



**KGHM**

POLSKA MIEDŹ S.A.

Results of the  
KGHM Polska Miedź Group  
for the first nine months  
of 2014

14 November 2014

## Third quarter 2014 summary

### Basic information

- Production statistics:
  - Payable copper: 492.7 kt
  - Metallic silver: 931.5 tonnes
- cash cost C1 (USD/lb)
  - KGHM PM S.A: 1.82
  - KGHM International: 2.31
- Sierra Gorda mine commissioned
- Concession received for exploration in the Puck region

### First shipment of concentrate from Sierra Gorda



### On-going ramp-up of the Sierra Gorda mine

ktpd



### KGHM Group financial results

- **Sales:** PLN 14.72 billion
- **EBITDA:** PLN 3.91 billion
- **Profit for the period:** PLN 1.78 billion

## First shipment of concentrate from the Sierra Gorda mine

Sierra Gorda		Cu	Mo	Au
▪ <b>Average annual production</b>	220 kt Cu 25 Mlbs Mo 64 koz Au			
▪ <b>Ownership</b>	55% KGHM 45% Sumitomo			
▪ <b>Mine type</b>	Open pit			



### Progress

- On 30 July 2014 the Sierra Gorda mine in Chile commenced production.
- The first shipment of copper concentrate was sent from Sierra Gorda to the Toyo smelter in Japan. The ship, with around 6 thousand tonnes of copper concentrate, sailed from the port of Antofagasta on Saturday, 25 October.
- Thanks to an increase in resources, the planned mine life was extended to 23 years.
- Work continues related to phase 2 of the investment. The technical analyses underway will show the optimal scenario for developing the plant's processing infrastructure, which will enable a substantial increase in copper production in coming years.



## 1 October 2014 - official opening ceremony for the Sierra Gorda mine



### The mine was given the honorary name of Ignacy Domeyko

- Over 600 guests participated in the mine's inauguration. Chile was represented by President Michelle Bachelet, Ignacio Moreno, Under Secretary of State in the Ministry of Mining, and Valentin Volta, Governor of the Antofagasta region.
- The Polish government was represented by Zdzisław Gawlik, the Secretary of State in the Ministry of the State Treasury, as well as Katarzyna Kacperczyk, Under Secretary of State in the Ministry of Foreign Affairs.
- Attending on behalf of the Japanese government was Norihiko Ishiguro, Vice Minister for International Affairs, Ministry of Economy, Trade & Industry.
- During the opening ceremony the mine was named in honor of Ignacy Domeyko, a Polish geologist who spent most of his life in Chile and contributed to the industrial, social and cultural development of the country.

## Sierra Gorda - progress

**Pit**



**Shovel at work**



**Second stage crushing**





## Victoria – steady progress in mine development

### Victoria

Ni

Cu

Pt

Pd

Au

- |                                    |   |
|------------------------------------|---|
| ▪ <b>Average annual production</b> | ~16 kt Ni<br>~15 kt Cu<br>~150 koz TPM* |
| ▪ <b>Ownership</b>                 | 100% KGHM                               |
| ▪ <b>Mine type</b>                 | Underground                             |



### Progress

- In the first three quarters of 2014 work was carried out on levelling land for the construction of mine infrastructure.
- Work was completed on sinking of the ventilation adit shaft.
- Work began to prepare the terrain for the hoisting machinery foundations.
- Work continues on the Integrated Development Study, whose elements include a detailed project schedule, budget and operational plan.
- The shaft shield design was confirmed. Engineering work continues on the shaft tower and infrastructure.

\*TPM – total precious metals (gold, platinum and palladium)

## Deep Głogów – guarantor of stable production by KGHM

### Deep Głogów

Cu

Ag

- **Average annual production** ~290 Mt @ 2.4% Cu in ore, 79 g/t Ag
- **Ownership** 100% KGHM
- **Mine type** Underground



### Progress

- By the end of Q3 2014 the first mining section to access the Deep Głogów deposit, opened on 1 April 2014 through the Rudna mine, had excavated over 209 thousand tonnes of ore.
- Work continued on deepening the GG-1 ventilation (inlet) shaft using tubing technology. At the end of the third quarter the shaft had reached a depth of 310 meters.
- In 2014 25 thousand meters of tunnels have been excavated together with requisite technical infrastructure
- Design work completed on a modern Surface Ventilation Station with target capacity of 25 MW at the R-11 shaft. Work completed included assembly of the cooling tower and construction of the steel framework as well as of water plumbing and gas infrastructure.

## Gas-Steam Blocks (Polkowice and Głogów)

Key initiative of KGHM in the power generation segment

### Gas-Steam Blocks

▪ <b>Total project budget</b>	PLN 523 million
▪ <b>Start date</b>	2011
▪ <b>Operator</b>	Energetyka Sp. z o.o. (KGHM Group)
▪ <b>Projected electricity price in 2015</b>	Lower than offered on the Polish Power Exchange
▪ <b>Annual production</b>	
▪ <b>Block in Polkowice</b>	300 k MWh electricity and 1 million GJ heat
▪ <b>Block in Głogów</b>	250 k MWh electricity and 0.8 million GJ heat



- The investment in the gas-steam blocks is aimed at securing approx. 1/3 of KGHM's power needs
- KGHM is consistently executing its strategy of gradually gaining independence from energy prices and supplies
- These blocks will enable a reduction in greenhouse gas emissions by 40% as compared to coal-fired plants
- The investment ensures access to cheaper, internally-generated energy as compared to forecasted market prices
- These blocks also ensure greater security for the power systems of the Polkowice-Sieroszowice and Rudna mines as well as the Głogów smelter/refinery complex thanks to the possibility of island mode operation
- In the case of interruptions in power supply from the national grid in Poland, KGHM will be able to rely on its own power plants for its operations



# Potassium-magnesium salts – developing the option to diversify revenue sources

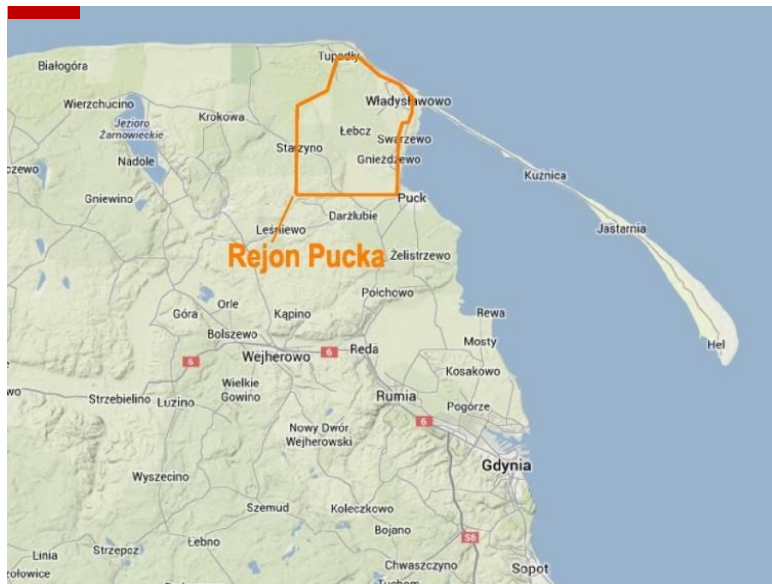
## Puck region

K<sub>2</sub>O

NaCl

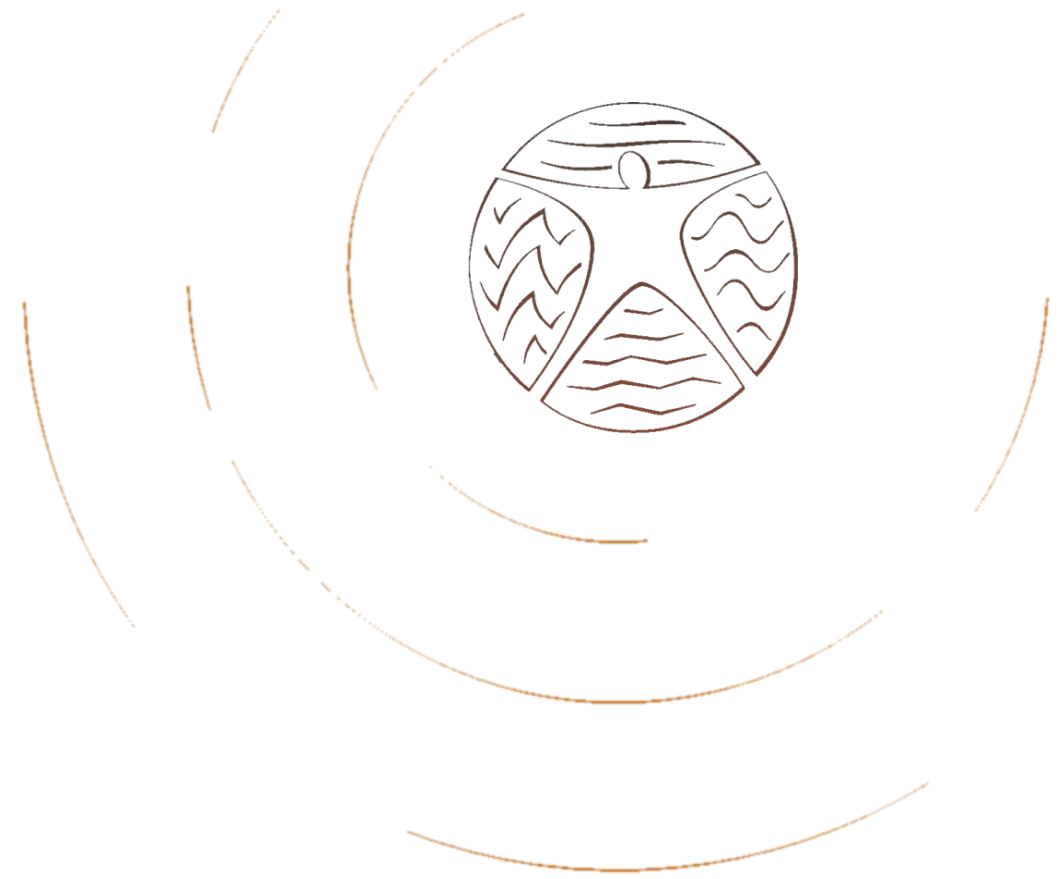
Cu

- **Resources** ~600 Mt @ 7.7 – 13.7 %  
K<sub>2</sub>O
- **Ownership** 100% KGHM
- **Goal** Exploration



## Progress

- In January 2014 an agreement was signed by KGHM with Gdańskie Zakłady Nawozów Fosforowych FOSFOR Sp. z o.o. and Grupa Azoty Zakłady Azotowe „Puławy” S.A. on assumptions for cooperation regarding exploration for, evaluation and extraction of deposits of potassium salts, phosphorus, rock salt and nonferrous metals.
- In October 2014, KGHM received a concession to explore for and investigate potassium-magnesium salts in the Puck region.
- Apart from the main goal of investigating and documenting potassium-magnesium salt resources, there exists the possibility of documenting resources of copper and silver lying below the salt deposits.



