liabilities towards Group companies due to cash pooling in the amount of PLN 321 million (PLN 300 million in 2021) within the credit limit.*

in PLN millions, unless otherwise stated

As at 31 December 2022, the Company's liabilities due to borrowing, issued debt securities, leases and cash pooling amounted to PLN 6 445 million, or USD 780 million, PLN 2 995 million and EUR 3 million (as at 31 December 2021 liabilities amounted to PLN 5 922 million, or USD 734 million, PLN 2 868 million and EUR 16 million).

The structure of debt changed in comparison to 2021 in terms of an increase in current liabilities, which are affected by the current and scheduled repayments of principals of bank and other loans drawn. Apart from this, and pursuant to the adopted strategy, borrowing is aimed at ensuring long term financial stability whose structure is based on diversified and long term financing sources.

Note 8.4.2 Net debt changes

Liabilities due to borrowing	As at 1 January 2022	Cash flows	Accrued interest	Exchange differences	Other changes	As at 31 December 2022
Bank loans	593	550	63	(25)	13	**1 194**
Loans	2 387	(425)	73	206	-	**2 241**
Debt securities	2 001	(130)	131	-	-	**2 002**
Leases	581	(71)	28	-	149*	**687**
Cash pooling liabilities	360	(44)	5	-	-	**321**
Total debt	**5 922**	**(120)**	**300**	**181**	**162**	**6 445**
Free cash and cash equivalents	1 318	(347)	-	-	-	**971**
Net debt	**4 604**	**226**	**300**	**181**	**162**	**5 473**

**A conclusion and modification of lease agreements.*

Liabilities due to borrowing	As at 1 January 2021	Cash flows	Accrued interest	Exchange differences	Other changes	As at 31 December 2021
Bank loans	1 860	(1 476)	59	150	-	**593**
Loans	2 461	(339)	74	191	-	**2 387**
Debt securities	2 000	(36)	37	-	-	**2 001**
Leases	510	(76)	25	-	122*	**581**
Cash pooling liabilities	284	76	-	-	-	**360**
Total debt	**7 115**	**(1 851)**	**195**	**341**	**122**	**5 922**
Free cash and cash equivalents	2 120	(802)	-	-	-	**1 318**
Net debt	**4 995**	**(1 049)**	**195**	**341**	**122**	**4 604**

**A conclusion and modification of lease agreements.*

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

in PLN millions, unless otherwise stated

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

	from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021
Financing activities		
Proceeds from borrowings	605	205
Proceeds from/(Expenditures on) cash pooling	(40)	76
Repayment of borrowings	(352)	(1 889)
Repayment of lease liabilities	(44)	(51)
Repayment of interest on borrowings and debt securities	(107)	(72)
Repayment of interest on leases	(9)	(8)
Investing activities		
Paid capitalised interest on borrowings	(173)	(112)
TOTAL	**(120)**	**(1 851)**

Note 8.4.3 Detailed information concerning the main sources of borrowings

As at 31 December 2022, the Company had open credit lines, investment loans and debt securities with a total balance of available financing in the amount of PLN 15 136 million, out of which PLN 5 437 million had been drawn (as at 31 December 2021 the Company had open credit lines, investment loans and debt securities with a total balance of available financing in the amount of PLN 14 191 million, out of which PLN 4 997 million had been drawn).

The structure of financing sources is presented below.

in PLN millions, unless otherwise stated

Unsecured, revolving syndicated credit facility

A credit facility in the amount of USD 1 500 million (PLN 6 603 million), obtained on the basis of a financing agreement concluded with a syndicate of banks in 2019 with a maturity of 20 December 2024 and an option to extend it by a further 2 years (5+1+1). In the years 2020-2021 the Company received consent from Syndicate Members to extend the term of the agreement by 2 years in total, i.e. to 20 December 2026. The limit of available financing during the extension period will amount to USD 1 438 million (PLN 6 330 million). The funds acquired through this credit facility are used to finance general corporate purposes. Interest is based on LIBOR plus a bank margin, depending on the net debt/EBITDA ratio.

The credit facility agreement obliges the Company to comply with the financial covenant and non-financial covenants. Financing parameters meet the standard conditions of these types of transactions. Pursuant to contractual terms and conditions, the Company is obliged to report the level of financial covenant for the reporting periods, i.e. as at 30 June and as at 31 December. The Company continuously monitors the risk of exceeding the levels of the financial covenant stipulated in the credit facility agreement. As at the reporting date, during the financial year and after the reporting date, up to the publication of this Report, the value of the financial covenant resulting in the obligation to report as at 30 June 2022 and as at 31 December 2022, complied with the provisions of the agreement.

In 2022, the Company altered the judgement regarding the recognition of a preparatory fee and determined that the preparatory fee paid due to the signing of a borrowing agreement in the form of a revolving credit facility represents a payment benefitting the Company by gaining access to financing under terms set and accepted by the Company, and not a cost of financial liabilities incurred under this agreement. Therefore, the unamortised amount of the preparatory fee was recognised as an asset and was reclassified in the statement of financial position under accruals (respectively short- and long-term) and continues to be settled on a straight-line basis in the financial result for the period to the end of the life of the revolving syndicated credit facility agreement.

	2022	2022	2021
	Amount granted	Amount of the liability	Amount of the liability
	6 603	528	-
Preparatory fee		-	(14)
Carrying amount of liabilities due to bank loans		**528**	**(14)**

Investment loans

Loans granted by the European Investment Bank in the total amount of PLN 3 340 million.

1. Investment loan in the amount of PLN 2 000 million, with three instalments drawn and the payback periods expiring on 30 October 2026, 30 August 2028 and 23 May 2029 and utilised to the maximum available amount. The funds acquired through this loan were used to finance Company investment projects related to modernisation of metallurgy and development of the Żelazny Most tailings storage facility. The loan's instalments have a fixed interest rate.
2. Investment loan in the amount of PLN 1 340 million granted by the European Investment Bank in December 2017 with a financing period of 12 years. The Company has drawn three instalments under this loan with the payback periods expiring on 28 June 2030, 23 April 2031 and 11 September 2031. The unutilised part of the loan in the amount of PLN 440 million, by which the amount of financing granted to the Parent Entity was increased in June 2021, is available until April 2023. The funds acquired through this loan are used to finance the Company's projects related to development and replacement at various stages of the production process. The loan's instalments have a fixed interest rate.

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

As at the reporting date, during the financial year, and after the reporting date, up to the publication of this Report, the value of the financial covenant resulting in the obligation to report as at 30 June 2022 and as at 31 December 2022, complied with the provisions of the loan agreements.

	2022	2022	2021
	Amount granted	Amount of the liability	Amount of the liability
	3 340	**2 241**	**2 387**

in PLN millions, unless otherwise stated

Other bank loans			
Bank loans in the total amount of PLN 3 193 million are used for financing working capital and supporting the management of current financial liquidity. The Company holds lines of credit in the form of credit agreements. These are working capital facilities and credit accounts with availability of up to 4 years. The funds under open lines of credit are available in USD, EUR and PLN with interest based on a fixed interest rate or variable LIBOR, EURIBOR and WIBOR plus a margin.			
	2022	**2022**	**2021**
	Amount granted	**Amount of the liability**	**Amount of the liability**
	3 193	666	609
Preparatory fee		-	(2)
Carrying amount of liabilities due to bank loans		**666**	**607**

Debt securities			
A bond issue program was established on the Polish market by an issue agreement on 27 May 2019. The issue with a nominal value of PLN 2 000 million, under which bonds were issued with a maturity of 5 years in the amount of PLN 400 million and a redemption date of 27 June 2024 as well as bonds with a maturity of 10 years in the amount of PLN 1 600 million and a redemption date of 27 June 2029. The nominal value of one bond is PLN 1 000, and the issue price is equal to the nominal value. The bonds' interest rate is based on variable WIBOR plus a margin. The funds from the issue of the bonds are used to finance general corporate purposes.			
	2022	**2022**	**2021**
	Nominal value of the issue	**Amount of the liability**	**Amount of the liability**
	2 000	**2 002**	**2 001**

Total bank and other loans, debt securities	**5 437**	**4 997**
Preparation fee which decreases liabilities due to bank loans	-	(16)
Carrying amount of liabilities due to bank and other loans, debt securities	**5 437**	**4 981**

The aforementioned sources ensure the availability of external financing in the amount of PLN 15 136 million. The funds available for use from these sources cover the liquidity needs of the Company and the Group.
The syndicated credit in the amount of USD 1 500 million (PLN 6 603 million), the investment loans in the amount of PLN 3 340 million, and other bank loans in the amount of PLN 3 193 million, are unsecured.

Note 8.5 Cash and cash equivalents

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

in PLN millions, unless otherwise stated

	As at 31 December 2022	As at 31 December 2021
Cash in bank accounts	418	593
Other financial assets with a maturity of up to 3 months from the date of acquisition – deposits	567	739
Total cash and cash equivalents	**985**	**1 332**
Restricted cash	14	14
Free cash and cash equivalents	**971**	**1 318**

As at 31 December 2022, the Company had cash in bank deposits in the amount of PLN 25 million (as at 31 December 2021 PLN 7 million), which are funds in separate VAT accounts, designated for servicing split payments. These funds are gradually used to pay the VAT payables to suppliers.

Note 8.6 Liabilities due to guarantees granted

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

Accounting policies
The Company issued guarantees which meet the definition of contingent liabilities pursuant to IAS 37 and recognises them in contingent liabilities, and guarantees which meet the definition of financial guarantees under IFRS 9, and which are measured and recognised as financial instruments pursuant to this standard. The financial guarantee agreement is an agreement obliging its Issuer to make certain payments compensating the holder of the guarantee for the loss they will incur due to a debtor's failure to pay on the due date, pursuant to the initial or amended terms of a debt instrument. At the moment of initial recognition, the Company recognises the financial guarantee at its fair value, in the following items of the statement of financial position: • financial assets measured at amortised cost (other financial assets), • other liabilities (deferred income). The liability due to the financial guarantee granted as at the end of the reporting period is recognised at the higher of two amounts: the initial value of the issued guarantee less the amount of profits recognised in profit or loss on guarantees, or the amount of an allowance for expected credit losses – set pursuant to the principles of the general model, described in accounting policies in Note 7.5.2.
Important estimates and assumptions
For the calculation of expected credit loss, the Company adopts estimates for the rating, PD (probability of default) and LGD parameters (loss given default) similarly as for the loans granted (Note 6.2). Calculation of the expected credit losses takes place in the horizon remaining to the end of the guarantee, while the rating of a guarantee's beneficiary is adopted as the rating of the entity used for the purposes of calculating the PD parameter.

As at 31 December 2022, the Company held liabilities due to guarantees granted in the total amount of PLN 1 609 million. The most significant items secure the following obligations:

Sierra Gorda S.C.M. – securing the performance of concluded agreements in the amount of PLN 969 million (as at 31 December 2021, PLN 670 million):

- PLN 969 million (USD 220 million) - a corporate guarantee (financial) securing repayment of a Revolving Credit Facility, with maturity of the guarantee to September 2024. The recognised balance sheet valuation of the liability due to the financial guarantee granted amounts to PLN 57 million (as at 31 December 2021: PLN 58 million),

other entities:

- PLN 126 million - securing the proper execution by the Company of future environmental obligations related to the obligation to restore terrain, following the conclusion of operations of the Żelazny Most tailings storage facility (as at 31 December 2021 in the amount of PLN 124 million), the guarantee is valid for up to 1 year,
- PLN 461 million (USD 90 million, CAD 18 million) - securing the restoration costs of the Robinson mine, the Podolsky mine and the Victoria project (as at 31 December 2021 in the amount of PLN 402 million, or USD 90 million, CAD 12 million), the guarantee is valid for up to 1 year,
- PLN 14 million - securing claims on behalf of Marshal of the Voivodeship of Lower Silesia to cover costs related to collecting and processing waste, the guarantee is valid to 6 March 2023,
- PLN 2 million - securing obligations related to tax and customs duties, the guarantee is valid indefinitely,
- PLN 7 million (PLN 2 million and CAD 2 million) - securing the obligations related to proper execution of agreements concluded by KGHM Polska Miedź S.A. and Group companies (as at 31 December 2021 in the amount of PLN 10 million, or PLN 3 million and CAD 2 million), the guarantee is valid for up to 3 years,

- PLN 30 million - securing the obligations drawn by Brokerage House due to settlements of transactions on the markets run by Towarowa Giełda Energii S.A, the guarantee was valid until 31 December 2022.

