



**KGHM**  
POLSKA MIEDŹ S.A.

## **Budget for 2009 and Company results in 2008**

*February 2009*



# Budget for 2009

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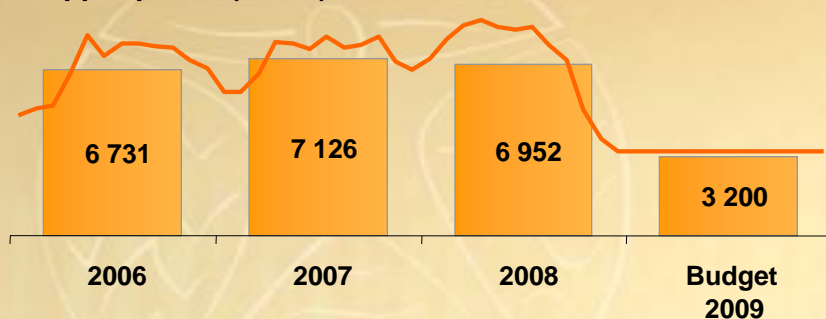
- ***Business goals***
- ***Macroeconomic assumptions***
- ***Production plan assumptions***
- ***Investment plans***
- ***Budget forecast for 2009***

# Business goals

<b>BUSINESS GOAL</b>	<b>BUDGET 2009</b>
<b>Realisation of Company Strategy</b>	<b>1. Ensure resources to realise strategic projects in a weak copper market</b>
<b>Core Business Productivity</b>	<b>2. Realisation of operating activities whose goal is to maintain liquidity and profitability</b> <b>3. Maintain the level of the unit copper production cost from internal charges at that of 2008 (given increases in energy costs and decreases in production)</b> <b>4. Maintain the scale of preparatory mining work</b> <b>5. Expenditures on tangible investments</b>
<b>Diversification</b>	<b>6. Expenditures on equity investments</b> <b>Purchase of foreign mining assets</b> <b>Investments in power generation</b>

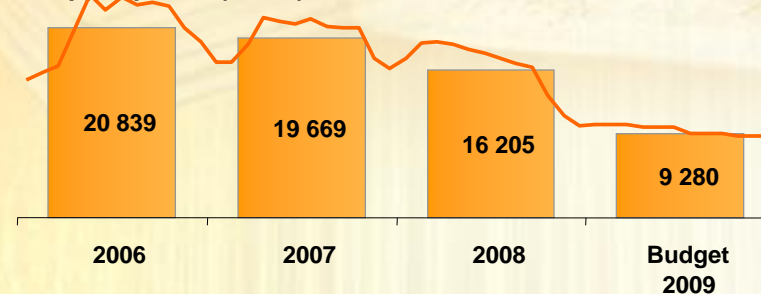
# Macroeconomic assumptions

Copper prices (USD/t)



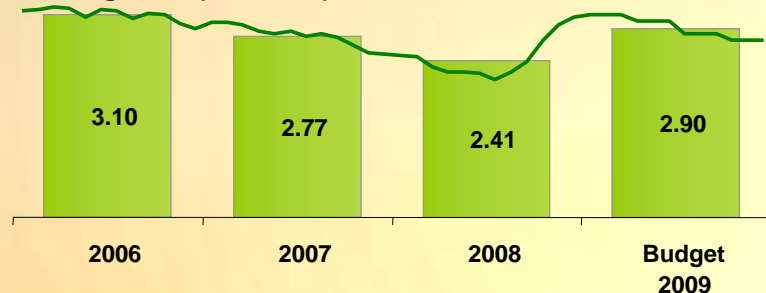
- Continuation of crisis on copper market in 2009

Copper prices (PLN/t)



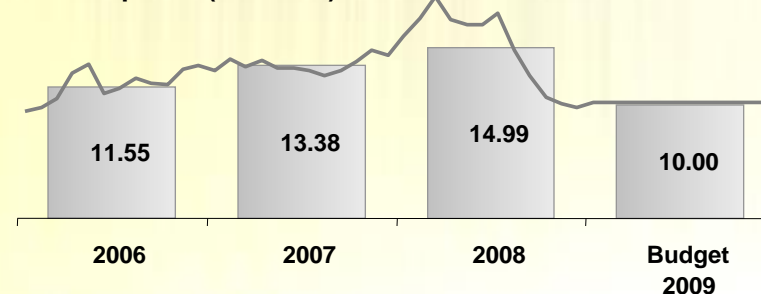
- The negative impact of low copper prices might be partially offset by depreciation of the PLN

Exchange rate (USD/PLN)



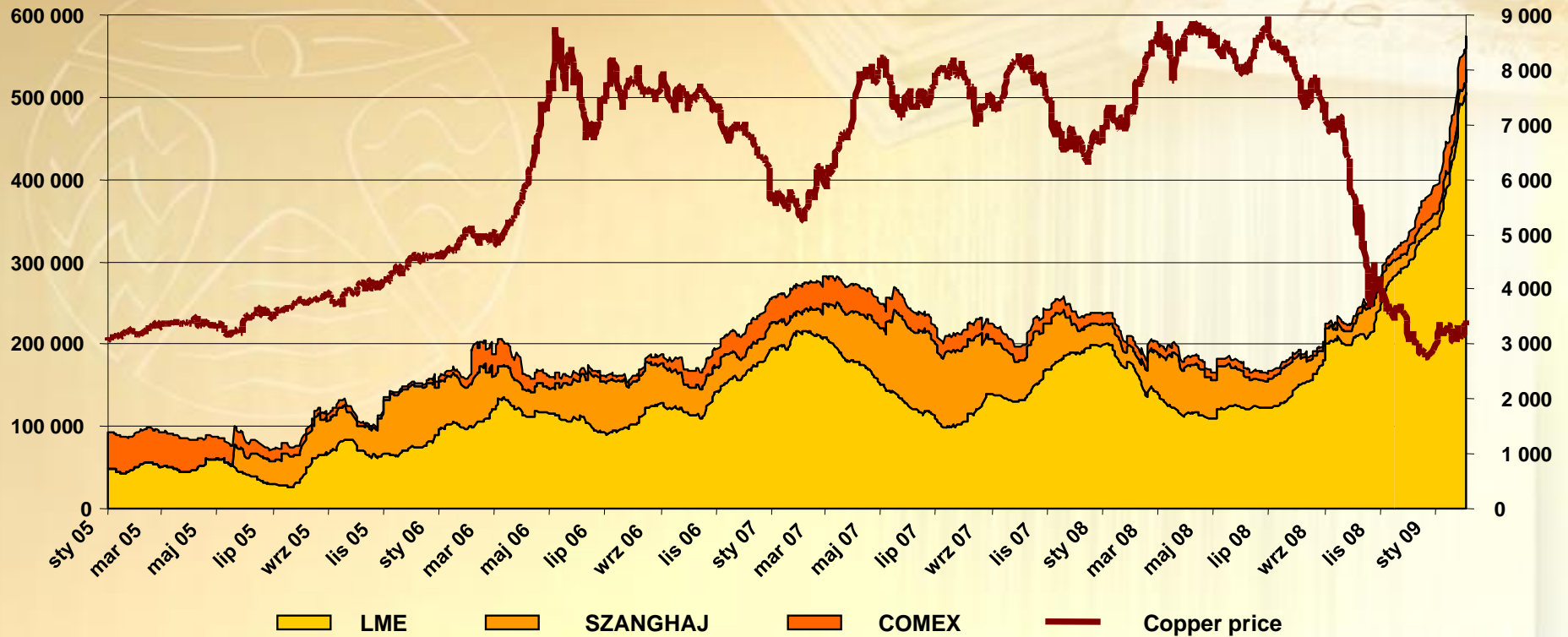
- The global downturn and increased risk aversion cause weakening of emerging market currencies, including the PLN

