POLISH FINANCIAL SUPERVISION AUTHORITY

Annual report RR 2021

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

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

for the financial year **2021** comprising the period from **1 January 2021** to **31 December 2021** containing the financial statements according to International Accounting Standards in PLN.

Publication date: 23 March 2022

KGHM Polska Miedź Spółka Akcyjna
(name of the issuer)

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

	SELECTED FINANCIAL DATA	in PLN mn		in EUR mn	
		2021	2020	2021	2020
I.	Revenues from contracts with customers	24 618	19 326	5 378	4 319
II.	Profit on sales	4 104	3 165	897	707
III.	Profit before income tax	6 716	2 767	1 467	618
IV.	Profit for the period	5 169	1 779	1 129	398
V.	Other comprehensive income	263	(942)	57	(211)
VI.	Total comprehensive income	5 432	837	1 186	187
VII.	Number of shares issued	200 000 000	200 000 000	200 000 000	200 000 000
VIII.	Earnings per ordinary share (in PLN/EUR)	25,85	8,90	5,65	1,99
IX.	Net cash generated from operating activities	1 963	4 816	429	1 076
X.	Net cash used in investing activities	(607)	(2 764)	(133)	(618)
XI.	Net cash used in financing activities	(2 091)	(507)	(457)	(113)
XII.	Total net cash flow	(735)	1 545	(161)	345
XIII.	Non-current assets	34 671	32 367	7 538	7 014
XIV.	Current assets	8 787	6 975	1 910	1 511
XV.	Total assets	43 458	39 342	9 448	8 525
XVI.	Non-current liabilities	9 707	11 687	2 110	2 533
XVII.	Current liabilities	7 911	6 929	1 720	1 501
XVIII.	Equity	25 840	20 726	5 618	4 491

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

	2021	2020
Average exchange rate for the period*	4.5775	4.4742
Exchange rate at the end of the period	4.5994	4.6148

**Exchange rates are the arithmetical average of the current average exchange rates announced by the National Bank of Poland on the last day of each month respectively of 2021 and 2020*

Polish Financial Supervision Authority

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

FINANCIAL STATEMENTS FOR 2021

Lubin, March 2022

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STATEMENT OF PROFIT OR LOSS

		from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Part 2	Revenues from contracts with customers	24 618	19 326
Note 4.1	Cost of sales	(19 441)	(15 151)
	Gross profit	**5 177**	**4 175**
Note 4.1	Selling costs and administrative expenses	(1 073)	(1 010)
	Profit on sales	**4 104**	**3 165**
Note 4.2	Other operating income, including:	4 273	1 008
	fair value gains on financial assets measured at fair value through profit or loss	1 070	149
	reversal of impairment losses on shares in subsidiaries	1 010	-
Note 4.2	Other operating costs, including:	(1 185)	(1 406)
	recognition of impairment losses on financial instruments	(4)	(82)
Note 4.3	Finance income	70	260
Note 4.3	Finance costs	(546)	(260)
	Profit before income tax	**6 716**	**2 767**
Note 5.1	Income tax expense	(1 547)	(988)
	PROFIT FOR THE PERIOD	**5 169**	**1 779**
	Weighted average number of ordinary shares (million)	**200**	**200**
	Basic/diluted earnings per share (in PLN)	**25,85**	**8.90**

in PLN millions, unless otherwise stated

STATEMENT OF COMPREHENSIVE INCOME

		from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Note 8.2.2	**Profit for the period**	**5 169**	**1 779**
Note 8.2.2	Measurement of hedging instruments net of the tax effect	(297)	(850)
	Other comprehensive income which will be reclassified to profit or loss	**(297)**	**(850)**
Note 8.2.2	Measurement of equity financial instruments at fair value through other comprehensive income, net of the tax effect	17	158
Note 8.2.2	Actuarial gains/(losses) net of the tax effect	543	(250)
	Other comprehensive income, which will not be reclassified to profit or loss	**560**	**(92)**
	Total other comprehensive net income	**263**	**(942)**
	TOTAL COMPREHENSIVE INCOME	**5 432**	**837**

in PLN millions, unless otherwise stated

STATEMENT OF CASH FLOWS

		from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
	Cash flow from operating activities		
	Profit before income tax	6 716	2 767
Note 9.3	Depreciation/amortisation recognised in profit or loss	1 363	1 293
	Interest on investment activities	(289)	(246)
	Other interest	120	175
	Dividends income	(37)	(20)
	Profits on the disposal of shares and investment certificates	(25)	-
Note 6.2	Fair value (gains)/losses on financial assets measured at fair value through profit or loss	(1 029)	10
Note 3.1 Note 9.1	Impairment losses on non-current assets	202	210
Note 6.1 Note 6.2	Reversal of impairment losses on non-current assets	(1 762)	(18)
	Exchange differences, of which:	28	(204)
	from investment activities and cash	(310)	(14)
	from financing activities	338	(190)
	Change in provisions for decommissioning of mines, liabilities related to future employee benefits programs and other provisions	(29)	(50)
	Change in other receivables and liabilities other than working capital	66	663
Note 7.2	Change in assets and liabilities due to derivatives	(1 861)	(150)
Note 7.2	Reclassification of other comprehensive income to profit or loss due to the realisation of hedging derivatives	2 030	(42)
Note 12.8	Other adjustments	7	88
	Exclusions of income and costs, total	(1 216)	1 709
	Income tax paid	(707)	(730)
Note 10.4	Changes in working capital, including:	(2 830)	1 070
	change in trade payables transferred to factoring	(1 154)	652
	Net cash generated from operating activities	**1 963**	**4 816**
	Cash flow from investing activities		
Note 9.1.2	Expenditures on mining and metallurgical assets, including:	(2 381)	(2 373)
	paid capitalised interest on borrowings	(112)	(122)
	Expenditures on other property, plant and equipment and intangible assets	(26)	(49)
	Expenditures due to acquisition of shares and investment certificates	(38)	(43)
	Expenditures on financial assets designated for decommissioning of mines and other technological facilities	(24)	(19)
	Loans granted	(20)	(288)
	Advances granted on property, plant and equipment and intangible assets	(28)	(29)
	Proceeds from disposal of equity instruments measured at fair value through other comprehensive income	53	-
	Proceeds from disposal of shares and redemption of investment certificates	46	-
	Dividends received	37	20
Note 7.5.2.5	Repayment of loans granted	1 675	18
	Interest received	95	1
	Other	4	(2)
	Net cash used in investing activities	**(607)**	**(2 764)**

in PLN millions, unless otherwise stated

	Cash flow from financing activities		
	Proceeds from borrowings	205	4 052
	Proceeds from cash pooling	76	154
	Proceeds from derivatives related to sources of external financing	36	52
Note 8.4.2	Repayment of received borrowings	(1 889)	(4 478)
	Repayment of lease liabilities	(51)	(36)
	Interest paid, including due to:	(89)	(173)
Note 8.4.2	borrowings	(80)	(162)
	Expenditures due to derivatives related to sources of external financing	(79)	(78)
	Expenditures due to dividends paid to shareholders of the Parent Entity	(300)	-
	Net cash used in financing activities	**(2 091)**	**(507)**
	NET CASH FLOW	**(735)**	**1 545**
	Exchange differences on cash and cash equivalents	(68)	74
	Cash and cash equivalents at beginning of the period	2 135	516
Note 8.5	**Cash and cash equivalents at end of the period, including:**	6 716	**2 135**
	restricted cash	1 363	15

in PLN millions, unless otherwise stated

STATEMENT OF FINANCIAL POSITION

	ASSETS	As at 31 December 2021	As at 31 December 2020
	Mining and metallurgical property, plant and equipment	19 744	19 162
	Mining and metallurgical intangible assets	1 093	675
Note 9.1	Mining and metallurgical property, plant and equipment and intangible assets	20 837	19 837
	Other property, plant and equipment	98	102
	Other intangible assets	60	65
Note 9.2	Other property, plant and equipment and intangible assets	158	167
Note 6.1	Investments in subsidiaries	3 691	2 848
Note 6.2	Loans granted, including:	8 249	7 648
	measured at fair value through profit or loss	2 959	2 477
	measured at amortised cost	5 290	5 171
Note 7.2	Derivatives	595	789
Note 7.3	Other financial instruments measured at fair value through other comprehensive income	581	589
Note 7.4	Other financial instruments measured at amortised cost	506	433
	Financial instruments, total	9 931	9 459
Note 12.3	Other non-financial assets	54	56
	Non-current assets	**34 671**	**32 367**
Note 10.1	Inventories	5 436	3 555
Note 10.2	Trade receivables, including:	600	351
	trade receivables measured at fair value through profit or loss	467	260
Note 5.3	Tax assets	301	217
Note 7.2	Derivatives	254	210
Note 7.1	Cash pooling receivables	498	128
Note 12.3	Other financial assets	289	268
Note 12.3	Other non-financial assets	77	66
Note 8.5	Cash and cash equivalents	1 332	2 135
Note 9.7	Non-current assets held for sale	-	45
	Current assets	**8 787**	**6 975**
	TOTAL ASSETS	**43 458**	**39 342**
	EQUITY AND LIABILITIES		
Note 8.2.1	Share capital	2 000	2 000
Note 8.2.2	Other reserves from measurement of financial instruments, including:	(1 670)	(1 390)
	Accumulated losses due to fair value measurement associated with non-current assets held for sale	-	(21)
Note 8.2.2	Accumulated other comprehensive income	(329)	(872)
Note 8.2.2	Retained earnings	25 839	20 988
	Equity	**25 840**	**20 726**

in PLN millions, unless otherwise stated

Note 8.4.1	Borrowings, lease and debt securities	5 180	6 525
Note 7.2	Derivatives	1 133	981
Note 11.1	Employee benefits liabilities	2 040	2 724
Note 9.4	Provisions for decommissioning costs of mines and other technological facilities	811	1 185
	Deferred tax liabilities	290	81
Note 12.4	Other liabilities	253	191
	Non-current liabilities	9 707	11 687
Note 8.4.1	Borrowings, lease and debt securities	382	306
Note 8.4.1	Cash pooling liabilities	360	284
Note 7.2	Derivatives	888	653
Note 10.3	Trade and similar payables	2 613	3 334
Note 11.1	Employee benefits liabilities	1 130	1 042
Note 5.3	Tax liabilities	1 291	369
	Provisions for liabilities and other charges	98	77
Note 12.4	Other liabilities	1 149	864
	Current liabilities	7 911	6 929
	Non-current and current liabilities	**17 618**	**18 616**
	TOTAL EQUITY AND LIABILITIES	**43 458**	**39 342**

in PLN millions, unless otherwise stated

STATEMENT OF CHANGES IN EQUITY

		Share capital	Other reserves from measurement of financial instruments	Accumulated other comprehensive income	Retained earnings	Total equity
	As at 1 January 2020	**2 000**	**(698)**	**(622)**	**19 209**	**19 889**
	Profit for the period	-	-	-	1 779	**1 779**
Note 8.2.2	Other comprehensive income	-	(692)	(250)	-	**(942)**
	Total comprehensive income	-	(692)	(250)	1 779	**837**
Note 12.2	**As at 31 December 2020**	**2 000**	**(1 390)**	**(872)**	**20 988**	**20 726**
	Transactions with owners - Dividend	-	**-**	-	(300)	**(300)**
	Profit for the period	-	-	-	5 169	**5 169**
Note 8.2.2	Other comprehensive income	-	(280)*	543	-	**263**
	Total comprehensive income	-	(280)	543	5 169	**5 432**
	Reclassification of the result of disposal of equity instruments measured at fair value through other comprehensive income	-	-	-	(18)	**(18)**
	As at 31 December 2021	**2 000**	**(1 670)**	**(329)**	**25 839**	**25 840**

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

PART 1 – General information

Note 1.1 Corporate information

KGHM Polska Miedź S.A. has a multi-divisional organisational structure, comprised of a Head Office and 10 divisions: 3 mines (Lubin Mine Division, Polkowice-Sieroszowice Mine Division, Rudna Mine Division), 3 metallurgical plants (Głogów Smelter/Refinery, Legnica Smelter/Refinery, Cedynia Wire Rod Division), the Concentrator Division, the Tailings Division, the Mine-Smelter Emergency Rescue Division and the Data Center Division.
The shares of KGHM Polska Miedź S.A. are listed on the Warsaw Stock Exchange.
The Company's principal activities include:
- the mining of copper and non-ferrous metals ores; and
- the production of copper, precious and non-ferrous metals.

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

KGHM Polska Miedź S.A. is a parent entity of the KGHM Polska Miedź S.A. Group ("Group").
The financial statements were prepared under the assumption of continuing as a going concern during a period of at least 12 months from the end of the reporting period in an unaltered form and business scope, and there are no reasons to suspect any intentional or forced discontinuation or significant limitation of its current activities. As at the date of signing of the financial statements the Management Board is not aware of any facts or circumstances that may cast doubt about the going concern in the foreseeable future.
The COVID-19 pandemic did not have a negative impact on individual aspects of the business. Detailed information on the Company's operations during the pandemic was described in note 12.12.

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

The Management Board of KGHM Polska Miedź S.A. declares that according to its best judgement the annual Financial statements for 2021 and the comparable data have been prepared in accordance with accounting principles currently in force, and give a true, fair and clear view of the financial position of KGHM Polska Miedź S.A. and the profit for the period of the Company.
The Management Board's report on the activities of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group in 2021 presents a true picture of the development and achievements, as well as the condition, of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group, including a description of the basic exposures and risks.

The financial statements were authorised for issue and signed by the Management Board of the Company on 22 March 2022.

Note 1.2 Basis of preparation

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

In order to fully understand the financial position and results of the Company's activities as the Parent Entity of the Group, these financial statements should be read jointly with the annual consolidated financial statements of the KGHM Polska Miedź S.A. Group for the year ended on 31 December 2021. These financial statements are available at the Company's website www.kghm.com from the dates indicated in the regulatory filing on publication dates for the Company's annual report and the Group's consolidated annual report for 2021.

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

Note 12.12 of these financial statements contains information on the Company's activities regulated by the Act on Energy, pursuant to article 44 section 2 of the Act dated 10 April 1997.

in PLN millions, unless otherwise stated

For a greater understanding of the data recognised in the financial statements, an accounting policy and important estimates, assumptions and judgments are presented in individual, detailed notes as in the table below. As compared to the periods ended on 31 December 2020 and 30 June 2021, there were no significant changes to the measurement methods. Changes in estimates as at 31 December 2021 as compared to the aforementioned periods arise from changes in assumptions as a result of changes in business circumstances and/or other variables.

Note	Title	Amount recognised in the financial statements		Accounting policy	Important estimates, assumptions and judgements
		2021	2020		
2	Revenues from contracts with customers	24 618	19 326	x	x
5.1	Income tax in the statement of profit or loss	(1 547)	(988)	x	
5.1.1	Deferred income tax in the statement of profit or loss	(152)	(243)	x	x
5.3	Tax assets	301	217	x	
5.3	Tax liabilities	(1 291)	(369)	x	
6.1	Investments in subsidiaries	3 691	2 848	x	x
6.2	Loans granted*	8 366	7 650	x	x
7.2	Derivatives	(1 172)	(635)	x	x
7.3	Other financial instruments measured at fair value	581	589	x	x
7.4	Other non-current financial instruments measured at amortised cost	506	433	x	x
8.2	Equity	(25 840)	(20 726)	x	
8.4	Borrowings	(5 922)	(7 115)	x	
8.5	Cash and cash equivalents	1 332	2 135	x	
8.6	Labilities due to guarantees granted	(1 236)	(2 586)	x	x
9.1	Mining and metallurgical property, plant and equipment and intangible assets	20 837	19 837	x	
9.2	Other property, plant and equipment and intangible assets	158	167	x	
9.4	Provision for decommissioning costs of mines and other facilities**	(824)	(1 192)	x	x
9.6	Lease disclosures – the Company as a lessee	585	506	x	x
10.1	Inventories	5 435	3 555	x	
10.2	Trade receivables	600	351	x	
10.3	Trade and similar payables	(2 800)	(3 496)	x	x
10.4	Changes in working capital	(2 830)	1 070	x	x
11.1	Employee benefits liabilities	(3 170)	(3 766)	x	x
12.3	Other assets	421	390	x	
12.4	Other liabilities	(1 402)	(1 055)	x	

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

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

The financial statements are presented in Polish zloty (PLN), which is both the functional and presentation currency of the Company. At the moment of initial recognition, foreign currency transactions are translated into the functional currency:

- at the actual exchange rate applied, i.e. at the buy or sell exchange rate applied by the bank in which the transaction occurs, in the case of the sale or purchase of currencies and the payment of receivables or liabilities;
- at the average exchange rate set for a given currency, prevailing on the date of the transaction for other transactions. The exchange rate prevailing on the date of the transaction is the average NBP rate announced on the last working day preceding the transaction date.

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

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

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

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

Note 1.4 Impact of new and amended standards and interpretations

Amendments to standards applied for the first time in the separate financial statements for 2021:

- **Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 on the interest rate benchmark reform (IBOR reform) - Phase 2.**

  Up to the date of publication of these financial statements, the aforementioned amendments to the standards were adopted for use by the European Union and they did not have an impact on the Company's accounting policy or on the separate financial statements for 2021.

  Pursuant to amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 on the interest rate benchmark reform - Phase 2, if the modifications of financial instruments result directly from the IBOR reform and the new rate is the economic equivalent of the former one, then for instruments based on the variable interest rate units will perform a prospective adjustment to the effective interest rate and if the criteria to cease the application of hedge accounting is not met, the adjustment to hedge relationships takes place and hedge accounting is continued.

  The Company analysed the impact of the IBOR reform on its separate financial statements. Pursuant to current decisions of entities designated to implement the reform, individual LIBOR rate indicators will be replaced by a risk-free rate based on the overnight rate. The Company identified agreements with clauses based on the LIBOR rate and which will be amended following the replacement of the reference rate. These are mainly borrowing agreements (bank loans and loans), deposit agreements, guarantee agreements, letters of credit and factoring agreements as well as trade agreements. Replacement of the LIBOR rate by an alternative ratio will result in introducing appendices to the current agreements, analysing the potential change of interest rates from variable to fixed, introducing changes to internal methodologies and procedures and adapting IT tools to new valuation methods.

  The Company continuously monitors the recommendations of entities leading the IBOR reform and due to the fact that many issues have not yet been formally regulated, and the LIBOR rate indicators which are currently applied by the Company will be published up to 30 June 2023, the scale of changes to the aforementioned financial instruments and their impact on the Company's separate financial statements cannot currently be determined. Moreover, the IBOR reform will not have an impact on the interest rate of the Company's derivatives, because CIRS (open Cross Currency Interest Rate Swap transactions) transactions entered into and bonds issued by the Company are based on WIBOR reference rate, which will not be replaced by an alternative ratio (i.e. it was deemed to be compliant with the European Union's Regulations on reference rates). In the Company, there are also borrowings drawn in EUR and based on EURIBOR reference rate, which was reformed and adjusted to regulatory requirements.

in PLN millions, unless otherwise stated

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

Type of financial instrument	Current reference rate	Carrying amount as at 31 December 2021
Long-term bank loans	USD LIBOR 3M	(2)
	USD LIBOR 1M	(11)
Short-term bank loans	USD LIBOR 3M	-
	USD LIBOR 1M	(3)
Reverse factoring	USD LIBOR 6M	1
	USD LIBOR 1M	2
Total		**(13)**

- **Amendments to IFRS 16 regarding COVID-19-related rent concessions after 30 June 2021 (applied by the Company prior to their entry into force)**
  The Company decided for an earlier application of amendments to IFRS 16 regarding COVID-19-related rent concessions after 30 June 2021, which were adopted for use by the European Union and apply to annual periods which began on or after 1 April 2021. These amendments extended the optional and related to the coronavirus pandemic (COVID-19) relief of operational requirements for lessees making use of the option to temporarily suspend lease payments to 30 June 2022. Pursuant to the so-called "practical expedient", when a lessee obtains a lease relief due to COVID-19, the lessee does not have to assess whether this relief is a modification of a lease, and instead recognises this change in the accounting books as if this change was not a modification. The impact of this amendment on the separate financial statements is immaterial.
- **Amendments to IFRS 4 regarding the extension of the temporary exemption from IFRS 9**
  Amendments to the standard were adopted by the European Union up to the date of publication of these financial statements and they did not have an impact on the Company's accounting policy or on the separate financial statements for 2021.

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

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

- **IFRS 17** Insurance contracts and amendments to IFRS 17 published in 2020, effective from or after 1 January 2023.
- **Amendments to IFRS 3** on references to the Conceptual Framework, effective from 1 January 2022.
- **Amendments to IAS 16** on proceeds before intended use of an item of property, plant and equipment, effective from or after 1 January 2022, and applies retrospectively to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by the management on or after the beginning of the earliest period presented in the financial statements in which an entity first applies the amendments. Pursuant to the amendments proceeds from selling items produced when an item of property, plant and equipment is brought to the necessary location and condition (e.g. test production), together with associated costs, should be recognised in profit or loss for the period. The Company will apply the amendments to IAS 16 beginning on 1 January 2022, however the Company did not identify significant items that would have to be adjusted as at or after 1 January 2021.
- **Amendments to IAS 37** on cost of fulfilling onerous contracts, specifying the concept of costs of fulfilling a contract in order to properly assess whether the contract is onerous, effective from or after 1 January 2022.

- **Amendments to IAS 1 and Practice Statement 2** on disclosures of accounting policies, effective from or after 1 January 2023. In this standard, the requirement to disclosure the entity's „significant" accounting policies was replaced by the requirement to disclose „material" accounting policies. Information on accounting policies are material if considered together with other information contained within the financial statements, could reasonably influence decisions made by their main users on the basis of these financial statements.
- **Amendments to IAS 8** on the introduction of a definition of accounting estimates, effective from or after 1 January 2023. Pursuant to the amended standard, accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty. The introduction of this definition is aimed at helping entities to distinguish between amendments to accounting policies and amendments to accounting estimates.
- **Annual amendments to IFRS, 2018-2020** – amendments to IAS 41, IFRS 1, IFRS 9, effective from 1 January 2022.

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

- **IFRS 14 Regulatory deferral accounts,** effective from or after 1 January 2016.
- **Amendments to IFRS 17** published in 2021, effective from or after 1 January 2023.
- **Amendments to IFRS 10 and IAS 28** on sale or contribution of assets between an Investor and its Associate or Joint Venture (date of entry into force was not specified).
- **Amendments to IAS 1** on classification of liabilities as current or non-current (including changes due to deferral of effective date), effective from or after 1 January 2023. The standard introduces changes clarifying conditions necessary to recognise financial liabilities as non-current. Such recognition will be possible only if the entity has the unconditional right to defer settlement of a liability for over 12 months after the reporting date and at the same time the entity's intent as to the early repayment will not have an impact on this recognition. If amendments to IAS 1 were applied by the Company in these separate financial statements, the presentation of borrowings as at 31 December 2021 would not change.
- **Amendments to IAS 12** on deferred tax related to assets and liabilities arising from a single transaction, effective from or after 1 January 2023. This standard introduces clarifications to paragraphs 15 and 24 that the recognition exemption on deferred tax related to assets and liabilities does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. In the Company's opinion, the first application of the aforementioned change will not have a significant impact on the separate financial statements.

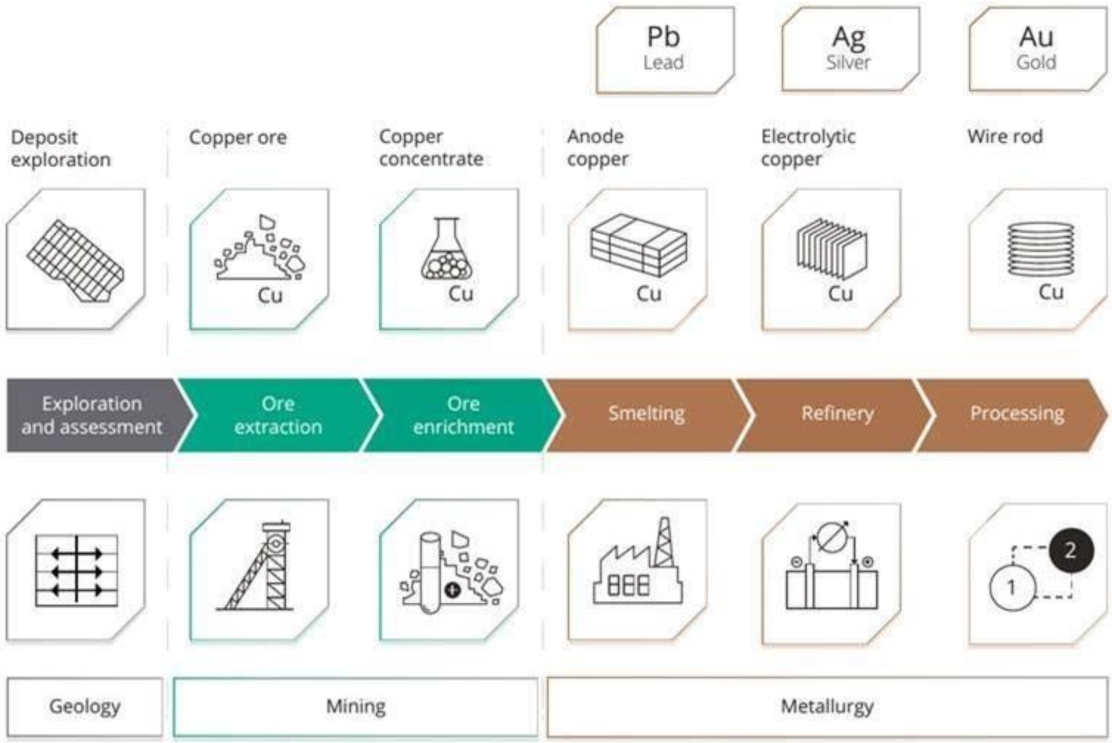
The Company intends to apply all of the amendments at their effective dates. Except for IFRS 17, which will not have an impact on the Company's separate financial statements, in the Company's opinion as at 31 December 2021, the other amendments to standards will be applicable to its activities in the scope of future economic operations, transactions or other events, towards which the amendments to standards are applicable.

PART 2 – Operating segments and information on revenues

Operating segments

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

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



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

in PLN millions, unless otherwise stated

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

The organisational structure of KGHM Polska Miedź S.A. has 11 Divisions, including: mines, concentrators, metallurgical plants and the Head Office. The Head Office carries out sales of the Company's basic products, i.e. electrolytic copper cathodes, wire rod and silver, and support functions, particularly including the management of financial assets, centralised finance and accounting services, marketing, legal and other services.
The Management Board of the Company assesses a segment's performance based on Adjusted EBITDA and the profit or loss for the period. The manner of calculating Adjusted EBITDA is presented in the table "Reconciliation of Adjusted EBITDA".

