

Layers of possibilities



Results of the KGHM Group for the 1st quarter

Lubin, 15 May 2019

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Agenda



1. Key issues



2. Production results of the
KGHM Group by segment



3. Financial results
of the Group



4. Advancement of
development initiatives



5. Supporting slides –
KGHM Polska Miedź S.A.



6. Q&A



Key issues



Key production indicators

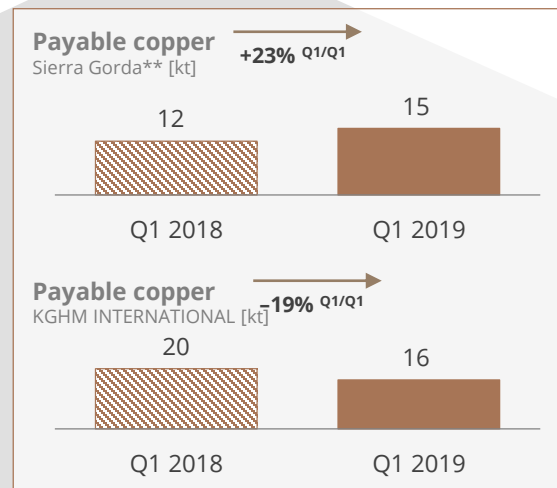
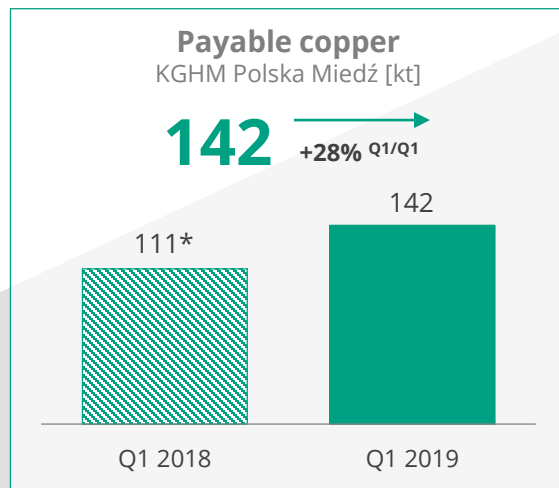
Q1 2019

Payable copper production
by the KGHM Group
21% higher q/q

173

+21% Q1/Q1
[kt]

- **KGHM Polska Miedź** – improved availability of production equipment
- **Sierra Gorda** – higher extraction and processing, as well as extraction of a better quality ore than in Q1 2018
- **KGHM INTERNATIONAL** – lower production at the Robinson mine, which extracted ore from an area with a significantly lower grade despite higher recoveries



Key economic indicators

Q1 2019

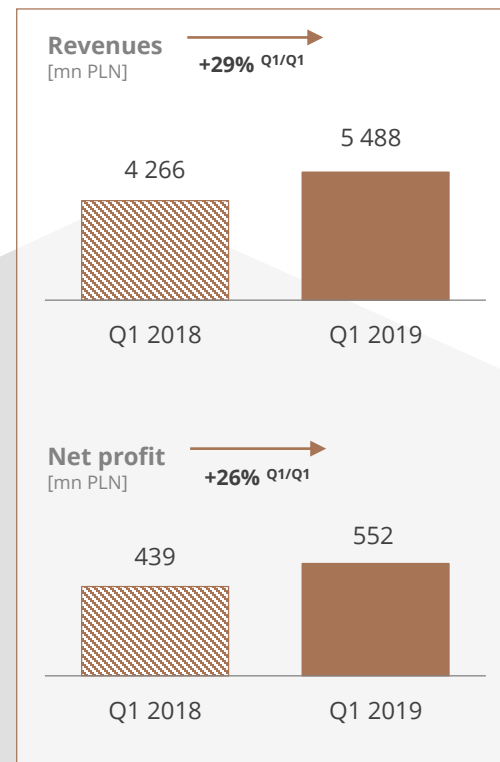
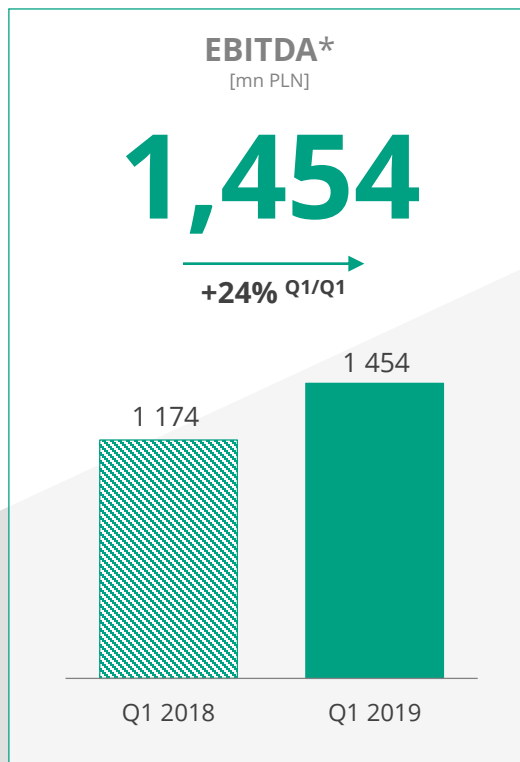
Substantially higher revenues, EBITDA and net profit by the KGHM Group

Higher revenues by PLN 1.2 billion

- Growth in all of the Group's segments – with the main increase in revenues from KGHM Polska Miedź S.A. (+35%)
- The increase in revenues was mainly due to a higher sales volume of copper (+32%) and silver (+57%) and a more favourable exchange rate alongside lower metals prices

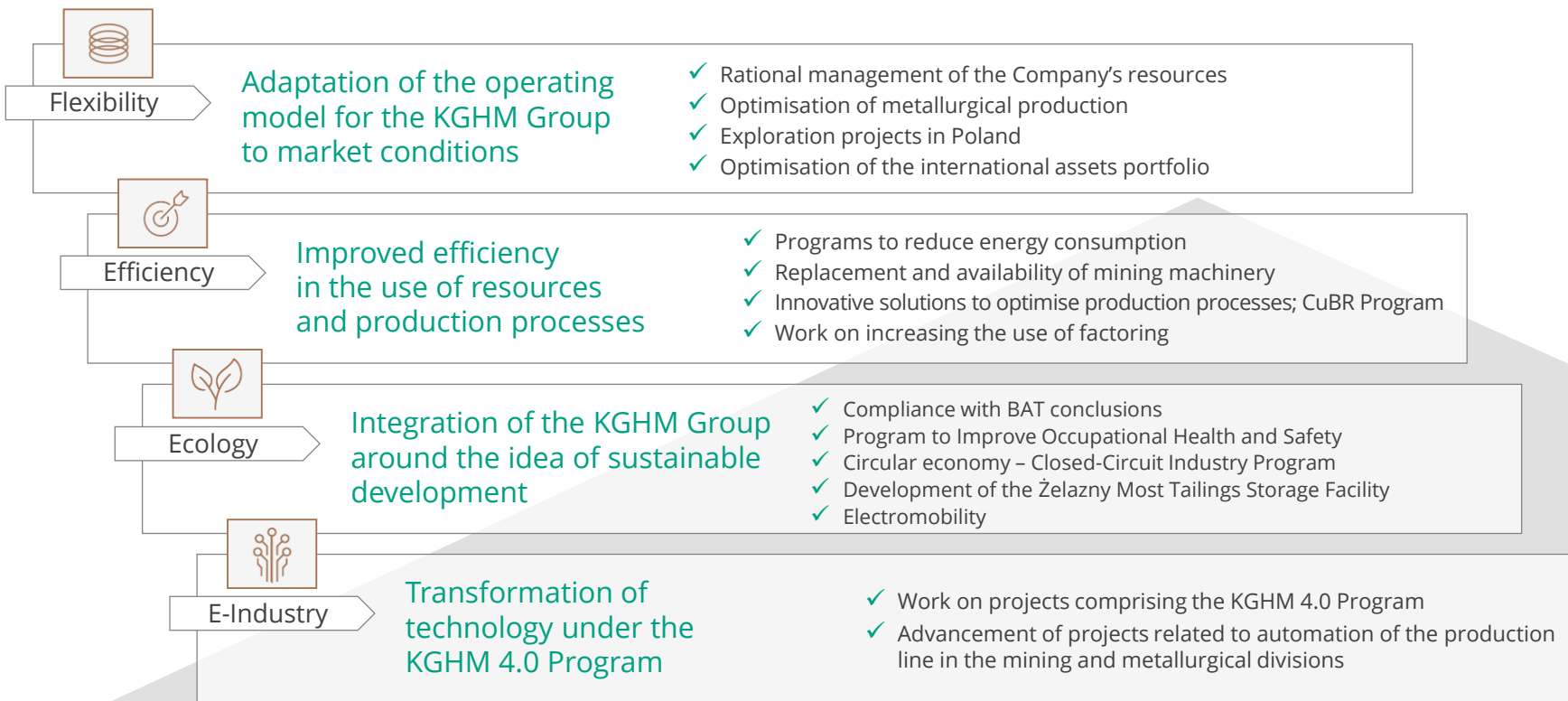
Higher net profit by PLN 113 million

- The higher net profit was mainly due to exchange rate differences and an improvement in the operating result, alongside higher income tax and lower results on the measurement and realisation of derivatives



Consistent advancement of the strategy

Key areas – 4E



Minerals extraction tax

Key proposed changes



-15%

decrease in the minerals
extraction tax

assumed under the Act approved
by the Polish Parliament

Key information



The Act (dated 12 April 2019) on changing the act on the minerals extraction tax was approved by the Polish Parliament and sent to the President of the Republic of Poland for his signature



The Act takes into account the prices of copper and silver and the USD exchange rate

