



**THE MANAGEMENT BOARD'S REPORT
ON THE ACTIVITIES OF THE GROUP IN
THE FIRST HALF OF 2020**

Lubin, August 2020

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Useful terms and abbreviations

Adjusted EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)	Profit on sales plus depreciation/amortisation recognised in profit or loss and impairment losses on non-current assets.
Barren rock	Rock which accompanies the extraction of mineral ore and is not considered as useful.
BAT (Best Available Technique)	Best Available Technique, as defined in Directive 96/61/EC, means the most effective and advanced stage in the development of activities and their methods of operation which indicate the practical suitability of particular techniques for providing in principle the basis for emission limit values designed to prevent and, where that is not practicable, generally to reduce emissions and the impact on the environment as a whole.
BREF (BAT REference document)	The reference document of best available techniques (BAT).
Cash cost of producing copper in concentrate (C1)	Unit cash cost of producing payable copper in concentrate, reflecting ore mining and processing costs, transport costs, the minerals extraction tax, administrative expenses during the mining phase and smelter treatment and refining charges (TC/RC) less by-product value
Copper cathodes	The basic form of electrolytically-refined copper; the product of electrolytic copper refining.
Copper concentrate	The product of enriching low-grade copper ore.
Copper equivalent	Total volume of production of all metals calculated to copper based on market prices.
Copper wire rod	Drawn copper rod, usually with a diameter of 6-12 mm, universally used as a starting material in the cable industry.
CuOFE rod	Oxygen-free copper wire rod produced at the Cedyňa wire rod plant using UPCAST technology.
Deposit/Orebody	Natural collection of minerals in the earth, arising as a result of various geological processes.
Electrolytic copper	The product of electrolytic copper refining.
Electrolytic copper refining technology	A process involving the electrolytic refining of metal, in this case copper. The periodic removal of portions of the electrolyte is required to maintain the level of contaminants at an acceptable level, which is the one of decisive factors determining the quality of electrolytically-refined copper. The contaminated electrolyte and slimes are used as the raw material in the recovery of some of the metals accompanying the copper, such as silver, gold, selenium and nickel.
Electrorefining	The process of electrolysing dissolvable anodes which are produced from refineable alloys. During this process refined metal is collected on starter sheets under controlled conditions, while contaminants remain in the electrolyte as solids or liquid.
Flotation (ore enrichment)	A stage in the process of breaking down ore into fragments of varying composition of useful elements which exploits differences in the degree of wettability of individual mineral grains. Well-wetted minerals fall to the bottom of the flotation tank, while the poorly-wetted grains (those whose wettability decreases due to the action of so-called collecting agents, e.g. xanthates) collect at the surface of the froth created from froth-inducing agents.
Flotation tailings	Waste remaining after the ore enrichment process; can be utilised or stored.
ISO	International Organization for Standardization.
LTIFR_{KGHM} (Lost Time Injury Frequency Rate)	Number of accidents at work (as defined in Poland) in the Company KGHM Polska Miedź S.A., standardised to 1 million worked hours.
Mine excavation	Open area left after the mining work.
Muck	Rock removed from a mine face. Contains both ore and barren rock.
NBP	National Bank of Poland.
Net debt	Borrowings and debt securities less free cash and cash equivalents. This category includes lease liabilities and excludes reverse factoring liabilities.
Ore	Rock which contains one or more useful elements. Ore can be monometallic (containing a single metal) or polymetallic (containing more than one metal).
Payable copper	Volume of copper produced less the amount corresponding to the loss incurred in further processing to pure metal.
Payable metal	Volume of metal produced less the amount corresponding to the loss incurred in further processing to pure metal.
Pillar (mining)	An unremoved mass of rock in an underground mine used to support the ceiling against collapse.
Pre-precious metals credit unit cost of electrolytic copper production from own concentrate	The sum of costs of mining, flotation, smelter processing per cathode and support functions (the Data Center Division, the Mine-Smelter Emergency Rescue Division and the Head Office), together with cathode selling costs, adjusted by the value of inventories of half-finished products and work in progress divided by the volume of electrolytic copper production from own concentrate. Used solely in the Parent Entity.

RCR furnace	Revolving Casting-Refining furnace
REACH	Registration, Evaluation, Authorisation and Restriction of Chemicals - decree issued by the European Parliament and the European Council on the safe use of chemicals through their registration and evaluation, and in certain cases through the issuance of permits and restrictions in the sale and use of certain chemicals.
Silver smelting and electrolytic refining technology	Comprised of: batch preparation (the mixture of batch elements followed by drying); the smelting of Doré metal and the casting of anodes (melting of the batch in a Kaldor furnace to remove slag or gasify impurities followed by casting of the product [99% silver] into anodes); silver electrorefining (forming into cathodes containing a min. 99.99% silver); melting in an electric induction furnace and the casting of refined silver into commercial form (billets or granules).
SX-EW <i>(solvent extraction and electrowinning)</i>	Copper cathode production technology applied in plants of KGHM INTERNATIONAL LTD. based on solvent extraction (the process of leaching useful minerals using a solvent) of the copper ore heap, with the aid of diluted sulphuric acid, under the atmospheric conditions.
Total unit cost of producing copper from own concentrate	The sum of costs of mining, flotation, smelter processing per cathode and support functions (the Data Center Division, the Mine-Smelter Emergency Rescue Division and the Head Office), together with cathode selling costs, adjusted by the value of inventories of half-finished products and work in progress and less the value of anode slimes, divided by the volume of electrolytic copper production from own concentrate. This ratio is used only in the Parent Entity.
TPM <i>(Total Precious Metals)</i>	Precious metals (gold, platinum, palladium).
TRIR <i>(Total Recordable Incident Rate)</i>	Number of accidents at work meeting the conditions of registration as defined in the ICMM (International Council on Mining & Metals) standard, standardised to 200000 worked hours
Troy ounce (oz t)	A unit of measure mainly used in English-speaking countries. The troy ounce (abbreviated as oz t) is universally used in jewellery and precious metals commerce. 1 troy ounce equals 31.1035 grams.
YoY	year on year, i.e. comparison between one year and the next year.

Significant events in the first half of 2020 and to the date of signing of this report

Date	Event
Change in macroeconomic conditions	
1st half of 2020	A decrease, compared to the first half of 2019, in average annual copper prices by 11% and molybdenum by 23%, alongside higher silver and gold prices respectively by 9% and 26%
1st half of 2020	A change, compared to first half of 2019, in average annual exchange rates: USD/PLN by +6%, USD/CAD by +2% and USD/CLP by +20%
KGHM Polska Miedź S.A. on the Warsaw Stock Exchange	
1st half of 2020	A decrease in the share price of KGHM Polska Miedź S.A. by 5% from PLN 95.58 to PLN 90.90 (as at 17 August 2020 the share price amounted to PLN 135.95, or an increase of 42%)
Impairment of assets	
15 January 2020	Information on the identification of indications to verify the recoverable amount of international mining assets
27 February 2020	Information on the completion of the major work related to impairment testing of international mining assets of the KGHM Polska Miedź S.A. Group and assets of the company "Energetyka" sp. z o.o. (a subsidiary of KGHM Polska Miedź S.A. – 100% share) and its subsidiary – WPEC S.A. (100% share)
Appropriation of profit for 2019	
20 May 2020	Recommendation of the Management Board regarding the appropriation of profit for financial year 2019 by transferring the entirety of profit to the Company's reserve capital
19 June 2020	Resolution of the Ordinary General Meeting of KGHM Polska Miedź S.A. to appropriate profit in accordance with the recommendation of the Management Board
Other	
16 January 2020	Approval by the Supervisory Board of the Budget of KGHM Polska Miedź S.A. and the Budget of the KGHM Group for 2020
15 May 2020	Approval by the Company's Supervisory Board to grant financing to Sierra Gorda S.C.M. in the amount of USD 95 million
29 May 2020	Signing of a loan agreement by Sierra Gorda S.C.M. guaranteed by the owners in the amount of USD 200 million
19 June 2020	Change in the composition of the Company's Supervisory Board – the dismissal of Leszek Banaszak and the appointment of Katarzyna Lewandowska
3 August 2020	Information on information received regarding the death of a member of the Supervisory Board – Ireneusz Pasis

1. Strategy of KGHM Polska Miedź S.A.

1.1. BASIC ELEMENTS OF THE STRATEGY OF KGHM POLSKA MIEDŹ S.A.

The Company advanced the „Strategy of KGHM Polska Miedź S.A. for the years 2019-2023” which was approved on 19 December 2018. The Strategy is based on four development directions (elasticity/flexibility, efficiency, ecology and e-industry) arising from global market trends. The aforementioned directions are reflected in six identified strategic areas, with individualised and measurable main goals:

Strategic area	Main goal
PRODUCTION	Maintain cost-effective Polish and international production
DEVELOPMENT	Increase the KGHM Group's efficiency and flexibility in terms of its Polish and international assets
INNOVATION	Increase the KGHM Group's efficiency through innovation
FINANCIAL STABILITY	Ensure long-term financial stability and the development of mechanisms supporting further development
EFFICIENT ORGANISATION	Implement systemic solutions aimed at increasing the KGHM Group's value
PEOPLE AND THE ENVIRONMENT	Growth based on the idea of sustainable development and safety as well as enhancing the KGHM Group's image of social responsibility

1.2. POLICY REGARDING THE DEVELOPMENT DIRECTIONS OF THE KGHM GROUP

During the reporting period, policy regarding the development directions of the KGHM Group was continued. Further actions were also taken aimed at adapting the Group's organisational functioning model to the business model of KGHM Polska Miedź S.A. and the market environment. In terms of the domestic companies, development policy was also aimed at cooperation between the Group's entities and at eliminating overlapping areas of competence in terms of individual entities. With respect to implementation of the Strategy of KGHM for the years 2019-2023, in the case of the international assets of the Group, KGHM is in the process of developing unified reporting principles, coherent internal regulations and standardised solutions with respect to individual functional areas of the international entities. Pursuant to the assumptions of the Strategy, the activities of KGHM INTERNATIONAL LTD. are being integrated with the functioning of the Company in Poland. The decision was made to transfer some of the business functions from Canada, where the head office of KGHM INTERNATIONAL LTD. is located, to Poland. Reorganisation actions related to this transfer have already been initiated, with their completion planned for December 2020.

1.3. DIRECTIONS REGARDING EQUITY INVESTMENTS

In the case of the domestic companies, the main investment goals are aimed at ensuring continuity and safe working conditions in the Core Business of KGHM Polska Miedź S.A. and at integrating the KGHM Group around the idea of sustainable development, including the implementation of development initiatives under the Circular Economy program aimed at limiting the environmental footprint. In the case of the international part of the Group, the Company is concentrating on maximising the value of its assets portfolio.

1.4. Intentions regarding capital expenditures

In terms of the development directions adopted in the Company's Strategy, investments will be focused on projects leading to improved efficiency in the core business. The investment policy of KGHM Polska Miedź S.A. is based on advancing the Company's five-year investment plan, enabling advancement of the long-term production plan.

In 2020, the Company will continue to advance key investments in the areas of mining and metallurgy, such as:

- The Deposit Access Program (Deep Głogów along with access and development tunnels);
- Development of the Żelazny Most Tailings Storage Facility;
- Investment projects aiding in de-watering in the Polkowice-Sieroszowice mine;
- Investment projects to adapt the metallurgical installations to BAT conclusions for the non-ferrous metals industry and to restrict emissions of arsenic (BATAs);
- Optimal utilisation of the production capacity of the Legnica Copper Smelter and Refinery by the processing of scrap;
- Investment projects related to replacement and optimisation at the Głogów I Copper Smelter/Refinery.

In addition, with respect to development of the resource base in Poland, the Company will conduct further exploration work under the existing concessions to explore for and evaluate deposits.

The directions adopted also include the advancement of actions under the circular economy concept (CEC). Additionally the Company will engage in unceasing work on new, intelligent technologies and production management systems, based

on online communication between elements of the production process and advanced data analysis, in accordance with the KGHM 4.0 Program's assumptions.

The Company is also intensifying actions aimed at improving energy efficiency through investments in its own generating capacity, in particular those which have little to no emissions. Investment projects involving photovoltaics have commenced. Pursuant to the current Strategy of the KGHM Group for the years 2019-2023, it is expected that by the year 2030, 50% of KGHM Polska Miedź S.A.'s demand for electricity will be met by its own sources of energy generation and renewable energy sources.

1.5. ADVANCEMENT OF THE STRATEGY IN THE FIRST HALF OF 2020

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

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

Strategic area/ Programs and projects	Degree of advancement
PRODUCTION	
Selected actions aimed at improving the efficiency of the core production line in Poland	<p>The advancement of projects aimed at automatization of production in the Mining Divisions of KGHM, under the KGHM 4.0 program in the area INDUSTRY, was continued:</p> <ul style="list-style-type: none"> - „The placement and identification of machinery and persons in underground mines” – the system’s pilot version was installed and brought on-line in a section of the Polkowice-Sieroszowice mine. On 1 April 2020 this installation, as an element of the dispatcher systems, received a positive opinion from the Specialised Mining Office. - „Broad-band data transmission in underground mines”. This project, which is being advanced in three mining divisions, involves the construction of Wi-Fi access points (AP). A total of 71 Wi-Fi access points have been constructed in the Rudna, Polkowice-Sieroszowice and Lubin mines. 7 points remain to be built in the Lubin mine, to be completed by the end of 2020. - „Monitoring of utilities – power, ventilation, water”. In the first half of 2020, work began on the procurement of equipment for the monitoring of the ventilation system in a section of the Polkowice-Sieroszowice mine. - „Robotisation of production and auxiliary processes” - construction of a CuXRF robot for scanning for copper content at the working faces. In the first half of 2020, work was completed on the robot’s technical requirements (the head, robotic arm and the battery-powered mobile platform). At the start of the second half of the year, tender procedures commenced related to modernisation of the x-ray head and construction of the electrical platform (electric vehicle) for the robot. - „Center of Advanced Data Analysis (Centrum Zaawansowanych Danych Analitycznych - CZAD)”. The algorithms developed by KGHM, involving analysis of the loads borne by the conveyor belts in the mines, were positively verified and are currently undergoing technical implementation by the Data Center. <p>To achieve savings through energy efficiency, the base of planned actions aimed at achieving savings was updated. 10 ventures were identified which indicate substantial potential to be granted energy efficiency certificates. Consequently, actions were advanced to successively carry out energy efficiency audits.</p> <p>In accordance with the implemented, PN-EN ISO50001:2012-compliant Energy Management System (EMS), in the first half of 2020 energy reviews were conducted in all of the Divisions and in the Head Office of the Company. Divisional reports were prepared containing detailed energy data along with summations which show energy savings of 72 GWh in 2019. Improvements to EMS procedures are planned in the second half of the year, including their integration into the OHS management system under the Integrated Management System.</p>
<p>Sierra Gorda mine in Chile – Phase 1 (KGHM INTERNATIONAL LTD. Group 55%, Sumitomo Metal Mining and Sumitomo Corporation 45%)</p>	<p>In the first half of 2020, production of payable copper amounted to 39.2 thousand tonnes, and production of molybdenum 5.0 million pounds (based on the 55% interest held by KGHM Polska Miedź S.A. in the Sierra Gorda mine).</p> <p>The Sierra Gorda mine, in cooperation with representatives of KGHM Polska Miedź S.A., Sumitomo Metal Mining and Sumitomo Corporation, is focused on preparing an Integrated Plan, which will comprise a new scope of work, schedule and costs involving optimisation of the production process and increasing sulphide ore throughput. Work is underway on finalising design-concept documentation, representing an element of the Integrated Plan – the results of this work are expected at the end of the third quarter of 2020.</p>
Metallurgy Development Program	The Program is currently in the process of being concluded.
Increasing cathode production at the Legnica Copper Smelter and Refinery to 160 kt /year	<p>Revolving-Casting-Refining (RCR) Furnace</p> <p>In the first half of 2020, additional work resulting from the expertise of fire-fighting specialists was implemented at the Legnica Copper Smelter and Refinery. Activities were carried out related to the formal handover of the construction of the scrap storage facility as well as with the receipt of an operating permit for the RCR furnace. Following more than a year of starting-up and technological optimising of the furnace’s operations, on 29 May 2020 the heat start-up stage was completed. On 6 July 2020 the RCR furnace was formally handed over for use.</p>

Permanent starter sheet technology

The decision to advance this part of the project has been deferred until January 2021. Work is underway on preparing a recommendation by the Division as respects further actions in this regard.

DEVELOPMENT

Deposit Access Program

Construction of the GG-1 shaft

Shaft sinking reached a depth of 1 154.4 m; The following was completed: sinking within the main dolomite layer (Stage IV); sinking within the final lining built from reinforced concrete (stage V). The following is underway: advancement of stage VI, including sinking within the rock salt interval.

Construction of the GG-2 „Odra” shaft

Procedures are underway related to the amendment of planning documentation with a planned publication date of 15 February 2021. A contract was signed for „Execution of the geological project for construction of the GG-2 shaft”. Negotiations are underway with property owners.

Construction of the Gaworzyce shaft

Stage I of the Spatial Plan for the Gaworzyce shaft (KPP – Koncepcja Programowo - Przestrzenna) was completed. Work is underway on selecting a site for the Shaft. Work commenced on expanding the scope of Stage I of the Spatial Plan on additional sites and on a preliminary financial comparability analysis.

Access and development tunnels

In the first half of 2020, 20.4 km of tunneling were excavated (plan – 18.1 km) along with infrastructure in the Rudna and Polkowice-Sieroszowice mines. Progress on the excavation of tunnels in the main direction towards the GG-1 shaft (T,W-469) amounts to 28% as compared to the yearly plan.

Surface-based Central Air Conditioning System (SCA)

Construction continued on the SCA at the GG-1 shaft. Assembly of the cooling towers was completed. Construction of the casing of the cooling building is underway (95%).

Ice Water Transportation System (IWTS)

Drilling of technical drillholes TK-5 and TK-6 was completed. Construction-mining work in feeding chamber no. 1 was completed. Work continues on the laying of surface-based piping and on the assembly of the tri-unit feeder.

Development of the Żelazny Most Tailings Storage Facility

Construction of the Southern Quarter

- Based on the current building permits, work continued on construction of the Southern Quarter. Commencement of the consecutive storage of tailings is planned for March 2021, and completion of construction by June 2022.
- Hydrotechnical construction work is underway – Stage 1, Phase I.
- Work is underway on water management and electrical power infrastructure.
- Work is underway on tailings management infrastructure for the Southern Quarter.

Construction of the Tailings Segregation and Thickening Station (TSTS)

- The TSTS project was advanced in that part related to hydrocyclone technology, with 85% of the part related to thickening technology being completed.
- Work is underway involving architecture and internal water-sewage installations as well as ventilation for the hall and the power building.
- Work commenced on the assembly of the technological part of the TSTS.
- Work commenced on internal power installations.
- Work is underway on the construction of infrastructure in the vicinity of the station.

