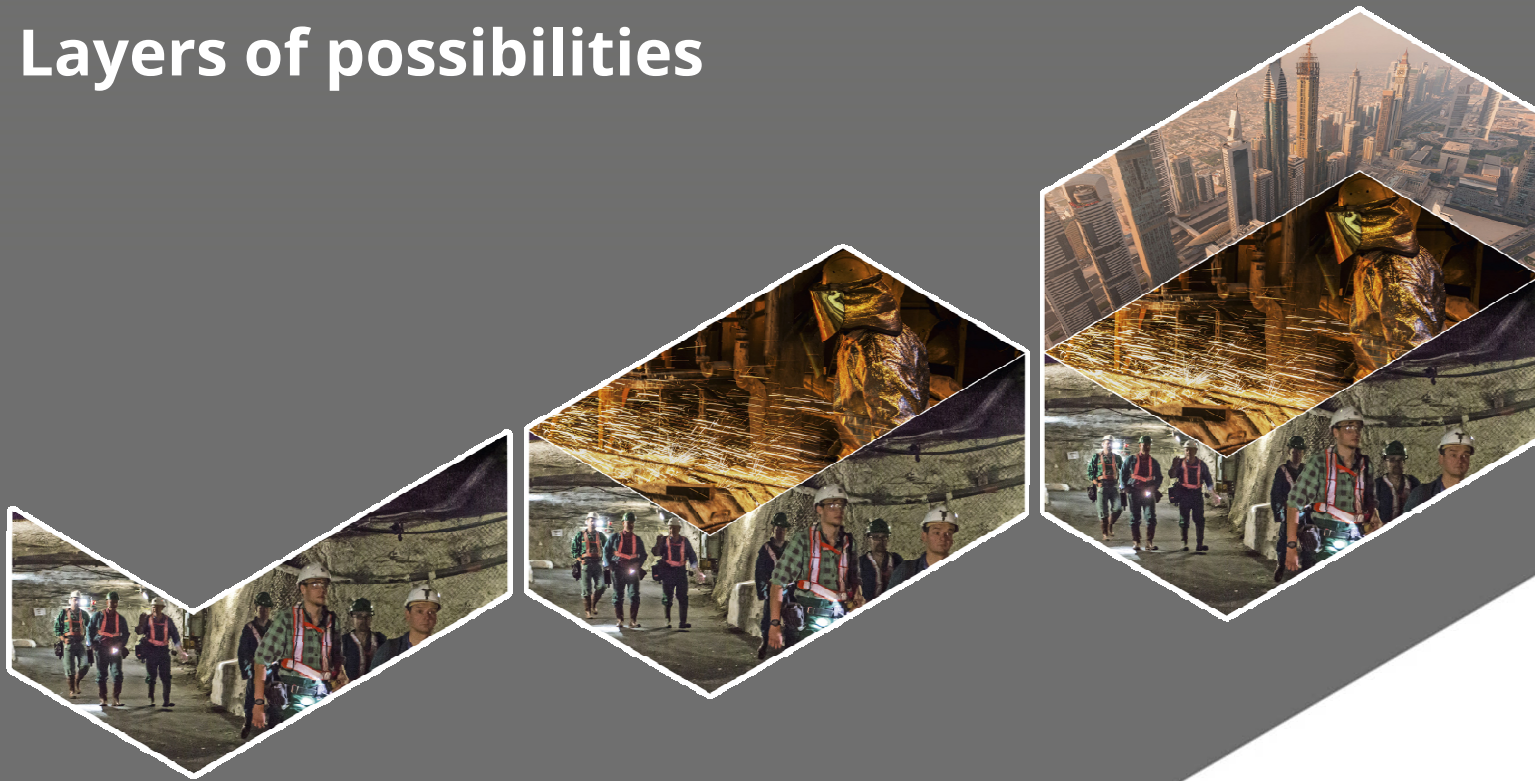


# Layers of possibilities



## Results of the Group for the first nine months of 2018

*15 November 2018*

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# Agenda

- 1** Introduction
- 2** Economic results of the KGHM Polska Miedź S.A. Group
- 3** Macroeconomic environment
- 4** Summation
- 5** Key domestic projects
- 6** Key international projects
- 7** Supporting slides
  - Economic results of KGHM Polska Miedź S.A.
- 8** Q&A



# Introduction

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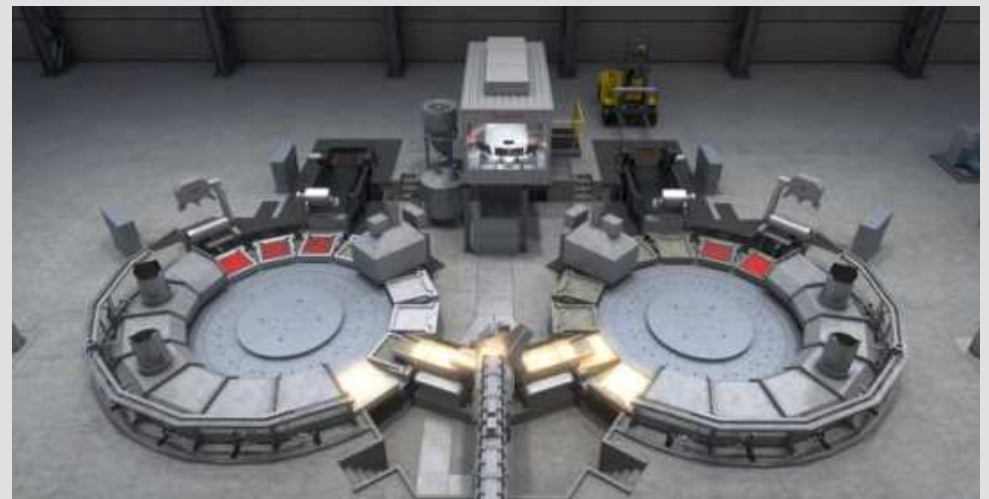
# Summary of the first nine months of 2018 in the KGHM Group

## Production activities, projects

### Highlights

- **Deposit Access Program** – successful conclusion of talks with representatives of the municipality (Gmina) of Żukowice regarding siting of the planned GG-2 shaft
- **Metallurgy Development Program** – a subsequent stage in technological start-up was completed. Following the maintenance shutdown of the Głogów II Copper Smelter and Refinery, production is underway with the full use of the newly-built steam drier
- **Reverberatory-Melting-Refining Furnace** at the Legnica Copper Smelter and Refinery – construction of the RMR furnace and the casting machinery is underway
- **Sierra Gorda** – Initiatives advanced under the debottlenecking program – average annual daily ore throughput target of 130-140 thousand tonnes
- **Management of copper concentrate inventories** – by end-October the entire contract for delivery of copper concentrate for export (~164 thousand tonnes of concentrate, or 24 thousand tonnes of copper in concentrate) was completed
- **Expansion of the Żelazny Most Tailings Storage facility** - all of the work related to land preparation was completed as well as strengthening of the ground beneath the Tailings Segregation and Thickening Station. Intensive work is also underway on construction of the Southern Quarter's dam

### RMR furnace (visualisation)



*Model of casting machine for the RMR furnace*

# Summary of the first nine months of 2018 in the KGHM Group

## Production and economic results

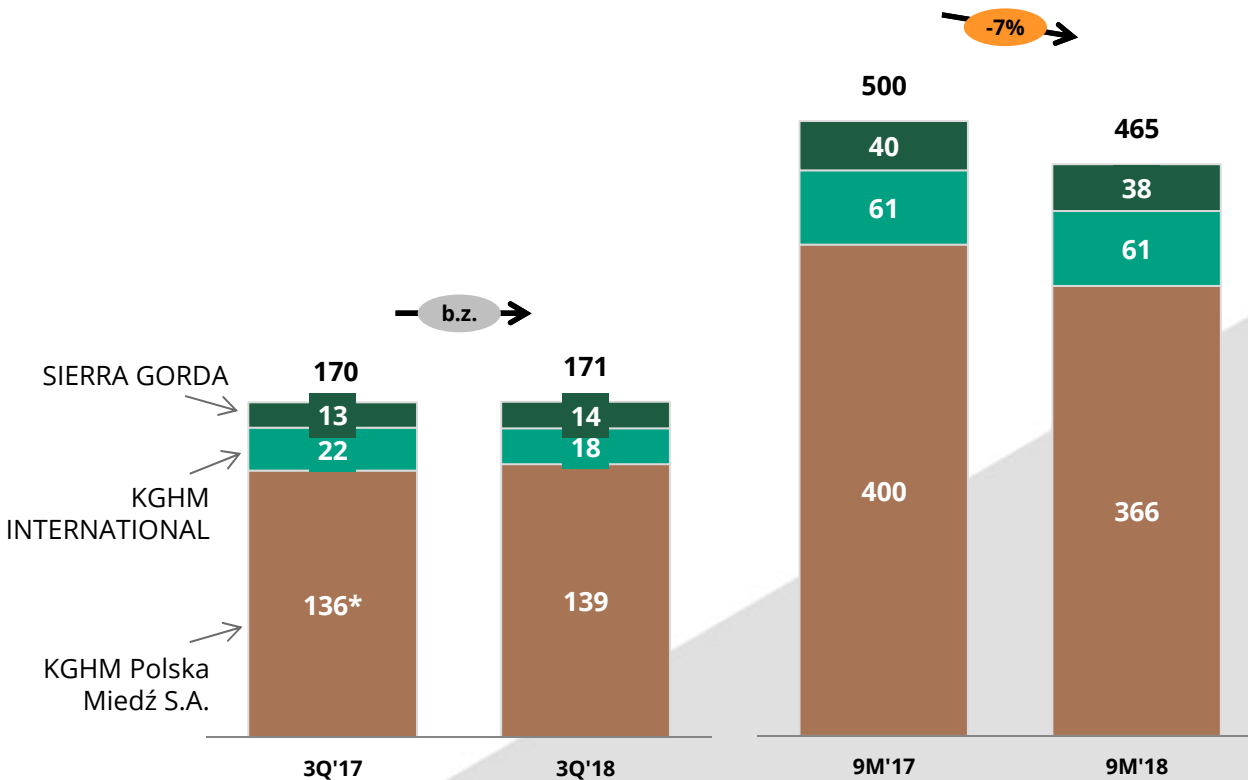
- **Production** of payable copper in the first 3 quarters of 2018 was lower yoy by 7%, mainly due to the planned 3-month furnace maintenance shutdown at the Głogów II Copper Smelter and Refinery of KGHM Polska Miedź S.A.
- **Sales** of payable copper are a direct reflection of production, but also include sales of copper in concentrate by KGHM Polska Miedź S.A.
- **Revenues** in the first 3 quarters of 2018 were slightly higher than in the corresponding period of 2017, mainly due to more favourable metals prices.
- **EBITDA** was 11% lower yoy, mainly due to a higher cost of goods sold (including mainly a change in inventories).
- **Net profit** for the first 3 quarters of 2018 amounted to PLN 976 million (PLN 365 million in Q3) vs PLN 1 659 million in the prior year (PLN 605 million in Q3 2017), and was lower by 41% due to higher operating and finance costs.

Production statistics		
	Q3'18	9M'18
<b>Payable copper</b> (kt)	171	465
<b>Metallic silver</b> (t)	362	848
<b>TPM</b> (koz)	46.8	129.2

Economic results		
	Q3'18	9M'18
<b>Revenues</b> (bn PLN)	5.4	14.8
<b>EBITDA</b> (bn PLN)	1.2	3.8
<b>Net profit</b> (mn PLN)	365	976

# Production of payable copper by the Group

## Payable copper production (kt)



- Lower production of electrolytic copper by KGHM Polska Miedź S.A. in the first three quarters of 2018 due to the maintenance shutdown of the concentrate casting installation at the Głogów II Copper Smelter and Refinery.

