Layers of possibilities

KGHM POLSKA MIEDŹ

Results of the Group for the first quarter of 2017

8 May 2017

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Agenda

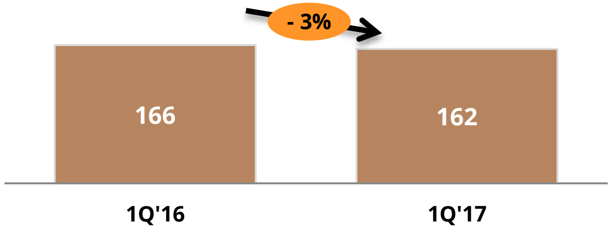
1. **Introduction**
   Radosław Domagalski-Łabędzki, President of the Management Board
2. **Economic results of the KGHM Polska Miedź S.A. Group**
   Stefan Świątkowski, Vice President of the Management Board (Finance)
3. **Summation**
   Radosław Domagalski-Łabędzki, President of the Management Board
4. **Supporting slides**
   - Key international projects
   - Key domestic projects
   - Economic results of KGHM Polska Miedź S.A.
5. **Q&A**

Introduction

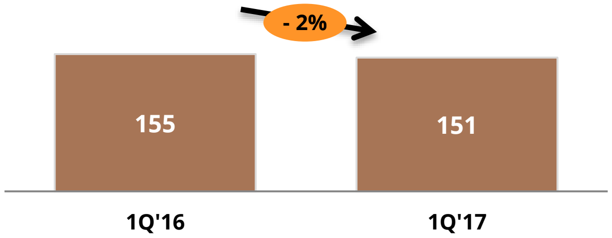
Summary of the first quarter of 2017 in the KGHM Polska Miedź S.A. Group

Production, sales and finance

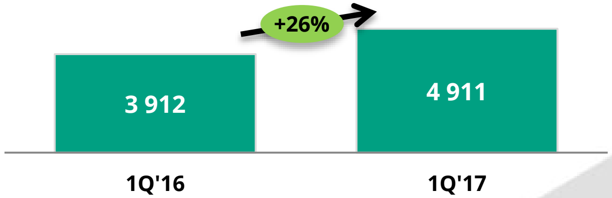
Payable copper production [kt]



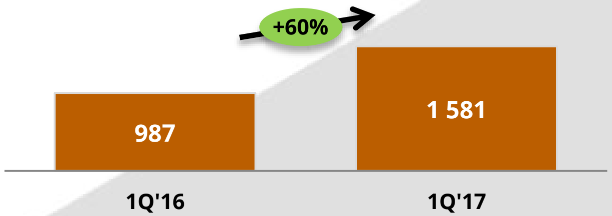
Sales of payable copper [kt]



Consolidated sales revenue [mn PLN]



Consolidated EBITDA* [mn PLN]



- **Production:** Stable payable copper production by KGHM Polska Miedź S.A. and Sierra Gorda; Group production lower by 3% mainly due to a decrease in copper content in ore at the Robinson mine (KGHM International).

- **Sales:** Analogously to the production results, the slightly lower sales of payable copper mainly reflect the stable situation in KGHM Polska Miedź S.A., alongside lower sales by KGHM International, partially offset by a 16% increase in sales of copper concentrate by Sierra Gorda.

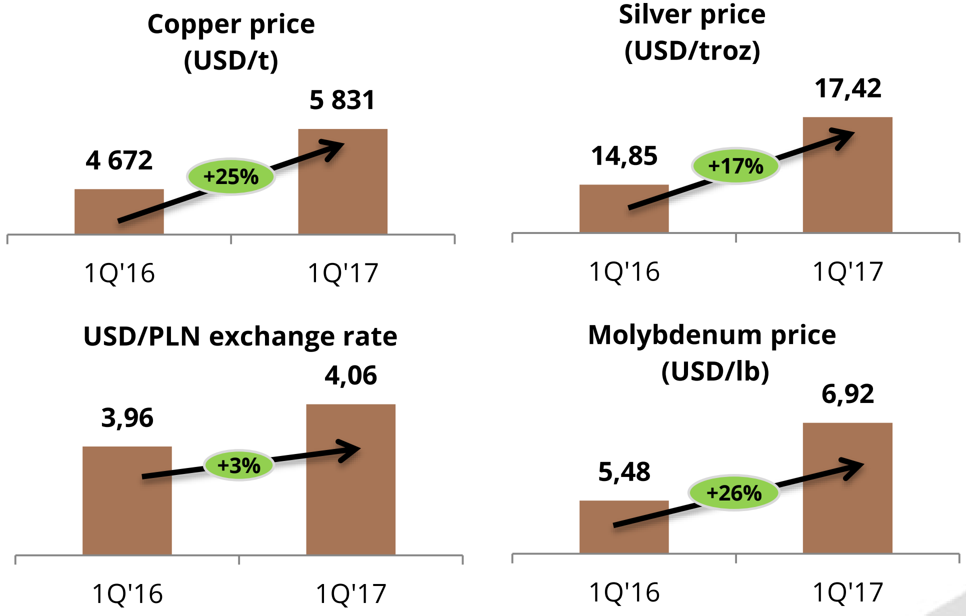
- **Sales revenue:** Higher consolidated revenues by 26% mainly due to an increase in the copper price by nearly 1 200 USD/t (+25% y/y) and silver by over 2.5 USD/ounce (+17% y/y), with additional support by the USD/PLN exchange rate, which was higher by 3% y/y.

- **EBITDA:** the substantial increase in adjusted EBITDA is mainly due to higher revenues, partially offset by operating costs, mainly due to a higher minerals extraction tax and higher labour costs in KGHM Polska Miedź S.A., as well as lower EBITDA in the international assets: an increase by PLN 38 million in Sierra Gorda (on a 55% basis), with a decrease by PLN 64 million in KGHM International.

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

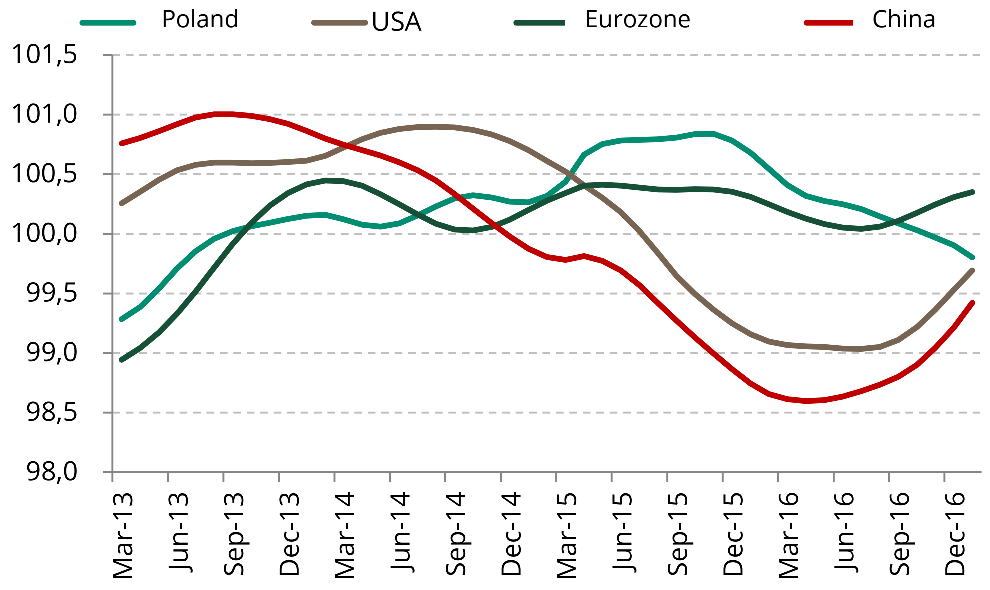
Improved macroeconomic conditions drove higher metals prices; the Fed continues to tighten monetary policy

A higher copper price with a weaker PLN; recovery on the molybdenum and silver markets



Source: Thomson Reuters, KGHM Polska Miedź

Economic indicators show an improvement in the major economies



Source: OECD, KGHM Polska Miedź

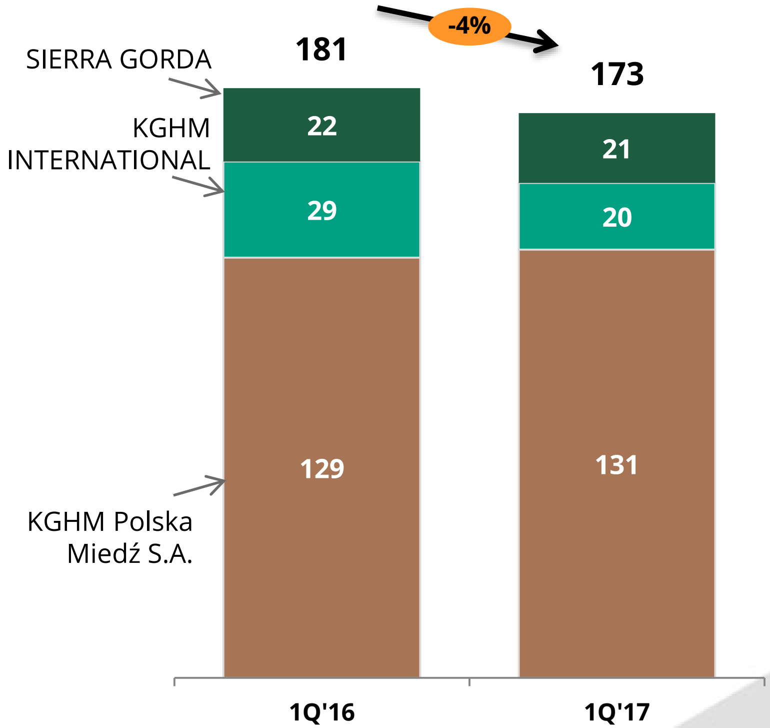
- Compared to the corresponding prior year period, copper and silver prices recorded double digit increases, supported additionally by a slight depreciation in the PLN compared to the USD.
- CLI indicators* for individual countries suggest that positive economic trends will be sustained in the coming months.
- Improved global economic conditions along with positive macroeconomic readings enabled continued tightening of monetary policy in the USA. In March 2017, the FOMC** once again raised interest rates (currently at 0.75-1.00%), declaring it would continue these actions.

