

Layers of possibilities



Results of the Group for the first half of 2018

17 August 2018

Cautionary Statement

This presentation was prepared by KGHM Polska Miedź S.A. (KGHM). The presentation is strictly of an informational nature and should not be construed as containing investment advice. The users of this presentation are solely responsible for their own analysis and assessment of the market situation and of the potential future results of KGHM based on the information contained in this presentation. The presentation is not, and should not be construed to be, an offer to sell, or to submit an offer to purchase, any of the securities of KGHM. The presentation is also neither in whole nor in part the basis for concluding any agreement or contract whatsoever or for undertaking any liabilities whatsoever. Moreover, this presentation does not represent a recommendation to invest in the securities of KGHM.

Neither KGHM nor any of its subsidiaries shall be held liable for the results of any decisions taken based on or utilizing the information contained in this presentation or arising from its contents. The market-related information contained within this presentation was partially prepared on the basis of data arising from those third parties mentioned in this presentation. Furthermore, certain declarations contained in this presentation may be of a forward-looking nature – in particular, such declarations may be in the nature of projections, developed based on actual assumptions, reflecting known and unknown types of risk as well as a certain level of uncertainty. The actual results, achievements and events which occur in future may significantly differ from the data directly contained or understood to be contained within this presentation.

In no case whatsoever should the information contained within this presentation be considered as a clear or understood declaration, or as any type of assertion whatsoever by KGHM or persons acting in its behalf. Neither KGHM nor any of its subsidiaries are required or obligated to update this presentation or to provide its users with any additional information whatsoever. KGHM furthermore hereby notifies the users of this presentation, that the sole reliable source of data on its financial results, forecasts, events and company indicators are the current and periodic reports published by KGHM in performance of the informational obligations arising from Polish law.

Agenda

1

Introduction

2

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

3

Summation

4

Supporting slides

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

5

Q&A

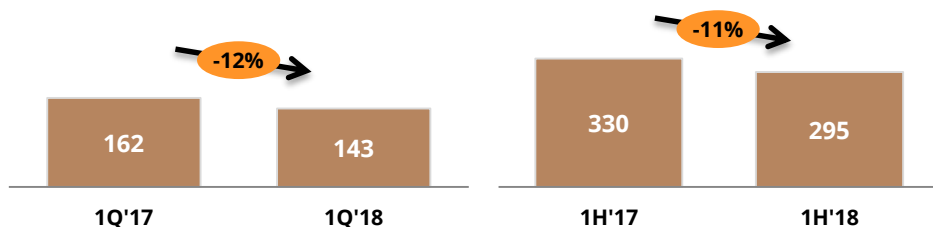


Introduction

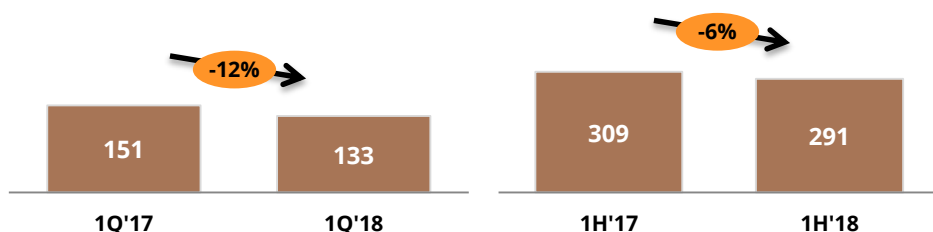
Summary of the 1st half of 2018 in the KGHM Polska Miedź S.A. Group

Production, sales and finance

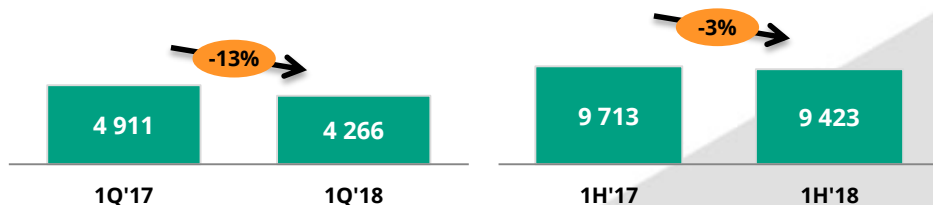
Payable copper production (kt)¹



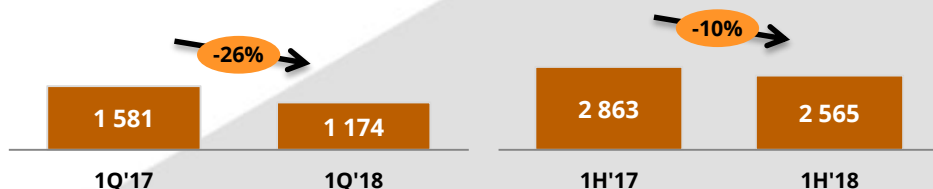
Sales of payable copper (kt)¹



Consolidated sales revenue (mn PLN)



Consolidated EBITDA (mn PLN)²



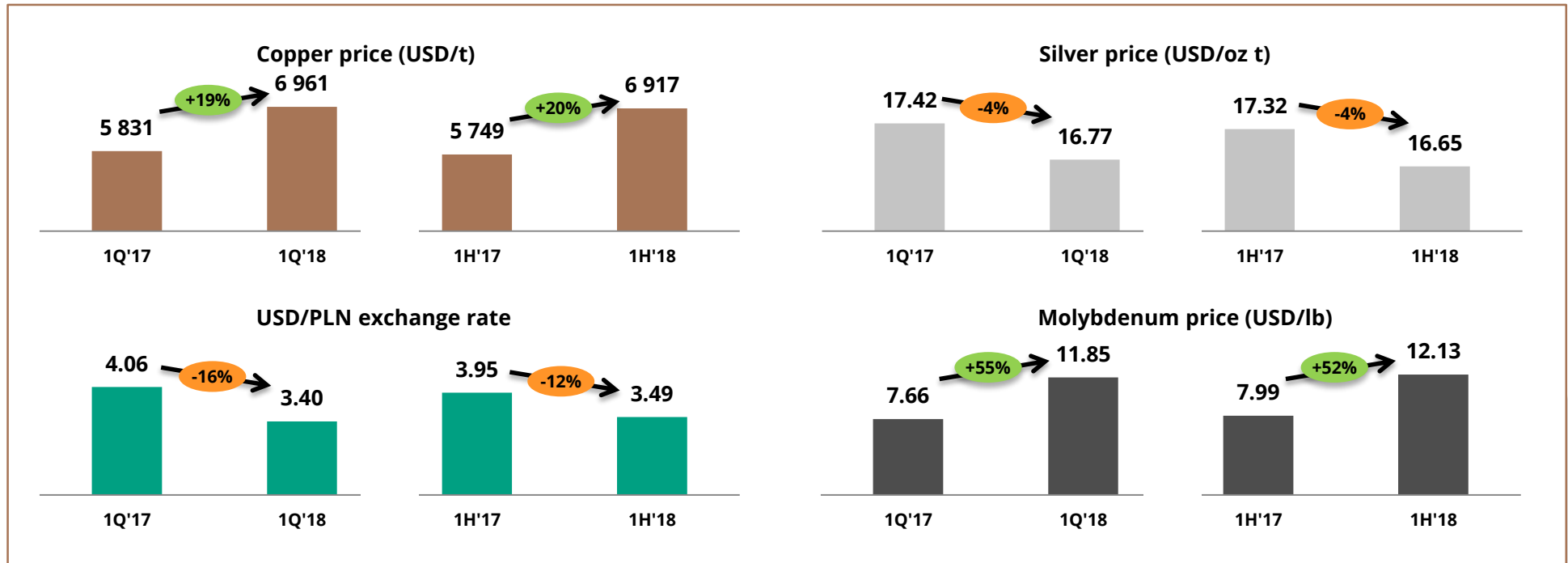
- Production** of payable copper in the first half of 2018 was lower yoy by 11%, mainly due to the 3-month furnace maintenance shutdown at the Głogów II Copper Smelter and Refinery of KGHM Polska Miedź S.A.
- Sales** of payable copper are a direct reflection of production, but also include the first sale of copper in concentrate for the year by KGHM Polska Miedź S.A. (11 thousand tonnes in the second quarter).
- Revenues** in the first half of 2018 were lower than in the corresponding period of 2017, mainly due to a decrease in sales volume and to a less favourable for KGHM Polska Miedź S.A. USD/PLN exchange rate.
- EBITDA** was lower yoy by 10%, mainly due to lower revenues from contracts with customers and from a higher cost of goods sold (including a higher minerals extraction tax by PLN 82 million).

¹ Comprises the segments KGHM Polska Miedź S.A., KGHM International and Sierra Gorda (55%)

² Adjusted EBITDA = EBITDA (profit/(loss) on sales + depreciation/amortisation) adjusted by impairment losses on non-current assets

The highest copper price in PLN since 2013 in stable macroeconomic conditions

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

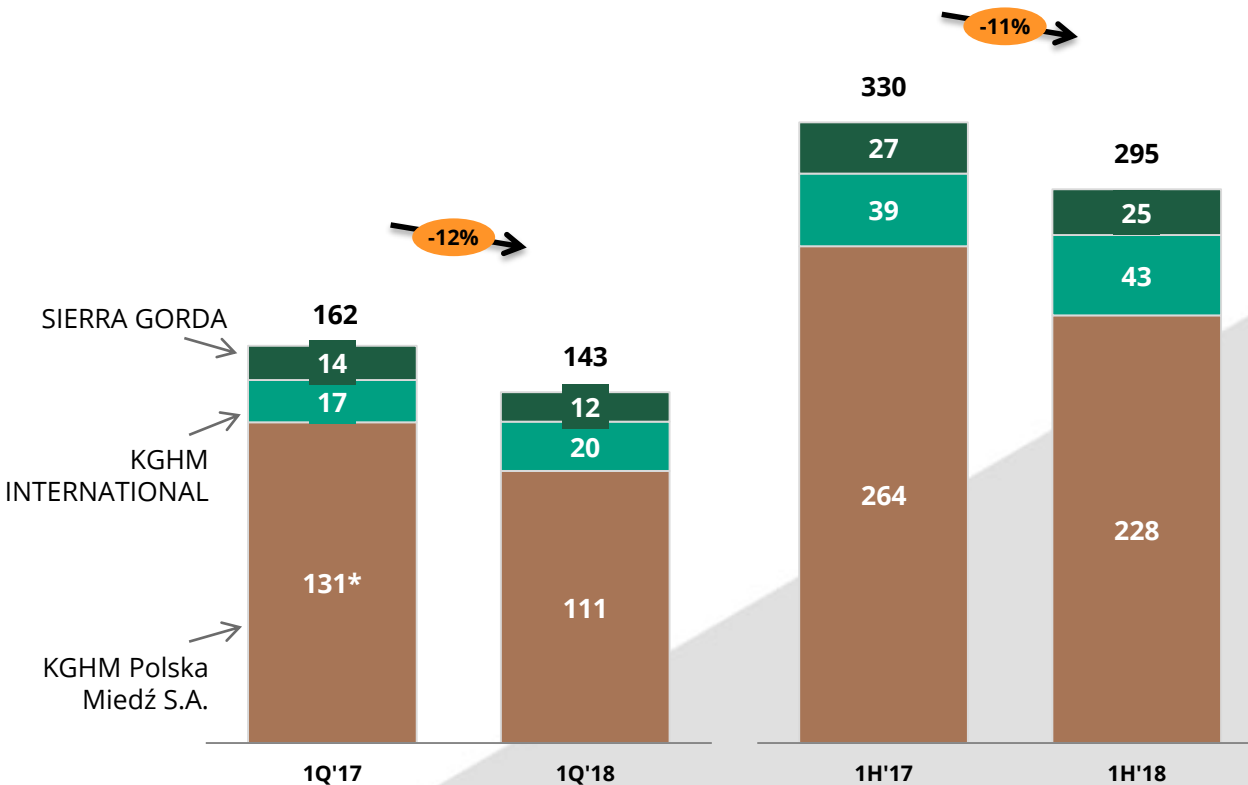


Source: Thomson Reuters, CRU, Bloomberg, KGHM Polska Miedź

- Dynamic, double-digit growth in copper and molybdenum prices (yoy), alongside a decrease in the price of silver to below 17 USD/oz t.
- The copper price expressed in USD tripled, more than the drop in the value of the USD in PLN – consequently the PLN-expressed price of copper was the highest since the first quarter of 2013.
- According to the IMF, economic activity remains in an expansive phase, but with a lower synchronisation of economic growth.

