



**KGHM**

POLSKA MIEDŹ S.A.

# Company Results in 2012

(auditing underway)

March 2013

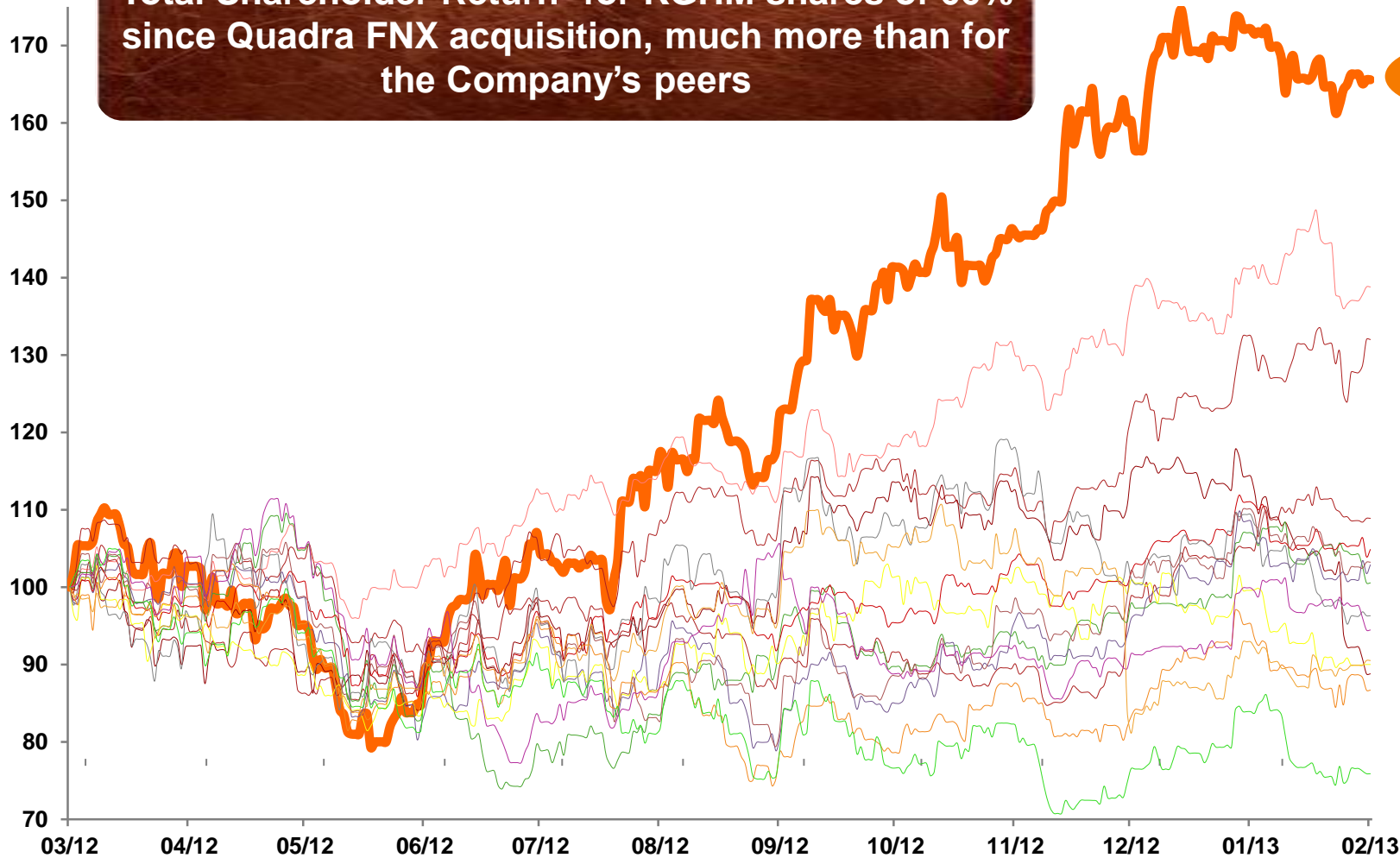
## Agenda



- Impact of global expansion on increasing the value of KGHM Polska Miedź
- Good perspectives for KGHM due to continued demand for basic materials
- Economic results
  - Consolidated financial results
  - KGHM Polska Miedź S.A.
  - KGHM International

# Despite the new mining tax, KGHM shares have outperformed their mining peer group due to the Quadra FNX acquisition

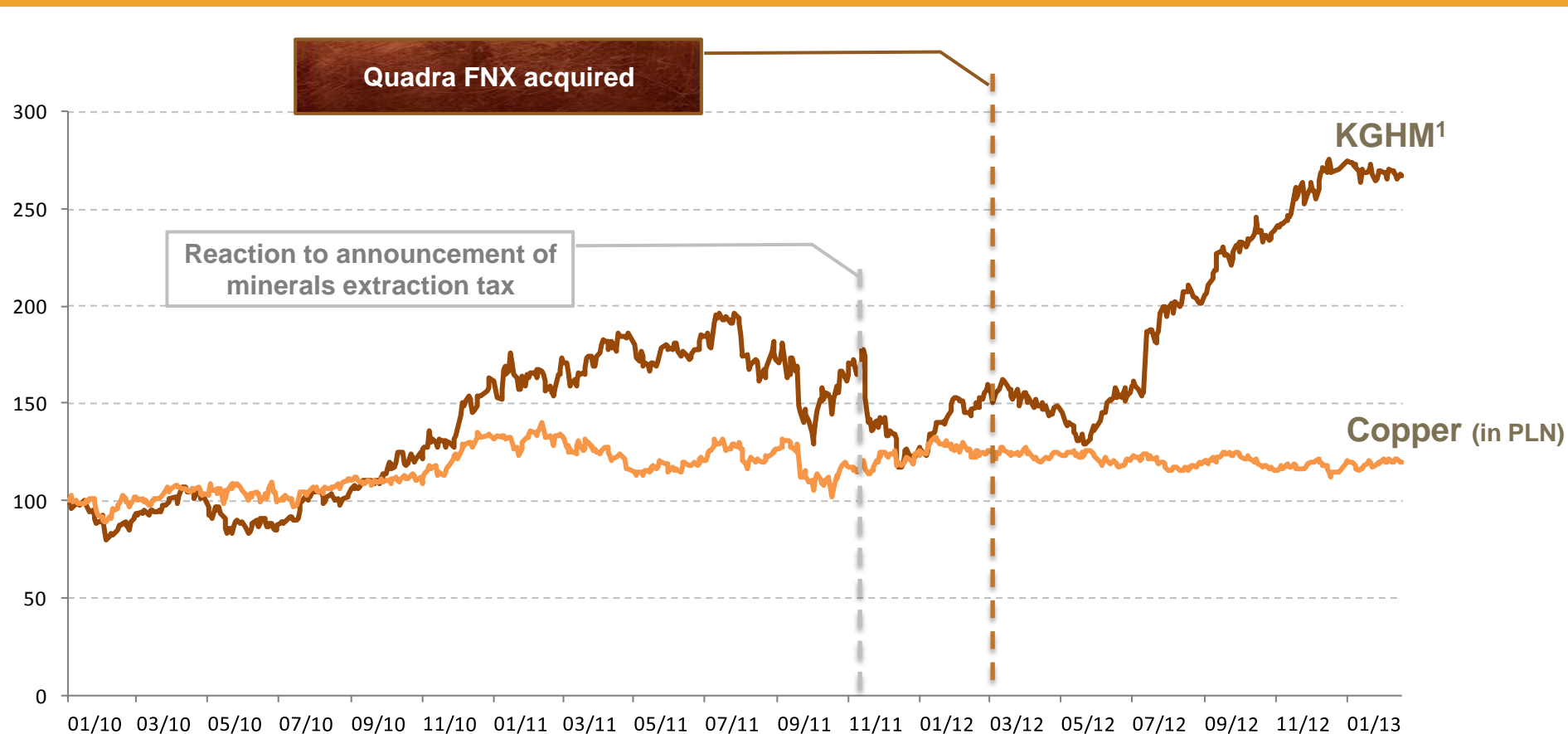
**Total Shareholder Return<sup>1</sup> for KGHM shares of 66% since Quadra FNX acquisition, much more than for the Company's peers**



- +66%** **KGHM**  
POLSKA MIEDŹ S.A.
- +39%** **SOUTHERN COPPER CORPORATION**
- +32%** **GRUPOMEXICO**
- +9%** **NORILSK NICKEL**
- +5%** **bhpbilliton**
- +3%** **RioTinto**
- +3%** **Teck**
- +1%** **xstrata**
- 4%** **FIRST QUANTUM**
- 5%** **GLENCORE INTERNATIONAL plc**
- 5%** **FREPORT-McMoRAN COPPER & GOLD**
- 10%** **ANTOFAGASTA PLC**
- 11%** **VALE**
- 13%** **VALE**
- 24%** **ANGLO AMERICAN**

# A higher rate of growth in KGHM's share price versus copper price performance

KGHM Polska Miedź share price dynamics and copper prices in PLN (since 1 January 2010)



# KGHM effectively rebranded Quadra FNX into KGHM International

## Rebranding of Quadra FNX into KGHM International



**Sierra Gorda, Chile**



**KGHM International**



**Morrison mine, Canada**



**Polish Premier at the Morrison mine, Canada**



**Sierra Gorda, Chile**



**KGHM International**



**Robinson mine, USA**

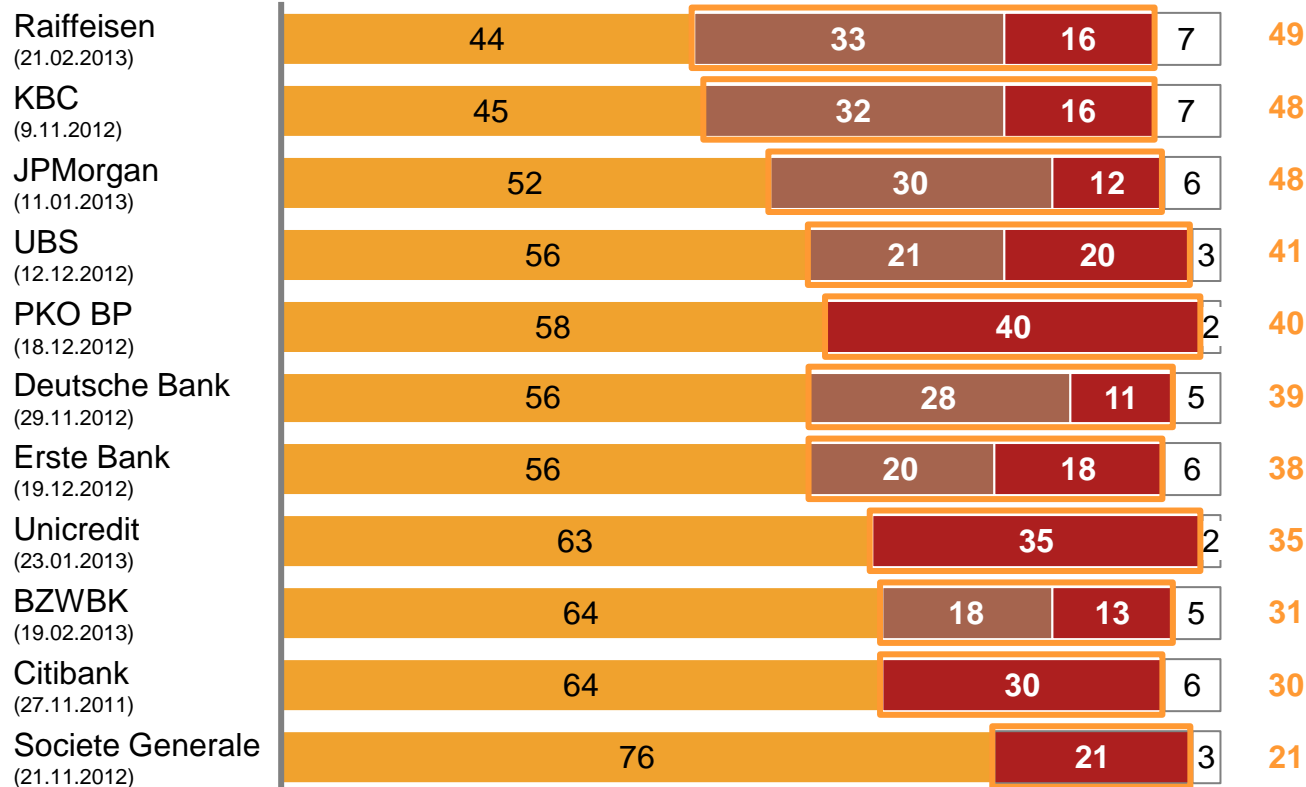
## Major benefits of rebranding:

