

# Layers of possibilities



Results of the KGHM Group  
for the 1st half of 2019

Lubin, 21 August 2019

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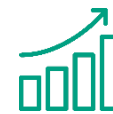
# Agenda



1. Key issues



2. Production results of the  
KGHM Group by segment



3. Financial results  
of the Group



4. Advancement of  
development initiatives



5. Supporting slides –  
KGHM Polska Miedź S.A.



6. Q&A

# Summation of the first half of 2019 in the KGHM Group

Main events and factors affecting the results of the Group

Production



Stable production in accordance with targets

Revenues



19% higher revenues to PLN 11 228 million<sup>1)</sup>

Costs



Lower C1 cost

EBITDA



Higher EBITDA by 6.5% to PLN 2 732 million

First issue of bonds



Advancement of the Strategy by diversification of borrowing sources – with a structure based on long-term instruments

Macroeconomic environment



Decrease in the average annual price of copper by 11%, silver by 8.5% and nickel by more than 11%, with a slight increase in the price of molybdenum by 0.8%



## Key issues

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# Key production indicators

H1 2019

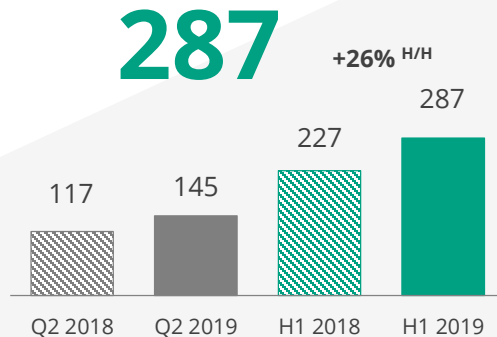
Payable copper production  
by the KGHM Group  
**19% higher h/h**

**352**

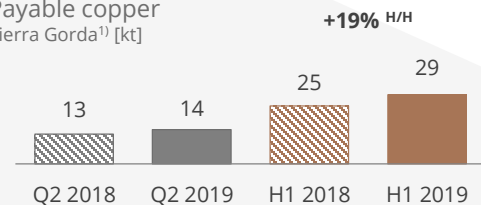
**+19% H/H**  
[kt]

- **KGHM Polska Miedź** – improved availability of production equipment
- **Sierra Gorda** – higher extraction and processing, as well as extraction of a better quality ore than in 1H 2018
- **KGHM INTERNATIONAL** – lower production by the Robinson and Sudbury Basin mines, which was not offset by higher production by the Franke and Carlota mines

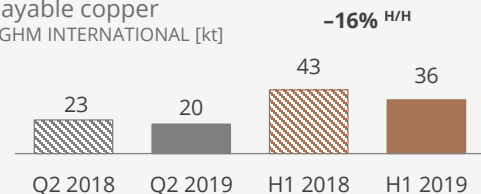
Payable copper production  
KGHM Polska Miedź [kt]



Payable copper  
Sierra Gorda<sup>1)</sup> [kt]



Payable copper  
KGHM INTERNATIONAL [kt]



# Key economic indicators

H1 2019

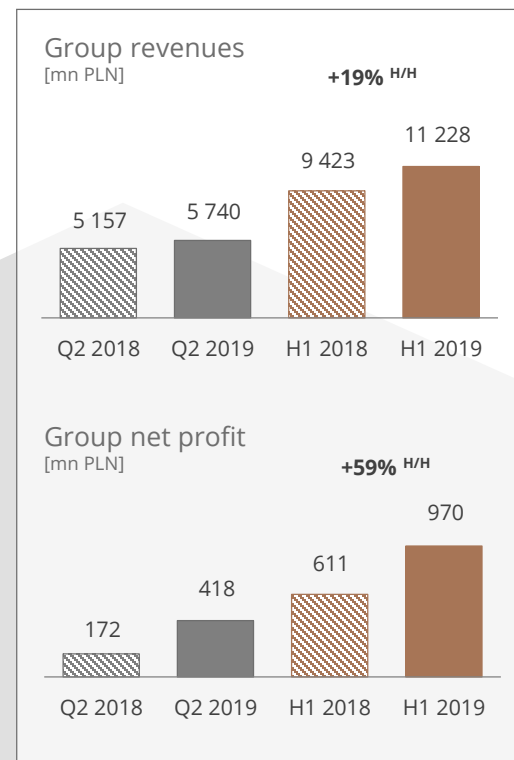
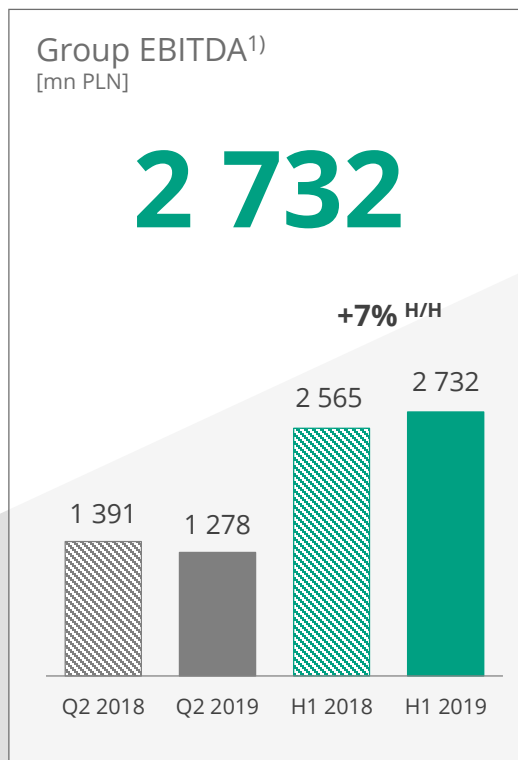
Substantially higher revenues, EBITDA and net profit by the KGHM Group

## Higher revenues by PLN 1.8 billion

- Growth in all of the Group's segments – with the main increase in revenues from KGHM Polska Miedź S.A. (+23%)
- Impacted by an increase in the volume of sales of copper and silver and a more favourable exchange rate alongside lower metals prices

## Higher net profit by PLN 359 million

- Improvement in the operating result and a lower loss on involvement in joint ventures accounted for using the equity method

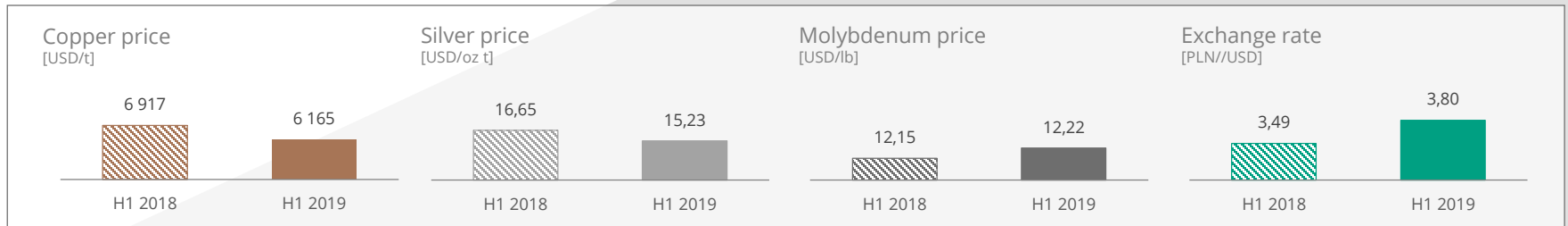
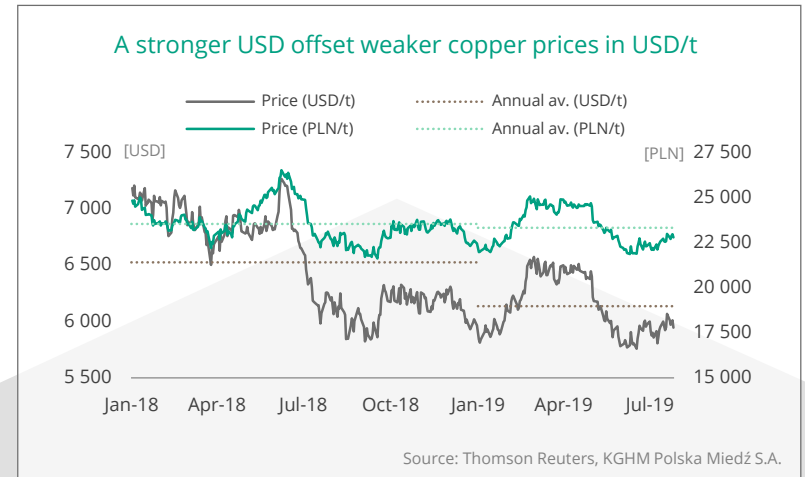


# Macroeconomic environment

## Commodity and currency prices

### A significant decrease in copper prices in H1 2019

- The price of copper fell (-11% yoy) compared to the corresponding prior-year period alongside a fall in the silver price and a slight increase in the price of molybdenum
- The price of copper expressed in PLN remained at a similar level to that recorded in H1 2018, although on a quarter to quarter basis (2Q19 to 1Q19) it was slightly lower mainly as a result of a drop in the USD copper price, which was only partially offset by the USD/PLN exchange rate
- The main factors which impacted metals prices and exchange rates in the past quarter were the tense political situation and trade conflicts as well as growing fears about the sustainability of global economic growth

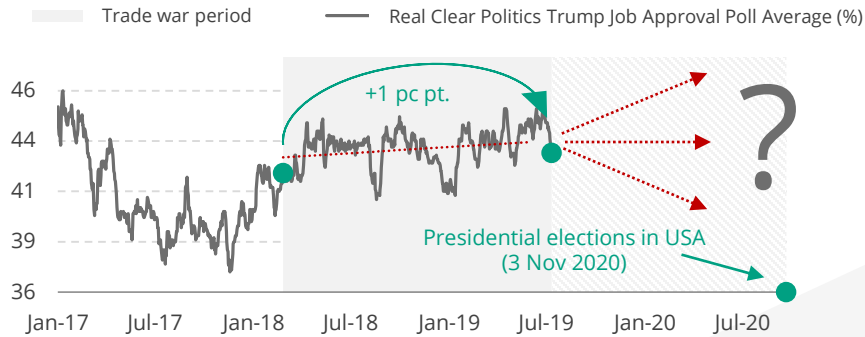




# Macroeconomic environment

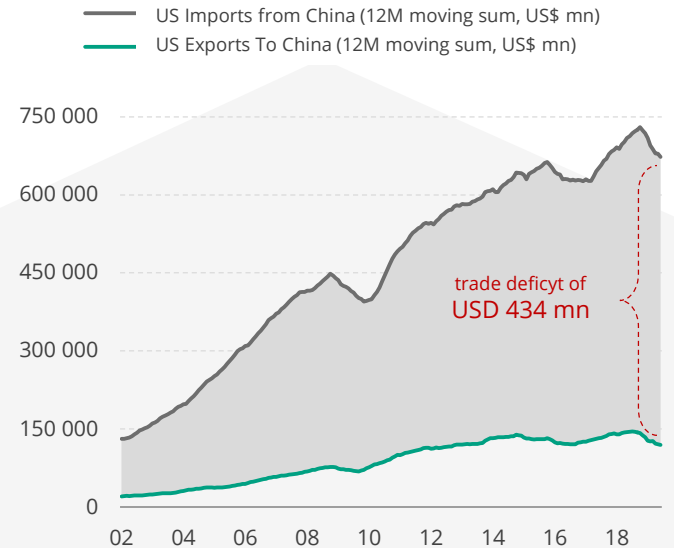
Trade war the main source of uncertainty in the global economy

Will the trade war become a political instrument in the upcoming elections?



