

Layers of possibilities



Results of the Group for the first half of 2017

18 August 2017

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 - Economic results of KGHM Polska Miedź S.A.

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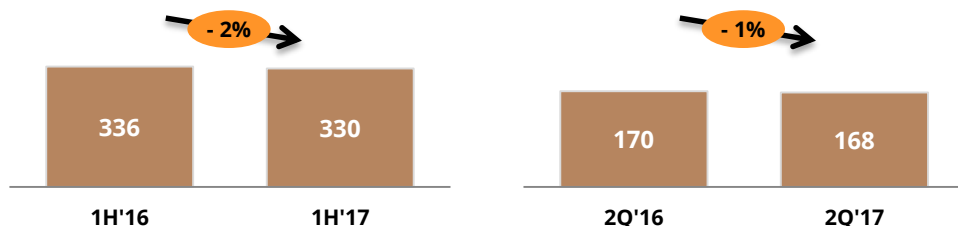


Introduction

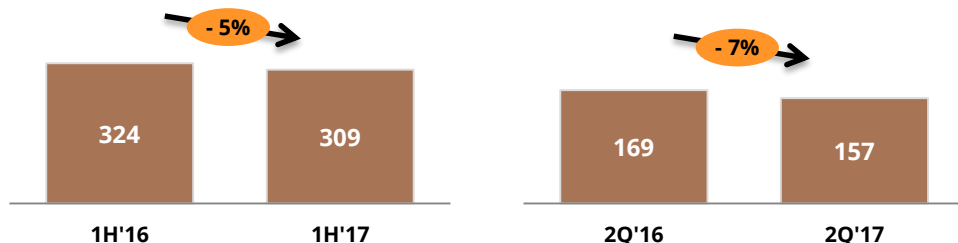
Summary of the first half of 2017 in the KGHM Polska Miedź S.A. Group

Production, sales and finance

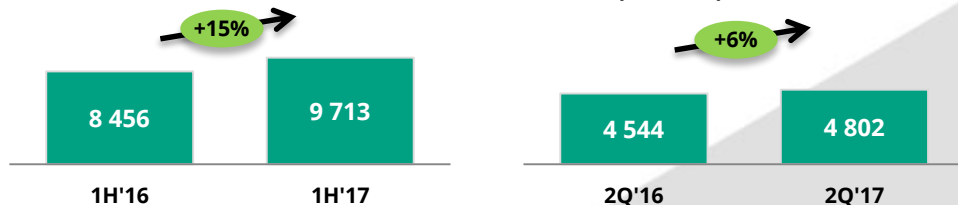
Payable copper production (kt)



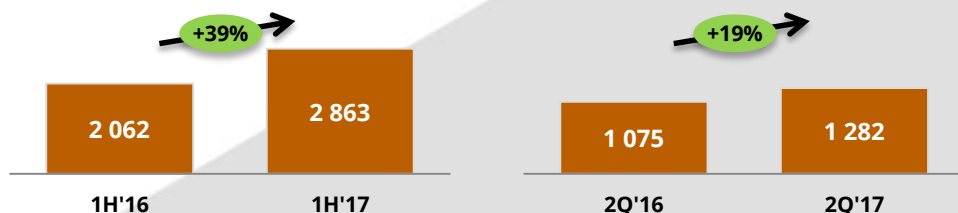
Sales of payable copper (kt)



Consolidated sales revenue (mn PLN)



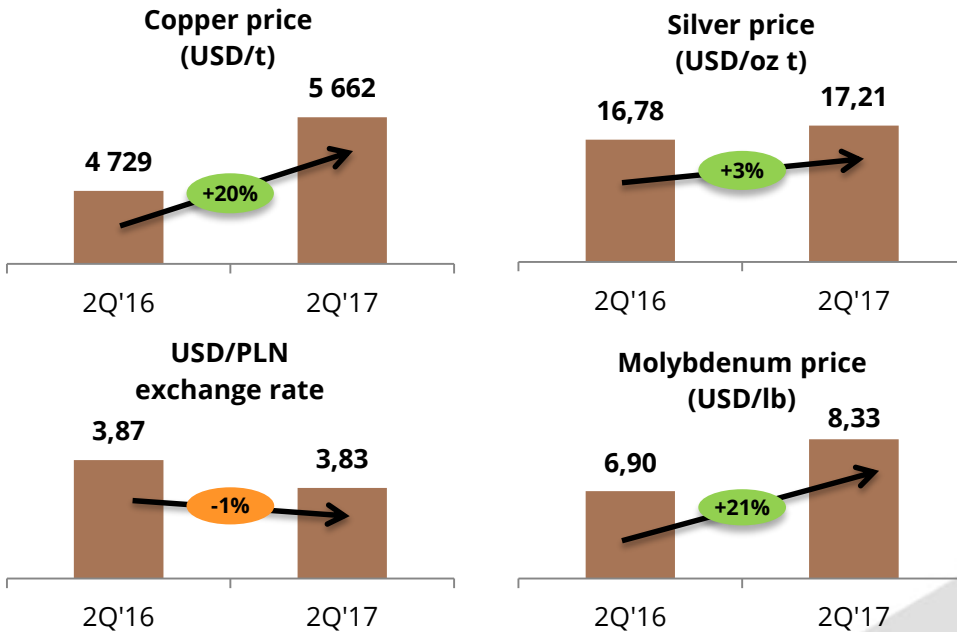
Consolidated EBITDA* (mn PLN)



- Production:** Payable copper in the Group was lower than in the 2nd quarter by 1% y/y (-3% y/y in the 1st quarter of 2017), mainly thanks to improved results by the Robinson mine - compared to the 1st quarter of 2017, with stable production by KGHM Polska Miedź S.A. and Sierra Gorda. The half-year results for payable copper are fully in compliance with the Group's plan.
- Sales:** Lower than in the 2nd quarter by 7% y/y, mainly due to the processing by KGHM Polska Miedź S.A. of 3rd-party concentrate into 4.5 kt of electrolytic copper, which lowered the amount of production available for sale.
- Sales revenue:** Higher by 6% y/y in the 2nd quarter, mainly due to copper prices which were higher by over 900 USD/t (+20% y/y), the impact of which was partially offset by a lower volume of copper sales and a weaker USD exchange rate (by 1%).
- EBITDA:** Higher by 19% y/y in the second quarter mainly due to higher consolidated sales revenue by PLN 258 mn y/y, which was partially offset, mainly by a higher minerals extraction tax by PLN 79 mn.

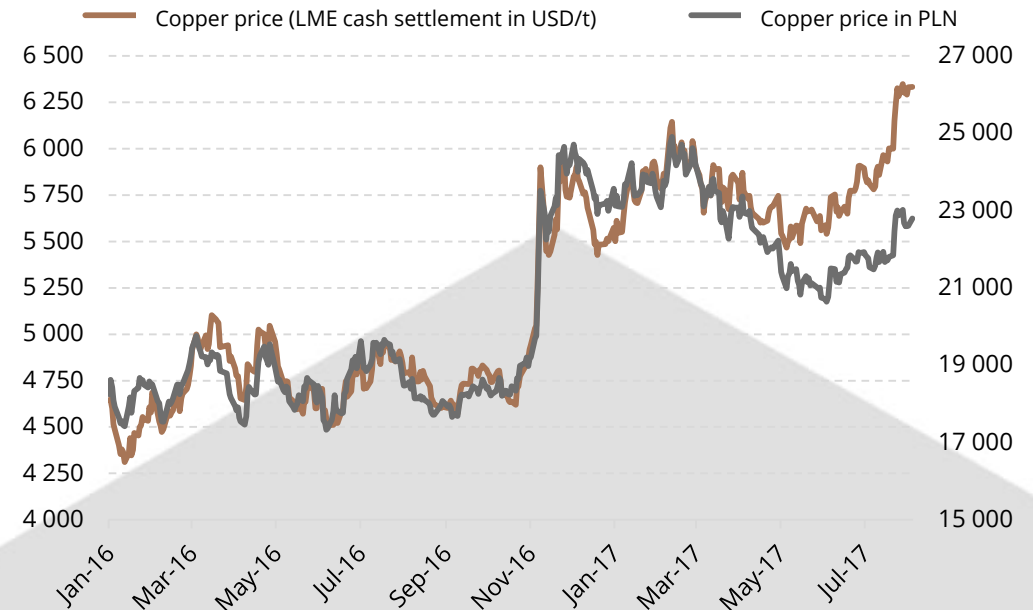
Metals prices in the 2nd quarter of 2017 were lower than in the prior quarter, but remain clearly higher than in the prior year

A higher copper price with a minimally stronger PLN; recovery on the molybdenum market



Source: Thomson Reuters, CRU, KGHM Polska Miedź

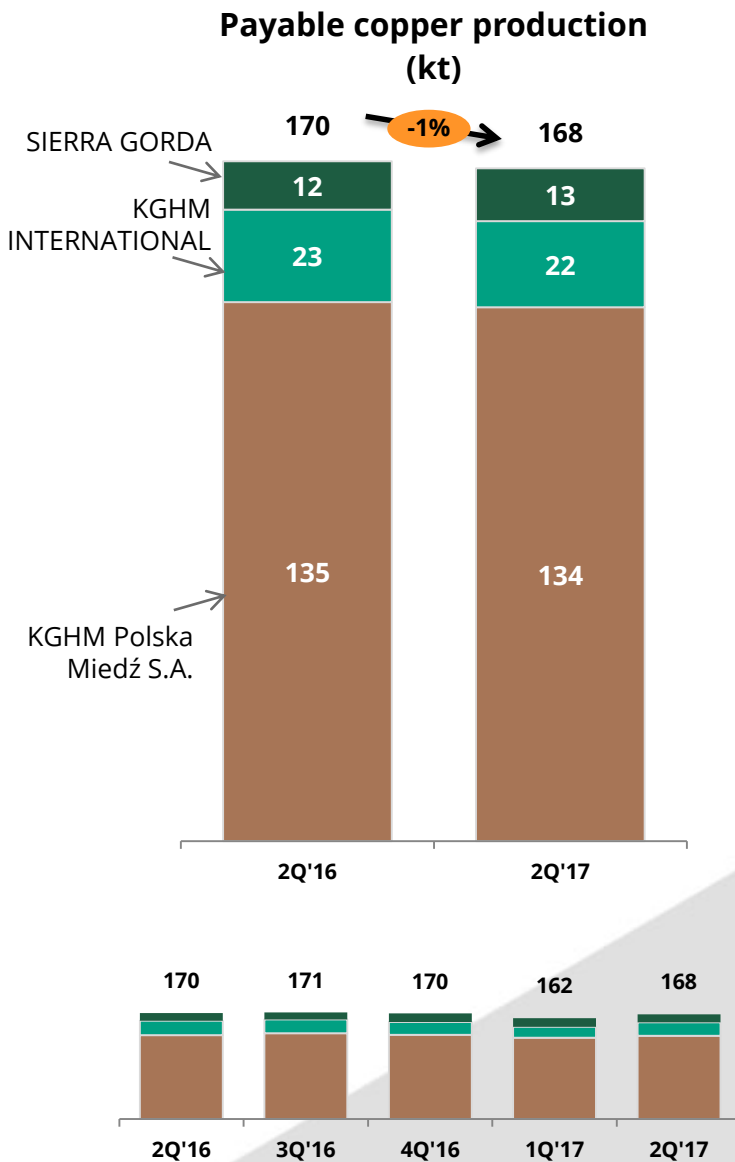
Clear improvement in copper market sentiment at the end of the second quarter of 2017