Production of payable copper by the Group

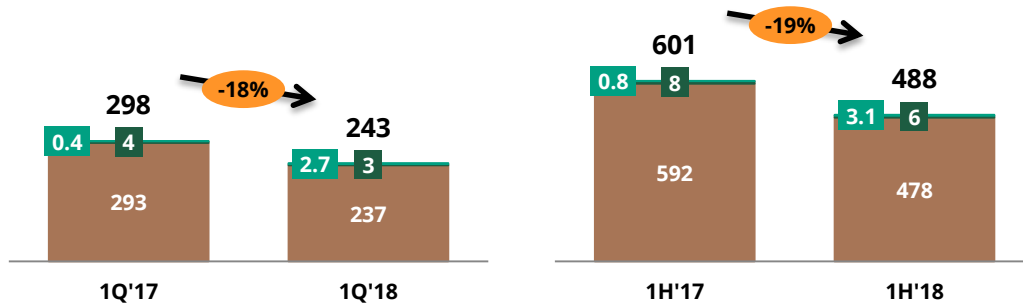
Payable copper production (kt)



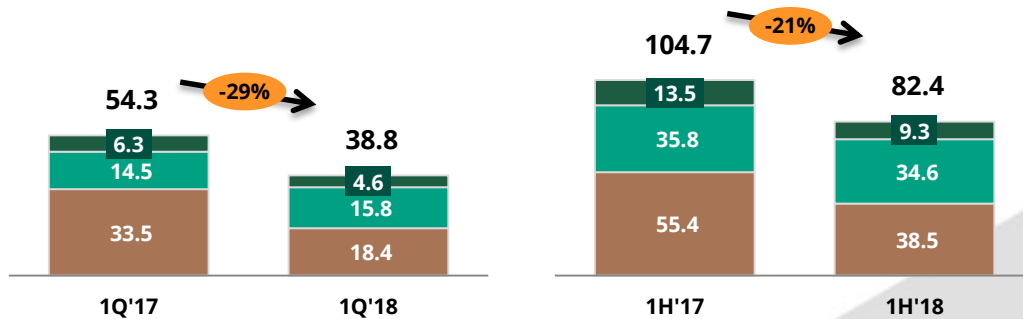
- The lower production of electrolytic copper by KGHM Polska Miedź S.A. is due to the maintenance carried out at the Głogów II Copper Smelter and Refinery, which lasted from 8 April to 26 June 2018.
- Stable production of payable copper by KGHM International is mainly due to higher metal content in ore and higher recovery by the Robinson mine.
- The drop in copper production by the Sierra Gorda mine was due to the lower metal content in extracted ore.

Production of other metals by the Group

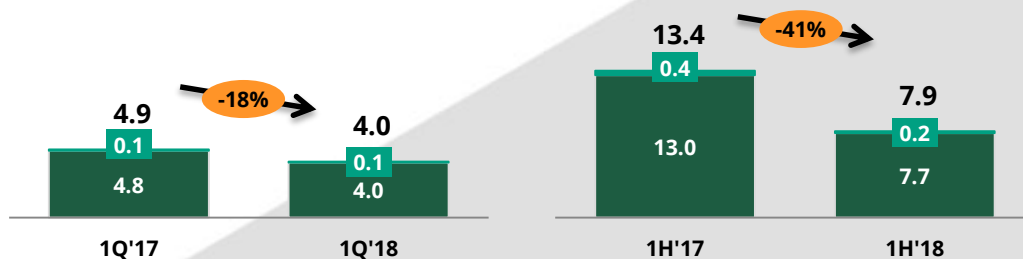
Silver production (t)



TPM* production (koz t)



Molybdenum production (mn lbs)



- The drop in production of associated metals by KGHM Polska Miedź S.A. 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 was due to the lower content of this metal in extracted ore.

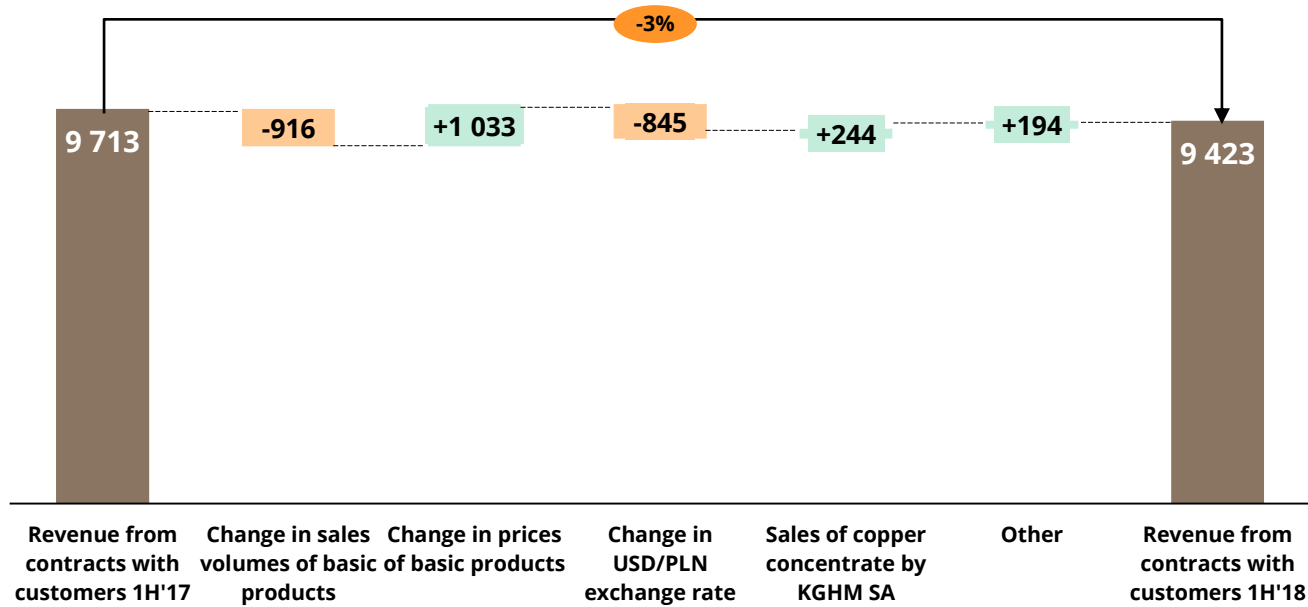


Economic results of the KGHM Polska Miedź S.A. Group

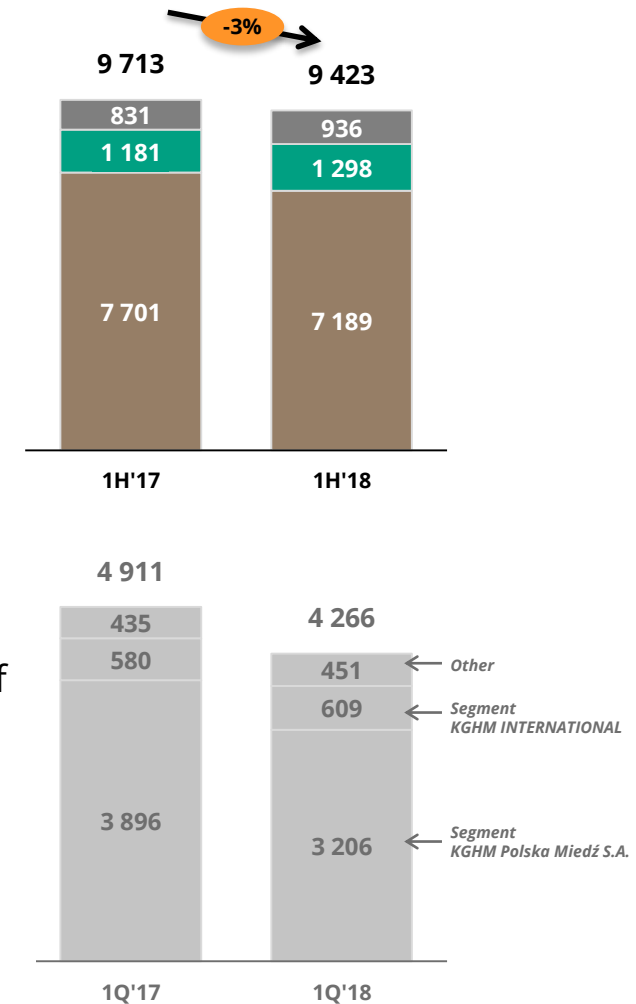


Sales revenue of the Group in the first half of 2018

Revenues from contracts with customers
(mn PLN)



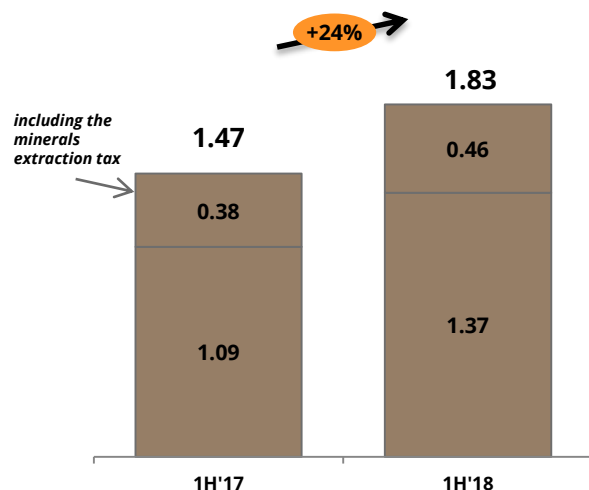
Revenues from contracts with customers (mn PLN)



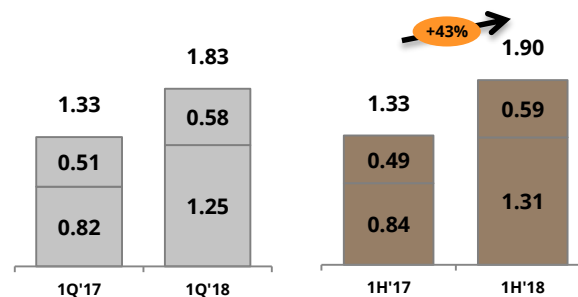
- The decrease in revenues by PLN 290 million (-3% yoy), as compared to the first half of 2017, was mainly in respect of KGHM Polska Miedź S.A. (-PLN 512 million) and is due to a lower sales volume of basic products.
- The more favourable metals prices enabled a partial offsetting of the impact of a lower sales volume by KGHM Polska Miedź S.A. and were the main factor in the increase in revenues by the segment KGHM International.