- Despite escalation of the trade war, support for President D. Trump hasn't diminished; a key remains further developments in this regard, the scale of the conflict and its further impact on the slowing global economy
- As a result of the deteriorating macroeconomic situation the FOMC<sup>1)</sup> for the first time in over a decade lowered interest rates by 25 base points and, sooner than expected, ended the quantitative tightening program
- Actions by the Chinese administration suggest their readiness to extend negotiations with the USA, an example of which may be the recent devaluation of the yuan against the USD

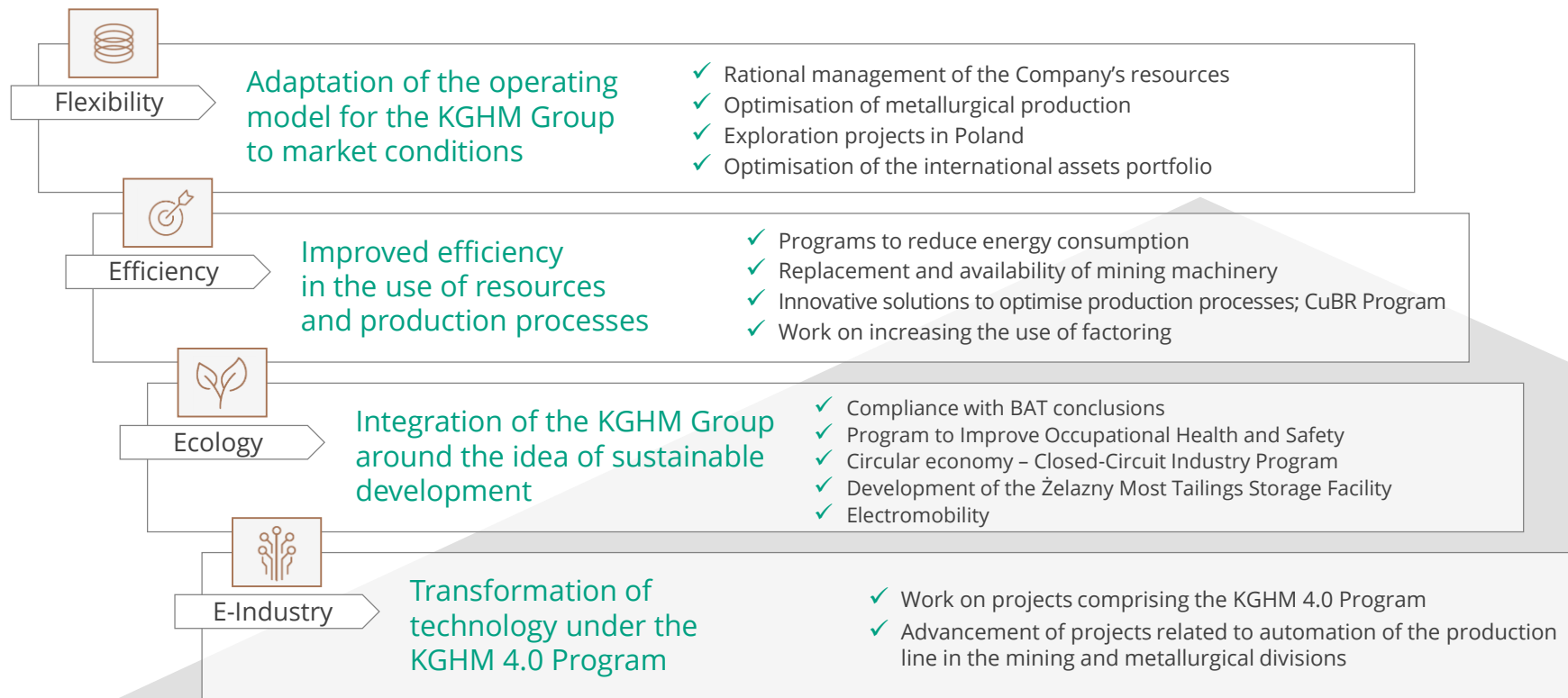
Despite escalation of the trade war the trade deficit between the USA and China remains enormous



Source: Bloomberg, KGHM Polska Miedź S.A.

# Consistent advancement of the strategy

## Key areas – 4E





## Production results of the KGHM Group by segment

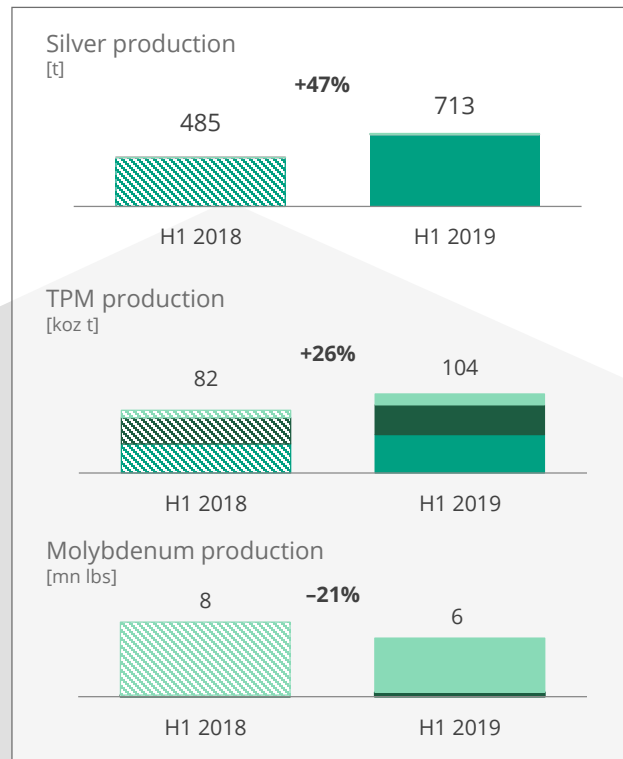
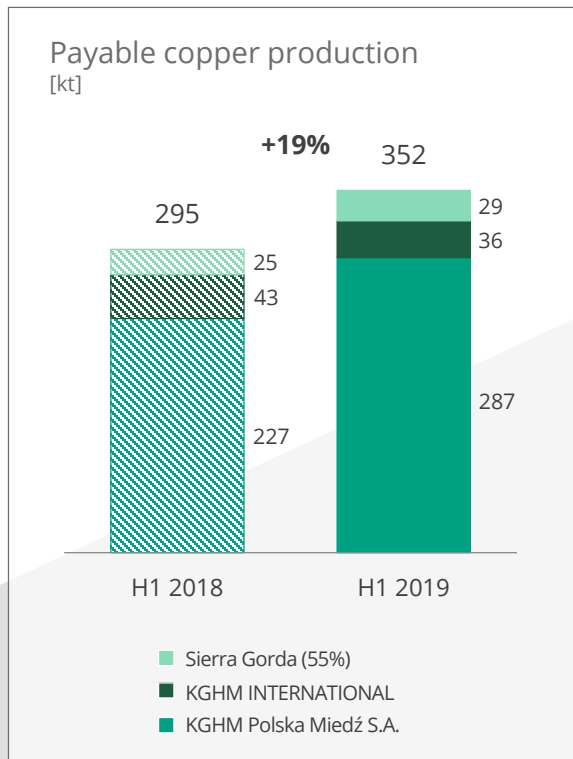
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# Metals production

## KGHM Group

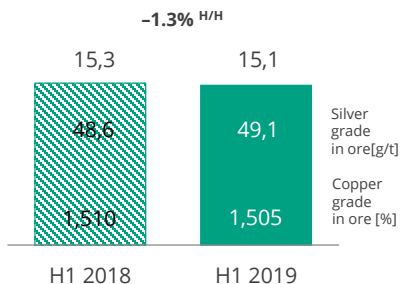
- Production of electrolytic copper exceeded the target set for KGHM Polska Miedź S.A. due to improved availability of production equipment
- Lower production by KGHM INTERNATIONAL due to lower production by the Morrison mine, and temporarily by the Robinson mine, which was not offset by higher production by the Carlota and Franke mines
- Higher payable copper production by the Sierra Gorda mine thanks to higher extraction and ore processing as well as the processing of better quality ore than in 1H 2018



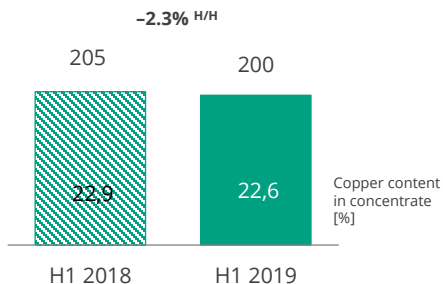
# Production results

KGHM Polska Miedź S.A.