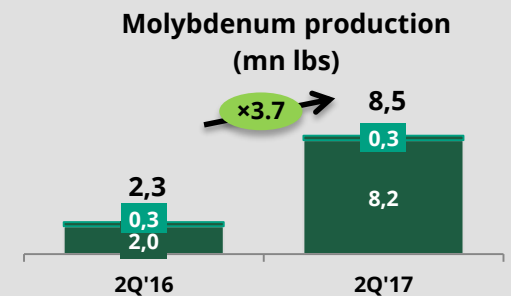
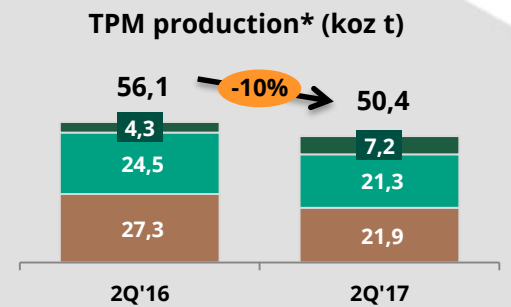
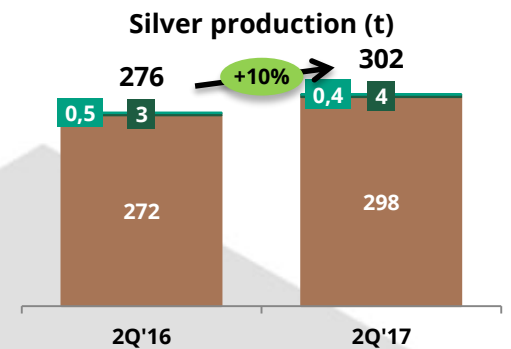
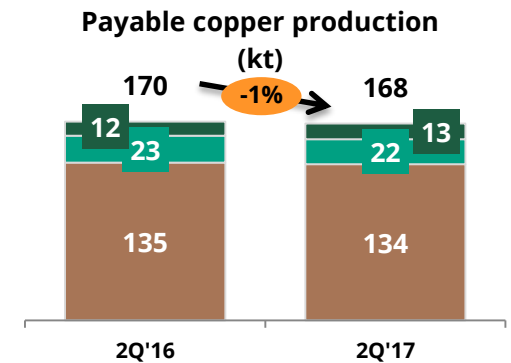
Source: Bloomberg, Markit, KGHM Polska Miedź

- In the first half of 2017 the price of copper ranged from 5500-6000 USD/t, initially supported by supply-side problems (strikes and delays in the start of production from new projects), and subsequently by a weakening of the US dollar.
- In the second quarter of 2017, compared to the same period of 2016, the prices of copper and molybdenum recorded dynamic, double-digit increases. The price of silver was slightly higher than recorded in the second quarter of 2016.
- The average USD/PLN exchange rate remained at nearly the same level, thanks to which the copper price expressed in PLN was slightly higher in the second quarter of 2017 than in the same period of 2016.

Metals production by the Group

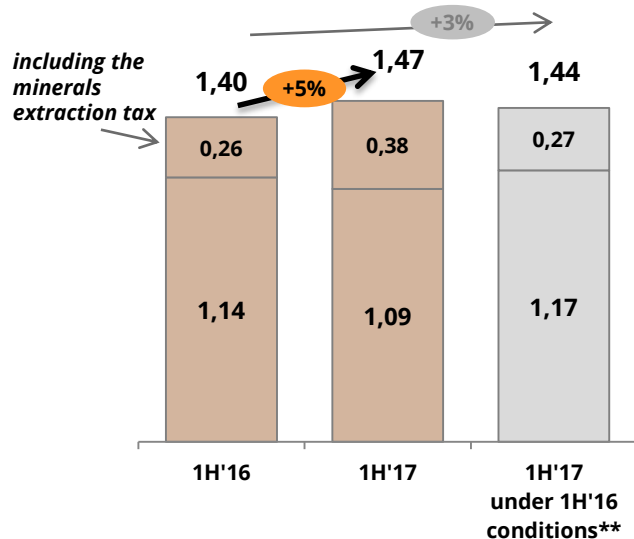


- Stable payable copper production with higher silver production and lower gold production (TPM) in KGHM Polska Miedź S.A.
- The lower production of payable copper in KGHM International was due to the extraction of a lower quality ore in the mines of the Sudbury Basin. The drop in precious metals production was mainly due to the Robinson mine, in which the gold content in ore was lower.
- Copper production in Sierra Gorda rose by 8%, while molybdenum production was more than four times higher than in 2Q'16. The substantial increase in molybdenum output was due to improved efficiency in molybdenum concentrate production, as may be seen by the near doubling of Mo recovery. The production results were also significantly impacted by an increase in ore processing as well as by a higher Mo grade.

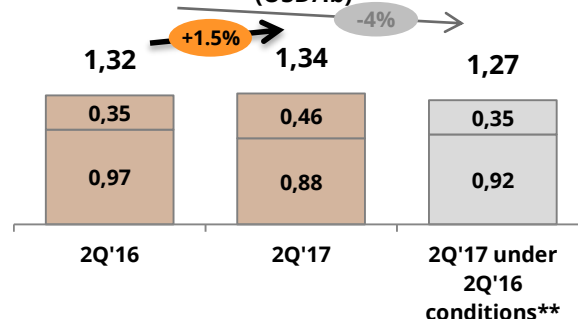


C1* unit cost in the Group

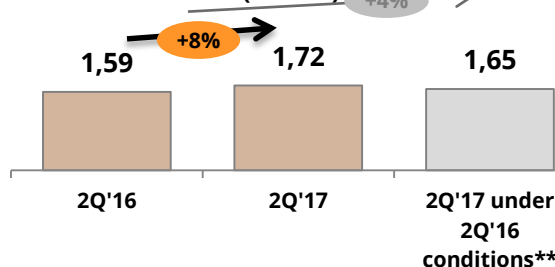
C1 – Group (USD/lb)



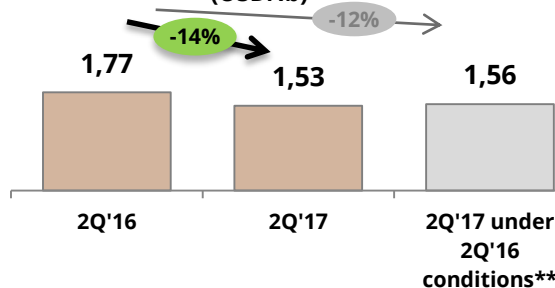
C1 – KGHM Polska Miedź S.A. (USD/lb)



C1 – KGHM INTERNATIONAL (USD/lb)



C1 – Sierra Gorda (USD/lb)



- C1 cost in the Group was higher by 5% in the first half of 2017 due to an increase in the minerals extraction tax.
- C1 cost in KGHM Polska Miedź S.A. in the second quarter of 2017 was slightly higher y/y. This level of C1 was mainly due to the higher minerals extraction tax (+31%) and the higher silver content in own concentrate.
- The increase in C1 cost y/y in KGHM International in the second quarter of 2017 was mainly due to a lower volume of copper sales and to lower revenues from sales of precious metals, which reduce C1.
- Amongst the main reasons for the drop in C1 in Sierra Gorda in the second quarter of 2017 are:
 - a higher volume of Cu sales, and
 - higher revenues from sales of molybdenum and by-products.

* 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 2016

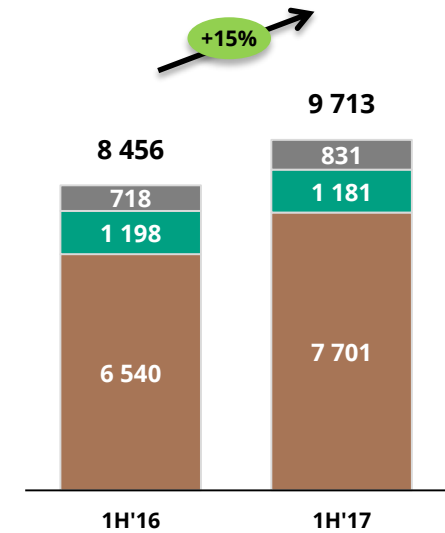
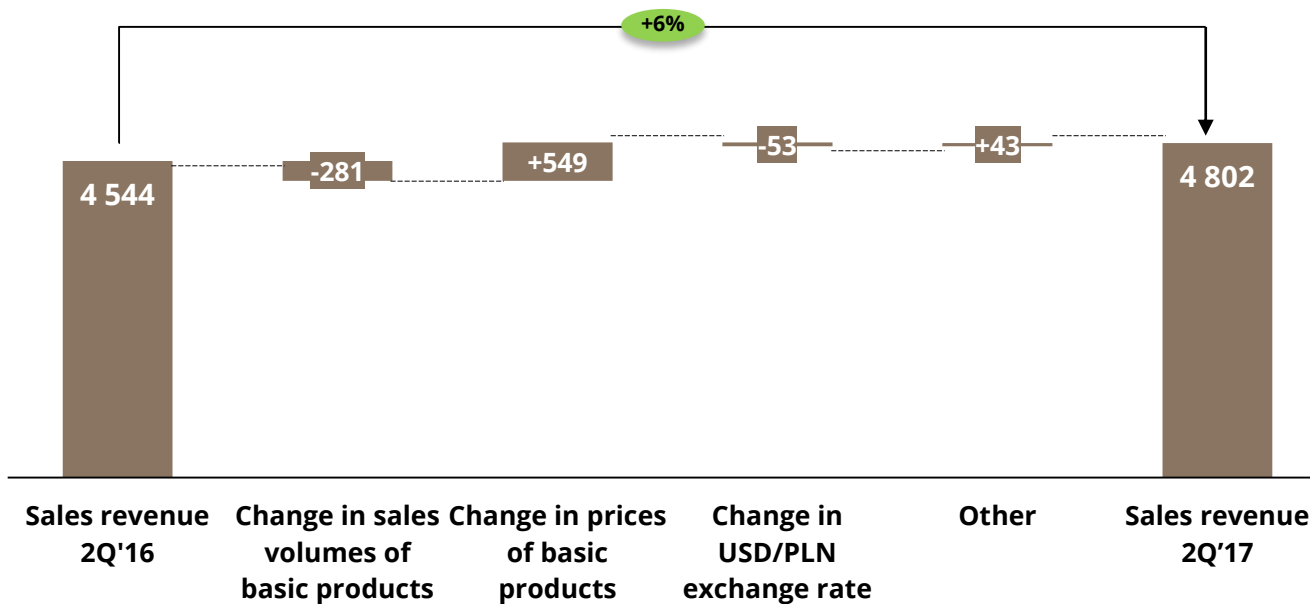


Economic results of the KGHM Polska Miedź S.A. Group

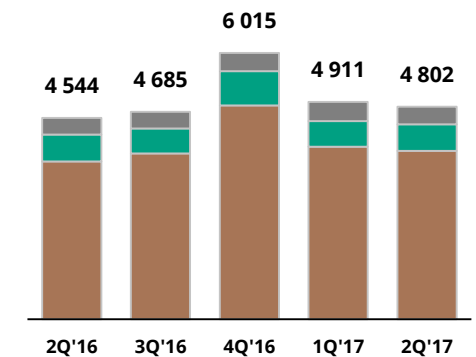


Sales revenue of the Group in the second quarter of 2017

Sales revenue
(mn PLN)

