

Layers of possibilities



Results of the Group for the first 9 months of 2016

10 November 2016

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Introduction

Highlights of the first 9 months of 2016 in the KGHM Polska Miedź S.A. Group

Key events

Review of KGHM International assets – the process of reviewing the international assets is near completion

Sierra Gorda – production of copper in concentrate approx. 69 thousand tonnes (Q3'16: 20.5 thousand tonnes), and molybdenum approx. 16.9 million pounds (Q3'16: 4.5 million pounds)

Deep Głogów – work continues on sinking the GG-1 ventilation shaft-1 (at the end of Q3 2016 the shaft had reached a depth of 847 m of the target 1340 m)

Pyrometallurgy Modernization Program – the project has entered the final phase, during which it is expected that the target capacity of the entire installation will be achieved

KGHM Polska Miedź S.A. achieved the highest volume of copper wire rod sales in its history (197 thousand tonnes)

Ramp-up of the flash furnace at the Głogów I smelter underway



Production highlights

| | 9M'16 | Q3'16 |
|----------------------------|-------|-------|
| Payable copper (kt) | 507 | 171 |
| Metallic silver (t) | 900 | 325 |
| TPM (koz) | 171.2 | 59.4 |

KGHM Group financial results

| | 9M'16 | Q3'16 |
|-------------------------------|-------|-------|
| Sales revenue (bn PLN) | 13.1 | 4.7 |
| EBITDA (bn PLN) | 3.1 | 1.1 |
| Net profit (mn PLN) | 629 | 331 |

Review of the assets of KGHM International



Sierra Gorda Sulphide & Oxide



- In March 2016, the Management Board of KGHM Polska Miedź S.A. decided to commence a review of the Company's international assets aimed at preparing a comprehensive, uniform model, confirmed by external experts, of functioning of each of the assets within the foreseeable scope of operations.
- The process of reviewing the technical and economic assumptions related to the operations and development of individual assets of KGHM International is expected to be completed by the end of 2016.
- The results of this review will be presented together with publication of the results of KGHM Polska Miedź S.A. and the Group for 2016.



Robinson



Victoria



Ajax



Development of the assets of KGHM International will be matched to the anticipated financial possibilities of the KGHM Group.

Sierra Gorda



- Jointly with Sumitomo, the company is reviewing the technical and economic assumptions related to the operations and development of Sierra Gorda throughout its mine life. This review encompasses the development of the Sierra Gorda mine under 3 scenarios:
 - further development of the project based solely on phase 1,
 - advancement of the project based on phase 1, together with debottlenecking,
 - a scenario assuming further development of the project based on phases 1 and 2.

The process of review will allow the optimum path of development of the mine to be determined.

- Intensive work is underway to increase ore processing, recoveries and molybdenum content in concentrate. The work is being carried out by a team from Sierra Gorda supported by external experts, as well as specialists from KGHM and Sumitomo.
- Work is underway on modernising the tailings storage facility, supervised by an international team of experts as well as professional engineering firms.



Key domestic projects

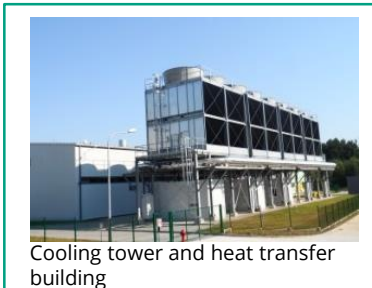
Ore access program in KGHM's concessioned areas in Poland

Deep Głogów (GGP) area

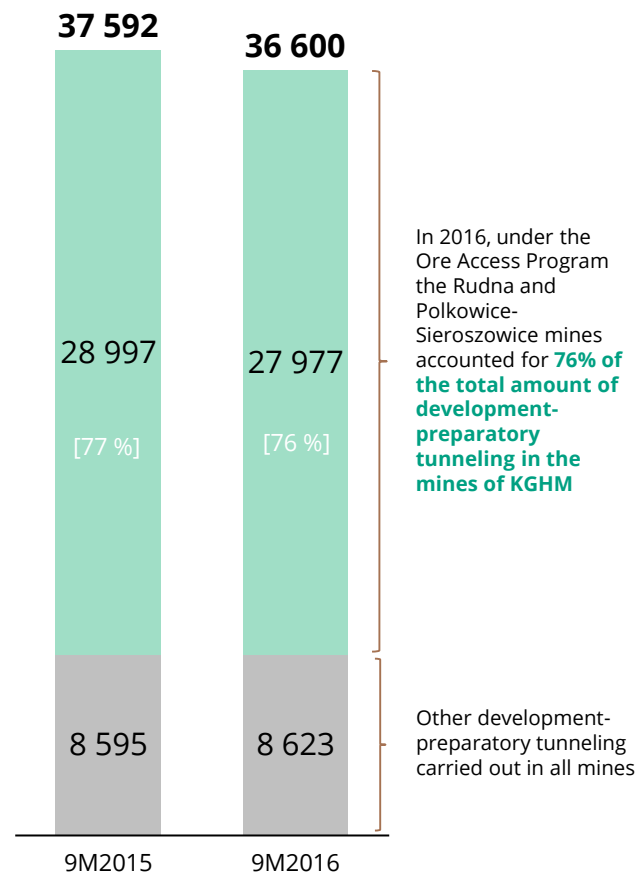
Work performed in the first 9 months of 2016

Status of the Ore Access Program (OP)

- The sinking of the GG-1 (material-personnel transport and air input) shaft continues. At the end of Q3 2016 **the shaft depth had reached 846.6 m across its full diameter** (of a target 1 340 m). The process of sealing up the shaft continued using tubing construction. Construction began of a further section of the shaft drainage system.
- Work continues on **Stage II of the Surface-based Cooling Station at the R XI shaft** with respect to the underground development of the centralized ventilation system. As a result of this work the amount of cooled air provided to the mine will be increased from 15 MW to 25 MW.
- Since 2006, under the OP Program **123 662 meters of tunnel together with necessary technical infrastructure have been built.**



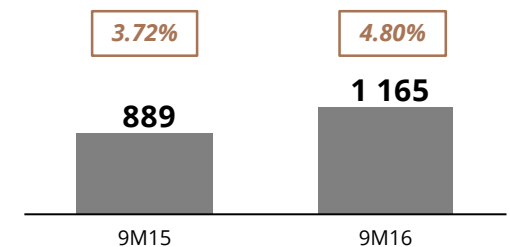
Area of development-preparatory tunneling completed (in meters)



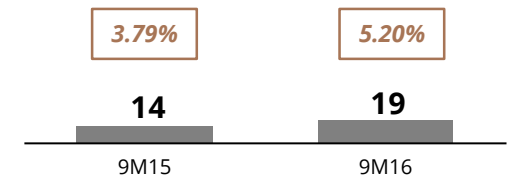
Share of production from Deep Głogów in total production in Poland

■ Production from GGP
 □ % share by GGP

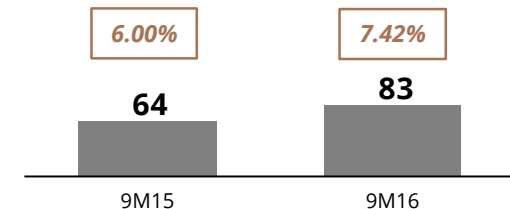
Ore extraction dry weight from GGP [kt]



Amount of Cu in ore [kt]



Amount of Ag in ore [k kg]



Metallurgical Development in KGHM

Construction of a Flash Furnace and associated infrastructure at Głogów I

Work performed in the first 9 months of 2016

Status of Pyrometallurgy Modernisation Program (PMP)

- Equipment and installations were assembled and start-up work began throughout the production line:
 - the Flash Furnace,**
 - the Electrical Furnace,**
 - the Power Building, and**
 - elements of the Charge Preparation Section at the Głogów I smelter/refinery.**
- During the shutdown related to the change in technology at the Głogów I smelter/refinery, in the period 16 July to 15 October 2016, all work necessary to prepare key elements of the production line for start-up was carried out.



Electrical Furnace Settling Tank



Main Control System



Copper outflow from the Flash Furnace

Major facilities realised

- Start-up of the steam drier and trial runs of drying concentrate.
- On 28 September 2016 the gas burners of the Electrical Furnace were lit.
- Water was injected to the Flash Furnace and Electrical Furnace cooling systems (to collectors).
- Assembly of the Converter Furnaces Dedusters continues.
- Programming of the Main Control System continues.

Expected impact

- Will account for approx. 80% of copper production using the **best available and most cost-efficient technology.**
- Elimination of environmental and cost-related risks for approx. 40% of pyrometallurgical production by the Głogów metallurgical complex :**
 - dust emissions lower by approx. 55%,
 - gas emissions lower by approx. 58%,
 - decrease in the amount of tailings to be stored.
- Improved workplace safety.**
- Possibility to **intensify processing of imported chalcopyrite concentrates.**

Final stage reached in starting production by the modernised Głogów I smelter-refinery

3-month shutdown related to the change in technology at the Głogów I smelter/refinery

Start of production in the modernised Głogów I smelter/refinery

Start-up of the Flash Furnace at the Głogów I smelter/refinery

16 July 2016

Conclusion of raw copper production at Głogów I using the old technology

- Last shaft furnace extinguished
- Last refining of copper matte by the converter furnaces

15 August 2016

Start of ramp-up of new production line at Głogów I

Preparation of key elements of the production line for start-up:

- Converter Furnaces Dedusters,
- Steam Drier,
- Oxygen Unit,
- modernisation of the Sulphuric Acid Plant,
- railways in the region of the furnaces hall,
- pumping unit.