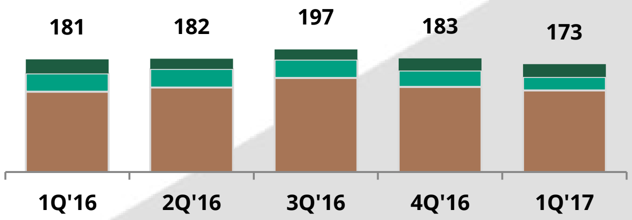
* OECD Composite Leading Indicators
** Federal Open Market Committee

KGHM Polska Miedź S.A. | KGHM INTERNATIONAL | Sierra Gorda (55%)

Metals production by the Group

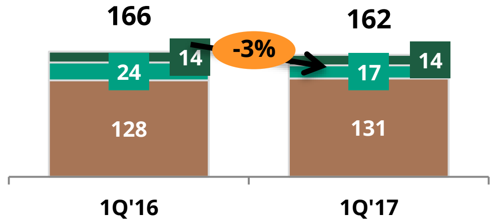
Production of copper equivalent from own concentrate (kt)



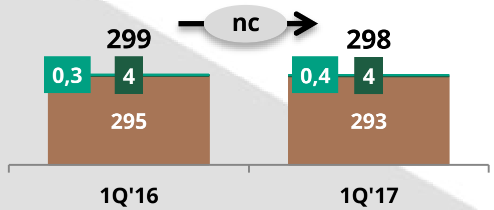


- The lower production of copper equivalent from own concentrates in the Group was mainly due to lower production by the Robinson mine.
- Stable payable copper and silver production by KGHM Polska Miedź S.A. with higher TPM production was due to the processing of purchased concentrates rich in gold.
- The lower production of payable copper and TPM by KGHM International was mainly due to extracting ore from the higher parts of the deposit in the Robinson mine with a lower copper content (0.40% compared to 0.47% in 1Q’16).
- The gradual improvement in copper recovery in Sierra Gorda ensured production at a similar level, despite the processing of ore with lower Cu content. The higher molybdenum content mainly offset the lower level of recovery of this metal.

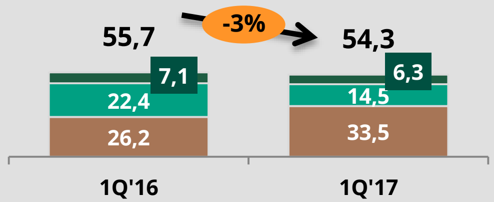
Payable copper production (kt)



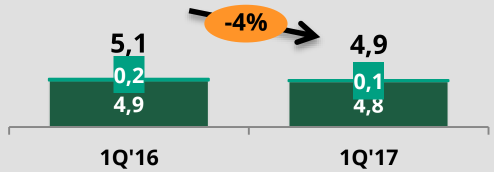
Silver production (t)



TPM production* (koz t)

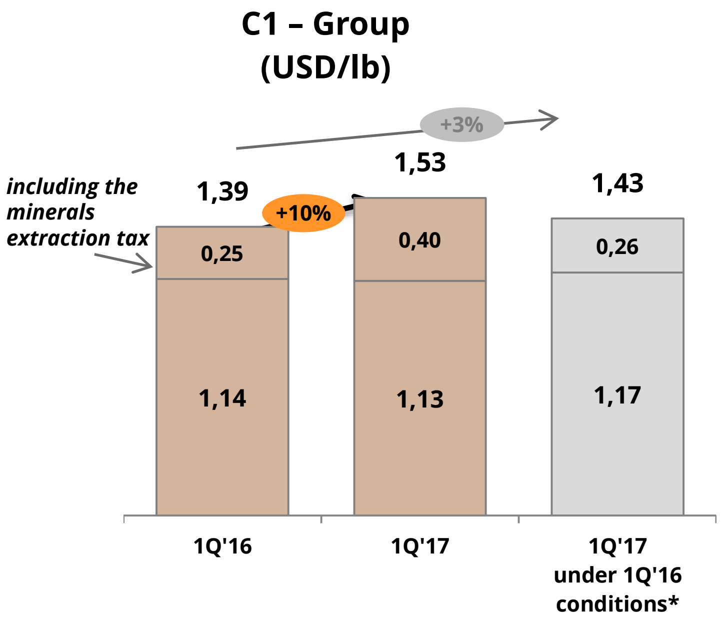


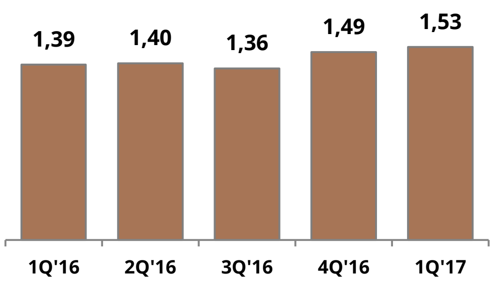
Molybdenum production (mn lbs)

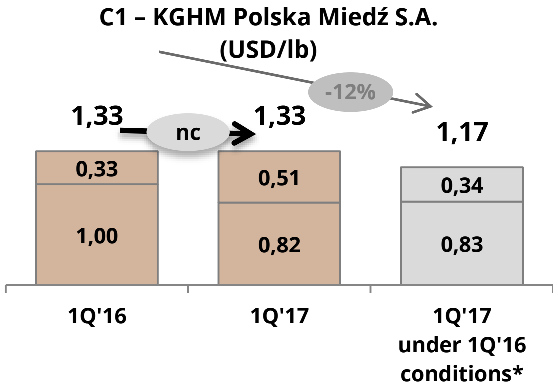


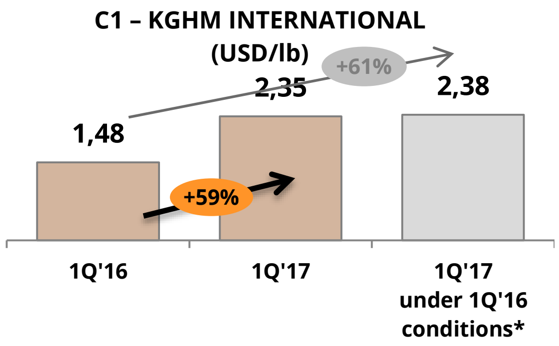
* TPM – Total Precious Metals, comprising gold, platinum and palladium

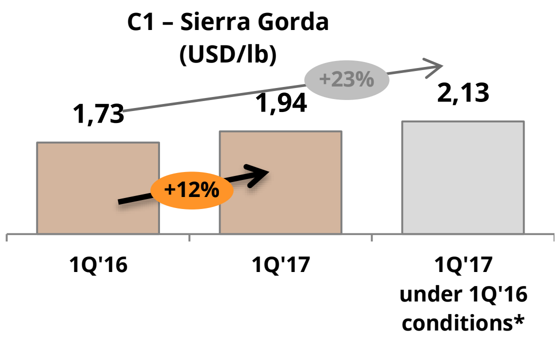
C1 unit cost in the Group











- C1 cost in the Group was higher by 10% in the first quarter of 2017 due to an increase in C1 in the international production assets.

  Under the metals prices and exchange rates of the same period of 2016, C1 cost would have been higher by 3%.
- C1 cost in KGHM Polska Miedź S.A. was at the level of the first quarter of 2016. This level of C1 was achieved mainly due to the higher minerals extraction tax.

  Under the metals prices and USD exchange rates of the first quarter of 2016, C1 cost would have amounted to 1.17 USD/lb and would have been lower than the level in the prior year by 12% due to the increase in silver content in own concentrate.
- The increase in C1 cost in KGHM INTERNATIONAL was mainly due to lower sales volumes of copper and precious metals, alongside an increase in production costs (materials and energy).
- The increase in C1 cost in the Sierra Gorda mine was mainly due to higher energy costs, including mainly fixed costs and coal prices. Molybdenum processing costs were also higher due to the higher content of iron in concentrate.

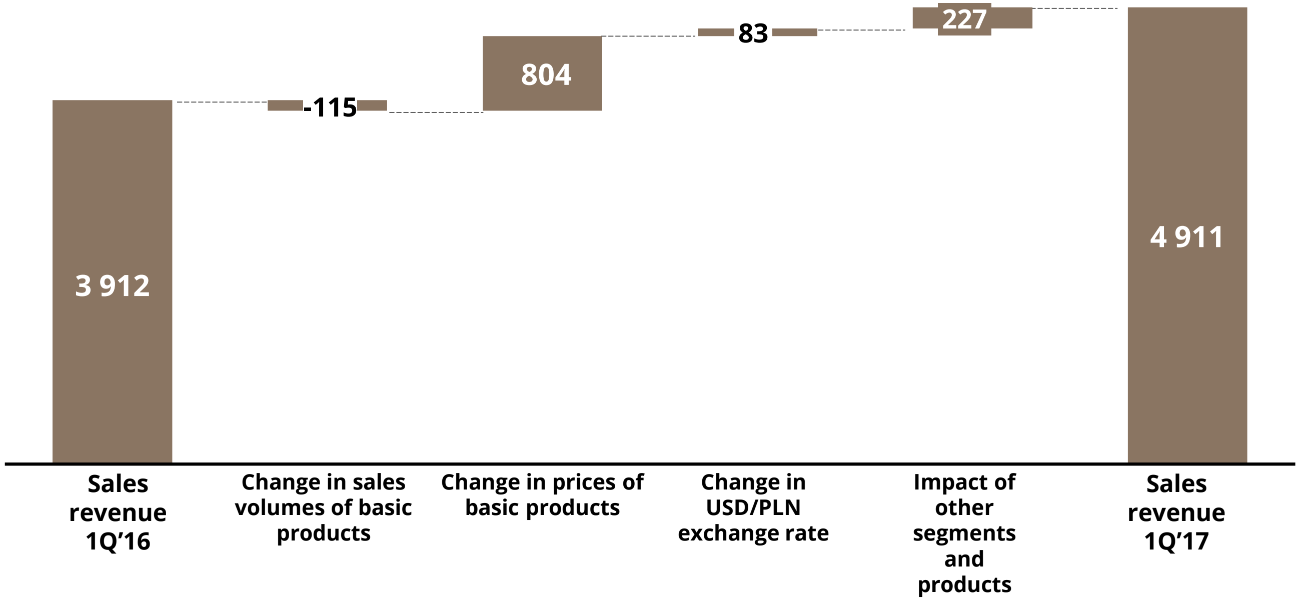
* Under the metals prices and USD/PLN exchange rate of 2016