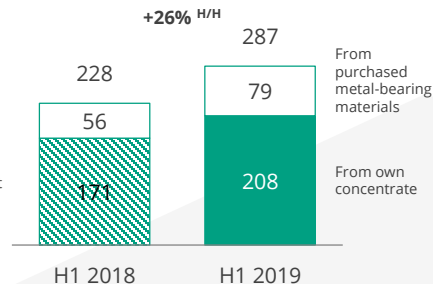
Ore extraction  
[mn t dry weight]



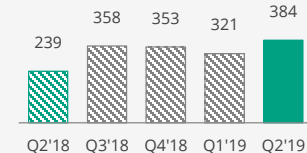
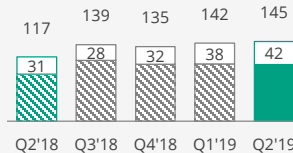
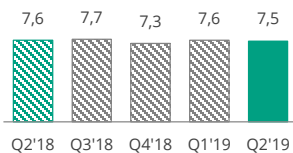
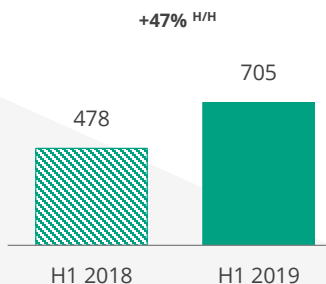
Production of copper  
in concentrate [kt]



Electrolytic copper  
production [kt]



Metallic silver  
production [t]



- Lower extraction due among others to mine tremors

- Slightly lower production due to lower extraction and a lower ore grade compared to 2018

- Higher production due to better availability of equipment and the work of the copper concentrate processing installation

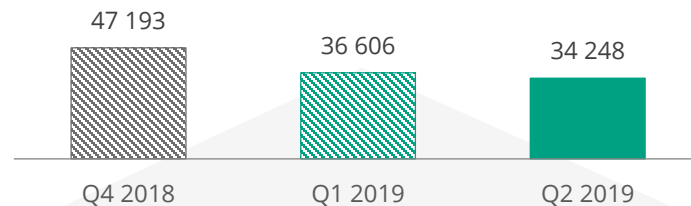
- Higher production due to better availability of charge materials thanks to higher processing of concentrate

# Change in inventories

KGHM Polska Miedź S.A.

Inventories of copper in concentrate at the smelters **-6% Q2/Q1**  
amount of Cu [t]

- The level of inventories of copper in concentrate until now was due to the three-month maintenance shutdown at the Głogów II Copper Smelter and Refinery in 2018
- Inventories have decreased due to the better availability of equipment and the work of the copper concentrate roasting installation
- In subsequent quarters of 2019, concentrate inventories will decrease according to plan



Inventories of copper anodes at the smelters **-17% Q2/Q1**  
amount of Cu [t]

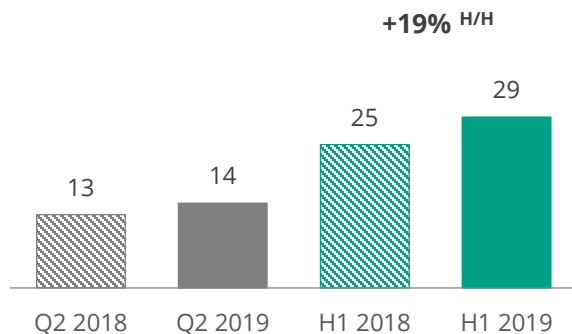
- The decrease in copper anodes inventories resulted from the adopted production plan and from the increase in electrolytic copper production



# Production results

Sierra Gorda<sup>1)</sup>

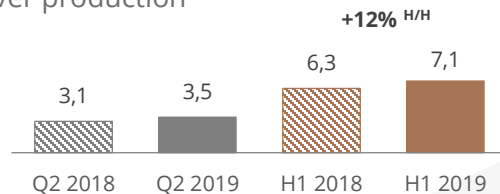
Payable copper production  
[kt]



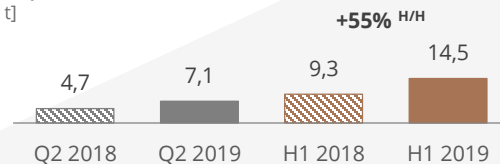
In H1 2019 the copper production plan for Sierra Gorda was exceeded

- Higher payable copper production due to higher extraction and ore processing
- In H1 2019 better quality ore was extracted than in H1 2018

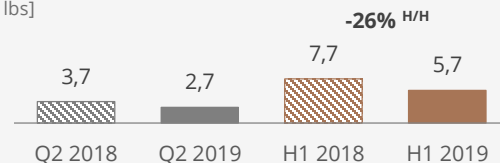
Silver production  
[t]



TPM production<sup>2)</sup>  
[koz t]



Molybdenum production  
[mn lbs]

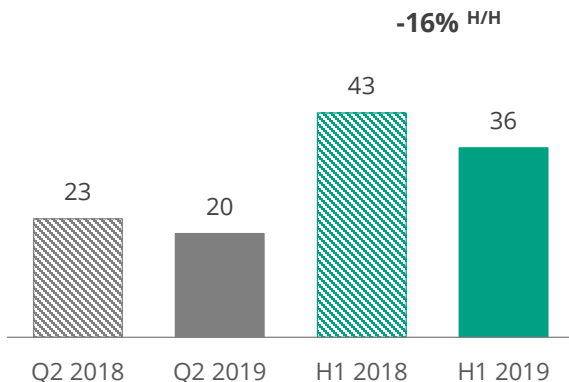


- Higher extraction by the Sierra Gorda mine led to higher copper, silver and gold production
- The drop in molybdenum production was due to extraction in areas with lower molybdenum content compared to ore extracted in prior years

# Production results

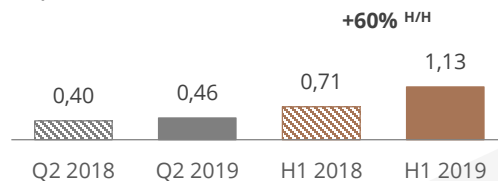
## KGHM INTERNATIONAL

Payable copper production  
[kt]

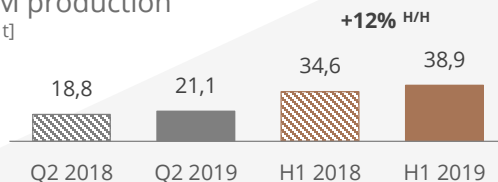


The decrease in production was due to a temporary drop in copper ore grade at the Robinson mine and to a change in the area being mined in the Sudbury Basin

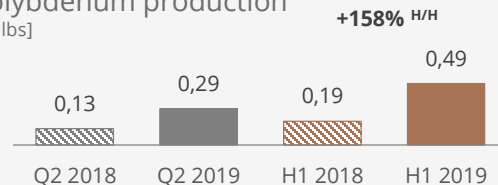
Silver production  
[t]



TPM production  
[koz t]



Molybdenum production  
[mn lbs]



- The silver production target was exceeded in the Sudbury Basin due to a change in the region being mined (different nature of the deposit in the McCreehy mine)
- Higher TPM production both in the Sudbury Basin and the Robinson mine
- Higher molybdenum production by the Robinson mine due to a substantial increase in the recovery of this metal thanks to an improvement in the production process



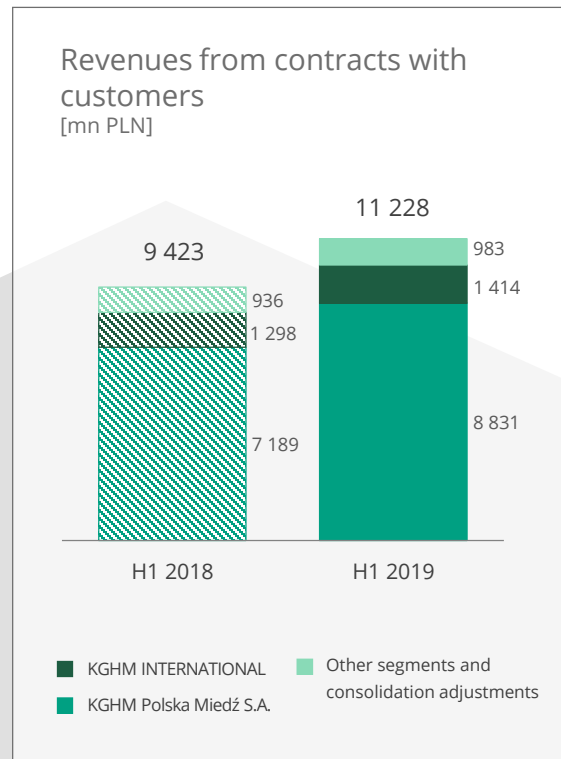
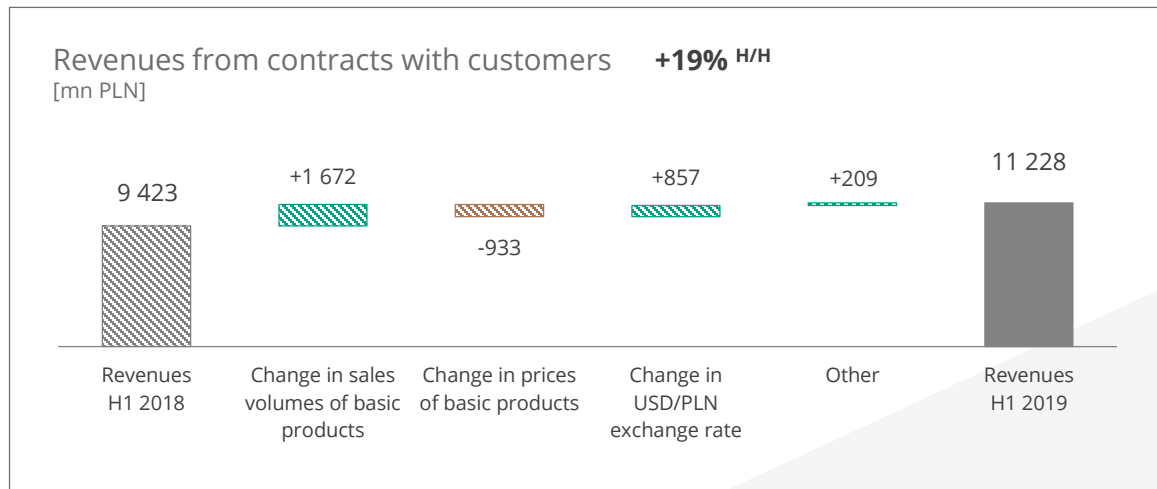


