

POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated quarterly report QSr 3 / 2017

(in accordance with § 82 section 2 and § 83 section 1 of the Decree of the Minister of Finance dated 19 February 2009 - unified text: Journal of Laws of 2014, item 133, with subsequent amendments)

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

For the third quarter of the financial year **2017** from **1 July 2017** to **30 September 2017** containing the interim condensed consolidated financial statements prepared under International Accounting Standard 34 in PLN, and interim condensed financial statements prepared under IAS 34 in PLN.

publication date: 14 November 2017

KGHM Polska Miedź Spółka Akcyjna (name of the issuer)	
KGHM Polska Miedź S.A. (name of the issuer in brief)	Basic materials (issuer branch title per the Warsaw Stock Exchange)
59 - 301 (postal code)	LUBIN (city)
M. Skłodowskiej - Curie (street)	48 (number)
(48 76) 74 78 200 (telephone)	(48 76) 74 78 500 (fax)
ir@kghm.com (e-mail)	www.kghm.com (www)
692-000-00-13 (NIP)	390021764 (REGON)

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

SELECTED FINANCIAL DATA
data concerning the interim condensed consolidated financial statements of KGHM Polska Miedź S.A.

	in PLN mn		in EUR mn	
	3 quarters of 2017	3 quarters of 2016	3 quarters of 2017	3 quarters of 2016
I. Sales revenue	14 487	13 141	3 403	3 008
II. Profit on sales	2 741	1 813	644	415
III. Profit before income tax	2 436	1 214	572	278
IV. Profit for the period	1 659	629	390	144
V. Profit for the period attributable to shareholders of the Parent Entity	1 655	625	389	143
VI. Profit for the period attributable to non-controlling interest	4	4	1	1
VII. Other comprehensive net income	478	(4)	112	(1)
VIII. Total comprehensive income	2 137	625	502	143
IX. Total comprehensive income attributable to shareholders of the Parent Entity	2 133	615	501	141
X. Total comprehensive income attributable to non-controlling interest	4	10	1	2
XI. Number of shares issued (million)	200	200	200	200
XII. Earnings per ordinary share attributable to shareholders of the Parent Entity	8.28	3.13	1.95	0.72
XIII. Net cash generated from operating activities	1 738	2 280	408	522
XIV. Net cash used in investing activities	(2 076)	(2 858)	(488)	(654)
XV. Net cash generated from/(used in) financing activities	(108)	836	(25)	191
XVI. Total net cash flow	(446)	258	(105)	59
	3rd quarter of 2017	2016	3rd quarter of 2017	2016
XVII. Non-current assets	27 072	27 202	6 283	6 149
XVIII. Current assets	7 234	6 240	1 678	1 410
XIX. Total assets	34 306	33 442	7 961	7 559
XX. Non-current liabilities	10 754	11 665	2 496	2 637
XXI. Current liabilities	5 702	5 866	1 323	1 326
XXII. Equity	17 850	15 911	4 142	3 596
XXIII. Equity attributable to shareholders of the Parent Entity	17 706	15 772	4 109	3 565
XXIV. Equity attributable to non-controlling interest	144	139	33	31

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

	in PLN mn		in EUR mn	
	3 quarters of 2017	3 quarters of 2016	3 quarters of 2017	3 quarters of 2016
I. Sales revenue	11 433	10 284	2 686	2 354
II. Profit on sales	2 447	1 694	575	388
III. Profit before income tax	2 502	1 832	588	419
IV. Profit for the period	1 850	1 282	435	293
V. Other comprehensive net income	219	34	51	8
VI. Total comprehensive income	2 069	1 316	486	301
VII. Number of shares issued (million)	200	200	200	200
VIII. Earnings per ordinary share	9.25	6.41	2.18	1.47
IX. Net cash generated from operating activities	1 207	1 863	284	426
X. Net cash used in investing activities	(1 624)	(2 544)	(382)	(582)
XI. Net cash generated from financing activities	84	876	20	201
XII. Total net cash flow	(333)	195	(78)	45
	3rd quarter of 2017	2016	3rd quarter of 2017	2016
XIII. Non-current assets	25 684	25 594	5 960	5 785
XIV. Current assets	5 648	4 506	1 311	1 019
XV. Total assets	31 332	30 100	7 271	6 804
XVI. Non-current liabilities	8 638	9 245	2 004	2 090
XVII. Current liabilities	4 925	4 955	1 143	1 120
XVIII. Equity	17 769	15 900	4 124	3 594

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Part 1 – Interim condensed consolidated financial statements

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	3rd quarter of 2017	3 quarters of 2017	3rd quarter of 2016	3 quarters of 2016
Note 3.3 Sales revenue	4 774	14 487	4 685	13 141
Note 4.1 Cost of sales	(3 574)	(10 789)	(3 651)	(10 355)
Gross profit	1 200	3 698	1 034	2 786
Note 4.1 Selling costs and administrative expenses	(336)	(957)	(339)	(973)
Profit on sales	864	2 741	695	1 813
Note 3.2 Share of losses of joint ventures accounted for using the equity method	-	(215)	(351)	(827)
Interest income on loans granted to joint ventures	79	240	159	465
Profit or loss on involvement in joint ventures	79	25	(192)	(362)
Note 4.2 Other operating income and (costs)	(204)	(1 062)	(164)	(270)
Note 4.3 Finance income and (costs)	48	732	192	33
Profit before income tax	787	2 436	531	1 214
Income tax expense	(182)	(777)	(200)	(585)
PROFIT FOR THE PERIOD	605	1 659	331	629
Profit for the period attributable to:				
Shareholders of the Parent Entity	604	1 655	329	625
Non-controlling interest	1	4	2	4
Weighted average number of ordinary shares (million)	200	200	200	200
Basic/diluted earnings per share (in PLN)	3.02	8.28	1.65	3.13

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	3rd quarter of 2017	3 quarters of 2017	3rd quarter of 2016	3 quarters of 2016
Profit for the period	605	1 659	331	629
Measurement of hedging instruments net of the tax effect	33	206	30	11
Measurement of available-for-sale financial assets net of the tax effect	37	147	(41)	(22)
Exchange differences from the translation of statements of operations with a functional currency other than PLN	53	250	(135)	(1)
Other comprehensive income which will be reclassified to profit or loss	123	603	(146)	(12)
Actuarial gains/(losses) net of the tax effect	22	(125)	81	8
Other comprehensive income, which will not be reclassified to profit or loss	22	(125)	81	8
Total other comprehensive net income	145	478	(65)	(4)
TOTAL COMPREHENSIVE INCOME	750	2 137	266	625
Total comprehensive income attributable to:				
Shareholders of the Parent Entity	743	2 133	270	615
Non-controlling interest	7	4	(4)	10

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	3 quarters of 2017	3 quarters of 2016
Cash flow from operating activities		
Profit before income tax	2 436	1 214
Depreciation/amortisation recognised in profit or loss	1 155	1 241
Share of losses of joint ventures accounted for using the equity method	215	827
Interest on loans granted to joint ventures	(240)	(465)
Interest and other costs of borrowings	113	103
Impairment losses on non-current assets	1	71
Exchange differences, of which:	186	(90)
from investment activities and cash	1 101	87
from financing activities	(915)	(177)
Change in other receivables and liabilities	(144)	(163)
Change in assets/liabilities due to derivatives	(23)	-
Note 4.12 Other adjustments to profit before income tax	3	66
Exclusions of income and costs, total	1 266	1 590
Income tax paid	(818)	(335)
Note 4.11 Changes in working capital	(1 146)	(189)
Net cash generated from operating activities	1 738	2 280
Cash flow from investing activities		
Expenditures on mining and metallurgical assets	(1 643)	(2 320)
Expenditures on other property, plant and equipment and intangible assets	(161)	(163)
Acquisition of newly-issued shares of a joint venture	(206)	(335)
Other expenses	(92)	(74)
Total expenses	(2 102)	(2 892)
Proceeds	26	34
Net cash used in investing activities	(2 076)	(2 858)
Cash flow from financing activities		
Proceeds from borrowings	1 645	2 896
Other proceeds	4	18
Total proceeds	1 649	2 914
Repayments of borrowings	(1 538)	(1 821)
Dividends paid to shareholders of the Parent Entity	(100)	(150)
Interest paid and other costs of borrowings	(118)	(98)
Other payments	(1)	(9)
Total expenses	(1 757)	(2 078)
Net cash generated from/(used in) financing activities	(108)	836
TOTAL NET CASH FLOW	(446)	258
Exchange gains/(losses)	(7)	12
Cash and cash equivalents at beginning of the period	860	461
Cash and cash equivalents at end of the period	407	731

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	3rd quarter of 2017	2016
ASSETS		
Mining and metallurgical property, plant and equipment	15 571	15 217
Mining and metallurgical intangible assets	2 325	2 474
Mining and metallurgical property, plant and equipment and intangible assets	17 896	17 691
Other property, plant and equipment	2 632	2 591
Other intangible assets	201	208
Other property, plant and equipment and intangible assets	2 833	2 799
Joint ventures accounted for using the equity method	26	27
Note 4.6 Loans granted to joint ventures	3 999	4 313
Note 4.5 Total involvement in joint ventures	4 025	4 340
Derivatives	183	237
Other financial instruments measured at fair value	742	577
Other financial assets	940	930
Note 4.6 Financial instruments, total	1 865	1 744
Deferred tax assets	340	511
Other non-financial assets	113	117
Non-current assets	27 072	27 202
Inventories	4 931	3 497
Note 4.6 Trade receivables	1 127	1 292
Tax assets	224	267
Note 4.6 Derivatives	110	72
Other assets	435	252
Note 4.6 Cash and cash equivalents	407	860
Current assets	7 234	6 240
	34 306	33 442
EQUITY AND LIABILITIES		
Share capital	2 000	2 000
Other reserves from measurement of financial instruments	170	(183)
Accumulated other comprehensive income	2 341	2 216
Retained earnings	13 195	11 739
Equity attributable to shareholders of the Parent Entity	17 706	15 772
Equity attributable to non-controlling interest	144	139
Equity	17 850	15 911
Note 4.8 Borrowings	5 790	6 539
Note 4.6 Derivatives	169	256
Employee benefits liabilities	2 063	1 860
Provisions for decommissioning costs of mines and other technological facilities	1 403	1 487
Deferred tax liabilities	568	563
Other liabilities	761	960
Non-current liabilities	10 754	11 665
Note 4.8 Borrowings	1 435	1 559
Note 4.6 Derivatives	51	215
Note 4.6 Trade payables	1 587	1 433
Employee benefits liabilities	865	787
Tax liabilities	457	786
Other liabilities	1 307	1 086
Current liabilities	5 702	5 866
Non-current and current liabilities	16 456	17 531
	34 306	33 442

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Equity attributable to shareholders of the Parent Entity				Equity attributable to non-controlling interest	Total equity	
		Share capital	Other reserves from measurement of financial instruments	Accumulated other comprehensive income	Retained earnings			Total
As at 1 January 2016		2 000	(64)	1 868	16 407	20 211	203	20 414
Note 5.4	Dividend	-	-	-	(300)	(300)	-	(300)
	Transactions with non-controlling interest	-	-	-	3	3	2	5
	Transactions with owners	-	-	-	(297)	(297)	2	(295)
	Profit for the period	-	-	-	625	625	4	629
	Other comprehensive income	-	(11)	1	-	(10)	6	(4)
	Total comprehensive income	-	(11)	1	625	615	10	625
As at 30 September 2016		2 000	(75)	1 869	16 735	20 529	215	20 744
As at 1 January 2017		2 000	(183)	2 216	11 739	15 772	139	15 911
Note 5.4	Dividend	-	-	-	(200)	(200)	-	(200)
	Transactions with non-controlling interest	-	-	-	1	1	1	2
	Transactions with owners	-	-	-	(199)	(199)	1	(198)
	Profit for the period	-	-	-	1 655	1 655	4	1 659
	Other comprehensive income	-	353	125	-	478	-	478
	Total comprehensive income	-	353	125	1 655	2 133	4	2 137
As at 30 September 2017		2 000	170	2 341	13 195	17 706	144	17 850

1 – General information

Note 1.1 Corporate information

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

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

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

The Parent Entity’s principal activities include:

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

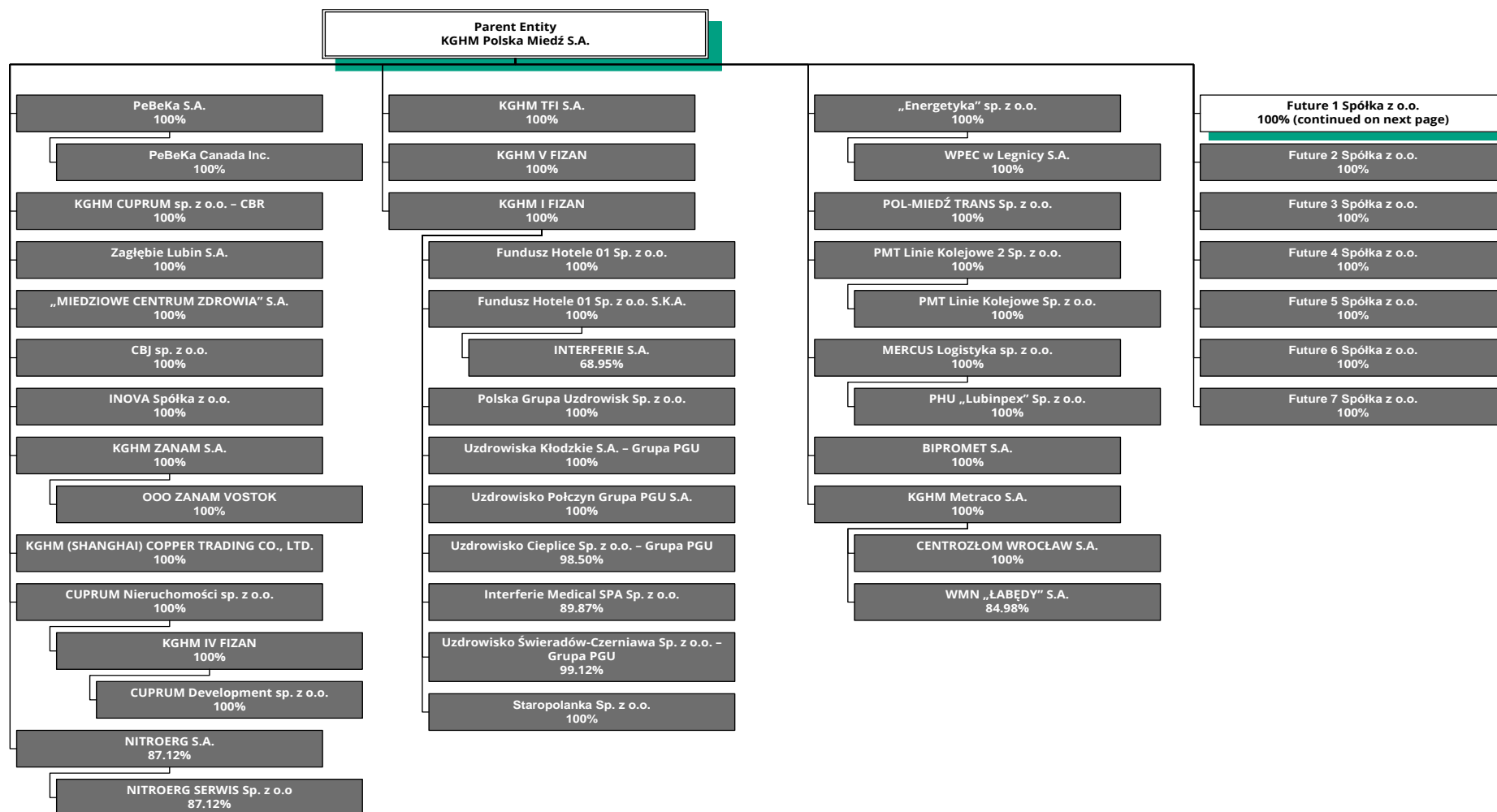
The business activities of the Group include:

