THE MANAGEMENT BOARD'S REPORT ON THE ACTIVITIES OF THE GROUP IN THE FIRST HALF OF 2019

Lubin, August 2019

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Useful terms and abbreviations

Adjusted EBITDA	EBITDA adjusted by impairment losses/reversals of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses
Barren rock	Rock which accompanies the extraction of mineral ore and is not considered as useful
BAT	Best Available Technique, as defined in Directive 96/61/EC, means the most effective and advanced stage in the development of activities and their methods of operation which indicate the practical suitability of particular techniques for providing in principle the basis for emission limit values designed to prevent and, where that is not practicable, generally to reduce emissions and the impact on the environment as a whole
BREF	"BAT REFerence document", the reference document of best available techniques (BAT)
Cash cost of producing copper in concentrate (C1)	Unit cash cost of producing payable copper in concentrate, reflecting ore mining and processing costs, transport costs, the minerals extraction tax, administrative expenses during the mining phase and smelter treatment and refining charges (TC/RC) less by-product value
Copper cathodes	The basic form of electrolytically-refined copper; the product of electrolytic copper refining
Copper concentrate	The product of enriching low-grade copper ore
Copper equivalent	Total volume of production of all metals calculated to copper based on market prices
Copper wire rod	Drawn copper rod, usually with a diameter of 6-12 mm, universally used as a starting material in the cable industry
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation – profit/(loss) on sales plus depreciation/amortisation
Electrolytic copper	The product of electrolytic copper refining
Electrolytic copper refining technology	A process involving the electrolytic refining of metal, in this case copper. The periodic removal of portions of the electrolite is required to maintain the level of contaminates at an acceptable level, which is the one of decisive factors determining the quality of electrolytically-refined copper. The contaminated electrolyte and slimes are used as the raw material in the recovery of some of the metals accompanying the copper, such as silver, gold, selenium and nickel
Electrorefining	The process of electrolising dissoluble anodes which are produced from refined alloys. During this process refined metal is collected on starter sheets under controlled conditions, while contaminants remain in the electrolyte as solids or liquid
Flotation (ore enrichment)	The process of breaking down ore into fragments of varying composition of useful elements which exploits differences in the degree of wettability of individual mineral grains. Well-wettable minerals fall to the bottom of the flotation tank, while the poorly-wettable grains (those whose wettability decreases due to the action of so-called collecting agents, e.g. xanthates) collect at the surface of the froth created from froth-inducing agents.
Flotation tailings	Waste remaining after the ore enrichment process; can be utilised or stored
ISO	International Organization for Standarization
LTIFR	Lost-time injury frequency rate – number of accidents per million worked hours
Mine excavation	Open area left after the mining work
Muck	Rock removed from a mine face. Contains both ore and barren rock
NBP	National Bank of Poland
Net debt	Borrowings, debt securities and lease liabilities less cash and cash equivalents
OFE rod	Oxygen-free copper wire rod produced at the Cedynia wire rod plant using UPCAST technology
Ore	Rock which contains one or more useful elements. Ore can be monometallic (containing a single metal) or polymetallic (containing more than one metal)
Payable copper	Volume of copper produced less the amount corresponding to the loss in further processing to pure metal
Payable metal	Volume of metal produced less the amount corresponding to the loss in further processing to pure metal
Pillar (mining)	An unremoved mass of rock in an underground mine used to support the roof against collapse
Pre-precious metals credit unit cost of electrolytic copper production from own concentrate	The sum of costs of mining, flotation, smelter processing per cathode and support functions (the Data Center Division, the Mine-Smelter Emergency Rescue Division and the Head Office), together with cathode selling costs, adjusted by the value of inventories of half-finished products and work in progress divided by the volume of electrolytic copper production from own concentrate
RCR furnace	Revolving Casting-Refining furnace
REACH	Registration, Evaluation, Authorisation and Restriction of Chemicals – regulation of the European Parliament and the European Council on the safe use of chemicals through their registration and evaluation, and in certain cases through the issuance of permits and restrictions in the sale and use of certain chemicals
Silver smelting and electrolytic refining technology	Comprised of: batch preparation (the mixture of batch elements followed by drying); the smelting of Doré metal and the casting of anodes (melting of the batch in a Kaldo furnace to remove slag or gasify impurities followed by casting of the product [99% silver] into anodes); silver electrorefining (forming into cathodes containing a min. 99.99% Ag); melting in an electric induction furnace and the casting of refined silver into commercial form (billets or granules)
Total unit cost of producing copper from	The sum of costs of mining, flotation, smelter processing per cathode and support functions (the Data Center Division, the Mine-Smelter Emergency Rescue Division and the Head Office), together with cathode selling costs,

own concentrate	adjusted by the value of inventories of half-finished products and work in progress and less the value of anode slimes, divided by the volume of electrolytic copper production from own concentrate
TPM – Total Precious Metals	Precious metals (gold, platinum, palladium)
Troy ounce (oz t)	A unit of measure mainly used in English-speaking countries. The troy ounce (abbreviated as oz t) is universally used in jewellery and precious metals commerce. 1 troy ounce equals 31.1035 grams
YoY	year on year, i.e. comparison between one year and the next year

Significant events in the first half of 2019 and to the date of signing of this report

Date	Event
Change in macroeconomic conditions	
1st half of 2019	Lower period-average prices of copper, silver and gold as compared to the first half of 2018, respectively by 11%, 9% and 1% alongside a higher molybdenum price by 1%
1st half of 2019	Change, as compared to the first half of 2018, in period-average exchange rates: USD/PLN by +9%, USD/CAD by +4% and USD/CLP by +10%
KGHM Polska Miedź S.A. on the Warsaw Stock Exchange	
1st half of 2019	An increase in the share price of KGHM Polska Miedź S.A. by 16% from PLN 88.88 to PLN 103.50
Impairment of assets	
11 January 2019	Identification of indications to verify the recoverable amount of international mining assets
5 March 2019	Information on the results of the conducted tests for impairment
Appropriation of profit for 2018	
17 April 2019	The Management Board's recommendation regarding the appropriation of profit for 2018 by transferring the entirety of it to the Company's reserve capital.
7 June 2019	Resolution of the Ordinary General Meeting of KGHM Polska Miedź S.A. to appropriate profit in accordance with the recommendation of the Management Board.
Bond Issue Program	
9 May 2019	Information regarding the intent to establish a bond issue program, which foresees the first emission of unsecured bonds up to the amount of PLN 2 billion in the second quarter of 2019.
27 May 2019	Resolution of the Company's Management Board on concluding an issue agreement, on the basis of which a bond issue Program will be established up to the amount of PLN 4 billion (it was assumed that the first issue in the amount of PLN 2 billion would be made in June 2019).
19 June 2019	Signing of a Framework Agreement with the European Bank for Reconstruction and Development related to the EBRD's consideration of the acquisition of bonds which may be issued by KGHM
24 June 2019	Resolution of the Company's Management Board on the issue of bonds in the amount of PLN 2 billion
27 June 2019	Issue of bonds in the amount of PLN 2 billion
Other	
10 January 2019	Publication of the main assumptions of the Budget of KGHM Polska Miedź S.A. and the KGHM Group for 2019, approved by the Supervisory Board on 10 January 2019
19 February 2019	Information on a decrease in the number of shares held by Otwarty Fundusz Emerytalny PZU „Złota Jesień" below 5% as the result of a transaction on 13 February 2019
25 February 2019	Consent of the Management Board to conclude an unsecured, revolving credit agreement with Bank Gospodarstwa Krajowego
27 February 2019	Conclusion of an unsecured, revolving credit agreement between the Company and Bank Gospodarstwa Krajowego with a financing period of up to 84 months, as a renewable credit line in the amount of USD 450 million for a period of 60 months, with the option to transform it into a non-renewable credit after 60 months
21 March 2019	The framework contract signed on 6 November 2018 with China Minmetals Nonferrous Metals Co. Ltd. for the sale of copper cathodes produced by the Company in the years 2019 - 2023 came into force as a result of the fulfilment of a condition precedent
1 July 2019	The Act dated 12 April 2019 on changing the act on the minerals extraction tax, which decreased the aforementioned tax by 15%, came into force

1. Strategy of KGHM Polska Miedź S.A.

1.1. BASIC ELEMENTS OF THE STRATEGY OF KGHM POLSKA MIEDŹ S.A.

The Company advanced the „Strategy of KGHM Polska Miedź S.A. for the years 2019-2023" which was approved on 19 December 2018. The Strategy is based on four development directions (elasticity/flexibility, efficiency, ecology and e-industry) arising from global market trends. The aforementioned directions are reflected in six identified strategic areas, with individualised and measurable main goals:

Strategic area	Main goal
PRODUCTION	Maintain cost-effective Polish and international production
DEVELOPMENT	Increase the KGHM Group's efficiency and flexibility in terms of its Polish and international assets
INNOVATION	Increase the KGHM Group's efficiency through innovation
FINANCIAL STABILITY	Ensure long-term financial stability and the development of mechanisms supporting further development
EFFICIENT ORGANISATION	Implement systemic solutions aimed at increasing the KGHM Group's value
PEOPLE AND THE ENVIRONMENT	Growth based on the idea of sustainable development and safety as well as enhancing the KGHM Group's image of social responsibility

1.2. POLICY REGARDING THE DEVELOPMENT DIRECTIONS OF THE KGHM GROUP

During the reporting period, policy regarding the development directions of the KGHM Group was continued. Further actions were also taken aimed at adapting the Group's organisational functioning model to the business model of KGHM Polska Miedź S.A. and the market environment. In terms of the domestic companies, development policy was also aimed at cooperation between the Group's entities and at eliminating overlapping areas of competence in terms of individual entities.

With respect to implementation of the Strategy of KGHM for the years 2019-2023, in the case of the international assets of the Group, KGHM is aiming at developing unified reporting principles, coherent internal regulations and standardised solutions with respect to individual functional areas of the international entities.

1.3. DIRECTIONS REGARDING EQUITY INVESTMENTS

In the case of the domestic companies, investment goals are aimed at ensuring continuity and safe working conditions in the Core Business of KGHM Polska Miedź S.A. and at integrating the KGHM Group around the idea of sustainable development, including the implementation of development initiatives under the Circular Economy program aimed at limiting the environmental footprint.

In the case of the international part of the Group, the Company is concentrating on maximising the value of its assets portfolio.

1.4. INTENTIONS REGARDING CAPITAL EXPENDITURES

In terms of continuation of the adopted directions for capital expenditures, investments by the Company are mainly aimed at projects related to the core business. The investment policy of KGHM Polska Miedź S.A. is based on advancing the Company's five-year investment plan, which is coherent with the Strategy of KGHM as well as advancement of the long-term production plan.

In subsequent years the Company will concentrate on initiatives mainly in the area of mining and metallurgical production, such as:

- The Deposit Access Program (Deep Głogów along with access and development tunnels);
- Development of the Żelazny Most Tailings Storage Facility;
- The program to adapt to the requirements of BAT Conclusions for the non-ferrous metals industry and to restrict emissions of arsenic (BATAs);
- Optimal utilisation of the production capacity of the Legnica Copper Smelter and Refinery by the processing of scrap.

The Company is aiming to increase its mineral resources and in exploration it continues geological work and activities under the concessions held for the exploration and evaluation of copper ore deposits in those areas which are directly adjacent to the deposits which are currently being mined.

The adopted directions also include the advancement of actions under the Circular Economy. Moreover, the Company will continue to carry out work using new, „intelligent" technology and production management systems, based on online communication between elements of the production process and advanced data analysis, pursuant to the concept of the KGHM 4.0 Program.

1.5. ADVANCEMENT OF KEY STRATEGIC TASKS IN THE FIRST HALF OF 2019

In the first half of 2019, work commenced related to preparing the process of implementation of the Strategy of KGHM Polska Miedź S.A. for the years 2019-2023. Work began on the plan to implement the strategy and to define operational goals and milestones required to advance the tenets of the strategy. Following are the key achievements in the first half of 2019 with respect to strategic programs and projects being advanced under individual areas of the Strategy:

Strategic area/ Programs and projects	Degree of advancement
PRODUCTION	
Selected actions aimed at improving the efficiency of the core production line in Poland	– The advancement of projects aimed at automatisation of production in the Mining Divisions of KGHM, under the KGHM 4.0 program in the area INDUSTRY, was continued: – „The placement and identification of machinery and persons in underground mines" (pilot version and proof of proper functioning) – the technical scope was developed and the tender process was commenced to perform the task. The construction and implementation of a system for locating personnel in underground mines in one of the mining sections of the Polkowice-Sieroszowice Mine is planned by the end of 2019; – „Broad-band data transmission in underground mines" – contracts were signed with a contractor to build Wi-Fi access points in the underground mines; – „Monitoring of utilities - power, ventilation, water" – partial proceedings were commenced involving the construction of a Wonderware Platform System (development of SCADA software for the visualisation of signals to monitor utilities) and of a dewatering monitoring system, industry agreements were made and the scope of work was developed; – „Robotisation of production and auxiliary processes" (construction of an XRF robot for scanning for copper content at the working faces in the mines) – work was performed on setting up a consortium, arranging external sources and selecting a working platform for the electric vehicle. This innovative solution will combine x-ray scanning technology with a robot arm and the electric vehicle; – „Monitoring of mining vehicle parameters" – continuation of the SYNAPSA project. In the first half of 2019, 29 new machines equipped with monitoring were put into service, used to analyse the efficiency of the processes of ore loading and haulage, drilling and bolting. Currently, 182 machines are equipped with monitoring; – „Centre of Advanced Data Analysis (Centrum Zaawansowanych Analiz Danych - CZAD)" – the multi-dimensional analysis of data and the technical diagnostics of production processes with application of modern IT tools was optimised, including IoT – Internet of Things, BIG DATA, machine learning. – To achieve savings through the acquisition of freely-granted energy efficiency certificates, in the first half of 2019 15 new activities were designated which meet the requirements of the energy efficiency law. By the end of 2019, energy efficiency audits will be prepared for 9 of them. – In accordance with the implemented, PN-EN ISO50001:2012-compliant Energy Management System and with the Energy Savings Program (ESP), the Company continued to advance tasks aimed at reducing energy consumption in KGHM Polska Miedź S.A. During the reporting period, tasks related to energy and savings were carried out in the Divisions of KGHM, as a result of which average annual energy savings should amount to 3450-4400 MWh. The actual levels of savings will be confirmed by energy efficiency audits as well as during the energy review.
Sierra Gorda mine in Chile – Phase 1 (KGHM INTERNATIONAL LTD. Group 55%, Sumitomo Metal Mining and Sumitomo Corporation 45%)	In the first half of 2019, production of payable copper amounted to 29.2 thousand tonnes, and production of molybdenum 5.7 million pounds (based on the 55% interest held by KGHM Polska Miedź S.A. in the Sierra Gorda mine). Sierra Gorda, in cooperation with representatives of KGHM Polska Miedź S.A., Sumitomo Metal Mining and Sumitomo Corporation, is preparing an Integrated Plan, which will comprise a new scope of work, schedule and costs involving optimisation of the production process and increasing sulphide ore throughput.
Pyrometallurgy Modernisation Program at the Głogów I Copper Smelter and Refinery	Settlement procedures and the final handovers of contracts and orders are near completion. Production by the flash furnace of the Głogów I Copper Smelter and Refinery is underway in accordance with the present production plan. Completion of the project is planned by the end of 2019.
Metallurgy Development Program	In the first half of 2019, the steam drier and the concentrate roasting installation were brought on-line. Basic work was completed under projects related to adapting technical infrastructure to the changes in smelting technology at the Głogów I Copper Smelter and Refinery. Work continues on procedures involving final handovers and settlements, as well as obtaining administrative decisions. An updated scope of work on the project is planned by the end of 2019.
Increasing cathode production at the Legnica Copper Smelter and Refinery to 160 kt /year	**Revolving-Casting-Refining (RCR) Furnace** In the first half of 2019, final work on installation of the RCR furnace, casting machinery and the dedusting installation was carried out. Functionality tests were carried out, as well as stress testing of individual elements of the RCR furnace. Work related to the start-up and operation of the RCR furnace were performed in June 2019. Testing of the installation is currently underway as well as reaching the guaranteed contractual parameters. With respect to construction of the copper scrap warehouse for the RCR furnace, work was advanced on the preparation of executory documentation and gaining a building permit. In the second half of 2019, analyses are planned of the possibility of implementing new technology based on permanent starter sheets.