## Financial results of the Group

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# Group sales revenue

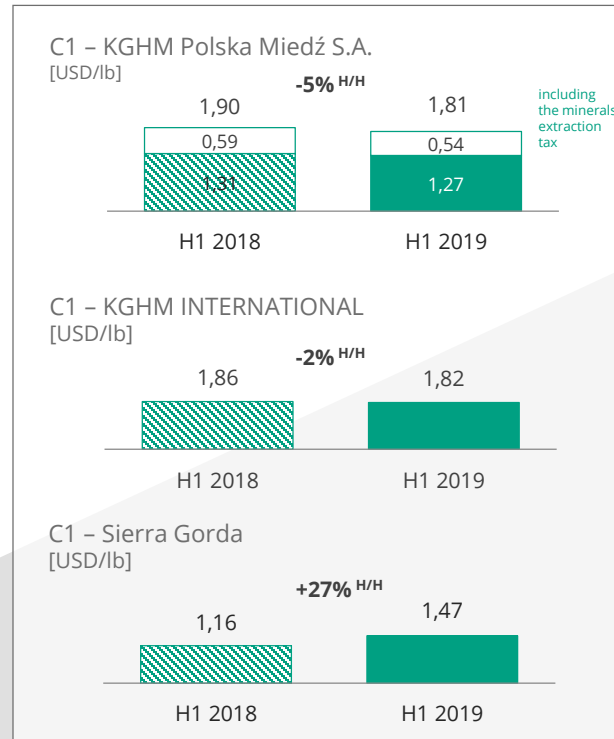
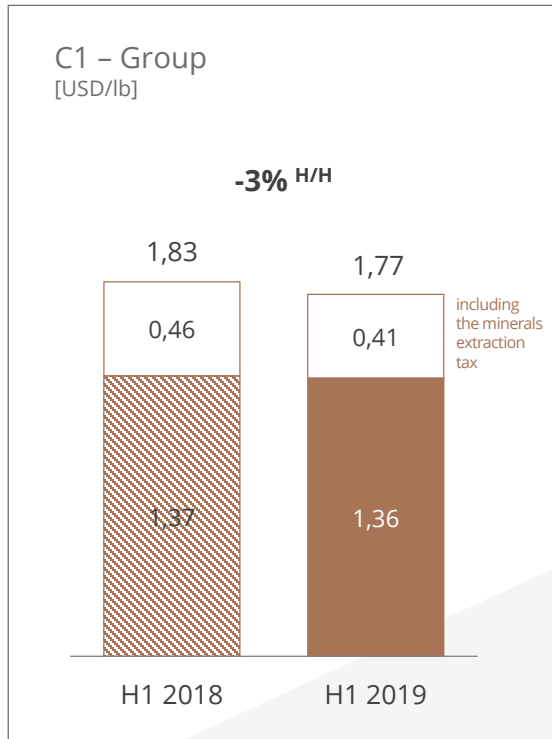
H1 2019



- Higher revenues by PLN 1 805 million (+19%) compared to the corresponding period of 2018 mainly in respect of KGHM Polska Miedź S.A. (+PLN 1 642 million)
- The higher revenues of KGHM Polska Miedź S.A. were mainly due to higher sales volumes of copper (+22%) and silver (+45%) and to a more favourable exchange rate alongside lower metals prices

# C1\* unit cost<sup>1)</sup>

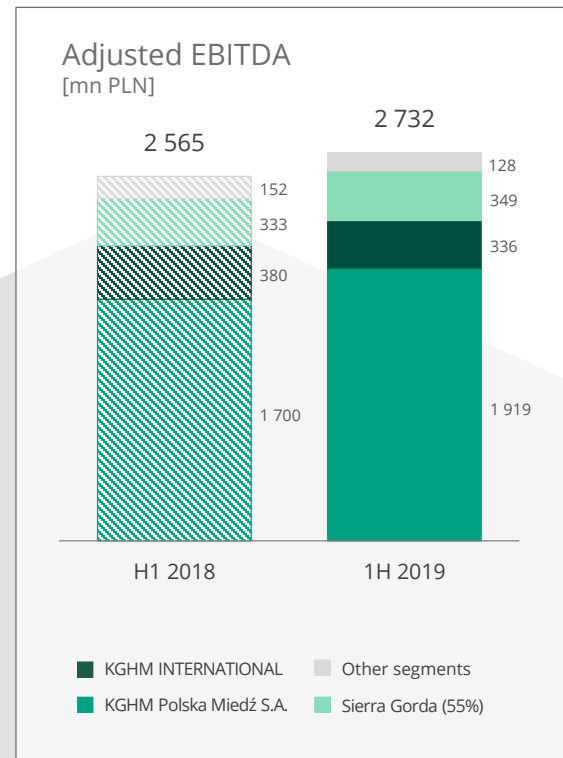
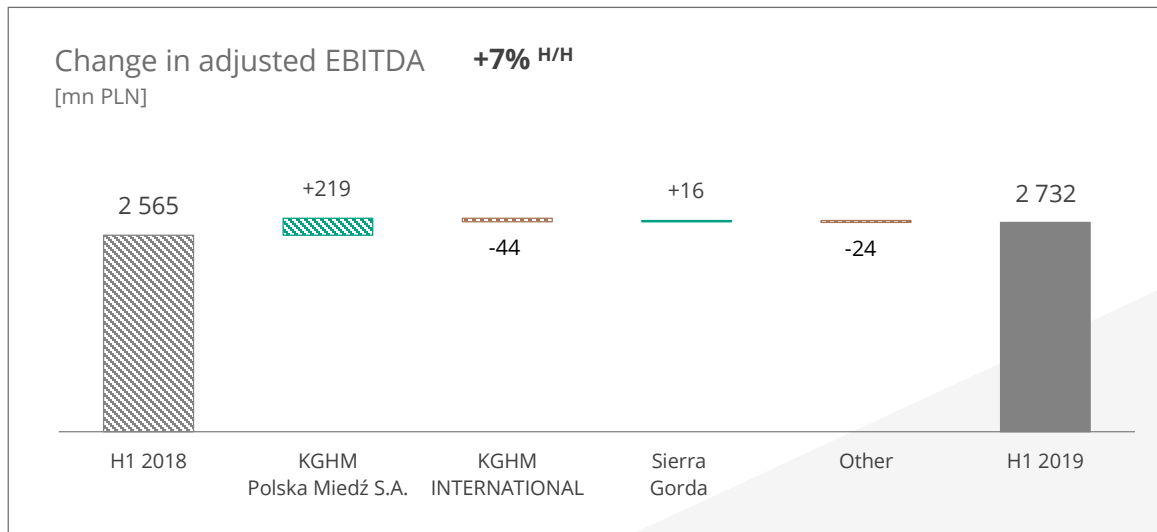
## KGHM Group



- The decrease in C1 cost in KGHM Polska Miedź S.A. versus the corresponding period of 2018 was mainly due to a weakening of the PLN vs the USD (by 9%)
- The 2% decrease in this cost in KGHM INTERNATIONAL was due to the increase in revenues from the sale of associated metals (which decrease this cost)
- The 27% increase in C1 cost in Sierra Gorda was due to lower by-product credits from the sale of associated metals, which due to the decrease in the volume of molybdenum sales by 30%, were lower than in the prior year

# Operating results

## KGHM Group



- The increase in EBITDA of the Group<sup>1)</sup> (+PLN 167 million) was mainly due to increases in KGHM Polska Miedź S.A. (+PLN 219 million; +13% H/H) and Sierra Gorda (+PLN 16 million; +5% H/H)

# Financial results

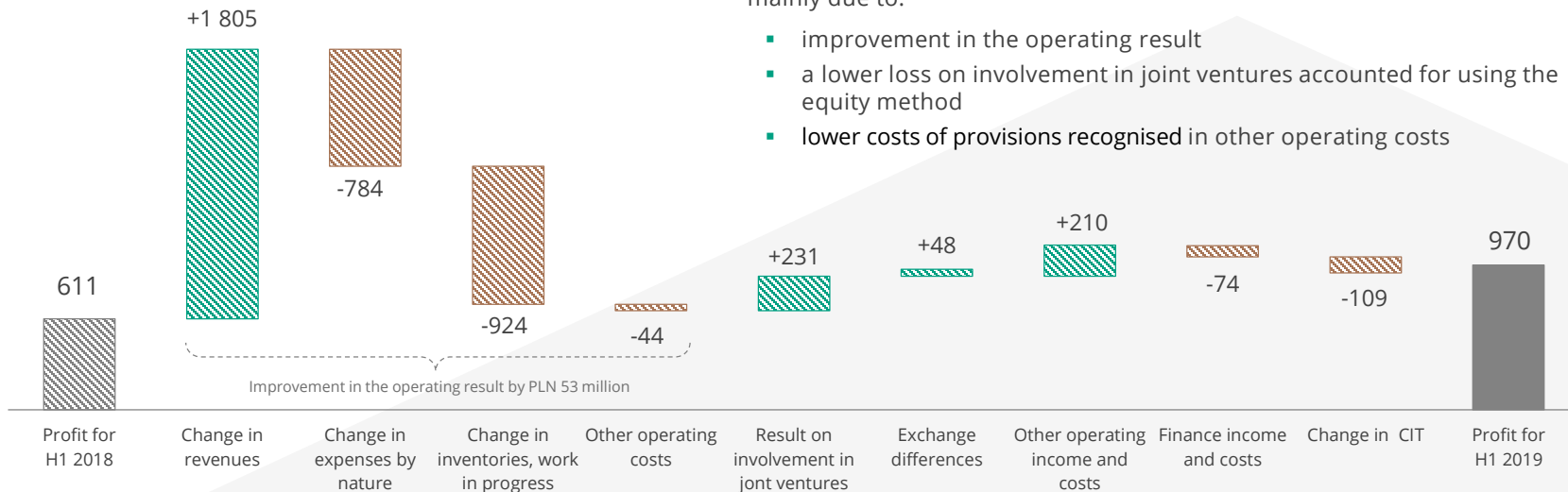
KGHM Group

Profit for the period **+ 59% H/H**  
[mn PLN]

