
KGHM Group in 2016 – cost discipline and stable production in a challenging market

The KGHM Polska Miedź S.A. Group in 2016 limited the year's decrease in sales revenue to 4%, and in adjusted EBITDA to 1% thanks to consistent cost discipline, maintaining stable production and the uptick in market sentiment at year's end.

„The KGHM Group once again successfully dealt with another challenging year on the international commodities market. Despite the fall in the average annual USD price of copper by more than 11%, our revenues were lower by only 4%, as a result of increased sales of other metals, and thanks to rigorous cost discipline adjusted EBITDA was virtually stable. The clear improvement in market sentiment towards the commodity sector, which appeared at the end of last year, has given us cause for increased, albeit cautious, optimism to plan for the further development of the KGHM Group, both domestically and in terms of the existing international assets,” said Radosław Domagalski-Łabędzki, President of the Management Board of KGHM Polska Miedź S.A.

Production of copper equivalent in the Group, despite the shutdown at the Głogów I Copper Smelter and Refinery related to the change in technology, amounted to 742 thousand tonnes as compared to 749 thousand tonnes in 2015.

Consolidated sales revenue for the year amounted to PLN 19 156 million and was lower by 4% yoy as the average copper price was lower by more than 600 USD/t. Meanwhile in the fourth quarter consolidated revenues amounted to PLN 6 015 million and were 16.8% higher yoy, alongside an increase in revenues in KGHM Polska Miedź by 15.9% yoy to PLN 4 828 million and revenues in KGHM International in the amount of PLN 771 million, higher by 25.4% yoy. Revenues in Sierra Gorda¹ during this period reached PLN 424 million alongside an increase by 23.3% yoy.

- The increase in consolidated revenues in the fourth quarter was mainly due to higher sales of copper by 6% (including sales of copper in concentrate by KGHM Polska Miedź S.A.) and a higher copper price by USD 385 per tonne together with a strengthening of the USD/PLN exchange rate by more than 4%.
- Sierra Gorda – production of copper and gold in concentrate in the fourth quarter was higher yoy respectively by 4% and 15%, while production of molybdenum decreased yoy by 17%, reflecting the lower recovery of this metal from ore in the transition zone.

¹ Odniesienia do Sierra Gorda oznaczają 55% udziału KGHM Polska Miedź S.A. Group w wynikach produkcyjnych i finansowych, które są konsolidowane metodą praw własności.

The net result of the KGHM Group in 2016 was decreased by impairment losses recognised on the Group's assets in the amount of PLN 5.7 billion. For the same reason, the annual consolidated net result amounted to -PLN 4 449 million, versus -PLN 5 009 million in the prior year. After excluding the impairment losses on the non-current assets of the Group, a net profit in the amount of PLN 1 225 million would have been recorded for the year, including PLN 548 million in the fourth quarter.

Net debt at the end of the fourth quarter amounted to PLN 7 262 million and was 10.8% higher than at the end of 2015, while the ratio of net debt to adjusted EBITDA² amounted to 1.6. The increase in Group debt in 2016 was mainly due to the minerals extraction tax (in the amount of PLN 1 338 million), expenditures on financing the international development assets and payment of the dividend.

„Reversal of the bear trend in copper in November of last year had a clear positive impact on the revenues of the KGHM Group in the fourth quarter, which together with the actions taken to optimise costs led to an improvement in adjusted EBITDA by more than half, and excluding the impact of non-cash accounting of the impairment losses on assets, we would have earned a net profit comparable to the result for the first three quarters,” commented Stefan Świątkowski, Vice President of the Management Board (Finance).

In 2016 the KGHM Group continued its investment program. At the Głogów I Copper Smelter and Refinery we opened the world's largest flash furnace and electrical furnace installation, thereby creating the most modern metallurgical copper production line. Work also continued on the Deep Głogów mine project. Last year a further 36 km of tunnels were excavated, increasing the share of extraction from this area in total production by KGHM Polska Miedź S.A. to 5 percent. The international projects were reviewed in terms of their technical and economic assumptions and alternative development scenarios were analysed. With respect to Sierra Gorda, actions were undertaken to improve the mine's quality and efficiency parameters. Consolidated capital expenditures amounted to PLN 3 251 million, including PLN 1 755 million for the development of mining and metallurgy, and PLN 808 million for maintaining mine production and replacement of equipment in KGHM Polska Miedź S.A.

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

in mn PLN	Three months ended 31 Dec 2016	Three months ended 31 Dec 2015	Change in mn PLN	Change in %
Sales revenue	6 015	5 148	867	+16.8%
Cost of sales, selling costs and administrative expenses	-5 284	-6 916	+1 632	+23.6%
Adjusted EBITDA ²	1 515	1 001	+514	+51.3%
Net profit on sales	731	-1768	+2 499	n/a
Net result	-5 078	-6 237	+1 159	+18.6%
Net result after excluding the impact of impairment of non-current assets*	548	-26	+574	n/a

in mn PLN	Twelve months ended 31 Dec 2016	Twelve months ended 31 Dec 2015	Change in mn PLN	Change in %
Sales revenue	19 156	20 008	-852	-4.3%
Cost of sales, selling costs and administrative expenses	-16 612	-19 502	+2 890	+14.8%
Adjusted EBITDA ²	4 666	4 710	-44	-0.9%
Net profit on sales	2 544	506	+2 038	x5
Net result	-4 449	-5 009	+560	+11.2%
Net result after excluding the impact of impairment of non-current assets*	1 225	1 202	+23	+1.9%

* Impairment / reversal of impairment of non-current assets and loans granted as well as impairment recognised within valuation of share of losses of joint ventures accounted for using the equity method