DEVELOPMENT	
Deposit Access Program	**Construction of the GG-1 shaft** Work was carried out involving injection of the main dolomite layer. Following completion of the injection process, sinking of the GG-1 shaft re-commenced from 27 June 2019. **Construction of the GG-2 „Odra" shaft** – Discussions are underway with the designer and the urban planning office regarding development of the urban planning project. – Work began on procedures connected with the inventorying of buildings in the villages of Kamiona and Słone, which are located in the vicinity of the projected shaft, aimed at determining their condition prior to the start of the investment. – Negotiations are underway involving the purchase of land to build the shaft and the setting of transmission easements for infrastructural channels. **Access and development tunnels** – In the first half of 2019, 24 kilometers of tunneling were excavated in the Rudna and Polkowice-Sieroszowice mines, representing nearly 52% of the total amount of access tunnels planned for 2019. – Progress on the excavation of tunnels is accompanied by the construction of technical infrastructure with respect to water, dewatering and fire-fighting piping, the circulation of ice water, the laying of conveyor belts, construction of cables and of electrical switching stations. – Construction of Heavy Machinery Chambers in the Rudna mine is underway. **Surface-based Central Air Conditioning System (SCA)** – Construction continued on the SCA at the GG-1 shaft. By the end of the first half of 2019, 80% of the foundations had been laid. – Work continues on pre-fabrication of the SCA building's steel elements. The General Contractor is advancing the procedure of selecting contractors for specialist work. – Deliveries and assembly of the SCA's basic equipment are planned from July 2019. By the end of 2019 work on the station building will be completed. Commissioning of the SCA is planned for the end of 2023. **Ice Water Transportation System (IWTS)** – In the first quarter of 2019, the environmental decision was received along with a building permit. – In the first half of 2019, the General Contractor engaged in the selection of piping suppliers for the transportation of ice water. – Agreements with landowners regarding the setting of transportation easements are in the process of being signed. Work began on 3 July 2019. In the second half of 2019, work will continue on the aforementioned tasks.
Development of the Żelazny Most Tailings Storage Facility	**Construction of the Southern Quarter** Based on the current building permits, work continued on construction of the Southern Quarter. – Completion of the first phase of construction of the Southern Quarter is expected by the end of the first half of 2020. – Commencement of the consecutive storage of tailings is planned for November 2020. – Due to procedural issues, completion of construction of the Southern Quarter has been extended to June 2022 from the initially planned date of the end of 2021. – In addition, as part of the construction of the Southern Quarter, work is underway on developing infrastructure related to water, slimes and power management. Construction will continue in the second half of 2019. **Construction of the Tailings Segregation and Thickening Station (TSTS)** – Work on the TSTS project continued. – Construction work continues on the TSTS, under which the ground was strengthened and the foundations were constructed. – A contract was signed for assembly of steel elements for the production hall – date of completion 30 September 2019. – In addition, work was advanced on building power lines for the TSTS, completion of which is expected at the end of 2019. – The purchase of equipment for the TSTS is underway, with installation planned for the second quarter of 2020. The selection of remaining contractors for construction and assembly work is planned in the second half of 2019.
Exploration projects in Poland (concessions to explore for and evaluate copper ore deposits)	**Retków–Ścinawa and Głogów** Work continued on advancing stage 2 of exploration and evaluation work within the Retków-Ścinawa concession. In the first half of 2019, one of the exploration drillholes was sunk and preparatory work began on the sinking of another drillhole. Drilling is planned to continue in 2019, altogether it is expected that three drillholes will be sunk. In the first quarter of 2019, a decision was received from the Ministry of the Environment altering the Głogów concession, extending it by another three years. Further work under the concession, it is planned to sink two drillholes by March 2022. **Synklina Grodziecka and Konrad** Piezometer measurements are continuing on the terrain of the Synklina Grodziecka and Konrad concessions. Hydrogeological monitoring will be conducted to the end of 2020. **Bytom-Odrzański, Kulów-Luboszyce** Concession-related proceedings are underway before the Minister of the Environment. The Company expects a re-assessment of the submitted concession applications and the issuance of concession decisions.

Other concessions	**Puck region** Administrative proceedings are underway before the Minister of the Environment to obtain confirmation by the Company of Addition no. 1 to the Geological Works Project submitted in March 2018, in which the sinking of another drillhole was proposed. In 2019 the sinking of one drillhole is planned in the concession area for the potassium-magnesium salt deposit in the Puck Region.
Projects involving development of the international assets	**Victoria project** In the first half of 2019, preparatory work continued aimed at conducting additional exploratory work as well as work related to an application to obtain the required environmental permits. On 27 June 2019, the Canadian Environmental Assessment Agency decided that it was unnecessary to conduct an environmental assessment at the federal level, which means a positive conclusion to the process of obtaining an environmental permit. The Agency stated that the project's environmental impact was properly described in the project description, and that the methods applied in the project for restricting its impact are in compliance with law in force. The Agency's decision is a milestone in the development of the Victoria project. **Ajax project** As a result of the decisions received from the Government of Canada and the local authorities of British Columbia against the granting of an Environmental Assessment Certificate for the Ajax project, in the first half of 2019, on the project's terrain only necessary work related to securing existing infrastructure and required monitoring of the terrain was carried out. In the first half of 2019, discussions were held with representatives of First Nations. Work was also carried out aimed at determining further strategy as regards the Ajax project. **Sierra Gorda Oxide** In the first half of 2019, tests continued involving the heap leaching of crushed ore, the block model for the oxide ore heap was reviewed and documentation was prepared for the purpose of updating the environmental permit.

INNOVATION

CuBR Program	Under the CuBR joint venture, co-financed by the National Centre for Research and Development (NCRD), 20 R&D projects having a total value of around PLN 150 million which were selected in the three editions of the competition are being advanced. – In the first quarter of 2019, the project CuBR High-Copper was completed, involving highly-efficient technology for the enrichment of Polish copper ore. – In 2019, most of the projects from the 1st and 2nd editions of the competition are planned to be completed. Under the 4th edition of the CuBR competition four Projects were selected, which will be advanced. The commencement of the Projects is planned for the third quarter of 2019.

Selected R&D initiatives	Jointly with the company PGE S.A. agreements were signed with a consortium under the direction of the Cardinal Stefan Wyszyński University in Warsaw regarding the construction of a Multi-disciplinary Research Center. Within the research center new technologies will be developed which will directly lead to Poland's industrial development and energy security.
	In the first half of 2019, work continued on advancing the first edition of the Implementation Doctorates Program, internal recruitment was concluded and the second edition of the Implementation Doctorates Program was inaugurated for KGHM's employees.
	Under the KGHM 4.0 Program projects are being advanced to develop information technology which is needed for the collection and transferal of knowledge within the KGHM Group. The process of digitisation was commenced along with the modern archiving of knowledge resources within the Head Office of KGHM.
	Projects subsidised under KIC Raw Materials:
	– Advancement of the project „Automated Microscope System for Analysing Deposits" (acronym AMCO) was completed. As a result, a prototype optical microscope system was built to enable the rapid identification of minerals.
	– The project „Utrzymanie Kopalni i Sprzętu" (acronym MaMMa - Maintained Mine & Machine) was continued. The goal of the project is to build a management processes support system to maintain mine operations and mine machinery.
	– Work commenced on the project „Monitorowanie pracy maszyn kruszących" (acronym OPMO - „Operation monitoring of mineral crushing machinery"), under which it is planned to build and test a pilot version of a new generation system for monitoring screening equipment in the ore processing plants.
	– As a result of selection to the KAVA 6 program carried out in February 2019, three research projects were subsidised:
	  – RevRis – related to the recultivation of post-industrial terrain.
	  – Batterflai – related to the development of environmentally-friendly flotation reagents.
	  – AMICOS – related to the development of an automated infrastructure and industrial facility inspection system.
	Advancement of these projects is expected to start in January 2020.
	Projects subsidized under the Horizon 2020 Program:
	– The project „Integrated innovative metallurgical system to efficiently enrich polymetallic, complex and low-grade ores and concentrates" (acronym INTMET) was completed. Under this project, based on trials in the divisions of KGHM, semi-industrial tests of atmospheric, pressure-related and biological leaching were performed, as well as attempts to recover useful minerals from flotation tailings, among others.
	– Advancement commenced on the project „FineFuture", which foresees research into improving mineral particulate flotation.

Intellectual property	– The European patent EP2873475 "Method of manufacturing wires of Cu-Ag alloys" was validated, in respect of which KGHM Polska Miedź S.A. is a co-proprietor, under the CuBR project. – Proceedings are underway to obtain a protection right for the word and figurative KGHM trademark in Canada.

	– Protection was received for the word trademark of KGHM by the European Union Intellectual Property Office (EUIPO) on the territory of the entire European Union. In the case of the successful withdrawal of the United Kingdom from the EU, the rationale for making a separate filing will be analysed. – The international procedure was instituted for the word trademark of KGHM through the World Intellectual Property Organization (WIPO), in the following countries: the USA, India, China, Switzerland, Japan, Turkey and Ukraine. – The Patent Office of the Republic of Poland granted KGHM Polska Miedź S.A. a patent for invention no. PAT.231928 called „Means for indicating the placement of moveable parts of equipment or objects as well as a unit for indicating the placement of moveable parts of equipment or objects". – Work is underway to create a SEPIZ (System Ewidencji Patentów i Znaków, or Patents and Trademarks Recording System) program for all of the Group's companies, which in particular will enable the monitoring of all exclusive rights applied for.
FINANCIAL STABILITY	
Basing the KGHM Group's financing on long-term instruments	As a result of changes carried out in the first half of 2019, the average weighted maturity of the debt of KGHM Polska Miedź S.A. was increased by around 2 years, representing a substantial execution of the strategic goal of utilising long-term financial instruments. The following events had a significant impact on the financing structure: – The opening of a renewable line of working capital facility in the amount of USD 450 million under an agreement with the Bank Gospodarstwa Krajowego, concluded for a period of 7 years; – The drawing of an instalment from the EIB in the amount of USD 65 million, with maturity in 2031; – The issue of bonds, Series A, in the amount of PLN 400 million with a 5-year maturity, and Series B in the amount of PLN 1 600 million with a 10-year maturity.
Shortening of the cash conversion cycle	The Company is engaged in actions aimed at shortening the receivables recovery period and extending the liabilities payment period. The main area of change involved factoring and debt collection instruments. Negotiations were held involving debt factoring and actions were undertaken enabling the strengthening of debt collection activities. Actions were undertaken with respect to the financing of transactions applying receivables factoring with the company China Minmetals Nonferrous Metals Co. Ltd.
Effective market and credit risk management in the KGHM Group	As part of the advancement of the Company's strategic plan to secure against market risk, in the first half of 2019 hedging strategies were implemented on the copper market with a total notional amount of 36 thousand tonnes and a maturity period from July 2019 to June 2020, as well as transactions hedging against a change in the USD/PLN exchange rate with a total notional amount of USD 1 080 million and a maturity period from July 2019 to December 2021.
EFFICIENT ORGANISATION	
KGHM 4.0 Program	**With respect to ICT projects** (Information and Communication Technologies): – The first stage of modernising the central network infrastructure unit of KGHM Polska Miedź S.A. was completed. Completion of stage two of the project is planned in 2020. – Preparatory work is underway on the initial start-up of a system for managing infrastructure in the power and communications sectors for the Rudna mine – this system is one of the main elements of the concept for implementing the Deposit Mining Management System, which is to support actions aimed at optimising production and organisational processes in KGHM Polska Miedź S.A. – Implementation of a client relationship management (CRM) system commenced – the timeline for completing this work is included in the execution schedule for 2020. **With respect to Industry projects** (industrial production): – The first stage of installing fiber optic units for measuring temperature in the areas of the flash furnace and electric furnace of the Głogów Copper Smelter and Refinery was completed. – Preparatory work commenced to start an anti-collision system in the mines (Traffic Collision Avoidance System). – Work commenced on integrating industrial software in the Concentrators and Metallurgical Facilities. **With respect to supporting projects:** – Work commenced on introducing an integrated IT system in the area of procurement, in order to execute processes, in accordance with the existing Procurement Policy of the KGHM Polska Miedź S.A. Group. – Work continues on implementation of the final stage of the EPM (Enterprise Project Management) system – completion of the project to ensure servicing of the processes of planning, execution, assessment and control of the portfolio, programs and projects will occur in the second half of 2019.
PEOPLE AND THE ENVIRONMENT	
Program to adapt the technological installations of KGHM to the requirements of BAT Conclusions for the nonferrous metals industry and to restrict emissions of arsenic (BATAs)	The Program is advancing 23 projects. Completion of the Program is expected in August 2023. – Under these projects preparatory work continues (designing, selection of contractors and suppliers) and turnkey agreements were concluded for investments which will be advanced in the Głogów Copper Smelter and Refinery and the Legnica Copper Smelter and Refinery. – In the first half of 2019, 1 of 3 filters at the Legnica Copper Smelter and Refinery was built and handed over, while work involving the sealing of 80% of the conveyor belts and belt pulling stations for carrying copper concentrate at the Głogów Copper Smelter and Refinery was carried out and handed over. – By the end of 2019 work on 4 projects will be completed. Agreements will be concluded to advance all of the initiated projects. In the case of turnkey projects, building permits will be obtained and construction of the installation will commence.
Program to Improve Occupational Health and Safety in KGHM Polska Miedź S.A.	In the first half of 2019, work continued involving preparations for the implementation of the Occupational Health and Safety Program in KGHM Polska Miedź S.A., comprising actions in the areas of education, health and behaviour with respect to improving safety and taking into consideration the current operating conditions of the Company.

2. Macroeconomic conditions

In the April edition of the World Economic Outlook (WEO), the International Monetary Fund reduced its forecast for global GDP growth for the next few years, and for 2019 it was reduced from 3.9% to 3.3%. 2018 and the first half of 2019 brought a deterioration in global macroeconomic conditions and heightened uncertainty regarding future growth given the escalation of the trade war between the USA and China, economic problems in Argentina and Turkey, problems in the automobile sector in Germany, tighter borrowing policy in China and tighter financing conditions together with normalisation of monetary policy in the highly-developed economies. Global economic growth in 2018 reached 3.6% of GDP. Inflationary pressure in developed countries remained low in 2019 and, together with fears about further economic growth, encouraged central banks to alter their sentiment towards monetary policy: the US Fed refrained from increasing rates and announced decreases in the second half of 2019; the European Central Bank signalled the possibility of a return to quantitative easing, while the Bank of Japan and the Bank of England adopted accommodative postures. From the beginning of 2019 we dealt with deteriorating global commercial relationships and with a move by the United States towards greater economic protectionism. Although the avowed goal of President Donald Trump is to achieve balanced trade with commercial partners, mainly China and the European Union, the impact of the actions taken by the leader of the USA, and even more the scale and effects of subsequent retaliatory actions, are difficult to predict. The Eurozone economy slowed more than expected as a result of a combination of unfavourable factors, such as a weakening of consumer and business sentiment, in particular in Germany, uncertainty surrounding fiscal policy, high spreads on government bonds, a weakening of investing in Italy and protests in France. In the first half of 2019 the EU saw elections to the European Parliament and expectations of changes in the top positions in the European Union's bodies. Given that situation, the search for solutions to the EU's structural problems was deferred. Moreover, the risk of a „hard" Brexit has increased given the change in the position of Prime Minister of the UK and the candidates for the position outbidding each other in the use of anti-EU rhetoric.

In the first half of 2019 the Chinese economy grew at a rate of 6.3% year-to-year, in line with the goal set by the Chinese People's Party of „between 6 and 6.5%". Given the trade war with the USA, the continued rate of growth of the Chinese economy has come into question. Analysts expect that in the case of a further weakening of export growth from China, the Chinese government will take measures to stimulate the economy, aimed at offsetting the negative impact of customs duties imposed by the United States.

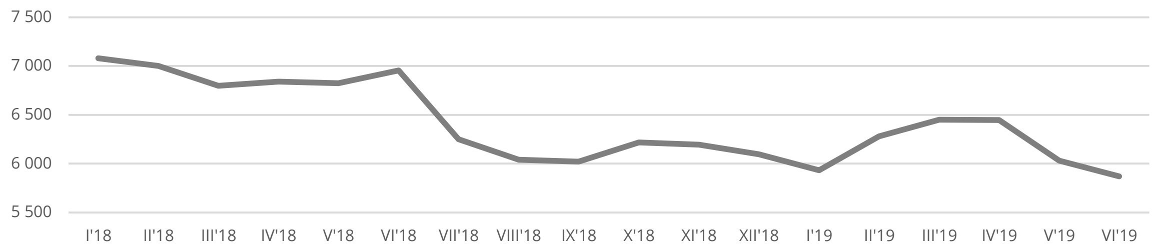
The US Federal Reserve (Fed) ended the period of monetary tightening policy begun in December 2015. The increase in interest rates previously planned for the first half of 2019 was not implemented. As a result of below-target inflation and the weaker outlook for economic growth suggested by the data provided by the Atlanta Fed's GDPNow indicator, some of the members of the Federal Open Market Committee (FOMC) expressed the clear opinion that interest rates will be reduced in the second half of 2019, and it is likely that reduction of the Fed balance will also be halted. The value of the USD as compared to the basket of other currencies in the first months of 2019 appreciated, though from May 2019 to the end of June it fell back to the level from the start of 2019.

Uncertainty as to the further direction of the international trade conflict being waged by President Trump, and consequently further global economic growth, raised fears in the commodities markets.

The *cash settlement* price of **copper** on the London Metal Exchange (LME) in the first half of 2019 ranged from around 5 750 to 6 570 USD/t. Among the reasons for the drop below 6 000 USD/t were the re-ignition of the trade war between the USA and China and investor fears about continuation of economic growth in China. On the other hand, the copper price was supported by the continuing supply deficit. The lower production of copper in the first half of 2019 was caused by floods in Chile and Peru and by a strike at Codelco's Chuquicamata mine. Prices were also supported by higher costs related to mining (such as remuneration, fuel prices and costs of financing mining projects). The aforementioned factors and macroeconomic trends (including the weakening of the USD until May 2019) resulted in an increase in the copper price to above 6 500 USD/t. The strengthening of the USD observed in subsequent weeks along with the customs duties imposed by the US administration on China and further escalation of the conflict, as well as the threat of its expansion to other economic regions, including the European Union, led to a sell-off of assets on many markets, including the primary metals market, resulting in a drop in copper prices in June 2019 below the level of 6 000 USD/t.