Production of main products

	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Electrolytic copper (kt), of which:	577.6	560.4
- electrolytic copper from own concentrates (kt)	381.4	413.3
Silver (t)	1 332.2	1 322.9
C1 unit cash cost of production of payable copper in own concentrate (USD/lb)*	2.26	1.62
C1 unit cash cost of production of payable copper in own concentrate (PLN/lb)*	8.73	6.30

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

Segment financial results

	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Total revenues from contracts with customers, including:	24 618	19 326
Revenues from sales contracts, for which the sales price is set after the date of recognition of the sales (M+ principle), of which:	19 837	14 393
settled	18 952	13 520
unsettled	885	873
Cost of sales, selling costs and administrative expenses*	(20 514)	(16 161)
Depreciation/amortisation recognised in profit or loss	(1 363)	(1 293)
(Recognition)/reversal of an impairment loss on non-current assets, recognised in cost of sales, selling costs and administrative expenses	(7)	-
Adjusted EBITDA	5 474	4 458
Profit for the period, including:	5 169	1 779
reversal/(recognition) of impairment losses on non-current assets	**1 560**	**(192)**

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

in PLN millions, unless otherwise stated

	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Total revenues from contracts with customers, of which:	24 618	19 326
in factoring	8 575	7 234
not in factoring	16 043	12 092

	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Revenues from contracts with customers, of which:	24 618	19 326
Transferred at a certain moment	24 262	19 070
Transferred over time	356	256

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

Reconciliation of Adjusted EBITDA

	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Profit for the period	5 169	1 779
[–] Current and deferred income tax	(1 547)	(988)
[–] Depreciation/amortisation recognised in profit or loss	(1 363)	(1 293)
[–] Finance income and (costs)	(476)	0
[–] Other operating income and (costs)	3 088	(398)
[–] (Recognition)/reversal of an impairment loss on non-current assets, recognised in cost of sales, selling costs and administrative expenses	(7)	-
[=] Adjusted EBITDA*	**5 474**	**4 458**

	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Profit on sales	4 104	3 165
[–] Depreciation/amortisation recognised in profit or loss	(1 363)	(1 293)
[–] (Recognition)/reversal of an impairment loss on non-current assets, recognised in cost of sales, selling costs and administrative expenses	(7)	-
[=] Adjusted EBITDA*	**5 474**	**4 458**

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

Segment assets and liabilities

	As at 31 December 2021	As at 31 December 2020
Assets	43 458	39 342
Liabilities	17 618	18 616

Accounting policies
Revenues arising from ordinary operating activities of the Company, i.e. revenues from sales of products, merchandise and materials, are recognised in the statement of profit or loss as revenues from contracts with customers. The Company generates its revenues mainly from the sale of: copper, silver and gold. Other, smaller streams of revenues arise from the sale of services (including distribution of electricity, other utilities and IT services) and other products, merchandise and materials (including refined lead, sulphuric acid, heat and electricity as well as other production waste). The Company recognises revenue from contracts with customers when the Company satisfies a performance obligation by transferring a promised good or providing a service to a customer, which is when the customer obtains control of that asset, i.e. the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset, as well as the ability to prevent other entities from directing the use of, and obtaining the benefits from, the asset. Since in every case, following the shipment of the promised good and transferring control over it, the Company has an unconditional right to consideration from the customer, and the only condition of receiving it is time lapse, the Company recognises the consideration from contracts with customers as receivables and therefore the Company does not recognise contractual assets. The Company recognises as a performance obligation every contractual promise to transfer to a customer a good or provide a service that is distinct, or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. For each performance obligation, the Company determines (based on contractual terms), whether the obligation will be performed over time or at a specified moment. In particular, in contracts for the sale of copper, silver and gold, every measurement unit of a transferred good (e.g. 1 tonne of copper or 1 kg of silver) is a separate performance obligation. Therefore, for every sale or transfer of goods, constituting a multiplication of a measurement unit of a transferred product, which is realised at the same time, the Company fulfils its performance obligation and at the same time recognises revenues. Apart from contracts for supplying goods with transport services, there are no other contracts including more than one performance obligation. The attribution of transaction prices to individual performance obligations are made on the basis of unit sale prices. In trade contracts in which the performance obligation is met at a specified time, the Company uses various payment conditions, including prepayments of up to several days before delivery and deferred payments of up to 120 days, although the deferred payments do not concern sale transactions of silver and gold. Payment dates depend on the evaluation of the recipient's credit risk and the possibility of securing receivables. The consideration becomes due depending on contractual conditions, that is prior to the realisation of the delivery (prepayment) or after the Company meets its performance obligation. If the Company receives payment from the customer before it meets its performance obligation, it recognises it as contractual payables. However, in the case of deferred payments terms, the Company recognises due consideration from the customer as a receivable only after the transfer of promised products to the customer and the issuance of the invoice. Revenues from sales of other services, such as distribution of utilities, rentals, leases, sharing IT systems and other are recognised continuously while the Company meets its obligations, as the customers simultaneously receive and gain economic benefits arising from the Company's performance and the Company has an unconditional right to consideration. Revenues from contracts with customers are recognised in the amount of the transaction price, consisting of the amount of consideration to which – in accordance with the Company's expectations – it will be given in return for the transfer of promised goods or services to the customer, excluding consideration collected on behalf of third parties. The transaction price also reflects the effects of the time value of money if a contract with a customer contains a significant financing element, which is determined based on the contractual payment terms, regardless of whether the promise of financing is explicitly stated in the contract. In determining whether a financing component is significant for a given agreement, all of the facts and circumstances are taken into consideration, including the eventual difference between the promised consideration and the cash selling price of the promised goods and services, as well as the total impact of the following two factors: (i) the estimated period from the moment an entity transfers the promised goods or services to a customer to the moment the customer pays for these goods or services, and (ii) prevailing interest rates on a given market. The Company did not identify significant financing components in sales transactions to customers realised in 2021 and 2020. In the case of copper and silver products sales transaction for which the price is set after the date of recognition of a given sale, at the moment of initial recognition of a transaction an adjustment of revenues from sales is made, arising from the difference between the forward price of a metal expressed in USD from the date of recognition of a sale in the period corresponding to the period of settlement of the transaction, and the price from provisional invoice. This adjustment brings the amount of the transaction to the expected amount as a transaction price at the moment of initial recognition. This only concerns cases where the change in transaction price arises from a change in the metal's price. For these types of variable revenues, the limitation of IFRS 15 on recognising variable consideration only to the amount in respect of which it is highly probable that a reversal will not be recognised, is not applicable. Changes to the accounted amount after the moment of recognition do not impact the revenues from sales but are fair value gains/losses on measurement of receivables pursuant to the accounting policies presented in Note 10.2. Sales

in PLN millions, unless otherwise stated

revenue is adjusted for the gain or loss on the settlement of cash flow hedging derivatives, in accordance with the general principle that the portion of gain or loss on a derivative hedging instrument that is determined to be an effective hedge is recognised in the same position of profit or loss in which the gain or loss on the hedged item is recognised at the moment when the hedged item affects profit or loss

Important estimates, assumptions and judgments

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

As at 1 January 2021, the balance of trade payables due to contracts with customers amounted to PLN 12 million and was wholly recognised in revenues for 2021. As at 31 December 2021 the balance of trade payables due to contracts with customers amounted to PLN 5 million.

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

In 2020, the Company recognised an adjustment to revenues on performance obligations realised in the previous reporting period in the amount of PLN 11 million. This amount arises due to the final determination of sales price in 2020.

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

Revenues from contracts with customers – breakdown by products

	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Copper	19 079	14 258
Silver	3 990	3 453
Gold	548	690
Lead	271	220
Services	143	116
Merchandise	181	292
Waste and production materials	96	75
Other	310	222
TOTAL, including:	24 618	19 326
Impact of derivatives and hedging transactions on revenues from contracts with customers	(1 651)	323

in PLN millions, unless otherwise stated

Sales revenue – geographical breakdown reflecting the location of end customers

		from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Europe			
	Poland	5 896	4 371
	Germany	3 702	3 093
	Italy	1 999	1 109
	Czechia	1 804	1 423
	The United Kingdom	1 283	1 960
	Hungary	1 123	689
	France	790	636
	Switzerland	589	713
	Austria	428	161
	Romania	255	176
	Slovenia	147	70
	Slovakia	123	88
	Denmark	43	19
	Bulgaria	36	13
	Sweden	19	21
	Estonia	19	17
	Belgium	17	51
	Other countries (dispersed sale)	4	7
North America			
	The United States of America	1 361	600
	Other countries (dispersed sale)	16	2
South America		8	-
Australia		1 020	843
Asia			
	China	2 875	2 611
	Thailand	463	183
	Vietnam	336	95
	Turkey	123	87
	South Korea	54	-
	Malesia	47	46
	Philippines	4	14
	Taiwan	-	220
	Singapore	-	7
	Other countries (dispersed sale)	1	1
Africa		33	-
TOTAL		**24 618**	**19 326**

in PLN millions, unless otherwise stated

Main customers

In the period from 1 January to 31 December 2021 and in the comparable period, revenues from no single customer exceeded 10% of the sales revenue of the Company.

Non – current assets – geographical breakdown

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

Cash expenditures on property, plant and equipment and intangible assets

	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Cash expenditures on mining and metallurgical assets	(2 381)	(2 373)
Cash expenditures on other property, plant and equipment and intangible assets	(26)	(49)

PART 3 – Impairment of assets

Note 3.1 Impairment losses on assets as at 31 December 2021

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

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

TESTING FOR THE IMPAIRMENT OF THE VALUE OF SHARES IN THE COMPANY FUTURE 1

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

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

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

The main indications that the recoverable amount may be higher than the carrying amount, with the consequent justification for the reversal of previously recognised impairment losses, were increases in the price paths of copper and gold.
The main indications that the recoverable amount may be lower than the carrying amount, with the consequent necessity for the recognition of an additional impairment loss, were as follows:

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

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

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

Basic macroeconomic assumptions adopted for cash flow estimation – metal prices
Price paths were adopted on the basis of long-term forecasts available from financial and analytical institutions. A detailed forecast is being prepared for the period 2022-2026, while for the period 2027-2031 a technical adjustment of prices was applied between the last year of the detailed forecast and 2032, from which a long-term metal price forecast is used as follows: – for copper – 7 000 USD/t (3.18 USD/lb); – for gold – 1 500 USD/oz; – for nickel – 7.25 USD/lb.

Other key assumptions used for cash flow estimation

Assumption	Sierra Gorda	Victoria	Sudbury	Robinson
Mine life / forecast period	22	14	14	7
Level of copper production during mine life (kt)	3 752	249	43	358
Level of nickel production during mine life (kt)	-	221	23	-
Level of gold production during mine life (koz t)	1 017	157	27	263
Average operating margin during mine life	42.6%	62%	27%	43%
Capital expenditures to be incurred during mine life [USD million]	1 487	1 530	157	410

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

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

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

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

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

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

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

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

Due to a number of factors, such as the lack of knowledge about the details of the negotiation process, the valuation assumptions made by the buyer and seller, and the fact that shares of Sierra Gorda S.C.M. are not listed, it is not justifiable to assess in the consolidated financial statements the value of loans by directly referring to the transaction price from the sale of the 45% interest in Sierra Gorda S.C.M. (i.e. participation in equity and loan receivables) by the seller following the end of the reporting period (the change of the partner in the joint venture Sierra Gorda S.C.M. is described in detail in note 12.13). Nevertheless, the Company made an additional comparison of the carrying amount of its own involvement in the joint venture Sierra Gorda S.C.M. (i.e. receivable due to a loan and investments in equity instruments) in order to verify that the total carrying amount does not differ substantially from the value that would result from the transaction price, taking into account: (i) limitations as to the Company's ability to obtain full knowledge of the process of reaching the transaction price, and (ii) differences in the applied discount rates for future expected cash flows obtainable from the JV (i.e. the effective interest rate for loan measurement according to IFRS 9, versus the rate of return expected by the investor in the valuation of the transaction price).

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

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

in PLN millions, unless otherwise stated

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

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

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

The recoverable amount of the enterprise was calculated on the basis of the value in use of net assets of the enterprise, with the adopted forecast period of 10 years. Extension of the forecast period is justified mainly by the significant and long-term impact of expected changes in the regulatory environment. Moreover, in the detailed forecast period it is necessary to present the impact of incurred capital expenditures, the increase in their amounts in the first forecast period (for the years 2022/2023) and the lack of necessity to incur them in similar amounts in subsequent years.

The approved Budget of the Company for the years 2022 – 2026, adjusted due to significant changes in prices of CO_2 emissions rights and energy which took place recently, is the basis for the preparation of forecasts of revenues and costs,

The adopted level of capital expenditures in the forecast period concerns mainly modernisation and replacement tasks.

As the result of the aforementioned assumptions and with due prudence, the estimated EBIT will increase in the period 2022 – 2024 from the level of -PLN 3 million to PLN 17 million, while from 2025 to 2032 EBIT will be at the yearly level of PLN 16 million.

As a result of the impairment testing of the shares of "Energetyka" Sp. z o.o., the recoverable amount of shares was determined to be at the level of PLN 117 million, which was lower than the carrying amount of the tested assets, which was the basis for recognising an impairment loss in the amount of PLN 182 million.

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

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

in PLN millions, unless otherwise stated

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

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

Note 3.2 Impairment losses on assets as at 31 December 2020

Assessment of the risk of impairment of assets of KGHM Polska Miedź S.A. in the context of the market capitalisation of KGHM Polska Miedź S.A.
In 2020, the COVID-19 (coronavirus) pandemic was spreading across the world, and its impact was noticeable in many areas. Detailed information on the impact of COVID–19 on the Company's operations is presented in note 12.12. Among others, due to the coronavirus market indices drastically fell. The share price of KGHM Polska Miedź S.A. in 2020 initially fell to PLN 49.40 (on 12 March 2020) or by 48% as compared to the share price from the end of 2019 and then rose to PLN 183.00 as at 31 December 2020. In 2020, the WIG and WIG20 indices on 12 March 2020 fell by 36% and 39%, and on 31 December 2020 by 1% and 8% as compared to 31 December 2019, respectively. As a result, the Company's market capitalisation increased from PLN 19 116 million to PLN 36 600 million, and therefore as at 31 December 2020 it was 77% above the value of the net assets of the Company. The drop in share prices caused by the COVID-19 pandemic affected shares of companies in the majority of sectors, in various sectors of the economy, and reflected investors uncertainty as to the future. This was confirmed by the increase in the value of typically conservative instruments such as gold and the exchange rates of certain currencies. From the perspective of the Company's operations, the copper price is the first and foremost key factor. From the start of the pandemic, this metal was substantially undervalued. As at 31 December 2019, the price of copper amounted to 6 156 USD/t, and during 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 from the beginning of 2020 and on 31 December 2020 the copper price reached the level of 7 741 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 and then increased alongside the increase in metal prices. 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 has been advancing its production and sales plans. As a result of the assessment, it was judged that there was no temporary relation in the first half of 2020 between the fall in share price of KGHM Polska Miedź S.A. in terms of the main activities of KGHM Polska Miedź S.A. Consequently, there were no indications identified suggesting the risk of impairment of 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.

in PLN millions, unless otherwise stated

IMPAIRMENT OF SHARES OF Future 1 Sp. z o.o

Future 1 is a holding company, through which KGHM Polska Miedź S.A. (Company) has shares in KGHM INTERNATIONAL LTD. and provides financing for the KGHM INTERNATIONAL LTD. Group and the joint venture Sierra Gorda S.C.M. The outbreak of the Covid-19 pandemic at the beginning of 2020 and freezing of the economies of highly developed countries resulted in a market crash and fall of copper price to 4 797 USD/t at the end of the first quarter of 2020 (copper price as at 31 December 2019: 6 156 USD/t). This situation, in particular the fall of coper price, had an impact on the current liquidity of Sierra Gorda. Because of the impact of deteriorated cash flows of Sierra Gorda in the first half of 2020 and unfavourable copper price forecasts, there was an increase in involvement of the Company in the company Future 1 in the form of loans granted measured at fair value through profit or loss in the amount of USD 52 million (PLN 208 million, Note 7.5.2.5), which constituted an increase in the share capital of Sierra Gorda at the last stage of transfer between companies within the holding structure.

The last yearly impairment test of the investment in Future 1 was conducted as at 31 December 2019. Taking into account the fact that the only assumption that changed as compared to 31 December 2019 were lower copper prices resulting in worse financial forecasts, during 2020 and with no changes in other assumptions, to determine the recoverable amount at the end of the second quarter of 2020 a model of determining recoverable amount dated 31 December 2019 was used, and therefore the disclosures are not repeated. As a result of the procedures carried out, the recoverable amount of the investment in Future 1 was determined to amount to PLN 1 103 million, and therefore a decrease in involvement in Future 1 was recognised in the Statement of profit or loss in the total amount of PLN 82 million.

In the second half of 2020, with the inflow of calming information on the demand for coper, the price of this commodity increased significantly, and as at 31 December 2020 it reached the level of 7 742 USD/t. At the same time, real cash flows returned to the level similar to planned at the end of 2019, and cash flow forecasts stabilised. Due to the above, the Company did not identify any indications to further decrease the recoverable amount and did not perform another evaluation of the recoverable amount of involvement in Future 1. The increase in copper prices in the second half of 2020 was neither determined by the Management Board to be a sufficient indication to reverse previously recognised impairment losses due to a significant uncertainty as to the further impact of Covid-19 on the economy, and therefore uncertainty whether copper prices will permanently remain at a higher level.

As at 31 December 2020, the value of capital commitment in Future 1 amounted to PLN 1 103 million, and the carrying amount of loans granted to Future 1 amounted to PLN 4 612 million (including loans measured at fair value of PLN 1 475 million and loans measured at amortised cost of PLN 3 137 million).

The following table presents fluctuations of the copper price during 2020 (LME quotations, settlement price and 3 months price):

Date	19-Dec	20-Jan	20-Feb	**20-Mar**	20-Apr	20-May	20-Jun	20-Jul	20-Aug	20-Sep	20-Oct	20-Nov	20-De
Cu	6 156	5 570	5 573	**4 797**	5 231	5 333	6 038	6 447	6 728	6 610	6 695	7 675	7 742
Cu 3M	6 183	5 588	5 597	**4 812**	5 259	5 357	6 044	6 440	6 702	6 612	6 706	7 681	7 757

The Company continuously monitored the global situation and if there is a greater stabilisation of expectations as to the global economic development and maintenance of the current level of copper prices, it will perform a re-measurement of the involvement in Future 1.

in PLN millions, unless otherwise stated

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, the portfolio of which 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. The outbreak of the COVID-19 virus pandemic had a substantial impact on companies providing hotel and spa services. In 2020, there were significant disruptions to the on-going operations of these companies related to the mandatory lockdown and restrictions of activities implemented by the Decrees of the Minister of Health. Decisions were made to temporarily suspend the activities of individual facilities. Companies were subjected to a temporary prohibition on conducting activities in the spring period (March-May/June) and in the winter period (from November).

The restrictions related to COVID-19 resulted in a decrease in revenues in 2020 in the spa companies of approx. 37% and in the hotel companies of 45% as compared to the revenues in 2019, and as compared to the revenue plan at the level of 41% and 43%, respectively. Pursuant to IAS 36, it represented a key indication to conduct impairment testing of the investments in the form of Investment Certificates of the KGHM VI FIZAN and KGHM VII FIZAN.

The recoverable amount of the Investment Certificates was adopted to be the reliably estimated fair value of these certificates, by referencing to the fair value of estimated portfolio deposits (fair value defined in this way was classified to level 3 of the fair value hierarchy, pursuant to IFRS 13):

- operating companies – by the method of discounted cash flows, 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),
- public companies – the share price from the date of measurement, adjusted by the control premium if the investment fund has a controlling interest (including INTERFERIE S.A.),
- holding companies or special purpose companies (not conducting typical operating activities) – the adjusted net assets method,
- other portfolio deposits – reliably estimated fair value, while receivables and debt securities are measured at adjusted purchase price, estimated by applying the effective interest rate.

Results of the tests conducted on the accounting books of KGHM Polska Miedź S.A. for KGHM VI FIZAN

As a result of the test conducted in the first quarter of 2020, the recoverable amount of the investment was at the level of PLN 99 million, which was lower than the carrying amount of the investment of PLN 111 million, which gave a basis to recognise an impairment loss in the amount of PLN 12 million, which charged the profit or loss for the first quarter of 2020 and was presented in the "other operating costs" item (Note 4.2). Although the updated test at the end of 2020 gave a basis to recognise a reversal of an impairment loss, a decision was made not to reverse it and monitor the basis for its change in subsequent quarters as well as the development of the epidemic situation in Poland.

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*	-	2021 - 2026
Average EBITDA margin: - during the detailed forecast period, - during the residual period	-	29% 33%
Capital expenditures during the detailed forecast period	-	PLN 10 million
Average notional discount rate during the detailed forecast period and during the residual period**	-	7.7%
Notional growth rate following the detailed forecast period	-	2.0%

* a 6-year detailed forecast period was adopted instead of a 5-year one, pursuant to the approach applied by KGHM VI FIZAN for the measurement of portfolio deposits, in order to maintain the comparability over time (the methodology applied in previous periods).
** Data is presented after taxation, despite the measurement model of value in use. The application of data before taxation does not have an impact on the recoverable amount.

in PLN millions, unless otherwise stated

Results of the tests conducted on the accounting books of KGHM Polska Miedź S.A. for KGHM VII FIZAN

As a result of the conducted test, the recoverable amount of the investment was at the level of PLN 287 million, which was lower than the carrying amount of the investment of PLN 331 million, which gave a basis to recognise an impairment loss in the amount of PLN 44 million, which charged profit or loss for the first quarter of 2020 in the amount of PLN 30 million, in the second quarter of 2020 in the amount of PLN 4 million and in the fourth quarter of 2020 in the amount of PLN 10 million and was presented in the item "other operating costs" (Note 4.2).

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*	2021 r. - 2026 r.	2021 r.- 2026 r.	2021 r. - 2026 r.	2021 r. - 2026 r.
Average EBITDA margin: - during the detailed forecast period, -during the residual period	18% 20%	18% 21%	16% 17%	18% 20%
Capital expenditures during the detailed forecast period	PLN 60 million	PLN 17 million	PLN 11 million	PLN 8 million
Average notional discount rate during the forecast period** Notional discount rate during the residual period**	7.7% 7.8%	8.3% 8.7%	8.4% 8.7%	8.5% 8.8%
Notional growth rate following the detailed forecast period	2.0%	2.0%	2.0%	2.0%

* a 6-year detailed forecast period was adopted instead of a 5-year one, pursuant to the approach applied by KGHM VII FIZAN for the measurement of portfolio deposits, in order to maintain the comparability over time (the methodology applied in previous periods).
** Data is presented after taxation, despite the measurement model of value in use. The application of data before taxation does not have an impact on the recoverable amount.

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. Due to the very conservative approach in testing with respect to financial projections for the years 2021 – 2026, the Company refrained from testing the sensitivity of the recoverable amount during the lockdown period. The sensitivity to the change in level of revenues is reflected in the sensitivity to changes in the EBITDA margin.

The sensitivity is not significant for other parameters.

in PLN millions, unless otherwise stated

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.

Recoverable amount			
Control premium above the share price	**decrease by 5 pp.**	**per test**	**increase by 5 pp.**
Certificates of KGHM VI FIZAN	116	118	121
Average EBITDA margin during the forecast period	**decrease by 2 pp.**	**per test**	**increase by 2 pp.**
Certificates of KGHM VI FIZAN	112	118	125
Certificates of KGHM VII FIZAN	214	287	359
Average discount rate during the forecast period	**decrease by 1 pp.**	**per test**	**increase by 1 pp.**
Certificates of KGHM VI FIZAN	132	118	109
Certificates of KGHM VII FIZAN	350	287	242
Growth rate following the forecast period	**decrease by 1 pp.**	**per test**	**increase by 1 pp.**
Certificates of KGHM VI FIZAN	111	118	129
Certificates of KGHM VII FIZAN	253	287	334

in PLN millions, unless otherwise stated

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

As at 31 December 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 2020, significantly deviating from the financial results assumed for that period.

The carrying amount of shares of POL-MIEDŹ TRANS Sp. z o.o. as at 31 December 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	
Assumption	**Level adopted in testing**
Forecast period	01.2021-12.2025
Operating margin	0.9% during the forecast period 1.3% in the residual value
Capital expenditures during the forecast period	PLN 189 million
Discount rate*	4.27% (nominal rate after taxation)
Growth rate following the forecast period	0%

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

As a result of the impairment testing of 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. indicates 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.			
	Recoverable amount for a given discount rate		
	lower by 1 pp.	**per test**	**higher by 1 pp.**
Discount rate 4.27% (test)	350	**154**	98
	Recoverable amount for a given operating margin		
	lower by 1 pp.	**per test**	**higher by 1 pp.**
Operating margin 0.9%, 1.3% in RV (test)	40	**154**	267

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 6.68% or if the operating margin were to decrease by 0.8 pp.

in PLN millions, unless otherwise stated

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

Note 4.1 Expenses by nature

		from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Note 9.3	Depreciation of property, plant and equipment and amortisation of intangible assets	1 435	1 364
Note 11.1	Employee benefits expenses	4 249	3 835
	Materials and energy, including:	10 242	6 326
	purchased metal-bearing materials	7 132	3 974
	electrical and other energy	1 230	988
	External services, including:	1 884	1 716
	transport	278	227
	repairs, maintenance and servicing	569	530
	mine preparatory work	510	487
Note 5.2	Minerals extraction tax	3 548	1 625
Note 5.2	Other taxes and charges	398	397
	Advertising costs and representation expenses	63	53
	Property and personal insurance	35	31
	Reversal of write down of inventories	(20)	(25)
	Write down of inventories	41	48
	Other costs	26	16
	Total expenses by nature	**21 901**	**15 386**
	Cost of merchandise and materials sold (+)	339	359
	Change in inventories of products and work in progress (+/-)	(1 562)	576
	Cost of products for internal use (-)	(164)	(160)
	Total cost of sales, selling costs and administrative expenses, including:	**20 514**	**16 161**
	Cost of sales	19 441	15 151
	Selling costs	156	132
	Administrative expenses	917	878

in PLN millions, unless otherwise stated

Note 4.2 Other operating income/(costs)

		from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
	Gains on derivatives, of which:	323	352
Note 7.1	measurement	209	182
Note 7.1	realisation	114	170
	Exchange differences on assets and liabilities other than borrowings	511	-
	Interest on loans granted and other financial receivables	304	269
	Fees and charges on re-invoicing of bank guarantees costs securing payments of liabilities	68	53
	Reversal of impairment losses on financial instruments measured at amortised cost, including:	807	21
Note 6.2	loans	752	18
	Fair value gains on financial assets measured at fair value through profit or loss, including:	1 070	149
Note 6.2	loans	1 056	118
	Reversal of impairment losses on shares in subsidiaries	1 010	-
	Dividends income	37	20
	Profit on the disposal of shares in subsidiaries	25	-
	Release of provisions	22	21
	Refund of excise tax for previous years	5	53
	Other	91	70
	Total other operating income	**4 273**	**1 008**
	Losses on derivatives, of which:	(768)	(592)
Note 7.1	measurement	(141)	(118)
Note 7.1	realisation	(627)	(474)
	Impairment losses on financial instruments measured at amortised cost	(4)	(82)
Note 7.1	Exchange differences on assets and liabilities other than borrowings	-	(269)
	Fair value losses on financial assets measured at fair value through profit or loss, including:	(63)	(169)
Note 6.2	loans	(9)	(128)
	Impairment losses on shares and investment certificates in subsidiaries	(182)	(141)
	Provisions recognised	(58)	(7)
	Donations granted	(29)	(40)
	Impairment losses on fixed assets under construction and intangible assets not yet available for use	(13)	(33)
	Other	(68)	(73)
	Total other operating costs	**(1 185)**	**(1 406)**
	Other operating income / (costs)	**3 088**	**(398)**

in PLN millions, unless otherwise stated

Note 4.3 Finance income/(costs)

		from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
	Exchange differences on borrowings	-	190
Note 7.1	Gains on derivatives -realisation	70	70
	Total finance income	**70**	**260**
	Interest on borrowings including:	(92)	(148)
	leases	(8)	(8)
	Fees and charges on external financing	(28)	(27)
	Exchange differences on borrowings	(338)	-
	Losses on derivatives, of which:	(80)	(77)
Note 7.1	measurement	(1)	-
Note 7.1	realisation	(79)	(77)
	Unwinding of the discount effect	(8)	(8)
	Total finance costs	**(546)**	**(260)**
	Finance income /(costs)	**(476)**	**-**

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

Reversal of impairment losses on assets recognised in:	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
cost of sales, of which:	**20**	**25**
reversal of write-down of inventories	20	25
other operating income, of which:	**1 820**	**23**
reversal of impairment losses on shares in subsidiaries	1 010	-
reversal of allowance for impairment of loans measured at amortised cost	752	18
reversal of allowance for impairment of trade receivables	3	1
reversal of allowance for impairment of other financial receivables	52	2
reversal of allowance for impairment of other non-financial receivables	3	2
Reversal of impairment losses, total	**1 840**	**48**

Impairment losses on assets recognised in:		
cost of sales, of which:	**48**	**48**
impairment losses on property, plant and equipment and intangible assets	7	-
write-down of inventories	41	48
other operating costs, due to:	**199**	**256**
allowance for impairment of loans measured at amortised cost	-	36
impairment losses on fixed assets under construction and intangible assets not yet available for use	13	33
impairment losses on shares in subsidiaries	182	141
allowance for impairment of trade receivables	3	2
allowance for impairment of other financial receivables	1	44
Impairment losses, total	**247**	**304**

in PLN millions, unless otherwise stated

PART 5 – Taxation

Note 5.1 Income tax in the statement of profit or loss

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

Income tax

		from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
	Current income tax	1 414	747
Note 5.1.1	Deferred income tax	152	243
	Current tax adjustments for prior periods	(19)	(2)
	Income tax	**1 547**	**988**

In 2021, KGHM Polska Miedź S.A. paid income tax in the amount of PLN 707 million (in 2020: PLN 730 million) to the appropriate tax office.