C1* unit cost in the Group

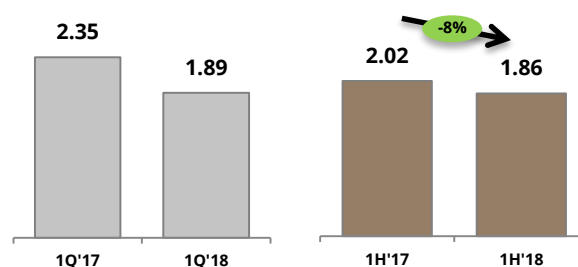
C1 - Group (USD/lb)



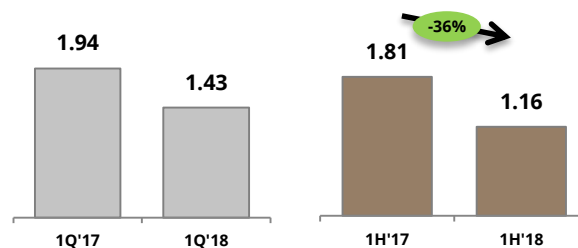
C1 - KGHM Polska Miedź S.A. (USD/lb)



C1 - KGHM INTERNATIONAL (USD/lb)



C1 - Sierra Gorda (USD/lb)



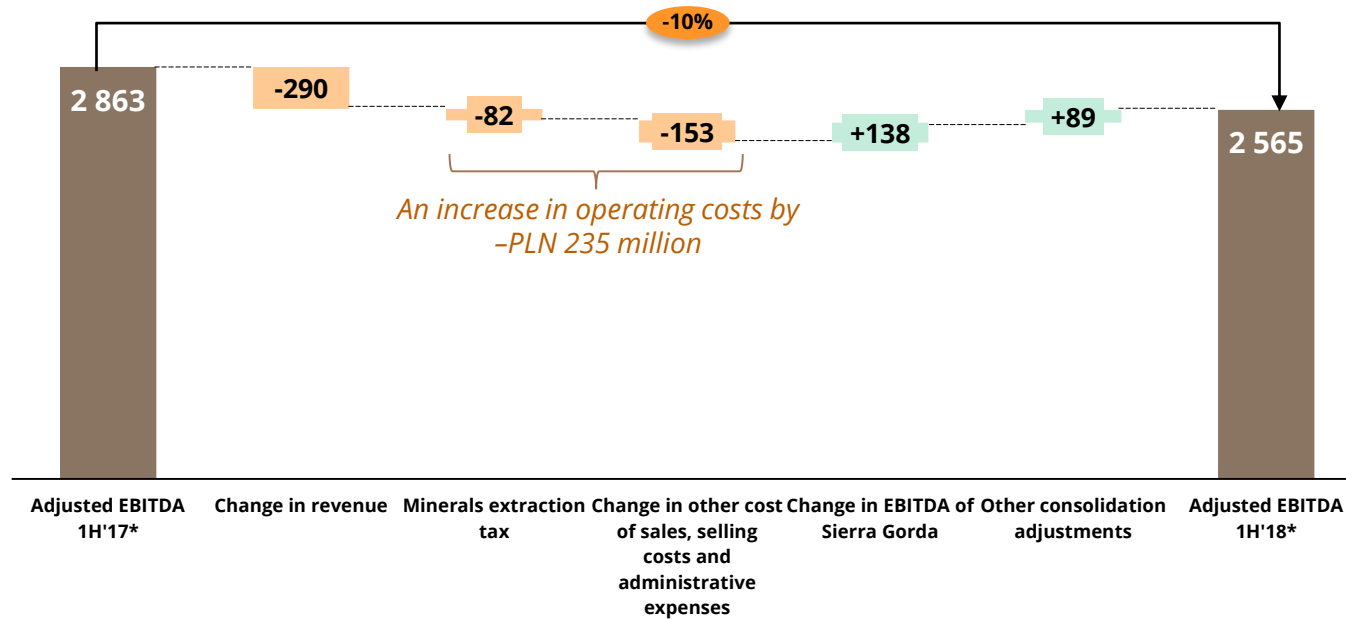
- In the first half of 2018, C1 cost in KGHM Polska Miedź S.A. was negatively impacted mainly by the weakening of the USD versus the PLN (-12%), by lower silver prices (-4%) and by lower production of copper (-4%) and silver (-3%) in own concentrate.
- The decrease in C1 cost in KGHM International was due to an increase in the amount of copper sold and to lower operating costs by the Robinson mine.
- The largest factor in the drop in C1 cost by the Sierra Gorda mine as compared to the first half of 2017 was the valuation of associated metals, mainly molybdenum (higher prices and a higher amount sold). In addition, due to the greater scope of pre-stripping work performed, the capitalised costs of pre-stripping were also higher which, similarly as in the case of the valuation of associated metals, are deducted when calculating C1.

* 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

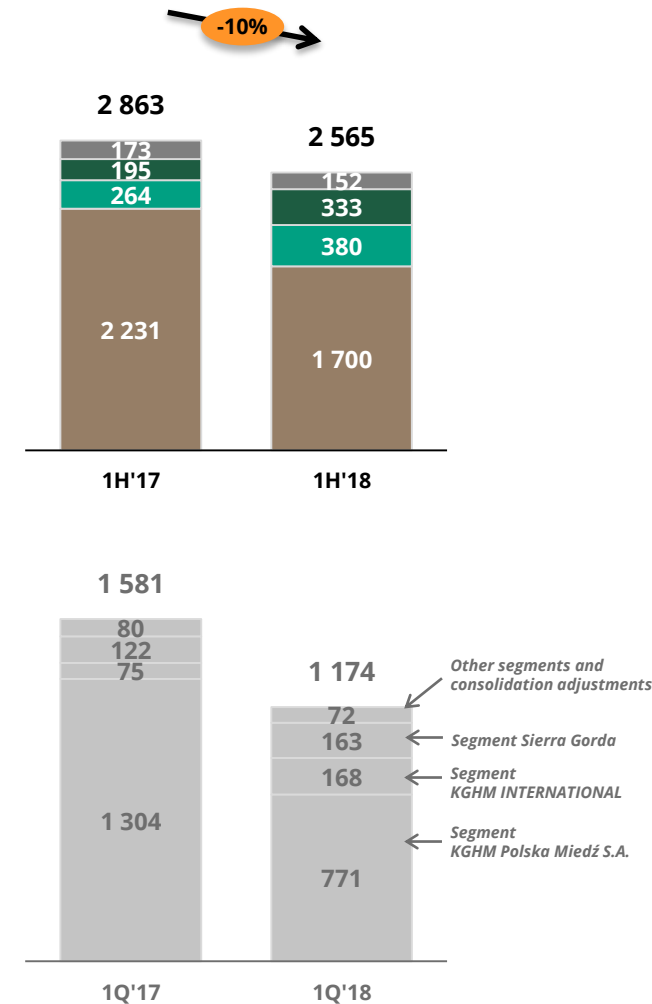
** Under the metals prices and USD/PLN exchange rate of the corresponding period of 2017

EBITDA

Operating results of the Group (mn PLN)



EBITDA (mn PLN)

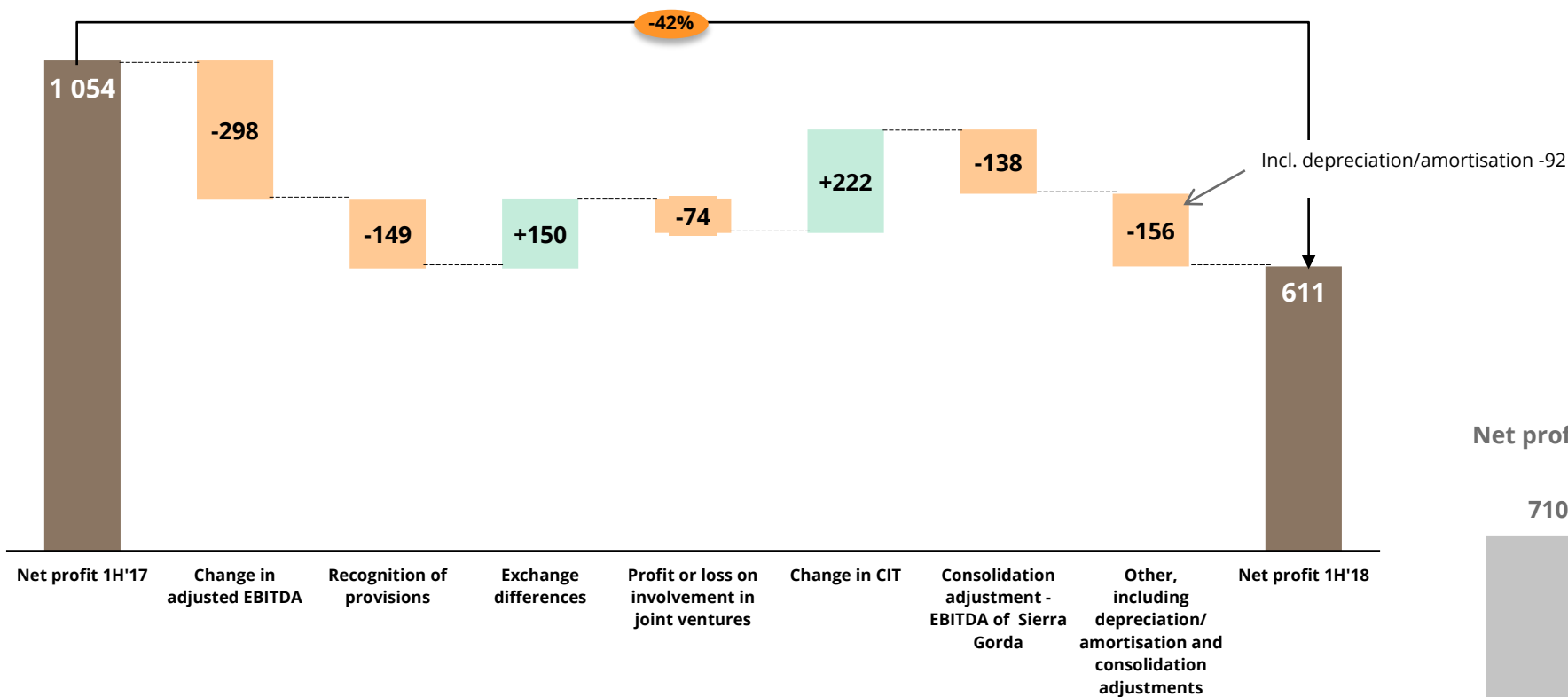


- The decrease in EBITDA of the Group* by PLN 298 million was due to KGHM Polska Miedź S.A. (-PLN 531 million), with higher operating results by KGHM International (+PLN 116 million) and Sierra Gorda (+PLN 138 million).