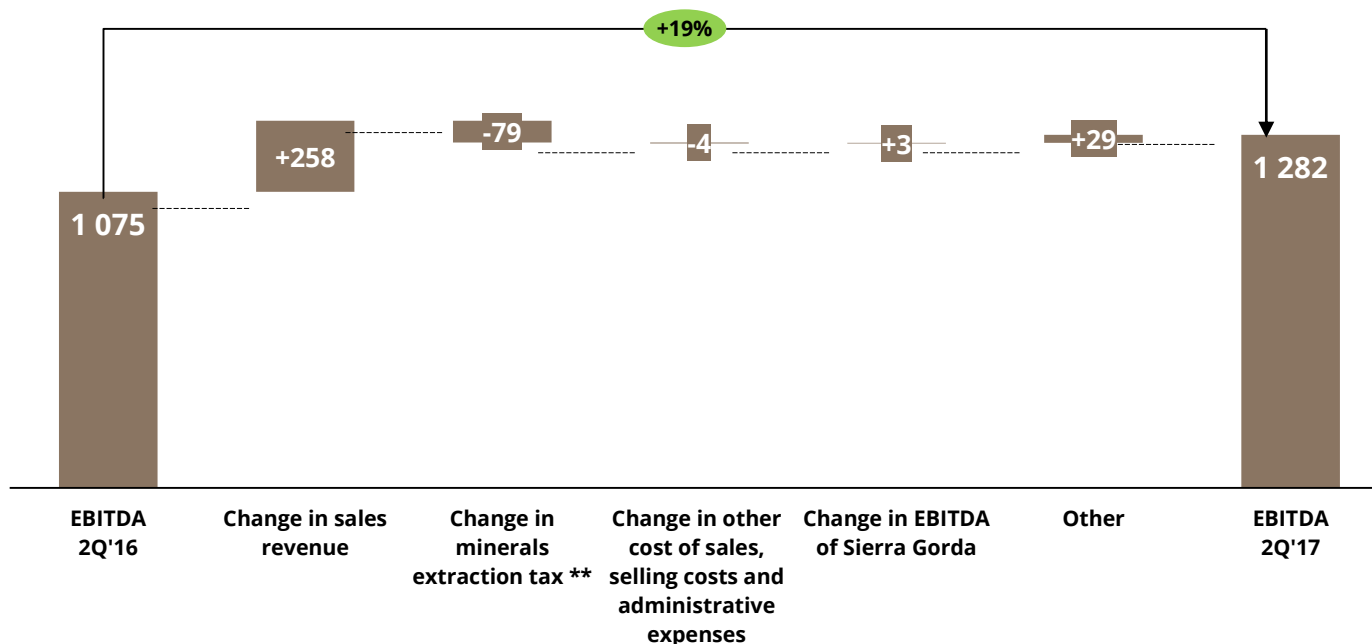


- The decrease in sales revenues due to a lower volume of sales was mainly due to KGHM Polska Miedź S.A.
- The price effect was mainly due to the increase in the copper price by 933 USD/t (+20% y/y) and silver by 0.43 USD/ounce (+3% y/y).
- The increase in sales revenue was partially offset by a less favourable USD/PLN exchange rate, which was lower by PLN 0.04 (-1% y/y).

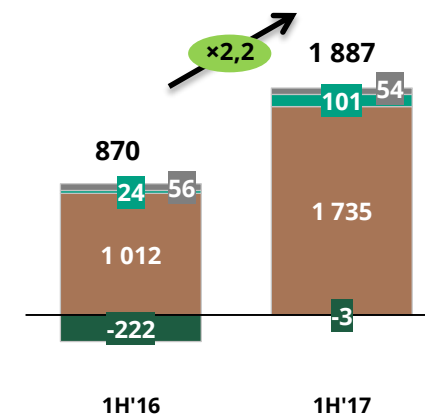


Operating results of the Group

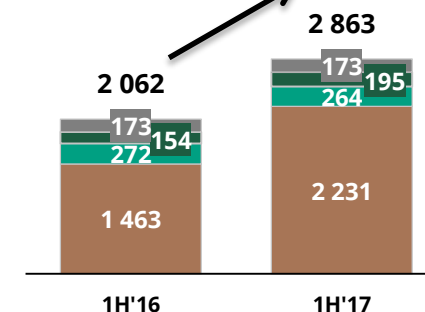
Adjusted EBITDA* (mn PLN)



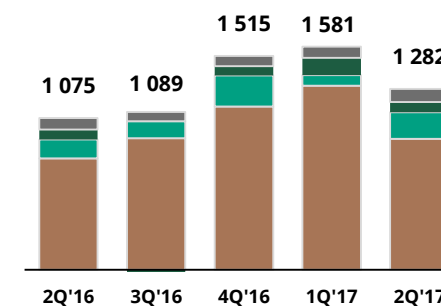
Profit/(loss) on sales* (mn PLN)



Adjusted EBITDA* (mn PLN)



- The increase in the Group's sales revenue by PLN 258 mn, as compared to the second quarter of 2016, was partially offset by a higher minerals extraction tax by PLN 79 mn, alongside a stable base of other costs.
- The decrease in EBITDA as compared to the first quarter of 2017 by PLN 299 mn was mainly due to KGHM Polska Miedź S.A. (-PLN 377 mn), alongside an improvement in the result of KGHM International by PLN 114 mn. The decrease in EBITDA of KGHM Polska Miedź S.A. in the second quarter of 2017 as compared to the first quarter of 2017 was due to an increase in the cost of sales, selling costs and administrative expenses by PLN 303 mn, mainly due to a change in inventories and to lower sales revenue by PLN 91 mn – due to lower metals prices, with a higher sales volume.

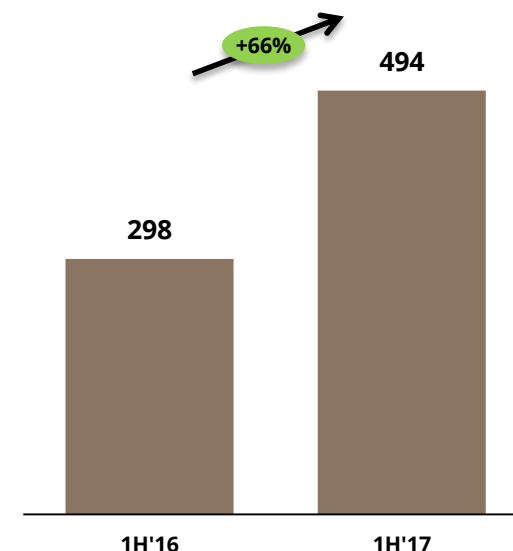
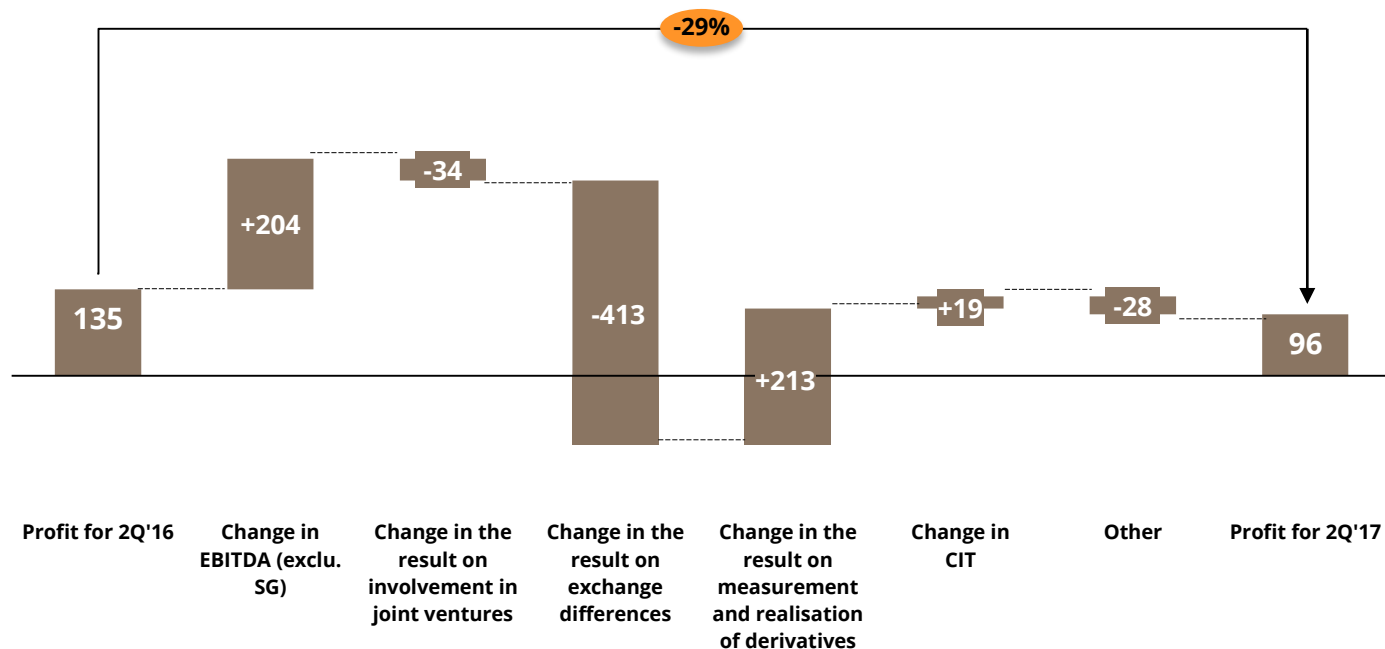


*Adjusted EBITDA = EBITDA (profit/(loss) on sales + depreciation/amortisation) adjusted by impairment losses on non-current assets

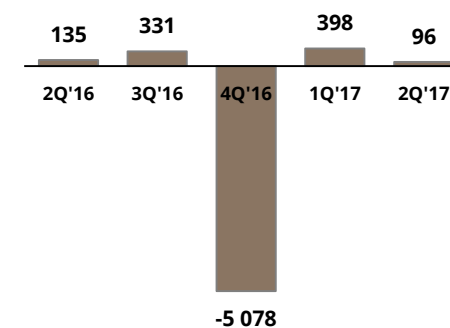
** The impact of the minerals extraction tax in the second quarter of 2017 is recognised as follows: in profit for the period of PLN 353 mn, in expenses by nature in the amount of PLN 405 mn and in the statement of cash flows in the amount of PLN 429 mn

Financial results of the Group

Profit for the period (mn PLN)

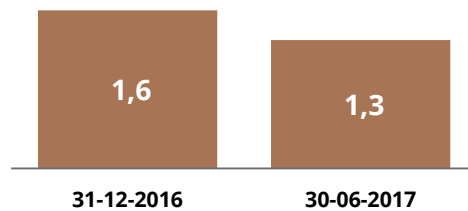


- The decrease in the result on foreign exchange differences by PLN 413 mn, as compared to the second quarter of 2016, was offset by:
 - a higher operating result (+PLN 204 mn),
 - a change in the result on the measurement and realisation of derivatives (+PLN 213 mn).
- The change in profit for the period as compared to the first quarter of 2017 by PLN 302 mn is due to the lower result on sales (-PLN 271 mn) and to the recognition in the second quarter of 2017 of a loss from the measurement of joint ventures accounted for using the equity method (-PLN 215 mn), alongside a lower tax expense by PLN 135 mn.

