



**KGHM**

POLSKA MIEDŹ S.A.

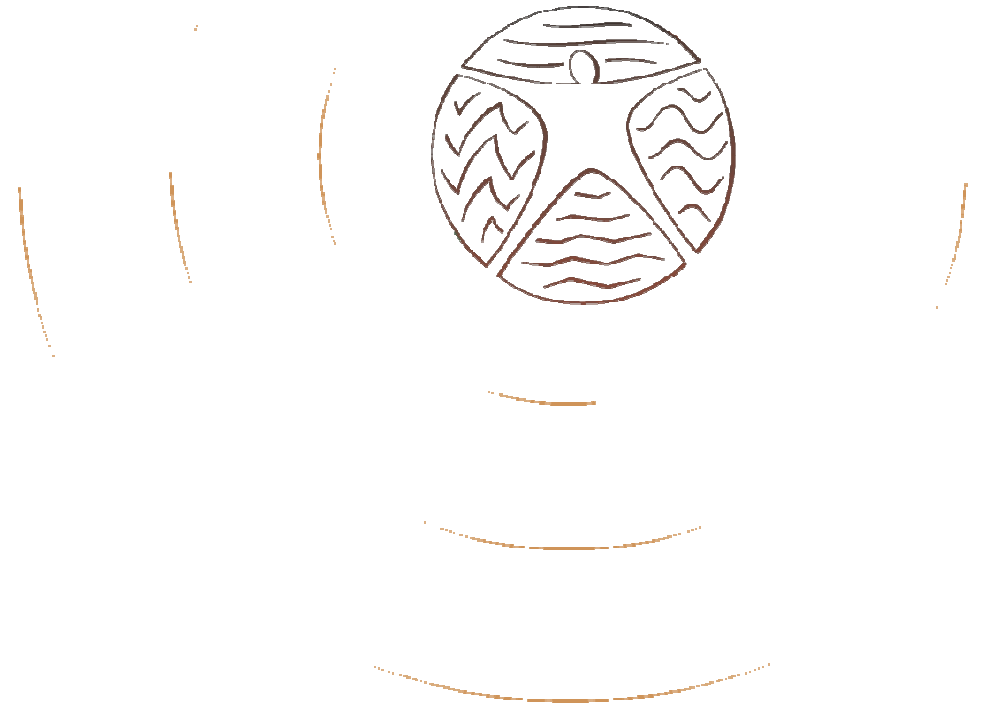
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## **Company Results in the first half of 2013**

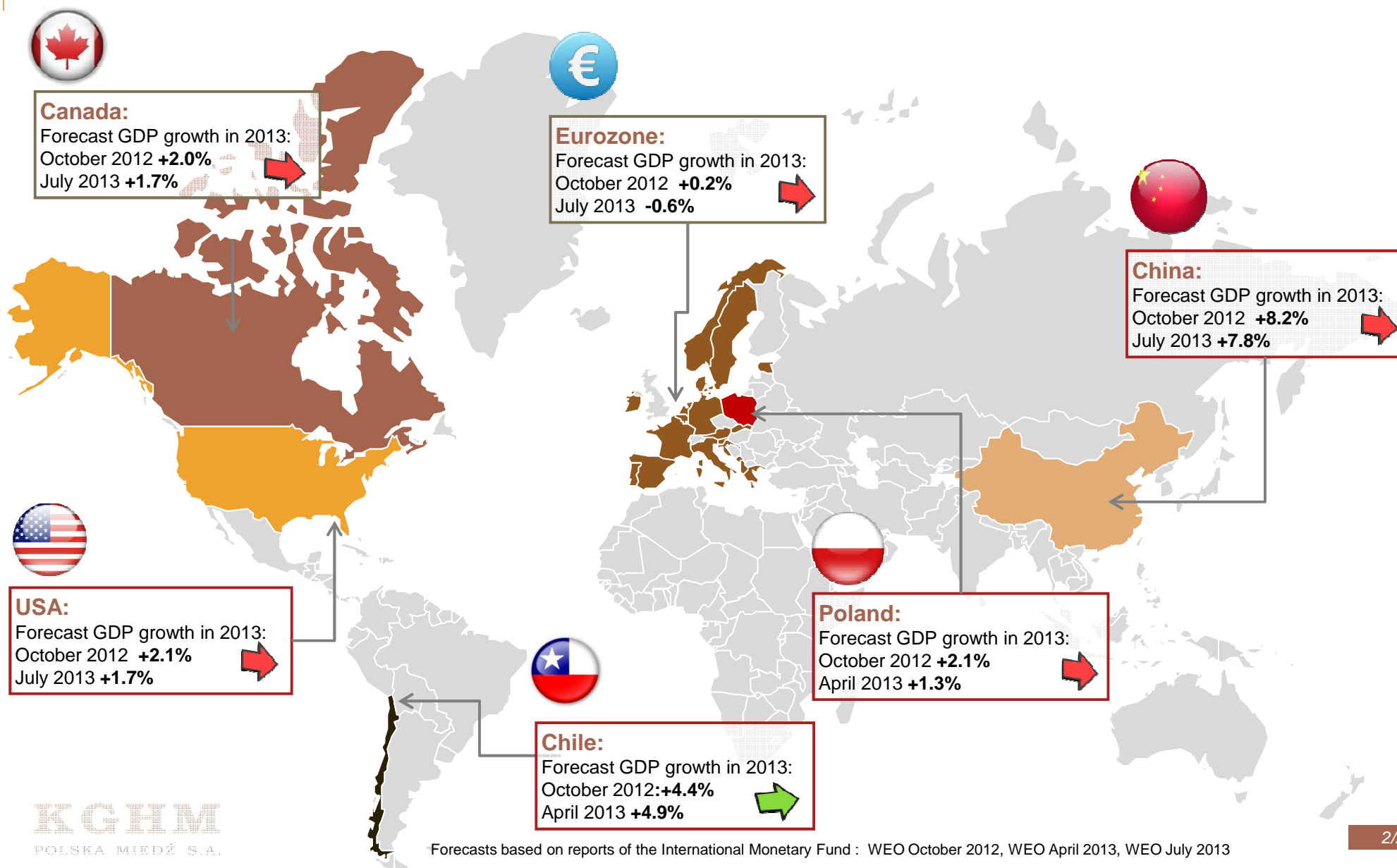
August 2013

## Agenda

- Situation on the base metals market
- Economic results of the Group
- Economic results of KGHM Polska Miedź S.A.
- Economic results of KGHM International
- Program to build global skills

