



**KGHM**  
POLSKA MIEDŹ S.A.

# Company Results in 2009 and Budget for 2010

Presentation for Analysts Meeting  
1 March 2010

March 2010

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# KGHM Polska Miedź in 2009

- **A profit was earned in 2009 of PLN 2 540 million, exceeding the projection by 13%\***
- **Dynamic growth in the share price of KGHM Polska Miedź S.A.**
  - In 2009 investment in the Company's shares brought one of the highest rates of return on the Warsaw Stock Exchange (the Company's market value increased by 380%, reaching the level from May of 2008)
- **A significant improvement in macroeconomic conditions**
  - Copper prices in PLN more than doubled versus the end of 2008
- **A fall in the total cost of electrolytic copper production from internal materials**
  - A decrease from 10 797 PLN/t in 2008 to 9 750 PLN/t in 2009
- **Program „Effectiveness”**
  - After review, the average annual projected potential to improve productivity was estimated to at PLN 600 million
- **Improved ore quality**
  - An increase in copper content in ore from 1.64% in 2008 to 1.68% in 2009

\* In accordance with the projection published on 12 November 2009

## Company perspectives

- **The accepted Budget assumes the achievement in 2010 of revenues from sales in the amount of PLN 11 736 million and profit for the period of PLN 2 898 million**
- **The Company assumes the continuation of favorable conditions on the copper market and currency market**
- **Thanks to realization of the Effectiveness Program, the Company will increase the production of copper from internal concentrate in respect of 2009**
  - total electrolytic copper production amounts to 512 '000 t, of which 428 '000 t from internal materials
- **Investment spending is aimed at:**
  - ensuring the long-term level of production
  - improving productivity by decreasing production-related losses and increasing the production of by-products
  - replacing worn-out assets
- **Equity investments will involve:**
  - the acquisition of a mining entity
  - investments in the Investment Fund Management Company

## Program Effectiveness

- **The potential for improvement in productivity/cost reduction in the Company was identified at an average annual level of over PLN 600 million, following the implementation of initiatives resulting from the realisation of all programs.**  
The change in the level of identified savings, in respect of earlier assumptions, is due to the updating of detailed plans respecting exhaustion of the deposit, and reflects projected macroeconomic conditions.
- **During diagnostic work, the potential arising from increasing the level of production and from decreasing costs was determined.**
- **With respect to realisation of Project Effectiveness over 70 programs are planned to be implemented in all areas of the Company's operations, utilising two methodologies:**
  - the cost reduction methodology TOP (Total Operational Performance),
  - process transformation based on the principles of Lean Management.
- **Following completion of the diagnostic stage, 10 programs have been realised, as a result of which initiatives have been confirmed for implementation aimed at achieving savings of over PLN 80 million.**
- **The project team was composed of consultants from the firm of McKinsey & Company as well as over 20 Change Leaders from KGHM Polska Miedź S.A.**
- **At the moment only employees of KGHM Polska Miedź S.A., i.e. the Project Effectiveness Team (26 Change Leaders), the Management Board of the Company, the management staff of the Divisions, mid-and-low level supervisory staff and the other employees in the Project, are involved.**

# Strategic factors for acquiring foreign mining assets

## The Strategy of KGHM Polska Miedź S.A.

Become a large global copper producer with annual copper production of around 700 thousand tonnes

