

**POLISH FINANCIAL SUPERVISION AUTHORITY**

**Consolidated quarterly report QSr 1 / 2020**

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

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

For the first quarter of the financial year **2020** from **1 January 2020** to **31 March 2020** containing the condensed consolidated financial statements prepared under International Accounting Standard 34 in PLN, and condensed financial statements prepared under IAS 34 in PLN.

publication date: 13 May 2020

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(name of the issuer)

**KGHM Polska Miedź S.A.**

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

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

	in PLN mn		in EUR mn	
	from 1 January 2020 to 31 March 2020	from 1 January 2019 to 31 March 2019	from 1 January 2020 to 31 March 2020	from 1 January 2019 to 31 March 2019
	I. Revenues from contracts with customers	5 299	5 488	1 205
II. Profit on sales	495	739	113	172
III. Profit before income tax	929	838	211	195
IV. Profit for the period	690	552	157	128
V. Profit for the period attributable to shareholders of the Parent Entity	692	552	158	128
VI. Profit for the period attributable to non-controlling interest	( 2)	-	( 1)	-
VII. Other comprehensive net income	( 429)	( 336)	( 98)	( 78)
VIII. Total comprehensive income	261	216	59	50
IX. Total comprehensive income attributable to shareholders of the Parent Entity	263	215	60	50
X. Total comprehensive income attributable to non-controlling interest	( 2)	1	( 1)	-
XI. Number of shares issued (million)	200	200	200	200
XII. Earnings per ordinary share attributable to shareholders of the Parent Entity (PLN/EUR)	3.46	2.76	0.79	0.64
XIII. Net cash generated from operating activities	951	535	216	124
XIV. Net cash used in investing activities	( 983)	( 877)	( 224)	( 204)
XV. Net cash generated from financing activities	1 209	16	275	4
XVI. Total net cash flow	1 177	( 326)	267	( 76)
	<b>As at 31 March 2020</b>	<b>As at 31 December 2019</b>	<b>As at 31 March 2020</b>	<b>As at 31 December 2019</b>
XVII. Non-current assets	32 685	31 669	7 180	7 436
XVIII. Current assets	9 911	7 740	2 177	1 818
XIX. Total assets	42 596	39 409	9 357	9 254
XX. Non-current liabilities	15 471	13 171	3 399	3 093
XXI. Current liabilities	6 662	6 036	1 463	1 417
XXII. Equity	20 463	20 202	4 495	4 744
XXIII. Equity attributable to shareholders of the Parent Entity	20 373	20 110	4 475	4 722
XXIV. Equity attributable to non-controlling interest	90	92	20	22

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

	in PLN mn		in EUR mn	
	from 1 January 2020 to 31 March 2020	from 1 January 2019 to 31 March 2019	from 1 January 2020 to 31 March 2020	from 1 January 2019 to 31 March 2019
	I. Revenues from contracts with customers	4 225	4 316	961
II. Profit on sales	616	725	140	169
III. Profit before income tax	608	931	138	217
IV. Profit for the period	399	695	90	162
V. Other comprehensive net income	( 200)	( 297)	( 45)	( 69)
VI. Total comprehensive income	199	398	45	93
VII. Number of shares issued (million)	200	200	200	200
VIII. Earnings per ordinary share (PLN/EUR)	2.00	3.48	0.45	0.81
IX. Net cash generated from operating activities	1 054	516	240	120
X. Net cash used in investing activities	( 790)	( 869)	( 180)	( 202)
XI. Net cash generated from financing activities	1 096	85	249	19
XII. Total net cash flow	1 360	( 268)	309	( 63)
	<b>As at 31 March 2020</b>	<b>As at 31 December 2019</b>	<b>As at 31 March 2020</b>	<b>As at 31 December 2019</b>
XIII. Non-current assets	30 737	30 111	6 752	7 071
XIV. Current assets	8 160	5 878	1 793	1 380
XV. Total assets	38 897	35 989	8 545	8 451
XVI. Non-current liabilities	13 255	11 105	2 912	2 608
XVII. Current liabilities	5 554	4 995	1 220	1 173
XVIII. Equity	20 088	19 889	4 413	4 670

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## Part 1 – Condensed consolidated financial statements

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	from 1 January 2020 to 31 March 2020	from 1 January 2019 to 31 March 2019
Note 3.3 Revenues from contracts with customers	5 299	5 488
Note 4.1 Cost of sales	(4 486)	(4 441)
<b>Gross profit</b>	<b>813</b>	<b>1 047</b>
Note 4.1 Selling costs and administrative expenses	(318)	(308)
<b>Profit on sales</b>	<b>495</b>	<b>739</b>
Note 4.5 Profit or loss on involvement in joint ventures - interest income on loans granted calculated using the effective interest rate method	96	82
Note 4.2 Other operating income	1 182	330
Note 4.2 Other operating costs	(342)	(133)
Note 4.3 Finance costs	(502)	(180)
<b>Profit before income tax</b>	<b>929</b>	<b>838</b>
Income tax expense	(239)	(286)
<b>PROFIT FOR THE PERIOD</b>	<b>690</b>	<b>552</b>
Profit for the period attributable to:		
shareholders of the Parent Entity	692	552
non-controlling interest	(2)	-
<b>Weighted average number of ordinary shares (million)</b>	<b>200</b>	<b>200</b>
<b>Basic/diluted earnings per share (in PLN)</b>	<b>3.46</b>	<b>2.76</b>

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	from 1 January 2020 to 31 March 2020	from 1 January 2019 to 31 March 2019
<b>Profit for the period</b>	<b>690</b>	<b>552</b>
Measurement of hedging instruments net of the tax effect	27	(221)
Exchange differences from the translation of statements of operations with a functional currency other than PLN	(231)	(41)
<b>Other comprehensive income which will be reclassified to profit or loss</b>	<b>(204)</b>	<b>(262)</b>
Measurement of equity financial instruments at fair value through other comprehensive income, net of the tax effect	(85)	(17)
Actuarial losses net of the tax effect	(140)	(57)
<b>Other comprehensive income, which will not be reclassified to profit or loss</b>	<b>(225)</b>	<b>(74)</b>
<b>Total other comprehensive income</b>	<b>(429)</b>	<b>(336)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>261</b>	<b>216</b>
<b>Total comprehensive income attributable to:</b>		
shareholders of the Parent Entity	263	215
non-controlling interest	(2)	1

**CONSOLIDATED STATEMENT OF CASH FLOWS**

	<b>from 1 January 2020 to 31 March 2020</b>	<b>from 1 January 2019 to 31 March 2019</b>
<b>Cash flow from operating activities</b>		
Profit before income tax	929	838
Depreciation/amortisation recognised in profit or loss	483	453
Interest on loans granted to joint ventures	( 96)	( 82)
Interest on borrowings	51	47
Impairment losses on non-current assets	27	-
Exchange differences, of which:	( 554)	( 56)
from investment activities and cash	( 992)	( 163)
from financing activities	438	107
Change in provisions and employee benefits liabilities	( 47)	8
Change in other receivables and liabilities	( 164)	( 72)
Change in derivatives	238	( 19)
Reclassification of other comprehensive income to profit or loss due to the realisation of hedging derivatives	( 57)	( 3)
Other adjustments	1	5
Exclusions of income and costs, total	( 118)	281
Income tax paid	( 190)	( 66)
Note 4.11 Changes in working capital, including:	330	( 518)
change in trade payables transferred to factoring	312	-
<b>Net cash generated from operating activities</b>	<b>951</b>	<b>535</b>
<b>Cash flow from investing activities</b>		
Expenditures on mining and metallurgical assets, including:	( 823)	( 725)
paid capitalised interest on borrowings, including:	( 22)	( 39)
leases	( 2)	-
Expenditures on other property, plant and equipment and intangible assets	( 140)	( 130)
Expenditures on financial assets designated for decommissioning mines	( 22)	( 89)
Proceeds from financial assets designated for decommissioning mines	1	66
Other	1	1
<b>Net cash used in investing activities</b>	<b>( 983)</b>	<b>( 877)</b>
<b>Cash flow from financing activities</b>		
Proceeds from borrowings	1 740	3 145
Repayments of borrowings	( 452)	(3 067)
Repayment of lease liabilities	( 13)	( 8)
Payment of interest, including due to:	( 67)	( 54)
borrowings and debt securities	( 50)	-
leases	( 15)	( 16)
Other	1	-
<b>Net cash generated from financing activities</b>	<b>1 209</b>	<b>16</b>
<b>TOTAL NET CASH FLOW</b>	<b>1 177</b>	<b>( 326)</b>
Exchange gains/(losses)	5	( 41)
Cash and cash equivalents at beginning of the period	1 016	957
<b>Cash and cash equivalents at end of the period</b>	<b>2 198</b>	<b>590</b>
restricted cash	25	7

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 March 2020	As at 31 December 2019
<b>ASSETS</b>		
Mining and metallurgical property, plant and equipment	19 793	19 498
Mining and metallurgical intangible assets	2 197	1 966
Mining and metallurgical property, plant and equipment and intangible assets	21 990	21 464
Other property, plant and equipment	2 852	2 829
Other intangible assets	178	155
Other property, plant and equipment and intangible assets	3 030	2 984
Note 4.5 Involvement in joint ventures – loans granted	6 317	5 694
Derivatives	24	124
Other financial instruments measured at fair value	345	448
Other financial instruments measured at amortised cost	688	656
Note 4.6 Financial instruments, total	1 057	1 228
Deferred tax assets	163	157
Other non-financial assets	128	142
<b>Non-current assets</b>	<b>32 685</b>	<b>31 669</b>
Inventories	4 951	4 741
Note 4.6 Trade receivables, including:	667	688
Trade receivables measured at fair value through profit or loss	220	300
Tax assets	482	571
Note 4.6 Derivatives	892	293
Other financial assets	394	280
Other non-financial assets	327	151
Note 4.6 Cash and cash equivalents	2 198	1 016
<b>Current assets</b>	<b>9 911</b>	<b>7 740</b>
<b>TOTAL ASSETS</b>	<b>42 596</b>	<b>39 409</b>
<b>EQUITY AND LIABILITIES</b>		
Share capital	2 000	2 000
Other reserves from measurement of financial instruments	( 796)	( 738)
Accumulated other comprehensive income, other than from measurement of financial instruments	1 583	1 954
Retained earnings	17 586	16 894
Equity attributable to shareholders of the Parent Entity	20 373	20 110
Equity attributable to non-controlling interest	90	92
<b>Equity</b>	<b>20 463</b>	<b>20 202</b>
Note 4.6 Borrowings, lease and debt securities	9 218	7 525
Note 4.6 Derivatives	588	183
Employee benefits liabilities	2 772	2 613
Provisions for decommissioning costs of mines and other facilities	1 855	1 774
Deferred tax liabilities	397	445
Other liabilities	641	631
Non-current liabilities	15 471	13 171
Note 4.6 Borrowings, lease and debt securities	404	348
Note 4.6 Derivatives	341	91
Note 4.6 Trade and similar payables	2 879	2 766
Employee benefits liabilities	1 211	1 150
Tax liabilities	422	433
Provisions for liabilities and other charges	203	222
Other liabilities	1 202	1 026
Current liabilities	6 662	6 036
<b>Non-current and current liabilities</b>	<b>22 133</b>	<b>19 207</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>42 596</b>	<b>39 409</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to shareholders of the Parent Entity				Total	Equity attributable to non-controlling interest	Total equity
	Share capital	Other reserves from measurement of financial instruments	Accumulated other comprehensive income	Retained earnings			
<b>As at 1 January 2019</b>	<b>2 000</b>	<b>( 444)</b>	<b>2 005</b>	<b>15 572</b>	<b>19 133</b>	<b>92</b>	<b>19 225</b>
Profit for the period	-	-	-	552	552	-	552
Other comprehensive income	-	( 238)	( 99)	-	( 337)	1	( 336)
Total comprehensive income	-	( 238)	( 99)	552	215	1	216
<b>As at 31 March 2019</b>	<b>2 000</b>	<b>( 682)</b>	<b>1 906</b>	<b>16 124</b>	<b>19 348</b>	<b>93</b>	<b>19 441</b>
<b>As at 1 January 2020</b>	<b>2 000</b>	<b>( 738)</b>	<b>1 954</b>	<b>16 894</b>	<b>20 110</b>	<b>92</b>	<b>20 202</b>
Profit for the period	-	-	-	692	692	( 2)	690
Other comprehensive income	-	( 58)	( 371)	-	( 429)	-	( 429)
Total comprehensive income	-	( 58)	( 371)	692	263	( 2)	261
<b>As at 31 March 2020</b>	<b>2 000</b>	<b>( 796)</b>	<b>1 583</b>	<b>17 586</b>	<b>20 373</b>	<b>90</b>	<b>20 463</b>

## 1 – General information

### Note 1.1 Corporate information

KGHM Polska Miedź S.A. (“the Parent Entity”, “the Company”) with its registered office in Lubin at 48 M.Skłodowskiej-Curie Street is a joint stock company registered at the Regional Court for Wrocław Fabryczna, Section IX (Economic) of the National Court Register, entry no. KRS 23302, on the territory of the Republic of Poland.

KGHM Polska Miedź S.A. has a multi-divisional organisational structure, comprised of a Head Office and 10 divisions: 3 mines (Lubin Mine Division, Polkowice-Sieroszowice Mine Division, Rudna Mine Division), 3 metallurgical plants (Głogów Smelter/Refinery, Legnica Smelter/Refinery, Cedynia Wire Rod Division), the Concentrator Division, the Tailings Division, the Mine-Smelter Emergency Rescue Division and the Data Center Division.

The shares of KGHM Polska Miedź S.A. are listed on the Warsaw Stock Exchange.

The Parent Entity's principal activities include:

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

The business activities of the Group include:

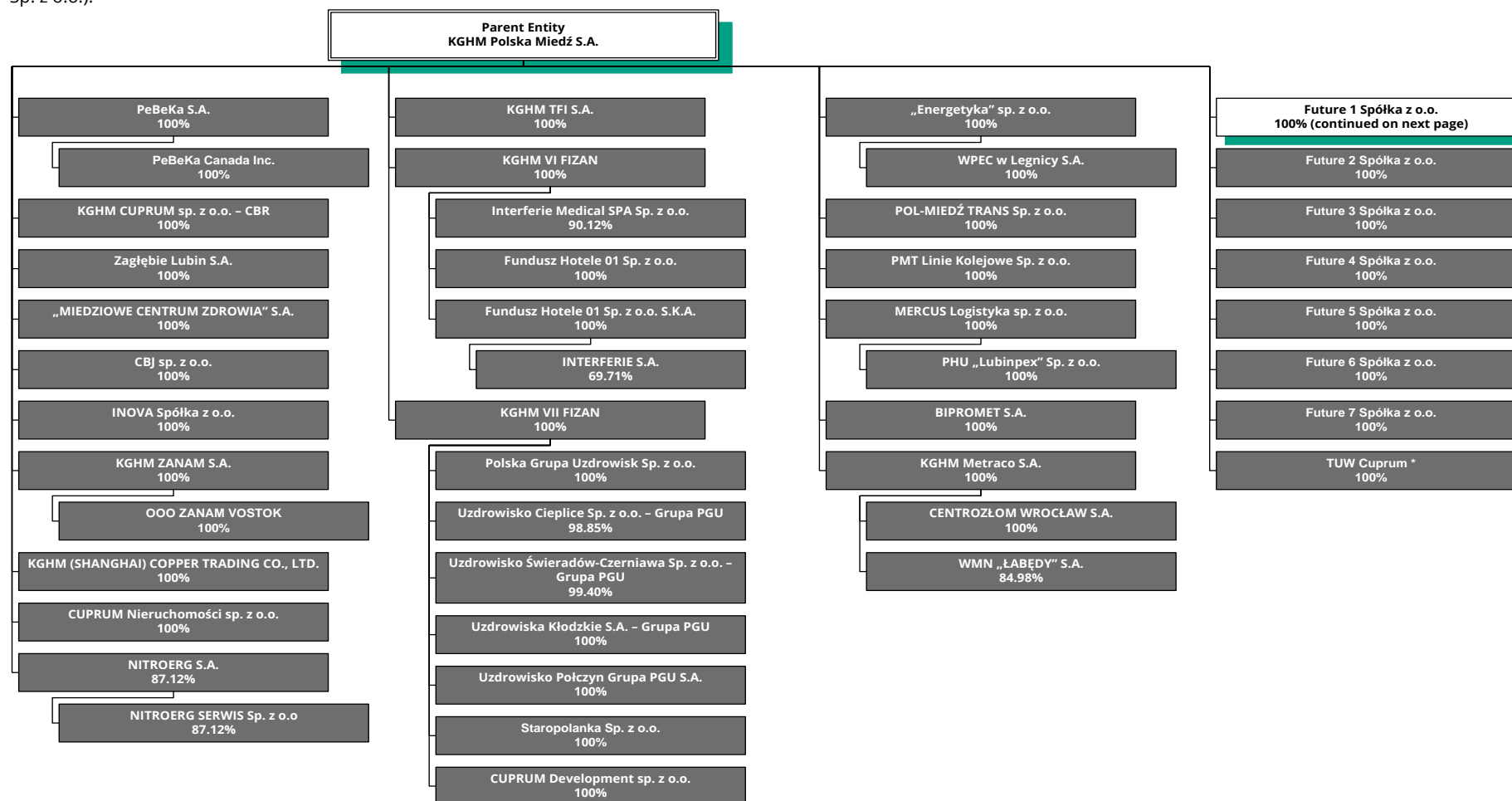
- the mining of copper and non-ferrous metals ores;
- the mined production of metals, including copper, nickel, silver, gold, platinum, palladium;
- the production of goods from copper and precious metals;
- underground construction services;
- the production of machinery and mining equipment;
- transport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