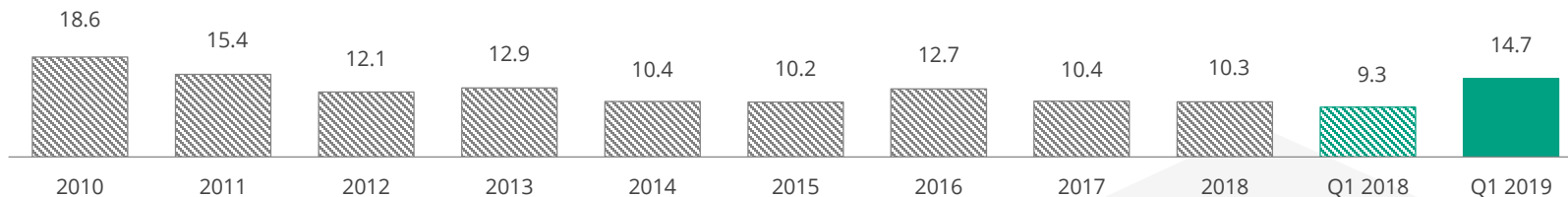


The Act is to come into force on the first day of the month following a period of 30 days from its official announcement

Safety

Our priority

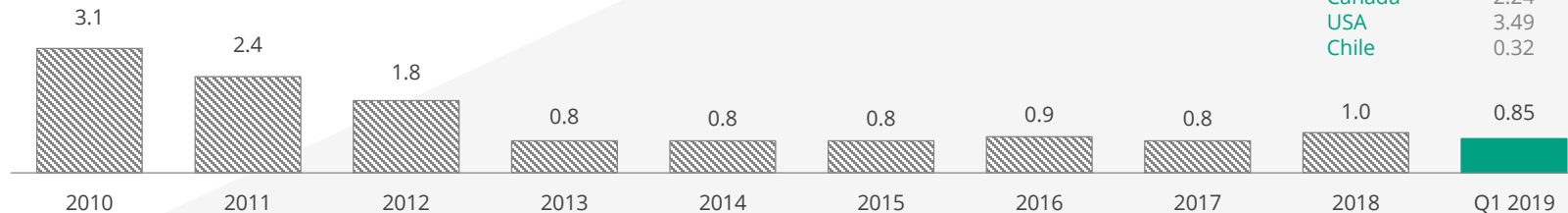
LTIFR ratio in KGHM Polska Miedź S.A.



- In the first quarter of 2019 the LTIFR* ratio was impacted by a large number of injuries sustained due to natural causes which occurred in January 2019 in the Rudna mine – rock tremors which affected the mines (36 persons injured)

TRIR ratio in KGHM INTERNATIONAL LTD.

→
-65% 2010/2018



* LTIFR (Lost Time Injury Frequency Rate); TRIR (Total Recordable Incident Rate) calculated using accepted methodology as the number of accidents at work meeting the conditions of registration as defined in the ICMM (International Council on Mining & Metals) standard, in total for the employees of KGHM INTERNATIONAL LTD., KGHM Chile SpA and Sierra Gorda SCM and sub-contractors for these entities, per 200 000 worked hours

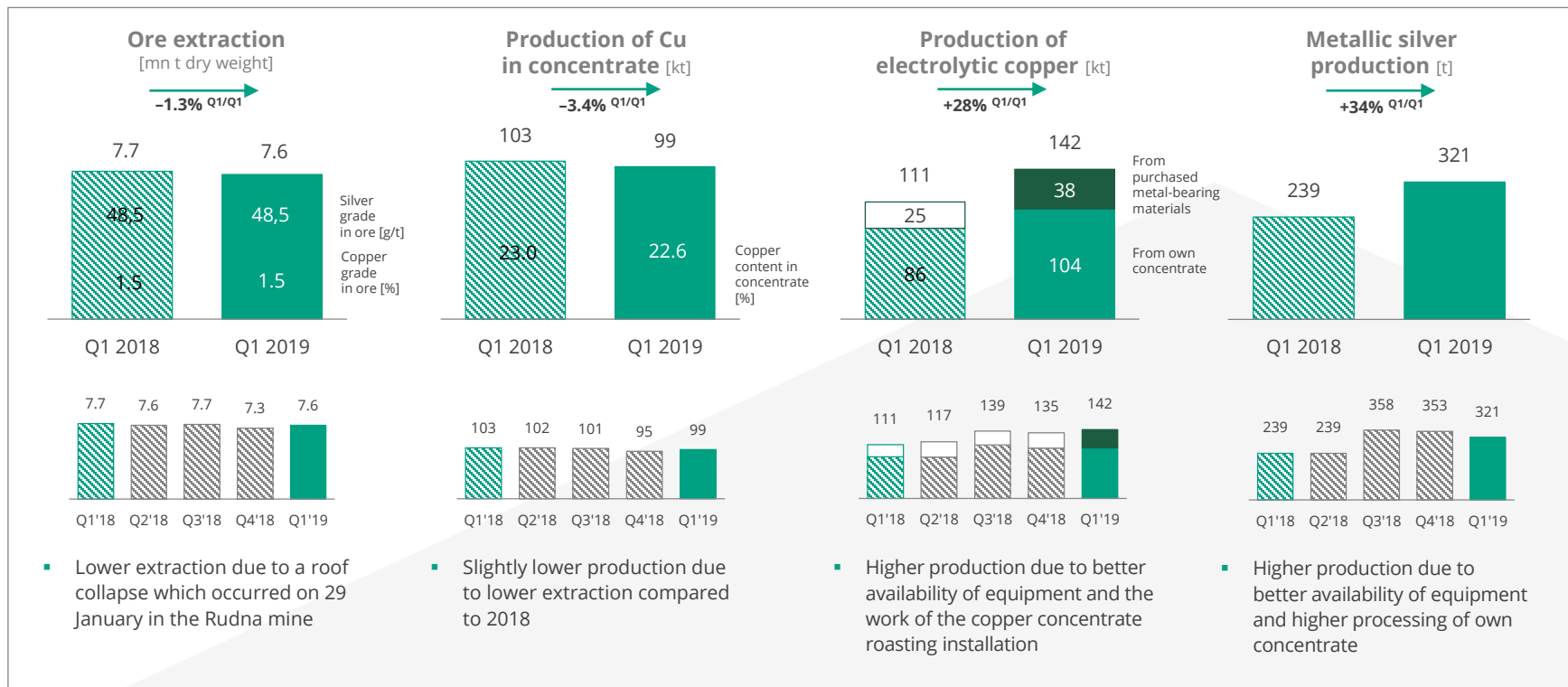


Production results of the KGHM Polska Miedź S.A. Group by segment



Production results

KGHM Polska Miedź S.A.



Change in inventories

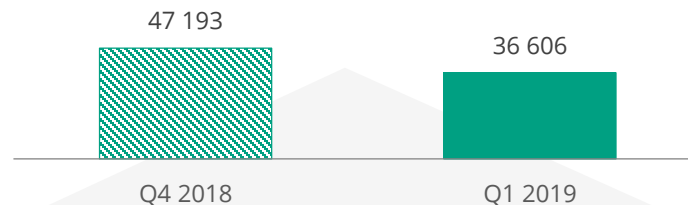
KGHM Polska Miedź S.A.

Inventories of copper in concentrate at the smelters

amount of Cu [t]

- The level of inventories of copper in concentrate until now was due among others to the three-month maintenance shutdown at the Głogów II Copper Smelter and Refinery in 2018
- Inventories have decreased due to the better availability of equipment and the work of the copper concentrate roasting installation
- In subsequent quarters, concentrate inventories will decrease according to plan

→
-22% Q/Q

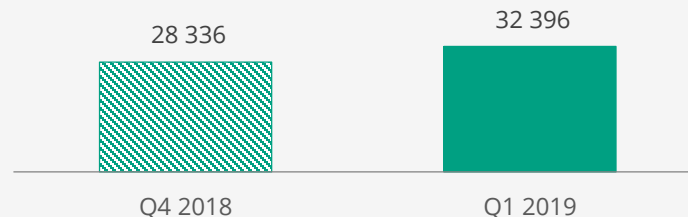


Inventories of copper anodes at the smelters

amount of Cu [t]

- Inventories of copper anodes are being built up for the planned 2-month maintenance shutdown at the Legnica Copper Smelter and Refinery in 2019 as well as a 2-week maintenance shutdown at Głogów I

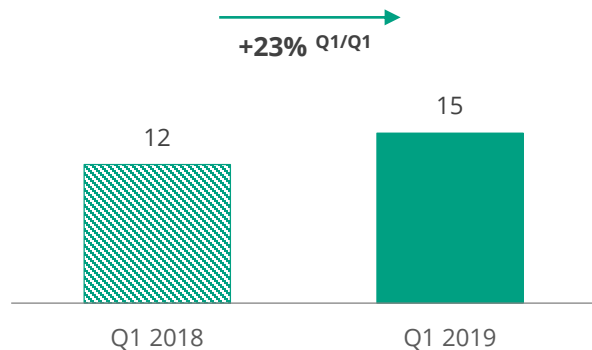
→
+14% Q/Q



Production results

Sierra Gorda*

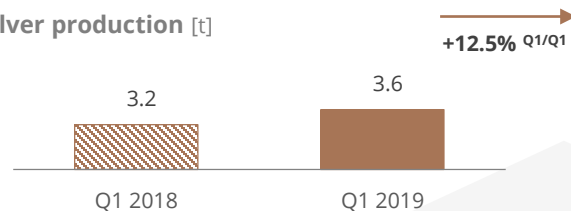
Production of payable copper [kt]



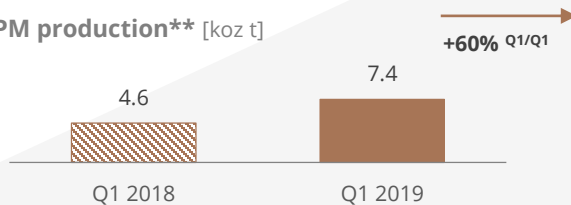
In Q1 2019 the copper production plan for Sierra Gorda was exceeded

