

**POLISH FINANCIAL SUPERVISION AUTHORITY**

**Consolidated half-year report PSr 2020**

(in accordance with § 60 section 2 and § 62 section 3 of the Decree of the Minister of Finance dated 29 March 2018)

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

for the first half of financial year **2020** from **1 January 2020** to **30 June 2020**  
containing the condensed consolidated financial statements prepared under International Accounting Standard 34 in PLN  
and condensed financial statements under International Accounting Standard 34 in PLN.

publication date: 19 August 2020

<b>KGHM Polska Miedź Spółka Akcyjna</b> (name of the issuer)	
<b>KGHM Polska Miedź S.A.</b> (name of the issuer in brief)	<b>Mining</b> (issuer branch title per the Warsaw Stock Exchange)
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(auditing company)

**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 30 June 2020	from 1 January 2019 to 30 June 2019	from 1 January 2020 to 30 June 2020	from 1 January 2019 to 30 June 2019
	As at 30 June 2020	As at 31 December 2019	As at 30 June 2020	As at 31 December 2019
I. Revenues from contracts with customers	10 948	11 228	2 465	2 618
II. Profit on sales	1 140	1 405	257	328
III. Profit before income tax	1 107	1 452	249	339
IV. Profit for the period	699	970	157	226
V. Profit for the period attributable to shareholders of the Parent Entity	702	969	158	226
VI. Profit for the period attributable to non-controlling interest	( 3)	1	( 1)	-
VII. Other comprehensive income	( 497)	( 231)	( 112)	( 54)
VIII. Total comprehensive income	202	739	45	172
IX. Total comprehensive income attributable to the shareholders of the Parent Entity	205	738	46	172
X. Total comprehensive income attributable to non-controlling interest	( 3)	1	( 1)	-
XI. Number of shares issued (million)	200	200	200	200
XII. Earnings per ordinary share (in PLN/EUR) attributable to the shareholders of the Parent Entity	3.51	4.85	0.79	1.13
XIII. Net cash generated from operating activities	1 931	1 614	435	376
XIV. Net cash used in investing activities	( 1 825)	( 1 696)	( 411)	( 396)
XV. Net cash generated from financing activities	826	270	186	63
XVI. Total net cash flow	932	188	210	43
XVII. Non-current assets	32 903	31 669	7 367	7 436
XVIII. Current assets	8 681	7 740	1 944	1 818
XIX. Total assets	41 584	39 409	9 311	9 254
XX. Non-current liabilities	14 070	13 171	3 150	3 093
XXI. Current liabilities	7 110	6 036	1 592	1 417
XXII. Equity	20 404	20 202	4 569	4 744
XXIII. Equity attributable to shareholders of the Parent Entity	20 315	20 110	4 549	4 722
XXIV. Equity attributable to non-controlling interest	89	92	20	22

**data concerning the condensed financial statements of KGHM Polska Miedź S.A.**

	in PLN mn		in EUR mn	
	from 1 January 2020 to 30 June 2020	from 1 January 2019 to 30 June 2019	from 1 January 2020 to 30 June 2020	from 1 January 2019 to 30 June 2019
	As at 30 June 2020	As at 31 December 2019	As at 30 June 2020	As at 31 December 2019
I. Revenues from contracts with customers	8 897	8 831	2 003	2 059
II. Profit on sales	1 336	1 333	301	311
III. Profit before income tax	1 141	1 712	257	399
IV. Profit for the period	747	1 227	168	286
V. Other comprehensive income	( 395)	( 250)	( 89)	( 58)
VI. Total comprehensive income	352	977	79	228
VII. Number of shares issued (million)	200	200	200	200
VIII. Earnings per ordinary share (in PLN/EUR)	3.74	6.14	0.84	1.43
IX. Net cash generated from operating activities	1 925	1 269	433	296
X. Net cash used in investing activities	( 1 545)	( 1 400)	( 348)	( 326)
XI. Net cash generated from financing activities	796	265	179	62
XII. Total net cash flow	1 176	134	264	32
XIII. Non-current assets	31 303	30 111	7 009	7 071
XIV. Current assets	6 982	5 878	1 563	1 380
XV. Total assets	38 285	35 989	8 572	8 451
XVI. Non-current liabilities	11 860	11 105	2 656	2 608
XVII. Current liabilities	6 184	4 995	1 384	1 173
XVIII. Equity	20 241	19 889	4 532	4 670

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## Condensed consolidated financial statements

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	from 1 January 2020 to 30 June 2020	from 1 January 2019 to 30 June 2019
Note 2.3	10 948	11 228
Note 3.1	(9 134)	(9 146)
	<b>1 814</b>	<b>2 082</b>
Note 3.1	( 674)	( 677)
	<b>1 140</b>	<b>1 405</b>
	( 210)	( 63)
	193	166
	( 17)	103
Note 3.2	591	264
Note 3.2	( 431)	( 234)
Note 3.3	35	61
Note 3.3	( 211)	( 147)
	<b>1 107</b>	<b>1 452</b>
	( 408)	( 482)
	<b>699</b>	<b>970</b>
	702	969
	( 3)	1
	<b>200</b>	<b>200</b>
	<b>3.51</b>	<b>4.85</b>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	<b>from 1 January 2020 to 30 June 2020</b>	<b>from 1 January 2019 to 30 June 2019</b>
<b>Profit for the period</b>	<b>699</b>	<b>970</b>
Measurement of hedging instruments net of the tax effect	( 268)	( 60)
Exchange differences from the translation of statements of operations with a functional currency other than PLN	( 111)	17
<b>Other comprehensive income which will be reclassified to profit or loss</b>	<b>( 379)</b>	<b>( 43)</b>
Measurement of equity financial instruments at fair value through other comprehensive income, net of the tax effect	109	( 63)
Actuarial losses net of the tax effect	( 227)	( 125)
<b>Other comprehensive income, which will not be reclassified to profit or loss</b>	<b>( 118)</b>	<b>( 188)</b>
<b>Total other comprehensive net income</b>	<b>( 497)</b>	<b>( 231)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>202</b>	<b>739</b>
<b>Total comprehensive income attributable to:</b>	<b>202</b>	<b>739</b>
Shareholders of the Parent Entity	205	738
Non-controlling interest	( 3)	1

**CONSOLIDATED STATEMENT OF CASH FLOWS**

	from 1 January 2020 to 30 June 2020	from 1 January 2019 to 30 June 2019
<b>Cash flow from operating activities</b>		
Profit before income tax	1 107	1 452
Depreciation/amortisation recognised in profit or loss	953	921
Share of losses of joint ventures accounted for using the equity method	210	63
Interest on loans granted to joint ventures	( 193)	( 166)
Interest on borrowings	113	99
Impairment losses on property, plant and equipment	92	-
Losses on the disposal of property, plant and equipment and intangible assets	29	2
Exchange differences, of which:	( 467)	47
from investing activities and on cash	( 504)	105
from financing activities	37	( 58)
Change in provisions and employee benefits liabilities	( 15)	( 60)
Change in other receivables and liabilities other than working capital	( 73)	( 290)
Change in assets and liabilities due to derivatives	273	( 50)
Reclassification of other comprehensive income to profit or loss due to the realisation of hedging derivatives	( 154)	( 15)
Note 4.10 Other adjustments	10	13
Exclusions of income and costs, total	778	564
Income tax paid	( 386)	( 257)
Note 4.11 Changes in working capital, including:	432	( 145)
Note 4.11 change in trade payables transferred to factoring	329	-
<b>Net cash generated from operating activities</b>	<b>1 931</b>	<b>1 614</b>
<b>Cash flow from investing activities</b>		
Expenditures on mining and metallurgical assets, including:	(1 389)	(1 416)
paid capitalised interest on borrowings	( 64)	( 72)
Expenditures on other property, plant and equipment and intangible assets	( 192)	( 188)
Expenditures on financial assets designated for decommissioning of mines and other technological facilities	( 22)	( 292)
Acquisition of newly-issued shares of joint ventures	( 207)	( 63)
Proceeds from financial assets designated for decommissioning of mines and other technological facilities	1	268
Advances granted on property, plant and equipment and intangible assets	( 25)	( 14)
Other	9	9
<b>Net cash used in investing activities</b>	<b>(1 825)</b>	<b>(1 696)</b>
<b>Cash flow from financing activities</b>		
Proceeds from borrowings	4 157	3 425
Proceeds from the issue of debt financial instruments	-	2 000
Proceeds from derivatives related to sources of external financing	33	-
Repayment of borrowings	(3 147)	(5 024)
Repayment of lease liabilities	( 44)	( 24)
Expenditures due to derivatives related to sources of external financing	( 40)	-
Interest paid, including due to:	( 135)	( 108)
borrowings, debt securities	( 114)	( 83)
Other	2	1
<b>Net cash generated from financing activities</b>	<b>826</b>	<b>270</b>
<b>NET CASH FLOW</b>	<b>932</b>	<b>188</b>
Exchange gains/(losses)	3	( 39)
Cash and cash equivalents at beginning of the period	1 016	957
<b>Cash and cash equivalents at end of the period, including:</b>	<b>1 951</b>	<b>1 106</b>
restricted cash	29	9

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 June 2020	As at 31 December 2019
<b>ASSETS</b>		
	19 945	19 498
	2 076	1 966
	22 021	21 464
	2 779	2 829
	134	155
	2 913	2 984
Note 4.2	6 159	5 694
	243	124
	581	448
	710	656
Note 4.3	1 534	1 228
	141	157
	135	142
	<b>32 903</b>	<b>31 669</b>
	4 615	4 741
Note 4.3	747	688
	236	300
	498	571
Note 4.3	222	293
	301	280
	347	151
Note 4.3	1 951	1 016
	<b>8 681</b>	<b>7 740</b>
	<b>41 584</b>	<b>39 409</b>
<b>EQUITY AND LIABILITIES</b>		
	2 000	2 000
	( 897)	( 738)
	1 616	1 954
	17 596	16 894
	20 315	20 110
	89	92
	<b>20 404</b>	<b>20 202</b>
Note 4.3	7 697	7 525
Note 4.3	574	183
Note 4.6	2 874	2 613
	1 870	1 774
	428	445
	627	631
	14 070	13 171
Note 4.3	1 201	348
Note 4.3	205	91
Note 4.3	2 856	2 766
Note 4.6	1 178	1 150
	411	433
	193	222
	1 066	1 026
	7 110	6 036
	<b>21 180</b>	<b>19 207</b>
	<b>41 584</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	-	-	-	969	<b>969</b>	1	<b>970</b>
Other comprehensive income	-	( 123)	( 108)	-	<b>( 231)</b>	-	<b>( 231)</b>
Total comprehensive income	-	<b>( 123)</b>	<b>( 108)</b>	<b>969</b>	<b>738</b>	<b>1</b>	<b>739</b>
Reclassification of the result of measurement of equity instruments measured at fair value through other comprehensive income	-	99	-	( 99)	-	-	-
<b>As at 30 June 2019</b>	<b>2 000</b>	<b>( 468)</b>	<b>1 897</b>	<b>16 442</b>	<b>19 871</b>	<b>93</b>	<b>19 964</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	-	-	-	702	<b>702</b>	( 3)	<b>699</b>
Other comprehensive income	-	( 159)	( 338)	-	<b>( 497)</b>	-	<b>( 497)</b>
Total comprehensive income	-	<b>( 159)</b>	<b>( 338)</b>	<b>702</b>	<b>205</b>	<b>( 3)</b>	<b>202</b>
<b>As at 30 June 2020</b>	<b>2 000</b>	<b>( 897)</b>	<b>1 616</b>	<b>17 596</b>	<b>20 315</b>	<b>89</b>	<b>20 404</b>

## Part 1 – General information

### Note 1.1 Corporate information

KGHM Polska Miedź S.A. ("the Parent Entity") 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 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.

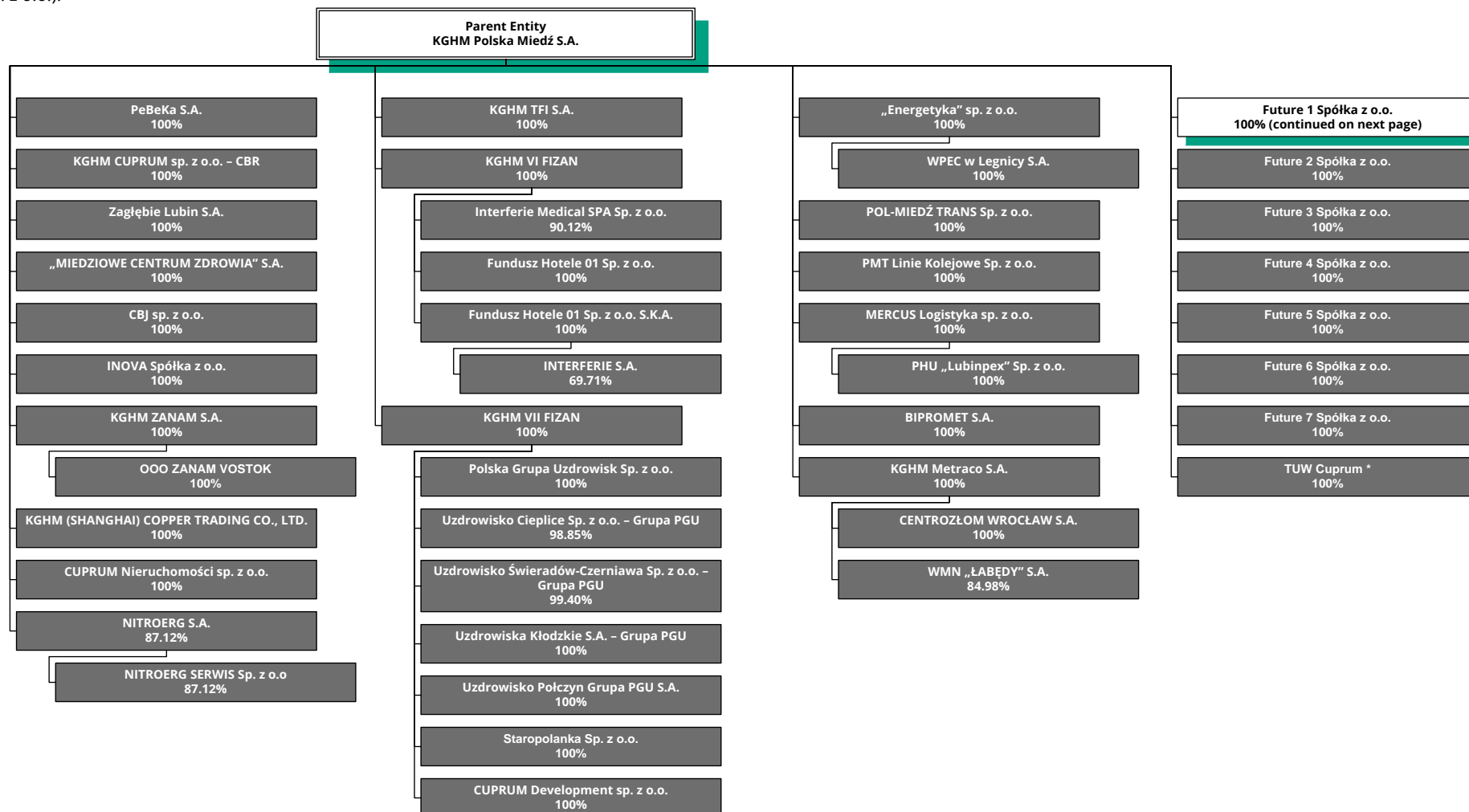
### Note 1.2 Declaration by the Management Board of KGHM Polska Miedź S.A.

The Management Board of KGHM Polska Miedź S.A. declares that according to its best judgement:

- the condensed consolidated financial statements for the first half of 2020 and comparative data have been prepared in accordance with accounting principles currently in force, and give a true, fair and clear view of the financial position of the KGHM Polska Miedź S.A. Group and the profit for the period of the Group,
- the condensed financial statements of KGHM Polska Miedź S.A. for the first half of 2020 and comparative data have been prepared in accordance with accounting principles currently in force, and give a true, fair and clear view of the financial position of KGHM Polska Miedź S.A. and the profit for the period of KGHM Polska Miedź S.A.,
- the Management Board's report on the activities of the Group in the first half of 2020 presents a true picture of the development and achievements, as well as the condition, of the KGHM Polska Miedź S.A. Group, including a description of the basic exposures and risks.

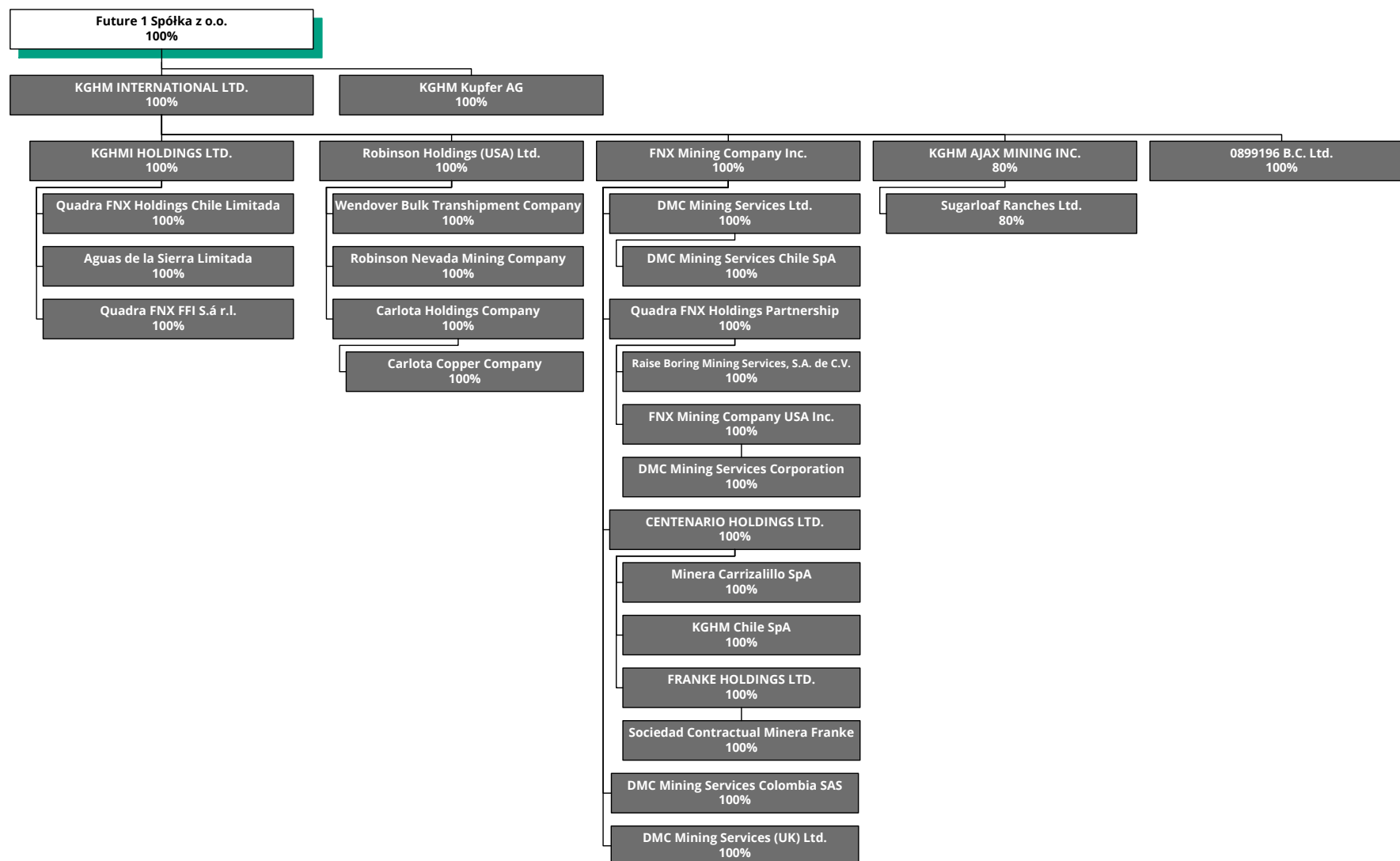
### Note 1.3 Structure of the KGHM Polska Miedź S.A. Group as at 30 June 2020

In the current half-year, KGHM Polska Miedź S.A. consolidated 71 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.).



