POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated quarterly report QSr 1 / 2018

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

For the first quarter of the financial year **2018** from **1 January 2018** to **31 March 2018** containing the interim condensed consolidated financial statements prepared under International Accounting Standard 34 in PLN, and interim condensed financial statements prepared under IAS 34 in PLN.

publication date: 15 May 2018

KGHM Polska Miedź Spółka Akcyjna
(name of the issuer)

KGHM Polska Miedź S.A.	**Basic materials**
(name of the issuer in brief)	(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 interim condensed consolidated financial statements of KGHM Polska Miedź S.A.

		in PLN mn		in EUR mn	
		1st quarter of 2018	**1st quarter of 2017**	**1st quarter of 2018**	**1st quarter of 2017**
I.	Revenues from contracts with customers	4 266	4 911	1 021	1 145
II.	Profit on sales	659	1 074	158	250
III.	Profit before income tax	661	1 031	158	240
IV.	Profit for the period	439	710	105	166
V.	Profit for the period attributable to shareholders of the Parent Entity	439	710	105	166
VI.	Profit for the period attributable to non-controlling interest	-	-	-	-
VII.	Other comprehensive net income	(103)	150	(25)	34
VIII.	Total comprehensive income	336	860	80	200
IX.	Total comprehensive income attributable to shareholders of the Parent Entity	337	863	80	201
X.	Total comprehensive income attributable to non-controlling interest	(1)	(3)	-	(1)
XI.	Number of shares issued (million)	200	200	200	200
XII.	Earnings per ordinary share attributable to shareholders of the Parent Entity	2.20	3.55	0.53	0.83
XIII.	Net cash generated from/(used in) operating activities	(11)	458	(3)	107
XIV.	Net cash used in investing activities	(678)	(650)	(162)	(152)
XV.	Net cash generated from/(used in) financing activities	608	(26)	146	(6)
XVI.	Total net cash flow	(81)	(218)	(19)	(51)
		1st quarter of 2018	**2017**	**1st quarter of 2018**	**2017**
XVII.	Non-current assets	26 735	26 515	6 353	6 357
XVIII.	Current assets	8 169	7 607	1 941	1 824
XIX.	Total assets	34 904	34 122	8 294	8 181
XX.	Non-current liabilities	10 774	10 878	2 560	2 608
XXI.	Current liabilities	5 929	5 459	1 409	1 309
XXII.	Equity	18 201	17 785	4 325	4 264
XXIII.	Equity attributable to shareholders of the Parent Entity	18 111	17 694	4 304	4 242
XXIV.	Equity attributable to non-controlling interest	90	91	21	22

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

		in PLN mn		in EUR mn	
		1st quarter of 2018	**1st quarter of 2017**	**1st quarter of 2018**	**1st quarter of 2017**
I.	Revenues from contracts with customers	3 206	3 896	767	908
II.	Profit on sales	520	1 065	124	248
III.	Profit before income tax	727	1 104	174	257
IV.	Profit for the period	530	805	127	188
V.	Other comprehensive net income	(124)	40	(30)	9
VI.	Total comprehensive income	406	845	97	197
VII.	Number of shares issued (million)	200	200	200	200
VIII.	Earnings per ordinary share	2.65	4.03	0.64	0.94
IX.	Net cash generated from/(used in) operating activities	(82)	547	(20)	128
X.	Net cash used in investing activities	(608)	(651)	(146)	(152)
XI.	Net cash generated from/(used in) financing activities	661	(8)	157	(2)
XII.	Total net cash flow	(29)	(112)	(8)	(26)
		1st quarter of 2018	**2017**	**1st quarter of 2018**	**2017**
XIII.	Non-current assets	25 056	25 071	5 954	6 011
XIV.	Current assets	6 424	5 876	1 526	1 409
XV.	Total assets	31 480	30 947	7 480	7 420
XVI.	Non-current liabilities	8 997	9 052	2 138	2 170
XVII.	Current liabilities	5 054	4 639	1 201	1 112
XVIII.	Equity	17 429	17 256	4 141	4 138

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Part 1 – Interim condensed consolidated financial statements

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		1st quarter of 2018	1st quarter of 2017
Note 3.3	Revenues from contracts with customers, including:	4 266	4 911
	from sales, for which the final price was not set at the end of the reporting period (IFRS 15, 114)	563	N/A*
Note 4.1	Cost of sales	(3 318)	(3 548)
	Gross profit	**948**	**1 363**
Note 4.1	Selling costs and administrative expenses	(289)	(289)
	Profit on sales	**659**	**1 074**
	Profit or loss on involvement in joint ventures – interest income on loans granted	81	82
Note 4.2	Other operating income and (costs), including:	(191)	(426)
	Interest income calculated using the effective discount rate method	2	N/A*
	Impairment losses on financial instruments	(2)	N/A*
Note 4.3	Finance income and (costs)	112	301
	Profit before income tax	**661**	**1 031**
	Income tax expense	(222)	(321)
	PROFIT FOR THE PERIOD	**439**	**710**
	Profit for the period attributable to:		
	Shareholders of the Parent Entity	439	710
	non-controlling interest	-	-
	Weighted average number of ordinary shares (million)	**200**	**200**
	Basic/diluted earnings per share (in PLN)	**2.20**	**3.55**

**N/A – not applicable – items in which the following did not occur in 2017: measurement in accordance with principles arising from the application, from 1 January 2018, of IFRS 9, and the disclosure requirement of IFRS 15.*

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	1st quarter of 2018	1st quarter of 2017
Profit for the period	**439**	**710**
Measurement of hedging instruments net of the tax effect	115	122
Measurement of available-for-sale financial assets net of the tax effect	N/A*	87
Exchange differences from the translation of statements of operations with a functional currency other than PLN	32	107
Other comprehensive income which will be reclassified to profit or loss	**147**	**316**
Measurement of equity financial instruments at fair value net of the tax effect	(103)	N/A*
Actuarial losses net of the tax effect	(147)	(166)
Other comprehensive income, which will not be reclassified to profit or loss	**(250)**	**(166)**
Total other comprehensive net income	**(103)**	**150**
TOTAL COMPREHENSIVE INCOME	**336**	**860**
Total comprehensive income attributable to:		
Shareholders of the Parent Entity	337	863
non-controlling interest	(1)	(3)

** N/A – not applicable – items which no longer occur due to the change in classification, from 1 January 2018, of equity financial instruments in accordance with IFRS 9.*

amounts in PLN millions, unless otherwise stated

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

		1st quarter of 2018	1st quarter of 2017
	Cash flow from operating activities		
	Profit before income tax	661	1 031
	Depreciation/amortisation recognised in profit or loss	350	371
	Interest on loans granted to joint ventures	(81)	(82)
	Interest and other costs of borrowings	34	44
	Impairment losses on non-current assets	10	-
	Exchange differences. of which:	(13)	132
	from investment activities and cash	136	504
	from financing activities	(149)	(372)
	Change in other receivables and liabilities	173	(44)
	Change in assets/liabilities due to derivatives	(59)	(92)
Note 4.12	Other adjustments	(17)	11
	Exclusions of income and costs, total	397	340
	Income tax paid	(167)	(416)
Note 4.11	Changes in working capital	(902)	(497)
	Net cash generated from/(used in) operating activities	**(11)**	**458**
	Cash flow from investing activities		
	Expenditures on mining and metallurgical assets	(601)	(562)
	Expenditures on other property, plant and equipment and intangible assets	(74)	(53)
	Other expenses	(34)	(44)
	Total expenses	(709)	(659)
	Proceeds	31	9
	Net cash used in investing activities	**(678)**	**(650)**
	Cash flow from financing activities		
	Proceeds from borrowings	1 131	762
	Other proceeds	1	-
	Total proceeds	1 132	762
	Repayments of borrowings	(492)	(746)
	Interest paid and other costs of borrowings	(32)	(42)
	Total expenses	(524)	(788)
	Net cash generated from/(used in) financing activities	**608**	**(26)**
	TOTAL NET CASH FLOW	**(81)**	**(218)**
	Exchange gains/(losses)	18	(18)
	Cash and cash equivalents at beginning of the period	**586**	**860**
	Cash and cash equivalents at end of the period	**523**	**624**

amounts in PLN millions, unless otherwise stated

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		1st quarter of 2018	2017
	ASSETS		
	Mining and metallurgical property, plant and equipment	16 305	16 296
	Mining and metallurgical intangible assets	1 456	1 447
	Mining and metallurgical property, plant and equipment and intangible assets	17 761	17 743
	Other property, plant and equipment	2 682	2 679
	Other intangible assets	221	209
	Other property, plant and equipment and intangible assets	2 903	2 888
	Joint ventures accounted for using the equity method	8	8
Note 4.6	Loans granted to joint ventures	3 895	3 889
Note 4.5	Total involvement in joint ventures	3 903	3 897
	Derivatives	213	110
	Other financial instruments measured at fair value	553	614
	Other financial assets	804	762
Note 4.6	Financial instruments, total	1 570	1 486
	Deferred tax assets	487	389
	Other non-financial assets	111	112
	Non-current assets	**26 735**	**26 515**
	Inventories	5 468	4 562
Note 4.6	Trade receivables, including:	1 192	1 522
	Trade receivables measured at fair value	542	N/A*
	Tax assets	213	277
Note 4.6	Derivatives	264	196
	Other financial assets	239	265
	Other assets	270	199
Note 4.6	Cash and cash equivalents	523	586
	Current assets	**8 169**	**7 607**
		34 904	**34 122**
	EQUITY AND LIABILITIES		
	Share capital	2 000	2 000
	Other reserves from measurement of financial instruments	(556)	158
	Accumulated other comprehensive income	2 313	2 427
	Retained earnings	14 354	13 109
	Equity attributable to shareholders of the Parent Entity	18 111	17 694
	Equity attributable to non-controlling interest	90	91
	Equity	**18 201**	**17 785**
Note 4.8	Borrowings	5 986	6 191
Note 4.6	Derivatives	178	208
	Employee benefits liabilities	2 234	2 063
	Provisions for decommissioning costs of mines and other technological facilities	1 328	1 351
	Deferred tax liabilities	431	347
	Other liabilities	617	718
	Non-current liabilities	10 774	10 878
Note 4.8	Borrowings	1 673	965
Note 4.6	Derivatives	75	110
Note 4.6	Trade payables	1 476	1 823
	Employee benefits liabilities	1 110	842
	Tax liabilities	623	630
	Other liabilities	972	1 089
	Current liabilities	5 929	5 459
	Non-current and current liabilities	**16 703**	**16 337**
		34 904	**34 122**

** 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

INTERIM 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**
	Profit for the period	**-**	-	-	710	**710**	-	**710**
	Other comprehensive income	-	209	(56)	-	**153**	(3)	**150**
	Total comprehensive income	-	209	(56)	710	**863**	(3)	**860**
	As at 31 March 2017	**2 000**	**26**	**2 160**	**12 449**	**16 635**	**136**	**16 771**
	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**
	Profit for the period	-	-	-	439	**439**	-	**439**
	Other comprehensive income	-	12	(114)	-	**(102)**	(1)	**(103)**
	Total comprehensive income	-	12	(114)	439	**337**	(1)	**336**
	As at 31 March 2018	**2 000**	**(556)**	**2 313**	**14 354**	**18 111**	**90**	**18 201**

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.

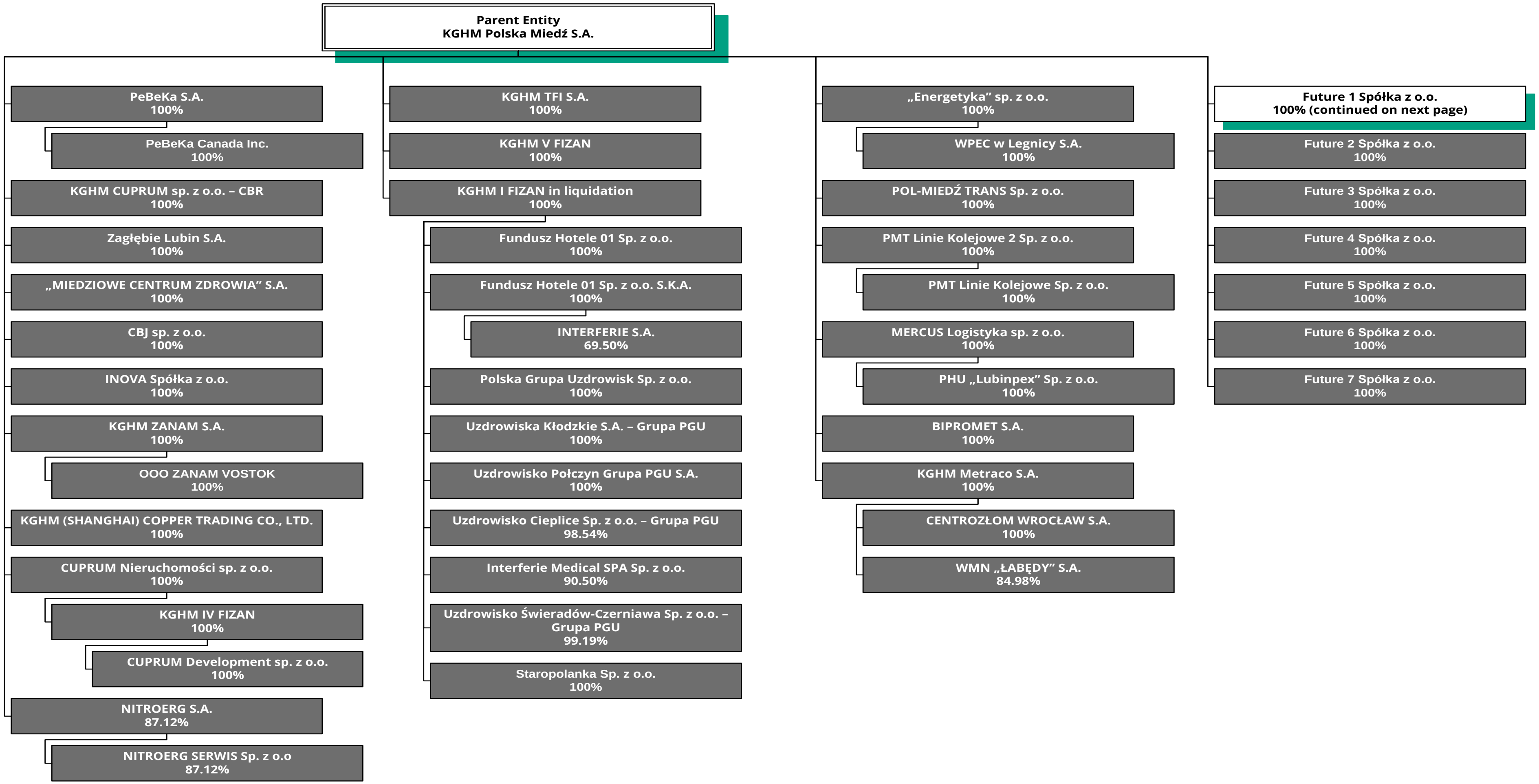
The business activities of the Group include:

- the mining of copper and non-ferrous metals ores;
- the mined production of metals, including copper, nickel, 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.