Based on the knowledge held, at the end of the reporting period the Company assessed the probability of payments resulting from contingent liabilities as low.

PART 9 – Non-current assets and related liabilities

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

Accounting policies – property, plant and equipment

The most important property, plant and equipment of the Company is property, plant and equipment related to the mining and metallurgical operations, comprised of land, buildings, water and civil engineering structures, such as: primary mine tunnels (including shafts, wells, galleries, drifts, primary chambers), backfilling, drainage and firefighting pipelines, piezometric holes and electricity, signal and optical fibre cables. Machines, technical equipment, motor vehicles and other movable fixed assets, as well as right-to-use assets recognised in accordance with IFRS 16 Leases, including perpetual usufruct rights to land, are also included in mining and metallurgical property, plant and equipment.
Property, plant and equipment, excluding usufruct right-to-use assets, are recognised at cost less accumulated depreciation and accumulated impairment losses. In the initial cost of items of property, plant and equipment the Company includes discounted decommissioning costs of fixed assets related to mining and other facilities which, in accordance with binding laws, will be incurred following the conclusion of activities. Principles of recognition and measurement of decommissioning costs are presented in Note 9.4.
An asset's carrying amount includes costs of significant components, regular major overhauls and significant periodic repairs, the performance of which determines further use of the asset.
Costs are increased by borrowing costs (i.e. interest, exchange differences and fees representing an adjustment to interest cost) that were incurred for the purchase or construction of a qualifying item of property, plant and equipment.
Right-to-use assets are initially measured at cost, which comprises the initial lease liability and all lease payments paid on the date the lease began and before that date, less any lease incentives received, any initial direct costs incurred by the lessee and an estimate of costs which will be incurred by the lessee due to the disassembly or removal of a base asset or renovation of the site in which it was placed.
The perpetual usufruct right to land is measured at the amount of the liability on the perpetual usufruct right to land, which is measured using the perpetual rent method and all lease payments paid on the date the lease began or before that date (including payments for acquisition of this right on the market).
After the initial recognition, a right-to-use asset, excluding the perpetual usufruct right to land measured using the perpetual rent method, is measured at cost decreased by accumulated depreciation/amortisation and accumulated impairment losses, adjusted by the updated measurement of lease liabilities.
Items of property, plant and equipment (excluding land and perpetual usufruct rights to land) are depreciated by the Company, pursuant to the model of consuming the economic benefits from the given item of property, plant and equipment:

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

The useful lives, and therefore the depreciation rates of fixed assets used in the production of copper, are adapted to the plans for the closure of operations, and in the case of right-to-use assets to the earlier of these two dates – either to the useful life end date or to the lease end date, unless the ownership of an asset is transferred to the Company before the end of the lease, in which case depreciation rates are adjusted to the estimated useful life end date.
For individual groups of fixed assets, the following useful lives have been adopted, estimated based on the anticipated useful lives of mines and metallurgical plants:

For own fixed assets:

in PLN millions, unless otherwise stated

Group	Fixed assets type	Total useful lives
Buildings and land	Land	Not subject to depreciation
	Buildings:	
	– buildings in mines and metallurgical plants,	40-100 years
	– sheds, reservoirs, container switchgears	20-30 years
	Primary mine tunnels	22-90 years
	Pipelines:	6-9 years
	– backfilling to transfer sand with water,	22-90 years
	– technological, drainage, gas and firefighting	
	Electricity, signal and optical fibre cables	10-70 years
Technical equipment, machines, motor vehicles and other fixed assets	Technical equipment and machines:	
	– mining vehicles, mining roof support	4-10 years
	– conveyor belts, belt weigher	10-66 years
	– switchboards, switchgears	4-50 years
	Motor vehicles:	
	– underground electric locomotives,	20-50 years
	– mining vehicles, railway vehicles, tankers, transportation platforms	7-35 years
	– trolleys, forklift, battery-electric truck	7-22 years
	– cars, trucks, special vehicles	5-22 years
	– underground diesel locomotives	10-20 years
	Other fixed assets, including tools and equipment	5-25 years

For right-to-use fixed assets:

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

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

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

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

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

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

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

Accounting policies – intangible assets

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

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

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

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

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

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

in PLN millions, unless otherwise stated

	Property, plant and equipment			Intangible assets		
	Buildings and land	Technical equipment, machines, motor vehicles and other fixed assets	Fixed assets under construction	Exploration and evaluation assets	Other	Total
As at 1 January 2021						
Gross carrying amount	12 548	13 492	5 393	344	547	32 324
Accumulated depreciation/amortisation	(5 321)	(6 931)	-	-	(94)	(12 346)
Impairment losses	(1)	(11)	(7)	(118)	(4)	(141)
Net carrying amount	**7 226**	**6 550**	**5 386**	**226**	**449**	**19 837**
Changes in 2021 net						
Settlement of fixed assets under construction	1 304	1 090	(2 394)	-	-	-
Purchases	-	-	2 020	49	226*	2 295
Leases – new contracts, modification of contracts	24	97	-	-	-	121
Self-constructed	-	-	66	1	-	67
Capitalised borrowing costs	-	-	118	-	1	119
Change in provisions for decommissioning costs of mines and tailings storage facilities	(333)	-	-	-	-	(333)
Depreciation/amortisation, of which:	(377)	(1 007)	-	-	(11)	(1 395)
own fixed assets	(350)	(991)	-	-	(11)	(1 352)
leased fixed assets	(27)	(16)	-	-	-	(43)
Recognition of impairment losses	-	(7)	(11)	-	(2)	(20)
Utilisation of impairment losses	-	-	9	-	6	15
Other changes	(1)	(7)	(9)	-	148	131
As at 31 December 2021						
Gross carrying amount	13 505	14 250	5 194	394	921	34 264
Accumulated depreciation/amortisation	(5 661)	(7 516)	-	-	(104)	(13 281)
Impairment losses	(1)	(18)	(9)	(118)	-	(146)
Net carrying amount, of which:	**7 843**	**6 716**	**5 185**	**276**	**817**	**20 837**
own fixed assets and intangible assets	7 363	6 612	5 185	276	817	20 253
leased fixed assets	480	104	-	-	-	584

Purchase of the CO_2 emission rights

in PLN millions, unless otherwise stated

	Property, plant and equipment			Intangible assets		
	Buildings and land	Technical equipment, machines, motor vehicles and other fixed assets	Fixed assets under construction	Exploration and evaluation assets	Other	Total
As at 1 January 2022						
Gross carrying amount	13 505	14 250	5 194	394	921	34 264
Accumulated depreciation/amortisation	(5 661)	(7 516)	-	-	(104)	(13 281)
Impairment losses	(1)	(18)	(9)	(118)	-	(146)
Net carrying amount	**7 843**	**6 716**	**5 185**	**276**	**817**	**20 837**
Changes in 2022 net						
Settlement of fixed assets under construction	658	1 419	(2 077)	-	-	-
Purchases	-	-	2 416	71	19	2 506
Leases – new contracts, modification of contracts	132	18	-	-	-	150
Self-constructed	-	-	72	2	-	74
Capitalised borrowing costs	-	-	179	-	2	181
Change in provisions for decommissioning costs of mines and tailings storage facilities	16	-	-	-	-	16
Depreciation/amortisation, of which:	(408)	(1 039)	-	-	(14)	(1 461)
own fixed assets	(405)	(1 016)	-		(14)	(1 435)
leased fixed assets	(3)	(23)	-			(26)
Recognition of impairment losses	-	-	(4)	-	(2)	(6)
Utilisation of impairment losses	-	4	6	-	2	12
Other changes	-	(32)	(13)	-	78	33
As at 31 December 2022						
Gross carrying amount	14 278	15 086	5 771	467	1 020	36 622
Accumulated depreciation/amortisation	(6 036)	(7 986)	-	-	(118)	(14 140)
Impairment losses	(1)	(14)	(7)	(118)	-	(140)
Net carrying amount, of which:	**8 241**	**7 086**	**5 764**	**349**	**902**	**22 342**
own fixed assets and intangible assets	7 660	6 987	5 764	349	902	21 662
leased fixed assets	581	99	-	-	-	680

in PLN millions, unless otherwise stated

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

	As at 31 December 2022	As at 31 December 2021
Deposit Access Program	3 318	2 796
Construction of the SW-4 shaft	589	565
Investment activity related to the development and operation of the Żelazny Most Tailings Storage Facility	280	424
Damówka pumping station with a backwater pipeline in the Tailings Division	145	131
BAT As – Installation for arsenic and mercury removal from gases before Solinox installation	117	113
Modernisation of the tankhouse at Głogów I Copper Smelter and Refinery – reconstruction of the roof and walls of the tankhouse	96	89

Note 9.1.2 Expenses related to mining and metallurgical assets

	from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021
Purchase	(2 506)	(2 295)
Change in liabilities due to purchase	27	54
Other	(210)	(140)
Total	**(2 689)**	**(2 381)**

Note 9.2 Other property, plant and equipment and intangible assets

Accounting policies

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

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

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

Intangible assets presented as "other intangible assets" include in particular: acquired property rights not related to mining operations and software. These assets are measured at cost less any accumulated amortisation and impairment losses. Intangible assets are amortised using the straight-line method over their anticipated useful lives. The useful lives of the main groups of intangible assets are as follows:

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

in PLN millions, unless otherwise stated

	Property, plant and equipment			Intangible assets	
	Buildings and land	Technical equipment, machines, motor vehicles and other fixed assets	Fixed assets under construction	Other intangible assets	Total
As at 1 January 2021					
Gross carrying amount	57	245	14	199	515
Accumulated depreciation/amortisation	(38)	(176)	-	(134)	(348)
Net carrying amount as at 1 January 2021	**19**	**69**	**14**	**65**	**167**
As at 31 December 2021					
Gross carrying amount	58	252	9	209	528
Accumulated depreciation/amortisation	(39)	(182)	-	(149)	(370)
Net carrying amount as at 31 December 2021	**19**	**70**	**9**	**60**	**158**
own fixed assets and intangible assets	18	70	9	60	157
leased fixed assets	1	-	-	-	1
Net changes in 2022					
Settlement of fixed assets under construction	7	25	(32)	-	-
Purchase	-	-	34	6	40
Liquidation	-	(11)	-	-	(11)
Other changes	-	11	-	1	12
Depreciation/amortisation, of which:	(1)	(26)	-	(16)	(43)
property, plant and equipment and intangible assets	(1)	(26)	-	(16)	(43)
As at 31 December 2022					
Gross carrying amount	66	266	10	216	558
Accumulated depreciation/amortisation	(41)	(197)	-	(165)	(403)
Net carrying amount, of which:	**25**	**69**	**10**	**51**	**155**
own fixed assets and intangible assets	24	69	10	51	154
leased fixed assets	1	-	-	-	1

As at 31 December 2022 and 31 December 2021 the Company did not have any assets pledged as security for liabilities.

in PLN millions, unless otherwise stated

Note 9.3 Depreciation/amortisation

		Property, plant and equipment		Intangible assets	
		from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021	from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021
Note 4.1	**Depreciation/amortisation**	**1 474**	**1 408**	**30**	**27**
	recognised in profit or loss	1 407	1 338	27	25
	cost of manufacturing products	1 375	1 309	25	23
	administrative expenses	32	29	2	2
	being part of the manufacturing costs of assets	67	70	3	2

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

Accounting policies

The provision for future decommissioning costs of mines and other technological facilities is recognised based on the estimated expected costs of decommissioning of such facilities and of restoring the sites to their original condition following the end of operations. Estimation of this provision is based on specially-prepared studies using ore extraction forecasts (for mining facilities), and technical-economic studies prepared either by specialist firms or by the Company.

