POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated quarterly report QSr 3 / 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 third quarter of the financial year **2019** from **1 July 2019** to **30 September 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: 20 November 2019

KGHM Polska Miedź Spółka Akcyjna
(name of the issuer)

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

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SELECTED FINANCIAL DATA

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

		in PLN mn		in EUR mn	
		from 1 January 2019 to 30 September 2019	from 1 January 2018 to 30 September 2018	from 1 January 2019 to 30 September 2019	from 1 January 2018 to 30 September 2018
I.	Revenues from contracts with customers	16 869	14 787	3 915	3 476
II.	Profit on sales	2 228	1 999	517	470
III.	Profit before income tax	2 424	1 592	563	374
IV.	Profit for the period	1 666	976	387	229
V.	Profit for the period attributable to shareholders of the Parent Entity	1 664	973	387	228
VI.	Profit for the period attributable to non-controlling interest	2	3	-	1
VII.	Other comprehensive net income	(581)	(224)	(135)	(53)
VIII.	Total comprehensive income	1 085	752	252	176
IX.	Total comprehensive income attributable to shareholders of the Parent Entity	1 082	749	251	175
X.	Total comprehensive income attributable to non-controlling interest	3	3	1	1
XI.	Number of shares issued (million)	200	200	200	200
XII.	Earnings per ordinary share attributable to shareholders of the Parent Entity	8.32	4.87	1.94	1.14
XIII.	Net cash generated from operating activities	2 491	1 822	578	428
XIV.	Net cash used in investing activities	(2 518)	(2 171)	(584)	(510)
XV.	Net cash generated from/(used in) financing activities	(139)	531	(32)	125
XVI.	Total net cash flow	(166)	182	(38)	43
		As at 30 September 2019	**As at 31 December 2018**	**As at 30 September 2019**	**As at 31 December 2018**
XVII.	Non-current assets	31 694	29 375	7 246	6 831
XVIII.	Current assets	8 405	7 862	1 922	1 829
XIX.	Total assets	40 099	37 237	9 168	8 660
XX.	Non-current liabilities	13 752	12 147	3 144	2 825
XXI.	Current liabilities	6 037	5 865	1 380	1 364
XXII.	Equity	20 310	19 225	4 644	4 471
XXIII.	Equity attributable to shareholders of the Parent Entity	20 215	19 133	4 622	4 450
XXIV.	Equity attributable to non-controlling interest	95	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 30 September 2019	from 1 January 2018 to 30 September 2018	from 1 January 2019 to 30 September 2019	from 1 January 2018 to 30 September 2018
I.	Revenues from contracts with customers	13 050	11 317	3 029	2 661
II.	Profit on sales	1 975	1 768	458	416
III.	Profit before income tax	2 370	1 928	550	453
IV.	Profit for the period	1 663	1 430	386	336
V.	Other comprehensive net income	(446)	(108)	(104)	(25)
VI.	Total comprehensive income	1 217	1 322	282	311
VII.	Number of shares issued (million)	200	200	200	200
VIII.	Earnings per ordinary share	8.32	7.15	1.93	1.68
IX.	Net cash generated from operating activities	1 840	1 135	427	267
X.	Net cash used in investing activities	(1 979)	(1 456)	(459)	(342)
XI.	Net cash generated from/(used in) financing activities	(120)	498	(28)	116
XII.	Total net cash flow	(259)	177	(60)	41
		As at 30 September 2019	**As at 31 December 2018**	**As at 30 September 2019**	**As at 31 December 2018**
XIII.	Non-current assets	30 202	28 098	6 905	6 534
XIV.	Current assets	6 586	6 152	1 506	1 431
XV.	Total assets	36 788	34 250	8 411	7 965
XVI.	Non-current liabilities	11 657	10 240	2 665	2 381
XVII.	Current liabilities	4 869	4 965	1 113	1 155
XVIII.	Equity	20 262	19 045	4 633	4 429

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Part 1 – Condensed consolidated financial statements

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		from 1 July 2019 to 30 September 2019	**from 1 January 2019 to 30 September 2019**	from 1 July 2018 to 30 September 2018	**from 1 January 2018 to 30 September 2018**
Note 3.3	Revenues from contracts with customers	5 641	16 869	5 364	14 787
Note 4.1	Cost of sales	(4 431)	(13 577)	(4 371)	(11 802)
	Gross profit	**1 210**	**3 292**	**993**	**2 985**
Note 4.1	Selling costs and administrative expenses	(387)	(1 064)	(346)	(986)
	Profit on sales	**823**	**2 228**	**647**	**1 999**
Note 4.5	Share of losses of joint ventures accounted for using the equity method	(106)	(169)	(4)	(258)
	Interest income on loans granted to joint ventures calculated using the effective interest rate method	89	255	66	192
	Profit or loss on involvement in joint ventures	(17)	86	62	(66)
Note 4.2	Other operating income	826	1 084	81	687
Note 4.2	Other operating costs	(106)	(334)	(265)	(508)
Note 4.3	Finance income	-	3	148	28
Note 4.3	Finance costs	(554)	(643)	(65)	(548)
	Profit before income tax	**972**	**2 424**	**608**	**1 592**
	Income tax expense	(276)	(758)	(243)	(616)
	PROFIT FOR THE PERIOD	**696**	**1 666**	**365**	**976**
	Profit for the period attributable to:				
	shareholders of the Parent Entity	695	1 664	363	973
	non-controlling interest	1	2	2	3
	Weighted average number of ordinary shares (million)	200	200	200	200
	Basic/diluted earnings per share (in PLN)	**3.48**	**8.32**	**1.82**	**4.87**

amounts in PLN millions, unless otherwise stated

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	from 1 July 2019 to 30 September 2019	**from 1 January 2019 to 30 September 2019**	from 1 July 2018 to 30 September 2018	**from 1 January 2018 to 30 September 2018**
Profit for the period	**696**	**1 666**	**365**	**976**
Measurement of hedging instruments net of the tax effect	(268)	(328)	176	232
Exchange differences from the translation of statements of operations with a functional currency other than PLN	(149)	(132)	41	(101)
Other comprehensive income which will be reclassified to profit or loss	(417)	(460)	217	131
Measurement of equity financial instruments at fair value through other comprehensive income, net of the tax effect	(31)	(94)	(77)	(201)
Actuarial (losses)/gains net of the tax effect	98	(27)	37	(154)
Other comprehensive income, which will not be reclassified to profit or loss	**67**	**(121)**	**(40)**	**(355)**
Total other comprehensive net income	**(350)**	**(581)**	**177**	**(224)**
TOTAL COMPREHENSIVE INCOME	**346**	**1 085**	**542**	**752**
Total comprehensive income attributable to:				
shareholders of the Parent Entity	344	1 082	540	749
non-controlling interest	2	3	2	3

amounts in PLN millions, unless otherwise stated

CONSOLIDATED STATEMENT OF CASH FLOWS

		from 1 January 2019 to 30 September 2019	from 1 January 2018 to 30 September 2018
	Cash flow from operating activities		
	Profit before income tax	2 424	1 592
	Depreciation/amortisation recognised in profit or loss	1 358	1 316
	Share of losses of joint ventures accounted for using the equity method	169	258
	Interest on loans granted to joint ventures	(255)	(192)
	Interest on borrowings	106	122
	Impairment losses on non-current assets	-	14
	Exchange differences, of which:	(110)	(47)
	from investing activities and cash	(584)	(434)
	from financing activities	474	387
	Change in provisions and employee benefits liabilities	(23)	251
	Change in other receivables and liabilities	(347)	57
	Change in derivatives	2	(143)
Note 4.12	Other adjustments	(55)	(2)
	Exclusions of income and costs, total	845	1 634
	Income tax paid	(334)	(607)
Note 4.11	Changes in working capital	(444)	(797)
	Net cash generated from operating activities	**2 491**	**1 822**
	Cash flow from investing activities		
	Expenditures on mining and metallurgical assets, including:	(2 065)	(1 744)
	paid capitalised interest on borrowings	(133)	(86)
	Expenditures on other property, plant and equipment and intangible assets	(249)	(174)
	Expenditures on financial assets designated for mine decommissioning	(292)	(25)
	Acquisition of newly-issued shares of joint ventures	(172)	(262)
	Proceeds from financial assets designated for mine decommissioning	268	8
	Other	(8)	26
	Net cash used in investing activities	**(2 518)**	**(2 171)**
	Cash flow from financing activities		
	Proceeds from borrowings	4 397	2 055
	Proceeds from the issue of debt financial instruments	2 000	-
	Repayments of trade payables by a factor	5	-
	Repayments of borrowings	(6 382)	(1 403)
	Repayment of lease liabilities	(43)	(8)
	Payment of interest on borrowings, including	(117)	(116)
	leases	(29)	(1)
	Other	1	3
	Net cash generated from/(used in) financing activities	**(139)**	**531**
	TOTAL NET CASH FLOW	**(166)**	**182**
	Exchange gains/(losses)	(43)	21
	Cash and cash equivalents at beginning of the period	957	586
	Cash and cash equivalents at end of the period	**748**	**789**

amounts in PLN millions, unless otherwise stated

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 September 2019	As at 31 December 2018
	ASSETS		
	Mining and metallurgical property, plant and equipment	19 221	17 507
	Mining and metallurgical intangible assets	1 826	1 657
	Mining and metallurgical property, plant and equipment and intangible assets	21 047	19 164
	Other property, plant and equipment	2 968	2 789
	Other intangible assets	155	224
	Other property, plant and equipment and intangible assets	3 123	3 013
	Joint ventures accounted for using the equity method	4	4
Note 4.6	Loans granted to joint ventures	5 796	5 199
Note 4.5	Total involvement in joint ventures	5 800	5 203
	Derivatives	162	320
	Other financial instruments measured at fair value	428	541
	Other financial instruments measured at amortised cost	783	716
Note 4.6	Financial instruments, total	1 373	1 577
	Deferred tax assets	236	309
	Other non-financial assets	115	109
	Non-current assets	**31 694**	**29 375**
	Inventories	5 338	4 983
Note 4.6	Trade receivables, including:	758	799
	Trade receivables measured at fair value through profit or loss	285	304
	Tax assets	415	417
Note 4.6	Derivatives	363	301
	Other financial assets	457	273
	Other non-financial assets	326	132
Note 4.6	Cash and cash equivalents	748	957
	Current assets	**8 405**	**7 862**
	TOTAL ASSETS	**40 099**	**37 237**
	EQUITY AND LIABILITIES		
	Share capital	2 000	2 000
	Other reserves from measurement of financial instruments	(767)	(444)
	Accumulated other comprehensive income other than from measurement of financial instruments	1 845	2 005
	Retained earnings	17 137	15 572
	Equity attributable to shareholders of the Parent Entity	20 215	19 133
	Equity attributable to non-controlling interest	95	92
	Equity	**20 310**	**19 225**
Note 4.8	Borrowings, leases and debt securities	7 795	6 878
Note 4.6	Derivatives	395	162
	Employee benefits liabilities	2 573	2 447
	Provisions for decommissioning costs of mines and other facilities	1 944	1 564
	Deferred tax liabilities	422	498
	Other liabilities	623	598
	Non-current liabilities	13 752	12 147
Note 4.8	Borrowings, leases and debt securities	1 346	1 071
Note 4.6	Derivatives	66	43
Note 4.6	Trade and similar payables	1 656	2 053
	Employee benefits liabilities	1 124	1 044
	Tax liabilities	530	349
	Provisions for liabilities and other charges	148	271
	Other liabilities	1 167	1 034
	Current liabilities	6 037	5 865
	Non-current and current liabilities	**19 789**	**18 012**
	TOTAL EQUITY AND LIABILITIES	**40 099**	**37 237**

amounts in PLN millions, unless otherwise stated

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**
Transactions with non-controlling interest	-	-	-	1	**1**	(1)	**-**
Transactions with owners	-	-	-	1	**1**	(1)	**-**
Profit for the period	**-**	-	-	973	**973**	3	**976**
Other comprehensive income	-	31	(255)	-	**(224)**	-	**(224)**
Total comprehensive income	-	31	(255)	973	**749**	3	**752**
As at 30 September 2018	**2 000**	**(537)**	**2 172**	**14 889**	**18 524**	**93**	**18 617**
As at 1 January 2019	**2 000**	**(444)**	**2 005**	**15 572**	**19 133**	**92**	**19 225**
Profit for the period	-	-	-	1 664	**1 664**	2	**1 666**
Other comprehensive income	-	(422)	(160)	-	**(582)**	1	**(581)**
Total comprehensive income	-	(422)	(160)	1 664	**1 082**	**3**	**1 085**
Reclassification of the result of measurement of equity instruments measured at fair value through other comprehensive income	-	99	-	(99)	**-**	-	**-**
As at 30 September 2019	**2 000**	**(767)**	**1 845**	**17 137**	**20 215**	**95**	**20 310**

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.

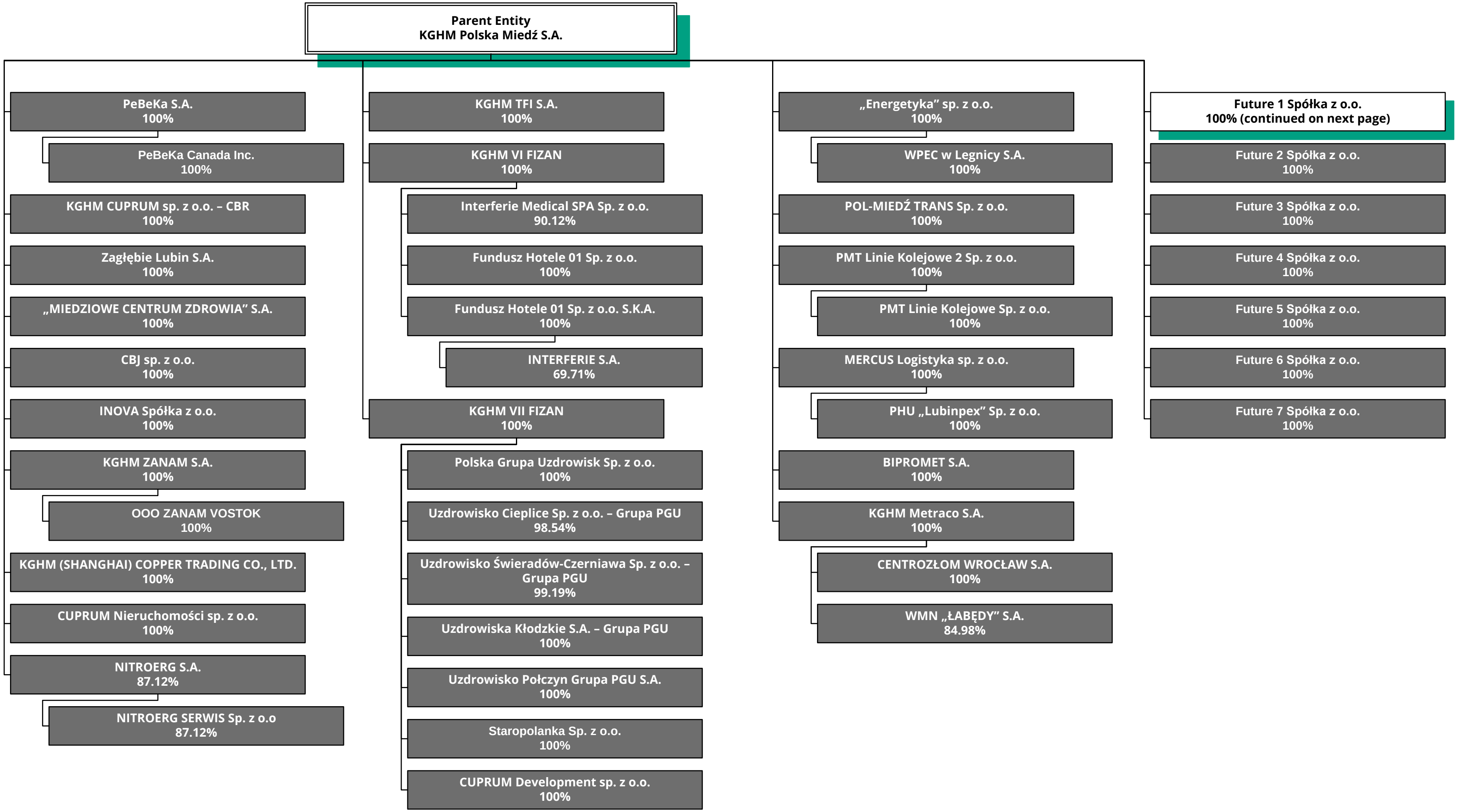
The Parent Entity's principal activities include:
- the mining of copper and non-ferrous metals ores; and
- the production of copper, precious and non-ferrous metals.

The business activities of the Group include:
- the mining of copper and non-ferrous metals ores;
- the mined production of metals, including copper, silver, molybdenum, 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.