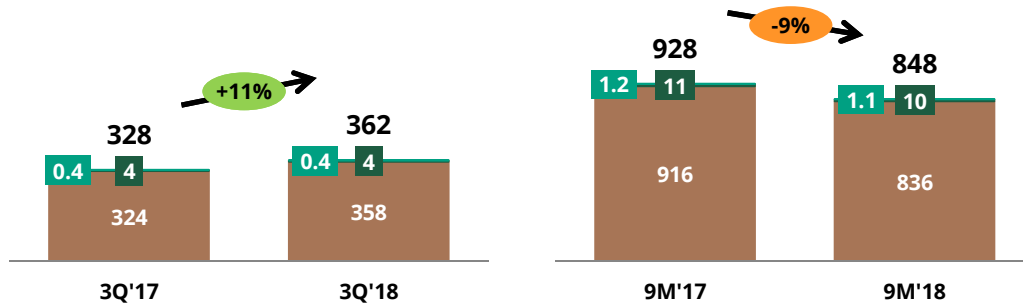
- Payable copper production in the first three quarters by the Robinson mine as well as by all of KGHM International at a similar level to that of the prior year.

Slightly lower payable copper production in the third quarter mainly due to lower ore quality and lower extraction by the Robinson mine.

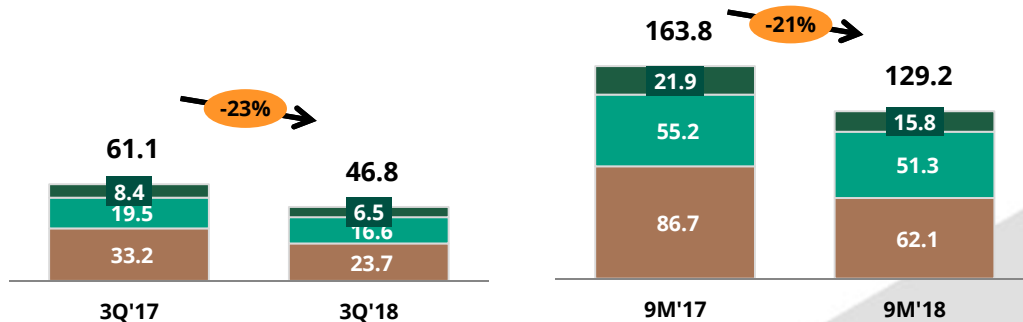
- The drop in copper production by the Sierra Gorda mine in the first three quarters was due to lower metal content in extracted ore.

# Production of other metals by the Group

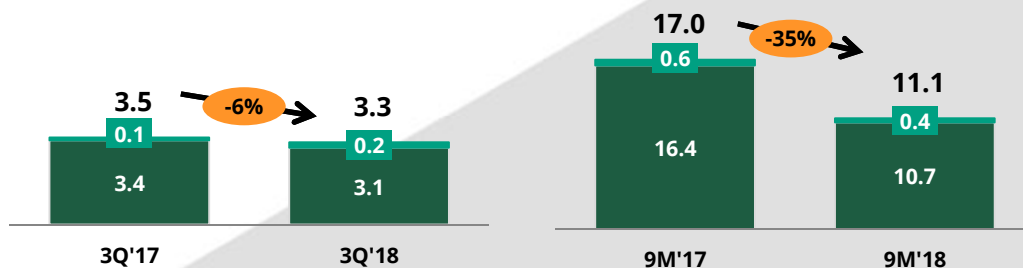
Silver production (t)



TPM\* production (koz t)



Molybdenum production (mn lbs)

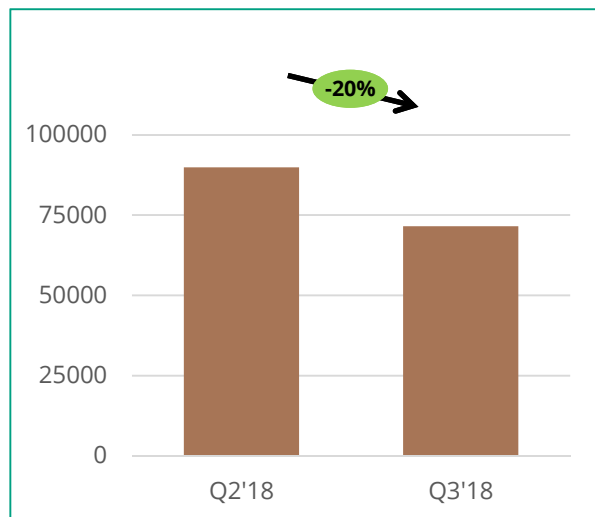


- The drop in production of associated metals by KGHM Polska Miedź S.A. in the first three quarters of 2018 is directly related to the lower production of electrolytic copper.
- The lower production of TPM by KGHM International is mainly due to the drop in average content of precious metals in the Morrison mine in the Sudbury Basin.
- The drop in molybdenum production by the Sierra Gorda mine in the first three quarters was due to the lower content of this metal in extracted ore.



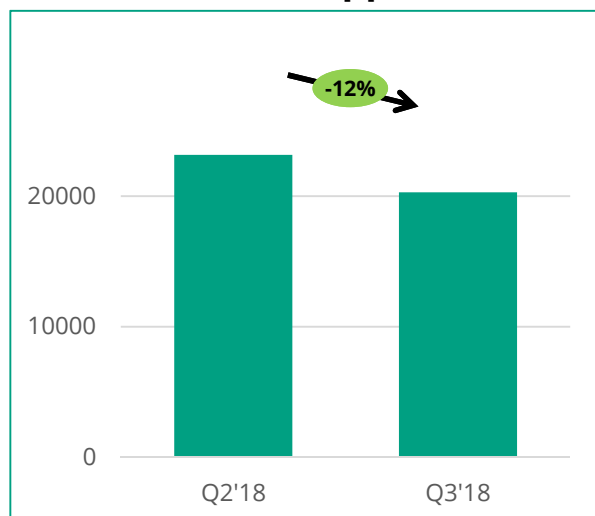
# Change in inventories of copper concentrate and copper anodes

## Inventories of copper in concentrate at the smelters – amount of Cu (t)



- The prior level of inventories of copper in concentrate was due among others to the shutdown at the Głogów I Copper Smelter and Refinery to prepare for the start of operations by the flash furnace and to the planned, three-month maintenance shutdown at the Głogów II Copper Smelter and Refinery
- The decrease in the level of inventories was due to sales of concentrate and to the planned work of production units
- In subsequent quarters, concentrate inventories will decrease according to plan

## Inventories of copper anodes at the smelters – amount of Cu (t)



- Inventories of copper anodes were built up for the now-completed maintenance shutdown at the Głogów II Copper Smelter and Refinery and for the planned maintenance shutdown at the Legnica Copper Smelter and Refinery in 2019
- The decrease in the copper anode inventories is due to on-going production and to a shortening of the period of the maintenance shutdown at Głogów II
- In subsequent quarters, the level of these inventories will be in line with the amounts targeted in the production plan



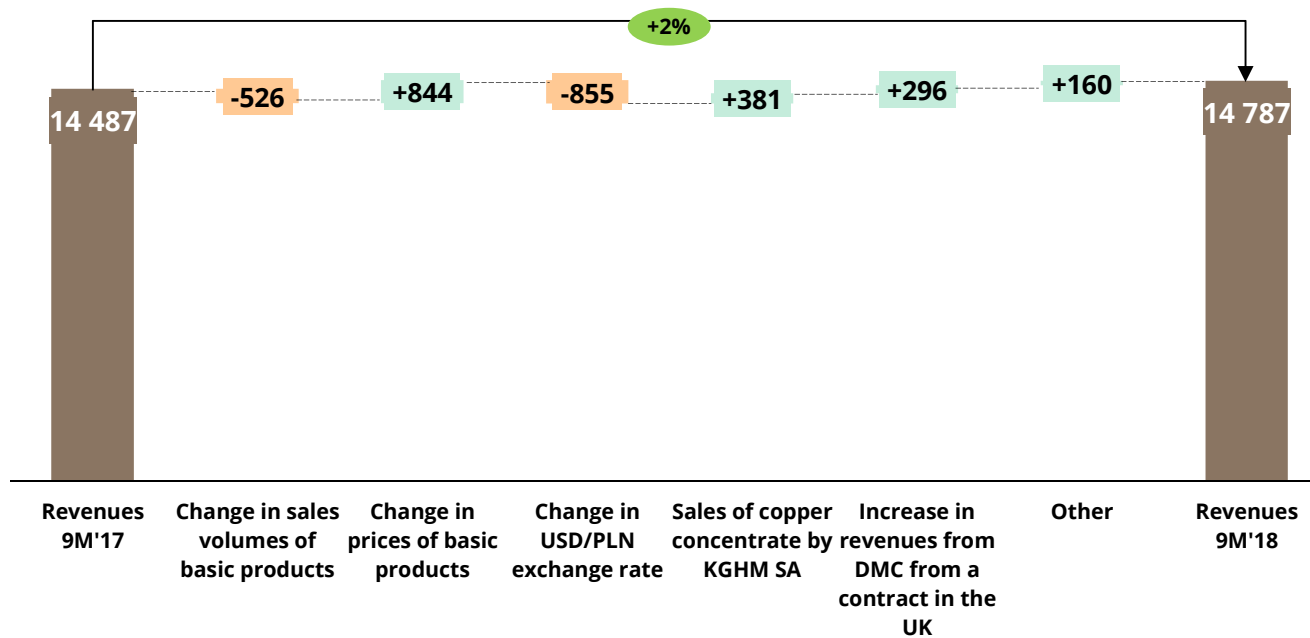
# Economic results of the KGHM Polska Miedź S.A. Group

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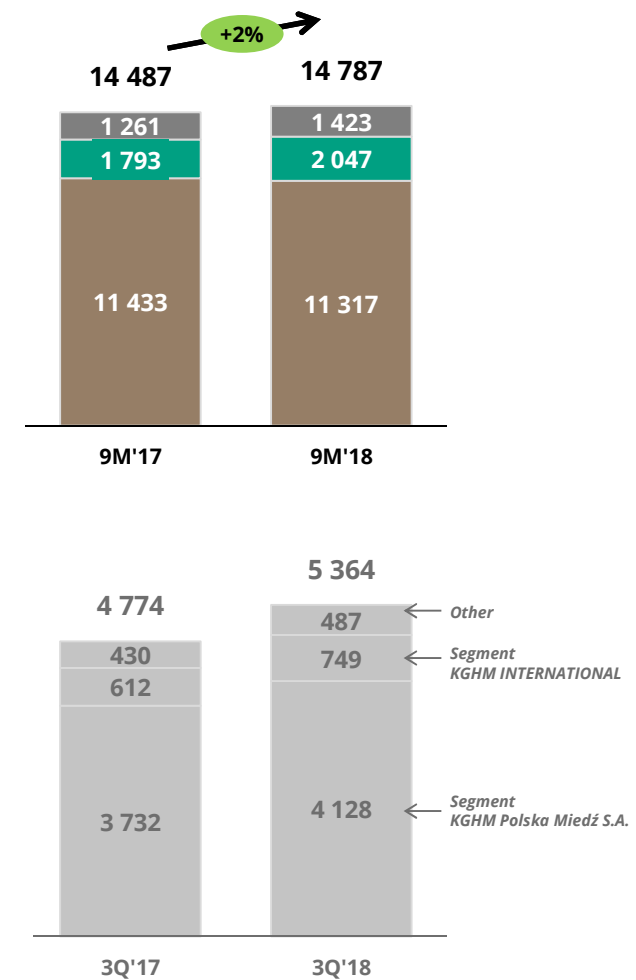


# Sales revenue of the Group in the first nine months of 2018

Revenues from contracts with customers  
(mn PLN)



