

Layers of possibilities



Results of the Group
for the first nine months of 2019

21 November 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 3 quarters of 2019 in the KGHM Group

Main events and factors affecting the results of the Group¹⁾

Macroeconomic environment

-9%

Lower copper price

-1.7%

Lower silver price

+7.6%

Stronger USD vs the PLN

Production and C1 cost

+14%

Higher copper production

+22%

Higher silver and TPM production

-7%

Lower C1 cost

Financial results

+14%

Higher revenues:
PLN 16 869 million

+8%

Higher EBITDA:
PLN 4 112 million



Key issues and advancement of targets

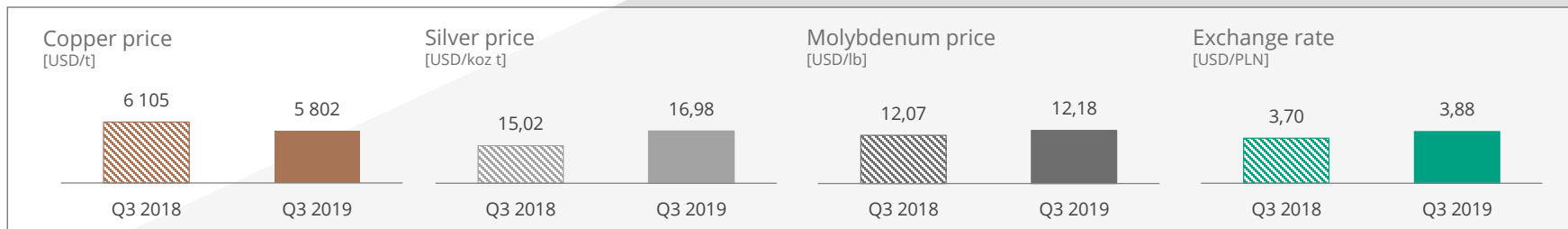
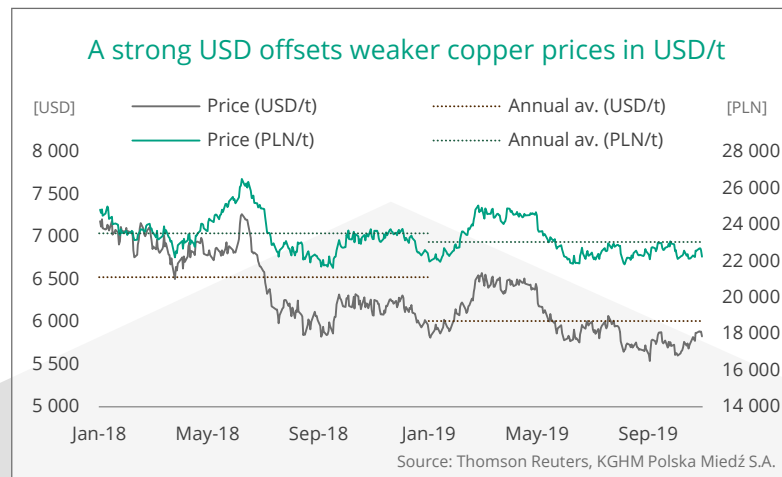


Macroeconomic environment

Commodities and currencies prices

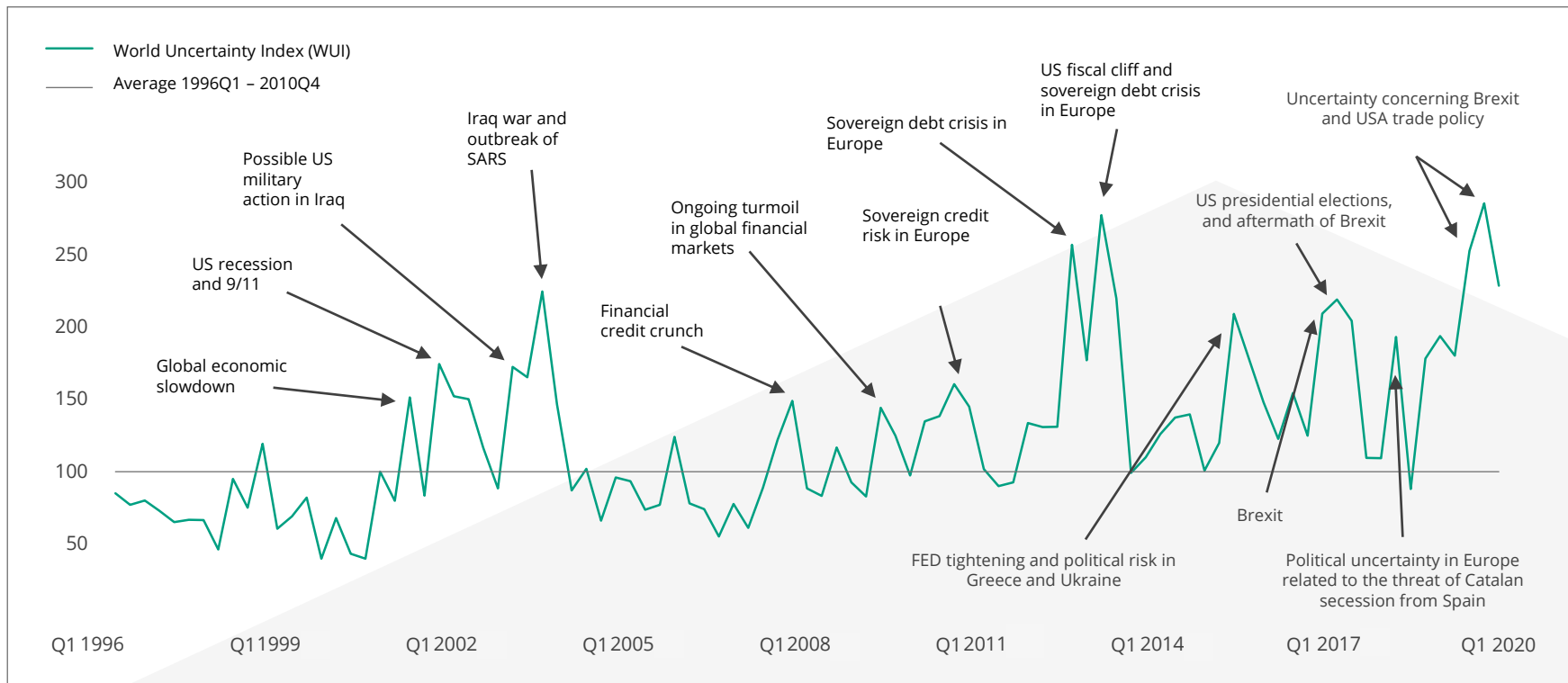
The average PLN-expressed copper price since the start of the year at levels similar to prior year

- In Q3 2019 the USD-expressed copper price decreased (-5% yoy) compared to the corresponding period of 2018 alongside a 13% higher silver price and a slightly higher molybdenum price
- Copper prices expressed in PLN remained at a similar level to Q3 2018 (-0.4% yoy), although in terms of the change versus the prior quarter (Q3 to Q2 2019) they were lower (-3.4% q/q), mainly due to a decrease in the USD-expressed copper price, which was only partially offset by the USD/PLN exchange rate
- The main factors affecting metals prices and exchange rates in the past quarter were mainly aspects of the on-going uncertainty in the global economy (trade war, Brexit)



Record amount of uncertainty in the global economy

World Uncertainty Index (WUI) 1996 – 2019



Key production indicators

9M 2019

Payable copper production
by the KGHM Group
higher by 14% (yoy)

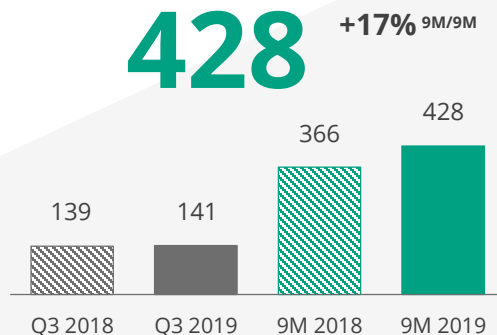
530

+14% 9M/9M

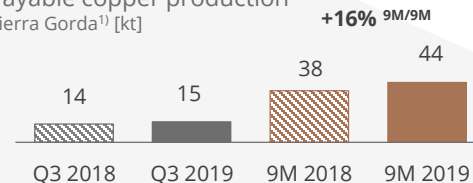
[kt]

- **KGHM Polska Miedź** – higher availability of production equipment
- **Sierra Gorda** – higher extraction and processing, as well as extraction of a better quality ore than in the first 9 months of 2018
- **KGHM INTERNATIONAL** – lower production by the Robinson and Franke mines and in the Sudbury Basin

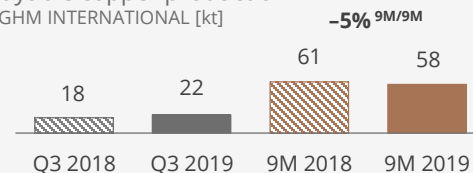
Payable copper production
KGHM Polska Miedź [kt]



Payable copper production
Sierra Gorda¹⁾ [kt]



Payable copper production
KGHM INTERNATIONAL [kt]



Key financial indicators

9M 2019

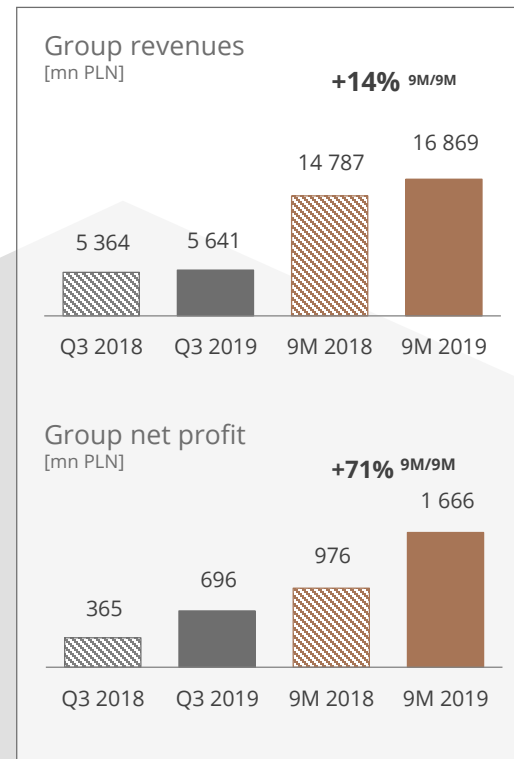
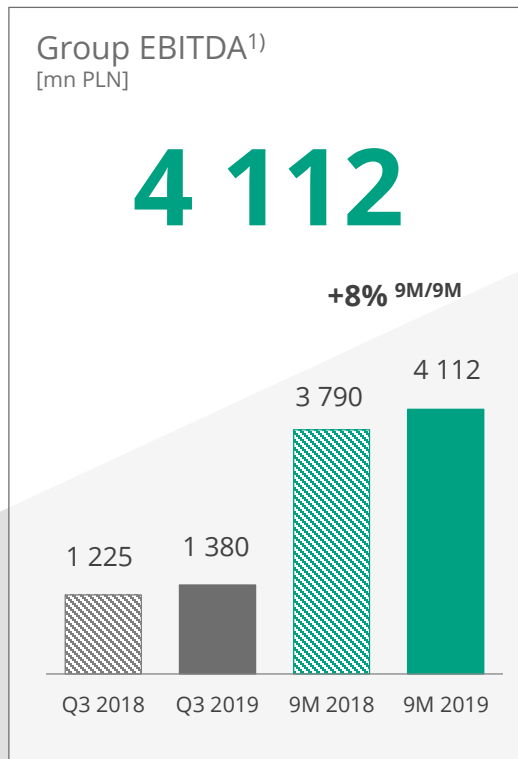
Substantially higher revenues, EBITDA and net profit by the KGHM Group