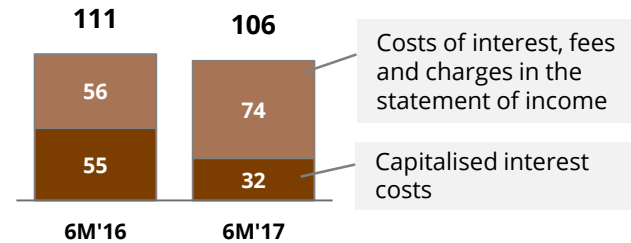


Net debt of the KGHM Polska Miedź S.A. Group – as at end-June 2017

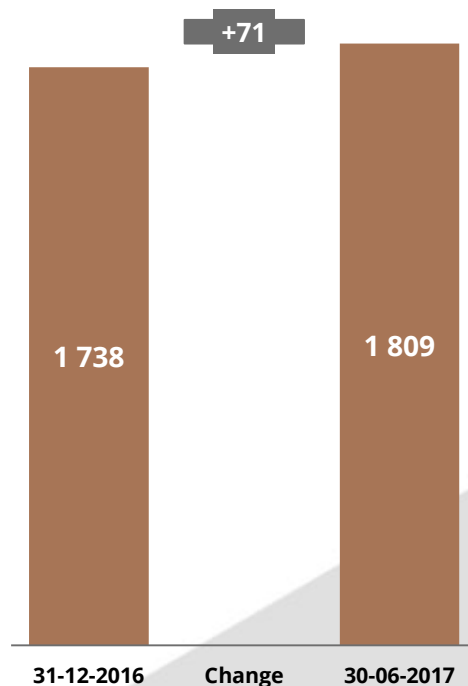
Net Debt / adjusted EBITDA*



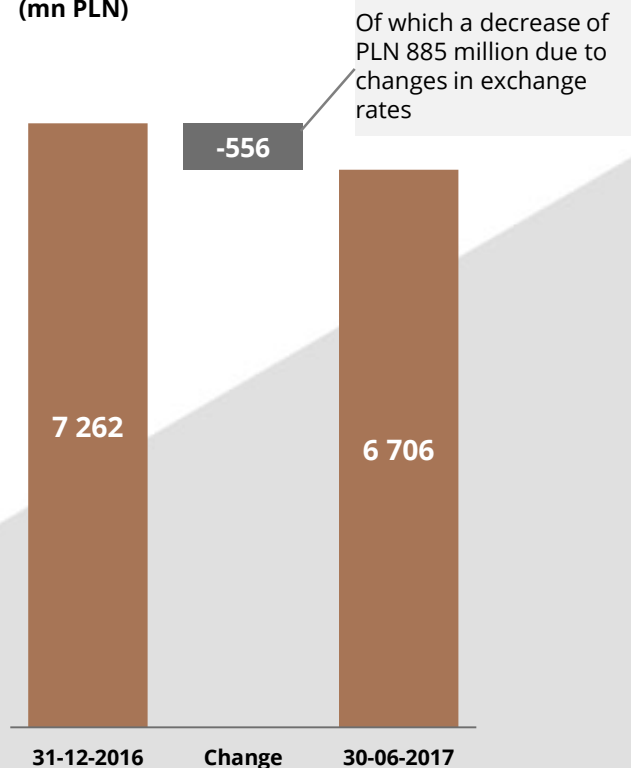
Borrowing costs
(mn PLN)



KGHM Group net debt
(mn USD)



KGHM Group net debt
(mn PLN)



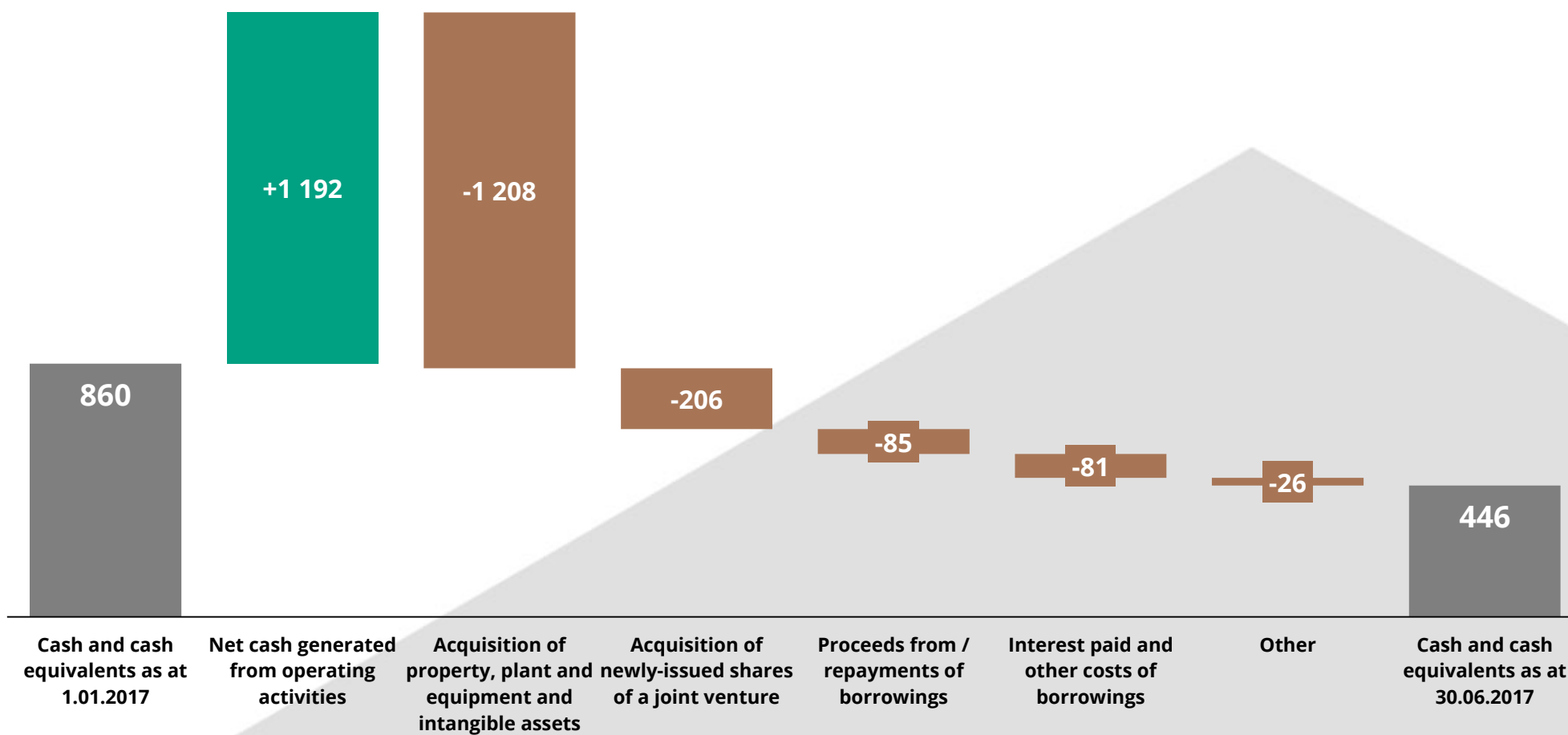
- In accordance with the financial strategy adopted by KGHM Polska Miedź S.A., the basic currency in which debt is incurred is the USD (natural hedging).
- The level of debt to June 2017 was mainly impacted by:
 - cash expenditures on property, plant and equipment in Poland (PLN 983 mn),
 - the minerals extraction tax (PLN 886 mn**),
 - acquisition of shares in a joint venture – Sierra Gorda (PLN 206 mn), and
 - the positive macroeconomic situation.

* Adjusted EBITDA for the 12 ending on the last day of the reporting period, excluding EBITDA of the joint venture Sierra Gorda S.C.M.

** The impact of the minerals extraction tax for the first half of 2017 is recognised as follows: in profit for the period of PLN 719 mn, in expenses by nature in the amount of PLN 871 mn and in the statement of cash flows in the amount of PLN 886 mn

Cash expenditures financed by operations

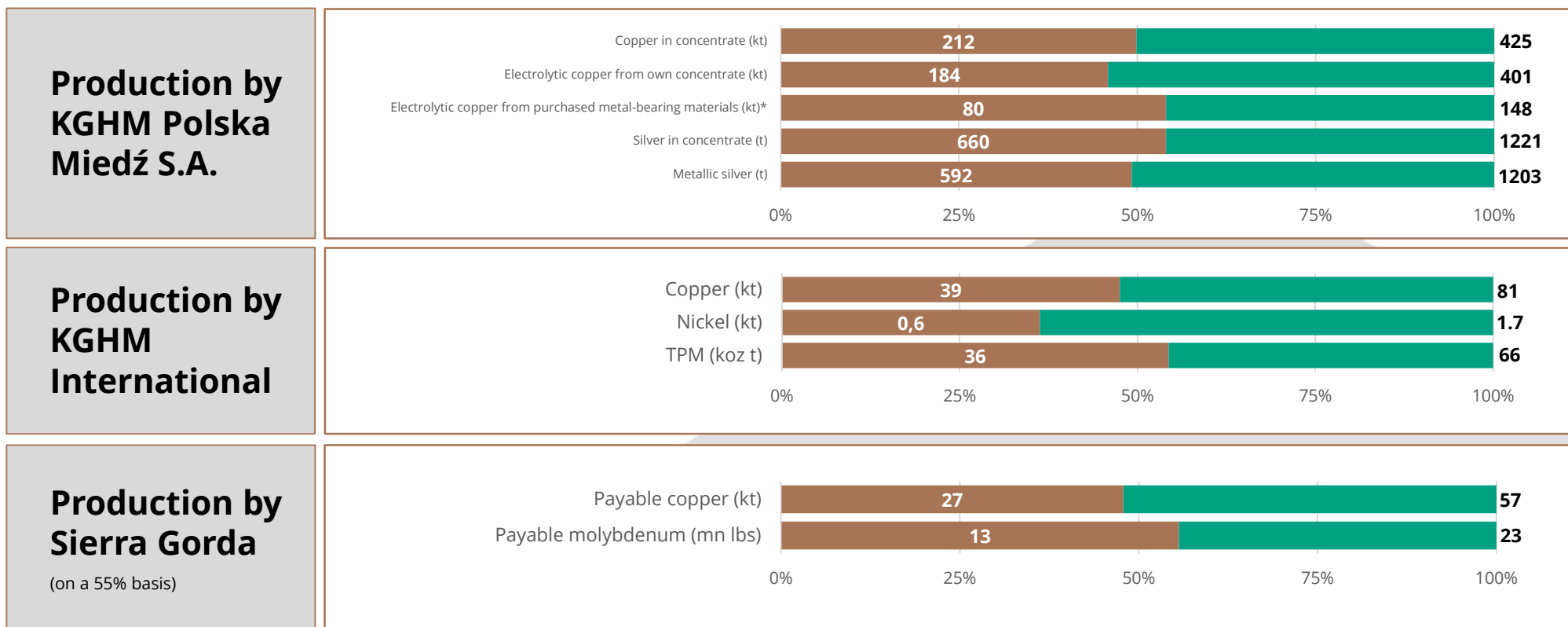
Consolidated cash flow
(mn PLN)