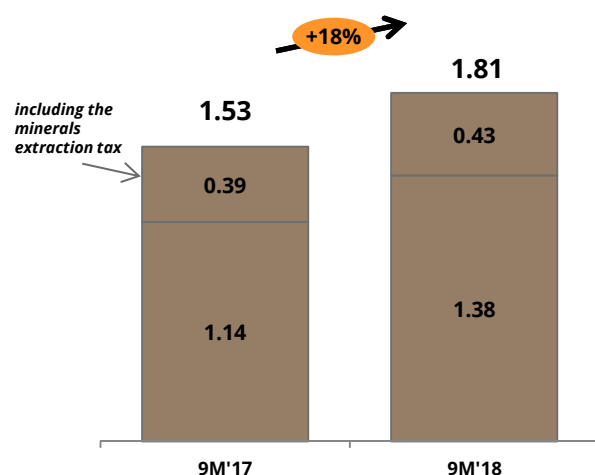
Revenues from contracts with customers (mn PLN)



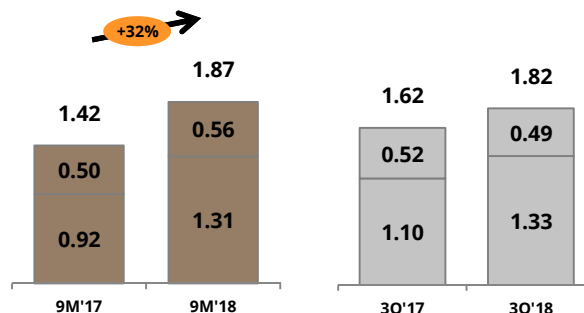
- The increase in revenues by PLN 300 million (+2%) as compared to the first 9 months of 2017 was mainly in respect of KGHM International (+PLN 254 million).
- The higher metals prices were offset by a less favourable USD/PLN exchange rate. On the other hand, the lower volume of sales by KGHM was partially offset by sales of own copper concentrate.
- The higher revenues of KGHM International were mainly due to higher revenues of DMC, related to a contract being realised in the United Kingdom.

# C1\* unit cost in the Group

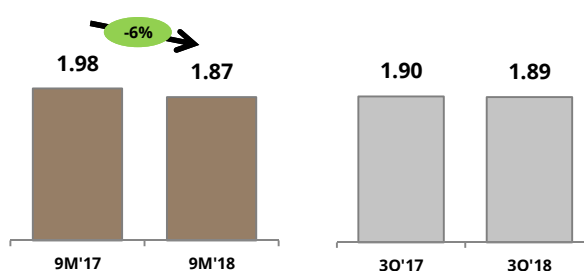
C1 - Group (USD/lb)



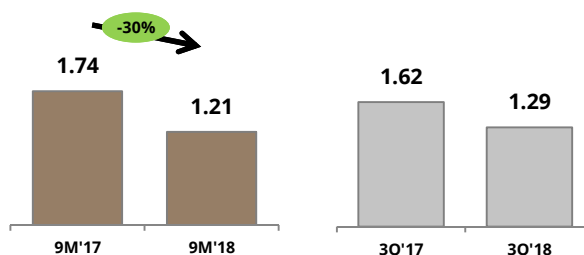
C1 - KGHM Polska Miedź S.A. (USD/lb)



C1 - KGHM INTERNATIONAL (USD/lb)



C1 - Sierra Gorda (USD/lb)

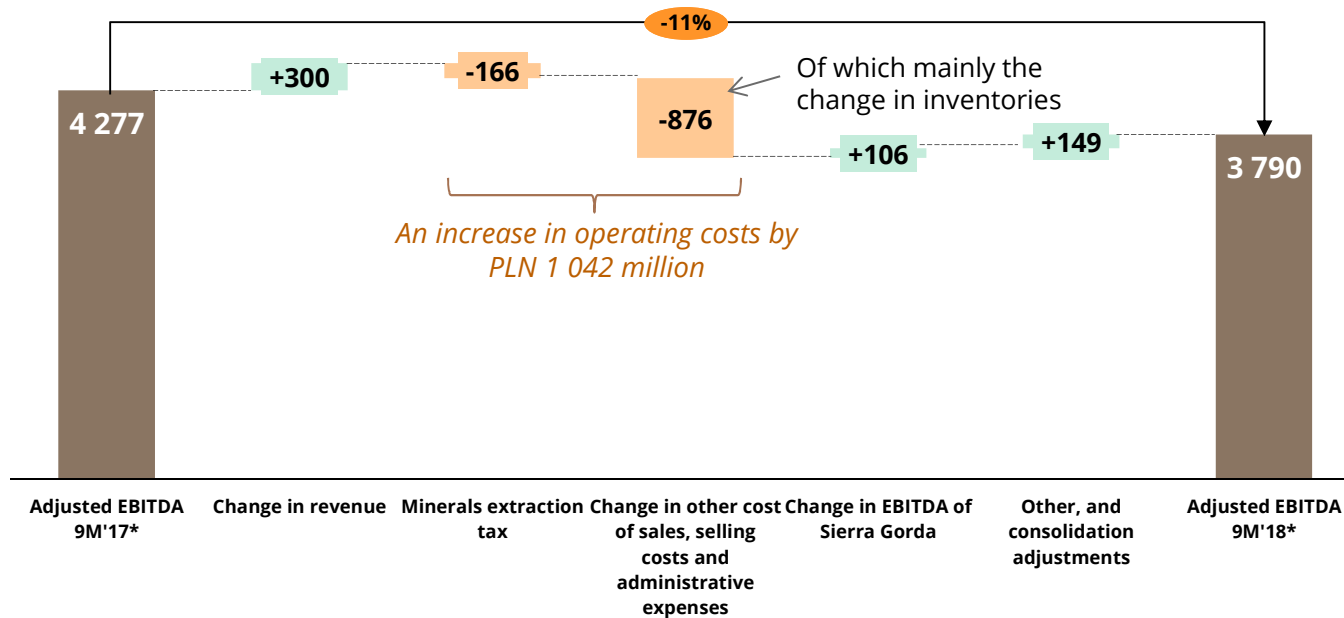


- The increase in C1 cost in KGHM Polska Miedź S.A. (by 0.45 USD/lb) compared to the first 9 months of 2017 was mainly due to a strengthening of the PLN vs the USD by 7%, higher expenses by nature and lower production of own concentrate.
- The decrease in C1 cost in KGHM International was due among others to an increase in the amount of copper sold.
- The largest factor in the drop in C1 cost of the Sierra Gorda mine was the improvement in the molybdenum market, as shown by substantially higher prices.

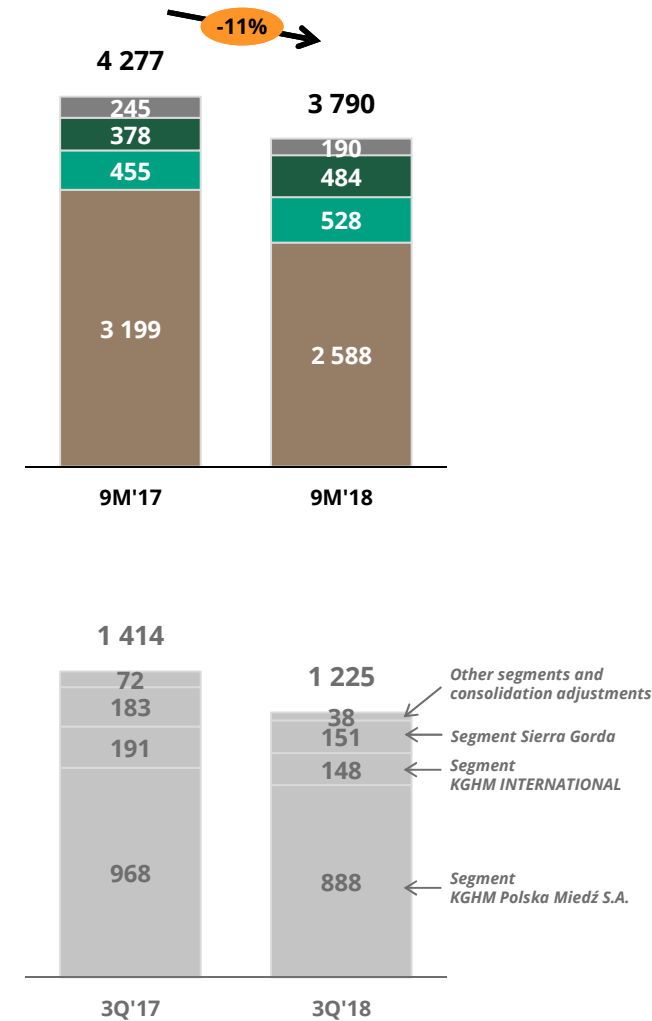
\* C1 cost - cash cost of concentrate production reflecting the minerals extraction tax, plus administrative expenses and smelter treatment and refining charges (TC/RC), less depreciation/amortisation and the value of by-product premiums, calculated for payable copper in concentrate

# Operating results of the Group

## EBITDA of the segments (mn PLN)



## EBITDA (mn PLN)

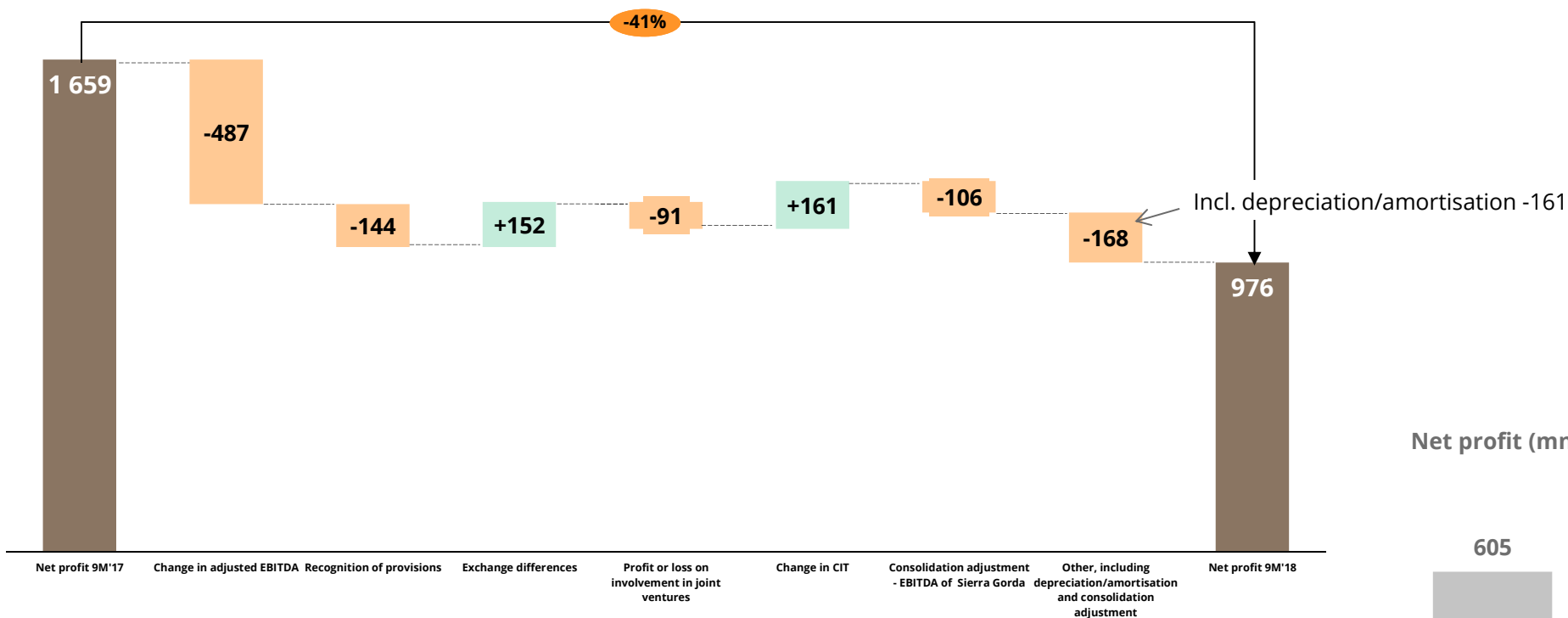


- The decrease in EBITDA of the Group\* by PLN 487 million was due to KGHM Polska Miedź S.A. (-PLN 611 million), alongside higher operating results by Sierra Gorda (+PLN 106 million) and KGHM International (+PLN 73 million).