- Improved global recognition of the KGHM brand
- Faster integration thanks to image integration of both companies
- Company identification under a single group, enabling more effective exchange of know-how and best practices
- Utilisation of KGHM brand to enhance the image of KGHM International's mines as stable employers

# Analysts already assign 30-40% of the value of KGHM to the international business, mainly the Sierra Gorda project



## SOTP breakdown per analysts<sup>1</sup>



## Today's capitalization of KGHM indicates:

- 3.4-5.7 billion USD capitalization of the international assets of KGHM
- 2.3-3.4 billion USD (20-30%) attributed to Sierra Gorda
- This means that today, Sierra Gorda has already generated positive economic value for KGHM

<sup>1</sup> The breakdown includes: Assets in Poland (production assets in Poland), Foreign assets (Sierra Gorda and other production assets, mining projects such as Afton-Ajax, Victoria), and Other assets (Tauron, Group companies); it does not include net cash held, mine closure costs or employee liabilities

# Numerous achievements in the integration of KGHM International with KGHM Polska Miedź S.A.



## A new planning and budgeting system

- A new planning and budgeting system was implemented for KGHMI for 2013, and a 5-year plan was agreed with KGHM SA



## Global procurements program

- A Global Procurements Program was instituted to increase procurement-related savings (potential savings of ~7% identified and a reduction in materials indices by ~20% on a global scale)



## Talent development programs

- A joint program for the development of talent is currently being developed for KGHM SA and KGHMI. This program comprises an Executive MBA for the managers of KGHM on both sides of the Atlantic and expansion of the program „Talent Mine” program to cover the international assets



## Global exploration

- A global approach to exploring for mining resources and to the broad exploration portfolio encompassing 3 continents



## Global sales

- Global coordination of sales for the KGHM Group (strengthening the position of KGHMI in commercial negotiations with large customers)



## Progress in mining projects

- Sierra Gorda project more than 1/3 complete; progress made on the Afton-Ajax and Victoria projects

## MICON has confirmed: KGHM Polska Miedź S.A. on a global scale



- An **independent** expert report
- Report compliant with the global standard **NI 43-101** developed in Canada
- This standard is used by mining companies **throughout the world**
- Transparent information for investors ensuring **comparability** with other mining companies
- **Confirmation** of the report prepared by KGHM Polska Miedź SA
- Prepared for the **domestic resources** of KGHM Polska Miedź SA (the assets of KGHM International already have such reports)

## Highest standards

KGHM applies best available technology and safety standards

## 29 M tonnes of copper

metal in ore currently held by KGHM

## 30-40 years

Producing life of KGHM based on resources held, given the current level of production

## +17 M tonnes of copper

Amount by which KGHM can increase its resources of copper in ore by reclassifying adjacent areas



# Niecka Grodziecka – a rich copper and silver deposit in Lower Silesia

**KGHM Polska Miedź S.A. is successfully documenting large copper and silver deposits**



**1.4% Cu** average copper grade in boreholes to date

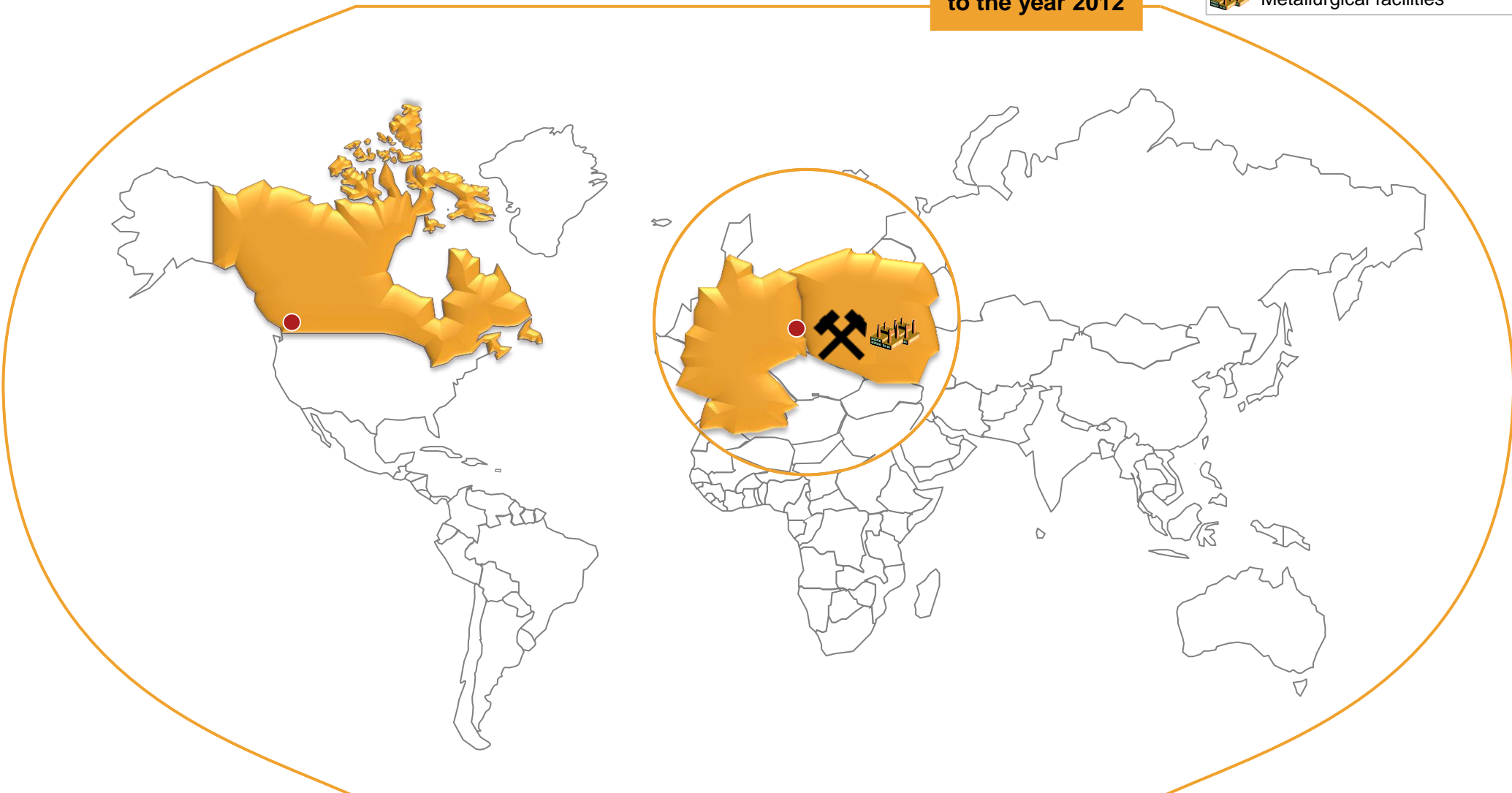
**50 g/t Ag** average silver grade in boreholes to date

**1.5 Mt** of copper might be reclassified following as a result of this work

# KGHM owns a full portfolio of mining projects around the world

to the year 2012

- Mining projects of KGHM
- ⚒ Mines of KGHM
- 🏭 Metallurgical facilities



# KGHM owns a full portfolio of mining projects around the world

today

- Mining projects of KGHM
- ⚒ Mines of KGHM
- 🏭 Metallurgical facilities

**Canada**

- ⚒ McCreeedy (Cu, Ni, TPM<sup>1</sup>)
- ⚒ Morrison (Cu, Ni, TPM)
- ⚒ Podolsky (Cu, Ni, TPM)
- Victoria (Cu, Ni, TPM)

**Greenland**

- Malmbjerg (Mo)

**Canada**

- Afton-Ajax (Cu, Au)

**Germany**

- Weisswasser (Cu, Ag)

**USA**

- ⚒ Robinson (Cu, Au, Mo)
- ⚒ Carlota (Cu)

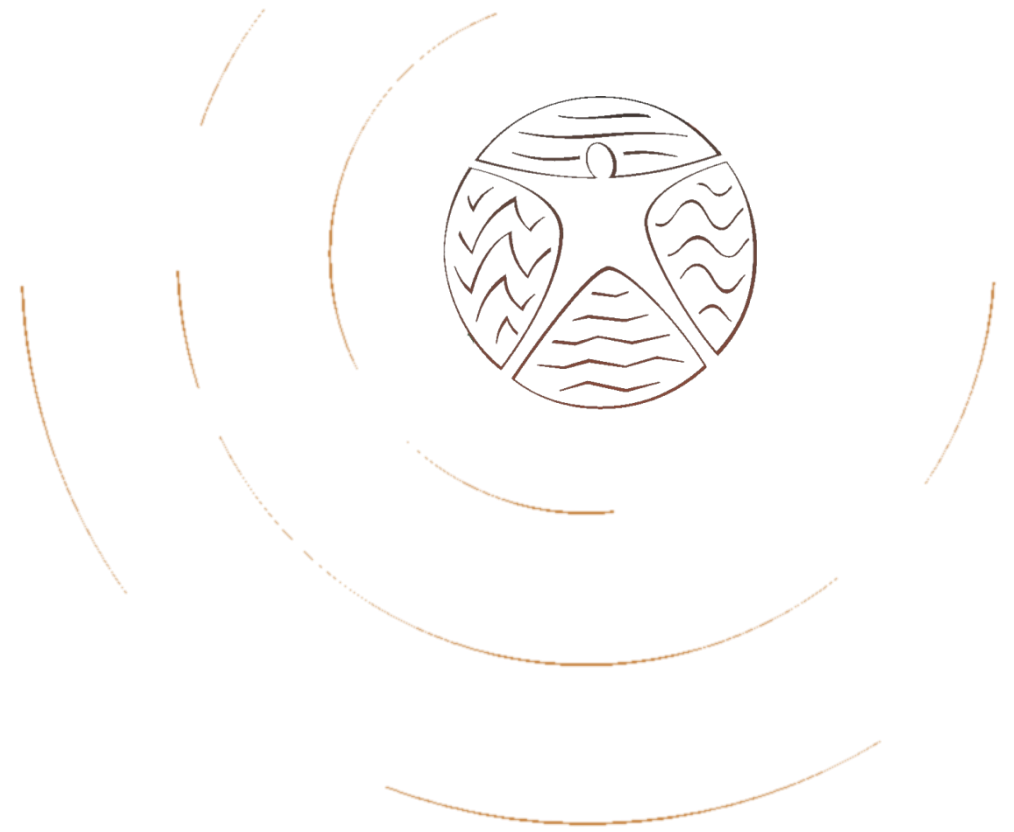
**Poland**

- ⚒ Polkowice-Sieroszowice (Cu, Ag)
- ⚒ Lubin (Cu, Ag)
- ⚒ Rudna (Cu, Ag)
- 🏭 Głogów
- 🏭 Legnica
- ⚒ Regional exploration

**Chile**

- ⚒ Franke (Cu)
- Sierra Gorda (Cu, Mo, Au)

