

# Layers of possibilities



## KGHM Group Investor Presentation

September 2019

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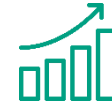
# Agenda



1. Key information about the KGHM Group



2. The KGHM Group vs the sector



3. Production and financial results of the KGHM Group – annual data



4. Production and financial results of the KGHM Group – quarterly data



5. Advancement of the Group's Strategy



6. Summation, Q&A



## Key information about the KGHM Group

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# KGHM Group in brief

One of the world's largest producers of copper and silver with nearly 60 years of experience in mining and metallurgy

634 thousand tonnes of payable copper production by the KGHM Group in 2018

A diversified portfolio of assets at various stages of development located in mining-friendly jurisdictions

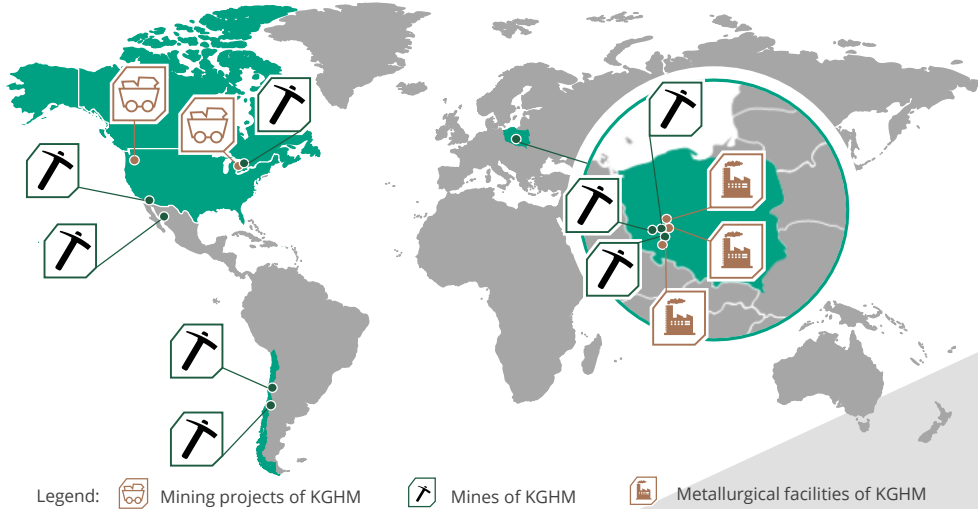
Member of the prestigious indices Respect Index & FTSE4Good published by the WSE and LSE

A stable and competitive position in a key sector for the global economy  
- copper mining and processing

An organisation with strong values-based roots, focused on corporate social responsibility

# KGHM: a top ten copper producer and a leading Polish exporter

The Group has a global reach and plays a significant role on the global copper and silver markets



Eighth largest copper producer



Third largest silver producer



## Other KGHM Group products:

- Molybdenum
- Lead
- Nickel
- Gold
- Palladium
- Platinum
- Rhenium
- Sulphuric acid
- Selenium
- Copper sulphate
- Nickel sulphate

## Geology



## Mining



## Metallurgy



Exploration and evaluation

Ore extraction

Ore enrichment

Smelting and refining

Casting

# Core production assets in Poland – stable output and earnings

Underground mines, fully integrated production

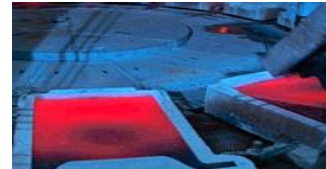


## Lubin Mine

27 years LOM

2018 production stats:

- Cu production (payable): 70 kt
- Copper Grade: 0.95%



## Legnica Smelter and Refinery

LME grade A-registered cathodes

Capacity of ~120 kt electrolytic Cu/year <sup>1)</sup>

- Other metals produced: Ag, Au, Pb, Re
- 2018 Cu production: 115 kt



## Polkowice-Sieroszowice Mine

37 years LOM

2018 production stats:

- Cu production (payable): 196 kt
- Copper Grade : 1.71%



## Głogów I Smelter and Refinery

LME grade A-registered cathodes

Capacity of ~239 kt electrolytic Cu/year <sup>1)</sup>

- Other metals produced: Ag, Au, Pb, Re
- 2018 Cu production: 183 kt



## Rudna Mine

22 years LOM

2018 production stats:

- Cu production (payable): 186 kt
- Copper Grade: 1.63%



## Głogów II Smelter and Refinery

LME grade A-registered cathodes

Capacity of ~223 kt electrolytic Cu/year <sup>1)</sup>

- Other metals produced: Ag, Au, Pb, Re
- 2018 Cu production: 204 kt



## Deep Głogów Project

- Extension of Rudna and Polkowice-Sieroszowice mines
- DG production figures are included in Rudna and Polkowice-Sieroszowice mines' production stats



## Cedynia Copper Wire Rod Plant

Contirod and Upcast technology

- 2018 Cu wire rod production: 266 kt

# Key international assets

Existing operations and growth potential from projects

## Producing assets



### Sierra Gorda (55% stake), Chile

- 25 years LOM
- Open-pit mine
- Porphyry
- 2018 production stats:
  - Cu production (payable): 53 kt



### Robinson Mine, USA

- 7 years LOM
- Open-pit mine
- Porphyry/Skarn orebody
- 2018 production stats:
  - Cu production (payable): 49 kt



### Sudbury, Canada

- 8 years LOM
- Underground mine
- Footwall/Contact orebody
- 2018 production stats:
  - Cu production (payable): 7.4 kt



### Franke Mine, Chile

- 2 years LOM
- Open-pit mine
- IOCG orebody
- 2018 production stats:
  - Cu production: 20 kt (cathodes: SX-EW)

## Potential growth projects



### Sierra Gorda Oxide, Chile

- 10 years LOM
- The project aims at processing the oxide ore
- The oxide ore is currently stored separately for later heap leaching
- Oxide ore will be transported to a permanent heap, where it will be processed via leaching



### Victoria, Canada

- 14 years LOM
- The projects assumes building an underground copper-nickel mine
- Current development scenario assumes exploiting the deposit via 2 shafts
- 18 kt Cu p.a., 16 kt Ni p.a.



### Ajax (80% stake), Canada

- 19 years LOM
- The project assumes building an open-pit copper-gold mine and processing plant with associated infrastructure.
- 53 kt Cu p.a., 114 k troz Au p.a.



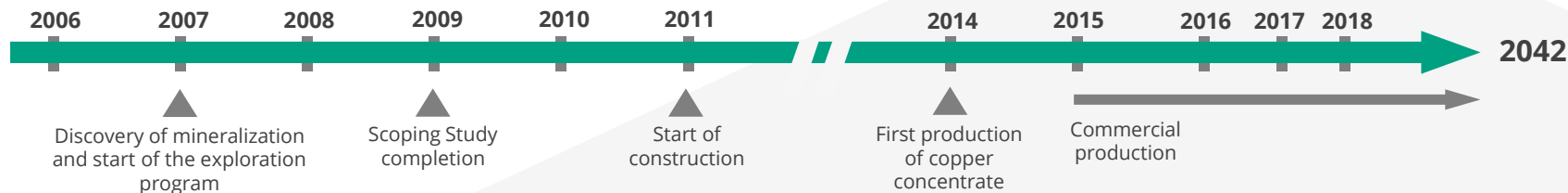
# Sierra Gorda

Sierra Gorda is an open pit copper and molybdenum mine located in Chile's Antofagasta region in the Atacama desert. Sierra Gorda is a Joint Venture of:

- KGHM Polska Miedź S.A. – 55% share
- Sumitomo Metal Mining – 31.5% share
- Sumitomo Corporation – 13.5% share



## Schedule of Sierra Gorda development



Life of mine based on documented resources is 25 years

Sierra Gorda end products are copper concentrate and molybdenum concentrate

Cu production in 2018

96.9 kt<sup>1)</sup>

Mo production in 2018

26.7 mn lbs<sup>1)</sup>

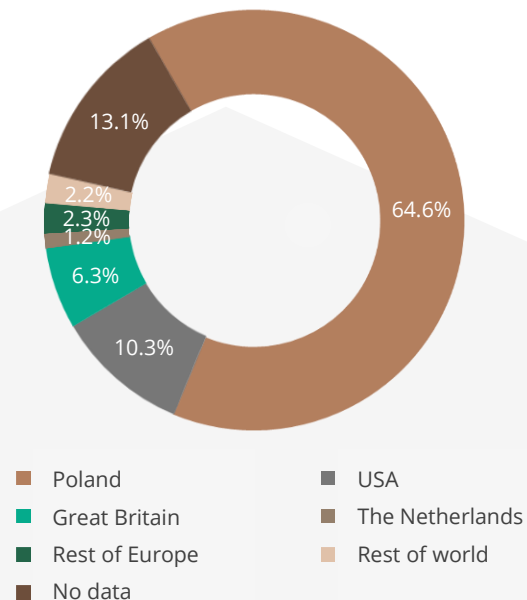
# Shareholder structure of KGHM Polska Miedź S.A.

Ownership structure

Shareholder	No. of shares/ votes	Percentage of share capital	Share in total number of votes
Polish State Treasury	63,589,900	31.79%	31.79%
Nationale-Nederlanden OFE	10,104,354	5.05%	5.05%
Aviva OFE	10,039,684	5.02%	5.02%
Other shareholders	116,266,062	58.14%	58.14%
<b>Total</b>	<b>200,000,000</b>	<b>100.00%</b>	<b>100.00%</b>



Geographical ownership structure



# Share price performance

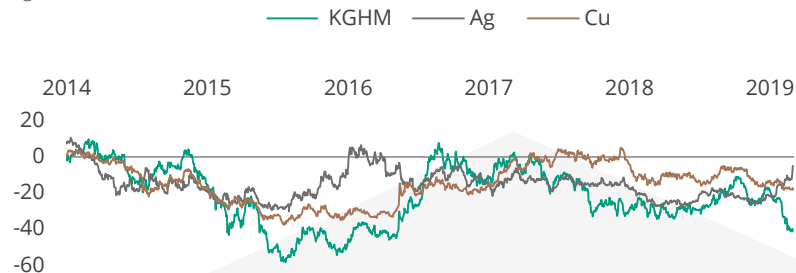
## Basic quotes

WSE debut	10 <sup>th</sup> July 1997	
GPW ticker	KGH	
Bloomberg/Reuters ticker	KGH PW / KGH.WA	
Share price [PLN]	78.32	
Capitalization [bn PLN]	15.66	
No. of shares	200 000 000	
Share capital [PLN]	2 000 000 000	
52 weeks	Max/min share price [PLN]	112/73.76
	Spread min/max [PLN]	38.24
	Avg. share price [PLN]	93.59
	Avg. volume	579,494
	Avg. turnover [mn PLN]	53.98

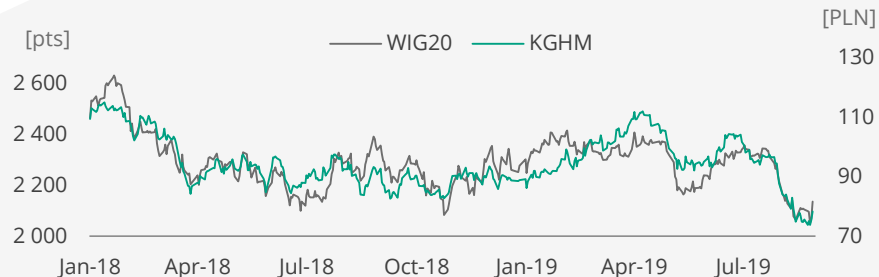
The Company's shares are a component of the indices: WIG30TR, WIG30, WIG20TR, WIG-GÓRNICTWO, RESPECT, WIG-Poland, WIG20, WIG. In 2018 KGHM joined the prestigious FTSE4Good index.

## Strong correlation with copper and silver

[change in %]

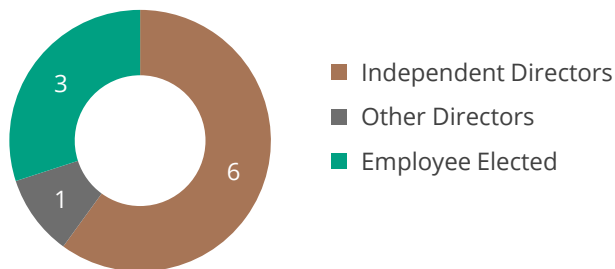


## ...as well as WIG20 index



# Committed to solid corporate governance

## Independent directors on the board



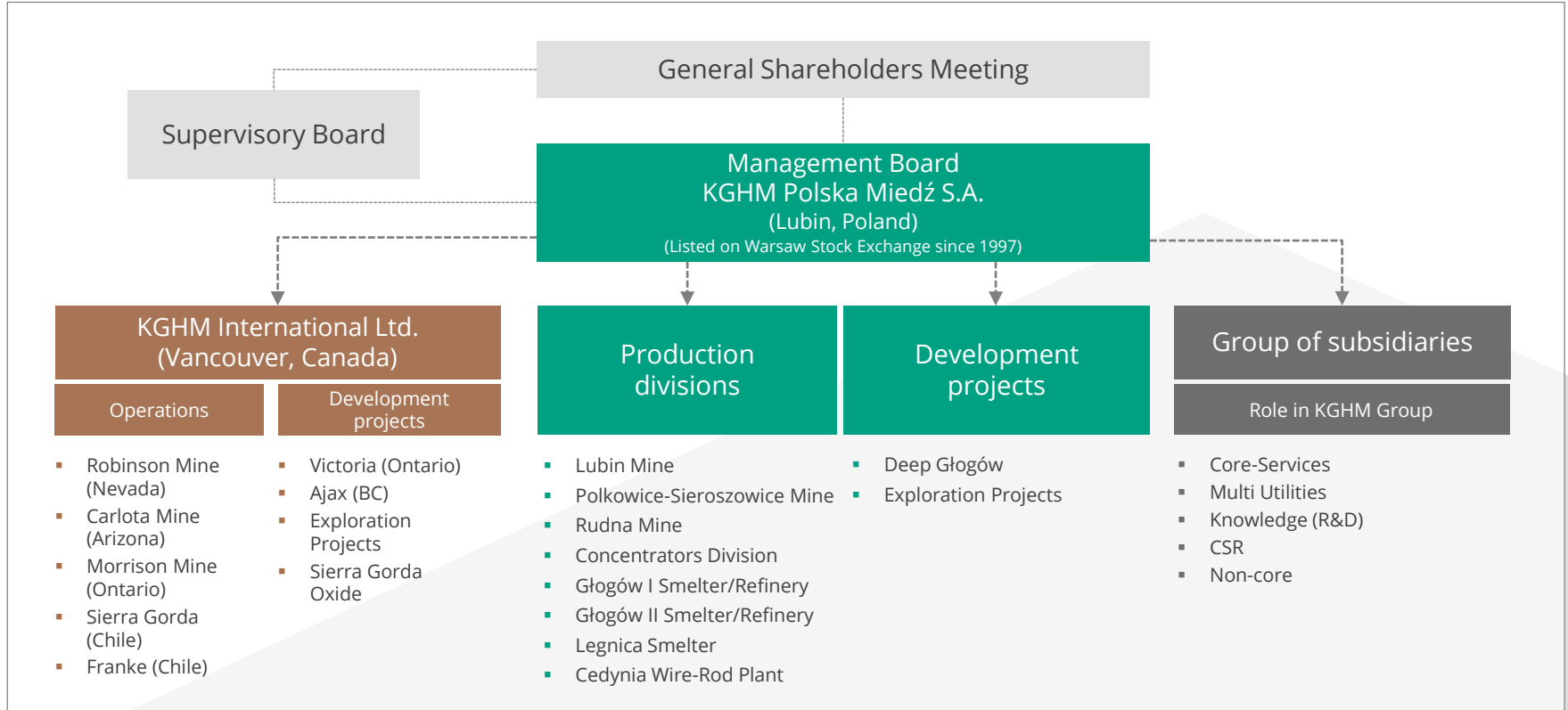
KGHM meets the top quality Corporate Governance standards of the Warsaw Stock Exchange (compliant with EU/OECD guidance)

## KGHM's Corporate Governance is guided by international standards and follows best practices:

- All members of KGHM's Supervisory Board are appointed by the General Shareholders Meeting
- All of KGHM's shares have equal voting rights (no preferred stock)
- 6 independent members of the Supervisory Board <sup>1)</sup>
- Committees of the Supervisory Board:
  - Strategy Committee
  - Audit Committee
  - Remuneration Committee
- Internal audit structure implemented across the KGHM Group - consistent with the best international practices
- Code of Ethics – implemented in 2015

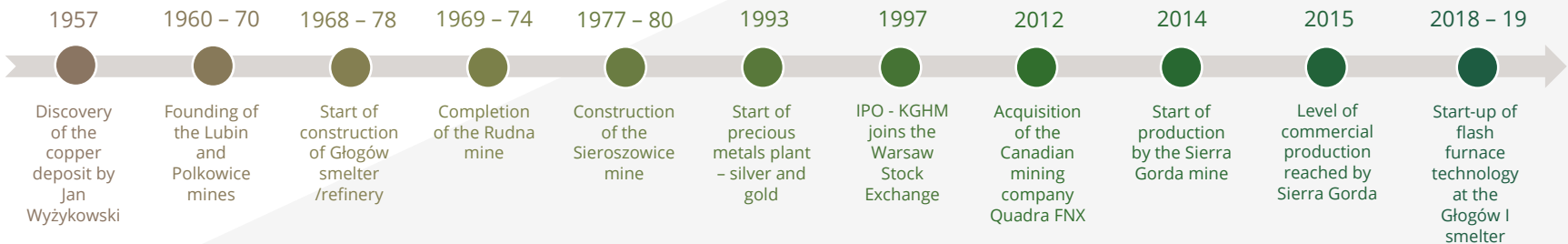
**In 2018 KGHM joined the FTSE4Good index.** Being a member of the FTSE4Good index series confirms KGHM's efforts in the field of environmental protection, social responsibility and corporate governance. KGHM perceives joining the FTSE4Good index as an award for its solid performance in complying with demanding ESG standards.