28 September 2016

Firing of gas burners in the Electrical Furnace, heating of Furnace commenced

1 October 2016

Firing of gas burners in the Flash Furnace, heating of Furnace commenced

October 2016

Re-start of copper production by the Głogów I smelter/refinery using the new technology

15.10.2016

Following a series of full trial runs of the charge unit for the Flash Furnace, the **continuous charging of concentrate and its smelting in the reaction shaft of the Flash Furnace began**

16.10.2016

- First charging of slag to the Electrical Furnace to remove copper
- First outflow of decopperised slag from the Electrical Furnace to transport buckets
- **1000 tonnes of concentrate smelted** in the new Flash Furnace

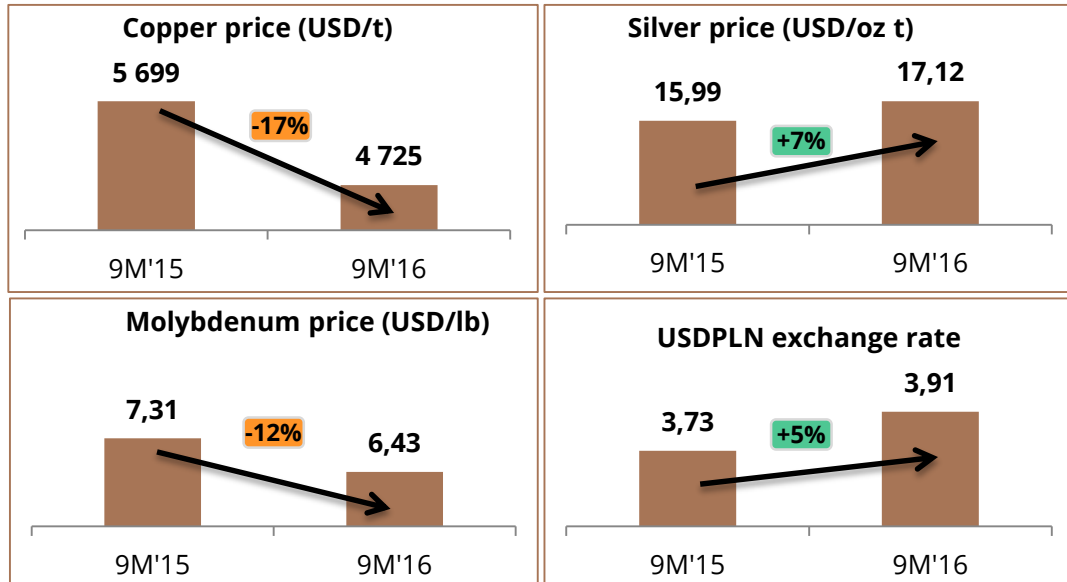
The start-up of the flash furnace was accelerated by 5 days, and during the first day following start-up of the installation, a processing rate of 90-100 t/h of concentrate was achieved, which is 75% of target capacity



Macroeconomic environment

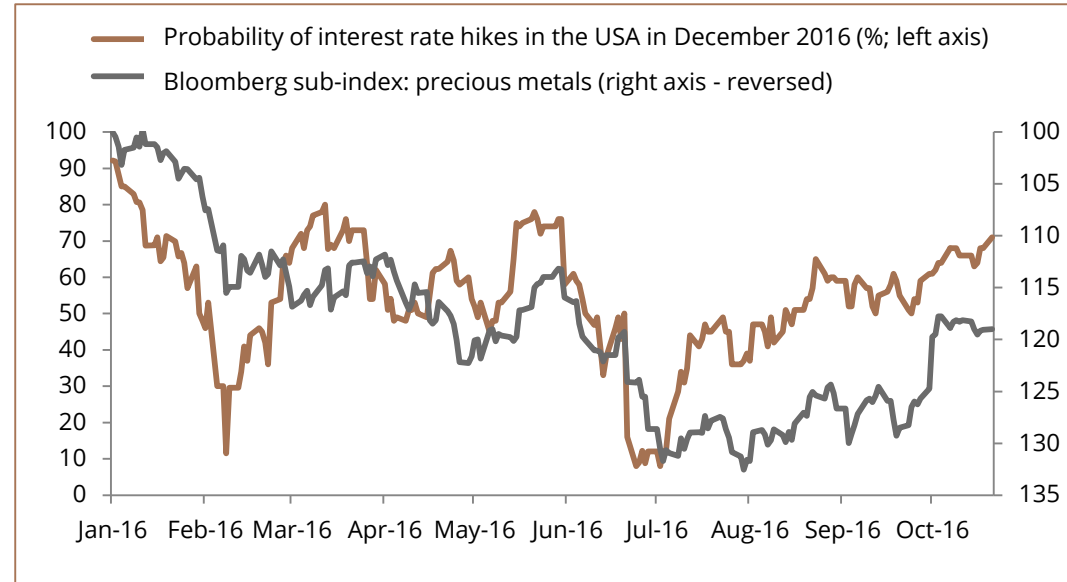
The copper price remains low, while precious metals provide support; the USD strengthened versus the PLN

Lower copper prices with a weaker PLN



Source: Thomson Reuters, KGHM Polska Miedź

Precious metals prices remain under the impact of market expectations regarding changes in interest rates

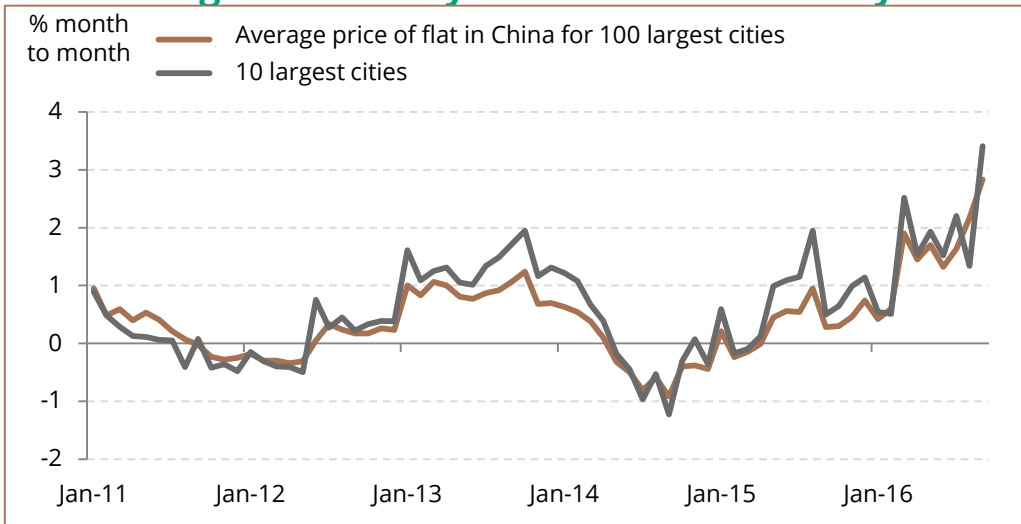


Source: Bloomberg, KGHM Polska Miedź

- Over the last 9 months the Polish zloty has undergone substantial volatility. The zloty has mainly been impacted by the volatility in expectations respecting interest rates in the USA and the value of the USD.
- The rate of change in interest rate hikes, the struggle for the presidency in the USA and Brexit remain at the center of attention for financial markets. During times of uncertainty precious metals appreciate, and they recorded solid gains in the first 9 months of 2016.
- The low USD-denominated copper prices are partially offset by the weakening of local currencies versus the USD in developing countries.

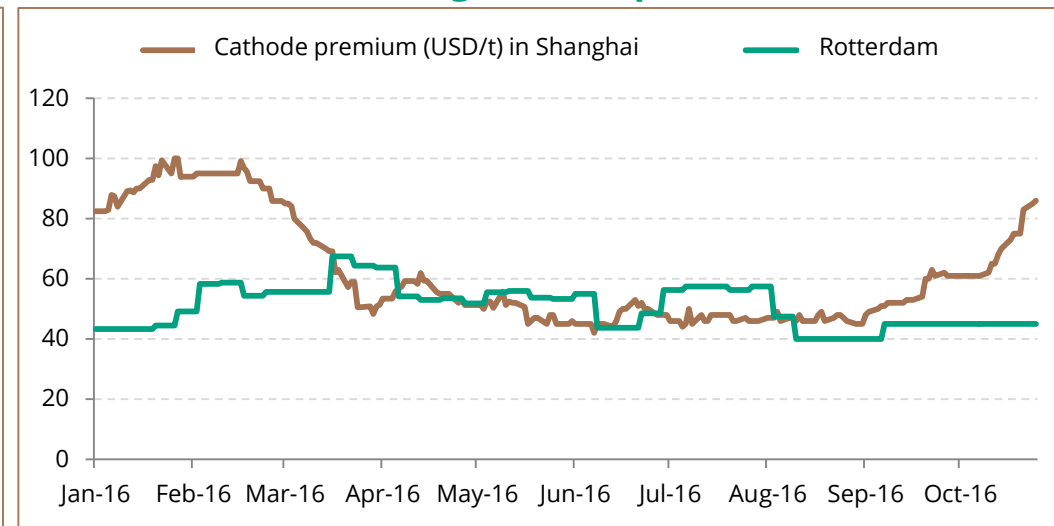
The Chinese government is seeking economic stability; a clear rally in the property sector; copper cathode premiums rising in the local Chinese market

Average housing prices in the largest cities have been rising dramatically since the start of the year



Source: China Index Academy, KGHM Polska Miedź

Physical premiums in China have risen in recent weeks, with little change in Europe



Source: Bloomberg, KGHM Polska Miedź

China

- The slowdown in growth by this country is raising investor concerns given the periodic rise in the market supply of copper. Governmental fiscal and monetary stimuli have partially supported the economy, thanks to which the GDP in the first three quarters of 2016 has remained unchanged at 6.7% yoy.
- Sales in the property sector in the first three quarters of 2016 are more than 13% higher than in the comparable period of 2015.
- The recently seen rises in physical premiums (being an additional charge added to the market price of cathodes reflecting transportation costs and insurance) on the Chinese market is regarded by market participants as a signal of higher demand on the local Chinese market. In Europe, the level of this premium suggests that demand remains at a stable level.