- Higher payable copper production due to higher extraction and ore processing
- In Q1 2019 a relatively better quality ore was extracted than in Q1 2018

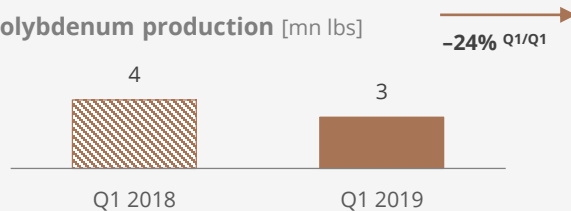
Silver production [t]



TPM production** [koz t]



Molybdenum production [mn lbs]

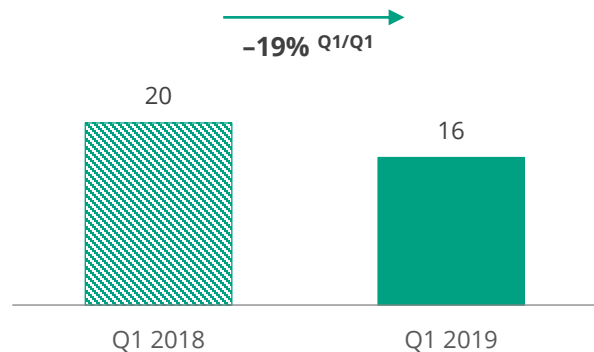


- Higher extraction by the Sierra Gorda mine led to higher gold production
- The drop in molybdenum production was due to extraction in areas with lower molybdenum content compared to ore extracted in prior years

Production results

KGHM INTERNATIONAL

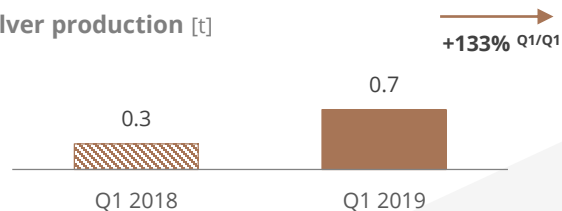
Production of payable copper [kt]



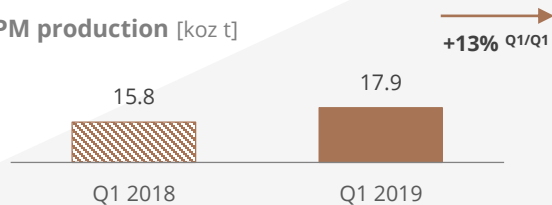
In Q1 2019 the copper production plan was exceeded

- The decrease in production was due to deterioration in the geological conditions of the Sudbury Basin and a temporary drop in the average copper grade in ore in the Robinson mine

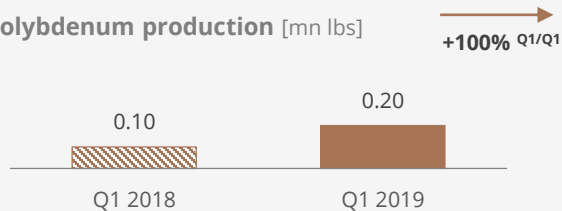
Silver production [t]



TPM production [koz t]



Molybdenum production [mn lbs]



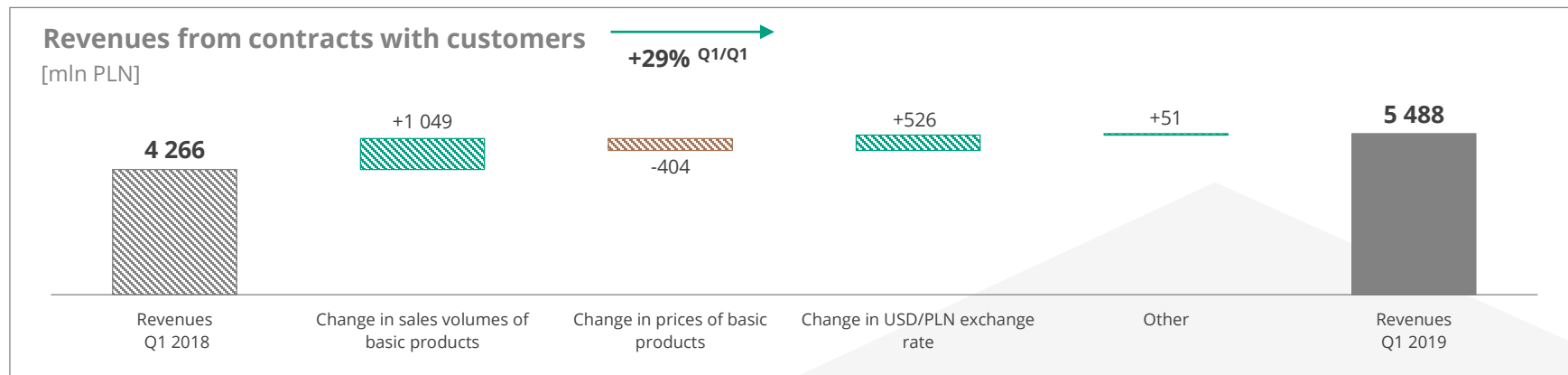
- In Q1 2019 the silver production plan was exceeded as well as the planned amount of molybdenum production
- Higher TPM production by KGHM International due to higher production in the Sudbury Basin, despite lower gold production by the Robinson mine



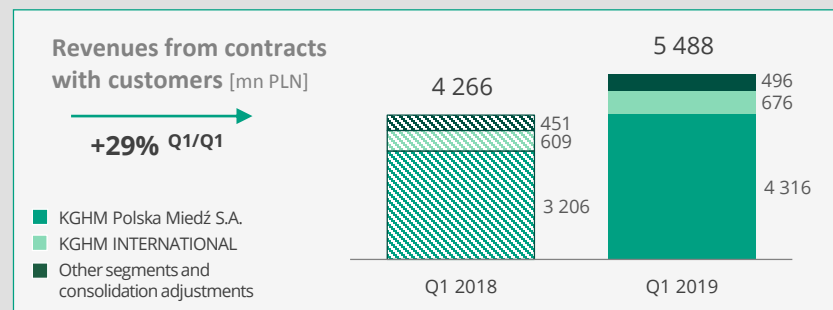
Financial results of the Group

Sales revenue

Q1 2019

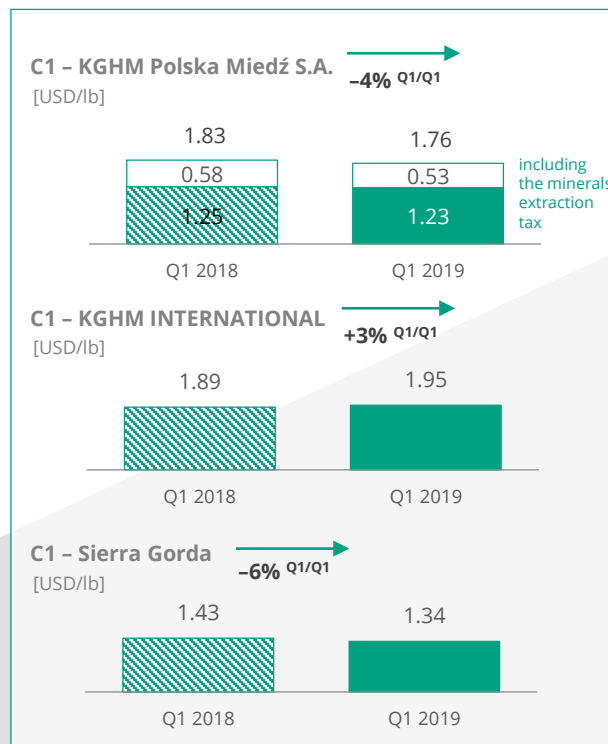
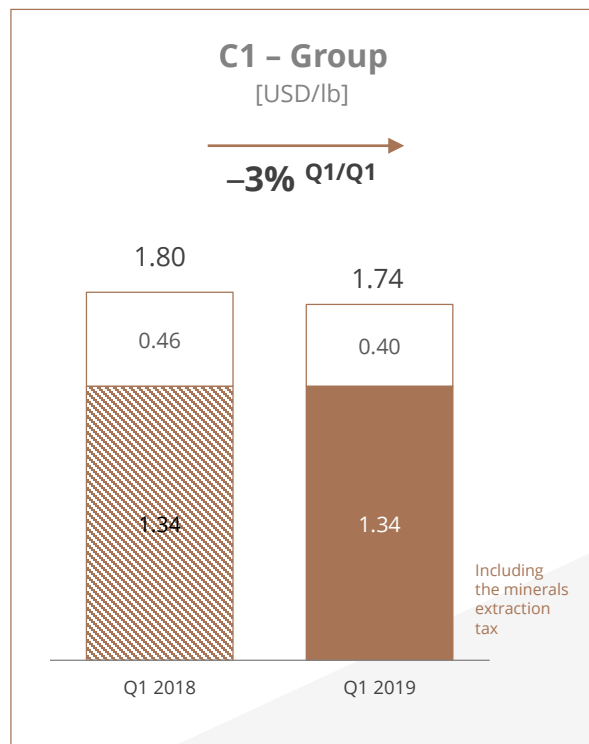


- The increase in revenues by PLN 1 222 million (+29%), as compared to the comparable period of 2018, was mainly in respect of KGHM Polska Miedź S.A. (+PLN 1 110 million)
- The higher revenues of KGHM Polska Miedź S.A. were mainly due to higher sales volumes of copper (+32%) and silver (+57%) and to a more favourable exchange rate alongside lower metals prices