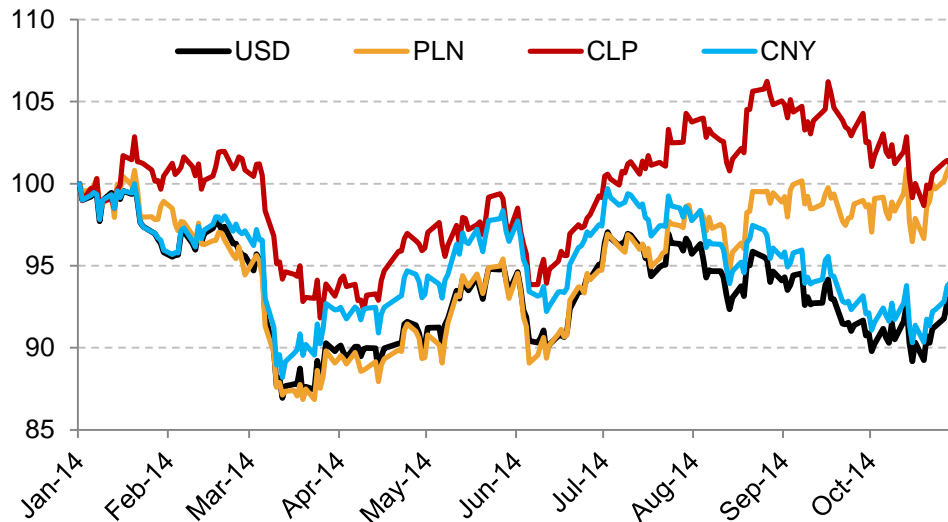
# Macroeconomic outlook

## Price pressure on the metals market

### COPPER

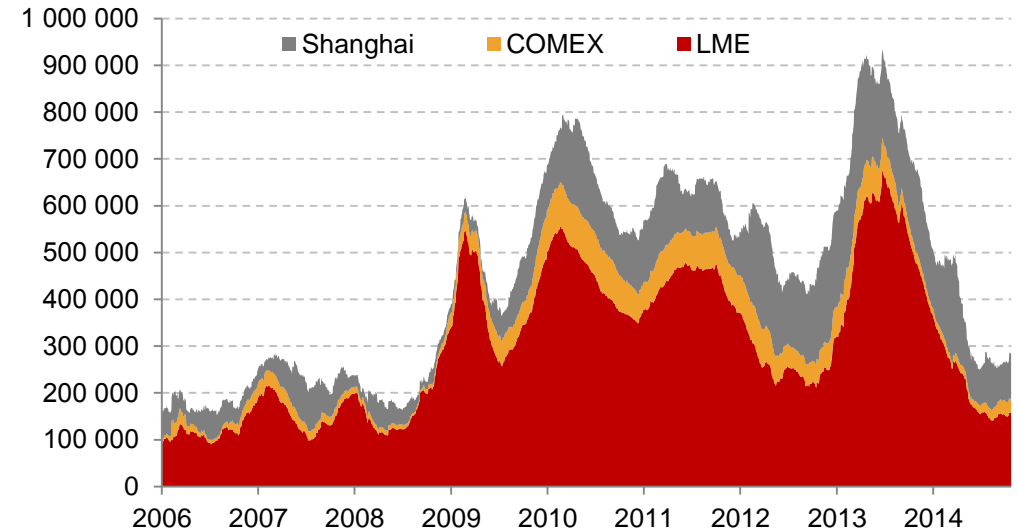
Despite the downturn in the copper price in USD, the red metal's price expressed in the Polish zloty and Chilean peso rose substantially in the third quarter.

Indexed copper price in USD, PLN, CLP and CNY\* [2 January 2014=100]



Copper inventories in official LME, COMEX and SHFE warehouses are at their lowest levels in over 5 years.

Copper inventories\* [in tonnes]



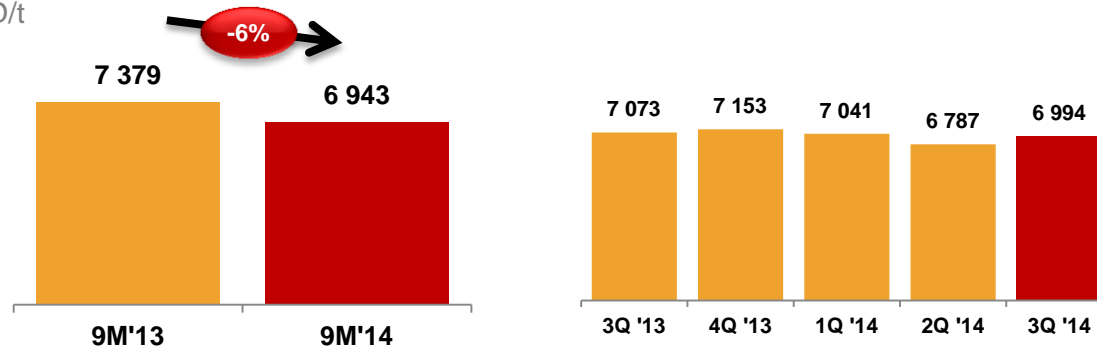
- In the third quarter of 2014 the copper price in USD was mainly impacted by fears about the sustainability of growth in the Euro zone and in China, as well as by the EURUSD exchange rate. The appreciation in the American dollar was due to better than expected economic data as well as to restriction of the quantitative easing program.
- Despite the downturn in the copper price, the price of the metal expressed in the Polish zloty and Chilean peso remains at a high level as a result of the depreciation of these currencies as compared to the USD.
- Copper inventories at the end of September on the three markets (LME, COMEX and SHFE\*\*) amounted to over 265 thousand tonnes, or just over half the amount stored at the start of the year. According to estimates by CRU the amount of material stored in unofficial bonded warehouses in China fell by approx. 30% as compared to their peak at the turn of March and April last year.



## Macroeconomic conditions worse compared to 2013

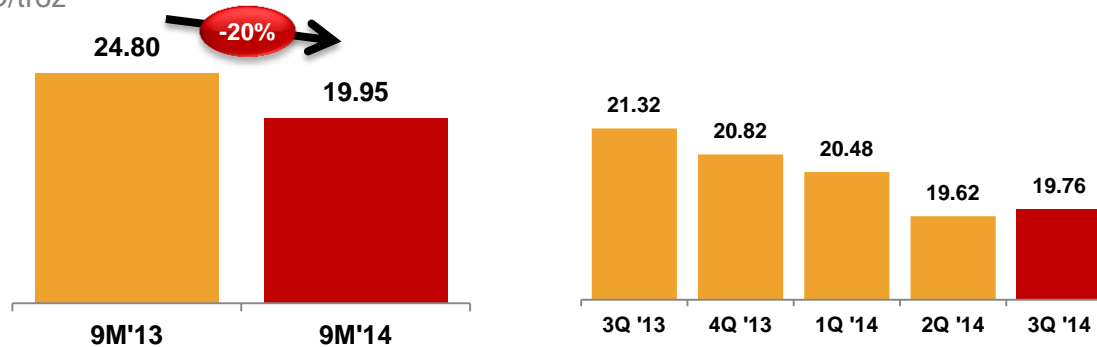
### Copper price

USD/t



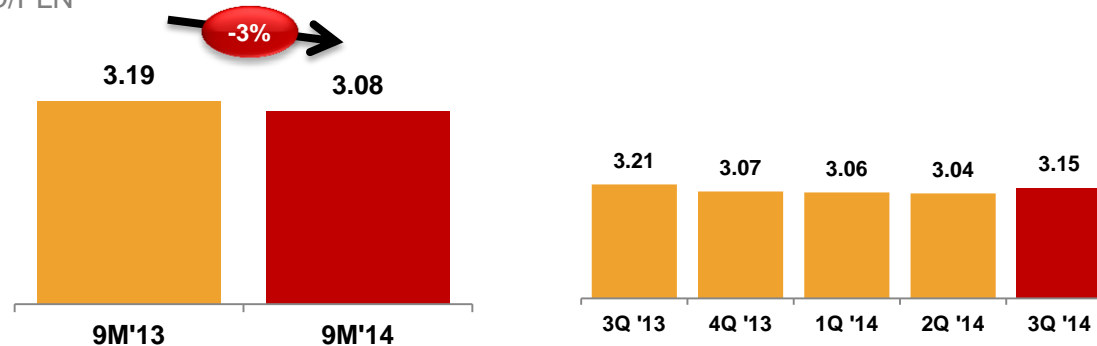
### Silver price

USD/troz



### Exchange rate

USD/PLN

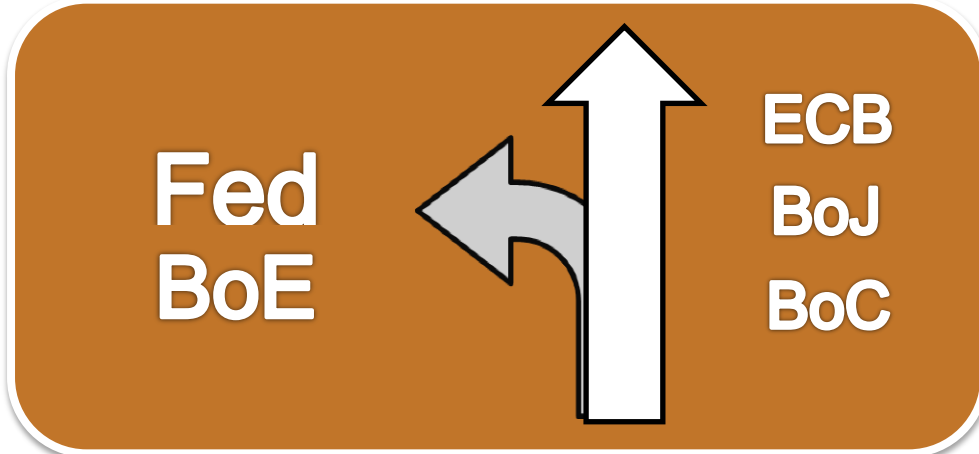


- Copper price: decrease** due to fears about the sustainability of economic growth in the Euro zone and China.
- Silver price: rangebound between 17–22 USD/troz** after last year's downturn, mainly caused by the start of restriction of quantitative easing (QE) and the expected tightening of monetary policy in the USA in 2015. Political events which have recently resulted in a high level of uncertainty, and consequently in positive sentiment towards basic materials, became of secondary importance. The major impact came from the normalisation of interest rates in the USA and to the dynamic appreciation of the USD versus a basket of other currencies, which led to a downturn in precious metals prices.
- Following the announcement of good macroeconomic data in the Polish economy in the first half of the year, signs of a slowdown appeared mainly due to the problems in the Eurozone and to restrictions in trade with Russia. The anticipated decrease in interest rates by the Polish Monetary Council and to the relatively better outlook for the US economy resulted in the **weakening of the Polish zloty versus the USD in the third quarter of 2014.**