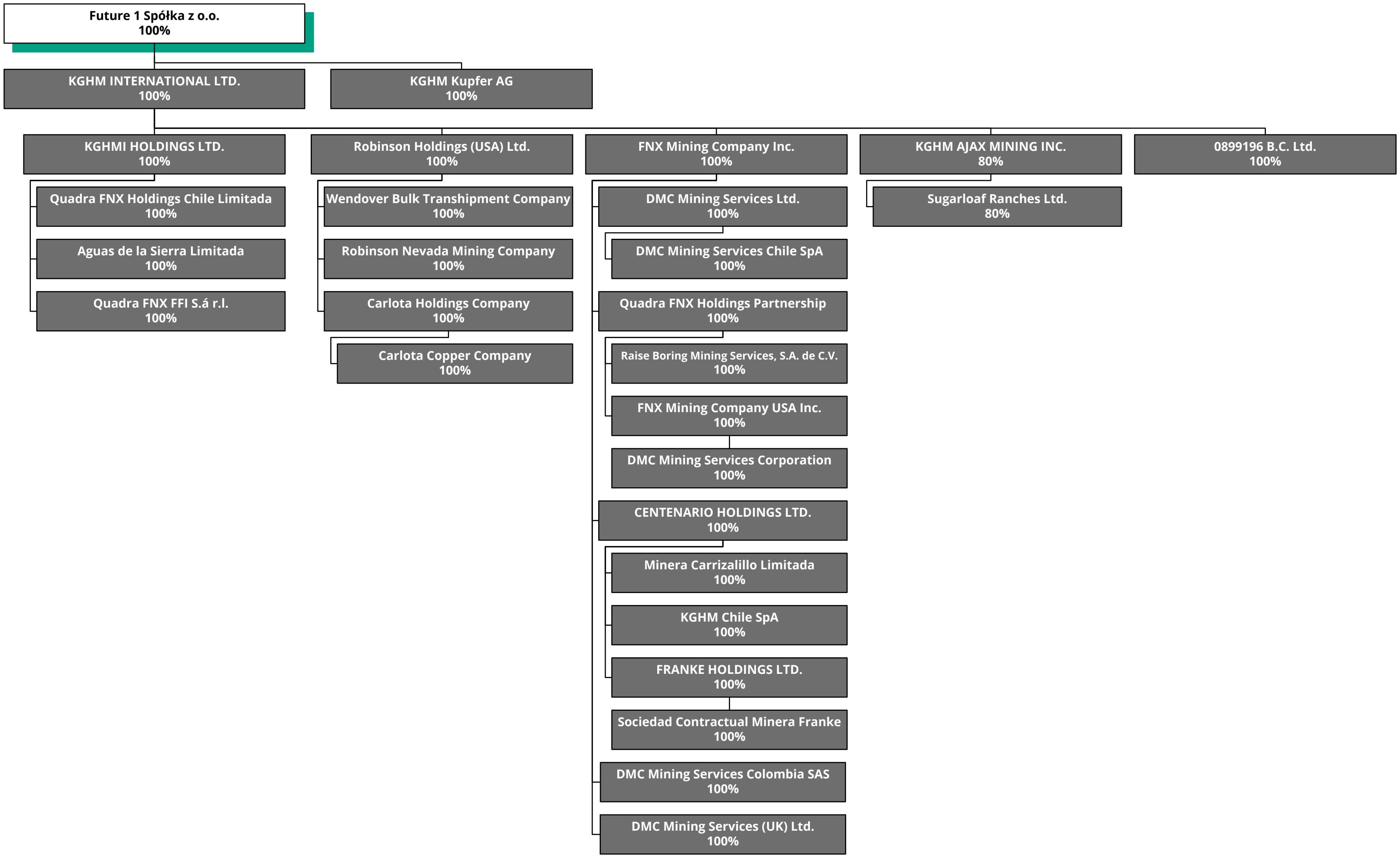
The KGHM Polska Miedź S.A. Group carries out exploration for and mining of copper and precious metals based on concessions for Polish deposits held by KGHM Polska Miedź S.A., and also based on legal titles held by companies of the KGHM INTERNATIONAL LTD. Group for the exploration for and mining of these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

Note 1.2 Structure of the KGHM Polska Miedź S.A. Group

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

Note 1.3 Exchange rates applied

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

- for the conversion of turnover, profit or loss and cash flow for the current period, the rate of ***4.3086 EURPLN*,***
- for the conversion of turnover, profit or loss and cash flow for the comparable period, the rate of ***4.2535 EURPLN*,***
- for the conversion of assets, equity and liabilities at 30 September 2019, the current average exchange rate announced by the National Bank of Poland (NBP) as at 30 September 2019, of ***4.3736 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 September 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 30 September 2019 and the comparable period from 1 January to 30 September 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 30 September 2019 and the comparable period from 1 January to 30 September 2018 **(Part 2)**.

Neither the condensed consolidated financial statements as at 30 September 2019 nor the condensed separate financial statements as at 30 September 2019 were subject to audit by a certified auditor.

The consolidated quarterly report for the period from 1 January 2019 to 30 September 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 consideration. 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.
Right-to-use assets 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 adopted 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). 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 amount 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 indices or market interest rates,
- amounts expected to be payable under guaranteed residual value of the leased object,
- 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 an asset with a similar value to right to use of 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 it 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 incremental borrowing 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 the first time application of IFRS 16, the Group used 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 1 489 million, of which the amount of PLN 1 478 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 637 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 are 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 1 478 million were written-off.

In the case of agreements in which the companies of the Group are lessors, 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):

amounts in PLN millions, unless otherwise stated

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	1 489
Total - 31 December 2018		**1 516**
(-) Impact of the discount using the incremental borrowing rate as at 1 January 2019	IFRS 16	(139)
(-) Impact of the discount of perpetual usufruct right to 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		**664**

Impact of implementation of IFRS 16 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	716
Intangible assets – reclassification of purchased perpetual usufruct right to land and transmission easements	(79)
Lease liability	637

Impact on the financial statements as at 30 September 2019

Right-to-use assets – by asset	As at 31 December 2018	Impact of IFRS 16	As at 1 January 2019	As at 30 September 2019
Land	5	249	254	247
Perpetual usufruct right to land	74	302	376	381
Buildings	-	8	8	9
Technical equipment and machines	19	59	78	106
Motor vehicles	15	18	33	27
Other fixed assets	2	1	3	5
Total	**115**	**637**	**752**	**775**

	from 1 January 2019 to 30 September 2019
Impact on the statement of comprehensive income:	
- decrease in taxes, charges and services	(63)
- increase in interest costs	28
- increase in depreciation/amortisation	38
Impact on the statement of cash flows:	
- increase in net cash flows – operating activities	63
- decrease in net cash flows – financing activities	(63)

The costs of short-term lease agreements and the costs of lease agreements for low-value assets for the period from 1 January to 30 September 2019 were immaterial.

Agreements for 3 quarters of 2019 were valued using the following discount rates:
- for PLN-denominated agreements: from 3.93% to 5.86%
- for EUR-denominated agreements: from 1.93% to 4.63%
- for USD-denominated agreements: from 4.89% to 6.08%
- for CAD-denominated agreements: from 4.11% to 5.75%

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

In the third quarter of 2019, there were no significant events covered by the regulatory filings of the Company.

amounts in PLN millions, unless otherwise stated

2 – Realisation of strategy

Basic elements of the Strategy of KGHM Polska Miedź S.A.

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

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

Policy regarding the development directions of the KGHM Group

During the reporting period, policy regarding the development directions of the KGHM Group was continued. Further actions were also taken aimed at adapting the Group's organisational functioning model to the business model of KGHM Polska Miedź S.A. and the market environment. In terms of the domestic companies, development policy was also aimed at cooperation between the Group's entities and at eliminating overlapping areas of competence in terms of individual entities.

With respect to implementation of the Strategy of KGHM for the years 2019-2023, in the case of the international assets of the Group, KGHM is aiming at developing unified reporting principles, coherent internal regulations and standardised solutions with respect to individual functional areas of the international entities.

Advancement of the Strategy in the third quarter of 2019

In the third quarter of 2019, work continued related to the process of implementing the Strategy of KGHM Polska Miedź S.A. for the years 2019-2023. Following are the key achievements in the third quarter of 2019 with respect to advanced programs and strategic projects 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	The advancement of projects aimed at automatisation of production in the Mining Divisions of KGHM, under the KGHM 4.0 program in the area INDUSTRY, was continued: – „The placement and identification of machinery and persons in underground mines"; – „Broad-band data transmission in underground mines"; – „Monitoring of utilities - power, ventilation, water"; – „Robotisation of production and auxiliary processes" (construction of an XRF robot for scanning for copper content at the working faces in the mines); – „Monitoring of mining vehicle parameters" – continuation of the SYNAPSA project. – „Centre of Advanced Data Analysis - CZAD"; To achieve savings through the acquisition of freely-granted energy efficiency certificates, 15 new activities were designated which meet the requirements of the energy efficiency law. As at the end of the third quarter of 2019, six energy efficiency audits had been conducted, with a further three being prepared, to be finished by year's end. Other audits are planned for 2020. In accordance with the implemented, PN-EN ISO50001:2012-compliant Energy Management System and with the Energy Savings Program (ESP), the Company continued to advance tasks aimed at reducing energy consumption in KGHM Polska Miedź S.A. During the reporting period, tasks related to energy and savings were carried out in the Divisions of KGHM, as a result of which average annual energy savings should amount to 3450-4400 MWh. The actual levels of savings will be confirmed by energy efficiency audits as well as during the energy review.

amounts in PLN millions, unless otherwise stated

Sierra Gorda mine in Chile – Phase 1 (KGHM INTERNATIONAL LTD. Group 55%, Sumitomo Metal Mining (31.5%) and Sumitomo Corporation 13.5%)	In the first three quarters of 2019, production of payable copper amounted to 44.4 thousand tonnes, and production of molybdenum 8.3 million pounds (based on the 55% interest held by KGHM Polska Miedź S.A. in the Sierra Gorda mine). Sierra Gorda, in cooperation with representatives of KGHM Polska Miedź S.A., Sumitomo Metal Mining and Sumitomo Corporation, is preparing an Integrated Plan, which will comprise a new scope of work, schedule and costs involving optimisation of the production process and increasing sulphide ore throughput.
Pyrometallurgy Modernisation Program at the Głogów Copper Smelter and Refinery	The flash furnace of the Głogów I Copper Smelter and Refinery is operating in accordance with the current production plan. Completion of the project is planned by the end of 2019.
Metallurgy Development Program	The steam drier and the concentrate roasting installation at the Głogów I Copper Smelter and Refinery were brought on-line. In terms of conformatory projects, final handovers and settlements are underway, as well as obtaining administrative decisions.
Increasing cathode production at the Legnica Copper Smelter and Refinery to 160 kt /year	**Revolving-Casting-Refining (RCR) Furnace** In the third quarter of 2019, a guarantee test on casting machine TM16 of the RCR furnace was concluded with positive results. By the end of the third quarter and during the ramp-up phase, the RCR furnace had produced 6 740 tonnes of copper. The process of settlements and final handovers of contracts and orders is nearing completion. During the planned maintenance shutdown at the Legnica Copper Smelter and Refinery, the refractory (thermal resistant) lining of the RCR furnace was repaired under guarantee. **Permanent starter sheet technology** In the third quarter of 2019, an economic feasibility study was carried out on the possibility of implementing new technology based on permanent starter sheets. An efficiency study is planned by the end of 2019.
DEVELOPMENT	
Deposit Access Program	**Construction of the GG-1 shaft** Work is underway according to schedule, reflecting existing hazards and technology and shaft sinking technique. By the end of the third quarter of 2019, the shaft's depth had reached 1093.3 meters. **Construction of the GG-2 „Odra" shaft** Buildings in the villages of Kamiona and Słone which are located close to the projected shaft were inventoried, aimed at determining their condition prior to the start of the investment. Negotiations are underway involving the purchase of land to build the shaft and the setting of transmission easements for infrastructural channels. **Access and development tunnels** In the third quarter of 2019, 12 056 meters of tunneling were excavated, along with infrastructure development. Since the start of the year, 36 102 meters of tunneling have been excavated in the Rudna and Polkowice-Sieroszowice mines, representing nearly 76% of the total amount of access tunnels planned for 2019. **Surface-based Central Air Conditioning System (SCA)** Construction continued on the SCA at the GG-1 shaft. By the end of the third quarter of 2019, work on laying the foundations and building the operations hall had been completed. Work continues on pre-fabrication of the SCA building's steel frame, 80% of which had been completed by the end of the third quarter of 2019. By the end of 2019, work on the SCA energy station and office building will be completed (building shell). **Ice Water Transportation System (IWTS)** In the third quarter of 2019, work was completed on the drilling of another hole, which is being expanded to a diameter of 23". Work on the technical drillholes is planned to be completed by 30 January 2020. Preparations began on routes for piping, excavations were made and 200 meters of piping were laid. Agreements with landowners regarding the setting of transportation easements are in the process of being signed.
Development of the Żelazny Most Tailings Storage Facility	**Construction of the Southern Quarter** Based on the current building permits, work continued on construction of the Southern Quarter. Commencement of the consecutive storage of tailings is planned for November 2020, while construction is planned to be completed by June 2022. **Construction of the Tailings Segregation and Thickening Station (TSTS)** Work was carried out on building the TSTS, in terms of architecture and internal installations for the hall and power building, as well as on installing power lines. Technological equipment for the TSTS was purchased, with installation planned for the second quarter of 2020.

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. By the end of the third quarter of 2019, two drillholes had been sunk and preparatory work commenced on the sinking of another drillhole. As regards the Głogów concession, additional drillholes are planned to be sunk under further concession-related work by March 2022. **Synklina Grodziecka and Konrad** Piezometer measurements are continuing on the terrain of the Synklina Grodziecka and Konrad concessions. Hydrogeological monitoring will be conducted to the end of 2020. **Bytom-Odrzański, Kulów-Luboszyce** Concession-related proceedings are underway before the Minister of the Environment. The Company expects a re-assessment of the submitted concession applications and the issuance of concession decisions.
Other concessions	**Puck region** The Ministry of the Environment confirmed Addition no. 1 to the Geological Works Project and issued a decision altering the concession. At the start of September 2019 drilling of another planned drillhole began. Work commenced on preparing an application for a change in the concession.
Projects involving development of the international assets	**Victoria project** In the third quarter of 2019, additional exploratory work was commenced aimed at increasing knowledge of the project's resource base. The project team also engaged in work related to securing existing infrastructure and the project's terrain, questions of a formal-legal nature and maintaining relations with the First Nations in Ontario province in Canada. **Ajax project** As a result of the decisions received from the Government of Canada and the provincial authorities of British Columbia against the granting of an Environmental Assessment Certificate for the Ajax project, in the third quarter of 2019, necessary work was carried out, related to securing existing infrastructure and required monitoring of the terrain. In the third quarter of 2019, work began on determining the further strategy for the Ajax project, which concluded with the mutual decision of the project's partners to commence the process of renewing efforts to engage its stakeholders in order to improve relations with the First Nations and the local community. **Sierra Gorda Oxide** In the third quarter of 2019, additional engineering work began aimed at developing more detailed technical solutions for the crushing and transport of ore for heap storage. Tests also continued involving the column leaching of crushed ore, and the question of determining the safe distance of the planned SG Oxide project installation from the tailings storage facility of Sierra Gorda was analysed.
INNOVATION	
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. By the end of 2019, most of the projects from the 1st and 2nd editions of the competition are planned to be completed. In the third quarter of 2019, under the 4th edition of the CuBR venture's competition, projects were initiated involving the subject of circular economy management. All of these projects were selected for stage I, which will conclude in the second and third quarters of 2020.
Selected R&D initiatives	In the third quarter of 2019, work continued on advancing the first edition of the Implementation Doctorates Program. Work continued on the advancement of two projects subsidised under the KIC Raw Materials program: – The project „Utrzymanie Kopalni i Sprzętu" (acronym MaMMa - Maintained Mine & Machine), the goal of which is to build a management processes support system to maintain mine operations and mine machinery. – „Monitoring pracy maszyn do kruszenia minerałów" (acronym OPMO - „Operation monitoring of mineral crushing machinery"), under which it is planned to build and test a pilot version of a new generation system for monitoring screening equipment in the Concentrator Division. As a result of selection to the KAVA 6 program (under KIC Raw Materials) advanced in February 2019, three research projects were subsidised: – RevRis – related to the recultivation of post-industrial terrain; – Batterflai – related to the development of environmentally-friendly flotation reagents; – AMICOS – related to the development of an automated infrastructure and industrial facility inspection system; These projects are expected to commence in January 2020.