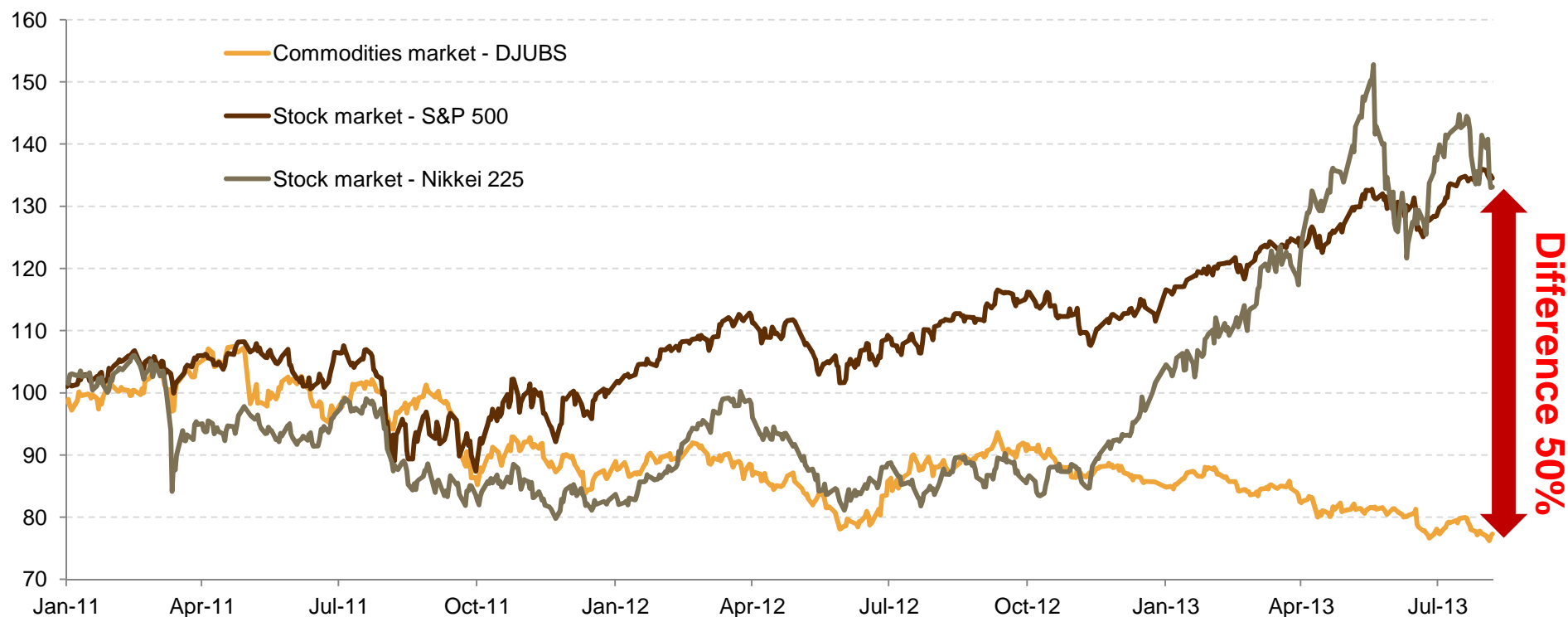


## Revised forecast of global economic growth



## Deepening disparity between the commodities market and stock market

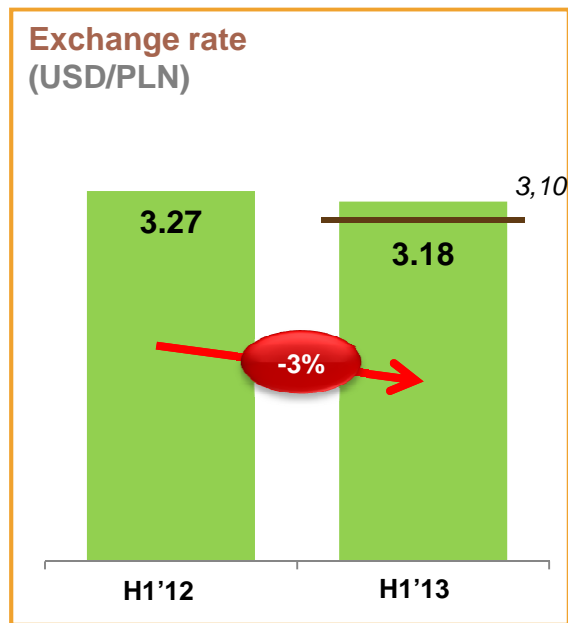
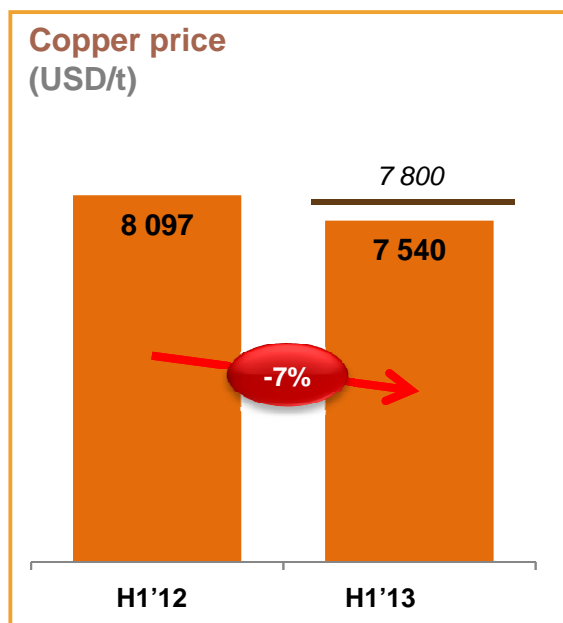
Stock market versus commodities market [2011-01-01 = 100 points]



Source: Bloomberg

We are currently seeing the process of money being withdrawn from funds investing on the commodities market. The recent rising trends and new records being set on the S&P 500 and DJIA demonstrate that some investors are more interested in investing in shares.

## A significant deterioration in macroeconomic conditions



**Lower metals prices versus the first half of 2012,  
and a lower USD/PLN exchange rate**

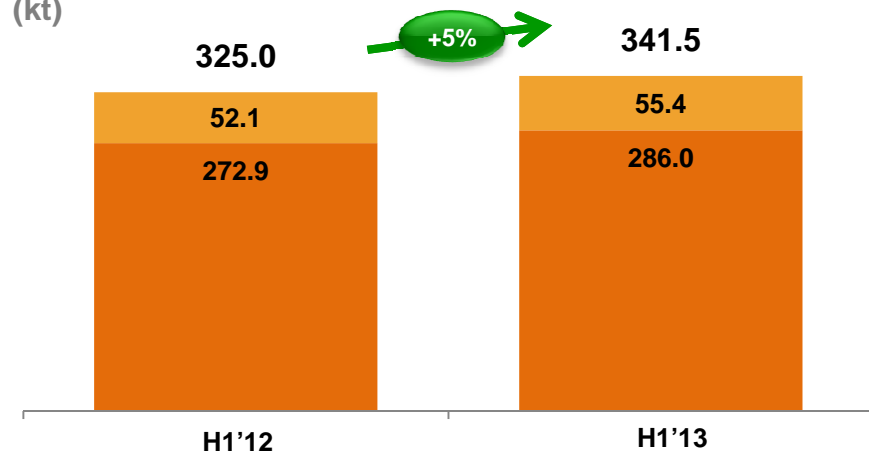
**Assumptions on the copper price and exchange rate  
similar to the Company's forecast for this period, with significantly lower silver price**

