POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated quarterly report QSr 1 / 2019

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

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

For the first quarter of the financial year **2019** from **1 January 2019** to **31 March 2019** containing the condensed consolidated financial statements prepared under International Accounting Standard 34 in PLN, and condensed financial statements prepared under IAS 34 in PLN.

publication date: 15 May 2019

KGHM Polska Miedź Spółka Akcyjna
(name of the issuer)

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

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

59 – 301
(postal code)

LUBIN
(city)

M. Skłodowskiej – Curie
(street)

48
(number)

(48 76) 74 78 200
(telephone)

(48 76) 74 78 500
(fax)

ir@kghm.com
(e-mail)

www.kghm.com
(website address)

692–000–00-13
(NIP)

390021764
(REGON)

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

SELECTED FINANCIAL DATA

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

		in PLN mn		in EUR mn	
		from 1 January 2019 to 31 March 2019	from 1 January 2018 to 31 March 2018	from 1 January 2019 to 31 March 2019	from 1 January 2018 to 31 March 2018
I.	Revenues from contracts with customers	5 488	4 266	1 277	1 021
II.	Profit on sales	739	659	172	158
III.	Profit before income tax	838	661	195	158
IV.	Profit for the period	552	439	128	105
V.	Profit for the period attributable to shareholders of the Parent Entity	552	439	128	105
VI.	Profit for the period attributable to non-controlling interest	-	-	-	-
VII.	Other comprehensive net income	(336)	(103)	(78)	(25)
VIII.	Total comprehensive income	216	336	50	80
IX.	Total comprehensive income attributable to shareholders of the Parent Entity	215	337	50	80
X.	Total comprehensive income attributable to non-controlling interest	1	(1)	-	-
XI.	Number of shares issued (million)	200	200	200	200
XII.	Earnings per ordinary share attributable to shareholders of the Parent Entity	2.76	2.20	0.64	0.53
XIII.	Net cash generated from/(used in) operating activities	535	(11)	124	(3)
XIV.	Net cash used in investing activities	(877)	(678)	(204)	(162)
XV.	Net cash generated from financing activities	16	608	4	146
XVI.	Total net cash flow	(326)	(81)	(76)	(19)
		As at 31 March 2019	As at 31 December 2018	As at 31 March 2019	As at 31 December 2018
XVII.	Non-current assets	30 477	29 375	7 086	6 831
XVIII.	Current assets	8 041	7 862	1 869	1 829
XIX.	Total assets	38 518	37 237	8 955	8 660
XX.	Non-current liabilities	12 355	12 147	2 872	2 825
XXI.	Current liabilities	6 722	5 865	1 563	1 364
XXII.	Equity	19 441	19 225	4 520	4 471
XXIII.	Equity attributable to shareholders of the Parent Entity	19 348	19 133	4 498	4 450
XXIV.	Equity attributable to non-controlling interest	93	92	22	21

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

		in PLN mn		in EUR mn	
		from 1 January 2019 to 31 March 2019	from 1 January 2018 to 31 March 2018	from 1 January 2019 to 31 March 2019	from 1 January 2018 to 31 March 2018
I.	Revenues from contracts with customers	4 316	3 206	1 004	767
II.	Profit on sales	725	520	169	124
III.	Profit before income tax	931	717	217	172
IV.	Profit for the period	695	521	162	125
V.	Other comprehensive net income	(297)	(124)	(69)	(30)
VI.	Total comprehensive income	398	397	93	95
VII.	Number of shares issued (million)	200	200	200	200
VIII.	Earnings per ordinary share	3.48	2.61	0.81	0.63
IX.	Net cash generated from/(used in) operating activities	516	(82)	120	(20)
X.	Net cash used in investing activities	(869)	(608)	(202)	(146)
XI.	Net cash generated from financing activities	85	661	19	157
XII.	Total net cash flow	(268)	(29)	(63)	(9)
		As at 31 March 2019	As at 31 December 2018	As at 31 March 2019	As at 31 December 2018
XIII.	Non-current assets	28 977	28 098	6 737	6 534
XIV.	Current assets	6 284	6 152	1 461	1 431
XV.	Total assets	35 261	34 250	8 198	7 965
XVI.	Non-current liabilities	10 207	10 240	2 373	2 381
XVII.	Current liabilities	5 611	4 965	1 304	1 155
XVIII.	Equity	19 443	19 045	4 521	4 429

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Part 1 – Condensed consolidated financial statements

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		from 1 January 2019 to 31 March 2019	from 1 January 2018 to 31 March 2018
Note 3.3	Revenues from contracts with customers, including:	5 488	4 266
	from sales, for which the amount of revenue was not finally determined at the end of the reporting period (IFRS 15.114)	939	563
Note 4.1	Cost of sales	(4 441)	(3 318)
	Gross profit	**1 047**	**948**
Note 4.1	Selling costs and administrative expenses	(308)	(289)
	Profit on sales	**739**	**659**
	Profit on involvement in joint ventures – interest income on loans granted	82	81
Note 4.2	Other operating income and (costs), including:	197	(191)
	Interest income calculated using the effective interest rate method	3	2
Note 4.3	Finance income and (costs)	(180)	112
	Profit before income tax	**838**	**661**
	Income tax expense	(286)	(222)
	PROFIT FOR THE PERIOD	**552**	**439**
	Profit for the period attributable to:		
	Shareholders of the Parent Entity	552	439
	Non-controlling interest	-	-
	Weighted average number of ordinary shares (million)	200	200
	Basic/diluted earnings per share (in PLN)	**2.76**	**2.20**

amounts in PLN millions, unless otherwise stated

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	from 1 January 2019 to 31 March 2019	from 1 January 2018 to 31 March 2018
Profit for the period	**552**	**439**
Measurement of hedging instruments net of the tax effect	(221)	115
Exchange differences from the translation of statements of operations with a functional currency other than PLN	(41)	32
Other comprehensive income which will be reclassified to profit or loss	**(262)**	**147**
Equity financial instruments measured, as a result of option election, at fair value through other comprehensive income, net of the tax effect	(17)	(103)
Actuarial (losses)/gains net of the tax effect	(57)	(147)
Other comprehensive income, which will not be reclassified to profit or loss	**(74)**	**(250)**
Total other comprehensive net income	**(336)**	**(103)**
TOTAL COMPREHENSIVE INCOME	**216**	**336**
Total comprehensive income attributable to:		
Shareholders of the Parent Entity	215	337
Non-controlling interest	1	(1)

amounts in PLN millions, unless otherwise stated

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		from 1 January 2019 to 31 March 2019	from 1 January 2018 to 31 March 2018
	Cash flow from operating activities		
	Profit before income tax	838	661
	Depreciation/amortisation recognised in profit or loss	453	350
	Interest on loans granted to joint ventures	(82)	(81)
	Interest and other costs of borrowings	47	34
	Impairment losses on non-current assets	-	10
	Exchange differences, of which:	(56)	(13)
	from investing activities and cash	(163)	136
	from financing activities	107	(149)
	Change in other receivables and liabilities	(72)	173
	Change in derivatives	(19)	(59)
Note 4.12	Other adjustments	10	(17)
	Exclusions of income and costs, total	281	397
	Income tax paid	(66)	(167)
Note 4.11	Changes in working capital	(518)	(902)
	Net cash generated from/(used in) operating activities	**535**	**(11)**
	Cash flow from investing activities		
	Expenditures on mining and metallurgical assets, including:	(725)	(601)
	interest paid	(39)	(25)
	Expenditures on other property, plant and equipment and intangible assets	(130)	(74)
	Other expenses	(96)	(34)
	Total expenses	(951)	(709)
	Proceeds	74	31
	Net cash used in investing activities	**(877)**	**(678)**
	Cash flow from financing activities		
	Proceeds from borrowings	3 145	1 131
	Other proceeds	1	1
	Total proceeds	3 146	1 132
	Repayments of borrowings, including:	(3 075)	(492)
	leases	(8)	(3)
	Interest paid and other costs of borrowings, including:	(54)	(32)
	leases	(16)	-
	Other	(1)	-
	Total expenses	(3 130)	(524)
	Net cash generated from financing activities	**16**	**608**
	TOTAL NET CASH FLOW	**(326)**	**(81)**
	Exchange gains/(losses)	(41)	18
	Cash and cash equivalents at beginning of the period	957	**586**
	Cash and cash equivalents at end of the period	**590**	**523**

amounts in PLN millions, unless otherwise stated

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 March 2019	As at 31 December 2018
	ASSETS		
	Mining and metallurgical property, plant and equipment	18 126	17 507
	Mining and metallurgical intangible assets	1 654	1 657
	Mining and metallurgical property, plant and equipment and intangible assets	19 780	19 164
	Other property, plant and equipment	2 930	2 789
	Other intangible assets	287	224
	Other property, plant and equipment and intangible assets	3 217	3 013
	Joint ventures accounted for using the equity method	4	4
Note 4.6	Loans granted to joint ventures	5 389	5 199
Note 4.5	Total involvement in joint ventures	5 393	5 203
	Derivatives	250	320
	Other financial instruments measured at fair value	520	541
	Other financial assets	757	716
Note 4.6	Financial instruments, total	1 527	1 577
	Deferred tax assets	452	309
	Other non-financial assets	108	109
	Non-current assets	**30 477**	**29 375**
	Inventories	5 444	4 983
Note 4.6	Trade receivables, including:	1 011	799
	Trade receivables measured at fair value through profit or loss	461	304
	Tax assets	312	417
Note 4.6	Derivatives	140	301
	Other financial assets	286	273
	Other non-financial assets	258	132
Note 4.6	Cash and cash equivalents	590	957
	Current assets	**8 041**	**7 862**
	TOTAL ASSETS	**38 518**	**37 237**
	EQUITY AND LIABILITIES		
	Share capital	2 000	2 000
	Other reserves from measurement of financial instruments	(682)	(444)
	Accumulated other comprehensive income	1 906	2 005
	Retained earnings	16 124	15 572
	Equity attributable to shareholders of the Parent Entity	19 348	19 133
	Equity attributable to non-controlling interest	93	92
	Equity	**19 441**	**19 225**
Note 4.8	Borrowings	6 867	6 878
Note 4.6	Derivatives	171	162
	Employee benefits liabilities	2 534	2 447
	Provisions for decommissioning costs of mines and other facilities	1 593	1 564
	Deferred tax liabilities	587	498
	Other liabilities	603	598
	Non-current liabilities	12 355	12 147
Note 4.8	Borrowings	1 795	1 071
Note 4.6	Derivatives	55	43
Note 4.6	Trade payables	1 917	2 053
	Employee benefits liabilities	891	808
	Tax liabilities	678	585
	Provisions for liabilities and other charges	265	271
	Other liabilities	1 121	1 034
	Current liabilities	6 722	5 865
	Non-current and current liabilities	**19 077**	**18 012**
	TOTAL EQUITY AND LIABILITIES	**38 518**	**37 237**

amounts in PLN millions, unless otherwise stated

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to shareholders of the Parent Entity						
	Share capital	Other reserves from measurement of financial instruments	Accumulated other comprehensive income	Retained earnings	Total	Equity attributable to non-controlling interest	Total equity
As at 1 January 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**
As at 1 January 2019	**2 000**	**(444)**	**2 005**	**15 572**	**19 133**	**92**	**19 225**
Profit for the period	-	-	-	552	**552**	-	**552**
Other comprehensive income	-	(238)	(99)	-	**(337)**	1	**(336)**
Total comprehensive income	-	(238)	(99)	552	**215**	**1**	**216**
As at 31 March 2019	**2 000**	**(682)**	**1 906**	**16 124**	**19 348**	**93**	**19 441**

1 – General information

Note 1.1 Corporate information

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

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

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

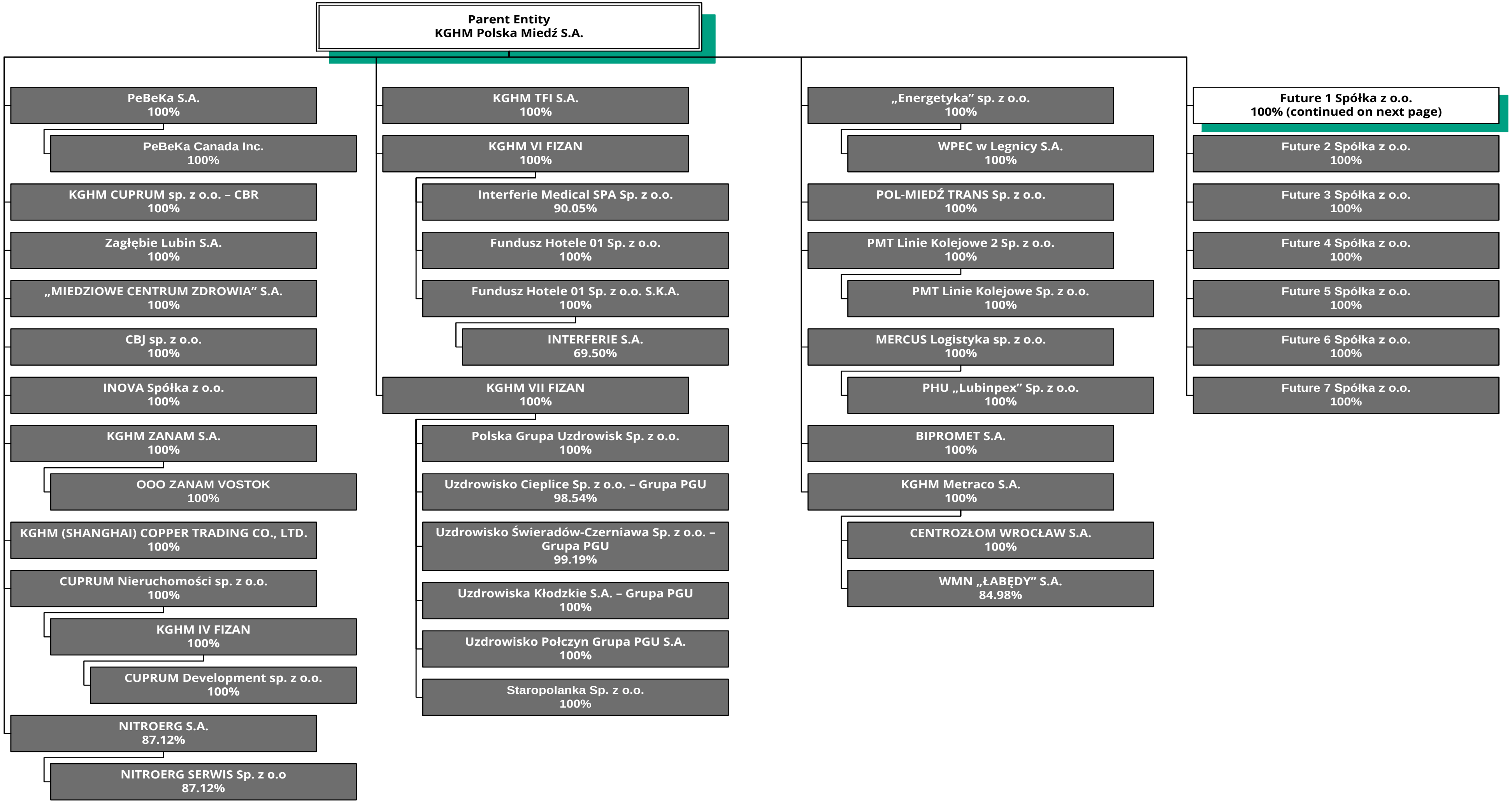
The Parent Entity's principal activities include:
- the mining of copper and non-ferrous metals ores; and
- the production of copper, precious and non-ferrous metals.