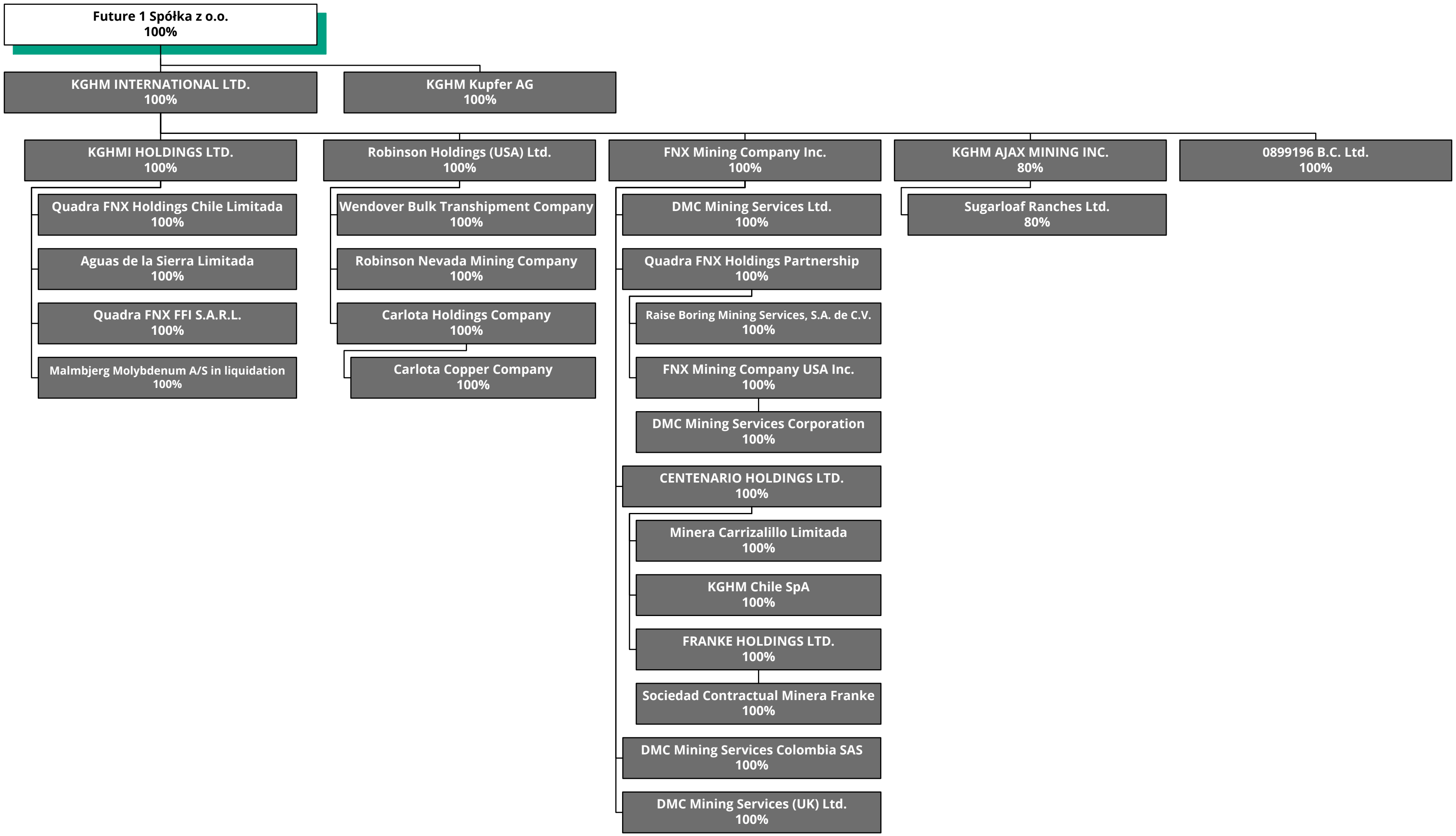
The KGHM Polska Miedź S.A. Group carries out exploration and mining of copper, nickel and precious metals based on concessions given for Polish deposits to KGHM Polska Miedź S.A., and also based on legal titles held by companies of the KGHM INTERNATIONAL LTD. Group for the exploration for and mining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

Note 1.2 Structure of the KGHM Polska Miedź S.A. Group as at 31 March 2018

In the current quarter KGHM Polska Miedź S.A. consolidated 74 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%
Robinson Holdings (USA) Ltd.
100%
FNX Mining Company Inc.
100%
KGHM AJAX MINING INC.
80%
0899196 B.C. Ltd.
100%
Quadra FNX Holdings Chile Limitada
100%
Aguas de la Sierra Limitada
100%
Quadra FNX FFI S.A.R.L.
100%
Malmbjerg Molybdenum A/S in liquidation
100%
Wendover Bulk Transhipment Company
100%
Robinson Nevada Mining Company
100%
Carlota Holdings Company
100%
Carlota Copper Company
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%
Sugarloaf Ranches Ltd.
80%

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 ***4.1784 EURPLN*,***
- for the conversion of turnover, profit or loss and cash flow for the comparable period, the rate of ***4.2891 EURPLN*,***
- for the conversion of assets, equity and liabilities at 31 March 2018, the current average exchange rate announced by the National Bank of Poland (NBP) as at 30 March 2018, of ***4.2085 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 March 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 interim condensed consolidated financial statements of the KGHM Polska Miedź S.A. Group for the period from 1 January to 31 March 2018 and the comparable period from 1 January to 31 March 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 31 March 2018 and the comparable period from 1 January to 31 March 2017 **(Part 2)**.

Neither the interim consolidated financial statements as at 31 March 2018 nor the interim separate financial statements as at 31 March 2018 were subject to audit by a certified auditor.

The condensed consolidated financial report for the period from 1 January 2018 to 31 March 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.

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.

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

IFRS 9 Financial Instruments

As part of the implementation of IFRS 9, the Group performed a framework analysis of impact of the 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 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 a business model for financial assets management and on the nature of the contractual cash flows (SPPI test) from 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 and cash and cash equivalents.
Financial assets measured at amortised cost are stated at amortised cost determined using the effective interest rate method, less allowance for impairment. Trade receivables with the 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 they are measured at nominal value. In the case of purchased or originated credit-impaired (POCI) 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. a debt financial asset, if the following conditions are met:
    - it is held within the business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
    - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (i.e. the SPPI test was passed),
2. an equity instrument, which at initial recognition was irrevocably elected to be classified to this category. The option of 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.

The Group classifies the following assets to the category **assets measured at fair value through profit or loss:** 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 income on dividends received).

Also classified to **financial hedging instruments** are financial assets and financial liabilities representing derivatives designated and qualifying for hedge accounting, measured at fair value that accounts for 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 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 loss 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 liabilities due to 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 the instrument lifetime, but estimates the expected credit loss in the horizon to the instrument's maturity.

In order to estimate the 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.

The Group considers default payment where receivable balance is 90 days past due.
Under the applied ECL parameters estimation model the Group accounts for the information regarding future, 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 a loss 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.

The impairment loss 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 loss 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 an impairment gain 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. Gains (reversals of impairment loss) due to a decrease in the amount of the expected credit loss are recognised in other operating 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 which 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.

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 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, with the provision that with respect to the last two elements, the Group may each time select the method of recognition (through equity or directly to profit or loss).

amounts in PLN millions, unless otherwise stated

The ineffective portion of a hedge is taken to the profit or loss as other operating income or other operating cost (in case of hedges of cash flows from operating activities), and as finance income or finance costs (in case of hedges of cash flows from financing activities).

Gains and losses originating from cash flow hedges are taken to the 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 and currency margin, the reclassification from equity (from other comprehensive income) to profit or loss (as other operating income or other operating cost for hedges of cash flows from operating activities, and as finance income or finance costs for hedges of cash flows from financing activities) is accounted for 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 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 following table summarises 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**	**Carrying amount per IFRS 9**	**Reference**
Financial assets			**31 December 2017**	**1 January 2018**	
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)

amounts in PLN millions, unless otherwise stated

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 by the Group. These instruments were not purchased in order to be traded, and due to the above, 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 the 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 and therefore 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 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) and therefore are measured at fair value through profit or loss, as well as trade receivables priced upon M+ formula, which did not pass the SPPI test 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) For trade receivables 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 for receivables, in the item “Other financial assets”, while the liabilities are presented in the item “Other liabilities”.

For the remaining categories of financial instruments there were no changes arising from changes in classification or changes in measurement.

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	3 683	(3 683)	-	-
Credit impaired loans granted (POCI)	-	3 660	-	-
Trade receivables	47	-	17	64
Total	**3 730**	**(23)**	**17**	**64**
Loans and receivables (IAS 39) / Financial assets at fair value through profit or loss (IFRS 9)				
Loans granted	-	23	-	-
Total	-	23	-	
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 framework analysis of impact of the 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 a standard as a correction 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 the Group's entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer, which is when the customer obtains control of that good or service., 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 accordance with the applied INCOTERMS principles), if it is probable that the economic benefits associated with the transaction will flow to the Group.

Revenues from the sale of services are recognised in profit or loss over time, if it is probable that the economic benefits associated with the transaction will flow to the Group and if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group entity's performance as the entity performs, or
- the Group entity's performance 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 does not create an asset with 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 component, which is determined based on the contractual payment terms, regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract. In particular, a financing component 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. Revenues from sales transactions, for which the final price was not set at the end of the reporting period, were presented in the consolidated statement of profit or loss (among others, priced upon the M+ formula).
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 contract 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 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) USD 400, increased by 1% in each year beginning from 2011, 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 an 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 and 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 period 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 component
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 to the purchaser (Franco Nevada), and as a result the contract includes a significant financing component.
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 change in measurement	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 (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 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 – Liability 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 corrections		-	-	(19)	(19)	(171)	152	(19)
Total impact						**806**	**(726)**	**80**

2 – Implementation of strategy

Implementation of the Parent Entity's Strategy in the first quarter of 2018

KGHM Polska Miedź S.A.'s strategy for the years 2017-2021 with an outlook to 2040 is based on the slogan "*To always have copper*", and its vision is "*To use our resources efficiently to become a leader in sustainable development*". Activities undertaken from 2017 are guided by these two slogans, and they are aimed at achieving the primary, expressed quantitatively, goal of achieving the EBITDA at the level of PLN 7 billion in 2021 as well as an EBITDA margin for the Group exceeding 20% on average in the years 2017 – 2021.

In 2017, the EBITDA of the Group, the EBITDA of KGHM Polska Miedź S.A. and the EBITDA margin of the Group were higher than planned in the budget. Higher than planned results concerned the entire KGHM Polska Miedź S.A. Group, KGHM Polska Miedź S.A. most of all, mainly due to the higher operating income which was due to the higher metals prices. Based on the realisation of Strategy in 2017, as well as actions undertaken in the first quarter of 2018, the most significant challenges facing the Company in 2018 were identified:

<u>Challenges facing the Company in 2018</u>**:**

In the first quarter of 2018, as part of the advancement of the Strategy, the Company continued actions aimed at implementing the „Concept and management model for sustainable growth in KGHM Polska Miedź S.A." prepared at the end of 2017. An important step was the appointment of a Sustainable Growth Council under the leadership of the Vice President (Development). The Council is comprised of representatives of various substantive areas of KGHM Polska Miedź S.A., related in some manner with the concept of sustainable growth. The goal of the Council is to unite under a single goal – uniting business activities which is the pursuit of sustainable growth. From the moment the Council started its activities, it has undertaken the development and adoption of, among others, the „Declaration of Human Rights Protection" and the „Declaration of Diversity".

An important change adopted in the context of managing the Company's Strategy is to select, amongst the defined projects and tasks, Strategic Programs. The selection of these Programs, which assist in achieving the key goals of the Strategy of KGHM Polska Miedź S.A. by assigning to them a strategic character, enables attention to be focused on tasks which create the greatest value for the Company. It also enables them to be more effectively managed as well as the monitoring of their progress. To date, four Strategic Programs have been selected:

Name of Strategic Program	Description
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. Advancement of this Program will create conditions enabling the Company to achieve the following benefits: • minimisation of the impact of metallurgical technology on the environment; • adaptation of metallurgical technology to BAT and environmental protection requirements; • ensuring that equipment related to environmental protection remains fully operational; • limitation of public dissatisfaction and fears with respect to arsenic emissions on the health of people living in Głogów and Legnica, given the need for acceptance by local communities for on-going industrial operations, as well as the Company's further investment plans; and • the creation of its own know-how with respect to „clean" metallurgical copper production technology enabling sustainable growth. The Program is part of the global Business Strategy of KGHM and of the Corporate Social Responsibility Strategy (CSR) – aimed at protecting the environment, increasing occupational safety and promoting KGHM as a company operating in conformance with the principles of sustainable growth.
Metallurgy Development Program	The Metallurgy Development Program 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. Achievement of the goal of this Program requires advancement of the following tasks: • maintaining production capacity by adapting the organic carbon roasting installation and modernising electrorefining at the Głogów Copper Smelter and Refinery, • limiting the use of natural gas and reducing CO_2 emissions from the burning of natural gas, • optimising the use of recovered chemical energy from the concentrates of KGHM in technological processes, and • adapting roadway and power infrastructure to ensure electricity supply and adapting existing facilities and equipment to the needs of the new Flash Furnace technology.
Deposit Access Program	The Deposit Access Program directly supports the Company's strategic goals by developing the core business operations, investing in mine assets, maximising revenues by concentrating on the further development of deep mining technology and by developing the resource base in the region. The goal of the Program is to achieve results in the form of creating conditions which ensure that mine production will be maintained at the level set in the Production Plan of KGHM Polska Miedź S.A. and by creating conditions 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. The Deposit Access Program is comprised of the following: • Mine Projects Group • Shaft Projects Group • Climatisation Control Projects Group

amounts in PLN millions, unless otherwise stated

KGHM 4.0 Program	The KGHM 4.0 Program is a venture which directly 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. It arises directly from the existing Strategy of KGHM Polska Miedź S.A., where as part of the Executory Strategy called Coherent Organisation it will support its operational goal, which is to optimise the organisation and costs of the value chain. The KGHM 4.0 Program assumes the advancement of composite projects aimed at the unified management of production and the utilisation of data in order to improve productivity and efficiency. Ventures undertaken within the framework of the KGHM 4.0 Program are split into ICT (Information and Communication Technologies) Area projects, Industry Area projects and Support Area projects.

In subsequent months of 2018 further Strategic Programs are planned for commencement, aimed at further optimisation of management of the Strategy and its key projects and tasks.

