

**KGHM**

POLSKA MIEDŹ S.A.

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**Company Results  
for the nine months ended  
30 September 2012**

November 2012

## Agenda

- ✓ Economic results of KGHM Polska Miedź – synthesis
  - ✓ Rate of return for shareholders of KGHM Polska Miedź S.A.
  - ✓ Outlook for the metals market
  - ✓ Strategy execution
- 
- ✓ Economic results for the 9 months ended 30 September 2012
    - Consolidated financial results
    - KGHM Polska Miedź
    - KGHM International

## Excellent financial results for KGHM Polska Miedź

- An increase in KGHM's share value by 67% since the start of the year
- The consolidated financial result of KGHM Polska Miedź for the first 9 months of 2012 amounted to PLN 3 944 million
- Due to the better-than-expected financial results, in October the Company increased its 2012 profit forecast by 25%
- In the first 9 months of 2012 the Group produced 500 thousand tonnes of copper



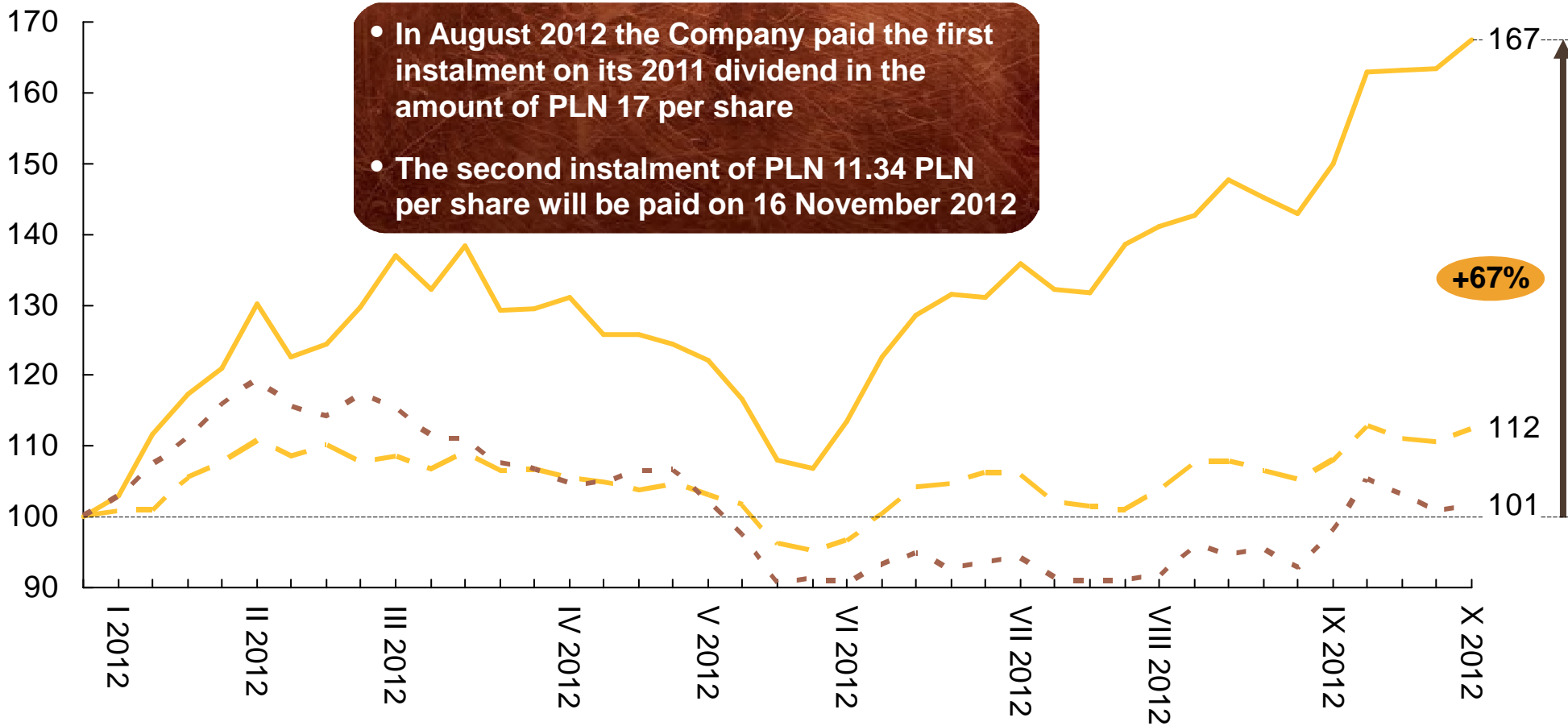
# Investment in KGHM's shares guarantees a better-than-average return for investors



- KGHM Total return
- - - WIG20 Index
- - - Bloomberg World Mining Index

## Rate of return on investing in KGHM's shares

Indices from base of 30.12.201

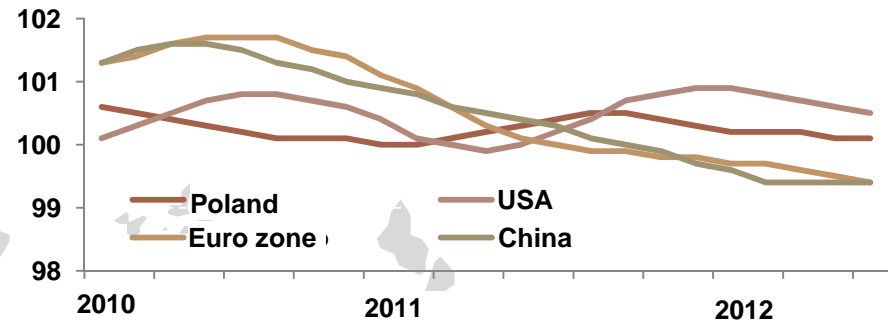


- In August 2012 the Company paid the first instalment on its 2011 dividend in the amount of PLN 17 per share
- The second instalment of PLN 11.34 PLN per share will be paid on 16 November 2012

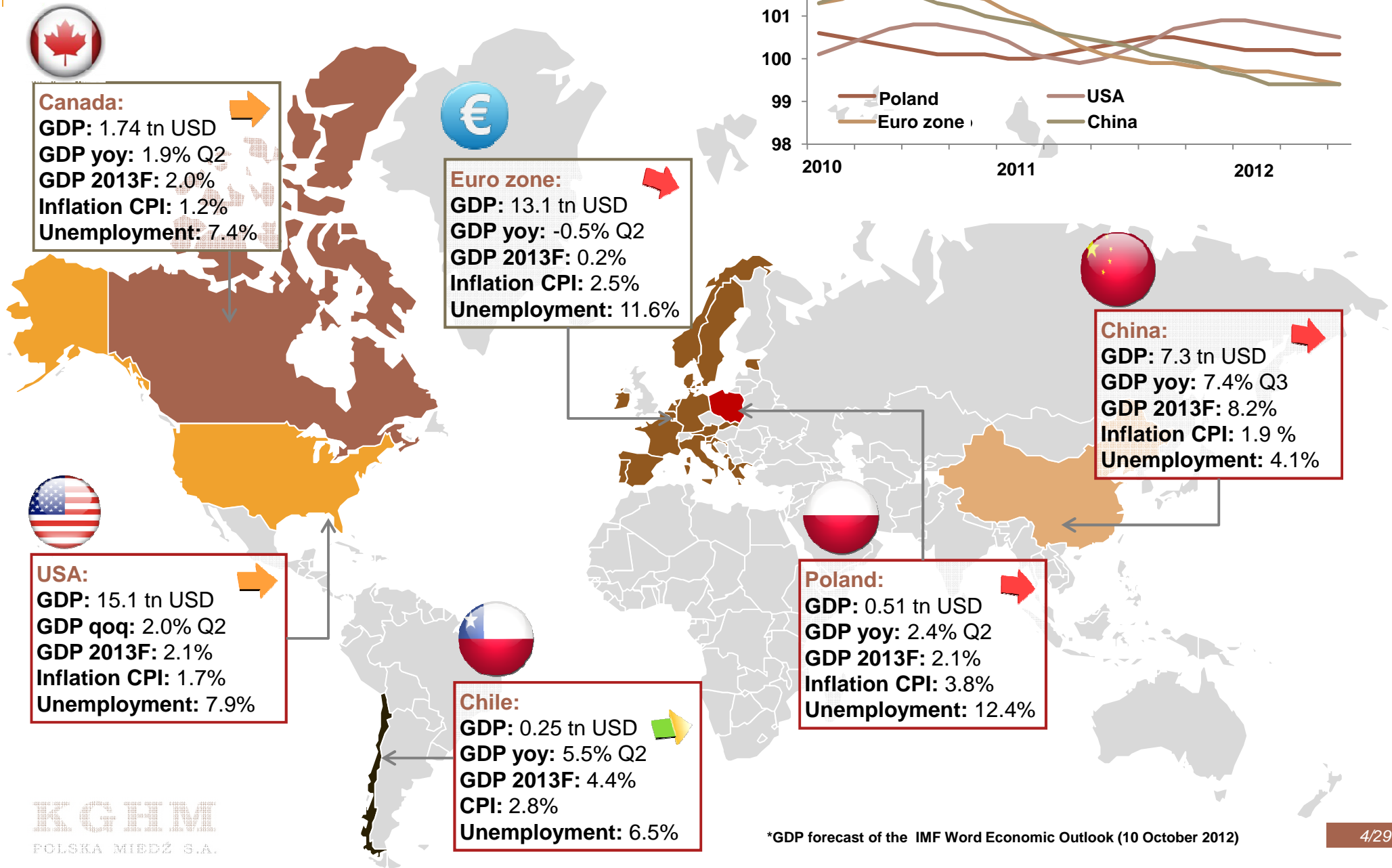
**+67%**



## OECD CLI (composite leading indicators)



## The world economy is slowing...



\*GDP forecast of the IMF World Economic Outlook (10 October 2012)