Exploration projects in Poland

(concessions to explore for and evaluate copper ore deposits)

Retków-Ścinawa and Głogów

Work was completed on the sinking of a drillhole under stage II of exploration and evaluation work within the Retków-Ścinawa concession.

In the Głogów concession, work commenced on the sinking of a drillhole.

Synklina Grodziecka and Konrad

Geological work continued, an application was made to alter the Konrad concession.

Bytom-Odrzański, Kulów-Luboszyce

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

(Other concessions)

Puck region

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

Nowe Miasteczko

Preparatory work was carried out to commence the advancement of the planned work as well as geological work.

Projects involving development of the international assets

Victoria project

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

Ajax project

As a result of the decision to not grant an Environmental Assessment Certificate for the Ajax project in 2019, work carried out was restricted solely to monitoring and securing the project's terrain, in accordance with law in force.

Sierra Gorda Oxide

Further supplementary work continued aimed at preparing the project for realisation.

INNOVATION**CuBR Program**

Under the CuBR venture, co-financed by the National Centre for Research and Development (NCRD), R&D projects having a total value of over PLN 180 million which were selected in the four editions of the competition are being advanced. Altogether, 25 projects have been implemented under the entire project.

- Currently, 15 Projects are being advanced;
- 8 projects have been completed, while realisation of a further two was suspended due to the inability to implement the results of the research.
- 4 new projects were commenced under the 4th competition of the CuBR Venture, which involve subjects related to the Circular Economy Concept (CEC).

Selected R&D initiatives

In 2020, work continued on advancing the first and second editions (which were consolidated) of the Implementation Doctorates Program for employees of KGHM. At the end of the second quarter of 2020, 50 Doctoral Students from the two editions participated in the Implementation Doctorates Program for employees of KGHM.

Under the KGHM 4.0 Program, projects such as those developing information technology required to collect and transfer knowledge within the KGHM Group are being advanced on schedule.

The first two tasks in the process of the digitisation and modern archiving of knowledge resources at the head office of KGHM were completed. Actions were continued with respect to building and implementing a workflow system for R&D processes.

An agreement was signed to advance work on the „Construction and implementation of a workflow system for R&D processes”. The primary goal of this work is to implement a modern workflow system supporting the R&D processes functioning within the KGHM Group.

Work related to the electromobility of underground mining machinery in KGHM continued. The commencement of mobility trials of an electric, battery-powered vehicle for the transport of people and materials in the mines is planned for the third quarter of 2020.

An initiative was begun involving the construction of a prototype self-propelled bolting rig equipped with an automatic bolting turret, designed for work in the mines of KGHM Polska Miedź S.A. The planned timeframe of this work is 24 months.

Initiatives were begun involving the testing of electric, battery-powered self-propelled mining machinery aimed at gaining knowledge and data necessary for the utilisation of electric, battery-powered machinery under the conditions existing in the mines of KGHM Polska Miedź S.A.

Projects subsidised under KIC Raw Materials:

- Advancement of the following subsidised research projects was continued:
 - the project „Utrzymanie Kopalni i Sprzętu” (Maintained Mine & Machine, a.k.a. MaMMa) – involving the development of systems for monitoring the work of self-propelled mining machinery in the mines of KGHM Polska Miedź S.A.
 - „Monitoring maszyn kruszących” (Monitoring of mineral crushing machinery, a.k.a. OPMO) – involving the development of methods for automating the process of monitoring screening equipment in the Concentrators division.
- In addition, in 2020 work was commenced on the following research projects:
 - „Recultivation of post-mining terrain”, a.k.a. RevRis, involving the development of new methods for assessing the directions of the recultivation of post-industrial terrain,
 - „Biodegradable flotation reagents”, a.k.a. Batterflai, aimed at developing and testing environmentally-friendly flotation reagents in the Concentrators division,
 - „Autonomic system for monitoring technical infrastructure”, a.k.a. AMICOS, involving the development of automated systems for inspecting underground conveyor belts.

Projects subsidised under the Horizon 2020 Program:

- Work continued on advancing the project „Development of technological assumptions to improve the recovery of useful metals contained in particulates in mineral resources processing”, a.k.a. FineFuture, in which methods for improving particulate flotation in the Concentrators division are undergoing analysis.
- An agreement was signed for subsidisation of the project „Development of systems for the monitoring of constructed facilities”, a.k.a. illuMINEation, under which it is planned to test machine learning and artificial intelligence in the systems monitoring the condition of the Żelazny Most Tailings Storage Facility. Commencement of the project is planned in September 2020.

Intellectual property

- Proceedings are underway to obtain a protection right for the word trademark „KGHM”, announced in an international procedure, in the following countries: India, China, Japan and Turkey.
- Protection was received for the word trademark „KGHM” on the territory of: the USA, Switzerland and Ukraine.
- The word and figurative trademark „KGHM” within the European Union, registered in the European Union Intellectual Property Office under no. 009222118, was prolonged for an additional 10-year protection period.
- Protection of European patent EP2873475 “Method of manufacturing wires of Cu-Ag alloys” validated in 16 European countries, was prolonged.
- Protection of patent PAT.221274 „Sposób wytwarzania drutów ze stopów CU-Ag, or Method for the manufacture of rod from CU-Ag alloys” was prolonged in the Patent Office of the Republic of Poland.
- Protection of patent PAT.231928 „Sposób wyznaczania położenia ruchomej części urządzenia lub obiektu oraz układ do wyznaczania położenia ruchomej części urządzenia lub obiektu, or Means of indicating the position of a moveable part of equipment or object and the unit for indicating the position of a moveable part of equipment or object” was prolonged in the Patent Office of the Republic of Poland.

- Three proceedings are underway in the Patent Office of the Republic of Poland for the granting of a patent for inventions.

FINANCIAL STABILITY

Basing the KGHM Group's financing structure on long-term instruments	<p>Organisational actions continued aimed at prolonging the average weighted maturity of the borrowings of KGHM Polska Miedź S.A.</p> <p>Given the fact that the process of borrowing to meet the needs of the KGHM Group has been centralised at the level of the Parent Entity, it is necessary to ensure the possibility of engaging in intra-Group cash transfers utilising debt and equity instruments. The goal of these actions is also to optimise the structure of financing for the Group by matching the maturity of assets to the maturity of equity and liabilities. The debt instrument used in intra-Group cash transfers in the first half of 2020 was long-term owner loans, which support the investment activities.</p> <p>Moreover, in managing its financial liquidity, including in particular in terms of supporting on-going operations, the Group utilises a cash pooling tool which supports its efficiency.</p>
Shortening of the cash conversion cycle	<p>The Company remains engaged in actions aimed at shortening the receivables recovery period and extending the payables payment period. As a result of signing a new reverse factoring agreement and increasing the limit in an existing agreement, the Company has a reverse factoring limit of PLN 1 500 million. At the end of the second quarter of 2020, the balance of trade payables transferred to reverse factoring amounted to PLN 944 million, and the level of factoring amounted to PLN 2 075 million. In advancing the assumptions of the Financial Stability strategy, the Company expressed consent for the signing of an agreement on organising a Factoring Syndicate, whose aim is to ensure permanent and safe access to factoring for the KGHM Group.</p>
Effective market and credit risk management in the KGHM Group	<p>As part of the advancement of the Company's strategic plan to secure against market risk, in the first half of 2020 an open position on the copper market was restructured. Part of the Seagull options structure hedging revenues from sales in the period from March to December 2020 with a total notional amount of 20 thousand tonnes (of which: 12 thousand tonnes in the second half of 2020) was closed. In addition, in the first half of 2020 hedging strategies on the copper market with a total notional amount of 108 thousand tonnes and maturity from January 2021 to December 2021 were implemented, as well as strategies hedging against a change in the USD/PLN exchange rate with a total notional amount of USD 720 million and maturity from January 2022 to December 2023. Also restructured was an open position on the currency market, by redeeming sold call options for the period from May to December 2020 with a total notional amount of USD 300 million (of which: USD 180 million in the second half of 2020).</p>

EFFICIENT ORGANISATION

KGHM 4.0 Program	<p>With respect to ICT projects (Information and Communication Technology)</p> <ul style="list-style-type: none"> - Implementation of a CRM (Customer Relationship Management) system – the full scope of configuration work was carried out in terms of the SAP CRM and SAP Hybris Commerce systems, testing of all business functionality areas was completed and the systems were fully integrated by utilising the corporate integration platform (data buses). The training of end-users is underway. - An e-Report system was implemented in the three Mining Divisions, and a level of readiness to plan production for the years 2021-2025 utilising the SAP Business Planning and Consolidation system was achieved. - With respect to ICT projects related to ensuring IT infrastructure and tools for the Employees of the KGHM Group, purchases were made to ensure operational continuity of core production and of administrative services related to the pandemic. - The final phase continues of the implementation of projects related to the National Cybersecurity System and improving the IT security of the KGHM Group. <p>With respect to Industry projects (industrial production):</p> <ul style="list-style-type: none"> - The full scope of the project „Lokalizacja osób oraz maszyn w wyrobiskach podziemnych”, or Locating persons and machines in the underground mines, was carried out in the Polkowice-Sieroszowice mine, and access was assured to broadband data transmission at the working faces of all of the Mines: Lubin, Polkowice-Sieroszowice and Rudna. <p>Following the successful completion of implementation of the pilot phase of a CMMS (computerized maintenance Management System) in selected sections of the Metallurgical Plants divisions, the Concentrators Division and the Tailings Division, stage two of implementation commenced – the expected date of implementation in all of the organisational units of the indicated Divisions is April 2021. The project is aimed at increasing the Company's organisational and cost efficiency in terms of maintaining uninterrupted production.</p> <ul style="list-style-type: none"> - A pilot BigData environment was created for a sample scope of industrial data from the Głogów Copper Smelter and Refinery under a project to integrate industrial software in selected divisions of KGHM Polska Miedź S.A. The possibility of expanding the scope of the project is being analysed. <p>With respect to supporting projects:</p> <ul style="list-style-type: none"> - The final stage of tender proceedings to select a contractor for building a commercial contracts repository is underway.
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PEOPLE AND THE ENVIRONMENT

Program to adapt the technological installations of KGHM to the requirements of BAT Conclusions for the nonferrous metals industry and to restrict emissions of arsenic (BATAs)	<p>In the first half of 2020, under the BATAs Program, 14 projects were advanced (9 in the Głogów Copper Smelter and Refinery and 5 in the Legnica Copper Smelter and Refinery). Work was completed on the construction of an installation for the transport of lead slag within the Głogów Copper Smelter and Refinery, and the process of obtaining an operating permit is underway.</p> <p>Work was completed on the construction of an installation for the desulphurisation of gases from the Kaldo furnace of the Precious Metals Plant at the Głogów Copper Smelter and Refinery, testing of guarantee parameters is underway.</p> <p>Work is underway on the construction and assembly of installations at the Głogów Copper Smelter and Refinery (6 projects) and at the Legnica Copper Smelter and Refinery (1 project).</p> <p>Design work is underway on 3 installations at the Legnica Copper Smelter and Refinery.</p> <p>The process of obtaining administrative decisions is underway with respect to 4 projects being advanced at the Legnica Copper Smelter and Refinery.</p>
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Program to Improve Occupational Health and Safety in KGHM Polska Miedź S.A.	Due to the state of epidemic declared in Poland, OHS service employees participated in the preparation of a variety of internal regulations and informational materials, and also implemented organisational and technical solutions to ensure uninterrupted operations in the Company. Tasks under the Program to Improve Occupational Health and Safety were advanced in accordance with the plan.
OTHER PROJECTS	
Construction of an Upcast 2 production line	The goal of the Upcast 2 project is to increase the production capacity of the Cedynia Wire Rod Plant's CuOFE rod line to 30 thousand tonnes/year with the possibility of expanding the product assortment to include CuMg and CuSn wire alloys, which means a potential doubling of the production capacity of rod. The plan calls for a second Upcast line to be built alongside the existing line as well as the requisite technical and logistical infrastructure. In the first half of 2020, the preparatory phase commenced (work on the design and spatial planning is underway, as well as planning for an environmental impact assessment).
Construction of a 5 MW photovoltaic power plant on the terrain of the „Obora” Sand Mine	Under the Strategic Program „Development of Energy, including RES”, in the first half of 2020 approval was received to commence the project, and subsequently the project's preparatory phase was launched. An agreement was signed for execution of the technical project for restoration of the post-operational terrain of the Obora Sand Mine for the purpose of building a photovoltaic farm. A contractor was selected to design the photovoltaic power plant along with obtaining a construction permit. A request was made to alter the Study of the Conditions and Directions of the Area Plan of the gmina (municipality) of Lubin by including the planned investment in the planning document.

2. Macroeconomic sales conditions

In the June edition of the World Economic Outlook (WEO), the International Monetary Fund reduced its forecast for global GDP growth for 2020 to -4.9% from +3.3% compared to the forecast from January 2020, adjusting the April forecast for a drop in GDP by an additional -1.9 p.p. The main reason was the COVID-19 coronavirus pandemic, which caused a freeze in many countries for a period of several to several-dozen weeks. It is expected that as a result of the pandemic the global economy will shrink more drastically than during the financial crisis of 2008–2009. The base scenarios foreseen by international organisations assume that the pandemic will gradually ease, without a second wave of illnesses. If, however, the scenario of another wave of illnesses caused by the coronavirus does occur, then a further fall in aggregate demand in the global economy and a deepening of the crisis may be expected.

Economic collapse was experienced by many sectors of the economy, which is why the governments of various countries implemented numerous aid programs based on fiscal and monetary policy. Aid was provided to private households, companies and financial markets. Strong international cooperation was instituted to eliminate the effects of the pandemic, and in particular to assist countries with limited financial resources and a weak healthcare system. The coordinated printing of money by the largest central banks and the decrease, in many countries, of interest rates to rates close to zero were supposed to stimulate demand by increasing the availability of credit. Investors initially reacted to the crisis by returning to assets considered as safe, such as gold and the American dollar. In the final weeks of the first half of 2020 investors once again became interested in more risky assets, with additional stimulation in the form of runaway quantitative easing by central banks around the world. Market indices in many countries recovered a substantial part of their first quarter losses, with commodities prices likewise rising. At the same time, the balance sheets of central banks grew strongly, decidedly exceeding all previous levels, while anti-crisis shields and social packets led to a jump in debt levels.

Following the experience of the SARS epidemic of 2003, China took very decisive actions to halt the spread of the epidemic, including strict quarantines in several major urban centers, the restriction of human movement in cities and between cities and a 10-day extension of the new-year's holiday. As a result of these actions the Chinese economy was partially paralysed, while the process of re-starting Chinese businesses was spread out over several weeks. Production stoppages lead to breaks in the supply chain in many sectors of the economy, not just in China, but also in many other parts of the world. The epidemic spread to other countries, resulting in further interruptions to production and problems with consumption.

Europe became another global nest of the virus, where the largest number of infections was recorded in Italy and Spain. There was a subsequent drastic deterioration of the situation in the United Kingdom and Russia, and outside of Europe in the USA and India, so that in the final weeks of the first half of 2020 it had spread to the countries of South America. Brazil, Peru and Chile were amongst the countries with the highest number of recorded cases, while a substantial portion of the economies of these countries is involved in the mining sector, and as a consequence the spread of the virus in these countries lead to restrictions in the number of staff in many mines and resulted in a drop in production, including of copper ore. Numerous mine projects were suspended or deferred. Copper supply decreased. The government of Peru decided to institute a quarantine which froze the economy for 106 days, as a result of which copper production decreased by nearly 25% in the period from January to May 2020 compared to the level in the corresponding prior-year period. In turn, while production of copper in Chile is at a level similar to the corresponding period of 2019, the rising number of infections amongst mine employees is fuelling investor fears about the stability of production.

Apart from the uneasy geopolitical situation in the world, the increase in uncertainty and the hard to forecast market situation, in the first half of 2020 markets were also impacted by important individual events, such as criticism that China

failed to restrain the COVID-19 pandemic and the on-going tense international trade relations despite the previous agreement signed between the USA and China (the trade agreement summarising the first of three stages in the trade negotiations between the USA and China was signed on 15 January 2020). Due to the economic collapse during the first stage of the crisis in China, there are many indications that China will not achieve the agreed-on amounts of purchases of agricultural products from the USA, providing President Trump the pretext to maintain his sharp rhetoric towards China. Another important event was the American attack on the Iranian general Qasem Soleimani and the impact of the economic and internal conflict within OPEC over the price of crude oil, which fell significantly, reaching even to negative prices in mid-April.

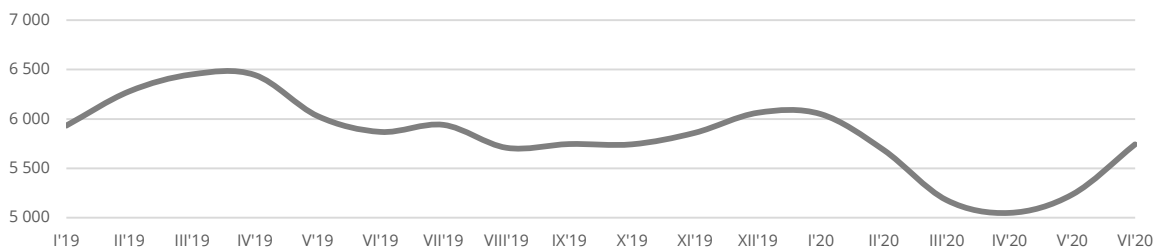
The United Kingdom decided to leave the European Union, though negotiations over the detailed conditions for its exit from the common market were delayed by the COVID-19 pandemic. The threat of a non-deal Brexit has not yet dissipated, despite the fact that the Prime Minister of Great Britain avows that the negotiations could be concluded by the end of the year, when the final departure of the UK from the European block is to take place. Great Britain did not make use of the possibility to request an extension of the negotiations, an option which they could have exercised by the end of June 2020.

The *cash settlement* price of **copper** on the London Metal Exchange (LME) in the first half of 2020 ranged between 4400-6300 USD/t. The start of the year appeared to bode optimistically for the red metal. The Chinese economy began to accelerate, while the signing of the long-awaited trade agreement between the USA and China acted as support. Unfortunately this market sentiment quickly changed. The initial reason was the American attack on an Iranian general, followed by the spread of the coronavirus. At the stage of the freezing of the economy in China, the price fell to around 5 500 USD/t, but when it became evident that COVID-19 had spread to other parts of the world, the copper price rapidly collapsed to the level of 4 400 USD/t. Such a large fall within such a short period of time was also a result of the strengthening USD, which attracted investors seeking safe assets.

This bearish trend reversed when China commenced the re-opening of its economy. New investments in infrastructure aimed at stimulating the Chinese economy led to a rise in the copper price. A further catalyst for this rise was the coordinated easing of monetary policies by central banks and the enormous fiscal packages introduced by most of the world's governments. The outbreak of the coronavirus epidemic in South America and the restriction of copper production in Chile and Peru provided additional support to the rising copper price, which at the end of the first half of 2020 approached the level of 6 000 USD/t.