C1* unit cost

KGHM Group



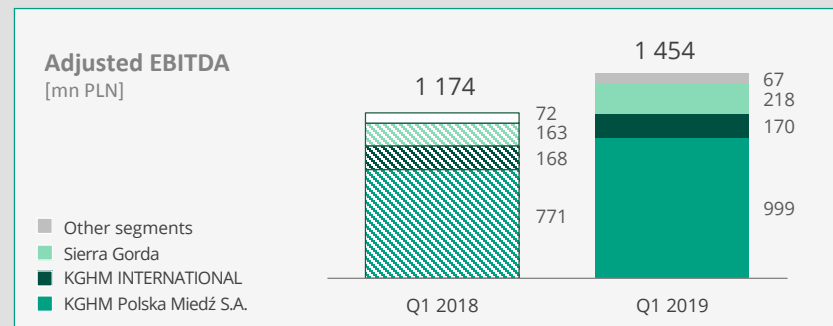
- The decrease in C1 cost in KGHM Polska Miedź S.A. was mainly due to a weakening of the PLN vs the USD (11%)
- The 3% increase in this cost in KGHM International was due to the Robinson mine, which had higher operating costs (including a change in inventories)
- The 6% drop in C1 cost in Sierra Gorda was due to a higher volume of copper sales, as well as to lower unit copper production costs

Operating results

KGHM Group

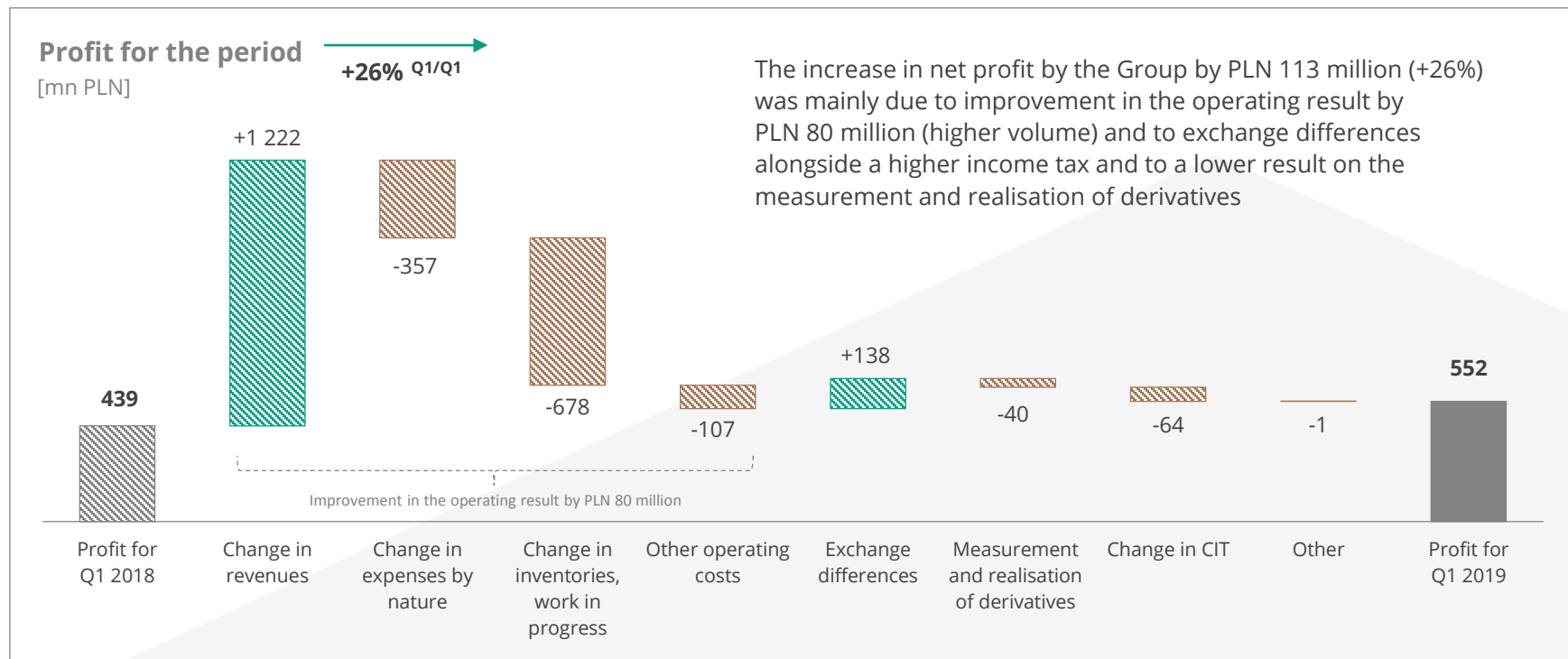


- The significant increase in EBITDA of the Group* by PLN 280 million was mainly due to KGHM Polska Miedź S.A. (+PLN 228 million; +30% q/q) and Sierra Gorda (+PLN 55 million; +34% q/q)