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

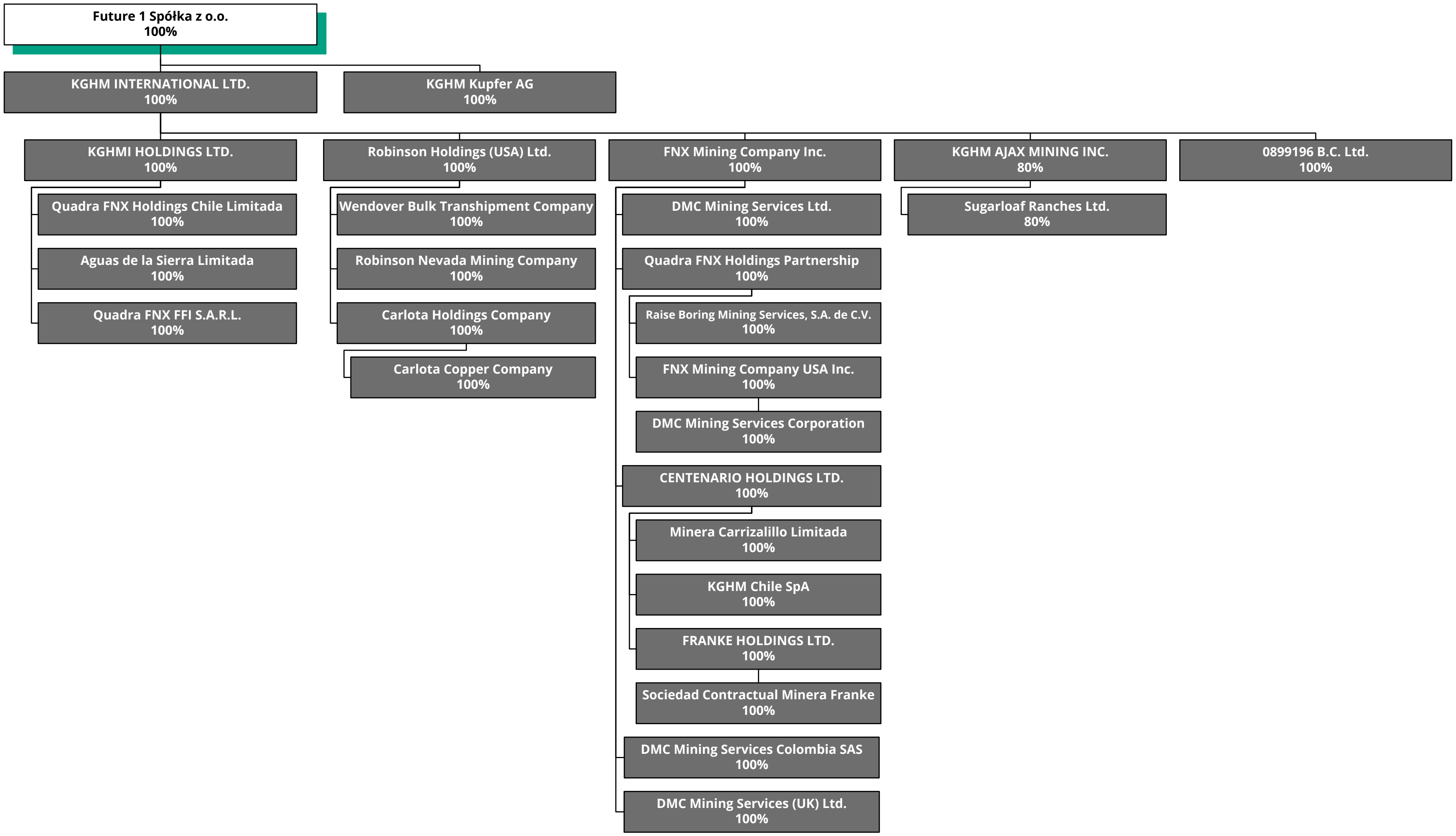
The KGHM Polska Miedź S.A. Group carries out exploration for and mining of copper, nickel and precious metals based on concessions held by KGHM Polska Miedź S.A. for its Polish deposits, and also based on legal titles held by companies of the KGHM INTERNATIONAL LTD. Group for the exploration for and 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 2019

In the current quarter KGHM Polska Miedź S.A. consolidated 73 subsidiaries and used the equity method to account for the shares of two joint ventures (Sierra Gorda S.C.M. and NANO CARBON Sp. z o.o.).



The percentage share represents the total share of the Group.


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

Note 1.3 Exchange rates applied

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

- for the conversion of turnover, profit or loss and cash flow for the current period, the rate of ***4.2978 EURPLN*,***
- for the conversion of turnover, profit or loss and cash flow for the comparable period, the rate of ***4.1784 EURPLN*,***
- for the conversion of assets, equity and liabilities at 31 March 2019, the current average exchange rate announced by the National Bank of Poland (NBP) as at 29 March 2019, of ***4.3013 EURPLN,***
- for the conversion of assets, equity and liabilities at 31 December 2018, the current average exchange rate announced by the NBP as at 31 December 2018, of ***4.3000 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 2019 and 2018.*

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

The following quarterly report includes:

1. the condensed consolidated financial statements of the KGHM Polska Miedź S.A. Group for the period from 1 January to 31 March 2019 and the comparable period from 1 January to 31 March 2018, 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 2019 and the comparable period from 1 January to 31 March 2018 **(Part 2)**.

Neither the condensed consolidated financial statements as at 31 March 2019 nor the condensed separate financial statements as at 31 March 2019 were subject to audit by a certified auditor.

The condensed consolidated financial report for the period from 1 January 2019 to 31 March 2019 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 2018 and the Consolidated annual report RS 2018.

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 2018, with the exception of accounting policies and valuation methods arising from the application of IFRS 16 which are presented below.

Note 1.4.1 Impact of new and amended standards and interpretations

The International Accounting Standards Board approved the following new standards for use from 1 January 2019:

- IFRS 16 Leases,
- Amendments to IAS 19 on amendments, curtailments or settlements of plans of specified benefits,
- Amendments to IAS 28 on long-term interests that form part of the net investments in associates and joint ventures,
- IFRIC 23 interpretation on uncertainty over income tax treatments,
- Amendments to IFRS 9 on debt financial assets with early repayment options, which could lead to the arising of a so-called negative compensation,
- Annual improvements to IFRS Standards, 2015-2017 cycle.

Up to the date of publication of these consolidated financial statements, the aforementioned amendments to the standards were adopted for use by the European Union and with the exception of IFRS 16, they will not have an impact on the Group's accounting policy or on the consolidated financial statements.

IFRS 16 "Leases"

Basic information on the standard

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

Main changes introduced by the standard
The new standard introduced a single model for recognising a lease in a lessee's accounting books, conforming to the recognition of a finance lease under IAS 17. Pursuant to IFRS 16, an agreement is a lease or contains a lease if it transfers the rights to control the use of an identified asset for a given period in exchange for compensation.

The essential element differentiating the definition of a lease from IAS 17 and from IFRS 16 is the requirement to have control over the used, specific asset, indicated directly or implied in the agreement.
Transfer of the right to use takes place when we have an identified asset, with respect to which the lessee has the right to obtain substantially all of the economic benefits from its use, and controls the use of a given asset in a given period.
If the definition of a "lease" is met, the right to use an asset is recognised alongside a corresponding lease liability, set in the amount of future discounted payments – for the duration of the lease.
Expenses related to the use of lease assets, the majority of which were previously recognised in external services costs, are currently classified as depreciation/amortisation and interest costs.
Usufruct rights are depreciated in accordance with IAS 16, while lease liabilities are settled using the effective interest rate.

The requirements of the new standard with respect to recognition and measurement by the lessor are similar to the requirements of IAS 17. A lease is classified as financial or operational, which is also in accordance with IFRS 16. Compared to IAS 17, the new standard changed the principles of classification of a sublease and requires the lessor to disclose additional information.

Impact of IFRS 16 on the financial statements

The Group had completed the work related to implementation of the new standard IFRS 16 in the fourth quarter of 2018. The project to implement IFRS 16 (project), was executed in three stages:

- stage I – analysis of all executed agreements for the purchase of services, regardless of their classification, the goal of which was to identify agreements based on which the Group companies use assets belonging to suppliers; in addition, this stage comprised the analysis of perpetual usufruct rights to land as well as land easements and transmission easements,

- stage II – the evaluation of each agreement identified in stage I in terms of its meeting the criteria to be recognised as a lease pursuant to IFRS 16,

- stage III - implementation of IFRS 16 based on the developed concept.

All agreements involving a finance lease, operating lease, rentals, leases, perpetual usufruct rights to land or transmission easements and land easements were analysed. Also analysed were transactions involving purchased services (external service costs under operating activities) in terms of any occurrence of use of the identified assets.
Under this project the Group carried out appropriate changes in accounting policy and operating procedures. Methods were developed and implemented for the proper identification of lease agreements and for gathering data needed in order to properly account for such transactions.
The Group decided to apply the standard from 1 January 2019. In accordance with the transition rules described in IFRS 16.C5 (b), the new principles were applied retrospectively, and the accumulated impact of initial application of the new standard was recognised in equity as at 1 January 2019. Consequently, comparable data for financial year 2018 were not restated (the modified retrospective approach). At the moment of transition, the Group applied the practical expedient pursuant to which the entity was not required to reassess whether previously classified agreements contain a lease. The project which was undertaken during the implementation indicated that the new definition of a lease per IFRS 16 will not significantly change the scope of agreements meeting the definition of a lease.

Individual adjustments arising from the application of IFRS 16 were described below.

Description of adjustments

a) Recognition of lease liabilities

Following the adoption of IFRS 16, the Group recognises lease liabilities related to agreements which were previously classified as "operating leases" in accordance with IAS 17 *Leases*. These liabilities were measured at the present value of lease payments due to be paid as at the date of commencement of the application of IFRS 16. For purposes of implementation of IFRS 16 and disclosure with respect to the impact of implementation of IFRS 16, discounting was applied using the Group's incremental borrowing rate as at 1 January 2019.
At their date of initial recognition, lease payments contained in the measurement of lease liabilities comprise the following types of payments for the right to use the underlying asset for the life of the lease:
- fixed lease payments less any lease incentives,
- variable lease payments which are dependent on market indices or market interest rates,
- amounts expected to be payable by the lessee under guaranteed residual value,
- the strike price of a purchase option, if it is reasonably certain that the option will be exercised, and
- payment due to contractual penalties for terminating the lease, if the lease period reflects the lessee's use of the option of terminating the lease.

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

As at 1 January 2019, the discount rates calculated by the Group were within the following ranges (depending on the life of the agreement):

- for PLN-denominated agreements: from 4.25% to 5.86%
- for EUR-denominated agreements: from 2.10% to 4.63%
- for USD-denominated agreements: from 5.42% to 6.08%
- for CAD-denominated agreements: from 4.70% to 5.75%

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

b) Recognition of right-to-use assets

Right-to-use assets are measured at cost.
The initial cost of a right-to-use asset comprises:

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

On the day of initial application, in the case of leases previously classified as operating leases under IAS 17, right-to-use assets were measured by the Group at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments related to that lease, recognised in the statement of financial position directly preceding the date of the initial application of IFRS 16.
Following initial recognition, right-to-use assets are depreciated under IAS 16 and are subjected to impairment testing pursuant to IAS 36.

c) Application of estimates

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

- determining which agreements are subject to IFRS 16,
- determining the remaining life of leases for agreements entered into before 1 January 2019 (including for agreements with unspecified lives or which may be prolonged),
- determining the marginal interest rates applied for the purpose of discounting future cash flows, and
- determining useful lives and the depreciation rates of right-to-use assets, recognised as at 1 January 2019.

d) Application of practical expedients

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

- application of a single discount rate to a portfolio of leases with similar characteristics,
- assessment as to whether leases are onerous as defined by IAS 37 at the moment of implementation of the standard as an alternative to performing impairment testing of a leased asset,
- the treatment of operating lease agreements for which the remaining lease term is less than 12 months as at 1 January 2019 as short-term leases, and
- the use of hindsight (i.e. knowledge gained after the fact) in determining the lease period if the agreement contains options to prolong or terminate the lease.

e) Impact of implementation of IFRS 16 on the financial statements

As at 31 December 2018, the Group had non-cancellable, off-balance sheet operating lease liabilities in respect of the following agreements: perpetual usufruct of land, lease of land, lease of machines and equipment and other leases. As at 31 December 2018, their notional amount was PLN 1 362 million, of which the amount of PLN 1 351 million concerns lease agreements in accordance with IFRS 16, and excludes short-term leases and the lease of low value assets.

For the aforementioned agreements, the Group measured the present value of assets used under these agreements and recognised, as at 1 January 2019, right-to-use assets in the amount of PLN 516 million and a corresponding lease liability in the same amount.

In the case of lease agreements which were previously classified as finance leases, the carrying amounts of the right-to-use assets and lease liabilities as at 1 January 2019 is equal to the amounts measured in accordance with IAS 17 as at 31 December 2018.

Off-balance sheet lease liabilities in the amount of PLN 1 362 million were written-off.

amounts in PLN millions, unless otherwise stated

In the case of agreements in which the Company is a lessor, application of IFRS 16 did not necessitate the recognition of adjustments as at 1 January 2019.

Summary of the financial impact of the implementation of IFRS 16 (this only concerns lease agreements entered into or amended before 1 January 2019):

Reconciliation of transition from IAS 17 to IFRS 16:

		Amount
Finance lease liabilities	IAS 17	27
Off-balance sheet operating lease liabilities (excluding discount)	IAS 17	1 362
Total - 31 December 2018		**1 389**
(-) Impact of the discount using the incremental borrowing rate as at 1 January 2019	IFRS 16	(133)
(-) Impact of the discount of perpetual usufruct of land as at 1 January 2019	IFRS 16	(702)
(-) Short-term lease agreements recognised as a cost in the period	IFRS 16	(11)
(-) Lease agreements of low value assets recognised as a cost in the period	IFRS 16	-
Lease liabilities – 1 January 2019		**543**

Impact on items of the statement of financial position as at 1 January 2019

	As at 1 January 2019
Right-to-use assets – property, plant and equipment, including:	595
– purchased perpetual usufruct right to land and transmission easements, reclassified from intangible assets	79
Lease liability	516

Impact on the financial statements as at 31 March 2019

Right-to-use assets – by assets	As at 31 December 2018	Impact of IFRS 16	As at 1 January 2019	As at 31 March 2019
Land	5	128	133	134
Perpetual usufruct right to land	74	302	376	379
Buildings	-	8	8	7
Technical equipment and machines	19	59	78	78
Motor vehicles	15	18	33	31
Other fixed assets	2	1	3	4
Total	**115**	**516**	**631**	**633**

	from 1 January 2019 to 31 March 2019
Impact on the statement of comprehensive income:	
- decrease in taxes, charges and services	(13)
- increase in interest costs	7
- increase in depreciation/amortisation	11
Impact on the statement of cash flows:	
- increase in net cash flows – operating activities	21
- decrease in net cash flows – financing activities	(21)

The cost of short-term lease agreements and the cost of lease agreements for low-value assets for the first quarter of 2019 is immaterial.

The discount rates applied as at 31 March 2019 were as follows:

- for PLN-denominated agreements: from 4.25% to 5.86%
- for EUR-denominated agreements: from 2.10% to 4.63%
- for USD-denominated agreements: from 5.42% to 6.08%
- for CAD-denominated agreements: from 4.70% to 5.75%

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

Entry into force of the contract with China Minmetals Nonferrous Metals Co. Ltd.

The Management Board of KGHM Polska Miedź S.A. announced via regulatory filing no. 9/2019 that on 21 March 2019 the framework contract signed on 20 June 2016 between KGHM Polska Miedź S.A. and China Minmetals Corporation for the years 2017-2021 and announced by the Company via regulatory filing no. 22/2016 dated 20 June 2016 was terminated.

The termination of the aforementioned contract fulfilled the condition precedent of the new framework contract which was signed on 6 November 2018 with China Minmetals Nonferrous Metals Co. Ltd. (a company within the China Minmetals Corporation group) for the years 2019-2023, which was announced by the Company via regulatory filing no. 42/2018 dated 6 November 2018.

amounts in PLN millions, unless otherwise stated

2 – Realisation of strategy

On 19 December 2018 the Supervisory Board of KGHM Polska Miedź S.A. approved the „Strategy of KGHM Polska Miedź S.A. for the years 2019-2023" as submitted by the Management Board. Adoption of the strategy was related to the strategic review conducted, the goal of which was to ensure its cohesion with current market conditions and the needs of the KGHM Polska Miedź S.A. Group.

The strategy does not change the approach of KGHM Polska Miedź S.A. (the Company) which it has pursued to date with respect to its business operations. The Company will continue its basic activities within the mining and metallurgical sector, with particular attention to the principles of sustainable development and long-term thinking about the company's future and its environment.

The strategy of KGHM Polska Miedź S.A. for the years 2019-2023 is based on four key development directions arising from global market trends:

ELASTICITY (FLEXIBILITY)	mainly encompassing the concepts related to the 4.0 industry, digitalisation and electromobility
EFFICIENCY	a response to the increasing competitiveness in the production and mining industries and the 4.0 industry,
ECOLOGY	based on electromobility, development of pro-ecological legislation, closed-circuit industry and environmentally-friendly production,
E-INDUSTRY	based on automation, digitalisation, a knowledge-based society and concepts of the 4.0 industry.

The aforementioned directions were reflected in six identified strategic areas, with individualised and measurable main goals which were subsequently broken down into operational goals.

Strategic area	Main goal	Key Performance Indicator (KPI)
PRODUCTION	Maintain cost-effective Polish and international production	- Mining production in Poland at the level of 450 thousand tonnes of copper in ore, with an average yearly C1 cost not higher than 3800 USD/t in the years 2019-2023. - Average annual daily ore processing in Sierra Gorda at the level of at least 130 thousand tonnes – from 2020. - Average yearly metallurgical production in Poland at the level of 540 thousand tonnes in the years 2019-2023.
DEVELOPMENT	Increase the KGHM Group's efficiency and flexibility in terms of its Polish and international assets	- Ensure the possibility of basing 35% of metallurgical production on purchased copper-bearing materials, including scrap, to 2030. - Increase the share of highly processed copper products (OFE-Cu rod, OFE-Cu granulate and end-application products) in the KGHM Group's total sales to the level of 10% at the end of 2030. - Satisfy 50% of KGHM Polska Miedź S.A.'s demand for electricity from its own sources of energy generation and renewable energy sources by the end of 2030.
INNOVATION	Increase the KGHM Group's efficiency through innovation	- Ensure that 100% of innovation projects are realised pursuant to the rules of a coherent model of innovation management and research and development work (R&D) in the KGHM Group, in the years 2019-2023. - Increase expenditures on innovation and R&D work to the level of 1% of KGHM Polska Miedź S.A.'s revenues in 2023. - Allocation of at least 75% of funds for R&D and innovation in the years 2019-2023 to meet the challenges faced by KGHM Polska Miedź S.A. in the Core Business.
FINANCIAL STABILITY	Ensure long-term financial stability and the development of mechanisms supporting further development	- Basing the KGHM Group's financing on long-term instruments. - Shorter cash conversion cycle. - Efficient management of market and credit risk by the KGHM Group.