amounts in PLN millions, unless otherwise stated

	Under the Horizon 2020 Program the project „FineFuture" was advanced, which foresees research into improving mineral particulate flotation, and a request was submitted for subsidising the project „IlluMINEation", related to integrating the systems for monitoring the condition of the Żelazny Most Tailings Storage Facility, based on artificial intelligence and machine learning.
Intellectual property	– Proceedings are underway to obtain a protection right for the word and figurative KGHM trademark in Canada. – Proceedings are underway to obtain a protection right for the word and figurative KGHM trademark under the international procedure, through the World Intellectual Property Organization (WIPO), in the following countries: the USA, India, China, Switzerland, Japan, Turkey and Ukraine. – Work is underway to create a SEPIZ (System Ewidencji Patentów i Znaków, or Patents and Trademarks Recording System) program for all of the group's companies, which in particular will enable the monitoring of all exclusive rights applied for. – New rules were introduced in the Company: an „Invention regulation" and a „Framework of principles for determining benefits from inventions and projects implementing the results of R&D work".
FINANCIAL STABILITY	
Basing the KGHM Group's financing on long-term instruments	As a result of changes carried out in 2019, the average weighted maturity of the debt of KGHM Polska Miedź S.A. was increased. In the third quarter of 2019, an instalment was drawn on the unsecured loan from the European Investment Bank in the amount of USD 90 million with maturity in 2031.
Shortening of the cash conversion cycle	The Company is engaged in actions aimed at shortening the turnover of receivables and extending the turnover of liabilities. The main area of change involved factoring and debt collection instruments. An agreement was signed for reverse factoring with a factoring limit of PLN 750 million. In September the first tranche of liabilities for factoring was transferred. An agreement was signed for utilisation of the debtors' registry, to minimise the risk of overdue receivables arising, enable collection of debt from debtors and to monitor the payment reliability of group companies. At the end of the quarter the status of receivables was in accordance with the budget target.
Effective market and credit risk management in the KGHM Group	As part of the advancement of the Company's strategic plan to secure against market risk, in the third quarter of 2019 hedging strategies were implemented on the silver market with a total notional amount of 3.6 million ounces and a maturity period from January 2020 to December 2020, as well as transactions hedging against a change in the USD/PLN exchange rate with a total notional amount of USD 480 million and a maturity period from January 2020 to December 2021. In addition, cross-currency interest rate swaps (CIRS) were entered into in order to hedge against currency and interest rate risks related to the issuance of 5 and 10-year bonds in PLN with a total notional amount of PLN 2 billion.
EFFICIENT ORGANISATION	
KGHM 4.0 Program	**With respect to ICT projects** (Information and Communication Technologies): – The second stage of modernising the central network infrastructure unit of KGHM Polska Miedź S.A. was completed. – With regards to the client relationship management (CRM) system, the business analysis process was completed and work commenced on its implementation. – A Goods Tracking System (GTS) was introduced, aimed at increasing the security of goods transported under commercial contracts and at substantially improving the quality of services provided to customers in this regard. – The last stage of tests of an IT system for providing notification of deliveries commenced. The notification of receipt under FCA (Free Carrier) involves ground transport. – Work commenced on projects aimed at advancing the requirements of the „Ustawa o krajowym systemie cyberbezpieczeństwa" (Act on a domestic cybersecurity system). **With respect to Industry projects** (industrial production): – Work commenced aimed at implementing BigData with respect to industrial automation. – Work continues on integrating industrial software in the Concentrators and Metallurgical Facilities. – The first data from the data delivery systems of the Głogów Copper Smelter and Refinery was imported to support the efficiency of the production processes. **With respect to supporting projects**: – A pilot IT procurement support system was introduced at the Company's Head Office. – Work continues on implementation of the final stage of the EPM (Enterprise Project Management) system to ensure servicing of the processes of planning, execution, assessment and control of the portfolio, programs and projects.

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)	As a result of actions taken under the preparatory phase, the decision was made to advance 16 projects at the Głogów Copper Smelter and Refinery and the Legnica Copper Smelter and Refinery. The projects being advanced ensure KGHM's compliance with the requirements of the Integrated Permits for the metallurgical facilities and have a significant impact on reducing arsenic emissions. Conclusion of the Program is planned in August 2023. In the third quarter of 2019, work was completed on sealing the conveyor belts and belt pulling stations for copper concentrate at the Głogów Copper Smelter and Refinery, while work commenced on building another filter at the Legnica Copper Smelter and Refinery. Three projects will be completed by the end of 2019.
Program to Improve Occupational Health and Safety in KGHM Polska Miedź S.A.	In the third quarter of 2019, selected initiatives of the Occupational Health and Safety Program in KGHM Polska Miedź S.A. were implemented, and preparatory work was carried out on the implementation of new, ISO 45001:2018-compliant OHS standards.

3 –Information on operating segments and revenues

Note 3.1 Information on 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 entities.

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, DMC Mining Services Chile SpA
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 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 structure of 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 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 30 September 2019						
Note 3.3	**Revenues from contracts with customers, of which:**	**13 050**	**2 311**	**1 522**	**5 475**	**(1 522)**	**(3 967)**	**16 869**
	- inter-segment	234	15	-	3 714	-	(3 963)	-
	- external	12 816	2 296	1 522	1 761	(1 522)	(4)	16 869
	Segment result	**1 663**	**(441)**	**(390)**	**12**	**390**	**432**	**1 666**
	Additional information on significant revenue/cost items of the segment							
	Depreciation/amortisation recognised in profit or loss	(893)	(292)	(381)	(178)	381	5	(1 358)
	Share of losses of joint ventures accounted for using the equity method	-	(169)	-	-	-	-	(169)
		As at 30 September 2019						
	Assets, including:	**36 788**	**10 933**	**9 642**	**5 476**	**(9 642)**	**(13 098)**	**40 099**
	Segment assets	36 788	10 933	9 642	5 476	(9 642)	(13 108)	40 089
	Joint ventures accounted for using the equity method	-	-	-	-	-	4	4
	Assets unallocated to segments	-	-	-	-	-	6	6
	Liabilities, including:	**16 526**	**17 302**	**13 584**	**2 353**	**(13 584)**	**(16 392)**	**19 789**
	Segment liabilities	16 526	17 302	13 584	2 353	(13 584)	(16 392)	19 789
	Liabilities unallocated to segments	-	-	-	-	-	-	-
	Other information	**from 1 January 2019 to 30 September 2019**						
	Cash expenditures on property, plant and equipment and intangible assets	1 774	478	463	187	(463)	(125)	2 314
	Production and cost data	**from 1 January 2019 to 30 September 2019**						
	Payable copper (kt)	427.6	57.5	44.4				
	Molybdenum (million pounds)	-	0.6	8.2				
	Silver (t)	1 017.9	1.7	10.9				
	TPM (koz t)	71.4	62.9	22.8				
	C1 cash cost of producing copper in concentrate (USD/lb)**	1.71	1.79	1.39				
	Adjusted EBITDA	**2 868**	**515**	**522**	**207**	**-**	**-**	**4 112**
	EBITDA margin* **	**22%**	**22%**	**34%**	**4%**	**-**	**-**	**22%**

* 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 (22%), the consolidated revenues from sales were increased by revenues from sales of the segment Sierra Gorda S.C.M.
[4 112 / (16 869 + 1 522) * 100]
**** Adjustments arise from consolidation eliminations and financial data of companies unallocated to any segment.

Financial results of reporting segments for the comparable period

		KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Reconciliation items to consolidated data: Elimination of data of the segment Sierra Gorda S.C.M	Reconciliation items to consolidated data: Adjustments****	Consolidated financial statements
		from 1 January 2018 to 30 September 2018						
Note 3.3	**Revenues from contracts with customers, of which:**	**11 317**	**2 047**	**1 407**	**5 068**	**(1 407)**	**(3 645)**	**14 787**
	- inter-segment	214	-	-	3 383	-	(3 597)	-
	- external	11 103	2 047	1 407	1 685	(1 407)	(48)	14 787
	Segment result	**1 430**	**(501)**	**(381)**	**11**	**381**	**36**	**976**
	Additional information on significant revenue/cost items of the segment							
	Depreciation/amortisation recognised in profit or loss	(820)	(335)	(390)	(168)	390	7	(1 316)
	Share of losses of joint ventures accounted for using the equity method	-	(255)	-	-	-	(3)	(258)
		As at 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 30 September 2018						
	Cash expenditures on property, plant and equipment and intangible assets	1 387	444	452	161	(452)	(74)	1 918
	Production and cost data	from 1 January 2018 to 30 September 2018						
	Payable copper (kt)	366.4	60.8	38.1				
	Molybdenum (million pounds)	-	0.4	10.7				
	Silver (t)	836.2	1.1	10.4				
	TPM (koz t)	62.1	51.3	15.8				
	C1 cash cost of producing copper in concentrate (USD/lb)**	1.87	1.87	1.21				
	Adjusted EBITDA	**2 588**	**528**	**484**	**190**	**-**	**-**	**3 790**
	EBITDA margin* **	**23%**	**26%**	**34%**	**4%**	**-**	**-**	**23%**

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

amounts in PLN millions, unless otherwise stated

Reconciliation of adjusted EBITDA	from 1 January 2019 to 30 September 2019			
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M. *	Other segments
Profit/(loss) for the period	**1 663**	**(441)**	**(390)**	**12**
[-] Share of losses of joint ventures accounted for using the equity method	**-**	**(169)**	**-**	**-**
[-] Current and deferred income tax	(707)	(39)	105	(25)
[-] Depreciation/amortisation recognised in profit or loss	(893)	(292)	(381)	(178)
[-] Finance income and (costs)	(621)	(714)	(629)	(14)
[-] Other operating income and (costs)	1 016	258	(7)	22
[=] EBITDA	2 868	515	522	207
[-] Recognition/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	-	-	-
Adjusted EBITDA	**2 868**	**515**	**522**	**207**

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

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

* 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 30 September 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	10 046	1 126	966	5	(966)	(16)	**11 161**
Silver	2 004	5	22	-	(22)	-	**2 009**
Gold	357	164	127	-	(127)	-	**521**
Services	67	822	-	1 634	-	(1 149)	**1 374**
Blasting materials and explosives	-	-	-	160	-	(60)	**100**
Mining machinery, transport vehicles and other types of machinery and equipment	-	-	-	125	-	(94)	**31**
Merchandise and materials	195	-	-	3 225	-	(2 683)	**737**
Other products	381	194	407	326	(407)	35	**936**
TOTAL	**13 050**	**2 311**	**1 522**	**5 475**	**(1 522)**	**(3 967)**	**16 869**

from 1 January 2018 to 30 September 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	8 513	1 220	754	4	(754)	(14)	**9 723**
Silver	1 495	7	17	-	(17)	-	**1 502**
Gold	280	133	66	-	(66)	-	**413**
Services	66	567	-	1 501	-	(1 100)	**1 034**
Blasting materials and explosives	-	-	-	172	-	(60)	**112**
Mining machinery, transport vehicles and other types of machinery and equipment	-	-	-	147	-	(125)	**22**
Merchandise and materials	137	-	-	2 901	-	(2 355)	**683**
Other products	826	120	570	343	(570)	9	**1 298**
TOTAL	**11 317**	**2 047**	**1 407**	**5 068**	**(1 407)**	**(3 645)**	**14 787**

* 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 – breakdown by type of contracts

	from 1 January 2019 to 30 September 2019						
					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
Total revenues from contracts with customers	**13 050**	**2 311**	**1 522**	**5 475**	**(1 522)**	**(3 967)**	**16 869**
Revenues from sales contracts, for which the sales price is set after the date of recognition of the sales (M+ principle), of which:	10 863	1 487	1 549	-	(1 549)	(58)	**12 292**
settled	10 409	804	652	-	(652)	(58)	**11 155**
unsettled	454	683	897	-	(897)	-	**1 137**
Revenues from other sales contracts	2 187	824	(27)	5 475	27	(3 909)	**4 577**

	from 1 January 2018 to 30 September 2018						
					Reconciliation items to consolidated data		
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Elimination of data of the segment Sierra Gorda S.C.M	Consolidation adjustments	Consolidated data
Total revenues from contracts with customers	**11 317**	**2 047**	**1 407**	**5 068**	**(1 407)**	**(3 645)**	**14 787**
Revenues from sales contracts, for which the sales price is set after the date of recognition of the sales (M+ principle), of which:	8 511	1 477	1 439	-	(1 439)	(62)	**9 926**
settled	7 879	1 027	542	-	(542)	(62)	**8 844**
unsettled	632	450	897	-	(897)	-	**1 082**
Revenues from other sales contracts	2 806	570	(32)	5 068	32	(3 583)	**4 861**

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

amounts in PLN millions, unless otherwise stated

Note 3.5 Revenues from contracts with customers of the Group – geographical breakdown reflecting the location of end clients

	from 1 January 2019 to 30 September 2019							from 1 January 2018 to 30 September 2018
					Reconciliation items to consolidated data			
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Elimination of data of the segment Sierra Gorda S.C.M	Consolidation adjustments	Consolidated data	KGHM Polska Miedź S.A. Group
Poland	3 244	-	6	5 245	(6)	(3 964)	**4 525**	4 268
Austria	148	-	-	15	-	-	**163**	192
Belgium	-	159	-	5	-	-	**164**	7
Bulgaria	8	-	-	7	-	-	**15**	20
Czechia	1 014	-	-	16	-	-	**1 030**	1 030
Denmark	42	-	-	1	-	-	**43**	47
Estonia	9	-	-	1	-	-	**10**	15
Finland	11	53	-	4	-	-	**68**	45
France	548	-	-	2	-	-	**550**	527
Spain	1	199	-	1	-	-	**201**	562
Netherlands	3	-	108	2	(108)	-	**5**	2
Germany	2 051	(54)	-	44	-	-	**2 041**	1 584
Romania	145	-	-	2	-	-	**147**	62
Slovakia	72	-	-	6	-	-	**78**	89
Slovenia	53	-	-	2	-	-	**55**	55
Sweden	16	-	-	19	-	-	**35**	48
Hungary	528	-	-	4	-	-	**532**	525
The United Kingdom	1 594	585	-	7	-	(3)	**2 183**	1 607
Italy	689	-	-	7	-	-	**696**	380
Australia	78	-	-	1	-	-	**79**	-
Bosnia and Hercegovina	28	-	-	1	-	-	**29**	25
Chile	-	16	125	-	(125)	-	**16**	13
China	1 703	58	592	-	(592)	-	**1 761**	1 646
India	-	-	11	1	(11)	-	**1**	-
Japan	1	151	520	-	(520)	-	**152**	2
Canada	-	445	1	-	(1)	-	**445**	512
South Korea	-	59	92	-	(92)	-	**59**	55
Norway	-	-	-	8	-	-	**8**	8
Russia	-	-	-	36	-	-	**36**	20
The United States of America	296	430	43	4	(43)	-	**730**	763
Switzerland	475	-	-	2	-	-	**477**	388
Turkey	161	-	-	2	-	-	**163**	232
Taiwan	49	-	-	-	-	-	**49**	-
Singapore	9	-	-	-	-	-	**9**	-
Morocco	7	-	-	-	-	-	**7**	8
Brazil	-	51	23	-	(23)	-	**51**	4
Thailand	56	-	-	1	-	-	**57**	-
Philippines	9	159	-	-	-	-	**168**	6
Other countries	2	-	1	29	(1)	-	**31**	40
TOTAL	**13 050**	**2 311**	**1 522**	**5 475**	**(1 522)**	**(3 967)**	**16 869**	14 787

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

Note 3.6 Main customers

In the period from 1 January 2019 to 30 September 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 3.7 Non-current assets – geographical breakdown

	Property, plant and equipment, intangible assets and investment properties	
	As at 30 September 2019	As at 31 December 2018
Poland	21 170	19 652
Canada	1 234	1 151
The United States of America	1 449	1 118
Chile	396	335
TOTAL	**24 249**	**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 3.8 Information on segments' results

3.8.1 The segment KGHM Polska Miedź S.A.

Production results

	Unit	three quarters of 2019	three quarters of 2018	change % 3 quarters	third quarter of 2019	second quarter of 2019	first quarter of 2019
Ore extraction (dry weight)	mn t	22.8	23.0	(0.6)	7.7	7.5	7.6
Copper content in ore	%	1.51	1.50	+0.3	1.51	1.51	1.50
Copper production in concentrate	kt	304.9	306.0	(0.4)	104.7	101.0	99.2
Silver production in concentrate	t	952.1	960.3	(0.8)	319.0	321.6	311.5
Production of electrolytic copper	kt	427.6	366.4	+16.7	141.0	144.9	141.7
- including from own concentrate	kt	313.1	281.7	+11.2	105.6	103.3	104.2
Production of metallic silver	t	1 017.9	836.2	+21.7	313.3	383.6	321.0
	mn oz t	31.7	26.0	+21.7	9.7	11.9	10.0
Production of gold	koz t	71.4	62.1	+14.9	20.8	30.8	19.8

As compared to the Company's Budget for the 9 months of 2019, ore extraction was lower by 1% alongside a significantly better (by 2.72%) quality of extracted ore (planned copper content of 1.47%). As a result of the aforementioned factors, production of copper in concentrate was higher by 5.1 thousand tonnes. Moreover, there was an increase in production of electrolytic copper, by 18.8 thousand tonnes, and of metallic silver, by 57.4 tonnes.
In the period of 9 months of 2019, there was a decrease in ore extraction (dry weight) as compared to the corresponding period of 2018. Copper content in ore increased by 0.3%. In 2019, there was an intensification of gas-geodynamic and climate hazards, which may result in slower mining operations.
Production of copper in concentrate decreased by approximately 1.1 thousand tonnes as compared to the 9 months of 2018 as a result of processing a lower amount of feed.
As compared to the corresponding period of 2018, there was a significant, 17% increase in production of electrolytic copper and of metallic silver by 22%. This increase was a result of optimising the feeding batch processed by the metallurgical line, higher availability of elements of the production line and the start-up of the copper concentrate roasting installations.

