

**KGHM**

POLSKA MIEDŹ S.A.

# Company results H1 2012

August 2012

## Agenda

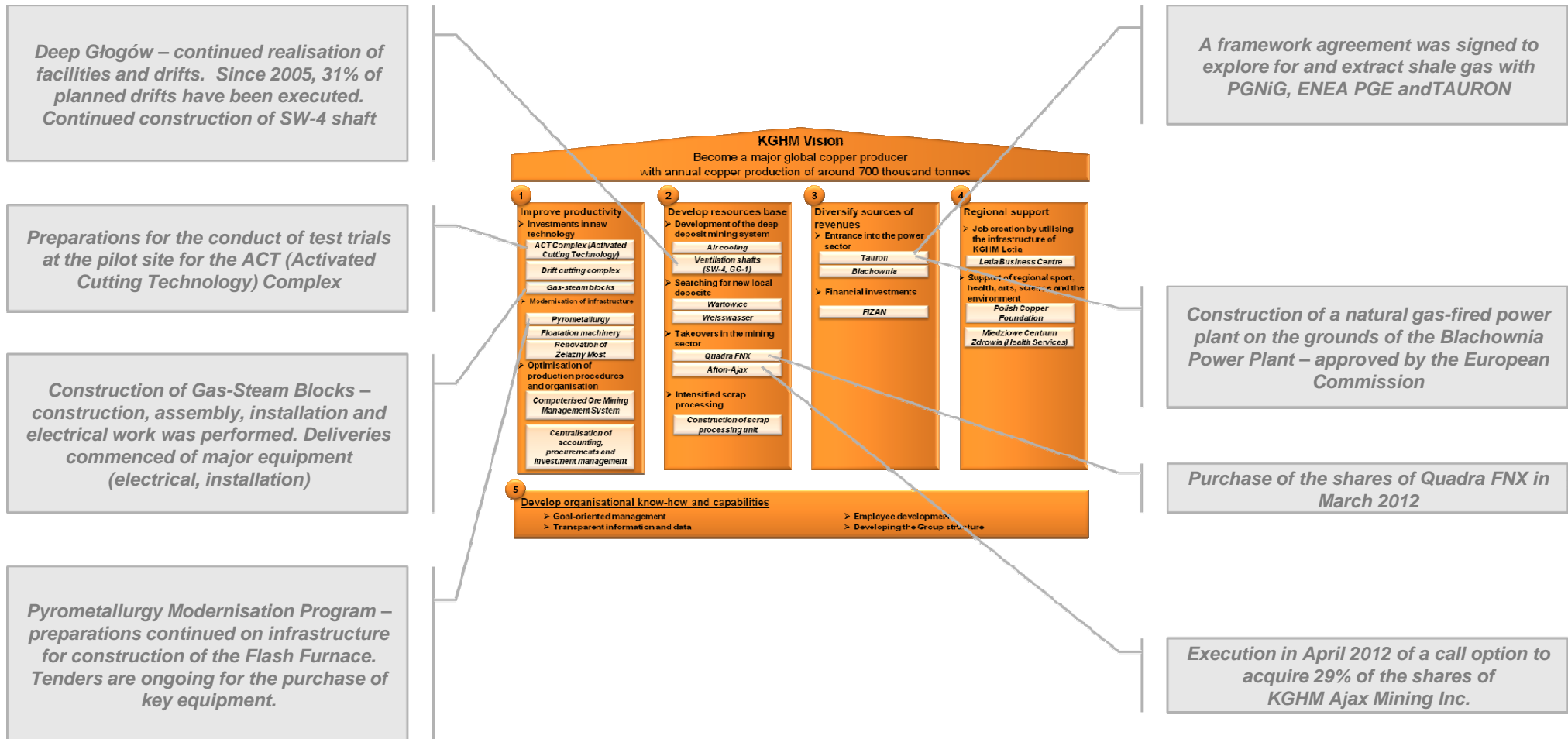
- Results of KGHM Polska Miedź – synthesis
- Realisation of the strategy of KGHM Polska Miedź
  
- Macroeconomic conditions
- Production results
- Financial result
- Cash Flow
- Realisation of the forecast
  
- Consolidated financial result



## Results of KGHM Polska Miedź – synthesis

- ✓ In the first half of 2012, the Company earned a net profit of PLN 2 949 million
- ✓ The Company produced 273 thousand tonnes of refined copper and 653 tonnes of silver
- ✓ KGHM International produced 52 thousand tonnes of copper, 2.4 tonnes of nickel and 1 284 kg of precious metals
- ✓ Signing of a Framework Agreement on the Exploration for and Extraction of Shale Gas
- ✓ Approval by the European Commission for the founding by KGHM and Tauron of a joint venture company to build a gas-steam block at the Blachownia power plant

# Consistent realisation of the strategy of KGHM Polska Miedź S.A.



Deep Głogów – continued realisation of facilities and drifts. Since 2005, 31% of planned drifts have been executed. Continued construction of SW-4 shaft

Preparations for the conduct of test trials at the pilot site for the ACT (Activated Cutting Technology) Complex

Construction of Gas-Steam Blocks – construction, assembly, installation and electrical work was performed. Deliveries commenced of major equipment (electrical, installation)

Pyrometallurgy Modernisation Program – preparations continued on infrastructure for construction of the Flash Furnace. Tenders are ongoing for the purchase of key equipment.

A framework agreement was signed to explore for and extract shale gas with PGNiG, ENEA PGE and TAURON

Construction of a natural gas-fired power plant on the grounds of the Blachownia Power Plant – approved by the European Commission

Purchase of the shares of Quadra FNX in March 2012

Execution in April 2012 of a call option to acquire 29% of the shares of KGHM Ajax Mining Inc.

## Agreement on the exploration for and extraction of shale gas.



- ✓ On 4 July 2012 the Company signed a framework agreement on the exploration for and extraction of shale gas.
- ✓ The subject of cooperation will be the exploration, evaluation and extraction of shale gas in geological formations for which concessions have been granted for the exploration and evaluation of deposits of crude oil and natural gas in relation to the Wejherowo concession held by PGNiG.
- ✓ The Agreement provides for cooperation based on the targeted structure of a limited partnership that, following a successful exploration, will extract shale gas.
- ✓ Estimated expenditures on exploration, evaluation and extraction with respect to the first three zones (the Kochanowo, Częstkowo and Tępcz pads) within the Area of Cooperation are projected to be in the amount of PLN 1 720 000 000.