Execution of the main strategic tasks in the first quarter of 2018

Under the existing Strategy the following projects were advanced in individual strategic areas:

Regional exploration program of KGHM Polska Miedź S.A. regarding the exploration and documentation of copper deposits in the Lower Zechstein formation located in south-western Poland:

Radwanice- Gaworzyce	-	Work is currently underway in the Radwanice Wschodnie and Gaworzyce areas of the deposit. In the other parts of the deposit, due to the substantial lack of homogeneity in mining and geological conditions, in the areas Radwanice-Zachód and Radwanice Północ planned work involves exploration using underground mining regions in areas of mineralised copper. The date for commencing these operations depends on the progress of mining in the areas Sieroszowice and Radwanice Wschodnie, and is expected to be around the year 2024.
Synklina Grodziecka and Konrad	-	Technical and economic analyses carried out which were reviewed by independent experts indicated lack of justification at the present time for advancing this investment. Given the fact that the costs associated 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 may have an impact on the dewatering costs model. Administrative proceedings are underway with respect to the possibility of continuing geological work under the Synklina Grodziecka concession.
Retków-Ścinawa and Głogów	-	The Company is continuing to advance stage 2 of the work to explore and evaluate the Retków-Ścinawa concession, under which three exploratory drillholes have been sunk to date. Currently being pursued are administrative actions and preparatory-organisational work related to commencing subsequent exploratory drillings within the Retków-Ścinawa area as well as commencing stage 2 work within the Głogów concession.

Exploration projects in the preparatory phase:

Bytom Odrzański, Kulów-Luboszyce	-	Due to a judgement of the Supreme Administrative Court, which dismissed cassation appeals regarding the decisions on the Bytom Odrzański and Kulów-Luboszyce concessions, the Minister of the Environment commenced administrative proceedings with respect to granting concessions for the disputed areas.

Other concessions:

Puck region	-	Based on a new reinterpretation of this region's geological construction as well as on an economic and technical feasibility study of the potassium-magnesium salt deposits, reflecting the mine model and processing technology, a decision was taken to continue further geological work. In the first quarter of 2018, another drillhole was sunk.

Key development projects of the Core Business in Poland:	
Deposit Access Program (Deep Głogów)	- Work continued on the sinking of the GG-1 shaft (the shaft's target depth is 1 350 meters with a diameter of 7.5 meters). Completion of the shaft's construction, after reflecting a change in function to that of a transport-material shaft, together with infrastructure (social buildings, parking lots and lift machinery) is planned for the start of 2024. - With respect to the Construction of a Central Air Conditioning System (CAS) at the GG-1 Shaft, contracts were signed with a contractor for the following: Construction of a tri-generation Surface-based Central Air Conditioning System and Construction of an Ice Water Transportation System for the CAS. KGHM Cuprum Sp. z o.o. (sub-contractor of PeBeKa S.A. for design work) prepared the following: • A design concept for the Ice Water Transportation System to transport ice water in the amount of up to 2x 700 m3/h for two three-chambered feeders (one for the Polkowice–Sieroszowice mine and one for the Rudna mine) using piping in the drillholes (4 drillholes from the surface to the mine at the depth of 1250 meters), • A design concept for stage 1 of the SAS air conditioning station capable of 30 MWt in trigeneration mode with recovery of heat from the ice water recycled from the mines and recovery of heat from the cooling of natural gas engines and exhaust cooling with a total heating capacity of approx. 23 MWt (total coverage of the heating needs of the GG-1 shaft). - During the reporting period, preparatory work continued related to obtaining construction permits for facilities required to sink the GG-2 („Odra") shaft. Work continues on the next stage of design work on the project concept for the „Odra" shaft. - In the first quarter of 2018, a total of 11 015 meters of access and preparatory tunneling were built to advance the project using EM (explosive material) technology.
Pyrometallurgy Modernisation Program at the Głogów Copper Smelter and Refinery together with production line maintenance at the Głogów II Copper Smelter and Refinery	Production at the Głogów Copper Smelter and Refinery proceeded with no interruptions: - Production by the flash furnace of the Głogów I Copper Smelter and Refinery was stabilised. Nearing completion were settlement procedures and the final handovers of contracts and orders with respect to the Pyrometallurgy Modernisation Program. - The metallurgical complex of the Głogów II Copper Smelter and Refinery was prepared for the planned maintenance shutdown in the second quarter of 2018.
Metallurgy Development Program (MDP)	- Construction and assembly work was carried out on technological links under the program's key investment tasks, i.e. construction of a Steam Drier at the Głogów II Copper Smelter and Refinery. Assembly work is underway and at the same time work commenced on the start-up stage of the drying equipment. - In order to start operations by the copper concentrate roasting installation at the Głogów I Copper Smelter and Refinery it is necessary to modify the installation. Towards this end a schedule of work has been established which calls for the completion of adaptation work for the third quarter of 2018. - With respect to projects related to adapting technical infrastructure to changes in the metallurgical technology at Głogów I Copper Smelter and Refinery, primary work was completed. Work continues on procedures involving final handovers and settlements, as well as obtaining administrative decisions. - With respect to modernisation of the Tank Hall at Głogów I Copper Smelter and Refinery, technical documentation is being developed to renovate the Hall's roof and walls. - Conversion of electrolite cleaning building OE1 is in progress. The major part of the construction work has been completed. Work is underway on handing over the quality and handover documentation and on obtaining a building permit. Estimated completion is planned for the second quarter of 2018. - With respect to projects related to the scrap loading installation, documentation was prepared, while the decision was made not to proceed with the smelting of scrap in the form of compressed cubes.
Increasing cathode production at the Legnica Copper Smelter and Refinery to 160 kt/year	- Work continues on the Project "Construction of a Reverberatory-Melting-Refining Furnace (RMR) at the Legnica Copper Smelter and Refinery". In the first quarter of 2018, Bipromet supplied complete documentation for the construction of the RMR furnace and associated equipment. The Legnica Copper Smelter and Refinery presented its concerns to the documentation and is awaiting revision of the project.

(RMR+ISA)	-	Due to changes in the project, the planned date of completion is December 2018.
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 Parent Entity.
	-	In March 2018 a building permit was issued for the Southern Quarter. Planned commencement of construction is May 2018. Construction of the Southern Quarter will enable the additional deposition of waste tailings in the amount of 170 million m^3.

Development of international assets:

Victoria Project (Sudbury Basin, Canada) *KGHM Polska Miedź S.A. Group 100%*	-	In the first quarter of 2018, with respect to design work, the project team continued work related to securing existing infrastructure and project terrain. Required permits for the project were also reviewed, mainly with respect to planned work related to the construction of selected elements of the project's infrastructure.
Sierra Gorda Oxide Project (Chile) *KGHM INTERNATIONAL LTD. Group 100%. Sumitomo Metal Mining and Sumitomo Corporation hold an option to in total acquire a 45% stake in the project.*	-	In the first quarter of 2018, work continued related to verification of selected assumptions and options of the project, aimed mainly at analysing the possibility of preparing the ore for heap leaching.
Ajax Project (British Columbia, Canada) *KGHM Polska Miedź S.A. Group 80%, Abacus Mining and Exploration Corp. 20%*	-	In December 2017, the Ministry of Environment and the Ministry of Energy, Mines and Petroleum Resources of British Columbia (provincial authorities) decided against the granting of an Environmental Assessment Certificate for the Ajax project. The Federal Minister of Environment and Climate Change Strategy forwarded the project to the Canadian Ministry of Fisheries, Oceans and the Ministry of Natural Resources. At present an environmental decision is awaited at the federal level.

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 quarter of 2018 amounted to 21.8 thousand tonnes, while production of molybdenum in concentrate amounted to 7.2 million pounds. These amounts are on a 100% basis.
	-	Work continued related to optimising the processing of the sulphide ore. The actions taken were aimed at stabilising the volume and technological parameters of the ore processing process. The tasks undertaken concentrated on stabilising the processing installation and increasing metal recovery.
	-	At present work is aimed at developing the mine based on phase I of the investment along with actions aimed at optimising the production line, which should lead to increased production capacity.
Maintaining production from own concentrate	-	In the first quarter of 2018, preparatory work continued on commencing mining in new areas of the deposits as part of the Deposit Access Program.
	-	Under the Deposit Access Program, work continued on sinking the GG-1 ventilation (material-transport) shaft. Preparatory work continued related to obtaining construction permits for facilities required to sink the GG-2 („Odra") shaft.
	-	Construction began on the Air Conditioning Station at the GG-1 shaft with a cooling capacity of 30 MW with recovery of heat for social and technical needs.
	-	In the first quarter of 2018, 11 015 meters of tunnel in the Rudna and Polkowice-Sieroszowice mines were built with required technical infrastructure. Their main goal is to provide access and to prepare new mining fields and to connect the GG-1 shaft to the ventilation network, which will significantly improve operating conditions from the 1 200 meter level and below.

amounts in PLN millions, unless otherwise stated

Improving efficiency in the core business in Poland	-	In the first quarter of 2018, work continued on initiatives aimed at improving resource management effectiveness in the mines and metallurgical plants of KGHM Polska Miedź S.A., at the same time enabling limitation of cost increases by: • more efficient utilisation of resources (3D deposit modeling), • increasing extraction and the production of copper in concentrate, • optimising management of underground machines, • advancing the energy savings program, and • optimising the level of employment. The initiatives are being carried out in accordance with adopted assumptions, with the exception of optimising management of underground machines, which was interrupted by limiting expenditures on the purchase of mining vehicles in 2016 by 40% and extending their useful lives. As the result of the above, in order to maintain the machines in a proper condition, there was an increase in repair and maintenance costs for underground machines by approx. PLN 4.6 million in the first quarter of 2018 as compared to the first quarter of 2017.
Improvement in occupational health and safety	-	In the first quarter of 2018, there were no recorded instances of fatal accidents in the Company nor of any serious injuries. There was a significant decrease in the level of accidents from so-called mining-related causes.
	-	The $LTIFR_{KGHM}$ (Lost Time Injury Frequency Rate KGHM) in the first quarter of 2018, (or the total number of workplace accidents per million hours worked for the entire core business of KGHM Polska Miedź S.A.) reached a level similar to that recorded in 2017 – 9.3.
	-	In the first quarter of 2018, the Company continued work involving implementation of the multi-year Occupational Health and Safety Program in KGHM Polska Miedź S.A., enriching it with new, valuable initiatives related among others to the following: the mine program „An efficient employee in a challenging workplace", the modification of OHS training (preliminary and periodic), periodic internal audits in individual Divisions, preparing reconstructions of selected accidents in the Divisions of KGHM Polska Miedź S.A., unsafe events and instruction films. The Company continued to push forward the vision 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	-	The Company, together with international consortiums, submitted the following proposals for financing (project documentation in English): • Operation monitoring of mineral crushing machinery for KIC Raw Materials; • Optimized and controlled process water management in sulphide ore processing for KIC Raw Materials; • Autonomous Monitoring and Control System for Industrial Plants and Raw Materials for KIC Raw Materials; • Use of organosolv lignin hydrophobic nanoparticles as biodegradable flotation collectors for KIC Raw Materials; • Breakthrough concepts and solutions for sustainable exploration, mining and/or processing for Horizon 2020.
	-	R&D Projects focused on developing and implementing innovative technological and organisational solutions are being continued, enabling an improvement in efficiency, occupational safety and ensuring uninterrupted production.
	-	With respect to the Horizon 2020 Program, the Company is participating in two research projects: BIOMORE and INTMET.
	-	The AMCO project continues under the auspices of EIT KIC RawMaterials, aimed at producing and introducing to the market an innovative, cheap and user-friendly automated microscope system for analysing ore, to improve geometallurgical productivity.
	-	Stage 1 of the interdisciplinary pilot Program of Implementation Doctorates (Program Doktoratów Wdrożeniowych) for the employees of KGHM Polska Miedź S.A. was completed, in fulfilment of a ministerial competition under the second edition of the program of Implementation Doctorates (program „Doktorat wdrożeniowy").

amounts in PLN millions, unless otherwise stated

CuBR Program	- 21 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. - The fourth CuBR competition has begun. The subject of the competition is closed-circuit management. The acceptance of applications will end on 27 June 2018. - Work was completed on a Project involving innovative methods to access deep copper ore deposits. In the near future the financial and substantive aspects of the entire Project will be completed, following which the Company will make a decision as to the eventual implementation of the developed solutions.
Information technology necessary to gather and transfer knowledge within the Group	- Development of key IT tools supporting Knowledge Management in the KGHM Group: • Expansion of the strategic CRPBR Repository II to include the companies CBJ Sp. z o.o. and KGHM Cuprum Sp. z o.o. - CBR • Granting Search engine access to these companies • Expansion of the functionality and editing of the IT platform WIEDZA (knowledge) - Work commenced to expand the functionality of CRPBR II – providing the opportunity to electronically submit offers in the area of R&D - Work continues on building the workflow system, with respect to the electronic process of information flow regarding providing opinions and approval of the „Bids Folder" in the CRPBR II Repository - Commencement of two strategic projects under the KGHM 4.0 Program: • SEARCH KGHM 4.0 information search system. The goal of the project is to develop and implement by 31 December 2020 an operational search engine platform called Search KGHM for processed business and services data. • Tools supporting Knowledge Management - „INFORMACJA SZUKA CZŁOWIEKA" (INFORMATION SEARCHING FOR HUMANS). Development and implementation by 20 October 2020 under the search engine platform tools supporting the management of accumulated knowledge as well as business processes based on the taxonomy and algorithms of analytical search engine models, process support.

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 directly 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.
Greenland	Malmbjerg Molybdenum A/S in liquidation
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, 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

		1st quarter of 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	Adjustments****	Consolidated financial statements
Note 3.3	**Revenues from contracts with customers, of which:**	**3 206**	**609**	**481**	**1 650**	(481)	(1 199)	4 266
	- inter-segment	79	-	-	1 097	-	(1 176)	-
	- external	3 127	609	481	553	(481)	(23)	4 266
	Segment result	**530**	**29**	**(123)**	**16**	**123**	**(136)**	**439**
	Additional information on significant revenue/cost items of the segment							
	Depreciation/amortisation recognised in profit or loss	(251)	(44)	(135)	(57)	135	2	(350)
		1st quarter of 2018						
	Assets, including:	**31 480**	**7 823**	**7 985**	**5 345**	**(7 985)**	**(9 744)**	**34 904**
	Segment assets	31 480	7 823	7 985	5 345	(7 985)	(9 790)	34 858
	Joint ventures accounted for using the equity method	-	-	-	-	-	8	8
	Assets unallocated to segments	-	-	-	-	-	38	38
	Liabilities, including:	**14 051**	**12 551**	**11 174**	**1 942**	**(11 174)**	**(11 841)**	**16 703**
	Segment liabilities	14 051	12 551	11 174	1 942	(11 174)	(11 864)	16 680
	Liabilities unallocated to segments	-	-	-	-	-	23	23
	Other information	1st quarter of 2018						
	Cash expenditures on property, plant and equipment and intangible assets	571	133	139	59	(139)	(88)	675
	Production and cost data	1st quarter of 2018						
	Payable copper (kt)	110.8	20.1	12.0				
	Molybdenum (million pounds)	-	0.1	4.0				
	Silver (t)	239.3	0.3	3.2				
	TPM (koz t)	18.3	15.8	4.6				
	C1 cash cost of producing copper in concentrate (USD/lb)**	1.74	1.89	1.43				
	Adjusted EBITDA	**771**	**168**	**163**	**72**	**-**	**-**	**1 174**
	EBITDA margin* **	**24%**	**28%**	**34%**	**4%**	**-**	**-**	**25%**

* 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 contracts with customers. For the purposes of calculating the Group's EBITDA margin (29%), the consolidated revenues from contracts with customers were increased by revenues from contracts with customers of the segment Sierra Gorda S.C.M. [1 174 / (4 266 + 481) * 100]
**** Adjustments arise from consolidation eliminations and financial data of companies unallocated to any segment.