Higher Group revenues by PLN 2.1 bn

- Growth in all of the Group's segments – with the main increase in KGHM Polska Miedź S.A. (+15%)
- 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 700 million

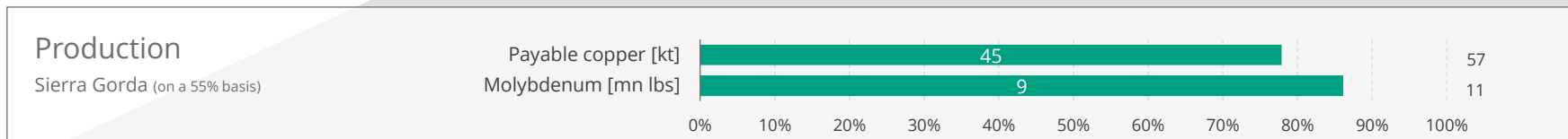
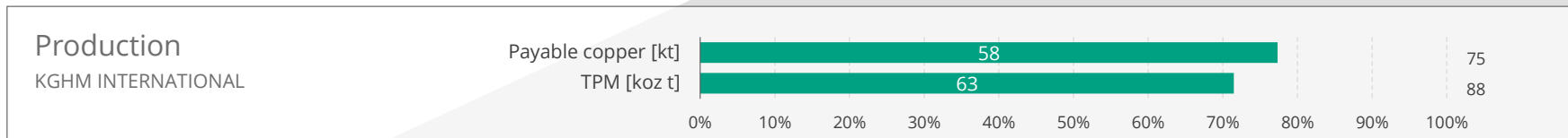
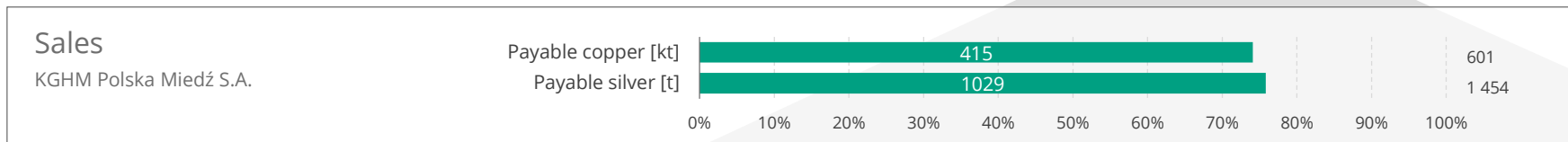
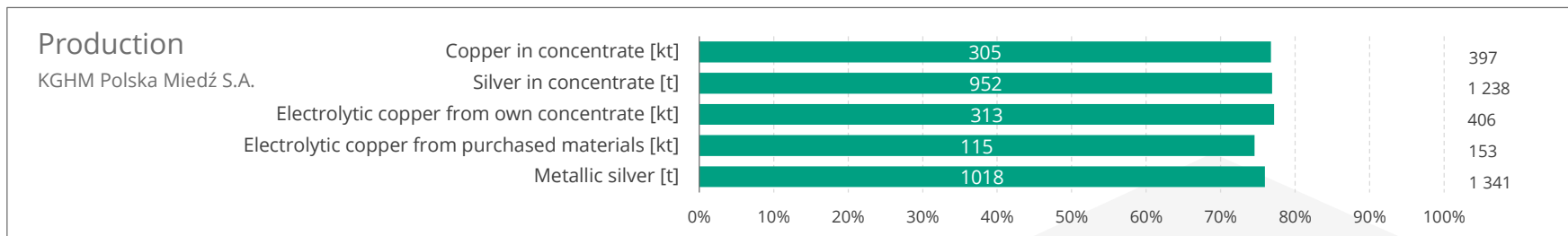
- Improvement in the operating result, FX impact, a lower loss on involvement in joint ventures accounted for using the equity method and a lower level of recognised provisions



Production and sales in the first 3 quarters of 2019

Execution of annual targets

2019E
Budget



Stable and safe financial situation of the KGHM Group

2019E
Budget

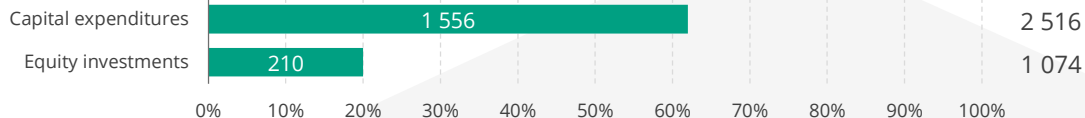
Total unit production cost

Of electrolytic copper from own concentrate
KGHM Polska Miedź S.A.¹⁾
[k PLN/t]



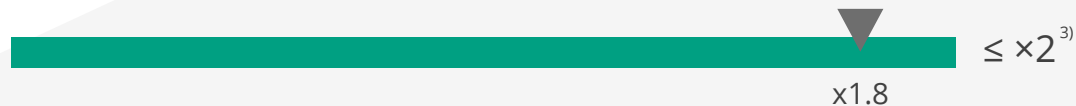
Investments

KGHM Polska Miedź S.A.²⁾
[mn PLN]



Financial leverage of the KGHM Group

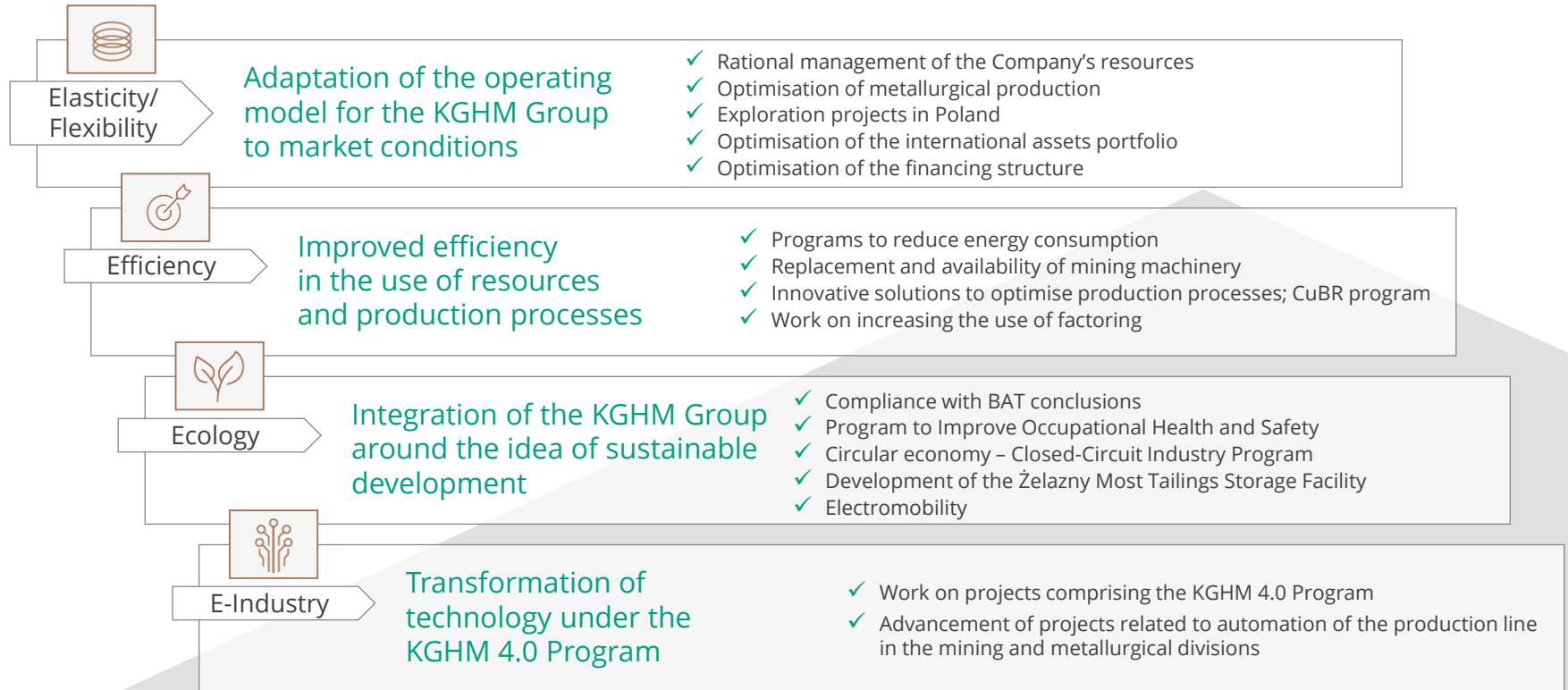
[Net debt / adjusted EBITDA]



- 1) Sum of costs of extraction, floatation and metallurgical processing per cathode, together with support functions and cathode selling costs, adjusted by the value of inventories of half-finished products and work in progress, less the value of anode slimes and divided by the volume of electrolytic copper production from own concentrates
- 2) Capital expenditures – excluding Development work – uncompleted; Equity investments – Loans granted and acquisition of shares and investment certificates of subsidiaries together with loans for these subsidiaries
- 3) Level of net debt/EBITDA ≤ 2 related to the Financial Liquidity Policy adopted by the Company and is not part of the budget assumptions of KGHM for 2019