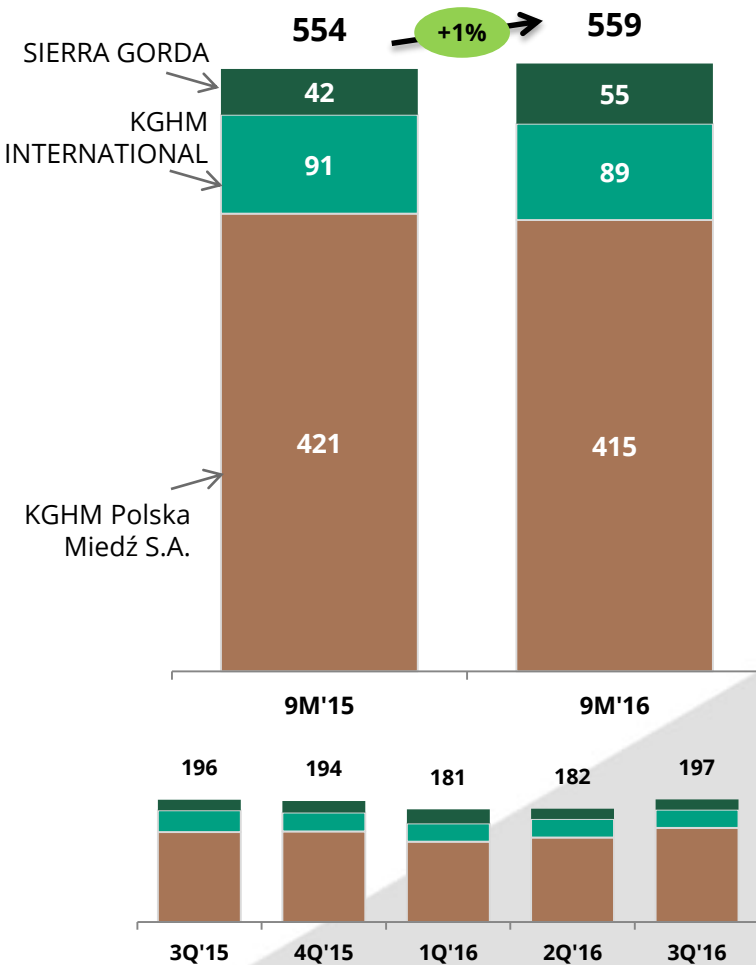


Economic results

KGHM Polska Miedź S.A. Group

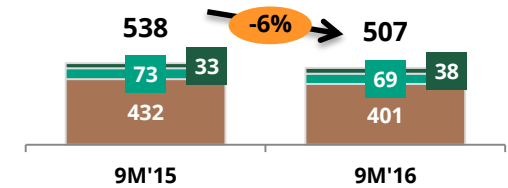
Higher copper equivalent production by the Group

Production of copper equivalent from own concentrate (kt)

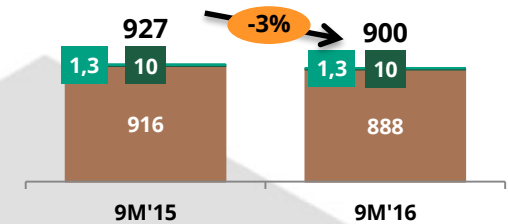


- The higher production of copper equivalent from own concentrates in the Group was due to higher production of gold and molybdenum.
- Production of payable copper and silver was lower due to preparations for the start-up of the flash furnace by KGHM Polska Miedź S.A., and the related build up of half-finished products inventories.
- The substantially higher volume of precious metals (by 22%) as compared to 2015 was due to the higher processing of concentrates rich in gold by KGHM Polska Miedź S.A. and to higher production by the Sudbury Basin.
- Molybdenum – the significant increase in the volume of molybdenum production is mainly due to the incomparability of reportable periods (production of this metal by Sierra Gorda was commenced in April 2015).

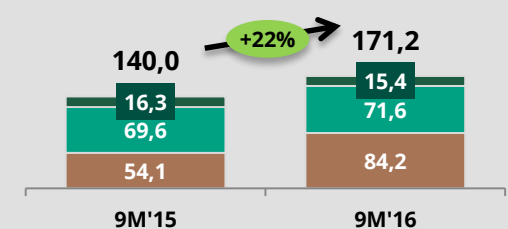
Payable copper production (kt)



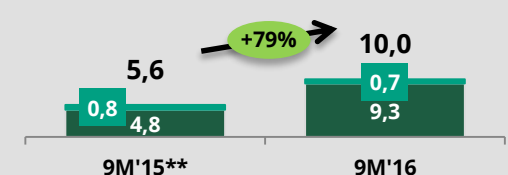
Silver production (t)



TPM production* (koz t)



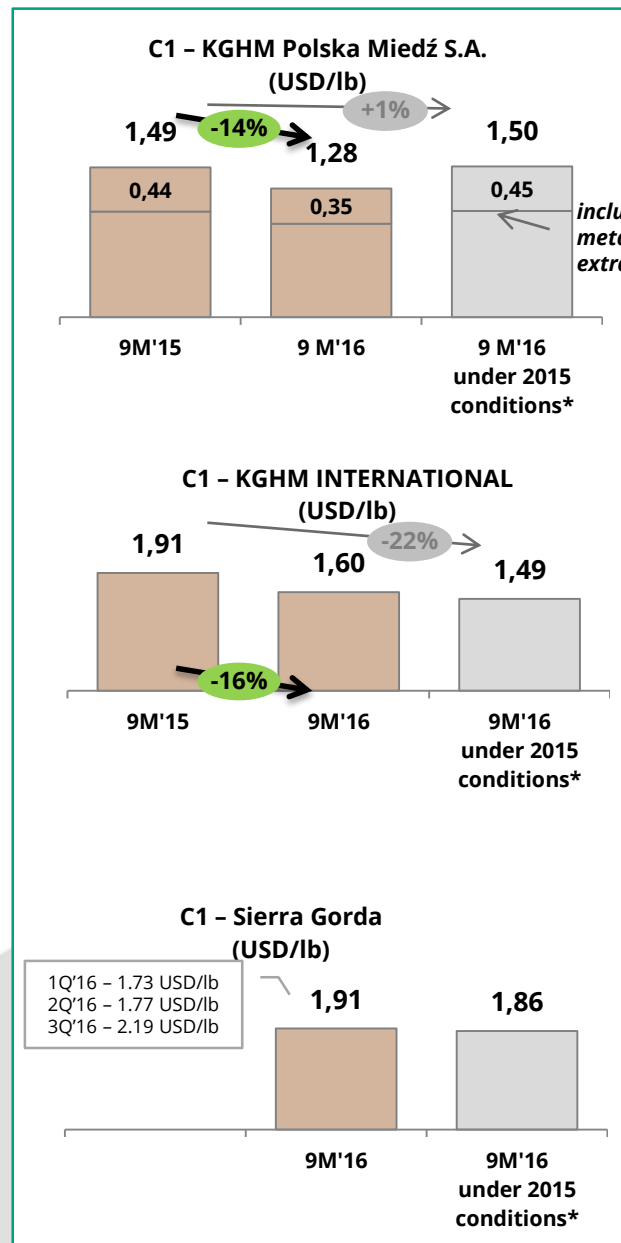
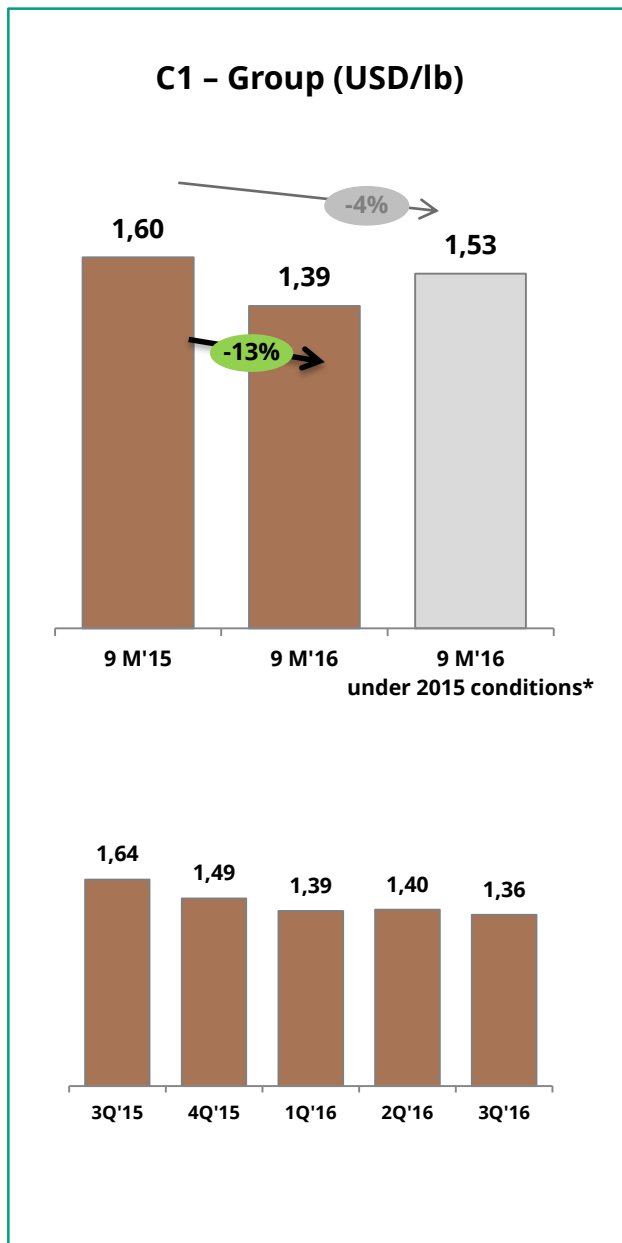
Molybdenum production (mn lbs)



