POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated quarterly report QSr 3 / 2018

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

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

For the third quarter of the financial year **2018** from **1 July 2018** to **30 September 2018** containing the condensed consolidated financial statements prepared under International Accounting Standard 34 in PLN, and condensed financial statements prepared under IAS 34 in PLN.

publication date: 14 November 2018

KGHM Polska Miedź Spółka Akcyjna
(name of the issuer)

KGHM Polska Miedź S.A.
(name of the issuer in brief)

Basic materials
(issuer branch title per the Warsaw Stock Exchange)

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

SELECTED FINANCIAL DATA

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

		in PLN mn		in EUR mn	
		from 1 January 2018 to 30 September 2018	from 1 January 2017 to 30 September 2017	from 1 January 2018 to 30 September 2018	from 1 January 2017 to 30 September 2017
I.	Revenues from contracts with customers	14 787	14 487	3 476	3 403
II.	Profit on sales	1 999	2 741	470	644
III.	Profit before income tax	1 592	2 436	374	572
IV.	Profit for the period	976	1 659	229	390
V.	Profit for the period attributable to shareholders of the Parent Entity	973	1 655	228	389
VI.	Profit for the period attributable to non-controlling interest	3	4	1	1
VII.	Other comprehensive net income	(224)	478	(53)	112
VIII.	Total comprehensive income	752	2 137	176	502
IX.	Total comprehensive income attributable to shareholders of the Parent Entity	749	2 133	175	501
X.	Total comprehensive income attributable to non-controlling interest	3	4	1	1
XI.	Number of shares issued (million)	200	200	200	200
XII.	Earnings per ordinary share attributable to shareholders of the Parent Entity	4.87	8.28	1.14	1.95
XIII.	Net cash generated from operating activities	1 822	1 738	428	408
XIV.	Net cash used in investing activities	(2 171)	(2 076)	(510)	(488)
XV.	Net cash generated from/(used in) financing activities	531	(108)	125	(25)
XVI.	Total net cash flow	182	(446)	43	(105)
		As at 30 September 2018	**As at 31 December 2017**	**As at 30 September 2018**	**As at 31 December 2017**
XVII.	Non-current assets	27 684	26 515	6 481	6 357
XVIII.	Current assets	8 537	7 607	1 999	1 824
XIX.	Total assets	36 221	34 122	8 480	8 181
XX.	Non-current liabilities	12 049	10 878	2 820	2 608
XXI.	Current liabilities	5 555	5 459	1 301	1 309
XXII.	Equity	18 617	17 785	4 359	4 264
XXIII.	Equity attributable to shareholders of the Parent Entity	18 524	17 694	4 337	4 242
XXIV.	Equity attributable to non-controlling interest	93	91	22	22

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

		in PLN mn		in EUR mn	
		from 1 January 2018 to 30 September 2018	from 1 January 2017 to 30 September 2017	from 1 January 2018 to 30 September 2018	from 1 January 2017 to 30 September 2017
I.	Revenues from contracts with customers	11 317	11 433	2 661	2 686
II.	Profit on sales	1 768	2 447	416	575
III.	Profit before income tax	1 928	2 502	453	588
IV.	Profit for the period	1 430	1 850	336	435
V.	Other comprehensive net income	(108)	219	(25)	51
VI.	Total comprehensive income	1 322	2 069	311	486
VII.	Number of shares issued (million)	200	200	200	200
VIII.	Earnings per ordinary share	7.15	9.25	1.68	2.18
IX.	Net cash generated from operating activities	1 135	1 207	267	284
X.	Net cash used in investing activities	(1 456)	(1 624)	(342)	(382)
XI.	Net cash generated from financing activities	498	84	116	20
XII.	Total net cash flow	177	(333)	41	(78)
		As at 30 September 2018	**As at 31 December 2017**	**As at 30 September 2018**	**As at 31 December 2017**
XIII.	Non-current assets	26 227	25 071	6 140	6 011
XIV.	Current assets	6 778	5 876	1 587	1 409
XV.	Total assets	33 005	30 947	7 727	7 420
XVI.	Non-current liabilities	10 212	9 052	2 391	2 170
XVII.	Current liabilities	4 448	4 639	1 041	1 112
XVIII.	Equity	18 345	17 256	4 295	4 138

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Part 1 –Condensed consolidated financial statements

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		from 1 July 2018 to 30 September 2018	from 1 January 2018 to 30 September 2018	from 1 July 2017 to 30 September 2017	from 1 January 2017 to 30 September 2017
Note 3.3	Revenues from contracts with customers, including:	5 364	14 787	4 774	14 487
	from sales, for which the amount of revenue was not finally determined at the end of the reporting period (IFRS 15.114)	105	1 082	N/A*	N/A*
Note 4.1	Cost of sales	(4 371)	(11 802)	(3 574)	(10 789)
	Gross profit	**993**	**2 985**	**1 200**	**3 698**
Note 4.1	Selling costs and administrative expenses	(346)	(986)	(336)	(957)
	Profit on sales	**647**	**1 999**	**864**	**2 741**
Note 4.5	Share of losses of joint ventures accounted for using the equity method	(4)	(258)	-	(215)
	Interest income on loans granted to joint ventures calculated using the effective interest rate method	66	192	79	240
	Profit or loss on involvement in joint ventures	62	(66)	79	25
Note 4.2	Other operating income and (costs), including:	(184)	179	(204)	(1 062)
	interest income calculated using the effective interest rate method	2	6	N/A*	N/A*
Note 4.3	Finance income and (costs)	83	(520)	48	732
	Profit before income tax	**608**	**1 592**	**787**	**2 436**
	Income tax expense	(243)	(616)	(182)	(777)
	PROFIT FOR THE PERIOD	**365**	**976**	**605**	**1 659**
	Profit for the period attributable to:				
	Shareholders of the Parent Entity	363	973	604	1 655
	Non-controlling interest	2	3	1	4
	Weighted average number of ordinary shares (million)	**200**	**200**	**200**	**200**
	Basic/diluted earnings per share (in PLN)	**1.82**	**4.87**	**3.02**	**8.28**

** N/A – not applicable – items in which the following did not occur: measurement in accordance with principles arising from the application, from 1 January 2018, of IFRS 9, and the disclosure requirement of IFRS 15.*

amounts in PLN millions, unless otherwise stated

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	from 1 July 2018 to 30 September 2018	from 1 January 2018 to 30 September 2018	from 1 July 2017 to 30 September 2017	from 1 January 2017 to 30 September 2017
Profit for the period	**365**	**976**	**605**	**1 659**
Measurement of hedging instruments net of the tax effect	176	232	33	206
Measurement of available-for-sale financial assets net of the tax effect	N/A*	N/A*	37	147
Exchange differences from the translation of statements of operations with a functional currency other than PLN	41	(101)	53	250
Other comprehensive income which will be reclassified to profit or loss	**217**	**131**	**123**	**603**
Measurement of equity financial instruments at fair value net of the tax effect	(77)	(201)	N/A*	N/A*
Actuarial (losses)/gains net of the tax effect	37	(154)	22	(125)
Other comprehensive income, which will not be reclassified to profit or loss	**(40)**	**(355)**	**22**	**(125)**
Total other comprehensive net income	**177**	**(224)**	**145**	**478**
TOTAL COMPREHENSIVE INCOME	**542**	**752**	**750**	**2 137**
Total comprehensive income attributable to:				
Shareholders of the Parent Entity	540	749	743	2 133
Non-controlling interest	2	3	7	4

** N/A – not applicable – items which do not occur due to the change in classification, from 1 January 2018, of equity financial instruments in accordance with IFRS 9. Listed shares measured at fair value and unquoted shares measured at cost were in the category of available-for-sale financial assets.*

amounts in PLN millions, unless otherwise stated

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		from 1 January 2018 to 30 September 2018	from 1 January 2017 to 30 September 2017
	Cash flow from operating activities		
	Profit before income tax	1 592	2 436
	Depreciation/amortisation recognised in profit or loss	1 316	1 155
	Share of losses of joint ventures accounted for using the equity method	258	215
	Interest on loans granted to joint ventures	(192)	(240)
	Interest and other costs of borrowings	122	113
	Impairment losses on non-current assets	14	1
	Exchange differences, of which:	(47)	186
	from investing activities and cash	(434)	1 101
	from financing activities	387	(915)
	Change in provisions	251	(1)
	Change in other receivables and liabilities	57	(144)
	Change in assets/liabilities due to derivatives	(143)	(23)
Note 4.12	Other adjustments	(2)	4
	Exclusions of income and costs, total	1 634	1 266
	Income tax paid	(607)	(818)
Note 4.11	Changes in working capital	(797)	(1 146)
	Net cash generated from operating activities	**1 822**	**1 738**
	Cash flow from investing activities		
	Expenditures on mining and metallurgical assets, including:	(1 744)	(1 643)
	interest paid	(86)	(39)
	Expenditures on other property, plant and equipment and intangible assets	(174)	(161)
	Acquisition of newly-issued shares of a joint venture	(262)	(206)
	Other expenses	(67)	(92)
	Total expenses	(2 247)	(2 102)
	Proceeds	76	26
	Net cash used in investing activities	**(2 171)**	**(2 076)**
	Cash flow from financing activities		
	Proceeds from borrowings	2 055	1 645
	Other proceeds	3	4
	Total proceeds	2 058	1 649
	Repayments of borrowings	(1 411)	(1 538)
	Dividends paid to shareholders of the Parent Entity	-	(100)
	Interest paid and other costs of borrowings	(116)	(118)
	Other payments	-	(1)
	Total expenses	(1 527)	(1 757)
	Net cash generated from/(used in) financing activities	**531**	**(108)**
	TOTAL NET CASH FLOW	**182**	**(446)**
	Exchange gains/(losses)	21	(7)
	Cash and cash equivalents at beginning of the period	**586**	**860**
	Cash and cash equivalents at end of the period	**789**	**407**

amounts in PLN millions, unless otherwise stated

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 September 2018	As at 31 December 2017
	ASSETS		
	Mining and metallurgical property, plant and equipment	16 660	16 296
	Mining and metallurgical intangible assets	1 628	1 447
	Mining and metallurgical property, plant and equipment and intangible assets	18 288	17 743
	Other property, plant and equipment	2 725	2 679
	Other intangible assets	207	209
	Other property, plant and equipment and intangible assets	2 932	2 888
	Joint ventures accounted for using the equity method	5	8
Note 4.6	Loans granted to joint ventures	4 303	3 889
Note 4.5	Total involvement in joint ventures	4 308	3 897
	Derivatives	399	110
	Other financial instruments measured at fair value	438	614
	Other financial assets	778	762
Note 4.6	Financial instruments, total	1 615	1 486
	Deferred tax assets	420	389
	Other non-financial assets	121	112
	Non-current assets	**27 684**	**26 515**
	Inventories	5 519	4 562
Note 4.6	Trade receivables, including:	1 229	1 522
	Trade receivables measured at fair value	556	N/A*
	Tax assets	233	277
Note 4.6	Derivatives	244	196
	Other financial assets	266	265
	Other non-financial assets	257	199
Note 4.6	Cash and cash equivalents	789	586
	Current assets	**8 537**	**7 607**
		36 221	**34 122**
	EQUITY AND LIABILITIES		
	Share capital	2 000	2 000
	Other reserves from measurement of financial instruments	(537)	158
	Accumulated other comprehensive income	2 172	2 427
	Retained earnings	14 889	13 109
	Equity attributable to shareholders of the Parent Entity	18 524	17 694
	Equity attributable to non-controlling interest	93	91
	Equity	**18 617**	**17 785**
Note 4.8	Borrowings	7 134	6 191
Note 4.6	Derivatives	183	208
	Employee benefits liabilities	2 318	2 063
	Provisions for decommissioning costs of mines and other technological facilities	1 357	1 351
	Deferred tax liabilities	447	347
	Other liabilities	610	718
	Non-current liabilities	12 049	10 878
Note 4.8	Borrowings	1 087	965
Note 4.6	Derivatives	45	110
Note 4.6	Trade payables	1 657	1 823
	Employee benefits liabilities	932	842
	Tax liabilities	505	630
	Provisions for liabilities and other charges	287	114
	Other liabilities	1 042	975
	Current liabilities	5 555	5 459
	Non-current and current liabilities	**17 604**	**16 337**
		36 221	**34 122**

**N/A – not applicable – an item which in 2017 was not measured in accordance with principles arising from the application, from 1 January 2018, of IFRS 9.*

amounts in PLN millions, unless otherwise stated

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Equity attributable to shareholders of the Parent Entity						
		Share capital	Other reserves from measurement of financial instruments	Accumulated other comprehensive income	Retained earnings	Total	Equity attributable to non-controlling interest	Total equity
	As at 1 January 2017	**2 000**	**(183)**	**2 216**	**11 739**	**15 772**	**139**	**15 911**
Note 5.4	Dividend	-	-	-	(200)	**(200)**	-	**(200)**
	Transactions with non-controlling interest	-	-	-	1	**1**	1	**2**
	Transactions with owners	-	-	-	(199)	**(199)**	1	**(198)**
	Profit for the period	-	-	-	1 655	**1 655**	4	**1 659**
	Other comprehensive income	-	353	125	-	**478**	-	**478**
	Total comprehensive income	-	353	125	1 655	**2 133**	4	**2 137**
	As at 30 September 2017	**2 000**	**170**	**2 341**	**13 195**	**17 706**	**144**	**17 850**
	As at 31 December 2017	**2 000**	**158**	**2 427**	**13 109**	**17 694**	**91**	**17 785**
Note 1.4	Change in accounting policies – application of IFRS 9, IFRS 15	-	(726)	-	806	**80**	-	**80**
	As at 1 January 2018	**2 000**	**(568)**	**2 427**	**13 915**	**17 774**	**91**	**17 865**
	Transactions with non-controlling interest	-	-	-	1	**1**	(1)	**-**
	Transactions with owners	-	-	-	1	**1**	(1)	**-**
	Profit for the period	-	-	-	973	**973**	3	**976**
	Other comprehensive income	-	31	(255)	-	**(224)**	-	**(224)**
	Total comprehensive income	-	31	(255)	973	**749**	**3**	**752**
	As at 30 September 2018	**2 000**	**(537)**	**2 172**	**14 889**	**18 524**	**93**	**18 617**

1 – General information

Note 1.1 Corporate information

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

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

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

The Parent Entity's principal activities include:

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

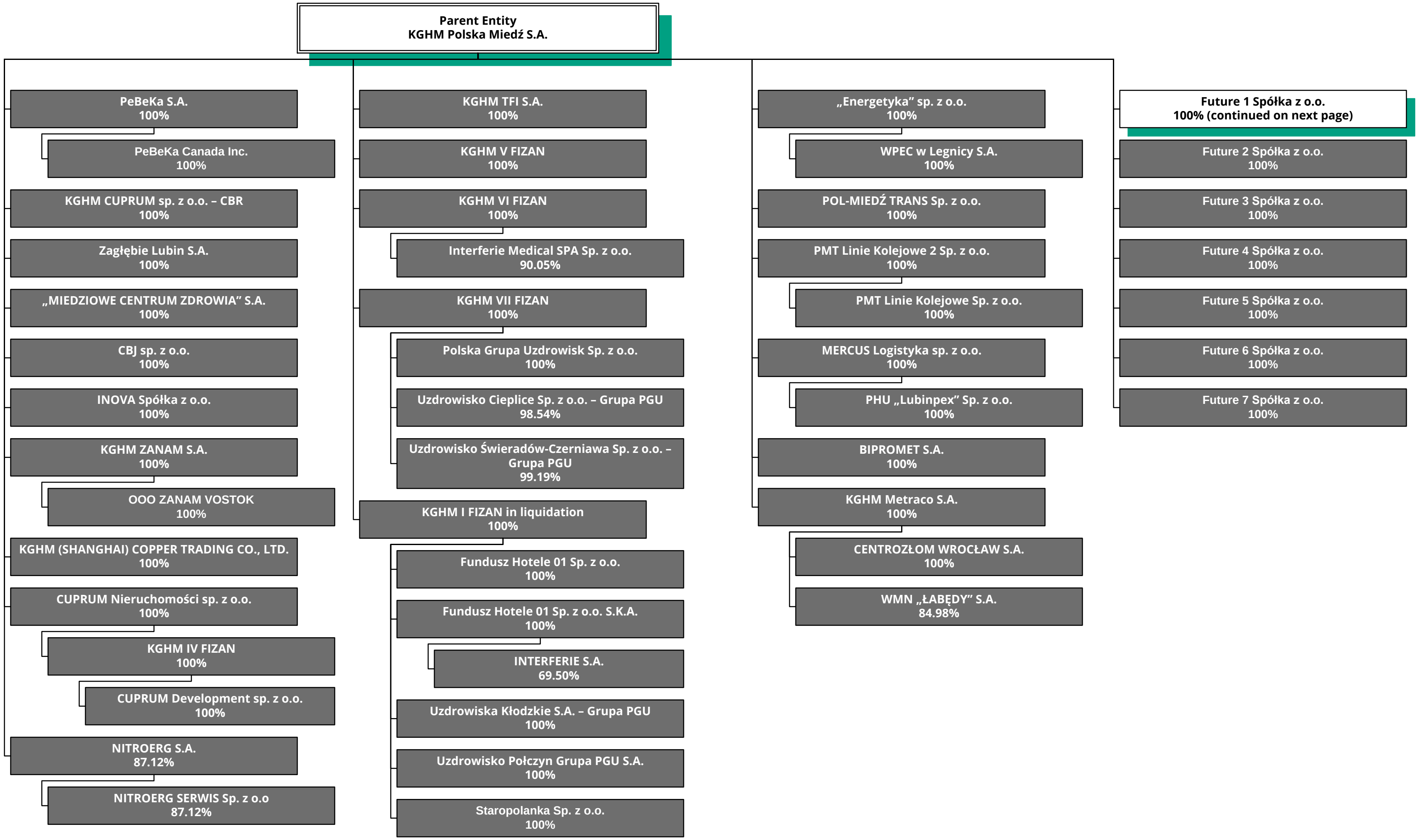
The business activities of the Group include:

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

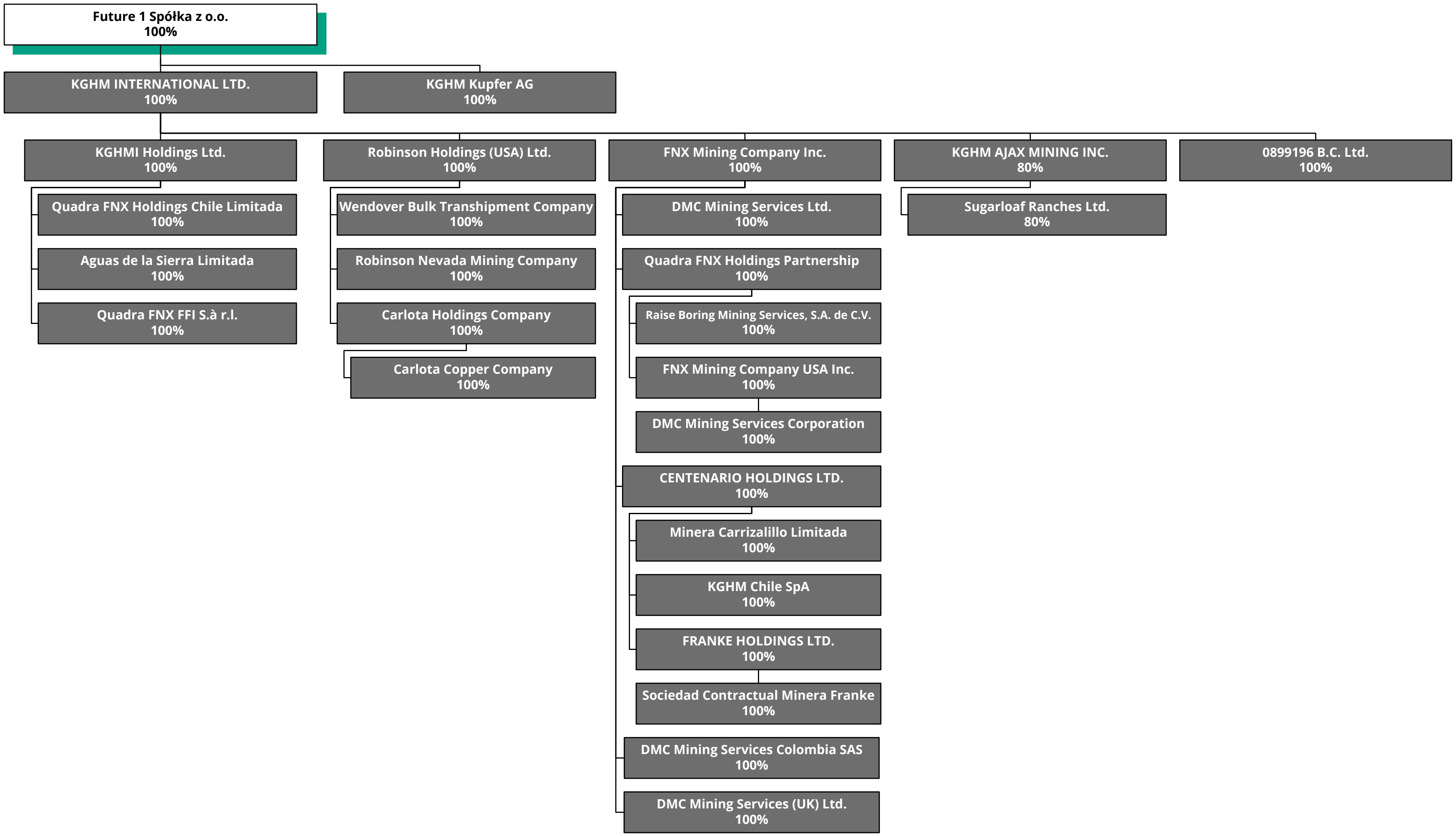
The KGHM Polska Miedź S.A. Group carries out exploration and mining of copper, nickel and precious metals based on concessions given for Polish deposits to KGHM Polska Miedź S.A., and also based on legal titles held by companies of the KGHM INTERNATIONAL LTD. Group for the exploration for and mining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

Note 1.2 Structure of the KGHM Polska Miedź S.A. Group as at 30 September 2018

In the current quarter KGHM Polska Miedź S.A. consolidated 75 subsidiaries and used the equity method to account for the shares of two joint ventures (Sierra Gorda S.C.M. and NANO CARBON Sp. z o.o.).



The percentage share represents the total share of the Group.


Future 1 Spółka z o.o.
100%
KGHM INTERNATIONAL LTD.
100%
KGHM Kupfer AG
100%
KGHMI Holdings Ltd.
100%
Quadra FNX Holdings Chile Limitada
100%
Aguas de la Sierra Limitada
100%
Quadra FNX FFI S.à r.l.
100%
Robinson Holdings (USA) Ltd.
100%
Wendover Bulk Transhipment Company
100%
Robinson Nevada Mining Company
100%
Carlota Holdings Company
100%
Carlota Copper Company
100%
FNX Mining Company Inc.
100%
DMC Mining Services Ltd.
100%
Quadra FNX Holdings Partnership
100%
Raise Boring Mining Services, S.A. de C.V.
100%
FNX Mining Company USA Inc.
100%
DMC Mining Services Corporation
100%
CENTENARIO HOLDINGS LTD.
100%
Minera Carrizalillo Limitada
100%
KGHM Chile SpA
100%
FRANKE HOLDINGS LTD.
100%
Sociedad Contractual Minera Franke
100%
DMC Mining Services Colombia SAS
100%
DMC Mining Services (UK) Ltd.
100%
KGHM AJAX MINING INC.
80%
Sugarloaf Ranches Ltd.
80%
0899196 B.C. Ltd.
100%

Note 1.3 Exchange rates applied

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

- for the conversion of turnover, profit or loss and cash flow for the current period, the rate of ***4.2535 EURPLN*,***
- for the conversion of turnover, profit or loss and cash flow for the comparable period, the rate of ***4.2566 EURPLN*,***
- for the conversion of assets, equity and liabilities at 30 September 2018, the current average exchange rate announced by the National Bank of Poland (NBP) as at 28 September 2018, of ***4.2714 EURPLN,***
- for the conversion of assets, equity and liabilities at 31 December 2017, the current average exchange rate announced by the NBP as at 29 December 2017, of ***4.1709 EURPLN.***

**the rates represent the arithmetic average of current average exchange rates announced by the NBP on the last day of each month during the period from January to September respectively of 2018 and 2017.*

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

The following quarterly report includes:

1. the condensed consolidated financial statements of the KGHM Polska Miedź S.A. Group for the period from 1 January to 30 September 2018 and the comparable period from 1 January to 30 September 2017, together with selected explanatory information **(Part 1)**,
2. the quarterly financial information of KGHM Polska Miedź S.A. for the period from 1 January to 30 September 2018 and the comparable period from 1 January to 30 September 2017 **(Part 2)**.

Neither the condensed consolidated financial statements as at 30 September 2018 nor the condensed separate financial statements as at 30 September 2018 were subject to audit by a certified auditor.

The condensed consolidated financial report for the period from 1 January 2018 to 30 September 2018 was prepared in accordance with IAS 34 *Interim Financial Reporting* as approved by the European Union and for a full understanding of the financial position and operating results of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group, should be read jointly with the Annual Report R 2017 and the Consolidated annual report RS 2017.

This quarterly report's financial statements were prepared using the same accounting policies and valuation methods for the current and comparable periods and principles applied in annual financial statements (consolidated and separate), prepared as at 31 December 2017, with the exception of accounting policies and measurement arising from the application of IFRS 9 and IFRS 15 which are presented below.

