POLISH FINANCIAL SUPERVISION AUTHORITY

Annual report R 2018

(in accordance with § 60 sec. 1 point 3 of the Decree regarding current and periodic information)

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

for the financial year **2018** comprising the period from **1 January 2018** to **31 December 2018**
containing the financial statements according to International Financial Reporting Standards in PLN.

Publication date: 14 March 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	in PLN mn		in EUR mn	
		2018	2017	2018	2017
I.	Revenues from contracts with customers	15 757	16 024	3 693	3 775
II.	Profit on sales	2 297	3 125	538	736
III.	Profit before income tax	2 672	2 154	626	507
IV.	Profit for the period	2 025	1 323	475	312
V.	Other comprehensive income	(90)	233	(21)	55
VI.	Total comprehensive income	1 935	1 556	454	367
VII.	Number of shares issued	200 000 000	200 000 000	200 000 000	200 000 000
VIII.	Earnings per ordinary share (in PLN/EUR)	10.13	6.62	2.37	1.56
IX.	Net cash generated from operating activities	2 815	2 080	660	490
X.	Net cash used in investing activities	(2 399)	(2 512)	(562)	(592)
XI.	Net cash generated from/(used in) financing activities	(48)	208	(11)	49
XII.	Total net cash flow	368	(224)	87	(53)
XIII.	Non-current assets	28 098	25 071	6 534	6 011
XIV.	Current assets	6 152	5 876	1 431	1 409
XV.	Total assets	34 250	30 947	7 965	7 420
XVI.	Non-current liabilities	10 240	9 052	2 381	2 170
XVII.	Current liabilities	4 965	4 639	1 155	1 112
XVIII.	Equity	19 045	17 256	4 429	4 138

Average EUR/PLN exchange rate announced by the National Bank of Poland

	2018	2017
Average exchange rate for the period*	4.2669	4.2447
Exchange rate at the end of the period	4.3000	4.1709

**Exchange rates are arithmetical average of the current average exchange rates announced by the National Bank of Poland on the last day of each month respectively of 2018 and 2017*

Polish Financial Supervision Authority

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

FINANCIAL STATEMENTS FOR 2018

Lubin, March 2019

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STATEMENT OF PROFIT OR LOSS

		from 1 January 2018 to 31 December 2018	from 1 January 2017 to 31 December 2017
Part 2	Revenues from contracts with customers, including:	15 757	16 024
	from sales, for which the amount of revenue was not finally determined at the end of the reporting period (IFRS 15, 114)	831	N/A*
Note 4.1	Cost of sales	(12 537)	(12 022)
	Gross profit	**3 220**	**4 002**
Note 4.1	Selling costs and administrative expenses	(923)	(877)
	Profit on sales	**2 297**	**3 125**
Note 4.2	Other operating income and (costs), including:	1 149	(2 004)
	interest income calculated using the effective interest rate method	242	N/A*
	reversal/(recognition) of impairment losses on financial instruments and (recognition) of impairment losses on purchased or originated credit-impaired assets at the moment of initial recognition (POCI)	270	N/A*
Note 4.3	Finance income and (costs)	(774)	1 033
	Profit before income tax	**2 672**	**2 154**
Note 5.1	Income tax expense	(647)	(831)
	PROFIT FOR THE PERIOD	**2 025**	**1 323**
	Weighted average number of ordinary shares (million)	**200**	**200**
	Basic/diluted earnings per share (in PLN)	**10.13**	**6.62**

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

STATEMENT OF COMPREHENSIVE INCOME

		from 1 January 2018 to 31 December 2018	from 1 January 2017 to 31 December 2017
Note 8.2.2	**Profit for the period**	**2 025**	**1 323**
Note 8.2.2	Measurement of hedging instruments net of the tax effect	283	308
Note 8.2.2	Measurement of available-for-sale financial assets net of the tax effect	N/A*	30
	Other comprehensive income which will be reclassified to profit or loss	**283**	**338**
	Equity financial instruments measured, as a result of option election, at fair value through other comprehensive income, net of the tax effect	**(128)**	N/A*
Note 8.2.2	Actuarial losses net of the tax effect	(245)	(105)
	Other comprehensive income, which will not be reclassified to profit or loss	**(373)**	**(105)**
	Total other comprehensive net income	**(90)**	**233**
	TOTAL COMPREHENSIVE INCOME	**1 935**	**1 556**

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

STATEMENT OF CASH FLOWS

Note	Cash flow from operating activities	from 1 January 2018 to 31 December 2018	from 1 January 2017 to 31 December 2017
	Profit before income tax	2 672	2 154
Note 9.3	Depreciation/amortisation recognised in profit or loss	1 119	1 035
	Interest on investment activities	(219)	(299)
	Interest and other costs of borrowings	150	148
	Dividends income	(239)	(4)
	Fair value gains on loans measured at fair value through profit or loss	63	N/A*
	Change in other receivables and liabilities	(345)	(2)
	Change in provisions and employee benefits liabilities	222	43
Note 4.4	Impairment losses on non-current assets	825	940
Note 4.4	Reversal of impairment losses on non-current assets	(1 448)	-
	Exchange differences, of which:	181	(67)
	from investment activities and cash	(411)	1 180
	from financing activities	592	(1 247)
	Change in assets/liabilities due to derivatives	(74)	152
Note 12.9	Other adjustments	65	34
	Exclusions of income and costs, total	300	1 980
	Income tax paid	(710)	(934)
Note 10.4	Changes in working capital	553	(1 120)
	Net cash generated from operating activities	**2 815**	**2 080**
	Cash flow from investing activities		
Note 9.1.2	Expenditures on mining and metallurgical assets, including:	(1 884)	(1 970)
	interest paid	(123)	(56)
	Expenditures on other property, plant and equipment and intangible assets	(23)	(21)
	Loans granted	(682)	(490)
	Other expenses	(84)	(83)
	Total expenses	(2 673)	(2 564)
	Dividends received	239	4
	Other proceeds	35	48
	Proceeds	274	52
	Net cash used in investing activities	**(2 399)**	**(2 512)**
	Cash flow from financing activities		
	Proceeds from borrowings	2 257	2 416
	Proceeds from cash pooling	-	160
	Total proceeds	2 257	2 576
	Expenses due to cash pooling	(80)	-
	Repayments of borrowings	(2 073)	(2 030)
Note 12.2	Dividends paid	-	(200)
	Interest paid and other costs of borrowings	(152)	(138)
	Total expenses	(2 305)	(2 368)
	Net cash generated from/(used in) financing activities	**(48)**	**208**
	TOTAL NET CASH FLOW	**368**	**(224)**
	Foreign exchange gains/(losses) on cash and cash equivalents	25	(24)
	Cash and cash equivalents at beginning of the period	234	482
Note 8.5	**Cash and cash equivalents at end of the period**	**627**	**234**

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

STATEMENT OF FINANCIAL POSITION

	ASSETS	As at 31 December 2018	As at 31 December 2017
	Mining and metallurgical property, plant and equipment	16 382	15 355
	Mining and metallurgical intangible assets	576	507
Note 9.1	Mining and metallurgical property, plant and equipment and intangible assets	16 958	15 862
	Other property, plant and equipment	92	75
	Other intangible assets	52	34
Note 9.2	Other property, plant and equipment and intangible assets	144	109
Note 6.1	Investments in subsidiaries	3 510	3 013
Note 6.2	Loans granted, including:	6 262	4 972
	measured at fair value through profit or loss	1 724	N/A*
	measured at amortised cost	4 538	4 972
Note 7.2	Derivatives	319	109
Note 7.3	Other financial instruments measured at fair value	496	613
Note 7.4	Other financial instruments measured at amortised cost	376	337
	Financial instruments, total	7 453	6 031
Note 5.1.1	Deferred tax assets	9	31
Note 12.3	Other non-financial assets	24	25
	Non-current assets	**28 098**	**25 071**
Note 10.1	Inventories	4 102	3 857
Note 10.2	Trade receivables, including:	310	1 034
	trade receivables measured at fair value through profit or loss	139	N/A*
Note 5.3	Tax assets	275	214
Note 7.2	Derivatives	300	195
Note 12.3	Other financial assets	489	288
Note 12.3	Other non-financial assets	49	54
Note 8.5	Cash and cash equivalents	627	234
	Current assets	**6 152**	**5 876**
	TOTAL ASSETS	**34 250**	**30 947**
	EQUITY AND LIABILITIES		
Note 8.2.1	Share capital	2 000	2 000
Note 8.2.2	Other reserves from measurement of financial instruments	(307)	142
Note 8.2.2	Accumulated other comprehensive income	(593)	(348)
Note 8.2.2	Retained earnings	17 945	15 462
	Equity	**19 045**	**17 256**
Note 8.4.1	Borrowings	6 758	6 085
Note 7.2	Derivatives	68	84
Note 11.1	Employee benefits liabilities	2 235	1 879
Note 9.4	Provisions for decommissioning costs of mines and other technological facilities	980	797
Note 12.4	Other liabilities	199	207
	Non-current liabilities	10 240	9 052
Note 8.4.1	Borrowings	1 035	923
Note 8.4.1	Cash pooling liabilities	80	160
Note 7.2	Derivatives	13	74
Note 10.3	Trade payables	1 920	1 719
Note 11.1	Employee benefits liabilities	611	649
Note 5.3	Tax liabilities	405	416
	Provisions for liabilities and other charges	190	64
Note 12.4	Other liabilities	711	634
	Current liabilities	4 965	4 639
	Non-current and current liabilities	**15 205**	**13 691**
	TOTAL EQUITY AND LIABILITIES	**34 250**	**30 947**

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

STATEMENT OF CHANGES IN EQUITY

		Share capital	Other reserves from measurement of financial instruments	Accumulated other comprehensive income	Retained earnings	Total equity
	As at 1 January 2017	**2 000**	**(196)**	**(243)**	**14 339**	**15 900**
Note 12.2	Dividend	-	-	-	(200)	**(200)**
	Profit for the period	-	-	-	1 323	**1 323**
Note 8.2.2	Other comprehensive income	-	338	(105)	-	**233**
	Total comprehensive income	-	338	(105)	1 323	**1 556**
	As at 31 December 2017	**2 000**	**142**	**(348)**	**15 462**	**17 256**
Note 1.4	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	-	-	-	2 025	**2 025**
Note 8.2.2	Other comprehensive income	-	155	(245)	-	**(90)**
	Total comprehensive income	-	155	(245)	2 025	**1 935**
	As at 31 December 2018	**2 000**	**(307)**	**(593)**	**17 945**	**19 045**

PART 1 – General information

Note 1.1 Corporate information

KGHM Polska Miedź S.A. ("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 Company's principal activities include:
- the mining of copper and non-ferrous metals ores; and
- the production of copper, precious and non-ferrous metals.

KGHM Polska Miedź S.A. carries out copper ore mining activities based on concessions given for specific mine deposits, and also based on mining usufruct agreements and mine operating plans.

Declaration by the Management Board on the accuracy of the prepared financial statements

The Management Board of KGHM Polska Miedź S.A. declares that according to its best judgement the annual financial statements for 2018 and the comparative data have been prepared in accordance with accounting principles currently in force, and give a true, fair and clear view of the financial position of KGHM Polska Miedź S.A. and the profit for the period of the Company.
The Management Board's report on the activities of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group in 2018 presents a true picture of the development and achievements, as well as the condition, of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group, including a description of the basic exposures and risks.

The financial statements were authorised for issue and signed by the Management Board of the Company on 13 March 2019.

Note 1.2 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

The accounting policies described in this note and in individual notes were applied by the Company in a continuous manner for all presented periods, with the exception of accounting policies and measurement arising from the application of IFRS 9 and IFRS 15 from 1 January 2018.
The accounting policies and important estimates and judgements for significant items of the financial statements were presented in individual notes of these financial statements.

Note	Title	Amount recognised in the financial statements		Accounting policies	Important estimates and judgements
		2018	2017		
2	Revenues from contracts with customers	15 757	16 024	x	
4.4	Impairment losses on assets	(841)	(966)		
4.4	Reversal of impairment losses	1 480	2		
5.1	Income tax in the statement of profit or loss	(647)	(831)	x	
5.1.1	Deferred income tax in the statement of profit or loss	(58)	(54)	x	x
5.3	Tax assets	275	214	x	
5.3	Tax liabilities	(405)	(416)	x	
6.1	Investments in subsidiaries	3 510	3 013	x	
6.2	Loans granted*	6 279	4 981	x	
7.2	Derivatives	538	146	x	
7.3	Other financial instruments measured at fair value	496	613	x	
7.4	Other non-current financial instruments measured at amortised cost	376	337	x	x
8.2	Equity	(19 045)	(17 256)	x	
8.4	Borrowings	(7 873)	(7 168)	x	
8.5	Cash and cash equivalents	627	234	x	
9.1	Mining and metallurgical property, plant and equipment and intangible assets	16 958	15 862	x	
9.2	Other property, plant and equipment and intangible assets	144	109	x	
9.4	Provision for decommissioning costs of mines and other facilities**	(988)	(804)	x	x
10.1	Inventories	4 102	3 857	x	

10.2	Trade receivables	310	1 034	x	
10.3	Trade payables	(2 082)	(1 882)	x	
11.1	Employee benefits liabilities	(2 846)	(2 528)	x	x
12.3	Other assets	562	367	x	
12.4	Other liabilities	(910)	(841)	x	

** Amounts include data on long-term and short-term loans, in the statement of financial position, short-term loans are recognised in the item "other financial assets".*
*** Amounts include data on non-current and current provisions for decommissioning costs of mines and other technological facilities, in the statement of financial position, current provisions for decommissioning costs of mines and other technological facilities are recognised in the item "provisions for liabilities and other charges".*

Note 1.3 Foreign currency transactions and the measurement of items denominated in foreign currencies

The financial statements are presented in Polish zloty (PLN), which is both the functional and presentation currency of the Company.

At the moment of initial recognition, foreign currency transactions are translated into the functional currency:
- at the actual exchange rate applied, i.e. at the buy or sell exchange rate applied by the bank in which the transaction occurs, in the case of the sale or purchase of currencies and the payment of receivables or liabilities;
- at the average exchange rate set for a given currency, prevailing on the date of the transaction for other transactions. The exchange rate prevailing on the date of the transaction is the average NBP rate announced on the last working day preceding the transaction date.

At the end of each reporting period, foreign currency monetary items are translated at the closing rate prevailing on that date.

Foreign exchange gains or losses on the settlement of foreign currency transactions, and on the measurement of foreign currency monetary assets and liabilities (other than derivatives), are recognised in profit or loss.

Foreign exchange gains or losses on the measurement of foreign currency derivatives are recognised in profit or loss as a fair value measurement, provided they do not represent a change in the fair value of the effective cash flow hedge. In such a case, in accordance with hedge accounting policies, they are recognised in other comprehensive income.

Note 1.4 Impact of new and amended standards and interpretations

The International Accounting Standards Board approved the following new standards for use from 1 January 2018:
- IFRS 9 "Financial Instruments",
- IFRS 15 "Revenue from contracts with customers" and Amendments to IFRS 15, clarifying some of the standard's requirements,
- Amendments to IFRS 2, clarifying the Classification and Measurement of Share-based Payment Transactions,
- Amendments to IFRS 4, clarifying the Application of IFRS 9 with IFRS 4,
- Amendments to IAS 40, clarifying when assets are transferred to, or from, investment properties,
- Annual Improvements to IFRS Standards, 2014-2016 Cycle, clarifying the scope of IAS 28 and IFRS 1, IFRIC 22, clarifying Foreign Currency Transactions and Advance Consideration.

Up to the date of publication of these financial statements, the aforementioned amendments to the standards were adopted for use by the European Union and with the exception of IFRS 9 and IFRS 15, they will not have an impact on the Company's accounting policy or on the separate financial statements.

Impact of application of IFRS 9 and IFRS 15 on the Company's accounting policy and on the Company's financial statements.

IFRS 9 Financial Instruments

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

Selected accounting policy

Measurement of financial assets and financial liabilities

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

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

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

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

The following are classified to the category **assets measured at fair value through other comprehensive income**:

1. financial assets, if the following conditions are met:
   - they are held within a business model whose objective is to collect contractual cash flows due to holding and selling financial assets, and
   - the contractual terms give the right to receive cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding (i.e. the SPPI test was passed),

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

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

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

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

As at 1 January 2018, the Company classifies financial liabilities to the following categories:

- financial liabilities measured at amortised cost,
- financial liabilities measured at fair value through profit or loss, or
- financial hedging instruments.

Liabilities measured at amortised cost include liabilities other than those measured at fair value through profit or loss (such as trade payables and bank and other loans), with the exception of:

- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition,

- financial guarantee agreements, measured at the higher of the following amounts:
  - the amount of loss allowance for expected credit losses determined in accordance with IFRS 9;
  - the amount initially recognised (i.e. at fair value increased by transaction costs that may be directly attributed to a financial liability) less cumulative revenue recognised according to IFRS 15 *Revenue from contracts with customers*.

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

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

Impairment of financial assets

IFRS 9 introduces a new approach to estimating losses on financial assets measured at amortised cost and measured at fair value through other comprehensive income (other than equity instruments). This approach is based on indicating expected losses, regardless of whether or not there have occurred any indications of impairment.

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

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

Stage 1 – amount in respect of which there has not been a substantial increase in credit risk compared to an instrument's initial recognition and for which the amount of impairment is estimated for 12 month expected credit losses,

Stage 2 – amount in respect of which there has been a substantial increase in credit risk compared to an instrument's initial recognition and for which the amount of impairment is estimated for lifetime expected credit losses,

Stage 3 – amount reflecting impairment, for which the amount of impairment is set for lifetime expected credit losses.

Under the simplified model the Company estimates the expected credit loss up to the instrument's maturity.

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

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

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

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

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

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

Hedge accounting

The Company decided to apply hedge accounting arising from IFRS 9 from 1 January 2018.
Hedges include fair value hedges, cash flow hedges and hedges of net investment in foreign operations.
The Company does not use either fair value hedges or hedges of net investments in foreign operations. Hedging instruments are designated as cash flow hedges.
In a cash flow hedge, a derivative used as a hedging instrument is an instrument which:

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

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

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

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

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

	Classification per IAS 39	Classification per IFRS 9	Carrying amount per IAS 39 – as at 31 December 2017	Carrying amount per IFRS 9 – as at 1 January 2018	Reference to explanations below the table
Financial assets					
Available-for-sale financial assets (equity instruments)	Available for sale	Fair value through other comprehensive income	613	648	(a)
Loans granted	Loans and receivables	Fair value through profit or loss	1 210	1 255	(b)
Loans granted	Loans and receivables	Amortised cost	3 771	3 520	(c)
Trade receivables - trade receivables subject to factoring arrangements	Loans and receivables	Fair value through profit or loss	196	196	(d)

Trade receivables – trade receivables priced upon M+ formula	Loans and receivables	Fair value through profit or loss	446	462	(e)
Other receivables - receivables due to the present value of future payments respecting financial guarantees	Loans and receivables	Amortised cost	67	100	(f)

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

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

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

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

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

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

e) This item is comprised of trade receivables priced upon M+ formula (selling price will be set on the basis of the selling month or months subsequent to the selling date), which did not pass the SPPI test. Failure to pass the test arises from the embedded derivative – the M+ formula. These receivables are measured at fair value through profit or loss. These trade receivables are presented in the financial statements in the item "Trade receivables measured at fair value through profit or loss".

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

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

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

Category of assets	Amount of allowance per IAS 39 as at 31 December 2017	Change due to change in classification	Change due to change in measurement	Amount of allowance per IFRS 9 as at 1 January 2018
Loans and receivables (IAS 39) / Financial assets at amortised cost (IFRS 9)				
Loans granted	2 630	(1 843)	410	1 197
Total	**2 630**	**(1 843)**	**410**	**1 197**
Available-for-sale assets (IAS 39) / Financial assets at fair value through other comprehensive income (IFRS 9)				
Shares	568	(568)	-	-
Total	**568**	**(568)**	**-**	**-**

The impact of implementation of IFRS 9 on statement of financial position items as at 1 January 2018, for which there was a change in classification or measurement, is presented below.

Impact of the implementation of IFRS 9 Financial Instruments

	Applied standard IFRS/IAS	As at 31 December 2017 Carrying amount	Change due to change in classification	Change due to change in measurement	As at 1 January 2018 Carrying amount	Impact on retained earnings	Impact on other comprehensive income	Impact on equity
Available-for-sale financial assets	IAS 39	613	(613)	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	IFRS 9	-	613	35	648	-	35	35
Retained earnings - accumulated impairment losses on available-for-sale financial assets	IAS 39	(568)	568	-	-	568	-	568
Other reserves from measurement of financial instruments	IFRS 9	-	(568)	-	(568)	-	(568)	(568)
Loans granted	IAS 39/IFRS 9	4 981	(1 291)	(251)	3 439	(251)	-	(251)
Credit-impaired loans granted, at the moment of initial recognition (POCI)	IFRS 9	-	81	-	81	-	-	-
Loans at fair value through profit or loss	IFRS 9	-	1 210	45	1 255	45	-	45
Trade receivables	IAS 39/IFRS 9	1 034	(642)	-	392	-	-	-
Trade receivables at fair value through profit or loss	IFRS 9	-	642	16	658	16	-	16
Retained earnings – change in the time value of hedging instruments	IAS 39	(223)	223	-	-	223	-	223
Other reserves from measurement of hedging instruments	IFRS 9	-	(223)	-	(223)	-	(223)	(223)
Other receivables – receivables due to present value of future payments due to financial guarantees	IFRS 9	67	-	33	100	33	-	33
Other liabilities – liability due to financial guarantees	IFRS 9	-	-	37	37	(37)	-	(37)
Deferred tax on the aforementioned adjustments		-	-	13	13	(139)	152	13
Total impact						**458**	**(604)**	**(146)**

IFRS 15 Revenue from contracts with customers

Selected elements of the accounting policy with respect to IFRS 15 are presented in part 2 – Operating segments. KGHM Polska Miedź S.A. has applied IFRS 15 retrospectively, pursuant to paragraph C3 (b).

Pursuant to IFRS 15.63, the Company applies a practical expedient and did not adjust the promised amount of consideration for the effects of a significant financing element.

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

Note 1.5 Published standards and interpretations, which are not yet in force and were not applied earlier by the Company.

The Company did not decide for earlier application of published standards, interpretations or amendments to existing standards before their entry into force in these financial statements. With the exception of IFRS 16 presented below, other changes are not applicable to the Company's activities and will not have any impact on the financial statements.

IFRS 16 "Leases"

Basic information on the standard

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

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

Impact of IFRS 16 on the financial statements

At the moment of preparation of these financial statements the Company had completed the work related to implementation of the new standard IFRS 16. 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 were subjected to analysis involving a finance lease, operating lease, rentals, leasing and perpetual usufruct rights to land as well as transmission easements and land easements. Also analysed were transactions involving purchased services (external service costs under operating activities) in terms of any occurrence of use of identified assets.
Under this project the Company carried out appropriate changes in accounting policy and operating procedures. Methods were developed and implemented for the proper identification of lease agreements and for gathering data needed in order to properly account for such transactions. 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 will be applied retrospectively, and the accumulated impact of initial application of the new standard will be recognised in equity as at 1 January 2019. Consequently, comparable data for financial year 2018 will not be restated (the modified retrospective approach).