# ... nonetheless, medium and long-term metals demand will grow steadily due to Asian demand

## Outlook for metals demand



- According to the most conservative scenario, China will grow at a rate of at least 5% annually



- Chinese industrialisation and power generation capabilities will continue to advance



- Developing Asian nations with sizable populations are of critical importance for long-term metals demand

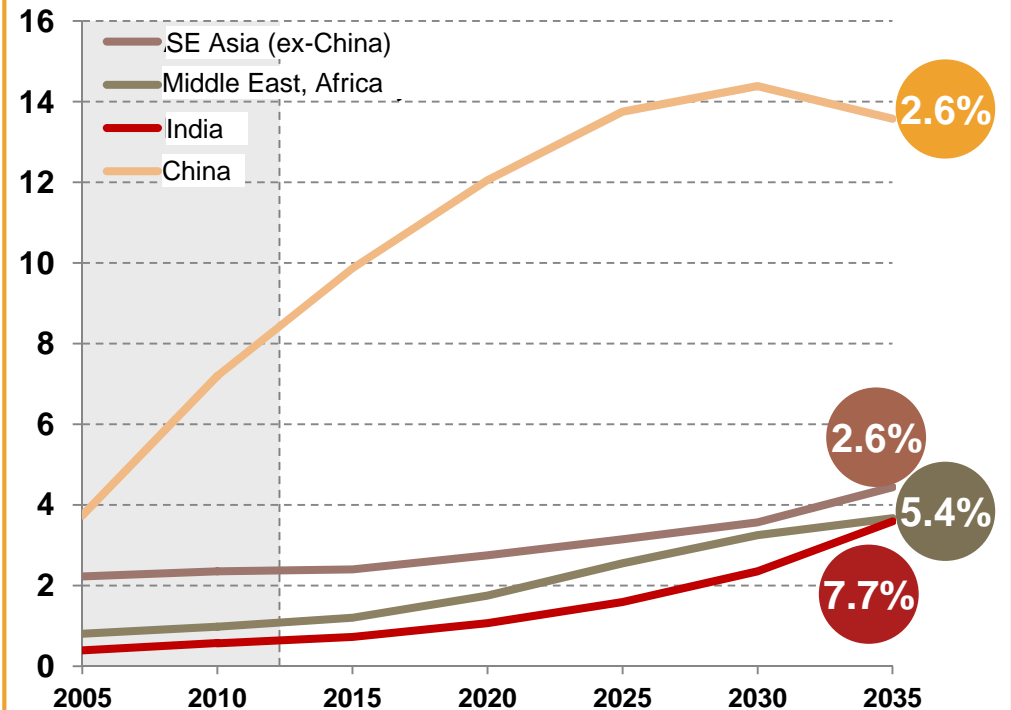


- Developing nations are placing increasing emphasis on environmental protection and green energy, with positive implications for copper

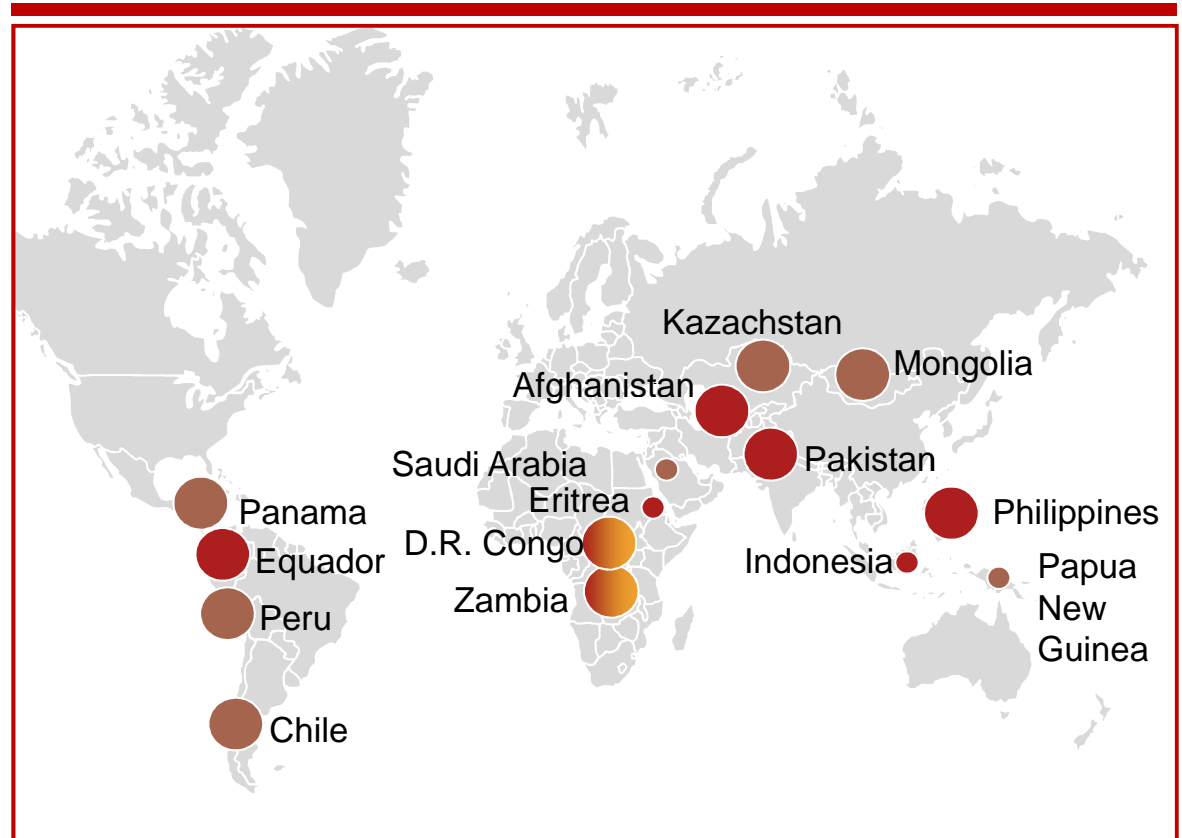
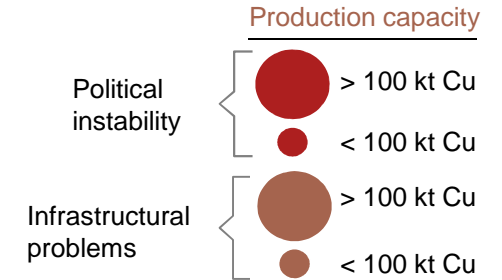
## Demand for copper in Asia will continue to grow

Refined copper consumption  
million tonnes

CAGR  
2010-35



Furthermore, at present metals supply is restricted due to increasingly challenging geological and political conditions

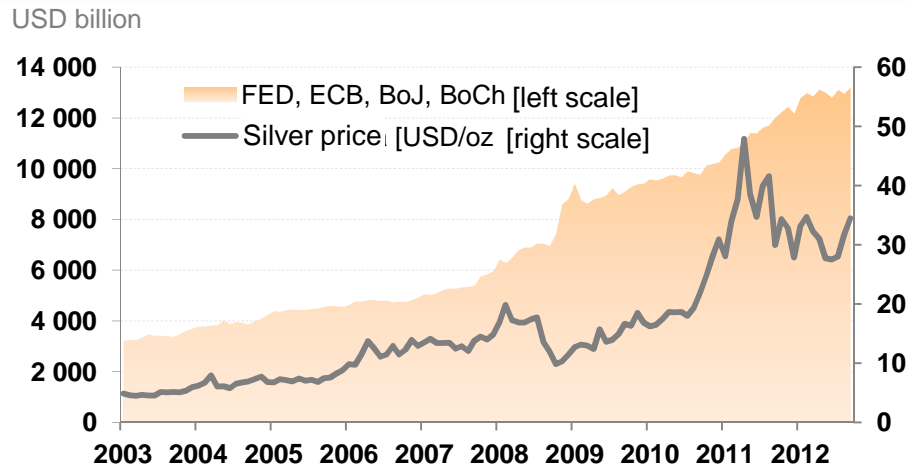


New projects should have on average a lower content of copper in concentrate

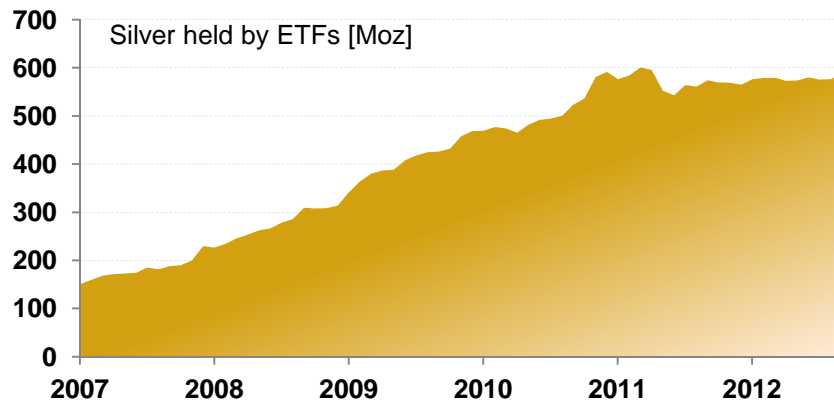
67% of production capacity from new mines globally is from countries dealing with either political or infrastructural problems