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



# Global economic situation

# The increase in copper demand over the next several years will mainly come from Asian countries

## Outlook



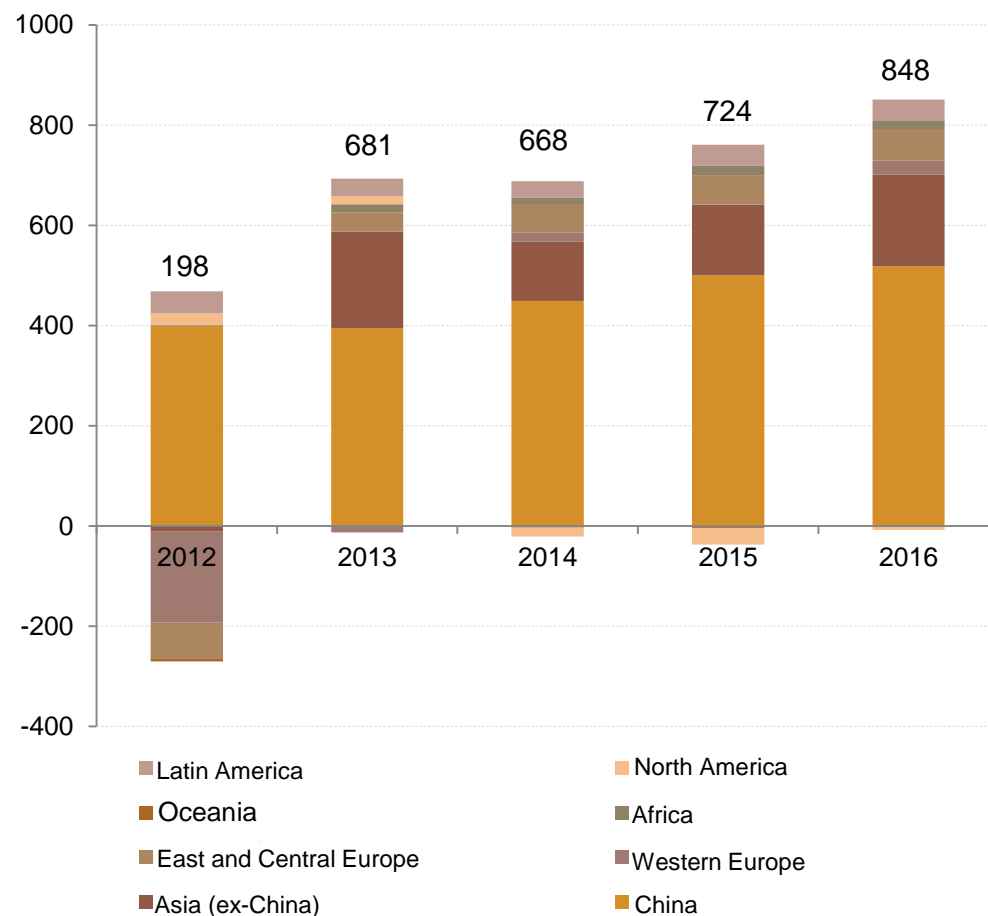
- Growth of the Chinese economy will continue to play a key role in shaping the metals market, including copper. China is expected to show the greatest demand for copper



- Developing Asian economies with high populations (India, Indonesia, Malaysia) will play ever-greater roles in the world's economy. After China, the largest increase in copper demand will come from these countries.

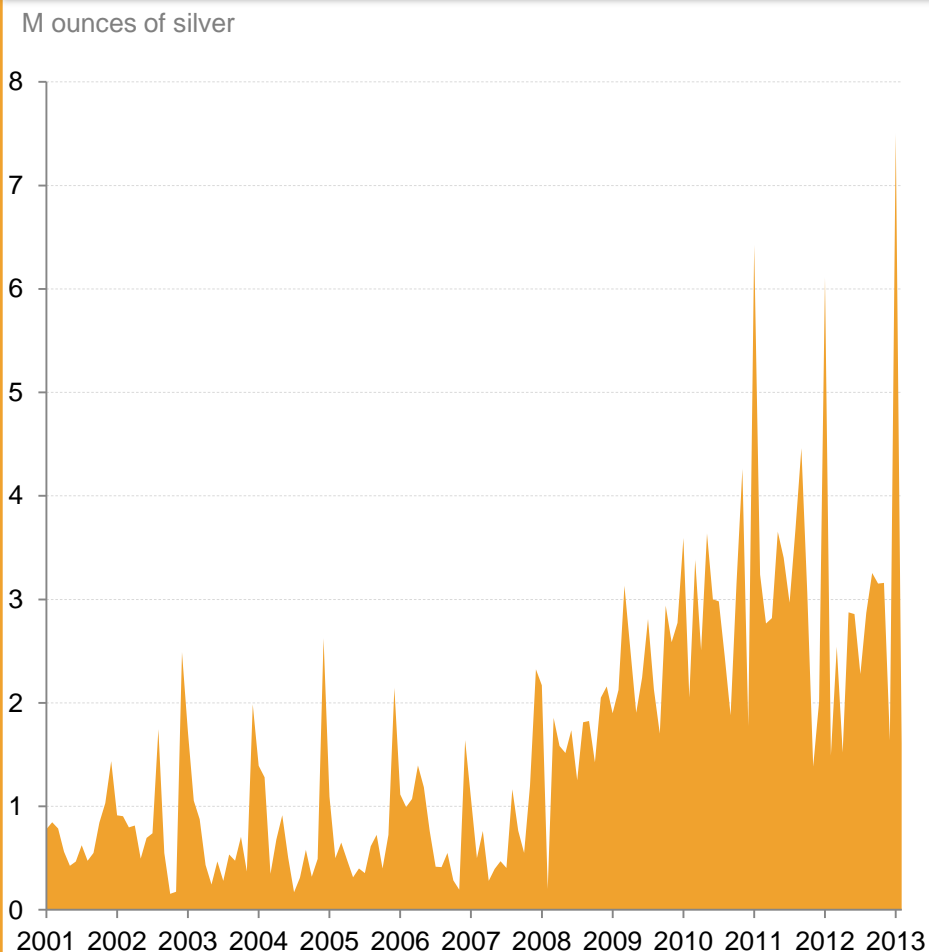
## Increase in copper demand by region

Annual change, in kt of copper



# Silver is a good hedge against inflation

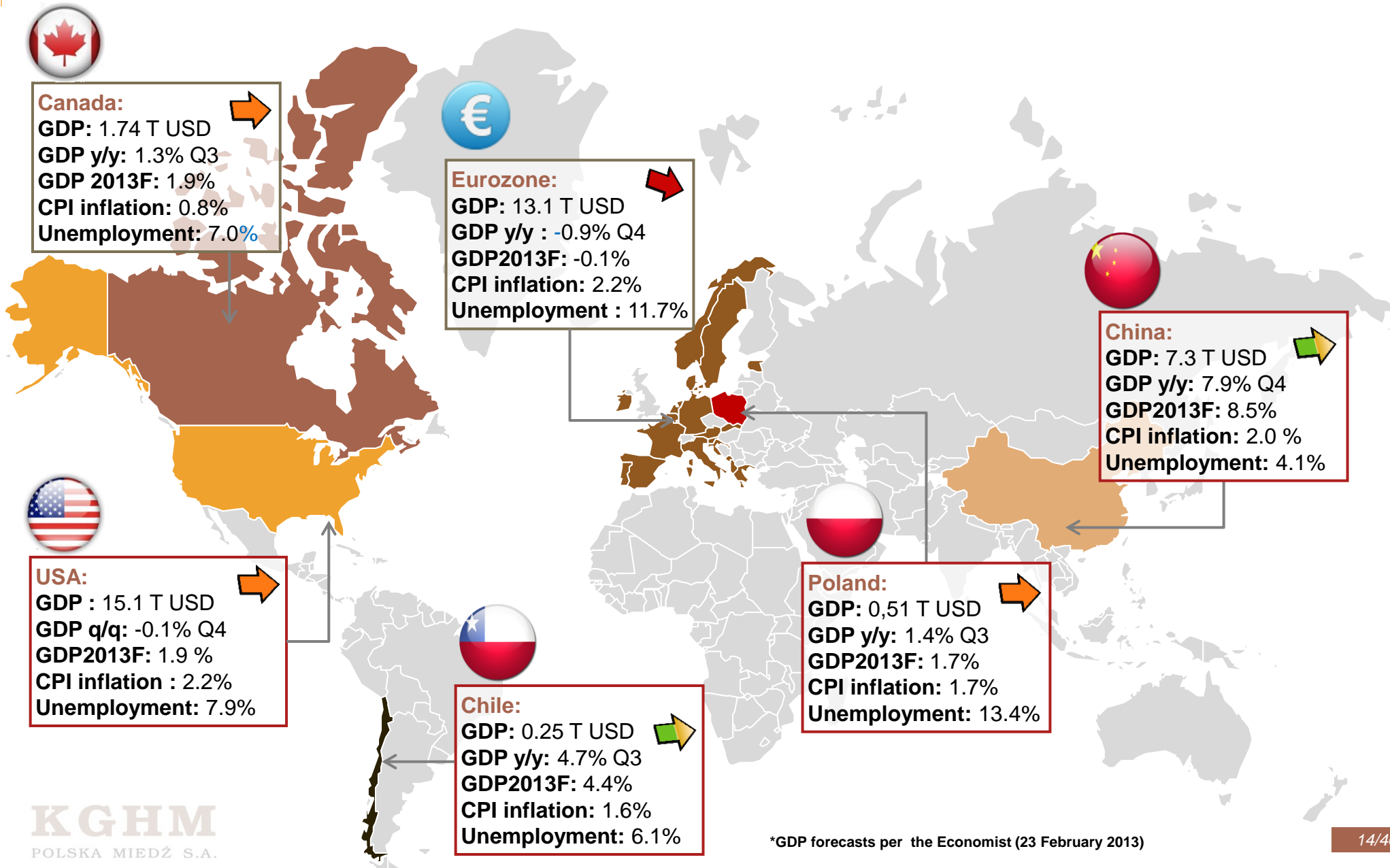
## Monthly sales of American Eagle coins



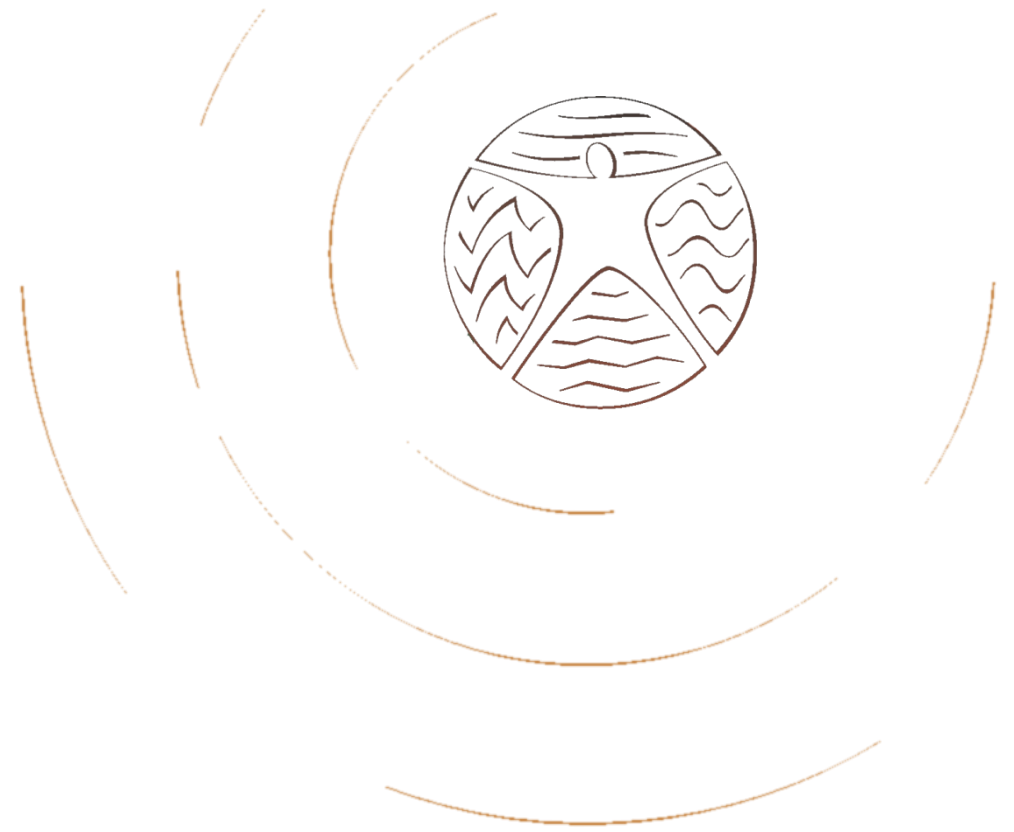
## Outlook

- The specter of inflation has not yet disappeared. If central banks continue their policies of monetary easing, precious metals will be a source of protection against inflation and a weakening USD.
- Despite recent news about a possible restriction in monetary easing by the FED, other central banks (mainly in Japan) will increase their asset purchase programs.
- Investors are becoming more and more interested in silver. Sales of American Eagle coins amounted to 7.4 M ounces in January 2013, the highest monthly result in history
- Over the next few years, the actions of financial investors will continue to be of key significance for silver prices