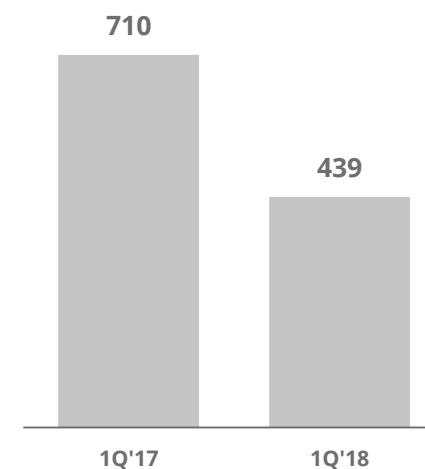
* Sum of segments; adjusted EBITDA = EBITDA (profit/(loss) on sales + depreciation/amortisation) adjusted by impairment losses on non-current assets

Financial results of the Group

Profit for the period (mn PLN)



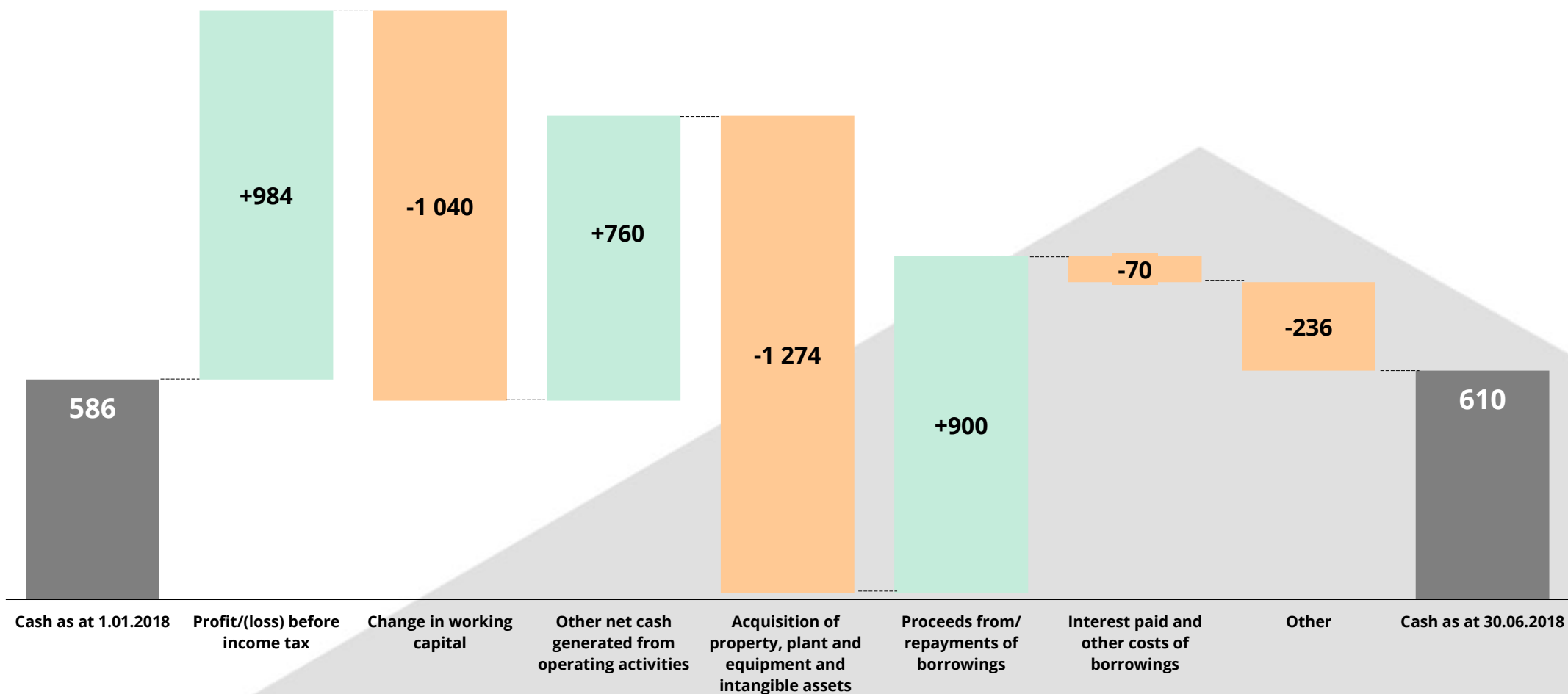
Net profit (mn PLN)



- The decrease in profit by the Group by PLN 443 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.

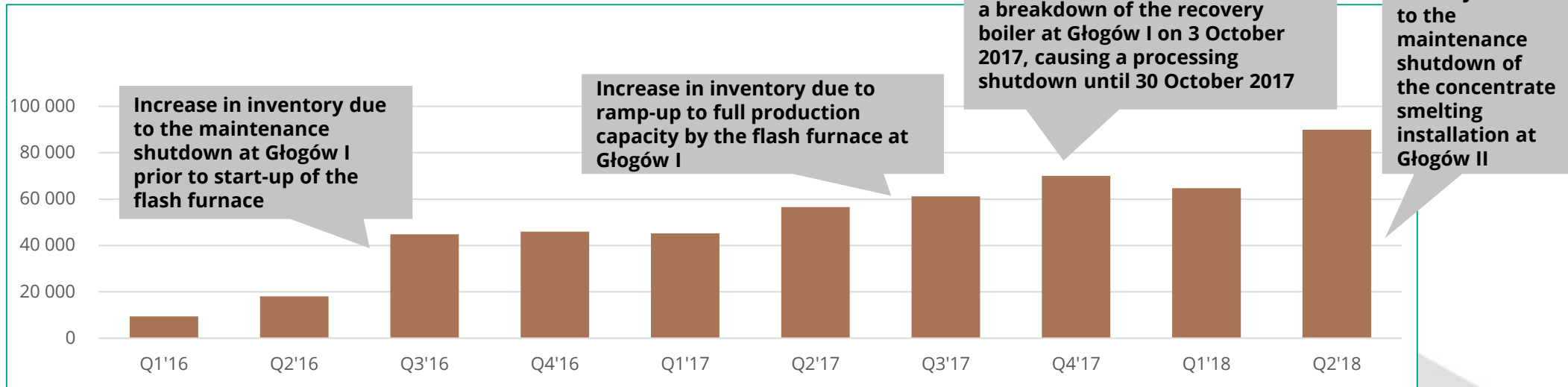
Cash flow in the Group

Consolidated cash flow (mn PLN)

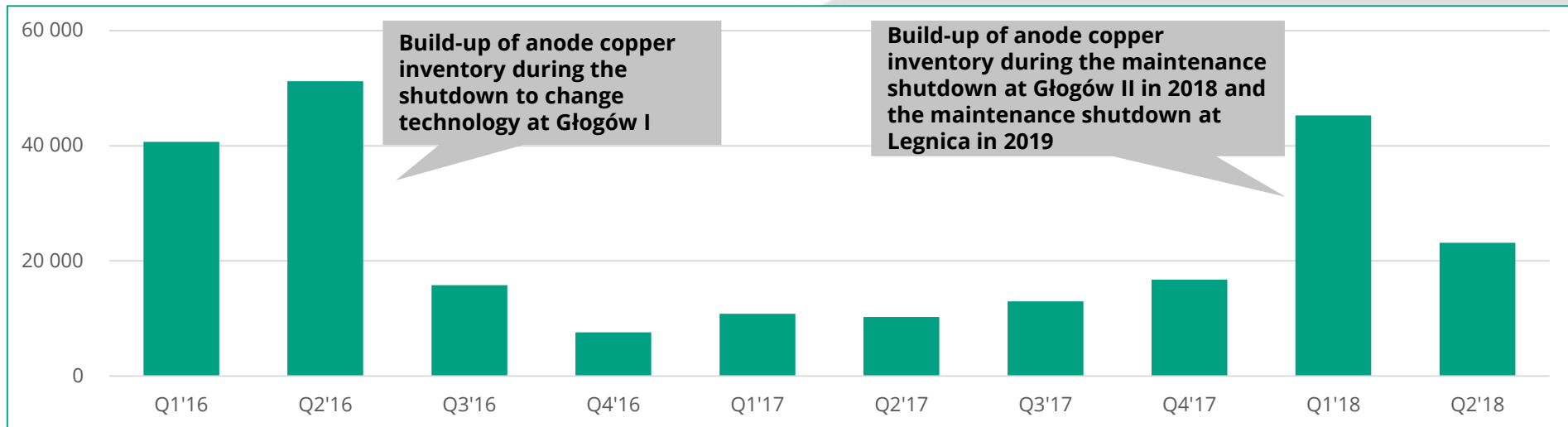


Change in inventories of copper concentrate and anode copper due to planned modernisation work

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

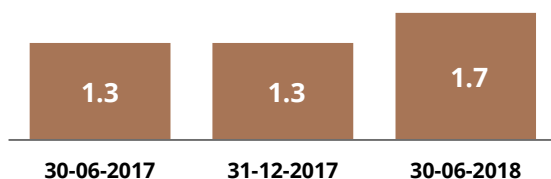


Anode copper inventory at the metallurgical plants – Cu volume (t)

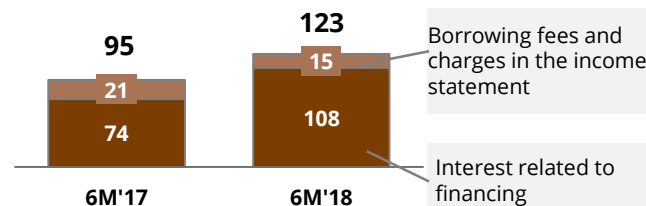


Net debt of the KGHM Polska Miedź S.A. Group – as at end-June 2018

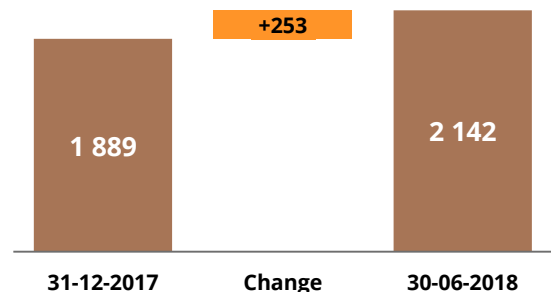
Net Debt / adjusted EBITDA



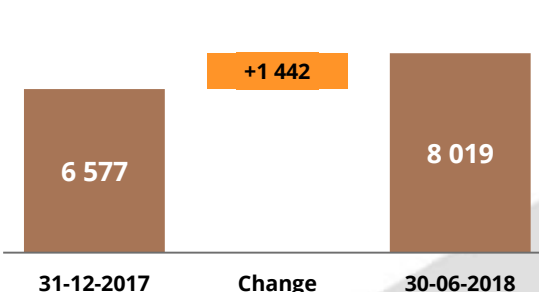
Borrowing costs (mn PLN)