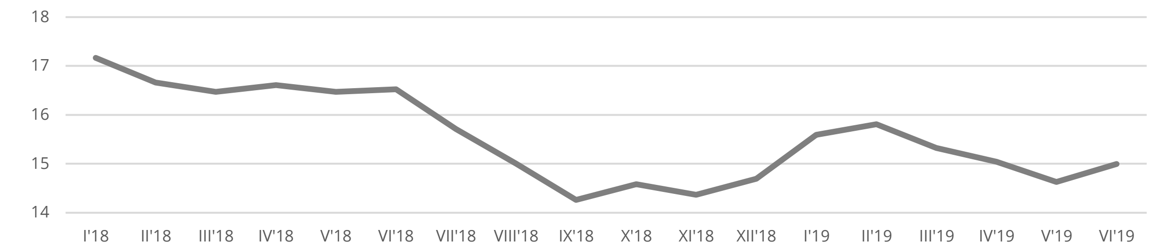
The average *cash settlement* price of copper in the first half of 2019 on the LME amounted to 6 165 USD/t and was almost 11% lower than in the comparable period of 2018, when it reached on average 6 917 USD/t.

Chart 1. Average monthly copper price on the London Metal Exchange (USD/t)



The average price of **silver** according to the London Bullion Market Association (LBMA) in the first half of 2019 reached the level of 15.23 USD/oz t (489.66 USD/kg), meaning a decrease by 9% as compared to prices in the first half of 2018 – 16.65 USD/oz t. Over the last few quarters the value of silver fluctuated within a relatively narrow range for this metal. Despite the historic dependence of the silver price on the value of gold, this correlation weakened and despite the rise in the price of gold on a yearly scale, silver decreased in value. The average price of silver in the first half of 2019 expressed in PLN decreased by only 0.3% on a yearly scale, but despite this it recorded an increase compared to the second half of 2018, when it reached the half-year minimum from 2010.

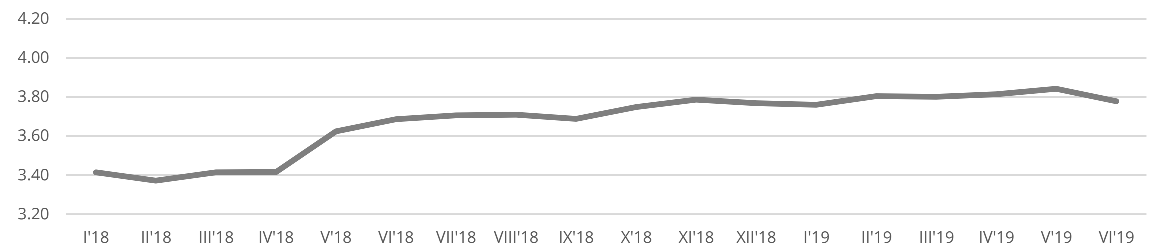
Chart 2. Average monthly silver price per the London Bullion Market (USD/oz t)



The average **USD/PLN exchange rate** (NBP) in the first half of 2019 amounted to 3.8002 and was higher compared to the corresponding period of 2018 by 9% (3.4872). After reaching multi-year highs (around 4.25) at the end of December 2016, the PLN gradually appreciated and continued this trend until February 2018, when the exchange rate stabilised, and in the first half of 2019 it remained within a narrow range of approximately PLN 0.15. This stabilisation of the PLN was due to the stable relationship of external factors impacting supply and demand for the PLN, expressed among others by the lower volatility and slight rising trend of the USD index in the first half of 2019.

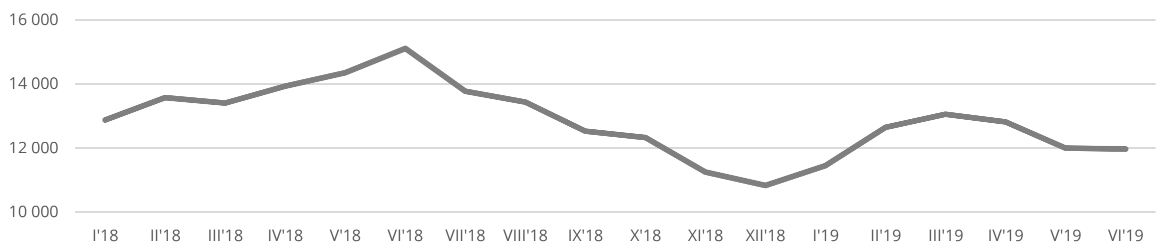
The minimum USD/PLN exchange rate was recorded at the turn of January and February at the level of 3.7243, and the maximum in May – 3.8696.

Chart 3. Average monthly USD/PLN exchange rate per the National Bank of Poland



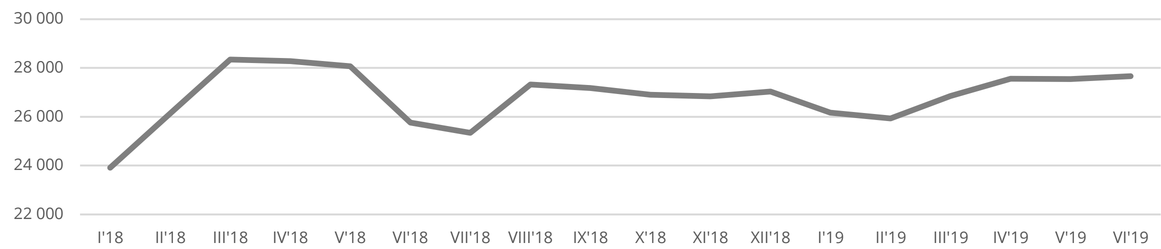
The average price of **nickel** in the first half of 2019 amounted to 12 315 USD/t, meaning a decrease of more than 11% as compared to the corresponding period of 2018 (13 871 USD/t), due among others to the high base from 2018. Another reason for the drop in price was the increase in low-cost supply from Indonesia in the form of raw nickel (Nickel Pig Iron). The nickel market was also negatively impacted by the USA-China trade conflict and by lower demand on the stainless steel market.

Chart 4. Average monthly nickel price on the London Metal Exchange (USD/t)



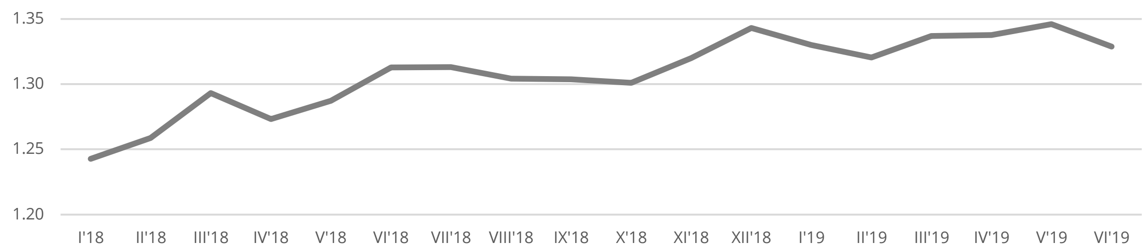
Beginning in 2019 there was a systematic increase in molybdenum prices, mainly due to continued improvement in the fundamental situation. The average price of molybdenum in the first half of 2019 amounted to 26 953 USD/t, meaning a slight increase, by only 0.8% as compared to the corresponding period of 2018 (26 749 USD/t). In terms of molybdenum supply, restrictions appeared in the form of the transformation of the Chuquicamata mine into an underground mine, a strike at this mine and floods in Chile and Peru. There has also been a drop in molybdenum grade in extracted ore. In terms of demand, the weakness of the auto industry in Europe results in a decrease in demand for molybdenum. The oil industry, which is one of the main consumers of molybdenum, generated steady demand, while Chinese exports of stainless steel pipes increased in the first quarter of this year.

Chart 5. Average monthly molybdenum price per CRU International (USD/t)



The average USD/CAD exchange rate (per the Bank of Canada) in the first half of 2019 amounted to 1.3336 and was 4% higher compared to the corresponding period of 2018 (1.2781).

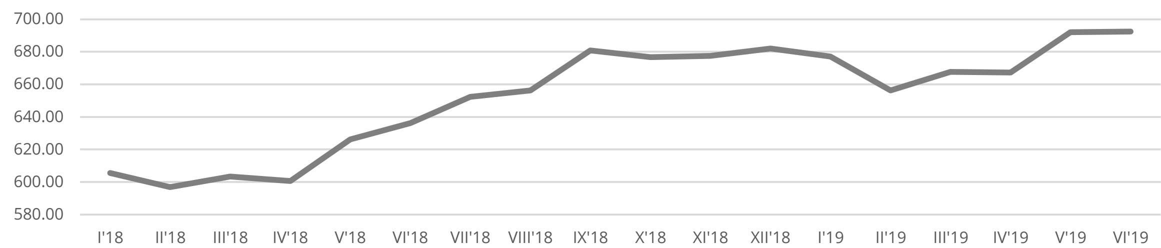
Chart 6. Average monthly USD/CAD exchange rate per the Bank of Canada



The decrease in the value of the Canadian dollar and the Chilean peso was due to the strengthening of the USD in the first half of 2019. Both currencies were also affected by the decrease in commodities prices in the first half of 2019, especially that of copper and oil. Nonetheless, the intensification of the trade war in the second quarter of 2019 slowed the rise in the USD exchange rate to the aforementioned currencies.

The average USD/CLP exchange rate (per the Bank of Chile) in the first half of 2019 amounted to 676 and was 10% higher than that in the first half of 2018 (612).

Chart 7. Average monthly USD/CLP exchange rate per the Bank of Chile



The macroeconomic factors of the greatest significance for the operations of the Group are presented in the following table.

Table 1. Macroeconomic factors significant for the operations of the KGHM Polska Miedź S.A. Group

	Unit	1st half 2019	1st half 2018	Change (%)	2Q 2019	1Q 2019
Average copper price on the LME	USD/t	6 165	6 917	(10.9)	6 113	6 215
Average silver price per the LBM	USD/oz t	15.23	16.65	(8.5)	14.88	15.57
Average nickel price on the LME	USD/t	12 315	13 871	(11.2)	12 258	12 369
Average molybdenum price per the CRU	USD/t	26 953	26 749	+0.8	27 588	26 318
Average USD/PLN exchange rate per the NBP	USD/PLN	3.80	3.49	+8.9	3.81	3.79
Average USD/CAD exchange rate per the Bank of Canada	USD/CAD	1.33	1.28	+3.9	1.34	1.33
Average USD/CLP exchange rate per the Bank of Chile	USD/CLP	676	612	+10.5	684	667

3. Results of the segment KGHM Polska Miedź S.A.

3.1. PRODUCTION

Table 2. Production results of KGHM Polska Miedź S.A.

	Unit	1st half 2019	1st half 2018	Change (%)	2Q 2019	1Q 2019
Mined ore (dry weight)	mn t	15.1	15.3	(1.3)	7.5	7.6
Copper content in ore	%	1.50	1.51	(0.7)	1.51	1.50
Production of copper in concentrate	kt	200.2	205.0	(2.3)	101.0	99.2
Production of silver in concentrate	t	633.1	639.5	(1.0)	321.6	311.5
Production of electrolytic copper	kt	286.7	227.5	+26.0	144.9	141.7
- including from own concentrate	kt	207.5	171.3	+21.1	103.3	104.2
Production of metallic silver	t	704.6	478.4	+47.3	383.6	321.0
Production of gold	koz t	50.6	38.4	+31.8	30.8	19.8

In the first half of 2019, there was a decrease in ore extraction (dry weight) as compared to the corresponding period of 2018. Copper content in ore decreased to 1.50%. The lower amount of extraction of ore was due among others to dealing with the effects of tremors which occurred in the mines of KGHM.

Production of copper in concentrate was lower by around 5 thousand tonnes as compared to the first 6 months of 2018 and was due to processing a lower amount of feed.

Compared to the corresponding period of 2018, there was an increase in electrolytic copper production by 59.2 thousand tonnes, thanks to higher availability of elements of the production line and to the higher processing of concentrates resulting from the start-up of the copper concentrate roasting installation.

The higher production of metallic silver in the first half of 2019 was a consequence of the increase in cathode production.

3.2. REVENUES

Table 3. Revenues from contracts with customers of KGHM Polska Miedź S.A.

	Unit	1st half 2019	1st half 2018	Change (%)	2Q 2019	1Q 2019
Revenues from contracts with customers, including:	mn PLN	**8 831**	**7 189**	**+22.8**	**4 515**	**4 316**
- copper[1]	mn PLN	6 835	5 691	+20.1	3 472	3 363
- silver[1]	mn PLN	1 313	930	+41.2	694	620
Copper sales volume[1]	kt	279.8	229.6	+21.9	144.8	135.1
Silver sales volume[1]	t	705.8	485.8	+45.3	380.5	325.3

[1] *Reflects sales of copper concentrate*

Revenues in the first half of 2019 amounted to PLN 8 831 million and were higher than in the corresponding period of 2018 by 23%. The main reasons for the increase in revenues were: an increase in the volume of sales of copper (+22%), silver (+45%) and gold (+29%) and a more favourable for KGHM Polska Miedź S.A. USD/PLN exchange rate (+9%) alongside less favourable prices of copper (-11%), silver (-9%) and gold (-1%).

3.3. COSTS

Table 4. Costs of KGHM Polska Miedź S.A.

	Unit	1st half 2019	1st half 2018	Change (%)	2Q 2019	1Q 2019
Cost of sales, selling costs and administrative expenses	mn PLN	7 498	6 023	+24.5	3 907	3 591
Expenses by nature	mn PLN	7 433	6 763	+9.9	3 756	3 677
Pre-precious metals credit unit cost of copper production from own concentrate[1]	PLN/t	24 600	23 722	+3.7	25 682	23 526
Total unit cost of electrolytic copper production from own concentrate	PLN/t	17 791	17 813	(0.12)	18 606	16 983
- including the minerals extraction tax	PLN/t	4 168	4 095	+1.8	4 367	3 970
C1 cost[2]	USD/lb	1.81	1.90	(4.7)	1.85	1.76

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

[2] *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*

The Parent Entity's cost of sales, selling costs and administrative expenses (total cost of products, merchandise and materials sold, selling costs and administrative expenses) in the first half of 2019 amounted to PLN 7 498 million and was higher by 24.5% compared to the corresponding period of 2018, mainly due to higher expenses by nature and the utilisation in production of inventories from prior periods, which resulted in higher sales of copper and silver.

In the first half of 2019, total expenses by nature were higher by PLN 670 million as compared to the first half of 2018, alongside a lower minerals extraction tax by PLN 34 million and higher costs of consumption of purchased metal-bearing materials by PLN 511 million (due to a higher volume of consumption by 22 thousand tonnes of Cu and a lower purchase price by 0.8%).

Expenses by nature, after excluding the purchased metal-bearing materials and minerals extraction tax, were higher by PLN 193 million, mainly due to higher costs of electricity and other energy-related factors by PLN 57 million, higher depreciation/amortisation by PLN 53 million, higher costs of external services by PLN 35 million mainly due to higher expenses on transportation services (higher sales volume), higher labour costs by PLN 26 million (higher remuneration) and higher costs of materials and fuels by PLN 24 million.

C1 cost in the first half of 2019 amounted to 1.81 USD/lb and was lower than in the corresponding period of 2018 by 4.7%. The decrease in cost was mainly due to strengthening of the USD versus the PLN (+9%) and to a lower minerals extraction tax (first half of 2018: 0.59 USD/lb; first half of 2019: 0.54 USD/lb) due to lower copper and silver prices.

The pre-precious metals credit unit cost of electrolytic copper production from own concentrate (unit cost prior to decrease by the value of anode slimes containing, among others, silver and gold) amounted to 24 600 PLN/t (in the corresponding period of 2018, 23 722 PLN/t) and was higher by 3.7% mainly due to higher expenses by nature.

The total unit cost of electrolytic copper production from own concentrate amounted to 17 791 PLN/t and was lower than in the first half of 2018 by 0.12% due to the valuation of associated metals (silver and gold) as a result of higher silver content in own concentrate.

3.4. FINANCIAL PERFORMANCE

Table 5. Basic items of the statement of profit or loss of KGHM Polska Miedź S.A. *(in PLN million)*

	1st half 2019	1st half 2018	Change (%)	2Q 2019	1Q 2019
Revenues from contracts with customers, including:	**8 831**	**7 189**	**+22.8**	**4 515**	**4 316**
- adjustment to revenues due to hedging transactions	77	75	+2.7	43	34
Cost of sales, selling costs and administrative expenses	**(7 498)**	**(6 023)**	**+24.5**	**(3 907)**	**(3 591)**
- including the mineral extraction tax	932	801	+16.4	463	470
Profit on sales (EBIT)	**1 333**	**1 166**	**+14.3**	**608**	**725**
Other operating income and (costs), including:	**452**	**708**	**(36.2)**	**73**	**379**
- gains/losses on changes in fair value of financial assets measured at fair value through profit or loss	142	41	×3.5	62	80
- interest on loans granted and other financial receivables	132	126	+4.8	66	66
- reversal of impairment losses on financial instruments	112	950	(88.2)	17	95
- losses due to initial recognition of POCI loans	-	(763)	(100.0)	-	-
- dividend income	37	239	(84.5)	37	-
- measurement and realisation of derivatives	(28)	(28)	-	(9)	(19)
- exchange differences on assets and liabilities other than borrowings	16	327	(95.1)	(127)	143
- provisions recognised	(7)	(149)	(95.3)	(6)	(7)
- other	48	(35)	×	33	21
Finance income and (costs), including:	**(73)**	**(596)**	**(87.8)**	**100**	**(173)**
- interest on borrowings	(80)	(58)	+37.9	(43)	(37)
- foreign exchange differences on borrowings	58	(531)	×	165	(107)
- unwinding of the discount effect	(21)	(21)	-	(10)	(11)
- measurement and realisation of derivatives	(17)	26	×	(5)	(12)
- other	(13)	(12)	+8.3	(7)	(6)
Profit before income tax	**1 712**	**1 278**	**+34.0**	**781**	**931**
Income tax expense	(485)	(291)	+66.7	(249)	(236)
Profit for the period	**1 227**	**987**	**+24.3**	**532**	**695**
Depreciation/amortisation recognised in profit or loss	586	534	+9.7	312	274
Adjusted EBITDA[1]	**1 919**	**1 700**	**+12.9**	**920**	**999**

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

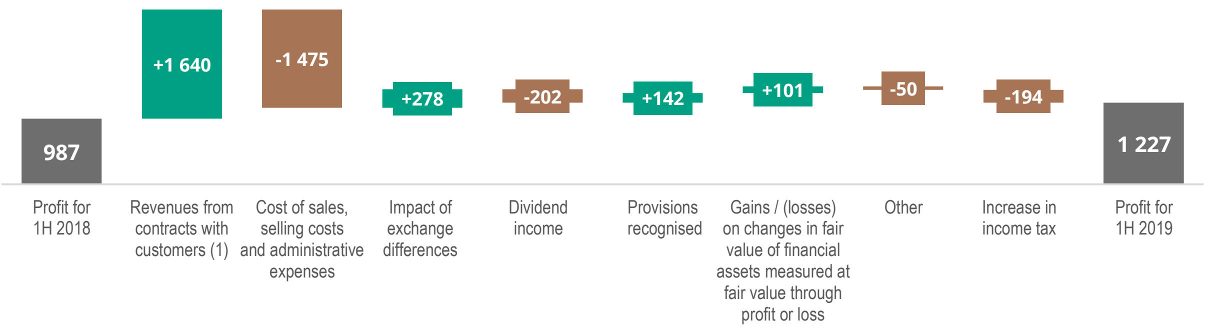
Table 6. Main reasons for the change in profit/(loss) of KGHM Polska Miedź S.A.