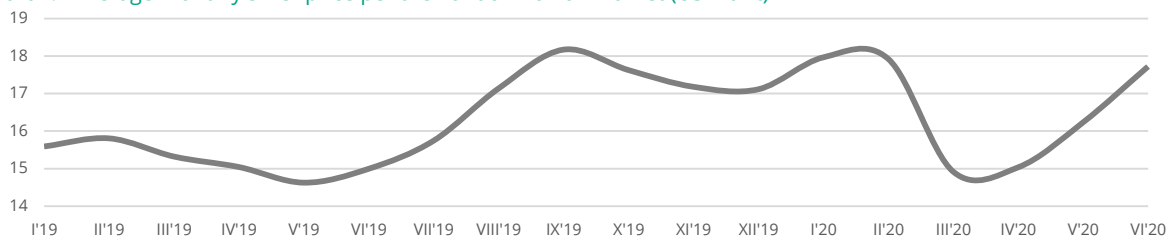
The average cash settlement price of copper in the first half of 2020 on the LME amounted to 5 500 USD/t and was 11% lower than in the comparable period of 2019, when it reached on average 6 165 USD/t.

Chart 1. Average monthly copper price on the London Metal Exchange (USD/t)



The average price of **silver** according to the London Bullion Market Association (LBMA) in the first half of 2020 reached the level of 16.65 USD/oz t, meaning an increase by 9% as compared to prices in the first half of 2019 – 15.23 USD/oz t. In the first quarter of 2020 the price of silver fell 9 sessions in a row, from the level of 17.5 USD/oz t to 12 USD/oz t. This was due to the panic caused by the spread of the virus, when investors sold off their assets to secure access to cash. In subsequent weeks there was a strong increase in the price of gold, while silver, which is partially considered as an industrial metal, given a situation in which many countries shut down their economies, continued to lag. The gold to silver ratio briefly reached its highest level in history of over 115.

Chart 2. Average monthly silver price per the London Bullion Market (USD/oz t)

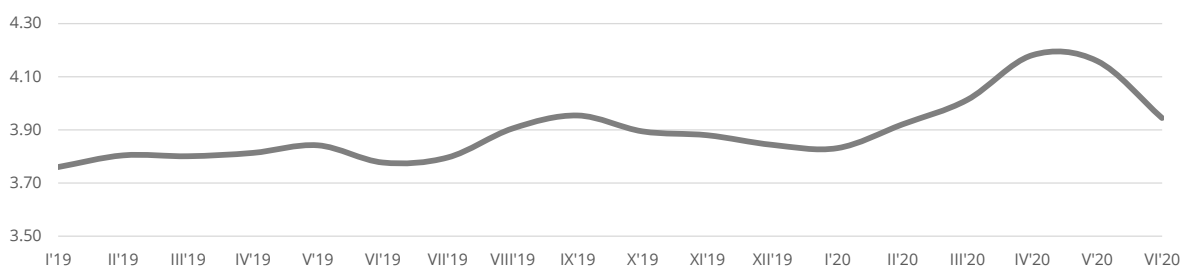


The average **USD/PLN exchange rate** (NBP) in the first half of 2020 amounted to 4.0085 and was higher compared to the corresponding period of 2019 by 5.5% (3.8002). Due to the outbreak of the pandemic, the USD was treated as a safe haven. Higher demand led to appreciation of the USD versus a basket of currencies. In the first months of 2020 the USD/PLN exchange rate matched its multi-year peak of 4.25. In June this trend reversed, mainly due to the weakening of the USD to the basket of currencies, and which was also reflected in the strengthening of the PLN. In the local market the

exchange rate was impacted by a bond buyback program and by a decrease in the referential interest rate to the record low level of 0.1%.

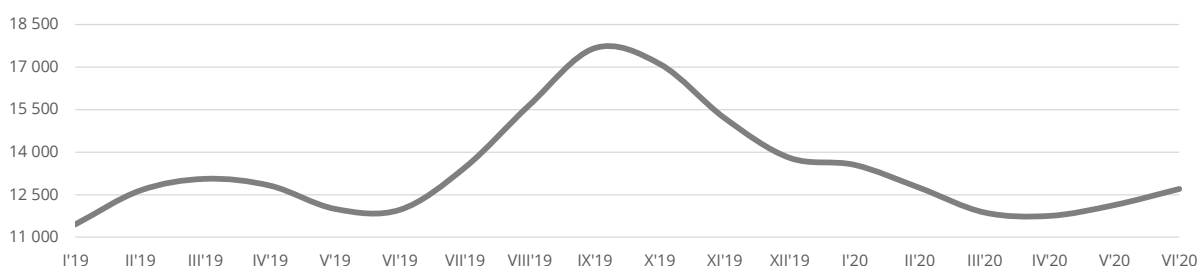
The minimum USD/PLN exchange rate of 3.7861 USD/PLN was recorded at the start of January, and the maximum at the end of March – 4.2654.

Chart 3. Average monthly USD/PLN exchange rate per the National Bank of Poland



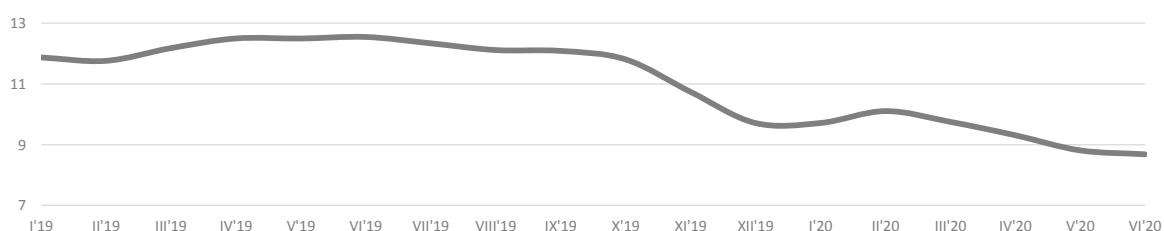
The average price of **nickel** in the first half of 2020 amounted to 12 475 USD/t, meaning an increase of more than 1% compared to the corresponding period of 2019 (12 315 USD/t). During the pandemic global production of this metal decreased by approx. 3.5%. The main factors impacting the price were the renewal of the ore export ban from Indonesia and the uncertainty caused by the outbreak of the coronavirus, which resulted in oversupply of the market and introduced substantial uncertainty in terms of demand.

Chart 4. Average monthly nickel price on the London Metal Exchange (USD/t)



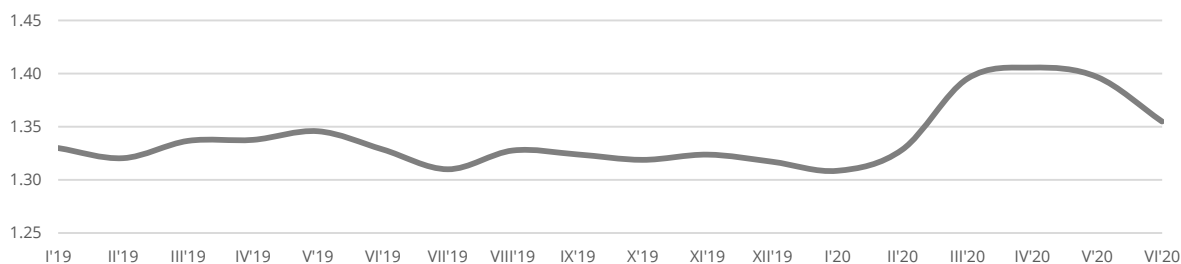
In 2020 the **molybdenum** market saw a continuation of the downward price trend from the second half of 2019. The average price of molybdenum in the first half of 2020 amounted to 9.39 USD/lb, meaning a decrease by 23% as compared to the corresponding period of 2019 (12.22 USD/lb). The continued macroeconomic uncertainty caused by the virus and the low price of oil had an impact on the weakening consumption of the metal in both the steel and oil sectors, where molybdenum is used in drilling. Restrictions in supply occurred – in China, the license of the largest molybdenum concentrate producer was revoked due to a spill of tailings into the environment, and in Peru and Chile the temporary closure of mines slowed the rate of price drops.

Chart 5. Average monthly molybdenum price per CRU International (USD/lb)



The average **USD/CAD exchange rate** (per the Bank of Canada) in the first half of 2020 amounted to 1.37 and was 3.0% higher compared to the corresponding period of 2019 (1.33).

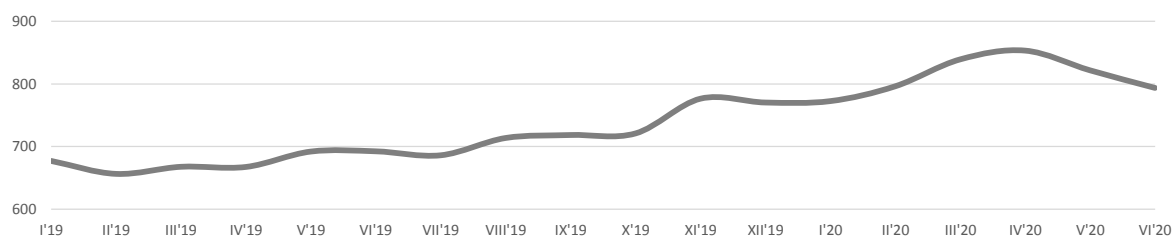
Chart 6. Average monthly USD/CAD exchange rate per the Bank of Canada



The decrease in the value of the Canadian dollar and the Chilean peso was due to the strengthening of the USD as a safe currency in a time of uncertainty caused by the outbreak of the COVID-19 coronavirus in the first half of 2020. Both currencies were impacted by the decrease in commodities prices in the first half of 2020, especially copper and crude oil. In the second quarter of 2020 the USD weakened due to the restart of the global economy and the implementation by the U.S. central bank of programs to boost the economy.

The average **USD/CLP exchange rate** (per the Bank of Chile) in the first half of 2020 amounted to 813 and was 20% higher than that in the first half of 2019 (676).

Chart 7. Average monthly USD/CLP exchange rate per the Bank of Chile



The macroeconomic factors of the greatest significance for the operations of the Group are presented in the following table.

Table 1. Macroeconomic factors significant for the operations of the KGHM Polska Miedź S.A. Group

	Unit	1st half 2020	1st half 2019	Change (%)	2Q 2020	1Q 2020
Average copper price on the LME	USD/t	5 500	6 165	(10.8)	5 356	5 637
Average copper price on the LME	PLN/t	21 966	23 428	(6.2)	21 871	22 056
Average silver price per the LBMA	USD/oz t	16.65	15.23	+9.3	16.38	16.90
Average nickel price on the LME	USD/t	12 475	12 315	+1.3	12 215	12 723
Average molybdenum price per the CRU	USD/lb	9.39	12.22	(23.2)	8.94	9.85
Average USD/PLN exchange rate per the NBP	USD/PLN	4.01	3.80	+5.5	4.09	3.92
Average USD/CAD exchange rate per Bank of Canada	USD/CAD	1.37	1.33	+3.0	1.39	1.34
Average USD/CLP exchange rate per the Bank of Chile	USD/CLP	813	676	+20.3	823	803

3. Results of the segment KGHM Polska Miedź S.A.

3.1. PRODUCTION

Table 2. Production results of KGHM Polska Miedź S.A.

	Unit	1st half 2020	1st half 2019	Change (%)	2Q 2020	1Q 2020
Mined ore (dry weight)	mn t	14.8	15.1	(2.0)	7.5	7.4
Copper content in ore	%	1.51	1.50	+0.7	1.50	1.52
Production of copper in concentrate	kt	198.8	200.2	(0.7)	99.7	99.1
Production of silver in concentrate	t	617.0	633.1	(2.5)	305.0	312.0
Production of electrolytic copper	kt	280.8	286.7	(2.1)	139.8	141.0
- including from own concentrate	kt	205.8	207.5	(0.8)	102.8	103.0
Production of metallic silver	t	695.0	704.6	(1.4)	365.9	329.2
Production of gold	koz t	45.6	50.6	(9.9)	20.4	25.2

Compared to the corresponding period of 2019, in the first half of 2020 ore extraction (dry weight) was lower, as a result of mining from areas with a lower mine face. Copper content in ore increased to 1.51%.

Production of copper in concentrate was lower by around 1.4 thousand tonnes as compared to the first 6 months of 2019 and was due to processing a lower amount of feed.

Compared to the corresponding period of 2019, there was a decrease in electrolytic copper production by 5.9 thousand tonnes. The lower production of cathodes was due to the limited supply of copper scrap and to the build-up of anode inventories which will be used in the third quarter of 2020 during the maintenance shutdown at the Głogów I Copper Smelter and Refinery.

The lower production of metallic silver in the first half of 2020 is a consequence of the lower cathode production from own concentrates and purchased metal-bearing materials.

3.2. REVENUES

Table 3. Revenues from contracts with customers of KGHM Polska Miedź S.A.

	Unit	1st half 2020	1st half 2019	Change (%)	2Q 2020	1Q 2020
Revenues from contracts with customers, including:	mn PLN	8 897	8 831	+0.7	4 672	4 225
- copper	mn PLN	6 543	6 835	(4.3)	3 460	3 083
- silver	mn PLN	1 524	1 313	+16.1	776	748
Copper sales volume	kt	277.0	279.8	(1.0)	144.8	132.1
Silver sales volume	t	709.4	705.8	+0.5	364.1	345.3

Revenues in the first half of 2020 amounted to PLN 8 897 million and were higher than in the corresponding period of 2019 by 0.7%. The main reasons for the increase in revenues were a more favourable USD/PLN exchange rate (+6%) and higher prices of silver (+9%) and gold (+26%).

3.3. COSTS

Table 4. Costs of KGHM Polska Miedź S.A.

	Unit	1st half 2020	1st half 2019	Change (%)	2Q 2020	1Q 2020
Cost of sales, selling costs and administrative expenses	mn PLN	7 561	7 498	+0.8	3 952	3 609
Expenses by nature	mn PLN	7 149	7 433	(3.8)	3 513	3 636
Pre-precious metals credit unit cost of copper production from own concentrate ¹⁾	PLN/t	25 092	24 600	+2.0	25 312	24 880
Total unit cost of electrolytic copper production from own concentrate	PLN/t	17 640	17 791	(0.8)	18 533	16 755
C1 unit cost²⁾	USD/lb	1.59	1.81	(12.2)	1.59	1.58

¹⁾ Unit cost prior to decrease by the value of anode slimes containing, among others, silver and gold

²⁾ Cash cost of concentrate production reflecting the minerals extraction tax, plus administrative expenses and smelter treatment and refining charges (TC/RC), less depreciation/amortisation and the value of by-product premiums, calculated for the sold payable copper in concentrate

The Parent Entity's cost of sales, selling costs and administrative expenses (total cost of products, merchandise and materials sold, selling costs and administrative expenses) in the first half of 2020 amounted to PLN 7 561 million and was higher by 0.8 % compared to the corresponding period of 2019, due to the utilisation in production of inventories from prior periods and to higher costs of merchandise and materials sold due to the purchase of medical materials.

In the first half of 2020, total expenses by nature were lower by PLN 284 million as compared to the first half of 2019, alongside a lower minerals extraction tax by PLN 188 million due to the change in effect from 1 July 2019 of the formula for calculating the tax, and alongside lower costs of consumption of purchased metal-bearing materials by PLN 259 million (due to a lower volume of consumption by 6.8 thousand tonnes of copper and a lower purchase price by 4.5%).

Expenses by nature, after excluding the purchased metal-bearing materials and minerals extraction tax, were higher by PLN 163 million, mainly due to higher labour costs by PLN 112 million (higher remuneration and a higher provision for the annual bonus) as well as due to higher costs of electricity and other energy-related factors by PLN 64 million (in 2019 energy costs were decreased by compensation for energy purchases).

C1 cost in the first half of 2020 amounted to 1.59 USD/lb and was lower than in the corresponding period of 2019 by 12.2%. The decrease in cost was mainly due to strengthening of the USD versus the PLN (+5.5%) and to a lower minerals extraction tax (1st half 2019: 0.54 USD/lb; 1st half 2020: 0.38 USD/lb).

The pre-precious metals credit unit cost of electrolytic copper production from own concentrate (unit cost prior to decrease by the value of anode slimes containing, among others, silver and gold) amounted to 25 092 PLN/t (in the corresponding period of 2019: 24 600 PLN/t) and was higher by 2% mainly due to higher labour costs and energy-related factors.

The total unit cost of electrolytic copper production from own concentrate amounted to 17 640 PLN/t and was lower than in the first half of 2019 by 0.8% due to the valuation of associated metals (higher silver and gold prices).

3.4. FINANCIAL PERFORMANCE

Table 5. Basic items of the statement of profit or loss of KGHM Polska Miedź S.A. (in PLN million)

	1st half 2020	1st half 2019	Change (%)	2Q 2020	1Q 2020
Revenues from contracts with customers, including:	8 897	8 831	+0.7	4 672	4 225
- adjustment to revenues due to hedging transactions	292	77	×3.8	169	123
Cost of sales, selling costs and administrative expenses	(7 561)	(7 498)	+0.8	(3 952)	(3 609)
- including the minerals extraction tax	738	932	(20.8)	363	375
Profit on sales	1 336	1 333	+0.2	720	616
Other operating income and (costs), including:	(44)	452	×	(532)	488
Measurement of derivatives	(27)	43	×	4	(31)
Realisation of derivatives	(107)	(71)	+50.7	(49)	(58)
Exchange differences on assets and liabilities other than borrowings	26	16	+62.5	(420)	446
Interest on loans granted and other financial receivables	141	132	+6.8	68	73
Reversal of impairment allowances on loans measured at amortised cost	-	112	×	-	-
Impairment losses on financial instruments measured at amortised cost ⁽¹⁾	(88)	(10)	×8.8	88	(176)
Impairment losses on investment certificates and shares	(131)	-	×	(89)	(42)
Fair value gains/(losses) on financial assets measured at fair value through profit or loss	112	142	(21.1)	(175)	287
Release/(recognition) of provisions	(6)	38	×	(3)	(3)
Other	36	50	(28.0)	44	(8)
Finance income and (costs), including:	(151)	(73)	×2.1	345	(496)
Exchange differences on debt liabilities	(36)	58	×	401	(437)
Interest on borrowings	(89)	(80)	+11.3	(48)	(41)
Measurement of derivatives	(1)	(16)	(93.8)	2	(3)
Realisation of derivatives	(5)	(1)	×5.0	(5)	-
Other	(20)	(34)	(41.2)	(5)	(15)
Profit before income tax	1 141	1 712	(33.4)	533	608
Income tax expense	(394)	(485)	(18.8)	(185)	(209)
Profit for the period	747	1 227	(39.1)	348	399
Depreciation/amortisation recognised in profit or loss	595	586	+1.5	311	284
Adjusted EBITDA⁽²⁾	1 931	1 919	+0.6	1 031	900

⁽¹⁾ including loss allowance on loans in the amount of PLN 84 million, caused by an increase in the PD (probability of default of the counterparty) parameters and verification of estimates presented below

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

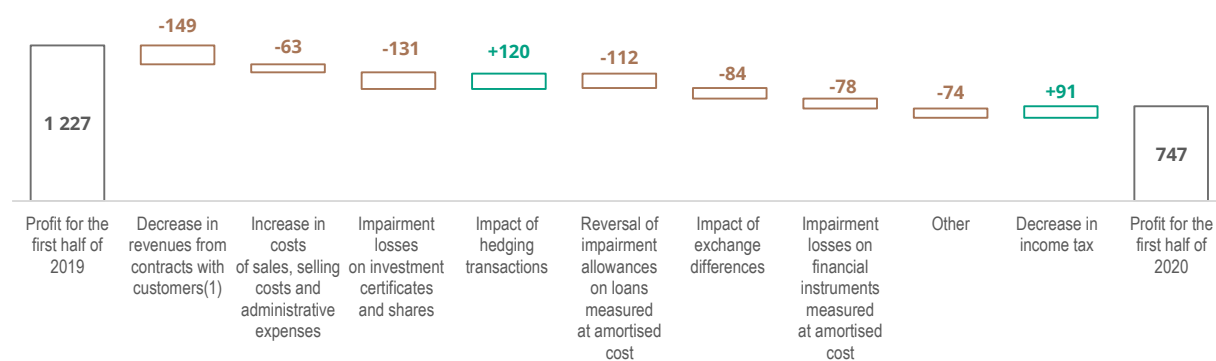
Table 6. Main reasons for the change in profit of KGHM Polska Miedź S.A.