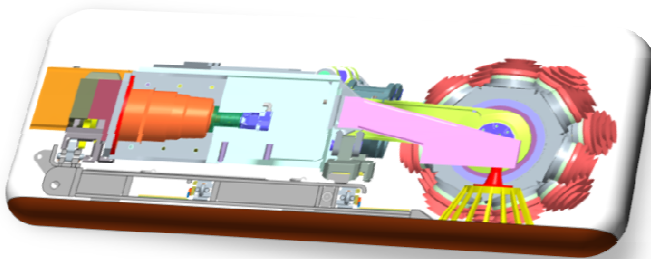
## Blachownia Power Plant Project



- ✓ On 23 July 2012 the Parent Entity received the permission of the European Commission with respect to concentration based on the founding of a joint venture company, Elektrownia Blachownia Nowa sp. z o.o.
- ✓ The new shares of the special purpose vehicle which will operate the venture will be acquired by KGHM (50%) and TAURON Wytwarzanie S.A. (50%)
- ✓ At present, work is being performed on the preparation of documents required for the founding of the company
- ✓ In an agreement signed on 20 January 2010, the parties expressed their desire for cooperation, as a result of which it would be possible to make a decision on the mutual realisation of an investment based on the construction of a power plant on the grounds of the Elektrownia Blachownia Power Plant in Kędzierzyn-Koźle belonging to TAURON Wytwarzanie S.A.
- ✓ Realisation of this project is one of the elements in realisation of the Strategy of KGHM Polska Miedź S.A. with respect to diversification of revenue sources

## Mechanical mining of the deposit

**Mechanical ore extraction – the main strategic direction of KGHM in terms of improving the productivity of the entire production process**



- ✓ **HRM BUCYRUS** – development of mining technology using the ACT Mining Complex

- ✓ **TW 357** – Mechanical drilling of drifts using combines



- ✓ **The Wall** – Mechanised complex for extracting copper ore in KGHM's mining conditions

- ✓ **JACARANDA** – Mechanised hard rock cutter – trials of a combine with a rolling-cutting unit at the Rudna mine





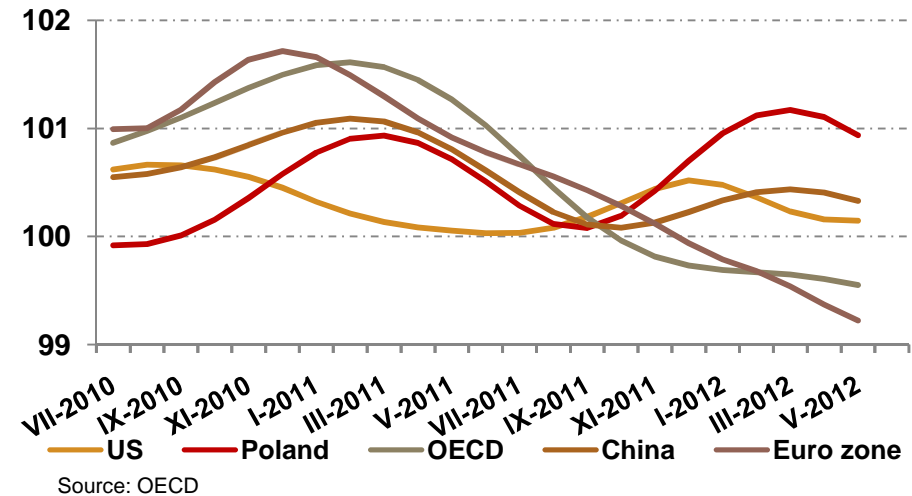
# Financial results of KGHM Polska Miedź S.A.



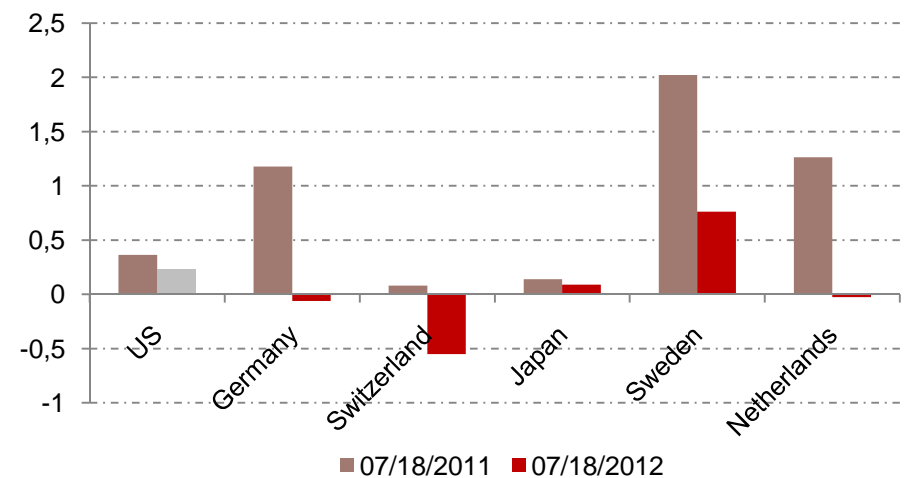
## Negative signals for the global economy

- Composite leading economic indicators are forecasting a progressive decrease in global economic activity. Most troubling is the situation in the Euro zone, where CLI has been systematically falling for many months and remains significantly below 100 points.
- Negative signals for global economic growth in the coming quarters are confirmed by PMI and ISM as well as the most recent report of the IMF, whose forecast for growth in most countries was revised downward.
- The Chinese economy is clearly slowing, while indicators for the USA do not provide a clear picture in terms of growth.
- Of crucial importance for the global macroeconomic situation are the actions being taken with respect to monetary policy (further action by the FED, ECB and Bank of China), as well as political developments (autumn elections in the USA and development of a common vision for resolution of the crisis in the European Union).
- The profitability of 2-year bonds of the most financially-stable countries are currently below zero. Investors are prepared to pay some governments to simply protect their money for two years. This is an expression of the lack of faith in the financial market as well as of the possibility of growth in other assets.

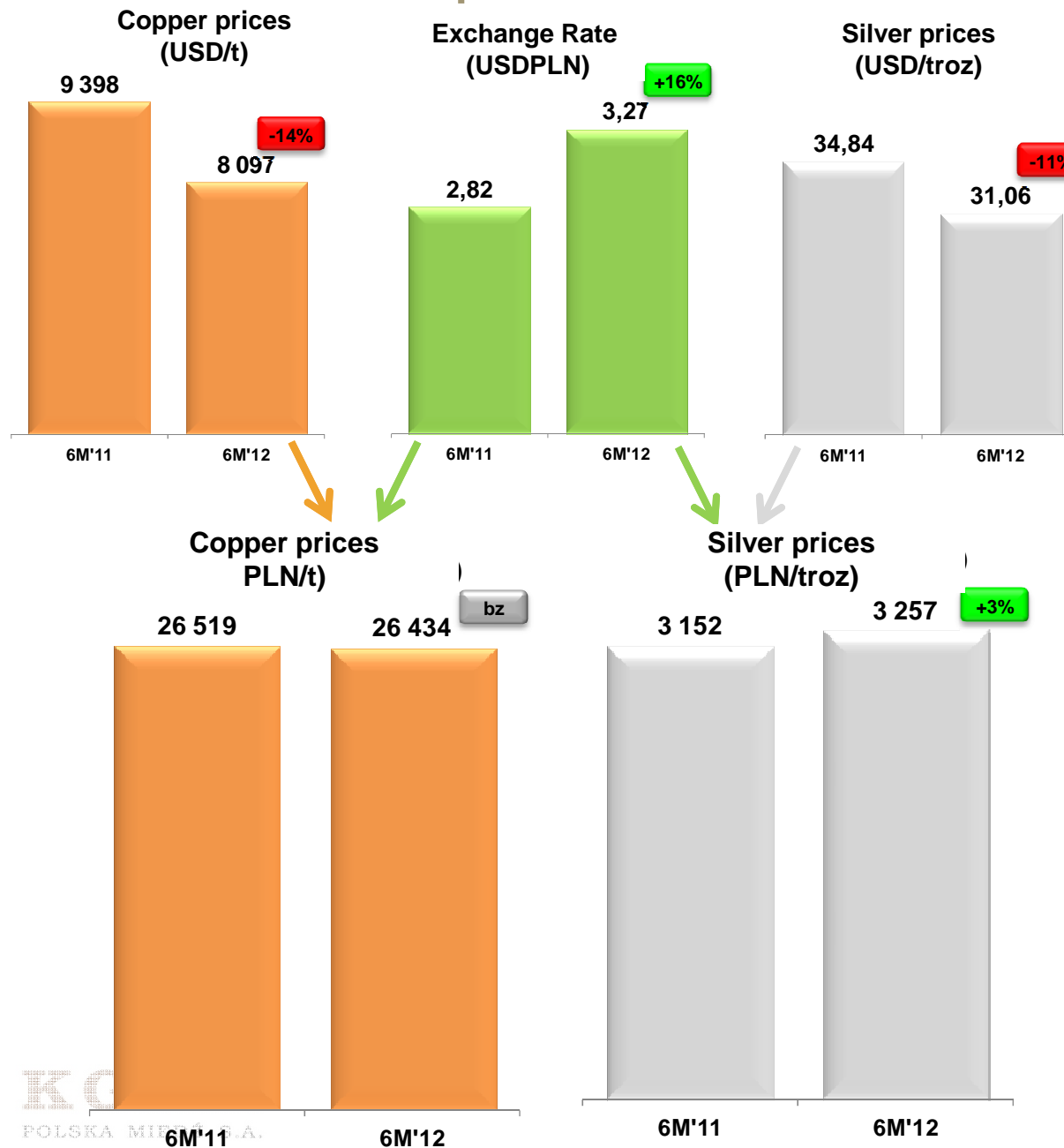
Composite leading indicators (CLI) in OECD countries [points]