Financial results of reporting segments for the comparable period

		1st quarter of 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	Adjustments****	Consolidated financial statements
Note 3.3	**Revenues from contracts with customers, of which:**	**3 896**	**580**	**459**	**1 608**	**(459)**	**(1 173)**	**4 911**
	- inter-segment	81	-	-	1 075	-	(1 156)	-
	- external	3 815	580	459	533	(459)	(17)	4 911
	Segment result	**805**	**(160)**	**(143)**	**46**	**143**	**19**	**710**
	Additional information on significant revenue/cost items of the segment							
	Depreciation/amortisation recognised in profit or loss	(239)	(76)	(88)	(58)	88	2	(371)
		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	**1st quarter of 2017**						
	Cash expenditures on property, plant and equipment and intangible assets	611	83	147	46	(147)	(125)	615
	Production and cost data	**1st quarter of 2017**						
	Payable copper (kt)	130.6	17.2	14				
	Molybdenum (million pounds)	-	0.1	4.8				
	Silver (t)	293.5	0.4	4.0				
	TPM (koz t)	33.5	14.5	6.3				
	C1 cash cost of producing copper in concentrate (USD/lb)**	1.33	2.35	1.94				
	Adjusted EBITDA	**1 304**	**75**	**122**	**80**	**-**	**-**	**1 581**
	EBITDA margin* **	**33%**	**13%**	**27%**	**5%**	**-**	**-**	**29%**

* 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 contracts with customers. For the purposes of calculating the Group's EBITDA margin (29%), the consolidated revenues from contracts with customers were increased by revenues from contracts with customers of the segment Sierra Gorda S.C.M. [1 581 / (4 911 + 459) * 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	1st quarter of 2018			
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments
Profit/(loss) for the period	**530**	**29**	**(123)**	**16**
[-] Share of losses of joint ventures accounted for using the equity method	-	-	-	-
[-] Current and deferred income tax	(197)	(5)	37	(10)
[-] Depreciation/amortisation recognised in profit or loss	(251)	(44)	(135)	(57)
[-] Finance income and (costs)	124	(167)	(184)	(3)
[-] Other operating income and (costs)	83	77	(4)	14
[=] EBITDA	771	168	163	72
[-] Recognition/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	-	-	-
Adjusted EBITDA	**771**	**168**	**163**	**72**

	1st quarter of 2018			
Profit/(loss) on sales (EBIT)	**520**	**124**	**28**	**15**
[-] Depreciation/amortisation recognised in profit or loss	(251)	(44)	(135)	(57)
[=] EBITDA	771	168	163	72
[-] Recognition/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	-	-	-
[=] Adjusted EBITDA	**771**	**168**	**163**	**72**

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

Reconciliation of adjusted EBITDA	1st quarter of 2017			
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments
Profit/(loss) for the period	**805**	**(160)**	**(143)**	**46**
[-] Share of losses of joint ventures accounted for using the equity method	-	-	-	-
[-] Current and deferred income tax	(299)	(8)	34	(10)
[-] Depreciation/amortisation recognised in profit or loss	(239)	(76)	(88)	(58)
[-] Finance income and (costs)	309	(246)	(209)	-
[-] Other operating income and (costs)	(270)	95	(2)	34
[=] EBITDA	1 304	75	122	80
[-] (Recognition)/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	-	-	-
Adjusted EBITDA	**1 304**	**75**	**122**	**80**

	1st quarter of 2017			
Profit/(loss) on sales (EBIT)	**1 065**	**(1)**	**34**	**22**
[-] Depreciation/amortisation recognised in profit or loss	(239)	(76)	(88)	(58)
[=] EBITDA	1 304	75	122	80
[-] (Recognition)/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	-	-	-
[=] Adjusted EBITDA	**1 304**	**75**	**122**	**80**

* 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

1st quarter of 2018

	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: Consolidation adjustments	Consolidated data
Copper	2 525	365	262	1	(262)	(5)	**2 886**
Silver	392	5	6	-	(6)	-	**397**
Gold	91	43	23	-	(23)	-	**134**
Services	22	157	-	446	-	(327)	**298**
Other	176	39	190	1 203	(190)	(867)	**551**
TOTAL	**3 206**	**609**	**481**	**1 650**	**(481)**	**(1 199)**	**4 266**

1st quarter of 2017

	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: Consolidation adjustments	Consolidated data
Copper	2 916	374	314	2	(314)	(24)	**3 268**
Silver	560	8	9	-	(9)	-	**568**
Gold	153	35	30	-	(30)	-	**188**
Services	33	118	-	453	-	(362)	**242**
Other	234	45	106	1 153	(106)	(787)	**645**
TOTAL	**3 896**	**580**	**459**	**1 608**	**(459)**	**(1 173)**	**4 911**

* 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

	1st quarter of 2018	1st quarter of 2017
Europe		
Poland	1 347	1 382
Germany	435	543
The United Kingdom	406	462
Czechia	373	396
France	216	389
Hungary	192	191
Switzerland	131	181
Italy	89	61
Austria	59	76
Slovakia	31	28
Denmark	24	23
Slovenia	18	17
Romania	17	27
Sweden	17	18
Finland	15	9
Other countries (dispersed sales)	47	47
North and South America		
The United States of America	311	353
Canada	164	165
Chile	2	25
Other countries (dispersed sales)	1	-
Australia		
Australia	-	1
Asia		
China	311	460
South Korea	-	4
India	-	-
Turkey	50	28
Singapore	-	3
Japan	-	6
Other countries (dispersed sales)	2	14
Africa	8	2
TOTAL	**4 266**	**4 911**

Note 3.5 Main customers

In the period from 1 January 2018 to 31 March 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	
	1st quarter of 2018	2017
Poland	18 465	18 430
Canada	1 034	1 055
The United States of America	997	989
Chile	248	236
TOTAL	**20 744**	**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	1st quarter of 2018	1st quarter of 2017	Change (%)
Ore extraction (dry weight)	mn t	7.7	8.0	-3.1
Copper content in ore	%	1.50	1.51	-0.7
Copper production in concentrate	kt	102.7	107.7	-4.6
Silver production in concentrate	t	321.8	332.3	-3.2
Production of electrolytic copper	kt	110.8	130.6	-15.2
- including from own concentrate	kt	86.0	93.1	-7.6
Production of metallic silver	t	239.3	293.5	-18.5
Production of gold	koz t	18.3	33.5	-45.4

In the first 3 months of 2018, there was a decrease of ore extraction (dry weight) by 3.1% as compared to the corresponding period of 2017. Copper content in ore decreased from 1.51% to 1.50%. Lower ore extraction was a result of a deterioration in geological-mining conditions, the occurrence of barren rock zones in the areas of the deposit being mined and the need to increase the scope of mine development work in barren rock zones. As a result of the above factors, the production of copper in concentrate is lower by 4.6% as compared to the first 3 months of 2017.
The production of electrolytic copper and the metallic silver is lower than in the corresponding period of 2017 due to the need to accumulate anodes inventories to be used in the second quarter of 2018, during the three months long maintenance shutdown at the Głogów II Copper Smelter and Refinery.

Revenues

	Unit	1st quarter of 2018	1st quarter of 2017	Change (%)
Revenues from contracts with customers, including from the sales of:	**mn PLN**	**3 206**	**3 896**	**-17.7**
- copper	mn PLN	2 525	2 916	-13.4
- silver	mn PLN	392	560	-30.0
Volume of copper sales	kt	102	120	-15.0
Volume of silver sales	t	207	247	-16.2
Copper price	USD/t	6 961	5 831	+19.4
Silver price	USD/oz t	16.77	17.42	-3.7
Exchange rate	USD/PLN	3.40	4.06	-16.3

In the first 3 months of 2018, revenues amounted to PLN 3 206 million and were 18% lower as compared to the corresponding period of 2017. The main reasons for the decrease in revenues were lower sales volumes of copper and silver, respectively by 15% and 16%, less favourable USD/PLN exchange rate (-16%), 4% lower silver prices and 19% higher copper prices on the LME.

Costs

	Unit	1st quarter of 2018	1st quarter of 2017	Change (%)
Cost of sales, selling costs and administrative expenses*	**mn PLN**	**2 686**	**2 831**	**-5.1**
Expenses by nature	mn PLN	3 421	3 337	**+2.5**
Pre-precious metals credit unit cost of electrolytic copper production from own concentrate **	PLN/t	22 924	20 812	+10.1
Total unit cost of electrolytic copper production from own concentrate	PLN/t	17 749	13 105	+35.4
- including the minerals extraction tax	PLN/t	3 901	3 815	+2.3
C1 cost***	**USD/lb**	**1.74**	**1.33**	**+30.8**

** 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.*

The Parent Entity's cost of sales, selling costs and administrative expenses in the first 3 months of 2018 amounted to PLN 2 686 million and were lower by PLN 145 million as compared to the corresponding period of 2017 due to the increase in half-finished product inventories of anode copper, produced to secure the production of electrolytic copper during the planned maintenance shutdown at the Głogów II Copper Smelter and Refinery.
In the first 3 months of 2018, expenses by nature were higher by PLN 84 million, or by 2.5%, as compared to the corresponding period of 2017, alongside a lower minerals extraction tax by PLN 32 million and higher costs of purchased metal-bearing materials by PLN 13 million (due to 0.5% higher purchase price and a 0.3 thousand tonnes higher volume of copper consumption).
Expenses by nature, excluding the minerals extraction tax and the consumed purchased metal-bearing materials, increased by PLN 103 million, mainly due to the following:

amounts in PLN millions, unless otherwise stated

- employee benefits expenses (+PLN 31 million) due to increases in remunerations
- depreciation/amortisation (+PLN 24 million) due to the reclassification of investments to fixed assets,
- consumption of materials, fuels and energy (+PLN 21 million) due to the increased consumption of energy and fuel,
- external services (+PLN 16 million) due to an increase in mine preparatory works,

C1 cost respectively amounted to 1.74 USD/lb in the first 3 months of 2018, and 1.33 USD/lb in the first 3 months of 2017. The increase in C1 cost (by 0.41 USD/lb) was mainly caused by the strengthening of the Polish currency versus the US dollar by 16% and the lower production of copper and silver in own concentrate.

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 22 924 PLN/t (in the comparable period of 2017: 20 812 PLN/t) and was higher by 10.1% mainly due to lower production from own concentrate by 8% (7 thousand tonnes of copper). The total unit cost of electrolytic copper production from own concentrate amounted to 17 749 PLN/t (for the first 3 months of 2017: 13 105 PLN/t).

Financial results

	1st quarter of 2018	1st quarter of 2017	Change (%)
Revenues from contracts with customers, including:	**3 206**	**3 896**	**-17.7**
- adjustment of revenues due to hedging transactions	57	(4)	×
Cost of sales, selling costs and administrative expenses	**(2 686)**	**(2 831)**	**-5.1**
- including the minerals extraction tax	(354)	(366)	-3.3
Profit on sales (EBIT)	**520**	**1 065**	**-51.2**
Other operating income and (costs), including	**83**	**(270)**	**×**
- measurement and realisation of derivatives	(22)	70	×
- interest on loans granted and other financial receivables	57	98	-41.8
- exchange differences on assets and liabilities other than borrowings	(124)	(425)	-70.8
- Recognition/ (reversal) of impairment loss on financial instruments due to debt restructuring	51	-	×
- gains on changes in fair value of financial assets measured at fair value through profit or loss	113	-	×
- other	8	(13)	×
Finance income/(costs), including:	**124**	**309**	**-59.9**
- exchange differences on borrowings	150	369	-59.3
- interest costs on borrowings	(24)	(29)	-17.2
- bank fees and charges on borrowings	(6)	(7)	-14.3
- measurement of derivatives	15	(13)	×
- other	(11)	(11)	-
Profit before income tax	**727**	**1 104**	**-34.1**
Income tax expense	(197)	(299)	-34.1
Profit for the period	**530**	**805**	**-34.2**
Depreciation/amortisation recognised in profit or loss	(251)	(239)	+5.0
EBITDA*	771	1 304	-40.9
Adjusted EBITDA**	**771**	**1 304**	**-40.9**
EBITDA margin (%)	**24%**	**33%**	**-27.3**

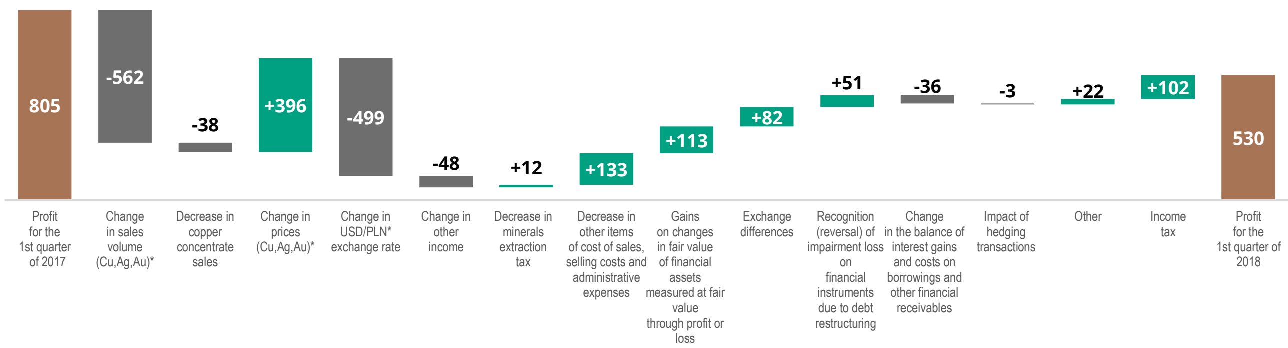
** EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss)*
*** Adjusted EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss) + impairment loss (-reversal of impairment losses) on non-current assets, recognised in cost of sales, selling costs and administrative expenses)*

Main reasons for the change in profit/(loss) for the first 3 months of 2018 as compared to the corresponding period of 2017:

Item	Impact on change in result	Description
Decrease in revenues from contracts with customers, excluding the impact of hedging transactions (-PLN 751 million)	(562)	A decrease in revenues due to 14% lower volume of copper sales (-PLN 418 million), 16% lower silver sales (-PLN 91 million) and 34% lower gold sales (-PLN 53 million).
	(499)	A decrease in revenues from sales of basic products (Cu, Ag, Au) due to a lower, less favourable average USD/PLN exchange rate (a change from 4.06 to 3.40 USD/PLN).
	+396	An increase in revenues due to 19% higher copper prices (+PLN 404 million) and 9% higher gold prices (+PLN 6 million) alongside 4% lower silver prices (-PLN 14 million).
	(38)	In the first quarter of 2018, there were no revenues from the sale of copper concentrate arising from the settlement of contracts from the previous year, while in the first quarter of 2017 revenues from the sale of copper concentrate arising from the settlement of contracts from 2016 amounted to PLN 38 million.
	(48)	A decrease in revenues from sales of merchandise and materials (-PLN 14 million) and other products and services, including refined lead (-PLN 6 million), as well as the fair value measurement of receivables, the final value of which is set in a period differing from the month it was nominally sold (-PLN 18 million).