Consistent advancement of the strategy

Key areas – 4E





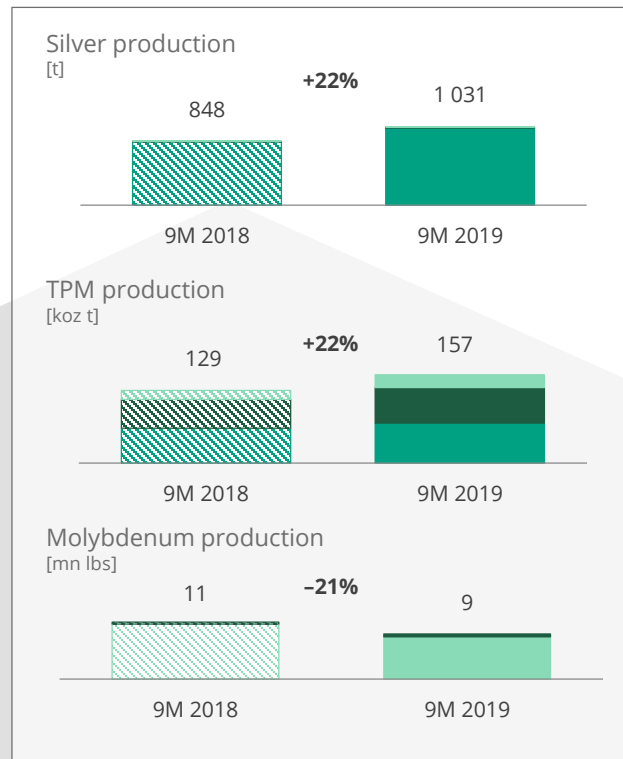
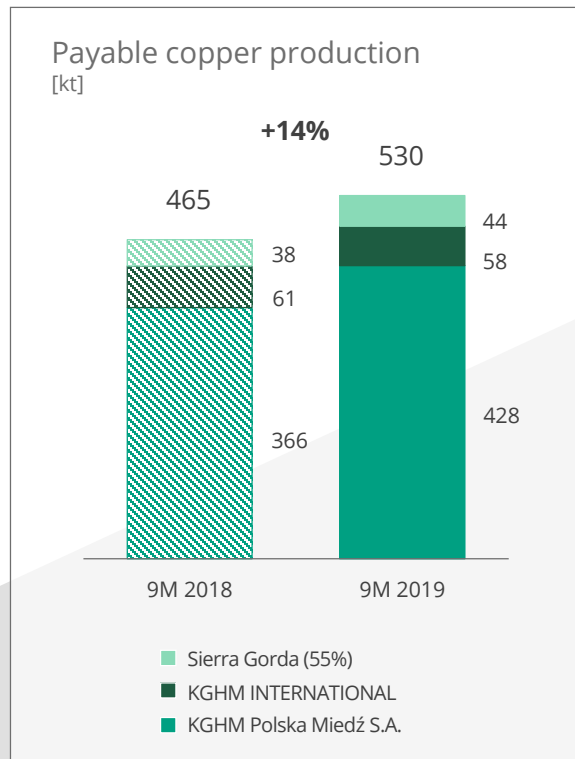
Production results of the KGHM Group by segment



Metals production

KGHM Group

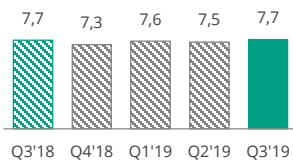
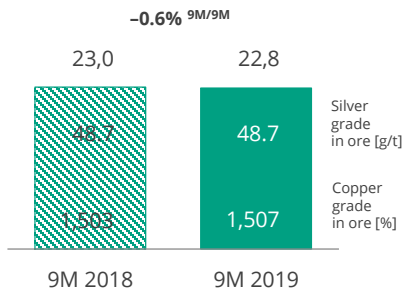
- Production of electrolytic copper exceeded the target set for KGHM Polska Miedź S.A. due to improved availability of production equipment
- Lower production by KGHM INTERNATIONAL due to lower production by the Sudbury Basin, Franke and the Robinson mine
- Higher payable copper production by the Sierra Gorda mine thanks to higher extraction and ore processing as well as the processing of better quality ore than in the first nine months of 2018



Production results

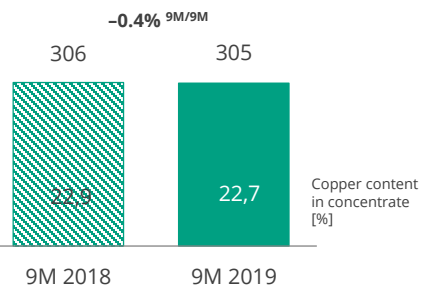
KGHM Polska Miedź S.A.

Ore extraction
[mn t dry weight]



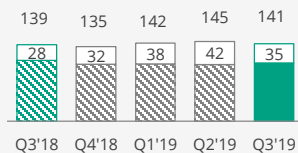
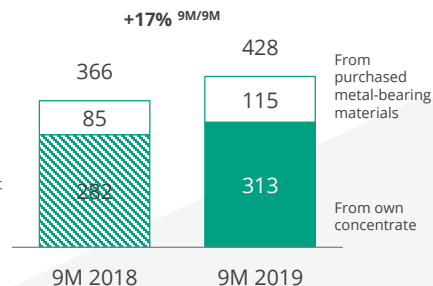
- Ore extraction results from areas selected for mining

Production of copper
in concentrate [kt]



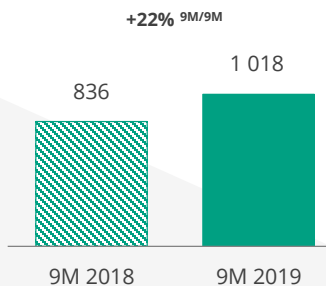
- Slightly lower production due to lower extraction

Electrolytic copper
production [kt]



- Higher production due to higher concentrate processing thanks to the work of the copper concentrate processing installation

Metallic silver
production [t]



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

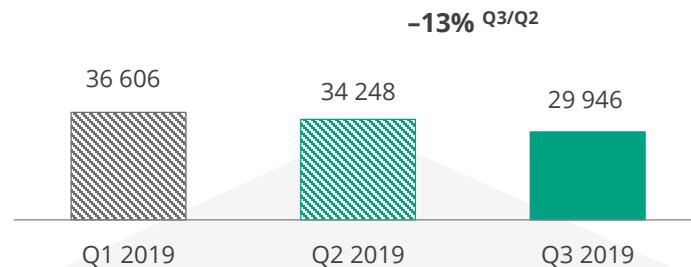
Change in inventories

KGHM Polska Miedź S.A.

Inventories of copper in concentrate at the smelters

amount of Cu [t]

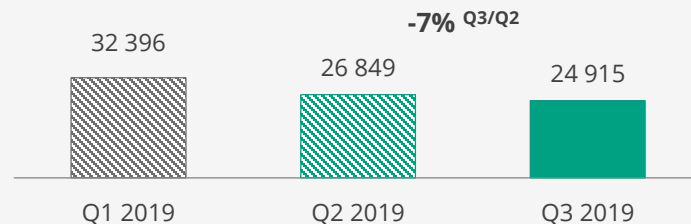
- A further decrease in the level of inventories due to the better availability of equipment and the proper functioning of the copper concentrate roasting installation
- In subsequent quarters, concentrate inventories will decrease according to plan



Inventories of copper anodes at the smelters

amount of Cu [t]

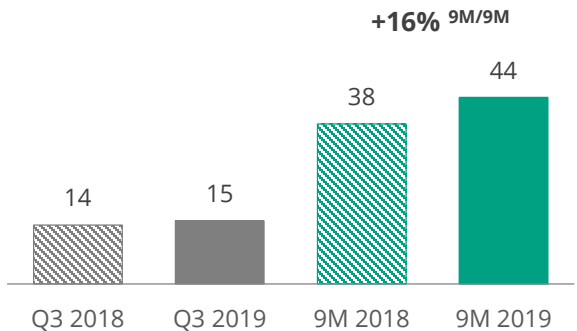
- The decrease in copper anodes inventories resulted from the adopted production plan and from higher electrolytic copper production



Production results

Sierra Gorda¹⁾

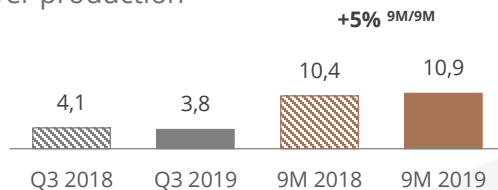
Payable copper production
[kt]



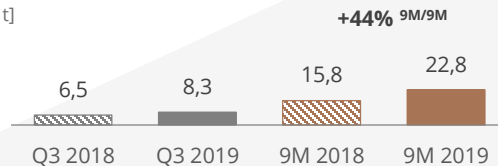
Higher-than-planned copper production in the first three quarters of 2019

- Higher payable copper production due to higher extraction and ore processing
- In the first 9 months of 2019 ore with a higher copper content was extracted compared to the first 9 months of 2018

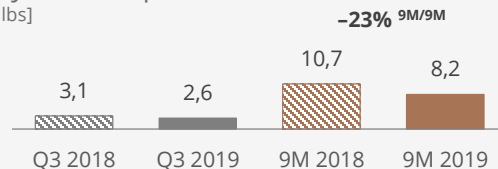
Silver production
[t]



TPM Production²⁾
[koz t]



Molybdenum production
[mn lbs]

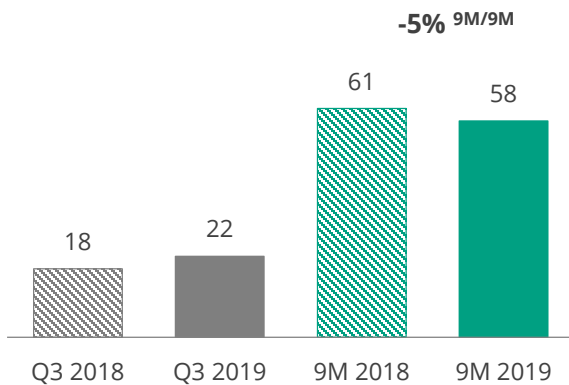


- Higher extraction by the Sierra Gorda mine led to higher copper, silver and gold production
- The drop in molybdenum production was due to extraction in areas with lower molybdenum content compared to ore extracted in prior years

Production results

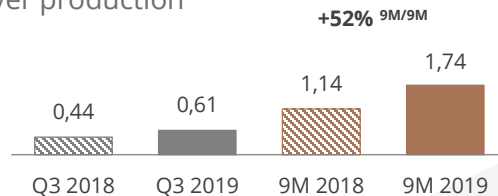
KGHM INTERNATIONAL

Payable copper production
[kt]