At the moment of transition, the Company applied the practical expedient pursuant to which the entity is not required to reassess whether previously classified agreements contain a lease. The project which was undertaken during the implementation indicated that the new definition of a lease per IFRS 16 will not significantly change the scope of agreements meeting the definition of a lease.

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

Description of adjustments

a) Recognition of lease liabilities

Following the adoption of IFRS 16, the Company will recognise lease liabilities related to agreements which were previously classified as "operating leases" in accordance with IAS 17 Leases. These liabilities will be measured at the present value of lease payments due to be paid as at the date of commencement of the application of IFRS 16. For purposes of implementation of IFRS 16 and disclosure with respect to the impact of implementation of IFRS 16, discounting was applied using the Company's incremental borrowing rate as at 1 January 2019.
At their date of initial recognition, lease payments contained in the measurement of lease liabilities comprise the following types of payments for the right to use the underlying asset for the life of the lease:

- fixed lease payments less any lease incentives,
- variable lease payments which are dependent on market indices or market interest rates,
- amounts expected to be payable by the lessee under guaranteed residual value,
- the strike price of a purchase option, if it is reasonably certain that the option will be exercised, and
- payment of 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 will apply an incremental borrowing rate reflecting the cost of financing which would be drawn to purchase the object of a given lease. To estimate the amount of the discount rate, the Company considered the following contractual parameters: the type and life of an agreement, the currency applied and the potential margin which would have to be paid to a financial institution to obtain financing.
As at 31 December 2018, the discount rates calculated by the Company was 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 makes use of 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 will not recognise financial liabilities nor any respective right-to-use assets. These types of lease payments will be recognised as costs using the straight-line method during the life of the lease.

b) Recognition of right-to-use assets

Right-to-use assets are measured at cost.
The 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 requires the making of certain estimates and calculations which effect the measurement of lease liabilities and of right-to-use assets. These include among others:

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

d) Application of practical expedients

In applying IFRS 16 for the first time, the Company will apply 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) Information on the financial impact of IFRS 16 on the financial statements in the period in which the Standard will be applied for the first time

As at 31 December 2018, the Company had non-cancellable, off-balance sheet operating lease liabilities in respect of the following agreements: perpetual usufruct of land, lease of land, lease of machines and equipment and other leases. As at 31 December 2018, their notional amount was PLN 957 million (detailed information is presented in note 12.5 and in note 12.7), of which the amount of PLN 955 million concerns lease agreements and in accordance with IFRS 16 excludes short-term leases and the lease of low value assets.

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

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

In the case of agreements in which the Company is a lessor, application of IFRS 16 will 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):

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

	from 1 January 2019 to 31 December 2019
Estimated impact on the statement of comprehensive income:	
- decrease in costs due to taxes, charges and services	(34)
- increase in interest costs	21
- increase in depreciation/amortisation	19
Estimated impact on the statement of cash flows:	
- increase in net cash flows from operating activities	33
- decrease in net cash flows from financing activities	(33)

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

Impact on financial ratios

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

Other standards and interpretations published but not yet in force are not applicable to the Company's activities nor will they have an impact. These are as follows:

- Amendments to IFRS 10 and IAS 28 with respect to the sale or contribution of assets between an investor and its associate or joint venture,
- IFRIC 23 interpretation on uncertainty over income tax treatments,
- IFRS 17 Insurance contracts,
- Amendments to IFRS 9 on debt financial assets with early repayment options, which could lead to the arising of a so-called negative compensation,
- Amendments to IAS 28 on long-term interests that form part of the net investments in associates and joint ventures,
- Annual improvements to IFRS Standards, 2015-2017 cycle,
- Amendments to IAS 19 on amendments, curtailments or settlements of plans of specified benefits,
- Revision of IFRS Conceptual Framework,
- Amendments to IFRS 3 on the Definition of a Business,
- Amendments to IAS 1 and IAS 8 on the Definition of Material.

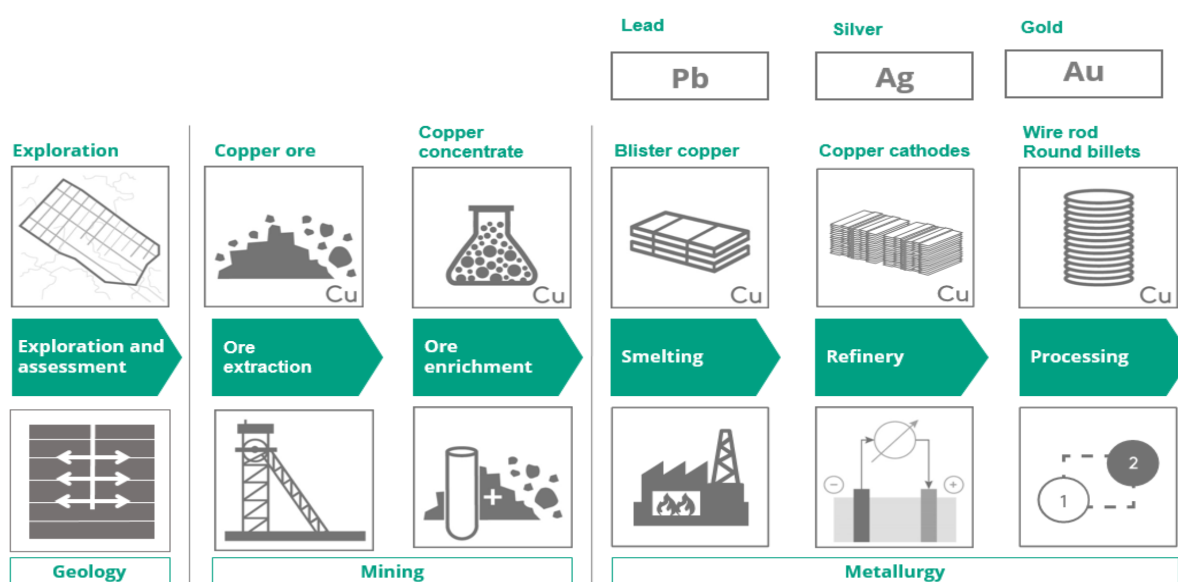
The aforementioned standards, with the exception of IFRIC 23, amendments to IFRS 9 and amendments to IAS 28 are awaiting adoption by the European Union. The Company aims to apply all of the amendments at their effective dates.

PART 2 – Operating segments

Operating segments

Based on an analysis of the Company's organisational structure, its system of internal reporting and the applied management model, it was determined that the Company's activity constitutes a single operating and reporting segment, which may be defined as "Production of copper, precious metals and other metallurgical products".

The core business of the Company is the production of copper and silver. Production is a fully integrated process, in which the end-product of one stage is the half-finished product used in the next stage. Copper ore extracted in the mines is transported to concentrators where the enrichment process is carried out. As a result of this process, copper concentrate is produced, which is then supplied to the metallurgical plants where it is smelted and fire refined into copper anodes, which is then subjected to electrolytic refining into copper cathodes. From these cathodes wire rod and round billets are produced. Anode slimes, which arise from the process of copper electrorefining, is a raw material used to produce precious metals. Lead-bearing dust which is generated from the smelting processes is used to produce lead. Nickel sulphate and copper sulphate are recovered from the processing of used electrolyte. Gases generated from the smelting furnaces are used to produce sulphuric acid. Economic use is also made of smelter slags, which are sold as road-building materials.



Settlements between organisational units are carried out based on measurement of production at cost, and as a result the internal organisational units (i.e. mines, concentrators, metallurgical plants) in the production cycle do not generate profit on sales.

The financial data prepared for management accounting purposes is based on the same accounting policies which are used to prepare the financial statements. The Management Board of the Company, which is responsible for allocating resources and for the financial results of the Company, regularly reviews internal financial reports for purposes of making major operational decisions.

The organisational structure of KGHM Polska Miedź S.A. has 11 Divisions, including: mines, concentrators, metallurgical plants and the Head Office. The Head Office carries out sales of the Company's basic products, i.e. electrolytic copper cathodes, round billets, wire rod and silver, and support functions, particularly including the management of financial assets, centralised finance and accounting services, marketing, legal and other services.
The Management Board of the Company assesses a segment's performance based on Adjusted EBITDA and the profit or loss for the period. The manner of calculating Adjusted EBITDA and EBITDA is presented in the table "Reconciliation of Adjusted EBITDA".

Production of main products

	from 1 January 2018 to 31 December 2018	from 1 January 2017 to 31 December 2017
Electrolytic copper (kt), of which:	501.8	522.0
- electrolytic copper from own concentrates (kt)	385.3	358.9
Silver (t)	1 188.8	1 218.1
C1 unit cash cost of production of payable copper in own concentrate (USD/lb)*	1.85	1.52

**C1 cost reflects 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.*

Segment financial results

	from 1 January 2018 to 31 December 2018	from 1 January 2017 to 31 December 2017
Revenues from contracts with customers	15 757	16 024
Cost of sales, selling costs and administrative expenses*	(13 460)	(12 899)
Depreciation/amortisation recognised in profit or loss	(1 119)	(1 035)
EBITDA	3 416	4 160
Adjusted EBITDA	3 416	4 160
Profit/(loss) for the period	2 025	1 323
including:		
reversal/(recognition) of impairment losses on non-current assets	**623**	(940)

**Cost of products, merchandise and materials sold plus selling costs and administrative expenses.*
Reconciliation of "EBITDA" and "Adjusted EBITDA" (which are not defined in IFRSs) with "Profit/(loss) for the period" (which is defined in IFRSs) and "Profit on sales" is presented in the following tables:

Reconciliation of Adjusted EBITDA

	from 1 January 2018 to 31 December 2018	from 1 January 2017 to 31 December 2017
Profit for the period	2 025	1 323
[–]Current and deferred income tax	(647)	(831)
[–]Depreciation/amortisation recognised in profit or loss	(1 119)	(1 035)
[–] Finance income/(costs)	(774)	1 033
[–] Other operating income and (costs)	1 149	(2 004)
[=] EBITDA	3 416	4 160
[=] Adjusted EBITDA*	**3 416**	**4 160**

	from 1 January 2018 to 31 December 2018	from 1 January 2017 to 31 December 2017
Profit on sales	2 297	3 125
[–] Depreciation/amortisation recognised in profit or loss	(1 119)	(1 035)
[=] EBITDA	3 416	4 160
[=] Adjusted EBITDA*	**3 416**	**4 160**

** Adjusted EBITDA is EBITDA adjusted by (recognition)/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses.*

Segment assets and liabilities

	As at 31 December 2018	As at 31 December 2017
Assets	34 250	30 947
Liabilities	15 205	13 691

Accounting policies

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

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

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

Revenues from the sale of services are recognised in profit or loss over time if one of the following criteria is met:
- the customer simultaneously receives and consumes the benefits provided by the Company's performance to the extent that the entity performs its obligations, or
- the Company satisfies a performance obligation and creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced, or
- the Company's performance creates an asset without an alternative use to the Company and the entity has an enforceable right to payment for performance completed to date.

The allocation of a transaction price to each performance obligation is made based on a relative stand-alone selling price.
Revenues arising from ordinary operating activities of the Company, i.e. revenues from sales of products, merchandise and materials are recognised in the statement of profit or loss as revenues from contracts with customers.
Revenues from contracts with customers are recognised in the amount of the transaction price (including any discounts granted and rebates). The transaction price also reflects the effects of the time value of money if a contract with a customer contains a significant financing element, which is determined based on the contractual payment terms, regardless of whether the promise of financing is explicitly stated in the contract.

In determining whether a financing component is significant for a given agreement, all of the facts and circumstances are taken into consideration, including the eventual difference between the promised consideration and the cash selling price of the promised goods and services, as well as the total impact of the following two factors: (i) the estimated period from the moment an entity transfers the promised goods or services to a customer to the moment the customer pays for these goods or services, and (ii) prevailing interest rates on a given market.

In the case of a sales transaction for which the price is set after the date of recognition of a given sale, the revenue is adjusted at the end of each reporting period by any change in the fair value of the relevant trade receivables.
Sales revenue is adjusted for the gain or loss on the settlement of cash flow hedging derivatives, in accordance with the general principle that the portion of gain or loss on a derivative hedging instrument that is determined to be an effective hedge is recognised in the same position of profit or loss in which the gain or loss on the hedged item is recognised at the moment when the hedged item affects profit or loss.

Sales revenue – breakdown by products

	from 1 January 2018 to 31 December 2018	from 1 January 2017 to 31 December 2017
Copper	11 942	12 127
Copper in concentrate*	400	86
Silver	2 101	2 447
Silver in concentrate**	141	(6)
Gold	381	556
Services	88	142
Other	704	672
TOTAL	15 757	16 024

** Value of payable copper less processing premium (TC), copper refining premium (RcCu) and other deductions impacting the value of concentrate, apart from the silver refining premium.*
*** value of payable silver less the silver refining premium (RcAg). The negative amounts in 2017 were a result of final settlement of copper concentrate sales realised in 2016.*

Sales revenue – geographical breakdown reflecting the location of end clients

		from 1 January 2018 to 31 December 2018	from 1 January 2017 to 31 December 2017
Europe			
	Poland	4 131	4 134
	Germany	1 968	2 147
	The United Kingdom	1 870	1 776
	Czechia	1 325	1 358
	France	699	990
	Hungary	667	652
	Spain	552	4
	Italy	551	411
	Switzerland	532	765
	Austria	235	255
	Romania	112	101
	Slovakia	104	86
	Slovenia	70	68
	Denmark	57	68
	Sweden	41	50
	Bulgaria	14	16
	Belgium	-	6
	Other countries (dispersed sale)	110	92
North America			
	The United States of America	177	443
	Other countries (dispersed sale)	1	1
South America		4	-
Asia			
	China	2 001	2 159
	Turkey	323	268
	India	-	156
	Singapore	158	3
	South Korea	30	-
	Other countries (dispersed sale)	13	14
Africa		12	1
TOTAL		**15 757**	**16 024**

Main customers

In the period from 1 January 2018 to 31 December 2018 and in the period from 1 January 2017 to 31 December 2017, there was a single customer from whom revenues exceeded 10% (12.6% in both of these periods) of the sales revenue of the Company.

Non – current assets – geographical breakdown

The property, plant and equipment of KGHM Polska Miedź S.A. are located in Poland.

Cash expenditures on property, plant and equipment and intangible assets

	from 1 January 2018 to 31 December 2018	from 1 January 2017 to 31 December 2017
Cash expenditures on mining and metallurgical assets	1 884	1 970
Cash expenditures on other property, plant and equipment and intangible assets	23	21

PART 3 – Impairment of assets

In the current period, as a result of the identification of indications of possible change in the recoverable amounts, the Company performed impairment testing of the Company's equity involvement (shares in Future 1) and of loans granted to Future 1 and the KGHM INTERNATIONAL LTD. Group. The key indication to perform an impairment test was a significant change to the technical and economic parameters of mining assets of the KGHM INTERNATIONAL LTD. Group concerning mine lives, production volumes, reserves and resources, assumed operating costs and the level of capital expenditures during a mine's life. In order to assess impairment, the fair value of the investment in KGHM INTERNATIONAL LTD. was estimated based on the sum of the fair values of individual CGUs (Cash Generating Units) within KGHM INTERNATIONAL LTD., decreased by liabilities and increased by other assets.

The value of shares in Future 1 is recognised at cost and as at 31 December 2018 amounted to PLN 1 037 million, while the carrying amount of loans granted to the KGHM INTERNATIONAL LTD. Group, together with interest, amounted to PLN 2 078 million, and those granted to the subsidiary Future 1 amounted to PLN 3 927 million.

The following CGUs have been selected for the purpose of assessment of the recoverable amount of the assets of the KGHM INTERNATIONAL LTD. Group:

- the Robinson mine,
- the Sudbury Basin, comprising the operating Morrison mine, the McCreedy mine which is in the process of closure and the pre-operational Victoria project,
- the Franke mine,
- the Carlota mine,
- involvement in the joint venture Sierra Gorda, and
- the Ajax project.

To determine the recoverable amount of assets in individual CGUs during the testing, their fair value was calculated (less costs to sell), using the DCF method, i.e. the method of discounted cash flows for the CGUs Sudbury and involvement in the joint venture Sierra Gorda and at the value in use for the CGU Franke. As for the recoverable amount of CGUs Robinson, Carlota and KGHM Ajax, due to a lack of indications of changes in the recoverable amount, they were set at their carrying amounts.

The fair value was classified to level 3 of the fair value hierarchy.

BASIC MACROECONOMIC ASSUMPTIONS ADOPTED IN THE IMPAIRMENT TESTING	
Assumption	**Level adopted for testing**
Copper price	The price path for copper was set based on internal macroeconomic assumptions developed with the use of long-term forecasts available from financial and analytical institutions. A detailed forecast is being prepared for the period 2019-2023, while for the period 2024-2028 a technical adjustment of prices was applied between the last year of the detailed forecast, and 2029, from which a long-term metal price forecast of 6 614 USD/t (3.00 USD/lb) is being used. The long-term forecasted copper price has not changed as compared to the price adopted for conducting testing as at 31 December 2017.

OTHER KEY ASSUMPTIONS USED FOR FAIR VALUE ESTIMATION OF ASSETS OF CGUs			
Assumption	**Sierra Gorda**	**Sudbury**	**Franke**
Mine life / forecast period	25	18	2
Level of copper production during mine life [kt]	4 372	276	37
Average operating margin during mine life	35%	57%	7%
Capital expenditures to be incurred during mine life [USD million]	2 219	1 630	4
Applied discount rate after taxation for assets in the operational phase	8%	8%	11%
Applied discount rate after taxation for assets in the pre-operational phase		11%	
Costs to sell		2%	

KEY FACTORS RESPONSIBLE FOR MODIFICATION OF TECHNICAL AND ECONOMIC ASSUMPTIONS	
Sierra Gorda	Postponement to subsequent years of capital expenditures from 2017-2018 related to the debottlenecking program and from the oxide ore processing project. In the previous test, expenditures on the aforementioned projects were included in the period not covered by current assumptions. The update of the multi-year mine plan resulted in the prolongation of the mine's life by 3 years.
Sudbury	On-going optimisation of the multi-year plan of KGHM's operating activities in the Sudbury Basin. Among others, as a result of the activities undertaken, the extraction of ore from the Morrison deposit is planned to be halted in the first quarter of 2019 along with a recommencement of production by the McCreedy West mine. The update of the multi-year plans resulted in an increase in capital expenditures, a change in the production volumes of individual metals and an extension of the production period by one year. The assumptions adopted for the Victoria project have not changed significantly as compared to the testing conducted as at 31 December 2017.
Franke	Identification of additional deposits of oxide ore and an update of the mining plans, which allows for a prolongation of the mine's life by an additional production year.

Results of the test performed as at 31 December 2018 are presented in the following table:

Test elements	PLN million
Discounted future cash flows of KGHM INTERNATIONAL LTD. (Enterprise value) (USD 2 053 million *3.7597)	7 720
Estimated costs to sell	30
Recoverable amount of investment in KGHM INTERNATIONAL LTD. (Enterprise value)	**7 690**
Carrying amount of loans granted to the KGHM INTERNATIONAL LTD. Group, together with interest	6 005
Carrying amount of shares in Future 1	1 037
Reversal of impairment loss on shares in Future 1	**402**
Reversal of allowances for impairment of receivables due to loans granted to the KGHM INTERNATIONAL LTD Group	**246**

PART 4 – Explanatory notes to the statement of profit or loss

Note 4.1 Expenses by nature

		from 1 January 2018 to 31 December 2018	from 1 January 2017 to 31 December 2017
Note 9.3	Depreciation of property, plant and equipment and amortisation of intangible assets	1 173	1 072
Note 11.1	Employee benefits expenses	3 324	3 210
	Materials and energy, including:	5 312	5 831
	Purchased metal-bearing materials	3 040	3 750
	Electrical and other energy	803	775
	External services, including:	1 649	1 531
	Transport	216	215
	Repairs, maintenance and servicing	511	446
	Mine preparatory work	477	437
Note 5.2	Minerals extraction tax	1 671	1 765
Note 5.2	Other taxes and charges	412	389
	Advertising costs and representation expenses	43	37
	Property and personal insurance	23	21
	Other costs	26	68
	Total expenses by nature	**13 633**	**13 924**
	Cost of merchandise and materials sold (+)	177	182
	Change in inventories of products and work in progress (+/-)	(236)	(1 097)
	Cost of products for internal use (-)	(114)	(110)
	Total cost of sales, selling costs and administrative expenses, including:	**13 460**	**12 899**
	Cost of sales	12 537	12 022
	Selling costs	115	112
	Administrative expenses	808	765

Note 4.2 Other operating income/(costs)

		from 1 January 2018 to 31 December 2018	from 1 January 2017 to 31 December 2017
Note 7.2	Measurement and realisation of derivatives	167	226
	Exchange differences on assets and liabilities other than borrowings	386	-
	Interest on loans granted and other financial receivables	244	310
	Fees and charges on re-invoicing of bank guarantees costs securing payments of liabilities	53	51
	Reversal of allowances for impairment of loans due to restructuring of intra-group financing	778	N/A*
	Reversal of allowances for impairment of loans measured at amortised cost	183	N/A*
	Reversal of impairment losses on shares in subsidiaries	402	-
	Reversal of allowances for impairment of loans recognised at the moment of initial recognition	85	N/A*
	Fair value gains on financial assets measured at fair value through profit or loss	184	N/A*
	Dividends income	239	4
	Other	78	89
	Total other operating income	**2 799**	**680**
Note 7.2	Measurement and realisation of derivatives	(303)	(439)
	Losses due to initial recognition of POCI loans due to restructuring of intra-group financing	(763)	N/A*
	Allowance for impairment of loans under IFRS 9	(4)	N/A*
	Allowance for impairment of loans under IAS 39	N/A*	(606)
	Fair value losses on financial assets measured at fair value through profit or loss	(247)	N/A*
	Exchange differences on assets and liabilities other than borrowings	-	(1 179)
Note 6.1	Impairment losses on shares and investment certificates in subsidiaries	(47)	(330)
	Provisions recognised	(162)	(23)
	Other	(124)	(107)
	Total other operating costs	**(1 650)**	**(2 684)**
	Other operating income and (costs)	**1 149**	**(2 004)**

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

Note 4.3 Finance income/(costs)

		from 1 January 2018 to 31 December 2018	from 1 January 2017 to 31 December 2017
	Exchange differences on borrowings	-	1 247
Note 7.2	Measurement of derivatives	11	-
	Total income	**11**	**1 247**
	Interest on borrowings	(127)	(113)
	Bank fees and charges on borrowings	(23)	(28)
	Exchange differences on borrowings	(592)	-
	Unwinding of the discount	(43)	(43)
Note 7.2	Measurement and realisation of derivatives	-	(30)
	Total costs	**(785)**	**(214)**
	Finance income and (costs)	**(774)**	**1 033**

Note 4.4 Recognition / reversal of impairment losses on assets recognised in the statement of profit or loss

Impairment losses on assets recognised in:	from 1 January 2018 to 31 December 2018	from 1 January 2017 to 31 December 2017
cost of sales, of which:	**5**	**25**
write-down of inventories	5	24
allowance for impairment of trade receivables	-	1
other operating costs, of which:	**836**	**941**
initial recognition of POCI loans as a result of restructurisation of intra-group financing	763	N/A*
impairment losses on fixed assets under construction and intangible assets not yet available for use	11	4
impairment losses on shares and investment certificates in subsidiaries	47	330
allowance for impairment of loans under IFRS 9	4	N/A*
allowance for impairment of loans under IAS 39	N/A*	606
allowance for impairment of trade receivables	8	-
allowance for impairment of other financial receivables	3	1
Impairment losses, total	**841**	**966**
Reversal of impairment losses on assets recognised in:		
cost of sales, of which:	**28**	**-**
write-down of inventories	28	-
other operating income, of which:	**1 452**	**2**
impairment loss on shares in subsidiaries	402	-
allowance for impairment of loans as result of restructurisation of intra-group financing	778	N/A*
allowances for impairment of loans measured at amortised cost	183	N/A*
allowance for impairment of loans recognised at the moment of initial recognition (POCI)	85	N/A*
allowance for impairment of other financial receivables	2	-
allowance for impairment of other non-financial receivables	2	2
Reversal of impairment losses, total	**1 480**	**2**

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

PART 5 – Taxation

Note 5.1 Income tax in the statement of profit or loss

Accounting policies

Income tax recognised in profit or loss comprises current tax and deferred tax.
Current income tax is calculated in accordance with current tax laws.