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



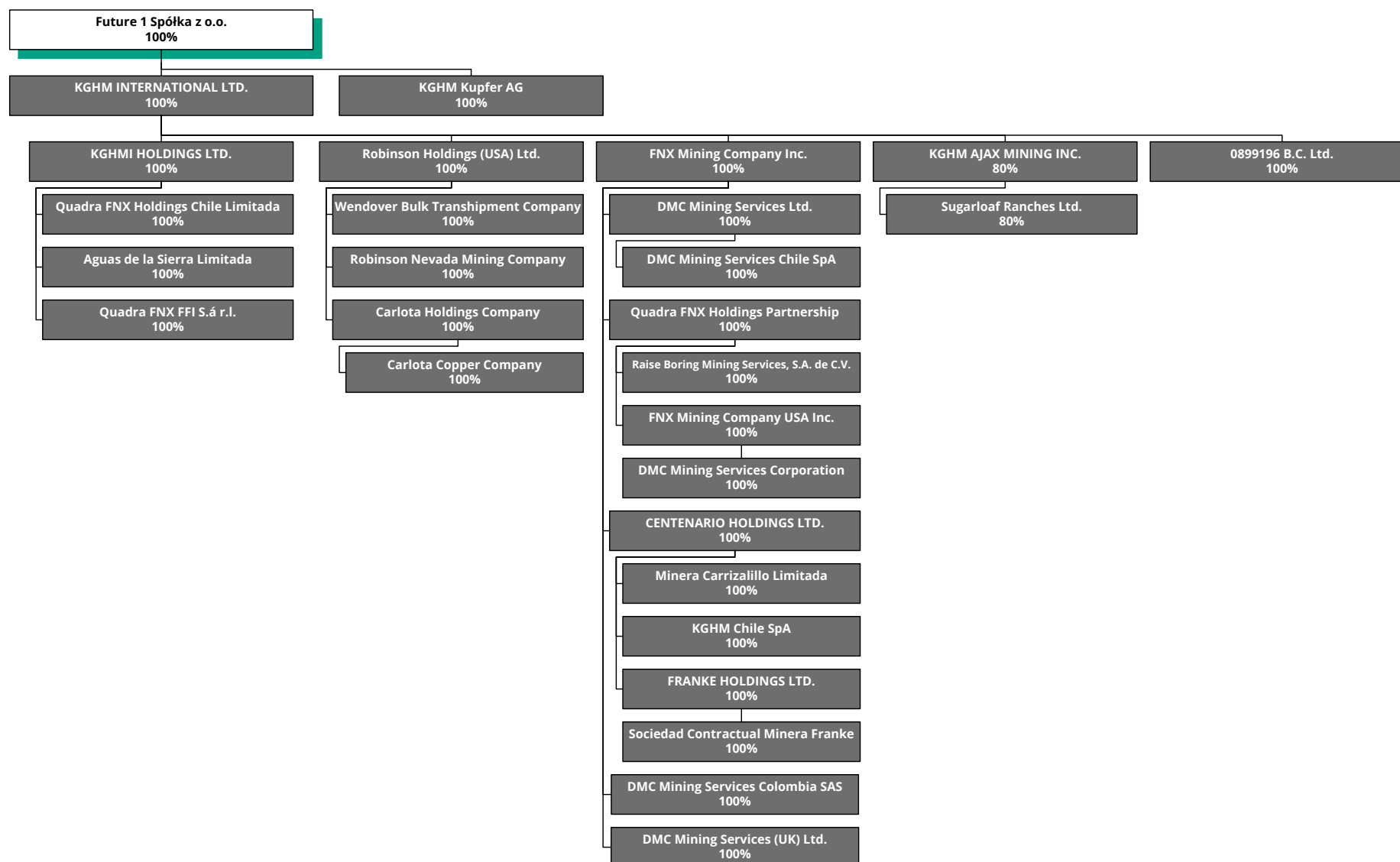
### Note 1.2 Structure of the KGHM Polska Miedź S.A. Group As at 31 March 2020

In the current quarter KGHM Polska Miedź S.A. consolidated 72 subsidiaries and used the equity method to account for the shares of two joint ventures (Sierra Gorda S.C.M. and NANO CARBON Sp. z o.o.).



The percentage share represents the total share of the Group.

\* An entity excluded from consolidation



### Note 1.3 Exchange rates applied

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

- for the conversion of turnover, profit or loss and cash flow for the current period, the rate of **4.3963 EURPLN\***,
- for the conversion of turnover, profit or loss and cash flow for the comparable period, the rate of **4.2978 EURPLN\***,
- for the conversion of assets, equity and liabilities at 31 March 2020, the current average exchange rate announced by the National Bank of Poland (NBP) as at 31 March 2020, of **4.5523 EURPLN**,
- for the conversion of assets, equity and liabilities at 31 December 2019, the current average exchange rate announced by the NBP as at 31 December 2019, of **4.2585 EURPLN**.

*\*the rates represent the arithmetic average of current average exchange rates announced by the NBP on the last day of each month during the period from January to March respectively of 2020 and 2019.*

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

The following quarterly report includes:

1. the condensed consolidated financial statements of the KGHM Polska Miedź S.A. Group for the period from 1 January to 31 March 2020 and the comparable period from 1 January to 31 March 2019, together with selected explanatory information (**Part 1**),
2. the quarterly financial information of KGHM Polska Miedź S.A. for the period from 1 January to 31 March 2020 and the comparable period from 1 January to 31 March 2019 (**Part 2**).

Neither the condensed consolidated financial statements for the period from 1 January to 31 March 2020 and as at 31 March 2020 nor the condensed separate financial statements for the period from 1 January to 31 March 2020 and as at 31 March 2020 were subject to audit by a certified auditor.

The consolidated quarterly report for the period from 1 January 2020 to 31 March 2020 was prepared in accordance with IAS 34 *Interim Financial Reporting* as approved by the European Union and for a full understanding of the financial position and operating results of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group, should be read jointly with the Annual Report R 2019 and the Consolidated annual report RS 2019.

This quarterly report's financial statements were prepared using the same accounting policies and valuation methods for the current and comparable periods and principles applied in annual financial statements (consolidated and separate), prepared as at 31 December 2019.

#### Note 1.4.1 Impact of new and amended standards and interpretations

The Group is bound by the following amendments to standards from 1 January 2020:

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

Up to the date of publication of these consolidated financial statements, the aforementioned amendments to the standards were adopted for use by the European Union. In the Group's opinion, these standards will be applicable to the Group's activities in the scope of future economic operations, transactions or other events, towards which these amendments to standards are applicable. However, in the Group's opinion, this impact will not be significant, taking into account adopted amendments to IFRS 9, IAS 39 and IFRS 7 on the interest rate benchmark reform with respect to hedge accounting.

## 2 – Realisation of strategy

### Advancement of the Strategy in the first quarter of 2020

In advancing the Strategy, the Company endeavoured to maintain stable production in its domestic and international assets, and a level of costs guaranteeing financial security while ensuring safe working conditions and minimising its impact on the environment and surroundings, pursuant to the idea of sustainable development.

Following are the key achievements in the first quarter of 2020 with respect to strategic programs and projects being advanced under individual areas of the Strategy:

Strategic area/ Programs and projects	Degree of advancement
<b>PRODUCTION</b>	
<b>Selected actions aimed at improving the efficiency of the core production line in Poland</b>	<ul style="list-style-type: none"> <li>– The advancement of projects aimed at automatisisation of production in the Mining Divisions of KGHM, under the KGHM 4.0 program in the area INDUSTRY, was continued:               <ul style="list-style-type: none"> <li>• „The placement and identification of machinery and persons in underground mines” – a pilot version of the functionality of placement and identification of people, on the basis of the current system for mining vehicles, was launched. The system was brought into operation in selected mine sections. „Broad-band data transmission in underground mines” - the project consists of the installation of Wi-Fi access points, enabling the use of mobile applications. Work began on a design.</li> <li>• „Monitoring of utilities - power, ventilation, water” - all of the equipment and elements of the dewatering monitoring system were procured.</li> <li>• „Robotisation of production and auxiliary processes” – involves the construction of a CuXRF robot to scan for copper content at the working faces – the project’s detailed technical scope was developed.</li> </ul> </li> <li>– In accordance with the implemented, PN-EN ISO50001:2012-compliant Energy Management System, energy efficiency audits were initiated.</li> </ul>
<b>Sierra Gorda mine in Chile – Phase 1</b>	The Sierra Gorda mine, in cooperation with representatives of KGHM Polska Miedź S.A., Sumitomo Metal Mining and Sumitomo Corporation, is concentrating on preparing an Integrated Plan, which will comprise a new scope of work, schedule and costs involving optimisation of the production process and increasing sulphide ore throughput. Work was carried out on finalising project and design documentation, as an element of the Integrated Plan - results by the end of the first half of 2020.
(KGHM INTERNATIONAL LTD. Group - 55%, Sumitomo Metal Mining and Sumitomo Corporation - 45%)	
<b>Metallurgy Development Program</b>	Documentation was prepared related to completion of the Program.
<b>Increasing cathode production at the Legnica Copper Smelter and Refinery to 160 kt/year</b>	<b>Revolving-Casting-Refining (RCR) Furnace</b> Final handover took place.
<b>DEVELOPMENT</b>	
<b>Deposit Access Program</b>	<p><b>Construction of the GG-1 shaft</b></p> <ul style="list-style-type: none"> <li>– The shaft reached a depth of 1 129.2 m,</li> <li>– Work in the main dolomite layer was completed (stage IV),</li> <li>– Work is underway on stage V – final stage sinking.</li> </ul> <p><b>Construction of the GG-2 „Odra” shaft</b></p> <ul style="list-style-type: none"> <li>– Procedures are underway related to the amendment of planning documentation, with a planned publication date of 15 February 2021.</li> <li>– Procurement procedures related to „Execution of the geological project for construction of the GG-2 shaft” was completed – a contractor was chosen.</li> </ul> <p><b>Construction of the Gaworzyce shaft</b></p> <p>The first stage of design work on the Spatial Plan for the Gaworzyce shaft was carried out – handover is underway.</p>

#### Access and development tunnels

- 10.3 km of tunneling were excavated (versus a planned – 9.1 km) along with infrastructure in the Rudna and Polkowice-Sieroszowice mines,
- Progress on the excavation of tunnels in the main directions towards the GG-1 shaft amounts to 9% as compared to the yearly plan.

#### Surface-based Central Air Conditioning System (SCA)

- Construction continued on the SCA at the GG-1 shaft,
- Assembly of the cooling towers was carried out,
- Construction of the cooling building is underway.

#### Ice Water Transportation System (IWTS)

- Two technical drillholes were sunk and some construction-mining work was completed,
- Work continues on the laying of surface-based piping,
- Assembly of the tri-unit feeder continues.

### Development of the Żelazny Most Tailings Storage Facility

#### Construction of the Southern Quarter

- Work continued on construction (including hydrological and power-related work). Commencement of the consecutive storage of tailings is planned for March 2021, and completion of construction is expected to take place in June 2022,

#### Construction of the Tailings Segregation and Thickening Station (TSTS)

- The TSTS project was advanced in that part related to hydrocyclone technology, with 80% of that part related to thickening technology being completed,
- The power building was built using reinforced concrete,
- Construction work on the frame for the TSTS hall was completed,
- Work is underway involving architecture and internal installations for the hall,
- Tender proceedings were initiated for the operational part of the TSTS,
- Tender proceedings for the construction of infrastructure in the vicinity of the station were concluded, and execution of the contract is underway,

### Exploration projects in Poland

(Concessions to explore for and evaluate copper ore deposits)

#### Retków-Ścinawa and Głogów

Drilling work continued on advancing stage 2 of exploration and evaluation work within the Retków-Ścinawa concession.

As regards the Głogów concession, preparatory and organisational work continued aimed at sinking another drillhole, expected to be completed in the current year.

#### Synklina Grodziecka and Konrad

Hydrogeological research continued, which will continue to the end of 2020.

#### Bytom-Odrzański, Kulów-Luboszyce

Concession-related proceedings continued before the Minister of Climate. The Company expects a re-assessment of the concession (second instance) and the issuance of decisions.

Other concessions

#### Puck region

Preparatory work was carried out aimed at commencing the sinking of another drillhole, the completion of which is planned to the end of 2020.

#### Nowe Miasteczko

The Company received a final decision which granted a concession to search for and explore deposits of oil and natural gas. Preparatory work was carried out to commence the advancement of the planned work as well as geological work.

### Projects involving development of the international assets

#### Victoria project

Exploratory work continued, aimed at increasing knowledge of the project's mineral resources and actions aimed at maintaining good relations with key stakeholders in the project.

#### Ajax project

As a result of the decisions to not grant an Environmental Assessment Certificate for the Ajax project in 2019, solely work related to monitoring and securing of the terrain was advanced, in accordance with law in force.

#### Sierra Gorda Oxide

Work continued aimed at preparing the project for realisation. Final reports were prepared from the engineering work carried out in prior months, tests in preparing the ore for leaching and supplementary analyses in this regard were continued.

## INNOVATION

### CuBR Program

Under the CuBR venture, co-financed by the National Centre for Research and Development (NCRD), R&D projects having a total value of over PLN 150 million which were selected in the four editions of the competition are being advanced. In total, 25 projects were advanced under this venture.

- Currently, 15 Projects are advanced;
- To date 8 projects have been completed, while realisation of a further two was suspended due to the inability to implement the results of the research.
- 4 new projects are being advanced under the 4th edition of the CuBR competition, which involve subjects related to the Circular Economy concept.

### Selected R&D initiatives

Work continued on advancing the first and second editions of the consolidated Implementation Doctorates Program for employees of KGHM. At the end of the first quarter of 2020, 50 doctoral students from the two editions participated in the Program.

R&D work commenced on the construction of a battery-powered transport vehicle with an electric motor designed for the transport of people and materials in the underground mines of KGHM Polska Miedź S.A. Completion of the prototype vehicle and commencement of operational trials is planned to take place in the third quarter of 2020.

An initiative commenced aimed at building a bolting vehicle equipped with an automated bolting turret, designed for work in the mines of KGHM Polska Miedź S.A. The planned timeframe of this work is 24 months.

#### Projects subsidised under KIC Raw Materials:

- Advancement of the following Projects was continued:
  - the project „Utrzymanie Kopalni i Sprzętu” (Maintained Mine & Machine(MaMMa)).
  - OPMO „Monitoring pracy maszyn do kruszenia minerałów” (Operation monitoring of mineral crushing machinery).
- Agreements were signed with KIC Raw Materials and advancement commenced of the following R&D projects:
  - RevRis – related to the recultivation of post-industrial terrain,
  - Batterflai – related to the development of environmentally-friendly flotation reagents,
  - AMICOS – related to the development of an automated infrastructure and industrial facility inspection system.

#### Projects subsidised under the Horizon 2020 Program:

- The project „FineFuture” was continued.
- Financing was obtained for the project „illuMINEation”, related to the integration of systems used in monitoring the condition of the Żelazny Most Tailings Storage Facility based on artificial intelligence and machine learning. Commencement of the project is planned in the second half of 2020.

### Intellectual property

- Proceedings are underway for protection of the word mark of KGHM, submitted in an international procedure, in the following countries: the USA, India, China, Switzerland, Japan, Turkey and Ukraine.
- Protection of the European patent EP2873475 "Method of manufacturing wires of Cu-Ag alloys", validated in 16 European countries, was prolonged.
- Patent PL221274 „Sposób wytwarzania drutów ze stopów CU-Ag” (Means for processing wire rods from CU-Ag alloys) was prolonged in the Patent Office of the Republic of Poland.
- Three proceedings are underway for the granting of a patent for inventions.
- Word-graph KGHM trademark was granted protection in Canada.
- Clearance of the strategic initiative in the area of innovation is underway – the innovative program “Giełda Wynalazczości 2019” (Innovation Exchange 2019).

## FINANCIAL STABILITY

### Basing the KGHM Group's financing on long-term instruments

Further organisational actions were taken aimed at extending the average weighted maturity of the debt of KGHM Polska Miedź S.A.

Under the initiatives taken:

- the utilisation of short-term loans (financing up to 12 months) was terminated in current accounts in two commercial banks;
- discussions were underway with three relationship banks aimed at developing offers for entering into loan agreements in current accounts with a maturity of not less than 24 months or 36 months.

### Shortening of the cash conversion cycle

The Company is engaged in actions aimed at shortening the receivables recovery period and extending the liabilities payment period. Two programs are currently being advanced: a reverse factoring program and a receivables factoring program. The Parent Entity, at the end of the first quarter of 2020, had a balance of receivables that was subjected to factoring in the amount of PLN 26 million and a balance of payables due to reverse factoring in the amount of PLN 910 million. The selection of syndicated factoring co-organisers is planned.

### Effective market and credit risk management in the KGHM Group

As part of the advancement of the Company's strategic plan to secure against market risk, an open position on the copper market was restructured. A portion of the structure of seagull options was closed hedging revenues from sales for the total notional amount of 20 thousand tonnes in the period from March to December 2020.

## EFFICIENT ORGANISATION

### KGHM 4.0 Program

#### With respect to ICT projects (Information and Communication Technology)

- CRM System - 80% of CRM-related implementation work and 90% of Commerce-related implementation work was carried out, business testing was begun as well as work related to the production start.
- In terms of ICT projects, purchases were made related to ensuring operational continuity given the situation with the pandemic; thermovisual cameras and laptops for remote working were purchased, and purchases of software to support remote working are in progress.

#### With respect to Industry projects (industrial production):

- A pilot BigData environment was created for a sample scope of industrial data.
- An eReport system was implemented in the mining divisions, which supports the automatization of data transfer to the SAP HR system; implementation of the mining divisions' reports at the shifts level; implementation of geological and higher supervision reports.
- An automated system supporting the maintenance of production called CMMS (Computerised Maintenance Management Systems) is being implemented in the Smelters and Refineries, Concentrator Division and the Tailings Division.

## PEOPLE AND THE ENVIRONMENT

### Program to adapt the technological installations of KGHM to the requirements of BAT Conclusions for the nonferrous metals industry and to restrict emissions of arsenic (BATAs)

Under the BATAs program, 14 projects were advanced.

The design process for 3 projects advanced by the Głogów Copper Smelter and Refinery and 2 projects advanced by the Legnica Copper Smelter and Refinery were completed.

Building permits were obtained for 9 projects and 3 projects received an environmental decision.

### Program to Improve Occupational Health and Safety in KGHM Polska Miedź S.A.

Given the state of epidemic introduced in Poland, OHS employees participated in preparing a wide range of internal regulations and informational material, and also implemented organisational and technical solutions to ensure uninterrupted operations in the Company.

Tasks under the Program to Improve Occupational Health and Safety were advanced in accordance with the plan.

### 3 – Information on operating segments and revenues

#### Note 3.1 Operating segments

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

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

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

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

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

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

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

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



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

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

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

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

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

- The segment KGHM Polska Miedź S.A. – comprises data from the separate financial statements of the Parent Entity prepared in accordance with IFRSs. In the separate financial statements, investments in subsidiaries (including investment in KGHM INTERNATIONAL LTD.) are measured at cost, including the impact of impairment losses.
- The segment KGHM INTERNATIONAL LTD. – comprises consolidated data of the KGHM INTERNATIONAL LTD. Group prepared in accordance with IFRSs. The involvement in Sierra Gorda S.C.M. is accounted for using the equity method.