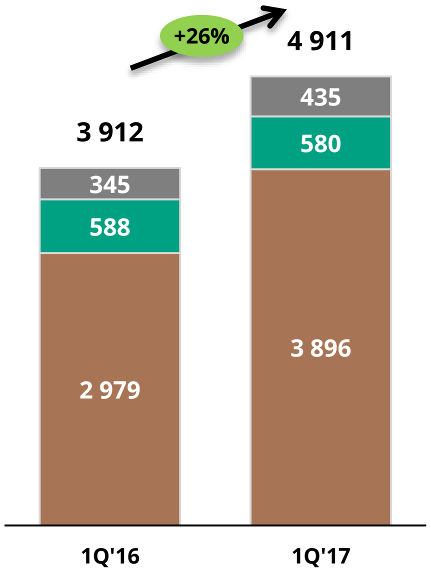
Economic results of the KGHM Polska Miedź S.A. Group

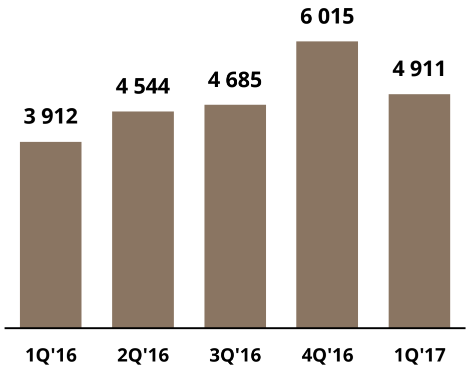
Segment KGHM Polska Miedź S.A. | Segment KGHM INTERNATIONAL | Other

Sales revenue of the Group in the first quarter of 2017

Sales revenue (mn PLN)



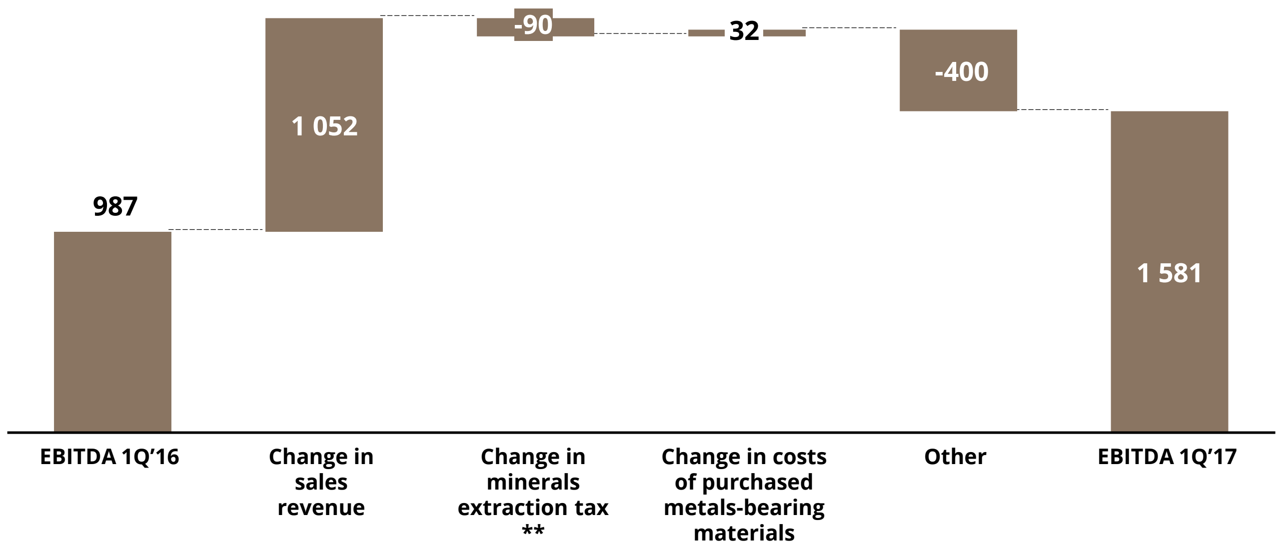


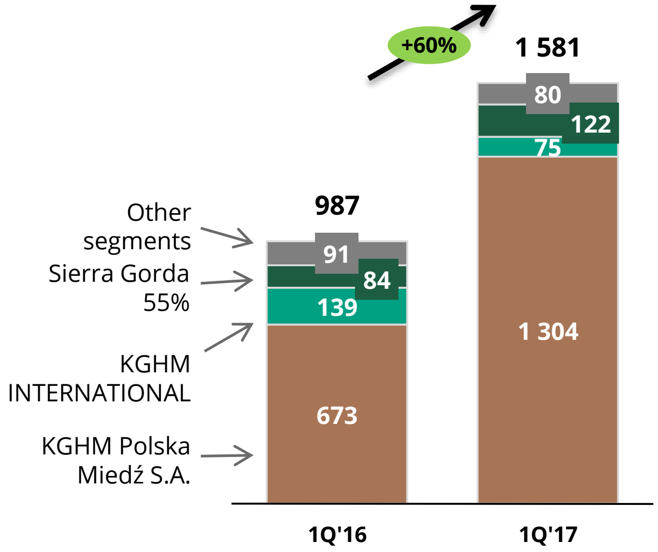


- The lower volume of sales was mainly due to the stable situation in KGHM Polska Miedź S.A., alongside lower sales in KGHM International resulting from the lower production by the Robinson mine.
- The price effect was mainly due to the increase in the copper price by nearly 1 200 USD/t (+25% y/y) and silver by over 2.5 USD/ounce (+17% y/y).
- The increase in sales revenue was achieved with additional support by the USD/PLN exchange rate, which was higher by 3% y/y, as well as higher revenues from sales of other segments and products.

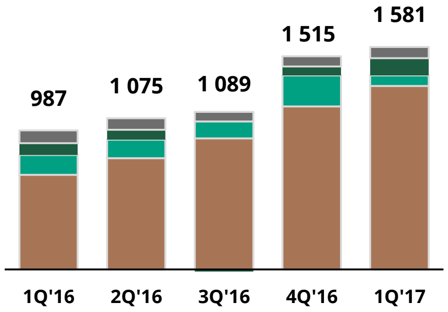
Operating results of the Group

**Adjusted EBITDA*
(mn PLN)**





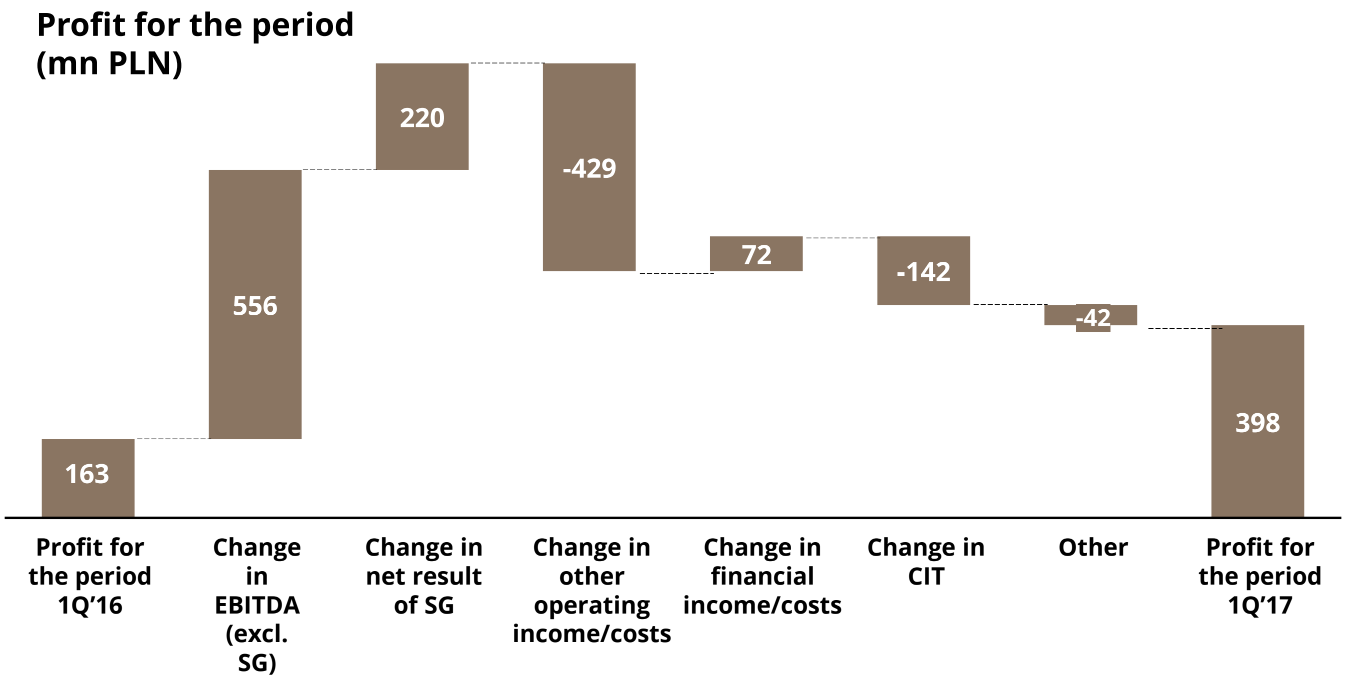
- The substantial increase in the Group's sales revenue was partially offset, mainly by:
  - a higher minerals extraction tax,
  - higher costs of labour and external services as well as an increase in inventories of half-finished products, work in progress and finished goods in KGHM Polska Miedź S.A.,
  - higher costs of materials and energy as well as external services in KGHM International, and
  - higher costs of materials, energy and fuel in Sierra Gorda.

