

KGHM

POLSKA MIEDŹ S.A.

Company Results in the first quarter of 2013

May 2013

Agenda



- KGHM Polska Miedź in the first quarter of 2013
- Management Board dividend proposal
- Confirmation of the value of KGHM International assets, including the Sierra Gorda project
- Realisation of the investment program
- Production results of the KGHM Polska Miedź Group
- Financial results of KGHM Polska Miedź S.A.
- Financial results of KGHM International
- Financial results of the Group

KGHM Polska Miedź in the first quarter of 2013

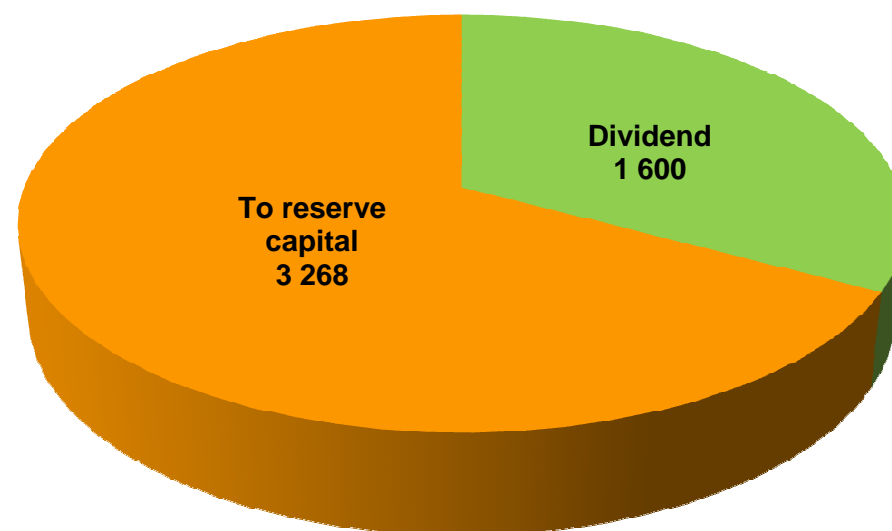
- In the first quarter the Group earned a profit for the period of PLN 1 100 million, with Parent Entity profit of PLN 1 059 million
- On 8 May 2013 the Management Board recommended payment of a dividend of 8 PLN/share
- In 2012, KGHM Polska Miedź retained its position as the world's largest silver producer (per the ranking of the World Silver Survey conducted by Reuters GFMS)
- KGHM Polska Miedź S.A. confirmed its position as a global company and a leader of the Polish economy
 - best investment of the year amongst WIG20 companies per the market daily Gazeta Giełdowa Parkiet,
 - third place in the ranking of best listed companies per the business daily Puls Biznesu,
 - most attractive employer in Poland per the Randstad Award,
 - realisation of projects: Poland Go Global, Talent Mine

The Management Board proposes payment of 33% of net profit for financial year 2012 as a dividend

The Management Board proposes a dividend payment of PLN 1 600 million, i.e. 8.00 PLN/share, or 33% of 2012 profit

this amount represents a compromise between current shareholder interests and the need to ensure achievement of the Company's development program

- in 2012 the Company purchased Quadra FNX, and is currently carrying out an investment program in the mines and metallurgical plants of KGHM
- last year a minerals extraction tax was introduced, representing a permanent and substantial charge to the Company's results
- the results of the Company are sensitive to changes in the USD/PLN exchange rate and in metals prices, with high market volatility
- since 2006 the Company has paid out total dividends amounting to 94 PLN per share



Confirmation of the value of KGHM International assets

The value of KGHM International as a result of final settlement of the purchase price was set at over PLN 9.7 billion (as at 5 March 2012)

- Final settlement of the acquisition of KGHM International on 5 March 2012 was accounted for in the consolidated financial statements for the first quarter of 2013
- Valuation of the net assets at fair value as at 5 March 2012 was performed with the assistance of specialists from Ernst & Young in Poland and Canada
- Final measurement of the value of these assets was **PLN 9 744 million**. The excess of the fair value over the purchase price (gain on a bargain purchase) was set at **PLN 37 million**
- The results of this valuation were subjected to preliminary verification by the Company's auditor

Despite an increase in capital expenditure the Sierra Gorda project remains highly attractive from an economic point of view



Change in pit slope

Due to the hardness of the rock, initial geotechnical drilling demonstrated that the pit slope may be steeper. The result is lower waste tonnage, shorter haulage distances and a smaller fleet, which positively impacts the economic value of the project



Hedging

Hedging of currency risk by the purchase of UF contracts enables a reduction of the negative impact of strengthening of the Chilean currency



Change in discount rate

The substantial reduction of the risk of realising the Sierra Gorda project thanks to progress on construction led to a decrease in the discount rate applied to assessment of the project. Over 40% of construction of the project has been completed, additionally contracts have been signed totalling USD 3.1 billion



Change in macroeconomic environment

A change in global macroeconomic conditions over the past year led to increased market consensus with respect to long term metals prices and currency rates



Low debt cost

The loan agreement with a consortium of Japanese banks ensures access to project financing under favourable terms



Leasing of mining equipment

It is assumed that the leasing of mining equipment will reduce the initial cost to the JV partners and the average weighted cost of capital



Realisation of the investment program

Sierra Gorda project



SIERRA GORDA

Cu

Au

Mo



Reserves

~ 1.3 bn t @ 0.42% Cu,
0.0025% Mo

Ownership

55% KGHM International,
45% SMM and SC

Mine

Open pit

Status

Mine under construction,
processing plant
construction and pre-
stripping, construction
completion 41%

Key accomplishments in Q1 2013

- Detailed engineering phase largely complete and the majority of the major procurement moved into the main construction phase
- Overall progress as of March at 41%
- 25% of the plant construction complete
- Construction of the seawater pipeline and tailing storage facility began
- DCE completed with a revised initial CAPEX of \$3.9B, of which \$3.1B has been committed

Selected Company development projects – key achievements in Q1 2013

Investments in new technology

Mechanical mining



ACT complex: view from the side wall with the HRM220 combine



Cutting head of the Sandvik MH 620 combine

- **Compatibility testing on the ACT complex (Active Cutting Technology) completed**
- Readiness to conduct **operational testing under actual conditions** in a prepared pilot section of the Polkowice-Sieroszowice mine
- Positive results from this research work will form the basis for taking a decision on implementation of the ACT complex mining technology
- **Production using the SANDVIK MH 620 combine no. 1** began as well as mobility trials for combine no. 2 as part of the project „Multiple drilling of tunnels using a three-combine unit”

Improved economic and technological efficiency in the ore extraction process

New combines in the mines of KGHM

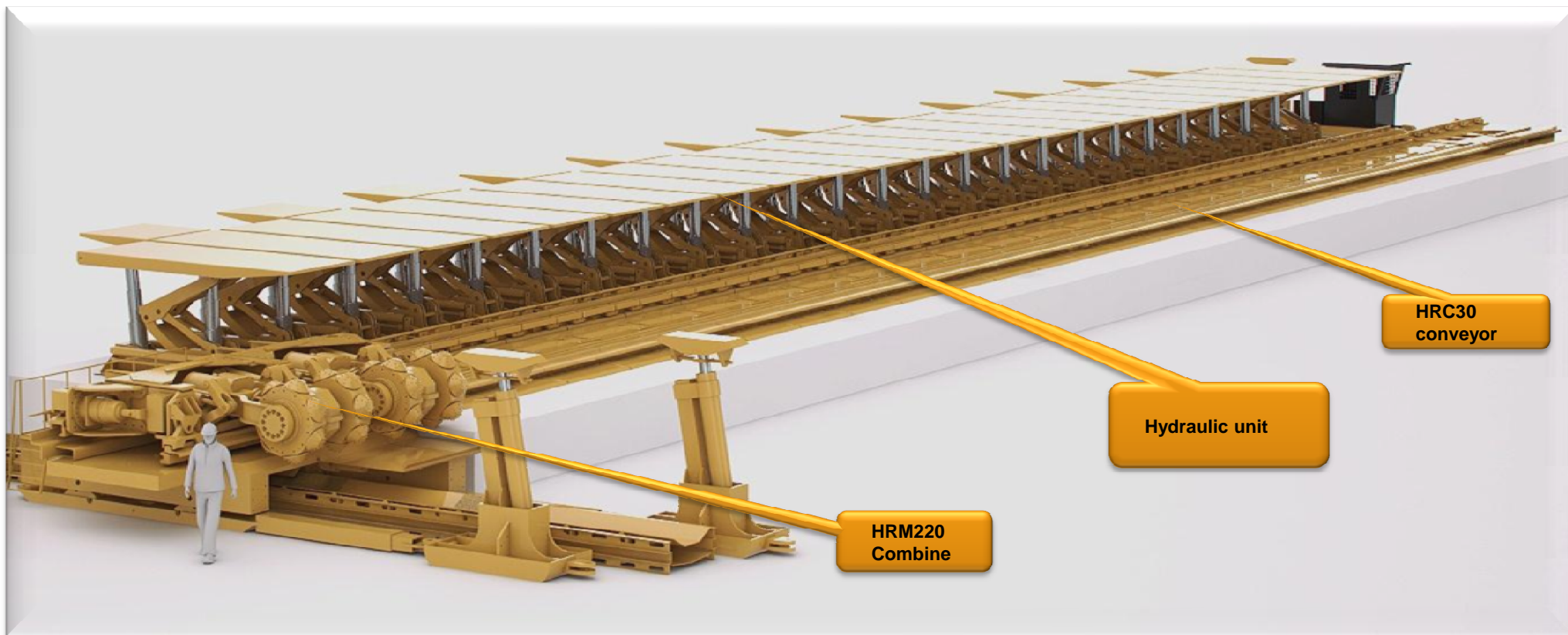
SANDVIK MH-620 combine



ACT Mining Complex



Conceptual configuration of the ACT Mining Complex



**The longwall hard rock mining system -
a turning point in technology for mining sedimentary hard rock deposits**



Presentation of the
ACT Mining Complex
at work

Selected Company development projects – key achievements in Q1 2013

Modernisation of the metallurgical plants

Comprehensive “Pyrometallurgy Modernisation Program”, whose realisation will enable the smelting of all copper concentrate at the Głogów smelter using flash furnace technology and elimination of shaft furnace technology.