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

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

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

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

### Note 3.2 Financial results of reporting segments

		from 1 January 2020 to 31 March 2020						
		KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Reconciliation items to consolidated data		Consolidated financial statements
						Elimination of data of the segment Sierra Gorda S.C.M	Consolidation adjustments****	
Note 2.3	<b>Revenues from contracts with customers, of which:</b>	4 225	632	360	1 902	( 360)	(1 460)	5 299
	- inter-segment	84	5	-	1 348	-	(1 437)	-
	- external	4 141	627	360	554	( 360)	( 23)	5 299
	<b>Segment result - profit/(loss) for the period</b>	<b>399</b>	<b>( 263)</b>	<b>( 226)</b>	<b>( 30)</b>	<b>226</b>	<b>584</b>	<b>690</b>
<b>Additional information on significant revenue/cost items of the segment</b>								
	Depreciation/amortisation recognised in profit or loss	( 284)	( 145)	( 224)	( 60)	224	6	( 483)
	Impairment losses on non-current assets, including:	( 42)	-	-	-	-	15	( 27)
	impairment losses on investments in subsidiaries	( 42)	-	-	-	-	42	-
		<b>As at 31 March 2020</b>						
	<b>Assets, including:</b>	<b>38 897</b>	<b>11 570</b>	<b>9 965</b>	<b>5 357</b>	<b>(9 965)</b>	<b>(13 228)</b>	<b>42 596</b>
	Segment assets	38 897	11 570	9 965	5 357	(9 965)	(13 243)	42 581
	Assets unallocated to segments	-	-	-	-	-	15	15
	<b>Liabilities, including:</b>	<b>18 809</b>	<b>18 579</b>	<b>14 180</b>	<b>2 533</b>	<b>(14 180)</b>	<b>(17 788)</b>	<b>22 133</b>
	Segment liabilities	18 809	18 579	14 180	2 533	(14 180)	(17 799)	22 122
	Liabilities unallocated to segments	-	-	-	-	-	11	11
<b>Other information</b>		<b>from 1 January 2020 to 31 March 2020</b>						
	Cash expenditures on property, plant and equipment and intangible assets	744	192	150	106	( 150)	( 79)	963
<b>Production and cost data</b>		<b>from 1 January 2020 to 31 March 2020</b>						
	Payable copper (kt)	141.0	14.1	19.0				
	Molybdenum (million pounds)	-	0.2	1.6				
	Silver (t)	329.2	0.5	5.7				
	TPM (koz t)	25.2	17.8	8.5				
	C1 cash cost of producing copper in concentrate (USD/lb PLN/lb)**	1.58 6.20	2.19 8.59	1.15 4.51				
	<b>Segment result - adjusted EBITDA</b>	<b>900</b>	<b>52</b>	<b>104</b>	<b>73</b>	<b>-</b>	<b>-</b>	<b>1 129</b>
	<b>EBITDA margin***</b>	<b>21%</b>	<b>8%</b>	<b>29%</b>	<b>4%</b>	<b>-</b>	<b>-</b>	<b>20%</b>

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

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

\*\*\* Adjusted EBITDA to revenues from sales. For the purposes of calculating the Group's EBITDA margin (20%), the consolidated revenues from sales were increased by revenues from sales of the segment Sierra Gorda S.C.M.

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

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

## Financial results of reporting segments for the comparable period

		from 1 January 2019 to 31 March 2019						
		KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Reconciliation items to consolidated data		Consolidated financial statements
						Elimination of data of the segment Sierra Gorda S.C.M	Consolidation adjustments****	
Note 2.3	<b>Revenues from contracts with customers, of which:</b>	<b>4 316</b>	<b>676</b>	<b>536</b>	<b>1 786</b>	<b>( 536)</b>	<b>(1 290)</b>	<b>5 488</b>
	- inter-segment	91	6	-	1 156	-	(1 253)	-
	- external	4 225	670	536	630	( 536)	( 37)	5 488
	<b>Segment result - profit/(loss) for the period</b>	<b>695</b>	<b>( 123)</b>	<b>( 87)</b>	<b>( 4)</b>	<b>87</b>	<b>( 16)</b>	<b>552</b>
<b>Additional information on significant revenue/cost items of the segment</b>								
	Depreciation/amortisation recognised in profit or loss	( 274)	( 125)	( 109)	( 59)	109	5	( 453)
<b>As at 31 December 2019</b>								
	<b>Assets, including:</b>	<b>35 990</b>	<b>10 689</b>	<b>9 156</b>	<b>5 386</b>	<b>(9 156)</b>	<b>(12 656)</b>	<b>39 409</b>
	Segment assets	35 990	10 689	9 156	5 386	(9 156)	(12 665)	39 400
	Joint ventures accounted for using the equity method	-	-	-	-	-	4	4
	Assets unallocated to segments	-	-	-	-	-	5	5
	<b>Liabilities, including:</b>	<b>16 100</b>	<b>16 849</b>	<b>12 801</b>	<b>2 552</b>	<b>(12 801)</b>	<b>(16 294)</b>	<b>19 207</b>
	Segments liabilities	16 100	16 849	12 801	2 552	(12 801)	(16 314)	19 187
	Liabilities unallocated to segments	-	-	-	-	-	20	20
<b>Other information</b>								
		from 1 January 2019 to 31 March 2019						
	Cash expenditures on property, plant and equipment and intangible assets	845	132	137	74	( 137)	( 196)	855
<b>Production and cost data</b>								
		from 1 January 2019 to 31 March 2019						
	Payable copper (kt)	141.7	16.3	14.7				
	Molybdenum (million pounds)	-	0.2	3				
	Silver (t)	321.0	0.7	3.6				
	TPM (koz t)	19.8	17.9	7.4				
	C1 cash cost of producing copper in concentrate (USD/lb PLN/lb)**	1.76 6.67	1.95 7.39	1.34 5.08				
	<b>Segment result - adjusted EBITDA</b>	<b>999</b>	<b>170</b>	<b>218</b>	<b>67</b>	<b>-</b>	<b>-</b>	<b>1 454</b>
	<b>EBITDA margin***</b>	<b>23%</b>	<b>25%</b>	<b>41%</b>	<b>4%</b>	<b>-</b>	<b>-</b>	<b>24%</b>

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

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

\*\*\* Adjusted EBITDA to revenues from sales. For the purposes of calculating the Group's EBITDA margin (24%), the consolidated revenues from sales were increased by revenues from sales of the segment Sierra Gorda S.C.M.

[1 454 / (5 488 + 536) \* 100]

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

## Reconciliation of adjusted EBITDA

from 1 January 2020 to 31 March 2020

	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Other segments	Consolidation adjustments*	Consolidated financial statements	Sierra Gorda S.C.M. **	Adjusted EBITDA (segments, total)
	1	2	3	4	5 (1+2+3+4)	6	7 (5+6-4)
<b>Profit/(Loss) for the period</b>	399	( 263)	( 30)	584	690	( 226)	
[+] Profit or loss on involvement in joint ventures	-	96	-	-	96	-	
[-] Current and deferred income tax	( 209)	( 12)	( 15)	( 8)	( 244)	85	
[-] Depreciation/amortisation recognised in profit or loss	( 284)	( 145)	( 60)	6	( 483)	( 224)	
[-] Finance income and (costs)	( 496)	( 260)	( 8)	262	( 502)	( 209)	
[-] Other operating income and (costs)	488	6	( 20)	366	840	18	
<b>Segment result - adjusted EBITDA</b>	<b>900</b>	<b>52</b>	<b>73</b>	<b>( 42)</b>	<b>983</b>	<b>104</b>	<b>1 129</b>

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

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

## Reconciliation of adjusted EBITDA

from 1 January 2019 to 31 March 2019

	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Other segments	Consolidation adjustments*	Consolidated financial statements	Sierra Gorda S.C.M. **	Adjusted EBITDA (segments, total)
	1	2	3	4	5 (1+2+3+4)	6	7 (5+6-4)
<b>Profit/(Loss) for the period</b>	695	( 123)	( 4)	( 16)	552	( 87)	
[+] Profit or loss on involvement in joint ventures	-	82	-	-	82	-	
[-] Current and deferred income tax	( 236)	( 12)	( 11)	( 27)	( 286)	18	
[-] Depreciation/amortisation recognised in profit or loss	( 274)	( 125)	( 59)	5	( 453)	( 109)	
[-] Finance income and (costs)	( 173)	( 230)	( 4)	227	( 180)	( 205)	
[-] Other operating income and (costs)	379	( 8)	3	( 177)	197	( 9)	
<b>Segment result - adjusted EBITDA</b>	<b>999</b>	<b>170</b>	<b>67</b>	<b>( 44)</b>	<b>1 192</b>	<b>218</b>	<b>1 454</b>

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

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

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

from 1 January 2020 to 31 March 2020

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

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

from 1 January 2019 to 31 March 2019

				Other segments	Reconciliation items to consolidated data		Consolidated data
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*		Elimination of data of the segment Sierra Gorda S.C.M	Consolidation adjustments	
Copper	3 363	395	346	1	( 346)	( 7)	<b>3 752</b>
Silver	620	1	7	-	( 7)	-	<b>621</b>
Gold	101	39	37	-	( 37)	-	<b>140</b>
Services	23	152	-	482	-	( 347)	<b>310</b>
Energy	-	-	-	63	-	( 26)	<b>37</b>
Salt	13	-	-	29	-	( 13)	<b>29</b>
Blasting materials and explosives	-	-	-	56	-	( 20)	<b>36</b>
Mining machinery, transport vehicles and other types of machinery and equipment	-	-	-	28	-	( 24)	<b>4</b>
Fuel additives	-	-	-	24	-	-	<b>24</b>
Lead	63	-	-	1	-	-	<b>64</b>
Products from other non-ferrous metals	-	-	-	19	-	( 1)	<b>18</b>
Steel	-	-	-	123	-	( 10)	<b>113</b>
Petroleum and its derivatives	-	-	-	73	-	( 62)	<b>11</b>
Merchandise and materials	64	-	-	845	-	( 779)	<b>130</b>
Other products	69	89	146	42	( 146)	( 1)	<b>199</b>
<b>TOTAL</b>	<b>4 316</b>	<b>676</b>	<b>536</b>	<b>1 786</b>	<b>( 536)</b>	<b>(1 290)</b>	<b>5 488</b>

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

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

from 1 January 2020 to 31 March 2020

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

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

from 1 January 2019 to 31 March 2019

	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Reconciliation items to consolidated data		Consolidated data
					Elimination of data of the segment Sierra Gorda S.C.M	Consolidation adjustments	
<b>Total revenues from contracts with customers</b>	4 316	676	536	1 786	( 536)	(1 290)	5 488
Revenues from sales contracts, for which the price is set after the date of recognition of the sales (M+ principle), of which:	3 623	522	499	-	( 499)	( 22)	4 123
settled	3 064	152	5	-	( 5)	( 22)	3 194
unsettled	559	370	494	-	( 494)	-	929
Revenues from realisation of long-term contracts	-	146	-	65	-	( 55)	156
Revenues from other sales contracts	693	8	37	1 721	( 37)	(1 213)	1 209
<b>Total revenues from contracts with customers, of which:</b>	4 316	676	536	1 786	( 536)	(1 290)	5 488
in factoring	1 450	28	-	-	-	-	1 478
not in factoring	2 866	648	536	1 786	( 536)	(1 290)	4 010

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



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

	from 1 January 2020 to 31 March 2020							from 1 January 2019 to 31 March 2019
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Reconciliation items to consolidated data		Consolidated data	KGHM Polska Miedź S.A. Group
					Elimination of data of the segment Sierra Gorda S.C.M	Consolidation adjustments		
Poland	919	-	2	1 826	(2)	(1 459)	1 286	1 440
Austria	48	-	-	7	-	-	55	57
Belgium	50	-	-	3	-	-	53	-
Bulgaria	3	2	-	3	-	-	8	54
Czechia	362	-	-	4	-	-	366	347
Denmark	4	-	-	-	-	-	4	14
Finland	-	-	-	1	-	-	1	69
France	100	-	-	2	-	-	102	241
Spain	-	86	-	-	-	-	86	-
Netherlands	1	-	14	-	(14)	-	1	3
Germany	759	-	-	15	-	-	774	605
Romania	40	-	-	1	-	-	41	56
Slovakia	19	-	-	2	-	-	21	27
Slovenia	17	-	-	-	-	-	17	17
Sweden	-	-	-	8	-	-	8	19
Hungary	194	-	-	1	-	-	195	184
The United Kingdom	426	60	-	4	-	-	490	592
Italy	261	-	-	2	-	-	263	230
Australia	176	-	-	-	-	-	176	-
Bosnia and Hercegovina	-	-	-	1	-	-	1	11
Chile	-	6	41	-	(41)	-	6	6
China	250	-	189	-	(189)	-	250	591
India	-	-	8	-	(8)	-	-	-
Japan	-	1	60	-	(60)	-	1	159
Canada	-	139	-	-	-	-	139	199
South Korea	-	84	35	-	(35)	-	84	12
Russia	-	-	-	5	-	(1)	4	6
The United States of America	133	206	-	1	-	-	340	254
Switzerland	219	-	-	-	-	-	219	137
Turkey	26	-	-	1	-	-	27	71
Taiwan	166	-	-	-	-	-	166	49
Singapore	-	-	-	-	-	-	-	9
Brazil	-	4	11	-	(11)	-	4	-
Thailand	36	-	-	-	-	-	36	-
Philippines	2	44	-	-	-	-	46	-
Other countries	14	-	-	15	-	-	29	29
<b>TOTAL</b>	<b>4 225</b>	<b>632</b>	<b>360</b>	<b>1 902</b>	<b>(360)</b>	<b>(1 460)</b>	<b>5 299</b>	<b>5 488</b>

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

**Note 3.6 Main customers**

In the period from 1 January 2020 to 31 March 2020 and in the comparable period the revenues from no single contractor exceeded 10% of the revenues from contracts with customers of the Group.

**Note 3.7 Non-current assets – geographical breakdown**

	<b>As at 31 March 2020</b>	<b>As at 31 December 2019</b>
Poland	21 562	21 349
Canada	1 529	1 368
The United States of America	1 573	1 418
Chile	431	388
Other countries	19	16
<b>TOTAL*</b>	<b>25 114</b>	<b>24 539</b>

\*Non-current assets, excluding: derivatives, other financial instruments, other non-financial assets and deferred tax assets (IFRS 8.33b) in the total amount of PLN 7 571 million as at 31 March 2020 (PLN 7 130 million as at 31 December 2019).

### Note 3.8 Information on segments' results

#### 3.8.1 The segment KGHM Polska Miedź S.A.

##### Production results

	Unit	first quarter of 2020	first quarter of 2019	Change %
Ore extraction (dry weight)	mn t	7.4	7.6	-2.6
Copper content in ore	%	1.52	1.50	+1.3
Copper production in concentrate	kt	99.1	99.2	-0.1
Silver production in concentrate	t	312.0	311.5	+0.2
Production of electrolytic copper	kt	141.0	141.7	-0.5
- including from own concentrate	kt	103.0	104.2	-1.2
Production of metallic silver	t	329.2	321.0	+2.6
	mn oz t	10.6	10.3	+2.6
Production of gold	koz t	25.2	19.8	+27.3

In the first 3 months of 2020, there was a 2.6% decrease in ore extraction (dry weight) as compared to the corresponding period of 2019. Copper content in ore increased by 1.3%.

Copper production in concentrate amounted to 99.1 thousand tonnes and was at a level similar to that recorded in 2019. Production of electrolytic copper amounted to 141.0 thousand tonnes and was at a level similar to that recorded in 2019. Production of metallic silver amounted to 329.2 tonnes and was higher by 8.2 tonnes (2.6%) as compared to the first quarter of 2019. Production of metallic silver was higher thanks to silver content in concentrate.

Production of metallic gold amounted to 25.2 thousand troy ounces and was higher by 5.4 thousand troy ounces (27.3%) as compared to the first quarter of 2019.

##### Revenues

	Unit	first quarter of 2020	first quarter of 2019	Change %
<b>Revenues from contracts with customers, including from the sale of:</b>	<b>PLN mn</b>	<b>4 225</b>	<b>4 316</b>	<b>-2.1</b>
- copper	PLN mn	3 083	3 363	-8.3
- silver	PLN mn	748	620	+20.6
Volume of copper sales	kt	132.1	135.1	-2.2
Volume of silver sales	t	345.3	325.3	+6.1
	mn oz t	11.1	10.4	+6.1
Copper price	USD/t	5 637	6 215	-9.3
Silver price	USD/oz t	16.91	15.57	+8.6
Exchange rate	USD/PLN	3.92	3.79	+3.4

Revenues in the first quarter of 2020 amounted to PLN 4 225 million and were lower than in the corresponding prior year period by 2.1%. Revenues were lower due to lower copper prices alongside a more favourable USD/PLN exchange rate and an increased volume of silver and gold sales.

##### Costs

	Unit	first quarter of 2020	first quarter of 2019	Change % First quarter
<b>Cost of sales, selling costs and administrative expenses<sup>1</sup></b>	<b>PLN mn</b>	<b>3 609</b>	<b>3 591</b>	<b>+0.5</b>
Expenses by nature	PLN mn	3 636	3 677	-1.1
Pre-precious metals credit unit cost of electrolytic copper production from own concentrate <sup>2</sup>	PLN/t	24 880	23 526	+5.8
Total unit cost of electrolytic copper production from own concentrate	PLN/t	16 755	16 983	-1.3
<b>C1 cost<sup>3</sup></b>	<b>USD/lb</b>	<b>1.58</b>	<b>1.76</b>	<b>-10.2</b>

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

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

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

The Parent Entity's cost of sales, selling costs and administrative expenses in the first quarter of 2020 amounted to PLN 3 609 million and were at a level similar to that recorded in the corresponding period of 2019.

In the first quarter of 2020, total expenses by nature were lower by PLN 41 million, or 1.1%, as compared to the corresponding period of 2019, alongside a minerals extraction tax lower by PLN 76 million and lower costs of consumption of purchased metal-bearing materials by PLN 73 million (due to a 6.8% lower purchase price alongside a similar volume of consumption).

Expenses by nature, excluding the minerals extraction tax and consumption of purchased metal-bearing materials, increased by PLN 108 million, mainly due to the following:

- labour costs (+PLN 51 million) due to an increase in remuneration,
- depreciation/amortisation (+PLN 11 million) due to the reclassification of investments to fixed assets,
- external services (+PLN 41 million) due to an increase in the cost of mine preparatory work and maintenance.

**C1 cost** respectively amounted to 1.58 USD/lb in the first quarter of 2020, and 1.76 USD/lb in the first quarter of 2019. The decrease in C1 cost (by 0.18 USD/lb) was mainly caused by the weakening of the Polish currency versus the US dollar and higher value of payable metals – silver and gold.