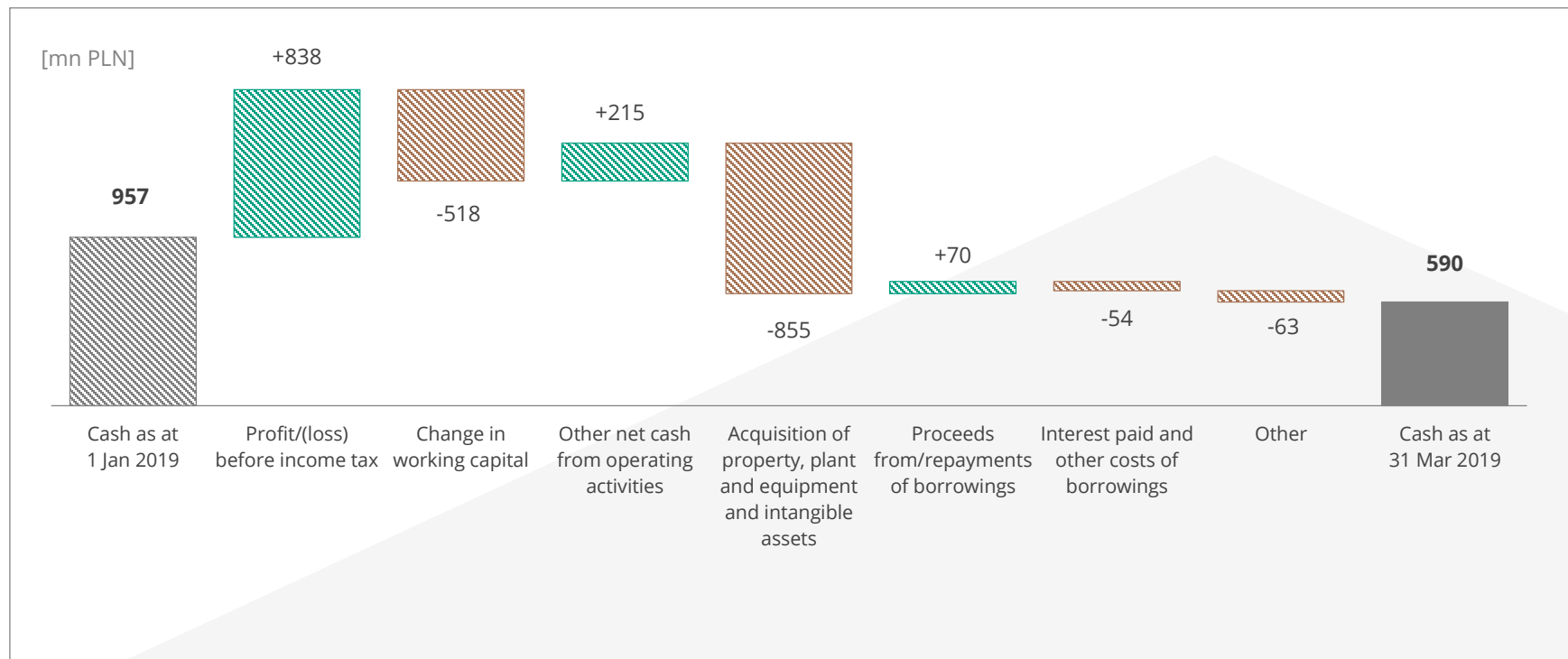
Financial results

KGHM Group



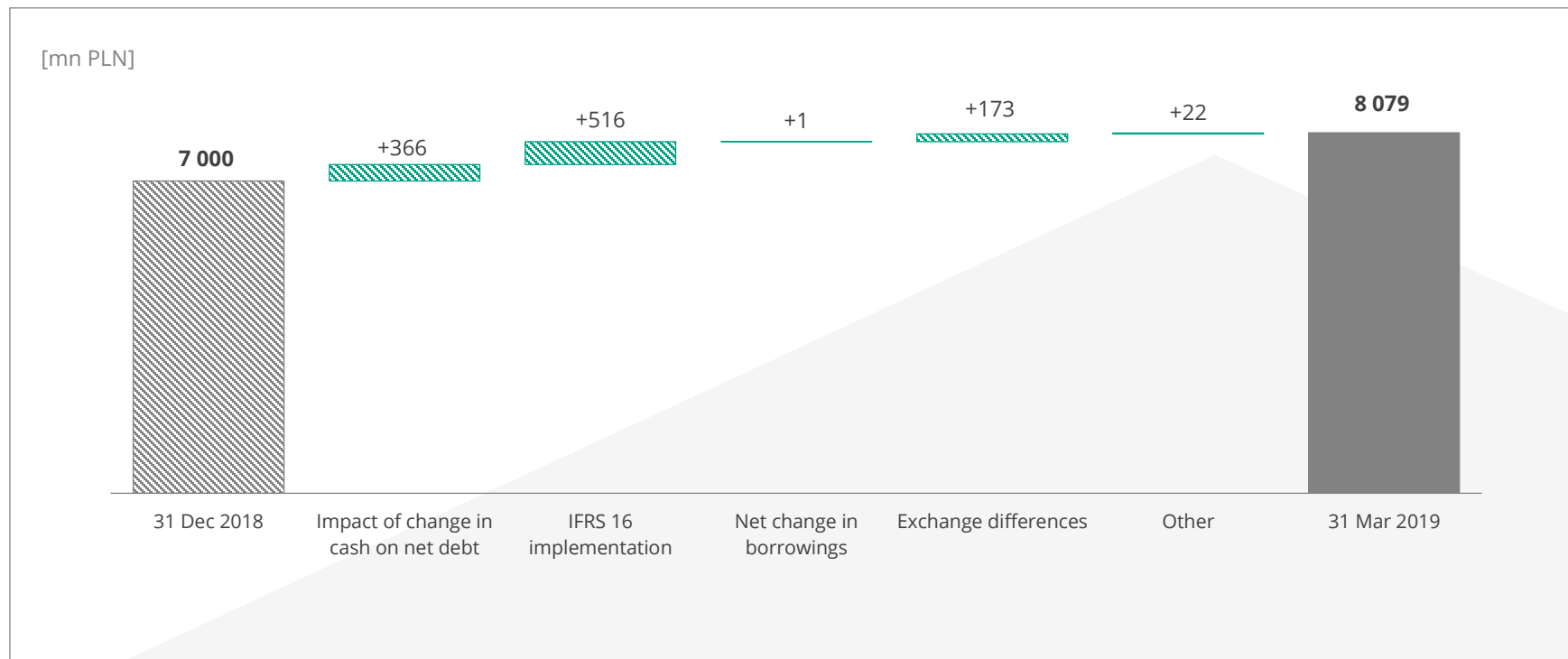
Cash flow

KGHM Group



Impact of the implementation of IFRS 16 on net debt

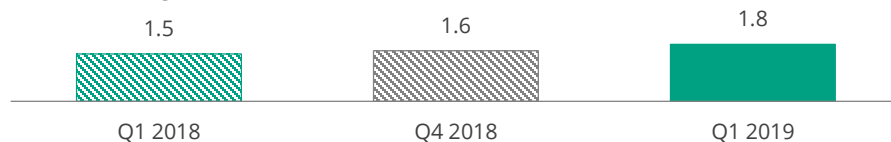
KGHM Group



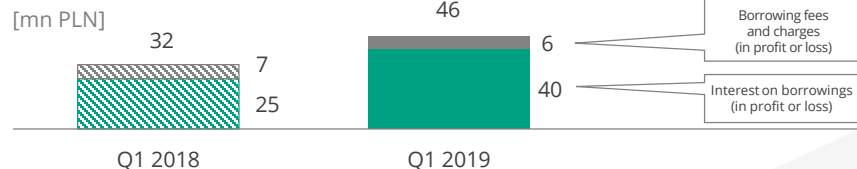
Net debt

KGHM Group, as at end-March 2019

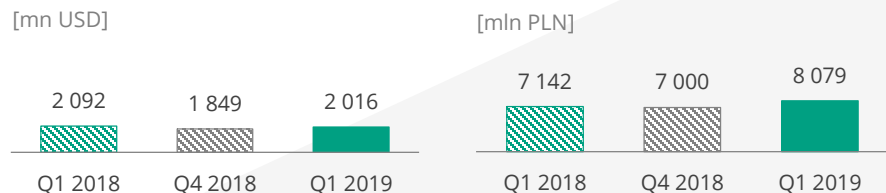
Net debt / adjusted EBITDA



Borrowing costs



KGHM Group net debt



Main factors affecting interest-bearing debt in Q1 2019

(Increases in debt)

- Cash expenditures on property, plant and equipment (PLN 846 million in KGHM Polska Miedź / PLN 9 million in other companies)
- Impact of IFRS 16: recognition of additional debt due to leasing (PLN 516 million)
- The financing of inventories (an increase by PLN 344 million in KGHM Polska Miedź / PLN 66 million in other companies)
- The minerals extraction tax (PLN 378 million in KGHM Polska Miedź / a decrease by PLN 19 million in other companies)
- Change in receivables (an increase by PLN 268 million in KGHM Polska Miedź / a decrease by PLN 19 million in other companies)
- Negative exchange differences (an increase in debt by PLN 173 million)
- Borrowing costs (PLN 46 million)

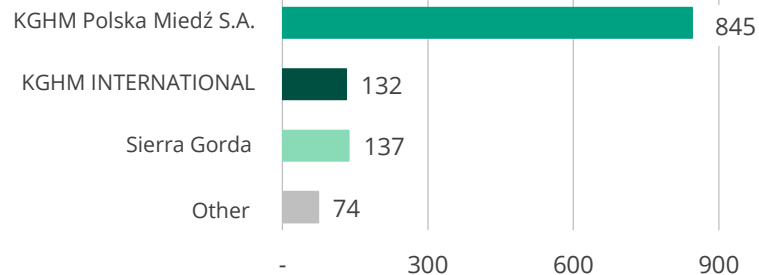
(Decreases in debt)

- Positive cash flow from operating activities, excluding the change in working capital and the minerals extraction tax (PLN 1 503 million)
- Change in receivables (an increase by PLN 152 million in KGHM Polska Miedź / a decrease by PLN 83 million in other companies)

A consistent and rational investment program

Cash expenditures by the KGHM Group in Q1 2019

[mn PLN]



PLN 855 million in cash expenditures by the KGHM Group in Q1 2019

- The higher cash expenditures, compared to capital expenditures in Q1 2019, were due to contractual payment schedules from the realisation of investments in prior periods
- In the first three months of 2019, KGHM INTERNATIONAL did not provide financing to the Sierra Gorda mine

Capital expenditures of KGHM Polska Miedz S.A. +43% Q1/Q1

472 mn PLN

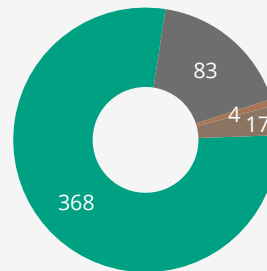
in Q1 2019

330 mn PLN

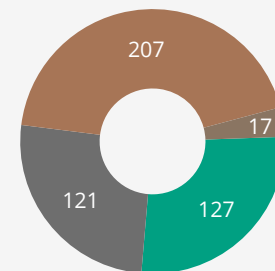
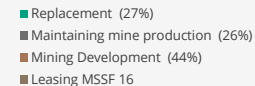
in Q1 2018

Capital expenditures in Q1 2019

by division



by category





Advancement of development initiatives



Selected development projects

Sierra Gorda in Q1 2019

26.8 kt

Production of copper in concentrate

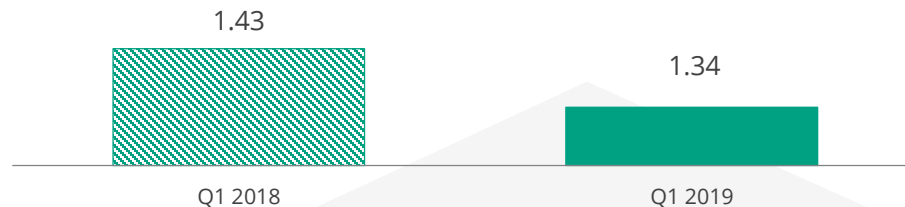
5.5 mn lbs

Production of molybdenum in concentrate

- Work continues on improving the operation of the processing plant of Sierra Gorda aimed at increasing the volume of ore processed as well as improving the efficiency of the process
- Work is aimed at maximising the value of existing mine infrastructure

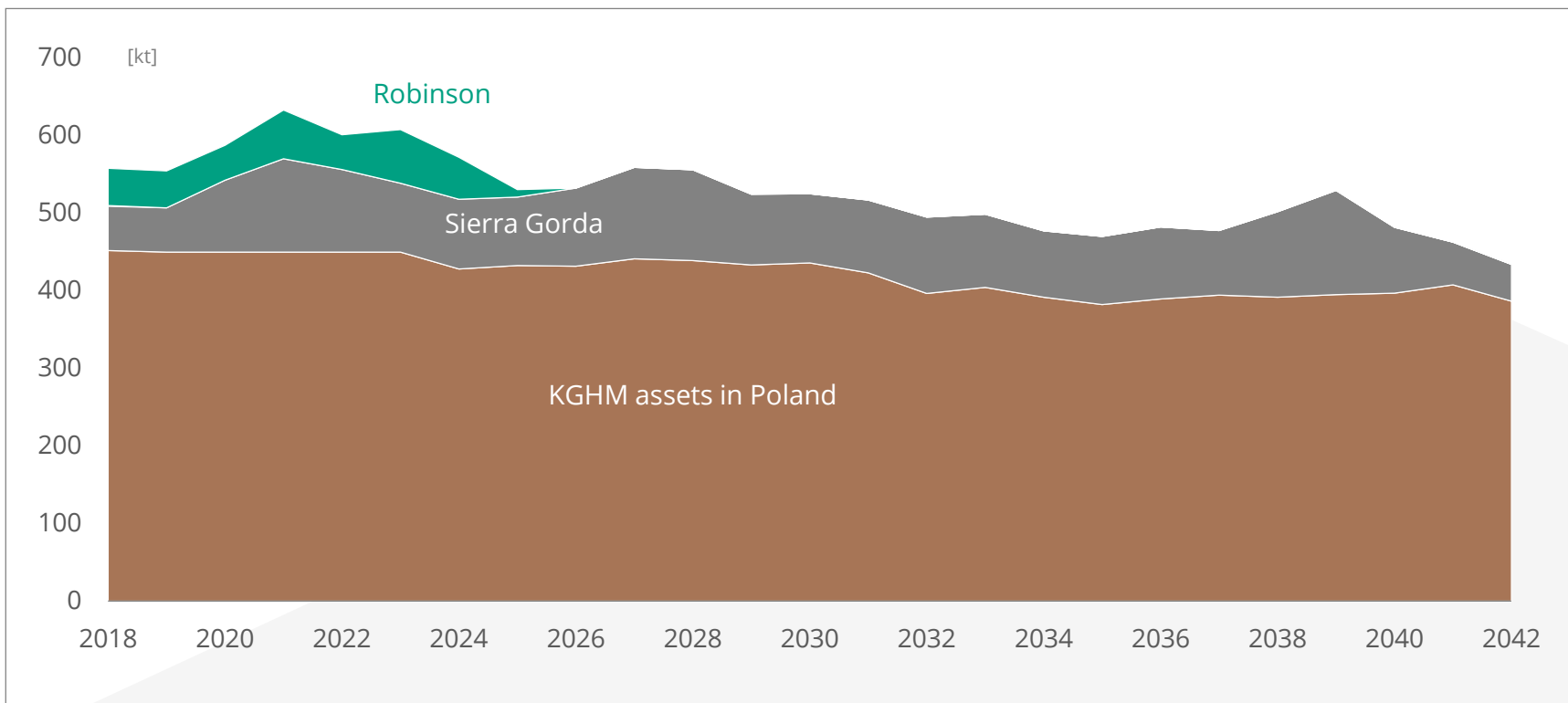
Unit cost C1

[USD/lb]