Revenues

	Unit	three quarters of 2019	three quarters of 2018	change % 3 quarters	third quarter of 2019	second quarter of 2019	first quarter of 2019
Revenues from contracts with customers, including from the sale of:	**PLN mn**	**13 050**	**11 317**	**+15.3**	**4 219**	**4 515**	**4 316**
- copper*	PLN mn	10 046	8 840	+13.6	3 211	3 472	3 363
- silver*	PLN mn	2 004	1 613	+24.2	690	694	620
Volume of copper sales*	kt	414.7	366.7	+8.9	134.8	144.8	135.1
Volume of silver sales*	t	1 029.1	869.0	+18.4	323.3	380.5	325.3
	mn oz t	33.1	27.9	+18.4	10.4	12.2	10.5
Copper price	USD/t	6 040	6 642	(9.1)	5 802	6 113	6 215
Silver price	USD/oz t	15.83	16.10	(1.7)	16.98	14.88	15.57
Exchange rate	USD/PLN	3.83	3.56	+7.6	3.88	3.81	3.79

**including sales of copper concentrate*

In the first 9 months of 2019, revenues amounted to PLN 13 050 million and were 15% higher as compared to the corresponding period of 2018. The increase in revenues is a result of higher copper, silver and gold sales volumes and a more favourable USD/PLN exchange rate, alongside lower copper and silver prices.

Costs

	Unit	three quarters of 2019	three quarters of 2018	change % 3 quarters	third quarter of 2019	second quarter of 2019	first quarter of 2019
Cost of sales, selling costs and administrative expenses[1]	**PLN mn**	**11 075**	**9 549**	**+16.0**	**3 577**	**3 907**	**3 591**
Expenses by nature	PLN mn	11 125	10 100	+10.1	3 692	3 756	3 677
Pre-precious metals credit unit cost of electrolytic copper production from own concentrate[2]	PLN/t	24 895	23 428	+6.3	25 526	25 682	23 526
Total unit cost of electrolytic copper production from own concentrate	PLN/t	18 159	17 379	+4.5	18 933	18 606	16 983
- including the minerals extraction tax	PLN/t	4 002	4 167	(4.0)	3 675	4 367	3 970
C1 cost[3]	**USD/lb**	1.71	1.87	(8.6)	1.53	1.85	1.76

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 9 months of 2019 amounted to PLN 11 075 million and was higher by PLN 1 526 million as compared to the corresponding period in 2018, mainly due to higher costs of purchased metal-bearing materials and a lower increase in inventories, which led to higher sales of copper and silver.

In the first 9 months of 2019, expenses by nature were higher by PLN 1 025 million as compared to the corresponding period of 2018, mainly due to a higher cost of consumption of purchased metal-bearing materials by PLN 710 million (due to higher consumption by 30 thousand tonnes of copper alongside a comparable purchase price).

Expenses by nature, excluding the minerals extraction tax and consumption of purchased metal-bearing materials, increased by PLN 420 million, or by 6%, mainly comprised of:

- labour costs (+PLN 139 million) due to an increase in remuneration,
- consumption of materials, fuels and energy (+PLN 105 million) due to higher consumption of energy and technological materials,
- external services (+PLN 87 million) due to an increase in transport services and the mine preparatory work, and
- depreciation/amortisation (+PLN 95 million) due to the reclassification of investments to fixed assets.

C1 cost respectively amounted to 1.71 USD/lb in the first 9 months of 2019, and 1.87 USD/lb in the first 9 months of 2018. The decrease in C1 cost (by 0.16 USD/lb) was mainly caused by the weakening of the Polish currency versus the US dollar by 7.6%.

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 24 895 PLN/t (in the comparable period of 2018: 23 428 PLN/t) and was higher by 6.3%, mainly due to the above-mentioned higher expenses by nature. The total unit cost of electrolytic copper production from own concentrate amounted to 18 159 PLN/t (for the first 9 months of 2018: 17 379 PLN/t).

Financial results

PLN million	three quarters of 2019	three quarters of 2018	change (%)	third quarter of 2019	second quarter of 2019	first quarter of 2019
Revenues from contracts with customers, including:	**13 050**	**11 317**	**+15.3**	**4 219**	**4 515**	**4 316**
- adjustment of revenues due to hedging transactions	170	110	+54.5	93	43	34
Cost of sales, selling costs and administrative expenses	**(11 075)**	**(9 549)**	**+16.0**	**(3 577)**	**(3 907)**	**(3 591)**
- including the minerals extraction tax	1 213	1 228	(1.2)	280	463	470
Profit on sales (EBIT)	**1 975**	**1 768**	**+11.7**	**642**	**608**	**725**
Other operating income and (costs), including:	**1 016**	**659**	**+54.2**	**564**	**73**	**379**
- gains/losses on changes in fair value of financial assets measured at fair value through profit or loss	137	52	×2.6	(5)	62	80
- interest on loans granted and other financial receivables	212	188	+12.8	80	66	66
- recognition/reversal of impairment losses on financial instruments	99	161	(38.5)	(3)	7	95
- dividend income	37	239	(84.5)	-	37	-
- measurement and realisation of derivatives	(57)	(87)	(34.5)	(29)	(9)	(19)
- exchange differences on assets and liabilities other than borrowings	508	224	×2.3	492	(127)	143
- recognition/release of provisions	39	(141)	×	1	38	-
- other	41	23	+78.3	28	(1)	14
Finance income and (costs), including:	**(621)**	**(499)**	**+24.4**	**(548)**	**100**	**(173)**
- interest on borrowings	(75)	(90)	(16.7)	5	(43)	(37)
- exchange differences on borrowings	(474)	(386)	+22.8	(532)	165	(107)
- unwinding of the discount effect	(31)	(33)	(6.1)	(10)	(10)	(11)
- measurement and realisation of derivatives	(18)	28	×	(1)	(5)	(12)
- other	(23)	(18)	+27.8	(10)	(7)	(6)
Profit before income tax	**2 370**	**1 928**	**+22.9**	**658**	**781**	**931**
Income tax expense	(707)	(498)	+42.0	(222)	(249)	(236)
Profit for the period	**1 663**	**1 430**	**+16.3**	**436**	**532**	**695**
Depreciation/amortisation recognised in profit or loss	893	820	+8.9	307	312	274
Adjusted EBITDA[1]	**2 868**	**2 588**	**+10.8**	**949**	**920**	**999**

1) 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 three quarters as compared to the corresponding period of 2018:

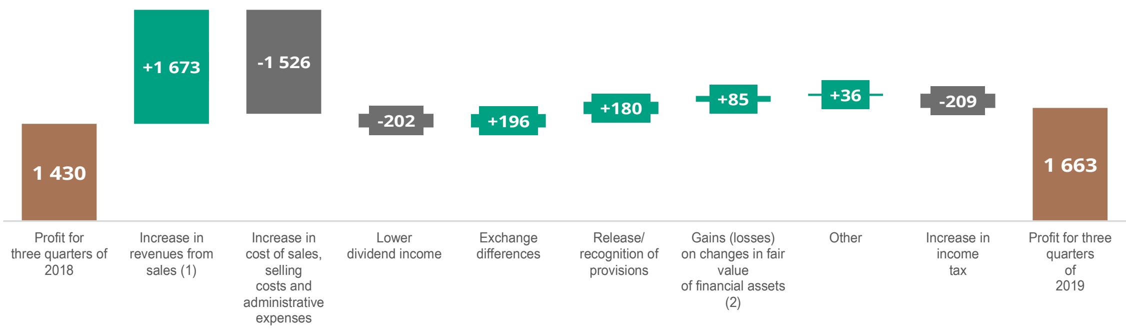
Item	Impact on change in result (PLN million)	Description
Increase in revenues from contracts with customers, excluding the impact of hedging transactions (+PLN 1 673 million)	+917	An increase in revenues from sales of basic products (copper, silver, gold) due to a more favourable average USD/PLN exchange rate (a change from 3.56 to 3.83 USD/PLN)
	(784)	A decrease in revenues due to lower prices of copper by 9% and silver by 2% alongside 6% higher gold prices
	+1 470	An increase in revenues due to a higher volume of sales of copper (+13%), silver (+18%) and gold (+11%)[1]
	+70	A change in other revenues from contracts with customers, including higher revenues from the sale of merchandise and materials (+PLN 57 million)
Increase in cost of sales, selling costs and administrative expenses[2] (-PLN 1 526 million)	(465)	A change in inventories of products and work in progress – mainly a decrease in inventories of half-finished products as a result of utilisation of the inventories of own concentrate and a change in costs of manufacturing products for internal use
	(710)	higher (+34%) consumption of purchased metal-bearing materials by 30 thousand tonnes of copper alongside a comparable purchase price
	(315)	An increase in other costs, mainly due to higher expenses by nature: labour costs (-PLN 139 million), materials, fuels and energy (-PLN 105 million), depreciation/amortisation (-PLN 95 million), external services (-PLN 87 million), alongside a decrease in the minerals extraction tax (+PLN 105 million)

amounts in PLN millions, unless otherwise stated

Lower dividend income (-PLN 202 million)	(202)	A decrease in dividend income from PLN 239 million to PLN 37 million
Exchange differences (+PLN 196 million)	+284	A change in the result due to exchange differences in other operating activities
	(88)	A change in the result due to exchange differences on borrowings (presented in finance costs)
Release/recognition of provisions (+PLN 180 million)	+180	A change in the balance of released/recognised provisions from –PLN 141 million to +PLN 39 million, mainly due to the increase in the level of provisions recognised in 2018 (mainly due to litigation and claims involving rationalisation and inventions (PLN 96 million) and the property tax of mining divisions (PLN 49 million)
Gains (losses) on changes in fair value of financial assets measured at fair value through profit or loss (+PLN 85 million)	+85	An increase in gains from PLN 52 million in 2018 to PLN 137 million in 2019 (mainly on the measurement of loans in the amount of +PLN 86 million)
Reversal (recognition) of impairment losses on financial instruments (-PLN 62 million)	(841)	A decrease in the reversal of impairment losses on financial instruments, including mainly loans measured at amortised cost (- PLN 839 million)
	+779	A decrease in impairment losses on financial instruments, including mainly loans (+PLN 778 million)
Impact of hedging transactions (+PLN 45 million)	+60	An increase in positive adjustments to revenue due to the settlement of hedging transactions from PLN 110 million to PLN 170 million
	(7)	A change in the result due to the realisation of derivatives from –PLN 98 million to –PLN 105 million
	(9)	A change in the result due to the measurement of derivatives from PLN 39 million to PLN 30 million
Change in the balance of income and costs due to interest on borrowings and other financial receivables (+PLN 39 million)	+24	An increase in interest income on loans granted and other financial receivables
	+15	A lower level of interest on borrowings
Increase in income tax (-PLN 209 million)	(209)	The higher income tax results from the higher tax base

1) Including revenues from copper concentrate sales
2) Cost of products, merchandise and materials sold plus selling costs and administrative expenses

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



1) excluding the impact of hedging transactions
2) Measured at fair value through profit or loss

Cash expenditures

In the first 9 months of 2019, capital expenditures on property, plant and equipment and intangible assets amounted to PLN 1 611 million and were higher than in the corresponding period of 2018 by 31%, while cash expenditures on property, plant and equipment and intangible assets amounted to PLN 1 774 million and were higher than in the corresponding period of 2018 by 28%.

amounts in PLN millions, unless otherwise stated

The higher level of cash expenditures as compared to capital expenditures after the first 9 months of 2019 was due to realisation of the current period's capital liabilities, pursuant to contractual payment dates.

Structure of capital expenditures on property, plant and equipment and intangible assets – by Division	three quarters of 2019	three quarters of 2018	change (%)	third quarter of 2019	second quarter of 2019	first quarter of 2019
Mining	1 203	903	+33.2	423	412	368
Metallurgy	332	312	+6.4	138	111	83
Other activities	21	16	+31.3	10	7	4
Development work – uncompleted	4	1	×4.0	3	1	-
Leases per IFRS 16	51	-	x	17	17	17
Total	**1 611**	**1 232**	**+30.8**	**591**	**548**	**472**
including costs of external financing	*183*	*100*	*+83.0*	*17*	*60*	*106*

Structure of capital expenditures on property, plant and equipment and intangible assets – by type	three quarters of 2019	three quarters of 2018	change (%)	third quarter of 2019	second quarter of 2019	first quarter of 2019
Replacement	483	441	+9.5	201	155	127
Maintenance	497	307	+61.9	203	173	121
Development	576	483	+19.3	167	202	207
Development work – uncompleted	4	1	×4.0	3	1	-
Leases per IFRS 16	51	-	x	17	17	17
Total	**1 611**	**1 232**	**+30.8**	**591**	**548**	**472**
including costs of external financing	*183*	*100*	*+83.0*	*17*	*60*	*106*

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 36% of total expenditures,
- **Replacement projects,** aimed at maintaining production equipment in an undeteriorated condition which guarantees the achievement of on-going production tasks, represent 30% 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 31% of total expenditures.

During the reporting period, most of the investment expenditures were incurred on securing long-term production levels, among others on construction of shafts and associated infrastructure, enabling mining from new mining regions, exploration in concession areas and on adapting technological installations in smelter/refineries to BAT recommendations. Other expenditures concerned replacement of assets guaranteeing the realisation of current production tasks, among others on the purchase of mining machinery, mine infrastructure development and core production infrastructure as well as construction work related to the development of the tailing storage facility's Southern Quarter.

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

3.8.2 The segment KGHM INTERNATIONAL LTD.

Production results

	Unit	three quarters of 2019	three quarters of 2018	change (%)	third quarter of 2019	second quarter of 2019	first quarter of 2019
Payable copper, including:	kt	57.5	60.8	(5.4)	21.5	19.7	16.3
- Robinson mine (USA)	kt	36.7	38.7	(5.2)	14.9	13.2	8.6
- Sudbury Basin mines [1] (CANADA)	kt	3.4	5.5	(38.2)	0.8	0.7	1.9
Payable nickel	kt	0.5	0.7	(28.6)	0.1	0.1	0.3
Precious metals (TPM), including:	koz t	62.9	51.3	+22.6	24.0	21.0	17.9
- Robinson mine (USA)	koz t	36.7	28.8	+27.4	15.3	13.5	7.9
- Sudbury Basin mines [1] (CANADA)	koz t	26.2	22.4	+17.0	8.7	7.5	10.0

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

Copper production in the segment KGHM INTERNATIONAL LTD. in the first 9 months of 2019 amounted to 57.5 thousand tonnes, and therefore decreased by 3.3 thousand tonnes (-5%) as compared to the corresponding period of 2018.

Production of copper by the Robinson mine decreased in the first three quarters of 2019 by 2 thousand tonnes (-5%) as compared to the first three quarters of 2018. This was a result of extracting ore with lower copper content (-9%), which was partially offset by higher recovery of this metal. However, the extracted ore had a higher gold content, which resulted in an increase in TPM production by 7.9 thousand troy ounces (+27%).

Copper production in the Sudbury Basin mines decreased by 2.1 thousand tonnes as a result of a lower content of this metal in extracted ore, which was partially offset by the increase in extraction volume. Moreover, the increase in volume of extraction resulted in an increase in the production of precious metals by 3.8 thousand troy ounces (+17%).

Revenues

	Unit	three quarters of 2019	three quarters of 2018	change (%)	third quarter of 2019	second quarter of 2019	first quarter of 2019
Revenues from contracts with customers[1], including:	**USD mn**	**601**	**573**	**+4.9**	**228**	**194**	**179**
- copper	USD mn	292	342	(14.6)	89	99	104
- nickel	USD mn	8	9	(11.1)	3	1	4
- precious metals (TPM)	USD mn	78	59	+32.2	25	26	27
Copper sales volume	kt	53.4	56.7	(5.8)	16.9	18.5	18.0
Nickel sales volume	kt	0.5	0.7	(28.6)	0.1	0.1	0.3
Precious metals (TPM) sales volume	koz t	53.5	47.7	+12.2	18.4	17.9	17.2

1) *reflects processing premium*

	Unit	three quarters of 2019	three quarters of 2018	change (%)	third quarter of 2019	second quarter of 2019	first quarter of 2019
Revenues from contracts with customers[1], including:	**PLN mn**	**2 311**	**2 047**	**+12.9**	**897**	**738**	**676**
- copper	PLN mn	1 126	1 220	(7.7)	356	375	395
- nickel	PLN mn	31	33	(6.1)	12	4	15
- precious metals (TPM)	PLN mn	300	209	+43.5	99	99	102

1) *reflects processing premium*

The sales revenue of the segment KGHM INTERNATIONAL LTD. in the first three quarters of 2019 amounted to USD 601 million. The increase by USD 28 million (+5%), as compared to the corresponding period of 2018 arises from the increase in sales revenue of companies operating under the DMC Mining Services ("DMC") brand , as well as an increase in revenues from sales of precious metals.
Revenues from copper sales decreased by USD 50 million (-15%) as a result of a decrease in the sales volume of this metal (-6%) and a decrease in effective sales price (from the level of 6 548 USD/t in the first quarters of 2018 to 5 982 USD/t in the first quarters of 2019).
The increase in the sales volume of precious metals by 5.8 thousand troy ounces (+12%) and higher realised sale prices resulted in an increase in revenues from TPM sales by USD 19 million (+32%).
DMC's revenues increased by USD 54 million, mainly due to a contract being advanced in the United Kingdom.

Costs

	Unit	three quarters of 2019	three quarters of 2018	change (%)	third quarter of 2019	second quarter of 2019	first quarter of 2019
C1 unit cost [1]	USD/lb	1.79	1.87	(4.3)	1.74	1.69	1.95

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

The average weighted unit cash cost of copper production for all operations in the segment KGHM INTERNATIONAL LTD. in the first three quarters of 2019 amounted to 1.79 USD/lb, and therefore decreased by 4% as compared to the corresponding period of 2018. The decrease in C1 is a result of higher revenues from sales of associated metals (+37%), which decrease this cost.