EFFICIENT ORGANISATION	Implement systemic solutions aimed at increasing the KGHM Group's value	- Ensure the financial stability of the Polish-based KGHM Group companies, on the basis of their own activities, from 2022. - Increase the efficiency of support functions by 20% as a result of centralisation and digitalisation of key back-office processes by 2023. - Achievement of key strategic targets, at the level of at least 80% of the yearly goals assigned to them, in each of the years the strategy is in force. - Flexible reaction to volatile macroeconomic, geological and mining conditions.
PEOPLE AND THE ENVIRONMENT	Growth based on the idea of sustainable development and safety as well as enhancing the KGHM Group's image of social responsibility	- Annual improvement of the Lost-time injury frequency rate (LTIFR – for Polish assets) and the Total Recordable Incident Rate (TRIR – for international assets) by at least 20%. - Maintain a participation budget at the level of 20% of the amount of deductions for donations from the minerals extraction tax by 2020. - Achievement of a 70% level of commitment and satisfaction of the KGHM Group's employees by 2023.

In the first quarter of 2019 work began on the process of implementing the Strategy of KGHM Polska Miedź S.A. for the years 2019-2023.

Following are the key achievements in the first quarter of 2019 with respect to strategic programs and projects being advanced under individual areas of the Strategy:

Strategic area/ Programs and projects	Degree of advancement
PRODUCTION	
Selected actions aimed at improving the efficiency of the core production line in Poland	– In the first quarter of 2019, under the KGHM 4.0 program in the area INDUSTRY, the advancement of projects aimed at automatisation of production in the Mining Divisions of KGHM was continued: · The placement and identification of machinery and persons in underground mines (pilot version and proof of proper functioning), · Broad-band data transmission in underground mines, · Monitoring of utilities - power, ventilation, water, · Robotisation of production and auxiliary processes, · Monitoring of mining vehicle parameters – continuation of the SYNAPSA project, · Multidimensional data analysis of production processes – Centre of Advanced Data Analysis (Centrum Zaawansowanych Analiz Danych - CZAD). – In order to optimise underground machinery management and to improve their operating efficiency ratios, actions are underway aimed at stabilising the annual, long-term trend of replacing mining vehicles to the target level of 16% as well as stabilising availability of primary machinery at a minimum level of 74.5%. – To achieve savings through the acquisition of freely-granted energy efficiency certificates, three ventures were designated which meet the requirements of the new energy efficiency law. In 2019 post-execution audits of energy efficiency and appropriate documentation will be prepared for them, which will represent the final appendices to the application for the issuance of white certificates. – In accordance with the Energy Management System implemented in the Company in compliance with PN-EN ISO50001:2012 and with the Energy Savings Program (ESP), the Company continued to advance tasks aimed at reducing energy consumption in KGHM Polska Miedź S.A.

amounts in PLN millions, unless otherwise stated

Sierra Gorda mine in Chile – Phase 1 (KGHM INTERNATIONAL LTD, 55%, Sumitomo Metal Mining and Sumitomo Corporation 45%)	In the first quarter of 2019, production of payable copper amounted to 14.7 thousand tonnes and production of molybdenum 3.0 million pounds (based on the 55% interest held by KGHM Polska Miedź S.A. in the Sierra Gorda mine). Work continued related to optimising and increasing the processing of the sulphide ore. Current actions are aimed at developing the mine based on phase I of the investment along with actions aimed at optimising the production line.
DEVELOPMENT	
Pyrometallurgy Modernisation Program at the Głogów I Copper Smelter and Refinery	Settlement procedures and the final handovers of contracts and orders with respect to the Pyrometallurgy Modernisation Program are near completion. Production by the flash furnace of the Głogów I Copper Smelter and Refinery is underway in accordance with the present production plan.
Metallurgy Development Program	In the first quarter of 2019, basic work was completed under projects related to adapting technical infrastructure to the changes in smelting technology at the Głogów I Copper Smelter and Refinery. Work continues on procedures involving final handovers and settlements, as well as obtaining administrative decisions. In February 2019, the steam drier was brought on-line. Initial start-up of the concentrate roasting installation was carried out, with the trial start-up planned for the second quarter of 2019.
Increasing cathode production at the Legnica Copper Smelter and Refinery to 160 kt /year	**RCR furnace** In the first quarter of 2019, final work on installation of the RCR furnace, casting machinery and the dedusting installation was advanced. In addition, assembly was advanced of equipment in the area of the full evaporation tower along with the electrical installation and the AKPiA ("Aparatura Kontrolno-Pomiarowa i Automatyka", or Control-Measurement and Automation Apparatus). Functionality tests were carried out on individual elements of the RCR furnace, which are planned for completion in May 2019. Commissioning of the RCR furnace is planned for the second quarter of 2019. With respect to construction of the copper scrap warehouse for the RCR furnace, work was advanced on the preparation of executory documentation and gaining a positive decision for a building permit.
Development of the Żelazny Most Tailings Storage Facility	**Construction of the Southern Quarter** Based on the current building permits, work continued on construction of the Southern Quarter. – Completion of the first phase of construction of the Southern Quarter is expected by the end of the first half of 2020. – Commencement of the consecutive storage of tailings is planned for November 2020. – Due to procedural issues, completion of construction of the Southern Quarter has been extended to June 2022 from the initially planned date of the end of 2021. – In addition, as part of the construction of the Southern Quarter, work is underway on developing infrastructure related to water management, transport of slimes and power. **Construction of the Tailings Segregation and Thickening Station (TSTS)** – Work on the TSTS project continued on schedule. – Construction work commenced on the TSTS, the sub-foundation was strengthened for the TSTS and work is being advanced on constructing foundations. – In addition, work was advanced on building power lines for the TSTS, completion of which is expected at the end of 2019. – The purchase of equipment for the TSTS is underway, with installation planned for the fourth quarter of 2019 and the first quarter of 2020.

Deposit Access Program	**Construction of the GG-1 shaft** Work was carried out involving injection of the main dolomite layer. Following completion of the injection process, planned for the second quarter of 2019, sinking of the GG-1 shaft will re-commence. **Construction of the GG-2 „Odra" shaft** – Discussions are underway with the designer and the urban planning office regarding development of the urban planning project. – Work began on procedures connected with inventorying of buildings in the villages of Kamiona and Słone, which are located in the vicinity of the projected shaft, aimed at determing their condition prior to the start of the investment. **Access and development tunnels** – In the first quarter of 2019, 12 113 meters of tunneling were excavated in the Rudna and Polkowice-Sieroszowice mines, representing nearly 80% of the total amount of access and development tunnels in the Rudna, Polkowice-Sieroszowice and Lubin mines. Work on excavating tunnels in the direction of the GG-1 shaft is planned for the fourth quarter of 2019. – Progress on the excavation of tunnels is accompanied by the construction of technical infrastructure with respect to piping related to power lines, dewatering and fire-fighting, the circulation of ice water, the laying of conveyor belts, construction of cables and of electrical switching stations. – Construction of Heavy Machinery Chambers in the Rudna mine is underway. **Surface-based Central Air Conditioning System (SCA)** Construction continued on the SCA at the GG-1 shaft. By the end of the first quarter of 2019, 50% of the foundations had been laid. Work continues on pre-fabrication of the SCA building's steel elements. The General Contractor is advancing the procedure of selecting contractors for specialist work. Planned from July are deliveries and assembly of the SCA's basic equipment. By the end of 2019 work on the station building will be completed. Commissioning of the SCA is planned for the end of 2023. **Ice Water Transportation System (IWTS)** In the first quarter of 2019, the environmental decision was received along with a building permit, which will become valid on 24 April 2019. Construction of the ice water transportation system is planned to begin in May 2019.
Exploration projects in Poland (concessions to explore for and evaluate copper ore deposits)	**Retków–Ścinawa and Głogów** Work continued on advancing stage 2 of exploration and evaluation work within the Retków-Ścinawa concession. In the first quarter of 2019, preparatory work began on the sinking of another drillhole from the surface. In 2019, further drilling work is planned, altogether it is expected that three drillholes to a depth of approx. 1000 m will be sunk. In the first quarter of 2019, a decision was obtained which altered the Głogów concession, extending it by another three years. Under the concession, it is planned to sink two obligatory drillholes by March 2022. **Synklina Grodziecka and Konrad** Administrative proceedings which were conducted before the concession-granting body involving the possibility of continuing the geological work under the Synklina Grodziecka concession were concluded on 24 January 2019 with the issuance of a new concession decision for the Company. Hydrogeological research continued within the area covered by the Synklina Grodziecka and Konrad concession, under which quarterly hydrogeological measurements will be taken until 2020. **Bytom-Odrzański, Kulów-Luboszyce** Concession-related proceedings are underway as well as expectations as regards a re-assessment of the of applications and the issuance of concession decisions.
Other concessions	**Puck region** The Company is engaged in administrative proceedings to acquire confirmation from the Ministry of the Environment of Addition no. 1 to the Geological Works Project submitted in March 2018, in which the sinking of another drillhole was proposed. In 2019 the sinking of one drillhole is planned in the concession area for the potassium-magnesium salt deposit in the Puck Region.

amounts in PLN millions, unless otherwise stated

Projects involving development of the international assets	**Victoria project** In the first quarter of 2019, work continued on preparing an application to obtain the required environmental permits. This application was consulted with First nations in Ontario province in Canada. Preparatory work also began aimed at the possibility of conducting additional exploratory work. **Ajax project** As a result of the negative decisions received from the Government of Canada and the provincial authorities of British Columbia against the granting of an Environmental Assessment Certificate for the Ajax project, in the first quarter of 2019, on the project's terrain only necessary work related to securing existing infrastructure and required monitoring of the terrain was carried out. **Sierra Gorda Oxide** In the first quarter of 2019, tests continued involving the heap leaching of crushed ore, the block model for the oxide ore heap was reviewed and documentation was prepared for the purpose of updating the environmental permit. The scope of additional geotechnical work on the project's planned terrain was also defined.
INNOVATIONS	
CuBR Program	Under the CuBR joint venture, co-financed by the National Centre for Research and Development (NCRD), 20 R&D projects having a total value of around PLN 150 million which were selected in the three editions of the competition are being advanced. In the first quarter of 2019, the project CuBR High-Copper was completed, involving highly-efficient technology for the enrichment of Polish copper ore. In 2019, most of the projects from the 1st and 2nd editions of the competition are expected to be completed. Procedures for the 4th edition of the CuBR competition are being continued, in the first quarter of 2019 negotiations were conducted with 4 of the applicants.
Selected R&D initiatives	Projects subsidised under KIC Raw Materials: – In the first quarter of 2019, advancement of the project „Automated Microscope System for Analysing Deposits" (acronym AMCO) was completed. As a result, a prototype optical microscope system was built to enable the rapid identification of minerals. – The project „Utrzymanie Kopalni i Sprzętu" (acronym MaMMa - Maintained Mine & Machine) was continued. The goal of the project is to build a management processes support system to maintain mine production and mine machinery. – Formal procedures were initiated to enable advancement of the project „Operation monitoring of mineral crushing machinery", while the beginning of research work is expected in the second quarter of 2019. – The Company received a subsidy for the project „Monitorowanie pracy maszyn kruszących" (acronym OPMO - „Operation monitoring of mineral crushing machinery"). The primary goal of the project is related to the development of a concept for a joint monitoring and diagnostic system to improve the maintenance of mineral crushing machinery. Projects financed under the Horizon 2020 Program: – In January 2019 the project „Integrated innovative metallurgical system to efficiently enrich polymetallic, complex and low-grade ores and concentrates" (acronym INTMET) was completed. Under this project, based on trials in the divisions of KGHM, semi-industrial tests of atmospheric, pressure-related and biological leaching were performed, as well as attempts to recover useful minerals from flotation tailings, among others. – The Company received a subsidy for the project „FineFuture". This project foresees research into improving mineral particulate flotation.
Intellectual property	– The European patent EP2873475 "Method of manufacturing wires of Cu-Ag alloys" was validated, in respect of which KGHM Polska Miedź S.A. is a co-proprietor, under the CuBR project. – Proceedings are underway in the matter of registering the KGHM trademark in Canada.

– A filing for the protection of the word trademark of KGHM was made in the European Union Intellectual Property Office (EUIPO) on the territory of the entire European Union, and in the case of the successful withdrawal of the United Kingdom from the EU, in this country separately.

FINANCIAL STABILITY	
Selected activities	In the first quarter of 2019, the financial condition of domestic subsidiaries was subjected to detailed analysis as well as the effectiveness of the trade finance tools. A model was prepared which describes the impact of factoring of receivables and factoring of payables on the cash conversion cycle ratio and debt ratios. The receivables factoring program was expanded in the Company and debt factoring was introduced. Proceedings began in the matter of selecting an Agent and a Factoring Syndicate Leader.
EFFICIENT ORGANISATION	
KGHM 4.0 Program	**With respect to ICT projects** *(Information and Communication Technologies):* – The first stage of modernising the central network infrastructure unit was completed. – Preparatory work is underway on initiating a pilot system for managing infrastructure in the power and communications sectors for the Rudna mine – this system is one of the main elements of the concept for implementing the Deposit Mining Management System, which is to support actions aimed at optimising production and organisational processes in KGHM Polska Miedź S.A. **With respect to Industry projects** (industrial production): – The first stage of installing fiber optic units for measuring temperature in the areas of the flash furnace and electric furnace of the Głogów Copper Smelter and Refinery was completed. – The process continues of agreeing schedules with the Mining Divisions with respect to implementation of broadband data transmission in the underground mines. **With respect to supporting projects** – Work commenced on introducing an integrated IT system in the area of procurement, in accordance with the existing Procurement Policy of the KGHM Polska Miedź S.A. Group.
PEOPLE AND THE ENVIRONMENT	
Program to adapt the technological installations of KGHM to the requirements of BAT Conclusions for the nonferrous metals industry and to restrict emissions of arsenic (BATAs)	In the first quarter of 2019, preparatory work continued under individual projects (designing, selection of contractors and suppliers) for investments to be realised at the Głogów and Legnica Copper Smelters and Refineries. Completion of the entire program is expected by August 2023, while key projects which will have a positive impact on the environment will be completed in 2020.
Program to Improve Occupational Health and Safety in KGHM Polska Miedź S.A.	In the first quarter of 2019, work continued involving preparations for the implementation of the Occupational Health and Safety Program in KGHM Polska Miedź S.A., comprising actions in the areas of education, health and behaviour with respect to improving safety and taking into consideration the current operating conditions of the Company.

3 –Information on operating segments and revenues

Note 3.1 Operating segments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 3.2 Financial results of reporting segments

		KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Reconciliation items to consolidated data: Elimination of data of the segment Sierra Gorda S.C.M	Reconciliation items to consolidated data: Adjustments****	Consolidated financial statements
		from 1 January 2019 to 31 March 2019						
Note 3.3	**Revenues from contracts with customers, of which:**	**4 316**	**676**	**536**	**1 786**	(536)	(1 290)	5 488
	- inter-segment	91	6	-	1 156	-	(1 253)	-
	- external	4 225	670	536	630	(536)	(37)	5 488
	Revenues from sales for which the amount of revenue was not finally determined at the end of the reporting period (IFRS 15.114)	**559**	**380**	**494**	**-**	**(494)**	-	**939**
	Segment result	**695**	**(123)**	**(87)**	**(4)**	**87**	**(16)**	**552**
	Additional information on significant revenue/cost items of the segment							
	Depreciation/amortisation recognised in profit or loss	(274)	(125)	(109)	(59)	109	5	(453)
		As at 31 March 2019						
	Assets, including:	**35 261**	**9 923**	**9 194**	**5 438**	**(9 194)**	**(12 104)**	**38 518**
	Segment assets	35 261	9 923	9 194	5 438	(9 194)	(12 122)	38 500
	Joint ventures accounted for using the equity method	-	-	-	-	-	4	4
	Assets unallocated to segments	-	-	-	-	-	14	14
	Liabilities, including:	**15 818**	**15 752**	**12 843**	**2 317**	**(12 843)**	**(14 810)**	**19 077**
	Segment liabilities	15 818	15 752	12 843	2 317	(12 843)	(15 007)	18 880
	Liabilities unallocated to segments	-	-	-	-	-	197	197
	Other information	**from 1 January 2019 to 31 March 2019**						
	Cash expenditures on property, plant and equipment and intangible assets	845	132	137	74	(137)	(196)	855
	Production and cost data	**from 1 January 2019 to 31 March 2019**						
	Payable copper (kt)	141.7	16.3	14.7				
	Molybdenum (million pounds)	-	0.2	3.0				
	Silver (t)	321.0	0.7	3.6				
	TPM (koz t)	19.8	17.9	7.4				
	C1 cash cost of producing copper in concentrate (USD/lb)**	1.76	1.95	1.34				
	Adjusted EBITDA	**999**	**170**	**218**	**67**	**-**	**-**	**1 454**
	EBITDA margin* **	**23%**	**25%**	**41%**	**4%**	**-**	**-**	**24%**

* 55% of the Group's share in Sierra Gorda S.C.M.'s financial and production data.
** Unit cash cost of payable copper production, reflecting ore mining and processing costs, transport costs, the minerals extraction tax, administrative expenses during the mining phase and smelter treatment and refining charges (TC/RC) less by-product value.
*** Adjusted EBITDA to revenues from sales. For the purposes of calculating the Group's EBITDA margin (24%), the consolidated revenues from sales were increased by revenues from sales of the segment Sierra Gorda S.C.M.
[1 454 / (5 488 + 536) * 100]
**** Adjustments arise from consolidation eliminations and financial data of companies unallocated to any segment.