2-year government bond yields [percent]



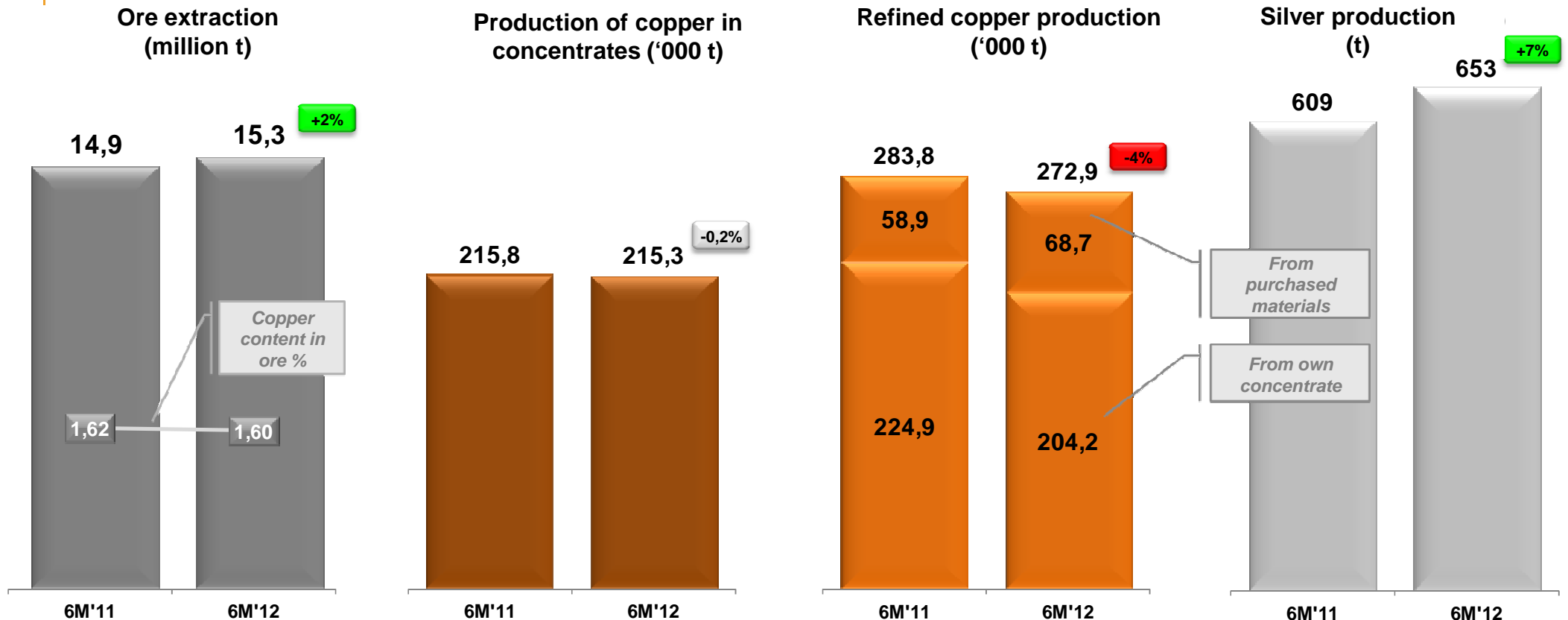
## A decrease in metals prices with a favourable USD/PLN exchange rate



✓ The decrease in metals prices versus the first 6 months of 2011 was compensated by a higher USD/PLN exchange rate

✓ Copper and silver prices expressed in PLN are at a similar level to the comparable prior period

## Stable level of copper production

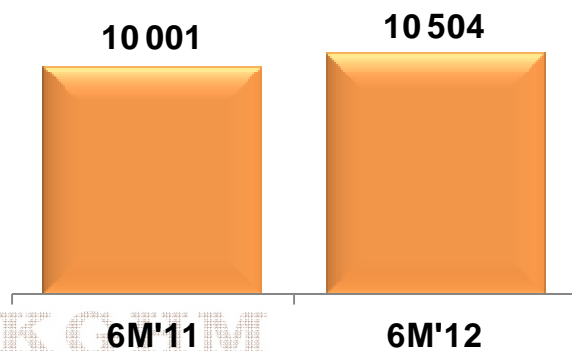


- ✓ Copper content in ore held at planned level (1.60%)
- ✓ Stable volume of production of copper in concentrate
- ✓ Significant increase in metallic silver production, mainly due to higher silver content in purchased materials and the use of inventories

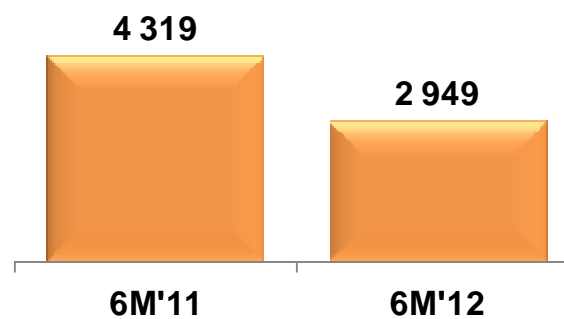
## Good operating results

	6M'11	6M'12	Change	
Sales	10 001	10 504	+5%	+503
Operating cost	5 092	6 314	+24%	+1 222
<i>including the minerals extraction tax</i>	0	356	x	+356
<b>Net profit on sales</b>	<b>4 909</b>	<b>4 190</b>	<b>-15%</b>	<b>(719)</b>
Result on other operating activities	372	(434)	x	(806)
Realisation and measurement of derivatives	77	(40)	x	(117)
Exchange differences	(50)	(473)	×8.5	(423)
Dividend	277	57	(79%)	(220)
Other	68	22	(68%)	(46)
<b>Operating profit</b>	<b>5 281</b>	<b>3 756</b>	<b>(29%)</b>	<b>(1 525)</b>
Net finance costs	(16)	(17)	+5%	(1)
Income tax	946	790	(17%)	(156)
<b>Profit for the period</b>	<b>4 319</b>	<b>2 949</b>	<b>(32%)</b>	<b>(1 370)</b>