The amount of provision represents the estimated future decommissioning costs of mines discounted to present value. Revaluation of this provision is made in two stages:

1) estimation of the costs of decommissioning mines to the current value in connection with the change in prices using the price change indices of construction-assembly production published by the Central Statistical Office.

2) discounting of the decommissioning costs to the current value using real discount rates calculated based on the nominal interest rates and the inflation rate (quotient of the nominal rate and the inflation rate), whereby:

   - the nominal interest rate is based on the yield on treasury bonds at the end of the reporting period, with maturities nearest to the planned financial outflows and if there are no treasury bonds with maturities close to the planned financial outflows - the nominal interest rate is determined by the professional judgment of the Company's Management on the basis of the consistency of the adopted assumptions,
   - the inflation rate is based on the forecast of future inflation used in the calculation of future employee benefits liabilities.

A change in the discount rate or in the estimated decommissioning cost adjusts the value of the relevant item of a fixed asset, unless it exceeds the carrying amount of the item of a fixed asset (any surplus above this amount is recognised in other operating income).

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

The provision for decommissioning costs of mines and other technological facilities includes the balance of the Mine Closure Fund and Tailings Storage Facility Restoration Fund, which the Company creates under separate regulations, i.e. the Act of 9

Important estimates, assumptions and judgments

In 2022, the Company revised its approach to the discount rates used to estimate a provision.
At the end of the reporting period, with a bond yield of +/- 6.845% and inflation of +/- 13.1% (at the end of the comparable period: respectively +/-3.6% and +/-7.6%), the Company received and applied for the years 2022-2023 a negative real discount rate of -5.53% instead of a rate of "0" in line with the previous approach.
For the subsequent two measurement periods, that is for 2024 and 2025, the Company adopted inflation rates at the level of the NBP's forecast, that is 5.9% and 3.5%, respectively, and for subsequent periods, following the NBP's forecast - at the level of 2.5%, in line with the long-term inflation target.
Moreover, for the first 10 years of measurement of the provision (that is to 2032), the Company adopted a risk-free rate of 6.845% (measurement of 10-year treasury bonds) due to the fact that it is the only publicly available information on the risk-free rate for the subsequent 10 years, and pursuant to the adopted judgment, this rate was not modified. The Company will adjust the risk-free rate to the level of this rate announced at every subsequent end of the reporting period in order to measure the provision at those days.

In turn, taking into account the high volatility of the risk-free rate that took place in the last period, based on quotations of 10-year treasury bonds, the Company applied a professional judgment to determine this rate for the estimation of provisions falling after a period of 10 years from the end of the annual reporting period based on the historical observation of the ratio of the risk-free rate to the assumed inflation target. As a result of the judgement, the Company adopted the risk-free rate of 3.5% for the estimation of provision for 10 years from the end of the annual reporting period, which translated into a real discount rate of 0.98%.

in PLN millions, unless otherwise stated

June 2011 Geological and Mining Law and the Act of 14 December 2012 on waste, respectively. The role of the Funds is to secure cash for the future realisation by the Company of its obligations related to the closure, decommissioning and restoration of mines and tailings storage facilities, by collecting them in the manner provided for by the laws. In the case of the Mine Closure Fund, the Company has separated a bank cash account to which it transfers cash equivalent to 3% of the depreciation charges on fixed assets of mines, determined in accordance with the provisions of the Income Tax Act. Details on the credit risk related to the cash accumulated on the separate account of Mine Closure Fund are presented in Note 7.5.2.4. In the case of Tailings Storage Facility Restoration Fund, in July 2022 the Company changed the form of securing the funds of this Fund, replacing a separate bank account with financial guarantees issued by the bank on demand of the Company, of which the Company is also a beneficiary. As at 31 December 2022, the amount of guarantees was PLN 98 million, and their value is updated on an annual basis. The Company strives to fully secure funds for the restoration of individual tailings storage facilities in the year, for which the liquidation and restoration schedule provides for the closure of a given tailings storage facility, by systematic increasing the value of these guarantees.	

		As at 31 December 2022	As at 31 December 2021
	Provisions at the beginning of the reporting period	**824**	**1 192**
Note 9.1	Changes in estimates recognised in fixed assets	16	(333)
	Mine Closure Fund and Tailing Storage Facility Restoration Fund*	428	-
	Utilisation	(5)	-
	Other	(2)	(35)
	Provisions at the end of the reporting period, including:	**1 261**	**824**
	- non-current provisions	1 233	811
	- current provisions	28	13

**Change in the presentation: to the presentation together with the non-current part of the provision for decommissioning costs of mines and other facilities, which is a result of the change in judgment as to the period of expected cash outflows from the fund.*

Impact of the change in discount rate on the provision for decommissioning costs of mines

	As at 31 December 2022	As at 31 December 2021
increase in discount rate by 1 percentage point	(258)	(263)
decrease in discount rate by 1 percentage point	700	-*

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

Note 9.5 Capitalised borrowing costs

During the period between 1 January 2022 to 31 December 2022, the Company recognised PLN 181 million of borrowing costs in property, plant and equipment and intangible assets (during the period from 1 January 2021 to 31 December 2021: PLN 119 million).

The capitalisation rate applied by the Company to determine borrowing costs in 2022 amounted to 4.56% (in 2021: 3.07%).

Note 9.6 Lease disclosures – the Company as a lessee

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

in PLN millions, unless otherwise stated

	Lease disclosures – the Company as a lessee	from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021
Note 9.1	Depreciation/amortisation cost	26	43
Note 4.3	Interest cost	10	8
	Short-term lease cost	9	8
	Cost associated with variable lease payments not recognised in the measurement of lease liabilities	-	3
Note 8.4.2	Total cash outflows due to leases	71	76
Note 9.1	Increase in right-to-use assets	38	121
		As at 31 December 2022	As at 31 December 2021
Note 9.1 Note 9.2	Carrying amount of right-to-use assets (division by underlying assets in notes, pursuant to references)	681	585
Note 8.4.2	Carrying amount of right-to-use liabilities	575	581

As at 31 December 2022, the Company had lease agreements that contained extension options and termination options, and the estimated value of future cash outflows, to which the Company is potentially exposed and are not included in the measurement of lease liabilities amounted to PLN 10 million and PLN 36 million respectively. The Company has lease agreements containing guaranteed residual values, which have been included in the measurement of lease liabilities. In addition, the Company has not yet commenced lease agreements, to which it is obliged as a lessee, and the value of future cash outflows on this account is PLN 4 million.

Note 9.7 Non-current assets held for sale and liabilities associated with them

As at 31 December 2022, the Company identified the shares of KGHM TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH S.A. in the amount of PLN 3 million as assets held for sale, due to the fulfilment of the criteria set in IFRS 5 (i.e. they are available for immediate sale in their current state, the sale is highly probable, and it is expected that it will take place within 1 year from the date of classification as held for sale). Due to their insignificant value, these shares were not separated in the statement of financial position to a separate item "Non-current assets held for sale" and are included in this statement under the item "Investments in subsidiaries".

As at 31 December 2021, the Company did not have any non-current assets held for sale.

in PLN millions, unless otherwise stated

PART 10 – Working capital

Note 10.1 Inventories

Accounting policies
The Company measures inventories at cost, not higher than the sales price less costs of completing production and costs to sell. Any differences in the value of finished goods constitutes a write-down and is recognised in the costs of sold products. The costs of inventories of finished goods, half-finished goods and work in progress include costs directly related to the production and variable and fixed indirect costs of production, assigned respectively. Fixed indirect costs of production are allocated on the basis of the normal level of production capacity utilisation. The valuation of the inventory component disposal is made according to the weighted average purchase price and the weighted average actual production cost. The Company also classifies as inventories stand-by spare parts that do not meet the criteria for recognition as property, plant and equipment in accordance with IAS 16 par. 7 and in accordance with the principles of capitalization of significant components, adopted in the accounting principles of the Company, where a materiality threshold of at least PLN 300 thousand has been set, for which the spare parts are analysed in terms of meeting the capitalization criteria of IAS 16. In relation to above, stand-by spare parts are in particular recognised as inventories, the value of which is insignificant or are not replaced at regular intervals, or which, after their installation, due to the failure of a spare part in an item of property, plant and equipment, will not contribute to obtain higher economic benefits from further use of this component, than those assumed at the moment of initial recognition of the component and putting it into use. The costs of such stand-by spare parts are recognised in profit or loss as they are used up, as current maintenance costs of assets.
Important estimates, assumptions and judgments
The Company measures inventories at cost, not higher than the net realisable value. The net realisable value is the estimated sales price achieved during ordinary course of business activities less estimated costs of completing production/performing a service and the estimated, necessary costs to sell. The potential difference in the amounts represents a write-down of inventories of copper, silver and other products (at various processing stages), up to the net realisable value is recognised in the cost of manufacturing of sold products in the period, in which the write-down was recognised. The Company determines the net sales price of copper at the end of the reporting period on the basis of forward LME (London Metal Exchange) curve for the metal, set for months in which the sale of metal inventories will be made.

	As at 31 December 2022	As at 31 December 2021
Materials	1 503	1 124
Half-finished goods and work in progress	4 495	3 260
Finished goods	1 444	965
Merchandise	81	87
Total net carrying amount of inventories	**7 523**	**5 436**

Write-down of inventories in the financial period

	from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021
Write-down recognised in cost of sales	13	41
Write-down reversed in cost of sales	52	20

in PLN millions, unless otherwise stated

Maturities of inventories

	As at 31 December 2022	As at 31 December 2021
Maturity over the 12 months from the end of the reporting period	76	80
Maturity of up to 12 months from the end of the reporting period	7 447	5 356

As at 31 December 2022 and in the comparable period, the value of inventories with a maturity of over 12 months mainly includes stand-by inventories of materials and spare parts to maintain production continuity, packages of spare parts under contractual obligations and the finished rhenium product.

Note 10.2 Trade receivables

Accounting policies

Trade receivables are initially recognised at the transaction price, unless the receivables contains a significant financial component subject to separation and therefore the receivables are initially recognised at fair value. After initial recognition, receivables are measured as follows:

- receivables not transferred to non-recourse factoring and not based on the M+ pricing formula: at amortised cost while taking into account the loss allowance for expected credit losses (trade receivables with maturity dates of less than 12 months are not discounted),
- receivables transferred to non-recourse factoring: at fair value through profit or loss, where the fair value is determined in the amount of their carrying amount less the factor's compensation, which include, among others, interest costs and risk assumption costs. Because of the short duration between the transferral of receivables to the factor and its payment and due to the low credit risk of the counterparty (factor), the fair value of these receivables does not include an adjustment by the impact of these factors. Receivables transferred to non-recourse factoring are obligatorily designated to the category of financial assets measured at fair value through profit or loss, because they were classified to a business model in which cash flows are realised solely by selling financial assets.
- receivables based on the M+ pricing formula: at fair value through profit or loss, where the fair value is set as the nominal value (i.e. at the price in the invoice), adjusted by the impact of market and credit risks. Adjustment due to the market risk is calculated as the difference between the current market price for a given pricing period in the future (the period in which there will be a final determination of the settlement price) and the receivables' price recognised in the accounting books (multiplied by the sales volume). Adjustment due to the credit risk is calculated analogously to the calculation of expected credit losses for trade receivables measured at amortised cost. Receivables based on the M+ pricing formula are obligatorily designated to the category of financial assets measured at fair value through profit or loss, because these assets do not pass the SPPI (solely payments of principal and interest) test because of the element of variable price after the date of initial recognition of the receivables.