Financial results of reporting segments for the comparable period

		from 1 January 2018 to 31 March 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	**521**	**29**	**(123)**	**16**	**123**	**(127)**	**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)
		As at 31 December 2018						
	Assets, including:	**34 250**	**9 587**	**8 851**	**5 848**	**(8 851)**	**(12 448)**	**37 237**
	Segment assets	34 250	9 587	8 851	5 848	(8 851)	(12 466)	37 219
	Joint ventures accounted for using the equity method	-	-	-	-	-	4	4
	Assets unallocated to segments	-	-	-	-	-	14	14
	Liabilities, including:	**15 205**	**15 178**	**12 340**	**2 606**	**(12 340)**	**(14 977)**	**18 012**
	Segments liabilities	15 205	15 178	12 340	2 606	(12 340)	(15 030)	17 959
	Liabilities unallocated to segments	-	-	-	-	-	53	53
	Other information	from 1 January 2018 to 31 March 2018						
	Cash expenditures on property, plant and equipment and intangible assets	571	133	139	59	(139)	(88)	675
	Production and cost data	from 1 January 2018 to 31 March 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)**	1.83	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 sales. For the purposes of calculating the Group's EBITDA margin (25%), the consolidated revenues from sales were increased by revenues from sales 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.

amounts in PLN millions, unless otherwise stated

Reconciliation of adjusted EBITDA	from 1 January 2019 to 31 March 2019			
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M. *	Other segments
Profit/(loss) for the period	**695**	**(123)**	**(87)**	**(4)**
[-] Share of losses of joint ventures accounted for using the equity method	-	-	-	-
[-] Current and deferred income tax	(236)	(12)	18	(11)
[-] Depreciation/amortisation recognised in profit or loss	(274)	(125)	(109)	(59)
[-] Finance income and (costs)	(173)	(230)	(205)	(4)
[-] Other operating income and (costs)	379	74	(9)	3
[=] EBITDA	999	170	218	67
[-] (Recognition)/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	-	-	-
Adjusted EBITDA	**999**	**170**	**218**	**67**

	from 1 January 2019 to 31 March 2019			
Profit/(loss) on sales (EBIT)	**725**	**45**	**109**	**8**
[-] Depreciation/amortisation recognised in profit or loss	(274)	(125)	(109)	(59)
[=] EBITDA	999	170	218	67
[-] (Recognition)/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	-	-	-
[=] Adjusted EBITDA	**999**	**170**	**218**	**67**

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

Reconciliation of adjusted EBITDA	from 1 January 2018 to 31 March 2018			
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments
Profit/(loss) for the period	**521**	**29**	**(123)**	**16**
[-] Share of losses of joint ventures accounted for using the equity method	-	-	-	-
[-] Current and deferred income tax	(196)	(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)	73	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**

	from 1 January 2018 to 31 March 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.

amounts in PLN millions, unless otherwise stated

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

from 1 January 2019 to 31 March 2019

	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	3 363	395	346	1	(346)	(7)	**3 752**
Silver	620	1	7	-	(7)	-	**621**
Gold	101	39	37	-	(37)	-	**140**
Services	23	152	-	482	-	(347)	**310**
Other	209	89	146	1 303	(146)	(936)	**665**
TOTAL	**4 316**	**676**	**536**	**1 786**	**(536)**	**(1 290)**	**5 488**

from 1 January 2018 to 31 March 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**

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

amounts in PLN millions, unless otherwise stated

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

	from 1 January 2019 to 31 March 2019							from 1 January 2018 to 31 March 2018
					Reconciliation items to consolidated data			
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Elimination of data of the segment Sierra Gorda S.C.M	Consolidation adjustments	Consolidated data	KGHM Polska Miedź S.A. Group
Poland	1 020	-	2	1 709	(2)	(1 289)	**1 440**	1 347
Austria	51	-	-	6	-	-	**57**	59
Bulgaria	2	50	-	2	-	-	**54**	7
Czechia	339	-	-	8	-	-	**347**	373
Denmark	14	-	-	-	-	-	**14**	24
Estonia	4	-	-	-	-	-	**4**	6
Finland	11	56	-	2	-	-	**69**	15
France	241	-	-	-	-	-	**241**	216
Spain	-	(1)	-	1	-	-	**-**	11
Netherlands	2	-	36	1	(36)	-	**3**	1
Germany	648	(55)	-	12	-	-	**605**	435
Romania	56	-	-	-	-	-	**56**	17
Slovakia	24	-	-	3	-	-	**27**	31
Slovenia	16	-	-	1	-	-	**17**	18
Sweden	13	-	-	6	-	-	**19**	17
Hungary	182	-	-	2	-	-	**184**	192
The United Kingdom	532	59	-	2	-	(1)	**592**	406
Italy	227	-	-	3	-	-	**230**	89
Bosnia and Hercegovina	11	-	-	-	-	-	**11**	7
Chile	-	6	45	-	(45)	-	**6**	2
China	579	12	101	-	(101)	-	**591**	311
Japan	-	159	281	-	(281)	-	**159**	-
Canada	-	199	1	-	(1)	-	**199**	164
South Korea	-	12	39	-	(39)	-	**12**	-
Norway	-	-	-	4	-	-	**4**	4
Russia	-	-	-	6	-	-	**6**	5
The United States of America	74	179	22	1	(22)	-	**254**	311
Switzerland	136	-	-	1	-	-	**137**	131
Turkey	70	-	-	1	-	-	**71**	50
Taiwan	49	-	-	-	-	-	**49**	-
Singapore	9	-	-	-	-	-	**9**	-
Morocco	4	-	-	-	-	-	**4**	-
Brazil	-	-	9	-	(9)	-	**-**	-
Other countries	2	-	-	15	-	-	**17**	17
TOTAL	**4 316**	**676**	**536**	**1 786**	**(536)**	**(1 290)**	**5 488**	4 266

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

amounts in PLN millions, unless otherwise stated

Note 3.5 Main customers

In the period from 1 January 2019 to 31 March 2019 and in the comparable period the revenues from no single contractor exceeded 10% of the revenues from contracts with customers of the Group.

Note 3.6 Non-current assets – geographical breakdown

	Property, plant and equipment, intangible assets and investment properties	
	As at 31 March 2019	As at 31 December 2018
Poland	20 349	19 652
Canada	1 185	1 151
The United States of America	1 177	1 118
Chile	365	335
TOTAL	**23 076**	**22 256**

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.

Note 3.7 Information on segments' results

3.7.1 The segment KGHM Polska Miedź S.A.

Production results

	Unit	first quarter of 2019	first quarter of 2018	Change % first quarter
Ore extraction (dry weight)	mn t	7.6	7.7	-1.3
Copper content in ore	%	1.500	1.505	-0.3
Copper production in concentrate	kt	99.2	102.7	-3.4
Silver production in concentrate	t	311.5	321.8	-3.2
Production of electrolytic copper	kt	141.7	110.8	+27.9
- including from own concentrate	kt	104.2	86.0	+21.2
Production of metallic silver	t	321.0	239.3	+34.1
	mn oz t	10.3	7.7	+33.8
Production of gold	koz t	19.8	18.3	+8.2

In the first 3 months of 2019, there was a 1.3% decrease in ore extraction (dry weight) as compared to the corresponding period of 2018. Copper content in ore decreased slightly from 1.505% to 1.500%. The lower amount of ore extraction was due to a tremor at the Rudna mine which occurred on 29 January. Due to the aforementioned factors, copper production in concentrate decreased by 3.4% as compared to the first 3 months of 2018.
Production of electrolytic copper and metallic silver was higher than in the corresponding period of 2018 thanks to the start-up of the copper concentrate roasting installation (which increased the availability of metallurgical installations) and processing own concentrates from inventories.

Revenues

	Unit	first quarter of 2019	first quarter of 2018	Change % first quarter
Revenues from contracts with customers, including:	**PLN mn**	**4 316**	**3 206**	+34.6
- copper	PLN mn	3 363	2 525	+33.2
- silver	PLN mn	620	392	+58.2
Volume of copper sales	kt	135	102	+32.4
Volume of silver sales	t	325	207	+57.0
	mn oz t	10.4	6.7	+57.0
Copper price	USD/t	6 215	6 961	-10.7
Silver price	USD/oz t	15.57	16.77	-7.2
Exchange rate	USD/PLN	3.79	3.40	+11.5

In the first 3 months of 2019, revenues amounted to PLN 4 316 million and were 35% higher as compared to the corresponding period of 2018. The main reasons for the increase in revenues were higher copper and silver sales volumes, respectively by 32% and 57%, and a more favourable exchange rate, alongside lower copper prices (by 11%) and silver prices (by 7%).

Costs

	Unit	first quarter of 2019	first quarter of 2018	Change % first quarter
Cost of sales, selling costs and administrative expenses[1]	**PLN mn**	**3 591**	**2 686**	**+33.7**
Expenses by nature	PLN mn	3 677	3 421	+7.5
Pre-precious metals credit unit cost of electrolytic copper production from own concentrate[2]	PLN/t	23 526	22 924	+2.6
Total unit cost of electrolytic copper production from own concentrate	PLN/t	16 983	17 749	-4.3
- including the minerals extraction tax	PLN/t	3 970	3 901	+1.8
C1 cost[3]	**USD/lb**	**1.76**	**1.83**	**-3.8**

1) Cost of products, merchandise and materials sold, selling costs and administrative expenses
2) Unit cost prior to decrease by the value of anode slimes containing, among others, silver and gold
3) 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 2019 amounted to PLN 3 591 million and was higher by PLN 905 million as compared to the corresponding period in 2018, mainly due to a decrease in inventories of half-finished products as a result of a higher volume of production and sales. In 2018, the Company prepared for the maintenance shutdown at the Głogów II Copper Smelter and Refinery and accumulated inventories of copper anodes, produced to secure the production of electrolytic copper for the duration of the shutdown.
In the first 3 months of 2019, expenses by nature were higher by PLN 256 million, or 7%, as compared to the corresponding period of 2018, mainly due to a higher cost of consumption of purchased metal-bearing materials by PLN 126 million (due to higher consumption by 5.3 thousand tonnes of copper with a similar purchase price) alongside a lower, by PLN 14 million, minerals extraction tax.
Expenses by nature, excluding the minerals extraction tax and consumption of purchased metal-bearing materials, increased by PLN 144 million, or by 7%, mainly due to the following:

- labour costs (+PLN 57 million) due to an increase in remuneration,
- depreciation/amortisation (+PLN 21 million) due to the reclassification of investments to fixed assets,

amounts in PLN millions, unless otherwise stated

- consumption of materials, fuels and energy (+PLN 60 million) due to higher consumption of energy and a higher electricity purchase price, and
- external services (+PLN 20 million) due to an increase in the cost of transport services and in the cost of mine preparatory work.

C1 cost respectively amounted to 1.76 USD/lb in the first 3 months of 2019, and 1.83 USD/lb in the first 3 months of 2018. The decrease in C1 cost (by 0.07 USD/lb) was mainly caused by the weakening of the Polish currency versus the US dollar by 11%.

The pre-precious metals credit unit cost of electrolytic copper production from own concentrate (unit cost prior to decrease by the value of anode slimes containing, among others, silver and gold) amounted to 23 526 PLN/t (in the comparable period of 2018: 22 924 PLN/t) and was higher by 2.6% due to higher expenses by nature alongside higher production from own concentrate by 21% (or 18 thousand tonnes of Cu). The total unit cost of electrolytic copper production from own concentrate amounted to 16 983 PLN/t (for the first 3 months of 2018: 17 749 PLN/t).

Financial results

	first quarter of 2019	first quarter of 2018	Change %
Revenues from contracts with customers, including:	**4 316**	**3 206**	**+34.6**
- adjustment of revenues due to hedging transactions	33	57	-42.1
Cost of sales, selling costs and administrative expenses	**(3 591)**	**(2 686)**	**+33.7**
- including the minerals extraction tax	(470)	(354)	+32.8
Profit on sales (EBIT)	**725**	**520**	**+39.4**
Other operating income and (costs), including:	**379**	**73**	**×5.2**
- measurement and realisation of derivatives	(19)	(22)	-13.6
- interest on loans granted and other financial receivables	66	57	+15.8
- exchange differences	143	(124)	×
- reversal of allowances for impairment of loans	95	814	-88.3
- losses due to the initial recognition of POCI loans due to restructuring of financing	-	(763)	×
- gains/(losses) on changes in fair value of financial assets measured at fair value through profit or loss	80	113	-29.2
- other	14	(2)	x
Net finance income/(costs), including:	**(173)**	**124**	**×**
- exchange gains/(losses)	(107)	150	×
- interest costs on borrowings	(37)	(24)	+54.2
- bank fees and charges on borrowings	(6)	(6)	-
- measurement of derivatives	(12)	15	×
- unwinding of the discount effect	(11)	(11)	-
Profit before income tax	**931**	**717**	**+29.8**
Income tax expense	(236)	(196)	+20.4
Profit for the period	**695**	**521**	**+33.4**
Depreciation/amortisation recognised in profit or loss	(274)	(251)	+9.2
EBITDA[1]	999	771	+29.6
Adjusted EBITDA[2]	**999**	**771**	**+29.6**

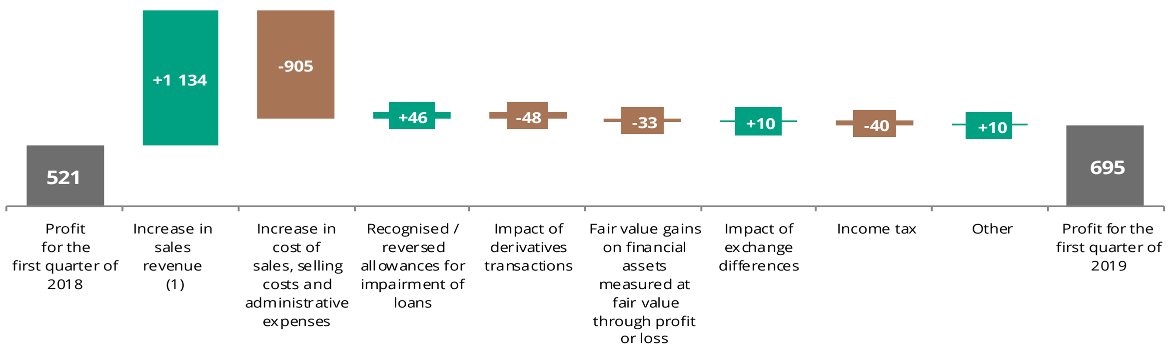
1) EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss)
2) Adjusted EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss) + impairment loss (-reversal of impairment losses) on non-current assets, recognised in cost of sales, selling costs and administrative expenses)

Main reasons for the change in profit/(loss) for the first 3 months of 2019 as compared to the corresponding period of 2018:

Item	Impact on change in result	Description
Increase in revenues from contracts with customers, excluding the adjustment due to hedging transactions (+PLN 1 134 million)	+1 011	An increase in revenues due to 32% higher copper sales volume (+PLN 795 million) and 57% higher silver sales volume (+PLN 216 million).
	+455	An increase in revenues from sales of basic products (Cu, Ag, Au) due to higher average USD/PLN exchange rate (change from 3.40 to 3.79 USD/PLN).
	(389)	Lower revenues due to 11% lower copper prices (-PLN 345 million) and 7% lower silver prices (-PLN 44 million).
	+57	Higher revenues from the sale of merchandise and materials (+PLN 20 million), other goods and services, including sulphuric acid (+PLN 6 million) and the adjustment of revenue from measurement to fair value of receivables priced using the M+ formula (+PLN 22 million).
Increase in cost of sales, selling costs and administrative expenses (-PLN 905 million)	(627)	The change in inventories of half-finished products, products and work in progress in the first quarter of 2019 amounted to –PLN 117 million (decrease in costs), while in the first quarter of 2018 it amounted to –PLN 744 million (decrease in costs).
	(278)	Other costs, including an increase in other expenses by nature by PLN 256 million, mainly due to a change in costs (impact on result in brackets): consumption of

		purchased metal-bearing materials (-PLN 126 million), other materials, fuels and energy (-PLN 60 million) and employee benefits (-PLN 57 million).
Recognised/reversed allowances for impairment of loans (+PLN 46 million)	(719)	Reversals of allowances for impairment of loans
	+763	Losses due to the initial recognition of POCI loans due to restructuring of financing
	+2	Allowances for impairment of loans
Impact of derivatives transactions (-PLN 48 million)	(24)	A change in adjustment to revenues due to hedging transactions from PLN 57 million to PLN 33 million.
	(24)	A change in the result due to the measurement and realisation of hedging instruments from –PLN 7 million to –PLN 31 million.
Fair value gains on financial assets measured at fair value through profit or loss (-PLN 33 million)	(33)	Change in fair value gains on financial assets measured at fair value through profit or loss from PLN 113 million to PLN 80 million.
Impact of exchange differences (+PLN 10 million)	+267	A change in the result due to exchange differences from the measurement of assets and liabilities other than borrowings – in other operating activities.
	(257)	A change in the result due to exchange differences on the measurement of borrowings (presented in financing activities)
Increase in income tax (-PLN 40 million)	(40)	The higher tax results from the higher tax base.

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



[1] *excluding the adjustment due to hedging transactions*

Cash expenditures

In the first 3 months of 2019, cash expenditures on property, plant and equipment and intangible assets amounted to PLN 845 million and were higher than in the corresponding period of 2018 by 48%, while capital expenditures on property, plant and equipment and intangible assets amounted to PLN 472 million (including costs of external financing and leases per IFRS 16) and were higher than in the corresponding period by 43%.