Income tax

		from 1 January 2018 to 31 December 2018	From 1 January 2017 to 31 December 2017
	Current income tax	590	863
Note 5.1.1	Deferred income tax	57	54
	Current tax adjustments for prior periods	-	(86)
	Income tax	**647**	**831**

In 2018, KGHM Polska Miedź S.A. paid income tax in the amount of PLN 710 million (in 2017: PLN 934 million) to the appropriate tax office. The difference between the tax paid by the Company in 2018 as compared to the tax paid in 2017 is mainly due to a change in the manner of payment of tax advances in 2018 as compared to 2017. In January 2017, a tax advance was paid for the fourth quarter of 2016. The tax advance paid in January 2018 concerned only a single month (December 2017).

The table below presents an identification of differences between income tax from profit before tax and the income tax calculated according to the principles resulting from the Corporate Income Tax Act:

Reconciliation of effective tax rate

	from 1 January 2018 to 31 December 2018	from 1 January 2017 to 31 December 2017
Profit/(loss) before tax	**2 672**	**2 154**
Tax calculated using the given rate (2018: 19%, 2017: 19%)	508	409
Tax effect of non-taxable income, including:	(363)	(9)
reversal of allowances for impairment of loans granted to subsidiaries	(217)	-
Tax effect of expenses not deductible for tax purposes, including:	558	517
impairment losses on shares in subsidiaries and allowances for impairment of intra-group loans	201	168
the minerals extraction tax	317	335
Tax adjustments for prior periods	-	(86)
Current tax from settlement of the Tax Group	(56)	-
Income tax in profit or loss [effective tax rate amounted to: 24.21% (in 2017 (38.58)%]	**647**	**831**

Note 5.1.1 Deferred income tax

Accounting policies	Important estimates and assumptions
Deferred tax is determined using tax rates and tax laws that are expected to be applicable when the asset is realised or the liability is settled based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period. Deferred tax liabilities and deferred tax assets are recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the exception of temporary differences arising from initial recognition of assets or liabilities in transactions other than business combinations. Deferred tax assets are recognised if it is probable that taxable profit will be available against which the temporary differences and unused tax losses can be utilised. Deferred tax assets and deferred tax liabilities are offset if the Company has a legally enforceable right to set off current tax assets and current tax liabilities, and if the deferred tax assets and deferred tax liabilities relate to income taxes levied on a given entity by the same taxation authority.	The probability of realising the deferred tax assets with future tax income is based on the Company's budget. The Company recognises deferred tax assets in its accounting books to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

	from 1 January 2018 to 31 December 2018	from 1 January 2017 to 31 December 2017
Deferred tax assets at the beginning of the period, of which:	**31**	**140**
Deferred tax assets	1 034	1 011
Deferred tax liabilities	(1 003)	(871)
Change in accounting policies – application of IFRS 9, of which:	**13**	N/A*
Deferred tax assets	(41)	N/A*
Deferred tax liabilities	54	N/A*
Deferred tax assets after application of IFRS 9, of which:	**44**	N/A*
Deferred tax assets	993	N/A*
Deferred tax liabilities	(949)	N/A*
Deferred tax assets in the period:	**(35)**	**(109)**
Recognised in profit or loss	(57)	(54)
Recognised in other comprehensive income	22	(55)
Deferred tax assets at the end of the period, of which:	**9**	**31**
Deferred tax assets	1 159	1 034
Deferred tax liabilities	(1 150)	(1 003)

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

Maturities of deferred tax assets and (deferred tax liabilities) were as follows:

	from 1 January 2018 to 31 December 2018	from 1 January 2017 to 31 December 2017
Maturity over the 12 months from the end of the reporting period	(279)	(191)
Maturity of up to 12 months from the end of the reporting period	288	222

Deferred tax assets and liabilities

Deferred tax assets	1 January 2017	Credited/(Charged) profit or loss	Credited/(Charged) other comprehensive income	31 December 2017	Change in accounting policies – application of IFRS 9	1 January 2018	Credited/(Charged) profit or loss	Credited/(Charged) other comprehensive income	31 December 2018
Interest	9	11	-	20	-	20	15	-	35
Provision for decommissioning of mines and other technological facilities	155	6	-	161	-	161	36	-	197
Measurement of forward transactions	84	(1)	-	83	(70)	13	0	-	13
Difference between the depreciation rates of property, plant and equipment for accounting and tax purposes	68	(10)	-	58	-	58	(8)	-	50
Future employee benefits	341	11	25	377	-	377	16	58	451
Re-measurement of available-for-sale financial assets	108	-	-	108	(108)	-	-	-	-
Equity instruments measured at fair value	-	-	-	-	92	92	-	29	121
Allowances for impairment/reversal of allowances for impairment of loans	-	-	-	-	44	44	-	-	44
Re-measurement of hedging instruments	57	-	(30)	27	-	27	-	(3)	24
Other	189	11	-	200	1	201	23	-	224
Total	**1 011**	**28**	**(5)**	**1 034**	**(41)**	**993**	**82**	**84**	**1 159**

Deferred tax liabilities	1 January 2017	(Credited)/Charged profit or loss	(Credited)/Charged other comprehensive income	31 December 2017	Change in accounting policies – application of IFRS 9	1 January 2018	(Credited)/Charged profit or loss	(Credited)/Charged other comprehensive income	31 December 2018
Measurement of forward transactions	39	2	-	41	(25)	16	-	-	16
Re-measurement of hedging instruments	-	-	43	43	(42)	1	-	62	63
Difference between the depreciation rates of property, plant and equipment for accounting and tax purposes	773	60	-	833	-	833	97	-	930
Re-measurement of available-for-sale financial assets	11	-	7	18	(18)	-	-	-	-
Interest	42	20	-	62	30	92	44	-	136
Other	6	-	-	6	1	7	(2)	-	5
Total	**871**	**82**	**50**	**1 003**	**(54)**	**949**	**139**	**62**	**1 150**

Note 5.2 Other taxes and charges

The following table presents the minerals extraction tax incurred by the Company.

	from 1 January 2018 to 31 December 2018	from 1 January 2017 to 31 December 2017	Basis for calculating tax	Tax rate	Presentation in the statement of profit or loss
Minerals extraction tax, of which:	**1 671**	**1 765**			
- copper	1 373	1 407	Amount of copper in produced concentrate, expressed in tonnes	tax rate calculated for every reporting period*	expenses by nature, note 4.1.
- silver	298	358	Amount of silver in produced concentrate, expressed in kilograms		

** In accordance with conditions specified by the Act dated 2 March 2012 on the minerals extraction tax.*

The minerals extraction tax is calculated from the amount of copper and silver in produced concentrate and depends on the prices of these metals as well as on the USD/PLN exchange rate. The tax is accounted for under costs of basic products and is not deductible for corporate income tax purposes.

Other taxes and charges were as follows:

	from 1 January 2018 to 31 December 2018	from 1 January 2017 to 31 December 2017
Royalties	108	110
Excise tax	37	39
Real estate tax	167	153
Other taxes and charges	100	87
Total	**412**	**389**

Note 5.3 Tax assets and liabilities

Accounting policies

Tax assets comprise current income tax assets and the settlement related to VAT.

Assets not representing financial assets are initially recognised at nominal value and are measured at the end of the reporting period at the amount due.

Tax liabilities comprise the Company's liabilities towards the Polish Tax Office arising from the corporate income tax, including due to the withholding tax, personal income tax and liabilities towards Customs Chamber due to the minerals extraction tax and the excise tax.

Liabilities not representing financial liabilities are measured at the amount due.

Tax assets

	As at 31 December 2018	As at 31 December 2017
Current corporate income tax assets	17	-
Receivables due to taxes, social and health insurance and other benefits	258	214
Tax assets	**275**	**214**

Tax liabilities

	As at 31 December 2018	As at 31 December 2017
Current corporate income tax liabilities	-	17
Liabilities due to taxes, social and health insurance and other benefits	405	399
Total	**405**	**416**

PART 6 – Investments in subsidiaries

Note 6.1 Subsidiaries

Accounting policies

In the financial statements of the Company, subsidiaries are those entities which are directly controlled by the Company. In the financial statements, investments in subsidiaries, which are not classified as available-for-sale are measured at cost plus any granted non-returnable payments, including for the coverage of losses presented in the financial statements of a subsidiary, less any impairment losses. Impairment is measured by comparing the carrying amount with the higher of the following amounts:

- fair value, less costs to sell; and
- value in use.

	2018	2017
As at 1 January	3 013	2 002
Reversal of impairment losses	402	-
Acquisition of shares or of newly-issued shares	142	-
Recognition of impairment losses	(47)	(330)
Reallocation of impairment losses	-	1 368
Other	-	(27)
As at 31 December	**3 510**	**3 013**

The most significant investments in subsidiaries (direct share)

Entity	Head Office	Scope of activities	Carrying amount of shares/investment certificates	
			as at 31 December 2018	as at 31 December 2017
FUTURE 1 Sp. z o.o.	Lubin	management and control of other companies, including the KGHM INTERNATIONAL LTD. Group	1 439	1 037
"Energetyka" sp. z o.o.	Lubin	generation, distribution and sale of electricity and heat	505	505
KGHM I FIZAN	Wrocław	cash investing in securities, money market instruments and other property rights	390	437
KGHM Metraco S.A.	Legnica	trade, agency and representative services	335	335

As at 31 December 2018 and as at 31 December 2017, the % of share capital held as well as the % of voting power in the above-mentioned subsidiaries was 100%.

Note 6.2 Receivables due to loans granted

Accounting policies

Loans measured at amortised cost are initially recognised at fair value adjusted by costs directly associated with the loan and are measured at the end of the reporting period at amortised cost using the effective interest rate method, including impairment. Loans are classified as loans measured at amortised cost if they met two conditions: they are in a business model whose objective is to collect contractual cash flows due to holding financial assets, and have passed the SPPI (solely payments of principal and interest) test.

The fair value of loans classified as measured at fair value through profit or loss is determined as the present value of the future cash flows, taking into account changes in market and credit risk factors during a loan's lifetime. Loans are classified as loans measured at fair value if they did not pass the SPPI test, because in the structure of financing the target recipient of funds, debt is changed at the last stage into capital (the amount of capital is material) pursuant to the methodology of classification of financial instruments.

	as at 31 December 2018	as at 31 December 2017
Loans measured at amortised cost – gross amount	4 827	7 611
Allowances for impairment of expected credit loss in accordance with IFRS 9	(272)	-
Allowances for impairment in accordance with IAS 39	-	(2 630)
Loans measured at fair value	1 724	-
Total, including:	**6 279**	**4 981**
- long-term loans	6 262	4 972
- short-term loans	17	9

The most significant items are loans granted to the companies of the KGHM Polska Miedź S.A. Group, connected with the realisation of mining projects executed by indirect subsidiaries of KGHM Polska Miedź S.A. from the KGHM INTERNATIONAL LTD. Group.

PART 7 – Financial instruments and financial risk management

Note 7.1 Financial Instruments

	Financial assets: – as at 31 December 2018 – in accordance with IFRS 9, - as at 31 December 2017 – in accordance with IAS 39.	As at 31 December 2018					As at 31 December 2017				
		At fair value through other comprehensive income	At fair value through profit or loss	At amortised cost	Hedging instruments	Total	Available -for-sale	At fair value through profit or loss	Loans and receivables	Hedging instruments	Total
	Non-current	496	1 735	4 914	308	**7 453**	613	10	5 309	99	**6 031**
Note 6.2	Loans granted	-	1 724	4 538	-	**6 262**	-	-	4 972	-	**4 972**
Note 7.2	Derivatives	-	11	-	308	**319**	-	10	-	99	**109**
Note 7.3	Other financial instruments measured at fair value	496	-	-	-	**496**	613	-	-	-	**613**
Note 7.4	Other financial instruments measured at amortised cost	-	-	376	-	**376**	-	-	337	-	**337**
	Current	-	162	1 279	285	**1 726**	-	0	1 556	195	**1 751**
Note 10.2	Trade receivables	-	139	171	-	**310**	-	-	1 034	-	**1 034**
Note 7.2	Derivatives	-	15	-	285	**300**	-	0	-	195	**195**
Note 8.5	Cash and cash equivalents	-	-	627	-	**627**	-	-	234	-	**234**
Note 12.3	Other financial assets	-	8	481	-	**489**	-	-	288	-	**288**
	Total	**496**	**1 897**	**6 193**	**593**	**9 179**	**613**	**10**	**6 865**	**294**	**7 782**

	Financial liabilities: – as at 31 December 2018 - in accordance with IFRS 9, - as at 31 December 2017 – in accordance with IAS 39.	As at 31 December 2018				As at 31 December 2017			
		At fair value through profit or loss	At amortised cost	Hedging instruments	Total	At fair value through profit or loss	At amortised cost	Hedging instruments	Total
	Non-current	**39**	**6 941**	**29**	**7 009**	**13**	**6 274**	**71**	**6 358**
Note 8.4	Borrowings	-	6 758	-	**6 758**	-	6 085	-	**6 085**
Note 7.2	Derivatives	39	-	29	**68**	13	-	71	**84**
	Other financial liabilities	-	183	-	**183**	-	189	-	**189**
	Current	7	3 104	6	**3 117**	12	2 915	62	**2 989**
Note 8.4	Borrowings	-	1 035	-	**1 035**	-	923	-	**923**
Note 8.4	Cash pooling liabilities	-	80	-	**80**	-	160	-	**160**
Note 7.2	Derivatives	7	-	6	**13**	12	-	62	**74**
Note 10.3	Trade payables	-	1 920	-	**1 920**	-	1 719	-	**1 719**
	Other financial liabilities	-	69	-	**69**	-	113	-	**113**
	Total	46	10 045	35	**10 126**	**25**	**9 189**	**133**	**9 347**

The fair value hierarchy of financial instruments

Classes of financial instruments	As at 31 December 2018		As at 31 December 2017	
	level 1	level 2	level 1	level 2
Listed shares	399	-	558	-
Other financial assets	-	244	-	57
Derivatives, including:	-	538	-	146
Assets	-	619	-	304
Liabilities	-	(81)	-	(158)

There was no transfer between individual levels of the fair value hierarchy of financial instruments, 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.

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Gains/(losses) on financial instruments

	from 1 January 2018 to 31 December 2018 in accordance with IFRS 9	Financial assets/liabilities measured at fair value through profit or loss	Financial assets measured at amortised cost	Financial liabilities measured at amortised cost	Hedging instruments	Total
Note 4.2	Interest income	-	244	-	-	244
Note 4.3	Interest costs	-	-	(127)	-	(127)
Note 4.2	Foreign exchange gains/(losses)	93	544	(251)	-	386
Note 4.3	Foreign exchange losses	-	-	(592)	-	(592)
Note 4.2	Losses on measurement of loans granted measured at fair value through profit or loss	(247)	-	-	-	(247)
Note 4.4	Reversal/(recognition) of impairment losses	-	270	-	-	270
Note 7.2	Revenues from contracts with customers	(17)	-	-	125	108
Note 4.2 Note 4.3	Gains on measurement and realisation of derivatives	178	-	-	-	178
Note 4.2	Losses on measurement and realisation of derivatives	(303)	-	-	-	(303)
Note 4.3	Fees and charges on bank loans drawn	-	-	(23)	-	(23)
	Other	-	-	(9)	-	(9)
	Total net gain/(loss)	**(296)**	**1 058**	**(1 002)**	**125**	**(115)**

	from 1 January 2017 to 31 December 2017 in accordance with IAS 39	Available-for-sale financial assets	Financial assets/liabilities measured at fair value through profit or loss	Loans and receivables	Financial liabilities measured at amortised cost	Hedging instruments	Total
	Interest income	-	-	312	-	-	**312**
Note 4.3	Interest costs	-	-	-	(113)	-	**(113)**
Note 4.3	Foreign exchange gains	-	-	-	1 247	-	**1 247**
Note 4.2	Foreign exchange losses	-	-	(1 051)	(128)	-	**(1 179)**
Note 4.4	Impairment losses recognised	-	-	(607)	-	-	**(607)**
Note 7.2	Revenues from contracts with customers	-	-	-	-	16	**16**
	Losses from disposal of financial instruments recognised in expenses by nature	-	-	(20)	-	-	**(20)**
Note 4.2	Gains on measurement and realisation of derivatives	-	226	-	-	-	**226**
Note 4.2 Note 4.3	Losses on measurement and realisation of derivatives	-	(469)	-	-	-	**(469)**
Note 4.3	Fees and charges on bank loans drawn	-	-	-	(28)	-	**(28)**
	Other	-	-	-	(9)	-	**(9)**
	Total net gain/(loss)	**-**	**(243)**	**(1 366)**	**969**	**16**	**(624)**

Note 7.2 Derivatives

Accounting policies

Derivatives are classified as financial assets/liabilities held for sale, unless they have not been designated as hedging instruments.

Regular way purchases or sales of derivatives are recognised at the trade date.

Derivatives are initially recognised at fair value and are measured at fair value at the end of the reporting period. Derivatives not designated as hedges at the end of the reporting period are measured at fair value, with recognition of the gains/losses on measurement in profit or loss.

The Company applies hedge accounting for cash flows. Hedge accounting aims at reducing volatility in the Company's net result, arising from periodic changes in the measurement of transactions hedging individual types of market risk to which the Company is exposed. Hedging instruments are derivatives as well as bank loans in foreign currencies.

The designated hedges relate to the future sales transactions forecasted as assumed in the Sales Plan for a given year. These plans are prepared based on the production capacities for a given period. The Company estimates that the probability that transactions included in the production plan will occur is very high, as from the historical point of view sales were always realised at the levels assumed in Sales Plans.

The Company may use natural currency risk hedging through the use of hedge accounting for bank loans denominated in USD, and designates them as positions hedging foreign currency risk, which relates to future revenues of the Company from sales of copper, silver and other metals, denominated in USD.

Gains and losses arising from changes in the fair value of the cash flow hedging instrument are recognised in other comprehensive income, to the extent by which the change in fair value represents an effective hedge of the associated hedged item. The portion which is ineffective is recognised in profit or loss as other operating income or costs. Gains or losses arising from the cash flow hedging instrument are recognised in profit or loss as a reclassification adjustment, in the same period or periods in which the hedged item affects profit or loss.

The Company ceases to account for derivatives as hedging instruments when they expire, are sold, terminated or settled, or when the goal of risk management for a given relation has changed.

The Company may designate a new hedging relationship for a given derivative, change the intended use of the derivative, or designate it to hedge another type of risk. In such a case, for cash flow hedges, gains or losses which arose in the periods in which the hedge was effective are retained in accumulated other comprehensive income until the hedged item affects profit or loss.
If the hedge of a forecasted transaction ceases to function because it is probable that the forecasted transaction will not occur, then the net gain or loss recognised in other comprehensive income is immediately transferred to profit or loss as a reclassification adjustment.

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

Type of derivative	As at 31 December 2018					As at 31 December 2017				
	Financial assets		Financial liabilities		Net total	Financial assets		Financial liabilities		Net total
	Non-current	Current	Non-current	Current		Non-current	Current	Non-current	Current	
Derivatives – Commodity contracts - Metals										
Options – seagull	245	143	(10)	(1)	377	33	6	(71)	(62)	(94)
Options - collar	11	104	-	(1)	114	-	-	-	-	-
Derivatives – Currency contracts										
Options USD - collar	52	38	(19)	(4)	67	66	189	-	-	255
TOTAL HEDGING INSTRUMENTS	**308**	**285**	**(29)**	**(6)**	**558**	**99**	**195**	**(71)**	**(62)**	**161**

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

Type of derivative	As at 31 December 2018					As at 31 December 2017				
	Financial assets		Financial liabilities		Net total	Financial assets		Financial liabilities		Net total
	Non-current	Current	Non-current	Current		Non-current	Current	Non-current	Current	
Derivatives – Commodity contracts - Metals - Copper										
Options – seagull	-	-	(39)	(5)	(44)	-	-	(2)	-	(2)
QP adjustment swap transactions	-	4	-	-	4	-	-	-	-	-
Derivatives – Commodity contracts - Metals - Gold										
QP adjustment swap transactions	-	2	-	(2)	-	-	-	-	-	-
Derivatives – Currency contracts										
Sold put options USD	-	-	-	-	-	-	-	(11)	(12)	(23)
Derivatives – Interest rate										
Options – purchased CAP	11	9	-	-	**20**	10	-	-	-	10
TOTAL TRADE INSTRUMENTS	**11**	**15**	**(39)**	**(7)**	**(20)**	**10**	**-**	**(13)**	**(12)**	**(15)**

As at 31 December 2018, counterparty credit risk (CVA – credit value adjustment, for assets) and own credit risk (DVA – debit value adjustment, for liabilities) were not recognised in the measurement of derivatives (hedging and trade) due to their immateriality.

in PLN millions, unless otherwise stated

Open hedging derivatives	Notional Copper [t] Currency [USD million]	Avg. weighted price/exchange rate [USD/t] [USD/PLN]	Maturity/ settlement period from	to	Period of profit/loss impact from	to
Copper – seagull	120 000	6 634 - 8 579	Jan 19	Dec 20	Feb 19	Jan 21
Copper – collar	36 000	6 733 - 8 333	Jan 19	Dec 19	Feb 19	Jan 20
Currency - collar	1 260	3.54 – 4.33	Jan 19	Dec 20	Jan 19	Dec 20

The fair value measurement of derivatives was classified under level 2 of the fair value hierarchy (i.e. measurement which applies observable inputs other than quoted prices):

- In the case of forward currency purchase or sell transactions, the Company uses forward prices from the maturity dates of individual transactions 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.
- In the case of forward commodity purchase or sell transactions, the Company uses forward prices from the maturity dates of individual transactions to determine their fair value. At the end of the reporting period, in the case of copper, official closing prices from the London Metal Exchange are used, and with respect to silver and gold, the fixing price set by the London Bullion Market Association. Volatility ratios and forward price curves given by the Reuters system are used to calculate derivatives at the end of the reporting period. Levy approximation to the Black-Scholes model is used for Asian options pricing on commodity markets.