„Pyrometallurgy Modernisation Program – Construction of a flash furnace at the Głogów I smelter”

- a contract was signed for the construction of the main production facilities: the construction of a building complex for the Flash Furnace, Electrical Furnace and Waste Heat Recovery Boiler, a power supply building, renovation of the Anode Furnaces building together with foundation work, and construction of a central cloakroom and control unit for the Sulphuric Acid Plant, Flash Furnace and Charge Preparation unit.
- contractors were selected and a Framework Agreement was negotiated for realisation of construction-assembly work with three Main Contractors.

„Pyrometallurgy Modernisation Program – Intensification of Processing at the Głogów II smelter”

- in preparation for the maintenance shutdown in 2013 at the Głogów II smelter, selection was completed of all contractors for construction-assembly work and of machinery and equipment suppliers. The process was begun of accepting warehouse deliveries, and the prefabrication of elements for individual units of the flash furnace at the Głogów II smelter was continued. With respect to the organisation of labour, work continued on developing coordination schedules.
- with respect to other sub-projects, work continues on developing project documentation and on contracting deliveries of machinery and equipment.

Modernisation of smelting in KGHM Polska Miedź SA



Metallurgical Plants
technologically
integrated, cost
effective, and
environmentally
friendly

Selected Company development projects – key achievements in Q1 2013

Development of the resource base in the region

Gaining new concessions for deposits currently being mined:

Polkowice, Sieroszowice, Lubin-Małomice, Rudna, Radwanice Wschód

- supplementary information for the geological documentation was prepared and approved for the above deposits and Deposit Development Plans (DDPs) were prepared,
- an agreement was signed with the State Treasury for the paid use of the right to geological information,
- agreements were signed with the municipalities (Gminas) of Rudna and the City of Lubin referring to the scope of required changes to the planning documents of the Gminas,
- **a decision was received on the environmental impact of the project,**
- **approval was received for the DDPs by the Minerals Resources Commission (the application assessing and advisory body of the Ministry of the Environment),**
- the completed concession applications were sent to the Concessioneing Body, which approved the applications in terms of correctness and completeness,

Gaining access to the GG-P

- the process of freezing the rock mass began, which is required prior to beginning sinking of the GG-1 input ventilation shaft, with a depth of 1 340.7 m and diameter of 7.5 m, and a capacity of approx. 72 thousand m³ of air/minute.

Initiating the mining of these resources will ensure stable extraction by KGHM Polska Miedź SA at the current level to 2023.

Ensuring production from Company mine resources



Construction of GG-1 shaft

**Guaranteeing
continuity of
production in the
mining sector**

Selected Company development projects – key achievements in Q1 2013

Development of the resource base in the region

- **„Synklina Grodziecka”** project - a contractor selected for the second stage of drilling and geological work. The contractor began technical preparatory work for the execution of 6 drillholes.
- **„Weisswasser”** project – the share capital of the company was increased and actions were undertaken related to gaining permission from the Senior Mining Office of Saxony (SOBA) for conducting exploratory work in the Weisswasser II area.
- administrative proceedings are in progress to gain concessions for the exploration for and investigation of deposits in the areas „Głogów”, „Bytom Odrzański” and „Kulów-Luboszyce”. For the „Retków-Ścinawa” area work is in progress on establishing the agreement and on setting mining usufruct rights.

Exploration for new deposits in the region



Weisswasser



Synklina Grodziecka

Guaranteeing continuity
of production in the
mining sector



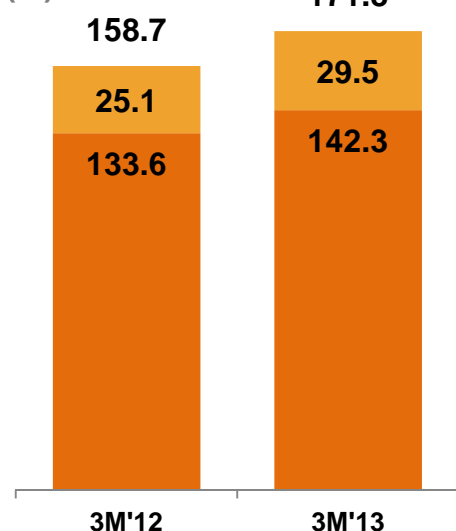
Production results of the Group

Production in the Group

KGHM Polska Miedź S.A.

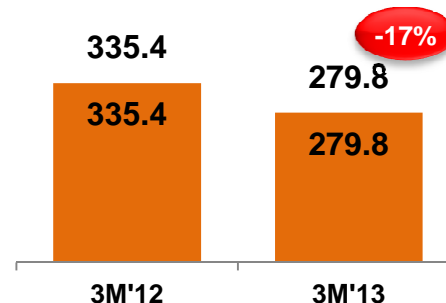
KGHM International

Copper production (kt)

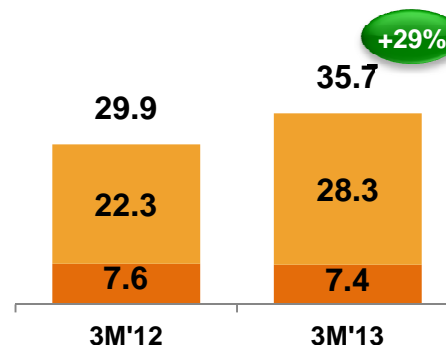


Silver production (t)

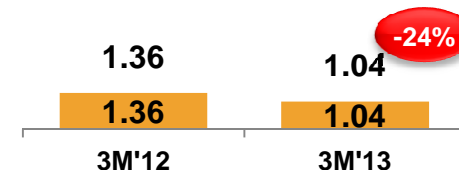
World's largest silver producer in 2011 and 2012



Precious metals production (k troz)



Nickel production (kt)

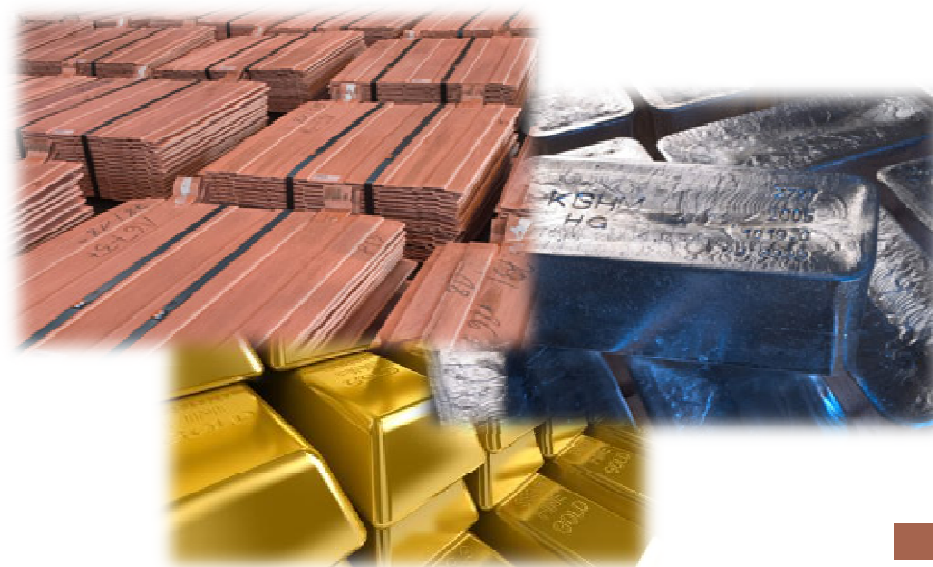
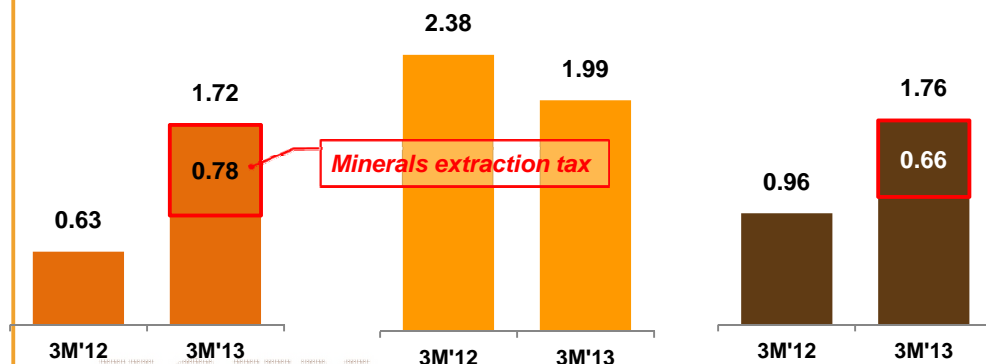


C1 cost (USD/lb)

KGHM Polska Miedź S.A.