The higher level of cash expenditures as compared to capital expenditures after the first 3 months of 2019 was due to contractual payments dates due to realisation of investments in prior periods.

Structure of capital expenditures on property, plant and equipment and intangible assets – by Division	first quarter of 2019	first quarter of 2018	Change % first quarter
Mining	368	251	+46.6
Metallurgy	83	78	+6.4
Other activities	4	1	x4.0
Leases per IFRS 16	17	-	x
Total	**472**	**330**	**+43.0**
including costs of external financing	*106*	*25*	*×4.2*

Structure of capital expenditures on property, plant and equipment and intangible assets – by type	first quarter of 2019	first quarter of 2018	Change % first quarter
Replacement	127	110	+15.5
Maintenance	121	71	+70.4
Development	207	149	+38.9
Leases per IFRS 16	17	-	x
Total	**472**	**330**	**+43.0**
including costs of external financing	*106*	*25*	*×4.2*

During the reporting period, work continued on the design and construction of key mining and metallurgical projects. In mining, this mainly involved the excavation of drifts and construction of necessary infrastructure in the mining regions.

Moreover, the following actions were carried out aimed at the preparation of investments for realisation: documentation was prepared, necessary environmental decisions were received, building contractors and equipment suppliers were selected as a result of tenders and contracts for their realisation were signed, as per negotiated terms. 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 44% of total expenditures,
- **Replacement projects,** aimed at maintaining production equipment in an undeteriorated condition which guarantees the achievement of on-going production tasks, represent 27% 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 26% of total expenditures.

Information on the advancement of key investment projects may be found in part 1 of this report (Realisation of Strategy).

3.7.2 The segment KGHM INTERNATIONAL LTD.

Production results

	Unit	first quarter of 2019	first quarter of 2018	Change (%)
Payable copper, including:	kt	16.3	20.1	(18.9)
- Robinson mine (USA)	kt	8.6	13.7	(37.2)
- Sudbury Basin mines (CANADA) *	kt	1.9	1.8	+5.6
Payable nickel	kt	0.3	0.2	+50.0
Precious metals (TPM), including:	koz t	17.9	15.8	+13.3
- Robinson mine (USA)	koz t	7.9	9.7	(18.6)
- Sudbury Basin mines (CANADA) *	koz t	10.0	6.1	+63.9

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

Copper production in the segment KGHM INTERNATIONAL LTD. in the first quarter of 2019 amounted to 16.3 thousand tonnes, meaning a decrease by 3.8 thousand tonnes (-19%) as compared to the corresponding period of 2018.
The Robinson mine contributed to this decrease in copper production. The extraction of poorer quality ore (a decrease in copper content by 42%) by this mine resulted in a decrease in copper production by 5.1 thousand tonnes (-37%). The aforementioned factor was partially offset by higher copper recovery. Moreover, the mined ore had lower gold content (-11%), which in conjunction with the lower recovery of this metal resulted in a decrease in TPM production by 1.8 thousand troy ounces (-19%).
The increase in copper production in Sudbury Basin mines by 0.1 thousand tonnes (+6%) and of precious metals by 3.9 thousand troy ounces (+64%) was the result of an increase in the volume of extracted ore by the McCreedy West mine.

Revenues

	Unit	first quarter of 2019	first quarter of 2018	Change (%)
Revenues from contracts with customers*, including:	**USD mn**	**179**	**180**	**(0.6)**
- copper	USD mn	104	108	(3.7)
- nickel	USD mn	4	3	+33.3
- precious metals (TPM)	USD mn	27	20	+35.0
Copper sales volume	kt	18.0	17.3	+4.0
Nickel sales volume	kt	0.3	0.2	+50.0
Precious metals (TPM) sales volume	koz t	17.2	13.9	+23.7

**reflects processing premium*

	Unit	first quarter of 2019	first quarter of 2018	Change (%)
Revenues from contracts with customers*, including:	**PLN mn**	**676**	**609**	**+11.0**
- copper	PLN mn	395	365	+8.2
- nickel	PLN mn	15	11	+36.4
- precious metals (TPM)	PLN mn	102	68	+50.0

**reflects processing premium*

The sales revenue of the segment KGHM INTERNATIONAL LTD. in the first quarter of 2019 remained at a level similar to the one recorded in the corresponding period of 2018 and amounted to USD 179 million.

The decrease in revenues from copper sales by USD 4 million (-4%) arises from the 6% lower realised sales price of this metal (6 361 USD/t in the first quarter of 2019 as compared to 6 789 USD/t in the first quarter of 2018), which was partially offset by an increase in sales volume by 0.7 thousand tonnes (+4%).
The increase in revenues from sales of precious metals by USD 7 million (+35%) was due among others to increased production, and therefore increased TPM sales, by the McCreedy West mine in the Sudbury Basin.

Costs

	Unit	first quarter of 2019	first quarter of 2018	Change (%)
C1 unit cost*	USD/lb	1.95	1.89	+3.2

**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 average weighted unit cash cost of copper production for all operations in the segment KGHM INTERNATIONAL LTD. in the first quarter of 2019 amounted to 1.95 USD/lb, and therefore increased by 3% as compared to the corresponding period of 2018. The Robinson mine contributed to the increase in C1, in which an increase in operating costs was recorded along with lower revenues from sales of by-products (which are deductible).

Financial performance

in USD mn	first quarter of 2019	first quarter of 2018	Change (%)
Revenues from contracts with customers	179	180	(0.6)
Cost of sales, selling costs and administrative expenses*	(167)	(143)	+16.8
Profit/(loss) on sales (EBIT)	**12**	**37**	**(67.6)**
Profit/(loss) before taxation, including:	**(30)**	**10**	**x**
- share of losses of Sierra Gorda S.C.M. accounted for using the equity method	-	-	x
Income tax	(3)	(1)	x3.0
Profit/(loss) for the period	**(33)**	**9**	**x**
Depreciation/amortisation recognised in profit or loss	(33)	(13)	x2.5
EBITDA**	**45**	**50**	**(10.0)**
Adjusted EBITDA***	**45**	**50**	**(10.0)**

in PLN mn	first quarter of 2019	first quarter of 2018	Change (%)
Revenues from contracts with customers	676	609	+11.0
Cost of sales, selling costs and administrative expenses*	(631)	(485)	+30.1
Profit/(loss) on sales (EBIT)	**45**	**124**	**(63.7)**
Profit/(loss) before taxation, including:	**(111)**	**34**	**x**
- share of losses of Sierra Gorda S.C.M. accounted for using the equity method	-	-	x
Income tax	(12)	(5)	x2.4
Profit/(loss) for the period	(123)	29	x
Depreciation/amortisation recognised in profit or loss	(125)	(44)	x2.8
EBITDA**	**170**	**168**	**+1.2**
Adjusted EBITDA***	**170**	**168**	**+1.2**

** 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 losses (-reversal of impairment losses) on non-current assets, recognised in cost of sales, selling costs and administrative expenses)*

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

Item	Impact on change of profit or loss (in USD million)	Description
Lower revenues (-USD 1 million), including:	+10	Higher revenues due to higher sales volumes, including copper (+USD 4 million)
	(4)	Lower revenues due to lower prices of basic products, mainly copper
	(7)	Lower revenues earned by DMC

Higher cost of sales, selling costs and administrative expenses (-USD 24 million), including:	+11	Lower external services cost due to a decreased scope of work carried out by subcontractors of DMC
	(14)	Higher depreciation/amortisation (among others due to reversal of an impairment loss on the Robinson mine as at 31 December 2017)
	(21)	Change in inventories
Impact of other operating activities and financing activities (-USD 14 million), including:	(11)	Higher financing costs, mainly interest on a loan due to restructuring of borrowings.
Income tax	(2)	An increase in income tax by USD 2 million mainly due to DMC group companies

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

Cash expenditures

in USD mn	first quarter of 2019	first quarter of 2018	Change (%)
Victoria project	1	2	(50.0)
Sierra Gorda Oxide project	0	0	x
Pre-stripping and other	34	37	(8.1)
Ajax project	0	0	x
Total	**35**	**39**	**(10.3)**
Financing for Sierra Gorda S.C.M.	-	-	x

in PLN mn	first quarter of 2019	first quarter of 2018	Change (%)
Victoria project	4	7	(42.9)
Sierra Gorda Oxide project	0	0	x
Pre-stripping and other	128	126	+1.6
Ajax project	0	0	x
Total	**132**	**133**	**(0.8)**
Financing for Sierra Gorda S.C.M.	-	-	x

Cash expenditures by the segment KGHM INTERNATIONAL LTD. in the first quarter of 2019 amounted to USD 35 million, and therefore decreased by USD 4 million (-10%) as compared to the corresponding period of 2018.
Approximately 80% of cash expenditures were incurred in the Robinson mine, mainly on work related to pre-stripping.
KGHM INTERNATIONAL LTD. did not provide financial support to the Sierra Gorda mine in the first three months of 2019.

amounts in PLN millions, unless otherwise stated

3.7.3 The segment Sierra Gorda S.C.M.

The segment Sierra Gorda S.C.M. is a joint venture (under the JV company Sierra Gorda S.C.M.) of KGHM INTERNATIONAL LTD. (55%) and Sumitomo Group companies (45%).
The following production and financial data are presented on a 100% basis for the joint venture and proportionally to the interest in the company Sierra Gorda S.C.M. (55%), pursuant to the methodology of presentation of data in note 3.1 of this report.

Production results

In the first quarter of 2019, Sierra Gorda S.C.M. produced 26.8 thousand tonnes of copper and 5.5 million pounds of molybdenum, which is an increase in copper production by 23% and a decrease in molybdenum production by 24% as compared to the corresponding quarter of 2018.

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

	Unit	first quarter of 2019	first quarter of 2018	Change (%)
Copper production*	kt	26.8	21.8	+22.9
Copper production – segment (55%)	kt	14.7	12.0	+22.9
Molybdenum production*	mn lbs	5.5	7.2	-23.6
Molybdenum production – segment (55%)	mn lbs	3.0	4.0	-23.6
TPM production – gold*	koz t	13.4	8.4	+59.5
TPM production – gold – segment (55%)	koz t	7.4	4.6	+59.5

** Payable metal in concentrate.*

The improvement in production of payable copper was due to the increased extraction and processing of ore as compared to the first quarter of 2018. Moreover, at the beginning of 2018, a relatively poor, low quality ore was extracted from a transition zone, and therefore throughout the year a significant increase in copper content in processed ore (+6%) and increased recovery (+2%) was recorded.
The decrease in molybdenum production is a direct result of the deposit's characteristics and the planned mining sequence, which assumes mining from zones with lower molybdenum content as compared to ore extracted in prior years. As a result, despite the increase in processed ore and 2% higher recovery of molybdenum, payable molybdenum production decreased by 1.7 million pounds (-24%) as compared to the first quarter of 2018.
The significant increase in gold production also results from the increase in ore extraction and processing.

Sales

Revenues from contracts with customers in the first quarter of 2019 amounted to USD 258 million (on a 100% basis), or PLN 536 million respectively to KGHM Polska Miedź S.A.'s interest of 55%.

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

	Unit	first quarter of 2019	first quarter of 2018	Change (%)
Revenues from contracts with customers,[1] including from the sale of:	**mn USD**	**258**	**258**	**0.0**
- copper	mn USD	166	140	+18.6
- molybdenum	mn USD	70	102	-31.4
Copper sales volume	kt	26.0	22.9	+13.5
Molybdenum sales volume	mn lbs	6.1	7.4	-17.6
Revenues from contracts with customers* - segment (55% share)	**mn PLN**	**536**	**481**	**+11.4**

** reflects processing premium and other*

Sierra Gorda S.C.M. realised revenues (denominated in USD) at the level achieved in the first three months of 2018, while the negative impact of lower revenues from sales of molybdenum was offset by increased revenues from sales of copper, gold and silver. The main reason for the decrease in revenues from sales of molybdenum was the decrease in production of this metal described above and a lower selling price. In terms of revenues from copper sales the reverse was the case – an increase in the amount of payable copper and an increase in realised sales prices.
The individual factors impacting the change in revenues are presented in the subsection on the financial performance of Sierra Gorda S.C.M.

Costs

The cost of sales, selling costs and administrative expenses incurred by the company Sierra Gorda S.C.M. amounted to USD 205 million, including selling costs of USD 16 million and administrative expenses of USD 9 million. The costs of the segment Sierra Gorda, proportionally to the interest held (55%) amounted to PLN 427 million.

Table 3. Costs (prior to the impairment loss on non-current assets) and unit production cost of copper (C1) of Sierra Gorda S.C.M.

	Unit	first quarter of 2019	first quarter of 2018	Change (%)
Cost of sales, selling costs and administrative expenses	mn USD	205	243	-15.6
Cost of sales, selling costs and administrative expenses– segment (55% share)	mn PLN	427	453	-5.7
C1[*] unit cost	**USD/lb**	**1.34**	**1.43**	**-6.3**

** 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*

Compared to the corresponding period of 2018, the cost of sales, selling costs and administrative expenses denominated in million USD was 16% lower than that recorded in the first quarter of 2018. At the same time, ore processing (+10%) and volume of copper sales (+14%) were higher.

There were positive tendencies with respect to the following costs:

- depreciation/amortisation (-27%) due to the mining sequence in the first quarter of 2018,
- consumption of fuel, lubricants and oils (-15%), mainly due to lower consumption and lower costs of diesel,
- labour costs (-6%) – among others due to the more favourable exchange rate,
- costs of processing molybdenum by the external contractor (-36%) – lower amount of molybdenum concentrate.

On the other hand, there were costs increases, mainly in the following items:

- energy consumption (+5%) – a higher volume of ore processing,
- spare parts (+11%) – among others, the replacement of an excavator's main components.

Alongside an increase in the volume of processed ore, there was a decrease in the unit cost of the processing plant (per tonne of ore processed) by 10%. Moreover, the unit cost of copper production (C1) was lower than the one achieved in the first quarter of 2018, and decreased from 1.43 USD/lb to 1.34 USD/lb (-6%). In this case, there was an additional positive factor – an increase in the volume of copper sales. It should be stressed that the C1 decrease occurred despite a decrease in molybdenum production, and therefore lower revenues from sales of associated metals, which decrease C1 costs.

Financial performance

Statement of profit or loss

In the first quarter of 2019, EBITDA amounted to USD 105 million, of which proportionally to the interest held (55%) PLN 218 million relates to the KGHM Group.

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

	first quarter of 2019	first quarter of 2018	Change (%)
Revenues from contracts with customers	258	258	0.0
Cost of sales, selling costs and administrative expenses	(205)	(243)	-15.6
Profit/(loss) on sales (EBIT)	53	15	x3.5
PROFIT/(LOSS) FOR THE PERIOD	**(42)**	**(66)**	**-36.4**
Depreciation/amortisation recognised in profit or loss	(52)	(72)	-27.8
EBITDA[*]	**105**	**87**	**+20.7**
Adjusted EBITDA[**]	**105**	**87**	**+20.7**

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

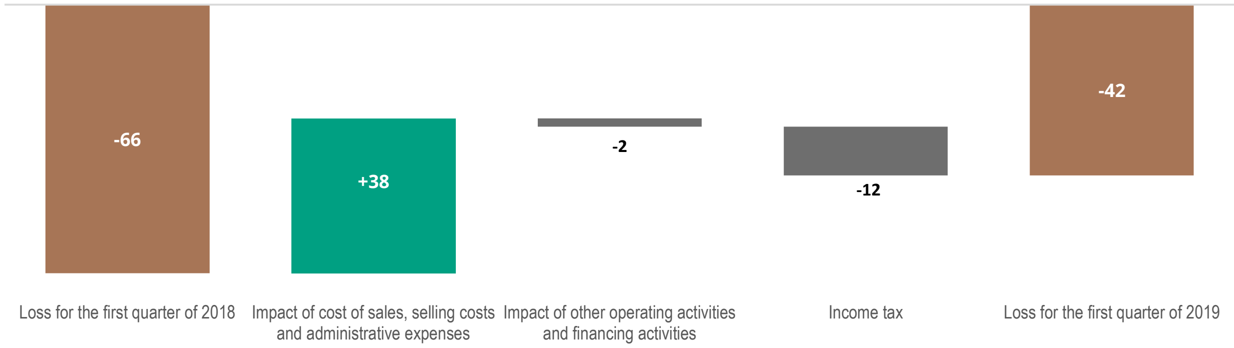
	first quarter of 2019	first quarter of 2018	Change (%)
Revenues from contracts with customers	536	481	+11.4
Cost of sales, selling costs and administrative expenses	(427)	(453)	-5.7
Profit/(loss) on sales (EBIT)	109	28	x3.9
PROFIT/(LOSS) FOR THE PERIOD	**(87)**	**(123)**	**-29.3**
Depreciation/amortisation recognised in profit or loss	(109)	(135)	-19.3
EBITDA[*]	**218**	**163**	**+33.7**
Adjusted EBITDA[**]	**218**	**163**	**+33.7**

** 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 following table summarises the most important factors affecting revenues and costs, and therefore EBITDA.
Main reasons for the decrease, by USD 24 million, of the loss for the period of Sierra Gorda S.C.M.:

Item	Impact on change in result (USD million)	Description
Revenues at the level achieved in the first quarter of 2018, including:	+19	Increase in revenues due to higher copper sales volume by 3.1 thousand tonnes
	+9	Higher realised copper sales price
	+6	Increase in revenues from gold and silver sales
	(31)	Lower revenues due to a lower molybdenum sales volume by 1.3 million pounds and lower molybdenum prices
	(3)	Impact of other factors
Decrease in cost of sales, selling costs and administrative expenses (+USD 38 million), including:	+28	Decrease in costs, mainly: depreciation/amortisation, fuel, molybdenum enrichment and labour costs
	(4)	Increase in costs, mainly: energy and spare parts
	+26	Change in inventories
	(12)	Lower costs of pre-stripping, subject to capitalisation and therefore lowering costs in profit or loss
Impact of other operating activities – decrease in the result by USD 2 million	(2)	Mainly an increase in other costs due to foreign exchange losses
Income tax	(12)	A decrease in tax assets due to a lower level of loss before income tax

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



In the first quarter of 2019, Sierra Gorda S.C.M. incurred a loss for the period in the amount of USD 42 million, which is the result of accrued interest on the owners' loan for mine construction. The improvement of the result as compared to the corresponding period of 2018 was mostly thanks to the increase in EBITDA and a decrease in depreciation/amortisation costs.