Outlook for the KGHM Group's main mining assets

Stable production



Selected development projects

Start-up of the copper concentrate roasting installation

GG-1 shaft

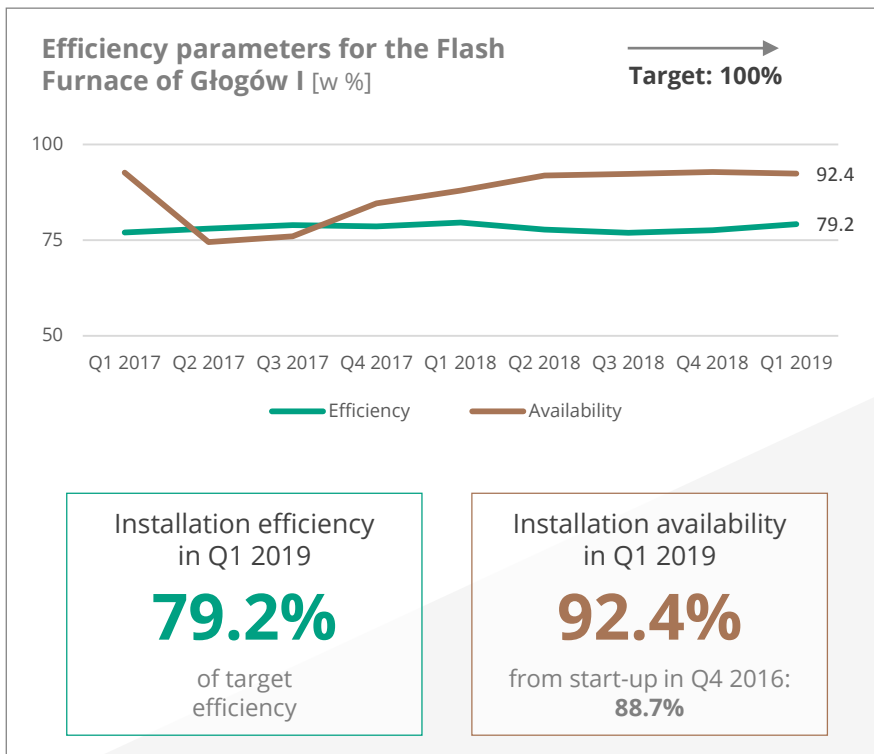
Revolving Casting-Refining Furnace

Expansion of the Żelazny Most Tailings Storage facility: the Southern Quarter

Program to adapt the technological installations to the requirements of BAT Conclusions

Selected development projects

Higher production, improved efficiency parameters



Higher production of electrolytic copper in Q1 2019 q / q by

+28%

at KGHM Polska Miedź S.A.

As a result of:

- start-up of the copper concentrate roasting installation – increased availability of metallurgical installations
- processing own concentrates from inventories

Average accrued efficiency of concentrate processing in the new flash furnace

117.0 Mg/h

in Q1 2019

104.6 Mg/h

from start-up

132 Mg/h

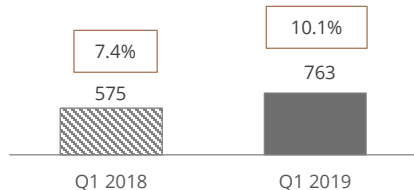
target

Critical role of Deep Głogów in maintaining output in Poland

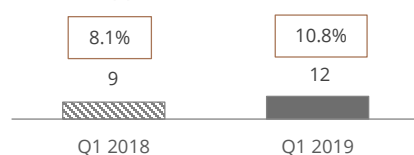
Deposit access program in KGHM's concessioned areas

Share of production from Deep Głogów (aka GGP) in total production in Poland

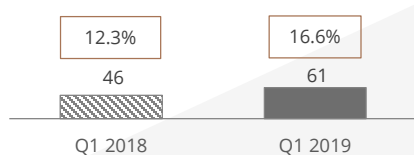
Ore extraction dry weight from GGP [kt]



Amount of copper in ore [kt]

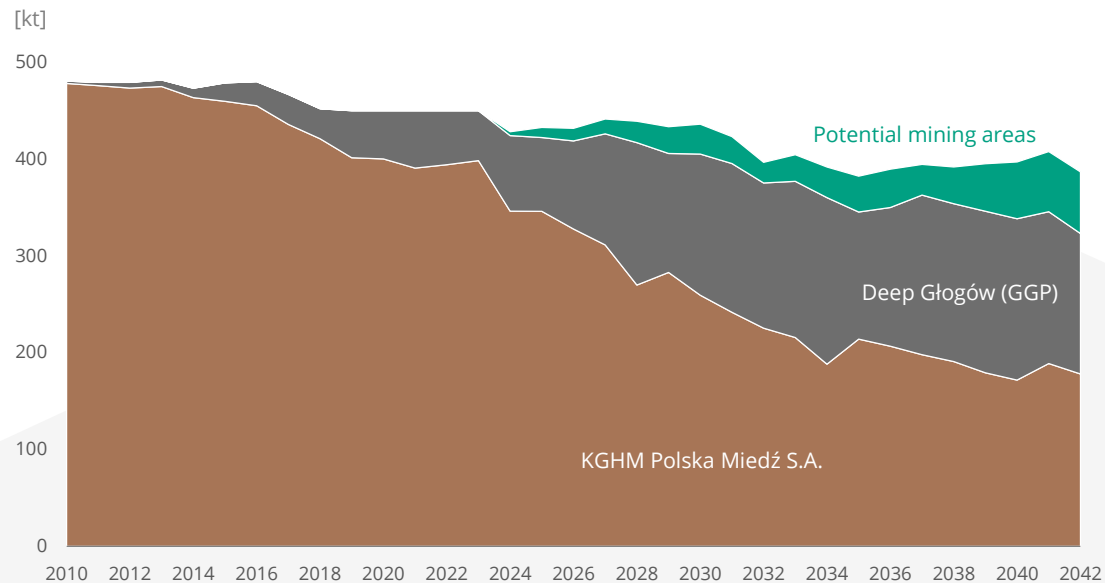


Amount of silver in ore [t]



Projected mine output in existing concessions and potential areas

[copper extraction per 2019 Mining Plan]*



* Based on the most recent resources and reserves report, updated to include achieved production results

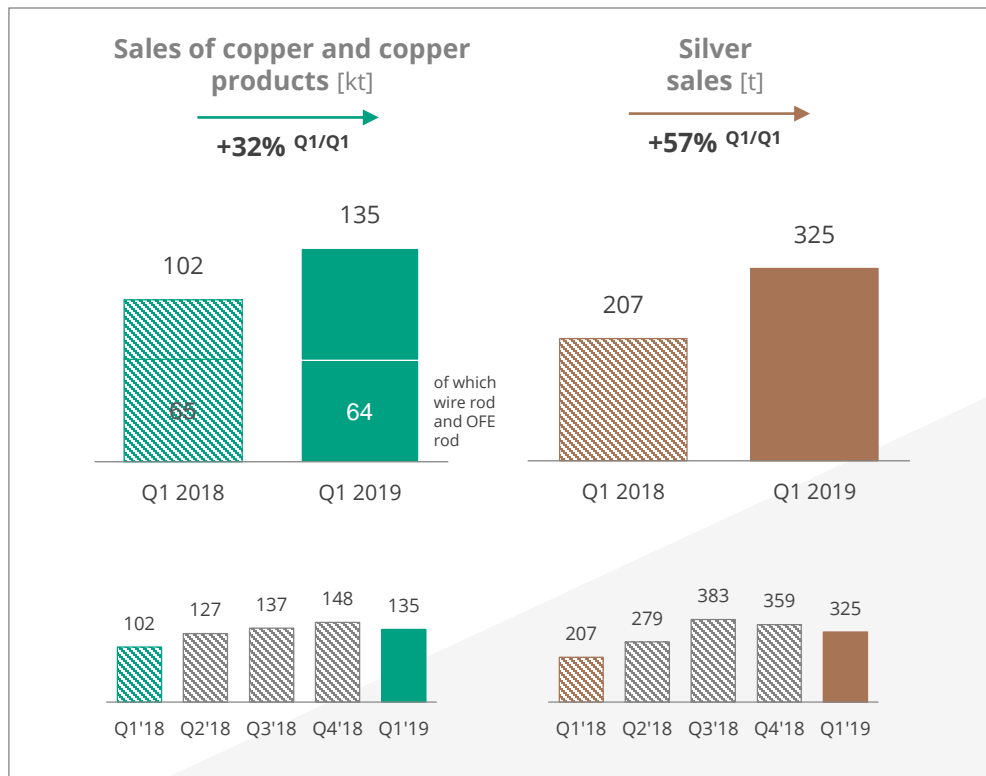


Additional slides – KGHM Polska Miedź S.A.