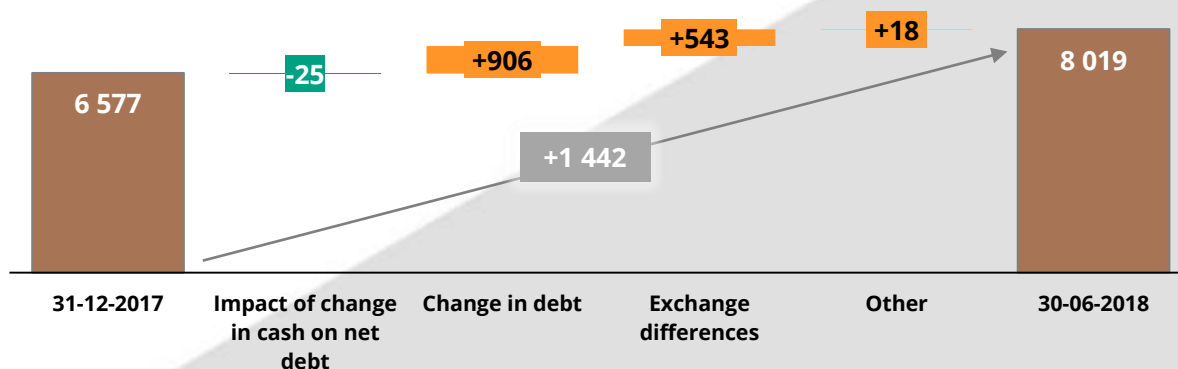
KGHM Group net debt (mn USD)



KGHM Group net debt (mn PLN)



Change in KGHM Group net debt (mn PLN)

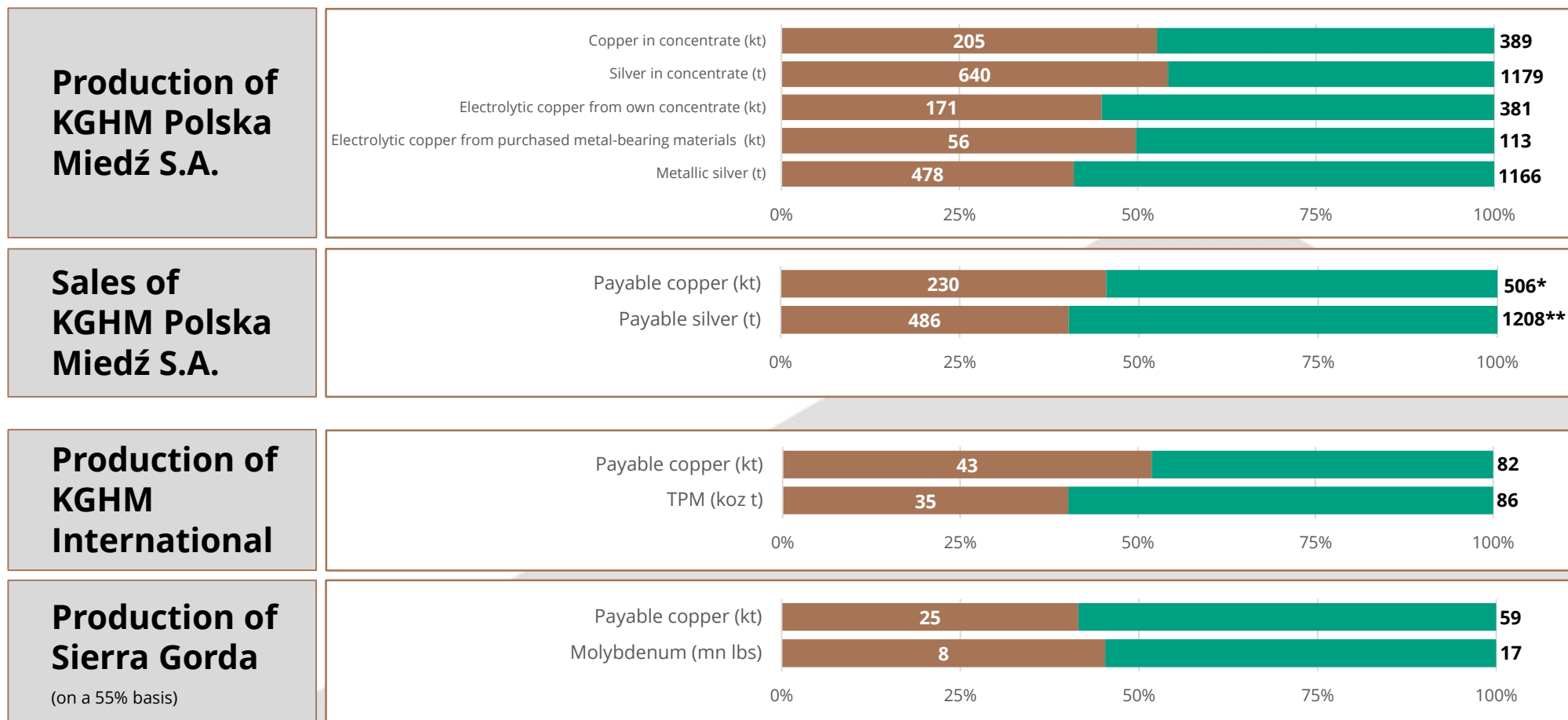


- In accordance with the financial strategy adopted by KGHM Polska Miedź S.A., the basic currency in which debt is incurred is the USD (natural hedging).
- The level of debt in 2018 was mainly due to:
 - increases in debt:
 - cash expenditures on property, plant and equipment (PLN 961 million in KGHM Polska Miedź S.A., PLN 313 million in other companies),
 - the minerals extraction tax (PLN 853 million in KGHM Polska Miedź S.A.),
 - financing of inventories (an increase in KGHM Polska Miedź S.A. by PLN 725 million, in other companies an increase by PLN 122 million),
 - negative exchange differences (an increase in debt by PLN 543 million),
 - a decrease in trade payables (PLN 274 million in the Group),
 - financing of Sierra Gorda (PLN 264 million).
 - decreases in debt:
 - positive cash flow from operating activities, excluding the change in working capital and the minerals extraction tax (PLN 2 096 million in KGHM Polska Miedź S.A., PLN 377 million in other companies),
 - change in receivables (a decrease in the Group by PLN 170 million).

Summation



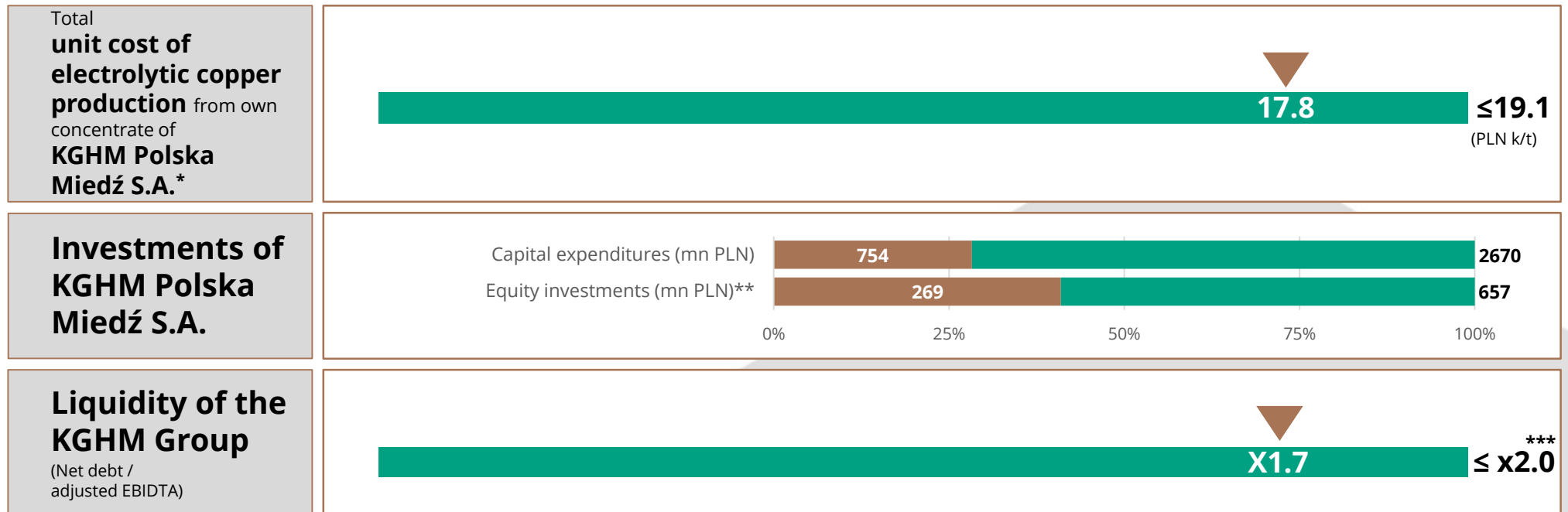
Production and sales results in the first half of 2018 in line with adopted budget targets



* Including 22 thousand tonnes of copper in concentrate

** Including 78 tonnes of silver in concentrate

Investments are being advanced on schedule; 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.

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 second quarter of 2018 by around 3.8%, which led to an increase in blister copper production by 2.9%.
	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		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 second quarter, 50% of target exports of copper concentrate had been executed. Sales for all of 2018 will exceed 20 td tonnes of copper in concentrate.
Eliminate bottlenecks at the Sierra Gorda mine	Increase daily ore processing capacity of Sierra Gorda		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. Work is underway on laying the foundations for the RMR furnace and the casting machine.



Supporting slides

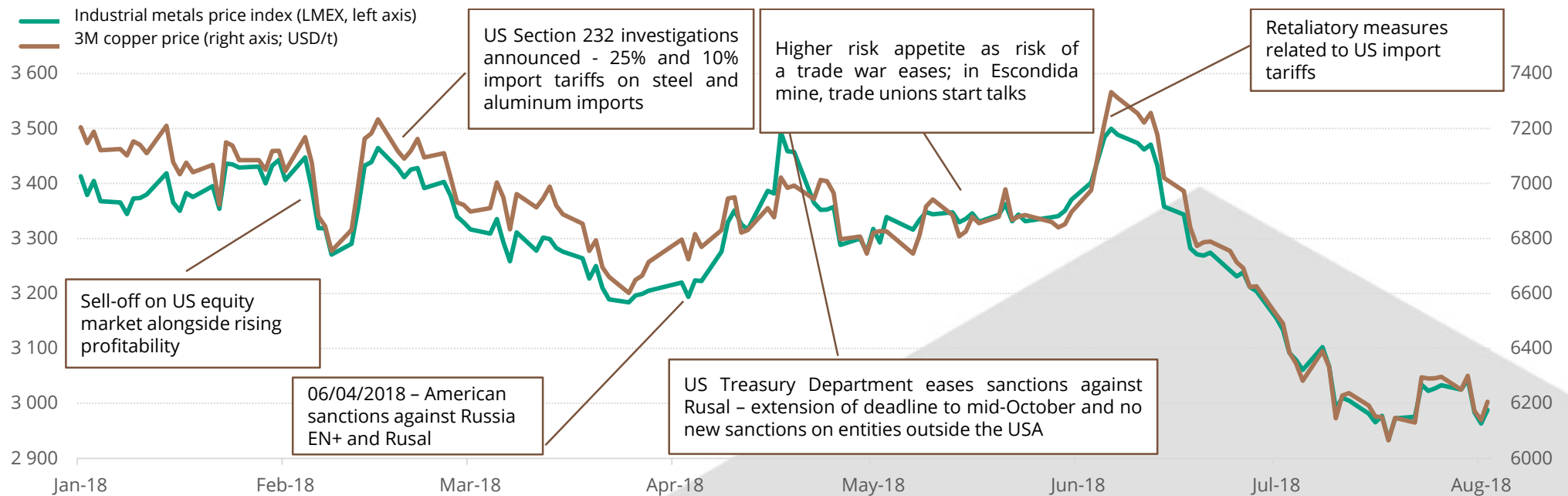


Macroeconomic environment



Copper market fundamentals played a secondary role in shaping the price of this metal, while restrictions to free trade remain the main risk factor for the global economy