## Increase in copper production by the Group

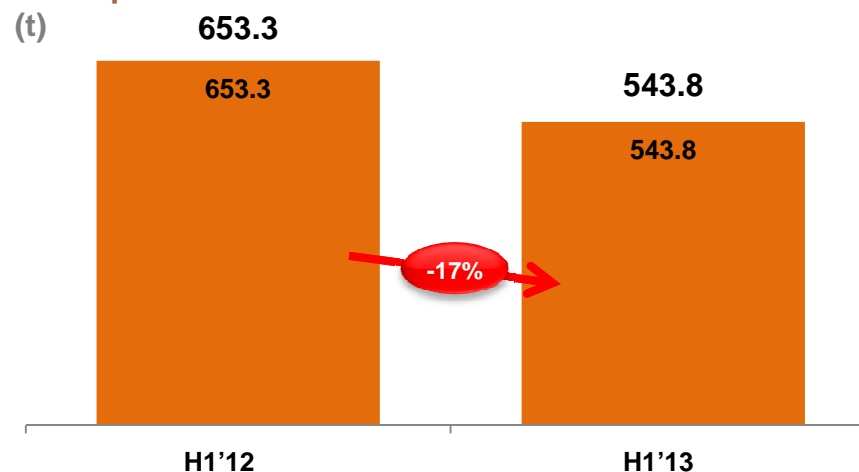
KGHM Polska Miedź S.A.

KGHM International

Copper production  
(kt)

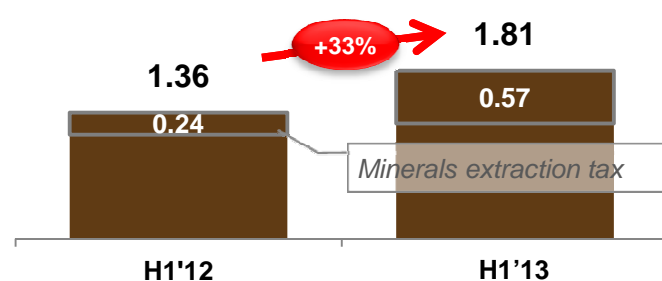


Silver production  
(t)

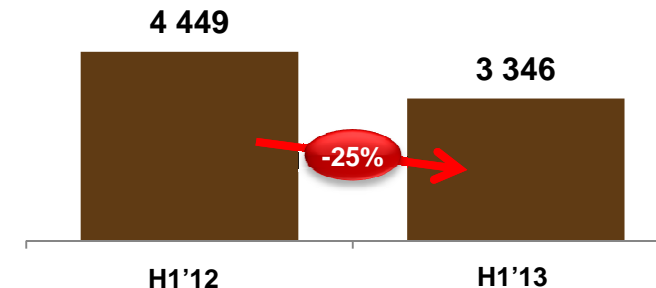


The increase in copper production in the Group by 5% mainly due to KGHM Polska Miedź S.A.

C1 cash cost (USD/lb)



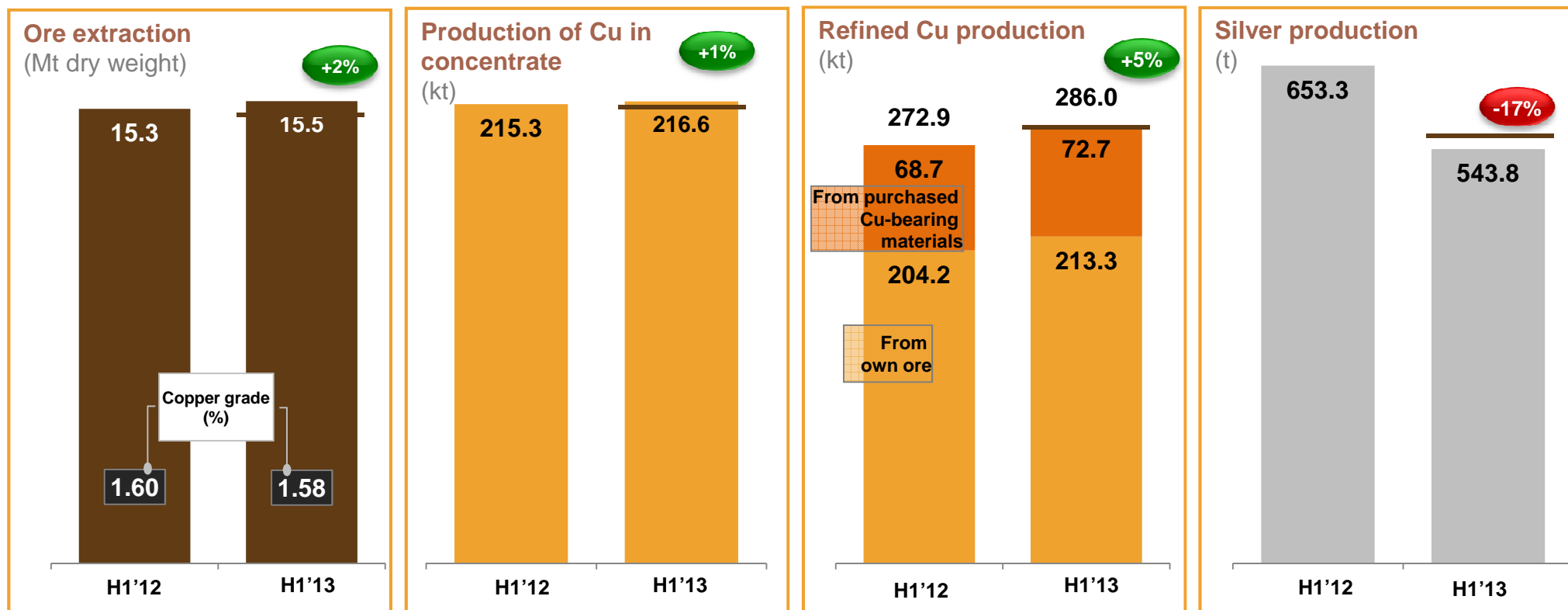
EBITDA (M PLN)



The increase in costs is mainly due to the inclusion of the minerals extraction tax in 2013 costs for the full 6-month period (in 2012 only from 18 April)



## KGHM Polska Miedź S.A. maintains a stable level of mine production



- ✓ Despite deterioration in ore quality, production of copper in concentrate grew slightly thanks to an increase in ore extraction (2%),
- ✓ An increase in refined copper production both from own ore and purchased materials
- ✓ Lower silver production due to lower silver content in processed concentrate, lack of delivery of purchased concentrate with high silver content and to a change in the schedule for the maintenance shutdown at the Precious Metals Plant.
- ✓ On 15 July began the planned, 3-month maintenance shutdown of the flash furnace at the Głogów II smelter
- ✓ These maintenance shutdowns are accounted for in the published forecast of results for 2013

## A major step in accessing the ore in the Deep Głogów area – connection made between the SW-4 shaft and the Polkowice-Sieroszowice mine