Item	Impact on change in result (in PLN million)	Description
	(607)	A decrease in revenues due to lower prices of copper by 11% alongside higher silver and gold prices respectively by 9% and 26%
Decrease in revenues from contracts with customers (excluding the impact of hedging transactions) by PLN 149 million	+454	An increase in revenues from sales of basic products (Cu, Ag, Au) due to a more favourable average annual USD/PLN exchange rate (a change from 3.80 to 4.01 USD/PLN)
	(65)	A decrease in revenues due to a lower volume of sales of copper (-1%) and gold (-1%) alongside higher volume of sales of silver (+1%)
	+69	A change in other revenues from contracts with customers, including an increase in revenues from the sale of merchandise and materials by PLN 100 million alongside a decrease in revenues from the sale of rock salt (-PLN 10 million), refined lead (-PLN 9 million) and sulphuric acid (-PLN 8 million)
	(263)	A change in inventories of finished goods, half-finished products and work in progress, mainly due to a decrease in inventories due to the utilisation of own concentrate inventories and of inventories of finished goods
Increase in cost of sales, selling costs and administrative expenses⁽¹⁾ by PLN 63 million	+259	Lower consumption of purchased metal-bearing materials by 6.8 thousand tonnes of copper (-9%) alongside a 5% lower purchase price
	(59)	An increase in other costs, including an increase in the value of sold merchandise and materials by PLN 96 million and of other expenses by nature – mainly employee benefits expenses by PLN 112 million and of energy and energy-related factors by PLN 64 million alongside a decrease in the minerals extraction tax in expenses by nature by PLN 188 million
Impairment losses on investment certificates and shares (-PLN 131 million)	(131)	Impairment losses on investment certificates and shares in the amount of -PLN 131 million in 2020 versus the lack of this item in the corresponding prior-year period

Impairment losses on financial instruments measured at amortised cost (-PLN 78 million)	(78)	Increase in impairment losses from -PLN 10 million to -PLN 88 million
Impact of hedging transactions (+PLN 120 million)	+215	An increase in positive adjustments to revenue due to the settlement of hedging transactions, from PLN 77 million to PLN 292 million
	(55)	A change in the result due to the measurement of derivatives, from PLN 27 million to -PLN 28 million
	(40)	A change in the result due to the realisation of derivatives, from -PLN 72 million to -PLN 112 million
Reversal of impairment allowances on loans measured at amortised cost (-PLN 112 million)	(112)	In the first half of 2019 the amount was PLN 112 million, while in the current period this item did not occur
Impact of exchange differences (-PLN 84 million)	+10	A change in the result due to exchange differences in other operating activities
	(94)	A change in the result due to exchange differences on sources of financing (presented in finance income and costs)
Provisions recognised and released (-PLN 44 million)	(44)	A lower level of provisions recognised and released – in the first half of 2020 at the level of -PLN 6 million as compared to +PLN 38 million in the corresponding period of 2019
Fair value gains/(losses) on financial assets measured at fair value through profit or loss (-PLN 30 million)	(30)	A change in the amount of fair value gains/losses on financial assets measured at fair value through profit or loss, from PLN 142 million to PLN 112 million
Decrease in income tax (+PLN 91 million)	+91	The lower tax results from the lower tax base

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

Chart 8. Change in profit for the period of KGHM Polska Miedź S.A. (in PLN million)



¹⁾ Excluding impact of hedging transactions

3.5. CAPITAL EXPENDITURES

In the first half of 2020, capital expenditures on property, plant and equipment and intangible assets amounted to PLN 1 025 million.

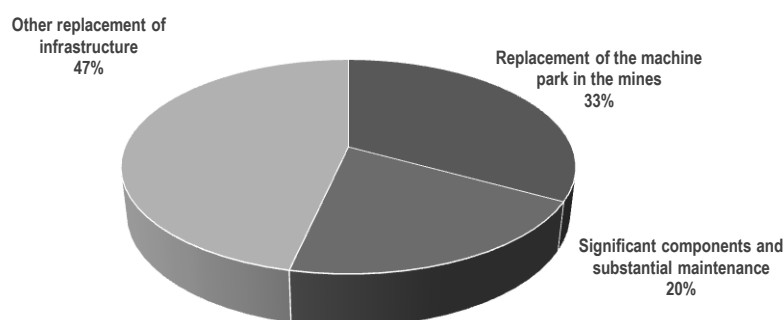
Table 7. Structure of expenditures on property, plant and equipment and intangible assets by Division (in PLN million)

	1st half 2020	1st half 2019	Change (%)	2Q 2020	1Q 2020
Mining	687	781	(12.0)	379	308
Metallurgy	275	194	+41.8	191	84
Other activities	13	10	+30.0	10	3
Development work - uncompleted	1	1	-	1	-
Leases per IFRS 16	49	34	+44.1	43	6
Total	1 025	1 020	+0.5	624	401
including borrowing costs	68	166	(59.0)	31	37

Investment activities comprised projects related to replacement, maintenance and development projects in mining, metallurgy and other activities.

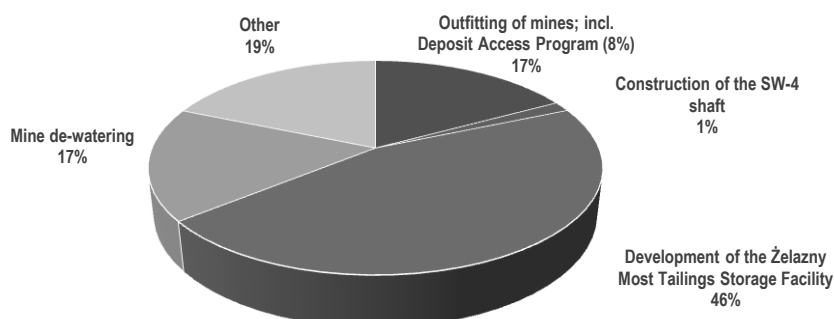
Projects related to replacement aimed at maintaining production equipment in an undeteriorated condition, represent 28% of expenditures incurred.

Chart 9. Structure of expenditures on replacement



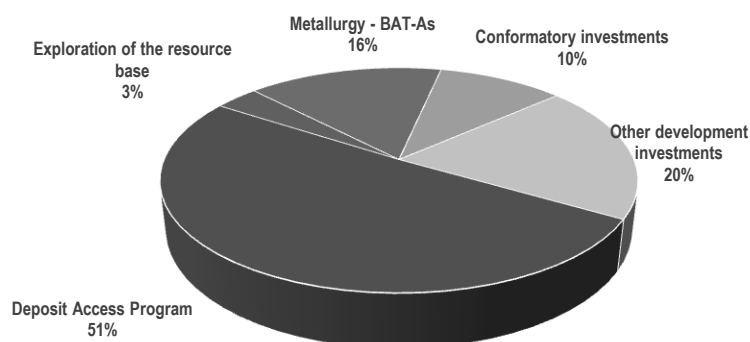
Projects related to maintenance aimed at maintaining mine production at the level set in the approved Production Plan (development of infrastructure to match mine advancement) represent 36% of total expenditures incurred.

Chart 10. Structure of expenditures on maintenance



Development projects aimed at increasing the production volume of the core business, implementation of technical and technological activities optimising the use of existing infrastructure, maintaining production costs and adaptation of the company's operations to changes in standards, laws and regulations (conformatory projects and those related to environmental protection) represent 34% of expenditures incurred.

Chart 11. Structure of expenditures on development



Detailed information on the advancement of key investment projects may be found in part 1 of this Report in the section on advancement of the Strategy in 2020.

4. Results of the segment KGHM INTERNATIONAL LTD.

4.1. PRODUCTION

Table 8. Production results of KGHM INTERNATIONAL LTD.

	Unit	1st half 2020	1st half 2019	Change (%)	2Q 2020	1Q 2020
Payable copper, including:	kt	30.7	36.0	(14.7)	16.6	14.1
- Robinson mine (USA)	kt	21.5	21.8	(1.4)	12.3	9.2
- Sudbury Basin mines (Canada) ⁽¹⁾	kt	1.1	2.6	(57.7)	0.4	0.7
Payable nickel	kt	0.2	0.4	(50.0)	0.1	0.1
Precious metals (TPM), including:	koz t	38.2	38.9	(1.8)	20.4	17.8
- Robinson mine (USA)	koz t	18.0	21.4	(15.9)	10.7	7.3
- Sudbury Basin mines (Canada) ⁽¹⁾	koz t	20.2	17.5	+15.4	9.7	10.5

¹⁾ Morrison and McCreedy West mines in the Sudbury Basin

Copper production in the segment KGHM INTERNATIONAL LTD. in the first half of 2020 amounted to 30.7 thousand tonnes, or a decrease by 5.3 thousand tonnes (-14%) compared to the corresponding prior-year period, mainly as a result of a decrease in production by the Franke mine.

The decrease in copper production in the Franke mine from 9.7 thousand tonnes in the first half of 2019 to 5.7 thousand tonnes in the first half of 2020 (-41%) was due to the extraction of lower quality ore as well as to a strike in this mine in May.

The decrease in copper production by the Robinson mine by 0.3 thousand tonnes (-1%) was due to lower recovery of this metal. In addition, as a result of a decrease in the content and recovery of gold, the mine recorded a decrease in TPM production by 3.4 thousand troy ounces (-16%). The impact of these factors was partially offset by an increase in the volume of ore processed.

The decrease in copper production in the Sudbury Basin mines by 1.5 thousand tonnes (-58%) was the result of a decrease in the volume of ore extraction due to the suspension of extraction from the Morrison deposit after the first quarter of 2019 as well as to a decrease in the content of this metal. TPM production was higher by 2.7 thousand troy ounces (+15%) due to the higher content of these minerals in extracted ore.

4.2. REVENUES

Table 9. Revenues from contracts with customers of KGHM INTERNATIONAL LTD. (USD)

	Unit	1st half 2020	1st half 2019	Change (%)	2Q 2020	1Q 2020
Revenues from contracts with customers ⁽¹⁾ , including:	mn USD	316	373	(15.3)	157	159
- copper	mn USD	170	203	(16.3)	82	88
- nickel	mn USD	3	5	(40.0)	1	2
- TPM – precious metals	mn USD	64	53	+20.8	29	35
Copper sales volume	kt	35.0	36.5	(4.1)	17.0	18.0
Nickel sales volume	kt	0.2	0.4	(50.0)	0.1	0.1
TPM sales volume	koz t	41.1	35.1	+17.1	19.9	21.2

¹⁾ reflects processing premium

Table 10. Revenues from contracts with customers of KGHM INTERNATIONAL LTD. (PLN)

	Unit	1st half 2020	1st half 2019	Change (%)	2Q 2020	1Q 2020
Revenues from contracts with customers ⁽¹⁾ , including:	mn PLN	1 269	1 414	(10.3)	637	632
- copper	mn PLN	687	770	(10.8)	336	351
- nickel	mn PLN	12	19	(36.8)	4	8
- TPM – precious metals	mn PLN	257	201	+27.9	117	140

¹⁾ reflects processing premium

The revenues of the segment KGHM INTERNATIONAL LTD. in the first half of 2020 amounted to USD 316 million, or a decrease by USD 57 million (-15%) compared to the corresponding prior-year period, mainly due to lower copper prices and to lower revenues due to the sale of services by companies acting under the DMC Mining Services ("DMC") brand. These factors were partially offset by an increase in revenues from TPM sales.

The decrease in revenues from copper sales by USD 33 million (-16%) was the result of a decrease in the volume of sales of this metal by 4% and to a decrease in the achieved sale price by 12% (5 417 USD/t in the first half of 2020 compared to 6 129 USD/t in the corresponding prior-year period).

The decrease in revenues due to the sales of services by DMC from USD 103 million to USD 72 million was due to the suspension by an investor of work on a project in the United Kingdom in the fourth quarter of 2019. In the first quarter of 2020 work on this project recommenced, and the project was taken over by the company Anglo American. On 31 July

2020, DMC received a notice from an employer announcing, as of 28 August 2020, the end of work undertaken on the aforementioned project. More information on this event is presented in note 5.7 of the financial statements.

The increase in revenues from TPM sales was due to an increase in the volume of sales of these metals by 6 thousand troy ounces (+17%) and to higher achieved sales prices.

4.3. COSTS

Table 11. Costs of KGHM INTERNATIONAL LTD.

	Unit	1st half 2020	1st half 2019	Change (%)	2Q 2020	1Q 2020
C1 unit cost ⁽¹⁾	USD/lb	2.01	1.82	+10.4	1.83	2.19

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

The weighted average unit cash cost of copper production for all of the mines in the segment KGHM INTERNATIONAL LTD. in the first half of 2020 amounted to 2.01 USD/lb, or an increase by 10% compared to the corresponding prior-year period. The increase in C1 cost was due to higher operating costs and to a lower copper sales volume. These factors were partially offset by an increase in revenues from sales of associated metals (+17%), which decrease this cost.

4.4. FINANCIAL PERFORMANCE

Table 12. Financial results of KGHM INTERNATIONAL LTD. (in USD million)

	1st half 2020	1st half 2019	Change (%)	2Q 2020	1Q 2020
Revenues from contracts with customers	316	373	(15.3)	157	159
Cost of sales, selling costs and administrative expenses, including: ⁽¹⁾	(337)	(341)	(1.2)	(155)	(182)
- recognition/reversal of impairment losses on non-current assets	-	-	x	-	-
Profit/(loss) on sales	(22)	32	x	1	(23)
Profit/(loss) before taxation, including:	(163)	(61)	x2.7	(100)	(63)
- share of losses of Sierra Gorda S.C.M. accounted for using the equity method	(52)	(17)	x3.1	(52)	-
Income tax	(2)	(6)	(66.7)	1	(3)
Profit/(loss) for the period	(165)	(68)	x2.4	(99)	(66)
Depreciation/amortisation recognised in profit or loss	(62)	(57)	+8.8	(26)	(36)
Adjusted EBITDA⁽²⁾	40	89	(55.1)	27	13

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

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

Table 13. Financial results of KGHM INTERNATIONAL LTD. (in PLN million)

	1st half 2020	1st half 2019	Change (%)	2Q 2020	1Q 2020
Revenues from contracts with customers	1 269	1 414	(10.3)	637	632
Cost of sales, selling costs and administrative expenses, including: ⁽¹⁾	(1 356)	(1 294)	+4.8	(631)	(725)
- recognition/reversal of impairment losses on non-current assets	-	-	x	-	-
Profit/(loss) on sales	(87)	120	x	6	(93)
Profit/(loss) before taxation, including:	(654)	(232)	x2.8	(403)	(251)
- share of losses of Sierra Gorda S.C.M. accounted for using the equity method	(210)	(63)	x3.3	(210)	-
Income tax	(9)	(24)	(62.5)	3	(12)
Profit/(loss) for the period	(663)	(257)	x2.6	(400)	(263)
Depreciation/amortisation recognised in profit or loss	(249)	(216)	+15.3	(104)	(145)
Adjusted EBITDA⁽²⁾	162	336	(51.8)	110	52

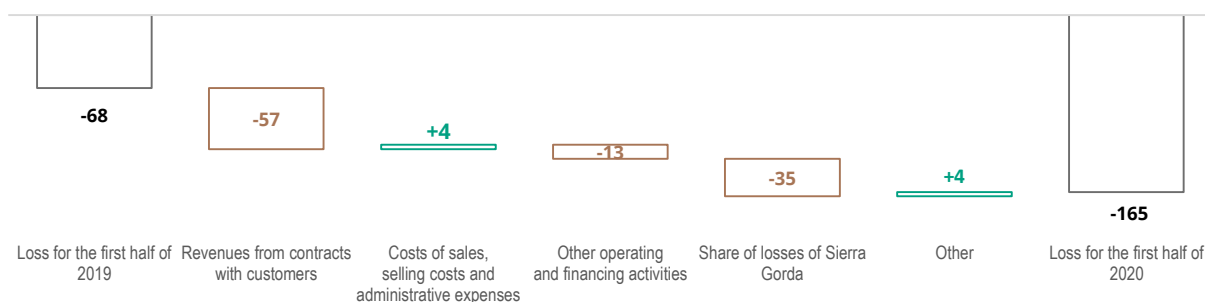
¹⁾ Cost of products, merchandise and materials sold, selling costs and administrative expenses

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

Table 14. Main factors impacting the change in profit or loss of KGHM INTERNATIONAL LTD.