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

Reconciliation of effective tax rate

	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Profit/(loss) before tax	**6 716**	**2 767**
Tax calculated using the given rate (2021: 19%, 2020: 19%)	1 276	526
Tax effect of non-taxable income, including:	(494)	(22)
reversal of allowances for impairment of loans granted to subsidiaries	(294)	(1)
Tax effect of expenses not deductible for tax purposes, including:	794	491
minerals extraction tax	674	309
impairment losses on shares in subsidiaries and allowances for impairment of loans	40	48
Tax adjustments for prior periods	(19)	(2)
Current tax from settlement of the Tax Group	(10)	(5)
Income tax in profit or loss [the effective tax rate amounted to: 23.03% (in 2020: 35.71%)]	**1 547**	**988**

in PLN millions, unless otherwise stated

Note 5.1.1 Deferred income tax

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

	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Deferred tax at the beginning of the period, of which:	**(81)**	**(60)**
Deferred tax assets	1 554	1 279
Deferred tax liabilities	(1 635)	(1 339)
Deferred tax in the period:	**(95)**	**(21)**
Recognised in profit or loss	(152)	(243)
Recognised in other comprehensive income	57	222
Deferred tax at the end of the period, of which:	**(290)**	**(81)**
Deferred tax assets	1 482	1 554
Deferred tax liabilities	(1 772)	(1 635)

Maturities of deferred tax assets/(deferred tax liabilities) were as follows:

	As at 31 December 2021	As at 31 December 2020
Maturity over the 12 months from the end of the reporting period, net	(666)	(444)
Maturity of up to 12 months from the end of the reporting period, net	376	363

in PLN millions, unless otherwise stated

Deferred tax assets and liabilities

Deferred tax assets	As at 1 January 2020	Credited/(Charged) profit or loss	Credited/(Charged) other comprehensive income	As at 31 December 2020	Credited/(Charged) profit or loss	Credited/(Charged) other comprehensive income	As at 31 December 2021
Interest	43	-	-	43	(20)	-	23
Provision for decommissioning of mines and other technological facilities	226	13	-	239	(67)	-	172
Measurement of forward transactions other than hedging instruments as understood by hedge accounting	16	15	-	31	38	-	69
Difference between the depreciation rates of property, plant and equipment for accounting and tax purposes	55	4	-	59	2	-	61
Future employee benefits	473	9	58	540	(2)	(126)	412
Equity instruments measured at fair value	139	-	(36)	103	-	-	103
Allowances for impairment/reversal of allowances for impairment of loans	32	8	-	40	(31)	-	9
Re-measurement of hedging instruments	34	-	200	234	-	70	304
Lease liabilities	59	(4)	-	55	13	-	68
Short-term accruals for remuneration	61	24	-	85	16	-	101
Liability related to the fixed fee due to setting mining usufruct	32	-	-	32	4	-	36
Recognition/reversal of other impairment losses on assets	14	-	-	14	3	-	17
Other	95	(16)	-	79	29	(1)	107
Total	**1 279**	**53**	**222**	**1 554**	**(15)**	**(57)**	**1 482**

in PLN millions, unless otherwise stated

Deferred tax liabilities	As at 1 January 2020	(Credited)/Charged profit or loss	As at 31 December 2020	(Credited)/Charged profit or loss	As at 31 December 2021
Measurement of forward transactions other than hedging instruments as understood by hedge accounting	16	18	34	15	49
Difference between the depreciation rates for accounting and tax purposes, including:	1 074	88	1 162	72	1 234
difference between the depreciation rates of leases for accounting and tax purposes	61	(7)	54	15	69
Interest	244	47	291	(43)	248
Measurement of financial assets at fair value	-	35	35	50	85
Difference between the carrying amount and tax base of expenditures on fixed assets under construction and intangible assets not yet available for use	-	101	101	26	127
Other	5	7	12	17	29
Total	**1 339**	**296**	**1 635**	**137**	**1 772**

in PLN millions, unless otherwise stated

Note 5.2 Other taxes and charges

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

<table>
<tr><th rowspan="2"></th><th rowspan="2">from 1 January 2021 to 31 December 2021</th><th rowspan="2">from 1 January 2020 to 31 December 2020</th><th rowspan="2">Basis for calculating tax</th><th rowspan="2">Tax rate</th><th colspan="2">Presentation in the statement of profit or loss</th><th rowspan="2"></th></tr>
<tr><th>from 1 January 2021 to 31 December 2021</th><th>from 1 January 2020 to 31 December 2020</th></tr>
<tr><td>Minerals extraction tax, of which:</td><td>3 548</td><td>1 625</td><td></td><td rowspan="3">tax rate calculated for every reporting period*</td><td>3 238</td><td>1 574</td><td>tax recognised in cost of sold products</td></tr>
<tr><td>- copper</td><td>3 012</td><td>1 236</td><td>Amount of copper in produced concentrate, expressed in tonnes</td><td rowspan="2">310</td><td rowspan="2">51</td><td rowspan="2">tax recognised in inventories</td></tr>
<tr><td>- silver</td><td>536</td><td>389</td><td>Amount of silver in produced concentrate, expressed in kilograms</td></tr>
</table>

* In accordance with conditions specified by the Act dated 2 March 2012 on the minerals extraction tax and the Act dated 12 April 2019 on changing the act on the minerals extraction tax, which decreased the tax rate by 15% from July 2019.

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

Other taxes and charges:

	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Royalties	116	111
Excise tax	6	6
Real estate tax	214	197
Other taxes and charges	62	83
Total	**398**	**397**

Note 5.3 Tax assets and liabilities

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

in PLN millions, unless otherwise stated

Tax assets

	As at 31 December 2021	As at 31 December 2020
Receivables due to taxes, social and health insurance and other benefits	301	217
Tax assets	**301**	**217**

Tax liabilities

	As at 31 December 2021	As at 31 December 2020
Current corporate income tax liabilities	838	77
Other tax liabilities	453	292
Tax liabilities	**1 291**	**369**

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

in PLN millions, unless otherwise stated

PART 6 – Investments in subsidiaries

Note 6.1 Subsidiaries

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

	2021	2020
As at 1 January	**2 848**	**2 946**
Acquisition of shares and investment certificates, of which:	38	40
KGHM VII FIZAN	-	4
KGHM ZANAM S.A.	38	22
PMT LINIE KOLEJOWE	-	14
Reversal of impairment losses on FUTURE 1 Sp. z o.o.	1 010	-
Impairment losses - of which:	(182)	(138)
FUTURE 1 Sp. z o.o.	-	(82)
KGHM VI FIZAN	-	(12)
KGHM VII FIZAN	-	(44)
"Energetyka" sp. z o.o.	(182)	
Repurchase of investment certificates of KGHM VII FIZAN	(31)	-
Other decreases	8	-
As at 31 December	**3 691**	**2 848**

The balance of impairment losses as at 31 December 2021 amounted to PLN 3 272 million (as at 31 December 2019: PLN 3 973 million, as at 31 December 2020: PLN 4 114 million).

in PLN millions, unless otherwise stated

The most significant investments in subsidiaries (direct share)

Entity	Head Office	Scope of activities	Carrying amount of shares/investment certificates	
			as at 31 December 2021	as at 31 December 2020
FUTURE 1 Sp. z o.o.	Lubin	management and control of other companies, including the KGHM INTERNATIONAL LTD. Group	2 111	1 103
KGHM VII FIZAN	Wrocław	cash investing in securities, money market instruments and other property rights	365*	287
KGHM Metraco S.A.	Legnica	trade, agency and representative services	335	335

* In the third quarter of 2021 the Funds KGHM VI FIZAN and KGHM VII FIZAN were merged, which resulted from the need to adjust the structure of the Funds' investment portfolios to the statutory requirements. The acquired fund is KGHM VI FIZAN, and the acquiring fund is KGHM VII FIZAN. The increase in the carrying amount of the investment in KGHM VII FIZAN of PLN 110 million is a result of merging entities.

As at 31 December 2021 and as at 31 December 2020, the % of share capital held as well as the % of voting power in the above-mentioned subsidiaries was 100%.

Note 6.2 Receivables due to loans granted

Accounting policies

The Company classifies loans granted to individual categories using the following policies:

Loans measured at amortised cost – to this category, the Company classifies loans that met two conditions: they are in a business model whose objective is to collect contractual cash flows due to holding assets, and have passed the SPPI (solely payments of principal and interest) test, that is they are maintained in order to collect the principal amount and interest. They are initially recognised at fair value adjusted by costs directly associated with the loan and are measured at the end of the reporting period at amortised cost using the effective interest rate method, including impairment calculated using the model of expected losses on the basis of discounted cash flows.

POCI loans –the Company classifies as POCI, at the moment of initial recognition, financial assets that are credit-impaired due to high credit risk at the moment they are granted or if the loans were purchased at a significant discount. POCI loans are measured at the end of the reporting period at amortised cost using the effective interest rate adjusted by the credit risk, including impairment calculated using the model of expected losses on the basis of discounted cash flows in the horizon of the expected repayment of the loan. The loss allowance for ECL (expected credit loss) is calculated on the basis of expected credit losses during the whole life of the instrument. Accumulated changes to the expected credit losses are recognised as an increase or a reversal of an already recognised loss allowance for expected credit losses. Currently presented POCI loans are loans granted (not acquired). Classification was set due to the implementation of IFRS 9 in 2018 due to the recognised impairment at the moment of initial recognition.

The loans measured at fair value through profit or loss – to this category, the Company classifies loans that did not pass the SPPI (solely payments of principal and interest) test. The fair value of these loans is set at present value of future cash flows, including the change of market risk and credit risk factors during the loans' life.

Financial assets, for which the Company has to calculate the expected credit losses pursuant to IFRS 9, are classified to one of three degrees of a model of impairment. Classification to individual degrees of impairment model is at the level of a single financial instrument (a single exposure).

To the degree 2, the Company classifies financial instruments with an identified significant increase in credit risk, understood as a significant increase in probable default in the remaining time of the instrument as compared to the date of its initial recognition, but there were no objective indicators of impairment. The expected credit losses for the degree 2 are estimated during the entire life of these instruments.

If at the end of the reporting period the analysis proves that for a given financial instrument, since the day of its initial recognition, there was not a significant increase in credit risk and no default status was granted, the instrument is

classified to the degree 1 of a model of impairment. For exposures classified to the degree 1, the expected credit losses are estimated in a horizon of 12 months.
Balances with an identified, objective indication of impairment are included in the degree 3. At the end of the reporting period, no financial instrument was defaulted (criteria classifying to the degree 3) and therefore, the Company did not classify any of the loans granted to the degree 3.

Important estimates, assumptions and judgments

Failed SPPI test - The Company assumes that the solely payments of principal and interest (SPPI) test for loans granted is not passed if, among others, in the structure of financing the target recipient of funds, debt is changed at the last stage into an equity investment.
Indications to classify the loan to the degree 2 of impairment model is the occurrence of one of the following:

- for exposition of the borrower's rating - at the level of Baa3 (per the Moody's methodology or a corresponding one for the S&P/Fitch ratings) or better (investment rating) – a drop in the borrower's rating by at least 5 levels,
- for exposition of the borrower's rating - at the level of Ba1 (per the Moody's methodology or a corresponding one for the S&P/Fitch ratings) or worse (below investment rating) – a drop in the borrower's rating by at least 3 levels,
- deterioration of operational cash flows forecasts of a borrower – in the time horizon of the exposure, which does not result in the impossibility of settling the liability arising from a given loan,
- change in conditions of the loan due to the worsening financial position of the borrower, which has an impact of less than 1% of the value of the loan at the date of change (a change in the conditions of the loan from reasons other than the worsening financial position of the borrower are not included in the assessment of occurrence of a given indication),
- delay in the repayment of over 30 days (after the maturity date of interest or capital).

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

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

in PLN millions, unless otherwise stated

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

- the borrower's rating - is granted using internal methodology of the Company based on the Moody's methodology. The Company granted loans mainly to subsidiaries, of which over 99% of borrowers were assigned ratings between Baa1 – Baa3 (in the comparable period: A3-Baa3).
- the curve of accumulated parameters of PD (parameter of probability of default, used to calculate the expected credit losses) for a given borrower is set on the basis of market sector quotations of Credit Default Swap contracts from the Reuters system, which quantify the market expectations as for the potential probability of default in a given sector and in a given rating. As at 31 December 2021, PD parameters for the adopted ratings were as follows:

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

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

A3 to Baa3 ratings according to Moody's (31 December 2020)

Up to one year	0.5% - 1.01%
1-3 years	2.47% - 5.22%
More than 3 years (at the date of loans' maturity)	4.05% - 18.94%

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

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

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

Loans that at the last stage of cash flows between companies in the Future 1 holding structure or KGHM INTERNATIONAL LTD. were transferred as loans to a joint venture Sierra Gorda SCM, advanced by the KGHM INTERNATIONAL LTD. Group, were classified as POCI loans (identified allowance for impairment due to a high credit risk at the moment of granting). These loans, pursuant to contractual terms, are paid on demand, but not later than 15 December 2024. Due to the implementation of IFRS 9 as at 1 January 2018, the Company estimated the expected, undiscounted credit loss at the moment of initial recognition in the amount of PLN 1 289 million (USD 370 million per the 3.4813 USD/PLN exchange rate of NBP dated 29 December 2017). Up to 31 December 2021, the Company reversed credit losses at the moment of initial recognition in the amount of PLN 742 million (USD 191 million).

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

Pursuant to IFRS 9, the Company performed a measurement of loans classified to level 3 of the fair value hierarchy (measured at fair value as well as at amortised cost) designated mainly for financing the joint venture Sierra Gorda S.C.M. The basis of measuring the level of recoverability of loans at the level of the separate financial statements of KGHM Polska Miedź S.A. is the estimation of cash flows generated by Sierra Gorda S.C.M and other significant international production assets, which are subsequently allocated by the company in individual loans at various levels of the current financing structure. The estimate of cash flows generated by Sierra Gorda S.C.M. and other mines was determined on the basis of current forecasts of pricing paths of commodities and current mining plans.

The expected repayments of loans were discounted using:

- the effective interest rate adjusted by the credit risk, determined at the initial recognition of the loan pursuant to IFRS 9.B5.5.45 at the level of 3.69% - 6.64% - for loans measured at amortised cost
- the market interest rate at the level of 2.29%-8% - for loans measured at fair value.

in PLN millions, unless otherwise stated

As a result of the aforementioned measurements in 2021:

- for a POCI - loan –a reversal of an allowance for impairment was made in the amount of PLN 81 million (in the first half of the year: PLN 76 million, in the second half of the year: PLN 5 million) and gains were recognised on reversal of loss due to initial recognition of loans granted classified as POCI in the amount of PLN 657 million (in the first half of the year: PLN 379 million, in the second half of the year: PLN 278 million);
- for loans measured at fair value – an increase in fair value by the amount of PLN 1 047 million was estimated, including:
    - the amount of PLN 534 million on loans granted in the years 2015 – 2017 to the company Quadra FNX Holdings Chile Limitada (a subsidiary of the KGHM INTERNATIONAL LTD. Group) in the amount of USD 442 million for the purpose of recapitalisation of the Sierra Gorda S.C.M. project. These loans were classified by KGHM Polska Miedź S.A. as measured at fair value through profit or loss. As a result of restructuration of stream of loans in December 2017 and on the basis of an analysis of profitability of the Sierra Gorda S.C.M. investment, the Company measured the recoverable amount of these loans to be at the level of PLN 0. The increase in the recoverable amount of loans in this stream is a result of a significant increase in future cash flows of Sierra Gorda S.C.M. estimated on the basis of current price paths of commodities.
    - the amount of PLN 425 million concerns loans granted in the years 2018 – 2020 to the company Quadra FNX FFI (a subsidiary within the KGHM INTERNATIONAL LTD. Group) in the amount of USD 346 million, for the purpose of recapitalisation of the Sierra Gorda S.C.M. project.

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

	as at 31 December 2021	as at 31 December 2020
Loans measured at amortised cost – gross amount	5 505	5 352
Allowances for impairment	(98)	(179)
Loans measured at fair value	2 959	2 477
Total, including:	**8 366**	**7 650**
- long-term loans	8 249	7 648
- short-term loans	117	2

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

in PLN millions, unless otherwise stated

PART 7 – Financial instruments and financial risk management

Note 7.1 Financial Instruments

		As at 31 December 2021					As at 31 December 2020				
	Financial assets:	At fair value through other comprehensive income	At fair value through profit or loss	At amortised cost	Hedging instruments	Total	At fair value through other comprehensive income	At fair value through profit or loss	At amortised cost	Hedging instruments	Total
	Non-current	581	2 969	5 796	585	**9 931**	589	2 517	5 604	749	**9 459**
Note 6.2	Loans granted	-	2 959	5 290	-	**8 249**	-	2 477	5 171	-	**7 648**
Note 7.2	Derivatives	-	10	-	585	**595**	-	40	-	749	**789**
Note 7.3	Other financial instruments measured at fair value	581	-	-	-	**581**	589	-	-	-	**589**
Note 7.4	Other financial instruments measured at amortised cost	-	-	506	-	**506**	-	-	433	-	**433**
	Current	-	472	2 252	249	**2 973**	-	271	2 622	199	**3 092**
Note 10.2	Trade receivables	-	467	133	-	**600**	-	260	91	-	**351**
Note 7.2	Derivatives	-	5	-	249	**254**	-	11	-	199	**210**
Note 8.5	Cash and cash equivalents	-	-	1 332	-	**1 332**	-	-	2 135	-	**2 135**
	Cash pooling receivables*	-	-	498	-	**498**	-	-	128	-	**128**
Note 12.3	Other financial assets	-	-	289	-	**289**	-	-	268	-	**268**
	Total	**581**	**3 441**	**8 048**	**834**	**12 904**	**589**	**2 788**	**8 226**	**948**	**12 551**

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

in PLN millions, unless otherwise stated

	Financial liabilities:	As at 31 December 2021 At fair value through profit or loss	As at 31 December 2021 At amortised cost	As at 31 December 2021 Hedging instruments	As at 31 December 2021 Total	As at 31 December 2020 At fair value through profit or loss	As at 31 December 2020 At amortised cost	As at 31 December 2020 Hedging instruments	As at 31 December 2020 Total
	Non-current	**77**	**5 386**	**1 056**	**6 519**	**180**	**6 710**	**801**	**7 691**
Note 8.4	Borrowings, lease and debt securities	-	5 180	-	**5 180**	-	6 525	-	**6 525**
Note 7.2	Derivatives	77	-	1 056	**1 133**	180	-	801	**981**
	Other financial liabilities	-	206	-	**206**	-	185	-	**185**
	Current	199	3 466	848	**4 513**	91	4 083	604	**4 778**
Note 8.4	Borrowings, lease and debt securities	-	382	-	**382**	-	306	-	**306**
Note 8.4	Cash pooling liabilities*	-	360	-	**360**	-	284	-	**284**
Note 12.4	Other liabilities due to settlement under cash pooling contracts **	-	25	-	**25**	-	52	-	**52**
Note 7.2	Derivatives	40	-	848	**888**	49	-	604	**653**
Note 10.3	Trade payables	-	2 558	-	**2 558**	-	2 070	-	**2 070**
Note 10.3	Similar payables – reverse factoring***	-	55	-	**55**	-	1 264	-	**1 264**
	Other financial liabilities	159	86	-	**245**	42	107	-	**149**
	Total	**276**	**8 852**	**1 904**	**11 032**	**271**	**10 793**	**1 405**	**12 469**

** Liabilities of KGHM Polska Miedź S.A. towards the Group companies within the credit limit of the group of accounts participating in the cash pooling system.*
*** Other current liabilities towards participants in the cash pooling system to return, after the end of the reporting period, of cash transferred by them which were not used by KGHM Polska Miedź S.A. for its own needs.*
**** The main goal in implementing the reverse factoring program was to guarantee the efficient management of working capital while ensuring the timely repayment of trade payables towards the Company's suppliers. It should be assumed that reverse factoring in KGHM Polska Miedź S.A. represents a tool which is utilised as needed. In particular, in 2019, given the conditions of economic uncertainty resulting from the pandemic, the use of this tool substantially supported the goal set.*
As the economic situation stabilised and macroeconomic conditions improved, the Company reduced debt drawn to cover potential problems on the financial market and at the same time gradually restricted participation in the reverse factoring program.

in PLN millions, unless otherwise stated

Gains/(losses) on financial instruments

	from 1 January 2021 to 31 December 2021	Financial assets/liabilities measured at fair value through profit or loss	Financial assets measured at amortised cost	Financial liabilities measured at amortised cost	Hedging instruments	Total
Note 4.2	Interest income	-	304	-	-	304
Note 4.3	Interest costs	-	-	(92)	-	(92)
Note 4.2	Foreign exchange gains/(losses)	-	1 056	(545)	-	511
Note 4.3	Foreign exchange losses	-	-	(338)	-	(338)
Note 4.2	Fair value gains/(losses) on financial assets measured at fair value through profit or loss	1 007	-	-	-	1 007
Note 4.4	Reversal/(recognition) of impairment losses	-	803	-	-	803
Note 7.2	Revenues from contracts with customers	-	-	-	(1 651)	(1 651)
Note 4.2 Note 4.3	Gains on measurement of derivatives	209	-	-	-	209
Note 4.2 Note 4.3	Gains on realisation of derivatives	184	-	-	-	184
Note 4.2 Note 4.3	Losses on measurement of derivatives	(142)	-	-	-	(142)
Note 4.2 Note 4.3	Losses on realisation of derivatives	(706)	-	-	-	(706)
Note 4.3	Fees and charges on bank loans drawn	-	-	(28)	-	(28)
	Other	-	-	(8)	-	(8)
	Total net gain/(loss)	**552**	**2 163**	**(1 011)**	**(1 651)**	**53**

in PLN millions, unless otherwise stated

	from 1 January 2020 to 31 December 2020	Financial assets/liabilities measured at fair value through profit or loss	Financial assets measured at amortised cost	Financial liabilities measured at amortised cost	Hedging instruments	Total
Note 4.2	Interest income	-	269	-	-	269
Note 4.3	Interest costs	-	-	(148)	-	(148)
Note 4.2	Foreign exchange gains/(losses)	-	162	(431)	-	(269)
Note 4.3	Foreign exchange losses	-	-	190	-	190
Note 4.2	Fair value gains/(losses) on financial assets measured at fair value through profit or loss	(20)	-	-	-	(20)
Note 4.4	Reversal/(recognition) of impairment losses	-	(61)	-	-	(61)
Note 7.2	Revenues from contracts with customers	-	-	-	323	323
Note 4.2	Gains on measurement of derivatives	182	-	-	-	182
Note 4.2 Note 4.3	Gains on realisation of derivatives	240	-	-	-	240
Note 4.2 Note 4.3	Losses on measurement of derivatives	(118)	-	-	-	(118)
Note 4.2 Note 4.3	Losses on realisation of derivatives	(551)	-	-	-	(551)
Note 4.3	Fees and charges on bank loans drawn	-	-	(27)	-	(27)
	Other	-	-	(8)	-	(8)
	Total net gain/(loss)	**(267)**	**370**	**(424)**	**323**	**2**

Fair value measurement

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

in PLN millions, unless otherwise stated

The fair value hierarchy of financial instruments

Classes of financial instruments	As at 31 December 2021				As at 31 December 2020			
	fair value			carrying amount	fair value			carrying amount
	level 1	level 2	level 3		level 1	level 2	level 3	
Loans granted measured at fair value	-	-	2 959	2 959	-	105	2 372	2 477
Loans granted measured at amortised cost	-	224	5 340	5 407	-	700	5 054	5 171
Listed shares	484	-	-	484	497	-	-	497
Unquoted shares	-	97	-	97	-	92	-	92
Trade receivables	-	467	-	467	-	260	-	260
Other financial assets	-	10	-	10	-	-	-	-
Derivatives	-	(1 172)	-	(1 172)	-	(635)	-	(635)
Assets	-	849	-	849	-	999	-	999
Liabilities	-	(2 021)	-	(2 021)	-	(1 634)	-	(1 634)
Long-term bank and other loans	-	(2 669)	-	(2 656)	-	(4 081)	-	(4 065)
Long-term debt securities	-	(2 034)		(2 000)	(2 024)	-	-	(2 000)
Other financial liabilities	-	(159)	-	(159)	-	(42)	-	(42)

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

Loans granted measured at amortised cost

level 2

Discount rate	Carrying amount
6.10%	151
Wibor 1M	80
Total	**231**

level 2

Discount rate	Carrying amount
3.09%	535
Wibor 1M	59
Total	**594**

level 3

	Discount rate	Carrying amount
	2.29%	3 547
	8.00%	1 629
Total		**5 176**

level 3

	Discount rate	Carrying amount
	1.44%	3 154
POCI	9.58%	1 423
Total		**4 577**

Methods and measurement techniques used by the Company 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.

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

Level 2

Long-term loans granted
The fair value of loans measured at amortised cost was estimated on the basis of contractual cash flows (per the contract) using the model of discounted cash flows, including the borrower's credit risk. IBOR current market interest rare acquired from the Reuters system is used in the discounting process.

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

Trade receivables
Receivables arising from the realisation of sales under contracts which are finally settled using future prices were measured using forward prices, depending on the period/month of contractual quoting. Forward prices are from the Reuters system. For trade receivables transferred to non-recourse factoring, a fair value is assumed at the level of the amount of the trade receivables transferred to the factor (nominal value from the invoice) less interest, which are the factor's compensation. Due to the short term between the transfer of receivables to the factor and their payment, fair value is not adjusted by the credit risk of the factor and impact of time lapse.