Silver prices (USD/troz)



- As on the copper market, silver prices remain at a lower level than in prior years

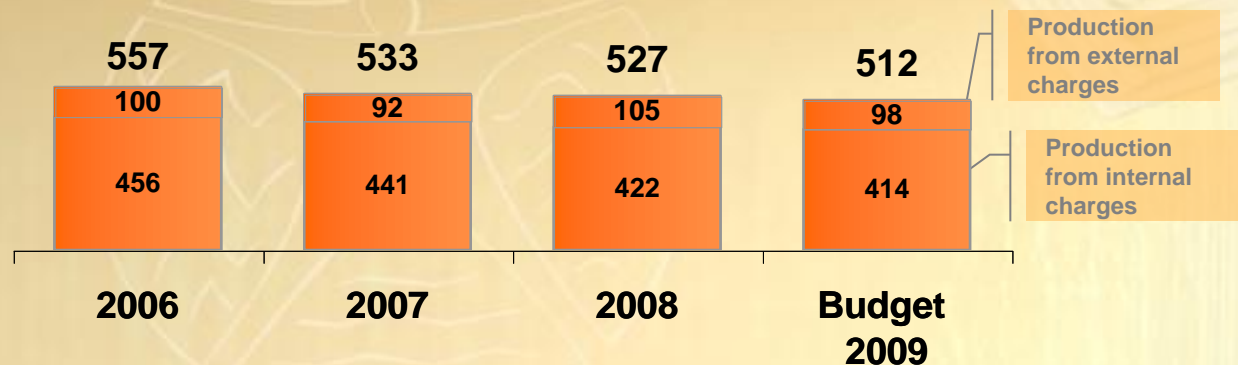
# Copper market



- The highest level of copper inventories in five years is reflected in copper prices
- The clear slowdown in Chinese demand and the fall in demand for copper in other regions suggest a clear increase in world inventories
- The surplus in the copper market may be partially decreased by the production cutbacks announced by copper producers

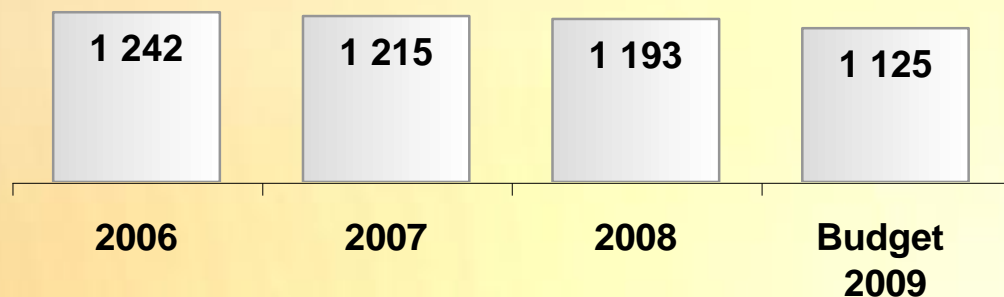
# Production plan

## Electrolytic copper ('000 t)



➤ **Production decreased by 2.8% (14.5 '000 t)**

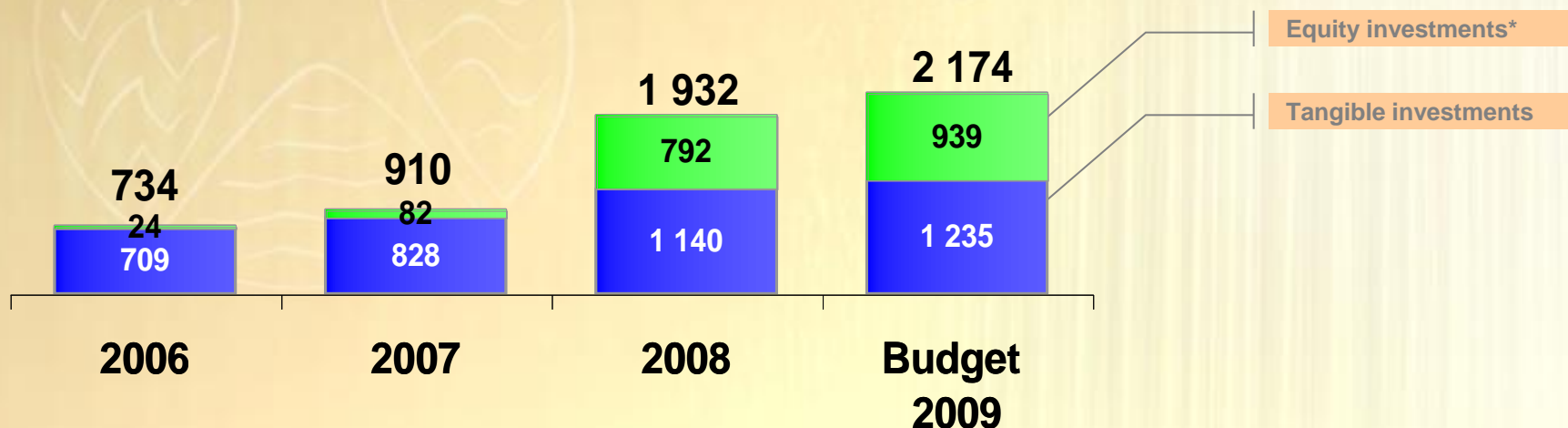
## Metallic silver (t)