- Connection made between the SW-4 shaft and the drifts from the Polkowice-Sieroszowice mine at the depth of 1216 m
- The shaft, with a diameter of 7.5 m, will provide 72 thousand m<sup>3</sup> of air per minute
- The SW-4 shaft was renamed as the dr inż. Tadeusz Zastawnik Shaft – known as the „builder” of KGHM

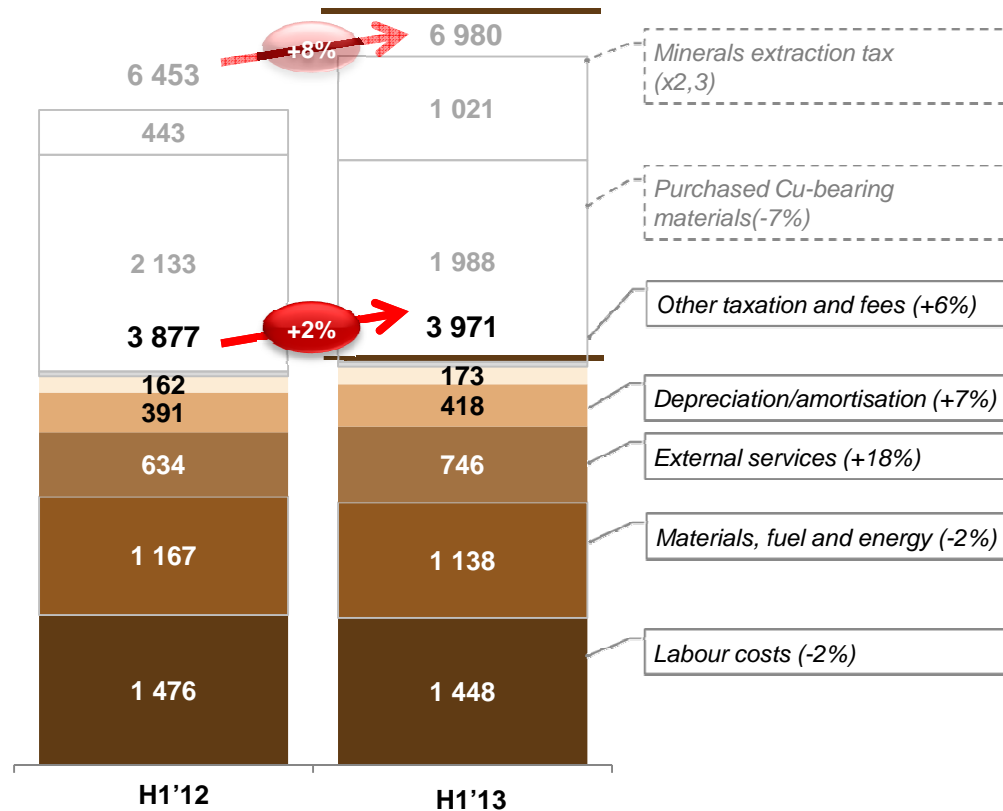


- Continuation of plans to excavate the Deep Głogów ore, estimated at over a billion tonnes of copper ore
- More effective ventilation for mining areas located below 1100 meters
- Improved working and safety conditions for KGHM's employees