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

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

Metals derivatives

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

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

Level 3

Long-term loans granted

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

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

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

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

Note 7.2 Derivatives

Accounting policies
Derivatives are classified as financial assets/liabilities held for sale, unless they have not been designated as hedging instruments. Purchases or sales of derivatives are recognised at the transaction date. Derivatives not designated as hedges, defined as trade derivatives, are initially recognised at fair value and at the end of the reporting period are measured at fair value, with recognition of the gains/losses on measurement in profit or loss. The Company applies hedge accounting for cash flows. Hedge accounting aims at reducing volatility in the Company's net result, arising from periodic changes in the measurement of transactions hedging individual types of market risk to which the Company is exposed. Hedging instruments may be derivatives as well as bank and other loans in foreign currencies. The designated hedges mostly relate to the future sales transactions forecasted as assumed in the Sales Plan for a given year. These plans are prepared based on the production capacities for a given period. The Company estimates that the probability that transactions included in the production plan will occur is very high, as from the historical point of view sales were always realised at the levels assumed in Sales Plans. Future cash flows arising from interest on bonds issued in PLN also represent a hedged position. The Company may use natural currency risk hedging through the use of hedge accounting for bank and other loans denominated in USD, and designates them as positions hedging foreign currency risk, which relates to future revenues of the Company from sales of copper, silver and other metals, denominated in USD. Gains and losses arising from changes in the fair value of the cash flow hedging instrument are recognised in other comprehensive income, to the extent by which the change in fair value represents an effective hedge of the associated hedged item. In addition, as a cost of hedging, the Company recognises in other reserves from measurement of financial instruments a part of the change of the hedging instrument arising from changes in the time value of the option, the forward element and currency margin. The portion which is ineffective is recognised in profit or loss as other operating income or costs. Gains or losses arising from the cash flow hedging instrument are recognised in profit or loss as a reclassification adjustment, in the same period or periods in which the hedged item affects profit or loss. The Company ceases to account for derivatives as hedging instruments when they expire, are sold, terminated or settled, or when the goal of risk management for a given relation has changed.

The Company may designate a new hedging relationship for a given derivative, change the intended use of the derivative, or designate it to hedge another type of risk. In such a case, for cash flow hedges, gains or losses which arose in the periods in which the hedge was effective are retained in accumulated other comprehensive income until the hedged item affects profit or loss.

If the hedge of a forecasted transaction ceases to function because it is probable that the forecasted transaction will not occur, then the net gain or loss recognised in other comprehensive income is immediately transferred to profit or loss as a reclassification adjustment.

If a hybrid contract has a basic instrument, which is not a financial asset, the derivative is separated from the basic instrument and is measured pursuant to rules for derivatives only, if (i) the economic characteristic and risk of the embedded instrument are not strictly related to the character of the host contract and its risks, (ii) a separate instrument, whose characteristics reflect the traits of the embedded derivative, would fulfil the conditions of the derivatives, and (iii) the combined instrument is not classified to financial assets measured at fair value, whose results of revaluation are recognised in other income or other operating costs in the reporting period. If an embedded derivative is separated, the host instrument is measured pursuant to appropriate accounting principles. The Company separates embedded derivatives in commodities transactions with settlement periods in the future, after the date of recognising a purchase invoice in the books up to the date of final settlement of the transaction.

If a hybrid contract has a basic instrument, which is a financial asset, the criteria for classification of financial assets are applied to the whole contract.

Important estimates and assumptions
Assumptions and estimates adopted for the measurement of fair value of derivatives were presented in note 7.1, in point „Methods and measurement techniques used by the Company in determining fair values of each class of financial asset or financial liability" and in tables in point 7.2. of this part.

in PLN millions, unless otherwise stated

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

Type of derivative	As at 31 December 2021					As at 31 December 2020				
	Financial assets		Financial liabilities			Financial assets		Financial liabilities		
	Non-current	Current	Non-current	Current	**Net total**	Non-current	Current	Non-current	Current	**Net total**
Hedging instruments (CFH), including:	**585**	**249**	**(1 056)**	**(848)**	**(1 070)**	**749**	**199**	**(801)**	**(604)**	**(457)**
Derivatives – Metals (price of copper, silver)										
Options – *collar* (copper)	-	-	-	-	**-**	1	1	(35)	(355)	**(388)**
Options – *seagull** (copper)	299	89	(578)	(837)	**(1 027)**	235	14	(432)	(242)	**(425)**
Purchased put option (copper)	-	-	-	-	**-**	-	17	-	-	**17**
Options – *collar* (silver)	11	97	-	-	**108**	-	-	-	-	**-**
Options – *seagull** (silver)	92	49	(14)	-	**127**	-	-	-	-	**-**
Purchased put option (silver)	-	-	-	-	**-**	311	91	(107)	(7)	**288**
Derivatives – Currency (USDPLN exchange rate)										
Options – *collar*	1	5	(2)	(6)	**(2)**	-	-	-	-	**-**
Options – *seagull**	20	9	(31)	(5)	**(7)**	202	-	(29)	-	**173**
Options – *put spread**	-	-	-	-	**-**	-	44	-	-	**44**
Purchased put option	-	-	-	-	**-**	-	32	-	-	**32**
Derivatives – Currency-interest rate										
Cross Currency Interest Rate Swap CIRS	162	-	(431)	-	**(269)**	-	-	(198)	-	**(198)**
Trade instruments, including:	**6**	**3**	**(72)**	**(39)**	**(102)**	**8**	**11**	**(176)**	**(40)**	**(197)**
Derivatives – Metals (price of copper, silver, gold)										
Sold put option (copper)	-	-	(57)	(6)	**(63)**	-	-	(41)	(1)	**(42)**
QP adjustment *swap* transactions (copper)	-	-	-	(5)	**(5)**	-	-	-	(7)	**(7)**
Sold put option (silver)	-	-	(10)	(3)	**(13)**	-	-	(54)	(3)	**(57)**
Purchased put option (silver)	-	2	-	-	**2**	-	-	-	-	**-**
Purchased call option (silver)	1	-	-	-	**1**	-	-	-	-	**-**
QP adjustment *swap* transactions (gold)	-	-	-	(2)	**(2)**	-	1	-	(1)	**-**

in PLN millions, unless otherwise stated

Derivatives – Currency (USDPLN exchange rate)										
Sold put option	-	-	(5)	(2)	**(7)**	-	-	(81)	(1)	**(82)**
Purchased put option	1	1	-	-	**2**	4	-	-	-	**4**
Purchased call option	4	-	-	-	**4**	4	10	-	-	**14**
Embedded derivatives (price of copper, silver, gold)										
Purchase contracts for metal-bearing materials	-	-	-	(21)	**(21)**	-	-	-	(27)	**(27)**
Instruments initially designated as hedging instruments excluded from hedge accounting, including:	**4**	**2**	**(5)**	**(1)**	**-**	**32**	**-**	**(4)**	**(9)**	**19**
Derivatives – Currency (USDPLN exchange rate)										
Options – *collar*	-	-	-	-	**-**	-	-	-	(2)	**(2)**
Options – *seagull*	4	2	(4)	(1)	**1**	32	-	(4)	(7)	**21**
Derivatives – Metals (price of silver)										
Options – *seagull*	-	-	(1)	-	**(1)**	-	-	-	-	**-**
TOTAL OPEN DERIVATIVES	**595**	**254**	**(1 133)**	**(888)**	**(1 172)**	**789**	**210**	**(981)**	**(653)**	**(635)**

** Collar structures, i.e. purchased put options and sold call options were designated as hedging under seagull options structures (CFH – Cash Flow Hedging), while only purchased put options were designated as hedging under put spread structures opened as at 31 December 2020.*

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

Open hedging derivatives / Type of derivative	Notional: copper [t], silver [mn ounces], currency [USD mn], CIRS [PLN mn]	Average weighted price /exchange rate/interest rate: [USD/t], [USD/ounce], [USD/PLN], [USD/PLN, LIBOR]	Maturity - settlement period: from	Maturity - settlement period: to	Period of profit/loss impact: from	Period of profit/loss impact: to
Copper – *seagulls*	243 000	7 553-9 227	Jan'22	- Dec'23	Feb'22	- Jan'24
Silver – *collars*	6,60	26.36-55.00	Jan'22	- Dec'22	Feb'22	- Jan'23
Silver – *seagulls**	7,80	26.00-42.00	Jan'22	- Dec'23	Feb'22	- Jan'24
Currency – *collars**	240	3.85-4.60	July'22	- Dec'22	Aug'22	Jan'23
Currency – *seagulls*	630	3.94-4.54	Jan'22	- Dec'23	Feb'22	- Jan'24
Currency – interest rate – CIRS**	400	3.78 and 3.23%		June '24		June '24
Currency - interest rate – CIRS**	1 600	3.81 and 3.94%		June '29	June '29	- July '29

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

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

The table below presents detailed data on derivative transactions designated as hedging, held by the Parent Entity as at 31 December 2020.

Open hedging derivatives / Type of derivative	Notional: copper [t], silver [mn ounces], currency [USD mn], CIRS [PLN mn]	Average weighted price /exchange rate/interest rate: [USD/t], [USD/ounce], [USD/PLN], [USD/PLN, LIBOR]	Maturity - settlement period: from	Maturity - settlement period: to	Period of profit/loss impact: from	Period of profit/loss impact: to
Copper – *seagulls* *	258 000	6 426-7 716	Jan '21	- Dec '22	Feb '21	- Jan '23
Copper – *collars*	84 000	5 200-6 660	Jan '21	- Dec '21	Feb '21	- Jan '22
Copper – purchased put options	60 000	6 971	Jan '21	- June '21	Feb '21	- July '21
Silver – *seagulls*	24,60	26.20-42.20	Jan '21	- Dec '23	Feb '21	- Jan '24
Currency – *seagulls**	630	3.94-4.54	Jan '22	- Dec '23	Feb '22	- Jan '24
Currency – *put spread**	540	3.70	Jan '21	- Dec '21	Jan '21	- Dec '21
Currency – purchased put options	240	3.80	Jan '21	- Dec '21	Jan '21	- Dec '21
Currency – interest rate – CIRS**	400	3.78 and 3.23%		June '24		June '24
Currency – interest rate – CIRS**	1 600	3.81 and 3.94%		June '29	June'29	- July '29

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

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

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

in PLN millions, unless otherwise stated

Statement of profit or loss	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Revenues from contracts with customers	(1 651)	323
Other operating and finance income / (costs):	(489)	(265)
realisation of derivatives	(522)	(311)
measurement of derivatives	67	64
interest on borrowings	(34)	(18)
Impact of derivatives and hedging instruments on profit or loss for the period (excluding the tax effect)	**(2 140)**	**58**
Statement of other comprehensive income		
Impact of measurement of hedging transactions (effective portion)	(2 431)	(1 026)
Reclassification to revenues from contracts with customers due to realisation of a hedged item	1 651	(323)
Reclassification to finance costs due to realisation of a hedged item	34	18
Reclassification to other operating costs due to realisation of a hedged item (settlement of the hedging cost)	379	281
Impact of hedging transactions (excluding the tax effect)	**(367)**	**(1 050)**
TOTAL COMPREHENSIVE INCOME	**(2 507)**	**(992)**

Note 7.3 Other financial instruments measured at fair value

Accounting policies

The item "Other financial instruments measured at fair value" includes: shares (listed and unquoted) which were not acquired for trading purposes, for which the option of measurement at fair value through other comprehensive income was selected in order to limit the volatility of the result.

These assets are initially recognised at fair value increased by transaction costs, and at the end of the reporting period they are measured at fair value with recognition of gains/losses from measurement in other comprehensive income. The amounts recognised in accumulated other comprehensive income are not transferred later to profit or loss, while accumulated gains/losses on a given equity instrument are transferred within equity to retained earnings at the moment an equity instrument ceases to be recognised. Dividends from such investments are recognised in profit or loss.

The fair value of listed shares is calculated based on the closing price as at the end of the reporting period.

The translation of shares expressed in a foreign currency is performed according to the accounting policies described in Note 1.3.

Important estimates, assumptions and judgments

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

in PLN millions, unless otherwise stated

	As at 31 December 2021	As at 31 December 2020
Shares of listed companies (Warsaw Stock Exchange and TSX Venture Exchange) of which:	484	497
TAURON POLSKA ENERGIA S.A.	483	496
ABACUS MINING & EXPLORATION	1	1
Unquoted shares	97	92
Other financial instruments measured at fair value	**581**	**589**

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

In 2021 as well as in 2020, there were no dividends or transfers of accumulated profit or loss within the equity of companies in which the Company had shares classified as other financial instruments measured at fair value.

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

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

	As at 31 December 2021	Percentage change of share price		As at 31 December 2020	Percentage change of share price	
		13%	-13%		13%	-13%
	Carrying amount	Other comprehensive income	Other comprehensive income	Carrying amount	Other comprehensive income	Other comprehensive income
Listed shares	**484**	58	(58)	**497**	65	(65)

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

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

in PLN millions, unless otherwise stated

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

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

	As at 31 December 2021	As at 31 December 2020
Cash held in the Mine Closure Fund and Tailings Storage Facility Restoration Fund on separate bank accounts	382	359
Increases in share capital	79	46
Other financial receivables	45	28
Total	**506**	**433**

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

Note 7.5 Financial risk management

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

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

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

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

Note 7.5.1 Market risk

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

Note 7.5.1.1 Principles and techniques of market risk management

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

In accordance with the adopted policy, the goals of the market risk management process are as follows:
- limit volatility in the financial result;
- increase the probability of meeting budget targets;
- decrease the probability of losing financial liquidity;
- maintain the financial health of the Company; and
- support the process of strategic decision making related to investing, including financing sources.

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

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

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

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

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

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

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

The Company's internal policy, which regulates market risk management principles, permits the use of the following types of instruments:
- swaps;
- forwards and futures;
- options; and
- structures combining the above instruments.

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

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

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

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

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

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

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

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

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

Note 7.5.1.2. Commodity risk

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

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

in PLN millions, unless otherwise stated

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

The Company's strategic exposure to the risk of changes in the price of copper and silver in the years 2020-2021 is presented in the table below.

	from 1 January 2021 to 31 December 2021			from 1 January 2020 to 31 December 2020		
	Net	**Sales**	**Purchase**	**Net**	**Sales**	**Purchase**
Copper [t]	**365 705**	561 495	195 790	**397 938**	560 992	163 054
Silver [t]	**1 206**	1 249	43	**1 330**	1 369	39

The notional amount of copper price hedging strategies settled in 2021 represented approx. 44% (in 2020: 34%) of the total sales of this metal realised by the Company (it represented approx. 67% of net sales[1] in 2021 and 47% in 2020).

The notional amount of silver price hedging strategies settled in 2021 represented approx. 25% of the total sales of this metal realised by the Company (in 2020: 8%).

As part of the realisation of the strategic plan to hedge the Company against market risk, in 2021 *seagull* hedging strategies were implemented on the copper market for the period from January 2022 to December 2023 for a total notional amount of 87 thousand tonnes. Moreover, an open hedging position on the copper market was restructured. Call options were purchased for the period from March to December 2021 for a total notional amount of 155 thousand tonnes, and therefore the participation in potential further prices rises of collar and seagull option structures for 2021 owned was opened. As a part of restructuration the strike price for structures hedging revenues from sales of copper in the period from October to December 2021 for a total notional amount of 25.5 thousand tonnes was also increased. Moreover, a position on the forward silver market for the period from July 2021 to December 2022 was restructured. A part of previously-sold put options (11.7 million ounces) and call options (5.1 million ounces) entered into under *seagull* hedging strategies were redeemed, and also the strike price of sold call options for 2022 (6.6 million ounces) was increased.

In 2021 QP adjustment *swap* transactions were entered into on the copper and gold markets with maturities of up to June 2022, as part of the management of a net trading position[2].

As a result, as at 31 December 2021 the Company held open derivatives positions for 248.3 thousand tonnes of copper (of which: 243 thousand tonnes came from strategic management of market risk, while 5.3 thousand tonnes came from the management of a net trading position) and 14.4 million troy ounces of silver.

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

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

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

in PLN millions, unless otherwise stated

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

	Instrument/ Option	Notional	Option strike price: sold put option	Option strike price: purchased put option	Option strike price: sold call option	Option strike price: purchased call option	Average weighted premium	Effective hedge price
			hedge limited to	*copper price hedging*	*participation limited to*	*participation opened*		
		[tonnes]	[USD/t]	[USD/t]	[USD/t]	[USD/t]	[USD/t]	[USD/t]
1st half	seagull	30 000	4 600	6 300	7 500	-	(160)	6 140
	seagull	24 000	5 200	6 900	8 300	-	(196)	6 704
	seagull	6 000	6 700	9 200	11 400	-	(210)	8 990
	seagull	4 500	6 700	9 400	11 600	-	(250)	9 150
2nd half	seagull	30 000	4 600	6 300	7 500	-	(160)	6 140
	seagull	24 000	5 200	6 900	8 300	-	(196)	6 704
	seagull	15 000	6 000	9 000	11 400	-	(248)	8 752
	seagull	6 000	6 700	9 200	11 400	-	(210)	8 990
	seagull	4 500	6 700	9 400	11 600	-	(250)	9 150
	TOTAL 2022	**144 000**						
1st half	seagull	24 000	5 200	6 900	8 300	-	(196)	6 704
	seagull	15 000	6 000	9 000	11 400	-	(248)	8 752
	seagull	6 000	6 700	9 200	11 400	-	(210)	8 990
	seagull	4 500	6 700	9 400	11 600	-	(250	9 150
2nd half	seagull	24 000	5 200	6 900	8 300	-	(196)	6 704
	seagull	15 000	6 000	9 000	11 400	-	(248)	8 752
	seagull	6 000	6 700	9 200	11 400	-	(210)	8 990
	seagull	4 500	6 700	9 400	11 600	-	(250)	9 150
	TOTAL 2023	**99 000**						

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

	Instrument/ option	Notional	Option strike price: sold put option	Option strike price: purchased put option	Option strike price: sold call option	Average weighted premium	Effective hedge price
			hedge limited to	*silver price hedging*	*participation limited to*		
		[mn ounces]	[USD/ounce]	[USD/ounce]	[USD/ounce]	[USD/ounce]	[USD/ounce]
2022	seagull	3.60	16.00	26.00	42.00	(0.88)	25.12
	collar	2.40	-	27.00	55.00*	(2.08)	24.92
	collar	4.20	-	26.00	55.00*	(1.89)	24.11
	TOTAL 2022	**10,20**					
2023	seagull	4.20	16.00	26.00	42.00	(1.19)	24.81
	TOTAL 2023	**4,20**					

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

in PLN millions, unless otherwise stated

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

Hedging against copper price risk – open derivatives as at 31 December 2020

	Instrument/ option	Notional [tonnes]	Option strike price: Sold put option *hedge limited to* [USD/t]	Purchased put option *copper price hedging* [USD/t]	Sold call option *participation limited to* [USD/t]	Purchased call option *participation opened* [USD/t]	Average weighted premium [USD/t]	Effective hedge price [USD/t]
1st half	Collar	42 000	-	5 200	6 600	-	(204)	4 996
	Seagull	21 000	4 200	5 700	7 000	-	(130)	5 570
	Seagull	30 000	4 600	6 300	7 500	-	(193)	6 107
	Purchased put option	42 750	-	7 000	-	-	(247)	6 753
	Purchased put option	17 250	-	6 900	-	-	(235)	6 665
2nd half	Collar	42 000	-	5 200	6 600	-	(204)	4 996
	Seagull	21 000	4 200	5 700	7 000	-	(130)	5 570
	Seagull	30 000	4 600	6 300	7 500	-	(193)	6 107
	TOTAL 2021	**246 000**						
2022	Seagull	60 000	4 600	6 300	7 500	-	(160)	6 140
	Seagull	48 000	5 200	6 900	8 300	-	(196)	6 704
	TOTAL 2022	**108 000**						
2023	Seagull	48 000	5 200	6 900	8 300	-	(196)	6 704
	TOTAL 2023	**48 000**						

in PLN millions, unless otherwise stated

Hedging against silver price risk – open derivatives as at 31 December 2020

	Instrument/ option	Notional	Option strike price: sold put option	Option strike price: purchased put option	Option strike price: sold call option	Average weighted premium	Effective hedge price
			hedge limited to	*silver price hedging*	*participation limited to*		
	[mn ounces]	[mn ounces]	[USD/ounce]	[USD/ounce]	[USD/ounce]	[USD/ounce]	[USD/ounce]
2021	Seagull	2.40	16.00	27.00	43.00	(1.42)	25.58
2021	Seagull	7.80	16.00	26.00	42.00	(1.04)	24.96
	TOTAL 2021	**10.20**					
2022	Seagull	2.40	16.00	27.00	43.00	(1.42)	25.58
2022	Seagull	7.80	16.00	26.00	42.00	(1.04)	24.96
	TOTAL 2022	**10.20**					
2023	Seagull	4.20	16.00	26.00	42.00	(1.19)	24.81
	TOTAL 2023	**4.20**					

in PLN millions, unless otherwise stated

An analysis of the Company's sensitivity to the risk of changes in copper, silver and gold prices in the years 2020-2021

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

Financial assets and liabilities as at 31 December 2020	Value at risk	Carrying amount 31 December 2020	Change in COPPER price [USD/t] 9 204 (+19%)		6 033 (-22%)		Change in SILVER price [USD/ounce] 34.37 (+30%)		18.44 (-30%)		Change in GOLD price [USD/ounce] 2 216 (+17%)	1 576 (-17%)
			Profit or loss	Other comprehensive income	Profit or loss	Other comprehensive income	Profit or loss	Other comprehensive income	Profit or loss	Other comprehensive income	Profit or loss	Profit or loss
Derivatives (copper)	**(844)**	**(844)**	(25)	(985)	(172)	2 040	-	-	-	-	-	-
Derivatives (silver)	**231**	**231**	-	-	-	-	39	(456)	(106)	475	-	-
Derivatives (gold)	**-**	**-**	-	-	-	-	-	-	-	-	(3)	3
Embedded derivatives (copper, silver, gold)	**(27)**	**(27)**	(58)	-	76	-	(2)	-	2	-	(18)	18
		Impact on profit or loss	**(83)**	**-**	**(96)**	**-**	**37**	**-**	**(104)**	**-**	**(21)**	**21**
		Impact on other comprehensive income	**-**	**(985)**	**-**	**2 040**	**-**	**(456)**	**-**	**475**	**-**	**-**

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

Note 7.5.1.3 Risk of changes in foreign exchange rates

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

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

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

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

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

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

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

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

As for the currency market, the notional amount of settled transactions hedging revenues from metals sales amounted to approx. 28% (in 2020: 25%) of the total revenues from sales of copper and silver realised by the Company in 2021.

As part of the realisation of the strategic plan to hedge the Company against market risk, in 2021 put options were purchased for a total of USD 1 050 million of planned sales revenues with maturities from February 2021 to June 2022 (including: USD 180 million for the period from January to June 2022). Moreover, collar option strategies were implemented with a total notional amount of USD 240 million and maturities from July 2022 to December 2022. Additionally, in terms of restructuration of an open position in derivatives previously-sold put options with strike prices of USD/PLN 3.20 for the period from February to December 2021 and the notional amount of USD 495 million (USD 45 million monthly) were redeemed, and also put spread structures were entered into (put options were purchased with a strike price of USD/PLN 3.50 and simultaneously put options were sold with a strike price of USD/PLN 3.30) for the notional amount of USD 270 million, aimed at decreasing the strike price for put options sold as part of *seagull* option structures hedging revenues in the period from July 2022 to December 2023.

As a result, as at 31 December 2021 the Company held an open position on the currency market for the notional amount of USD 1 050 million (including: USD 870 million designated as hedging future revenues from metal sales), and *Cross Currency Interest Rate Swap* (CIRS) transactions for the notional amount of PLN 2 billion, hedging revenues from sales in the currency as well as the variable interest of issued bonds.

The condensed table of open transactions in derivatives on the currency market as at 31 December 2021 is presented below (the hedged notional in the presented periods is allocated evenly on a monthly basis).

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

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

Hedging against USD/PLN currency risk – open derivatives as at 31 December 2020

	Instrument/ option	Notional	Option strike price: sold put option	purchased put option	sold call option	Average weighted premium	Effective hedge price
			hedge limited to	*exchange rate hedging*	*participation limited to*		
		[USD mn]	[USD/PLN]	[USD/PLN]	[USD/PLN]	[PLN per USD 1]	[USD/PLN]
2021	Put spread	540	3.20	3.70	-	(0.09)	3.61
	Purchased put option	240	-	3.80	-	(0.07)	3.73
	TOTAL 2021	**780**					
2022	seagull	135	3.30	4.00	4.60	(0.01)	3.99
	seagull	180	3.30	3.90	4.50	0.04	3.94
	TOTAL 2022	**315**					
2023	seagull	135	3.30	4.00	4.60	(0.00)	4.00
	seagull	180	3.30	3.90	4.50	(0.03)	3.93
	TOTAL 2023	**315**					

Hedging against currency-interest rate risk connected with the issue of bonds with a variable interest rate in PLN – open derivatives as at 31 December 2021 and as at 31 December 2020

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

As for managing currency risk, the Company applies natural hedging by borrowing in the currency in which it has revenues. As at 31 December 2021, following their translation to PLN, the bank loans and the investment loans which were drawn in USD amounted to PLN 2 980 million (as at 31 December 2020: PLN 4 321 million).

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

	Value at risk as at 31 December 2021				Value at risk as at 31 December 2020			
Financial instruments	**total PLN million**	USD million	EUR million	GBP million	**total PLN million**	USD million	EUR million	GBP million
Trade receivables	**282**	36	21	8	**221**	25	26	1
Cash and cash equivalents	**1 061**	241	16	1	**1 697**	409	21	12
Loans granted	**8 169**	2 012	-	-	**7 579**	2 017	-	-
Cash pooling receivables	**498**	123	-	-	**128**	34	-	-
Other financial assets	**182**	45	-	-	**251**	67	-	-
Derivatives*	**(1 172)**	220	-	-	**(635)**	(169)	(1)	-
Trade and similar payables	**(834)**	(140)	(58)	-	**(1 026)**	(89)	(150)	-
Borrowings	**(3 053)**	(734)	(16)	-	**(4 380)**	(1 150)	(13)	-
Other financial liabilities	**(193)**	(42)	(5)	-	**(65)**	(14)	(3)	-

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

An analysis of the Company's sensitivity to the currency risk as at 31 December 2021 and 31 December 2020 is presented in the tables on the next page. In order to determine the potential changes in the USD/PLN, EUR/PLN and GBP/PLN exchange rates for sensitivity analysis purposes, the Black-Scholes model (the geometrical Brownian motion) was used.

in PLN millions, unless otherwise stated

An analysis of the Company's sensitivity to the currency risk in the years 2020-2021

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

Financial assets and liabilities as at 31 December 2020	Value at risk	Carrying amount 31 December 2020	Change in USD/PLN exchange rate 4.20 (+12%) profit or loss	Change in USD/PLN exchange rate 4.20 (+12%) other comprehensive income	Change in USD/PLN exchange rate 3.33 (-11%) profit or loss	Change in USD/PLN exchange rate 3.33 (-11%) other comprehensive income	Change in EUR/PLN exchange rate 4.96 (+8%) profit or loss	Change in EUR/PLN exchange rate 4.31 (-7%) profit or loss	Change in GBP/PLN exchange rate 5.80 (+13%) profit or loss	Change in GBP/PLN exchange rate 4.58 (-7%) profit or loss
Trade receivables	**221**	**351**	9	-	(9)	-	7	(7)	1	(1)
Cash and cash equivalents	**1 697**	**2 135**	147	-	(141)	-	6	(5)	6	(5)
Loans granted	**7 579**	**7 648**	725	-	(695)	-	-	-	-	-
Cash pooling receivables	**128**	**128**	12	-	(12)	-	-	-	-	-
Other financial assets	**251**	**1 290**	24	-	(23)	-	-	-	-	-
Derivatives	**(635)**	**(635)**	120	(733)	(154)	816	-	-	-	-
Trade and similar payables	**(1 026)**	**(3 334)**	(32)	-	31	-	(42)	37	-	-
Borrowings	**(4 380)**	**(7 115)**	(413)	-	397	-	(4)	3	-	-
Other financial liabilities	**(65)**	**(386)**	(5)	-	5	-	(1)	1	-	-
Impact on profit or loss			**587**	**-**	**(601)**	**-**	**(34)**	**-**	**7**	**(6)**
Impact on other comprehensive income			**-**	**(733)**	**-**	**816**	**-**	**29**	**-**	**-**

in PLN millions, unless otherwise stated

Note 7.5.1.4 Interest rate risk

In 2021 the Company was exposed to the risk of changes in interest rates due to loans granted, investing free cash, participating in a cash-pooling service, reverse factoring program and borrowing.