Item	Impact on change in result (in PLN million)	Description
Increase in revenues from contracts with customers (excluding the impact of hedging transactions) by PLN 1 640 million	+1 702	An increase in revenues due to a higher volume of sales of copper (+22%), silver (+45%) and gold (+29%)[1]
	(876)	A decrease in revenues due to lower prices of copper, silver and gold respectively by 11%, 9% and 1%
	+756	An increase in revenues from sales of basic products (Cu, Ag, Au) due to a more favourable average annual USD/PLN exchange rate (a change from 3.49 to 3.80 USD/PLN)
	+58	A change in other revenues from contracts with customers, including an increase in the following: revenues from the sale of merchandise and materials (+PLN 25 million), adjustments of revenues from measurement to fair value of receivables from sales transactions, which are priced after the date of recognition of the sale using the M+ formula (+PLN 18 million) and revenues from the sale of sulphuric acid (+PLN 13 million)
Increase in cost of sales, selling costs and administrative expenses[2] by PLN 1 475 million	(790)	A change in inventories of finished goods and work in progress, mainly due to a decrease in inventories of half-finished products due to the utilisation of stored own concentrate inventories
	(511)	Higher consumption of purchased metal-bearing materials by 22 thousand tonnes of copper (+37%) alongside a comparable purchase price
	(174)	An increase in other costs, mainly due to an increase in expenses by nature: materials, fuel and energy (-PLN 81 million), depreciation/amortisation (-PLN 53 million), external services (-PLN 35 million), employee benefits expenses (-PLN 26 million)
Impact of exchange differences (+PLN 278 million)	(311)	A change in the result due to exchange differences in other operating activities
	+589	A change in the result due to exchange differences on borrowings (presented in finance income and costs)
Lower dividend income (-PLN 202 million)	(202)	A decrease in dividend income from PLN 239 million to PLN 37 million
Gains/(losses) on changes in fair value of financial assets measured at fair value through profit or loss (+PLN 101 million)	+101	Change in gains/losses on changes in fair value of financial assets measured at fair value through profit or loss from PLN 41 million to PLN 142 million
Provisions recognised (+PLN 142 million)	+142	A lower level of provisions recognised: PLN 7 million in the first half of 2019 as compared to PLN 149 million in the corresponding period of 2018
Losses due to initial recognition of POCI loans and reversal of impairment losses on financial instruments (-PLN 75 million)	+763	A decrease in the result for the first half of 2018 due to the initial recognition of POCI loans in the amount of PLN 763 million
	(838)	A decrease in the amount of reversal of impairment losses on financial instruments from PLN 950 million in the first half of 2018 to PLN 112 million in the first half of 2019
Impact of hedging transactions (-PLN 41 million)	+2	An increase in positive adjustments to revenue due to the settlement of hedging transactions from PLN 75 million to PLN 77 million
	(28)	A change in the result due to the measurement of derivatives from PLN 55 million to PLN 27 million
	(15)	A change in the result due to the realisation of derivatives from -PLN 57 million to -PLN 72 million
Change in the balance of income and costs due to interest on borrowings and other financial receivables (-PLN 16 million)	+6	An increase in income due to interest on loans granted
	(22)	Higher interest costs on borrowings
Increase in income tax (-PLN 194 million)	(194)	The higher tax results from the higher tax base

[1] *Including sales of copper concentrate*

[2] *Cost of products, merchandise and materials sold plus selling costs and administrative expenses*

Chart 8. Change in profit for the period of KGHM Polska Miedź S.A. *(in PLN million)*



[1] *Excluding impact of hedging transactions*

3.5. CASH EXPENDITURES ON PROPERTY, PLANT AND EQUIPMENT

In the first half of 2019, cash expenditures on property, plant and equipment and intangible assets amounted to PLN 1 312 million and were higher than in the corresponding period of 2018 by 37%, while capital expenditures on property, plant and equipment and intangible assets amounted to PLN 1 020 million (including borrowing costs: PLN 166 million, right-to-use assets under IFRS 16 Leases: PLN 34 million) and were higher than in the corresponding period of 2018 by 35%.

The higher cash expenditures as compared to capital expenditures in the first half of 2019 were due to contractual payment deadlines for advancing investments in prior periods.

Table 7. Structure of expenditures on property, plant and equipment and intangible assets by Division (in PLN million)

	1st half 2019	1st half 2018	Change (%)	2Q 2019	1Q 2019
Mining	781	551	+41.7	413	368
Metallurgy	194	197	(1.5)	111	83
Other activities	10	6	+66.7	6	4
Development work - uncompleted	1	-	×	1	-
Leases per IFRS 16	34	-	×	17	17
Total	**1 020**	**754**	**+35.3**	**548**	**472**
including borrowing costs	166	67	×2.5	60	106

Table 8. Structure of expenditures on property, plant and equipment and intangible assets by analytical category (in PLN million)

	1st half 2019	1st half 2018	Change (%)	2Q 2019	1Q 2019
Replacement	282	281	+0.4	155	127
Maintenance	294	164	+79.3	173	121
Development	409	309	+32.4	202	207
Development work - uncompleted	1	-	×	1	-
Leases per IFRS 16	34	-	×	17	17
Total	**1 020**	**754**	**+35.3**	548	472
including borrowing costs	166	67	×2.5	60	106

During the reporting period design and construction work was continued in respect of key investments in mining and metallurgy. In terms of mining, work was carried out on primary tunneling as well as the outfitting of the mines with required technical infrastructure. In addition actions were undertaken aimed at preparing investments for advancement, i.e.: documentation was prepared, required environmental decisions were obtained, tenders were conducted to select contractors and equipment suppliers and contracts were signed in accordance with agreed terms. Investment activities are aimed at carrying out projects which are classified under one of the following three categories:

- **Development projects** aimed at increasing production volume of the core business, maintaining production costs and adaptation projects aimed at adapting the company's operations to changes in standards, laws and regulations (including those related to environmental protection) represent 40% of total expenditures,
- **Replacement projects** aimed at maintaining production equipment in a non-deteriorated condition which guarantees the achievement of on-going production tasks, represent 28% of total expenditures,
- **Maintenance projects** ensuring necessary development of infrastructure to match mine advancement and the continuous removal of waste to ensure production at the level set forth in the plan of mining operations, represent 29% of total expenditures.

Information on the advancement of key investment projects may be found in part 1 of this report.

4. Results of the segment KGHM INTERNATIONAL LTD.

4.1. PRODUCTION

Table 9. Production results of KGHM INTERNATIONAL LTD.

	Unit	1st half 2019	1st half 2018	Change (%)	2Q 2019	1Q 2019
Payable copper, including:	kt	36.0	42.6	(15.5)	19.7	16.3
- Robinson mine (USA)	kt	21.8	28.8	(24.3)	13.2	8.6
- Sudbury Basin mines (CANADA)[1]	kt	2.6	3.6	(27.8)	0.7	1.9
Payable nickel	kt	0.4	0.4	-	0.1	0.3
Precious metals (TPM), including:	koz t	38.9	34.6	+12.4	21.0	17.9
- Robinson mine (USA)	koz t	21.4	20.3	+5.4	13.5	7.9
- Sudbury Basin mines (CANADA)[1]	koz t	17.5	14.3	+22.4	7.5	10.0

[1] *Morrison and McCreedy West mines in the Sudbury Basin*

Copper production in the segment KGHM INTERNATIONAL LTD. in the first half of 2019 amounted to 36 thousand tonnes, or a decrease by 6.6 thousand tonnes (-16%) compared to the corresponding prior-year period.

The decrease in copper production by the Robinson mine (-7 thousand tonnes) was due to the extraction of lower-quality ore, with lower content of this element. This factor was partially offset by higher copper recovery. The Robinson mine recorded an increase in TPM production by 1.1 thousand troy ounces (+5%), due to the higher gold grade in ore.

The decrease in copper production by 1 thousand tonnes (-28%) in the Sudbury Basin mines was due to the lower content of this metal, which was partially offset by higher ore extraction. Precious metals production increased by 3.2 thousand troy ounces (+22%) due to higher ore extraction.

4.2. REVENUES

Table 10. Revenues from contracts with customers of KGHM INTERNATIONAL LTD.

	Unit	1st half 2019	1st half 2018	Change (%)	2Q 2019	1Q 2019
Revenues from contracts with customers[1], including:	**mn USD**	**373**	**369**	**+1.1**	**194**	**179**
- copper	mn USD	203	240	(15.4)	99	104
- nickel	mn USD	5	6	(16.7)	1	4
- precious metals (TPM)	mn USD	53	39	+35.9	26	27
Copper sales volume	kt	36.5	38.4	(4.9)	18.5	18.0
Nickel sales volume	kt	0.4	0.4	-	0.1	0.3
Precious metals (TPM) sales volume[1]	koz t	35.1	31.6	+11.1	17.9	17.2

[1] *reflects processing premium*

	Unit	1st half 2019	1st half 2018	Change (%)	2Q 2019	1Q 2019
Revenues from contracts with customers[1], including:	**mn PLN**	**1 414**	**1 298**	**+8.9**	**738**	**676**
- copper	mn PLN	770	845	(8.9)	375	395
- nickel	mn PLN	19	22	(13.6)	4	15
- precious metals (TPM)	mn PLN	201	137	+46.7	99	102

[1] *reflects processing premium*

The revenues of the segment KGHM INTERNATIONAL LTD. in the first half of 2019 increased by USD 4 million (+1%), mainly due to an increase in revenues by companies acting under the DMC Mining Services ("DMC") brand and revenues from the sale of TPM, which was limited by the decrease in revenues from sales of copper.

Revenues from sales of copper decreased from USD 240 million in the first half of 2018 to USD 203 million in the first half of 2019 (-15%) due to the lower volume of sales of this metal by 5% and a decrease in the effective sales price by 10% (6 129 USD/t in the first half of 2019 compared to 6 834 USD/t in the first half of 2018).

The increase in revenues from sales of precious metals by USD 14 million (+36%) was the result of a higher sales volume as well as the higher prices of these elements.

The higher revenues earned by the DMC Group by USD 25 million was the result of realisation of a contract for shaft sinking in the United Kingdom.

4.3. COSTS

Table 11. Costs of KGHM INTERNATIONAL LTD.

	Unit	1st half 2019	1st half 2018	Change (%)	2Q 2019	1Q 2019
C1 unit cost[1]	USD/lb	1.82	1.86	(2.2)	1.69	1.95

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

The weighted average unit cash cost of copper production for all operations in the segment KGHM INTERNATIONAL LTD. in the first half of 2019 amounted to 1.82 USD/lb, or a decrease by 2% compared to the corresponding prior-year period. The decrease in C1 cost was due to higher revenues from sales of associated metals (+35%), which decrease C1.

4.4. FINANCIAL PERFORMANCE

Table 12. Basic items of the statement of profit or loss of KGHM INTERNATIONAL LTD. (*USD million*)

	1st half 2019	1st half 2018	Change (%)	2Q 2019	1Q 2019
Revenues from contracts with customers	373	369	+1.1	194	179
Cost of sales, selling costs and administrative expenses[1]	(341)	(324)	+5.2	(174)	(167)
Profit on sales (EBIT)	**32**	**45**	**(28.9)**	**20**	**12**
Profit/(loss) before taxation, including:	**(61)**	**(108)**	**(43.5)**	**(31)**	**(30)**
- share of losses of Sierra Gorda S.C.M. accounted for using the equity method	(17)	(72)	(76.4)	(17)	-
Income tax	(6)	(3)	x2.0	(3)	(3)
Profit/(loss) for the period	**(68)**	**(111)**	**(38.7)**	**(35)**	**(33)**
Depreciation/amortisation recognised in profit or loss	(57)	(62)	(8.1)	(24)	(33)
Adjusted EBITDA[2]	**89**	**108**	**(17.6)**	**44**	**45**

[1] *Cost of products, merchandise and materials sold, selling costs and administrative expenses*
[2] *Adjusted EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss) + impairment loss (-reversal of impairment losses) on non-current assets, recognised in cost of sales, selling costs and administrative expenses*

Table 13. Basic items of the statement of profit or loss of KGHM INTERNATIONAL LTD. (*PLN million*)

	1st half 2019	1st half 2018	Change (%)	2Q 2019	1Q 2019
Revenues from contracts with customers	1 414	1 298	+8.9	738	676
Cost of sales, selling costs and administrative expenses[1]	(1 294)	(1 138)	+13.7	(663)	(631)
Profit on sales (EBIT)	**120**	**160**	**(25.0)**	**75**	**45**
Profit/(loss) before taxation, including:	**(232)**	**(381)**	**(39.1)**	**(121)**	**(111)**
- share of losses of Sierra Gorda S.C.M. accounted for using the equity method	(63)	(252)	(75.0)	(63)	-
Income tax	(24)	(10)	x2.4	(12)	(12)
Profit/(loss) for the period	**(257)**	**(391)**	**(34.3)**	**(134)**	**(123)**
Depreciation/amortisation recognised in profit or loss	(216)	(220)	(1.8)	(91)	(125)
Adjusted EBITDA[2]	**336**	**380**	**(11.6)**	**166**	**170**

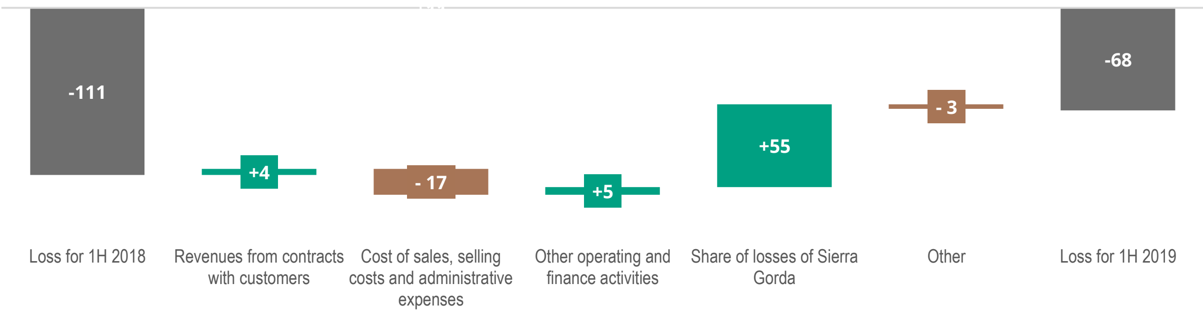
[1] *Cost of products, merchandise and materials sold, selling costs and administrative expenses*
[2] *Adjusted EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss) + impairment loss (-reversal of impairment losses) on non-current assets, recognised in cost of sales, selling costs and administrative expenses*

Table 14. Main factors impacting the change in profit or loss of KGHM INTERNATIONAL LTD.:

Item	**Impact on change of profit or loss (in USD million)**	**Description**
Higher revenues (+USD 4 million), including:	+25	Higher revenues earned by the DMC Group
	(15)	Lower revenues due to lower prices of basic products, including copper (-USD 27 million) alongside higher TPM prices (+USD 13 million)
	(8)	Lower revenues due to lower sales volumes, including copper (-USD 12 million)
Higher cost of sales, selling costs and administrative expenses (-USD 17 million), including:	+31	Lower depreciation/amortisation (fully depreciated in the first half of 2018 of the effects of reversal of impairment losses on assets of the Robinson mine as at 31 December 2017)
	+5	Lower costs of materials
	(19)	Higher costs of external services (+USD 14 million) due to an increased scope of work carried out by subcontractors of DMC and higher labour costs (+USD 5 million)
	(37)	A change in inventories

Impact of other operating activities and financing activities (+USD 5 million), including:	+10	A decrease in other operating costs, including among others due to the lack of unwinding of the receivables discount on the service fee from Sierra Gorda S.C.M, which took place in the first half of 2018
Share of losses of entities accounted for using the equity method (+USD 55 million)	+55	Recognition in the first half of 2019 of the share of losses of Sierra Gorda S.C.M. up to the amount of the increase in the share capital, i.e. in the amount of USD 17 million (in the first half of 2018 the share of losses of Sierra Gorda S.C.M. was also recognised up to the amount of the increase in share capital, i.e. in the amount of USD 72 million)
Income tax	(3)	A change mainly refers to deferred income tax (an increase by USD 4 million)

Chart 9. Change in profit or loss *(in USD million)*



4.5. CASH EXPENDITURES ON PROPERTY, PLANT AND EQUIPMENT

Table 15. Structure of cash expenditures (*USD million*)

	1st half 2019	1st half 2018	Change (%)	2Q 2019	1Q 2019
Victoria project	2	3	(33.3)	1	1
Sierra Gorda Oxide project	1	-	x	1	-
Pre-stripping and other	79	81	(2.5)	45	34
Ajax project	-	-	-	-	-
Total	**82**	**84**	**(2.4)**	**47**	**35**
Financing for Sierra Gorda S.C.M. – increase in the share capital	17	72	(76.4)	17	-

Table 16. Structure of cash expenditures (*PLN million*)

	1st half 2019	1st half 2018	Change (%)	2Q 2019	1Q 2019
Victoria project	8	10	(20.0)	4	4
Sierra Gorda Oxide project	4	0	x	4	0
Pre-stripping and other	300	287	+4.5	172	128
Ajax project	-	-	-	-	-
Total	**312**	**297**	**+5.1**	**180**	**132**
Financing for Sierra Gorda S.C.M. – increase in the share capital	63	252	(75.0)	63	-

Cash expenditures by the segment KGHM INTERNATIONAL LTD. in the first half of 2019 amounted to USD 82 million, or a decrease by USD 2 million (-2%) compared to the corresponding prior-year period.