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

** Sierra Gorda during the period April-September 2015

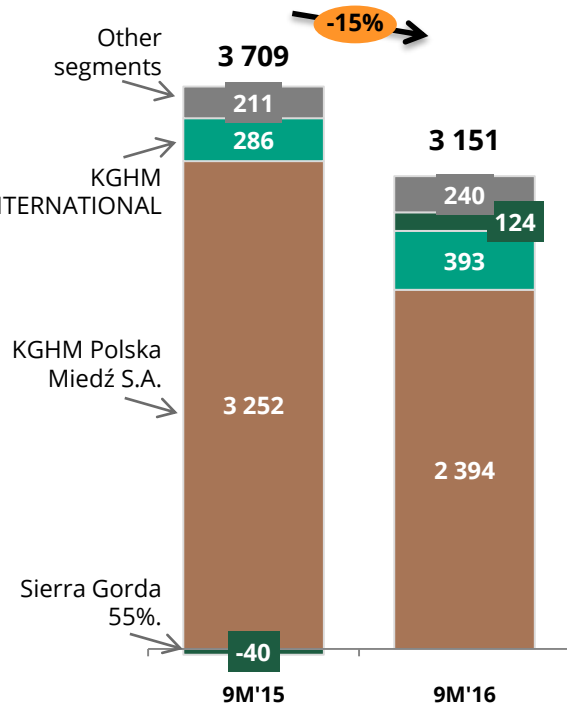
Decrease in C1 unit cost in the Group



- C1 cost in the Group in the first 9 months of 2016 was lower by 13%, mainly due to an increase in the value of associated metals. Under the metals prices and exchange rates of the same period of 2015, C1 cost would have been lower by 4%.
- The drop in C1 cash cost in KGHM Polska Miedź S.A. by 14% was mainly due to the weaker PLN as compared to the USD by 5% as well as to higher silver and gold prices. Under the metals prices and USD exchange rates of the first 9 months of 2015, C1 cost would have amounted to 1.5 USD/lb and would have been at a comparable level to the corresponding period of 2015.
- The drop in C1 cost in KGHM INTERNATIONAL, despite the lower copper sales volume, was due to lower production costs achieved as a result of saving initiatives.
- In the third quarter of 2016 Sierra Gorda recorded an increase in C1 cost compared to the prior quarter despite 20% higher copper and precious metals sales (Au and Ag). This was due to the lower valuation of by-products, which in turn was due to a decrease in molybdenum sales volume from 8.7 million pounds in the second quarter to 3.6 million pounds in the third quarter of 2016.

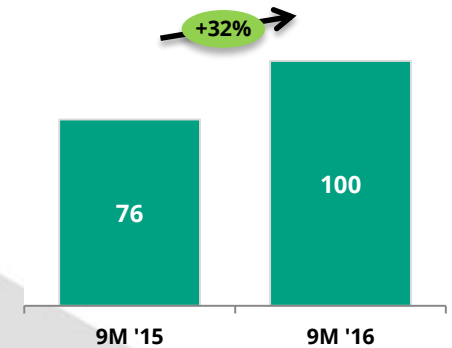
Operating results of the Group

**Adjusted EBITDA *
(mn PLN)**

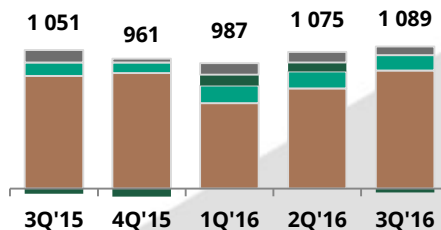
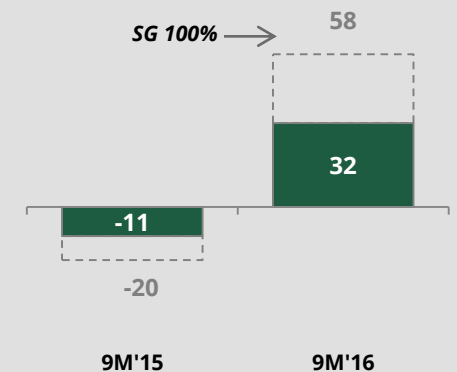


- The decrease in the Group's EBITDA by PLN 558 million was mainly due to the fall in the price of copper.
- KGHM Polska Miedź S.A.
 - The lower EBITDA by PLN 858 million (-26%) was mainly due to the deterioration in metals prices and to the lower sales volume (due to the planned shutdown at the Głogów smelter/refinery) which was partially offset by the weaker PLN versus the USD and lower costs.
- KGHM International
 - EBITDA in the segment KGHM International in the first 9 months of 2016 amounted to PLN 393 million (USD 100 million). The increase in USD terms by 32% compared to the corresponding period in 2015 was the result of consistent cost discipline.
- Sierra Gorda (55%)
 - Apart from macroeconomic factors, EBITDA achieved by Sierra Gorda was also significantly impacted by the processing of relatively low quality ore from a transition zone, which impacted the level of technological parameters and as a result the level of metals production and sales, including in particular molybdenum.

**Adjusted EBITDA in KGHM
International (mn USD)**



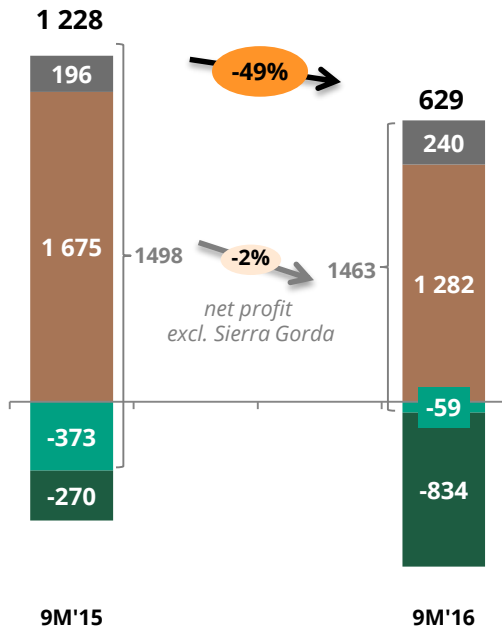
**Adjusted EBITDA in Sierra Gorda
55% (mn USD)**



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

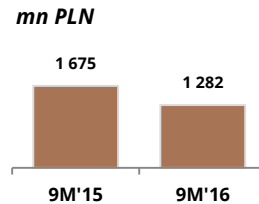
Financial results of the Group

Profit for the period (mn PLN)



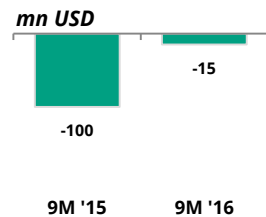
- In the first 9 months of 2016, consolidated profit for the period amounted to PLN 629 million and was 49% lower than in the corresponding period in 2015.
- The result includes the loss of the segment Sierra Gorda in the amount of PLN 834 million in 2016.

Profit for the period of the segment KGHM Polska Miedź S.A.



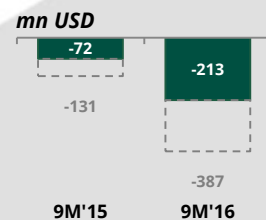
- Profit for the period of KGHM Polska Miedź S.A. decreased by 23%. Detailed information on the results of the Parent Entity is presented on subsequent slides.

