



**KGHM**

POLSKA MIEDŹ S.A.

## **Company Results after 9 months 2013**

November 2013

# Agenda



- ✓ Strategic priorities of KGHM
- ✓ KGHM Polska Miedź S.A. economic results
- ✓ KGHM International economic results

## Strategic priorities of KGHM



**Commission the Sierra Gorda mine**



**Ensure stable, high cash flows**



**Create a global organisation**



**Further enhance skills**



**Continue to grow**

## Key Management Board initiatives



**Herbert Wirth**  
*President of the Management Board*

- Manage results
- Victoria project
- Global corporate center
- Global procurement



**Jarosław Romanowski**  
*1st Vice President of the Management Board, Finance*

- Sierra Gorda commissioning
- VCP (Value Creation Plan) projects in Poland and KGHM International
- Optimise global taxation
- Financing strategy
- Optimise working capital
- Sales strategy
- Dividend policy



**Marcin Chmielewski**  
*Vice President of the Management Board, Corporate Affairs*

- Optimise management of Group companies
- Global corporate center
- Restructure non-core companies



**Jacek Kardela**  
*Vice President of the Management Board, Development*

- Głogów Głęboki Przemysłowy (Deep Głogów)
- Pyrometallurgy Modernisation Program
- Develop Żelazny Most tailings pond
- Optimise CAPEX
- Build an investment skills center



**Wojciech Kędzia**  
*Vice President of the Management Board, Production*

- VCP (Value Creation Plan) projects in Poland and KGHM International
- „Safe Company” policy
- Skills center
- production methods



## Execution of Sierra Gorda project

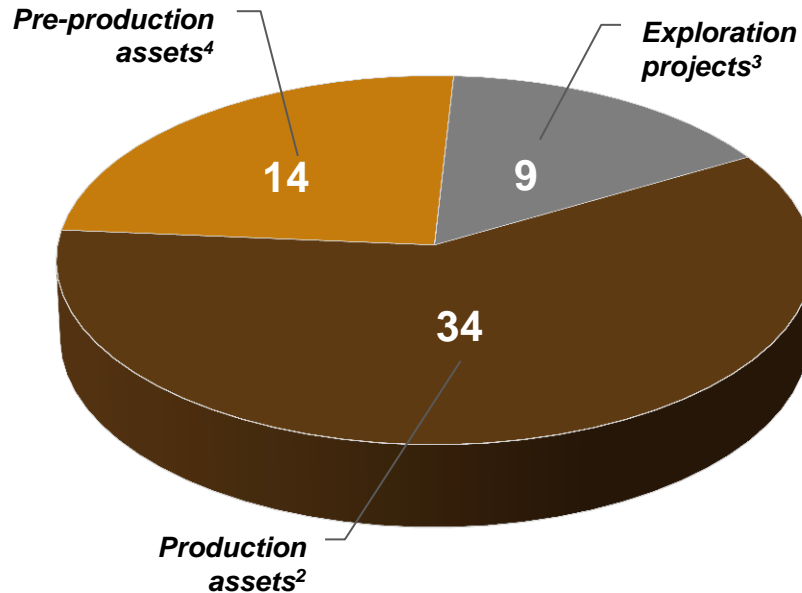


- ✓ Project remains on schedule to commission the mine in the second quarter of 2014
- ✓ Overall progress at 30 September 2013: 70%
- ✓ Construction of seawater pipeline  $\frac{3}{4}$  complete, tailings storage facility over  $\frac{1}{2}$  complete and  $\frac{1}{2}$  of the plant construction complete
- ✓ During the quarter there was significant progress on concrete and steel foundations
- ✓ Pre-stripping at 30 September at 63% of the amount required before commissioning
- ✓ Around 90% of the CAPEX of USD 3.9B committed
- ✓ Around USD 2.9B of the committed amount has been incurred

## Priority of Management: optimal management of projects portfolio

**KGHM Polska Miedź has a portfolio of mining projects at every development stage**

**Resources<sup>1</sup>**  
(Mt Cu)



- ✓ Production assets – focus on optimising costs



- ✓ Pre-production assets – project execution through tight investment discipline



- ✓ The priority of the Management Board is to optimise management of the projects portfolio – further acquisitions will be considered after Sierra Gorda is commissioned

<sup>1</sup> For KGHM Polska Miedź – measured and indicated mineral resources, for KGHM International – total measured, indicated and inferred mineral resources

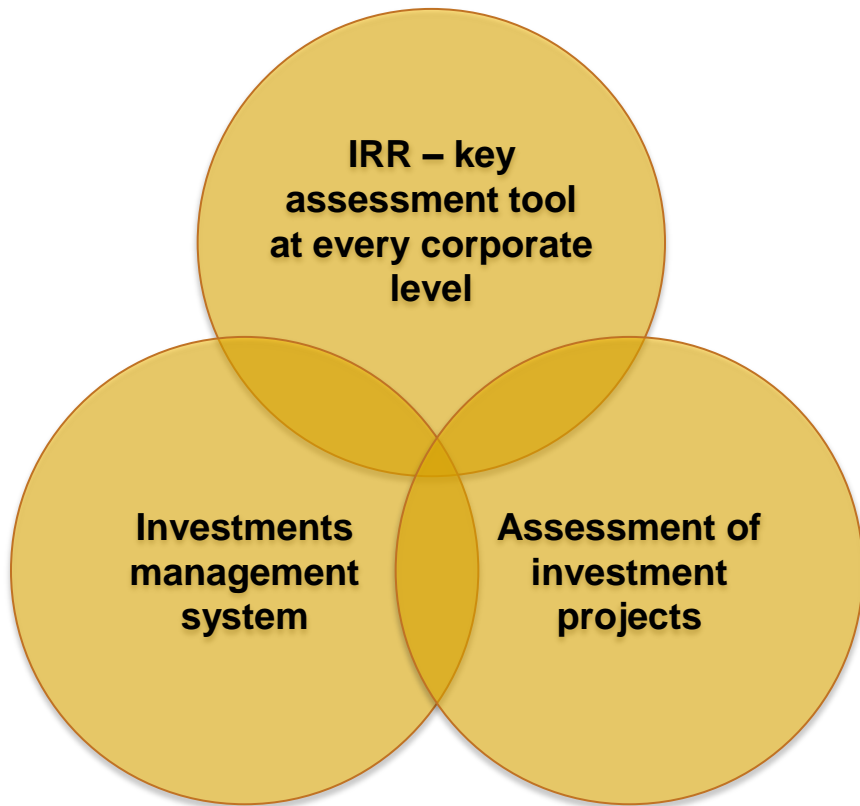
<sup>2</sup> LGOM, Robinson, Carlota, Franke, Levack-Morison, Podolsky, McCreedy.

<sup>3</sup> Kirkwood, Synklina Grodziecka, Retków Ścinawa, Gaworzyce – Radwanice.

<sup>4</sup> Sierra Gorda, Głogów Głęboki Przemysłowy, Ajax, Victoria.