Receivables measured at fair value may be measured based on the M+ pricing formula as well as due to the transfer to factoring. The measurements are carried out independently of each other. The result of both measurements is recognised in the profit or loss in other operating income/(costs).

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

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

	as at 31 December 2022	as at 31 December 2021
Trade receivables measured at amortised cost - gross value	166	134
Loss allowance for expected credit losses	(1)	(1)
Trade receivables measured at amortised cost - net value	165	133
Trade receivables measured at fair value	455	467
Total	**620**	**600**

in PLN millions, unless otherwise stated

Note 10.3 Trade and similar payables

Accounting policies
Trade and similar payables are initially recognised at fair value less transaction cost and are measured at amortised cost at the end of the reporting period. Accrued interest due to repayment of payables at a later date, in particular payables transferred to reverse factoring, is recognised in profit or loss, in the item “finance costs”.
Important estimates, assumptions and judgments
Trade and similar payables presented in the statement of financial position also contain trade payables transferred to reverse factoring, which are in the category of “similar”. At the moment of transfer of the liabilities to reverse factoring, the Company recognises payables towards the factor, who due to the subrogation of receivables, from the legal point of view, assumes the rights and obligations common for trade payables. The Company analysed the key IFRS requirements related to the issue and in the Company’s opinion the presentation of balances of liabilities transferred to factoring in the statement of financial position and the reflection of reverse factoring transactions in the statement of cash flows in the Company’s financial statements are consistent with the requirements of IFRS, and in particular with the opinion of the International Financial Reporting Standards Interpretations Committee on the presentation of reverse factoring transactions in the statement of financial position and statement of cash flows, published in December 2020. In terms of the judgement applied related to the presentation of reverse factoring, the Company indicates that the actual deadline for the payment of trade payables covered by reverse factoring agreements is longer (up to 180 days) than the deadline for the payment of other trade payables which are not transferred to factoring, which usually amounts to 60 days, and it may indicate a change in the nature of these payables from trade to debt. However, this feature was assessed by the Company as insufficient to consider that the nature of the payables changed completely when the trade payables were transferred to reverse factoring. Apart from the above criterion, no other terms of payables covered by reverse factoring differ from the terms of other trade payables.

	As at 31 December 2022	As at 31 December 2021
Non-current trade payables	186	187
Current trade payables	2 819	2 558
Similar payables – reverse factoring	-	55
Trade and similar payables	**3 005**	**2 800**

In 2022, the factors’ total participation limit amounted to PLN 1 500 million (in 2021: 1 500 million). Currently, the Company has two agreements for the provision of factoring services which was implemented in 2019 in order to make it possible for suppliers to receive repayment of receivables faster, as part of the standard procurement process executed by the Company, alongside an extension of payment dates of payables by the Company to the factor. In the current year, because of the good liquidity situation of the Company, there were no reasons to use this form of settlement, and as at 31 December 2022 no liabilities were transferred to the factors and therefore no trade payables were covered by reverse factoring (in the year ended 31 December 2021, liabilities in the amount of PLN 988 million were transferred to the factor; the value of trade payables covered by reverse factoring as at 31 December 2021 amounted to PLN 55 million); in the current year, there were payments towards the factors in the amount of PLN 55 million (in the year ended 31 December 2021 in the amount of PLN 2 187 million). Interest costs accrued and paid towards the factor in 2022 amounted to PLN 0.5 million (in the year ended 31 December 2021 the interest costs accrued and paid amounted to PLN 9 million).

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

The item trade and similar payables contains payables due to the purchase and construction of fixed and intangible assets which, as at 31 December 2022, amounted to PLN 185 million in the non-current part and PLN 975 million in the current part (as at 31 December 2021, respectively PLN 186 million and PLN 910 million).

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

in PLN millions, unless otherwise stated

Note 10.4 Changes in working capital

Accounting policies
Cash flows arising from interest on reverse factoring transactions are presented in cash flows from financing activities. The actually repaid principal amounts of receivables transferred to reverse factoring to a factor are presented in cash flows from operating activities. Moreover, the Company, as regards the changes in working capital in the statement of cash flows, presented a separate line "Change in trade payables transferred to factoring" for the purposes of clear and transparent presentation.
Important estimates, assumptions and judgments
Due to the lack of uniform market practice with respect to the presentation of reverse factoring transactions in the statement of cash flows, the Management Board had to apply its own judgment in this regard. The Company had to make an assessment as to whether expenses related to payments towards the factor should be classified to cash flows from operating activities or to cash flows from financing activities in the statement of cash flows. Pursuant to IAS 7.11, an entity should present cash flows from operating, investing and financing activities in a manner which is most appropriate to its business, because it provides information that allows users of financial statements to assess the impact of those activities on the financial position of the entity and the amount of its cash and cash equivalents. Due to the above, in the Company's view: • presentation of the repayment of the principal amounts of receivables in the reverse factoring in cash flows from operating activities is compliant with the objective of individual transaction elements and consistent with the presentation of these transactions in the statement of financial position. When legal subrogation of receivables is made by the factor, from a legal standpoint, the factor assumes the rights and responsibilities characteristic for trade receivables. Only cash flows from the repayment of principal amounts of receivables from liabilities due to the purchase and construction of fixed assets and intangible assets are presented under investing activities (more information may be found in Note 10.3), • however, the financial aspect related to the factoring transaction is reflected in the presentation of interest in financing activities. This is consistent with recognising this interest in financing costs in the statement of profit or loss pursuant to the accounting policy adopted by the Company for the presentation of interest cost of reverse factoring in the financial activities.

	Inventories	Trade receivables	Trade payables	Similar payables	Working capital
As at 1 January 2022	(5 436)	(600)	2 745	55	**(3 236)**
As at 31 December 2022	(7 523)	(620)	3 004	-	**(5 139)**
Change in the statement of financial position	(2 087)	(20)	259	(55)	**(1 903)**
Depreciation/amortisation recognised in inventories	60	-	-	-	**60**
Liabilities due to purchase of property, plant and equipment and intangible assets	-	-	(34)	-	**(34)**
Adjustments	60	-	(34)	-	**26**
Change in the statement of cash flows	**(2 027)**	**(20)**	**225**	**(55)**	**(1 877)**

in PLN millions, unless otherwise stated

	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 December 2021	(5 436)	(600)	2 745	55	**(3 236)**
Change in the statement of financial position	(1 881)	(249)	513	(1 209)	**(2 826)**
Depreciation/amortisation recognised in inventories	57	-	-	-	**57**
Liabilities due to purchase of property, plant and equipment and intangible assets	-	-	(116)	54	**(62)**
Liabilities due to interest on reverse factoring	-	-	-	1	**1**
Adjustments	57	-	(116)	55	**(4)**
Change in the statement of cash flows	**(1 824)**	**(249)**	**397**	**(1 154)**	**(2 830)**

in PLN millions, unless otherwise stated

PART 11 – Employee benefits

Accounting policies

The Company is obliged to pay specified benefits following the period of employment (retirement benefits due to one-off retirement-disability rights, post-mortem benefits and the coal equivalent) and other long-term benefits (jubilee bonuses), in accordance with the Collective Labour Agreement.

The amount of the liabilities due to both of these benefits is estimated at the end of the reporting period by an independent actuary using the projected unit credit method.

The present value of liabilities from these benefits is determined by discounting estimated future cash outflow using the yield on treasury bonds expressed in the currency of the future benefits payments, with maturities similar to those of the liabilities due to be paid.

Actuarial gains and losses from the measurement of specified benefits following the period of employment are recognised in other comprehensive income in the period in which they arose. Actuarial gains/losses from the measurement of other benefits (for example benefits due to jubilee bonuses) are recognised in profit or loss.

Important estimates and assumptions

The carrying amount of the liability due to future employee benefits is equal to the present value of the liabilities due to defined benefits. The amount of the liability depends on many factors, which are used as assumptions in the actuarial method. Any changes to the assumptions may impact the carrying amount of the liability. Discount rates are one of the basic parameters for measuring the liability. At the end of the reporting period, based on the opinion of an independent actuary, an appropriate discount rate for the Company is used for setting the present value of estimated future cash outflow due to these benefits. In setting the discount rate for the reporting period, the actuary applies yields of State Treasury bonds available at the balance sheet date, with maturities approximate to the average maturities of measured liabilities.

Other macroeconomic assumptions used to measure liabilities due to future employee benefits, such as the inflation rate or the minimum salary, are based on current market conditions.

In accordance with IAS 19 par. 78, the actuarial assumptions adopted for the purpose of measurement of employee benefits in the Company are consistent, as they reflect the economic relations between such factors as inflation, salary growth rate, discount rate and coal price growth rate. The additional analysis of assumptions prepared by the Company determined that the balance of provisions achieved using the adopted assumptions as to the salary growth and coal price growth could be achieved using the alternative paths of price growth of 6.0% and coal price growth of 6.25%. Taking into account the adopted finance discount rate of 6.75% it should be noted that the assumptions adopted for the measurement are consistent, pursuant to IAS 19 paragraph 78.

The assumptions used to measurement as at 31 December 2022 are presented in Note 11.2.

Impact of changes in the indicators on the balance of liabilities

	As at 31 December 2022	As at 31 December 2021
an increase in the discount rate by 1 percentage point	(231)	(242)
a decrease in the discount rate by 1 percentage point	278	308
an increase in the coal price growth rate and the salary growth rate by 1 percentage point	299	228
a decrease in the coal price growth rate and the salary growth rate by 1 percentage point	(227)	(177)

in PLN millions, unless otherwise stated

Note 11.1 Employee benefits liabilities

	As at 31 December 2022	As at 31 December 2021
Non-current	2 394	2 040
Current	237	130
Liabilities due to future employee benefits programs	**2 631**	**2 170**
Employee remuneration liabilities	494	422
Accruals (unused annual leave, bonuses, other)	634	578
Employee liabilities	**1 128**	**1 000**
Total employee benefits liabilities	**3 759**	**3 170**

Employee benefits expenses

		from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021
	Remuneration	3 387	2 992
	Costs of social security and other benefits	1 296	1 142
	Costs of future benefits	149	115
Note 4.1	**Employee benefits expenses**	**4 832**	**4 249**

in PLN millions, unless otherwise stated

Note 11.2 Changes in liabilities related to future employee benefits programs

		Total liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other benefits
	As at 1 January 2021	**2 848**	**445**	**408**	**1 965**	**30**
Note 11.1	Total costs recognised in profit or loss	**115**	15	32	66	2
	Interest costs	**37**	6	5	26	0
	Current service costs	**104**	35	27	40	2
	Actuarial gains recognised in profit or loss	**(26)**	(26)	-	-	-
Note 8.2.2	Actuarial gains recognised in other comprehensive income	**(670)**	-	(41)	(627)	(2)
	Benefits paid	**(123)**	(42)	(30)	(50)	(1)
	As at 31 December 2021	**2 170**	**418**	**369**	**1 354**	**29**
Note 11.1	Total costs recognised in profit or loss	**149**	39	35	73	2
	Interest costs	**78**	15	13	49	1
	Current service costs	**77**	30	22	24	1
	Actuarial gains recognised in profit or loss	**(6)**	(6)	-	-	-
Note 8.2.2	Actuarial (gains)/losses recognised in other comprehensive income	**460**	-	(17)	479	(2)
	Benefits paid	**(148)**	(51)	(26)	(70)	(1)
	As at 31 December 2022	**2 631**	**406**	**361**	**1 836**	**28**

in PLN millions, unless otherwise stated

As at 31 December	2022	2021	2020	2019	2018
Present value of liabilities due to employee benefits	2 631	2 170	2 848	2 492	2 376

Main actuarial assumptions adopted for measurement as at 31 December 2022:

	2023	2024	2025	2026	2027 and beyond
- discount rate	6.75%	6.75%	6.75%	6.75%	6.75%
- coal price growth rate*	87.90%	5.90%	3.50%	2.50%	2.50%
- rate of growth of the lowest salary	19.60%	5.70%	5.00%	4.00%	4.00%
- expected inflation	13.10%	5.90%	3.50%	2.50%	2.50%
- future expected increase in salary	16.00%	9.00%	5.00%	4.00%	4.00%

***** *The increase in coal prices in 2023 was presented as an average for all Divisions of the Company. At the end of 2022, coal prices in individual Divisions which are the basis for setting the benefit ranged from 996.60 PLN/t to 1 792.00 PLN/t. In 2023 there will be an adjustment of coal prices to a uniform level of 2 150 PLN/t, and in 2024 and subsequent years the coal price growth rate was adopted at the level of expected inflation.*

Main actuarial assumptions adopted for measurement as at 31 December 2021:

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

***** *At the end of 2021, coal prices in individual Divisions of the Company which are the basis for setting the coal benefit ranged from 887.95 PLN/t to 983.60 PLN/t. An assumption was adopted on a 10% increase of coal prices in 2022, and in 2023 and subsequent years the coal price growth rate was adopted at the level of expected inflation.*

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

in PLN millions, unless otherwise stated

Actuarial gains/losses adopted for measurement as at 31 December 2022 versus individual assumptions adopted as at 31 December 2021

Change in financial assumptions	38
Change in demographic assumptions	(36)
Other changes	452
Total actuarial (gains)/losses	**454**

Actuarial gains/losses adopted for measurement as at 31 December 2021 versus individual assumptions adopted as at 31 December 2020

Change in financial assumptions	(700)
Change in demographic assumptions	(101)
Other changes	105
Total actuarial (gains)/losses	**(696)**

Maturity profile of future employee benefits liabilities

Year of maturity:	**Total liabilities**	jubilee awards	retirement and disability benefits	coal equivalent	post-mortem benefits
2023	**236**	51	54	129	2
2024	**228**	40	57	129	2
2025	**177**	35	17	123	2
2026	**169**	32	21	114	2
2027	**155**	31	17	105	2
Other years	**1 666**	217	195	1 236	18
Total liabilities in the statement of financial position as at 31 December 2022	**2 631**	**406**	**361**	**1 836**	**28**

Maturity profile of future employee benefits liabilities

Year of maturity:	**Total liabilities**	jubilee awards	retirement and disability benefits	coal equivalent	post-mortem benefits
2022	**129**	42	30	55	2
2023	**169**	39	63	66	1
2024	**109**	29	15	64	1
2025	**107**	30	15	60	2
2026	**106**	28	19	57	2
Other years	**1 550**	250	227	1 052	21
Total liabilities in the statement of financial position as at 31 December 2021	**2 170**	**418**	**369**	**1 354**	**29**

in PLN millions, unless otherwise stated

PART 12 – Other notes

Note 12.1 Related party transactions

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

Operating income from related parties	from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021
From subsidiaries	900	1 736
From other related parties	28	61
Total	**928**	**1 797**

In 2022, dividends incomes from subsidiaries amounted to PLN 29 million (in the comparable period: PLN 37 million).

	As at 31 December 2022	As at 31 December 2021
Trade and other receivables from related parties	**9 724**	**9 150**
From subsidiaries, including:	9 667	9 092
loans granted	8 784	8 366
From other related parties	57	58
Payables towards related parties	**1 662**	**1 571**
Towards subsidiaries	1 605	1 513
Towards other related parties	57	58

Purchases from related entities	from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021
Purchases from related entities	**9 994**	**7 782**
Purchase of products, merchandise, materials and other purchases from subsidiaries	9 994	7 782

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, in the period from 1 January to 31 December 2022, the Company concluded the following transactions with the Polish Government and entities controlled or jointly controlled by the Polish Government, unusual due to their nature or amount:

- due to an agreement on setting mining usufruct for the extraction of mineral resources and for the exploration for and assessment of mineral resources – balance of payables as at 31 December 2022 in the amount of PLN 229 million (as at 31 December 2021: PLN 228 million); including payables due to mining usufruct for the extraction of mineral resources recognised in costs in the amount of PLN 35 million (as at 31 December 2021: PLN 30 million),
- due to a reverse factoring agreement with the company PEKAO FAKTORING Sp. z o.o. – as at 31 December 2022, the Company had no payables (as at 31 December 2021, payables in the amount of PLN 28 million and interest costs for 2021 in the amount of PLN 6 million),
- banks related to the State Treasury executed the following transactions and economic operations on the Company's behalf: spot currency exchange, depositing cash, cash pooling, granting bank loans, guarantees and letters of credit (including documentary letters of credit), processing of a documentary collection, running bank accounts, servicing of business credit cards, servicing of special purpose funds and entering into transactions on the forward currency market.

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

in PLN millions, unless otherwise stated

Other transactions between the Company and the Polish Government and with entities controlled or jointly controlled by the Polish Government, or over which the government has significant influence, were within the scope of normal, daily economic operations. These transactions concerned the following:

- the purchase of materials, merchandise and services to meet the needs of current operating activities. In the period from 1 January to 31 December 2022, the turnover from these transactions amounted to PLN 3 050 million (from 1 January to 31 December 2021: PLN 1 687 million), and, as at 31 December 2022, the unsettled balance of liabilities from these transactions amounted to PLN 254 million (as at 31 December 2021: PLN 166 million),
- sales to Polish State Treasury Companies. In the period from 1 January to 31 December 2022, the turnover from these sales amounted to PLN 163 million (from 1 January to 31 December 2021: PLN 193 million), and, as at 31 December 2022, the unsettled balance of receivables from these transactions amounted to PLN 193 million (as at 31 December 2021: PLN 9 million).

Note 12.2 Dividends paid

In accordance with Resolution No. 6/2022 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 21 June 2022 regarding the appropriation of profit for the year ended 31 December 2021, the profit in the amount of PLN 5 169 million was appropriated as follows: as a shareholders dividend in the amount of PLN 600 million (PLN 3.00 per share) and transfer of PLN 4 569 million to the Company's reserve capital. The Ordinary General Meeting of KGHM Polska Miedź S.A. set the dividend date for 2021 at 7 July 2022 and the dividend payment date for 2021 at 14 July 2022.

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 created in accordance with art. 396 § 1 of the Commercial Partnerships and Companies Code.

All shares of the Company are ordinary shares.

As at the date of publication, no decision was made on the dividend payout or allocation of profit for 2022.

Note 12.3 Other assets

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

		As at 31 December 2022	As at 31 December 2021
	Other non-current non-financial assets	**117**	**54**
	Non-financial advances	36	22
	Receivables due to overpayment of property tax	69	3
	Prepayments	12	4
	Other	-	25
	Other current assets	**464**	**366**
Note 7.1	Other current financial assets	322	289
	Receivables due to guarantees granted	29	20
	Receivables due to settled derivatives	37	10
	Receivables due to compensation for energy-intensive sector due to allocation the costs of purchasing CO2 emission rights to the price of electricity	98	41
	Receivables due to payments for letters of credit	1	1
	Loans granted	22	117
	Other	135	100
	Other current non-financial assets	142	77
	Non-financial advances	111	55
	Prepayments	23	16
	Other	8	6

in PLN millions, unless otherwise stated

Note 12.4 Other liabilities

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

	As at 31 December 2022	As at 31 December 2021
Trade payables	186	187
Other	74	66
Other liabilities – non-current	**260**	**253**
Special purpose funds*	-	410
Accruals, including:	517	397
provision for purchase of property rights related to consumed electricity	83	98
charge for discharging of gases and dusts to the air	391	260
Liabilities due to the settlement of the Tax Group	12	13
Deferred income	41	29
Other liabilities due to settlements under cash pooling contracts	29	25
Other	176	275
Other liabilities – current	**775**	**1 149**

**Change in the presentation to the presentation together with the non-current part of Provision for decommissioning costs of mines and other facilities, which is a result of change in judgment as to the period of expected cash outflows from the fund.*

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

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

		As at 31 December 2022	As at 31 December 2021
	Contingent assets	**373**	**485**
	Guarantees received	115	250
	Promissory note receivables	253	207
	Other	5	28
	Contingent liabilities	**701**	**644**
Note 8.6	Guarantees granted	641	566
	Real estate tax on mine tunnels	34	47
	Other	26	31
	Other liabilities not recognised in the statement of financial position	**34**	**99**
	Liabilities towards local government entities due to expansion of the tailings storage facility	34	99

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

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

in PLN millions, unless otherwise stated

	As at 31 December 2022	As at 31 December 2021
Capital commitments due to the purchase of:		
property, plant and equipment	2 676	2 025
intangible assets	126	28
Total capital commitments	**2 802**	**2 053**

Note 12.7 Employment structure

	from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021
White-collar employees	4 909	4 838
Blue-collar employees	13 771	13 682
Total (full-time)	**18 680**	**18 520**

Note 12.8 Other adjustments in the statement of cash flows

	from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021
Losses on disposal of property, plant and equipment and intangible assets	22	5
Income tax (expenses)/proceeds from the tax group companies	69	(9)
Other	23	11
Total	**114**	**7**

Accounting policies

In cash flows from operating activities in the statement of cash flows, the Company presents receivables due to cash pooling and other liabilities due to settlements within cash pooling agreements in the item "change in other receivables and liabilities". Receivables due to cash pooling are receivables from Group companies, which at the end of the reporting period incurred a debt within the cash pooling agreement. Other liabilities due to settlement within cash pooling agreements are liabilities of the Company towards participants in the cash pooling system to repay, after the end of the reporting period, of cash transferred by them, which were not used by the Company for its own needs.

Within cash flows from financing activities, the Company presents proceeds and expenses due to cash pooling and they represent the Company's debt towards participants in the cash pooling system, that is cash which the Company uses for its own needs.

Important estimates, assumptions and judgments

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

Note 12.9. Remuneration of key managers

Remuneration of members of the Management Board (in PLN thousands)	from 1 January 2022 to 31 December 2022				
	Period when function served	Remuneration for the period of service as a member of the Management Board	Remuneration after the period of service as a member of the Management Board	Benefits due to termination of employment	Total earnings
Members of the Management Board serving in the function as at 31 December 2022					
Tomasz Zdzikot	01.09-31.12	373	-	-	**373**
Mirosław Kidoń	10.12-31.12	64	-	-	**64**
Marek Pietrzak	01.01-31.12	1 079	-	-	**1 079**
Marek Świder	15.03-31.12	836	-	-	**836**
Mateusz Wodejko	21.12-31.12	32	-	-	**32**
Members of the Management Board not serving in the function as at 31 December 2022					
Marcin Chludziński	01.01-11.10	1 939	-	435	**2 374**
Adam Bugajczuk	01.01-31.08	1 667	-	-	**1 667**
Paweł Gruza	01.01-09.08	1 604	-	163	**1 767**
Andrzej Kensbok	01.01-06.12	1 679	-	298	**1 977**
Katarzyna Kreczmańska-Gigol	-	-	277	-	**277**
Jerzy Paluchniak	01.09-11.10	120	-	-	**120**
Radosław Stach	-	-	277	-	**277**
Dariusz Świderski	01.01-21.02	148	600	14	**762**
TOTAL	-	**9 541**	**1 154**	**910**	**11 605**