Loss for the period of the segment KGHM International – excluding Sierra Gorda



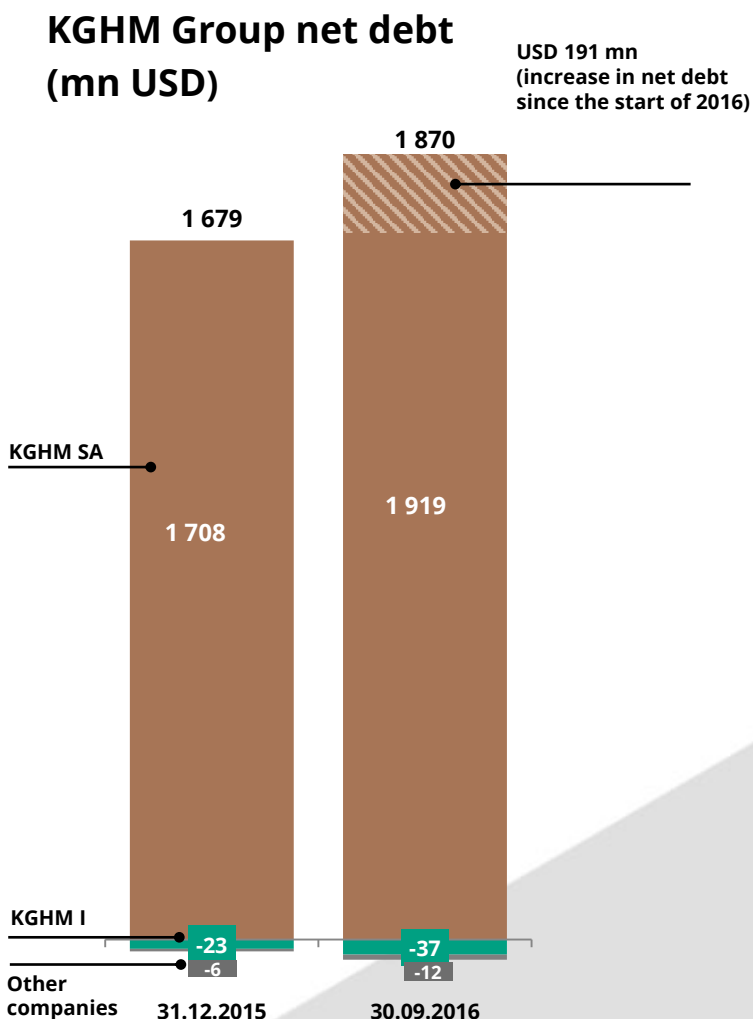
- The lower net loss of KGHM International (excluding the results of Sierra Gorda) is the result of improved EBITDA (lower costs due to savings initiatives) and lower depreciation by USD 81 million, mainly due to the impairment losses recognised in the fourth quarter of 2015.

Loss for the period of the segment Sierra Gorda (55%) – accounted for using the equity method

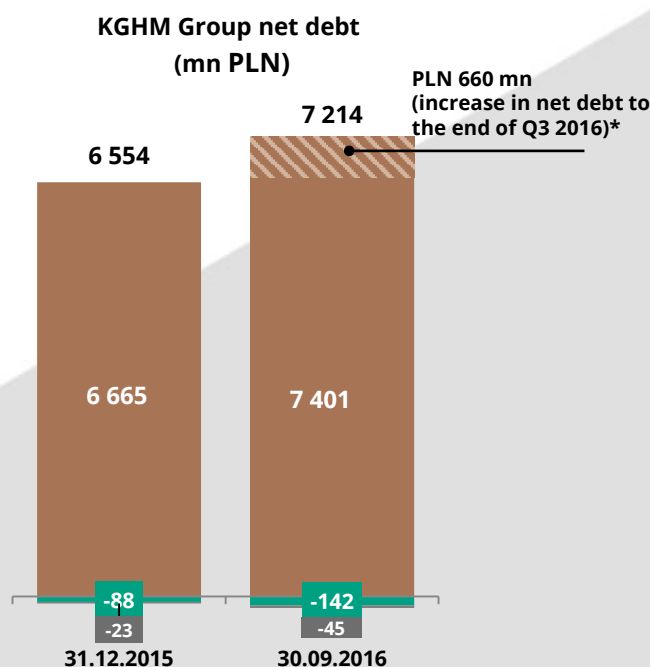


- Apart from operating factors, the net loss was mainly due to the costs of interest on the owner loans granted by the partners to finance construction of the mine in the years 2012-2014. Interest on these loans, charged to the financial result for the first 9 months of 2016, amounted to USD 225 million (on a 100% basis).
- In the first half of 2015, Sierra Gorda functioned under the project stage, and therefore the financial results began to be recognised from the moment when production at a commercial level was attained, i.e. from July 2015.

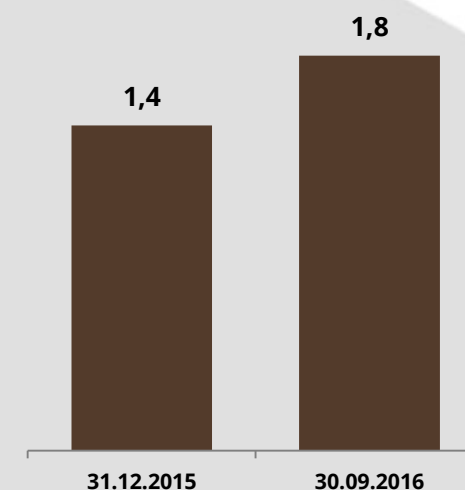
Net debt of the KGHM Polska Miedź S.A. Group



- Consistently, pursuant to the financial strategy adopted by KGHM Polska Miedź S.A., the basic currency in which debt is incurred is the USD (natural hedging).
- The increase in the Group's debt in the period January-September 2016 was mainly due to the following:
 - financing for projects in Poland,
 - financing for international development projects, mainly Sierra Gorda,
 - payment of the first instalment of the dividend.



Net Debt/EBITDA of the KGHM Group**



* Value of debt reflecting changes in exchange rates

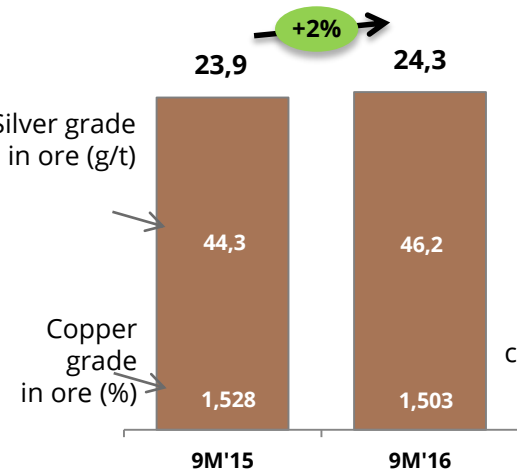
** Adjusted EBITDA = EBITDA (profit/(loss) on sales + depreciation/amortisation) adjusted by impairment losses on non-current assets, for the past 12 months



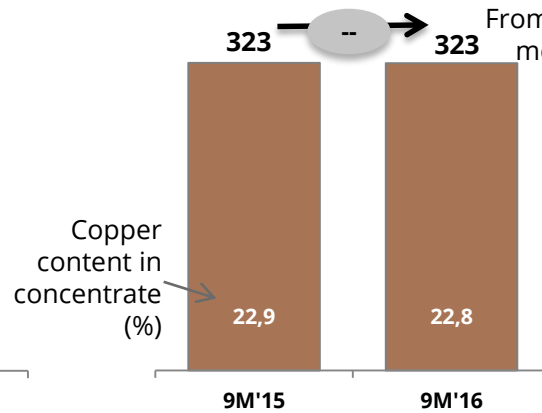
Economic results of KGHM Polska Miedź S.A.

Stable level of mine production

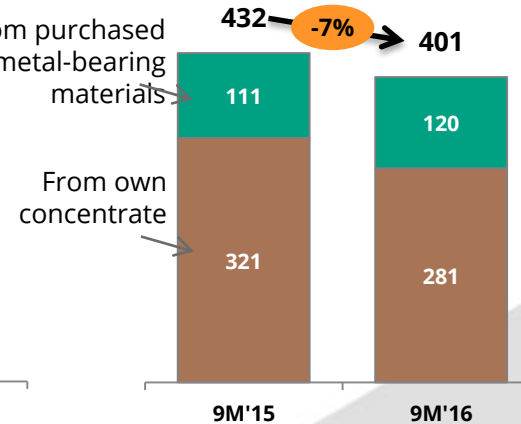
Ore extraction
(mn t dry weight)