# There remain numerous threats to the global economy in both the short and medium terms



\*GDP forecasts per the Economist (23 February 2013)



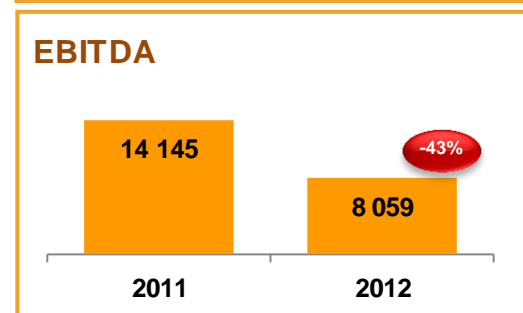
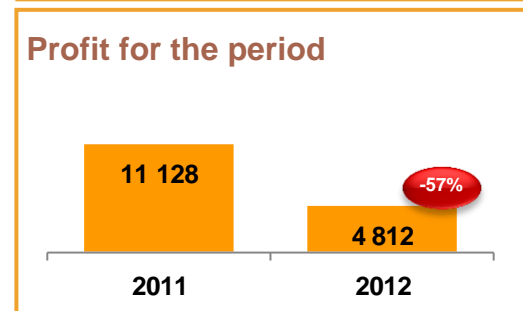
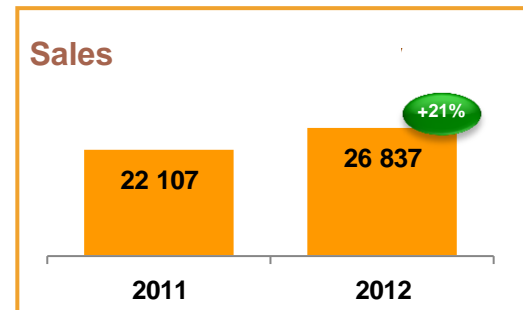
# Consolidated results



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

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

	2011	2012 <sup>1</sup>	KGHM Polska Miedź S.A.	
Sales	22 107	26 837	20 737	77%
Basic operating costs	12 667	19 688	13 602	
Net profit on sales	9 440	7 149	7 135	100%
Result on other operating activities	3 792	(545)	-709	
Operating profit	13 232	6 604	6 426	97%
Net finance costs	52	145	9	
Share of profits of associates valued using the equity method	188	-	x	
Income tax	2 300	1 647	1 549	
Profit for the period	11 128	4 812	4 868	101%
EBITDA	14 145	8 059	7 198	89%



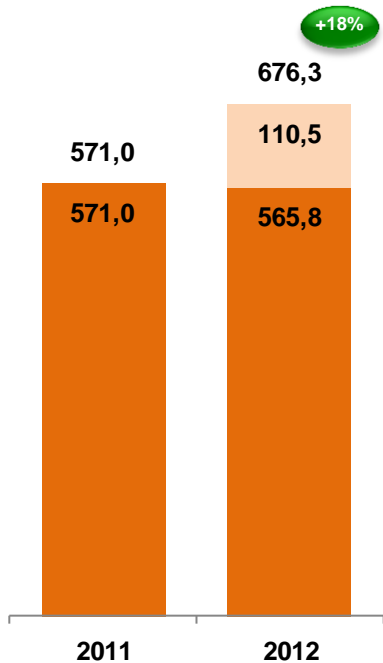
- ✓ Currently the results of the Group are generated by KGHM Polska Miedź S.A.
- ✓ Executed investments, including KGHM International, will in future determine the results of the Group

# Higher production of copper, precious metals and of a new product – nickel – in the KGHM Polska Miedź Group

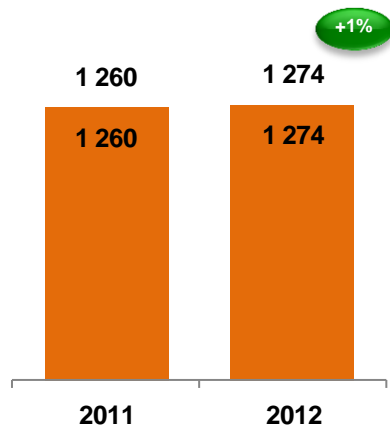
KGHM Polska Miedź S.A.

KGHM International

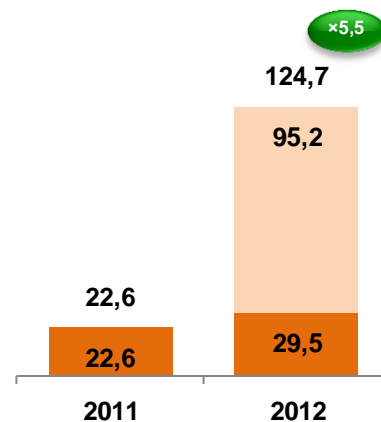
Copper production (k t)



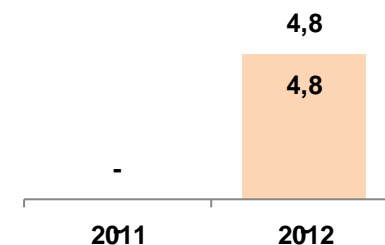
Silver production (t)



Precious metals production<sup>1</sup> (k troz)



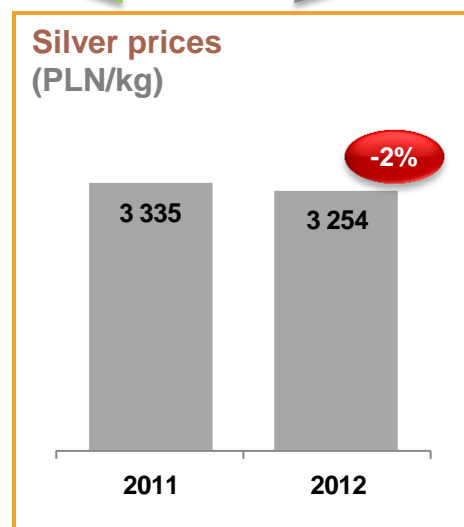
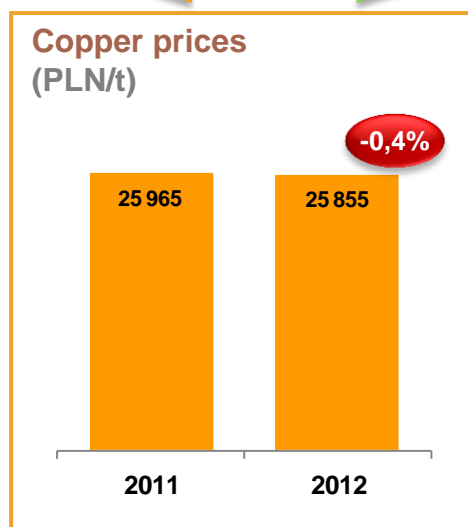
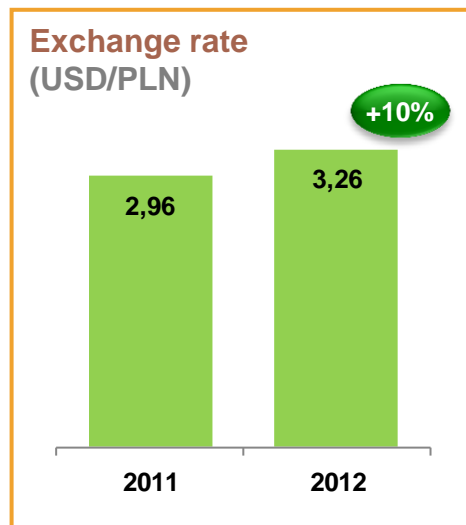
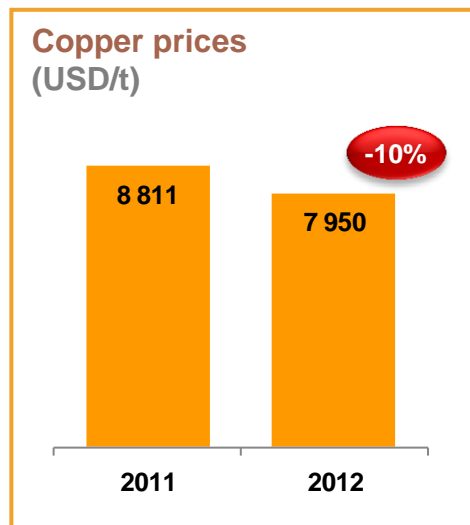
Nickel production (k t)





# **Economic results of KGHM Polska Miedź S.A.**

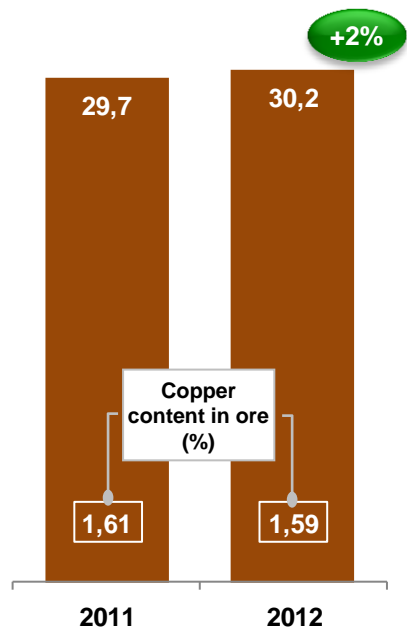
## Metals prices in PLN at a similar level



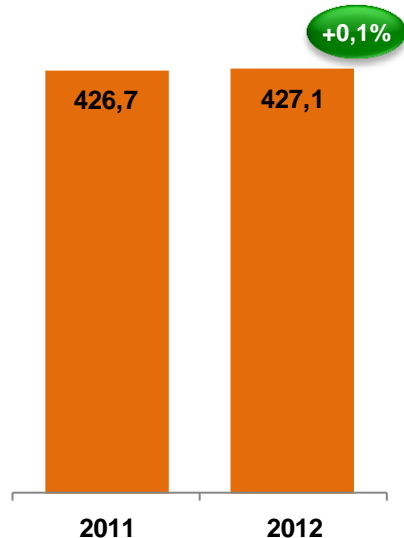
A decrease in metals prices versus 2011, a higher USD/PLN exchange rate

# KGHM maintaining stable mine production

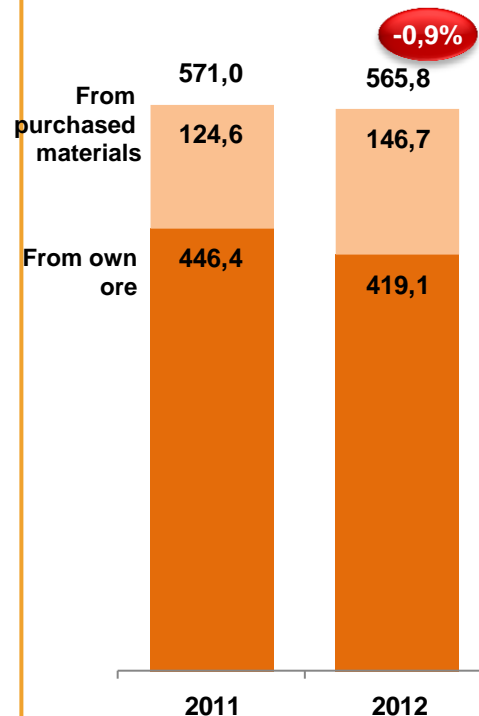
**Ore extraction**  
(million tonnes dry weight)