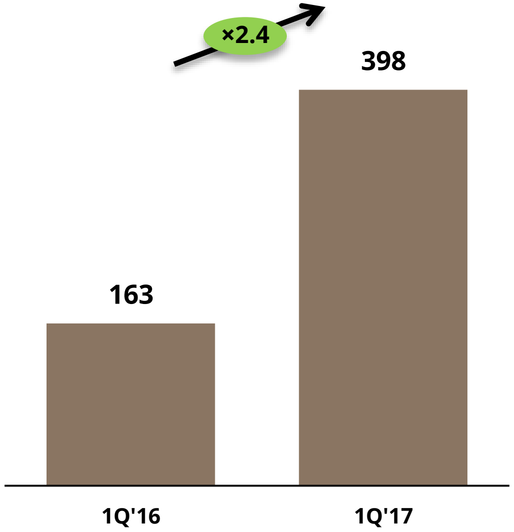


* Adjusted EBITDA = EBITDA (profit/(loss) on sales + depreciation/amortisation) adjusted by impairment losses on non-current assets

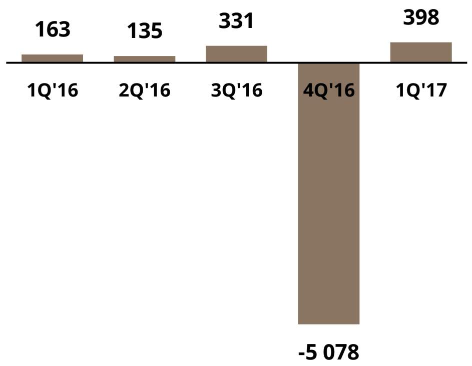
** The impact of the minerals extraction tax is recognised in: profit for the period of PLN 366 million, in expenses by nature in the amount of PLN 466 million and in the statement of cash flows in the amount of PLN 457 million.

Financial results of the Group



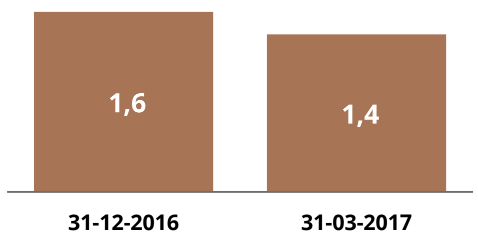


- The increase in consolidated profit for the period was mainly due to higher EBITDA and to a change in the financial result of the Group, as a result of not recognising in the first quarter of 2017 the share in the loss of this mine, which was related to the decrease in the value of this investment to zero.
- The above increase was offset to a substantial degree by the result on other operating income and costs, which includes recognition of costs due to negative unrealised exchange differences on USD-denominated loans granted within the Group.

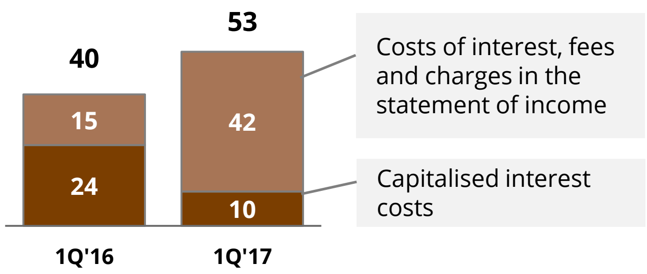


Net debt of the KGHM Polska Miedź S.A. Group – as at end-March 2017

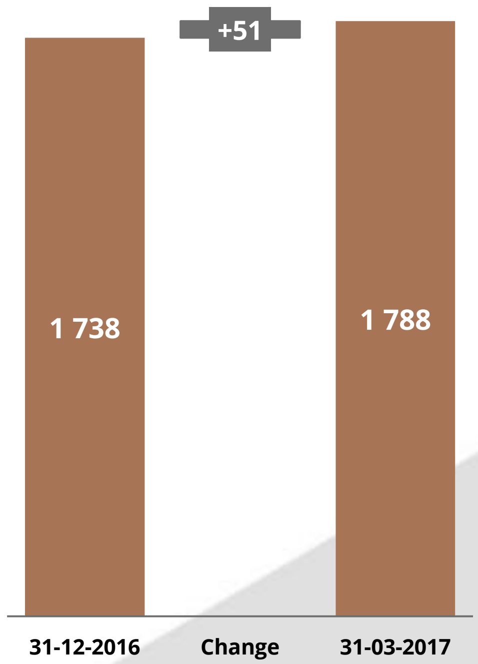
Net Debt / adjusted EBITDA



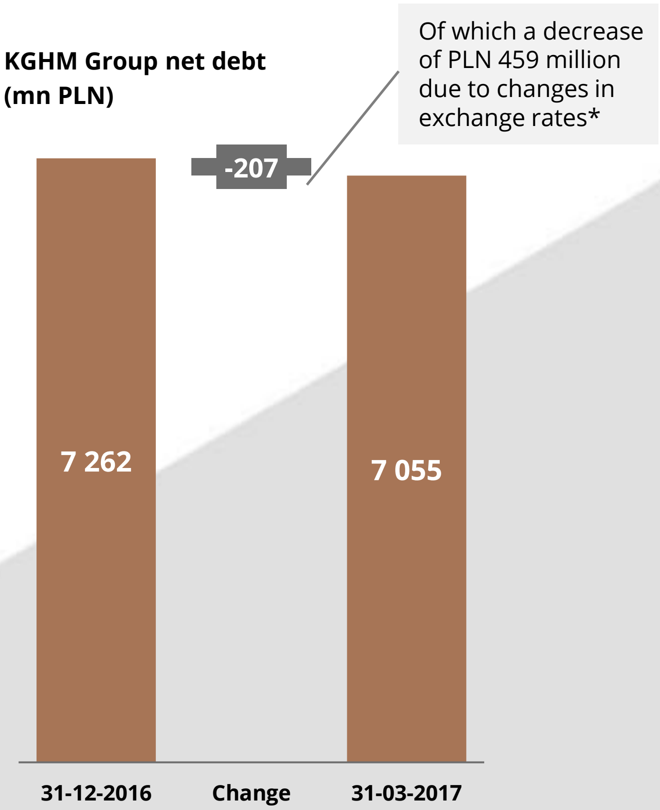
Borrowing costs (mn PLN)



KGHM Group net debt (mn USD)



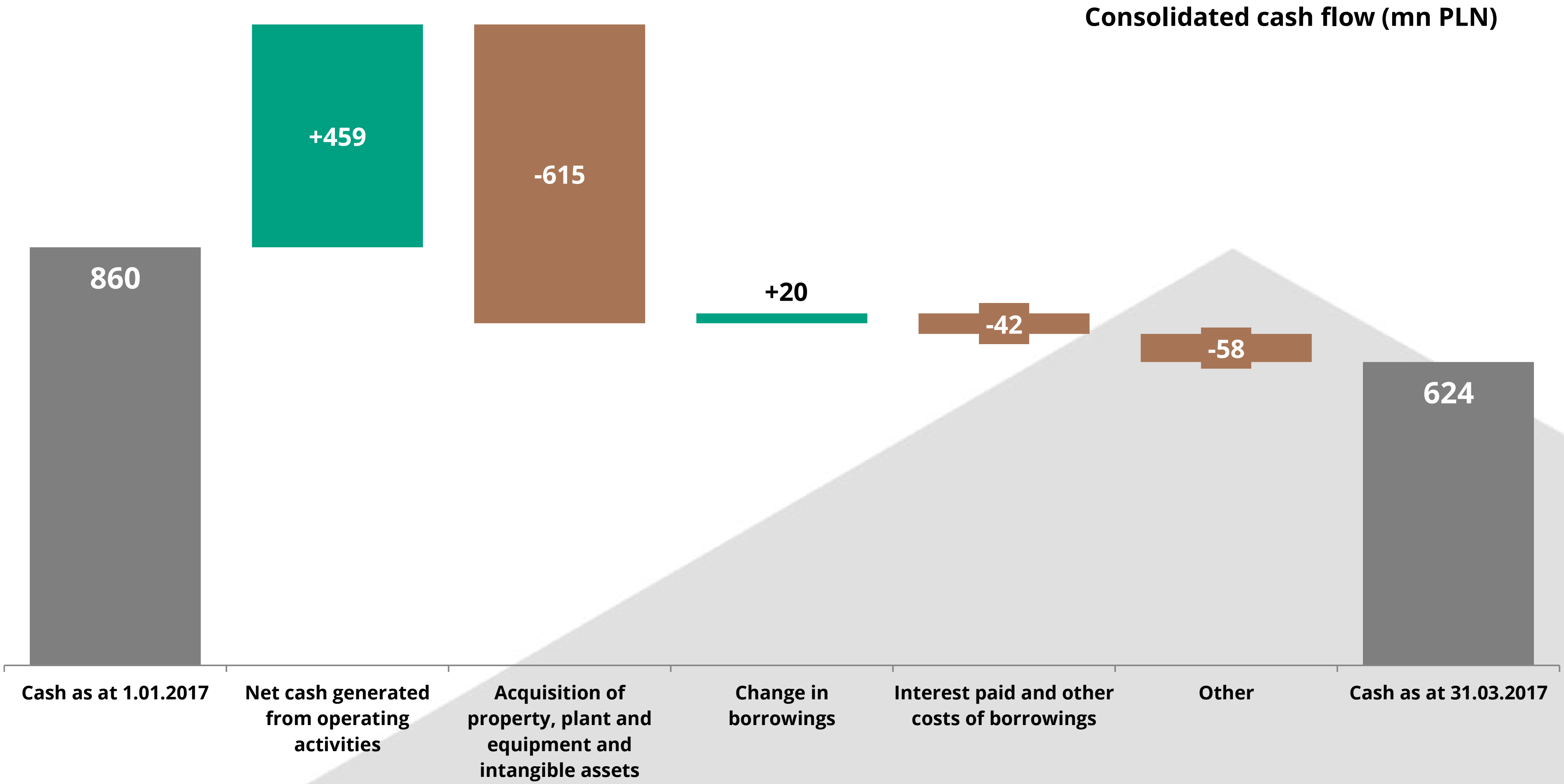
KGHM Group net debt (mn PLN)



- 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 Net Debt to EBITDA decreased to 1.4x mainly thanks to an increase in adjusted EBITDA.
- The level of debt in the first quarter of 2017 was mainly impacted by:
  - investments in Poland (~PLN 612 million),
  - the minerals extraction tax paid (~PLN 457 million).