\* Excluded from consolidation.

The percentage share represents the total share of the Group.



### Note 1.4 Exchange rates applied

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

- for the conversion of turnover, profit or loss and cash flow for the current period, the rate of **4.4413 EURPLN\***,
- for the conversion of turnover, profit or loss and cash flow for the comparable period, the rate of **4.2880 EURPLN\***,
- for the conversion of assets, equity and liabilities as at 30 June 2020, the current average exchange rate announced by the National Bank of Poland (NBP) as at 30 June 2020, of **4.4660 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 June respectively of 2020 and 2019.

### Note 1.5 Accounting policies and the impact of new and amended standards and interpretations

The following half-year report includes:

1. the condensed consolidated financial statements of the KGHM Polska Miedź S.A. Group for the period from 1 January to 30 June 2020 and the comparable period from 1 January to 30 June 2019, together with selected explanatory information,
2. the condensed financial statements of KGHM Polska Miedź S.A. for the period from 1 January to 30 June 2020 and the comparable period from 1 January to 30 June 2019, together with selected explanatory information.

The condensed consolidated financial statements for the period from 1 January to 30 June 2020 and as at 30 June 2020 as well as the condensed separate financial statements for the period from 1 January to 30 June 2020 and as at 30 June 2020 were reviewed by a certified auditor.

The consolidated half-year report for the period from 1 January 2020 to 30 June 2020, in that part concerning the condensed consolidated financial statements of the KGHM Polska Miedź S.A. Group and in that part concerning the condensed financial statements of KGHM Polska Miedź S.A., 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.

The financial statements contained in this half-year report were prepared using the same accounting policies and valuation methods for the current and comparable periods as well as the principles applied in the annual financial statements (consolidated and separate), prepared as at 31 December 2019.

#### Note 1.5.1 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 approved 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.

**Note 1.6. Impairment of assets****Assessment of the risk of impairment of assets of the Group in the context of market capitalisation of KGHM Polska Miedź S.A.**

In the first half of 2020, the COVID-19 (coronavirus) epidemic was still spreading across the world, and its impact was noticeable in many areas. Among others, due to the coronavirus market indices drastically fell. The share price of KGHM Polska Miedź S.A. in the first half of 2020 fell by 5% as compared to the share price from the end of 2019 and as at 30 June 2020 amounted to PLN 90.90. During the same period the WIG and WIG20 indices fell by 14% and 18%, respectively. As a result, the Company's market capitalisation decreased from PLN 19 116 million to PLN 18 180 million, and therefore as at 30 June 2020 it was 11% below the value of the net assets of the Group. After the end of the reporting period, according to the closing price as at 13 July 2020, the share price of KGHM Polska Miedź S.A. amounted to PLN 107.75 and the Company's market capitalisation was higher than the value of the net assets of the Group and this situation continued up to the date of signing of this report. As at 17 August 2020, the share price of KGHM Polska Miedź S.A. amounted to PLN 135.95.

Due to the fact that in the reporting period the Company's market capitalisation remained lower than the carrying amount of net assets, pursuant to IAS 36 Impairment of assets, the Management Board of KGHM Polska Miedź S.A. performed an analysis to determine which areas of the KGHM Polska Miedź S.A. Group's activities may be impaired.

The Management Board of KGHM Polska Miedź S.A. analysed whether the Polish production assets of KGHM Polska Miedź S.A. may be impaired. The results of this analysis indicated that not all of the factors which affect the market capitalisation of KGHM Polska Miedź S.A. are factors which are related to the conduct of economic activities.

The drop in share prices caused by the COVID-19 epidemic affected companies in the majority of sectors, in many economies, and reflected investor uncertainty as to the future. This is confirmed by the increase in the value of typically conservative instruments such as gold and the exchange rates of certain currencies.

From the point of view of the Company's operations, the key factor is first and foremost the copper price. At the start of the epidemic, this metal was substantially undervalued. As at 31 December 2019, the price of copper amounted to 6 156 USD/t, and during the first half of 2020, as at 23 March 2020 it had fallen to 4 617 USD/t. Nonetheless, as time passed, with the inflow of more hopeful information as respects demand for this commodity, prices returned to their level at the start of 2020 and on 30 June 2020 the copper price reached the level of 6 038 USD/t.

The share prices of companies involved in the mining and processing of copper are strongly correlated with the price of this metal. The decrease in the market capitalisation of companies in this sector, including KGHM Polska Miedź S.A., was therefore of a temporary nature, and reflected the initial panic of investors related with the coronavirus pandemic and the associated drop in the prices of the major metals. Once it became evident that the pandemic would not have a significant impact, on either the production or sales of these entities, share prices returned to their former levels.

It is also worth mentioning that in the case of the Polish assets, of significance are PLN-expressed metals prices, which are also affected by the USD/PLN exchange rate. Fluctuations in the price of copper related to the volatility on the financial markets, whose origins may often be found not only in macroeconomics but also in geopolitics, are usually to a large extent offset by changes in the USD/PLN exchange rate.

Since the outbreak of the pandemic at the turn of February and March 2020, KGHM Polska Miedź S.A. has maintained full operational capability and is advancing its production and sales plans.

Analysis of the occurrence of indicators with respect to the international assets of the Group (the KGHM INTERNATIONAL LTD. Group) also indicated the copper price as a key factor from the point of view of the operations of the KGHM International LTD. Group. Nonetheless, despite the fall in metals prices which lead directly to lower revenues by the international assets, there were no indications identified to conduct impairment testing. The Group undertook austerity measures aimed at mitigating the negative impact of the decrease in revenues. A number of procedures aimed at swift identification of infected persons and at limiting the spread of COVID-19 were introduced. This enabled the avoidance of outbreaks of the disease and uninterrupted production.

COVID-19 did not disrupt the activities of any of the mines and did not lead to any decrease in mining production.

As a result of the assessment, it was judged that there was no relation between the fall in share price of KGHM Polska Miedź S.A. both in terms of the activities of KGHM Polska Miedź S.A. in Poland as well as abroad. Consequently, there were no indications identified suggesting the risk of impairment of these assets, therefore there were no tests for impairment of these assets as at 30 June 2020.

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

**TEST FOR THE IMPAIRMENT OF THE NON-CURRENT ASSETS OF SPA COMPANIES – Segment – Other segments**

The outbreak of the COVID19 epidemic had a substantial impact on the Group's secondary activities with respect to the providing of spa services by the following companies (CGUs): Uzdrowiska Kłodzkie S.A. - Grupa PGU, Uzdrowisko Połczyn Grupa PGU S.A., Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU, Uzdrowisko Świeradów - Czerniawa Sp. z o.o. – Grupa PGU.

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 patients 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 spa companies to the list of facilities designated to serve as quarantine facilities.

The restrictions introduced in Poland led to a decrease in revenues of the companies operating in the spa and hotel sectors, as a result of which the decision was made to temporarily close some of the facilities.

During the so-called lockdown, companies made use of aid schemes launched to counter the negative impact of the introduced restrictions (anti-crisis shield).

The gradual re-opening of services began in the second quarter of 2020, in particular:

- From 4 May 2020, hotel and ambulatory rehabilitation services were resumed;
- From 15 June 2020, spa services provided under the contracts with Narodowy Fundusz Zdrowia (the National Health Service) were resumed;
- From 4 August 2020, spa services provided under the contracts with Zakład Usług Społecznych (the Social Insurance Institution) were resumed.

Subsequent to the lockdown period and the re-start of their main activities, the spa and hotel companies have been operating without significant disruptions and offering all of their services under an intensified sanitary regime. When the facilities were temporarily closed, a number of safety procedures in the spas and hotels of the KGHM Polska Miedź S.A. Group were introduced, aimed at ensuring the safety of patients, hotel guests and companies' employees against the risk of infection by the COVID-19 virus.

The temporary closure of facilities in spas and hotels resulted in a decrease in revenues in the first half of 2020 by 40% in spa companies and 55% in hotel companies as compared to the revenues for the first half of 2019. This resulted in achievement of the revenue plan at the level of 56% and 50%, respectively.

The economic impact of this situation, meaning the losses of spa companies incurred in the first half of 2020, which significantly deviate from budgetary targets, represented a key indication to conduct impairment testing of the non-current assets of the spa companies. For the purpose of estimating the recoverable amount, in the conducted test the value in use of the property, plant and equipment and intangible assets of the aforementioned companies was measured using the DCF method, i.e. the method of discounted cash flows.

The recoverable amount was adopted to be the reliably estimated fair value of the enterprise (enterprise value) of individual spa companies as at 30 June 2020, subsequently adjusted by net working capital (as at 30 June 2020). For the purpose of estimating the fair value, the methodology of discounted cash flows was used, based on the Free Cash Flows to Firm (FCFF) model and using the Weighted Average Cost of Capital (WACC).

<b>Basic assumptions adopted for impairment testing</b>				
<b>Assumption</b>	<b>Uzdrowiska Kłodzkie S.A. - Grupa PGU</b>	<b>Uzdrowisko Połczyn Grupa PGU S.A</b>	<b>Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU</b>	<b>Uzdrowisko Świeradów - Czerniawa Sp. z o.o. - Grupa PGU</b>
Detailed forecast period	2H 2020 -1H 2026	2H 2020 -1H 2026	2H 2020 -1H 2026	2H 2020 -1H 2026
Average EBITDA margin during the detailed forecast period	14%	17%	16%	16%
EBITDA margin during the residual period	17%	18%	17%	18%

Capital expenditures during the detailed forecast period	PLN 67 million	PLN 25 million	PLN 9 million	PLN 9 million
Average notional discount rate during the detailed forecast period	7.7%	8.4%	8.5%	8.4%
Discount rate during the residual period	7.7%	8.5%	8.5%	8.5%
Growth rate following the detailed forecast period	2.0%	2.0%	2.0%	2.0%

The results of the conducted tests are presented in the following table:

CGU	Carrying amount	Recoverable amount	Impairment loss
Uzdrowiska Kłodzkie S.A. - Grupa PGU	178	146	32
Uzdrowisko Połczyn Grupa PGU S.A	79	55	24
Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU	41	34	7
Uzdrowisko Świeradów - Czarniawa Sp. z o.o. - Grupa PGU	53	45	8

As a result of the tests conducted, an impairment loss on non-current assets was recognised in the amount of PLN 71 million – by comparing the carrying amount of PLN 351 million with the recoverable amount of PLN 280 million.

The recoverable amount of individual CGUs indicated a significant sensitivity to changes in the adopted discount rate, the average EBITDA margin, and the growth rate following the forecast period. Impact of the other key assumptions is immaterial. Impact of changes to key parameters on the recoverable amount of individual CGUs is presented in the following table:

	Recoverable amount		
Average EBITDA margin during the forecast period	decrease by 2 pp.	per test	increase by 2 pp.
Uzdrowiska Kłodzkie S.A. - Grupa PGU	88	<b>146</b>	205
Uzdrowisko Połczyn Grupa PGU S.A	42	<b>55</b>	67
Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU	26	<b>34</b>	42
Uzdrowisko Świeradów - Czarniawa Sp. z o.o. - Grupa PGU	36	<b>45</b>	54
Average discount rate during the forecast period	decrease by 1 pp.	per test	increase by 1 pp.
Uzdrowiska Kłodzkie S.A. - Grupa PGU	185	<b>146</b>	120
Uzdrowisko Połczyn Grupa PGU S.A	68	<b>55</b>	45
Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU	41	<b>34</b>	29
Uzdrowisko Świeradów - Czarniawa Sp. z o.o. - Grupa PGU	55	<b>45</b>	38



Growth rate following the forecast period	decrease by 1 pp.	per test	increase by 1 pp.
Uzdrowiska Kłodzkie S.A. - Grupa PGU	127	<b>146</b>	175
Uzdrowisko Połczyn Grupa PGU S.A	47	<b>55</b>	65
Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU	30	<b>34</b>	39
Uzdrowisko Świeradów - Czarniawa Sp. z o.o. - Grupa PGU	40	<b>45</b>	53

In order to monitor the risk of further impairment of operating assets in subsequent reporting periods as well as to monitor the possibility of reversing the impairment loss, it was determined that the recoverable amount would be equal to the carrying amount of individual companies if the discount rate were to be as presented below:

Uzdrowiska Kłodzkie S.A. - Grupa PGU	6.79%
Uzdrowisko Połczyn Grupa PGU S.A	6.74%
Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU	7.44%
Uzdrowisko Świeradów - Czarniawa Sp. z o.o. - Grupa PGU	7.65%

#### TEST FOR IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT OF POL-MIEDŹ TRANS Sp. z o.o. - Segment - Other segments

As at 30 June 2020, due to indications of the possibility of changes in the recoverable amount of the property, plant and equipment of the company POL-MIEDŹ TRANS Sp. z o.o., the Management Board of the Parent Entity performed impairment testing of these assets. The key indication to perform a test was a loss for the period in the first half of 2020, deviating from the financial results assumed for that period.

The carrying amount of property, plant and equipment of POL-MIEDŹ TRANS Sp. z o.o. as at 30 June 2020 amounted to PLN 246 million. For the purpose of estimating the recoverable amount, in the conducted test the value in use of property, plant and equipment was measured using the DCF method, i.e. the method of discounted cash flows.

##### Basic assumptions adopted for impairment testing

Assumption	Level adopted in testing
Detailed forecast period	07.2020-12.2024
Operating margin	0.3% during the forecast period, 1.9% in the residual value
Capital expenditures during the forecast period	PLN 237 million
Discount rate	4.64% (nominal rate after taxation)
Growth rate following the forecast period	0%

As a result of the impairment testing of the property, plant and equipment of POL-MIEDŹ TRANS Sp. z o.o., the recoverable amount of the tested assets was determined to be at the level of PLN 225 million, which was lower than the carrying amount of these assets, which gave a basis to recognise an impairment loss in the amount of PLN 21 million.

The measurement of the property, plant and equipment of POL-MIEDŹ TRANS Sp. z o.o. indicates a significant sensitivity to the adopted discount rates and operating margin. The following table presents the impact of changes to these parameters on the measurement of the assets.

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

	The recoverable amount for a given discount rate		
	lower by 1 pp.	per test	higher by 1 pp.
<b>Discount rate 4.64% (test)</b>	396	<b>225</b>	162
	The recoverable amount for a given operating margin		
	lower by 1 pp.	per test	higher by 1 pp.
<b>Operating margin 0.3%, 1.9% in residual value (test)</b>	120	<b>225</b>	329

In order to monitor the risk of impairment of property, plant and equipment in subsequent reporting periods, it was determined that the recoverable amount would be equal to the carrying amount of property, plant and equipment if the discount rate were to decrease to 4.44% or if the operating margin were to increase by 0.2 pp.

#### EVALUATION OF RISK OF IMPAIRMENT OF ASSETS OF THE COMPANY INTERFERIE S.A. IN THE CONTEXT OF MARKET CAPITALISATION – Segment – Other segments

The market capitalisation of the subsidiary Interferie S.A. in the first half of 2020 was below the carrying amount of the company's net assets, which in accordance with the adopted accounting policy was recognised by the company to be an indication to perform impairment testing of the company's assets (the carrying amount of the tested assets was PLN 126 million).

Due to the emergence at the end of 2019 in China of the SARS-CoV-2 virus and its subsequent global spread, the management board of the company INTERFERIE S.A. is continuously monitoring the global economic situation and the potential negative impact on the INTERFERIE Group. Restrictions related to the impossibility of providing hotel services were laid down in the Decree of the Council of Ministers dated 31 March 2020 establishing specified restrictions, orders and bans. Due to the spread of the SARS-CoV-2 virus, in the first quarter of 2020 a decision was made to temporarily suspend the activities in the company's facilities. The subsequent impact of this situation on its activities, i.e. a possible decrease in the sale of services, and therefore worsening of liquidity and the financial result, was announced by the unit via regulatory filings.

On 16 March 2020, activities of two facilities of this company, i.e. in Świeradów Zdrój and Kołobrzeg, were temporarily suspended. The management board of INTERFERIE S.A., following a detailed analysis of the situation, determined that in these two facilities it is not possible to reorganise the services provided to the clients to be compliant with the Decree of the Minister of Health dated 13 March 2020. Following the hotel checkout on 21 March 2020, the activities of the INTERFERIE in Ustronie Morskie Leisure and Sanatorium CECHSZTYN were temporarily suspended until further notice. The next facility suspended from operations was Hotel BORNIT in Szklarska Poręba, in which, until further notice, activities were temporarily suspended on 23 March 2020. Suspension of this company's facilities resulted in a decrease in the number of sold person/days ratio from 177.1 thousand in the first half of 2019 to 67.1 thousand in the first half of 2020, or by 62%. Revenues from sales for the first half of 2020 amounted to PLN 9 477 thousand and decreased, as compared to the first half of 2019, by 57.1%. Total comprehensive income for the first half of 2020 amounted to PLN (6 544) thousand as compared to PLN 334 thousand in the first half of 2019.

Restrictions to the company's activities, which resulted in the decrease in revenues, also impacted the following sectors of the company's activities: MICE (Meetings, Incentives, Conferences and Exhibitions), the large conferences sector, camps, green schools, swimming pool services, night club services and discotheque services.

In order to assess the impairment, the Company identified the following CGUs: INTERFERIE in Ustronie Morskie – Leisure and Sanatorium Cechsztyń, INTERFERIE in Kołobrzeg Leisure and Sanatorium Chalkozyn, INTERFERIE in Dąbki Sanatorium Argentyt, INTERFERIE in Świeradów Zdrój – Hotel Malachit, INTERFERIE Hotel in Głogów and INTERFERIE Hotel Bornit in Szklarska Poręba. In order to assess the impairment, the fair value of the assets was estimated on the basis of the sum of future cash flows of individual CGUs discounted by the rate estimated on the basis of ratios used by the hotel industry, with the exception of CGU INTERFERIE Hotel in Głogów, INTERFERIE in Świeradów Zdrój – Hotel Malachit and CGU INTERFERIE Hotel Bornit in Szklarska Poręba, for which the fair value was determined on the basis of valuation reports.

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

Basic assumptions adopted for impairment testing	
Assumption	Level adopted in testing
Detailed forecast period	10 years for facilities with planned significant investments 5 years for other facilities
Discount rate	8.5% for facilities with planned significant investments 7.5% for other facilities
Costs to sell	3%
Growth rate following the forecast period	2%

As a result of the impairment testing conducted on the company's assets, the estimated fair value of the assets was determined to be higher than their carrying amount, which did not provide a basis to recognise an impairment loss.