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

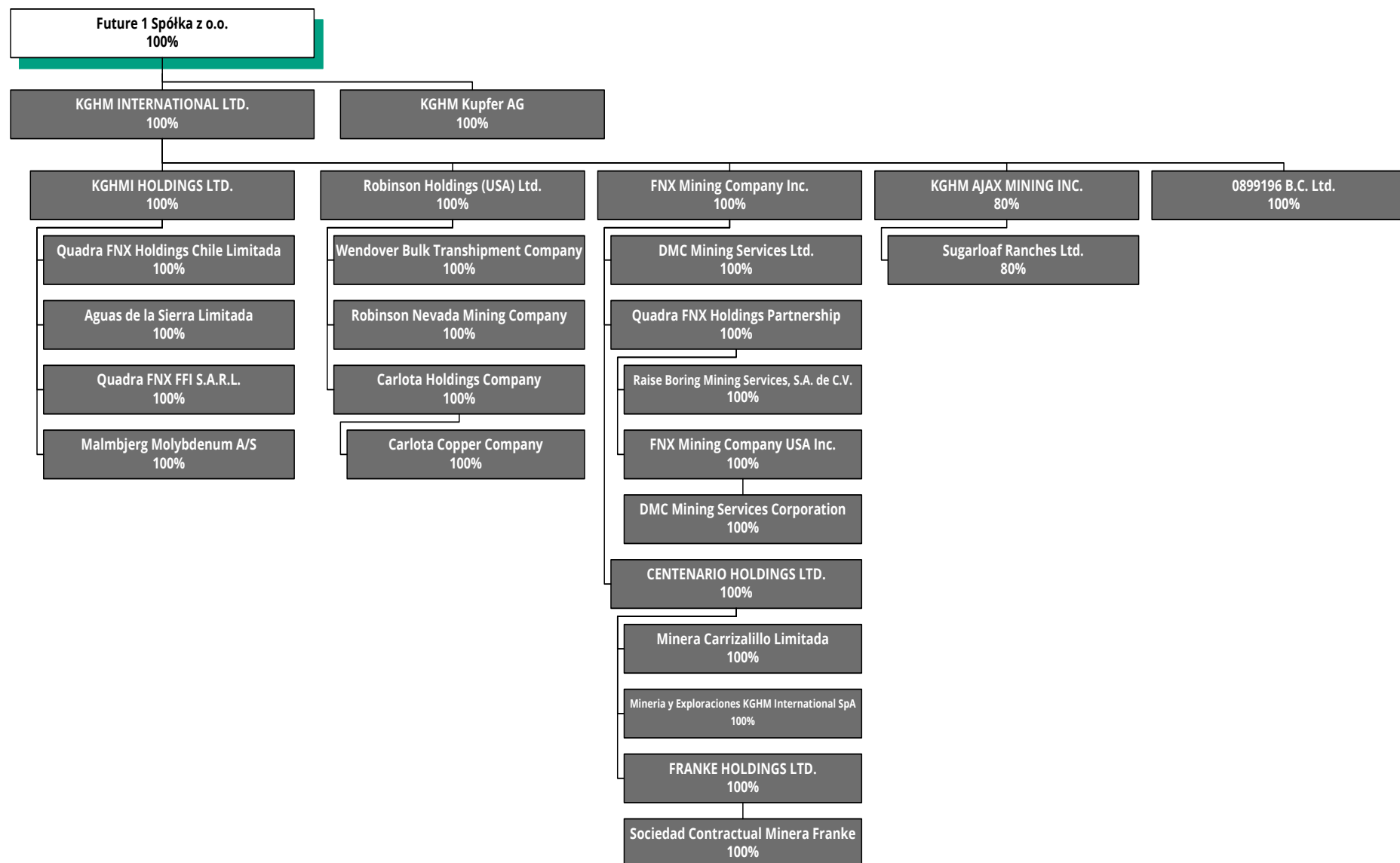
The KGHM Polska Miedź S.A. Group carries out exploration and mining of copper, nickel and precious metals based on concessions given for Polish deposits to KGHM Polska Miedź S.A., and also based on legal titles held by companies of the KGHM INTERNATIONAL LTD. Group for the exploration for and mining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

Note 1.2 Structure of the KGHM Polska Miedź S.A. Group as at 30 September 2017

In the current quarter KGHM Polska Miedź S.A. consolidated 72 subsidiaries and used the equity method to account for the shares of three joint ventures (Sierra Gorda S.C.M., „Elektrownia Blachownia Nowa” sp. z o.o. and NANO CARBON Sp. z o.o.).



The percentage share represents the total share of the Group.



Note 1.3 Exchange rates applied

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

- for the conversion of turnover, profit or loss and cash flow for the current period, the rate of **4.2566 EURPLN***,
- for the conversion of turnover, profit or loss and cash flow for the comparable period, the rate of **4.3688 EURPLN***,
- for the conversion of assets, equity and liabilities at 30 September 2017, applying the current average exchange rate announced by the National Bank of Poland (NBP) as at 30 September 2017, the rate of **4.3091 EURPLN**,
- for the conversion of assets, equity and liabilities at 31 December 2016, applying the current average exchange rate announced by the NBP as at 31 December 2016, the rate of **4.4240 EURPLN**.

**the rates represent the arithmetic average of current average exchange rates announced by the NBP on the last day of each month during the period from January to September respectively of 2017 and 2016.*

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

The following quarterly report includes:

1. the interim condensed consolidated financial statements of the KGHM Polska Miedź S.A. Group for the period from 1 January to 30 September 2017 and the comparable period from 1 January to 30 September 2016, together with selected explanatory information (**Part 1**),
2. the quarterly financial information of KGHM Polska Miedź S.A. for the period from 1 January to 30 September 2017 and the comparable period from 1 January to 30 September 2016 (**Part 2**).

Neither the interim consolidated financial statements as at 30 September 2017 nor the interim separate financial statements as at 30 September 2017 were subject to audit by a certified auditor.

The condensed consolidated financial report for the period from 1 January 2017 to 30 September 2017 was prepared in accordance with IAS 34 *Interim Financial Reporting* as approved by the European Union and for a full understanding of the financial position and operating results of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group, should be read jointly with the Annual Report R 2016 and the Consolidated annual report RS 2016.

This quarterly report's financial statements were prepared using the same accounting policies and valuation methods for the current and comparable periods and principles applied in annual financial statements (consolidated and separate), prepared as at 31 December 2016, with the exception of the change published in the regulatory filing No. 28/2017 dated 27 October 2017, the impact of which is presented below.

Impact of a correction of a judgment on the functional currency of a subsidiary

As a result of reassessment of the currency of the primary economic environment in which the subsidiary Future 1 Sp. z o.o. (Future 1) operates, the Parent Entity's Management Board decided to correct its judgment on the functional currency of Future 1 and to change it from the Polish zloty (PLN) to the US dollar (USD) for the purposes of the consolidated financial statements. Below, we present in brief the impact of the aforementioned change on the consolidated financial statements:

- as at 31 December 2016:
 - an increase in accumulated other comprehensive income from PLN 855 million to PLN 2 216 million – a change in the amount of PLN 1 361 million,
 - a decrease in retained earnings (undistributed profit) from PLN 13 100 million to PLN 11 739 million – a change in the amount of PLN 1 361 million,
 - no impact on the financial result for 2016,
- for the period from 1 January 2017 to 30 June 2017:
 - an increase in profit for the period from PLN 494 million to PLN 1 054 million – a change in the amount of PLN 560 million,
 - a decrease in other comprehensive income from PLN 981 million to PLN 333 million – a change in the amount of PLN 648 million,
 - a decrease in deferred tax assets from PLN 460 million to PLN 372 million – a change in the amount of PLN 88 million.

As a result of the correction of judgment, the amended quarterly report for the first quarter of 2017 (Qsr 1/2017) was published on 27 October 2017, while the amended half-year report for the first half of 2017 (PSr 2017), together with the Auditor's review report, was published by the Company on 9 November 2017.

Impact of new and amended standards and interpretations

The International Accounting Standards Board approved the following amendments for use after 1 January 2017:

- Amendments to IAS 7 "Statement of Cash Flows" – the Disclosure Initiative.

- Amendments to IAS 12 "Deferred Tax" - Recognition of Deferred Tax Assets for Unrealised Losses.
- Annual Improvements to IFRS Standards, 2014-2016 Cycle, clarifying the scope of IFRS 12 "Disclosure of Interests in Other Entities".

Up to the date of publication of these financial statements, the above changes to standards were not adopted for use by the European Union. Their application would not have an impact on the Group's accounting policy or on these consolidated financial statements.

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

Changes in the composition of the Management Board of the Company

On 24 July 2017, the Supervisory Board adopted a resolution on the appointment of Ryszard Jaśkowski as a Member of the Management Board of KGHM Polska Miedź S.A.

Signing of a contract for the supply of fuel gas with Polskie Górnictwo Naftowe i Gazownictwo S.A.

On 27 July 2017, the Management Board of KGHM Polska Miedź S.A. signed a Framework Agreement for the comprehensive sale of fuel gas as well as bilateral Individual Contracts with the company Polskie Górnictwo Naftowe i Gazownictwo ("PGNiG", "Seller"). The agreement in question along with the contracts replaced the existing five individual long-term contracts between the parties, which in accordance with the stipulations of the Framework Agreement were terminated. The Framework Agreement and Individual Contracts standardise the conditions for the purchase of fuel gas for all reception points, which until now had differed from one other.

The Framework Agreement was entered into for the period from 1 July 2017 to 1 October 2033. It regulates the manner in which Individual Contracts are entered into and terminated, as well as common terms and conditions for all of the contracts, such as the rules for placing orders for fuel gas supply, settling deliveries and renegotiating gas prices. Moreover, under certain conditions, the agreement provides for the possibility to change the type of fuel gas from nitrogen-rich gas to high-methane gas, and provides a mechanism enhancing the energy security of the Parent Entity, in which the Seller guarantees the fuel gas supplies, in the quantities required by KGHM Polska Miedź S.A.

These Individual Contracts represent implementing agreements to the Framework Agreement. They specify the amounts of fuel gas and the price formula shared by all of the contracts – based on market indices of gas prices, and other significant technical and trade parameters of the supply of gas to the Parent Entity. All of the Individual Contracts were signed for the period ending 1 October 2033, while for some of the contracts the date on which deliveries are to start was determined to be 1 July 2017, and for others to be 1 October 2017.

The estimated total value of the Framework Agreement together with Individual Contracts during the entire period they will be in force is approx. PLN 4.8 billion.

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

On 22 September 2017, the Management Board of KGHM Polska Miedź S.A. announced that the Regional Court for Wrocław-Fabryczna in Wrocław, Section IX (Economic) of the National Court Register, in a judgment dated 21 September 2017 registered amendments to the Company Statutes, adopted by resolutions of the Ordinary General Meeting of KGHM Polska Miedź S.A. with its registered head office in Lubin dated 21 June 2017.

2 – Implementation of strategy

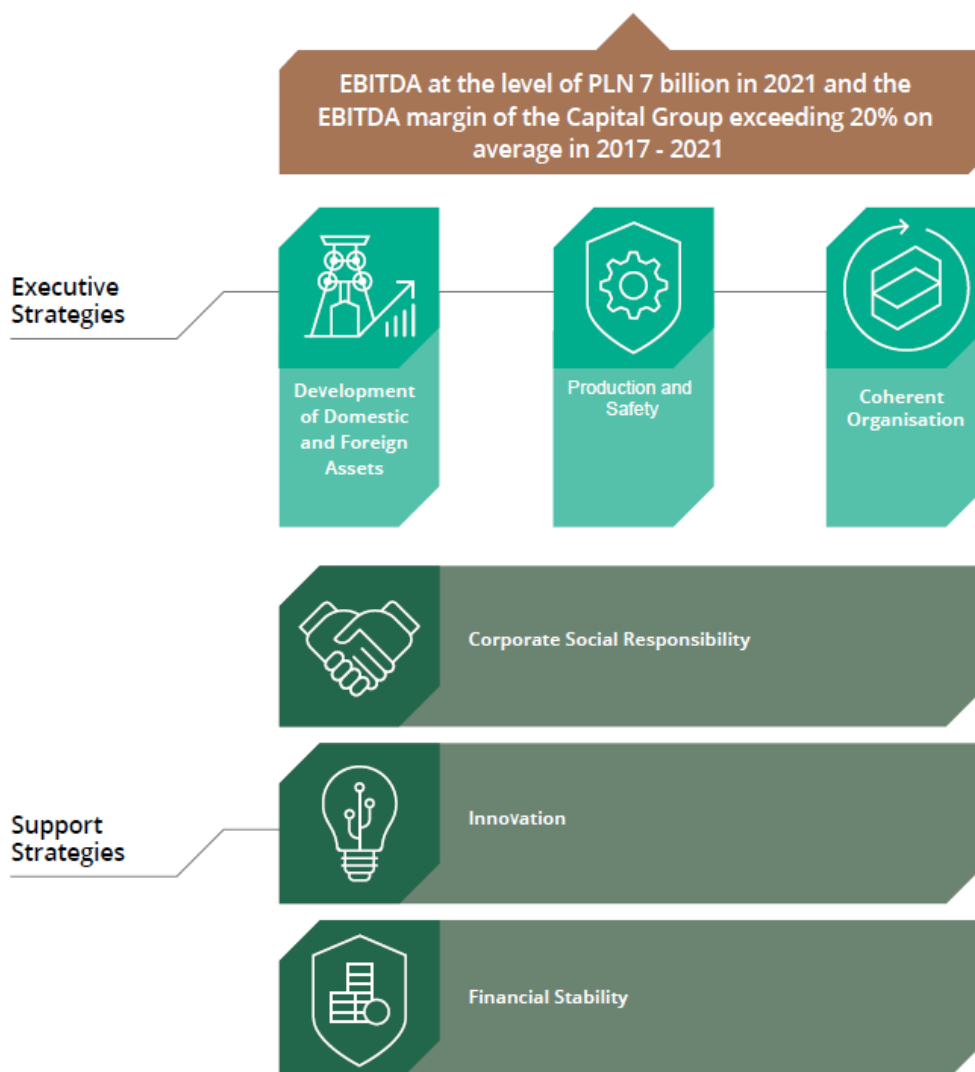
Implementation of KGHM Polska Miedź S.A.'s strategy in the first three quarters of 2017

In May 2017, KGHM Polska Miedź S.A. approved the new Company Strategy for the years 2017-2021 with an outlook to 2040, establishing the following primary goal: EBITDA at the level of PLN 7 billion in 2021 as well as an EBITDA margin for the Group exceeding 20% on average in the years 2017 – 2021. The mission of the Company is based on the slogan „To always have copper”, and its vision is „To use our resources efficiently to become a leader in sustainable development”. The Company's Strategy is being advanced by:

- **3 executive strategies:**
 - Development of Domestic and Foreign Assets
 - Production and Safety
 - Coherent Organisation

and

- **3 support strategies:**
 - Corporate Social Responsibility
 - Innovation
 - Financial Stability



A separate primary goal was defined for each of the aforementioned strategies:

Development of Domestic and Foreign Assets

The Strategy aims to ensure the efficient management of investments and resource-related projects. The capital expenditures and equity investments of the KGHM Polska Miedź S.A. Group for 2017-2021 has been estimated at the level of PLN 15 billion, of which over PLN 9.7 billion relates to KGHM Polska Miedź S.A.

Production and Safety

The Strategy assumes an average annual production volume (of copper in ore) in Poland at the level of approximately 470 thousand tonnes of copper, and an average annual production volume abroad of approximately 145 thousand tonnes of payable copper in the years 2017-2021. One of the main priorities is providing widely understood safety in the following areas: work, environment and energy.

Coherent Organisation

The Strategy aims at implementing systemic solutions oriented towards growth in the value of the KGHM Polska Miedź S.A. Group by working out tailor-made organisational processes aimed at improving the efficiency and effectiveness of the supply chain.

Corporate Social Responsibility

The Strategy aims to further strengthen the positive image of the KGHM Polska Miedź S.A. Group with regard to shaping appropriate relations with the environment (stakeholders).

Innovation

The Strategy is oriented towards improving productivity in the KGHM Polska Miedź S.A. Group. It will enable long-term economic efficiency of the Company's business operations.

Financial Stability

The Strategy assumes ensuring financial stability, supporting development and efficiency, and providing resilience to difficult market conditions. The Strategy aims to provide financial security to the KGHM Polska Miedź S.A. Group.

All of the mutually-complementary executive and support strategies are aimed at jointly achieving strategic priorities. The strategic priorities of KGHM Polska Miedź S.A. are:

- EBITDA at the level of PLN 7 billion in 2021 and the EBITDA margin of the Group exceeding 20% on average in 2017 – 2021.
- CAPEX at the level of PLN 15 billion in 2017-2021 – total equity investment and capital expenditures in the Group, both locally and abroad.
- Stable average annual production from domestic and foreign assets at a cost guaranteeing financial security.
- Functioning in accordance with sustainable development concepts in order to harmonise the common expectations of stakeholders with regard to economic, social and pro-environmental objectives.
- Financial stability in order to implement the assumed investment program on time and within budget.
- Focusing on innovative solutions in order to improve productivity.
- Readiness to bring foreign assets to their production maturity in order to maximise revenue and foreign ROI.
- Using the potential of companies from the KGHM Polska Miedź S.A. Group.