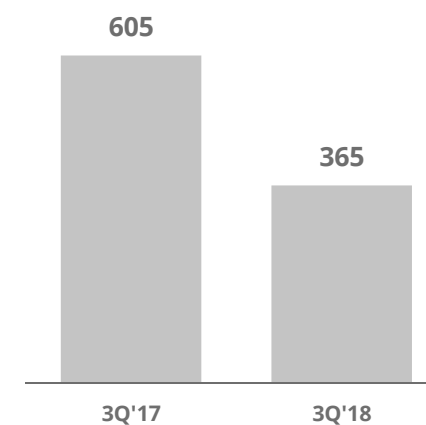
\* Sum of segments; adjusted EBITDA = EBITDA (profit/(loss) on sales + depreciation/amortisation) adjusted by impairment losses on non-current assets

# Financial results of the Group

## Profit for the period (mn PLN)



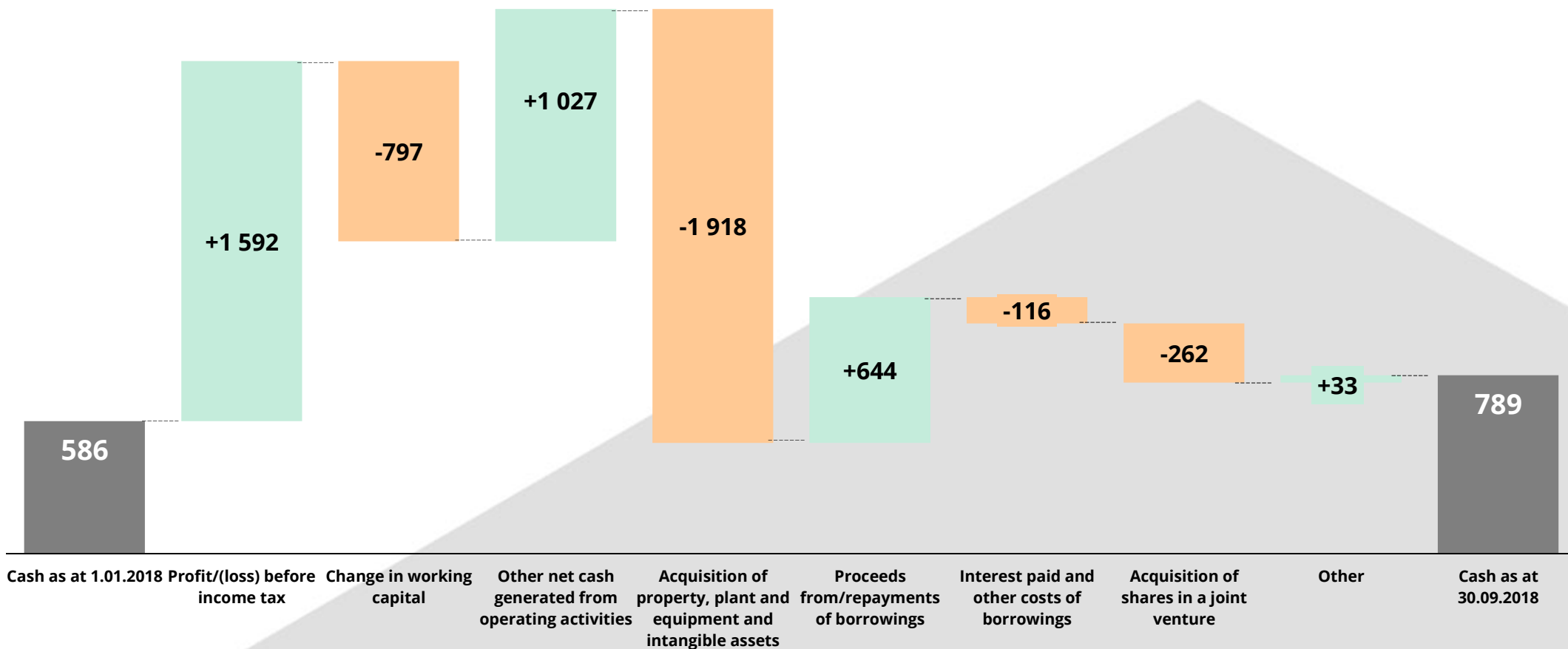
## Net profit (mn PLN)



- The decrease in profit by the Group by PLN 683 million was mainly due to the lower operating results of KGHM Polska Miedź S.A. and to the higher level of provisions recognised for litigation, alongside a more favourable result on exchange differences and on lower income tax.

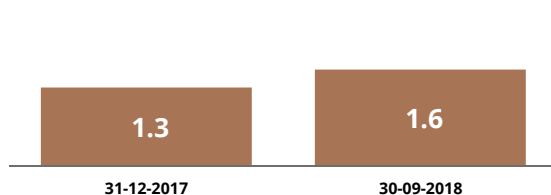
# Cash flow in the Group

Consolidated cash flow  
(mn PLN)

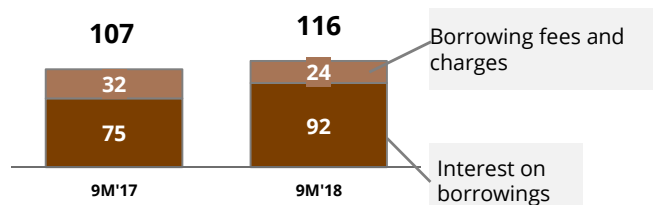


# Net debt of the KGHM Polska Miedź S.A. Group – as at end-September 2018

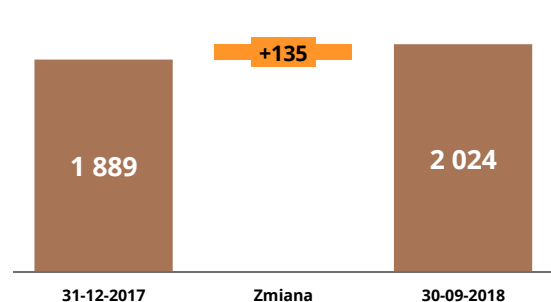
Net Debt / adjusted EBITDA



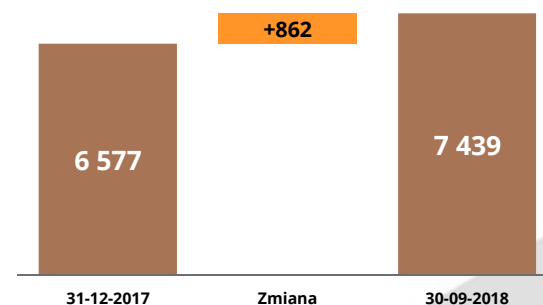
Borrowing costs (mn PLN)



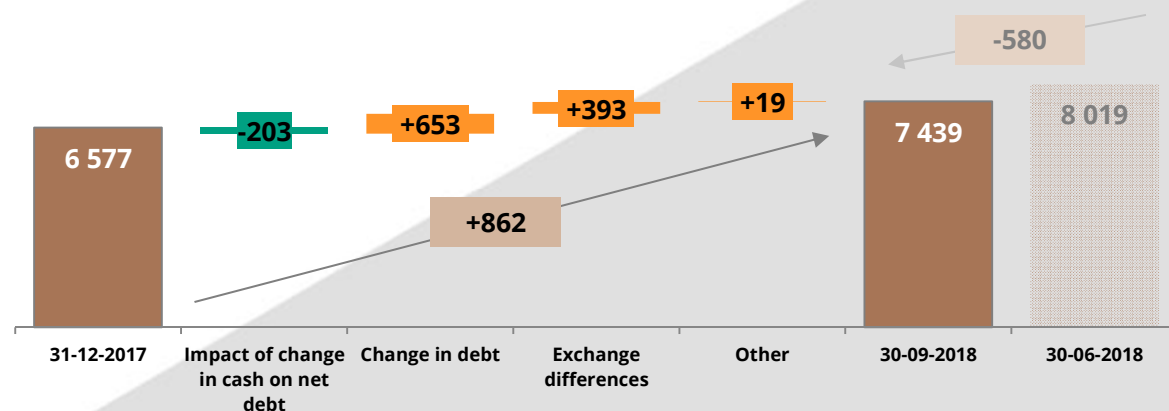
KGHM Group net debt (mn USD)



KGHM Group net debt (mn PLN)



Change in KGHM Group net debt (mn PLN)



- 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 1 918 million in the Group),
- the minerals extraction tax (PLN 1 297 million in KGHM Polska Miedź),
- the financing of inventories (an increase by PLN 831 million in the Group),
- negative exchange differences (an increase in debt by PLN 393 million),
- financing of Sierra Gorda (PLN 262 million),
- a decrease in trade payables (a decrease by PLN 142 million in the Group),
- borrowing costs (PLN 116 million in the Group);

decreases in debt :

- positive cash flow from operating activities, excluding the change in working capital and the minerals extraction tax (PLN 3 865 million in the Group),
- change in receivables (a decrease in the Group by PLN 234 million).





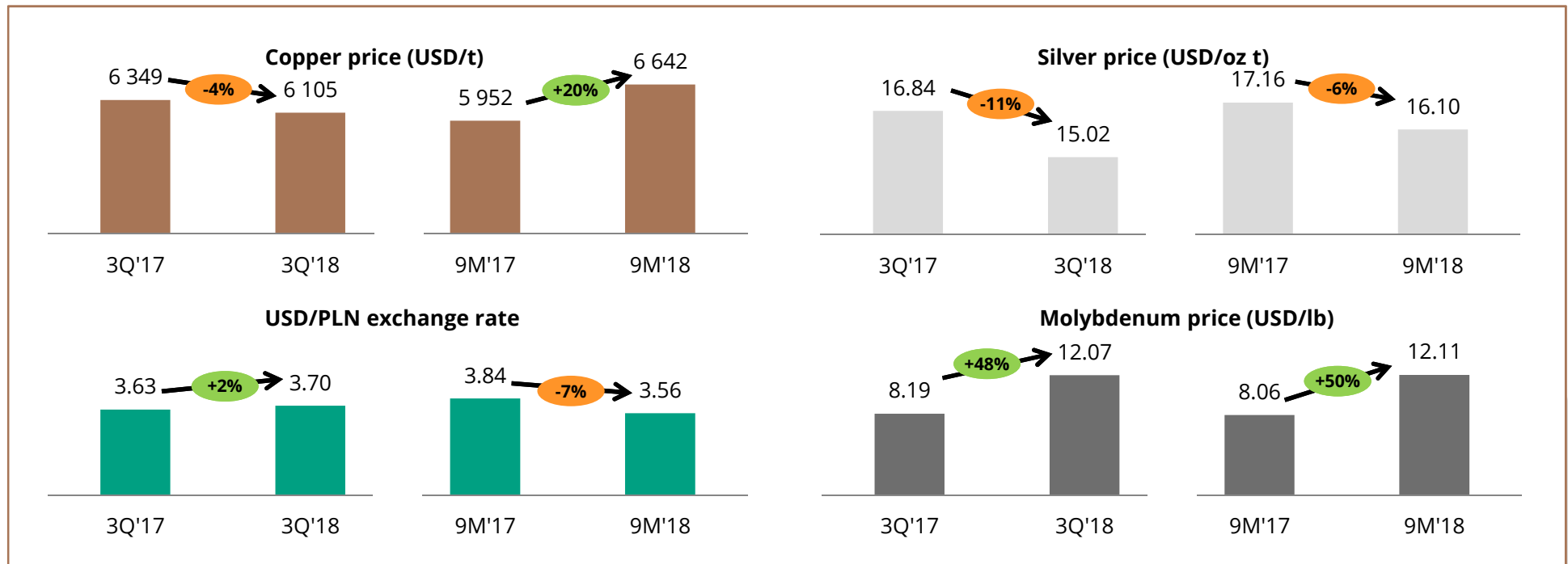
# Macroeconomic environment

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# Copper price lower, but market fundamentals remain stable; the trade dispute and USD putting pressure on metals prices

A substantial increase in the molybdenum price alongside lower copper and silver prices depreciation of the PLN in the third quarter (yoy)



Source: Thomson Reuters, CRU, KGHM Polska Miedź

- Copper saw a slight drop for the quarter (-4% yoy), compared to the corresponding prior year quarter, alongside a drop in the silver price to below 15 USD/oz t and a substantial jump in the molybdenum price.
- The PLN-denominated copper price fell compared to the prior quarter, mainly due to a fall in stock prices and the only partial offsetting of this drop by a depreciation of the PLN versus the USD.
- Although the global economy remains stable, the imposition of tariffs and slower trade as well as the risk of a further escalation of the trade war convinced the economists of the International Monetary Fund to revise downwards their forecasts of economic growth.