CGU	Carrying amount /PLN mn/	Recoverable amount /PLN mn/
INTERFERIE in Ustronie Morskie - Leisure and Sanatorium Cechsztyń	10	13
INTERFERIE in Kołobrzeg Leisure and Sanatorium Chalkozyn	19	60
INTERFERIE in Dąbki Sanatorium Argentyt	48	63
INTERFERIE in Świeradów Zdrój – Hotel Malachit	23	25
INTERFERIE Hotel Bornit in Szklarska Poręba	24	25
INTERFERIE Hotel in Głogów	2	2

The measurement indicated a significant sensitivity of fair value to the adopted discount rates, the volatility of operating profit during the forecast period and the growth rate following the forecast period of the following CGUs:

Sensitivity analysis of fair value							
CGU	Fair value /PLN mn/	Discount rate		Operating profit		Growth rate following the forecast period	
		+6%	-6%	+6%	-6%	+ 1 pp.	- 1 pp.
INTERFERIE in Ustronie Morskie - Leisure and Sanatorium Cechsztyń	13.0	12.0	14.1	13.7	12.3	15	11
INTERFERIE in Kołobrzeg Leisure and Sanatorium Chalkozyn	60.0	54.0	67.2	64.5	55.7	68	54
INTERFERIE in Dąbki Sanatorium Argentyt	63.0	56.2	70.6	68.3	57.3	72	56

Threshold of change in the assumed discount rate or operating profit, beyond which an impairment loss occurs:

Level of change in assumptions implicating an impairment loss		
CGU	Increase in discount rate	Decrease in operating profit
INTERFERIE in Ustronie Morskie - Leisure and Sanatorium Cechsztyń	1.9 p.p.	27.8%
INTERFERIE in Kołobrzeg Leisure and Sanatorium Chalkozyn	7.2 p.p.	56.7%
INTERFERIE in Dąbki Sanatorium Argentyt	1.3 p.p.	16.2%

The results of the impairment testing of assets of the Group as at 31 December 2019 were presented in the part 3 of the Consolidated Annual Report RS 2019.

## Part 2 - Information on segments and revenues

### Note 2.1 Information on 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, DMC 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 entities.

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

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

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

OTHER SEGMENTS	
Type of activity	Company
Support of the core business	BIPROMET S.A., CBJ sp. z o.o., Energetyka sp. z o.o., INOVA Spółka z o.o., KGHM CUPRUM sp. z o.o. – CBR, KGHM ZANAM S.A., KGHM Metraco S.A., PeBeKa S.A., POL-MIEDŹ TRANS Sp. z o.o., WPEC w Legnicy S.A.
Sanatorium-healing and hotel services	Interferie Medical SPA Sp. z o.o., INTERFERIE S.A., Uzdrowiska Kłodzkie S.A. - Grupa PGU, Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU, Uzdrowisko Połczyn Grupa PGU S.A., Uzdrowisko Świeradów - Czerniawa Sp. z o.o. - Grupa PGU
Investment funds, financing activities	Fundusz Hotele 01 Sp. z o.o., Fundusz Hotele 01 Sp. z o.o. S.K.A., KGHM TFI S.A., KGHM VI FIZAN, KGHM VII FIZAN, Polska Grupa Uzdrowisk Sp. z o.o.
Other activities	CENTROZŁOM WROCŁAW S.A., CUPRUM Development sp. z o.o., CUPRUM Nieruchomości sp. z o.o., KGHM (SHANGHAI) COPPER TRADING CO., LTD., KGHM Kupfer AG, MERCUS Logistyka sp. z o.o., MIEDZIOWE CENTRUM ZDROWIA S.A., NITROERG S.A., NITROERG SERWIS Sp. z o.o., PHU "Lubinpex" Sp. z o.o., PMT Linie Kolejowe Sp. z o.o., 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 structure of 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, interest in subsidiaries (including interest in KGHM INTERNATIONAL LTD.) are measured at cost less any 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 joint ventures, 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 payables and current tax liabilities.







## Reconciliation of adjusted EBITDA

from 1 January 2020 to 30 June 2020

	KGHM Polska Miedz S.A.	KGHM INTERNATIONAL LTD.	Other segments	Consolidation adjustments*	Consolidated financial statements	Sierra Gorda S.C.M. **	Adjusted EBITDA (segments, total)
	1	2	3	4	5 (1+2+3+4)	6	7 (5+6-4)
<b>Profit/(loss) for the period</b>	<b>747</b>	<b>( 663)</b>	<b>( 120)</b>	<b>665</b>	<b>629</b>	<b>( 308)</b>	
[+] Profit or loss on involvement in joint ventures	-	( 17)	-	-	( 17)	-	
[-] Current and deferred income tax	( 394)	( 9)	( 17)	12	( 408)	107	
[-] Depreciation/amortisation recognised in profit or loss	( 595)	( 249)	( 119)	11	( 952)	( 415)	
[-] Finance income/(costs)	( 151)	( 534)	( 11)	520	( 176)	( 432)	
[-] Other operating income/(costs)	( 44)	( 16)	( 10)	230	160	4	
[-] (Recognition)/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	-	( 93)	1	( 92)	-	
<b>Adjusted EBITDA</b>	<b>1 931</b>	<b>162</b>	<b>130</b>	<b>( 109)</b>	<b>2 114</b>	<b>428</b>	<b>2 651</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 30 June 2019

	KGHM Polska Miedz S.A.	KGHM INTERNATIONAL LTD.	Other segments	Consolidation adjustments*	Consolidated financial statements	Sierra Gorda S.C.M. **	Adjusted EBITDA (segments, total)
	1	2	3	4	5 (1+2+3+4)	6	7 (5+6-4)
<b>Profit/(loss) for the period</b>	<b>1 227</b>	<b>( 257)</b>	<b>( 2)</b>	<b>2</b>	<b>970</b>	<b>( 246)</b>	
[+] Profit or loss on involvement in joint ventures	-	103	-	-	103	-	
[-] Current and deferred income tax	( 485)	( 24)	( 17)	44	( 482)	62	
[-] Depreciation/amortisation recognised in profit or loss	( 586)	( 216)	( 119)	-	( 921)	( 238)	
[-] Finance income/(costs)	( 73)	( 466)	( 8)	461	( 86)	( 413)	
[-] Other operating income/(costs)	452	10	14	( 446)	30	( 6)	
[-] (Recognition)/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	-	-	-	-	-	
<b>Adjusted EBITDA</b>	<b>1 919</b>	<b>336</b>	<b>128</b>	<b>( 57)</b>	<b>2 326</b>	<b>349</b>	<b>2 732</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 2.3 Revenues from contracts with customers of the Group – breakdown by products

from 1 January 2020 to 30 June 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	
Copper	6 543	687	800	4	( 800)	( 8)	7 226
Silver	1 524	9	24	-	( 24)	-	1 533
Gold	332	152	110	-	( 110)	-	484
Services	58	297	-	947	-	( 767)	535
Energy	24	-	-	103	-	( 70)	57
Salt	11	-	-	-	-	( 2)	9
Blasting materials and explosives	-	-	-	109	-	( 40)	69
Mining machinery, transport vehicles and other types of machinery and equipment	-	-	-	82	-	( 66)	16
Fuel additives	-	-	-	47	-	-	47
Lead	111	-	-	-	-	-	111
Products from other non-ferrous metals	-	-	-	37	-	( 2)	35
Steel	-	-	-	209	-	( 21)	188
Petroleum and its derivatives	-	-	-	127	-	( 115)	12
Merchandise and materials	220	-	-	1 643	-	(1 546)	317
Other products	74	124	115	204	( 115)	( 93)	309
<b>TOTAL</b>	<b>8 897</b>	<b>1 269</b>	<b>1 049</b>	<b>3 512</b>	<b>(1 049)</b>	<b>(2 730)</b>	<b>10 948</b>

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

from 1 January 2019 to 30 June 2019

					Reconciliation items to consolidated data			Consolidated data
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Elimination of data of the segment Sierra Gorda S.C.M	Consolidation adjustments		
Copper	6 835	770	653	3	( 653)	( 12)	<b>7 596</b>	
Silver	1 313	1	14	-	( 14)	-	<b>1 314</b>	
Gold	253	110	77	-	( 77)	-	<b>363</b>	
Services	45	400	-	1 100	-	( 822)	<b>723</b>	
Energy	21	-	-	94	-	( 62)	<b>53</b>	
Salt	22	-	-	-	-	17	<b>39</b>	
Blasting materials and explosives	-	-	-	104	-	( 36)	<b>68</b>	
Mining machinery, transport vehicles and other types of machinery and equipment	-	-	-	70	-	( 46)	<b>24</b>	
Fuel additives	-	-	-	46	-	-	<b>46</b>	
Lead	120	-	-	-	-	-	<b>120</b>	
Products from other non-ferrous metals	-	-	-	42	-	( 2)	<b>40</b>	
Steel	-	-	-	245	-	( 22)	<b>223</b>	
Petroleum and its derivatives	-	-	-	143	-	( 121)	<b>22</b>	
Merchandise and materials	120	-	-	1 702	-	(1 579)	<b>243</b>	
Other products	102	133	263	111	( 263)	8	<b>354</b>	
<b>TOTAL</b>	<b>8 831</b>	<b>1 414</b>	<b>1 007</b>	<b>3 660</b>	<b>(1 007)</b>	<b>(2 677)</b>	<b>11 228</b>	

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

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

from 1 January 2020 to 30 June 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>	8 897	1 269	1 049	3 512	(1 049)	(2 730)	10 948
Revenues from sales contracts, for which the price is set after the date of recognition of the sales (M+ principle), of which:	6 510	972	1 067	36	(1 067)	( 35)	7 483
settled	5 940	437	152	36	( 152)	( 34)	6 379
unsettled	570	535	915	-	( 915)	( 1)	1 104
Revenues from realisation of long-term contracts	-	288	-	113	-	( 9)	392
Revenues from other sales contracts	2 387	9	( 18)	3 363	18	(2 686)	3 073
<b>Total revenues from contracts with customers, of which:</b>	8 897	1 269	1 049	3 512	(1 049)	(2 730)	10 948
in factoring	3 113	13	-	4	-	-	3 130
not in factoring	5 784	1 256	1 049	3 508	(1 049)	(2 730)	7 818

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

	from 1 January 2019 to 30 June 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>	<b>8 831</b>	<b>1 414</b>	<b>1 007</b>	<b>3 660</b>	<b>(1 007)</b>	<b>(2 677)</b>	<b>11 228</b>
Revenues from sales contracts, for which the price is set after the date of recognition of the sales (M+ principle), of which:	7 431	1 013	1 002	1	(1 002)	(41)	<b>8 404</b>
settled	6 861	418	262	-	(262)	(40)	<b>7 239</b>
unsettled	570	595	740	1	(740)	(1)	<b>1 165</b>
Revenues from realisation of long-term contracts	-	390	-	114	-	(85)	<b>419</b>
Revenues from other sales contracts	1 400	11	5	3 545	(5)	(2 551)	<b>2 405</b>
<b>Total revenues from contracts with customers, of which:</b>	<b>8 831</b>	<b>1 414</b>	<b>1 007</b>	<b>3 660</b>	<b>(1 007)</b>	<b>(2 677)</b>	<b>11 228</b>
in factoring	3 141	58	-	-	-	-	<b>3 199</b>
not in factoring	5 690	1 356	1 007	3 660	(1 007)	(2 677)	<b>8 029</b>

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

**Note 2.5 Revenues from contracts with customers of the Group - geographical breakdown reflecting the location of end clients**

from 1 January 2020 to 30 June 2020

from 1 January 2019 to 30 June 2019

	Reconciliation items to consolidated data					Consolidated data	KGHM Polska Miedz S.A. Group	
	KGHM Polska Miedz S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Elimination of data of the segment Sierra Gorda S.C.M.			Consolidation adjustments
Poland	2 024	-	3	3 370	(3)	(2 728)	2 666	2 977
Austria	82	-	-	12	-	-	94	110
Belgium	51	-	-	5	-	-	56	-
Bulgaria	6	(1)	-	6	-	-	11	61
Czechia	681	-	-	7	-	-	688	708
Denmark	8	-	-	1	-	-	9	28
Finland	-	-	-	2	-	-	2	66
France	220	-	-	3	-	-	223	446
Spain	-	240	-	1	-	-	241	125
Netherlands	1	-	29	-	(29)	-	1	4
Germany	1 590	-	-	28	-	-	1 618	1 364
Romania	84	-	-	1	-	-	85	94
Slovakia	43	-	-	3	-	-	46	53
Slovenia	26	-	-	1	-	-	27	37
Sweden	-	-	-	17	-	-	17	29
Hungary	359	-	-	1	-	-	360	358
The United Kingdom	901	158	-	6	-	-	1 065	1 269
Italy	494	-	-	3	-	-	497	481
Australia	384	-	-	-	-	-	384	38
Bosnia and Hercegovina	-	-	-	2	-	-	2	21
Chile	-	14	112	-	(112)	-	14	44
China	954	24	512	-	(512)	-	978	1 165
Japan	-	(3)	328	-	(328)	-	(3)	154
Canada	-	257	-	-	-	-	257	288
South Korea	-	148	36	-	(36)	-	148	61
Russia	-	-	-	12	-	(2)	10	25
The United States of America	216	284	-	3	-	-	503	546
Switzerland	351	-	-	-	-	-	351	329
Turkey	41	-	-	2	-	-	43	130
Taiwan	220	-	-	-	-	-	220	49
Brazil	-	4	18	-	(18)	-	4	63
Philippines	6	144	-	-	-	-	150	50
Other countries	155	-	11	26	(11)	-	181	55
<b>TOTAL</b>	<b>8 897</b>	<b>1 269</b>	<b>1 049</b>	<b>3 512</b>	<b>(1 049)</b>	<b>(2 730)</b>	<b>10 948</b>	<b>11 228</b>

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

**Note 2.6 Main customers**

In the period from 1 January 2020 to 30 June 2020 and in the comparable period the revenues from no single contractor exceeded 10% of the sales revenue of the Group.

**Note 2.7 Non-current assets – geographical breakdown**

	<b>As at 30 June 2020</b>	<b>As at 31 December 2019</b>
Poland	21 628	21 349
Canada	1 483	1 368
The United States of America	1 485	1 418
Chile	421	388
Other countries	18	16
<b>TOTAL*</b>	<b>25 035</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 7 868 million as at 30 June 2020 (PLN 7 130 million as at 31 December 2019).

## Part 3 – Explanatory notes to the consolidated statement of profit or loss

### Note 3.1 Expenses by nature

	from 1 January 2020 to 30 June 2020	from 1 January 2019 to 30 June 2019
Depreciation of property, plant and equipment and amortisation of intangible assets	988	961
Employee benefits expenses	2 798	2 707
Materials and energy	3 698	4 025
External services	1 012	1 124
Minerals extraction tax	678	866
Other taxes and charges	266	260
Revaluation of inventories	82	( 4)
Impairment losses on property, plant and equipment and intangible assets*	92	-
Other costs	90	109
<b>Total expenses by nature</b>	<b>9 704</b>	<b>10 048</b>
Cost of merchandise and materials sold (+)	399	382
Change in inventories of finished goods and work in progress (+/-)	223	12
Cost of manufacturing products for internal use of the Group (-)	( 518)	( 619)
<b>Total costs of sales, selling costs and administrative expenses, of which:</b>	<b>9 808</b>	<b>9 823</b>
Cost of sales	9 134	9 146
Selling costs	212	202
Administrative expenses	462	475

\*Relates to companies of the Group, details are presented in note 1.6



**Note 3.2 Other operating income and (costs)**

	from 1 January 2020 to 30 June 2020	from 1 January 2019 to 30 June 2019
Measurement of derivatives	102	70
Realisation of derivatives	77	40
Interest income calculated using the effective interest rate method	4	5
Exchange differences on assets and liabilities other than borrowings	264	-
Release of provisions	2	52
Government grants received	12	26
Income from servicing of letters of credit and guarantees	22	18
Compensation, fines and penalties received	9	18
Other	99	35
<b>Total other operating income</b>	<b>591</b>	<b>264</b>
Measurement of derivatives	( 110)	( 13)
Realisation of derivatives	( 185)	( 110)
Impairment losses on financial instruments	( 6)	( 3)
Exchange differences on assets and liabilities other than borrowings	-	( 6)
Provisions recognised	( 37)	( 18)
Losses on the sale of intangible assets	( 36)	( 6)
Donations given	( 23)	( 24)
Other	( 34)	( 54)
<b>Total other operating costs</b>	<b>( 431)</b>	<b>( 234)</b>
<b>Other operating income and (costs)</b>	<b>160</b>	<b>30</b>

**Note 3.3 Finance income and (costs)**

	from 1 January 2020 to 30 June 2020	from 1 January 2019 to 30 June 2019
Exchange differences on borrowings	-	58
Realisation of derivatives	35	2
Other	-	1
<b>Total finance income</b>	<b>35</b>	<b>61</b>
Interest on borrowings, including:	( 96)	( 85)
leases	( 10)	( 17)
Bank fees and charges on borrowings	( 17)	( 14)
Exchange differences on borrowings	( 37)	-
Measurement of derivatives	( 1)	( 16)
Realisation of derivatives	( 40)	( 3)
Other	( 20)	( 29)
<b>Total finance costs</b>	<b>( 211)</b>	<b>( 147)</b>
<b>Finance income and (costs)</b>	<b>( 176)</b>	<b>( 86)</b>

## Part 4 – Other explanatory notes

### Note 4.1 Information on property, plant and equipment and intangible assets

#### Purchase of property, plant and equipment and intangible assets

	from 1 January 2020 to 30 June 2020	from 1 January 2019 to 30 June 2019
Purchase of property, plant and equipment, including: leases	1 377	1 400
Purchase of intangible assets	62	53
	57	43

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

	As at 30 June 2020	As at 31 December 2019
Payables due to the purchase of property, plant and equipment and intangible assets	499	812

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

	As at 30 June 2020	As at 31 December 2019
Purchase of property, plant and equipment	1 265	1 290
Purchase of intangible assets	318	347
<b>Total capital commitments</b>	<b>1 583</b>	<b>1 637</b>

### Note 4.2 Involvement in joint ventures

#### Joint ventures accounted for using the equity method

	from 1 January 2020 to 30 June 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	207	-	439	-
Share of losses of joint ventures accounted for using the equity method	( 210)	-	( 434)	( 4)
Exchange differences from the translation of statements of operations with a functional currency other than PLN	3	-	( 5)	-
<b>As at the end of the reporting period</b>	-	-	-	-
	from 1 January 2020 to 30 June 2020		from 1 January 2019 to 30 June 2019	
<b>Share of the Group (55%) in net losses of Sierra Gorda S.C.M. for the reporting period, of which:</b>		( 308)		( 246)
recognised in share of losses of joint ventures		( 210)		( 63)
not recognised in share of losses of joint ventures		( 98)		( 183)

**Unrecognised share of the Group in the losses of Sierra Gorda S.C.M.**

	from 1 January 2020 to 30 June 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>
Not recognised share of losses of joint ventures for the reporting period	( 98)	( 122)
<b>As at the end of the reporting period</b>	<b>(5 196)</b>	<b>(5 098)</b>

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

	from 1 January 2020 to 30 June 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	193	341
Gains due to reversal of an impairment allowance	-	106
Exchange differences from the translation of statements of operations with a functional currency other than PLN	272	48
<b>As at the end of the reporting period</b>	<b>6 159</b>	<b>5 694</b>

## Note 4.3 Financial instruments under IFRS 9

Financial assets	As at 30 June 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>Non-current</b>	565	17	6 869	242	7 693	431	18	6 350	123	6 922
Loans granted to joint ventures	-	-	6 159	-	6 159	-	-	5 694	-	5 694
Derivatives	-	1	-	242	243	-	1	-	123	124
Other financial instruments measured at fair value	565 *	16	-	-	581	431*	17	-	-	448
Other financial instruments measured at amortised cost	-	-	710	-	710	-	-	656	-	656
<b>Current</b>	-	309	2 741	171	3 221	-	328	1 660	289	2 277
Trade receivables	-	236	511	-	747	-	300	388	-	688
Derivatives	-	51	-	171	222	-	4	-	289	293
Cash and cash equivalents	-	-	1 951	-	1 951	-	-	1 016	-	1 016
Other financial assets	-	22	279	-	301	-	24	256	-	280
<b>Total</b>	<b>565</b>	<b>326</b>	<b>9 610</b>	<b>413</b>	<b>10 914</b>	<b>431</b>	<b>346</b>	<b>8 010</b>	<b>412</b>	<b>9 199</b>

\*Shares

Financial liabilities	As at 30 June 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>	77	7 896	497	8 470	65	7 736	118	7 919
Borrowings, lease and debt securities	-	7 697	-	7 697	-	7 525	-	7 525
Derivatives	77	-	497	574	65	-	118	183
Other financial liabilities	-	199	-	199	-	211	-	211
<b>Current</b>	137	4 159	68	4 364	53	3 221	38	3 312
Borrowings, lease and debt securities	-	1 201	-	1 201	-	348	-	348
Derivatives	137	-	68	205	53	-	38	91
Trade payables	-	1 911	-	1 911	-	2 170	-	2 170
Similar payables – reverse factoring	-	945	-	945	-	596	-	596
Other financial liabilities	-	102	-	102	-	107	-	107
<b>Total</b>	<b>214</b>	<b>12 055</b>	<b>565</b>	<b>12 834</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 30 June 2020		As at 31 December 2019	
	level 1	level 2	level 1	level 2
Loans granted	-	16	-	17
Listed shares	460	-	326	-
Unquoted shares	-	105	-	105
Trade receivables	-	236	-	300
Other financial assets	-	22	-	24
Derivatives, of which:	-	(314)	-	143
Assets	-	465	-	417
Liabilities	-	(779)	-	(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 4.4 Commodity, currency and interest rate risk management**

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

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

The primary technique used by the Group in market risk management are 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 30 June 2020</b>	<b>from 1 January 2019 to 30 June 2019</b>
Revenues from contracts with customers	292	77
Other operating and finance income / (costs):	(123)	(30)
on realisation of derivatives	(113)	(71)
on measurement of derivatives	(9)	41
interest on borrowings	(1)	-
<b>Impact of derivatives and hedging instruments on profit or loss for the period (excluding the tax effect)</b>	<b>169</b>	<b>47</b>
<b>Statement of other comprehensive income</b>		
Impact of measurement of hedging transactions (effective portion)	(179)	(59)
Reclassification to revenues from contracts with customers due to realisation of a hedged item	(292)	(77)
Reclassification to finance costs due to realisation of a hedged item	1	-
Reclassification to other operating costs due to realisation of a hedged item (settlement of the hedging cost)	138	62
<b>Impact of hedging transactions (excluding the tax effect)</b>	<b>(332)</b>	<b>(74)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>(163)</b>	<b>(27)</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 half of 2020, copper sales of the Parent Entity amounted to 277 thousand tonnes (net sales of 206 thousand tonnes)<sup>1</sup>, while the notional amount of copper price hedging strategies settled in this period amounted to 90 thousand tonnes, which represented approx. 32% of the total sales of this metal realised by the Parent Entity and approx. 44% of net sales in this period (in the first half of 2019, 18% and 26% respectively). In the case of currency transactions, approx. 33% of revenues from copper and silver sales realised by the Parent Entity in the first half of 2020 were hedged (17% - in the first half of 2019).