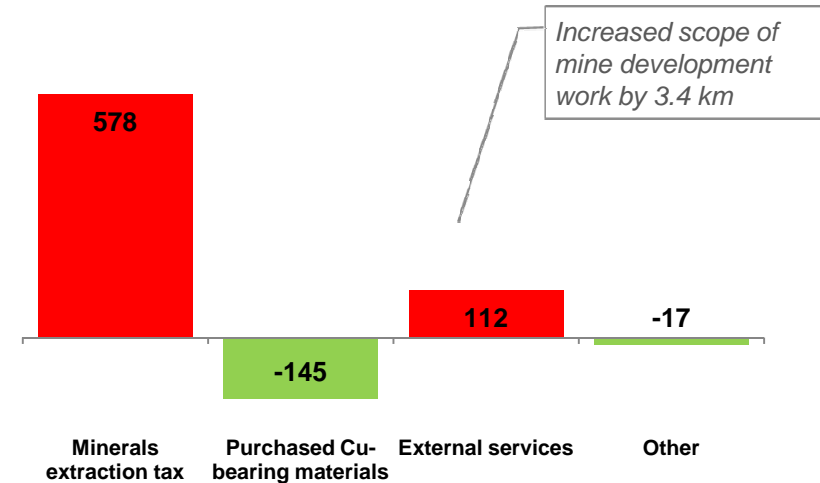


## Effective control of increases in Company-controlled expenses by nature

### Expenses by nature



### Structure of increase in expenses by nature

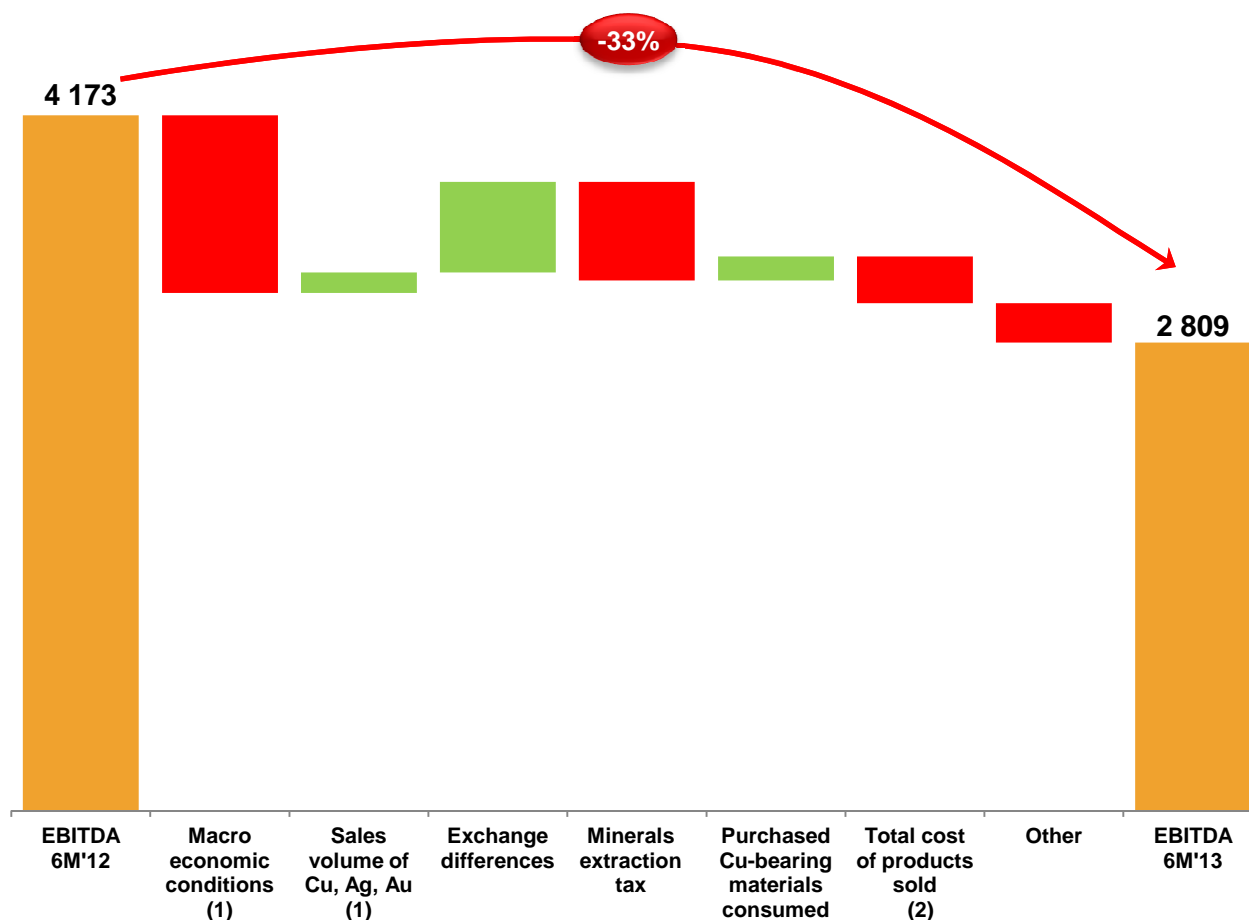


**Expenses by nature, excluding purchased Cu-bearing materials and the minerals extraction tax, increased versus the comparable prior year period by 2%, mainly due to realisation of a greater scope of mine development work**

The Company is currently engaged in investment programs aimed at changing technology: for mining ore (combines), building drifts, metallurgical processing (Głogów smelter) and generating energy from internal sources (Gas-Steam Blocks), which in future will reduce copper production costs and improve efficiency

The decrease in Company EBITDA was mainly due to the fall in base metals prices (Cu and Ag), a change in the exchange rate and to a higher minerals extraction tax

Change in EBITDA of KGHM Polska Miedź S.A.



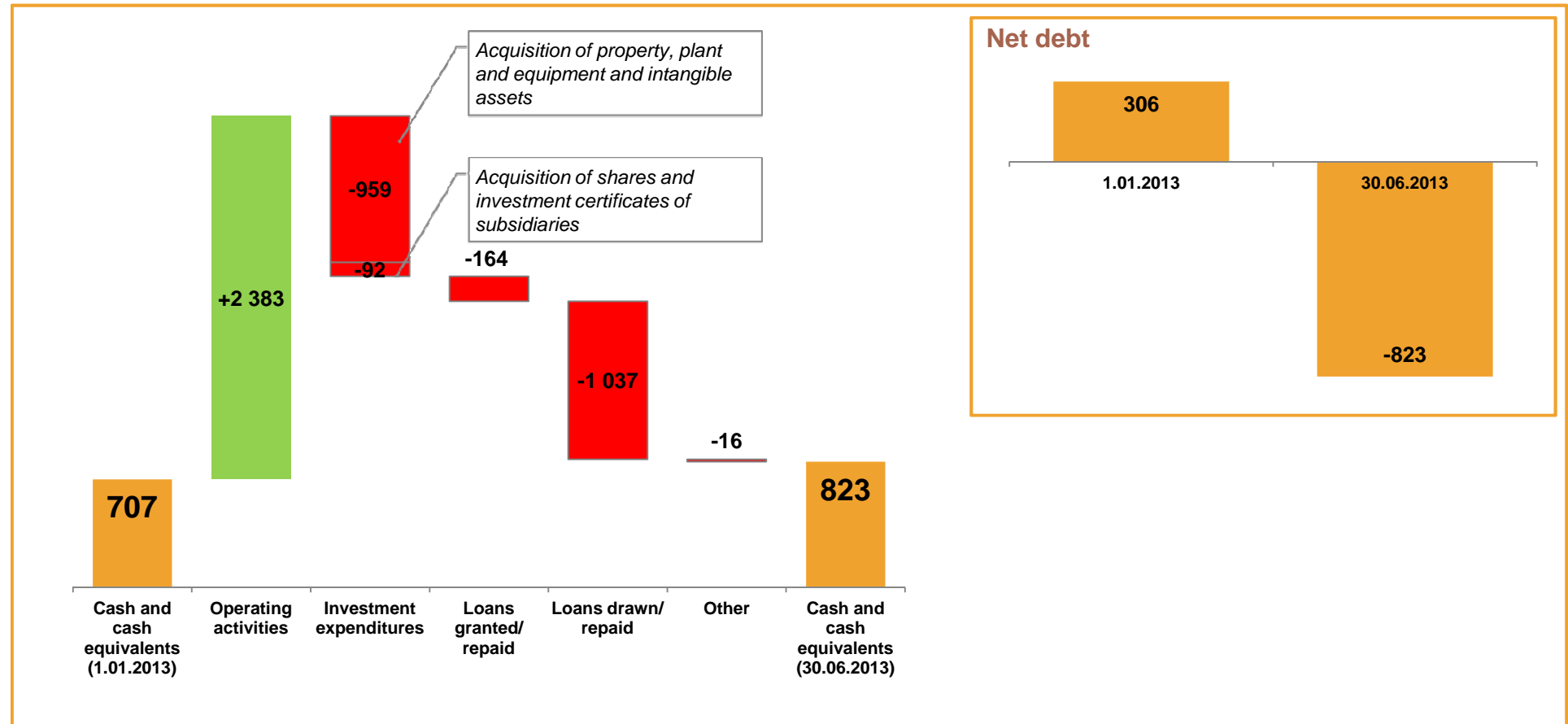
The main causes of lower Company EBITDA were:

- the deterioration in macroeconomic conditions – both metals prices and exchange rate
- impact on profit of the minerals extraction tax for the full first 6 months of 2013

The decrease in results was limited by:

- a better result on exchange differences
- a higher sales volume, and
- the lower value of purchased copper-bearing materials