# Transparent Group structure



# A proud history of mining and metallurgy

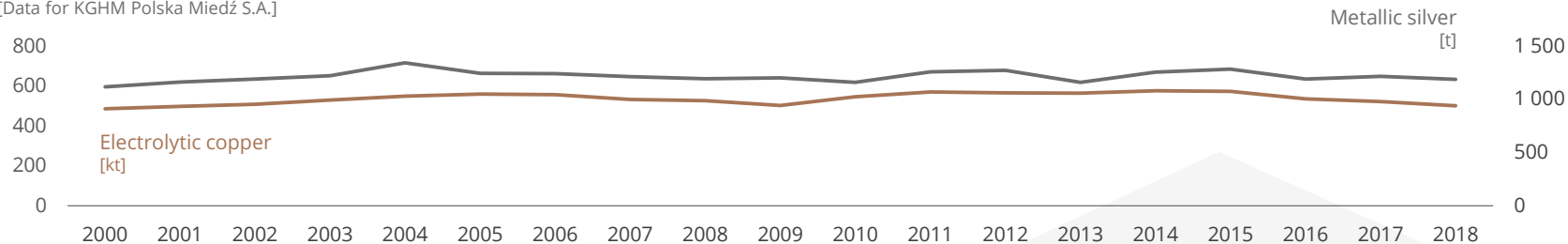
Discovery of the copper deposit brought about a fundamental change in the region's economy thanks to the growth of KGHM Polska Miedź S.A. As a result of M&A activities, capped by the acquisition of Quadra FNX, KGHM became a truly global copper producer aimed at continued growth



# Stable production outlook for KGHM

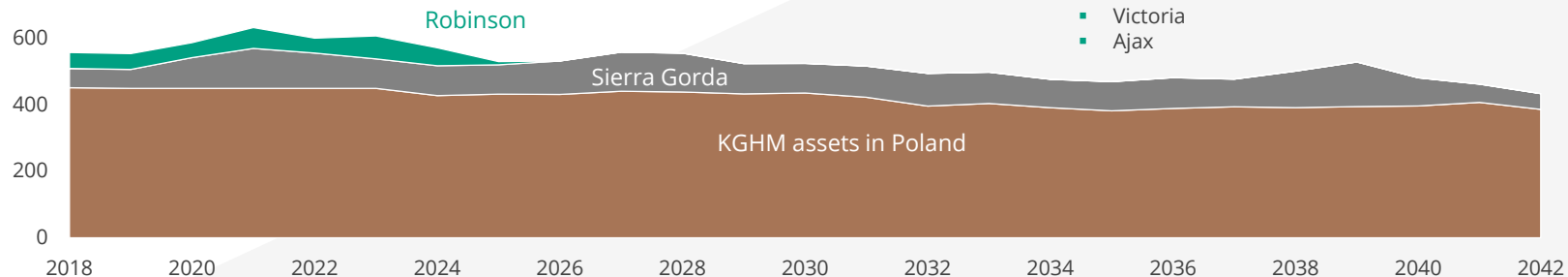
## Production of electrolytic copper and metallic silver

[Data for KGHM Polska Miedź S.A.]



## Forecast mine production by the KGHM Group

[kt Cu in ore]





## The KGHM Group vs the sector

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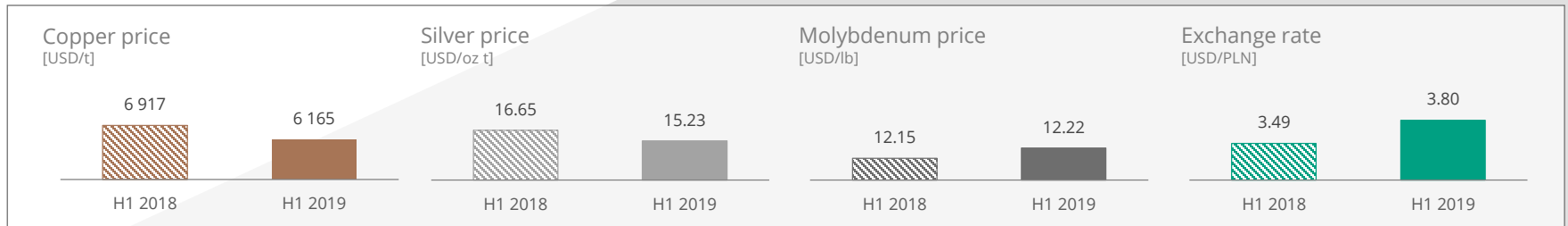
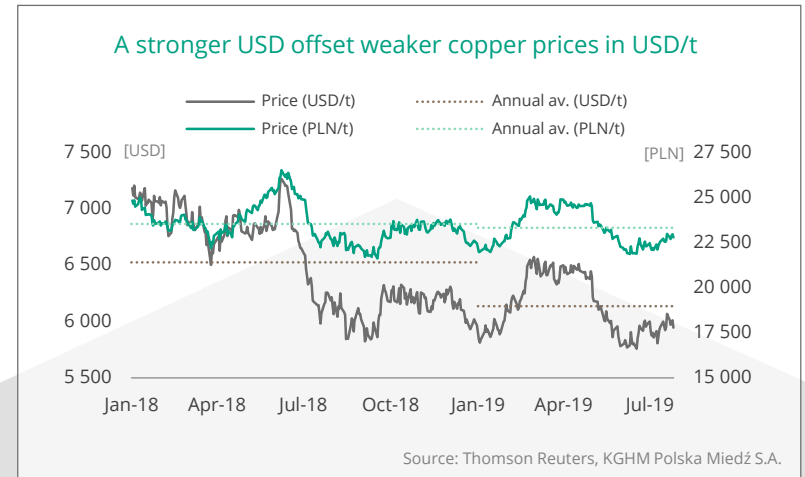


# Macroeconomic environment

## Commodity and currency prices

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

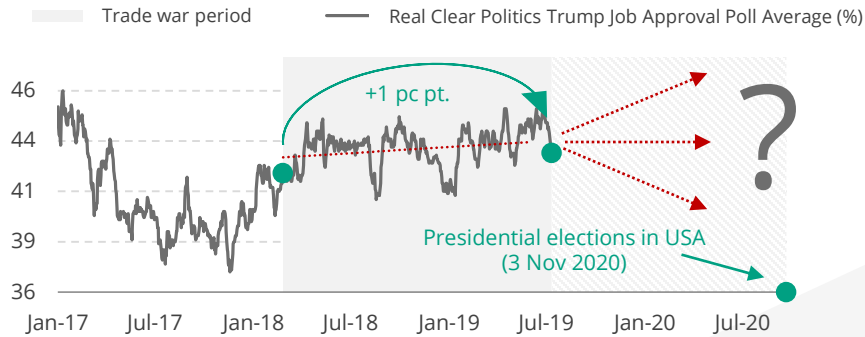
- The price of copper fell (-11% yoy) compared to the corresponding prior-year period alongside a fall in the silver price and a slight increase in the price of molybdenum
- The price of copper expressed in PLN remained at a similar level to that recorded in H1 2018, although on a quarter to quarter 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

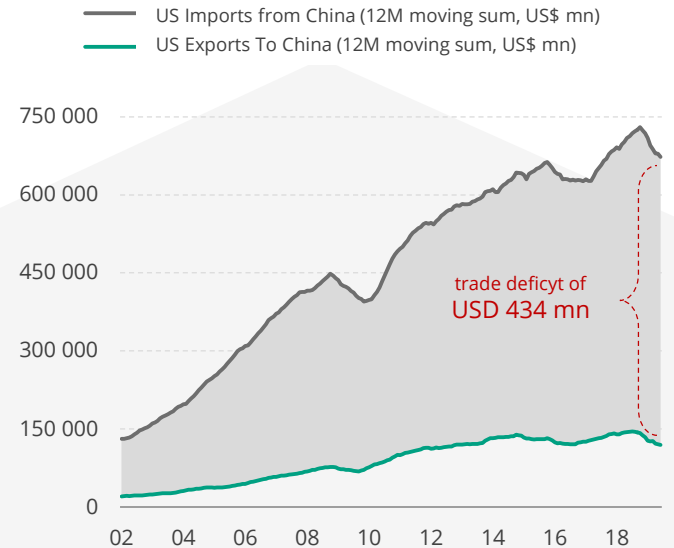
Trade war the main source of uncertainty in the global economy

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

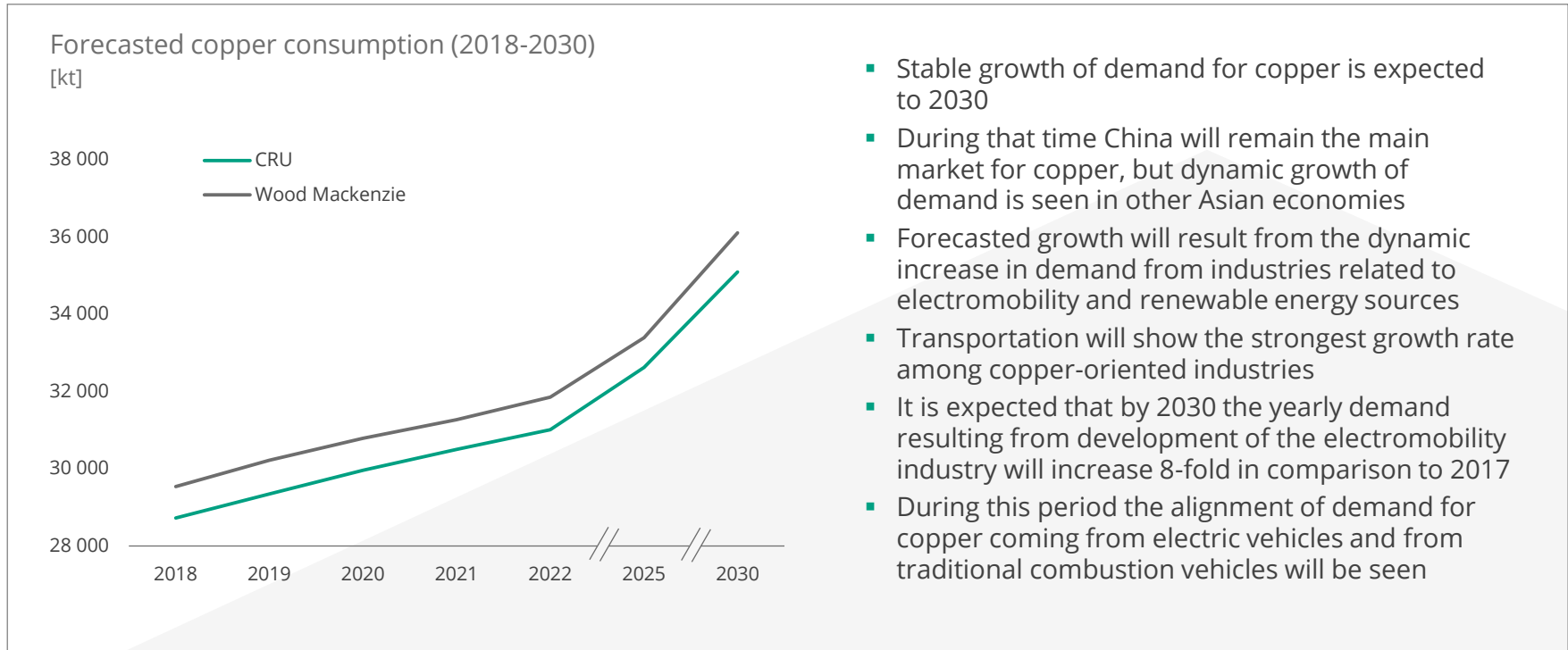
Despite escalation of the trade war the trade deficit between the USA and China remains enormous



Source: Bloomberg, KGHM Polska Miedź S.A.

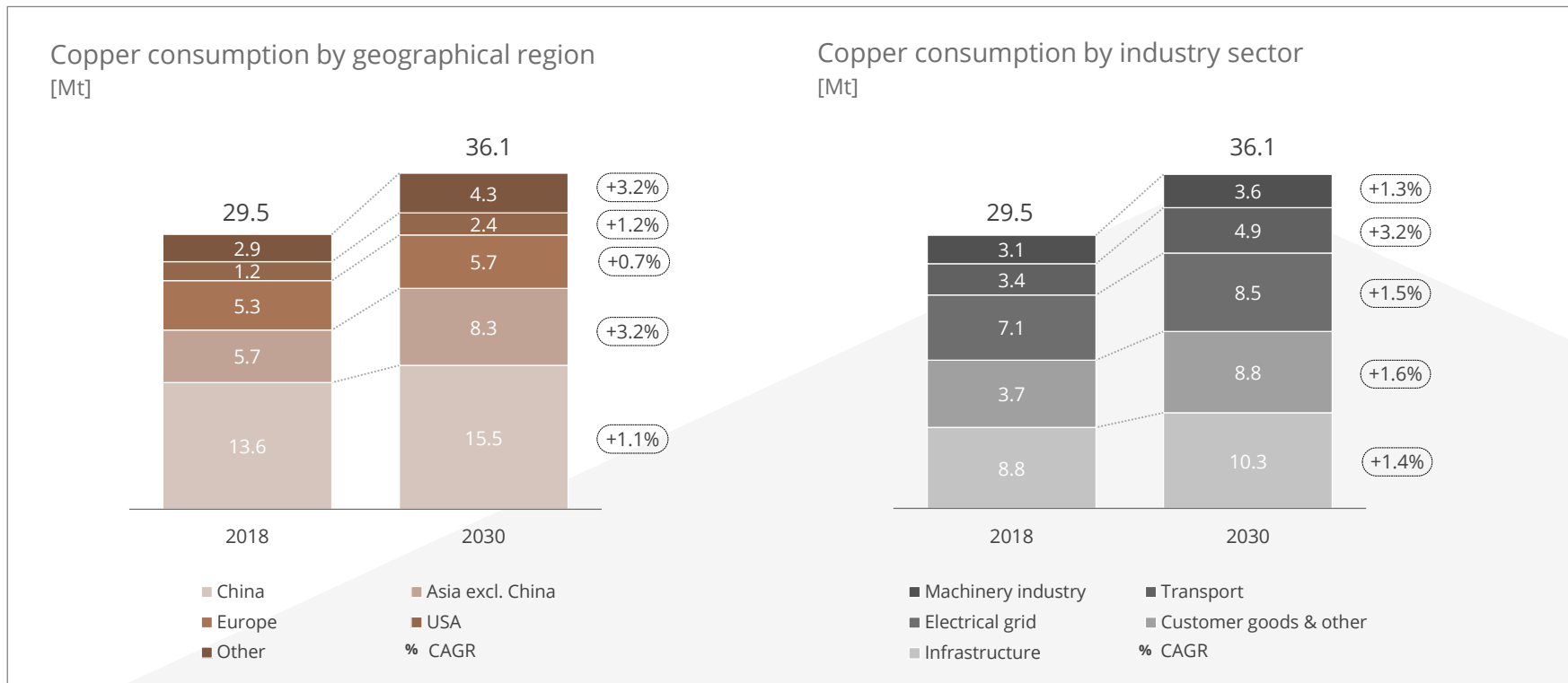
# By 2030 the demand for copper is forecasted to be higher by over 20%