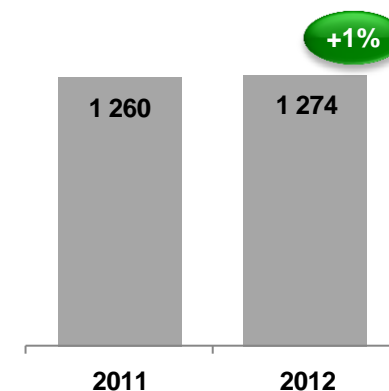
**Production of copper in concentrate**  
(kt)



**Refined copper production**  
(kt)

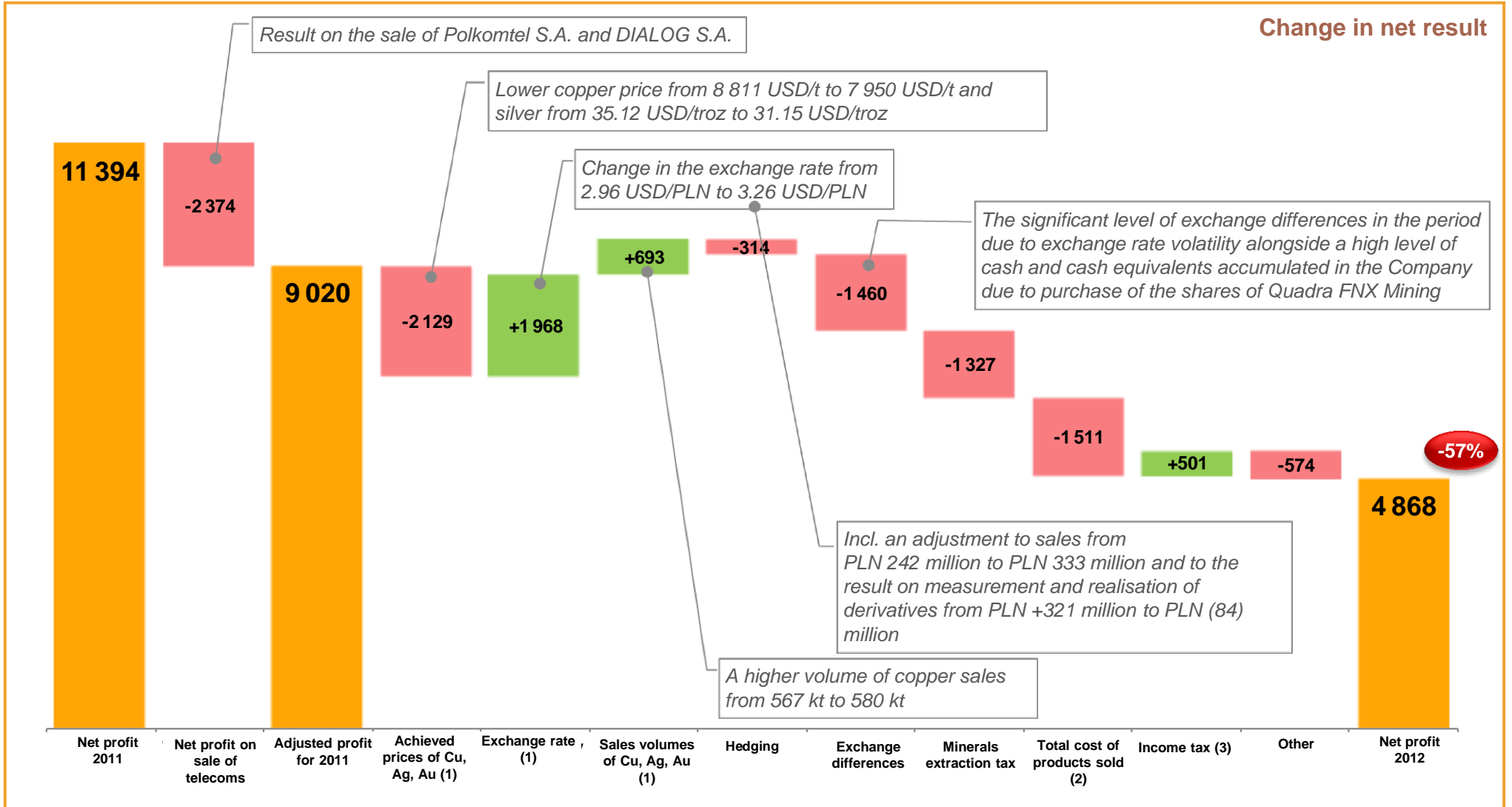


**Refined silver production**  
(t)



- ✓ Close to planned copper content in ore (1.59%)
- ✓ Stable level of copper production in concentrate
- ✓ Refined copper production according to plan with 26% use of purchased Cu-bearing materials

# Profit is lower mainly due to the sale of the telecom assets in 2011

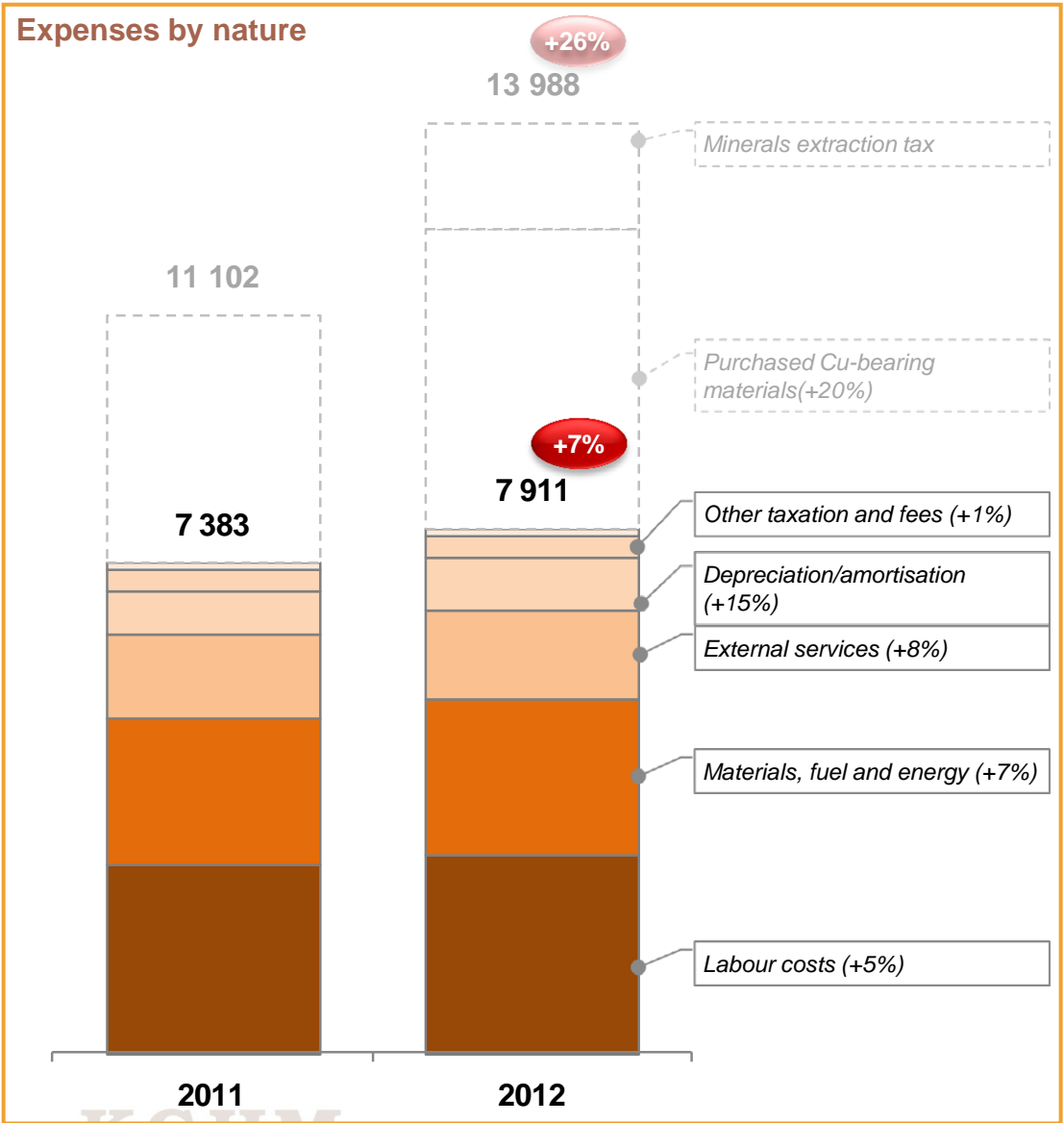


## The Company improved on its forecast profit for 2012 by +3%

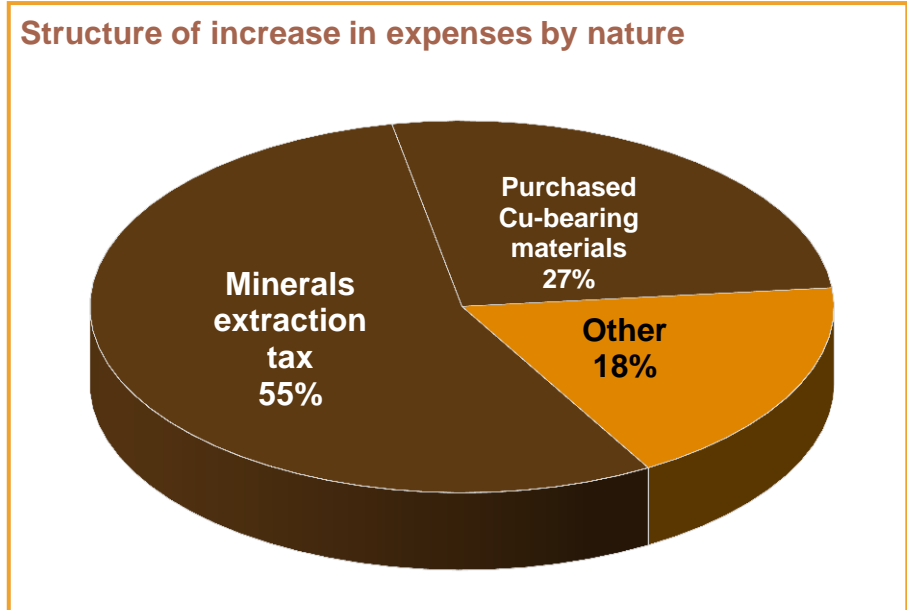
		Forecast (29 Oct 2012)	Execution 2012	Forecast execution (%)
Sales	M PLN	20 633	20 737	100.5%
Profit for the period	M PLN	4 744	4 868	102.6%
Refined copper production	k t	564.2	565.8	100.3%
- incl. from purchased Cu-bearing materials	k t	145.9	146.7	100.5%
Silver production	t	1 199	1 274	106.3%
Average annual copper price	USD/t	7 850	7 950	101.3%
Average annual silver price	USD/troz	30.50	31.15	102.1%
USD/PLN Exchange rate	USD/PLN	3.28	3.26	99.4%
Total unit cost of electrolytic copper production from own concentrate	PLN/t	15 077	14 590	96.8%

**Most planned amounts were realised in 2012 at a similar level**

# Expenses by nature (excluding purchased Cu-bearing materials and taxation) increased by 7%



- ✓ The increase in expenses by nature by 26% was mainly due to the higher value of purchased copper-bearing materials and to introduction of the minerals extraction tax
- ✓ Other costs increased versus the comparable period by 7%