## Silver is a good metal for uncertain times

### Expansive policy by central banks is causing an increase in precious metals prices



### Interest in silver is still growing amongst financial investors



### Silver demand outlook



- Growing fears of inflation, caused by central banks' policies, will increase demand for precious metals



- Following the introduction of digital equipment, industrial demand is weaker than was the case several years ago



- However, silver is now used more often in modern technology



- Over the next few years, the behavior of financial investors will have a critical impact on silver prices



## Perspectives for other metals

### Gold



- Heightened interest in gold by central banks, whose purchases exceeded their sales for the first time since 2009
- The price of gold is supported by the low interest rate policies and monetary easing of central banks

### Nickel



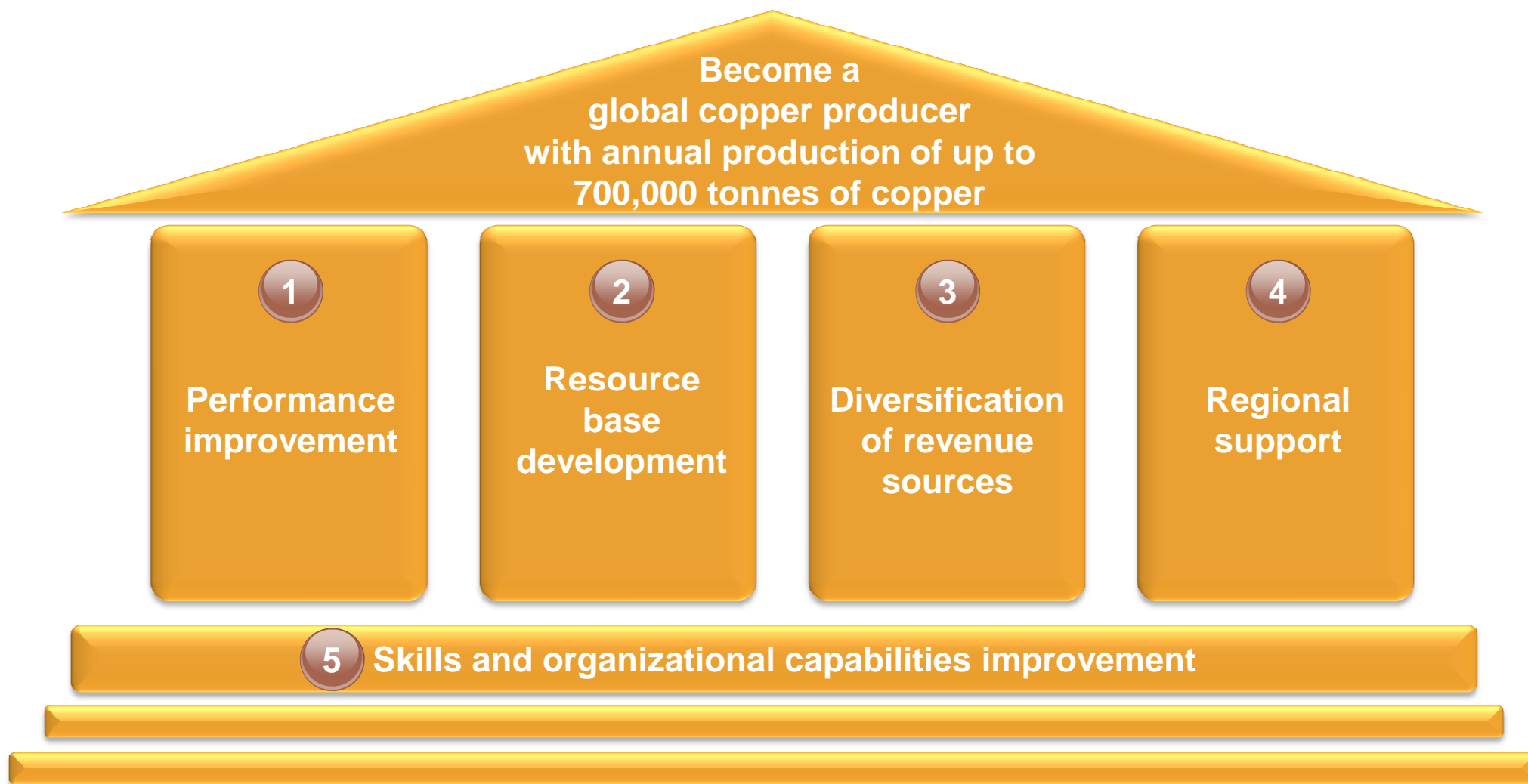
- A low resource base in China, where internal production satisfies approx. 16% of Chinese demand
- Demand for special metal alloys in China is growing faster than GDP

### Molybdenum



- Low capacity for substitution and low possibility for recycling
- Fundamentally stable aircraft, chemical and petrochemical industries

## Strategy of KGHM



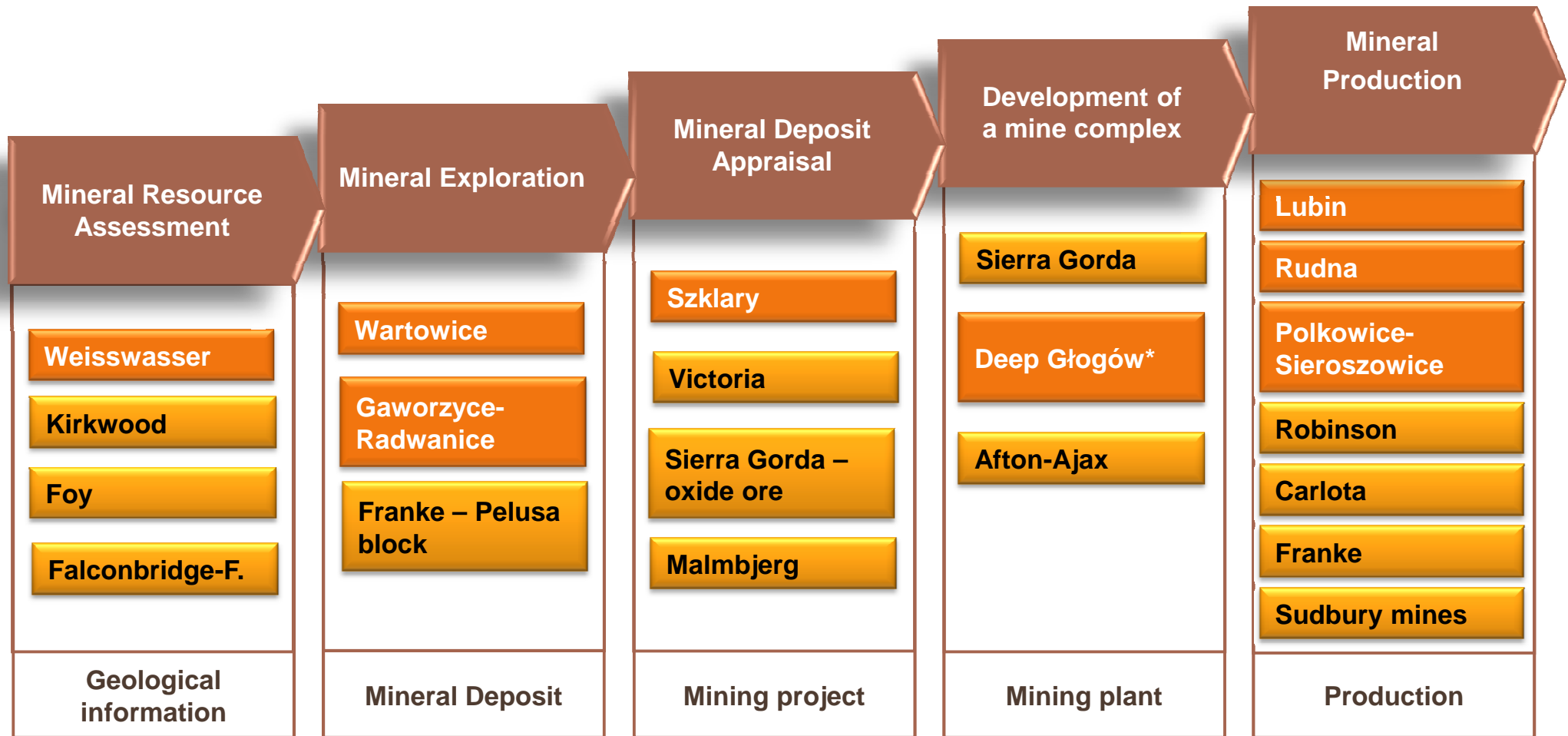
# Thanks to the acquisition of Quadra FNX, KGHM has built a pipeline of resource projects

Projects of the KGHM Group

 Project of KGHM Polska Miedź SA

 Project of KGHM International Ltd.