* Approximate amount

Capital expenditures incurred in the first quarter did not require a significant increase in debt



Summation

Status of main Group activities in 2017

1 **Production and sales**	▪ Stable production, seasonally lower sales in the first quarter	✓
2 **Domestic projects**	▪ The Ore access, Pyrometallurgy Modernisation and Metallurgy Development programs are being advanced on schedule	✓
3 **Sierra Gorda**	▪ Continued work on improving recovery levels and stabilising the production process	✓
4 **Strategy update**	▪ In the final phase of acceptance by the company's leadership	✓

Supporting slides

Macroeconomic environment

Copper market in the first quarter under pressure from strikes and the renegotiation of contracts planned in the coming months

Calendar of labour contracts renewed in 2017 globally, by mine

Mine	Location	Company	Production* in 2017 (kt)	Contract expiry date
Escondida	Chile	BHP Billiton / Rio Tinto	1250	January 2017
Sudbury	Canada	Vale	72	January 2017
Highland Valley Copper	Canada	Teck	90	January 2017
Chuquicamata	Chile	Codelco	444	February 2017
Bingham Canyon	USA	Rio Tinto	181	March 2017
Raglan	Canada	Glencore	11	April 2017
Zaldívar	Chile	Antofagasta	113	July 2017
Radomiro Tomic	Chile	Codelco	210	September 2017
El Teniente	Chile	Codelco	426	October 2017
Quebrada Blanca	Chile	Teck	30	November 2017
Mantos Blancos	Chile	Anglo American	49	November 2017
Collahuasi	Chile	Anglo American/Xstrata	460	November 2017
Ojos del Salado	Chile	Aurex (Freeport)	14	December 2017
Mount Polley	Canada	Imperial Metals	12	December 2017
Candalaria	Chile	Aurex (Freeport)	170	December 2017

Source: Citi, company reports, KGHM Polska Miedź

- The policies of central banks, geopolitical uncertainty (including the on-going conflict in the Middle East and the risk of deterioration of the situation in North Korea) and the European election calendar remain at the center of investor interest, with a positive impact on precious metals prices.
- The copper price was mainly supported by supply-side problems, such as the 43-day strike at the world's largest copper mine (Escondida), a strike lasting several days at the Cerro Verde mine in Peru and the lack of an agreement between the Indonesian government and the owners of the Grasberg mine.
- GDP in China rose in the first quarter of 2017 by 6.9%, which positively surprised investors. This was reflected in the continued increase in demand for the red metal.

* Forecast

Key international projects

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

Sierra Gorda

- Production of copper in concentrate in the first quarter of 2017 amounted to **approx. 25.5 thousand tonnes**, with production of molybdenum in concentrate of **approx. 8.8 million pounds** (on a 100% basis).
- There was a **clear improvement in the operating results** of SG in the first quarter of 2017, including in particular the level of copper recovery, which during the entire period exceeded the average monthly level of 80%.
- The team continued work related to **stabilising the production process** and developing the tailings storage facility.
- With respect to the **Sierra Gorda Oxide** project, possible options to advance the project are being assessed.

Victoria

- The project is focused on securing existing infrastructure and project terrain.

Ajax

- Consultations continue with First nations as well as work on acquiring an environmental permit.
- A **decision by the government** regarding the environmental permit is expected **in 2017.**

Key domestic projects

Ore access program in KGHM's concessioned areas in Poland

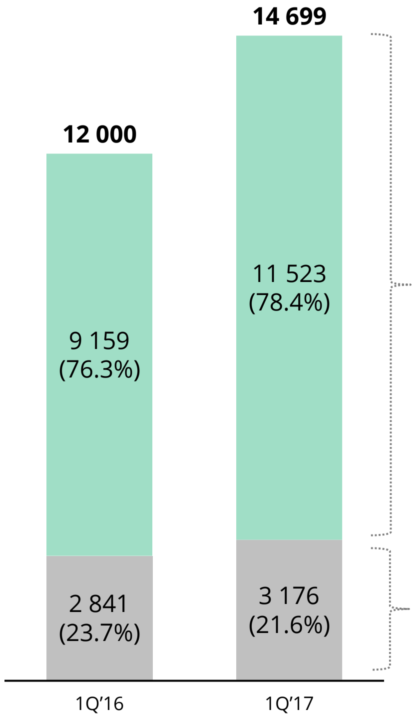
Deep Głogów (GGP) area

Work performed in the first quarter of 2017

Status of the Ore Access Program

- The process of construction using tubing technology in the GG-1 shaft was completed. The fifth step of a cascade dewatering system was built.
- On 22 March 2017 **work recommenced on sinking the GG-1 shaft**, up to that time the depth had reached 864.9 m across its full diameter (of a target depth of 1 340 m and width of 7.5m).
  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** and the Ice Water Distribution System at the GG-1 Shaft. The system will ensure the supply 30 MW of ice water to the mine at the level of 1300 m.
- Preparatory work continued related to acquiring a permit to **build facilities necessary to sink the GG-2 („Odra") shaft.**
- In Q1 2017, **11 258 meters of tunnel** in the Rudna and Polkowice-Sieroszowice mines were built.

Scope of development-preparatory tunneling completed (in meters)



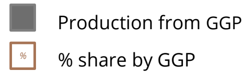
In Q1 2017, under the Ore Access Program the Rudna and Polkowice-Sieroszowice mines accounted for **78% of the total amount of development-preparatory tunneling in the mines of KGHM**

Other development-preparatory tunneling carried out in all mines

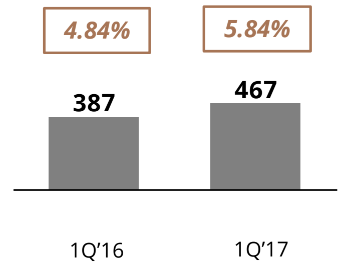
Cooling tower and heat transfer building

GG-1 shaft

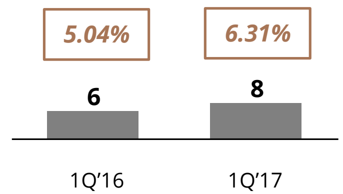
Share of production from Deep Głogów in total production in Poland



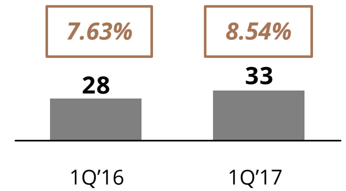
Ore extraction dry weight from GGP [kt]



Amount of Cu in ore [kt]



Amount of Ag in ore [k kg]



Metallurgical Development in KGHM
Construction of a Flash Furnace and associated infrastructure at Głogów I

Work performed in the first quarter 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 the construction of two cooling units for the Convertor Furnaces Dedusters.

Operating parameters of the flash furnace installation at the Głogów I Copper Smelter and Refinery at the end of Q1 2017

Installation efficiency **77% of target efficiency**	- Average accrued efficiency of concentrate processing :
	  - 104.8 t/h – for Q1 2017
	  - **102.2 t/h (target 132 t/h)** – for entire period to date from start-up, i.e. since 15 October 2016.
	- Dry weight of smelted concentrate in Q1 2017 in the Głogów I flash furnace amounted to **208 thousand tonnes**
	- Higher processing productivity in the new flash furnace will occur upon the start-up and stabilisation of the concentrate roasting installation.

Installation availability **92.6 %**	- Availability of the Głogów I installation in Q1 2017 was higher than the availability of the Głogów II installation (90.4%).

- Construction and assembly work of key production units continued under the investment program:
  - **Cu concentrate roasting installation,**
  - **Steam Drier at Głogów II**,

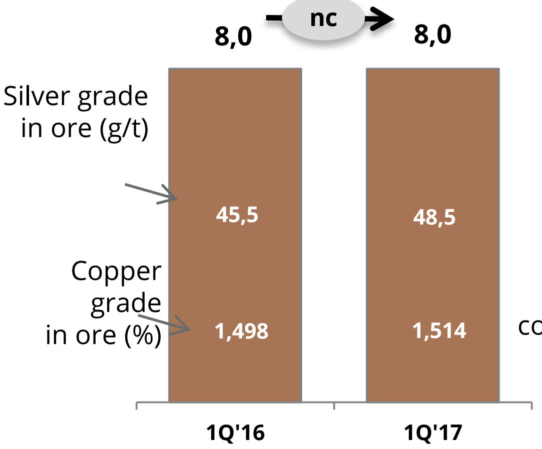
  whose planned completion is the fourth quarter of 2017.
- Work continues related to installation start-up with respect to **Modernisation of the Tank and Electrolite Decopperisation Hall at the Legnica Copper Smelter and Refinery.**
- Work includes continued advancement of projects related to adapting 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 I,
  - providing power supply, remote control and lighting to existing facilities and equipment at Głogów I.

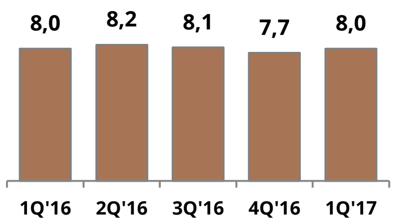
KGHM POLSKA MIEDŹ

Economic results of KGHM Polska Miedź S.A.