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

	Statement of profit or loss	from 1 January 2018 to 31 December 2018	from 1 January 2017 to 31 December 2017
	Revenues from contracts with customers	125	16
	Other operating and finance income/costs:	(125)	(243)
	On realisation of derivatives	(140)	(10)
	On measurement of derivatives	15	(233)
	Impact of derivatives and hedging instruments on profit or loss for the period	-	**(227)**
	Statement of other comprehensive income		
	Impact of hedging transactions	**349**	**381**
Note 8.2.2	Impact of measurement of hedging transactions (effective portion)	318	397
Note 8.2.2	Reclassification to sales revenues due to realisation of a hedged item	31	(16)
	TOTAL COMPREHENSIVE INCOME*	**349**	**154**

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

Note 7.3 Other financial instruments measured at fair value

Accounting policies

The item "financial instruments measured at fair value" includes financial assets classified, in accordance with IFRS 9, to "financial assets measured at fair value through profit or loss" and "financial assets measured at fair value through other comprehensive income".

This category mainly includes shares which were not acquired for trading purposes, for which the option of measurement at fair value through other comprehensive income was selected.

Financial assets measured at fair value through other comprehensive income are initially recognised at fair value increased by transaction costs, and at the end of the reporting period they are measured at fair value with recognition of gains/losses from measurement in other comprehensive income.

With regard to equity instruments not held for trading, in respect of which at the moment of initial recognition, the Company irrevocably selected to recognise gains/losses from measurement in other comprehensive income, the amounts presented in other comprehensive income are not later transferred to profit or loss. Dividends from such investments are recognised in profit or loss.

Financial assets measured at fair value through profit or loss are initially recognised at fair value, and at the end of the reporting period they are measured at fair value, and the gains/losses from measurement are recognised in profit or loss.

Listed shares are measured based on the closing price as at the end of the reporting period. The translation of shares expressed in a foreign currency is performed according to the accounting policies described in Note 1.3.

	As at 31 December 2018	As at 31 December 2017
Other financial instruments measured at fair value	**496**	**613**
Listed shares	399	558
Unquoted shares	97	55

The measurement of listed shares is classified to level 1 of the fair value hierarchy (i.e. measurement is based on the prices of these shares listed on an active market at the measurement date), while the measurement of unquoted shares is classified to level 2 (i.e. measurement based on non-observable data).

Due to investments in listed companies, the Company is exposed to price risk. Changes in the listed share prices of these companies resulting from the existing macroeconomic situation may have a significant impact on the level of other comprehensive income and on the accrued amount recognised in equity.

The following table presents the sensitivity analysis of listed companies shares to price changes.

	As at 31 December 2018	Percentage change of share price		As at 31 December 2017	Percentage change of share price	
		50%	-24%		36%	-10%
	Carrying amount	Other comprehensive income	Other comprehensive income	Carrying amount	Other comprehensive income	Profit or loss
Listed shares	**399**	200	(95)	**558**	201	(56)

Sensitivity analysis for significant types of market risk to which the Company is exposed presents the estimated impact of potential changes in individual risk factors (at the end of reporting period) on profit or loss and other comprehensive income.

Potential movements in share prices at the end of the reporting period were determined at the level of maximum deviations in a given year.

Note 7.4 Other non-current financial instruments measured at amortised cost

Accounting policies	Major estimates
The item other non-current financial instruments measured at amortised cost includes financial assets designated to cover the costs of decommissioning mines and restoring tailings storage facilities (accounting policy with respect to the obligation to decommission mines and storage facilities is presented in Note 9.4) and other financial assets not classified to other items. Assets included, in accordance with IFRS 9, in the category "measured at amortised cost", are initially recognised at fair value adjusted by transaction costs, which can be directly attributed to the purchase of these assets and measured at amortised cost at the reporting date using the effective interest rate method, reflecting impairment.	Sensitivity analysis of the risk of changes in interest rates of cash accumulated on bank accounts of the Mine Closure Fund and Tailings Storage Facility Restoration Fund is presented in Note 7.5.1.4.

	As at 31 December 2018	As at 31 December 2017
Cash held in the Mine Closure Fund and Tailings Storage Facility Restoration Fund on separate bank accounts	312	286
Other financial receivables	64	51
Total	**376**	**337**

Details regarding measurement of the provision for the decommissioning costs of mines and other technological facilities is described in Note 9.4.

Note 7.5 Financial risk management

In the course of its business activities the Company is exposed to the following main financial risks:

- market risks:
  - commodity risk,
  - risk of changes in foreign exchange rates,
  - risk of changes in interest rates,
  - price risk related to investments in shares of listed companies (Note 7.3),
- credit risk, and
- liquidity risk (the process of financial liquidity management is described in note 8).

The Company's Management Board manages identified financial risk factors in a conscious and responsible manner, using the Market Risk Management Policy, the Financial Liquidity Management Policy and the Credit Risk Management Policy adopted by the Company. Understanding the threats arising from the Company's exposure to risk and maintaining an appropriate organisational structure and procedures enable an effective achievement of tasks. The Company identifies and measures financial risk on an ongoing basis, and also takes actions aimed at minimising their impact on the financial position.

The process of financial risk management in the Company is supported by the work of the Market Risk Committee, the Financial Liquidity Committee and the Credit Risk Committee.

Note 7.5.1 Market risk

The market risk to which the Company is exposed to is understood as the possible occurrence of negative impact on the Company's results arising from changes in the market prices of commodities, exchange rates and interest rates, as well as the share prices of listed companies.

Note 7.5.1.1 Principles and techniques of market risk management

The Company actively manages the market risk to which it is exposed.
In accordance with the adopted policy, the goals of the market risk management process are as follows:

- limit volatility in the financial result;
- increase the probability of meeting budget targets;
- decrease the probability of losing financial liquidity;
- maintain the financial health of the Company; and
- support the process of strategic decision making related to investing, including financing sources.

The objectives of market risk management should be considered as a whole, and their realisation is determined mainly by the Company's internal situation and market conditions. Actions and decisions concerning market risk management in the Company should be analysed in the context of the KGHM Polska Miedź S.A. Group's global exposure to market risk.

The primary technique used in market risk management is the utilisation of hedging strategies involving derivatives. Natural hedging is also used.

Taking into account the potential scope of their impact on the Company's results, market risk factors were divided into the following groups:

	Group	Market risk	Approach to risk management
Note 7.2	Group I – factors having the greatest impact on the Company's total exposure to market risk	Copper price	A strategic approach is applied to this group, aimed at systematically building up a hedging position comprising production and revenues from sales for subsequent periods while taking into account the long-term cyclical nature of various markets. A hedging position may be restructured before it expires.
Note 7.2		Silver price	
Note 7.2		USD/PLN exchange rate	
Note 7.2	Group II – other exposures to market risk	Prices of other metals and merchandise	From the Group's point of view, this group is comprised of less significant risks, although sometimes these risks are significant from individual entities' points of view. Therefore, it is tactically managed - on an ad-hoc basis, taking advantage of favourable market conditions.
Note 7.2		Other exchange rates	
Note 7.2		Interest rates	

The Company manages market risk by applying various approaches to particular, identified exposure groups.
The Company considers the following factors when selecting hedging strategies or restructuring hedging positions: current and forecasted market conditions, the internal situation of the Company, the effective level and cost of hedging, and the impact of the minerals extraction tax.

The Company applies an integrated approach to managing the market risk to which it is exposed. This means a comprehensive approach to market risk, and not to each element individually. An example is the hedging transactions on the currency market, which are closely related to contracts entered into on the metals market. The hedging of metals sales prices determines the probability of achieving specified revenues from sales in USD, which represent a hedged position for the strategy on the currency market.

The Company executes derivative transactions only if it has the ability to assess their value internally, using standard pricing models appropriate for a particular type of derivative, and which can be traded without significant loss of value with a counterparty other than the one with whom the transaction was initially entered into. In evaluating the market value of given instruments, the Company uses information obtained from leading information services, banks, and brokers.

The Company's internal policy, which regulates market risk management principles, permits the use of the following types of instruments:

- swaps;
- forwards and futures;
- options; and
- structures combining the above instruments.

The instruments applied may be, therefore, either of standardised parameters (publicly traded instruments) or non-standardised parameters (over-the-counter instruments). Primarily applied are cash flow hedging instruments meeting the requirements for effectiveness as understood by hedge accounting. The effectiveness of the financial hedging instruments applied by the Company in the reporting period is continually monitored and assessed (details in Note 7.2 Derivatives – accounting policies).

The economic relationship between a hedging instrument and a hedged position is based on the sensitivity of the value of the position to the same market factors (metals prices, exchange rates or interest rates) and on matching appropriate key parameters of the hedging instrument and the hedged position (volume/notional amount, maturity date).

The hedge ratio of the established hedging relationship is set at the amount ensuring the effectiveness of the relationship and is consistent with the actual volume of the hedged position and the hedging instrument. Sources of potential ineffectiveness of the relationship arise from a mismatch of the parameters of the hedged instrument and the hedged position (e.g. the notional amount, maturity, base instrument, impact of credit risk). When structuring a hedging transaction, the Company aims to ensure a maximal match between these parameters to minimise the sources of ineffectiveness.

The Company quantifies its market risk exposure using a consistent and comprehensive measure. Market risk management is supported by simulations (such as scenario analysis, stress-tests, backtests) and calculated risk measures. The risk measures being used are mainly based on mathematical and statistical modelling, which uses historical and current market data concerning risk factors and takes into consideration the current exposure of the Company to market risk.

One of the measures used as an auxiliary tool in making decisions in the market risk management process is EaR - Earnings at Risk. This measure indicates the lowest possible level of profit for the period for a selected level of confidence (for example, with 95% confidence the profit for a given year will be not lower than…). The EaR methodology enables the calculation of profit for the period incorporating the impact of changes in market prices of copper, silver and foreign exchange rates in the context of budgeted results.

Due to the risk of production cutbacks (for example because of force majeure) or failure to achieve planned foreign currency revenues, as well as purchases of metals contained in purchased materials, the Company has set limits with respect to commitment in derivatives:

- up to 85% of planned, monthly sales volume of copper, silver and gold from own concentrates, while: for copper and silver - up to 50% with respect to instruments which are obligations of the Company (for financing the hedging strategy), and up to 85% with respect to instruments representing the rights of the Company.
- up to 85% of planned, monthly revenues from the sale of products from own concentrates in USD or of the monthly, contracted net currency cash flows in case of other currencies. For purposes of setting the limit, expenses for servicing the debt denominated in USD decrease the nominal amount of exposure to be hedged.

These limits are in respect both of hedging transactions as well as of the instruments financing these transactions. The maximum time horizon within which the Company decides to limit market risk is set in accordance with the technical and economic planning process and amounts to 5 years, whereas in terms of interest rate risk, the time horizon reaches up to the maturity date of the long-term financial liabilities of the Company.

With respect to the risk of changes in interest rates, the Company has set a limit of commitment in derivatives of up to 100% of the debt's nominal value in every interest period, as stipulated in the signed agreements.

Note 7.5.1.2. Commodity risk

The Company is exposed to the risk of changes in the prices of the metals it sells: copper, silver, gold and lead. The price formulas used in physical delivery contracts are mainly based on average monthly quotations from the London Metal Exchange for copper and lead and from the London Bullion Market Association for silver and gold. The Company's commercial policy is to set the price base for physical delivery contracts as the average price of the appropriate future month.

The permanent and direct link between sales proceeds and metals prices, without similar relationships on the expenditures side, results in a strategic exposure. In turn, operating exposure is a result of possible mismatches in the pricing of physical contracts with respect to the Company's benchmark profile, in particular in terms of the reference prices and the quotation periods.

On the metals market, the Company has a so-called long position, which means it has higher sales than purchases. The analysis of the Company's exposure to market risk should be performed by deducting from the volume of metals sold the amount of metal in purchased materials.

The Company's strategic exposure to the risk of changes in the price of copper and silver in years 2017-2018 is presented in the table below:

	2018			2017		
	Net	Sales	Purchases	Net	Sales	Purchases
Copper [t]	**390 691**	514 403	123 712	**359 434**	506 287	146 853
Silver [t]	**1 198**	1 227	29	**1 151**	1 185	34

The notional amount of copper price hedging strategies settled in 2018 represented approx. 19% (in 2017: 23%) of the total sales of this metal realised by the Company (it represented approx. 25% of net sales in 2018 and 32% in 2017). In 2018 revenues from silver sales were not hedged by derivatives.

With respect to strategic management of market risk in 2018, the Company implemented copper price hedging transactions with a total notional amount of 126 thousand tonnes and a maturity period from July 2018 to December 2020 (of which: 114 thousand tonnes were in respect of hedging revenues from sales of copper in years 2019-2020). Collar and seagull options structures were implemented (Asian options). In 2018 the Company did not implement derivatives transactions on the silver market.

In addition, in 2018 the Company began the management of a net trading position in order to react to changes in contractual agreements with customers, non-standard pricing terms in metals sales and purchases of copper-bearing materials. In the fourth quarter of 2018 QP adjustment swap transactions were entered into on the copper and gold markets with maturity to June 2019.

As a result, as at 31 December 2018 the Company held open derivatives transactions on the copper market for 168 thousand tonnes (of which: 156 thousand tonnes came from strategic management of market risk, while 12 thousand tonnes came from the management of a net trading position).

The condensed table of open derivatives transactions held by the Company on the copper market as at 31 December 2018, entered into as part of the strategic management of market risk, is presented below (the hedged notional in the presented periods is allocated evenly on a monthly basis).

			Option strike price			Average weighted premium	Effective hedge price	Hedge limited to	Participation limited to
	Instrument	Notional	Sold put option	Purchased put option	Sold call option				
		[tonnes]	[USD/t]	[USD/t]	[USD/t]	[USD/t]	[USD/t]	[USD/t]	[USD/t]
1st half of 2019	Seagull	21 000	4 700	6 200	8 000	-226	5 974	4 700	8 000
	Seagull	12 000	5 000	6 900	9 000	-250	6 650	5 000	9 000
	Collar	6 000		6 800	8 400	-250	6 550		8 400
	Collar	12 000		6 700	8 300	-228	6 472		8 300
2nd half of 2019	Seagull	21 000	4 700	6 200	8 000	-226	5 974	4 700	8 000
	Seagull	12 000	5 000	6 900	9 000	-250	6 650	5 000	9 000
	Collar	6 000		6 800	8 400	-250	6 550		8 400
	Collar	12 000		6 700	8 300	-228	6 472		8 300
	TOTAL 2019	**102 000**							
	Seagull	24 000	5 000	6 900	9 000	-250	6 650	5 000	9 000
	Seagull	4 920	5 000	6 900	8 800	-250	6 650	5 000	8 800
	Seagull	25 080	5 000	6 800	8 700	-220	6 580	5 000	8 700
	TOTAL 2020	**54 000**							

The sensitivity analysis of the Company for risk of changes in copper prices as at 31 December 2018 is presented in the table below:

Financial assets and liabilities	Value at risk [PLN million]	Carrying amount 31.12.2018 [PLN million]	Copper price change [USD/t] 7 352 (+24%)		Copper price change [USD/t] 4 573 (-23%)	
			Profit or loss	Other comprehensive income	Profit or loss	Other comprehensive income
Derivatives - copper	451	451	35	(456)	(148)	668

The sensitivity analysis of the Company for risk of changes in copper prices as at 31 December 2017 is presented in the table below:

Financial assets and liabilities	Value at risk [PLN million]	Carrying amount 31.12.2017 [PLN million]	Copper price change [USD/t] 9 064 (+26%)		Copper price change [USD/t] 5 380 (-25%)	
			Profit or loss	Other comprehensive income	Profit or loss	Other comprehensive income
Derivatives - copper	(96)	(96)	29	(523)	131	190

In order to determine the potential movements in metals prices for purposes of sensitivity analysis of commodity risk factors (copper), the mean reverting Schwarz model (the geometrical Ornstein-Uhlenbeck process) was used.

Note 7.5.1.3 Risk of changes in foreign exchange rates

Regarding the risk of changes in foreign exchange rates, the following types of exposures were identified:

- transaction exposure related to the volatility of cash flows in the base currency; and
- exposure related to the volatility of selected items of the statement of financial position in the base (functional) currency.

The transaction exposure to currency risk derives from cash flow-generating contracts, whose values expressed in the base (functional) currency depend on future levels of exchange rates of the foreign currencies with respect to the base currency (for KGHM Polska Miedź S.A. it is the Polish zloty). Cash flows exposed to currency risk may possess the following characteristics:

- denomination in the foreign currency – cash flows are settled in foreign currencies other than the functional currency; and
- indexation in the foreign currency – cash flows may be settled in the base currency, but the price (i.e. of a metal) is set in a different foreign currency.

The key source of transaction exposure to currency risk in the Company's business operations are the proceeds from sales of products (with respect to metals prices, processing and producer margins).

The Company's exposure to currency risk derives also from items in the statement of financial position denominated in foreign currencies, which under the existing accounting regulations must be, upon settlement or periodic valuation, translated by applying the current exchange rate of the foreign currencies versus the base (functional) currency. Changes in the carrying amounts of such items between valuation dates result in the volatility of profit or loss for the period or of other comprehensive income.

Items in the statement of financial position which are exposed to currency risk include in particular:

- trade receivables and trade payables related to purchases and sales denominated in foreign currencies;
- financial receivables due to loans granted in foreign currencies;
- financial liabilities due to borrowings in foreign currencies;
- cash and cash equivalents in foreign currencies; and
- derivatives on metals market.

As for the currency market, the notional amount of settled transactions hedging revenues from metals sales amounted to approx. 32% (in 2017: 26%) of the total revenues from sales of copper and silver realised by the Company in 2018.

In 2018 the Company implemented transactions hedging against a change in the USD/PLN exchange rate with a notional amount of USD 1 710 million and maturity falling from April 2018 to December 2020 (of which: transactions hedging revenues in the amount of USD 1 080 million were in respect of the period from January 2019 to December 2020). On the currency market put options (European options) were purchased and collar options structures (European options) were entered into.

As at 31 December 2018, the Company held an open hedging position in derivatives for USD 1 260 million of planned revenues from sales of metals.

The condensed table of open transactions in derivatives on the currency market as at 31 December 2018 is presented below (the hedged notional in the presented periods is allocated evenly on a monthly basis).

	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				
		[USD million]	[USD/PLN]	[USD/PLN]	[USD/PLN]	[PLN for USD 1]	[USD/PLN]	[USD/PLN]	[USD/PLN]
1st half	Seagull	180	3.24	3.80	4.84	0.02	3.82	3.24	4.84
1st half	Collar	180		3.50	4.25	-0.06	3.44		4.25
2nd half	Collar	360		3.50	4.25	-0.05	3.45		4.25
TOTAL 2019		**720**							
1st half	Collar	360		3.50	4.25	-0.06	3.44		4.25
2nd half	Collar	180		3.50	4.25	-0.04	3.46		4.25
TOTAL 2020		**540**							

As for managing currency risk which may arise from bank loans, the Company applies natural hedging by borrowing in the currency in which it has revenues. As at 31 December 2018, following their translation to PLN, the bank loans and the investment loans which were drawn in USD amounted to PLN 7 655 million (as at 31 December 2017: PLN 6 935 million).

The currency structure of financial instruments exposed to currency risk (changes in the USD/PLN, EUR/PLN and GBP/PLN exchange rates) is presented in the table below. An analysis for the remaining currencies is not presented due to its immateriality.

Financial instruments	Value at risk as at 31 December 2018				Value at risk as at 31 December 2017			
	total PLN million	USD million	EUR million	GBP million	**total PLN million**	USD million	EUR million	GBP million
Trade receivables	**209**	31	20	1	**798**	198	18	7
Cash and cash equivalents	**588**	123	14	14	**193**	36	13	3
Loans granted	**6 241**	1 660	-	-	**4 941**	1 419	-	-
Cash pooling receivables	**247**	62	3	-	**124**	36	-	-
Other financial assets	**188**	49	-	1	**125**	33	-	2
Derivatives*	**538**	126	-	-	**146**	(24)	-	-
Trade payables	**(406)**	(70)	(33)	-	**(409)**	(86)	(26)	-
Borrowings	**(7 793)**	(2 036)	(32)	-	**(7 008)**	(1 992)	(17)	-
Other financial liabilities	**(28)**	(4)	(3)	-	**(14)**	-	(3)	-

**Transactions on the commodities and interest rate markets which are denominated in USD and translated to PLN at the exchange rate as at the end of the reporting period are presented in the item "derivatives", in the column "USD million", while the column "total PLN million" also includes the fair value of derivatives on the currency market which are denominated solely in PLN.*

The sensitivity analysis of the Company for currency risk as at 31 December 2018 is presented in the table below:

Financial assets and liabilities	Value at risk	Carrying amount 31.12.2018	Movements in USD/PLN exchange rate				Movements in EUR/PLN exchange rate		Movements in GBP/PLN exchang rate	
			4.27 (+13%)		3.24 (-14%)		4.68 (+9%)	3.99 (-7%)	5.47 (+14%)	4.23 (-12%)
	[PLN million]	[PLN million]	profit or loss	other comprehensive income	profit or loss	other comprehensive income	profit or loss	profit or loss	profit or loss	profit or loss
Trade receivables	209	310	13	-	(13)	-	6	(5)	-	-
Cash and cash equivalents	588	627	50	-	(52)	-	4	(4)	8	(6)
Loans granted	6 241	6 279	680	-	(705)	-	-	-	-	-
Cash pooling receivables	247	247	25	-	(26)	-	1	(1)	-	-
Other financial assets	188	601	20	-	(21)	-	-	-	-	-
Derivatives	538	538	(3)	(156)	(10)	327	-	-	-	-
Trade payables	(406)	(2 082)	(29)	-	30	-	(10)	8	-	-
Borrowings	(7 793)	(7 793)	(834)	-	864	-	(10)	8	-	-
Other financial liabilities	(28)	(170)	(2)	-	2	-	(1)	1	-	-
		Impact on profit or loss	**(80)**		**69**		**(10)**	**7**	**8**	**(6)**
		Impact on other comprehensive income		**(156)**		**327**				

The sensitivity analysis of the Company to currency risk as at 31 December 2017 is presented in the table below:

Financial assets and liabilities	Value at risk	Carrying amount 31.12.2017	Movements in USD/PLN exchange rate				Movements in EUR/PLN exchange rate		Movements in GBP/PLN exchange rate	
			4.00 (+15%)		2.99 (-14%)		4.58 (+10%)	3.87 (-7%)	5.39 (+15%)	4.15 (-12%)
	[PLN million]	[PLN million]	profit or loss	other comprehensive income	profit or loss	other comprehensive income	profit or loss	profit or loss	profit or loss	profit or loss
Trade receivables	798	1 034	83	-	(79)	-	6	(4)	4	(3)
Cash and cash equivalents	193	234	15	-	(14)	-	4	(3)	2	(1)
Loans granted	4 941	4 981	593	-	(562)	-	-	-	-	-
Cash pooling receivables	124	124	15	-	(14)	-	-	-	-	-
Other financial assets	125	492	14	-	(13)	-	-	-	1	(1)
Derivatives	146	146	26	(238)	(1)	181	-	-	-	-
Trade payables	(409)	(1 882)	(36)	-	34	-	(9)	6	-	-
Borrowings	(7 008)	(7 008)	(833)	-	789	-	(6)	4	-	-
Other financial liabilities	(14)	(299)	-	-	-	-	(1)	1	-	-
		Impact on profit or loss	**(123)**		**140**		**(6)**	**4**	**7**	**(5)**
		Impact on other comprehensive income		**(238)**		**181**				

In order to determine the potential movements in the USD/PLN, EUR/PLN and GBP/PLN exchange rates for sensitivity analysis purposes, the Black-Scholes model (the geometrical Brownian motion) was used.