The long term goal of the Company is to maintain a stable level of production from its domestic and foreign assets while ensuring safe working conditions and minimising its impact on the natural environment and surroundings. In contrast to trends in prior years, the paradigm of continuous economic growth has been superseded by sustainable development. For this reason, over the long term the Company will aim at creating a sustainable system, understood as conserving natural resources through their optimum and efficient utilisation, in a rational manner, in such a way as to pass them on to future generations. The actions of KGHM Polska Miedź S.A. are grounded in proven business practices, which ensure an increase in the Company's value and at the same time reflect social needs. In addition, the Company will continually identify potential opportunities for investment, which as financing allows, will enable the diversification of activities.

Implementation of the main strategic projects in the first three quarters of 2017

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

Radwanice-Gaworzyce	- In February 2017 the Company received a concession to extract copper ore from the Radwanice-Gaworzyce deposit in the area of Gaworzyce and signed a mining usufruct agreement. At the Company's request to terminate the concession to evaluate the copper deposit Radwanice-Gaworzyce in the Dankowice area, the Minister of the Environment, in a decision dated 19 July 2017, confirmed the termination of the concession.
Synklina Grodziecka and Konrad	- Technical and economic analyses carried out and reviewed by independent experts indicated lack of justification for advancing this investment. Given the fact that, among others, the costs associated with dewatering the projected mine play a critical role in determining the economic feasibility of the project, it was decided that additional hydrogeological research would be conducted. Towards this end, at the end of the second quarter of 2017, applications were submitted to extend the validity of the concessions for Synklina Grodziecka and Konrad to 2020. In the third quarter, a decision was obtained which prolongs the validity of the Konrad concession by 3 years. Administrative proceedings regarding the prolongation of the validity of the Synklina Grodziecka concession remain in progress.
Retków-Ścinawa and Głogów	- In April 2017, the Company received a decision altering the terms and conditions of the concession for the exploration and evaluation of copper ore deposits within the Retków-Ścinawa area, which enables the continuation of work under stage 2, i.e. the execution among others of surface-based drill holes as well as underground mining areas representing a significant enhancement of knowledge about geological and mining conditions. Further drilling continues under stage 2 (two drillholes were completed and the work on the third one is underway). - On 20 March 2017, the Minister of the Environment issued a decision altering the terms and conditions of the concession for the exploration and evaluation of copper ore deposits within the Głogów area, which enables the commencement of the next stage of geological work.

Exploration projects in the preparatory phase:

Bytom Odrzański, Kulów-Luboszyce	- Court and administrative proceedings are underway involving applied-for concessions: Bytom Odrzański, Kulów-Luboszyce (KGHM Polska Miedź S.A.) and Bytom Odrzański, Kotla and Niechlów (Leszno Copper). The Supreme Administrative Court has set the second half of November 2017 as the date for hearings.
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Other concessions:

Puck region	- Based on collected data the geological profile of the region was reinterpreted and the economic and technical feasibility of the potassium-magnesium salt deposits was evaluated, reflecting the mine model and processing technology, which justified further geological work. As a result, preparatory work is underway aimed at commencing the drilling of another hole.
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Key development projects of the Core Business in Poland

Program to access the Deep Głogów Deposit	- Work continued on the sinking of the GG-1 shaft (the shaft's target depth is 1 350 meters with a diameter of 7.5 meters). Completion of the shaft's construction together with infrastructure (social buildings and lift machinery) is planned for the end of 2021. - With respect to the Construction of a Central Air Conditioning System (CACS) at the GG-1 Shaft, a contract has been signed with a contractor for the following: Construction of a trigeneration, Surface-based Air Conditioning System and Construction of an Ice Water Transportation System for the CACS. Work has commenced on draft designs, with their handover expected in December 2017. - During the reporting period preparatory work continued related to receiving a permit to build facilities required for the sinking of the GG-2 („Odra”) shaft. The next stage in developing the concept design for the „Odra” shaft is underway. A formal application has been submitted to the Wójt (Mayor) of the Gmina (municipality) of Żukowice to make changes to the municipality's planning documentation.
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Pyrometallurgy Modernisation Program at the Głogów smelter/refinery	<ul style="list-style-type: none"> - Assembly and start-up work had been completed and final handover of orders and contracts is underway. The completion and handover of contractor documentation was carried out along with documents related to obtaining utilisation permits. The process continues of announcing the completion of work to administrative offices and of obtaining utilisation permits.
Metallurgy Development Program (MDP)	<ul style="list-style-type: none"> - Construction and assembly work continues on key technological nodes under the program's component investment tasks, such as construction of a Steam Drier at the Głogów II Copper Smelter and Refinery and a Copper Concentrate Roasting Installation. The planned date for the start-up of the concentrate roasting installation is the fourth quarter of 2017, while that of the steam drier at the Głogów II Copper Smelter and Refinery is the first quarter of 2018. - As part of the MDP projects are being continued related to adapting technical infrastructure to the change in metallurgical technology at the Głogów I Copper Smelter and Refinery, involving the implementation of technical-technological solutions aimed at optimising utilisation of the modernised metallurgical infrastructure in terms of the investment projects at the Głogów Copper Smelter and Refinery currently being advanced, including: <ul style="list-style-type: none"> - replacement of non-current assets, - ensuring that European Union regulations and other legal requirements are met, - adapting power, roadway and other infrastructure at the Głogów I Copper Smelter and Refinery, and - providing electrical power, control and lighting of existing facilities and equipment at the Głogów I Copper Smelter and Refinery. <p>With respect to conformatory projects, work is at the final stage, trials and start-ups are underway and contractor documentation is being completed together with documentation required for obtaining utilisation permits.</p>
Development of the Żelazny Most tailings storage facility	<ul style="list-style-type: none"> - Based on the permit received in 2016 to develop the Main Facility to a crown height of 195 meters a.s.l. and a permit to further operate the Tailings Storage Facility, the dam is being built up successively as part of the on-going operations of the Parent Entity. - Formal actions are underway aimed at further development of the Żelazny Most tailings storage facility, to ensure the possibility of depositing tailings in coming years.
Development of international assets	
Victoria project (Sudbury Basin, Canada) <i>KGHM Polska</i> <i>Miedz S.A. Group 100%</i>	<ul style="list-style-type: none"> - In terms of project-related activities, the project team continued work related to securing existing infrastructure and project terrain. In addition, work was carried on working out an optimal path to realise the investment.
Sierra Gorda Oxide (Chile) <i>KGHM INTERNATIONAL LTD.</i> <i>Group 100%.</i> <i>Sumitomo Metal Mining and Sumitomo Corporation hold the option to jointly acquire a 45% interest in the project.</i>	<ul style="list-style-type: none"> - During the reporting period analytical work continued related to evaluating alternative scenarios to develop the project which will enable limitation of the level of required capital expenditures.
Ajax project (British Columbia, Canada) <i>KGHM Polska</i> <i>Miedz S.A. Group 80%,</i> <i>Abacus Mining and Exploration Corp. 20%</i>	<ul style="list-style-type: none"> - During the first three quarters of 2017, the project team continued work related to obtaining an environmental permit and building relations with First Nations, as well as with the people of the city of Kamloops.

Production
Sierra Gorda

Mine in Chile – Phase 1
 KGHM INTERNATIONAL LTD.
 Group 55%, Sumitomo Metal
 Mining and Sumitomo
 Corporation 45%

- Production of copper in concentrate in the third quarter of 2017 amounted to 23.4 thousand tonnes (total in the first three quarters of 2017: 72.77 thousand tonnes), and production of molybdenum in concentrate amounted to 6.2 million pounds (a total of 29.76 million pounds in the first three quarters of 2017). The above figures are on a 100% basis.
- Work was carried out related to optimising the sulphide ore processing process. The actions undertaken were aimed at stabilising ore processing production volumes and technological parameters of ore processing process. The actions undertaken led to increased processing capacity by the processing plant and higher metals recovery.
- Currently, work is aimed at developing the mine based on the first phase of the investment, together with actions aimed at optimising the production line, the result of which is expected to be an increase in production capacity.

Maintaining production from own concentrate

- Preparatory work continued related to commencing mining in new areas of the deposits as part of the Deposit Access Program (previously the Deep Głogów Project).

Improving efficiency in the core business in Poland

- Initiatives aimed at improving resource management effectiveness in the mines and metallurgical plants of KGHM Polska Miedź S.A. were continued, at the same time enabling limitation of cost increases by:
 - more efficient utilisation of resources (3D deposit modeling),
 - increasing extraction and the production of copper in concentrate,
 - optimising management of underground machines,
 - advancing the energy savings program,
 - optimising employment.

The initiatives are being carried out in accordance with adopted assumptions.

Initiatives aimed at enhancing knowledge and innovation in KGHM POLSKA MIEDŹ S.A.

Main R&D initiatives

- New regulations were introduced for implementation in the Company with respect to principles for planning and carrying out R&D activities as well as uniform contract models related to innovation activities. The new principles were also implemented in the companies of the Group.
- Work continues on R&D projects focused on developing and executing innovative technological and organisational solutions enabling an improvement in efficiency, workplace safety and ensuring uninterrupted production. Work is currently underway on analysing production line units, including with respect to R&D needs.
- In the third quarter of 2017, the second round of selecting start-ups under the governmental acceleration program Start-In Poland was commenced - the Scale UP project. The goal of the project is to develop start-ups in KGHM Polska Miedź S.A. Preparations are underway to establish our own acceleration program in cooperation with KGHM CUPRUM Sp. z o.o. - CBR – a Group company.

CuBR Program

- 22 R&D projects are underway under a joint venture based on the support of scientific research and development work for the non-ferrous metals industry. Pursuant to the schedules, the first Projects are expected to be completed at the turn of 2017-2018.
 - Work is underway aimed at commencing the fourth CuBR competition. Work on preparing competition documentation is underway.
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3 – Information on operating segments and revenues

Note 3.1 Operating segments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Management Board of the Parent Entity assesses a segment's performance based on adjusted EBITDA and the profit or loss for the period.

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

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

Financial results of reporting segments for the comparable period

		3 quarters of 2016						
		KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Reconciliation items to consolidated data		Consolidated financial statements
						Elimination of data of the segment Sierra Gorda S.C.M	Adjustments****	
Note 3.3	Sales revenue	10 284	1 764	970	4 724	(970)	(3 631)	13 141
	Inter-segment sales revenue	191	-	29	3 458	(29)	(3 649)	-
	External sales revenue	10 093	1 764	941	1 266	(941)	18	13 141
	Segment result	1 282	(885)	(834)	(7)	834	239	629
	Additional information on significant revenue/cost items of the segment							
	Depreciation/amortisation recognised in profit or loss	(700)	(373)	(601)	(175)	601	7	(1 241)
	Share of losses of joint ventures accounted for using the equity method	-	(826)	-	-	-	(1)	(827)
					2016			
	Assets, including:	30 100	9 472	9 185	5 249	(9 185)	(11 379)	33 442
	Segment assets	30 100	9 472	9 185	5 249	(9 185)	(11 407)	33 414
	Joint ventures accounted for using the equity method	-	-	-	-	-	27	27
	Assets unallocated to segments	-	-	-	-	-	1	1
	Liabilities, including:	14 200	16 853	12 880	1 943	(12 880)	(15 465)	17 531
	Segments liabilities	14 200	16 853	12 880	1 943	(12 880)	(15 651)	17 345
	Liabilities unallocated to segments	-	-	-	-	-	186	186
	Other information				3 quarters of 2016			
	Cash expenditures on property, plant and equipment and intangible assets	2 007	370	457	152	(457)	(46)	2 483
	Production and cost data				3 quarters of 2016			
	Payable copper (kt)	400.6	68.9	37.8				
	Molybdenum (million pounds)	-	0.7	9.3				
	Silver (t)	888.5	1.3	10.4				
	TPM (koz t)	84.2	71.6	15.4				
	C1 cash cost of producing copper in concentrate (USD/lb)**	1.28	1.60	1.91				
	Adjusted EBITDA	2 394	393	124	240	-	-	3 151
	EBITDA margin***	23%	22%	13%	5%	-	-	22%

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

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

*** Adjusted EBITDA to sales revenue. For the purposes of calculating the Group's EBITDA margin (22%), the consolidated sales revenue were increased by sales revenue of the segment Sierra Gorda S.C.M. [3 151 / (13 141 + 970) * 100]

**** Adjustments arise from consolidation eliminations and financial data of companies unallocated to any segment.

Reconciliation of adjusted EBITDA

3 quarters of 2017

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

3 quarters of 2017

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

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

Reconciliation of adjusted EBITDA

3 quarters of 2016

	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments
Profit/(loss) for the period	1 282	(885)	(834)	(7)
[-] Share of losses of joint ventures accounted for using the equity method	-	(826)	-	-
[-] Current and deferred income tax	(550)	20	292	(30)
[-] Depreciation/amortisation recognised in profit or loss	(700)	(373)	(601)	(175)
[-] Finance income and (costs)	58	(474)	(591)	(9)
[-] Other operating income and (costs)	80	375	(58)	(33)
[=] EBITDA	2 394	393	124	240
[-] Recognition/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	-	-	-
Adjusted EBITDA	2 394	393	124	240

3 quarters of 2016

Profit/(loss) on sales (EBIT)	1 694	20	(477)	65
[-] Depreciation/amortisation recognised in profit or loss	(700)	(373)	(601)	(175)
[=] EBITDA	2 394	393	124	240
[-] Recognition/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	-	-	-
[=] Adjusted EBITDA	2 394	393	124	240

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

Note 3.3 External sales revenue of the Group – breakdown by products

	3 quarters of 2017							Consolidated data
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Reconciliation items to consolidated data			
					Elimination of data of the segment Sierra Gorda S.C.M	Consolidation adjustments		
Copper	8 602	1 257	971	6	(971)	(14)	9 851	
Silver	1 727	11	23	-	(23)	-	1 738	
Gold	422	128	106	-	(106)	-	550	
Services	109	348	-	1 384	-	(1 011)	830	
Other	573	188	436	3 334	(436)	(2 438)	1 657	
TC/RC**	-	(139)	(100)	-	100	-	(139)	
TOTAL	11 433	1 793	1 436	4 724	(1 436)	(3 463)	14 487	

	3 quarters of 2016							Consolidated data
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Reconciliation items to consolidated data			
					Elimination of data of the segment Sierra Gorda S.C.M	Consolidation adjustments		
Copper	7 382	1 222	708	5	(708)	(16)	8 593	
Silver	1 825	11	24	-	(24)	-	1 836	
Gold	419	197	80	-	(80)	-	616	
Services	69	364	-	1 636	-	(1 273)	796	
Other	589	176	257	3 083	(257)	(2 342)	1 506	
TC/RC**	-	(206)	(99)	-	99	-	(206)	
TOTAL	10 284	1 764	970	4 724	(970)	(3 631)	13 141	

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

** Smelter treatment and refining charges.

Note 3.4 External sales revenue of the Group – geographical breakdown reflecting the location of end clients

	3rd quarter of 2017	3rd quarter of 2016
Europe		
Poland	4 095	3 512
Germany	1 592	1 745
The United Kingdom	1 393	985
Czechia	1 054	924
France	703	456
Switzerland	565	451
Hungary	531	396
Italy	309	360
Austria	195	142
Romania	85	54
Slovakia	73	63
Denmark	55	1
Sweden	52	15
Slovenia	50	39
Belgium	11	51
Other countries (dispersed sales)	127	249
North and South America		
The United States of America	879	991
Canada	543	548
Chile	71	75
Other countries (dispersed sales)	-	2
Australia		
Australia	3	128
Asia		
China	1 910	1 369
South Korea	5	174
India	-	159
Turkey	146	97
Singapore	3	96
Japan	5	46
Other countries (dispersed sales)	13	8
Africa	19	5
TOTAL	14 487	13 141

Note 3.5 Main customers

In the period from 1 January 2017 to 30 September 2017 and in the comparable period the revenues from no single contractor exceeded 10% of the sales revenue of the Group.