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

Remuneration of members of the Supervisory Board (in PLN thousands)	from 1 January 2022 to 31 December 2022			
	Period when function served	Current employee benefits	Current benefits due to serving in the function	Total earnings
Members of the Supervisory Board serving in the function as at 31 December 2022				
Agnieszka Winnik -Kalemba	01.01-31.12	-	164	**164**
Katarzyna Krupa	01.01-31.12	-	149	**149**
Wojciech Zarzycki	22.06-31.12	-	78	**78**
Józef Czyczerski	01.01-31.12	203	150	**353**
Przemysław Darowski	01.01-31.12	-	149	**149**
Andrzej Kisielewicz	01.01-31.12	-	149	**149**
Bogusław Szarek	01.01-31.12	372	149	**521**
Marek Wojtków	07.10-31.12	-	35	**35**
Radosław Zimroz	07.10-31.12	-	35	**35**
Piotr Ziubroniewicz	24.11-31.12	-	15	**15**
Members of the Supervisory Board not serving in the function as at 31 December 2022				
Piotr Dytko	22.06-07.10	-	44	**44**
Jarosław Janas	01.01-21.06	-	71	**71**
Robert Kaleta	01.01-07.10	-	115	**115**
Bartosz Piechota	01.01-21.06	-	71	**71**
TOTAL		**575**	**1 374**	**1 949**

Remuneration of members of the Supervisory Board (in PLN thousands)	from 1 January 2021 to 31 December 2021			
	Period when function served	Current employee benefits	Current benefits due to serving in the function	Total earnings
Members of the Supervisory Board serving in the function as at 31 December 2021				
Agnieszka Winnik -Kalemba	01.01-31.12	-	142	**142**
Katarzyna Krupa	06.07-31.12	-	66	**66**
Jarosław Janas	01.01-31.12	-	136	**136**
Józef Czyczerski	01.01-31.12	186	136	**322**
Przemysław Darowski	01.01-31.12	-	136	**136**
Robert Kaleta	06.07-31.12	-	66	**66**
Andrzej Kisielewicz	01.01-31.12	-	144	**144**
Bartosz Piechota	01.01-31.12	-	136	**136**
Bogusław Szarek	01.01-31.12	265	136	**401**
Members of the Supervisory Board not serving in the function as at 31 December 2021				
Katarzyna Lewandowska	01.01-20.04	-	42	**42**
Marek Pietrzak	01.01-25.10	-	111	**111**
TOTAL		**451**	**1 251**	**1 702**

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

PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt Sp.k. (PwC) performed audits of financial statements of KGHM Polska Miedź S.A. for 2021 and 2022.

	from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021
PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt Sp.k.	**1 580**	1 125
audit of annual financial statements	850	728
assurance services, of which:	**730**	**397**
review of financial statements	550	324
other assurance services	180	73
Other companies of PricewaterhouseCoopers Polska	**99**	**169**

Note 12.11 Disclosure of information on the Company's activities regulated by the Act on Energy

Note 12.11.1 Introduction

KGHM Polska Miedź S.A. meets the definition of an "energy enterprise" under the Act on Energy. Pursuant to article 44 of the Act on Energy, the Company is required to prepare, on the basis of the Company's accounting records, information about its regulated activities. The scope of information concerning regulated activities, pursuant to article 44 of the aforementioned Act, constitute the Company's business activities in:

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

Note 12.11.2 Description of regulated activities

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

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

Note 12.11.3 Basic principles of regulatory accounting

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

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

Causality principle

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

Objectivity and non-discrimination principle

The allocation of assets, liabilities, equity, revenue and costs is done objectively and is not aimed at making profits or incurring losses.

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

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

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

Note 12.11.4 Detailed principles of regulatory policy – methods and principles governing the allocation of assets, liabilities, equity, costs and revenues

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

- **specific (direct) identification method** – applied if a direct identification of value is possible, for example the level of revenue from certain activities,
- **direct allocation method** (e.g. the purchase cost of production fuel) – this method is applied if there is a direct cause-and-effect relationship between the consumed resource and the corresponding cost,
- **indirect allocation method** on the basis of a predetermined allocation key, this method is used among others, to allocate cost in a situation where no direct cause-and-effect relationship between the utilised resource and the cost item exists and there is a need to use a cost driver (an allocation key) which enables linkage of items with their respective cost. The most commonly used allocation keys are:
  - revenue key – value of revenue is the allocation key;
  - production key – production units are the allocation key;
  - power key – the installed power of machines and equipment is used for the allocation of indirect costs;
  - cost key – the value of costs is the allocation key;
  - mixed keys, which combine elements of several different keys; and
  - other keys appropriate for a specific case.

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

Non-current assets:
1.Fixed assets,
2.Fixed assets under construction,

Current assets:
1. Trade receivables.

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

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

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

Fixed assets under construction

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

Trade receivables

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

Equity and liabilities

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

Equity

Liabilities

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

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

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

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

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

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

Revenues from sales
Following an analysis of revenues in terms of their allocation to individual types of regulated activities, the Company identified groups of operations which met the following conditions:
- revenues from the sale of electricity – distribution;
- revenues from the sale of nitrogen-enriched natural gas – distribution; and
- revenues from the sale of nitrogen-enriched natural gas – trade.

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

Operating costs

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

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

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

Income tax

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

in PLN millions, unless otherwise stated

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

As at 31 December 2022	Company in total	Principal activities	Energy activities, of which:	Electricity		Gas
ASSETS				Distribution	Trade	Distribution
Property, plant and equipment	21 195	21 070	125	121	-	4
Intangible assets	1 302	1 302	-	-	-	-
Other non-current assets	14 210	14 210	-	-	-	-
Non-current assets	**36 707**	**36 582**	**125**	**121**	**-**	**4**
Inventories	7 523	7 523	-	-	-	-
Trade receivables	620	600	20	7	8	5
Other current assets	3 145	3 145	-	-	-	-
Current assets	**11 288**	**11 268**	**20**	**7**	**8**	**5**
TOTAL ASSETS	**47 995**	**47 850**	**145**	**128**	**8**	**9**
EQUITY AND LIABILITIES						
Equity	**29 675**	**29 543**	**132**	**116**	**8**	**8**
Deferred tax liabilities	705	695	10	10	-	-
Employee benefits liabilities	2 394	2 391	3	3	-	-
Provisions for decommissioning costs of mines and other technological facilities	1 233	1 233	-	-	-	-
Other non-current liabilities	5 979	5 979	-	-	-	-
Non-current liabilities	**10 311**	**10 298**	**13**	**13**	**-**	**-**
Employee benefits liabilities	1 365	1 365	-	-	-	-
Other current liabilities	6 644	6 644	-	-	-	-
Current liabilities	**8 009**	**8 009**	**-**	**-**	**-**	**-**
TOTAL LIABILITIES	**18 320**	**18 307**	**13**	**13**	**-**	**-**
TOTAL EQUITY AND LIABILITIES	**47 995**	**47 850**	**145**	**129**	**8**	**8**

in PLN millions, unless otherwise stated

As at 31 December 2021	Company in total	Principal activities	Energy activities, of which:	Electricity		Gas
				Distribution	Turnover	Distribution
ASSETS						
Property, plant and equipment	19 842	19 721	121	118	-	3
Intangible assets	1 153	1 153	-	-	-	-
Other non-current assets	13 676	13 676	-	-	-	-
Non-current assets	**34 671**	**34 550**	**121**	**118**	**-**	**3**
Inventories	5 436	5 436	-	-	-	-
Trade receivables	600	587	13	8	5	-
Other current assets	2 751	2 751	-	-	-	-
Current assets	**8 787**	**8 774**	**13**	**8**	**5**	**-**
TOTAL ASSETS	**43 458**	**43 324**	**134**	**126**	**5**	**3**
EQUITY AND LIABILITIES						
Equity	**25 840**	**25 717**	**123**	**115**	**5**	**3**
Deferred tax liabilities	290	282	8	8	-	-
Employee benefits liabilities	2 040	2 037	3	3	-	-
Provisions for decommissioning costs of mines and other technological facilities	811	811	-	-	-	-
Other non-current liabilities	6 566	6 566	-	-	-	-
Non-current liabilities	**9 707**	**9 696**	**11**	**11**	**-**	**-**
Employee benefits liabilities	1 130	1 130	-	-	-	-
Other current liabilities	6 781	6 781	-	-	-	-
Current liabilities	**7 911**	**7 911**	**-**	**-**	**-**	**-**
TOTAL LIABILITIES	**17 618**	**17 607**	**11**	**11**	**-**	**-**
TOTAL EQUITY AND LIABILITIES	**43 458**	**43 324**	**134**	**126**	**5**	**3**

in PLN millions, unless otherwise stated

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

from 1 January 2022 to 31 December 2022	Company in total	Principal activities	Energy activities, of which:	Electricity	Gas	
				Distribution	Trade	Distribution
Revenues from contracts with customers	28 429	28 323	106	35	62	9
Cost of sales	(23 157)	(23 022)	(135)	(40)	(93)	(2)
Gross profit	**5 272**	**5 301**	**(29)**	**(5)**	**(31)**	**7**
Selling costs and administrative expenses	(1 306)	(1 306)	-	-	-	-
Profit on sales	**3 966**	**3 995**	**(29)**	**(5)**	**(31)**	**7**
Other operating income and costs	1 299	1 299	-	-	-	-
Finance income/(costs)	(269)	(269)	-	-	-	-
Profit before income tax	**4 996**	**5 025**	**(29)**	**(5)**	**(31)**	**7**
Income tax expense	(1 463)	(1 453)	(10)	(9)	-	(1)
Profit for the period	**3 533**	**3 572**	**(39)**	**(14)**	**(31)**	**6**

from 1 January 2021 to 31 December 2021	Company in total	Principal activities	Energy activities, of which:	Electricity	Gas	
				Distribution	Trade	Distribution
Revenues from contracts with customers	24 618	24 552	66	43	18	5
Cost of sales	(19 441)	(19 358)	(83)	(44)	(38)	**(1)**
Gross profit	**5 177**	**5 194**	**(17)**	**(1)**	**(20)**	**4**
Selling costs and administrative expenses	(1 073)	(1 073)	-	-	-	-
Profit on sales	**4 104**	**4 121**	**(17)**	**(1)**	**(20)**	**4**
Other operating income and costs	3 088	3 088	-	-	-	-
Finance income/(costs)	(476)	(476)	-	-	-	-
Profit before income tax	**6 716**	**6 733**	**(17)**	**(1)**	**(20)**	**4**
Income tax expense	(1 547)	(1 538)	(9)	(8)	-	(1)
Profit for the period	**5 169**	**5 195**	**(26)**	**(9)**	**(20)**	**3**

Note 12.12 Information on the impact of COVID-19 and the war in Ukraine on the Company's operations

KEY RISK CATEGORIES

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

- increased absenteeism amongst employees of the core production line as a result of subsequent waves of infection by the SARS-CoV-2 virus,
- further increase in the prices of fuels and energy carriers,
- interruptions in the supply chain and the availability of materials (e.g. steel), fuels and energy on international markets,
- interruptions and logistical restrictions 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,
- the global economic slowdown,
- potential exceptional legal changes,
- volatility in copper, silver and 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, and
- the general uncertainty on financial markets and the economic effects of the crisis.

Evaluation of the key categories of risk which are impacted by the coronavirus pandemic and/or the war in Ukraine is performed 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 verification and assessment process of the current financial and operating situation of KGHM Polska Miedź S.A.

IMPACT ON THE METALS MARKET AND SHARES PRICE

From the Company's point of view, an effect of the COVID-19 pandemic and the war in Ukraine is an increase in market risk related to volatility in metals prices and market indices. The Company's share price at the end of 2022 increased by 45% compared to the price at the end of the third quarter of 2022, decreased by 9% compared to the end of 2021 and at the close of trading on 30 December 2022 amounted to PLN 126.75. During the same periods the WIG index increased by 14% and fell by 17%, while the WIG20 index increased by 30% and fell by 21%. As a result of changes in the share price of KGHM, the Company's capitalisation decreased from PLN 27.88 billion at the end of 2021 to PLN 25.35 billion at the end of 2022.