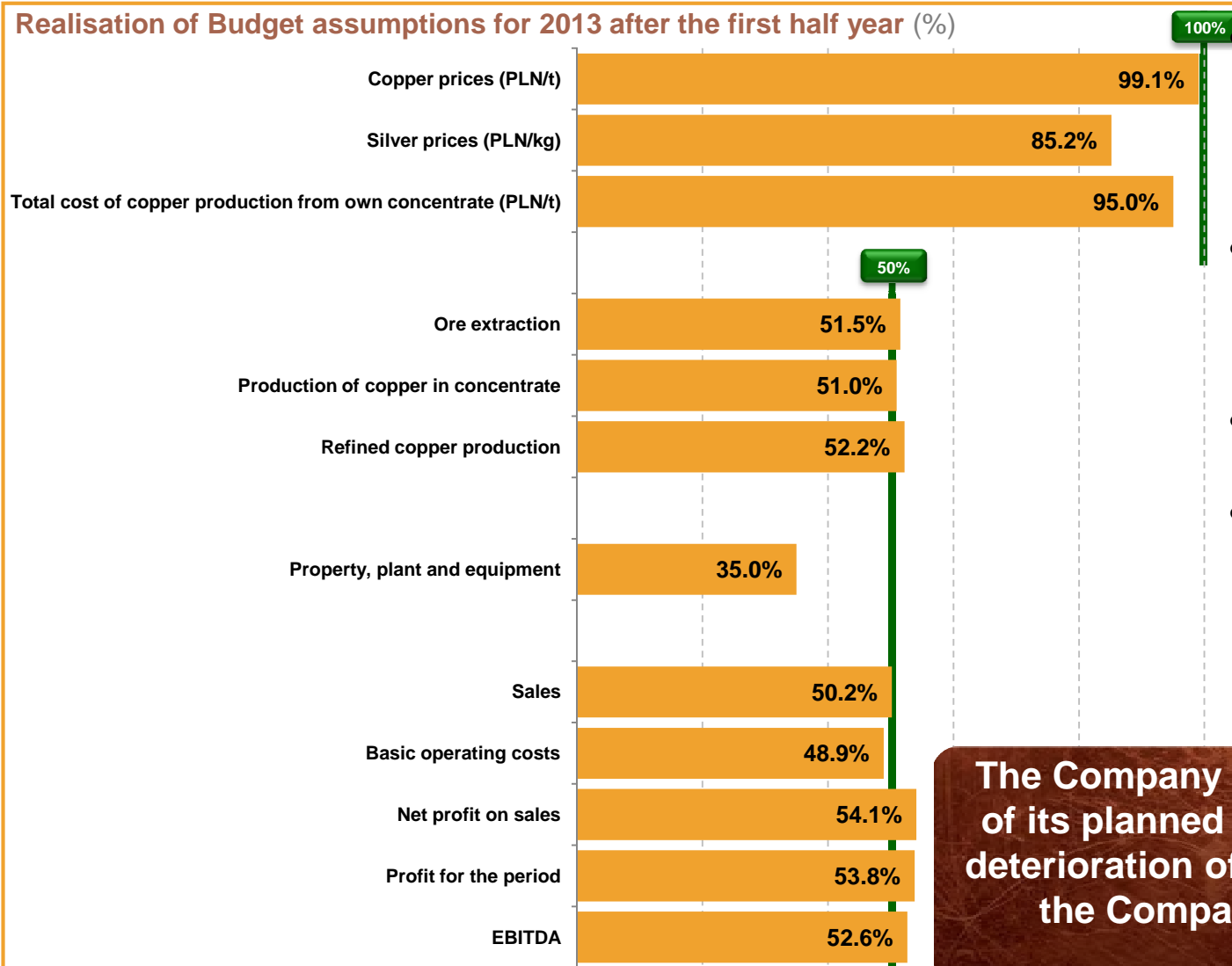
## In the first half of 2013 the Company repaid over PLN 1 billion in loans



**In the first half of 2013 available cash increased by PLN 116 million with loan repayment of PLN 1 037 million and investments realised of PLN 1 051 mln**

## Despite the lower than expected metals prices, the Company achieved over 50% of the planned level of financial results

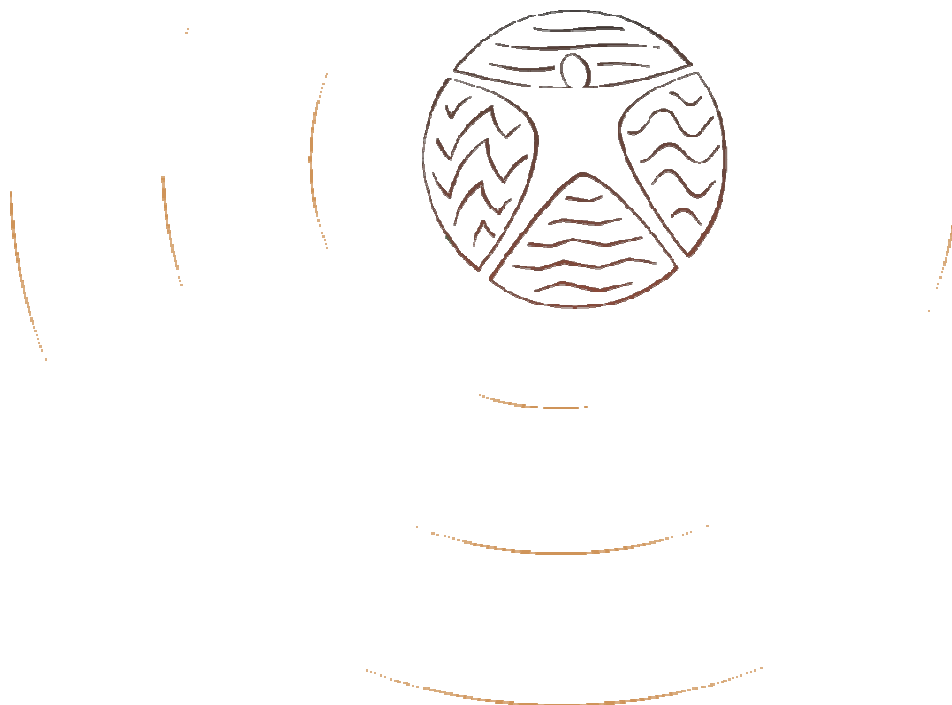
Realisation of Budget assumptions for 2013 after the first half year (%)



After the first half year, 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
- Realisation of the investment plan is on schedule

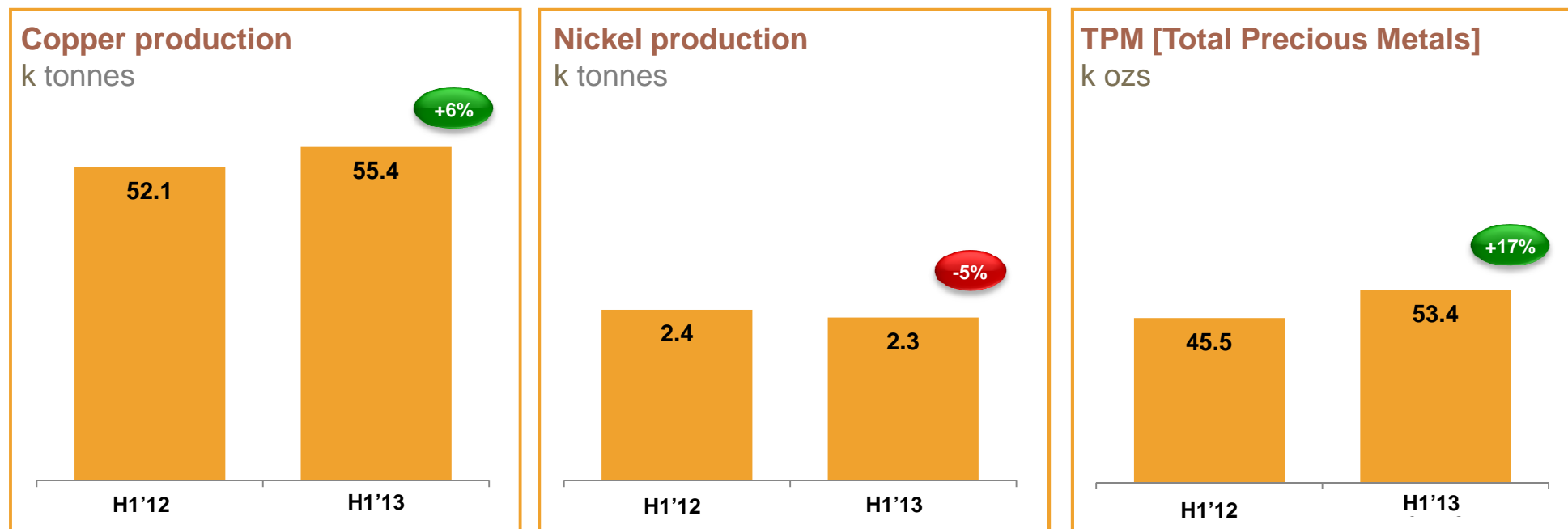
The Company has achieved more than half of its planned Budget results, but due to a deterioration of macroeconomic conditions, the Company is preparing a revised forecast