In the first half of 2020, as part of the realisation of the strategic management of market risk, the Parent Entity restructured an open 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 (including: 12 thousand tonnes for the second half of 2020). In addition, in the first half of 2020 hedging strategies were

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

implemented (*seagull* options structures) on the copper market with a total notional amount of 108 thousand tonnes and a maturity period from January 2021 to December 2021. Furthermore, in the first half of 2020 QP adjustment swap transactions were entered into on the copper and gold markets with maturity to December 2020, as part of the management of a net trading position<sup>2</sup>.

In the first half of 2020 the Parent Entity entered into *seagull* option structures hedging against a change in the USD/PLN exchange rate with a total notional amount of USD 720 million and maturity falling from January 2022 to December 2023. Moreover, an open hedging position on the currency market was restructured by redeeming sold call options with a strike price of USD/PLN 4.25 from the collar options structures, with maturities from May to December 2020 and the total notional amount of USD 300 million (of which: USD 180 million in the second half of 2020).

In the first half of 2020, the Parent Entity did not enter into any hedging transactions on the forward silver market or interest rate market.

As at 30 June 2020, the Parent Entity held an open derivatives position for 204.5 thousand tonnes of copper (of which 195 thousand tonnes arose from the strategic management of market risk, while 9.5 thousand tonnes came from the management of a net trading position), 1.8 million troy ounces of silver, 8.2 thousand ounces of gold (QP adjustment swap transactions) and USD 1 980 million of planned revenues from sales of metals. Furthermore, as at 30 June 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 PLN with a variable interest rate<sup>3</sup>, and also derivative CAP transactions on the interest rate market with maturity falling in the third quarter of 2020, and bank and other loans with fixed interest rates. Commodity risk was also related to derivatives embedded in the purchase contracts for metal-bearing materials.

With respect to managing currency risk, the Parent Entity uses natural hedging by borrowing in currencies in which it has revenues. As at 30 June 2020, the bank and investment loans which were drawn in USD, following their translation to PLN, amounted to PLN 5 893 million (as at 31 December 2019: PLN 4 980 million).

In the first half of 2020, none of the Group's mining subsidiaries had implemented any forward transactions on the commodity and currency markets or had open derivatives position on this market as at 30 June 2020. The risk of changes in metals prices 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 30 June 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 30 June 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.

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

<sup>3</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 copper price risk

	Instrument	Notional	Option strike price			Average weighted premium	Effective hedge price	Hedge limited to	Participation limited to
			Sold put option	Purchased put option	Sold call option				
		[tonnes]	[USD/t]			[USD/t]	[USD/t]	[USD/t]	[USD/t]
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 2nd half of 2020</b>		<b>87 000</b>							
1st half	Seagull	42 000	4 000	5 200	6 600	-184	5 016	4 000	6 600
	Seagull	12 000	4 200	5 700	7 000	-130	5 570	4 200	7 000
2nd half	Seagull	42 000	4 000	5 200	6 600	-184	5 016	4 000	6 600
	Seagull	12 000	4 200	5 700	7 000	-130	5 570	4 200	7 000
<b>TOTAL 2021</b>		<b>108 000</b>							

## Hedging against silver price risk

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



### 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 limited to [USD/PLN]
			Sold put option	Purchased put option	Sold call option				
			[USD/PLN]						
2nd half	Purchased put option	180	-	3.50	-	-0.11	3.39	-	-
	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 2nd half of 2020</b>		<b>480</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>							
1st half	Seagull	90	3.30	4.00	4.60	-0.01	3.99	3.30	4.60
	Seagull	90	3.50	3.90	4.50	0.04	3.94	3.50	4.50
2nd half	Seagull	90	3.30	4.00	4.60	-0.01	3.99	3.30	4.60
	Seagull	90	3.50	3.90	4.50	0.04	3.94	3.50	4.50
<b>TOTAL 2022</b>		<b>360</b>							
1st half	Seagull	90	3.30	4.00	4.60	-0.01	3.99	3.30	4.60
	Seagull	90	3.50	3.90	4.50	0.04	3.94	3.50	4.50
2nd half	Seagull	90	3.30	4.00	4.60	-0.01	3.99	3.30	4.60
	Seagull	90	3.50	3.90	4.50	0.04	3.94	3.50	4.50
<b>TOTAL 2023</b>		<b>360</b>							

### Hedging against interest rate risk

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

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

	Instrument	Notional [mn PLN]	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>4</sup>, held by the Parent Entity as at 30 June 2020.

Open hedging derivatives	Notional	Average weighted price /exchange rate/interest rate %	Maturity - settlement period		Period of profit/loss impact	
			from	to	from	to
	copper [t]	[USD/t]				
	silver [mn ounces]	[USD/oz t]				
	currency [USD mn]	[USD/PLN]				
	CIRS [PLN mn]	[USD/PLN, LIBOR]				
<b>Type of derivative</b>						
Copper – <i>seagulls</i>	123 000	5 495-6 936	July '20	- Dec '21	Aug '20	- Jan '22
Copper – <i>collars</i>	72 000	6 000-7 000	July '20	- Dec '20	Aug '20	- Jan '21
Silver – purchased put option	1.80	17.00	July '20	- Dec '20	Aug '20	- Jan '21
Currency – <i>seagulls</i>	1 260	3.84-4.44	Jan '21	- Dec '23	Jan '21	- Jan '24
Currency – <i>collars</i>	540	3.78-4.40	July '20	- Dec '21	July '20	- Dec '21
Currency – purchased put option	180	3.50	July '20	- Dec '20	July '20	- Dec '20
Currency – interest rate – CIRS	400	3.78 and 3.23%		June '24		June '24
Currency - interest rate – CIRS	1 600	3.81 and 3.94%		June '29	June '29	- July '29

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 the fair value of unsettled derivatives, as at 30 June 2020, the maximum single entity share of the amount exposed to credit risk arising from these transactions amounted to 49%, i.e. PLN 95 million (as at 31 December 2019: 15%, i.e. PLN 49 million)<sup>5</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 the 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 30 June 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	99%	90%
Medium	from BBB+ to BBB- according to S&P and Fitch, and from Baa1 to Baa3 according to Moody's	1%	8%

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

The fair value of open derivatives of the KGHM Polska Miedź S.A. Group broken down into hedging transactions<sup>6</sup> and trade transactions (including embedded and adjustment derivatives) and instruments initially designated as hedging instruments excluded from hedge accounting, is presented in the tables below.

The fair value of open derivatives (assets and liabilities) as at 30 June 2020 has changed as compared to 31 December 2019 because of the:

- settlement of transactions in derivatives with maturities in the first half of 2020, which were open at the end of 2019,
- entering into new transactions on copper and currency markets,
- change in macroeconomic conditions (e.g. forward prices of copper, silver, USD/PLN forward rates, interest rates and volatility implied at the measurement date).

The change in interest rates and in the USD/PLN exchange rate had a significant impact on the measurement of CIRS transactions.

<sup>4</sup> Purchased put options and sold call options were designated as hedging under seagull option structures.

<sup>5</sup> To calculate the exposure to credit risk, the net positive fair value (financial receivables – financial liabilities) of open and unsettled derivatives as at 30 June 2020 is taken into account, including a breakdown by hedged market risk factors.

<sup>6</sup> Within the KGHM Polska Miedź S.A. Group, the Parent Entity applies cash flow hedges (CFH).

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

Type of derivative	As at 30 June 2020					As at 31 December 2019				
	Financial assets		Financial liabilities		Net total	Financial assets		Financial liabilities		Net total
	Non-current	Current	Non-current	Current		Non-current	Current	Non-current	Current	
<b>TOTAL HEDGING INSTRUMENTS (CFH), including:</b>	<b>242</b>	<b>171</b>	<b>(497)</b>	<b>(68)</b>	<b>(152)</b>	<b>123</b>	<b>289</b>	<b>(118)</b>	<b>(38)</b>	<b>256</b>
<b>Derivatives – Commodity contracts – Copper</b>										
Options – collar	-	64	-	(10)	54	14	99	(8)	(30)	75
Options – seagull (collar)	60	81	(73)	(37)	31	14	140	-	(1)	153
<b>Derivatives – Commodity contracts – Silver</b>										
Purchased put option	-	4	-	-	4	1	5	-	-	6
<b>Derivatives – Currency</b>										
Options USD – collar	10	12	(7)	(7)	8	36	38	(10)	(7)	57
Options USD – seagull (collar)	172	10	(86)	(14)	82	58	-	(26)	-	32
Purchased put option	-	-	-	-	-	-	7	-	-	7
<b>Derivatives – Currency-interest rate</b>										
Cross Currency Interest Rate Swap (CIRS)	-	-	(331)	-	(331)	-	-	(74)	-	(74)
<b>TOTAL TRADE INSTRUMENTS, including:</b>	<b>1</b>	<b>7</b>	<b>(77)</b>	<b>(133)</b>	<b>(202)</b>	<b>1</b>	<b>4</b>	<b>(65)</b>	<b>(53)</b>	<b>(113)</b>
<b>Derivatives – Commodity contracts – Copper</b>										
Options – seagull (sold put option)	-	-	(6)	(48)	(54)	-	-	(1)	(3)	(4)
Options – restructuring (purchased put option)	-	1	-	-	1	-	-	-	-	-
Options – restructuring (purchased call option)	-	4	-	-	4	-	-	-	-	-
QP adjustment swap transactions	-	-	-	(21)	(21)	-	-	-	(8)	(8)
<b>Derivatives – Commodity contracts – Gold</b>										
QP adjustment swap transactions	-	2	-	(4)	(2)	-	2	-	(2)	-
<b>Derivatives – Currency</b>										
Options – seagull (sold put option USD)	-	-	(29)	-	(29)	-	-	(12)	-	(12)
Collar and forward/swap EUR	1	-	(1)	(1)	(1)	1	2	-	-	3
<b>Derivatives – interest rate</b>										
Options – purchased CAP	-	-	-	-	-	-	-	-	-	-
<b>Embedded derivatives</b>										
Acid and water supply contracts	-	-	(41)	(25)	(66)	-	-	(52)	(31)	(83)
Purchase contracts for metal-bearing materials	-	-	-	(34)	(34)	-	-	-	(9)	(9)
<b>TOTAL INSTRUMENTS INITIALLY DESIGNATED AS HEDGING INSTRUMENTS EXCLUDED FROM HEDGE ACCOUNTING, including:</b>	<b>-</b>	<b>44</b>	<b>-</b>	<b>(4)</b>	<b>40</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Derivatives – Commodity contracts – Copper</b>										
Options – seagull	-	44	-	-	44	-	-	-	-	-
<b>Derivatives – Currency</b>										
Options USD – collar	-	-	-	(4)	(4)	-	-	-	-	-
<b>TOTAL OPEN DERIVATIVES</b>	<b>243</b>	<b>222</b>	<b>(574)</b>	<b>(205)</b>	<b>(314)</b>	<b>124</b>	<b>293</b>	<b>(183)</b>	<b>(91)</b>	<b>143</b>

## Note 4.5 Liquidity risk and capital management

### Capital management policy

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

In accordance with market practice, the Group monitors its capital, among others on the basis of ratios presented in the table below:

Ratios	Calculations	30 June 2020	31 December 2019
<b>Net Debt/EBITDA</b>	relation of net debt to EBITDA	<b>1.6</b>	<b>1.5</b>
Net Debt	borrowings, debt securities and lease liabilities less free cash and cash equivalents	6 976	6 891
Adjusted EBITDA*	profit on sales plus depreciation/amortisation recognised in profit or loss and impairment losses on non-current assets	4 409	4 569
<b>Equity ratio</b>	relation of equity less intangible assets to total assets	<b>0.44</b>	<b>0.46</b>
Equity	assets of the Group after deducting all of its liabilities	20 404	20 202
Intangible assets	identifiable non-cash items of assets without a physical form	2 210	2 121
Equity less intangible assets		18 194	18 081
Total assets	sum of non-current and current assets	41 584	39 409

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

In the management of liquidity and capital, the Group also pays attention to adjusted operating profit, which is the basis for calculating the financial covenant and which is comprised of the following items:

	from 1 January 2020 to 30 June 2020	from 1 January 2019 to 31 December 2019
Profit on sales	1 140	2 455
Interest income on loans granted to joint ventures	193	341
Other operating income and (costs)	160	186
<b>Adjusted profit from operating activities*</b>	<b>1 493</b>	<b>2 982</b>

\*Presented amount does not include reversal of allowances for impairment of loans granted to joint ventures.

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.

### Liquidity management policy

The management of financial liquidity in the Group is performed based on the "Financial Liquidity Management Policy in the Group". The basic principles resulting from the Policy are:

- assuring the stable and effective financing of the Group's activities,
- continuous monitoring of the debt level of the Group,
- effective management of working capital, and
- co-ordinating by the Parent Entity of financial liquidity management processes in Group companies.

In the first half of 2020, the Group continued actions aimed at optimising the financial liquidity management process by concentrating mainly on the effective management of working capital through intensive use of the Reverse Factoring Program.

Under the process of liquidity management, the Group uses instruments which enhance its effectiveness. One of the primary instruments used by the Group is the cash pooling service, managed both locally in PLN, USD and EUR and internationally in USD and CAD.

### Net debt changes

Liabilities due to borrowing	As at 31 December 2019	Cash flows**	Accrued interest	Exchange differences	Other changes*	As at 30 June 2020
Bank loans	2 386	908	74	(93)	(18)	3 257
Loans	2 794	(33)	44	132	-	2 937
Debt securities - bonds	2 001	(34)	33	-	-	2 000
Leases	692	(68)	27	1	52	704
<b>Total debt</b>	<b>7 873</b>	<b>773</b>	<b>178</b>	<b>40</b>	<b>34</b>	<b>8 898</b>
Free cash and cash equivalents	982	940	-	-	-	1 922
<b>Net debt</b>	<b>6 891</b>	<b>(167)</b>	<b>178</b>	<b>40</b>	<b>34</b>	<b>6 976</b>

\* "Other changes" is in particular the value of leased assets in the reporting period, in the amount of PLN 51 million.

\*\* The amounts include cash flows due to capital instalments and interest paid.

### Details on external financing sources

As at 30 June 2020, the Group had open credit lines, loans and debt securities with a total balance of available financing being the equivalent of PLN 13 746 million, out of which PLN 8 194 million had been drawn.

The structure of external financing sources is presented below.

#### Unsecured, revolving syndicated credit facility

A credit facility in the amount of USD 1 500 million, obtained on the basis of a financing agreement concluded by the Parent Entity with a syndicate of banks in 2019 with a maturity of 19 December 2024, with an option to extend it by a further 2 years (5+1+1). The funds acquired through this credit facility are used to finance general corporate purposes. Interest is based on LIBOR plus a bank margin, depending on the net debt/EBITDA financial ratio. The credit facility agreement obliges the Group to comply with the financial covenant and non-financial covenants commonly stipulated in such agreements. In accordance with contractual terms, the Parent Entity is obliged to report the level of the financial covenant for the reporting periods, i.e. as at 30 June and as at 31 December. The Parent Entity continuously monitors the risk of exceeding the levels of the financial covenant stipulated in the credit facility agreement. As at the reporting date and after the reporting date, up to the signing of this Report, the value of the financial covenant complied with the provisions of the agreement.

	As at 30 June 2020	As at 30 June 2020	As at 31 December 2019
	Amount granted	Amount of the liability	Amount of the liability
	5 971	778	18

**Investment loans**

Loans, including loans granted to the Parent Entity by the European Investment Bank in the total amount of PLN 2 900 million:

1. Investment loan in the amount of PLN 2 000 million, with three instalments drawn and the payback periods expiring on 30 October 2026, 30 August 2028 and 23 May 2029 and utilised to the maximum available amount. The funds obtained through this loan were used to finance the Company's investment projects related to modernisation of metallurgy and development of the Żelazny Most tailings storage facility. The loan's instalments have a fixed interest rate.
2. Investment loan in the amount of PLN 900 million granted by the European Investment Bank in December 2017 with a financing period of 12 years, and the availability of instalments for a period of 34 months from the date of signing the agreement. To date, the Parent Entity has drawn three instalments under this loan with the payback periods expiring on 28 June 2030, 23 April 2031 and 11 September 2031. The funds acquired through this loan are used to finance the Parent Entity's projects related to development and replacement at various stages of the production process. The loan's instalments have a fixed interest rate.

The loan agreements with the European Investment Bank oblige the Group to comply with the financial covenant and non-financial covenants commonly stipulated in such types of agreements. In accordance with contractual terms, the Parent Entity is obliged to report the level of the financial covenant for the reporting periods, i.e. as at 30 June and as at 31 December. The Parent Entity continuously monitors the risk of exceeding the levels of the financial covenant stipulated in the loans agreements. As at the reporting date and after the reporting date, up to the signing of this Report, the value of the financial covenant complied with the provisions of the loans agreements.

As at 30 June 2020	As at 30 June 2020	As at 31 December 2019
Amount granted	Amount of the liability	Amount of the liability
3 109	2 937	2 794

**Other bank loans**

Bilateral bank loans granted to Group companies up to the total amount of PLN 2 666 million, are used for financing working capital and are a supporting tool in the management of financial liquidity and support financing of advanced investment undertakings. The Group holds lines of credit in the form of short-term and long-term credit agreements. The funds are available under open lines of credit in PLN, USD and EUR, with interest based on a fixed interest rate or variable WIBOR, LIBOR and EURIBOR plus a margin.