**The pre-precious metals credit unit cost of electrolytic copper production from own concentrate** (unit cost prior to decrease by the value of anode slimes containing, among others, silver and gold) amounted to 24 880 PLN/t (in the comparable period of 2019: 23 526 PLN/t) and was higher by 5.8%, mainly due to lower production from own concentrate by 1.2% (1.2 thousand tonnes of copper) and higher expenses by nature. The total unit cost of electrolytic copper production from own concentrate amounted to 16 755 PLN/t (for the first 3 months of 2019: 16 983 PLN/t). The decrease in total cost is due to higher value of precious metals in anode slimes.

## Financial results

in PLN million	first quarter of 2020	first quarter of 2019	Change %
<b>Revenues from contracts with customers, including:</b>	<b>4 225</b>	<b>4 316</b>	<b>(2.1)</b>
- adjustment of revenues due to hedging transactions	123	34	×3.7
<b>Cost of sales, selling costs and administrative expenses</b>	<b>(3 609)</b>	<b>(3 591)</b>	<b>+0.5</b>
- including the minerals extraction tax	375	470	(20.2)
<b>Profit on sales</b>	<b>616</b>	<b>725</b>	<b>(15.0)</b>
<b>Other operating income and (costs), including:</b>	<b>488</b>	<b>379</b>	<b>+28.8</b>
- exchange gains/(losses) on assets and liabilities other than borrowings	446	143	×3.1
- fair value gains/(losses) on financial assets measured at fair value through profit or loss	287	80	×3.6
- (recognition)/reversal of impairment losses on financial instruments	(176)	95	×
- measurement and realisation of derivatives	(89)	(19)	×4.7
- interest on loans granted and other financial receivables	73	66	+10.6
- impairment loss on investment certificates	(42)	-	×
- (recognition)/release of provisions	(3)	-	×
- other	(8)	14	×
<b>Finance costs, including:</b>	<b>(496)</b>	<b>(173)</b>	<b>×2.9</b>
- exchange gains/(losses) on borrowings	(437)	(107)	×4.1
- interest on borrowings	(41)	(37)	+10.8
- unwinding of the discount effect	(9)	(11)	(18.2)
- bank fees and charges on borrowings	(6)	(6)	-
- measurement of derivatives	(3)	(12)	(75.0)
<b>Profit before income tax</b>	<b>608</b>	<b>931</b>	<b>(34.7)</b>
Income tax expense	(209)	(236)	(11.4)
<b>Profit for the period</b>	<b>399</b>	<b>695</b>	<b>(42.6)</b>
Depreciation/amortisation recognised in profit or loss	284	274	+3.6
<b>Adjusted EBITDA<sup>1</sup></b>	<b>900</b>	<b>999</b>	<b>(9.9)</b>

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

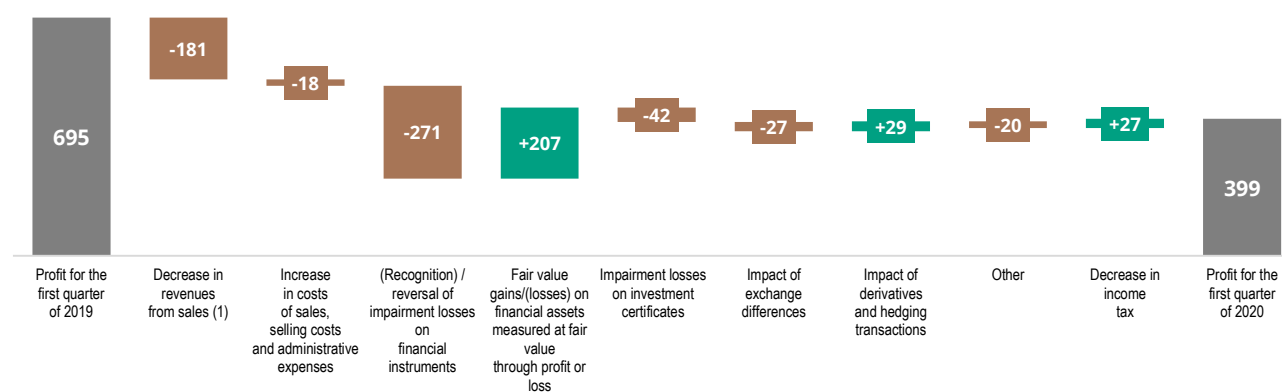
Main reasons for the change in financial results for the first quarter of 2020 as compared to the corresponding period of 2019:

Item	Impact on change in profit or loss (PLN million)	Description
<b>Decrease in revenues from contracts with customers by PLN 181 million</b> (excluding the adjustment due to hedging transactions in the amount of +PLN 90 million)	(302)	A decrease in revenues due to lower copper prices (-578 USD/t, -9%) alongside higher prices of gold (+279 USD/oz t, +21%) and silver (+1.34 USD/oz t, +9%).
	+143	An increase in revenues from sales of the main products (copper, silver, gold) due to a more favourable average yearly USD/PLN exchange rate (change from 3.79 to 3.92 USD/PLN).
	+16	An increase in revenues due to a higher sales volume of silver (+20 t, +6%) and gold (+10.1 thousand troy ounces, +50%) alongside a decrease in copper production (-2.9 thousand tonnes, -2%).
	(38)	Other, including a decrease in revenues from sales of merchandise and materials by PLN 10 million, as well as a decrease in revenues from sales of other products by PLN 17 million due to a change in registry of lead-bearing concentrates.
<b>Increase in cost of sales, selling costs and administrative expenses<sup>(1)</sup> (-PLN 18 million)</b>	(83)	Utilisation of inventories (a change in 2020: -PLN 34 million; in 2019: -PLN 117 million), mainly due to increased utilisation of inventories of own concentrates.
	+74	Lower purchase price of purchased metal-bearing materials (-7%) with a comparable volume of consumption
	(9)	Other, including an increase in other expenses by nature by PLN 33 million, mainly due to higher costs of employee benefits by PLN 51 million and external services by PLN 41 million, alongside a decrease in the minerals extraction tax by PLN 77 million.

<b>(Recognition)/reversal of impairment losses on financial instruments</b>	(271)	A change in the difference between the recognition and reversal of impairment losses on financial instruments from +PLN 95 million in the first quarter of 2019 to -PLN 176 million in the first quarter of 2020.
<b>Fair value gains/(losses) on financial assets measured at fair value through profit or loss</b>	+207	Change in the balance of fair value gains and losses on financial assets measured at fair value through profit or loss from PLN 80 million in the first quarter of 2019 to PLN 287 million in the corresponding period of 2020.
<b>(+PLN 207 million)</b>		
<b>Impairment losses on investment certificates</b>	(42)	Impairment losses on Investment Certificates of KGHM VI FIZAN in the amount of -PLN 12 million and KGHM VII FIZAN in the amount of -PLN 30 million in the first quarter of 2020.
<b>(-PLN 42 million)</b>		
<b>Impact of exchange differences</b>	+303	A change in exchange gains or losses on the measurement of assets and liabilities other than borrowings – in other operating activities.
<b>(-PLN 27 million)</b>	(330)	A change in exchange gains or losses on the measurement of borrowings (presented in finance costs)
<b>Impact of derivatives and hedging transactions</b>	+90	A change in the adjustment of revenues from contracts with customers due to the settlement of hedging transactions from PLN 34 million to PLN 123 million.
<b>(+PLN 29 million)</b>	(70)	A change in gains or losses on the measurement and realisation of derivatives in other operating activities from -PLN 19 million to -PLN 89 million.
	+9	A change in gains or losses on the measurement of derivatives in financing activities from -PLN 12 million to -PLN 3 million.
<b>Decrease in income tax</b>	+27	Lower tax due to a lower tax base.

<sup>1)</sup> Cost of products, merchandise and materials sold, selling costs and administrative expenses

Chart 1. Change in profit/(loss) for the period



<sup>1)</sup>excluding the adjustment due to hedging transactions

### Cash expenditures

In the first quarter of 2020, expenditures on property, plant and equipment and intangible assets amounted to PLN 401 million and were lower than in the corresponding period of 2019 by 15%.

Investment activities are aimed at carrying out projects which are classified under one of the following three categories:

- **Development projects**, aimed at increasing the production volume of the core business, maintaining production costs and adaptation projects aimed at adapting the company's operations to changes in standards, laws and regulations (including those related to environmental protection), represent 32% of total expenditures,
- **Replacement projects**, aimed at maintaining production assets in an undeteriorated condition which guarantees the achievement of on-going production tasks, represent 28% of total expenditures,
- **Maintenance projects**, ensuring necessary infrastructure to match mine advancement and the continuous removal of waste to ensure production at the level set forth in the mine advancement plan, represent 39% of total expenditures.

Structure of capital expenditures on property, plant and equipment and intangible assets – by type	first quarter of 2020	first quarter of 2019	Change %
Replacement	111	127	-12.6
Maintenance	157	121	+29.8
Development	127	207	-38.6
Leases per IFRS 16	6	17	-64.7
<b>Total</b>	<b>401</b>	<b>472</b>	<b>-15.0</b>
<i>including costs of external financing</i>	37	106	-65.1

During the reporting period, work continued on key mining and metallurgical projects. In mining, this mainly involved investment tasks related to flotation tailings, sinking of the GG-1 shaft, preparation and development of mining faces, construction of dewatering infrastructure and the purchase of mining vehicles.

In metallurgy, replacement investments were advanced with respect to major overhauls of equipment and installations of the core production. Procurement continues of components due to the planned maintenance shutdown at the Głogów I Copper Smelter and Refinery.

Structure of capital expenditures on property, plant and equipment and intangible assets – by Division	first quarter of 2020	first quarter of 2019	Change %
Mining	308	368	-16.3
Metallurgy	84	83	+1.2
Other activities	3	4	-25.0
Leases per IFRS 16	6	17	-64.7
<b>Total</b>	<b>401</b>	<b>472</b>	<b>-15.0</b>
<i>including costs of external financing</i>	37	106	-65.1

Information on the advancement of key investment projects may be found in part 1 of this report (Realisation of Strategy).

### 3.8.2 The segment KGHM INTERNATIONAL LTD.

#### Production results

	Unit	first quarter of 2020	first quarter of 2019	Change (%)
Payable copper, including:	kt	14.1	16.3	-13.5
- Robinson mine (USA)	kt	9.2	8.6	+7.0
- Sudbury Basin mines (CANADA) <sup>(1)</sup>	kt	0.7	1.9	-63.2
Payable nickel	kt	0.1	0.3	-66.7
Precious metals (TPM), including:	koz t	17.8	17.9	-0.6
- Robinson mine (USA)	koz t	7.3	7.9	-7.6
- Sudbury Basin mines (CANADA) <sup>(1)</sup>	koz t	10.5	10.0	+5.0

<sup>1)</sup> Morrison and McCreedy West mines in the Sudbury Basin

Copper production in the segment KGHM INTERNATIONAL LTD. in the first quarter of 2020 amounted to 14.1 thousand tonnes, meaning a decrease by 2.2 thousand tonnes (-14%) as compared to the corresponding period of 2019.

The increase in copper production in the Robinson mine by 0.6 thousand tonnes (+7%) was due to mining ore with higher copper content as compared to the corresponding period of 2019, which was partially limited by lower recovery of this metal. Due to the lower recovery of gold, the mine recorded a decrease in TPM production by 0.6 thousand troy ounces (-8%) despite mining ore with higher gold content.

The decrease in copper production in the Sudbury Basin mines by 1.2 thousand tonnes (-63%) is a result of the decrease in the volume of extraction and the content of this metal in ore. Precious metals production increased by 0.5 thousand troy ounces (+5%) due to higher gold, platinum and palladium content in mined ore.

#### Revenues

	Unit	first quarter of 2020	first quarter of 2019	Change (%)
<b>Revenues from contracts with customers <sup>(1)</sup>, including:</b>	<b>USD mn</b>	159	179	-11.2
- copper	USD mn	88	104	-15.4
- nickel	USD mn	2	4	-50.0
- precious metals (TPM)	USD mn	35	27	+29.6
Copper sales volume	kt	18.0	18.0	-
Nickel sales volume	kt	0.1	0.3	-66.7
Precious metals (TPM) sales volume	koz t	21.2	17.2	+23.3

<sup>1)</sup> reflects processing premium

	Unit	first quarter of 2020	first quarter of 2019	Change (%)
<b>Revenues from contracts with customers<sup>(1)</sup>, including:</b>	<b>PLN mn</b>	632	676	-6.5
- copper	PLN mn	351	395	-11.1
- nickel	PLN mn	8	15	-46.7
- precious metals (TPM)	PLN mn	140	102	+37.3

<sup>1)</sup> reflects processing premium

The revenues of the segment KGHM INTERNATIONAL LTD. in the first quarter of 2020 amounted to USD 159 million and therefore decreased by USD 20 million (-11%) as compared to the corresponding period of 2019, among other due to lower copper prices as well as a decrease in revenues from sales of services of companies operating under the DMC Mining Services ("DMC") brand.

Revenues from sales of copper decreased by USD 16 million (-15%), despite maintaining the sales volume of this metal at the level of the first quarter of 2019, due to a 14% lower realised sales price (5 444 USD/t in the first quarter of 2020 as compared to 6 361 USD/t in the first quarter of 2019).

The increase in revenues from sales of precious metals by USD 8 million (+30%) was due to an increase in the volume of sales by 4 thousand troy ounces (+23%) as well as the achievement of higher realised sales prices.

The decrease in revenues from sales of services of DMC from USD 39 million to USD 30 million was mainly due to the completion of the Jansen project.

## Costs

	Unit	first quarter of 2020	first quarter of 2019	Change (%)
C1 unit cost	USD/lb	2.19	1.95	+12.3

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

The average weighted unit cash cost of copper production for all operations in the segment KGHM INTERNATIONAL LTD. in the first quarter of 2020 amounted to 2.19 USD/lb, and therefore increased by 12% as compared to the corresponding period of 2019. The C1 cost increased mainly because of the Robinson mine, due to higher cost of sales, selling costs and administrative expenses (above all the impact of value of inventories due to lower prices). On the other hand, revenues from sales of associated metals, which decrease C1 cost, increased by (+32%) and therefore had a positive impact on C1.

## Financial performance

in USD mn

	first quarter of 2020	first quarter of 2019	Change (%)
Revenues from contracts with customers	159	179	-11.2
Cost of sales, selling costs and administrative expenses <sup>(1)</sup>	(182)	(167)	+9.0
<b>Profit/(loss) on sales (EBIT)</b>	(23)	12	X
<b>Profit/(loss) before taxation, including:</b>	(63)	(30)	x2.1
- share of losses of Sierra Gorda S.C.M. accounted for using the equity method	-	-	-
Income tax	(3)	(3)	-
<b>Profit/(loss) for the period</b>	(66)	(33)	x2.0
Depreciation/amortisation recognised in profit or loss	(36)	(33)	+9.1
<b>Adjusted EBITDA<sup>(2)</sup></b>	13	45	-71.1

in PLN mn

	first quarter of 2020	first quarter of 2019	Change (%)
Revenues from contracts with customers	632	676	-6.5
Cost of sales, selling costs and administrative expenses <sup>(1)</sup>	(725)	(631)	+14.9
<b>Profit/(loss) on sales (EBIT)</b>	(93)	45	X
<b>Profit/(loss) before taxation, including:</b>	(251)	(111)	x2.3
- share of losses of Sierra Gorda S.C.M. accounted for using the equity method	-	-	-
Income tax	(12)	(12)	-
<b>Profit/(loss) for the period</b>	(263)	(123)	x2.1
Depreciation/amortisation recognised in profit or loss	(145)	(125)	+16.0
<b>Adjusted EBITDA<sup>(2)</sup></b>	52	170	-69.4

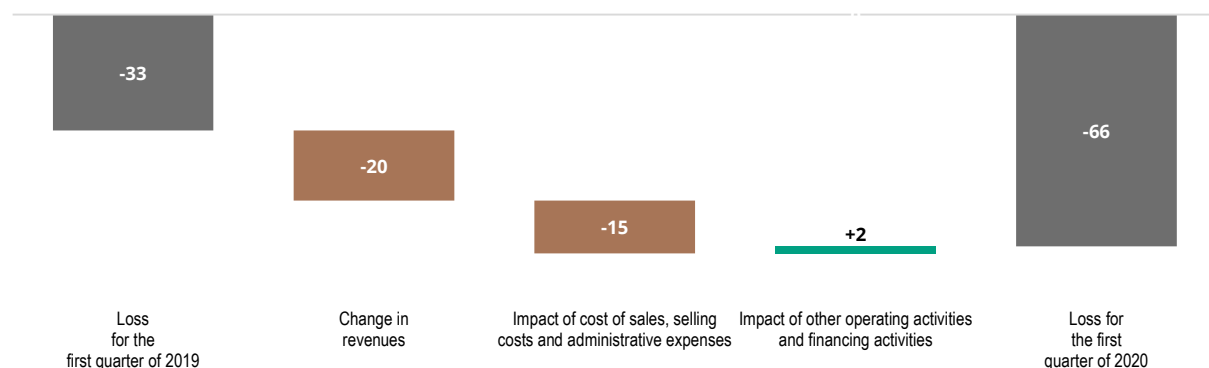
<sup>1)</sup> Cost of products, merchandise and materials sold, selling costs and administrative expenses

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

Main reasons for the change in financial result:

Item	Impact on change of profit or loss (in USD million)	Description
<b>Lower revenues (- USD 20 million), including:</b>	(10)	Lower revenues due to a decrease in the prices of the main products (including -USD 17 million with respect to copper, which was limited by an increase in TPM prices +USD 8 million)
	(9)	Lower revenues realised by companies operating under the DMC brand
	(5)	Other factors
<b>Higher cost of sales, selling costs and administrative expenses (- USD 15 million), including:</b>	+4	Higher revenues due to an increase in sales volume, mainly TPM
	+13	A decrease in labour costs by USD 9 million and depreciation/amortisation by USD 4 million
<b>Impact of other operating activities and financing activities (+ USD 2 million), including:</b>	(5)	Higher costs of materials and energy
	(24)	Change in inventories
	+2	Among others, gains on embedded derivatives respecting water and sulphuric acid supply contracts

Chart 2. Change in profit/(loss) for the period (mn USD)



### Cash expenditures

in USD mn	first quarter of 2020	first quarter of 2019	Change (%)
Victoria project	1	1	-
Sierra Gorda Oxide project	0	0	-
Pre-stripping and other	47	34	+38.2
Ajax project	-	-	-
<b>Total</b>	<b>48</b>	<b>35</b>	<b>+37.1</b>
Financing for Sierra Gorda S.C.M. - increase in share capital	-	-	-
in PLN mn	first quarter of 2020	first quarter of 2019	Change (%)
Victoria project	4	4	-
Sierra Gorda Oxide project	0	0	-
Pre-stripping and other	188	128	+46.9
Ajax project	-	-	-
<b>Total</b>	<b>192</b>	<b>132</b>	<b>+45.5</b>
Financing for Sierra Gorda S.C.M. - increase in share capital	-	-	-

Cash expenditures by the segment KGHM INTERNATIONAL LTD. in the first quarter of 2020 amounted to USD 48 million, and therefore increased by USD 13 million (+37%) as compared to the corresponding period of 2019.