# Optimisation of the investments management process

- ✓ Execution of investment projects based on principle of capital responsibility
- ✓ IRR the key tool in assessing investments



Strategic area	Means of achievement	Measured by	Target value
Expenditures on replacements	<ul style="list-style-type: none"> <li>• Rationalisation of expenditures</li> </ul>	<ul style="list-style-type: none"> <li>• Total investment expenditures</li> </ul>	<ul style="list-style-type: none"> <li>• Equal to depreciation</li> </ul>
Expenditures on sustaining investments	<ul style="list-style-type: none"> <li>• Optimisation of projects and investment programs</li> </ul>	<ul style="list-style-type: none"> <li>• IRR for a given investment</li> </ul>	<ul style="list-style-type: none"> <li>• At least equal to WACC</li> </ul>
Expenditures on development investments	<ul style="list-style-type: none"> <li>• Optimisation of projects and investment programs</li> </ul>	<ul style="list-style-type: none"> <li>• IRR for a given investment</li> <li>• PI<sup>1</sup> for a given investment project</li> </ul>	<ul style="list-style-type: none"> <li>• Above WACC</li> <li>• (Maximalisation)</li> </ul>

# Value Creation Plan projects – the path to limiting cost inflation and improving productivity



## KGHM International

- ✓ Execution of the Value Creation Plan in the Robinson, Morrison and Sierra Gorda mines to bring accrued annual value of USD 80 million from 2014

## KGHM Polska Miedź S.A.

- ✓ Program scope: all production assets of KGHM in Poland (mines, concentrators, smelter/refineries)
- ✓ Program execution – from Q4 2013
- ✓ Main leverages for improvement:
  - Increased mine productivity
  - Improved energy effectiveness (savings) throughout the production chain
  - Optimisation of processing costs at the concentrators and smelter/refineries
- VCP goals closely tied to KPIs and motivation system for Management Staff
- Initial effects of program expected in H2 2014