Decrease in cost of sales, selling costs and administrative expenses (+PLN 145 million)	+12	A decrease in the minerals extraction tax, from PLN 366 million to PLN 354 million, mainly due to lower volume of copper and silver extraction.
	+133	Mainly due to an increase in inventories of half-finished products due to higher anode production due to the planned maintenance shutdown at the Głogów II Copper Smelter and Refinery alongside a simultaneous increase in the cost of consumption of purchased metal-bearing materials by PLN 13 million (higher purchase prices caused by higher copper prices and increase in volume).
Gains on changes in fair value of financial assets measured at fair value through profit or loss (+PLN 113 million)	+113	Including gains on the reversal of the allowance for impairment of loans due to offsetting receivables and liabilities of KGHM INTERNATIONAL LTD. in the amount of PLN 116 million and the loss on the fair value measurement of loans in the amount of –PLN 3 million.
Impact of exchange differences (+PLN 82 million)	+301	A change in the result due to exchange differences from the measurement of assets and liabilities other than borrowings – in other operating activities.
	(219)	A change in the result due to exchange differences on measurement of borrowings (presented in finance activities).
Recognition / (reversal) of impairment loss on financial instruments due to debt restructuring (+PLN 51 million)	+814	Reversal of impairment losses on financial instruments due to debt restructuring.
	(765)	Impairment loss on financial instruments and impairment loss on purchased credit-impaired (POCI) assets.
Change in the balance of interest gains and costs on borrowings and other financial receivables (-PLN 36 million)	(41)	A decrease in interest gains on loans granted.
	+5	Lower interest costs on borrowings.
Impact of transactions on derivatives (-PLN 3 million)	+61	A change in the adjustment of revenues due to hedging transactions from –PLN 4 million to +PLN 57 million.
	(33)	A change in the result due to measurement of derivatives from PLN 53 million to PLN 20 million.
	(31)	A change in the result due to the realisation of hedging instruments from PLN 4 million to –PLN 27 million.
Decrease in income tax (+PLN 102 million)	+102	The lower tax results from the lower tax base.

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



** Impact on sales revenue*

Cash expenditures

In the first 3 months of 2018, cash expenditures on property, plant and equipment and intangible assets amounted to PLN 571 million and were lower than in the corresponding period of 2017 by 7%, while capital expenditures on property, plant and equipment and intangible assets amounted to PLN 330 million and were lower than in the corresponding period of 2017 by nearly 9%.

The higher level of cash expenditures as compared to capital expenditures after the first 3 months of 2018 were 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	1st quarter of 2018	1st quarter of 2017	Change (%)
Mining	251	203	+23.6
Metallurgy	78	155	-49.7
Other activities	1	4	-75.0
Total	**330**	**362**	**-8.8**

amounts in PLN millions, unless otherwise stated

Structure of capital expenditures on property, plant and equipment and intangible assets – by type	1st quarter of 2018	1st quarter of 2017	Change (%)
Replacement	110	106	+3.8
Maintaining production	71	48	+47.9
Development	149	208	-28.4
Total	**330**	**362**	**-8.8**

During the reporting period actions were undertaken aimed at preparing investments for execution, that is: documentation was prepared, building permits were received, tenders were held to select contractors for work and suppliers of equipment, and contracts for execution were signed pursuant to the negotiated terms. Moreover, during the reporting period preparatory work was carried out and machinery and equipment was purchased.
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 45% of total expenditures,
– **Replacement projects,** aimed at maintaining production equipment in an undeteriorated condition which guarantees the achievement of on-going production tasks, represent 33% 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 22% of total expenditures.

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	1st quarter of 2018	1st quarter of 2017	Change (%)
Payable copper, including:	kt	20.1	17.2	+16.9
- Robinson mine (USA)	kt	13.7	10.0	+37.0
- Sudbury Basin mines* (CANADA)	kt	1.8	1.9	(5.3)
Payable nickel	kt	0.2	0.3	(33.3)
Precious metals (TPM)**, including:	koz t	15.8	14.5	+9.0
- Robinson mine (USA)	koz t	9.7	6.5	+49.2
- Sudbury Basin mines* (CANADA)	koz t	6.1	8.0	(23.8)

** Morrison and McCreedy West mines in the Sudbury Basin*
*** TPM – precious metals (gold, platinum, palladium)*

In the first quarter of 2018, copper production in the segment KGHM INTERNATIONAL LTD. amounted to 20.1 thousand tonnes, and therefore increased by 2.9 thousand tonnes (+17%) as compared to the corresponding period of 2017.
The increase in copper production by this segment is thanks to the Robinson mine, in which the production increased by 3.7 thousand tonnes (+37%), which is the result of extraction a higher quality ore with a higher copper content (+33%). The extraction of ore with higher copper content resulted in a higher recovery of this metal (+11%). Moreover, as a result of higher gold recovery, there was an increase in this mine's precious metals production by 3.2 thousand troy ounces. The Sudbury mines' decrease in production of copper by 0.1 thousand tonnes (-5%) and precious metals by 1.9 thousand troy ounces (-24%) is a result of mining ore with lower metals content, and it was partially offset by the higher volume of extraction.

Revenues

	Unit	1st quarter of 2018	1st quarter of 2017	Change (%)
Revenues from contracts with customers*, including from the sales of:	**mn USD**	180	144	+25.0
- copper	mn USD	108	93	+16.1
- nickel	mn USD	3	3	0.0
- precious metals (TPM)	mn USD	20	16	+25.0
Copper sales volume	kt	17.3	17.2	+0.6
Nickel sales volume	kt	0.2	0.3	(33.3)
Precious metals (TPM) sales volume	koz t	13.9	13.8	+0.7

** reflects processing premium*

amounts in PLN millions, unless otherwise stated

	Unit	1st quarter of 2018	1st quarter of 2017	Change (%)
Revenues from contracts with customers*, including from the sales of:	**mn PLN**	609	580	+5.0
- copper	mn PLN	365	374	(2.4)
- nickel	mn PLN	11	12	(8.3)
- precious metals (TPM)	mn PLN	68	64	+6.3

** reflects processing premium*

The sales revenue of the segment KGHM INTERNATIONAL LTD. in the first quarter of 2018 amounted to USD 180 million, and therefore increased by USD 36 million (+25%) due to higher realised sales prices of metals, as well as an increase in revenues of DMC.
The increase in revenues from sales of copper by USD 15 million (+16%) is the result of achieving a higher realised sales price of this metal by 13% (6 789 USD/t in the first quarter of 2018 as compared to 5 996 USD/t in the first quarter of 2017), while the sales volume remained at a similar level.
The increase in revenues from sales of precious metals by USD 4 million (+25%) was mainly a result of the recognition of a higher value of deferred revenues of the Sudbury Basin mines.
Moreover, a nearly twofold increase in revenues was achieved by DMC as a result of a realisation of a new contract in the United Kingdom.

Costs

	Unit	1st quarter of 2018	1st quarter of 2017	Change (%)
C1 unit cost*	USD/lb	1.89	2.35	(19.6)

**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 weighted average unit cash cost of copper production for all operations in the segment KGHM INTERNATIONAL LTD. in the first quarter of 2018 amounted to 1.89 USD/lb, or a decrease by 20% as compared to the corresponding period of 2017. The decrease in C1 cost is mainly thanks to the Robinson mine, in which there was a decrease in operating costs as well as an increase in revenues from sales of precious metals, which decrease this cost.

Financial performance

in mn USD	1st quarter of 2018	1st quarter of 2017	Change (%)
Revenues from contracts with customers	180	144	+25.0
Cost of sales, selling costs and administrative expenses*	(143)	(144)	(0.7)
Profit/(loss) on sales (EBIT)	37	(0)	x
Profit/(loss) before taxation, including:	10	(38)	x
- share of losses of Sierra Gorda S.C.M. accounted for using the equity method	-	-	x
Income tax	(1)	(2)	(50.0)
Profit/(loss) for the period	9	(40)	x
Depreciation/amortisation recognised in profit or loss	(13)	(19)	(31.6)
EBITDA* *	50	19	x2.6
Adjusted EBITDA***	50	19	x2.6
EBITDA margin (%)	28	13	x2.2

mn PLN	1st quarter of 2018	1st quarter of 2017	Change (%)
Revenues from contracts with customers	609	580	+5.0
Cost of sales, selling costs and administrative expenses*	(485)	(581)	(16.5)
Profit/(loss) on sales (EBIT)	124	(1)	x
Profit/(loss) before taxation, including:	34	(152)	x
- share of losses of Sierra Gorda S.C.M. accounted for using the equity method	-	-	x
Income tax	(5)	(8)	(37.5)
Profit/(loss) for the period	29	(160)	x
Depreciation/amortisation recognised in profit or loss	(44)	(76)	(42.1)
EBITDA* *	168	75	x2.2
Adjusted EBITDA***	168	75	x2.2
EBITDA margin (%)	28	13	x2.2

** 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 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 (mn USD)	Description
Increase in revenues by USD 36 million, including:	+23	An increase in revenues achieved by DMC as a result of the realisation of a contract in the United Kingdom.
	+14	Higher revenues due to higher prices of basic products, mainly copper (+USD 14 million)
Lower costs of sales, selling costs and administrative expenses by USD 1 million, including:	(9)	An increase in the costs of labour (+USD 5 million) and materials and energy (+USD 4 million)
	(15)	Higher costs of external services due to an increased scope of work carried out by subcontractors of DMC
	+26	A change in inventories
Impact of other operating activities and financing activities (+USD 11 million), including:	+13	Lower finance costs due to the restructuring of debt
Income tax	+1	Income tax lower by USD 1 million due to the increase of the current tax alongside a decrease of the deferred tax

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

Cash expenditures

in mn USD	1st quarter of 2018	1st quarter of 2017	Change (%)
Victoria project	2	2	-
Sierra Gorda Oxide project	0	1	(100.0)
Pre-stripping and other	37	17	x2.2
Ajax project	0	1	(100.0)
Total	39	21	+85.7
Financing for Sierra Gorda S.C.M.	-	-	x

in mn PLN	1st quarter of 2018	1st quarter of 2017	Change (%)
Victoria project	7	8	(12.5)
Sierra Gorda Oxide project	0	2	(100.0)
Pre-stripping and other	126	68	+85.3
Ajax project	0	5	(100.0)
Total	133	83	+60.2
Financing for Sierra Gorda S.C.M.	-	-	x

Cash expenditures by the segment KGHM INTERNATIONAL LTD. in the first quarter of 2018 amounted to USD 39 million, i.e. increased by USD 18 million (+86%) as compared to the corresponding period of 2017.

amounts in PLN millions, unless otherwise stated

Approx. 70% of cash expenditures were incurred in the Robinson mine. The work was mainly related to pre-stripping to enable mining the deposit in the future, as well as geotechnical surveys.
In the first quarter of 2018, the segment KGHM INTERNATIONAL LTD. expended USD 2 million on the Victoria project to secure the existing infrastructure and the project's area.
In the first three months of 2018, there was no need to provide financing to the Sierra Gorda mine by KGHM INTERNATIONAL LTD.

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 interest in the company Sierra Gorda S.C.M. (55%), pursuant to the data presentation methodology in note 3.2.

Production results

In the first quarter of 2018, the production of copper and molybdenum achieved by Sierra Gorda S.C.M. was lower than the level recorded in the first quarter of 2017, and the decrease was respectively 15% (copper) and 18% (molybdenum).

Table 1. Production* of copper, molybdenum and precious metals in Sierra Gorda S.C.M.

	Unit	1st quarter of 2018	1st quarter of 2017	Change (%)
Copper production	kt	21.8	25.5	(14.5)
Copper production – segment (55%)	kt	12.0	14.0	(14.5)
Molybdenum production	mn lbs	7.2	8.8	(18.2)
Molybdenum production – segment (55%)	mn lbs	4.0	4.8	(18.2)
TPM production - gold	koz t	8.4	11.4	(26.3)
TPM production – gold – segment (55%)	koz t	4.6	6.3	(26.3)

** Payable metal in concentrate.*

Lower copper production is a result of many negative factors, the most significant of which is the lower metal content in ore, which was not offset by a higher processing volume (+4%). As compared to the first quarter of 2017, the decrease in copper content in ore amounted to 11%, which had a negative impact on the efficiency of the flotation process and resulted in a lower copper recovery ratio than the one recorded at the beginning of 2017.
There was also a decrease in molybdenum content as compared to the first quarter of 2017 (-45%). In this case, however, the implemented improvements allowed for a significant improvement in flotation efficiency, which resulted in a 45% increase in the recovery.

Sales

In the first quarter of 2018, revenues less processing premiums amounted to USD 258 million, including 54% on revenues from sales of copper, and 40% from the sales of molybdenum. The segment's revenues, respectively to KGHM Polska Miedź S.A.'s interest (55%) amounted to PLN 481 million.

Table 2. Sales volume and revenue* of Sierra Gorda S.C.M.

	Unit	1st quarter of 2018	1st quarter of 2017	Change (%)
Revenues from contracts with customers, including from the sales of:	**mn USD**	**258**	**208**	**+24.0**
- copper	mn USD	140	142	(1.4)
- molybdenum	mn USD	102	48	x2.1
Copper sales volume	kt	22.9	26.5	(13.6)
Molybdenum sales volume	mn lbs	7.4	4.6	+60.9
Revenues from contracts with customers - segment (55% share)	mn PLN	481	**459**	**+4.8**

**Revenues from metals sales reflecting treatment/refining and other charges*

The revenues increased by 24%, mainly with respect to molybdenum, whose volume of sales increased by 61% as compared to the first quarter of 2017. There was also an increase in molybdenum prices in the analysed period, which resulted in an increase in effective price achieved in the sales of this metal by nearly 71%. Also copper prices were higher, which, despite the decrease in the volume of sales of this metal, enabled the achievement of revenues from sales of copper at a level similar to the one recorded in the first three months of 2017.
The impact of main factors on the increase in revenues in the first quarter was described below, in the part concerning the segment's financial results.

Costs

The cost of sales, selling costs and administrative expenses in the first quarter of 2018 amounted to USD 243 million, including cost of sales of USD 217 million, selling costs of USD 17 million and administrative expenses of USD 9 million.

Table 3. Costs and the unit production cost of copper (C1) of Sierra Gorda S.C.M.