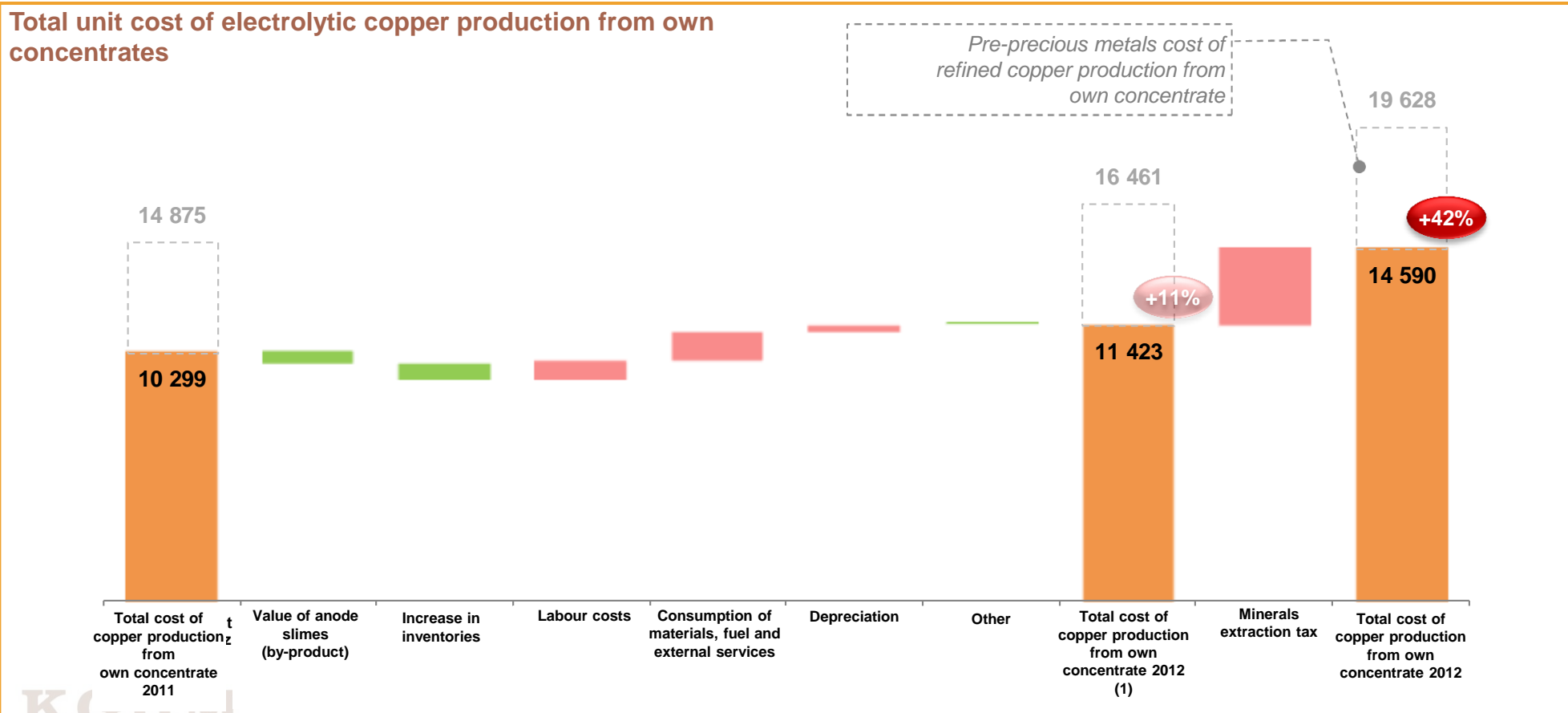




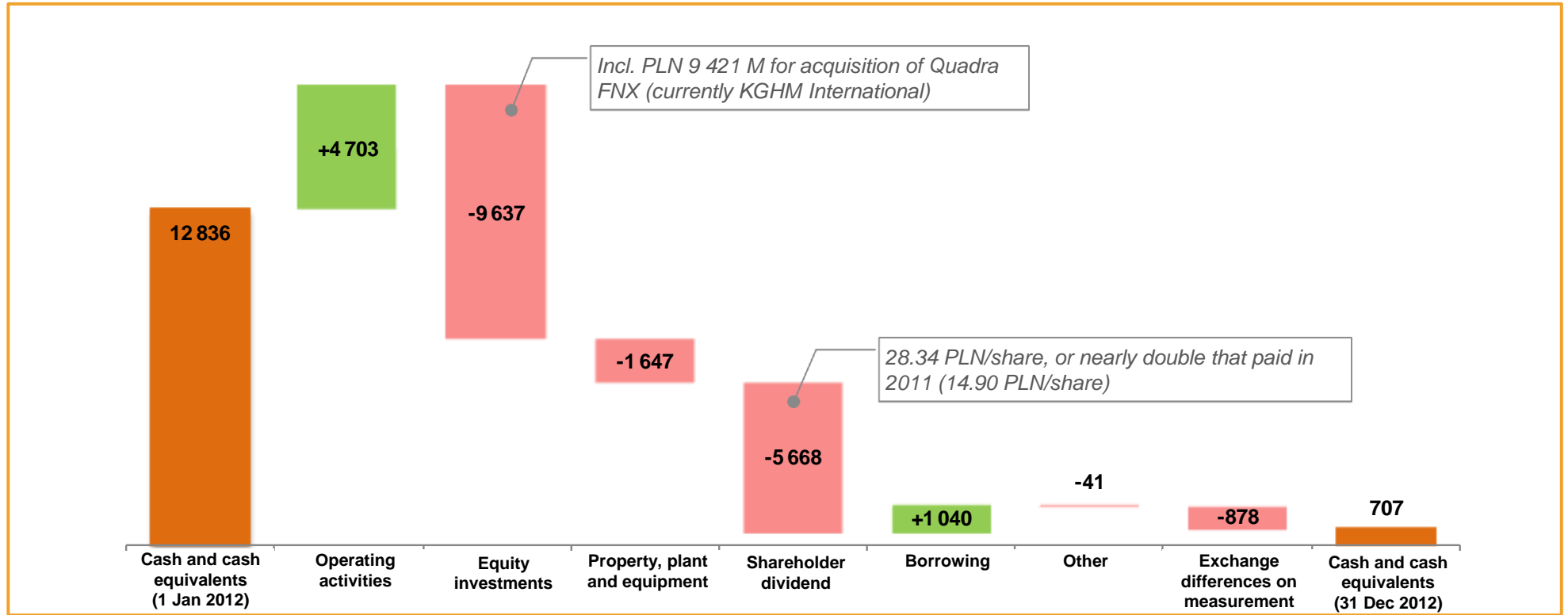
## The increase in costs was mainly due to introduction of the minerals extraction tax

- ✓ In comparison to 2011, the total cost of copper production from own concentrates was higher by 42%
- ✓ After deducting the minerals extraction tax, the increase in the total cost of copper production from own concentrates amounted to 11%
- ✓ An additional element increasing costs was the decrease in copper production from own concentrates, from 446.4 kt to 419.1 kt

Total unit cost of electrolytic copper production from own concentrates



# Cash and cash equivalents in 2012



**In 2012 there was a decrease in cash resources by PLN 12.1 billion, mainly due to completion of the acquisition of Quadra FNX and payment of a high dividend for 2011**

Due to macroeconomic conditions and the minerals extraction tax, the forecast results in the 2013 Budget are lower

## KGHM Polska Miedź S.A.

Macroeconomic assumptions	Production cost	Production
<ul style="list-style-type: none"> <li>✓ Exchange rate (3.10 USD/PLN)</li> <li>✓ Copper price (7 800 USD/t)</li> <li>✓ Silver price (32 USD/troz)</li> </ul>	<ul style="list-style-type: none"> <li>✓ Unit cost of electrolytic copper production from own concentrate (17 087 PLN/t)</li> <li>✓ Cash cost of concentrate production - C1<sup>2</sup> (1.76 USD/lb)</li> </ul>	<ul style="list-style-type: none"> <li>✓ Copper in concentrate (425.1 kt)</li> <li>✓ Electrolytic copper (548.0 kt)                             <ul style="list-style-type: none"> <li>✓ incl. from own concentrate (146.6 kt)</li> </ul> </li> <li>✓ Metallic silver (1 075 t)</li> </ul>

## KGHM International

- ✓ Production:
  - ✓ copper (93.7 kt)
  - ✓ nickel (5 kt)
  - ✓ TPM<sup>1</sup> (64 koz)
- ✓ Unit cost C1<sup>2</sup> (2.30 USD/lb)
- ✓ Capex (USD 733 M)

### Financial forecast

- ✓ Sales (PLN 18 930 million)
- ✓ Profit (PLN 3 204 million)
- ✓ EBITDA (PLN 5 337 million)

### Capital expenditures

- ✓ Property, plant and equipment PLN 2 470 million
- ✓ Limit on equity investments PLN 523 million

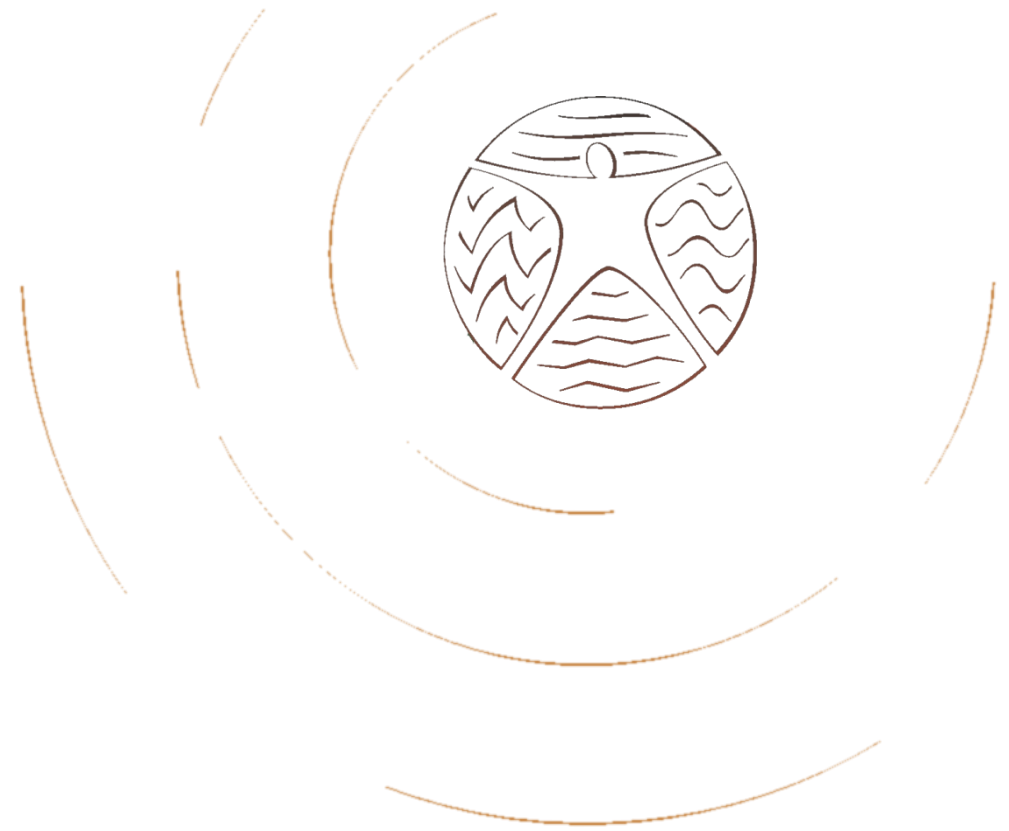
1) Precious metals (TPM) – gold, platinum and palladium

2) C1 cost – cash cost of concentrate production plus administrative and smelting and refining (TC/RC) costs, less depreciation/amortisation and byproduct premiums. C1 cost includes royalties (minerals extraction tax)

