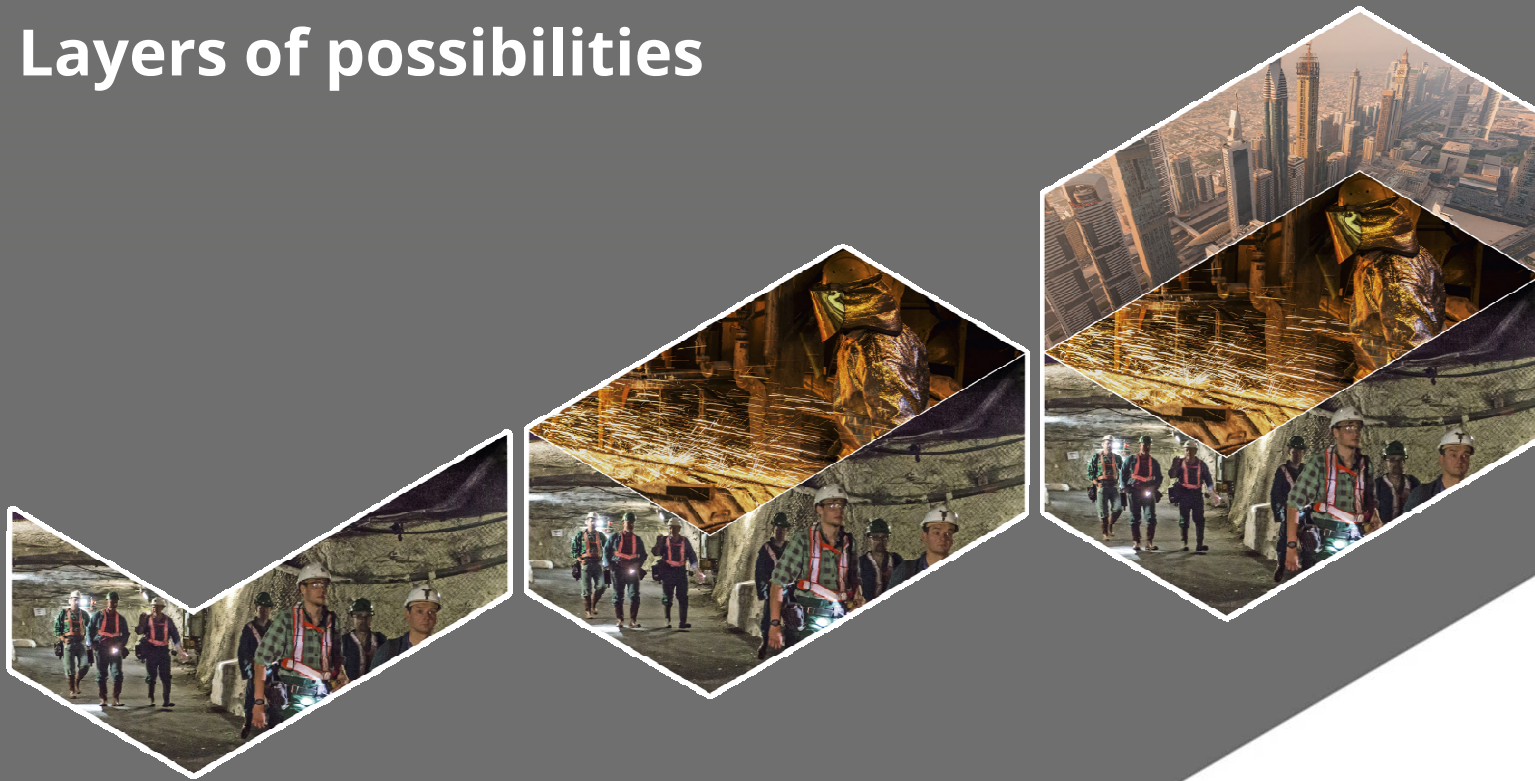


# Layers of possibilities



## Results of the Group for the first quarter of 2018

*16 May 2018*

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# Agenda

**1** Introduction

**2** Economic results of the KGHM Polska Miedź S.A. Group

**3** Summation

**Supporting slides**

- 4**
- Key international projects
  - Key domestic projects
  - Economic results of KGHM Polska Miedź S.A.

**5** Q&A



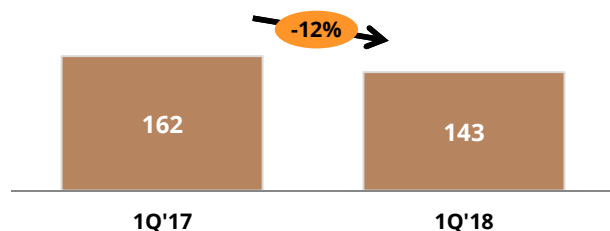
# Introduction

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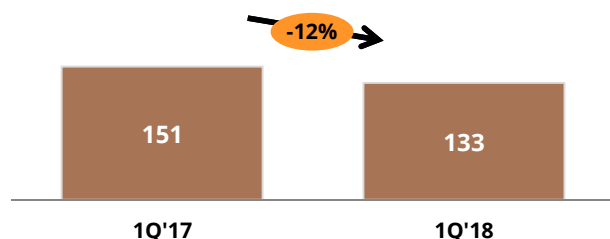
# Summary of the 1st quarter of 2018 in the KGHM Polska Miedź S.A. Group

## Production, sales and finance

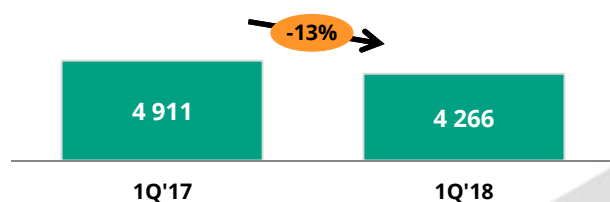
Payable copper production (kt)<sup>1</sup>



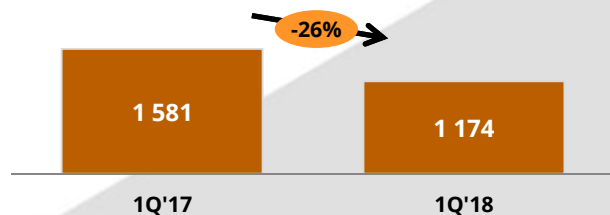
Sales of payable copper (kt)<sup>1</sup>



Consolidated sales revenue (mn PLN)



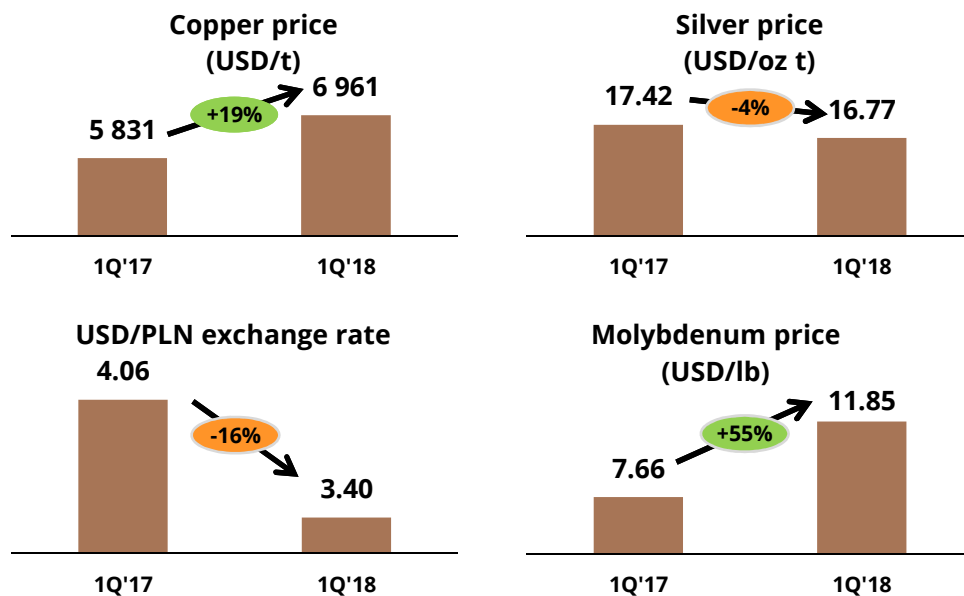
Consolidated EBITDA (mn PLN)<sup>2</sup>



- Production** of payable copper lower yoy by 12%, mainly due to the stockpiling of anode copper inventories to secure resources for the electrorefining of electrolytic copper during the 3-month furnace maintenance shutdown at the Głogów II Copper Smelter and Refinery of KGHM Polska Miedź S.A.
- Sales** of payable copper are a direct reflection of production.
- Revenues**, analogously to sales, are a function of lower production, which did not offset the rise in the USD-denominated price of copper by 19%, due to its depreciation versus the PLN by 16% yoy.
- EBITDA** was lower yoy by 26%, mainly due to a drop in EBITDA of KGHM Polska Miedź S.A. by PLN 533 mn, caused by lower sales of copper and silver. In turn, EBITDA of KGHM International and Sierra Gorda (55%) increased respectively by PLN 93 mn (x2.2 yoy) and PLN 41 mn (+34% yoy), mainly due to an increase in revenue with stable costs of goods sold.

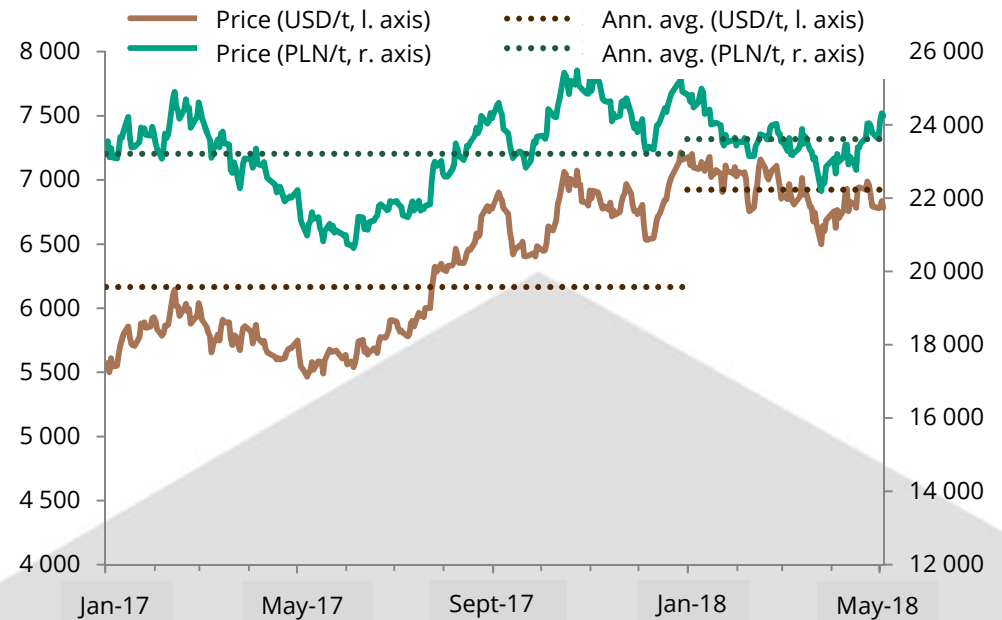
# Copper price in PLN remains at a relatively high level; significant increase in molybdenum price