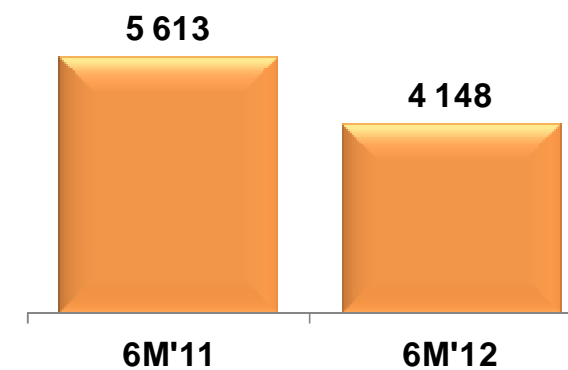
Sales



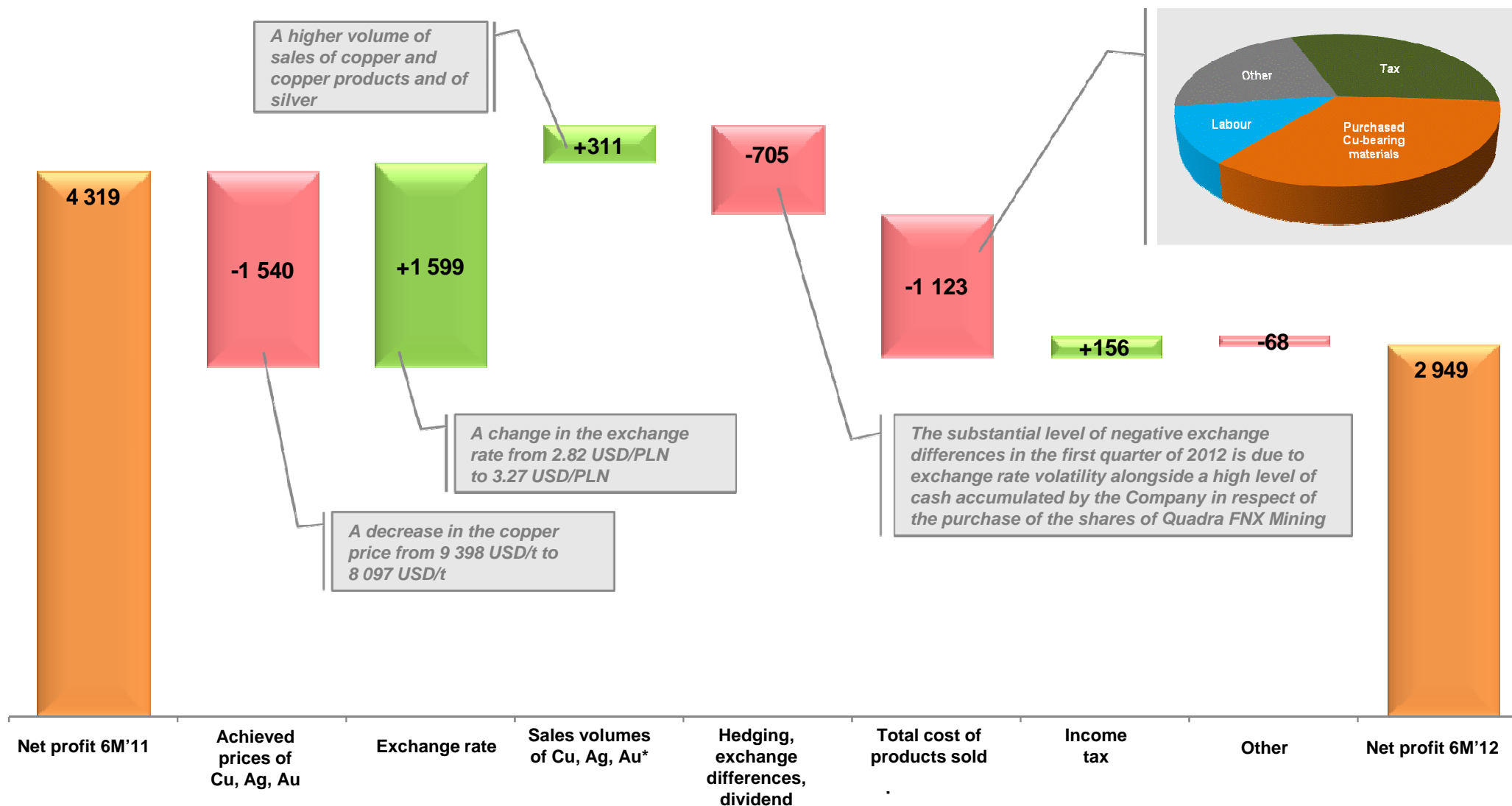
Net profit



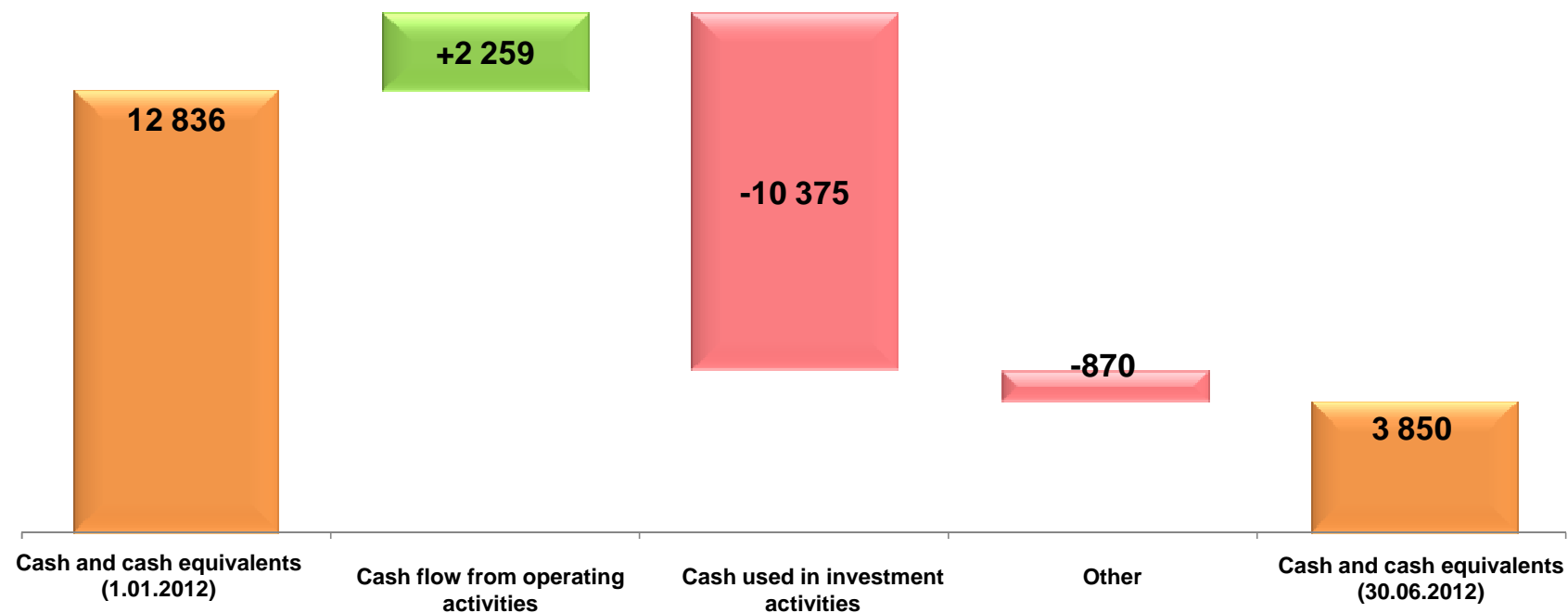
EBITDA



# Increase in ex-Company costs (minerals extraction tax, valuation of purchased copper-bearing