Note 7.5.1.4 Interest rate risk

In 2018 the Company was exposed to the risk of changes in interest rates due to loans granted, investing free cash, participating in a cash-pooling service and borrowing.

Positions with variable interest rates expose the Company to the risk of changes in cash flow from a given position as a result of changes in interest rates (i.e. it has an impact on the interest costs or income recognised in the profit or loss). Positions with fixed interest rates expose the Company to the risk of fair value changes of a given position, excluding items measured at amortised cost, for which the change in fair value does not affect their measurement and profit or loss.

The main items which are exposed to interest rate risk are presented below:

		As at 31 December 2018			As at 31 December 2017		
		Cash flow risk	Fair value risk	Total	Cash flow risk	Fair value risk	Total
	Cash and cash equivalents	955	-	**955***	547	-	**547***
Note 6.2	Loans granted	20	1 724	**1 744**	29	4 952	**4 981**
Note 7.1	Borrowings	(5 011)**	(2 782)	**(7 793)**	(5 228)**	(1 940)	**(7 168)**
	Cash pooling receivables	247***		**247**	124***		**124**

* *Presented amounts include cash accumulated in special purpose funds: Mine Closure Fund, Tailings Storage Facility Restoration Fund and Social Fund*

** *Presented amounts include the preparation fee paid which decreases financial liabilities due to bank loans*

*** *Presented in the net amount (receivables due to participation in cash pooling services less liabilities)*

In 2018, the Company did not implement any new derivative transactions hedging against an increase of the interest rate (LIBOR USD). However, in the first half of 2018 the Company drew a bank loan in the amount of USD 150 million, based on a fixed interest rate and the first instalment, in the amount of USD 65 million, of the loan granted in December 2017 by the European Investment Bank, also based on a fixed interest rate, and therefore hedging itself against the interest rate risk (natural hedging).

A condensed table of open transactions in derivatives on the interest rate market as at 31 December 2018 is presented below (maturity dates of options fall at the end of subsequent quarters):

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

The table below presents the sensitivity analysis of the Company to interest rate risk with respect to positions with variable interest rates.

	2018		2017	
	+1.25%	-0.5%	2.0%	-0.5%
Cash and cash equivalents	12	(5)	11	(3)
Borrowings	(63)	25	(105)	26
Derivatives – interest rate	95	(19)	150	(8)
Cash pooling	3	(1)	2	(1)
Total impact on profit/loss	**47**	**0**	**58**	**14**

Note 7.5.1.5 Impact of hedge accounting on the financial statements

The following table contains information on changes in the fair value of derivatives and of loans designated as hedging instruments under hedge accounting, as well as corresponding changes in the fair value of hedged positions during the reporting period, being the basis for recognising the effective and ineffective portions of changes in the fair value of hedging instruments as at 31 December 2018.

relation type *risk type* *instrument type – hedged item*	Balance of other comprehensive income due to cash flow hedging for relations: remaining in hedge accounting	for which hedge accounting was ceased	Change in the value of hedged item in the period	Change in the value of hedging instrument in the period
Cash flow hedging				
Commodity risk (copper)				
Options – Sales revenue	322	-	(411)	411
Currency risk (USD)				
Options – Sales revenue	13	-	53	(53)
Loans – Sales revenue	-	(129)	-	-
Total	**335**	**(129)**	**(358)**	**358**

The table below presents information on the impact of hedge accounting on profit or loss and other comprehensive income.

relation type *risk type* *instrument type*	Profit or (loss) due to hedging for the reporting period recognised in other comprehensive income	Amount reclassified from other comprehensive income to profit or loss as a reclassification adjustment, due to realisation of a hedged item in the period	Item of the statement of profit or loss with a reclassification adjustment
Cash flow hedging			
Commodity risk (copper)			
Options	488	(78)	- revenues from contracts with customers - other operating income and (costs)
Currency risk (USD)			
Options	(170)	63	- revenues from contracts with customers - other operating income and (costs)
Loans	-	(16)	- revenues from contracts with customers
Total	**318**	**(31)**	

The following table contains information on changes in other comprehensive income in the period in connection with the application of hedge accounting.

Cash flow hedging	Other comprehensive income due to cash flow hedging broken down into:		
	Effective value Effective portions of changes in the fair value of hedging instruments due to hedged risk - intrinsic value of option	**Cost of hedging** time value of option	**Total**
Other comprehensive income – transactions hedging against commodity and currency risk – as at 1 January 2018	**81**	**(224)**	**(143)**
Impact of measurement of hedging transactions (effective part)	322	(4)	318
Reclassification to profit or loss due to realisation of hedged item	(125)	156	31
Reclassification to profit or loss due to lack of expectations of occurrence of hedged future cash flow	-	-	-
Other comprehensive income – transactions hedging against commodity and currency risk – as at 31 December 2018	**278**	**(72)**	**206**

Note 7.5.2 Credit risk

Credit risk is defined as the risk that the Company's counterparties will not be able to meet their contractual liabilities and involves three main areas:

- the creditworthiness of the customers with whom physical sale transactions are undertaken;
- the creditworthiness of the financial institutions (banks/brokers) with whom, or through whom, hedging transactions are undertaken, as well as those in which free cash and cash equivalents are deposited; and
- the financial standing of subsidiaries - borrowers.

In particular, the Company is exposed to credit risk due to:

- cash and cash equivalents and deposits;
- derivatives;
- trade receivables;
- loans granted (Note 6.2);
- guarantees granted (Note 8.6); and
- other financial assets.

Accounting policies

The Company recognises impairment loss on expected credit losses on financial assets measured at amortised cost and on assets measured at fair value through other comprehensive income arising from debt instruments. Expected credit losses are credit losses weighed by the default probability. The Company applies the following models for designating impairment losses:
- the simplified model– for trade receivables,
- the general (basic) model – for other financial assets (other than trade receivables).

Under the general model the Company monitors changes in the level of credit risk related to a given financial asset and classifies financial assets to one of three stages of determining impairment losses – based on observations of changes in the level of credit risk compared to an instrument's initial recognition. In particular, the following are monitored: the credit rating and the financial condition of the customer and the payment delay period. Depending on which stage it is classified to, an impairment loss is estimated for a 12-month period (stage 1) or in the horizon of lifetime (stage 2 and stage 3). The absolute indicator of default is an overdue period of more than 90 days.

Under the simplified model the Company estimates the expected credit loss over the time horizon of maturity of the instrument based on historical data respecting the repayments of receivables.

Note 7.5.2.1 Credit risk related to cash, cash equivalents and bank deposits

The Company periodically allocates free cash in accordance with the requirements to maintain financial liquidity and limit risk and in order to protect capital and maximise interest income.

As at 31 December 2018, the total amount of free and restricted cash and cash equivalents of PLN 627 million was held in bank accounts and in short-term deposits. The detailed structure of cash and cash equivalents is presented in note 8.5.

All entities with which deposit transactions are entered into by the Company operate in the financial sector. These are solely banks registered in Poland or operating in Poland as branches of foreign banks, which belong to European and American financial institutions with the highest, medium-high and medium ratings, an appropriate level of equity and a strong, stable market position. Credit risk in this regard is continuously monitored through the on-going review of the financial standing and by maintaining an appropriately low level of concentration of resources in individual financial institutions.

The following table presents the level of concentration of cash and deposits, with the assessed creditworthiness of the financial institutions*:

Rating level		As at 31 December 2018	As at 31 December 2017
Medium-high	from A+ to A- according to S&P and Fitch, and from A1 to A3 according to Moody's	92%	94%
Medium	from BBB+ to BBB- according to S&P and Fitch, and from Baa1 to Baa3 according to Moody's	8%	6%

**Weighed by amount of deposits.*

Note 7.5.2.2 Credit risk related to derivatives transactions

All entities with which derivative transactions are entered into by the Company operate in the financial sector.

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

Rating level		As at 31 December 2018	As at 31 December 2017
Medium-high	from A+ to A- according to S&P and Fitch, and from A1 to A3 according to Moody's	99%	100%
Medium	from BBB+ to BBB- according to S&P and Fitch, and from Baa1 to Baa3 according to Moody's	1%	-

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

Taking into consideration the fair value of open derivatives transactions entered into by the Company and the fair value of unsettled derivatives, as at 31 December 2018 the maximum single entity share of the amount exposed to credit risk arising from these transactions amounted to 22%, or PLN 121 million (as at 31 December 2017: 47%, or PLN 124 million).

In order to reduce cash flows and at the same time to limit credit risk, the Company carries out net settlements (based on framework agreements entered into with its customers) to the level of the positive balance of fair value measurement of transactions in derivatives with a given counterparty. Moreover, the resulting credit risk is continuously monitored by the review of the credit ratings and is limited by striving to diversify the portfolio while implementing hedging strategies. Despite the concentration of credit risk associated with derivatives' transactions, the Company has determined that, due to its cooperation only with renowned financial institutions, as well as continuous monitoring of their ratings, it is not materially exposed to credit risk as a result of transactions concluded with them.

The fair value of open derivatives of the Company and receivables due to unsettled derivatives are presented by the main counterparties in the table below.

	As at 31 December 2018			As at 31 December 2017		
	Financial receivables	Financial liabilities	**Net**	Financial receivables	Financial liabilities	**Net**
Counterparty 1	141	(19)	**122**	77	(27)	**50**
Counterparty 2	108	(12)	**96**	3	(25)	**(22)**
Counterparty 3	97	(11)	**86**	6	(27)	**(21)**
Counterparty 4	80	(10)	**70**	3	(24)	**(21)**
Other	201	(29)	**172**	215	(55)	**160**
Total fair value	**627**	**(81)**	**546**	**304**	**(158)**	**146**
open derivatives	619	(81)	**538**	303	(158)	**145**
unsettled derivatives	8		**8**	1	-	**1**

Note 7.5.2.3 Credit risk related to trade receivables

For many years, the Company has been cooperating with a large number of customers, which affects the geographical diversification of trade receivables. The majority of sales go to EU countries.

Trade receivables (net)	As at 31 December 2018	As at 31 December 2017
Poland	56%	12%
European Union (excluding Poland)	18%	28%
Asia	22%	56%
Other countries	4%	4%

Accounting policies

The Company applies the simplified model of calculating the allowance for impairment of trade receivables (regardless of their maturity). The expected credit loss on trade receivables is calculated at the moment of recognition of a receivable in the statement of financial position and is updated at every subsequent reporting period ending date, depending on the number of days a given receivable is overdue. For the purpose of estimating the expected credit loss on trade receivables, the Company applies a provision matrix, estimated based on historical levels of a customer's payments of receivables. The Company defines default as being a failure by a customer to meet its liabilities after a period of 90 days from the due date. The Company takes into account forward-looking information in the applied parameters of the model for estimating expected losses, by adjusting the base coefficients of insolvency probability.

The following table presents a change in trade receivables measured at amortised cost.

		Gross amount
	Gross amount as at 1 January 2018	393
	Change in the balance of receivables	(212)
Note 10.2	**Gross amount as at 31 December 2018**	181

The following table presents a change in the estimation of expected credit losses on trade receivables measured at amortised cost.

		Amount of allowance
	Loss allowance for expected credit losses as at 1 January 2018	2
	Change in allowance in the period recognised in profit or loss	8
Note 10.2	**Loss allowance for expected credit losses as at 31 December 2018**	10

The Company limits its exposure to credit risk related to trade receivables by evaluating and monitoring the financial condition of its customers, setting credit limits and requiring collateral. An inseparable element of the credit risk management process performed by the Company is the continuous monitoring of receivables and the internal reporting system.

Buyer's credit is only provided to proven, long-term customers, while sales of products to new customers are mostly based on prepayments or trade financing instruments which wholly transfer the credit risk to financial institutions.

The Company makes use of the following forms of collateral:

- registered pledges, bank guarantees, promissory notes, notarial enforcement declarations, corporate guarantees, cessation of receivables, mortgages and documentary collection;
- ownership rights to merchandise to be transferred to the buyer only after payment is received;
- a receivables insurance contract, which covers receivables from entities with buyer's credit which have not provided strong collateral or have provided collateral which does not cover the total amount of the receivables.

Taking into account the aforementioned forms of collateral and the credit limits received from the insurance company, as at 31 December 2018 the Company had secured 75% of its trade receivables (as at 31 December 2017: 95%).

The total value of the Company's net trade receivables as at 31 December 2018, without the fair value of collaterals, to the value of which the Company may be exposed to credit risk, amounts to PLN 310 million (as at 31 December 2017: PLN 1 034 million).

The concentration of credit risk in the Company is related to the terms of payment allowed to key clients. Consequently, as at 31 December 2018 the balance of receivables from the Company's 7 largest clients, in terms of trade receivables at the end of the reporting period, represented 50% of the balance of trade receivables (as at 31 December 2017: 84%).

Despite the concentration of this type of risk, the Company believes that due to the available historical data and the many years of experience in cooperating with its clients, as well as to securities used, the level of credit risk is low.

Note 7.5.2.4 Credit risk related to other financial assets

Major items in other financial assets are:

- cash accumulated in the special purpose funds: Mine Closure Fund and Tailings Storage Facility Restoration Fund in the amount of PLN 314 million (credit risk is described in Note 7.5.2.1);
- net receivables due to cash pooling in the amount of PLN 247 million. Credit risk in this regard is continuously monitored through the on-going review of the financial standing and assets of the companies participating in the cash pooling.

Note 7.5.2.5 Credit risk related to loans granted

Loans granted measured at amortised cost

The Company estimates expected credit losses related to loans granted measured at amortised cost in accordance with the general approach.

The following table presents the change in the period in the gross value of loans granted measured at amortised cost.

	Gross value	Stage 1	Stage 2	POCI
Gross value as at 1 January 2018	**4 717**	**1 978**	**2 658**	**81**
increase in the amount of loan (acquisition)	1 003	5	-	998
repayment (disposal)	(1 536)	(1 533)	-	(3)
exchange differences	332	34	212	86
interest accrued using the effective interest rate	226	28	123	75
other changes	85	-	-	85
Gross value as at 31 December 2018	**4 827**	**512**	**2 993**	**1 322**

The following table presents the change in the period in the value of allowance for impairment of loans granted measured at amortised cost.

	Allowance for impairment	Stage 1	Stage 2	POCI
Loss allowance for expected credit losses as at 1 January 2018	**1 197**	**787**	**410**	**-**
repayment (disposal)	(778)	(778)	-	-
changes in risk parameters	(179)	(5)	(174)	-
exchange differences	32	-	32	-
Loss allowance for expected credit losses as at 31 December 2018	**272**	**4**	**268**	**-**

	Carrying amount	Stage 1	Stage 2	POCI
Carrying amount as at 1 January 2018	**3 520**	**1 191**	**2 248**	**81**
Carrying amount as at 31 December 2018	**4 555**	**508**	**2 725**	**1 322**

The basis for accruing interest on loans measured at amortised cost is the gross value less any allowance for impairment.

In 2018 no loans were classified to Stage 3 of the measurement.

Loans, due to impairment recognised at the moment of initial recognition, were classified as POCI for the purpose of calculating expected credit losses.

The loss due to initial recognition of POCI-type loans granted recognised in the statement of profit or loss for 2018 amounted to PLN 763 million. However, as a result of impairment testing, there was a recognition of gains due to the reversal of allowances for impairment due to initial recognition of POCI loans for 2018 in the amount of PLN 85 million.

Loans granted measured at fair value

The carrying amount of loans measured at fair value as at 31 December 2018 amounted to PLN 1 724 million. As at 1 January 2018, the carrying amount was PLN 1 255 million.

The following table presents changes in the carrying amount of loans granted measured at fair value during the period.

	Carrying amount
Carrying amount as at 1 January 2018	**1 255**
Loan granted	677
Fair value gains	184
Foreign exchange gains on the measurement	93
Repayment of the loan	(238)
Fair value losses	(247)
Carrying amount as at 31 December 2018	**1 724**

PART 8 – Borrowings and the management of liquidity and capital

Note 8.1 Capital management policy

Capital management in the Company is aimed at securing funds for business development and maintaining the appropriate level of liquidity. To this end, the Management Board of the Company analyses ratios calculated on the basis of consolidated financial data.
In accordance with market practice, the Company monitors the Group's capital, among others using ratios presented in the table below, which were calculated on the basis of data presented in the Consolidated Financial Statements of the KGHM Group for 2018:

Ratios:	Calculations:	2018	2017
Net Debt/EBITDA	relation of net debt to EBITDA	**1.6**	**1.3**
Net Debt	Borrowings, debt securities and finance lease liabilities less free cash and short term investments with a maturity of up to 1 year	7 000	6 577
EBITDA*	profit on sales plus depreciation/amortisation recognised in profit or loss and impairment losses on non-current assets	4 339	5 144
Equity ratio	relation of equity less intangible assets to total assets	**0.5**	**0.5**
Equity	assets of the Group after deducting all of its liabilities	19 225	17 785
Intangible assets	identifiable non-cash items of assets without a physical form	1 881	1 656
Equity less intangible assets		17 344	16 129
Total assets	sum of non-current and current assets	37 237	34 122

** Adjusted EBITDA for the period of 12 months ended on the last day of the reporting period and does not include the EBITDA of the joint venture Sierra Gorda S.C.M.*

In the management of liquidity and capital, the Group also pays attention to adjusted operating profit, which is the basis for calculating the financial covenants and which is comprised of the following items:

	2018	2017
Profit on sales	2 591	3 811
Interest income on loans granted to joint ventures	257	319
Other operating income and costs	308	(2 377)
Adjusted operating profit*	**3 156**	**1 753**

**Presented amount does not include allowances for impairment of loans granted to joint ventures.*

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

Note 8.2 Equity

Accounting policies
Share capital is recognised at nominal value. Other reserves from the measurement of financial instruments arise from the measurement of cash flow hedging instruments (Note 7.2, accounting policies) and the measurement of financial assets measured at fair value through other comprehensive income (Note 7.3, accounting policies) less any deferred tax effect. Accumulated other comprehensive income consists of actuarial gains/losses on post-employment benefits less any deferred tax effect (Part 11, accounting policies). Retained earnings are the sum of profit for the current year and accumulated profits from previous years, which has not been paid out as dividends, but increased the reserve capital or was not distributed.

Note 8.2.1 Share capital

As at 31 December 2018 and at the date of signing of these financial statements, the Company's share capital, in accordance with the entry in the National Court Register, amounted to PLN 2 000 million and was divided into 200 000 000 shares, series A, fully paid, each having a face value of PLN 10. All of the shares are bearer shares. The Company has not issued preference shares. Each share grants the right to one vote at the general meeting. The Company does not have treasury shares.

In the years ended 31 December 2018 and 31 December 2017 there were no changes in either registered share capital or in the number of issued shares.
In 2018, Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK and Otwarty Fundusz Emerytalny PZU „Złota Jesień" exceeded the 5% threshold in the total number of votes at the General Meeting of the Company.
In 2017 there were no changes in the ownership of significant blocks of shares of KGHM Polska Miedź S.A.

As far as the Company is aware, as at 31 December 2018, the Company's shareholder structure was as follows:

shareholder	number of shares/votes	total nominal value of shares (PLN)	percentage held in share capital/total number of votes
State Treasury	63 589 900	635 899 000	31.79%
Nationale-Nederlanden Otwarty Fundusz Emerytalny	10 104 354	101 043 540	5.05%
Otwarty Fundusz Emerytalny PZU „Złota Jesień"	10 099 003	100 990 030	5.05%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	10 039 684	100 396 840	5.02%
Other shareholders	106 167 059	1 061 670 590	53.09%
Total	200 000 000	2 000 000 000	100.00%

On 18 February 2019, the Company was notified that the share of Otwarty Fundusz Emerytalny PZU "Złota Jesień'" decreased below the 5% in the total number of votes at the General Meeting of KGHM Polska Miedź S.A. The Company's shareholder structure as at the date of signing of these financial statements was as follows:

shareholder	number of shares/votes	total nominal value of shares (PLN)	percentage held in share capital/total number of votes
State Treasury	63 589 900	635 899 000	31.79%
Nationale-Nederlanden Otwarty Fundusz Emerytalny	10 104 354	101 043 540	5.05%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	10 039 684	100 396 840	5.02%
Other shareholders	116 266 062	1 162 660 620	58.14%
Total	200 000 000	2 000 000 000	100.00%

Note 8.2.2 Changes of other equity items in the period

	Other reserves from measurement of financial instruments				Retained earnings		
	Other reserves from measurement of available-for-sale financial assets	Other reserves from measurement of cash flow hedging financial instruments	Total other reserves from measurement of financial instruments	Accumulated other comprehensive income	Reserve capital created in accordance with the Commercial Partnerships and Companies Code, art. 396	Reserve capital created from profit in accordance with the Company's Statutes	Profit/(loss) from previous years
As at 1 January 2017	**48**	**(244)**	**(196)**	**(243)**	**660**	**17 764**	**(4 085)**
Dividends paid	-	-	-	-	-	(200)	-
Covering the loss by reserve capital	-	-	-	-	-	(4 085)	4 085
Total comprehensive income, of which:	**30**	**308**	**338**	**(105)**	**-**	**-**	**1 323**
Profit for the year	-	-	-	-	-	-	1 323
Other comprehensive income	30	308	338	(105)	-	-	-
Gains on measurement of available-for-sale financial assets after prior impairments	37	-	37	-	-	-	-
Impact of effective cash flow hedging transactions entered into	-	397	397	-	-	-	-
Amount transferred to profit or loss – adjustment due to the reclassification of hedging instruments	-	(16)	(16)	-	-	-	-
Actuarial losses on post-employment benefits	-	-	-	(130)	-	-	-
Deferred income tax	(7)	(73)	(80)	25	-	-	-
As at 31 December 2017	**78**	**64**	**142**	**(348)**	**660**	**13 479**	**1 323**

	Other reserves from measurement of financial instruments				Retained earnings		
	Investments in equity instruments measured at fair value through other comprehensive income	Other reserves from measurement of cash flow hedging financial instruments	Total other reserves from measurement of financial instruments	Accumulated other comprehensive income	Reserve capital created in accordance with the Commercial Partnerships and Companies Code, art. 396	Reserve capital created from profit in accordance with the Company's Statutes	Profit/(loss) from previous years
As at 31 December 2017	78	64	142	(348)	660	13 479	1 323
Changes in accounting principles – application of IFRS 9	(424)	(180)	(604)	-	-	-	458
As at 1 January 2018	(346)	(116)	(462)	(348)	660	13 479	1 781
Transfer of profit for the period to reserve capital	-	-	-	-	-	1 324	(1 324)
Total comprehensive income, of which:	**(128)**	**283**	**155**	**(245)**	**-**	**-**	**2 025**
Profit for the year	-	-	-	-	-	-	2 025
Other comprehensive income	(128)	283	155	(245)	-	-	-
Change in fair value of investments in equity instruments	(158)	-	(158)	-	-	-	-
Impact of effective cash flow hedging transactions entered into	-	318	318	-	-	-	-
Amount transferred to profit or loss	-	31	31	-	-	-	-
Actuarial losses on post-employment benefits	-	-	-	(303)	-	-	-
Deferred income tax	30	(66)	(36)	58	-	-	-
As at 31 December 2018	**(474)**	**167**	**(307)**	**(593)**	**660**	**14 803**	**2 482**

Based on the Act of 15 September 2000 the Commercial Partnerships and Companies Code, the Company is required to create reserve capital for any potential (future) or existing losses, to which no less than 8% of a given financial year's profit is transferred until the reserve capital has been built up to no less than one-third of the registered share capital. The reserve capital created in this manner may not be employed otherwise than in covering the loss reported in the financial statements.