Significant increase in copper and molybdenum prices with a lower silver price and appreciation of the PLN vs the USD



Source: Thomson Reuters, CRU, KGHM Polska Miedź

## Copper prices in PLN and USD

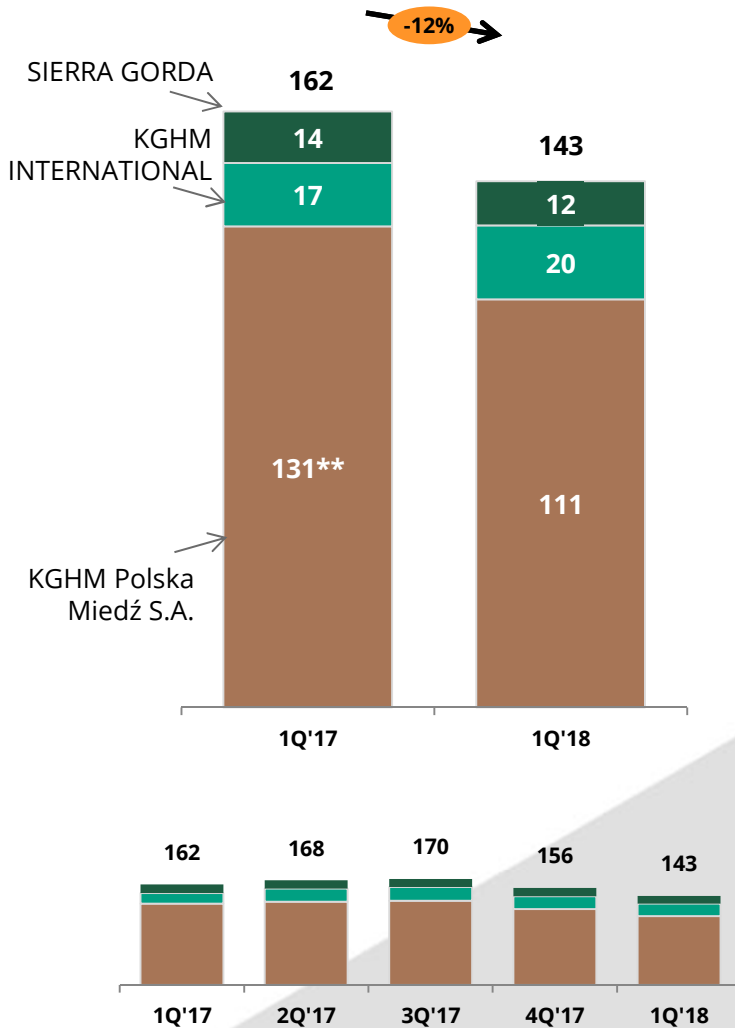


Source: Bloomberg, KGHM Polska Miedź

- In the first quarter of 2018, as compared to the same period of the prior year, the prices of copper and molybdenum recorded dynamic, double-digit growth. In contrast, the price of silver fell below 17 USD/oz t, or by 4% compared to the price in the first quarter of 2017.
- Despite the strengthening of the PLN versus the USD, the average price of copper in PLN in the first quarter of 2018 was slightly lower than in the fourth quarter of 2017, though it remains at a relatively high level compared to historic prices.
- The copper price was supported in the first quarter of 2018 by the following factors: continued economic growth, stable demand for copper and higher mining-related costs (wages and fuel prices) as well as by fears of potential interruptions in production, caused by the renewal in 2018 of labour agreements in South American mines.
- The good economic situation globally, and in particular in the United States, enabled achievement of the tax reforms promised by the government of Donald Trump. Economic stimulus, using fiscal incentives (not only in the USA) is reflected in the higher rates of global growth forecasted by the International Monetary Fund.

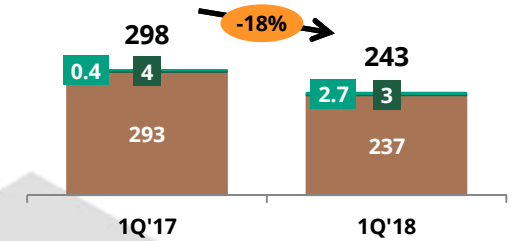
# Metals production by the Group

**Payable copper production (kt)**

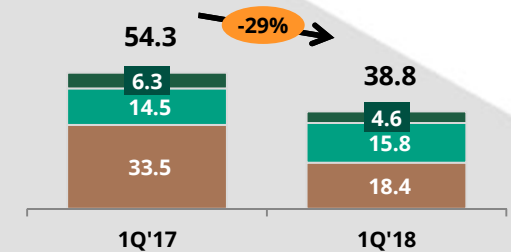


- The lower production of payable copper and of silver and other TPMs (as associated metals) by KGHM Polska Miedź S.A. is mainly due to the stockpiling of half-finished product inventories (anode copper) for use in the production of electrolytic copper (refining phase) during the maintenance shutdown of the concentrates smelting installation at Głogów II in 2Q 2018.
- Stable production of payable copper and higher production of precious metals by KGHM International is mainly due to substantially higher metal content in ore and in recovery by the Robinson mine.
- The drop in copper and molybdenum production by the Sierra Gorda mine was due to the lower metal content in extracted ore. For molybdenum, this factor was offset to a large degree by the higher level of recovery achieved in the first quarter of 2018 compared to the same period of 2017.

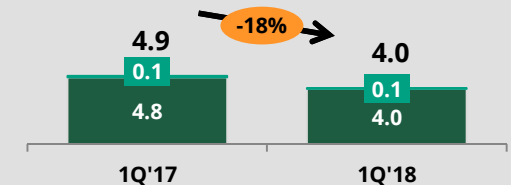
**Silver production (t)**



**TPM production\* (koz t)**



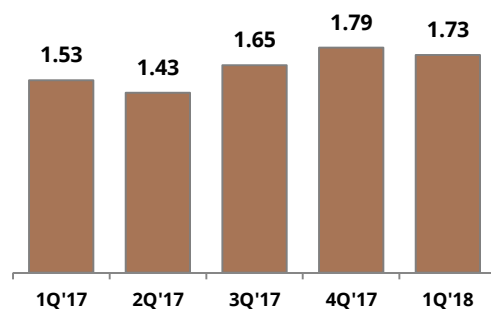
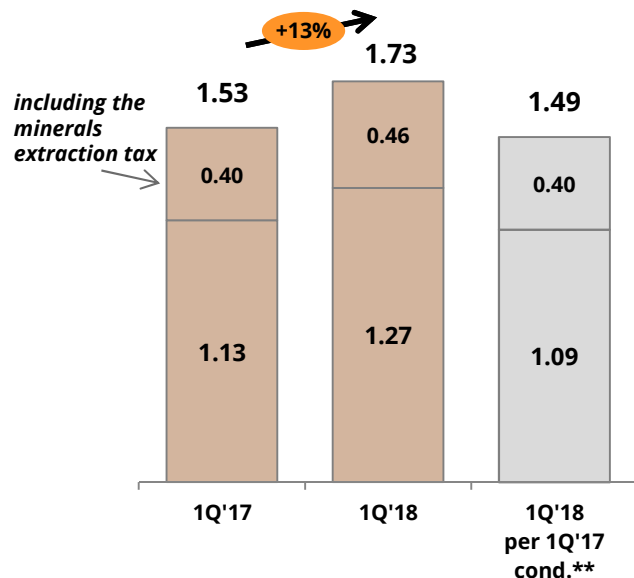
**Molybdenum production (mn lbs)**



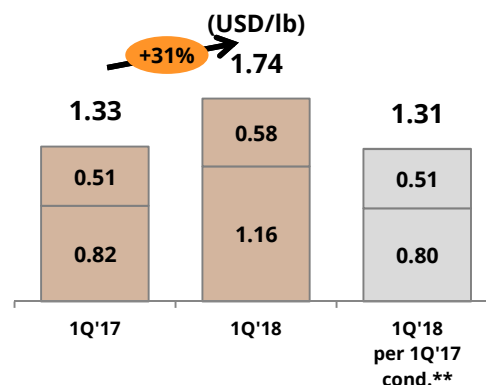
\* TPM – Total Precious Metals, comprising gold, platinum and palladium  
 \*\* Comprises electrolytic copper from third-party concentrate processing

# C1\* unit cost in the Group

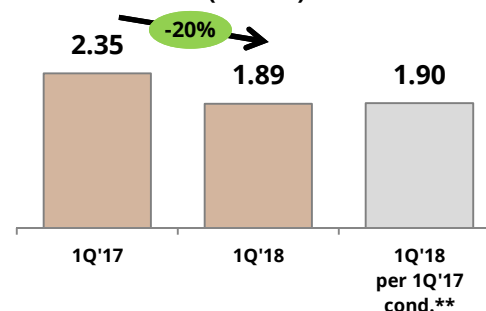
C1 - Group (USD/lb)



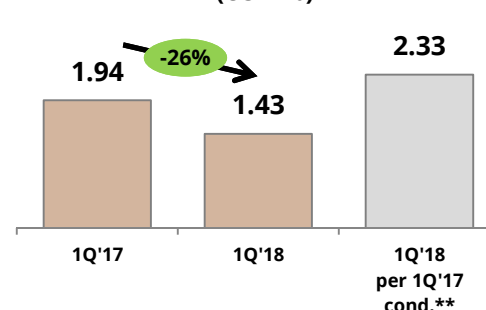
C1 - KGHM Polska Miedź S.A. (USD/lb)



C1 - KGHM INTERNATIONAL (USD/lb)



C1 - Sierra Gorda (USD/lb)



- In the first quarter of 2018, C1 cost in KGHM Polska Miedź S.A. was negatively impacted mainly by the weakening of the USD versus the PLN (-16%) and by lower silver prices (-4%). Under the macroeconomic conditions of 2017, C1 cost was at a similar level to the comparable period of 2017.

- The decrease in C1 cost in KGHM International was mainly due to the Robinson mine, in which operating costs were lower, with higher revenue from sales of associated metals, which reduce C1.

- The decrease in C1 cost in Sierra Gorda was due to higher revenue from molybdenum sales, which reduces this cost (a higher amount of this mineral and higher prices).

Under the macroeconomic conditions of 2016, C1 cost rose by 20%, compared to the first quarter of 2017, due among others to a decrease in the volume of copper sales.