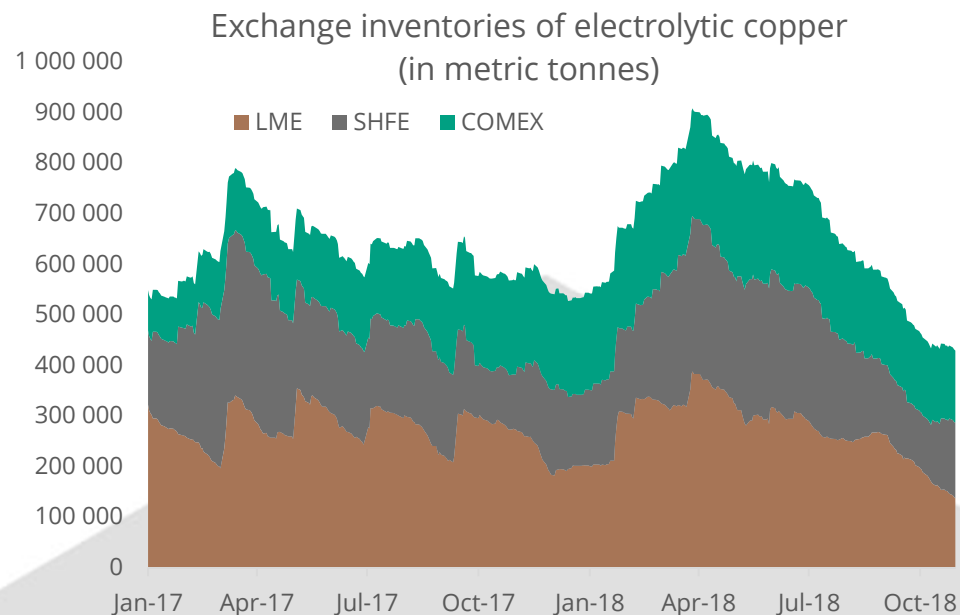
# An increase in the physical premium and a significant drop in inventories confirm the fundamental stability of the copper market

## Rising physical premiums in China signal increased demand for copper cathodes



Source: Bloomberg, KGHM Polska Miedź

## Since March 2018, copper inventories in official market warehouses have fallen by more than half



Source: Thomson Reuters, KGHM Polska Miedź

- The rising economic tensions and the strengthening of the USD since the start of the year resulted in lower commodities prices in the third quarter of 2018. Nonetheless the fundamental situation, in recent months, has remained stable.
- Demand for copper continues to rise (in China, conservative estimates put its rate of growth at over 4% yoy), which can be seen not only in the systematic drop in official inventories, but also in the rise in physical premiums in China.
- The tightening of monetary policy by the Fed (the market expects a further rise in interest rates in December 2018), along with increasing protectionist talk amongst the world's business community, is generating heightened volatility on the currency market, in particular in USD parings. In China, the negative impact of the tariffs imposed by the administration of D. Trump have been partially mitigated by a weakening in the yuan versus the USD.

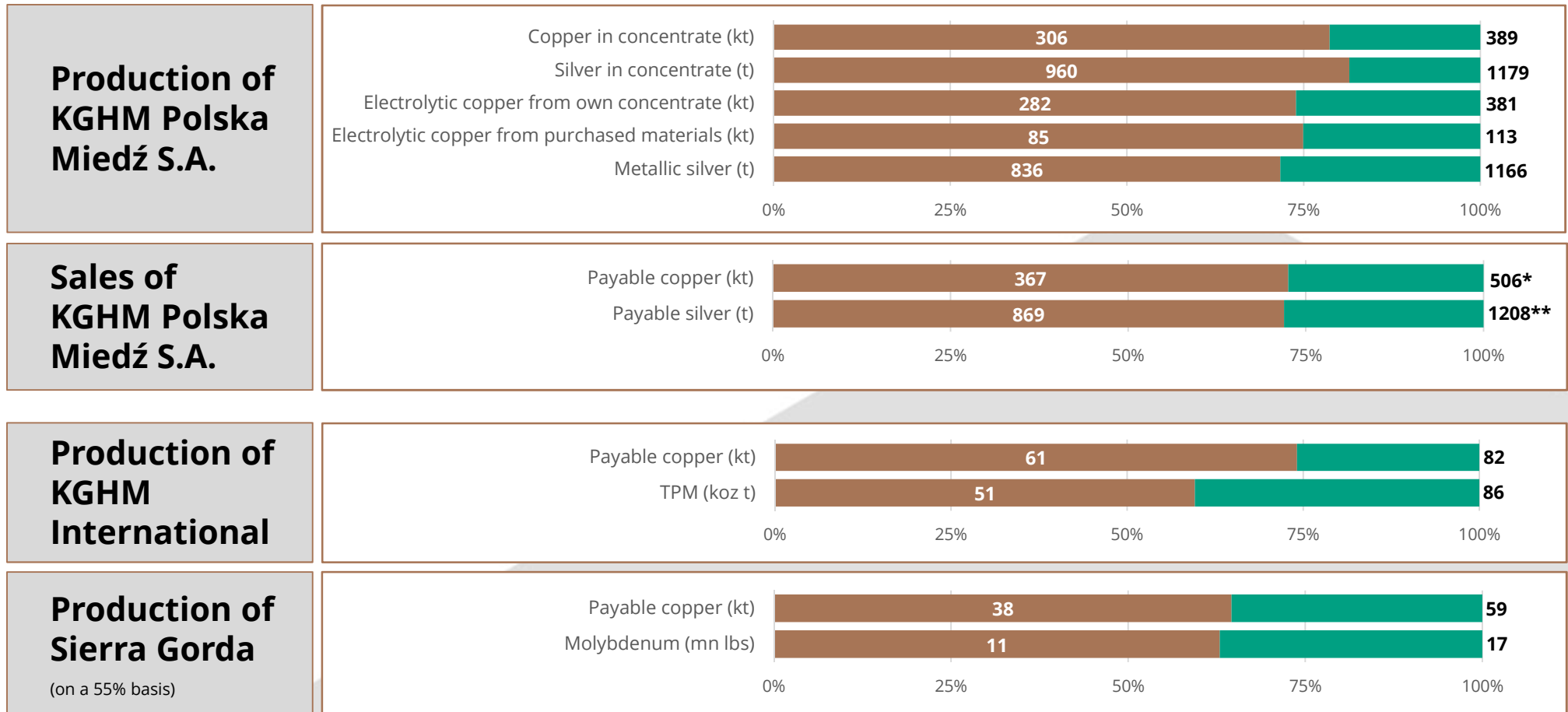


# Summation

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# Production and sales results in the first three quarters of 2018 in line with adopted budget targets







\* Including 22 thousand tonnes of copper in concentrate

\*\* Including 78 tonnes of silver in concentrate






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

## (1/2)

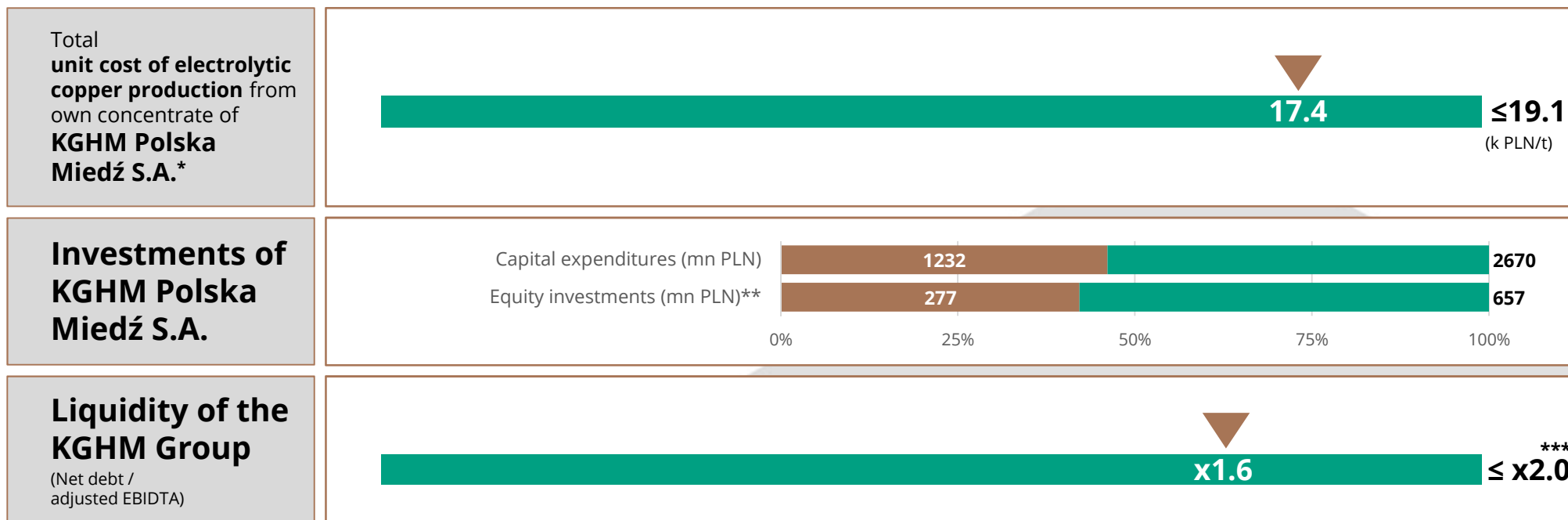
Area	Task	Status	Comments
Improve the level of electrolytic copper production from own concentrate in Poland	Further increase in flash furnace efficiency at the Głogów I smelter to achieve target processing capacity		<b>The flash furnace operations at Głogów I have stabilised</b> , in accordance with target availability and the size of concentrate loads in the third quarter.
	Commission the copper concentrate roasting installation		<b>The concentrate roasting installation is undergoing modification</b> , with planned start-up at the end of the year.
	Utilise the copper concentrate inventories		Following completion of maintenance of the concentrate smelting installation at the Głogów II Copper Smelter and Refinery on 26 June 2018, the use of stored concentrate began. By the end of the third quarter, <b>86% of target exports of copper concentrate had been executed</b> . By the end of October, the entire contract had been met: around 164 thousand tonnes of concentrate, including around 24 thousand tonnes of copper in concentrate
Eliminate bottlenecks at the Sierra Gorda mine	Increase the daily ore processing capacity of Sierra Gorda		An additional copper concentrate filter has been ordered, <b>while other actions related to improving the processing plant are being continued</b> with regard to ball mills, an additional tailings thickener, improving the work of cooling units and improving the efficiency of mixing tanks.