KGHM International

KGHM Group

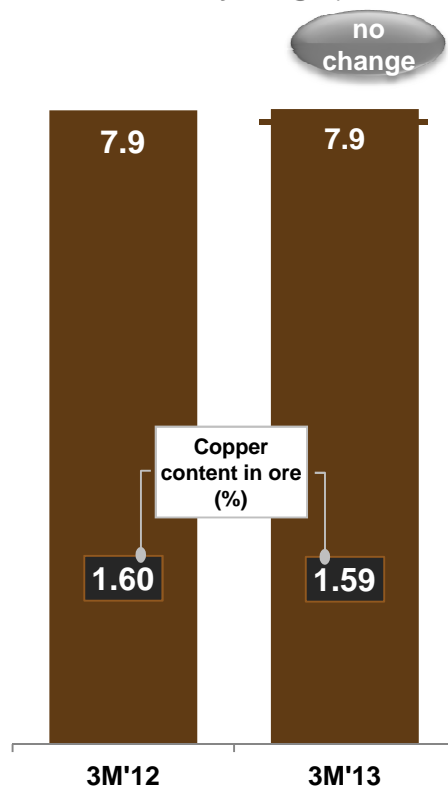


1) Total precious metals (TPM) – gold, platinum, palladium

KGHM maintaining a stable level of mined production

Ore extraction

(million tonnes dry weight)



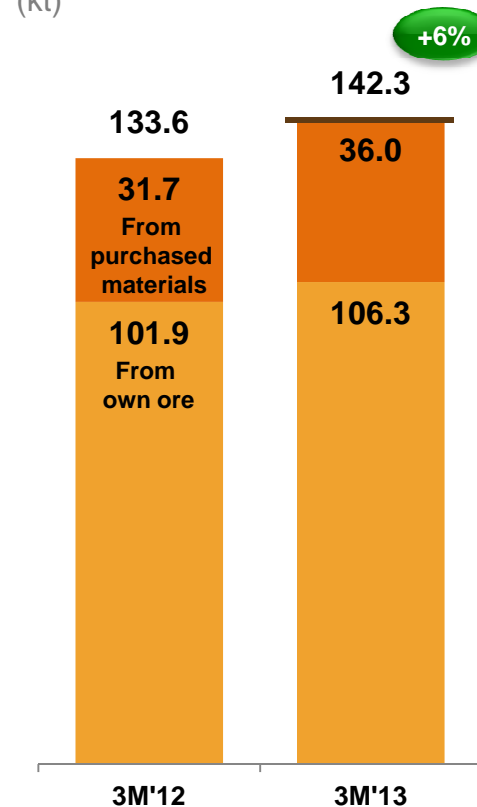
Production of copper in concentrate

(kt)



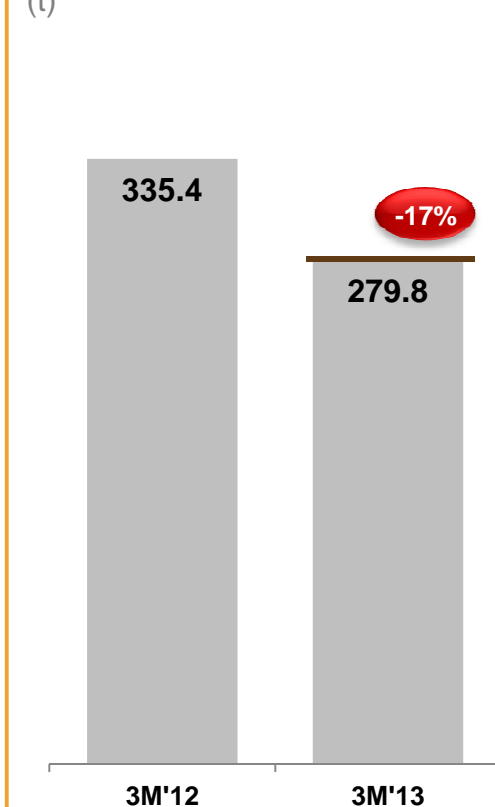
Refined copper production

(kt)



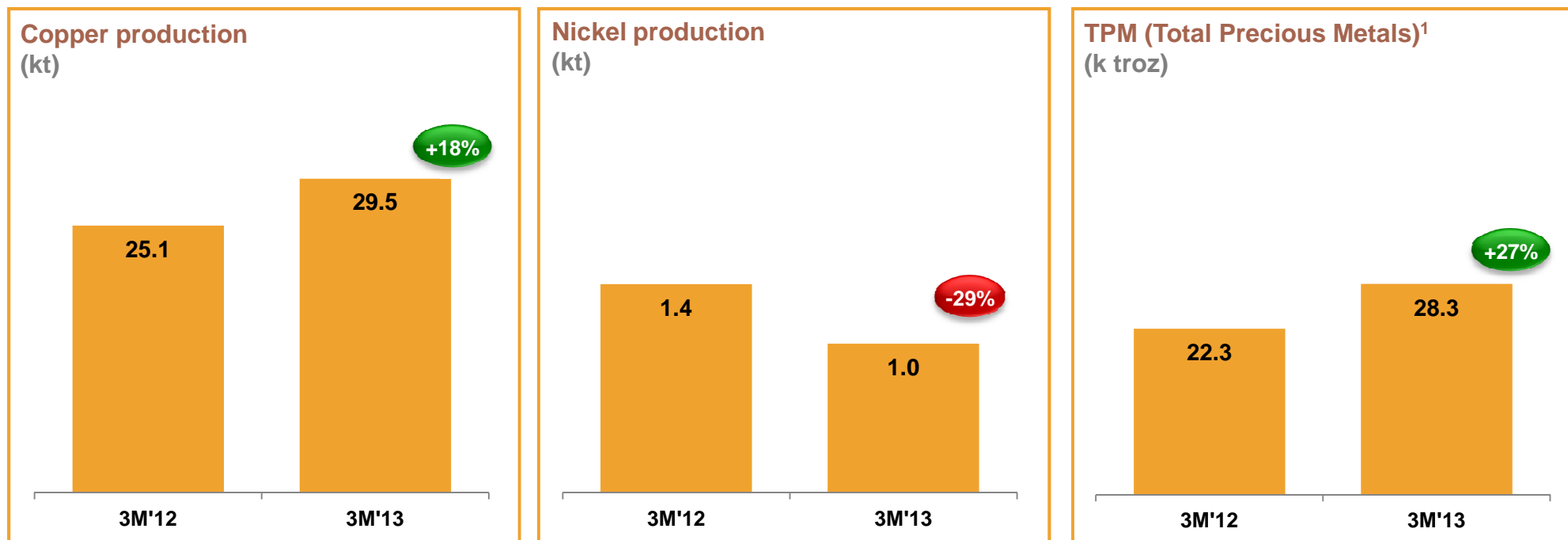
Silver production

(t)



- ✓ Close to planned copper content in ore (1.59%)
- ✓ Stable level of copper production in concentrate
- ✓ Refined copper production according to plan with 25% use of purchased Cu-bearing materials
- ✓ Preparations continuing on planned Q3 maintenance shutdown at the Głogów smelter

Higher production of copper and TPM in KGHM International in Q1 2013



- ✓ Total copper equivalent production in Q1 2013 increased to 37.6 kt compared to 32.7 kt in Q1 2012
- ✓ Highest production growth in Q1 2013 was recorded at the Robinson mine (+51%)
- ✓ Continuous improvement in mill operating practices at the Robinson mine have boosted production rates, especially by increasing copper recovery rates and increasing mill throughput.