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

\*\* Under the metals prices and USD/PLN exchange rate of 1Q 2017





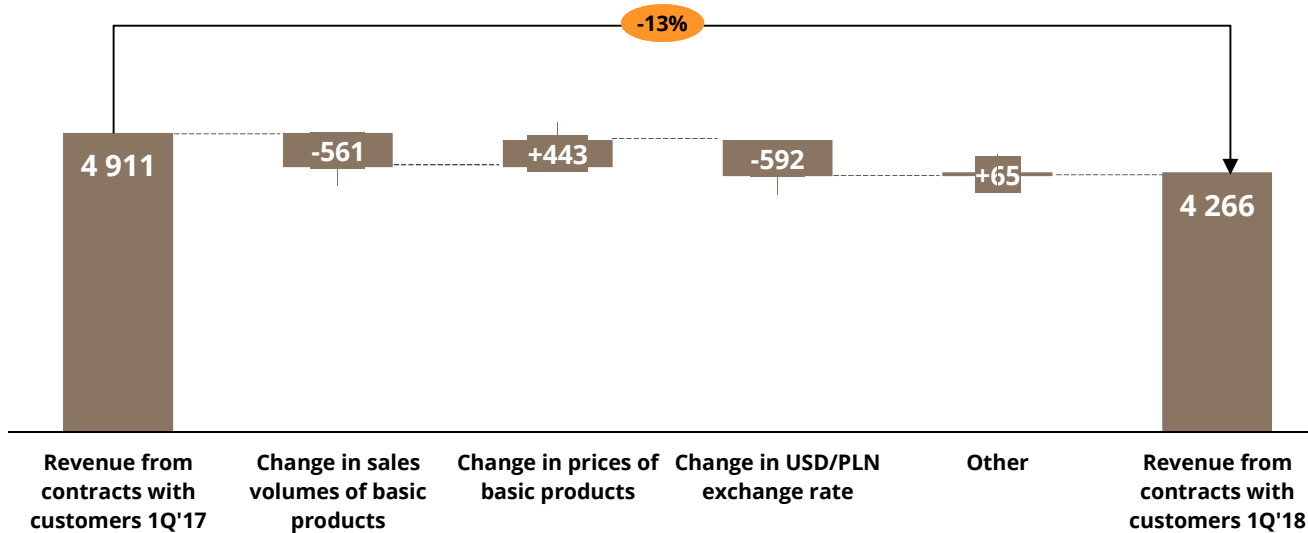
# Economic results of the KGHM Polska Miedź S.A. Group

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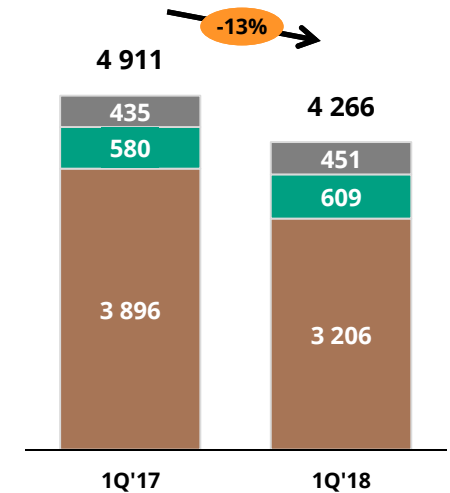


# Sales revenue of the Group in the first quarter of 2018

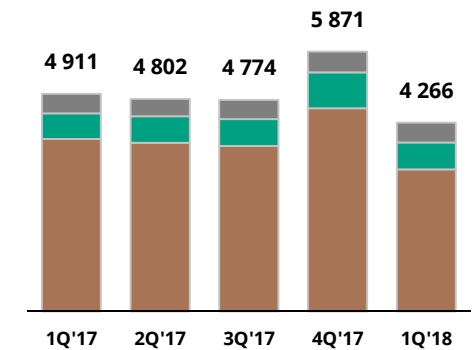
Revenues from contracts with customers  
(mn PLN)



Revenues from contracts with customers (mn PLN)

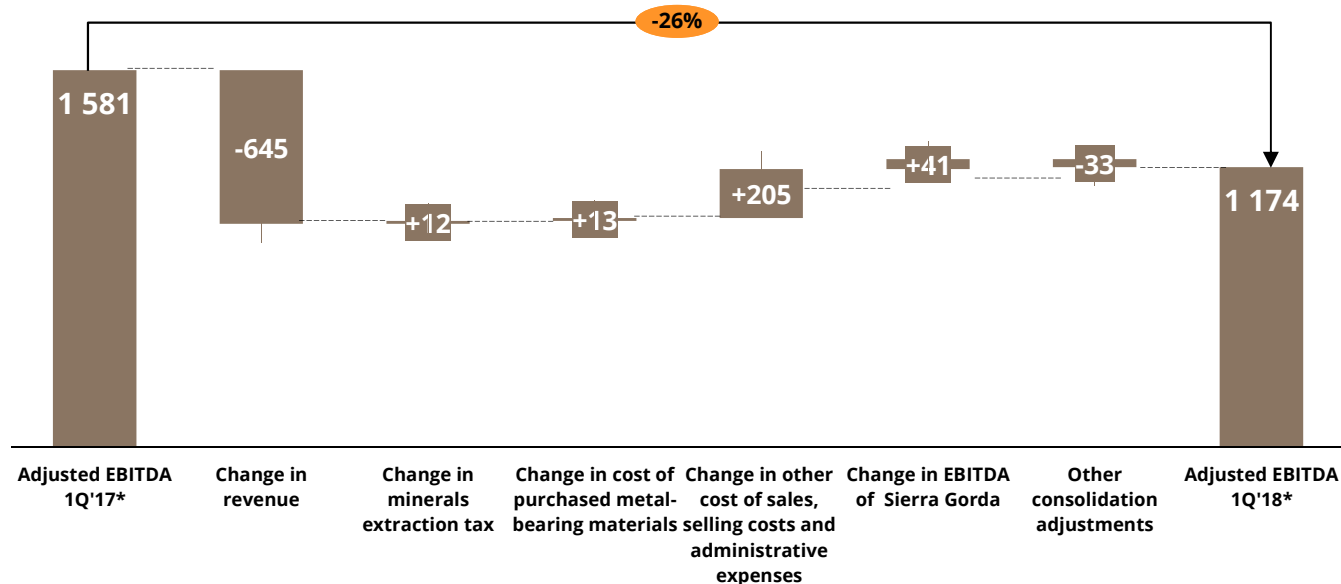


- The decrease in revenues by PLN 645 million (-13% yoy) was entirely in respect of KGHM Polska Miedź S.A. and is due to a lower sales volume and a less favourable USD/PLN exchange rate.
- Price effect due to higher prices of copper by 1 129 USD/t (+19% yoy) and molybdenum by 1.14 USD/lb (+16% yoy), alongside lower silver prices by 0.65 USD/ounce (-4% yoy).

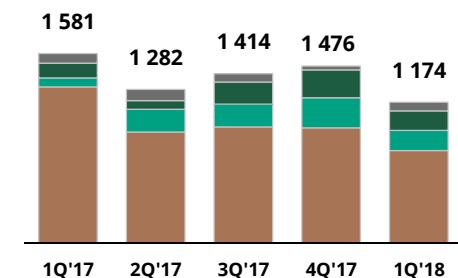
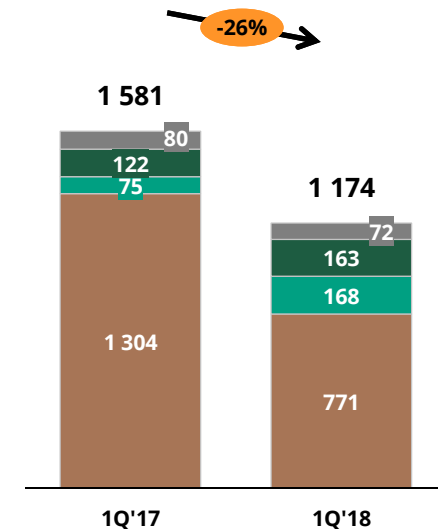


# Operating results of the Group

EBITDA of the segments  
(mn PLN)



EBITDA of the segments  
(mn PLN)

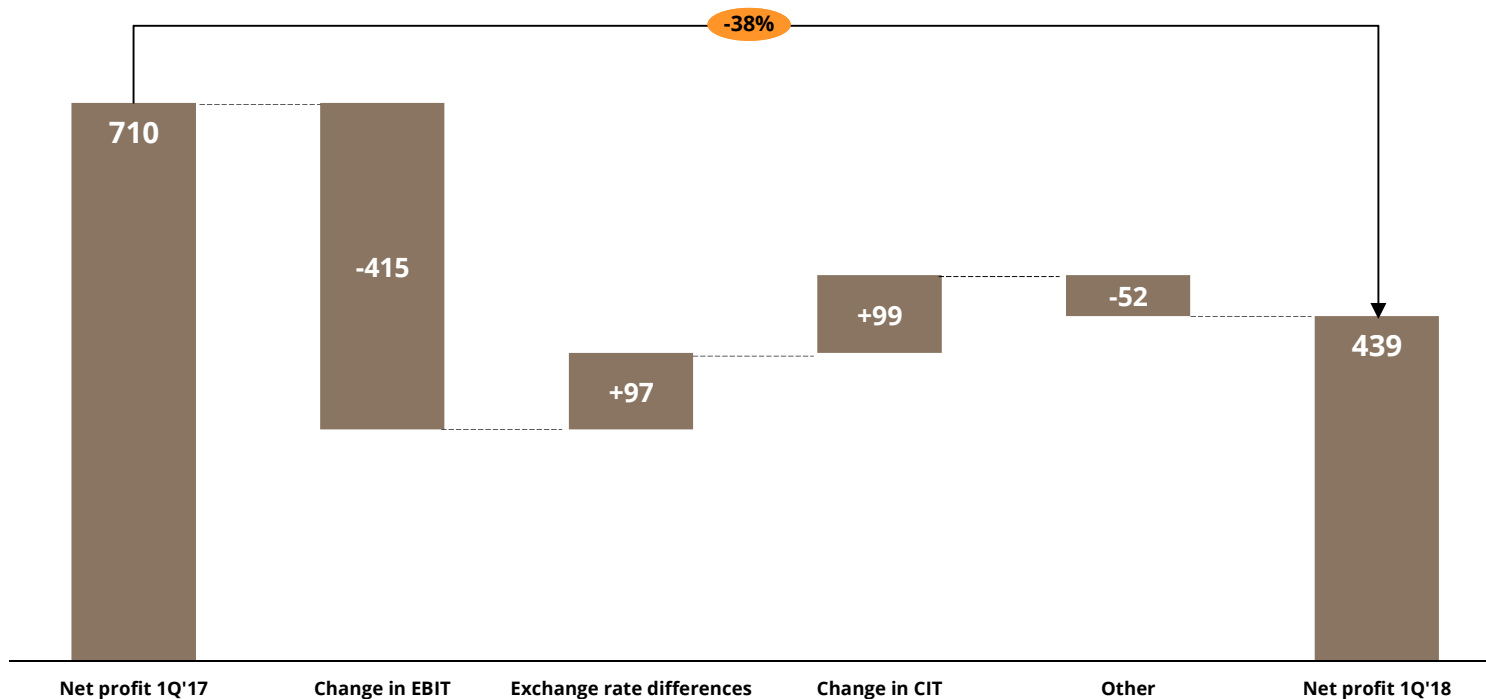


- The decrease in EBITDA by PLN 407 million, as compared to the first quarter of 2017, was mainly due to lower revenues by PLN 645 million, alongside lower costs of sales, selling costs and administrative expenses by PLN 230 million.
- The decrease in costs of sales, selling costs and administrative expenses was mainly due to an increase in half-finished product inventories in KGHM Polska Miedź S.A. due to higher production of anodes related to the planned maintenance shutdown by the Głogów II smelter.