### Value Creation Plan

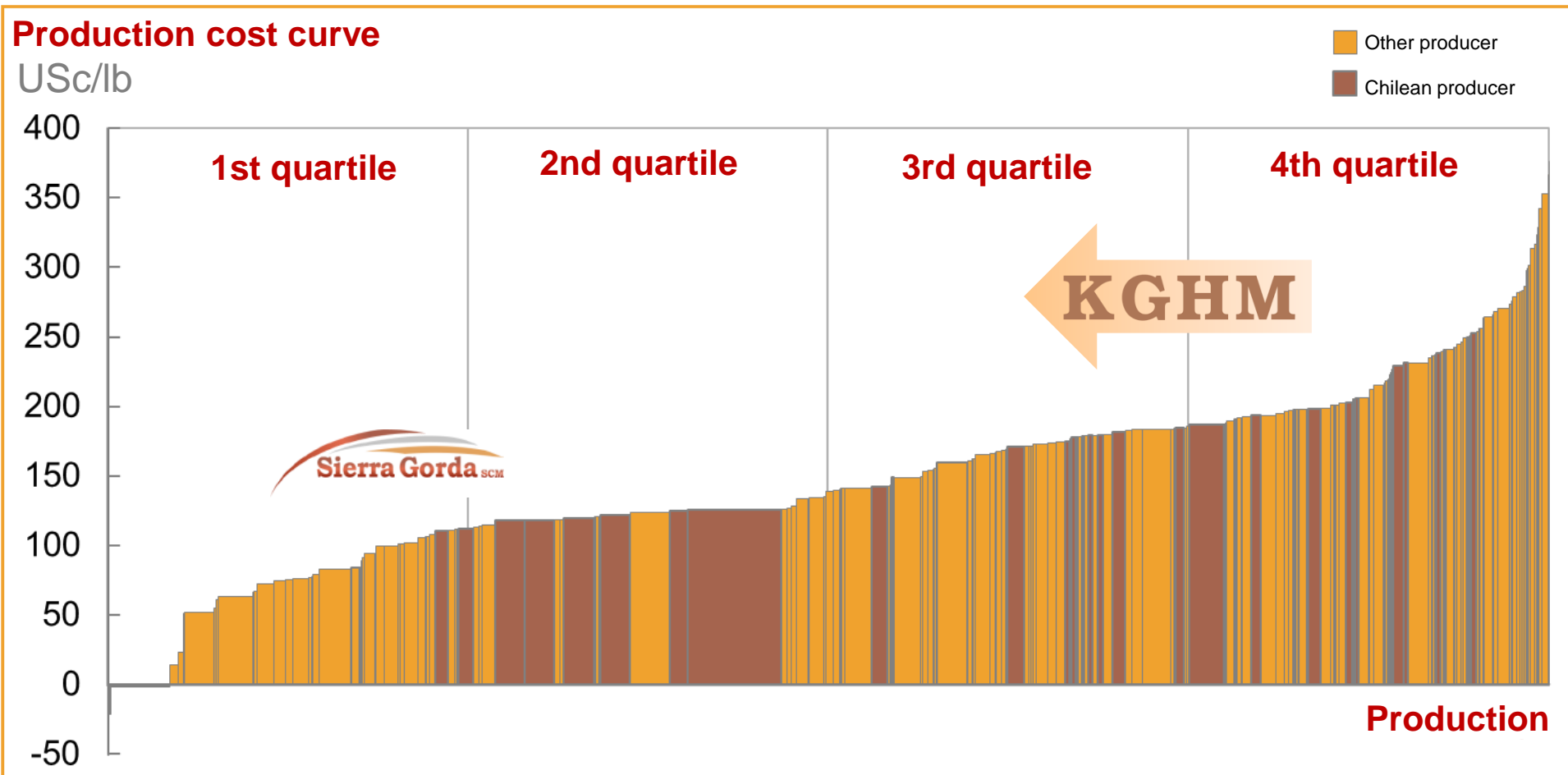
Costs

Investments

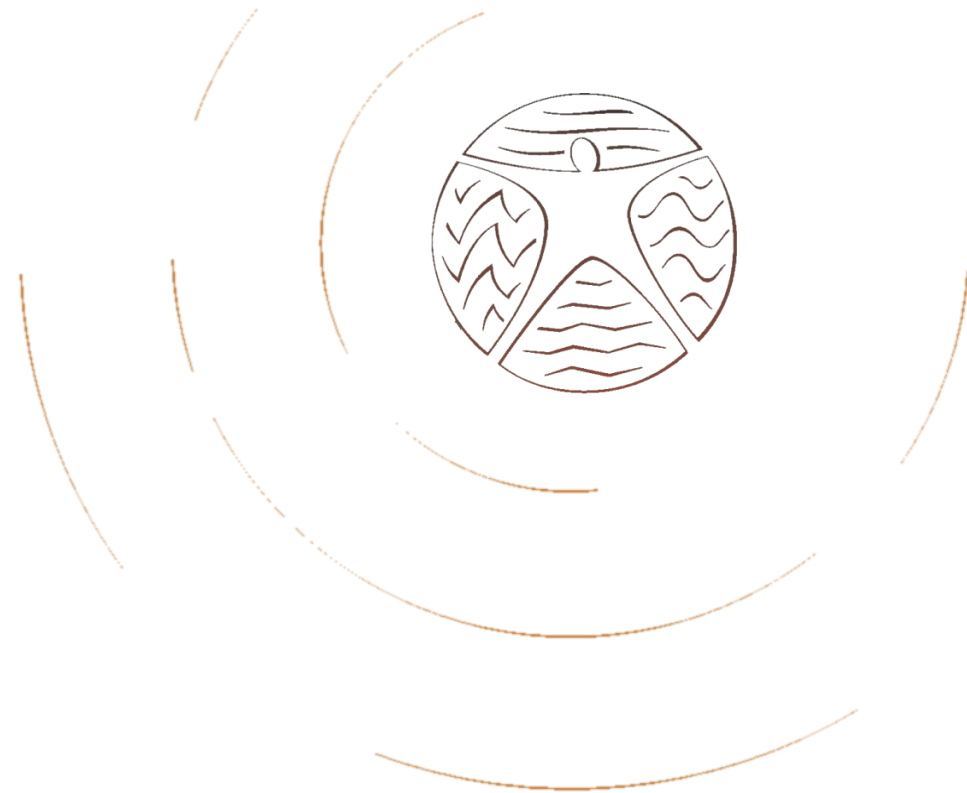
Production



## Future shift of KGHM on the C1 cost curve

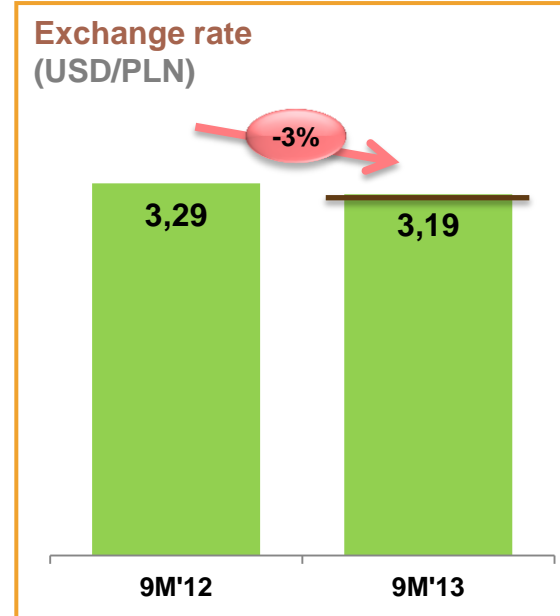
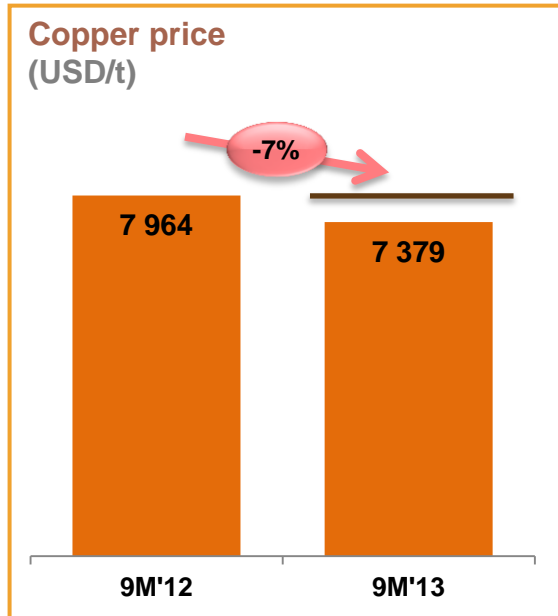


Commissioning the Sierra Gorda project and restricting cost inflation to below that of the average rate of increase in the sector will shift KGHM on the cost curve



# **KGHM Polska Miedź** **economic results**

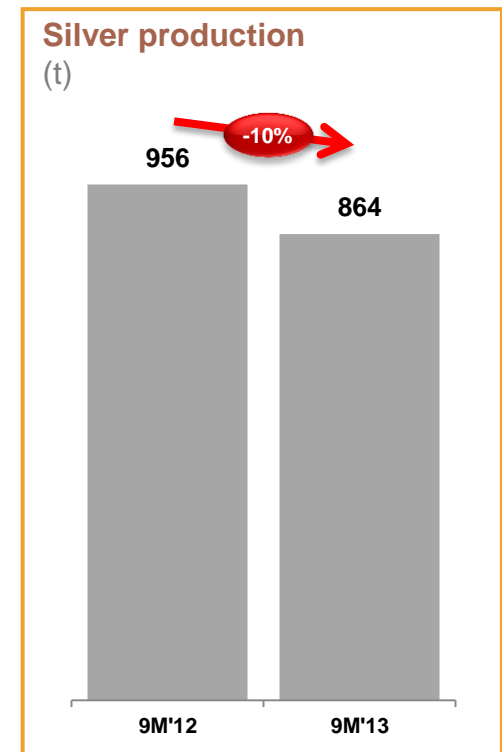
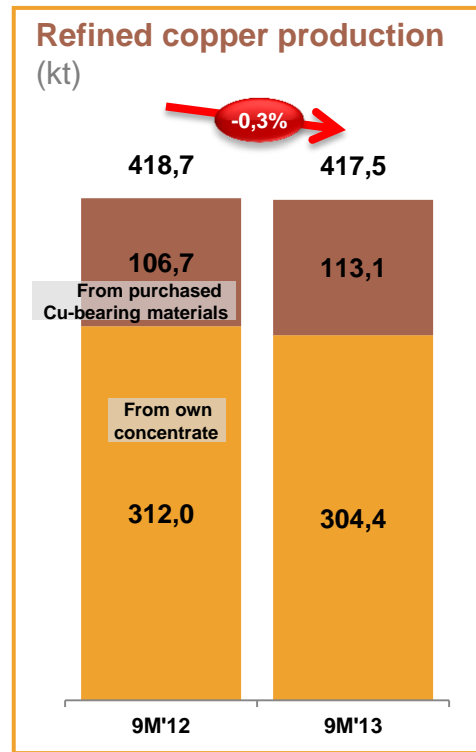
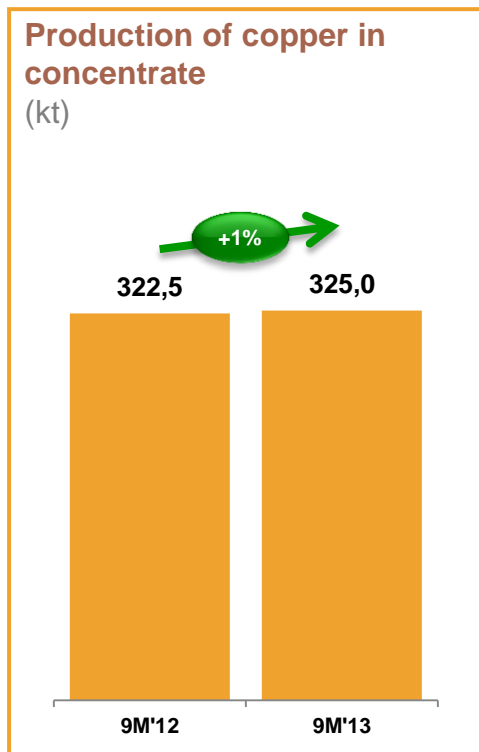
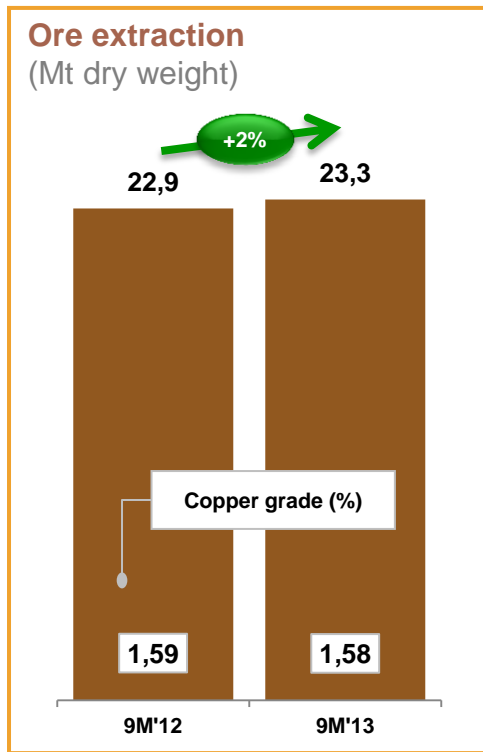
## Significant deterioration in macroeconomic conditions