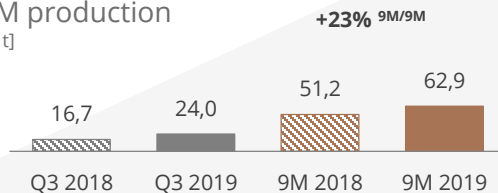


- The decrease in production in the current period was due to a temporary drop in mined copper ore grade at the Robinson mine and to a change in the area being mined in the Sudbury Basin

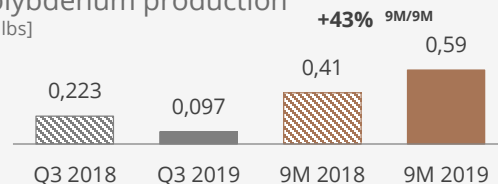
Silver production
[t]



TPM production
[koz t]



Molybdenum production
[mn lbs]



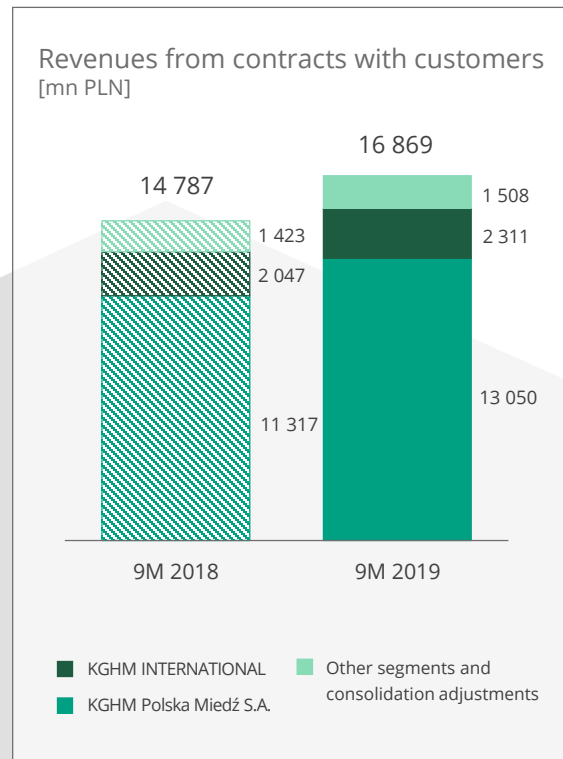
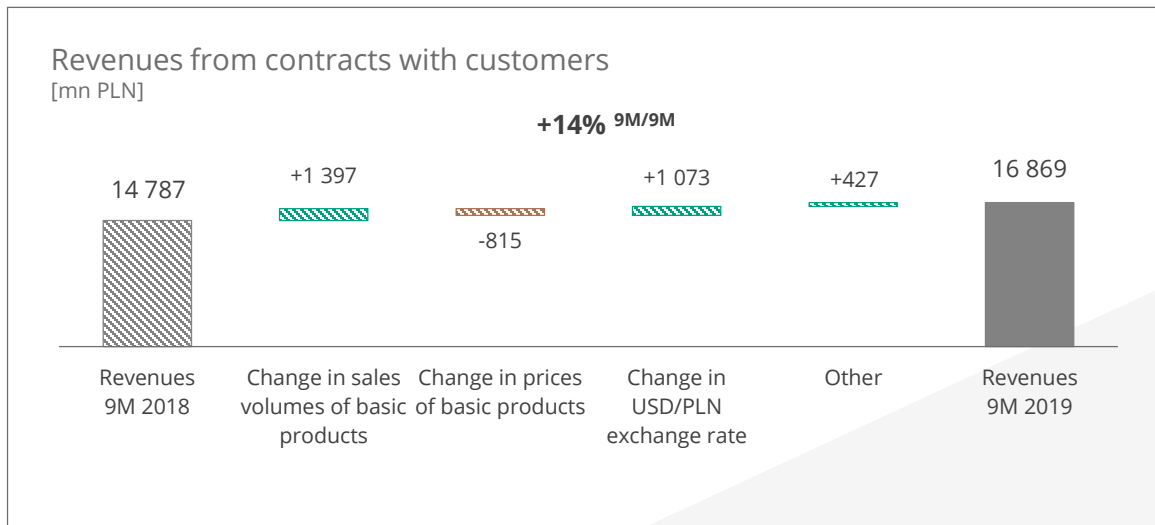
- The silver production target was exceeded in the Sudbury Basin due to a change in the region being mined (different nature of the deposit in the McCreedy mine)
- Higher TPM production both in the Sudbury Basin and the Robinson mine
- Higher molybdenum production by the Robinson mine due to a substantial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



Financial results of the Group

Group sales revenue

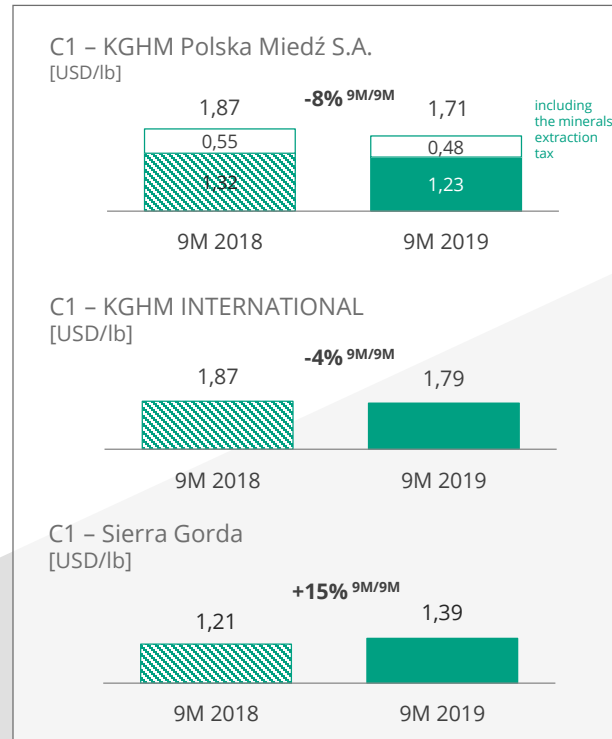
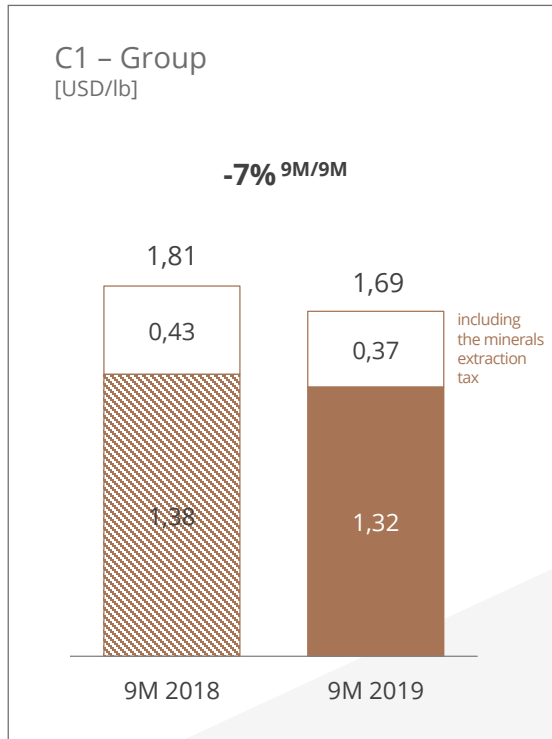
9M 2019



- Higher revenues by PLN 2 082 million (+14%) compared to the corresponding period of 2018, including higher revenues in KGHM Polska Miedz S.A. (+PLN 1 733 million)
- The higher revenues of KGHM Polska Miedz S.A. were mainly due to higher sales volumes of copper (+13%) and silver (+18%) and to a more favourable exchange rate alongside lower copper and silver prices

C1 unit cost¹⁾

KGHM Group

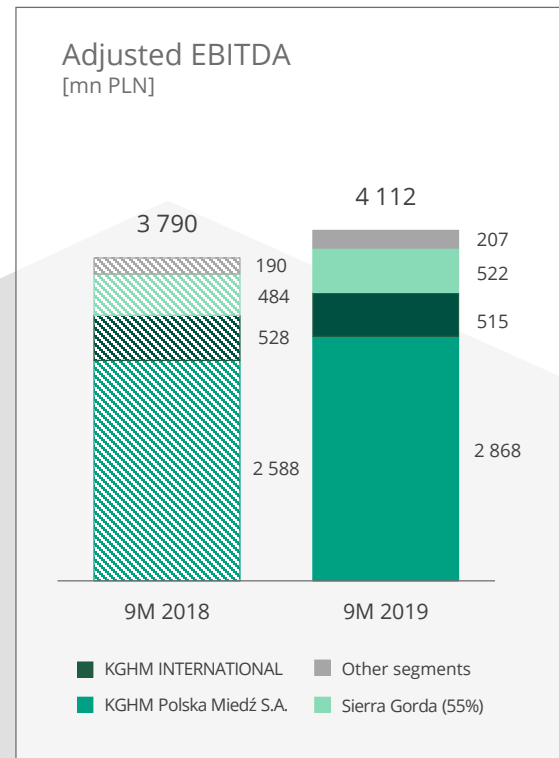
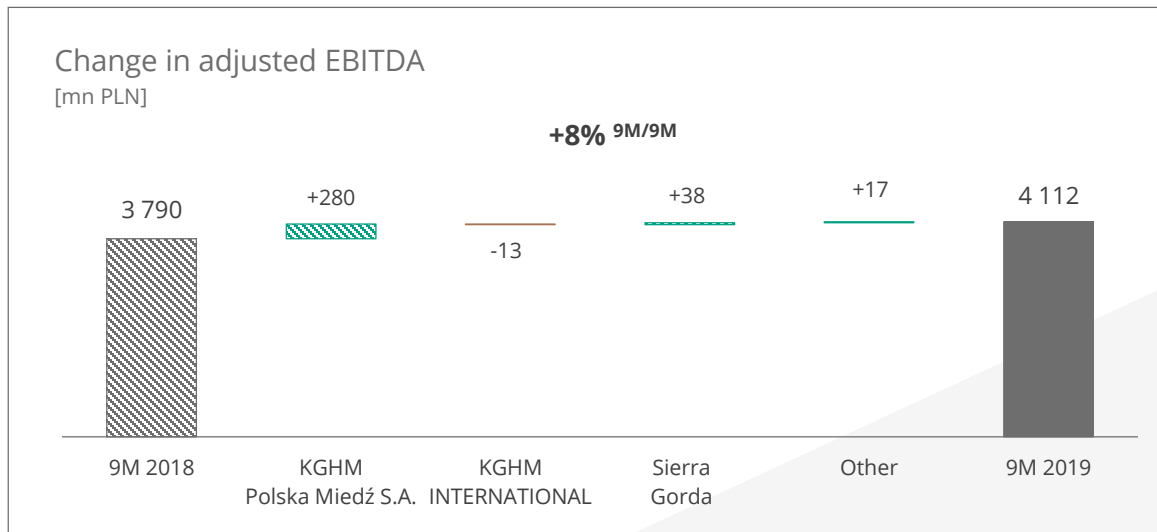