Main events on the industrial metals market in the first half of 2018



Note: LME – LME benchmark comprised of 6 industrial metals – copper, aluminium, lead, zinc, nickel and tin;

Source: LME, Bloomberg, KGHM Polska Miedź

- Stable demand for copper related to the good global economic situation, higher mining costs (wages, fuel prices, exchange rates) and to fears about potential production problems caused by the renewal in the current year of employee contracts in South American mines (the preliminary proposals to renew such contracts in the world's largest mine, Escondida, were rejected), supported copper prices until mid-June 2018.
- Further events of a geopolitical (import tariffs) and financial (relative strength of the USD) nature as well as the closure of long positions (oscillating initially around USD 3 billion, with recent reduction to approx. USD 0.6 billion), by the Chinese broker Gelin Dahua on the Shanghai Stock Exchange within a short period of time, to a substantial degree led to the fall in the copper price.

Key international projects



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 half of 2018 amounted to **44.6 thousand tonnes**, while production of molybdenum in concentrate amounted to **13.9 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.

International development assets of KGHM Polska Miedź S.A.



Sierra Gorda Oxide

In the second quarter of 2018, work continued on reviewing selected assumptions and options of the project, aimed among others at additional analyses related to preparing the ore for the copper recovery process. These actions will be continued in subsequent quarters of 2018.



Victoria

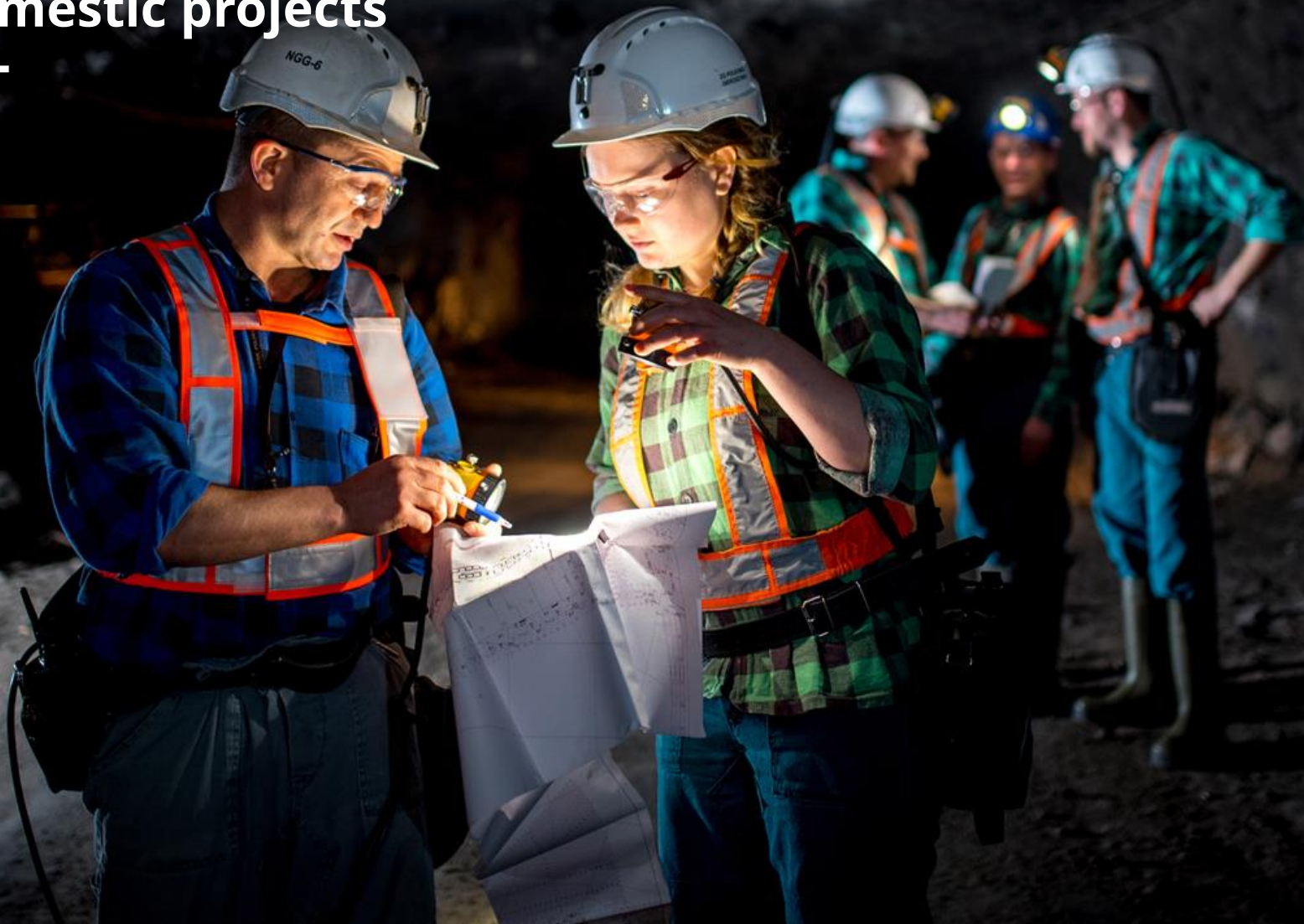
In the first half of 2018, the project team conducted work related to securing existing infrastructure and project terrain. Required permits for the project were reviewed and work commenced on preparing necessary applications to obtain them, mainly with respect to planned work related to the construction of selected elements of the project's infrastructure. Based on analytical work performed in 2017, the base scenario assumes the Victoria project will be developed in two stages, comprised of the sinking of a first shaft along with additional exploration, followed by a second shaft for production.



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.

Key domestic projects



Deposit access program in KGHM's concessioned areas in Poland

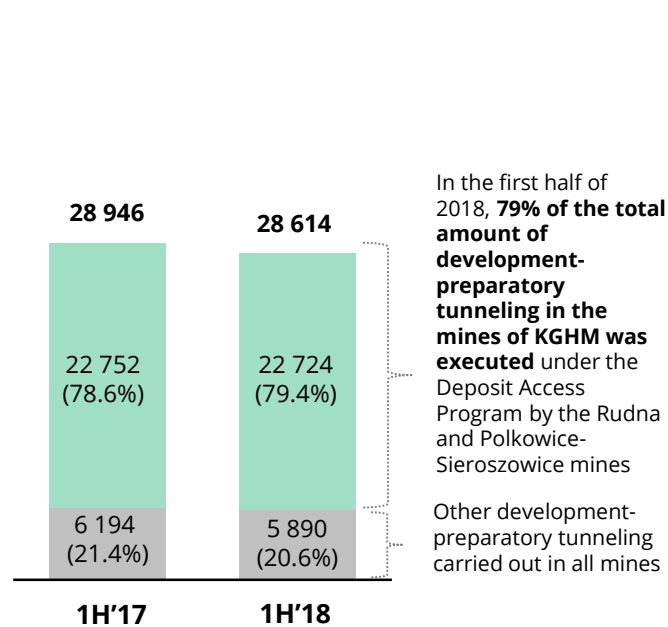
Deep Głogów (GGP) area

Work performed in the first half of 2018

Status of the Deposit Access Program

- Up to the end of April 2018 work continued on the sinking of the **GG-1 shaft** (material-personnel shaft, with an air inlet function). 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. In January 2018, exploratory holes were drilled from the bottom of the shaft and the actual water-related hazard at the main dolomite layer was uncovered. The sinking of the shaft will continue following pre-cementation. A cementation plug and a cementation-drilling platform for performing injection work were built. In April work began related to injection of the main dolomite layer. The injection process will last 167 days. The shaft will reach the level of the deposit in 2020. Due to the change in the shaft's function from that of ventilation to material-personnel transport, completion of the shaft's construction together with infrastructure is planned for the start of 2024.
- Work continues on construction as well as on the preparation of an environmental impact report for the **Surface-based Central Air Conditioning System at the GG-1 shaft** as well as work related to construction of the **Ice Water Transportation System**. Preliminary consent has been obtained from all of the landowners of terrain where the water network is planned to be located.
- Preparatory work continued related to obtaining construction permits to build the **GG 2 („Odra”) shaft**. Discussions are underway by the Agreement Negotiation Team between KGHM Polska Miedź S.A. and the leadership of the municipalities (gminy) of Żukowice and Jerzmanowa regarding the siting of the investment. The leadership of the municipality of Żukowice expressed its desire to reach agreement regarding a change in the planning documentation to enable advancement of the investment.
- In 2018, **4 585 meters of tunnel** in the Rudna and Polkowice-Sieroszowice mines were built.

Scope of development-preparatory tunneling completed (in meters)

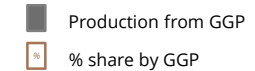


Cooling tower and heat transfer building

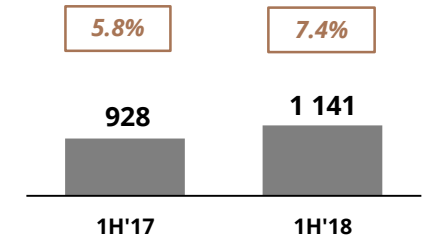


GG-1 shaft

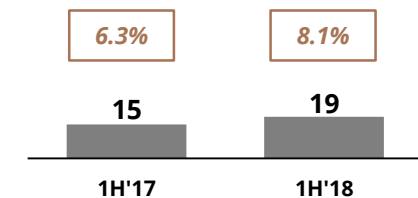
Share of production from Deep Głogów in total production in Poland



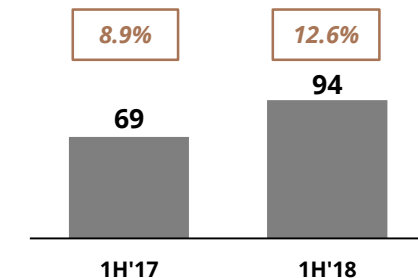
Ore extraction dry weight from GGP (kt)



Amount of Cu in ore (kt)



Amount of Ag in ore (t)



Metallurgical Development in KGHM

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

Work performed in the first half 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 assembly of equipment 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.
- For the purpose of final settlement of the Project and acquisition of all required operating permits, a 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
77.7%
of target efficiency

- Average accrued efficiency of concentrate processing in the new flash furnace in the first half of 2018 was **102.5 t/h** and **103.4 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 be enhanced following the start-up and stabilisation of the copper concentrate roasting installation (by the end of 2018).