## 970 mn PLN consolidated net profit in H1 2019

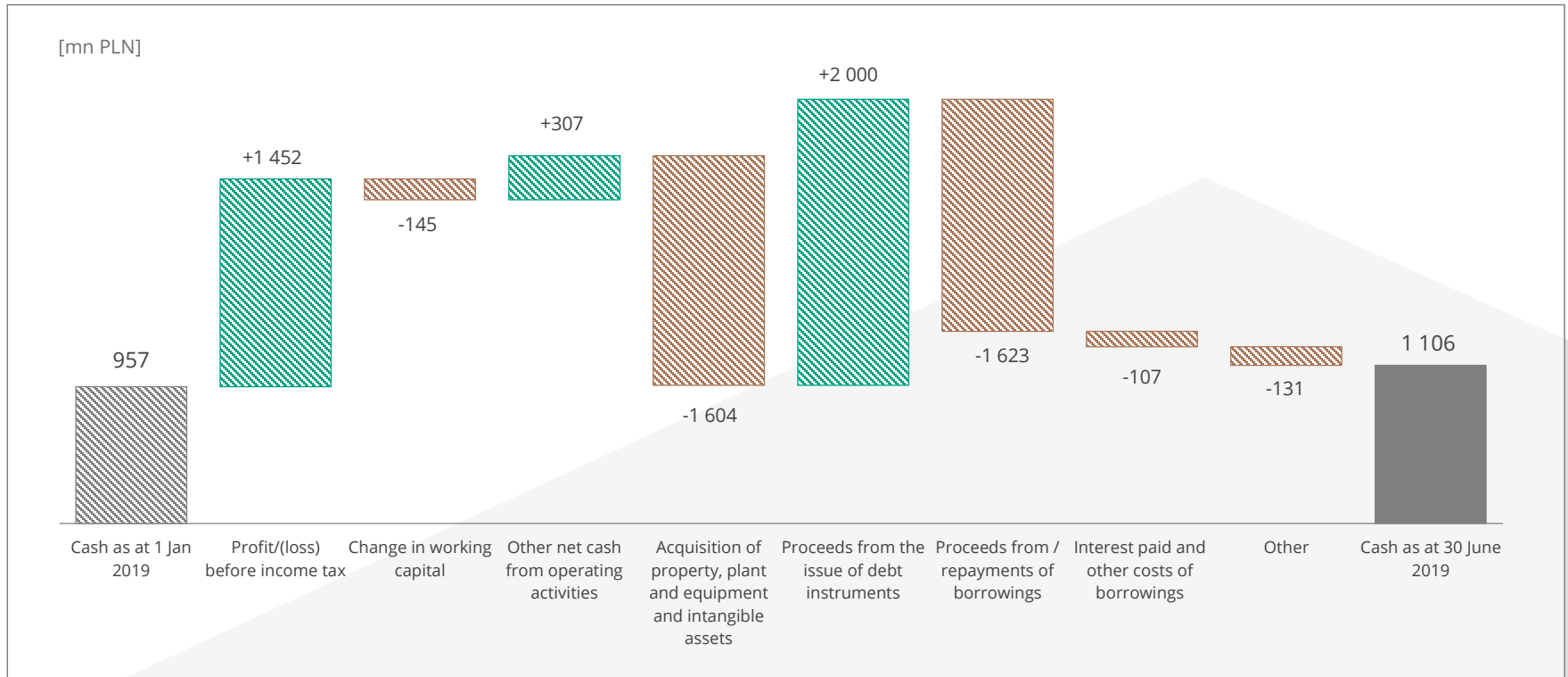
The increase in net profit by the Group by PLN 359 million (+59%) was mainly due to:

- improvement in the operating result
- a lower loss on involvement in joint ventures accounted for using the equity method
- lower costs of provisions recognised in other operating costs



# Cash flow

## KGHM Group





# Bond issue program (1)



On 27 May 2019 the Management Board of KGHM Polska Miedź S.A. adopted a resolution on entering into a bond issue agreement, based on which a program was established to issue bonds in the amount of

**PLN 4 000 000 000**

## Parameters of the first issue

Issuer	KGHM Polska Miedź S.A.	
Bond type	unsecured senior notes	
Issue program	up to PLN 4 billion	
Total value of issue	PLN 2 billion	
Issue type	non-public offer	
Bookbuilding start	18 June 2019	
Bookbuilding end	24 June 2019	
Bonds issued	<u>5-year</u>	<u>10-year</u>
Maturity	27 June 2024	27 June 2029
Years to redemption	5 year	10 year
Size of series	PLN 400 million	PLN 1 600 million
Interest	WIBOR6M + 1.18%	WIBOR6M + 1.65%



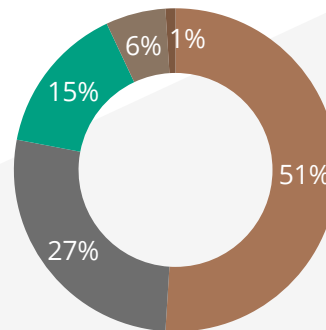
## Bond issue program (2)

### Transaction history

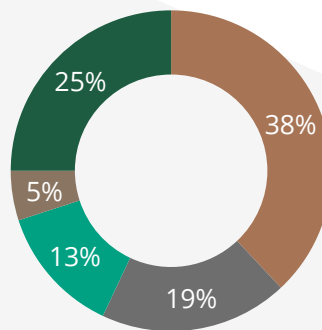
- On 18 June 2019 the bookbuilding process commenced for PLN-denominated, unsecured 5-year (series A) and 10-year (series B) bonds
- The maximum size of the issue was set at PLN 2 billion
- Prior to the start of the bookbuilding process a roadshow was held, during which meetings were held with several dozen potential investors
- Settlement of the issue, in which investors obtained bonds in the amount of PLN 2 billion, took place on 27 June 2019

### Allocation by investor type

5-year bonds (series A)



10-year bonds (series B)



■ Banks ■ Investment funds ■ Pension funds  
■ Insurers ■ EBOiR ■ Others

# Minerals extraction tax



# -15%

decrease in the amount of the  
minerals extraction tax

## Key information



The Act dated 12 April 2019 on changing the act on the minerals extraction tax **was signed by the President of the Republic of Poland and came into force on 1 July 2019**



The updated act assumes a decrease in the tax rate by decreasing the co-efficients used to calculate the tax rate on the extraction of copper and silver



**KGHM**  
POLSKA MIEDŹ

Advancement of development initiatives

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# Selected development projects



Deposit Access Program



Concentrate roasting installation



Copper scrap processing furnace at the Legnica Copper Smelter and Refinery



Expansion of the Źelazny Most Tailings Storage facility: the Southern Quarter

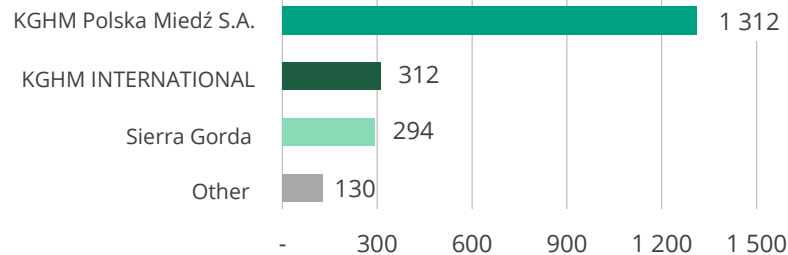


Program to adapt the technological installations to the requirements of BAT Conclusions

# A consistent and rational investment program

H1 2019

Cash expenditures by the KGHM Group in H1 2019  
[mn PLN]



## PLN 1 604 million in cash expenditures by the KGHM Group<sup>1)</sup> in H1 2019

- The higher cash expenditures, compared to capital expenditures in the first 6 months of 2019, were due to contractual payment schedules from the realisation of investments in prior periods
- In the first half of 2019, financing for the Sierra Gorda mine amounted to PLN 63 million for the repayment of financial liabilities

Capital expenditures of KGHM Polska Miedz S.A. **+35% H/H**

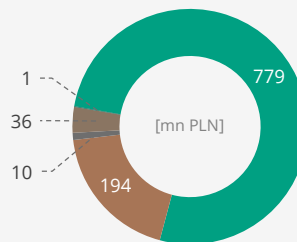
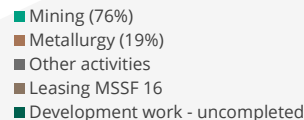
**1 020** mn PLN<sup>2)</sup>

in H1 2019

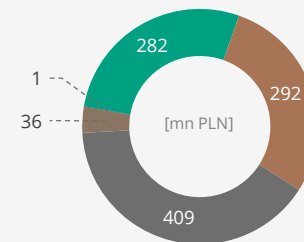
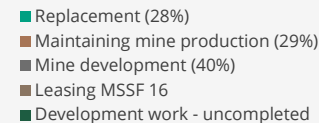
**754** mn PLN