➤ **Metallic silver production decreased by 5.7% (68 t)**

# Investment expenditures (mln PLN)

## Tangible and equity investments



**By realising the tangible investment plan, the Company will achieve the following goals:**

- Production effects in the form of replacing worn assets and long-term continuation of production from domestic resources (technical infrastructure in new mining regions)
- Improved productivity through realisation of projects leading to lower core business costs
- Additional revenues from new production



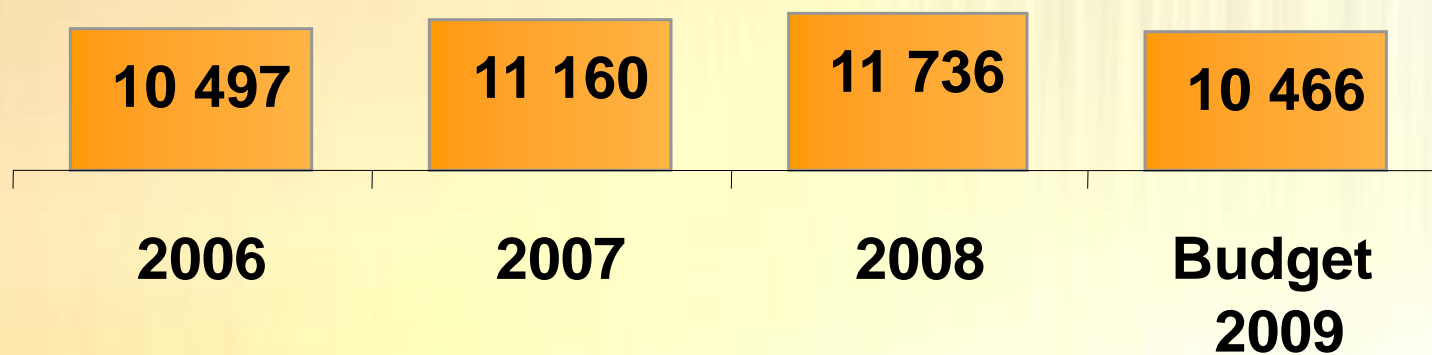


## Budget forecasts for 2009

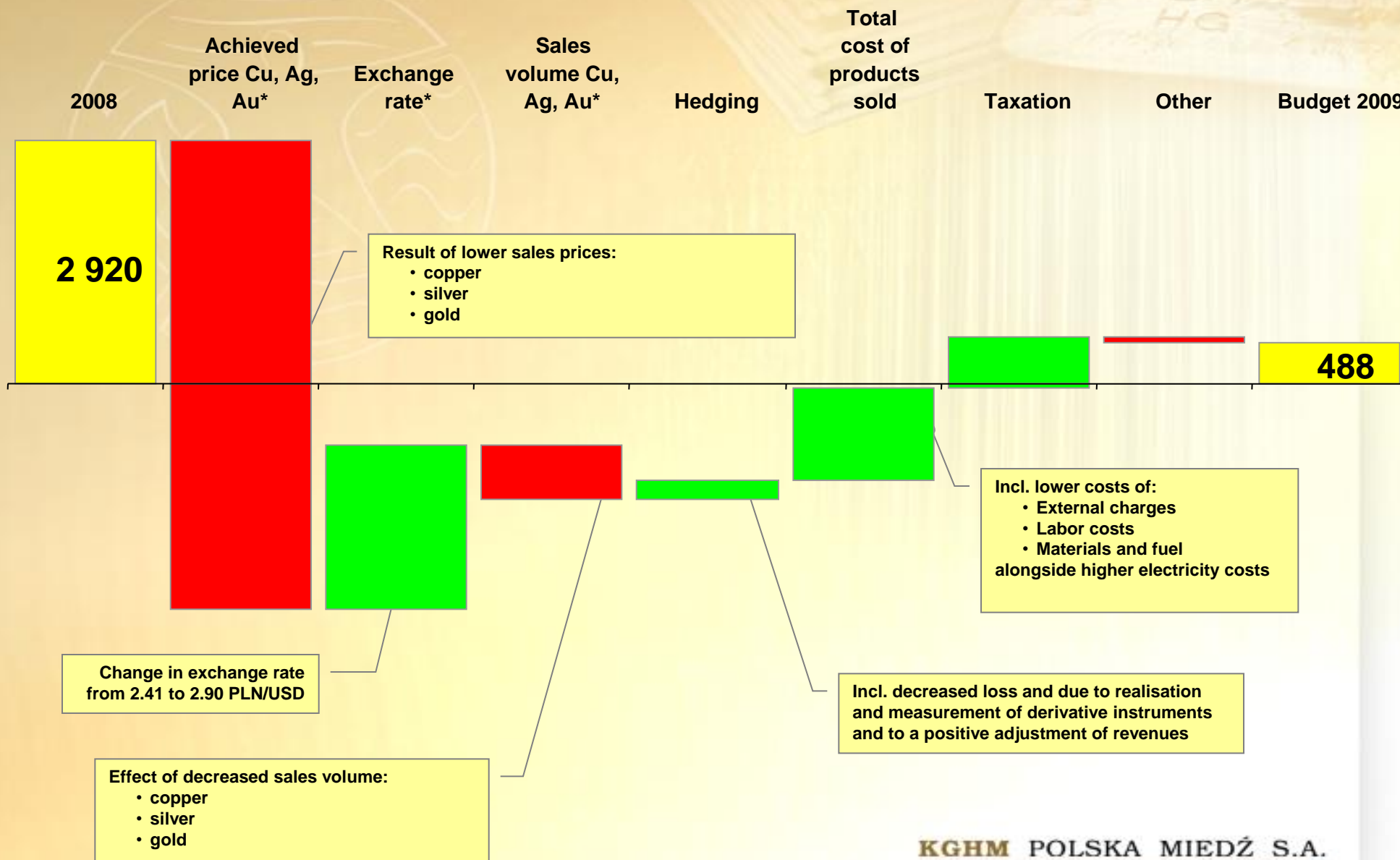
# ***Financial forecasts - agenda***

- ***Unit costs***
- ***Financial results***
- ***Sensitivity***
- ***Basic economic indicators***
- ***Proposed profit distribution***