materials)



## Safe financial situation in Company

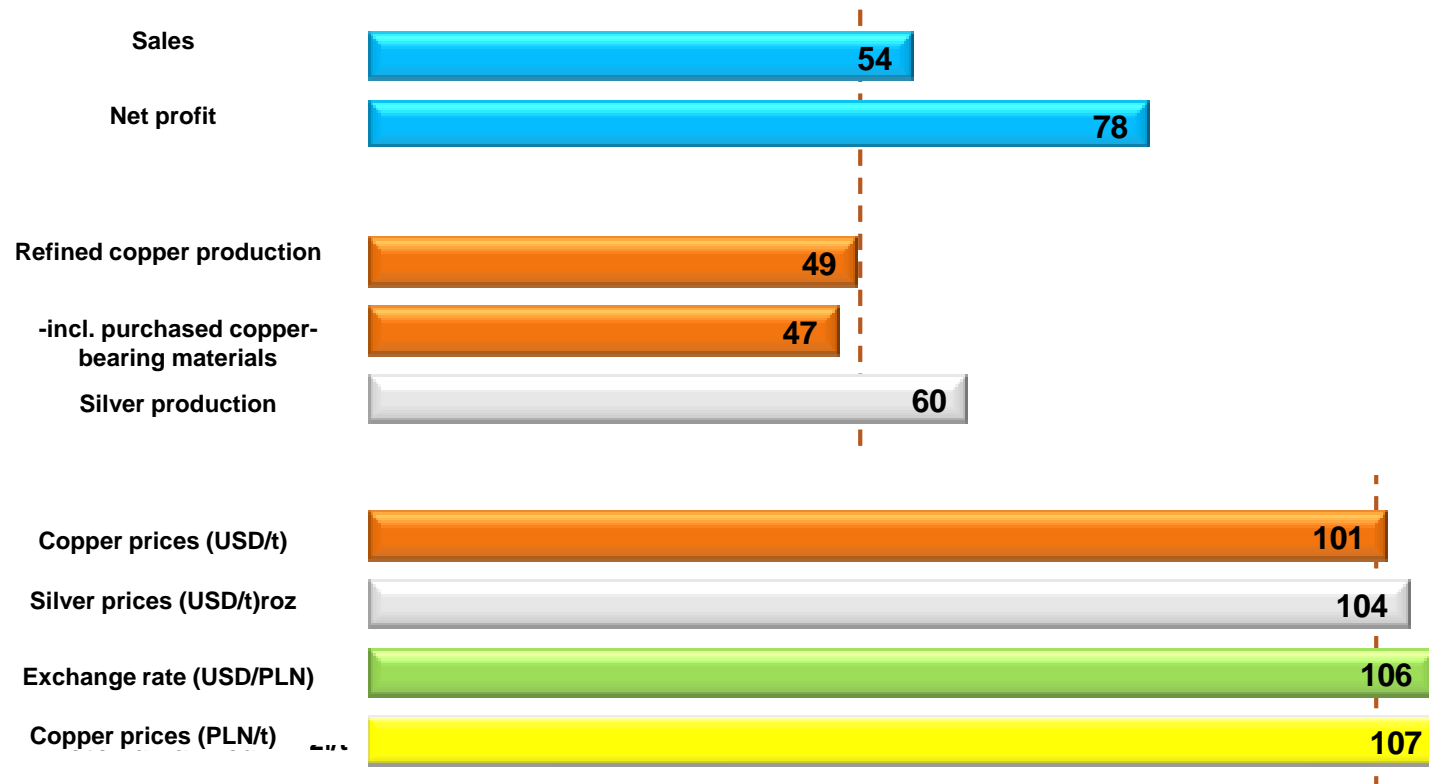


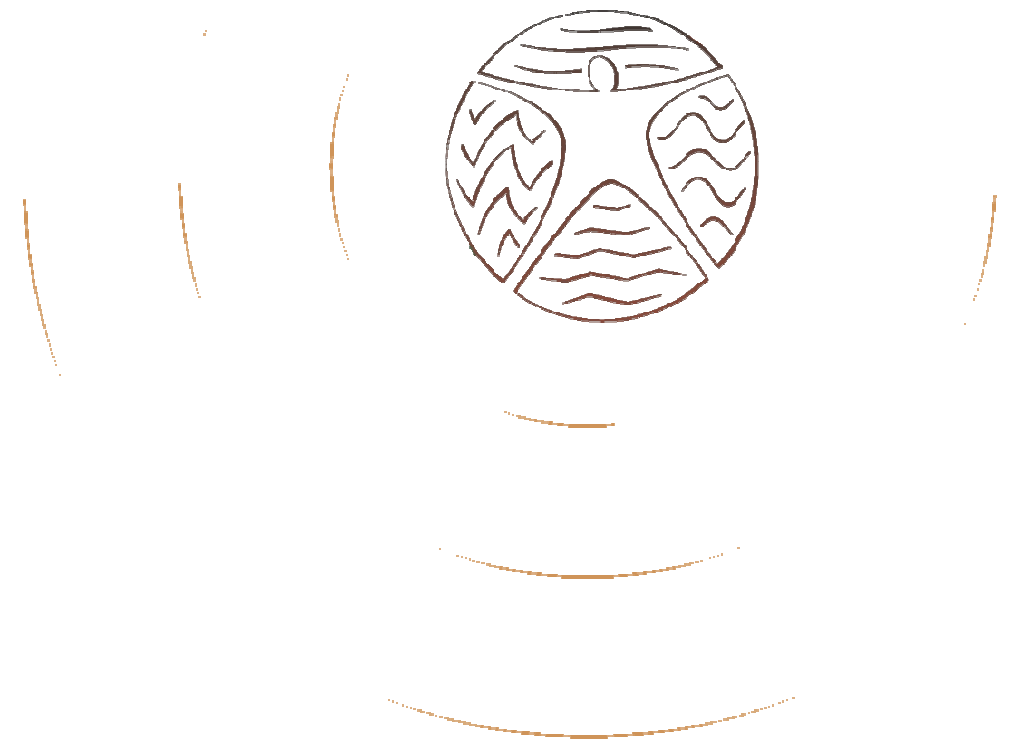
In the first half of 2012 the cash position decreased by PLN 8 986 million, mainly due to the acquisition of Quadra FNX