Some bank loan agreements oblige the Group to report for the reporting periods, i.e. as at 30 June and as at 31 December, the level of the financial covenant and non-financial covenants commonly stipulated in such types of agreements. The Parent Entity continuously monitors the risk of exceeding the level of the financial covenant stipulated in the bank loan agreements. As at the reporting date and after the reporting date, up to the signing of this Report, the value of the financial covenant complied with the provisions of the bank loan agreements.

As at 30 June 2020	As at 30 June 2020	As at 31 December 2019
Amount granted	Amount of the liability	Amount of the liability
2 666	2 479	2 368

<b>Debt securities - bonds</b>			
The Parent Entity's bond issue program was established on the Polish market by an issue agreement on 27 May 2019. The first issue with a nominal value of PLN 2 000 million took place on 27 June 2019, under which bonds were issued with a maturity of 5 years in the amount of PLN 400 million and a redemption date of 27 June 2024 as well as bonds with a maturity of 10 years in the amount of PLN 1 600 million and a redemption date of 27 June 2029. The nominal value of one bond is PLN 1 000, and the issue price is equal to the nominal value. The bonds' interest rate is based on variable WIBOR plus a margin. The funds from the issue of the bonds were used to finance general corporate purposes.			
	<b>As at 30 June 2020</b>	<b>As at 30 June 2020</b>	<b>As at 31 December 2019</b>
	<b>Amount granted</b>	<b>Amount of the liability</b>	<b>Amount of the liability</b>
	2 000	2 000	2 001
<b>Total bank and other loans, bonds</b>	<b>13 746</b>	<b>8 194</b>	<b>7 181</b>

The aforementioned sources fully cover the current, medium and long-term liquidity needs of the Group.

### Cash and cash equivalents

	<b>As at 30 June 2020</b>	<b>As at 31 December 2019</b>
Cash in bank accounts	1 217	630
Other financial assets with a maturity of up to 3 months from the date of acquisition - deposits	732	384
Other cash	2	2
<b>Total</b>	<b>1 951</b>	<b>1 016</b>

### Liabilities due to guarantees granted

Guarantees and letters of credit are an essential financial liquidity management tool 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 30 June 2020, the Group held liabilities due to guarantees and letters of credit granted in the total amount of PLN 2 504 million and due to promissory notes in the amount of PLN 144 million.

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

**Sierra Gorda S.C.M.** – securing the performance of concluded agreements in the amount of PLN 2 092 million:

- a letter of credit of PLN 547 million (USD 138 million) granted as security for the proper performance of a long-term contract for the supply of electricity,
- PLN 38 million (USD 10 million) as corporate guarantees (finance) set as security on the payment due to concluded agreements,
- PLN 1 086 million (USD 273 million) as corporate guarantees (finance) securing repayment of bank loans,
- PLN 383 million (USD 96 million) as a corporate guarantee securing repayment of a specified part of payment to a guarantee set by Sumitomo Metal Mining Co., Ltd. and Sumitomo Corporation, securing repayment of a corporate credit drawn by the joint venture Sierra Gorda S.C.M.,
- PLN 38 million (USD 9 million) as 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 200 million (USD 50 million) securing the proper execution by DMC Mining Services (UK) Ltd. and DMC Mining Services Ltd. of the contract for shaft sinking under the project conducted in the United Kingdom,
- PLN 177 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 24 million (PLN 6 million, USD 3 million, and CAD 2 million) securing the obligations related to proper execution of concluded agreements.

**Note 4.6 Employee benefits liabilities**

	As at 30 June 2020	As at 31 December 2019
Non-current liabilities	2 874	2 613
Current liabilities	172	157
<b>Liabilities due to future employee benefits programs</b>	<b>3 046</b>	<b>2 770</b>
Remuneration liabilities	161	281
Social insurance liabilities	282	243
Accruals (unused annual leave, bonuses, other)	563	469
<b>Other current employee benefits liabilities</b>	<b>1 006</b>	<b>993</b>
<b>Total employee benefits liabilities</b>	<b>4 052</b>	<b>3 763</b>

Discount rate adopted for the measurement of liabilities due to future employee benefits programs in the Parent Entity as at 30 June 2020.

	2020	2021	2022	2023	2024 and beyond
- discount rate	1.30%	1.30%	1.30%	1.30%	1.30%

Discount rate adopted for the measurement of liabilities due to future employee benefits programs in the Parent Entity as at 31 December 2019.

	2020	2021	2022	2023	2024 and beyond
- discount rate	2.00%	2.00%	2.00%	2.00%	2.00%

**Note 4.7 Provisions for decommissioning costs of mines and other technological facilities**

	from 1 January 2020 to 30 June 2020	from 1 January 2019 to 31 December 2019
<b>Provisions at the beginning of the reporting period</b>	<b>1 794</b>	<b>1 576</b>
Changes in estimates recognised in fixed assets	47	166
Other	49	52
<b>Provisions at the end of the reporting period, of which:</b>	<b>1 890</b>	<b>1 794</b>
- non-current provisions	1 870	1 774
- current provisions	20	20

**Note 4.8 Related party transactions**

	from 1 January 2020 to 30 June 2020	from 1 January 2019 to 30 June 2019
<b>Operating income from related entities</b>		
Revenues from sales of products, merchandise and materials to a joint venture	10	11
Interest income on loans granted to joint ventures	193	166
Revenues from other transactions with joint ventures	222	19
Revenues from other transactions with other related parties	6	18
<b>Total</b>	<b>431</b>	<b>214</b>



	from 1 January 2020 to 30 June 2020	from 1 January 2019 to 30 June 2019
<b>Purchases from related entities</b>		
Purchase of services, merchandise and materials from other related parties	25	24
Other purchase transactions from other related parties	2	1
<b>Total</b>	<b>27</b>	<b>25</b>
	As at 30 June 2020	As at 31 December 2019
<b>Trade and other receivables from related parties</b>		
From the joint venture Sierra Gorda S.C.M. (loans)	6 159	5 694
From the joint venture Sierra Gorda S.C.M. (other)	461	397
From other related parties	15	3
<b>Total</b>	<b>6 635</b>	<b>6 094</b>
	As at 30 June 2020	As at 31 December 2019
<b>Trade and other payables towards related parties</b>		
Towards joint ventures	35	19
Towards other related parties	14	3
<b>Total</b>	<b>49</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 on the disclosure of detailed information on transactions with the Polish Government and entities controlled or jointly controlled by the Polish Government, or over which the Polish Government has significant influence (IAS 24.25).

Pursuant to the scope of IAS 24.26, as at 30 June 2020, the Group concluded the following transactions with the Polish Government and entities controlled or jointly controlled by the Polish Government, unusual due to their nature or amount:

- due to an agreement on setting mining usufruct for the extraction of mineral resources: fixed fees and setting mining usufruct for the exploration for and assessment of mineral resources –total payables amounted to PLN 169 million (as at 31 December 2019: PLN 174 million); variable fee (recognised in costs) on setting mining usufruct for the extraction of mineral resources - payables in the amount of PLN 15 million (as at 31 December 2019: PLN 29 million),
- due to a reverse factoring agreement with the company PEKAO FAKTORING SP. Z O.O. - payables in the amount of PLN 945 million, paid interest costs in the amount of PLN 7 million (as at 31 December 2019, payables in the amount of PLN 596 million and paid interest costs for 2019 in the amount of PLN 1 million),
- 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 forward currency market and establishing letters of credit,

Apart from the aforementioned transactions entered into by the Group with the Polish Government and with entities controlled or jointly controlled by the Polish Government, or over which the government has significant influence, which were significant due to their nature and the amount, there also occurred transactions arising from extraordinary administrative orders based on art. 11 of the act dated 2 March 2020 on particular solutions related to preventing and counteracting COVID-19, other infectious diseases and the crisis-related situations caused thereby (Journal of laws from 2020, item 374 with subsequent amendments), involving the sale of personal protective equipment in the amount of PLN 104 million. The unsettled balance of receivables due to these transactions as at 30 June 2020 amounted to PLN 128 million.

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

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

- the purchase of goods (energy, fuels, services) to meet the needs of current operating activities. In the period from 1 January to 30 June 2020, the turnover from these transactions amounted to PLN 593 million (from 1 January to 30 June 2019: PLN 478 million), and, as at 30 June 2020, the unsettled balance of liabilities from these transactions amounted to PLN 194 million (as at 31 December 2019: PLN 187 million),
- sales to Polish State Treasury Companies. In the period from 1 January to 30 June 2020, the turnover from these sales amounted to PLN 50 million (from 1 January to 30 June 2019: PLN 35 million), and, as at 30 June 2020, the unsettled balance of receivables from these transactions amounted to PLN 13 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 30 June 2020</b>	<b>from 1 January 2019 to 30 June 2019</b>
Remuneration due to service in the Supervisory Board, salaries and other current employee benefits	834	940
<b>Remuneration of the Management Board of the Parent Entity (in PLN thousands)</b>	<b>from 1 January 2020 to 30 June 2020</b>	<b>from 1 January 2019 to 30 June 2019</b>
Remuneration during the term of a member of the Management Board's mandate	2 374	1 916
Benefits due to termination of employment	-	12
<b>Total</b>	<b>2 374</b>	<b>1 928</b>
<b>Remuneration of other key managers (in PLN thousands)</b>	<b>from 1 January 2020 to 30 June 2020</b>	<b>from 1 January 2019 to 30 June 2019</b>
Salaries and other current employee benefits	1 189	2 135

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 4.9 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 30 June 2020</b>	<b>As at 31 December 2019</b>
<b>Contingent assets</b>	<b>596</b>	<b>630</b>
Guarantees received	349	356
Promissory notes receivables	119	120
Other	128	154
<b>Contingent liabilities</b>	<b>1 625</b>	<b>1 882</b>
Note 4.5 Guarantees and letters of credit	1 379	1 607
Note 4.5 Promissory note liability	144	144
Liabilities due to implementation of projects and inventions	7	8
Other	95	123
<b>Other liabilities not recognised in the statement of financial position</b>	<b>104</b>	<b>107</b>
Liabilities towards local government entities due to expansion of the tailings storage facility	104	107

#### Note 4.10 Other adjustments in the consolidated statement of cash flows

	<b>from 1 January 2020 to 30 June 2020</b>	<b>from 1 January 2019 to 30 June 2019</b>
Profit or loss due to measurement and realisation of derivatives related to sources of external financing	6	-
Other	4	13
<b>Total</b>	<b>10</b>	<b>13</b>

**Note 4.11 Changes in working capital**

	Inventories	Trade receivables	Trade payables	Similar payables – reverse factoring	Working capital
<b>As at 1 January 2020</b>	(4 741)	( 795)	2 344	596	(2 596)
<b>As at 30 June 2020</b>	(4 615)	( 863)	2 080	945	(2 453)
<b>Change in the statement of financial position</b>	<b>126</b>	<b>( 68)</b>	<b>( 264)</b>	<b>349</b>	<b>143</b>
Exchange differences from the translation of statements of operations with a functional currency other than PLN	27	18	( 8)	-	37
Depreciation/amortisation recognised in inventories	18	-	-	-	18
Payables due to the purchase of property, plant and equipment and intangible assets	-	-	254	( 20)	234
<b>Adjustments</b>	<b>45</b>	<b>18</b>	<b>246</b>	<b>( 20)</b>	<b>289</b>
<b>Change in the statement of cash flows</b>	<b>171</b>	<b>( 50)</b>	<b>( 18)</b>	<b>329</b>	<b>432</b>

	Inventories	Trade receivables	Trade payables	Similar payables – reverse factoring	Working capital
<b>As at 1 January 2019</b>	(4 983)	( 961)	2 224	-	(3 720)
<b>As at 30 June 2019</b>	(5 277)	( 888)	2 050	-	(4 115)
<b>Change in the statement of financial position</b>	<b>( 294)</b>	<b>73</b>	<b>( 174)</b>	<b>-</b>	<b>( 395)</b>
Exchange differences from the translation of statements of operations with a functional currency other than PLN	( 4)	( 3)	1	-	( 6)
Depreciation/amortisation recognised in inventories	34	-	-	-	34
Payables due to the purchase of property, plant and equipment and intangible assets	-	-	224	-	224
Other	1	-	( 3)	-	( 2)
<b>Adjustments</b>	<b>31</b>	<b>( 3)</b>	<b>222</b>	<b>-</b>	<b>250</b>
<b>Change in the statement of cash flows</b>	<b>( 263)</b>	<b>70</b>	<b>48</b>	<b>-</b>	<b>( 145)</b>

## Part 5 – Additional information to the consolidated half-year report

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

In the first half of 2020, the subsidiary Pebeka Canada Inc. was liquidated.

The aforementioned transaction did not have a significant impact on these consolidated financial statements.

### Note 5.2 Seasonal or cyclical activities

The Group is not affected by seasonal or cyclical activities.

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

In the first half of 2020, there was no redemption or repayment of debt and equity securities in the Group.

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

In accordance with Resolution No. 7/2020 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 19 June 2020 regarding the appropriation of profit for the year ended 31 December 2019, the entire amount of the profit of PLN 1 264 million was transferred to the Company's reserve capital, including PLN 7 million to the reserve capital created in accordance with art. 396 § 1 of the Commercial Partnerships and Companies Code.

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

All shares of the Parent Entity are ordinary shares.

### Note 5.5 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 a 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, 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 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.

**Note 5.6 Impact of the COVID – 19 (coronavirus) epidemic on the activities of the KGHM Polska Miedź S.A. Group in the first half of 2020**

The epidemic-related situation caused by COVID-19 did not have a material impact on the operations or financial results of the segment KGHM Polska Miedź S.A. in the first half of 2020 or on achievement of the budget.

As a result of the epidemic there was a decrease in metals prices in the initial months of 2020, though the resulting drop in the Company's revenues was offset to a substantial degree by the weakening of the PLN. Consequently the price of copper for the first half of 2020 amounted to 21 966 PLN/t versus 23 428 PLN/t in the corresponding period of 2019. In turn, the uncertain outlook for the global economy led to a rise in the prices of silver and gold, which in PLN-terms were higher respectively by 15% and 33%. The factors affecting metals prices are described in detail in section 2 of the Management Board's Report, Macroeconomic sales conditions, while their impact on the results achieved is described in individual operating segments in sections 3-5 of the Management Board's Report.

The Company's share price in the first half of 2020 fell by 5% as compared to the share price from the end of 2019 and at the close of trading on 30 June 2020 amounted to PLN 90.90. During the same period WIG and WIG20 indices fell by 14% and 18%, respectively. As a result, the Company's market capitalisation decreased from PLN 19 116 million to PLN 18 180 million, and therefore reached a level 11% below the value of net assets. As a result of the assessment, it was judged that there was no relation between the fall in the share price of KGHM Polska Miedź S.A. and the Polish activities of the Parent Entity, and as a result it was decided that there was no risk of impairment of the Polish production assets of KGHM Polska Miedź S.A.

At the end of the second quarter of 2020, there was a significant improvement on the commodities market, which was reflected in a substantial increase in the copper price from 4 797 USD/t at the end of the first quarter to 6 038 USD/t at the end of the second quarter of 2020, which was continued in the third quarter reaching 6 439 USD/t on 17 August 2020. A similar increase was noted with respect to the Company's share price, which on 17 August 2020 amounted to PLN 135.95. The increase in share price of the Parent Entity resulted in an increase in the Company's market capitalisation, which as at 17 August 2020 amounted to PLN 27 190 million, which is 34% higher than the value of net assets.

One of the factors arising from the pandemic was the restricted access to copper scrap in the first half of 2020. Because of this there was a change in the structure of production in KGHM Polska Miedź S.A., reflected in the fact that the level of copper production from own concentrate remained at a similar level compared to the previous year and was higher as compared to the budget targets for 2020.

Due to the above, KGHM Polska Miedź S.A.'s revenues in the first half of 2020 amounted to PLN 8 897 million, which is a 1% increase as compared to the first half of 2019, that is the period before the epidemic. EBITDA increased from PLN 1 919 million to PLN 1 931 million after the first six months of 2020. In the Company's opinion, the improvement in operating results indicates that the epidemic situation did not have a significant impact on the operating results achieved by KGHM Polska Miedź S.A. in the first half of 2020.

In terms of the international mining assets, the epidemic impacted the operating results, mainly through the drops in the prices of copper and molybdenum. It should however be noted that only KGHM INTERNATIONAL LTD. recorded a decrease in EBITDA, though in this case the drop in the copper market was not the main reason for the lower revenues.

The epidemic situation in Chile impacted the execution of the schedule of sales of copper produced by Sierra Gorda. Due to stoppages in the port of Antofagasta, the shipments of some parties of copper were deferred from the first to the second quarter of 2020 which, combined with the lower prices, led to relatively weak results in the first quarter of 2020. It should however be noted that in the second quarter of 2020 the situation decidedly improved, with the result that EBITDA achieved by Sierra Gorda S.C.M. for the first half of 2020 reached a level (in PLN) which was 23% higher than in the corresponding period of 2019 and similar to the budget target.

There were no production stoppages either in KGHM Polska Miedź S.A., in any of the international mines of the KGHM Polska Miedź S.A. Group or in Sierra Gorda S.C.M., which would have been directly attributable to the pandemic. As a result, copper production by the Group in the first half of 2020 amounted to 280.8 thousand tonnes, which means a level comparable to the one achieved a year earlier and similar to the budget target for the first half of 2020.

The greatest impact of the COVID-19 epidemic was on the Group's secondary activities involving the hotel and spa services of the companies Uzdrowiska Kłodzkie S.A. - Grupa PGU, Uzdrowisko Połczyn Grupa PGU S.A., Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU, Uzdrowisko Świeradów - Czerniawa Sp. z o.o. - Grupa PGU, INTERFERIE S.A. and Interferie Medical SPA Sp. z o.o. In the second quarter of 2020 there occurred substantial interruptions to the daily

operations of these companies, caused by the forced lockdown and the restrictions imposed on their activities by Decrees of the Minister of Health. As a result, decisions were made to temporarily close certain facilities. The activities of these spa and hotel companies were also affected by the introduction of other regulations, such as those affecting the ability of employees to work, or adding selected facilities of the spa companies to the list of facilities designated to serve as quarantine facilities.

Restrictions related to COVID-19 caused lower revenues in the first half of 2020 in spa companies by 40% and by 55% in hotel companies, compared to revenues for the first half of 2019, and in comparison to planned revenues respectively at the level of 56% and 50%, which represented indications for the performance of impairment testing on the assets of these companies and the recognition of impairment losses on these assets. The detailed results of the tests are presented in these financial statements in Part 1, Note 1.6.

Moreover, it should be noted that the recorded decrease in revenues, and therefore a decrease of the operating profit, resulted in breaching the commitment by spa companies (arising from signed bank loan agreements) to maintain a DSCR ratio at the level of not less than 1.2 as at the end of the first half of 2020. However, the spa companies obtained statements from the creditors that they will not impose sanctions stipulated in the bank loan agreements.

As for the spa and hotel companies, it should be noted that, subsequent to the lock-down period and the re-start of their main activities, these companies have been operating without significant disruptions and offering all of their services under an intensified sanitary regime. When the facilities were temporarily closed, a number of safety procedures in the spas and hotels of the KGHM Polska Miedź S.A. Group were introduced, aimed at ensuring the safety of patients, hotel guests and companies' employees against the risk of infection by the COVID-19 virus.

In the second half of 2020, a gradual return to the level of activities, services and revenues generated prior to the crisis is expected. Despite the on-going state of epidemic, the spa and hotel facilities are recording a mounting interest in their services by domestic clients, including increased interest in seaside facilities.