## Unit cost - total

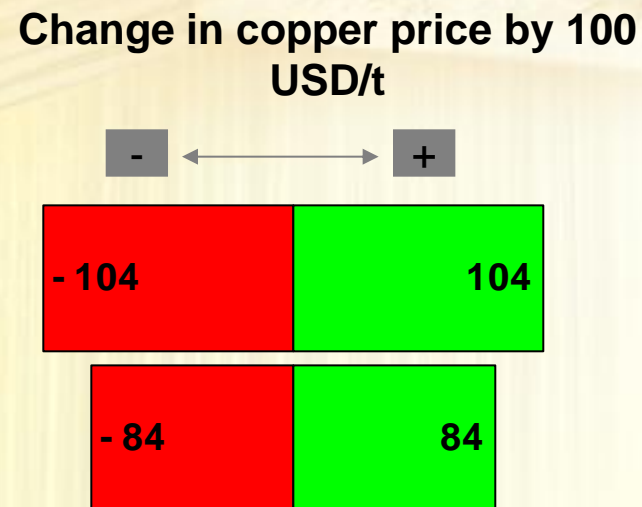
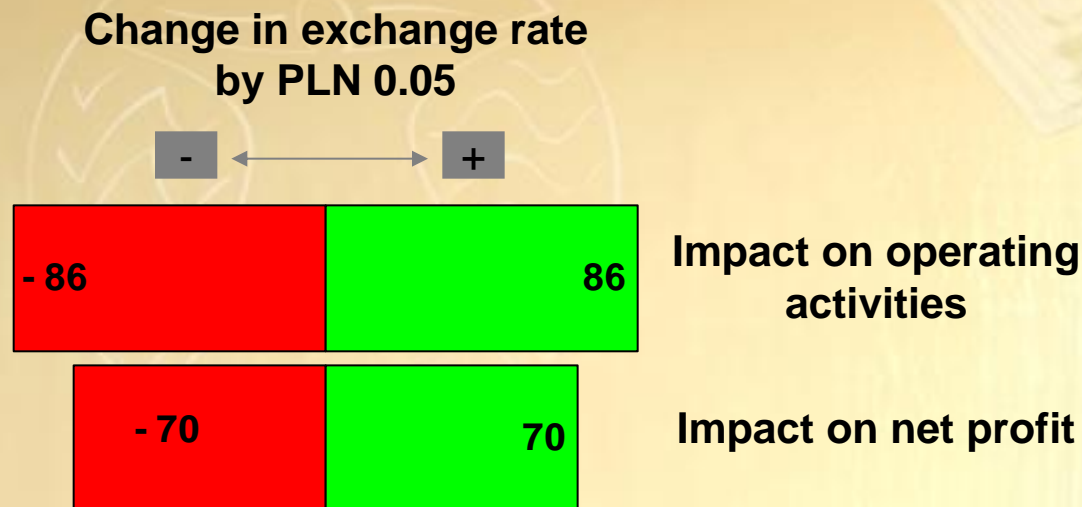


# Change in financial result (m PLN)



\* Impact on revenues

# Sensitivity (m PLN)



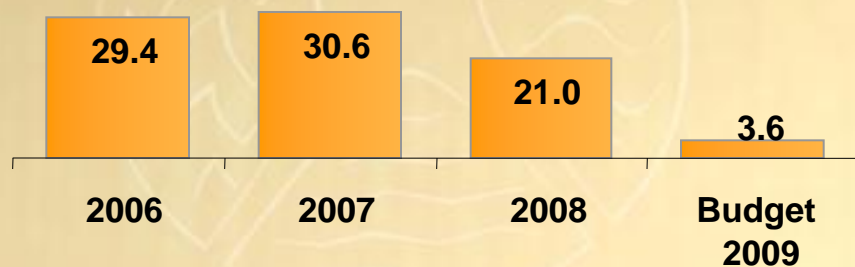
## Sensitivity analysis includes:

- changes in the sales value of Company products,
- changes in the adjustment of operating revenues due to transactions hedging Cu, Ag prices and exchange rate
- change in the value of external copper scrap, copper concentrate and blister copper
- changes in gains/losses from the sale of investments (hedging transactions) in other operating income/costs

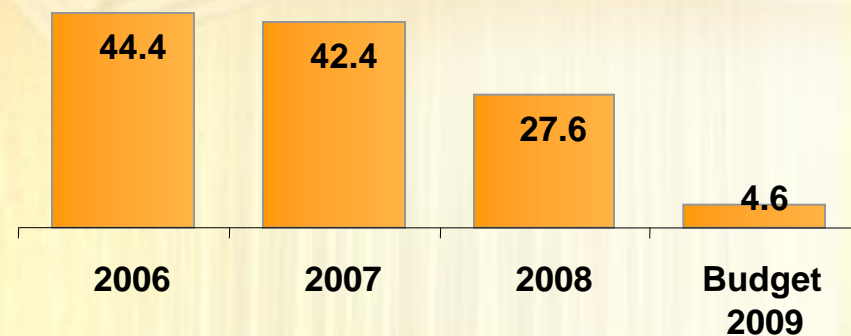
Due to the use of options, it cannot be assumed that changes in results related to changes in prices and exchange rates will be a linear function

# Basic economic indicators

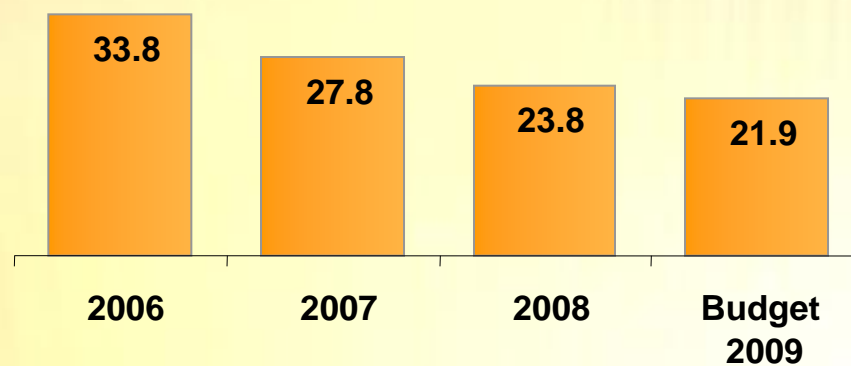
ROA (%)