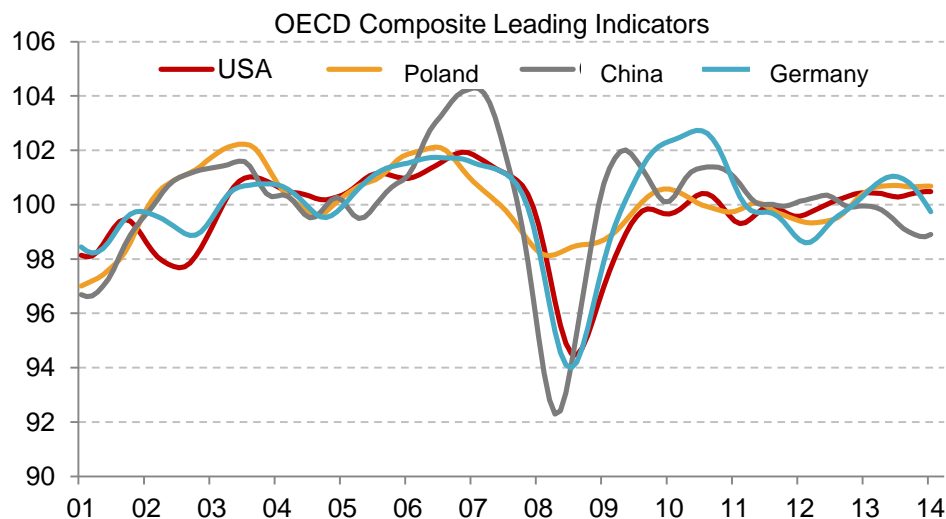
## Upturn in the global economy is expected in 2015

### WORLD

Lack of uniformity in global monetary policy and its experimental character were the main causes of volatility on financial markets



The OECD's Composite Leading Indicators foresee continued growth in the USA and a slower rate of growth in China and Europe



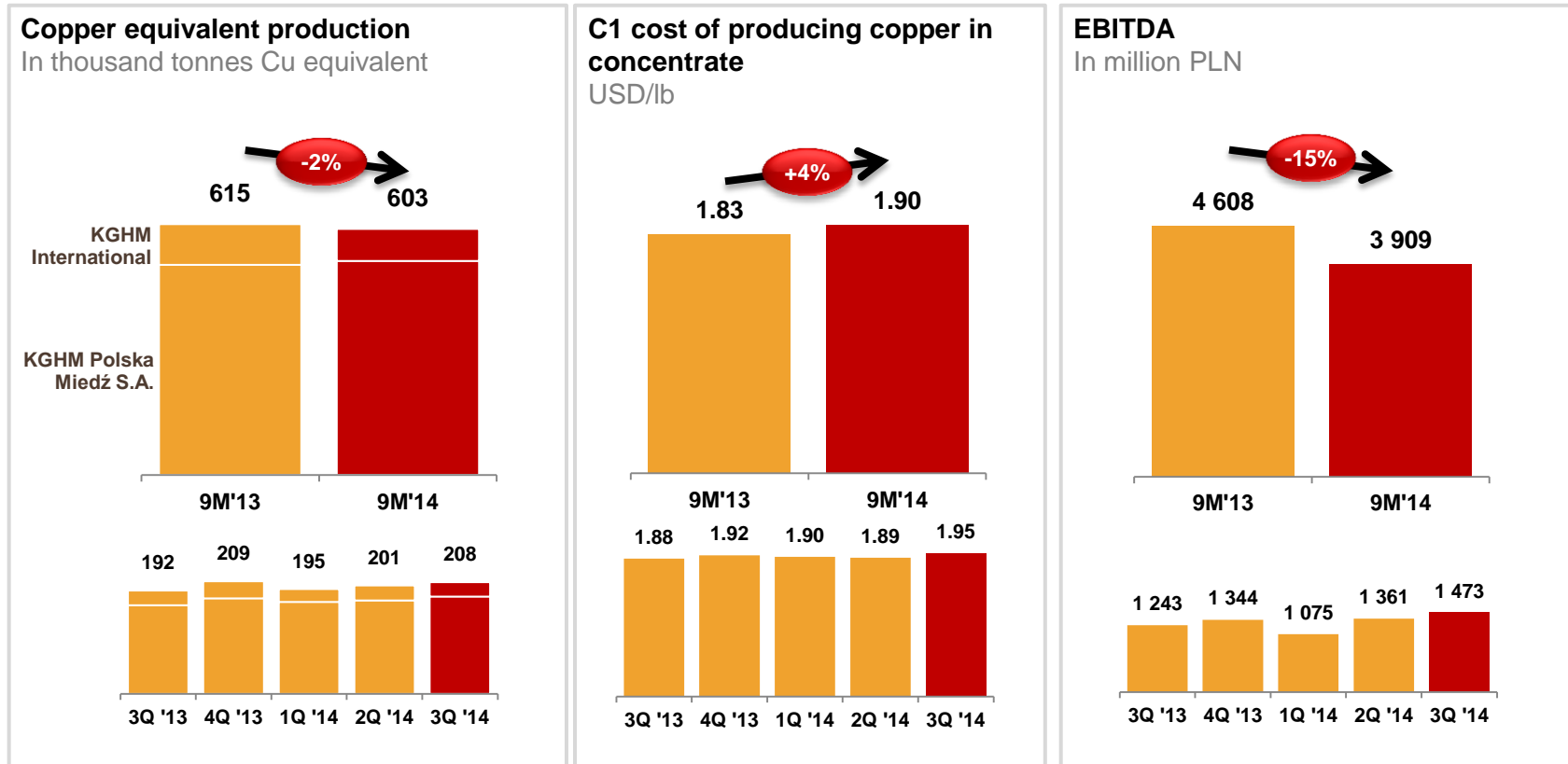
- While monetary policy in developed nations supports economic growth, its effectiveness is much more apparent in the USA than in the Eurozone or Japan. Interest rates in developed nations remain near zero, though the market expects them to increase in 2015 in the USA and the United Kingdom.
- The announced variation in directions being taken by central banks in developed economies and their experimental character are among the main factors which have caused volatility in financial markets in recent months.
- Most developed economies are currently experiencing moderate growth, which is expected to accelerate in 2015.
- The acceleration in global economic growth forecast by the IMF assumes that in most countries the level of debt to GDP will decrease.
- Although the rate of growth in the Chinese economy has visibly slowed in recent years, the government has tools available to check the slowdown and stabilise the economy at a solid level.
- Although the Eurozone is still facing economic problems, the European Central Bank is taking a variety of actions aimed at economic stimulation and a lower-than-expected level of inflation

# KGHM Group economic results



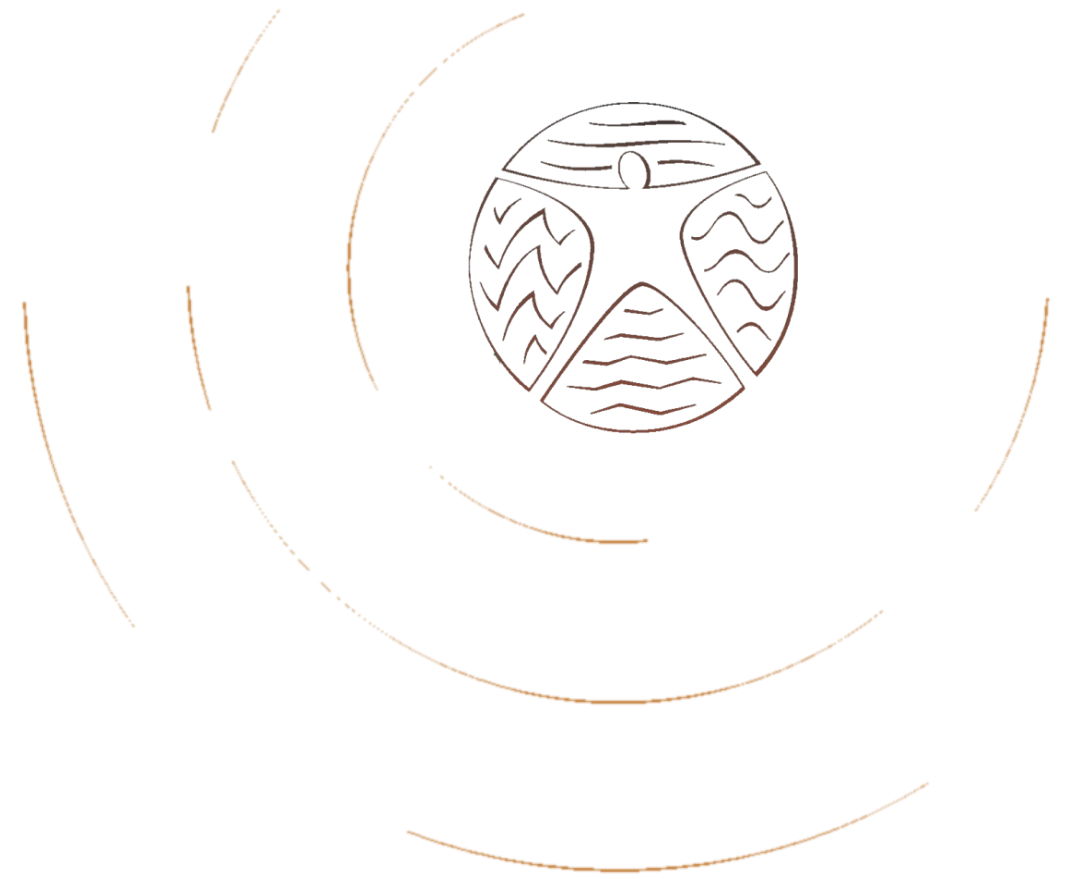


## The fall in metals prices caused a decrease in Group results



- Lower production of copper equivalent and a higher C1 cash cost mainly due to lower silver and gold prices
- Production was also impacted by a deterioration of geological conditions at the Robinson mine

- The drop in Group EBITDA by 15% compared to the first 9 months of 2013 was mainly due to worse macroeconomic conditions.