Financial performance

USD mn	three quarters of 2019	three quarters of 2018	change (%)	third quarter of 2019	second quarter of 2019	first quarter of 2019
Revenues from contracts with customers	601	573	+4.9	228	194	179
Cost of sales, selling costs and administrative expenses[1]	(543)	(519)	+4.6	(202)	(174)	(167)
Profit/(loss) on sales (EBIT)	**58**	**54**	**+7.4**	**26**	**20**	**12**
Profit/(loss) before taxation, including:	**(105)**	**(136)**	**(22.8)**	**(44)**	**(31)**	**(30)**
- share of losses of Sierra Gorda S.C.M. accounted for using the equity method	(44)	(72)	(38.9)	(27)	(17)	-
Income tax	(10)	(4)	X2.5	(4)	(3)	(3)
Profit/(loss) for the period	(115)	(140)	(17.9)	(47)	(35)	(33)
Depreciation/amortisation recognised in profit or loss	(76)	(94)	(19.1)	(19)	(24)	(33)
Adjusted EBITDA[2]	**134**	**148**	**(9.5)**	**45**	**44**	**45**

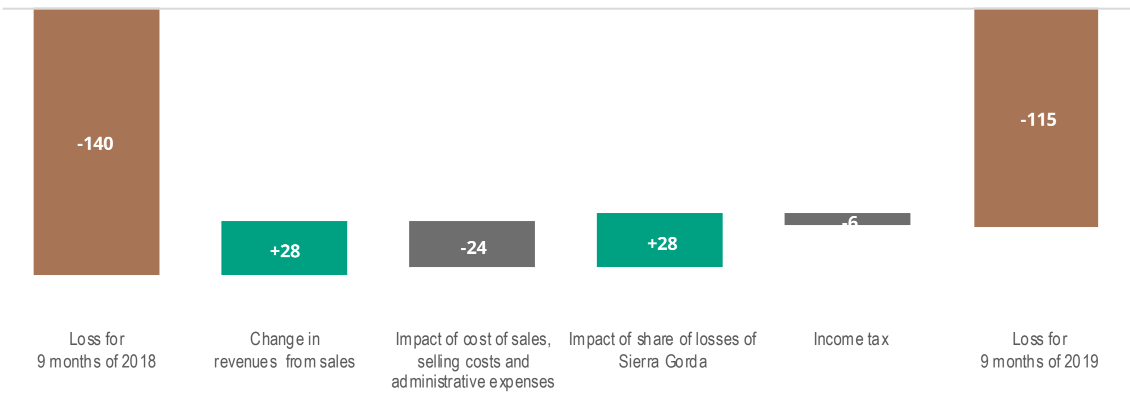
PLN mn	three quarters of 2019	three quarters of 2018	change (%)	third quarter of 2019	second quarter of 2019	first quarter of 2019
Revenues from contracts with customers	2 311	2 047	+12.9	897	738	676
Cost of sales, selling costs and administrative expenses[1]	(2 088)	(1 854)	+12.6	(794)	(663)	(631)
Profit/(loss) on sales (EBIT)	**223**	**193**	**+15.5**	**103**	**75**	**45**
Profit/(loss) before taxation, including:	**(402)**	**(487)**	**(17.5)**	**(170)**	**(121)**	**(111)**
- share of losses of Sierra Gorda S.C.M. accounted for using the equity method	(169)	(255)	(33.7)	(106)	(63)	-
Income tax	(39)	(14)	X2.8	(15)	(12)	(12)
Profit/(loss) for the period	(441)	(501)	(12.0)	(184)	(134)	(123)
Depreciation/amortisation recognised in profit or loss	(292)	(335)	(12.8)	(76)	(91)	(125)
Adjusted EBITDA[2]	**515**	**528**	**(2.5)**	**179**	**166**	**170**

1) Cost of products, merchandise and materials sold, selling costs and administrative expenses
2) 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 for three quarters of 2019 as compared to the corresponding period of 2018:

Item	**Impact on change of profit or loss (in USD million)**	**Description**
Higher revenues (+USD 28 million), including:	+54	Higher revenues realised by companies operating under the DMC brand
	(19)	Lower revenues due to lower sales volumes, including copper (-USD 21 million)
	(8)	Lower revenues due to lower prices of basic products, including lower copper prices (-USD 31 million) alongside higher TPM prices (+USD 19 million)
Higher cost of sales, selling costs and administrative expenses (-USD 24 million), including:	+33	A decrease in depreciation/amortisation costs (full depreciation/amortisation in the first 9 months of 2018 of the effects of reversal of an impairment loss on the Robinson mine as at 31 December 2017)
	+18	A decrease in costs of materials
	(40)	An increase in cost of external services (+USD 36 million) due to an increased scope of work carried out by subcontractors of DMC and an increase in labour costs (+USD 4 million)
	(36)	Change in inventories
Share of losses of entities accounted for using the equity method (+USD 28 million)	+28	Share of losses of Sierra Gorda S.C.M. recognised in the first 9 months of 2019, up to the amount of the increase in the share capital, i.e. the amount of USD 44 million (in the corresponding period of 2018 the share of losses of Sierra Gorda S.C.M. was also recognised up to the amount of the increase in the share capital, i.e. in the amount of USD 72 million)
Income tax	(6)	The change is mainly in respect of deferred income tax (an increase by USD 7 million)

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



Cash expenditures

USD mn	three quarters of 2019	three quarters of 2018	change (%)	third quarter of 2019	second quarter of 2019	first quarter of 2019
Victoria project	3	4	(25.0)	1	1	1
Sierra Gorda Oxide project	1	1	-	0	1	0
Pre-stripping and other	120	120	-	41	45	34
Ajax project	0	0	-	-	-	-
Total	**124**	**125**	**(0.8)**	**42**	**47**	**35**
Financing for Sierra Gorda S.C.M. – increase in the share capital	44	72	(38.9)	27	17	-

PLN mn	three quarters of 2019	three quarters of 2018	change (%)	third quarter of 2019	second quarter of 2019	first quarter of 2019
Victoria project	12	13	(7.7)	4	4	4
Sierra Gorda Oxide project	4	3	+33.3	0	4	0
Pre-stripping and other	462	428	+7.9	162	172	128
Ajax project	0	0	-	-	-	-
Total	**478**	**444**	**+7.7**	**166**	**180**	**132**
Financing for Sierra Gorda S.C.M. – increase in the share capital	169	255	(33.7)	106	63	-

Cash expenditures of the segment KGHM INTERNATIONAL LTD. in the first three quarters of 2019 amounted to USD 124 million, and therefore remained at a level similar to the one in the corresponding period of 2018.
Over 80% of cash expenditures were related to the Robinson mine, above all on work related to pre-stripping in the Ruth pit.
Expenditures on the Victoria project amounted to USD 3 million and concerned, among others, exploration work and work related to securing existing infrastructure and project terrain. USD 1 million was incurred on the Sierra Gorda Oxide project (i.e. ore leaching tests were continued).
In the first 9 months of 2019, financial support to the Sierra Gorda mine (in the form of an increase in the share capital) amounted to USD 44 million and was mainly used to repay the mine's financial liabilities.

3.8.3 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 Metal Mining (31.5%) and Sumitomo Corporation (13.5%).
The following production and financial data are presented on a 100% basis for the joint venture and proportionally to the interest in the company Sierra Gorda S.C.M. (55%), pursuant to the methodology of presentation of data in note 3.2.

Production results

In the third quarter of 2019, Sierra Gorda S.C.M. achieved a higher level of copper production than that realised in the previous two quarters of 2019.

	Unit	three quarters of 2019	three quarters of 2018	change (%)	third quarter of 2019	second quarter of 2019	first quarter of 2019
Copper production[1]	kt	80.6	69.3	+16.3	27.4	26.4	26.8
Copper production – segment (55%)	kt	44.4	38.1	+16.3	15.2	14.5	14.7
Molybdenum production [1]	mn lbs	15.0	19.5	(23.1)	4.7	4.8	5.5
Molybdenum production – segment (55%)	mn lbs	8.2	10.7	(23.1)	2.5	2.7	3.0
TPM production – gold [1]	koz t	41.4	28.8	+43.8	15.0	13.0	13.4
TPM production – gold – segment (55%)	koz t	22.8	15.8	+43.8	8.3	7.1	7.4

[1] *Payable metal in concentrate.*

In the entire nine month period, copper production increased by 11.3 thousand tonnes (+16%) as compared to the volume realised in the corresponding period of 2018. The main reason for the increase in production was the higher extraction and processing of ore and higher copper recovery during processing. Moreover, extraction took place in mining areas with higher ore quality, which was reflected in the higher copper content in processed ore. Higher ore processing and gold content were also responsible for the increase in gold production (+44%).

As for molybdenum, there was a decrease in production by 23% due to the lower content of this metal in processed ore.

amounts in PLN millions, unless otherwise stated

Revenues

In the first three quarters of 2019, revenues from sales amounted to USD 720 million (on a 100% basis), or PLN 1 522 million respectively to KGHM Polska Miedź S.A.'s interest (55%).

	Unit	three quarters of 2019	three quarters of 2018	change (%)	third quarter of 2019	second quarter of 2019	first quarter of 2019
Revenues from contracts with customers,[1] including from the sale of:	**mn USD**	**720**	**717**	**+0.4**	**237**	**225**	**258**
- copper	mn USD	457	384	+19.0	144	147	166
- molybdenum	mn USD	193	290	(33.4)	67	56	70
- TPM (gold)	mn USD	60	34	+76.5	23	19	18
Copper sales volume	kt	84.0	66.3	+27.3	28.7	29.3	26.0
Molybdenum sales volume	mn lbs	16.3	23.4	(30.4)	5.8	4.4	6.1
TPM sales volume (gold)	koz t	43.1	26.5	+62.6	15.6	14.3	13.2
Revenues from contracts with customers[1] - segment (55% share)	**mn PLN**	**1 522**	**1 407**	**+8.2**	**515**	**471**	**536**

[1] *reflects processing premium and other*

Revenues for the period of nine months of 2019 were slightly above the level realised in the corresponding period of 2018, while the increase in revenues from sales of copper and gold offset the impact of lower production and sales of molybdenum.
The individual factors impacting the increase in revenues are presented in the subsection on the financial performance of Sierra Gorda S.C.M.

Costs

The cost of sales, selling costs and administrative expenses incurred by the company Sierra Gorda S.C.M. amounted to USD 653 million, including selling costs of USD 46 million and administrative expenses of USD 29 million. The costs of the segment Sierra Gorda, proportionally to the interest held (55%) amounted to PLN 1 381 million.

	Unit	three quarters of 2019	three quarters of 2018	change (%)	third quarter of 2019	second quarter of 2019	first quarter of 2019
Cost of sales, selling costs and administrative expenses	mn USD	653	669	(2.4)	223	225	205
Cost of sales, selling costs and administrative expenses – segment (55% share)	mn PLN	1 381	1 313	+5.2	485	469	427
C1 unit cost[1]	**USD/lb**	**1.39**	**1.21**	**+14.9**	**1.25**	**1.58**	**1.34**

** 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 cost of sales, selling costs and administrative expenses was 2% lower than the one recorded in the first nine months of 2018, but due to the weakening of the PLN, the PLN-expressed cost was higher by 5%.

It should be stressed that the decrease in costs (in USD) took place while extraction and processing of ore were increased. Most of all, an improvement was recorded in the following expenses by nature (prior to the change in inventories and to the deduction of pre-stripping costs, which are capitalised):

- depreciation/amortisation – a decrease by 10% mainly due to changes in the mining plan of individual mining areas, affecting the level of depreciation/amortisation of capitalised costs of pre-stripping,
- fuels and oil – a decrease by 15% due to the lower price of diesel oil and lower consumption,
- molybdenum processing costs by an external counterparty – lower by 37% due to lower molybdenum production, and
- transport and shipping – a decrease by 6%, mainly due to lower molybdenum sales and lower port charges, alongside a negative impact of higher costs of domestic sales (an increase in copper sales volume) and higher costs of sea shipping,

The cost increases concerned the following main cost items:

- labour – an increase by 6%, mainly due to the conclusion of agreements with the trade unions in the first half of 2019, and
- spare parts – an increase by 20%, mainly due to a higher degree of replacement of certain components of drilling equipment, mills and mining machinery.

The unit cash cost of copper production (C1) amounted to 1.39 USD/lb in the period from January to September 2019 and was higher by 15% as compared to the corresponding period of 2018, despite the increase in the amount of copper sold. The increase was mainly due to a decrease in revenues from the sale of molybdenum, and the sold volume was lower than in 2018.

Financial performance

In the three quarters of 2019, EBITDA amounted to USD 247 million, of which proportionally to the interest held (55%) PLN 522 million relates to the KGHM Group.

Results of Sierra Gorda S.C.M. – 100% interest (in USD million)

	three quarters of 2019	three quarters of 2018	change (%)	third quarter of 2019	second quarter of 2019	first quarter of 2019
Revenues from contracts with customers	720	717	+0.4	237	225	258
Cost of sales, selling costs and administrative expenses	(653)	(669)	(2.4)	(223)	(225)	(205)
Profit/(loss) on sales (EBIT)	67	48	+39.6	14	0	53
Profit/(loss) for the period	**(185)**	**(194)**	**(4.6)**	**(67)**	**(76)**	**(42)**
Depreciation/amortisation recognised in profit or loss	(180)	(199)	(9.5)	(66)	(62)	(52)
Adjusted EBITDA[1]	**247**	**247**	**0.0**	**80**	**62**	**105**

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

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

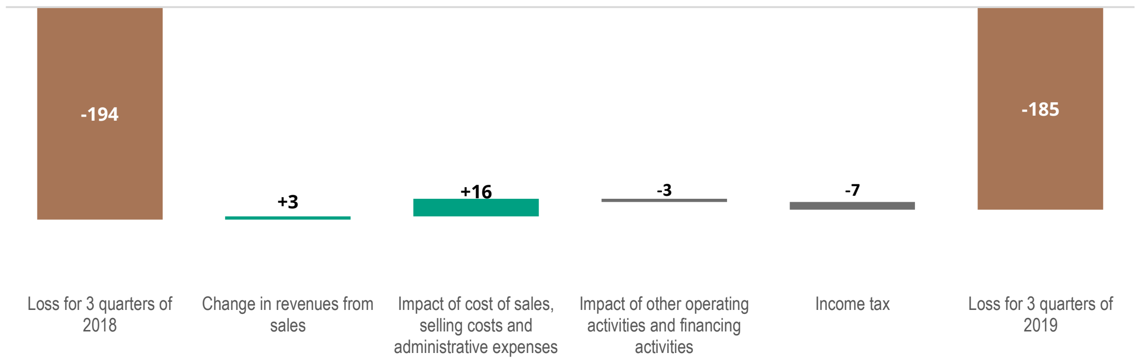
	three quarters of 2019	three quarters of 2018	change (%)	third quarter of 2019	second quarter of 2019	first quarter of 2019
Revenues from contracts with customers	1 522	1 407	+8.2	515	471	536
Cost of sales, selling costs and administrative expenses	(1 381)	(1 313)	+5.2	(485)	(469)	(427)
Profit/(loss) on sales (EBIT)	141	94	+50.0	30	2	109
Profit/(loss) for the period	**(390)**	**(381)**	**+2.4**	**(144)**	**(159)**	**(87)**
Depreciation/amortisation recognised in profit or loss	(381)	(390)	(2.3)	(143)	(129)	(109)
Adjusted EBITDA[1]	**522**	**484**	**+7.9**	**173**	**131**	**218**

[1] *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 factors impacting the change in profit or loss of Sierra Gorda S.C.M.:

Item	Impact on change of profit or loss (USD million)	Description
Higher revenues from sales by USD 3 million, including:	+105	Higher revenues due to a higher copper sales volume (+18 thousand tonnes)
	+29	Higher revenues from gold and silver sales
	(34)	Decrease in copper (-USD 25 million) and molybdenum (-USD 9 million) prices
	(87)	Lower revenues due to a lower molybdenum sales volume (-7 million pounds)
	(10)	Impact of other factors
Lower costs of sales, selling costs and administrative expenses by USD 16 million, including:	+39	Decrease in costs, mainly: depreciation/amortisation, fuels and molybdenum conversion costs
	(17)	Increase in costs, mainly: labour and spare parts
	(1)	Change in inventories
	(5)	Lower costs of pre-stripping, capitalised and therefore decreasing costs in profit or loss
Impact of other operating activities and financing activities – a decrease in the result by USD 3 million	(3)	Mainly foreign exchange losses
Income tax	(7)	Lower deferred tax assets due to a lower loss before taxation

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



Cash expenditures

In the first three quarters 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 219 million, of which the majority, or USD 161 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.

Cash expenditures of Sierra Gorda S.C.M.