	Unit	1st quarter of 2018	1st quarter of 2017	Change (%)
Cost of sales, selling costs and administrative expenses	mn USD	243	192	+26.6
Cost of sales, selling costs and administrative expenses – segment (55% share)	mn PLN	453	425	+6.6
C1* unit cost	**USD/lb**	**1.43**	**1.94**	**(26.3)**

** 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 mine's cash costs were at a similar level to the one in the first quarter of 2017, while the processing costs were lower by 4%. There was a decrease of 7%, both per tonne of mined ore and per tonne of processed ore (the mine's unit cost and the processing plant's unit cost).
Moreover, there was an improvement in case of the unit production cost of copper C1 (a decrease by 26%), which was due to an increase in revenues from sales of molybdenum, which decrease this cost.
As compared to the first quarter of 2017, the depreciation/amortisation costs increased by USD 32 million, or by 80% (USD 72 million as compared to USD 40 million in the first quarter of 2017), mainly with respect to the depreciation of capitalised pre-stripping costs. The increase of these costs is a result of the acceleration, as compared to prior plans, of investments related to accessing the deposit in one of the mining areas. As a result, that area's expected life was shortened, which significantly impacted the level of depreciation.

Financial results of Sierra Gorda S.C.M.

Statement of profit or loss

In the first quarter of 2018, adjusted EBITDA amounted to USD 87 million, of which proportionally to the interest held (55%) PLN 163 million relates to the KGHM Group.

Table 4. Results of Sierra Gorda S.C.M. in USD million (on a 100% basis)

	1st quarter of 2018	1st quarter of 2017	Change (%)
Revenues from contracts with customers	258	208	+24.0
Cost of sales, selling costs and administrative expenses, including:	(243)	(192)	+26.6
impairment loss on non-current assets	-	-	x
Profit/(loss) on sales (EBIT)	**15**	16	**(6.3)**
Profit/(loss) for the period	(66)	**(65)**	+1.5
Depreciation/amortisation recognised in profit or loss	(72)	(40)	+80.0
EBITDA*	87	55	+58.2
Adjusted EBITDA **	87	**55**	**+58.2**

Table 5. Results of the segment Sierra Gorda S.C.M. proportionally to the interest held (55%) in PLN million

	1st quarter of 2018	1st quarter of 2017	Change (%)
Revenues from contracts with customers	481	459	+4.8
Cost of sales, selling costs and administrative expenses, including:	(453)	(425)	+6.6
impairment loss on non-current assets	-	-	x
Profit/(loss) on sales (EBIT)	**28**	34	**(17.6)**
Profit/(loss) for the period	(123)	**(143)**	(14.0)
Depreciation/amortisation recognised in profit or loss	(135)	(88)	+53.4
EBITDA*	163	122	+33.6
Adjusted EBITDA **	163	**122**	**+33.6**
EBITDA margin (%)	**34**	**27**	**+25.9**

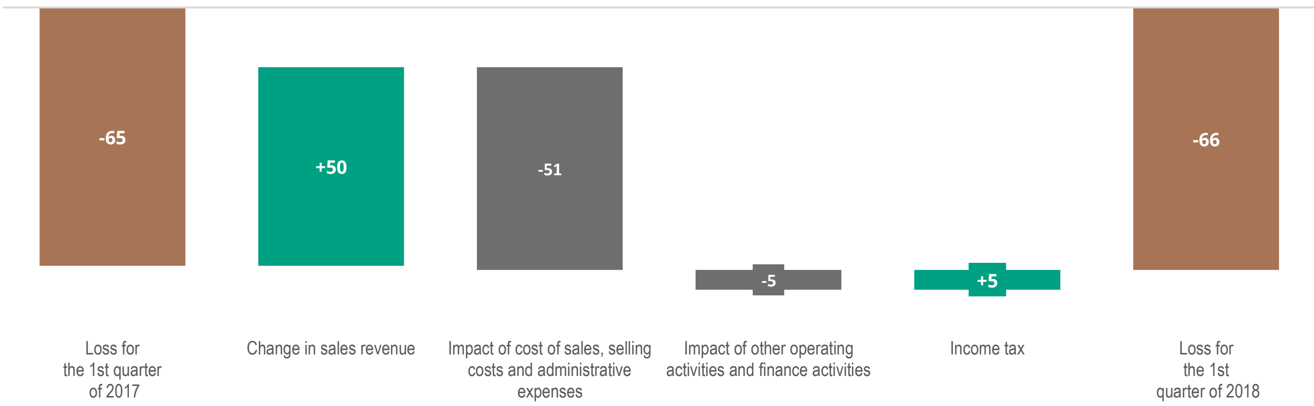
** EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss)*
*** Adjusted EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss) + impairment loss (-reversal of impairment losses) on non-current assets (recognised in cost of sales, selling costs and administrative expenses)*

The increase in EBITDA during the year is mainly due to revenues, which due to increases in prices and sales volume of molybdenum were higher by USD 50 million (+24%) as compared to the first quarter of 2017. At the same time, cost of sales, selling costs and administrative expenses, excluding depreciation/amortisation, increased by USD 19 million (+12%). The summary of the most significant factors impacting the level of revenues and costs, and therefore the EBITDA, was presented in the following table on the changes in profit/(loss) for the period.

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

Item	Impact on change in result (mn USD)	Description
Higher revenues by USD 50 million, including:	+21	Higher revenues due to an increase in the effective price of copper
	+38	Higher revenues due to an increase in volume of sales of molybdenum
	+16	Higher revenues due to an increase in the effective price of molybdenum
	-26	Lower revenues due to a decrease in volume of sales of copper
Higher costs of sales, selling costs and administrative expenses by USD 51 million, including:	-32	An increase in the depreciation/amortisation costs, mainly with respect to depreciation of capitalised pre-stripping costs
	-3	An increase in costs of energy, fuel and oils
	+4	Lower costs of enriching molybdenum concentrate by the external contractor
	+3	Lower costs of materials and spare parts
	-29	A change in inventories
	+5	Lower costs of external services
Impact of other operating activities – a decrease in the result by USD 2 million	-2	Mainly an increase in costs with respect to exchange differences
Impact of financing activities – a decrease in the result by USD 4 million	-4	Above all higher accrued interest on an owner loan for mine construction
Income tax – an increase in the result by USD 5 million	+5	Higher loss before taxation

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



In the first quarter of 2018, Sierra Gorda S.C.M. had a positive result on operating activities, with a loss for the period of USD 66 million which was primarily due to accrued interest on a loan granted by the partners in the company for mine construction.
As compared to the first quarter of 2017, loss for the period did not change significantly, while the increase in costs was significantly offset by higher revenues from sales.

Cash expenditures

In the first quarter of 2018, cash expenditures amounted to USD 75 million and were mainly related to pre-stripping to gain access to deposit to enable mining in the future. The increase in cash expenditures by 14% as compared to the first quarter of 2017 concerned the replacement and development investments, with a similar level of expenditures on pre-stripping (USD 57 million in the first quarter of 2018 and in the first quarter of 2017).

Table 6. Cash expenditures of Sierra Gorda S.C.M.

	Unit	1st quarter of 2018	1st quarter of 2017	Change (%)
Cash expenditures on property, plant and equipment	mn USD	75	66	+13.6
Cash expenditures on property, plant and equipment – segment (55% share)	mn PLN	139	147	(5.4)

The main source of financing investments was the inflow from operating activities – in the first quarter of 2018, Sierra Gorda S.C.M. did not use the support from owners in the form of loan or proceeds from increases in the share capital. No new short-term bank loans were drawn.

amounts in PLN millions, unless otherwise stated

4 – Selected additional explanatory notes

Note 4.1 Expenses by nature

	1st quarter of 2018	1st quarter of 2017
Depreciation of property, plant and equipment and amortisation of intangible assets	417	405
Employee benefits expenses	1 223	1 173
Materials and energy	1 821	1 770
External services	509	455
Minerals extraction tax	434	466
Other taxes and charges	140	136
Other costs	52	52
Total expenses by nature	**4 596**	**4 457**
Cost of merchandise and materials sold (+)	163	160
Change in inventories of finished goods and work in progress (+/-)	(836)	(531)
Cost of manufacturing products for internal use of the Group (-)	(316)	(249)
Total costs of sales, selling costs and administrative expenses, including:	**3 607**	**3 837**
Cost of sales	3 318	3 548
Selling costs	82	86
Administrative expenses	207	203

Note 4.2 Other operating income and (costs)

	1st quarter of 2018	1st quarter of 2017
Measurement and realisation of derivatives	58	156
Interest income calculated using the effective discount rate method	2	N/A
Other	53	59
Total other income	**113**	**215**
Measurement and realisation of derivatives	(60)	(86)
Impairment losses on financial instruments	(2)	N/A
Exchange differences on assets and liabilities other than borrowings	(183)	(503)
Other	(59)	(52)
Total other costs	**(304)**	**(641)**
Other operating income and (costs)	**(191)**	**(426)**

Note 4.3 Finance income and (costs)

	1st quarter of 2018	1st quarter of 2017
Exchange differences on borrowings	149	372
Gains on the measurement of derivatives	15	-
Total income	**164**	**372**
Interest on borrowings	(25)	(32)
Losses on the measurement of derivatives	-	(13)
Other	(27)	(26)
Total costs	**(52)**	**(71)**
Finance income and (costs)	**112**	**301**

amounts in PLN millions, unless otherwise stated

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

Purchase of property, plant and equipment and intangible assets

	1st quarter of 2018	1st quarter of 2017
Purchase of property, plant and equipment	475	438
Purchase of intangible assets	20	23

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

	1st quarter of 2018	2017
Payables due to the purchase of property, plant and equipment and intangible assets	318	561

Capital commitments not recognised in the consolidated statement of financial position

	1st quarter of 2018	2017
Purchase of property, plant and equipment	2 321	2 478
Purchase of intangible assets	18	60
Total capital commitments	**2 339**	**2 538**

Note 4.5 Involvement in joint ventures

Joint ventures accounted for using the equity method

	1st quarter of 2018		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	-	-	461	-
Share of losses of joint ventures accounted for using the equity method	-	-	(474)	-
Liquidation of a joint venture	-	-	-	(19)
Exchange differences from the translation of statements of operations with a functional currency other than PLN	-	-	13	-
As at the end of the reporting period	**-**	**8**	**-**	**8**

	1st quarter of 2018	2017
Share of the Group (55%) in losses of Sierra Gorda S.C.M., of which:	**(123)**	**(525)**
recognised in share of losses of joint ventures	-	(474)
not recognised in share of losses of joint ventures	(123)	(51)

The Group's total, not recognised share of losses of Sierra Gorda S.C.M. as at 31 March 2018 amounted to PLN 4 990 million (as at 31 December 2017: PLN 4 867 million).

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

	1st quarter of 2018	2017
As at the beginning of the reporting period	**3 889**	**4 313**
Accrued interest	81	319
Exchange differences from the translation of statements of operations with a functional currency other than PLN	(75)	(743)
As at the end of the reporting period	**3 895**	**3 889**

amounts in PLN millions, unless otherwise stated

Note 4.6 Financial instruments

Categories of financial assets in accordance with IAS 39 for data for 2017, and in accordance with IFRS 9 for data for the 1st quarter of 2018	1st quarter of 2018					2017				
	At fair value through other comprehensive income	At fair value through profit or loss	At amortised cost	Hedging instruments	Total	Available-for-sale	At fair value through profit or loss	Loans and financial receivables	Hedging instruments	Total
Non-current	536	42	4 699	188	**5 465**	614	11	4 651	99	**5 375**
Loans granted to joint ventures	-	-	3 895	-	**3 895**	-	-	3 889	-	**3 889**
Derivatives	-	25	-	188	**213**	-	11	-	99	**110**
Other financial instruments measured at fair value	536	17	-	-	**553**	614	-	-	-	**614**
Other financial assets	-	-	804	-	**804**	-	-	762	-	**762**
Current	48	545	1 364	261	**2 218**	59	1	2 314	195	**2 569**
Trade receivables	-	542	650	-	**1 192**	-	-	1 522	-	**1 522**
Derivatives	-	3	-	261	**264**	-	1	-	195	**196**
Cash and cash equivalents	-	-	523	-	**523**	-	-	586	-	**586**
Other financial assets	48	-	191	-	**239**	59	-	206	-	**265**
Total	**584**	**587**	**6 063**	**449**	**7 683**	**673**	**12**	**6 965**	**294**	**7 944**

amounts in PLN millions, unless otherwise stated

Categories of financial liabilities in accordance with IAS 39 for data for 2017, and in accordance with IFRS 9 for data for the 1st quarter of 2018	1st quarter of 2018				2017			
	At fair value through profit or loss	At amortised cost	Hedging instruments	Total	At fair value through profit or loss	At amortised cost	Hedging instruments	Total
Non-current	**123**	**6 182**	**55**	**6 360**	137	6 398	71	**6 606**
Borrowings	-	5 986	-	**5 986**	-	6 191	-	**6 191**
Derivatives	123	-	55	**178**	137	-	71	**208**
Other financial liabilities	-	196	-	**196**	-	207	-	**207**
Current	54	3 292	21	**3 367**	48	2 913	62	**3 023**
Borrowings	-	1 673	-	**1 673**	-	965	-	**965**
Derivatives	54	-	21	**75**	48	-	62	**110**
Trade payables	-	1 476	-	**1 476**	-	1 823	-	**1 823**
Other financial liabilities	-	143	-	**143**	-	125	-	**125**
Total	**177**	**9 474**	**76**	**9 727**	**185**	**9 311**	**133**	**9 629**

amounts in PLN millions, unless otherwise stated

The fair value hierarchy of financial instruments

Classes of financial instruments	1st quarter of 2018 level 1	1st quarter of 2018 level 2	2017 level 1	2017 level 2
Listed shares	492	-	617	-
Other financial instruments measured at fair value	-	109	-	57
Trade receivables	-	542	-	N/A
Derivatives, including:	-	224	-	(12)
Assets	-	477	-	306
Liabilities	-	(253)	-	(318)

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	**1st quarter of 2018**	**1st quarter of 2017**
Revenues from contracts with customers	57	(4)
Other operating and finance income and costs:	13	57
On realisation of derivatives	(26)	4
On measurement of derivatives	39	53
Impact of derivatives and hedging instruments on the financial result for the period	**70**	**53**
Statement of comprehensive income in the part concerning other comprehensive income		
Impact of hedging transactions	**(81)**	**151**
Impact of measurement of hedging transactions (effective portion)	(24)	147
Reclassification to sales revenues due to realisation of a hedged item	(57)	4
TOTAL COMPREHENSIVE INCOME*	**(11)**	**204**

* The Group decided to implement IFRS 9 standard (including new principles of hedge accounting) as at 1 January 2018 without correcting 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 (mainly revenues from the physical sale of products).

