
The KGHM Group maintained cost discipline in the third quarter

The KGHM Group achieved improved profitability in terms of both operating and net profit in the 3rd quarter of 2016 (versus the comparable period of 2015). Profitability increased despite a slight decrease in sales revenue, mainly thanks to lowering operating costs.

„The increase in profitability despite the tough macroeconomic conditions reinforces the need to maintain strict cost discipline. Our key strategic development projects in Poland are being continued in accordance with our assumptions: ramp-up of the new flash furnace at the Głogów 1 smelter/refinery is proceeding smoothly, which also applies to the Deep Głogów ore access program. At the same time we are approaching the final stage of KGHM’s strategy revision, which will allow us to make business decisions regarding the international assets based on conclusions derived from their audit, forecasted macroeconomic conditions and the projected financial performance of the KGHM Group,” explained Radosław Domagalski-Łabędzki, CEO of KGHM Polska Miedź S.A.

- **Consolidated sales revenue amounted to PLN 4,685 million in the 3rd quarter of 2016** and was 2.4% lower (yoy), while KGHM Polska Miedź S.A.’s sales revenue increased by 1.7% (yoy) to PLN 3,744 million and KGHM International’s sales revenue amounted to PLN 566 million, which was 23.3% lower (yoy). Sierra Gorda’s¹ sales revenue for the period was PLN 287 million and was 8.7% lower (yoy).
 - The decrease in consolidated sales revenue in the 3rd quarter of 2016 resulted from lower electrolytic copper production in KGHM Polska Miedź S.A. and payable copper production in KGHM International, by 5.6% and 21.6% respectively, and lower copper prices (in USD terms) by around 9% (yoy). The negative impact of copper production volumes and prices was partially offset by improved silver and gold production volumes in KGHM Polska Miedź S.A., by 5.8% and 74.6% respectively, and by an increase in the prices of these metals (in USD terms) by about 30% and 20% respectively.
 - Sierra Gorda – production of payable metals in concentrate was lower for all products in the 3rd quarter of 2016: copper by 6.6%, silver by 21%, molybdenum by 7% and gold by 36%. The above resulted mainly from processing a relatively low quality ore from the so-called transition zone.

¹ Reference to Sierra Gorda means the 55% interest held by the KGHM Polska Miedź S.A. Group in production and financial results, which are accounted for using the equity method.

- Adjusted **EBITDA² for the KGHM Group increased in the 3rd quarter by 7.1%** (as compared to the same period of 2015) **to PLN 1,089 million and improved (yoy) in every operating segment of the Group** – particularly in KGHM Polska Miedź S.A., rising by 4.8% to PLN 931 million, in KGHM International increasing by 15.2% to PLN 121 million and in Sierra Gorda by 25% to PLN (30) million.
- **Consolidated cost of products, merchandise and materials sold was lower in the 3rd quarter by 7.1% (yoy) and amounted to PLN 3,651 million**, while selling costs and administrative expenses totaled PLN 339 million and were lower by 6.9% (yoy). Savings were derived mainly from decreasing the following expenses: other materials and energy, external services and labour costs, as well as from a lower change in the value of inventories (yoy).
 - **The minerals extraction tax amounted to PLN 336 million in the 3rd quarter** and to PLN 942 million during the first 9 months of 2016.
 - **The C1 cash cost of producing copper in concentrate was lower in all operating segments** in the 3rd quarter of 2016 and amounted to 1.18 USD/lb in KGHM Polska Miedź (20.8% yoy), 1.73 USD/lb in KGHM International (0.6% yoy) and 2.19 in Sierra Gorda (10.2% yoy).
- **The KGHM Group's net profit amounted to PLN 331 million in the 3rd quarter and was almost ten times higher than for the same period of 2015.** This increase is primarily driven by improved profit on sales, which amounted to PLN 695 million in the comparable period and increased by 36.8% (yoy), with additional positive impact of FX differences on the value of the Group's debt, which substantially offset the lower net result of Sierra Gorda and the loss on exchange differences from the measurement of assets and liabilities other than debt.
- **Consolidated cash expenditures amounted to PLN 697 million in the 3rd quarter**, which means a drop by 28.4% (yoy). KGHM Polska Miedź S.A.'s capital expenditures on the development of mining and metallurgical activities amounted to PLN 421 million, while capital expenditures on replacing equipment and maintaining these activities to PLN 186 million. Total capital expenditures by Sierra Gorda in the 3rd quarter of 2016 continued to be related to pre-stripping to access further parts of the orebody and amounted to PLN 193 million (PLN 106 million for KGHM's 55% share).
- **Net debt amounted to PLN 7,214 million at the end of the 3rd quarter** and was 10.1% higher compared to its level at the end of 2015 and the ratio of net debt to adjusted EBITDA² was 1.8. The increase in debt in the first nine months of 2016 reflects mainly financing of projects and payment of the first tranche of the dividend.

Stefan Świątkowski, Vice-President and CFO of KGHM Polska Miedź S.A. commented: „The third quarter was the most profitable quarter for the KGHM Group this year, driven by consistency in cost discipline – operating costs decreased by 7% compared to the same period last year – and sales revenues increasing quarter by quarter in 2016.”

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² Adjusted EBITDA reflecting the 55% of EBITDA in Sierra Gorda, which results are accounted for using the equity method.

PLN mn	3 months ended 30.09.2016	3 months ended 30.09.2015	Change (PLN mn)	Change (%)
Sales Revenue	4,685	4,800	(115)	-2.4%
Total cost of sales, selling costs and administrative expenses	(3,990)	(4,292)	+302	+7.0%
Adjusted EBITDA	1,089	1,017	+72	+7.1%
Profit on sales	695	508	+187	+36.8%
Profit for the period	331	34	+297	+873.5%

PLN mn	9 months ended 30.09.2016	9 months ended 30.09.2015	Change (PLN mn)	Change (%)
Sales Revenue	13,141	14,860	-1,719	-11.6%
Total cost of sales, selling costs and administrative expenses	(11,328)	(12,586)	+1,258	+10.0%
Adjusted EBITDA	3,151	3,709	-558	-15.0%
Profit on sales	1,813	2,274	-461	-20.3%
Profit for the period	629	1,228	-599	-48.8%