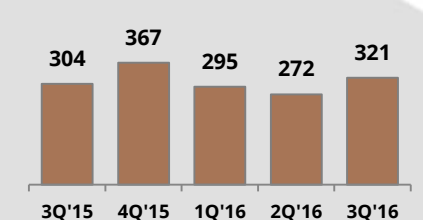
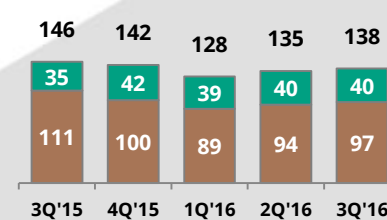
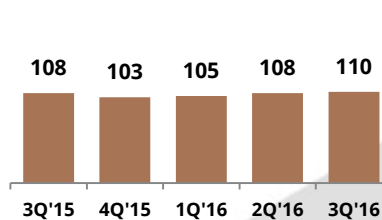
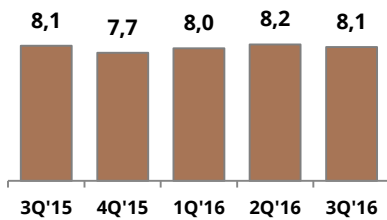
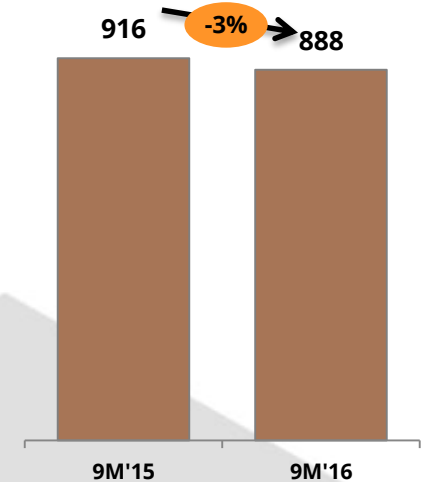
Production of Cu
in concentrate
(kt)



Electrolytic copper
production
(kt)



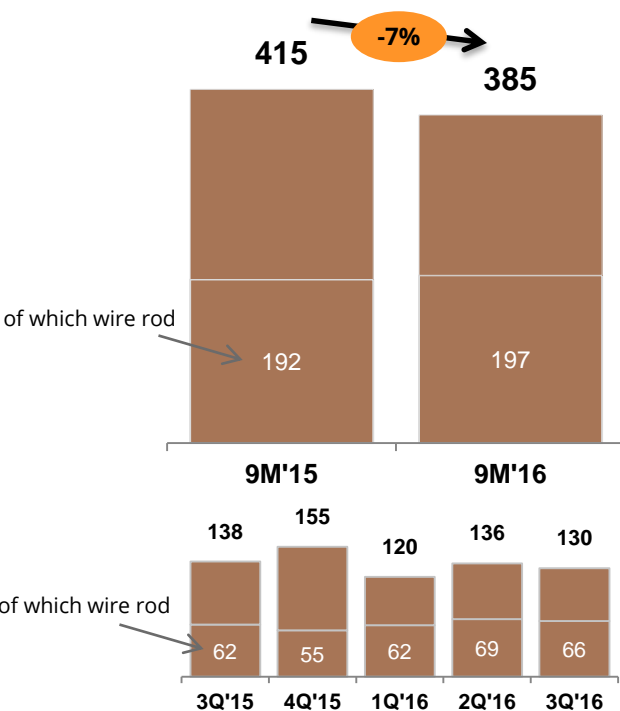
Metallic silver production
(t)



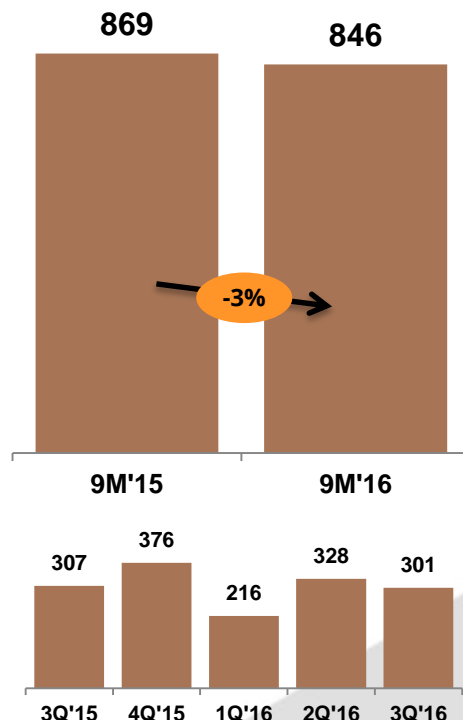
- In the first 9 months of 2016, copper grade in ore decreased (yoy) from 1.528% to 1.503%.
- The Company expects that in Q4 2016 copper grade in ore will remain at the level of 1.508%.
- The amount of copper in concentrate was at the same level as in the corresponding period of 2015.
- Electrolytic copper production was lower due to the three-month shutdown at the Głogów I smelter/refinery.
- The decrease in metallic silver production is a result of the decrease in electrolytic copper production.

Revenues from sales in the first 9 months of 2016

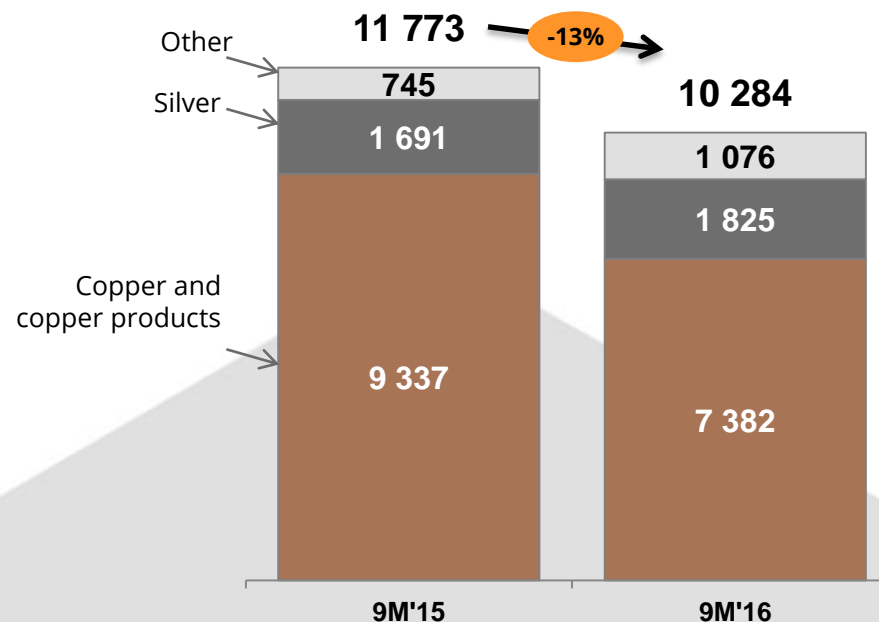
Sales of copper and copper products (kt)



Silver sales (t)



Sales revenue (mn PLN)



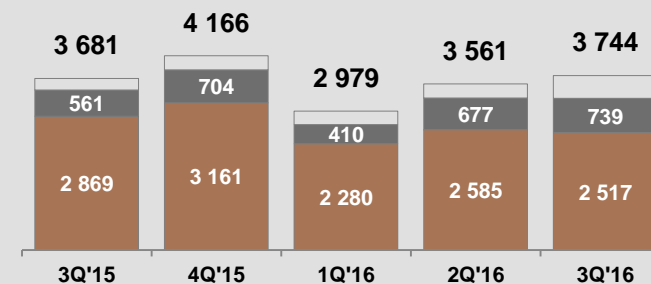
In the first 9 months revenues from sales were lower as compared to the corresponding period of 2015 by PLN 1 489 million, mainly due to:

- changes in the price of Cu, Ag and Au -PLN 1 226 million,
- changes in the USD/PLN exchange rate +PLN 481 million,
- lower copper sales volume by 30,1 thousand tonnes (-PLN654 million) and silver by 24 t (-PLN 45 million),
- hedging of metals prices and the exchange rate -PLN 331 million,

alongside the favourable impact of:

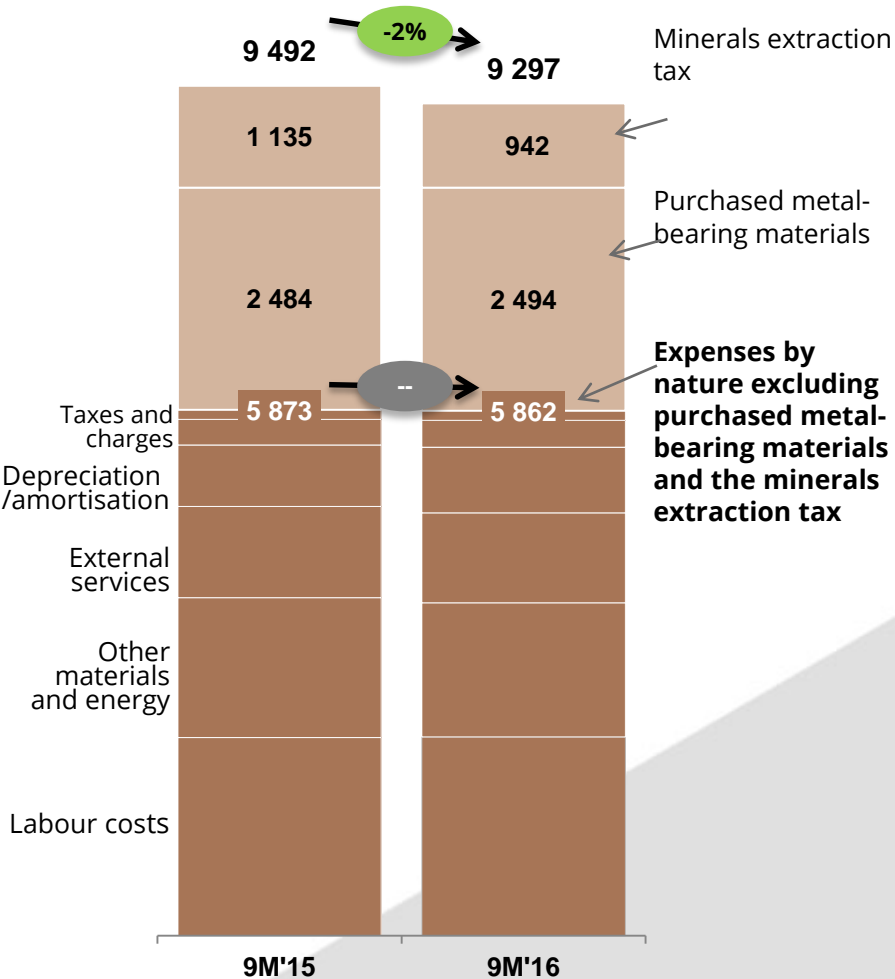
- a higher volume of gold sales by 954 kg (+PLN 135 million),
- higher sales of other products and merchandise by +PLN 151 million (including +PLN 160 million from the sale of 37 thousand tonnes dry weight of copper concentrate in Q3 2016).