# Financial results KGHM International

Financial data for KGHM International for H1 2012 are presented for the full reporting period

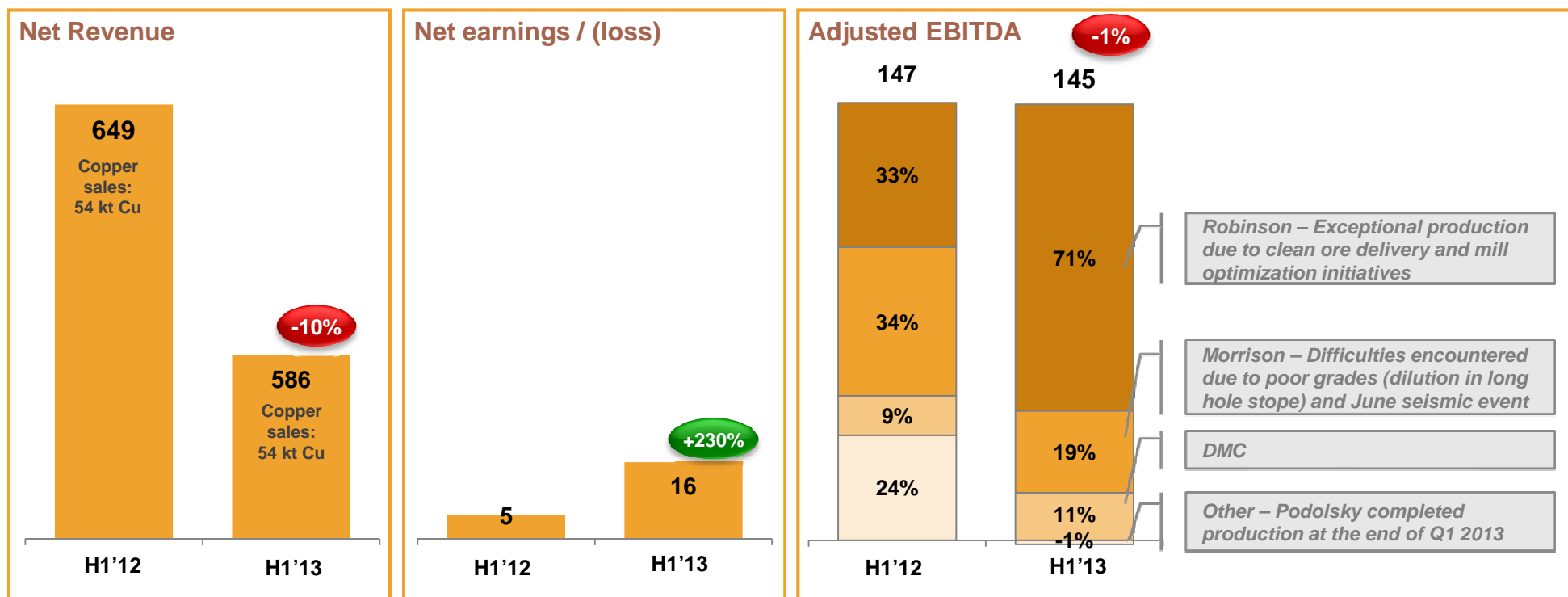
## Higher production of copper and TPM in H1 2013



- ✓ Total copper equivalent\* production in H1 2013 increased to 71.4 k tonnes from 66.5 k tonnes in H1 2012.
- ✓ Increase in copper production in H1 2013 over H1 2012 mainly due to 22% higher production at Robinson as a result of higher recovery rates and continuous improvement in mill operating practices.
- ✓ Increase in TPM production mainly due to an increase in TPM at Robinson by 79% or 13.4Kozs from higher recoveries and higher gold content in concentrate.



## Financial Results Highlights: Higher earnings despite lower prices



- ✓ Net revenues in H1 2013 decreased 10% compared to H1 2012 due to lower prices; however copper sales are in line with H1 2012.
- ✓ Adjusted EBITDA in H1 2013 remained at the same level as last year, due to exceptional production at Robinson

## KGHM International Operations performance and outlook

### Robinson

- Cu production 22% higher vs. H1 2012 - higher recoveries and increased milling rates
- CAPEX for H1 related to waste stripping and dewatering activity
- C1 cost significantly lower than H1 2012 at \$1.71/lb Cu

### Outlook

- Increase in waste mined due to acceleration of waste removal in Ruth Pit area to gain access to ore in 2014
- The remainder of 2013 ore production will be from the Liberty Pit with waste stripping focused on the Kimbley and Ruth pushbacks.

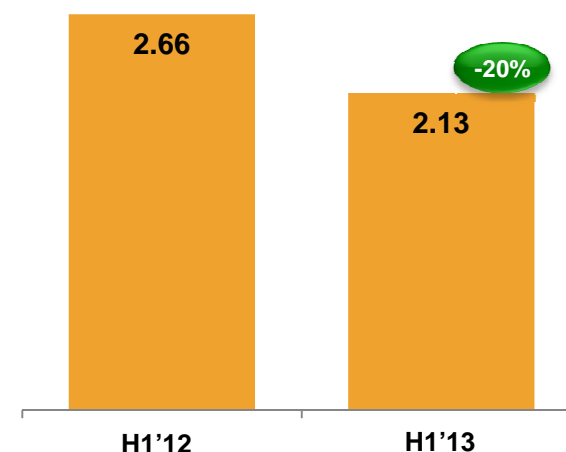
### Morrison

- Production 7% lower vs. H1 2012 - due to remedial work at the Craig Shaft and lower grades
- Lateral development continued
- C1 cost higher vs H1 2012 due to lower production volume, lower byproduct revenues and operation of Craig Infrastructure
- Seismic event occurred in Q2 2013

### Outlook

- Focus on reducing production variability by improving knowledge of orebody
- Main ramp development will continue
- Copper and by-product production is expected to increase over H1