Around 66% of expenditures were on the Robinson mine and mainly comprised work related to pre-stripping and the purchase of machinery and equipment.

No financial support was provided to the Sierra Gorda mine in the first three months of 2020.



### 3.8.3 The segment Sierra Gorda S.C.M.

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

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

#### Production results

In the first quarter of 2020, Sierra Gorda S.C.M. produced 34.5 thousand tonnes of copper and 3.0 million pounds of molybdenum, which is an increase in copper production by 29% and a decrease in molybdenum production by 46% as compared to the corresponding quarter of 2019.

Table 1. Production of copper, molybdenum and precious metals by Sierra Gorda S.C.M.

	Unit	first quarter of 2020	first quarter of 2019	Change (%)
Copper production <sup>1</sup>	kt	34.5	26.8	+28.7
Copper production – segment (55%)	kt	19.0	14.7	+28.7
Molybdenum production <sup>1</sup>	mn lbs	3.0	5.5	-45.5
Molybdenum production – segment (55%)	mn lbs	1.6	3.0	-45.5
TPM production – gold <sup>1</sup>	koz t	15.5	13.4	+15.7
TPM production – gold – segment (55%)	koz t	8.5	7.4	+15.7

<sup>1</sup> Payable metal in concentrate.

The improvement in production of payable copper was due to the increased processing of ore and higher copper content as compared to the first quarter of 2019. Moreover, more efficient use of production assets which resulted in the improvement of productivity ratio of the processing plant also contributed to the increase in the copper production.

The decrease in molybdenum production is a result of the deposit's characteristics and the planned mining sequence, which assumes mining from zones with lower molybdenum content as compared to prior years.

#### Sales

Revenues from contracts with customers in the first quarter of 2020 amounted to USD 164 million (on a 100% basis), or PLN 360 million respectively to KGHM Polska Miedź S.A.'s interest of 55%.

Table 2. Sales volume and revenues of Sierra Gorda S.C.M.

	Unit	first quarter of 2020	first quarter of 2019	Change (%)
<b>Revenues from contracts with customers,<sup>1</sup> including from the sale of:</b>	<b>USD mn</b>	<b>164</b>	<b>258</b>	<b>-36.4</b>
- copper	USD mn	96	166	-42.2
- molybdenum	USD mn	43	70	-38.6
- TPM - gold	USD mn	21	18	+16.7
Copper sales volume	kt	27.0	26.0	+3.8
Molybdenum sales volume	mn lbs	4.7	6.1	-23.0
- TPM - gold	koz t	13.2	13.2	-
<b>Revenues from contracts with customers<sup>1</sup> - segment (55% share)</b>	<b>PLN mn</b>	<b>360</b>	<b>536</b>	<b>-32.8</b>

<sup>1</sup> reflects processing premium and other

Sierra Gorda S.C.M. achieved revenues (denominated in USD) at a level that was 36% lower than in the first quarter of 2019, which was mainly due to:

- the decrease in realised sales prices of copper and molybdenum and the adopted method of sales settlement, including the "Mark-to-Market" adjustment,
- the decrease in production, and therefore sales of molybdenum as a result of mining in areas with lower molybdenum content.

The individual factors impacting the change in revenues are presented in the subsection on the financial performance of Sierra Gorda S.C.M.

The significant disparity between the level of production and sales of copper (35 thousand tonnes were produced, while sales in the first quarter of 2020 amounted to 27 thousand tonnes) was due to changes in the schedule of concentrate shipments due to shutdowns and slowdowns in loading shipments at the port of Antofagasta due to the epidemic.

## Costs

The cost of sales, selling costs and administrative expenses incurred by the company Sierra Gorda S.C.M. amounted to USD 219 million, including selling costs of USD 14 million and administrative expenses of USD 9 million. The costs of the segment Sierra Gorda, proportionally to the interest held (55%) amounted to PLN 480 million.

Table 3. Cost of sales, selling costs and administrative expenses and unit production cost of copper (C1) of Sierra Gorda S.C.M.

	Unit	first quarter of 2020	first quarter of 2019	Change (%)
Cost of sales, selling costs and administrative expenses	mn USD	219	205	+6.8
Cost of sales, selling costs and administrative expenses - segment (55% share)	mn PLN	480	427	+12.4
<b>C1<sup>1</sup> unit cost</b>	<b>USD/lb</b>	<b>1.15</b>	<b>1.34</b>	<b>-14.2</b>

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

Compared to the corresponding period of 2019, the cost of sales, selling costs and administrative expenses denominated in USD million was 7% higher than that recorded in the first quarter of 2019. At the same time, ore processing (+9%) and the volume of copper sales (+4%) were higher.

In particular, an increase in costs was recorded with respect to capitalised pre-stripping costs, mainly due to a change in assumptions concerning mining operations in one of the mining areas, including a shortening the planned period of mining from that area by two months. The increase also concerned the cost of spare parts (+19%) due to unplanned maintenance work on the mill's infrastructure and waste management, and also on work related to the improvement of operational processes, which resulted in more efficient use of the production assets.

The following categories of costs decreased:

- external services - a decrease by 12%, mainly as a result of changes introduced in contracts, a change in suppliers and resignation from certain services,
- labour (-15%) - mainly due to the more favourable USD/CLP exchange rate and pay negotiations concluded in 2019, which resulted in the payment of a bonus,
- processing molybdenum by an external counterparty (-55%) - lower amount of molybdenum concentrate,
- energy (-12%) - due to lower consumption and sale price (-12%),

Other costs did not differ significantly from those recorded in the first quarter of 2019.

In the first three months of 2020, the cash cost of copper production (C1) was at the level of 1.15 USD/lb which is a decrease by 14% as compared to the first quarter of 2019. It should be stressed that this cost was lower despite the decrease in revenues from sales of associated metals, which decrease this cost.

## Financial performance

### Statement of profit or loss

In the first quarter of 2020, adjusted EBITDA amounted to USD 47 million, of which proportionally to the interest held (55%) PLN 104 million relates to the KGHM Group. The loss on sales (-USD 55 million as compared to a profit on sales of USD 53 million in the corresponding period of 2019) is mainly the result of lower copper and molybdenum prices and an increase in depreciation/amortisation costs.

Table 4. Results of Sierra Gorda S.C.M. in USD million (on a 100% basis)

	first quarter of 2020	first quarter of 2019	Change (%)
Revenues from contracts with customers	164	258	-36.4
Cost of sales, selling costs and administrative expenses	(219)	(205)	+6.8
Profit/(loss) on sales (EBIT)	(55)	53	x
<b>PROFIT/(LOSS) FOR THE PERIOD</b>	<b>(103)</b>	<b>(42)</b>	<b>x2.5</b>
Depreciation/amortisation recognised in profit or loss	(102)	(52)	+96.2
<b>Adjusted EBITDA<sup>1</sup></b>	<b>47</b>	<b>105</b>	<b>-55.2</b>

Table 5. Results of the segment Sierra Gorda S.C.M. proportionally to the interest held (55%) in PLN million

	first quarter of 2020	first quarter of 2019	Change (%)
Revenues from contracts with customers	360	536	-32.8
Cost of sales, selling costs and administrative expenses	(480)	(427)	+12.4
Profit/(loss) on sales (EBIT)	(120)	109	x
<b>PROFIT/(LOSS) FOR THE PERIOD</b>	<b>(226)</b>	<b>(87)</b>	<b>x2.6</b>
Depreciation/amortisation recognised in profit or loss	(224)	(109)	x2.1
<b>Adjusted EBITDA<sup>1</sup></b>	<b>104</b>	<b>218</b>	<b>-52.3</b>

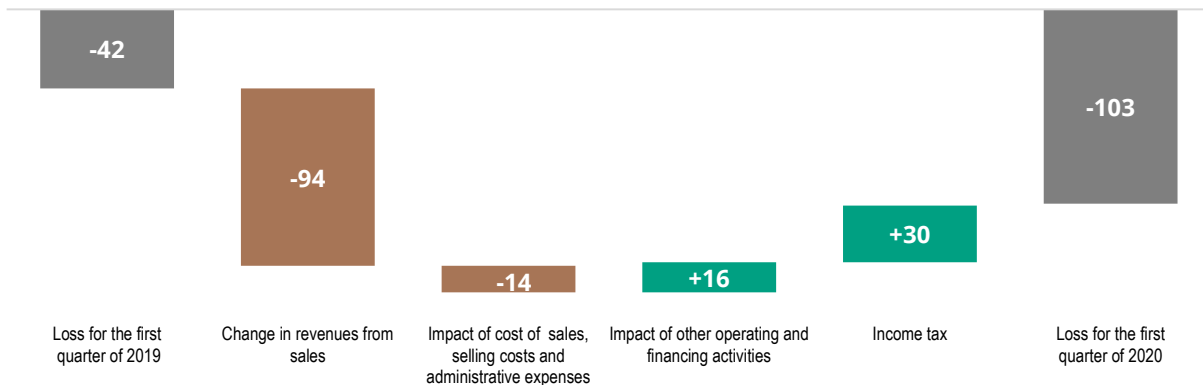
<sup>1</sup>Adjusted EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss) + impairment loss (-reversal of impairment losses) on non-current assets, recognised in cost of sales, selling costs and administrative expenses

The following table summarises the most important factors affecting revenues and costs, and therefore EBITDA.

Following are the main reasons for the increase, by USD 61 million, of the loss for the period of Sierra Gorda S.C.M.:

Item	Impact on change in result (USD million)	Description
<b>Revenues lower by USD 94 million as compared to those achieved in the first quarter of 2019, including:</b>	(94)	A decrease in revenues due to lower sale prices of copper and molybdenum (-USD 32 million) and the "Mark-to-Market" adjustment (-USD 62 million)
	(8)	A decrease in the volume of molybdenum sales (-1.4 million pounds), alongside an increase in sales of copper (+1 thousand tonnes)
	+4	An increase in revenues from sales of gold and silver
	+4	Impact of other factors
<b>An increase in cost of sales, selling costs and administrative expenses by USD 14 million, including:</b>	(50)	An increase in depreciation/amortisation costs, mainly due to capitalised pre-stripping costs
	(3)	An increase in costs of spare parts
	+20	A decrease in costs of external services, labour costs, energy, molybdenum enrichment and sales
	+23	Change in inventories
	(4)	Lower costs of capitalised pre-stripping which decrease costs in profit or loss
<b>Impact of other operating and financing activities – an increase in the result by USD 16 million</b>	+16	Mainly as a result of foreign exchange gains
<b>Income tax</b>	+30	An increase in tax assets due to a higher level of loss before income tax

Chart 3. Change in profit/(loss) for the period (USD million)



## Cash expenditures

In the first quarter of 2020, cash expenditures on property, plant and equipment and intangible assets, presented in Sierra Gorda S.C.M.'s statement of cash flow, amounted to USD 68 million, of which the majority, or USD 44 million (64%), represented expenditures on pre-stripping to gain access to further areas of the deposit, with the rest related to development work and the replacement of property, plant and equipment.

Table 6. Cash expenditures of Sierra Gorda S.C.M.

	Unit	first quarter of 2020	first quarter of 2019	Change (%)
Cash expenditures on property, plant and equipment	mn USD	68	66	+3.0
Cash expenditures on property, plant and equipment - segment (55% share)	mn PLN	150	137	+9.5

The increase in cash expenditures (expressed in USD) was mainly in respect of replacement and development of infrastructure, mainly due to the realisation of work on the project to increase ore processing capacity.

The main source of financing investments was from operating activities – in the first quarter of 2020, Sierra Gorda did not make use of financial support, either as increases in share capital or Owner loans.

Up to the day of publication of this report the development of the COVID 19 pandemic did not have a significant impact on the operations of Sierra Gorda S.C.M., which is engaged in a variety of initiatives of a preventative nature, as well as the monitoring of the situation in order to ensure operational continuity. Sierra Gorda S.C.M., under the direct supervision of the owners, is implementing a variety of additional initiatives related to savings as part of the ongoing optimization of the mine's operational efficiency.

On 12 May 2020, the Management Board of KGHM Polska Miedź S.A. adopted a resolution on supporting the Sierra Gorda S.C.M.'s liquidity by increasing the share capital of Sierra Gorda S.C.M. by the amount of USD 55 million (on a 55% basis, PLN 232 million based on the exchange rate from 11 May 2020). Execution of this resolution is contingent on obtaining the consent of the Supervisory Board of KGHM Polska Miedź S.A.

## 4 – Selected additional explanatory notes

### Note 4.1 Expenses by nature

	from 1 January 2020 to 31 March 2020	from 1 January 2019 to 31 March 2019
Depreciation of property, plant and equipment and amortisation of intangible assets	499	496
Employee benefits expenses	1 368	1 344
Materials and energy	1 945	2 041
External services	507	478
Minerals extraction tax	344	420
Other taxes and charges	139	132
Revaluation of inventories	68	(6)
Impairment losses on property, plant and equipment and intangible assets*	27	-
Other costs	45	48
<b>Total expenses by nature</b>	<b>4 942</b>	<b>4 953</b>
Cost of merchandise and materials sold (+)	148	203
Change in inventories of finished goods and work in progress (+/-)	(40)	(158)
Cost of manufacturing products for internal use of the Group (-)	(246)	(249)
<b>Total costs of sales, selling costs and administrative expenses, of which:</b>	<b>4 804</b>	<b>4 749</b>
Cost of sales	4 486	4 441
Selling costs	103	98
Administrative expenses	215	210

\*Relates to spa companies of the Group, details are presented in note 5.5

### Note 4.2 Other operating income and (costs)

	from 1 January 2020 to 31 March 2020	from 1 January 2019 to 31 March 2019
Measurement and realisation of derivatives	159	50
Interest income calculated using the effective interest rate method	2	3
Exchange differences on assets and liabilities other than borrowings	951	211
Provisions released	15	8
Other	55	58
<b>Total other operating income</b>	<b>1 182</b>	<b>330</b>
Measurement and realisation of derivatives	(236)	(65)
Fair value losses on financial assets	(42)	(30)
Impairment losses on financial instruments	(9)	(3)
Provisions recognised	(3)	(11)
Donations given	(21)	(20)
Other	(31)	(4)
<b>Total other operating costs</b>	<b>(342)</b>	<b>(133)</b>
<b>Other operating income and (costs)</b>	<b>840</b>	<b>197</b>

**Note 4.3 Finance costs**

	from 1 January 2020 to 31 March 2020	from 1 January 2019 to 31 March 2019
Interest on borrowings including:	( 45)	( 40)
due to leases	( 5)	( 7)
Exchange differences on borrowings	( 435)	( 107)
Measurement of derivatives	( 3)	( 12)
Bank fees and charges on borrowings	( 6)	( 6)
Other	( 13)	( 15)
<b>Total finance costs</b>	<b>( 502)</b>	<b>( 180)</b>

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

	from 1 January 2020 to 31 March 2020	from 1 January 2019 to 31 March 2019
Purchase of property, plant and equipment	649	611
including: leases	46	13
Purchase of intangible assets	28	19

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

	As at 31 March 2020	As at 31 December 2019
Payables due to the purchase of property, plant and equipment and intangible assets	382	812

**Capital commitments not recognised in the consolidated statement of financial position**

	As at 31 March 2020	As at 31 December 2019
Purchase of property, plant and equipment	1 359	1 290
Purchase of intangible assets	321	347
<b>Total capital commitments</b>	<b>1 680</b>	<b>1 637</b>

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

	from 1 January 2020 to 31 March 2020		from 1 January 2019 to 31 December 2019	
	Sierra Gorda S.C.M.	Other	Sierra Gorda S.C.M.	Other
<b>As at the beginning of the reporting period</b>	-	-	-	<b>4</b>
Acquisition of newly-issued shares	-	-	439	-
Share of losses of joint ventures accounted for using the equity method	-	-	(434)	(4)
Exchange differences from the translation of statements of operations with a functional currency other than PLN	-	-	(5)	-
<b>As at the end of the reporting period</b>	-	-	-	-

	from 1 January 2020 to 31 March 2020	from 1 January 2019 to 31 March 2019
<b>Share of the Group (55%) in losses of Sierra Gorda S.C.M. for the reporting period, of which:</b>		<b>(87)</b>
recognised in share of losses of joint ventures	(226)	-
not recognised in share of losses of joint ventures	(226)	(87)

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

	from 1 January 2020 to 31 March 2020	from 1 January 2019 to 31 December 2019
<b>As at the beginning of the reporting period</b>	<b>(5 098)</b>	<b>(4 976)</b>
Unrecognised share of losses of joint ventures for the reporting period	(226)	(122)
<b>As at the end of the reporting period</b>	<b>(5 324)</b>	<b>(5 098)</b>

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

	from 1 January 2020 to 31 March 2020	from 1 January 2019 to 31 December 2019
<b>As at the beginning of the reporting period</b>	<b>5 694</b>	<b>5 199</b>
Accrued interest	96	341
Gains due to the reversal of allowances for impairment	-	106
Exchange differences from the translation of statements of operations with a functional currency other than PLN	527	48
<b>As at the end of the reporting period</b>	<b>6 317</b>	<b>5 694</b>

**Note 4.6 Financial instruments**

	As at 31 March 2020					As at 31 December 2019				
	At fair value through other comprehensive income	At fair value through profit or loss	At amortised cost	Hedging instruments	Total	At fair value through other comprehensive income	At fair value through profit or loss	At amortised cost	Hedging instruments	Total
<b>Financial assets</b>										
<b>Non-current</b>	328	17	7 005	24	<b>7 374</b>	431	18	6 350	123	<b>6 922</b>
Loans granted to joint ventures	-	-	6 317	-	<b>6 317</b>	-	-	5 694	-	<b>5 694</b>
Derivatives	-	-	-	24	<b>24</b>	-	1	-	123	<b>124</b>
Other financial instruments measured at fair value	328	17	-	-	<b>345</b>	431	17	-	-	<b>448</b>
Other financial instruments measured at amortised costs	-	-	688	-	<b>688</b>	-	-	656	-	<b>656</b>
<b>Current</b>	-	481	2 967	703	<b>4 151</b>	-	328	1 660	289	<b>2 277</b>
Trade receivables	-	220	447	-	<b>667</b>	-	300	388	-	<b>688</b>
Derivatives	-	189	-	703	<b>892</b>	-	4	-	289	<b>293</b>
Cash and cash equivalents	-	-	2 198	-	<b>2 198</b>	-	-	1 016	-	<b>1 016</b>
Other financial assets	-	72	322	-	<b>394</b>	-	24	256	-	<b>280</b>
<b>Total</b>	<b>328</b>	<b>498</b>	<b>9 972</b>	<b>727</b>	<b>11 525</b>	<b>431</b>	<b>346</b>	<b>8 010</b>	<b>412</b>	<b>9 199</b>



Financial liabilities	As at 31 March 2020				As at 31 December 2019			
	At fair value through profit or loss	At amortised cost	Hedging instruments	Total	At fair value through profit or loss	At amortised cost	Hedging instruments	Total
<b>Non-current</b>	52	9 415	536	<b>10 003</b>	65	7 736	118	<b>7 919</b>
Borrowings, leases and debt securities	-	9 218	-	<b>9 218</b>	-	7 525	-	<b>7 525</b>
Derivatives	52	-	536	<b>588</b>	65	-	118	<b>183</b>
Other financial liabilities	-	197	-	<b>197</b>	-	211	-	<b>211</b>
<b>Current</b>	274	3 428	67	<b>3 769</b>	53	3 221	38	<b>3 312</b>
Borrowings, leases and debt securities	-	404	-	<b>404</b>	-	348	-	<b>348</b>
Derivatives	274	-	67	<b>341</b>	53	-	38	<b>91</b>
Trade and similar payables	-	2 879	-	<b>2 879</b>	-	2 766	-	<b>2 766</b>
Other financial liabilities	-	145	-	<b>145</b>	-	107	-	<b>107</b>
<b>Total</b>	<b>326</b>	<b>12 843</b>	<b>603</b>	<b>13 772</b>	<b>118</b>	<b>10 957</b>	<b>156</b>	<b>11 231</b>

## The fair value hierarchy of financial instruments

Classes of financial instruments	As at 31 March 2020		As at 31 December 2019	
	level 1	level 2	level 1	level 2
Loans granted	-	17	-	17
Listed shares	223	-	326	-
Unquoted shares	-	105	-	105
Trade receivables	-	220	-	300
Other financial assets	-	72	-	24
Derivatives, of which:	-	( 13)	-	143
Assets	-	916	-	417
Liabilities	-	( 929)	-	( 274)

### Methods and measurement techniques used by the Group in determining fair values of each class of financial asset or financial liability.