Note 1.4.1 Impact of new and amended standards and interpretations

The International Accounting Standards Board approved the following new standards for use after 1 January 2018:

- IFRS 9 "Financial Instruments", which replaced IAS 39 "Financial Instruments: Recognition and Measurement".
- IFRS 15 "Revenue from contracts with customers" and Amendments to IFRS 15, clarifying some of the standard's requirements, which replaced the standards IAS 11 and 18, as well as the following interpretations: IFRIC 13, 15, 18 and SIC 31.

Impact of application of the aforementioned standards on the Group's accounting policy and on these consolidated financial statements.

IFRS 9 Financial Instruments

The Group did not make early implementation of IFRS 9 and applied the requirements of IFRS 9 retrospectively for periods beginning on or after 1 January 2018. In accordance with the possibility provided by the standard, the Group decided against the restatement of comparative data. Changes in the measurement of financial assets and financial liabilities, as at the date of initial application of the standard, were recognised in retained earnings. Implementation of IFRS 9 resulted in a change in accounting policy with respect to the recognition, classification and measurement of financial assets, the measurement of financial liabilities and impairment losses on financial assets.

Selected accounting policy

Measurement of financial assets and financial liabilities

As at 1 January 2018, the Group classifies financial assets to the following categories:

- financial assets measured at amortised cost,
- financial assets measured at fair value through other comprehensive income,
- financial assets measured at fair value through profit or loss, or
- derivative hedging instruments.

Classification is made upon initial recognition of a given asset. Classification of debt financial assets depends on the business model for financial assets management and on the nature of the contractual cash flows (SPPI test) for a given financial asset.

The Group classifies the following assets to the category **assets measured at amortised cost:** trade receivables (except for receivables subject to factoring agreements and trade receivables priced upon M+ formula, i.e. for which the final price is set after the end of the reporting period), loans granted which pass the SPPI test, other receivables, deposits and cash and cash equivalents.
Financial assets measured at amortised cost are stated at amortised cost using the effective interest rate method, less allowance for impairment. Trade receivables with a maturity period of up to 12 months (i.e. with no financing element) from the receivable origination date (which are not subject to factoring) are not discounted and are measured at nominal value. In the case of purchased or originated credit-impaired (POCI) financial assets at the moment of initial recognition, such assets are measured at amortised cost using the effective interest rate adjusted for credit risk.

The following are classified to the category **assets measured at fair value through other comprehensive income**:
1. financial assets, if the following conditions are met:
   - they are held within a business model whose objective is achieved by collecting contractual cash flows due to holding and selling financial assets, and
   - the contractual terms give right,, to receive cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding (i.e. the SPPI test was passed),

   The impact of changes in fair value is recognised in other comprehensive income up to the moment of derecognition of an asset from the statement of financial position, when the accumulated profit/loss is recognised in the statement of profit or loss.

2. equity instruments which at initial recognition were irrevocably selected to be classified to this category. The selection option of measurement at fair value through other comprehensive income is not available for instruments held for trading.
   Gains and losses, on both measurement and realisation of these assets, are recognised in other comprehensive income, with the exception of income on dividends received, which is recognised in the statement of profit or loss.

All financial instruments that were not classified as measured at amortised cost or measured at fair value through other comprehensive income, as well as the ones that the Group decided to classify as such in order to eliminate the accounting mismatch, are classified to the category **assets measured at fair value through profit or loss.**
The Group classifies the following to this category: trade receivables subject to factoring arrangements, trade receivables priced upon M+ formula, loans granted which did not pass the contractual cash flows test and derivatives which were classified as assets on the condition that they were not designated as hedging instruments.
Gains and losses on financial assets which are classified as financial assets measured at fair value through profit or loss are recognised in profit or loss in the period in which they arise (including interest income and dividends income).

The following are classified to **financial hedging instruments**: financial assets and financial liabilities representing designated financial instruments and qualifying for hedge accounting, measured at fair value reflecting all market and credit risk components.

As at 1 January 2018, the Group classifies financial liabilities to the following categories:
- financial liabilities measured at amortised cost,
- financial liabilities measured at fair value through profit or loss, or
- financial hedging instruments.

Liabilities measured at amortised cost include liabilities other than those measured at fair value through profit or loss (such as trade liabilities and bank and other loans), with the exception of:
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition,
- financial guarantee agreements, measured at the higher of the following amounts:
  - the amount of allowance for expected credit losses determined in accordance with IFRS 9;
  - the amount initially recognised (i.e. fair value increased by transaction costs that may be directly attributed to a financial liability) less cumulative revenue recognised according to IFRS 15 *Revenue from contracts with customers*.

Liabilities measured at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated at their initial recognition to measurement at fair value through profit or loss.

Financial liabilities held for trading include derivatives which are not designated for hedge accounting purposes.

Impairment of financial assets

IFRS 9 introduces a new approach to estimating losses on financial assets measured at amortised cost. This approach is based on indicating expected losses, regardless of whether or not there have occurred any indications of impairment.

The Group applies the following models to determine impairment losses:
- general model,
- simplified model.

Under the general model the Group monitors changes in the level of credit risk related to a given financial asset and classifies the financial asset to one of three stages of determining impairment losses:

Stage 1 – amount in respect of which there has not been a substantial increase in credit risk from the moment of initial recognition and for which the amount of the expected impairment loss is set based on the default probability within 12 months,
Stage 2 – amount in respect of which there has been a substantial increase in credit risk from the moment of initial recognition and for which the amount of the expected impairment loss is set based on the default probability within the entire loan period,
Stage 3 – amount with impairment.

Under the simplified model the Group does not monitor changes in the level of credit risk during an instrument's lifetime, but estimates the expected credit loss up to the instrument's maturity.

In order to estimate expected credit loss the Group makes use of the following:
- under the general model – default probability levels, forecasted based on market quotations of credit derivative instruments, for entities with a given credit rating from the given sector,
- under the simplified model – the historic levels of repayment of receivables and a two-stage approach (quality and quantity) to accounting for the impact of macroeconomic conditions on the recovery rates.

The Group considers default payment where the receivable balance is 90 days past due.
The Group accounts for forward-looking information in the applied parameters of expected credit losses estimation model by adjusting base ratios of probability of default (for receivables) or by calculating probability of default parameters based on current market quotations (for other financial assets).

The Group applies the simplified model to calculate the allowance for trade receivables.
The general model is applied to the remaining types of financial assets, including debt financial assets measured at fair value through other comprehensive income.

Impairment losses on debt financial instruments measured at amortised cost (at the moment of initial recognition and calculated for each successive day ending a reporting period) are recognised in other operating costs. Gains (reversals of impairment loss) due to a decrease in the expected amount of the impairment are recognised in other operating income.

For purchased or originated credit impaired assets at the moment of initial recognition (POCI), favourable changes in expected credit losses are recognised as gains due to the reversal of impairment losses in other operating income.

Impairment losses on debt financial instruments measured at fair value through other comprehensive income are recognised in other operating costs in correspondence with other comprehensive income, while not reducing the carrying amount of a financial asset in the statement of financial position. Gains (reversals of impairment loss) due to a decrease in the amount of the expected credit loss are recognised in other operating income in correspondence with other comprehensive income.

Hedge accounting

Hedges include fair value hedges, cash flow hedges and hedges of net investment in foreign operations.

The Group does not use either fair value hedges or hedges of net investments in foreign operations. Hedging instruments are designated as cash flow hedges.
In a cash flow hedge, a derivative used as a hedging instrument is an instrument which:

- hedges the exposure to volatility of cash flows and is attributable to a particular type of risk associated with an asset or liability recognised in the statement of financial position, or a highly probable forecast transaction, and
- will affect profit or loss in the statement of profit or loss.

amounts in PLN millions, unless otherwise stated

Gains and losses arising from changes in the fair value of cash flow hedging instruments are recognised in other comprehensive income, to the extent by which the given instrument represents an effective hedge of the associated hedged item. Moreover, the Group recognises, in other reserves from the measurement of hedging instruments, the portion of the gain or loss on the hedging instrument arising from changes in the time value of options, forward elements and currency margin (cross currency basis spread), with the provision that with respect to the latter two elements, the Group may each time select the method of recognition (through equity or directly to profit or loss).
The ineffective portion of a hedge is recognised in profit or loss as other operating income or other operating costs (in the case of hedges of cash flows from operating activities), and as finance income or finance costs (in the case of hedges of cash flows from financing activities).
Gains and losses originating from cash flow hedges are recognised in profit or loss at the time when the underlying hedged item affects profit or loss.
In particular, with respect to the gain or loss arising from changes in the time value of options, forward element or currency margin, the reclassification from equity (from other comprehensive income) to profit or loss (as other operating income or other operating costs for hedges of cash flows from operating activities, and as finance income or finance costs for hedges of cash flows from financing activities) is carried out on a one-off basis, if realisation of the hedged item is related to a transaction, or is amortised over the lifetime of a hedging relationship, if realisation of a hedged item is effected over time.

The Group applies the following requirements of effectiveness to a hedging relationship:
- there is an economic relationship between the hedged item and the hedging instrument,
- the effect of credit risk does not dominate the fair value changes of a hedged item or a hedging instrument,
- the hedge ratio is the same as that resulting from the quantity (nominal) of the hedged item that the Group actually hedges and the quantity (nominal) of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

The impact of IFRS 9 on the change in the classification and measurement of the Group's financial instruments as at 1 January 2018 (IFRS 7, par. 42I, 42J, 42O):

	Classification per IAS 39	**Classification per IFRS 9**	**Carrying amount per IAS 39 -as at 31 December 2017**	**Carrying amount per IFRS 9 - as at 1 January 2018**	**Reference to explanations below the table**
Financial assets					
Available-for-sale financial assets (equity instruments)	Available for sale	Fair value through other comprehensive income	673	709	(a)
Loans granted	Loans and receivables	Fair value through profit or loss	17	17	(b)
Loans granted	Loans and receivables	Amortised cost	3 892	3 892	(c)
Trade receivables - trade receivables subject to factoring arrangements and priced upon M+ formula	Loans and receivables	Fair value through profit or loss	782	798	(d)
Trade receivables - trade receivables subject to impairment allowance due to expected impairment	Loans and receivables	Amortised cost	740	723	(e)
Other receivables - receivables due to the present value of future payments respecting financial guarantees	Loans and receivables	Amortised cost	67	100	(f)

Financial liabilities					
Other liabilities - liabilities due to financial guarantees	Financial liabilities measured at amortised cost	Initially recognised fair value, increased by the transaction costs and reversals of the initial discount to the measurement date and decreased by the amount of revenues recognised in profit or loss	-	37	(f)

The comments below concern the table summarising the impact of IFRS 9 on the change in classification and measurement of the Group's financial instruments as at 1 January 2018.

a) This item is comprised of equity instruments not held for trading, in accordance with IAS 39 classified as available-for-sale, which were measured at fair value (listed) and at cost (unquoted) by the Group. Because these instruments were not purchased in order to be traded, by the Parent Entity's decision, these assets will be measured at fair value through other comprehensive income, without the possibility of later transfer of gains or losses on these instruments to profit or loss. These equity instruments are presented in the financial statements in the item "Other financial instruments measured at fair value".

b) This item is comprised of loans granted which did not pass the SPPI (solely payments of principal and interest) test, because in the structure of financing the target recipient of funds, debt is changed at the last stage into capital (the amount of capital is material) pursuant to the methodology of classification of financial instruments. Due to the above, these assets are measured at fair value through profit or loss. These financial instruments are presented in the financial statements in the item "Other financial instruments measured at fair value".

c) This item is comprised of loans granted to joint ventures which have met two conditions: they are in a business model whose objective is achieved by collecting contractual cash flows due to holding financial assets, and have passed the SPPI test. They were classified to credit impaired financial assets at the moment of initial recognition and presented in the financial statements in the item „Loans granted to joint ventures".

d) This item is comprised of trade receivables subject to factoring agreements, which were classified to the business model – held for sale (Model 3), as well as trade receivables priced upon M+ formula, which did not pass the SPPI test because of the derivative embedded within the M+ pricing formula. Due to the aforementioned determinations, these trade receivables are measured at fair value through profit or loss. They are presented in the financial statements in the item "Trade receivables measured at fair value".

e) For trade receivables whose objective is achieved by collecting contractual cash flows (Model 1) that passed the SPPI test and are measured at amortised cost, in order to determine the expected impairment the Group applied the simplified model and estimated the amount of the expected impairment during the life of the asset, applying a delay payments matrix based on historical data, reflecting the requirements of the standard with respect to current and forecasted economic conditions. These trade receivables are presented in the financial statements in the item "Trade receivables".

f) This item is comprised of guarantees granted to Sierra Gorda to secure its obligations arising from lease contracts and short-term bank loans. Receivables due to guarantees are recognised at the present value of future payments and then corrected by the unwinding of the discount effect and the impairment due to the expected credit losses in correspondence with the liability. The results of the measurement of financial guarantees are presented in the financial statements in the item "Other financial assets" (for receivables) and in the item "Other liabilities".

With the exception of the aforementioned items of other financial assets and liabilities, there were no changes arising from changes in classification or changes in measurement of financial instruments.

The following table presents a reconciliation of **impairment allowances** estimated in accordance with IAS 39 as at 31 December 2017 with the amount of impairment allowances estimated in accordance with IFRS 9 as at 1 January 2018. Changes in impairment allowances estimated in accordance with IFRS 9 arise from a change in the classification of financial assets between the categories of financial assets measured at amortised cost and at fair value, as well as from the remeasurement of impairment allowances reflecting the requirements of the model of expected credit losses (IFRS 7.42P).

amounts in PLN millions, unless otherwise stated

Category of assets	Amount of allowance per IAS 39 - as at 31 December 2017	Change due to change in classification	Change due to change in measurement	Amount of allowance per IFRS 9 - as at 1 January 2018
Loans and receivables (IAS 39) / Financial assets at amortised cost (IFRS 9)				
Loans granted	3 683	(3 683)	-	-
Trade receivables	47	-	17	64
Total	**3 730**	**(3 683)**	**17**	**64**
Available-for-sale assets (IAS 39) / Financial assets at fair value through other comprehensive income (IFRS 9)				
Available-for-sale financial assets	691	(691)	-	-
Total	**691**	**(691)**	**-**	**-**

IFRS 15 Revenue from Contracts with Customers

As part of the implementation of IFRS 15, the Group performed a comprehensive analysis of the impact of application of the standard on the consolidated financial statements. The results of the analysis were presented in the consolidated financial statements of the KGHM Polska Miedź S.A. Group for 2017 (RS 2017).

The Group applied IFRS 15 from 1 January 2018, pursuant to paragraph C3 (b) and C7 – retrospectively, with joint effect of the first application of the standard as an adjustment of the opening balance of retained earnings in 2018.

Selected accounting policy

In accordance with IFRS 15, as at 1 January 2018 the Group recognises revenue from contracts with customers when a Group entity satisfies a performance obligation by transferring a promised good or service to a customer, which is when the customer obtains control of that asset, i.e. the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset, as well as the ability to prevent other entities from directing the use of, and obtaining the benefits from, the asset.

The Group recognises as a performance obligation every contractual promise to transfer to a customer a good or service that is distinct, or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. For each performance obligation, a Group entity determines (based on contractual terms), whether the obligation will be performed over time or at a specified moment.

Revenues from the sale of products, merchandise and materials are recognised in profit or loss once at a point in time when the performance obligation is satisfied (in particular in accordance with the applied INCOTERMS principles).

Revenues from the sale of services are recognised in profit or loss over time if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group entity's performance to the extent that the entity performs its obligations, or
- the Group entity satisfies a performance obligation and creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced, or
- the Group entity's performance creates an asset without an alternative use to the Group entity and the entity has an enforceable right to payment for performance completed to date.

The allocation of a transaction price to each performance obligation is made based on a relative stand-alone selling price basis.

Revenues arising from ordinary operating activities of the Group, i.e. revenues from sales of products, merchandise and materials are recognised in the statement of profit or loss as revenues from contracts with customers.

Revenues from contracts with customers are recognised in the amount of the transaction price (including any discounts granted and rebates).

The transaction price also reflects the effects of the time value of money if a contract with a customer contains a significant financing element, which is determined based on the contractual payment terms, regardless of whether the promise of financing is explicitly stated in the contract. A financing element is recognised as significant if at contract inception, the period between the date when a promised good or service is transferred to a customer and when the consideration for the good or service is made by the customer is longer than one year.

In the case of a sales transaction for which the price is set after the date of recognition of a given sale, the revenue is adjusted at the end of each reporting period by any change in the fair value of the relevant trade receivables.

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

Contract with Franco Nevada

While analysing the impact of IFRS 15 on the consolidated financial statements of the KGHM Polska Miedź S.A. Group, a so-called streaming arrangement was identified, representing one of the sources of financing available to companies operating in the mining sector.
The contract (signed in 2008 between Quadra FNX Mining Ltd. and Franco Nevada) concerns the sale of half of the production of gold, platinum and palladium contained in the ore extracted during the lives of certain parts of deposits of the following mines: Morrison, McCreedy West and Podolsky (CGU Sudbury). Pursuant to the contract, Quadra FNX Mining Ltd. received a prepayment in the amount of CAD 400 million. Moreover, pursuant to the contract, the selling price for one ounce of gold equivalent is the lower of these two amounts: (a) a fixed amount for an ounce, increased by an indexation rate in each year, or (b) the market price of gold. The received prepayment covers the difference between the market price of ore sold and its fixed selling price.

Variable consideration
Pursuant to IFRS 15, if the consideration set forth in a contract contains a variable amount, the Group estimates the amount of the consideration to which it will be entitled in exchange for transferring the promised good or service to the customer, and adds to the transaction price some or all of the amount of the variable consideration solely to the extent that it is highly probable that there will not occur a reversal of a substantial portion of the amount of the previously recognised accumulated revenue at a moment when uncertainty is removed as to the amount of the consideration.
In the contract with Franco Nevada the total transaction price is variable and depends on the amount of the raw material sold, and this in turn depends on ore extraction in the future throughout the life of the mine (including for example on the size of the deposit). Therefore, if in subsequent reporting periods the Group enacts any changes to the planned amount of ore to be extracted, and consequently to the amount of raw material sold, the transaction price will also be updated.
The Group recognises amounts related to performance obligations as revenue or as a decrease of revenue in the period in which the transaction price was changed.

Significant financing element
In the context of the contract with Franco Nevada, taking into consideration the expected period from the moment when prepayment is received to the moment when the Group transfers the promised good (the life of the mine, or several decades) and the nature of this contract, it was determined that the extension of payments over time provides benefits to the Group due to the financing of deliveries of raw material by the purchaser (Franco Nevada), and as a result the contract includes a significant financing element.
The Group presents the effects of financing (interest costs) separately from revenue from contracts with customers in the statement of comprehensive income. Interest costs are recognised solely to the extent to which the liabilities related to the contract with Franco Nevada were recognised.

Below, we present the impact of implementation of IFRS 9 (disclosure of IFRS 7.42L) and IFRS 15 on the items of the statement of financial position as at 1 January 2018, for which there was a change in classification or measurement.

amounts in PLN millions, unless otherwise stated

Impact of the implementation of IFRS 9 Financial Instruments and IFRS 15 Revenue from contracts with customers

	Applied standard IFRS/IAS	As at 31 December 2017 Carrying amount	Change due to the reclassification	Change due to the revaluation	As at 1 January 2018 Carrying amount	Impact on retained earnings	Impact on other comprehensive income	Impact on equity
Available-for-sale financial assets	IAS 39	673	(673)	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	IFRS 9	-	673	36	709	-	36	36
Retained earnings - accumulated impairment losses on available-for-sale financial assets	IAS 39	(691)	691	-	-	691	-	691
Other reserves from measurement of financial instruments	IFRS 9	-	(691)	-	(691)	-	(691)	(691)
Loans granted	IAS 39/IFRS 9	3 909	(3 906)	-	3	-	-	-
Credit-impaired loans granted at the moment of initial recognition (POCI)	IFRS 9	-	3 889	-	3 889	-	-	-
Loans at fair value through profit or loss	IFRS 9		17		17	-	-	-
Trade receivables	IAS 39/ IFRS 9	1 522	(782)	(17)	723	(17)	-	(17)
Trade receivables measured at fair value through profit or loss	IFRS 9	-	782	16	798	16	-	16
Retained earnings – change in the time value of hedging instruments	IAS 39	(223)	223	-	-	223	-	223
Other reserves from measurement of hedging instruments	IFRS 9	-	(223)	-	(223)	-	(223)	(223)
Other receivables – receivables due to present value of future payments due to financial guarantees	IFRS 9	67	-	33	100	33	-	33
Other liabilities – liabilities due to financial guarantees	IFRS 9	-	-	37	37	(37)	-	(37)
Other non-current liabilities – liabilities due to Franco Nevada streaming contract	IFRS 15	410	-	(68)	342	68	-	68
Deferred tax on the aforementioned adjustments		-	-	(19)	(19)	(171)	152	(19)
Total impact						**806**	**(726)**	**80**

amounts in PLN millions, unless otherwise stated

Impact of the application of IFRS 15 on items of the statement of financial position and the statement of profit or loss as at 30 September 2018

Consolidated statement of financial position	As at 30 September 2018 per IAS 11, 18	Impact of IFRS 15	As at 30 September 2018 per IFRS 15
Trade receivables measured at fair value	557	(1)	556
Other non-current liabilities	573	37	610
Other current liabilities	1 081	(39)	1 042
Deferred tax liabilities	425	22	447
Retained earnings	14 910	(21)	14 889

Consolidated statement of profit or loss	from 1 January 2018 to 30 September 2018 per IAS 11, 18	Impact of IFRS 15	from 1 January 2018 to 30 September 2018 per IFRS 15
Revenues from contracts with customers	14 839	(52)	14 787
Other operating income and (costs)	(503)	(17)	(520)
Income tax expense	(617)	1	(616)

The main reason of changes disclosed in the above table is the recognition of a significant financing element arising from the agreement signed between Quadra FNX Mining Ltd. and Franco Nevada.

Note 1.4.2 The published standard IFRS 16 "Leases", which is not yet in force and was not applied earlier by the Group

Basic information on the standard

Date of implementation and transitional rules
IFRS 16 will be effective for annual periods beginning on or after 1 January 2019 and has been adopted by the European Union. It supersedes the current standard IAS 17, interpretations IFRIC 4 and SIC 15, 27. The Parent Entity will apply IFRS 16 from 1 January 2019.

Main changes introduced by the standard
The new standard introduces a single model for recognising a lease in a lessee's accounting books, conforming to the recognition of a finance lease under IAS 17. Pursuant to IFRS 16, an agreement is a lease or contains a lease if it transfers the rights to control the use of an identified asset for a given period in exchange for compensation. The essential element differentiating the definition of a lease from IAS 17 and from IFRS 16 is the requirement to have control over the used, specific asset, indicated directly or indirectly in the agreement. Transfer of the right to use takes place when we have an identified asset, with respect to which the lessee has the right to obtain substantially all of the economic benefits from its use, and controls the use of a given asset in a given period of time. If the definition of a "lease" is met, the right to use an asset is recognised alongside a corresponding lease liability, set in the amount of future discounted payments – for the duration of the lease. Expenses related to the use of lease assets, the majority of which were previously recognised in external services costs, will be currently classified as depreciation/amortisation and interest costs. Usufruct rights are depreciated using the straight line method, while lease liabilities are settled using the effective interest rate.

Impact of IFRS 16 on the financial statements

At the moment of preparation of these Financial statements the Group had completed most of the work related to implementation of the new standard IFRS 16. The project to implement IFRS 16 (project), which was commenced in the fourth quarter of 2017, was planned in three stages:
- stage I – analysis of all executed agreements for the purchase of services, regardless of their existing classification, the goal of which was to identify those agreements based on which the Group companies use assets belonging to suppliers; in addition, this stage comprised the analysis of perpetual usufruct rights to land as well as land easements and transmission easements,

- stage II – the evaluation of each agreement identified in stage I in terms of its meeting the criteria to be recognised as a lease pursuant to IFRS 16,
- stage III - implementation of IFRS 16 based on the developed concept.

All agreements were subjected to analysis involving a finance lease, operating lease, rentals, leasing, as well as perpetual usufruct rights to land as well as transmission easements and land easements. Also analysed were transactions involving purchased services (external service costs under operating activities) in terms of any occurrence of use of identified assets.

Under this project the Group carried out appropriate changes in accounting policy and operating procedures. Methods were developed and implemented for the proper identification of lease agreements and for gathering data needed in order to properly account for such transactions.

The Parent Entity decided to apply the standard from 1 January 2019. In accordance with the transition rules described in IFRS 16, the new principles will be applied retrospectively, and the accumulated impact of initial application of the new standard will be recognised in equity as at 1 January 2019. Consequently, comparable data for financial year 2018 will not be restated (the modified retrospective approach).

Following are the individual adjustments arising from the implementation of IFRS 16.

Description of adjustments

a) Recognition of lease liabilities

Following the adoption of IFRS 16, the Group will recognise lease liabilities related to leases which were previously classified as "operating leases" in accordance with IAS 17 Leases. These liabilities will be measured at the present value of lease payments due to be paid as at the date of commencement of the application of IFRS 16.

For purposes of disclosure with respect to the impact of implementation of IFRS 16, discounting was applied using the incremental borrowing rate of the Parent Entity as at 30 September 2018.