Note 3.6 Non-current assets – geographical breakdown

	Property, plant and equipment, intangible assets and investment properties	
	3rd quarter of 2017	2016
Poland	17 932	17 413
Canada	1 986	2 275
The United States of America	588	557
Chile	301	323
TOTAL	20 807	20 568

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

Note 3.7 Information on segments' results

3.7.1 The segment KGHM Polska Miedź S.A.

Production results

	Unit	3 quarters of 2017	3 quarters of 2016	Change (%) in 3 quarters	third quarter of 2017	second quarter of 2017	first quarter of 2017
Ore extraction (dry weight)	mn t	23.9	24.3	(1.6)	8.0	8.0	8.0
Copper content in ore	%	1.50	1.50	-	1.48	1.49	1.51
Copper production in concentrate	kt	319.8	322.5	(0.8)	107.7	104.3	107.7
Silver production in concentrate	t	988.0	956.4	+3.3	328.3	327.4	332.3
Production of electrolytic copper	kt	399.8	400.6	(0.2)	135.6	133.6	130.6
- including from own concentrate	kt	272.7	280.9	(2.9)	88.9	90.8	93.1
Production of metallic silver	t	915.6	888.5	+3.1	323.8	298.4	293.5
Production of gold	koz t	86.7	84.2	+3.0	33.2	21.9	33.5

In the first 9 months of 2017, there was a decrease of ore extraction (dry weight) by 1.6% as compared to the corresponding period of 2016, while the copper content in ore stayed at the same level of 1.50%. As a result of the above factors, the production of copper in concentrate is lower by 0.8% as compared to the first 9 months of 2016. Thanks to increasing the processing of purchased metal-bearing materials, the production of electrolytic copper remained at a similar level.

On 3 October 2017, there was an accident at the Głogów I Copper Smelter and Refinery involving the recovery boiler, which is responsible for cooling and de-dusting the process gases from the flash furnace. The accident at the boiler was caused by a certain amount of sinter (a combination of dust and metals which accumulate on the boiler) becoming detached and falling, which damaged the boiler's seal. The accident at the recovery boiler resulted in the need to cease production by the HMG I flash furnace. The re-start of the production by the Głogów I Copper Smelter and Refinery took place on 30 October 2017.

Revenues

	Unit	3 quarters of 2017	3 quarters of 2016	Change (%) in 3 quarters	third quarter of 2017	second quarter of 2017	first quarter of 2017
Sales revenue, including:	mn PLN	11 433	10 284	+11.2	3 732	3 805	3 896
- copper	mn PLN	8 602	7 382	+16.5	2 882	2 804	2 916
- silver	mn PLN	1 727	1 825	(5.4)	507	660	560
Volume of copper sales	kt	366	385	(4.9)	121	125	120
Volume of silver sales	t	813	846	(3.9)	258	308	247
Copper price	USD/t	5 952	4 725	+26.0	6 349	5 662	5 831
Silver price	USD/oz t	17.16	17.12	+0.2	16.84	17.21	17.42
Exchange rate	USD/PLN	3.84	3.91	(1.8)	3.63	3.83	4.06

In the first 9 months of 2017, sales revenue amounted to PLN 11 433 million and was 11% higher as compared to the corresponding period of 2016. The main reasons for the increase in sales revenue were 26% higher copper prices on the LME, alongside a decrease in copper and silver sales volumes (respectively by 5% and 4%) and a less favourable USD/PLN exchange rate.

Costs

	Unit	3 quarters of 2017	3 quarters of 2016	Change (%) in 3 quarters	third quarter of 2017	second quarter of 2017	first quarter of 2017
Cost of sales, selling costs and administrative expenses*	mn PLN	8 986	8 590	+4.6	3 020	3 135	2 831
Expenses by nature	mn PLN	10 305	9 297	+10.8	3 570	3 398	3 337
Pre-precious metals credit unit cost of electrolytic copper production from own concentrate **	PLN/t	21 805	19 776	+10.3	22 204	22 628	20 812
Total unit cost of electrolytic copper production from own concentrate	PLN/t	14 688	12 830	+14.5	15 165	16 039	13 105
- including the minerals extraction tax	PLN/t	4 074	2 953	+38.0	3 859	4 549	3 815
C1 cost***	USD/lb	1.42	1.28	+10.9	1.62	1.34	1.33

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

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

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

The Parent Entity's cost of sales, selling costs and administrative expenses in the first 9 months of 2017 amounted to PLN 8 986 million and were higher by PLN 396 million as compared to the corresponding period in 2016 due to 11% higher expenses by nature.

In the first 9 months of 2017, expenses by nature were higher by PLN 1 008 million as compared to the corresponding period of 2016, mainly due to a higher minerals extraction tax by PLN 367 million alongside higher costs of purchased metal-bearing materials by PLN 324 million (due to 21% higher purchase price alongside a 8.5 thousand tonnes lower copper volume of consumption).

Expenses by nature, excluding the minerals extraction tax and purchased metal-bearing materials, increased by PLN 317 million, and this was mainly due to the following:

- employee benefits expenses (+PLN 128 million) due to increases in remunerations and a higher write-off on the annual bonus,
- external services (+PLN 73 million) due to an increase in repairs and mine preparatory works,
- consumption of materials, fuels and energy (+PLN 65 million) due to the increased consumption of energy and fuel,
- depreciation/amortisation (+PLN 56 million) due to the reclassification of investments to fixed assets.

C1 cost respectively amounted to 1.42 USD/lb in the first 9 months of 2017, and 1.28 USD/lb in the first 9 months of 2016. The increase in C1 cost (by 0.14 USD/lb) was mainly caused by the minerals extraction tax (+0.15 USD/lb) and the strengthening of the Polish currency versus the US dollar by 1.7%. The increase in this cost was limited by the increase of silver content in own concentrates which resulted in the higher, by 0.08 USD/lb, value of by-products.

The pre-precious metals credit unit cost of electrolytic copper production from own concentrate (unit cost prior to decrease by the value of anode slimes containing, among others, silver and gold) amounted to 21 805 PLN/t (in the comparable period of 2016: 19 776 PLN/t) and was higher by 10.3% mainly due to the higher minerals extraction tax by 1 120 PLN/t alongside lower production from own concentrate by 3% (8 thousand tonnes of copper). The total unit cost of electrolytic copper production from own concentrate amounted to 14 688 PLN/t (for the first 9 months of 2016: 12 830 PLN/t).

Financial results

	3 quarters of 2017	3 quarters of 2016	Change (%) in 3 quarters	third quarter of 2017	second quarter of 2017	first quarter of 2017
Sales revenue, including:	11 433	10 284	+11.2	3 732	3 805	3 896
- adjustment of revenues due to hedging transactions	11	12	(8.3)	7	8	(4)
Cost of sales, selling costs and administrative expenses	(8 986)	(8 590)	+4.6	(3 020)	(3 135)	(2 831)
- including the minerals extraction tax	(1 062)	(864)	+22.9	(343)	(353)	(366)
Profit on sales (EBIT)	2 447	1 694	+44.5	712	670	1 065
Other operating income and (costs), including:	(689)	80	×	(92)	(327)	(270)
- measurement and realisation of derivatives	(42)	26	×	(110)	(2)	70
- interest on loans granted	245	254	(3.5)	64	85	96
- exchange differences on assets and liabilities other than borrowings	(899)	(163)	×5.5	(64)	(410)	(425)
- impairment loss on available-for-sale assets	-	(57)	×	-	-	-
- other	7	20	(65.0)	18	-	(11)
Finance income/(costs), including:	744	58	×12.8	53	382	309
- exchange differences on borrowings	913	178	×5.1	101	443	369
- interest costs on borrowings	(86)	(43)	×2.0	(28)	(29)	(29)
- bank fees and charges on borrowings	(20)	(37)	(45.9)	(6)	(7)	(7)
- measurement of derivatives	(30)	(11)	×2.7	(3)	(14)	(13)
- other	(33)	(29)	+13.8	(11)	(11)	(11)
Profit before income tax	2 502	1 832	+36.6	673	725	1 104
Income tax expense	(652)	(550)	+18.5	(133)	(220)	(299)
Profit for the period	1 850	1 282	+44.3	540	505	805
Depreciation/amortisation recognised in profit or loss	(752)	(700)	+7.4	(256)	(257)	(239)
EBITDA*	3 199	2 394	+33.6	968	927	1 304
Adjusted EBITDA**	3 199	2 394	+33.6	968	927	1 304
EBITDA margin (%)	28	23	+21.7	26	24	33

* EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss)

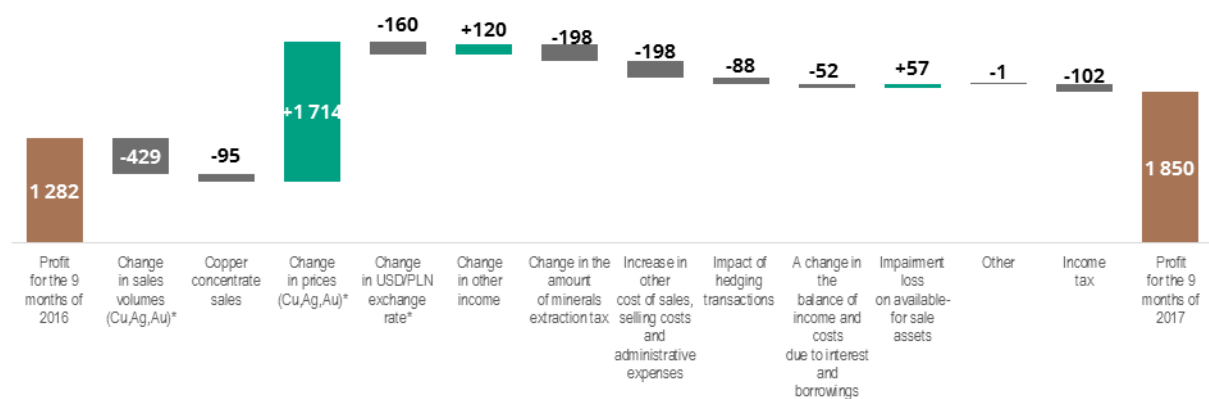
** Adjusted EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss) + impairment loss (-reversal of impairment losses) on non-current assets, recognised in cost of sales, selling costs and administrative expenses)

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

Item	Impact on change in result	Description
	+1 714	An increase in revenues due to higher copper prices by 26% (+PLN 1 722 million) and slightly lower prices of silver (-PLN 4 million) and gold (-PLN 4 million).
Increase in sales revenue (excluding the impact of hedging transactions) by PLN 1 150 million	(429)	A decrease in revenues due to 5% lower volume of copper sales (-PLN 374 million) and 4% lower silver sales (-PLN 70 million), mainly due to accumulating inventories of finished products due to the maintenance shutdown of the Cedynia Wire Rod plant. On the other hand, there was an increase in gold sales volume by 4% (+PLN 15 million).
	(160)	A decrease in revenues from sales of basic products (Cu, Ag, Au) due to a lower, less favourable average annual USD/PLN exchange rate (a change from 3.91 to 3.84 USD/PLN)

	(95)	In 2016, 36.6 thousand tonnes of copper concentrate (dry weight) were sold for PLN 160 million. In 2017, there were no sales of concentrate, but contracts from the previous year were settled for the amount of PLN 65 million.
	+120	An increase in revenues from sales of merchandise and materials (+PLN 39 million) as well as other products and services, including refined lead (+PLN 42 million)
Increase in cost of sales, selling costs and administrative expenses by PLN 396 million	(198)	An increase in the minerals extraction tax, from PLN 864 million to PLN 1 062 million, due to higher copper prices expressed in PLN.
	(198)	An increase in the cost of purchased metal-bearing materials consumed by PLN 324 million (higher purchase prices caused by higher copper prices) alongside an increase in inventories of half-finished products due to a lower production from own concentrates
Impact of hedging transactions (-PLN 88 million)	+10	Lower loss on the settlement of derivatives (a change from -PLN 12 million to -PLN 2 million)
	(97)	A change in the result due to the measurement of derivatives from PLN 27 million to -PLN 70 million
	(1)	A change in the result due to the realisation of hedging instruments from PLN 12 million to PLN 11 million
A change in the balance of income and costs due to interest on borrowings, (-PLN 52 million)	(9)	A decrease in income due to interest on loans granted
	(43)	Higher interest costs on borrowings
No impairment loss on available-for-sale assets	+57	No impairment in 2017, as compared to -PLN 57 million in 2016 on shares of TAURON Polska Energia S.A.
Income tax increase	(102)	Higher tax due to the increase in the tax base

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



* Impact on sales revenue

Cash expenditures

In the first 9 months of 2017, cash expenditures on property, plant and equipment and intangible assets amounted to PLN 1 360 million and were lower than in the corresponding period of 2016 by 32%, while capital expenditures on property, plant and equipment and intangible assets amounted to PLN 1 302 million and were lower than in the corresponding period of 2016 by nearly 30%.

The higher level of cash expenditures as compared to capital expenditures after the first 9 months of 2017 were due to the realisation of investment liabilities from the current period, pursuant to contractual payment dates.

Structure of capital expenditures on property, plant and equipment and intangible assets - by Division	3 quarters of 2017	3 quarters of 2016	Change (%) in 3 quarters	third quarter of 2017	second quarter of 2017	first quarter of 2017
Mining	800	811	(1.4)	353	244	203
Metallurgy	487	1 021	(52.3)	165	167	155
Other activities	11	12	(8.3)	3	4	4
Development work - uncompleted	4	4	-	1	3	-
Total	1 302	1 848	(29.5)	522	418	362

Structure of capital expenditures on property, plant and equipment and intangible assets – by type	3 quarters of 2017	3 quarters of 2016	Change (%) in 3 quarters	third quarter of 2017	second quarter of 2017	first quarter of 2017
Replacement	373	309	+20.4	121	146	106
Maintaining production	264	249	+5.6	177	39	48
Development	661	1 286	(48.4)	223	230	208
Development work – uncompleted	4	4	-	1	3	-
Total	1 302	1 848	(29.5)	522	418	362

During the reporting period actions were undertaken aimed at preparing investments for execution, that is: documentation was prepared, building permits were received, tenders were held to select contractors for work and suppliers of equipment, and contracts for execution were signed pursuant to the negotiated terms. Moreover, during the reporting period preparatory work was carried out and machinery and equipment was purchased.

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

- **Development projects**, aimed at increasing the production volume of the core business, maintaining production costs and adaptation projects aimed at adapting the company's operations to changes in standards, laws and regulations (including those related to environmental protection), represent 51% of total expenditures,
- **Replacement projects**, aimed at maintaining production equipment in an undeteriorated condition which guarantees the achievement of on-going production tasks, represent 29% of total expenditures,
- **Maintenance projects**, ensuring necessary infrastructure to match mine advancement and the continuous removal of waste to ensure production at the level set forth in the mine advancement plan, represent 20% of total expenditures.

Information on the advancement of key investment projects may be found in part 2 of this report (Implementation of Strategy).

3.7.2 The segment KGHM INTERNATIONAL LTD.

Production results

	Unit	3 quarters of 2017	3 quarters of 2016	Change (%)	third quarter of 2017	second quarter of 2017	first quarter of 2017
Payable copper, including:	kt	60.6	68.9	(12.0)	21.9	21.5	17.2
- Robinson mine (USA)	kt	37.5	41.3	(9.2)	13.8	13.7	10.0
- Sudbury Basin mines* (CANADA)	kt	6.5	11.1	(41.4)	2.2	2.4	1.9
Payable nickel	kt	0.9	1.6	(43.8)	0.3	0.3	0.3
Precious metals (TPM)**, including:	koz t	55.2	71.6	(22.9)	19.4	21.3	14.5
- Robinson mine (USA)	koz t	26.4	36.3	(27.3)	10.9	9.0	6.5
- Sudbury Basin mines* (CANADA)	koz t	28.8	35.3	(18.4)	8.5	12.3	8.0

* Morrison and McCreedy West mines in the Sudbury Basin

** TPM – precious metals (gold, platinum, palladium)

In the first 9 months of 2017, copper production in the segment KGHM INTERNATIONAL LTD. amounted to 60.6 thousand tonnes, which means a decrease by 8.3 thousand tonnes (-12%) as compared to the corresponding period of 2016.

The lower copper production by the Robinson mine by 3.8 thousand tonnes (-9%) in the first three quarters of 2017, as compared to the corresponding period of 2016, is the result of extracting a lower quality ore from the higher parts of the Ruth West pit (in the first 9 months of 2016, the ore was extracted from the Ruth East pit). The ore in question had a lower copper content (-8%) and lower recovery (-6%). Moreover, the ore extracted in the first 9 months of 2017 had a lower gold content (-34%), which resulted in a decrease in production of this metal by 9.9 thousand troy ounces (-27%). The negative impact of decreasing metals content in ore was partially limited by increasing the volumes of processed ore. A decrease in extraction volumes (among others due to worsening extraction conditions) as well as a decrease in the copper content (-34%) contributed to the lower copper production by the Sudbury Basin mines by 4.6 thousand tonnes (-41%). The lower volume of extracted ore in the first 3 quarters of 2017 was also reflected in the decrease in precious metals production by 6.5 thousand troy ounces (-18%).