	Unit	three quarters of 2019	three quarters of 2018	change (%)	third quarter of 2019	second quarter of 2019	first quarter of 2019
Cash expenditures on property, plant and equipment	mn USD	219	231	(5.2)	78	75	66
Cash expenditures on property, plant and equipment – segment (55% share)	mn PLN	463	452	+2.4	169	157	137

The decrease in cash expenditures (expressed in USD) by 5% was mainly related to advancement of the project to develop the dams of the tailings storage facility. With respect to investments on development, an increase related to advancement of the project to increase processing capacity was recorded.

In the three quarters of 2019, financial support from the Owners amounted to USD 80 million (USD 130 million in the corresponding period of 2018).

amounts in PLN millions, unless otherwise stated

4 – Selected additional explanatory notes

Note 4.1 Expenses by nature

	from 1 July 2019 to 30 September 2019	**from 1 January 2019 to 30 September 2019**	from 1 July 2018 to 30 September 2018	**from 1 January 2018 to 30 September 2018**
Depreciation of property, plant and equipment and amortisation of intangible assets	481	1 442	432	1 425
Employee benefits expenses	1 443	4 150	1 290	3 870
Materials and energy	1 936	5 961	1 711	5 090
External services	811	1 935	690	1 721
Minerals extraction tax	326	1 192	397	1 297
Other taxes and charges	128	388	127	405
Other costs	27	132	62	165
Total expenses by nature	**5 152**	**15 200**	**4 709**	**13 973**
Cost of merchandise and materials sold (+)	173	555	180	522
Change in inventories of finished goods and work in progress (+/-)	(151)	(139)	142	(770)
Cost of manufacturing products for internal use of the Group (-)	(356)	(975)	(314)	(937)
Total costs of sales, selling costs and administrative expenses, of which:	**4 818**	**14 641**	**4 717**	**12 788**
Cost of sales	4 431	13 577	4 371	11 802
Selling costs	109	311	92	272
Administrative expenses	278	753	254	714

Note 4.2 Other operating income and (costs)

	from 1 July 2019 to 30 September 2019	**from 1 January 2019 to 30 September 2019**	from 1 July 2018 to 30 September 2018	**from 1 January 2018 to 30 September 2018**
Measurement and realisation of derivatives	39	149	25	147
Interest income calculated using the effective interest rate method	2	7	2	6
Exchange differences on assets and liabilities other than borrowings	724	718	-	378
Release of provisions	7	59	15	29
Other	54	151	39	127
Total other operating income	**826**	**1 084**	**81**	**687**
Measurement and realisation of derivatives	(62)	(185)	(78)	(200)
Impairment losses on financial instruments	-	(3)	(3)	(6)
Exchange differences on assets and liabilities other than borrowings	-	-	(159)	-
Provisions recognised	(9)	(27)	(3)	(165)
Other	(35)	(119)	(22)	(137)
Total other operating costs	**(106)**	**(334)**	**(265)**	**(508)**
Other operating income and (costs)	**720**	**750**	**(184)**	**179**

amounts in PLN millions, unless otherwise stated

Note 4.3 Finance income and (costs)

	from 1 July 2019 to 30 September 2019	**from 1 January 2019 to 30 September 2019**	from 1 July 2018 to 30 September 2018	**from 1 January 2018 to 30 September 2018**
Exchange differences on borrowings	-	-	146	-
Measurement and realisation of derivatives	-	2	2	28
Other	-	1	-	-
Total finance income	**-**	**3**	**148**	**28**
Interest on borrowings including:	3	(82)	(40)	(92)
leases	(9)	(26)	(1)	(1)
Exchange differences on borrowings	(532)	(474)	-	(387)
Measurement and realisation of derivatives	(1)	(20)	-	-
Bank fees and charges on borrowings	(10)	(24)	(9)	(24)
Other	(14)	(43)	(16)	(45)
Total finance costs	**(554)**	**(643)**	**(65)**	**(548)**
Finance income and (costs)	**(554)**	**(640)**	**83**	**(520)**

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 30 September 2019	**from 1 January 2018 to 30 September 2018**
Purchase of property, plant and equipment	2 129	1 766
Purchase of intangible assets	74	65

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

	As at 30 September 2019	**As at 31 December 2018**
Payables due to the purchase of property, plant and equipment and intangible assets	501	728

Capital commitments not recognised in the consolidated statement of financial position

	As at 30 September 2019	**As at 31 December 2018**
Purchase of property, plant and equipment	1 540	1 478
Purchase of intangible assets	36	45
Total capital commitments	**1 576**	**1 523**

amounts in PLN millions, unless otherwise stated

Note 4.5 Involvement in joint ventures

Joint ventures accounted for using the equity method

	from 1 January 2019 to 30 September 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	172	-	666	-
Share of losses of joint ventures accounted for using the equity method	(169)	-	(658)	(4)
Exchange differences from the translation of statements of operations with a functional currency other than PLN	(3)	-	(8)	-
As at the end of the reporting period	**-**	**4**	**-**	**4**

	from 1 January 2019 to 30 September 2019	from 1 January 2018 to 30 September 2018
Share of the Group (55%) in losses of Sierra Gorda S.C.M. for the reporting period, of which:	**(390)**	**(381)**
recognised in share of losses of joint ventures	(169)	(255)
not recognised in share of losses of joint ventures	(221)	(126)

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

	from 1 January 2019 to 30 September 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	(221)	(109)
As at the end of the reporting period	**(5 197)**	**(4 976)**

Loans granted to the joint ventures (Sierra Gorda S.C.M.)

	from 1 January 2019 to 30 September 2019	from 1 January 2018 to 31 December 2018
As at the beginning of the reporting period	**5 199**	**3 889**
Accrued interest	255	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	342	320
As at the end of the reporting period	**5 796**	**5 199**

amounts in PLN millions, unless otherwise stated

Note 4.6 Financial instruments

Financial assets	As at 30 September 2019					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	At fair value through other comprehensive income	At fair value through profit or loss	At amortised cost	Hedging instruments	Total
Non-current	410	18	6 579	162	**7 169**	526	27	5 915	308	**6 776**
Loans granted to joint ventures	-	-	5 796	-	**5 796**	-	-	5 199	-	**5 199**
Derivatives	-	-	-	162	**162**	-	12	-	308	**320**
Other financial instruments measured at fair value	410	18	-	-	**428**	526	15	-	-	**541**
Other financial instruments measured at amortised costs	-	-	783	-	**783**	-	-	716	-	**716**
Current	-	333	1 640	353	**2 326**	-	328	1 717	285	**2 330**
Trade receivables	-	285	473	-	**758**	-	304	495	-	**799**
Derivatives	-	10	-	353	**363**	-	16	-	285	**301**
Cash and cash equivalents	-	-	748	-	**748**	-	-	957	-	**957**
Other financial assets	-	38	419	-	**457**	-	8	265	-	**273**
Total	**410**	**351**	**8 219**	**515**	**9 495**	**526**	**355**	**7 632**	**593**	**9 106**

amounts in PLN millions, unless otherwise stated

Financial liabilities	As at 30 September 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	83	7 992	312	**8 387**	133	7 080	29	**7 242**
Borrowings, leases and debt securities	-	7 795	-	**7 795**	-	6 878	-	**6 878**
Derivatives	83	-	312	**395**	133	-	29	**162**
Other financial liabilities	-	197	-	**197**	-	202	-	**202**
Current	51	3 160	15	**3 226**	37	3 240	6	**3 283**
Borrowings, leases and debt securities	-	1 346	-	**1 346**	-	1 071	-	**1 071**
Derivatives	51	-	15	**66**	37	-	6	**43**
Trade and similar payables	-	1 656	-	**1 656**	-	2 053	-	**2 053**
Other financial liabilities	-	158	-	**158**	-	116	-	**116**
Total	**134**	**11 152**	**327**	**11 613**	**170**	**10 320**	**35**	**10 525**

amounts in PLN millions, unless otherwise stated

The fair value hierarchy of financial instruments

	As at 30 September 2019		As at 31 December 2018	
Classes of financial instruments	level 1	level 2	level 1	level 2
Loans granted	-	18	-	15
Listed shares	312	-	427	-
Unquoted shares	-	98	-	99
Trade receivables	-	285	-	304
Other financial assets	-	38	-	8
Derivatives, of which:	-	64	-	416
Assets	-	525	-	621
Liabilities	-	(461)	-	(205)

Methods and measurement techniques used by the Group in determining fair values of each class of financial asset or financial liability.

Level 1

Listed shares
Shares are measured based on quotations from the Warsaw Stock Exchange and the TSX Venture Exchange in Toronto.

Level 2

Unquoted shares

Unquoted shares are measured based on the adjusted net assets method. Observable Input data other than ones from the active market were used in the measurement (e.g. transaction prices of real estate similar to that subjected to measurement, market interest rates of State Treasury bonds and term deposits in financial institutions, and the risk-free discount rate published by the European Insurance and Occupational Pensions Authority).

Loans granted
Loans granted are measured using the discounted cash flows model, taking into account the borrower's credit risk.

Trade receivables
Receivables arising from the realisation of sales under contracts which are finally settled using future prices were measured using forward prices, depending on the period/month of contractual quoting. Forward prices are from the Reuters system.
For trade receivables subjected to factoring, due to the short term between the transfer of receivables to the factor and their payment as well as the low credit risk of the factor, the fair value of these receivables is similar to the nominal value of receivables.

Other financial assets/liabilities
Receivables/payables due to the settlement of derivatives, whose date of payment falls two working days after the end of the reporting period, were recognised in this item. These instruments were measured to fair value set per the reference price applied in the settlement of these transactions.

Currency derivatives

In the case of forward currency purchase or sell transactions, the forward prices from the maturity dates of individual transactions were used to determine their fair value. The forward price for currency exchange rates is calculated on the basis of fixing and appropriate interest rates. Interest rates for currencies and the volatility ratios for exchange rates are taken from Reuters. The standard Garman-Kohlhagen model is used to measure European options on currency markets.

Metals derivatives

In the case of forward commodity purchase or sell transactions, forward prices from the maturity dates of individual transactions were used to determine their fair value. In the case of copper, official closing prices from the London Metal Exchange as well as volatility ratios at the end of the reporting period are from Reuters. With respect to silver and gold the fixing price set by the London Bullion Market Association at the end of the reporting period is used. Volatility ratios and forward prices for precious metals were also taken from the Reuters system. Forward and swap contracts on the copper, silver and gold markets were valued using the forward market curve appropriate for a given commodity. Levy approximation to the Black-Scholes model is used for Asian options pricing on metals markets.

Level 3

No financial instruments were measured at fair value which were classified to level 3 in either the reporting or the comparable period in the Group.
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.

amounts in PLN millions, unless otherwise stated

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 30 September 2019	from 1 January 2018 to 30 September 2018
Statement of profit or loss		
Revenues from contracts with customers	170	110
Other operating and finance income and costs:	(54)	(25)
on realisation of derivatives	(104)	(97)
on measurement of derivatives	50	72
Impact of derivatives and hedging instruments on profit or loss for the period	**116**	**85**
Statement of other comprehensive income		
Impact of measurement of hedging transactions (effective portion)	(344)	291
Reclassification to revenues from contracts with customers due to realisation of a hedged item	(170)	(110)
Reclassification to other operating costs due to realisation of a hedged item (settlement of the hedging cost)	109	106
Impact of hedging transactions	**(405)**	**287**
TOTAL COMPREHENSIVE INCOME	**(289)**	**372**

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 3 quarters of 2019, copper sales of the Parent Entity amounted to 415 thousand tonnes (net sales of 291 thousand tonnes)[1]. However, the notional amount of copper price hedging strategies settled in this period amounted to 85.5 thousand tonnes, which represented approx. 21% of the total sales of this metal realised by the Parent Entity and approx. 29% of net sales in this period (in the first 3 quarters of 2018, 19% and 25% respectively). In the case of currency hedging transactions, the settled notional amount represented approx. 20% of total revenues from copper and silver sales realised by the Parent Entity in the first 3 quarters of 2019 (31% - in the first 3 quarters of 2018).

In the third quarter of 2019 the Parent Entity did not implement any new hedging transactions on the copper market. On the other hand, silver price hedging strategies were implemented. With respect to the strategic management of market risk, put options (Asian options) were purchased with a total notional amount of 3.6 million troy ounces and a maturity period from January 2020 to December 2020. In addition in the third quarter of 2019 QP adjustment swap transactions were entered into on the copper and gold markets with maturities of up to January 2020, as part of the management of a net trading position.
As a result, as at 30 September 2019 the Parent Entity held an open derivatives position for 121.5 thousand tonnes of copper (of which: 106.5 thousand tonnes came from strategic management of market risk, while 15 thousand tonnes came from the management of a net trading position) and 3.6 million troy ounces of silver.

In the third 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 480 million. Put options were purchased with a horizon falling in the first half of 2020 and *collar* structures (European options) were entered into with a horizon falling from July 2020 to December 2021. As a result, as at 30 September 2019, the Parent Entity held a hedging position for planned revenues from sales of metals in the amount of USD 2 190 million.

With respect to managing currency risk, the Parent Entity uses natural hedging by borrowing in currencies in which it has revenues. As at 30 September 2019, the bank and investment loans which were drawn in USD, following their translation to PLN, amounted to PLN 6 294 million (as at 31 December 2018: PLN 7 655 million).

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

amounts in PLN millions, unless otherwise stated

In the third quarter of 2019 the Parent Entity entered into *Cross Currency Interest Rate Swap* (CIRS) transactions for the notional amount of PLN 2 billion, hedging against the market risk connected with the issue of bonds in PLN with a variable interest rate[2]. Moreover, as at 30 September 2019, the Parent Entity held open derivatives CAP transactions on the interest rate market for 2020 and bank and other loans with fixed interest rates.

In the third quarter of 2019, neither KGHM INTERNATIONAL LTD. nor any of the mining companies implemented any forward transactions on the commodity and currency markets. As at 30 September 2019, the risk of changes in metals prices was also related to derivatives embedded in the long-term contracts for supply of sulphuric acid and water.

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 the Polish companies as at 30 September 2019 is not presented, due to its immateriality for the Group.

Condensed tables of open transactions in derivatives held by the Parent Entity as at 30 September 2019, entered into as part of the strategic management of market risk, are presented below. The hedged notional amounts of transactions on the copper, silver and currency markets in the presented periods are allocated evenly on a monthly basis.

Hedging against copper price risk

	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]
4th quarter	Seagull	10 500	4 700	6 200	8 000	-226	5 974	4 700	8 000
4th quarter	Seagull	6 000	5 000	6 900	9 000	-250	6 650	5 000	9 000
4th quarter	Collar	3 000		6 800	8 400	-250	6 550		8 400
4th quarter	Collar	6 000		6 700	8 300	-228	6 472		8 300
4th quarter	Collar	9 000		6 400	7 800	-248	6 152		7 800
TOTAL 4th quarter of 2019		**34 500**							
1st half	Seagull	12 000	5 000	6 900	9 000	-250	6 650	5 000	9 000
1st half	Seagull	2 460	5 000	6 900	8 800	-250	6 650	5 000	8 800
1st half	Seagull	12 540	5 000	6 800	8 700	-220	6 580	5 000	8 700
1st half	Collar	18 000		6 400	7 800	-248	6 152		7 800
2nd half	Seagull	12 000	5 000	6 900	9 000	-250	6 650	5 000	9 000
2nd half	Seagull	2 460	5 000	6 900	8 800	-250	6 650	5 000	8 800
2nd half	Seagull	12 540	5 000	6 800	8 700	-220	6 580	5 000	8 700
	TOTAL 2020	**72 000**							

Hedging against silver price risk

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				
	[mn ounces]		[USD/oz t]		[USD/oz t]	[USD/oz t]	[USD/oz t]	[USD/oz t]
Purchased put option	3.60	-	17.00	-	-0.67	16.33	-	-
TOTAL 2020	**3.60**							

[2] The debt due to bond issue in PLN generates a currency risk because the most sales revenues of the Parent Entity is USD-denominated.