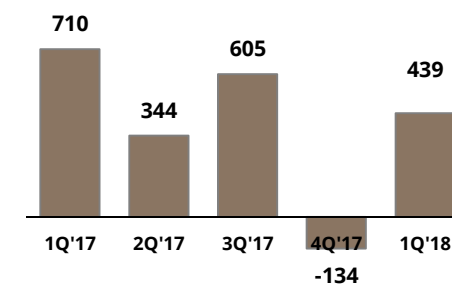
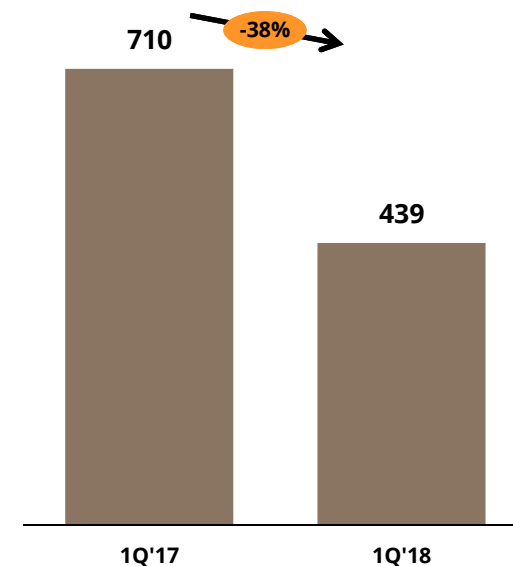
\* Sum of segments; adjusted EBITDA = EBITDA (profit/(loss) on sales + depreciation/amortisation) adjusted by impairment losses on non-current assets

# Financial results of the Group

Profit for the period  
(mn PLN)



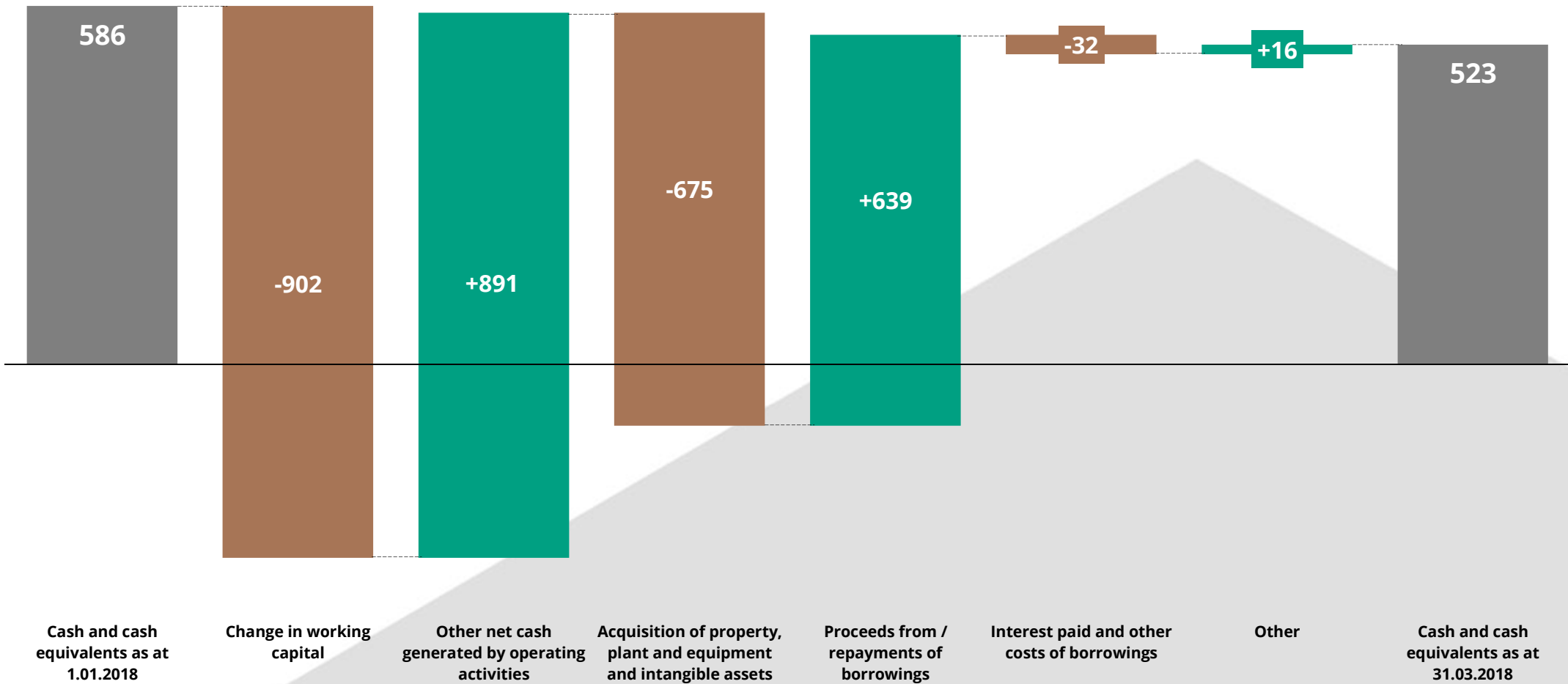
Profit for the period  
(mn PLN)



- The decrease in profit in the first quarter of 2018 versus the comparable period of 2017 was mainly due to operating activities and was partially offset by the more favourable result on exchange differences and on lower income tax.

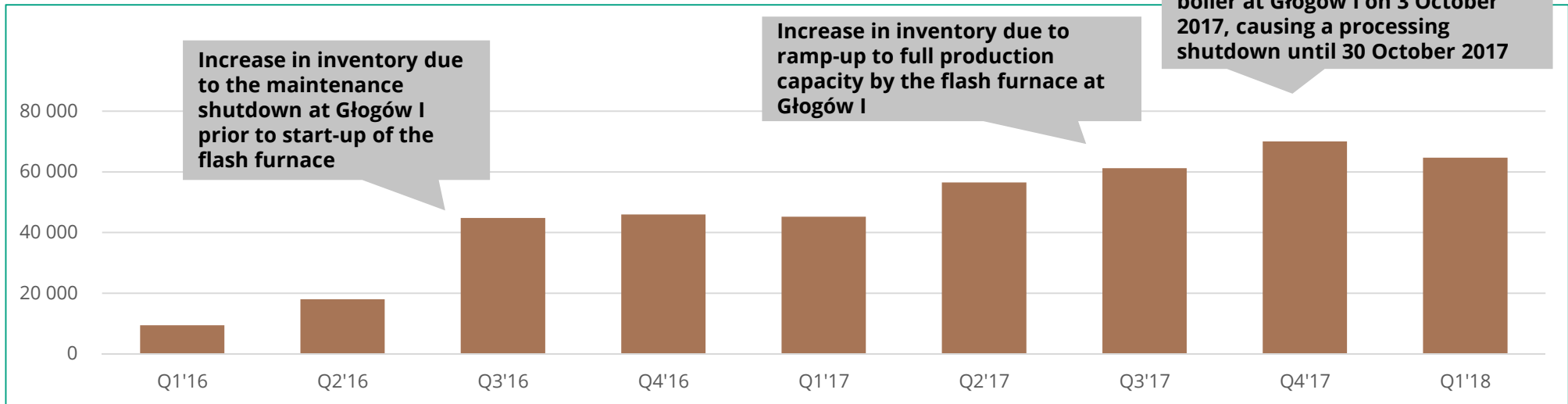
# The increase in half-finished product inventories consumed cash from operating activities - investments financed by debt

Consolidated cash flow (mn PLN)

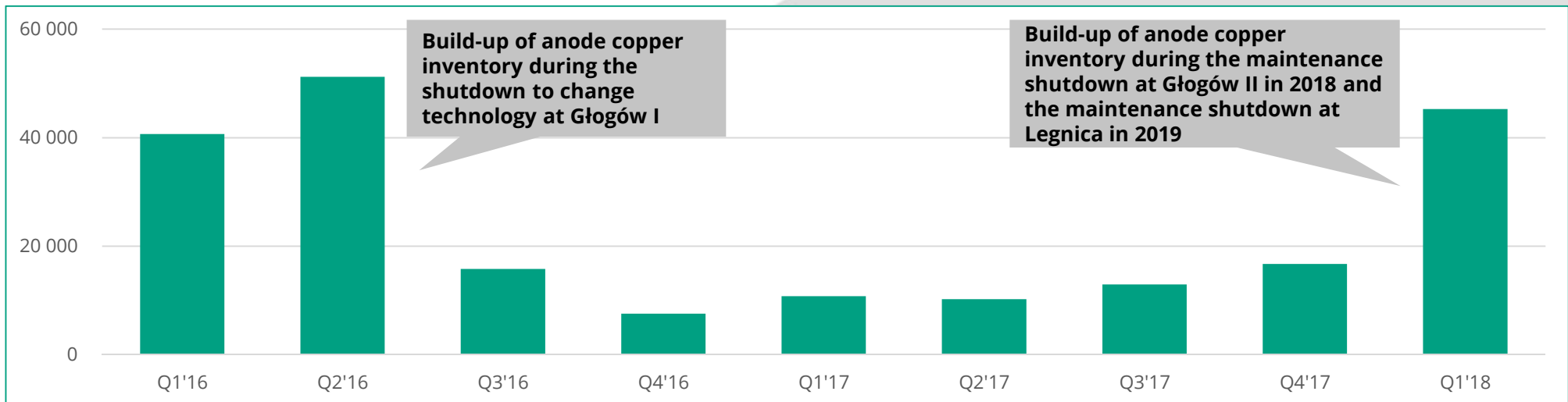


# Change in inventories of copper concentrate and anode copper due to planned modernisation work

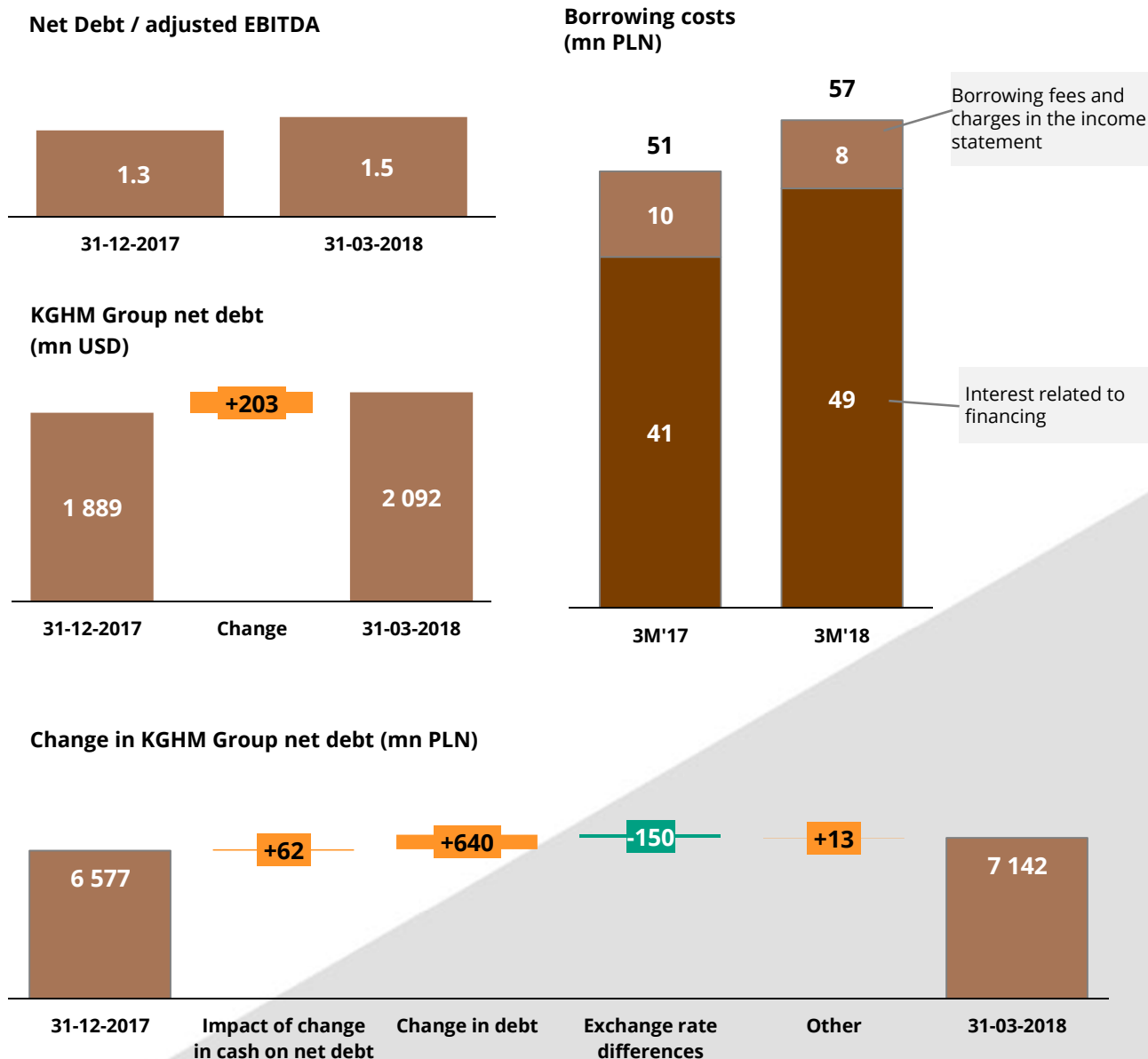
## Copper in concentrate inventory at the metallurgical plants – Cu volume (t)