Over 80% of cash expenditures were with respect to the Robinson mine and were mainly due to pre-stripping work in the Ruth pit.

The segment KGHM INTERNATIONAL LTD. incurred USD 2 million on the Victoria project (i.a. continuation of preparatory work aimed at conducting additional explorations), while USD 1 million was spent on the Sierra Gorda Oxide project (i.a. ore leaching tests were continued).

In the first half of 2019, Sierra Gorda received financing in the amount of USD 17 million in the form of an increase in the share capital, to repay financial liabilities.

5. Results of the segment Sierra Gorda S.C.M.

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

The following production and financial data are presented on a 100% basis for the joint venture and proportionally to the interest in the company Sierra Gorda S.C.M. (55%), pursuant to the methodology of presentation of data in note 2.2 of the Financial Statements.

5.1. PRODUCTION

In the second quarter of 2019 Sierra Gorda S.C.M. maintained production at a level similar to that achieved in the first three months of 2019 and as a result, production in the first half of 2019 was substantially higher than in the corresponding period of 2018. The exception was molybdenum, production of which in the first half of 2019 was lower.

Table 17. Production results[1] of Sierra Gorda S.C.M.

	Unit	1st half 2019	1st half 2018	Change %	2Q 2019	1Q 2019
Copper production	kt	53.2	44.6	+19.3	26.4	26.8
Copper production – segment (55%)	kt	29.2	24.5	+19.3	14.5	14.7
Molybdenum production	mn lbs	10.3	13.9	(25.9)	4.8	5.5
Molybdenum production – segment (55%)	mn lbs	5.7	7.7	(25.9)	2.7	3.0
TPM production – gold	koz t	26.4	17.0	+55.3	13.0	13.4
TPM production – gold – segment (55%)	koz t	14.5	9.3	+55.3	7.1	7.4

[1] *Payable metal in concentrate.*

The increase in copper production by 19% as compared to the first half of 2018 was mainly due to higher extraction (+32%) and higher ore processing (+10%). The ore being processed was of a better quality, including higher copper content (an increase by 6%), which helped to increase copper recovery as compared to the first half of 2018. An increase in production of metallic gold was also recorded due to higher extraction and ore processing.

The mine worked in areas of lower molybdenum content, which resulted in a decrease in the content of this metal in processed ore by 36%. This negative impact of the lower molybdenum content was partially offset by an increase in the amount of ore processed and, as a result, the decrease in production of payable molybdenum compared to the first half of 2018 amounted to 26%.

5.2. REVENUES

In the first half of 2019, revenues amounted to USD 483 million, of which 65% represented sales of copper, and 26% molybdenum sales. Revenues of the segment, pursuant to the interest held by KGHM Polska Miedź S.A. (55%), amounted to PLN 1 007 million.

Table 18. Revenues[1] from contracts with customers of Sierra Gorda S.C.M.

	Unit	1st half 2019	1st half 2018	Change %	2Q 2019	1Q 2019
Revenues from contracts with customers, including:	**mn USD**	**483**	**469**	**+3.0**	**225**	**258**
- copper	mn USD	313	253	+23.7	147	166
- molybdenum	mn USD	126	190	(33.7)	56	70
Copper sales volume	kt	55.3	41.1	+34.5	29.3	26.0
Molybdenum sales volume	mn lbs	10.5	15.1	(30.5)	4.4	6.1
Revenues from contracts with customers - segment (55% interest)	**mn PLN**	**1 007**	**908**	**+10.9**	**471**	**536**

[1] *revenues from metals sales reflecting treatment/refining and other charges*

The increase in revenues expressed in USD by 14 million (+3%) was mainly due to a higher copper sales volume and to higher revenues from the sale of gold and silver, alongside lower molybdenum sales and lower copper prices.

The individual factors impacting the change in revenues compared to the first half of 2018 are presented in the sub-section discussing the financial results of Sierra Gorda S.C.M.

5.3. COSTS

The cost of sales, selling costs and administrative expenses incurred by the company Sierra Gorda S.C.M. amounted to USD 430 million, of which USD 30 million were selling costs and USD 19 million administrative expenses. Proportionally to the interest held (55%) the costs of the segment Sierra Gorda amounted to PLN 896 million.

Table 19. Costs of Sierra Gorda S.C.M.

	Unit	1st half 2019	1st half 2018	Change %	2Q 2019	1Q 2019
Cost of sales, selling costs and administrative expenses	mn USD	430	429	+0.2	225	205
Cost of sales, selling costs and administrative expenses – segment (55% interest)	mn PLN	896	831	+7.8	469	427
C1 unit cost[1]	**USD/lb**	**1.47**	**1.16**	**+26.7**	**1.58**	**1.34**

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

The cost of sales, selling costs and administrative expenses in the amount of USD 430 million did not change significantly as compared to the first half of 2018, but due to the weakening of the PLN, costs expressed in PLN were higher by 8%.

Improvement was recorded primarily in the following expenses by nature (prior to the change in inventories and to the deduction of pre-stripping costs, which are capitalised):

- depreciation/amortisation – lower by 14% mainly due to changes in the mining plan of individual mining areas, affecting the level of depreciation/amortisation of capitalised costs of pre-stripping,
- fuels and oil – lower by 13% due to the lower price of diesel oil and lower consumption,
- molybdenum conversion costs – lower by 38% due to lower production.

The cost increases concerned mainly the following items:

- labour – higher by 6%, mainly due to the conclusion in the first half of 2019 of negotiations and the signing of an agreement with the trade unions,
- energy – higher by 3%, mainly due to higher prices,
- spare parts – higher by 8%, mainly due to a higher degree of replacement of certain components.

The unit cash cost of producing copper (C1) amounted to 1.47 USD/lb in the first half of 2019 and was higher by 27% as compared to the corresponding period of 2018, despite the increase in the amount of copper sold. The increase was mainly due to a decrease in revenues from the sale of associated metals, including molybdenum, the sale of which was substantially lower than in the prior year.

5.4. FINANCIAL PERFORMANCE OF SIERRA GORDA S.C.M.

Statement of profit or loss

In the first half of 2019, adjusted EBITDA amounted to USD 167 million, of which proportionally to the interest held (55%), PLN 349 million is attributable to the KGHM Group. As compared to the first half of 2018, adjusted EBITDA in USD was lower by nearly 3% alongside an increase in the PLN-expressed amount of approx. 5%.

Table 20. Basic items of the statement of profit or loss of Sierra Gorda S.C.M. (*USD million)* - on a 100% basis

USD million	1st half 2019	1st half 2018	Change %	2Q 2019	1Q 2019
Revenues from contracts with customers	483	469	+3.0	225	258
Cost of sales, selling costs and administrative expenses	(430)	(429)	+0.2	(225)	(205)
Profit/(loss) on sales (EBIT)	53	40	+32.5	0	53
Profit/(loss)for the period	**(118)**	**(122)**	**(3.3)**	**(76)**	**(42)**
Depreciation/amortisation recognised in profit or loss	(114)	(132)	(13.6)	(62)	(52)
Adjusted EBITDA[1]	**167**	**172**	**(2.9)**	**62**	**105**

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

Table 21. Basic items of the statement of profit or loss of Sierra Gorda S.C.M. (*PLN million*) - proportionally to the interest held (55%)

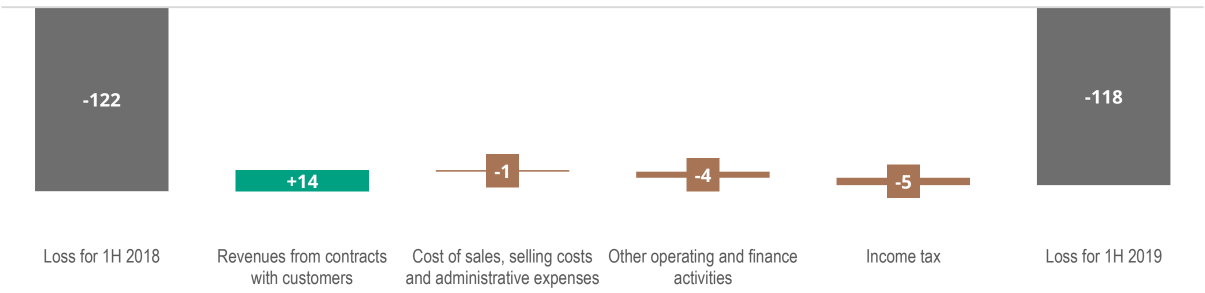
PLN million	1st half 2019	1st half 2018	Change %	2Q 2019	1Q 2019
Revenues from contracts with customers	1 007	908	+10.9	471	536
Cost of sales, selling costs and administrative expenses	(896)	(831)	+7.8	(469)	(427)
Profit/(loss) on sales (EBIT)	111	77	+44.2	2	109
Profit/(loss) for the period	**(246)**	**(236)**	**+4.2**	**(159)**	**(87)**
Depreciation/amortisation recognised in profit or loss	(238)	(256)	(7.0)	(129)	(109)
Adjusted EBITDA[1]	**349**	**333**	**+4.8**	**131**	**218**

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

Table 22. Main factors impacting the change in profit or loss of Sierra Gorda S.C.M.:

Item	Impact on change of profit or loss (in USD million)	Description
Higher revenues from contracts with customers by USD 14 million, including:	+88	Higher revenues due to a higher copper sales volume by 14.2 thousand tonnes
	+17	Higher revenues from gold and silver sales
	(57)	Lower revenues due to a lower molybdenum sales volume by 4.6 million pounds
	(21)	Lower revenues due to lower copper prices
	(13)	Other factors
Higher costs of sales, selling costs and administrative expenses by USD 1 million, including:	+18	Lower depreciation/amortisation, including mainly depreciation/amortisation of pre-stripping expenditures
	+7	Lower molybdenum conversion costs due to lower molybdenum production
	+4	Lower costs of fuels and oil, mainly diesel oil (lower prices and consumption)
	(9)	Higher costs of labour, energy and spare parts
	+2	Other costs
	(8)	Change in inventories
	(15)	Lower costs of pre-stripping, capitalised and at the same time decreasing costs in profit or loss
Impact of other operating activities – a decrease in the result by USD 4 million	(4)	Lower result, mainly due to exchange differences
Income tax	(5)	Lower tax asset due to a lower loss before taxation

Chart 10. Change in profit/loss for the period *(in USD million)*



5.5. CASH EXPENDITURES

In the first half of 2019, cash expenditures on property, plant and equipment and intangible assets, reflected in the statement of cash flows of Sierra Gorda S.C.M. amounted to USD 141 million, of which the majority, or USD 104 million (74%), were cash expenditures incurred on pre-stripping to gain access to further areas of the deposit, with the rest related to development work and the replacement of property, plant and equipment.

Table 23. Cash expenditures of Sierra Gorda S.C.M.

	Unit	1st half 2019	1st half 2018	Change (%)	2Q'19	1Q'19
Cash expenditures on property, plant and equipment	mn USD	141	159	(11.3)	75	66
Cash expenditures on property, plant and equipment – segment (55% interest)	mn PLN	294	307	(4.2)	157	137

The decrease in cash expenditures (expressed in USD) by 11% was mainly in respect of expenditures on pre-stripping, which were lower due to the lower scope of pre-stripping carried out. Expenditures related to the project to develop the dam of the tailings storage facility were also lower.

The main source of financing investments in the first half of 2019 was the inflow from operating activities. Due to the June instalment for repaying the bank loan drawn to build the mine, Sierra Gorda S.C.M. required financing in the form of an increase in share capital in the amount of USD 30 million (on a 100% basis). In the corresponding period of 2018 financing amounted to USD 130 million.

6. Consolidated financial results of the KGHM Polska Miedź S.A. Group

6.1. FINANCIAL RESULTS

Statement of profit or loss

Table 24. Financial results of the Group *(in PLN million)*

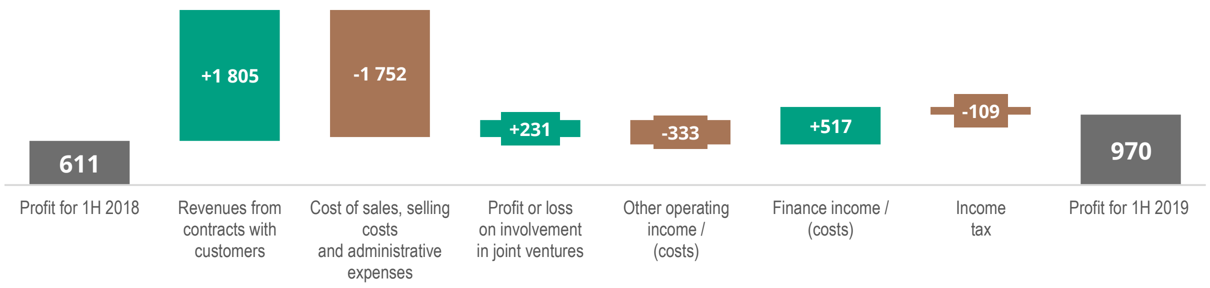
	1st half 2019	1st half 2018	Change (%)	2Q'19	1Q'19
Revenues from contracts with customers	11 228	9 423	+19.2	5 740	5 488
Cost of sales, selling costs and administrative expenses	(9 823)	(8 071)	+21.7	(5 074)	(4 749)
Profit on sales	**1 405**	**1 352**	**+3.9**	**666**	**739**
Profit/(loss) on involvement in joint ventures	103	(128)	×	21	82
Other operating income/(costs)	30	363	(91.7)	(167)	197
Finance income/(costs)	(86)	(603)	(85.7)	94	(180)
Profit/(loss) before income tax	**1 452**	**984**	**+47.6**	**614**	**838**
Income tax expense	(482)	(373)	+29.2	(196)	(286)
Profit/(loss) for the period	**970**	**611**	**+58.8**	**418**	**552**
Adjusted EBITDA[1]	**2 732**	**2 565**	**+6.5**	**1 278**	**1 454**

[1] Adjusted EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss) + impairment loss (-reversal of impairment losses) on non-current assets recognised in cost of sales, selling costs and administrative expenses) according to part 2 of the condensed consolidated financial statements – together with Sierra Gorda S.C.M.

Table 25. Main factors impacting the change of the Group's profit or loss

Item	Impact on change of profit or loss (in PLN million)	Description
Revenues from contracts with customers	+ 1 805	An increase in revenues mainly due to higher revenues in KGHM Polska Miedź S.A. (+PLN 1 642 million) and in KGHM INTERNATIONAL LTD. (+PLN 116 million). The detailed reasons for the change in the revenues of both segments are described in parts 3 and 4 of this report.
Cost of sales, selling costs and administrative expenses	(1 752)	The increase in costs in the consolidated result was mainly due to higher costs in KGHM Polska Miedź S.A. (by PLN 1 475 million) and higher costs in KGHM INTERNATIONAL LTD. (by PLN 156 million) described in greater detail in parts 3 and 4 of this report.
Profit/(loss) on involvement in joint ventures	+ 231	The change in profit/(loss) on involvement in joint ventures from -PLN 128 million to +PLN 103 million was due to: – a lower share of losses of joint ventures accounted for using the equity method by PLN 191 million, and – higher interest income on loans granted to joint ventures by PLN 40 million.
Other operating income/(costs)	(333)	The decrease in the result on other operating activities from PLN 363 million to PLN 30 million was mainly due to: – lower exchange differences on assets and liabilities other than borrowings by PLN 543 million, – lower costs of provisions recognised by PLN 144 million, – higher income from the release of provisions by PLN 38 million.
Finance income/(costs)	+ 517	The change in finance income/(costs) from -PLN 603 million to -PLN 86 million was mainly due to: – higher exchange differences on borrowings by PLN 591 million, – a lower result on the measurement and realisation of derivatives by PLN 43 million, – higher interest costs on borrowings by PLN 33 million.
Income tax expense	(109)	The increase in income tax expense was due to an increase in profit before income tax.