- The decrease in C1 cost in KGHM Polska Miedź S.A. versus the corresponding period of 2018 was mainly due to a weakening of the PLN vs the USD by 8%
- The 4% decrease in this cost in KGHM INTERNATIONAL was due among others to higher revenues from the sale of associated metals (which decrease this cost)
- The 15% increase in C1 cost in Sierra Gorda was due to a lower volume of sales of molybdenum (lower Mo grade in ore), and consequently lower by-product credit revenues which are deducted when calculating C1 cost

1) C1 cost - cash cost of concentrate production reflecting the minerals extraction tax, plus administrative expenses and smelter treatment and refining charges (TC/RC), less depreciation/amortisation and the value of by-product premiums, calculated for payable copper in concentrate

Operating results

KGHM Group



- The increase in EBITDA of the Group¹⁾ (+PLN 322 million) was mainly due to increases in KGHM Polska Miedź S.A. (+PLN 280 million; +11% 9M/9M) and Sierra Gorda (+PLN 38 million; +8% 9M/9M)

Financial results

KGHM Group

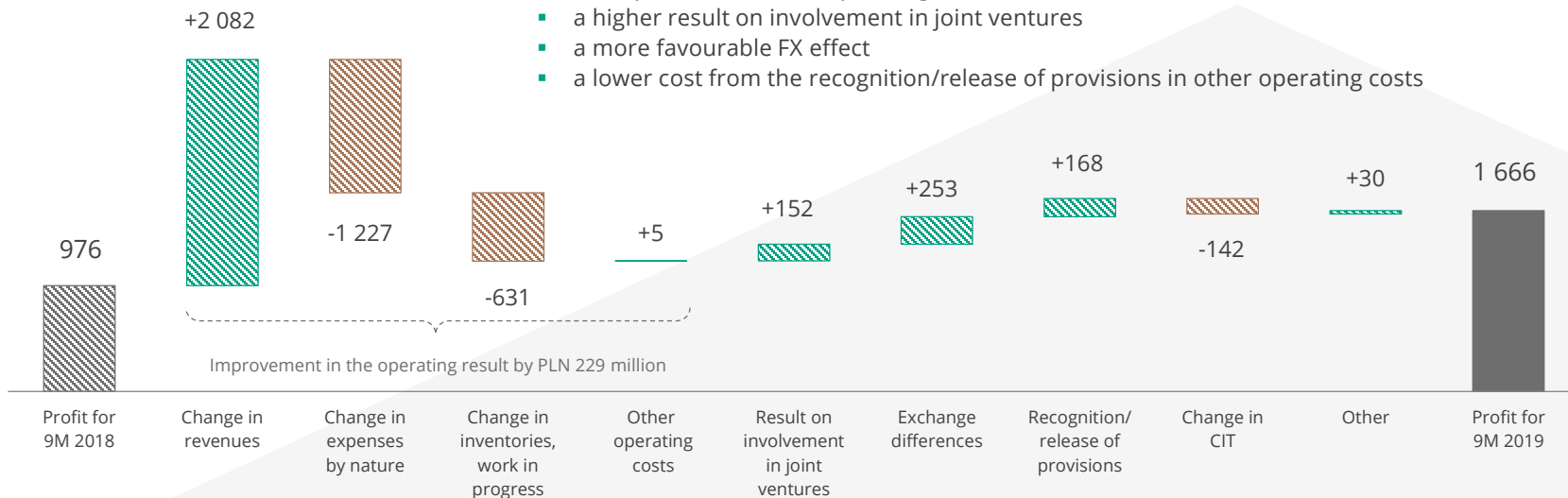
Profit for the period
[mn PLN]

+ **71%** 9M/9M

1 666 mn PLN consolidated net profit in the first 9M of 2019

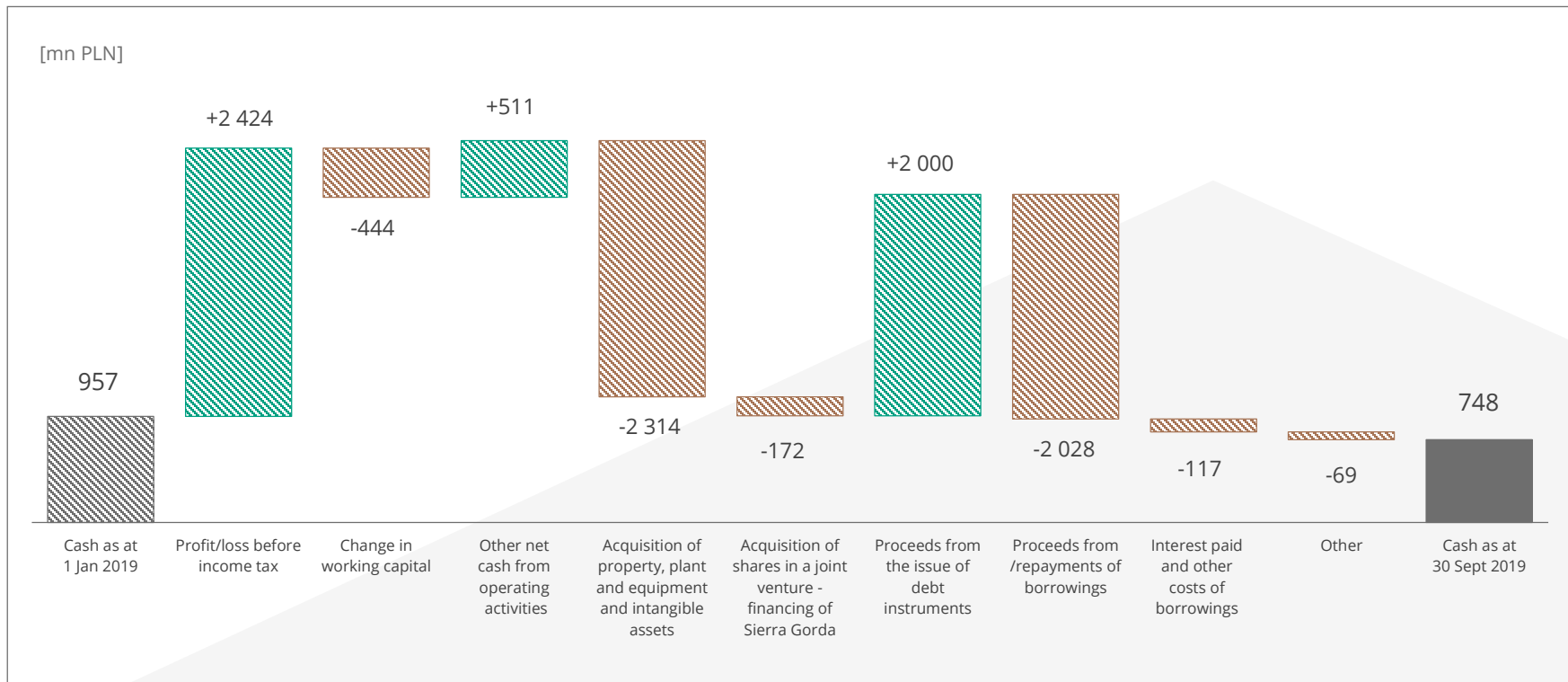
The increase in net profit by the Group by PLN 690 million (+71%) was mainly due to:

- an improvement in the operating result
- a higher result on involvement in joint ventures
- a more favourable FX effect
- a lower cost from the recognition/release of provisions in other operating costs



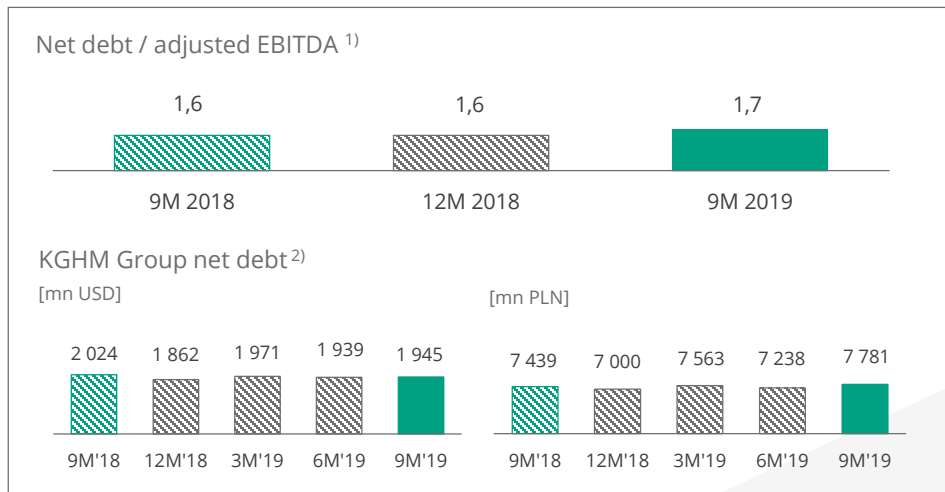
Cash flow

KGHM Group



Net debt of the KGHM Group

As at the end of Q3 2019



Main factors affecting interest-bearing debt in the first 9 months of 2019

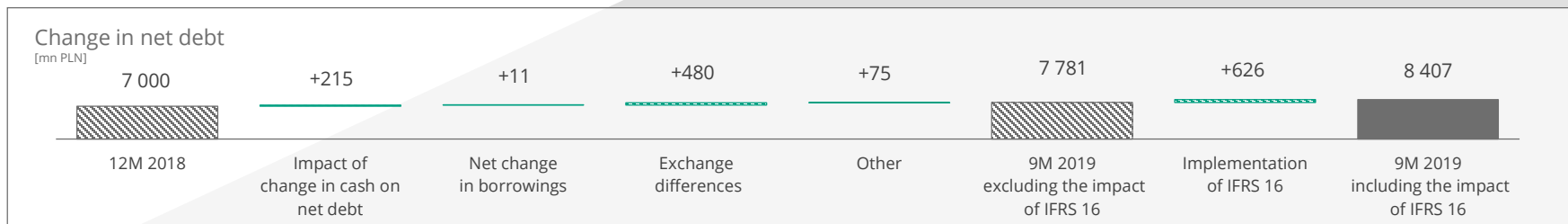
(Increases in debt)

- Cash expenditures on property, plant and equipment (PLN 2 314 million)
- The minerals extraction tax (PLN 1 187 million)
- Negative exchange differences (an increase in debt by PLN 480 million)
- Change in trade and other receivables (an increase by PLN 397 million)
- The financing of inventories (an increase by PLN 261 million)
- Equity increase for Sierra Gorda (PLN 169 million)
- Change in trade and other liabilities (an increase by PLN 133 million)
- Borrowing costs (PLN 106 million)

(Decreases in debt)

- Positive cash flow from operating activities, excluding the change in working capital and the minerals extraction tax (PLN 4 470 million)

In accordance with the adopted financing strategy of KGHM Polska Miedź S.A., the basic currency in which debt is incurred is the USD (natural hedging)



1) Excludes the impact of IFRS 16 with respect to leasing. Taking into account the impact of IFRS 16, the ratio as at 30.09.2019 would amount to 1.8.