The spa and hotel companies of KGHM Polska Miedź S.A. have joined the Polski Bon Turystyczny (Polish Tourist Voucher) program and have submitted applications to the Polski Fundusz Rozwoju (Polish Development Fund) for financing under the Anti – Crisis Shield for large enterprises.

With respect to other Polish companies of the KGHM Polska Miedź S.A. Group, the epidemic situation in the first half of 2020 did not have a significant impact on the operating results of these entities.

Considering the aforementioned factors, KGHM Polska Miedź S.A. believes that although there exists the risk of development of the epidemic in the second half of 2020, its impact on the future results as regards mining activities is not possible to determine at the present time. Assessment of the risk related to the COVID-19 pandemic is described in greater detail in the Management Board's Report on the Activities of the Group.

Table 1. Basic assumptions of the Budget for 2020 compared to execution in the first half of 2019 and 2020.

		Execution 1st half of 2019	Execution 1st half of 2020	Budget 2020	Change (%)
<b>KGHM Polska Miedź S.A.</b>					
Production of copper in concentrate	kt	200.2	198.8	399.2	49.8
Production of silver in concentrate	t	633.1	617.0	1 448	42.6
Electrolytic copper production, including:	kt	286.7	280.8	563	49.9
- from own concentrate	kt	207.5	205.8	410.3	50.2
Metallic silver production	t	704.6	695.0	1 432	48.5
Copper products sales volume	kt	279.8	277.0	565.7	49.0
- including in concentrate	kt	-	-	4.9	x
Silver products sales volume	t	705.8	709.4	1 451	48.9
- including in concentrate	t	-	-	14	x
Total unit cost of electrolytic copper production from own concentrate	PLN/t	17 791	17 640	19 297	91.4
Capital expenditures on property, plant and equipment <sup>(1)</sup>	PLN mn	1 019	1 024	2 250	45.5
Other expenditures, including loans <sup>(2)</sup>	PLN mn	454	314	365	86.0
<b>KGHM INTERNATIONAL LTD.</b>					
Payable copper production	kt	36.0	30.7	71.7	42.8
TPM production	koz t	38.9	38.2	62.8	60.8
<b>Sierra Gorda (55%)</b>					
Payable copper production	kt	29.2	39.2	78.7	49.8
Molybdenum production	mn lbs	5.7	5.0	8.8	56.8
<b>Adjusted EBITDA</b>					
KGHM Polska Miedź S.A.	PLN mn	1 919	1 931	x <sup>(3)</sup>	x
KGHM INTERNATIONAL LTD.	PLN mn	336	162	x <sup>(3)</sup>	x
Sierra Gorda (55%)	PLN mn	349	428	x <sup>(3)</sup>	x
Other segments	PLN mn	128	130	x <sup>(3)</sup>	x
<b>Total segments</b>	PLN mn	<b>2 732</b>	<b>2 651</b>	x <sup>(3)</sup>	x

<sup>1)</sup> Excluding expenditures on development work – uncompleted.

<sup>2)</sup> Acquisition of shares and investment certificates of subsidiaries and related entities and loans granted to these entities. Reflects an adjustment to the assumption in accordance with the regulatory filing no. 9/2020 dated 12 May 2020.

<sup>3)</sup> the Company does not publish financial forecasts .

#### Note 5.7 Subsequent events after the reporting period

##### An increase in the share capital of the subsidiary KGHM ZANAM S.A.

On 21 July 2020, the Extraordinary General Meeting of the Company KGHM ZANAM S.A. adopted a resolution on the increase in the share capital by the amount of PLN 22 million. All of the shares were acquired by the Parent Entity. The shares were paid for in cash on 28 July 2020.

Funds from the increase in share capital will be used by KGHM ZANAM S.A. to advance investment projects and repay liabilities towards KGHM Polska Miedź S.A.

##### Conclusion of a project advanced by DMC Mining Services (UK) Ltd.

On 31 July 2020, DMC Mining Services (UK) Ltd. (DMC), a company of the KGHM INTERNATIONAL LTD. Group, received a notice from an employer announcing, as of 28 August 2020, the end of work undertaken by DMC on a project in the United Kingdom. DMC is currently cooperating with the customer as regards handing over the worksite and project assets. At the same time, DMC is intensively working to acquire new projects to support its on-going operations. Based on the known facts and circumstances, the ending of this project will not trigger any requirement for additional claims or additional provisions as of 30 June 2020.

##### Death of a member of the Supervisory Board

The Management Board of KGHM Polska Miedź S.A. on 3 August 2020 was informed of the death of Member of the Supervisory Board of KGHM Polska Miedź S.A. Ireneusz Pasis. Mr. Ireneusz Pasis served as a Member of the Supervisory Board of the Company from 6 July 2018.

##### Annex to a bank loan agreement of subsidiaries INTERFERIE S.A. and INTERFERIE MEDICAL SPA Sp. z o.o.

On 12 August 2020, an annex was signed to a credit agreement between: BANK POLSKA KASA OPIEKI SPÓŁKA AKCYJNA with its head office in Warsaw and INTERFERIE S.A. and INTERFERIE MEDICAL SPA Sp. z o.o. Pursuant to the annex, the bank loan was increased from PLN 28 million to PLN 42 million.

## Part 6 – Quarterly financial information of the Group

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	from 1 April 2020 to 30 June 2020*	from 1 April 2019 to 30 June 2019*	from 1 January 2020 to 30 June 2020	from 1 January 2019 to 30 June 2019
Revenues from contracts with customers	5 649	5 740	10 948	11 228
Note 6.1 Cost of sales	(4 648)	(4 705)	(9 134)	(9 146)
<b>Gross profit</b>	<b>1 001</b>	<b>1 035</b>	<b>1 814</b>	<b>2 082</b>
Note 6.1 Selling costs and administrative expenses	( 356)	( 369)	( 674)	( 677)
<b>Profit on sales</b>	<b>645</b>	<b>666</b>	<b>1 140</b>	<b>1 405</b>
Share of losses of joint ventures accounted for using the equity method	( 210)	( 63)	( 210)	( 63)
Interest income on loans granted to joint ventures calculated using the effective interest rate method	97	84	193	166
Profit or loss on involvement in joint ventures	( 113)	21	( 17)	103
Note 6.2 Other operating income	96	145	591	264
Note 6.2 Other operating costs	( 776)	( 312)	( 431)	( 234)
Note 6.3 Finance income	433	168	35	61
Note 6.3 Finance costs	( 107)	( 74)	( 211)	( 147)
<b>Profit before income tax</b>	<b>178</b>	<b>614</b>	<b>1 107</b>	<b>1 452</b>
Income tax expense	( 169)	( 196)	( 408)	( 482)
<b>PROFIT FOR THE PERIOD</b>	<b>9</b>	<b>418</b>	<b>699</b>	<b>970</b>
profit for the period attributable to:				
Shareholders of the Parent Entity	10	417	702	969
Non-controlling interest	( 1)	1	( 3)	1
<b>Weighted average number of ordinary shares (million)</b>	<b>200</b>	<b>200</b>	<b>200</b>	<b>200</b>
<b>Basic and diluted earnings per share (in PLN)</b>	<b>0.05</b>	<b>2.09</b>	<b>3.51</b>	<b>4.85</b>

\* Data not subject to review.



## Explanatory notes to the condensed consolidated statement of profit or loss

### Note 6.1 Expenses by nature

	from 1 April 2020 to 30 June 2020*	from 1 April 2019 to 30 June 2019*	from 1 January 2020 to 30 June 2020	from 1 January 2019 to 30 June 2019
Depreciation of property, plant and equipment and amortisation of intangible assets	489	465	988	961
Employee benefits expenses	1 430	1 363	2 798	2 707
Materials and energy	1 753	1 984	3 698	4 025
External services	505	646	1 012	1 124
Minerals extraction tax	334	446	678	866
Other taxes and charges	127	128	266	260
Revaluation of inventories	14	2	82	(4)
Impairment losses on property, plant and equipment and intangible assets	65	-	92	-
Other costs	45	61	90	109
<b>Total expenses by nature</b>	<b>4 762</b>	<b>5 095</b>	<b>9 704</b>	<b>10 048</b>
Cost of merchandise and materials sold (+)	251	179	399	382
Change in inventories of finished goods and work in progress (+/-)	263	170	223	12
Cost of manufacturing products for internal use of the Group (-)	(272)	(370)	(518)	(619)
<b>Total costs of sales, selling costs and administrative expenses, of which:</b>	<b>5 004</b>	<b>5 074</b>	<b>9 808</b>	<b>9 823</b>
Cost of sales	4 648	4 705	9 134	9 146
Selling costs	109	104	212	202
Administrative expenses	247	265	462	475

\* Data not subject to review.

**Note 6.2 Other operating income and (costs)**

	from 1 April 2020 to 30 June 2020*	from 1 April 2019 to 30 June 2019*	from 1 January 2020 to 30 June 2020	from 1 January 2019 to 30 June 2019
Measurement of derivatives	(39)	33	102	70
Realisation of derivatives	59	27	77	40
Exchange differences on assets and liabilities other than borrowings	-	-	264	-
Interest income calculated using the effective interest rate method	2	2	4	5
Release of provisions	(13)	44	2	52
Government grants received	9	16	12	26
Income from servicing of letters of credit and guarantees	5	4	22	18
Compensation, fines and penalties received	6	4	9	18
Other	67	15	99	35
<b>Total other operating income</b>	<b>96</b>	<b>145</b>	<b>591</b>	<b>264</b>
Measurement of derivatives	50	5	(110)	(13)
Realisation of derivatives	(109)	(63)	(185)	(110)
Impairment losses on financial instruments	3	-	(6)	(3)
Exchange differences on assets and liabilities other than borrowings	(687)	(217)	-	(6)
Provisions recognised	(34)	(7)	(37)	(18)
Losses on the sale of intangible assets	(28)	(4)	(36)	(6)
Donations given	(2)	(4)	(23)	(24)
Other	31	(22)	(34)	(54)
<b>Total other operating costs</b>	<b>(776)</b>	<b>(312)</b>	<b>(431)</b>	<b>(234)</b>
<b>Other operating income and (costs)</b>	<b>(680)</b>	<b>(167)</b>	<b>160</b>	<b>30</b>

\* Data not subject to review.

**Note 6.3 Finance income and (costs)**

	from 1 April 2020 to 30 June 2020*	from 1 April 2019 to 30 June 2019*	from 1 January 2020 to 30 June 2020	from 1 January 2019 to 30 June 2019
Exchange differences on borrowings	398	165	-	58
Realisation of derivatives	35	2	35	2
Other	-	1	-	1
<b>Total finance income</b>	<b>433</b>	<b>168</b>	<b>35</b>	<b>61</b>
Interest on borrowings, including:	(51)	(45)	(96)	(85)
leases	(5)	(10)	(10)	(17)
Bank fees and charges on borrowings	(11)	(8)	(17)	(14)
Exchange differences on borrowings	-	-	(37)	-
Measurement of derivatives	2	(4)	(1)	(16)
Realisation of derivatives	(40)	(3)	(40)	(3)
Other	(7)	(14)	(20)	(29)
<b>Total finance costs</b>	<b>(107)</b>	<b>(74)</b>	<b>(211)</b>	<b>(147)</b>
<b>Finance income and (costs)</b>	<b>326</b>	<b>94</b>	<b>(176)</b>	<b>(86)</b>

\* Data not subject to review.

## Condensed financial statements of KGHM Polska Miedź S.A.

### STATEMENT OF PROFIT OR LOSS

		from 1 January 2020 to 30 June 2020	from 1 January 2019 to 30 June 2019
Note 2.1	Revenues from contracts with customers	8 897	8 831
Note 2.2	Cost of sales	(7 121)	(7 056)
	<b>Gross profit</b>	<b>1 776</b>	<b>1 775</b>
Note 2.2	Selling costs and administrative expenses	( 440)	( 442)
	<b>Profit on sales</b>	<b>1 336</b>	<b>1 333</b>
Note 2.3	Other operating income, including:	669	669
	interest income calculated using the effective interest rate method	140	131
	reversal of impairment losses on financial instruments	-	112
Note 2.3	Other operating costs, including:	( 713)	( 217)
	recognition of impairment losses on financial instruments	( 88)	( 10)
Note 2.4	Finance income	35	60
Note 2.4	Finance costs	( 186)	( 133)
	<b>Profit before income tax</b>	<b>1 141</b>	<b>1 712</b>
	Income tax expense	( 394)	( 485)
	<b>PROFIT FOR THE PERIOD</b>	<b>747</b>	<b>1 227</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>3.74</b>	<b>6.14</b>

### STATEMENT OF COMPREHENSIVE INCOME

		from 1 January 2020 to 30 June 2020	from 1 January 2019 to 30 June 2019
	<b>Profit for the period</b>	<b>747</b>	<b>1 227</b>
	Measurement of hedging instruments net of the tax effect	( 269)	( 60)
	<b>Other comprehensive income, which will be reclassified to profit or loss</b>	<b>( 269)</b>	<b>( 60)</b>
	Measurement of equity financial instruments at fair value through other comprehensive income, net of the tax effect	107	( 70)
	Actuarial losses net of the tax effect	( 233)	( 120)
	<b>Other comprehensive income, which will not be reclassified to profit or loss</b>	<b>( 126)</b>	<b>( 190)</b>
	<b>Total other comprehensive net income</b>	<b>( 395)</b>	<b>( 250)</b>
	<b>TOTAL COMPREHENSIVE INCOME</b>	<b>352</b>	<b>977</b>

## STATEMENT OF CASH FLOWS

	from 1 January 2020 to 30 June 2020	from 1 January 2019 to 30 June 2019
<b>Cash flow from operating activities</b>		
Profit before income tax	1 141	1 712
Depreciation/amortisation recognised in profit or loss	595	586
Interest on investment activities	( 128)	( 115)
Interest on borrowings	105	93
Dividends income	( 15)	( 37)
Fair value gains on financial assets measured at fair value through profit or loss	( 107)	( 141)
Impairment losses on non-current assets	215	10
Reversal of impairment losses on non-current assets	-	( 112)
Exchange differences, of which:	( 210)	25
from investing activities and on cash	( 246)	83
from financing activities	36	( 58)
Change in provisions and employee benefits liabilities	( 56)	( 69)
Change in other receivables and liabilities other than working capital	21	( 259)
Change in assets/liabilities due to derivatives	291	( 35)
Reclassification of other comprehensive income to profit or loss due to the realisation of hedging derivatives	( 154)	( 15)
Note 3.10 Other adjustments	66	39
Exclusions of income and costs, total	623	( 30)
Income tax paid	( 372)	( 321)
Note 3.9 Changes in working capital, including:	533	( 92)
Note 3.9 change in trade payables transferred to factoring	329	-
<b>Net cash generated from operating activities</b>	<b>1 925</b>	<b>1 269</b>
<b>Cash flow from investing activities</b>		
Expenditures on mining and metallurgical assets, including:	( 1 170)	( 1 254)
paid capitalised interest on borrowings	( 64)	( 72)
Expenditures on other property, plant and equipment and intangible assets	( 38)	( 58)
Expenditures due to acquisition of shares and investment certificates	( 7)	( 391)
Loans granted	( 270)	( 63)
Proceeds from redemption of investment certificates	-	391
Advances granted on property, plant and equipment and intangible assets	( 40)	( 16)
Other	( 20)	( 9)
<b>Net cash used in investing activities</b>	<b>( 1 545)</b>	<b>( 1 400)</b>
<b>Cash flow from financing activities</b>		
Proceeds from borrowings	4 052	3 423
Proceeds from issue of debt financial instruments	-	2 000
Expenses due to cash pooling	-	( 30)
Proceeds from cash pooling	50	-
Repayment of borrowings	( 3 142)	( 5 016)
Repayment of lease liabilities	( 29)	( 13)
Interest paid	( 128)	( 99)
Proceeds from derivatives related to sources of external financing	33	-
Expenditures due to derivatives related to sources of external financing	( 40)	-
<b>Net cash generated from financing activities</b>	<b>796</b>	<b>265</b>
<b>NET CASH FLOW</b>		
Exchange gains/(losses) on cash and cash equivalents	15	( 35)
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>1 707</b>	<b>726</b>
restricted cash	19	3

## STATEMENT OF FINANCIAL POSITION

	As at 30 June 2020	As at 31 December 2019
<b>ASSETS</b>		
Mining and metallurgical property, plant and equipment	18 459	18 092
Mining and metallurgical intangible assets	671	651
Mining and metallurgical property, plant and equipment and intangible assets	19 130	18 743
Other property, plant and equipment	99	103
Other intangible assets	58	61
Other property, plant and equipment and intangible assets	157	164
Investments in subsidiaries	2 823	2 946
Note 3.3 Loans granted, including:	7 871	7 217
measured at fair value through profit or loss	2 594	2 271
measured at amortised cost	5 277	4 946
Note 3.2 Derivatives	242	123
Other financial instruments measured at fair value through other comprehensive income	534	403
Other financial instruments measured at amortised cost	486	457
Note 3.2 Financial instruments, total	9 133	8 200
Other non-financial assets	60	58
<b>Non-current assets</b>	<b>31 303</b>	<b>30 111</b>
Inventories	3 624	3 783
Note 3.2 Trade receivables, including:	334	243
trade receivables measured at fair value through profit or loss	120	139
Tax assets	343	435
Note 3.2 Derivatives	222	291
Cash pooling receivables	265	335
Other financial assets	295	221
Other non-financial assets	192	54
Note 3.2 Cash and cash equivalents	1 707	516
<b>Current assets</b>	<b>6 982</b>	<b>5 878</b>
<b>TOTAL ASSETS</b>	<b>38 285</b>	<b>35 989</b>
<b>EQUITY AND LIABILITIES</b>		
Share capital	2 000	2 000
Other reserves from measurement of financial instruments	(860)	(698)
Accumulated other comprehensive income	(855)	(622)
Retained earnings	19 956	19 209
<b>Equity</b>	<b>20 241</b>	<b>19 889</b>
Note 3.2 Borrowings, lease and debt securities	7 304	7 215
Note 3.2 Derivatives	532	131
Note 3.5 Employee benefits liabilities	2 626	2 363
Note 3.6 Provisions for decommissioning costs of mines and other technological facilities	1 150	1 119
Deferred tax liabilities	27	60
Other liabilities	221	217
Non-current liabilities	11 860	11 105
Note 3.2 Borrowings, lease and debt securities	1 104	275
Note 3.2 Cash pooling liabilities	180	130
Note 3.2 Derivatives	179	60
Note 3.2 Trade and similar payables	2 640	2 460
Note 3.5 Employee benefits liabilities	905	890
Tax liabilities	263	258
Provisions for liabilities and other charges	123	158
Other liabilities	790	764
Current liabilities	6 184	4 995
<b>Non-current and current liabilities</b>	<b>18 044</b>	<b>16 100</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>38 285</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	-	-	-	1 227	1 227
Other comprehensive income	-	( 130)	( 120)	-	( 250)
Total comprehensive income	-	( 130)	( 120)	1 227	977
<b>As at 30 June 2019</b>	<b>2 000</b>	<b>( 437)</b>	<b>( 713)</b>	<b>19 172</b>	<b>20 022</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	-	-	-	747	747
Other comprehensive income	-	( 162)	( 233)	-	( 395)
Total comprehensive income	-	( 162)	( 233)	747	352
<b>As at 30 June 2020</b>	<b>2 000</b>	<b>( 860)</b>	<b>( 855)</b>	<b>19 956</b>	<b>20 241</b>

## Part 1 – Impairment of assets

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

In the first half of 2020, the COVID-19 (coronavirus) epidemic was still spreading across the world, and its impact was noticeable in many areas. Among others, due to the coronavirus market indices drastically fell. The share price of KGHM Polska Miedź S.A. in the first half of 2020 fell by 5% as compared to the share price from the end of 2019 and as at 30 June 2020 amounted to PLN 90.90. During the same period the WIG and WIG20 indices fell by 14% and 18%, respectively. As a result, the Company's market capitalisation decreased from PLN 19 116 million to PLN 18 180 million, and therefore as at 30 June 2020 it was 10% below the value of the net assets of the Company. After the end of the reporting period, according to the closing price as at 9 July 2020, the share price of KGHM Polska Miedź S.A. amounted to PLN 101.4 and the Company's market capitalisation was higher than the value of the net assets and this situation continued up to the date of signing of this report. As at 17 August 2020, the share price of KGHM Polska Miedź S.A. amounted to PLN 135.95.