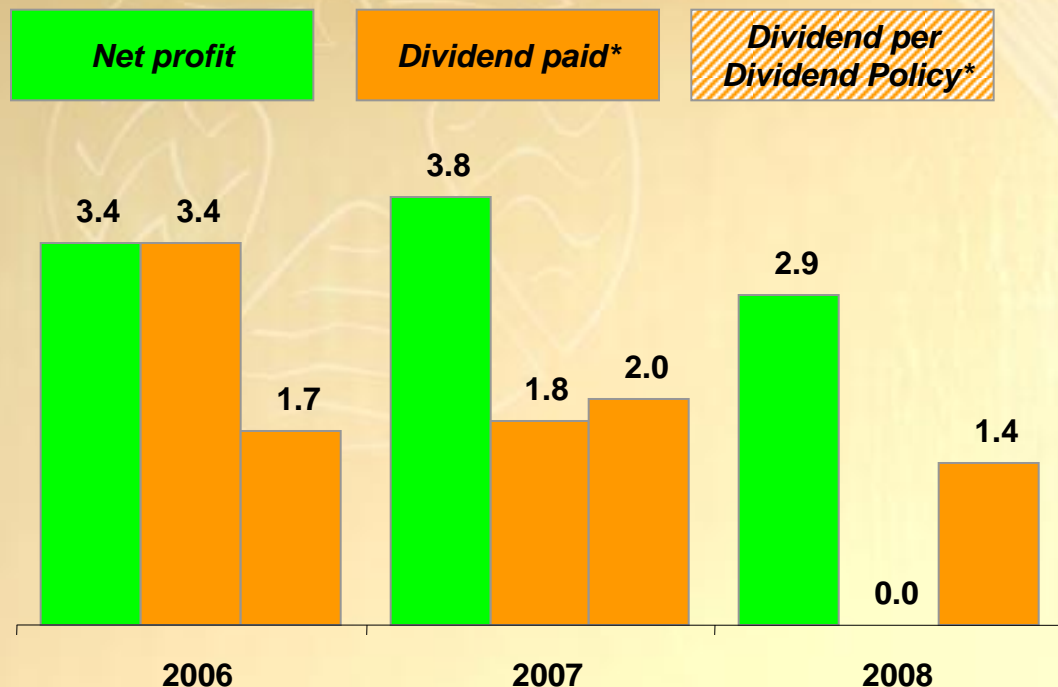
ROE (%)



Debt ratio (%)



# Proposed profit distribution (b PLN)



- For the years 2006-2007 the Company paid a total of PLN 5.2 billion PLN
- According to the Dividend Policy the dividend paid during this period should have been PLN 3.7 billion
- The difference between the actual dividend paid and the theoretical amount per the Dividend Policy is PLN 1.5 billion

**The Management Board recommends that profit for 2008 be used to finance the primary investment program**

\* Dividend for financial year – paid in subsequent year



# Company results in 2008



- **Consolidated financial result for 2008**
- **Macroeconomic conditions**
- **Production results**
- **Financial results**
- **Market risk management**
- **Unit cost**
- **Realisation of 2008 Budget**
- **Realisation of investment plan**
- **Cash flow**

# Consolidated financial result for 2008 (m PLN)

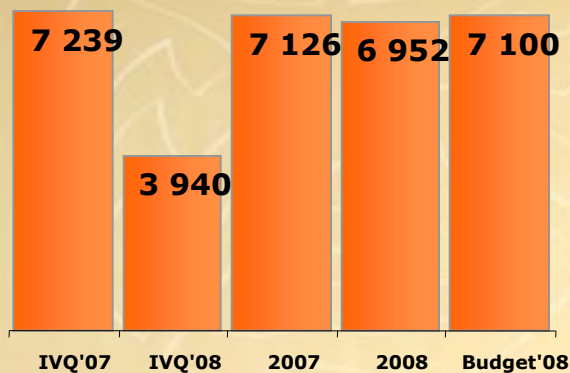
	Consolidated results		Parent results	
	2007	2008	2008	
<b>Sales</b>	13 494	12 655	11 303	89%
<b>Operating costs</b>	8 526	9 493	7 911	
<b>Net profit on sales</b>	4 968	3 162	3 392	
<b>Result of other operating activities</b>	(441)	25	204	
<b>Operating profit</b>	4 527	3 186	3 596	113%
<b>Net financing cost</b>	(35)	(57)	(43)	
<b>Share in profits of associates valued by the equity method</b>	265	268	x	
<b>Profit before tax</b>	4 757	3 396	3 554	
<b>Taxation</b>	821	631	633	
<b>Profit for the period</b>	3 936	2 766	2 920	106%
<i>EBITDA</i>	5 124	3 868	4 078	105%