## Advance on realisation of the forecast for 2012 (%)

In the first half of 2012 KGHM Polska Miedź S.A. realised 54% of its planned revenues from sales and 78% of the financial result projected for 2012. The Company is reviewing its financial forecast for 2012

The main reason for the high advance on realisation of the financial result is the higher-than-assumed exchange rate

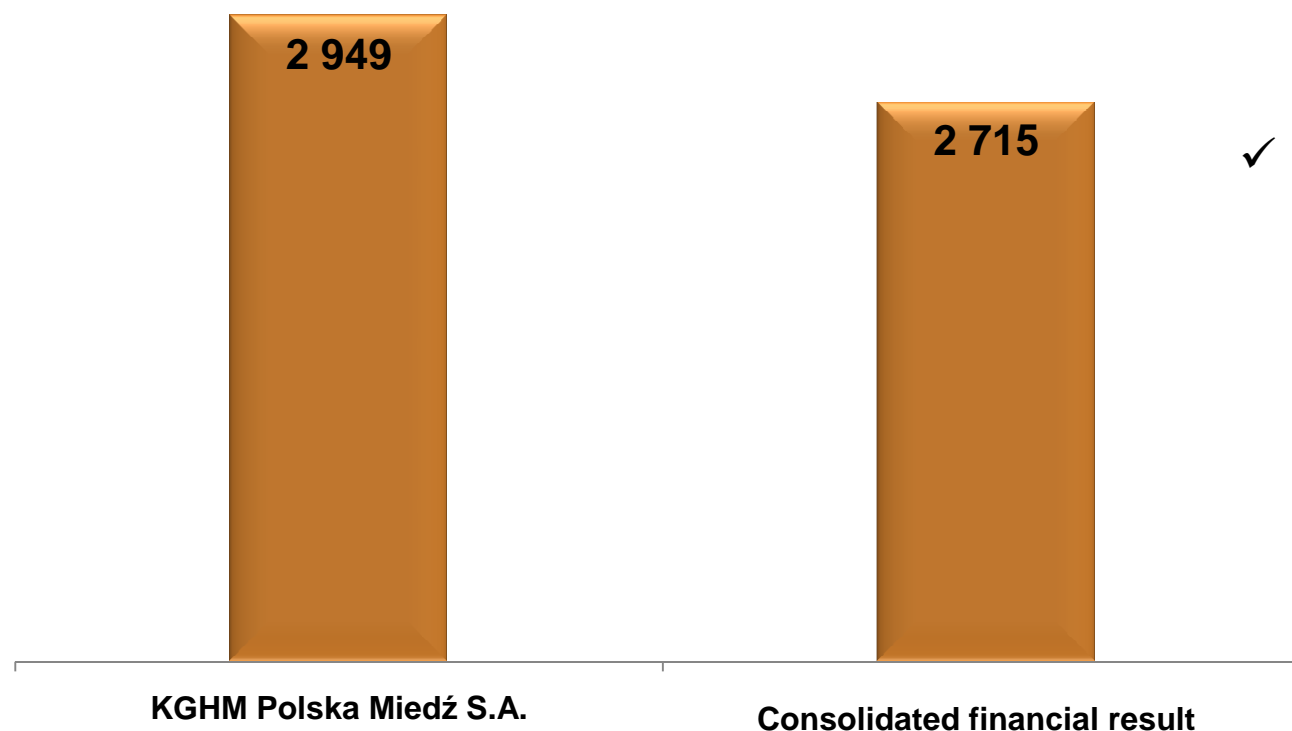




**KGHM Group**



## KGHM remains the main driver of the Group's results



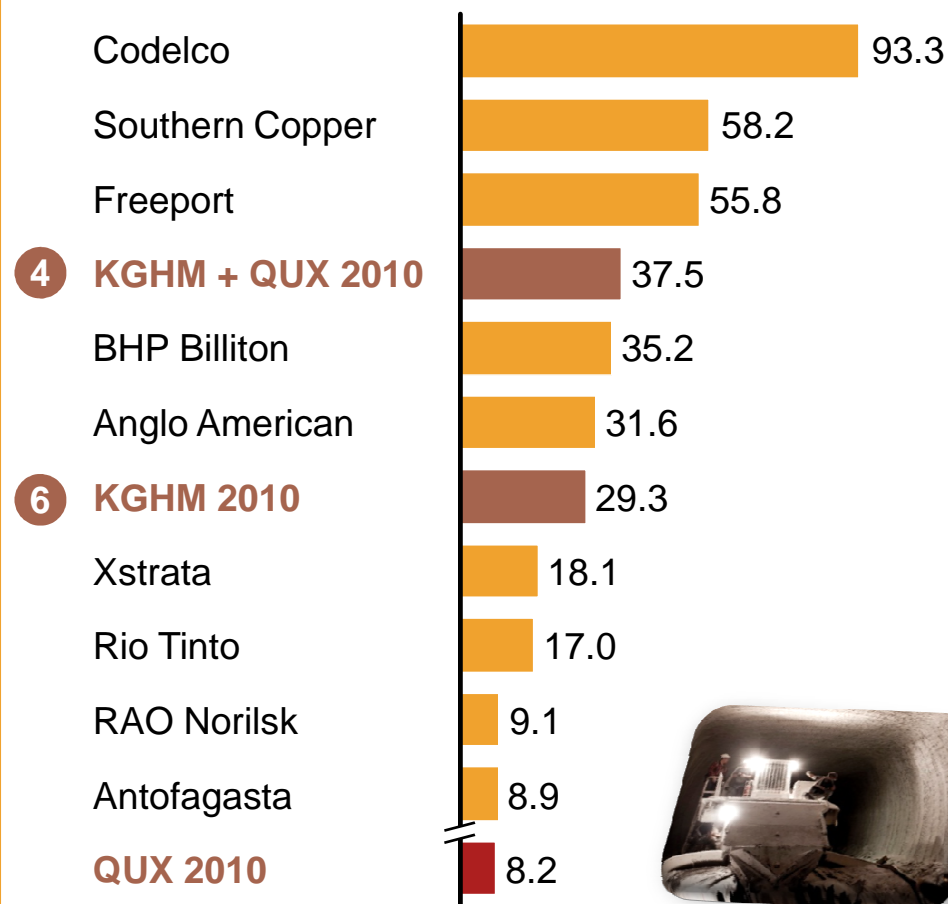
- ✓ The projects currently being realised in the resource companies do not have a significant impact on the present results of the Group – rather, their value is reflected in the balance sheet and in future cash flow