Stable level of mine production

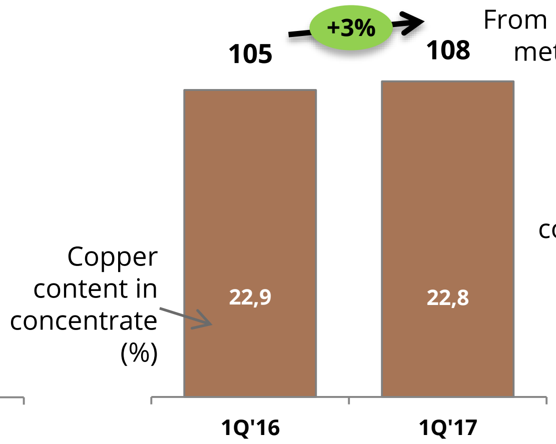
Ore extraction (mn t dry weight)

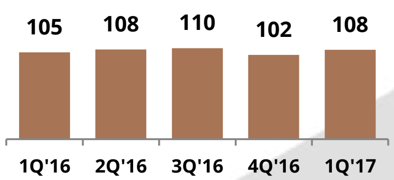




- In 2017 there was an increase of copper content in ore from 1.498% to 1.514%.
- The company expects that in subsequent quarters of 2017, copper content in ore will remain at the level of 1.50%.

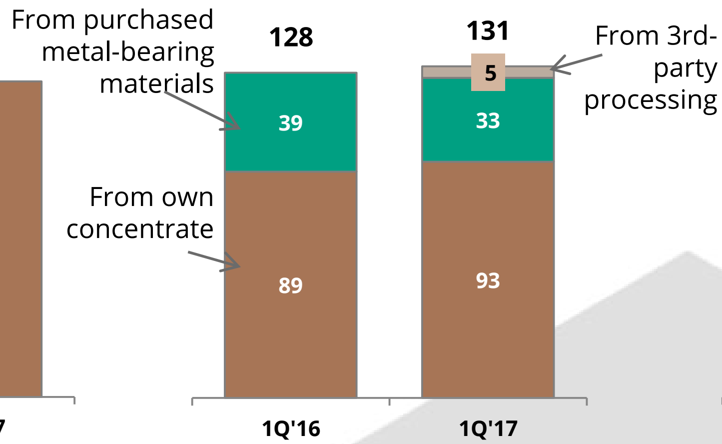
Production of Cu in concentrate (kt)

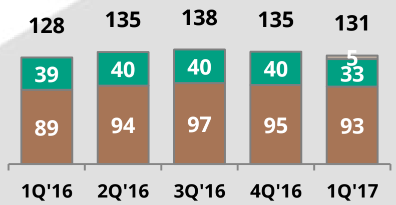




- The higher amount of copper in concentrate was due to higher content in extracted ore compared to 2016.

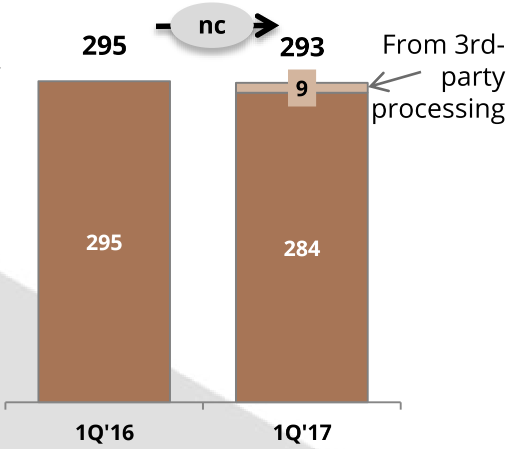
Electrolytic copper production (kt)

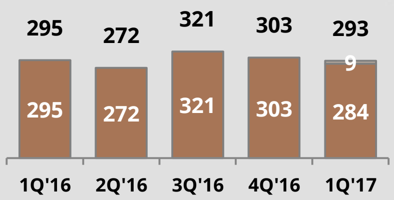




- Electrolytic copper production from own concentrate in Q1 2017 was higher than in the corresponding prior year period, while production of cathodes from purchased metal-bearing materials was lower.
- In 2017 the company is processing 3rd-party concentrates.

Metallic silver production (t)





- Silver production in Q1 2017 was at a similar level to that of the corresponding prior year period.

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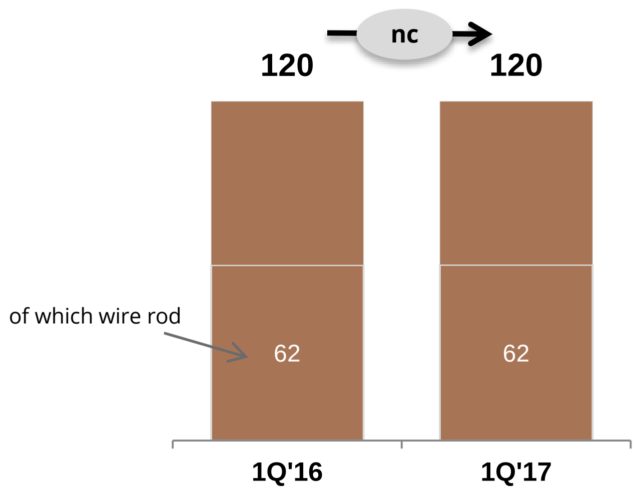
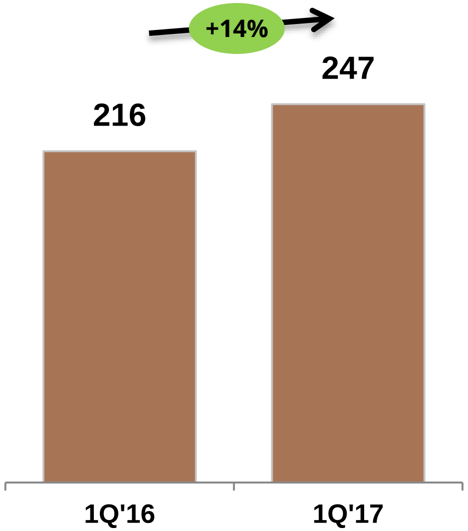
Revenues from sales in the first quarter of 2017

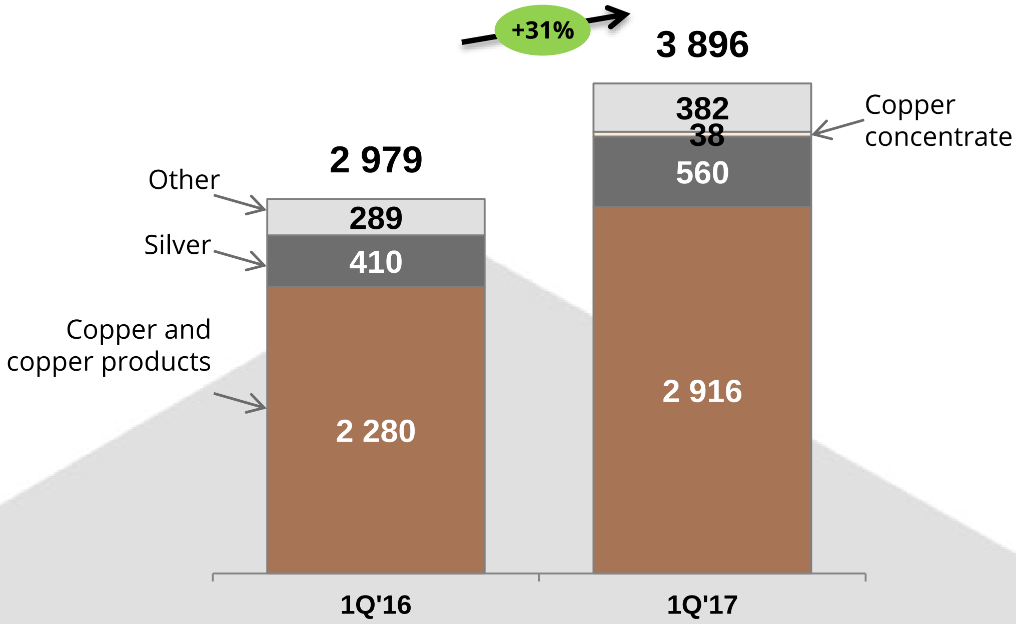
Sales of copper and copper products (kt)

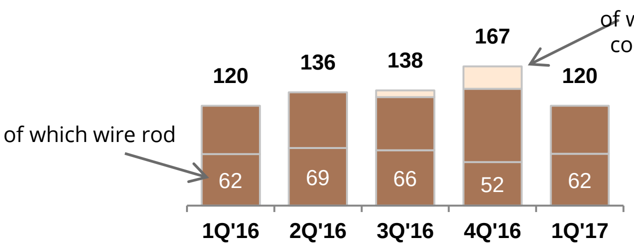


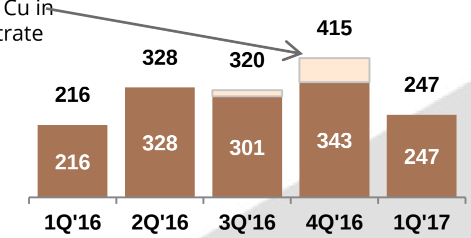
Silver sales (t)

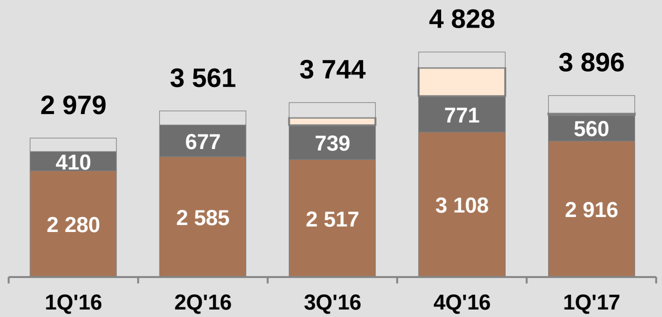


Sales revenue (mn PLN)