Share of Parent in consolidated results

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# Macroeconomic conditions

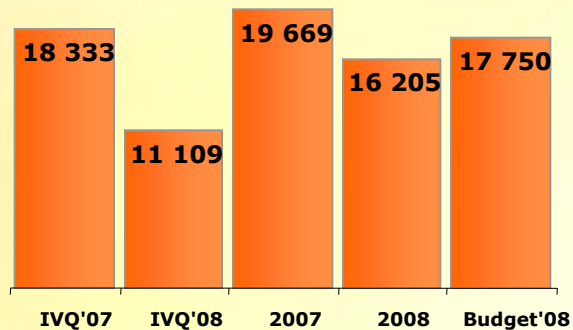
**Copper price**  
USD/t



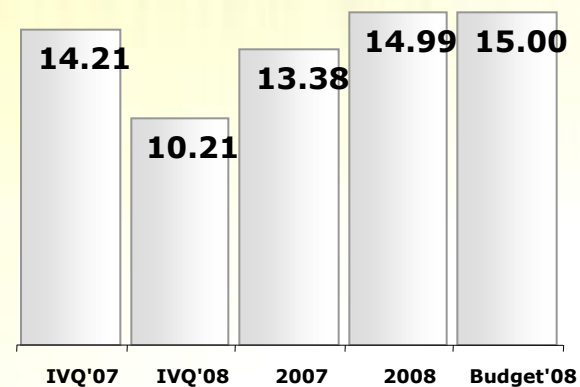
**Exchange rate**  
USD/PLN



**Copper price**  
PLN/t

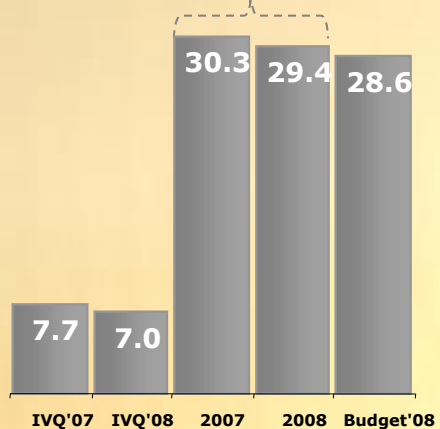


**Silver price**  
USD/troz

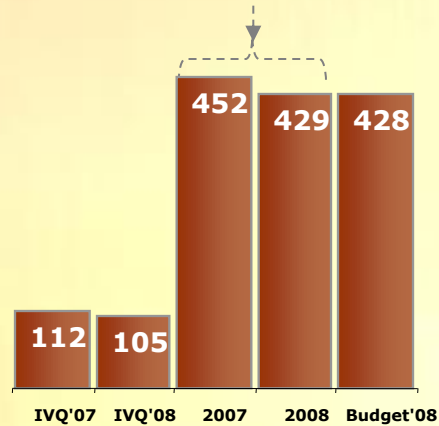


# Production results

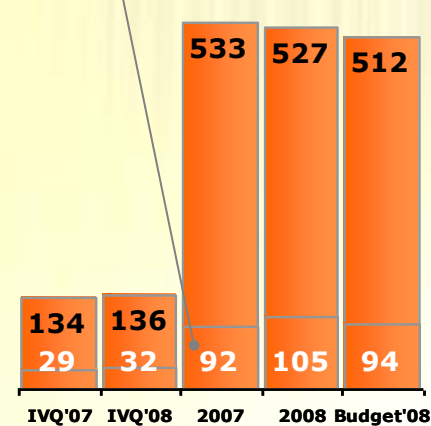
**Ore extraction  
(m t d.w.)**



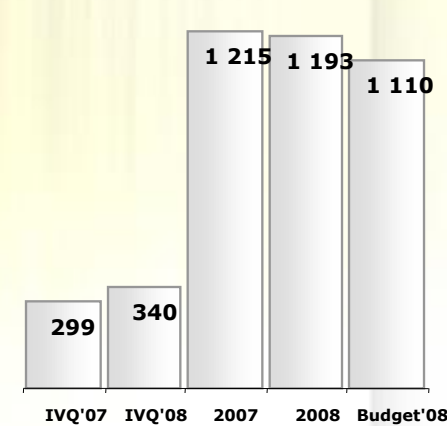
**Copper production  
in concentrate  
(`000 t)**



**Electrolytic copper  
production  
(`000 t)**



**Metallic silver  
production  
(t)**



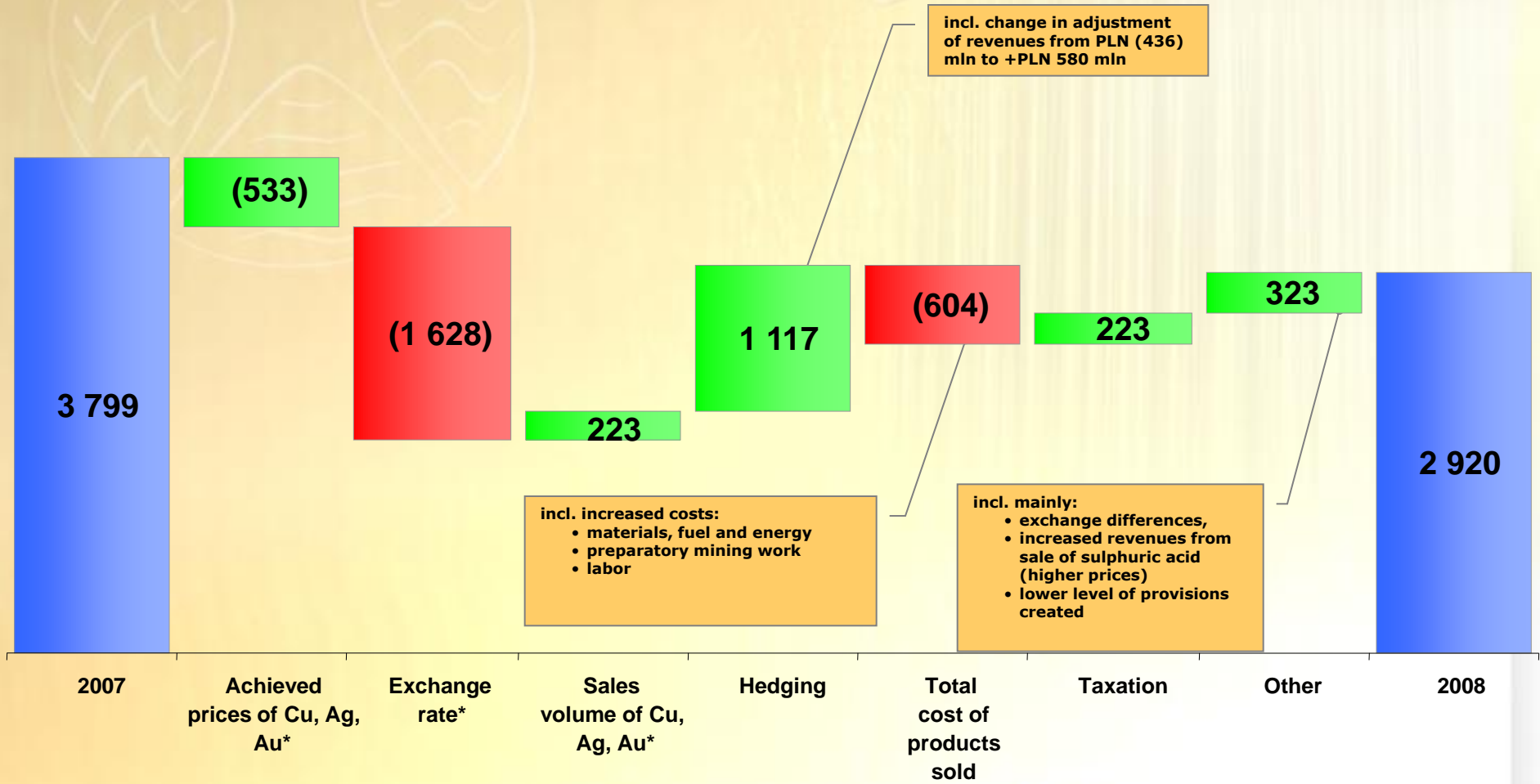
Decrease in copper content in ore from 1.67% to 1.64%

# Financial results (m PLN)

	IVQ'07	IVQ'08	2007	2008	Budget 2008
<b>Sales</b>	2 912	2 552	12 183	11 303	11 193
<i>incl. adjustment of revenues due to hedging transactions</i>	115	569	-436	580	9
<b>Operating costs</b>	1 879	2 117	7 303	7 911	7 816
<b>Net profit on sales</b>	1 033	435	4 880	3 392	3 376
<b>Result of other operating activities</b>	(47)	71	(198)	204	205
<b>Operating profit</b>	987	506	4 682	3 596	3 582
<b>Result on financing activities</b>	(6)	(14)	(27)	(43)	(27)
<b>Profit before tax</b>	980	492	4 656	3 554	3 555
<b>Taxation</b>	188	104	857	633	651
<b>Profit for the period</b>	792	388	3 799	2 920	2 904
<i>EBITDA</i>	1 095	638	5 101	4 078	4 077