Installation availability
91.9%

- Degree of utilisation of production capacity: in the first half of 2018 **78.5%**, and since start-up in 2016 **72.7%** (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** (the drier was commissioned in June 2018 and is in ramp-up mode; completion of supporting work along with handover for start-up is planned in the third quarter of 2018) and the **Copper concentrate roasting installation**, in respect of which the contractor has declared start-up by the end of 2018. Work continues on the 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.

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 and with minimal environmental impact.

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.



Important actions under the Program

Under the BATAs Program, 20 new investment projects at the Głogów metallurgical plant (HMG) and 6 new projects at the Legnica metallurgical plant (HML) were identified. In addition, 12 projects at the Głogów plant and 8 projects at the Legnica plant related to the BATAs Program were identified.

Status of projects:

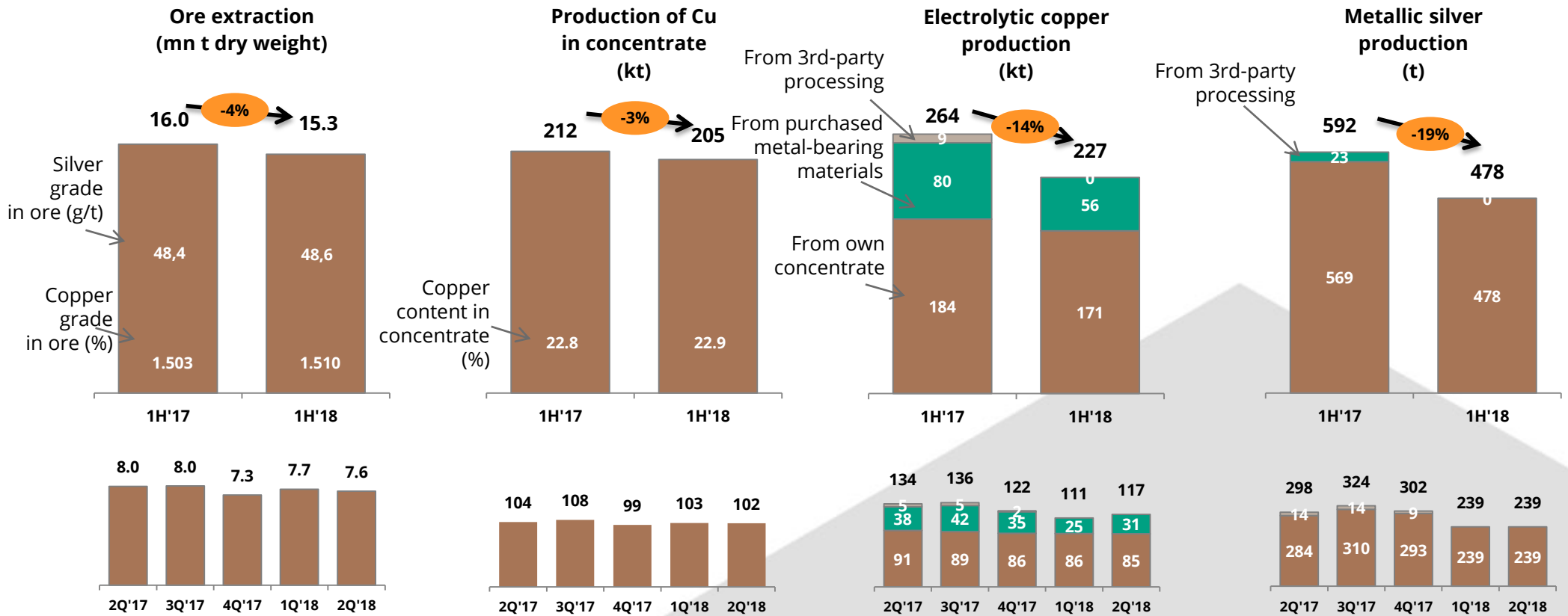
	Project advancement category	Number of projects at the given development stage
HML	Primary stage advancement	1
	Waiting for primary stage to start	1
	Bids made, review of bids	2
	Tender process commenced	2
HMG	Preparation stage underway	1
	Withdrawal from primary stage advancement	2
	Primary stage advancement	2
	Waiting for primary stage to start	1
	Bids made, review of bids	0
	No bidders	3
	Tender process commenced, awaiting bids	10
	Development of assumptions	1



Economic results of KGHM Polska Miedź S.A.

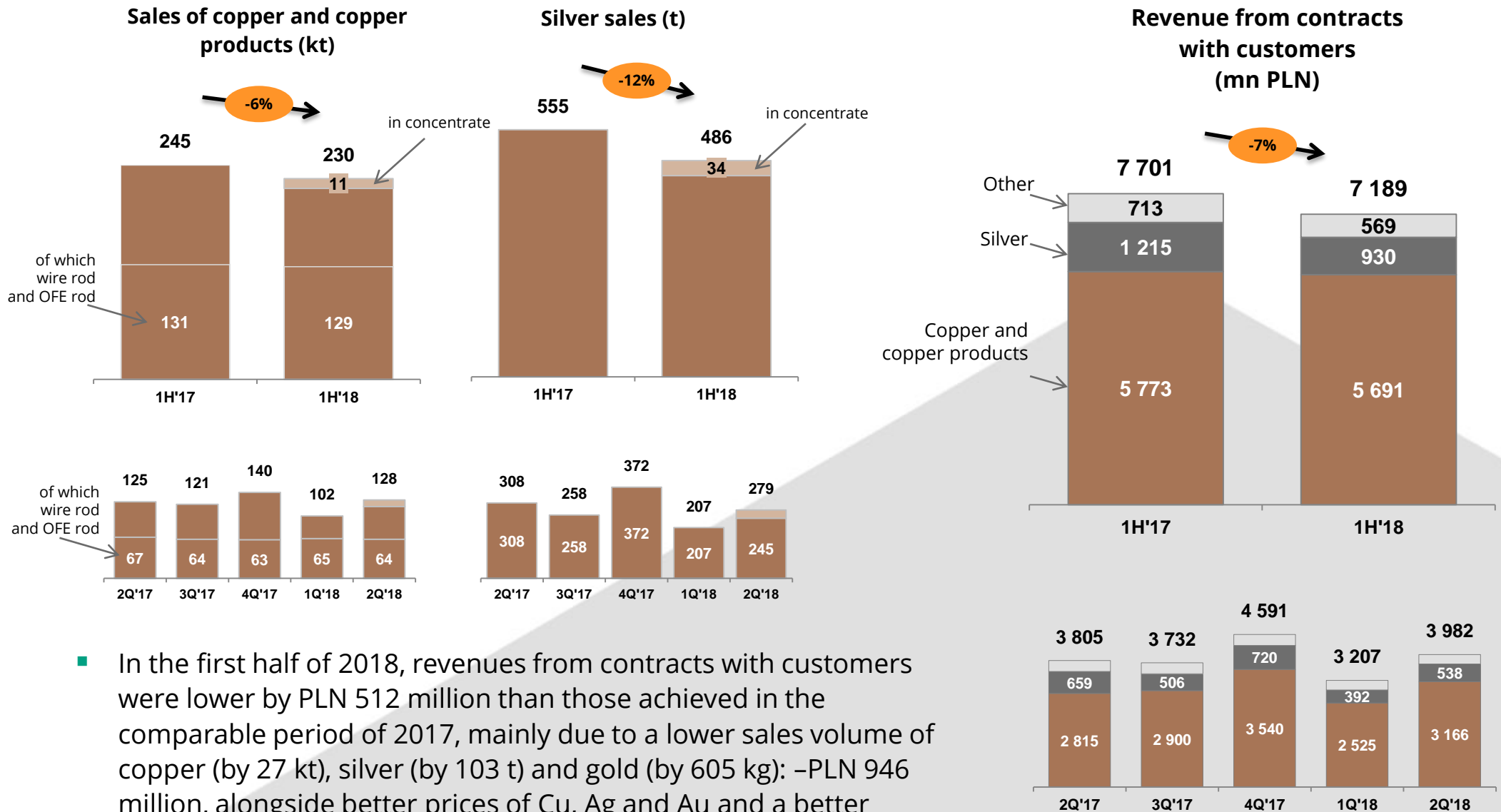


Production



- In 2018 there was an increase of copper content in ore from 1.503% to 1.51%.
- In 2018 there has been an increase in gas-, geological- and temperature-related hazards, which could lead to a slowdown in mining progress.
- The amount of Cu in concentrate produced was due to the lower ore extraction as compared to the same period of 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.
- The decrease in metallic silver production is a result of the lower production of electrolytic copper.

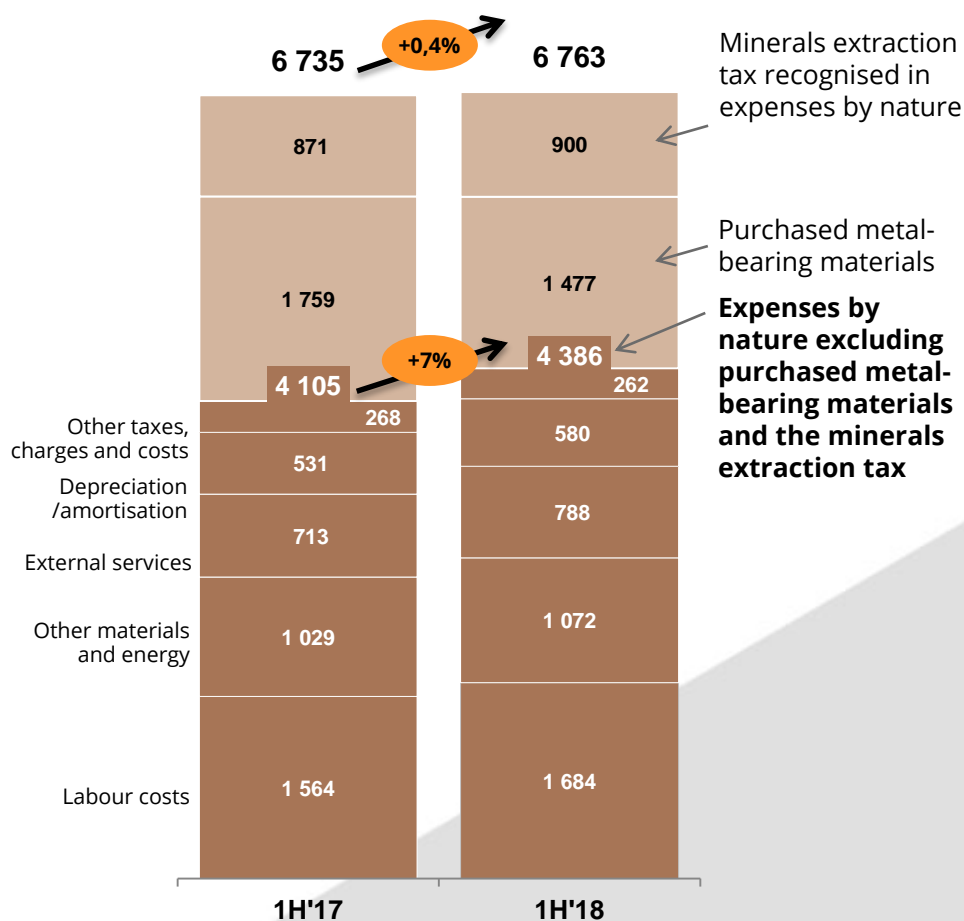
Lower revenue from contracts with customers due to lower production of finished products