The highest volume of copper wire rod sales in history was recorded (197 thousand tonnes).

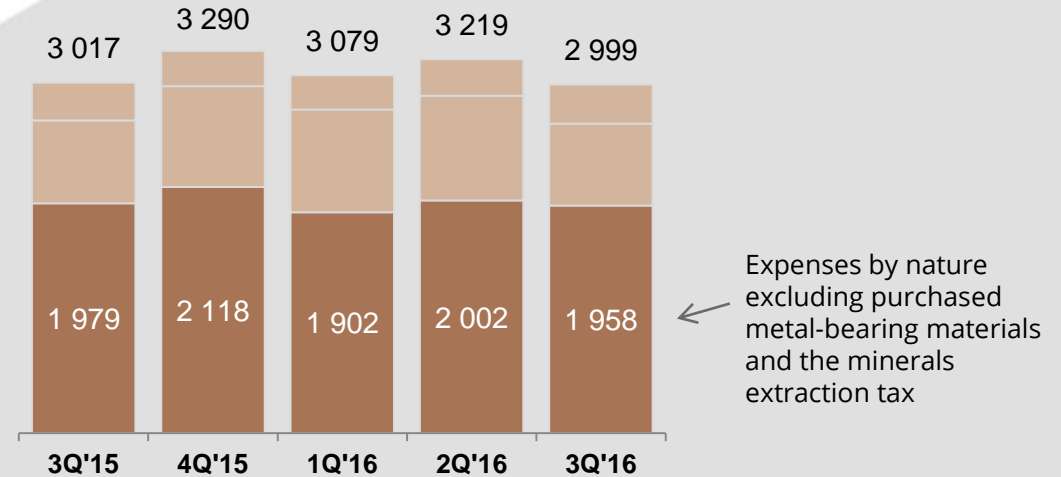


Cost discipline maintained

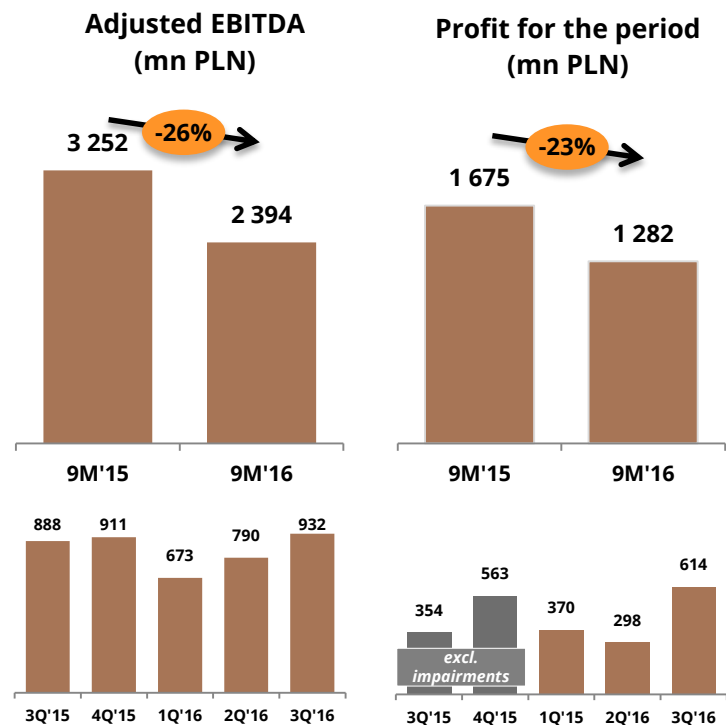
Expenses by nature
(mn PLN)



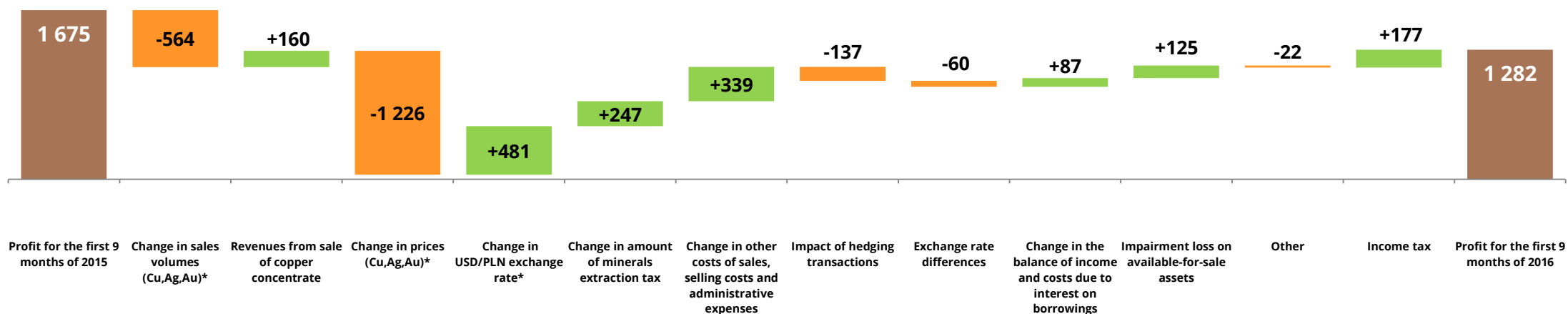
- Total expenses by nature as compared to the first 9 months of 2015 were lower by PLN 195 million, alongside higher costs of consumed metal-bearing materials purchased by PLN 9 million (11 kt more copper consumed and a 9% lower purchase price), alongside a lower metals extraction tax by PLN 193 million.
- After excluding the cost of purchased metal-bearing materials and the minerals extraction tax, expenses by nature were at a similar level to that of the corresponding period of 2015.