2) The presented data do not reflect the impact of IFRS 16 with respect to leasing. Taking into account the impact of IFRS 16, net debt as at 30.09.2019 would amount to PLN 8 407 million.

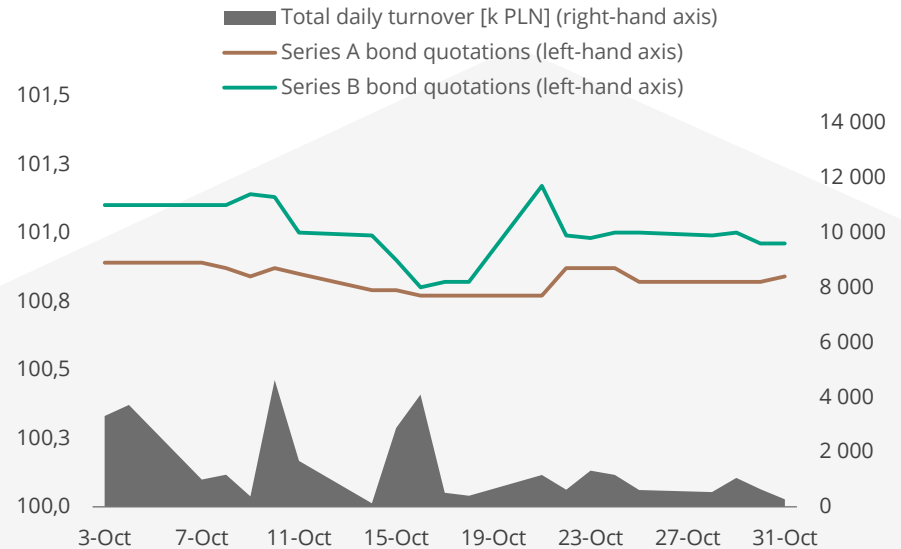
Debut of bonds on the Catalyst market

3rd October 2019

Highlights of the Catalyst debut and bond quotations

- Total value of issue series A and B - PLN 2 billion
- 144 issuers on the Catalyst market
- 6th debut in 2019
- Designated market maker to ensure liquidity
- During the period 3-31 October turnover on KGHM's bonds accounted for 22% of total corporate bonds turnover on the Catalyst¹⁾ market
- Average daily turnover in both bonds series during the period 3-31 October amounted to PLN 1 486 thousand
- To date, the highest total daily turnover in both bonds series occurred on 10 October and amounted to PLN 4 622 thousand

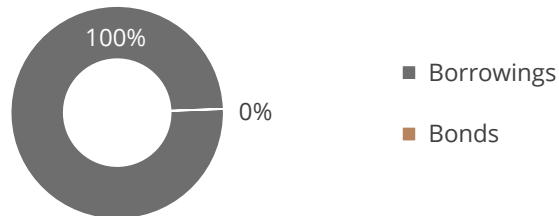
Quotations of KGHM's bonds on the Catalyst market²⁾



Diversification of borrowing sources

Financing structure based on long-term instruments

Sources of financing prior to the bond issue
[mn PLN] ¹⁾



Sources of financing following the bond issue
[mn PLN] ²⁾



As a result of changes carried out in the first half of 2019 involving the financing structure (the initiation of a new, 7-year loan in the amount of USD 450 million and the issuance of 5-year and 10-year bonds in the amount of PLN 2 000 million), **the average weighted maturity period was extended by 2 years.**

With respect to managing currency risk which may arise from borrowings, the Company uses natural hedging by borrowing in currencies in which it has revenues.

The Company entered into transactions forming an element of a strategy based on CIRS, or Cross Currency Interest Rate Swaps, aimed at securing against the currency and interest rate risk arising from the issuance of bonds.



Advancement of development initiatives



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

Capital expenditures by KGHM Polska Miedź S.A. in the first three quarters of 2019

Main projects financed in the first 3 quarters of 2019

Deposit Access Program

- Individual projects in the categories of maintaining mine production and development with respect to mining, mine shafts, air conditioning and power-related infrastructure projects, are being systematically advanced.

Copper concentrate roasting installation

- The installation was successfully commissioned and brought on-line at the Głogów Copper Smelter and Refinery. Work is underway to optimise the investment and conclude commissioning procedures.

RCR furnace at the Legnica Copper Smelter and Refinery

- The installation was successfully commissioned and brought on-line at the Legnica Copper Smelter and Refinery. Work is underway to optimise the copper scrap processing technology, being one of the Company's most important goals.

Development of the Żelazny Most Tailings Storage Facility

- Individual phases of the work to build the facility's southern quarter is advancing according to plan. Work is also underway on constructing the tailings segregation and thickening station.

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

- Under this Program, projects are being advanced at the Głogów and Legnica Copper Smelters/Refineries. In 2019 work was completed on sealing the conveyor belts and belt pulling stations at the Głogów facility. Nearing completion are the construction of an off-gas desulphurisation installation for the Kaldo furnace at the Głogów facility and modernisation of the dedusting unit for the shaft furnaces at the Legnica facility.

2 516 mn PLN

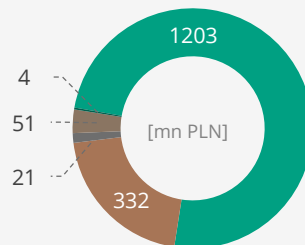
CAPEX budget targets for 2019

2 670 mn PLN

CAPEX budget targets for 2018

by area

- Mining (75%)
- Metallurgy (21%)
- Other activities (1%)
- Leasing IFRS 16
- Development work - uncompleted



1 611 mn PLN

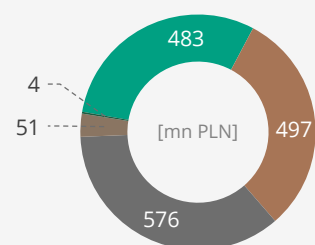
CAPEX execution, 9M 2019

1 232 mn PLN

CAPEX execution, 9M 2018

by category

- Replacement (30%)
- Maintaining mine production (31%)
- Mine development (36%)
- Leasing IFRS 16
- Development work - uncompleted

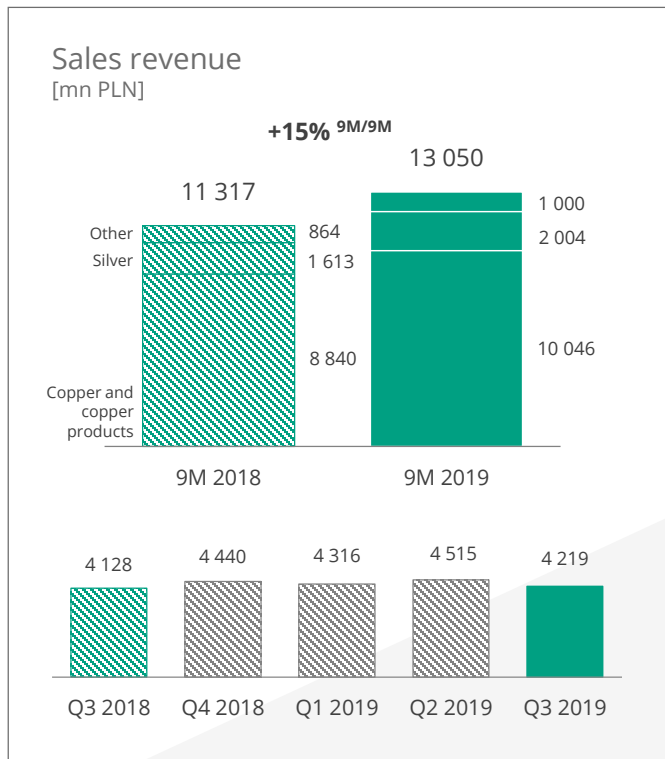


Supporting slides



Sales revenue

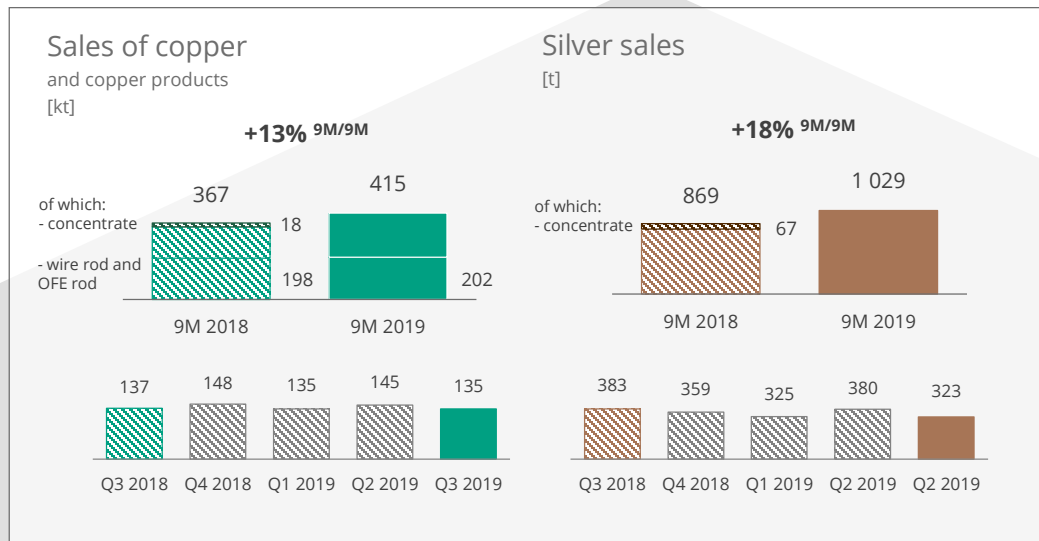
KGHM Polska Miedź S.A.