Sales revenue

	Unit	3 quarters of 2017	3 quarters of 2016	Change (%)	third quarter of 2017	second quarter of 2017	first quarter of 2017
Sales revenue, including:	mn USD	471	450	+4.7	168	159	144
- copper	mn USD	331	311	+6.4	118	110	103
- nickel	mn USD	9	15	(40.0)	3	3	3
- precious metals (TPM)*	mn USD	70	76	(7.9)	25	29	16
Copper sales volume	kt	54.6	65.7	(16.9)	18.2	19.2	17.2
Nickel sales volume	kt	0.8	1.6	(50.0)	0.2	0.3	0.3
Precious metals (TPM)* sales volume	koz t	50.8	69.4	(26.8)	17.1	19.9	13.8

* TPM – precious metals (gold, platinum, palladium)

	Unit	3 quarters of 2017	3 quarters of 2016	Change (%)	third quarter of 2017	second quarter of 2017	first quarter of 2017
Sales revenue, including:	mn PLN	1 793	1 764	+1.6	612	601	580
- copper	mn PLN	1 257	1 222	+2.9	427	416	414
- nickel	mn PLN	34	59	(42.4)	11	11	12
- precious metals (TPM)*	mn PLN	266	296	(10.1)	91	111	64

* TPM – precious metals (gold, platinum, palladium)

The sales revenue of the segment KGHM INTERNATIONAL LTD. in the first three quarters of 2017 amounted to USD 471 million, i.e. increased by USD 21 million (+5%) due to more favourable macroeconomic conditions, which was limited by lower sales volumes.

The increase in revenues from sales of copper by USD 20 million (+6%) is the result of achieving a higher realised sales price, which amounted to 6 061 USD/t in the first three quarters of 2017 as compared to 4 740 USD/t in the corresponding period of 2016 (+28%). This increase was limited by the lower sales volume of this metal by 11.1 thousand tonnes (-17%), which was caused by a lower production volume.

Lower production volumes of precious metals contributed to the decrease in revenues from precious metals sales by USD 6 million (-8%).

Costs

	Unit	3 quarters of 2017	3 quarters of 2016	Change (%)	third quarter of 2017	second quarter of 2017	first quarter of 2017
C1 unit cost*	USD/lb	1.98	1.60	+23.8	1.90	1.72	2.35

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

The unit cash cost of copper production for all operations in the segment KGHM INTERNATIONAL LTD. in the first 9 months of 2017 amounted to 1.98 USD/lb, or an increase by 24% as compared to the corresponding period of 2016. The increase in C1 cost is due to lower copper sales volume as well as a decrease in revenues from sales of associated metals, which decrease the C1 cost.

Financial performance

<i>in mn USD</i>	3 quarters of 2017	3 quarters of 2016	Change (%)	third quarter of 2017	second quarter of 2017	first quarter of 2017
Sales revenue	471	450	+4.7	168	159	144
Cost of sales, selling costs and administrative expenses*	(414)	(445)	(7.0)	(137)	(133)	(144)
Profit/(loss) on sales (EBIT)	57	5	x10.4	31	26	(0)
Profit/(loss) before taxation, including:	(115)	(231)	(50.2)	(11)	(66)	(38)
- share of losses of Sierra Gorda S.C.M. accounted for using the equity method	(55)	(211)	(73.9)	-	(55)	-
Income tax	(21)	5	x	(5)	(14)	(2)
Profit/(loss) for the period	(136)	(226)	(39.8)	(16)	(80)	(40)
Depreciation/amortisation recognised in profit or loss	(63)	(95)	(33.7)	(21)	(23)	(19)
EBITDA**	120	100	+20.0	52	49	19
Adjusted EBITDA***	120	100	+20.0	52	49	19
EBITDA margin (%)	25	22	+13.6	31	31	13

<i>in mn PLN</i>	3 quarters of 2017	3 quarters of 2016	Change (%)	third quarter of 2017	second quarter of 2017	first quarter of 2017
Sales revenue	1 793	1 764	+1.6	612	601	580
Cost of sales, selling costs and administrative expenses*	(1 576)	(1 744)	(9.6)	(496)	(499)	(581)
Profit/(loss) on sales (EBIT)	217	20	x10.8	116	102	(1)
Profit/(loss) before taxation, including:	(443)	(905)	(51.0)	(39)	(252)	(152)
- share of losses of Sierra Gorda S.C.M. accounted for using the equity method	(214)	(826)	(74.1)	-	(214)	-
Income tax	(78)	20	x	(15)	(55)	(8)
Profit/(loss) for the period	(521)	(885)	(41.1)	(54)	(307)	(160)
Depreciation/amortisation recognised in profit or loss	(238)	(373)	(36.2)	(75)	(87)	(76)
EBITDA**	455	393	+15.8	191	189	75
Adjusted EBITDA***	455	393	+15.8	191	189	75
EBITDA margin (%)	25	22	+13.6	31	31	13

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

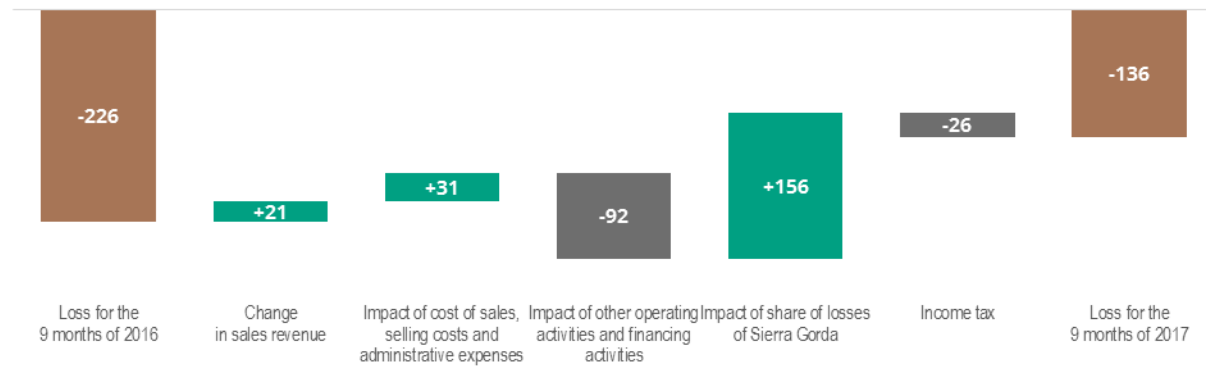
** EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss)

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

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

Item	Impact on change in result (mn USD)	Description
Increase in sales revenue by USD 21 million, including:	+91	An increase in revenues due to higher prices of basic products, mainly copper (+USD 87 million), TPMs (+USD 3 million) and nickel (+USD 1 million)
	+16	An increase in revenues due to a lower processing premium resulting from a lower sales volume
	(84)	A decrease in revenues due to a lower sales volume, including copper (-USD 67 million), TPM (-USD 9 million) and nickel (-USD 8 million)
Decrease in cost of sales, selling costs and administrative expenses by USD 31 million, including:	+20	A change in inventories
	+18	A decrease in depreciation/amortisation due to impairment losses on assets recognised at the end of 2016 and lower production volumes by the Robinson mine and the Sudbury mines (units of production method of depreciation)
	+4	A decrease in selling costs due to lower sales volumes
	(8)	Higher costs of external services, including USD 5 million due to a larger scope of work carried out by DMC's subcontractors, and USD 4 million were related to the Robinson mine
	(7)	An increase in costs of materials and energy due to increased ore processing by the Robinson mine
	(65)	An increase in finance costs – higher interest related to loans
Impact of other operating activities and financing activities (-USD 92 million), including:	(55)	Lower interest income on loans granted to Sierra Gorda S.C.M. due to the recognition at the end of 2016 of an allowance for impairment of the loan granted to this company
	+28	In the first 9 months of 2016, there was a one-off correction due to the allocation of purchase price in the amount of USD 28 million, which did not reoccur in the corresponding period of 2017
Share of losses of entities accounted for using the equity method (+USD 156 million)	+156	Recognition in the first 9 months of 2017 of the share of losses of Sierra Gorda S.C.M. to the amount of granted financing, i.e. to the amount of USD 55 million (the carrying amount of the interest held in Sierra Gorda S.C.M. as at 30 September 2017 amounted to USD 0 million) as compared to the share of losses recognised in the corresponding period of 2016 of USD 211 million.
Income tax	(26)	Mainly due to utilisation, to a greater degree than in the corresponding period of 2016, of unused tax losses

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



Cash expenditures

<i>in mn USD</i>	3 quarters of 2017	3 quarters of 2016	Change (%)	third quarter of 2017	second quarter of 2017	first quarter of 2017
Victoria project	4	20	(80.0)	1	1	2
Sierra Gorda Oxide project	2	7	(71.4)	1	0	1
Pre-stripping and other	88	60	+46.7	34	37	17
Ajax project	3	7	(57.1)	1	1	1
Total	97	94	+3.2	37	39	21
Financing for Sierra Gorda S.C.M.	55	85	(35.3)	-	55	-

<i>in mn PLN</i>	3 quarters of 2017	3 quarters of 2016	Change (%)	third quarter of 2017	second quarter of 2017	first quarter of 2017
Victoria project	15	78	(80.8)	4	3	8
Sierra Gorda Oxide project	8	28	(71.4)	4	2	2
Pre-stripping and other	334	238	+40.3	124	142	68
Ajax project	11	26	(57.7)	3	3	5
Total	368	370	(0.5)	135	150	83
Financing for Sierra Gorda S.C.M.	214	335	(36.1)	-	214	-

Cash expenditures by the segment KGHM INTERNATIONAL LTD. in the first three quarters of 2017 amounted to USD 97 million, meaning an increase by USD 3 million (+3%) as compared to the corresponding period of 2016.

Nearly 80% of cash expenditures were incurred in the Robinson mine and were mainly on work related to pre-stripping in the Ruth pit.

In the first 9 months of 2017, cash expenditures related to projects amounted to USD 9 million, including USD 4 million on the Victoria project (securing the existing infrastructure), USD 3 million on the Ajax project (work related to obtaining an environmental permit) and USD 2 million on the Sierra Gorda Oxide project (analysis of alternative development concepts for the project).

In the second quarter of 2017, KGHM INTERNATIONAL LTD. financed the Sierra Gorda mine in the amount of USD 55 million in order to maintain its financial liquidity. In the first and third quarters of 2017, there was no need to finance this mine.

3.7.3 The segment Sierra Gorda S.C.M.

The segment Sierra Gorda S.C.M. is a joint venture (under the JV company Sierra Gorda S.C.M.) of KGHM INTERNATIONAL LTD. (55%) and Sumitomo Group companies (45%).

The following production and financial data are presented on a 100% basis for the joint venture and proportionally to KGHM Polska Miedź S.A.'s interest in the company Sierra Gorda S.C.M. (55%).

Production results

In the third quarter of 2017, Sierra Gorda S.C.M. maintained copper production at a level similar to that of the previous two quarters of 2017, while the decrease in molybdenum production in the third quarter of 2017 was due to processing a lower amount of ore with a lower metal content.

Production results recorded in the first three quarters of 2017 were higher than those recorded in the corresponding period of 2016.

	Unit	3 quarters of 2017	3 quarters of 2016	Change (%)	third quarter of 2017	second quarter of 2017	first quarter of 2017
Copper production*	kt	72.8	68.8	+5.8	23.4	23.9	25.5
Copper production – segment (55%)	kt	40.0	37.8	+5.8	12.8	13.2	14.0
Molybdenum production*	mn lbs	29.8	16.9	+76.3	6.2	14.8	8.8
Molybdenum production – segment (55%)	mn lbs	16.4	9.3	+76.3	3.4	8.2	4.8
TPM production - gold	koz t	39.7	28.0	+41.8	15.2	13.1	11.4
TPM production – gold – segment (55%)	koz t	21.9	15.4	+41.8	8.4	7.2	6.3

* Payable metal in concentrate.

Pro-efficiency activities contributed to the significant decrease in the number of breakdowns and unplanned shutdowns, while simultaneously enabling the increase of copper recovery by 7%, and in particular the recovery of molybdenum, which was nearly 50% higher than in the first 9 months of 2016.

As a result, there was an increase in production as compared to the period from January to September 2016 respectively by 6% (copper) and 76% (molybdenum). Moreover, the 4% increase in the amount of processed ore contributed to the increase in metals production, alongside a decrease in copper content and a 13% increase in molybdenum content in processed ore.

Sales revenue

In the first three quarters of 2017, revenues from sales amounted to USD 686 million, or PLN 2 610 million (PLN 1 436 million respectively to KGHM Polska Miedź S.A.'s interest of 55%).

	Unit	3 quarters of 2017	3 quarters of 2016	Change (%)	third quarter of 2017	second quarter of 2017	first quarter of 2017
Sales revenue, including:	mn USD	686	449	+52.8	281	197	208
- copper	mn USD	464	328	+41.5	171	135	158
- molybdenum	mn USD	208	119	+74.8	102	58	48
Copper sales volume	kt	74.7	68.4	+9.2	24.7	23.5	26.5
Molybdenum sales volume	mn lbs	24.1	18.0	+33.9	11.0	8.5	4.6
Sales revenue - segment (55% share)	mn PLN	1 436	970	+48.0	568	409	459

The increase in revenues by USD 237 million, or by nearly 53%, was mostly the result of an improvement of macroeconomic conditions as compared to those from the previous year– an increase in prices contributed to an increase in revenues by USD 96 million with respect to copper and by USD 35 million with respect to molybdenum. Another significant factor was the increase in the volume of copper sales by 10% and molybdenum by 34%. In total, revenues due to these factors increased by USD 91 million.

Costs

The cost of sales, selling costs and administrative expenses incurred by the company Sierra Gorda S.C.M. amounted to USD 672 million, including selling costs of USD 44 million and administrative expenses of USD 45 million. The costs of the segment Sierra Gorda, proportionally to the interest held (55%) amounted to PLN 1 406 million.

	Unit	3 quarters of 2017	3 quarters of 2016	Change (%)	third quarter of 2017	second quarter of 2017	first quarter of 2017
Cost of sales, selling costs and administrative expenses *	mn USD	672	671	+0.1	266	214	192
Cost of sales, selling costs and administrative expenses *- segment (55% share)	mn PLN	1 406	1 447	(2.8)	535	446	425
C1** unit cost	USD/lb	1.68	1.91	(12.0)	1.56	1.53	1.94

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

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

As compared to the corresponding period of 2016, the cost of sales, selling costs and administrative expenses was at a similar level to the one in the first three quarters of 2016. It should be stressed, however, that due to the remeasurement of the value of non-current assets (an impairment loss recognised at the end of 2016), the value of assets decreased, and as a result so did the depreciation/amortisation costs, which were lower by 41%.

The cost of sales, selling costs and administrative expenses less depreciation/amortisation amounted to USD 506 million, which means an increase of 29% as compared to the corresponding period of 2016. Significant changes were recognised in the following items of expenses by nature:

- spare parts – as a result of implemented improvements, there was a decrease of overhaul downtimes, and as a result there was a decrease in costs of spare parts – a decrease by 12%,
- external services – an increase by 16%, mainly due to a larger scope of services, higher prices and a larger number of mining machines (a larger scope of contracted overhauls),
- energy – an increase by 64% due to a higher volume of processed ore, higher coal prices, higher transmission costs and the introduction of a carbon tax,

- fuel, oils and greases – an increase by 52% due to higher oil prices and due to a greater distance to the ore heap,
- molybdenum conversion costs – doubled due to a significantly higher production volume.

The aforementioned costs increased at the same time as the sales volumes of copper and molybdenum increased. The unit cash cost of copper production (C1) in the first three quarters of 2017 amounted to 1.68 USD/lb and is 12% lower than the one recorded in the corresponding prior year period. Apart from the unfavourable cost factors listed above, a significant reason for the decrease in C1 cost was the significantly higher revenues from sales of molybdenum and other by-products, due to higher sales volume and higher prices than those recorded in the corresponding prior year period. Moreover, the volume of sales of copper was higher (by 9%).

Financial performance

The results of the company Sierra Gorda S.C.M. (100%) and the segment's results in PLN, proportionally to the interest held (55%) are presented below.