**The results of KGHM Polska Miedź S.A. represent 109% of the Group's results**

## Capital Group KGHM – increase in production and resource base

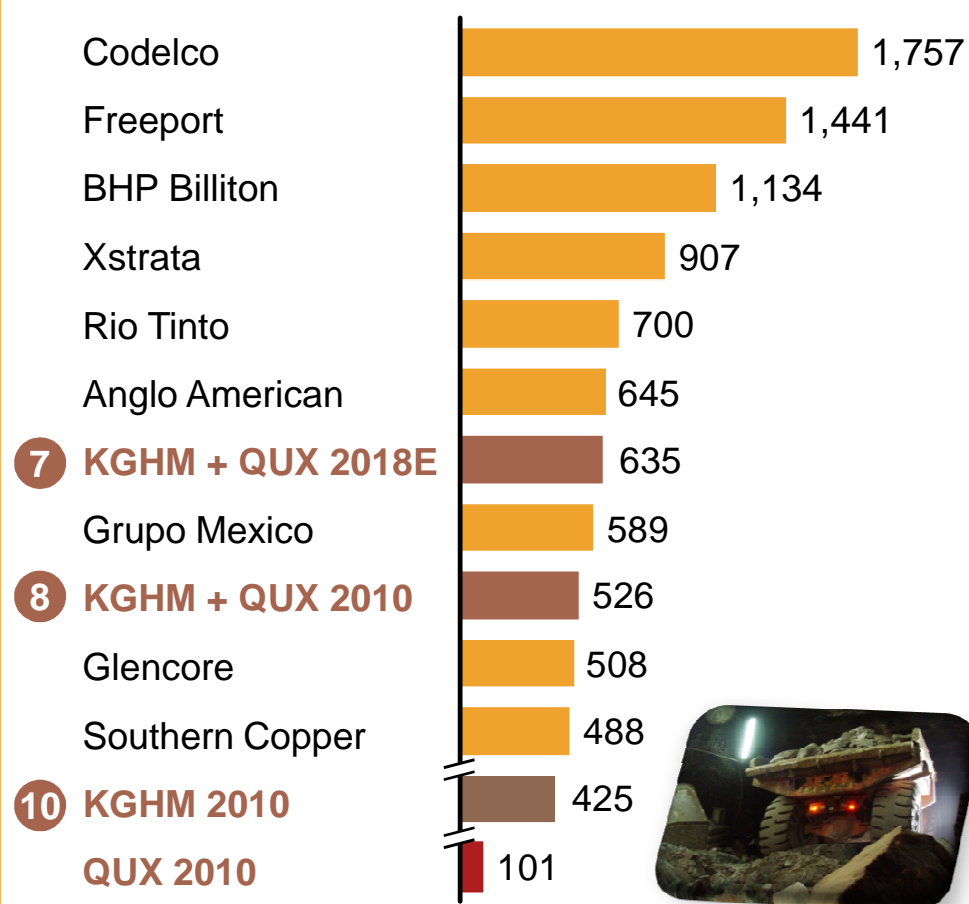
### Resource base

Copper content in Mt

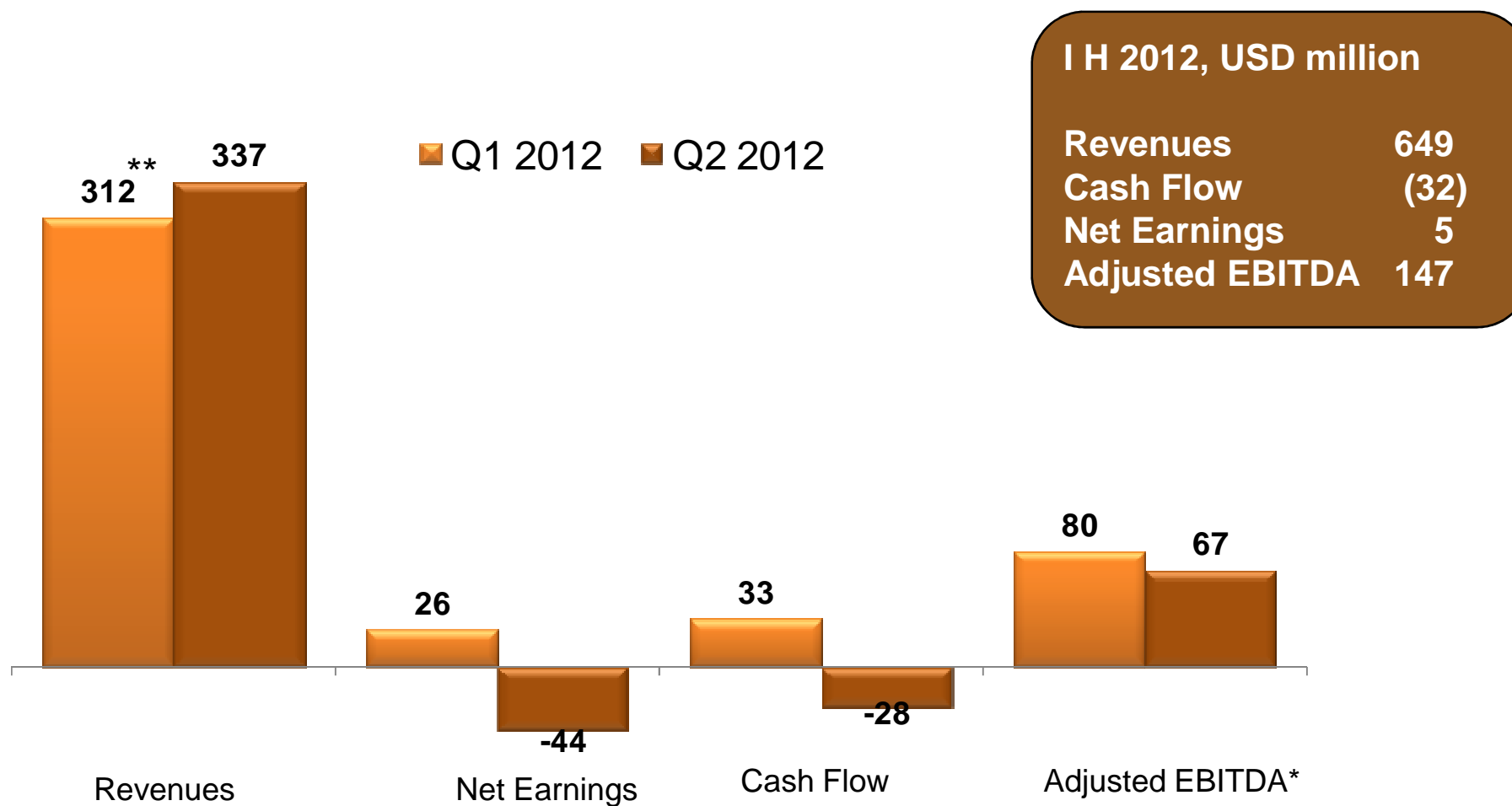


### Mined copper production

In thousand tons, 2010



## Financial results for KGHM International Ltd. (USD million)

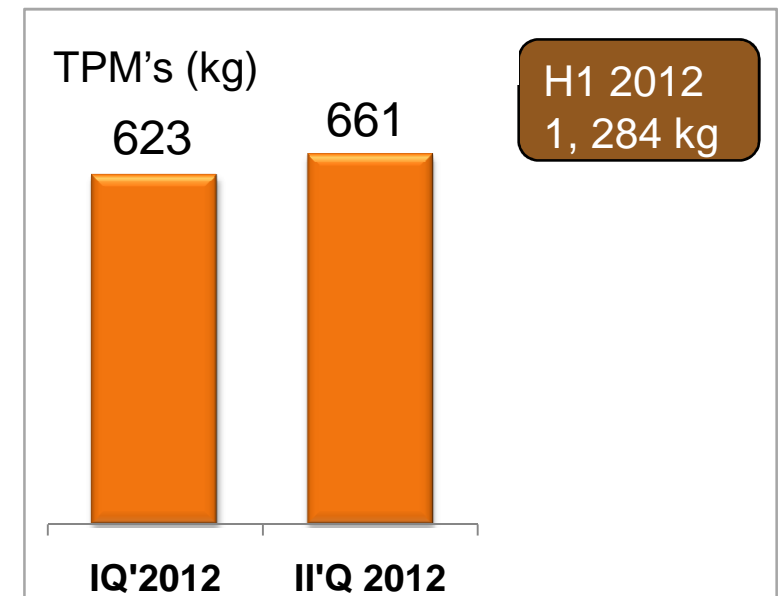
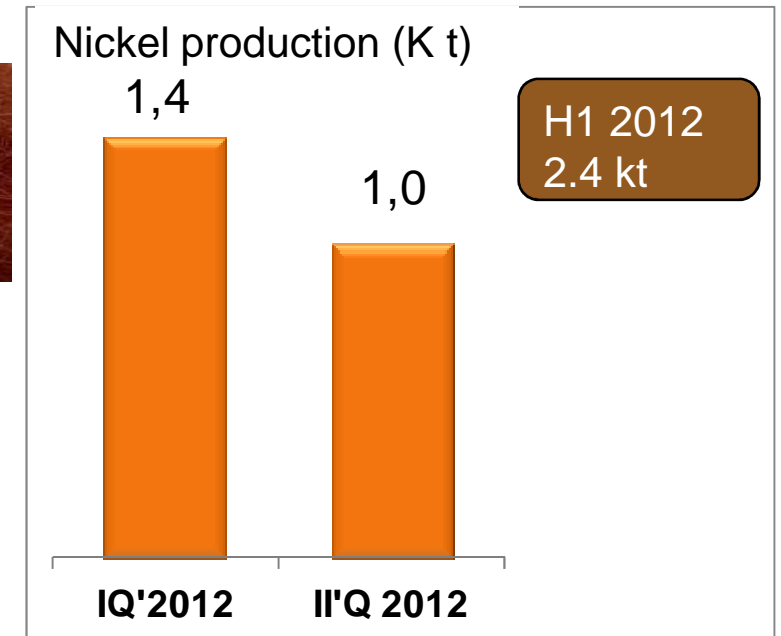
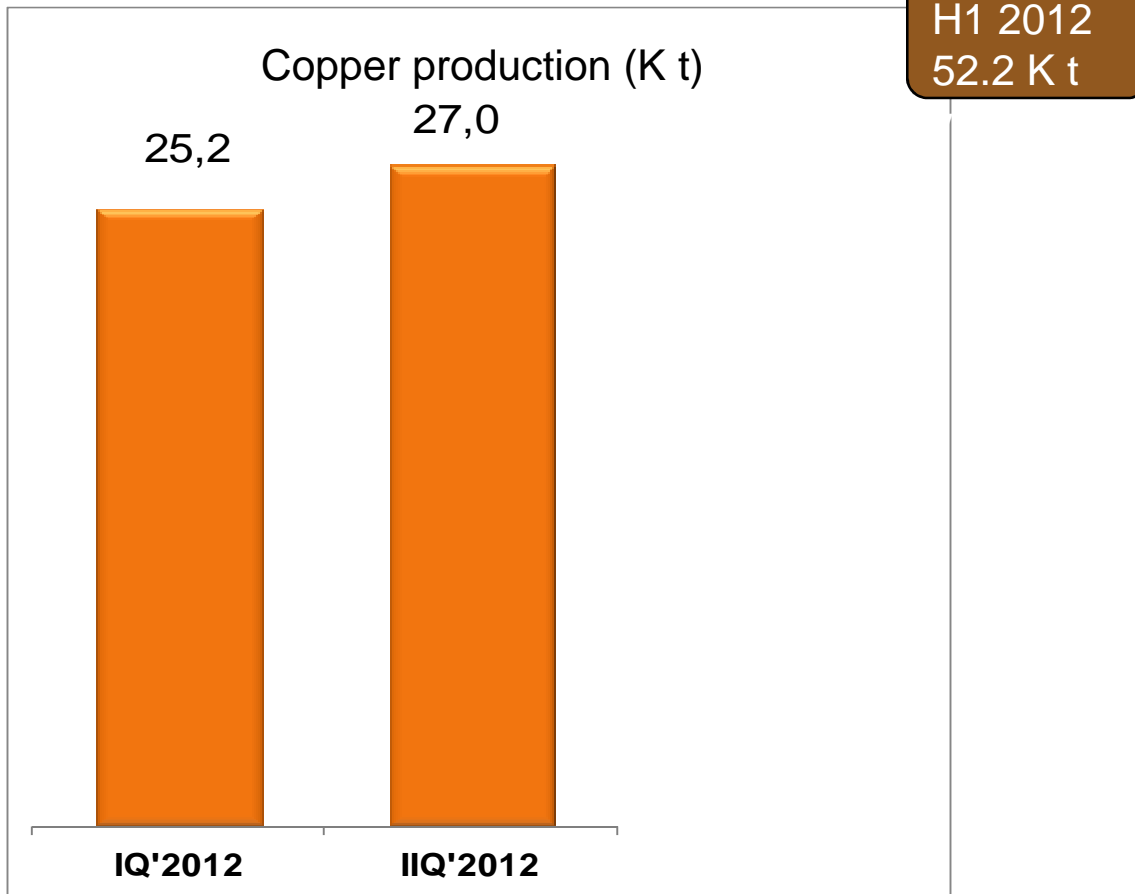


\* Adjusted EBITDA is a non-IFRS measure which is calculated as income from mining operations plus amortization, depreciation and depletion, inventory write down and stock-based compensation, minus general and administrative and exploration and evaluation costs.

\*\* Revenues for Q1 2012 adjusted by USD (18) million due to settlement of sales contracts based on actual metals prices.

## Production results for KGHM International

Total Cu production increased by 8% in Q2 2012 vs. Q1 2012 as higher production from Robinson offset the impact of lower grades at Morrison



# Key KGHM International Operations

## Robinson



### Q2 2012

- Cu production increased due to higher throughput & grades
- Cost improved, but continue to be impacted by higher stripping volumes
- Profitability impacted by inventory changes & lower metal prices

### Outlook

- The mine has recovered from the North wall failure & a new 2012 mine plan was developed & implemented
- Optimization initiatives are ongoing

## Morrison

### Q2 2012

- Transition to Craig completed
- Some challenges including transformer fire, production face availability and backfill issues
- Re-sequencing of mine plan resulted in lower grades mined



### Outlook

- Grade profile expected to improve in H2 2012
- Resolution of Craig infrastructure issues will allow benefits of shaft to be realized
- Diamond drill access for reserve definition of lower Morrison established. Drilling commenced in July

## Sierra Gorda & Victoria updates



### Sierra Gorda

- Project remains on schedule for production in 2014
- Waste stripping & construction activities ongoing
- Key contracts awarded in Q2 (i.e., water, railway, transmission line, port & power)
- Definitive cost estimate updated scheduled for Q4 2012, once 75% of engineering is complete



### Victoria

- Down plunge drilling on Zone 4 continues & drill testing historical mining areas to the North of Zone 4
- Detailed engineering continues
- Discussions with Vale are ongoing