The notional amount of copper price hedging strategies settled in the first quarter of 2018 represented approx. 20% (in the first quarter of 2017, 26%) of the total sales of this metal realised by the Parent Entity (it represented approx. 31% of net sales in the first quarter of 2018 and 37% in the first quarter of 2017). However, in the case of currency transactions, approx. 18% of total revenues from copper and silver sales realised by the Parent Entity during the period were hedged.

amounts in PLN millions, unless otherwise stated

In the first quarter of 2018 the Parent Entity implemented copper price hedging transactions with a total notional amount of 60 thousand tonnes and a hedging horizon falling from July 2018 to December 2020. This hedging included the complex seagull structures (Asian options) entered into. In addition, the Parent Entity implemented hedging transactions hedging against a change in the USD/PLN exchange rate with a total notional amount of USD 630 million. The put options (European options) were purchased with a hedging horizon falling from April to December 2018. In the first quarter of 2018, there were no derivative transactions implemented for the silver and interest rate markets. However as part of natural hedging against interest rate risk, the Parent Entity drew a bank loan from PKO BP based on a fixed interest rate. 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 31 March 2018, following their translation to PLN, the bank loans and the investment loan which were drawn in USD amounted to PLN 7 438 million (as at 31 December 2017: PLN 6 935 million).

As a result, as at 31 March 2018, the Parent Entity held a hedging position in derivatives for 165 thousand tonnes of copper (for the period from April 2018 to December 2020), as well as for planned revenues from sales of metals in the amount of USD 1 260 million (for the period from April 2018 to June 2019). Moreover, the Parent Entity held open derivatives transactions on the interest rate market for the years 2018-2020 and bank and other loans with a fixed interest rate.

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 31 March 2018 is not presented, due to its immateriality for the Group.

The condensed tables of open transactions in derivatives held by the Parent Entity on the copper, currency and interest rate markets as at 31 March 2018 are presented below. The hedged notional amounts of transactions on copper and currency markets in the presented periods are allocated evenly on a monthly basis.

COPPER MARKET

		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				
	Instrument	[tonnes]	[USD/t]	[USD/t]	[USD/t]	[USD/t]	[USD/t]	[USD/t]	[USD/t]
2nd quarter	Seagull	10 500	4 200	5 400	7 200	-230	5 170	4 200	7 200
2nd quarter	Put option	4 500		5 800		-250	5 550		
2nd quarter	Put option	6 000		5 700		-235	5 465		
2nd half	Seagull	21 000	4 200	5 400	7 200	-230	5 170	4 200	7 200
2nd half	Seagull	21 000	4 700	6 200	8 000	-226	5 974	4 700	8 000
2nd half	Seagull	12 000	5 000	6 900	9 000	-250	6 650	5 000	9 000
	TOTAL IV-XII 2018	**75 000**							
	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
	TOTAL 2019	**66 000**							
	Seagull	24 000	5 000	6 900	9 000	-250	6 650	5 000	9 000
	TOTAL 2020	**24 000**							

amounts in PLN millions, unless otherwise stated

CURRENCY MARKET

	Instrument	Notional [million USD]	Option strike price: Sold put option [USD/PLN]	Option strike price: Purchased put option [USD/PLN]	Option strike price: Sold call option [USD/PLN]	Average weighted premium [PLN per 1 USD]	Effective hedge price [USD/PLN]	Hedge limited to [USD/PLN]	Participation limited to [USD/PLN]
2nd quarter	Seagull	60	3.24	3.75	4.50	-0.03	3.72	3.24	4.50
	Seagull	90	3.24	3.80	4.84	0.01	3.81	3.24	4.84
	Put option	210		3.25		-0.02	3.23		
2nd half	Seagull	120	3.24	3.75	4.50	-0.02	3.73	3.24	4.50
	Seagull	180	3.24	3.80	4.84	0.01	3.81	3.24	4.84
	Put option	420		3.25		-0.06	3.19		
	TOTAL IV-XII 2018	**1 080**							
1st half	Seagull	180	3.24	3.80	4.84	0.02	3.82	3.24	4.84
	TOTAL I-VI 2019	**180**							

INTEREST RATE MARKET

Instrument	Notional [million USD]	Option strike price [LIBOR 3M]	Average weighted premium [USD per USD 1 million hedged]	Average weighted premium [%]	Effective hedge price [LIBOR 3M]
Purchase of interest rate cap options, **QUARTERLY IN 2018**	900	2.50%	734	0.29%	2.79%
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%

As at 31 March 2018, the net fair value of open positions in derivatives of the Group (hedging, trade and embedded transactions) was positive and amounted to PLN 224 million (it was negative as at 31 December 2017 and amounted to PLN 12 million).

The fair value of hedging and trade transactions (including embedded instruments) of the Group which were open as at 31 March 2018 is presented in the tables below.

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

Type of derivative	1st quarter of 2018 – Financial assets: Current	Financial assets: Non-current	Financial liabilities: Current	Financial liabilities: Non-current	Net total
Derivatives – Commodity contracts - Copper					
Purchased put options	-	-	-	-	-
Options – seagull*	40	149	(21)	(55)	113
Derivatives – Currency					
Purchased put options	14	-	-	-	14
Options – collar	207	39	-	-	246
TOTAL HEDGING INSTRUMENTS	**261**	**188**	**(21)**	**(55)**	**373**

* The table presents only the transactions designated as hedging.

Open hedging derivatives	Notional Copper [t] Currency [USD million]	Avg. weighted price/exchange rate [USD/t] [USD/PLN]	Maturity/ settlement period		Period of profit/loss impact	
			from	to	from	to
Copper –purchased put options	10 500	5 743	Apr 18	Jun 18	May 18	Jul 18
Copper – seagull*	154 500	6 309 – 8 225	Apr 18	Dec 20	May 18	Jan 21
Currency – collars	630	3.79 - 4.74	Apr 18	Jun 19	Apr 18	Jun 19
Currency – purchased put options	630	3.25	Apr 18	Dec 18	Apr 18	Dec 18

* The table presents only the transactions designated as hedging.

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

Type of derivative	1st quarter of 2018				
	Financial assets		Financial liabilities		
	Current	Non-current	Current	Non-current	Net total
Derivatives – Commodity contracts - Copper					
Options –seagull *	-	-	-	(18)	**(18)**
Derivatives – Currency contracts					
Options and forward/swap USD and EUR	1	1	(1)	-	**1**
Sold USD put options	-	-	(15)	(7)	**(22)**
Derivatives – interest rate					
Purchased interest rate cap options	2	24	-	-	**26**
Embedded derivatives					
Acid and water supply contracts	-	-	(38)	(98)	**(136)**
TOTAL TRADE INSTRUMENTS	**3**	**25**	**(54)**	**(123)**	**(149)**

* The table presents only the transactions not designated as hedging.

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* (as at the end of the reporting period):

Rating level		1st quarter of 2018	2017
Highest	from AAA to AA- according to S&P and Fitch, and from Aaa to Aa3 according to Moody's	1%	-
Medium-high	from A+ to A- according to S&P and Fitch, and from A1 to A3 according to Moody's	98%	100%
Medium	from BBB+ to BBB- according to S&P and Fitch, and from Baa1 to Baa3 according to Moody's	1%	-

* *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 the fair value of unsettled derivatives, as at 31 March 2018 the maximum single entity share of the amount exposed to credit risk arising from these transactions amounted to 33%, i.e. PLN 122 million (as at 31 December 2017: 47%, i.e. 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 fair value 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 only with renowned financial institutions, as well as continuous monitoring of their ratings, it is not materially exposed to credit risk as a result of transactions concluded with them.

amounts in PLN millions, unless otherwise stated

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 adopted policy. The Financial Liquidity Committee is a unit supporting the Management Board in this regard.

The management of financial liquidity in the Parent Entity is performed in accordance with the Financial Liquidity Management Policy approved by the Management Board. In KGHM INTERNATIONAL LTD. liquidity management principles are described in the Investment Policy.

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.

Ratio	Calculation	1st quarter of 2018	2017
Net Debt/EBITDA*	Relation of net debt to EBITDA	1.5	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

	1st quarter of 2018	2017
Total debt – Borrowings and other sources of financing	**7 659**	**7 156**
Free cash and cash equivalents	517	579
Net debt	**7 142**	**6 577**

Net debt changes

Liabilities due to borrowing	As at 31 December 2017	Cash flows	Accrued interest	Exchange differences	Other changes	As at 31 March 2018
Bank loans	5 179	629	41	(113)	1	5 737
Loans	1 967	(40)	13	(37)	-	1 903
Other	10	(3)	-	-	12	19
Total debt	**7 156**	**586**	**54**	**(150)**	**13**	**7 659**
Free cash and cash equivalents	579	(62)	-	-	-	517
Net debt	**6 577**					**7 142**

amounts in PLN millions, unless otherwise stated

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

	1st quarter of 2018			2017
Type of bank and other loans	Available currency	Amount available	Amount drawn	Amount drawn
Bilateral bank loans	USD, EUR, PLN	3 974	2 349	1 727
Unsecured revolving syndicated credit facility	USD	8 535	3 416*	3 483*
Investment loans	USD, EUR, PLN	2 925	1 903	1 967
Total		**15 434**	**7 668**	7 177

** Presented amounts do not include the preparation fee paid which decreases financial liabilities due to bank loans*

Contingent liabilities due to guarantees granted

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

As at 31 March 2018, the Group held contingent liabilities due to guarantees and letters of credit granted in the total amount of PLN 2 460 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 1 700 million:

- PLN 469 million - a letter of credit granted as security for the proper performance of a long-term contract for the supply of electricity,
- PLN 165 million - corporate guarantees set as security on the payment of concluded lease agreements*,
- PLN 451 million – corporate guarantees securing repayment of short-term working capital facilities*,
- PLN 615 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 joint venture Sierra Gorda S.C.M.

Other entities:

- 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 541 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 knowledge 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, details were presented in Note 1.4 of this report.

amounts in PLN millions, unless otherwise stated

Note 4.9 Related party transactions

Operating income from related entities	1st quarter of 2018	1st quarter of 2017
Revenues from sales of products, merchandise and materials to a joint venture	1	25
Interest income on a loan granted to a joint venture	81	82
Revenues from other transactions with a joint venture	16	18
Revenues from other transactions with other related parties	6	6
	104	**131**

Purchases from related entities	1st quarter of 2018	1st quarter of 2017
Purchase of services, merchandise and materials from other related parties	14	13
Other purchase transactions from other related parties	1	1
	15	**14**

Trade and other receivables from related parties	1st quarter of 2018	2017
From the joint venture Sierra Gorda S.C.M. (loans)	3 895	3 889
From the joint venture Sierra Gorda S.C.M. (other)	470	461
From other related parties	13	3
	4 378	**4 353**

Trade and other payables towards related parties	1st quarter of 2018	2017
Towards joint ventures	39	13
Towards other related parties	12	1
	51	**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 31 March 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 31 March 2018, the balance of liabilities due to these agreements amounted to PLN 173 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 8 million, was set as the equivalent of the 30% of the mining fee due for the first quarter of 2018 (correspondingly, in the period from 1 January to 31 March 2017: PLN 8 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 31 March 2018, the turnover from these transactions amounted to PLN 303 million (from 1 January to 31 March 2017: PLN 204 million), and, as at 31 March 2018, the unsettled balance of liabilities from these transactions amounted to PLN 173 million (as at 31 December 2017: PLN 107 million),
- sales to Polish State Treasury Companies. In the period from 1 January to 31 March 2018, the turnover from these sales amounted to PLN 11 million (from 1 January to 31 March 2017: PLN 18 million), and, as at 31 March 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)	1st quarter of 2018	1st quarter of 2017
Remuneration due to service in the Supervisory Board, salaries and other current employee benefits	426	484

Remuneration of the Management Board of the Parent Entity (in PLN thousands)	1st quarter of 2018	1st quarter of 2017
Salaries and other current employee benefits, of which:	**992**	**2 231**
Remuneration during the term of a member of the Management Board's mandate	992	2 231
Remuneration after the end of a member of the Management Board's mandate	-	-
Benefits due to termination of employment	576	912
Total	**1 568**	**3 143**

Remuneration of other key managers (in PLN thousands)	1st quarter of 2018	1st quarter of 2017
Salaries and other current employee benefits	1 030	1 210

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.

		1st quarter of 2018	Increase/(decrease) since the end of the last financial year
	Contingent assets	**493**	**(36)**
	Guarantees received	176	(39)
	Promissory notes receivables	116	(5)
	Other	201	8
	Contingent liabilities	**2 962**	**164**
Note 4.8	Guarantees*	2 460	135
Note 4.8	Promissory note liability	182	9
	Liabilities due to implementation of projects and inventions	116	(1)
	Other	204	21
	Other liabilities not recognised in the statement of financial position	**139**	**(4)**
	Liabilities towards local government entities due to expansion of the tailings storage facility	116	(1)
	Liabilities due to operating leases	23	(3)

*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, details were presented in Note 1.4 of this report.

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 31 March 2018	(5 468)	(1 409)	1 640	(5 237)
Change in the statement of financial position	**(906)**	**112**	**(355)**	**(1 149)**
Exchange differences from the translation of statements of operations with a functional currency other than PLN	(6)	(3)	3	**(6)**
Depreciation recognised in inventories	64	-	-	**64**
Payables due to the purchase of property, plant and equipment and intangible assets	-	-	191	**191**
Other	-	-	(2)	**(2)**
Adjustments	**58**	**(3)**	**192**	**247**
Change in the statement of cash flows	**(848)**	**109**	**(163)**	**(902)**

	Inventories	Trade receivables	Trade payables	Working capital
As at 1 January 2017	(3 497)	(1 292)	1 613	(3 176)
As at 31 March 2017	(4 154)	(1 206)	1 528	(3 832)
Change in the statement of financial position	**(657)**	**86**	**(85)**	**(656)**
Exchange differences from the translation of statements of operations with a functional currency other than PLN	(21)	(16)	6	**(31)**
Depreciation recognised in inventories	28	-	-	**28**
Payables due to the purchase of property, plant and equipment and intangible assets	-	-	161	**161**
Other	3	-	(2)	**1**
Adjustments	**10**	**(16)**	**165**	**159**
Change in the statement of cash flows	**(647)**	**70**	**80**	**(497)**

Note 4.12 Other adjustments in the statement of cash flows

	1st quarter of 2018	1st quarter of 2017
Losses on the sales of property, plant and equipment and intangible assets	3	8
Reclassification of other comprehensive income to profit or loss due to the realisation of hedging instruments	(30)	4
Change in provisions	13	-
Other	(3)	(1)
Total	**(17)**	**11**

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

There were no significant changes in the Group's structure in the first quarter of 2018.

Note 5.2 Seasonal or cyclical activities

The Group is not affected by seasonal or cyclical activities.

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

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

As at the date of preparation of these consolidated financial statements, the Management Board of the Parent Entity has not made decision regarding the recommendation of payment of dividend for 2017.

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 for 2016 from prior years' profits and setting the dividend date as well as the 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 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 annual report for 2017

As at the date of signing of this report, according to information held by KGHM Polska Miedź S.A., the following shareholders held 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 (managed by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.) - 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).

As far as the Company is aware, this structure has not changed since the publication of the consolidated annual report for 2017.