Higher revenues from sales by PLN 1 733 million (+15%) in the first 9M of 2019 compared to the first 9M of 2018 due to:

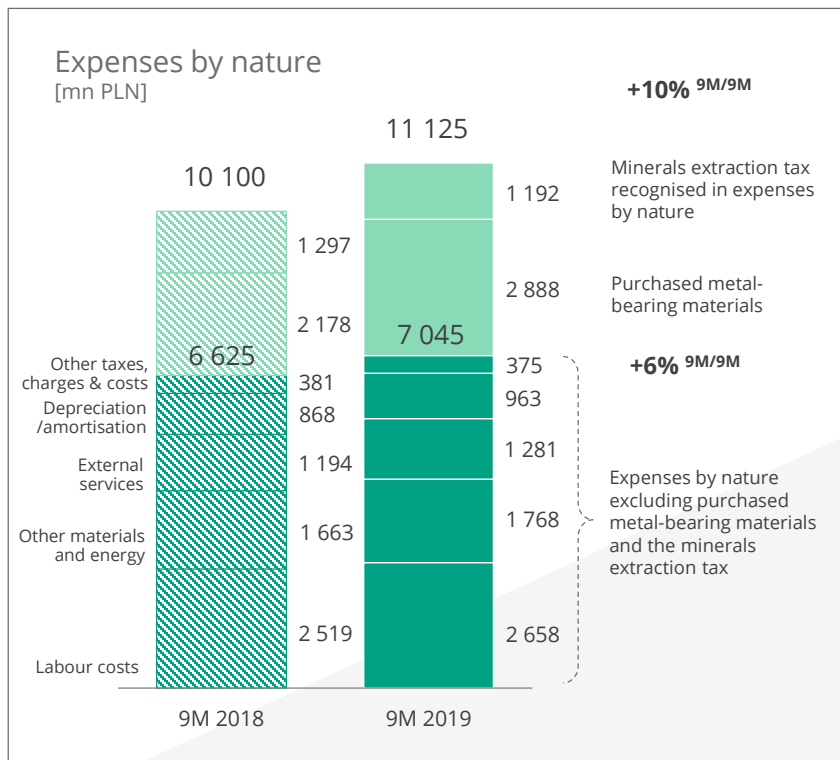
- higher sales volumes (copper by 13% and silver by 18%)
- a more favourable USD/PLN exchange rate (+8%)

alongside less favourable prices of copper (-9%) and silver (-2%)

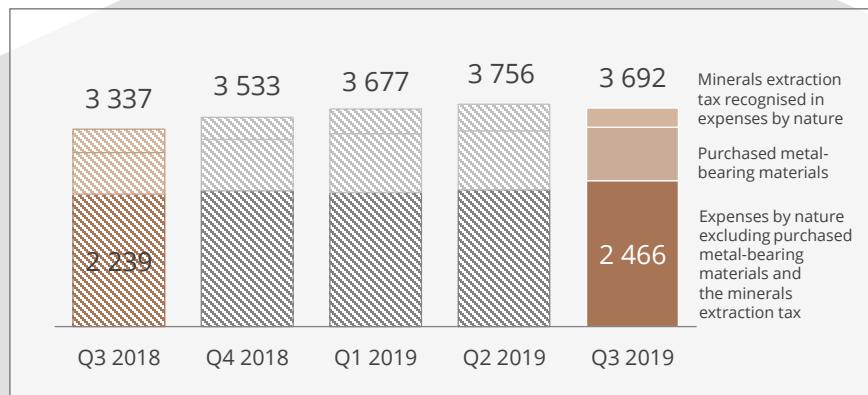


Expenses by nature

KGHM Polska Miedź S.A.



- Expenses by nature were higher by PLN 1 025 million (10%) mainly due to higher consumption of purchased metal-bearing materials by PLN 710 million (a higher volume of purchased metal-bearing materials used by 30 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 420 million (6%) mainly due to higher labour costs (+PLN 139 million), costs of other materials and energy due to higher production (+PLN 105 million), depreciation/amortisation (+PLN 95 million) and external services (+PLN 87 million)

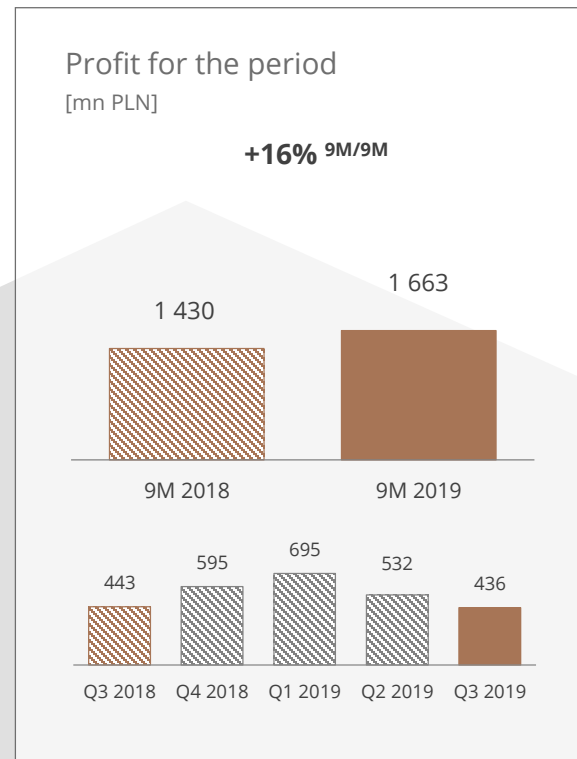
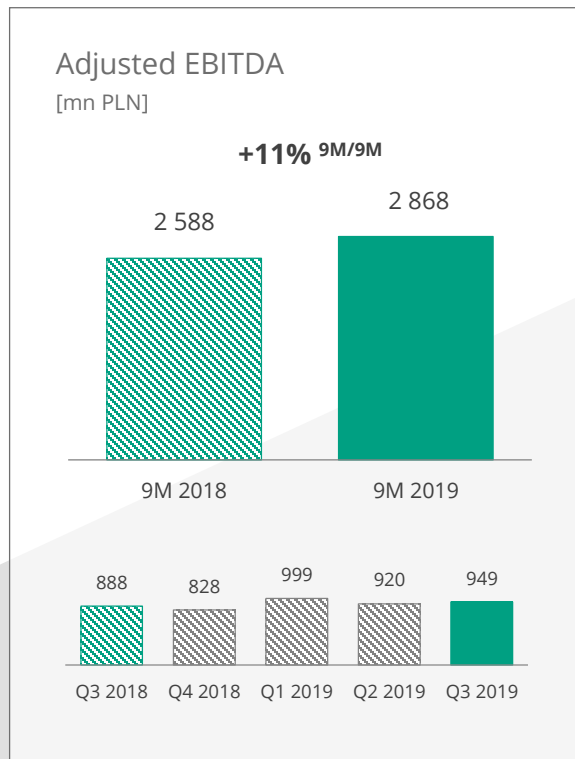


EBITDA and profit for the period

KGHM Polska Miedź S.A.

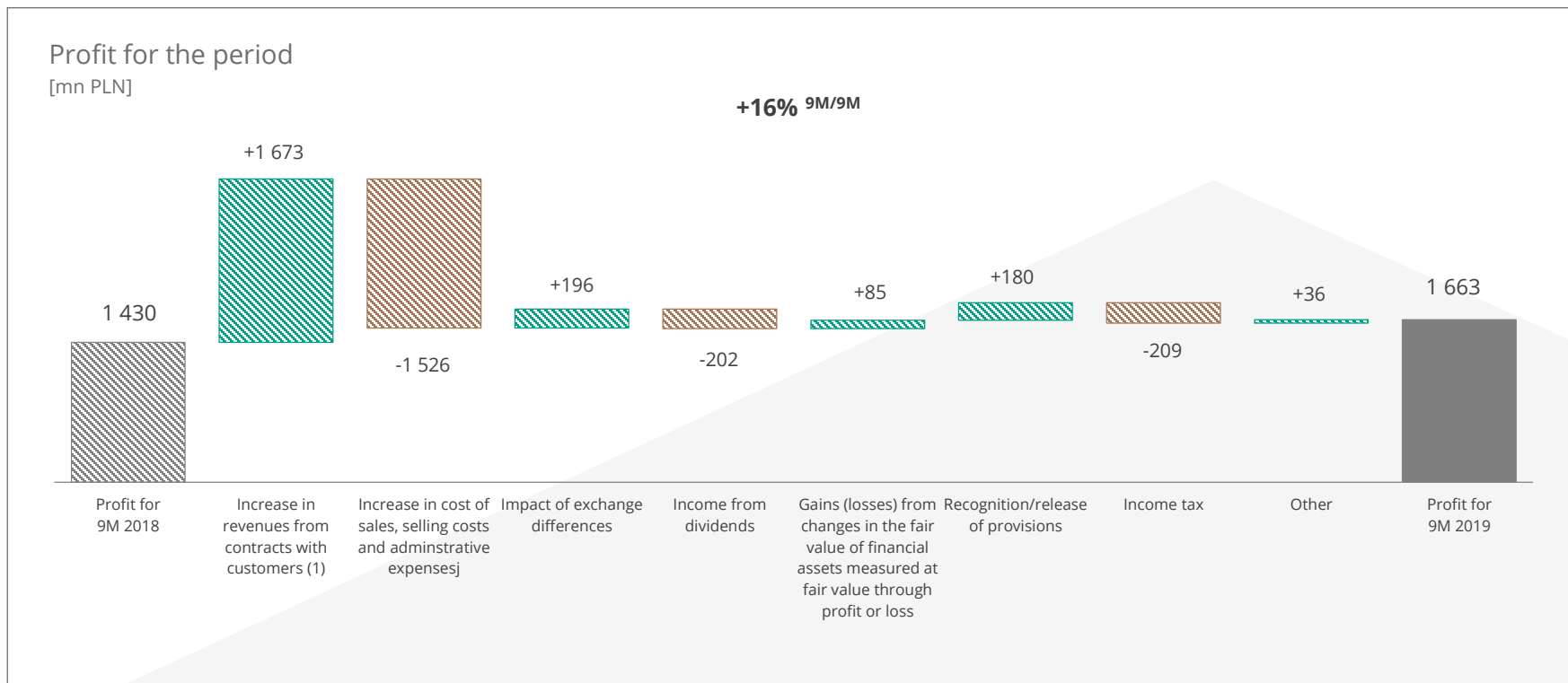
Higher standalone EBITDA and profit for the period