Results on the basis of the company Sierra Gorda S.C.M.'s financial statements (100%) in mn USD	3 quarters of 2017	3 quarters of 2016	Change (%)	third quarter of 2017	second quarter of 2017	first quarter of 2017
Sales revenue	686	449	+52.8	281	197	208
Cost of sales, selling costs and administrative expenses	(672)	(671)	+0.1	(266)	(214)	(192)
Profit/(loss) on sales (EBIT)	14	(221)	×	15	(17)	16
Profit/(loss) for the period	(218)	(387)	(43.7)	(69)	(84)	(65)
Depreciation/amortisation recognised in profit or loss	(166)	(279)	(40.5)	(73)	(53)	(40)
EBITDA*	180	58	×3.1	89	36	55
Adjusted EBITDA **	180	58	×3.1	89	36	55

* EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss)

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

Results of the segment Sierra Gorda S.C.M. proportionally to the interest held (55%) in mn PLN	3 quarters of 2017	3 quarters of 2016	Change (%)	third quarter of 2017	second quarter of 2017	first quarter of 2017
Sales revenue	1 436	970	+48.0	568	409	459
Cost of sales, selling costs and administrative expenses	(1 406)	(1 447)	(2.8)	(535)	(446)	(425)
Profit/(loss) on sales (EBIT)	30	(477)	×	33	(37)	34
Profit/(loss) for the period	(456)	(834)	(45.3)	(136)	(177)	(143)
Depreciation/amortisation recognised in profit or loss	(348)	(601)	(42.1)	(150)	(110)	(88)
EBITDA*	378	124	×3.0	183	73	122
Adjusted EBITDA **	378	124	×3.0	183	73	122
EBITDA margin (%) ***	26	13	×2.0	32	18	27

* EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss)

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

*** EBITDA margin – relationship of adjusted EBITDA to sales revenue

In the first three quarters of 2017, EBITDA amounted to USD 180 million, while the loss for the period amounted to USD 218 million. Proportionally to the interest held (55%), EBITDA amounted to USD 99 million (PLN 378 million) and the loss for the period amounted to USD 120 million (PLN 456 million).

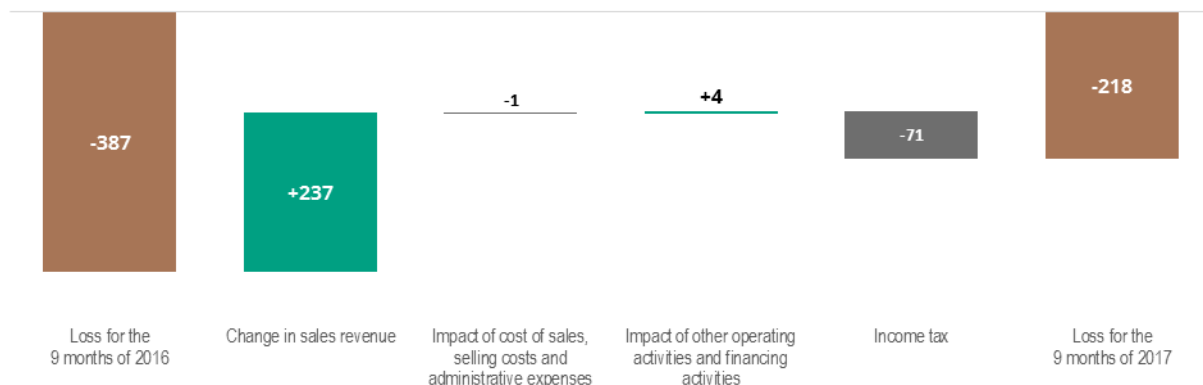
The EBITDA tripled as compared to the corresponding period of 2016, as revenues were higher than in the corresponding prior year period by USD 237 million, alongside an increase in costs without depreciation/amortisation by USD 114 million.

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

Item	Impact on change in result (mn USD)	Description
Increase in sales revenue by USD 237 million, including:	+96	Increase in revenues due to higher copper prices
	+39	Increase in revenues due to higher copper sales volume
	+35	Increase in revenues due to higher molybdenum prices
	+52	Increase in revenues due to higher molybdenum sales volume
	+15	Mainly higher revenues from sales of gold and silver
Increase in cost of sales, selling costs and administrative expenses by USD 1 million, including:	+112	A decrease in depreciation/amortisation, mainly due to impairment losses on assets recognised in 2016
	(84)	An increase in costs of energy, fuel and external services
	(15)	A change in inventories
	+7	Lower costs of spare parts, employee benefits

	(3)	Lower costs of pre-stripping subject to capitalisation
Impact of other operating activities – an increase in the result by USD 22 million	+22	More favourable exchange differences and lower other operating costs
Increase in finance costs by USD 18 million	(18)	Mainly higher accrued interest on a loan granted by the Owners to finance the mine's construction
Income tax	(71)	Lower loss before taxation

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



The interest on loans granted by the company's Owners to finance the mine's construction increased the loan's carrying amount, which at the end of September 2017 amounted to USD 4 012 million.

There were significant changes in financing the mine's construction due to the loans granted by Japanese banks. Pursuant to the new terms and conditions dated 30 June 2017, the obligations and limitations of Sierra Gorda were decreased, which should improve the mine's operational flexibility. As at 30 September 2017, the amount of financing due to this loan agreement amounts to USD 760 million.

Cash expenditures

In the three quarters of 2017, the cash expenditures on property, plant and equipment and intangible assets amounted to USD 183 million (PLN 695 million), of which the majority, or USD 147 million (over 80%) were cash expenditures incurred on pre-stripping to gain access to subsequent areas of the deposit, with the remainder on development and the replacement of property, plant and equipment.

	Unit	3 quarters of 2017	3 quarters of 2016	Change (%)	third quarter of 2017	second quarter of 2017	first quarter of 2017
Cash expenditures on property, plant and equipment	mn USD	183	212	-13.7	52	65	66
Cash expenditures on property, plant and equipment	mn PLN	695	831	-16.4	183	245	267
Cash expenditures on property, plant and equipment – segment (55% share)	mn PLN	382	457	-16.4	100	135	147

The decrease, as compared to the same period of 2016 (-14%) was with respect to cash expenditures on development and the replacement of property, plant and equipment, due to their above-average level in the first quarter of 2016, when they reflected deferred expenditures on mining equipment purchased in 2015.

The main source of financing investments was the inflow from operating activities and cash from 2016. In addition, in the second quarter of 2017 the company made use of financing in the form of a share capital increase in the amount of USD 100 million, without the drawing of any new working capital facilities.

4 – Selected additional explanatory notes

Note 4.1 Expenses by nature

	3rd quarter of 2017	3 quarters of 2017	3rd quarter of 2016	3 quarters of 2016
Depreciation of property, plant and equipment and amortisation of intangible assets	404	1 237	435	1 264
Employee benefits expenses	1 210	3 618	1 152	3 458
Materials and energy	1 972	5 586	1 550	5 149
External services	481	1 530	524	1 553
Minerals extraction tax	438	1 309	336	942
Other taxes and charges	127	388	119	374
Other costs	48	162	95	202
Total expenses by nature	4 680	13 830	4 211	12 942
Cost of merchandise and materials sold (+)	144	437	105	317
Change in inventories of finished goods and work in progress (+/-)	(613)	(1 458)	18	(781)
Cost of manufacturing products for internal use of the Group (-)	(301)	(1 063)	(344)	(1 150)
Total costs of sales, selling costs and administrative expenses, including:	3 910	11 746	3 990	11 328
Cost of sales	3 574	10 789	3 651	10 355
Selling costs	89	267	104	296
Administrative expenses	247	690	235	677

Note 4.2 Other operating income and (costs)

	3rd quarter of 2017	3 quarters of 2017	3rd quarter of 2016	3 quarters of 2016
Measurement and realisation of derivatives	-	230	103	149
Other	57	160	36	150
Total other income	57	390	139	299
Measurement and realisation of derivatives	(120)	(276)	(17)	(232)
Impairment loss on available-for-sale assets	-	-	-	(57)
Exchange differences on assets and liabilities other than borrowings	(115)	(1 076)	(265)	(155)
Other	(26)	(100)	(21)	(125)
Total other costs	(261)	(1 452)	(303)	(569)
Other operating income and (costs)	(204)	(1 062)	(164)	(270)

Note 4.3 Finance income and (costs)

	3rd quarter of 2017	3 quarters of 2017	3rd quarter of 2016	3 quarters of 2016
Exchange differences on borrowings	100	915	247	177
Total income	100	915	247	177
Interest on borrowings	(22)	(75)	(18)	(49)
Losses on the measurement of derivatives	(3)	(30)	(1)	(11)
Other	(27)	(78)	(36)	(84)
Total costs	(52)	(183)	(55)	(144)
Finance income and (costs)	48	732	192	33

Note 4.4 Information on property, plant and equipment and intangible assets**Purchase of property, plant and equipment and intangible assets**

	3 quarters of 2017	3 quarters of 2016
Purchase of property, plant and equipment	1 748	2 118
Purchase of intangible assets	112	173

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

	3rd quarter of 2017	2016
Payables due to the purchase of property, plant and equipment and intangible assets	504	520

Capital commitments not recognised in the consolidated statement of financial position

	3rd quarter of 2017	2016
Purchase of property, plant and equipment	2 648	2 420
Purchase of intangible assets	60	90
Total capital commitments	2 708	2 510

Note 4.5 Involvement in joint ventures**Joint ventures accounted for using the equity method**

	3rd quarter of 2017		2016	
	Sierra Gorda S.C.M.	Other	Sierra Gorda S.C.M.	Other
As at the beginning of the reporting period	-	27	534	28
Acquisition of shares	206	-	671	-
Share of losses of joint ventures accounted for using the equity method	(214)	(1)	(1 199)	(1)
Exchange differences from the translation of statements of operations with a functional currency other than PLN	8	-	(6)	-
As at the end of the reporting period	-	26	-	27

	3 quarters of 2017	2016
Share of the Group (55%) in losses of Sierra Gorda S.C.M., of which:	(456)	(6 015)
recognised in share of losses of joint ventures	(214)	(1 199)
not recognised in share of losses of joint ventures	(242)	(4 816)

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

	3rd quarter of 2017	2016
As at the beginning of the reporting period	4 313	7 504
Accrued interest	240	633
Allowance for impairment of loans granted	-	(4 394)
Exchange differences from the translation of statements of operations with a functional currency other than PLN	(554)	570
As at the end of the reporting period	3 999	4 313

Note 4.6 Financial instruments

Categories of financial assets in accordance with IAS 39	3rd quarter of 2017					2016				
	Available- for-sale	At fair value through profit or loss	Loans and financial receivables	Hedging instruments	Total	Available- for-sale	At fair value through profit or loss	Loans and financial receivables	Hedging instruments	Total
Non-current	742	11	4 939	172	5 864	577	41	5 243	196	6 057
Loans granted to joint ventures	-	-	3 999	-	3 999	-	-	4 313	-	4 313
Derivatives	-	11	-	172	183	-	41	-	196	237
Other financial instruments measured at fair value	742	-	-	-	742	577	-	-	-	577
Other financial assets	-	-	940	-	940	-	-	930	-	930
Current	69	1	1 711	109	1 890	56	-	2 295	72	2 423
Trade receivables	-	-	1 127	-	1 127	-	-	1 292	-	1 292
Derivatives	-	1	-	109	110	-	-	-	72	72
Cash and cash equivalents	-	-	407	-	407	-	-	860	-	860
Other financial assets	69	-	177	-	246	56	-	143	-	199
Total	811	12	6 650	281	7 754	633	41	7 538	268	8 480

Categories of financial liabilities in accordance with IAS 39	3rd quarter of 2017				2016			
	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	114	5 986	62	6 162	129	5 538	1 347	7 014
Borrowings	-	5 783	7	5 790	-	5 319	1 220	6 539
Derivatives	114	-	55	169	129	-	127	256
Other financial liabilities	-	203	-	203	-	219	-	219
Current	36	3 230	20	3 286	31	3 084	218	3 333
Borrowings	-	1 430	5	1 435	-	1 525	34	1 559
Derivatives	36	-	15	51	31	-	184	215
Trade payables	-	1 587	-	1 587	-	1 433	-	1 433
Other financial liabilities	-	213	-	213	-	126	-	126
Total	150	9 216	82	9 448	160	8 622	1 565	10 347

The fair value hierarchy of financial instruments

Classes of financial instruments	3rd quarter of 2017		2016	
	level 1	level 2	level 1	level 2
Listed shares	755	-	577	-
Other financial assets	-	56	-	58
Derivatives, including:	-	61	-	(162)
Assets	-	293	-	309
Liabilities	-	(232)	-	(471)

The manner and technique for measuring financial instruments to fair value have not changed in comparison to the manner and technique for measurement as at 31 December 2016.

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

Note 4.7 Commodity, currency and interest rate risk management

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

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

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

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

Statement of profit or loss	Impact of derivatives and hedging transactions	
	3 quarters of 2017	3 quarters of 2016
Sales revenue	11	12
Other operating and finance income and costs:	(76)	(94)
On realisation of derivatives	(1)	(13)
On measurement of derivatives	(75)	(81)
Impact of derivatives on the financial result for the period	(65)	(82)
Statement of comprehensive income in the part concerning other comprehensive income		
Impact of hedging transactions	255	14
Impact of measurement of hedging transactions (effective portion)	266	26
Reclassification to sales revenues due to realisation of a hedged item	(11)	(12)
TOTAL COMPREHENSIVE INCOME	190	(68)

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

The notional amount of copper price hedging strategies settled in the three quarters of 2017 represented approx. 26% of the total sales of this metal realised by the Parent Entity. Silver price hedging transactions represented approx. 8% of the total sales of this metal realised in the three quarters of 2017. However, in the case of currency transactions, approx. 28% of total revenues from metals sales realised by the Parent Entity during the period were hedged.

In the third quarter of 2017 the Parent Entity implemented copper price hedging transactions with a total notional amount of 81 thousand tonnes and a hedging horizon falling from October 2017 to December 2019. This hedging included the purchase of put options (Asian options) and seagull structures were entered into (Asian options). In the third quarter of 2017, there were no hedging transactions implemented for the silver, currency and interest rate markets.

With respect to managing currency risk, which arises from borrowings, the Parent Entity uses natural hedging by borrowing in currencies in which it has revenues. As at 30 September 2017, following their translation to PLN, the bank loans and the investment loan which were drawn in USD amounted to PLN 6 983 million (as at 31 December 2016: PLN 7 932 million).

As a result, as at 30 September 2017, the Parent Entity held a hedging position in derivatives for 157.5 thousand tonnes of copper (for the period from October 2017 to December 2019), 0.68 million ounces of silver (for the period from October 2017 to December 2017) as well as for planned revenues from sales of metals in the amount of USD 1 035 million (for the period from October 2017 to June 2019). Moreover, the Parent Entity held open derivatives transactions on the interest rate market for the years 2017-2020. In addition, natural hedging against interest rates risk included three instalments of the loan from the European Investment Bank which were drawn based on a fixed interest rate.

Some of the Group's Polish companies managed the currency risk related to their core business by opening transactions in derivatives on the currency market. The table of open transactions of Polish companies as at 30 September 2017 is not presented, due to its immateriality for the Group.

The condensed tables of open transactions in derivatives held by the Parent Entity on the copper, silver, currency and interest rate markets as at 30 September 2017 are presented below. The hedged notional amounts of transactions on copper, silver and currency markets in the presented periods are allocated evenly on a monthly basis.

COPPER MARKET

	Instrument	Notional	Option strike price			Average weighted premium	Effective hedge price	Hedge limited to	Participation limited to
		[tonnes]	Sold put option	Purchased put option	Sold call option				
			[USD/t]	[USD/t]	[USD/t]				
4th quarter	Seagull	10 500	4 200	5 400	7 200	-230	5 170	4 200	7 200
	Put option	15 000		5 800		-247	5 553		
	Put option	6 000		5 700		-235	5 465		
TOTAL 4th quarter of 2017		31 500							
1st half	Seagull	21 000	4 200	5 400	7 200	-230	5 170	4 200	7 200
	Put option	9 000		5 800		-250	5 550		
	Put option	12 000		5 700		-235	5 465		
2nd half	Seagull	21 000	4 200	5 400	7 200	-230	5 170	4 200	7 200
	Seagull	21 000	4 700	6 200	8 000	-226	5 974	4 700	8 000
	TOTAL 2018	84 000							
2nd half 1st half	Seagull	21 000	4 700	6 200	8 000	-226	5 974	4 700	8 000
	Seagull	21 000	4 700	6 200	8 000	-226	5 974	4 700	8 000
	TOTAL 2019	42 000							

SILVER MARKET

Instrument	Notional [oz t million]	Option strike price		Average weighted premium [USD/oz t]	Effective hedge price [USD/oz t]	Hedge limited to [USD/oz t]
		Sold put option [USD/oz t]	Purchased put option [USD/oz t]			
4th quarter Put spread	0.68	14.00	18.00	-1.48	16.52	14.00
TOTAL 4th quarter of 2017	0.68					

CURRENCY MARKET

Instrument	Notional [million USD]	Option strike price			Average weighted premium [PLN per 1 USD]	Effective hedge price [USD/PLN]	Hedge limited to [USD/PLN]	Participation limited to [USD/PLN]
		Sold put option [USD/PLN]	Purchased put option [USD/PLN]	Sold call option [USD/PLN]				
4th quarter Put option	135		3.3500		-0.0916	3.2584		
4th quarter Collar	90		3.5500	4.4000	-0.0491	3.5009		4.4000
4th quarter Collar	30		3.7500	4.5000	-0.0263	3.7237		4.5000
TOTAL 4th quarter of 2017	255							
1st half Seagull	120	3.2441	3.7500	4.5000	-0.0302	3.7198	3.2441	4.5000
1st half Seagull	180	3.2441	3.8000	4.8370	0.0073	3.8073	3.2441	4.8370
2nd half Seagull	120	3.2441	3.7500	4.5000	-0.0216	3.7284	3.2441	4.5000
2nd half Seagull	180	3.2441	3.8000	4.8370	0.0126	3.8126	3.2441	4.8370
TOTAL 2018	600							
1st half Seagull	180	3.2441	3.8000	4.8370	0.0236	3.8236	3.2441	4.8370
TOTAL I-VI 2019	180							

INTEREST RATE MARKET

Instrument	Notional [million USD]	Option strike price [LIBOR 3M]	Average weighted premium		Effective hedge price [LIBOR 3M]
			[USD per USD 1 million hedged]	[%]	
Purchase of interest rate cap options, QUARTERLY IN 2017	700	2.50%	734	0.29%	2.79%
Purchase of interest rate cap options, QUARTERLY IN 2018	900	2.50%	734	0.29%	2.79%
Purchase of interest rate cap options, QUARTERLY IN 2019	1 000	2.50%	381	0.15%	2.65%
Purchase of interest rate cap options, QUARTERLY IN 2020	1 000	2.50%	381	0.15%	2.65%

As at 30 September 2017, the net fair value of open positions in derivatives of the Group (hedging, trade and embedded transactions) was positive and amounted to PLN 73 million (it was negative as at 31 December 2016 and amounted to PLN 162 million).