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

## (2/2)

Area	Task	Status	Comments
Prepare / execute key investments	Further expansion and development of mine infrastructure		<b>Preparatory work continued on commencing mining in new areas of the deposits as well as on expanding mine infrastructure</b> , in particular in the area Deep Głogów.
	Development of the Żelazny Most Tailings Storage Facility		Work is underway on advancing the first stage of development of the Southern Quarter of the Żelazny Most Tailings Storage Facility. <b>Work continues on clearing trees in the area of the Southern Quarter.</b>
	Commence construction of the Reverberatory-Melting-Refining furnace to produce anode copper at the Legnica Copper Smelter and Refinery		Documentation was completed for construction of the RMR furnace and associated equipment. <b>Work continues on building the RMR furnace</b> , the Full Evaporation Tower and the foundations of the casting machinery.
Review the business strategy of KGHM	Assess the execution of the existing strategy and the degree of achievement of initiatives and strategic tasks		A cyclical <b>report on the execution of strategic tasks at the end of the first half of 2018</b> was developed, describing the degree of advancement of the Strategy.
	Develop recommendations as to the further directions of development of the KGHM Group		A Team to analyze the Strategy of KGHM for the years 2017-2021 with an outlook to 2040 was appointed. Under review are the current executory and supporting strategies, <b>with analysis of key business indicators for the activities of KGHM</b> , as well as a review of key existing and planned projects.

# Group liquidity stable and safe



\* Sum of costs of extraction, floatation and metallurgical processing per cathode, together with support functions and cathode selling costs, adjusted by the value of inventories of half-finished products and work in progress, less the value of anode slimes and divided by the volume of electrolytic copper production from own concentrates

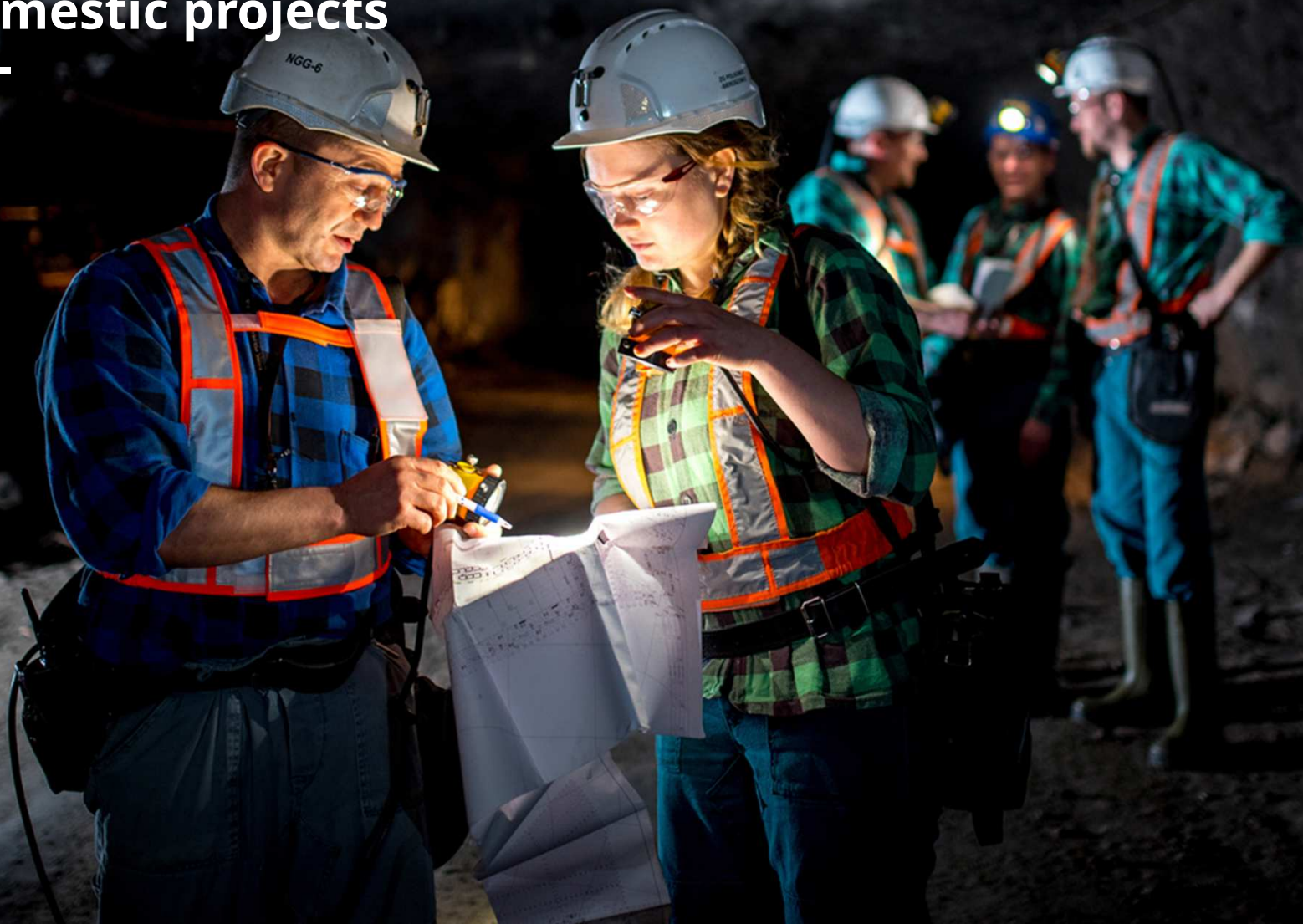
\*\* Loans granted and acquisition of shares and investment certificates of subsidiaries together with loans for these subsidiaries

\*\*\* Level of net debt/EBITDA ≤ 2 related to the Financial Liquidity Policy adopted by the Company and is not part of the budget assumptions of KGHM for 2018.



## Key domestic projects

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

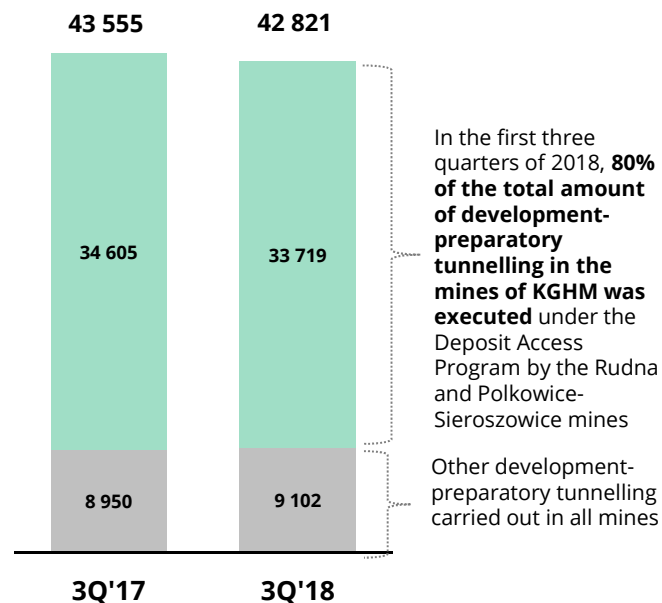
## Deep Głogów (GGP) area

### Work performed in the first three quarters of 2018

#### Status of the Deposit Access Program

- Work continued on the sinking of the **GG-1 shaft** (material-personnel shaft, with an air inlet function). The shaft has reached a depth of 1 070 meters. The shaft's target depth is 1 350 meters with a diameter of 7.5 meters. Injection work continues on the water-logged main dolomite layer. The completion of this injection work and re-commencement of sinking of the shaft will take place in the first quarter of 2019.
- Work continues on preparations for the construction of the **Surface-based Central Air Conditioning System at the GG-1 shaft**. An application for a building permit has been submitted to the Director of the Wrocław branch of the Central Mining Authority. The contractor has completed tender proceedings for the delivery of basic equipment. The **Ice Water Transportation System** is under construction.
- Preparatory work continued related to obtaining construction permits to build the **GG 2 („Odra”) shaft**. Discussions with the local government related to the plans to build the GG-2 shaft (regarding the siting of the investment) have concluded.
- 33.7 km of tunnels were** built in the Rudna and Polkowice-Sieroszowice mines.

#### Scope of development-preparatory tunneling completed (in metres)



Cooling tower and heat transfer building

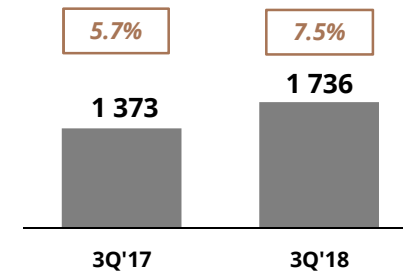


GG-1 shaft

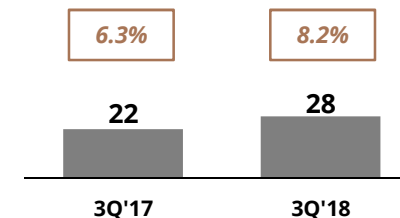
#### Share of production from Deep Głogów in total production in Poland

■ Production from GGP  
 □ % share by GGP

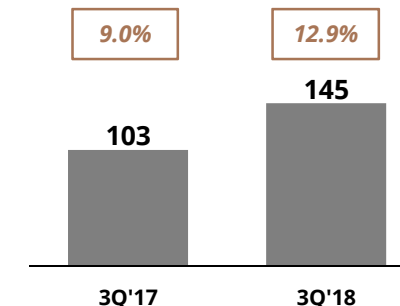
#### Ore extraction dry weight from GGP (kt)



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



#### Amount of Ag in ore (t)



# Metallurgy in KGHM

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

### Work performed in the first three quarters of 2018

#### Pyrometallurgy Modernisation Program



#### Metallurgy Development Program

For the purpose of final settlement of the Project and acquisition of all required operating permits, the schedule for corrective work is being updated.

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

Installation efficiency  
**76.9%**  
of target efficiency

- Average accrued efficiency of concentrate processing in the new flash furnace in the first three quarters of 2018 was **101.5 t/h** and **102.9 t/h** (designed capacity of **132 t/h**) for the entire period to date from start-up (i.e. since 15 October 2016).
- The efficiency of the new flash furnace will gradually increase to 100% of target capacity together with the start-up of other parts of the new production line, including primarily the copper concentrate roasting installation.

Installation availability  
**92.3%**

- Availability of the installation in the third quarter of 2018 reached 92.3%.

- Steam Drier - the stage of technological trials was completed. Following the maintenance shutdown of the Głogów II Copper Smelter and Refinery, production is underway with the full use of the newly-built steam drier. At the moment associated work is underway which has no impact on availability. Final settlement and handover are also underway.
- Concentrate roasting installation – due to the need to modernise the roasting furnace by, among others, building an oxygen-enriched fluidized bed roaster, the process of technological start-up continues.
- Conformatory projects – most of the work has been completed. Still underway are settlements with contractors as well as final handover procedures, eliminating faults, completing contractor documentation and obtaining operating permits.

# Program to adapt the technological installations of KGHM to the requirements of BAT Conclusions for the non-ferrous metals industry and to restrict emissions of arsenic (BATAs)

## Program goal

KGHM will have a modern environmental protection infrastructure at the Głogów and Legnica Copper Smelters and Refineries by 2023, adapted to BAT conclusions

## Key benefits

Advancing this program creates the conditions for KGHM to achieve the following benefits:

- minimalisation of environmental impact by metallurgical technology;
- adaptation of metallurgical technology to BAT and environmental protection requirements;
- maintenance of environmental protection equipment in full working order;
- limitation of social dissatisfaction and fears regarding the impact of arsenic emissions on the health of the inhabitants of Głogów and Legnica, in order to achieve acceptance by local communities for operations to continue, as well as for the further investment goals of the Company;
- development of know-how with regard to „clean” metallurgical copper production technology to achieve sustainable development.