# Financial results (m PLN)

**Profit for the period lower by PLN 879 m than in 2007**



\* Impact on sales

# Market risk management

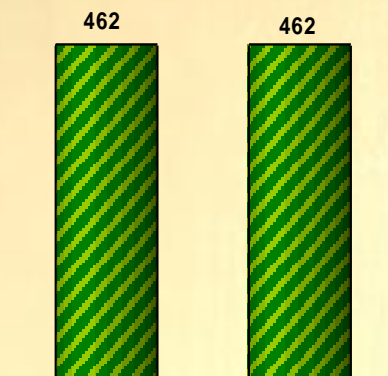
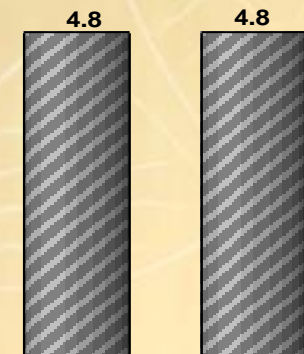
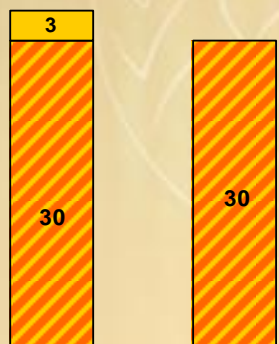
## Hedging by segment

(at 31 December 2008)

Cu ('000 t)

Ag (mln troz)

USD (mln)



Bought put options 6 200\*

Options cost structure:

bought put options 7 300\*

sold call options 9 000\*

\*avg. USD/t strike price

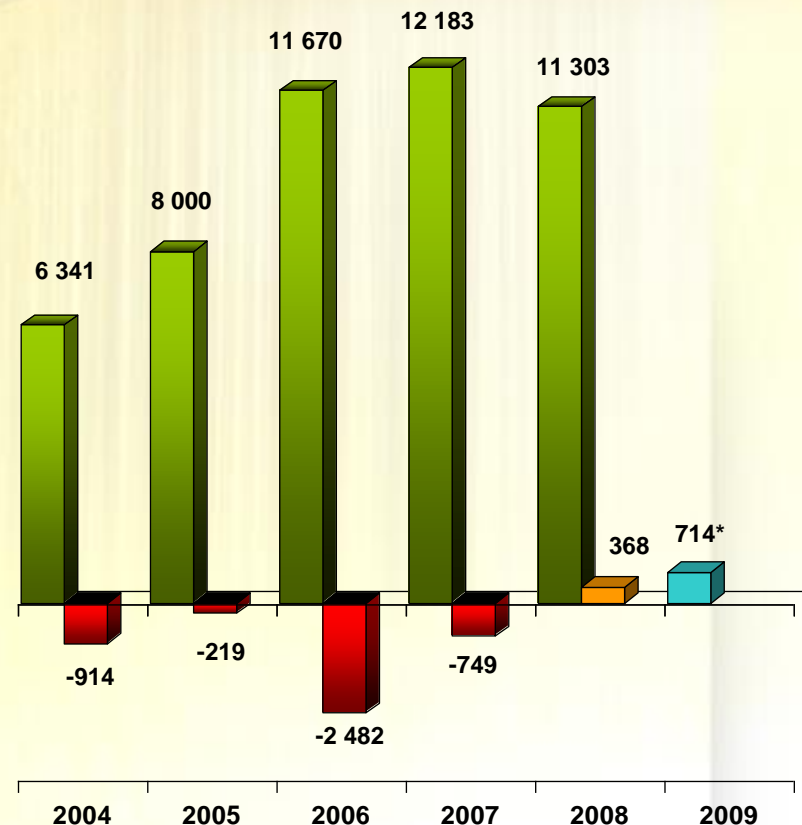
Bought put options 12.0\*

\*avg. USD/troz strike price

Bought put options:

average weighted hedge:  
2.43 USD/PLN

## Results on hedging transactions and Company revenues (mln PLN)

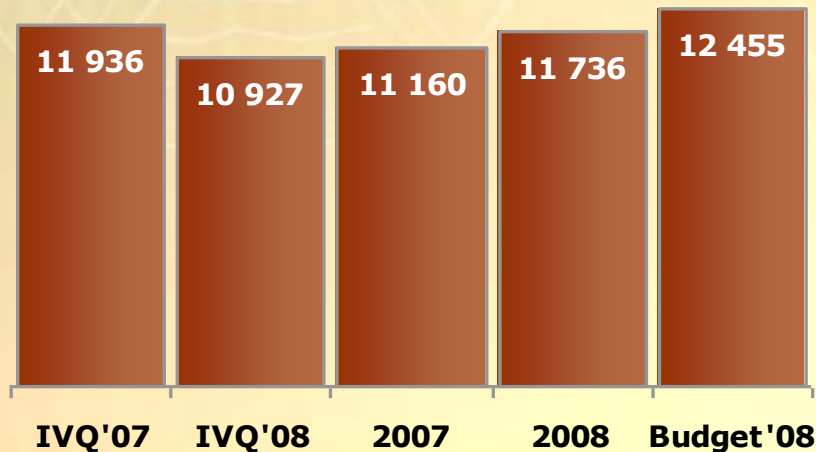


\* fair value of open derivative positions at 31 December 2008

In Q4 2008 the result on derivatives was PLN 444 m.

The measurement of open derivative positions amounts to PLN 714 m.