## Anode copper inventory at the metallurgical plants – Cu volume (t)



# Net debt of the KGHM Polska Miedź S.A. Group – as at end-March 2018



- In accordance with the financial strategy adopted by KGHM Polska Miedź S.A., the basic currency in which debt is incurred is the USD (natural hedging).
- The level of debt in 2018 was mainly due to:
  - increases in debt:
    - cash expenditures on property, plant and equipment (PLN 571 mn in KGHM Polska Miedź S.A., PLN 104 mn in other Group companies),
    - the minerals extraction tax (PLN 413 mn in KGHM Polska Miedź S.A.),
    - financing of inventories (an increase in the value of inventories in KGHM Polska Miedź S.A. by PLN 752 mn, in other companies an increase by PLN 96 mn),
  - decreases in debt:
    - change in receivables (a decrease in KGHM Polska Miedź S.A. by PLN 331 mn, an increase in other Group companies by PLN 33 mn),
    - strengthening of the PLN (a decrease in PLN-denominated debt by around PLN 150 mn).










# Summation

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# Status of main activities of the KGHM Group planned for 2018

Area	Task	Status	Comments
Improve the level of electrolytic copper production from own concentrate in Poland	Further increase in flash furnace efficiency at the Głogów I smelter to achieve target processing capacity		The year-on-year efficiency of the flash furnace at Głogów I increased in the first quarter of 2018 by around 3 percentage points. Further enhancement of the efficiency of the flash furnace at Głogów I will be achieved following the commissioning of the copper concentrate roasting installation.
	Commission the copper concentrate roasting installation		The concentrate roasting installation is undergoing modification, with planned start-up at the end of the year.
	Utilise the copper concentrate inventories		Exports of copper concentrate have begun - sales for the year 2018 will exceed 20 thousand tonnes of copper in concentrate.
Eliminate bottlenecks at the Sierra Gorda mine	Increase daily ore processing to target level: 130 thousand tonnes in 2019		An additional copper concentrate filter has been ordered, while other actions related to improving the processing plant are being continued, including improving the functioning of the cooling unit and increasing the efficiency of the shear agitation tanks.
Prepare / execute key investments	Further expansion and development of mine infrastructure		Preparatory work continued on commencing mining in new areas of the deposits as well as on expanding mine infrastructure, in particular in the area of Deep Głogów.
	Development of the Żelazny Most Tailings Storage Facility		A contract was signed to advance stage I of the expansion of the Żelazny Most Tailings Storage Facility, comprising the construction of a Southern Quarter.
	Commence construction of the Reverberatory-Melting-Refining furnace to produce anode copper at the Legnica Copper Smelter and Refinery		Documentation was completed for the construction of the RMR furnace and associated equipment.



## Supporting slides

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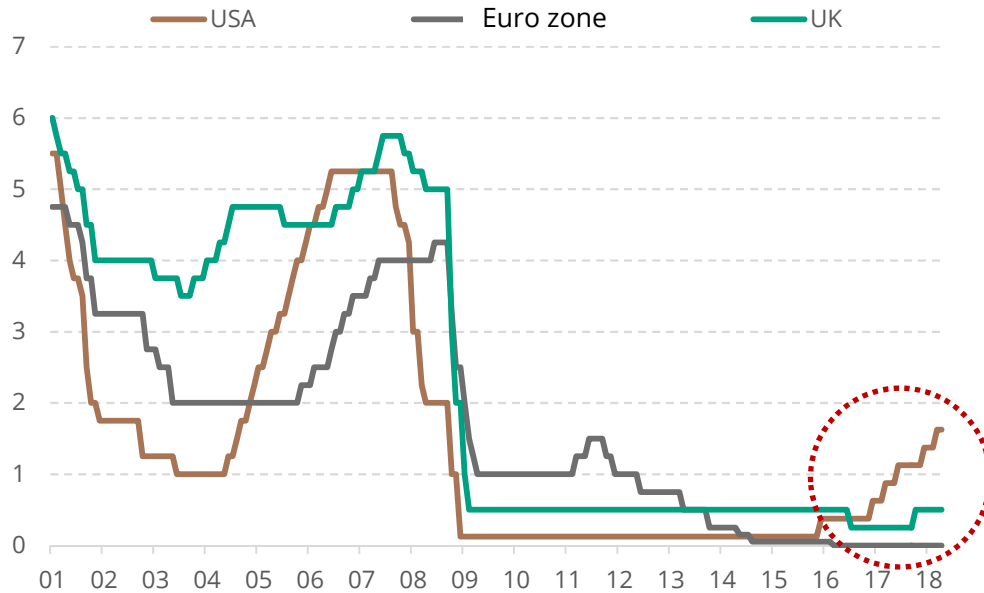
# Macroeconomic environment

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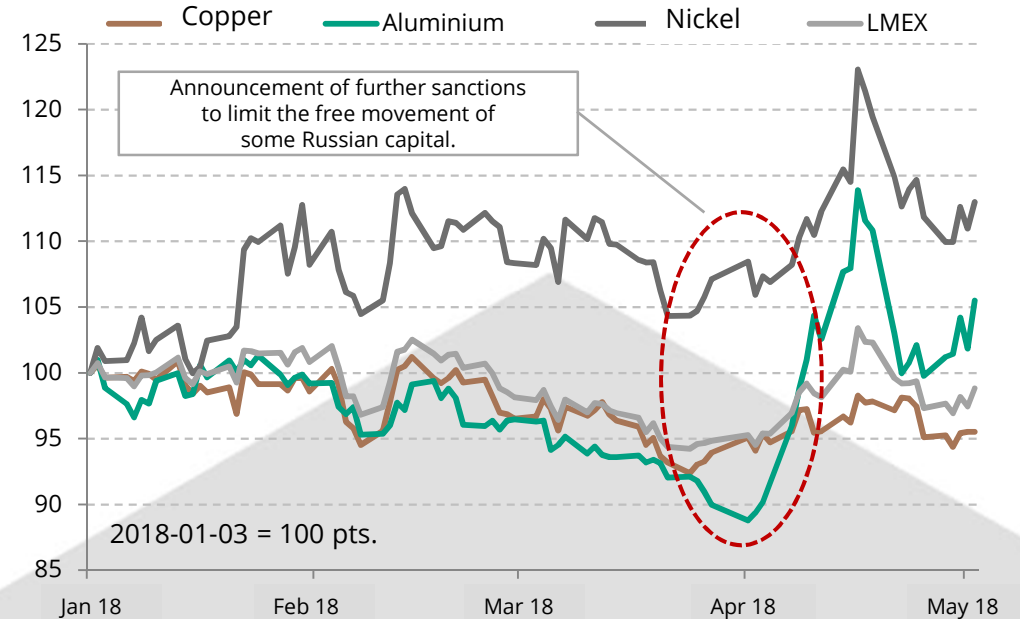
# Visions of a trade war and the introduction of sanctions increases metals volatility

## The USA is the clear leader in the normalisation of monetary policy amongst key central banks



Source: Bloomberg, KGHM Polska Miedź

## Actions interfering with trade caused an increase in metals market volatility



Note: LME index - LME benchmark comprising 6 industrial metals - copper, aluminium, lead, zinc, nickel and tin; Source : Bloomberg, KGHM Polska Miedź

- The improvement in macroeconomic conditions is leading away from the expansive trend in monetary conditions. The US Fed is raising interest rates and restricting its balance sheet, while the ECB is hearing a growing choir of voices calling for an end to quantitative easing at the end of 2018.
- The vision of a trade war, and therefore of the potential for reduced international trade, is a factor which is difficult to interpret, as on the one hand the materialisation of the market may limit access to materials, and on the other may put a break on rising demand. The tariffs proposed by the Trump administration are aimed at helping to balance the trade deficit between the USA and other countries. Such actions primarily affect China, mainly in terms of the steel and aluminium markets, whose prices have significantly risen, at the same time increasing volatility on the metals market.
- The announcement of additional sanctions on Russian capital have generated fears about access to certain metals (aluminium and nickel) and have resulted in clear increases in the prices of these metals, as well as other metals.
- The lack of key geopolitical events of import for precious metals prices means that the price movements of these metals are restricted to relatively narrow ranges.