Key KGHM International Operations

Robinson



- Copper production higher than Q1 2012 – higher recovery and mill throughput
- C1 cost \$1.47/lb Cu – substantially lower than in Q1 2012 (2.75 USD/lb)

Outlook

- The remainder of 2013 production will be transitioning to include the Kimbley and Liberty pits
- Improvement initiatives continue around the mill performance
- Increased haulage fleet to allow for accelerated stripping

Morrison



- Production lower by 30% versus Q1 2012 – lower extraction due to a shutdown of the Craig shaft and lower metals content in ore
- Continuation of access work
- C1 cost higher (from 0.99 USD/lb in Q1 2012 to 1.74 USD/lb in Q1 2013) due to lower extraction and lower byproduct revenues

Outlook

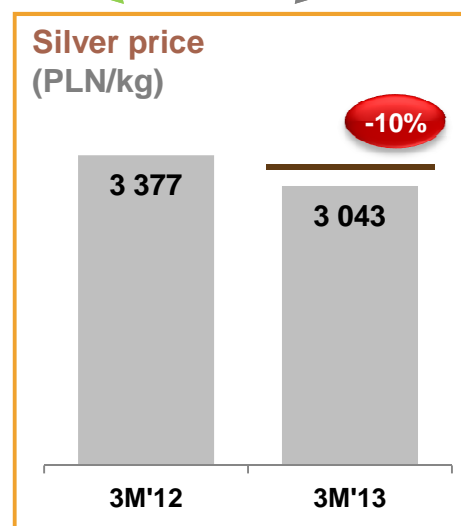
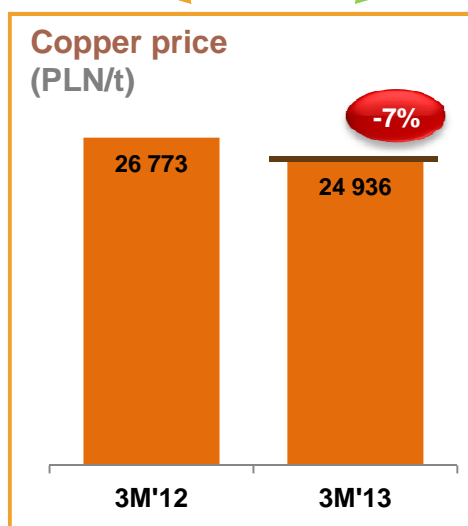
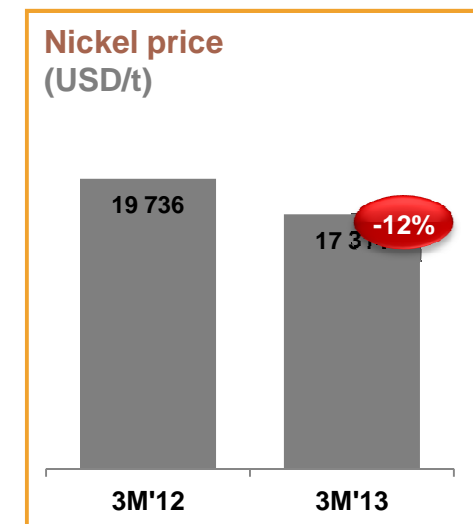
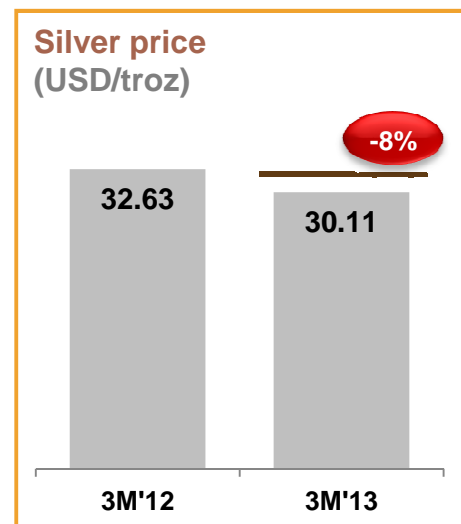
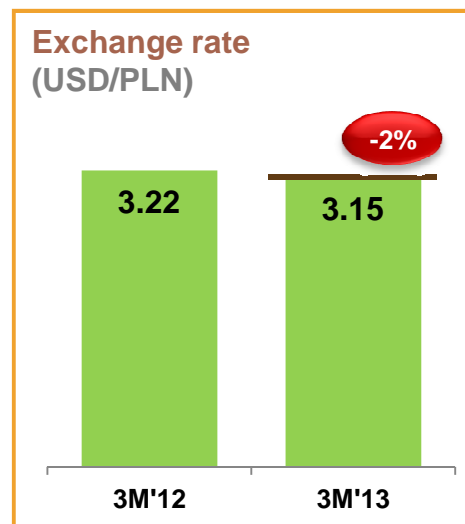
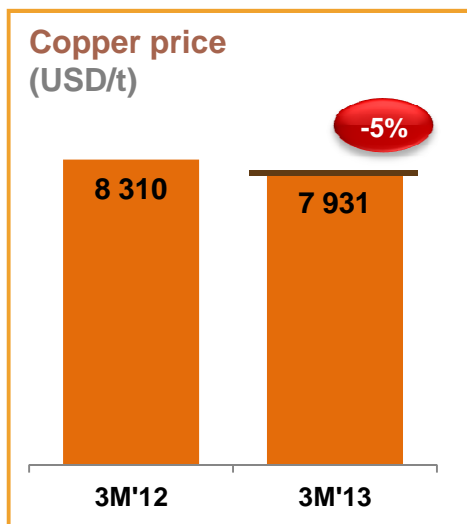
- Higher production volumes are expected after completion of shaft review in May 2013.
- Exploration of lower part of Morrison deposit re-commenced in Q2 2013



Financial results

KGHM Polska Miedź S.A.

Decrease in metals prices, especially silver

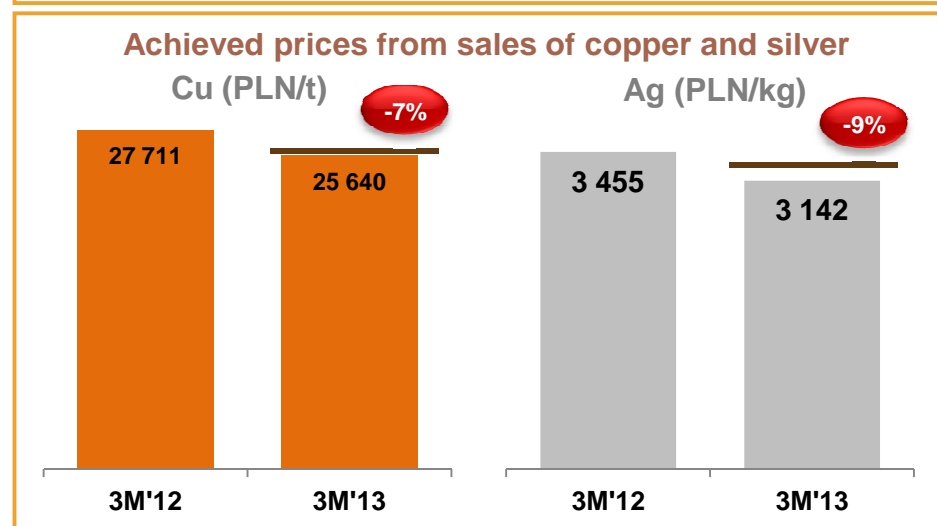
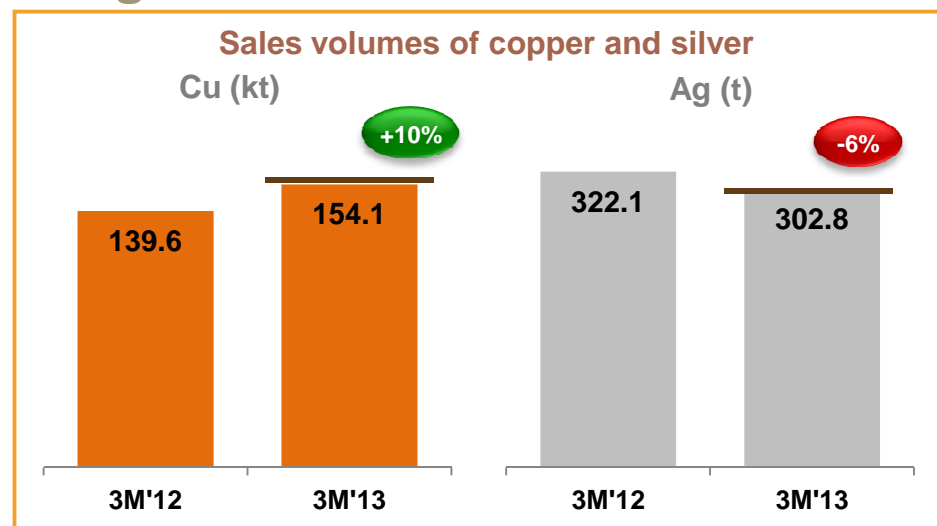


A decrease in metals prices versus Q1 2012, and a lower USD/PLN exchange rate

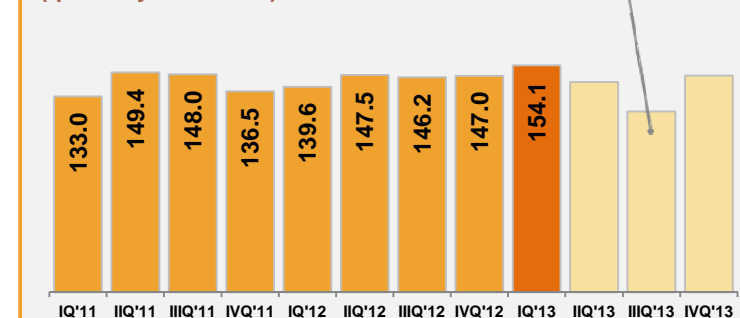
Assumptions for the copper price and exchange rate pursuant to the Company's forecast for this period