After a stable first half of 2022, when the average price of copper amounted to 9 761 USD/t, the price decreased by 18.6% compared to the average price of cooper in the second quarter of 2022. However, from November 2022, an upward trend was recorded and in the fourth quarter of 2022 the average price of copper increased by 3.3.% compared to the average price of cooper in the third quarter of 2022. The average price of copper in the entire year of 2022 amounted to 8 797 USD/t, which was at the level assumed in the budget.

IMPACT ON THE FUELS AND ENERGY CARRIERS MARKETS AND ON THE AVAILABILITY OF RAW AND OTHER MATERIALS

The potential continuation of increases in prices of fuels and energy carriers may still be the main factor generating a further increase in the Company's cost of sales, selling costs and administrative expenses.

While individual limitations have been observed in the availability of raw and other materials, at present KGHM Polska Miedź S.A. is still not experiencing a substantial negative impact of these limitations on its operations. Taking into consideration the continuity of supply of energy carriers (natural gas, coal, coke), at present KGHM Polska Miedź S.A. is not experiencing a negative impact from the suspension of Russian natural gas, coal and coke deliveries, and is fully capable of maintaining the continuity of the core production business and other production processes.

KGHM Polska Miedź S.A., as one of the largest electricity consumers in the country, has been diversifying its demand for electricity for many years according to an effective strategy developed over the years, which includes self-generation. The purchase is realised under bilateral contracts, framework agreements with many suppliers and on the Polish Power Exchange (these contracts are not financial instruments under IFRS). The policy for the purchase of electricity and gaseous fuel has been advanced for years under the Standing Commission for the purchase of electricity, gaseous fuel and property rights.

Nevertheless, regardless of the lack of a significantly negative impact of the above-described restrictions on the Company's operations, KGHM recorded a negative impact of the increase in prices on the fuel and energy carriers market, which ultimately caused deviations in the realisation of the budget assumptions for 2022 on the cost side of KGHM Polska Miedź S.A. Details on the operating results of the segments can be found in the Management Board's report on the activities of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group in 2022.

IMPACT ON THE SPA ACTIVITIES OF EQUITY INVESTMENTS OF THE COMPANY

The increased number of patients with the SARS-CoV-2 virus omicron variant recorded at the start of 2022, and in subsequent months the war in Ukraine, caused a temporary decline in the number of reservations and customer stays in the spa facilities. Nonetheless, beginning at the turn of April and May 2022, the situation systematically improved and stabilised. Starting from 16 May 2022, the state of pandemic was rescinded and was replaced by the state of pandemic threat, which remains in force until rescinded. In the fourth quarter of 2022 no direct negative impact of COVID-19 was recorded on the functioning of the market in which these companies operate. Therefore, the financial forecasts of these companies for 2023 and subsequent years do not assume restrictions of their operations or any temporary suspensions in the operations of their spa facilities.

The spa companies involved in curative activities, which are financed from public funds, take advantage of the protection arising from the law on particular solutions aimed at protecting consumers of natural gas due to the situation on the natural gas market. The protection provided by this law will be in force to the end of 2023. The financial obligations of the spas to their creditors and lessors in the fourth quarter of 2022 were regulated on time, while the improved results, despite the higher-than-expected costs of electricity, natural gas and debt servicing, had a positive impact on meeting the conditions included in the investment loan agreement with the bank Pekao S.A.

As a result of the funds received from the 2.0 Shield for Large Enterprises from the Polish Development Fund (PDF, Polski Fundusz Rozwoju S.A.) for periods in which the operations were shut down, in August 2022 Uzdrowisko Połczyn Grupa PGU S.A. and Uzdrowiska Kłodzkie S.A. – Grupa PGU settled the obtained support and received permission for remission of the loan. Other companies which received subsidies under the PDF's Financial Shield program for the Small and Medium-sized Enterprises sector are awaiting the decision of the PDF as to the settlement of the support.

IMPACT ON THE ACTIVITIES OF THE COMPANY

The pandemic situation caused by COVID-19 did not have a significant impact on the operations of the Company. At the date of publication of this report the Management Board of KGHM Polska Miedź S.A. estimates the risk of loss of going concern caused by COVID-19 to still be low.

The geopolitical situation associated with the direct aggression of Russia against Ukraine and the implemented system of sanctions does not currently limit the operations of KGHM Polska Miedź S.A., while the risk of interruptions to the operational continuity of the Company in this regard continues to be still considered as low.

Despite the high inflation observed in the global economy, resulting in the tightening of the monetary policy, the demand for the Company's key products did not deteriorate significantly in the fourth quarter of 2022. The metal prices were characterised by an upward dynamic resulting, among others, from the depreciation of the US dollar. In addition, the easing of the "zero COVID" policy by the Chinese authorities gave rise to the expectation of increased consumption of metals in China in 2023, which also had a positive impact on the increase in metal prices at the end of 2022.

In the following year, the main sources of risk for economic development will be the high level of inflation and Russia's aggression against Ukraine, which may result in an economic slowdown in key industries for metal consumption (e.g. construction). Currently, it is not possible to estimate the impact of these factors on the potential net result, however the situation is continuously being monitored and simultaneously possible mitigation measures are being used.

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

With respect to exchange differences (the measurement of balance sheet items denominated in foreign currencies), a weakening of the PLN may increase foreign exchange gains (unrealised) 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.

PREVENTIVE ACTIONS IN THE COMPANY

In KGHM Polska Miedź S.A. thanks to the implementation of a variety of preventative measures there were no production stoppages which would have been directly attributable to the pandemic and the war in Ukraine, and the copper production in 2022 was higher than the level assumed in the budget.

For years, KGHM Polska Miedź S.A. has applied procedures related to the monitoring of repayment of receivables. The timeliness of payments by customers is subject to daily reporting, while any recorded interruptions in cash flows from customers are immediately explained. In terms of sales, currently the majority of the Company's customers do not report significantly negative impact from the previous waves of the pandemic on their activities, thanks to which the trade receivables towards the Company are paid on time, while deliveries are sent to customers without major interruptions.

The strategy of diversification of suppliers applied by the Company and the use of alternative solutions at the present time effectively mitigate the risk of interruptions in the supply chains of raw and other materials.

At the same time, KGHM Polska Miedź S.A. is fully capable of meeting its financial obligations. The financial resources held by the Company and the obtained borrowings guarantee its continued financial liquidity. The financing structure based on long-term and diversified sources of financing, provided the Company with long-term financial stability by maintaining a stable spread of debt maturities and optimising its cost. Currently, the Company also does not identify a significant risk of a breach in the financial terms (so-called "covenants") contained in external financing agreements, related to the COVID-19 pandemic and the war in Ukraine.

KGHM Polska Miedź S.A. continues to advance its investment projects in accordance with established schedules and therefore does not identify any risk to their continuation due to the effects of the coronavirus pandemic and the war in Ukraine.

During the reporting period there were no interruptions in the continuity of the Company's operations caused by infections of this virus amongst the employees and no substantially higher level of absenteeism amongst employees was recorded.

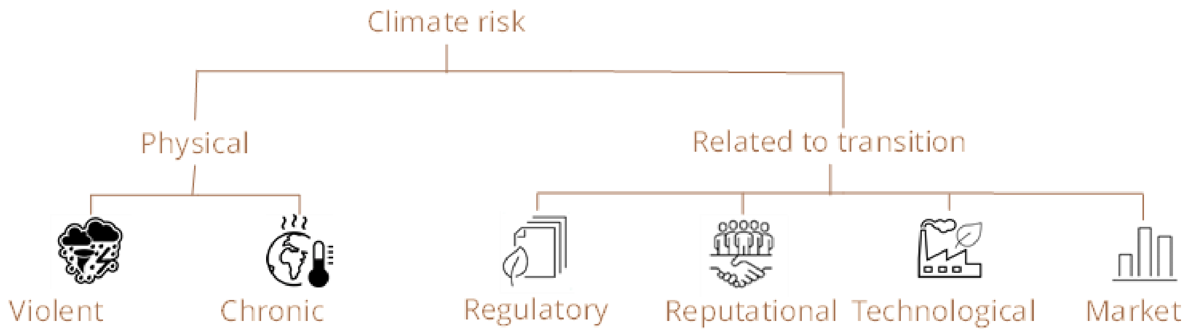
In the Company, the process continued of implementing a comprehensive business continuity management system, which also enables a detailed breakdown of the scope of actions undertaken as regards managing corporate risk in terms of the risk of a catastrophic impact and the small probability of their occurrence.

Taking into consideration the risk of appearance of new mutations of the SARS-CoV-2 virus and the next wave of the COVID-19 pandemic observed in China, there is still uncertainty as to the potential development of the pandemic situation in the world, in particular as to the consequence of its impact on the economic and social situation in Poland and globally. From the start of the COVID-19 pandemic, China maintained a restrictive "zero covid" policy, and in the fourth quarter of 2022 it decided to lift most of the restrictions. The expected economic recovery, given the improved pandemic situation so far, was slowed down by Russia's aggression against Ukraine with an impact on food security, high prices of energy and the Producer Price Index, as well as problems with access to synthetic fertilizers. With respect to stability in the continuity of energy carriers supply chains, the directions of energy-climate geopolitics will be of importance, especially in the context of gaining independence by European countries from Russian deliveries of natural gas and coal and the effects of the plan adopted by the EU Member States to reduce natural gas consumption in winter. The Company continuously monitors the international economic situation in order to assess its potential negative impact on KGHM Polska Miedź S.A. and to take anticipative actions to mitigate this impact.

Note 12.13 Risks and hazards associated with climate change

KGHM Polska Miedź S.A. is a conscious and responsible participant in the energy transition, and adaptation to climate changes and the management of climate risk are of key importance to it. The Company continuously evaluates the risk associated with the climate and the impact on its operations under the process of Corporate Risk Management of the KGHM Polska Miedź S.A. Group, which was described in more detail in the Management Board's report on the activities of the Company and the KGHM Polska Miedź S.A. Group in 2022.

The negative impact of climate change on the activities of KGHM Polska Miedź S.A. is analysed using the classification presented below.



The Company is exposed to physical climate risk, arising from specified events, in particular related to violent and chronic weather phenomena resulting from changes in the climate, such as storms, floods, fires or heat waves, as well as permanent changes in weather patterns, which could impact the operations of the Company, among others, through disruptions in the supply chain, the continuity of the core business and an increase in operating costs directly related to the core business as well as through more difficult working conditions.

The climate risk related to the transition, to which the Company is exposed, arises from the need to adapt the economy to gradual climate change. This risk category comprises questions related to legal requirements, technological progress towards a low-carbon economy and changes in demand and supply for certain products and services, whose production is associated with the climate risk as well as the growing expectations of stakeholders regarding the Company as to the reduction of its impact on the climate.

A detailed description of identified, key climate risks associated with negative impact of climate changes on the activities of KGHM Polska Miedź S.A., including parameters used in their assessment and actions undertaken by the Company to mitigate their impact, is presented in the Management Board's report on the activities of the Company and the KGHM Polska Miedź S.A. Group in 2022.

While assessing the impact of identified climate risks on the Company's activities, in particular the volatile costs of CO_2 emission rights, the increase in costs of electricity, costs associated with research and additional expenditures on development of internal energy sources, the following areas were subjected to detailed assessment:

- adopted periods of economic utility of fixed assets and their residual values,
- existence of indications of the possibility of impairment of property, plant and equipment and intangible assets,
- assumptions which are a part of the measurement of loans granted,
- revaluation of the provision for future decommissioning costs of mines and other technological facilities,
- revaluation of provisions for additional costs of sales, selling costs and administrative expenses,
- liabilities and liabilities due to guarantees associated with potential fines and environmental penalties.

As a result of the aforementioned work, as at 31 December 2022 no material impact of climate risk on the aforementioned areas was identified.

Note 12.14 Subsequent events

Notification on a crossing of the 5% threshold in the total number of votes

On 6 January 2023, the Management Board of KGHM Polska Miedź S.A. announced that the Company received a notification from Powszechne Towarzystwo Emerytalne Allianz Polska S.A. dated 5 January 2023.