# Key international projects

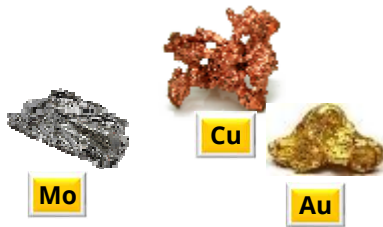
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# Sierra Gorda

## Sierra Gorda

### Mined metals



### Ownership

55% KGHM  
45% Sumitomo

### Mine type

Open pit

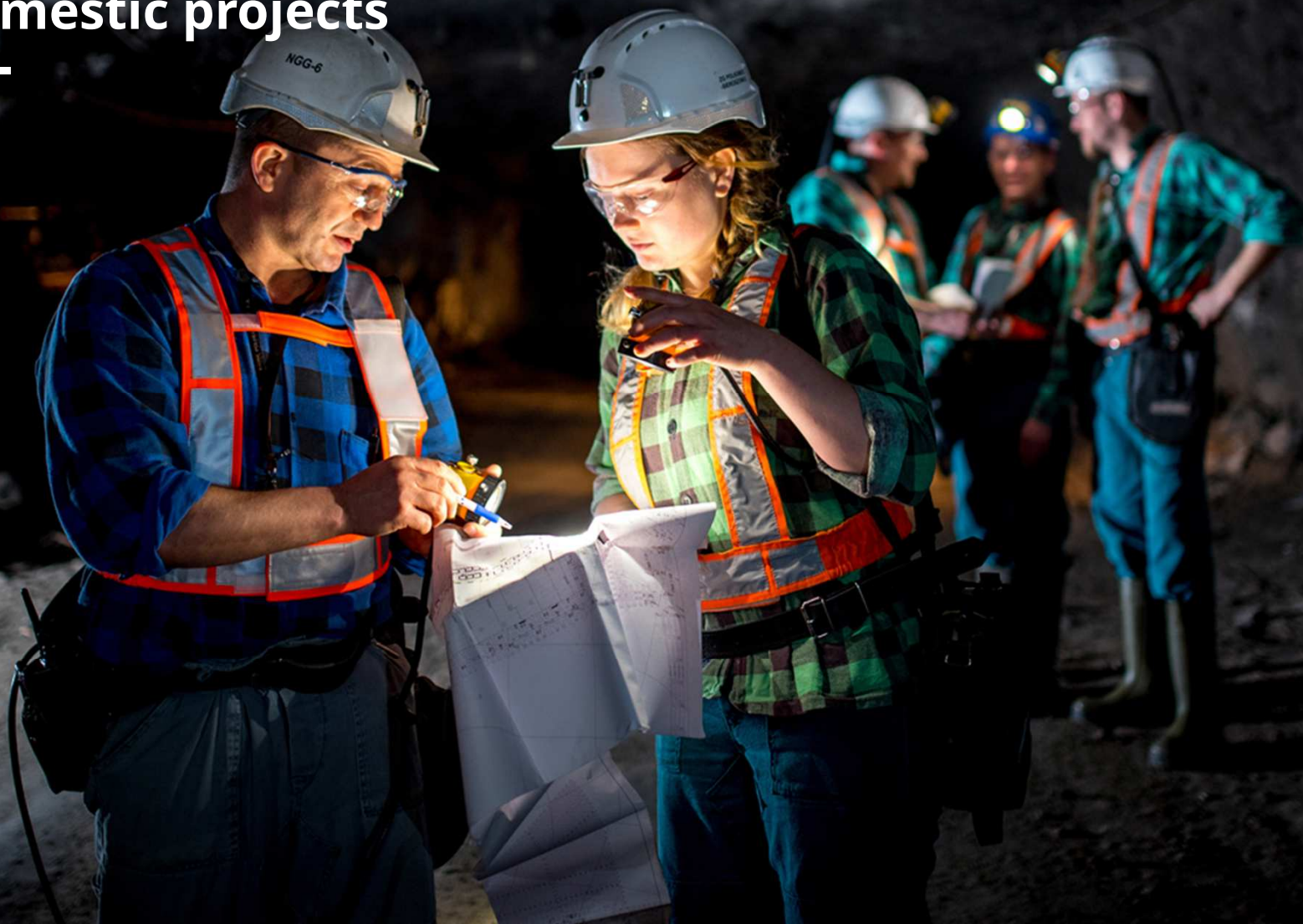
## Significant events and current status

- Production of copper in concentrate in the first quarter of 2018 amounted to **21.8 thousand tonnes**, while production of molybdenum in concentrate amounted to **7.2 million pounds** (on a 100% basis).
- The Sierra Gorda team is currently concentrating on implementing actions aimed at **improving the efficiency of implementation of maintenance-conservation work in the processing plant**.
- With respect to implementing the debottlenecking program, work is underway on **implementing required improvements to the processing plant**, comprised among others of improving the functioning of the cooling unit for the HPGR and ball mills, installing an additional copper concentrate filter and improving the functioning of the shear agitation tanks.



## Key domestic projects

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# Deposit access program in KGHM's concessioned areas in Poland

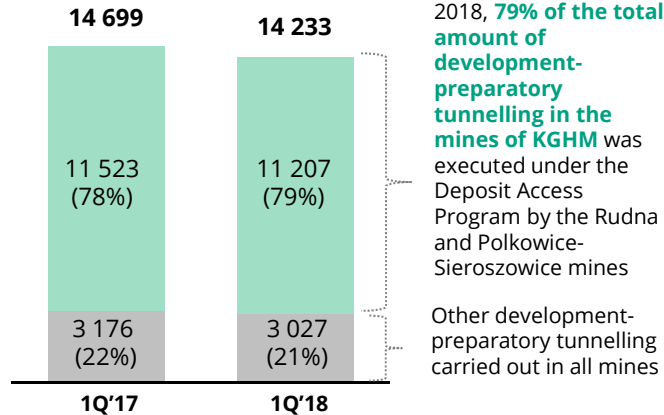
## Deep Głogów (GGP) area

### Work performed in the first quarter of 2018

#### Status of the Deposit Access Program

- Work continued on sinking the **GG-1 shaft** (a material-personnel, air inlet shaft). The shaft's target depth is 1 350 meters with a diameter of 7.5 meters. The shaft has reached a depth of 1 070 meters. The shaft will reach the level of the deposit in 2020. Due to the change in the function of the shaft from ventilation to transport-material, completion of construction of the shaft with infrastructure is planned at the start of 2024.
- Work continues on the construction and environmental impact report of the **Central Surface-based Ventilation Station at the GG-1 shaft** as well as work on construction of the **Ice Water Distribution System**. Work continues on reaching agreements with property owners regarding the paths of pipelines.
- Preparatory work continued related to acquiring a permit to **build facilities necessary to sink the GG-2 („Odra”) shaft**. On 22 April 2018 public consultation in the form of a referendum on the granting of consent for construction of the shaft was held at the initiative of the municipal authorities. Only one of the analyzed development scenarios was negatively received.
- In the first quarter of 2018, **2 612 meters of tunnel** in the Rudna and Polkowice-Sieroszowice mines were built.

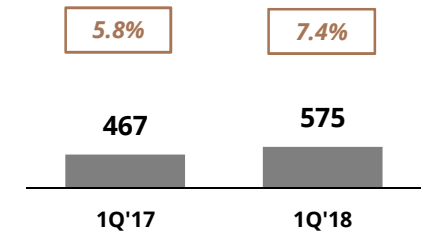
#### Scope of development-preparatory tunnelling completed (in meters)



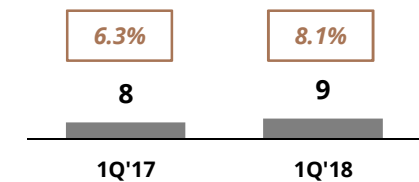
#### Share of production from Deep Głogów in total production in Poland

■ Production from GGP  
 □ % share by GGP

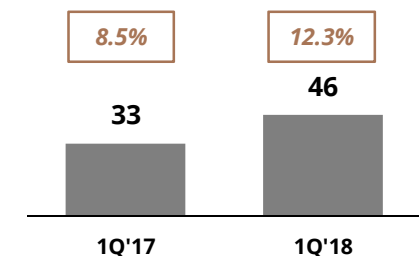
#### Ore extraction dry weight from GGP (kt)



#### Amount of Cu in ore (kt)



#### Amount of Ag in ore (k kg)





# Metallurgical Development in KGHM

## Construction of a Flash Furnace at Głogów I and associated metallurgical infrastructure

### Work performed in the first quarter of 2018

#### Pyrometallurgy Modernisation Program



#### Metallurgy Development Program

- **Guarantee tests were conducted as well as work related to the installation start-up phase** of the modernised flash furnace production line at the Głogów I Copper Smelter and Refinery.
- Work continues on eliminating minor irregularities, optimising the settings of automated devices and security issues.
- Assembly of equipment continued which can be carried out in parallel with the functioning of the production line, including completion of construction of the converter furnaces dedusters and handover for start-up of the installation for preparing de-lead slag. Settlement and handover of the investment is underway.

#### Operating parameters of the flash furnace installation at the Głogów I Copper Smelter and Refinery

Installation efficiency  
**79.6%**  
of target efficiency

- Average accrued efficiency of concentrate processing in the new flash furnace in the first quarter of 2018 was **105.1 t/h** and **104.0 t/h** (designed capacity of **132 t/h**) for the entire period to date from start-up, i.e. since 15 October 2016.
- Capacity will be gradually increased to 100% of target efficiency together with start-up of the remaining nodes of the new production line, including mainly the copper concentrate roasting installation.

Installation availability  
**87.9%**

- Degree of utilisation of production capacity: in the first quarter of 2018 **80.5%**, and since start-up in 2016 **72.0%** (maximum **75.4%**)

- Work continued on key production units under the investment program, i.e. **construction of a Steam Drier at the Głogów II Copper Smelter and Refinery** which is expected to be brought on-line in the third quarter of 2018, and the **Copper concentrate roasting installation**, in respect of which the contractor has declared start-up at the end of 2018.
- Work continues on the realisation, settlement and handover of projects related to adapting technical infrastructure to the change in technology at the Głogów I Copper Smelter and Refinery, based on implementing technical and technological activities with respect to:
  - replacement of property, plant and equipment,
  - ensuring compliance with EU laws and other legal requirements,
  - adapting energy, roadway and other infrastructure at Głogów I, and
  - providing power supply, remote control and lighting to existing facilities and equipment at Głogów I.