As at 31 December 2018 the statutory reserve capital in the Company amounts to PLN 660 million, and is recognised in retained earnings in the item reserve capital created in accordance with art. 396 of the Commercial Partnerships and Companies Code.

Information related to dividends paid may be found in Note 12.2.

Note 8.3 Liquidity management policy

The Management Board is responsible for financial liquidity management in the Company and compliance with adopted policy.

The Financial Liquidity Committee is a body supporting the Management Board.

The management of financial liquidity is performed in accordance with the Financial Liquidity Management Policy (*Policy*) approved by the Management Board. This document describes in a comprehensive way the process of managing the Company's financial liquidity, indicating best practice procedures and instruments. The basic principles resulting from this document are:

- assuring the stable and effective financing of the Company's activities,
- investment of financial surpluses in safe financial instruments,
- limits for individual financial investment categories,
- limits for the concentration of funds in financial institutions,
- a required investment level rating for banks in which the funds are deposited, and
- effective management of working capital.

Under the liquidity management process, the Company utilises instruments which enhance its effectiveness. One of the instruments used by the Company is cash pooling - local in PLN, USD and EUR and international - in USD. The Cash Pooling service is aimed at optimising the management of cash resources, limiting interest costs, the effective financing of current working capital needs and the support of short-term financial liquidity in the Group.

In the fourth quarter of 2018, the Management Board of the Company carried out a review of the Strategy of KGHM Polska Miedź S.A., the goal of which was to ensure uniformity with the current market environment and with the needs of the KGHM Polska Miedź S.A. Group. As a result of the assumptions adopted with respect to ensuring long-term financial stability, actions are underway aimed at developing mechanisms supporting further growth in this regard:

- basing the financial structure of the KGHM Group on diversified and long term financing sources,
- restricting the need for net working capital in the KGHM Group, and
- effective management of market and credit risk in the KGHM Group.

Note 8.3.1 Contractual maturities for financial liabilities

Financial liabilities – as at 31 December 2018

Financial liabilities	Contractual maturities from the end of the reporting period			Total (without discounting)	Carrying amount
	up to 12 months	1-3 years	over 3 years		
Borrowings	1 096	4 689	2 354	**8 139**	**7 793**
Cash pooling liabilities	80	-	-	**80**	**80**
Trade payables	1 920	17	357	**2 294**	**2 082**
Derivatives – currency contracts	-	-	-	-	**24**
Derivatives – commodity contracts – metals	-	-	-	**-**	**57**
Other financial liabilities	69	7	18	**94**	**90**
Total financial liabilities by maturity	**3 165**	**4 713**	**2 729**	**10 607**	**10 126**

Financial liabilities – as at 31 December 2017

Financial liabilities	Contractual maturities from the end of the reporting period			Total (without discounting	Carrying amount
	up to 12 months	1-3 years	over 3 years		
Borrowings	970	1 212	5 137	**7 319**	**7 008**
Cash pooling liabilities	160	-	-	160	**160**
Trade payables	1 719	17	365	**2 101**	**1 882**
Derivatives – Currency contracts*	-	-	-	**-**	**24**
Derivatives – commodity contracts – metals*	4	-	-	**4**	**134**
Other financial liabilities	113	9	21	**143**	**139**
Total financial liabilities by maturity	**2 966**	**1 238**	**5 523**	**9 727**	**9 347**

**Financial liabilities arising from derivatives are calculated at their intrinsic values excluding the discount effect.*

Note 8.4 Borrowings

Accounting policies
Liabilities arising from borrowings are initially recognised at fair value less transaction costs and are measured at amortised cost at the reporting date. Accrued interest is recognised in finance costs, unless it is capitalised in the value of property, plant and equipment or intangible assets.

Note 8.4.1 Net debt

	As at 31 December 2018	As at 31 December 2017
Bank loans*	4 691	4 265
Loans	2 067	1 820
Other	-	-
Total non-current liabilities due to borrowings	**6 758**	**6 085**
Bank loans	885	802
Loans	150	121
Cash pooling liabilities	80	160
Total current liabilities due to borrowings	**1 115**	**1 083**
Total borrowings	**7 873**	**7 168**
Free cash and cash equivalents	625	231
Net debt	**7 248**	**6 937**

** Presented amounts include the preparation fee paid in the amount PLN 15 million which decreases financial liabilities due to bank loans (in 2017: PLN 21 million).*

Borrowings by currency (translated into PLN) and by type of interest rate

	As at 31 December 2018	As at 31 December 2017
USD/LIBOR	4 875	4 994
EUR/EURIBOR	137	73
PLN/WIBOR	80	160
USD/fixed	2 781	1 941
Total	7 873	7 168

As at 31 December 2018 liabilities due to borrowing amounted to PLN 7 873 million, or USD 2 036 million, EUR 32 million and PLN 80 million (as at 31 December 2017 liabilities due to borrowing amounted to PLN 7 168 million, or USD 1 998 million, EUR 17 million and PLN 160 million). The increase in the value of PLN-denominated debt is mainly the result of a higher USD/PLN exchange rate. The structure of debt changed, as there was an increase in non-current liabilities. In terms of current liabilities, the Company has constant and ongoing access to credit and overdraft facilities with maturities of up to 2 years under bilateral agreements in the amount of PLN 3 454 million signed with banks. As a result of the above, and due to the successive extension of the financing availability under these bilateral agreements for subsequent periods, the Company considers the liquidity risk connected to the short-term bank loans as low.

Note 8.4.2 Net debt changes

Liabilities due to borrowing	As at 31 December 2017	Cash flows	Accrued interest	Exchange differences	As at 31 December 2018
Bank loans	5 067	(157)	214	**452**	5 576
Loans	1 941	68	63	**145**	2 217
Cash pooling liabilities	160	(80)	-	**-**	80
Total debt	**7 168**	**(169)**	**277**	**597**	**7 873**
Free cash and cash equivalents	231	394			625
Net debt	**6 937**				**7 248**

Liabilities due to borrowing	As at 31 December 2016	Cash flows	Accrued interest	Exchange differences	Other changes	As at 31 December 2017
Bank loans	6 253	(349)	136	**(979)**	6	5 067
Loans	1 679	543	56	**(337)**	-	1 941
Cash pooling liabilities	-	158	2	**-**	-	160
Total debt	**7 932**	**352**	**194**	**(1 316)**	**6**	**7 168**
Free cash and cash equivalents	481	(250)				231
Net debt	**7 451**					**6 937**

Currency risk and interest rate risk are related to borrowings. A description of exposures to financial risks may be found in Note 7.5.

Note 8.4.3 Detailed information concerning the main sources of borrowings

As at 31 December 2018, the Company had open credit lines and an investment loan with a total balance of available financing in the amount of PLN 15 753 million, out of which PLN 7 807 million had been drawn (as at 31 December 2017 the Company had open credit lines and an investment loan with a total balance of available financing in the amount of PLN 14 811 million, out of which PLN 7 029 million had been drawn).
The structure of financing sources is presented below.

Unsecured, revolving syndicated credit facility

A credit facility in the amount of USD 2 500 million, obtained on the basis of a financing agreement concluded with a syndicate of banks in 2014 with a maturity of 9 July 2021. The funds acquired through this credit facility are used to finance general corporate purposes, including expenditures related to the continued advancement of investment projects. Interest on the credit facility is based on LIBOR plus a margin, depending on the net debt/EBITDA ratio. The credit facility agreement obliges the Company to comply with the financial covenant and non-financial covenants commonly stipulated in such type of agreements.

As at 31 December 2018	As at 31 December 2018	As at 31 December 2017
Amount granted	Amount used	Amount used
9 399	4 136*	3 483*

Investment loans

Loans granted by the European Investment Bank in the total amount of PLN 2 900 million.
1. Investment loan in the amount of PLN 2 000 million, with three instalments drawn and the payback periods expiring on 30 October 2026, 30 August 2028 and 23 May 2029 and utilised to the maximum available amount. The funds acquired through this loan were used to finance Company investment projects related to modernisation of metallurgy and development of the Żelazny Most tailings storage facility.
2. Investment loan in the amount of PLN 900 million granted by the European investment Bank in December 2017 with a financing period of 12 years, and the availability of instalments for a period of 22 months from the date of signing. In the first half of 2018, the Parent Entity drew an instalment in the amount of USD 65 million with the payback period expiring on 28 June 2030. The funds acquired through this loan are used to finance the Parent Entity's projects related to development and replacement at various stages of the production process.

The loan can be used in the form of non-revolving instalments in PLN, EUR or USD, with either a fixed or variable interest rate of WIBOR, LIBOR or EURIBOR plus a margin.
The loan agreements oblige the Company to comply with the financial and non-financial covenants commonly stipulated in such types of agreements.

As at 31 December 2018	As at 31 December 2018	As at 31 December 2017
Amount granted	Amount used	Amount used
2 900	2 217	1 941

Other bank loans

Bank loans in the total amount of PLN 3 454 million, used for financing working capital and supporting the management of current financial liquidity. The Company holds lines of credit in the form of short-term and long-term credit agreements. These are working capital facilities and overdraft facilities with availability of up to 5 years. The maturities of these agreements are successively extended for subsequent periods. The funds under open lines of credit are available in PLN, USD and EUR, with interest based on variable WIBOR, LIBOR and EURIBOR plus a margin.

	As at 31 December 2018	As at 31 December 2018	As at 31 December 2017
	Amount granted	Amount used	Amount used
	3 454	1 455	1 605
Total bank and other loans	**15 753**	**7 808**	**7 029**

** Presented amounts do not include the preparation fee in the amount of PLN 15 million which decreases financial liabilities due to bank loans.*

The aforementioned sources ensure the availability of external financing in the amount of PLN 15 753 million. The funds available for use from these sources in the amount of PLN 7 945 million cover the liquidity needs of the Company and the Group.

The syndicated credit in the amount of USD 2 500 million, the investment loans in the amount of PLN 2 900 million, and other bank loans in the amount of PLN 3 454 million, are unsecured.

Note 8.5 Cash and cash equivalents

Accounting policies
Cash and cash equivalents includes mainly cash in bank accounts and deposits with maturities of up to three months from the date of their placement (the same applies to the statement of cash flows). Cash is measured at nominal amount plus interest.

	As at 31 December 2018	As at 31 December 2017
Cash in bank accounts	326	37
Other financial assets with a maturity of up to 3 months from the date of acquisition - deposits	301	197
Total	**627**	**234**

Note 8.6 Contingent liabilities due to guarantees granted

Guarantees and letters of credit are an essential financial liquidity management tool of the Group, thanks to which the Group's companies do not have to use their cash in order to secure their liabilities towards other entities. Information on contingent liabilities may be found in Note 12.5.

As at 31 December 2018, the Company held contingent liabilities due to guarantees and letters of credit granted in the total amount of PLN 2 828 million and due to promissory note liabilities in the amount of PLN 176 million.
The most significant items are contingent liabilities aimed at securing the following obligations:

Sierra Gorda S.C.M. – securing the performance of concluded agreements in the amount of PLN 1 815 million:

- a letter of credit of PLN 517 million (USD 138 million) granted as security for the proper performance of a long-term contract for the off-take of electricity (as at 31 December 2017 in the amount of PLN 479 million, or USD 138 million),
- PLN 125 million (USD 33 million) as corporate guarantees set as security on the payment of concluded lease agreements (as at 31 December 2017 in the amount of PLN 174 million , or USD 50 million)*,
- PLN 496 million (USD 132 million) as corporate guarantees securing repayment of short-term working capital facilities (as at 31 December 2017 in the amount of PLN 460 million, or USD 132 million)*,
- PLN 677 million (USD 180 million) as a corporate guarantee securing repayment of a specified part of payment to guarantees set by Sumitomo Metal Mining Co., Ltd. and Sumitomo Corporation, securing repayment of a corporate credit drawn by the joint venture Sierra Gorda S.C.M. (as at 31 December 2017 in the amount of PLN 627 million, or USD 180 million).

Other entities:

- PLN 401 million (USD 93 million, CAD 18 million and PLN 3 million) securing the restoration costs of the Robinson mine, the Podolsky mine and the Victoria project and obligations related to proper execution of concluded agreements (as at 31 December 2017 in the amount of PLN 380 million, or USD 93 million, CAD 20 million and PLN 1 million),
- securing the proper execution of future environmental obligations of the Company related to the obligation to restore terrain, following the conclusion of operations of the Żelazny Most tailings storage facility – PLN 160 million in the form of a bank guarantee (as at 31 December 2017 in the amount of PLN 160 million) and PLN 160 million in the form of an own promissory note (as at 31 December 2017 in the amount of PLN 160 million),
- PLN 188 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 (guarantees granted in the first half of 2018).

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

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

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

PART 9 – Non-current assets and related liabilities

Note 9.1 Mining and metallurgical property, plant and equipment and intangible assets

Accounting policies – property, plant and equipment

The most important property, plant and equipment of the Company is property, plant and equipment related to the mining and metallurgical operations, comprised of land, buildings, water and civil engineering structures, such as: primary mine tunnels (including shafts, wells, galleries, drifts, primary chambers), backfilling, drainage and firefighting pipelines, piezometric holes and electricity, signal and optical fiber cables. Machines, technical equipment, motor vehicles and other movable fixed assets are also included in mining and metallurgical property, plant and equipment.
Property, plant and equipment are recognised at cost less accumulated depreciation and accumulated impairment losses.

In the initial cost of items of property, plant and equipment the Company includes discounted decommissioning costs of fixed assets related to underground and open-pit mining, as well as of other facilities which, in accordance with binding laws, must be decommissioned upon the conclusion of activities. Principles of recognition and measurement of decommissioning costs are presented in Note 9.4.
An asset's carrying amount includes costs of necessary regular major overhauls, including costs of overhauls for the purpose of certification.
The cost is increased by borrowing costs (i.e. interest and exchange differences representing an adjustment to interest cost) that were incurred for the purchase or construction of a qualifying item of property, plant and equipment.
Items of property, plant and equipment (excluding land) are depreciated by the Company, pursuant to the model of consuming the economic benefits from the given item of property, plant and equipment:

- using the straight-line method, for items which are used in production at an equal level throughout the period of their usage,
- using the units of production method, for items in respect of which the consumption of economic benefits is directly related to the quantity of extracted ore from a deposit or of units produced, and this extraction or production is not spread evenly through the period of their usage. In particular it relates to buildings, as well as machines and mining equipment in gas-steam blocks.

The useful lives, and therefore the depreciation rates of fixed assets used in the production of copper, are adapted to the plans for the closure of operations.
For individual groups of fixed assets, the following useful lives have been adopted, estimated based on the anticipated useful lives of mines, which takes into consideration deposit content:

Group	Fixed assets type	Total useful lives
Buildings and land	Land	Not subject to depreciation
	Buildings	100 years
	Primary mine tunnels	22-90 years
	Backfilling, drainage and firefighting pipelines	6-90 years
	Electricity, signal and optical fiber cables	10-70 years
Technical equipment, machines, motor vehicles and other fixed assets	Technical equipment, machines	4-66 years
	Motor vehicles	3-40 years
	Other fixed assets, including tools and equipment	5-25 years

The Company performs regular reviews of its property, plant and equipment in terms of the adequacy of applied useful lives to current operating conditions.

The individual significant parts of a fixed asset (significant components), whose useful lives are different from the useful life of the given fixed asset as a whole are depreciated separately, applying a depreciation rate which reflects its anticipated useful life.

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

An impairment loss is recognised as the amount by which the carrying amount of the given asset or cash-generating unit exceeds its recoverable amount.

For the purpose of impairment analysis, assets are grouped at the lowest level at which they generate cash inflows, independently from other assets (cash-generating units). Cash-generating units are determined separately, each time an impairment test is to be performed.

If an impairment test indicates that the recoverable amount (i.e. the higher of: the fair value less costs to sell and its value in use) of a given asset or cash-generating unit is lower than its carrying amount, an impairment loss is recognised as the difference between the recoverable amount and the carrying amount of a given asset or cash-generating unit. The impairment loss is allocated to individual assets within the cash-generating units, proportionally to the share of an individual asset's carrying amount in the carrying amount of the entire unit. If such an allocation is made, the carrying amount of the asset may not be lower than the highest of the following values: fair value less costs to sell, value in use and zero.

Accounting policies – intangible assets

Mining and metallurgical intangible assets are mainly comprised of exploration and evaluation assets.

Exploration and evaluation assets

Exploration and evaluation assets are measured at cost less accumulated impairment losses.

The following expenditures are recognised in the cost of the asset:

- geological projects;
- obtaining environmental decisions;
- obtaining concessions and mining usufruct for geological exploration;
- work related to drilling (drilling; geophysical and hydrogeological research; geological, analytical and geotechnical services; etc.);
- the purchase of geological information;
- the preparation of geological documentation and its approval;
- the preparation of economic and technical assessments of resources for the purpose of making decisions on the application for mine operating concessions; and
- equipment usage costs (property, plant and equipment) used in exploratory work.

Exploration and evaluation assets are measured at cost less accumulated impairment losses.

The Company is required to test an individual entity (project) for impairment when:

- the technical feasibility and commercial viability of extracting mineral resources is demonstrable; and
- the facts and circumstances indicate that the carrying amount of exploration and evaluation assets may exceed their recoverable amount.

Any potential impairment losses are recognised prior to reclassification resulting from the demonstration of the technical and economic feasibility of extracting the mineral resources.

		Property, plant and equipment			Intangible assets		
		Buildings and land	Technical equipment, machines, motor vehicles and other fixed assets	Fixed assets under construction	Exploration and evaluation assets	Other	Total
	As at 1 January 2017						
	Gross carrying amount	8 919	10 416	4 570	341	356	24 602
	Accumulated depreciation/amortisation	(4 382)	(5 134)	-	-	(54)	(9 570)
	Impairment losses	-	(3)	(7)	(135)	(1)	(146)
	Net carrying amount	**4 537**	**5 279**	**4 563**	**206**	**301**	**14 886**
	Changes in 2017 net						
	Settlement of fixed assets under construction	1 108	1 514	(2 622)	-	-	-
	Purchases	-	-	1 859	26	49	1 934
	Self-constructed	-	-	32	-	-	32
Note 9.4	Change in provisions for decommissioning costs of mines and tailings storage facilities	30	-	-	-	-	30
	Depreciation/Amortisation	(241)	(793)	-	-	(10)	(1 044)
	Recognition, utilisation of impairment losses	-	-	1	17	1	19
	Other changes	-	(10)	98	(77)	(6)	5
	As at 31 December 2017						
	Gross carrying amount	9 990	11 529	3 937	290	398	26 144
	Accumulated depreciation/amortisation	(4 556)	(5 536)	-	-	(63)	(10 155)
	Impairment losses	-	(3)	(6)	(118)	-	(127)
	Net carrying amount	**5 434**	**5 990**	**3 931**	**172**	**335**	**15 862**

		Property, plant and equipment			Intangible assets		
		Buildings and land	Technical equipment, machines, motor vehicles and other fixed assets	Fixed assets under construction	Exploration and evaluation assets	Other	Total
	As at 1 January 2018						
	Gross carrying amount	9 990	11 529	3 937	290	398	26 144
	Accumulated depreciation/amortisation	(4 556)	(5 536)	-	-	(63)	(10 155)
	Impairment losses	-	(3)	(6)	(118)	-	(127)
	Net carrying amount	5 434	5 990	3 931	172	335	15 862
	Changes in 2018 net						
	Settlement of fixed assets under construction	510	1 123	(1 633)	-	-	-
	Purchases	-	-	1 848	12	29	1 889
	Self-constructed	-	-	47	-	-	47
Note 9.4	Change in provisions for decommissioning costs of mines and tailings storage facilities	168	-	-	-	-	168
	Depreciation/Amortisation	(270)	(862)	-	-	(13)	(1 145)
	Other changes	(5)	(25)	126	-	41	137
	As at 31 December 2018						
	Gross carrying amount	10 582	12 165	4 325	302	467	27 841
	Accumulated depreciation/amortisation	(4 745)	(5 936)	-	-	(75)	(10 756)
	Impairment losses	-	(3)	(6)	(118)	-	(127)
	Net carrying amount	**5 837**	**6 226**	**4 319**	**184**	**392**	**16 958**

Note 9.1.1 Mining and metallurgical property, plant and equipment– fixed assets under construction

	As at 31 December 2018	As at 31 December 2017
Deposit Access Program - Deep Głogów (Głogów Głęboki – Przemysłowy)	1 650	1 012
Construction of the SW-4 shaft	582	554
Investment activity related to development and operation of the Żelazny Most Tailings Storage Facility	498	382
Metallurgy Development Program	373	744
Investments related to infrastructural development in the mines	206	197
Change in the L-VI shaft's function to a material-transport shaft	203	110
Pyrometallurgy Modernisation Program	16	194

Note 9.1.2 Expenses related to mining and metallurgical assets

	from 1 January 2018 to 31 December 2018	from 1 January 2017 to 31 December 2017
Purchases	(1 889)	(1 934)
Change in liabilities due to purchases	144	(11)
Other	(139)	(25)
Total	**(1 884)**	**(1 970)**

Note 9.2 Other property, plant and equipment and intangible assets

Accounting policies

Other property, plant and equipment are recognised at cost less accumulated depreciation and accumulated impairment losses. The policy regarding impairment is presented in Note 9.1. Depreciation is done using the straight-line method.

For individual groups of fixed assets, the following useful lives have been adopted:

Group	Total useful lives
Buildings	25-60 years
Technical equipment and machines	4-15 years
Motor vehicles	3-14 years
Other fixed assets	5-10 years

Intangible assets presented as "other intangible assets" include in particular: acquired property rights not related to mining operations and software. These assets are measured at cost less any accumulated amortisation and impairment losses.

Intangible assets are amortised using the straight-line method over their anticipated useful lives. The useful lives of the main groups of intangible assets are as follows:

- acquired property rights not related to mining activities: 5 – 50 years;
- software: 2 – 5 years; and
- other intangible assets: 40 - 50 years.