Hedging against interest rate risk

Instrument	Notional [USD mn]	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 2020**	1 000	2.50%	381	0.15%	2.65%

Hedging against USD/PLN currency risk

	Instrument	Notional [USD mn]	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]
4th quarter	Collar	180		3.50	4.25	-0.05	3.45		4.25
4th quarter	Collar	90		3.75	4.40	-0.06	3.69		4.40
	TOTAL 4th quarter of 2019	**270**							
1st half	Collar	360		3.50	4.25	-0.06	3.44		4.25
1st half	Collar	180		3.75	4.40	-0.08	3.67		4.40
1st half	Purchased put options	120		3.80		-0.05	3.75		
2nd half	Collar	180		3.50	4.25	-0.04	3.46		4.25
2nd half	Collar	180		3.75	4.40	-0.08	3.67		4.40
2nd half	Collar	120		3.80	4.40	-0.04	3.76		4.40
	TOTAL 2020	**1 140**							
1st half	Seagull	270	3.20	3.70	4.30	-0.07	3.63	3.20	4.30
1st half	Collar	120		3.80	4.40	-0.05	3.75		4.40
2nd half	Seagull	270	3.20	3.70	4.30	-0.07	3.63	3.20	4.30
2nd half	Collar	120		3.80	4.40	-0.05	3.75		4.40
	TOTAL 2021	**780**							

Hedging against currency-interest rate risk connected with the issue of bonds with a variable interest rate in PLN

	Instrument	Notional [PLN mn]	Average interest rate [LIBOR]	Average exchange rate [USD/PLN]
VI 2024	CIRS	400	3.23%	3.78
VI 2029	CIRS	1 600	3.94%	3.81
	TOTAL	**2 000**		

The table below presents detailed data on derivative transactions designated as hedging[3], held by the Parent Entity as at 30 September 2019

Type of derivative	Notional copper [t] silver [mn ounces] currency [USD mn] CIRS [PLN mn]	Average weighted price /exchange rate/interest rate % [USD/t] [USD/oz t] [USD/PLN] [USD/PLN, LIBOR]	Maturity/ settlement period from	Maturity/ settlement period to	Period of profit/loss impact from	Period of profit/loss impact to
Copper – *seagulls*	70 500	6 760-8 730	Oct 19	- Dec 20	Nov 19	- Jan 21
Copper – *collars*	36 000	6 483-7 933	Oct 19	- June 20	Nov 19	- July 20
Silver – purchased put option	3.60	17.00	Jan 20	- Dec 20	Feb 20	- Jan 21
Currency – *seagulls*	540	3.70-4.30	Jan 21	- Dec 21	Jan 21	- Dec 21
Currency – *collars*	1 530	3.64-4.33	Oct 19	- Dec 21	Oct 19	- Dec 21
Currency – purchased put option	120	3.80	Jan 20	- June 20	Jan 20	- June 20
Currency – interest rate – CIRS	400	3.78 and 3.23%		June 24		June 24
Currency - interest rate – CIRS	1 600	3.81 and 3.94%		June 29	June 29	- July 29

[3] Purchased put options and sold call option were designated as hedging under *seagull* option structures.

amounts in PLN millions, unless otherwise stated

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

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

Type of derivative	As at 30 September 2019				
	Financial assets		Financial liabilities		Net total
	Non-current	Current	Non-current	Current	
Derivatives – Commodity contracts - Copper					
Options – collar	-	115	-	-	**115**
Options – seagull	85	214	(1)	-	**298**
Derivatives – Commodity contracts - Silver					
Purchased put option	7	10	-	-	**17**
Derivatives – Currency					
Options USD – collar	33	11	(23)	(15)	**6**
Options USD – seagull	37	-	(43)	-	**(6)**
Purchased put option	-	3	-	-	**3**
Derivatives – Currency-interest rate					
Cross Currency Interest Rate Swap (CIRS)	-	-	(245)	-	**(245)**
TOTAL HEDGING INSTRUMENTS	**162**	**353**	**(312)**	**(15)**	**188**

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

Type of derivative	As at 30 September 2019				
	Financial assets		Financial liabilities		Net total
	Non-current	Current	Non-current	Current	
Derivatives – Commodity contracts - Copper					
Options – seagull (sold put option)	-	-	(9)	(8)	**(17)**
QP adjustment swap transactions	-	5	-	-	**5**
Derivatives – Commodity contracts - Gold					
QP adjustment swap transactions	-	5	-	(4)	**1**
Derivatives – Currency contracts					
Options – seagull (sold put option USD)	-	-	(3)	-	**(3)**
Options and forward/swap USD and EUR		-	-	-	**-**
Derivatives – interest rate					
Purchased interest rate cap options	-	-	-	-	**-**
Embedded derivatives					
Purchase contracts for metal-bearing materials	-	-	-	(2)	**(2)**
Acid and water supply contracts	-	-	(71)	(37)	**(108)**
TOTAL TRADE INSTRUMENTS	**-**	**10**	**(83)**	**(51)**	**(124)**

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 entered into derivatives transactions, representing an exposure to credit risk*.

Rating level		As at 30 September 2019	As at 31 December 2018
Highest	from AAA to AA- according to S&P and Fitch, and from Aaa to Aa3 according to Moody's	1%	-
Medium-high	from A+ to A- according to S&P and Fitch, and from A1 to A3 according to Moody's	98%	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 30 September 2019 the maximum single entity share of the amount exposed to credit risk arising from these transactions amounted to 22%, or PLN 103 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.

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

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.

In furtherance of actions aimed at optimising the process of managing financial liquidity, in the third quarter of 2019 the Group commenced implementation of a Reverse Factoring Program. A positive effect of implementing this Program is extending the turnover of liabilities.

In order to maintain financial liquidity and the creditworthiness to acquire external financing at an optimum cost, over the long term the Group's goal is for the equity ratio to be not less than 0.5, and the ratio of Net Debt/EBITDA not more than 2.0

Ratio	Calculation	30 September 2019	30 September 2019	31 December 2018
Net Debt/EBITDA*	Relation of net debt to EBITDA	1.8	1.7**	1.6
Equity ratio	Relation of equity less intangible assets to total assets	0.5	0.5	0.5

** Adjusted EBITDA 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.*
*** Presented data do not contain lease liabilities as at 30 September 2019 arising from implementation of IFRS 16 in the amount of PLN 626 million.*

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 30 September 2019
Bank loans	5 676	-	5 676	(2 686)	183	341	-	3 514
Loans	2 246	-	2 246	474	57	139	-	2 916
Debt securities	-	-	-	2 000	18	-	-	2 018
Leases	27	637	664	(72)	26	-	75	693
Total debt	**7 949**	**637**	**8 586**	**(284)**	**284**	**480**	**75**	**9 141**
Free cash and cash equivalents	949	-	-	(215)	-	-	-	734
Net debt	**7 000**							**8 407**

Structure of financing sources

As at 30 September 2019, the Group had open credit lines and loans with a total balance of available financing in the amount of PLN 17 486 million, out of which PLN 6 430 million had been drawn.

As at 30 September 2019, the carrying amount of bonds issued by the Parent Entity amounted to PLN 2 018 million.

The structure of financing sources is presented below.

	As at 30 September 2019	As at 30 September 2019	As at 31 December 2018
	Amount granted	Amount used	Amount used
Unsecured, revolving syndicated credit facility	10 000	-	4 136
Preparation fee which decreases financial liabilities due to bank loans			(15)
Carrying amount of financial liabilities due to bank loans			4 121

	Amount granted	Amount used	Amount used
Investment loans	2 948	2 916	2 246

amounts in PLN millions, unless otherwise stated

Bilateral bank loans	Amount granted	Amount used	Amount used
	4 538	3 514	1 555

Bonds	Nominal value of the issue	Carrying amount of issued bonds	Carrying amount of issued bonds
	2 000	2 018	-

Total bank and other loans, bonds	**19 486**	**8 448**	**7 937**
		Preparation fee which decreases financial liabilities due to bank loans	(15)
		Carrying amount of financial liabilities due to bank loans	**7 922**

Contingent liabilities due to guarantees granted

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

As at 30 September 2019, the Group held contingent liabilities due to guarantees and letters of credit granted in the total amount of PLN 2 460 million and due to promissory note liabilities in the amount of PLN 53 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 2 181 million:

- PLN 550 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 90 million (USD 23 million) – corporate guarantees set as security on the payment of concluded lease agreements,
- PLN 785 million (USD 196 million) – corporate guarantees securing repayment of short-term working capital facilities,
- PLN 720 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.,
- PLN 36 million (USD 9 million) – a corporate guarantee securing claims arising from the obligation to restore post-mining terrain, following the conclusion of mining operations,

other entities, including the Parent Entity:

- PLN 200 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,
- PLN 24 million securing the proper execution of future environmental obligations of the Parent Entity related to the obligation to restore terrain, following the conclusion of operations of the Żelazny Most tailings storage facility,
- PLN 24 million (PLN 5 million, USD 3 million, and CAD 2 million) securing the obligations related to proper execution of concluded agreements.

amounts in PLN millions, unless otherwise stated

Note 4.9 Related party transactions

Operating income from related entities	from 1 July 2019 to 30 September 2019	**from 1 January 2019 to 30 September 2019**	from 1 July 2018 to 30 September 2018	**from 1 January 2018 to 30 September 2018**
Revenues from sales of products, merchandise and materials to a joint venture	4	15	(1)	12
Interest income on loans granted to joint ventures	89	255	66	192
Revenues from other transactions with joint ventures	16	35	10	29
Revenues from other transactions with other related parties	3	21	1	8
Total	**112**	**326**	**76**	**241**

Purchases from related entities	from 1 July 2019 to 30 September 2019	**from 1 January 2019 to 30 September 2019**	from 1 July 2018 to 30 September 2018	**from 1 January 2018 to 30 September 2018**
Purchase of services, merchandise and materials from other related parties	1	25	1	17
Other purchase transactions from other related parties	-	1	1	2
Total	**1**	**26**	**2**	**19**

Trade and other receivables from related parties	**As at 30 September 2019**	**As at 31 December 2018**
From the joint venture Sierra Gorda S.C.M. (loans)	5 796	5 199
From the joint venture Sierra Gorda S.C.M. (other)	513	447
From other related parties	9	3
Total	**6 318**	**5 649**

Trade and other payables towards related parties	**As at 30 September 2019**	**As at 31 December 2018**
Towards joint ventures	13	24
Towards other related parties	9	2
Total	**22**	**26**

The State Treasury is an entity controlling KGHM Polska Miedź S.A. at the highest level. The Company makes use of the exemption to disclose information on transactions with the Polish Government and entities controlled or jointly controlled by the Polish Government, or over which the Polish Government has significant influence (IAS 24.25).

As at 30 September 2019, the balances of unsettled payables due to concluded agreements necessary to conduct principal operating activities of the Parent Entity, distinctive due to their nature, in the amount of PLN 190 million (as at 31 December 2018: PLN 200 million) concerned the following:

- 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 168 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 22 million (as at 31 December 2018: PLN 30 million).

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 (energy, fuels, services) to meet the needs of current operating activities. In the period from 1 January to 30 September 2019, the turnover from these transactions amounted to PLN 689 million (from 1 January to 30 September 2018: PLN 863 million), and, as at 30 September 2019, the unsettled balance of liabilities from these transactions amounted to PLN 92 million (as at 31 December 2018: PLN 158 million),
- sales to Polish State Treasury Companies. In the period from 1 January to 30 September 2019, the turnover from these sales amounted to PLN 49 million (from 1 January to 30 September 2018: PLN 40 million), and, as at 30 September 2019, the unsettled balance of receivables from these transactions amounted to PLN 6 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 30 September 2019	from 1 January 2018 to 30 September 2018
Remuneration due to service in the Supervisory Board, salaries and other current employee benefits	1 378	1 234

Remuneration of the Management Board of the Parent Entity (in PLN thousands)	from 1 January 2019 to 30 September 2019	from 1 January 2018 to 30 September 2018
Salaries and other current employee benefits due to serving in the function	2 872	2 369
Benefits due to termination of employment	12	1 696
Total	**2 884**	**4 065**

Remuneration of other key managers (in PLN thousands)	from 1 January 2019 to 30 September 2019	from 1 January 2018 to 30 September 2018
Salaries and other current employee benefits	2 701	3 086

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

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

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

		As at 30 September 2019	Increase/(decrease) since the end of the last financial year
	Contingent assets	**632**	**67**
	Guarantees received	317	67
	Promissory notes receivables	129	8
	Other	186	(8)
	Contingent liabilities	**2 657**	**200**
Note 4.8	Guarantees and letters of credit	2 460	205
Note 4.8	Promissory note liabilities	53	35
	Liabilities due to implementation of projects and inventions	8	(9)
	Other	136	(31)
	Other liabilities not recognised in the statement of financial position	**806**	**70**
	Liabilities towards local government entities due to expansion of the tailings storage facility	110	(3)
	Securing the proper execution of future environmental obligations related to the obligation to restore terrain, following the conclusion of operations of the Żelazny Most tailings storage facility	296	43
	Securing the restoration costs of the Robinson mine, the Podolsky mine and the Victoria project and obligations related to proper execution of concluded agreements	400	30

amounts in PLN millions, unless otherwise stated

Note 4.11 Changes in working capital

	Inventories	Trade receivables	Trade and similar payables	Working capital
As at 1 January 2019	(4 983)	(961)	2 224	(3 720)
As at 30 September 2019	(5 338)	(934)	1 826	(4 446)
Change in the statement of financial position	**(355)**	**27**	**(398)**	**(726)**
Exchange differences from the translation of statements of operations with a functional currency other than PLN	34	28	(10)	**52**
Depreciation recognised in inventories	60	-	-	**60**
Payables due to the purchase of property, plant and equipment and intangible assets	-	-	175	**175**
Reverse factoring liabilities	-	-	(5)	**(5)**
Adjustments	**94**	**28**	**160**	**282**
Change in the statement of cash flows	**(261)**	**55**	**(238)**	**(444)**

	Inventories	Trade receivables	Trade payables	Working capital
As at 1 January 2018	(4 562)	(1 520)	1 995	(4 087)
As at 30 September 2018	(5 519)	(1 463)	1 828	(5 154)
Change in the statement of financial position	**(957)**	**57**	**(167)**	**(1 067)**
Exchange differences from the translation of statements of operations with a functional currency other than PLN	24	20	(8)	**36**
Depreciation recognised in inventories	102	-	-	**102**
Payables due to the purchase of property, plant and equipment and intangible assets	-	-	132	**132**
Adjustments	**126**	**20**	**124**	**270**
Change in the statement of cash flows	**(831)**	**77**	**(43)**	**(797)**

Note 4.12 Other adjustments in the statement of cash flows

	from 1 January 2019 to 30 September 2019	from 1 January 2018 to 30 September 2018
Losses on the disposal of property, plant and equipment and intangible assets	1	9
Reclassification of other comprehensive income to profit or loss due to the realisation of hedging instruments	(61)	(4)
Other	5	(7)
Total	**(55)**	**(2)**

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 third quarter of 2019, there was a retirement of all of the Investment Certificates of KGHM IV FIZAN. The Group entities received reimbursement from this retirement in the amount of PLN 38 million, of which: KGHM Polska Miedź S.A. PLN 13 million, CUPRUM Nieruchomości Sp. z o.o. PLN 25 million. The reimbursement from the retirement in the consolidated financial statements was settled with the equity of the KGHM IV FIZAN fund as at the day of retirement of the certificates. The transaction did not have an impact on the consolidated statement of profit or loss.

Note 5.2 Seasonal or cyclical activities

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

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

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

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

In accordance with Resolution No. 7/2019 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 7 June 2019 regarding the appropriation of the profit for financial year 2018, the entirety of the profit was transferred 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 the first half of 2019

As at the date of signing 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 Santander	10 039 684	5.02%

As far as the Company is aware, this state did not change since the publication of the consolidated report for the first half of 2019.

Ownership of KGHM Polska Miedź S.A.'s shares or of rights to them by members of the management and supervisory boards of KGHM Polska Miedź S.A., as at the date of publication of the consolidated quarterly report. Changes in ownership during the period following publication of the consolidated report for the first half of 2019

Members of the Company's Management Board

Based on information held by KGHM Polska Miedź S.A., as at the date of signing 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 the first half of 2019.

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 signing of this report only Józef Czyczerski held 10 shares of KGHM Polska Miedź S.A. The remaining Members of the Supervisory Board did not hold shares of the Company or rights to them. The aforementioned state did not change since the publication of the consolidated report for the first half of 2019.

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

In the claim dated 26 September 2007, Plaintiffs (14 natural persons) filed a claim against KGHM Polska Miedź S.A. with the Regional Court in Legnica for the payment of royalties for the use by the Company of invention project no. 1/97/KGHM called „Sposób zwiększenia zdolności produkcyjnej wydziałów elektrorafinacji Huty Miedzi" (Method for increasing the production capacity of the electrorefining sections of the Metallurgical Plants) for the 8th 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 24 million, and at the same time ordered the payment of interest in the amount of approx. PLN 30 million, totalling to PLN 54 million. Both parties to the proceedings appealed against this judgment.
In a judgment dated 12 June 2019, the Court of Appeal in Wrocław (Signature I ACa 205/19) dismissed both of the appeals, altering the judgment of the court of first instance solely in the matter of the resolution of court costs from the hearings at the court of first instance and charging them to KGHM Polska Miedź S.A. The Court of Appeal ordered each of the parties to bear the costs of the appeal proceedings. The binding judgment was executed by KGHM on 18-19 June 2019. On 26 September 2019 KGHM Polska Miedź S.A. filed a cassation appeal against the 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 30 September 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 30 September 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 situation, assets, financial position and financial result and any changes thereto, and information which is significant for assessing the ability to pay its liabilities

In the third quarter of 2019 there were no other significant events, apart from those mentioned in the commentary to the report, which could have a significant impact on the assessment of assets, financial position and financial result of the Group, and any changes thereto, or any events significant for the assessment of the employment situation and the ability to pay its liabilities.

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

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

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

Note 5.6 Subsequent events

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

On 23 October 2019 the Company received a letter from Janusz Kowalski announcing his resignation from the function of Member of the Supervisory Board of KGHM Polska Miedź S.A., effective as of 11 November 2019.

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

On 30 October 2019 the Management Board of KGHM Polska Miedź Spółka Akcyjna announced a convening of an Extraordinary General Meeting of KGHM Polska Miedź S.A., which will take place on 19 December 2019, beginning at 11:00 a.m. at the head office of the Company in Lubin.