The fair value of hedging and trade transactions (including embedded instruments) of the Group which were open as at 30 September 2017 is presented in the tables below.

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

Type of derivative	3rd quarter of 2017				Net total
	Financial assets		Financial liabilities		
	Current	Non-current	Current	Non-current	
Derivatives – Commodity contracts - Copper					
Purchased put options	5	-	-	-	5
Options – seagull	10	91	(15)	(54)	32
Derivatives – Commodity contracts - Silver					
Options – put spread	3	-	-	-	3
Derivatives – Currency contracts					
Options – collar USD	91	81	0	(1)	171
TOTAL HEDGING INSTRUMENTS	109	172	(15)	(55)	211

Open hedging derivatives	Notional	Avg. weighted price/exchange rate	Maturity/ settlement period		Period of profit/loss impact	
			from	to	from	to
	Copper [t] Silver [million troy ounces] Currency [USD million]	[USD/t] [USD/oz t] [USD/PLN]				
Copper –purchased put options	42 000	5 757	Oct 17	June 18	Nov 17	Jul 18
Copper – seagull*	115 500	5 836 – 7 636	Oct 17	Dec 19	Nov 17	Jan 20
Silver –put spread*	0.68	18.00	Oct 17	Dec 17	Nov 17	Jan 18
Currency – collars	900	3.7600 - 4.6924	Oct 17	Jun 19	Oct 17	Jun 19
Currency – purchased put options	135	3.3500	Oct 17	Dec 17	Oct 17	Dec 17

*in terms of seagull and put spread options, the table presents only those which were designated as hedging transactions.

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

Type of derivative	3rd quarter of 2017				Net total
	Financial assets		Financial liabilities		
	Current	Non-current	Current	Non-current	
Derivatives – Commodity contracts - Copper					
Options – sold put options from seagull strategy	-	-	-	(10)	(10)
Derivatives – Currency contracts					
Options and forward/swap USD and EUR	1	1	(1)	(1)	-
Sold USD put options	-	-	(5)	(11)	(16)
Derivatives – interest rate					
Purchased interest rate cap options	-	10	-	-	10
Embedded derivatives					
Acid and water supply contracts	-	-	(30)	(92)	(122)
TOTAL TRADE INSTRUMENTS	1	11	(36)	(114)	(138)

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

The following table presents the structure of ratings of the financial institutions with which the Group had derivatives transactions, representing an exposure to credit risk* (as at the end of the reporting period):

Rating level		3rd quarter of 2017	2016
Medium-high	from A+ to A- according to S&P and Fitch, and from A1 to A3 according to Moody's	100%	100%

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

Taking into consideration the fair value of open derivative transactions entered into by the Group and the fair value of unsettled derivatives, as at 30 September 2017 the maximum single entity share of the amount exposed to credit risk arising from these transactions amounted to 38%, i.e. PLN 82 million (as at 31 December 2016: 32%, i.e. PLN 47 million).

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

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

Note 4.8 Liquidity risk and capital management

Liquidity and capital management policy

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

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

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

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

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

Ratio	Calculation	3rd quarter of 2017	2016
Net Debt/EBITDA*	Relation of net debt to EBITDA	1.3	1.6
Equity ratio	Relation of equity less intangible assets to total assets	0.4	0.4

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

Net debt

	3rd quarter of 2017	2016
Total debt – Borrowings and other sources of financing	7 225	8 098
Free cash and cash equivalents	400	836
Net debt	6 825	7 262

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

Type of bank and other loans	Available currency	3rd quarter of 2017		2016
		Amount available, in PLN	Amount drawn, in PLN	Amount drawn, in PLN
Bilateral bank loans	USD, EUR, PLN	3 384	2 233	1 609
Unsecured revolving syndicated credit facility	USD	9 130	2 923*	4 809*
Investment loans	USD, EUR, PLN	2 031	2 079**	1 684
Total		14 545	7 235	8 102

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

** The limit of the investment loan granted to the Parent Entity by EIB amounts to PLN 2 000 million, but the loan is drawn in USD. As at 30 September 2017, the Parent Entity's liability due to the loan amounted to PLN 2 065 million.

Contingent liabilities due to guarantees granted

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

As at 30 September 2017, the Group held contingent liabilities due to guarantees and letters of credit granted in the total amount of PLN 2 393 million and due to promissory note liabilities in the amount of PLN 212 million.

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

Sierra Gorda S.C.M. – securing the performance of concluded agreements in the amount of PLN 1 848 million:

- PLN 502 million - a letter of credit granted as security for the proper performance of a long-term contract for the supply of electricity (as at 31 December 2016 in the amount of PLN 575 million),
- PLN 207 million - corporate guarantees set as security on the payment of concluded lease agreements (as at 31 December 2016 in the amount of PLN 277 million),
- PLN 482 million – a corporate guarantee securing repayment of short-term working capital facilities (as at 31 December 2016 in the amount of PLN 437 million),
- PLN 657 million – a corporate guarantee securing repayment of a specified part of payment to guarantees set by Sumitomo Metal Mining Co., Ltd. and Sumitomo Corporation, securing repayment of a credit drawn by Sierra Gorda S.C.M. (granted in the first half of 2017).

Other entities:

- securing the restoration costs of the Robinson mine, the Podolsky mine and the Victoria project and obligations related to proper execution of concluded agreements in the amount of PLN 398 million (as at 31 December 2016 in the amount of PLN 387 million),
- securing the proper execution of future environmental obligations of the Parent Entity related to the obligation to restore terrain, following the conclusion of operations of the Źelazny Most tailings storage facility - PLN 128 million in the form of a bank guarantee (as at 31 December 2016, PLN 96 million), and PLN 192 million in the form of an own promissory note (as at 31 December 2016, PLN 224 million).

Note 4.9 Related party transactions

	3rd quarter of 2017	3 quarters of 2017	3rd quarter of 2016	3 quarters of 2016
Operating income from related entities				
Revenues from sales of products, merchandise and materials to joint ventures	22	71	24	73
Interest income on a loan granted to a joint venture	79	240	159	465
Revenues from other transactions with joint ventures	17	39	13	22
Revenues from other transactions with other related parties	1	12	-	11
	119	362	196	571

	3rd quarter of 2017	3 quarters of 2017	3rd quarter of 2016	3 quarters of 2016
Purchases from related entities				
Purchase of services, merchandise and materials from joint ventures	-	-	(1)	53
Purchase of services, merchandise and materials from other related parties	1	16	1	15
Other purchase transactions from other related parties	1	2	1	2
	2	18	1	70

	3rd quarter of 2017	2016
Trade and other receivables from related parties		
From the joint venture Sierra Gorda S.C.M. (loans)	3 999	4 313
From the joint venture Sierra Gorda S.C.M. (other)	530	492
From other related parties	5	2
	4 534	4 807

	3rd quarter of 2017	2016
Trade and other payables towards related parties		
Towards joint ventures	32	51
Towards other related parties	4	1
	36	52

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

As at 30 September 2017, balances of unsettled payables concerned the following:

- mining usufruct agreements necessary to conduct principal operating activities. Pursuant to these agreements, the Parent Entity is obliged to pay for the right to mine the copper and rock salt deposits. As at 30 September 2017, the balance of liabilities due to these agreements amounted to PLN 192 million (as at 31 December 2016: PLN 209 million). In the reporting period, there was a purchase of mining usufruct rights for the amount of PLN 37 million (in the period from 1 January to 30 September 2016: PLN 28 million),
- the dividend payout approved by the Ordinary General Meeting, in the amount of PLN 100 million, to which the State Treasury gained rights, proportionally to the shares held on the dividend date set by the Ordinary General Meeting - with the State Treasury holding 31.79% of shares as at 30 September 2017.

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

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

- the purchase of goods to meet the needs of current operating activities. In the period from 1 January to 30 September 2017, the turnover from these transactions amounted to PLN 573 million (from 1 January to 30 September 2016: PLN 422 million), and, as at 30 September 2017, the unsettled balance of liabilities from these transactions amounted to PLN 140 million (as at 31 December 2016: PLN 85 million),
- sales to Polish State Treasury Companies. In the period from 1 January to 30 September 2017, the turnover from these sales amounted to PLN 60 million (from 1 January to 30 September 2016: PLN 52 million), and, as at 30 September 2017, the unsettled balance of receivables from these transactions amounted to PLN 11 million (as at 31 December 2016: PLN 8 million).

Remuneration of the Supervisory Board of the Parent Entity (in PLN thousands)	3 quarters of 2017	3 quarters of 2016
Remuneration due to service in the Supervisory Board, salaries and other current employee benefits	1 396	1 221
Remuneration of the Management Board of the Parent Entity (in PLN thousands)		
Salaries and other current employee benefits, of which:		
Remuneration during the term of a member of the Management Board's mandate	7 284	11 261
Remuneration after the end of a member of the Management Board's mandate	5 612	5 599
Benefits due to termination of employment	1 672	5 662
	2 464	403
Total	9 748	11 664
Remuneration of other key managers (in PLN thousands)		
Salaries and other current employee benefits		
	3 570	2 847

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

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

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

	3rd quarter of 2017	Increase/(decrease) since the end of the last financial year
Contingent assets	538	(16)
Guarantees received	221	(31)
Promissory notes receivables	125	17
Other	192	(2)
Contingent liabilities	2 942	596
Note 4.8 Guarantees	2 393	606
Note 4.8 Promissory note liability	212	(44)
Liabilities due to implementation of projects and inventions	117	26
Other	220	8
Other liabilities not recognised in the statement of financial position	151	(27)
Liabilities towards local government entities due to expansion of the tailings storage facility	119	(1)
Liabilities due to operating leases	32	(26)

Note 4.11 Changes in working capital

	Inventories	Trade receivables	Trade payables	Working capital
As at 31 December 2016	(3 497)	(1 292)	1 613	(3 176)
As at 30 September 2017	(4 931)	(1 127)	1 756	(4 302)
Change in the statement of financial position	(1 434)	165	143	(1 126)
Exchange differences from the translation of statements of operations with a functional currency other than PLN	(52)	(45)	23	(74)
Depreciation recognised in inventories	73	-	-	73
Payables due to the purchase of property, plant and equipment and intangible assets	-	-	(19)	(19)
Adjustments	21	(45)	4	(20)
Change in the statement of cash flows	(1 413)	120	147	(1 146)

	Inventories	Trade receivables	Trade payables	Working capital
As at 31 December 2015	(3 382)	(1 541)	1 598	(3 325)
As at 30 September 2016	(4 225)	(955)	1 402	(3 778)
Change in the statement of financial position	(843)	586	(196)	(453)
Exchange differences from the translation of statements of operations with a functional currency other than PLN	(5)	(3)	1	(7)
Depreciation recognised in inventories	12	-	-	12
Payables due to the purchase of property, plant and equipment and intangible assets	-	-	260	260
Other	(2)	1	-	(1)
Adjustments	5	(2)	261	264
Change in the statement of cash flows	(838)	584	65	(189)

Note 4.12 Other adjustments to profit before income tax in the statement of cash flows

	3 quarters of 2017	3 quarters of 2016
Losses on the sales of property, plant and equipment and intangible assets	13	11
Reclassification of other comprehensive income to profit for the period due to the realisation of hedging derivatives	(11)	(12)
Change in provisions	(1)	66
Other	2	1
Total	3	66

5 – Additional information to the consolidated quarterly report

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

There were no significant changes in the Group's structure in the third quarter of 2017.

Note 5.2 Seasonal or cyclical activities

The Group is not affected by seasonal or cyclical activities.

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

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

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

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 Parent Entity are ordinary shares.

In accordance with Resolution No. 6/2016 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 28 June 2016 regarding the dividend payout from prior years' profits, setting the dividend date and the dividend payment date, the amount of PLN 300 million was allocated as a shareholder dividend, amounting to PLN 1.50 per share.

The dividend date (the day on which the right to dividend is set) was set at 15 July 2016 with the dividend being paid in two instalments: 18 August 2016 – the amount of PLN 150 million (equal to PLN 0.75 per share) and 17 November 2016 – the amount of PLN 150 million (equal to PLN 0.75 per share).

All shares of the Parent Entity are ordinary shares.

Note 5.5 Other information to the consolidated quarterly report

Position of the Management Board with respect to the possibility of achieving previously-published forecasts of results for 2017, in the light of results presented in this consolidated quarterly report relative to forecasted results

KGHM Polska Miedź S.A. has not published a forecast of financial results for 2017.

Shareholders holding at least 5% of the total number of votes at the General Meeting of KGHM Polska Miedź S.A. as at the date of publication of this consolidated quarterly report, changes in the ownership structure of significant blocks of shares of KGHM Polska Miedź S.A. in the period since publication of the consolidated report for the first half of 2017

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

- the State Treasury - 63 589 900 shares of KGHM Polska Miedź S.A., representing 31.79% of the share capital and the same number of votes at the General Meeting of KGHM Polska Miedź S.A. (based on a notification dated 12 January 2010);
- Nationale-Nederlanden Otwarty Fundusz Emerytalny (managed by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.) - 10 104 354 shares of KGHM Polska Miedź S.A., representing 5.05% of the share capital and the same number of votes at the General Meeting of KGHM Polska Miedź S.A. (based on a notification dated 18 August 2016).

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

Ownership of KGHM Polska Miedź S.A.'s shares or of rights to them by members of the management and supervisory boards of KGHM Polska Miedź S.A., as at the date of publication of the consolidated quarterly report. Changes in ownership during the period following publication of the consolidated report for the first half of 2017

Members of the Company's Management Board

Based on information held by KGHM Polska Miedź S.A., as at the date of preparation of this report no Member of the Company's Management Board held shares of KGHM Polska Miedź S.A. or rights to them. As far as the Company is aware, the aforementioned state did not change since the publication of the consolidated report for the first half of 2017.

Members of the Company's Supervisory Board

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

function	name	number of shares as at the date of preparation of the report for the third quarter of 2017
Member of the Supervisory Board	Józef Czyczerski	10
Member of the Supervisory Board	Leszek Hajdacki	1

Based on information held by KGHM Polska Miedź S.A., as at the date of preparation of this report other Members of the Company's Supervisory Board did not hold shares of KGHM Polska Miedź S.A. or rights to them. As far as the Company is aware, the aforementioned state did not change since the publication of the consolidated report for the first half of 2017.

List of proceedings before courts, arbitration authorities or public administration authorities

As at 30 September 2017, the total value of on-going proceedings before courts, arbitration authorities or public administration authorities respecting the liabilities and debt of KGHM Polska Miedź S.A. and its subsidiaries did not represent at least 10% of the equity value of KGHM Polska Miedź S.A.

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

During the period from 1 January 2017 to 30 September 2017, neither KGHM Polska Miedź S.A. nor its subsidiaries entered into transactions with related entities under other than arm's length conditions.