Industries related to electromobility and renewable energy sources will be a crucial element in higher demand, with supply under pressure



# Copper consumption by geographical region and industry sector

2018-2030

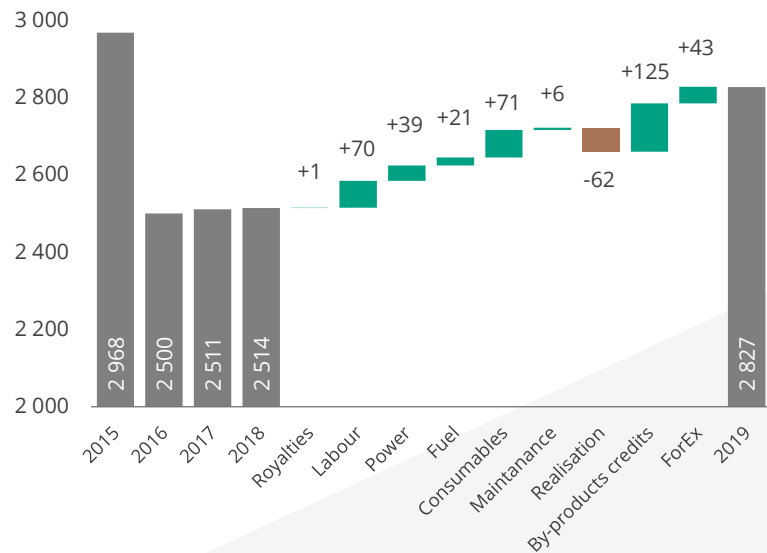




## Mining production (2)

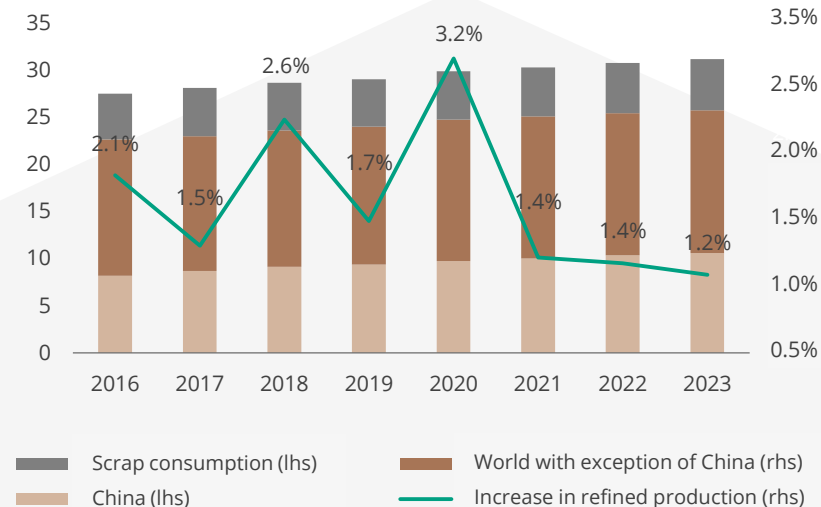
Despite a clear increase in investment expenditures, analysts still anticipate a deficit in the market

CRU anticipates a nearly 12.5% increase in costs this year



The increase in supply will remain limited, which will be affected by a slight increase in scrap use  
[mn t]

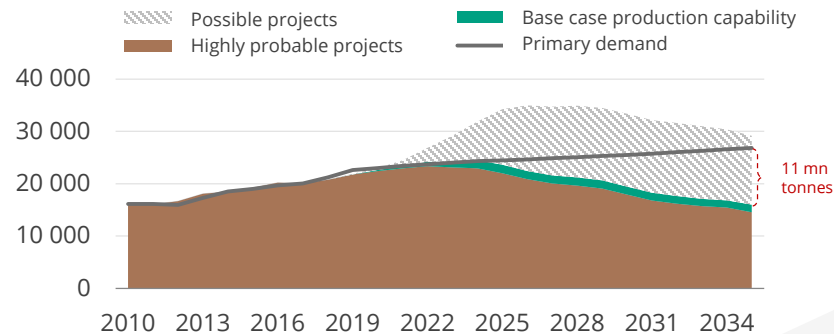
A decrease in scrap consumption in 2018 (-1.2% = 60 kt)



# Copper market balance

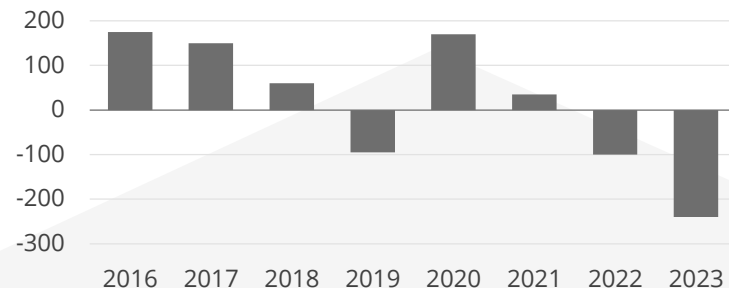
The balance expected to turn into deficit in the medium term, with a potentially larger gap in 5-10 years

## Copper mining and potential mining projects [kt]



Source: Wood Mackenzie

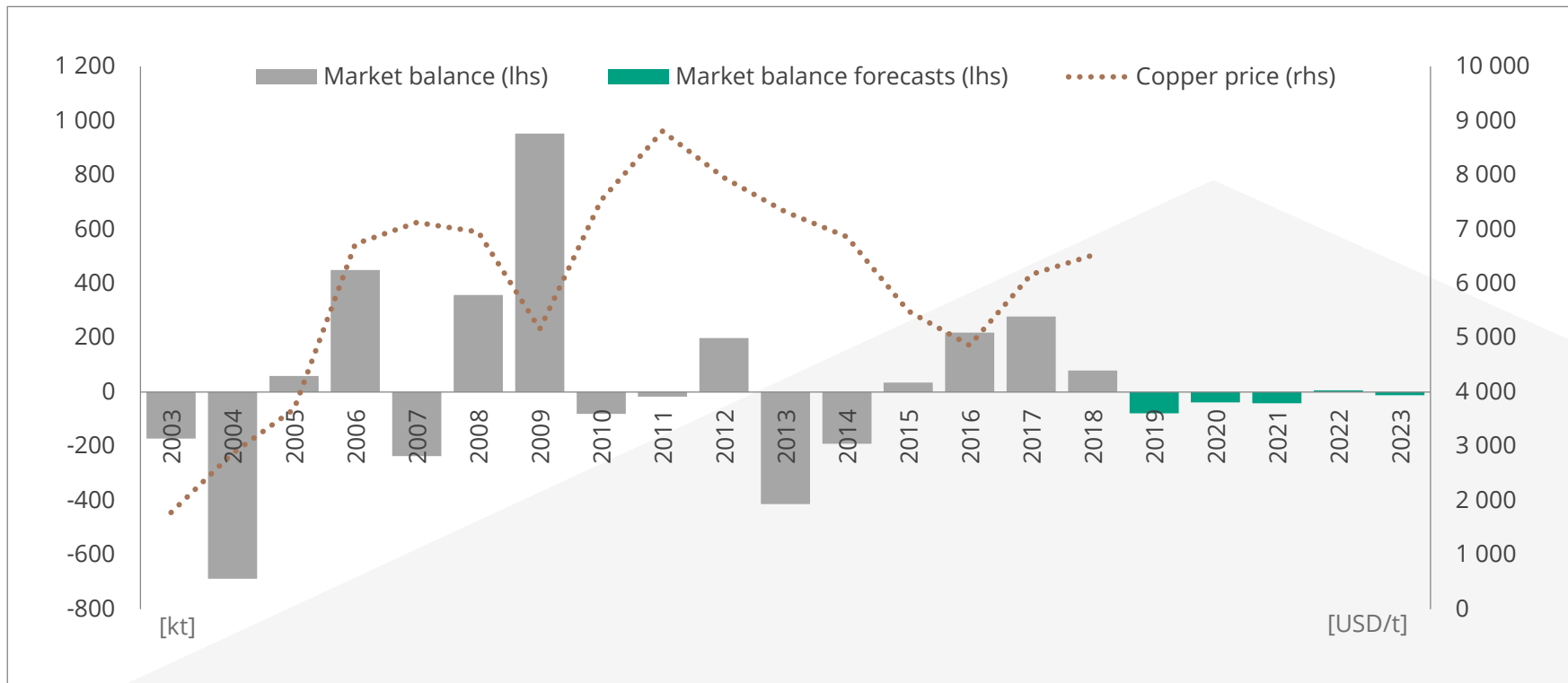
## Copper market balance



Source: CRU International

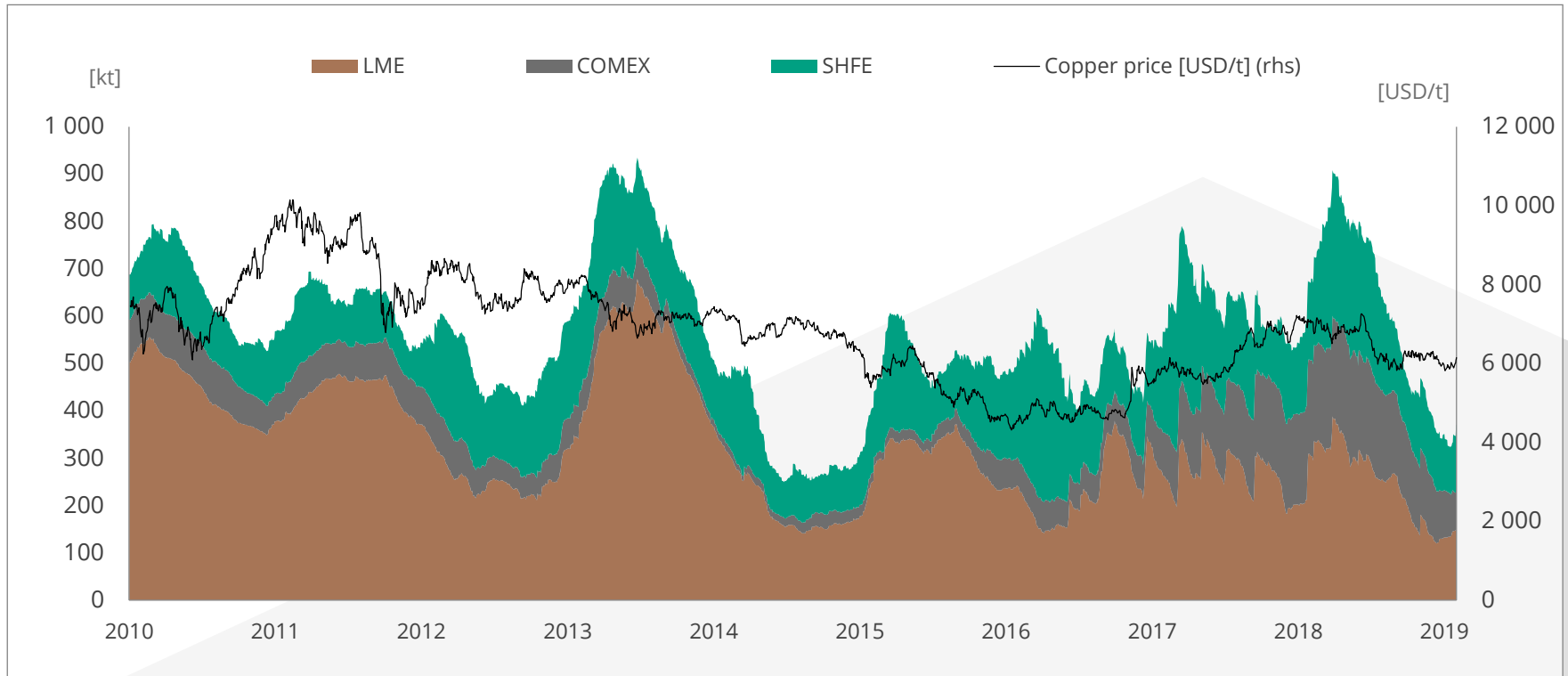
- Although global copper resources are extensive, most of them are in difficult locations (with water or energy scarcity, political instability, social unrest against mining investment)
- Production from currently operating assets will decrease, with mine depletion and lower copper grades
- While the rate of growth in demand is slowing, it remains stable, which is expected to result in a potential supply-side gap
- Despite the fact that there are new projects in the development pipeline, most of them are merely related to the expansion and development of existing assets; this means that a number of new, greenfield projects would be needed to fill the supply gap

# The deficit on the refined copper market is not always reflected in the metal price level...



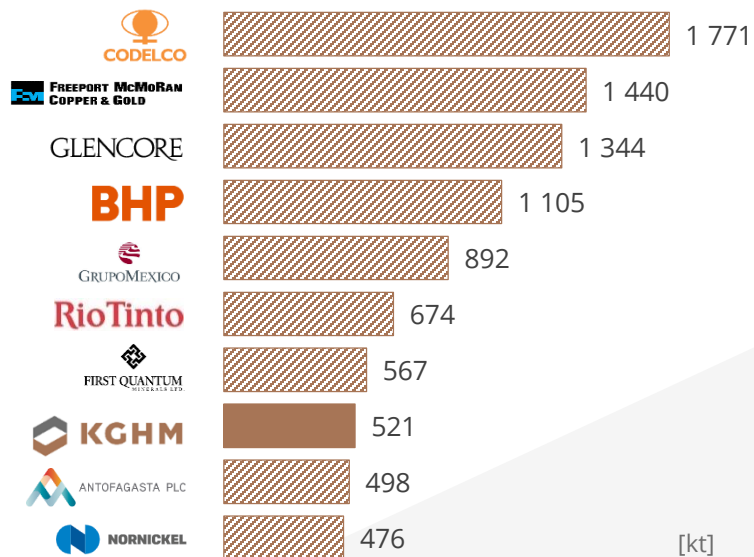


## ...or in the red metal's stocks level

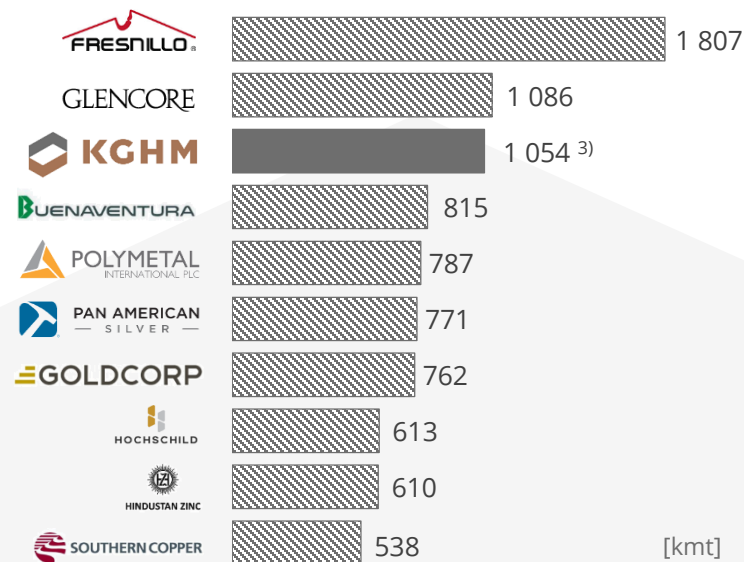


# KGHM among the biggest copper and silver producers

Mined Copper production 2018 <sup>1)</sup>



Silver production 2018 <sup>2)</sup>



1) Copper Market Outlook, CRU, April 2019

2) World Silver Survey 2019

3) KGHM results as reported in its consolidated financial statement 2018



## Production and financial results of the KGHM Group

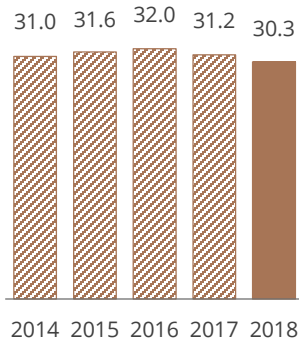
5 years data



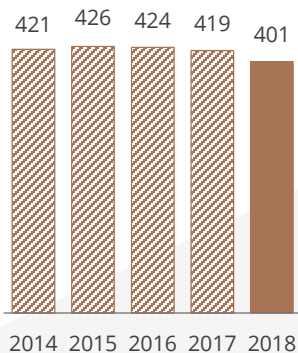
# Key production data – 5 years

KGHM Polska Miedź S.A.