At their date of initial recognition, lease payments contained in the measurement of lease liabilities comprise the following types of payments for the right to use the underlying asset for the life of the lease:

- fixed lease payments less any lease incentives,
- variable lease payments which are dependent on market indices,
- amounts expected to be payable by the lessee under residual value guarantees,
- the strike price of a purchase option, if it is reasonably certain that the option will be exercised, and
- payment of contractual penalties for terminating the lease, if the lease period reflects that the lessee used the option of terminating the lease.

For the purposes of calculating the discount rate under IFRS 16, the Group assumed that the discount rate should reflect the cost of financing which would be drawn to purchase the object of a given lease. To estimate the amount of the discount rate, the Group considered the following contractual parameters: the type and life of an agreement, the currency applied and the potential margin which would have to be paid to a financial institution to obtain financing.

As at 30 September 2018, the discount rate calculated by the Group was within the following ranges (depending on the life of the agreement):

- for PLN-denominated agreements: from 3.28% to 5.03%
- for EUR-denominated agreements: 1.63%

The Group makes use of expedients with respect to short-term leases (less than 12 months) as well as in the case of leases in respect of which the underlying asset has a low value (less than PLN 20 000) and for which agreements it will not recognise financial liabilities nor any respective right-to-use assets. These types of lease payments will be recognised as costs using the straight-line method during the life of the lease.

b) Recognition of right-to-use assets

Right-to-use assets are measured at cost.

The cost of a right-to-use asset comprises:

- the initial estimate of lease liabilities,
- any lease payments paid at the commencement date or earlier, less any lease incentives receivable,
- initial costs directly incurred by the lessee as a result of entering into a lease agreement,
- estimates of costs which are to be incurred by the lessee as a result of an obligation to disassemble and remove an underlying asset or to carry out renovation/restoration.

c) Application of estimates

The implementation of IFRS 16 requires the making of certain estimates and calculations which effect the measurement of financial lease liabilities and of right-to-use assets. These include among others:

- determining which agreements are subject to IFRS 16,
- determining the life of such agreements (including for agreements with unspecified lives or which may be prolonged),
- determining the interest rates to be applied for the purpose of discounting future cash flows,
- determining depreciation rates.

amounts in PLN millions, unless otherwise stated

d) Application of practical expedients

In applying IFRS 16 for the first time, the Group plans to apply the following practical expedients permitted by the standard:

- application of a single discount rate to a portfolio of leases with reasonably similar characteristics,
- operating lease agreements for which the remaining lease term is less than 12 months as at 1 January 2019 are treated as short-term leases,
- the option not to separate lease components from non-lease components for lease agreements comprising all classes of underlying assets, with the exception of the machine and device class and of warehouses in respect of which the lease and non-lease components are identified,
- exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight (i.e. knowledge gained after the fact) in determining the lease term if the agreement contains options to prolong or terminate the lease.

Impact on the statement of financial position

The impact of implementing IFRS 16 on the recognition of additional financial liabilities and respective right-to-use assets was estimated on the basis of agreements in force in the Group as at 30 September 2018 and is as follows:

	Estimated impact as at 1 January 2019
Right-to-use assets - mining and metallurgical property, plant and equipment	486
Lease liabilities	486

The Parent Entity estimates that the annual cost of short-term lease agreements and annual cost of lease agreements for low-value assets is immaterial.

Note 1.5 Selected significant events covered by the regulatory filings of the Parent Entity

Changes in the composition of the Supervisory Board of the Parent Entity

On 6 July 2018, the Ordinary General Meeting of KGHM Polska Miedź S.A. appointed the following persons to the 10th term Supervisory Board of KGHM Polska Miedź S.A.:
Leszek Banaszak;
Jarosław Janas;
Andrzej Kisielewicz;
Janusz Marcin Kowalski;
Bartosz Piechota;
Marek Pietrzak;
Agnieszka Winnik – Kalemba;

as well as the members elected by the employees of the KGHM Polska Miedź S.A. Group:
Józef Czyczerski;
Ireneusz Pasis;
Bogusław Szarek.

Information on the appointed Members of the Supervisory Board were published by the Company in a regulatory filing on 22 July 2018.

Amendments to the Statutes of KGHM Polska Miedź S.A.

On 27 July 2018 the Regional Court for Wrocław-Fabryczna in Wrocław, Section IX (Economic) of the National Court Register, registered an amendment to the Statutes of KGHM Polska Miedź S.A. with its registered head office in Lubin, adopted by the Resolution No. 5/2018 of the Ordinary General Meeting dated 26 June 2018, with the following wording:

In § 20 sec. 2 after point 20), point 21) is added with the following wording:

"21) acceptance of a uniform text of the Company Statutes, prepared by the Management Board."
Uniform text of the Statutes of the Company, as adopted by the Supervisory Board of KGHM Polska Miedź S.A. on 3 August 2018, was published by the Company on the same day.

Changes in the composition of the Management Board of KGHM Polska Miedź S.A.

On 24 August 2018, the Supervisory Board of the Company adopted resolutions on appointing persons to the Management Board of KGHM Polska Miedź S.A.:

- Adam Bugajczuk as a Member of the 10^{th} term Management Board of KGHM Polska Miedź S.A., assigning him the duties of Vice President of the Management Board of KGHM Polska Miedź S.A. (Development), and
- from 10 September 2018 – Paweł Gruza as a Member of the 10^{th} term Management Board of KGHM Polska Miedź S.A., assigning him the duties of Vice President of the Management Board of KGHM Polska Miedź S.A. (International Assets).

Moreover, the Supervisory Board of KGHM Polska Miedź S.A. set the number of 10^{th} term Management Board members at 5 members of the Management Board.
Information on the appointed Members of the Management Board were published by the Company in a regulatory filing on 7 September 2018.

2 – Implementation of strategy

1.1. Basic elements and implementation of the Strategy of KGHM Polska Miedź S.A.

In the third quarter of 2018, KGHM Polska Miedź S.A. ("Company") continued to implement its Business Strategy, adopted in May 2017 and published in the document „Strategy of KGHM Polska Miedź S.A. for the years 2017-2021 with an outlook to 2040".
The Strategy for the years 2017-2021 with an outlook to 2040 is based on:

– 3 executory strategies: Development of Domestic and International Assets, Production and Safety and Coherent Organisation,

and also:

– 3 support strategies: Corporate Social Responsibility, Innovation and Financial Stability.

The goals of individual strategies have not been modified in respect of prior periods.
The Strategy is based on the mission „To always have copper" and the vision „To use our resources efficiently to become a leader in sustainable development".

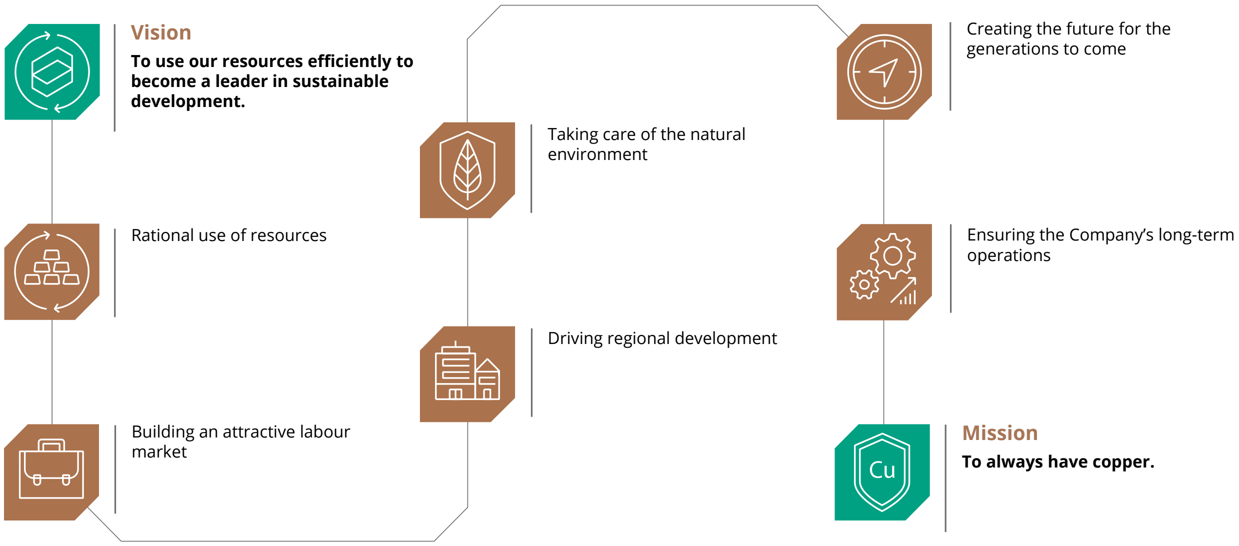


Diagram 1. Strategy of KGHM Polska Miedź S.A. – from vision to mission.

The actions taken since 2017 also emphasise the numerically-expressed main goal, predicated on the achievement of EBITDA at the level of PLN 7 billion in 2021 and an EBITDA margin for the Group on average above 20% in the years 2017 – 2021.
In the third quarter of 2018, the adopted ratios – EBITDA for the Group as well as EBITDA for KGHM Polska Miedź S.A. and the EBITDA margin for the Group – exceeded the budgeted targets. This situation applied to the entire KGHM Polska Miedź S.A. Group, including to the largest degree KGHM Polska Miedź S.A.
The long term goal of the Company is to maintain a stable level of production from its domestic and international assets as well as a level of costs which guarantees financial security, while ensuring safe working conditions and minimising its impact on the natural environment and surroundings, in accordance with the idea of sustainable development.
In the course of implementing the Strategy, in the third quarter of 2018, the Company continued actions aimed at implementation of the „Concept and model for the management of sustainable development in KGHM Polska Miedź S.A.", which was developed at the end of 2017, in augmentation of the strategic goals. The key areas of sustainable development for KGHM on which the Company will concentrate remain: Environment, Economy, Society, Safety and Resource Efficiency.
In the third quarter of 2018 implementation continued of the Code of Ethics and the Code of Conduct within the KGHM Polska Miedź S.A., which were adopted at the end of the first half of 2018.

1.2. Policy regarding the development directions of the KGHM Polska Miedź S.A. Group

During the reporting period, policy regarding the development directions of the KGHM Group was continued for the domestic companies. It was focused on implementing solutions aimed at enhancing the value of the KGHM Polska Miedź S.A. Group and comprised the coordination of key entities, their cooperation and at eliminating overlapping activities, as well as increasing oversight of the portfolio of domestic investment projects in companies which are of key importance for maintaining and supporting the Core Business of KGHM Polska Miedź S.A. In terms of implementation of the Strategy

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being advanced by KGHM Polska Miedź S.A., emphasis was placed on improving and synchronizing the functioning of organisational processes and management standards in force within the KGHM Polska Miedź S.A. Group.
In the case of the international assets of the KGHM Group, work commenced in the third quarter of 2018 on a review of these assets, which is planned to be completed at the end of 2018. In terms of implementation of the Strategy being advanced by KGHM Polska Miedź S.A. with respect to the Group's international assets, KGHM is aiming at the development of cohesive reporting standards and coherent internal regulations, as well as standardised solutions with respect to individual functional areas in the international assets.

1.3. Strategic programs of KGHM Polska Miedź S.A.

In the third quarter of 2018, the implementation of four Strategic Programs selected as part of the new approach to managing the Company's Strategy was continued. They are aimed at achieving the key goals of the Strategy of KGHM Polska Miedź S.A. and enable attention to be focused on tasks which create the greatest value for the Company.

Table 1 Strategic Programs implemented by KGHM Polska Miedź S.A.

NAME OF PROGRAM	DESCRIPTION	DEGREE OF REALISATION
Program to adapt the technological installations of KGHM to the requirements of BAT Conclusions for the non-ferrous metals industry together with restricting arsenic emissions (BATAs)	The BATAs Program is a response to the need to adapt the technological installations of the Metallurgical Divisions – the Legnica Copper Smelter and Refinery and the Głogów Copper Smelter and Refinery – to the requirements of BAT Conclusions (conclusions involving best available techniques) for the non-ferrous metals industry together with restricting arsenic emissions to the environment.	– The BATAs Program portfolio comprises 26 new investment projects. In addition, 20 projects related with the BATAs Program will also be advanced. Advancement of the entire program is expected to last until August 2023, although key projects related to improving the environment will be completed by June 2020.
Metallurgy Development Program (MDP)	The MDP was established to optimally adapt the metallurgical structure of KGHM Polska Miedź S.A. as well as technology ensuring an increase in the capacity to process own and imported concentrates as well as purchased metal-bearing scrap.	In the third quarter of 2018, construction and assembly work was carried out on technological links under the Program's key investment tasks: – Steam Drier - the stage of technological trials was completed. Following the maintenance shutdown of the Głogów II Copper Smelter and Refinery (June 2018), production is underway with the full use of the newly-built steam drier. In subsequent months the completion of associated work is planned as well as final settlement and handover. – In order to start operations by the copper concentrate roasting installation at the Głogów I Copper Smelter and Refinery the installation is being adapted. Start-up of the installation was recommenced. – Basic tasks were completed with respect to projects related to adapting technical infrastructure to changes in the metallurgical technology at the Głogów I Copper Smelter and Refinery. Work continues on procedures involving final handovers and settlements, as well as obtaining administrative decisions. – Technical documentation is being developed with respect to modernisation of the Tank Hall at the Głogów I Copper Smelter and Refinery. Efforts to obtain a building permit are underway.
Deposit Access Program (DAP)	The goal of the DAP is to create the conditions necessary to maintain mine production at the level set in the Production Plan of KGHM Polska Miedź S.A. and to optimise production of raw materials to ensure the Company's profitability by gaining access to a new area of the deposits, ensuring prolongation of the working life of KGHM in the Copper Basin in Lower Silesia to the year 2042.	– Work continued on the sinking of the GG-1 shaft (material-personnel shaft, with an air inlet function). The shaft's target depth is 1 350 meters with a diameter of 7.5 meters. The shaft's depth has reached 1 070 meters. In December 2017 and January 2018, during the drilling of exploratory holes from the bottom of the shaft, the actual water-related hazard at the main dolomite layer was uncovered. The sinking of the shaft will continue following pre-cementation, which began in mid-April 2018. Completion of the pre-injection work (which involves de-watering) is planned for the end of October 2018. The shaft will reach the level of the deposit in 2020. – Due to the change in the shaft's function from that of ventilation to material-personnel transport, completion

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		of the shaft's construction together with infrastructure is planned for the start of 2024. – Work continues on procedures related to obtaining a construction permit to build the Surface-based Central Air Conditioning System at the GG-1 shaft as well as procedures related to obtaining an environmental decision for the Ice Water Transportation System. Negotiations have also been completed with the owners of property with respect to the placement of piping. – During the reporting period, preparatory work continued related to obtaining permits for the siting of the GG-2 („Odra") shaft in the gmina (municipality) of Żukowice. – In the first three quarters of 2018, 33 671 meters of mine tunnelling was excavated in the Rudna and Polkowice-Sieroszowice mines (of which 10 947 meters of mine tunnelling was excavated in the third quarter of 2018).
KGHM 4.0 Program	The KGHM 4.0 Program is a venture which addresses the Industry 4.0. concept, while its principles represent an implementation of the Industry 4.0 idea within the technical-organisational environment of KGHM Polska Miedź S.A. The Program assumes the advancement of projects aimed at the unified management of production and the utilisation of data in order to improve productivity and efficiency.	– In accordance with the approved Definition of the KGHM 4.0 Program, the preparatory stage was completed whose goal was to create management structures, to implement and formalise the Program within KGHM and to adopt existing standards and procedures to the Program, including the activation of projects under the Program. – As part of the aforementioned work on the KGHM 4.0. Program, the following were approved: an operating work-financial schedule for 2018, a registry of risks and plans to manage the program and a registry of project and organisational dependencies for the ventures advanced in KGHM. – The advancement of projects has begun, in accordance with approved project documentation. – The following milestones have been achieved: ▪ The tangible and financial operating schedule for 2018 was approved. ▪ The R&D development team for IT and analysis is ready to work. – At present, scenarios are being agreed regarding the advancement of projects which could potentially contain NIS Directive (Network and Information Systems Directive) elements. This directive places new obligations on entities within the following sectors: energy, digital infrastructure, potable water supply, banking, health and transport. – The KGHM 4.0 Program was expanded to include an initiative regarding the Electricity Balancing and Settlement System in KGHM Polska Miedź S.A., which is aimed at further optimisation of the process of purchasing electricity and natural gas to meet the needs of production. – With respect to the development of electromobility, work has commenced on a concept for building a rapid charging station for electric vehicles, while conditions have been set to lend out these electric vehicles for operational testing and to select appropriate models of such cars which meet the specific working conditions in KGHM Polska Miedź S.A. – Under the 5-year initiative „Reduction of technological debt" the replacement of technical and IT infrastructure has commenced, which in the medium-term perspective will enable a reduction in the costs of maintaining such infrastructure.

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1.4. Execution of the main strategic tasks in the third quarter of 2018

Following are the most important projects and initiatives, including the degree of their advancement, in accordance with the present Strategy.

Exploration program of KGHM Polska Miedź S.A. in Poland:

Radwanice-Gaworzyce	– Exploration is not currently being conducted within the Radwanice-Gaworzyce deposit. Geological documentation for this deposit has been approved, concluding with exploration employing surface-based methods. Due to the wide variability in geological and mining conditions, it is planned that in future the areas Radwanice Zachód and Radwanice Północ will be explored from the underground mine works, conducted mainly in areas of copper mineralisation. The date for commencing this work depends on the progress of mining in the areas Sieroszowice and Radwanice Wschodnie. – Mining within this deposit is currently being conducted in the areas Radwanice Wschodnie and Gaworzyce. Mining in the Radwanice Wschodnie area has been underway with certain breaks since 1996. In the second area, in 2016 mining was conducted using the intersection of tunnels T and W-357/W, built using combine technology. After completing this work in March 2017, a mining concession was obtained and the mine area Gaworzyce was created. A return to this area is planned at the end of the fourth quarter of 2018 from the C-344 and C-343 drifts, which at present are around 90 meters from the edge of the Gaworzyce Mine Area. Due to a complicated geological structure, these drifts pass over the deposit. Entry to the deposit is planned at the end of 2019.
Synklina Grodziecka and Konrad	– Technical and economic analyses carried out which were reviewed by independent experts indicated that currently there is a lack of justification for advancing this investment. Given the fact that the costs associated among others with dewatering the projected mine play a critical role in determining the economic feasibility of the project, it was decided that additional hydrogeological research would be conducted, the results of which could lead to a change in the dewatering costs model. Consequently, it was decided to prolong the life of the Konrad concession to 2020. – Regardless of this, administrative proceedings are currently underway in respect of the concession-granting body involving the possibility of continuing the geological work under the Synklina Grodziecka concession.
Retków-Ścinawa and Głogów	– The Company is continuing to advance stage 2 of exploration and evaluation work within the Retków-Ścinawa concession, under which three exploratory drillholes have been sunk to date. At the end of August 2018 a decision was received altering the Retków-Ścinawa concession which permits the drilling of another drillhole. With respect to the Głogów concession, in July 2018 surface-based geophysical research commenced.

Exploration projects in the preparatory phase:

Bytom Odrzański Kulów-Luboszyce	– As a result of a decision by the Supreme Administrative Court, which dismissed cassation appeals in respect of the concessions Bytom Odrzański and Kulów-Luboszyce, a decision as to the granting of concessions for the areas in question requires a reconsideration by the concession-granting body.

Other concessions:

Puck region	– Based on a new reinterpretation of the geological profile of the region as well as on an economic and technical feasibility study conducted on the possibility of mining the studied potassium-magnesium salt deposits reflecting the mine model and processing technology, it was decided to conduct further geological work. In the first quarter of 2018, another drillhole was sunk. In March 2018, Addition no. 1 to the Geological Works Project was submitted to the Environmental Ministry (EM), in which the sinking of another drillhole was proposed. – Also expected is the setting of a date for a hearing at the Supreme Administrative Court regarding the cassation appeals of a competing company which is also seeking a concession for this same area.

Key development projects of the Core Business in Poland:

Pyrometallurgy Modernisation Program at the Głogów Copper Smelter and Refinery	– Production by the flash furnace of the Głogów I Copper Smelter and Refinery was stabilised in accordance with the current production plan. – Settlement procedures and the final handovers of contracts and orders with respect to the Pyrometallurgy Modernisation Program are at the final stage.

Increasing cathode production at the Legnica Copper Smelter and Refinery to 160 kt/year (RMR+ISA)	– –	Work continues on the Project "Construction of a Reverberatory-Melting-Refining Furnace (RMR) at the Legnica Copper Smelter and Refinery". Work continues on building the RMR furnace, the Full Evaporation Tower and the foundations of the casting machinery. Technological start-up is planned in the first quarter of 2019.
Development of the Żelazny Most Tailings Storage Facility	– – –	Based on the permit received in 2016 to develop the Main Facility to a crown height of 195 meters a.s.l. and a permit to further operate the Tailings Storage Facility, the dam is being built up successively as part of the on-going operations of the Division. In March 2018, a building permit was issued for the Southern Quarter. Construction of the Southern Quarter will enable the additional deposition of waste tailings in the amount of around 170 million m^3. Since May 2018 intensive work has been underway on construction of the Southern Quarter. Also, a decision was obtained enabling construction of the Tailings Segregation and Thickening Station. By the end of September 2018 all of the work related to land preparation was completed as well as strengthening of the ground beneath the station, which is an integral part of the project to develop the Żelazny Most Tailings Storage Facility.

Development of international assets:

Victoria Project (Sudbury Basin, Canada) *KGHM Polska Miedź S.A. Group 100%*	–	In the third quarter of 2018, work continued on preparing applications to obtain necessary permits for the project. The project team also conducted work related to securing existing infrastructure and project terrain as well as maintaining relations with First nations in Ontario in Canada.
Sierra Gorda Oxide (Chile) *KGHM INTERNATIONAL LTD. Group 100%. Sumitomo Metal Mining and Sumitomo Corporation hold an option to acquire in total a 45% stake in the project.*	–	In the third quarter of 2018, work continued on selected assumptions and options of the project, aimed mainly at analysing the possibility of preparing the ore for heap leaching. Work also continued on obtaining required permits for the project and on reviewing selected technical aspects of the project.
Ajax Project (British Columbia, Canada) *KGHM Polska Miedź S.A. Group 80%, Abacus Mining and Exploration Corp. 20%*	–	As a result of the negative decisions received from the Government of Canada and the provincial authorities of British Columbia against the granting of an Environmental Assessment Certificate for the Ajax project, in the third quarter of 2018, on the project's terrain only necessary work related to securing existing infrastructure and required monitoring of the terrain was carried out.

Production:

Sierra Gorda Mine in Chile – Phase 1 *KGHM INTERNATIONAL LTD. Group 55%, Sumitomo Metal Mining and Sumitomo Corporation 45%*	– – –	Production of copper in concentrate in the first three quarters of 2018 amounted to 69.3 thousand tonnes, while production of molybdenum in concentrate amounted to 19.5 million pounds (on a 100% basis). Work continued related to optimising the processing of the sulphide ore. The actions taken were concentrated on stabilising the work of the processing plant as well as on increasing copper and molybdenum recovery, which led to improved results. At present work is aimed at developing the mine based on maximum utilisation of existing infrastructure and optimising the production line, which should lead to an increase in average annual daily ore throughput volume.
Improving efficiency in the core business in Poland	– – –	In the third quarter of 2018, work continued on initiatives aimed at automating production in the Mining Divisions of KGHM. Projects are being advanced involving automating production announced under the KGHM 4.0 program in the area INDUSTRY: ▪ The placement and identification of machinery and persons in underground mines (pilot version and proof of proper functioning), ▪ Broad-band data transmission in underground mines, ▪ Monitoring of utilities - power, ventilation, water, ▪ Robotisation of production and auxiliary processes, ▪ Monitoring of mining vehicle parameters – continuation of the SYNAPSA project, ▪ Multidimensional data analysis of production processes – Centre of Advanced Data Analysis (Centrum Zaawansowanych Analiz Danych - CZAD). To achieve savings through the acquisition of freely-granted energy efficiency certificates, three ventures were designated which meet the requirements of the new energy efficiency law. At present 2 of the 3 energy efficiency audits and appropriate documentation are being prepared, which will

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	represent appendices to the application on the granting of white certificates. All of the documentation will be completed by the end of the fourth quarter of 2018. – Tasks aimed at reducing energy consumption in KGHM Polska Miedź S.A. are advancing in accordance with the schedule under the Energy Management System implemented in the Company in compliance with PN-EN ISO50001:2012 and with the Energy Savings Program (ESP). During the reported period, as a result of the realisation of tasks identified under the aforementioned actions conducted in the Divisions, primary energy consumption was reduced by 154 170 MWh. – In order to optimise underground machinery management and to improve their operating efficiency ratios, the Company is aiming to stabilise the replacement of mining vehicles at the level of at least 16% annually and to stabilise the availability of primary machinery at the level of at least 74.5 %. In the third quarter of 2018, actions were continued aimed at achieving the planned level of machinery replacement, which amounted on an accrued basis to 15.3% and at improving availability, which amounted on an accrued basis to 72.9%. – The Company has joined the Polish Committee for Standardization, where it is involved in tasks aimed at creating standards, thanks to which it can improve its own Energy Management System based on the newest versions of international standards (e.g. updated standard ISO50001:2018), while at the same time monitoring the actions of the International Organization for Standardization (ISO) which remain of interest to KGHM.
Improvement in occupational health and safety	– In the first three quarters of 2018, the Company did not record a single accident-related fatality. The total number of registered workplace accidents (injuries) to the end of September 2018 was lower by 0.9% compared to the corresponding period of 2017. At the same time the number of days absent caused by workplace accidents decreased by 7.8%. – During the reporting period the Company continued work involving implementation of the multi-year Occupational Health and Safety Program in KGHM Polska Miedź S.A. Further reconstructions of selected workplace accidents in the Divisions of KGHM Polska Miedź S.A., instruction films and an educational film were prepared. Further editions of the so-called safety passport were developed as well as educational materials on industrial hygiene. New technical solutions were tested in the Divisions of KGHM aimed at improving OHS, and new formulas of cooperation with subcontractors were implemented. The Company is continuing to advance the goals of „Zero accidents due to human and technical reasons, zero occupational illnesses among our employees and contractors”.