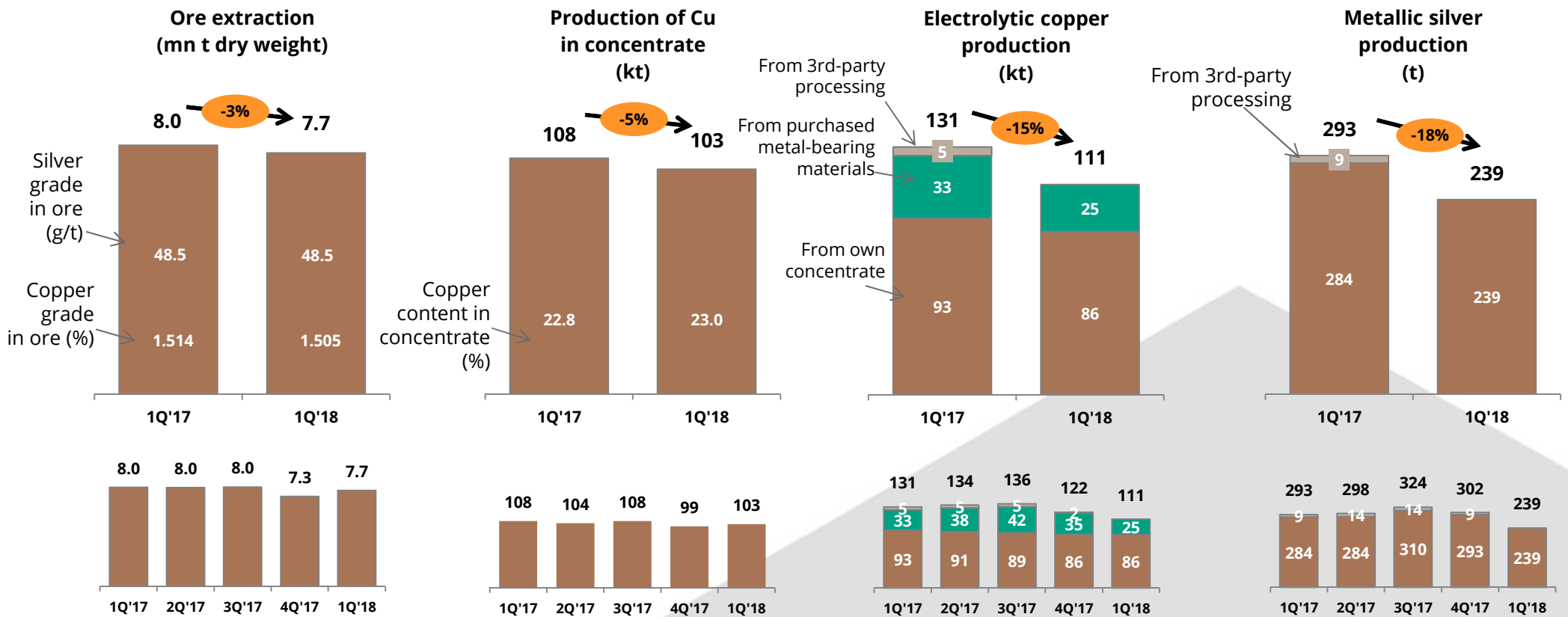


# Economic results of KGHM Polska Miedź S.A.

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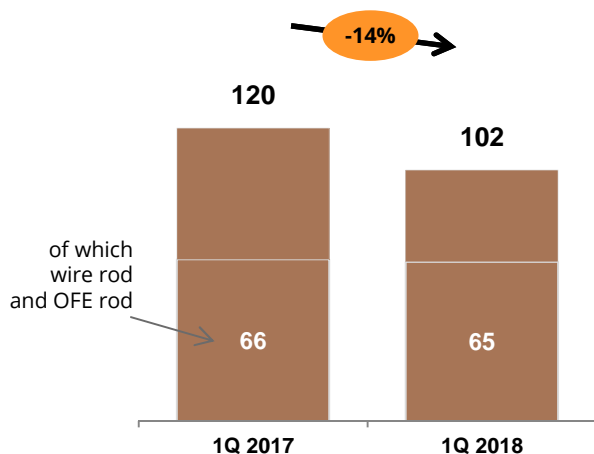
# Lower level of final production related to the planned maintenance on the Głogów II Copper Smelter and Refinery



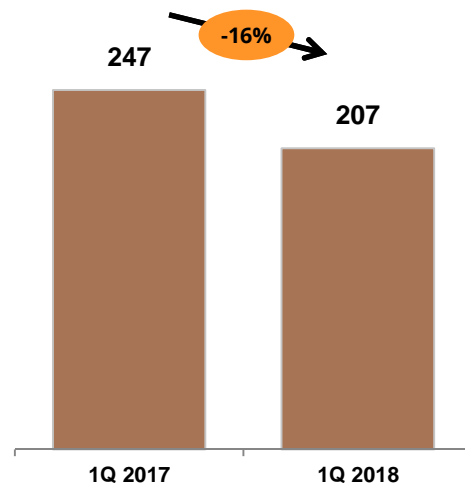
- In 2018 there was a decrease of copper content in ore from 1.514% to 1.505%.
- The decrease in extraction was due to a deterioration in geological-mining conditions, the occurrence of barren areas of rock in the deposit and from the need to perform a greater amount of mine development work through such areas.
- The amount of Cu in concentrate produced was due to the lower ore extraction and its lower quality.
- The lower production of electrolytic copper was due to the build-up of half-finished product inventories (anodes), which will be used in the second quarter of 2018 during the 3-month shutdown of the Głogów II Copper Smelter.
- The decrease in metallic silver production is a result of the lower production of electrolytic copper.

# Lower revenue from contracts with customers due to lower production of finished products

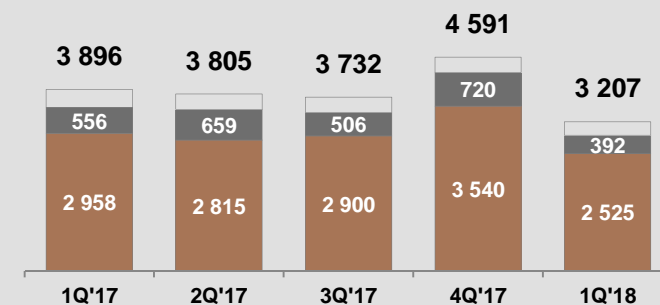
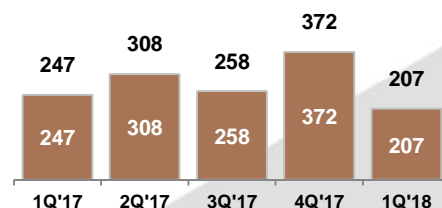
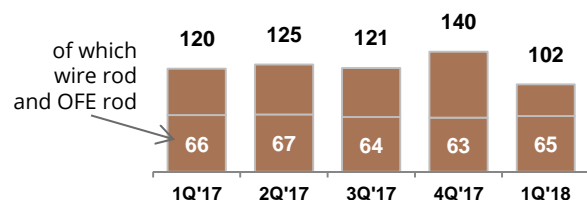
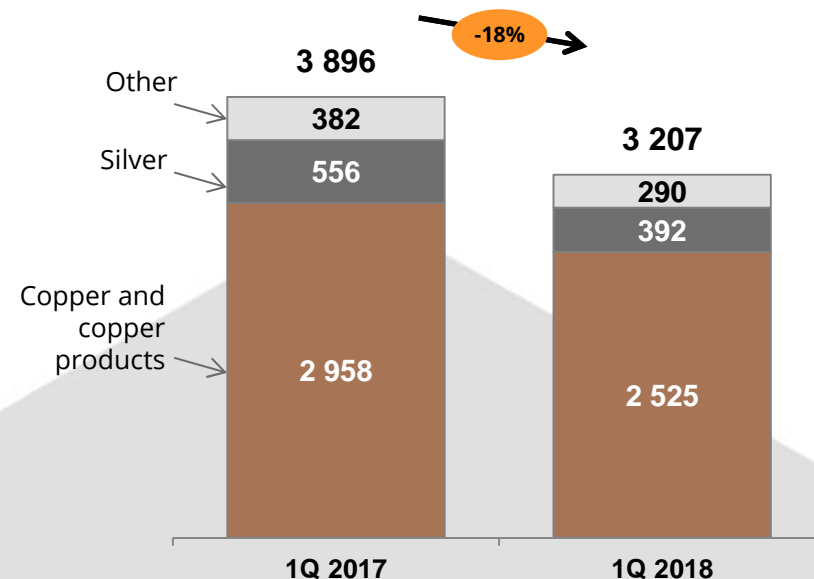
Sales of copper and copper products (kt)



Silver sales (t)



Revenue from contracts with customers (mn PLN)

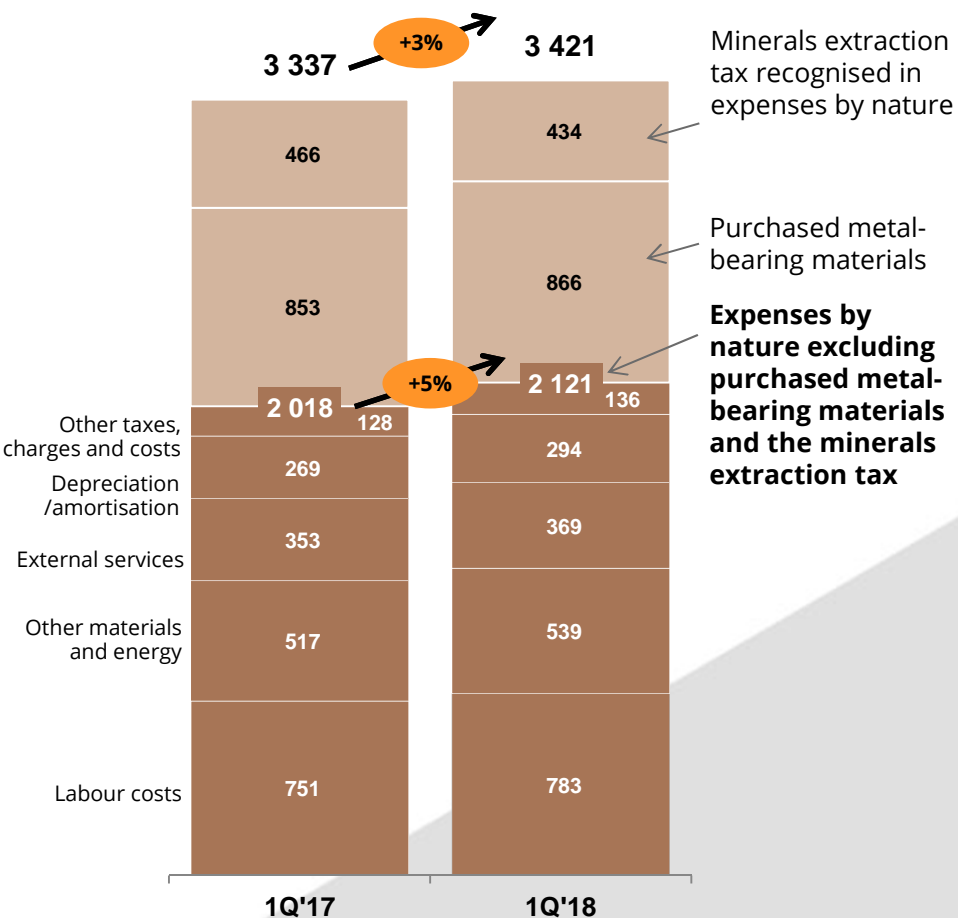


In the first quarter of 2018, revenues from contracts with customers were lower by PLN 689 mn than those achieved in the comparable period of 2017, mainly due to:

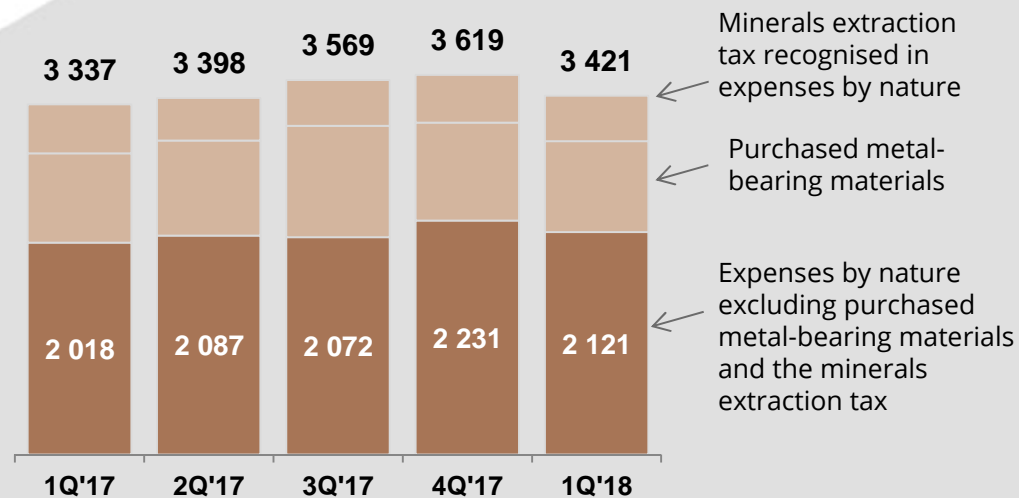
- a lower sales volume of copper (by 17 kt), silver (by 40 t) and gold (by 329 kg): -PLN 562 mn,
- changes in the prices of Cu, Ag and Au (prices and USD/PLN exchange rate): -PLN 103 mn.