**Lower metals prices versus the first 9 months of 2012,  
lower USD/PLN exchange rate**

**Assumptions for the exchange rate similar to the company forecast for this period,  
significantly lower copper and silver prices – respectively by 7% and 22%**

## Stable copper production despite maintenance at the Głogów smelter



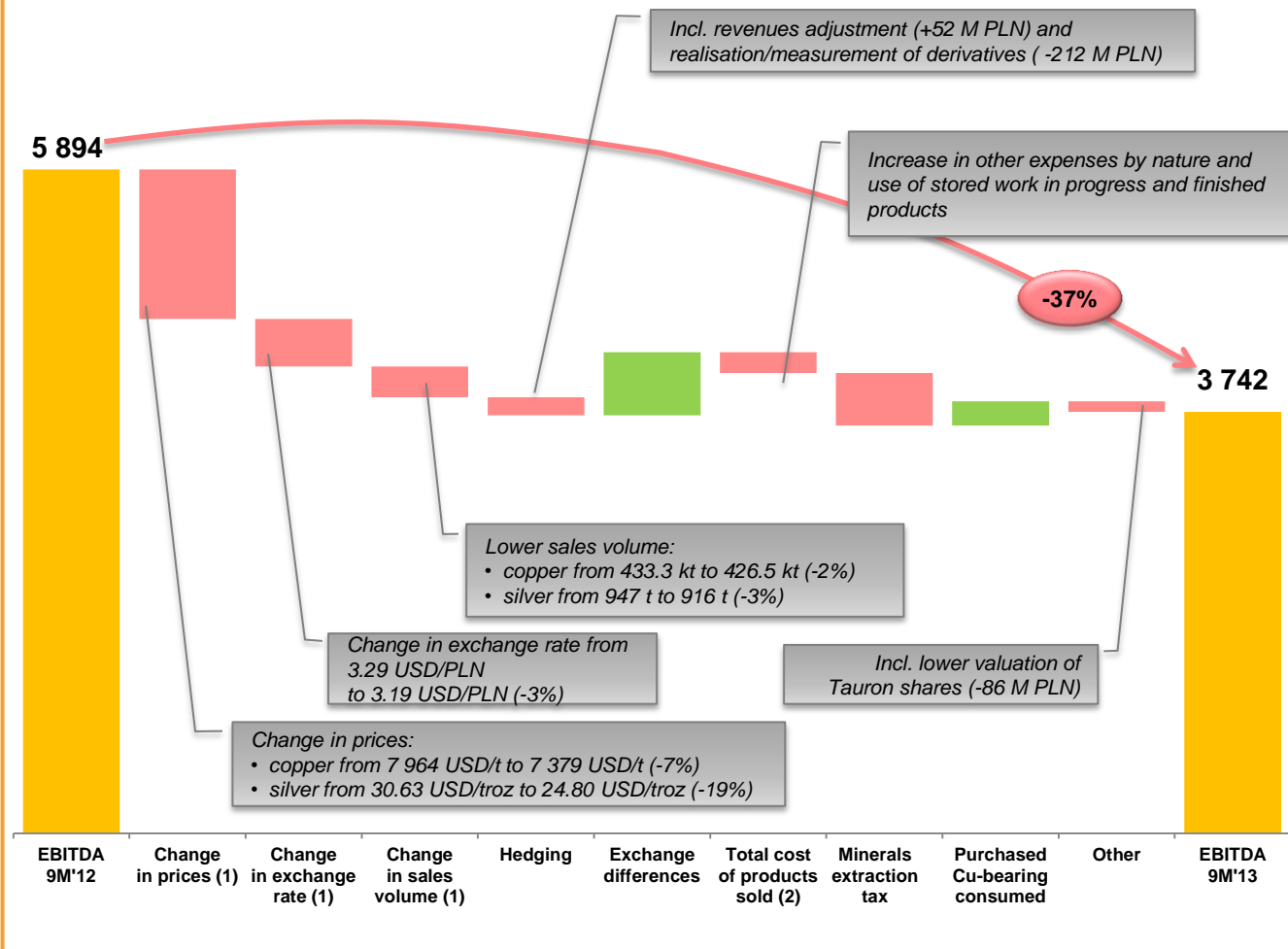
- ✓ Despite lower ore quality, thanks to higher extraction (by 2%), production of copper in concentrate increased slightly

**Electrical furnace maintenance at Głogów II smelter completed on 22 October**

- ✓ Due to the maintenance shutdown at Głogów in Q3 the structure of refined copper production changed – higher production from purchased materials
- ✓ Lower silver production vs the comparable prior period due to the maintenance shutdown of the Precious Metals Plant at Głogów

# Lower EBITDA mainly due to deterioration of macroeconomic conditions and to higher paid minerals extraction tax

Change in EBITDA of KGHM Polska Miedź S.A. (M PLN)



The main causes of lower Company EBITDA were:

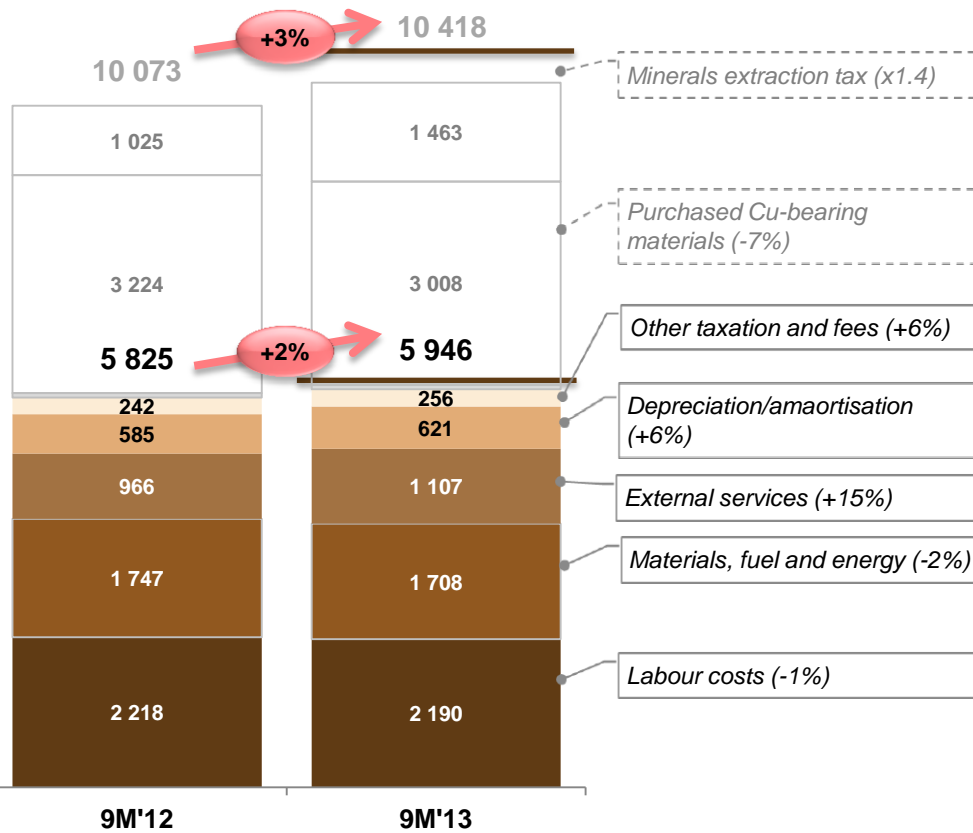
- the deterioration in macroeconomic conditions – both metals prices and exchange rate
- impact on profit of the minerals extraction tax for the full first 9 months of 2013
- a lower sales volume (maintenance at Głogów smelter)