Item	Impact on change of profit or loss (in USD million)	Description
Lower revenues by USD 57 million, including:	(31)	Lower revenues due to a decrease in prices of basic products (including due to copper, -USD 33 million, which was partially offset by an increase in TPM prices, +USD 4 million)
	(31)	Lower revenues realised by companies acting under the DMC brand
	+9	Higher revenues due to a higher sales volume, mainly TPM
	(4)	Other factors
Lower cost of sales, selling costs and administrative expenses by USD 4 million, including:	+24	Lower costs of external services respecting the Robinson mine and of companies acting under the DMC brand
	(10)	Higher costs of materials and energy by USD 8 million and depreciation/amortisation by USD 2 million
	(10)	Change in inventories
Impact of other operating activities and financing activities (-USD 13 million), including	(11)	An increase in other operating costs, mainly the impact of exchange differences and changes in the provision for restoration
	(2)	Other factors
Share of losses of entities accounted for using the equity method	(35)	Recognition in the first half of 2020 of the share of losses of Sierra Gorda S.C.M. up to the amount of the increase in the share capital, i.e. in the amount of USD 52 million (in the corresponding prior-year period the share of losses of Sierra Gorda S.C.M. was also recognised up to the amount of the increase in share capital, i.e. in the amount of USD 17 million).
Income tax	+4	A change mainly refers to current and deferred income tax

Chart 12. Change in profit or loss of KGHM INTERNATIONAL LTD. (in USD million)



4.5. CASH EXPENDITURES

Table 15. Cash expenditures of KGHM INTERNATIONAL LTD. (in USD million)

	1st half 2020	1st half 2019	Change (%)	2Q 2020	1Q 2020
Victoria project	3	2	+50.0	2	1
Sierra Gorda Oxide project	0	1	(100.0)	0	0
Stripping and other	71	79	(10.1)	24	47
Ajax project	-	-	x	0	-
Total	74	82	(9.8)	26	48
Financing for Sierra Gorda S.C.M. - increase in the share capital	52	17	x3.1	52	-

Table 16. Cash expenditures of KGHM INTERNATIONAL LTD. (in PLN million)

	1st half 2020	1st half 2019	Change (%)	2Q 2020	1Q 2020
Victoria project	12	8	+50.0	8	4
Sierra Gorda Oxide project	0	4	(100.0)	0	0
Stripping and other	284	300	(5.3)	96	188
Ajax project	0	-	x	-	-
Total	296	312	(5.1)	104	192
Financing for Sierra Gorda S.C.M. - increase in the share capital	210	63	x3.3	210	-

Cash expenditures by the segment KGHM INTERNATIONAL LTD. in the first half of 2020 amounted to USD 74 million, or a decrease by USD 8 million (-10%) compared to the corresponding prior-year period.

Around 67% of cash expenditures were with respect to the Robinson mine and were mainly due to stripping.

USD 3 million was spent on the Victoria project, including among others securing existing infrastructure and project terrain. Moreover, exploratory work was continued, aimed at increasing knowledge of the orebody.

In the first half of 2020, Sierra Gorda required financing (in the form of increases in the share capital) at the level of USD 52 million (proportionally to the 55% interest held by the KGHM Group).

5. Results of the segment Sierra Gorda S.C.M.

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

The following production and financial data are presented on a 100% basis for the joint venture and proportionally to the interest in the company Sierra Gorda S.C.M. (55%), pursuant to the methodology of presentation of data in Part 2 of the consolidated financial statements.

5.1. PRODUCTION

In the second quarter of 2020 Sierra Gorda recorded an increase in copper production compared to the first three months of 2020. There was also significant improvement compared to 2019.

Table 17. Production of copper, molybdenum and precious metals by Sierra Gorda S.C.M.

	Unit	1st half 2020	1st half 2019	Change (%)	2Q 2020	1Q 2020
Copper production ⁽¹⁾	kt	71.3	53.2	+34.0	36.8	34.5
Copper production – segment (55%)	kt	39.2	29.2	+34.0	20.2	19.0
Molybdenum production ⁽¹⁾	mn lbs	9.1	10.3	(11.7)	6.1	3.0
Molybdenum production – segment (55%)	mn lbs	5.0	5.7	(11.7)	3.4	1.6
TPM production – gold ⁽¹⁾	koz t	29.5	26.4	+11.7	14.0	15.5
TPM production – gold – segment (55%)	koz t	16.2	14.5	+11.7	7.7	8.5

¹⁾ Payable metal in concentrate.

Sierra Gorda S.C.M. increased copper production by 18.1 thousand tonnes (+34%) compared to the level achieved in the first half of 2019, of which 14.2 thousand tonnes was due to extraction from areas with higher copper content. A program is being consistently advanced which is aimed in its first phase at stabilising average annual daily ore processing at the level of 130 thousand tonnes. The increase in processing by 9% was an important factor responsible for the increase in copper production by 5.0 thousand tonnes.

In the case of molybdenum, production was lower by 1.2 million pounds (12%) compared to the first half of 2019, mainly the result of lower metal content in ore and lower recovery.

In the first half of 2020, there were no production stoppages which would have been directly attributable to the epidemiological situation in Chile. In order to minimise risk, protect employees' health and ensure uninterrupted mine operations, a strict sanitary regime was instituted comprised of a variety of recommendations and restrictions applicable to employees and contractors.

5.2. REVENUES

In the first half of 2020, revenues from sales amounted to USD 474 million (on a 100% basis), or PLN 1 049 million respectively to the 55% interest held by KGHM Polska Miedź S.A.

Table 18. Sales volume and revenues of Sierra Gorda S.C.M.

	Unit	1st half 2020	1st half 2019	Change (%)	2Q 2020	1Q 2020
Revenues from contracts with customers,⁽¹⁾ including from the sale of:	mn USD	474	483	(1.9)	310	164
- copper	mn USD	362	313	+15.7	266	96
- molybdenum	mn USD	52	126	(58.7)	9	43
- TPM (gold)	mn USD	50	37	+35.1	29	21
Copper sales volume	kt	69.1	55.3	+25.0	42.1	27.0
Molybdenum sales volume	mn lbs	8.3	10.5	(21.0)	3.6	4.7
TPM (gold)	koz t	29.1	27.6	+5.4	15.9	13.2
Revenues from contracts with customers⁽¹⁾ - segment (55%)	mn PLN	1 049	1 007	+4.2	689	360

¹⁾ reflecting treatment/refining and other charges

Unlike the situation regarding production, the epidemic in Chile affected the sales of Sierra Gorda in the first quarter of 2020 due to stoppages in the port of Antofagasta. In the second quarter the situation improved substantially, as demonstrated by the significant increase in the volume of copper sales and revenues compared to the situation at the start of the year. Despite the improvement in the second quarter, revenues achieved in the first half of 2020 were 2% lower than in the corresponding period of 2019. The decrease in revenues was due to molybdenum and was the result of lower production (mining in areas with lower molybdenum content) as well as to lower prices.

The detailed impact of individual factors on revenues is described in the subsection discussing the financial results of Sierra Gorda S.C.M.

5.3. COSTS

The cost of sales, selling costs and administrative expenses incurred by the company Sierra Gorda S.C.M. amounted to USD 468 million, of which USD 32 million were selling costs and USD 18 million administrative expenses. Proportionally to the interest owned (55%) the costs of the segment Sierra Gorda amounted to PLN 1 036 million.

Table 19. Costs (prior to the impairment loss on non-current assets) and unit production cost of copper (C1) of Sierra Gorda S.C.M.

	Unit	1st half 2020	1st half 2019	Change (%)	2Q 2020	1Q 2020
Cost of sales, selling costs and administrative expenses	mn USD	468	430	+8.8	249	219
Cost of sales, selling costs and administrative expenses – segment (55% interest)	mn PLN	1 036	896	+15.6	556	480
C1 unit cost¹⁾	USD/lb	1.26	1.47	(14.3)	1.34	1.15

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

Compared to the corresponding period of 2019, the cost of sales, selling costs and administrative expenses expressed in million USD was USD 38 million (+9%) higher than in the first half of 2019. At the same time, the amount of copper sold was higher (+25%).

Apart from the increase in sales, amongst the factors most responsible for the higher costs were depreciation/amortisation (+64%), including mainly with respect to capitalised stripping (removal of overburden) due to the start of amortisation of a new zone and to a change in mining assumptions (a shortening of the extraction timetable for one of the mine zones compared to the plan). The cost of spare parts also increased (+18%) due to higher production, unplanned repairs and work related to improving operational processes, which lead to an increase in the efficiency of utilisation of the production assets.

There were decreases in the following cost categories:

- external services (-13%), mainly due to actions undertaken to restrict risk related to the impact of the COVID-19 epidemic (renegotiation of certain contracts/agreements, a change in suppliers and withdrawal from certain services of lesser importance for the production line),
- fuel (-22%) – due to a decrease in diesel fuel prices (-31%), alongside higher consumption due to the extension of ore transport roadways,
- labour (-20%) – mainly due to a more favourable USD/CLP exchange rate and to the conclusion in 2019 of wage negotiations, resulting in the payout of a bonus in the first half of 2019,
- energy (-7%) – due to a lower purchase price (-12%). The results of this were partially offset by higher consumption due to a greater amount of ore processed.

Other costs were not substantially different from the amounts recorded in the first half of 2019.

During the first six months of 2020 the unit cash cost of copper production (C1) amounted to 1.26 USD/lb, or a decrease by 14% compared to the first half of 2019, despite lower revenues from the sale of associated metals, which reduce this cost.

5.4. FINANCIAL RESULTS

In the second quarter of 2020, Sierra Gorda S.C.M. improved its operating results, as shown by the profit on sales versus the loss recorded in the first quarter of 2020 and the nearly three-times higher adjusted EBITDA during this period. As a result, adjusted EBITDA for the first half of 2020 amounted to USD 194 million, of which proportionally to the interest held (55%) PLN 428 million is attributable to the KGHM Group.

Table 20. Results of Sierra Gorda S.C.M. in USD million (on a 100% basis)

	1st half 2020	1st half 2019	Change (%)	2Q 2020	1Q 2020
Revenues from contracts with customers	474	483	(1.9)	310	164
Cost of sales, selling costs and administrative expenses	(468)	(430)	+8.8	(249)	(219)
Profit/(loss) on sales	6	53	(88.7)	61	(55)
Profit/(loss) for the period	(139)	(118)	+17.8	(36)	(103)
Depreciation/amortisation recognised in profit or loss	(188)	(114)	+64.9	(86)	(102)
Adjusted EBITDA¹⁾	194	167	+16.2	147	47

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

Table 21. Results of the segment Sierra Gorda S.C.M. proportionally to the interest held (55%) in PLN million

	1st half 2020	1st half 2019	Change (%)	2Q 2020	1Q 2020
Revenues from contracts with customers	1 049	1 007	+4.2	689	360
Cost of sales, selling costs and administrative expenses	(1 036)	(896)	+15.6	(556)	(480)
Profit/(loss) on sales	13	111	(88.3)	133	(120)
Profit/(loss) for the period	(308)	(246)	+25.2	(82)	(226)
Depreciation/amortisation recognised in profit or loss	(415)	(238)	+74.4	(191)	(224)
Adjusted EBITDA⁽¹⁾	428	349	+22.6	324	104

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

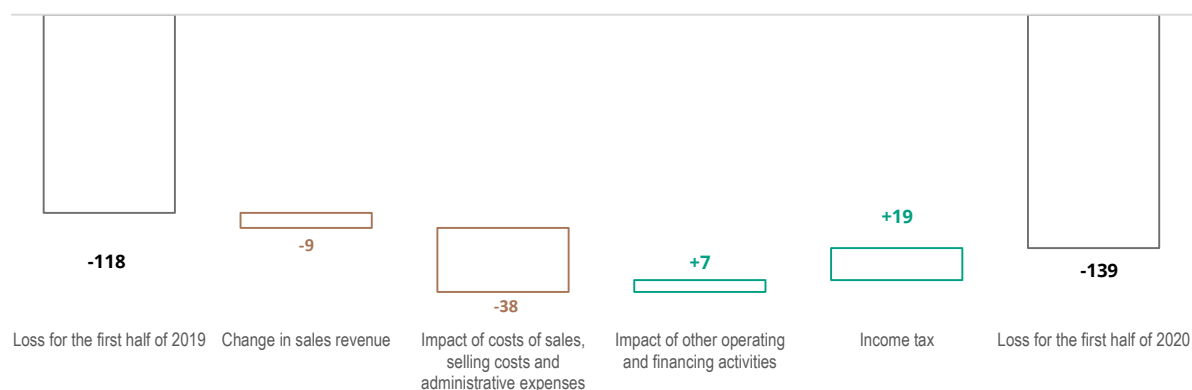
The increase in copper sales and the improvement in cost efficiency offset the negative impact of extracting ore with a lower molybdenum content as well as the lower prices of this metal. As a result, EBITDA was higher by 16% (in PLN) compared to the amount recorded in the first half of 2019.

A summary of the major factors affecting revenues and costs, and therefore EBITDA, is presented in the following table.

Table 22. Main factors impacting the change in the financial result of the segment Sierra Gorda S.C.M.

Item	Impact on change of profit or loss (in USD million)	Description
Lower sales revenue by USD 9 million	+72	A higher copper sales volume by 14 thousand tonnes.
	(79)	Lower revenues due to lower copper and molybdenum prices (- USD 99 million) and due to a Mark to Market adjustment (+USD 20 million).
	(19)	Lower molybdenum sales by 2.2 million pounds
	+17	Other factors, mainly higher revenues from the sale of gold and silver.
Higher costs of sales, selling costs and administrative expenses by USD 38 million	(73)	Higher depreciation/amortisation, mainly capitalised stripping.
	(8)	Higher costs, mainly spare parts and transport (a higher copper sales volume)
	+43	A decrease in costs: external services by USD 14 million, labour costs by USD 11 million, energy by USD 6 million, fuels by USD 6 million, materials by USD 3 million and other costs by USD 3 million
	+29	Change in inventories
Impact of other operating activities – an increase in the result by USD 5 million	(29)	Lower capitalised stripping costs
	+5	Mainly a more favourable result on exchange rate differences.
An increase in the result on financing activities by USD 2 million	+2	Among others a lower level of interest on a loan drawn to build the mine due to the continued repayment of borrowings in this regard.
Income tax	+19	A higher tax asset due to higher deductible temporary differences

Chart 13. Change in profit/loss (in USD million)



5.5. CASH EXPENDITURES

In the first half of 2020, cash expenditures on property, plant and equipment and intangible assets, reflected in the statement of cash flows of Sierra Gorda S.C.M., amounted to USD 116 million, of which the majority, or USD 76 million (66%) were cash expenditures incurred on stripping to gain access to further areas of the deposit, with the rest related to development work and the replacement of property, plant and equipment.

Table 23. Cash expenditures of Sierra Gorda S.C.M.

	Unit	1st half 2020	1st half 2019	Change (%)	2Q 2020	1Q 2020
Cash expenditures on property, plant and equipment	mn USD	116	141	(17.7)	48	68
Cash expenditures on property, plant and Equipment – segment (55% share)	mn PLN	256	294	(12.9)	106	150

The decrease in cash expenditures (expressed in USD) by USD 25 million, or 18%, was due to capitalised stripping costs (-USD 28 million) due to the smaller scope of work carried out and, to a lesser extent, expenditures on the replacement of property, plant and equipment (-USD 5 million), mainly due to deferral of the investment schedule. Development expenditures were higher than those incurred in the corresponding period of 2019 by USD 7 million.

The main source of financing investments was the inflow from operating activities and loans, including a bank loan granted by Bank Gospodarstwa Krajowego (USD 100 million in the first half of 2020). Due to the uncertainty on the copper market in the initial months of 2020, Sierra Gorda S.C.M. also required owner financing, which amounted to USD 95 million (USD 30 million in the first half of 2019).

6. Consolidated financial results of the KGHM Polska Miedź S.A. Group

6.1. FINANCIAL RESULTS

Statement of profit or loss

Table 24. Financial results of the Group (in PLN million)

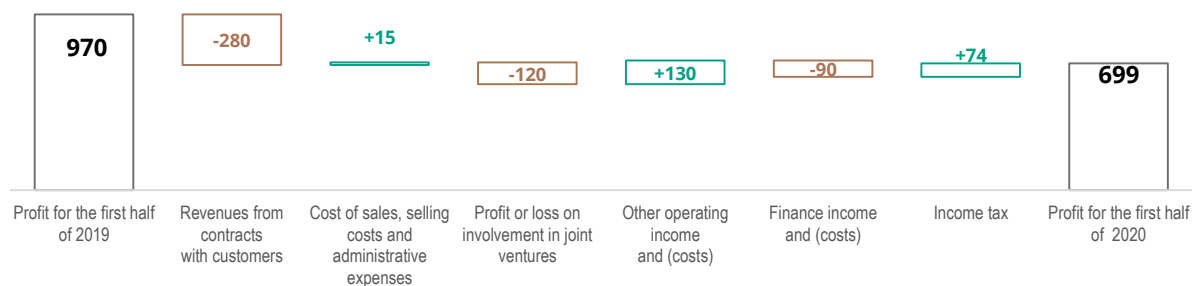
	1st half 2020	1st half 2019	Change (%)	2Q 2020	1Q 2020
Revenues from contracts with customers	10 948	11 228	(2.5)	5 649	5 299
Cost of sales, selling costs and administrative expenses	(9 808)	(9 823)	(0.2)	(5 004)	(4 804)
Profit on sales	1 140	1 405	(18.9)	645	495
Profit/(loss) on involvement in joint ventures	(17)	103	×	(113)	96
Other operating income/(costs)	160	30	×5.3	(680)	840
Finance income/(costs)	(176)	(86)	×2.0	326	(502)
Profit before income tax	1 107	1 452	(23.8)	178	929
Income tax expense	(408)	(482)	(15.4)	(169)	(239)
Profit/(loss) for the period	699	970	(27.9)	9	690
Adjusted EBITDA⁽¹⁾	2 651	2 732	(3.0)	1 522	1 129

⁽¹⁾ Adjusted EBITDA = profit on sales + depreciation/amortisation (recognised in profit or loss) + impairment loss (-reversal of impairment losses) on non-current assets, recognised in cost of sales, selling costs and administrative expenses – total segments, pursuant to the data in part 2 of the consolidated financial statements – together with Sierra Gorda S.C.M.

Table 25. Main factors impacting the change of the Group's profit or loss

Item	Impact on change of profit or loss (in PLN million)	Description
Revenues from contracts with customers	(280)	A decrease in revenues relates mainly to a decrease in revenues from copper sales by PLN 370 million and services by PLN 188 million alongside an increase in revenues from silver sales by PLN 219 million and gold sales by PLN 121 million. The detailed reasons for the change in the revenues of the segments KGHM Polska Miedź S.A. and KGHM INTERNATIONAL LTD. are described in parts 3 and 4 of this report.
Cost of sales, selling costs and administrative expenses	+15	A decrease in cost of sales, selling costs and administrative expenses is mainly the result of a decrease in expenses by nature by PLN 344 million alongside an increase in inventories of finished products by PLN 211 million and a decrease in the adjusted costs of manufacturing products for internal use by PLN 101 million. The detailed reasons for the change in costs in the segments KGHM Polska Miedź S.A. and KGHM INTERNATIONAL LTD. are described in parts 3 and 4 of this report.
Profit/(loss) on involvement in joint ventures	(120)	The decrease in the result on involvement in joint ventures from +PLN 103 million to -PLN 17 million was due to: <ul style="list-style-type: none"> - a higher share of losses of joint ventures accounted for using the equity method by PLN 147 million, - higher interest income on loans granted to joint ventures by PLN 27 million.
Other operating income/(costs)	+130	The increase in the result on other operating activities from PLN 30 million to PLN 160 million was mainly due to: <ul style="list-style-type: none"> - a higher result on exchange differences on assets and liabilities other than borrowings by PLN 270 million, - a lower result on the measurement and realisation of derivatives by PLN 103 million, - lower revenues from the release of provisions by PLN 50 million - higher costs of provisions recognised by PLN 19 million
Finance income/(costs)	-90	The change in finance income/(costs) from -PLN 86 million to -PLN 176 million was mainly due to a higher result on exchange differences on borrowings by PLN 95 million.
Income tax expense	+74	The decrease in income tax expense was due to a decrease in profit before income tax.