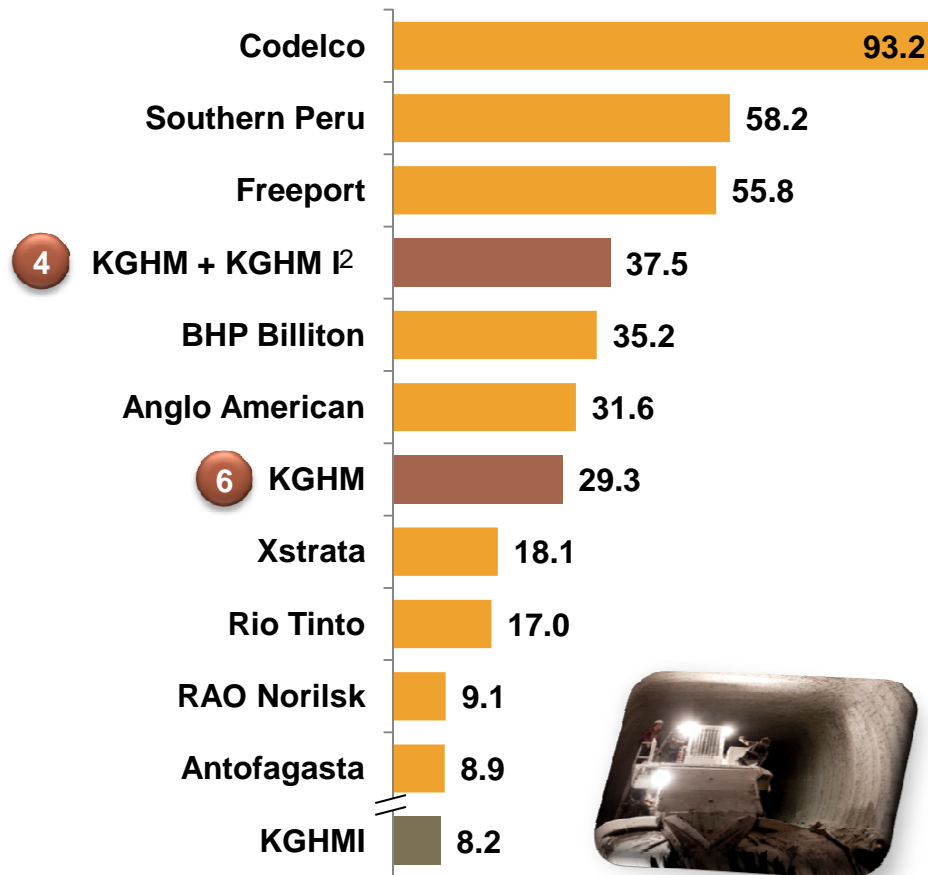
## Value creation chain of mining projects



# KGHM Polska Miedź is a leading global producer of copper

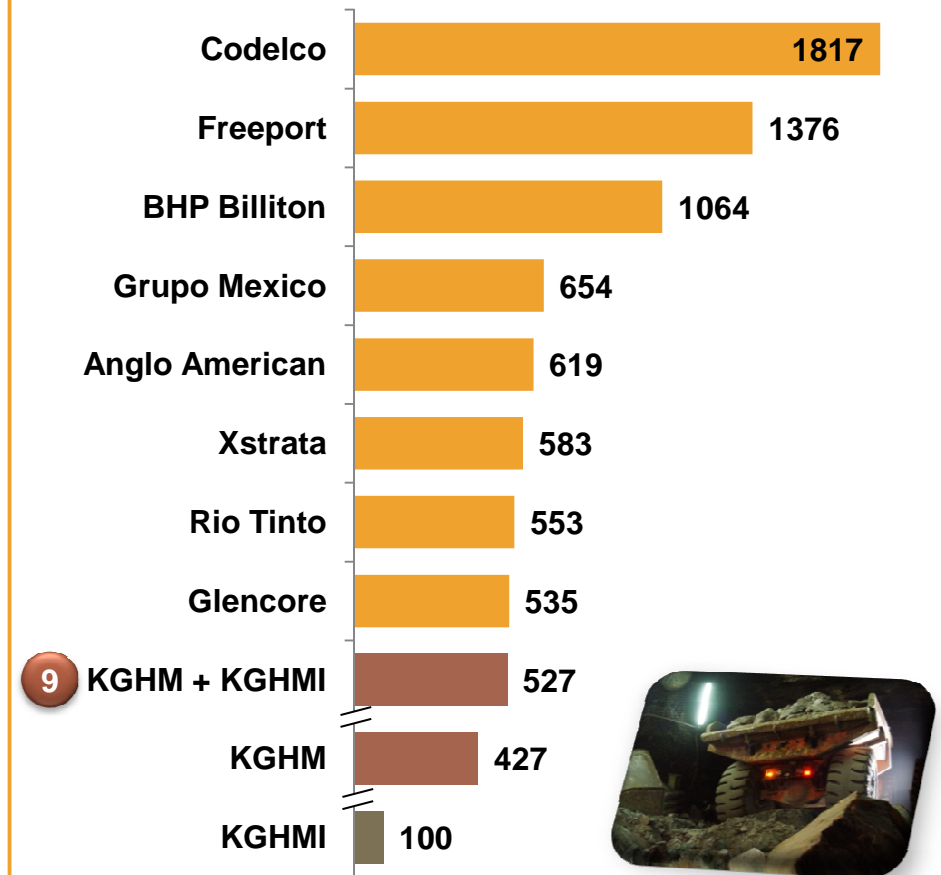
## Resource base<sup>1</sup>

million tonnes of copper in ore



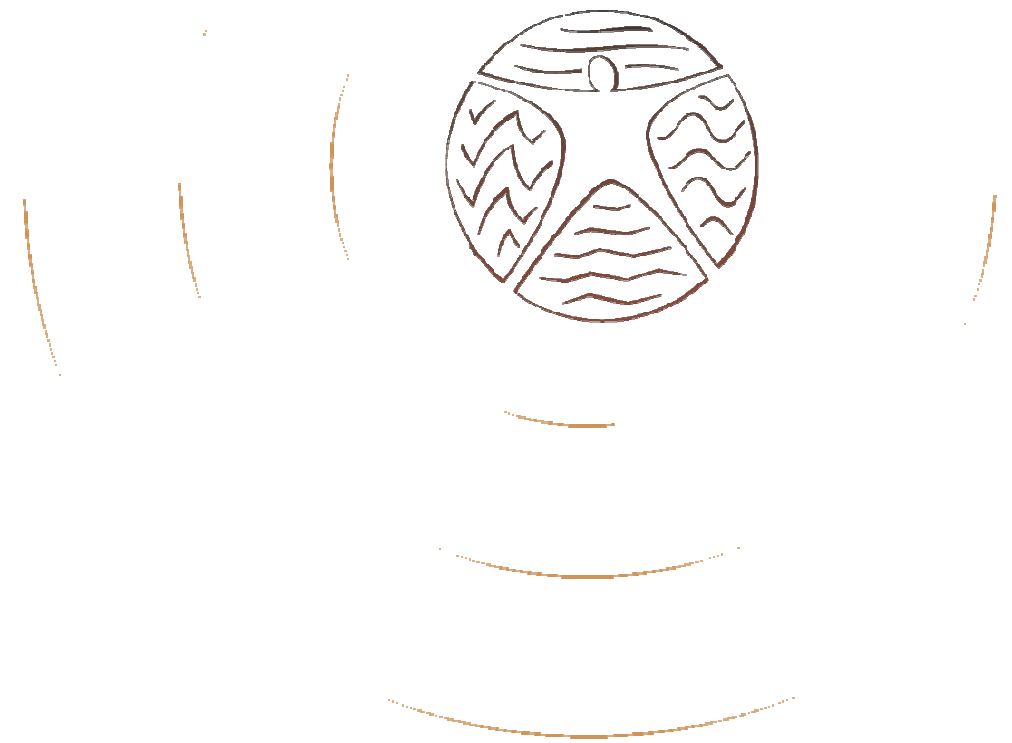
## Copper mine production

thousand tonnes, 2011



<sup>1</sup> Total M&I resources of KGHM and KGHMI (formerly Quadra FNX)

<sup>2</sup> Excluding the Afton-Ajax project, in which KGHM holds an 80% stake in resources amounting to 1.3 Mt Cu



# Consolidated financial results

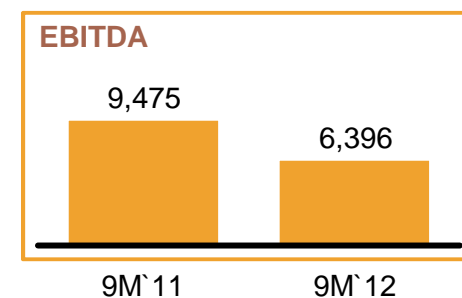
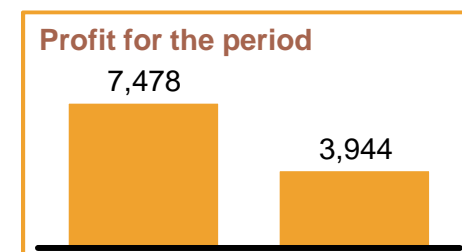
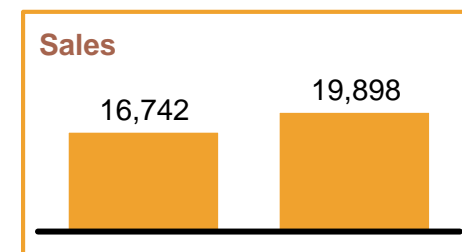