Maintenance shutdown at the
Głogów smelter

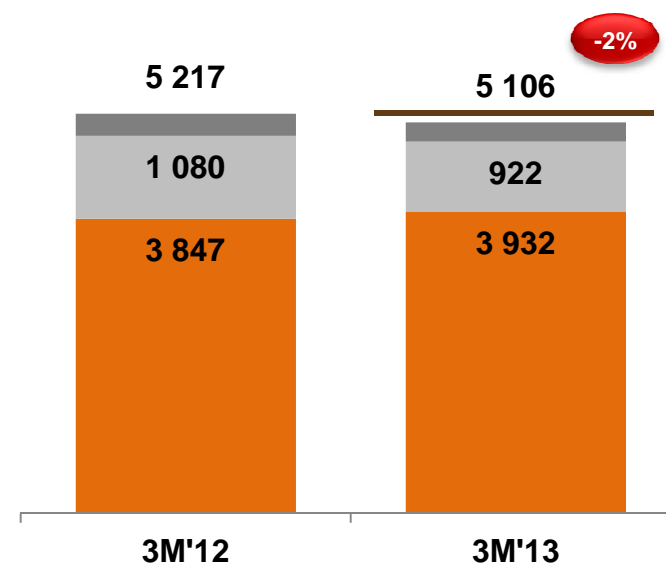
A high sales volume in Q1 2013



Copper sales volumes
(quarterly from 2011)



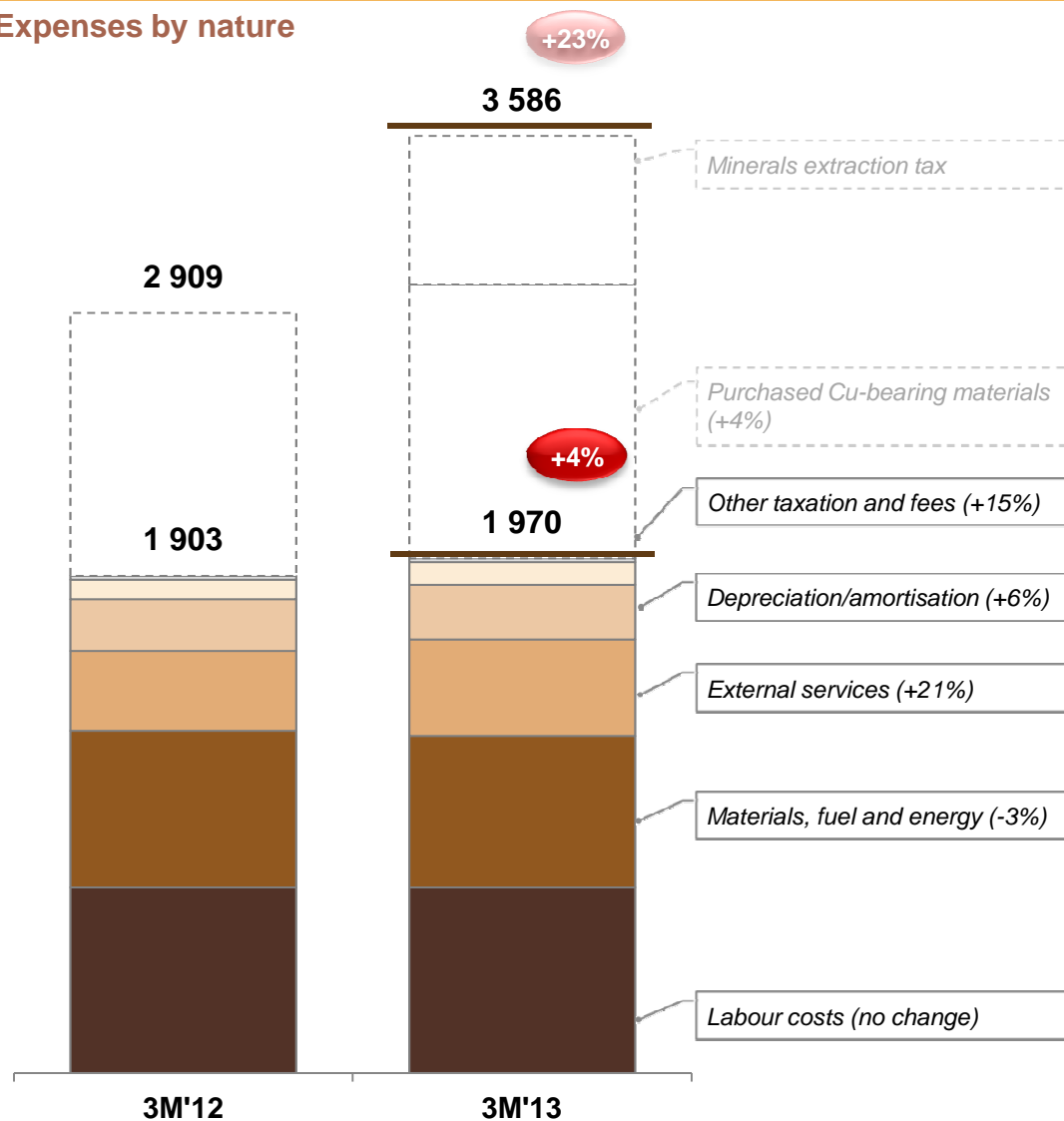
Revenues from sales of products (M PLN)



Despite lower prices of basic products, revenues from sales were only 2% lower than in the prior year

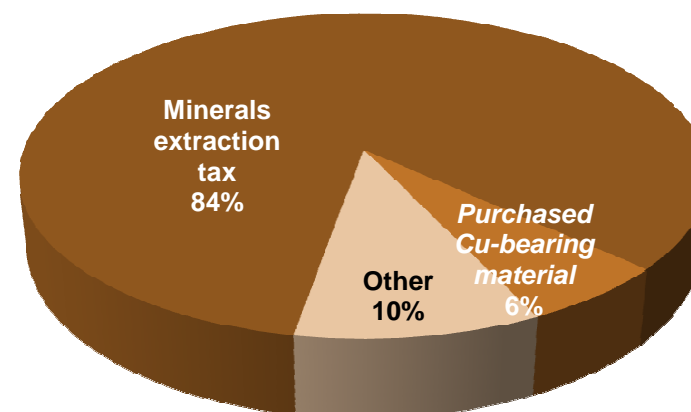
A slight increase in Company-controlled costs

Expenses by nature



- ✓ The increase in expenses by nature by 23% was mainly due to introduction of the minerals extraction tax
- ✓ Other costs increased versus the comparable period by 4%

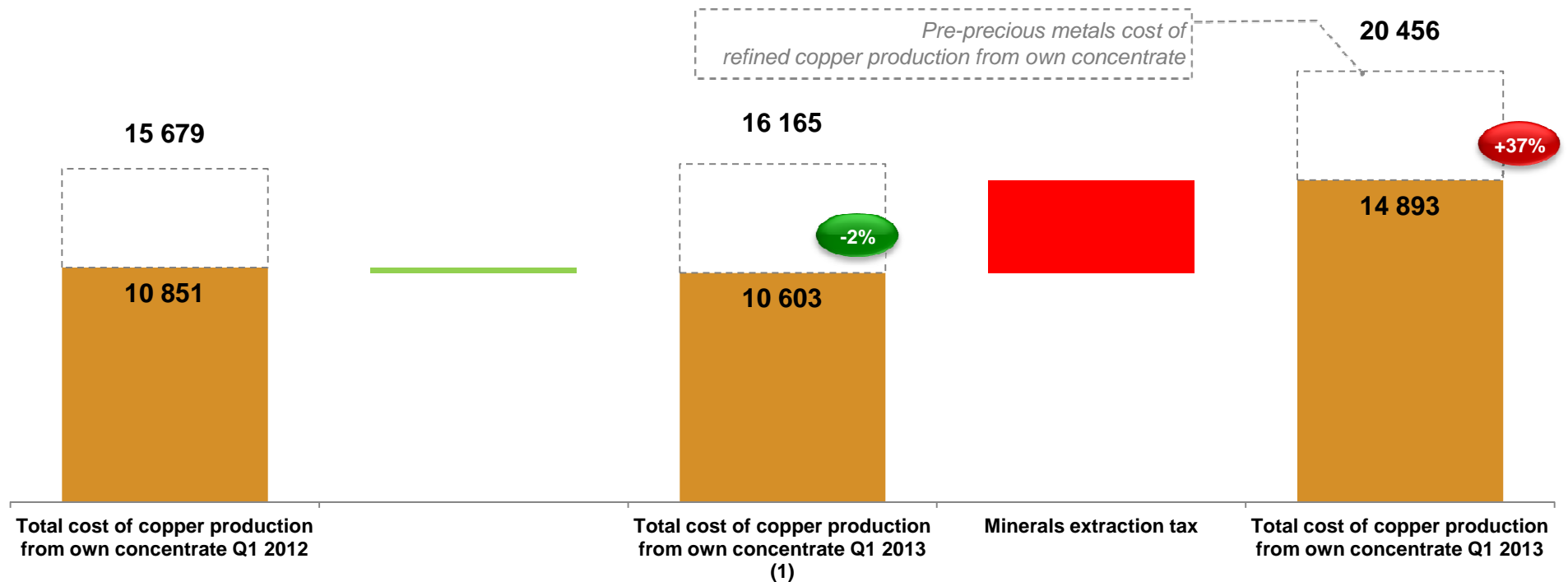
Structure of increase in expenses by nature