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

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

		As at 31 December 2021			As at 31 December 2020		
		Cash flow risk	Fair value risk	Total	Cash flow risk	Fair value risk	Total
	Cash and cash equivalents*	1 733	-	**1 733**	2 520	-	**2 520**
Note 6.2	Loans granted	80	2 959	**3 039**	61	2 477	**2 538**
Note 7.1	Borrowings	(1 985)	(3 577)	**(5 562)**	(3 297)	(3 534)	**(6 831)**
	Cash pooling receivables	498	-	**498**	128	-	**128**
	Cash pooling liabilities	(360)	-	**(360)**	(284)	-	**(284)**
	Similar payables**	(55)	-	**(55)**	(1 264)	-	**(1 264)**

* *Presented amounts include cash accumulated in special purpose funds: Mine Closure Fund, Tailings Storage Facility Restoration Fund and Social Fund*

** *In order to effectively manage working capital of the Company and realise mutual payables arising from binding agreements with suppliers on time, during the period ended 31 December 2021, the Company performed reverse factoring agreements entered into in 2019 and 2020. Consequently, for a part of the portfolio of trade payables, an extension of payment dates was agreed upon in exchange for additional consideration in the form of interest. Interest is calculated with a variable rate, based on a fixed margin increased by a specified reference rate determined for individual currencies.*
Details on reverse factoring may be found in note 8.4.1, note 10.3 and note 10.4.

As part of the strategic management of interest rate risk, in 2019 the Company entered into *Cross Currency Interest Rate Swap* (CIRS) transactions for the notional amount of PLN 2 billion, hedging against the market risk connected with the issue of bonds in PLN with a variable interest rate. The open hedging position as at 31 December 2021 and as at 31 December 2020 is presented in the following table in note 7.5.1.3.

in PLN millions, unless otherwise stated

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

	31 December 2021 change in interest rate				31 December 2020 change in interest rate			
	+250 bps (PLN) +150 bps (USD, EUR)		-100 bps (PLN) -50 bps (USD, EUR)		+100 bps (PLN, USD, EUR)		-50 bps (PLN, EUR, USD)	
	profit or loss	other comprehensive income	profit or loss	other comprehensive income	profit or loss	other comprehensive income	profit or loss	other comprehensive income
Cash and cash equivalents*	33	-	(12)	-	25	-	(13)	-
Borrowings	(95)	-	35	-	(33)	-	16	-
Financial derivatives – interest rate	-	186	-	(66)	-	150	-	(80)
Cash pooling	(1)	-	1	-	(2)	-	-	-
Loans granted measured at fair value	(106)	-	37	-	(100)	-	52	-
Similar payables	-	-	-	-	(1)	-	-	
Impact on profit or loss	**(169)**	**-**	**61**	**-**	**(111)**	**-**	**55**	**-**
Impact on other comprehensive income	**-**	**186**	**-**	**(66)**	**-**	**150**	**-**	**(80)**

**Presented amounts include cash accumulated in special purpose funds: Mine Closure Fund, Tailings Storage Facility Restoration Fund and Social Fund*

in PLN millions, unless otherwise stated

Note 7.5.1.5 Impact of hedge accounting on the financial statements

The following table contains information on changes in the fair value of instruments, as well as corresponding changes in the fair value of hedged positions during the reporting period, being the basis for recognising the effective and ineffective portions of changes in the fair value of hedging instruments in the years 2020-2021.

In hedging relations, only the intrinsic value of the option is designated as a hedging instrument. The time value approximates zero in the horizon of a hedging relation. The hedge's inefficiency recognised in the statements of profit or loss in the reporting periods 2020-2021 was immaterial.

	As at 31 December 2021		from 1 January 2021 to 31 December 2021	from 1 January 2021 to 31 December 2021	As at 31 December 2020		from 1 January 2020 to 31 December 2020	from 1 January 2020 to 31 December 2020
	Balance of other comprehensive income due to cash flow hedging for relations				Balance of other comprehensive income due to cash flow hedging for relations			
relation type *risk type* *instrument type – hedged item*	remaining in hedge accounting	for which hedge accounting was ceased	Change in the value of hedged item	Change in the value of hedging instrument	remaining in hedge accounting	for which hedge accounting was ceased	Change in the value of hedged item	Change in the value of hedging instrument
Cash flow hedging								
Commodity risk (copper)								
Options – Sales revenue	(1 357)	-	979	(981)	(1 213)	-	630	(1 261)
intrinsic value	(1 027)	-	-	(976)	(595)	-	-	(635)
time value	(330)	-	-	(5)	(618)	-	-	(626)
Commodity risk (silver)								
Options – Sales revenue	92	15	(172)	14	89	-	(8)	88
intrinsic value	163	12	-	172	8	-	-	8
time value	(71)	3	-	(158)	81	-	-	80
Currency risk (USD)								
Options – Sales revenue	(1)	-	115	(192)	164	22	(147)	149
intrinsic value	23	-	-	(114)	132	15	-	125
time value	(24)	-	-	(78)	32	7	-	24
Loans – Sales revenue	-	(80)	-	-	-	(96)	-	-
intrinsic value	-	(80)	-	-	-	(96)	-	-
Currency-interest rate risk								
Options – Sales revenue	(431)	-	406	(371)	(61)	-	28	(21)
intrinsic value	(431)	-	-	(371)	(61)	-	-	(21)
Options – Finance income/costs	162	-	(332)	300	(138)	-	122	(104)
intrinsic value	162	-	-	300	(138)	-	-	(104)
Total, including:	**(1 535)**	**(65)**	**996**	**(1 230)**	**(1 159)**	**(74)**	**625**	**(1 149)**
Total intrinsic value	(1 110)	(68)	-	(989)	(654)	(81)	-	**(627)**
Total time value	(425)	3	-	(241)	(505)	7	-	**(522)**

in PLN millions, unless otherwise stated

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

relation type *risk type* *instrument type*	from 1 January 2021 to 31 December 2021 Profit or (loss) due to hedging recognised in other comprehensive income	from 1 January 2021 to 31 December 2021 Amount reclassified from other comprehensive income to the statement of profit or loss as a reclassification adjustment, due to realisation of a hedged item in the period	from 1 January 2020 to 31 December 2020 Profit or (loss) due to hedging recognised in other comprehensive income	from 1 January 2020 to 31 December 2020 Amount reclassified from other comprehensive income to the statement of profit or loss as a reclassification adjustment, due to realisation of a hedged item in the period
Cash flow hedging				
Commodity risk (copper)				
Options*	(2 047)	(1 903)	(1 108)	145
Commodity risk (silver)				
Options*	(11)	(30)	89	(3)
Currency risk (USD)				
Options*	(260)	(72)	144	(76)
Loans**	-	(16)	-	(16)
Currency-interest rate risk				
CIRS***	(113)	(43)	(151)	(26)
Total	**(2 431)**	**(2 064)**	**(1 026)**	**24**

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

in PLN millions, unless otherwise stated

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

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

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

** *Time value of option + CCBS*

The following table contains information on changes in other comprehensive income (excluding the tax effect) in the period in connection with the application of hedge accounting in 2020.

	Other comprehensive income due to cash flow hedging		
	Effective value *	Cost of hedging **	Total
Other comprehensive income – transactions hedging against commodity and currency risk – as at 1 January 2020	**(33)**	**(150)**	**(183)**
Impact of measurement of hedging transactions (effective part)	(397)	(629)	(1 026)
Reclassification to profit or loss due to realisation of hedged item	(305)	281	(24)
Other comprehensive income – transactions hedging against commodity and currency risk – as at 31 December 2020	**(735)**	**(498)**	**(1 233)**

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

** *Time value of option + CCBS.*

in PLN millions, unless otherwise stated

Note 7.5.2 Credit risk

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

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

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

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

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

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

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

As at 31 December 2021, the total amount of free and restricted cash and cash equivalents of PLN 1 332 million (as at 31 December 2020: PLN 2 135 million) was held in bank accounts and in short-term deposits. The detailed structure of cash and cash equivalents is presented in note 8.5.

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

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

Rating level		As at 31 December 2021	As at 31 December 2020
Highest	from AAA to AA- according to S&P and Fitch, and from Aaa to Aa3 according to Moody's	-	5%
Medium-high	from A+ to A- according to S&P and Fitch, and from A1 to A3 according to Moody's	71%	53%
Medium	from BBB+ to BBB- according to S&P and Fitch, and from Baa1 to Baa3 according to Moody's	29%	42%

**Weighed by amount of deposits.*

in PLN millions, unless otherwise stated

As at 31 December 2021 the maximum single entity share of the amount exposed to credit risk arising from cash and bank deposits amounted to 58%, or PLN 778 million (as at 31 December 2020: 29%, or PLN 622 million).

	As at 31 December 2021	As at 31 December 2020
Counterparty 1	778	622
Counterparty 2	255	519
Counterparty 3	120	281
Counterparty 4	104	244
Other	75	469
Total	**1 332**	**2 135**

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

Note 7.5.2.2 Credit risk related to derivatives transactions

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

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

	As at 31 December 2021				As at 31 December 2020			
	Financial receivables	Financial liabilities	Fair value	Exposure to credit risk	Financial receivables	Financial liabilities	Fair value	Exposure to credit risk
Counterparty 1	227	(195)	32	227	317	(431)	(114)	317
Counterparty 2	162	(112)	50	162	268	(195)	73	268
Counterparty 3	113	(437)	(324)	113	137	(272)	(135)	137
Counterparty 4	78	(57)	21	78	129	(357)	(228)	129
Other	279	(1 358)	(1 079)	279	148	(394)	(246)	148
Total	**859**	**(2 159)**	**(1 300)**	**859**	**999**	**(1 649)**	**(650)**	**999**
Open derivatives*	849	(2 000)	(1 151)		999	(1 607)	(608)	
Settled derivatives, net	10	(159)	(149)		-	(42)	(42)	

**excluding embedded derivatives*

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

in PLN millions, unless otherwise stated

Taking into consideration the receivables due to open derivatives transactions entered into by the Company (excluding embedded derivatives) as at 31 December 2021 and net receivables[4] due to settled derivatives, the maximum single entity share of the amount exposed to credit risk arising from these transactions amounted to 26%, or PLN 227 million (as at 31 December 2020: 32%, or PLN 317 million).[5]
In order to reduce cash flows and at the same time to limit credit risk, the Company carries out net settlements (based on framework agreements entered into with its customers). Moreover, the resulting credit risk is continuously monitored by reviewing the credit ratings and is limited by striving to diversify the portfolio while implementing hedging strategies.

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

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

Rating level		As at 31 December 2021	As at 31 December 2020
Medium-high	from A+ to A- according to S&P and Fitch, and from A1 to A3 according to Moody's	98%	97%
Medium	from BBB+ to BBB- according to S&P and Fitch, and from Baa1 to Baa3 according to Moody's	2%	3%

Note 7.5.2.3 Credit risk related to trade receivables

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

Trade receivables (net)	As at 31 December 2021	As at 31 December 2020
Poland	73%	57%
European Union (excluding Poland)	12%	27%
Asia	13%	12%
Other countries	2%	4%

[4] The Company offsets receivables and liabilities due to settled derivatives, for which the future flows are known at the end of the reporting period, pursuant to the principles of net settlements of cash flows adopted in framework agreements with individual customers.
[5] In 2021 the method of calculating the value at credit risk related to derivatives was changed – instead of the positive net fair value, only receivables due to open derivatives (excluding embedded derivatives) are taken into account as well as net receivables due to settled derivatives. The data as at 31 December 2020 were calculated in accordance with the new method.

in PLN millions, unless otherwise stated

Accounting policies

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

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

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

Moreover, the Company takes into account forward-looking information in the applied parameters of the model for estimating expected losses, by adjusting the base coefficients of default probability. This means that if as a result of analysis of macroeconomic data, such as for example: current GDP dynamics, inflation, unemployment rate, or WIG index, the Company recognises any deterioration in them in comparison to the previous period, in the ECL calculation the looking *forward* factor, which corrects the risk connected with any decrease in receivables recovery, is taken into account. Despite the growing inflation, alongside the favourable performance of among others the GDP, unemployment rate, and also forecasts of these indicators, the Company did not note any deterioration of macroeconomic factors as at the end of the reporting period on 31 December 2021.

Important estimates and assumptions

		31 December 2021		31 December 2020	
Time frame	Percent (allowance for impairment)	Gross amount of receivables	Allowance for impairment in individual time frames	Gross amount of receivables	Allowance for impairment in individual time frames
Not overdue	0.69	77	(1)	86	-
<1,30)	3	1	-	5	-
<30,60)	30.42	-	-	-	-
<60,90)	64.83	-	-	-	-
Default	100	-	-	10	(10)
Total		**78**	**(1)**	**101**	**(10)**

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

		2021	2020
	Gross amount as at 1 January	101	114
	Change in the balance of receivables	33	(13)
Note 10.2	**Gross amount as at 31 December**	134	101

in PLN millions, unless otherwise stated

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

		2021	2020
	Loss allowance for expected credit losses as at 1 January	10	10
	Allowance utilised	(9)	-
Note 10.2	**Loss allowance for expected credit losses as at 31 December**	1	10

As at 31 December 2021, the amount of disputed receivables was immaterial (as at 31 December 2020: PLN 8 million).

The Company limits its exposure to credit risk related to trade receivables by evaluating and monitoring the financial condition of its customers, setting credit limits, requiring collateral and non-recourse factoring. The terms of factoring agreements entered into meet the criteria of removing receivables from the books at the moment of their purchase by the factor. As at 31 December 2021, the amount of receivables transferred to factoring, for which payment from factors was not received, amounted to PLN 17 million (as at 31 December 2020: PLN 15 million). Information on the amount of revenues from sales subjected to factoring in the financial period is presented in part 2.

An inseparable element of the credit risk management process performed by the Company is the continuous monitoring of receivables and the internal reporting system.
Buyer's credit is only provided to proven customers. In the case of new customers, an effort is made to ensure that sales are based on prepayments or trade financing instruments which transfer the credit risk to financial institutions.

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

Taking into account the aforementioned forms of collateral and the credit limits received from the insurance company, as at 31 December 2021 the Company had secured 84% of its trade receivables (as at 31 December 2020: 75%).

The total net value of the Company's trade receivables as at 31 December 2021, excluding the fair value of collaterals, up to the value of which the Company may be exposed to credit risk, amounts to PLN 600 million (as at 31 December 2020: PLN 351 million).

The concentration of credit risk in the Company is related to the terms of payment allowed to key clients. Consequently, as at 31 December 2021 the balance of receivables from the Company's 7 largest clients, in terms of trade receivables at the end of the reporting period, represented 69% of the balance of trade receivables (as at 31 December 2020: 59%). Despite the concentration of this type of risk, the Company believes that due to the available historical data and the many years of experience in cooperating with its clients, as well as to securities used, the level of credit risk is low.

in PLN millions, unless otherwise stated

Note 7.5.2.4 Credit risk related to other financial assets

As at 31 December 2021, the major items in other financial assets were:

- cash accumulated in the special purpose funds: Mine Closure Fund and Tailings Storage Facility Restoration Fund in the amount of PLN 384 million (as at 31 December 2020: PLN 360 million);
- receivables due to cash pooling in the amount of PLN 498 million (as at 31 December 2020: PLN 128 million). Credit risk in this regard is continuously monitored through the on-going review of the financial standing and assets of the subsidiaries participating in the cash pooling.

Accounts of special purpose funds, used to accumulate cash in order to cover the costs of decommissioning of mines and other technological facilities and restoration of tailings storage facilities, are managed by banks with a medium-high rating level (principles of credit risk management connected with allocation of cash in financial institutions are described in Note 7.5.2.1).

Impairment losses on cash accumulated on bank accounts of special purpose funds: the Mine Closure Fund and Tailings Storage Facility Restoration Fund, were determined individually for each balance of a given financial institution. External bank ratings were used to measure credit risk. The analysis determined that these assets have a low credit risk at the reporting date. The Company used a simplification permitted by the standard and the impairment loss was determined on the basis of 12-month credit losses. The calculation of impairment determined that the amount of impairment loss is insignificant.

Note 7.5.2.5 Credit risk related to loans granted

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

Rating level		As at 31 December 2021	As at 31 December 2020
Medium-high	from A+ to A- according to S&P and Fitch, and from A1 to A3 according to Moody's	-	60%
Medium	from BBB+ to BBB- according to S&P and Fitch, and from Baa1 to Baa3 according to Moody's	100%	40%

Loans granted measured at amortised cost

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

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

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

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

in PLN millions, unless otherwise stated

	Total	Stage 1 Medium rating	Stage 2 Medium-high rating	POCI Medium rating
Gross amount as at 1 January 2020	**5 118**	**542**	**3 153**	**1 423**
increase in the amount of loan (granting a loan)	72	72	-	-
repayment	(39)	(39)	-	-
exchange differences	(52)	(5)	(32)	(15)
interest accrued using the effective interest rate	253	31	133	89
Gross amount as at 31 December 2020	**5 352**	**601**	**3 254**	**1 497**

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

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

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

	Total	Stage 1	Stage 2	POCI
Loss allowance for expected credit losses as at 1 January 2020	**162**	**3**	**117**	**42**
changes in risk parameters	19	2	(17)	34
exchange differences	(2)	-	(2)	-
Loss allowance for expected credit losses as at 31 December 2020	**179**	**5**	**98**	**76**

Loans measured at amortised cost (Note 6.2)	Carrying amount	Stage 1	Stage 2	POCI
As at 1 January 2020	4 956	539	3 036	1 381
As at 31 December 2020 / 1 January 2021	5 173	596	3 156	1 421
As at 31 December 2021	**5 407**	**211**	**3 568**	**1 628**

In 2021 and 2020 no loans were classified to Stage 3 of the measurement.

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

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

in PLN millions, unless otherwise stated

Loans granted measured at fair value

The carrying amount of loans measured at fair value as at 31 December 2021 amounted to PLN 2 959 million. As at 31 December 2020, the carrying amount was PLN 2 477 million. More disclosures on the fair value measurement were presented in note 7.1.

The loans granted do not have collaterals limiting exposure to credit risk, therefore the Company estimates the maximum, potential losses due to credit risk in the amount of 100% of their current fair value, i.e. USD 729 million (PLN 2 959 million), of which the amount of USD 609 million is due to the nominal value of loans granted.

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

		2021	2020
	Carrying amount as at 1 January	**2 477**	**2 271**
	Loan granted	-	216
	Loan repaid	(547)	-
Note 4.2	Fair value gains	1 056	118
Note 4.2	Fair value losses	(9)	(128)
	Loss on realisation of instruments	(18)	-
	Carrying amount as at 31 December	**2 959**	**2 477**

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

As at 31 December 2021 and in the comparable period, the Company classified the measurement to fair value of loans granted to level 3 of the fair value hierarchy because of the utilisation in the measurement of a significant unmeasurable parameter, begin the forecasted cash flows of Sierra Gorda. More disclosures on the main assumptions (including unobservable input data) assumed for the calculation of cash flows of Sierra Gorda were presented in the consolidated financial statements in note 7.5.2.4.

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

		Copper prices [USD/t]				
Scenarios - 2021	**2022**	**2023**	**2024**	**2025**	**2026**	**LT**
Base	8 500	8 000	7 500	7 500	7 500	7 000
Pessimistic	8 280	7 780	7 280	7 280	7 280	6 780
Optimistic	8 720	8 220	7 720	7 720	7 720	7 220

Scenarios - 2020	**2021**	**2022**	**2023**	**2024**	**2025**	**LT**
Base	6 500	6 300	6 400	6 614	6 614	6 834
Pessimistic	5 500	5 000	5 200	5 500	5 800	6 834
Optimistic	8 000	8 500	8 500	8 500	8 500	6 834

Classes of financial instruments	Fair value	Carrying amount 31 December 2021	Fair value		Fair value [PLN million]	Carrying amount 31 December 2020 [PLN million]	Fair value	
			Optimistic scenario	Pessimistic scenario			Optimistic scenario	Pessimistic scenario
Loans granted measured at fair value	**2 959**	**2 959**	3 239	2 753	**2 372**	**2 372**	2 474	2 188
Loans granted measured at amortised cost	**5 340**	**5 176**	5 375	5 290	**5 054**	**4 576**	5 316	4 819

Concentration risk

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

in PLN millions, unless otherwise stated

PART 8 – Borrowings and the management of liquidity and capital

Note 8.1 Capital management policy

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

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

Ratios	Calculations	31 December 2021	31 December 2020
Net Debt/EBITDA	relation of net debt to EBITDA	**0.6**	**0.9**
Net Debt*	borrowings, debt securities and lease liabilities less free cash and its equivalents	4 069	4 834
EBITDA**	profit on sales plus depreciation/amortisation recognised in profit or loss and impairment losses on non-current assets	7 131	5 277

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

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

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

	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Profit on sales	4 710	3 161
Interest income on loans granted to a joint venture	494	377
Other operating income and costs	726	(624)
Adjusted operating profit*	**5 930**	**2 914**

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

As at the reporting date, in the financial period and after the reporting date, up to the date of publication of these financial statements, the value of a financial covenant subject to the obligation to report as at 30 June 2021 and 31 December 2021, met the conditions stipulated in the credit agreements.

In order to maintain financial liquidity and the creditworthiness enabling the obtainment of external financing with the optimum level of costs, the Group's long term aim for the level of the Net Debt/adjusted EBITDA ratio is to be not more than 2.0.

in PLN millions, unless otherwise stated

Note 8.2 Equity

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

Note 8.2.1 Share capital

As at 31 December 2021 and at the date of signing of these financial statements, the Company's share capital, in accordance with the entry in the National Court Register, amounted to PLN 2 000 million and was divided into 200 000 000 shares, series A, fully paid, each having a face value of PLN 10. All of the shares are bearer shares. The Company has not issued preference shares. Each share grants the right to one vote at the general meeting. The Company does not have treasury shares.

In the years ended 31 December 2021 and 31 December 2020 there were no changes in either registered share capital or in the number of issued shares. In addition, in 2021 and 2020, there were no changes in the ownership of significant blocks of shares of KGHM Polska Miedź S.A.

The Company's shareholder structure as at 31 December 2021 and as at the date of signing of these financial statements, established on the basis of notifications received by the Company pursuant to art. 69 of the Act on public offerings and conditions governing the introduction of financial instruments to organised trading, and on public companies, is shown in the following table:

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

in PLN millions, unless otherwise stated

Note 8.2.2 Changes of other equity items in the period

		Other reserves from measurement of financial instruments				Retained earnings		
		Investments in equity instruments measured at fair value through other comprehensive income	Other reserves from measurement of cash flow hedging financial instruments	Total other reserves from measurement of financial instruments	Accumulated other comprehensive income	Reserve capital created in accordance with the Commercial Partnerships and Companies Code, art. 396	Reserve capital created from profit in accordance with the Company's Statutes	Profit/(loss) from previous years
	As at 1 January 2020	**(550)**	**(148)**	**(698)**	**(622)**	**660**	**16 828**	**1 721**
	Transfer of profit for the period to reserve capital	-	-	-	-	7	1 257	(1 264)
	Total comprehensive income, of which:	**158**	**(850)**	**(692)**	**(250)**	**-**	**-**	**1 779**
	Profit for the period	-	-	-	-	-	-	1 779
	Other comprehensive income	158	(850)	(692)	(250)	-	-	-
	Change in fair value of investments in equity instruments	194	-	194	-	-	-	-
Note 7.2	Impact of effective cash flow hedging transactions entered into	-	(1 026)	(1 026)	-	-	-	-
Note 7.2	Amount transferred to profit or loss in connection with realisation of derivatives	-	(24)	(24)	-	-	-	-
Note 11.2	Actuarial losses on post-employment benefits	-	-	-	(308)	-	-	-
Note 5.1.1	Deferred income tax	(36)	200	164	58	-	-	-
	As at 31 December 2020	**(392)**	**(998)**	**(1 390)**	**(872)**	**667**	**18 085**	**2 236**

in PLN millions, unless otherwise stated

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

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

As at 31 December 2021 the statutory reserve capital in the Company amounted to PLN 667 million, and is recognised in retained earnings in the item reserve capital created in accordance with art. 396 of the Commercial Partnerships and Companies Code.

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

Note 8.3 Liquidity management policy

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

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

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

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

In 2021, the Company continued actions aimed at ensuring long-term financial stability by basing the financial structure on diversified and long term financing sources. In December 2021, the Company used the option to extend for the second time the term of a unsecured revolving syndicated credit facility agreement by one year, in the amount of USD 1 500 million (PLN 6 090 million) signed in 2019. As a result of Syndicate Members' decision, the available amount of financing granted to the Company in another extension period, that is from 20 December 2025 to 20 December 2026, will amount to USD 1 438 million (PLN 5 838 million).

in PLN millions, unless otherwise stated

Note 8.3.1 Contractual maturities for financial liabilities

Financial liabilities – as at 31 December 2021

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

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

Overdue financial liabilities as at 31 December 2021

	Overdue period: up to 1 month	over 1 month to 3 months	over 3 months to 12 months	over 1 year	Total
Trade payables	21	8	7	6	42

The tables above regarding maturities do not include financial guarantees. Details on financial guarantees and their maturity dates were described in Note 8.6.

in PLN millions, unless otherwise stated

Financial liabilities – as at 31 December 2020

Financial liabilities	Contractual maturities from the end of the reporting period: up to 3 months	over 3 to 12 months	over 1 to 3 years	over 3 years	Total (without discounting)	Carrying amount
Borrowings	86	275	1 356	3 052	**4 769**	**4 321**
Debt securities liabilities	-	36	72	2 170	**2 278**	**2 000**
Lease liabilities	19	41	95	1 040	**1 195**	**510**
Cash pooling payables**	284	-	-	-	**284**	**284**
Other liabilities due to settlement under cash pooling contracts***	52	-	-	-	**52**	**52**
Trade payables	2 013	16	19	341	**2 389**	**2 232**
Similar payables – reverse factoring	653	611	-	-	**1 264**	**1 264**
Derivatives – currency contracts*	-	-	21	1	**22**	**124**
Derivatives – commodity contracts – metals*	98	411	96	-	**605**	**1 285**
Derivatives – interest rates	-	40	75	65	**180**	**198**
Embedded derivatives	27	-	-	-	**27**	**27**
Other financial liabilities	143	5	12	13	**173**	**172**
Total	**3 375**	**1 435**	**1 746**	**6 682**	**13 238**	**12 469**

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

Overdue financial liabilities – as at 31 December 2020

	Overdue period: up to 1 month	over 1 month to 3 months	over 3 months to 12 months	over 1 year	Total
Trade payables	18	5	7	11	41

in PLN millions, unless otherwise stated

Note 8.4 Borrowings

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

Note 8.4.1 Net debt

	As at 31 December 2021	As at 31 December 2020
Bank loans*	596	1 863
Loans	2 060	2 202
Debt securities	2 000	2 000
Leases	524	460
Total non-current liabilities due to borrowings	**5 180**	**6 525**
Bank loans**	(3)	(3)
Loans	327	259
Cash pooling liabilities***	360	284
Debt securities	1	-
Leases	57	50
Total current liabilities due to borrowings	**742**	**590**
Total borrowings	**5 922**	**7 115**
Free cash and cash equivalents	1 318	2 120
Net debt	**4 604**	**4 995**

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

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

	As at 31 December 2021	As at 31 December 2020
USD/LIBOR	(16)	1 296
EUR/EURIBOR*	60	44
PLN/WIBOR**	2 301	2 240
USD/fixed	2 996	3 025
EUR/fixed	14	14
PLN/fixed	567	496
Total	5 922	7 115

** Presented amounts are KGHM Polska Miedź S.A.'s liabilities towards Group companies due to cash pooling within the credit limit in the amount of PLN 60 million (PLN 44 million in 2020).*

*** Presented amounts include KGHM Polska Miedź S.A.'s liabilities towards Group companies due to cash pooling within the credit limit in the amount of PLN 300 million (PLN 240 million in 2020).*

in PLN millions, unless otherwise stated

As at 31 December 2021, the Company's liabilities due to borrowing, issued debt securities, leases and cash pooling amounted to PLN 5 922 million, or USD 734 million, PLN 2 868 million and EUR 16 million (as at 31 December 2020 liabilities amounted to PLN 7 115 million, or USD 1 150 million, PLN 2 736 million and EUR 12 million).
Trade payables transferred to reverse factoring are presented in the statement of financial position as "Trade and similar payables" in the category of "similar", as due to the significant judgment of the Management Board of the Company presented in note 10.3 and 10.4 of these Financial statements, such a presentation most accurately presents the nature of these transactions.
The structure of debt did not significantly change in comparison to 2020, pursuant to the adopted strategy, aimed at ensuring long term financial stability whose structure is based on diversified and long term financing sources. The ongoing repayment of principal instalments of loans drawn, which is in line with the schedule, impacts the increase in short-term liabilities due to borrowing.