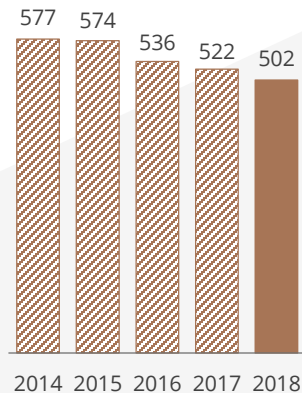
Ore extraction  
[mn t dry weight]



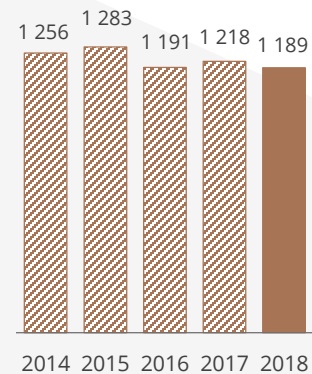
Production of copper  
in concentrate  
[kt]



Production of  
electrolytic copper  
[kt]

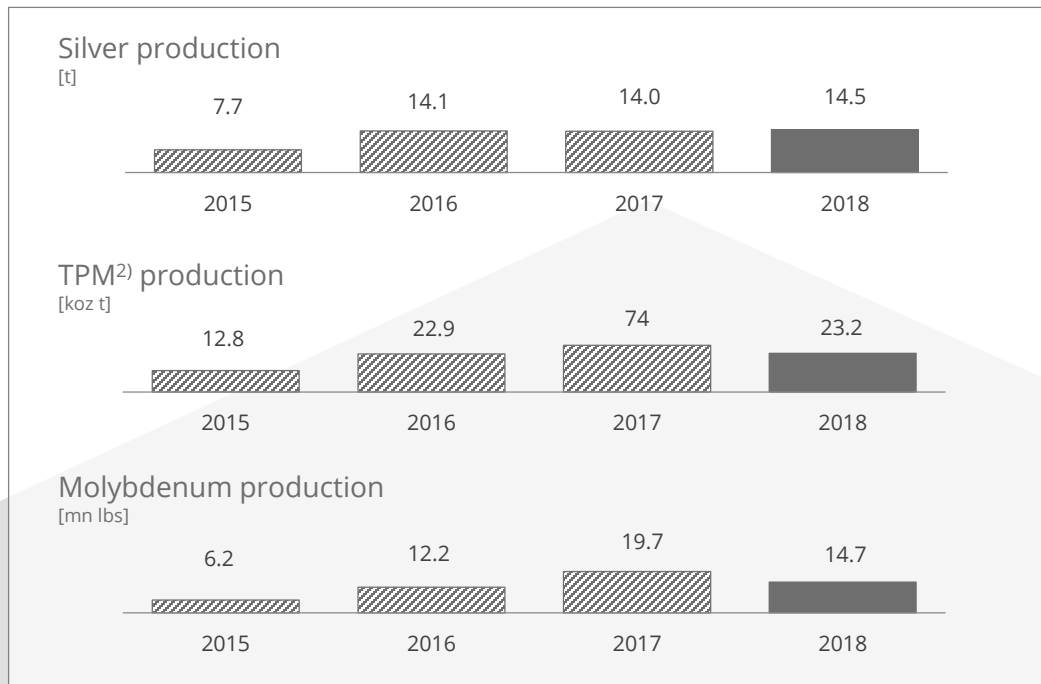
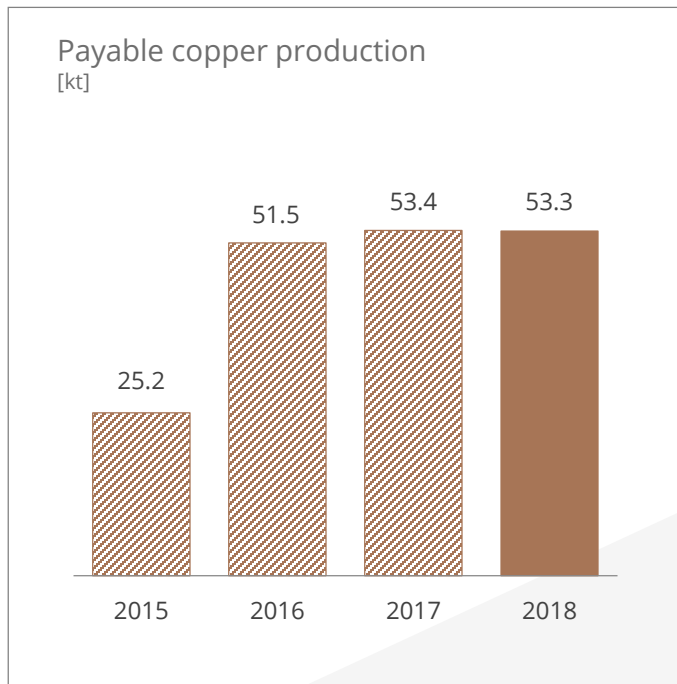


Metallic silver  
production  
[t]



# Key production data – 4 years (since production start)

Sierra Gorda<sup>1)</sup>

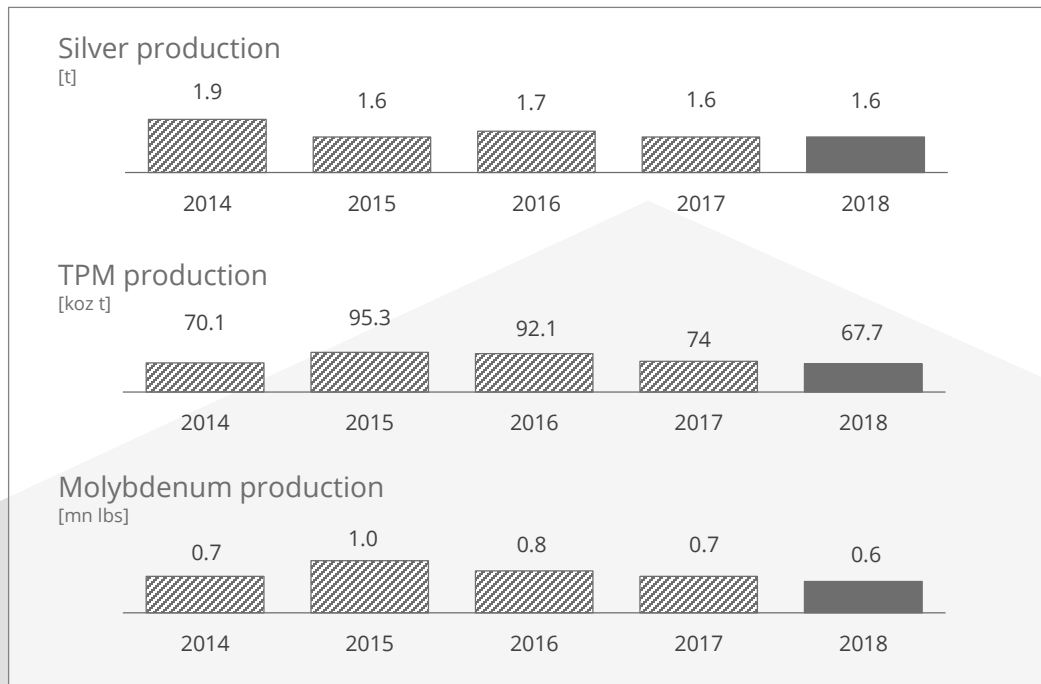
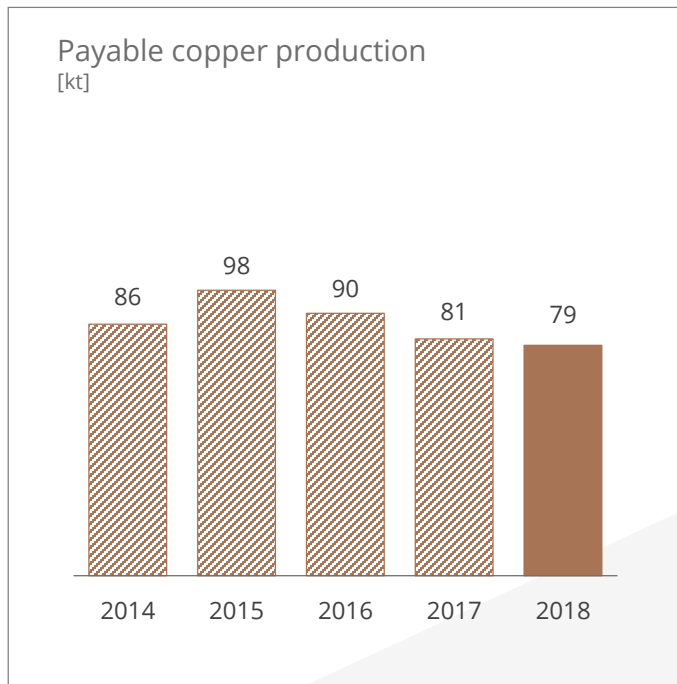


1) Pursuant to interest held (55%)

2) TPM – Total Precious Metals, comprising gold, platinum and palladium

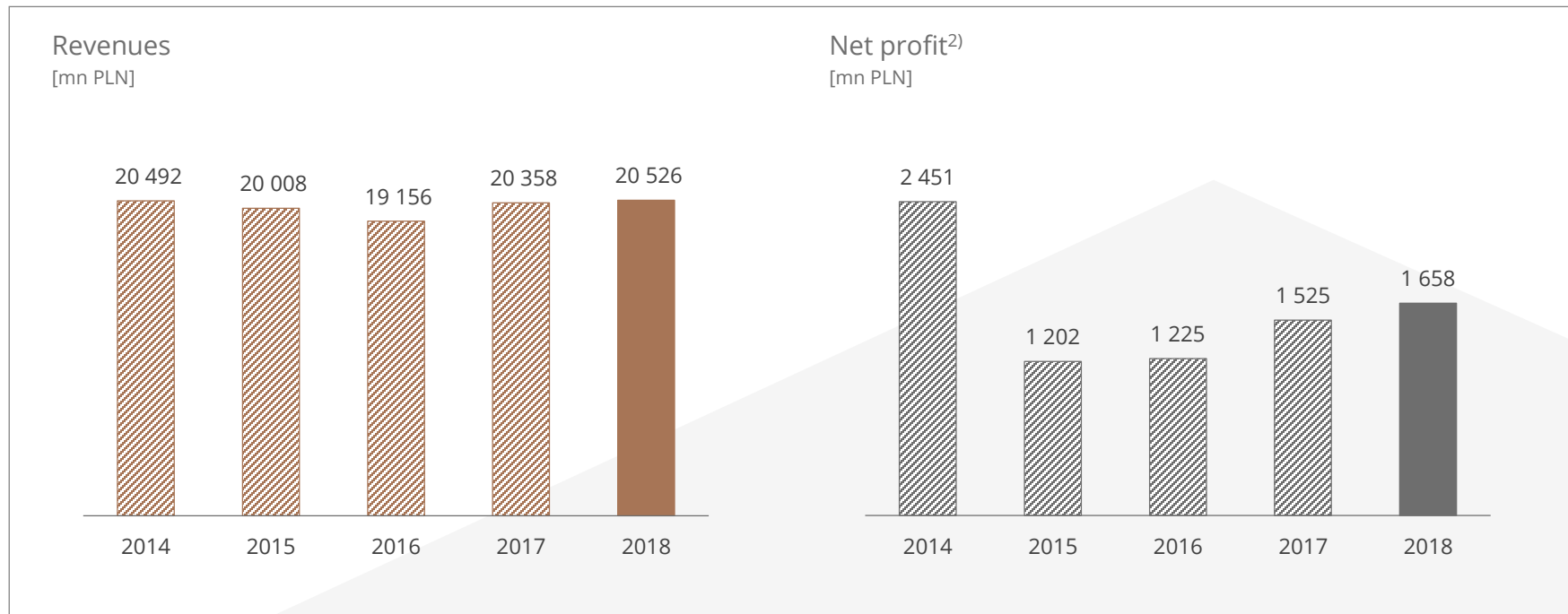
# Key production data – 5 years

KGHM International



# Sales revenue and net profit – 5 years

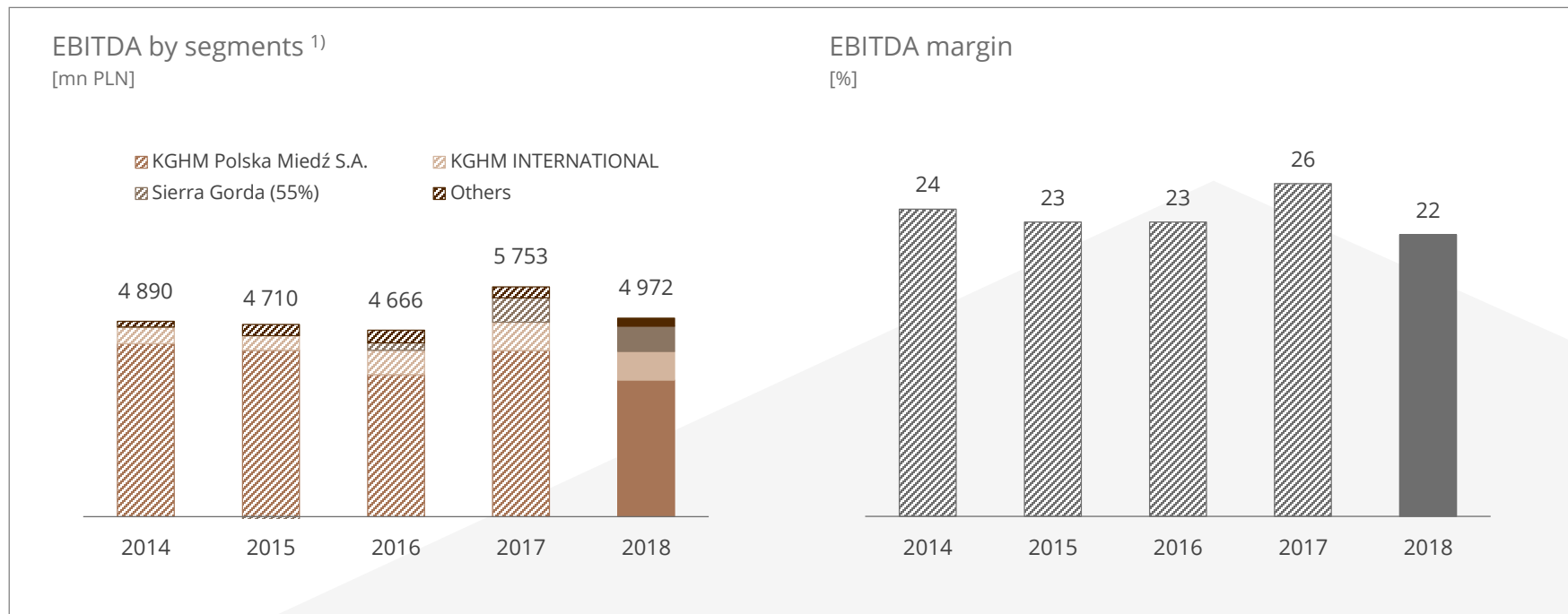
KGHM Group



2) Net profit of 2015 and 2016 excluding impact of impairment of non-current assets, loans and impairment recognised in the loss from the valuation of joint ventures using the equity method

# EBITDA and EBITDA margin – 5 years

KGHM Group





# Basic items of the consolidated financial statements

## KGHM Group

KGHM Group – consolidated data		2014	2015	2016	2017	2018
Sales revenue	[mn PLN]	20 492	20 008	19 156	20 358	20 526
Profit/(loss) for the period	[mn PLN]	2 451	-5 009	-4 449	1 525	1 658
Total assets	[mn PLN]	40 374	36 764	33 442	34 122	37 237
Liabilities and provisions	[mn PLN]	14 844	16 350	17 531	16 337	18 012
Earnings per share (EPS) <sup>1)</sup>	[PLN]	12.25	-25.06	-21.86	7.84	8.29
Share price of the Company <sup>2)</sup>	[PLN]	108.85	63.49	92.48	111.20	88.88
Net debt/EBITDA <sup>3)</sup>		0.90	1.40	1.60	1.30	1.60
Payable copper production <sup>4)</sup>	[kt]	663	718	677	656	634
Payable silver production <sup>4)</sup>	[t]	1 258	1 299	1 207	1 234	1 205
Concentrate production cost C1 <sup>4)</sup>	[USD/lb]	1.89	1.59	1.41	1.59	1.81
Cash expenditures on property, plant and equipment & intangible assets	[mn PLN]	3 434	3 939	3 251	2 796	2 875

1) Attributable to shareholders of the Parent Entity

2) At the end of the period

3) Adjusted EBITDA for the year, excluding EBITDA of the joint venture Sierra Gorda S.C.M.