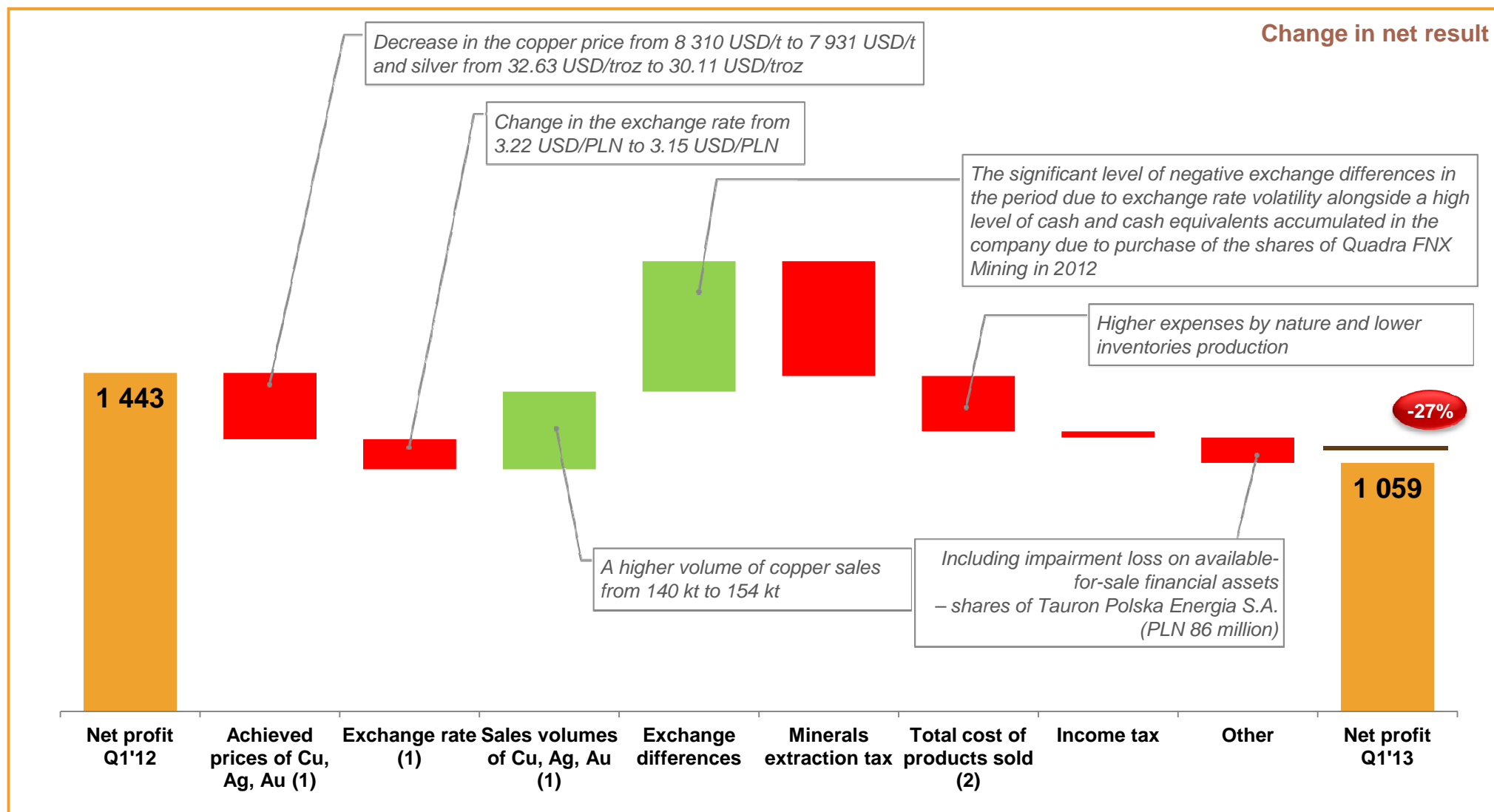
The increase in production costs was due to introduction of the minerals extraction tax

- ✓ In comparison to the first quarter of 2012 the total cost of copper production from own concentrate was higher by 37%
- ✓ After deducting the minerals extraction tax, the total cost of copper production from own concentrate was lower by 2% alongside the positive impact of a higher production volume by 4%

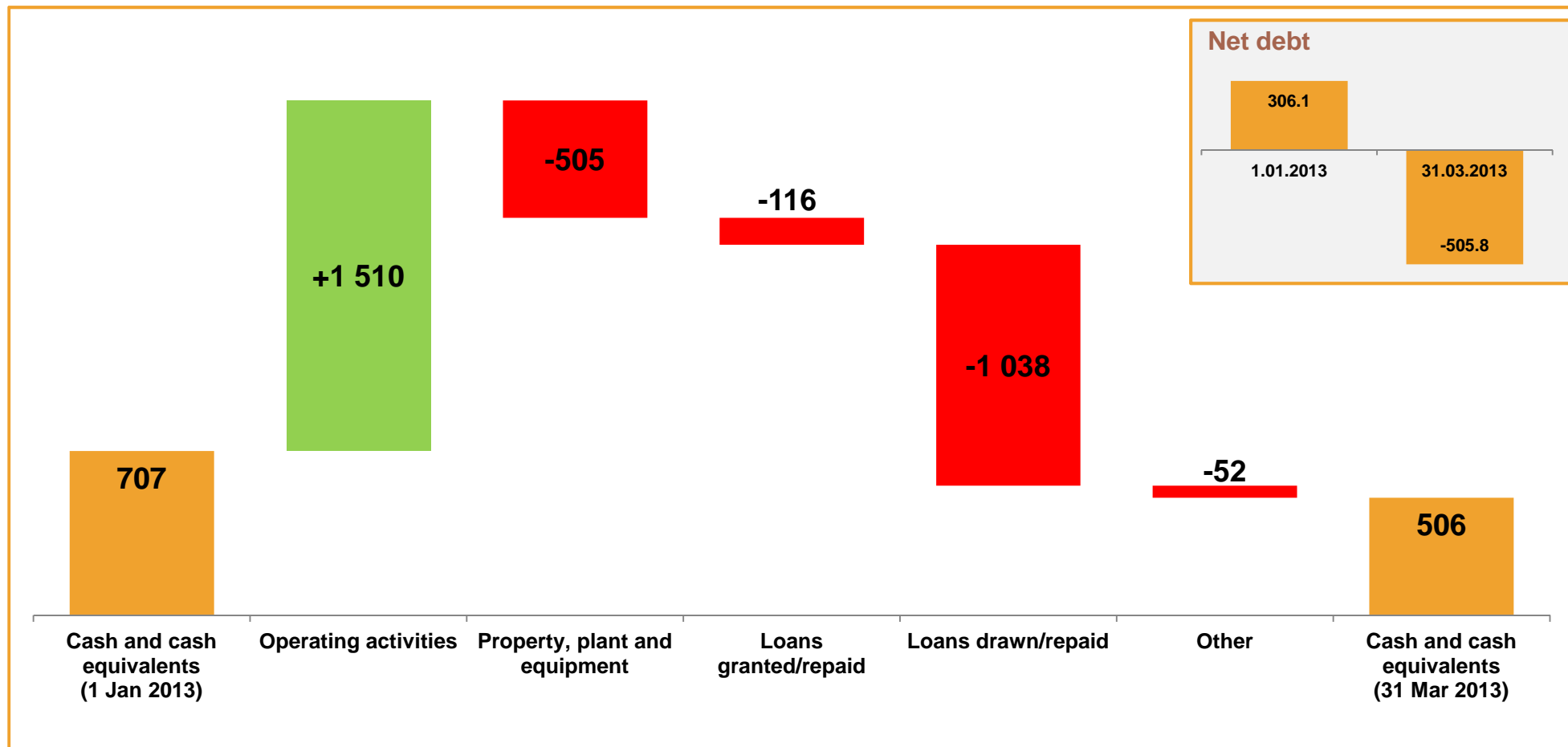
Total unit cost of refined copper production from own concentrate



The decrease in profit was mainly due to introduction of the minerals extraction tax