# **Economic results**

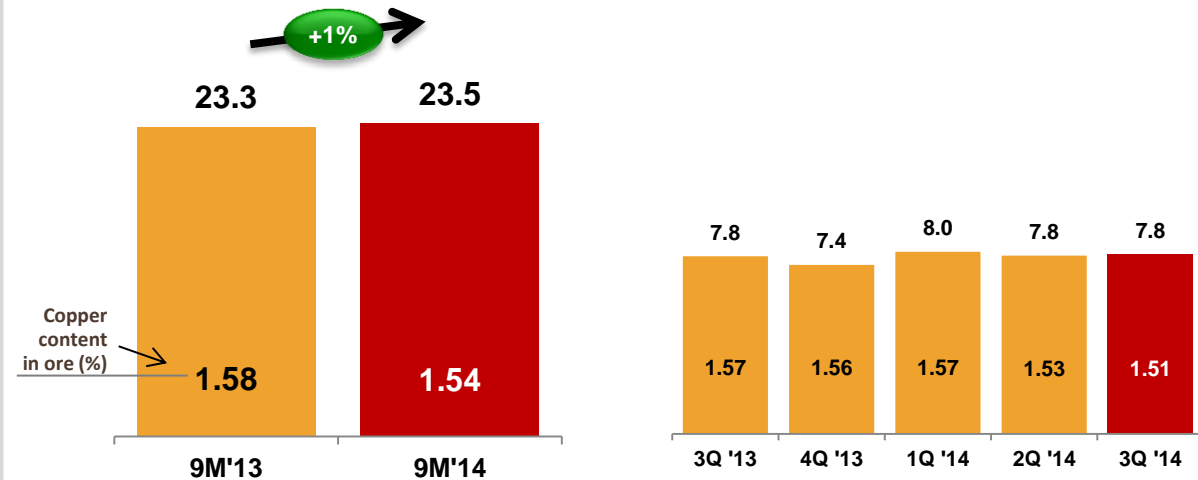
## **KGHM Polska Miedź S.A.**

## Stable mined production

- In the first nine months of 2014 copper content in ore dropped by 3%

### Ore extraction

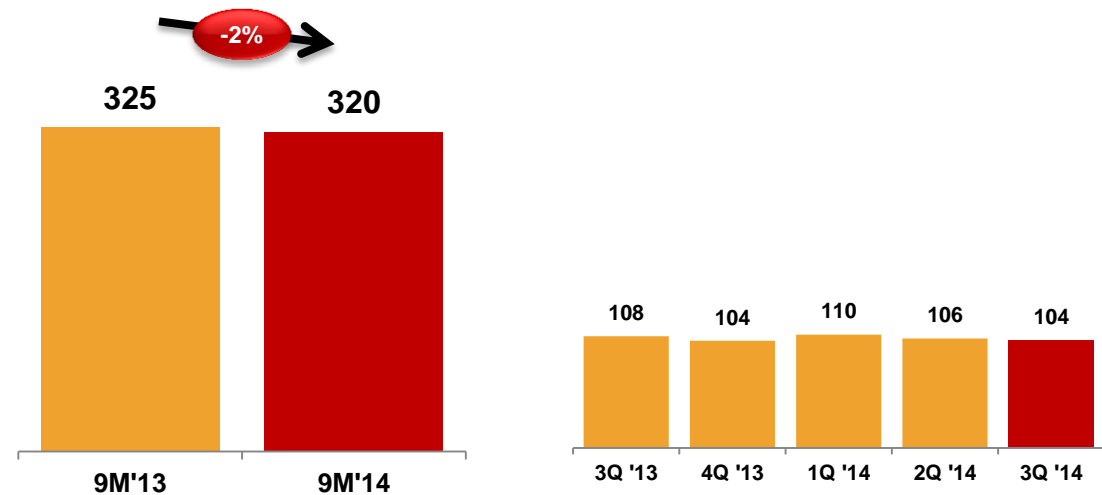
In million tonnes dry weight



- Production of copper in concentrate for the first nine months of 2014 was 2% lower versus the corresponding period in 2013

### Production of Cu in concentrate

In thousand tonnes



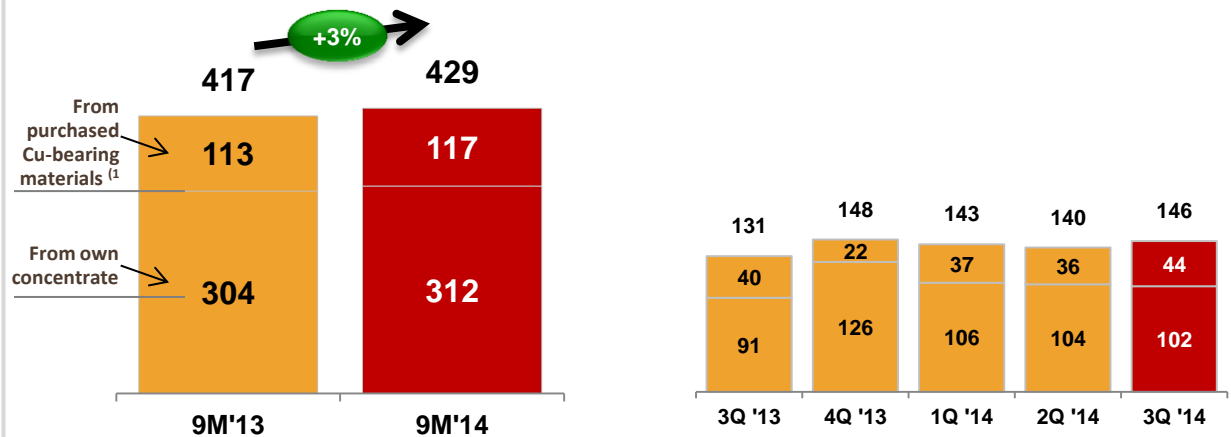


## Higher production of electrolytic copper and metallic silver

- Higher electrolytic copper production from both own concentrates as well as purchased materials
- The 39 day maintenance shutdown at the Legnica smelter/refinery ended on 6 October (last year during this period the Głogów smelter/refinery underwent maintenance)

### Electrolytic copper production

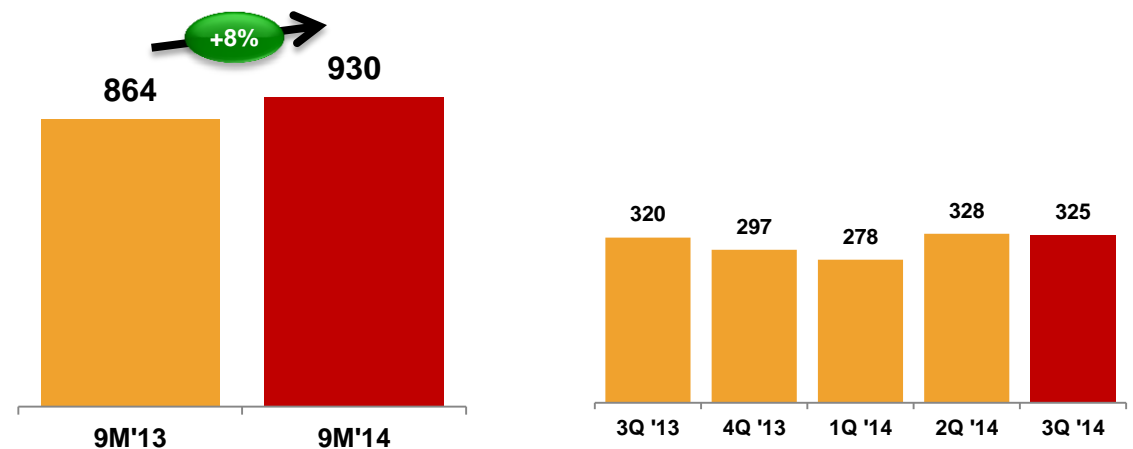
In thousand tonnes



- Higher metallic silver production due to higher processing of both own and purchased concentrates

### Metallic silver production

In tonnes



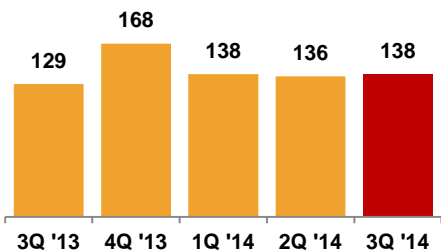
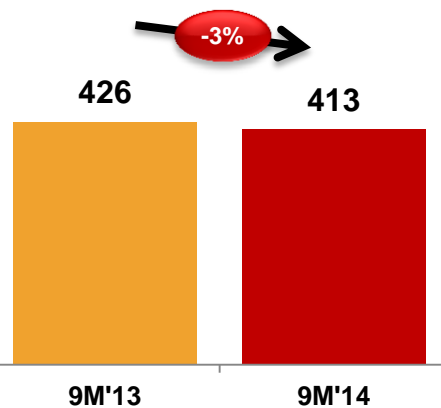
1) Together with processing of customer-supplied materials

## Lower revenues as compared to the first nine months of 2013 due to lower prices

### Sales volumes

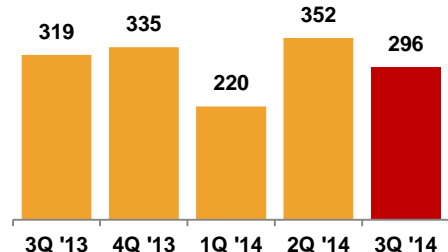
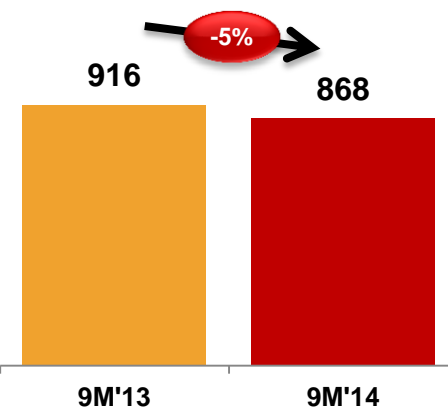
#### Copper and copper products

In thousand tonnes



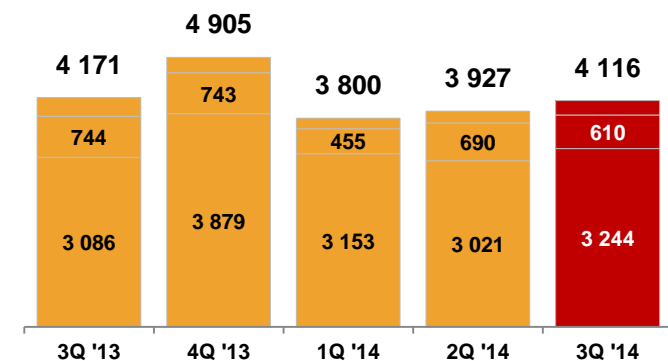
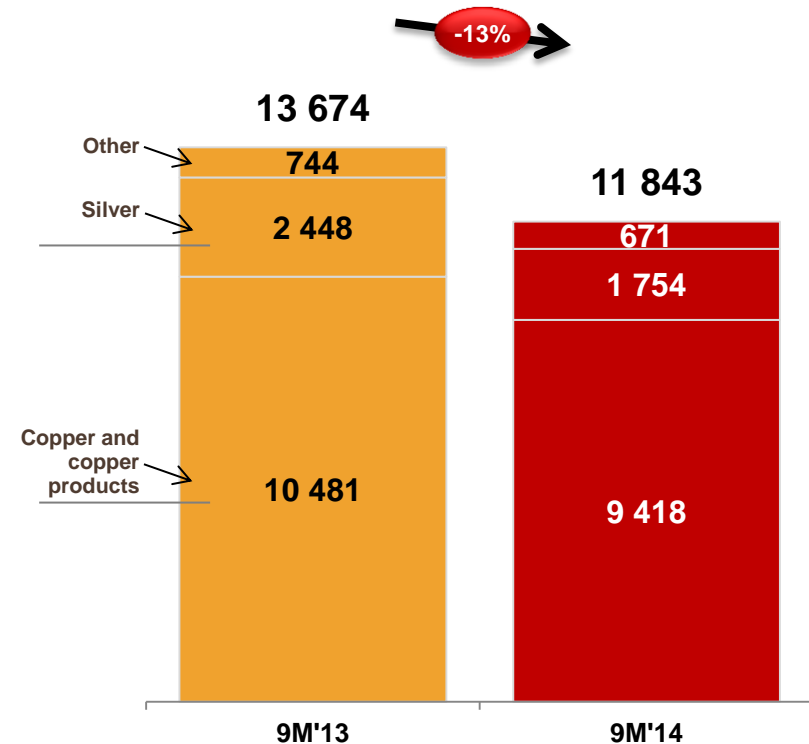
#### Silver