The decrease in results was limited by:

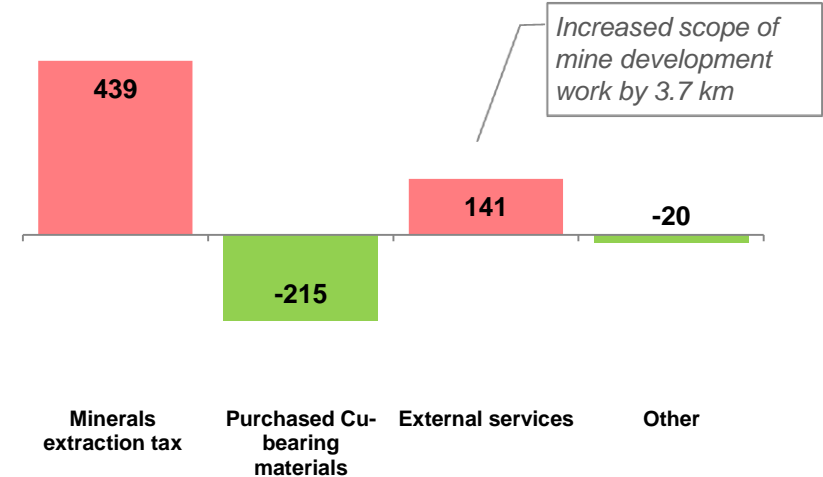
- a better result on exchange differences
- the lower value of purchased copper-bearing materials consumed

# Cost discipline maintained

Expenses by nature (M PLN)



Structure of change in expenses by nature (M PLN)



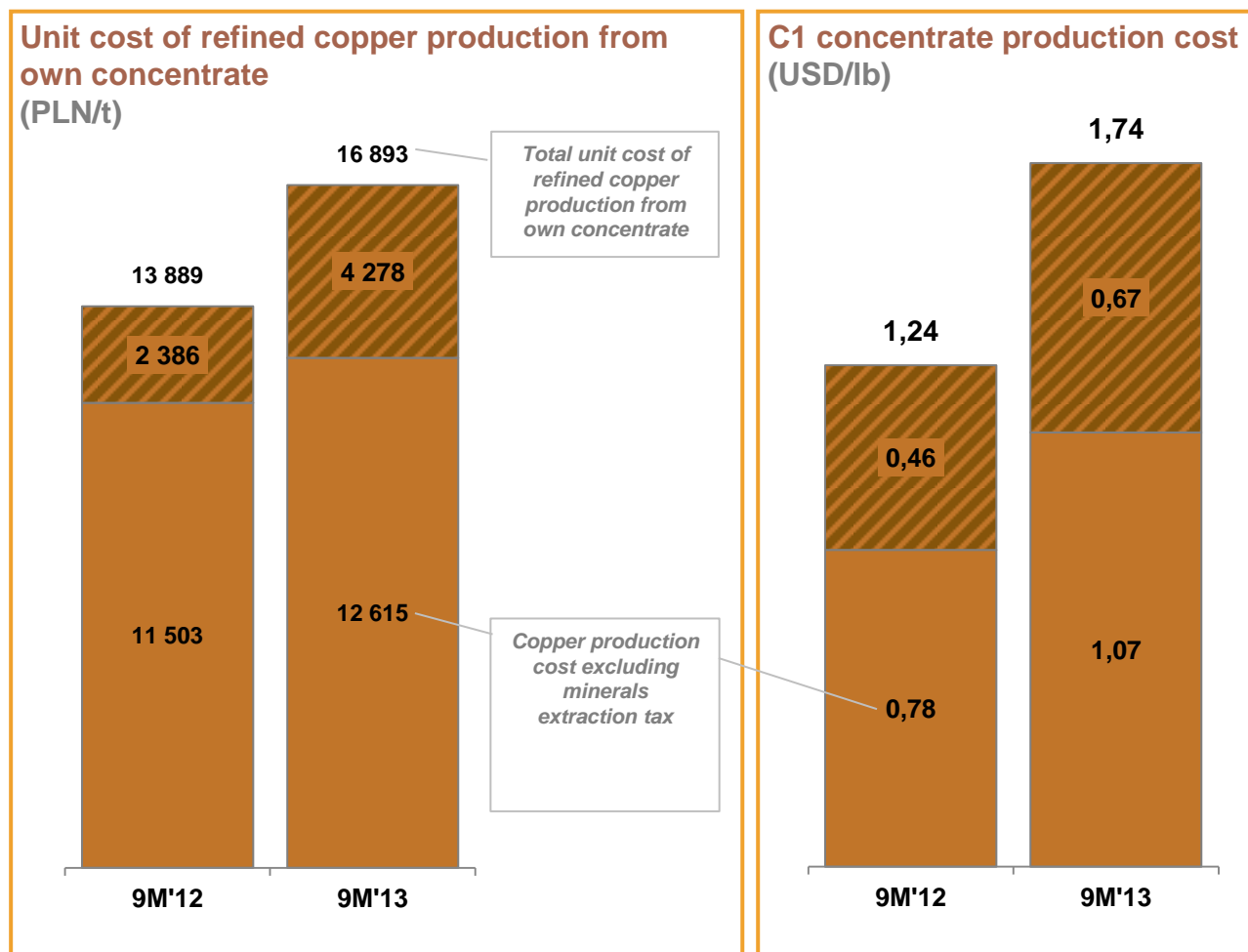
The increase in expenses by nature by 3% was mainly due to the recognition in 2013 costs of the minerals extraction tax for the full 9 months (in 2012 – from 18 April)

Expenses by nature, excluding purchased Cu-bearing materials and the minerals extraction tax, increased versus the comparable prior period by 2%, mainly due to the increase in mine development work