In the first quarter of 2013 the Company repaid over PLN 1 billion in borrowings



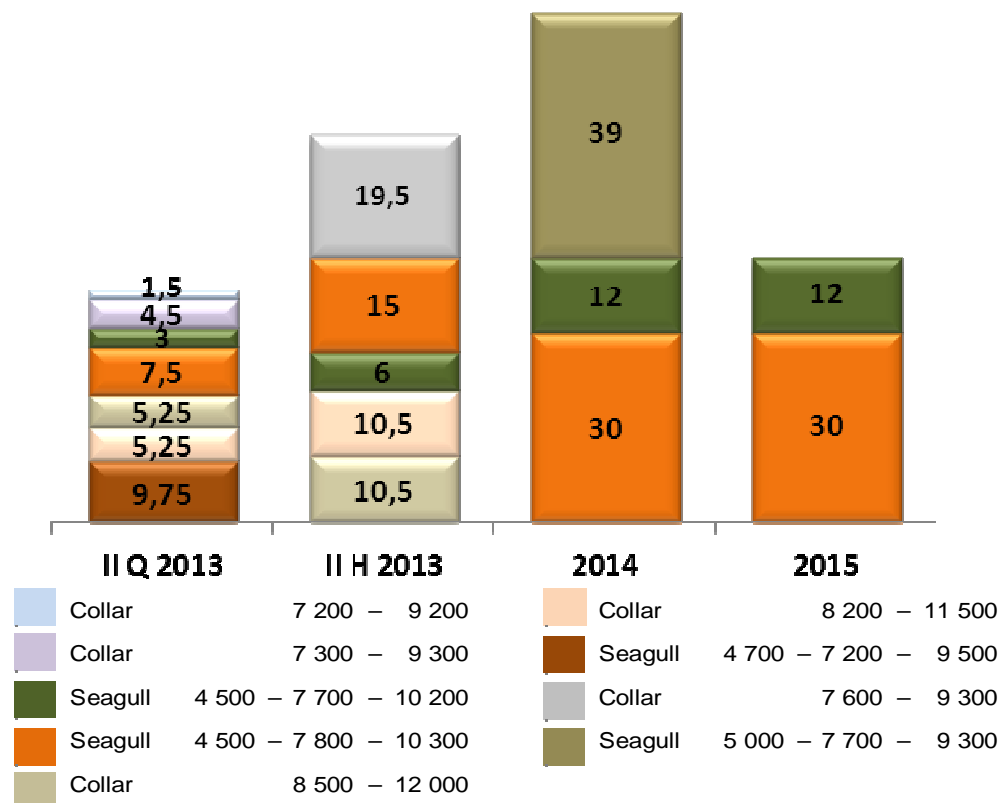
In Q1 2013 there was a decrease in cash resources by PLN 201 million, mainly due to the repayment of loans (PLN 1 038 million) alongside cash generated by operating activities in the amount of PLN 1 510 million

Market risk management – hedged position (at 31 March 2013)

Position in derivatives on the commodities market

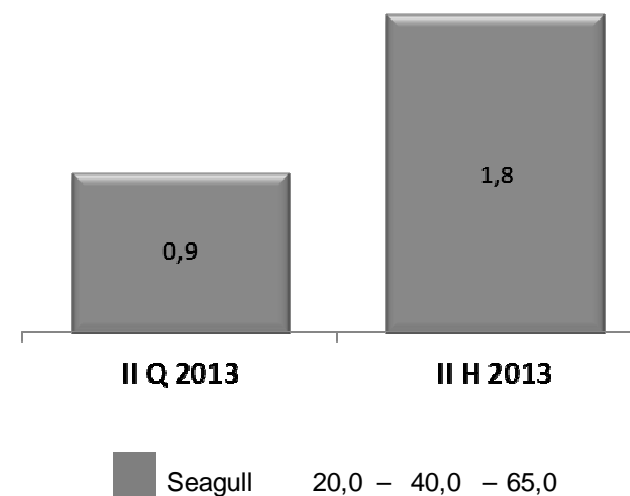
Cu

thousand tonnes



Ag

million troz



In Q1 2013 the Company did not implement hedge transactions on the commodities market

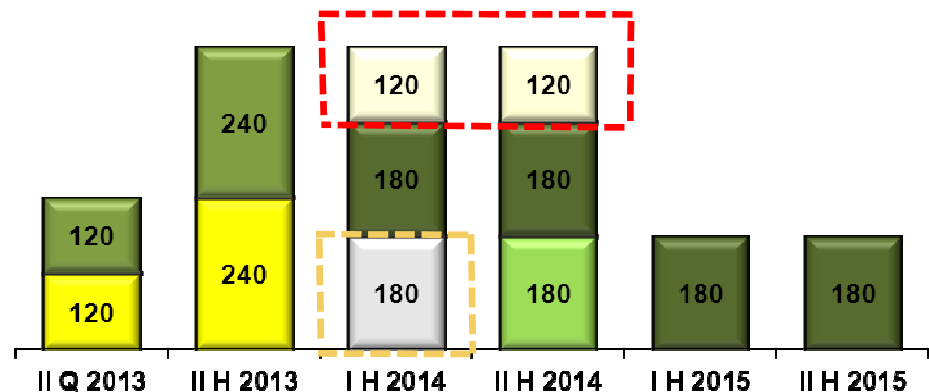
During the reporting period the Company recorded a positive result on derivatives of PLN 20 million, of which PLN 49 million increased revenues from sales while PLN 29 million decreased the result on other operating activities.

Market risk management – hedged position (at 31 March 2013)

Position in derivatives on the currency market

M USD

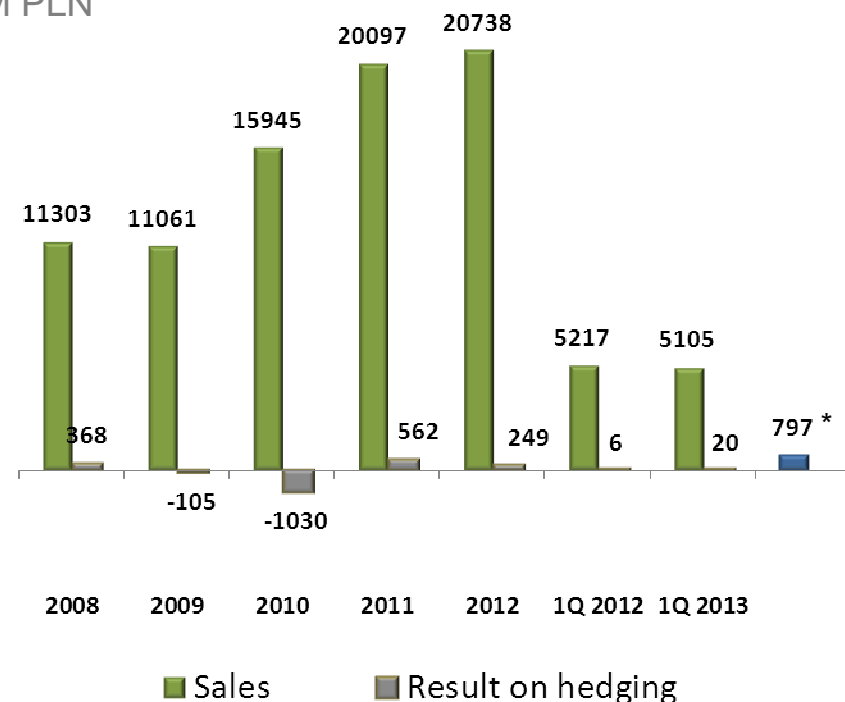
 Strategies implemented in Q1 2013
 Restructurisation performed in Q1 2013



Collar	3,20 – 4,20	Seagull	2,70 – 3,50 – 4,50
Seagull	2,60 – 3,15 – 4,00	Collar	3,40 – 4,50
Collar	3,20 – 4,00	Collar	3,50 – 4,50