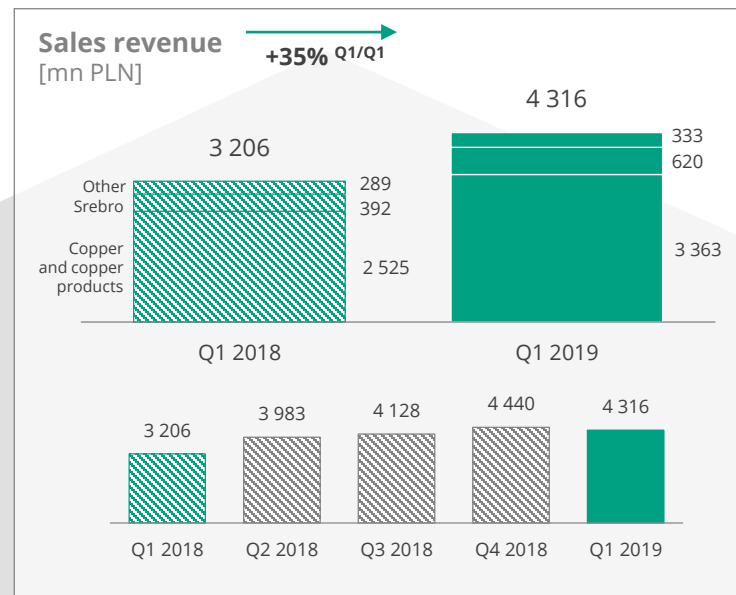
Sales revenue

KGHM Polska Miedź S.A.



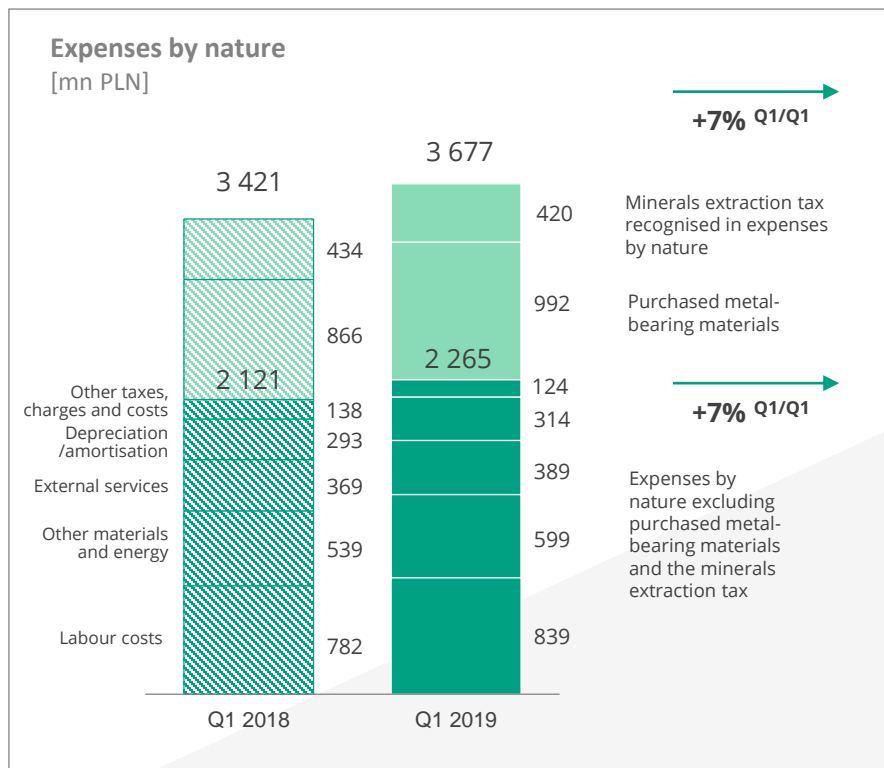
Revenues from sales in Q1 2019 were higher by PLN 1 110 million (+35%) than those achieved in the comparable period of 2018, due to:

- higher sales volumes (copper by 32% and silver by 57%),
- a more favourable USD/PLN exchange rate, alongside less favourable prices of copper (-11%) and silver (-7%)

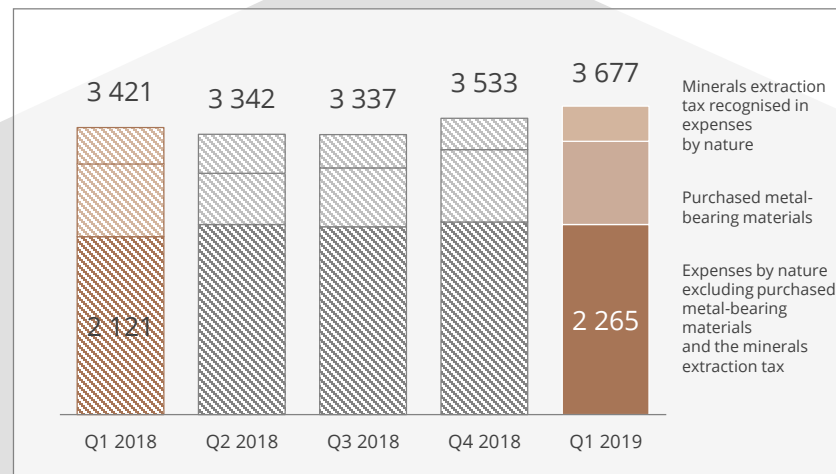


Expenses by nature

KGHM Polska Miedź S.A.

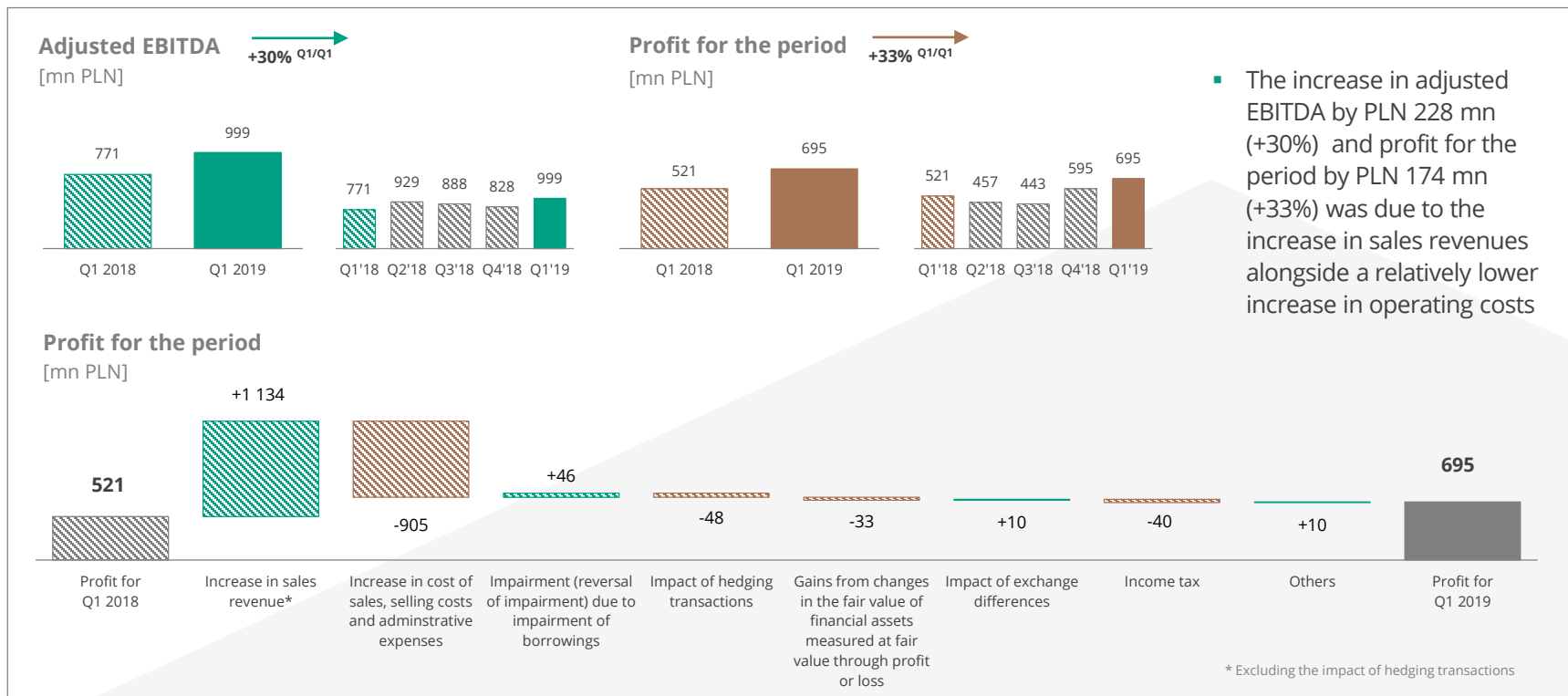


- Expenses by nature were higher by PLN 256 million (7%) mainly due to higher consumption of purchased metal-bearing materials by PLN 126 million (a higher volume of purchased metal-bearing materials used by 5 thousand tonnes of copper alongside a similar purchase price).
- Expenses by nature, excluding purchased metal-bearing materials and the minerals extraction tax, were higher by PLN 144 million (7%) mainly due to a higher cost of consumption of materials and energy (+PLN 60 million), labour costs (+PLN 57 million), external services (+PLN 20 million) and depreciation/amortisation (+PLN 21 million)