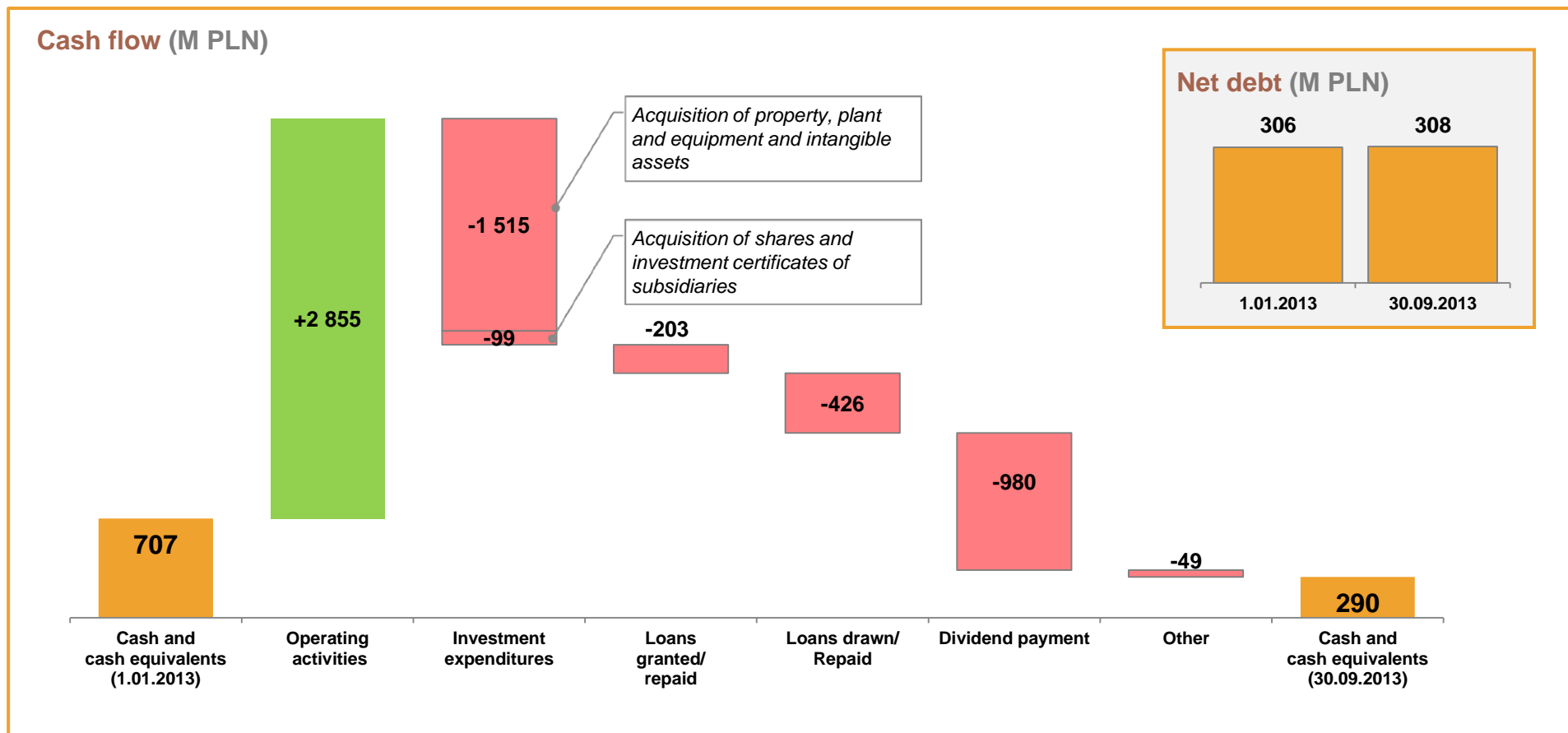
## The minerals extraction tax was the main cause of the increase in unit cost

### The change in the **total unit cost of refined copper production from own concentrate** was due to:

- introduction of the minerals extraction tax
- an increase in external services costs mainly due to higher maintenance costs (at Głogów II)
- an increase in mine development costs (scope of work higher by 12%)
- production volume lower by 2%
- less favourable valuation of by-products due to lower silver and gold prices
- higher depreciation due to a higher scope of investments in property, plant and equipment



## Operating cash flow enabled the financing of investments and payment of the first instalment of the dividend

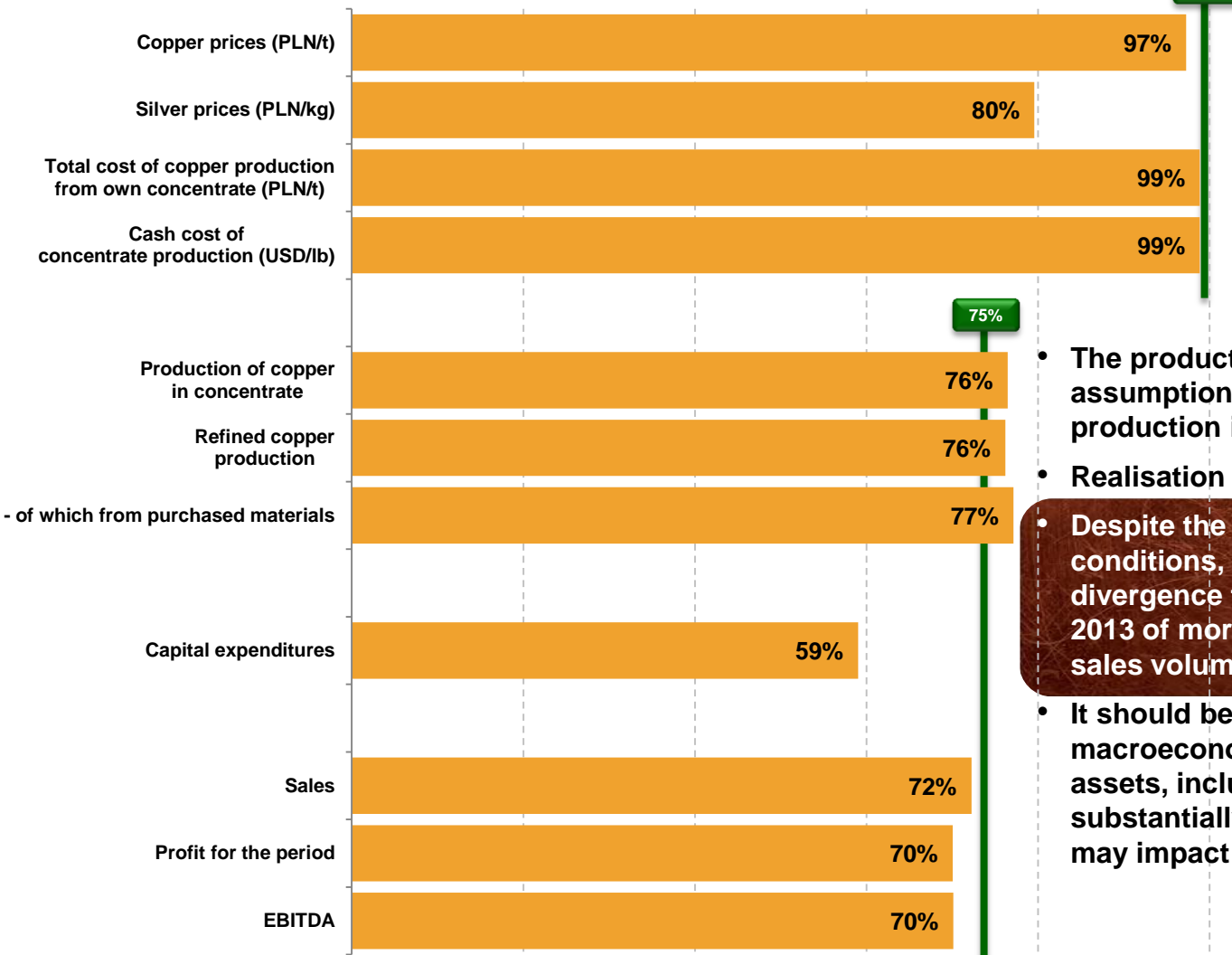


**In the first 9 months of 2013 cash resources decreased by PLN 417 million alongside loan repayment of PLN 426 million**