#### Level 1

##### Listed shares

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

#### Level 2

##### Unquoted shares

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

##### Trade receivables

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

The fair value of trade receivables transferred to factoring, due to the short term between the transfer of receivables to the factor and their payment and to the low credit risk of the counterparty (factor), includes an adjustment by the amount of transaction costs, which are the factor's compensation, and therefore corresponds to the amount of trade receivables transferred to the factor (nominal value from the invoice) less interest.

##### Other financial assets/liabilities

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

##### Currency and currency-interest derivatives

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

##### Metals derivatives

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

#### Level 3

No financial instruments were measured at fair value which were classified to level 3 in either the reporting or the comparable period in the Group.

There was no transfer in the Group of financial instruments between individual levels of the fair value hierarchy, in either the reporting or the comparable periods.

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

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

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

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

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

<b>Statement of profit or loss</b>	<b>from 1 January 2020 to 31 March 2020</b>	<b>from 1 January 2019 to 31 March 2019</b>
Revenues from contracts with customers	123	34
Other operating and finance income / (costs):		
on realisation of derivatives	(80)	(27)
on measurement of derivatives	(57)	(34)
	(23)	7
<b>Impact of derivatives and hedging instruments on profit or loss for the period (excluding the tax effect)</b>	<b>43</b>	<b>7</b>
<b>Statement of other comprehensive income</b>		
Impact of measurement of hedging transactions (effective portion)	90	(270)
Reclassification to revenues from contracts with customers due to realisation of a hedged item	(123)	(34)
Reclassification to other operating costs due to realisation of a hedged item (settlement of the hedging cost)	66	31
<b>Impact of hedging transactions (excluding the tax effect)</b>	<b>33</b>	<b>(273)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>76</b>	<b>(266)</b>

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

In the first quarter of 2020, copper sales of the Parent Entity amounted to 132 thousand tonnes (net sales of 96 thousand tonnes)<sup>1</sup>. However, the notional amount of copper price hedging strategies settled in this period amounted to 45 thousand tonnes, which represented approx. 34% of the total sales of this metal realised by the Parent Entity and approx. 47% of net sales in this period (in the first quarter of 2019, 19% and 27% respectively). In the case of currency hedging transactions, the settled notional amount represented approx. 34% of revenues from copper and silver sales realised by the Parent Entity in the first quarter of 2020 (17% - in the first quarter of 2019).

In the first quarter of 2020, as part of the realisation of the strategic plan of hedging against market risk, the Parent Entity restructured an open derivatives position on the copper market. A part of the seagull option structures hedging sales revenues in the period from March to December 2020 for a total notional amount of 20 thousand tonnes was closed. In addition, in the first quarter of 2020 QP adjustment swap transactions were entered into on the copper and gold markets with maturity to July 2020, as part of the management of a net trading position. In the current reporting period, no derivatives transactions were entered into on the currency, silver and interest rate markets.

As at 31 March 2020, the Parent Entity held an open derivatives position for 132 thousand tonnes of copper (of which 126 thousand tonnes arose from the strategic management of market risk, while 6 thousand tonnes came from the management of a net trading position), 2.7 million troy ounces of silver and USD 1 590 million of planned revenues from sales of metals. Furthermore, as at 31 March 2020 the Parent Entity had open Cross Currency Interest Rate Swap (CIRS) transactions in the notional amount of PLN 2 billion, hedging against market risk connected with the issuance of bonds in

<sup>1</sup> Copper sales less copper in purchased metal-bearing materials.

PLN with a variable interest rate<sup>2</sup>, and also derivative CAP transactions on the interest rate market with maturity falling in 2020, and bank and other loans with fixed interest rates.

With respect to managing currency risk, the Parent Entity uses natural hedging by borrowing in currencies in which it has revenues. As at 31 March 2020, the bank and investment loans which were drawn in USD, following their translation to PLN, amounted to PLN 6 599 million (as at 31 December 2019: PLN 4 980 million).

In the first quarter of 2020, none of the Group's mining subsidiaries had implemented any forward transactions on the commodity market.

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

Some of the Group's Polish companies managed the currency risk related to their core business by opening transactions in derivatives on the currency market. A listing of the open transactions of Polish companies as at 31 March 2020 is not presented due to its immateriality for the Group.

Condensed tables of open transactions in derivatives held by the Parent Entity as at 31 March 2020, entered into as part of the strategic management of market risk, are presented below. The hedged notional amounts of transactions on the copper, silver and currency markets in the presented periods are allocated evenly on a monthly basis.

### Hedging against copper price risk

	Instrument	Notional [tonnes]	Option strike price			Average weighted premium [USD/t]	Effective hedge price [USD/t]	Hedge limited to [USD/t]	Participation limited to [USD/t]
			Sold put option	Purchased put option	Sold call option				
2nd quarter	Seagull	1 230	5 000	6 900	8 800	-250	6 650	5 000	8 800
	Seagull	6 270	5 000	6 800	8 700	-220	6 580	5 000	8 700
	Collar	9 000		6 400	7 800	-248	6 152		7 800
	Collar	22 500		6 000	7 000	-243	5 757		7 000
2nd half	Seagull	2 460	5 000	6 900	8 800	-250	6 650	5 000	8 800
	Seagull	12 540	5 000	6 800	8 700	-220	6 580	5 000	8 700
	Collar	72 000		6 000	7 000	-232	5 768		7 000
<b>TOTAL 2020</b>		<b>126 000</b>							

### Hedging against silver price risk

	Instrument	Notional [mn ounces]	Option strike price			Average weighted premium [USD/oz t]	Effective hedge price [USD/oz t]	Hedge limited to [USD/oz t]	Participation limited to [USD/oz t]
			Sold put option	Purchased put option	Sold call option				
2nd quarter	Purchased put option	0.90	-	17.00	-	-0.67	16.33	-	-
2nd half	Purchased put option	1.80	-	17.00	-	-0.67	16.33	-	-
<b>TOTAL 2020</b>		<b>2.70</b>							

### Hedging against interest rate risk

Instrument	Notional [USD mn]	Option strike price [LIBOR 3M]	Average weighted premium [USD per USD 1 million hedged]		Effective hedge price [LIBOR 3M]
			[USD per USD 1 million hedged]	[%]	
Purchase of interest rate cap options <b>QUARTERLY IN 2020</b>	1 000	2.50%	381	0.15%	2.65%

<sup>2</sup> The debt due to bond issue in PLN generates a currency risk because most of the sales revenues of the Parent Entity are USD-denominated.

### Hedging against USD/PLN currency risk

	Instrument	Notional [mn USD]	Option strike price			Average weighted premium [PLN per USD 1]	Effective hedge price [USD/PLN]	Hedge limited to [USD/PLN]	Participation to limited to [USD/PLN]
			Sold put option	Purchased put option	Sold call option				
			[USD/PLN]						
2nd quarter	Collar	180		3.50	4.25	-0.06	3.44	4.25	
	Collar	90		3.75	4.40	-0.07	3.68	4.40	
	Purchased put options	60		3.80		-0.06	3.74		
2nd half	Collar	180		3.50	4.25	-0.04	3.46	4.25	
	Collar	180		3.75	4.40	-0.08	3.67	4.40	
	Collar	120		3.80	4.40	-0.04	3.76	4.40	
<b>TOTAL 2020</b>		<b>810</b>							
1st half	Seagull	270	3.20	3.70	4.30	-0.07	3.63	3.20	4.30
	Collar	120		3.80	4.40	-0.05	3.75	4.40	
2nd half	Seagull	270	3.20	3.70	4.30	-0.07	3.63	3.20	4.30
	Collar	120		3.80	4.40	-0.05	3.75	4.40	
<b>TOTAL 2021</b>		<b>780</b>							

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

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

The table below presents detailed data on derivative transactions designated as hedging<sup>3</sup>, held by the Parent Entity as at 31 March 2020

Open hedging derivatives	Notional	Average weighted price /exchange rate/interest rate %	Maturity - settlement period		Period of profit/loss impact	
			from	to	from	to
Type of derivative	copper [t] silver [mn ounces] currency [USD mn] CIRS [PLN mn]	[USD/t] [USD/oz t] [USD/PLN] [USD/PLN, LIBOR]				
Copper – <i>seagulls</i>	22 500	6 816-8 716	April '20	- Dec '20	May '20	- Jan '21
Copper – <i>collars</i>	103 500	6 035-7 070	April '20	- Dec '20	May '20	- Jan '21
Silver – purchased put option	2.70	17.00	April '20	- Dec '20	May '20	- Jan '21
Currency – <i>seagulls</i>	540	3.70-4.30	Jan '21	- Dec '21	Jan '21	- Dec '21
Currency – <i>collars</i>	990	3.68-4.35	April '20	- Dec '21	April '20	- Dec '21
Currency – purchased put option	60	3.80	April '20	- Jun '20	April '20	- Jun '20
Currency – interest rate – CIRS	400	3.78 and 3.23%		Jun '24		Jun '24
Currency - interest rate – CIRS	1 600	3.81 and 3.94%		Jun '29	Jun '29	- Jul '29

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

<sup>3</sup> Purchased put options and sold call option were designated as hedging under *seagull* option structures.

**Hedging derivatives – open items as at the end of the reporting period**

Type of derivative	As at 31 March 2020				
	Financial assets		Financial liabilities		Net total
	Non-current	Current	Non-current	Current	
<b>Derivatives – Commodity contracts - Copper</b>					
Options – collar	-	480	-	(7)	473
Options – seagull	-	174	-	-	174
<b>Derivatives – Commodity contracts - Silver</b>					
Purchased put option	-	39	-	-	39
<b>Derivatives – Currency</b>					
Options USD – collar	9	7	(21)	(46)	(51)
Options USD – seagull	15	3	(57)	(14)	(53)
Purchased put option	-	-	-	-	-
<b>Derivatives – Currency-interest rate</b>					
Cross Currency Interest Rate Swap (CIRS)	-	-	(458)	-	(458)
<b>TOTAL HEDGING INSTRUMENTS</b>	<b>24</b>	<b>703</b>	<b>(536)</b>	<b>(67)</b>	<b>124</b>

**Trade derivatives – open items as at the end of the reporting period**

Type of derivative	As at 31 March 2020				
	Financial assets		Financial liabilities		Net total
	Non-current	Current	Non-current	Current	
<b>Derivatives – Commodity contracts - Copper</b>					
Options – seagull (sold put option)	-	-	-	(197)	(197)
Options – restructuring (purchased put option)	-	23	-	-	23
Options – restructuring (purchased call option)	-	-	-	-	-
QP adjustment swap transactions	-	16	-	-	16
<b>Derivatives – Commodity contracts - Gold</b>					
QP adjustment swap transactions	-	5	-	(8)	(3)
<b>Derivatives – Currency contracts</b>					
Options – seagull (sold put option USD)	-	-	(1)	-	(1)
Options and forward/swap USD and EUR	-	-	-	(3)	(3)
<b>Derivatives – interest rate</b>					
Options – purchased CAP	-	-	-	-	-
<b>Embedded derivatives</b>					
Purchase contracts for metal-bearing materials	-	-	-	(43)	(43)
Acid and water supply contracts	-	-	(51)	(23)	(74)
<b>TOTAL TRADE INSTRUMENTS</b>	<b>-</b>	<b>44</b>	<b>(52)</b>	<b>(274)</b>	<b>(282)</b>

**Instruments initially designated as hedging instruments excluded from hedge accounting – open items as at the end of the reporting period**

Type of derivative	As at 31 March 2020				
	Financial assets		Financial liabilities		Net total
	Non-current	Current	Non-current	Current	
<b>Derivatives – Commodity contracts - Copper</b>					
Options – seagull	-	145	-	-	145

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

Taking into consideration the fair value of open derivative transactions entered into by the Group and of unsettled derivatives, as at 31 March 2020 the maximum single entity share of the amount exposed to credit risk arising from these

transactions amounted to 30%, or PLN 236 million (as at 31 December 2019: 15%, or PLN 49 million)<sup>4</sup>.

In order to reduce cash flows and at the same time to limit credit risk, the Parent Entity carries out net settlements (based on framework agreements entered into with its customers) to the level of the positive balance of measurement of transactions in derivatives with a given counterparty. Moreover, the resulting credit risk is continuously monitored by the review of the credit ratings and is limited by striving to diversify the portfolio while implementing hedging strategies.

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

Rating level		As at 31 March 2020	As at 31 December 2019
Highest	from AAA to AA- according to S&P and Fitch, and from Aaa to Aa3 according to Moody's	-	2%
Medium-high	from A+ to A- according to S&P and Fitch, and from A1 to A3 according to Moody's	100%	90%
Medium	from BBB+ to BBB- according to S&P and Fitch, and from Baa1 to Baa3 according to Moody's	-	8%

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

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

##### Liquidity and capital management policy

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

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

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

In the first quarter of 2020, the Group continued actions aimed at optimising the process of managing financial liquidity through the use of a Reverse Factoring Program. A positive effect of implementing this Program and increasing the scale of liabilities covered by the Program is extending the turnover cycle of liabilities.

In 2020, the KGHM Polska Miedź S.A. Group showed a full capacity for meeting its obligations. The cash held and obtained external financing by the Group guarantee continued liquidity and enable the realisation of investment projects. In order to maintain financial liquidity and the creditworthiness to acquire external financing at an optimum cost, over the long term the Group's goal is for the equity ratio to be not less than 0.5, and the ratio of Net Debt/EBITDA not more than 2.0.

Ratio	Calculation	first quarter of 2020	2019
Net Debt/EBITDA*	Relation of net debt to EBITDA	1.7	1.5
Equity ratio	Relation of equity less intangible assets to total assets	0.4	0.5

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

<sup>4</sup> To calculate the exposure to credit risk, the net positive fair value (financial receivables – financial liabilities) of open and unsettled derivatives as at 31 March 2020 is taken into account, including a breakdown by hedged market risk factors.

**Net debt changes**

Liabilities due to borrowing	As at 31 December 2019	Cash flows	Accrued interest	Exchange differences	Other changes	As at 31 March 2020
Bank loans	2 386	1 209	31	199	(17)	3 808
Loans	2 794	9	22	244	4	3 073
Debt securities	2 001	(1)	17	-	-	2 017
Leases	692	(29)	22	1	38	724
<b>Total debt</b>	<b>7 873</b>	<b>1 188</b>	<b>92</b>	<b>444</b>	<b>25</b>	<b>9 622</b>
Free cash and cash equivalents	982	1 191	-	-	-	2 173
<b>Net debt</b>	<b>6 891</b>	<b>(3)</b>	<b>92</b>	<b>444</b>	<b>25</b>	<b>7 449</b>

**Structure of external financing sources**

As at 31 March 2020, the Group had open credit lines, loans and debt securities with a total balance of available financing being the equivalent of PLN 13 985 million, out of which PLN 8 898 million had been drawn.

The structure of financing sources is presented below.

	As at 31 March 2020	As at 31 March 2020	As at 31 December 2019
	Amount granted	Amount of the liability	Amount of the liability
Unsecured revolving syndicated credit facility	6 220	1 226	18
Investment loans	2 992	3 073	2 794
Bilateral bank loans	2 773	2 582	2 368
Bonds	2 000	2 017	2 001
<b>Total bank and other loans, bonds</b>	<b>13 985</b>	<b>8 898</b>	<b>7 181</b>

**Liabilities due to guarantees granted**

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

As at 31 March 2020, the Group held liabilities due to guarantees and letters of credit granted in the total amount of PLN 2 585 million and due to promissory note liabilities in the amount of PLN 177 million.

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

**Sierra Gorda S.C.M.** – securing the performance of concluded agreements in the amount of PLN 2 163 million:

- PLN 570 million (USD 138 million) – a letter of credit granted as security for the proper performance of a long-term contract for the supply of electricity,
- PLN 60 million (USD 14 million) – corporate (financial) guarantees set as security on the payment of concluded agreements,
- PLN 811 million (USD 196 million) – corporate (financial) guarantees securing repayment of short-term working capital facilities,



- PLN 684 million (USD 165 million) – a corporate guarantee securing repayment of a specified part of payment due to a guarantee set by Sumitomo Metal Mining Co., Ltd. and Sumitomo Corporation, securing repayment of a corporate loan drawn by the joint venture Sierra Gorda S.C.M.,
- PLN 38 million (USD 9 million) – a corporate guarantee securing claims arising from the obligation to restore post-mining terrain, following the conclusion of mining operations,

**other entities, including the Parent Entity:**

- PLN 207 million (USD 50 million) securing the proper execution by DMC Mining Services (UK) Ltd. and DMC Mining Services Ltd. of a contract for shaft sinking under a project advanced in the United Kingdom,
- PLN 178 million securing the proper execution of future environmental obligations of the Parent Entity related to the obligation to restore terrain, following the conclusion of operations of the Żelazny Most tailings storage facility,
- PLN 23 million (PLN 5 million, USD 3 million, and CAD 2 million) securing the obligations related to proper execution of concluded agreements.