Due to the fact that in the reporting period the Company's market capitalisation remained lower than the carrying amount of net assets, pursuant to IAS 36 Impairment of assets, the Management Board of KGHM Polska Miedź S.A. performed an analysis to determine which areas of the Company's activities may be impaired.

The Management Board of KGHM Polska Miedź S.A. analysed whether the Polish production assets of KGHM Polska Miedź S.A. may be impaired. The results of this analysis indicated that not all of the factors which affect the market capitalisation of KGHM Polska Miedź S.A. are factors which are related to the conduct of economic activities.

The drop in share prices caused by the COVID-19 epidemic affected companies in the majority of sectors, in many economies, and reflected investor uncertainty as to the future. This is confirmed by the increase in the value of typically conservative instruments such as gold and the exchange rates of certain currencies.

From the point of view of the Company's operations, the key factor is first and foremost the copper price. At the start of the epidemic, this metal was substantially undervalued. As at 31 December 2019, the price of copper amounted to 6 156 USD/t, and during the first half of 2020, as at 23 March 2020 it had fallen to 4 617 USD/t. Nonetheless, as time passed, with the inflow of more hopeful information as respects demand for this commodity, prices returned to their level at the start of 2020 and on 30 June 2020 the copper price reached the level of 6 038 USD/t.

The share prices of companies involved in the mining and processing of copper are strongly correlated with the price of this metal. The decrease in the market capitalisation of companies in this sector, including KGHM Polska Miedź S.A., was therefore of a temporary nature, and reflected the initial panic of investors related with the coronavirus pandemic and the associated drop in the prices of the major metals. Once it became evident that the pandemic would not have a significant impact, on either the production or sales of these entities, share prices returned to their former levels.

It is also worth mentioning that in the case of the Polish assets, of significance are PLN-expressed metals prices, which are also affected by the USD/PLN exchange rate. Fluctuations in the price of copper related to the volatility on the financial markets, whose origins may often be found not only in macroeconomics but also in geopolitics, are usually to a large extent offset by changes in the USD/PLN exchange rate.

Since the outbreak of the pandemic at the turn of February and March 2020, KGHM Polska Miedź S.A. has maintained full operational capability and is advancing its production and sales plans.

Analysis of the occurrence of indicators with respect to the investment in KGHM INTERNATIONAL LTD. (maintained by a subsidiary of KGHM Polska Miedź S.A. – Future 1 Sp. z o.o.) indicated that the copper price is also a key factor from the point of view of the operations of the KGHM International LTD. Group. Nonetheless, despite the fall in metals prices which lead directly to lower revenues by the international assets, there were no indications identified to conduct impairment testing. The Group undertook austerity measures aimed at mitigating the negative impact of the decrease in revenues. A number of procedures aimed at swift identification of infected persons and at limiting the spread of COVID-19 were introduced. This enabled the avoidance of outbreaks of the disease and uninterrupted production.

COVID-19 did not disrupt the activities of any of the mines and did not lead to any decrease in mining production.

As a result of the assessment, it was judged that there was no relation between the fall in share price of KGHM Polska Miedź S.A. both in terms of the activities of KGHM Polska Miedź S.A. in Poland as well as abroad. Consequently, there were no indications identified suggesting the risk of impairment of these assets.

Due to the uncertainty and the significant volatility of basic economic parameters, including metals prices and currency exchange rates, and dynamic development of the epidemiological situation in Poland and globally, and its impact on the economic situation, the Company is continuously monitoring the global situation in terms of potential impact on KGHM Polska Miedź S.A.

**TEST FOR THE IMPAIRMENT OF INVESTMENT CERTIFICATES OF KGHM VI FIZAN AND KGHM VII FIZAN**

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 - Czerniawa 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 patients 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 spa companies to the list of facilities designated to serve as quarantine facilities. The restrictions introduced in Poland led to a decrease in revenues of the companies operating in the spa and hotel sectors, as a result of which the decision was made to temporarily close some of the facilities.

During the so-called lockdown, companies made use of aid schemes launched to counter the negative impact of introduced restrictions (anti-crisis shield).

The gradual re-opening of services began in the second quarter of 2020, in particular:

- from 4 May 2020, hotel and ambulatory rehabilitation services were resumed;
- from 15 June 2020, spa services provided under the contracts with Narodowy Fundusz Zdrowia (the National Health Service) were resumed;
- from 4 August 2020, spa services provided under the contracts with Zakład Usług Społecznych (the Social Insurance Institution) were resumed.

Subsequent to the lockdown period and the re-start of their main activities, the spa and hotel companies have been operating without significant disruptions and offering all of their services under an intensified sanitary regime. When the facilities were temporarily closed, a number of safety procedures in the spas and hotels of the KGHM Polska Miedź S.A. Group were introduced, aimed at ensuring the safety of patients, hotel guests and companies' employees against the risk of infection by the COVID-19 virus.

The temporary closure of facilities in spas and hotels resulted in a decrease in revenues in the first half of 2020 by 40% in spa companies and 55% in hotel companies as compared to the revenues for the first half of 2019. This resulted in achievement of the revenue plan at the level of 56% and 50%, respectively.

The economic impact of this situation, meaning the losses of all hotel and spa companies incurred in the first half of 2020, which significantly deviate from budgetary targets, represented a key 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 amount of the Investment Certificates was adopted to be the reliably estimated fair value as at 30 June 2020. This value is generated by the recoverable amount of the portfolio deposits held, which were also measured at fair value. The calculation methodology applied by KGHM VI FIZAN and KGHM VII FIZAN is presented below:

- for operating companies – the methodology of discounted cash flows is used, based on the Free Cash Flows to Firm (FCFF) model, applying the average weighted cost of capital (including Interferie Medical SPA Sp. z o.o. and the spa companies mentioned below),
- for public companies – the share price from the date of measurement is adopted as fair value, adjusted by the control premium if the investment fund has a controlling interest (including INTERFERIE S.A.),
- for holding companies or special purpose companies (not conducting typical operating activities) – the adjusted net assets method is applied,
- for other portfolio deposits – an appropriate methodology of measurement is applied, pursuant to the Decree of the Minister of Finance dated 24 December 2007 on the specific accounting principles of investment funds (Journal of Laws from 2007, no. 249, item 1859 with subsequent amendments).

Results of the tests conducted on the accounting books of KGHM Polska Miedź S.A.:

- by comparing the acquisition price of Investment Certificates of KGHM VI FIZAN with the recoverable amount, it was determined that it is not necessary to increase the amount of the impairment loss on the Certificates of KGHM VI FIZAN in the amount of PLN 12 million, recognised as at 31 March 2020.



Basic assumptions adopted for impairment testing		
Assumption	Level adopted in testing	
	INTERFERIE S.A.	Interferie Medical SPA Sp. z o.o.
Control premium above the share price	18%	-
Detailed forecast period	-	2H 2020 -1H 2026
Average EBITDA margin:		
- during the detailed forecast period,	-	30%
- during the residual period		32%
Capital expenditures during the detailed forecast period	-	PLN 10 million
Average discount rate during the detailed forecast period and during the residual period	-	7.7%
Growth rate following the detailed forecast period	-	2.0%

- It was determined that it is necessary to increase the impairment loss recognised as at 31 March 2020 on the investment of KGHM Polska Miedź S.A. in Investment Certificates of KGHM VII FIZAN by the amount of PLN 4 million, i.e. to the total amount of PLN 34 million – by comparing the acquisition price of the Investment Certificates of KGHM VII FIZAN of PLN 331 million with the recoverable amount of PLN 297 million.

Basic assumptions adopted for impairment testing				
Assumption	Level adopted in testing			
	Uzdrowiska Kłodzkie S.A. - Grupa PGU	Uzdrowisko Połczyn Grupa PGU S.A	Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU	Uzdrowisko Świeradów - Czerniawa Sp. z o.o. – Grupa PGU
Detailed forecast period	2H 2020 -1H 2026	2H 2020 -1H 2026	2H 2020 -1H 2026	2H 2020 -1H 2026
Average EBITDA margin:				
- during the detailed forecast period,	14%	17%	16%	16%
- during the residual period	17%	18%	17%	18%
Capital expenditures during the detailed forecast period	PLN 67 million	PLN 25 million	PLN 9 million	PLN 9 million
Average discount rate during the forecast period	7.7%	8.4%	8.5%	8.4%
Discount rate during the residual period	7.7%	8.5%	8.5%	8.5%
Growth rate following the detailed forecast period	2.0%	2.0%	2.0%	2.0%

The recoverable amount of the Investment Certificates of KGHM VI and KGHM VII FIZAN indicates a significant sensitivity to the adopted discount rate, the average EBITDA margin and the growth rate following the forecast period for all operating companies. The sensitivity is not significant for other parameters. The following table presents the impact of changes to these parameters on the recoverable amount of the Investment Certificates of KGHM VI and KGHM VII FIZAN.

<b>Recoverable amount</b>			
<b>Control premium above the share price</b>	<b>decrease by 5 pp.</b>	<b>per test</b>	<b>increase by 5 pp.</b>
Certificates of KGHM VI FIZAN	101	102	104
<b>Average EBITDA margin during the forecast period</b>	<b>decrease by 2 pp.</b>	<b>per test</b>	<b>increase by 2 pp.</b>
Certificates of KGHM VI FIZAN	96	102	108
Certificates of KGHM VII FIZAN	209	297	385
<b>Average discount rate during the forecast period</b>	<b>decrease by 1 pp.</b>	<b>per test</b>	<b>increase by 1 pp.</b>
Certificates of KGHM VI FIZAN	117	102	92
Certificates of KGHM VII FIZAN	364	297	249
<b>Growth rate following the forecast period</b>	<b>decrease by 1 pp.</b>	<b>per test</b>	<b>increase by 1 pp.</b>
Certificates of KGHM VI FIZAN	94	102	114
Certificates of KGHM VII FIZAN	261	297	347

**TEST FOR IMPAIRMENT OF SHARES OF POL-MIEDŹ TRANS Sp. z o.o.**

As at 30 June 2020, due to indications of the possibility of changes in the recoverable amount, the Company performed impairment testing of the equity involvement in the shares of the company POL-MIEDŹ TRANS Sp. z o.o. The key indication to perform a test in the current reporting period was a loss for the period in the first half of 2020, deviating from the financial results assumed for that period.

The carrying amount of shares of POL-MIEDŹ TRANS Sp. z o.o. as at 30 June 2020 amounted to PLN 63 million. For the purpose of estimating the recoverable amount, in the conducted test the value in use of shares was measured using the DCF method i.e. the method of discounted cash flows.

**Basic assumptions adopted for impairment testing**

<b>Assumption</b>	<b>Level adopted in testing</b>
Forecast period	07.2020-12.2024
Operating margin	0.3% during the forecast period 1.9% in the residual value
Capital expenditures during the forecast period	PLN 237 million
Discount rate	4.64% (nominal rate after taxation)
Growth rate following the forecast period	0%

As a result of the impairment testing conducted on the shares of POL-MIEDŹ TRANS Sp. z o.o., the recoverable amount of the tested shares was determined to be higher than the carrying amount of this asset, which did not provide a basis for the recognition of an impairment loss.

The measurement of the shares of POL-MIEDŹ TRANS Sp. z o.o. indicated a significant sensitivity to the adopted discount rates and the operating margin. The following table presents the impact of changes to these parameters on the measurement of the shares.

**Sensitivity analysis of the recoverable amount of shares of POL-MIEDŹ TRANS Sp. z o.o.**

	<b>The recoverable amount for a given discount rate</b>		
	<b>lower by 1 pp.</b>	<b>per test</b>	<b>higher by 1 pp.</b>
<b>Discount rate 4.64% (test)</b>	356	<b>185</b>	122
	<b>The recoverable amount for a given operating margin</b>		
	<b>lower by 1 pp.</b>	<b>per test</b>	<b>higher by 1 pp.</b>
<b>Operating margin 0.3%, 1.9% in RV (test)</b>	80	<b>185</b>	289

In order to monitor the risk of impairment of assets in subsequent reporting periods, it was determined that the recoverable amount would be equal to the carrying amount of shares if the discount rate were to increase to 7.98% or if the operating margin were to decrease by 1.2 pp.

The results of the impairment testing of assets of the Company as at 31 December 2019 were presented in the part 3 of the Annual report R 2019.

## Part 2 – Explanatory notes to the statement of profit or loss

### Note 2.1 Revenues from contracts with customers – geographical breakdown reflecting the location of end clients

	from 1 January 2020 to 30 June 2020	from 1 January 2019 to 30 June 2019
<b>Europe</b>		
Poland	2 024	2 151
Germany	1 590	1 388
The United Kingdom	901	1 042
Czechia	681	695
Italy	494	476
Hungary	359	354
Switzerland	351	328
France	220	445
Romania	84	93
Austria	82	99
Belgium	51	-
Slovakia	43	49
Slovenia	26	35
Denmark	8	27
Finland	-	11
Sweden	-	16
Bosnia and Herzegovina	-	20
Other countries (dispersed sales)	17	15
<b>North and South America</b>		
The United States of America	216	210
<b>Australia</b>		
Australia	384	37
<b>Asia</b>		
China	954	1 143
Taiwan	220	49
Thailand	98	-
Turkey	41	128
Vietnam	29	-
Singapore	7	9
Other countries (dispersed sales)	17	5
<b>Africa</b>		
	-	6
<b>TOTAL</b>	<b>8 897</b>	<b>8 831</b>

**Note 2.2 Expenses by nature**

	from 1 January 2020 to 30 June 2020	from 1 January 2019 to 30 June 2019
Depreciation of property, plant and equipment and amortisation of intangible assets	647	633
Employee benefits expenses	1 822	1 710
Materials and energy, including:	2 901	3 141
purchased metal-bearing materials	1 729	1 988
electrical and other energy	493	429
External services, including:	843	823
transport	115	121
repairs, maintenance and servicing	245	239
mine preparatory work	254	247
Minerals extraction tax	678	866
Other taxes and charges	206	200
Other costs	52	60
<b>Total expenses by nature</b>	<b>7 149</b>	<b>7 433</b>
Cost of merchandise and materials sold (+)	214	118
Change in inventories of finished goods and work in progress (+/-)	281	18
Cost of manufacturing products for internal use (-)	( 83)	( 71)
<b>Total costs of sales, selling costs and administrative expenses, of which:</b>	<b>7 561</b>	<b>7 498</b>
cost of sales	7 121	7 056
selling costs	66	63
administrative expenses	374	379

**Note 2.3 Other operating income and (costs)**

	from 1 January 2020 to 30 June 2020	from 1 January 2019 to 30 June 2019
Measurement of derivatives	82	55
Realisation of derivatives	77	39
Exchange differences on assets and liabilities other than borrowings	26	16
Interest on loans granted and other financial receivables	141	132
Fees and charges on re-invoicing of costs of bank guarantees securing payments of liabilities	27	28
Reversal of allowances for impairment of loans measured at amortised cost	-	112
Fair value gains on financial assets measured at fair value through profit or loss, including:	234	163
loans	198	163
Dividends income	15	37
Other	67	87
<b>Total other operating income</b>	<b>669</b>	<b>669</b>
Measurement of derivatives	( 109)	( 12)
Realisation of derivatives	( 184)	( 110)
Impairment losses on financial instruments measured at amortised cost*	( 88)	( 10)
Provisions recognised	( 6)	( 7)
Donations given	( 23)	( 23)
Fair value losses on financial assets measured at fair value through profit or loss, including:	( 122)	( 21)
loans**	( 92)	( 21)
Impairment losses on investment certificates and shares**	( 131)	-
Other	( 50)	( 34)
<b>Total other operating costs</b>	<b>( 713)</b>	<b>( 217)</b>
<b>Other operating income and (costs)</b>	<b>( 44)</b>	<b>452</b>

\* including loss allowance on loans in the amount of PLN 84 million, caused by an increase in the PD (probability of default) parameters and verification of estimates presented below.

\*\* The Company analyses the recoverable amount of the shares in Future 1 Sp. z o.o. and of the loans granted to Future 1 Sp. z o.o. and KGHM INTERNATIONAL LTD. from the perspective of the combined commitment in Future 1 Sp. z o.o. Were there to occur any change in the level of commitment in Future 1 Sp. z o.o. by, for example, an increase in the share capital of Future 1 Sp. z o.o. or the granting of loans to Future 1 Sp. z o.o. or KGHM INTERNATIONAL LTD., the Company would review the appropriateness of the applied estimates as regards the recoverable amount of the engagement in Future 1 Sp. z o.o. by including current cash flows. Due to a change in the engagement in Future 1 Sp. z o.o. in the first half of 2020 resulting from the granting of a loan in the amount of USD 52 million (PLN 208 million), as at 30 June 2020 the Company reviewed the applied estimates and recognised an allowance for impairment of loans in the amount of PLN 124 million (loans measured at amortised cost in the amount of PLN 32 million, loans measured at fair value in the amount of PLN 92 million) and on the shares in Future 1 Sp. z o.o. in the amount of PLN 84 million.

**Note 2.4 Finance income and (costs)**

	from 1 January 2020 to 30 June 2020	from 1 January 2019 to 30 June 2019
Exchange differences on borrowings	-	58
Realisation of derivatives	35	2
<b>Total finance income</b>	<b>35</b>	<b>60</b>
Interest on borrowings, including:		
leases	( 89)	( 80)
Bank fees and charges due to external financing	( 5)	( 14)
Exchange differences on borrowings	( 16)	( 13)
Measurement of derivatives	( 36)	-
Realisation of derivatives	( 1)	( 16)
Unwinding of the discount effect	( 40)	( 3)
<b>Total finance costs</b>	<b>( 186)</b>	<b>( 133)</b>
<b>Finance income and (costs)</b>	<b>( 151)</b>	<b>( 73)</b>

## Part 3 – Other explanatory notes

### Note 3.1 Information on property, plant and equipment and intangible assets

#### Purchase of property, plant and equipment and intangible assets

	from 1 January 2020 to 30 June 2020	from 1 January 2019 to 30 June 2019
Purchase of property, plant and equipment	953	964
including: leases	44	7
Purchase of intangible assets	23	21

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

	As at 30 June 2020	As at 31 December 2019
Payables due to the purchase of property, plant and equipment and intangible assets	679	1 020

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

	As at 30 June 2020	As at 31 December 2019
Purchase of property, plant and equipment	2 408	2 347
Purchase of intangible assets	325	322
<b>Total capital commitments</b>	<b>2 733</b>	<b>2 669</b>

## Note 3.2 Financial instruments under IFRS 9

Financial assets:	As at 30 June 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>Non-current</b>	534	2 594	5 763	242	9 133	403	2 271	5 403	123	<b>8 200</b>
Note 3.3 Loans granted	-	2 594	5 277	-	<b>7 871</b>	-	2 271	4 946	-	<b>7 217</b>
Derivatives	-	-	-	242	<b>242</b>	-	-	-	123	<b>123</b>
Other financial instruments measured at fair value**	534	-	-	-	<b>534</b>	403	-	-	-	<b>403</b>
Other financial instruments measured at amortised cost	-	-	486	-	<b>486</b>	-	-	457	-	<b>457</b>
<b>Current</b>	-	148	2 460	215	<b>2 823</b>	-	165	1 152	289	<b>1 606</b>
Trade receivables	-	120	214	-	<b>334</b>	-	139	104	-	<b>243</b>
Derivatives	-	7	-	215	<b>222</b>	-	2	-	289	<b>291</b>
Cash and cash equivalents	-	-	1 707	-	<b>1 707</b>	-	-	516	-	<b>516</b>
Cash pooling receivables*	-	-	265	-	<b>265</b>	-	-	335	-	<b>335</b>
Other financial assets	-	21	274	-	<b>295</b>	-	24	197	-	<b>221</b>
<b>Total</b>	<b>534</b>	<b>2 742</b>	<b>8 223</b>	<b>457</b>	<b>11 956</b>	<b>403</b>	<b>2 436</b>	<b>6 555</b>	<b>412</b>	<b>9 806</b>

\* Receivables from companies which indebted themselves in the cash pooling system.