According to the notification received, Powszechne Towarzystwo Emerytalne Allianz Polska S.A. which manages Allianz Polska Otwarty Fundusz Emerytalny („Allianz OFE"), which in turn manages Allianz Polska Dobrowolny Fundusz Emerytalny („Allianz DFE") as a result of a merger performed on 30 December 2022, with the company Aviva Powszechne Towarzystwo Emerytalne Aviva Santander Spółka Akcyjna which manages Drugi Allianz Polska Otwarty Fundusz Emerytalny („Drugi Allianz OFE"), the interest held in the share capital and the total number of votes in the Company on the accounts of Allianz OFE, Allianz DFE and Drugi Allianz OFE crossed the threshold of 5%.

Prior to the merger, in total on the accounts of Allianz OFE and Allianz DFE there were 1 741 592 shares, representing 0.87% of the Company's share capital and granting the right to 1 741 592 of the votes amounting to 0.87% of the total number of votes at the Company's General Meeting.

On the account of Drugi Allianz OFE there were 10 499 861 shares, representing 5.25% of the Company's share capital and granting the right to 10 499 861 of the votes amounting to 5.25% of the total number of votes at the Company's General Meeting.

Following the merger, in total on the accounts of Allianz OFE, Allianz DFE and Drugi Allianz OFE there was an increase to 12 241 453 shares, representing 6.12% of the Company's share capital and granting the right to 12 241 453 of the votes amounting to 6.12% of the total number of votes at the Company's General Meeting.

Annexes signed to bank guarantees

On 3 February 2023, BNP Paribas Bank Polska S.A., at the Company's request, issued annexes to bank guarantees issued pursuant to art 137 section 2 of the Act of 14 December 2012 on waste (unified text: Journal of Laws of 2022, item 699). In order to create a tailings storage facility restoration fund, which increased the total value of guarantees from the amount of PLN 98 million to PLN 120 million, with maturity falling on 15 February 2024.

Drawing of an instalment of the unsecured, revolving syndicated credit facility

On 6 February 2023, the Company drew an instalment of the unsecured, revolving syndicated facility under the agreement signed on 20 December 2019 with the syndicate of banks. The liability in the amount of USD 50 million (or PLN 219 million per the NBP exchange rate from the drawing date) was drawn for the period of 2 weeks, and after that period it was extended by 1 month. The credit facility's interest is based on LIBOR rate plus a margin.

Issuance of a bank guarantee to secure liabilities

On 14 February 2023, at the Company's request, a bank guarantee was issued to secure liabilities arising from a surety agreement signed between KGHM Polska Miedź S.A., Dom Maklerski Banku Ochrony Środowiska S.A. and Izba Rozliczeniowa Giełd Towarowych S.A., aimed at assuring by the Company the liabilities of Dom Maklerski due to the settlement of transactions to purchase electricity at the Polish Power Exchange (Towarowa Giełda Energii), up to the total amount of PLN 150 million, with maturity falling on 31 March 2023.

Loan granted by the Company to KGHM INTERNATIONAL LTD.

On 23 February 2023, a loan agreement was entered into between KGHM Polska Miedź S.A. and KGHM INTERNATIONAL LTD. in the amount of USD 105.5 million (PLN 473 million, 4.4879 USD/PLN) for the advancement of the Victoria project. The loan's interest was set at arm's length. The agreement expires on 31 December 2033.

Drawing of an instalment from the European Investment Bank

On 6 March 2023, the Company drew an instalment of the investment loan from the European Investment Bank under the agreement signed on 11 December 2017. The liability in the amount of USD 99 million, which is the equivalent of the available financing in the amount of PLN 440 million, was drawn for the period of 12 years. Funds acquired under this instalment are used to continue investment projects advanced by the Company.

Conclusion of an agreement for sale of shares of KGHM TFI S.A.

On 13 March 2023, KGHM Polska Miedź S.A. concluded an Agreement for the sale of 100% of the shares of KGHM TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH SPÓŁKA AKCYJNA ("Shares") with Agencja Rozwoju Przemysłu S.A. ("Buyer"). The carrying amount of shares as at 31 December 2022 amounted to PLN 3 million. The sale of the Shares was contingent on meeting the conditions precedent, among others no objections raised by the Polish Financial Supervision Authority. The ownership rights to the Shares will be transferred to the Buyer at the moment an appropriate entry is made in the Share Register. The sale of the Shares is the last stage of the reorganisation under the Group's structure, which comprised the liquidation of closed-end, non-public investment funds. KGHM TFI S.A. has not managed any funds since 20 December 2022, that is from the date of deregistration of the KGHM VII FIZAN fund. As at the end of the reporting period, the value of sold shares of KGHM TFI S.A. amounted to PLN 3 million. Due to the insignificant value, these assets were not reclassified in the Company's statement of financial position to "Assets held for sale".

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

SEPARATE STATEMENT OF PROFIT OR LOSS

	from 1 October 2022 to 31 December 2022	from 1 October 2021 to 31 December 2021	from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021
Revenues from contracts with customers	6 646	6 648	28 429	24 618
Cost of sales	(5 628)	(5 448)	(23 157)	(19 441)
Gross profit	**1 018**	**1 200**	**5 272**	**5 177**
Selling costs and administrative expenses	(425)	(346)	(1 306)	(1 073)
Profit on sales	**593**	**854**	**3 966**	**4 104**
Other operating income, including:	(5)	301	2 172	4 273
fair value gains on financial assets measured at fair value through profit or loss	(175)	(243)	631	1 070
reversal of impairment losses on financial instruments	31	273	213	807
Other operating costs, including:	(896)	(410)	(873)	(1 185)
impairment losses on financial instruments	(1)	7	(7)	(4)
Finance income	537	35	148	70
Finance costs	(90)	(134)	(417)	(546)
Profit/(Loss) before income tax	**139**	**646**	**4 996**	**6 716**
Income tax expense	(144)	(329)	(1 463)	(1 547)
PROFIT/(LOSS) FOR THE PERIOD	**(5)**	**317**	**3 533**	**5 169**
Weighted average number of ordinary shares (million)	**200**	**200**	**200**	**200**
Basic/diluted earnings per share (in PLN)	**(0.03)**	**1.59**	**17.67**	**25.85**

in PLN millions, unless otherwise stated

Explanatory notes to the statement of profit or loss

Note 13.1 Expenses by nature

	from 1 October 2022 to 31 December 2022	from 1 October 2021 to 31 December 2021	from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021
Depreciation of property, plant and equipment and amortisation of intangible assets	387	356	1 504	1 435
Employee benefits expenses	1 344	1 097	4 832	4 249
Materials and energy, including:	3 446	2 681	13 687	10 242
Purchased metal-bearing materials	2 158	1 769	8 859	7 132
Electrical and other energy	415	284	1 921	1 230
External services, including:	684	545	2 238	1 884
Transport	87	72	328	278
Repairs, maintenance and servicing	217	181	699	569
Mine preparatory work	201	128	617	510
Minerals extraction tax	746	1 009	3 046	3 548
Other taxes and charges	140	(74)	487	398
Advertising costs and representation expenses	31	23	80	63
Property and personal insurance	9	9	39	35
Reversal of write-down of inventories	(12)	(1)	(52)	(20)
Write-down of inventories	7	13	13	41
Other costs	8	10	21	26
Total expenses by nature	**6 790**	**5 668**	**25 895**	**21 901**
Cost of merchandise and materials sold (+)	118	127	449	339
Change in inventories of products and work in progress (+/-)	(790)	44	(1 665)	(1 562)
Cost of products for internal use (-)	(65)	(45)	(216)	(164)
Total cost of sales, selling costs and administrative expenses, including:	**6 053**	**5 794**	**24 463**	**20 514**
Cost of sales	5 628	5 448	23 157	19 441
Selling costs	46	41	173	156
Administrative expenses	379	305	1 133	917

in PLN millions, unless otherwise stated

Note 13.2 Other operating income/(costs)

	from 1 October 2022 to 31 December 2022	from 1 October 2021 to 31 December 2021	from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021
Gains on derivatives, of which:	(12)	9	268	323
measurement	(62)	(21)	108	209
realisation	50	30	160	114
Exchange differences on assets and liabilities other than borrowings	-	135	500	511
Interest on loans granted and other financial receivables	94	79	348	304
Fees and charges on re-invoicing of costs of bank guarantees securing payments of liabilities	1	1	31	68
Reversal of impairment losses on financial instruments measured at amortised cost, including:	31	273	213	807
loans	31	270	213	752
Fair value gains on financial assets measured at fair value through profit or loss, including:	(175)	(243)	631	1 070
loans	(192)	(256)	601	1 056
Reversal of impairment losses on shares in subsidiaries	-	-	-	1 010
Dividends income	-	-	29	37
Profit on the disposal of shares in subsidiaries	2	13	2	25
Release of provisions	2	7	12	22
Refund of excise tax for previous years	1	-	1	5
Overpayment of property tax	24	8	25	8
Other	27	19	112	83
Total other operating income	**(5)**	**301**	**2 172**	**4 273**
Losses on derivatives, of which:	(115)	(176)	(490)	(768)
measurement	(11)	3	(116)	(141)
realisation	(104)	(179)	(374)	(627)
Impairment losses on financial instruments measured at amortised cost	(1)	7	(7)	(4)
Exchange differences on assets and liabilities other than borrowings	(796)	-	-	-
Fair value losses on financial assets measured at fair value through profit or loss, including:	(6)	21	(87)	(63)
loans	-	-	-	(9)
Financial support granted to municipalities	(1)	-	(100)	-
Impairment losses on shares and investment certificates in subsidiaries	-	(182)	-	(182)
Provisions recognised	74	(28)	(16)	(58)
Donations granted	(20)	(13)	(53)	(29)
Compensations, fines and penalties paid and costs of litigation	(8)	(5)	(28)	(6)
Losses on disposal of property, plant and equipment (including costs associated with disposal of fixed assets)	(8)	1	(22)	(5)
Impairment losses on fixed assets under construction and intangible assets not yet available for use	(3)	(6)	(6)	(13)
Other	(12)	(29)	(64)	(57)
Total other operating costs	**(896)**	**(410)**	**(873)**	**(1 185)**
Other operating income and (costs)	**(901)**	**(109)**	**1 299**	**3 088**

in PLN millions, unless otherwise stated

Note 13.3 Finance income/(costs)

	from 1 October 2022 to 31 December 2022	from 1 October 2021 to 31 December 2021	from 1 January 2022 to 31 December 2022	from 1 January 2021 to 31 December 2021
Exchange differences on borrowings	436	-	-	-
Gains on derivatives - realisation	83	35	130	70
Result of the settlement of a transaction hedging against interest rate risk due to the issue of bonds with a variable interest rate	18	-	18	-
Total income	**537**	**35**	**148**	**70**
Interest on borrowings	17	(30)	(48)	(92)
leases	(3)	(2)	(10)	(8)
Bank fees and charges on borrowings	(6)	(7)	(30)	(28)
Exchange differences on measurement and realisation of borrowings	-	(54)	(179)	(338)
Losses on derivatives, of which:	(98)	(41)	(149)	(80)
measurement	-	-	-	(1)
realisation	(98)	(41)	(149)	(79)
Unwinding of the discount effect	(3)	(2)	(11)	(8)
Total costs	**(90)**	**(134)**	**(417)**	**(546)**
Finance income/(costs)	**447**	**(99)**	**(269)**	**(476)**

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

These financial statements were authorised for issue on 21 March 2023.

President
of the Management Board

Tomasz Zdzikot

Vice President
of the Management Board

Mateusz Wodejko

Vice President
of the Management Board

Marek Pietrzak

Vice President
of the Management Board

Mirosław Kidoń

Vice President
of the Management Board

Marek Świder

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING

Executive Director
of Accounting Services Centre
Chief Accountant

Agnieszka Sinior