Initiatives aimed at enhancing knowledge and innovation in KGHM Polska Miedź S.A.:

Main R&D initiatives	– In the third quarter of 2018, the project „Utrzymanie Kopalni i Sprzętu” (Maintained Mine & Machine) was initiated, subsidised under KIC Raw Materials. Its goal is to build a management processes support system to maintain mine production and mine machinery. KGHM Polska Miedź S.A. is responsible for defining research problems. – During the reporting period a subsidy was received from KIC Raw Materials for the project „Monitoring pracy maszyn do kruszenia minerałów” („Operation monitoring of mineral crushing machinery”). Initiation is expected at the start of 2019. – The AMCO project continues, subsidised under the auspices of KIC Raw Materials, aimed at building an innovative automated microscope system for analysing metals ore. – Under the Horizon 2020 Program, the Company participates in the subsidised research project INTMET („Integrated innovative metallurgical system to efficiently enrich polymetallic, complex and low-grade ores and concentrates”), under which technology for the processing of, among others, metal ores are being developed. – Advancement of the subsidised project BioMOre („New mining concept for extracting metals from deep ore deposits using biotechnology”) was concluded, in which the Company played the key role of coordinator. As a result of advancement of this project a technology for the bioleaching of a deposit in-situ under actual conditions was effectively verified. – The Company, together with international consortiums, submitted an application for subsidising under the Horizon 2020 Program for the project FineFuture, under which research is planned into improving mineral particulate flotation. The application was positively reviewed in the first stage of evaluation. – Advanced work is underway to prepare applications for subsidising from the Horizon 2020 Program in the areas: management of Big Data from industrial infrastructure, and technology to recover cobalt from slag from the blister copper conversion process. – Under preparation are proposals for financing by the KIC Raw Materials program in the following areas: ▪ Development of a new generation of working elements of flotation machinery, ▪ Flotation of thick grains, ▪ Improvement of the efficiency of the dewatering process. – An „Implementation Doctorates Program in KGHM” was commenced for 37 candidates. Under this initiative, the following actions were taken: ▪ Principles for and the form of managing the Implementation Doctorates Program were developed, ▪ Organisational, operational and substantive support was ensured for the Program’s Participants during external recruiting and qualification interviews at 5 public institutions of higher learning, ▪ Funds were ensured to carry out R&D work under the implementation doctorates program, ▪ A year-long agreement was signed with KGHM CUPRUM sp. z o.o. Centrum Badawczo-Rozwojowe to coordinate the Program, monitor the progress of the doctoral students and cooperate with institutions of higher learning.

CuBR Program	– 20 R&D projects having a total value of around PLN 150 million are being advanced under the CuBR Joint Venture, co-financed by the National Centre for Research and Development (NCRD). – Together with the National Centre for Research and Development, details are being agreed regarding the initiation of panel assessments of applications submitted under the fourth CuBR competition. All of the applications are to be assessed in the fourth quarter of 2018.
Intellectual property	– 3 inventions arising from R&D work were submitted to the Patent Office of the Republic of Poland. – The decision of the Patent Office of the Republic of Poland was received - KGHM Polska Miedź S.A. was one of those co-entitled to a delivered patent, under a CuBR project (Joint Venture co-financed by NCRD). – KGHM Polska Miedź S.A. was granted the title Mistrz Techniki (Engineering Champion) and Dolnośląski Mistrz Techniki (Lower Silesian Engineering Champion) for a „System to manage energy in KGHM Polska Miedź S.A." and the title Wicemistrz Techniki (Vice Engineering Champion) for its solution: „ONE CONTROL ROOM". – A model of protection of joint rights to solutions arising from a CuBR project (1st edition of the competition) is being advanced, as well as the eventual advancement of additional patents applications.

3 –Information on operating segments and revenues

Note 3.1 Operating segments

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

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

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

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

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

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

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

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

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

OTHER SEGMENTS	
Type of activity	**Company**
Support of the core business	BIPROMET S.A., CBJ sp. z o.o., Energetyka sp. z o.o., INOVA Spółka z o.o., KGHM CUPRUM sp. z o.o. – CBR, KGHM ZANAM S.A., KGHM Metraco S.A., PeBeKa S.A., POL-MIEDŹ TRANS Sp. z o.o., WPEC w Legnicy S.A.
Sanatorium-healing and hotel services	Interferie Medical SPA Sp. z o.o., INTERFERIE S.A., Uzdrowiska Kłodzkie S.A. - Grupa PGU, Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU, Uzdrowisko Połczyn Grupa PGU S.A., Uzdrowisko Świeradów - Czerniawa Sp. z o.o. – Grupa PGU
Investment funds, financing activities	Fundusz Hotele 01 Sp. z o.o., Fundusz Hotele 01 Sp. z o.o. S.K.A., KGHM TFI S.A., KGHM I FIZAN in liquidation, KGHM IV FIZAN, KGHM V FIZAN, KGHM VI FIZAN, KGHM VII FIZAN, Polska Grupa Uzdrowisk Sp. z o.o.
Other activities	CENTROZŁOM WROCŁAW S.A., CUPRUM Development sp. z o.o., CUPRUM Nieruchomości sp. z o.o., KGHM (SHANGHAI) COPPER TRADING CO., LTD., KGHM Kupfer AG, MERCUS Logistyka sp. z o.o., MIEDZIOWE CENTRUM ZDROWIA S.A., NITROERG S.A., NITROERG SERWIS Sp. z o.o., PeBeKa Canada Inc., PHU "Lubinpex" Sp. z o.o., PMT Linie Kolejowe Sp. z o.o., PMT Linie Kolejowe 2 Sp. z o.o., Staropolanka Sp. z o.o., WMN "ŁABĘDY" S.A., Zagłębie Lubin S.A., OOO ZANAM VOSTOK

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

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

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

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

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

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

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

Note 3.2 Financial results of reporting segments

		KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Reconciliation items to consolidated data: Elimination of data of the segment Sierra Gorda S.C.M	Reconciliation items to consolidated data: Adjustments****	Consolidated financial statements
		from 1 January 2018 to 30 September 2018						
Note 3.3	**Revenues from contracts with customers, of which:**	**11 317**	**2 047**	**1 407**	**5 068**	(1 407)	(3 645)	14 787
	- inter-segment	214	-	-	3 383	-	(3 597)	-
	- external	11 103	2 047	1 407	1 685	(1 407)	(48)	14 787
	Revenues from contracts with customers – for sales, for which the amount of revenue was not finally determined at the end of the reporting period (IFRS 15.114)	**632**	**450**	**894**	**-**	**(894)**	-	**1 082**
	Segment result	**1 430**	**(501)**	**(381)**	**11**	**381**	**36**	**976**
	Additional information on significant revenue/cost items of the segment							
	Depreciation/amortisation recognised in profit or loss	(820)	(335)	(390)	(168)	390	7	(1 316)
	Share of losses of joint ventures accounted for using the equity method	-	(255)	-	-	-	(3)	(258)
		As at 30 September 2018						
	Assets, including:	**33 005**	**8 649**	**8 706**	**5 345**	**(8 706)**	**(10 778)**	**36 221**
	Segment assets	33 005	8 649	8 706	5 345	(8 706)	(10 802)	36 197
	Joint ventures accounted for using the equity method	-	-	-	-	-	5	5
	Assets unallocated to segments	-	-	-	-	-	19	19
	Liabilities, including:	**14 660**	**14 287**	**12 136**	**1 942**	**(12 136)**	**(13 285)**	**17 604**
	Segment liabilities	14 660	14 287	12 136	1 942	(12 136)	(13 313)	17 576
	Liabilities unallocated to segments	-	-	-	-	-	28	28
	Other information	**from 1 January 2018 to 30 September 2018**						
	Cash expenditures on property, plant and equipment and intangible assets	1 387	444	452	161	(452)	(74)	1 918
	Production and cost data	**from 1 January 2018 to 30 September 2018**						
	Payable copper (kt)	366.4	60.8	38.1				
	Molybdenum (million pounds)	-	0.4	10.7				
	Silver (t)	836.2	1.1	10.4				
	TPM (koz t)	62.1	51.3	15.8				
	C1 cash cost of producing copper in concentrate (USD/lb)**	1.87	1.87	1.21				
	Adjusted EBITDA	**2 588**	**528**	**484**	**190**	**-**	**-**	**3 790**
	EBITDA margin***	**23%**	**26%**	**34%**	**4%**	**-**	**-**	**23%**

* 55% of the Group's share in Sierra Gorda S.C.M.'s financial and production data.
** Unit cash cost of payable copper production, reflecting ore mining and processing costs, transport costs, the minerals extraction tax, administrative expenses during the mining phase and smelter treatment and refining charges (TC/RC) less by-product value.
*** Adjusted EBITDA to revenues from sales. For the purposes of calculating the Group's EBITDA margin (23%), the consolidated revenues from sales were increased by revenues from sales of the segment Sierra Gorda S.C.M.
[3 790 / (14 787 + 1 407) * 100]
**** Adjustments arise from consolidation eliminations and financial data of companies unallocated to any segment.

Financial results of reporting segments for the comparable period

		KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Reconciliation items to consolidated data: Elimination of data of the segment Sierra Gorda S.C.M	Reconciliation items to consolidated data: Adjustments****	Consolidated financial statements
		from 1 January 2017 to 30 September 2017						
Note 3.3	**Revenues from contracts with customers, of which:**	**11 433**	**1 793**	**1 436**	**4 724**	**(1 436)**	**(3 463)**	**14 487**
	- inter-segment	207	71	-	3 241	-	(3 519)	-
	- external	11 226	1 722	1 436	1 483	(1 436)	56	14 487
	Segment result	**1 850**	**(521)**	**(456)**	**86**	**456**	**244**	**1 659**
	Additional information on significant revenue/cost items of the segment							
	Depreciation/amortisation recognised in profit or loss	(752)	(238)	(348)	(174)	348	9	(1 155)
	Share of losses of joint ventures accounted for using the equity method	-	(214)	-	-	-	(1)	(215)
		As at 31 December 2017						
	Assets, including:	**30 947**	**7 807**	**8 114**	**5 400**	**(8 114)**	**(10 032)**	**34 122**
	Segment assets	30 947	7 807	8 114	5 400	(8 114)	(10 071)	34 083
	Joint ventures accounted for using the equity method	-	-	-	-	-	8	8
	Assets unallocated to segments	-	-	-	-	-	31	31
	Liabilities, including:	**13 691**	**12 701**	**11 240**	**2 007**	**(11 240)**	**(12 062)**	**16 337**
	Segments liabilities	13 691	12 701	11 240	2 007	(11 240)	(12 204)	16 195
	Liabilities unallocated to segments	-	-	-	-	-	142	142
	Other information	**from 1 January 2017 to 30 September 2017**						
	Cash expenditures on property, plant and equipment and intangible assets	1 360	368	382	150	(382)	(74)	1 804
	Production and cost data	**from 1 January 2017 to 30 September 2017**						
	Payable copper (kt)	399.8	60.6	40.0				
	Molybdenum (million pounds)	-	0.6	16.4				
	Silver (t)	915.6	1.2	11.2				
	TPM (koz t)	86.7	55.2	21.9				
	C1 cash cost of producing copper in concentrate (USD/lb)**	1.42	1.98	1.74				
	Adjusted EBITDA	**3 199**	**455**	**378**	**245**	**-**	**-**	**4 277**
	EBITDA margin* **	**28%**	**25%**	**26%**	**5%**	**-**	**-**	**27%**

* 55% of the Group's share in Sierra Gorda S.C.M.'s financial and production data.
** Unit cash cost of payable copper production, reflecting ore mining and processing costs, transport costs, the minerals extraction tax, administrative expenses during the mining phase and smelter treatment and refining charges (TC/RC) less by-product value.
*** Adjusted EBITDA to revenues from sales. For the purposes of calculating the Group's EBITDA margin (27%), the consolidated revenues from sales were increased by revenues from sales of the segment Sierra Gorda S.C.M. [4 277 / (14 487 + 1 436) * 100]
**** Adjustments arise from consolidation eliminations and financial data of companies unallocated to any segment.

amounts in PLN millions, unless otherwise stated

Reconciliation of adjusted EBITDA	from 1 January 2018 to 30 September 2018			
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments
Profit/(loss) for the period	**1 430**	**(501)**	**(381)**	**11**
[-] Share of losses of joint ventures accounted for using the equity method	**-**	**(255)**	**-**	**-**
[-] Current and deferred income tax	(498)	(14)	111	(25)
[-] Depreciation/amortisation recognised in profit or loss	(820)	(335)	(390)	(168)
[-] Finance income and (costs)	(499)	(619)	(586)	(9)
[-] Other operating income and (costs)	659	194	-	23
[=] EBITDA	2 588	528	484	190
[-] Recognition/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	-	-	-
Adjusted EBITDA	**2 588**	**528**	**484**	**190**

	from 1 January 2018 to 30 September 2018			
Profit/(loss) on sales (EBIT)	**1 768**	**193**	**94**	**22**
[-] Depreciation/amortisation recognised in profit or loss	(820)	(335)	(390)	(168)
[=] EBITDA	2 588	528	484	190
[-] Recognition/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	-	-	-
[=] Adjusted EBITDA	**2 588**	**528**	**484**	**190**

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

Reconciliation of adjusted EBITDA	from 1 January 2017 to 30 September 2017			
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments
Profit/(loss) for the period	**1 850**	**(521)**	**(456)**	**86**
[-] Share of losses of joint ventures accounted for using the equity method	**-**	**(214)**	**-**	**-**
[-] Current and deferred income tax	(652)	(78)	135	(28)
[-] Depreciation/amortisation recognised in profit or loss	(752)	(238)	(348)	(174)
[-] Finance income and (costs)	744	(712)	(611)	(5)
[-] Other operating income and (costs)	(689)	266	(10)	48
[=] EBITDA	3 199	455	378	245
[-] Recognition/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	-	-	-
Adjusted EBITDA	**3 199**	**455**	**378**	**245**

	from 1 January 2017 to 30 September 2017			
Profit/(loss) on sales (EBIT)	**2 447**	**217**	**30**	**71**
[-] Depreciation/amortisation recognised in profit or loss	(752)	(238)	(348)	(174)
[=] EBITDA	3 199	455	378	245
[-] Recognition/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	-	-	-
[=] Adjusted EBITDA	**3 199**	**455**	**378**	**245**

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

amounts in PLN millions, unless otherwise stated

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

from 1 January 2018 to 30 September 2018

					Reconciliation items to consolidated data		
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Elimination of data of the segment Sierra Gorda S.C.M	Consolidation adjustments	Consolidated data
Copper	8 513	1 220	754	4	(754)	(14)	**9 723**
Silver	1 495	7	17	-	(17)	-	**1 502**
Gold	280	133	66	-	(66)	-	**413**
Services	66	567	-	1 501	-	(1 100)	**1 034**
Other	963	120	570	3 563	(570)	(2 531)	**2 115**
TOTAL	**11 317**	**2 047**	**1 407**	**5 068**	**(1 407)**	**(3 645)**	**14 787**

from 1 January 2017 to 30 September 2017

					Reconciliation items to consolidated data		
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Elimination of data of the segment Sierra Gorda S.C.M	Consolidation adjustments	Consolidated data
Copper	8 602	1 118	873	6	(873)	(14)	**9 712**
Silver	1 727	11	23	-	(23)	-	**1 738**
Gold	422	128	106	-	(106)	-	**550**
Services	109	348	-	1 384	-	(1 011)	**830**
Other	573	188	434	3 334	(434)	(2 438)	**1 657**
TOTAL	**11 433**	**1 793**	**1 436**	**4 724**	**(1 436)**	**(3 463)**	**14 487**

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

amounts in PLN millions, unless otherwise stated

Note 3.4 Revenues from contracts with customers of the Group – geographical breakdown reflecting the location of end clients

	from 1 January 2018 to 30 September 2018							from 1 January 2017 to 30 September 2017
					Reconciliation items to consolidated data			
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Elimination of data of the segment Sierra Gorda S.C.M	Consolidation adjustments	Consolidated data	KGHM Polska Miedź S.A. Group
Poland	3 065	-	5	4 847	(5)	(3 644)	**4 268**	4 095
Austria	176	-	-	16	-	-	**192**	195
Bulgaria	11	-	-	9	-	-	**20**	20
Czechia	1 011	-	-	19	-	-	**1 030**	1 054
Denmark	46	-	-	1	-	-	**47**	55
Estonia	14	-	-	1	-	-	**15**	2
Finland	40	-	-	5	-	-	**45**	30
France	526	-	-	1	-	-	**527**	703
Spain	456	104	-	2	-	-	**562**	(3)
Netherlands	2	-	153	-	(153)	-	**2**	2
Latvia	-	-	-	-	-	-	**-**	15
Germany	1 556	-	-	28	-	-	**1 584**	1 592
Romania	61	-	-	1	-	-	**62**	85
Slovakia	81	-	-	8	-	-	**89**	73
Slovenia	53	-	-	2	-	-	**55**	50
Sweden	30	-	-	18	-	-	**48**	52
Hungary	521	-	-	4	-	-	**525**	531
The United Kingdom	1 342	248	45	18	(45)	(1)	**1 607**	1 393
Italy	373	-	2	7	(2)	-	**380**	309
Bosnia and Hercegovina	25	-	-	-	-	-	**25**	26
Chile	-	13	-	-	-	-	**13**	71
China	1 181	465	507	-	(507)	-	**1 646**	1 910
India	-	-	18	-	(18)	-	**-**	-
Japan	2	-	368	-	(368)	-	**2**	5
Canada	-	512	3	-	(3)	-	**512**	544
Korea	-	55	131	-	(131)	-	**55**	5
Norway	-	-	-	8	-	-	**8**	14
Russia	-	-	-	20	-	-	**20**	10
The United States of America	111	647	74	5	(74)	-	**763**	879
Switzerland	387	-	-	1	-	-	**388**	565
Turkey	225	-	-	7	-	-	**232**	146
Oman	-	-	28	-	(28)	-	**-**	-
Argentina	-	-	19	-	(19)	-	**-**	-
Mexico	-	-	11	-	(11)	-	**-**	-
Brazil	-	-	43	-	(43)	-	**-**	-
Other countries	22	3	-	40	-	-	**65**	59
TOTAL	**11 317**	**2 047**	**1 407**	**5 068**	**(1 407)**	**(3 645)**	**14 787**	14 487

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

amounts in PLN millions, unless otherwise stated

Note 3.5 Main customers

In the period from 1 January 2018 to 30 September 2018 and in the comparable period the revenues from no single contractor exceeded 10% of the revenues from contracts with customers of the Group.

Note 3.6 Non-current assets – geographical breakdown

	Property, plant and equipment, intangible assets and investment properties	
	As at 30 September 2018	As at 31 December 2017
Poland	18 792	18 430
Canada	1 117	1 055
The United States of America	1 047	989
Chile	344	236
TOTAL	**21 300**	**20 710**

The following were also recognised in non-current assets: involvement in joint ventures accounted for using the equity method, derivatives, other instruments measured at fair value, other financial and non-financial assets and deferred tax assets.

amounts in PLN millions, unless otherwise stated

Note 3.7 Information on segments' results

3.7.1 The segment KGHM Polska Miedź S.A.

Production results

	Unit	3 quarters of 2018	3 quarters of 2017	Change (%) 3 quarters	third quarter of 2018	second quarter of 2018	first quarter of 2018
Ore extraction (dry weight)	mn t	23.0	23.9	(3.8)	7.7	7.6	7.7
Copper content in ore	%	1.50	1.50	-	1.49	1.52	1.50
Copper production in concentrate	kt	306.0	319.8	(4.3)	101.0	102.3	102.7
Silver production in concentrate	t	960.3	988.0	(2.8)	320.8	317.7	321.8
Production of electrolytic copper	kt	366.4	399.8	(8.4)	138.9	116.7	110.8
- including from own concentrate	kt	281.7	272.7	+3.3	110.4	85.3	86.0
Production of metallic silver	t	836.2	915.6	(8.7)	357.8	239.1	239.3
Production of metallic silver	mn oz t	26.9	29.4	(8.7)	11.5	7.7	7.7
Production of gold	koz t	62.1	86.7	(28.4)	23.7	20.1	18.3

As compared to the Company's Budget for the first 9 months of 2018, ore extraction was higher by 1.4% alongside a significant (by 2.15%) improvement in the quality of ore extracted (planned copper content: 1.47%). As a result of these factors, production of copper in concentrate was higher by 11 thousand tonnes. There was also an increase in the production of electrolytic copper by 8.4 thousand tonnes and metallic silver by 8.6 tonnes.

In the first 9 months of 2018, there was a decrease in ore extraction (dry weight) as compared to the corresponding period of 2017. Copper content in ore was at a similar level as in 2017. In 2018 there was an increase in gas-, geological- and temperature-related hazards, which could lead to a slowdown in mining progress.

Production of copper in concentrate was lower by around 13.8 thousand tonnes compared to the 9 months of 2017 and was due to processing a lower amount of feed.

Compared to the corresponding period of 2017, there was a decrease in electrolytic copper production by 33.4 thousand tonnes (8.4%) which was due to the maintenance shutdown of the concentrate smelting installation at the Głogów II Copper Smelter and Refinery. The production of cathodes from own concentrates increased by 8.9 thousand tonnes (3.3 %). The lower production of metallic silver was a result of the lower production of cathodes.

Revenues

	Unit	3 quarters of 2018	3 quarters of 2017	Change (%) 3 quarters	third quarter of 2018	second quarter of 2018	first quarter of 2018
Revenues from contracts with customers, including from the sale of:	**mn PLN**	**11 317**	**11 433**	**(1.0)**	**4 128**	**3 983**	**3 206**
- copper*	mn PLN	8 840	8 673	+1.9	3 149	3 166	2 525
- silver*	mn PLN	1 613	1 721	(6.3)	683	538	392
Volume of copper sales*	kt	367	365	+0.5	137	128	102
Volume of silver sales*	t	869	813	+6.9	383	279	207
Volume of silver sales*	mn oz t	27.9	26.1	+6.9	12.3	9.0	6.7
Copper price	USD/t	6 642	5 952	+11.6	6 105	6 872	6 961
Silver price	USD/oz t	16.10	17.16	(6.2)	15.02	16.53	16.77
Exchange rate	USD/PLN	3.56	3.84	(7.3)	3.70	3.58	3.40

**including sales of copper concentrate*

In the first 9 months of 2018, revenues amounted to PLN 11 317 million and were 1% lower as compared to the corresponding period of 2017. The similar level of revenues results from the fact that the less favourable exchange rate (strengthening of the PLN versus the USD by 7%) was offset by a more favourable by 12% copper price, while the lower sales volumes of copper, silver and gold were offset to a large extent by the higher value of sales of own copper concentrate.

Costs

	Unit	3 quarters of 2018	3 quarters of 2017	Change (%) 3 quarters	third quarter of 2018	second quarter of 2018	first quarter of 2018
Cost of sales, selling costs and administrative expenses*	**mn PLN**	**9 549**	**8 986**	**+6.3**	**3 526**	**3 337**	**2 686**
Expenses by nature	mn PLN	10 100	10 305	(2.0)	3 337	3 342	3 421
Pre-precious metals credit unit cost of electrolytic copper production from own concentrate **	PLN/t	23 428	21 805	+7.4	23 013	24 525	22 924
Total unit cost of electrolytic copper production from own concentrate	PLN/t	17 379	14 688	+18.3	16 747	17 877	17 749
- including the minerals extraction tax	PLN/t	4 167	4 074	+2.3	4 279	4 290	3 901
C1 cost* **	**USD/lb**	**1.87**	**1.42**	**+31.7**	**1.82**	**1.96**	**1.83**

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

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

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

amounts in PLN millions, unless otherwise stated

The Parent Entity's cost of sales, selling costs and administrative expenses in the first 9 months of 2018 amounted to PLN 9 549 million and was higher by PLN 563 million as compared to the corresponding period in 2017, mainly due to a higher minerals extraction tax (+PLN 167 million) and a lower increase in inventories which affects the increase in the change in inventories.
In the first 9 months of 2018, expenses by nature were lower by PLN 205 million as compared to the corresponding period of 2017, mainly due to lower cost of consumption of purchased metal-bearing materials by PLN 640 million (due to the lower volume of consumption by 28 thousand tonnes of Cu alongside a 1.5% higher purchase price).
Expenses by nature, excluding the minerals extraction tax and consumption of purchased metal-bearing materials, increased by PLN 447 million, i.e. 7%, and this was mainly due to the following:

- labour costs (+PLN 173 million) due to an increase in remuneration and in the provision for future employee benefits,
- external services (+PLN 119 million) due to an increase in maintenance and mine preparatory work,
- consumption of materials, fuels and energy (+PLN 97 million) due to higher consumption of energy and fuel, and
- depreciation/amortisation (+PLN 76 million) due to the reclassification of investments to fixed assets.