	Property, plant and equipment			Intangible assets	
	Buildings and land	Technical equipment, machines, motor vehicles and other fixed assets	Fixed assets under construction	Other intangible assets	Total
As at 1 January 2017					
Gross carrying amount	51	175	8	120	354
Accumulated depreciation/amortisation	(31)	(126)	-	(96)	(253)
Net carrying amount	**20**	**49**	**8**	**24**	**101**
As at 31 December 2017					
Gross carrying amount	54	192	5	138	389
Accumulated depreciation/amortisation	(33)	(143)	-	(104)	(280)
Net carrying amount	**21**	**49**	**5**	**34**	**109**
As at 31 December 2018					
Gross carrying amount	54	203	22	164	443
Accumulated depreciation/amortisation	(35)	(152)	-	(112)	(299)
Net carrying amount	**19**	**51**	**22**	**52**	**144**

Note 9.3 Depreciation/amortisation

		Property, plant and equipment		Intangible assets	
		from 1 January 2018 to 31 December 2018	from 1 January 2017 to 31 December 2017	from 1 January 2018 to 31 December 2018	from 1 January 2017 to 31 December 2017
Note 4.1	**Depreciation/amortisation**	**1 151**	**1 053**	**22**	**19**
	recognised in profit or loss	1 099	1 017	20	18
	cost of manufacturing products	1 078	1 006	19	16
	administrative expenses	21	11	1	1
	other operating costs	-	-	-	1
	being part of the manufacturing costs of assets	52	36	2	1

Note 9.4 Provision for decommissioning costs of mines and other facilities

Accounting policies	Important estimates and assumptions
The provision for future decommissioning costs of mines and other technological facilities is recognised based on the estimated expected costs of decommissioning of such facilities and of restoring the sites to their original condition. Estimation of this provision is based on specially-prepared studies using ore extraction forecasts (for mining facilities), and technical-economic studies prepared either by specialist firms or by the Company. A change in the discount rate or in the estimated decommissioning cost adjusts the value of the relevant item of a fixed asset, unless it exceeds the carrying amount of the item of a fixed asset (any surplus above this amount is recognised in other operating income).	These provisions represent the estimated future decommissioning costs of mines and other technological facilities discounted to present value. Revaluation of this provision at the end of the reporting period in the Company is affected by the following indicators: a) the index of changes in prices in the construction-assembly sector published by the Central Statistical Office (GUS), b) the forecasted discount rate calculated based on the yield on treasury bonds with maturities nearest to the planned financial outflow. The yield on treasury bonds and the inflation rate are set separately for future periods, i.e. for the first, second and third years, and jointly for periods from the fourth year. In order to estimate the provision for future decommissioning costs of mines and other technological facilities in the Company, a discount rate of 0.31% was applied as at 31 December 2018 (in 2017, 1.03%).

		As at 31 December 2018	As at 31 December 2017
	Provisions at the beginning of the reporting period	**804**	**770**
Note 9.1	Changes in estimates recognised in fixed assets	168	30
	Other	16	4
	Provisions at the end of the reporting period including:	**988**	**804**
	- non-current provisions	**980**	**797**
	- current provisions	**8**	**7**

Note 9.5 Capitalised borrowing costs

During the period between 1 January 2018 to 31 December 2018, the Company recognised PLN 133 million of borrowing costs in property, plant and equipment and intangible assets (during the period from 1 January 2017 to 31 December 2017: PLN 61 million).
The capitalisation rate applied by the Company to determine borrowing costs related to the unsecured revolving syndicated credit facility obtained on the basis of the financing agreement signed with the syndicate of banks amounted to 82.22%, and due to the loan from the European Investment Bank amounted to 50.63%.

During the period between 1 January 2017 to 31 December 2017, the capitalisation rate applied by the Company to determine the borrowing costs concerning the unsecured revolving syndicate credit facility obtained on the basis of the financing agreement signed with the syndicate of banks amounted to 72.39%.

PART 10 – Working capital

Note 10.1 Inventories

Accounting policies

The Company measures inventories at cost, not higher than the sales price less costs of completing production and costs to sell.

Inventory disposals are measured at weighted average cost.

	As at 31 December 2018	As at 31 December 2017
Materials	400	431
Half-finished goods and work in progress	3 057	2 913
Finished goods	568	451
Merchandise	77	62
Total net carrying amount of inventories	**4 102**	**3 857**

Write-down of inventories in the financial period

	from 1 January 2018 to 31 December 2018	from 1 January 2017 to 31 December 2017
Write-down recognised in cost of sales	5	24
Reversed write-down recognised in cost of sales	27	-

Maturities of inventories

	As at 31 December 2018	As at 31 December 2017
Maturity over the 12 months from the end of the reporting period	147	82
Maturity of up to 12 months from the end of the reporting period	3 954	3 775

Note 10.2 Trade receivables

Accounting policies

Trade receivables are initially recognised at the transaction price. After initial recognition, receivables are measured:

- receivables not transferred to full factoring: at amortised cost while taking into account loss allowance for expected credit losses (trade receivables with maturity dates of less than 12 months are not discounted),
- receivables transferred to full factoring: at fair value through profit or loss, while, because of the short duration between the recognition of receivables and transferral to the factor and due to the low credit risk of the counterparty (factor), the fair value of these receivables is approximate to the carrying amount,
- receivables priced upon the M+ formula: value is set as the nominal value (i.e. at the cost in the invoice), adjusted by the impact of market and credit risks. Adjustment due to the market risk is calculated as the difference between the current market price for a given pricing period in the future (a period in which there will be a final settlement of the price) and the receivables' price recognised in the accounting books (multiplied by the sales volume). Adjustment due to the credit risk is calculated analogously to the calculation of expected credit losses for trade receivables measured at amortised cost.

The Company is exposed to the credit risk and currency risk arising from trade receivables. Credit risk management and assessment of the credit quality of receivables is presented in Note 7.5.2.3. Information on the currency risk is presented in Note 7.5.1.3.

The following table presents the carrying amounts of trade receivables and the amount of expected credit losses:

	As at 31 December 2018	As at 31 December 2017
Trade receivables measured at amortised cost - gross value	181	1 035
Loss allowance for expected credit losses (lifetime) - under IFRS 9	(10)	-
Allowance for impairment – under IAS 39	-	(1)
Trade receivables measured at amortised cost - net value	171	1 034
Trade receivables measured at fair value, including:	139	-
transferred to factoring	70	-
priced upon M+ formula	69	-
Total	**310**	**1 034**

Note 10.3 Trade payables

Accounting policies

Trade payables are initially recognised at fair value less transaction cost and are measured at amortised cost at the end of the reporting period.

	As at 31 December 2018	As at 31 December 2017
Non-current trade payables	162	163
Current trade payables	1 920	1 719
Trade payables	**2 082**	**1 882**

The item trade payables contains payables due to the purchase and construction of fixed and intangible assets which, as at 31 December 2018, amounted to PLN 162 million in the non-current part and PLN 844 million in the current part (as at 31 December 2017, respectively PLN 163 million and PLN 615 million).
The Company is exposed to currency risk arising from trade payables, and to liquidity risk. Information on currency risk is presented in Note 7.5.1.3 and on liquidity risk in Note 8.3.
The fair value of trade payables approximates the carrying amount.

Note 10.4 Changes in working capital

	Inventories	Trade receivables	Trade payables	Total working capital
As at 31 December 2017	(3 857)	(1 034)	1 882	**(3 009)**
Change in accounting policies – application of IFRS 9	-	(16)	-	**(16)**
As at 1 January 2018, after application of IFRS 9	(3 857)	(1 050)	1 882	**(3 025)**
As at 31 December 2018	(4 102)	(310)	2 082	**(2 330)**
Change in the statement of financial position	(245)	740	200	**695**
Depreciation/amortisation recognised in inventories	49	-	-	**49**
Liabilities due to purchase of property, plant and equipment and intangible assets	-	-	(191)	**(191)**
Adjustments	49	-	(191)	**(142)**
Change in the statement of cash flows	(196)	740	9	**553**

	Inventories	Trade receivables	Trade payables	Total working capital
As at 1 January 2017	(2 726)	(676)	1 542	**(1 860)**
As at 31 December 2017	(3 857)	(1 034)	1 882	**(3 009)**
Change in the statement of financial position	(1 131)	(358)	340	**(1 149)**
Depreciation/amortisation recognised in inventories	32	-	-	**32**
Liabilities due to purchase of property, plant and equipment and intangible assets	-	-	(3)	**(3)**
Adjustments	32	-	(3)	**29**
Change in the statement of cash flows	(1 099)	(358)	337	**(1 120)**

PART 11 – Employee benefits

Accounting policies

The Company is obliged to pay specified benefits following the period of employment (retirement benefits due to one-off retirement-disability rights, post-mortem benefits and the coal equivalent) and other long-term benefits (jubilee bonuses), in accordance with the Collective Labour Agreement.
The amount of the liabilities due to both of these benefits is estimated at the end of the reporting period by an independent actuary using the projected unit credit method.
The present value of liabilities from these benefits is determined by discounting estimated future cash outflow using the interest rates on treasury bonds expressed in the currency of the future benefits payments, with maturities similar to those of the liabilities due to be paid.
Actuarial gains and losses from the measurement of specified benefits following the period of employment are recognised in other comprehensive income in the period in which they arose. Actuarial gains/losses from the measurement of other benefits (for example benefits due to jubilee bonuses) are recognised in profit or loss.

Important estimates and assumptions

The carrying amount of the liability due to future employee benefits is equal to the present value of the liabilities due to defined benefits. The amount of the liability depends on many factors, which are used as assumptions in the actuarial method. Any changes to the assumptions may impact the carrying amount of the liability. Interest rates are one of the basic parameters for measuring the liability. At the end of the reporting period, based on the opinion of an independent actuary, an appropriate discount rate for the Company is used for setting the present value of estimated future cash outflow due to these benefits. In setting the discount rate for the reporting period, the actuary extrapolates current interest rates of treasury bonds along the profitability curve expressed in the currency of the future benefits payments, to obtain a discount rate enabling the discounting of payments with maturities which are longer than the maturities of the bonds.

Other macroeconomic assumptions used to measure liabilities due to future employee benefits, such as the inflation rate or the minimum salary, are based on current market conditions. The assumptions used to measure liabilities as at 31 December 2018 are presented in Note 11.2.

Impact of changes in the indicators on the balance of liabilities	As at 31 December 2018	As at 31 December 2017
an increase in the discount rate by 1%	(316)	(252)
a decrease in the discount rate by 1%	421	331
an increase in the coal price increase rate and the salary increase rate by 1%	411	347
a decrease in the coal price increase rate and the salary increase rate by 1%	(316)	(255)

Note 11.1 Employee benefits liabilities

Components of the item: employee benefits liabilities

	As at 31 December 2018	As at 31 December 2017
Non-current	2 235	1 879
Current	141	111
Liabilities due to future employee benefits programs	**2 376**	**1 990**
Employee remuneration liabilities	193	175
Accruals (unused annual leave, bonuses, other)	277	363
Employee liabilities	**470**	**538**
Total employee benefits liabilities	**2 846**	**2 528**

Employee benefits expenses

		from 1 January 2018 to 31 December 2018	from 1 January 2017 to 31 December 2017
	Remuneration	2 222	2 177
	Costs of social security and other benefits	904	876
	Costs of future benefits	198	157
Note 4.1	**Employee benefits expenses**	**3 324**	**3 210**

Note 11.2 Changes in liabilities related to future employee benefits programs

		Total liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other benefits
	As at 1 January 2017	**1 800**	**273**	**261**	**1 239**	**27**
Note 11.1	Total costs recognised in profit or loss	**157**	63	24	70	-
	Interest costs	**64**	10	9	45	-
	Current service costs	**60**	20	15	25	-
	Actuarial losses recognised in profit or loss	**33**	33	-	-	-
Note 8.2.2	Actuarial (gains)/losses recognised in other comprehensive income	**130**	-	24	125	(19)
	Benefits paid	**(97)**	(33)	(23)	(40)	(1)
	As at 31 December 2017	**1 990**	**303**	**286**	**1 394**	**7**
Note 11.1	Total costs recognised in profit or loss	**198**	99	25	74	-
	Interest costs	**68**	11	**10**	47	-
	Current service costs	**63**	21	15	27	-
	Actuarial losses recognised in profit or loss	**67**	67	**-**	-	-
Note 8.2.2	Actuarial losses recognised in other comprehensive income	**303**	-	50	238	15
	Benefits paid	**(115)**	(40)	(28)	(46)	(1)
	As at 31 December 2018	**2 376**	**362**	**333**	**1 660**	**21**

As at 31 December	2018	2017	2016	2015	2014
Present value of liabilities due to employee benefits	**2 376**	1 990	1 800	1 905	1 956

Main actuarial assumptions as at 31 December 2018:

	2019	2020	2021	2022	2023 and beyond
- discount rate	2.82%	2.82%	2.82%	2.82%	2.82%
- coal price increase rate	8.70%	3.00%	3.00%	3.00%	3.00%
- lowest salary increase rate	7.14%	4.89%	5.08%	4.00%	4.00%
- expected inflation	3.20%	2.90%	2.50%	2.50%	2.50%
- future expected increase in salary	5.60%	5.00%	4.80%	3.90%	3.90%

Main actuarial assumptions as at 31 December 2017:

	2018	2019	2020	2021	2022 and beyond
- discount rate	3.35%	3.35%	3.35%	3.35%	3.35%
- coal price increase rate	5.00%	3.20%	3.00%	3.00%	3.00%
- lowest salary increase rate	0.00%	4.20%	4.00%	4.00%	4.00%
- expected inflation	2.30%	2.70%	2.50%	2.50%	2.50%
- future expected increase in salary	5.10%	2.70%	2.50%	2.50%	2.50%

The change in actuarial gains/losses was caused by a change in the assumptions in respect of the decrease of the discount rate, the increase in coal prices and the increase in the lowest salary.
For purposes of reassessment of the liabilities at the end of the current period, the parameters assumed were based on available forecasts of inflation, analysis of coal prices rates and of the lowest salary rates, and also based on the anticipated profitability of non-current treasury bonds.

Actuarial gains/losses as at 31 December 2018 versus assumptions adopted as at 31 December 2017	
Change in financial assumptions	275
Change in demographic assumptions	(58)
Other changes	153
Total actuarial (gains)/losses	**370**

Actuarial gains/losses as at 31 December 2017 versus assumptions adopted as at 31 December 2016	
Change in financial assumptions	49
Change in demographic assumptions	84
Other changes	30
Total actuarial (gains)/losses	**163**

Maturity profile of future employee benefits liabilities

Year of maturity:	**Total liabilities**	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other benefits
2019	**140**	37	49	53	1
2020	**150**	33	53	63	1
2021	**97**	23	12	61	1
2022	**94**	23	10	60	1
2023	**95**	23	13	58	1
Other years	**1 799**	222	196	1 364	17
Total liabilities in the statement of financial position as at 31 December 2018	**2 375**	**361**	**333**	**1 659**	**22**

Maturity profile of future employee benefits liabilities

Year of maturity:	**Total liabilities**	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other benefits
2018	**111**	36	29	45	1
2019	**161**	33	76	52	-
2020	**84**	22	11	51	-
2021	**81**	20	11	50	-
2022	**77**	19	9	48	1
Other years	**1 476**	173	150	1 148	5
Total liabilities in the statement of financial position as at 31 December 2017	**1 990**	**303**	**286**	**1 394**	**7**

PART 12 – Other notes

Note 12.1 Related party transactions

The accounting policies and important estimates and assumptions presented in Note 10 are applicable to transactions entered into with related parties.

Operating income from related parties	from 1 January 2018 to 31 December 2018	from 1 January 2017 to 31 December 2017
From subsidiaries	1 163	630
From joint ventures	21	26
Total	**1 184**	**656**

In 2018, dividends from subsidiaries amounted to PLN 239 million (in the comparable period: PLN 4 million).

	As at 31 December 2018	As at 31 December 2017
Trade and other receivables from related parties	**6 818**	**5 553**
From subsidiaries	6 716	5 486
From joint ventures	102	67
Payables towards related parties	**917**	**684**
Towards subsidiaries	906	684
Towards joint ventures	11	-
Purchases from related entities	**5 039**	**4 429**
Purchase of products, merchandise, materials and other purchases from subsidiaries	5 039	4 429

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

As at 31 December 2018, the balances of payables due to agreements necessary to conduct principal operating activities of the Company in the amount of PLN 200 million (as at 31 December 2017: PLN 202 million) were comprised of:

- setting mining usufruct – fixed fees and mining usufructs for exploration and evaluation of mineral resources – in the total amount of PLN 170 million (as at 31 December 2017: PLN 171 million),
- setting mining usufruct – variable part (recognised in costs) in the amount of PLN 30 million (as at 31 December 2017: PLN 31 million).

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

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

- the purchase of goods to meet the needs of current operating activities. In the period from 1 January to 31 December 2018, the turnover from these transactions amounted to PLN 910 million (from 1 January to 31 December 2017: PLN 732 million), and, as at 31 December 2018, the unsettled balance of liabilities from these transactions amounted to PLN 131 million (as at 31 December 2017: PLN 118 million),
- sales to Polish State Treasury Companies. In the period from 1 January to 31 December 2018, the turnover from these sales amounted to PLN 41 million (from 1 January to 31 December 2017: PLN 71 million), and, as at 31 December 2018, the unsettled balance of receivables from these transactions amounted to PLN 6 million (as at 31 December 2017: PLN 5 million).

Note 12.2 Dividends paid

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 Company's reserve capital.

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

Note 12.3 Other assets

Accounting policies
Receivables not constituting financial assets are initially recognised at nominal value, and at the end of the reporting period they are measured in the amount receivable.
Accounting policies concerning financial assets were described in Note 7.

		As at 31 December 2018	As at 31 December 2017
	Other non-current non-financial assets	**24**	**25**
	Non-financial advances	15	14
	Prepayments	9	10
	Other	-	1
	Other current assets	**538**	**342**
Note 7.1	Other current financial assets	**489**	**288**
	Cash pooling receivables	247	124
	Receivables due to guarantees granted	97	72
	Receivables due to payments for letters of credit	63	41
	Loans granted	17	9
	Other	65	42
	Other current non-financial assets	**49**	**54**
	Non-financial advances	36	47
	Other	13	7

Note 12.4 Other liabilities

Accounting policies
Other financial liabilities are initially recognised at fair value less transaction cost, and at the end of the reporting period they are measured at amortised cost.

	As at 31 December 2018	As at 31 December 2017
Trade payables	162	163
Other	37	44
Other liabilities – non-current	**199**	**207**
Special funds	335	309
Accruals, including:	120	93
provision for purchase of property rights of consumed electricity	45	45
charge for discharging of gases and dusts to the air	48	25
Non-cash advances	3	70
Acquisition of investment certificates	133	-
Liabilities due to the settlement of the Tax Group	10	67
Deferred income	14	8
Other	96	87
Other liabilities – current	**711**	**634**

Note 12.5 Assets and liabilities not recognised in the statement of financial position

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

		As at 31 December 2018	As at 31 December 2017
	Contingent assets	**558**	**490**
	Guarantees received	168	150
	Promissory notes receivables	225	180
	Other	165	160
	Contingent liabilities	**3 151**	**2 704**
Note 8.6	Guarantees granted	2 828	2 280
Note 8.6	A promissory note	176	160
	Liabilities due to implementation of projects and inventions	-	94
	Other	147	170
	Other liabilities not recognised in the statement of financial position	**451**	**465**
	Liabilities towards local government entities due to expansion of the tailings storage facility	113	117
	Liabilities due to operating leases	338	348

Note 12.6 Capital commitments related to property, plant and equipment and intangible assets

Capital commitments incurred in the reporting period, but not recognised in the statement of financial position, were as follows (as at 31 December of a given year):

	As at 31 December 2018	As at 31 December 2017
Capital commitments due to the purchase of:		
property, plant and equipment	4 652	4 779
intangible assets	74	75
Total capital commitments	**4 726**	**4 854**

Note 12.7 The right of perpetual usufruct of land

The Company obtained the right of perpetual usufruct of land mostly free of charge on the basis of laws in force. The land subject to perpetual usufruct is industrial area related to the core business activities, which also includes protective zones in which environmental quality standards have been exceeded as a result of the activities carried out.
Due to the nature of the use of the above-mentioned land, as at 31 December 2018 the Company had not determined fair values for these perpetual usufruct rights.
The table below contains information on future payments due to the right of perpetual usufruct of land.

	As at 31 December 2018	As at 31 December 2017
Under one year	11	9
From one to five years	44	37
Over five years	564	468
Total value of future contingent payments due to the right of perpetual usufruct of land	**619**	**514**

The Company's liabilities due to the right of perpetual usufruct of land, which were not recognised in the statement of financial position, were estimated on the basis of annual payment rates resulting from recent administrative decisions and the useful life of the land subject to this right.

Note 12.8 Employment structure

	As at 31 December 2018	As at 31 December 2017
White-collar employees	4 735	4 700
Blue-collar employees	13 557	13 498
Total (full-time equivalent)	**18 292**	**18 198**

Note 12.9 Other adjustments in the statement of cash flows

	from 1 January 2018 to 31 December 2018	from 1 January 2017 to 31 December 2017
Losses on the sales of property, plant and equipment and intangible assets	26	26
Proceeds from income tax from the tax group companies	10	20
Reclassification of other comprehensive income to profit or loss as a result of realisation of hedging derivatives	31	(16)
Other	(2)	4
Total	**65**	**34**

Note 12.10. Remuneration of key managers

Remuneration of members of the Management Board (in PLN thousands)	from 1 January 2018 to 31 December 2018				
	Period when function served	Remuneration for the period of service as a member of the Management Board	Remuneration after the period of service as a member of the Management Board	Benefits due to termination of employment	Total earnings
Members of the Management Board serving in the function as at 31 December 2018					
Marcin Chludziński	06.07-31.12	405	-	-	**405**
Radosław Stach	06.07-31.12	362	-	-	**362**
Katarzyna Kreczmańska-Gigol	06.07-31.12	380	-	-	**380**
Adam Bugajczuk	24.08-31.12	263	-	-	**263**
Paweł Gruza	10.09-31.12	230	-	-	**230**
Members of the Management Board not serving in the function as at 31 December 2018					
Stefan Świątkowski	01.01-06.07	456	-	421	**877**
Rafał Pawełczak	01.01-06.07	456	-	421	**877**
Ryszard Jaśkowski	01.01-06.07	441	-	101	**542**
Radosław Domagalski - Łabędzki	01.01-10.03	171	-	427	**598**
Michał Jezioro	01.01-10.03	165	-	427	**592**
Piotr Walczak	-	-	-	124	**124**
TOTAL		**3 329**	**-**	**1 921**	**5 250**

Remuneration of members of the Management Board (in PLN thousands)	from 1 January 2017 to 31 December 2017				
	Period when function served	Remuneration for the period of service as a member of the Management Board	Remuneration after the period of service as a member of the Management Board	Benefits due to termination of employment	Total earnings
Members of the Management Board serving in the function as at 31 December 2017					
Radosław Domagalski - Łabędzki	01.01-31.12	1 353	-	-	**1 353**
Michał Jezioro	01.01-31.12	1 223	-	-	**1 223**
Stefan Świątkowski	01.01-31.12	1 695	-	-	**1 695**
Rafał Pawełczak	03.02-31.12	1 167	-	-	**1 167**
Ryszard Jaśkowski	24.07-31.12	348	-	-	**348**
Other Members of the Management Board not serving in the function as at 31 December 2017					
Jacek Rawecki	01.01-03.02	136	420	528	**1 084**
Piotr Walczak	01.01-31.05	703	559	391	**1 653**
Krzysztof Skóra	-	-	316	386	**702**
Mirosław Biliński	-	-	185	256	**441**
Herbert Wirth	-	-	-	411	**411**
Jarosław Romanowski	-	-	-	46	**46**
Marcin Chmielewski	-	-	-	329	**329**
Mirosław Laskowski	-	-	92	-	**92**
Adam Sawicki	-	-	107	-	**107**
Jacek Kardela	-	-	-	329	**329**
TOTAL		**6 625**	**1 679**	**2 676**	**10 980**

Remuneration of members of the Supervisory Board (in PLN thousands)	from 1 January 2018 to 31 December 2018			
	Period when function served	Current employee benefits	Current benefits due to service	Total earnings
Members of the Supervisory Board serving in the function as at 31 December 2018				
Andrzej Kisielewicz	06.07-31.12		60	**60**
Leszek Banaszak	06.07-31.12	-	55	**55**
Bogusław Szarek	01.01-31.12	221	114	**335**
Jarosław Janas	06.07-31.12	-	55	**55**
Marek Pietrzak	01.01-31.12	-	114	**114**
Agnieszka Winnik -Kalemba	01.01-31.12	-	114	**114**
Ireneusz Pasis	06.07-31.12	-	55	**55**
Józef Czyczerski	01.01-31.12	135	114	**249**
Bartosz Piechota	06.07-31.12	-	55	**55**
Janusz Marcin Kowalski	01.01-31.12	-	114	**114**
Members of the Supervisory Board not serving in the function as at 31 December 2018				
Leszek Hajdacki	01.01-06.07	109	59	**168**
Dominik Hunek	01.01-06.07	-	65	**65**
Michał Czarnik	01.01-06.07	-	59	**59**
Jarosław Witkowski	01.01-06.07	-	59	**59**
Wojciech Andrzej Myślecki	01.01-03.04	-	30	**30**
TOTAL		**465**	**1 122**	**1 587**

Remuneration of members of the Supervisory Board (in PLN thousands)	from 1 January 2017 to 31 December 2017			
	Period when function served	Current employee benefits	Current benefits due to service	Total earnings
Members of the Supervisory Board serving in the function as at 31 December 2017				
Dominik Hunek	01.01-31.12	-	138	**138**
Józef Czyczerski	01.01-31.12	129	125	**254**
Leszek Hajdacki	01.01-31.12	237	125	**362**
Bogusław Szarek	01.01-31.12	254	168	**422**
Michał Czarnik	01.01-31.12	-	131	**131**
Jarosław Witkowski	01.01-31.12	-	131	**131**
Wojciech Andrzej Myślecki	01.01-31.12	-	129	**129**
Marek Pietrzak	01.01-31.12	-	129	**129**
Agnieszka Winnik-Kalemba	01.01-31.12	-	126	**126**
Janusz Marcin Kowalski	21.06-31.12	-	56	**56**
TOTAL		**620**	**1 258**	**1 878**

Note 12.11 Remuneration of the entity entitled to audit the financial statements and of entities related to it (in PLN thousands)

Deloitte Audyt Spółka z ograniczoną odpowiedzialnością Sp. k.	from 1 January 2018 to 31 December 2018	from 1 January 2017 to 31 December 2017
From the contract for the review and audit of financial statements, of which due to:	**896**	973
audit of annual financial statements	589	588
assurance services, of which:	**307**	**385**
review of financial statements	256	342
other assurance services	51	43
Other Companies from the Deloitte Polska Group - from other contracts	**17**	431

Note 12.12 Disclosure of information on the Company's activities regulated by the Act on Energy

Note 12.12.1 Introduction

KGHM Polska Miedź S.A. meets the definition of an "energy enterprise" under the Act on Energy.

