

Information on the results of the conducted tests for impairment

1. Results of the tests conducted for impairment of the international mining assets.

For testing purposes, the recoverable amount of international mining assets was set in accordance with IAS 36, and with respect to the loans granted, in accordance with the requirements of IFRS 9, based on an analysis of the discounted cash flow generated by individual assets, and took into consideration among others the forecasts of pricing paths for individual commodities, updated by market factors, risk evaluation reflected in the discount rate, the reviewed technical and economic assumptions as regards mine lives, production volumes, reserves and resources, operating costs and capital expenditures.

The price path for copper was set based on long-term forecasts available from financial and analytical institutions. A detailed forecast is being prepared for the period 2020 – 2024, while for the period 2025 – 2029 a technical adjustment of prices has been applied between the last year of the detailed forecast and 2030, from which a long-term metal price forecast of 6 614 USD/t (3.00 USD/lb) is being used. The long-term forecasted copper price has not changed as compared to the long-term price adopted for conducting testing as at 31 December 2018.

Following are the major technical and economic assumptions applied to individual assets:

Sierra Gorda SCM	Assumptions for the test as at 31 December 2019 *	Assumptions for the test as at 31 December 2018 *
Mine life (years)	24 years	24 years
Copper production during mine life (kt)	4 241	4 271
Average operating margin during mine life	40%	36%
Capital expenditures to be incurred during mine life (mn USD)	2 110	2 011

*Adopted assumptions comprise the period from 2020 to the end of mining operations

The key factor responsible for modification of the forecasted assumptions regarding the Sierra Gorda mine is the increase in average operating margin. This is a result of lower operating costs for the processing plant and mine. Other operating assumptions remain comparable to those of the prior year.

Sudbury (McCreedy, Morrison/Levack and Victoria)	Assumptions for the test as at 31 December 2019 *	Assumptions for the test as at 31 December 2018 *
Mine life (years)	18	17
Copper production during mine life (kt)	276	271
Nickel production during mine life (kt)	249	252
Average operating margin during mine life	58%	57%
Capital expenditures to be incurred during mine life (mn USD)	1 619	1 533

*Adopted assumptions comprise the period from 2020 to the end of mining operations

The key factor responsible for modification of the forecasted assumptions is the increase in the ore resource base of copper and precious metals of the McCreedy mine thanks to drilling carried out in 2019. In addition, the commencement of mining of nickel ore from the McCreedy deposit was deferred from the year 2020 to 2021.

Robinson	Assumptions for the test as at 31 December 2019 *	Assumptions for the test as at 31 December 2017 *
Mine life (years)	9	5
Copper production during mine life (kt)	435	277
Gold production during mine life (koz t)	324	182
Average operating margin during mine life	38%	40%
Capital expenditures to be incurred during mine life (mn USD)	563	295

*Adopted assumptions comprise the period from 2020 to the end of mining operations

The key factor responsible for modification of the forecasted assumptions for the Robinson mine is the inclusion in the mining plans of the Liberty pit, at which mining has been suspended since 2013. This was thanks to additional drilling, geotechnical and metallurgical tests in the years 2018 and 2019 as well as to technical and feasibility analyses of the Liberty deposit prepared on their basis. Another factor is the introduction of changes in gold recovery calculations, due to the higher-than-assumed historical execution of forecast in this regard.

Carlota	Assumptions for the test as at 31 December 2019 *	Assumptions for the test as at 31 December 2017 *
Mine life (years)	3	2
Copper production during mine life (kt)	12	7
Average operating margin during mine life	1%	2%
Capital expenditures to be incurred during mine life (mn USD)	4	0

*Adopted assumptions comprise the period from 2020 to the end of mining operations

The key factor responsible for modification of the forecasted assumptions is the increase in the resource base for the Eder deposit and the delay in commencement of operations there. In addition, recovery calculations for copper leaching using SSL (sub-surface leaching) technology were updated.

Franke	Assumptions for the test as at 31 December 2019 *	Assumptions for the test as at 31 December 2018 *
Mine life (years)	5 years	1 year
Copper production during mine life (kt)	94	18
Average operating margin during mine life	23%	2%
Capital expenditures to be incurred during mine life (mn USD)	75	2

*Adopted assumptions comprise the period from 2020 to the end of mining operations

The key factor responsible for modification of the forecasted assumptions for the Franke mine is the continuation of operations based on documented additional oxide ore resources and the inclusion in the production plans of sulphide ore resources located around the border of the area currently under excavation. This was possible thanks to an intensive campaign of geological and geometallurgical drilling and of metallurgical tests in the years 2018 and 2019. Based on this, plans for the processing technology and mining sequencing of the sulphide ore were developed.