Sample industrial dedusting installations



## Important actions under the Program

Under the BATAs Program existing installations will be modernised and new dedusting installations will be built.

Plans call for the construction of new, modern filtration systems, the hermitisation of processes and the construction of a new, innovative pilot installation to eliminate arsenic in the form of scorodite.

The BATAs Program portfolio comprises 20 new investment projects at the Głogów metallurgical plant and 6 new projects at the Legnica metallurgical plant. In addition, 12 projects at the Głogów plant and 8 projects at the Legnica plant related to the BATAs Program were identified.

## Key international projects

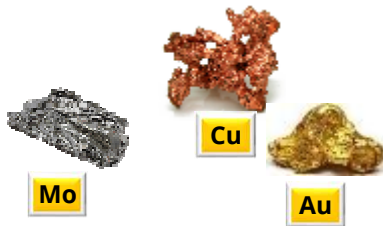
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# Sierra Gorda

## 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 nine months of 2018 amounted to **69.3 thousand tonnes**, while production of molybdenum in concentrate amounted to **19.5 million pounds** (on a 100% basis).
- The Sierra Gorda team is currently concentrating on implementing actions aimed at **improving the execution of maintenance-conservation work in the processing plant**.
- Under the **debottlenecking program** a variety of initiatives are underway aimed at increasing the average annual daily processing capacity (to 130 thousand tonnes, and ultimately to 140 thousand tonnes) and at improving the process of flotation, such as a third thickener, additional ball mills, a fourth copper concentrate filter and a shear agitation tank.

# International development assets of KGHM Polska Miedź S.A.



## Sierra Gorda Oxide

In the third quarter of 2018, work was performed on selected assumptions and options of the project, for example additional analyses and tests were conducted on the possibility of preparing the ore for the heap leaching process. Work also continued on obtaining required permits for the project and on reviewing selected technical aspects of the project.



## Victoria

In the third quarter of 2018, work continued on preparing applications to obtain necessary permits for the project. The project team also conducted work related to securing existing infrastructure and project terrain as well as maintaining relations with First nations in Ontario in Canada.



## Ajax

On 27 June 2018, the Government of Canada, through the Governor-in-Council (Cabinet) issued a negative decision regarding the Ajax project. This decision of the Government of Canada supplements the decisions of the Ministry of Natural Resources and the Ministry of Energy, Mines and Petroleum Resources of British Columbia (provincial authorities) from December 2017 against the granting of an Environmental Assessment Certificate for the Ajax project. As a result of these decisions, in the third quarter of 2018, on the project's terrain only necessary work related to securing existing infrastructure and required monitoring of the terrain was carried out.



## Supporting slides

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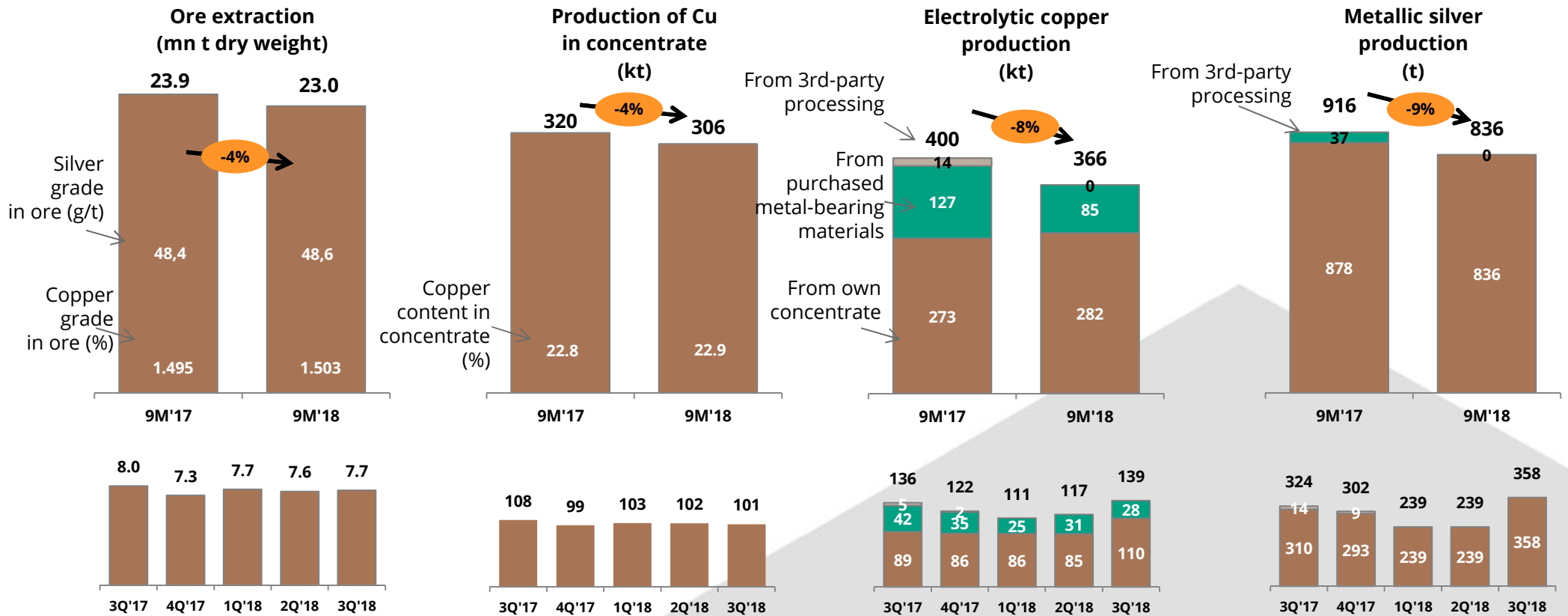


# Economic results of KGHM Polska Miedź S.A.

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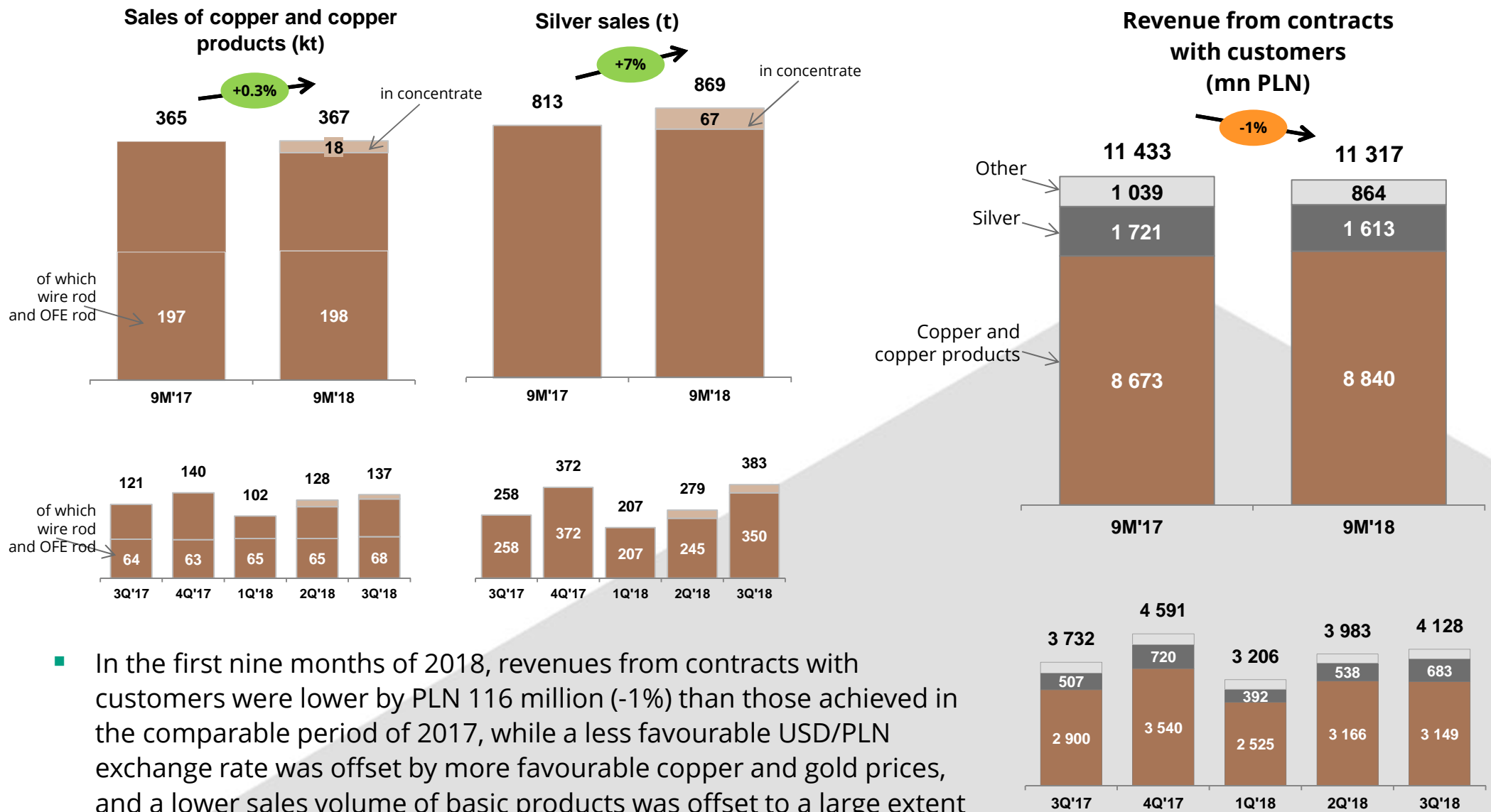


# Production



- In 2018 there was an increase of copper content in ore from 1.495% to 1.503%.
- The production of Cu in concentrate is due to the lower ore extraction as compared to 2017.
- The lower production of electrolytic copper in 2018 was due to the maintenance shutdown of the Głogów II Copper Smelter, which lasted from 8 April to 26 June 2018.
- Production of cathodes from own concentrate increased.
- The decrease in metallic silver production is a result of the lower production of electrolytic copper.

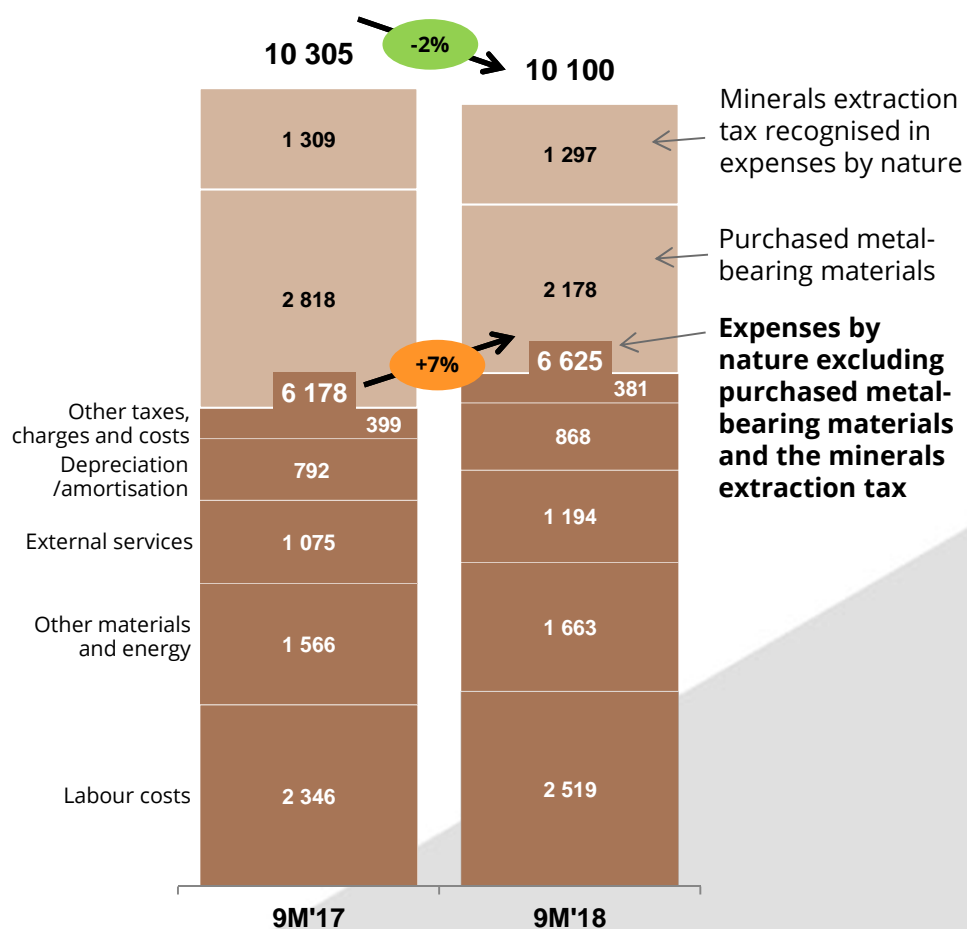
# Lower revenue from contracts with customers due to lower production of finished products