- EBITDA higher by 11% than in the first 9 months of 2018 due to a higher volume of copper sold (higher revenues)
- Higher profit for the period by PLN 233 million (+16%) than in the first 9 months of 2018 due to higher EBITDA, a more favourable result on exchange differences and a lower level of provisions recognised



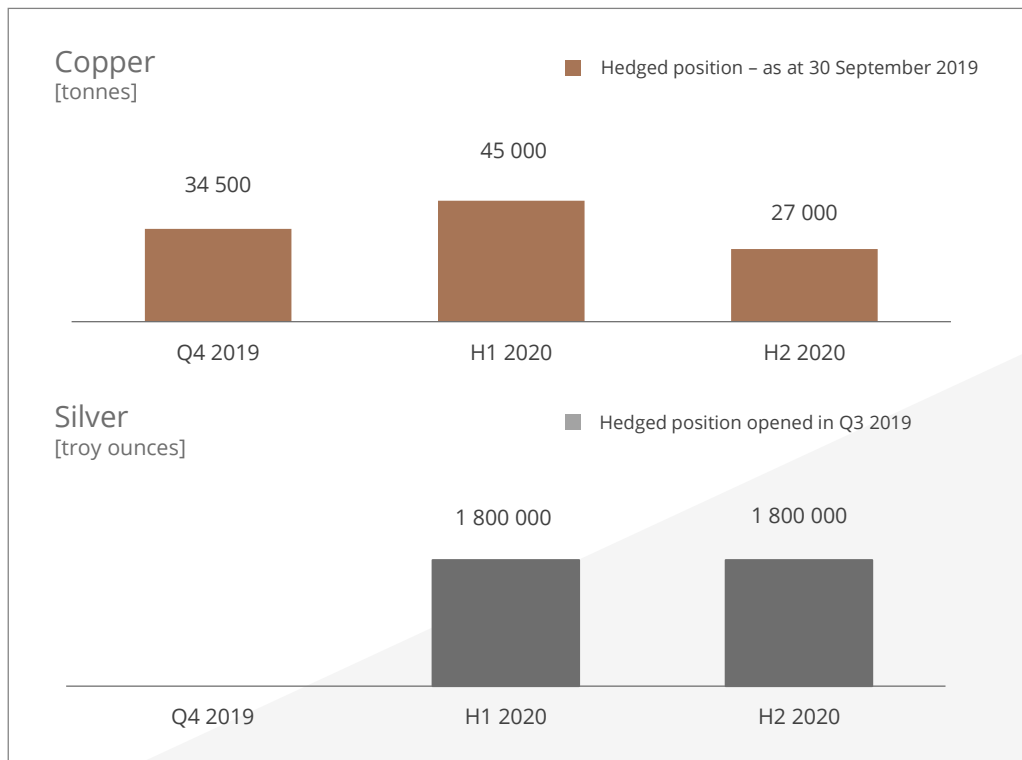
Profit for the period

KGHM Polska Miedź S.A.



Market risk management

Hedged positions on the copper and silver markets (as at 30 September 2019)

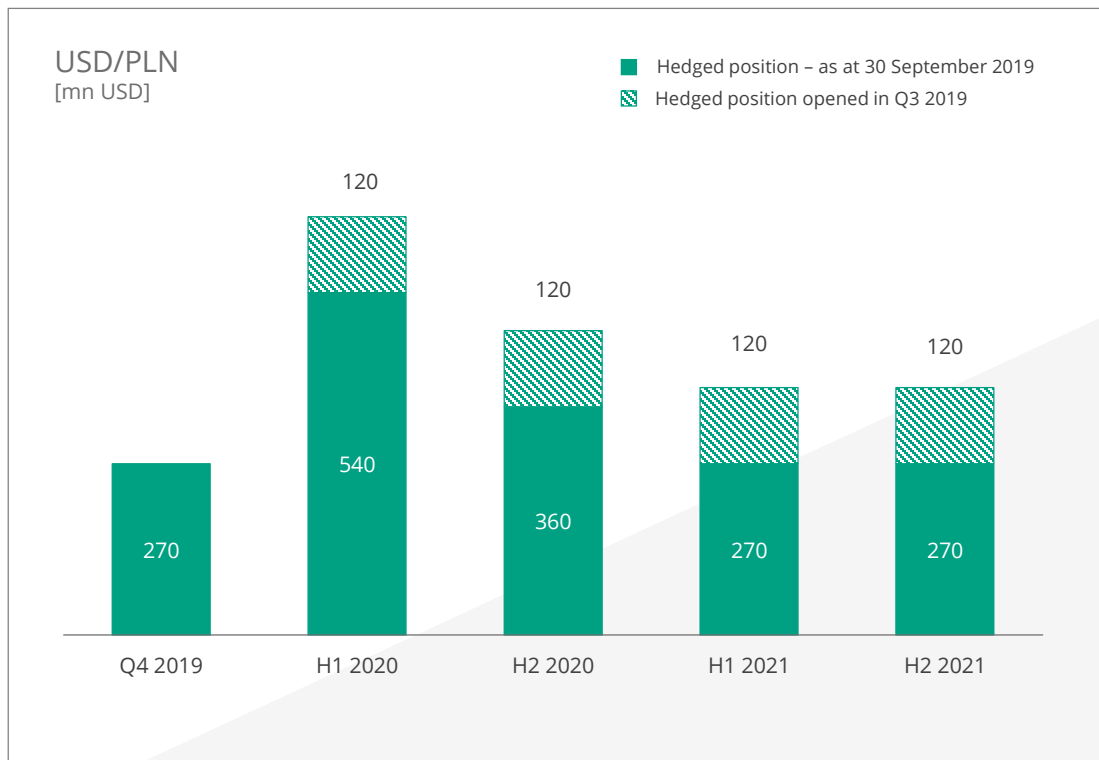


The fair value of derivatives in KGHM Polska Miedź S.A. as at 30 September 2019 amounted to PLN 173 million

- In the first three quarters of 2019, KGHM Polska Miedź S.A. recorded a result on derivatives and hedges in the amount of PLN 97.2 million, of which:
 - PLN 170 million increased revenues from contracts with customers (transactions settled to 30 September 2019)
 - PLN 55.2 million decreased the result on other operating activities
 - PLN 17.6 million decreased the result on finance activities
- The revaluation reserve on cash flow hedging instruments as at 30 September 2019 amounted to -PLN 198.5 million

Market risk management

Hedged positions on the currency and interest rate markets (as at 30 September 2019)



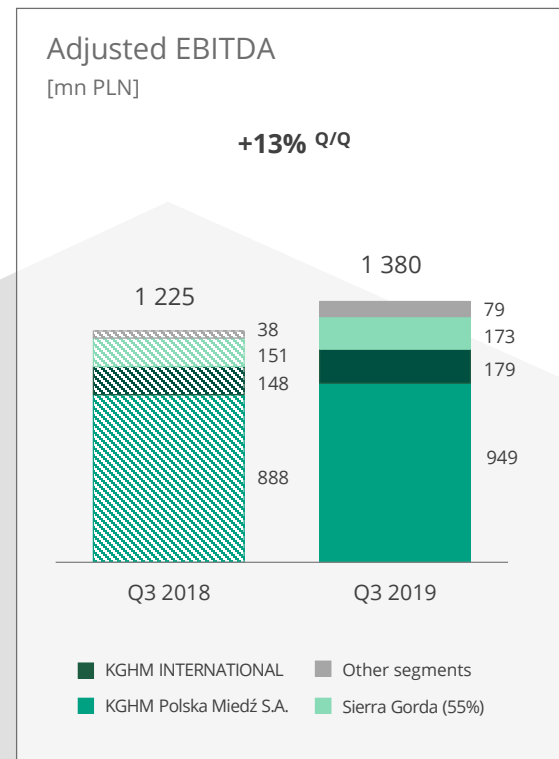
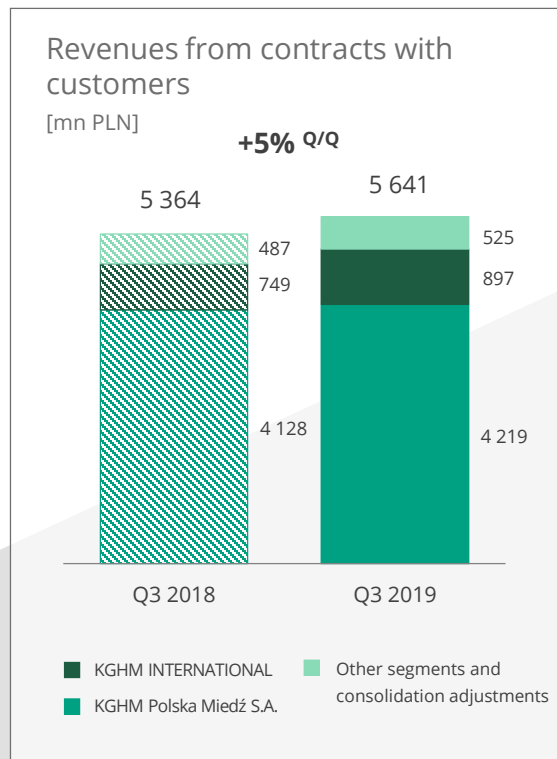
- In the third quarter of 2019 the Parent Entity entered into CIRS, or Cross Currency Interest Rate Swaps, in the notional amount of PLN 2 billion, securing against the market risk related to the issue of bonds in PLN with variable interest rates
- In addition, on 30 September 2019 the Parent Entity held open derivatives CAP positions on the interest rate market for 2020 as well as borrowings with a fixed interest rate

Additional information

Group revenues and EBITDA in Q3 2019

Higher EBITDA Q3/Q3 across all segments:

- KGHM Polska Miedź S.A. (+PLN 61 million; +7%) – mainly due to a more favourable USD/PLN exchange rate and higher silver prices
- KGHM INTERNATIONAL (+PLN 31 million; +21%) – higher due to the increased scope of services provided by companies operating under the DMC brand
- Sierra Gorda (+PLN 22 million; +15%) – higher due to the lower level of depreciation/amortisation (in USD) and a higher USD/PLN exchange rate



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