C1 cost respectively amounted to 1.87 USD/lb in the first 9 months of 2018, and 1.42 USD/lb in the first 9 months of 2017. The increase in C1 cost (by 0.45 USD/lb) was mainly caused by the strengthening of the Polish currency versus the US dollar by 7.3%, an increase in expenses by nature and lower production of own concentrates.
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 23 428 PLN/t (in the comparable period of 2017: 21 805 PLN/t) and was higher by 7.4% mainly due to the higher expenses by nature described above. The total unit cost of electrolytic copper production from own concentrate amounted to 17 379 PLN/t (for the first 9 months of 2017: 14 688 PLN/t).

Financial results

	3 quarters of 2018	3 quarters of 2017	Change (%) 3 quarters	third quarter of 2018	second quarter of 2018	first quarter of 2018
Revenues from contracts with customers, including:	**11 317**	**11 433**	**(1.0)**	**4 128**	**3 983**	**3 206**
- adjustment of revenues due to hedging transactions	110	11	×10.1	(22)	75	57
Cost of sales, selling costs and administrative expenses	**(9 549)**	**(8 986)**	**+6.3**	**(3 526)**	**(3 337)**	**(2 686)**
- including the minerals extraction tax	(1 228)	(1 062)	+15.6	(427)	(447)	(354)
Profit on sales (EBIT)	**1 768**	**2 447**	**(27.7)**	**602**	**646**	**520**
Other operating income and (costs), including:	**659**	**(689)**	**×**	**(49)**	**625**	**83**
- reversal of allowances for impairment of loans due to restructuring of intra-group financing	778	N/A*	×	-	-	778
- losses due to the initial recognition of POCI loans due to restructuring of intra-group financing	(763)	N/A*	×	-	-	(763)
- reversal of allowances for impairment of loans measured at amortised cost	189	N/A*	×	18	136	35
- allowances for impairment of loans	(44)	N/A*	×	-	(42)	(2)
- exchange differences on assets and liabilities other than borrowings	224	(899)	×	(103)	451	(124)
- dividend income	239	4	×59.8	-	239	-
- provisions recognised	(152)	(18)	×8.4	(3)	(148)	(1)
- interest on loans granted and other financial receivables	188	252	(25.4)	62	69	57
- gains/(losses) on changes in fair value of financial assets measured at fair value through profit or loss	52	N/A*	×	11	(72)	113
- measurement and realisation of derivatives	(87)	(42)	×2.1	(59)	(6)	(22)
- other	35	14	×2.5	25	(2)	12
Finance income/(costs), including:	**(499)**	**744**	**×**	**97**	**(720)**	**124**
- exchange differences on borrowings	(386)	913	×	145	(681)	150
- interest costs on borrowings	(90)	(86)	+4.7	(32)	(34)	(24)
- bank fees and charges on borrowings	(18)	(20)	(10.0)	(6)	(6)	(6)
- measurement of derivatives	28	(30)	×	2	11	15
- other	(33)	(33)	-	(12)	(10)	(11)
Profit before income tax	**1 928**	**2 502**	**(22.9)**	**650**	**551**	**727**
Income tax expense	(498)	(652)	(23.6)	(207)	(94)	(197)

Profit for the period	**1 430**	**1 850**	**(22.7)**	**443**	**457**	**530**
Depreciation/amortisation recognised in profit or loss	820	752	+9.0	286	283	251
EBITDA**	2 588	3 199	(19.1)	888	929	771
Adjusted EBITDA* **	**2 588**	**3 199**	**(19.1)**	**888**	**929**	**771**
EBITDA margin	**23%**	**28%**	**(17.9)**	**22%**	**23%**	**24%**

** „N/A" – not applicable – items which were not measured in accordance with principles arising from the application, from 1 January 2018, of IFRS 9*
*** EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss)*
**** Adjusted EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss) + impairment loss (-reversal of impairment losses) on non-current assets, recognised in cost of sales, selling costs and administrative expenses)*

Main reasons for the change in profit/(loss) for the period:

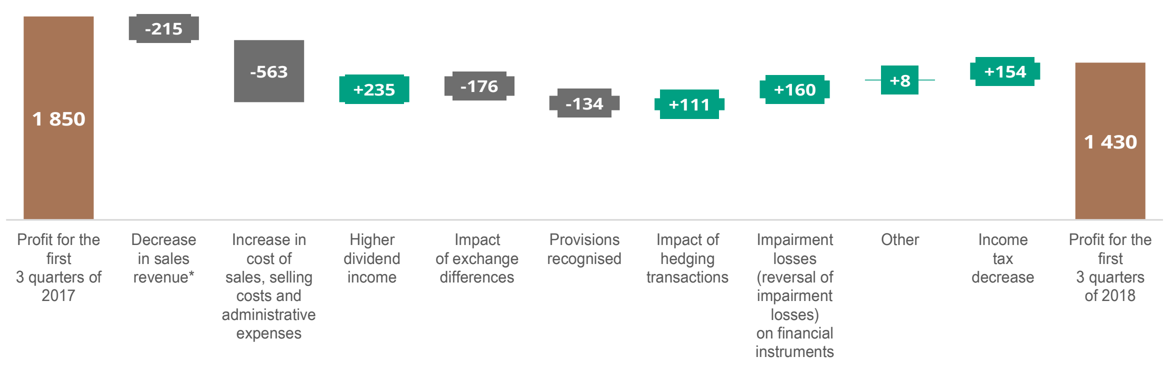
Item	Impact on change in result (in PLN million)	Description
Decrease in revenues from contracts with customers, excluding the impact of hedging transactions (-PLN 215 million)	(745)	A decrease in revenues from sales of basic products (Cu, Ag, Au) due to a less favourable average annual USD/PLN exchange rate (a change from 3.84 to 3.56 USD/PLN)
	+744	An increase in revenues due to higher prices of copper by 12% and gold by 3% alongside 6% lower silver prices
	(551)	A decrease in revenues due to a lower volume of sales of copper (-5%), silver (-1%) and gold (-29%)*
	+337	A change in other revenues from contracts with customers, including higher revenues from the sale of copper concentrate (+PLN 381 million) alongside lower revenues from the sale of merchandise and materials (-PLN 10 million)
Increase in cost of sales, selling costs and administrative expenses (-PLN 563 million)**	(167)	An increase in the minerals extraction tax from PLN 1 062 million after 9 months of 2017 to PLN 1 228 million after the 9 months of 2018, due to higher PLN-expressed copper prices
	(396)	An increase in other costs, mainly due to a lower increase in inventories which affects the increase in the change of inventories
Higher dividend income (+PLN 235 million)	+235	An increase in dividend income from PLN 4 million to PLN 239 million
Impact of exchange differences (-PLN 176 million)	+1 123	A change in the result due to exchange differences in other operating activities
	(1 299)	A change in the result due to exchange differences on borrowings (presented in finance costs)
Provisions recognised (-PLN 134 million)	(134)	An increase in the level of provisions recognised, including mainly due to litigation and claims involving rationalisation and inventions (PLN 96 million) and the property tax on mining excavations (PLN 49 million)
Impact of hedging transactions (+PLN 111 million)	+99	An increase in positive adjustments to revenue due to the settlement of hedging transactions from PLN 11 million to PLN 110 million
	(96)	A change in the result due to the realisation of derivatives from -PLN 39 million to PLN 11 million
	+108	A change in the result due to the measurement of derivatives from -PLN 33 million to -PLN 70 million
Change in the balance of income and costs due to interest on borrowings and other financial receivables (-PLN 68 million)	(64)	A decrease in income due to interest on loans granted and other financial receivables
	(4)	A similar level of interest costs on borrowings
Other reversal of impairment losses/ (impairment losses) on financial instruments (+PLN 145 million)***	+189	Reversal of allowances for impairment of loans measured at amortised cost
	(44)	Allowances for impairment of loans
Gains/(losses) on changes in the fair value of financial assets measured at fair value through profit or loss (+PLN 52 million)***	+52	In 2017 these items did not exist due to the change from 1 January 2018 in the classification of financial equity instruments pursuant to IFRS 9

amounts in PLN millions, unless otherwise stated

Reversal of impairment losses/(impairment losses) on financial instruments due to the restructuring of borrowings (+PLN 15 million)*	+778	Reversal of allowances for impairment of loans due to restructuring of intra-group financing
	(763)	Loss due to the initial recognition of POCI loans due to restructuring of intra-group financing
Decrease in income tax (+PLN 154 million)	+154	The lower tax results from the lower tax base

** Excluding revenues from copper concentrate sales*
*** Cost of products, merchandise and materials sold plus selling costs and administrative expenses*
*** Items which were not measured in accordance with principles arising from the application, from 1 January 2018, of IFRS 9.*

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



**Excluding the impact of hedging transactions*

Cash expenditures

In the first 9 months of 2018, cash expenditures on property, plant and equipment and intangible assets amounted to PLN 1 387 million and were higher than in the corresponding period of 2017 by 2%, while capital expenditures on property, plant and equipment and intangible assets amounted to PLN 1 232 million and were lower than in the corresponding period of 2017 by over 5%.
The higher level of cash expenditures as compared to capital expenditures after the first 9 months of 2017 was due to the realisation of investment liabilities from the current period, pursuant to contractual payment dates.

Structure of capital expenditures on property, plant and equipment and intangible assets – by Division	3 quarters of 2018	3 quarters of 2017	Change (%) 3 quarters	third quarter of 2018	second quarter of 2018	first quarter of 2018
Mining	903	800	+12.9	352	300	251
Metallurgy	312	487	(35.9)	116	118	78
Other activities	16	11	+45.5	9	6	1
Development work – uncompleted	1	4	(75.0)	1	-	-
Total	**1 232**	**1 302**	**(5.4)**	**478**	**424**	**330**

Structure of capital expenditures on property, plant and equipment and intangible assets – by type	3 quarters of 2018	3 quarters of 2017	Change (%) 3 quarters	third quarter of 2018	second quarter of 2018	first quarter of 2018
Replacement	441	373	+18.2	160	171	110
Maintaining production	307	264	+16.3	143	93	71
Development	483	661	(26.9)	174	160	149
Development work – uncompleted	1	4	(75.0)	1	-	-
Total	**1 232**	**1 302**	**(5.4)**	**478**	**424**	**330**

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

– **Development projects,** aimed at increasing the production volume of the core business, maintaining production costs and adaptation projects aimed at adapting the company's operations to changes in standards, laws and regulations (including those related to environmental protection), represent 39% of total expenditures,
– **Replacement projects,** aimed at maintaining production equipment in an undeteriorated condition which guarantees the achievement of on-going production tasks, represent 36% of total expenditures,
– **Maintenance projects,** ensuring necessary infrastructure to match mine advancement and the continuous removal of waste to ensure production at the level set forth in the mine advancement plan, represent 25% of total expenditures.

amounts in PLN millions, unless otherwise stated

During the reporting period, the majority of capital expenditures were incurred on the replacement of assets to guarantee the achievement of current production targets, among others the outfitting and infrastructure of production lines and ensuring long-term production levels, including among others the construction of shafts and associated infrastructure and enabling mining to commence in new mine regions, as well as preparatory and construction work related to developing the tailings storage facility through construction of the Southern Quarter.
Information on the advancement of key investment projects may be found in part 1 of this report (Implementation of Strategy).

3.7.2 The segment KGHM INTERNATIONAL LTD.

Production results

	Unit	3 quarters of 2018	3 quarters of 2017	Change (%)	third quarter of 2018	second quarter of 2018	first quarter of 2018
Payable copper, including:	kt	60.8	60.6	+0.3	18.2	22.5	20.1
- Robinson mine (USA)	kt	38.7	37.5	+3.2	9.9	15.1	13.7
- Sudbury Basin mines* (CANADA)	kt	5.5	6.5	(15.4)	1.9	1.8	1.8
Payable nickel	kt	0.7	0.9	(22.2)	0.3	0.2	0.2
Precious metals (TPM), including:	koz t	51.3	55.2	(7.1)	16.7	18.8	15.8
- Robinson mine (USA)	koz t	28.8	26.4	+9.1	8.5	10.6	9.7
- Sudbury Basin mines* (CANADA)	koz t	22.4	28.8	(22.2)	8.1	8.2	6.1

** Morrison and McCreedy West mines in the Sudbury Basin*

Copper production in the segment KGHM INTERNATIONAL LTD. in the first 9 months of 2018 amounted to 60.8 thousand tonnes, remaining at a similar level to that of the corresponding prior-year period.
In the Robinson mine, in the first three quarters of 2018 level of copper production amounted to 38.7 thousand tonnes, meaning an increase by 1.2 thousand tonnes (+3%) as compared to the corresponding period of 2017, mainly as a result of extracting ore with higher Cu content (+7%). Additionally, as a result of an increase in gold recovery (+28%) in the mine, the production of precious metals increased by 2.4 thousand troy ounces (+9%).
Despite the increase in the volume of extracted ore (+27%) in the Sudbury Basin mines, as a result of a decrease in metals content the production level of copper and precious metals decreased respectively by 1 thousand tonnes (-15%) and by 6.4 thousand troy ounces (-22%).

Revenues

	Unit	3 quarters of 2018	3 quarters of 2017	Change (%)	third quarter of 2018	second quarter of 2018	first quarter of 2018
Revenues from contracts with customers*, including from the sale of:	**mn USD**	**573**	**471**	**+21.7**	**204**	**189**	**180**
- copper	mn USD	342	294	+16.3	102	132	108
- nickel	mn USD	9	9	-	3	3	3
- precious metals (TPM)	mn USD	59	70	(15.7)	20	19	20
Copper sales volume	kt	56.7	54.6	+3.8	18.3	21.1	17.3
Nickel sales volume	kt	0.7	0.8	(12.5)	0.3	0.2	0.2
Precious metals (TPM) sales volume	koz t	47.7	50.8	(6.1)	16.1	17.7	13.9

**reflects processing premium*

	Unit	3 quarters of 2018	3 quarters of 2017	Change (%)	third quarter of 2018	second quarter of 2018	first quarter of 2018
Revenues from contracts with customers*, including from the sale of:	**mn PLN**	**2 047**	**1 793**	**+14.2**	**750**	**689**	**609**
- copper	mn PLN	1 220	1 118	+9.1	375	480	365
- nickel	mn PLN	33	34	(2.9)	11	11	11
- precious metals (TPM)	mn PLN	209	266	(21.4)	72	69	68

**reflects processing premium*

The sales revenue of the segment KGHM INTERNATIONAL LTD. in the first three quarters of 2018 amounted to USD 573 million, meaning an increase by USD 102 million (+22%), mainly due to an increase in copper sales revenue and higher revenues of companies operating under the brand of DMC Mining Services („DMC").
Revenues from sales of copper increased as a result of a higher sales volume by 2.1 thousand tonnes (+4%) as well as achievement of a higher effective sales price of this metal from the level of 6 061 USD/t in the first three quarters of 2017 compared to 6 548 USD/t in the first three quarters of 2018 (8%).
The decrease in revenues from sales of precious metals by USD 11 million (-16%) was caused by a lower production volume and lower effective sale prices, as well as the lower deferred revenues in the Sudbury Basin mines.
The increase in sales revenue of DMC mainly related to the realisation of a contract in the United Kingdom and amounted to USD 83 million.

Costs

	Unit	3 quarters of 2018	3 quarters of 2017	Change (%)	third quarter of 2018	second quarter of 2018	first quarter of 2018
C1 unit cost*	USD/lb	1.87	1.98	(5.6)	1.89	1.84	1.89

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

The unit cash cost of copper production for all operations in the segment KGHM INTERNATIONAL LTD. decreased from the level of 1.98 USD/lb in the first 3 quarters of 2017 to 1.87 USD/lb in the first 3 quarters of 2018 (-6%), mainly due to a higher copper sales volume.

Financial performance

in mn USD	3 quarters of 2018	3 quarters of 2017	Change (%)	third quarter of 2018	second quarter of 2018	first quarter of 2018
Revenues from contracts with customers	573	471	+21.7	204	189	180
Cost of sales, selling costs and administrative expenses*	(519)	(414)	+25.4	(195)	(181)	(143)
Profit/(loss) on sales (EBIT)	**54**	**57**	**(5.3)**	**9**	**8**	**37**
Profit/(loss) before taxation, including:	**(136)**	**(115)**	**+18.3**	**(28)**	**(118)**	**10**
- share of losses of Sierra Gorda S.C.M. accounted for using the equity method	(72)	(55)	+30.9	-	(72)	-
Income tax	(4)	(21)	(81.0)	(1)	(2)	(1)
Profit/(loss) for the period	**(140)**	**(136)**	**+2.9**	**(29)**	**(120)**	**9**
Depreciation/amortisation recognised in profit or loss	(94)	(63)	+49.2	(32)	(49)	(13)
EBITDA**	**148**	**120**	**+23.3**	**40**	**58**	**50**
Adjusted EBITDA***	**148**	**120**	**+23.3**	**40**	**58**	**50**
EBITDA margin (%)	**26**	**25**	**+4.0**	**20**	**31**	**28**

in mn PLN	3 quarters of 2018	3 quarters of 2017	Change (%)	third quarter of 2017	second quarter of 2017	first quarter of 2017
Revenues from contracts with customers	2 047	1 793	+14.2	749	689	609
Cost of sales, selling costs and administrative expenses*	(1 854)	(1 576)	+17.6	(716)	(653)	(485)
Profit/(loss) on sales (EBIT)	**193**	**217**	**(11.1)**	**33**	**36**	**124**
Profit/(loss) before taxation, including:	**(487)**	**(443)**	**+9.9**	**(106)**	**(415)**	**34**
- share of losses of Sierra Gorda S.C.M. accounted for using the equity method	(255)	(214)	+19.2	(3)	(252)	-
Income tax	(14)	(78)	(82.1)	(4)	(5)	(5)
Profit/(loss) for the period	**(501)**	**(521)**	**(3.8)**	**(110)**	**(420)**	**29**
Depreciation/amortisation recognised in profit or loss	(335)	(238)	+40.8	(115)	(176)	(44)
EBITDA**	**528**	**455**	**+16.0**	**148**	**212**	**168**
Adjusted EBITDA***	**528**	**455**	**+16.0**	**148**	**212**	**168**
EBITDA margin (%)	**26**	**25**	**+4.0**	**20**	**31**	**28**

** Cost of products, merchandise and materials sold, selling costs and administrative expenses*
*** EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss)*
**** Adjusted EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss) + impairment losses (-reversal of impairment losses) on non-current assets, recognised in cost of sales, selling costs and administrative expenses)*

Main reasons for the change in profit/(loss) for the period:

Item	Impact on change of profit or loss (in USD million)	Description
Higher sales revenue by USD 102 million, including:	+28	Higher revenues due to higher prices of basic products, mainly copper (+USD 26 million)
	+83	Higher revenues earned by DMC as a result of realisation of a contract in the United Kingdom
	(9)	Other factors
Higher cost of sales, selling costs and administrative expenses by USD 105 million, including:	(37)	Higher depreciation/amortisation due to the reversal of an impairment loss on the Robinson mine as at 31 December 2017
	(29)	Higher costs of labour (+USD 13 million) and of materials and energy (+USD 16 million)
	(59)	Higher external services costs due to an increased scope of work carried out by subcontractors of DMC
	+21	Change in inventories
	(1)	Other factors

amounts in PLN millions, unless otherwise stated

Impact of other operating activities and finance activities (-USD 1 million), including:	+9	Lower financing costs, mainly interest on a loan due to restructuring of borrowings (+USD 14 million)
	(10)	An increase in other operating losses, including reversal of the receivables discount on the service fee from Sierra Gorda S.C.M.
Share of losses of entities accounted for using the equity method (-USD 17 million)	(17)	Recognition in the first three quarters of 2018 of the share of the loss in Sierra Gorda S.C.M. in the amount of the financing granted, i.e. in the amount of USD 72 million (in the corresponding period of 2017, the share of the loss in Sierra Gorda S.C.M. was also recognised in the amount of the financing granted, i.e. in the amount of USD 55 million)
Income tax	+17	Lower deferred tax as a result of lower utilisation of tax losses

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

Cash expenditures

in mn USD	3 quarters of 2018	3 quarters of 2017	Change (%)	third quarter of 2018	second quarter of 2018	first quarter of 2018
Victoria project	4	4	0.0	1	1	2
Sierra Gorda Oxide project	1	2	(50.0)	1	0	0
Pre-stripping and other	120	88	+36.4	39	44	37
Ajax project	0	3	(100.0)	0	0	0
Total	**125**	**97**	**+28.9**	**41**	**45**	**39**
Financing for Sierra Gorda S.C.M.	72	55	+30.9	-	72	-

in mn PLN	3 quarters of 2018	3 quarters of 2017	Change (%)	third quarter of 2018	second quarter of 2018	first quarter of 2018
Victoria project	13	15	(13.3)	3	3	7
Sierra Gorda Oxide project	3	8	(62.5)	3	0	0
Pre-stripping and other	428	334	+28.1	141	161	126
Ajax project	0	11	(100.0)	0	0	0
Total	**444**	**368**	**+20.7**	**147**	**164**	**133**
Financing for Sierra Gorda S.C.M.	255	214	19.2	3	252	-

Cash expenditures by the segment KGHM INTERNATIONAL LTD. in the first three quarters of 2018 amounted to USD 125 million, meaning an increase by USD 28 million (+29%) as compared to the corresponding period of 2017.
Nearly 80% of cash expenditures were incurred in the Robinson mine and were mainly on work related to pre-stripping in the Ruth pit, reconstruction of the dams of the tailings facility and geotechnical drilling.
In the first three quarters of 2018, cash expenditures related to the Victoria project amounted to USD 4 million, and related to securing the existing infrastructure and project terrain. USD 1 million was incurred on the Sierra Gorda Oxide project (analysis of selected assumptions and concepts for the project and continuity of work involving the receipt of required permits).
In the second quarter of 2018, KGHM INTERNATIONAL LTD. financed the Sierra Gorda mine in the amount of USD 72 million, mainly to cover the repayment of the bank loan drawn to build the mine. In the first and third quarters of 2018, there was no need to finance this mine.

amounts in PLN millions, unless otherwise stated

3.7.3 The segment Sierra Gorda S.C.M.

The segment Sierra Gorda S.C.M. is a joint venture (under the JV company Sierra Gorda S.C.M.) of KGHM INTERNATIONAL LTD. (55%) and Sumitomo Group companies (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 note 3.2.

Production results

In the third quarter of 2018, Sierra Gorda S.C.M. achieved copper production at a level higher to that of the previous two quarters of 2018. There was also a decrease in molybdenum production during the same period.

	Unit	3 quarters of 2018	3 quarters of 2017	Change (%)	third quarter of 2018	second quarter of 2018	first quarter of 2018
Copper production*	kt	69.3	72.8	(4.8)	24.7	22.8	21.8
Copper production – segment (55%)	kt	38.1	40.0	(4.8)	13.6	12.5	12.0
Molybdenum production*	mn lbs	19.5	29.8	(34.6)	5.6	6.7	7.2
Molybdenum production – segment (55%)	mn lbs	10.7	16.4	(34.6)	3.0	3.7	4.0
TPM production – gold*	koz t	28.8	39.7	(27.5)	11.8	8.6	8.4
TPM production – gold – segment (55%)	koz t	15.8	21.9	(27.5)	6.5	4.7	4.6

** Payable metal in concentrate.*

Despite the relatively good result in the third quarter of 2018, during the entire nine-month period copper production decreased by 3.5 thousand tonnes (-5%) compared to the level recorded in the corresponding period of 2017. The main reason for this drop in payable copper production was mining in zones containing less Cu than in the prior year (some of the ore extracted in the first three quarters of 2018 came from a so-called transition zone, characterised by lower quality). The negative impact of this lower content was to a certain degree offset by a higher level of ore processing and by keeping Cu recovery at a comparable level to that of the prior year.
With respect to molybdenum production there was a decrease compared to the period January – September 2017 by 10.3 million pounds, which was also due to the lower content of this metal in ore.
The drop in the content of both Cu and Mo was planned for in the current mining plan, which was approved in 2017.

Revenues

After the first three quarters of 2018, revenues from sales amounted to USD 717 million (on a 100% basis), or PLN 1 407 million respectively to KGHM Polska Miedź S.A.'s interest of 55%.

	Unit	3 quarters of 2018	3 quarters of 2017	Change (%)	third quarter of 2018	second quarter of 2018	first quarter of 2018
Revenues from contracts with customers*, including from the sale of:	**mn USD**	**717**	**686**	**+4.5**	**248**	**211**	**258**
- copper	mn USD	384	417	(7.9)	131	113	140
- molybdenum	mn USD	290	208	+39.4	100	88	102
Copper sales volume	kt	66.3	74.7	(11.2)	25.2	18.2	22.9
Molybdenum sales volume	mn lbs	23.4	24.1	(2.9)	8.3	7.7	7.4
Revenues from contracts with customers* - segment (55% share)	**mn PLN**	**1 407**	**1 436**	**(2.0)**	**499**	**427**	**481**

** reflects processing premium and other*

The increase in revenues by USD 31 million, or by 5%, as compared to the amount achieved after the first three quarters of 2017, was mostly the result of higher molybdenum and copper prices which contributed to an increase in revenues by USD 104 million, alongside the negative impact of lower volumes of sales, resulting in a decrease in revenues by USD 64 million.
The individual factors impacting the increase in revenues are presented in the subsection on the financial performance of Sierra Gorda S.C.M.

Costs

The cost of sales, selling costs and administrative expenses incurred by the company Sierra Gorda S.C.M. amounted to USD 669 million, including selling costs of USD 48 million and administrative expenses of USD 29 million. The costs of the segment Sierra Gorda, proportionally to the interest held (55%) amounted to PLN 1 313 million.