in H1 2018

Capital expenditures in H1 2019  
by division

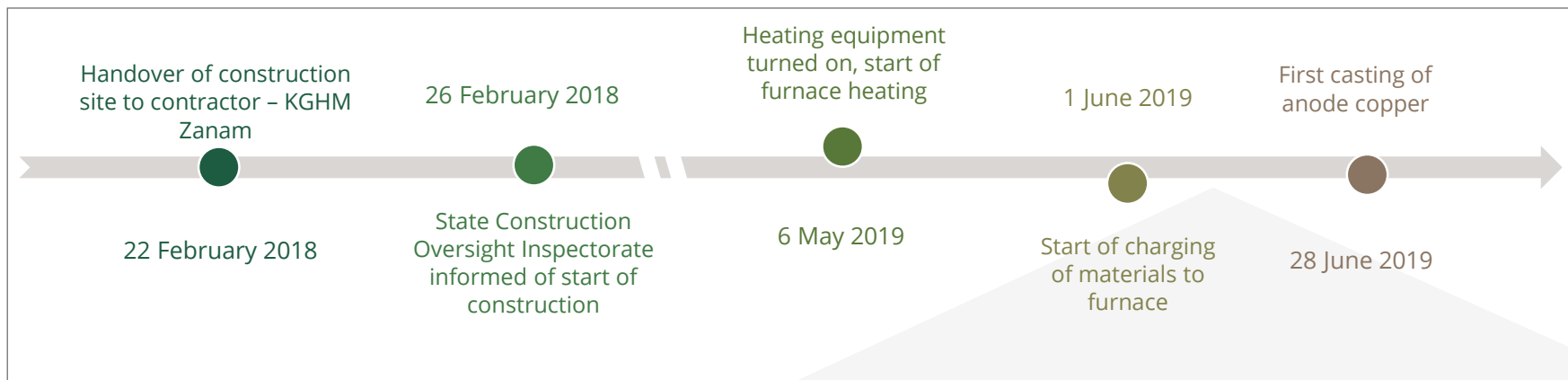


by category



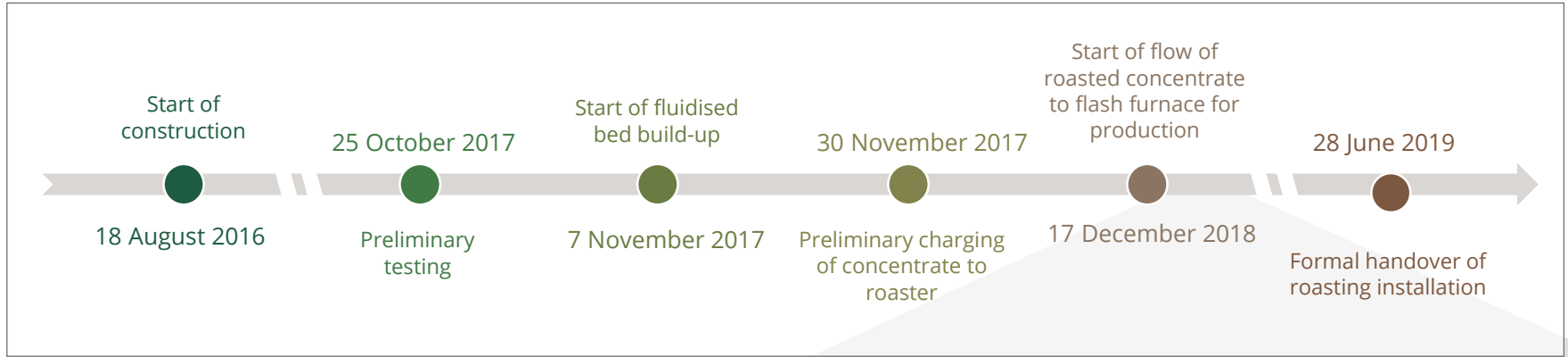
# Start-up of the RCR copper scrap processing furnace

The largest investment in the history of the Legnica Copper Smelter and Refinery



# Start-up of the copper concentrate roasting installation

Głogów Copper Smelter and Refinery





## Supporting slides

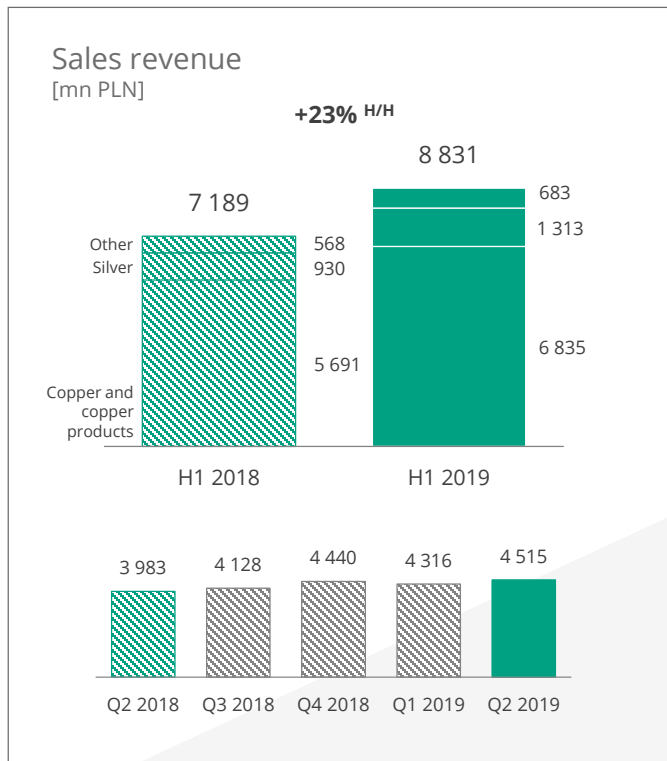
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# Sales revenue

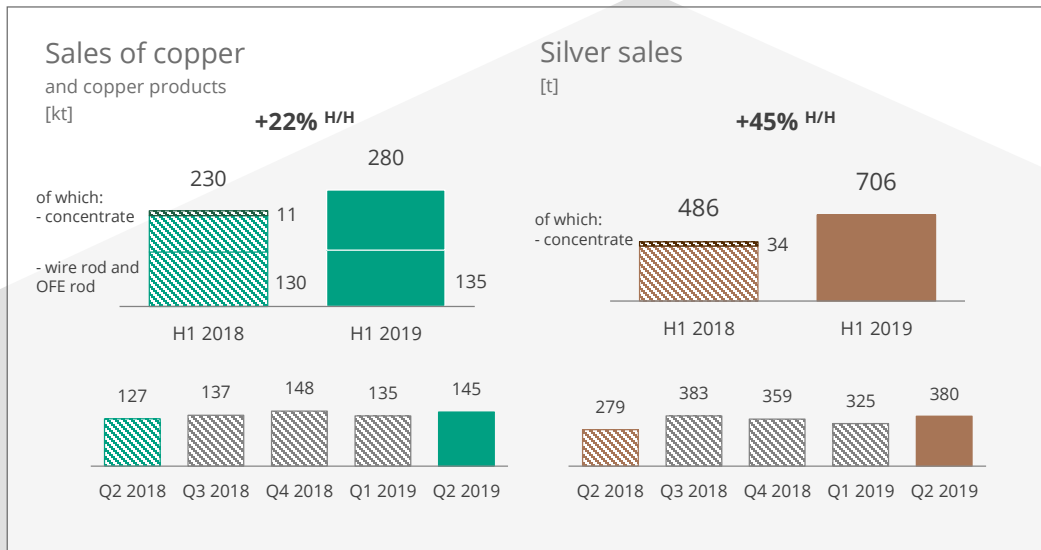
KGHM Polska Miedź S.A.



In H1 2019 revenues from sales were higher by PLN 1 642 million (+23%) compared to the first half of 2018 due to:

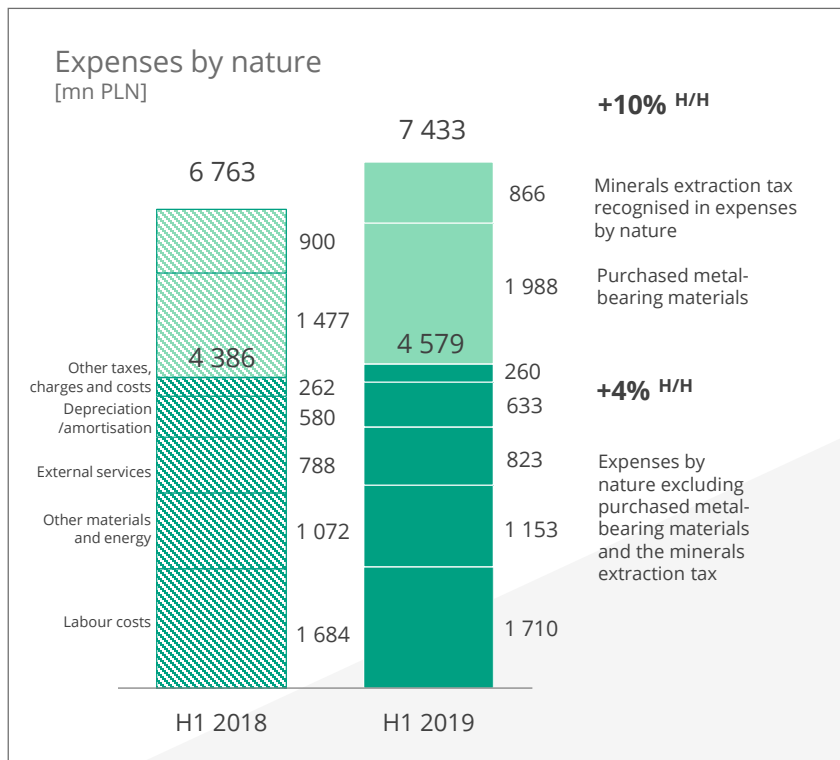
- higher sales volumes (copper by 22% and silver by 45%), and
- a more favourable USD/PLN exchange rate

alongside less favourable prices of copper (-11%) and silver (-9%)

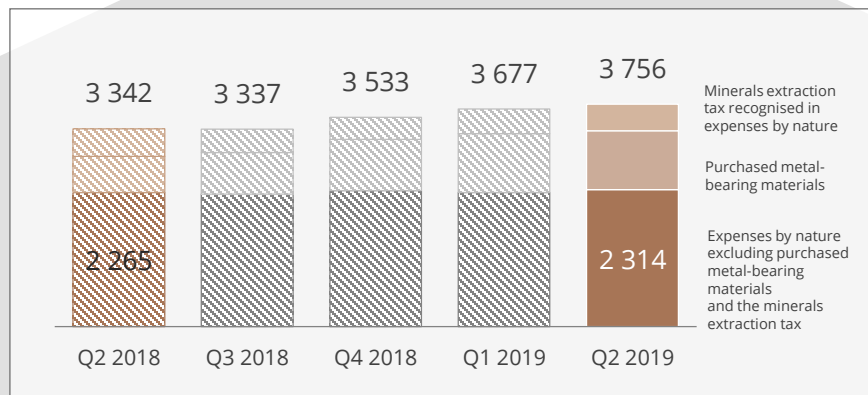


# Expenses by nature

KGHM Polska Miedź S.A.