Summation

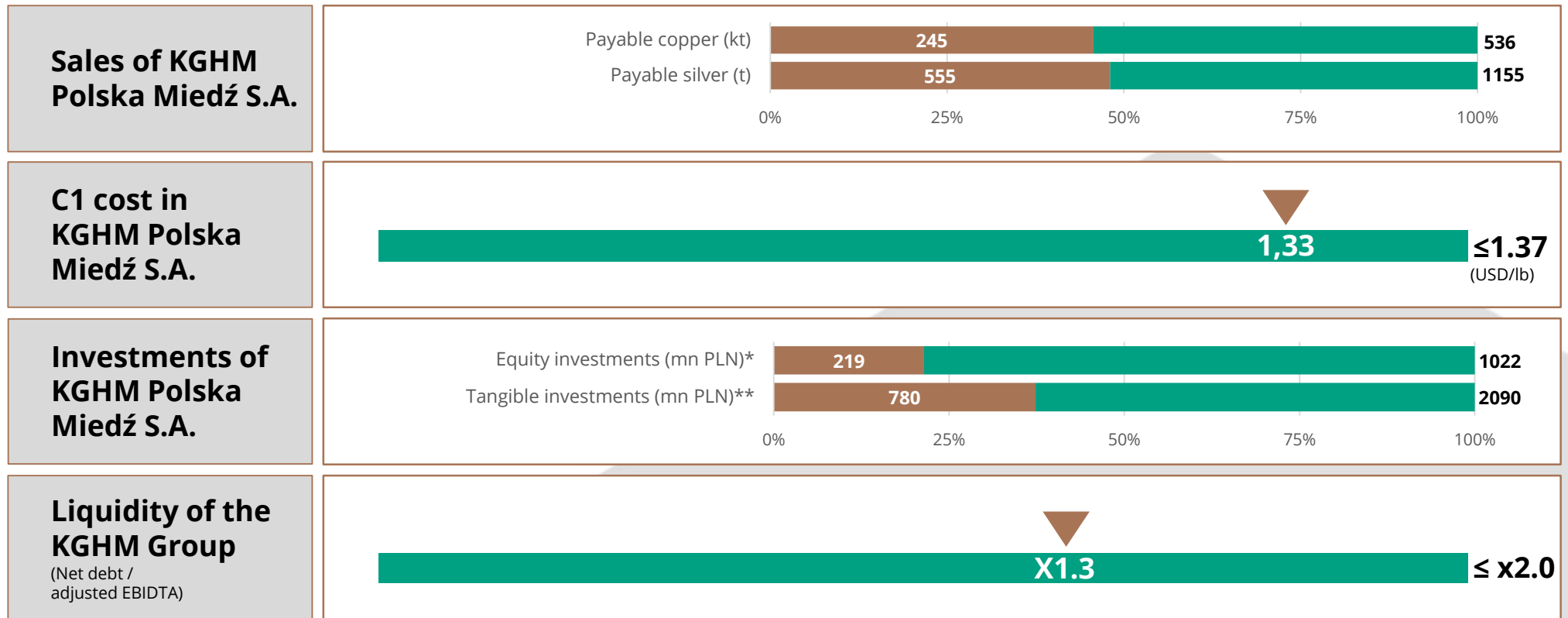


Production of the main metals in the first half in accordance with KGHM Group targets – annual targets remain unchanged



* Includes electrolytic copper from 3rd-party concentrate processing: 9 kt in the first half of 2016 and 15 kt in the full-year plan

Other goals of KGHM for the most part achieved according to plan – equity investments may be lower



* Acquisition of shares and investment certificates of subsidiaries and loans granted and acquisition of available-for-sale financial assets

** Excluding expenditures on uncompleted development



Supporting slides

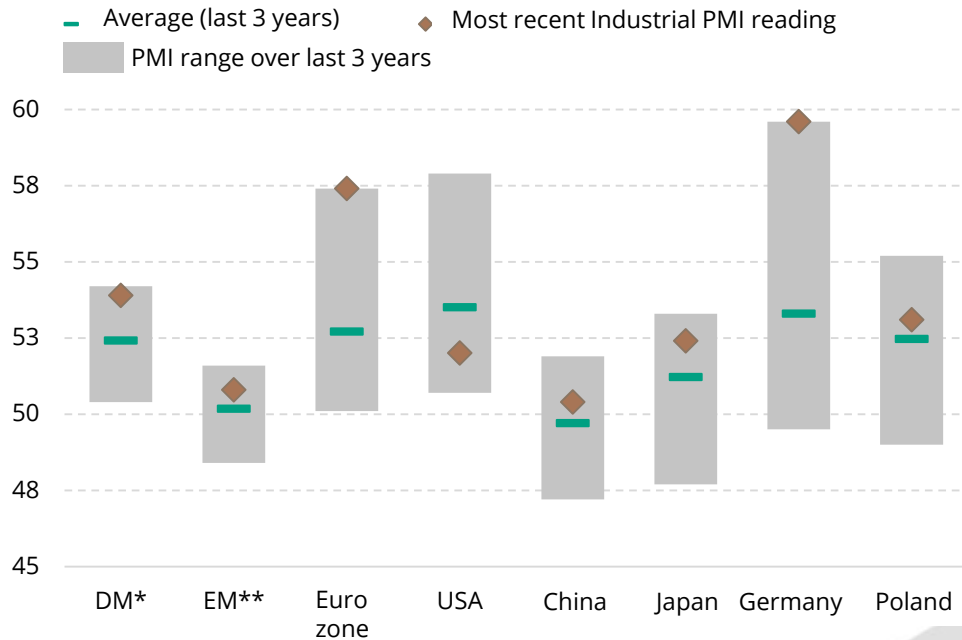


Macroeconomic environment



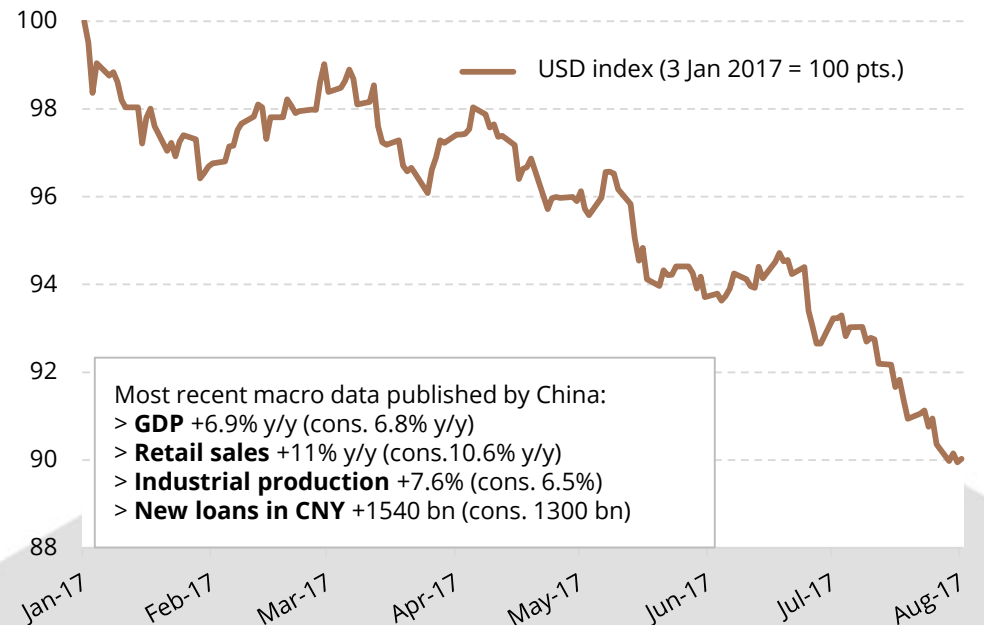
Economic activity in the first half of the year visibly accelerated; The Chinese economy maintained its high rate of growth

The picture of the global economy is positive; PMI above 50 points



Source: Bloomberg, KGHM Polska Miedź

The drop in the US dollar index led to increases on the commodities market



Most recent macro data published by China:
 > **GDP** +6.9% y/y (cons. 6.8% y/y)
 > **Retail sales** +11% y/y (cons. 10.6% y/y)
 > **Industrial production** +7.6% (cons. 6.5%)
 > **New loans in CNY** +1540 bn (cons. 1300 bn)

Cons. = Bloomberg consensus; Source: Bloomberg, KGHM Polska Miedź

- Industrial PMI is at 3-year highs in most countries, which confirms the positive picture of the global economy.
- Chinese GDP grew in the second quarter by 6.9%, which positively surprised economists and investors which, together with further weakening of the USD, led to increases in the price of copper in recent weeks.
- Despite a tight political calendar political risk in Europe substantially fell, whose effects impacted the attractiveness of the precious metals market.
- In 2017 the Fed has made two interest rate increases, to the level of 1.00-1.25%, announcing at the same time that such actions would continue as well as its desire to reduce the assets held. Despite this cycle of increases, the USD has depreciated in recent months.

Key international projects



Development of the international assets of KGHM Polska Miedź S.A.



Sierra Gorda

- Production of copper in concentrate in the first half of 2017 amounted to **~49.4 thousand tonnes**, with production of molybdenum in concentrate of **~23.6 million pounds** (on a 100% basis).
- On 30 June 2017 the Management Board of KGHM Polska Miedź S.A. consented to a change in the loan agreement signed on 8 March 2012 by Sierra Gorda SCM. The nature of the financing of Sierra Gorda SCM was changed, which significantly decreases the limitations and duties of Sierra Gorda SCM and in particular improves the flexibility of the operating and financial activities of Sierra Gorda SCM.
- Currently, work is aimed at advancing the project based on phase 1 of the investment, together with actions aimed at optimising the production line, the result of which is expected to be an increase in production capacity.



Sierra Gorda Oxide

- The project is currently in the concept phase, involving the selection of the best economic variant of advancing the project while restricting required capital expenditures.



Victoria

- The project continued work related to securing existing infrastructure and project terrain.

Key domestic projects



Ore access program in KGHM's concessioned areas in Poland

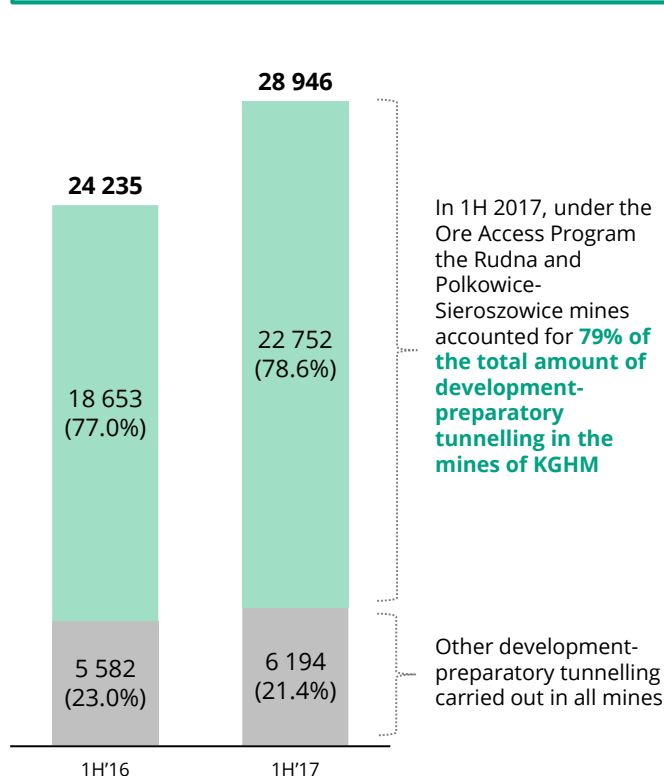
Deep Głogów (GGP) area

Work performed in the first half of 2017

Status of the Ore Access Program

- Work continued on sinking the **GG-1 shaft** (a material-personnel, air inlet shaft). The shaft's target depth is 1 340 meters with a diameter of 7.5 meters. The shaft reached a depth of 942.7 m. The shaft will reach the level of the deposit at the turn of 2019/2020. Completion of construction of the shaft with infrastructure is planned at the end of 2021.
- Tender procedures were commenced to select contractors to build the **Central Surface-based Ventilation Station at the GG-1 shaft** and the **Ice Water Distribution System**. The system will ensure the supply of ice water to the mine at the level of 1300 m, with a target amount of 30 MW.
- Preparatory work continued related to acquiring a permit to **build facilities necessary to sink the GG-2 („Odra”) shaft**.
- In the first half of 2017, **5 436 meters of tunnel** in the Rudna and Polkowice-Sieroszowice mines were built.