Chart 11. Change in profit or loss in the first half of 2019 *(in PLN million)*



Assets and liabilities

Table 26. Consolidated assets *(in PLN million)*

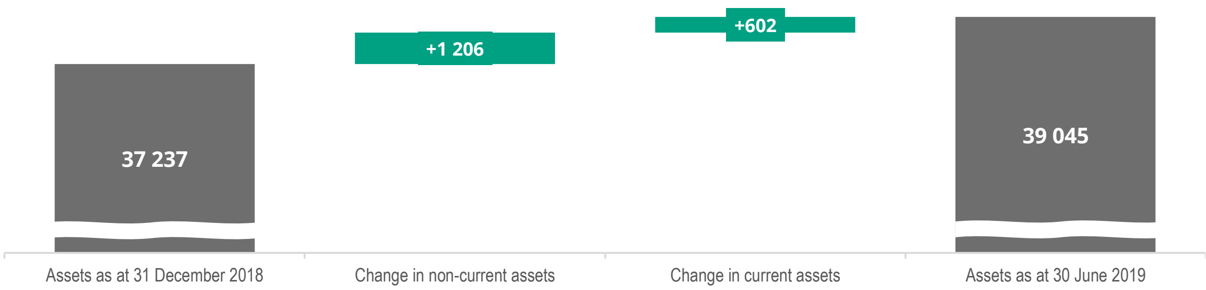
	30.06.2019	31.12.2018	Change (%)	31.03.2019
Mining and metallurgical property, plant and equipment	18 632	17 507	+6.4	18 126
Mining and metallurgical intangible assets	1 715	1 657	+3.5	1 654
Other property, plant and equipment	2 945	2 789	+5.6	2 930
Other intangible assets	155	224	(30.8)	287
Joint ventures accounted for using the equity method	4	4	-	4
Loans granted to joint ventures	5 327	5 199	+2.5	5 389
Derivatives	258	320	(19.4)	250
Other financial instruments measured at fair value	463	541	(14.4)	520
Other financial instruments measured at amortised cost	751	716	+4.9	757
Deferred tax assets	223	309	(27.8)	452
Other non-financial assets	108	109	(0.9)	108
Non-current assets	**30 581**	**29 375**	**+4.1**	**30 477**
Inventories	5 277	4 983	+5.9	5 444
Trade receivables	723	799	(9.5)	1 011
Tax assets	288	417	(30.9)	312
Derivatives	324	301	+7.6	140
Other financial assets	420	273	+53.8	286
Other non-financial assets	326	132	×2.5	258
Cash and cash equivalents	1 106	957	+15.6	590
Current assets	**8 464**	**7 862**	**+7.7**	**8 041**
Total assets	**39 045**	**37 237**	**+4.9**	**38 518**

As at 30 June 2019, total assets in the consolidated statement of financial position amounted to PLN 39 045 million and were higher as compared to 31 December 2018 by PLN 1 808 million.

Non-current assets as at 30 June 2019 amounted to PLN 30 581 million and were higher by PLN 1 206 million as compared to the end of 2018. The increase in non-current assets was mainly due to property, plant and equipment and intangible assets by PLN 1 270 million and to loans granted to joint ventures by PLN 128 million. As compared to the end of 2018, the decrease was mainly in deferred tax assets, by PLN 86 million, in other financial instruments measured at fair value, by PLN 78 million and in derivatives, by PLN 62 million.

The increase in current assets by PLN 602 million was mainly due to an increase in the value of inventories by PLN 294 million, other non-financial assets by PLN 194 million, other financial assets by PLN 147 million and cash and cash equivalents by PLN 149 million. As compared to the end of 2018, trade receivables decreased by PLN 76 million and tax assets by PLN 129 million.

Chart 12. Change in assets in the first half of 2019 *(in PLN million)*



Equity and liabilities

Table 27. Consolidated equity and liabilities *(in PLN million)*

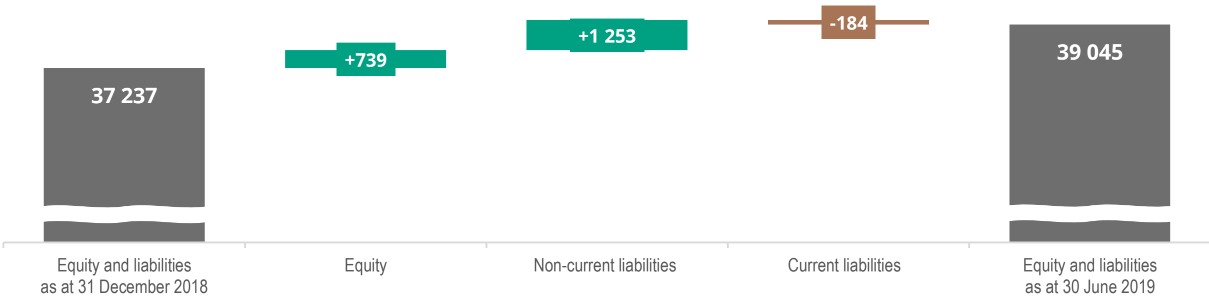
	30.06.2019	31.12.2018	Change (%)	31.03.2019
Share capital	2 000	2 000	-	2 000
Other reserves from measurement of financial instruments	(468)	(444)	+5.4	(682)
Accumulated other comprehensive income	1 897	2 005	(5.4)	1 906
Retained earnings	16 442	15 572	+5.6	16 124
Equity attributable to shareholders of the Parent Entity	**19 871**	**19 133**	+3.9	**19 348**
Equity attributable to non-controlling interest	**93**	**92**	+1.1	**93**
Equity	**19 964**	**19 225**	+3.8	**19 441**
Borrowings, leases and debt securities	7 910	6 878	+15.0	6 867
Derivatives	127	162	(21.6)	171
Employee benefits liabilities	2 649	2 447	+8.3	2 534
Provisions for decommissioning costs of mines and other facilities	1 712	1 564	+9.5	1 593
Deferred tax liabilities	404	498	(18.9)	587
Other liabilities	598	598	-	603
Non-current liabilities	**13 400**	**12 147**	+10.3	**12 355**
Borrowings, leases and debt securities	1 050	1 071	(2.0)	1 795
Derivatives	47	43	+9.3	55
Trade payables	1 882	2 053	(8.3)	1 917
Employee benefits liabilities	1 036	1 044	(0.8)	891
Tax liabilities	453	349	+29.8	678
Provisions for liabilities and other charges	162	271	(40.2)	265
Other liabilities	1 051	1 034	+1.6	1 121
Current liabilities	**5 681**	**5 865**	(3.1)	**6 722**
Non-current and current liabilities	**19 081**	**18 012**	+5.9	**19 077**
Total equity and liabilities	**39 045**	**37 237**	+4.9	**38 518**

Equity as at 30 June 2019 amounted to PLN 19 964 million and was higher by PLN 739 million than at the end of 2018, mainly due to an increase in retained earnings by PLN 870 million alongside a decrease in other reserves from the measurement of financial instruments by PLN 24 million and a decrease in accumulated other comprehensive income by PLN 108 million.

Non-current liabilities of the KGHM Polska Miedź S.A. Group as at 30 June 2019 amounted to PLN 13 400 million and were higher by PLN 1 253 million as compared to the end of 2018, due to an increase in non-current borrowings, leases and debt securities by PLN 1 032 million, employee benefits liabilities by PLN 202 million and provisions for decommissioning costs of mines and other facilities by PLN 148 million. As compared to the end of 2018, deferred tax liabilities decreased by PLN 94 million and derivatives decreased by PLN 35 million.

Current liabilities of the KGHM Polska Miedź S.A. Group as at 30 June 2019 amounted to PLN 5 681 million and were lower by PLN 184 million as compared to the end of 2018, mainly due to a decrease in trade liabilities by PLN 171 million and a decrease in provisions for liabilities and other charges by PLN 109 million alongside an increase in tax liabilities by PLN 104 million.

Chart 13. Change in equity and liabilities in the first half of 2019 *(in PLN million)*



Cash flow

Table 28. Cash flow of the Group *(in PLN million)*

	1st half 2019	1st half 2018	Change (%)	2Q'19	1Q'19
Profit/(loss) before income tax	1 452	984	+47.6	614	838
Depreciation/amortisation recognised in profit or loss	921	864	+6.6	468	453
Share of losses of joint ventures accounted for using the equity method	63	254	(75.2)	63	-
Interest on loans granted to joint ventures	(166)	(126)	+31.7	(84)	(82)
Interest and other costs of borrowings	99	70	+41.4	52	47
Impairment losses on non-current assets	-	14	×	-	-
Exchange differences	47	(52)	×	103	(56)
Change in provisions and employee benefits liabilities	(60)	231	×	(68)	8
Change in other receivables and liabilities	(290)	89	×	(218)	(72)
Change in derivatives	(50)	(164)	(69.5)	(31)	(19)
Other adjustments	-	(7)	×	(2)	2
Exclusions of income and costs, total	564	1 173	(51.9)	283	281
Income tax paid	(257)	(413)	(37.8)	(191)	(66)
Change in working capital	(145)	(1 040)	(86.1)	373	(518)
Net cash generated from operating activities	**1 614**	**704**	**×2.3**	**1 079**	**535**
Expenditures on mining and metallurgical assets	(1 416)	(1 153)	+22.8	(691)	(725)
Expenditures on other property, plant and equipment and intangible assets	(188)	(121)	+55.4	(58)	(130)
Expenditures on financial assets designated for mine decommissioning	(292)	(24)	×12.2	(203)	(89)
Acquisition of newly – issued shares of joint ventures	(63)	(262)	(76.0)	(63)	-
Other expenses	(21)	(22)	(4.5)	(14)	(7)
Total expenses	(1 980)	(1 582)	+25.2	(1 029)	(951)
Proceeds from financial assets designated for mine decommissioning	268	9	×29.8	202	66
Other proceeds	16	60	(73.3)	8	8
Proceeds	284	69	×4.1	210	74
Net cash used in investing activities	**(1 696)**	**(1 513)**	**+12.1**	**(819)**	**(877)**
Proceeds from borrowings	3 425	2 065	+65.9	280	3 145
Proceeds from the issue of debt financial instruments	2 000	-	×	2 000	-
Other proceeds	2	2	-	1	1
Total proceeds	5 427	2 067	×2.6	2 281	3 146
Repayments of borrowings	(5 048)	(1 165)	×4.3	(1 973)	(3 075)
Interest paid and other costs of borrowings	(108)	(70)	+54.3	(54)	(54)
Other	(1)	-	×	-	(1)
Total expenses	(5 157)	(1 235)	×4.2	(2 027)	(3 130)
Net cash generated from financing activities	**270**	**832**	**(67.5)**	**254**	**16**
TOTAL NET CASH FLOW	**188**	**23**	**×8.2**	**514**	**(326)**
Foreign exchange gains/(losses)	(39)	1	×	2	(41)
Cash and cash equivalents at beginning of the period	957	586	+63.3	590	957
Cash and cash equivalents at end of the period	**1 106**	**610**	**+81.3**	**1 106**	**590**

Net cash generated from operating activities in the first 6 months of 2019 amounted to PLN 1 614 million and was mainly comprised of profit before income tax of PLN 1 452 million, plus depreciation/amortisation in the amount of PLN 921 million less income tax paid in the amount of PLN 257 million, the change in other receivables and liabilities in the amount of PLN 290 million, interest on loans granted to joint ventures in the amount of PLN 166 million and the change in working capital in the amount of PLN 145 million.

Net cash used in investing activities in the first half of 2019 amounted to PLN 1 696 million and was mainly comprised of cash expenditures on the purchase of mining and metallurgical property, plant and equipment and intangible assets and on other property, plant and equipment and intangible assets in the total amount of PLN 1 604 million, as well as the acquisition of newly-issued shares of joint ventures in the amount of PLN 63 million.

Net cash generated from financing activities in the first 6 months of 2019 amounted to PLN 270 million and was mainly comprised of proceeds from borrowings in the amount of PLN 3 425 million, proceeds from issue of debt financial instruments in the amount of PLN 2 000 million, repayments of borrowings in the amount of PLN 5 048 million and interest paid and other costs of borrowings in the amount of PLN 108 million.

After accounting for exchange gains/(losses) on cash and cash equivalents, in the first 6 months of 2019 cash and cash equivalents increased by PLN 149 million and at 30 June 2019 amounted to PLN 1 106 million.

Chart 14. Cash flow in the first half of 2019 *(in PLN million)*

Contingent assets and liabilities

As at 30 June 2019, the value of contingent assets amounted to PLN 633 million and was higher than the amount at the end of 2018 by PLN 68 million. The increase in amount of contingent assets was mainly affected by the increase in guarantees received by PLN 51 million.

As at 30 June 2019, the value of contingent liabilities amounted to PLN 2 563 million and was higher than the amount at the end of 2018 by PLN 106 million. The increase was mainly in respect of an increase in guarantees granted by PLN 82 million and promissory note liabilities by PLN 37 million.

6.2. FINANCING OF GROUP ACTIVITIES

Financial liquidity management within the Group is carried out based on the approved "Financial Liquidity Management Policy in the Group". The goal of the Financial Liquidity Management Policy in the Group is to ensure continuous operations by securing the availability of cash required to achieve the Group's business goals, while optimising the costs incurred to maintain liquidity and maximise profit with excess liquidity. The Financial Liquidity Committee supports the Management Board of the Parent Entity in carrying out this Policy.

Net debt in the Group

As at 30 June 2019, net debt of the Group amounted to PLN 7 863 million, 97% of which was consolidated at the Parent Entity level. The increase in net debt in the first half of 2019 by PLN 863 million as compared to the end of 2018 was due among others to adaptation to the provisions of IFRS 16, which require the recognition of lease agreements, leases and rentals in the statement of financial position as a financial liability.

The Group's cash and cash equivalents are of a short term nature, and in the first half of 2019 were primarily held in overdraft facilities under the cash pooling services, which enables the Group to optimise interest income and costs.

Table 29. Net debt in the Group *(in PLN million)*

	30.06.2019	31.12.2018	Change (%)
Liabilities due to:	8 960	7 949	+12.7
Bank loans	3 852	5 676	(32.1)
Other loans	2 414	2 246	+7.5
Debt securities	2 001	-	×
Leases	693[1]	27	×25.7
Free cash and cash equivalents	**1 097**	**949**	**+15.6**
Net debt	**7 863**	**7 000**	**+12.3**

[1]*Impact of IFRS 16: PLN 625 million*

Sources of financing in the Group

The Group makes use of the services of financial institutions with high credit ratings and strong market positions, guaranteeing financial stability and competitive costs, which enables a high degree of efficiency when engaging in borrowing.

Advancing one of the strategic goals of the Group, as a result of which borrowing is diversified and is based on long-term instruments, in the first half of 2019 the Parent Entity initiated a bond issue program on the Polish market. The first issue of bonds with a nominal value of PLN 2 billion was made in June 2019. The funds obtained will be used to finance general corporate goals.

As at 30 June 2019, the Group held open lines of credit, loans and bonds with a total available amount of PLN 19 495 million, out of which PLN 6 266 million had been drawn in the form of bank and other loans, while the value of bonds issued by the Parent Entity amounted to PLN 2 001 million.

Unsecured, revolving syndicated credit facility in the amount of USD 2.5 billion with maturity of 9 July 2021	This financing agreement was concluded by the Parent Entity with a syndicate banks group in 2014 in the amount of USD 2 500 million. The repayment deadline of the credit facility is 9 July 2021. The funds obtained are being used to finance general corporate goals, including the continuation of investment projects, and were used to refinance the debt of KGHM INTERNATIONAL LTD.
Investment loans from the European Investment Bank in the total amount of PLN 2.9 billion with a financing period of 12 years	Financing agreement concluded by the Parent Entity with the European Investment Bank: – in August 2014 in the amount of PLN 2 000 million, which was drawn in the form of three instalments to the full available amount. The deadlines for repaying the instalments drawn are 30 October 2026, 30 August 2028 and 23 May 2029. The funds acquired through this loan were used to finance the Parent Entity's investment projects related to modernisation of metallurgy and development of the Żelazny Most tailings storage facility, – in December 2017 in the amount of PLN 900 million, with availability of 22 months from the date the agreement was signed. Under this loan the Parent Entity drew two instalments with repayment deadlines of 28 June 2030 and 23 April 2031. The funds obtained through this loan are being used to finance the Parent Entity's development and replacement projects at various stages of the production line.
Bilateral bank loans in the amount of up to PLN 5.3 billion	The Group has lines of credit within the concluded bilateral agreements in the total amount of PLN 5 229 million. These are working capital facilities and overdraft facilities with availability of up to 5 years, the maturities of which are successively extended for subsequent periods, as well as long-term investment bank loans. The funds obtained under the aforementioned bank loan agreements are used to finance working capital, are a tool supporting the management of current financial liquidity and support the financing of investments advanced by the Group's companies.
Bonds	The issue agreement dated 27 May 2019 established a bond issue program on the Polish market. The first issue of bonds with a nominal value of PLN 2 000 million took place on 27 June 2019, under which 5-year bonds were issued in the amount of PLN 400 million and 10-year bonds in the amount of PLN 1 600 million. The funds obtained from the bond issue will be used to finance general corporate goals.

The aforementioned sources fully cover the current, medium- and long-term liquidity needs of the Group.

In the first half of 2019, the Group made use of borrowings which were available from all of the above pillars.

Debt position as at 30 June 2019

The following table presents the structure of sources of financing used by KGHM Polska Miedź S.A. and the extent to which they were utilised.