# Electrolytic copper unit production cost (PLN/t)

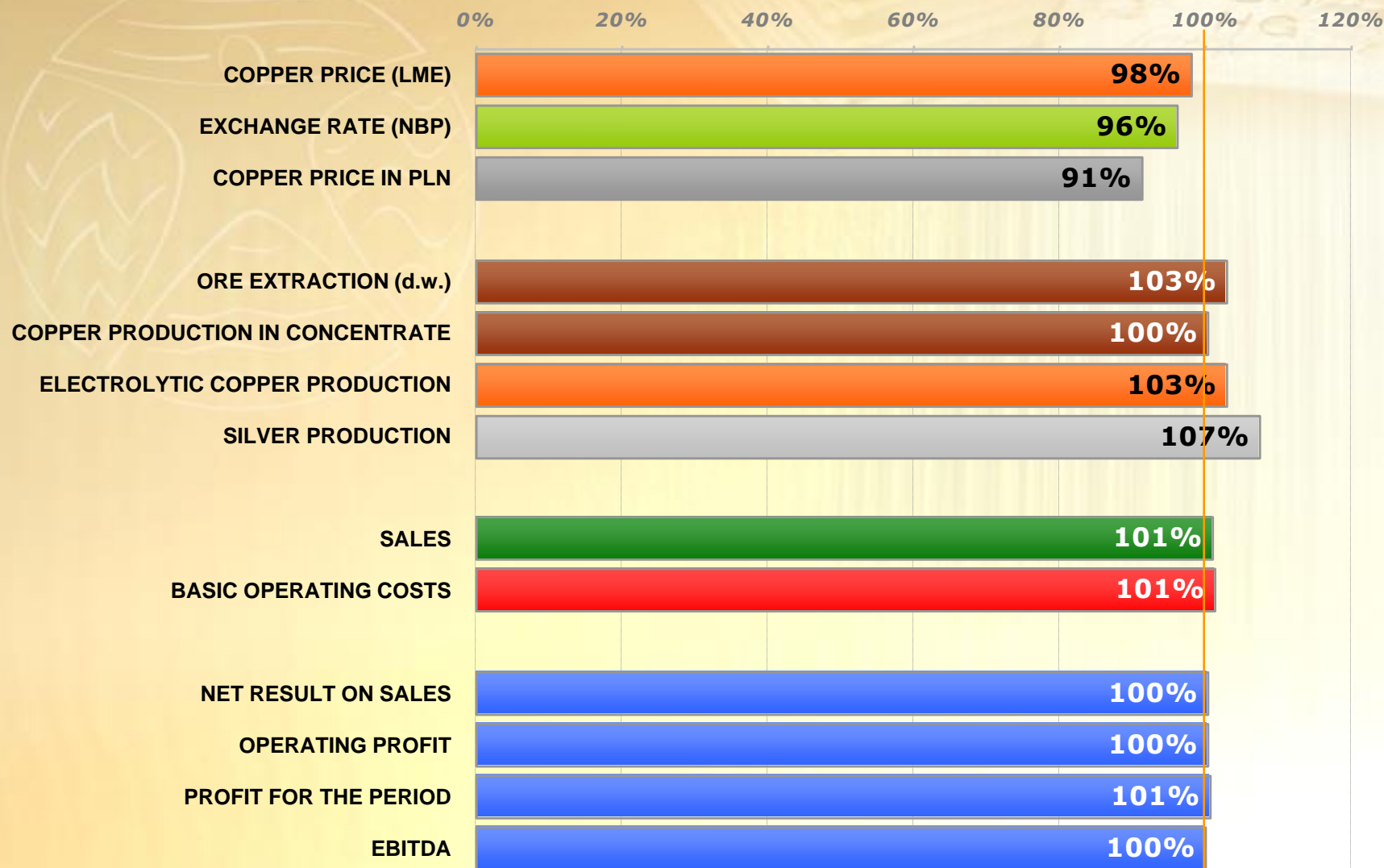


➤ An increase in the unit cost by 576 PLN/t:

- an increase in costs by type, incl. mainly costs of materials, fuel and energy, preparatory work and depreciation
- lower volume of electrolytic copper production
- lower value of consumed external copper-bearing materials (lower prices)
- positive valuation of anode slimes due to increased price of gold



# Realisation of 2008 Budget



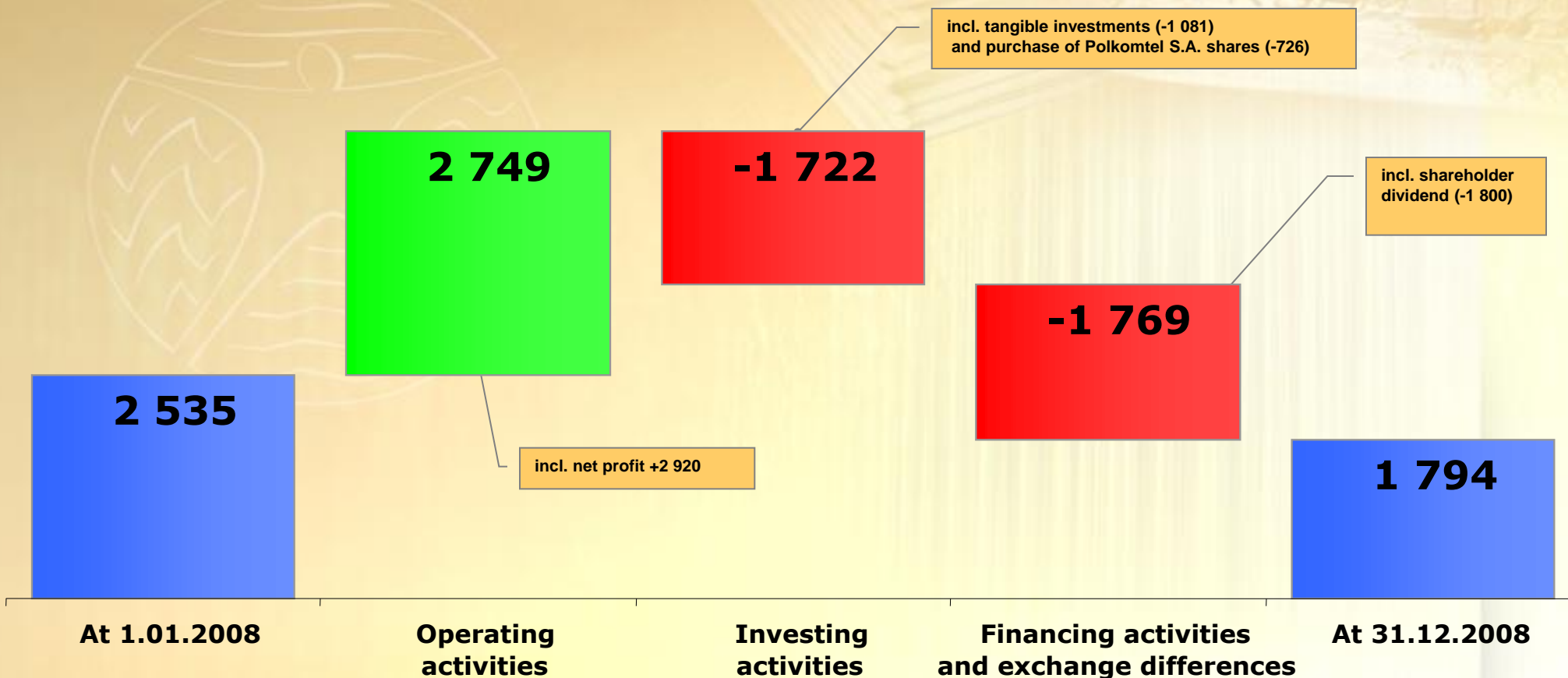
# Realisation of investment plan

In 2008, 70% of the tangible investment plan was achieved  
(execution 2008 – PLN1 140 mln; Budget 2008 – PLN 1 637 mln)



74% of planned expenditure on equity investments achieved  
(execution 2008 – PLN793 m; Budget 2008 – PLN 1 077 m)  
incl. purchase of shares of Polkomtel S.A. for PLN 726 m

# Cash flow (m PLN)



Cash and cash equivalents in 2008 lower by PLN 741 m, i.e. by 29%





***Thank you ...***

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