4) Comprises Sierra Gorda S.C.M. pursuant to interest held (55%)



# Production and financial results of the KGHM Group

H1 2019



# 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

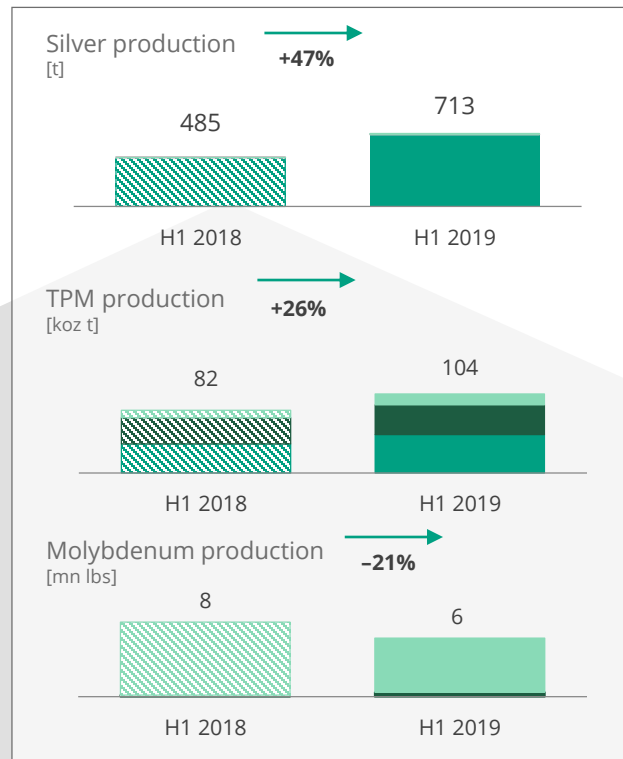
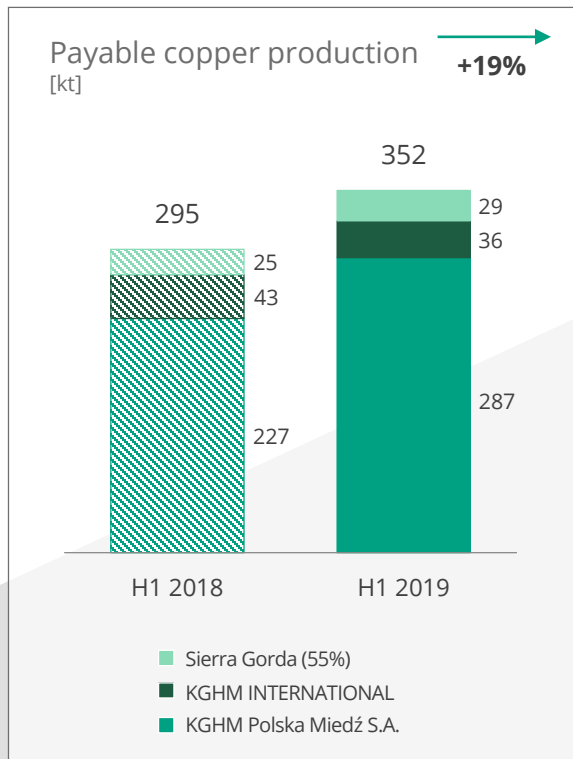


Decrease in the average annual price of copper by 11%, silver by 8.5% and nickel by more than 11%, with a slight increase in the price of molybdenum by 0.8%

# Metals production

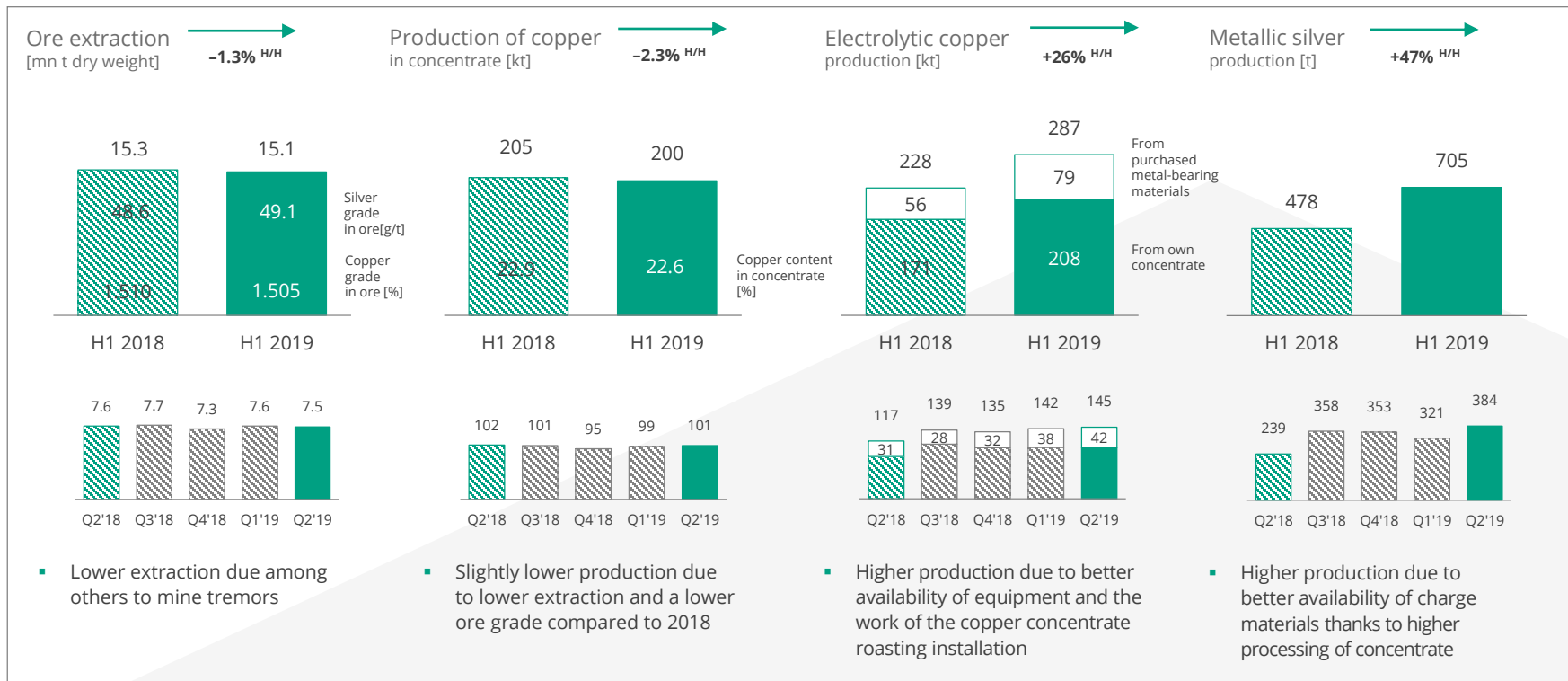
## KGHM Group

- 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.

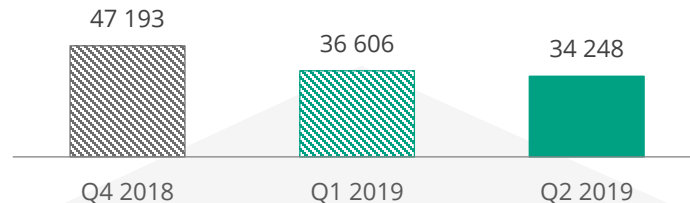


# Change in inventories

KGHM Polska Miedź S.A.

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

- 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  
amount of Cu [t] **-17% Q2/Q1**

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

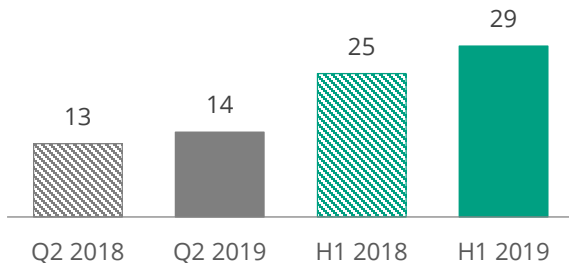


# Production results

## Sierra Gorda<sup>1)</sup>

Payable copper production  
[kt]

+19% H/H

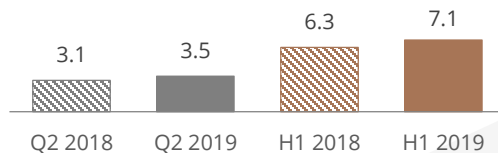


In H1 2019 the copper production plan for Sierra Gorda was exceeded

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

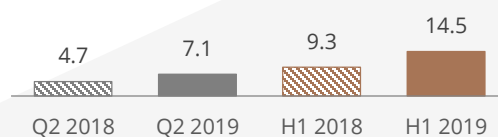
Silver production  
[t]

+12% H/H



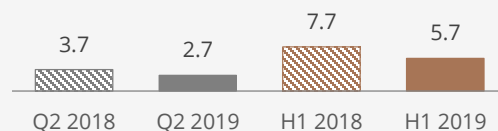
TPM production<sup>2)</sup>  
[koz t]

+55% H/H



Molybdenum production  
[mn lbs]

-26% H/H



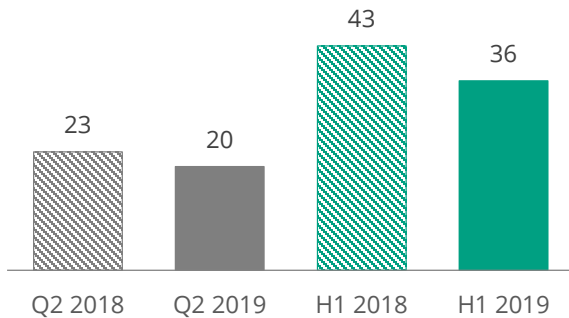
- Higher extraction by the Sierra Gorda mine led to higher copper, silver and gold production
- The drop in molybdenum production was due to extraction in areas with lower molybdenum content compared to ore extracted in prior years

# Production results

## KGHM INTERNATIONAL

Payable copper production  
[kt]

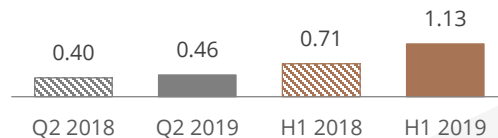
-16% H/H



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

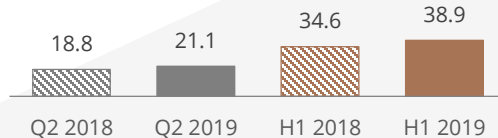
Silver production  
[t]

+60% H/H



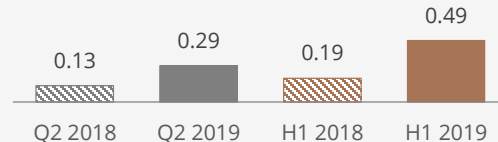
TPM production  
[koz t]

+12% H/H



Molybdenum production  
[mn lbs]

+158% H/H

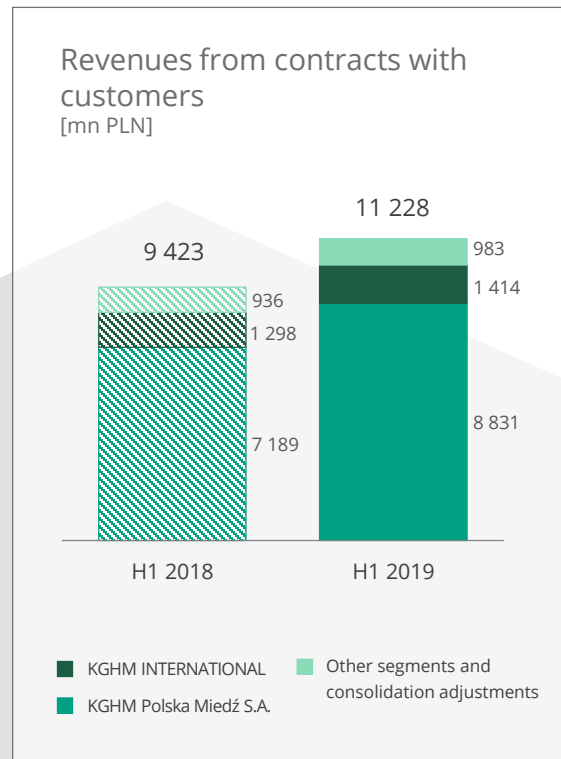
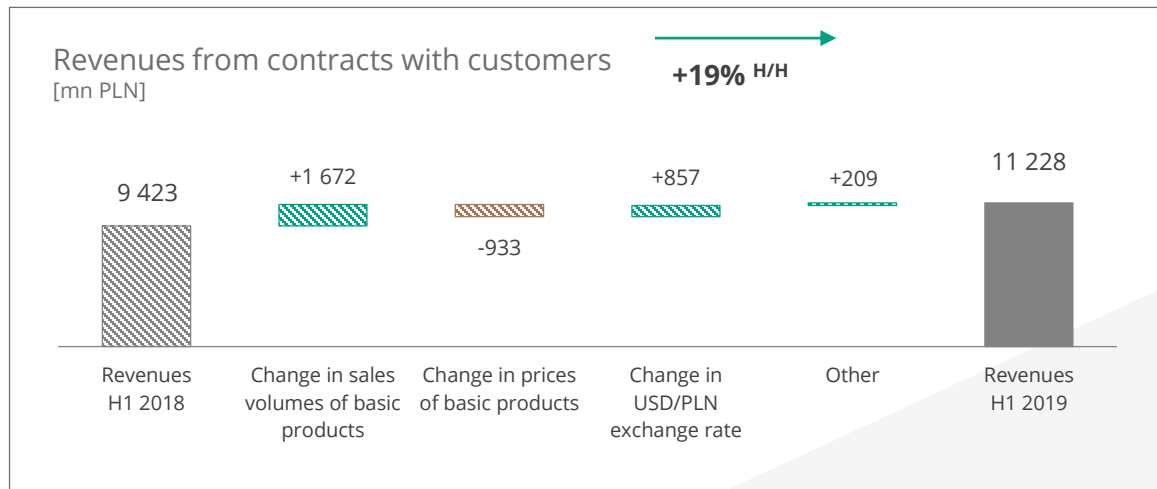


- The silver production target was exceeded in the Sudbury Basin due to a change in the region being mined (different nature of the deposit in the McCreehy mine)
- Higher TPM production both in the Sudbury Basin and the Robinson mine
- Higher molybdenum production by the Robinson mine due to a substantial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



# Group sales revenue

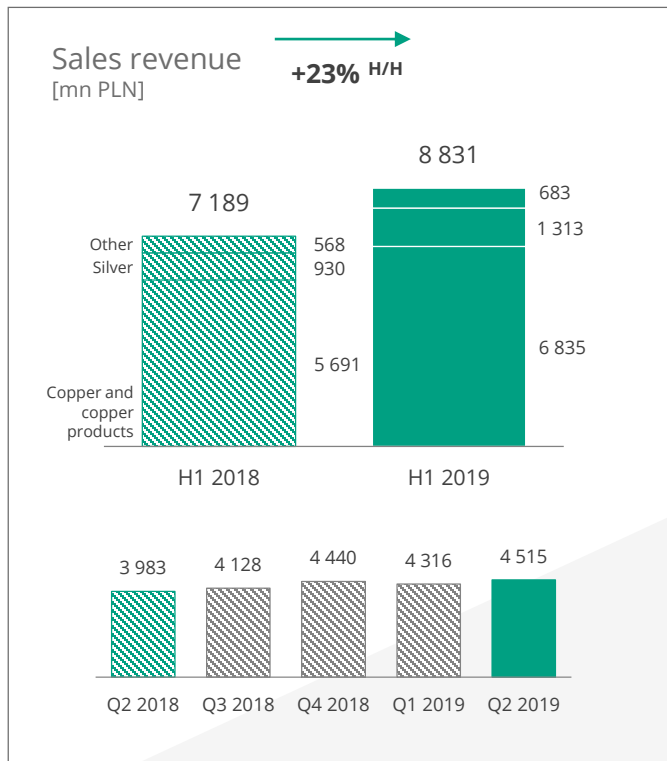
H1 2019



- Higher revenues by PLN 1 805 million (+19%) compared to the corresponding period of 2018 mainly in respect of KGHM Polska Miedz S.A. (+PLN 1 642 million)
- The higher revenues of KGHM Polska Miedz 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