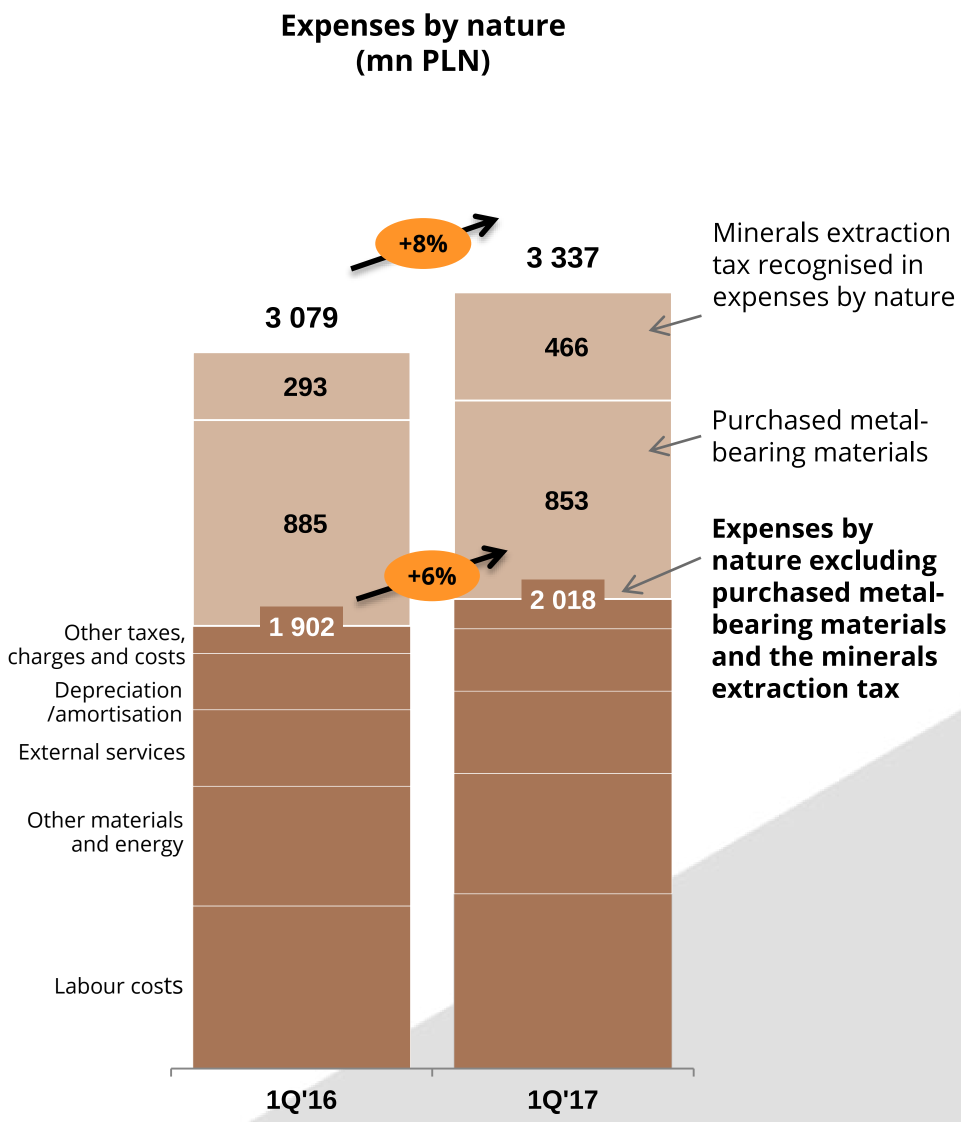




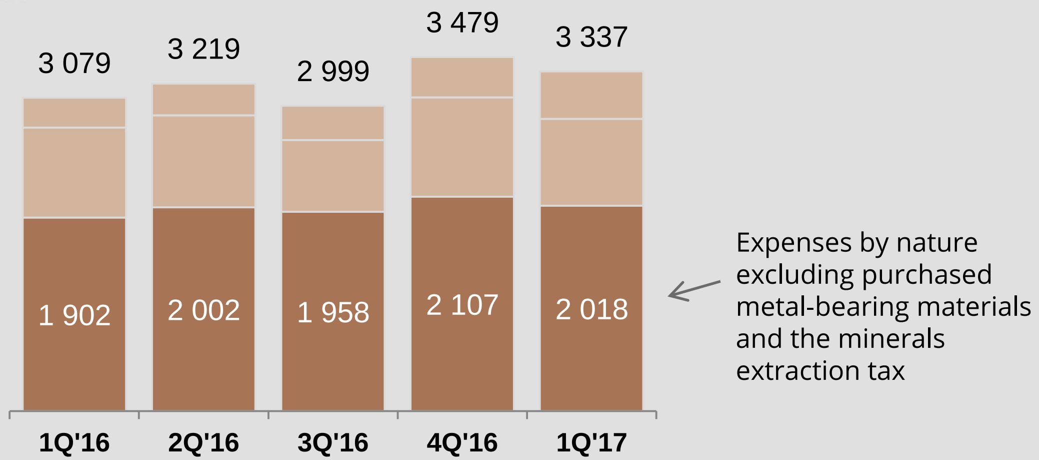
In the first quarter of 2017, revenues from sales were higher than in the prior year by PLN 917 million, mainly due to:

- changes in the prices of Cu, Ag and Au (prices and USD/PLN exchange rate) +PLN 738 mn,
- higher sales volumes (silver by 30.7 t and gold by 103 kg) +PLN 74 mn,
- higher sales of other products and merchandise by +PLN 105 mn (of which: +PLN 38 mn is an adjustment of copper concentrate sold in 2016, +PLN 20 mn is an increase in the value of refined lead, mainly due to higher prices).

Cost discipline maintained



- Total expenses by nature as compared to the first quarter of 2016 were higher by PLN 258 million (+8%) due to a higher minerals extraction tax by PLN 173 million (+59%), alongside lower costs of consumed metal-bearing materials purchased by PLN 31 million (-3.5% - 12 kt less copper consumed and a 28% higher purchase price).
- After excluding the cost of purchased metal-bearing materials and the minerals extraction tax, expenses by nature were higher by PLN 116 million (6%) mainly with respect to labour costs (+PLN 53 million), depreciation/amortisation (+PLN 26 million) and external services (+PLN 25 million), mainly with respect to maintenance.



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

** The impact of the minerals extraction tax is recognised in: profit for the period of PLN 366 million, in expenses by nature in the amount of PLN 466 million and in the statement of cash flows in the amount of PLN 457 million.

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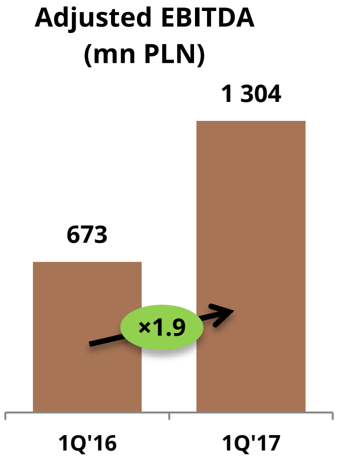
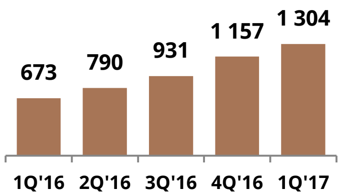
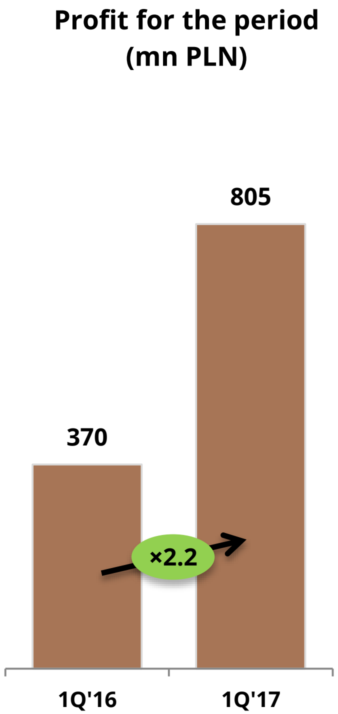
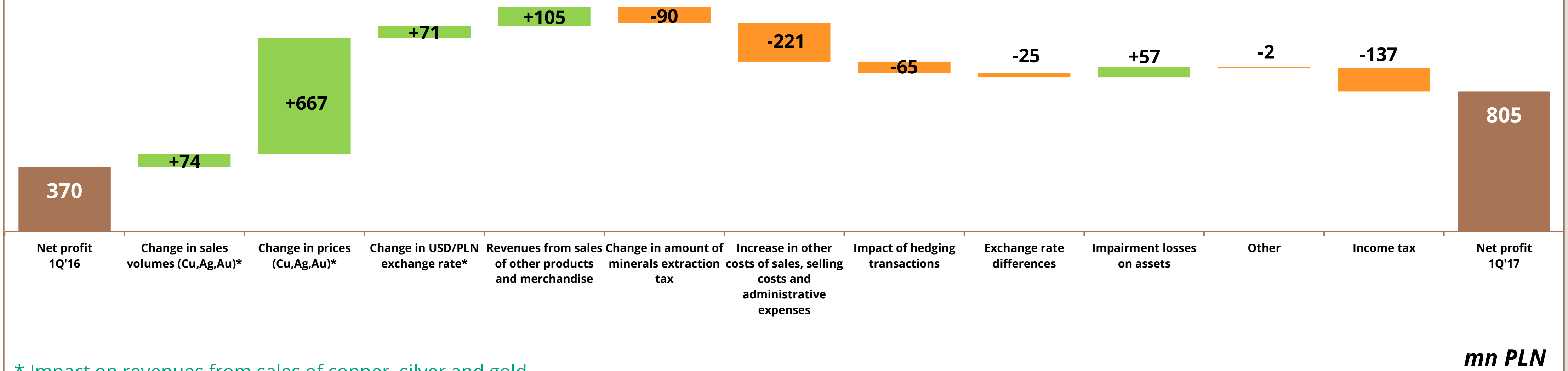
Financial results in the first quarter of 2017







- The increase in adjusted EBITDA by PLN 631 million (×1.9) and of profit for the period by PLN 434 million (×2.2) was mainly due to the more favourable metals prices and the USD/PLN exchange rate as well as to a higher sales volume, mainly silver and gold.