Chart 14. Change in profit or loss in the first half of 2020 (in PLN million)



Cash flow

Table 26. Cash flow of the Group (in PLN million)

	1st half 2020	1st half 2019	Change (%)	2Q 2020	1Q 2020
Profit or loss before income tax	1 107	1 452	(23.8)	178	929
Depreciation/amortisation recognised in profit or loss	953	921	+3.5	470	483
Share of losses of joint ventures accounted for using the equity method	210	63	×3.3	210	
Interest on loans granted to joint ventures	(193)	(166)	+16.3	(97)	(96)
Interest on borrowings	113	99	+14.1	62	51
Impairment losses on non-current assets	92	-	×	65	27
Losses from the disposal of property, plant and equipment and intangible assets	29	2	×14.5	29	-
Exchange differences	(467)	47	×	87	(554)
Change in provisions and employee benefits liabilities	(15)	(60)	(75.0)	32	(47)
Change in other receivables and liabilities other than working capital	(73)	(290)	(74.8)	91	(164)
Change in assets and liabilities due to derivatives	273	(50)	×	35	238
Reclassification of other comprehensive income to profit or loss due to the realisation of hedging derivatives	(154)	(15)	×10.3	(97)	(57)
Other adjustments	10	13	(23.1)	9	1
Exclusions of income and costs, total	778	564	+37.9	896	(118)
Income tax paid	(386)	(257)	+50.2	(196)	(190)
Changes in working capital	432	(145)	×	102	330
Net cash generated from operating activities	1 931	1 614	+19.6	980	951
Expenditures on mining and metallurgical assets	(1 389)	(1 416)	(1.9)	(566)	(823)
Expenditures on other property, plant and equipment and intangible assets	(192)	(188)	+2.1	(52)	(140)
Expenditures on financial assets designated for mine decommissioning and other technological facilities	(22)	(292)	(92.5)	-	(22)
Acquisition of newly – issued shares of joint ventures	(207)	(63)	×3.3	(207)	-
Proceeds from financial assets designated for mine decommissioning and other technological facilities	1	268	(99.6)	-	1
Advances granted on property, plant and equipment and intangible assets	(25)	(14)	+78.6	(25)	-
Other	9	9	-	8	1
Net cash used in investing activities	(1 825)	(1 696)	+7.6	(842)	(983)
Proceeds from borrowings	4 157	3 425	+21.4	2 417	1 740
Proceeds from the issue of debt financial instruments	-	2 000	×	-	-
Proceeds from derivatives related to sources of external financing	33	-	×	33	-
Repayments of borrowings	(3 147)	(5 024)	(37.4)	(2 695)	(452)
Repayment of lease liabilities	(44)	(24)	+83.3	(31)	(13)
Expenditures due to derivatives related to sources of external financing	(40)	-	×	(40)	-
Interest paid	(135)	(108)	+25.0	(68)	(67)
Other	2	1	×2.0	1	1
Net cash generated from/(used in) financing activities	826	270	×3.1	(383)	1 209
NET CASH FLOW	932	188	×5.0	(245)	1 177
Exchange differences	3	(39)	×	(2)	5
Cash and cash equivalents at beginning of the period	1 016	957	+6.2	2 198	1 016
Cash and cash equivalents at end of the period	1 951	1 106	+76.4	1 951	2 198

Net cash generated from operating activities in the first half of 2020 amounted to PLN 1 931 million and was mainly comprised of profit before income tax of PLN 1 107 million, increased by adjusted depreciation/amortisation in the amount of PLN 953 million, the adjusted share of losses of joint ventures accounted for using the equity method of PLN 210 million, adjustment of interest on borrowings of PLN 113 million, adjusted impairment losses on non-current assets of PLN 92 million, the change in assets and liabilities due to derivatives of PLN 273 million and the change in working capital of PLN 432 million (including the change in trade liabilities transferred to factoring of PLN 329 million).

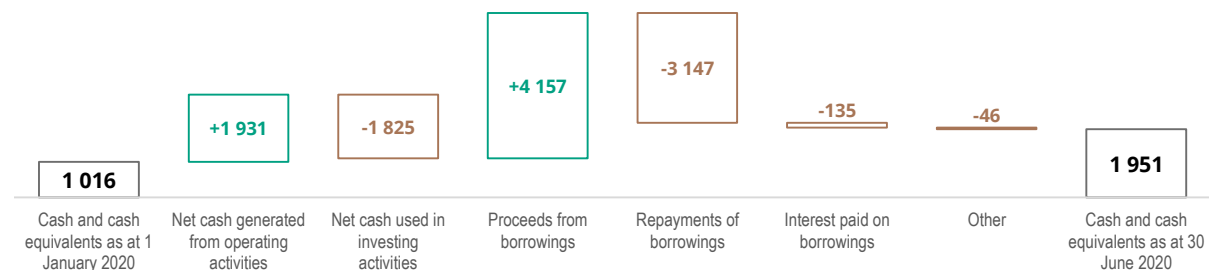
The decrease in cash generated from operating activities was mainly due to an adjustment of interest on loans granted to joint ventures of PLN 193 million, adjusted exchange differences of PLN 467 million, the change in other receivables and liabilities of PLN 73 million, the reclassification of other comprehensive income to profit or loss due to the realisation of hedging derivatives of PLN 154 million and income tax paid of PLN 386 million.

Net cash used in investing activities in the first half of 2020 amounted to -PLN 1 825 million and mainly comprised expenditures on property, plant and equipment and intangible assets in the amount of PLN 1 581 million, expenditures on the acquisition of newly-issued shares of joint ventures in the amount of PLN 207 million and expenditures on financial assets designated for mine decommissioning and other technological facilities in the amount of PLN 22 million, as well as advances granted on property, plant and equipment and intangible assets of PLN 25 million.

Net cash used in financing activities in the first half of 2020 amounted to PLN 826 million and mainly comprised proceeds from borrowings in the amount of PLN 4 157 million, repayments of borrowings of PLN 3 147 million and interest paid in the amount of PLN 135 million.

After reflecting exchange differences on cash and cash equivalents, cash and cash equivalents in the first half of 2020 increased by PLN 935 million and at 30 June 2020 amounted to PLN 1 951 million.

Chart 15. Cash flow in the first half of 2020 (in PLN million)



Assets

Table 27. Consolidated assets (in PLN million)

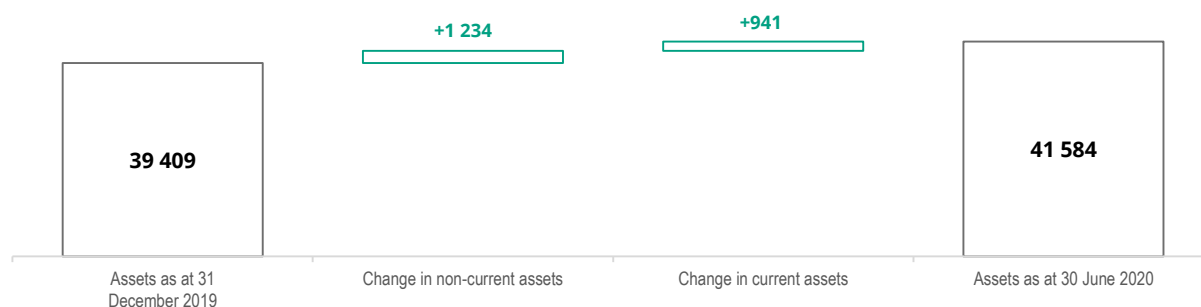
	30.06.2020	31.12.2019	Change (%)	31.03.2020
Mining and metallurgical property, plant and equipment	19 945	19 498	+2.3	19 793
Mining and metallurgical intangible assets	2 076	1 966	+5.6	2 197
Other property, plant and equipment	2 779	2 829	(1.8)	2 852
Other intangible assets	134	155	(13.5)	178
Involvement in joint ventures – loans granted	6 159	5 694	+8.2	6 317
Derivatives	243	124	+96.0	24
Other financial instruments measured at fair value	581	448	+29.7	345
Other financial instruments measured at amortised cost	710	656	+8.2	688
Deferred tax assets	141	157	(10.2)	163
Other non-financial assets	135	142	(4.9)	128
Non-current assets	32 903	31 669	+3.9	32 685
Inventories	4 615	4 741	(2.7)	4 951
Trade receivables	747	688	+8.6	667
Tax assets	498	571	(12.8)	482
Derivatives	222	293	(24.2)	892
Other financial assets	301	280	+7.5	394
Other non-financial assets	347	151	+2.3	327
Cash and cash equivalents	1 951	1 016	+92.0	2 198
Current assets	8 681	7 740	+12.2	9 911
Total assets	41 584	39 409	+5.5	42 596

As at 30 June 2020, total assets in the consolidated statement of financial position amounted to PLN 41 584 million and were higher as compared to 31 December 2019 by PLN 2 175 million.

Non-current assets as at 30 June 2020 amounted to PLN 32 903 million and were higher by PLN 1 234 million as compared to the end of 2019. The increase in non-current assets was mainly due to property, plant and equipment and intangible assets by PLN 486 million and to loans granted to joint ventures by PLN 465 million, derivatives by PLN 119 million and other financial instruments measured at fair value by PLN 133 million.

Current assets as at 30 June 2020 amounted to PLN 8 681 million and were higher by PLN 941 million as compared to the end of 2019. The increase in current assets was mainly due to cash and cash equivalents by PLN 935 million and other non-financial assets by PLN 196 million. As compared to the end of 2019, there was a decrease mainly in the following items: inventories by PLN 126 million, tax assets by PLN 73 million and derivatives by PLN 71 million.

Chart 16. Change in assets in the first half of 2020 (in PLN million)



Equity and liabilities

Table 28. Consolidated equity and liabilities (in PLN million)

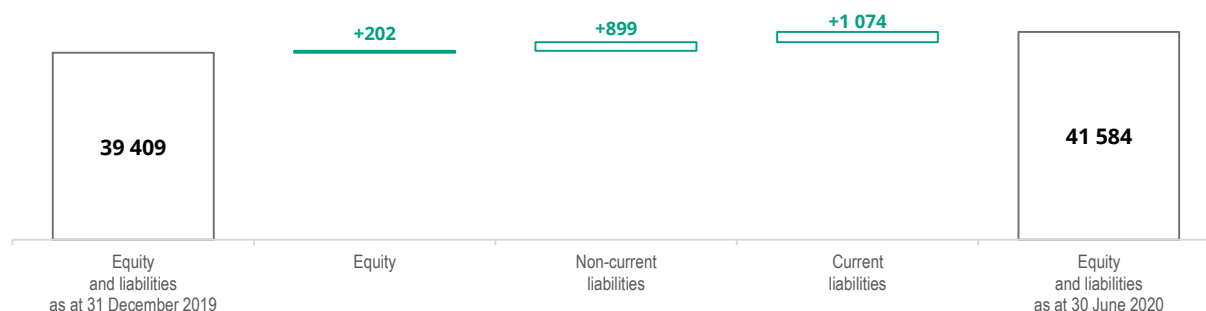
	30.06.2020	31.12.2019	Change (%)	31.03.2020
Share capital	2 000	2 000	-	2 000
Other reserves from measurement of financial instruments	(897)	(738)	+21.5	(796)
Accumulated other comprehensive income	1 616	1 954	(17.3)	1 583
Retained earnings	17 596	16 894	+4.2	17 586
Equity attributable to shareholders of the Parent Entity	20 315	20 110	+1.0	20 373
Equity attributable to non-controlling interest	89	92	(3.3)	90
Equity	20 404	20 202	+1.0	20 463
Borrowings, leases and debt securities	7 697	7 525	+2.3	9 218
Derivatives	574	183	+3.1	588
Employee benefits liabilities	2 874	2 613	+10.0	2 772
Provisions for decommissioning costs of mines and other facilities	1 870	1 774	+5.4	1 855
Deferred tax liabilities	428	445	(3.8)	397
Other liabilities	627	631	(0.6)	641
Non-current liabilities	14 070	13 171	+6.8	15 471
Borrowings, leases and debt securities	1 201	348	+3.5	404
Derivatives	205	91	+2.3	341
Trade and similar payables	2 856	2 766	+3.3	2 879
Employee benefits liabilities	1 178	1 150	+2.4	1 211
Tax liabilities	411	433	(5.1)	422
Provisions for liabilities and other charges	193	222	(13.1)	203
Other liabilities	1 066	1 026	+3.9	1 202
Current liabilities	7 110	6 036	+17.8	6 662
Non-current and current liabilities	21 180	19 207	+10.3	22 133
Total equity and liabilities	41 584	39 409	+5.5	42 596

Equity as at 30 June 2020 amounted to PLN 20 404 million and was higher by PLN 202 million than at the end of 2019, mainly due to an increase in retained earnings by PLN 702 million alongside a decrease in accumulated other comprehensive income by PLN 338 million and an increase in the negative amount of other reserves from the measurement of financial instruments by PLN 159 million.

Non-current liabilities of the KGHM Polska Miedź S.A. Group as at 30 June 2020 amounted to PLN 14 070 million and were higher by PLN 899 million as compared to the end of 2019, mainly due to an increase in non-current borrowings, leases and debt securities by PLN 172 million, derivatives by PLN 391 million, employee benefits liabilities by PLN 261 million and provisions for decommissioning costs of mines and other facilities by PLN 96 million.

Current liabilities of the KGHM Polska Miedź S.A. Group as at 30 June 2020 amounted to PLN 7 110 million and were higher by PLN 1 074 million as compared to the end of 2019, mainly due to an increase in borrowings, leases and debt securities by PLN 853 million, derivatives by PLN 114 million and trade and similar payables by PLN 90 million.

Chart 17. Change in equity and liabilities in the first half of 2020 (in PLN million)



Contingent assets and liabilities

As at 30 June 2020, the value of contingent assets amounted to PLN 596 million and was lower than the amount at the end of 2019 by PLN 34 million.

As at 30 June 2020, the value of contingent liabilities amounted to PLN 1 625 million and was lower than the amount at the end of 2019 by PLN 257 million. The decrease was mainly due to guarantees granted and letters of credit by PLN 228 million.

6.2. FINANCING OF GROUP ACTIVITIES

The Group manages its financial resources based on the approved Financial Liquidity Management Policy in the KGHM Group. Its primary goal is to ensure continuous operations by securing the availability of funds required to achieve the Group's business goals, while optimising incurred costs. Moreover, the Policy regulates the Group's borrowing principles, the principles of managing debt and for monitoring the level of the Group's debt, and provides for the centralisation of borrowing at the level of the Parent Entity. Financial liquidity management involves securing an appropriate amount of cash and available lines of credit in the short, medium and long term.

Net debt in the Group

Liabilities due to borrowings of the Group as at 30 June 2020 amounted to PLN 8 898 million, 97% of which represented debt of the Parent Entity. The increase in debt in the first half of 2020 by PLN 1 025 million as compared to the end of 2019 was due to the decision to retain liquid cash reserves in the bank accounts of the Parent Entity. As a result of these actions, the amount of free cash and cash equivalents held by the Group increased by PLN 940 million compared to the end of 2019 and as at 30 June 2020 amounted to PLN 1 922 million. The Group's free cash and cash equivalents are of a short term nature.

Table 29. Net debt structure of the Group (in PLN million)

	30.06.2020	31.12.2019	Change (%)
Liabilities due to:	8 898	7 873	+13.0
Bank loans	3 257	2 386	+36.5
Loans	2 937	2 794	+5.1
Debt securities - bonds	2 000	2 001	(0.0)
Leases	704	692	+1.7
Free cash and cash equivalents	1 922	982	+95.7
Net debt	6 976	6 891	+1.2

Sources of financing in the Group

As at 30 June 2020, the Group held open lines of credit, loans and debt securities with a total available amount of PLN 13 746 million, out of which PLN 6 194 million had been drawn in the form of bank and other loans, while liabilities due to bonds issued by the Parent Entity amounted to PLN 2 000 million.

Unsecured, revolving syndicated credit facility in the amount of USD 1.5 billion

Financing agreement entered into by the Parent Entity with a syndicate banks group in 2019 in the amount of USD 1 500 million, with maturity falling on 19 December 2024 and the option of extending for a further 2 years (5+1+1).

The funds acquired under this credit are being used to finance general corporate goals.

Investment loans, including from the European Investment Bank in the total amount of PLN 2.9 billion with a financing periods of up to 12 years

Financing agreements signed by the Parent Entity with the European Investment Bank:
 – in August 2014 in the amount of PLN 2 000 million, which was drawn in the form of three instalments with maturities falling on 30 October 2026, 30 August 2028 and 23 May 2029 and used to the full available amount. The funds acquired through this loan are being used to finance the Parent Entity's investment projects related to modernisation of metallurgy and development of the Żelazny Most tailings storage facility,

- in December 2017 in the amount of PLN 900 million, with availability of instalments of 34 months from the date the agreement was signed. Under this loan the Company drew three instalments with maturities falling on 28 June 2030, 23 April 2031 and 11 September 2031. As at 30 June 2020, the available, undrawn limit amounted to PLN 62 million. The funds acquired through this loan are being used to finance the Parent Entity's development and replacement projects at various stages of the production line.

Bilateral bank loans in the amount of up to PLN 2.7 billion

The Group has open lines of credit in the form of bilateral agreements in the total amount of PLN 2 666 million. These are working capital facilities and overdraft facilities with availability of up to 4 years, the maturities of which are successively extended for subsequent periods, as well as long-term investment bank loans.

The funds obtained under the aforementioned bank loan agreements are a tool supporting the management of current financial liquidity and support the financing of investments advanced by the Group's companies.

Debt securities in the amount of PLN 2.0 billion

An issue agreement dated 27 May 2019 established the bond issue program on the Polish market. The first issue of bonds with a nominal value of PLN 2 000 million took place on 27 June 2019, under which 5-year bonds were issued in the amount of PLN 400 million with maturity falling on 27 June 2024 and 10-year bonds in the amount of PLN 1 600 million with maturity falling on 27 June 2029. The funds obtained from the bond issue were used to finance general corporate goals.

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

Debt position as at 30 June 2020

The following table presents the structure of sources of financing used by the Group and the extent to which they were utilised.

Table 30. Amount of external financing available and drawn by the Group (in PLN million)

	Amount drawn as at 30.06.20	Amount drawn as at 31.12.19	Change (%)	Amount available as at 30.06.20	Amount drawn (%)
Unsecured, revolving syndicated credit facility	778	18	x43.2	5 971	13.0
Loans	2 937	2 794	+5.1	3 109	94.5
Bilateral bank loans	2 479	2 368	+4.7	2 666	93.0
Debt securities - bonds	2 000	2 001 ⁽¹⁾	(0.0)	2 000	100.0
Total	8 194	7 181	+14.1	13 746	59.6

¹⁾ Amount drawn includes accrued interest, unpaid as at the reporting date

Cash pooling in the Group

In managing its financial liquidity, the Group utilises tools which support its efficiency. One of the basic instruments used by the Group is the cash pooling management system - domestically in PLN, USD and EUR and abroad in USD, and in the KGHM INTERNATIONAL LTD. Group also in CAD. The cash pooling system is aimed at optimising cash management, limiting interest costs, the effective financing of current needs in terms of working capital and supporting short term financial liquidity in the Group.