**Note 4.9 Related party transactions**

<b>Operating income from related entities</b>	<b>from 1 January 2020 to 31 March 2020</b>	<b>from 1 January 2019 to 31 March 2019</b>
Revenues from sales of products, merchandise and materials to a joint venture	5	6
Interest income on loans granted to joint ventures	96	82
Revenues from other transactions with joint ventures	20	14
Revenues from other transactions with other related parties	4	16
<b>Total</b>	<b>125</b>	<b>118</b>
<b>Purchases from related entities</b>	<b>from 1 January 2020 to 31 March 2020</b>	<b>from 1 January 2019 to 31 March 2019</b>
Purchase of services, merchandise and materials from other related parties	20	19
Other purchase transactions from other related parties	3	1
<b>Total</b>	<b>23</b>	<b>20</b>
<b>Trade and other receivables from related parties</b>	<b>As at 31 March 2020</b>	<b>As at 31 December 2019</b>
From the joint venture Sierra Gorda S.C.M. (loans)	6 317	5 694
From the joint venture Sierra Gorda S.C.M. (other)	445	397
From other related parties	20	3
<b>Total</b>	<b>6 782</b>	<b>6 094</b>
<b>Trade and other payables towards related parties</b>	<b>As at 31 March 2020</b>	<b>As at 31 December 2019</b>
Towards joint ventures	11	19
Towards other related parties	11	3
<b>Total</b>	<b>22</b>	<b>22</b>

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 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).

As at 31 March 2020, the balances of unsettled payables due to concluded agreements necessary to conduct principal operating activities of the Parent Entity, distinctive due to their nature, in the amount of PLN 181 million (as at 31 December 2019: PLN 203 million) concerned the following:

- setting mining usufruct for extraction of minerals – fixed fees and mining usufructs for exploration and evaluation of mineral resources – in the total amount of PLN 175 million (as at 31 December 2019: PLN 174 million),
- setting mining usufruct for extraction of minerals – variable part as at 31 March 2020 (recognised in costs) in the amount of PLN 7 million (as at 31 December 2019: PLN 21 million).

As at 31 March 2020, the Group had reverse factoring payables towards PEKAO FAKTORING SP. Z O.O. – a company related to the State Treasury - in the amount of PLN 910 million (as at 31 December 2019, PLN 596 million).

In the period from 1 January to 31 March 2020, banks related to the State Treasury executed the following transactions and economic operations on the Group's behalf: spot currency exchange, depositing cash, granting bank loans and guarantees, running bank accounts, the servicing of special purpose funds, entering into transactions on the currency market and establishing letters of credit.

The remaining transactions, which were collectively significant, between the Group and the Polish Government and with entities controlled or jointly controlled by the Polish Government, or over which the government has significant influence, were within the scope of normal, daily economic operations, carried out at arm's length. These transactions concerned the following:

- the purchase of goods (energy, fuels, services) to meet the needs of current operating activities. In the period from 1 January to 31 March 2020, the turnover from these transactions amounted to PLN 314 million (from 1 January to 31 March 2019: PLN 264 million), and, as at 31 March 2020, the unsettled balance of liabilities from these transactions amounted to PLN 176 million (as at 31 December 2019: PLN 187 million),

- sales to Polish State Treasury Companies. In the period from 1 January to 31 March 2020, the turnover from these sales amounted to PLN 26 million (from 1 January to 31 March 2019: PLN 17 million), and, as at 31 March 2020, the unsettled balance of receivables from these transactions amounted to PLN 18 million (as at 31 December 2019: PLN 12 million).

<b>Remuneration of the Supervisory Board of the Parent Entity (in PLN thousands)</b>	<b>from 1 January 2020 to 31 March 2020</b>	<b>from 1 January 2019 to 31 March 2019</b>
Remuneration due to service in the Supervisory Board, salaries and other current employee benefits	430	442
<b>Remuneration of the Management Board of the Parent Entity (in PLN thousands)</b>	<b>from 1 January 2020 to 31 March 2020</b>	<b>from 1 January 2019 to 31 March 2019</b>
Salaries and other current employee benefits due to serving in the function	1 181	956
Benefits due to termination of employment	-	12
<b>Total</b>	<b>1 181</b>	<b>968</b>
<b>Remuneration of other key managers (in PLN thousands)</b>	<b>from 1 January 2020 to 31 March 2020</b>	<b>from 1 January 2019 to 31 March 2019</b>
Salaries and other current employee benefits	335	1 400

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

#### Note 4.10 Assets and liabilities not recognised in the statement of financial position

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

	<b>As at 31 March 2020</b>	<b>Increase/(decrease) since the end of the last financial year</b>
<b>Contingent assets</b>	<b>629</b>	<b>(1)</b>
Guarantees received	353	(3)
Promissory notes receivables	123	3
Other	153	(1)
<b>Contingent liabilities</b>	<b>2 028</b>	<b>146</b>
Note 4.8 Guarantees and letters of credit	1 714	107
Note 4.8 Promissory note liabilities	177	33
Liabilities due to implementation of projects and inventions	6	(2)
Other	131	8
<b>Other liabilities not recognised in the statement of financial position</b>	<b>105</b>	<b>(2)</b>
Liabilities towards local government entities due to expansion of the tailings storage facility	105	(2)

**Note 4.11 Changes in working capital**

	<b>Inventories</b>	<b>Trade receivables</b>	<b>Trade payables</b>	<b>Similar payables</b>	<b>Working capital</b>
As at 1 January 2020	(4 741)	( 795)	2 344	596	<b>(2 596)</b>
As at 31 March 2020	(4 951)	( 784)	2 136	910	<b>(2 689)</b>
<b>Change in the statement of financial position</b>	<b>( 210)</b>	<b>11</b>	<b>( 208)</b>	<b>314</b>	<b>( 93)</b>
Exchange differences from the translation of statements of operations with a functional currency other than PLN	47	34	( 16)	-	<b>65</b>
Depreciation recognised in inventories	7	-	-	-	<b>7</b>
Payables due to the purchase of property, plant and equipment and intangible assets	-	-	353	-	<b>353</b>
Liabilities due to interest on reverse factoring	-	-	-	( 2)	<b>( 2)</b>
<b>Adjustments</b>	<b>54</b>	<b>34</b>	<b>337</b>	<b>( 2)</b>	<b>423</b>
<b>Change in the statement of cash flows *</b>	<b>( 156)</b>	<b>45</b>	<b>129</b>	<b>312</b>	<b>330</b>

\*As at 31 March 2020, the Parent Entity had reverse factoring liabilities in its working capital in the amount of PLN 910 million. The change in the statement of cash flows in the first quarter of 2020 due to reverse factoring amounted to PLN 312 million.

	<b>Inventories</b>	<b>Trade receivables</b>	<b>Trade payables</b>	<b>Similar payables</b>	<b>Working capital</b>
As at 1 January 2019	(4 983)	( 961)	2 224	-	<b>(3 720)</b>
As at 31 March 2019	(5 444)	(1 177)	2 083	-	<b>(4 538)</b>
<b>Change in the statement of financial position</b>	<b>( 461)</b>	<b>( 216)</b>	<b>( 141)</b>	<b>-</b>	<b>( 818)</b>
Exchange differences from the translation of statements of operations with a functional currency other than PLN	11	9	( 3)	-	<b>17</b>
Depreciation recognised in inventories	40	-	-	-	<b>40</b>
Payables due to the purchase of property, plant and equipment and intangible assets	-	-	243	-	<b>243</b>
<b>Adjustments</b>	<b>51</b>	<b>9</b>	<b>240</b>	<b>-</b>	<b>300</b>
<b>Change in the statement of cash flows</b>	<b>( 410)</b>	<b>( 207)</b>	<b>99</b>	<b>-</b>	<b>( 518)</b>

## 5 – Additional information to the consolidated quarterly report

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

There were no changes in the KGHM Polska Miedź S.A. Group's structure in the first quarter of 2020.

### Note 5.2 Seasonal or cyclical activities

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

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

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

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

As at the date of preparation of these consolidated financial statements, the Management Board of the Parent Entity has not made decision regarding the recommendation of payment of dividend for 2019.

In accordance with Resolution No. 7/2019 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 7 June 2019 regarding appropriation of the profit for financial year 2018, the entirety of the profit was transferred to the Parent Entity's reserve capital.

### Note 5.5 Other information to the consolidated quarterly report

#### Position of the Management Board with respect to the possibility of achieving previously-published forecasts of results for 2020, in the light of results presented in this consolidated quarterly report relative to forecasted results

KGHM Polska Miedź S.A. has not published a forecast of the Company's and Group's financial results for 2020.

#### Shareholders holding at least 5% of the total number of votes at the General Meeting of KGHM Polska Miedź S.A. as at the date of publication of this consolidated quarterly report, changes in the ownership structure of significant blocks of shares of KGHM Polska Miedź S.A. in the period since publication of the consolidated report for 2019

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

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

As far as the Company is aware, this state did not change since the publication of the consolidated report for 2019.

#### Ownership of KGHM Polska Miedź S.A.'s shares or of rights to them by members of the management and supervisory boards of KGHM Polska Miedź S.A., as at the date of publication of the consolidated quarterly report. Changes in ownership during the period following publication of the consolidated report for 2019

##### Members of the Company's Management Board

Based on information held by KGHM Polska Miedź S.A., as at the date of preparation of this report no Member of the Company's Management Board held shares of KGHM Polska Miedź S.A. or rights to them. The aforementioned state did not change since the publication of the consolidated report for 2019.

**Members of the Company's Supervisory Board**

Based on information held by KGHM Polska Miedź S.A., amongst the Members of the Company's Supervisory Board, as at the date of preparation of this report only Józef Czyczerski held 10 shares of KGHM Polska Miedź S.A. The remaining Members of the Supervisory Board did not hold shares of the Company or rights to them. The aforementioned state did not change since the publication of the consolidated report for 2019.

**List of material proceedings before courts, arbitration authorities or public administration authorities respecting the liabilities and debt of KGHM Polska Miedź S.A. and its subsidiaries**

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

In a judgment dated 25 September 2018 (signature. I C 214/07), the court dismissed the counter claim and partially upheld the principal claim to the total amount of approx. PLN 24 million, and at the same time ordered the payment of interest in the amount of approx. PLN 30 million, totalling to PLN 54 million. Both parties to the proceedings appealed against this judgment.

In a judgment dated 12 June 2019, the Court of Appeal in Wrocław (signature I ACa 205/19) dismissed the appeals of both sides, altering the judgment of the court of first instance solely in the matter of the resolution of court costs from the hearings at the court of first instance and charging them to KGHM Polska Miedź S.A. The judgment is binding and was executed by KGHM on 18-19 June 2019. KGHM Polska Miedź S.A. filed a cassation appeal against the judgment of the court of second instance, i.e. with respect to the partially upheld principal claim in the amount of approx. PLN 24 million as well as with respect to the dismissed counter-claim in the amount of approx. PLN 25 million.

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

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

During the period from 1 January 2020 to 31 March 2020, neither KGHM Polska Miedź S.A. nor subsidiaries thereof entered into transactions with related entities under other than arm's length conditions.

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

During the period from 1 January 2020 to 31 March 2020, neither KGHM Polska Miedź S.A. nor subsidiaries thereof granted guarantees or sureties on bank and other loans to any single entity or subsidiary thereof, whose total amount would be significant.

**Other information which in the opinion of KGHM Polska Miedź S.A. is significant for the assessment of its employment, assets, financial position and financial result and any changes thereto, and information which is significant for assessing the ability to pay its liabilities****Impact of the COVID 19 (coronavirus) epidemic on the activities of the KGHM Polska Miedź S.A. Group, excluding the impact of COVID 19 on the Group's spa and hotel activities**

In light of the continued global spread of the COVID-19 (coronavirus) epidemic, the Parent Entity is continually monitoring the global economic situation in order to assess its potential negative impact on the KGHM Polska Miedź S.A. Group and to undertake actions to mitigate this impact.

The crisis caused by this epidemic is evident in many areas. One effect of the coronavirus epidemic in the reporting period which is important from the Group's point of view was the drop in the copper price. As at 31 March 2020 the price of copper amounted to 4 797 USD/t, meaning a 22% decrease in the first quarter of 2020. The lower prices of this metal resulted in lower revenues from sales, which in the segment KGHM Polska Miedź S.A. was partially offset by a favourable USD/PLN exchange rate as a result of a weaker Polish złoty. As at 31 March 2020, the USD/PLN exchange rate amounted to 4.1466. As at 12 May 2020, the copper price amounted to 5 263.5 USD/t, and the USD/PLN exchange rate amounted to 4.2095.

The impact of the COVID 19 pandemic on the global commodities markets is directly reflected in the financial condition of the Company's international production assets. In terms of some of the mines, the decrease in the market prices of metals and the consequent impact on the stream of revenues may result in the need for KGHM Polska Miedź S.A. to provide them with liquidity support and to undertake additional actions of an optimization nature.

The coronavirus likewise had a major negative impact on market indices. The decrease in share prices also affected the shares of KGHM Polska Miedź S.A. The Company's share price in the first quarter of 2020 fell by 37.4% and at the close of trading on 31 March 2020 amounted to PLN 59.82. During this same period the WIG and WIG20 indices fell respectively by 28.0% and 29.6%. As at 12 May 2020 the Company's share price amounted to 75.64 PLN/share. This drop in the share price of the Parent Entity resulted in a decrease in the Company's market capitalisation, which on 31 December 2019 amounted to PLN 19 116 million, and at the end of the first quarter of 2020 fell to the level of PLN 11 964 million. This value is lower than the value of net assets of the Company, which as at 31 March 2020 amounted to PLN 20 088 million. As at 12 May 2020 the Company's market capitalisation amounted to PLN 15 128 million.

Taking into account the substantial uncertainty, significant volatility of main economic parameters, including prices of metals and exchange rates, as well as the lack of reliable sources of information regarding evaluation of the development of the epidemiological situation in Poland and globally and its impact on the economic situation, at the present time it is difficult to assess the future financial impact of COVID-19 and any potential impairment in the value of the Group's assets because of it. The impact of COVID 19 will be taken into account when assessing the indicators of potential impairment of the assets in the subsequent reporting periods of 2020.

As at the date of publication of this report the Management Board of the Parent Entity estimates that the risk of interruption to the operations resulting from the coronavirus is low.

The Group has seen certain deviations in the continuity of the supply chain for materials and services, caused by logistical restrictions. Nonetheless, continuous contact with suppliers has enabled rapid reaction to delays by utilising the Group's applied strategy of diversification of suppliers and by applying alternative solutions, for example the use of substitutes. In addition, a plan was developed for the KGHM Polska Miedź S.A. Group to maintain continuity of operations in the case of limitations, production shutdowns or a temporary switch to care and maintenance. The Parent Entity is also in the possession of complete documentation required by the „Law on geology and mining” and decrees in this regard, in particular with respect to continuity of mining operations.

In terms of sales, the Parent Entity for many years had a stable base of customers, with whom it maintains steady contact. Most of these customers are not at the present time feeling a strong negative impact from the epidemic on their activities, thanks to which sales-related receivables towards the Parent Entity are being regulated on time.

The Group is fully capable of regulating its liabilities. The cash held by the Group along with its external financing guarantee its continued financial liquidity. Basing the Group's financing structure at the level of the Parent Entity on long-term and diversified sources of financing has ensured the Company and the Group of long-term financial stability by prolonging the average weighted maturity of the debt of KGHM Polska Miedź S.A.

As a result of centralisation of the process of acquiring external financing to meet the needs of the entire Group, for the purpose of intra-Group liquidity transfers a debt instrument is used in the form of owner loans, supporting the investment process, and in terms of servicing current activities the Group makes use of local and international cash pooling.

At present the Parent Entity has not identified any substantial risk of failure to adhere to the financial covenants contained in borrowing agreements arising from the COVID 19 epidemic.

The Group continues to advance investment projects in accordance with the adopted schedules.

As of today there have not occurred any substantial interruptions to operations of the Group as a result of infections from the virus amongst the employees. There has likewise not been recorded any substantial increase in absenteeism either amongst the employees of the Parent Entity's core production business or in the domestic and international production assets due to the epidemic. Following the appearance of preliminary information regarding the coronavirus, analyses and evaluations were carried out with respect to solutions already in existence within the Group in terms of ensuring employee safety, and additional measures were implemented aimed at limiting the risk of the spread of the virus amongst the employees.

KGHM Polska Miedź S.A. purchased medical equipment required for the fight with the coronavirus. These purchases were prepared by KGHM Polska Miedź S.A. based on a decision of the Prime Minister and transported to Poland by air. The following equipment was purchased: medical respirators, protective medical aprons, face guards, medical goggles

and masks. The Company receives a refund of the costs incurred for this purpose. The activities related to the transport of the medical equipment have an immaterial impact on the financial condition of KGHM Polska Miedź S.A. The actions taken by the KGHM Group related to reducing the risk of spread of the virus amongst the staff generate costs which impact the operating results, although their level is not significant. These actions are necessary in order to maintain appropriate and safe working conditions throughout the entire core business as well as for service-related activities.

#### Impact of the COVID 19 epidemic on the KGHM Polska Miedź S.A. Group's spa and hotel activities

The outbreak of the COVID-19 epidemic has a substantial impact on the Group's subsidiary activities with respect to providing hotel and spa services.

KGHM Polska Miedź S.A. is the sole participant in the KGHM VI FIZAN Fund, in whose portfolio are companies operating in the hotel sector, i.e. INTERFERIE S.A. and Interferie Medical SPA Sp. z o.o., as well as the KGHM VII FIZAN Fund, whose portfolio contains among others companies operating in the spa sector: Uzdrowiska Kłodzkie S.A. - Grupa PGU, Uzdrowisko Połczyn Grupa PGU S.A., Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU and Uzdrowisko Świeradów - Czarniawa Sp. z o.o. - Grupa PGU.

By a decree of the Minister of Health dated 13 March 2020 announcing a state of epidemic threat in the Republic of Poland, spa and hotel activities were restricted.

A decree of the Minister of Health dated 20 March 2020 regarding the announcement of a state of epidemic in the Republic of Poland ordered all customers to immediately evacuate the spas, while a decree of the Council of Ministers dated 31 March 2020 establishing specified restrictions, orders and bans related to the state of epidemic, restricted activities related to providing hotel services.