\*\* Shares.



Financial liabilities:	As at 30 June 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>	35	7 525	497	8 057	13	7 408	118	7 539
Note 3.4 Borrowings, lease and debt securities	-	7 304	-	7 304	-	7 215	-	7 215
Derivatives	35	-	497	532	13	-	118	131
Other financial liabilities	-	221	-	221	-	193	-	193
<b>Current</b>	107	4 078	72	4 257	22	3 048	38	3 108
Note 3.4 Borrowings, lease and debt securities	-	1 104	-	1 104	-	275	-	275
Note 3.4 Cash pooling liabilities*	-	180	-	180	-	130	-	130
Other liabilities due to settlement under cash pooling contracts **	-	56	-	56	-	74	-	74
Derivatives	107	-	72	179	22	-	38	60
Trade payables	-	1 695	-	1 695	-	1 864	-	1 864
Similar payables - reverse factoring	-	945	-	945	-	596	-	596
Other financial liabilities	-	98	-	98	-	109	-	109
<b>Total</b>	<b>142</b>	<b>11 603</b>	<b>569</b>	<b>12 314</b>	<b>35</b>	<b>10 456</b>	<b>156</b>	<b>10 647</b>

\* Liabilities of KGHM Polska Miedź S.A. towards Group companies within the credit limit of the group of accounts participating in the cash pooling system.

\*\* Other current liabilities of KGHM Polska Miedź S.A. towards participants in the cash pooling system due to unused cash.

## The fair value hierarchy of financial instruments

Classes of financial instruments	As at 30 June 2020		As at 31 December 2019	
	level 1	level 2	level 1	level 2
Loans granted	-	2 594	-	2 271
Listed shares	431	-	300	-
Unquoted shares	-	103	-	103
Trade receivables	-	120	-	139
Other financial assets	-	21	-	24
Derivatives, including:	-	( 247)	-	223
- assets	-	464	-	414
- liabilities	-	( 711)	-	( 191)

## 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 Company.

There was no transfer of financial instruments between individual levels of the fair value hierarchy within the Company, in either the reporting or the comparable periods, nor was there any change in the classification of instruments as a result of a change in the purpose or use of these instruments.

Methods and measurement techniques used by the Company in determining the fair values of each class of financial asset or financial liability are presented in part 4, note 4.3 of the consolidated financial statements.

## Note 3.3 Receivables due to loans granted

	as at 30 June 2020	as at 31 December 2019
Loans measured at amortised cost – gross amount	5 543	5 118
Allowances for impairment	( 253)	( 162)
Loans measured at amortised cost – carrying amount	5 290	4 956
Loans measured at fair value – carrying amount	2 594	2 271
<b>Total, including:</b>	<b>7 884</b>	<b>7 227</b>
- long-term loans	7 871	7 217
- short-term loans	13	10

Due to the crisis caused by the COVID19 virus, the parameters of factors participating in the measurement of loans have changed, i.e. the cumulative PD curve (probability of default used to calculate the expected credit losses) and discount rates based on LIBOR due to the decrease in interest rates in the United States.

Changes in the level of cumulative PD for a given borrower, designated on the basis of sector market curves of Credit Default Swap contracts obtained from the Reuters service were as follows as compared to the corresponding quotations as at 31 December 2019:

## Rating from A3 to Baa3 according to Moody's (30-06-2020)

Up to one year	0.73% - 1.52%
1-3 years	3.35% - 6.95%
>3 years (at the date of a loan's maturity)	7.84% - 27.06%

## Rating from A3 to Baa3 according to Moody's (31-12-2019)

Up to one year	0.29% - 0.63%
1-3 years	1.70% - 2.97%
>3 years (at the date of a loan's maturity)	4.96% - 18.01%

The increase in the PD parameters resulted in an increase of the expected credit losses (ECL), which negatively impacted the measurement of loans measured at amortised cost and of loans measured at fair value. The lower discount rates used for measurement of loans at fair value positively impacted on their measurement.

**Note 3.4 Net debt**

	As at 30 June 2020	As at 31 December 2019
Bank loans	2 371	2 276
Loans	2 468	2 478
Debt securities - bonds	2 000	2 000
Leases	465	461
<b>Total non-current liabilities due to borrowings</b>	<b>7 304</b>	<b>7 215</b>
Bank loans	793	18
Loans	261	208
Cash pooling liabilities*	180	130
Debt securities - bonds	-	1
Leases	50	48
<b>Total current liabilities due to borrowings</b>	<b>1 284</b>	<b>405</b>
<b>Total borrowings</b>	<b>8 588</b>	<b>7 620</b>
Free cash and cash equivalents	1 688	489
<b>Net debt</b>	<b>6 900</b>	<b>7 131</b>

\* Liabilities of KGHM Polska Miedź S.A. towards Group companies within the credit limit in the group of accounts participating in the cash pooling system

**Note 3.5 Employee benefits liabilities**

	As at 30 June 2020	As at 31 December 2019
Jubilee bonuses	422	410
Retirement and disability benefits	381	376
Coal equivalent	1 937	1 680
Other benefits	29	26
<b>Total liabilities due to future employee benefits programs</b>	<b>2 769</b>	<b>2 492</b>
Remuneration and social insurance liabilities	326	402
Accruals due to employee benefits	436	359
<b>Employee benefits</b>	<b>762</b>	<b>761</b>
<b>Total employee benefits liabilities, including:</b>	<b>3 531</b>	<b>3 253</b>
- non-current liabilities	2 626	2 363
- current liabilities	905	890

Discount rate adopted for the measurement as of liabilities due to future employee benefits programs as at 30 June 2020.

	2020	2021	2022	2023	2024 and beyond
- discount rate	1.30%	1.30%	1.30%	1.30%	1.30%

Discount rate adopted for the measurement as of liabilities due to future employee benefits programs as at 31 December 2019.

	2020	2021	2022	2023	2024 and beyond
- discount rate	2.00%	2.00%	2.00%	2.00%	2.00%

**Note 3.6 Provisions for decommissioning costs of mines and other technological facilities**

	As at 30 June 2020	As at 31 December 2019
<b>Provisions as at the beginning of the reporting period</b>	1 131	988
Changes in estimates recognised in fixed assets	41	129
Other	( 10)	14
<b>Provisions as at the end of the reporting period, including:</b>	<b>1 162</b>	<b>1 131</b>
- non-current provisions	1 150	1 119
- current provisions	12	12

**Note 3.7 Related party transactions**

	from 1 January 2020 to 30 June 2020	from 1 January 2019 to 30 June 2019
<b>Operating income from related parties</b>		
From subsidiaries	508	536
From other related parties	16	12
<b>Total</b>	<b>524</b>	<b>548</b>

In the period from 1 January 2020 to 30 June 2020, KGHM Polska Miedź S.A. recognised dividends from subsidiaries in other operating income - in the amount of PLN 15 million (from 1 January to 30 June 2019: PLN 37 million).

	from 1 January 2020 to 30 June 2020	from 1 January 2019 to 30 June 2019
<b>Purchase of products, merchandise and materials and other purchases from subsidiaries</b>	2 603	2 450

	As at 30 June 2020	As at 31 December 2019
<b>Trade and other receivables from related parties</b>		
From subsidiaries, including:	8 425	7 770
loans granted	7 872	7 219
From other related parties	143	109
<b>Total</b>	<b>8 568</b>	<b>7 879</b>

	As at 30 June 2020	As at 31 December 2019
<b>Payables towards related parties</b>		
Towards subsidiaries	976	1 015
Towards other related parties	32	16
<b>Total</b>	<b>1 008</b>	<b>1 031</b>

Remuneration of the key managers of KGHM Polska Miedź S.A., i.e. members of the Management Board and members of the Supervisory Board of KGHM Polska Miedź S.A., is presented in part 4, note 4.8 of the consolidated financial statements.

The State Treasury is an entity controlling KGHM Polska Miedź S.A. at the highest level. The Company makes use of the exemption on the disclosure of detailed information on transactions with the Polish Government and entities controlled or jointly controlled by the Polish Government, or over which the Polish Government has significant influence (IAS 24.25).

Pursuant to the scope of IAS 24.26, as at 30 June 2020, the Company concluded the following transactions with the Polish Government and entities controlled or jointly controlled by the Polish Government, unusual due to their nature or amount:

- due to an agreement on setting mining usufruct for the extraction of mineral resources: fixed fees and setting mining usufruct for the exploration for and assessment of mineral resources – in total, the payables amounted to PLN 169 million (as at 31 December 2019: PLN 174 million); variable fee (recognised in costs) on setting mining usufruct for the extraction of mineral resources – payables in the amount of PLN 15 million (as at 31 December 2019: PLN 29 million).
- due to a reverse factoring agreement with the company PEKAO FAKTORING SP. Z O.O. - payables in the amount of PLN 945 million, paid interest costs in the amount of PLN 7 million (as at 31 December 2019, payables in the amount of PLN 596 million and paid interest costs for 2019 in the amount of PLN 1 million).

- banks related to the State Treasury executed the following transactions and economic operations on the Company'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 forward currency market and establishing letters of credit,

Apart from the aforementioned transactions entered into by the Company with the Polish Government and with entities controlled or jointly controlled by the Polish Government, or over which the government has significant influence, which were significant due to their nature and the amount, there also occurred transactions arising from extraordinary administrative orders based on art. 11 of the act dated 2 March 2020 on particular solutions related to preventing and counteracting COVID-19, other infectious diseases and the crisis-related situations caused thereby (Journal of laws from 2020, item 374 with subsequent amendments), involving the sale of personal protective equipment in the amount of PLN 104 million. The unsettled balance of receivables due to these transactions as at 30 June 2020 amounted to PLN 128 million.

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

In the current and comparable periods, no other individual transactions were identified which would be considered as significant in terms of unusual nature and amount.

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

- the purchase of goods to meet the needs of current operating activities. In the period from 1 January to 30 June 2020, the turnover from these transactions amounted to PLN 429 million (from 1 January to 30 June 2019: PLN 312 million), and, as at 30 June 2020, the unsettled balance of liabilities from these transactions amounted to PLN 156 million (as at 31 December 2019: PLN 118 million),
- sales to Polish State Treasury Companies. In the period from 1 January to 30 June 2020, the turnover from these sales amounted to PLN 33 million (from 1 January to 30 June 2019: PLN 24 million), and, as at 30 June 2020, the unsettled balance of receivables from these transactions amounted to PLN 6 million (as at 31 December 2019: PLN 7 million).

### Note 3.8 Assets and liabilities not recognised in the statement of financial position

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

	As at 30 June 2020	As at 31 December 2019
<b>Contingent assets</b>	<b>602</b>	<b>731</b>
Guarantees received	244	256
Promissory notes receivables	254	347
Other	104	128
<b>Contingent liabilities</b>	<b>1 852</b>	<b>2 073</b>
Guarantees*	1 759	1 950
Promissory note liability	16	16
Other	77	107
<b>Other liabilities not recognised in the statement of financial position -</b> Liabilities towards local government entities due to expansion of the tailings storage facility	<b>104</b>	<b>107</b>

\* Bank guarantees, standby letters of credit, corporate guarantees.

**Note 3.9 Changes in working capital**

	Inventories	Trade receivables	Trade payables	Similar payables - reverse factoring	Working capital
<b>As at 1 January 2020</b>	(3 783)	(243)	2 029	596	(1 401)
<b>As at 30 June 2020</b>	(3 624)	(334)	1 854	945	(1 159)
<b>Change in the statement of financial position</b>	<b>159</b>	<b>(91)</b>	<b>(175)</b>	<b>349</b>	<b>242</b>
Depreciation/amortisation recognised in inventories	39	-	-	-	39
Payables due to the purchase of property, plant and equipment and intangible assets	-	-	272	(20)	252
<b>Adjustments</b>	<b>39</b>	<b>-</b>	<b>272</b>	<b>(20)</b>	<b>291</b>
<b>Change in the statement of cash flows</b>	<b>198</b>	<b>(91)</b>	<b>97</b>	<b>329</b>	<b>533</b>

	Inventories	Trade receivables	Trade payables	Similar payables - reverse factoring	Working capital
<b>As at 1 January 2019</b>	(4 102)	(310)	2 082	-	(2 330)
<b>As at 30 June 2019</b>	(4 362)	(206)	1 767	-	(2 801)
<b>Change in the statement of financial position</b>	<b>(260)</b>	<b>104</b>	<b>(315)</b>	<b>-</b>	<b>(471)</b>
Depreciation/amortisation recognised in inventories	45	-	-	-	45
Payables due to the purchase of property, plant and equipment and intangible assets	-	-	333	-	333
Other	1	-	-	-	1
<b>Adjustments</b>	<b>46</b>	<b>-</b>	<b>333</b>	<b>-</b>	<b>379</b>
<b>Change in the statement of cash flows</b>	<b>(214)</b>	<b>104</b>	<b>18</b>	<b>-</b>	<b>(92)</b>

**Note 3.10 Other adjustments in the statement of cash flows**

	from 1 January 2020 to 30 June 2020	from 1 January 2019 to 30 June 2019
Losses on the sales of property, plant and equipment and intangible assets	33	7
Proceeds from income tax from the tax group companies	26	32
Profit or loss due to measurement and realisation of derivatives related to sources of external financing	6	-
Other	1	-
<b>Total</b>	<b>66</b>	<b>39</b>

## Part 4 – Quarterly financial information of KGHM Polska Miedź S.A.

### STATEMENT OF PROFIT OR LOSS

	from 1 April 2020 to 30 June 2020*	from 1 April 2019 to 30 June 2019*	from 1 January 2020 to 30 June 2020	from 1 January 2019 to 30 June 2019
	4 672	4 515	8 897	8 831
Note 4.1	(3 713)	(3 659)	(7 121)	(7 056)
	<b>959</b>	<b>856</b>	<b>1 776</b>	<b>1 775</b>
Note 4.1	( 239)	( 248)	( 440)	( 442)
	<b>720</b>	<b>608</b>	<b>1 336</b>	<b>1 333</b>
Note 4.2	63	309	669	669
	68	65	140	131
	-	18	-	112
Note 4.2	( 595)	( 236)	( 713)	( 217)
	88	( 10)	( 88)	( 10)
Note 4.3	436	167	35	60
Note 4.3	( 91)	( 67)	( 186)	( 133)
	<b>533</b>	<b>781</b>	<b>1 141</b>	<b>1 712</b>
	( 185)	( 249)	( 394)	( 485)
	<b>348</b>	<b>532</b>	<b>747</b>	<b>1 227</b>
	<b>200</b>	<b>200</b>	<b>200</b>	<b>200</b>
	<b>1.74</b>	<b>2.66</b>	<b>3.74</b>	<b>6.14</b>

\*Data not subject to review.

## Explanatory notes to the condensed statement of profit or loss

### Note 4.1 Expenses by nature

	from 1 April 2020 to 30 June 2020*	from 1 April 2019 to 30 June 2019*	from 1 January 2020 to 30 June 2020	from 1 January 2019 to 30 June 2019
Depreciation of property, plant and equipment and amortisation of intangible assets	322	319	647	633
Employee benefits expenses	932	871	1 822	1 710
Materials and energy, including:	1 377	1 550	2 901	3 141
purchased metal-bearing materials	810	996	1 729	1 988
electrical and other energy	243	195	493	429
External services, including:	413	434	843	823
transport	58	62	115	121
repairs, maintenance and servicing	122	130	245	239
mine preparatory work	114	125	254	247
Minerals extraction tax	334	446	678	866
Other taxes and charges	99	97	206	200
Other costs	36	39	52	60
<b>Total expenses by nature</b>	<b>3 513</b>	<b>3 756</b>	<b>7 149</b>	<b>7 433</b>
Cost of merchandise and materials sold (+)	162	56	214	118
Change in inventories of finished goods and work in progress (+/-)	315	135	281	18
Cost of manufacturing products for internal use (-)	( 38)	( 40)	( 83)	( 71)
<b>Total costs of sales, selling costs and administrative expenses, including:</b>	<b>3 952</b>	<b>3 907</b>	<b>7 561</b>	<b>7 498</b>
cost of sales	3 713	3 659	7 121	7 056
selling costs	35	32	66	63
administrative expenses	204	216	374	379

\*Data not subject to review.



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

	from 1 April 2020 to 30 June 2020*	from 1 April 2019 to 30 June 2019*	from 1 January 2020 to 30 June 2020	from 1 January 2019 to 30 June 2019
Measurement of derivatives	(43)	22	82	55
Realisation of derivatives	59	26	77	39
Exchange differences on assets and liabilities other than borrowings	-	-	26	16
Interest on loans granted and other financial receivables	68	66	141	132
Fees and charges on re-invoicing of costs of bank guarantees securing payments of liabilities	7	9	27	28
Reversal of allowances for impairment of loans measured at amortised cost	-	17	-	112
Fair value gains on financial assets measured at fair value through profit or loss, including:	(99)	83	234	163
loans	(131)	83	198	163
Release of provisions	-	38	-	45
Dividends income	15	37	15	37
Other	56	11	67	42
<b>Total other operating income</b>	<b>63</b>	<b>309</b>	<b>669</b>	<b>669</b>
Measurement of derivatives	47	6	(109)	(12)
Realisation of derivatives	(108)	(63)	(184)	(110)
Impairment losses on financial instruments measured at amortised cost	88	(10)	(88)	(10)
Provisions recognised	(3)	-	(6)	(7)
Donations granted	(3)	(3)	(23)	(23)
Fair value losses on changes of financial assets measured at fair value through profit or loss, including:	(76)	(21)	(122)	(21)
loans	(92)	(21)	(92)	(21)
Exchange differences on assets and liabilities other than borrowings	(420)	(127)	-	-
Impairment losses on investment certificates and shares	(89)	-	(131)	-
Other	(31)	(18)	(50)	(34)
<b>Total other operating costs</b>	<b>(595)</b>	<b>(236)</b>	<b>(713)</b>	<b>(217)</b>
<b>Other operating income and (costs)</b>	<b>(532)</b>	<b>73</b>	<b>(44)</b>	<b>452</b>

\*Data not subject to review.

**Note 4.3 Finance income and (costs)**

	from 1 April 2020 to 30 June 2020*	from 1 April 2019 to 30 June 2019*	from 1 January 2020 to 30 June 2020	from 1 January 2019 to 30 June 2019
Exchange differences on borrowings	401	165	-	58
Realisation of derivatives	35	2	35	2
<b>Total finance income</b>	<b>436</b>	<b>167</b>	<b>35</b>	<b>60</b>
Interest on borrowings including:	(48)	(43)	(89)	(80)
leases	(3)	(9)	(5)	(14)
Bank fees and charges on external financing	(10)	(7)	(16)	(13)
Exchange differences on borrowings	-	-	(36)	-
Measurement of derivatives	2	(4)	(1)	(16)
Realisation of derivatives	(40)	(3)	(40)	(3)
Unwinding of the discount effect	5	(10)	(4)	(21)
<b>Total finance costs</b>	<b>(91)</b>	<b>(67)</b>	<b>(186)</b>	<b>(133)</b>
<b>Finance income and (costs)</b>	<b>345</b>	<b>100</b>	<b>(151)</b>	<b>(73)</b>

\*Data not subject to review.

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

These financial statements were authorised for issue on 18 August 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 Senior