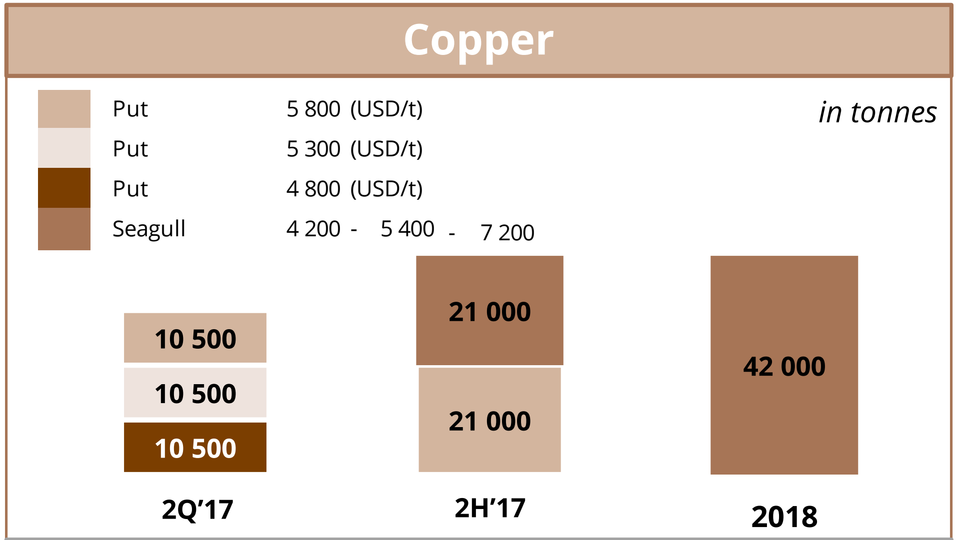


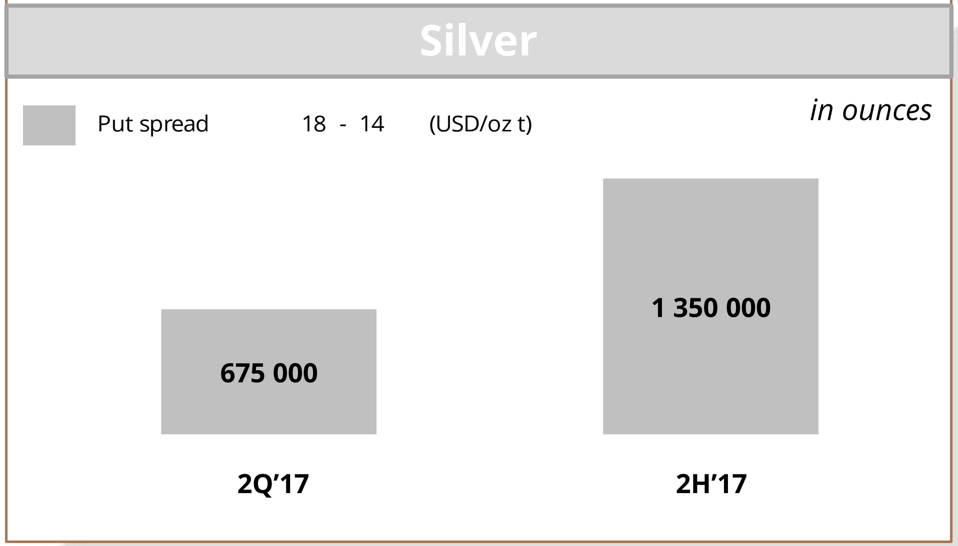
* Impact on revenues from sales of copper, silver and gold

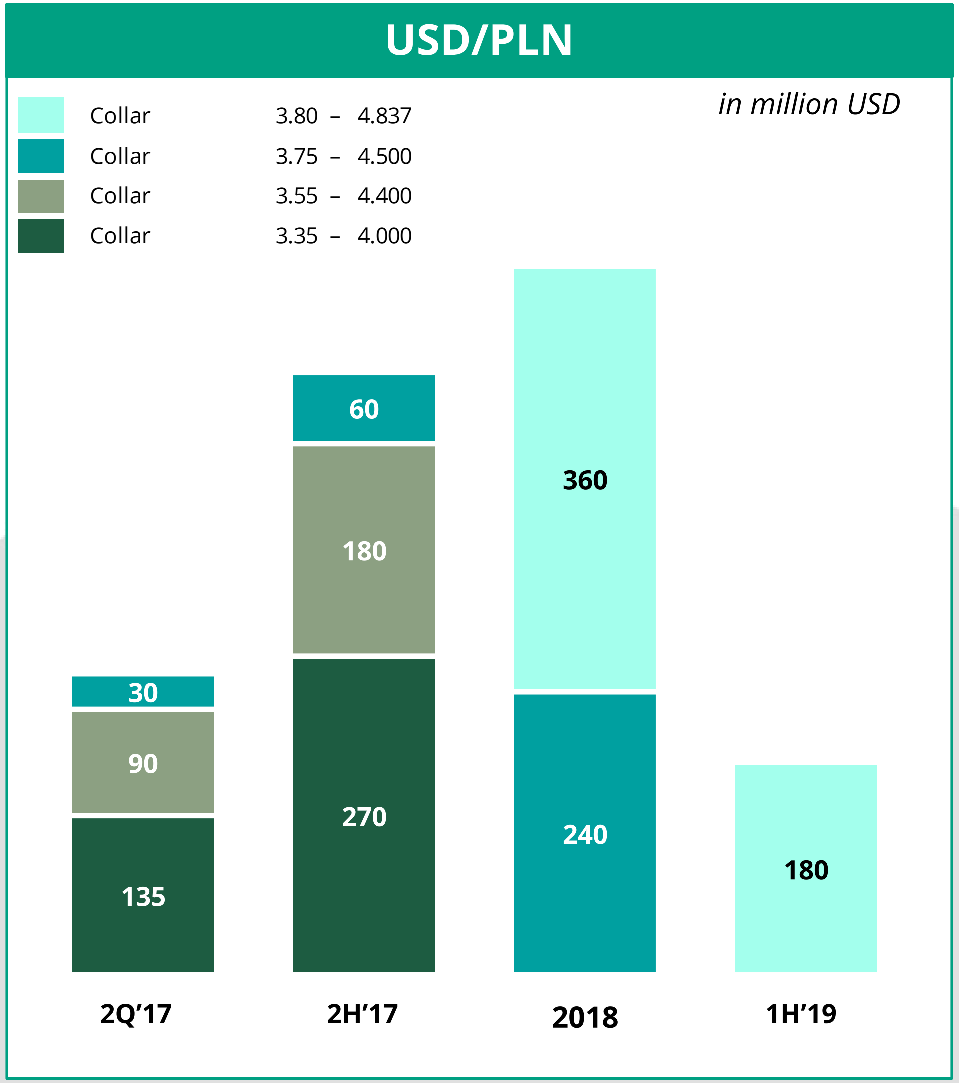
The accrued result on derivatives achieved by KGHM Polska Miedź S.A. as at 31 March 2017 amounted to PLN 53 million

Market risk management – hedging position (as at 31 March 2017)

Position in derivatives on the metals and currencies markets







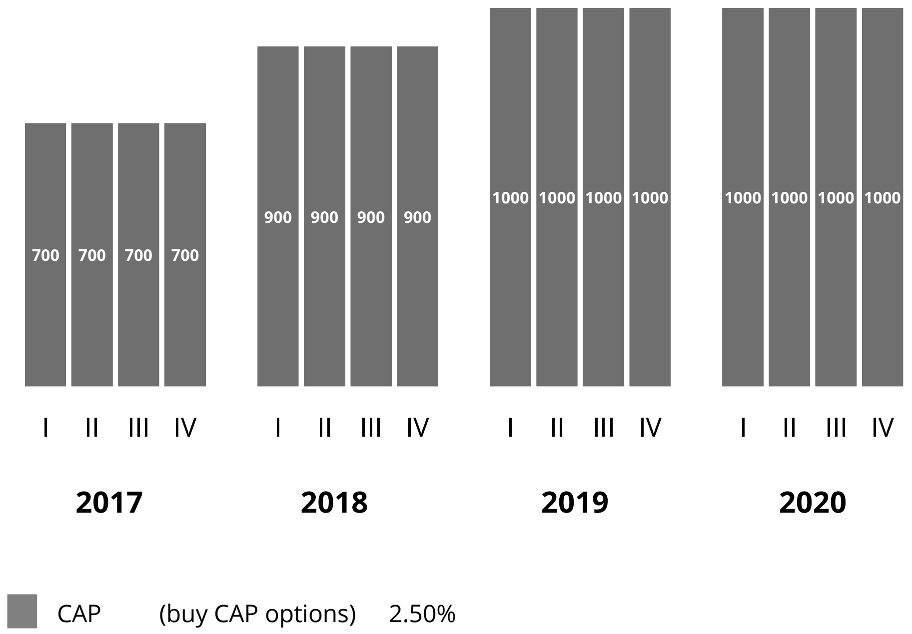
The accrued result on derivatives achieved by KGHM Polska Miedź S.A. as at 31 March 2017 amounted to PLN 53 million

Market risk management – hedging position (as at 31 March 2017)

Position in derivatives on the interest rates markets

Interest rate (LIBOR 3M USD)

in million USD



Result on derivatives

- In the period January–March 2017, KGHM Polska Miedź S.A. recorded a result on derivatives in the amount of PLN 53 million, of which:
  - PLN 4 million decreased sales revenue (transactions settled in the January-March period),
  - PLN 57 million increased the result on other operating activities (mainly a change in the measurement of open transactions as at 31 March, hedging the period to the end of 2020).
- The fair value of derivatives (MtM) in KGHM Polska Miedź S.A. as at 31 March 2017 amounted to PLN 141 million.
- The revaluation reserve on cash flow hedging instruments as at 31 March 2017 amounted to PLN 0.

Costs of negative unrealised exchange differences

	Costs due to negative unrealised exchange differences mainly arise from translation of the balance of USD-denominated loans granted within the Group (mn PLN)
Separate (standalone) statements - exchange differences were recognised on the net value of loans, i.e. after reflecting recognised impairment losses	
KGHM Polska Miedź S.A.	425
Other Group companies	200
total negative exchange differences arising from the separate financial statements of Group companies	**625**
offset of negative exchange differences on receivables due to loans granted within the Group by the lender, with positive exchange differences on liabilities due to loans received within the Group by the borrowers	-224
reversal of exchange differences due to the measurement of loans granted within the Group (related to the reversal of impairment losses in accordance with consolidation methodology)	410
other consolidation adjustments	4
amount of negative exchange differences at the level of the consolidated financial statements	**815**

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