Scope of development-preparatory tunnelling completed (in meters)



Cooling tower and heat transfer building

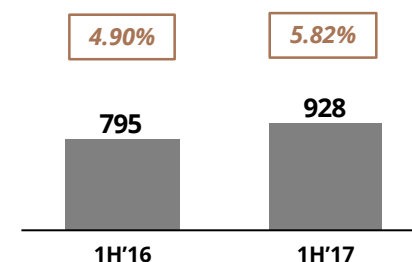


GG-1 shaft

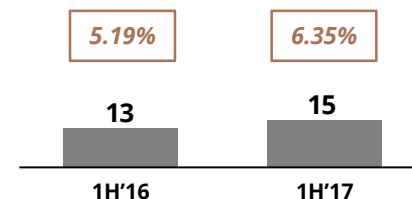
Share of production from Deep Głogów in total production in Poland

■ Production from GGP
 □ % share by GGP

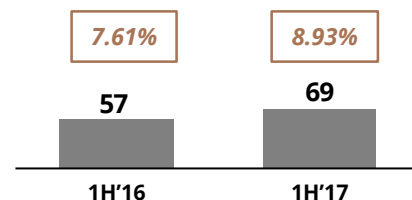
Ore extraction dry weight from GGP (kt)



Amount of Cu in ore (kt)



Amount of Ag in ore (k kg)



Metallurgical Development in KGHM

Construction of a Flash Furnace and associated infrastructure at Głogów I

Work performed in the first half of 2017

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-leaded 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:
78% of target efficiency

- average accrued efficiency of concentrate processing in the new flash furnace in the first half of 2017 was 104.9 t/h and 103.2 t/h (designed capacity of 132 t/h) for entire period to date from start-up, i.e. since 15 October 2016)
- capacity will gradually be increased to 100% of designed capacity together with start-up of the remaining units of the new production line, including mainly the copper concentrate roasting installation

Installation availability:
74.5 %

- the degree of utilisation of production capacity, considering the early stage of operation of the new installation, in the first half of 2017 was at a high level

- Work continued on key production units under the investment program, i.e. **construction of a Steam Drier at the Głogów 2 Copper Smelter and Refinery** and the **Copper concentrate roasting installation**, whose planned completion is the fourth quarter of 2017.
- Start-up work is also underway with respect to the **Modernisation of the Tank and Electrolite Decopperisation Hall at the Legnica Copper Smelter and Refinery**.
- 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 aimed at **optimising utilisation of the modernised metallurgical infrastructure** in terms of investment projects currently being advanced at the Głogów Copper Smelter and Refinery, including:
 - replacement of property, plant and equipment,
 - ensuring compliance with EU laws and other legal requirements,
 - adapting energy, roadway and other infrastructure at Głogów 1, and
 - providing power supply, remote control and lighting to existing facilities and equipment at Głogów 1.

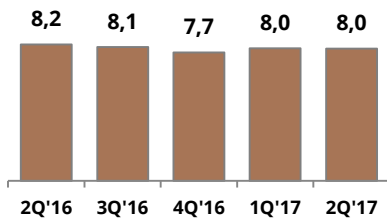
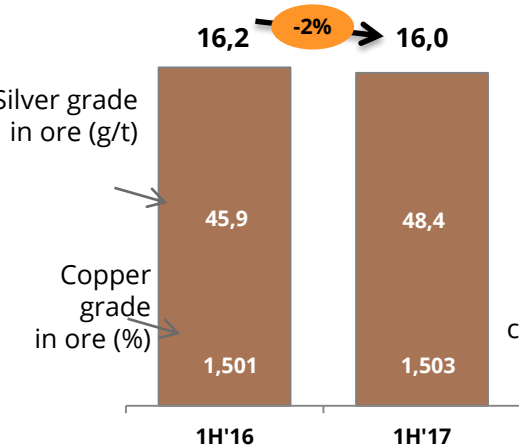


Economic results of KGHM Polska Miedź S.A.

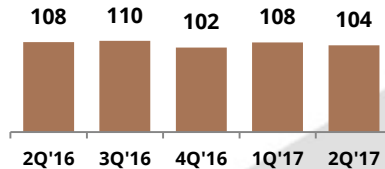
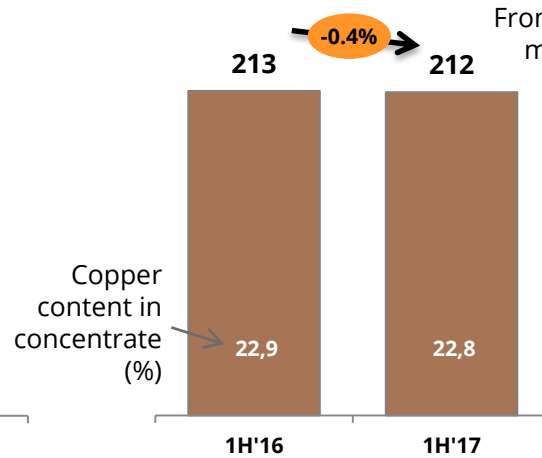


Stable level of mine production

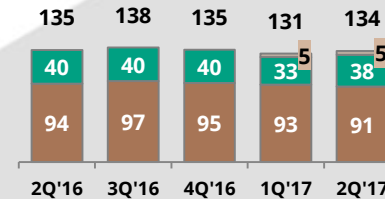
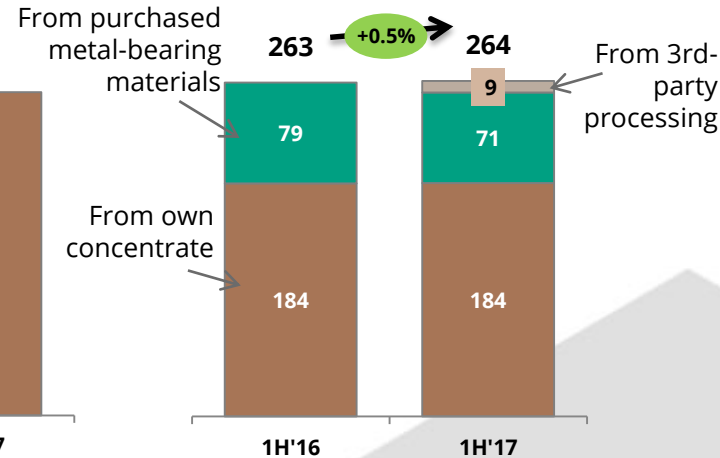
Ore extraction
(mn t dry weight)



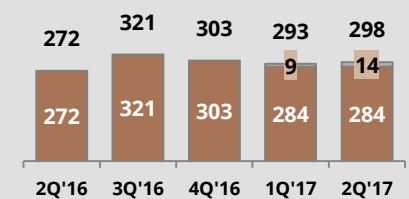
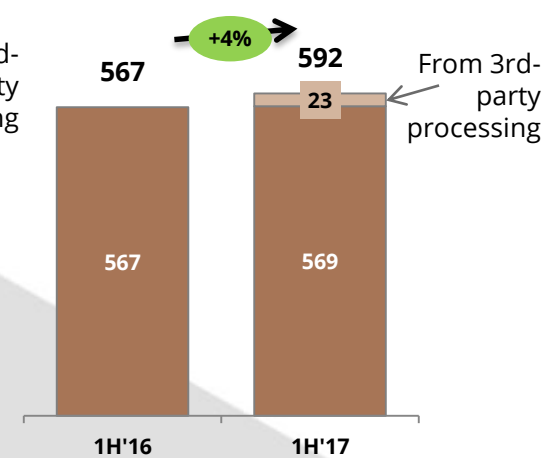
Production of Cu in concentrate
(kt)



Electrolytic copper production
(kt)



Metallic silver production
(t)

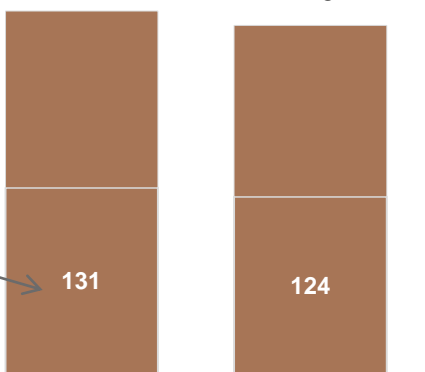


- In the first half of 2017 there was an increase of copper content in ore from 1.501 to 1.503%.
The company expects that in subsequent quarters of 2017, copper content in ore will be at the level of 1.48%.
- Production of Cu in concentrate was at a similar level compared to the corresponding period of 2016.
- Electrolytic copper production from own concentrate in 1H 2017 was at the same level as in the corresponding period of 2016, while production of cathodes from purchased metal-bearing materials was lower.
- In 2017 the company is processing 3rd-party concentrates.
- The increase in metallic silver production in the first half of 2017 is a result of the higher Ag content in domestic concentrate.

Revenues from sales in the first half of 2017

Sales of copper and copper products (kt)

255 $\xrightarrow{-4\%}$ 245



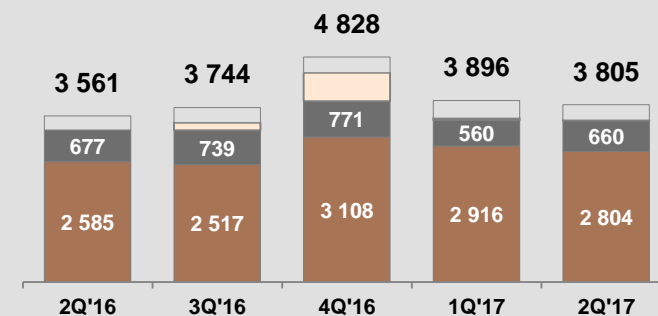
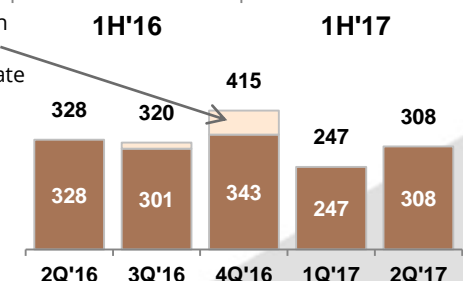
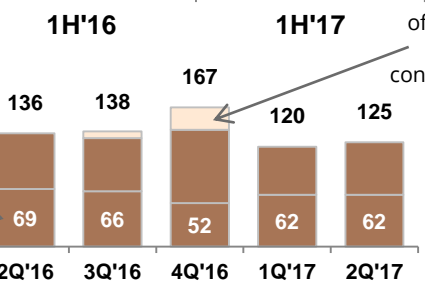
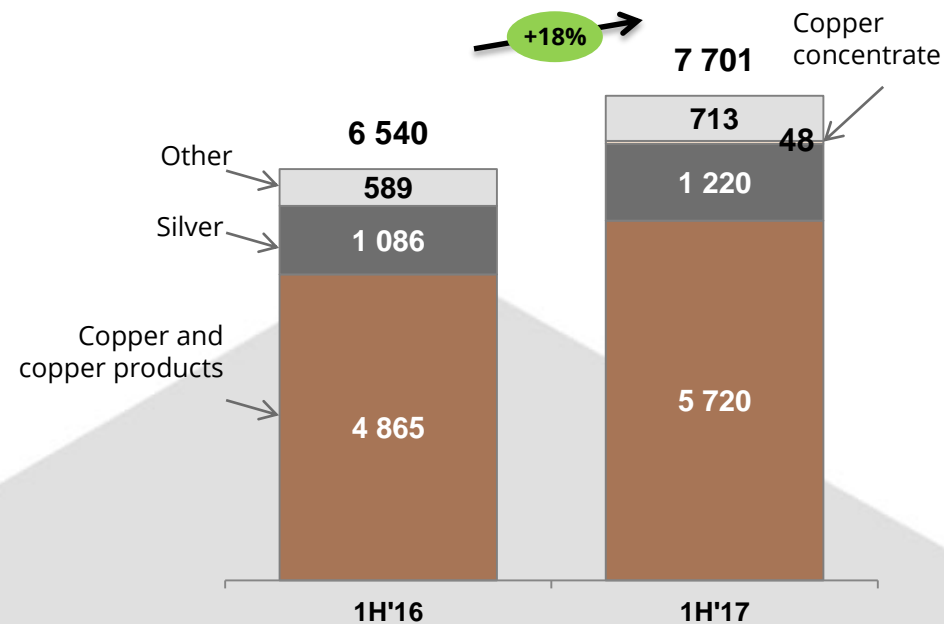
Silver sales (t)