The agenda, apart from points of organisational nature, provides for the adoption of resolutions on:

1. Adoption of resolutions on amending the "Statutes of KGHM Polska Miedź Spółka Akcyjna with its registered head office in Lubin".
2. Adoption of resolutions on:
   a. the disposal of non-current assets,
   b. principles and procedures for the disposal of non-current assets,
   c. rules of procedure when concluding agreements for legal services, marketing services, public relations services and social communication services, and advisory services associated with management,
   d. the obligation to submit a report on the application of best practices,
   e. implementation of the principles stipulated in the Act on the principles of state assets management in companies in which the Company is the parent entity.
3. Adoption of resolutions on changes to the composition of the Supervisory Board of the Company KGHM Polska Miedź S.A.

Escalation of the socio-political situation in Chile

As at the date of signing of this report, the socio-political situation in Chile did not have a direct negative impact on the production of the Sierra Gorda and Franke mines. KGHM Polska Miedź S.A. is continuously monitoring the situation and is taking actions aimed at ensuring the smooth operations of KGHM's international entities located in Chile.

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

STATEMENT OF PROFIT OR LOSS

		from 1 July 2019 to 30 September2019	**from 1 January 2019 to 30 September2019**	from 1 July 2018 to 30 September2018	**from 1 January 2018 to 30 September2018**
Note 2.1	Revenues from contracts with customers	4 219	13 050	4 128	11 317
Note 2.1	Cost of sales	(3 315)	(10 371)	(3 290)	(8 895)
	Gross profit	**904**	**2 679**	**838**	**2 422**
Note 2.2	Selling costs and administrative expenses	(262)	(704)	(236)	(654)
	Profit on sales	**642**	**1 975**	**602**	**1 768**
Note 2.3	Other operating income, including:	714	1 383	**155**	**2 016**
	interest income calculated using the effective interest rate method	80	211	62	187
	reversal of impairment losses on financial instruments	17	129	20	970
Note 2.3	Other operating costs, including:	(150)	(367)	(204)	(1 357)
	impairment losses on financial instruments	(20)	(30)	(2)	(809)
Note 2.4	Finance income	-	2	147	28
Note 2.4	Finance costs	(548)	(623)	(50)	(527)
	Profit before income tax	**658**	**2 370**	**650**	**1 928**
	Income tax expense	(222)	(707)	(207)	(498)
	PROFIT FOR THE PERIOD	**436**	**1 663**	**443**	**1 430**
	Weighted average number of ordinary shares (million)	200	200	200	200
	Basic and diluted earnings per share (in PLN)	**2.18**	**8.32**	**2.22**	**7.15**

amounts in PLN millions, unless otherwise stated

STATEMENT OF COMPREHENSIVE INCOME

	from 1 July 2019 to 30 September 2019	**from 1 January 2019 to 30 September 2019**	from 1 July 2018 to 30 September 2018	**from 1 January 2018 to 30 September 2018**
Profit for the period	**436**	**1 663**	**443**	**1 430**
Measurement of hedging instruments net of the tax effect	(268)	(328)	175	232
Other comprehensive income, which will be reclassified to profit or loss	**(268)**	**(328)**	**175**	**232**
Equity financial instruments measured at fair value through other comprehensive income, net of the tax effect	(25)	(95)	(76)	(189)
Actuarial (losses)/gains net of the tax effect	97	(23)	38	(151)
Other comprehensive income, which will not be reclassified to profit or loss	**72**	**(118)**	**(38)**	**(340)**
Total other comprehensive net income	**(196)**	**(446)**	**137**	**(108)**
TOTAL COMPREHENSIVE INCOME	**240**	**1 217**	**580**	**1 322**

amounts in PLN millions, unless otherwise stated

STATEMENT OF CASH FLOWS

		from 1 January 2019 to 30 September 2019	from 1 January 2018 to 30 September 2018
	Cash flow from operating activities		
	Profit before income tax	2 370	1 928
	Depreciation/amortisation recognised in profit or loss	893	820
	Interest on investment activities	(187)	(176)
	Interest on borrowings	97	113
	Dividend income	(37)	(239)
	Fair value gains on financial assets measured at fair value through profit or loss	(138)	(52)
	Impairment losses on non-current assets	29	810
	Reversal of impairment losses on non-current assets	(128)	(968)
	Exchange differences, of which:	111	109
	from investing activities and cash	(363)	(277)
	from financing activities	474	386
	Change in provisions and employee benefits liabilities	(27)	217
	Change in other receivables and liabilities	(413)	(313)
	Change in derivatives	23	(110)
Note 2.6	Other adjustments	(38)	23
	Exclusions of income and costs, total	185	234
	Income tax paid	(395)	(521)
Note 2.5	Changes in working capital	(320)	(506)
	Net cash generated from operating activities	**1 840**	**1 135**
	Cash flow from investing activities		
	Expenditures on mining and metallurgical assets, including:	(1 710)	(1 361)
	paid capitalised interest on borrowings	(133)	(86)
	Expenditures on other property, plant and equipment and intangible assets	(64)	(26)
	Expenditures due to acquisition of subsidiaries	(428)	-
	Loans granted	(172)	(269)
	Proceeds from disposal of subsidiaries	404	-
	Dividend received	37	239
	Other	(46)	(39)
	Net cash used in investing activities	**(1 979)**	**(1 456)**
	Cash flow from financing activities		
	Proceeds from borrowings	4 376	2 036
	Proceeds from the issue of debt financial instruments	2 000	-
	Repayments of trade payables by a factor	5	-
	Cash pooling expenses	-	(50)
	Repayments of borrowings	(6 368)	(1 381)
	Repayment of lease liabilities	(26)	-
	Payment of interest on borrowings, including:	(107)	(107)
	leases	(22)	-
	Net cash generated from/(used in) financing activities	**(120)**	**498**
	TOTAL NET CASH FLOW	**(259)**	**177**
	Exchange gains/(losses) on cash and cash equivalents	(31)	18
	Cash and cash equivalents at the beginning of the period	627	234
	Cash and cash equivalents at the end of the period	**337**	**429**

amounts in PLN millions, unless otherwise stated

STATEMENT OF FINANCIAL POSITION

ASSETS	As at 30 September 2019	As at 31 December 2018
Mining and metallurgical property, plant and equipment	17 769	16 382
Mining and metallurgical intangible assets	628	576
Mining and metallurgical property, plant and equipment and intangible assets	18 397	16 958
Other property, plant and equipment	89	92
Other intangible assets	47	52
Other property, plant and equipment and intangible assets	136	144
Investments in subsidiaries	3 405	3 510
Loans granted, including:	7 273	6 262
measured at fair value through profit or loss	2 147	1 724
measured at amortised cost	5 126	4 538
Derivatives	162	319
Other financial instruments measured at fair value through other comprehensive income	379	496
Other financial instruments measured at amortised cost	404	376
Financial instruments, total	8 218	7 453
Deferred tax assets	12	9
Other non-financial assets	34	24
Non-current assets	**30 202**	**28 098**
Inventories	4 329	4 102
Trade receivables, including:	242	310
trade receivables measured at fair value through profit or loss	126	139
Tax assets	336	275
Derivatives	363	300
Other financial assets	853	489
Other non-financial assets	126	49
Cash and cash equivalents	337	627
Current assets	**6 586**	**6 152**
TOTAL ASSETS	**36 788**	**34 250**
EQUITY AND LIABILITIES		
Share capital	2 000	2 000
Other reserves from measurement of financial instruments	(730)	(307)
Accumulated other comprehensive income	(616)	(593)
Retained earnings	19 608	17 945
Equity	**20 262**	**19 045**
Borrowings, lease and debt securities	7 525	6 758
Derivatives	324	68
Employee benefits liabilities	2 347	2 235
Provisions for decommissioning costs of mines and other technological facilities	1 270	980
Other liabilities	191	199
Non-current liabilities	11 657	10 240
Borrowings, lease and debt securities	1 290	1 035
Cash pooling liabilities	80	80
Derivatives	29	13
Trade and similar payables	1 439	1 920
Employee benefits liabilities	841	783
Tax liabilities	424	233
Provisions for liabilities and other charges	82	190
Other liabilities	684	711
Current liabilities	4 869	4 965
Non-current and current liabilities	**16 526**	**15 205**
TOTAL EQUITY AND LIABILITIES	**36 788**	**34 250**

amounts in PLN millions, unless otherwise stated

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	-	-	-	1 430	**1 430**
Other comprehensive income	-	43	(151)	-	**(108)**
Total comprehensive income	-	43	(151)	1 430	**1 322**
Other changes	-	-	-	(27)	**(27)**
As at 30 September 2018	**2 000**	**(419)**	**(499)**	**17 323**	**18 405**
As at 31 December 2018	2 000	(307)	(593)	17 945	**19 045**
Profit for the period	-	-	-	1 663	**1 663**
Other comprehensive income	-	(423)	(23)	-	**(446)**
Total comprehensive income	-	(423)	(23)	1 663	**1 217**
As at 30 September 2019	**2 000**	**(730)**	**(616)**	**19 608**	**20 262**

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 consideration. 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. Right-to-use assets 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 adopted 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).

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 amount 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 indices or market interest rates,
- amounts expected to be payable under guaranteed residual value of the leased object,
- 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 an asset with a similar value to right to use of 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),
- determining the incremental borrowing 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.

amounts in PLN millions, unless otherwise stated

d) Application of practical expedients

In application of IFRS 16 for the first time, the Company used 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 1 084 million, of which the amount of PLN 1 082 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 511 million and a corresponding lease liability in the same amount.

Off-balance sheet lease liabilities in the amount of PLN 1 082 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	1 084
Total - 31 December 2018		**1 084**
(-) Impact of the discount using the incremental borrowing rate as at 1 January 2019	IFRS 16	(149)
(-) Impact of the discount of perpetual usufruct right to 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		**511**

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	517
Intangible assets – 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 to property, plant and equipment	(6)
Lease liability	511

Impact on the financial statements as at 30 September 2019

Right-to-use assets – by asset	As at 1 January 2019	As at 30 September 2019
Land*	246	240
Perpetual usufruct right to land **	199	200
Buildings	35	37
Technical equipment and machines	36	30
Other fixed assets	1	2
Total	**517**	**509**

** 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 30 September 2019
Impact on the statement of comprehensive income:	
- decrease in taxes, charges and services	(43)
- increase in interest costs	20
- increase in depreciation/amortisation	26
Impact on the statement of cash flows:	
- increase in net cash flows from operating activities	48
- decrease in net cash flows from financing activities	(48)

The costs of short-term lease agreements and of low-value assets lease agreements in the first three quarters of 2019 are immaterial.

Agreements in the first three quarters of 2019 were estimated according to the following discount rates:

- 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 July 2019 to 30 September 2019	**from 1 January 2019 to 30 September 2019**	from 1 July 2018 to 30 September 2018	**from 1 January 2018 to 30 September 2018**
Europe				
Poland	1 093	3 244	1 060	3 065
Germany	663	2 051	549	1 556
The United Kingdom	552	1 594	574	1 342
Czechia	319	1 014	295	1 011
Italy	213	689	153	373
France	103	548	151	526
Hungary	174	528	157	521
Switzerland	147	475	137	387
Austria	49	148	52	176
Romania	52	145	32	61
Slovakia	23	72	23	81
Slovenia	18	53	17	53
Denmark	15	42	11	46
Bosnia and Herzegovina	8	28	10	25
Sweden	-	16	7	30
Finland	-	11	8	40
Spain	1	1	154	456
Other countries (dispersed sales)	6	21	9	31
North and South America				
The United States of America	86	296	35	111
Other countries (dispersed sales)	1	1	4	4
Australia				
Australia	41	78	-	-
Asia				
China	560	1 703	599	1 181
Turkey	33	161	84	225
Thailand	56	56	-	-
Taiwan	-	49	-	-
Japan	1	1	-	2
Singapore	-	9	-	-
Other countries (dispersed sales)	4	9	1	6
Africa	1	7	6	8
TOTAL	**4 219**	**13 050**	**4 128**	**11 317**

amounts in PLN millions, unless otherwise stated

Note 2.2 Expenses by nature

	from 1 July 2019 to 30 September 2019	**from 1 January 2019 to 30 September 2019**	from 1 July 2018 to 30 September 2018	**from 1 January 2018 to 30 September 2018**
Depreciation of property, plant and equipment and amortisation of intangible assets	330	963	288	868
Employee benefits expenses	948	2 658	835	2 519
Materials and energy, including:	1 515	4 656	1 292	3 841
Purchased metal-bearing materials	900	2 888	701	2 178
Electrical and other energy	255	684	228	600
External services, including:	458	1 281	406	1 194
Transport	59	180	55	158
Repairs, maintenance and servicing	132	371	122	361
Mine preparatory work	149	396	120	362
Minerals extraction tax	326	1 192	397	1 297
Other taxes and charges	101	301	97	315
Other costs	14	74	22	66
Total expenses by nature	**3 692**	**11 125**	**3 337**	**10 100**
Cost of merchandise and materials sold (+)	50	168	40	132
Change in inventories of finished goods and work in progress (+/-)	(124)	(106)	170	(602)
Cost of manufacturing products for internal use (-)	(41)	(112)	(21)	(81)
Total costs of sales, selling costs and administrative expenses, including:	**3 577**	**11 075**	**3 526**	**9 549**
Cost of sales	3 315	10 371	3 290	8 895
Selling costs	29	92	29	81
Administrative expenses	233	612	207	573

amounts in PLN millions, unless otherwise stated

Note 2.3 Other operating income and (costs)

	from 1 July 2019 to 30 September 2019	**from 1 January 2019 to 30 September 2019**	from 1 July 2018 to 30 September 2018	**from 1 January 2018 to 30 September 2018**
Measurement and realisation of derivatives	34	128	20	111
Interest on loans granted and other financial receivables	80	212	62	188
Fees and charges on re-invoicing of costs of bank guarantees securing payments of liabilities	22	50	21	49
Reversal of impairment losses on financial instruments, including:	17	129	20	970
Reversal of allowances for impairment of loans, measured at amortised cost	16	128	18	967
Gains on changes in fair value of financial assets measured at fair value through profit or loss	38	201	11	170
Exchange differences on assets and liabilities other than borrowings	492	508	-	224
Dividend income	-	37	-	239
Release of provisions	6	51	7	11
Other	25	67	14	54
Total other income	**714**	**1 383**	**155**	**2 016**
Measurement and realisation of derivatives	(63)	(185)	(79)	(198)
Impairment losses on financial instruments, including:	(20)	(30)	(2)	(809)
Losses due to initial recognition of POCI loans	-	-	-	(763)
Allowances for impairment of loans, including:	(19)	(29)	-	(44)
POCI loans	(18)	(28)	1	(40)
Losses due to fair value changes of financial assets measured at fair value through profit or loss	(43)	(64)	-	(118)
Exchange differences on assets and liabilities other than borrowings	-	-	(103)	-
Provisions recognised	(5)	(12)	(3)	(152)
Other	(19)	(76)	(17)	(80)
Total other costs	**(150)**	**(367)**	**(204)**	**(1 357)**
Other operating income and (costs)	**564**	**1 016**	**(49)**	**659**

amounts in PLN millions, unless otherwise stated

Note 2.4 Finance income and (costs)

	from 1 July 2019 to 30 September 2019	**from 1 January 2019 to 30 September 2019**	from 1 July 2018 to 30 September 2018	**from 1 January 2018 to 30 September 2018**
Exchange differences on borrowings	-	-	145	-
Measurement and realisation of derivatives	-	2	2	28
Total income	**-**	**2**	**147**	**28**
Interest on borrowings, including:	5	(75)	(32)	(90)
leases	(6)	(20)	-	-
Bank fees and charges on borrowings	(10)	(23)	(6)	(18)
Exchange differences on borrowings	(532)	(474)	-	(386)
Measurement and realisation of derivatives	(1)	(20)	-	-
Unwinding of the discount effect	(10)	(31)	(12)	(33)
Total costs	**(548)**	**(623)**	**(50)**	**(527)**
Finance income and (costs)	**(548)**	**(621)**	**97**	**(499)**

Note 2.5 Changes in working capital

	Inventories	**Trade receivables**	**Trade and similar payables**	**Working capital**
As at 1 January 2019	(4 102)	(310)	2 082	**(2 330)**
As at 30 September 2019	(4 329)	(242)	1 597	**(2 974)**
Change in the statement of financial position	(227)	68	(485)	**(644)**
Depreciation recognised in inventories	52	-	-	**52**
Payables due to the purchase of property, plant and equipment and intangible assets	-	-	277	**277**
Reverse factoring liabilities	-	-	(5)	**(5)**
Adjustments	52	-	272	**324**
Change in the statement of cash flows	**(175)**	**68**	**(213)**	**(320)**

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

amounts in PLN millions, unless otherwise stated

Note 2.6 Other adjustments in the statement of cash flows

	from 1 January 2019 to 30 September 2019	from 1 January 2018 to 30 September 2018
Losses on the disposal of property, plant and equipment and intangible assets	8	24
Proceeds from income tax from the tax group companies	19	4
Reclassification of other comprehensive income to profit or loss due to the realisation of hedging derivatives	(61)	(4)
Other	(4)	(1)
Total	**(38)**	**23**

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

This report was authorised for issue on 20 November 2019

President
of the Management Board

Marcin Chludziński

Vice President
of the Management Board

Adam Bugajczuk

Vice President
of the Management Board

Paweł Gruza

Vice President
of the Management Board

Katarzyna Kreczmańska-Gigol

Vice President
of the Management Board

Radosław Stach

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING

Executive Director
of Accounting Services Center
Chief Accountant

Łukasz Stelmach