Results on hedging and Company revenues

M PLN

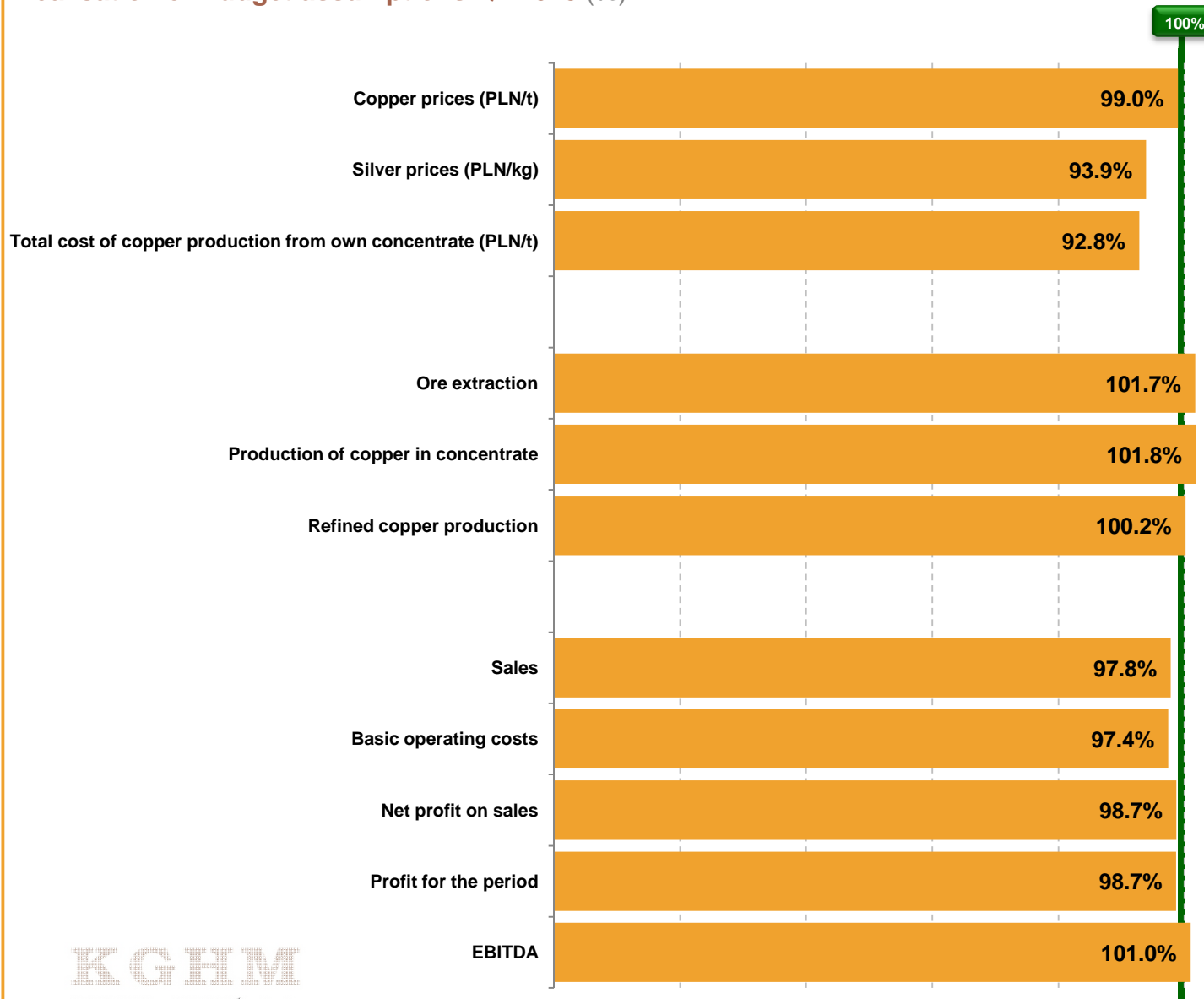


* fair value of open positions in derivatives at 31 March 2013

The Company implemented transactions on the currency market hedging revenues from sales in the total nominal amount of USD 240 million for 2014. Additionally the Company restructured seagull options for the first half of 2014 in the total nominal amount of USD 180 million, through the buyback of sold puts.

Q1 results are at the level budgeted for 2013

Realisation of Budget assumptions Q1 2013 (%)



- ✓ After the first three months of 2013, macroeconomic conditions are similar to those forecast, though in April there was a substantial downturn in the metals market
- ✓ The unit cost is lower than planned, mainly due to higher than planned semiproduct inventories
- ✓ The production plan is being executed according to Budget assumptions
- ✓ Company financial results are close to planned levels

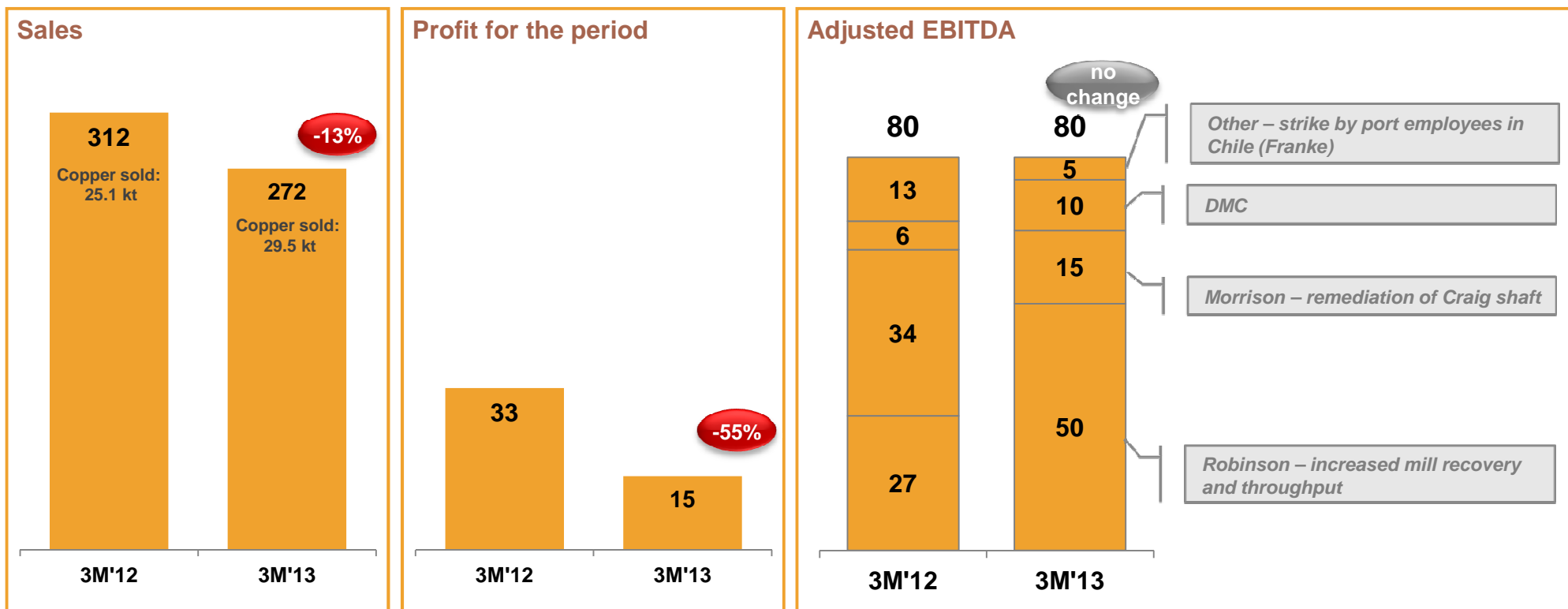


Financial results

KGHM International

Financial data for KGHM International for Q1 2012 are presented for the full reporting period

Despite lower metals prices and sales volume KGHM International maintained its EBITDA level



- ✓ Sales in Q1 were lower versus the prior year due to lower prices and sales volumes at the Morrison mine (remediation of the Craig shaft) and Franke mine (strike by port employees)
- ✓ The lower profit was due to higher income tax versus the prior year (in Q1 2012 a tax recovery of USD 2.7 million due to the utilization of capital losses versus USD 14.9 million expense in Q1 2013)



Financial results

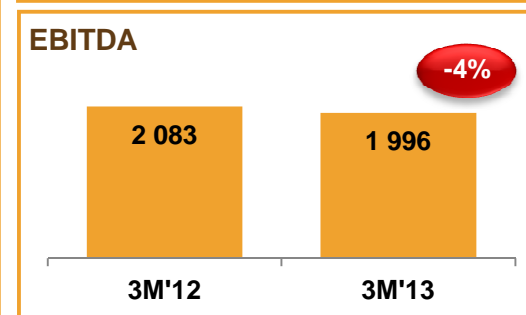
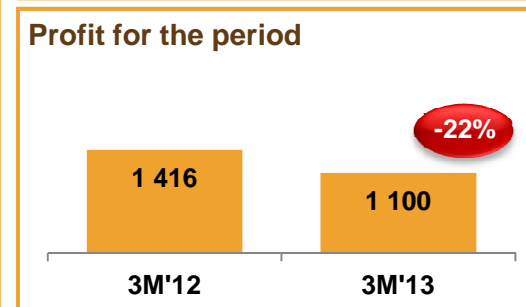
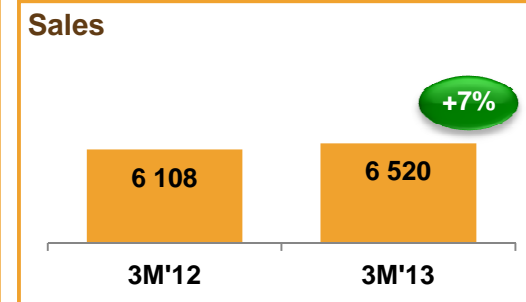
KGHM Polska Miedź Group



Share of KGHM
Polska Miedź S.A. in
consolidated results

KGHM Polska Miedź S.A. is the main driver of the Group's results

	3M'12 ¹	3M'13	KGHM Polska Miedź S.A.	
Sales	6 108	6 520	5 106	78%
Basic operating costs	3 760	4 802	3 557	
Net profit on sales	2 348	1 718	1 548	90%
Result on other operating activities	-552	-90	-76	
Operating profit	1 796	1 628	1 473	90%
Net finance costs	20	76	35	
Share of profits of associates accounted for using the equity method	0	0	x	
Income tax	360	452	379	
Profit for the period	1 416	1 100	1 059	96%
EBITDA	2 083	1 996	1 682	84%



- ✓ Currently the results of the Group are generated by KGHM Polska Miedź S.A.
- ✓ Executed investments, including KGHM International, will in future determine the results of the Group