Note 8.4.2 Net debt changes

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

*A conclusion and modification of lease agreements

Liabilities due to borrowing	As at 1 January 2020	Cash flows	Accrued interest	Exchange differences	Other changes	As at 31 December 2020
Bank loans	2 294	(340)	107	(183)	(18)	**1 860**
Loans	2 686	(292)	82	(15)	-	**2 461**
Debt securities	2 001	(52)	51	-	-	**2 000**
Leases	509	(62)	26	1	36	**510**
Cash pooling liabilities	130	154	-	-	-	**284**
Total debt	**7 620**	**(592)**	**266**	**(197)**	**18**	**7 115**
Free cash and cash equivalents	489	1 631	-	-	-	**2 120**
Net debt	**7 131**	**(2 223)**	**266**	**(197)**	**18**	**4 995**

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

in PLN millions, unless otherwise stated

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

	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Financing activities		
Proceeds from borrowings	205	4 052
Proceeds from cash pooling	76	154
Repayment of borrowings	(1 889)	(4 478)
Repayment of lease liabilities	(51)	(36)
Repayment of interest on borrowings and debt securities	(72)	(154)
Repayment of interest on leases	(8)	(8)
Investing activities		
Paid capitalised interest on borrowings	(112)	(122)
TOTAL	**(1 851)**	**(592)**

Note 8.4.3 Detailed information concerning the main sources of borrowings

As at 31 December 2021, the Company had open credit lines, investment loans and debt securities with a total balance of available financing in the amount of PLN 14 191 million, out of which PLN 4 997 million had been drawn (as at 31 December 2020 the Company had open credit lines, investment loans and debt securities with a total balance of available financing in the amount of PLN 12 793 million, out of which PLN 6 340 million had been drawn).

The structure of financing sources is presented below.

in PLN millions, unless otherwise stated

Unsecured, revolving syndicated credit facility

A credit facility in the amount of USD 1 500 million (PLN 6 090 million), obtained on the basis of a financing agreement concluded with a syndicate of banks in 2019 with a maturity of 19 December 2024 and an option to extend it by a further 2 years (5+1+1). In 2021 the Company received consent from Syndicate Members to extend the term of the agreement by another year, i.e. to 20 December 2026. The amount of available financing during the extension period will amount to USD 1 438 million (PLN 5 838 million). The funds acquired through this credit facility are used to finance general corporate purposes. Interest is based on LIBOR plus a bank margin, depending on the net debt/EBITDA ratio.

The credit facility agreement obliges the Company to comply with the financial covenant and non-financial covenants. Financing parameters meet the standard conditions of these types of transactions. Pursuant to contractual terms and conditions, the Company is obliged to report the level of financial covenant for the reporting periods, i.e. as at 30 June and as at 31 December. The Company continuously monitors the risk of exceeding the levels of the financial covenant stipulated in the credit facility agreement. As at the reporting date, during the financial year and after the reporting date, up to the publication of this Report, the value of the financial covenant resulting in the obligation to report as at 30 June 2021 and as at 31 December 2021, complied with the provisions of the agreement.

	2021	2021	2020
	Amount granted	Amount of the liability	Amount of the liability
	6 090	-	-
Preparatory fee		(14)	(17)
Carrying amount of liabilities due to bank loans		**(14)**	**(17)**

Investment loans

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

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

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

As at the reporting date, during the financial year, and after the reporting date, up to the publication of this Report, the value of the financial covenant resulting in the obligation to report as at 30 June 2021 and as at 31 December 2021, complied with the provisions of the loan agreements.

2021	2021	2020
Amount granted	Amount of the liability	Amount of the liability
3 340	2 387	**2 461**

in PLN millions, unless otherwise stated

Other bank loans

Bank loans in the total amount of PLN 2 761 million are used for financing working capital and supporting the management of current financial liquidity. The Company holds lines of credit in the form of credit agreements. These are working capital facilities and credit accounts with availability of up to 4 years. The funds under open lines of credit are available in USD, with interest based on a fixed interest rate or variable LIBOR, EURIBOR and WIBOR plus a margin.

	2021	2021	2020
	Amount granted	Amount of the liability	Amount of the liability
	2 761	609	1 879
Preparatory fee		(2)	(2)
Carrying amount of liabilities due to bank loans		**607**	**1 877**

Debt securities

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

	2021	2021	2020
	Nominal value of the issue	Amount of the liability	Amount of the liability
	2 000	2 001	**2 000**

Total bank and other loans, debt securities	**4 997**	**6 340**
Preparation fee which decreases liabilities due to bank loans	(16)	(19)
Carrying amount of liabilities due to bank and other loans, debt securities	**4 981**	**6 321**

The aforementioned sources ensure the availability of external financing in the amount of PLN 14 191 million. The funds available for use from these sources cover the liquidity needs of the Company and the Group.
The syndicated credit in the amount of USD 1 500 million (PLN 6 090 million), the investment loans in the amount of PLN 3 340 million, and other bank loans in the amount of PLN 2 761 million, are unsecured.

in PLN millions, unless otherwise stated

Note 8.5 Cash and cash equivalents

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

	As at 31 December 2021	As at 31 December 2020
Cash in bank accounts	593	1 482
Other financial assets with a maturity of up to 3 months from the date of acquisition - deposits	739	653
Total cash and cash equivalents	**1 332**	**2 135**
Restricted cash	14	15
Free cash and cash equivalents	**1 318**	**2 120**

As at 31 December 2021, the Company had cash in bank deposits in the amount of PLN 7 million (as at 31 December 2020 PLN 40 million), which are funds in separate VAT accounts, designated for servicing split payments. These funds are gradually used to pay the VAT payables to suppliers.

Note 8.6 Liabilities due to guarantees granted

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

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

As at 31 December 2021, the Company held liabilities due to guarantees and letters of credit granted in the total amount of PLN 1 236 million. The most significant items secure the following obligations:

Sierra Gorda S.C.M. – securing the performance of concluded agreements in the amount of PLN 670 million:

- PLN 670 million (USD 165 million) as a corporate guarantee (financial) securing repayment of a Revolving Credit Facility, with maturity of the guarantee to September 2024. The carrying amount of the liability due to the financial guarantee granted amounts to PLN 58 million*,

other entities, including the Parent Entity:

- PLN 124 million to secure the proper execution by the Company of future environmental obligations related to the obligation to restore terrain, following the conclusion of operations of the Żelazny Most tailings storage facility (as at 31 December 2020 in the amount of PLN 175 million),
- PLN 402 million (USD 90 million, CAD 12 million) securing the restoration costs of the Robinson mine, the Podolsky mine and the Victoria project (as at 31 December 2020 in the amount of PLN 372 million, or USD 90 million, CAD 12 million),
- PLN 10 million (PLN 3 million and CAD 2 million) securing the obligations related to proper execution of agreements concluded by KGHM Polska Miedź S.A. and Group companies (as at 31 December 2020 in the amount of PLN 21 million, or PLN 3 million, USD 3 million, CAD 2 million),
- PLN 30 million securing the obligations drawn by Brokerage House due to settlements of transactions on the markets run by Towarowa Giełda Energii S.A

** With respect to the financial guarantee granted to Sierra Gorda S.C.M., the Company determined that it is necessary to recognise these guarantees pursuant to par. 4.2.1. point c of IFRS 9.*

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

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

PART 9 – Non-current assets and related liabilities

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

Accounting policies – property, plant and equipment
The most important property, plant and equipment of the Company is property, plant and equipment related to the mining and metallurgical operations, comprised of land, buildings, water and civil engineering structures, such as: primary mine tunnels (including shafts, wells, galleries, drifts, primary chambers), backfilling, drainage and firefighting pipelines, piezometric holes and electricity, signal and optical fiber cables. Machines, technical equipment, motor vehicles and other movable fixed assets, as well as right-to-use assets recognised in accordance with IFRS 16 Leases, including perpetual usufruct rights to land, are also included in mining and metallurgical property, plant and equipment. Property, plant and equipment, excluding usufruct right-to-use assets, are recognised at cost less accumulated depreciation and accumulated impairment losses. In the initial cost of items of property, plant and equipment the Company includes discounted decommissioning costs of fixed assets related to mining and other facilities which, in accordance with binding laws, will be incurred following the conclusion of activities. Principles of recognition and measurement of decommissioning costs are presented in Note 9.4. An asset's carrying amount includes costs of spare parts and necessary regular major overhauls, including costs of overhauls for the purpose of certification and significant periodic repairs, the performance of which determines further use of the asset. Costs are increased by borrowing costs (i.e. interest, exchange differences and fees representing an adjustment to interest cost) that were incurred for the purchase or construction of a qualifying item of property, plant and equipment. Right-to-use assets are initially measured at cost, which comprises the initial lease liability and all lease payments paid on the date the lease began and before that date, less any lease incentives received, any initial direct costs incurred by the lessee and an estimate of costs which will be incurred by the lessee due to the disassembly or removal of a base asset or renovation of the site in which it was placed. The perpetual usufruct right to land is measured at the amount of the liability on the perpetual usufruct right to land, which is measured using the perpetual rent method and all lease payments paid on the date the lease began or before that date (including payments for acquisition of this right on the market). After the initial recognition, a right-to-use asset, excluding the perpetual usufruct right to land measured using the perpetual rent method, is measured at cost decreased by accumulated depreciation/amortisation and accumulated impairment losses, adjusted by the updated measurement of lease liabilities. Items of property, plant and equipment (excluding land and perpetual usufruct rights to land) are depreciated by the Company, pursuant to the model of consuming the economic benefits from the given item of property, plant and equipment: – using the straight-line method, for items which are used in production at an equal level throughout the period of their usage, – using the units of production method, for items in respect of which the consumption of economic benefits is directly related to the quantity of units produced, and this production is not spread evenly through the period of their usage. In particular it relates to machines and mining equipment in gas-steam blocks.

in PLN millions, unless otherwise stated

The useful lives, and therefore the depreciation rates of fixed assets used in the production of copper, are adapted to the plans for the closure of operations, and in the case of right-to-use assets to the earlier of these two dates – either to the useful life end date or to the lease end date, unless the ownership of an asset is transferred to the Company before the end of the lease, in which case depreciation rates are adjusted to the estimated useful life end date.

For individual groups of fixed assets, the following useful lives have been adopted, estimated based on the anticipated useful lives of mines and metallurgical plants:

For own fixed assets:

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

For right-to-use fixed assets:

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

The Company performs regular reviews of its property, plant and equipment in terms of the adequacy of applied useful lives to current operating conditions.
The individual significant parts of a fixed asset (significant components), whose useful lives are different from the useful life of the given fixed asset as a whole are depreciated separately, applying a depreciation rate which reflects its anticipated useful life.
Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.
An impairment loss is recognised as the amount by which the carrying amount of the given asset or cash-generating unit exceeds its recoverable amount.
For the purpose of impairment analysis, assets are grouped at the lowest level at which they generate cash inflows, independently from other assets (cash-generating units). Cash-generating units are determined separately, each time an impairment test is to be performed.

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

Accounting policies – intangible assets

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

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

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

Expenditures on exploration and evaluation assets are measured at cost less accumulated impairment losses and are recognised as intangible assets not yet available for use.
The Company is required to test an individual entity (project) for impairment when:
- the technical feasibility and commercial viability of extracting mineral resources is demonstrable; and
- the facts and circumstances indicate that the carrying amount of exploration and evaluation assets may exceed their recoverable amount.

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

in PLN millions, unless otherwise stated

	Property, plant and equipment			Intangible assets		
	Buildings and land	Technical equipment, machines, motor vehicles and other fixed assets	Fixed assets under construction	Exploration and evaluation assets	Other	Total
As at 1 January 2020						
Gross carrying amount	11 820	13 019	4 709	320	531	30 399
Accumulated depreciation/amortisation	(5 027)	(6 411)	-	-	(83)	(11 521)
Impairment losses	(1)	(11)	(6)	(117)	-	(135)
Net carrying amount	**6 792**	**6 597**	**4 703**	**203**	**448**	**18 743**
Changes in 2020 net						
Settlement of fixed assets under construction	676	952	(1 628)	-	-	-
Purchases	-	-	2 157	22	18	2 197
Leases – new contracts, modification of existing contracts	33	7	-	-	-	40
Self-constructed	-	-	75	1	-	76
Change in provisions for decommissioning costs of mines and tailings storage facilities	83	-	-	-	-	83
Depreciation/amortisation, of which:	(337)	(981)	-	-	(12)	(1 330)
own fixed assets	(311)	(968)	-	-	(12)	(1 291)
leased fixed assets	(26)	(13)	-	-	-	(39)
Recognition of impairment losses	-	-	(28)	-	(4)	(32)
Utilisation of impairment losses	-	-	27	-	-	27
Other changes	(21)	(25)	80	-	(1)	33
As at 31 December 2020						
Gross carrying amount	12 548	13 492	5 393	344	547	32 324
Accumulated depreciation/amortisation	(5 321)	(6 931)	-	-	(94)	(12 346)
Impairment losses	(1)	(11)	(7)	(118)	(4)	(141)
Net carrying amount, of which:	**7 226**	**6 550**	**5 386**	**226**	**449**	**19 837**
own fixed assets and intangible assets	6 743	6 528	5 386	226	449	19 332
leased fixed assets	483	22	-	-	-	505

in PLN millions, unless otherwise stated

	Property, plant and equipment			Intangible assets		
	Buildings and land	Technical equipment, machines, motor vehicles and other fixed assets	Fixed assets under construction	Exploration and evaluation assets	Other	Total
As at 1 January 2021						
Gross carrying amount	12 548	13 492	5 393	344	547	32 324
Accumulated depreciation/amortisation	(5 321)	(6 931)	-	-	(94)	(12 346)
Impairment losses	(1)	(11)	(7)	(118)	(4)	(141)
Net carrying amount	**7 226**	**6 550**	**5 386**	**226**	**449**	**19 837**
Changes in 2021 net						
Settlement of fixed assets under construction	1 304	1 090	(2 394)	-	-	-
Purchases	-	-	2 020	49	226*	2 295
Leases – new contracts, modification of existing contracts	24	97	-	-	-	121
Self-constructed	-	-	66	1	-	67
Change in provisions for decommissioning costs of mines and tailings storage facilities	(333)	-	-	-	-	(333)
Depreciation/amortisation, of which:	(377)	(1 007)	-	-	(11)	(1 395)
own fixed assets	(350)	(991)	-	-	(11)	(1 352)
leased fixed assets	(27)	(16)	-	-	-	(43)
Recognition of impairment losses	-	(7)	(11)	-	(2)	(20)
Utilisation of impairment losses	-	-	9	-	6	15
Other changes	(1)	(7)	109	-	149	250
As at 31 December 2021						
Gross carrying amount	13 505	14 250	5 194	394	921	34 264
Accumulated depreciation/amortisation	(5 661)	(7 516)	-	-	(104)	(13 281)
Impairment losses	(1)	(18)	(9)	(118)	-	(146)
Net carrying amount, of which:	**7 843**	**6 716**	**5 185**	**276**	**817**	**20 837**
own fixed assets and intangible assets	7 363	6 612	5 185	276	817	20 253
leased fixed assets	480	104	-	-	-	584

**Purchase of the CO_2 emission rights*

in PLN millions, unless otherwise stated

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

	As at 31 December 2021	As at 31 December 2020
Deposit Access Program	2 796	2 420
Construction of the SW-4 shaft	565	589
Investment activity related to the development and operation of the Żelazny Most Tailings Storage Facility	424	1 133
Damówka pumping station with a backwater pipeline in the Tailings Division	131	103
BAT As – Installation for arsenic and mercury removal from gases before Solinox installation	113	52
Modernisation of the tankhouse at Głogów I Copper Smelter and Refinery – reconstruction of the roof and walls of the tankhouse	89	54
Optimisation of the Flash Furnace technology in the Głogów I Copper Smelter and Refinery, STAGE 2	12	65
Modernisation of a recovery boiler cleaning system at the Głogów I Copper Smelter and Refinery	-	58

Note 9.1.2 Expenses related to mining and metallurgical assets

	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Purchase	(2 295)	(2 198)
Change in liabilities due to purchase	54	(24)
Other	(140)	(151)
Total	**(2 381)**	**(2 373)**

Note 9.2 Other property, plant and equipment and intangible assets

Accounting policies

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

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

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

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

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

in PLN millions, unless otherwise stated

	Property, plant and equipment			Intangible assets	
	Buildings and land	Technical equipment, machines, motor vehicles and other fixed assets	Fixed assets under construction	Other intangible assets	Total
As at 1 January 2020					
Gross carrying amount	56	230	20	185	491
Accumulated depreciation/amortisation	(36)	(168)	-	(123)	(327)
Net carrying amount as at 1 January 2020	**20**	**62**	**20**	**62**	**164**
As at 31 December 2020					
Gross carrying amount	57	245	14	199	515
Accumulated depreciation/amortisation	(38)	(176)	-	(134)	(348)
Net carrying amount as at 31 December 2020	**19**	**69**	**14**	**65**	**167**
own fixed assets and intangible assets	18	69	14	65	166
leased fixed assets	1	-	-	-	1
Net changes in 2021					
Settlement of fixed assets under construction	1	22	(23)	-	-
Purchase	-	-	18	9	27
Liquidation	-	(15)	-	-	(15)
Other changes	-	-	-	1	1
Depreciation/amortisation, of which:	(1)	(6)	-	(15)	(22)
property, plant and equipment and intangible assets	(1)	(6)	-	(15)	(22)
As at 31 December 2021					
Gross carrying amount	58	252	9	209	528
Accumulated depreciation/amortisation	(39)	(182)	-	(149)	(370)
Net carrying amount, of which:	**19**	**70**	**9**	**60**	**158**
own fixed assets and intangible assets	18	70	9	60	157
leased fixed assets	1	-	-	-	1

As at 31 December 2021 and 31 December 2020 the Company didn’t have any assets pledged as security for liabilities.

in PLN millions, unless otherwise stated

Note 9.3 Depreciation/amortisation

		Property, plant and equipment		Intangible assets	
		from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Note 4.1	**Depreciation/amortisation**	**1 408**	**1 340**	**27**	**24**
	recognised in profit or loss	1 338	1 271	25	22
	cost of manufacturing products	1 309	1 243	23	21
	administrative expenses	29	28	2	1
	being part of the manufacturing costs of assets	70	69	2	2

Note 9.4 Provision for decommissioning costs of mines and other facilities

Accounting policies	Important estimates, assumptions and judgments
The provision for future decommissioning costs of mines and other technological facilities is recognised based on the estimated expected costs of decommissioning of such facilities and of restoring the sites to their original condition following the end of operations. Estimation of this provision is based on specially-prepared studies using ore extraction forecasts (for mining facilities), and technical-economic studies prepared either by specialist firms or by the Company. The amount of provision represents the estimated future decommissioning costs of mines and other technological facilities, discounted to present value. Revaluation of this provision is made in two stages: 1) estimation of the costs of decommissioning mines to the current value in connection with the change in prices using the price change indices of construction-assembly production published by the Central Statistical Office. 2) discounting of the decommissioning costs to the current value using effective discount rates calculated based on the nominal interest rates and the inflation rate (quotient of the nominal rate and the inflation rate), whereby: – the nominal interest rate is based on the yield on treasury bonds at the end of the reporting period, with maturities nearest to the planned financial outflow, – the inflation rate is based on the forecast of future inflation used in the calculation of future employee benefits liabilities.	At the end of the reporting period, with a bond yield of +/- 3.6% and inflation of +/- 7.6% (at the end of the comparable period: respectively +/-1.3% and +/-2.6%), the Company would receive a negative effective discount rate for 2021 and, in accordance with the adopted accounting policy for the purpose of the measurement, it applied an effective discount rate of “0”. The Company foresees that the situation will be similar in 2022, for which the “0%”rate was also adopted. Taking into account long-term inflation forecasts and the NBP’s inflation target, it was assumed that from 2023 the effective discount rate would be slightly positive, and for the discount from 2023 and upwards, the rate was assumed to the level on 1.07%.

in PLN millions, unless otherwise stated

Discount rates (nominal and inflation) are set separately for future periods, i.e. one, two and three years, and jointly for periods from the fourth year, provided that the effective discount rate cannot be lower than 0% (zero%). A change in the discount rate or in the estimated decommissioning cost adjusts the value of the relevant item of a fixed asset, unless it exceeds the carrying amount of the item of a fixed asset (any surplus above this amount is recognised in other operating income). The increase in the provision due to the time lapse is recognised in finance costs.	

		As at 31 December 2021	As at 31 December 2020
	Provisions at the beginning of the reporting period	**1 192**	**1 131**
Note 9.1	Changes in estimates recognised in fixed assets	(333)	83
	Other	(35)	(22)
	Provisions at the end of the reporting period including:	**824**	**1 192**
	- non-current provisions	811	1 185
	- current provisions	13	7

Impact of the change in discount rate on the provision for decommissioning costs of mines and other technological facilities

	As at 31 December 2021	As at 31 December 2020
increase in discount rate by 1 percentage point	(263)	(368)

Note 9.5 Capitalised borrowing costs

During the period between 1 January 2021 to 31 December 2021, the Company recognised PLN 119 million of borrowing costs in property, plant and equipment and intangible assets (during the period from 1 January 2020 to 31 December 2020: PLN 116 million).

The capitalisation rate applied by the Company to determine borrowing costs in 2021 amounted to 3.07% (in 2020: 2.61%).

Note 9.6 Lease disclosures – the Company as a lessee

Accounting policies

As a lessee, the Company identifies leases in usufruct agreements, inter alia, land, perpetual usufruct right to land, and transmission easements, buildings and constructions as well as technical equipment and machines.
The Company applies a uniform lease accounting model, which assumes that the lessee recognises the right-to-use assets and lease liabilities related to all lease agreements, including exemptions. The Company does not recognise lease assets and liabilities in relation to:

- short-term leases - applies to agreements without the option to purchase an asset, concluded for a period shorter than 12 months from the commencement of the agreement, including agreements concluded for an indefinite period with a short notice period if there is no reasonable certainty that the Company will not make use of termination.
- leases in respect of which the underlying asset has a low value.

In the case of an agreement that is or includes a lease, the Company recognises each lease component under the agreement as lease, separately from non-lease components.
The Company defines the lease period as covering the irrevocable period of the lease agreement, including periods for which the lease can be extended if it is reasonably certain that the lessee will exercise that right, and the periods for which the lease can be terminated if it is reasonably certain that the lessee will not exercise that right.

The right-to-use assets and the measurement policy for these assets are presented in Note 9.1.

The Company initially measures the lease liability at the present value of lease payments due to be paid as at the date of initial recognition, which include: fixed lease payments, variable lease payments which are dependent on an index or rate, amounts which the lessee is expected to pay under the guaranteed residual value, the strike price call option if it is reasonably certain that the lessee will exercise the option, and penalties for terminating the lease if the given lease period was set with the assumption that the lessee will terminate the agreement. In fixed lease payments, the Company also includes payments for the exclusion of land from forestry and agricultural production, if they relate to land used under lease agreements.

The lease payments exclude variable payments made by the lessee to the lessor for the right to use the underlying asset during the lease period, which depend on external factors other than payments based on a rate or index. After the date the lease began, the Company measures the carrying amount of lease liabilities by:

- an increase due to interest on lease liabilities,
- a decrease due to paid lease payments,
- an update due to reassessment or modification of a lease agreement.

Lease liabilities are presented in Note 8.

Lease rate - lease payments are discounted by the Company using the incremental borrowing rate of the lessee because generally speaking, the interest rate of a lease agreement is not readily determinable.

in PLN millions, unless otherwise stated

Important estimates, assumptions and judgments
Identification of non-lease components In the agreements for the lease of mining machinery, a technological line for production of rhenium and lease of a sulfuric acid warehouse, apart from the lease component, the Company identified non-lease components related to the provision of services other than the lease of assets. To separate the lease and non-lease components, the Company made a judgment, respectively allocating the consideration for a given agreement to both components, based on the relative unit price of the lease component and the total unit price of the non-lease components. **Estimation of the incremental borrowing rate of the lease** For the purpose of calculating the discount rates under IFRS 16, the Company assumes that the discount rate should reflect the cost of financing that would be incurred to purchase the leased item. The Company calculates the incremental borrowing rates, for individual time ranges of lease agreements, on a quarterly basis and this rate is used to measure lease liabilities arising from lease agreements concluded or modified during a given quarter. The materiality threshold for leases of low-value of underlying assets is set at PLN 20 000.

		from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Note 9.1	Depreciation/amortisation cost	43	39
Note 4.3	Interest cost	8	8
	Short-term lease cost	8	3
	Cost associated with variable lease payments not recognised in the repayment of lease liabilities	3	4
Note 8.4.2	Total cash outflows due to leases	76	62
Note 9.1	Increase in right-to-use assets	121	40
		As at 31 December 2021	As at 31 December 2020
Note 9.1 Note 9.2	Carrying amount of right-to-use assets (division by underlying assets in notes, pursuant to references)	585	506
Note 8.4.2	Carrying amount of right-to-use liabilities	581	510

As at 31 December 2021, the Company had lease agreements that contained extension options and termination options, and the estimated value of future cash outflows, to which the Company is potentially exposed and are not included in the measurement of lease liabilities amounted to PLN 9 million and PLN 46 million respectively.

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

As at 31 December 2021, the Company did not have any non-current assets held for sale.
As at 31 December 2020, the Company recognised shares in PGE EJ 1 sp. z o.o. as non-current assets held for sale. The transaction of sale of shares was completed in the first quarter of 2021 and as a result of the settlement of the transaction, the Company transferred the accumulated result to retained earnings in the amount of PLN 18 million.

in PLN millions, unless otherwise stated

PART 10 – Working capital

Note 10.1 Inventories

Accounting policies
The Company measures inventories at cost, not higher than the sales price less costs of completing production and costs to sell. Any differences in the value of finished goods constitutes a write-down and is recognised in the costs of sold products. The costs of inventories of finished goods, half-finished goods and work in progress include costs directly related to the production and variable and fixed indirect costs of production, assigned respectively. Fixed indirect costs of production are allocated on the basis of the normal level of production capacity utilisation. The valuation of the inventory component disposal is made according to the weighted average purchase price and the weighted average actual production cost. The Company also classifies as inventories stand-by spare parts that do not meet the criteria for recognition as property, plant and equipment in accordance with IAS 16 par. 7 and in accordance with the principles of capitalization of significant components, adopted in the accounting principles of the Company, where a materiality threshold of at least PLN 300 thousand has been set, for which the spare parts are analysed in terms of meeting the capitalization criteria of IAS 16. In relation to above, stand-by spare parts are in particular recognised as inventories, the value of which is insignificant or are not replaced at regular intervals, or which, after their installation, due to the failure of a spare part in an item of property, plant and equipment, will not contribute to obtain higher economic benefits from further use of this component, than those assumed at the moment of initial recognition of the component and putting it into use. The costs of such stand-by spare parts as a current maintenance costs of assets are recognized in profit or loss as they are used up.