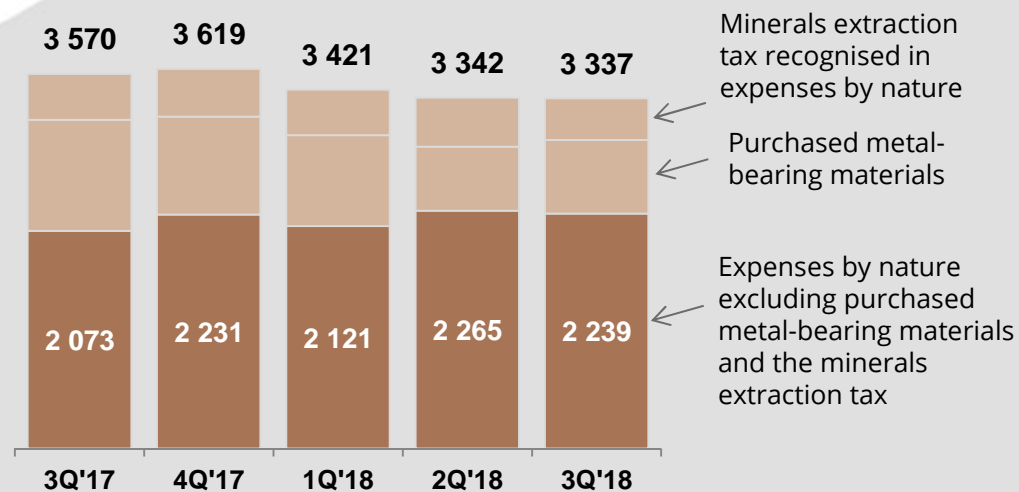
- In the first nine months of 2018, revenues from contracts with customers were lower by PLN 116 million (-1%) than those achieved in the comparable period of 2017, while a less favourable USD/PLN exchange rate was offset by more favourable copper and gold prices, and a lower sales volume of basic products was offset to a large extent by the sale of own copper concentrate.

# Expenses by nature

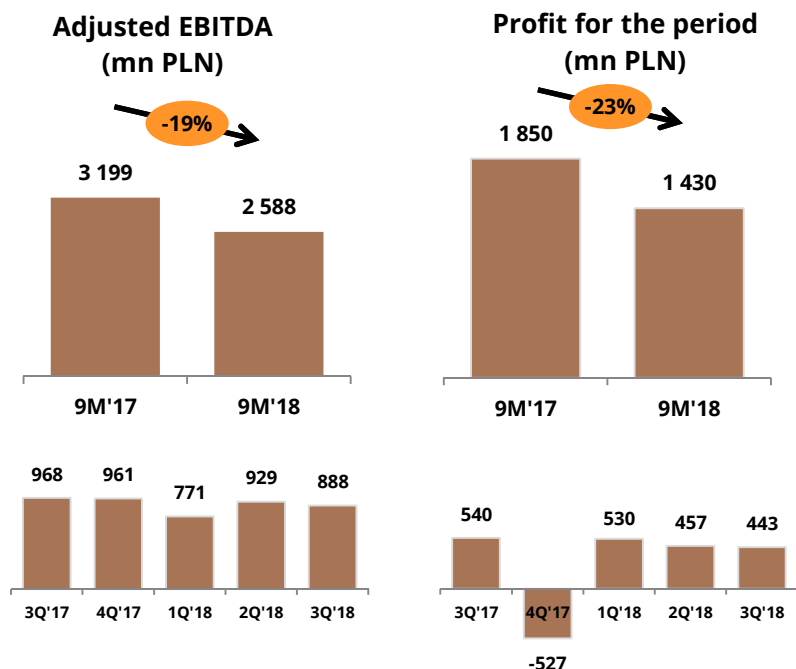
Expenses by nature  
(mn PLN)



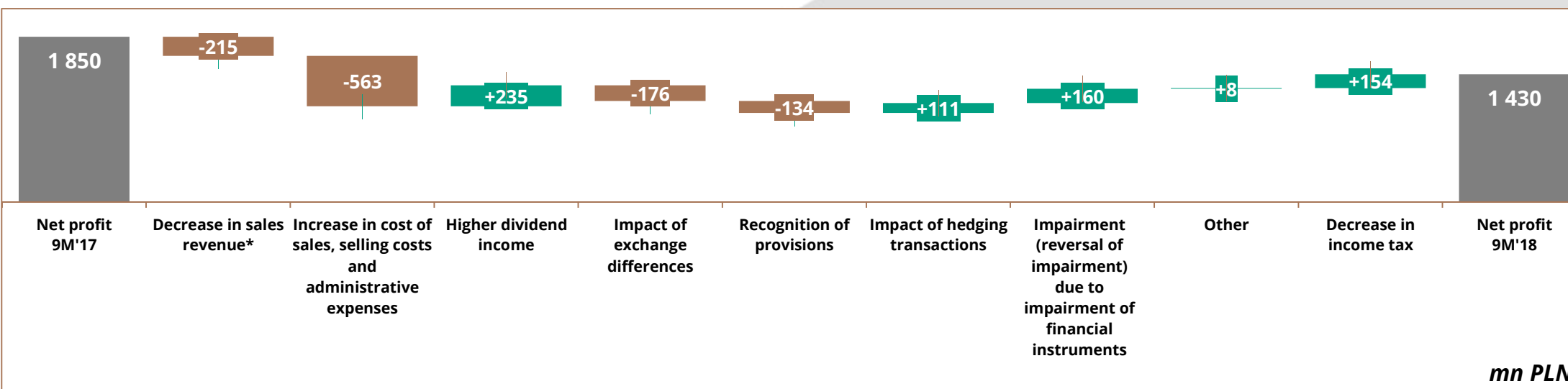
- Expenses by nature, excluding purchased metal-bearing materials and the minerals extraction tax, were higher by PLN 447 million (7%) due to higher labour costs (+PLN 173 million), external services (+PLN 119 million), consumption of materials and energy (+PLN 97 million) and depreciation/amortisation (+PLN 76 million).



# Lower profit for the period of KGHM Polska Miedź S.A. due to lower operating results



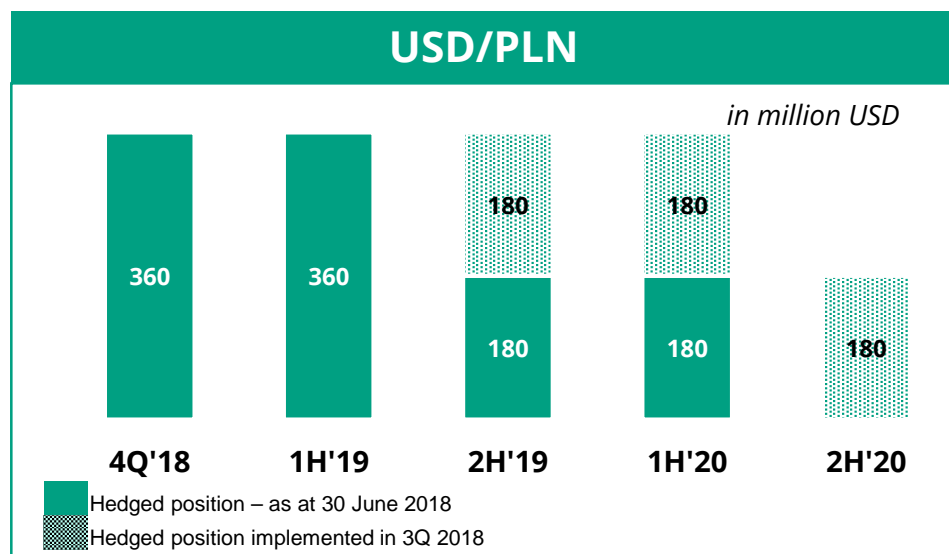
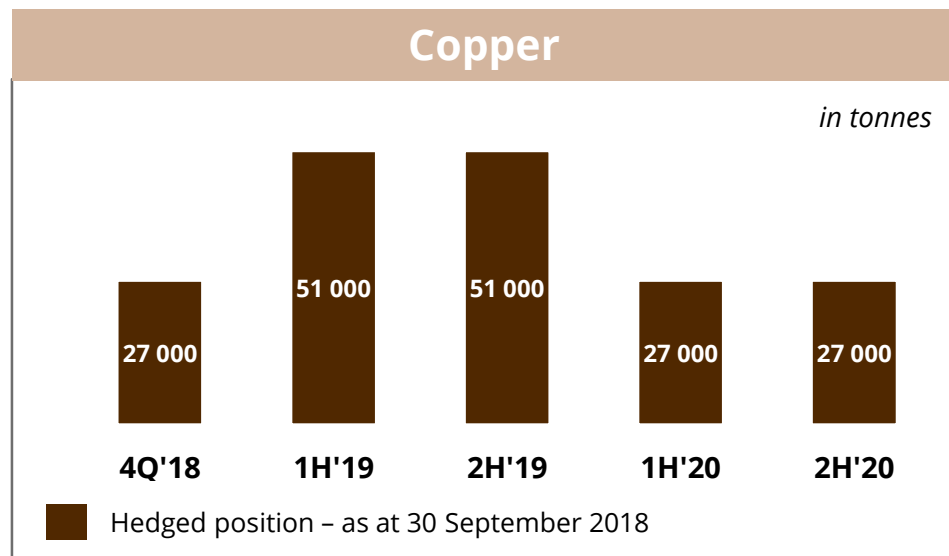
- The decrease in adjusted EBITDA by PLN 611 million (-19%) was mainly due to the increase in costs of operating activities by PLN 563 million, including due to a higher minerals extraction tax, caused by higher PLN-expressed copper prices and a lower increase in inventories, which affects the increase in the change in inventories.
- The decrease in net profit, due to the aforementioned factors as well as to the less favourable impact of exchange differences and by a higher recognition of provisions, was limited by higher income from dividends, the reversal of impairment losses on financial instruments and by the impact of hedging transactions.



mn PLN

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

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



- ### Result on derivatives
- In the first 9 months of 2018, KGHM Polska Miedź S.A. recorded a result on derivatives and hedges in the amount of PLN 50 million, of which:
    - PLN 110 million increased sales revenue (transactions settled to 30 September 2018),
    - PLN 87 million decreased the result on other operating activities,
    - PLN 28 million increased the result on finance activities.
  - The fair value of derivatives (MtM) in KGHM Polska Miedź S.A. as at 30 September 2018 amounted to PLN 548 million.
  - The revaluation reserve on cash flow hedging instruments as at 30 September 2018 amounted to PLN 144 million.
  - Since 1 January 2018 the company has applied new hedge accounting principles pursuant to IFRS 9.

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