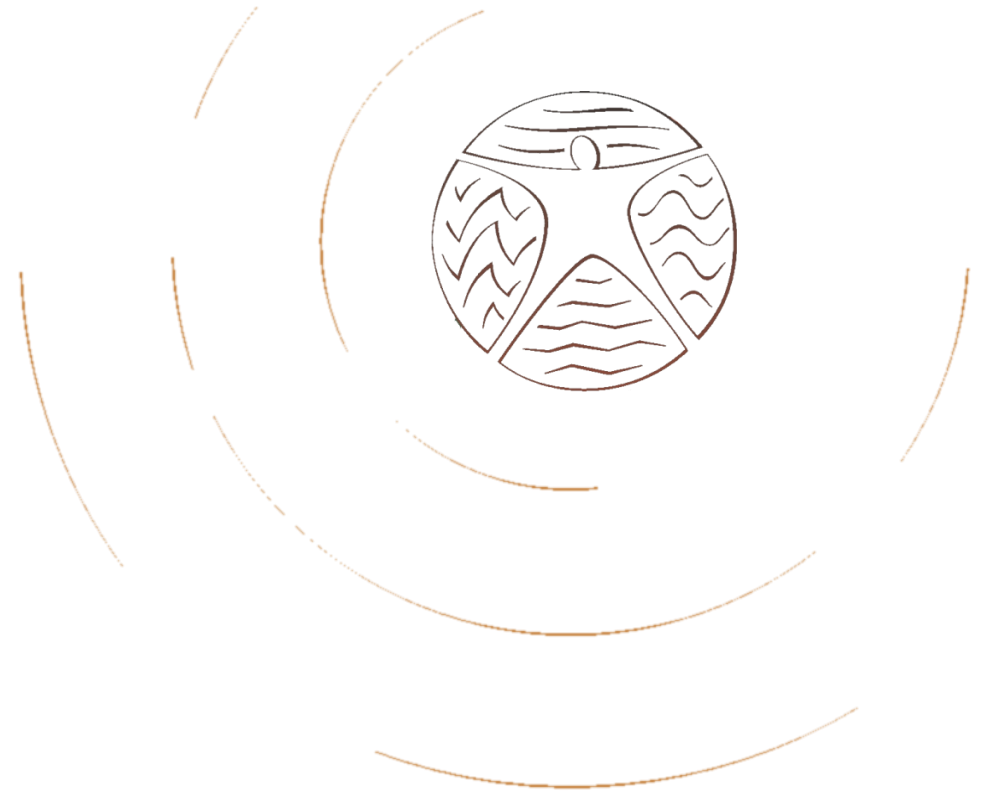
# No adjustment expected to forecast of results for 2013

Realisation of Budget assumptions for 2013 after the first 9 months (%)



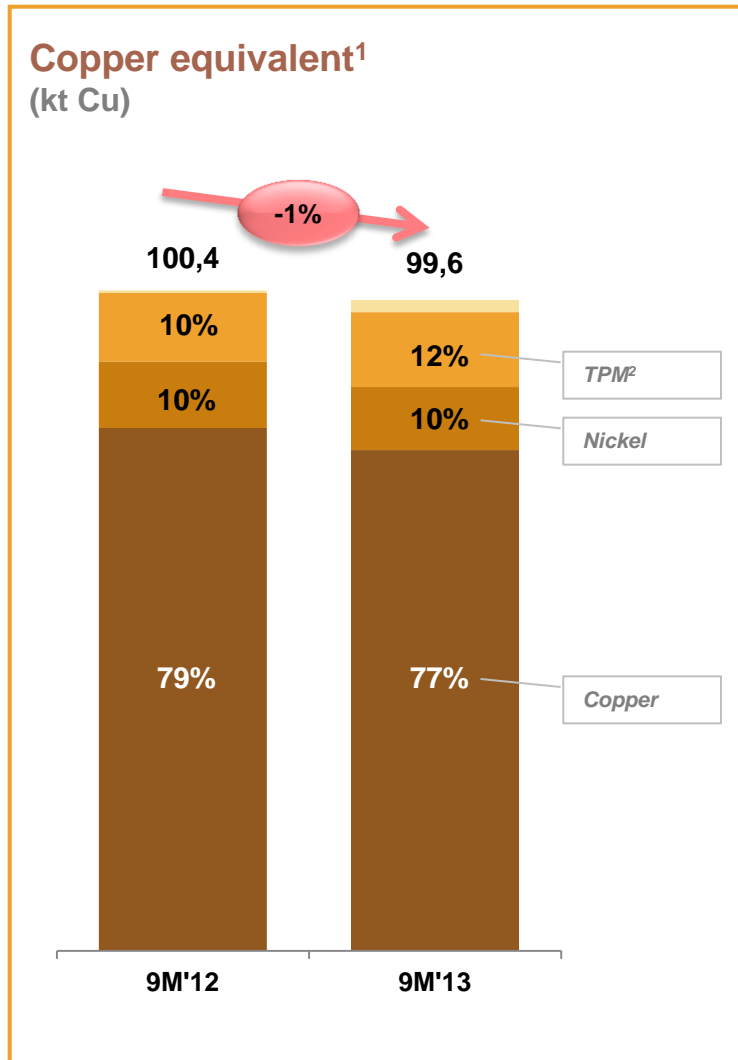
- After the first 9 months copper prices are similar to those assumed for 2013, though silver prices are significantly lower
- Unit cost is lower than planned, mainly due to a lower impact by the minerals extraction tax

- The production plan is in line with Budget assumptions, with the company assuming higher production in Q4 2013 versus the forecast
- Realisation of the investment plan is on schedule
- Despite the deterioration of macroeconomic conditions, the company does not expect a divergence from the financial results forecast for 2013 of more than 10%, mainly due to an increase in sales volume
- It should be remembered that in conditions of high macroeconomic volatility, the value of financial assets, including derivatives, may fluctuate substantially, and at the end of the reporting period may impact the profit for the period



# KGHM International economic results

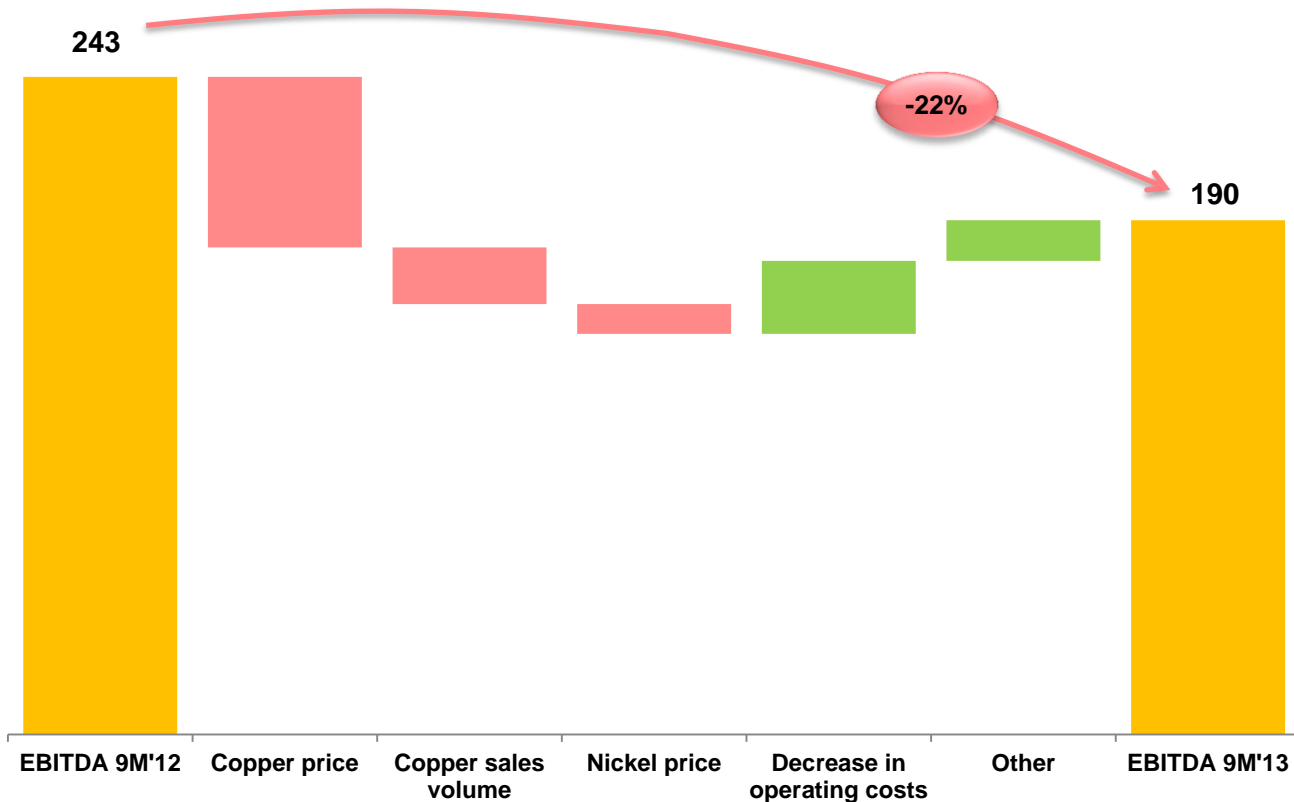
## Stable production of copper equivalent