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 annual report for 2017

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 annual report for 2017.

amounts in PLN millions, unless otherwise stated

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 first quarter of 2018
Member of the Supervisory Board	Józef Czyczerski	10
Member of the Supervisory Board	Leszek Hajdacki	1

Based on information held by KGHM Polska Miedź S.A., as at the date of preparation of this report other Members of the Company's Supervisory Board did not hold 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 annual report for 2017.

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

As at 31 March 2018, there are no on-going proceedings before courts, arbitration authorities or public administration authorities respecting the liabilities and debt of KGHM Polska Miedź S.A. and its subsidiaries, which would have significant impact on the activities and future results of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group.

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 31 March 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 31 March 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

On 5 February 2018, the Management Board of KGHM Polska Miedź S.A. and trade unions which are the party to the Collective Labour Agreement (CLA) signed Additional Protocol No. 22 to the CLA for the Employees of KGHM Polska Miedź S.A. With effect from 1 January 2018, it introduces an increase in basic wages by 6.1%.

Moreover, in the first 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 at least 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.

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

On 10 March 2018, the Supervisory Board of the Parent Entity dismissed the following persons from the Management Board of KGHM Polska Miedź S.A.:

- Radosław Domagalski-Łabędzki, President of the Management Board;
- Michał Jezioro, Vice President of the Management Board.

The Supervisory Board set the number of 9th-term Management Board members at 3 Members of the Management Board.
At the same time, the Supervisory Board assigned:

- the duties of President of the Management Board to Rafał Pawełczak, Vice President of the Management Board (Development), until the appointment of a President of the Management Board following qualification proceedings;
- the duties of Vice President of the Management Board (International Assets) to Stefan Świątkowski, Vice President of the Management Board (Finance), until the appointment of a Vice President of the Management Board (International Assets) following qualification proceedings.

Rafał Pawełczak and Stefan Świątkowski will continue to fulfil the functions assigned to them to date on the Management Board of KGHM Polska Miedź S.A.

Note 5.6 Subsequent events

Resignation of a Member of the Supervisory Board of the Parent Entity

On 3 April 2018, the Management Board of KGHM Polska Miedź S.A. announced that on that day, Wojciech Andrzej Myślecki submitted his resignation from the function of a Member of the Supervisory Board of KGHM Polska Miedź S.A.

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

On 11 April, the Management Board of KGHM Polska Miedź S.A. announced that on 4 April 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 on 15 March 2018 by the resolution of the Extraordinary General Meeting.
The amendment introduced to the Statutes of KGHM Polska Miedź S.A.:
In §6 sec. 1 of the Statutes of the Company, point 85 is added with the following wording:
„ 85) Leasing of intellectual property and similar products, except copyrighted works (77.40.Z).”

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

INTERIM STATEMENT OF PROFIT OR LOSS

		1st quarter of 2018	1st quarter of 2017
	Revenues from contracts with customers, including:	3 206	3 896
	from sales, for which the final price was not set at the end of the reporting period (IFRS 15, 114)	362	N/A*
Note 2.1	Cost of sales	(2 504)	(2 655)
	Gross profit	**702**	**1 241**
Note 2.1	Selling costs and administrative expenses	(182)	(176)
	Profit on sales	**520**	**1 065**
Note 2.2	Other operating income and (costs) including:	83	(270)
	Interest income calculated using the effective discount rate method	57	N/A*
	(Recognition)/reversal of impairment losses on financial instruments and (recognition) of impairment losses on purchased or originated credit-impaired (POCI) assets	49	N/A*
Note 2.3	Finance income and (costs)	124	309
	Profit before income tax	**727**	**1 104**
	Income tax expense	(197)	(299)
	PROFIT FOR THE PERIOD	**530**	**805**
	Weighted average number of ordinary shares (million)	**200**	**200**
	Basic and diluted earnings per share (in PLN)	**2.65**	**4.03**

** N/A – not applicable – items in which the following did not occur in 2017: measurement in accordance with principles arising from the application, from 1 January 2018, of IFRS 9, and the disclosure requirement of IFRS 15.*

INTERIM STATEMENT OF COMPREHENSIVE INCOME

	1st quarter of 2018	1st quarter of 2017
Profit for the period	**530**	**805**
Measurement of hedging instruments net of the tax effect	115	123
Measurement of available-for-sale financial assets net of the tax effect	N/A*	81
Other comprehensive income which will be reclassified to profit or loss	**115**	**204**
Measurement of equity financial instruments at fair value net of the tax effect	(92)	N/A*
Actuarial losses net of the tax effect	(147)	(164)
Other comprehensive income which will not be reclassified to profit or loss	**(239)**	**(164)**
Total other comprehensive net income	**(124)**	**40**
TOTAL COMPREHENSIVE INCOME	**406**	**845**

** N/A – not applicable – items which no longer occur due to the change in classification, from 1 January 2018, of equity financial instruments in accordance with IFRS 9.*

amounts in PLN millions, unless otherwise stated

INTERIM STATEMENT OF CASH FLOWS

		1st quarter of 2018	1st quarter of 2017
	Cash flow from operating activities		
	Profit before income tax	727	1 104
	Depreciation/amortisation recognised in profit or loss	251	239
	Interest on investment activities	(54)	(96)
	Interest and other costs of borrowings	32	38
	Change in other receivables and liabilities	(27)	282
	Fair value gains on financial assets measured at fair value through profit or loss	(113)	N/A*
	Impairment losses on non-current assets	765	-
	Reversal of impairment losses on non-current assets	(813)	-
	Exchange differences, of which:	(66)	63
	from investment activities and cash	84	432
	from financing activities	(150)	(369)
	Change in assets/liabilities due to derivatives	(40)	(92)
Note 2.5	Other adjustments	(15)	21
	Exclusions of income and costs, total	(80)	455
	Income tax paid	(144)	(414)
Note 2.4	Changes in working capital	(585)	(598)
	Net cash generated from/(used in) operating activities	**(82)**	**547**
	Cash flow from investing activities		
	Expenditures on mining and metallurgical assets	(556)	(603)
	Expenditures on other property, plant and equipment and intangible assets	(15)	(8)
	Loans granted	(5)	-
	Other expenses	(38)	(44)
	Total expenses	(614)	(655)
	Proceeds	6	4
	Net cash used in investing activities	**(608)**	**(651)**
	Cash flow from financing activities		
	Proceeds from borrowings	1 112	761
	Proceeds from cash pool	60	-
	Total proceeds	1 172	761
	Repayments of borrowings	(481)	(733)
	Interest paid and other costs of borrowings	(30)	(36)
	Total expenses	(511)	(769)
	Net cash generated from/(used in) financing activities	**661**	**(8)**
	TOTAL NET CASH FLOW	**(29)**	**(112)**
	Exchange gains/(losses) on cash and cash equivalents	10	(25)
	Cash and cash equivalents at the beginning of the period	234	482
	Cash and cash equivalents at the end of the period	**215**	**345**

** 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

INTERIM STATEMENT OF FINANCIAL POSITION

	1st quarter of 2018	2017
ASSETS		
Mining and metallurgical property, plant and equipment	15 373	15 355
Mining and metallurgical intangible assets	532	507
Mining and metallurgical property, plant and equipment and intangible assets	15 905	15 862
Other property, plant and equipment	71	75
Other intangible assets	32	34
Other property, plant and equipment and intangible assets	103	109
Investments in subsidiaries and joint ventures	3 013	3 013
Loans granted, including:	4 780	4 972
measured at fair value	1 130	N/A*
measured at amortised cost	3 650	4 972
Derivatives	212	109
Other financial instruments measured at fair value	534	613
Other financial assets	375	337
Financial instruments, total	5 901	6 031
Deferred tax assets	110	31
Other non-financial assets	24	25
Non-current assets	**25 056**	**25 071**
Inventories	4 651	3 857
Trade receivables, including:	730	1 034
trade receivables measured at fair value	449	N/A*
Tax assets	160	214
Derivatives	263	195
Other financial assets	291	288
Other assets	114	54
Cash and cash equivalents	215	234
Current assets	**6 424**	**5 876**
	31 480	**30 947**
EQUITY AND LIABILITIES		
Share capital	2 000	2 000
Other reserves from measurement of financial instruments	(439)	142
Accumulated other comprehensive income	(495)	(348)
Retained earnings	16 363	15 462
Equity	**17 429**	**17 256**
Borrowings	5 863	6 085
Derivatives	80	84
Employee benefits liabilities	2 049	1 879
Provisions for decommissioning costs of mines and other technological facilities	794	797
Other liabilities	211	207
Non-current liabilities	8 997	9 052
Borrowings	1 627	923
Cash pool liabilities	220	160
Derivatives	36	74
Trade payables	1 321	1 719
Employee benefits liabilities	759	649
Tax liabilities	428	416
Other liabilities	663	698
Current liabilities	5 054	4 639
Non-current and current liabilities	**14 051**	**13 691**
	31 480	**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

INTERIM 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	-	-	-	-	**-**
	Profit for the period	-	-	-	805	**805**
	Other comprehensive income	-	204	(164)	-	**40**
	Total comprehensive income	-	204	(164)	805	**845**
	As at 31 March 2017	**2 000**	**8**	**(407)**	**15 144**	**16 745**
	As at 31 December 2017	**2 000**	**142**	**(348)**	**15 462**	**17 256**
Note I.	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	-	-	-	530	**530**
	Other comprehensive income	-	23	(147)	-	**(124)**
	Total comprehensive income	-	23	(147)	530	**406**
	As at 31 March 2018	**2 000**	**(439)**	**(495)**	**16 363**	**17 429**

amounts in PLN millions, unless otherwise stated

Selected additional explanatory notes

I. 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 and losses due to the impairment of financial assets.

The selected accounting policy with respect to IFRS 9 is presented in Part 1, Note 1.4 of this report.

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, par. 42I, 42J, 42O):

	Classification per IAS 39	Classification per IFRS 9	Carrying amount per IAS 39	Carrying amount per IFRS 9	Reference
Financial assets			**31 December 2017**	**1 January 2018**	
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)

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 by the Company. These instruments were not purchased in order to be traded, and due to the above, 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 the 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 and therefore 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, which passed the SPPI test and 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 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",

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 for receivables, in the item "Other financial assets", while the liabilities are presented in the item "Other liabilities".

For the remaining categories of financial instruments there were no changes arising from changes in classification or changes in measurement.

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
Credit-impaired loans granted (POCI)	-	61	-	-
Total	**2 630**	**(1 782)**	**385**	**-**
Loans and receivables (IAS 39) / Financial assets at fair value through profit or loss (IFRS 9)				
Loans granted	-	1 782	-	-
Total	**-**	**1 782**	**-**	**-**
Available-for-sale assets (IAS 39) / Financial assets at fair value through other comprehensive income (IFRS 9)				
Shares	472	(472)	-	-
Total	**472**	**(472)**	**-**	**-**

Below, we present the impact of implementation of IFRS 9 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

	Applied standard IFRS/IAS	As at 31 December 2017 Carrying amount	Change due to the reclassification	Change due to the change in measurement	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 (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 corrections		-	-	38	38	(114)	152	38
Total impact						**371**	**(604)**	**(233)**

IFRS 15 Revenue from contracts with customers

The selected financial policy with respect to IFRS 15 was presented in Part 1, Note 1.4. of this report. Amendments to 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 final price was not set at the end of the reporting period, in the interim statement of profit or loss (among others, priced upon the M+ formula).

amounts in PLN millions, unless otherwise stated

II. Additional notes

Note 2.1 Expenses by nature

	1st quarter of 2018	1st quarter of 2017
Depreciation of property, plant and equipment and amortisation of intangible assets	293	269
Employee benefits expenses	782	751
Materials and energy, including:	1 405	1 371
Purchased metal-bearing materials	866	853
Electrical and other energy	185	167
External services, including:	369	353
Transport	50	52
Repairs, maintenance and servicing	108	98
Mine preparatory work	117	104
Minerals extraction tax	434	466
Other taxes and charges	109	107
Other costs	29	20
Total expenses by nature	**3 421**	**3 337**
Cost of merchandise and materials sold (+)	41	56
Change in inventories of finished goods and work in progress (+/-)	(744)	(534)
Cost of manufacturing products for internal use (-)	(32)	(28)
Total costs of sales, selling costs and administrative expenses, including:	**2 686**	**2 831**
Cost of sales	2 504	2 655
Selling costs	24	26
Administrative expenses	158	150

Note 2.2 Other operating income and (costs)

	1st quarter of 2018	1st quarter of 2017
Measurement and realisation of derivatives	37	153
Interest on loans granted and other financial receivables	57	98
Fees and charges on re-invoicing of costs of bank guarantees securing payments of liabilities	18	20
Reversal of impairment losses on financial instruments due to debt restructuring	814	N/A
Gains on changes in fair value of financial assets measured at fair value through profit or loss	113	N/A
Other	17	13
Total other income	**1 056**	**284**
Measurement and realisation of derivatives	(59)	(83)
Impairment losses due to initial recognition of POCI loans due to debt restructuring	(763)	N/A
Allowances for impairment of loans	(2)	N/A
Exchange differences on assets and liabilities other than borrowings	(124)	(425)
Other	(25)	(46)
Total other costs	**(973)**	**(554)**
Other operating income and (costs)	**83**	**(270)**

amounts in PLN millions, unless otherwise stated

Note 2.3 Finance income and (costs)

	1st quarter of 2018	1st quarter of 2017
Exchange differences on borrowings	150	369
Measurement of derivatives	15	-
Total income	**165**	**369**
Interest on borrowings	(24)	(29)
Bank fees and charges on borrowings	(6)	(7)
Measurement of derivatives	-	(13)
Unwinding of the discount	(11)	(11)
Total costs	**(41)**	**(60)**
Finance income and (costs)	**124**	**309**

Note 2.4 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 31 March 2018	(4 651)	(730)	1 478	**(3 903)**
Change in the statement of financial position	(794)	320	(404)	**(878)**
Depreciation recognised in inventories	42	-	-	**42**
Payables due to the purchase of property, plant and equipment and intangible assets	-	-	251	**251**
Adjustments	42	-	251	**293**
Change in the statement of cash flows	(752)	320	(153)	**(585)**

	Inventories	Trade receivables	Trade payables	Working capital
As at 1 January 2017	(2 726)	(676)	1 542	**(1 860)**
As at 31 March 2017	(3 472)	(750)	1 462	**(2 760)**
Change in the statement of financial position	(746)	(74)	(80)	**(900)**
Depreciation recognised in inventories	27	-	-	**27**
Payables due to the purchase of property, plant and equipment and intangible assets	-	-	275	**275**
Adjustments	27	-	275	**302**
Change in the statement of cash flows	(719)	(74)	195	**(598)**

Note 2.5 Other adjustments in the statement of cash flows

	1st quarter of 2018	1st quarter of 2017
Losses on the sales of property, plant and equipment and intangible assets	13	6
Proceeds from income tax from the tax group companies	2	11
Reclassification of other comprehensive income to profit or loss due to the realisation of hedging instruments	(30)	4
Total	**(15)**	**21**

Lubin, 15 May 2018