	Unit	3 quarters of 2018	3 quarters of 2017	Change (%)	third quarter of 2018	second quarter of 2018	first quarter of 2018
Cost of sales, selling costs and administrative expenses	mn USD	669	672	(0.4)	240	186	243
Cost of sales, selling costs and administrative expenses– segment (55% share)	mn PLN	1 313	1 406	(6.6)	482	378	453
C1* unit cost	**USD/lb**	**1.21**	**1.74**	**(30.5)**	**1.29**	**0.83**	**1.43**

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

Compared to the corresponding period of 2017, the cost of sales, selling costs and administrative expenses denominated in million USD was only slightly lower than that recorded in the first three quarters of 2017. It should be noted that this decrease in cost was achieved under conditions of higher ore processing (+4%).

Positive effects were achieved above all with respect to the following types of costs (prior to change in inventories):

- external services (-10%) – optimisation of their scope, internalisation of certain services and updating of contractual prices.
- materials (-9%) – mainly a decrease in the consumption of explosives (lower prices and the application of new materials) and of flotation reagents
- spare parts (-4%) – advancement of the strategy as regards maintenance (the application of new, more durable components)
- costs of processing molybdenum by the external contractor (-26%) – elimination of penalties due to a substantial improvement in the quality of the molybdenum concentrate compared to the situation in prior years.

At the same time there was an increase in costs, among others: depreciation/amortisation (+19%) – accelerated access to one of the mining zones compared to previous assumptions; energy (+7%) – an increase in the amount and hardness of processed ore; and fuels and lubricants (+17%) – higher diesel oil prices.

The aforementioned factors led to a decrease in the unit cost of operating the mine (calculated per tonne of ore extracted) by 4% and in the cost of the processing plant (per tonne of ore processed) by 10%.

There was also a decrease in the unit cost of copper production (C1) from 1.74 USD/lb to 1.21 USD/lb after the first three quarters of 2018, mainly due to higher revenues from molybdenum sales.

Financial performance

In the first three quarters of 2018, EBITDA amounted to USD 247 million, of which proportionally to the interest held (55%) PLN 484 million relates to the KGHM Group.

Results of Sierra Gorda S.C.M. (USD million)

	3 quarters of 2018	3 quarters of 2017	Change (%)	third quarter of 2018	second quarter of 2018	first quarter of 2018
Revenues from contracts with customers	717	686	+4.5	248	211	258
Cost of sales, selling costs and administrative expenses	(669)	(672)	(0.4)	(240)	(186)	(243)
Profit/(loss) on sales (EBIT)	48	14	x3.4	8	25	15
Profit/(loss) for the period	**(194)**	**(218)**	**(11.0)**	**(72)**	**(56)**	**(66)**
Depreciation/amortisation recognised in profit or loss	(199)	(166)	+19.9	(67)	(60)	(72)
EBITDA*	**247**	**180**	**+37.2**	**75**	**85**	**87**
**Adjusted EBITDA ** **	**247**	**180**	**+37.2**	**75**	**85**	**87**
EBITDA margin (%)	**34**	**26**	**+30.8**	**30**	**40**	**34**

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

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

	3 quarters of 2018	3 quarters of 2017	Change (%)	third quarter of 2018	second quarter of 2018	first quarter of 2018
Revenues from contracts with customers	1 407	1 436	(2.0)	499	427	481
Cost of sales, selling costs and administrative expenses	(1 313)	(1 406)	(6.6)	(482)	(378)	(453)
Profit/(loss) on sales (EBIT)	94	30	x3.1	17	49	28
Profit/(loss) for the period	**(381)**	**(456)**	**(16.4)**	**(145)**	**(113)**	**(123)**
Depreciation/amortisation recognised in profit or loss	(390)	(348)	+12.1	(134)	(121)	(135)
EBITDA*	**484**	**378**	**+28.0**	**151**	**170**	**163**
Adjusted EBITDA **	**484**	**378**	**+28.0**	**151**	**170**	**163**
EBITDA margin (%)	**34**	**26**	**+30.8**	**30**	**40**	**34**

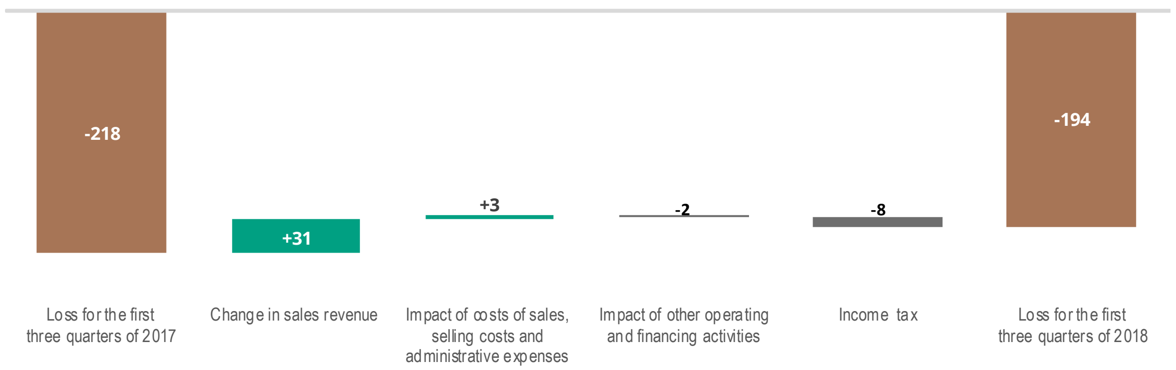
** EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss)*
***Adjusted EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss) + impairment loss (-reversal of impairment losses) on non-current assets (recognised in cost of sales, selling costs and administrative expenses)*

The increase in EBITDA year-on-year is due to higher revenues, which compared to the corresponding period of 2017 rose by USD 31 million, mainly due to better macroeconomic conditions on the metals market as well as to lower costs prior to depreciation/amortisation by USD 36 million. The following table, describing the decrease in the loss by USD 24 million compared to the period from January to September 2017, summarises the most important factors affecting revenues and costs, and therefore EBITDA.

Main reasons for the change in profit/(loss) for the period of Sierra Gorda S.C.M.:

Item	Impact on change in result (mn USD)	Description
Increase in revenues from sales by USD 31 million, including:	+13	Increase in revenues due to higher copper prices
	(55)	Decrease in revenues due to a lower copper sales volume (-8 thousand tonnes)
	+92	Increase in revenues due to higher molybdenum prices
	(9)	Decrease in revenues due to a lower molybdenum sales volume (-0.7 million pounds)
	(10)	Impact of other factors, mainly lower revenues from sales of gold and silver
Decrease in cost of sales, selling costs and administrative expenses by USD 3 million, including:	+62	Decrease in costs, mainly: external services, materials, spare parts, molybdenum enrichment
	(58)	Increase in costs, mainly: depreciation/amortisation, energy, fuel, labour cost, selling costs
	(15)	A change in inventories
	+14	Higher costs of pre-stripping subject to capitalisation and therefore decreasing costs in the statement of profit or loss
Impact of other operating activities – an increase in the result by USD 5 million	+5	Mainly foreign exchange gains
Increase in finance costs by USD 7 million	(7)	Mainly higher accrued interest on a loan granted by the Owners for mine construction
Income tax	(8)	Higher deferred tax related to the release of a deferred tax asset due to a lower loss before taxation

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



Year-on-year, Sierra Gorda S.C.M. improved its financial results, achieving a positive result on operating activities and reducing its loss for the period by USD 24 million to the level of -USD 194 million in the first three quarters of 2018. The loss for the period was mainly the result of accrued interest on Owner loans for mine construction.

amounts in PLN millions, unless otherwise stated

Cash expenditures

In the first three quarters of 2018, cash expenditures on property, plant and equipment and intangible assets, presented in Sierra Gorda S.C.M.'s statement of cash flow, amounted to USD 231 million, of which the majority, or USD 164 million (71%), represented expenditures on pre-stripping, with the remainder going to development and the replacement of property, plant and equipment.

Cash expenditures of Sierra Gorda S.C.M.

	Unit	3 quarters of 2018	3 quarters of 2017	Change (%)	third quarter of 2018	second quarter of 2018	first quarter of 2018
Cash expenditures on property, plant and equipment	mn USD	231	183	+26.2%	72	84	75
Cash expenditures on property, plant and equipment – segment (55% share)	mn PLN	452	382	+18.3%	145	168	139

The increase in cash expenditures (expressed in USD) by 26% was mainly in respect of the project to reconstruct the dams of the tailings facility. There was also an increase in capitalised pre-stripping costs (+12%) due to the greater scope of work carried out.

The main source of financing investments was the inflow from operating activities. In the third quarter of 2018, Sierra Gorda did not make use of financing by the Owners (the financing in the amount of USD 130 million took place in June 2018, due to the June instalment for repaying the loan drawn for mine construction).

amounts in PLN millions, unless otherwise stated

4 – Selected additional explanatory notes

Note 4.1 Expenses by nature

	from 1 July 2018 to 30 September 2018	from 1 January 2018 to 30 September 2018	from 1 July 2017 to 30 September 2017	from 1 January 2017 to 30 September 2017
Depreciation of property, plant and equipment and amortisation of intangible assets	432	1 425	404	1 237
Employee benefits expenses	1 290	3 870	1 210	3 618
Materials and energy	1 711	5 090	1 972	5 586
External services	690	1 721	481	1 530
Minerals extraction tax	397	1 297	438	1 309
Other taxes and charges	127	405	127	388
Other costs	62	165	48	162
Total expenses by nature	**4 709**	**13 973**	**4 680**	**13 830**
Cost of merchandise and materials sold (+)	180	522	144	437
Change in inventories of finished goods and work in progress (+/-)	142	(770)	(613)	(1 458)
Cost of manufacturing products for internal use of the Group (-)	(314)	(937)	(301)	(1 063)
Total costs of sales, selling costs and administrative expenses, of which:	**4 717**	**12 788**	**3 910**	**11 746**
Cost of sales	4 371	11 802	3 574	10 789
Selling costs	92	272	89	267
Administrative expenses	254	714	247	690

Note 4.2 Other operating income and (costs)

	from 1 July 2018 to 30 September 2018	from 1 January 2018 to 30 September 2018	from 1 July 2017 to 30 September 2017	from 1 January 2017 to 30 September 2017
Measurement and realisation of derivatives	25	147	-	230
Interest income calculated using the effective interest rate method	2	6	N/A*	N/A*
Exchange differences on assets and liabilities other than borrowings	-	378	-	-
Other	54	156	56	160
Total other income	**81**	**687**	**56**	**390**
Measurement and realisation of derivatives	(78)	(200)	(119)	(276)
Impairment loss on financial instruments	(3)	(6)	N/A*	N/A*
Impairment loss on non-financial assets	-	(14)	-	(1)
Exchange differences on assets and liabilities other than borrowings	(159)	-	(115)	(1 076)
Provisions recognised	(3)	(165)	(8)	(21)
Other	(22)	(123)	(18)	(78)
Total other costs	**(265)**	**(508)**	**(260)**	**(1 452)**
Other operating income and (costs)	**(184)**	**179**	**(204)**	**(1 062)**

** N/A – not applicable – items which were not measured in accordance with principles arising from the application, from 1 January 2018, of IFRS 9.*

amounts in PLN millions, unless otherwise stated

Note 4.3 Finance income and (costs)

	from 1 July 2018 to 30 September 2018	from 1 January 2018 to 30 September 2018	from 1 July 2017 to 30 September 2017	from 1 January 2017 to 30 September 2017
Exchange differences on borrowings	146	-	100	915
Measurement of derivatives	2	28	-	-
Total income	**148**	**28**	**100**	**915**
Interest on borrowings	(40)	(92)	(22)	(75)
Exchange differences on borrowings	-	(387)	-	-
Measurement of derivatives	-	-	(3)	(30)
Bank fees and charges on borrowings	(9)	(24)	(11)	(32)
Other	(16)	(45)	(16)	(46)
Total costs	**(65)**	**(548)**	**(52)**	**(183)**
Finance income and (costs)	**83**	**(520)**	**48**	**732**

Note 4.4 Information on property, plant and equipment and intangible assets

Purchase of property, plant and equipment and intangible assets

	from 1 January 2018 to 30 September 2018	from 1 January 2017 to 30 September 2017
Purchase of property, plant and equipment	1 766	1 748
Purchase of intangible assets	65	112

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

	As at 30 September 2018	As at 31 December 2017
Payables due to the purchase of property, plant and equipment and intangible assets	402	561

Capital commitments not recognised in the consolidated statement of financial position

	As at 30 September 2018	As at 31 December 2017
Purchase of property, plant and equipment	2 891	2 478
Purchase of intangible assets	48	60
Total capital commitments	**2 939**	**2 538**

Note 4.5 Involvement in joint ventures

Joint ventures accounted for using the equity method

	from 1 January 2018 to 30 September 2018		from 1 January 2017 to 31 December 2017	
	Sierra Gorda S.C.M.	Other	Sierra Gorda S.C.M.	Other
As at the beginning of the reporting period	**-**	**8**	**-**	**27**
Acquisition of shares	262	-	461	-
Share of losses of joint ventures accounted for using the equity method	(255)	(3)	(474)	-
Liquidation of a joint venture	-	-	-	(19)
Exchange differences from the translation of statements of operations with a functional currency other than PLN	(7)	-	13	-
As at the end of the reporting period	**-**	**5**	**-**	**8**

amounts in PLN millions, unless otherwise stated

	from 1 January 2018 to 30 September 2018	from 1 January 2017 to 30 September 2017
Share of the Group (55%) in losses of Sierra Gorda S.C.M. for the reporting period, of which:	**(381)**	**(456)**
recognised in share of losses of joint ventures for the reporting period	(255)	(214)
not recognised in share of losses of joint ventures	(126)	(242)

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

	from 1 January 2018 to 30 September 2018	from 1 January 2017 to 31 December 2017
As at the beginning of the reporting period	**(4 867)**	**(4 816)**
Not recognised share of losses of joint ventures for the reporting period	(126)	(51)
As at the end of the reporting period	**(4 993)**	**(4 867)**

Loans granted to the joint venture Sierra Gorda S.C.M.

	from 1 January 2018 to 30 September 2018	from 1 January 2017 to 31 December 2017
As at the beginning of the reporting period	**3 889**	**4 313**
Accrued interest	192	319
Exchange differences from the translation of statements of operations with a functional currency other than PLN	222	(743)
As at the end of the reporting period	**4 303**	**3 889**

amounts in PLN millions, unless otherwise stated

Note 4.6 Financial instruments

Financial assets: – as at 30 September 2018 - in accordance with IFRS 9, – as at 31 December 2017 – in accordance with IAS 39.	As at 30 September 2018 At fair value through other comprehensive income	At fair value through profit or loss	At amortised cost	Hedging instruments	Total	As at 31 December 2017 Available-for-sale	At fair value through profit or loss	Loans and financial receivables	Hedging instruments	Total
Non-current	421	47	5 081	369	**5 918**	614	11	4 651	99	**5 375**
Loans granted to joint ventures	-	-	4 303	-	**4 303**	-	-	3 889	-	**3 889**
Derivatives	-	30	-	369	**399**	-	11	-	99	**110**
Other financial instruments measured at fair value	421	17	-	-	**438**	614	-	-	-	**614**
Other financial assets	-	-	778	-	**778**	-	-	762	-	**762**
Current	47	575	1 672	234	**2 528**	59	1	2 314	195	**2 569**
Trade receivables	-	556	673	-	**1 229**	-	-	1 522	-	**1 522**
Derivatives	-	10	-	234	**244**	-	1	-	195	**196**
Cash and cash equivalents	-	-	789	-	**789**	-	-	586	-	**586**
Other financial assets	47	9	210	-	**266**	59	-	206	-	**265**
Total	**468**	**622**	**6 753**	**603**	**8 446**	**673**	**12**	**6 965**	**294**	**7 944**

Financial liabilities: – as at 30 September 2018 - in accordance with IFRS 9, – as at 31 December 2017 – in accordance with IAS 39.	As at 30 September 2018 At fair value through profit or loss	At amortised cost	Hedging instruments	Total	As at 31 December 2017 At fair value through profit or loss	At amortised cost	Hedging instruments	Total
Non-current	138	7 336	45	**7 519**	137	6 398	71	**6 606**
Borrowings	-	7 134	-	**7 134**	-	6 191	-	**6 191**
Derivatives	138	-	45	**183**	137	-	71	**208**
Other financial liabilities	-	202	-	**202**	-	207	-	**207**
Current	38	2 848	7	**2 893**	48	2 913	62	**3 023**
Borrowings	-	1 087	-	**1 087**	-	965	-	**965**
Derivatives	38	-	7	**45**	48	-	62	**110**
Trade payables	-	1 657	-	**1 657**	-	1 823	-	**1 823**
Other financial liabilities	-	104	-	**104**	-	125	-	**125**
Total	**176**	**10 184**	**52**	**10 412**	**185**	**9 311**	**133**	**9 629**

amounts in PLN millions, unless otherwise stated

The fair value hierarchy of financial instruments

Classes of financial instruments	As at 30 September 2018 level 1	As at 30 September 2018 level 2	As at 31 December 2017 level 1	As at 31 December 2017 level 2
Loans granted to other entities	-	17	-	N/A*
Listed shares	370	-	617	-
Unquoted shares	-	98	-	56
Trade receivables	-	556	-	N/A
Other financial assets	-	9	-	1
Derivatives, of which:	-	415	-	(12)
Assets	-	643	-	306
Liabilities	-	(228)	-	(318)

** N/A – not applicable – an item which was not measured in accordance with principles arising from the application, from 1 January 2018, of IFRS 9, and which was measured at amortised cost in 2017.*

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

Note 4.7 Commodity, currency and interest rate risk management

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

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

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

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

	Impact of derivatives and hedging transactions*	
Statement of profit or loss	**from 1 January 2018 to 30 September 2018**	**from 1 January 2017 to 30 September 2017**
Sales revenue	110	11
Other operating and finance income and costs:	(25)	(76)
On realisation of derivatives	(97)	(1)
On measurement of derivatives	72	(75)
Impact of derivatives and hedging instruments on the financial result for the period	**85**	**(65)**
Statement of comprehensive income in the part concerning other comprehensive income		
Impact of hedging transactions	**63**	**255**
Impact of measurement of hedging transactions (effective portion)	173	266
Reclassification to sales revenues due to realisation of a hedged item	(110)	(11)
TOTAL COMPREHENSIVE INCOME*	**148**	**190**

* The Group decided to implement IFRS 9 standard (including new principles of hedge accounting) as at 1 January 2018 without adjusting comparative data, which means that data concerning 2017 presented in the financial statements for 2018 will not be comparable.

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

amounts in PLN millions, unless otherwise stated

In the first 3 quarters of 2018, copper sales of the Parent Entity amounted to 367 thousand tonnes (net sales of 277 thousand tonnes)[1]. However, the notional amount of copper price hedging strategies settled in the first 3 quarters of 2018 amounted to 69 thousand tonnes, which represented approx. 19 % of the total sales of this metal realised by the Parent Entity and approx. 25% of net sales in this period (in the first 3 quarters of 2017, 23% and 34% respectively). In the case of currency transactions, approx. 31% of total revenues from copper and silver sales realised by the Parent Entity in the first 3 quarters of 2018 were hedged (28% - in the first 3 quarters of 2017).

In the third quarter of 2018 the Parent Entity implemented transactions hedging against a change in the USD/PLN exchange rate with a total notional amount of USD 540 million. *Collar* structures (European options) were entered into with a horizon falling from July 2019 to December 2020. In the third quarter of 2018, there were no derivative transactions implemented for the metals (copper, silver) and interest rate markets. With respect to managing currency risk, which arises from borrowings, the Parent Entity uses natural hedging by borrowing in currencies in which it has revenues. As at 30 September 2018, following their translation to PLN, the bank loans and the investment loan which were drawn in USD amounted to PLN 8 033 million (as at 31 December 2017: PLN 6 935 million).

As a result, as at 30 September 2018, the Parent Entity held a hedging position in derivatives for 183 thousand tonnes of copper (for the period from October 2018 to December 2020) as well as for planned revenues from sales of metals in the amount of USD 1 620 million (for the period from October 2018 to December 2020). Moreover, the Parent Entity held open derivatives transactions on the interest rate market for the years 2019-2020 and bank and other loans with fixed interest rates.

Some of the Group's Polish companies managed the currency risk related to their core business by opening transactions in derivatives on the currency market. The table of open transactions of Polish companies as at 30 September 2018 is not presented, due to its immateriality for the Group.

Condensed tables of open transactions in derivatives held by the Parent Entity on the copper, currency and interest rate markets as at 30 September 2018 are presented below. The hedged notional amounts of transactions on the copper and currency markets in the presented periods are allocated evenly on a monthly basis.

COPPER MARKET

	Instrument	Notional	Option strike price			Average weighted premium	Effective hedge price	Hedge limited to	Participation limited to
			Sold put option	Purchased put option	Sold call option				
		[tonnes]	[USD/t]	[USD/t]	[USD/t]	[USD/t]	[USD/t]	[USD/t]	[USD/t]
4th quarter	Seagull	10 500	4 200	5 400	7 200	-230	5 170	4 200	7 200
	Seagull	10 500	4 700	6 200	8 000	-226	5 974	4 700	8 000
	Seagull	6 000	5 000	6 900	9 000	-250	6 650	5 000	9 000
	TOTAL X-XII 2018	**27 000**							
	Seagull	42 000	4 700	6 200	8 000	-226	5 974	4 700	8 000
	Seagull	24 000	5 000	6 900	9 000	-250	6 650	5 000	9 000
	Collar	12 000		6 800	8 400	-250	6 550		8 400
	Collar	24 000		6 700	8 300	-228	6 472		8 300
	TOTAL 2019	**102 000**							
	Seagull	24 000	5 000	6 900	9 000	-250	6 650	5 000	9 000
	Seagull	4 920	5 000	6 900	8 800	-250	6 650	5 000	8 800
	Seagull	25 080	5 000	6 800	8 700	-220	6 580	5 000	8 700
	TOTAL 2020	**54 000**							

CURRENCY MARKET

	Instrument	Notional	Option strike price			Average weighted premium	Effective hedge price	Hedge limited to	Participation limited to
			Sold put option	Purchased put option	Sold call option				
		[million USD]	[USD/PLN]	[USD/PLN]	[USD/PLN]	[PLN per 1 USD]	[USD/PLN]	[USD/PLN]	[USD/PLN]
4th quarter	Seagull	60	3.24	3.75	4.50	-0.02	3.73	3.24	4.50
	Seagull	90	3.24	3.80	4.84	0.01	3.81	3.24	4.84

[1] Copper sales less copper in purchased materials.

	Put option	210		3.25		-0.07	3.18		
	TOTAL X-XII 2018	**360**							
1st half	Seagull	180	3.24	3.80	4.84	0.02	3.82	3.24	4.84
1st half	Collar	180		3.50	4.25	-0.06	3.44		4.25
2nd half	Collar	360		3.50	4.25	-0.05	3.45		4.25
	TOTAL 2019	**720**							
1st half	Collar	360		3.50	4.25	-0.06	3.44		4.25
2nd half	Collar	180		3.50	4.25	-0.04	3.46		4.25
	TOTAL 2020	**540**							

INTEREST RATE MARKET

Instrument	Notional	Option strike price	Average weighted premium		Effective hedge price
	[million USD]	[LIBOR 3M]	[USD per USD 1 million hedged]	[%]	[LIBOR 3M]
Purchase of interest rate cap options, **QUARTERLY IN 2019**	1 000	2.50%	381	0.15%	2.65%
Purchase of interest rate cap options, **QUARTERLY IN 2020**	1 000	2.50%	381	0.15%	2.65%

The table below presents the fair value of derivative instruments of the Group.

Derivatives	As at 30 September 2018	As at 31 December 2017
Non-current assets	399	110
Current assets	244	196
Non-current liabilities	(183)	(208)
Current liabilities	(45)	(110)
Net fair value of open derivatives	**415**	**(12)**

The table below presents detailed data on derivative transactions designated as hedging, held by the Parent Entity as at 30 September 2018.

Open hedging derivatives	Notional	Avg. weighted price/exchange rate	Maturity/ settlement period		Period of profit/loss impact	
	Copper [t] Currency [USD million]	[USD/t] [USD/PLN]	from	to	from	to
Copper – seagulls	147 000	6 526-8 456	Oct 18	Dec 20	Nov 18	Jan 21
Copper – collars	36 000	6 733-8 333	Jan 19	Dec 19	Feb 19	Jan 20
Currency – collars	1 410	3.57-4.37	Oct 18	Dec 20	Oct 18	Dec 20
Currency – purchased put options	210	3.25	Oct 18	Dec 18	Oct 18	Dec 18

The fair value of open derivatives of the Group broken down into hedging transactions and trade transactions (including embedded derivatives) is presented in the tables below.