In tonnes



#### Revenues from sales

In million PLN

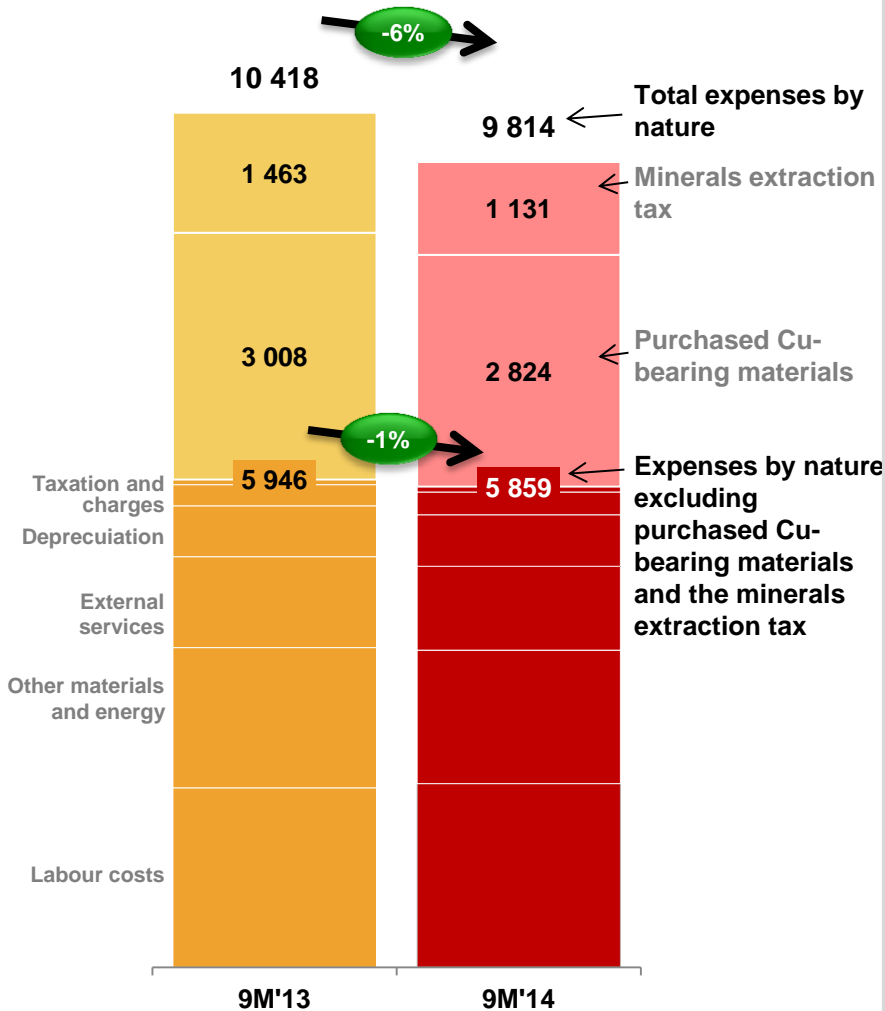


- The simultaneous drop in achieved copper and silver prices (respectively by 7% and 24%) and in sales volumes (3% and 5%) resulted in lower revenues from sales by 13% as compared to the first 9 months of 2013
- The company expects high volumes of copper and silver sales in the 4th quarter of 2014, which will enable sales volumes to reach planned levels given the level of re-stocking performed in the first quarter of 2014.

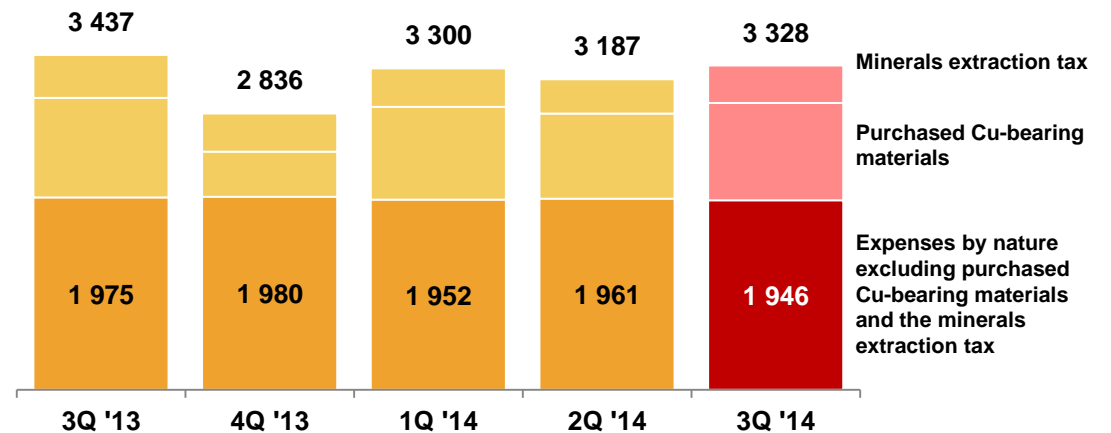
## Cost discipline maintained

### Expenses by nature

In million PLN



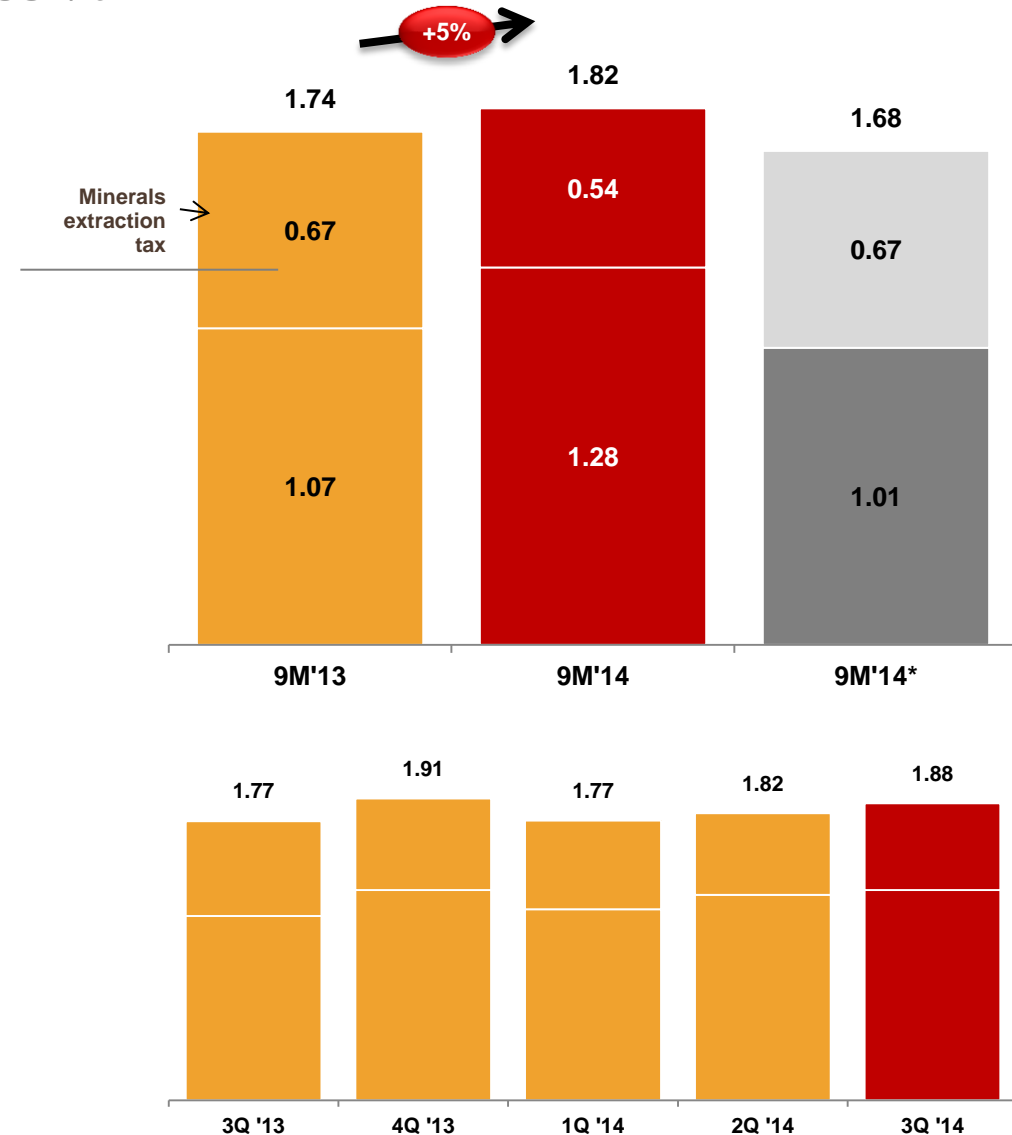
- After excluding the minerals extraction tax and purchased Cu-bearing materials, expenses by nature were lower by PLN 87 million (1%) than in the first 9 months of 2013.
- Expenses by nature as compared to the first 9 months of 2013 were impacted by:
  - a lower cost of heat energy and a drop in the price of electricity
  - the planned reduction in the scope of preparatory mine development work
 alongside an increase in:
  - labour costs – a higher allowance for future employee benefits and higher remuneration by 2.4% alongside a lower annual bonus by 2 percentage points.
  - taxation, including mining usufruct fees and mining charges



## A higher C1 cash cost due to lower valuation of by-products

- The drop in silver and gold prices as compared to the same period in 2013 caused a lower valuation of by-products, and in turn to a higher C1 cost
- Under the macroeconomic conditions in 2013, the C1 cash cost would have been 1.68, or 4% lower than in the prior year