# KGHM Polska Miedź S.A. is the main driver of the Group's results

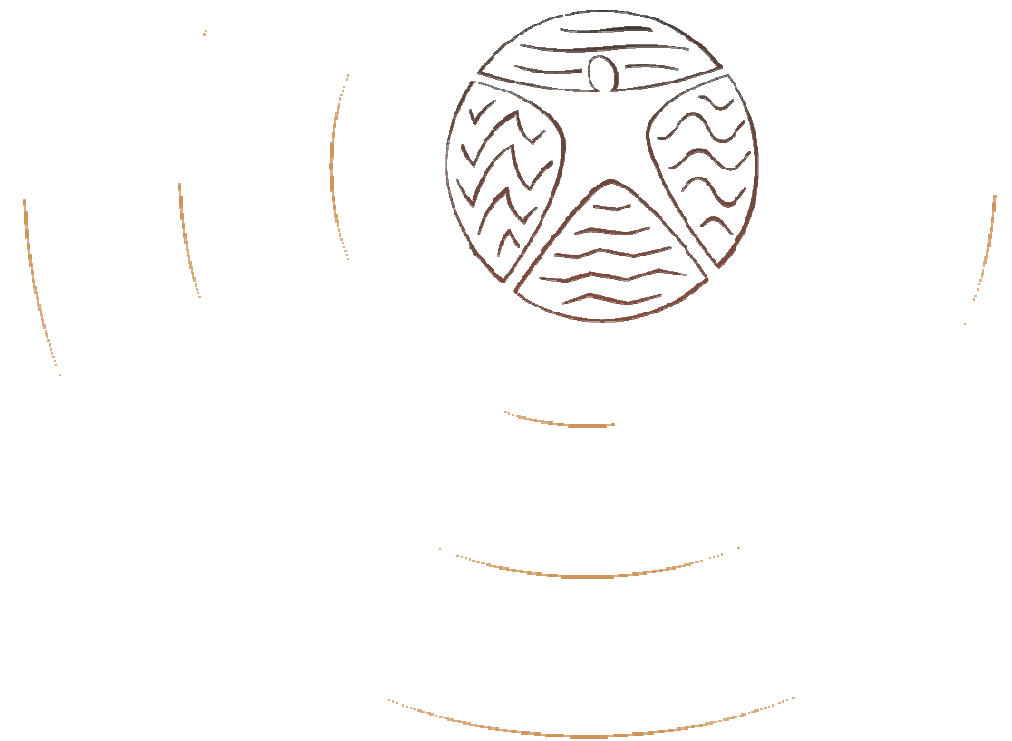
Share of KGHM Polska Miedź S.A. in consolidated results

PLN million

	9M`11	9M`12	KGHM Polska Miedź S.A.	
Sales	16,742	19,898	15,559	78%
Basic operating costs	9,417	14,242	9,861	
Net profit on sales	7,325	5,657	5,698	101%
Result on other operating activities	1,456	(346)	(442)	
Operating profit	8,781	5,311	5,255	99%
Net finance costs	(35)	(119)	(26)	
Share of profits of associates valued using the equity method	188	0	x	
Income tax	1,456	1,248	1,160	
Profit for the period	7,478	3,944	4,070	103%
EBITDA	9,475	6,396	5,840	91%

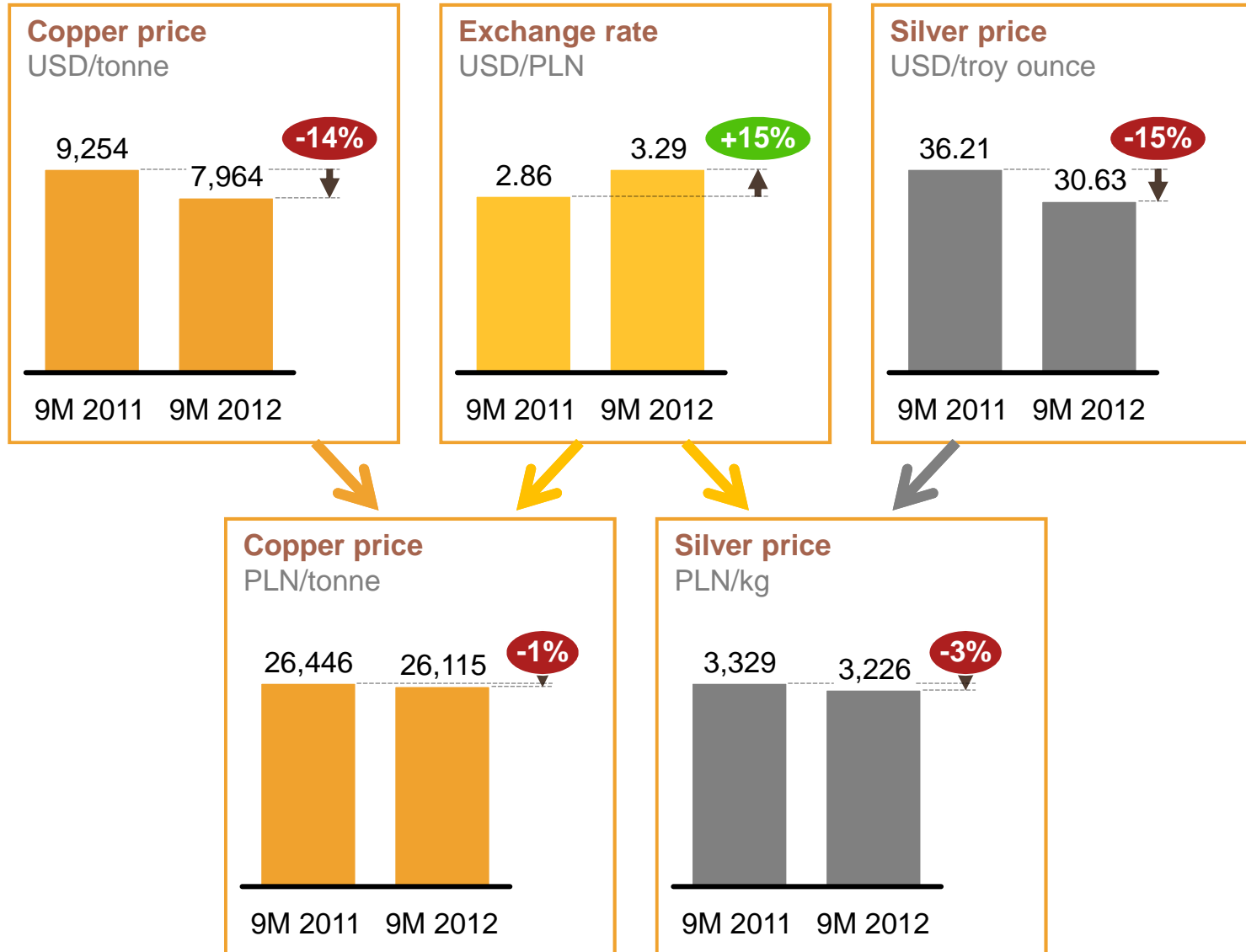


- Currently the results of the Group are generated by KGHM Polska Miedź S.A.
- Executed investments, including KGHM International, will in future determine the results of the Group
- The lower results versus the comparative prior period are mainly due to the change in the results of KGHM Polska Miedź S.A. due to factors discussed later in this presentation



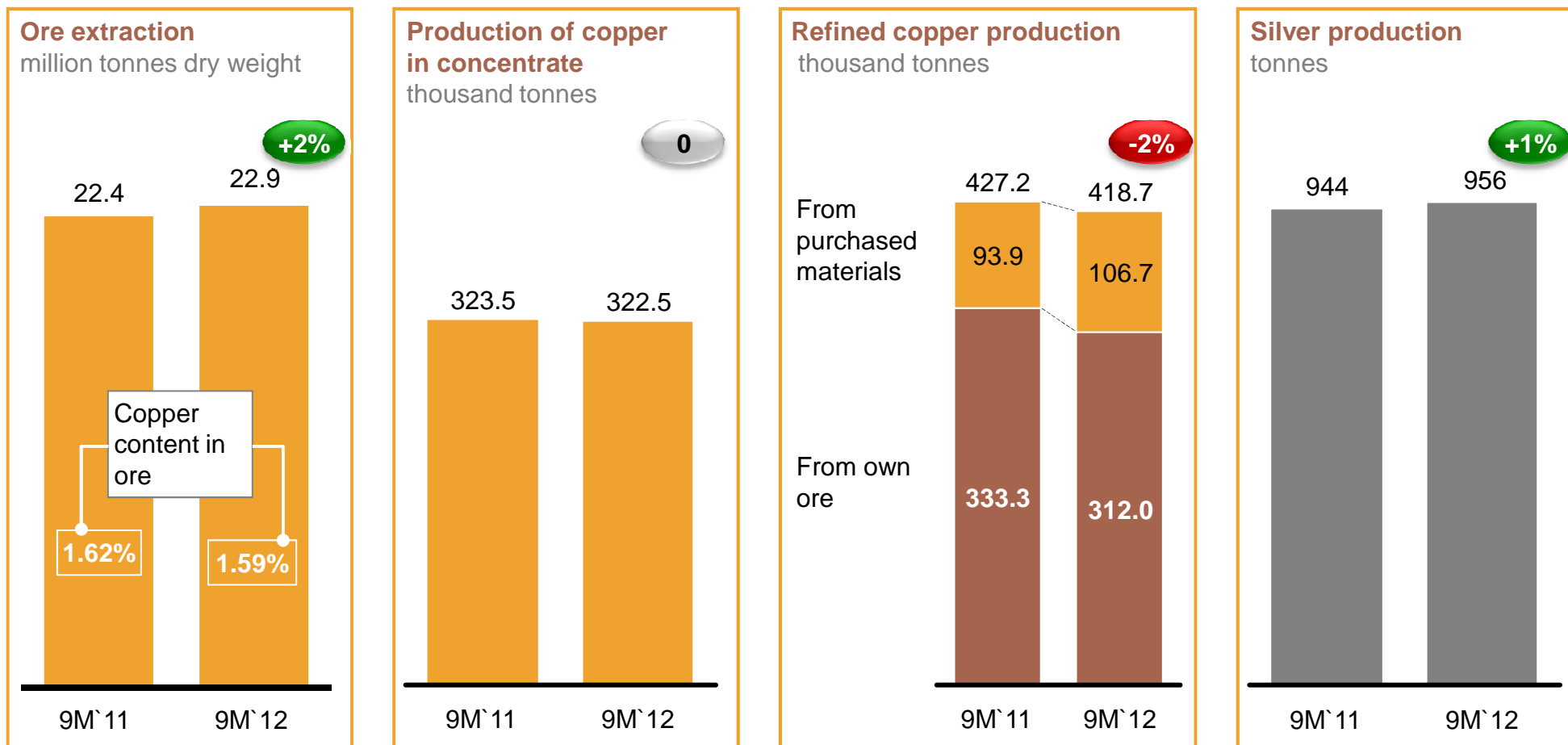
# **Economic results of KGHM Polska Miedź S.A.**