	As at 31 December 2021	As at 31 December 2020
Materials	1 124	841
Half-finished goods and work in progress	3 260	2 216
Finished goods	965	460
Merchandise	87	38
Total net carrying amount of inventories	**5 436**	**3 555**

Write-down of inventories in the financial period

	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Write-down recognised in cost of sales	41	48
Write-down reversed in cost of sales	20	25

Maturities of inventories

	As at 31 December 2021	As at 31 December 2020
Maturity over the 12 months from the end of the reporting period	80	94
Maturity of up to 12 months from the end of the reporting period	5 356	3 461

The value of inventories with a maturity of over the 12 months mainly includes stand-by inventories of materials and spare parts to maintain production continuity, packages of spare parts under contractual obligations and the finished rhenium product – as at 31 December 2021 in the amount of PLN 30 million (on 31 December 2020: PLN 66 million). Due to the collapse of the rhenium market after 2011, the demand for this product from the largest recipients dropped drastically and the period in which the inventory of rhenium in the Company will be sold was extended, while maintaining its functional properties. According to the plans to sell of rhenium, its inventory should gradually decrease in the coming years.

in PLN millions, unless otherwise stated

Note 10.2 Trade receivables

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

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

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

	As at 31 December 2021	As at 31 December 2020
Trade receivables measured at amortised cost - gross value	134	101
Loss allowance for expected credit losses	(1)	(10)
Trade receivables measured at amortised cost - net value	133	91
Trade receivables measured at fair value	467	260
Total	**600**	**351**

Note 10.3 Trade and similar payables

Accounting policies
Trade and similar payables are initially recognised at fair value less transaction cost and are measured at amortised cost at the end of the reporting period. Accrued interest due to repayment of payables at a later date, in particular transferred to reverse factoring, is recognised in profit or loss, in the item “finance costs”.

Important estimates, assumptions and judgments
Trade and similar payables presented in the Statement of financial position also contain trade payables transferred to reverse factoring, which are in the category of "similar". At the moment of transfer of the liabilities to reverse factoring, the Company recognises payables towards the factor, who due to the subrogation of receivables, from the legal point of view, assumes the rights and obligations common for trade payables. Reverse factoring is not directly regulated by IFRS, and as a result of the ambiguous nature it was necessary for the Company to make an important judgment on the presentation of balances transferred to factoring in the Statement of financial position and the presentation of transactions in the Statement of cash flows. In the Company's opinion, in presenting the balance of trade payables transferred to reverse factoring as „Trade and similar payables" (assigned to the category of "similar") together with other trade payables and not as debt liabilities, the following aspects had a crucial impact: - from the legal point of view, there is a transfer of rights and obligations arising from the liabilities at the moment the liabilities are covered by reverse factoring through subrogation, rather than their expiry and the establishment of new rights and obligations in respect of the factor; - there is no establishment of new guarantees related to the reverse factoring, nor are there any changes in commercial terms related to any breach of the contract terms and annulment of a contract; - the goal of the program is not only to improve the Company's liquidity, but also to provide support to suppliers engaged in obtaining favourable financing in order to build long term business relationships, - the established payment deadlines, as well as payment models (including as regards interest and discounting) do not change in respect of trade payables towards a given supplier which are not subject to reverse factoring. In light of the above, as well as taking into account the established interest rates and discounts and extended repayment periods, cash flows related to the liabilities transferred to reverse factoring do not change more than 10%; - costs related to reverse factoring are incurred both by the Company and its suppliers. The Company incurs interest cost arising from the payment of liabilities over an extended period, while the supplier incurs a discounted cost due to early (that is, before the end of the base term, which is usually 60 days) payment received from the factor; - the Company, together with individual suppliers, on the basis of signed contracts, will determine which invoices will be transferred to reverse factoring, and what the deadline for early payment to the supplier through the factor will be. Moreover, although the Company identified characteristics which indicate the nature of reverse factoring as liabilities due to financing (liability due to credit granted by a factor), they were judged by the Company to be insufficient for the purpose of recognising that, at the moment of transfer of trade payables to reverse factoring, there is a complete change in the nature of the liability from that of a trade to a debt one, which would necessitate presentation in the Statement of financial position as debt financial liabilities and presentation in the Statement of cash flows, in financial activities: – the factor is a bank, and at the moment of subrogation by the factor there is a change in the party being the debtor, – in order to obtain more favourable terms, the factoring agreement was negotiated with the factor by the Company and not directly by the suppliers, – the actual deadline for the payment of trade payables subject to reverse factoring is longer (and amounts to up to 180 days) than the deadline for the payment of other trade payables, which are not transferred to factoring (which usually amounts to 60 days), – the main costs of reverse factoring are incurred by the Company, and suppliers are charged only if they receive payment on the date before the date stipulated in the trade contract, which usually amounts to 60 days from the day of receiving the invoice by the Company (discount for the payment before 60 days or other, stipulated in the trade contract).

in PLN millions, unless otherwise stated

In December 2020, the International Financial Reporting Interpretations Committee (Committee) published its opinion on the presentation of reverse factoring transactions in the statement of financial position and statement of cash flows. The above-mentioned opinion stated that the current standards provide a sufficient basis for establishing the correct presentation of reverse factoring transactions in the financial statements, as well as for establishing the required additional disclosures. The Company analysed the summary of the key requirements related to analysing the issue stated in the Committee's position, and in the Company's opinion the aspects indicated by the Committee do not have an impact on the conclusions of the assessment on this issue conducted by KGHM Polska Miedź S.A. in 2019, i.e. the year in which the reverse factoring transactions were recognised for the first time in the Company's financial statements.

The Committee, recommending the appropriate presentation of liabilities subject to reverse factoring, indicated the same issues that were analysed and disclosed above by the Company as part of important judgments. In particular, in the context of the areas of analysis indicated by the Committee, the Company confirms that:

- the transfer of liabilities to reverse factoring did not require the establishment of any additional collateral for the bank-factor, nor there are any additional guarantees related to reverse factoring established. Furthermore,, there is no change in the trade terms and conditions related to non-compliance with the terms of the contract and the cancellation of the contract,
- taking the above into consideration, and taking into account the agreed interest and discount rates, and the extended repayment date, the cash flows related to the liability transferred to reverse factoring will not change by more than 10%; thus, the criteria of disclosing liabilities, i.e. the 10% test and the other criteria for disclosing of liabilities under IFRS 9, have not been met,
- the agreed payment dates as well as the payment pattern (including interest and discount rates) do not change in relation to trade payables towards a given supplier, which are not covered by reverse factoring,
- liabilities transferred to reverse factoring are part of the working capital used by the unit in the unit's regular operating cycle.

The Company indicates that the actual deadline for the payment of trade payables subject to reverse factoring is longer (up to 180 days) than the deadline for the payment of other trade payables, which are not transferred to factoring, which usually amount to 60 days, which may indicate a change in the nature of these liabilities from trade to debt. However, this characteristics has been judged by the Company to be insufficient to conclude that when the trade liability was transferred to reverse factoring, the nature of the liability changed completely. Apart from the above criteria, no other terms of liabilities covered by reverse factoring differ from the terms of other trade payables.

Therefore, the Company's assessment of the nature of trade payables transferred to reverse factoring and their presentation, made in the light of the Committee's position, remains unchanged, which means that the trade payables transferred to reverse factoring are presented by the Company in the statement of financial position under "Trade and similar payables", including those under the "similar" category.

	As at 31 December 2021	As at 31 December 2020
Non-current trade payables	187	162
Current trade payables	2 558	2 070
Similar payables – reverse factoring	55	1 264
Trade and similar payables	**2 800**	**3 496**

In 2021, the factors' total participation limit amounted to PLN 1 500 million. In 2020, the Company concluded the second agreement for the provision of reverse factoring services which was implemented in 2019 in order to make it possible for suppliers to receive repayment of receivables faster, as part of the standard procurement process executed by the Company, alongside an extension of payment dates of payables by the Company to the factor. In the current year, liabilities in the total amount of PLN 988 million (conversion of EUR and USD at the exchange rate as at 31 December 2021) were transferred to the factors and as at 31 December 2021 the value of trade payables transferred to reverse factoring amounted to PLN 55 million (in the year ended 31 December 2020, liabilities in the amount of PLN 2 495 million were transferred to the factor; the value of trade payables covered by reverse factoring as at 31 December 2020 amounted to PLN 1 264 million); in the current year, there were payments towards the factors in the amount of PLN 2 187 million (in the year ended 31 December 2020 in the amount of PLN 1 842 million). Interest costs accrued and paid towards the factor in 2021 amounted to PLN 9 million (in the year ended 31 December 2020 the interest costs accrued and paid amounted to PLN 12 million).

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

The item trade and similar payables contains payables due to the purchase and construction of fixed and intangible assets which, as at 31 December 2021, amounted to PLN 186 million in the non-current part and PLN 910 million in the current part (as at 31 December 2020, respectively PLN 162 million and PLN 790 million).

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

Note 10.4 Changes in working capital

Accounting policies
Cash flows arising from interest on reverse factoring transactions are presented in cash flows from financing activities. The actually repaid principal amounts of receivables transferred to reverse factoring to a factor are presented in cash flows from operating activities. Moreover, the Company, as regards the changes in working capital in the Statement of cash flows, presented a separate line "Change in trade payables transferred to factoring" for the purposes of clear and transparent presentation.

Important estimates, assumptions and judgments

Since market practice with respect to the presentation of reverse factoring transactions in the Statement of cash flows is not uniform, the Management Board had to apply its own judgment in this regard. In the case of these transactions, the Company had to make an assessment as to whether expenses related to payments towards the factor should be classified to cash flows from operating activities or to cash flows from financing activities in the statement of cash flows. Pursuant to IAS 7.11, an entity should present cash flows from operating, investing and financing activities in a manner which is most appropriate to its business, because it provides information that allows users of financial statements to assess the impact of those activities on the financial position of the entity and the amount of its cash and cash equivalents.

Due to the above, in the Company's view:

- presentation of the repayment of the principal amounts of receivables in the reverse factoring in cash flows from operating activities is compliant with the objective of individual transaction elements and consistent with the presentation of these transactions in the Statement of financial position. When legal subrogation of receivables is made by the factor, from a legal standpoint he assumes the rights and responsibilities characteristic for trade receivables. Only cash flows from the repayment of principal amounts of receivables from liabilities due to the purchase and construction of fixed assets and intangible assets are presented under investing activities (more information may be found in Note 10.3),
- however, the financial aspect related to the factoring transaction is indicated in the presentation of interest in financing activities. This is consistent with recognising this interest in financing costs in the Statement of profit or loss pursuant to the accounting policy adopted by the Company for the presentation of interest cost of reverse factoring in the financial activities.

In December 2020, the International Financial Reporting Interpretations Committee (Committee) published its opinion on the presentation of reverse factoring transactions in the statement of financial position and in the statement of cash flows. In its position, the Committee emphasized that the main problem requiring a decision, in terms of presenting reverse factoring transactions in the statement of cash flow under IAS 7. is to determine whether cash flows should be presented as a part of operating or finance activities. The Committee considers that the decision regarding the classification of cash flows resulting from reverse factoring transactions may result from the previously determined classification of the relevant liabilities in the statement of financial position. If an entity concludes that a liability transfer to reverse factoring is a "Trade and similar payables", and in this way declares it as part of the working capital which is used in the core business of an entity that generates the revenues, the entity shall present the outflow from the payment for those liabilities as arising on operating activities in the Statement of cash flows. Otherwise, these cash flows should be recognised in finance activities.

in PLN millions, unless otherwise stated

Consistently with the Company's assessment of the nature of trade payables transferred to reverse factoring and the method of their presentation in the Statement of financial position as "Trade and similar payables" (information presented in note 10.3), the Company's judgment as to the method of presentation adopted for these transactions in the Statement of cash flows for 2021 remains unchanged and is compliant with the approach described above.

	Inventories	Trade receivables	Trade payables	Similar payables	Working capital
As at 1 January 2021	(3 555)	(351)	2 232	1 264	**(410)**
As at 31 December 2021	(5 436)	(600)	2 745	55	**(3 236)**
Change in the statement of financial position	(1 881)	(249)	513	(1 209)	**(2 826)**
Depreciation/amortisation recognised in inventories	57	-	-		**57**
Liabilities due to purchase of property, plant and equipment and intangible assets	-	-	(116)	54	**(62)**
Liabilities due to interest on reverse factoring	-	-	-	1	**1**
Adjustments	57	-	(116)	55	**(4)**
Change in the statement of cash flows	**(1 824)**	**(249)**	**397**	**(1 154)**	**(2 830)**

	Inventories	Trade receivables	Trade payables	Similar payables	Working capital
As at 1 January 2020	(3 783)	(243)	2 029	596	**(1 401)**
As at 31 December 2020	(3 555)	(351)	2 232	1 264	**(410)**
Change in the statement of financial position	228	(108)	203	668	**991**
Depreciation/amortisation recognised in inventories	44	-	-	-	**44**
Reclassified from property, plant and equipment	-	-	-	-	**-**
Liabilities due to purchase of property, plant and equipment and intangible assets	-	-	51	(16)	**35**
Adjustments	44	-	51	(16)	**79**
Change in the statement of cash flows	**272**	**(108)**	**254**	**652**	**1 070**

in PLN millions, unless otherwise stated

PART 11 – Employee benefits

Accounting policies

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

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

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

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

Important estimates and assumptions

The carrying amount of the liability due to future employee benefits is equal to the present value of the liabilities due to defined benefits. The amount of the liability depends on many factors, which are used as assumptions in the actuarial method. Any changes to the assumptions may impact the carrying amount of the liability. Interest rates are one of the basic parameters for measuring the liability. At the end of the reporting period, based on the opinion of an independent actuary, an appropriate discount rate for the Company is used for setting the present value of estimated future cash outflow due to these benefits. In setting the discount rate for the reporting period, the actuary extrapolates current interest rates of treasury bonds along the profitability curve expressed in the currency of the future benefits payments, to obtain a discount rate enabling the discounting of payments with maturities which are longer than the maturities of the bonds.

Other macroeconomic assumptions used to measure liabilities due to future employee benefits, such as the inflation rate or the minimum salary, are based on current market conditions. The assumptions used to measurement as at 31 December 2021 are presented in Note 11.2.

Impact of changes in the indicators on the balance of liabilities

	As at 31 December 2021	As at 31 December 2020
an increase in the discount rate by 1 percentage point	(242)	(427)
a decrease in the discount rate by 1 percentage point	308	587
an increase in the coal price increase rate and the salary increase rate by 1 percentage point	228	580
a decrease in the coal price increase rate and the salary increase rate by 1 percentage point	(177)	(422)

in PLN millions, unless otherwise stated

Note 11.1 Employee benefits liabilities

	As at 31 December 2021	As at 31 December 2020
Non-current	2 040	2 724
Current	130	124
Liabilities due to future employee benefits programs	**2 170**	**2 848**
Employee remuneration liabilities	422	425
Accruals (unused annual leave, bonuses, other)	578	493
Employee liabilities	**1 000**	**918**
Total employee benefits liabilities	**3 170**	**3 766**

Employee benefits expenses

		from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
	Remuneration	2 992	2 610
	Costs of social security and other benefits	1 142	1 045
	Costs of future benefits	115	180
Note 4.1	**Employee benefits expenses**	**4 249**	**3 835**

Note 11.2 Changes in liabilities related to future employee benefits programs

		Total liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other benefits
	As at 1 January 2020	**2 492**	**410**	**376**	**1 680**	**26**
Note 11.1	Total costs recognised in profit or loss	**180**	82	32	64	2
	Interest costs	**50**	8	8	33	1
	Current service costs	**87**	31	24	31	1
	Actuarial losses recognised in profit or loss	**43**	43	-	-	-
Note 8.2.2	Actuarial losses recognised in other comprehensive income	**308**	-	35	270	3
	Benefits paid	**(132)**	(47)	(35)	(49)	(1)
	As at 31 December 2020	**2 848**	**445**	**408**	**1 965**	**30**
Note 11.1	Total costs recognised in profit or loss	**115**	15	32	66	2
	Interest costs	**37**	6	5	26	0
	Current service costs	**104**	35	27	40	2
	Actuarial gains recognised in profit or loss	**(26)**	(26)	**-**	-	-
Note 8.2.2	Actuarial gains recognised in other comprehensive income	**(670)**	-	(41)	(627)	(2)
	Benefits paid	**(123)**	(42)	(30)	(50)	(1)
	As at 31 December 2021	**2 170**	**418**	**369**	**1 354**	**29**

in PLN millions, unless otherwise stated

As at 31 December	2021	2020	2019	2018	2017
Present value of liabilities due to employee benefits	**2 170**	2 848	2 492	2 376	1 990

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

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

Main actuarial assumptions adopted for measurement as at 31 December 2020:

	2021	2022	2023	2024	2025 and beyond
- discount rate	1.30%	1.30%	1.30%	1.30%	1.30%
- coal price increase rate	1.00%	2.50%	2.50%	2.50%	2.50%
- lowest salary increase rate	7.69%	4.00%	4.00%	4.00%	4.00%
- expected inflation	2.60%	2.70%	2.50%	2.50%	2.50%
- future expected increase in salary	4.00%	3.20%	4.00%	4.00%	4.00%

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

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

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

Actuarial gains/losses as at 31 December 2020 versus assumptions adopted as at 31 December 2019

Change in financial assumptions	296
Change in demographic assumptions	-
Other changes	55
Total actuarial (gains)/losses	**351**

in PLN millions, unless otherwise stated

Maturity profile of future employee benefits liabilities

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

Maturity profile of future employee benefits liabilities

Year of maturity:	Total liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent	Post-mortem benefits
2021	**124**	36	32	55	1
2022	**158**	34	60	63	1
2023	**105**	27	14	62	2
2024	**104**	27	15	61	1
2025	**103**	28	14	60	1
Other years	**2 254**	293	273	1 664	24
Total liabilities in the statement of financial position as at 31 December 2020	**2 848**	**445**	**408**	**1 965**	**30**

in PLN millions, unless otherwise stated

PART 12 – Other notes

Note 12.1 Related party transactions

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

Operating income from related parties	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
From subsidiaries	1 736	724
From other related parties	61	34
Total	**1 797**	**758**

In 2021, dividends from subsidiaries amounted to PLN 37 million (in the comparable period: PLN 20 million).

	As at 31 December 2021	As at 31 December 2020
Trade and other receivables from related parties	**9 150**	**8 189**
From subsidiaries, including:	9 092	8 046
loans granted	8 366	7 650
From other related parties	58	143
Payables towards related parties	**1 571**	**1 262**
Towards subsidiaries	1 513	1 240
Towards other related parties	58	22

	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Purchases from related entities	**7 782**	**5 915**
Purchase of products, merchandise, materials and other purchases from subsidiaries	7 782	5 915

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

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

- due to an agreement on setting mining usufruct for the extraction of mineral resources and for the exploration for and assessment of mineral resources – balance of payables as at 31 December 2021 in the amount of PLN 228 million (as at 31 December 2020: PLN 202 million); including payables due to mining usufruct for the extraction of mineral resources recognised in costs in the amount of PLN 30 million (as at 31 December 2020: PLN 30 million),
- due to a reverse factoring agreement with the company PEKAO FAKTORING SP. Z O.O. – a payable in the amount of PLN 28 million, interest costs in the amount of PLN 6 million (as at 31 December 2020, payables in the amount of PLN 974 million and interest costs for 2020 in the amount of PLN 12 million),
- banks related to the State Treasury executed the following transactions and economic operations on the Company's behalf: spot currency exchange, depositing cash, cash pooling, granting bank loans, guarantees, and letters of credit (including documentary letters of credit), processing of a documentary collection, running bank accounts, servicing of special purpose funds and entering into transactions on the forward currency market.

In 2021, 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 built and equipped hospitals in the amount of PLN 17 million, while in 2020 they involved the sale of personal protective equipment in the amount of PLN 193 million. As at 31 December 2021 there was no balance of receivables due to these transactions (as at 31 December 2020: PLN 2 million).

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

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 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 31 December 2021, the turnover from these transactions amounted to PLN 1 687 million (from 1 January to 31 December 2020: PLN 902 million), and, as at 31 December 2021, the unsettled balance of liabilities from these transactions amounted to PLN 161 million (as at 31 December 2020: PLN 166 million),
- sales to Polish State Treasury Companies. In the period from 1 January to 31 December 2021, the turnover from these sales amounted to PLN 174 million (from 1 January to 31 December 2020: PLN 82 million), and, as at 31 December 2021, the unsettled balance of receivables from these transactions amounted to PLN 9 million (as at 31 December 2020: PLN 8 million).

Note 12.2 Dividends paid

In accordance with Resolution No. 7/2021 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 7 June 2021 regarding the appropriation of profit for the year ended 31 December 2020, the profit in the amount of PLN 1 779 million was appropriated as follows: as a shareholders dividend in the amount of PLN 300 million (PLN 1.50 per share) and transfer of PLN 1 479 million to the Company's reserve capital created in accordance with art. 396 § 1 of the Commercial Partnerships and Companies Code.
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.
All shares of the Parent Entity are ordinary shares.

As at the date of publication, no decision was made on the dividend payout or allocation of profit for 2021.

in PLN millions, unless otherwise stated

Note 12.3 Other assets

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

		As at 31 December 2021	As at 31 December 2020
	Other non-current non-financial assets	**54**	**56**
	Non-financial advances	22	23
	Prepayments	4	5
	Other	28	28
	Other current assets	**366**	**334**
Note 7.1	Other current financial assets	289	268
	Receivables due to guarantees granted	20	112
	Receivables due to payments for letters of credit	1	101
	Loans granted	117	2
	Other	151	53
	Other current non-financial assets	77	66
	Non-financial advances	55	47
	Prepayments	16	19
	Other	6	-

Note 12.4 Other liabilities

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

	As at 31 December 2021	As at 31 December 2020
Trade payables	187	162
Other	66	29
Other liabilities – non-current	**253**	**191**
Special funds	410	384
Accruals, including:	397	202
provision for purchase of property rights related to consumed electricity	98	55
charge for discharging of gases and dusts to the air	260	120
Liabilities due to the settlement of the Tax Group	13	40
Deferred income	29	37
Other liabilities due to settlements under cash pooling contracts	25	52
Other	275	149
Other liabilities – current	**1 149**	**864**

in PLN millions, unless otherwise stated

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

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

		As at 31 December 2021	As at 31 December 2020
	Contingent assets	**485**	**505**
	Guarantees received	250	208
	Promissory note receivables	207	208
	Other	28	89
	Contingent liabilities	**644**	**1 524**
Note 8.6	Guarantees granted	566	1 411
Note 8.6	Promissory note payables	-	16
	Real estate tax on mine tunnels	47	55
	Other	31	42
	Other liabilities not recognised in the statement of financial position	**99**	**100**
	Liabilities towards local government entities due to expansion of the tailings storage facility	99	100

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

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

	As at 31 December 2021	As at 31 December 2020
Capital commitments due to the purchase of:		
property, plant and equipment	2 025	1 673
intangible assets	28	38
Total capital commitments	**2 053**	**1 711**

Note 12.7 Employment structure

	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
White-collar employees	4 838	4 827
Blue-collar employees	13 682	13 613
Total (full-time)	**18 520**	**18 440**

in PLN millions, unless otherwise stated

Note 12.8 Other adjustments in the statement of cash flows

	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Losses on disposal of property, plant and equipment and intangible assets	5	28
(Income tax expense/proceeds from the tax group companies	(9)	47
Other	11	13
Total	**7**	**88**

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

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

Note 12.9. Remuneration of key managers

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

Remuneration of members of the Management Board (in PLN thousands)	from 1 January 2020 to 31 December 2020			
	Period when function served	Remuneration for the period of service as a member of the Management Board	Benefits due to termination of employment	Total earnings
Members of the Management Board serving in the function as at 31 December 2020				
Marcin Chludziński	01.01-31.12	1 807	-	**1 807**
Radosław Stach	01.01-31.12	1 680	-	**1 680**
Katarzyna Kreczmańska-Gigol	01.01-31.12	1 693	-	**1 693**
Adam Bugajczuk	01.01-31.12	1 667	-	**1 667**
Paweł Gruza	01.01-31.12	1 668	-	**1 668**
TOTAL		**8 515**	**-**	**8 515**

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

Remuneration of members of the Supervisory Board (in PLN thousands)	from 1 January 2020 to 31 December 2020			
	Period when function served	Current employee benefits	Current benefits due to serving in the function	Total earnings
Members of the Supervisory Board serving in the function as at 31 December 2020				
Andrzej Kisielewicz	01.01-31.12	-	142	**142**
Katarzyna Lewandowska	19.06-31.12		69	**69**
Bogusław Szarek	01.01-31.12	231	129	**360**
Jarosław Janas	01.01-31.12	-	129	**129**
Marek Pietrzak	01.01-31.12	-	129	**129**
Agnieszka Winnik -Kalemba	01.01-31.12	-	129	**129**
Przemysław Darowski	26.11-31.12		12	**12**
Józef Czyczerski	01.01-31.12	144	129	**273**
Bartosz Piechota	01.01-31.12	-	129	**129**
Members of the Supervisory Board not serving in the function as at 31 December 2020				
Leszek Banaszak	01.01-19.06	-	61	**61**
Ireneusz Pasis	01.01-03.08	-	76	**76**
TOTAL		**375**	**1 134**	**1 509**

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

PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt Sp.k. (PwC) performed audits of financial statements of KGHM Polska Miedź S.A. for 2020 and 2021.

	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
From the contract for the review and audit of financial statements, of which due to:	**1 125**	1 156
audit of annual financial statements	728	791
assurance services, of which:	**397**	**365**
review of financial statements	324	324
other assurance services	73	41
Other companies of the PwC Group – from other contracts	**169**	**183**

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

Note 12.11.1 Introduction

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

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

Note 12.11.2 Description of regulated activities

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

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

Note 12.11.3 Basic principles of regulatory accounting

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

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

Causality principle

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

Objectivity and non-discrimination principle

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

Continuation and comparability principle

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

Transparency and consistency principle

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

Materiality principle (feasibility principle)

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

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

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

- specific (direct) identification method – applied if a direct identification of value is possible, for example the level of revenue from certain activities,

- direct allocation method (e.g. the purchase cost of production fuel) – this method is applied if there is a direct cause-and-effect relationship between the consumed resource and the corresponding cost,

- indirect allocation method on the basis of a predetermined allocation key, this method is used among others, to allocate cost in a situation where no direct cause-and-effect relationship between the utilised resource and the cost item exists and there is a need to use a cost driver (an allocation key) which enables linkage of items with their respective cost. The most commonly used allocation keys are:

- revenue key – value of revenue is the allocation key;
- production key – production units are the allocation key;
- power key – the installed power of machines and equipment is used for the allocation of indirect costs;
- cost key – the value of costs is the allocation key;
- mixed keys, which combine elements of several different keys; and
- other keys appropriate for a specific case.

Assets

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

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

Current assets:
1. Trade receivables.

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

Fixed assets

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

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

Fixed assets under construction

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

Trade receivables

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

Equity and liabilities

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

Equity

Liabilities

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

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

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

Equity

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

Deferred tax liabilities

With respect to regulated activities, deferred tax liabilities were identified arising from taxable temporary differences between the depreciation of property, plant and equipment and intangible assets for tax purposes and their carrying amount.