Pursuant to article 44 of the Act on Energy, the Company is required to prepare, on the basis of the Company's accounting records, information about its regulated activities. The scope of information concerning regulated activities, pursuant to article 44 of the aforementioned Act, constitute the Company's business activities in:

- distribution of electricity;
- distribution of gaseous fuels; and
- trade in gaseous fuels.

Note 12.12.2 Description of regulated activities

KGHM Polska Miedź S.A. conducts the following types of energy-related activities:

- **Distribution of electricity** – an activity which consists of distributing the electricity, used to meet the needs of clients conducting business activities;
- **Trade in gaseous fuels** – an activity which consists of trading in nitrogen-enriched natural gas and is conducted to meet the needs of clients engaged in business activities; and
- **Distribution of gaseous fuels** – an activity which consists of distributing nitrogen-enriched natural gas by utilising the distribution grids located in the Legnica and Głogów municipalities in order to meet the needs of clients conducting business activities.

Note 12.12.3 Basic principles of regulatory accounting

Regulatory accounting is a specific type of accounting, if compared to the accounting carried out in accordance with the Accounting Act of 29 September 1994, conducted by an entrepreneur for its regulated activities including energy activities.

In addition to the accounting policies which were described in the financial statements and were the basis for the keeping of the accounting records and for preparation of the Company's financial statements, KGHM Polska Miedź S.A. applies the following accounting policies for the purposes of regulatory accounting:

Causality principle

The allocation of particular revenue and costs is made in accordance with a given assets' intended purpose and utilisation of assets to meet the needs of a specified type of activity or service, with the causality principle governing the recognition of items of revenue and costs in specified types of activity and with the principle of consistency between recognition by types of activity of items of revenue and costs, which stems from the fact that these items reflect different aspects of the same events.

Objectivity and non-discrimination principle

The allocation of assets, liabilities, equity, revenue and costs is done objectively and is not aimed at making profits or incurring losses.

Continuation and comparability principle

The methods and principles used in preparing the report on regulatory accounting are applied in a continuous manner. This report was prepared using the same principles for the current and comparable periods.

Transparency and consistency principle

The methods applied in preparing the report on regulatory accounting are transparent and consistent with the methods and principles applied in other calculations performed for regulatory purposes and with the methods and principles applied in preparing the financial statements.

Materiality principle (feasibility principle)

The Company permits certain simplifications in measurement, recognition and allocation of items of assets, liabilities, equity, revenue and costs as long as it does not significantly distort the true picture of the financial position and assets presented in the financial statements on regulated activities.

Note 12.12.4 Detailed principles of regulatory policy – methods and principles governing the allocation of assets, liabilities, equity, costs and revenues

The Company prepares financial information on its regulated activities by overlapping the regulated activities' structure with the Company's organisational structure. The Company applies, in a continuous manner, various methods for the allocation of revenue, costs, assets and liabilities to specific types of regulated activities. The following methods were used:

- specific (direct) identification method – applied if a direct identification of value is possible, for example the level of revenue from certain activities,

- direct allocation method (e.g. the purchase cost of production fuel) – this method is applied if there is a direct cause-and-effect relationship between the consumed resource and the corresponding cost,

- indirect allocation method on the basis of a predetermined allocation key, this method is used among others, to allocate cost in a situation where no direct cause-and-effect relationship between the utilised resource and the cost item exists and there is a need to use a cost driver (an allocation key) which enables linkage of items with their respective cost. The most commonly used allocation keys are:

- revenue key – value of revenue is the allocation key;
- production key – production units are the allocation key;
- power key – the installed power of machines and equipment is used for the allocation of indirect costs;
- cost key – the value of costs is the allocation key;
- mixed keys, which combine elements of several different keys; and
- other keys appropriate for a specific case.

Assets

In the statement of financial position of KGHM Polska Miedź S.A. for the current and comparable periods, the following items of assets of regulated activities were recognised:

Non-current assets:

1.Fixed assets;
2.Fixed assets under construction;

Current assets:

1. Trade receivables.

Other items of assets in the Company's statement of financial position were allocated to other activities due to the lack of a link between these items and regulated activities, or because the share of these items in regulated activities is immaterial.

Fixed assets

The identification and allocation of specific items of fixed assets to regulated activities takes place when these items of fixed assets are brought into use. Based on the key consumption for energy carriers, being the quantitative share in sales of the energy carrier in the total volume of the purchased energy carrier less losses, the percentage in the carrying amount of fixed assets used in the energy activities is established.

$$\text{Share} = \frac{\text{Volume of energy carriers sold externally in the reporting period} \times 100\%}{\text{Total volume of purchased energy carrier for the reporting period – losses}}$$

Fixed assets under construction

The allocation of fixed assets under construction to regulated activities is achieved by the detailed identification of expenditures on fixed assets under construction which are related to regulated activities, based on the analysis of accounting records. The remaining expenditures on fixed assets under construction are recognised in other activities of the Company.
The Company recognises the full amount of deferred tax assets due to other deductible temporary differences under other activities, due to their immaterial share in regulated activities.

Trade receivables

Allocation of receivables in specific types of regulated activities is done on the basis of detailed identification of revenues from specific types of regulated activities, by analysing the accounting records with respect to unsettled sales invoices. The remaining amount of trade receivables is recognised in other activities. The Company recognises the full amount of other receivables (i.e. apart from trade receivables) in other activities due to their immaterial share in regulated activities.

Equity and liabilities

In the statement of financial position, the following items were recognised in equity and liabilities for the current and comparable periods with respect to regulated activities:

Equity

Liabilities

I. Non-current liabilities:
   1. Deferred tax liabilities;
   2. Future employee benefits liabilities.

II. Current liabilities:
   1. Future employee benefits liabilities.

The full amount of other items of liabilities are recognised by the Company in other activities, due to their immaterial share in regulated activities.

Equity

The Company allocates equity to regulated activities as an item offsetting the assets and liabilities.

Deferred tax liabilities

With respect to regulated activities, deferred tax liabilities were identified arising from taxable temporary differences between the depreciation of property, plant and equipment and intangible assets for tax purposes and their carrying amount.

The allocation of deferred tax liabilities due to the depreciation of property, plant and equipment and the amortisation of intangible assets, with respect to regulated activities, is performed through the use of indicators set for property, plant and equipment and intangible assets. The Company allocates all deferred tax liabilities arising from other taxable temporary differences to other operating activities.

Non-current and current liabilities due to future employee benefits

Liabilities due to future employee benefits are allocated to individual types of regulated activities using a revenue key through the indirect allocation method.

Revenues from sales

Following an analysis of revenues in terms of their allocation to individual types of regulated activities, the Company identified groups of operations which met the following conditions:

- revenues from the sale of electricity – distribution;
- revenues from the sale of nitrogen-enriched natural gas – distribution; and
- revenues from the sale of nitrogen-enriched natural gas – trade.

Revenues from sales are allocated to individual types of regulated activities using the individual identification method.

Operating costs

Following an analysis of costs in terms of their allocation to individual types of regulated activities, the following types of operating costs were identified:

- costs of electricity distribution services and the distribution of natural gas;
- the value of the sold merchandise related to trade in natural gas; and
- administrative expenses associated with electricity sold.

Costs of sales, selling costs and administrative expenses are allocated to separate types of regulated activities based on the Company's account of the actual costs.

Income tax

The amount of income tax presented in the statement of profit or loss for individual types of regulated activities is set as a multiple of the financial result and the effective tax rate. The amount of current income tax decreases or increases deferred income tax, which is calculated from the difference between the carrying amount and the taxable amount of the respective assets of regulated activities.

Statement of financial position pursuant to article 44 of the Act on Energy

As at 31 December 2018	Company in total	Principal activities	Energy activities, of which:	Electricity	Gas	
				Distribution	Trade	Distribution
ASSETS						
Property, plant and equipment	16 474	16 324	150	150	-	-
Intangible assets	628	628	-	-	-	-
Deferred tax assets	9	9	-	-	-	-
Other non-current assets	10 987	10 987	-	-	-	-
Non-current assets	**28 098**	**27 948**	**150**	**150**	**-**	**-**
Inventories	4 102	4 102	-	-	-	-
Trade receivables	310	307	3	1	1	1
Other current assets	1 740	1 740	-	-	-	-
Current assets	**6 152**	**6 149**	**3**	**1**	**1**	**1**
TOTAL ASSETS	**34 250**	**34 097**	**153**	**151**	**1**	**1**
EQUITY AND LIABILITIES						
Equity	**19 045**	**18 899**	**146**	**144**	**1**	**1**
Employee benefits liabilities	2 235	2 234	1	1	-	-
Provisions for decommissioning costs of mines and other technological facilities	980	980	-	-	-	-
Other non-current liabilities	7 025	7 019	6	6	-	-
Non-current liabilities	**10 240**	**10 233**	**7**	**7**	**-**	**-**
Employee benefits liabilities	611	611	-	-	-	-
Other current liabilities	4 354	4 354	-	-	-	-
Current liabilities	**4 965**	**4 965**	**-**	**-**	**-**	**-**
TOTAL LIABILITIES	**15 205**	**15 198**	**7**	**7**	**-**	**-**
TOTAL EQUITY AND LIABILITIES	**34 250**	**34 097**	**153**	**151**	**1**	**1**

As at 31 December 2017 ASSETS	Company in total	Principal activities	Energy activities, of which:	Electricity Distribution	Gas Distribution
Property, plant and equipment	15 430	15 278	152	151	1
Intangible assets	541	541	-	-	-
Deferred tax assets	31	34	(3)	(3)	-
Other non-current assets	9 069	9 068	1	**1**	-
Non-current assets	**25 071**	**24 921**	**150**	**149**	**1**
Inventories	3 857	3 857	-	-	-
Trade receivables	1 034	1 033	1	1	-
Other current assets	985	985	-	-	-
Current assets	**5 876**	**5 875**	**1**	**1**	**-**
TOTAL ASSETS	**30 947**	**30 796**	**151**	**150**	**1**
EQUITY AND LIABILITIES	**-**		**-**		
Equity	**17 256**	**17 108**	**148**	**147**	**1**
Employee benefits liabilities	1 879	1 878	1	1	-
Provisions for decommissioning costs of mines and other technological facilities	797	797	-	-	-
Other non-current liabilities	6 376	6 374	2	**2**	-
Non-current liabilities	**9 052**	**9 049**	**3**	**3**	**-**
Employee benefits liabilities	649	649	-	-	-
Other current liabilities	3 990	3 990	-	-	-
Current liabilities	**4 639**	**4 639**	**-**	**-**	**-**
TOTAL LIABILITIES	**13 691**	**13 688**	**3**	**3**	**-**
TOTAL EQUITY AND LIABILITIES	**30 947**	**30 796**	**151**	**150**	**1**

Statement of profit or loss pursuant to article 44 of the Act on Energy

from 1 January 2018 to 31 December 2018	Company in total	Principal activities	Energy activities, of which:	Electricity	Gas	
				Distribution	Trade	Distribution
Sales revenue	15 757	15 743	14	7	6	1
Cost of sales	(12 537)	(12 516)	(21)	(14)	(7)	-
Gross profit	**3 220**	**3 227**	**(7)**	**(7)**	**(1)**	**1**
Selling costs and administrative expenses	(923)	(923)	-	-	-	-
Profit on sales	**2 297**	**2 304**	**(7)**	**(7)**	**(1)**	**1**
Other operating income and costs	1 149	1 149	-	-	-	-
Finance income/(costs)	(774)	(774)	-	-	-	-
Profit before income tax	**2 672**	**2 679**	**(7)**	**(7)**	**(1)**	**1**
Income tax expense	(647)	(641)	(6)	(6)	-	-
Profit for the period	**2 025**	**2 038**	**(13)**	**(13)**	**(1)**	**1**

from 1 January 2017 to 31 December 2017	Company in total	Principal activities	Energy activities, of which:	Electricity	Gas	
				Distribution	Trade	Distribution
Sales revenue	16 024	16 011	13	5	6	2
Cost of sales	(12 022)	(12 003)	(19)	(13)	(6)	-
Gross profit	**4 002**	**4 008**	**(6)**	**(8)**	**-**	**2**
Selling costs and administrative expenses	(877)	(877)	-	-	-	-
Profit on sales	**3 125**	**3 131**	**(6)**	**(8)**	**-**	**2**
Other operating income and costs	(2 004)	(2 004)	-	-	-	-
Finance income/(costs)	1 033	1 033	-	-	-	-
Profit before income tax	**2 154**	**2 160**	**(6)**	**(8)**	**-**	**2**
Income tax expense	(831)	(828)	(3)	(3)	-	-
Profit for the period	**1 323**	**1 332**	**(9)**	**(11)**	**-**	**2**

Note 12.13 Subsequent events after the reporting period

Extension of the deadline for repayment of a bank loan

On 1 February 2019, the Company extended the period of availability of the USD 100 million credit line in Bank Gospodarstwa Krajowego to 2 February 2020. Interest on the credit is based on LIBOR plus a margin.

Signing of financing agreements

On 13 February 2019, the Company signed an overdraft credit agreement for the amount of PLN 100 million with Bank Pekao S.A. in Warsaw. Interest on the credit is based on WIBOR plus a margin. The credit's period of availability expires on 13 February 2020.

On 27 February 2019, the Company signed an unsecured, working capital facility agreement with Bank Gospodarstwa Krajowego with a financing period of up to 84 months, as a revolving credit line in the amount of USD 450 million for a period of 60 months, with the option to transform it into a non-revolving credit after 60 months. Interest on the credit is based on LIBOR plus a margin.

Redemption of Investment Certificates of KGHM I FIZAN Fund and KGHM V FIZAN Fund

In January 2019, as a result of liquidation of KGHM I FIZAN and KGHM V FIZAN, 100% of Investment Certificates of these Funds, held by KGHM Polska Miedź S.A., were redeemed. As a result of this, the Company received PLN 391 million.

Payment for the second issuance, B Series, of Investment Certificates of KGHM VI FIZAN and KGHM VII FIZAN

In January 2019, there was a payment for the second issuance of Investment Certificates, B series, of the following Funds:

- KGHM VI FIZAN in the amount of PLN 60 million,
- KGHM VII FIZAN in the amount of PLN 73 million.

Acquisition of Investment Certificates of KGHM VI FIZAN FUND and KGHM VII FIZAN FUND

In January 2019, the Company acquired Investment Certificates, C series, of the following Funds:

- KGHM VI FIZAN in the amount of PLN 46 million,
- KGHM VII FIZAN in the amount of PLN 212 million.

PART 13 - Quarterly financial information of KGHM Polska Miedź S.A.

STATEMENT OF PROFIT OR LOSS

	from 1 October 2018 to 31 December 2018	from 1 October 2017 to 31 December 2017	from 1 January 2018 to 31 December 2018	from 1 January 2017 to 31 December 2017
Revenues from contracts with customers, including:	4 440	4 591	15 757	16 024
from sales, for which the amount of revenue was not finally determined at the end of the reporting period (IFRS 15, 114)	199	N/A*	831	N/A*
Cost of sales	(3 642)	(3 657)	(12 537)	(12 022)
Gross profit	**798**	**934**	**3 220**	**4 002**
Selling costs and administrative expenses	(269)	(256)	(923)	(877)
Profit on sales	**529**	**678**	**2 297**	**3 125**
Other operating income/(costs)	490	(1 315)	1 149	(2 004)
interest income calculated using the effective interest rate method	55	N/A*	242	N/A*
reversal/(recognition) of impairment losses on financial instruments and (recognition) of impairment losses on purchased or originated credit-impaired assets at the moment of initial recognition (POCI)	109	N/A*	270	N/A*
Finance income/(costs)	(275)	289	(774)	1 033
Profit/(Loss) before income tax	**744**	**(348)**	**2 672**	**2 154**
Income tax expense	(149)	(179)	(647)	(831)
PROFIT/(LOSS) FOR THE PERIOD	**595**	**(527)**	**2 025**	**1 323**
Weighted average number of ordinary shares (million)	**200**	**200**	**200**	**200**
Basic/diluted earnings per share (in PLN)	**2.98**	**(2.64)**	**10.13**	**6.62**

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

Explanatory notes to the statement of profit or loss

Note 13.1 Expenses by nature

	from 1 October 2018 to 31 December 2018	from 1 October 2017 to 31 December 2017	from 1 January 2018 to 31 December 2018	from 1 January 2017 to 31 December 2017
Depreciation of property, plant and equipment and amortisation of intangible assets	305	280	1 173	1 072
Employee benefits expenses	805	864	3 324	3 210
Materials and energy, including:	1 471	1 447	5 312	5 831
Purchased metal-bearing materials	862	932	3 040	3 750
Electrical and other energy	203	196	803	775
External services, including:	455	456	1 649	1 531
Transport	58	54	216	215
Repairs, maintenance and servicing	150	140	511	446
Mine preparatory work	115	116	477	437
Minerals extraction tax	374	456	1 671	1 765
Other taxes and charges	97	79	412	389
Advertising costs and representation expenses	18	14	43	37
Property and personal insurance	6	5	23	21
Other costs	2	18	26	68
Total expenses by nature	**3 533**	**3 619**	**13 633**	**13 924**
Cost of merchandise and materials sold (+)	45	35	177	182
Change in inventories of products and work in progress (+/-)	366	287	(236)	(1 097)
Cost of products for internal use (-)	(33)	(28)	(114)	(110)
Total cost of sales, selling costs and administrative expenses, including:	**3 911**	**3 913**	**13 460**	**12 899**
Cost of sales	3 642	3 657	12 537	12 022
Selling costs	34	29	115	112
Administrative expenses	235	227	808	765

Note 13.2 Other operating income/(costs)

	from 1 October 2018 to 31 December 2018	from 1 October 2017 to 31 December 2017	from 1 January 2018 to 31 December 2018	from 1 January 2017 to 31 December 2017
Measurement and realisation of derivatives	56	(1)	167	226
Exchange differences on assets and liabilities other than borrowings	162	-	386	-
Interest on loans granted and other financial receivables	56	58	244	310
Fees and charges on re-invoicing of costs of bank guarantees securing payments of liabilities	4	8	53	51
Reversal of allowances for impairment of loans due to restructuring of intra-group financing	-	N/A*	778	N/A*
Reversal of allowances for impairment of loans measured at amortised cost	(6)	N/A*	183	N/A*
Reversal of impairment losses on shares in subsidiaries	402	-	402	-
Reversal of allowances for impairment of loans recognised at the moment of initial recognition	85	N/A*	85	N/A*
Gains on changes in fair value of financial assets measured at fair value through profit or loss	14	N/A*	184	N/A*
Dividends income	-	-	239	4
Other	10	40	78	89
Total other income	783	**105**	2 799	**680**
Measurement and realisation of derivatives	(105)	(170)	(303)	(439)
Losses due to initial recognition of POCI loans due to restructuring of intra-group financing	-	N/A*	(763)	N/A*
Allowance for impairment of loans under IFRS 9	40	N/A*	(4)	N/A*
Allowance for impairment of loans under IAS 39	N/A*	(606)	N/A*	(606)
Fair value losses on financial assets measured at fair value through profit or loss	(129)	N/A*	(247)	N/A*
Exchange differences on assets and liabilities other than borrowings	-	(280)	-	(1 179)
Impairment losses on shares and investment certificates in subsidiaries	(47)	(330)	(47)	(330)
Provisions recognised	(10)	(5)	(162)	(23)
Other	(42)	(29)	(124)	(107)
Total other costs	**(293)**	**(1 420)**	**(1 650)**	**(2 684)**
Other operating income and (costs)	**490**	**(1 315)**	**1 149**	**(2 004)**

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

Note 13.3 Finance income/(costs)

	from 1 October 2018 to 31 December 2018	from 1 October 2017 to 31 December 2017	from 1 January 2018 to 31 December 2018	from 1 January 2017 to 31 December 2017
Exchange differences on borrowings	-	334	-	1 247
Measurement of derivatives	(17)	-	11	-
Total income	**(17)**	**334**	**11**	**1 247**
Interest on borrowings	(37)	(27)	(127)	(113)
Bank fees and charges on borrowings	(5)	(8)	(23)	(28)
Exchange differences on borrowings	(206)	-	(592)	-
Measurement of derivatives	-	-	-	(30)
Unwinding of the discount	(10)	(10)	(43)	(43)
Total costs	**(258)**	**(45)**	**(785)**	**(214)**
Finance income/(costs)	**(275)**	**289**	**(774)**	**1 033**

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

These financial statements were authorised for issue on 13 March 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