- Expenses by nature were higher by PLN 670 million (10%) mainly due to higher consumption of purchased metal-bearing materials by PLN 511 million (a higher volume of purchased metal-bearing materials used by 22 thousand tonnes of copper alongside a similar purchase price)
- Expenses by nature, excluding purchased metal-bearing materials and the minerals extraction tax, were higher by PLN 193 million (4%) mainly due to a higher cost of other materials and Energy due to higher production (+PLN 81 million), depreciation/amortisation (+PLN 53 million), external services (+PLN 35 million) and labour costs (+PLN 26 million)

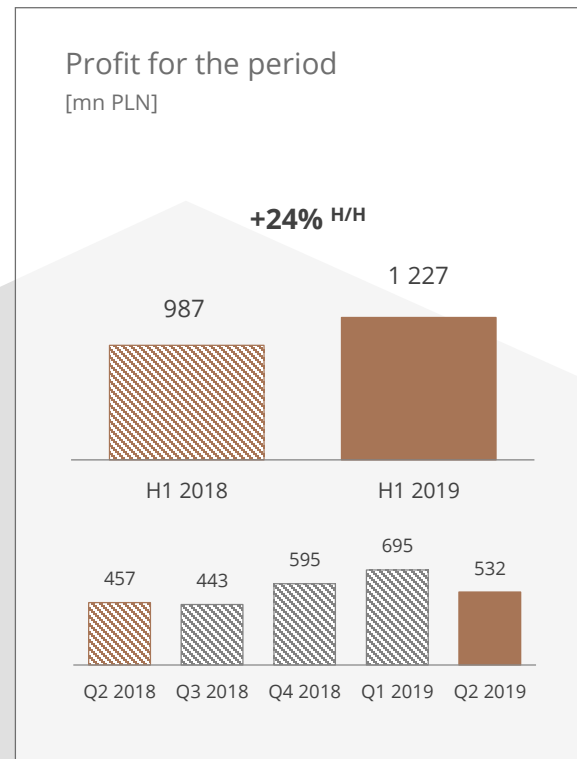
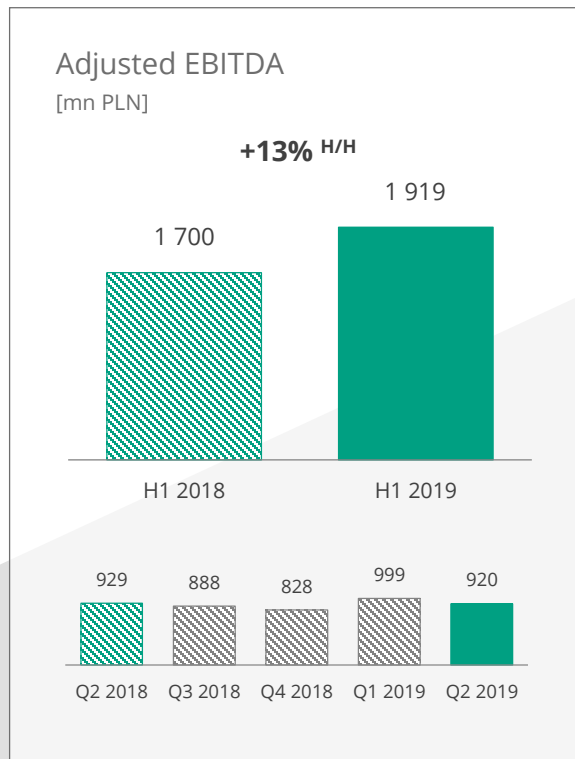


# EBITDA and profit for the period

KGHM Polska Miedź S.A.

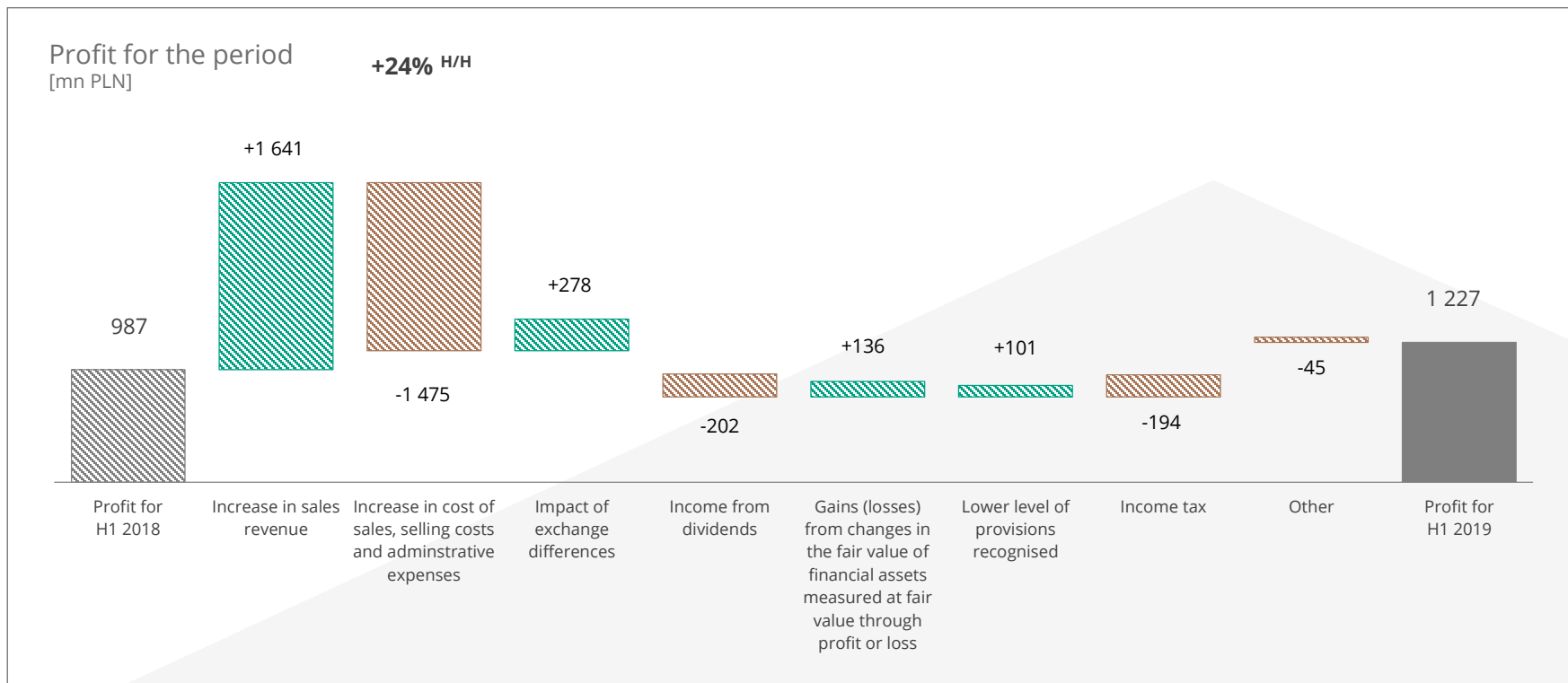
## Higher standalone EBITDA and profit for the period

- EBITDA higher by 13% than in H1 2018 due to a higher volume of copper sold (higher revenues)
- Higher profit for the period by PLN 240 million (+24%) than in H1 2018 due to higher EBITDA, the favourable measurement of financial assets and exchange differences



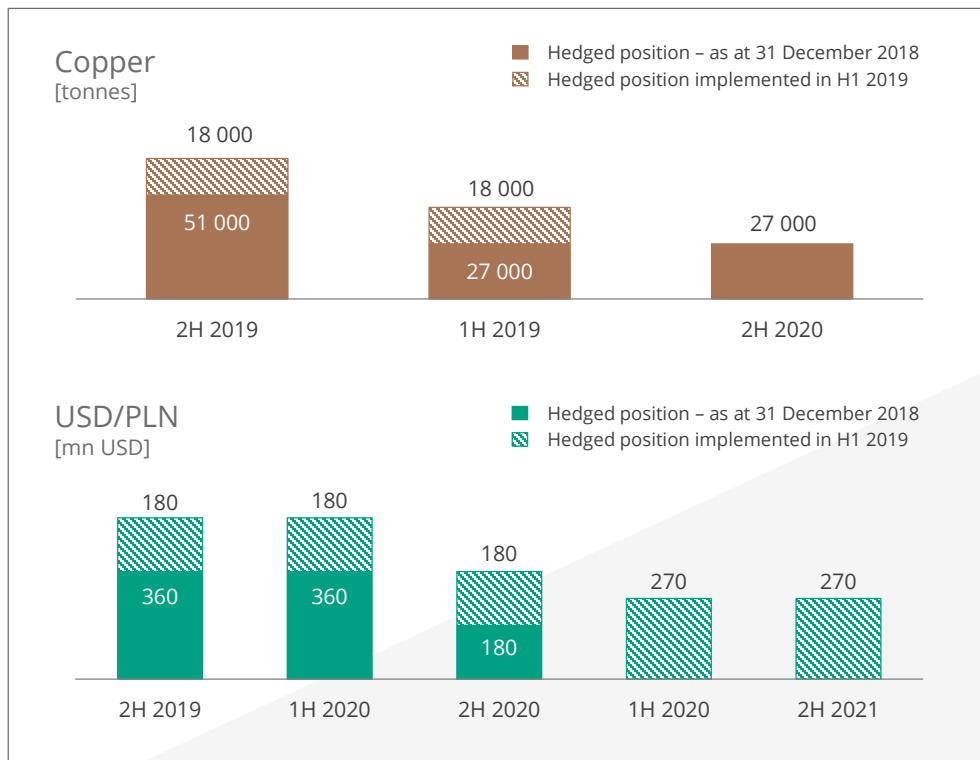
# Profit for the period

KGHM Polska Miedź S.A.