**C1 cash cost of producing copper in concentrate**  
USD/lb

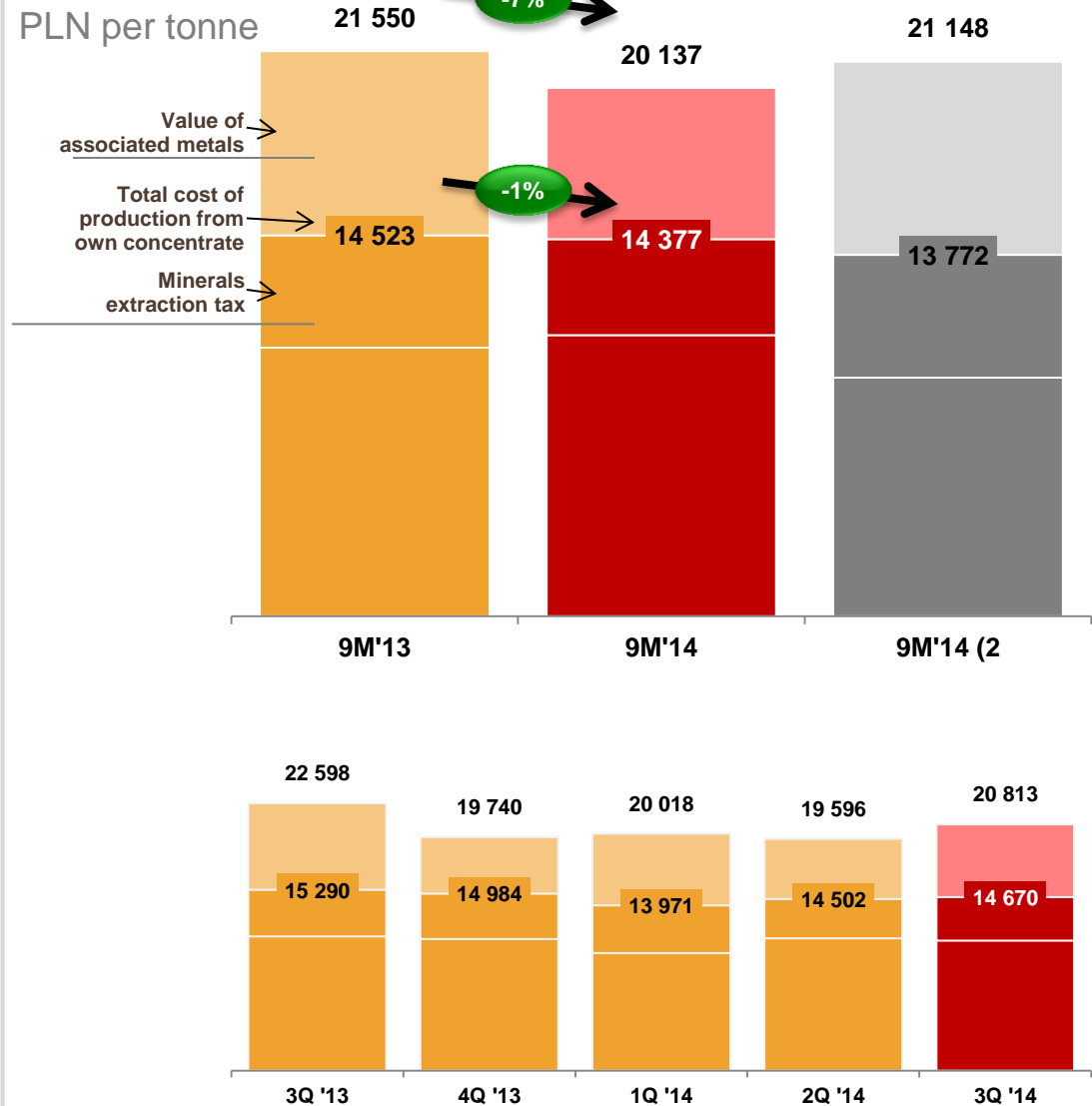


\* Under comparable conditions – assuming the macroeconomic conditions in the first 9 months of 2013

## Decrease in the pre-precious metals credit<sup>1</sup> unit cost of electrolytic copper production from own concentrate

- The pre-precious metals credit unit cost of electrolytic copper production from own concentrate was lower by 7% versus the prior year due to higher production (+2.5%) and a lower minerals extraction tax charge
- Due to the lower value of anode slimes (lower silver and gold prices), the total unit cost of copper production from own concentrate was similar to that of the prior year
- Under the macroeconomic conditions of 2013 the total cost of copper production from own concentrate would have been lower by 5%

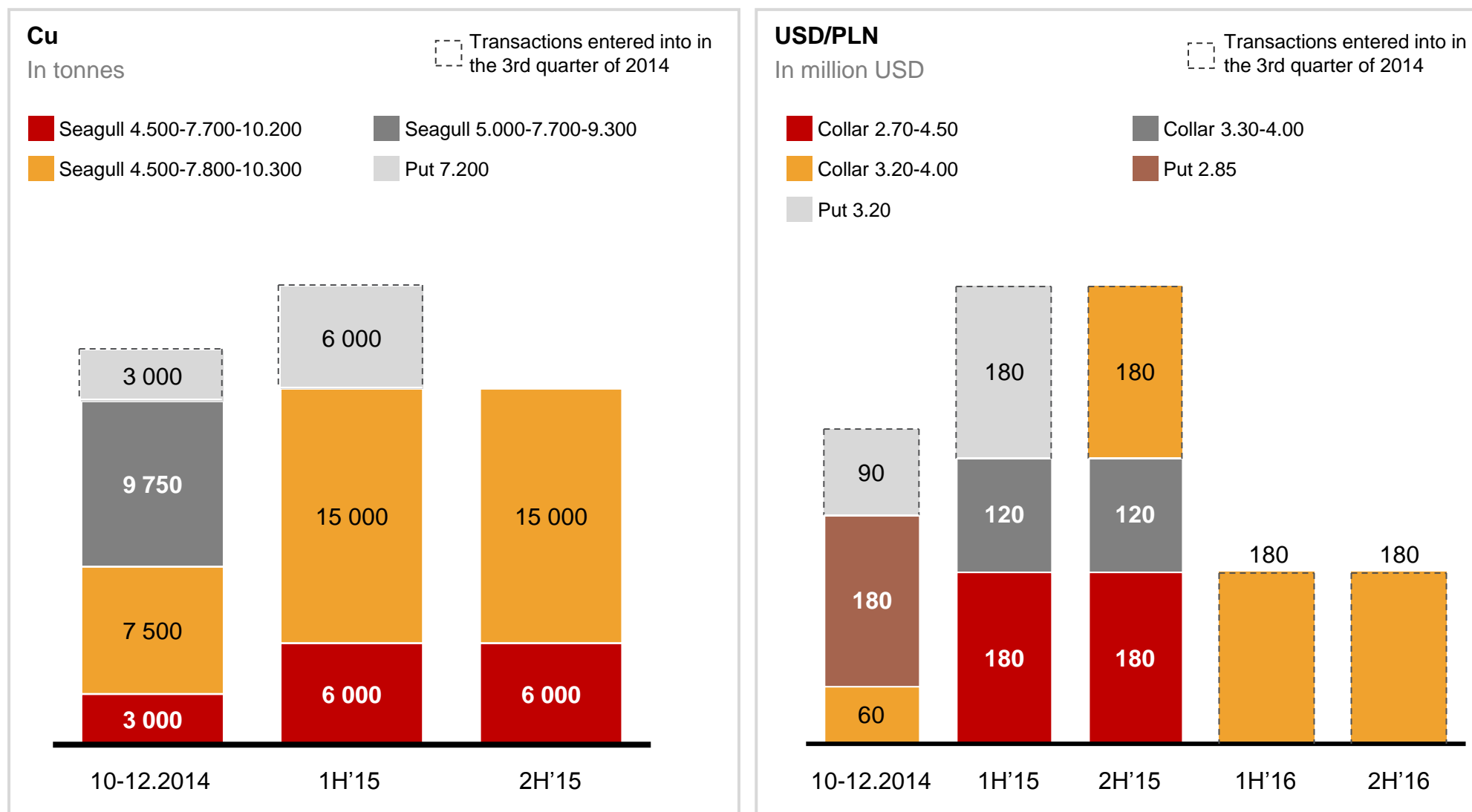
### Pre-precious metals credit unit cost of electrolytic copper production from own concentrate



1) Pre-precious metals credit cost - Total unit cost prior to deduction by the value of associated metals  
 2) Under comparable conditions – assuming the macroeconomic conditions in the first 9 months of 2013



## Position in derivatives on the commodities and currencies markets

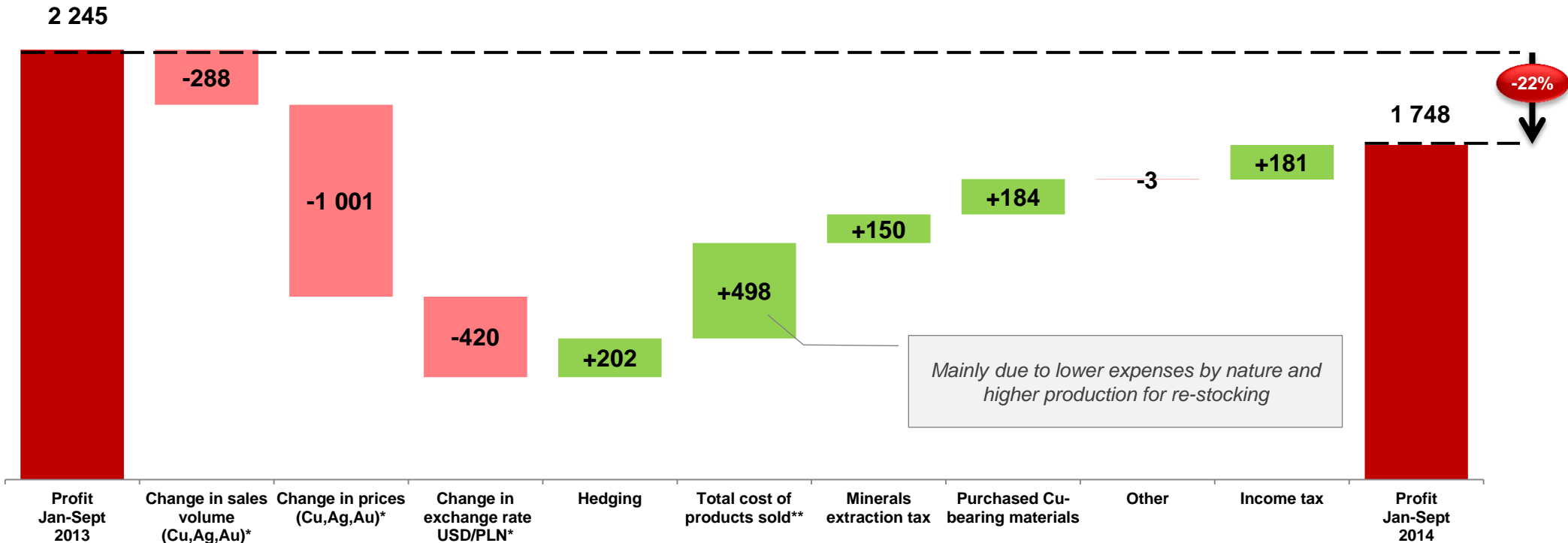


**The result on derivatives in KGHM Polska Miedź S.A. was PLN 275 million**  
(accrued as at 30 September 2014)

## Positive impact of costs and hedging on the company's results

### Change in net profit

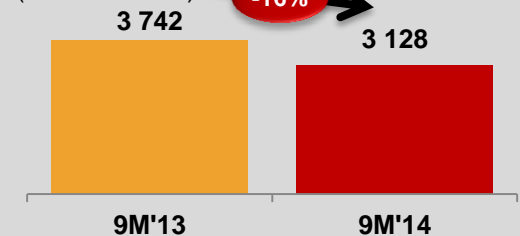
(in million PLN)



- The lower profit versus the first 9 months of 2013 was due to the deterioration in macroeconomic conditions and to a lower sales volume
- The decrease in profit was partially offset by the lower level of costs, the impact of hedging and lower income tax