Table 30. Amount available and drawn by the Group *(in PLN million)*

	Amount drawn as at 30.06.19	Amount drawn as at 31.12.18	Change (%)	Amount available as at 30.06.19	Utilisation (%)
Unsecured, revolving syndicated credit facility	735	4 121	(82.2)	9 334	7.9
Loans	2 414	2 246	+7.5	2 932	82.3
Bilateral bank loans	3 117	1 555	×2.0	5 229	59.6
Debt securities	2 001[1]	-	×	2 000	100.0
Total	**8 267**	**7 922**	**+4.4**	**19 495**	**42.4**

[1] Carrying amount of bonds includes accrued, unpaid interest

Cash pooling in the Group

In managing its financial liquidity, the Group utilises tools which support its efficiency. One of the basic instruments used by the Group is the cash pooling management system - domestically in PLN, USD and EUR and abroad in USD. The cash pooling system is aimed at optimising cash management, limiting interest costs, the effective financing of current needs in terms of working capital and supporting short term financial liquidity in the Group.

Loans granted

As at 30 June 2019, the balance of loans granted by the Group amounted to PLN 5 352 million. This item mainly comprises long-term loans with interest based on a fixed interest rate, granted by the KGHM INTERNATIONAL LTD. Group to finance mining assets in Chile and Canada.

Contingent liabilities due to guarantees granted

As at 30 June 2019, the Group held contingent liabilities due to guarantees and letters of credit granted in the total amount of PLN 2 337 million and due to promissory notes liabilities in the amount of PLN 55 million.

In the first half of 2019, neither the Parent Entity nor its subsidiaries granted guarantees related to bank and other loans nor guarantees of a significant value to a single entity or subsidiary thereto.

Detailed information on the amount and nature of contingent liabilities due to guarantees granted may be found in part 4 of the half-year condensed consolidated statements.

Evaluation of Group liquidity

In the first half of 2019, the KGHM Polska Miedź S.A. Group was fully capable of repaying its liabilities towards other entities. The cash and cash equivalents held by the Group along with the external financing obtained ensure that liquidity will be maintained and enables the achievement of investment goals.

7. Other information

7.1. DESCRIPTION OF BASIC THREATS AND RISK FACTORS ASSOCIATED WITH THE SUBSEQUENT MONTHS OF THE FINANCIAL YEAR

Comprehensive Risk Management System in the KGHM Polska Miedź S.A. Group

The KGHM Polska Miedź S.A. Group defines risk as uncertainty, being an integral part of the activities conducted and having the potential to result in both opportunities and threats to achievement of the business goals. The current and future, actual and potential impact of risk on the KGHM Polska Miedź S.A. Group's activities is assessed. Based on this assessment, management practices are reviewed and adjusted in terms of responses to individual risk factors.

Under the Corporate Risk Management Policy and Procedure and the Rules of the Corporate Risk and Compliance Committee updated in the first half of 2019, the process of corporate risk management in the Group is consistently performed. KGHM Polska Miedź S.A. oversees the process of managing corporate risk in the Group, while in the companies of the Group, documents regulating the management of corporate risk are consistent with those of the Parent Entity.

Risk factors in various areas of the Group's operations are continuously identified, assessed and analysed in terms of their possible limitation. Key risk factors in the Group undergo in-depth analysis in order to develop a Risk Response Plan and Corrective Actions. Other risk factors undergo monitoring by the Department of Corporate Risk Management and Compliance, and in terms of financial risk by the division of the Executive Director for Treasury Operations - Corporate Treasurer.

The breakdown of rights and responsibilities applies best practice principles for Corporate Governance and the generally recognised model of three lines of defense.

Key risk factors and their mitigation

A detailed description of key risk factors of the KGHM Polska Miedź S.A. Group, together with mitigating actions and with an indication of specific risk factors for the Parent Entity and the KGHM INTERNATIONAL LTD. Group, was presented in the Management Board's Report on the Activities of KGHM Polska Miedź S.A. and KGHM Polska Miedź S.A. Group in 2018 in chapter 12, „Risk management in the Group", available at the Company's website, www.kghm.com (https://kghm.com/en/investors/reports-and-presentations/financial-reports).

Market risk management

Commodity risk, currency risk	In terms of managing commodity and currency risk as well as the risk of changes in interest rates, the scale and profile of the activities of the Parent Entity and of the mining companies of the KGHM INTERNATIONAL LTD. Group are of the greatest significance for and have the greatest impact on the results of the Group. In the first half of 2019, the Parent Entity implemented hedging transactions on the copper market in the total notional amount of 36 thousand tonnes, as well as transactions hedging against a change in the USD/PLN exchange rate (hedging of revenues from metals sales) in the total notional amount of USD 1 080 million. Details are described in part 4 of the condensed consolidated financial statements. On 30 June 2019, the Parent Entity held an open hedging position on the copper market for the period from July 2019 to December 2020 for a total of 159 thousand tonnes of copper (including

	141 thousand tonnes under the strategic management of market risk), as well as a hedging position on the currency market for USD 1 980 million of planned revenues from sales of metals for the period from July 2019 to December 2021, and also open derivatives transactions on the interest rate market for the years 2019-2020 and bank and other loans with fixed interest rates. As for managing currency risk which may arise from bank loans, the Parent Entity applies natural hedging by borrowing in currencies in which it has revenues (USD). The balance of liabilities due to bank and investment loans drawn in USD as at 30 June 2019, following their translation into PLN, amounted to PLN 6 110 million.
Interest rate risk	As at 30 June 2019, the following positions were exposed to interest rate risk by impacting the amount of interest income and costs: – cash and cash equivalents: PLN 1 486 million, including deposits of special purpose funds: the Mine Closure Fund and the Tailings Storage Facility Restoration Fund, – liabilities due to bank loans drawn: PLN 3 287 million, – liabilities due to issued bonds: PLN 2 001 million. As at 30 June 2019, the following positions were exposed to interest rate risk due to changes in the fair value of instruments with fixed interest rates: – receivables due to loans granted by the Group: PLN 16 million, – liabilities due to bank and other loans drawn with fixed interest rates: PLN 2 979 million. Holding financial liabilities based on WIBOR, LIBOR or EURIBOR exposes the Group to the risk of higher interest rates which would result in higher interest costs. As a result, taking into consideration the global exposure to interest rate risk, in the first half of 2019 the Parent Entity exercised its right to draw loans from the European Investment Bank based on a fixed interest rate. Moreover, the Parent Entity holds open derivatives transactions on the interest rate market (CAP options) for the years 2019-2020 as well as bank and other loans based on a fixed interest rate.
Price risk related to the change in share prices of listed companies	Price risk related to the shares of listed companies held by the Group is understood as the change in their fair value due to changes in their quoted share prices. As at 30 June 2019, the carrying amount of shares of companies, which were listed on the Warsaw Stock Exchange and on the TSX Venture Exchange, amounted to PLN 348 million.

Other important information regarding market risk management is presented in part 4 of the condensed consolidated financial statements.

Credit risk

Credit risk related to trade receivables	To reduce the risk of insolvency by its customers, the Parent Entity has entered into a receivables insurance contract, which covers receivables from entities with open buyer's credit which have not provided strong collateral or have provided collateral which does not cover the total amount of the receivables. Taking into account the collateral held and the credit limits received from the insurance company, as at 30 June 2019 the Parent Entity had secured 70% of its trade receivables (as at 31 December 2018: 75%).
Credit risk related to cash and cash equivalents and bank deposits	The Group allocates periodically free cash in accordance with the requirements to maintain financial liquidity and limit risk and in order to protect capital and maximise interest income. Credit risk related to deposit transactions is continuously monitored by the on-going review of the credit ratings of those financial institutions with which the Group cooperates, and by limitation of the level of concentration in individual institutions.
Credit risk related to derivatives transactions	Detailed information may be found in part 4 of the condensed consolidated financial statements.
Credit risk related to loans granted	As at 30 June 2019, the balance of loans granted by the Group amounted to PLN 5 352 million. This item is primarily comprised of long-term loans in the total amount of PLN 5 327 million, or USD 1 427 million, granted for the financing of a joint mining venture Sierra Gorda. Credit risk related to the loans granted to the joint venture Sierra Gorda S.C.M. is dependent on the risk related to mine project advancement, and is judged by the Management Board of the Parent Entity to be moderate.

Financial liquidity risk and management of capital

Important information regarding financial liquidity risk and capital management is presented in part 4 of the condensed consolidated financial statements.

7.2. FACTORS WHICH, IN THE ISSUER'S OPINION, WILL IMPACT ITS RESULTS OVER AT LEAST THE FOLLOWING QUARTER

The main impact on the KGHM Polska Miedź S.A. Group's results is from the Parent Entity and, to a lesser extent, the KGHM INTERNATIONAL LTD. Group.

As a result, through the Parent Entity, the most significant factors affecting the Group's results over at least the following quarter are:

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

Moreover, the financial results of the Company will be impacted by the reduction in the minerals extraction tax due to the reduction of the charge arising from the aforementioned tax by 15%, beginning from 1 July 2019.

The most significant factors affecting the results of the KGHM Polska Miedź S.A. Group, through the KGHM INTERNATIONAL LTD. Group, particularly in the following quarter, are:

- metals prices,
- the CLP/USD, CAD/USD and USD/PLN exchange rates, and
- mined copper production costs.

7.3. POSITION OF THE MANAGEMENT BOARD WITH RESPECT TO THE POSSIBILITY OF ACHIEVING PREVIOUSLY PUBLISHED FORECASTS OF RESULTS

KGHM Polska Miedź S.A. has not published a forecast of financial results for 2019.

7.4. SIGNIFICANT CONTRACTS FOR THE GROUP

In the first half of 2019 and to the date of preparation of this report, the following contracts significant for the activities of the Parent Entity and the Group were entered into:

2 January 2019	A multi-year contract was concluded between the Company and the NKT Group for the supply of copper rod in the years 2019-2021 with the possibility of extension for a subsequent 2 years. The value of the contract in the years 2019-2021 is estimated to be from PLN 3 784 million to PLN 4 126 million, depending on the usage of the quantitative option. The value was estimated based on the copper price cost curve from 2 January 2019 and on the average USD/PLN and EUR/USD exchange rates from 2 January 2019 with respect to supplies for the years 2019-2021. The contract signed is a typical sales transaction. The terms are not significantly different from those in force in the previous contract, which expired in 2018.
27 February 2019	An unsecured, revolving credit agreement was concluded between the Company and Bank Gospodarstwa Krajowego with a financing period of up to 84 months, as a renewable credit line in the amount of USD 450 million for a period of 60 months, with the option to transform it into a non-renewable credit after 60 months. Each repayment of the credit made during the availability period, that is until 60 months from the date of signing the credit agreement, will renew the available credit limit. Beginning from the first day after the period of 60 months from the date of signing the credit agreement has elapsed, the credit will be transformed into a non-renewable loan to be repaid in four equal, semi-annual principal instalments. Every repayment of a principal instalment will decrease the amount of the loan until it is fully repaid. Pursuant to the terms of the agreement, the credit may be drawn in USD. The financial resources acquired from the credit line will be used to finance general corporate purposes. Interest on the credit line was set based on LIBOR plus a margin, depending on the level of the financial ratio of net debt/EBITDA. Other credit terms are standard terms for these types of transactions.
21 March 2019	The framework contract signed on 20 June 2016 between KGHM Polska Miedź S.A. and China Minmetals Corporation for the years 2017-2021 and announced by the Company via regulatory filing no. 22/2016 dated 20 June 2016 was terminated. The termination of the aforementioned contract fulfilled the condition precedent of the new framework contract which was signed on 6 November 2018 with China Minmetals Nonferrous Metals Co. Ltd. (a company within the China Minmetals Corporation group) for the years 2019-2023, which was announced by the Company via regulatory filing no. 42/2018 dated 6 November 2018.
27 May 2019	Issue agreement concluded between the Company and the syndicate of the following banks: Powszechna Kasa Oszczędności Bank Polski S.A., Bank Handlowy w Warszawie S.A., Bank Polska Kasa Opieki S.A. and Santander Bank Polska S.A, with respect to the establishment of a bond issue program up to the amount of PLN 4 000 million on the Polish market. Detailed information on the agreement may be found in part 6.2 of this report.
19 June 2019	A Framework Agreement was concluded between KGHM Polska Miedź S.A. and the European Bank for Reconstruction and Development, or EBRD, for financing in the amount of PLN 400 million. Under the Framework Agreement, the Company committed itself to act pursuant to the EBRD's Performance Requirements and the EBRD's anti-corruption guidelines.

The Framework Agreement obliges the Company to use the funds acquired from EBRD to finance selected investments advanced by KGHM.

7.5. INFORMATION ON TRANSACTIONS ENTERED INTO BETWEEN RELATED PARTIES, UNDER OTHER THAN ARM'S LENGTH CONDITIONS

The KGHM Polska Miedź S.A. Group has implemented a variety of internal rules regulating the principles under which contracts between the Group's entities may be entered into, including:

- The Organisational Regulation of the Vice President of the Management Board (Finance) of KGHM Polska Miedź S.A. regarding the introduction in the organisational units of KGHM Polska Miedź S.A. of rules for setting transaction prices and procedures for preparing taxation documentation, and setting rules for the cooperation of KGHM Polska Miedź S.A. with the companies of the Group,
- The Principles of Financial Management and Economic System of KGHM Polska Miedź S.A., and
- The Procurement Policy of the KGHM Polska Miedź S.A. Group.

Acting in compliance with the aforementioned rules, during the first half of 2019 neither the Parent Entity nor its subsidiaries entered into significant transactions with related parties under other than arm's length conditions.

7.6. HUMAN RESOURCES IN THE COMPANY AND GROUP

KGHM Polska Miedź S.A.

Employment in KGHM Polska Miedź S.A. as at 30 June 2019 amounted to 18 445 people, and was 1.0% higher than at the end of the corresponding prior year period. Average annual employment in KGHM Polska Miedź S.A. in the first half of 2019 amounted to 18 439 people and was higher than the level of employment in the first half of 2018 by 156 people. The change in employment was due to natural movements in staff.

Table 31. Average employment in KGHM Polska Miedź S.A.

	1st half 2019	1st half 2018	Change (%)
Mines	12 432	12 399	+0.3
Metallurgical plants	3 645	3 594	+1.4
Other divisions	2 362	2 290	+3.1
KGHM Polska Miedź S.A.	18 439	18 283	+0.9

Group

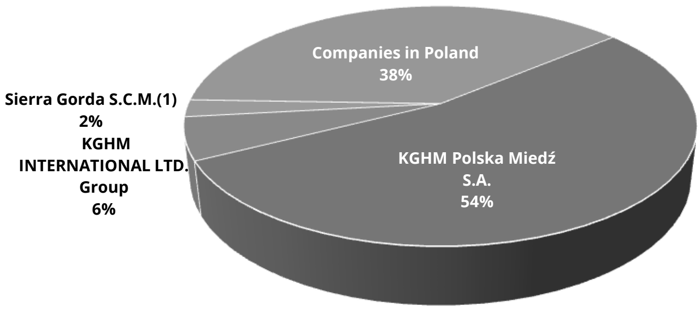
In the first half of 2019, the Group employed 34 388 people, or a slight increase as compared to the first half of 2018. The employment structure is shown in the following table and chart:

Table 32. Average employment in the Group

	1st half 2019	1st half 2018	Change (%)
KGHM Polska Miedź S.A.	18 439	18 283	+0.9
KGHM INTERNATIONAL LTD.	1 969	1 991	(1.1)
Sierra Gorda S.C.M.[1]	791	785	+0.8
Group companies in Poland	13 189	13 290	(0.8)
Total	**34 388**	**34 349**	**+0.1**

[1] *Sierra Gorda S.C.M. – employment proportional to share in the company (55%)*

Chart 15. Employment structure in the Group in the first half of 2019



[1] *Sierra Gorda S.C.M. – employment proportional to share in the company (55%)*

Companies in Poland

In the first half of 2019, as compared to the corresponding period in 2018, average employment in the companies of the KGHM Polska Miedź S.A. Group in Poland decreased slightly, or by 0.8% (a decrease by 101 positions). This change was mainly in respect of blue-collar positions.

Companies abroad

In the first half of 2019, as compared to the corresponding period of 2018, average employment in KGHM INTERNATIONAL LTD. in white-collar positions increased by 6%, mainly due to the services provided by KGHM Chile SpA to Sierra Gorda, while employment in blue-collar positions decreased by 8%, due to the suspension of mining of the Morrison deposit. In the first half of 2019, as compared to 2018, average employment in Sierra Gorda S.C.M. slightly increased (by 0.3%).

7.7. LITIGATION AND CLAIMS

At the end of the first half of 2019, the total value of on-going disputed issues both by and against KGHM Polska Miedź S.A. and its subsidiaries amounted to PLN 388 million, including those related to receivables of PLN 184 million and liabilities of PLN 204 million. The total value of the above disputes did not exceed 10% of the equity of the Parent Entity.

Value of proceedings involving receivables at the end of the first half of 2019:

- proceedings by KGHM Polska Miedź S.A. amounted to PLN 100 million,
- proceedings by subsidiaries amounted to PLN 84 million.

Value of proceedings involving liabilities at the end of the first half of 2019:

- proceedings against KGHM Polska Miedź S.A. amounted to PLN 53 million,
- proceedings against subsidiaries amounted to PLN 151 million.

The aforementioned amounts do not include the proceedings regarding royalties for use by the Company of invention project no. 1/97/KGHM.