## PLN-expressed metals prices held at a stable level



- Lower metals prices vs the first 9 months of 2011, a higher USD/PLN exchange rate
- Metals prices in line with Budget assumptions
- A better USD/PLN exchange rate than assumed by the Company

## Stable mine production



- 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

## After 9 months the Company achieved its planned profit for 2012

PLN million

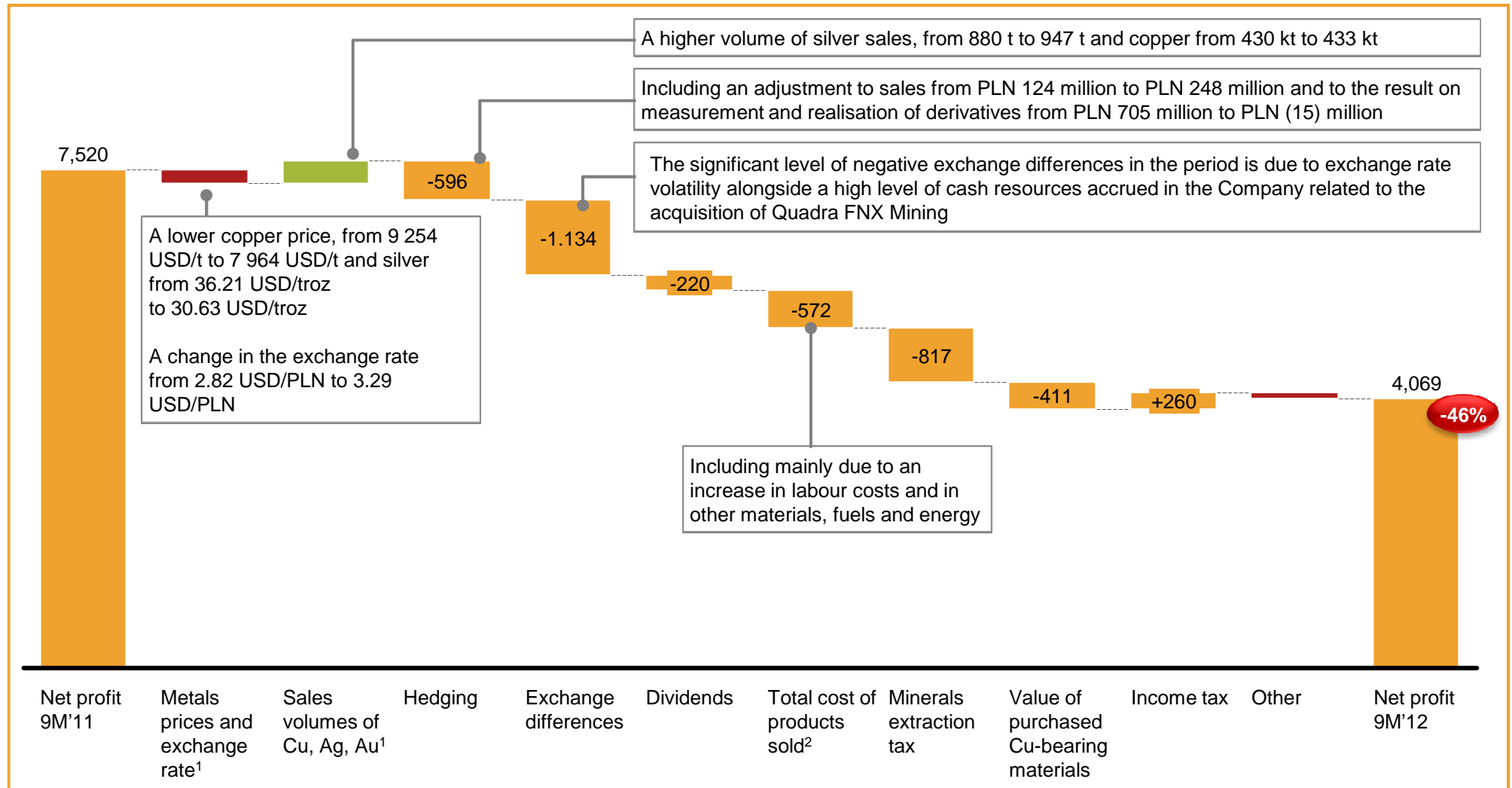
	9M`11	9M`12	Change 9M`11 = 100
<b>Sales</b>	15 245	15 559	102
<b>Operating cost</b>	7 961	9 861	124
• Including the minerals extraction tax	-	817	x
<b>Net profit on sales</b>	<b>7.284</b>	<b>5.698</b>	<b>78</b>
<b>Result on other operating activities</b>	1 682	(442)	x
• Realisation and measurement of derivatives	705	(15)	x
• Exchange differences	597	(537)	x
• Dividend	277	57	21
• Other	102	52	51
<b>Operating profit</b>	<b>8 966</b>	<b>5 255</b>	<b>59</b>
<b>Net finance costs</b>	(25)	(26)	101
<b>Income tax</b>	1 421	1 160	82
<b>Profit for the period</b>	<b>7 520</b>	<b>4 070</b>	<b>54</b>
<b>EBITDA</b>	9 462	5 840	62

The result on other operating activities, after excluding major cost elements not controlled by the Company (the minerals extraction tax and the value of purchased copper-bearing materials) would be at a level only slightly lower than the prior year's result



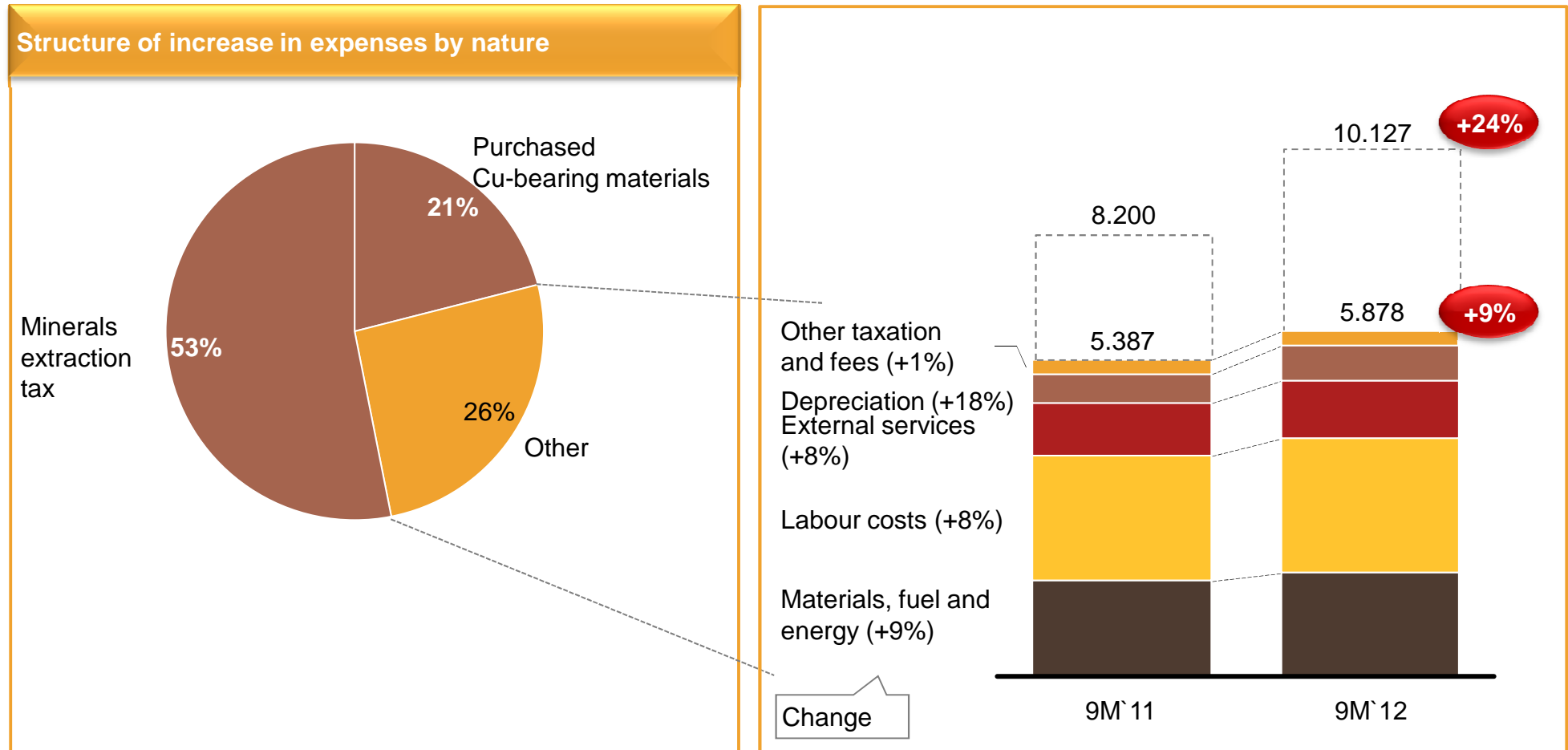
# Profit is lower mainly due to exchange differences and to the introduction of the minerals extraction tax