Loans granted

As at 30 June 2020, the balance of loans granted by the Group amounted to PLN 6 188 million. This item mainly comprises long-term loans with interest based on a fixed interest rate, granted by the KGHM INTERNATIONAL LTD. Group to finance mining assets in Chile and Canada.

Liabilities due to guarantees granted

As at 30 June 2019, the Group held liabilities due to guarantees and letters of credit granted in the total amount of PLN 2 504 million and due to promissory notes liabilities in the amount of PLN 144 million.

Detailed information on the amount and nature of liabilities due to guarantees granted may be found in part 4 of the half-year condensed consolidated financial statements – Liquidity risk and capital management.

As at 30 June 2020 the Parent Entity had guaranteed repayments of bank loans drawn by the joint venture Sierra Gorda S.C.M. in respect of the following entities:

- Banco de Chile in the amount of PLN 40 million (USD 10 million),
- Banco del Estado de Chile in the amount of PLN 386 million (USD 97 million),
- Banco Santander Chile S.A. in the amount of PLN 441 million (USD 111 million),
- Bank Gospodarstwa Krajowego in the amount of PLN 219 million (USD 55 million),

- Sumitomo Metal Mining Co. Ltd. and Sumitomo Corporation in the amount of PLN 383 million (USD 96 million).

The repayment deadlines for the bank loan guarantees granted are in 2020 and 2021.

The guarantees were granted under arm's length conditions.

Evaluation of Group liquidity

In the first half of 2020, the KGHM Polska Miedź S.A. Group was fully capable of repaying its liabilities towards other entities. The cash and cash equivalents held by the Group along with the external financing obtained ensure that liquidity will be maintained and enables the achievement of investment goals.

7. Other information

7.1. DESCRIPTION OF BASIC THREATS AND RISK FACTORS ASSOCIATED WITH THE SUBSEQUENT MONTHS OF THE FINANCIAL YEAR

Comprehensive Risk Management System in the KGHM Polska Miedź S.A. Group

The KGHM Polska Miedź S.A. Group defines risk as uncertainty, being an integral part of the activities conducted and having the potential to result in both opportunities and threats to achievement of the business goals. The current and future, actual and potential impact of risk on the KGHM Polska Miedź S.A. Group's activities is assessed. Based on this assessment, management practices are reviewed and adjusted in terms of responses to individual risk factors.

Under the current Corporate Risk Management Policy and Procedure and the Rules of the Corporate Risk and Compliance Committee, the process of corporate risk management in the Group is consistently performed. KGHM Polska Miedź S.A. oversees the process of managing corporate risk in the Group, while in the companies of the Group, documents regulating the management of corporate risk are consistent with those of the Parent Entity.

Risk factors in various areas of the Group's operations are continuously identified, assessed and analysed in terms of their possible limitation. Key risk factors in the Group undergo in-depth analysis in order to develop a Risk Response Plan and Corrective Actions. Other risk factors undergo monitoring by the Department of Corporate Risk Management and Compliance, and in terms of financial risk by the division of the Executive Director for Treasury Operations - Corporate Treasurer.

The breakdown of rights and responsibilities applies best practice principles for Corporate Governance and the generally recognised model of three lines of defense.

Corporate risk – Key risk factors and their mitigation

A detailed description of key risk factors of the KGHM Polska Miedź S.A. Group, together with mitigating actions and with an indication of specific risk factors for the Parent Entity and the KGHM INTERNATIONAL LTD. Group, was presented in the Management Board's Report on the Activities of KGHM Polska Miedź S.A. and KGHM Polska Miedź S.A. Group in 2019 in chapter 12, „Risk management in the Group”, available at the Company's website, [www.kghm.com \(https://kghm.com/en/investors/reports-and-presentations/financial-reports\)](https://kghm.com/en/investors/reports-and-presentations/financial-reports).

Impact of the COVID-19 (coronavirus) epidemic on risk assessment

Evaluation of the key categories of risk which are impacted by the coronavirus pandemic underwent detailed analysis by the on-going monitoring of selected information in the areas of production, sales, supply chains, personnel management and finance, in order to support the process of reviewing the current financial and operating situation of the KGHM Polska Miedź S.A. Group.

From the Group's point of view, a significant effect of the coronavirus epidemic is its impact on market risk related to the volatility of metals prices and market indices. As at 30 June 2020, the price of copper amounted to 6 038 USD/t, or 2% lower versus the price at the end of 2019. The Company's share price in the first half of 2020 fell by 5% compared to the price at the end of 2019, and at the close of trading on 30 June 2020 it amounted to PLN 90.90. During this same period the WIG and WIG20 indices fell respectively by 14% and 18%. As a result the Company's market capitalisation decreased from PLN 19 116 million to PLN 18 180 million, or 10% and 11% respectively below the level of net assets of the Company and the Group.

As at 17 August 2020 the copper price amounted to 6 439 USD/t, while the Company's share price amounted to PLN 135.95. The increase in the Parent Entity's share price led to an increase in the Company's market capitalisation, which at 17 August 2020 amounted to PLN 27 190 million, indicating that the market capitalisation exceeds the net value of the Company's and Group's assets respectively by 34% and 33%.

As at the date of publication of this report, the Management Board of the Parent Entity remains of the opinion that the risk of interruptions to its operations due to the coronavirus is low. There continue to be seen slight interruptions to the supply chains for materials and services, caused by logistical restrictions. In the first half of 2020, although the situation on the copper scrap market resulted in a restriction of supplies to the Copper Smelters and Refineries, as a result of

actions taken the volume of supplies secured the production needs of the Parent Entity. Systematic contact with suppliers enables quick reaction to delays by utilising the strategy of diversification of suppliers and the application of alternative solutions applied by the Group.

In addition, the KGHM Polska Miedź S.A. Group has developed an action plan to deal with restrictions or interruptions to production or with the temporary suspension of operations. The Parent Entity also has all of the documentation required under the „Geological and Mining Law” along with executory decrees in this regard, concerning in particular the continuity of mining operations.

In terms of sales the Parent Entity for many years had a stable base of customers, with whom it maintains steady contact. At the present time most of these customers are continuing to experience little impact from the epidemic on their activities, thanks to which their liabilities due to sales to the Parent Entity are being regulated on time. Despite periodic decreases in demand and the optimisation by customers of inventories of raw materials and finished products, worthy of note is the substantial rate of orders, while the execution of deliveries to customers continues without interruption.

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

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

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

The Group continues to advance investment projects in accordance with the adopted schedules, and at the same time has not identified any heightened risk related to their continuation resulting from the coronavirus pandemic.

During the reported period there have not occurred any interruptions to operations of the Group as a result of infections from the virus amongst the employees. There has still not been any substantial increase recorded in absenteeism either amongst the employees of the Parent Entity's core production business or in the domestic and international production assets due to the epidemic. Solutions already implemented by the Group in terms of ensuring employee safety are continually being analysed and assessed, while additional solutions aimed at restricting the risk of the virus being spread amongst the staff are continually being implemented.

As a result of the continuing spread of the COVID-19 (coronavirus) epidemic around the world, the Parent Entity maintains on-going monitoring of the global economic situation in order to evaluate its impact on the KGHM Polska Miedź S.A. Group and to undertake actions mitigating this impact. Questions related to the COVID-19 pandemic and its impact on the operations of the KGHM Polska Miedź S.A. Group are described in section 7.2 of this Report, „7.2. Factors which, in the issuer's opinion, will impact its results over at least the following quarter” and note 5.6 of the consolidated financial statements.

Market risk management

In terms of market risk management (in particular the risk of changes in metals prices and exchange rates) of greatest significance and impact on the results of the Group are the scale and nature of the activities of the Parent Entity and the mining companies of KGHM INTERNATIONAL LTD. The Parent Entity actively manages market risk, undertaking actions and decisions in this regard within the context of the global exposure throughout the KGHM Polska Miedź S.A. Group.

Commodity risk, currency risk

In terms of the strategic management of market risk, in the first half of 2020 the Parent Entity restructured an open position on the copper market. Part of the *seagull* options structure hedging revenues from sales in the period from March to December 2020 with a total notional amount of 20 thousand tonnes (of which: 12 thousand tonnes in the second half of 2020) was closed. In addition, in the first half of 2020 hedging strategies were implemented on the copper market (*seagull* options structures) with a total notional amount of 108 thousand tonnes and maturity from January 2021 to December 2021 were implemented. In the first half of 2020 the Parent Entity did not enter into any hedging transactions on the forward silver market.

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

Moreover, as at 30 June 2020 the Parent Entity held open CIRS (*Cross Currency Interest Rate Swap*) transactions for the total notional amount of PLN 2 billion, hedging against market risk related to the issue of bonds in PLN with a variable interest rate. Debt due to bonds denominated in PLN generate currency risk due to the fact that most of the Parent Entity's sales revenue is denominated in USD.

	<p>In terms of managing currency risk, the Parent Entity applies natural hedging by borrowing in currencies in which it has revenues. The value of bank and investment loans as at 30 June 2020 drawn in USD, following their translation into PLN, amounted to PLN 5 893 million (at 31 December 2019: PLN 4 980 million).</p> <p>In the first half of 2020, none of the Group's mining subsidiaries implemented forward transactions on the metals and currency markets, and did not hold open positions as at 30 June 2020. There did exist risk related to metals prices involving derivatives embedded in long-term contracts for the supply of sulphuric acid and water.</p> <p>Some of the Group's Polish companies managed the currency risk related to their core businesses by opening derivative transactions on the currency market.</p>
Interest rate risk	<p>As at 30 June 2020, the balance of positions exposed to interest rate risk by impacting the amount of interest income and costs was as follows:</p> <ul style="list-style-type: none"> - cash and cash equivalents: PLN 2 335 million, including the deposits of special purpose funds: the Mine Closure Fund and the Tailings Storage Facility Restoration Fund, - borrowings: PLN 4 783 million, - trade and similar payables: PLN 945 million. <p>As at 30 June 2020, the balance of positions exposed to interest rate risk due to changes in the fair value of instruments with fixed interest rates was as follows:</p> <ul style="list-style-type: none"> - receivables due to loans granted by the Group: PLN 16 million, - liabilities due to borrowings (i.e. due to bank and other loans drawn with fixed interest rates): PLN 3 411 million. <p>In the first half of 2020, the Parent Entity did not implement any transactions hedging against the risk of interest rate changes. As at 30 June 2020, it held open CIRS (<i>Cross Currency Interest Rate Swap</i>) transactions for the notional amount of PLN 2 billion, hedging against risk related to the issue of bonds in PLN with a variable interest rate, as well as CAP derivative transactions on the interest rate market falling in the third quarter of 2020.</p>
Result on derivatives and hedging transactions	<p>The total impact of derivatives and hedging instruments (transactions on the copper, silver, currency and interest rate markets as well as embedded derivatives and a USD-denominated loan designated as a hedge against a change in the exchange rate) on the Group's profit or loss in the first half of 2020 amounted to PLN 169 million, of which:</p> <ul style="list-style-type: none"> - PLN 292 million adjusted revenues from contracts with customers, - PLN 116 million decreased the result on other operating activities, - PLN 7 million decreased the result on financing activities (including: -PLN 1 million as an adjustment of interest on borrowings). <p>In addition, in the first half of 2020 other comprehensive income decreased by PLN 332 million (impact of hedging instruments).</p> <p>As at 30 June 2020, the fair value of open positions in derivatives of the Group (on the metals, currency and interest rate markets and in embedded derivatives) amounted to -PLN 314 million.</p>
Risk related to the change in share prices of listed companies	<p>Price risk related to the shares of listed companies held by the Group is understood as the change in their fair value due to changes in their quoted share prices.</p> <p>As at 30 June 2020, the carrying amount of shares of companies which were listed on the Warsaw Stock Exchange and on the TSX Venture Exchange amounted to PLN 460 million.</p>

Credit risk management

Credit risk is defined as the risk that counterparties will not be able to meet their contractual liabilities.

The Management Board is responsible for credit risk management in the Parent Entity and for compliance with policy in this regard. The main body involved in actions in this area is the Credit Risk Committee.

Credit risk related to trade receivables	<p>To reduce the risk of insolvency by its customers, the Parent Entity has entered into a receivables insurance contract, which covers receivables from entities with open 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 collateral held and the credit limits received from the insurance company, as at 30 June 2020 the Parent Entity had secured 34% of its trade receivables (as at 31 December 2019: 64%).</p>
Credit risk related to cash and cash equivalents and bank deposits	<p>The Group allocates periodically free cash in accordance with the requirements to maintain financial liquidity and limit risk and in order to protect capital and maximise interest income.</p> <p>Credit risk related to deposit transactions is continuously monitored by the on-going review of the credit ratings of those financial institutions with which the Group cooperates, and by limitation of the level of concentration in individual institutions. As at 30 June 2020, the maximum share of a single entity in terms of credit risk arising from financial institutions in which the Group has deposited funds amounted to 39% (as at 31 December 2019: 19%).</p>
Credit risk related to derivatives transactions	<p>All of the entities with which the Group enters into derivative transactions (with the exception of embedded derivatives) operate in the financial sector. These are mainly financial institutions, with a medium-high rating. Taking into consideration the fair value of open derivatives transactions entered into by the Group and from unsettled derivatives, as at 30 June 2020 the maximum share of a single entity in the amount exposed to credit risk arising from these transactions amounted to 49%, or PLN 95 million (as at 31 December 2019: 15%, or PLN 49 million).</p>

Due to diversification of risk in terms both of the nature of individual entities and of their geographical location, as well as taking into consideration the fair value of assets and liabilities arising from derivative transactions, the Group is not materially exposed to credit risk as a result of derivative transactions entered into.

Credit risk related to loans granted

As at 30 June 2020, the balance of loans granted by the Parent Entity amounted to PLN 7 884 million. The most important of these are long-term loans in the total amount of PLN 7 809 million granted to the company Future 1 and to the KGHM INTERNATIONAL LTD. Group.

As at 30 June 2020, the balance of loans granted by the Group amounted to PLN 6 188 million. The most important of these are long-term loans in the total amount of PLN 6 159 million, or USD 1 547 million, granted by the KGHM INTERNATIONAL LTD. Group for the financing of a mining joint venture in Chile.

Credit risk related to the loans granted to the joint venture Sierra Gorda S.C.M. is dependent on the risks of Sierra Gorda S.C.M., in particular of a market and operational nature, and is assessed by the Management Board of the Parent Entity as moderate.

Financial liquidity risk and capital management

Important information regarding financial liquidity risk and capital management is presented in part 4 of the condensed consolidated financial statements.

7.2. FACTORS WHICH, IN THE ISSUER'S OPINION, WILL IMPACT ITS RESULTS OVER AT LEAST THE FOLLOWING QUARTER

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

As a result, through the Parent Entity, the most significant factors affecting the Group's results over at least the following quarter are:

- the COVID-19 pandemic and its potential for interruptions to the continuity of operations or restrictions in activities:
 - due to possible infections by the SARS-CoV-2 virus and increased absenteeism amongst employees of the core production line,
 - due to potential interruptions in the materials and services supply chain and to logistical restrictions, especially as regards international transport,
 - due to the possible closure of certain sales markets, a drop in demand and optimisation of inventories of raw materials and finished products amongst customers,
 - due to exceptional legal changes,
- copper, silver and molybdenum prices on the metals markets,
- the USD/PLN exchange rate,
- electrolytic copper production costs, in particular due to the minerals extraction tax and the value of purchased copper-bearing materials used,
- the effects of the implemented hedging policy, and
- the general uncertainty on financial markets and a risk of recession on global markets.

The most significant factors affecting the results of the KGHM Polska Miedź S.A. Group, through the KGHM INTERNATIONAL LTD. Group, particularly in the following quarter, will be:

- similarly as in the case of the Parent Entity, the COVID-19 pandemic and its potential for interruptions to the continuity of operations or restrictions in activities,
- metals prices,
- the CLP/USD, CAD/USD and USD/PLN exchange rates, and
- mined copper production costs.

Taking into consideration the on-going COVID-19 pandemic, there still remains uncertainty regarding the further development of the epidemic-related situation in Poland and globally, especially in terms of probable risk of a second wave of the pandemic in the 3rd/4th quarters of 2020. As the above may affect the results of the Group in subsequent quarters, the Parent Entity is continually monitoring the global economic situation in order to assess its potential negative impact on the KGHM Polska Miedź S.A. Group and to engage in pre-emptive actions to mitigate this impact.

7.3. POSITION OF THE MANAGEMENT BOARD WITH RESPECT TO THE POSSIBILITY OF ACHIEVING PREVIOUSLY PUBLISHED FORECASTS OF RESULTS

KGHM Polska Miedź S.A. does not publish forecasts of financial results.

7.4. SIGNIFICANT CONTRACTS FOR THE GROUP

In the first half of 2020 and to the date of preparation of this report, one contract significant for the activities of the Parent Entity and the Group was entered into:

15 January 2020	The Company entered into a multi-year, framework agreement for the sale of copper cathodes on the French and German markets with the Nexans group for the years 2020-2022. Estimated minimal value of the framework agreement: PLN 1 624 million, estimated maximal value of the framework agreement: PLN 2 197 million, depending on the usage of the quantitative option by the customer. The contract signed is a standard commercial agreement with a steady customer of the Company, which was entered into under arm's length conditions.
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7.5. INFORMATION ON TRANSACTIONS ENTERED INTO BETWEEN RELATED PARTIES, UNDER OTHER THAN ARM'S LENGTH CONDITIONS

The KGHM Polska Miedź S.A. Group has implemented a variety of internal rules regulating the principles under which contracts between the Group's entities may be entered into, including:

- The Organisational Regulation of the Vice President of the Management Board (Finance) of KGHM Polska Miedź S.A. regarding the introduction in the organisational units of KGHM Polska Miedź S.A. of rules for setting transaction prices and procedures for preparing taxation documentation, and setting rules for the cooperation of KGHM Polska Miedź S.A. with the companies of the Group,
- The Principles of Financial Management and Economic System of KGHM Polska Miedź S.A., and
- The Procurement Policy of the KGHM Polska Miedź S.A. Group.

Acting in compliance with the aforementioned rules, during the first half of 2020 neither the Parent Entity nor its subsidiaries entered into significant transactions with related parties under other than arm's length conditions.

7.6. HUMAN RESOURCES IN THE COMPANY AND GROUP

KGHM Polska Miedź S.A.