### EBITDA

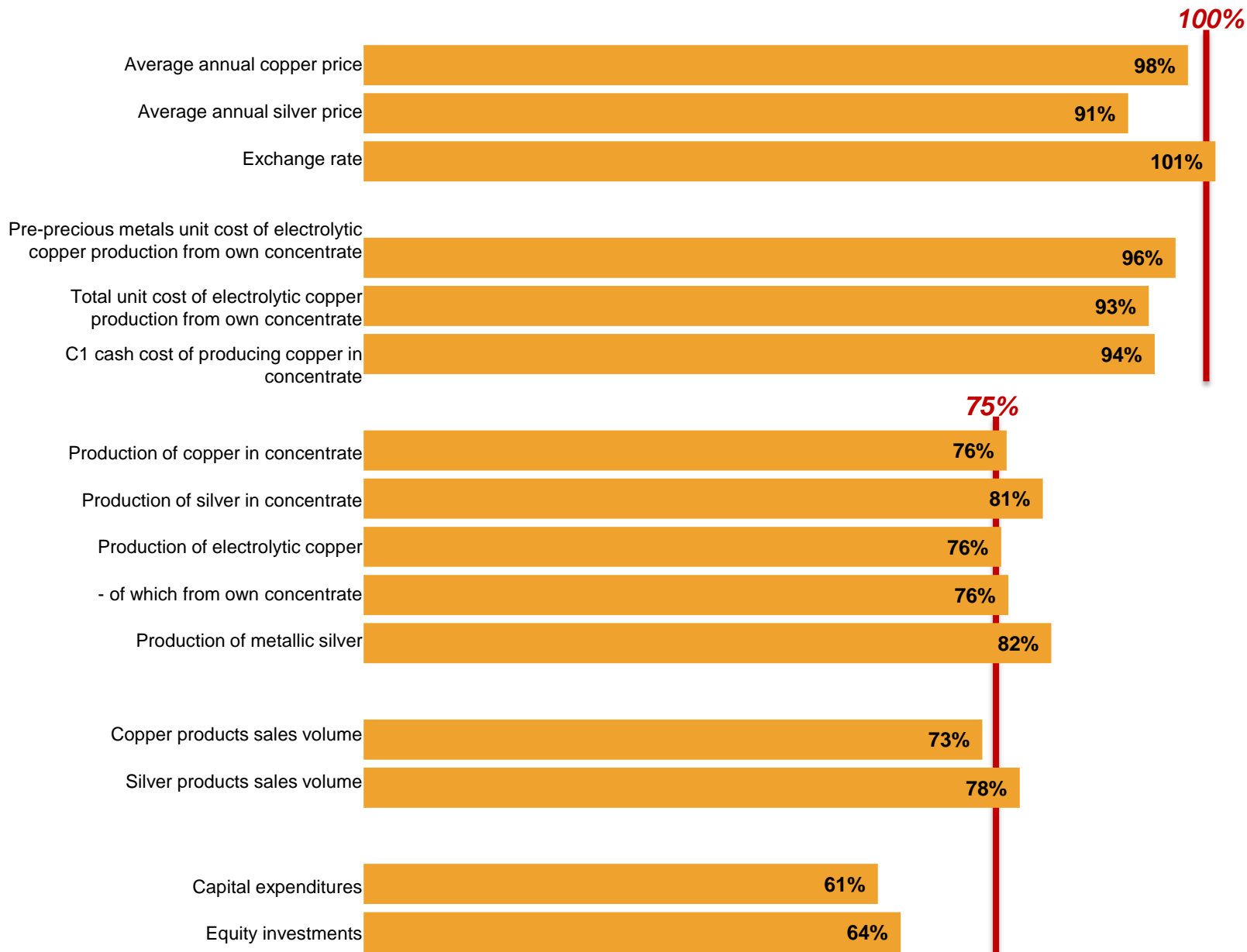
(in million PLN)



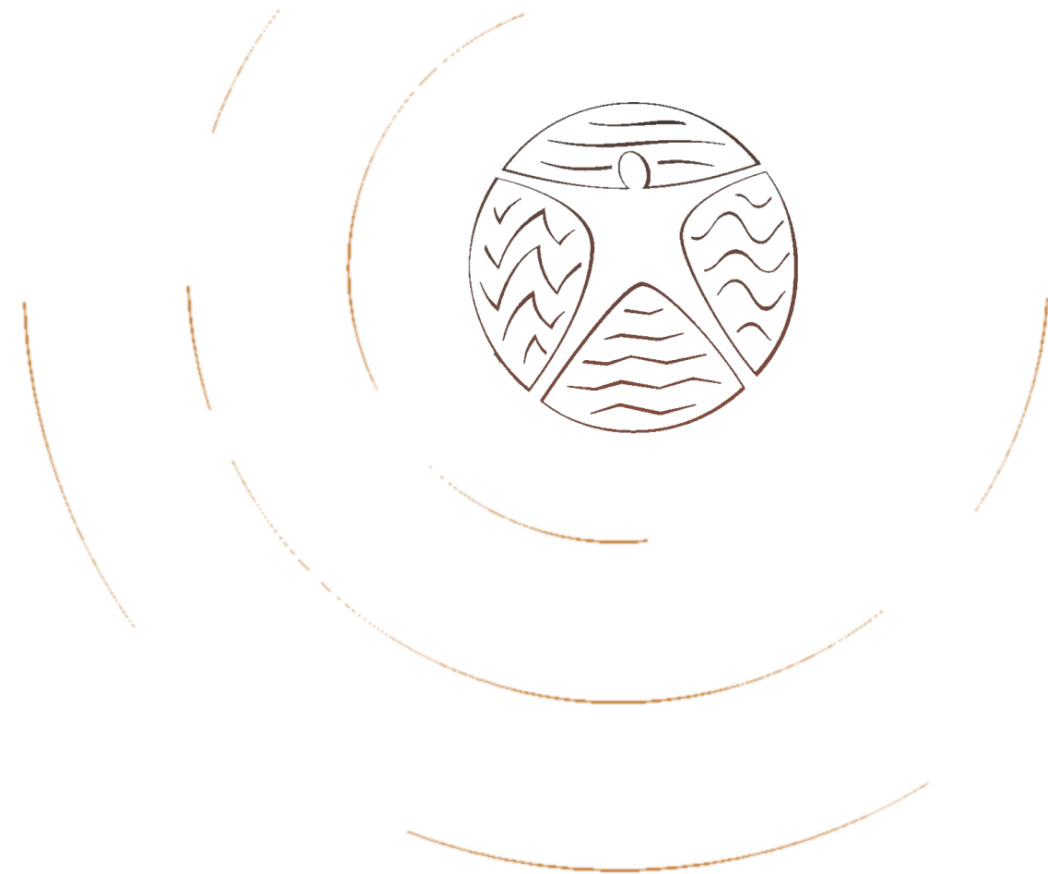
\* Impact on revenues from sales of copper, silver and gold

\*\* Excluding the minerals extraction tax and consumption of purchased copper-bearing materials

## Planned economic targets for 2014 remain unchanged



- The lower than expected metals prices were offset by lower costs – hence the current macroeconomic situation does not justify an adjustment to planned targets
- Production and sales volumes at planned levels – potential for slight exceeding of volume targets by year's end
- Investment expenditures below planned amounts due to deferment of spending to 2015



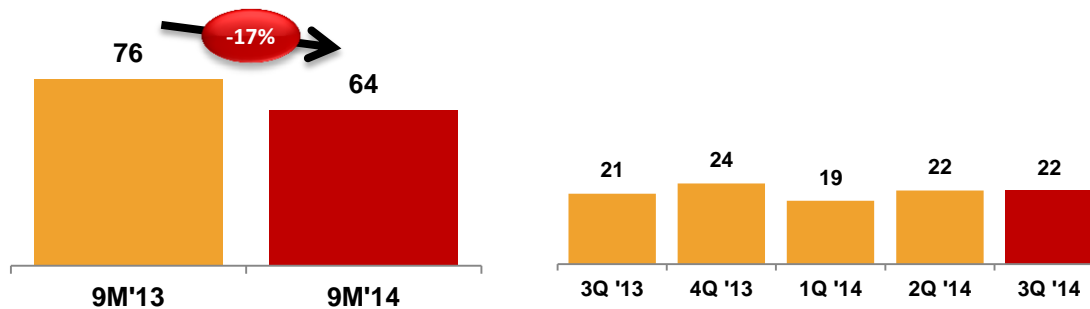
# **KGHM INTERNATIONAL**

## **economic results**

## Production results overview

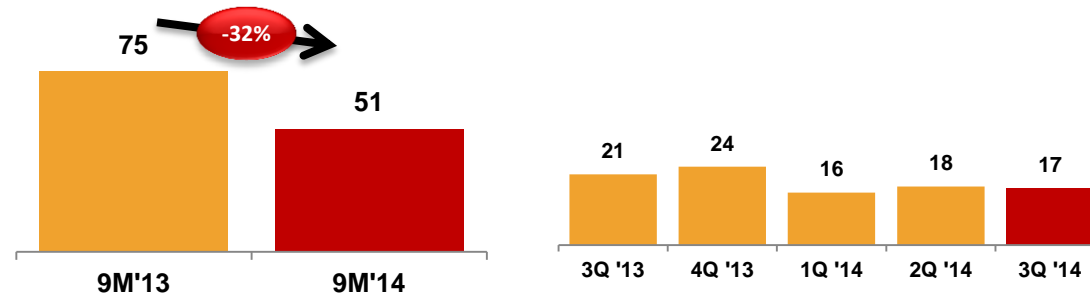
### Copper

In thousand tonnes



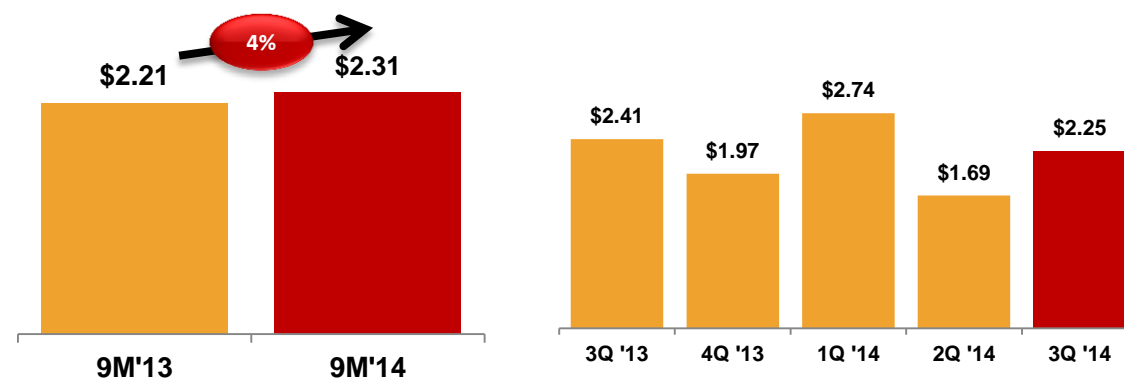
### TPM (gold, platinum palladium)