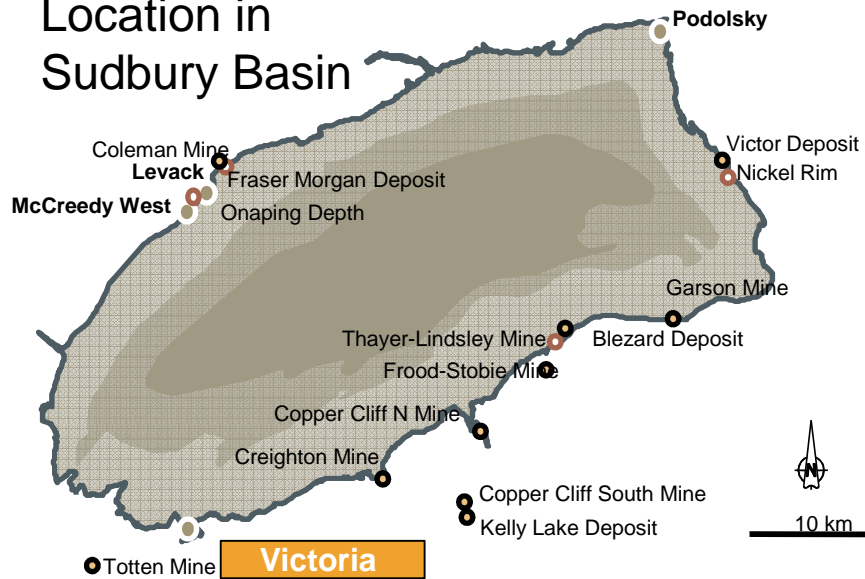
### Unit cash cost (C1) in KGHM International USD/lb



- ✓ Lower production costs and increased byproduct revenue at Robinson resulted in a decrease in overall C1 cash cost from 2.66\$/lbs in H1 2013 to 2.13\$/lbs in H1 2012.
- ✓ Robinson achieved \$1.71/lb unit cost in H1 2013 due to exceptional performance at the mill.

## Victoria Project – success in negotiations with Vale Inco means more intense exploration work is now possible

### Location in Sudbury Basin

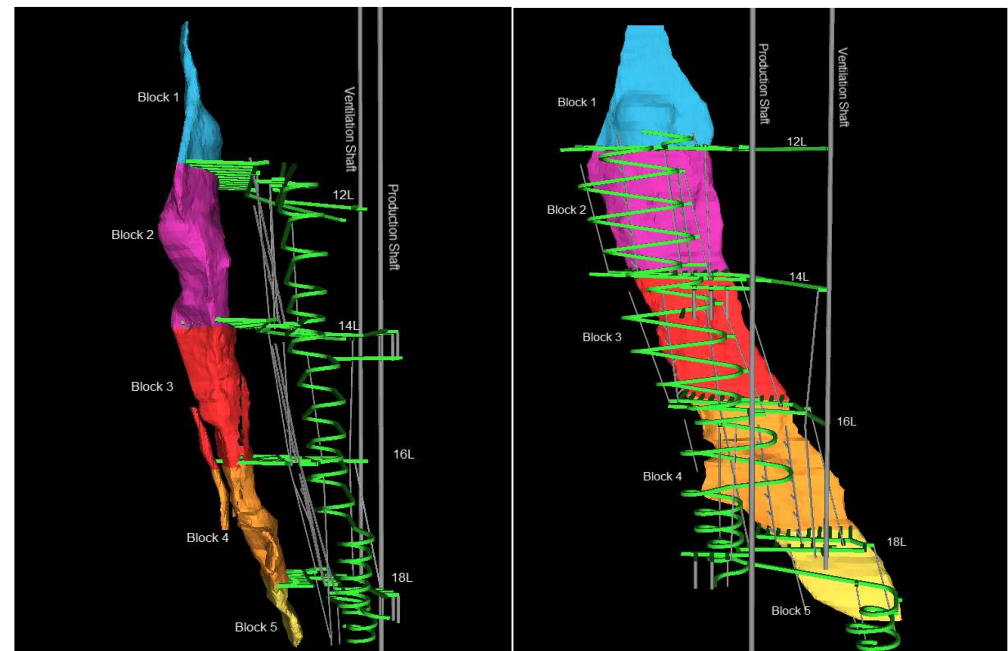


- Victoria is a polymetallic deposit 100% owned by KGHM with offtake processed by Vale Canada's nearby mill and smelter complex
- Vertical deposit orientation and very amenable to long hole bulk underground mining
- Resource\* of ~15 M Tons at 2.4 % Cu, 2.5% Ni and 7.4g/t TPM

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\* Inferred resource Classification

- ✓ On August 1, 2013, an agreement between the Company and Vale Inco was reached regarding development of the Victoria project
- ✓ The Company obtained the right to build and operate the project as the sole owner.
- ✓ Furthermore, both companies agreed to new terms of off-take coming from KGHM International mines in Sudbury Basin, including the future Victoria Mine.
- ✓ Vale will receive a royalty on all future production from the project



## Ajax project – additional potential ore reserves



AJAX

Cu

Au



Reserves	~ 512 Mt @ 0.31% Cu, 0.19 g/t Au
Ownership	80% KGHM PM S.A, 20% Abacus Mining
Mine	Open pit
Status	Pre-Environmental Assessment Application

- IP Survey results suggested additional potential ore reserves, detailed exploration program in development
- Work in progress on alternative concept for the siting of some mine facilities (substantial reduction in the impact of the mine on the surrounding terrain where infrastructure of the town of Kamloops is located)
- AIR (Application Information Requirements) finalized and approved by the regulators. Planned filing of request for permission to build following analysis and acceptance of changes to the mine plan and evaluation of additional potential reserves
- Community Open Houses successfully held ~ 600 people in attendance, further meetings planned for September

## Sierra Gorda is halfway towards completion



**SIERRA GORDA**

**Cu**

**Au**

**Mo**



<b>Reserves</b>	~ 1.3 bn t @ 0.42% Cu, 0.0025% Mo
<b>Ownership</b>	55% KGHM International, 45% SMM and SC
<b>Mine</b>	Open pit
<b>Status</b>	Mine under construction, processing plant construction and pre- stripping, construction progress 51%.

- Project remains on schedule to commence production in 2014
- Overall progress as at June 30 at 51%
- Detailed engineering phase largely completed for plant, sea water pipeline and tailings storage facility.
- Construction of seawater pipeline and tailings storage facility over 1/4 complete and ~1/3 of the plant construction complete
- Pre-stripping as at June 30 at 45.3%
- Optimization of the pit slope design completed
- Entering peak construction phase where monthly progress increases dramatically
- ~89% of the DCE revised initial CAPEX of \$3.9B committed
- ~ \$2.4B of the committed amount has been incurred.



## People – our most valuable resource

### Building global skills

- **KGHM Executive Academy (from 2013)**

- Program for management staff
- Period: 2013 – 2014
- Program has a comprehensive, interactive format of instruction in English, comprising three main modules: business management, management in mining and leadership.

- **Program „Talent Mine” (from 2012)**

- Two-year program of adaptive-type training in key areas of KGHM's operations aimed at young graduates of institutions of higher learning throughout Poland.

- **Go Global Internships (from 2013)**

- Month-long apprenticeships for students in projects realised under the operations of KGHM International Ltd.
- Period: August-September 2013