Information on guarantees or collateral on bank and other loans granted by KGHM Polska Miedź S.A. or its subsidiaries – jointly to a single entity or subsidiary thereof, if the total amount of existing guarantees or collaterals amounts to at least 10% of the equity value of KGHM Polska Miedź S.A.

During the period from 1 January 2017 to 30 September 2017, neither KGHM Polska Miedź S.A. nor its subsidiaries granted guarantees or collateral on bank and other loans to any single entity or subsidiary thereof with a total value representing at least 10% of the equity value of KGHM Polska Miedź S.A.

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

In the third quarter of 2017 there were no other significant events, apart from those mentioned in the commentary to the report, which could have a significant impact on the assessment of assets, financial position and financial result of the Group, and any changes thereto, or any events significant for the assessment of the employment situation and the ability to pay its liabilities.

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

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

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

Moreover, the results of KGHM Polska Miedź S.A. in the fourth quarter will be impacted by the effects of the accident involving the recovery boiler, which is responsible for cooling and de-dusting the process gases from the flash

furnace, which occurred on 3 October at the Głogów I Copper Smelter and Refinery. The accident at the boiler was caused by a certain amount of sinter (a combination of dust and metal oxides which accumulate on the boiler) becoming detached and falling, which damaged the boiler's seal. The accident at the recovery boiler resulted in the need to cease production by the HMG I flash furnace. After the completion of the replacement work, production at the Głogów I Copper Smelter and Refinery was re-started on 30 October 2017.

Taking into account the aforementioned production shutdown at the Głogów I Copper Smelter and Refinery and other random events which limited the production capacity of KGHM Polska Miedź S.A., such as a breakdown of the electrical furnace's transformer at the Głogów II Copper Smelter and Refinery, as a result of which the flash furnace operated with a reduced feed capacity; a temporary power outage caused by the windstorm Xavier in October 2017; and a delay in the start-up of the concentrate roasting installation, the Company estimates that KGHM Polska Miedź S.A.'s production of electrolytic copper planned for 2017 will be lower by approximately 22 thousand tonnes, while:

- production from own concentrates will be lower by approximately 35 thousand tonnes, and
- production from purchased metal-bearing materials will be higher by approximately 13 thousand tonnes.

In the case of the Sierra Gorda mine, there was a need to change the mining sequence in the third quarter, which resulted in a lower molybdenum content in ore, and therefore a lower planned production of this metal in the third quarter of 2017 by approximately 2.4 million pounds (55% share). We expect molybdenum production in 2017 to be lower by approximately 4 million pounds as compared to the planned production (55% share).

Due to the better-than-budgeted financial results of KGHM International and Sierra Gorda, KGHM Polska Miedź S.A. estimates that capital expenditures in 2017, planned at the level of PLN 1 022 million, will not exceed the amount of PLN 510 million – assuming that the current macroeconomic situation does not change, in particular copper prices (in USD) and the USD/PLN exchange rate.

Note 5.6 Subsequent events

Information on the effects of the accident involving the recovery boiler at the Głogów I Copper Smelter and Refinery

On 13 October 2017, the Parent Entity completed its initial estimates on the impact of an accident involving the recovery boiler, which is responsible for cooling and de-dusting the process gases from the flash furnace, which occurred on 3 October at the Głogów I Copper Smelter and Refinery (HMG I). The accident at the boiler was caused by a certain amount of sinter (a combination of dust and metals which accumulate on the boiler) becoming detached and falling, which damaged the boiler's seal. The accident at the recovery boiler resulted in the need to cease production by the HMG I flash furnace. After the completion of the recovery boiler's repairs, the re-start of HMG I flash furnace took place on 30 October 2017. The decrease in the amount of electrolytic copper produced as a result of this accident is estimated at approx. 18 thousand tonnes.

Correction of a judgment on the functional currency of a subsidiary

On 27 October 2017, the Management Board of KGHM Polska Miedź S.A. decided to correct its judgment on the functional currency of the subsidiary Future 1 Sp. z o.o. (Future 1) and to change it from the Polish zloty (PLN) to the US dollar (USD) for the purposes of the consolidated financial statements. The change was made as a result of a reassessment of the currency of the primary economic environment in which Future 1 operates.

Below, we present in brief the impact of the aforementioned change on the consolidated financial statements:

- as at 31 December 2016:
 - an increase in accumulated other comprehensive income from PLN 855 million to PLN 2 216 million – a change in the amount of PLN 1 361 million,
 - a decrease in retained earnings (undistributed profit) from PLN 13 100 million to PLN 11 739 million – a change in the amount of PLN 1 361 million,
 - no impact on the financial result for 2016,
- for the period from 1 January 2017 to 31 March 2017:
 - an increase in profit for the period from PLN 398 million to PLN 710 million – a change in the amount of PLN 312 million,
 - a decrease in other comprehensive income from PLN 462 million to PLN 150 million – a change in the amount of PLN 312 million,
- for the period from 1 January 2017 to 30 June 2017:
 - an increase in profit for the period from PLN 494 million to PLN 1 054 million – a change in the amount of PLN 560 million,
 - a decrease in other comprehensive income from PLN 981 million to PLN 333 million – a change in the amount of PLN 648 million,
 - a decrease in deferred tax assets from PLN 460 million to PLN 372 million – a change in the amount of PLN 88 million.

The aforementioned change is of a non-cash nature and has no impact on the liquidity of the KGHM Polska Miedź S.A. Group. Correction of the functional currency has no impact on the separate financial statements of KGHM Polska Miedź S.A.

Signing of a credit agreement

On 27 October 2017, the Parent Entity entered into an overdraft facility agreement in the amount of EUR 50 million with the Bank Intesa Sanpaolo S.p.A Spółka Akcyjna Oddział w Polsce (Poland branch). The facility's interest is based on EURIBOR plus a margin. The agreement was entered into for the period of up to 10 October 2018 with the option to extend it by another 365 days.

Management Board consent to setting terms and conditions of the loan agreement with the European Investment Bank

On 7 November 2017, the Management Board of KGHM Polska Miedź S.A. consented to set detailed terms and conditions for an unsecured loan in the amount of PLN 900 million with the European Investment Bank. In accordance with the preliminary offer, the agreement may be entered into for a period of 12 years, with the option of drawing in PLN, USD or EUR, with either a fixed or variable interest rate for each of the loan's instalments.

If the agreement is signed, the Company plans to use the acquired funds to finance the investment projects advanced by the Company, which are aimed at modernising the production line as well as at adapting current processes to variable mining conditions, increasing effectiveness, maintaining production continuity and implementing solutions concerning environmental issues.

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

INTERIM STATEMENT OF PROFIT OR LOSS

	3rd quarter of 2017	3 quarters of 2017	3rd quarter of 2016	3 quarters of 2016
Sales revenue	3 732	11 433	3 744	10 284
Note 2.1 Cost of sales	(2 794)	(8 365)	(2 831)	(7 971)
Gross profit	938	3 068	913	2 313
Note 2.1 Selling costs and administrative expenses	(226)	(621)	(231)	(619)
Profit on sales	712	2 447	682	1 694
Note 2.2 Other operating income and (costs)	(92)	(689)	(81)	80
Note 2.3 Finance income and (costs)	53	744	199	58
Profit before income tax	673	2 502	800	1 832
Income tax expense	(133)	(652)	(186)	(550)
PROFIT FOR THE PERIOD	540	1 850	614	1 282
Weighted average number of ordinary shares (million)	200	200	200	200
Basic and diluted earnings per share (in PLN)	2.70	9.25	3.07	6.41

INTERIM STATEMENT OF COMPREHENSIVE INCOME

	3rd quarter of 2017	3 quarters of 2017	3rd quarter of 2016	3 quarters of 2016
Profit for the period	540	1 850	614	1 282
Measurement of hedging instruments net of the tax effect	33	206	31	11
Measurement of available-for-sale financial assets net of the tax effect	24	134	(36)	4
Other comprehensive income which will be reclassified to profit or loss	57	340	(5)	15
Actuarial gains/(losses) net of the tax effect	22	(121)	86	19
Other comprehensive income which will not be reclassified to profit or loss	22	(121)	86	19
Total other comprehensive net income	79	219	81	34
TOTAL COMPREHENSIVE INCOME	619	2 069	695	1 316

INTERIM STATEMENT OF CASH FLOWS

	3 quarters of 2017	3 quarters of 2016
Cash flow from operating activities		
Profit before income tax	2 502	1 832
Depreciation/amortisation recognised in profit or loss	752	700
Interest on investment activities	(245)	(253)
Interest and other costs of borrowings	112	85
Change in other receivables and liabilities	59	(38)
Change in provisions	47	38
Impairment loss on non-current assets	1	70
Exchange differences, of which:	19	(88)
from investment activities and cash	932	90
from financing activities	(913)	(178)
Change in assets/liabilities due to derivatives	(29)	(109)
Note 2.5 Other adjustments to profit before income tax	20	19
Exclusions of income and costs, total	736	424
Income tax paid	(795)	(351)
Note 2.4 Changes in working capital	(1 236)	(42)
Net cash generated from operating activities	1 207	1 863
Cash flow from investing activities		
Expenditures on mining and metallurgical assets	(1 347)	(1 995)
Expenditures on other property, plant and equipment and intangible assets	(13)	(12)
Loans granted	(219)	(457)
Other expenses	(75)	(105)
Total expenses	(1 654)	(2 569)
Proceeds	30	25
Net cash used in investing activities	(1 624)	(2 544)
Cash flow from financing activities		
Proceeds from borrowings	1 635	2 829
Other proceeds	160	8
Total proceeds	1 795	2 837
Repayments of borrowings	(1 507)	(1 731)
Dividends paid	(100)	(150)
Interest paid and other costs of borrowings	(104)	(80)
Total expenses	(1 711)	(1 961)
Net cash generated from financing activities	84	876
TOTAL NET CASH FLOW		
	(333)	195
Exchange gains/(losses) on cash and cash equivalents	(25)	6
Cash and cash equivalents at the beginning of the period	482	158
Cash and cash equivalents at the end of the period	124	359

INTERIM STATEMENT OF FINANCIAL POSITION

	3rd quarter of 2017	2016
ASSETS		
Mining and metallurgical property, plant and equipment	14 857	14 379
Mining and metallurgical intangible assets	547	507
Mining and metallurgical property, plant and equipment and intangible assets	15 404	14 886
Other property, plant and equipment	67	77
Other intangible assets	22	24
Other property, plant and equipment and intangible assets	89	101
Investments in subsidiaries and joint ventures	3 361	2 002
Loans granted	5 505	7 310
Derivatives	182	237
Other financial instruments measured at fair value	741	576
Other financial assets	348	320
Financial instruments, total	6 776	8 443
Other non-financial assets	24	22
Deferred tax assets	30	140
Non-current assets	25 684	25 594
Inventories	4 154	2 726
Trade receivables	700	676
Tax assets	162	188
Derivatives	109	72
Other assets	399	362
Cash and cash equivalents	124	482
Current assets	5 648	4 506
	31 332	30 100
EQUITY AND LIABILITIES		
Share capital	2 000	2 000
Other reserves from measurement of financial instruments	144	(196)
Accumulated other comprehensive income	(364)	(243)
Retained earnings	15 989	14 339
Equity	17 769	15 900
Borrowings	5 684	6 423
Derivatives	76	149
Employee benefits liabilities	1 877	1 683
Provisions for decommissioning costs of mines and other technological facilities	792	761
Other liabilities	209	229
Non-current liabilities	8 638	9 245
Borrowings	1 398	1 509
Cash pool liabilities	160	-
Derivatives	20	189
Trade payables	1 446	1 372
Employee benefits liabilities	655	628
Tax liabilities	331	636
Other liabilities	915	621
Current liabilities	4 925	4 955
Non-current and current liabilities	13 563	14 200
	31 332	30 100

INTERIM STATEMENT OF CHANGES IN EQUITY

	Share capital	Other reserves from measurement of financial instruments	Accumulated other comprehensive income	Retained earnings	Total equity
As at 1 January 2016	2 000	(103)	(342)	18 724	20 279
Dividend	-	-	-	(300)	(300)
Profit for the period	-	-	-	1 282	1 282
Other comprehensive income	-	15	19	-	34
Total comprehensive income	-	15	19	1 282	1 316
As at 30 September 2016	2 000	(88)	(323)	19 706	21 295
As at 1 January 2017	2 000	(196)	(243)	14 339	15 900
Dividend	-	-	-	(200)	(200)
Profit for the period	-	-	-	1 850	1 850
Other comprehensive income	-	340	(121)	-	219
Total comprehensive income	-	340	(121)	1 850	2 069
As at 30 September 2017	2 000	144	(364)	15 989	17 769

Selected additional explanatory notes

Note 2.1 Expenses by nature

	3rd quarter of 2017	3 quarters of 2017	3rd quarter of 2016	3 quarters of 2016
Depreciation of property, plant and equipment and amortisation of intangible assets	261	792	246	736
Employee benefits expenses	782	2 346	760	2 218
Materials and energy, including:	1 596	4 384	1 179	3 995
Purchased metal-bearing materials	1 059	2 818	707	2 494
Electrical and other energy	222	579	172	559
External services, including:	362	1 075	324	1 002
Transport	53	161	57	160
Repairs, maintenance and servicing	106	306	98	271
Mine preparatory work	114	321	77	284
Minerals extraction tax	438	1 309	336	942
Other taxes and charges	102	310	92	297
Other costs	29	89	62	107
Total expenses by nature	3 570	10 305	2 999	9 297
Cost of merchandise and materials sold (+)	40	147	26	107
Change in inventories of finished goods and work in progress (+/-)	(568)	(1 384)	54	(720)
Cost of manufacturing products for internal use (-)	(22)	(82)	(17)	(94)
Total costs of sales, selling costs and administrative expenses, including:	3 020	8 986	3 062	8 590
Cost of sales	2 794	8 365	2 831	7 971
Selling costs	27	83	34	85
Administrative expenses	199	538	197	534

Note 2.2 Other operating income and (costs)

	3rd quarter of 2017	3 quarters of 2017	3rd quarter of 2016	3 quarters of 2016
Measurement and realisation of derivatives	2	227	102	148
Interest on loans granted	64	245	84	254
Fees and charges on re-invoicing of costs of bank guarantees securing payments of liabilities	20	43	6	25
Dividends received	-	4	-	2
Other	22	56	14	60
Total other income	108	575	206	489
Measurement and realisation of derivatives	(112)	(269)	(20)	(122)
Impairment loss on available-for-sale financial assets	-	-	-	(57)
Exchange differences on assets and liabilities other than borrowings	(64)	(899)	(256)	(163)
Other	(24)	(96)	(11)	(67)
Total other costs	(200)	(1 264)	(287)	(409)
Other operating income and (costs)	(92)	(689)	(81)	80

Note 2.3 Finance income and (costs)

	3rd quarter of 2017	3 quarters of 2017	3rd quarter of 2016	3 quarters of 2016
Exchange differences on borrowings	101	913	246	178
Total income	101	913	246	178
Interest on borrowings	(28)	(86)	(16)	(43)
Bank fees and charges on borrowings	(6)	(20)	(20)	(37)
Measurement of derivatives	(3)	(30)	(1)	(11)
Unwinding of the discount	(11)	(33)	(10)	(29)
Total costs	(48)	(169)	(47)	(120)
Finance income and (costs)	53	744	199	58

Note 2.4 Changes in working capital

	Inventories	Trade receivables	Trade payables	Working capital
As at 31 December 2016	(2 726)	(676)	1 542	(1 860)
As at 30 September 2017	(4 154)	(700)	1 606	(3 248)
Change in the statement of financial position	(1 428)	(24)	64	(1 388)
Depreciation recognised in inventories	35	-	-	35
Payables due to the purchase of property, plant and equipment and intangible assets	-	-	117	117
Adjustments	35	-	117	152
Change in the statement of cash flows	(1 393)	(24)	181	(1 236)

	Inventories	Trade receivables	Trade payables	Working capital
As at 31 December 2015	(2 601)	(1 000)	1 490	(2 111)
As at 30 September 2016	(3 408)	(450)	1 440	(2 418)
Change in the statement of financial position	(807)	550	(50)	(307)
Depreciation recognised in inventories	30	-	-	30
Payables due to the purchase of property, plant and equipment and intangible assets	-	-	235	235
Adjustments	30	-	235	265
Change in the statement of cash flows	(777)	550	185	(42)

Note 2.5 Other adjustments to profit before income tax in the statement of cash flows

	3 quarters of 2017	3 quarters of 2016
Losses on the sales of property, plant and equipment and intangible assets	19	7
Proceeds from income tax from the tax group companies	13	22
Reclassification of other comprehensive income to profit or loss due to the realisation of hedging derivatives	(11)	(12)
Other	(1)	2
Total	20	19

Lubin, 14 November 2017