Tk troz



### C1 cash cost

USD/lb



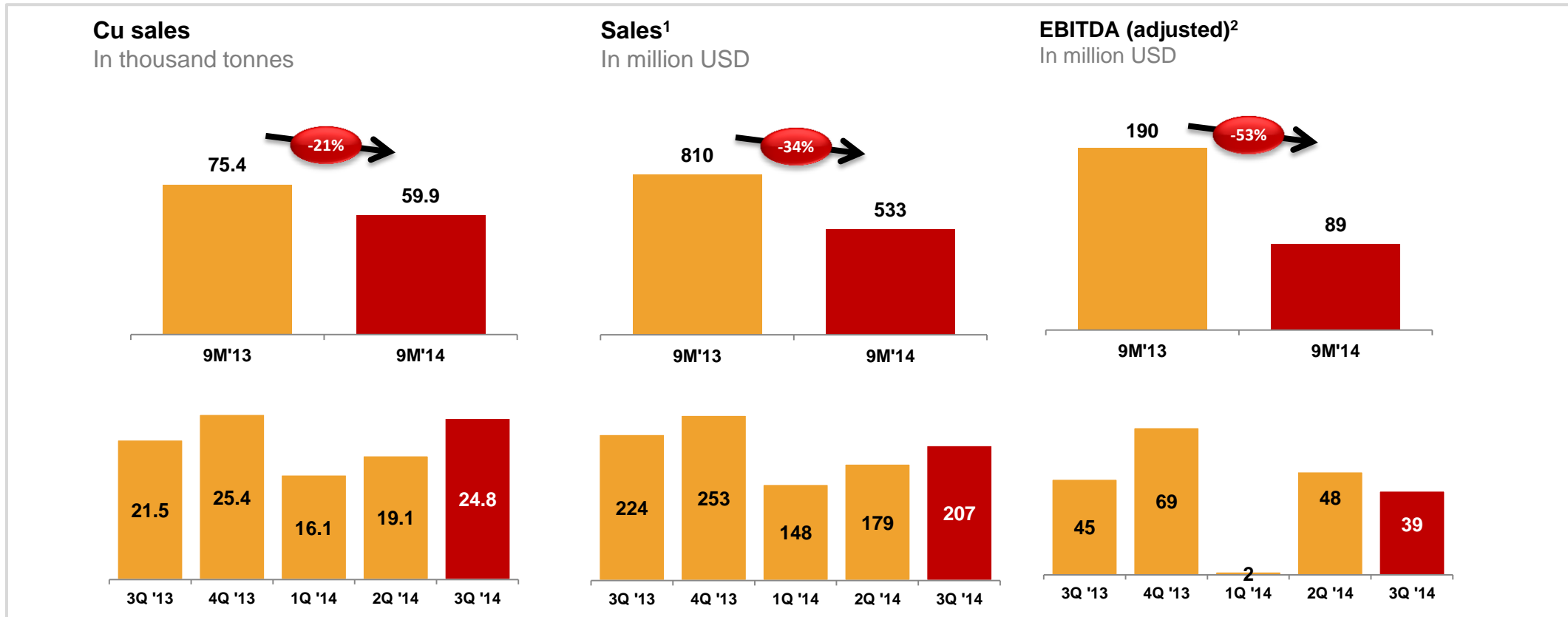
- The decrease in production of copper (by 12 thousand tonnes) and in TPMs (by 24 thousand troz) was mainly due to the lower ore quality encountered at the Robinson mine at the start of the year (in Q1 the Robinson mine processed ore from the Kimbley pit, versus unusually high ore levels extracted from the Ruth pit in 1H 2013).

Robinson production improved in the second and third quarters.

- Slight increase in C1 cost in comparison to 9M 2013 mainly due to lower production parameters at the Robinson mine at the beginning of the year. In 2Q and 3Q 2014 Robinson improved results and decreased cash cost.



## Financial Results overview



- In the second and third quarters of this year there was a steady and systematic improvement in production results (mainly at the Robinson mine), which in turn led to better financial results.
- KGHM International continues its program of savings in the following areas: general management and administrative costs, sustaining Capex and Opex, expenditure on projects, exploration and new business
- The company is taking actions to optimise the production process which will enable volumes to be maintained in 4Q.

1 Revenues from sales net of treatment and refining charges

2 Profit on mining operations plus depreciation and the Sierra Gorda JV management fee, less general administrative costs and impairment losses

### Main reasons for lower EBITDA:

- Lower effective copper sales price, which decreased revenues by approximately USD 20 million
- Lower copper and gold production volume and DMC contract revenues by approximately USD 254 million
- implemented cost initiatives and inventory management, which resulted in lower cost of sales by approximately USD 186 million



## Morrison Mine: Current Status and Outlook

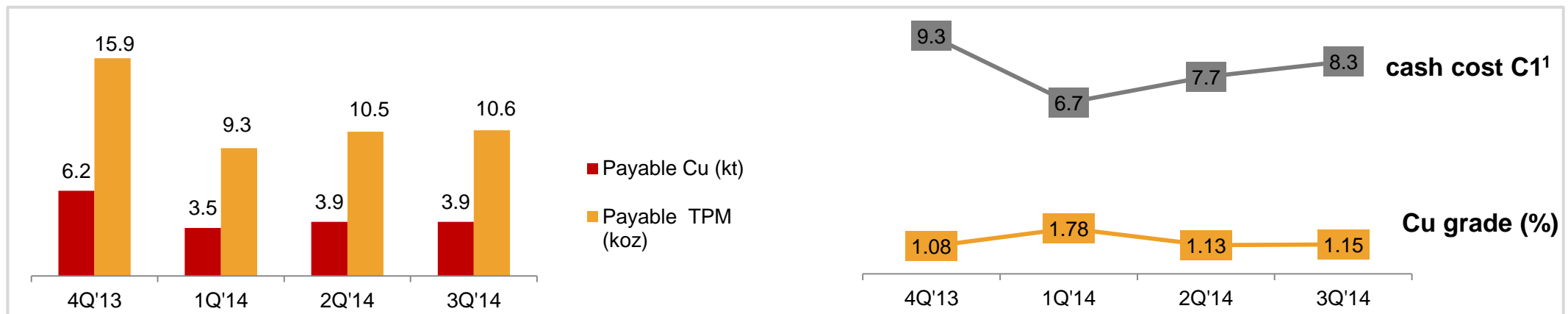
Cu Ni Pt Pd Au

### Improved results in 3Q 2014 :

- Improvement in copper metal grade mined by 8% over 2Q 2014
- Consistent copper and TPM production in 3Q 2014 compared to 2Q 2014
- Stable C1 cost compared to 2Q 2014
- Improvement in operating income for the site due to favourable nickel prices and a decrease in depreciation and amortization

### Operating plans:

- Craig pillar stoping area remains on track for 4Q 2014, which is expected to increase copper output compared to 3Q 2014.
- Operation continues to focus their efforts towards planning around the geotechnical challenges and becoming proactive in anticipating problem areas
- Diamond drilling in the 5040 drift to quantify the extent of the lower part of the Morrison deposit will continue through to the end of 1H 2015.



<sup>1</sup> cash cost C1 (US\$/lb)



## Robinson Mine: Current Status and Outlook

Cu

Au

Mo

### Improved results in Q3 2014 :

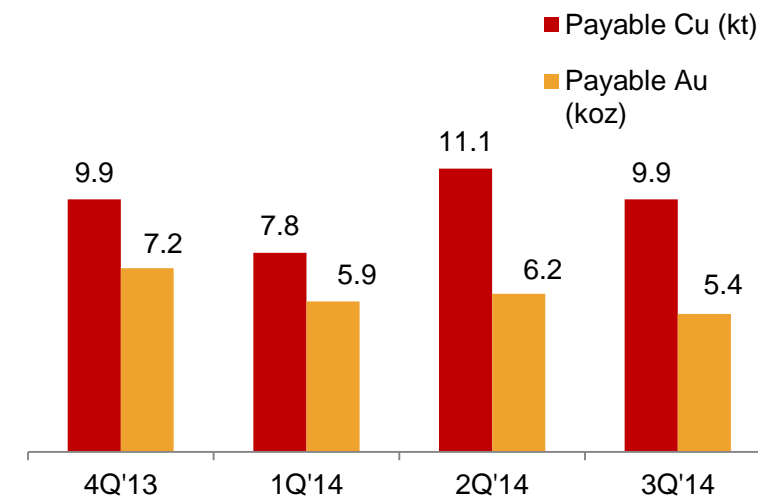
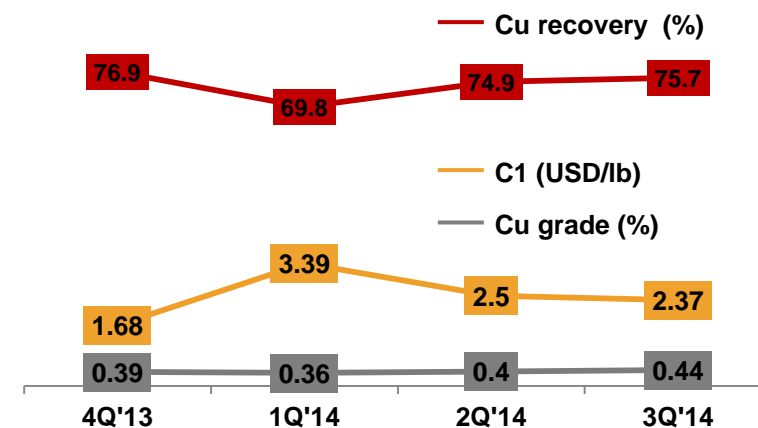
- Increase in copper ore grade and recovery compared to 2Q 2014 due to blending synergies realized from higher grade material mined from the bottom of the Ruth East pit in September
- Improved C1 cost for the quarter compared to Q2 2014 due to increased production from improved head grade and cost management initiatives

### Current plan

- **Mine Sequence:** Ruth pre-stripping to access higher grade ore was concluded in Q3 (mining in Kimbley concluded in October). For the remainder of the year all ore will come from Ruth 2 East or the ore stockpile
- **Cost Management:** Continuing aggressive cost cutting measures. All non-critical capital expenditures have been reduced or deferred for the remainder of 2014.
- **Mill Operating time:** All scheduled major repairs completed during mill downtime in early Q3 2014.

### Expected results

- Ore from the Ruth pit can be blended or sent directly as mill feed, which significantly improves processing results. The mine continues to analyze blending opportunities and process modification to improve performance. As a result production in 4Q will be slightly higher than in 3Q.
- Management of cash flow and C1 cost for the remainder of the year.
- Mill is expected to operate at a rate of 95% or above for the remainder of the year.



## Reasons to invest in KGHM



**Leading copper and silver producer globally**



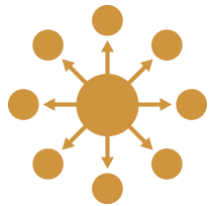
**Experienced management team committed to growing shareholder value**



**Stable production and greater de-risking in project development**



**Broad product assortment with distinct and irreplaceable qualities**



**Strong sector position stimulated by growing demand from emerging markets**



**Diversified assets pipeline at various stages of development guarantees continued growth**



**Production started at Sierra Gorda mine, Victoria – another KGHM project at the development stage**



**Located and listed in one of the European Union's most dynamic economies**





## Investor Relations

T +48 76 74 78 280

F +48 76 74 78 205

E [ir@kghm.pl](mailto:ir@kghm.pl)

[www.kghm.pl](http://www.kghm.pl)