PLN million



# Expenses by nature, excluding purchased Cu-bearing materials and taxation (+9%)

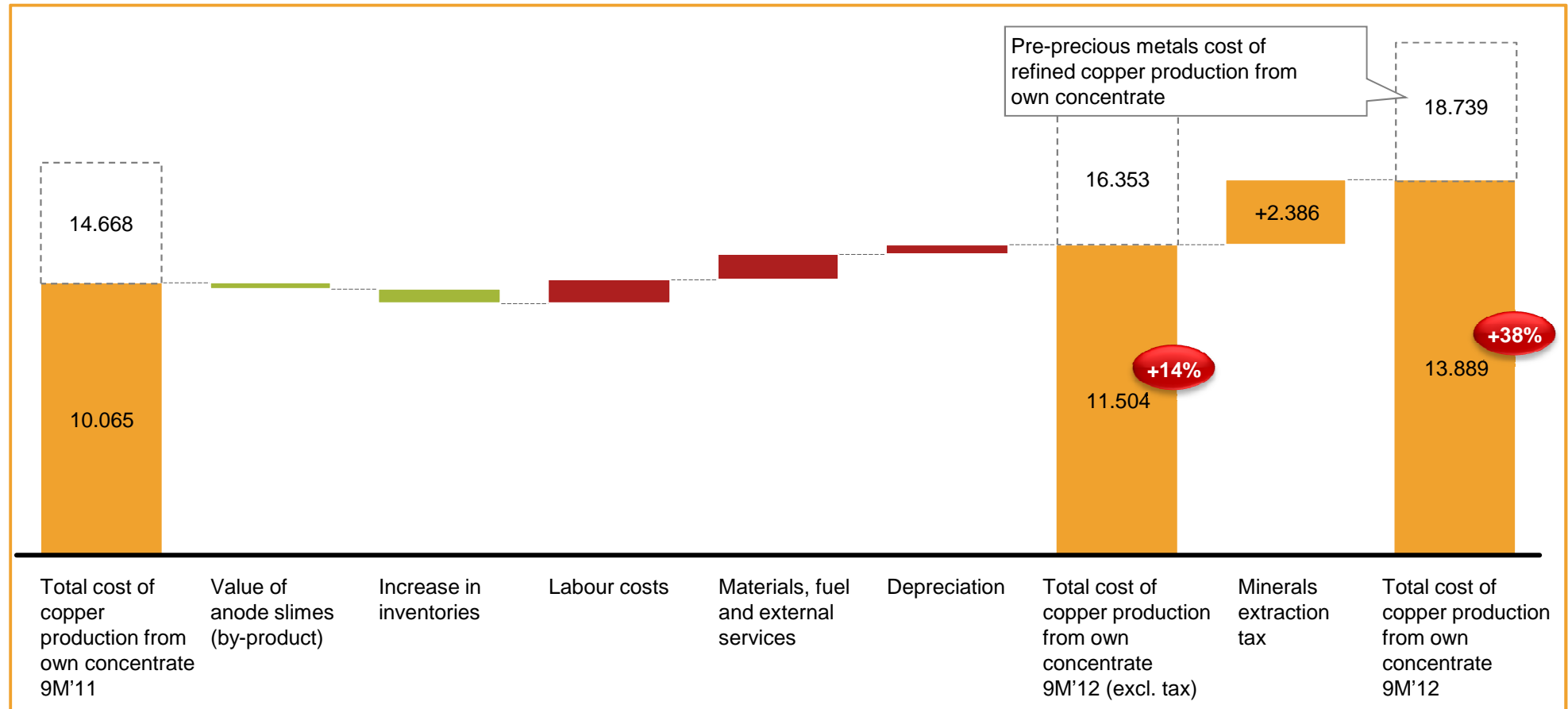
PLN million



- The increase in expenses by nature by 24% is due to the higher value of purchased copper-bearing materials and to the introduction of the minerals extraction tax
- Other costs increased versus the comparative prior period by 9%

# The increase in the total unit cost of copper production from own concentrate is mainly due to the introduction of the minerals extraction tax

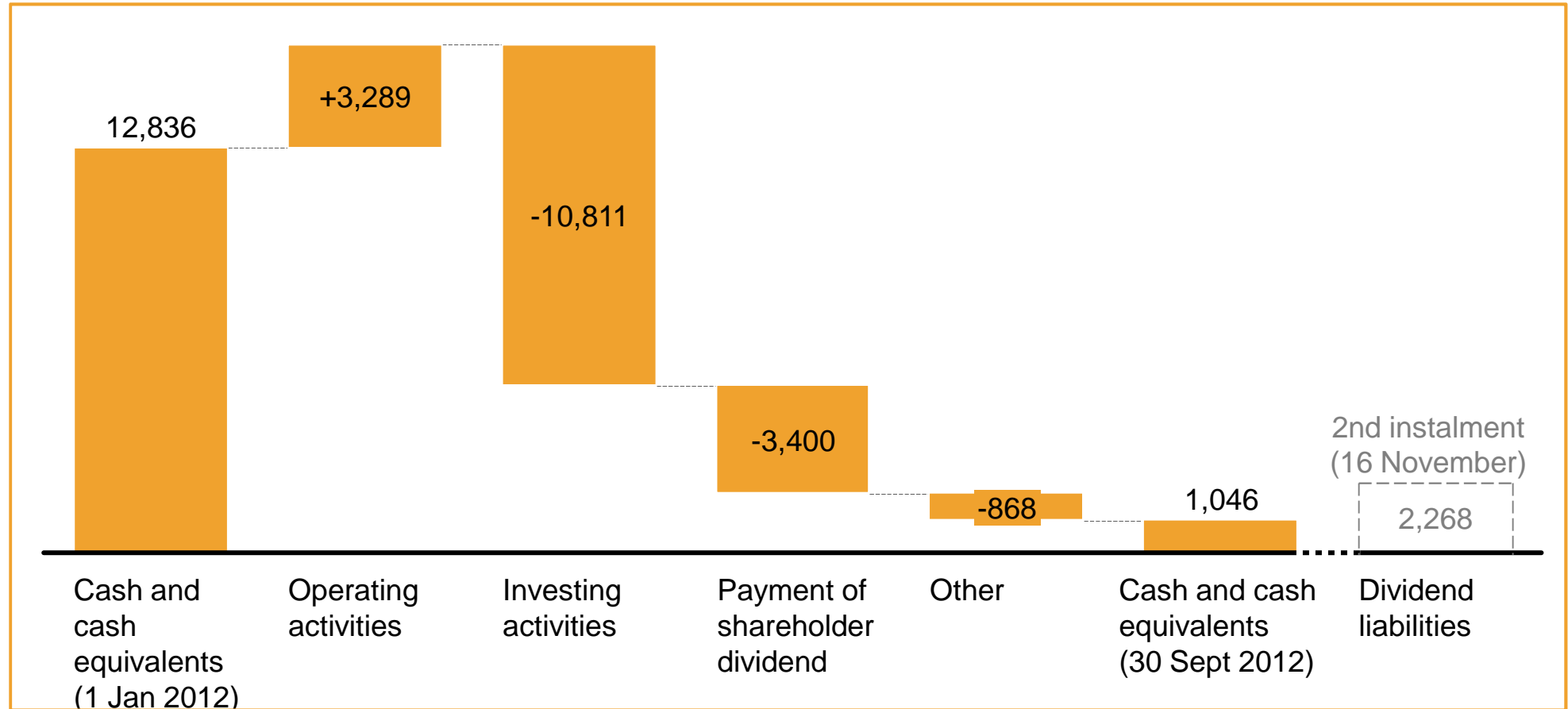
PLN/tonne



- The total cost of copper production from own concentrate versus the prior year is higher by 38%
- After excluding the minerals extraction tax, the increase in the total cost of copper production from own concentrate amounts to 14%
- An additional element increasing costs is the decrease in copper production from own concentrate

## A safe level of cash and cash equivalents despite execution of investments and payment of the 1st dividend instalment

PLN million



During the 9 months ended 30 September 2012 there was a change in cash resources of PLN 11 790 million, mainly due to closure of the acquisition of Quadra FNX and payment of the first instalment on the dividend for 2011

## The favourable financial results for the first 9 months of 2012 led to a higher forecast for 2012

	Forecast from 27.03.2012	Adjusted forecast	Change
<b>Sales</b> PLN million	19,418	20,633	+6%
<b>Profit for the period</b> PLN million	3,804	4,744	+25%
<b>Refined copper production</b> thousand tonnes	562.0	564.2	+0,4%
<b>incl. from purchased Cu-bearing materials</b>	147.3	145.9	-1%
<b>Silver production</b> tonnes	1,098	1,199	+9%
<b>Average annual copper price</b> USD/tonne	8,000	7,850	-2%
<b>Average annual silver price</b> USD/troz	30.00	30.50	+2%
<b>Exchange rate</b> USD/PLN	3.09	3.28	+6%
<b>Total unit cost of electrolytic copper production from own concentrate</b> PLN/tonne	15,729	15,077	-4%
<b>Capital expenditures</b> PLN million	2,100	1,930	-8%
<b>Equity investments</b> PLN million	10,671	9,833	-8%

An increase in forecast profit for 2012 by 25%

- An increase in the assumed net profit by 25% with sales higher by 6%
- An increase in the volume of silver sales due to an increase in silver content in ore
- Higher prices due to a more favourable USD/PLN exchange rate alongside slightly lower metals prices
- A decrease in investments due to a change in the execution schedule
- Due to high volatility in macroeconomic conditions, the value of financial assets may be subject to substantial change and therefore may impact profit for the period