Cash expenditures

In the first quarter of 2019, cash expenditures on property, plant and equipment and intangible assets, presented in Sierra Gorda S.C.M.'s statement of cash flow, amounted to USD 66 million, of which the majority, or USD 49 million (74%), represented expenditures on pre-stripping to gain access to further areas of the deposit, with the rest related to development work and the replacement of property, plant and equipment.

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

	Unit	first quarter of 2019	first quarter of 2018	Change (%)
Cash expenditures on property, plant and equipment	mn USD	66	75	-12.0
Cash expenditures on property, plant and equipment – segment (55% share)	mn PLN	137	139	-1.4

The decrease in cash expenditures (expressed in USD) by 12% was mainly in respect of pre-stripping due to the lesser scope of work carried out.
The main source of financing investments was the inflow from operating activities. Due to the relatively good results achieved in the first three months of 2019, Sierra Gorda did not make use of financial support from the Partners in the company.

amounts in PLN millions, unless otherwise stated

4 – Selected additional explanatory notes

Note 4.1 Expenses by nature

	from 1 January 2019 to 31 March 2019	from 1 January 2018 to 31 March 2018
Depreciation of property, plant and equipment and amortisation of intangible assets	496	417
Employee benefits expenses	1 344	1 223
Materials and energy	2 041	1 821
External services	478	509
Minerals extraction tax	420	434
Other taxes and charges	132	140
Other costs	42	52
Total expenses by nature	**4 953**	**4 596**
Cost of merchandise and materials sold (+)	203	163
Change in inventories of finished goods and work in progress (+/-)	(158)	(836)
Cost of manufacturing products for internal use of the Group (-)	(249)	(316)
Total costs of sales, selling costs and administrative expenses, of which:	**4 749**	**3 607**
Cost of sales	4 441	3 318
Selling costs	98	82
Administrative expenses	210	207

Note 4.2 Other operating income and (costs)

	from 1 January 2019 to 31 March 2019	from 1 January 2018 to 31 March 2018
Measurement and realisation of derivatives	50	58
Interest income calculated using the effective interest rate method	3	2
Exchange differences on assets and liabilities other than borrowings	211	-
Other	66	53
Total other income	**330**	**113**
Measurement and realisation of derivatives	(65)	(60)
Impairment losses on financial instruments	(3)	(2)
Exchange differences on assets and liabilities other than borrowings	-	(183)
Provisions recognised	(11)	(4)
Other	(54)	(55)
Total other costs	**(133)**	**(304)**
Other operating income and (costs)	**197**	**(191)**

amounts in PLN millions, unless otherwise stated

Note 4.3 Finance income and (costs)

	from 1 January 2019 to 31 March 2019	from 1 January 2018 to 31 March 2018
Exchange differences on borrowings	-	149
Measurement of derivatives	-	15
Total income	**-**	**164**
Interest on borrowings	(40)	(25)
Exchange differences on borrowings	(107)	-
Measurement of derivatives	(12)	-
Bank fees and charges on borrowings	(6)	(7)
Other	(15)	(20)
Total costs	**(180)**	**(52)**
Finance income and (costs)	**(180)**	**112**

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

Purchase of property, plant and equipment and intangible assets

	from 1 January 2019 to 31 March 2019	from 1 January 2018 to 31 March 2018
Purchase of property, plant and equipment	598	475
Purchase of intangible assets	19	20

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

	As at 31 March 2019	As at 31 December 2018
Payables due to the purchase of property, plant and equipment and intangible assets	429	728

Capital commitments not recognised in the consolidated statement of financial position

	As at 31 March 2019	As at 31 December 2018
Purchase of property, plant and equipment	1 384	1 478
Purchase of intangible assets	51	45
Total capital commitments	**1 435**	**1 523**

Note 4.5 Involvement in joint ventures

Joint ventures accounted for using the equity method

	from 1 January 2019 to 31 March 2019		from 1 January 2018 to 31 December 2018	
	Sierra Gorda S.C.M.	Other	Sierra Gorda S.C.M.	Other
As at the beginning of the reporting period	**-**	**4**	**-**	**8**
Acquisition of shares	-	-	666	-
Share of losses of joint ventures accounted for using the equity method	-	-	(658)	(4)
Exchange differences from the translation of statements of operations with a functional currency other than PLN	-	-	(8)	-
As at the end of the reporting period	**-**	**4**	**-**	**4**

amounts in PLN millions, unless otherwise stated

	from 1 January 2019 to 31 March 2019	from 1 January 2018 to 31 March 2018
Share of the Group (55%) in losses of Sierra Gorda S.C.M. for the reporting period, of which:	**(87)**	**(123)**
recognised in share of losses of joint ventures for the reporting period	-	-
not recognised in share of losses of joint ventures	(87)	(123)

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

	from 1 January 2019 to 31 March 2019	from 1 January 2018 to 31 December 2018
As at the beginning of the reporting period	**(4 976)**	**(4 867)**
Unrecognised share of losses of joint ventures for the reporting period	(87)	(109)
As at the end of the reporting period	**(5 063)**	**(4 976)**

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

	from 1 January 2019 to 31 March 2019	from 1 January 2018 to 31 December 2018
As at the beginning of the reporting period	**5 199**	**3 889**
Accrued interest	82	257
Gains due to the reversal of allowances for impairment	-	733
Exchange differences from the translation of statements of operations with a functional currency other than PLN	108	320
As at the end of the reporting period	**5 389**	**5 199**

amounts in PLN millions, unless otherwise stated

Note 4.6 Financial instruments

Financial assets	As at 31 March 2019 At fair value through other comprehensive income	At fair value through profit or loss	At amortised cost	Hedging instruments	Total	As at 31 December 2018 At fair value through other comprehensive income	At fair value through profit or loss	At amortised cost	Hedging instruments	Total
Non-current	503	21	6 146	246	**6 916**	526	27	5 915	308	**6 776**
Loans granted to joint ventures	-	-	5 389	-	**5 389**	-	-	5 199	-	**5 199**
Derivatives	-	4	-	246	**250**	-	12	-	308	**320**
Other financial instruments measured at fair value	503	17	-	-	**520**	526	15	-	-	**541**
Other financial assets	-	-	757	-	**757**	-	-	716	-	**716**
Current	-	474	1 420	133	**2 027**	-	328	1 717	285	**2 330**
Trade receivables	-	461	550	-	**1 011**	-	304	495	-	**799**
Derivatives	-	7	-	133	**140**	-	16	-	285	**301**
Cash and cash equivalents	-	-	590	-	**590**	-	-	957	-	**957**
Other financial assets		6	280	-	**286**	-	8	265	-	**273**
Total	**503**	**495**	**7 566**	**379**	**8 943**	**526**	**355**	**7 632**	**593**	**9 106**

amounts in PLN millions, unless otherwise stated

Financial liabilities	As at 31 March 2019				As at 31 December 2018			
	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	115	7 059	56	**7 230**	133	7 080	29	**7 242**
Borrowings	-	6 867	-	**6 867**	-	6 878	-	**6 878**
Derivatives	115	-	56	**171**	133	-	29	**162**
Other financial liabilities	-	192	-	**192**	-	202	-	**202**
Current	47	3 820	8	**3 875**	37	3 240	6	**3 283**
Borrowings	-	1 795	-	**1 795**	-	1 071	-	**1 071**
Derivatives	47	-	8	**55**	37	-	6	**43**
Trade payables	-	1 917	-	**1 917**	-	2 053	-	**2 053**
Other financial liabilities	-	108	-	**108**	-	116	-	**116**
Total	**162**	**10 879**	**64**	**11 105**	**170**	**10 320**	**35**	**10 525**

amounts in PLN millions, unless otherwise stated

The fair value hierarchy of financial instruments

	As at 31 March 2019		As at 31 December 2018	
Classes of financial instruments	level 1	level 2	level 1	level 2
Loans granted	-	17	-	15
Listed shares	404	-	427	-
Unquoted shares	-	99	-	99
Trade receivables	-	461	-	304
Other financial assets	-	6	-	8
Derivatives, of which:	-	164	-	416
Assets	-	390	-	621
Liabilities	-	(226)	-	(205)

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:

	from 1 January 2019 to 31 March 2019	from 1 January 2018 to 31 March 2018
Statement of profit or loss		
Revenues from contracts with customers	34	57
Other operating and finance income and costs:	(27)	13
On realisation of derivatives	(34)	(26)
On measurement of derivatives	7	39
Impact of derivatives and hedging instruments on profit or loss for the period	**7**	**70**
Statement of other comprehensive income		
Impact of hedging transactions	**(273)**	**(81)**
Impact of measurement of hedging transactions (effective portion)	(270)	(24)
Reclassification to sales revenues due to realisation of a hedged item	(3)	(57)
TOTAL COMPREHENSIVE INCOME	**(266)**	**(11)**

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

In the first quarter of 2019, copper sales of the Parent Entity amounted to 135 thousand tonnes (net sales of 95 thousand tonnes)[1]. However, the notional amount of copper price hedging strategies settled in this period amounted to 25.5 thousand tonnes, which represented approx. 19% of the total sales of this metal realised by the Parent Entity and approx. 27% of net sales in this period (in the first quarter of 2018, 20% and 31% respectively).

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

amounts in PLN millions, unless otherwise stated

In the case of currency transactions, approx. 17% of total revenues from copper and silver sales realised by the Parent Entity in the first quarter of 2019 were hedged (18% - in the first quarter of 2018).

With respect to strategic management of market risk in the first quarter of 2019, the Parent Entity implemented copper price hedging transactions with a total notional amount of 12 thousand tonnes and a maturity period from July 2019 to June 2020. Collar options structures were implemented (Asian options). In addition, in the first quarter of 2019 QP adjustment swap transactions were entered into on the copper and gold markets with maturity to September 2019, as part of the management of a net trading position.

As a result, as at 31 March 2019 the Parent Entity held an open derivatives position for 152.5 thousand tonnes of copper (of which: 142.5 thousand tonnes came from strategic management of market risk, while 10 thousand tonnes came from the management of a net trading position).

In the first quarter of 2019 the Parent Entity implemented transactions hedging against a change in the USD/PLN exchange rate with a total notional amount of USD 540 million. *Seagull* structures (European options) were entered into with a horizon falling from January 2021 to December 2021. 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 2019, the bank and investment loans which were drawn in USD, following their translation to PLN, amounted to PLN 7 986 million (as at 31 December 2018: PLN 7 655 million).

As a result, as at 31 March 2019, the Parent Entity held a hedging position for planned revenues from sales of metals in the amount of USD 1 620 million.

Moreover, the Company held open derivatives transactions on the interest rate market for the years 2019-2020 and bank and other loans with fixed interest rates.

Some of the Group's Polish companies managed the currency risk related to their core business by opening transactions in derivatives on the currency market. The table of open transactions of Polish companies as at 31 March 2019 is not presented, due to its immateriality for the Group.

Condensed tables of open transactions in derivatives held by the Parent Entity on the copper, currency and interest rate markets as at 31 March 2019, entered into as part of strategic management of market risk, are presented below. The hedged notional amounts of transactions on the copper and currency markets in the presented periods are allocated evenly on a monthly basis.

COPPER MARKET

	Instrument	Notional	Option strike price			Average weighted premium	Effective hedge price	Hedge limited to	Participation limited to
			Sold put option	Purchased put option	Sold call option				
		[tonnes]	[USD/t]	[USD/t]	[USD/t]	[USD/t]	[USD/t]	[USD/t]	[USD/t]
2nd quarter	Seagull	10 500	4 700	6 200	8 000	-226	5 974	4 700	8 000
	Seagull	6 000	5 000	6 900	9 000	-250	6 650	5 000	9 000
	Collar	3 000		6 800	8 400	-250	6 550		8 400
	Collar	6 000		6 700	8 300	-228	6 472		8 300
2nd half	Seagull	21 000	4 700	6 200	8 000	-226	5 974	4 700	8 000
	Seagull	12 000	5 000	6 900	9 000	-250	6 650	5 000	9 000
	Collar	6 000		6 800	8 400	-250	6 550		8 400
	Collar	12 000		6 700	8 300	-228	6 472		8 300
	Collar	6 000		6 400	7 800	-247	6 153		7 800
TOTAL IV-XII 2019		**82 500**							
1st half	Seagull	12 000	5 000	6 900	9 000	-250	6 650	5 000	9 000
	Seagull	2 460	5 000	6 900	8 800	-250	6 650	5 000	8 800
	Seagull	12 540	5 000	6 800	8 700	-220	6 580	5 000	8 700
	Collar	6 000		6 400	7 800	-247	6 153		7 800
2nd half	Seagull	12 000	5 000	6 900	9 000	-250	6 650	5 000	9 000
	Seagull	2 460	5 000	6 900	8 800	-250	6 650	5 000	8 800
	Seagull	12 540	5 000	6 800	8 700	-220	6 580	5 000	8 700
TOTAL 2020		**60 000**							

CURRENCY MARKET

	Instrument	Notional [USD million]	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	90	3.24	3.80	4.84	0.02	3.82	3.24	4.84
2nd quarter	Collar	90		3.50	4.25	-0.06	3.44		4.25
2nd half	Collar	360		3.50	4.25	-0.05	3.45		4.25
TOTAL IV-XII 2019		**540**							
1st half	Collar	360		3.50	4.25	-0.06	3.44		4.25
2nd half	Collar	180		3.50	4.25	-0.04	3.46		4.25
TOTAL 2020		**540**							
1st half	Seagull	270	3.20	3.70	4.30	-0.07	3.63	3.20	4.30
2nd half	Seagull	270	3.20	3.70	4.30	-0.07	3.63	3.20	4.30
TOTAL 2021		**540**							

INTEREST RATE MARKET

Instrument	Notional [mn 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 2019**	1 000	2.50%	381	0.15%	2.65%
Purchase of interest rate cap options **QUARTERLY IN 2020**	1 000	2.50%	381	0.15%	2.65%

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

Derivatives	As at 31 March 2019	As at 31 December 2018
Non-current assets	250	320
Current assets	140	301
Non-current liabilities	(171)	(162)
Current liabilities	(55)	(43)
Net fair value of open derivatives	**164**	**416**

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

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

Type of derivative	As at 31 March 2019 – Financial assets: Non-current	Financial assets: Current	Financial liabilities: Non-current	Financial liabilities: Current	Net total
Derivatives – Commodity contracts - Copper					
Options – seagull	128	72	(9)	(2)	189
Options – collar	7	50	(2)	(1)	54
Derivatives – Currency contracts					
Options – seagull	93	-	(33)	-	60
Options – collar	18	11	(12)	(5)	12
TOTAL HEDGING INSTRUMENTS	**246**	**133**	**(56)**	**(8)**	**315**

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

Type of derivative	As at 31 March 2019				
	Financial assets		Financial liabilities		Net total
	Non-current	Current	Non-current	Current	
Derivatives – Commodity contracts - Copper					
Options –seagull	-	-	(12)	(1)	**(13)**
QP adjustment swap transactions	-	-	-	(8)	**(8)**
Derivatives – Commodity contracts - Gold					
QP adjustment swap transactions	-	2	-	(2)	**-**
Derivatives – Currency contracts					
Options and forward/swap USD and EUR	-	1	-	(1)	**-**
Sold USD put options	-	-	(17)	-	**(17)**
Derivatives – interest rate					
Purchased interest rate cap options	4	4	-	-	**8**
Embedded derivatives					
Acid and water supply contracts	-	-	(86)	(35)	**(121)**
TOTAL TRADE INSTRUMENTS	**4**	**7**	**(115)**	**(47)**	**(151)**

Detailed data on derivative transactions designated as hedging, held by the Parent Entity as at 31 March 2019 is presented in the table below.

Open hedging derivatives	Notional	Avg. weighted price/exchange rate	Maturity/ settlement period		Period of profit/loss impact	
	Copper [t] Currency [USD million]	[USD/t] [USD/PLN]	from	to	from	to
Copper – seagull	103 500	6 663-8 613	Apr 19	Dec 20	May 19	Jan 21
Copper – collar	39 000	6 631-8 169	Apr 19	June 20	May 19	July 20
Currency - seagull	540	3.70-4.30	Jan 21	Dec 21	Jan 21	Dec 21
Currency - collar	1080	3.53-4.30	Apr 19	Dec 20	Apr19	Dec 20

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

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

Rating level		As at 31 March 2019	As at 31 December 2018
Medium-high	from A+ to A- according to S&P and Fitch, and from A1 to A3 according to Moody's	99%	99%
Medium	from BBB+ to BBB- according to S&P and Fitch, and from Baa1 to Baa3 according to Moody's	1%	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 of unsettled derivatives, as at 31 March 2019 the maximum single entity share of the amount exposed to credit risk arising from these transactions amounted to 22%, or PLN 64 million (as at 31 December 2018: 22%, or PLN 121 million).