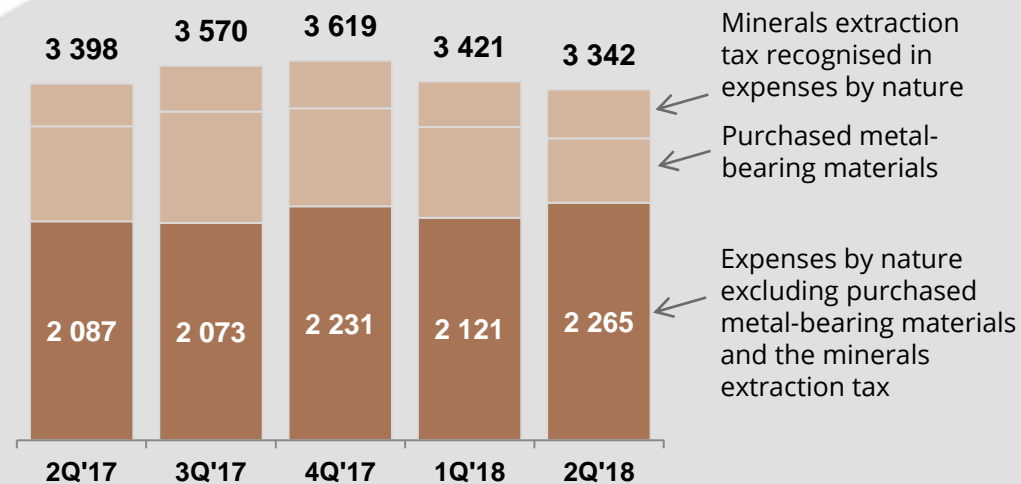
- In the first half of 2018, revenues from contracts with customers were lower by PLN 512 million than those achieved in the comparable period of 2017, mainly due to a lower sales volume of copper (by 27 kt), silver (by 103 t) and gold (by 605 kg): -PLN 946 million, alongside better prices of Cu, Ag and Au and a better USD/PLN exchange rate: +PLN 172 million.

Expenses by nature

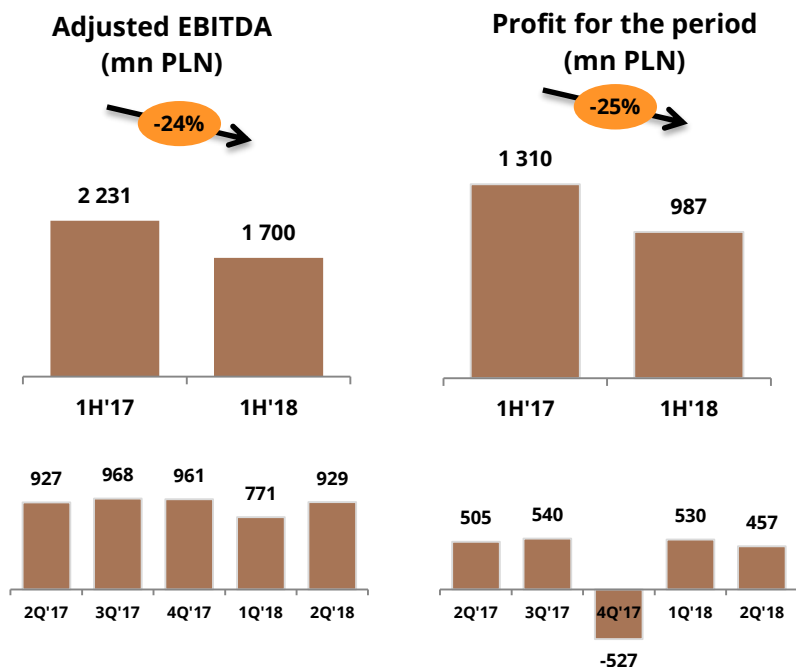
Expenses by nature
(mn PLN)



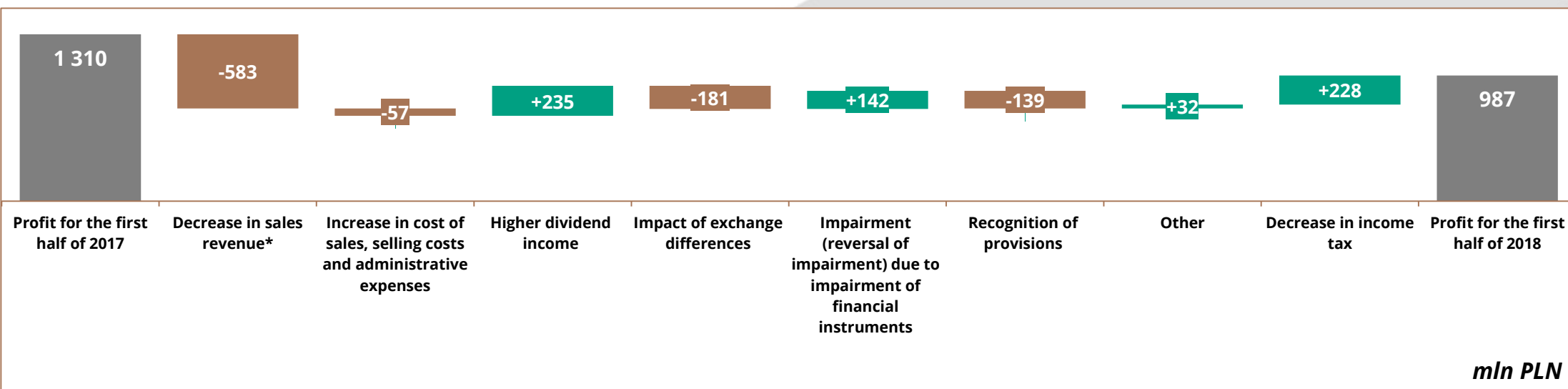
- Expenses by nature, excluding purchased metal-bearing materials and the minerals extraction tax, were higher by PLN 281 million (7%) due to higher labour costs (+PLN 120 million), external services (+PLN 75 million), depreciation/amortisation (+PLN 49 million) and energy (+PLN 15 million).



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

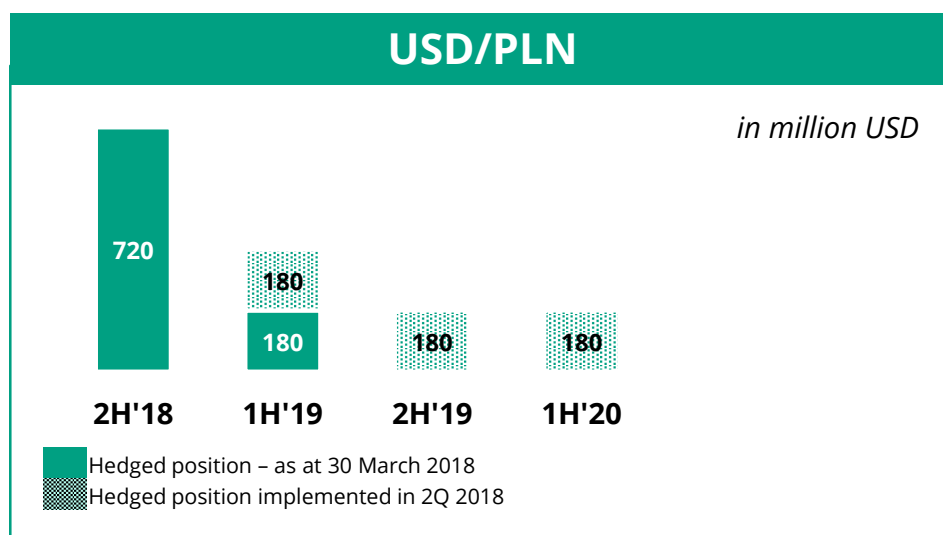
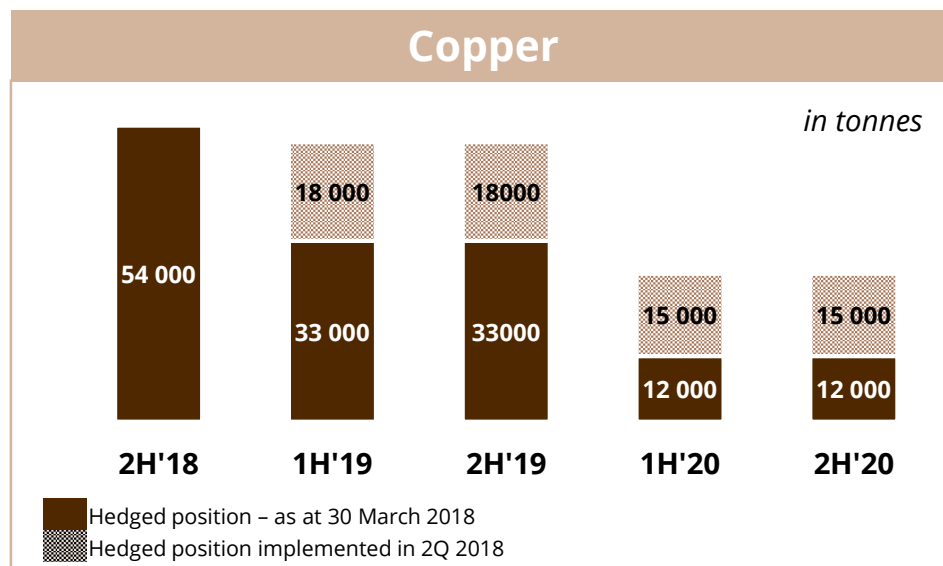


- The decrease in adjusted EBITDA by PLN 531 million (-24%) was mainly due to the lower sales volume and a less favourable USD/PLN exchange rate, alongside an improvement in metals prices.
- The decrease in profit, caused by the aforementioned factors as well as by the less favourable impact of exchange differences and by a higher recognition of provisions, was limited by higher income from dividends and by the reversal of impairment losses on financial instruments.



The accrued result on derivatives achieved by KGHM Polska Miedź S.A. as at 30 June 2018 amounted to PLN 73 million

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



- ### Result on derivatives
- In the first half of 2018, KGHM Polska Miedź S.A. recorded a result on derivatives and hedges in the amount of PLN 73 million, of which:
 - PLN 75 million increased sales revenue (transactions settled in 1H 2018),
 - PLN 28 million decreased the result on other operating activities,
 - PLN 26 million increased the result on finance activities.

 - The fair value of derivatives (MtM) in KGHM Polska Miedź S.A. as at 30 June 2018 amounted to PLN 373 million.
 - The revaluation reserve on cash flow hedging instruments as at 30 June 2018 amounted to –PLN 73 million.
 - Since 1 January 2018 the company has applied new hedge accounting principles pursuant to IFRS 9.

Download on the
App Store



Get our mobile KGHM IR app!

GET IT ON
Google Play



Thank you!

Investor Relations

kgm.com/en/investors

ir@kgm.com

+48 76 74 78 280