545 $\xrightarrow{+2\%}$ 555



Sales revenue (mn PLN)

6 540 $\xrightarrow{+18\%}$ 7 701



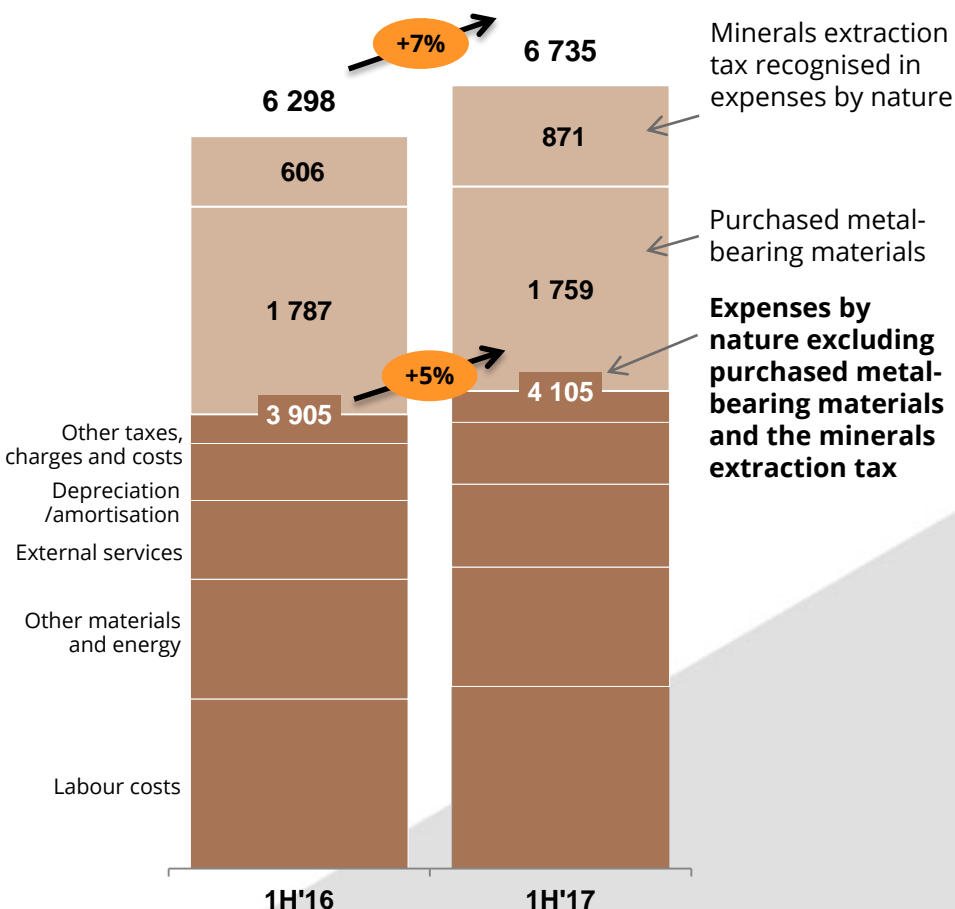
In the first half of 2017 revenues from sales were higher than in the corresponding period of 2016 by PLN 1 161 mn, mainly due to:

- changes in the prices of Cu, Ag and Au (prices and USD/PLN exchange rate), +PLN 1 170 mn,
- higher sales volumes (silver by +10.5 t and gold by +218 kg), +PLN 55 mn,
- higher sales of other products and merchandise by +PLN 132 mn (of which: +PLN 48 mn is an adjustment of copper concentrate sold in 2016, +PLN 23 mn is an increase in the value of refined lead, mainly due to higher prices),

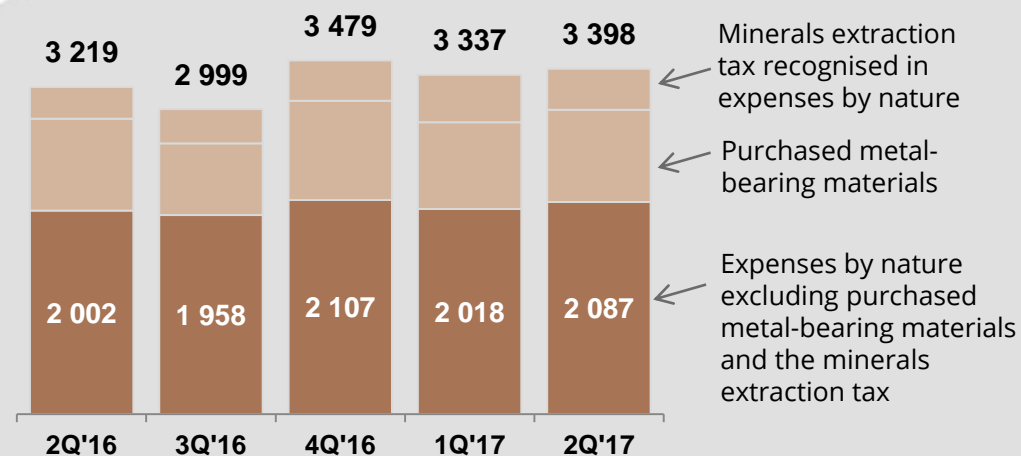
28 alongside a lower volume of copper sales by 10.2 kt, -PLN 194 mn.

Expenses by nature

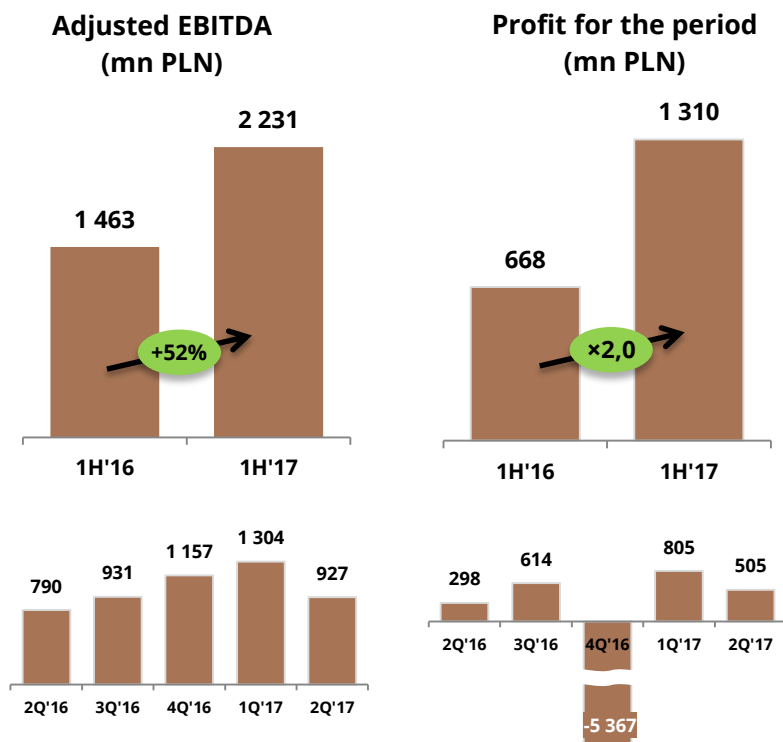
Expenses by nature
(mn PLN)



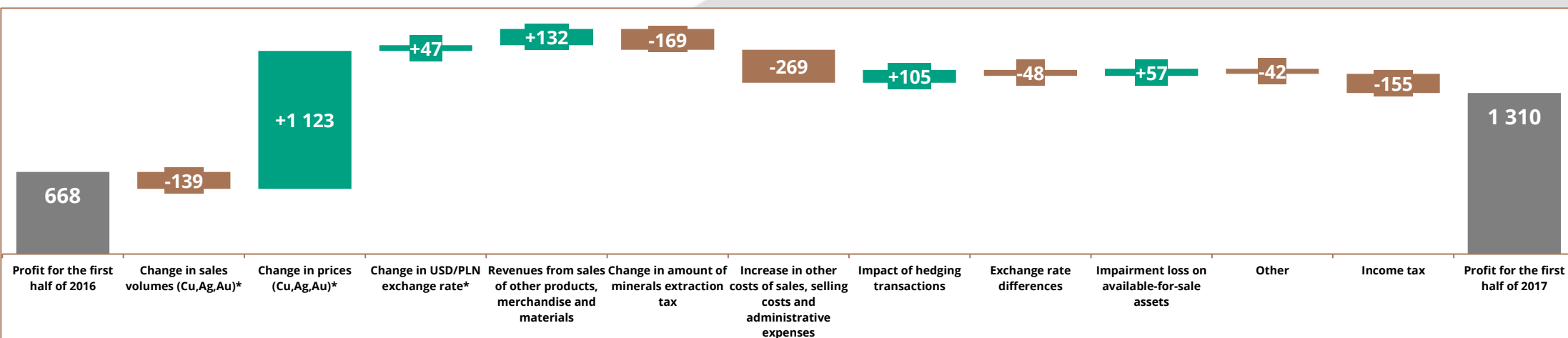
- Expenses by nature, excluding purchased metal-bearing materials and the minerals extraction tax, were higher by PLN 200 mn (5%) due to higher labour costs (+PLN 106 mn), depreciation/amortisation (+PLN 41 mn) and external services (+PLN 35 mn), mainly due to maintenance work.
- Total expenses by nature as compared to the first half of 2016 were higher by PLN 437 mn (+7%) due to a higher minerals extraction tax by PLN 265 mn (+44%) with lower costs of consumed metal-bearing materials by PLN 28 mn (-1.6% - 17 kt less copper consumed and a 21% higher purchase price).
- The increase in expenses by nature in the 2nd quarter of 2017 as compared to the first quarter of 2017 by PLN 61 mn is due to higher labour costs (+PLN 62 mn), mainly due to a higher write-off for future employee benefits.



Financial results in the first half of 2017



- The increase in adjusted EBITDA by PLN 768 mn (+52%) was mainly due to more favourable metals prices and the USD/PLN exchange rate, alongside a lower copper sales volume.
- The impact of the more favourable macroeconomic conditions was partially offset by a higher minerals extraction tax and income tax and a lower result on exchange rate differences – consequently, net profit increased by PLN 642 mn (×2.0).
- The decrease in EBITDA and of net profit in the second quarter of 2017 as compared to the first quarter of 2017 was due to an increase in the cost of sales, selling costs and administrative expenses by PLN 303 mn, mainly due to a change in inventories and to lower sales revenue by PLN 91 mn – due to lower metals prices, with a higher sales volume.