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

Type of derivative	As at 30 September 2018				
	Financial assets		Financial liabilities		Net total
	Current	Non-current	Current	Non-current	
Derivatives – Commodity contracts - Copper					
Options – seagull	102	246	(3)	(25)	320
Options – collar	59	35	(2)	(3)	89
Derivatives – Currency contracts					
Purchased put options	-	-	-	-	-
Options – collar	73	88	(2)	(17)	142
TOTAL HEDGING INSTRUMENTS	**234**	**369**	**(7)**	**(45)**	**551**

amounts in PLN millions, unless otherwise stated

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

Type of derivative	As at 30 September 2018				
	Financial assets		Financial liabilities		
	Current	Non-current	Current	Non-current	Net total
Derivatives – Commodity contracts - Copper					
Options –seagull	-	-	(3)	(37)	**(40)**
Derivatives – Currency contracts					
Options and forward/swap USD and EUR	1	1	(1)	(1)	**-**
Sold USD put options	-	-	(1)	-	**(1)**
Derivatives – interest rate					
Purchased interest rate cap options	9	29	-	-	**38**
Embedded derivatives					
Acid and water supply contracts	-	-	(33)	(100)	**(133)**
TOTAL TRADE INSTRUMENTS	**10**	**30**	**(38)**	**(138)**	**(136)**

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

The following table presents the structure of ratings of the financial institutions with which the Group had derivatives transactions, representing an exposure to credit risk*:

Rating level		As at 30 September 2018	As at 31 December 2017
Medium-high	from A+ to A- according to S&P and Fitch, and from A1 to A3 according to Moody's	100%	100%

* *Weighed by positive fair value of open and unsettled derivatives*.

Taking into consideration the fair value of open derivative transactions entered into by the Group and of unsettled derivatives, as at 30 September 2018 the maximum single entity share of the amount exposed to credit risk arising from these transactions amounted to 21%, or PLN 119 million (as at 31 December 2017: 47%, or PLN 124 million).

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

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

Note 4.8 Liquidity risk and capital management

Liquidity and capital management policy

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

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

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

In order to maintain financial liquidity and the creditworthiness to acquire external financing at an optimum cost, the Group aims to maintain the equity ratio, in the long-term, at a level of not less than 0.5, and the ratio of net debt/EBITDA at a level of up to 2.0.

amounts in PLN millions, unless otherwise stated

Ratio	Calculation	As at 30 September 2018	As at 31 December 2017
Net Debt/EBITDA*	Relation of net debt to EBITDA	1.6	1.3
Equity ratio	Relation of equity less intangible assets to total assets	0.5	0.5

** to calculate this ratio the adjusted EBITDA was assumed for the period of 12 months ending on the last day of the reporting period, excluding the EBITDA of the joint venture Sierra Gorda S.C.M.*

Net debt changes

Liabilities due to borrowing	As at 31 December 2017	Cash flows	Accrued interest	Exchange differences	Other changes	As at 30 September 2018
Bank loans	5 179	338	157	299	-	5 973
Loans	1 967	119	46	94	-	2 226
Leases	10	(8)	1	-	19	22
Total debt	**7 156**	**449**	**204**	**393**	**19**	**8 221**
Free cash and cash equivalents	579	203	-	-	-	782
Net debt	**6 577**					**7 439**

Open credit lines, loans and liabilities of the Group drawn under these borrowings

	As at 30 September 2018			As at 31 December 2017
Type of bank/ other loans	**Available currency of bank / other loans**	**Amount available of bank / other loans**	**Amount drawn of bank / other loans**	**Amount drawn of bank / other loans**
Bilateral bank loans	USD, EUR, PLN	4 129	1 578	1 717
Unsecured revolving syndicated credit facility	USD	9 189	4 412*	3 483*
Investment loans	USD, EUR, PLN	2 932	2 226	1 967
Total		**16 250**	**8 216***	7 167*

** Presented amounts do not include the preparation fee paid in the amount of PLN 17 million (as at 31 December 2017, PLN 21 million) which decreases financial liabilities due to bank loans*

Contingent liabilities due to guarantees granted

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

As at 30 September 2018, the Group held contingent liabilities due to guarantees and letters of credit granted in the total amount of PLN 2 586 million and due to promissory note liabilities in the amount of PLN 182 million.

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

Sierra Gorda S.C.M. – securing the performance of concluded agreements in the amount of PLN 1 799 million:

- PLN 505 million - a letter of credit granted as security for the proper performance of a long-term contract for the supply of electricity,

- PLN 147 million – corporate guarantees set as security on the payment of concluded lease agreements*,
- PLN 485 million – corporate guarantees securing repayment of short-term working capital facilities*,
- PLN 662 million – a corporate guarantee securing repayment of a specified part of payment to guarantees set by Sumitomo Metal Mining Co., Ltd. and Sumitomo Corporation, securing repayment of a corporate credit drawn by the joint venture Sierra Gorda S.C.M.

Other entities including the Parent Entity:

- securing the restoration costs of the Robinson mine, the Podolsky mine and the Victoria project and obligations related to proper execution of concluded agreements in the amount of PLN 395 million,
- securing the proper execution by DMC Mining Services (UK) Ltd. and DMC Mining Services Ltd. of the contract for shaft sinking under the project conducted in the United Kingdom in the amount of PLN 184 million,
- securing the proper execution of future environmental obligations of the Parent Entity related to the obligation to restore terrain, following the conclusion of operations of the Żelazny Most tailings storage facility in the total amount of PLN 320 million (a bank guarantee of PLN 160 million and own promissory note of PLN 160 million).

Based on information held, at the end of the reporting period the Group assessed the probability of payments resulting from contingent liabilities as low.

*As part of the analysis of the impact of IFRS 9 on the financial statements with respect to the financial guarantees granted to Sierra Gorda, in the Group's opinion it is necessary to recognise the aforementioned guarantees in the accounting books as per paragraph 4.2.1 point c of IFRS 9.

amounts in PLN millions, unless otherwise stated

Note 4.9 Related party transactions

Operating income from related entities	from 1 July 2018 to 30 September 2018	from 1 January 2018 to 30 September 2018	from 1 July 2017 to 30 September 2017	from 1 January 2017 to 30 September 2017
Revenues from sales of products, merchandise and materials to a joint venture	(1)	12	22	71
Interest income on a loan granted to a joint venture	66	192	79	240
Revenues from other transactions with joint ventures	10	29	17	39
Revenues from other transactions with other related parties	1	8	1	12
	76	**241**	**119**	**362**

Purchases from related entities	from 1 July 2018 to 30 September 2018	from 1 January 2018 to 30 September 2018	from 1 July 2017 to 30 September 2017	from 1 January 2017 to 30 September 2017
Purchase of services, merchandise and materials from other related parties	1	17	1	16
Other purchase transactions from other related parties	1	2	1	2
	2	**19**	**2**	**18**

Trade and other receivables from related parties	As at 30 September 2018	As at 31 December 2017
From the joint venture Sierra Gorda S.C.M. (loans)	4 303	3 889
From the joint venture Sierra Gorda S.C.M. (other)	506	461
From other related parties	6	3
	4 815	**4 353**

Trade and other payables towards related parties	As at 30 September 2018	As at 31 December 2017
Towards joint ventures	24	13
Towards other related parties	6	1
	30	**14**

Pursuant to IAS 24, the Group is obliged to disclose unsettled balances, including payables towards the Polish Government and entities controlled or jointly controlled by the Polish Government, or over which the Polish Government has significant influence.

As at 30 September 2018, balances of unsettled payables concerned the mining usufruct agreements necessary to conduct principal operating activities. Pursuant to these agreements, the Parent Entity is obliged to pay for the right to mine the copper and rock salt deposits. As at 30 September 2018, the balance of liabilities due to these agreements amounted to PLN 191 million (as at 31 December 2017: PLN 202 million). In the reporting period, the variable part of the fee for the right to mine, recognised in costs in the amount of PLN 23 million, was set as the equivalent of the 30% of the mining fee due for the 3 quarters of 2018 (correspondingly, in the period from 1 January to 30 September 2017: PLN 24 million).

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

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

- the purchase of goods to meet the needs of current operating activities. In the period from 1 January to 30 September 2018, the turnover from these transactions amounted to PLN 863 million (from 1 January to 30 September 2017: PLN 573 million), and, as at 30 September 2018, the unsettled balance of liabilities from these transactions amounted to PLN 214 million (as at 31 December 2017: PLN 107 million),
- sales to Polish State Treasury Companies. In the period from 1 January to 30 September 2018, the turnover from these sales amounted to PLN 40 million (from 1 January to 30 September 2017: PLN 60 million), and, as at 30 September 2018, the unsettled balance of receivables from these transactions amounted to PLN 8 million (as at 31 December 2017: PLN 7 million).

Remuneration of the Supervisory Board of the Parent Entity (in PLN thousands)	from 1 January 2018 to 30 September 2018	from 1 January 2017 to 30 September 2017
Remuneration due to service in the Supervisory Board, salaries and other current employee benefits	1 234	1 396

Remuneration of the Management Board of the Parent Entity (in PLN thousands)	from 1 January 2018 to 30 September 2018	from 1 January 2017 to 30 September 2017
Salaries and other current employee benefits, of which:	**2 369**	**7 284**
Remuneration during the term of a member of the Management Board's mandate	2 369	5 612
Remuneration after the end of a member of the Management Board's mandate	-	1 672
Benefits due to termination of employment	1 696	2 464
Total	**4 065**	**9 748**

Remuneration of other key managers (in PLN thousands)	from 1 January 2018 to 30 September 2018	From 1 January 2017 to 30 September 2017
Salaries and other current employee benefits	3 086	3 570

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

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

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

		As at 30 September 2018	Increase/(decrease) since the end of the last financial year
	Contingent assets	**568**	**39**
	Guarantees received	236	21
	Promissory notes receivables	146	25
	Other	186	(7)
	Contingent liabilities	**2 957**	**159**
Note 4.8	Guarantees and letters of credit	2 586	261
Note 4.8	Promissory note liabilities	182	9
	Liabilities due to implementation of projects and inventions	20	(97)
	Other	169	(14)
	Other liabilities not recognised in the statement of financial position	**404**	**261**
	Liabilities towards local government entities due to expansion of the tailings storage facility	114	(3)
	Liabilities due to operating leases	290	264

amounts in PLN millions, unless otherwise stated

Note 4.11 Changes in working capital

	Inventories	Trade receivables	Trade payables	Working capital
As at 1 January 2018	(4 562)	(1 521)	1 995	(4 088)
As at 30 September 2018	(5 519)	(1 464)	1 828	(5 155)
Change in the statement of financial position	**(957)**	**57**	**(167)**	**(1 067)**
Exchange differences from the translation of statements of operations with a functional currency other than PLN	24	20	(8)	**36**
Depreciation recognised in inventories	102	-	-	**102**
Payables due to the purchase of property, plant and equipment and intangible assets	-	-	137	**137**
Others	-	-	(5)	**(5)**
Adjustments	**126**	**20**	**124**	**270**
Change in the statement of cash flows	**(831)**	**77**	**(43)**	**(797)**

	Inventories	Trade receivables	Trade payables	Working capital
As at 1 January 2017	(3 497)	(1 292)	1 613	(3 176)
As at 30 September 2017	(4 931)	(1 127)	1 756	(4 302)
Change in the statement of financial position	**(1 434)**	**165**	**143**	**(1 126)**
Exchange differences from the translation of statements of operations with a functional currency other than PLN	(52)	(45)	23	**(74)**
Depreciation recognised in inventories	73	-	-	**73**
Payables due to the purchase of property, plant and equipment and intangible assets	-	-	(19)	**(19)**
Adjustments	**21**	**(45)**	**4**	**(20)**
Change in the statement of cash flows	**(1 413)**	**120**	**147**	**(1 146)**

Note 4.12 Other adjustments in the statement of cash flows

	from 1 January 2018 to 30 September 2018	from 1 January 2017 to 30 September 2017
Losses on the sales of property, plant and equipment and intangible assets	9	13
Reclassification of other comprehensive income to profit or loss due to the realisation of hedging instruments	(4)	(11)
Other	(7)	2
Total	**(2)**	**4**

5 – Additional information to the consolidated quarterly report

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

In the third quarter of 2018, KGHM Polska Miedź S.A. acquired investment certificates of the following funds:

- on 10 August 2018, 400 investment certificates of KGHM VI Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM VI FIZAN) for PLN 10 000 per certificate, paid in cash in the amount of PLN 4 million;
- on 10 August 2018, 400 investment certificates of KGHM VII Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM VII FIZAN) for PLN 10 000 per certificate, paid in cash in the amount of PLN 4 million;

The company KGHM TFI S.A. manages the aforementioned Funds – it is a subsidiary of KGHM Polska Miedź S.A. KGHM is the sole participant in KGHM VI FIZAN and KGHM VII FIZAN Funds. The Funds' investment objective is to increase the value of their assets by increasing the value of deposits.

KGHM VI FIZAN Fund will mainly invest in securities or shares of entities engaged in hotel services and/or wellness/SPA.

KGHM VII FIZAN Fund will mainly invest in securities or shares of entities engaged in sanatorium-healing services.

Hotel and sanatorium healing assets of KGHM I FIZAN (in liquidation) will be disposed to the aforementioned Funds.

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

Note 5.2 Seasonal or cyclical activities

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

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

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

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

In accordance with Resolution No. 10/2018 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 6 July 2018 regarding appropriation of the profit for financial year 2017, the entirety of the profit was transferred to the Parent Entity's reserve capital.

In the comparable period, in accordance with Resolution No. 7/2017 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 21 June 2017 regarding the payout of a dividend from prior years' profits and setting the dividend date and dividend payment dates, the amount of PLN 200 million was allocated as a dividend, representing PLN 1.00 per share. The dividend date (the date on which the right to dividend is set) was set on 14 July 2017. Moreover, it was decided that the dividend will be paid in two instalments: on 17 August 2017 – the amount of PLN 100 million (representing PLN 0.50 per share) and on 16 November 2017 – the amount of PLN 100 million (representing PLN 0.50 per share).
All shares of the Parent Entity are ordinary shares.

Note 5.5 Other information to the consolidated quarterly report

Position of the Management Board with respect to the possibility of achieving previously-published forecasts of results for 2018, in the light of results presented in this consolidated quarterly report relative to forecasted results

KGHM Polska Miedź S.A. has not published a forecast of the Company's and Group's financial results for 2018.

Shareholders holding at least 5% of the total number of votes at the General Meeting of KGHM Polska Miedź S.A. as at the date of publication of this consolidated quarterly report, changes in the ownership structure of significant blocks of shares of KGHM Polska Miedź S.A. in the period since publication of the consolidated report for the first half of 2018

Following the publication of the consolidated report for the first half of 2018, KGHM Polska Miedź S.A. received a notification from Powszechne Towarzystwo Emerytalne PZU S.A. (PTE PZU S.A.) dated 16 October 2018. PTE PZU S.A., acting on the behalf of Otwarty Fundusz Emerytalny PZU "Złota Jesień" (OFE PZU) informed that OFE PZU's current share in the total number of votes in KGHM Polska Miedź S.A. increased and exceeded the threshold of 5% in the total number of votes.

amounts in PLN millions, unless otherwise stated

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

- the State Treasury - 63 589 900 shares of KGHM Polska Miedź S.A., representing 31.79% of the share capital and the same number of votes at the General Meeting of KGHM Polska Miedź S.A. (based on a notification dated 12 January 2010);
- Nationale-Nederlanden Otwarty Fundusz Emerytalny – 10 104 354 shares of KGHM Polska Miedź S.A., representing 5.05% of the share capital and the same number of votes at the General Meeting of KGHM Polska Miedź S.A. (based on a notification dated 18 August 2016);
- Otwarty Fundusz Emerytalny PZU "Złota Jesień" – 10 099 003 shares of KGHM Polska Miedź S.A., representing 5.05% of the share capital and the same number of votes at the General Meeting of KGHM Polska Miedź S.A. (based on a notification dated 16 October 2018);
- Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK – 10 039 684 shares of KGHM Polska Miedź S.A., representing 5.02% of the share capital and the same number of votes at the General Meeting of KGHM Polska Miedź S.A. (based on a notification dated 17 July 2018).

Ownership of KGHM Polska Miedź S.A.'s shares or of rights to them by members of the management and supervisory boards of KGHM Polska Miedź S.A., as at the date of publication of the consolidated quarterly report. Changes in ownership during the period following publication of the consolidated report for the first half of 2018

Members of the Company's Management Board

Based on information held by KGHM Polska Miedź S.A., as at the date of preparation of this report no Member of the Company's Management Board held shares of KGHM Polska Miedź S.A. or rights to them. As far as the Company is aware, the aforementioned state did not change since the publication of the consolidated report for the first half of 2018.

Members of the Company's Supervisory Board

Based on information held by KGHM Polska Miedź S.A., the number of KGHM Polska Miedź S.A.'s shares or rights to them owned by Members of the Company's Supervisory Board as at the date of preparation of this report was as follows:

function	name	number of shares as at the date of preparation of the report for the third quarter of 2018
Member of the Supervisory Board	Józef Czyczerski	10

Based on information held by KGHM Polska Miedź S.A., as at the date of preparation of this report, no other Members of the Company's Supervisory Board held shares of KGHM Polska Miedź S.A. or rights to them. As far as the Company is aware, the aforementioned state did not change since the publication of the consolidated report for the first half of 2018.

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

Claim dated 26 September 2007. Plaintiffs (14 natural persons) filed a claim against KGHM Polska Miedź S.A. 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 elektrorafinacji 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 30 September 2018 amounted to PLN 53.6 million. In the response to the claim, KGHM Polska Miedź S.A. requested the dismissal of the claim in its entirety and filed a counter claim for the payment 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 accordance with the Company's position, 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 the Company is questioning. 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.

In a judgment dated 25 September 2018, the court dismissed the counter claim and partially allowed the principal claim to the total amount of approx. PLN 23.8 million, and at the same time ordered the payment of interest in the amount of approx. PLN 30.1 million – for the total amount of PLN 53.8 million. The judgment is not binding and it may be appealed. In a request dated 26 September 2018, the Company asked for a copy of the judgment and its justification.

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

During the period from 1 January 2018 to 30 September 2018, neither KGHM Polska Miedź S.A. nor subsidiaries thereof entered into transactions with related entities under other than arm's length conditions.

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

During the period from 1 January 2018 to 30 September 2018, neither KGHM Polska Miedź S.A. nor subsidiaries thereof granted guarantees or collateral on bank and other loans to any single entity or subsidiary thereof, whose total amount would be material.

Other information which in the opinion of KGHM Polska Miedź S.A. is significant for the assessment of its employment, assets, financial position and financial result and any changes thereto, and information which is significant for assessing the ability to pay its liabilities

In the third quarter of 2018 there were no other significant events, apart from those mentioned in the commentary to the report, which could have a significant impact on the assessment of assets, financial position and financial result of the Group, and any changes thereto, or any events significant for the assessment of the employment situation and the ability to pay its liabilities.

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

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

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

Note 5.6 Subsequent events

Signing of a contract with China Minmetals Nonferrous Metals Co. Ltd. for the sale of copper cathodes

On 6 November 2018, a framework contract was signed between KGHM Polska Miedź S.A. and China Minmetals Nonferrous Metals Co. Ltd. (a company within the China Minmetals Corporation group) for the sale of copper cathodes for the years 2019-2023.

This contract will replace the current framework contract signed on 20 June 2016 with China Minmetals Corporation for the years 2017-2021 and announced by the Parent Entity via regulatory filing no. 22/2016 dated 20 June 2016, and at the same time will ensure the sale of cathodes to the Chinese market in the years subsequent to the current contract. The new contract's entry into force is conditional on the termination of the current contract with China Minmetals Corporation.

The value of this contract depends on the volume of options used, and is estimated to be from USD 1 590 million (or PLN 6 028 million) to USD 3 816 million (or PLN 14 467 million).

The value was estimated based on the forward copper price curve from 2 November 2018 and the USD/PLN exchange rate announced by the National Bank of Poland on 5 November 2018. The contract foresees contractual penalties for delays in delivery.

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

CONDENSED STATEMENT OF PROFIT OR LOSS

		from 1 July 2018 to 30 September 2018	from 1 January 2018 to 30 September 2018	from 1 July 2017 to 30 September 2017	from 1 January 2017 to 30 September 2017
Note 2.1	Revenues from contracts with customers, including:	4 128	11 317	3 732	11 433
	from sales, for which the amount of revenue was not finally determined at the end of the reporting period (IFRS 15, 114)	44	632	N/A*	N/A*
Note 2.2	Cost of sales	(3 290)	(8 895)	(2 794)	(8 365)
	Gross profit	**838**	**2 422**	**938**	**3 068**
Note 2.2	Selling costs and administrative expenses	(236)	(654)	(226)	(621)
	Profit on sales	**602**	**1 768**	**712**	**2 447**
Note 2.3	Other operating income and (costs), including:	(49)	659	(92)	(689)
	interest income calculated using the effective interest rate method	62	187	N/A*	N/A*
	reversal /(recognition) of impairment losses on financial instruments and (recognition) of impairment losses on purchased or originated credit-impaired assets at the moment of initial recognition (POCI)	18	161	N/A*	N/A*
Note 2.4	Finance income and (costs)	97	(499)	53	744
	Profit before income tax	**650**	**1 928**	**673**	**2 502**
	Income tax expense	(207)	(498)	(133)	(652)
	PROFIT FOR THE PERIOD	**443**	**1 430**	**540**	**1 850**
	Weighted average number of ordinary shares (million)	**200**	**200**	**200**	**200**
	Basic and diluted earnings per share (in PLN)	**2.22**	**7.15**	**2.70**	**9.25**

** N/A – not applicable – items in which the following did not occur: measurement in accordance with principles arising from the application, from 1 January 2018, of IFRS 9, and the disclosure requirement of IFRS 15.*

amounts in PLN millions, unless otherwise stated

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

	from 1 July 2018 to 30 September 2018	from 1 January 2018 to 30 September 2018	from 1 July 2017 to 30 September 2017	from 1 January 2017 to 30 September 2017
Profit for the period	**443**	**1 430**	**540**	**1 850**
Measurement of hedging instruments net of the tax effect	175	232	33	206
Measurement of available-for-sale financial assets net of the tax effect	N/A*	N/A*	24	134
Other comprehensive income, which will be reclassified to profit or loss	**175**	**232**	**57**	**340**
Measurement of equity financial instruments at fair value net of the tax effect	(76)	(189)	N/A*	N/A*
Actuarial gains/(losses) net of the tax effect	38	(151)	22	(121)
Other comprehensive income, which will not be reclassified to profit or loss	**(38)**	**(340)**	**22**	**(121)**
Total other comprehensive net income	**137**	**(108)**	**79**	**219**
TOTAL COMPREHENSIVE INCOME	**580**	**1 322**	**619**	**2 069**

** N/A – not applicable – items which do not occur due to the change in classification, from 1 January 2018, of equity financial instruments in accordance with IFRS 9. Listed shares measured at fair value and unquoted shares measured at cost were in the category of available –for-sale financial assets.*

amounts in PLN millions, unless otherwise stated

CONDENSED STATEMENT OF CASH FLOWS

		from 1 January 2018 to 30 September 2018	from 1 January 2017 to 30 September 2017
	Cash flow from operating activities		
	Profit before income tax	1 928	2 502
	Depreciation/amortisation recognised in profit or loss	820	752
	Interest on investment activities	(176)	(245)
	Interest and other costs of borrowings	113	112
	Dividends income	(239)	(4)
	Fair value gains on loans measured at fair value through profit or loss	(52)	N/A*
	Impairment losses on non-current assets	810	1
	Reversal of impairment losses on non-current assets	(968)	-
	Exchange differences, of which:	109	19
	from investing activities and cash	(277)	932
	from financing activities	386	(913)
	Change in provisions	217	47
	Change in other receivables and liabilities	(313)	59
	Change in assets/liabilities due to derivatives	(110)	(29)
Note 2.6	Other adjustments	23	24
	Exclusions of income and costs, total	234	736
	Income tax paid	(521)	(795)
Note 2.5	Changes in working capital	(506)	(1 236)
	Net cash generated from operating activities	**1 135**	**1 207**
	Cash flow from investing activities		
	Expenditures on mining and metallurgical assets, including:	(1 361)	(1 347)
	interest paid	(86)	(39)
	Expenditures on other property, plant and equipment and intangible assets	(26)	(13)
	Loans granted	(269)	(219)
	Other expenses	(67)	(75)
	Total expenses	(1 723)	(1 654)
	Dividends received	239	4
	Other proceeds	28	26
	Proceeds	267	30
	Net cash used in investing activities	**(1 456)**	**(1 624)**
	Cash flow from financing activities		
	Proceeds from borrowings	2 036	1 635
	Proceeds from cash pool	-	160
	Total proceeds	2 036	1 795
	Expenses due to cash pool	(50)	-
	Repayments of borrowings	(1 381)	(1 507)
	Dividends paid	-	(100)
	Interest and other costs of borrowings	(107)	(104)
	Total expenses	(1 538)	(1 711)
	Net cash generated from financing activities	**498**	**84**
	TOTAL NET CASH FLOW	**177**	**(333)**
	Exchange gains/(losses) on cash and cash equivalents	18	(25)
	Cash and cash equivalents at the beginning of the period	234	482
	Cash and cash equivalents at the end of the period	**429**	**124**

** N/A – not applicable – an item which was not measured in accordance with principles arising from the application, from 1 January 2018, of IFRS 9, and which was measured at amortised cost in 2017.*

amounts in PLN millions, unless otherwise stated

CONDENSED STATEMENT OF FINANCIAL POSITION

	As at 30 September 2018	As at 31 December 2017
ASSETS		
Mining and metallurgical property, plant and equipment	15 674	15 355
Mining and metallurgical intangible assets	557	507
Mining and metallurgical property, plant and equipment and intangible assets	16 231	15 862
Other property, plant and equipment	71	75
Other intangible assets	34	34
Other property, plant and equipment and intangible assets	105	109
Investments in subsidiaries	3 020	3 013
Loans granted, including:	5 559	4 972
measured at fair value	1 419	N/A*
measured at amortised cost	4 140	4 972
Derivatives	398	109
Other financial instruments measured at fair value	419	613
Other financial assets	366	337
Financial instruments, total	6 742	6 031
Deferred tax assets	94	31
Other non-financial assets	35	25
Non-current assets	**26 227**	**25 071**
Inventories	4 588	3 857
Trade receivables, including:	782	1 034
trade receivables measured at fair value	474	N/A*
Tax assets	167	214
Derivatives	243	195
Other financial assets	476	288
Other non-financial assets	93	54
Cash and cash equivalents	429	234
Current assets	**6 778**	**5 876**
	33 005	**30 947**
EQUITY AND LIABILITIES		
Share capital	2 000	2 000
Other reserves from measurement of financial instruments	(419)	142
Accumulated other comprehensive income	(499)	(348)
Retained earnings	17 263	15 462
Equity	**18 345**	**17 256**
Borrowings	7 012	6 085
Derivatives	82	84
Employee benefits liabilities	2 125	1 879
Provisions for decommissioning costs of mines and other technological facilities	791	797
Other liabilities	202	207
Non-current liabilities	10 212	9 052
Borrowings	1 053	923
Cash pool liabilities	110	160
Derivatives	11	74
Trade payables	1 452	1 719
Employee benefits liabilities	709	649
Tax liabilities	377	416
Provisions for liabilities and other charges	201	64
Other liabilities	535	634
Current liabilities	4 448	4 639
Non-current and current liabilities	**14 660**	**13 691**
	33 005	**30 947**

** N/A – not applicable – items which in 2017 were not measured in accordance with principles arising from the application, from 1 January 2018, of IFRS 9.*

amounts in PLN millions, unless otherwise stated

CONDENSED STATEMENT OF CHANGES IN EQUITY

	Share capital	Other reserves from measurement of financial instruments	Accumulated other comprehensive income	Retained earnings	Total equity
As at 1 January 2017	**2 000**	**(196)**	**(243)**	**14 339**	**15 900**
Dividend	-	-	-	(200)	**(200)**
Profit for the period	-	-	-	1 850	**1 850**
Other comprehensive income	-	340	(121)	-	**219**
Total comprehensive income	-	340	(121)	1 850	**2 069**
As at 30 September 2017	**2 000**	**144**	**(364)**	**15 989**	**17 769**
As at 31 December 2017	**2 000**	**142**	**(348)**	**15 462**	**17 256**
Change in accounting policies – application of IFRS 9		**(604)**	**-**	**371**	**(233)**
As at 1 January 2018	**2 000**	**(462)**	**(348)**	**15 833**	**17 023**
Profit for the period	-	-	-	1 430	**1 430**
Other comprehensive income	-	43	(151)	-	**(108)**
Total comprehensive income	-	43	(151)	1 430	**1 322**
As at 30 September 2018	**2 000**	**(419)**	**(499)**	**17 263**	**18 345**

amounts in PLN millions, unless otherwise stated

1 – General information

Note 1.1 Impact of the application of new and amended standards on the Company's accounting policy and on the Company's separate financial statements.