EBITDA and profit for the period

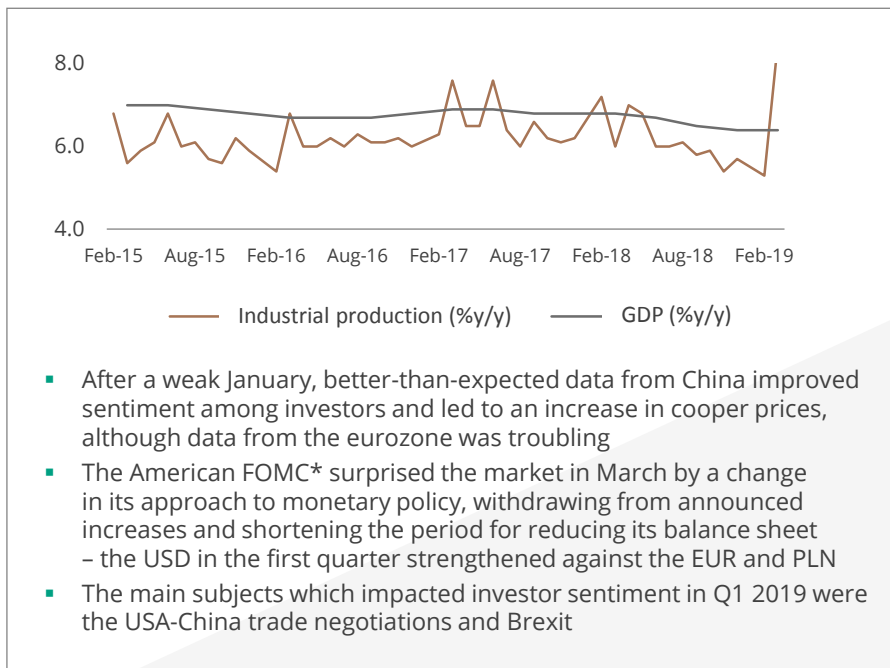
KGHM Polska Miedź S.A.



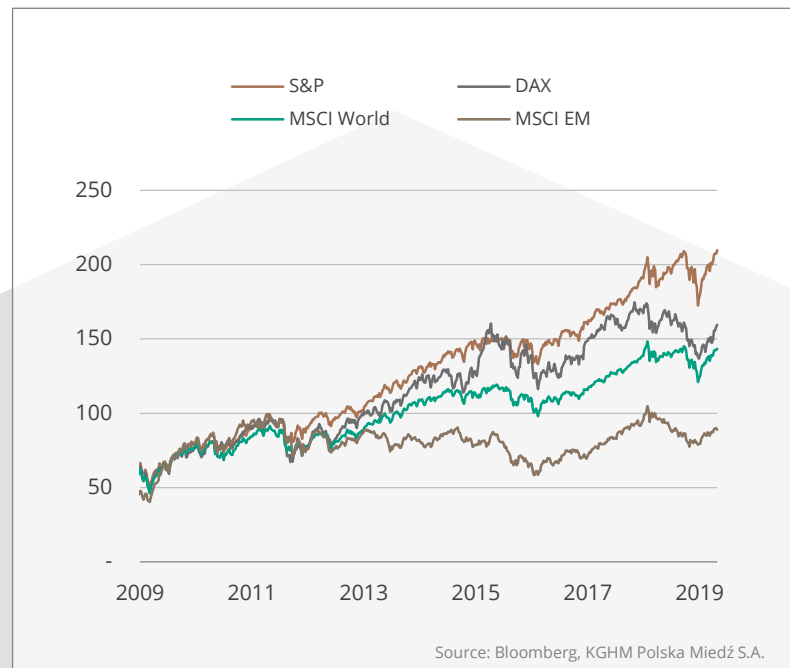
Macroeconomic environment

Global trends

Industrial production and GDP in China (since 2015)



Global indices

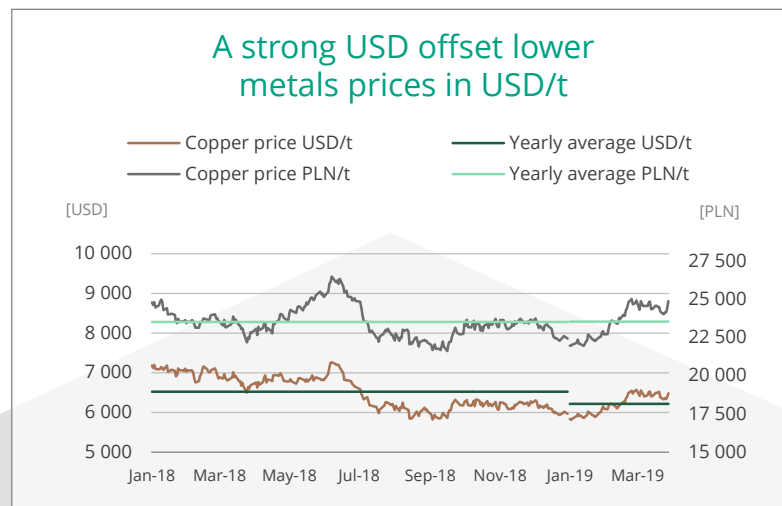


Macroeconomic environment

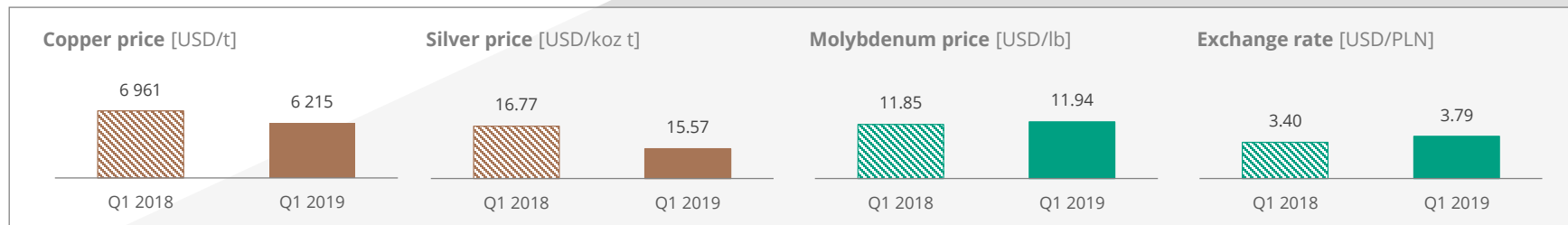
Commodities prices and exchange rates

In the first quarter of 2019 the average price of copper expressed in PLN was at levels similar to those of the prior year

- Copper recorded a quarterly drop (-11% y/y) compared to the comparable prior-year quarter alongside a drop in the price of silver and a slight increase in molybdenum prices
- The copper price expressed in PLN remained similar to the level seen in Q1 2018, though it was higher as compared to Q4 2018 thanks to depreciation of the PLN and a higher copper price
- The factors which had the greatest impact on metals prices and exchange rates in the prior quarter were the tense political situation and trade conflicts as well as the generally positive data coming out of China

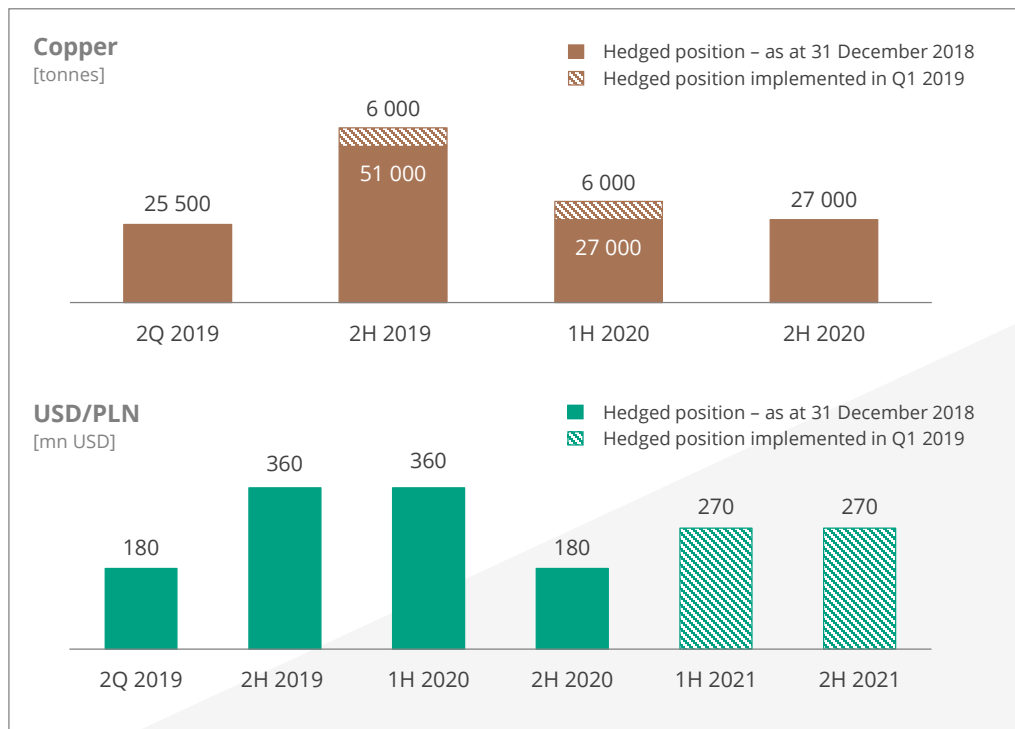


Source: Thomson Reuters, KGHM Polska Miedź S.A.



Market risk management

Hedged positions on the copper market and the USD/PLN (as at 31 March 2019)



The fair value of derivatives (MtM) in KGHM Polska Miedź S.A. as at 31 March 2019 amounted to PLN 284 million

- In Q1 2019, KGHM Polska Miedź S.A. recorded a result on derivatives and hedges in the amount of PLN 2.8 million, of which:
 - PLN 33.5 million increased revenues from contracts with customers (transactions settled to 31 March 2019)
 - PLN 19.4 million decreased the result on other operating activities
 - PLN 11.4 million decreased the result on finance activities
- The revaluation reserve on cash flow hedging instruments as at 31 March 2019 amounted to –PLN 66.3 million

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