Main differences between the Statement of Profit or Loss of the Group and of KGHM Polska Miedź S.A.

| <i>(mn PLN)</i> | 1H'17 | 1H'16 | Change | Difference vs the Parent Entity's Statement of 1H'17 |
|--|----------------|--------------|-------------|--|
| Sales revenue | 9 713 | 8 456 | +15 | |
| Cost of sales | 7 215 | 6 704 | +8 | |
| Gross profit | 2 498 | 1 752 | +43 | |
| Selling costs and administrative expenses | 621 | 634 | (2) | |
| Profit on sales | 1 877 | 1 118 | +68 | +142 |
| Other operating income and (costs), of which: | (1 345) | 200 | x | (748) |
| <i>Measurement and realisation of derivatives</i> | 74 | (169) | x | |
| <i>Exchange differences</i> | (1 609) | 110 | x | |
| <i>Interest on loans granted to joint ventures</i> | 161 | 306 | (47) | |
| Finance income and (costs), of which: | 684 | (159) | x | (7) |
| <i>Exchange differences</i> | 815 | (70) | x | |
| <i>Interest on borrowings</i> | (53) | (31) | +71 | |
| Share of losses of joint ventures accounted for using the equity method | (215) | (476) | (55) | (215) |
| Profit before income tax | 1 001 | 683 | +47 | (828) |
| Income tax expense | 507 | 385 | +32 | |
| Profit for the period | 494 | 298 | +66 | (816) |
| EBITDA | 2 863 | 2 062 | +39 | +632 |

Main consolidation adjustments for selected items in the Statement of Profit or Loss

Includes the results of KGHM International

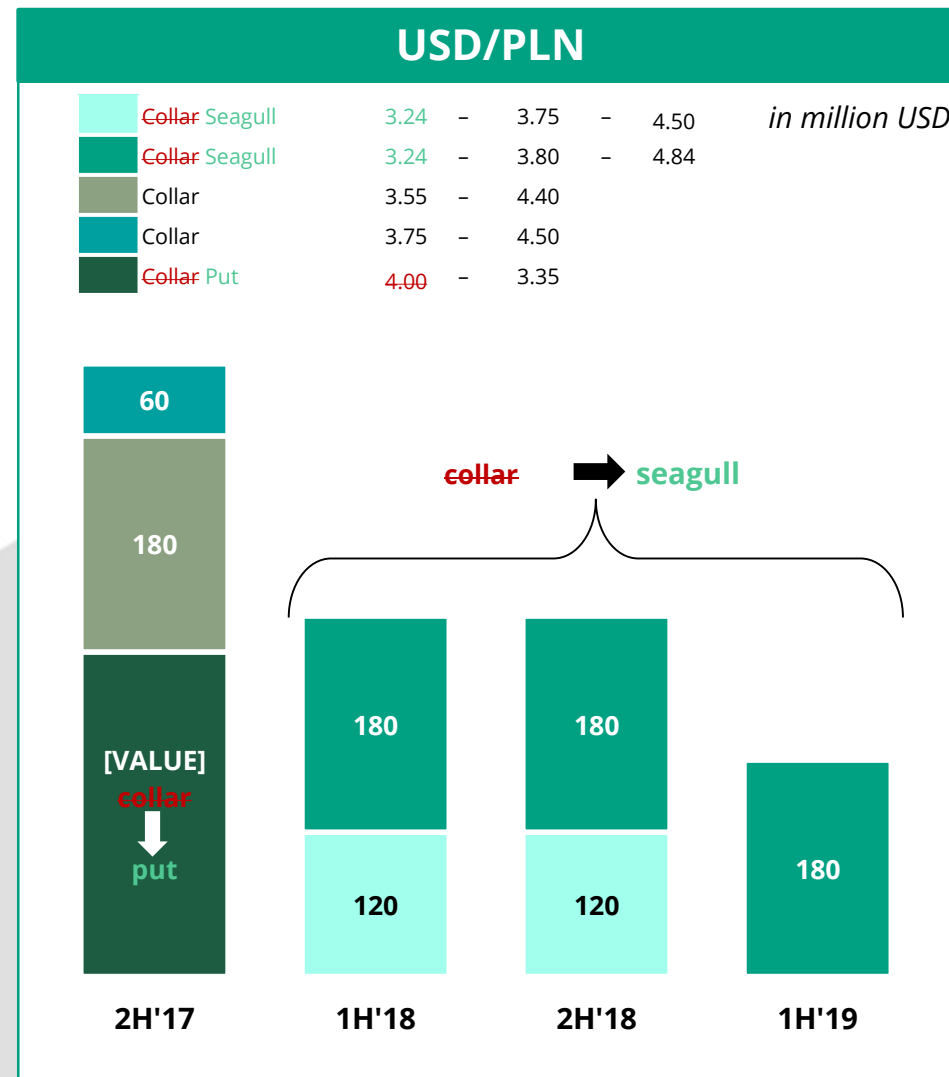
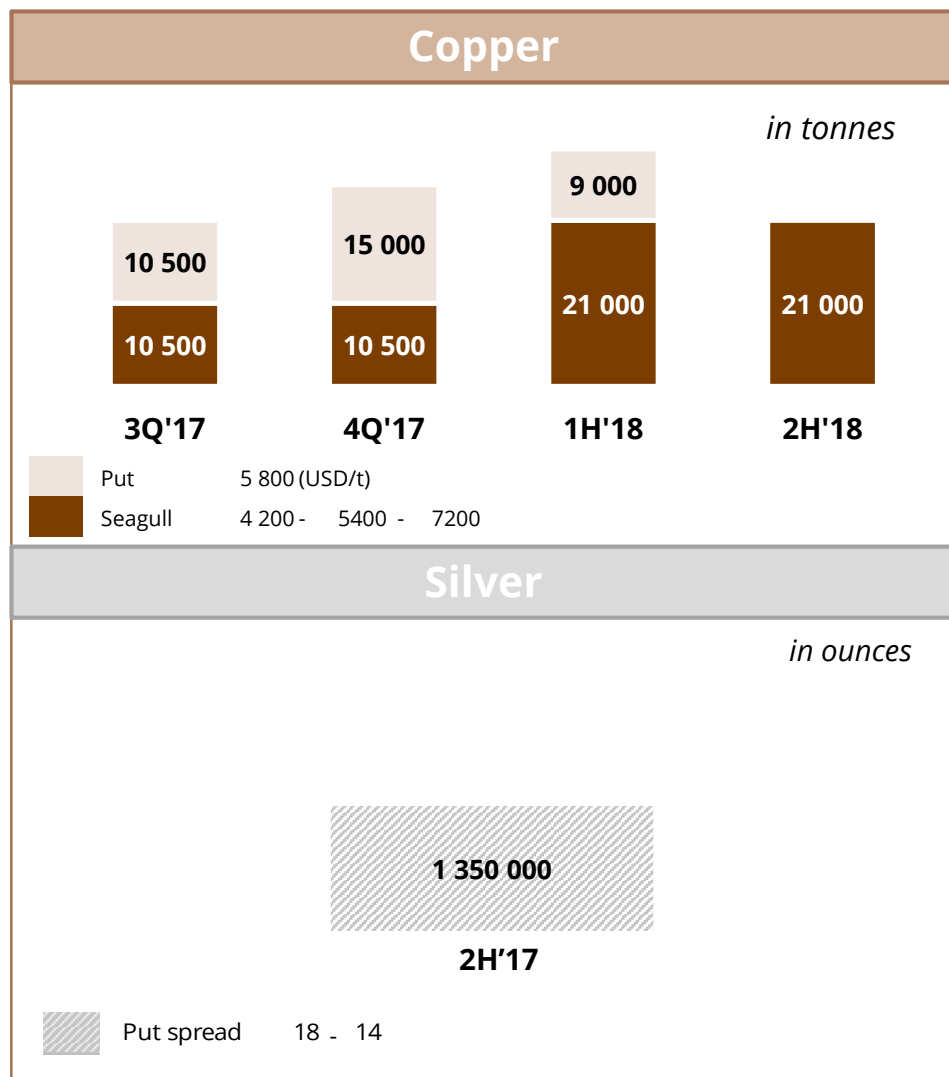
Consolidation adjustment respecting negative unrealised exchange differences on impairment losses and the measurement of intra-Group loans in USD

Recognition of share of loss of Sierra Gorda to the amount of the increase in share capital

The accrued result on derivatives achieved by KGHM Polska Miedź S.A. as at 30 June 2017 amounted to PLN 44 million

Market risk management – hedging position (as at 30 June 2017)

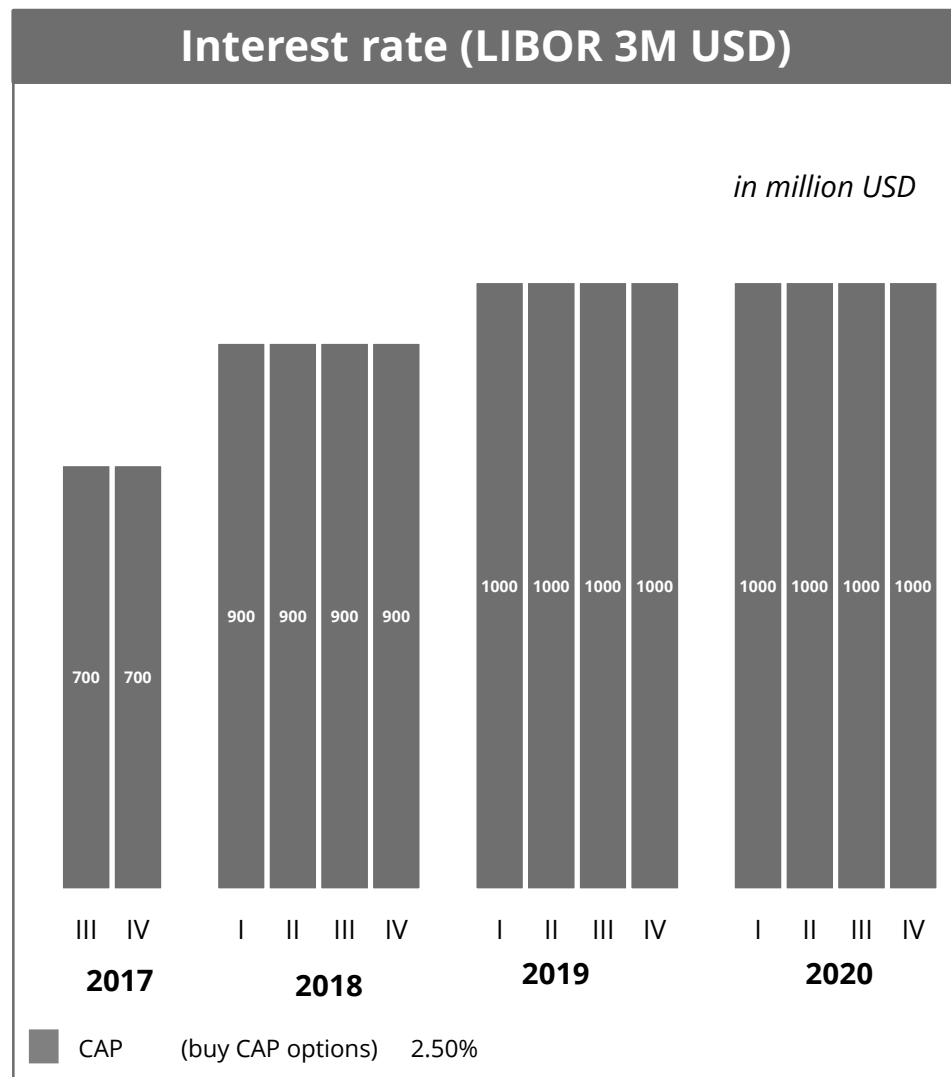
Position in derivatives on the metals and currencies markets



The accrued result on derivatives achieved by KGHM Polska Miedź S.A. as at 30 June 2017 amounted to PLN 44 million

Market risk management – hedging position (as at 30 June 2017)

Position in derivatives on the interest rates markets



Result on derivatives

- In the period January–June 2017, KGHM Polska Miedź S.A. recorded a result on derivatives in the amount of PLN 44 million, of which:
 - PLN 4 million increased sales revenue (transactions settled in the January–June period),
 - PLN 40 million increased the result on other operating activities (mainly a change in the measurement of open transactions as at 30 June, hedging the period to the end of 2020).
- The fair value of derivatives (MtM) in KGHM Polska Miedź S.A. as at 30 June 2017 amounted to PLN 199 million.
- The revaluation reserve on cash flow hedging instruments as at 30 June 2017 amounted to PLN 62 million.

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