# Expenses by nature

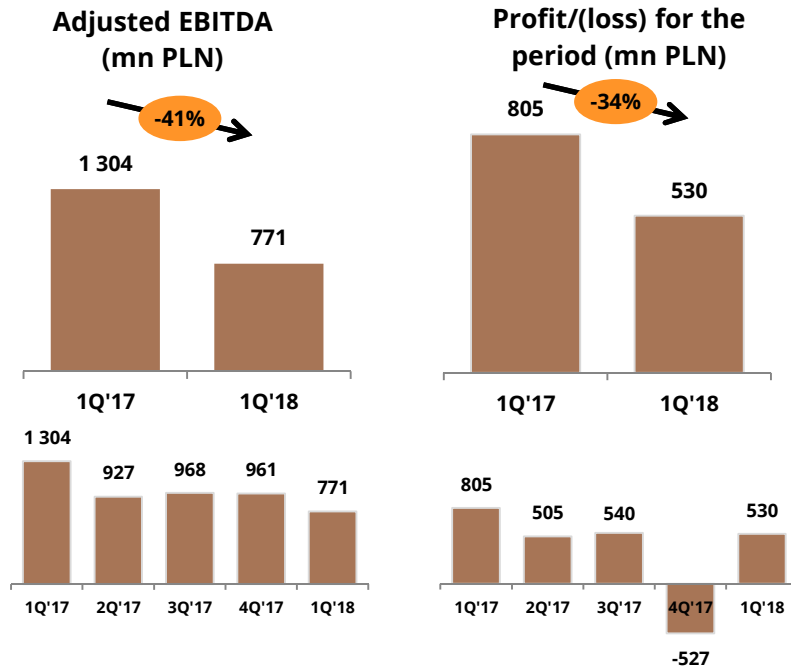
Expenses by nature  
(mn PLN)



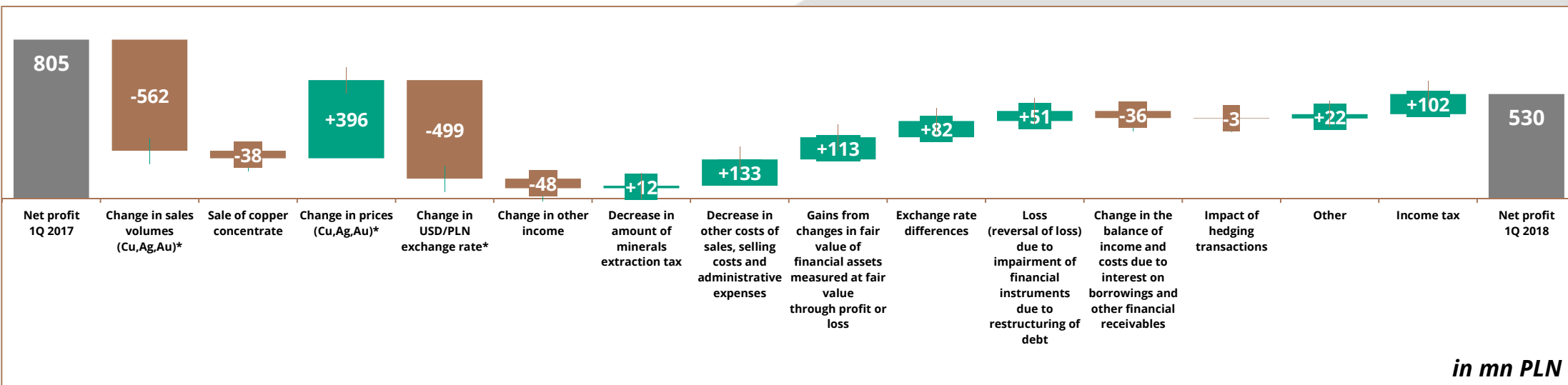
- Expenses by nature, excluding purchased metal-bearing materials and the minerals extraction tax, were higher by PLN 103 mn (5%) due to higher labour costs (+PLN 32 mn), depreciation/amortisation (+PLN 25 mn), energy (+PLN 18 mn) and external services (+PLN 16 mn).



# Lower profit for the period of KGHM Polska Miedź S.A. due to lower operating results, alongside an increase in the level of half-finished product inventories



- The decrease in adjusted EBITDA by PLN 533 mn (-41%) was mainly due to the lower sales volume and a less favourable USD/PLN exchange rate, alongside an improvement in metals prices.
- The decrease in profit due to the aforementioned factors was limited by gains from changes in fair value, lower income tax and to a more favourable impact of exchange rate differences.



in mn PLN

# Statement of Profit or Loss of the Group

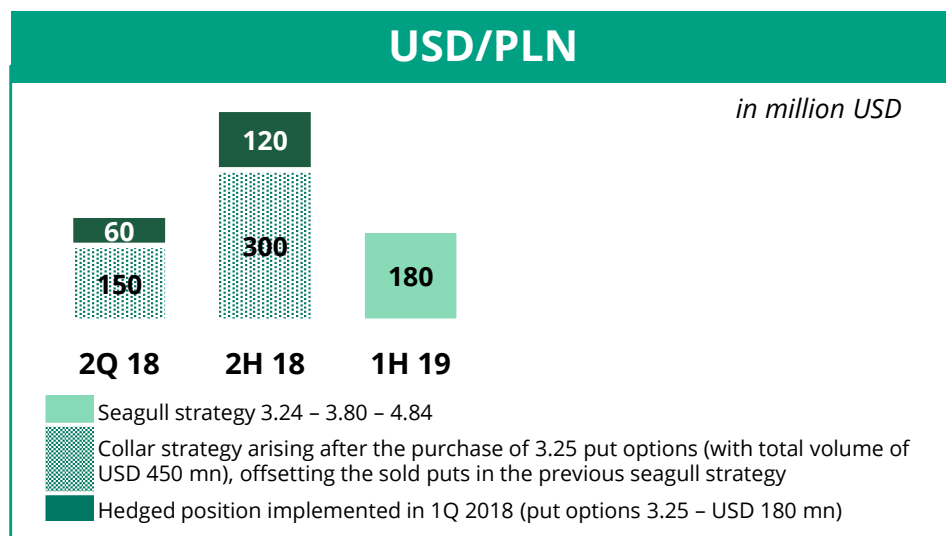
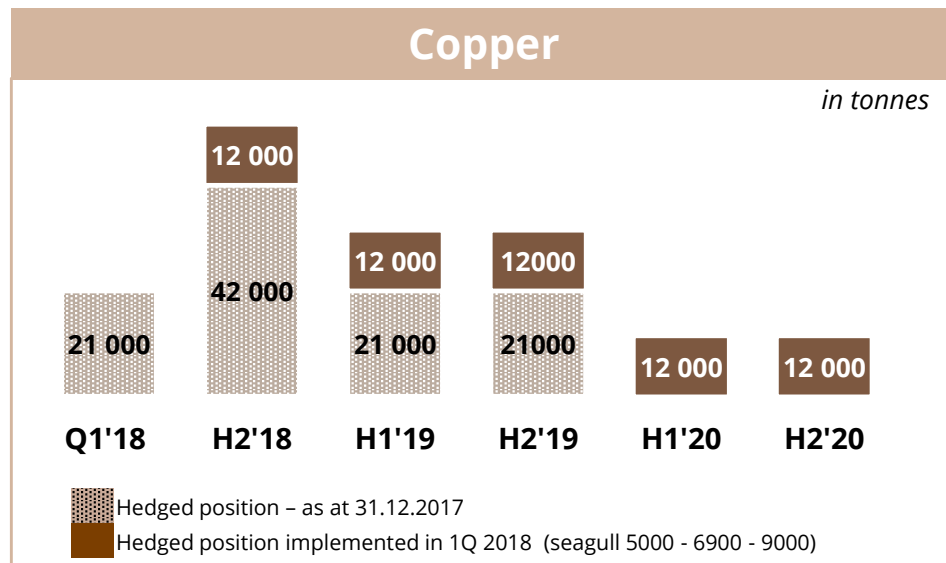
<i>mn PLN</i>	1Q'18	1Q'17	Change (%)	Difference vs 1Q'18 KGHM SA
Revenue from contracts with customers	4 266	4 911	-13	<b>+1 060</b>
Cost of sales	3 318	3 548	-6,5	<b>+814</b>
<b>Gross profit</b>	<b>948</b>	<b>1 363</b>	<b>-30</b>	<b>+246</b>
Selling costs and administrative expenses	289	289	-	+107
<b>Profit on sales</b>	<b>659</b>	<b>1 074</b>	<b>-39</b>	<b>+139</b>
<b>Other operating income and (costs), of which:</b>	<b>-191</b>	<b>-426</b>	<b>-55</b>	<b>-274</b>
<i>Measurement and realisation of derivatives</i>	-3	70	×	+19
<i>Exchange differences</i>	-183	-503	-64	-59
<b>Finance income and (costs), of which:</b>	<b>112</b>	<b>301</b>	<b>-63</b>	<b>-12</b>
<i>Exchange differences</i>	149	372	-60	-1
<b>Profit or loss on involvement in joint ventures</b>	<b>81</b>	<b>82</b>	<b>-1</b>	<b>×</b>
<i>Interest income on loans granted to joint ventures</i>	81	82	-1	×
<b>Profit/(loss) before income tax</b>	<b>661</b>	<b>1 031</b>	<b>-36</b>	<b>-66</b>
Income tax expense	222	321	-31	+25
<b>Profit/(loss) for the period</b>	<b>439</b>	<b>710</b>	<b>-38</b>	<b>-91</b>
<b>EBITDA of the Group*</b>	<b>1 174</b>	<b>1 581</b>	<b>-26</b>	<b>+403</b>
Depreciation/amortisation of the Group*	487	461	+6	+236
EBITDA margin of the Group*	28%	32%	-13	+0

## Main differences compared to the unconsolidated statement

- includes the results of KGHM International
- gains from the reversal of impairment allowance on loans (-PLN 116 mn)
- loss (reversal of loss) due to impairment of financial instruments and impairment loss on purchased credit-impaired (POCI) assets (-PLN 49 mn)
- exchange differences (-PLN 59 mn)
- exclusion of interest income on loans granted to joint ventures (-PLN 56 mn)

# The accrued result on derivatives achieved by KGHM Polska Miedź S.A. as at 30 March 2018 amounted to PLN 50 million

Market risk management – hedged positions on the copper market and the USD/PLN (as at 30 March 2018)\*



- ### Result on derivatives
- In the first quarter of 2018, KGHM Polska Miedź S.A. recorded a result on derivatives and hedges in the amount of PLN 50 million, of which:
    - PLN 57 million increased sales revenue (transactions settled in 1Q 2018),
    - PLN 7 million decreased the result on other operating activities.
  - The fair value of derivatives (MtM) in KGHM Polska Miedź S.A. as at 30 March 2018 amounted to PLN 359 million.
  - The revaluation reserve on cash flow hedging instruments as at 30 March 2018 amounted to -PLN 0.2 million.
  - Since 1 January 2018 the company has applied new hedge accounting principles pursuant to IFRS 9.



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