IFRS 9 Financial Instruments

The Company did not make early implementation of IFRS 9 and applied the requirements of IFRS 9 retrospectively for periods beginning on or after 1 January 2018. In accordance with the possibility provided by the standard, the Company decided against the restatement of comparative data. Changes in the measurement of assets and financial liabilities, as at the date of initial application of the standard, were recognised in retained earnings. Implementation of IFRS 9 resulted in a change in accounting policy with respect to the recognition, classification and measurement of financial assets, the measurement of financial liabilities, losses due to the impairment of financial assets and hedge accounting.

The selected elements of accounting policy with respect to IFRS 9 are presented in part 1, note 1.4 of this report's consolidated financial statements.

The following table summarises the impact of IFRS 9 on the change in the classification and measurement of the Company's financial instruments as at 1 January 2018.

(IFRS 7. 42I, 42J, 42O):

	Classification per IAS 39	Classification per IFRS 9	Carrying amount per IAS 39 – as at 31 December 2017	Carrying amount per IFRS 9 – as at 1 January 2018	Reference to explanations below the table
Financial assets					
Available-for-sale financial assets (equity instruments)	Available for sale	Fair value through other comprehensive income	613	648	(a)
Loans granted	Loans and receivables	Fair value through profit or loss	1 210	1 277	(b)
Loans granted	Loans and receivables	Amortised cost	3 771	3 386	(c)
Trade receivables - trade receivables subject to factoring arrangements	Loans and receivables	Fair value through profit or loss	196	196	(d)
Trade receivables – trade receivables priced upon M+ formula	Loans and receivables	Fair value through profit or loss	446	462	(e)
Other receivables - receivables due to the present value of future payments respecting financial guarantees	Loans and receivables	Amortised cost	67	100	(f)
Financial liabilities					
Other liabilities - liabilities due to financial guarantees	Financial liabilities measured at amortised cost	Initially recognised fair value, increased by the transaction costs and reversals of the initial discount to the measurement date and decreased by the amount of revenues recognised in profit or loss	-	37	(f)

The comments below concern the table summarising the impact of IFRS 9 on the change in classification and measurement of the Company's financial instruments as at 1 January 2018.

a) This item is comprised of equity instruments not held for trading, in accordance with IAS 39 classified as available-for-sale, which were measured at fair value (listed) and at cost (unquoted) by the Company. Because these instruments were not purchased in order to be traded, and due to the above, by the Company's decision, these assets will be measured at fair value through other comprehensive income at the moment of transition, without the possibility of later transfer of gains or losses on these instruments to profit or loss. These equity instruments are presented in the financial statements in the item "Other financial instruments measured at fair value".

amounts in PLN millions, unless otherwise stated

b) This item is comprised of loans granted to subsidiaries which did not pass the SPPI test, because in the structure of financing the target recipient of funds, at the last stage, debt is changed into capital (the amount of capital is material) pursuant to the methodology of classification of financial instruments. Due to the above, these assets are measured at fair value through profit or loss. These financial instruments are presented in the financial statements in the item "Loans granted measured at fair value".

c) This item is comprised of loans granted to subsidiaries and others, which met two conditions: they are in a business model whose objective is achieved by collecting contractual cash flows due to holding financial assets and passed the SPPI test. They are presented in the financial statements in the item "Loans granted measured at amortised cost".

d) This item is comprised of trade receivables subject to factoring agreements, which were classified to the business model – held for sale (Model 3) and therefore are measured at fair value through profit or loss. These trade receivables are presented in the financial statements in the item "Trade receivables measured at fair value".

e) This item is comprised of trade receivables priced upon M+ formula, which did not pass the SPPI test. Failure to pass the test arises from the embedded derivative – the M+ formula. These receivables are measured at fair value through profit or loss. These trade receivables are presented in the financial statements in the item "Trade receivables measured at fair value".

f) This item is comprised of guarantees granted to Sierra Gorda to secure its obligations arising from lease contracts and short-term bank loans. Receivables due to guarantees (passed SPPI test, assets held to acquire contractual cash flows) are measured at amortised cost and are recognised at the present value of future payments and then corrected by the unwinding of the discount effect and the impairment due to the expected credit losses in correspondence with the liability. The results of the measurement of financial guarantees are presented in the financial statements in the following manner: for receivables, in the item "Other financial assets", while the liabilities are presented in the item "Other liabilities".

With the exception of the aforementioned items of other financial assets and liabilities, there were no changes arising from changes in classification or changes in measurement of financial instruments.

The following table presents a reconciliation of **impairment allowances** estimated in accordance with IAS 39 as at 31 December 2017 with the amount of impairment allowances estimated in accordance with IFRS 9 as at 1 January 2018. Changes in impairment allowances estimated in accordance with IFRS 9 arise from a change in the classification of financial assets between the categories of financial assets measured at amortised cost and at fair value, as well as from the remeasurement of impairment allowances reflecting the requirements of the model of expected credit losses (IFRS 7. 42P).

Category of assets	Amount of allowance per IAS 39 as at 31 December 2017	Change due to change in classification	Change due to change in measurement	Amount of allowance per IFRS 9 as at 1 January 2018
Loans and receivables (IAS 39) / Financial assets at amortised cost (IFRS 9)				
Loans granted	2 630	(1 843)	385	1 172
Total	**2 630**	**(1 843)**	**385**	**1 172**
Available-for-sale assets (IAS 39) / Financial assets at fair value through other comprehensive income (IFRS 9)				
Shares	568	(568)	-	-
Total	**568**	**(568)**	**-**	**-**

Below, we present the impact of implementation of IFRS 9 on statement of financial position items as at 1 January 2018, for which there was a change in classification or measurement.

amounts in PLN millions, unless otherwise stated

Impact of the implementation of IFRS 9 Financial Instruments

	Applied standard IFRS/IAS	As at 31 December 2017 Carrying amount	Change due to the reclassification	Change due to the revaluation	As at 1 January 2018 Carrying amount	Impact on retained earnings	Impact on other comprehensive income	Impact on equity
Available-for-sale financial assets	IAS 39	613	(613)	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	IFRS 9	-	613	35	648	-	35	35
Retained earnings - accumulated impairment losses on available-for-sale financial assets	IAS 39	(568)	568	-	-	568	-	568
Other reserves from measurement of financial instruments	IFRS 9	-	(568)	-	(568)	-	(568)	(568)
Loans granted	IAS 39/IFRS 9	4 981	(1 291)	(385)	3 305	(385)	-	(385)
Credit-impaired loans granted, at the moment of initial recognition (POCI)	IFRS 9	-	81	-	81	-	-	-
Loans at fair value through profit or loss	IFRS 9	-	1 210	67	1 277	67	-	67
Trade receivables	IAS 39/IFRS 9	1 034	(642)	-	392	-	-	-
Trade receivables at fair value through profit or loss	IFRS 9	-	642	16	658	16	-	16
Retained earnings – change in the time value of hedging instruments	IAS 39	(223)	223	-	-	223	-	223
Other reserves from measurement of hedging instruments	IFRS 9	-	(223)	-	(223)	-	(223)	(223)
Other receivables – receivables due to present value of future payments due to financial guarantees	IFRS 9	67	-	33	100	33	-	33
Other liabilities – liability due to financial guarantees	IFRS 9	-	-	37	37	(37)	-	(37)
Deferred tax on the aforementioned adjustments		-	-	38	38	(114)	152	38
Total impact						**371**	**(604)**	**(233)**

IFRS 15 Revenue from contracts with customers

Selected elements of the accounting policy with respect to IFRS 15 are presented in part 1, note 1.4 of this report's consolidated financial statements. KGHM Polska Miedź S.A. applied IFRS 15 retrospectively, pursuant to paragraph C3 (b).

Pursuant to IFRS 15.63, the Company applies a practical expedient and did not adjust the promised amount of consideration for the effects of a significant financing element. The implementation of IFRS 15 did not have an impact on the amounts presented in the Company's financial statements. In order to improve the usefulness of the information provided to users of the financial statements, the Company widened the scope of disclosures and presented the revenues from sales transactions, for which the amount of revenue was not finally determined (among others, priced upon the M+ formula) at the end of the reporting period, in the interim statement of profit or loss.

IFRS 16 "Leases"

Basic information on the standard

Date of implementation and transitional rules
IFRS 16 will be effective for annual periods beginning on or after 1 January 2019 and has been adopted by the European Union. It supersedes the current standard IAS 17, interpretations IFRIC 4 and SIC 15 and 27. The Company will apply IFRS 16 from 1 January 2019.

Main changes introduced by the standard
The new standard introduces a single model for recognising a lease in a lessee's accounting books, conforming to the recognition of a finance lease under IAS 17. Pursuant to IFRS 16, an agreement is a lease or contains a lease if it transfers the rights to control the use of an identified asset for a given period in exchange for compensation. The essential element differentiating the definition of a lease from IAS 17 and from IFRS 16 is the requirement to have control over the used, specific asset, indicated directly or indirectly in the agreement. Transfer of the right to use takes place when we have an identified asset, with respect to which the lessee has the right to obtain substantially all of the economic benefits from its use, and controls the use of a given asset in a given period of time. If the definition of a "lease" is met, the right to use an asset is recognised alongside a corresponding lease liability, set in the amount of future discounted payments – for the duration of a lease. Expenses related to the use of lease assets, the majority of which were previously recognised in external services costs, will be currently classified as depreciation/amortisation and interest costs. Usufruct rights are depreciated using a straight line method, while lease liabilities are settled using an effective interest rate.

Impact of IFRS 16 on the financial statements

At the moment of preparation of these Financial statements the Company had completed most of the work related to implementation of the new standard IFRS 16. In the fourth quarter of 2017 the Company commenced the project to implement IFRS 16 (project), which was planned in three stages:
- stage I – analysis of all executed agreements for the purchase of services, regardless of their existing classification, the goal of which was to identify those agreements based on which the Company uses assets belonging to suppliers; in addition, this stage comprised the analysis of perpetual usufruct rights to land as well as land easements and transmission easements,
- stage II – the evaluation of each agreement identified in stage I in terms of its meeting the criteria to be recognised as a lease pursuant to IFRS 16,
- stage III - implementation of IFRS 16 based on the developed concept.
All agreements were subjected to analysis involving a finance lease, operating lease, rentals, leasing and perpetual usufruct rights to land as well as transmission easements and land easements. Also analysed were transactions involving purchased services (external service costs under operating activities) in terms of any occurrence of use of identified assets.
Under this project the Company carried out appropriate changes in accounting policy and operating procedures. Methods were developed and implemented for the proper identification of lease agreements and for gathering data needed in order to properly account for such transactions. Moreover, the Company is currently working to implement appropriate changes in the Company's IT systems to ensure they are properly adapted for the collection and processing of appropriate data.
The Company decided to apply the standard from 1 January 2019. In accordance with the transition rules described in IFRS 16, the new principles will be applied retrospectively, and the accumulated impact of initial application of the new standard will be recognised in equity as at 1 January 2019. Consequently, comparable data for financial year 2018 will not be restated (the modified retrospective approach).

Following are the individual adjustments arising from the implementation of IFRS 16.

Description of adjustments

a) Recognition of lease liabilities

Following the adoption of IFRS 16, the Company will recognise lease liabilities related to leases which were previously classified as "operating leases" in accordance with IAS 17 Leases. These liabilities will be measured at the present value of lease payments due to be paid as at the date of commencement of the application of IFRS 16. For purposes of disclosure with respect to the impact of implementation of IFRS 16, discounting was applied using the incremental borrowing rate of the Company as at 30 June 2018.

At their date of initial recognition, lease payments contained in the measurement of lease liabilities comprise the following types of payments for the right to use the underlying asset for the life of the lease:

- fixed lease payments less any lease incentives,
- variable lease payments which are dependent on market indices,
- amounts expected to be payable by the lessee under residual value guarantees,
- the strike price of a purchase option, if it is reasonably certain that the option will be exercised, and
- payment of contractual penalties for terminating the lease, if the lease period reflects that the lessee used the option of terminating the lease.

For the purposes of calculating the discount rate under IFRS 16, the Company assumed that the discount rate should reflect the cost of financing which would be drawn to purchase the object of a given lease. To estimate the amount of the discount rate, the Company considered the following contractual parameters: the type and life of an agreement, the currency applied and the potential margin which would have to be paid to a financial institution to obtain financing.

As at 30 June 2018, the discount rate calculated by the Company was within the following ranges (depending on the life of the agreement):

- for PLN-denominated agreements: from 3.28% to 5.03%
- for EUR-denominated agreements: 1.63%

The Company makes use of expedients with respect to short-term leases (less than 12 months) as well as in the case of leases in respect of which the underlying asset has a low value (less than PLN 20 000) and for which agreements the Company will not recognise financial liabilities nor any respective right-to-use assets. These types of lease payments will be recognised as costs using the straight-line method during the life of the lease.

b) Recognition of right-to-use assets

Right-to-use assets are measured at cost.

The cost of a right-to-use asset comprises:

- the initial estimate of lease liabilities,
- any lease payments paid at the commencement date or earlier, less any lease incentives receivable,
- initial costs directly incurred by the lessee as a result of entering into a lease agreement,
- estimates of costs which are to be incurred by the lessee as a result of an obligation to disassemble and remove an underlying asset or to carry out renovation/restoration.

c) Application of estimates

The implementation of IFRS 16 requires the making of certain estimates and calculations which effect the measurement of financial lease liabilities and of right-to-use assets. These include among others:

- determining which agreements are subject to IFRS 16,
- determining the life of such agreements (including for agreements with unspecified lives or which may be prolonged),
- determining the interest rates to be applied for the purpose of discounting future cash flows,
- determining depreciation rates.

d) Application of practical expedients

In applying IFRS 16 for the first time, the Company plans to apply the following practical expedients permitted by the standard:

- application of a single discount rate to a portfolio of leases with reasonably similar characteristics,
- operating lease agreements for which the remaining lease term is less than 12 months as at 1 January 2019 are treated as short-term leases,
- the option not to separate lease components from non-lease components for lease agreements comprising all classes of underlying assets with the exception of the machine and device class and of warehouses in respect of which the lease and non-lease components are identified,
- exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight (i.e. knowledge gained after the fact) in determining the lease term if the agreement contains options to prolong or terminate the lease.

amounts in PLN millions, unless otherwise stated

Impact on the statement of financial position

The impact of implementing IFRS 16 on the recognition of additional financial liabilities and respective right-to-use assets was estimated on the basis of agreements in force in the Company as at 30 June 2018 and is as follows:

	Estimated impact as at 1 January 2019
Right-to-use assets - mining and metallurgical property, plant and equipment	378
Lease liabilities	378

The Company estimates that the annual cost of short-term lease agreements and annual cost of lease agreements for low-value assets is immaterial.

Impact on financial ratios

Given the fact that the Company recognises nearly all of its lease agreements in its statement of financial position, the implementation of IFRS 16 by the Company will affect its balance sheet ratios, including the debt to equity ratio. Moreover, as a result of the implementation of IFRS 16 there may be a change in profit ratios (such as operating profit, EBITDA), as well as in cash flow from operating activities. The Company has analysed the impact of all of these changes in terms of compliance with covenants contained in credit agreements to which the Company is a party, and did not identify any risk of breaches in these covenants.

Note 1.2 Risk management

Commodity, currency and interest risk management in KGHM Polska Miedź S.A. was presented in part 1, note 4.7 of this report's consolidated financial statements.

amounts in PLN millions, unless otherwise stated

2 – Explanatory notes to the statement of profit or loss

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

	from 1 July 2018 to 30 September 2018	from 1 January 2018 to 30 September 2018	from 1 July 2017 to 30 September 2017	from 1 January 2017 to 30 September 2017
Europe				
Poland	1 060	3 065	1 059	3 044
Germany	549	1 556	526	1 567
The United Kingdom	574	1 342	408	1 378
Czechia	295	1 011	284	1 036
France	151	526	144	702
Hungary	157	521	181	528
Spain	154	456	-	(4)
Switzerland	137	387	189	564
Italy	153	373	136	302
Austria	52	176	52	178
Slovakia	23	81	18	63
Slovenia	17	53	16	50
Denmark	11	46	16	53
Finland	8	40	5	24
Romania	32	61	20	83
Sweden	7	30	10	34
Bosnia and Herzegovina	10	25	9	26
Other countries (dispersed sales)	9	31	9	23
North and South America				
The United States of America	35	111	77	292
Canada	-	-	1	1
Other countries (dispersed sales)	4	4	-	-
Asia				
China	599	1 181	498	1 327
Turkey	84	225	73	143
Taiwan	-	-	-	10
Japan	-	2	-	1
Singapore	-	-	-	3
Other countries (dispersed sales)	1	6	-	3
Africa	6	8	1	2
TOTAL	**4 128**	**11 317**	**3 732**	**11 433**

amounts in PLN millions, unless otherwise stated

Note 2.2 Expenses by nature

	from 1 July 2018 to 30 September 2018	from 1 January 2018 to 30 September 2018	from 1 July 2017 to 30 September 2017	from 1 January 2017 to 30 September 2017
Depreciation of property, plant and equipment and amortisation of intangible assets	288	868	261	792
Employee benefits expenses	835	2 519	782	2 346
Materials and energy, of which:	1 292	3 841	1 596	4 384
Purchased metal-bearing materials	701	2 178	1 059	2 818
Electrical and other energy	228	600	222	579
External services, including:	406	1 194	362	1 075
Transport	55	158	53	161
Repairs, maintenance and servicing	122	361	106	306
Mine preparatory work	120	362	114	321
Minerals extraction tax	397	1 297	438	1 309
Other taxes and charges	97	315	102	310
Other costs	22	66	29	89
Total expenses by nature	**3 337**	**10 100**	**3 570**	**10 305**
Cost of merchandise and materials sold (+)	40	132	40	147
Change in inventories of finished goods and work in progress (+/-)	170	(602)	(568)	(1 384)
Cost of manufacturing products for internal use (-)	(21)	(81)	(22)	(82)
Total costs of sales, selling costs and administrative expenses, including:	**3 526**	**9 549**	**3 020**	**8 986**
Cost of sales	3 290	8 895	2 794	8 365
Selling costs	29	81	27	83
Administrative expenses	207	573	199	538

amounts in PLN millions, unless otherwise stated

Note 2.3 Other operating income and (costs)

	from 1 July 2018 to 30 September 2018	from 1 January 2018 to 30 September 2018	from 1 July 2017 to 30 September 2017	from 1 January 2017 to 30 September 2017
Measurement and realisation of derivatives	20	111	2	227
Interest on loans granted and other financial receivables	62	188	68	252
Fees and charges on re-invoicing of costs of bank guarantees securing payments of liabilities	21	49	20	43
Reversal of impairment losses on financial instruments, including:	20	970	N/A*	N/A*
Reversal of allowances for impairment of loans due to restructuring of intra-group financing	-	778	N/A*	N/A*
Reversal of allowances for impairment of loans measured at amortised cost	18	189	N/A*	N/A*
Gains on changes in fair value of financial assets measured at fair value through profit or loss	11	170	N/A*	N/A*
Exchange differences on assets and liabilities other than borrowings	-	224	-	-
Dividends income	-	239	-	4
Other	21	65	18	49
Total other income	**155**	**2 016**	**108**	**575**
Measurement and realisation of derivatives	(79)	(198)	(112)	(269)
Impairment losses on financial instruments, including:	(2)	(809)	N/A*	N/A*
Losses due to initial recognition of POCI loans due to restructuring of intra-group financing	-	(763)	N/A*	N/A*
Allowances for impairment of loans	-	(44)	N/A*	N/A*
Losses due to fair value changes of financial assets measured at fair value through profit or loss	-	(118)	N/A*	N/A*
Exchange differences on assets and liabilities other than borrowings	(103)	-	(64)	(899)
Provisions recognised	(3)	(152)	(8)	(18)
Other	(17)	(80)	(16)	(78)
Total other costs	**(204)**	**(1 357)**	**(200)**	**(1 264)**
Other operating income and (costs)	**(49)**	**659**	**(92)**	**(689)**

** N/A – not applicable – items which were not measured in accordance with principles arising from the application, from 1 January 2018, of IFRS 9.*

amounts in PLN millions, unless otherwise stated

Note 2.4 Finance income and (costs)

	from 1 July 2018 to 30 September 2018	from 1 January 2018 to 30 September 2018	from 1 July 2017 to 30 September 2017	from 1 January 2017 to 30 September 2017
Exchange differences on borrowings	145	-	101	913
Measurement of derivatives	2	28	-	-
Total income	**147**	**28**	**101**	**913**
Interest on borrowings	(32)	(90)	(28)	(86)
Bank fees and charges on borrowings	(6)	(18)	(6)	(20)
Exchange differences on borrowings	-	(386)	-	-
Measurement of derivatives	-	-	(3)	(30)
Unwinding of the discount	(12)	(33)	(11)	(33)
Total costs	**(50)**	**(527)**	**(48)**	**(169)**
Finance income and (costs)	**97**	**(499)**	**53**	**744**

Note 2.5 Changes in working capital

	Inventories	Trade receivables	Trade payables	Working capital
As at 1 January 2018	(3 857)	(1 050)	1 882	**(3 025)**
As at 30 September 2018	(4 588)	(782)	1 612	**(3 758)**
Change in the statement of financial position	(731)	268	(270)	**(733)**
Depreciation recognised in inventories	45	-	-	**45**
Payables due to the purchase of property, plant and equipment and intangible assets	-	-	182	**182**
Adjustments	45	-	182	**227**
Change in the statement of cash flows	(686)	268	(88)	**(506)**

	Inventories	Trade receivables	Trade payables	Working capital
As at 1 January 2017	(2 726)	(676)	1 542	**(1 860)**
As at 30 September 2017	(4 154)	(700)	1 606	**(3 248)**
Change in the statement of financial position	(1 428)	(24)	64	**(1 388)**
Depreciation recognised in inventories	35	-	-	**35**
Payables due to the purchase of property, plant and equipment and intangible assets	-	-	117	**117**
Adjustments	35	-	117	**152**
Change in the statement of cash flows	(1 393)	(24)	181	**(1 236)**

amounts in PLN millions, unless otherwise stated

Note 2.6 Other adjustments in the statement of cash flows

	from 1 January 2018 to 30 September 2018	from 1 January 2017 to 30 September 2017
Losses on the sales of property, plant and equipment and intangible assets	24	19
Proceeds from income tax from the tax group companies	4	13
Reclassification of other comprehensive income to profit or loss due to the realisation of hedging instruments	(4)	(11)
Other	(1)	3
Total	**23**	**24**

Lubin, 14 November 2018