Financial results in the first 9 months of 2016



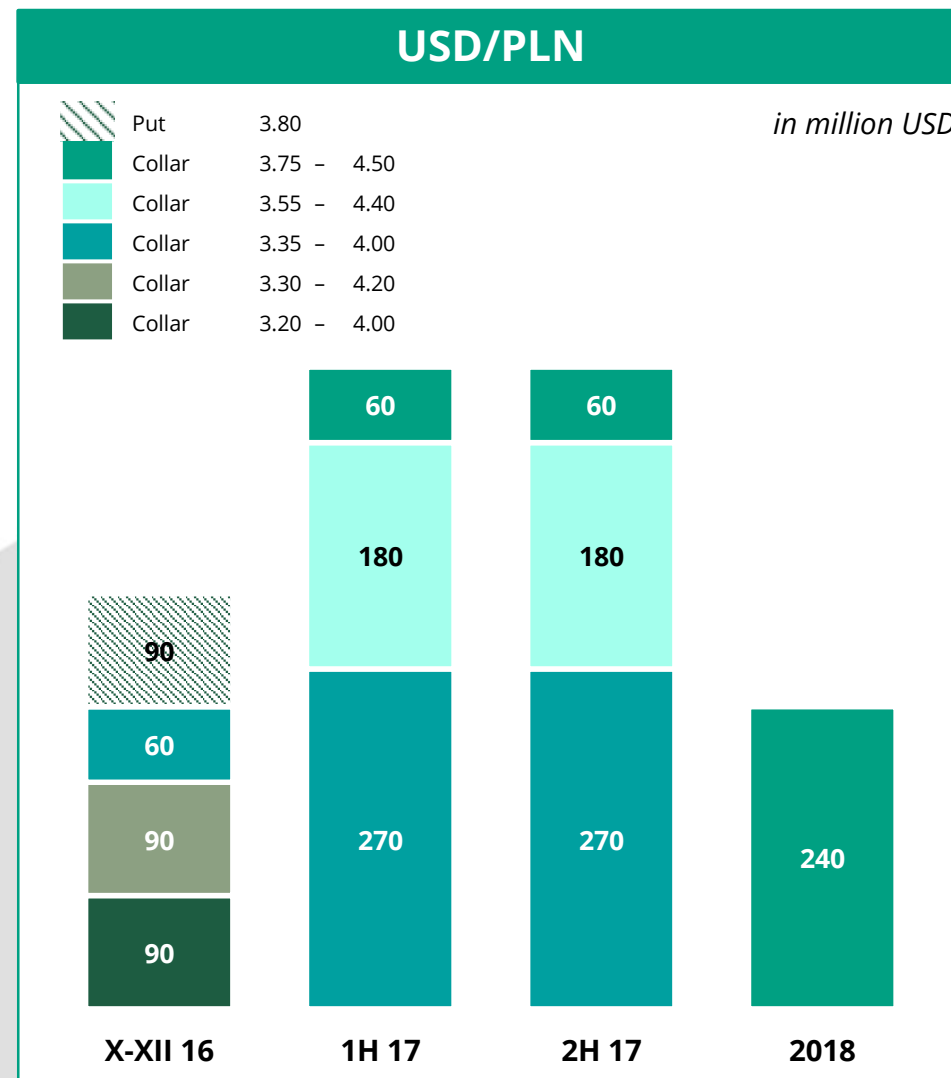
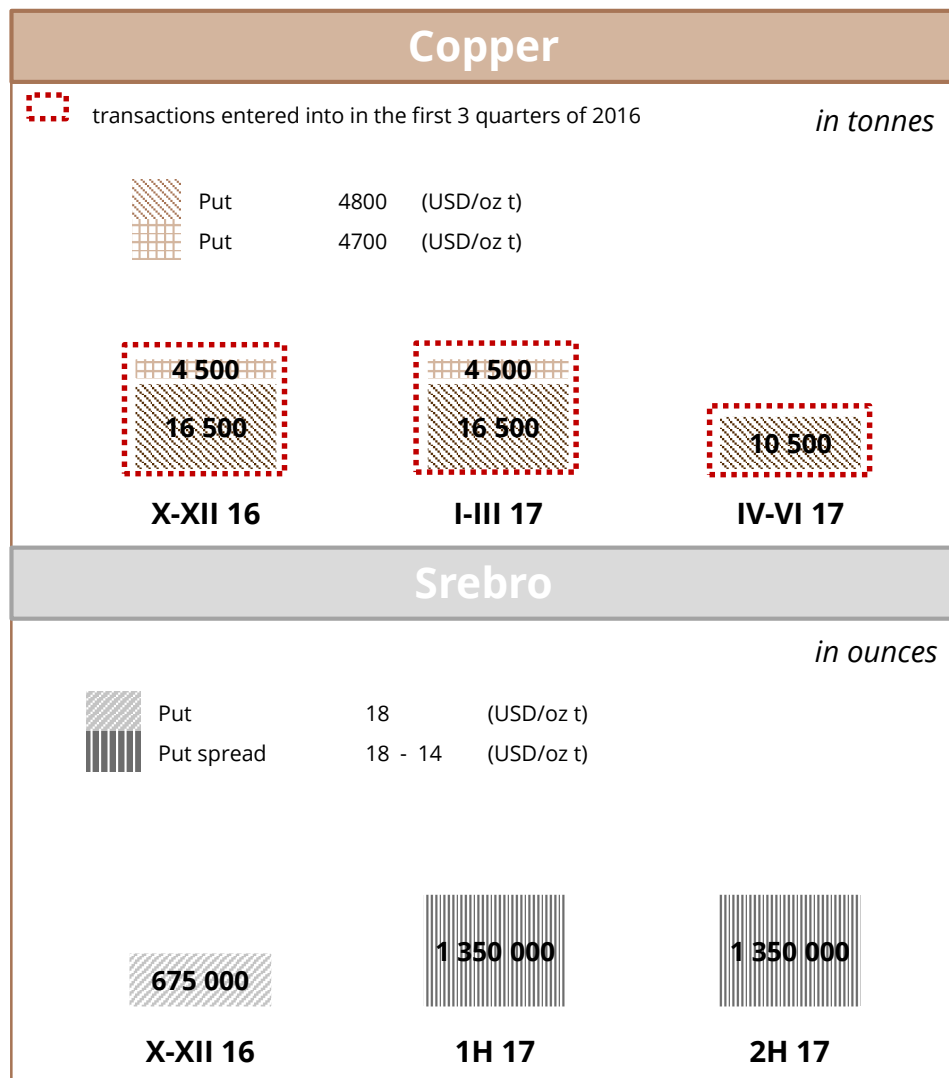
- The decrease in adjusted EBITDA by PLN 858 million (-26%) was mainly due to the deterioration in metals prices and to the lower sales volumes (due to the planned shutdown at the Głogów I smelter/refinery), and was partially offset by a weakening in the Polish zloty versus the US dollar (favourable for the company) and by a lower level of costs.
- The decrease in profit for the period is due to the lower result on sales achieved by the Company – as a result profit for the period decreased by PLN 393 million.



The accrued result on derivatives achieved by KGHM Polska Miedź S.A. as at 30 September 2016 amounted to PLN 27 million

Market risk management – hedging position (as at 30 September 2016)

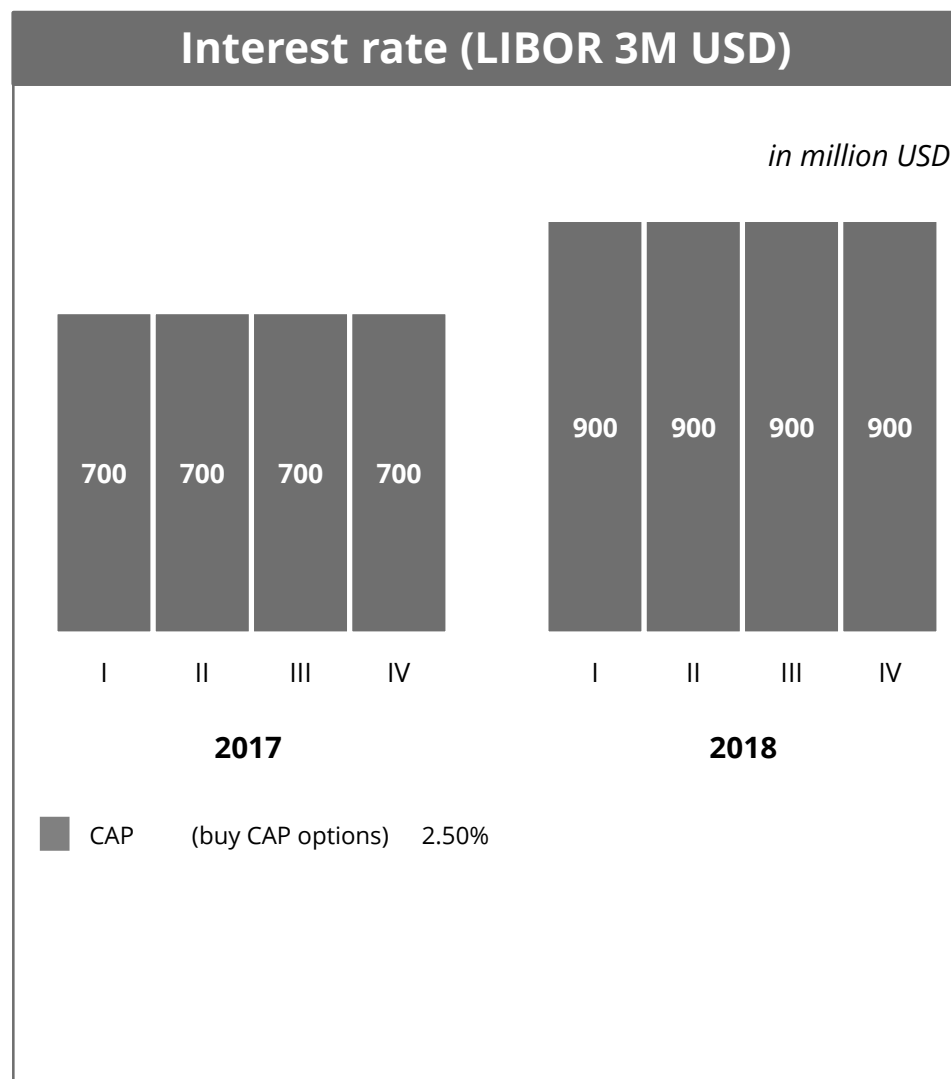
Position in derivatives on the metals and currencies markets



The accrued result on derivatives achieved by KGHM Polska Miedź S.A. as at 30 September 2016 amounted to PLN 27 million

Market risk management – hedging position (as at 30 September 2016)

Position in derivatives on the interest rates markets



Result on derivatives

- In the period January–September 2016, KGHM Polska Miedź S.A. recorded a positive result on derivatives in the amount of PLN 27 million, of which:
 - PLN 12 million increased sales revenue (transactions settled in the January–September period),
 - PLN 15 million increased the result on other operating activities (mainly a change in the measurement of open transactions as at 30 September, hedging the period to the end of 2018).
- The fair value of derivatives (MtM) in KGHM Polska Miedź S.A. as at 30 September 2016 amounted to PLN 37 million.
- The revaluation reserve on cash flow hedging instruments as at 30 September 2016 amounted to -PLN 0.5 million.



Summation

Priorities of the KGHM Management Board in the coming months



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