# Market risk management

Hedged positions on the copper market and the USD/PLN (as at 30 June 2019)



The fair value of derivatives in KGHM Polska Miedź S.A. as at 30 June 2019 amounted to PLN 507 million

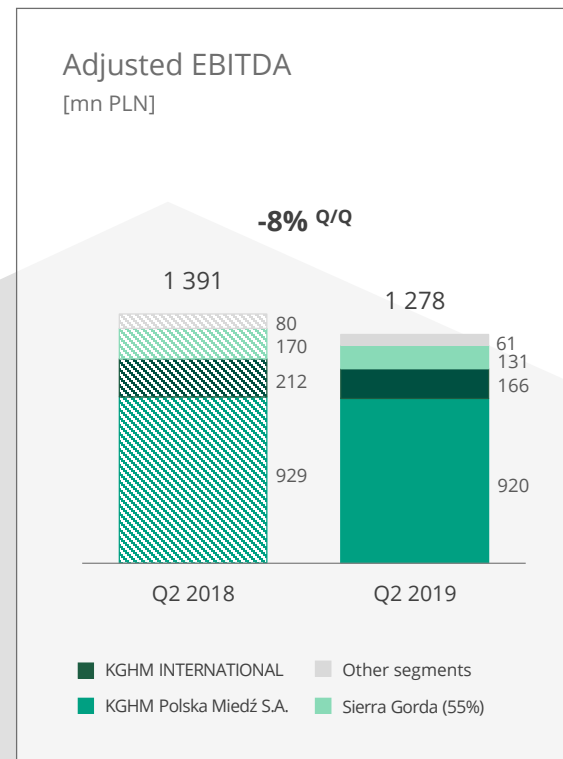
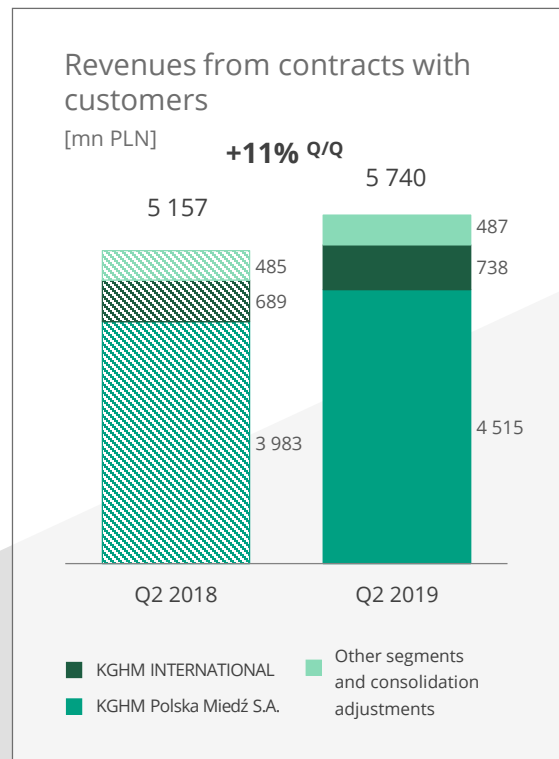
- In H1 2019, KGHM Polska Miedź S.A. recorded a result on derivatives and hedges in the amount of PLN 24 million, of which:
  - PLN 76.6 million increased revenues from contracts with customers (transactions settled to 30 June 2019)
  - PLN 35.8 million decreased the result on other operating activities
  - PLN 16.8 million decreased the result on finance activities
- The revaluation reserve on cash flow hedging instruments as at 30 June 2019 amounted to PLN 132.3 million

# Additional information

## Group revenues and EBITDA in Q2 2019

### Lower EBITDA Q2/Q2 mainly due to international assets:

- KGHM INTERNATIONAL (-PLN 46 million; -22%) – lower due to higher costs prior to depreciation /amortisation
- Sierra Gorda (-PLN 39 million; -23%) – lower mainly due to lower revenues from the sale of molybdenum (mining from areas with lower Mo content). Unit costs of mining, processing and C1 (prior to deduction of sales of associated metals) were lower than those in the corresponding period of 2018.



# Main initiatives aimed at improving OHS in the KGHM Group

Consistent advancement of the strategy



## Operationalisation of the new Strategy of KGHM Polska Miedź S.A.

- ✓ In the first half, operationalisation of the Company's Strategy for the years 2019 – 2023 adopted in 2018 commenced
- ✓ In the area People and the Environment, a new initiative was formulated: *Growth based on the idea of sustainable development and safety and on enhancing the Group's image as being socially responsible*



## Actions for continuous improvement (per the Deming cycle)

- ✓ KGHM Polska Miedź S.A. – The Management Board of KGHM decided to implement and adapt the OHS system in KGHM Polska Miedź S.A. to the demands of the new ISO 45001:2018 standard
- ✓ KGHM INTERNATIONAL – a uniform system of Workplace Safety Management was developed for all of the entities in the KGHM INTERNATIONAL Group

# Main initiatives advanced aimed at improving OHS in the Group

Initiatives undertaken by Sierra Gorda and KGHM INTERNATIONAL



## Sierra Gorda

- ✓ Advancement continued of the *Occupational Health Program* introduced in 2018
- ✓ Start of the *Quality of Life* program, consisting of actions aimed at improving the emotional and physical health of the employees of Sierra Gorda by implementing a strategy to provide motivation for a healthy lifestyle
- ✓ The process of updating the *Health, Safety and Environment Policy* is underway
- ✓ Active reporting of safety-related events using the OHS – ANTIRION system
- ✓ Monitoring and implementation of Chile's MINSAL (Ministry of Health) recommendations



## KGHM INTERNATIONAL

- ✓ Designation of persons responsible for managing *Health and Safety* in KGHM INTERNATIONAL
- ✓ Development and implementation of the *Intelex* system
- ✓ Development and implementation of the new *Health and Safety Management System* – HSMS) to establish base points
- ✓ Audit of the HSMS in selected assets
- ✓ Introduction of the *High Potential Incident Program*
- ✓ Development of the OHS strategy for 2020 together with indication of leading indicators



# Operationalisation of the Company's Strategy

Operational goal D1 – Increase in workplace safety, in particular with respect to mining and metallurgy

## Initiative D1.1.

Implementation of a program to improve employee safety *Think About Consequences*

- actions aimed at altering employee habits in the areas of education, health and attitude

### 1. Update of the program to Improve Organisational Health and Safety in KGHM Polska Miedź S.A. – main initiatives

- ✓ Implementation in the Company's Divisions of a consistent manner of communicating about Policy, Vision, Mission and the Golden Rules of OHS
- ✓ Improvement of analysis related to OHS through the uniform statistical evaluation of OHS under an OHS Cockpit
- ✓ A new formula for cooperation between the OHS units in the Divisions was developed
- ✓ An entry/exit control system for Company terrain is being consistently developed
- ✓ Cross-functional audits were performed by the OHS units in the Divisions
- ✓ Prepared were materials, educational and training infographics, accident reconstructions and instructional films instruktażowych

### 2. Improvement in workplace safety in KGHM INTERNATIONAL

- ✓ A uniform Program for Monitoring Potential Accidents was implemented throughout KGHM INTERNATIONAL

## Initiative D1.2.

Implementation of a program to overcome the most common workplace hazards by utilising innovative technology

### 1. Improve workplace safety and reduce the number of TOH<sup>1)</sup>-based incidents by utilising innovative technology

- ✓ Preparation for implementation of the system „Localisation and identification of machinery and persons in the mines” (pilot version and proof of proper functioning) and implementation of a machinery operator anti-collision support system (to warn machinery operators of potential collisions with people or other machines)
- ✓ Introduction of the INTELEX system throughout KGHM INTERNATIONAL aimed among others at monitoring the sites and mechanisms involved in potentially accident-causing incidents

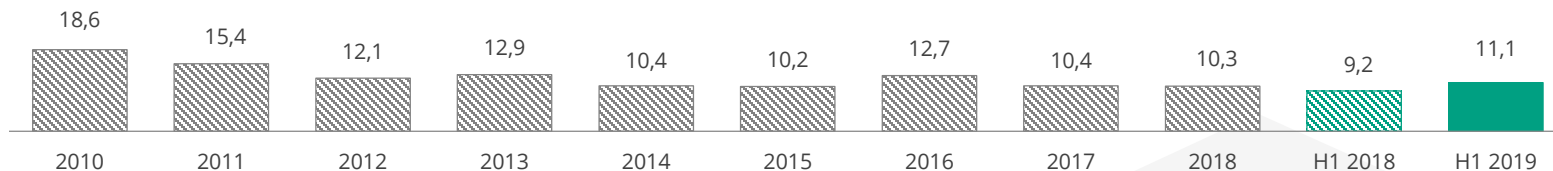
### 2. Innovation at the preparation stage – R&D process

- ✓ „Development of a system for monitoring operating chamber roof stability based on measurement of changes in pressure on the bolting system”
- ✓ „Development of a prototype inclinometric measurement system for on-line monitoring of the stability of underground mines (chambers and tunnels)”
- ✓ „Development of methods for the continuous monitoring of underground mine horizontal roof strata for assessing the threat of roof collapse in working regions”
- ✓ „Self-propelled bolting rig KOT-170A with an automated bolting head”

# Safety

## Our priority

LTIFR ratio in KGHM Polska Miedź S.A.



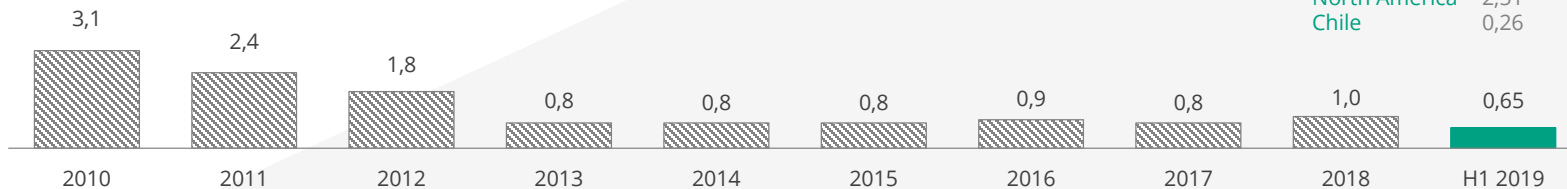
In the first half of 2019 the LTIFR<sup>1)</sup> ratio was impacted by a large number of injuries sustained due to natural causes which occurred in January 2019 in the Rudna mine – rock tremors which affected the mines (36 persons injured)

TRIR ratio in KGHM INTERNATIONAL LTD.

-65% 2010/2018

H1 2019:

North America 2,51  
Chile 0,26



1) LTIFR (Lost Time Injury Frequency Rate); TRIR (Total Recordable Incident Rate) calculated using accepted methodology as the number of accidents at work meeting the conditions of registration as defined in the ICMM (International Council on Mining & Metals) standard, in total for the employees of KGHM INTERNATIONAL LTD., KGHM Chile SpA and Sierra Gorda SCM and sub-contractors for these entities, per 200 000 worked hours

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