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

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

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

Under the process of liquidity management, the Group utilises instruments which enhance its effectiveness. One of the instruments used by the Group is the Cash pooling 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	first quarter of 2019	2018
Net Debt/EBITDA*	Relation of net debt to EBITDA	1.8	1.6
Equity ratio	Relation of equity less intangible assets to total assets	0.5	0.5

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

Net debt changes

Liabilities due to borrowing	As at 31 December 2018	Change in accounting policy – implementation of IFRS 16	As at 1 January 2019	Cash flows	Accrued interest	Exchange differences	Other changes	As at 31 March 2019
Bank loans	5 676	-	5 676	(12)	62	128	-	5 854
Loans	2 246	-	2 246	(49)	17	46	-	2 260
Leases	27	516	543	(24)	7	-	22	548
Total debt	**7 949**	**516**	**8 465**	**(85)**	**86**	**174**	**22**	**8 662**
Free cash and cash equivalents	949	-	-	(366)	-	-	-	583
Net debt	**7 000**							**8 079**

Structure of financing sources

As at 31 March 2019, the Group had open credit lines and loans with a total balance of available financing in the amount of PLN 18 098 million, out of which PLN 8 113 million had been drawn.

The structure of financing sources is presented below.

	first quarter of 2019			2018
Type of bank/ other loans	Available currency	Amount granted	Amount used	Amount used
Bilateral bank loans	USD, EUR, PLN	5 575	4 141*	1 555
Unsecured revolving syndicated credit facility	USD	9 591	1 713*	4 136*
Investment loans	USD, EUR, PLN	2 932	2 259	2 246
Total		**18 098**	**8 113***	7 937*

** Presented amounts include the preparation fee paid in the amount of PLN 17 million which decreases financial liabilities due to bank loans (PLN 15 million in 2018)*

Contingent liabilities due to guarantees granted

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

As at 31 March 2019, the Group held contingent liabilities due to guarantees and letters of credit granted in the total amount of PLN 2 680 million and due to promissory note liabilities in the amount of PLN 146 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 1 845 million:

- PLN 528 million (USD 138 million) - a letter of credit granted as security for the proper performance of a long-term contract for the supply of electricity,
- PLN 120 million (USD 31 million) – corporate guarantees set as security on the payment of concluded lease agreements,
- PLN 506 million (USD 132 million) – corporate guarantees securing repayment of short-term working capital facilities,
- PLN 691 million (USD 180 million) – a corporate guarantee securing repayment of a specified part of payment due to a guarantee set by Sumitomo Metal Mining Co., Ltd. and Sumitomo Corporation, securing repayment of a corporate credit drawn by the joint venture Sierra Gorda S.C.M.

Other entities including the Parent Entity:

- PLN 398 million (USD 93 million, CAD 14 million and PLN 3 million) securing the restoration costs of the Robinson mine, the Podolsky mine and the Victoria project and obligations related to proper execution of concluded agreements,
- 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 – PLN 192 million in the form of a bank guarantee and PLN 128 million in the form of an own promissory,
- PLN 192 million (USD 50 million) securing the proper execution by DMC Mining Services (UK) Ltd. and DMC Mining Services Ltd. of the contract for shaft sinking under the project conducted in the United Kingdom.

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

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

amounts in PLN millions, unless otherwise stated

Note 4.9 Related party transactions

Operating income from related entities	from 1 January 2019 to 31 March 2019	from 1 January 2018 to 31 March 2018
Revenues from sales of products, merchandise and materials to a joint venture	6	1
Interest income on loans granted to joint ventures	82	81
Revenues from other transactions with joint ventures	14	16
Revenues from other transactions with other related parties	16	6
Total	**118**	**104**

Purchases from related entities	from 1 January 2019 to 31 March 2019	from 1 January 2018 to 31 March 2018
Purchase of services, merchandise and materials from other related parties	19	16
Other purchase transactions from other related parties	1	2
Total	**20**	**18**

Trade and other receivables from related parties	As at 31 March 2019	As at 31 December 2018
From the joint venture Sierra Gorda S.C.M. (loans)	5 389	5 199
From the joint venture Sierra Gorda S.C.M. (other)	470	447
From other related parties	19	3
Total	**5 878**	**5 649**

Trade and other payables towards related parties	As at 31 March 2019	As at 31 December 2018
Towards joint ventures	22	18
Towards other related parties	16	2
Total	**38**	**20**

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 2019, the balances of payables due to agreements necessary to conduct principal operating activities of the Parent Entity in the amount of PLN 172 million (as at 31 December 2018: PLN 200 million) were comprised of:

- setting mining usufruct for extraction of minerals – fixed fees and mining usufructs for exploration and evaluation of mineral resources – in the total amount of PLN 164 million (as at 31 December 2018: PLN 170 million),
- setting mining usufruct for extraction of minerals – variable part (recognised in costs) in the amount of PLN 8 million (as at 31 December 2018: PLN 30 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 2019, the turnover from these transactions amounted to PLN 264 million (from 1 January to 31 March 2018: PLN 303 million), and, as at 31 March 2019, the unsettled balance of liabilities from these transactions amounted to PLN 122 million (as at 31 December 2018: PLN 158 million),
- sales to Polish State Treasury Companies. In the period from 1 January to 31 March 2019, the turnover from these sales amounted to PLN 17 million (from 1 January to 31 March 2018: PLN 11 million), and, as at 31 March 2019, the unsettled balance of receivables from these transactions amounted to PLN 9 million (as at 31 December 2018: PLN 8 million).

Remuneration of the Supervisory Board of the Parent Entity (in PLN thousands)	from 1 January 2019 to 31 March 2019	from 1 January 2018 to 31 March 2018
Remuneration due to service in the Supervisory Board, salaries and other current employee benefits	442	426

Remuneration of the Management Board of the Parent Entity (in PLN thousands)	from 1 January 2019 to 31 March 2019	from 1 January 2018 to 31 March 2018
Salaries and other current employee benefits due to serving in the function	956	992
Benefits due to termination of employment	12	576
Total	**968**	**1 568**

Remuneration of other key managers (in PLN thousands)	from 1 January 2019 to 31 March 2019	from 1 January 2018 to 31 March 2018
Salaries and other current employee benefits	1 400	1 030

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

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

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

		As at 31 March 2019	Increase/(decrease) since the end of the last financial year
	Contingent assets	**576**	**11**
	Guarantees received	281	31
	Promissory notes receivables	121	-
	Other	174	(20)
	Contingent liabilities	**3 007**	**(233)**
Note 4.8	Guarantees and letters of credit	2 680	(198)
Note 4.8	Promissory note liabilities	146	(32)
	Liabilities due to implementation of projects and inventions	16	(1)
	Other	165	(2)
	Other liabilities not recognised in the statement of financial position	**110**	**(3)**
	Liabilities towards local government entities due to expansion of the tailings storage facility	110	(3)

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 2019	(4 983)	(961)	2 224	(3 720)
As at 31 March 2019	(5 444)	(1 177)	2 083	(4 538)
Change in the statement of financial position	**(461)**	**(216)**	**(141)**	**(818)**
Exchange differences from the translation of statements of operations with a functional currency other than PLN	11	9	(3)	**17**
Depreciation recognised in inventories	40	-	-	**40**
Payables due to the purchase of property, plant and equipment and intangible assets	-	-	243	**243**
Adjustments	**51**	**9**	**240**	**300**
Change in the statement of cash flows	**(410)**	**(207)**	**99**	**(518)**

	Inventories	Trade receivables	Trade payables	Working capital
As at 31 December 2017	(4 562)	(1 522)	1 995	(4 089)
Change in accounting policy – application of IFRS 9	-	2	-	2
As at 1 January 2018 following application of IFRS 9	(4 562)	(1 520)	1 995	(4 087)
As at 31 March 2018	(5 468)	(1 409)	1 640	(5 237)
Change in the statement of financial position	**(906)**	**111**	**(355)**	**(1 150)**
Exchange differences from the translation of statements of operations with a functional currency other than PLN	(6)	(2)	3	**(5)**
Depreciation recognised in inventories	64	-	-	**64**
Payables due to the purchase of property, plant and equipment and intangible assets	-	-	189	**189**
Adjustments	**58**	**(2)**	**192**	**248**
Change in the statement of cash flows	**(848)**	**109**	**(163)**	**(902)**

Note 4.12 Other adjustments in the statement of cash flows

	from 1 January 2019 to 31 March 2019	from 1 January 2018 to 31 March 2018
(Gains)/Losses on the disposal of property, plant and equipment and intangible assets	(3)	3
Reclassification of other comprehensive income to profit or loss due to the realisation of hedging instruments	(3)	(30)
Change in provisions	8	13
Other	8	(3)
Total	**10**	**(17)**

amounts in PLN millions, unless otherwise stated

5 – Additional information to the consolidated quarterly report

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

In the first quarter of 2019, KGHM Polska Miedź S.A. acquired investment certificates of the following funds:

- on 29 January 2019, 8 790 investment certificates of KGHM VI Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM VI FIZAN) for PLN 5 288.59 per certificate, paid in cash in the total amount of PLN 46 million;
- on 29 January 2019, 17 818 investment certificates of KGHM VII Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM VII FIZAN) for PLN 11 872.26 per certificate, paid in cash in the total amount of PLN 211 million;

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

Moreover, on 29 January 2019, there was a retirement of all of the Investment Certificates of KGHM FIZAN I and KGHM FIZAN V. The Parent Entity received reimbursement from this retirement in the amount of PLN 391 million, which in the consolidated financial statements was settled with the equity of the liquidated funds, which did not have an impact on the consolidated statement of profit or loss.

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

Note 5.2 Seasonal or cyclical activities

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

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

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

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

On 17 April 2019, the Management Board of KGHM Polska Miedź S.A. adopted a resolution in which it recommended that the Ordinary General Meeting of KGHM Polska Miedź S.A. adopts a resolution on appropriation of profit for the year ended 31 December 2018, in the amount of PLN 2 025 million by transferring the entirety of it to the Parent Entity's reserve capital.

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

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 2019, in the light of results presented in this consolidated quarterly report relative to forecasted results

KGHM Polska Miedź S.A. has not published a forecast of the Company's and Group's financial results for 2019.

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

As at the date of preparation of this report, according to the 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.:

shareholder	number of shares/votes	% of share capital /total number of votes
State Treasury	63 589 900	31.79%
Nationale-Nederlanden Otwarty Fundusz Emerytalny	10 104 354	5.05%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	10 039 684	5.02%

As far as the Company is aware, this state did not change since the publication of the consolidated annual report for 2018.

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

Members of the Company's Management Board

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

Members of the Company's Supervisory Board

Based on information held by KGHM Polska Miedź S.A., amongst the Members of the Company's Supervisory Board, as at the date of preparation of this report only Józef Czyczerski held 10 shares of KGHM Polska Miedź S.A. The remaining Members of the Company's Supervisory Board did not hold shares of the Company or rights to them. The aforementioned state did not change since the publication of the consolidated report for 2018.

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

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

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

In a judgment dated 25 September 2018, the court dismissed the counter claim and partially upheld the principal claim to the total amount of approx. PLN 23.8 million, and at the same time ordered the payment of interest in the amount of approx. PLN 30.1 million, totalling to PLN 53.8 million.
Both parties to the proceedings appealed against this judgment.

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 2019 to 31 March 2019, 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 significant

During the period from 1 January 2019 to 31 March 2019, 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 significant.

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 22 January 2019, the Management Board of KGHM and trade unions - parties to the Collective Labour Agreement (CLA) for the Employees of KGHM Polska Miedź S.A. - signed Additional Protocol No. 23 to the CLA. Based on the above protocol, the increase in basic wage rates by 5.6% is in force from 1 January 2019.

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

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

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

In addition, the Company's results could be affected by a change in the minerals extraction tax formula resulting from an act on amending the minerals extraction tax act, which was passed by the Polish Parliament's lower house on 12th April, by the Senate on 9th May 2019 and was subsequently submitted to the President of the Republic of Poland for signature. The estimated, monthly impact of the proposed change in the minerals extraction tax formula on the decrease of the Company's costs, under current macroeconomic conditions, is around PLN 20 million.

Note 5.6 Subsequent events

The Management Board's recommendation regarding the appropriation of profit for the year ended 31 December 2018

On 17 April 2019, the Management Board of KGHM Polska Miedź S.A. adopted a resolution in which it recommends that the Ordinary General Meeting of KGHM Polska Miedź S.A. adopts a resolution on appropriation of profit for the year ended 31 December 2018, in the amount of PLN 2 025 million by transferring the entirety of it to the Parent Entity's reserve capital.
The recommendation of the Management Board of KGHM Polska Miedź S.A. results from an assessment of the current financial possibilities of the Parent Entity, and takes into consideration the program of investments being implemented as set forth in the updated Strategy of KGHM Polska Miedź S.A. for the years 2019-2023. The proposal of the Management Board of KGHM Polska Miedź S.A. is compliant with the existing Dividend Policy of KGHM Polska Miedź S.A., which provides for a balance to be maintained between the level of dividends paid out and opportunities to effectively invest the Parent Entity's funds given the current level of debt of the KGHM Polska Miedź S.A. Group.

The above recommendation of the Management Board was positively reviewed by the Supervisory Board of KGHM Polska Miedź S.A.

The final decision regarding the appropriation of KGHM Polska Miedź S.A.'s profit for the year ended 31 December 2018 will be made by the Ordinary General Meeting of KGHM Polska Miedź S.A.

Supplementary information to the Management Board's Report on the activities of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group in 2018

As a result of a recommendation of the Polish Financial Supervision Authority Office, received in writing dated 17 April 2019, the Management Board of KGHM Polska Miedź S.A. adopted on 30 April 2019 a resolution in which it accepted supplementary information to the Corporate Governance Statement, representing appendix no. 1 to the Management Board's Report on the activities of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group in 2018, published on 14 March 2019 in the annual report for 2018 and the consolidated annual report for 2018.

The requirement to provide a supplement arises from § 70 sec. 6 point 5 (l) and (m), and § 71 sec. 5 of the Decree of the Minister of Finance dated 29 March 2018 on current and periodic information published by issuers of securities and conditions for recognising as equivalent information required by the laws of a non-member state.

Convening of an Ordinary General Meeting of KGHM Polska Miedź S.A.

On 30 April 2019, the Management Board of KGHM Polska Miedź S.A. convened an Ordinary General Meeting of KGHM Polska Miedź S.A. The Ordinary General Meeting of KGHM Polska Miedź S.A. will take place on 7 June 2019, beginning at 11:00 a.m. at the head office of the Parent Entity.

Intent to issue bonds on the Polish market

On 9 May 2019, the Management Board of KGHM Polska Miedź S.A. announced that it intends to establish a bond issue program, which foresees the first emission of unsecured bonds up to the amount of PLN 2 000 million in the second quarter of 2019.

The bonds may be issued in one or several series. The bonds will be offered exclusively in Poland. The bonds will be issued pursuant to art. 33 point 2) of the Act on Bonds of 15 January 2015, and offers to purchase the bonds will be sent to no more than 149 individually identified addressees. Detailed terms of the program and the final size of the issue will be set at a later date, taking into account, among others, the results of the book building process among the investors and conditions on the Polish bond market.