- ✓ Production of copper equivalent<sup>1</sup> only slightly decreased
- ✓ The main cause of the decrease in copper production was the conclusion of production by the Podolsky mine in the first quarter of 2013 (5 kt Cu)
- ✓ The increase in TPM (total precious metals) production was mainly due to increased gold production by the Robinson mine as a result of higher recovery and higher average gold grade in concentrate.

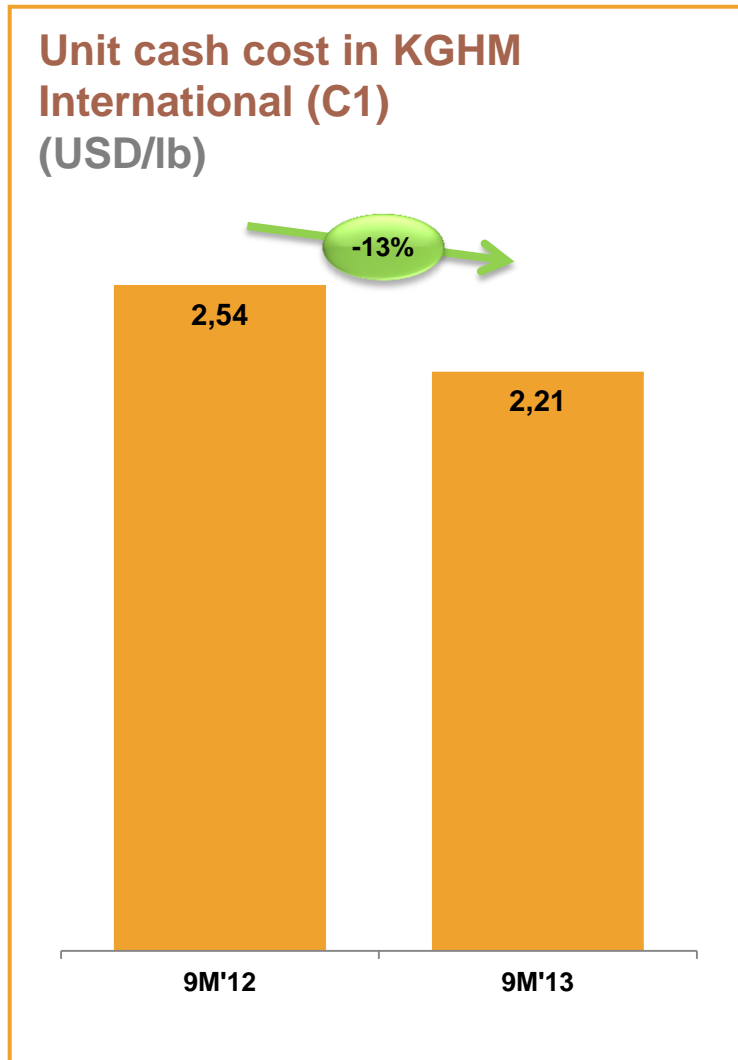
## Lower copper prices mainly responsible for the lower result

Adjusted EBITDA<sup>1</sup> (M USD)



- ✓ EBITDA decreased by USD 74 million due to the decline in Cu and Ni prices
- ✓ The decrease in copper sales volume by 8 kt (including 5 kt due to closure of the Podolsky mine) caused a decrease in EBITDA of USD 21 million.
- ✓ The decrease in EBITDA was partially offset by the decrease in cost of sales due to reduction in operating cost

## Lower C1 cost



C1 cost was lower mainly due to:

- ✓ capitalisation of expenditures related to accessing ore in 2014 (overburden/waste removal)
- ✓ lower production costs related to improved mill performance at Robinson
- ✓ higher recoveries and TPM content at the Robinson mine, and consequently higher revenues from by-product sales

# Ajax Project



AJAX

Cu

Au



Reserves	~503 Mt @ 0.27% Cu; 0.17 g/t Ag
Ownership	80% KGHM PM S.A, 20% Abacus Mining
Mine type	Open pit
Status	Additional exploration- assessment

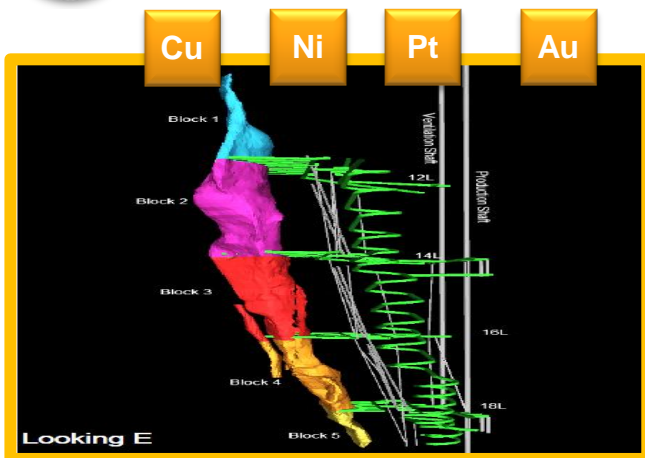
## Accomplishments

- Work continues on changing the mine plan, which will result in lower impact by the mine on nearby municipal infrastructure. The plan was positively reviewed by an independent technical advisor.
- Geophysical work in progress, which has shown substantial additional potential for copper mineralisation within the territory covered by the Afton-Ajax project.
- The company plans to apply for permits to build the mine after detailed analysis of the changes to the mine plan and assessment of the area under additional exploration.
- KGHM International is continuing to build good relations with local and federal officials, who are strategically important in the process of receiving environmental permits.

# Victoria will be the second most important project, after Sierra Gorda, of KGHM International



## VICTORIA



**Reserves** ~14.9 Mt @ 2.4% Cu, 2.5% Ni, 7.4 g/t TPM

**Ownership** 100% KGHM International

**Mine type** Underground

**Status** Preparation of surface infrastructure

## Accomplishments

- Preparation underway of mine surface infrastructure.
- Exploration work has documented over **2 Mt** of copper equivalent. This amount may increase following sinking of a shaft and further exploratory work.
- A new approach has been developed to building the mine in four stages. Start of production is planned in the period 2018/2019.

## Surface infrastructure