Employment in KGHM Polska Miedź S.A. as at 30 June 2020 amounted to 18 399 people, and was 0.2% lower than at the end of the corresponding prior year period. Average annual employment in KGHM Polska Miedź S.A. in the first half of 2020 amounted to 18 443 people and was higher than the level of employment in the first half of 2019 by 4 people. The change in employment was due to natural movements in staff.

Table 31. Average employment in KGHM Polska Miedź S.A.

	1st half 2020	1st half 2019	Change (%)
Mines	12 435	12 432	+0.0
Metallurgical plants	3 616	3 645	(0.8)
Other divisions	2 392	2 362	+1.3
KGHM Polska Miedź S.A.	18 443	18 439	+0.0

Group

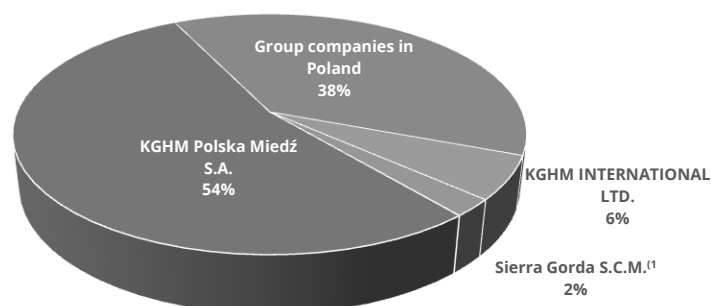
In the first half of 2020, the Group employed 34 229 people, or a slight decrease as compared to the first half of 2019. The employment structure is shown in the following table and chart:

Table 32. Average employment in the Group

	1st half 2020	1st half 2019	Change (%)
KGHM Polska Miedź S.A.	18 443	18 439	+0.0
Companies of the KGHM Group in Poland	12 986	13 189	(1.5)
KGHM INTERNATIONAL LTD.	1 994	1 969	+1.3
Sierra Gorda S.C.M. ⁽¹⁾	797	791	+0.8
Other international companies of the KGHM Group	9	10	(10.0)
Total	34 229	34 398	(0.5)

¹⁾ Sierra Gorda S.C.M. – employment proportional to share in the company (55%)

Chart 18. Employment structure in the Group in the first half of 2020



¹⁾ Sierra Gorda S.C.M. – employment proportional to share in the company (55%)

Companies in Poland

In the first half of 2020, as compared to the first half of 2019, average employment in the companies of the KGHM Polska Miedź S.A. Group in Poland decreased by 203 positions (or 1.5%). This change was mainly in respect of blue-collar positions and was the result of adapting employment to current needs and to the introduction of actions aimed at optimisation due to the outbreak of the coronavirus SARS-CoV-2 pandemic.

Companies abroad

In the first half of 2020, as compared to the first half of 2019, average employment in KGHM INTERNATIONAL LTD. in white-collar positions increased by 5.2%, mainly due to the services provided by KGHM Chile SpA to Sierra Gorda, while employment in blue-collar positions decreased by 2.8%, as a result of the restructuring of employment at the Franke mine and of staff movements at the Robinson mine.

In the first half of 2020, as compared to the first half of 2019, average employment in Sierra Gorda S.C.M. slightly increased (by 0.75%). The change in the level of employment in both blue-collar and white-collar positions was due to natural employee rotations.

7.7. LITIGATION AND CLAIMS

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

Proceedings regarding the payment of royalties by the Company for the use of invention project no. 1/97/KGHM titled „Method for increasing the production capacity of the electrorefining sections of the Metallurgical Plants”

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

In a judgment dated 25 September 2018, the court dismissed the counter claim and partially upheld the principal claim to the total amount of approx. PLN 24 million, and at the same time ordered the payment of interest in the amount of approx. PLN 30 million, for the total amount of PLN 54 million. Both sides of the proceedings filed appeals to the judgment.

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

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

7.8. SHAREHOLDERS AND THE CAPITAL MARKET

Shareholder structure of KGHM POLSKA MIEDŹ S.A.

As at 30 June 2020, the share capital of the Company, in accordance with the entry in the National Court Register, amounted to PLN 2 000 million and was divided into 200 million shares, series A, fully paid, having a face value of PLN 10 each. All shares are bearer shares. Each share grants the right to one vote at the General Meeting. The Company has not issued preference shares.

In the first half of 2020, there was no change in either registered share capital or in the number of outstanding shares issued.

During this time there was no change in the ownership structure of significant blocks of shares of KGHM Polska Miedź S.A.

The Company's shareholder structure as at 30 June 2020 and at the date this report was signed, 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. As far as the Company is aware, there was no change to this structure since the date the consolidated report for the first quarter of 2020 was published.

Table 33. Shareholder structure of the Company as at the date this report was signed

shareholder	number of shares /votes	% of share capital /total number of votes
State Treasury ⁽¹⁾	63 589 900	31.80%
Nationale-Nederlanden Otwarty Fundusz Emerytalny ⁽²⁾	10 104 354	5.05%
Aviva Otwarty Fundusz Emerytalny Aviva Santander ⁽³⁾	10 039 684	5.02%
Other shareholders	116 266 062	58.13%
Total	200 000 000	100.00%

¹⁾ based on a notification received by the Company dated 12 January 2010

²⁾ based on a notification received by the Company dated 18 August 2016

³⁾ based on a notification received by the Company dated 17 July 2018

Other shareholders, whose combined interest in the share capital and in the total number of votes amounts to 58.13%, are mainly institutional investors, both international and domestic.

The number of KGHM Polska Miedź S.A.'s shares or rights to them owned by the Members of the Management Board and the Members of the Supervisory Board of the Company did not change in the period since the date of publication of the consolidated report for the first quarter of 2020. Based on the information held by KGHM Polska Miedź S.A., as at the date of preparation of this report no Member of the Management Board of the Company held shares of KGHM Polska Miedź S.A. or rights to them, while amongst the Members of the Company's Supervisory Board only Józef Czyczerski held 10 shares of KGHM Polska Miedź S.A. The remaining Members of the Supervisory Board did not hold shares of the Company or rights to them.

The Company does not hold any treasury shares. The Management Board of the Company is unaware of any agreements which could result in changes in the proportion of the Company's shares held by present shareholders in the future.

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

KGHM Polska Miedź S.A. debuted on the Warsaw Stock Exchange (WSE) in July 1997. The Company's shares are traded on the primary market of the WSE in the continuous trading system and are a component of the WIG, WIG20 and WIG30 indices, as well as the WIG - ESG index published since 3 September 2019, comprising listed companies which adhere to the principles of corporate social responsibility. The Company is also a component of the WIG-MINING index. Moreover, KGHM Polska Miedź S.A. is a component company of the FTSE4Good Index Series. The FTSE4Good Index Series is part of the group of ethical investment indicators, reflecting criteria of corporate social responsibility and ESG risk management.

In the first half of 2020, the share price of KGHM Polska Miedź S.A. fell by 4.9% and at the close of trading on 30 June 2020 amounted to PLN 90.90. During the same period the price of copper – the Company's main product – fell by 1.9%, alongside an increase in the average USD/PLN exchange rate by 4.8%. At the same time the WSE indices fell: WIG by 14.3%, WIG20 by 18.2%, and WIG30 by 18.1%. The FTSE 350 mining index – comprised of companies from the mining sector listed on the London Stock Exchange – likewise fell, by 7%.

The Company's shares reached their maximum closing price of PLN 101.00 on 17 January 2020. The minimum closing price of PLN 49.40 was recorded on 12 March 2020.

Chart 19. Share price of KGHM Polska Miedź S.A. versus the WIG index and FTSE 350 mining index (percentage change)



Source: Own work, Bloomberg

Key share price data of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange are presented in the following table.

Table 34. Key share price data of the Company on the Warsaw Stock Exchange

	Symbol: KGH, ISIN: PLKGM000017	Unit	1st half 2020	2019	1st half 2019
Number of shares issued		million	200	200	200
Market capitalisation of the Company at period's end		bn PLN	18.2	19.1	20.7
Average trading volume per session		shares	770 494	575 209	551 542
Change in share price during the period		%	-4.9	7.5	16.4
Highest closing price during the period		PLN	101.00	112.00	112.00
Lowest closing price during the period		PLN	49.40	73.76	86.12
Closing price from the last day of trading in the period		PLN	90.90	95.58	103.50

Source: Own work based on WSE Statistic Bulletins for 2019 and for the first half of 2020

Allocation of profit

In accordance with a Resolution of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 19 June 2020 regarding the allocation of profit from financial year 2019, all of the profit from this period was transferred to the Company's reserve capital.

The final decision regarding the amount of dividends paid is made by the General Meeting of KGHM Polska Miedź S.A.

7.9. ORGANISATIONAL CHANGES IN THE GROUP

In the first half of 2020, the following organisational changes in the Group occurred:

Liquidation of the company PeBeKa Canada Inc.	On 29 April 2020 the company PeBeKa Canada Inc., which had not engaged in operations, was liquidated.
Change in the legal form of the company Minera Carrizalillo Limitada	On 19 June 2020 the company Minera Carrizalillo Limitada (a 100% indirect subsidiary of KGHM) changed its legal form into Minera Carrizalillo SpA.
Acquisition of employees' shares of the company Uzdrowisko Cieplce Sp. z o.o. - Grupa PGU	In the first half of 2020, as a result of the acquisition of employees' shares, the interest of the KGHM VII FIZAN fund in the company Uzdrowisko Cieplce Sp. z o.o. - Grupa PGU slightly increased (from 98.54 % to 98.85%).

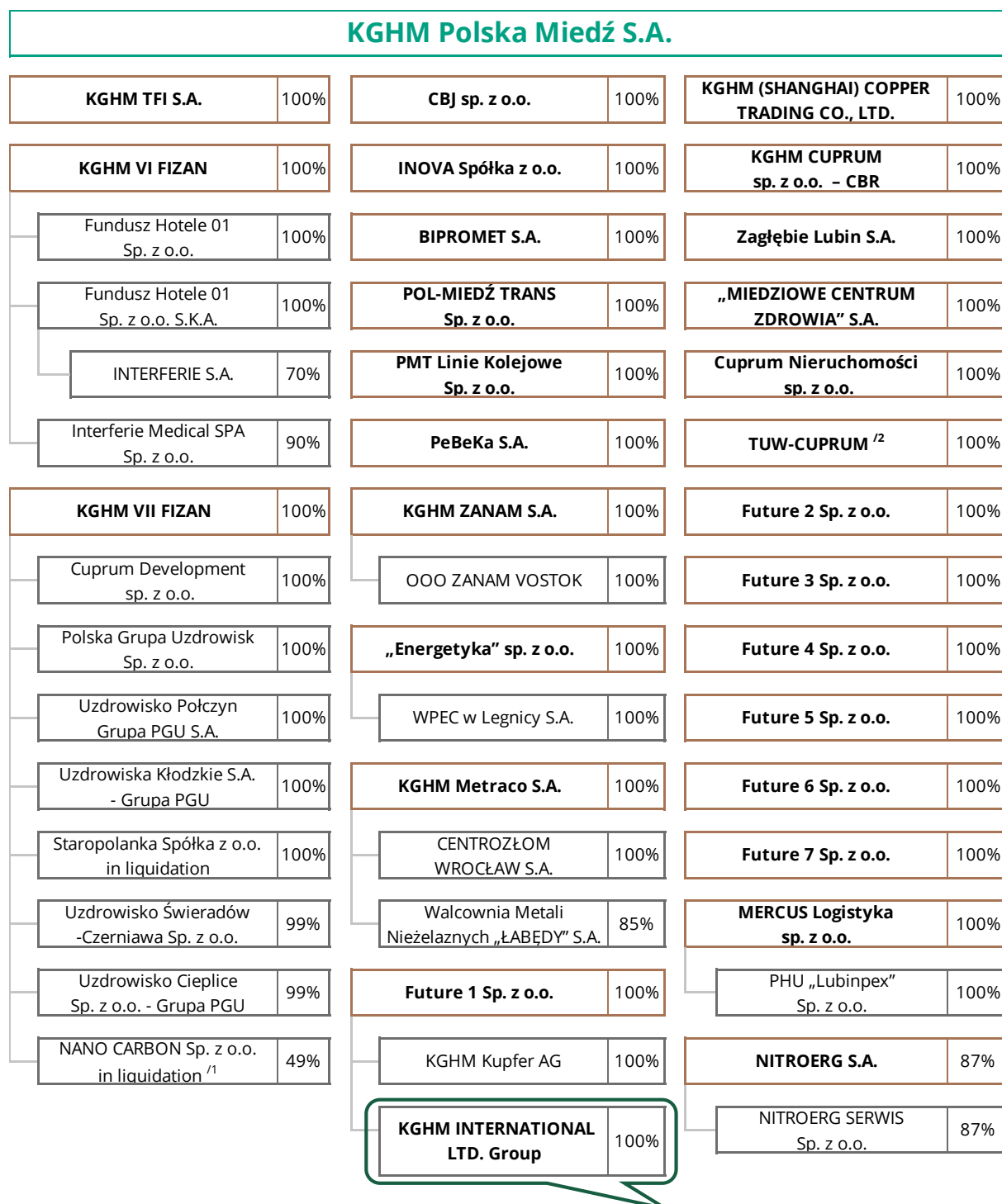
In addition, equity involvement was increased in the following Group companies:

Acquisition of Investment Certificates of KGHM VII FIZAN	In March 2020, KGHM Polska Miedź S.A. acquired Investment Certificates, Series E, of the KGHM VII FIZAN fund, for the amount of PLN 4 million. KGHM Polska Miedź S.A. is the sole participant in the fund.
Refundable payments to capital to: - companies of Future 1 Sp. z o.o.	In April 2020, KGHM Polska Miedź S.A. granted a refundable payment to the capital of Future 1 Sp. z o.o., in the amount of PLN 40 million, for the purpose of paying down debt under the cash pooling system, with a repayment deadline of 31 March 2025.
- non-operational companies (from Future 2 Sp. z o.o. to Future 7 Sp. z o.o.)	In June 2020, KGHM Polska Miedź S.A. granted a refundable payment to the capital of six non-operational companies in the amount of PLN 156 thousand, for the purpose of financing on-going functioning, with a repayment deadline of 31 December 2021.

KGHM Polska Miedź S.A. in the first half of 2020 consolidated 71 subsidiaries in its financial statements and accounted for two joint ventures (Sierra Gorda S.C.M. and NANO CARBON Sp. z o.o.) using the equity method. Excluded from consolidation was Towarzystwo Ubezpieczeń Wzajemnych „CUPRUM”, whose assets, revenues and financial results have an immaterial impact on the consolidated statement of financial position and the consolidated statement of comprehensive income of the KGHM Polska Miedź S.A. Group.

The detailed structure of the KGHM Polska Miedź S.A. Group as well as the KGHM INTERNATIONAL LTD. Group as at 30 June 2020 may be found in Appendices 1 and 2.

Appendix 1 KGHM Polska Miedź S.A. Group structure

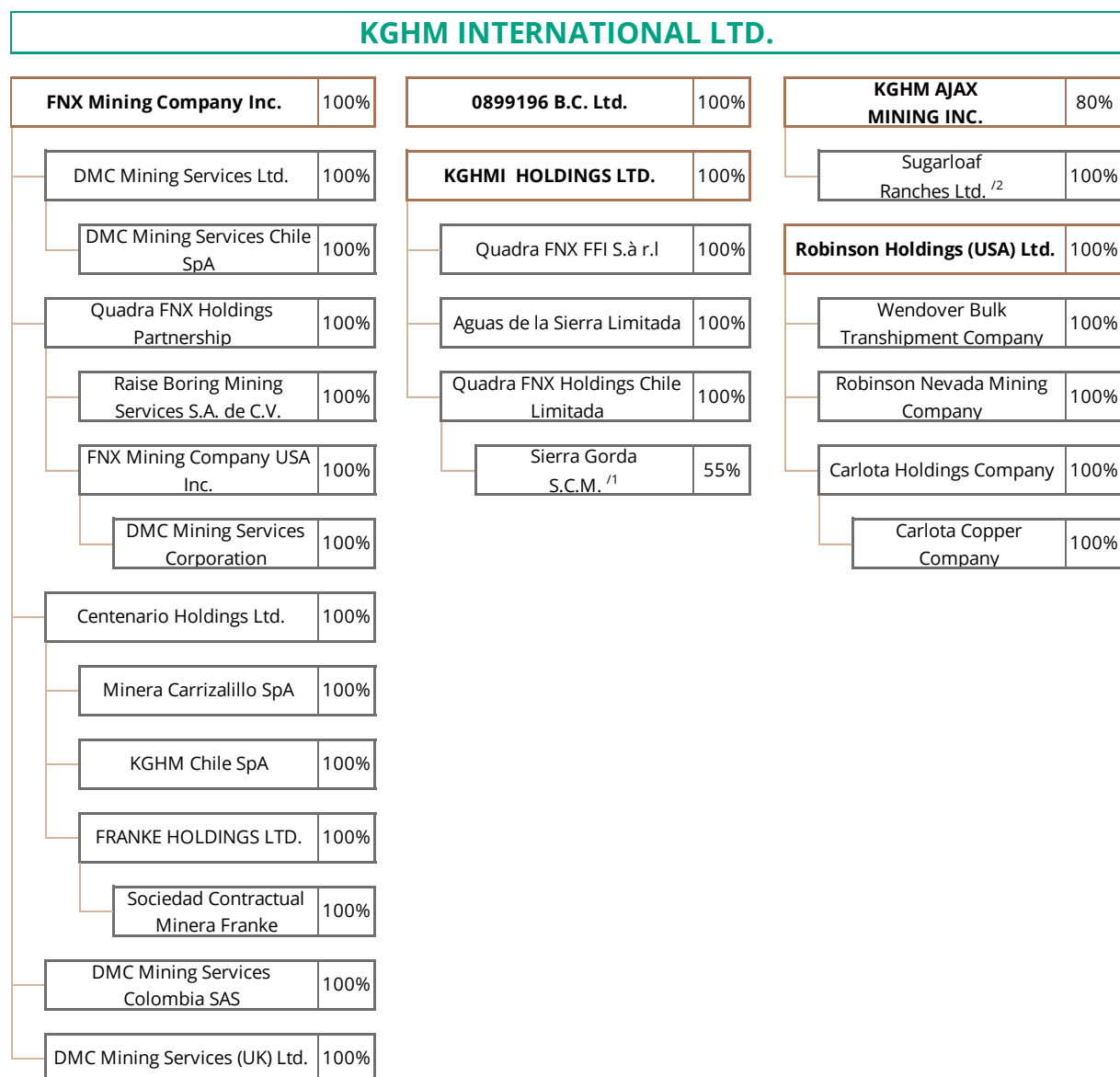


Group structure presented in Appendix 2

1/ joint venture accounted for using the equity method

2/ unconsolidated subsidiary

Appendix 2 KGHM INTERNATIONAL LTD. Group structure



1/ joint venture accounted for using the equity method

2/ actual Group share 80%

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

This report was authorised for issue on 18 August 2020.

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

Katarzyna Kreczmańska-Gigol

Vice President of the Management Board

Radosław Stach