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

CONDENSED STATEMENT OF PROFIT OR LOSS

		from 1 January 2019 to 31 March 2019	from 1 January 2018 to 31 March 2018
Note 2.1	Revenues from contracts with customers, including:	4 316	3 206
	from sales, for which the amount of revenue was not finally determined at the end of the reporting period (IFRS 15, 114)	559	362
Note 2.2	Cost of sales	(3 397)	(2 504)
	Gross profit	**919**	**702**
Note 2.2	Selling costs and administrative expenses	(194)	(182)
	Profit on sales	**725**	**520**
Note 2.3	Other operating income and (costs), including:	379	73
	interest income calculated using the effective interest rate method	66	57
	reversal /(recognition) of impairment losses on financial instruments	94	49
Note 2.4	Finance income and (costs)	(173)	124
	Profit before income tax	**931**	**717**
	Income tax expense	(236)	(196)
	PROFIT FOR THE PERIOD	**695**	**521**
	Weighted average number of ordinary shares (million)	**200**	**200**
	Basic and diluted earnings per share (in PLN)	**3.48**	**2.61**

amounts in PLN millions, unless otherwise stated

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

	from 1 January 2019 to 31 March 2019	from 1 January 2018 to 31 March 2018
Profit for the period	**695**	**521**
Measurement of hedging instruments net of the tax effect	(220)	115
Other comprehensive income, which will be reclassified to profit or loss	**(220)**	**115**
Equity financial instruments measured, as a result of option election, at fair value through other comprehensive income, net of the tax effect	(25)	(92)
Actuarial losses net of the tax effect	(52)	(147)
Other comprehensive income, which will not be reclassified to profit or loss	**(77)**	**(239)**
Total other comprehensive net income	**(297)**	**(124)**
TOTAL COMPREHENSIVE INCOME	**398**	**397**

amounts in PLN millions, unless otherwise stated

CONDENSED STATEMENT OF CASH FLOWS

	Cash flow from operating activities	from 1 January 2019 to 31 March 2019	from 1 January 2018 to 31 March 2018
	Profit before income tax	931	717
	Depreciation/amortisation recognised in profit or loss	274	251
	Interest on investment activities	(58)	(54)
	Interest and other costs of borrowings	43	32
	Fair value gains on loans measured at fair value through profit or loss	(80)	(113)
	Change in other receivables and liabilities	13	(27)
	Impairment losses on non-current assets	-	765
	Reversal of impairment losses on non-current assets	(95)	(813)
	Exchange differences, of which:	14	(66)
	from investing activities and cash	(93)	84
	from financing activities	107	(150)
	Change in assets/liabilities due to derivatives	(15)	(40)
Note 2.6	Other adjustments	25	(5)
	Exclusions of income and costs, total	121	(70)
	Income tax paid	(63)	(144)
Note 2.5	Changes in working capital	(473)	(585)
	Net cash generated from/(used in) operating activities	**516**	**(82)**
	Cash flow from investing activities		
	Expenditures on mining and metallurgical assets, including:	(789)	(556)
	interest paid	(39)	(25)
	Expenditures on other property, plant and equipment and intangible assets	(56)	(15)
	Expenditures due to acquisition of subsidiaries	(391)	-
	Loans granted	-	(5)
	Other expenses	(27)	(38)
	Total expenses	(1 263)	(614)
	Proceeds for disposal of subsidiaries	391	-
	Other proceeds	3	6
	Proceeds	394	6
	Net cash used in investing activities	**(869)**	**(608)**
	Cash flow from financing activities		
	Proceeds from borrowings	3 143	1 112
	Proceeds from cash pool	55	60
	Total proceeds	3 198	1 172
	Repayments of borrowings, including:	(3 065)	(481)
	leases	(2)	-
	Interest and other costs of borrowings, including:	(48)	(30)
	leases	(12)	-
	Total expenses	(3 113)	(511)
	Net cash generated from financing activities	**85**	**661**
	TOTAL NET CASH FLOW	**(268)**	**(29)**
	Exchange gains/(losses) on cash and cash equivalents	(32)	10
	Cash and cash equivalents at the beginning of the period	627	234
	Cash and cash equivalents at the end of the period	**327**	**215**

amounts in PLN millions, unless otherwise stated

CONDENSED STATEMENT OF FINANCIAL POSITION

ASSETS	As at 31 March 2019	As at 31 December 2018
Mining and metallurgical property, plant and equipment	16 922	16 382
Mining and metallurgical intangible assets	649	576
Mining and metallurgical property, plant and equipment and intangible assets	17 571	16 958
Other property, plant and equipment	90	92
Other intangible assets	50	52
Other property, plant and equipment and intangible assets	140	144
Investments in subsidiaries	3 377	3 510
Loans granted, including:	6 623	6 262
measured at fair value through profit or loss	1 839	1 724
measured at amortised cost	4 784	4 538
Derivatives	249	319
Other financial instruments measured at fair value	466	496
Other financial instruments measured at amortised cost	430	376
Financial instruments, total	7 768	7 453
Deferred tax assets	93	9
Other non-financial assets	28	24
Non-current assets	**28 977**	**28 098**
Inventories	4 484	4 102
Trade receivables, including:	540	310
trade receivables measured at fair value through profit or loss	337	139
Tax assets	171	275
Derivatives	139	300
Other financial assets	506	489
Other non-financial assets	117	49
Cash and cash equivalents	327	627
Current assets	**6 284**	**6 152**
TOTAL ASSETS	**35 261**	**34 250**
EQUITY AND LIABILITIES		
Share capital	2 000	2 000
Other reserves from measurement of financial instruments	(552)	(307)
Accumulated other comprehensive income	(645)	(593)
Retained earnings	18 640	17 945
Equity	**19 443**	**19 045**
Borrowings and lease liabilities	6 637	6 758
Derivatives	84	68
Employee benefits liabilities	2 311	2 235
Provisions for decommissioning costs of mines and other technological facilities	982	980
Other liabilities	193	199
Non-current liabilities	10 207	10 240
Borrowings and lease liabilities	1 740	1 035
Cash pool liabilities	135	80
Derivatives	19	13
Trade payables	1 631	1 920
Employee benefits liabilities	696	611
Tax liabilities	516	405
Provisions for liabilities and other charges	190	190
Other liabilities	684	711
Current liabilities	5 611	4 965
Non-current and current liabilities	**15 818**	**15 205**
TOTAL EQUITY AND LIABILITIES	**35 261**	**34 250**

amounts in PLN millions, unless otherwise stated

CONDENSED STATEMENT OF CHANGES IN EQUITY

	Share capital	Other reserves from measurement of financial instruments	Accumulated other comprehensive income	Retained earnings	Total equity
As at 31 December 2017	**2 000**	**142**	**(348)**	**15 462**	**17 256**
Change in accounting policies – application of IFRS 9	-	(604)	-	458	**(146)**
As at 1 January 2018	**2 000**	**(462)**	**(348)**	**15 920**	**17 110**
Profit for the period	-	-	-	521	**521**
Other comprehensive income	-	23	(147)	-	**(124)**
Total comprehensive income	-	23	(147)	521	**397**
As at 31 March 2018	**2 000**	**(439)**	**(495)**	**16 441**	**17 507**
As at 31 December 2018	2 000	(307)	(593)	17 945	19 045
Profit for the period	-	-	-	695	**695**
Other comprehensive income	-	(245)	(52)	-	**(297)**
Total comprehensive income	-	(245)	(52)	695	**398**
As at 31 March 2019	**2 000**	**(552)**	**(645)**	**18 640**	**19 443**

1 – General information

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

IFRS 16 "Leases"

Basic information on the standard

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

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

Impact of IFRS 16 on the financial statements

The Company had completed the work related to implementation of the new standard IFRS 16 in the fourth quarter of 2018. The project to implement IFRS 16 (project), was executed in three stages:

- stage I – analysis of all executed agreements for the purchase of services, regardless of their classification, the goal of which was to identify agreements based on which the Company uses assets belonging to suppliers; in addition, this stage comprised the analysis of perpetual usufruct rights to land as well as land easements and transmission easements,

- stage II – the evaluation of each agreement identified in stage I in terms of its meeting the criteria to be recognised as a lease pursuant to IFRS 16,

- stage III - implementation of IFRS 16 based on the developed concept.

All agreements involving a finance lease, operating lease, rentals, leases, perpetual usufruct rights to land or transmission easements and land easements were analysed. Also analysed were transactions involving purchased services (external service costs under operating activities) in terms of any occurrence of use of the identified assets.
Under this project the Company carried out appropriate changes in accounting policy and operating procedures. Methods were developed and implemented for the proper identification of lease agreements and for gathering data needed in order to properly account for such transactions.

The Company decided to apply the standard from 1 January 2019. In accordance with the transition rules described in IFRS 16.C5 (b), the new principles were retrospectively, and the accumulated impact of initial application of the new standard was recognised in equity as at 1 January 2019. Consequently, comparable data for financial year 2018 were not restated (the modified retrospective approach). At the moment of transition, the Company applied the practical expedient pursuant to which the entity was not required to reassess whether previously classified agreements contain a lease. The project which was undertaken during the implementation indicated that the new definition of a lease per IFRS 16 will not significantly change the scope of agreements meeting the definition of a lease.

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

Description of adjustments

a) Recognition of lease liabilities

Following the adoption of IFRS 16, the Company recognises lease liabilities related to agreements which were previously classified as "operating leases" in accordance with IAS 17 *Leases*. These liabilities were measured at the present value of lease payments due to be paid as at the date of commencement of the application of IFRS 16. For purposes of implementation of IFRS 16 and disclosure with respect to the impact of implementation of IFRS 16, discounting was applied using the Company's incremental borrowing rate as at 1 January 2019.

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

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

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

As at 1 January 2019, the discount rates calculated by the Company were within the following ranges (depending on the life of the agreement):

- for PLN-denominated agreements: from 4.25% to 5.86%,
- for EUR-denominated agreements: 2.10%.

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

b) Recognition of right-to-use assets

Right-to-use assets are measured at cost.

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

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

On the day of initial application, in the case of leases previously classified as operating leases under IAS 17, right-to-use assets were measured by the Company at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments related to that lease, recognised in the statement of financial position directly preceding the date of the initial application of IFRS 16.

Following initial recognition, right-to-use assets are depreciated under IAS 16 and are subjected to impairment testing pursuant to IAS 36.

c) Application of estimates

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

- determining which agreements are subject to IFRS 16,
- determining the remaining life of leases for agreements entered into before 1 January 2019 (including for agreements with unspecified lives or which may be prolonged),

amounts in PLN millions, unless otherwise stated

- determining the marginal interest rates applied for the purpose of discounting future cash flows, and
- determining useful lives and the depreciation rates of right-to-use assets, recognised as at 1 January 2019.

d) Application of practical expedients

In applying IFRS 16 for the first time, the Company applied the following practical expedients permitted by the standard:
- application of a single discount rate to a portfolio of leases with similar characteristics,
- assessment as to whether leases are onerous as defined by IAS 37 at the moment of implementation of the standard as an alternative to performing impairment testing of a leased asset,
- the treatment of operating lease agreements for which the remaining lease term is less than 12 months as at 1 January 2019 as short-term leases, and
- the use of hindsight (i.e. knowledge gained after the fact) in determining the lease period if the agreement contains options to prolong or terminate the lease.

e) Impact of implementation of IFRS 16 on the financial statements

As at 31 December 2018, the Company had non-cancellable, off-balance sheet operating lease liabilities in respect of the following agreements: perpetual usufruct of land, lease of land, lease of machines and equipment and other leases. As at 31 December 2018, their notional amount was PLN 957 million, of which the amount of PLN 955 million concerns lease agreements in accordance with IFRS 16, and excludes short-term leases and the lease of low value assets.

For the aforementioned agreements, the Company measured the present value of assets used under these agreements and recognised, as at 1 January 2019, right-to-use assets in the amount of PLN 390 million and a corresponding lease liability in the same amount.

Off-balance sheet lease liabilities in the amount of PLN 955 million were written-off.

In the case of agreements in which the Company is a lessor, application of IFRS 16 did not necessitate the recognition of adjustments as at 1 January 2019.

Summary of the financial impact of the implementation of IFRS 16 (this only concerns lease agreements entered into or amended before 1 January 2019):

Reconciliation of transition from IAS 17 to IFRS 16:

		Amount
Finance lease liabilities	IAS 17	-
Off-balance sheet operating lease liabilities (excluding discount)	IAS 17	957
Total - 31 December 2018		**957**
(-) Impact of the discount using the incremental borrowing rate as at 1 January 2019	IFRS 16	(143)
(-) Impact of the discount of perpetual usufruct of land as at 1 January 2019	IFRS 16	(422)
(-) Short-term lease agreements recognised as a cost in the period	IFRS 16	(2)
(-) Lease agreements of low value assets recognised as a cost in the period	IFRS 16	-
Lease liabilities – 1 January 2019		**390**

Impact on items of the statement of financial position as at 1 January 2019

	As at 1 January 2019
Right-to-use assets – property, plant and equipment*	396
Lease liability	390

** including PLN 6 million due to the reclassification of purchased perpetual usufruct right to land (in the amount of PLN 2 million) and transmission easements (in the amount of PLN 4 million) from intangible assets to property, plant and equipment.*

Impact on the financial statements as at 31 March 2019

Right-to-use assets – by assets	As at 1 January 2019	As at 31 March 2019
Land**	125	126
Perpetual usufruct right to land ***	199	199
Buildings	35	34
Technical equipment and machines	36	33
Other fixed assets	1	1
Total	**396**	**393**

*** including the reclassified transmission easements – PLN 4 million,*
**** including the reclassified purchased perpetual usufruct right to land – PLN 2 million*

amounts in PLN millions, unless otherwise stated

	from 1 January 2019 to 31 March 2019
Impact on the statement of comprehensive income:	
- decrease in taxes, charges and services	(9)
- increase in interest costs	5
- increase in depreciation/amortisation	5
Impact on the statement of cash flows:	
- increase in net cash flows from operating activities	14
- decrease in net cash flows from financing activities	(14)

It is estimated that the cost of short-term lease agreements and the cost of lease agreements for low-value assets for the first quarter of 2019 is immaterial.

The discount rates applied as at 31 March 2019 were as follows:
- for PLN-denominated agreements: from 4.25% to 5.86%,
- for EUR-denominated agreements: 2.10%.

Impact on financial ratios

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

Note 1.2 Risk management

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

amounts in PLN millions, unless otherwise stated

2 – Explanatory notes to the statement of profit or loss

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

	from 1 January 2019 to 31 March 2019	from 1 January 2018 to 31 March 2018
Europe		
Poland	1 020	961
Germany	648	429
The United Kingdom	532	341
Czechia	339	368
France	241	216
Hungary	182	190
Spain	-	10
Switzerland	136	131
Italy	227	87
Austria	51	53
Slovakia	24	29
Slovenia	16	17
Denmark	14	24
Finland	11	14
Romania	56	16
Sweden	13	11
Bosnia and Herzegovina	11	7
Estonia	4	5
Bulgaria	2	4
Netherlands	2	-
Portugal	-	1
Other countries (dispersed sales)	2	-
North and South America		
The United States of America	74	38
Asia		
China	579	203
Turkey	70	47
Taiwan	49	-
Singapore	9	-
Africa	4	4
TOTAL	**4 316**	**3 206**

amounts in PLN millions, unless otherwise stated

Note 2.2 Expenses by nature

	from 1 January 2019 to 31 March 2019	from 1 January 2018 to 31 March 2018
Depreciation of property, plant and equipment and amortisation of intangible assets	314	293
Employee benefits expenses	839	782
Materials and energy, including:	1 591	1 405
Purchased metal-bearing materials	992	866
Electrical and other energy	234	185
External services, including:	389	369
Transport	59	50
Repairs, maintenance and servicing	109	108
Mine preparatory work	122	117
Minerals extraction tax	420	434
Other taxes and charges	103	109
Other costs	21	29
Total expenses by nature	**3 677**	**3 421**
Cost of merchandise and materials sold (+)	62	41
Change in inventories of finished goods and work in progress (+/-)	(117)	(744)
Cost of manufacturing products for internal use (-)	(31)	(32)
Total costs of sales, selling costs and administrative expenses, including:	**3 591**	**2 686**
Cost of sales	3 397	2 504
Selling costs	31	24
Administrative expenses	163	158

amounts in PLN millions, unless otherwise stated

Note 2.3 Other operating income and (costs)

	from 1 January 2019 to 31 March 2019	from 1 January 2018 to 31 March 2018
Measurement and realisation of derivatives	46	37
Exchange differences on assets and liabilities other than borrowings	143	-
Interest on loans granted and other financial receivables	66	57
Fees and charges on re-invoicing of costs of bank guarantees securing payments of liabilities	19	18
Reversal of allowances for impairment of loans, including:	95	814
Reversal of allowances for impairment due to restructuring of intra-group financing	-	778
Gains on changes in fair value of financial assets measured at fair value through profit or loss	80	113
Other	38	16
Total other income	**487**	**1 055**
Measurement and realisation of derivatives	(65)	(59)
Losses due to initial recognition of POCI loans due to restructuring of intra-group financing	-	(763)
Allowances for impairment of loans	-	(2)
Exchange differences on assets and liabilities other than borrowings	-	(124)
Provisions recognised	(7)	(1)
Other	(36)	(33)
Total other costs	**(108)**	**(982)**
Other operating income and (costs)	**379**	**73**

amounts in PLN millions, unless otherwise stated

Note 2.4 Finance income and (costs)

	from 1 January 2019 to 31 March 2019	from 1 January 2018 to 31 March 2018
Exchange differences on borrowings	-	150
Measurement of derivatives	-	15
Total income	**-**	**165**
Interest on borrowings, including:	(37)	(24)
leases	(5)	-
Bank fees and charges on borrowings	(6)	(6)
Exchange differences on borrowings	(107)	-
Measurement of derivatives	(12)	-
Unwinding of the discount effect	(11)	(11)
Total costs	**(173)**	**(41)**
Finance income and (costs)	**(173)**	**124**

Note 2.5 Changes in working capital

	Inventories	Trade receivables	Trade payables	Working capital
As at 31 December 2018	(4 102)	(310)	2 082	**(2 330)**
As at 31 March 2019	(4 484)	(540)	1 786	**(3 238)**
Change in the statement of financial position	(382)	(230)	(296)	**(908)**
Depreciation recognised in inventories	38	-	-	**38**
Payables due to the purchase of property, plant and equipment and intangible assets	-	-	397	**397**
Adjustments	38	-	397	**435**
Change in the statement of cash flows	(344)	(230)	101	**(473)**

	Inventories	Trade receivables	Trade payables	Working capital
As at 31 December 2017	(3 857)	(1 034)	1 882	**(3 009)**
Change in accounting policies – application of IFRS 9	-	(16)	-	**(16)**
As at 1 January 2018 following the application of IFRS 9	(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)**

amounts in PLN millions, unless otherwise stated

Note 2.6 Other adjustments in the statement of cash flows

	from 1 January 2019 to 31 March 2019	from 1 January 2018 to 31 March 2018
Losses on the disposal of property, plant and equipment and intangible assets	3	13
Proceeds from income tax from the tax group companies	20	2
Reclassification of other comprehensive income to profit or loss due to the realisation of hedging derivatives	(3)	(30)
Change in provisions	5	-
Other	-	10
Total	**25**	**(5)**

Lubin, 15 May 2019