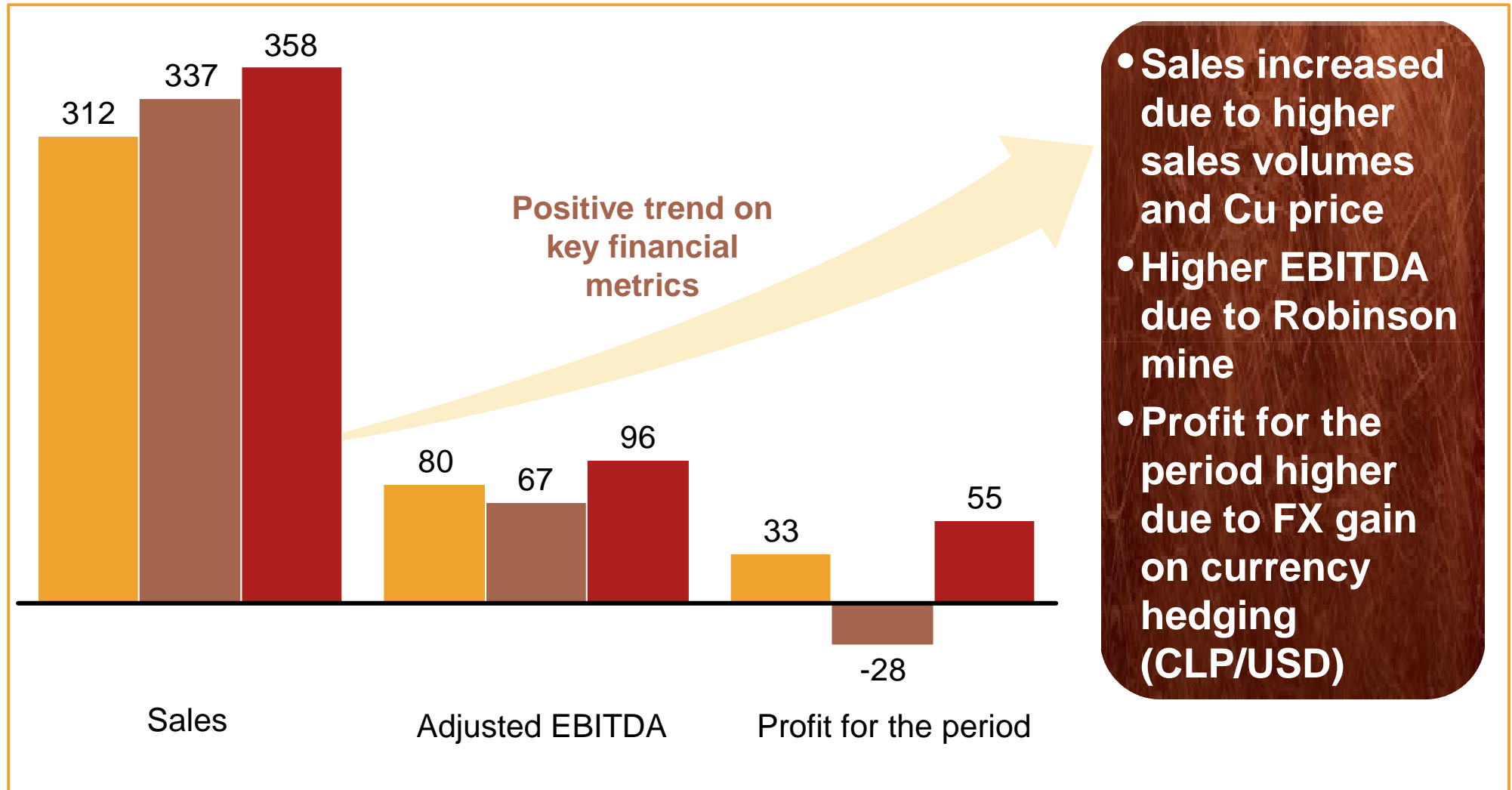


## **Economic results of KGHM International**

# Financial results of KGHM International

USD million

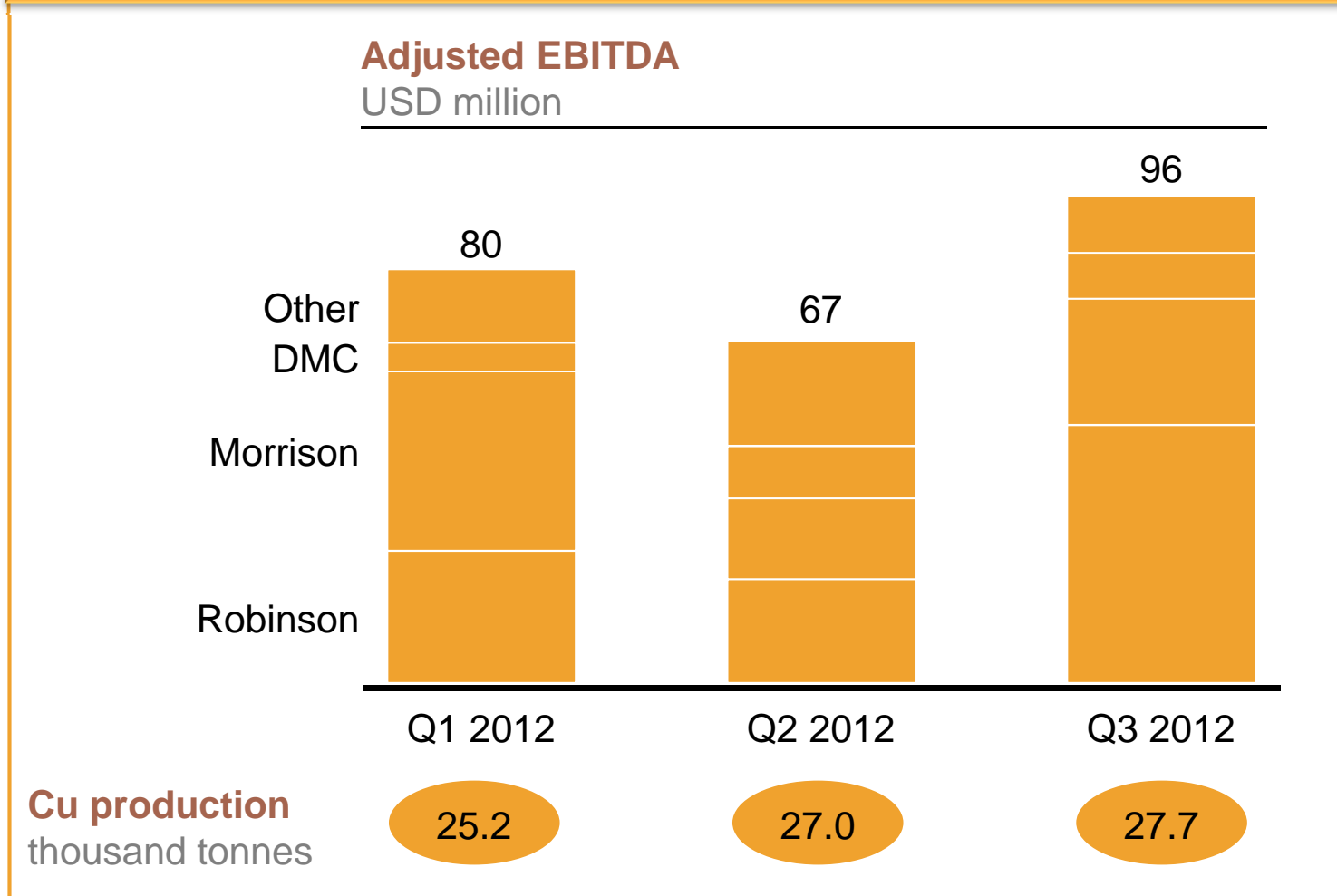
■ Q1 2012  
■ Q2 2012  
■ Q3 2012



NOTE: Adjusted EBITDA is a non-IFRS measures 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. Management believes that these measures provide investors with ability to better evaluate underlying performance.

## Higher production and EBITDA in KGHM International

Robinson and Morrison are the main contributors to production and EBITDA in KGHM International



## Key KGHM International Operations

### Outlook

#### Robinson



- Sales increased as a result of reducing concentrate inventory levels
- Mining rates and productivity improvements have commenced
- Ruth wall stable during the quarter

- Transition to Ruth 2nd West part of the pit with expected better concentrate grade and recoveries

#### Morrison



- Higher production and grades
- Improving backfill systems and mine development
- Craig hoist issues resolved in Sept 2012

- Expected continued improvements in backfill operation and mine productivity in Q4

# KGHM International's Growth Pipeline

## Sierra Gorda

- Scheduled for production in 2014
- ~3000 people on site and project expenditure of \$ 1.1B to end of Q3 (KGHMI funded \$ 0.28B)
- Detailed engineering is now 75% complete
- Key activities:
  - Plant foundations
  - Pre-stripping and electrical power hook-up to maximize performance of mobile fleet
  - Fabrication of critical path equipment
  - Completion of camp, truck shop and procurement of steel for sea water pipeline
- Record 5.2 M hours without Loss Time Incident
- Optimization of the Moly circuit

## Sierra Gorda – Oxides

- Undergoing evaluation of test heap leach
- Re-evaluation of capital costs

## Plant Earthworks



## Truck shop



## Flotation Assembly



## Seawater pipeline





## KGHM International's Growth Pipeline

### Ajax

- KGHMI officially become the operator of the Ajax Project in September 2012
- Currently undertaking an optimization review of the project development plan

### Victoria

- Engineering studies continued with mining contractor DMC
- Assessing the potential for a more capital efficient development plan using a single shaft approach
- Ongoing discussions with Vale and First nations

### Global exploration

- Reviewing existing portfolio & exploration strategy
- Expanding global exploration efforts in 2013