# Sales revenue

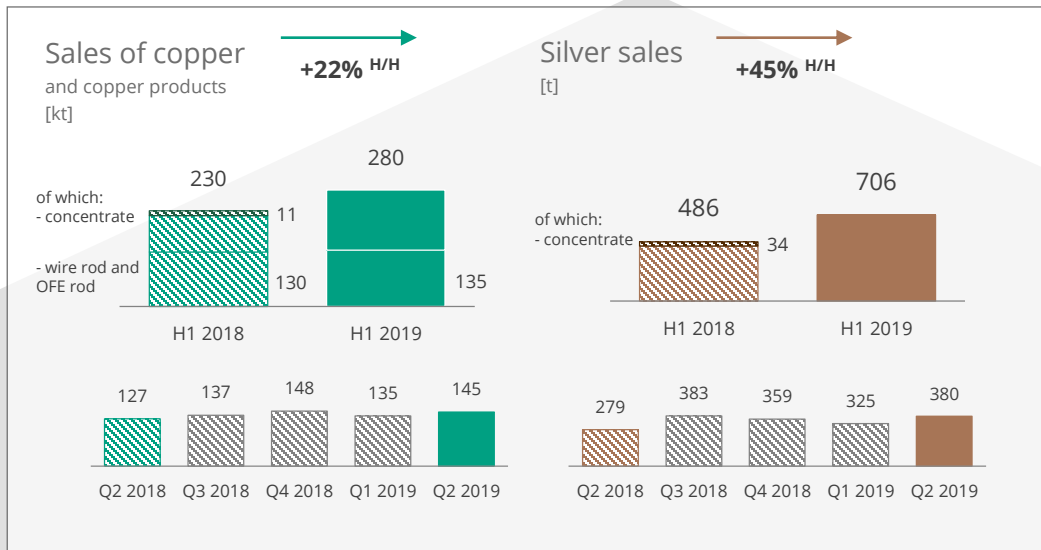
KGHM Polska Miedź S.A.



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

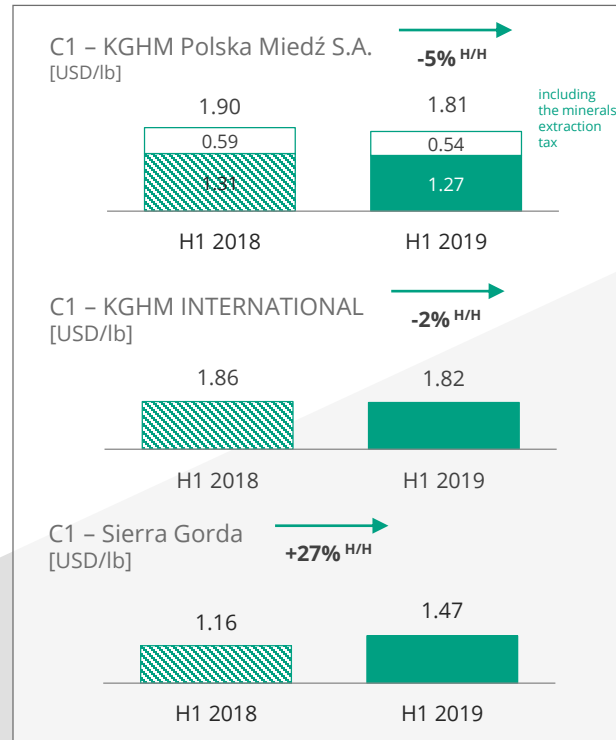
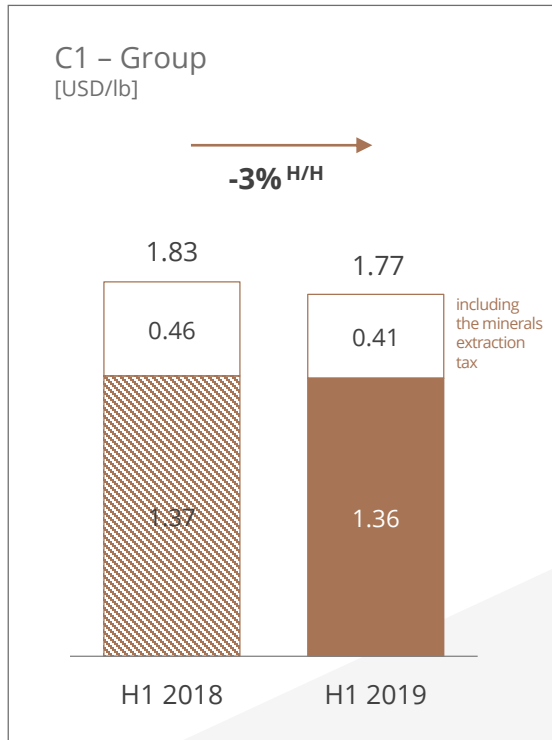
- higher sales volumes (copper by 22% and silver by 45%), and
- a more favourable USD/PLN exchange rate

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



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

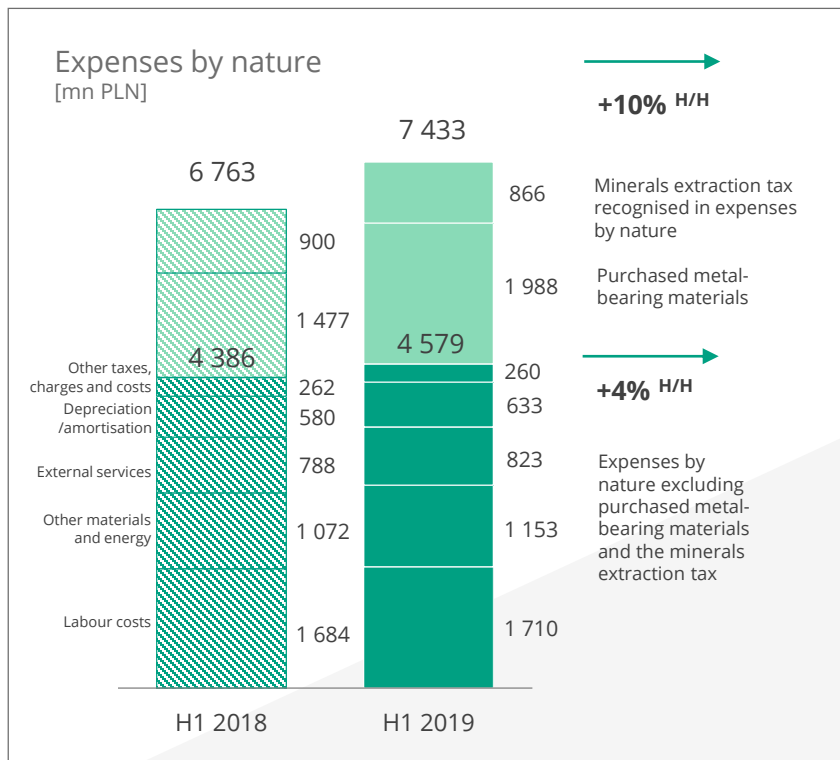
## KGHM Group



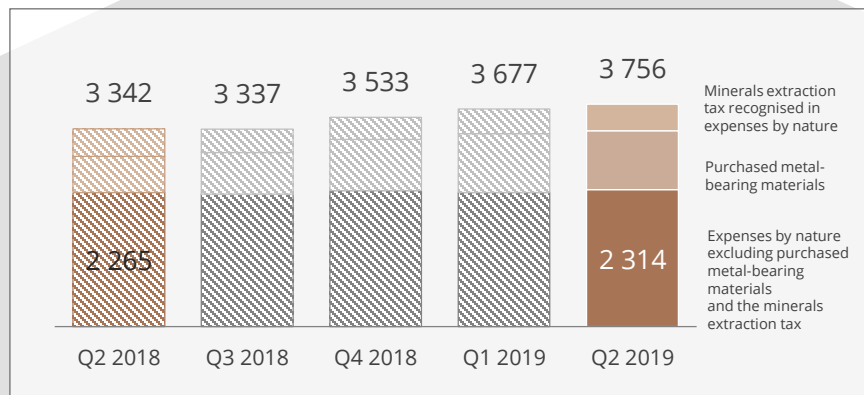
- The decrease in C1 cost in KGHM Polska Miedź S.A. versus the corresponding period of 2018 was mainly due to a weakening of the PLN vs the USD (by 9%)
- The 2% decrease in this cost in KGHM INTERNATIONAL was due to the increase in revenues from the sale of associated metals (which decrease this cost)
- 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

# Expenses by nature

KGHM Polska Miedź S.A.

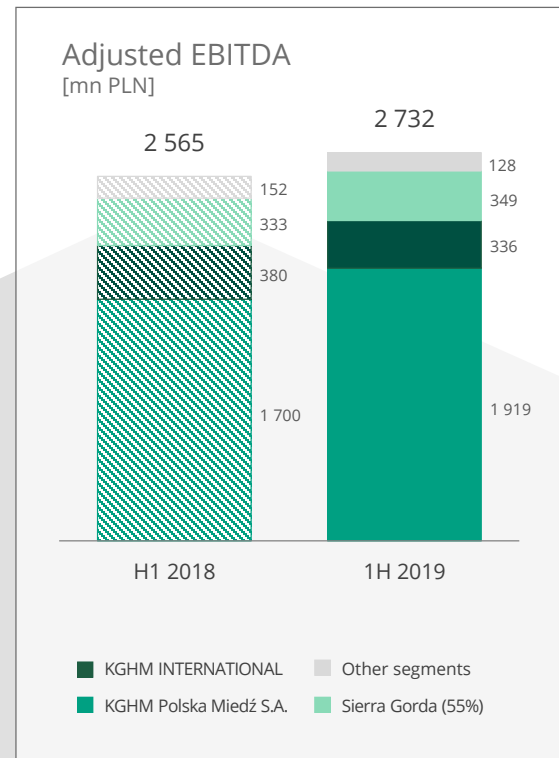
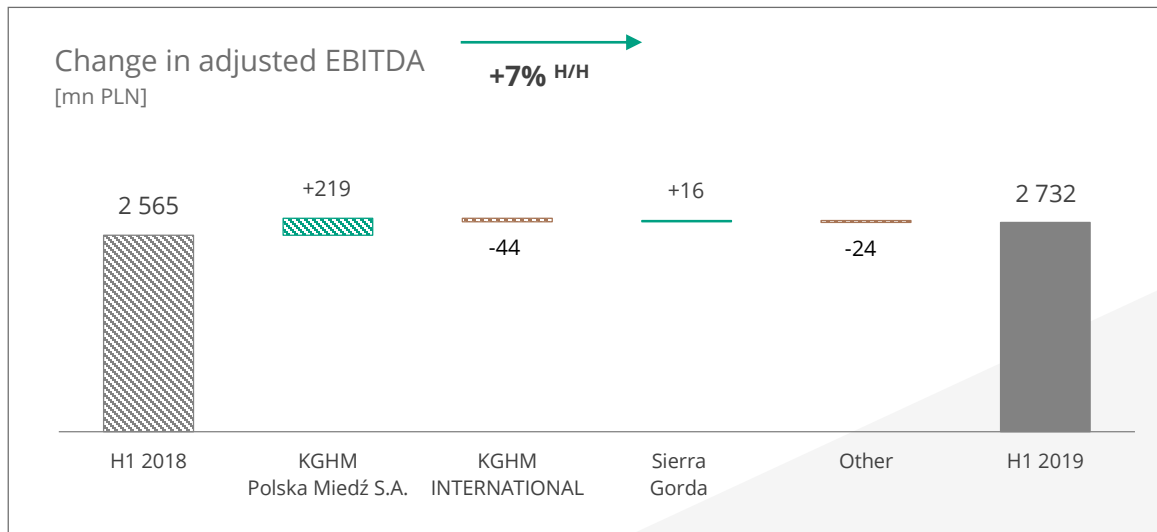


- Expenses by nature were higher by PLN 670 million (10%) mainly due to higher consumption of purchased metal-bearing materials by PLN 511 million (a higher volume of purchased metal-bearing materials used by 22 thousand tonnes of copper alongside a similar purchase price)
- Expenses by nature, excluding 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)