The spa and hotel companies were also impacted by the introduction of other regulations, for example affecting the ability of employees to work and adding selected facilities belonging to the spas to the list of facilities designated to serve as quarantine facilities.

The restrictions introduced in Poland lead to a decrease in revenues in the spa and hotel sectors, as a result of which the decision was made to temporarily close some of the facilities. The economic impact of this situation represented an indication to conduct impairment testing of the investments of KGHM Polska Miedź S.A. in the form of Investment Certificates of the KGHM VI FIZAN and KGHM VII FIZAN funds. The recoverable value of the Certificates was determined to be the reliably estimated fair value of the Funds as at 31 March 2020. As a result of the tests conducted, the following impairment losses were recognised in the accounts of KGHM Polska Miedź S.A.:

- for investment of KGHM Polska Miedź S.A. (separate financial statements) in the Investment Certificates of KGHM VI FIZAN and KGHM VII FIZAN. The recoverable amount of Certificates was adopted at the reliably estimated fair value of the Funds as at 31 March 2020. As the result of conducted tests for impairment, the following impairment losses were recognised in the accounts of KGHM Polska Miedź S.A.:

Certificates of KGHM VI FIZAN in the amount of PLN 12 million – by comparing the acquisition price of Investment Certificates of KGHM VI FIZAN in the amount of PLN 111 million with the recoverable amount of PLN 99 million,

Certificates of KGHM VII FIZAN in the amount of PLN 30 million – by comparing the acquisition price of Investment Certificates of KGHM VII FIZAN in the amount of PLN 331 million with the recoverable amount of PLN 301 million,

- for non-current assets of spa companies (consolidated financial statements) in the amount of PLN 27 million – by comparing the carrying amount of PLN 339 million with the recoverable amount of PLN 312 million.

#### Agreement with the trade unions

The Management Board of KGHM Polska Miedź S.A. and the trade unions, as a party to the Collective Labour Agreement for the Employees of KGHM Polska Miedź S.A. (CLA), on 26 February 2020 signed an agreement and prepared an additional protocol to the CLA regarding remuneration and employee benefits in 2020. The most important decision of this protocol is an increase in basic wage rates from 1 January 2020 by 6%.

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

The most significant factors influencing the KGHM Polska Miedź S.A. Group's results, in particular over the following quarter, are:

- copper, silver and molybdenum market prices;
- the USD/PLN exchange rate;
- electrolytic copper production costs, in particular due to the minerals extraction tax and the value of purchased copper-bearing materials used; and



- effects of the implemented hedging policy.

Moreover, the results of the Group may be impacted by the on-going SARS-CoV-2 coronavirus pandemic, leading to realisation of the scenario of a global economic downturn. Such a situation could potentially lead to disruptions in the operations:

- due to infections caused by the SARS-CoV-2 virus and increased absenteeism amongst core production employees,
- due to disruptions in the supply chain for materials and services as well as to logistical restrictions, especially involving international transport.

As at the date of publication of this report, the risk of operational disruptions in the production-related companies of the KGHM Polska Miedź S.A. Group due to the coronavirus is estimated as low. This is related to the fact that the companies of the KGHM Polska Miedź S.A. Group are taking a series of actions aimed at minimising the negative impact of the pandemic and therefore at preparing the entire organisation for operating in non-standard conditions in terms of production, logistics and deliveries to/from the company and distribution.

In the current situation the most important actions for KGHM Polska Miedź S.A. involve ensuring employee safety and maintaining uninterrupted operations as well as continuity of the supply chain, as well as systematic management of the risk of the negative impact of lower copper prices.

In terms of Group companies not involved in production, as of today the largest risk related to the coronavirus epidemic occurs in companies providing hotel and spa services. These companies are taking preventative actions aimed at maintaining the ability to continue operations following the lifting of restrictions arising from the epidemic.

Given the uncertainty associated with the developing epidemiological situation in Poland and abroad, at the present time is difficult to assess the financial impact of these events on the results of the Group in the coming quarters. The impact of the effects of the epidemic will be taken into consideration in the subsequent periods of 2020, including in the evaluation of the risk of assets impairments.

## Note 5.6 Subsequent events

### Financing for Sierra Gorda S.C.M.

On 12 May 2020, the Management Board of KGHM Polska Miedź S.A. decided to revise a target of the Budget of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group for 2020 with respect to other capital expenditures, by increasing the base amount of PLN 133 million by the equivalent of USD 55 million (PLN 232 million per the exchange rate of the NBP from 11 May 2020).

The assumed increase in capital expenditures is directly related to the plan to provide owner's financing to Sierra Gorda S.C.M. in the amount of USD 55 million.

The necessity to provide additional financing to Sierra Gorda S.C.M. is determined by macroeconomic conditions under which products are sold, which are different from those assumed in the Budget, i.e. lower metal prices, caused, among others, by the impact of the COVID-19 pandemic on the global commodity markets.

Financing will be provided following the approval of the Supervisory Board of KGHM Polska Miedź S.A.

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

### STATEMENT OF PROFIT OR LOSS

		from 1 January 2020 to 31 March 2020	from 1 January 2019 to 31 March 2019
Note 1	Revenues from contracts with customers	4 225	4 316
Note 2	Cost of sales	(3 408)	(3 397)
	<b>Gross profit</b>	<b>817</b>	<b>919</b>
Note 2	Selling costs and administrative expenses	(201)	(194)
	<b>Profit on sales</b>	<b>616</b>	<b>725</b>
Note 3	Other operating income, including:	1 026	487
	interest income calculated using the effective interest rate method	72	66
	reversal of impairment losses on financial instruments	-	95
Note 3	Other operating costs, including:	(538)	(108)
	impairment losses on financial instruments	(176)	-
Note 4	Finance costs	(496)	(173)
	<b>Profit before income tax</b>	<b>608</b>	<b>931</b>
	Income tax expense	(209)	(236)
	<b>PROFIT FOR THE PERIOD</b>	<b>399</b>	<b>695</b>
	<b>Weighted average number of ordinary shares (million)</b>	<b>200</b>	<b>200</b>
	<b>Basic and diluted earnings per share (in PLN)</b>	<b>2.00</b>	<b>3.48</b>

### STATEMENT OF COMPREHENSIVE INCOME

		from 1 January 2020 to 31 March 2020	from 1 January 2019 to 31 March 2019
	<b>Profit for the period</b>	<b>399</b>	<b>695</b>
	Measurement of hedging instruments net of the tax effect	27	(220)
	<b>Other comprehensive income, which will be reclassified to profit or loss</b>	<b>27</b>	<b>(220)</b>
	Measurement of equity financial instruments at fair value through other comprehensive income, net of the tax effect	(77)	(25)
	Actuarial losses net of the tax effect	(150)	(52)
	<b>Other comprehensive income, which will not be reclassified to profit or loss</b>	<b>(227)</b>	<b>(77)</b>
	<b>Total other comprehensive net income</b>	<b>(200)</b>	<b>(297)</b>
	<b>TOTAL COMPREHENSIVE INCOME</b>	<b>199</b>	<b>398</b>

## STATEMENT OF CASH FLOWS

	from 1 January 2020 to 31 March 2020	from 1 January 2019 to 31 March 2019
<b>Cash flow from operating activities</b>		
Profit before income tax	608	931
Depreciation/amortisation recognised in profit or loss	284	274
Interest on investment activities	( 67)	( 58)
Other interest	48	43
Fair value gains on financial assets measured at fair value through profit or loss	( 329)	( 80)
Impairment losses on non-current assets	215	-
Reversal of impairment losses on non-current assets	-	( 95)
Exchange differences, of which:	( 33)	14
from investing activities and cash	( 470)	( 93)
from financing activities	437	107
Change in provisions and employee benefits liabilities	( 36)	5
Change in other receivables and liabilities	( 35)	13
Change in derivatives	249	( 15)
Reclassification of other comprehensive income to profit or loss due to the realisation of hedging derivatives	( 57)	( 3)
Note 6 Other adjustments	9	23
Exclusions of income and costs, total	248	121
Income tax paid	( 186)	( 63)
Note 5 Changes in working capital, including:	384	( 473)
change in trade payables transferred to factoring	312	-
<b>Net cash generated from operating activities</b>	<b>1 054</b>	<b>516</b>
<b>Cash flow from investing activities</b>		
Expenditures on mining and metallurgical assets, including:	( 709)	( 789)
paid capitalised interest on borrowings, including:	( 22)	( 39)
due to leases	( 2)	-
Expenditures on other property, plant and equipment and intangible assets	( 35)	( 56)
Expenditures due to acquisition of investment certificates	( 4)	( 391)
Proceeds from redemption of investment certificates	-	391
Other	( 42)	( 24)
<b>Net cash used in investing activities</b>	<b>( 790)</b>	<b>( 869)</b>
<b>Cash flow from financing activities</b>		
Proceeds from borrowings	1 662	3 143
Proceeds from cash pooling	-	55
Cash pooling expenses	( 50)	-
Repayments of borrowings	( 449)	(3 063)
Repayment of lease liabilities	( 4)	( 2)
Payment of interest including due to:	( 63)	( 48)
leases	( 11)	( 12)
<b>Net cash generated from financing activities</b>	<b>1 096</b>	<b>85</b>
<b>TOTAL NET CASH FLOW</b>	<b>1 360</b>	<b>( 268)</b>
Exchange gains/(losses) on cash and cash equivalents	23	( 32)
Cash and cash equivalents at the beginning of the period	516	627
<b>Cash and cash equivalents at the end of the period, including</b>	<b>1 899</b>	<b>327</b>
restricted cash	<b>16</b>	<b>1</b>

**STATEMENT OF FINANCIAL POSITION**

	As at 31 March 2020	As at 31 December 2019
<b>ASSETS</b>		
Mining and metallurgical property, plant and equipment	18 212	18 092
Mining and metallurgical intangible assets	748	651
Mining and metallurgical property, plant and equipment and intangible assets	18 960	18 743
Other property, plant and equipment	99	103
Other intangible assets	60	61
Other property, plant and equipment and intangible assets	159	164
Investments in subsidiaries	2 908	2 946
Loans granted, including:	7 886	7 217
measured at fair value through profit or loss	2 600	2 271
measured at amortised cost	5 286	4 946
Derivatives	24	123
Other financial instruments measured at fair value through other comprehensive income	307	403
Other financial instruments measured at amortised cost	426	457
Financial instruments, total	8 643	8 200
Deferred tax assets	8	-
Other non-financial assets	59	58
<b>Non-current assets</b>	<b>30 737</b>	<b>30 111</b>
Inventories	3 996	3 783
Trade receivables, including:	153	243
trade receivables measured at fair value through profit or loss	31	139
Tax assets	355	435
Derivatives	892	291
Cash pooling receivables	341	335
Other financial assets	361	221
Other non-financial assets	163	54
Cash and cash equivalents	1 899	516
<b>Current assets</b>	<b>8 160</b>	<b>5 878</b>
<b>TOTAL ASSETS</b>	<b>38 897</b>	<b>35 989</b>
<b>EQUITY AND LIABILITIES</b>		
Share capital	2 000	2 000
Other reserves from measurement of financial instruments	(748)	(698)
Accumulated other comprehensive income	(772)	(622)
Retained earnings	19 608	19 209
<b>Equity</b>	<b>20 088</b>	<b>19 889</b>
Borrowings, lease and debt securities	8 845	7 215
Derivatives	537	131
Employee benefits liabilities	2 532	2 363
Provisions for decommissioning costs of mines and other technological facilities	1 146	1 119
Deferred tax liabilities	-	60
Other liabilities	195	217
Non-current liabilities	13 255	11 105
Borrowings, lease and debt securities	311	275
Cash pooling liabilities	80	130
Derivatives	315	60
Trade and similar payables	2 572	2 460
Employee benefits liabilities	956	890
Tax liabilities	279	258
Provisions for liabilities and other charges	139	158
Other liabilities	902	764
Current liabilities	5 554	4 995
<b>Non-current and current liabilities</b>	<b>18 809</b>	<b>16 100</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>38 897</b>	<b>35 989</b>

## STATEMENT OF CHANGES IN EQUITY

	Share capital	Other reserves from measurement of financial instruments	Accumulated other comprehensive income	Retained earnings	Total equity
<b>As at 1 January 2019</b>	<b>2 000</b>	<b>( 307)</b>	<b>( 593)</b>	<b>17 945</b>	<b>19 045</b>
Profit for the period	-	-	-	695	<b>695</b>
Other comprehensive income	-	( 245)	( 52)	-	<b>( 297)</b>
Total comprehensive income	-	( 245)	( 52)	695	<b>398</b>
<b>As at 31 March 2019</b>	<b>2 000</b>	<b>( 552)</b>	<b>( 645)</b>	<b>18 640</b>	<b>19 443</b>
<b>As at 1 January 2020</b>	<b>2 000</b>	<b>( 698)</b>	<b>( 622)</b>	<b>19 209</b>	<b>19 889</b>
Profit for the period	-	-	-	399	<b>399</b>
Other comprehensive income	-	( 50)	( 150)	-	<b>( 200)</b>
Total comprehensive income	-	( 50)	( 150)	399	<b>199</b>
<b>As at 31 March 2020</b>	<b>2 000</b>	<b>( 748)</b>	<b>( 772)</b>	<b>19 608</b>	<b>20 088</b>

## Explanatory notes to the statement of profit or loss

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

	from 1 January 2020 to 31 March 2020	from 1 January 2019 to 31 March 2019
<b>Europe</b>		
Poland	919	1 020
Germany	759	648
The United Kingdom	426	532
Czechia	362	339
Italy	261	227
Switzerland	219	136
Hungary	194	182
France	100	241
Belgium	50	-
Austria	48	51
Romania	40	56
Slovakia	19	24
Slovenia	17	16
Denmark	4	14
Estonia	4	4
Bulgaria	3	2
Sweden	-	13
Bosnia and Herzegovina	-	11
Finland	-	11
Netherlands	1	2
Other countries (dispersed sales)	3	2
<b>North and South America</b>		
The United States of America	133	74
<b>Asia</b>		
China	250	579
Taiwan	165	49
Thailand	36	-
Turkey	26	70
Vietnam	8	-
Philippines	2	-
Singapore	-	9
<b>Africa</b>	-	4
<b>Australia</b>	176	-
<b>TOTAL</b>	<b>4 225</b>	<b>4 316</b>

**Note 2 Expenses by nature**

	<b>from 1 January 2020 to 31 March 2020</b>	<b>from 1 January 2019 to 31 March 2019</b>
Depreciation of property, plant and equipment and amortisation of intangible assets	325	314
Employee benefits expenses	890	839
Materials and energy, including:	1 524	1 591
Purchased metal-bearing materials	919	992
Electrical and other energy	250	234
External services, including:	430	389
Transport	57	59
Repairs, maintenance and servicing	123	109
Mine preparatory work	140	122
Minerals extraction tax	344	420
Other taxes and charges	107	103
Other costs	16	21
<b>Total expenses by nature</b>	<b>3 636</b>	<b>3 677</b>
Cost of merchandise and materials sold (+)	52	62
Change in inventories of finished goods and work in progress (+/-)	( 34)	( 117)
Cost of manufacturing products for internal use (-)	( 45)	( 31)
<b>Total costs of sales, selling costs and administrative expenses, including:</b>	<b>3 609</b>	<b>3 591</b>
Cost of sales	3 408	3 397
Selling costs	31	31
Administrative expenses	170	163

**Note 3 Other operating income and (costs)**

	from 1 January 2020 to 31 March 2020	from 1 January 2019 to 31 March 2019
Measurement and realisation of derivatives	143	46
Exchange differences on assets and liabilities other than borrowings	446	143
Interest on loans granted and other financial receivables	73	66
Fees and charges on re-invoicing of costs of bank guarantees securing payments of liabilities	20	19
Reversal of allowances for impairment of loans measured at amortised cost	-	95
Fair value gains on financial assets measured at fair value through profit or loss, including:	333	80
loans	329	80
Release of provisions	-	7
Other	11	31
<b>Total other operating income</b>	<b>1 026</b>	<b>487</b>
Measurement and realisation of derivatives	( 232)	( 65)
Impairment losses on financial instruments *	( 176)	-
Provisions recognised	( 3)	( 7)
Donations given	( 20)	( 20)
Fair value losses on receivables measured through profit or loss	( 46)	-
Impairment losses on investment certificates**	( 42)	-
Other	( 19)	( 16)
<b>Total other operating costs</b>	<b>( 538)</b>	<b>( 108)</b>
<b>Other operating income and (costs)</b>	<b>488</b>	<b>379</b>

\* including a loss due to the expected allowances on loans measured at amortised cost in the amount of PLN 173 million, caused by an increase in the parameters of the PD (payment delay) ratio.

\*\* details presented in Part 1, note 5.5

**Note 4 Finance costs**

	from 1 January 2020 to 31 March 2020	from 1 January 2019 to 31 March 2019
Interest on borrowings, including:	( 41)	( 37)
due to leases	( 2)	( 5)
Bank fees and charges on borrowings	( 6)	( 6)
Exchange differences on borrowings	( 437)	( 107)
Measurement of derivatives	( 3)	( 12)
Unwinding of the discount effect	( 9)	( 11)
<b>Total finance costs</b>	<b>( 496)</b>	<b>( 173)</b>



**Note 5 Changes in working capital**

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

	Inventories	Trade receivables	Trade payables	Similar payables	Working capital
As at 1 January 2019	(4 102)	( 310)	2 082	-	(2 330)
As at 31 March 2019	(4 484)	( 540)	1 786	-	(3 238)
<b>Change in the statement of financial position</b>	( 382)	( 230)	( 296)	-	( 908)
Depreciation recognised in inventories	38	-	-	-	38
Payables due to the purchase of property, plant and equipment and intangible assets	-	-	397	-	397
<b>Adjustments</b>	38	-	397	-	435
<b>Change in the statement of cash flows</b>	( 344)	( 230)	101	-	( 473)

**Note 6 Other adjustments in the statement of cash flows**

	from 1 January 2020 to 31 March 2020	from 1 January 2019 to 31 March 2019
Losses on the disposal of property, plant and equipment and intangible assets	8	3
Proceeds from income tax from the tax group companies	-	20
Other	1	-
<b>Total</b>	<b>9</b>	<b>23</b>

**SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD**

This report was authorised for issue on 13 May 2020

President  
of the Management Board

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Marcin Chludziński

Vice President  
of the Management Board

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Adam Bugajczuk

Vice President  
of the Management Board

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Paweł Gruza

Vice President  
of the Management Board

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Katarzyna Kreczmańska-Gigol

Vice President  
of the Management Board

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Radosław Stach

**SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING**

Executive Director  
of Accounting Services Center  
Chief Accountant

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Agnieszka Sinior