With respect to the separate financial statements of KGHM Polska Miedź S.A. for the financial year ended 31 December 2019, the tests carried out indicated justification for a reversal of a part of the impairment allowances on loans granted to companies within the KGHM Polska Miedź S.A. Group in the amount of PLN 38 million, and recognition of an additional impairment loss in the amount of PLN 254 million on the interest in the holding company Future 1 Sp. z o.o., which directly owns 100% of KGHM International Ltd.

With respect to the consolidated financial statements of KGHM Polska Miedź S.A. for the financial year ended 31 December 2019, which contain among others an accounting of the investment in Sierra Gorda SCM using the equity method, resulting in the recognition in this regard of a share of losses of joint ventures accounted for using the equity method in the amount of PLN 434 million (including PLN 265 million in the fourth quarter), the tests carried out indicated:

- justification for the reversal of part of the impairment allowance recognised in prior years on loans granted to the joint venture Sierra Gorda SCM, in the amount of USD 27.9 million (PLN 106 million per the average exchange rate of the National Bank of Poland as at 31 December 2019);
- justification for the reversal of part of the impairment loss recognised in prior years on assets of the mines of the Sudbury Basin in the amount of USD 44.6 million (PLN 169 million per the average exchange rate of the National Bank of Poland as at 31 December 2019)

There was no basis to change the carrying amounts of the rest of the international mining assets.

2. Results of the tests conducted for impairment of the assets of the companies „Energetyka” sp. z o.o. and WPEC S.A.

Due to the fact that in 2019 „Energetyka” sp. z o.o. and WPEC S.A. recorded results which were lower than the targets in the material and financial plans, while their property, plant and equipment and intangible assets did not generate the expected cash flows, with respect to the separate financial statements, indications were identified to conduct tests for impairment of shares of the company „Energetyka” sp. z o.o., and with respect to the consolidated financial statements, indications were identified justifying the conduct of tests for impairment of the property, plant and equipment and intangible assets of „Energetyka” sp. z o.o. and of its subsidiary, WPEC S.A.

For purposes of the separate financial statements of KGHM Polska Miedź S.A. the recoverable amount of the tested shares of „Energetyka” sp. z o.o. was set based on an analysis of the discounted forecasted cash flow generated by „Energetyka” sp. z o.o., adjusted by net debt and non-operating assets and liabilities (including the adjusted value of the shares of WPEC S.A.).

For purposes of the consolidated financial statements of the KGHM Polska Miedź S.A. Group, the recoverable amount of the tested property, plant and equipment and intangible assets of „Energetyka” sp. z o.o. and WPEC S.A. was set based on an analysis of the discounted forecasted cash flow generated by these companies, adjusted by the change in working capital.

Following are the key assumptions adopted in analysing the cash flows of „Energetyka” sp. z o.o. and WPEC S.A.:

BASIC ASSUMPTIONS ADOPTED TO ANALYSE THE CASH FLOW OF „ENERGETYKA” SP. Z O.O.	
Assumptions	Level adopted in testing
Forecast period	2020-2029
Capital expenditures during the forecast period	PLN 282 million
Discount rate	5.6% (nominal rate after taxation)
Growth rate following the forecast period	0%

BASIC ASSUMPTIONS ADOPTED TO ANALYSE THE CASH FLOW OF WPEC S.A.	
Assumptions	Level adopted in testing
Forecast period	2020-2029
Capital expenditures during the forecast period	PLN 89 million
Discount rate	6.1% (nominal rate after taxation)
Growth rate following the forecast period	0%

With respect to the separate financial statements of KGHM Polska Miedź S.A. for the financial year ended 31 December 2019, the tests conducted indicated justification for the recognition of impairment loss on the shares of „Energetyka” sp. z o.o. in the amount of PLN 206 million.

With respect to the consolidated financial statements of KGHM Polska Miedź S.A. for the financial year ended 31 December 2019, the tests conducted indicated justification for the recognition of the following:

1. an impairment loss in the amount of PLN 190 million on the property, plant and equipment and intangible assets of „Energetyka” sp. z o.o.
2. an impairment loss in the amount of PLN 12 million on the property, plant and equipment and intangible assets of WPEC S.A. as well as an impairment loss on goodwill in the amount of PLN 9 million due to acquisition of shares of WPEC S.A.

In summation, as a result of the impairment tests conducted the following impact was recorded on the annual financial statements:

- on the separate financial statements of KGHM Polska Miedź S.A. – a decrease in profit before taxation by PLN 422 million;
- on the consolidated financial statements of the KGHM Polska Miedź S.A. Group – an increase in profit before taxation by PLN 64 million.

The amounts presented above are estimates and may be subject to change. The final results of the testing will be presented in the separate and consolidated financial statements for 2019, the publication of which is planned for 17 March 2020.

Legal basis: Art. 17 (1) of MAR (Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC (Official Journal of the European Union dated 12 June 2014, no. L 173/1)