# Operating results

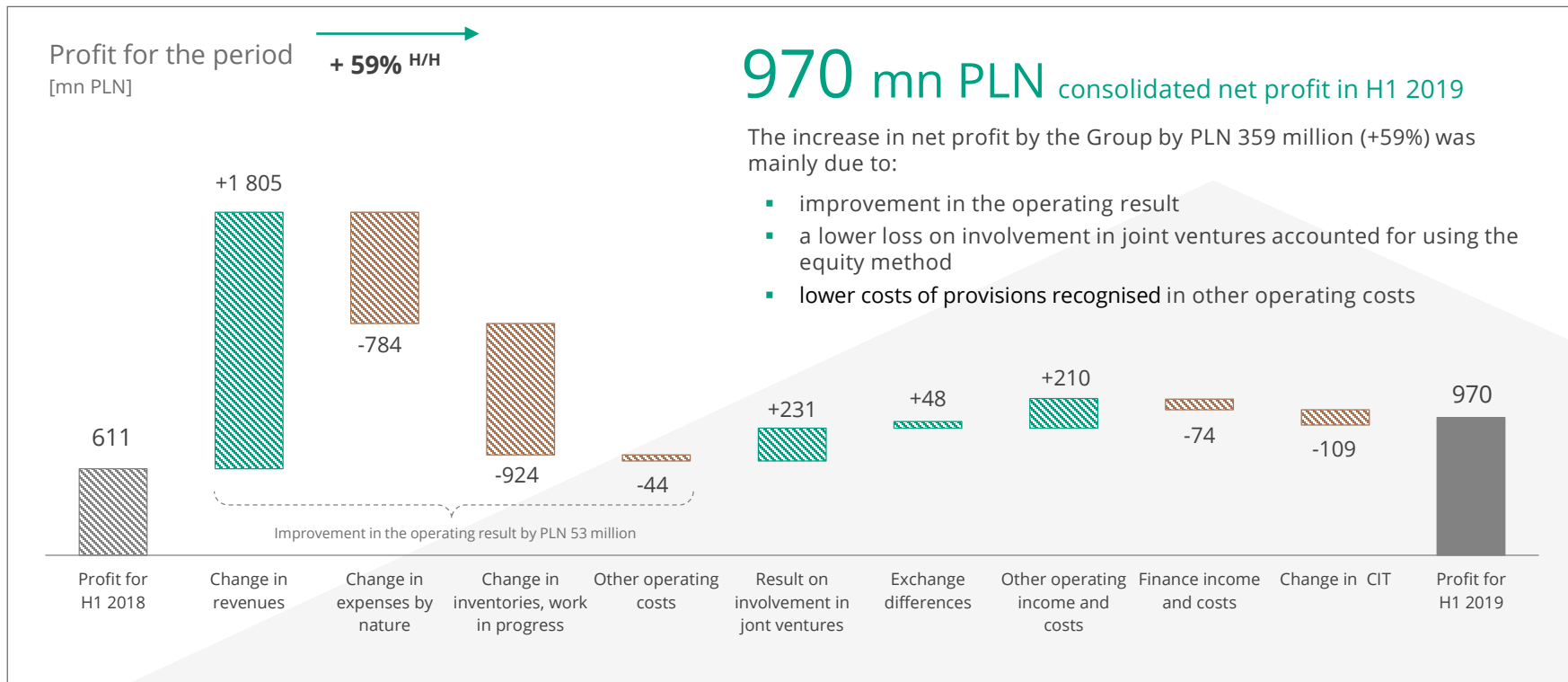
## KGHM Group



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

# Financial results

KGHM Group

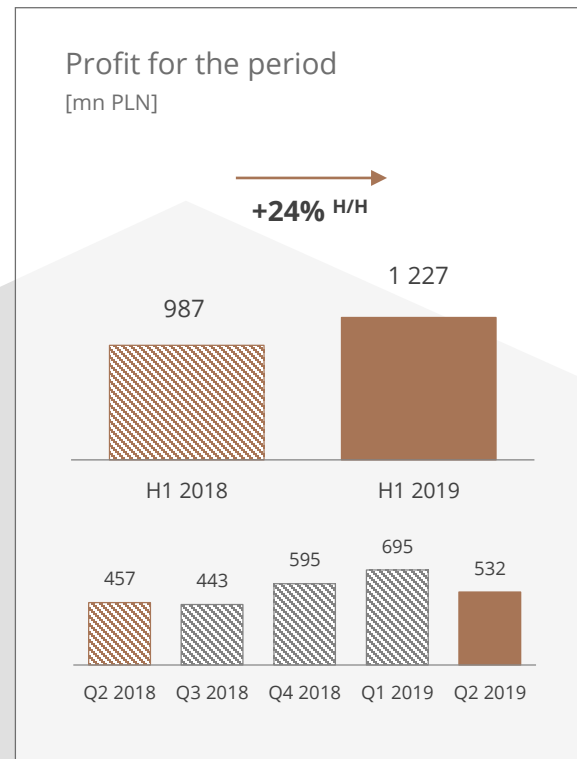
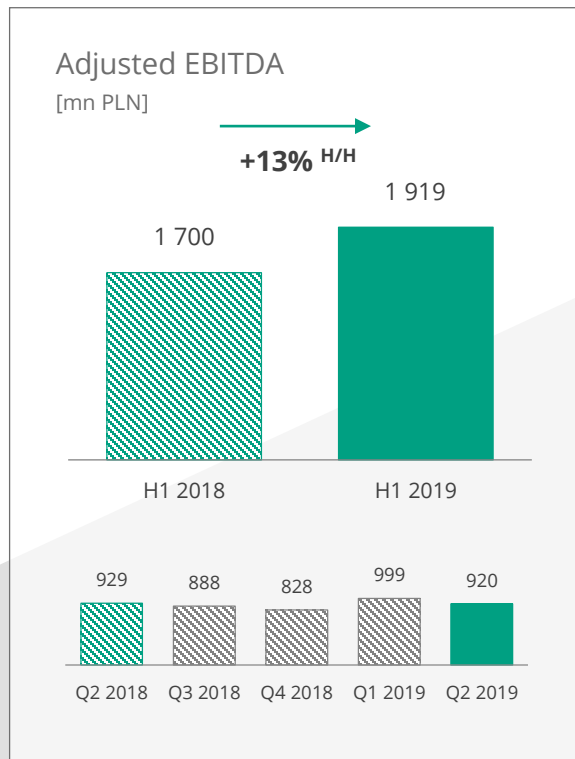


# EBITDA and profit for the period

KGHM Polska Miedź S.A.

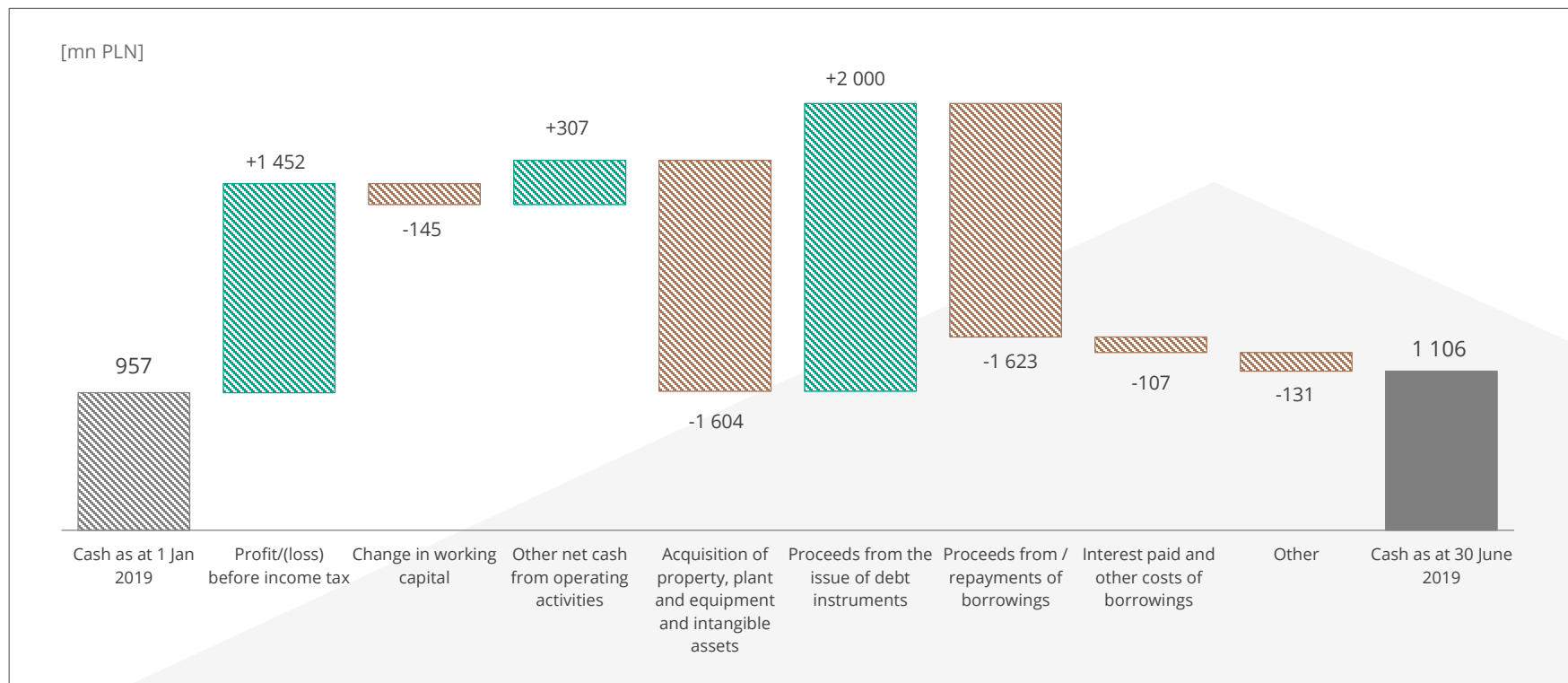
## Higher standalone EBITDA and profit for the period

- 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



# Cash flow

## KGHM Group







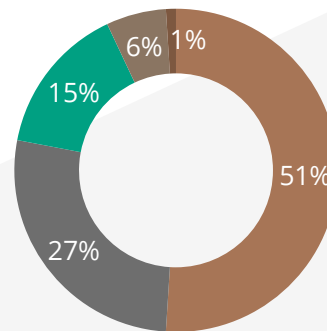
# Bond issue program

## Parameters of the first issue

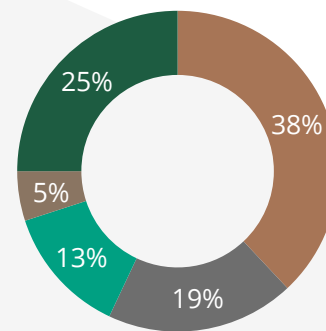
Issuer	KGHM Polska Miedź S.A.	
Bond type	unsecured senior notes	
Issue program	up to PLN 4 billion	
Total value of issue	PLN 2 billion	
Issue type	non-public offer	
Bookbuilding start	18 June 2019	
Bookbuilding end	24 June 2019	
Bonds issued	<u>5-year</u>	<u>10-year</u>
Maturity	27 June 2024	27 June 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%

## Allocation by investor type

### 5-year bonds (series A)



### 10-year bonds (series B)

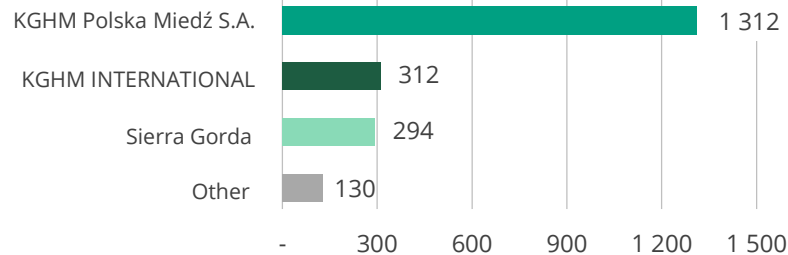


■ Banks  
■ Investment funds  
■ Pension funds  
■ Insurers  
■ EBOiR  
■ Others

# 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

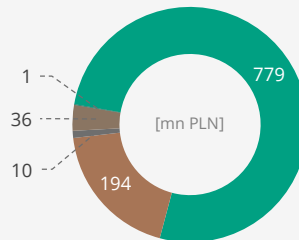
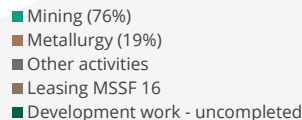
- The higher cash expenditures, compared to capital expenditures in the first 6 months of 2019, were due to contractual payment schedules from the realisation of investments in prior periods
- In the first half of 2019, financing for the Sierra Gorda mine amounted to PLN 63 million for the repayment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

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

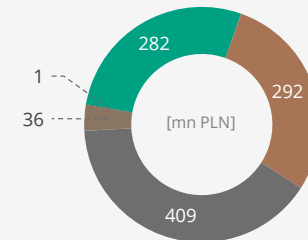
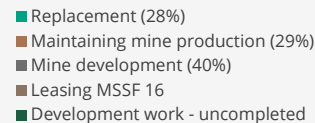
**1 020** mn PLN<sup>2)</sup>  
in H1 2019

**754** mn PLN  
in H1 2018

Capital expenditures in H1 2019  
by division

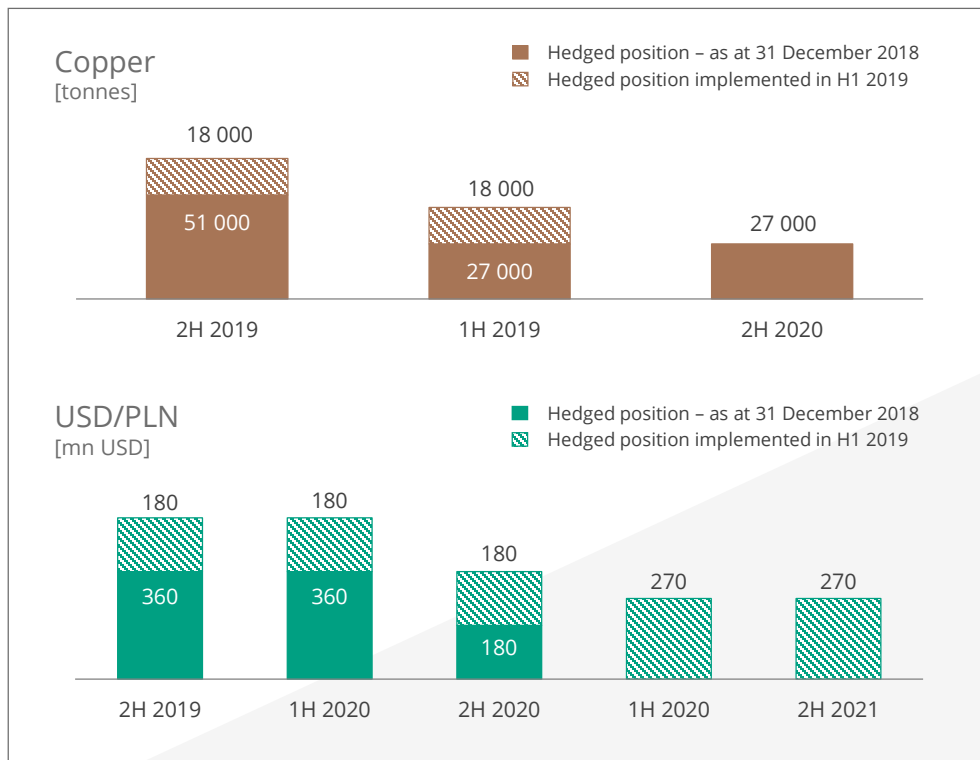


by category



# 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

# Sensitivity of results to metal prices and the FX rate

The economic results of KGHM Polska Miedź S.A. are highly sensitive to changes in metals prices and the FX rate<sup>1)</sup>

## Copper price

Cu price decrease by 100 USD/t  
= approx. PLN 68 million lower net profit

Cu price increase by 100 USD/t  
= approx. PLN 75 million higher net profit

## Silver price

Ag price decrease by 1 USD/oz t  
= approx. PLN 120 million lower net profit

Ag price increase by 1 USD/oz t  
= approx. PLN 119 million higher net profit

## USD/PLN exchange rate

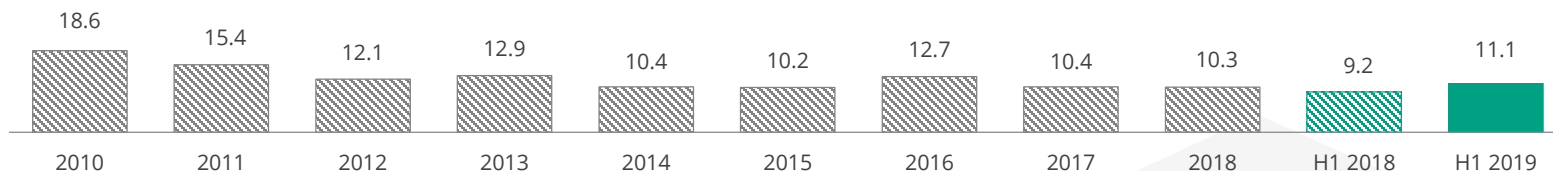
FX rate decrease by PLN 0.10  
= approx. PLN 156 million lower net profit

FX rate increase by PLN 0.10  
= approx. PLN 169 million higher net profit

# Safety

## Our priority

LTIFR ratio in KGHM Polska Miedź S.A.



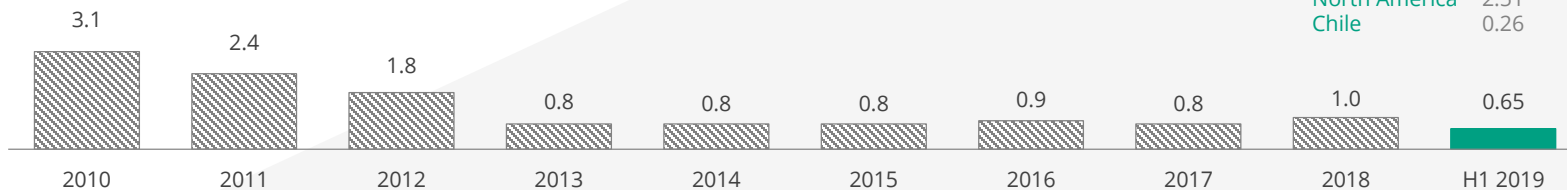
In the first half of 2019 the LTIFR<sup>1)</sup> ratio was impacted by a large number of injuries sustained due to natural causes which occurred in January 2019 in the Rudna mine – rock tremors which affected the mines (36 persons injured)

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

# Minerals Extraction Tax



## -15%

decrease in the amount of  
the minerals extraction tax gave us  
monthly savings in July by ca.