**KGHM**  

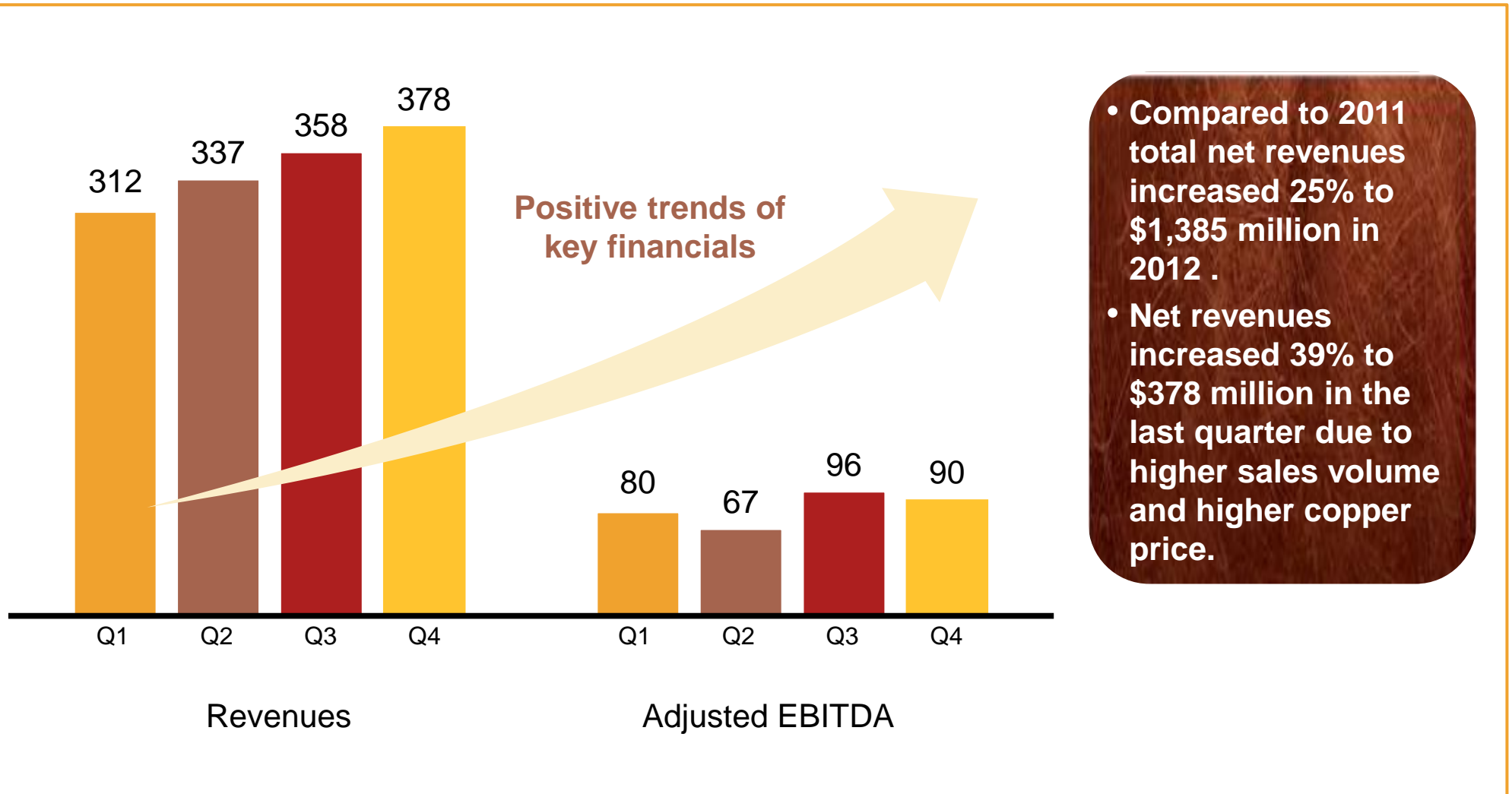
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**INTERNATIONAL**



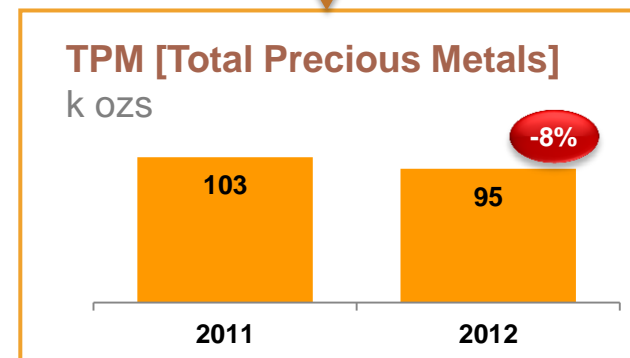
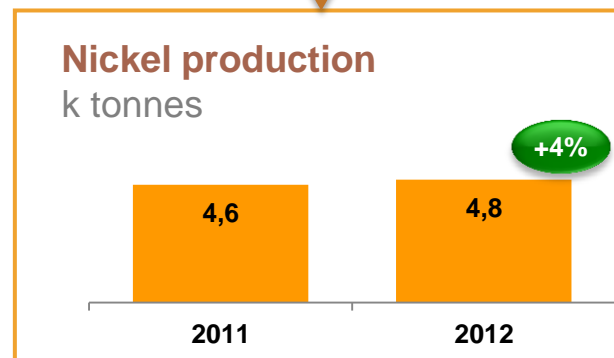
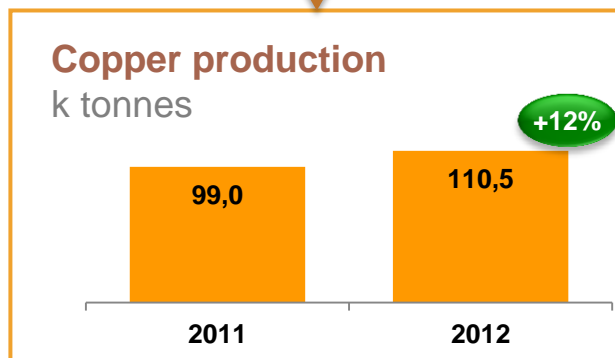
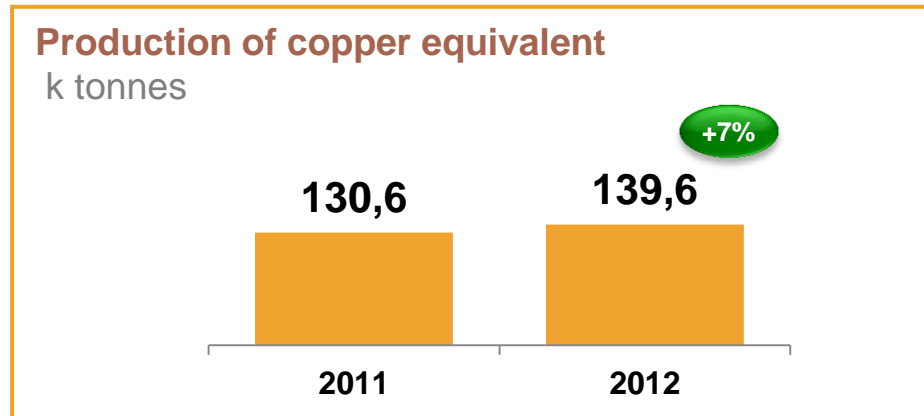
**Economic results of  
KGHM International**

## Continuous improvement of KGHM International's financials



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. Financial data FY2012 is undergoing audit process. Full financial data will be released in the annual report (29 March 2013) after the audit process is completed .

# Higher production of copper equivalent thanks to higher amounts of copper and nickel in 2012



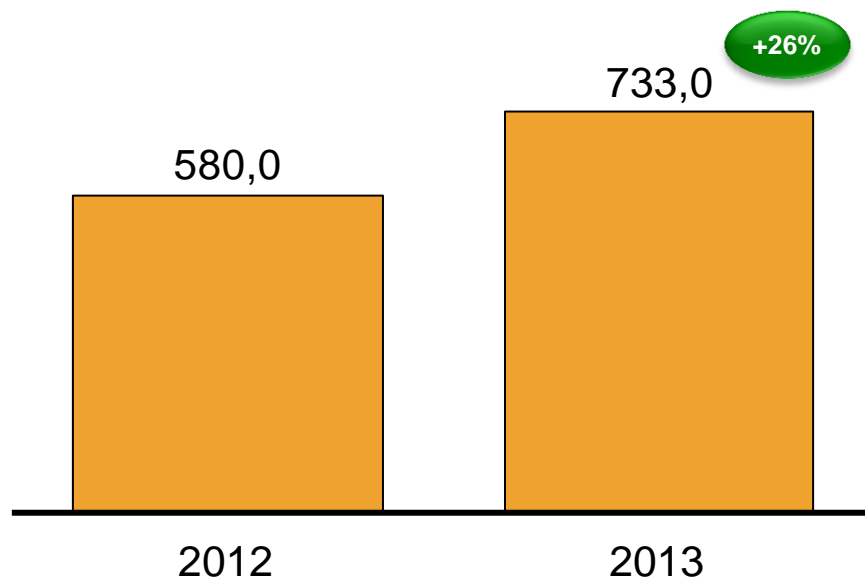
- ✓ Total production of copper equivalent<sup>1</sup> amounted to 139.6 thousand tonnes<sup>1</sup> in 2012 versus 130.6 thousand tonnes in 2011
- ✓ Highest production growth in 2012 was recorded in the Robinson mine (+26%), Franke mine (+19%) and the Morrison deposit (+8%).
- ✓ Continuous improvement initiatives in the Robinson mine under the Value Creation Plan have boosted production rates, especially by increasing copper recovery rates, increasing mill throughput, increasing the hauling fleet and decreasing hauling distances. Moreover production increased in the pit area with higher head grade.

1) Copper equivalent (CuEq) = total metals sales (volume x price) / copper price  
Copper equivalent describe total metals production by the company

## Higher capital expenditure by KGHM International

### CAPEX

USD million



✓ Capital expenditure in 2012 includes spending on Sierra Gorda in the amount of USD 456 million. In 2013 spending on Sierra Gorda is projected at USD 518 million.

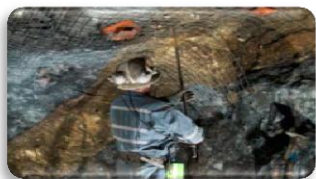
# The production assets of KGHMI are successfully improving their operating results and creating additional value



**Robinson mine**  
Nevada, USA



- Copper production 26 % higher than in Q4 2011 – improved mill recovery
- C1 cost lower than in Q4 2011 – \$2.00/lb
- Value Creation Program implemented
  - Improved mill efficiency to increase copper recovery (incl. improvement in operating performance)
  - Lower CAPEX
  - More aggressive production plan instituted
  - Machine fleet management system implemented and procurement costs reduced



**Morrison mine**  
Ontario, Canada



- Production 37% higher than in Q4 2011 – higher volume, better metals grades and use of the Craig shaft
- C1 cost in Q4 2012 at \$1.19/lb
- Value Creation Program implemented
  - Operations transferred to Craig shaft,
  - Accelerated mine development work
  - Mine operations stabilised and production volumes increased



**Other mines**  
Canada, USA, Chile



- The Podolsky mine in Sudbury extended its planned mine life by 6 months (to April 2013)
- The Franke open-pit mine in Chile is implementing a stabilisation and improvement program





# Sierra Gorda – one of the best performing projects in the World



## SIERRA GORDA

Cu

Au

Mo



## 2012 KEY ACCOMPLISHMENTS

- **Key contracts have been awarded:**
  - ✓ Concentrate FCAB rail service to port,
  - ✓ Seawater pipeline construction,
  - ✓ Port Facilities,
  - ✓ Electrical transmission lines,
  - ✓ Power Purchase Agreement,
  - ✓ Collective agreement,
- Mine has an access to electrical grid,
- Overall progress as of Dec at 33% (engineering at 92%),
- Construction of critical infrastructure and mining fleet assembly.

Reserves	~ 1.3 B t @ 0.39% Cu, 0.024% Mo
Ownership	55% KGHM International, 45% SMM and SC
Mine	Open pit
Status	Mine under construction, processing plant construction and pre- stripping, construction completion 33%.