List of significant proceedings before courts, arbitration authorities or public administration authorities respecting the liabilities and receivables of KGHM Polska Miedź S.A. and its subsidiaries

Proceedings regarding royalties for use by the Company of invention project no. 1/97/KGHM	On 26 September 2007, plaintiffs (14 natural persons) filed a claim against KGHM Polska Miedź S.A. (Company) with the Regional Court in Legnica for the payment of royalties for the use by the Company of invention project no. 1/97/KGHM called „Sposób zwiększenia zdolności produkcyjnej wydziałów elektrorafinacji Huty Miedzi" (Method for increasing the production capacity of the electrorefining sections of the Metallurgical Plants) for the 8th period of the application, together with interest due. The amount of the claim (principal amount) was set by the Plaintiffs in the claim in the amount of PLN 42 million (principal amount without interest and court costs). Interest as at 31 March 2019 amounted to around PLN 55 million. In the response to the claim, KGHM Polska Miedź S.A. requested the dismissal of the claim in its entirety and filed a counter claim for the return of undue royalties paid for the 6th and 7th periods of application of invention project no. 1/97/KGHM, together with interest due, also invoking the right of mutual set-off of claims. The amount of the claim (principal amount) in the counter claim was set by the Company in the amount of approx. PLN 25 million. In accordance with the Company's position, the counter claim is justified. The Company in this regard paid the authors of the project royalties for a longer period of application of the project than anticipated in the initial contract entered into by the parties on advancing the invention project, based on an annex to the contract, extending the period of payment of royalties, whose validity is questioned by the Company. Moreover, the Company is questioning the „rationalisation" nature of the solutions, as well as whether they were in fact used in their entirety, and also their completeness and suitability for use in the form supplied by the Plaintiffs as well as the means of calculating the economic effects of this solution, which were the basis for paying the royalties. In a judgment dated 25 September 2018, the court dismissed the counter claim and partially upheld the principal claim to the total amount of approx. PLN 24 million, and at the same time ordered the payment of interest in the amount of approx. PLN 30 million, for the total amount of PLN 54 million. Both sides of the proceedings filed appeals to the judgment. In a judgment dated 12 June 2019, the Court of Appeal in Wrocław (Signature I ACa 205/19) dismissed the appeals of both sides, altering the judgment of the court of first instance solely in the matter of the resolution of court costs from the hearings at the court of first instance and charging them to KGHM Polska Miedź S.A. The judgment is binding and was executed by KGHM on 18-19 June 2019. Law in force provides an option to file a cassation appeal against the judgment of the court of second instance.

7.8. THE COMPANY ON THE STOCK EXCHANGE

Key share price data of the Company

KGHM Polska Miedź S.A. debuted on the Warsaw Stock Exchange (WSE) in July 1997. The Company's shares are traded on the primary market of the WSE in the continuous trading system and are a component of the WIG, WIG20 and WIG30 indices, the sector index WIG-GÓRNICTWO (WIG-MINING) and – until 10 July 2018 – the WIGdiv index. Continuously since 19 November 2009, the Company has participated in the RESPECT Index, which confirms its conformance with the highest standards of social responsibility. The RESPECT Index highlights those companies which are managed in a sustainable and responsible manner, and also highlights their investment attractiveness.

Since September 2018, KGHM Polska Miedź S.A. has been a component company of the FTSE4Good Index Series. The FTSE4Good Index Series is one of the ethical investment indices and is designed to measure the performance of companies demonstrating Environmental, Social and Governance (ESG) practices.

Key share price data of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange are presented in the following table.

Table 33. Key share price data of the Company on Warsaw Stock Exchange

Symbol: KGH, ISIN: PLKGHM000017	Unit	1st half 2019	2018	1st half 2018
Number of shares issued	million	200	200	200
Market capitalisation of the Company at period's end	bn PLN	20.7	17.8	17.6
Average trading volume per session	units	551 542	601 052	618 356
Change in share price during the period	%	16.4	-20.1	-20.9
Highest closing price during the period	PLN	112.00	115.00	115.00
Lowest closing price during the period	PLN	86.12	82.56	84.20
Closing price from the last day of trading in the period	PLN	103.50	88.88	88.00

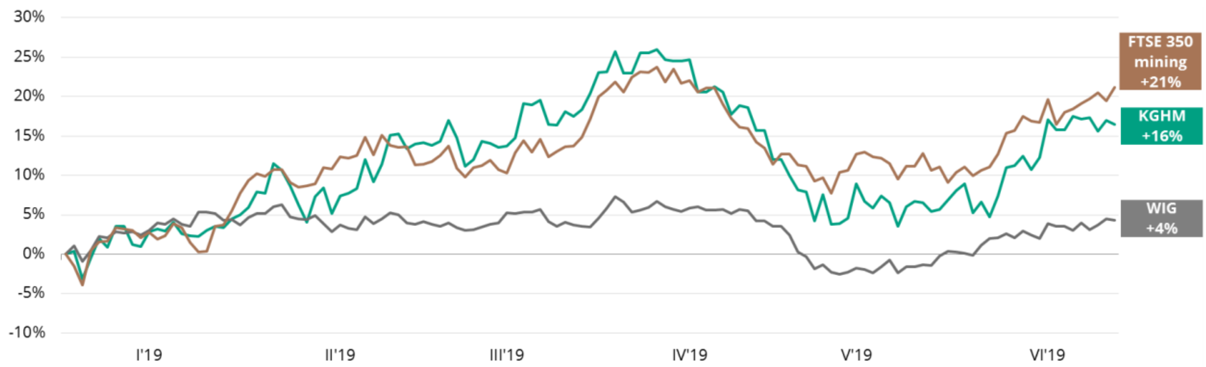
Source: Own work based on WSE Statistic Bulletins for 2018 and for the first half of 2019

The Company's quotations in the first half of 2019

In the first half of 2019 the share price of KGHM Polska Miedź S.A. increased by 16% and at the close of the session on 28 June 2019 amounted to PLN 103.50. During the same period the price of copper – the Company's main product – remained at a similar level, alongside a slight decrease in the average USD exchange rate to the PLN by 0.7%. At the same time the main WSE indices increased: the WIG index by 4%, the WIG20 index by 2%, and the WIG30 index by 4%. The FTSE 350 mining index – an index comprised of companies from the mining sector, listed on the London Stock Exchange – also rose, by more than 21%.

The Company's shares reached their half-year maximum closing price of PLN 112.00 on 10 April 2019. The minimum closing price of PLN 86.12 was recorded on 3 January 2019.

Chart 16. Share price of KGHM Polska Miedź S.A. versus the WIG index and FTSE 350 mining index (percentage change)



Source: Own work, Bloomberg

Ownership structure and the Company's outstanding shares

As at 30 June 2019, the share capital of the Company, in accordance with the entry in the register of entrepreneurs in the National Court Register, amounted to PLN 2 000 million and was divided into 200 million shares, series A, having a face value of PLN 10 each. All shares are bearer shares. Each share grants the right to one vote at the General Meeting. The Company has not issued preference shares.

In the first half of 2019, there was no change in either share capital or in the number of outstanding shares issued.

During the same period there was a change in the ownership structure of significant blocks of shares of KGHM Polska Miedź S.A. The pension fund Otwarty Fundusz Emerytalny PZU "Złota Jesień", as a result of a sales transaction, on 15 February 2019 reduced its involvement in the share capital of the Company and in the total number of votes to a level below 5%.

The Company's shareholder structure as at 30 June 2019 and as at the date this report was signed, set on the basis of notifications received by the Company under art. 69 of the Act on public offerings and conditions governing the introduction of financial instruments to organised trading, and on public companies, is presented in the following table. As far as the Company is aware, this structure did not change since the date of publication of the consolidated report for the first quarter of 2019.

Table 34. Shareholder structure of the Company as at the date of signing this report

shareholder	number of shares/votes	% of share capital/total number of votes
State Treasury[1]	63 589 900	31.79%
Nationale-Nederlanden Otwarty Fundusz Emerytalny[2]	10 104 354	5.05%
Aviva Otwarty Fundusz Emerytalny Aviva Santander[3]	10 039 684	5.02%
Other shareholders	116 266 062	58.14%
Total	**200 000 000**	**100.00%**

[1] based on a notification received by the Company dated 12 January 2010
[2] based on a notification received by the Company dated 18 August 2016
[3] based on a notification received by the Company dated 17 July 2018

Other shareholders, whose total ownership of the share capital and share in the total number of votes amounts to 58.14%, are mainly institutional investors, both international and domestic.

The number of KGHM Polska Miedź S.A.'s shares or rights to them owned by the Members of the Management Board and the Members of the Supervisory Board of the Company did not change in the period since the date of publication of the consolidated report for the first quarter of 2019. Based on the information held by KGHM Polska Miedź S.A., as at the date of preparation of this report no Member of the Management Board of the Company held shares of KGHM Polska Miedź S.A. or rights to them, while amongst the Members of the Company's Supervisory Board only Józef Czyczerski held 10 shares of KGHM Polska Miedź S.A. The remaining Members of the Supervisory Board did not hold shares of the Company or rights to them.

The Company does not hold any treasury shares. The Management Board of the Company is unaware of any agreements which could result in changes in the proportion of shares held by present shareholders in the future.

7.9. ORGANISATIONAL CHANGES IN THE GROUP

In the first half of 2019, there was an organisational change in the Group – the company DMC Mining Service Chile SpA (a 100% subsidiary of DMC Mining Services Ltd.) was founded. This company is consolidated within the KGHM INTERNATIONAL LTD. Group.

In addition, in the first half of 2019 there were changes in the funds managed by KGHM TFI S.A. (a company with a 100% interest held by KGHM Polska Miedź S.A.) and in their investments. The sole participants in the funds managed by KGHM TFI S.A. are companies of the KGHM Polska Miedź S.A. Group.

Liquidation of KGHM I FIZAN	In the first half of 2019, the process of liquidating the Fund, which commenced in 2018 due to the expiry of the 8-year founding period of the Fund, was completed. In January 2019 the fund's Investment Certificates held by KGHM Polska Miedź S.A. were redeemed. As a result of this the Company received the amount of PLN 390 million and was removed from the registry of participants in the Fund. In 2018, during the process of liquidating the Fund, all of its investments were transferred to two new funds: KGHM VI FIZAN and KGHM VII FIZAN, in which 100% of the Investment Certificates were acquired by KGHM Polska Miedź S.A. and paid for with the cash received from the redemption of the Certificates of KGHM I FIZAN. On 11 June 2019 KGHM I FIZAN was removed from the fund registry.
Liquidation of KGHM IV FIZAN	In May 2019 the process of liquidating the Fund began, due to the expiry of the 6-year founding period of the fund, and its investments were transferred to the Fund KGHM VII FIZAN.
Liquidation of KGHM V FIZAN	In the first half of 2019, the process of liquidating the Fund, which commenced in 2018 by a decision of the General Meeting due to the lack of deposits (all of the fund's investments were transferred in 2017 to the KGHM I FIZAN Fund) and to the lack of investment plans for the fund, was completed. In January 2019 the Fund's Investment Certificates, to which KGHM Polska Miedź S.A. was entitled, were redeemed. As a result of this the Company received the amount of PLN 0.7 million and was removed from the registry of participants in the Fund. On 19 March 2019 the Fund was removed from the fund registry.
Acquisition of Investment Certificates of KGHM VI FIZAN	In January 2019, KGHM Polska Miedź S.A. acquired Investment Certificates, Series C, of the KGHM VI FIZAN fund for the amount of PLN 46 million, due to the liquidation of the KGHM I FIZAN Fund. The funds from the payout of the Certificates were used to finance the acquisition by KGHM VI FIZAN of a portion of the investments remaining in the portfolio of the liquidated KGHM I FIZAN Fund.
Acquisition of Investment Certificates of KGHM VII FIZAN	In January 2019, KGHM Polska Miedź S.A. acquired Investment Certificates, Series C, of the KGHM VII FIZAN Fund for the amount of PLN 211 million, due to the liquidation of the KGHM I FIZAN Fund. The funds from the payout of the Certificates were used to finance the acquisition by KGHM VII FIZAN of a portion of the investments remaining in the liquidated portfolio of the KGHM I FIZAN Fund. In June 2019, KGHM Polska Miedź S.A. acquired Investment Certificates, Series D, of the KGHM VII FIZAN and paid the first instalment in the amount of PLN 0.3 thousand, with the remaining amount, i.e. PLN 38 million, to be paid by the end of September 2019. The funds from the payout of the Certificates are to be used to finance the acquisition by KGHM VII FIZAN of the investments remaining in the portfolio of the liquidated KGHM IV FIZAN Fund.
Sale of shares of Cuprum Development sp. z o.o. between Funds	Due to the liquidation of the KGHM IV FIZAN Fund, KGHM VII FIZAN acquired from KGHM IV FIZAN 100% of the shares of Cuprum Development sp. z o.o. The purchase was financed by the issue of the Series D Certificates mentioned above.

In the first half of 2019, KGHM Polska Miedź S.A. consolidated 74 subsidiaries in its financial statements and accounted for two joint ventures (Sierra Gorda S.C.M. and NANO CARBON Sp. z o.o.) using the equity method. The detailed structure of the KGHM Polska Miedź S.A. Group as well as the KGHM INTERNATIONAL LTD. Group as at 30 June 2019 may be found in Appendices 1 and 2.

Appendix 1 KGHM Polska Miedź S.A. Group structure

KGHM Polska Miedź S.A.

- **KGHM TFI S.A.** 100%
- **KGHM VI FIZAN** 100%
  - Fundusz Hotele 01 Sp. z o.o. 100%
  - Fundusz Hotele 01 Sp. z o.o. S.K.A. 100%
    - INTERFERIE S.A. 70%
  - Interferie Medical SPA Sp. z o.o. 90%
- **KGHM VII FIZAN** 100%
  - Polska Grupa Uzdrowisk Sp. z o.o. 100%
  - Uzdrowisko Połczyn Grupa PGU S.A. 100%
  - Uzdrowiska Kłodzkie S.A. - Grupa PGU 100%
  - Staropolanka Spółka z o.o. 100%
  - Cuprum Development sp. z o.o. 100%
  - Uzdrowisko Świeradów -Czerniawa Sp. z o.o. 99%
  - Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU 99%
  - NANO CARBON Sp. z o.o. /1 49%
- **Cuprum Nieruchomości sp. z o.o.** 100%
  - KGHM IV FIZAN (in liquidation) 100%

- **KGHM (SHANGHAI) COPPER TRADING CO., LTD.** 100%
- **CBJ sp. z o.o.** 100%
- **INOVA Spółka z o.o.** 100%
- **BIPROMET S.A.** 100%
- **POL-MIEDŹ TRANS Sp. z o.o.** 100%
- **PMT Linie Kolejowe 2 Sp. z o.o.** 100%
  - PMT Linie Kolejowe Sp. z o.o. 100%
- **KGHM ZANAM S.A.** 100%
  - OOO ZANAM VOSTOK 100%
- **„Energetyka" sp. z o.o.** 100%
  - WPEC w Legnicy S.A. 100%
- **KGHM Metraco S.A.** 100%
  - CENTROZŁOM WROCŁAW S.A. 100%
  - Walcownia Metali Nieżelaznych „ŁABĘDY" S.A. 85%
- **Future 1 Sp. z o.o.** 100%
  - KGHM Kupfer AG 100%
  - **KGHM INTERNATIONAL LTD. Group** 100%

Group structure presented in Appendix 2

- **KGHM CUPRUM sp. z o.o. – CBR** 100%
- **Zagłębie Lubin S.A.** 100%
- **"Miedziowe Centrum Zdrowia" S.A.** 100%
- **TUW-CUPRUM /2** 100%
- **Future 2 Sp. z o.o.** 100%
- **Future 3 Sp. z o.o.** 100%
- **Future 4 Sp. z o.o.** 100%
- **Future 5 Sp. z o.o.** 100%
- **Future 6 Sp. z o.o.** 100%
- **Future 7 Sp. z o.o.** 100%
- **PeBeKa S.A.** 100%
  - PeBeKa Canada Inc. 100%
- **MERCUS Logistyka sp. z o.o.** 100%
  - PHU „Lubinpex" Sp. z o.o. 100%
- **NITROERG S.A.** 87%
  - NITROERG SERWIS Sp. z o.o. 87%

1/ *joint venture accounted for using the equity method*
2/ *unconsolidated subsidiary*

Appendix 2 KGHM INTERNATIONAL LTD. Group structure

KGHM INTERNATIONAL LTD

- **FNX Mining Company Inc.** 100%
  - DMC Mining Services Ltd. 100%
    - DMC Mining Services Chile SpA 100%
  - Quadra FNX Holdings Partnership 100%
    - Raise Boring Mining Services S.A. de C.V. 100%
    - FNX Mining Company USA Inc. 100%
      - DMC Mining Services Corporation 100%
  - CENTENARIO HOLDINGS LTD. 100%
    - Minera Carrizalillo Limitada 100%
    - KGHM Chile SpA 100%
    - FRANKE HOLDINGS LTD. 100%
      - Sociedad Contractual Minera Franke 100%
  - DMC Mining Services Colombia SAS 100%
  - DMC Mining Services (UK) Ltd. 100%
- **0899196 B.C. Ltd.** 100%
  - **KGHM AJAX MINING INC.** 80%
    - Sugarloaf Ranches Ltd. /1 100%
  - **KGHMI HOLDINGS LTD.** 100%
    - Quadra FNX FFI S.à r.l. 100%
    - Aguas de la Sierra Limitada 100%
    - Quadra FNX Holdings Chile Limitada 100%
      - Sierra Gorda S.C.M. /2 55%
- **Robinson Holdings (USA) Ltd.** 100%
  - Wendover Bulk Transhipment Company 100%
  - Robinson Nevada Mining Company 100%
  - Carlota Holdings Company 100%
    - Carlota Copper Company 100%

1/ actual Group interest 80%
2/ joint venture accounted for using the equity method

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

This report was authorised for issue on 19 August 2019.

President
of the Management Board

Marcin Chludziński

Vice President
of the Management Board

Adam Bugajczuk

Vice President
of the Management Board

Paweł Gruza

Vice President
of the Management Board

Katarzyna Kreczmańska-Gigol

Vice President
of the Management Board

Radosław Stach