## PLN 19 mn

## 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

# Minerals Extraction Tax – new formula

The tax is based on the amount of copper and silver contained in concentrate

For copper:

The monthly tax is a multiple of the amount of copper produced times the following formulas:

If the average copper price exceeds PLN 15 000/tonne, the per-tonne rate is as follows:

**tax rate = (0.033) x (the average copper price) + (0.001 x the average copper price)<sup>2.5</sup> x 0.85**

with the maximum rate being PLN 16 000 per tonne

*previous formula:*

**tax rate = (0.033) x (the average copper price) + (0.001 x the average copper price)<sup>2.5</sup>**

If the average copper price does not exceed PLN 15 000/tonne, the per-tonne rate is as follows:

**tax rate = (the average copper price – PLN 12000) x 0.374**

with the minimum rate being 0.5% of the average copper price

*previous formula:*

**tax rate = (the average copper price – PLN 12000) x 0.44**

For silver:

If the average silver price exceeds PLN 1200/kilogram, the per-kilogram rate is as follows:

**tax rate = [0.125 x the average silver price + (0.001 x the average silver price)<sup>4</sup>] x 0.85**

with the maximum rate being PLN 2100 per kilogram

*previous formula:*

**tax rate = 0.125 x the average silver price + (0.001 x the average silver price)<sup>4</sup>**

If the average silver price does not exceed PLN 1200/ kilogram, the per-kilogram rate is as follows:

**tax rate = (the average silver price – PLN 1000) x 0.638**

with the minimum rate being 0.5% of the average silver price

*previous formula:*

**tax rate = (the average silver price – PLN 1000) x 0.75**





## Advancement of the KGHM Group's strategy

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# 4 strategic directions for KGHM's development

The review of the Strategy of KGHM Polska Miedź S.A. for 2019-2013

#4E



ELASTICITY,  
FLEXIBILITY



EFFICIENCY



ECOLOGY,  
SAFETY AND SUSTAINABLE  
DEVELOPMENT



E-INDUSTRY

# Strategic priorities

#1 Higher production

#2 Energy independence

#3 International assets 2.0

#4 Long-term financial strategy

#5 Ecosystem innovation for KGHM

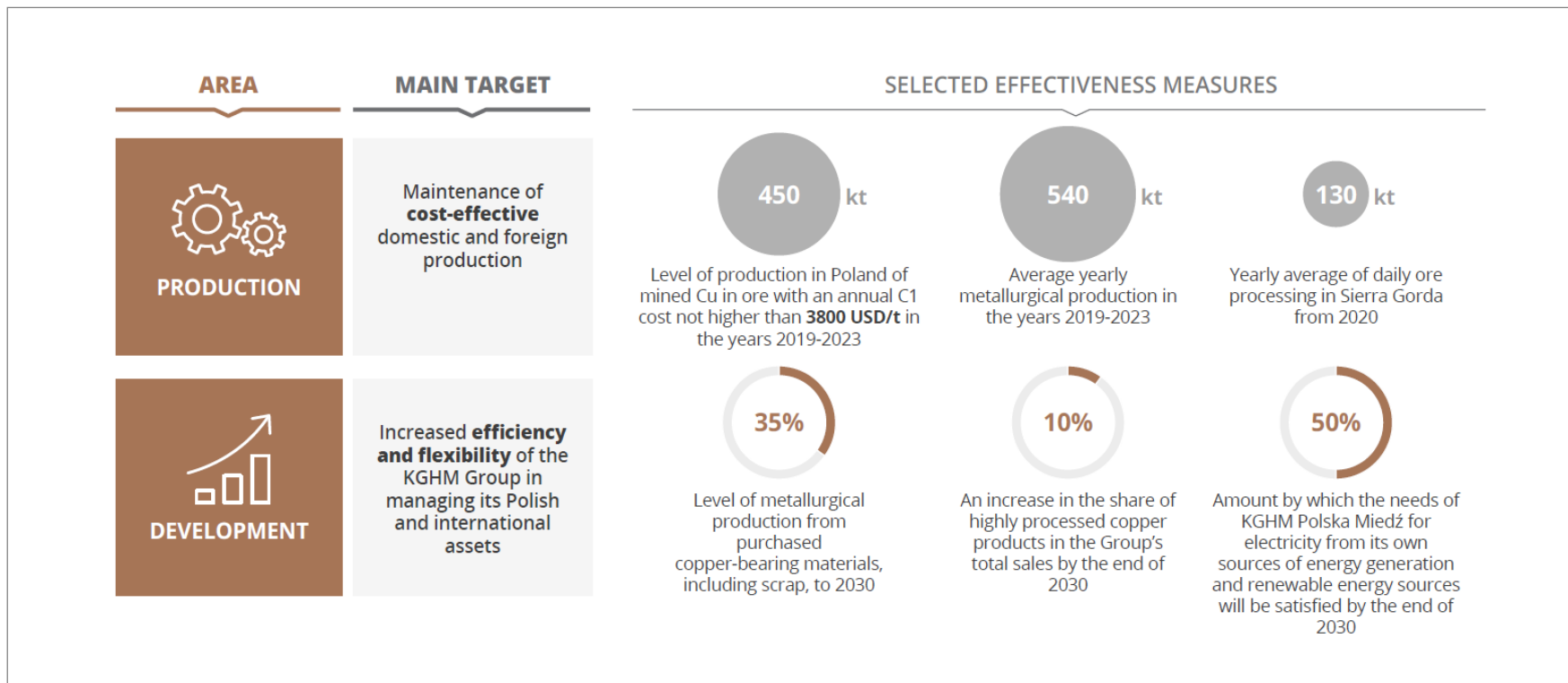
#6 Technologies of the future

#7 New quality  
*Safety and development*



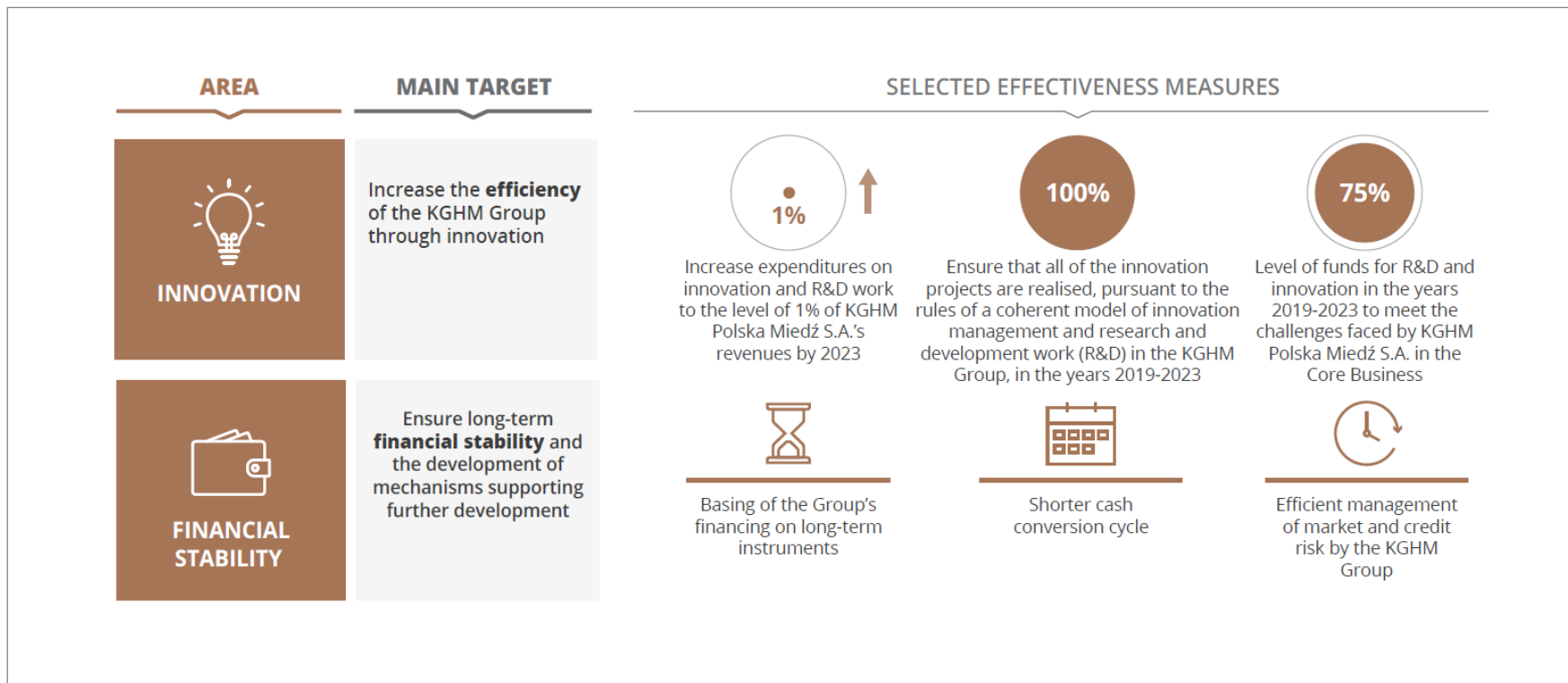
# Strategy in practice

## Selected key operating initiatives (1)



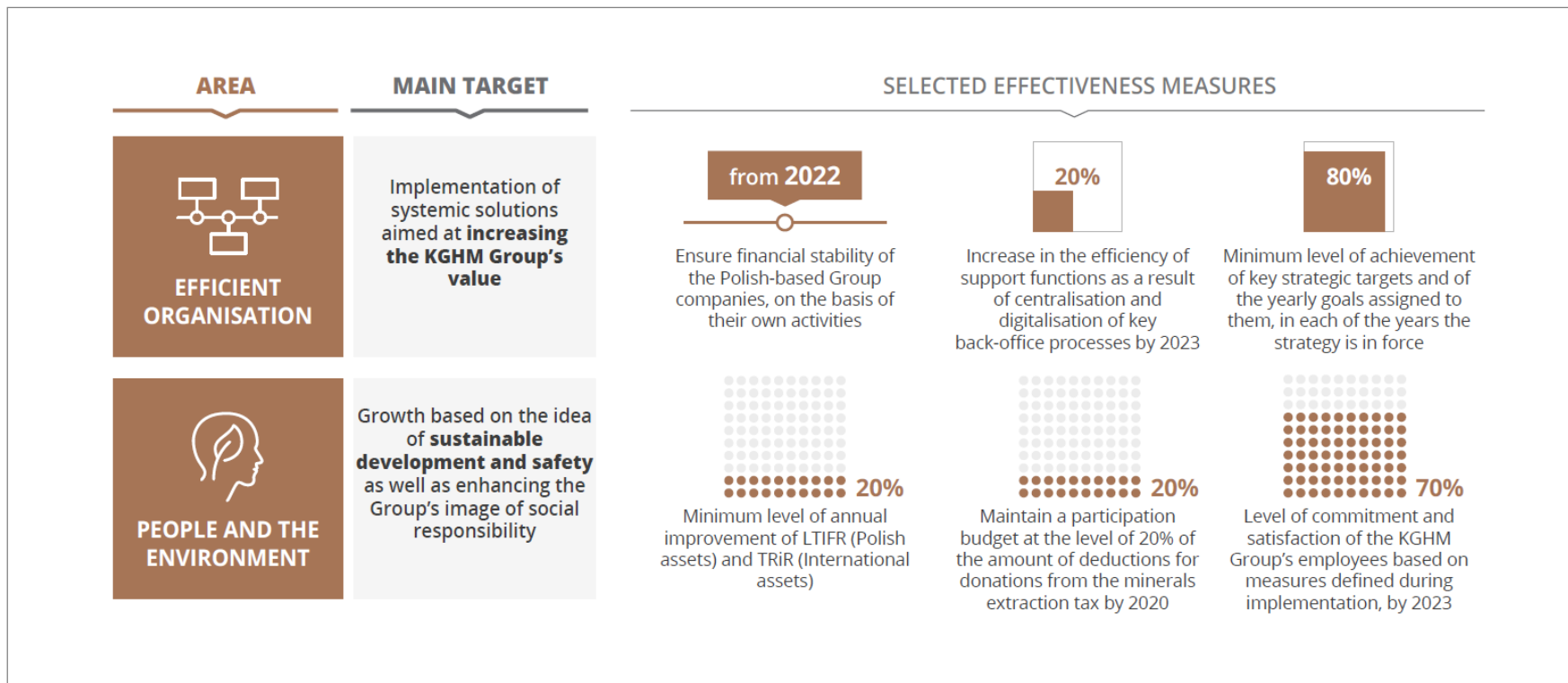
# Strategy in practice

## Selected key operating initiatives (2)



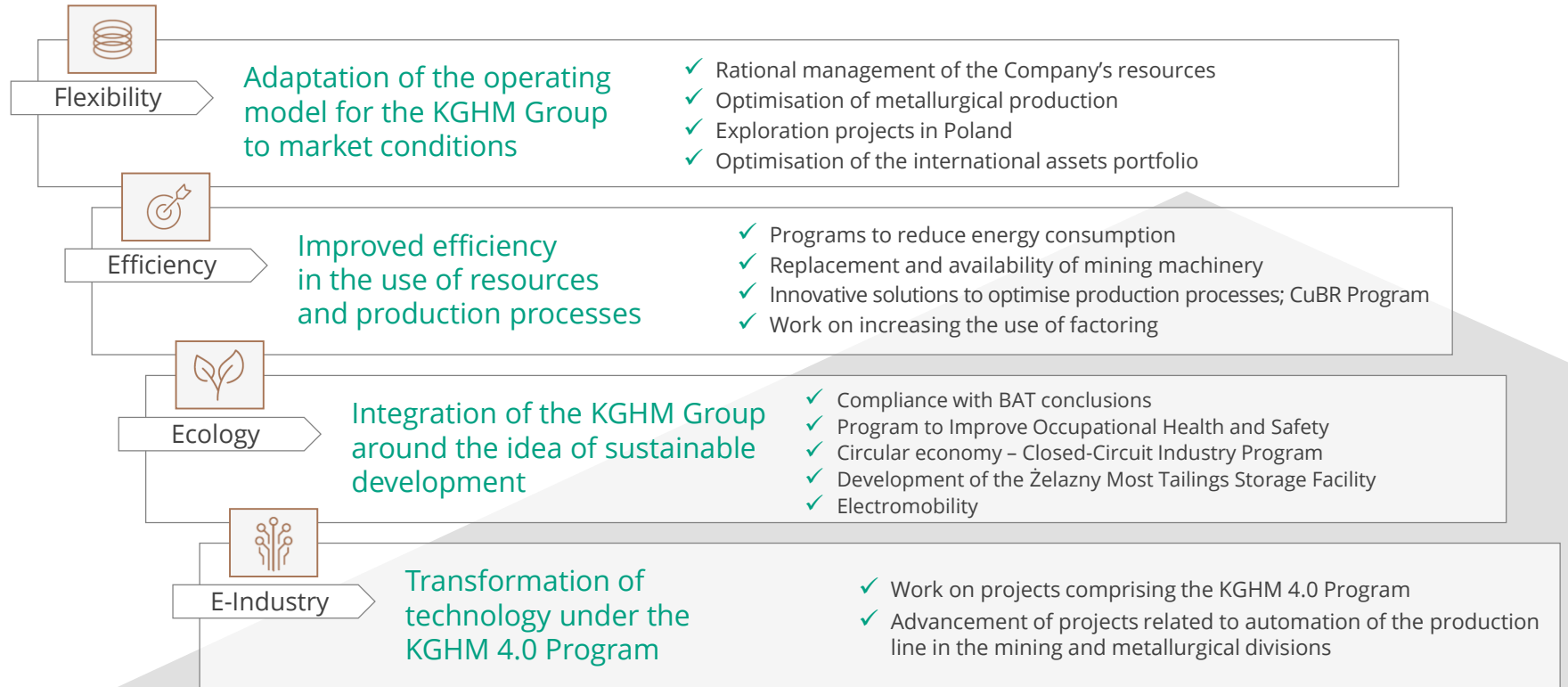
# Strategy in practice

## Selected key operating initiatives (3)



# Consistent advancement of the strategy in H1 2019

## Key areas #4E





## Summary

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# Challenges facing KGHM Polska Miedź S.A.

In the period 2019 - 2023



## Production

- Adapt currently-applied mining technology to potentially-difficult working conditions
- Maintain domestic production at the current level – gain access to new areas of the mines
- Improve operational efficiency
- Improve safety – Zero Harm
- Ensure Energy supplies at optimal prices



## Żelazny Most

Ensure the long-term ability to store mine tailings



## Pyrometallurgy modernisation

Modernisation of Głogów and Legnica plants

- Ramp-up of new production units at the Głogów metallurgical plant (Głogów 1 smelter, roaster)
- Ramp-up of the scrap processing unit at the Legnica metallurgical plant



## Sierra Gorda

Bring the Sierra Gorda to operational maturity



## Stabilise the level of debt

- Improve the security of the Company's operations by reducing debt
- Keep the Net Debt/EBITDA ratio under 2.0

# Reasons to invest in KGHM

A leading player on the copper and silver market in terms of mine output and size of documented resources, in mining-friendly jurisdictions

A diversified portfolio of assets at various stages of development to guarantee continued operations

PLN 21.5 bn paid out as dividend to shareholders in the last 15 years

Experienced management committed to creating shareholder value

A solid outlook for the copper market in the medium-to-long term

A rational leveraging policy with a safe level of the net debt/EBITDA ratio and long-term financing ensured through the Bond Issue Program

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