# The Sierra Gorda project is underway. In 2015 the mine will have the lowest unit production cost of any mine in Chile

## Sierra Gorda

### Chief facts



- ✓ The project is gradually reducing its project risks and will be completed in the first half of 2014
- ✓ Sierra Gorda is one of the most quickly advanced projects in copper mining (discovery in 2007 with production by 2014)
- ✓ This is a large-scale project, with current employment averaging ~3 thousand people (7 thousand at peak) and will encompass up to ~311.4 km<sup>2</sup>
- ✓ Active support by KGHM SA in supervising the project, risk management (Value At Risk down from USD 510 million in June 2012 to USD 240 million in December 2012) and procurement support through monitoring of deliveries from Switzerland and Italy; Additional work on value creation initiatives (e.g. steeper pit slope)
- ✓ Sierra Gorda offers opportunities for Polish suppliers to provide services in Chile

### Creating future value



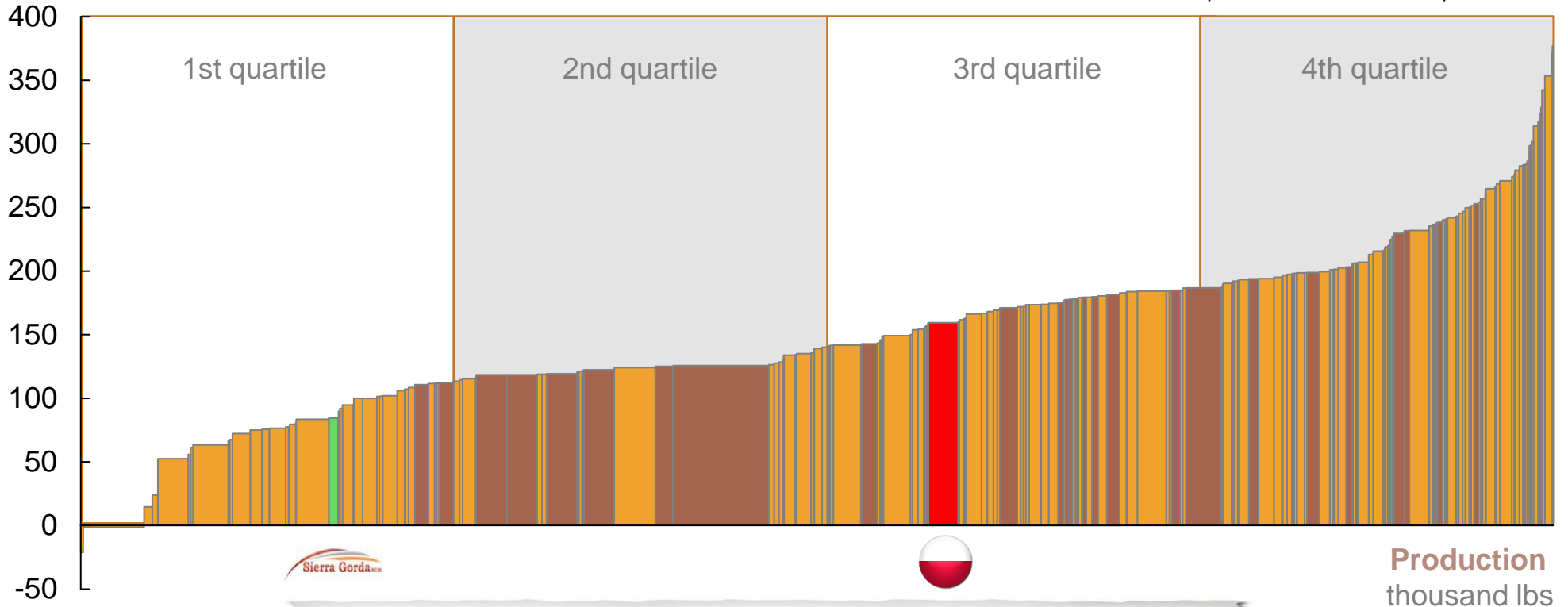
- ✓ Sierra Gorda will have the lowest unit production cost of any mine in Chile in 2015
- ✓ Cutting-edge extraction and ore processing methods, e.g. HPGR, remote traffic system
- ✓ Controlled increase in CAPEX budget, partially due to regulatory issues (regarding seismic standards for buildings and environmental protection) and market issues (exchange rates, labour costs)
- ✓ Opportunities for further increases in NPV – e.g. through steeper pit slope

# Sierra Gorda will be one of the cheapest copper mines in terms of operating costs in the world, and the cheapest in Chile

Copper production cost curve in 2015

USDc/lb

■ KGHM Poland 
 ■ KGHM Sierra Gorda 
 ■ Other producers 
 ■ Chilean producers



*„SG will be in the lower 10% of the Global Cost Curve for the first five years, when its average annual production of molybdenum will be 50 million pounds”*

## Update of CAPEX budget for Sierra Gorda mine

### Budget update

- Initial CAPEX for project startup will go up from \$2.9 B to \$3.9B (up 35% - before cost saving measures).
- Mainly factors independent from KGHM:
  - Government Regulations
  - Labor cost and input materials increase
  - Chilean currency increases
  - Scope change and additional improvements

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Mine construction costs are growing all over the World, with an average overrun 60% above budget<sup>1</sup>.

### Schedule update

- Production commissioning will begin in **Q2 2014**
- KGHM had limited impact on the delay:
  - The need to change some of the designs
  - Delays in supply of some parts and contractor works

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Average delay in new mining projects for the copper mining is 3 years<sup>2</sup>

# KGHM is able to partially offset the impact of inflation in Chile through hedging

 \$, Millions  
 UF, Millions

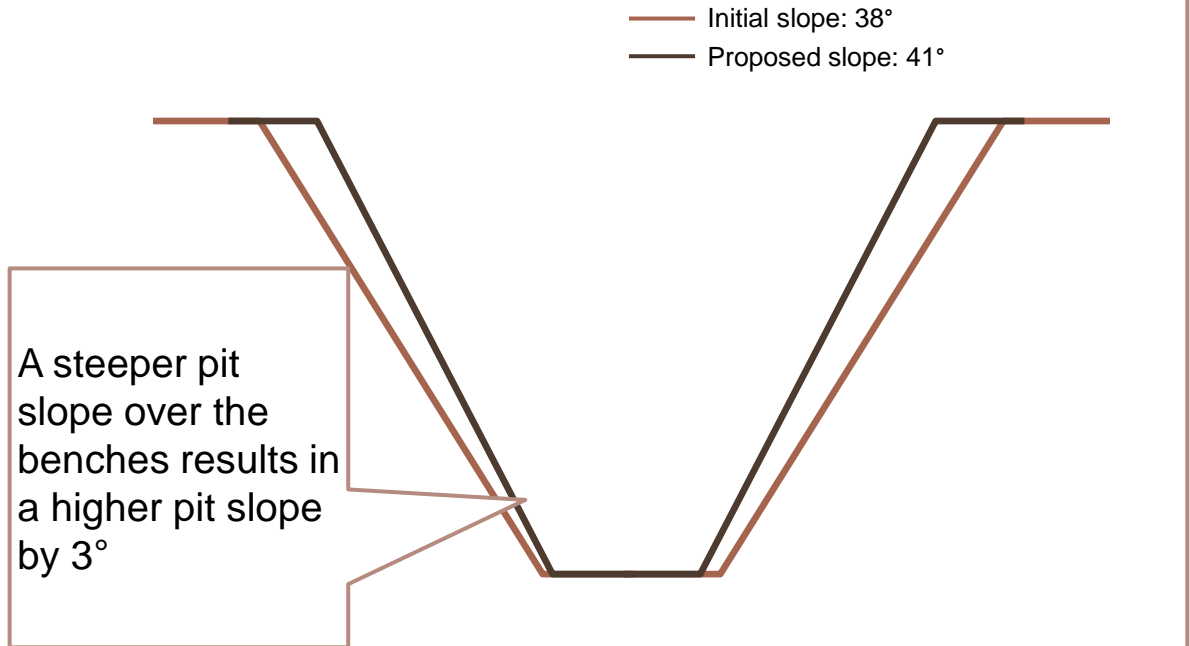
Escalation hedging strategy	Implications for SG (KGHMI Basis)
<ul style="list-style-type: none"> <li>▪ Current hedging strategy is to purchase UF funds, which has several upsides:                             <ul style="list-style-type: none"> <li>— UF is an index currency adjusted to Chilean inflation</li> <li>— Purchased UFs to protect against movements of CLP vs USD</li> <li>— Current funds are earning an interest (4.4%)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Million UFs owned by SG SCM in November <span style="float: right; background-color: #D2691E; border-radius: 50%; padding: 5px 15px; color: white;">9.0</span></li> <li>▪ Forecasted payments to be drawn from current UF reserves (@48.9) <span style="float: right; background-color: #D2691E; border-radius: 50%; padding: 5px 15px; color: white;">440</span></li> <li style="text-align: center;"><span style="background-color: #D2691E; border-radius: 50%; padding: 5px 15px; color: white;">-</span></li> <li>▪ Net cost of UF (@43.0) <span style="float: right; background-color: #D2691E; border-radius: 50%; padding: 5px 15px; color: white;">385</span></li> <li style="text-align: center;"><span style="background-color: #D2691E; border-radius: 50%; padding: 5px 15px; color: white;">=</span></li> <li>▪ <b>Gain</b> <span style="float: right; background-color: #D2691E; border-radius: 50%; padding: 5px 15px; color: white;">55</span></li> </ul>

\*impact of hedging on DCE for KGHMI would be higher (114 M USD)

# Creating additional value: A steeper pit slope may have substantial impact on NPV for the Sierra Gorda project

## Context

- The current pit slope over the benches varies between 40° and 45° while the slope over the ramp is 38°
- Due to the hardness of the rock, initial geotechnical drilling demonstrated that the pit slope may be steeper by approx. 5° to achieve a slope over the benches of 45° to 50° and over the ramp of 41°
- The result – lower waste tonnage, lower haulage distance and a smaller fleet – positively impacts the economic value of the project



Initial calculations indicate that the change in pit slope will have a substantial impact on the value of the project

## Creating additional value: other levers for growth

### Copper prices

- Conservative price assumptions have been used in the analysis process
  - Cost increases are generated by elements (e.g. steel and oil prices) which are correlated to other commodities, incl. Copper and Molybdenum
- 

### Oxide ore

- **Some of the material currently treated as waste could be used for production in the future**
  - Rich resources (146 million tonnes of oxide ore) could **increase production**
- 

### Extension of mine life

- Reclassification of the resources into reserves could lead to longer mine life (eg. Catalina Pit)
- 

### JV Partners

- **Risk is diversified among partners** Sumitomo Metal Mining and Sumitomo Corporation
- The possibility to advance other mining projects with partners

# Intensive efforts on permitting for Afton-Ajax



## AFTON-AJAX

Cu

Au



Reserves	~ 503 Mt @ 0.27% Cu, 0.17 g/t Au
Ownership	80% KGHM, 20% Abacus Mining & Exploration
Mine	Open Pit
Status	The project is in the permitting process.

## KEY ACCOMPLISHMENTS

- Successful **change of the operator** to KGHM International,
- **Project schedule adjusted** to new permitting requirements in British Columbia,
- Successful **Open House** – hundreds of participants, including the citizens of Kamloops,
- Positive relations to First Nations communities representatives established – **Memorandum of Understanding signed**



# Victoria project will be the second most important value driver for KGHM International after Sierra Gorda



## VICTORIA

Cu

Au

Pt

Ni



## 2012 KEY ACCOMPLISHMENTS

- 2012 Drilling results confirm the **potential to substantially expand project resources**
- New approach to building the mine in two stages, to **reduce projected CAPEX to around USD 300-400 million in stage 1**, and to use cash flow from initial production to finance stage 2
- The largest risk is related to preparing an agreement with Vale, but **progress has been made in the negotiations with them**, using the position of KGHM SA as a buyer of concentrate from Vale's Salobo mine

Ownership

100% KGHM International<sup>2</sup>

Mine

underground