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

Non-current and current liabilities due to future employee benefits

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

Revenues from sales

Following an analysis of revenues in terms of their allocation to individual types of regulated activities, the Company identified groups of operations which met the following conditions:

- revenues from the sale of electricity – distribution;
- revenues from the sale of nitrogen-enriched natural gas – distribution; and
- revenues from the sale of nitrogen-enriched natural gas – trade.

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

Operating costs

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

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

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

Income tax

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

in PLN millions, unless otherwise stated

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

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

in PLN millions, unless otherwise stated

As at 31 December 2020	Company in total	Principal activities	Energy activities, of which:	Electricity		Gas
				Distribution	Turnover	Distribution
ASSETS						
Property, plant and equipment	19 264	19 141*	123*	121*	-	2
Intangible assets	740	740	-	-	-	-
Other non-current assets	12 363	12 363	-	-	-	-
Non-current assets	**32 367**	**32 244***	**123***	**121***	**-**	**2**
Inventories	3 555	3 555	-	-	-	-
Trade receivables	351	341	10	6	3	1
Other current assets	3 069	3 069	-	-	-	-
Current assets	**6 975**	**6 965**	**10**	**6**	**3**	**1**
TOTAL ASSETS	**39 342**	**39 209***	**133***	**127***	**3**	**3**
EQUITY AND LIABILITIES						
Equity	**20 726**	**20 605***	**121***	**115***	**3**	**3**
Deferred tax liabilities	81	73	8	8	-	-
Employee benefits liabilities	2 724	2 720	4	4	-	-
Provisions for decommissioning costs of mines and other technological facilities	1 185	1 185	-	-	-	-
Other non-current liabilities	7 697	7 697	-	-	-	-
Non-current liabilities	**11 687**	**11 675**	**12**	**12**	**-**	**-**
Employee benefits liabilities	1 042	1 042	-	-	-	-
Other current liabilities	5 887	5 887	-	-	-	-
Current liabilities	**6 929**	**6 929**	**-**	**-**	**-**	**-**
TOTAL LIABILITIES	**18 616**	**18 604**	**12**	**12**	**-**	**-**
TOTAL EQUITY AND LIABILITIES	**39 342**	**39 209**	**133**	**127**	**3**	**3**

*As a result of the revision of the Company's approach to the collection and settlement of fixed and variable costs related to its auxiliary activities, including licensed energy activities related to distribution of electricity, there has been a change in the approach to the classification of the assets used as part of the licensed energy activities related to distribution of electricity. Change in the presented data compared to the data published in the Annual Report of KGHM Polska Miedź S.A. for 2020 - Note 12.11 Disclosure of information on the Company's activities regulated by the Act on Energy.

in PLN millions, unless otherwise stated

As at 31 December 2020 Assets – property, plant and equipment	Company in total	Principal activities	Energy activities, of which:	Electricity		Gas
				Distribution	Trade	Distribution
Before:	19 264	19 119	145	143	-	2
Now:	19 264	19 141	123	121	-	2

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

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

from 1 January 2020 to 31 December 2020	Company in total	Principal activities	Energy activities, of which:	Electricity	Gas	
				Distribution	Trade	Distribution
Revenues from contracts with customers	19 326	19 282	44	28	12	4
Cost of sales	(15 151)	(15 108)	(43)	(33)	(9)	**(1)**
Gross profit	**4 175**	**4 174**	**1**	**(5)**	**3**	**3**
Selling costs and administrative expenses	(1 010)	(1 010)	-	-	-	-
Profit on sales	**3 165**	**3 164**	**1**	**(5)**	**3**	**3**
Other operating income and costs	(398)	(398)	-	-	-	-
Profit before income tax	**2 767**	**2 766**	**1**	**(5)**	**3**	**3**
Income tax expense	(988)	(978)	(10)	(8)	(1)	(1)
Profit for the period	**1 779**	**1 788**	**(9)**	**(13)**	**2**	**2**

Note 12.12 Information on the impact of COVID-19 on the Company's operations

Key risk categories

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

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

Evaluation of the key categories of risk which are impacted by the coronavirus pandemic underwent detailed analysis by the on-going monitoring of selected information in the areas of production, sales, supply chains, personnel management and finance, in order to support the process of reviewing the current financial and operating situation of KGHM Polska Miedź S.A. As a result, neither of them had a significant negative impact on the Company's operations and in the end there were no substantial deviations from the achievement of the budget targets of KGHM Polska Miedź S.A. for 2021, with the exception of the Company's investment (in the KGHM VII FIZAN fund), which portfolio contain companies operating in the spa sector.

Impact on the metals market

From the Company's point of view, an important impact of the coronavirus pandemic was its effect on market risk related to volatility in metals and share prices in 2021. The Company's share price at the end of 2021 was 24% lower compared to the price at the end of 2020 and 26% lower compared to the price at the end of the first half of 2021, and at the close of trading on 30 December 2021 amounted to PLN 139.40. During these same periods the WIG and WIG20 indices rose respectively by 22% and 14% (compared to the end of 2020) and rose by 5% and 2% (compared to the end of the first half of 2021). As a result of these changes in the share price, the Company's capitalisation decreased from PLN 36.60 billion at the end of 2020 to PLN 27.88 billion at the end of 2021, meaning a level 7% higher than the net value of assets.

In 2021, the situation on the metals markets was stable, which was reflected in a price of copper as at 31 December 2021– 9 692 USD/t, which means an increase by 3% compared to 30 June 2021 and an increase by 25% compared to the price at the end of 2020.

Impact on the spa activities of equity investments of the Company

The greatest impact of the COVID-19 pandemic was on the hotel and spa services provided by subsidiary of KGHM Polska Miedź S.A., that is KGHM VII FIZAN, in the portfolio of which are 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. The inability to freely conduct business activity in the first half of 2021 resulted in the achievement of low revenues which also translated into a loss on sales. The spa and hotel companies obtained exemptions from financing institutions from the obligation to calculate the DSCR ratio for the entire year - 2021. Financial liabilities to creditors and lessors are paid on an ongoing basis.

The spa and hotel companies of KGHM Polska Miedź S.A. have received financing from the Polski Fundusz Rozwoju (Polish Development Fund or PDF) under the Anti–Crisis Shield 1.0 for large enterprises and under the Anti–Crisis Shield 2.0 for the SME sector (the sector of small and medium enterprises). The financing received from the aforementioned programs amounted to PLN 13.3 million in the first quarter of 2021 (total: in 2020 and in the first quarter of 2021 – PLN 18.75 million).

In the third quarter of 2021, after meeting the statutory requirements, part of the funds obtained under the financial shield 1.0 for large enterprises were remitted by the PDF decision (total amount remitted was PLN 6.5 million). In the fourth quarter of 2021, the companies which received financing from the shield for the SME sector, submitted applications for the remitting of part of the subsidies received (for a total amount of PLN 9.2 million). At present, the companies are awaiting decisions on the settlement of the subsidies received. In addition, at the end of September 2021, companies that joined the Anti-Crisis Shield 1.0 program for large enterprises submitted applications to join the Financial Shield under the 2.0 program for large enterprises. Currently, a financial and legal analysis is carried out by dedicated teams from the PDF. The total requested amount of liquidity loans amounted to PLN 18.7 million.

In terms of sales, in the first quarter of 2021, the spa companies offered commercial post-covid stays. In April, the National Health Fund (NHF) announced a post-covid treatment program for people struggling with post-covid complications, which is offered in selected resorts of the KGHM Group's spa companies.

In the second quarter of 2021, restrictions were lifted with a gradual return to the conduct of activities, the providing of services and the generation of revenues – all facilities resumed operations. While maintaining the sanitary regime and statutory restrictions on the admissible occupancy rate in hotel facilities, the companies returned to the full realisation of commercial and medical services. The holiday period brought the expected rebound in both hotel and spa activities - the companies took advantage of the holiday season and high internal demand for leisure and treatment services, achieving the best results in history. In the long term, the progressive vaccination campaign will be a significant factor regulating the situation in the hotel and spa industry.

Preventive actions in the Company

In KGHM Polska Miedź S.A., thanks to the implementation of a variety of preventative measures, such as enforcing a sanitary regime and monitoring and testing the health of employees, there were no production stoppages, which would have been directly attributable to the pandemic. As a result, copper production was in line with the target set at the start of 2021.

In terms of sales, the majority of customers continue not to feel any strong negative impact from the pandemic on their activities, thanks to which their trade payables towards the Company are being paid on time, while the execution of deliveries to customers continues without interruption.

KGHM Polska Miedź S.A. is fully capable of meeting its financial obligations. The financial resources held and available borrowings guarantee continued financial liquidity.

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

The Company continues to advance its investment projects in accordance with established schedules and is not aware of any increase in risk related to their continuation as a result of the coronavirus pandemic.

During the reported period there were likewise no interruptions in the continuity of the Company's operations caused by infections of this virus amongst the employees. There continues to be a lack of any substantial heightened level of absenteeism amongst employees of the core business related to the pandemic.

Taking into consideration the risk of a subsequent wave of the COVID-19 pandemic, there still remains uncertainty regarding the directions of development of the economic and social situation in Europe and globally. An important factor for the domestic and global economies will be the percentage of people fully vaccinated against COVID-19, which would enable among others the further easing of restrictions in individual countries and sectors, a reduction in uncertainty as to future periods, or improving the pace of economic recovery from the recession caused by the COVID-19 pandemic. The Company continuously monitors the global economic situation, in order to assess its potential negative impact and to take preventive actions to mitigate this impact.

Note 12.13 Climate change and risks associated with it

The Company continuously assesses risks associated with climate and its impact on activities of KGHM Polska Miedź S.A., including the physical risk of climate change (such as significant weather events and impact of temperature rises), change in the policy and economic consequences of actions undertaken to decarbonise the economy. Detailed disclosure on how the risks associated with climate impact the Company's activities may be found in the Non-financial report of the Company and the KGHM Polska Miedź S.A. Group (Note 6).

Due to the specific nature of operations, KGHM Polska Miedź S.A. is one of the most energy-intensive companies in Poland. Simultaneously, the Company has been for many years successfully striving to reduce its impact on the environment, which is reflected, inter alia, in over 99% reduction of sulfuric compounds and dust emissions. Out of concern for the climate, the Company incurs expenditures on the implementation of the energy transformation program, under which it intensively develops its own renewable energy sources and researches the possibility of using electric vehicles and mining machines in its mines. Through development and implementation of the climate policy of KGHM Polska Miedź S.A. it will further reduce direct and indirect emissions and improve its energy efficiency. This means not only a further reduction of the Company's environmental footprint, but also its better adaptation to changes in the market environment resulting from the increase in energy prices and CO_2 emissions rights.

From year to year, European Union's and national legislation imposes on industrial companies more and more requirements related to minimising the negative impact on the climate and the environment. The growing cost of CO_2 emission rights resulted in higher purchases of these rights in 2021, which was reflected in the increase in assets and provisions associated with them in the Company. The increase of these costs, together with the increase in costs of among others electricity (historically and in forecasts) was one of the factors contributing to the identification of indications to perform impairment testing of the investment and assets of the energy and heat company Energetyka sp. z o.o. Results of the conducted tests may be found in part 3 of these statements. Despite the significant increase in the prices of CO_2 emission rights, there are currently no significant uncertainties related to the impact of this fact on the operations of KGHM Polska Miedź S.A.

Besides the aforementioned ones, no other areas were identified where changes in the climate policy would have an impact on the measurement of assets and liabilities as at 31 December 2021

Note 12.14 Subsequent events

Approval of the Strategy of the KGHM Polska Miedź S.A. Group to 2030 with an outlook to 2040

On 14 January 2022 the Supervisory Board of the Company approved the Strategy of the KGHM Polska Miedź S.A. Group to the year 2030 with an outlook to 2040 („the Strategy") as presented by the Management Board.

The decision to update the Strategy was dictated in particular by:

- macroeconomic changes of strategic importance for the mining sector, in particular those arising from the green transformation,
- the need to clarify the Company's actions as regards the commencement of decarbonisation and commitments to protect the climate,
- a focus on securing access to the raw materials base for future copper production, but also actions aimed at developing mining capacity in terms of other metals and mineral resources,
- the intensification of actions aimed at the implementation of innovation in the production process,
- the identification of opportunities to gain competitive advantages and to develop the Company in new, promising business areas.

The result of the Company's work is the Strategy to the year 2030 with an outlook to 2040. The Company's mission and vision remained unchanged (details are described in Section 5 of the Management Board's Report on the activities of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group in 2021).

The Strategy of the KGHM Group to the year 2030 also includes climate-related goals as respects reducing emissions by KGHM which are consistent with the Climate Policy of KGHM Polska Miedź S.A., being a complementary document to the Strategy.

The updated Strategy does not alter the Company's current approach to its business activities.

Main assumptions of the Budget for 2022

On 14 January 2022, the Supervisory Board of KGHM Polska Miedź S.A. approved the Budget of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group for 2022 (details are described in Section 6 of the Management Board's Report on the activities of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group in 2021).

Wage agreement with trade unions on wages and employee benefits

During wage negotiations with trade unions, which were held from 25 to 27 January 2022, a wage and employee benefits agreement as well an additional protocol to the Collective Labour Agreement were reached and signed. Details were described in section 13.3 of the Management Board's Report on the Activities of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group.

Repayment of loans

In February 2022, there was a repayment of intra-group loans by subsidiaries of FUTURE 1 Sp. z o.o. in the amount of PLN 262 million (USD 66 million) and by the KGHM INTERNATIONAL LTD. Group in the amount of PLN 164 million (USD 42 million).

Entry into force of the Act on amending the Act on a system of compensation for energy-intensive sectors and sub-sectors

On 9 February 2022, the Act on amending the Act on a system of compensation for energy-intensive sectors and sub-sectors came into force, aimed at modifying the system of compensation pursuant to new European Commission guidelines on certain State aid measures in the context of the system for greenhouse gas emission allowance trading post 2021. As a result, currently the Company estimates that it will obtain additional compensation in the amount of approximately PLN 312 million in the years 2021-2030 due to the aforementioned regulations.

Conclusion of an agreement with the company NuScale on the commencement of work on implementation of advanced, small modular reactors (SMR) in Poland

On 14 February 2022 the Company signed an agreement with the American company NuScale Power on the commencement of work on implementation of advanced, small modular reactors (SMR) in Poland. Under the concluded agreement, KGHM Polska Miedź S.A. in cooperation with NuScale will implement the SMR technology in Poland. The first power plant will commence operations up to 2029. The construction of small nuclear reactors up to 2029 is directly linked with the Climate Policy of KGHM Polska Miedź S.A. and the new strategic direction of the Company – energy.

Dismissal of a Member of the 11th term Management Board of KGHM Polska Miedź S.A.
On 21 February 2022 the Supervisory Board of the Company adopted a resolution on dismissal as of 21 February 2022 of Dariusz Świderski, the Vice President (Production) of the 11th term Management Board of KGHM Polska Miedź S.A.

New partner of the KGHM Polska Miedź S.A. Group in the joint venture Sierra Gorda S.C.M.
On 22 February 2022 the transaction was concluded for sale of the 45% share in the company Sierra Gorda S.C.M. by Sumitomo Metal Mining Co., Ltd. and Sumitomo Corporation to South32, the Australian mining group with its registered head office in Perth. The acquisition price includes the amount of USD 1 400 million, payable on the day the transaction is concluded and USD 500 million, contingent on the fluctuation of copper prices in the years 2022 – 2025. The Group's new partner is a globally diversified mining and metallurgical company, with its production facilities in Australia, South Africa and South America. The company produces, among others, aluminium, metallurgical coal, manganese, nickel, silver, lead and zinc.

Sale of the subsidiaries of the KGHM Polska Miedź S.A. Group
On 21 February 2022, KGHM Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (hereafter: "the Fund"), with 100% of its Investment Certificates held by KGHM Polska Miedź S.A., sold all of its directly held shares in the company Interferie Medical SPA sp. z o.o. with its head office in Legnica, that is 41 309 shares representing 67.37% of the share capital and the same percent of votes at the shareholders' meeting, to Polski Holding Hotelowy sp. z o.o. The Fund's indirect subsidiary – INTERFERIE S.A. – held the remaining 32.63% of the share capital of the company Interferie Medical SPA sp. z o.o.
On 28 February 2022, as a result of the settlement of the call for the sale of shares of INTERFERIE S.A. (hereafter "the company"), announced by Polski Holding Hotelowy sp. z o.o., the portfolio companies of the Fund: Fundusz Hotele 01 Sp. z o.o. S.K.A. and Fundusz Hotele 01 Sp. z o.o sold all of their shares in the company, that is in total 10 152 625 shares, representing 69.71% of the share capital and the same percent of votes at the general meeting.
Due to the above, neither KGHM Polska Miedź S.A. nor any entities of the Group has any shares in the companies: INTERFERIE S.A. and Interferie Medical SPA sp. z o.o. For both companies the sale price was higher than the value of net assets.

Impact of the war in Ukraine on the Company's operations
As at the date of approval for publication of these separate financial statements, the geopolitical situation associated with the direct aggression of Russia in Ukraine and the implemented system of sanctions does not have a substantial impact on the operations of KGHM Polska Miedź S.A., while the risk of interruptions to the Company's operational continuity in this regard continues to be considered as low.
KGHM Polska Miedź S.A. does not engage in direct transactions with entities from Russia, Belarus or Ukraine; such contracts are held by certain intermediaries, mainly traders of wire rod, which could indirectly impact the level of purchases made by such clients.

The possible increase in the near-term prices of fuels and energy carriers could be a primary factor generating higher costs of sales, selling costs and administrative expenses. The availability of resources and materials is currently at a stable level. It cannot however be ruled out that a continuation of this armed conflict over an extended period of time as well as the system of economic sanctions could have a negative impact on suppliers and lead to interruptions in the continuity of materials and services supply chains in the Company KGHM Polska Miedź S.A., caused among others by logistical restrictions and availability of materials on international markets, e.g. of steel, fuels and energy.
The level of cathode inventories in exchange warehouses is currently very low, while the sanctions imposed on Russia and on Russian entities may limit the availability of Russian cathodes (produced among others by Norilsk Nickel) on European markets. The potential for changes in supply and high copper prices on metals markets resulting from the aforementioned situation may lead to higher revenues of KGHM Polska Miedź S.A., but at the same time to higher prices for purchased metal-bearing materials used in production. A similar dependency may occur in the case of a weakening of the PLN versus other currencies (USD and EUR), where the possibility exists for higher revenues, and simultaneously for higher prices for imported materials and resources, for a higher copper tax, or the aforementioned costs of purchased metal-bearing materials. It is impossible to estimate the impact of the aforementioned, potential events on potential profit or loss; the situation is currently continuously monitored, with the simultaneous use of possible mitigating actions.
In terms of the availability of capital and the level of debt, KGHM holds no bank loans drawn from institutions threatened with sanctions.

Financial markets rapidly responded to the outbreak of the conflict in Ukraine. In the first phase, the copper price on the London market and currencies rose in response to the crisis. Within a month, the price of copper achieved the maximum level of 10 730 USD/t (7th March 2022). Currently, the market is visibly calming down and as at 18 March 2022 the copper price was at the level of 10 249 USD/t.
A similar relation occurred in the case of the weakening of the PLN as compared to the other currencies (USD and EUR). The initial appreciation of the USD reached its maximum on 7 March 2022 and amounted to PLN 4.5722, followed by easing to PLN 4.2707 as at 18 March 2022. The euro behaved correspondingly and on 7 March 2022 it reached its maximum of PLN 4.9647, then decreased to PLN 4.7221 as at 18 March 2022.

At the same time, the Monetary Policy Council raised interest rates, with the last increase taking place on 8 March 2022, resulting in the interest rates becoming the highest ones since 2014.

In 2021 the process of implementing a comprehensive Business Continuity Management System commenced in the Company, which also enables a more detailed scope of actions to be taken in terms of corporate risk management as regards risks having a catastrophic impact and a small likelihood of occurrence.

Change in the Act on minerals extraction tax

On 10 March 2022 an act dated 24 February 2022 came into force, amending the Act on minerals extraction tax which is paid by the Company. As a result of a change in art. 3 of the Act (Act on amending the Act on personal income tax, Act on Vocational and Social Rehabilitation and Employment of Persons with Disabilities and the Act on the minerals extraction tax (Journal of Laws of 2022, item 558), the Legislator introduced an amendment to the formula for calculating the tax rates for copper and silver. The new formula, during a transitional period from 1 January to 30 November 2022, sets the tax rate based on a decrease in the coefficient by 0.25 (this coefficient amounted to 0.85, and after the change amounts to 0.6), which in consequence reduces the monthly tax charge by approx. 30%.

Appointment of a Member of the 11th term Management Board of KGHM Polska Miedź S.A.

On 14 March 2022, the Supervisory Board of KGHM Polska Miedź S.A. appointed Marek Świder as of 15 March 2022 to the Management Board of KGHM Polska Miedź S.A. as a Member of the Management Board of KGHM Polska Miedź S.A., granting him the function of Vice President of the 11th term Management Board (Production) of KGHM Polska Miedź S.A.

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

STATEMENT OF PROFIT OR LOSS

	from 1 October 2021 to 31 December 2021	from 1 October 2020 to 31 December 2020	from 1 January 2021 to 31 December 2021	From 1 January 2020 to 31 December 2020
Revenues from contracts with customers	6 648	5 966	24 618	19 326
Cost of sales	(5 448)	(4 634)	(19 441)	(15 151)
Gross profit	**1 200**	**1 332**	**5 177**	**4 175**
Selling costs and administrative expenses	(346)	(323)	(1 073)	(1 010)
Profit on sales	**854**	**1 009**	**4 104**	**3 165**
Other operating income	301	243	4 273	1 008
fair value gains on financial assets measured at fair value through profit or loss	(243)	(8)	1 070	149
reversal of impairment losses on shares in subsidiaries	-	-	1 010	-
Other operating costs, including:	(410)	(374)	(1 185)	(1 406)
impairment losses on financial instruments	7	(19)	(4)	(82)
Finance income	35	143	70	260
Finance costs	(134)	(81)	(546)	(260)
Profit/(Loss) before income tax	**646**	**940**	**6 716**	**2 767**
Income tax expense	(329)	(317)	(1 547)	(988)
PROFIT/(LOSS) FOR THE PERIOD	**317**	**623**	**5 169**	**1 779**
Weighted average number of ordinary shares (million)	**200**	**200**	**200**	**200**
Basic/diluted earnings per share (in PLN)	**1.59**	**3.12**	**25.85**	**8.90**

in PLN millions, unless otherwise stated

Explanatory notes to the statement of profit or loss

Note 13.1 Expenses by nature

	from 1 October 2021 to 31 December 2021	from 1 October 2020 to 31 December 2020	from 1 January 2021 to 31 December 2021	from 1 January 2020 To 31 December 2020
Depreciation of property, plant and equipment and amortisation of intangible assets	356	408	1 435	1 364
Employee benefits expenses	1 097	1 061	4 249	3 835
Materials and energy, including:	2 681	1 706	10 242	6 326
Purchased metal-bearing materials	1 769	1 100	7 132	3 974
Electrical and other energy	284	260	1 230	988
External services, including:	545	457	1 884	1 716
Transport	72	59	278	227
Repairs, maintenance and servicing	181	143	569	530
Mine preparatory work	128	126	510	487
Minerals extraction tax	1 009	505	3 548	1 625
Other taxes and charges	(74)	108	398	397
Advertising costs and representation expenses	23	20	63	53
Property and personal insurance	9	8	35	31
Reversal of write down of inventories	(1)	(6)	(20)	(25)
Write-down of inventories	13	20	41	48
Other costs	10	9	26	16
Total expenses by nature	**5 668**	**4 296**	**21 901**	**15 386**
Cost of merchandise and materials sold (+)	127	93	339	359
Change in inventories of products and work in progress (+/-)	44	606	(1 562)	576
Cost of products for internal use (-)	(45)	(38)	(164)	(160)
Total cost of sales, selling costs and administrative expenses, including:	**5 794**	**4 957**	**20 514**	**16 161**
Cost of sales	5 448	4 634	19 441	15 151
Selling costs	41	36	156	132
Administrative expenses	305	287	917	878

in PLN millions, unless otherwise stated

Note 13.2 Other operating income/(costs)

	from 1 October 2021 to 31 December 2021	from 1 October 2020 to 31 December 2020	from 1 January 2021 to 31 December 2021	from 1 January 2020 to 31 December 2020
Gains on derivatives, of which:	9	91	323	352
measurement	(21)	16	209	182
realisation	30	75	114	170
Exchange differences on assets and liabilities other than borrowings	135	-	511	-
Interest on loans granted and other financial receivables	79	64	304	269
Fees and charges on re-invoicing of costs of bank guarantees securing payments of liabilities	1	3	68	53
Reversal of impairment losses on financial instruments measured at amortised cost, including:	273	18	807	21
loans	270	18	752	18
Fair value gains on financial assets measured at fair value through profit or loss, including:	(243)	(8)	1 070	149
loans	(256)	(33)	1 056	118
Reversal of impairment losses on shares in subsidiaries	-	-	1 010	-
Dividends income	-	5	37	20
Profit on the disposal of shares in subsidiaries	13	-	25	-
Release of provisions	7	21	22	21
Refund of excise tax for previous years	-	5	5	53
Other	27	44	91	70
Total other operating income	**301**	**243**	**4 273**	**1 008**
Losses on derivatives, of which:	(176)	(123)	(768)	(592)
measurement	3	47	(141)	(118)
realisation	(179)	(170)	(627)	(474)
Impairment losses on financial instruments measured at amortised cost	7	(19)	(4)	(82)
Exchange differences on assets and liabilities other than borrowings	-	(150)	-	(269)
Fair value losses on financial assets measured at fair value through profit or loss, including:	21	(25)	(63)	(169)
loans	-	(19)	(9)	(128)
Impairment losses on shares and investment certificates in subsidiaries	(182)	(10)	(182)	(141)
Provisions recognised	(28)	(1)	(58)	(7)
Donations granted	(13)	(2)	(29)	(40)
Impairment losses on fixed assets under construction and intangible assets not yet available for use	(6)	(32)	(13)	(33)
Other	(33)	(12)	(68)	(73)
Total other operating costs	**(410)**	**(374)**	**(1 185)**	**(1 406)**
Other operating income and (costs)	**(109)**	**(131)**	**3 088**	**(398)**

in PLN millions, unless otherwise stated

Note 13.3 Finance income/(costs)

	from 1 October 2021 to 31 December 2021	from 1 October 2020 to 31 December 2020	from 1 January 2021 to 31 December 2021	From 1 January 2020 to 31 December 2020
Exchange differences on borrowings	-	109	-	190
Gains on derivatives - realisation	35	34	70	70
Total income	**35**	**143**	**70**	**260**
Interest on borrowings	(30)	(37)	(92)	(148)
leases	(2)	(1)	(8)	(8)
Bank fees and charges on borrowings	(7)	(6)	(28)	(27)
Exchange differences on borrowings	(54)	-	(338)	-
Losses on derivatives, of which:	(41)	(36)	(80)	(77)
measurement	-	-	(1)	-
realisation	(41)	(36)	(79)	(77)
Unwinding of the discount effect	(2)	(2)	(8)	(8)
Total costs	**(134)**	**(81)**	**(546)**	**(260)**
Finance income/(costs)	**(99)**	**62**	**(476)**	**-**

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

These financial statements were authorised for issue on 22 March 2022.

President
of the Management Board

Marcin Chludziński

Vice President
of the Management Board

Adam Bugajczuk

Vice President
of the Management Board

Paweł Gruza

Vice President
of the Management Board

Andrzej Kensbok

Vice President
of the Management Board

Marek Pietrzak

Vice President
of the Management Board

Marek Świder

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING

Executive Director
of Accounting Services Centre
Chief Accountant

Agnieszka Sinior