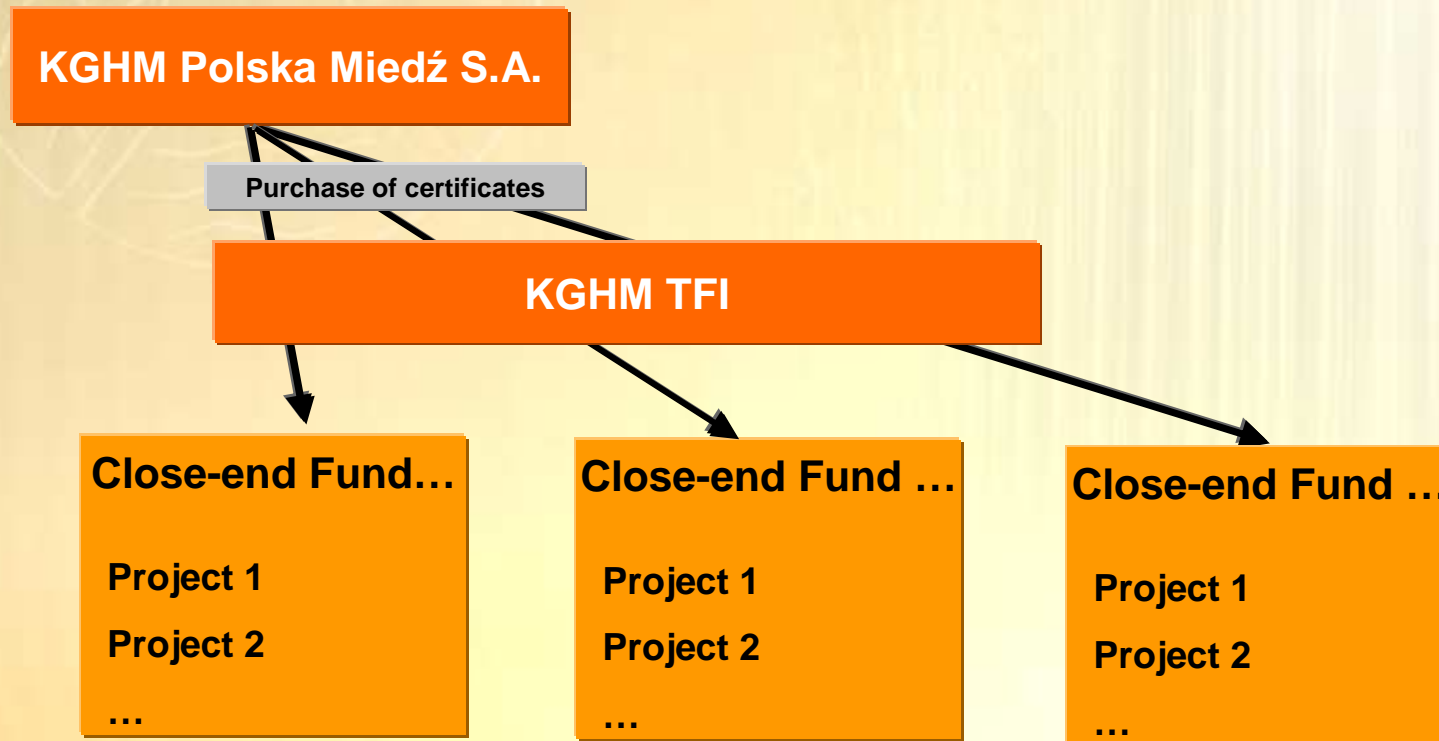
### *Strategic goal*

Development of the resource base through acquisitions in the mining sector

#### Criteria for mining projects:

- The Company has precisely-defined criteria for deciding on any commitment when reviewing projects, such as size of resource base and production, production costs, location and stage of development
- All projects will be analysed in terms of the possibility of achieving synergy with the current core business of KGHM

- The acquisition of investment certificates of Close-end Funds, managed by KGHM Towarzystwo Funduszy Inwestycyjnych S.A.



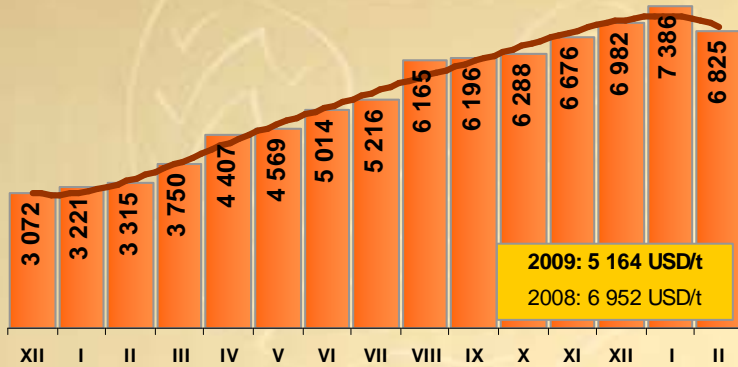


# Company Results in 2009



# Macroeconomic conditions

**Copper price**  
USD/t



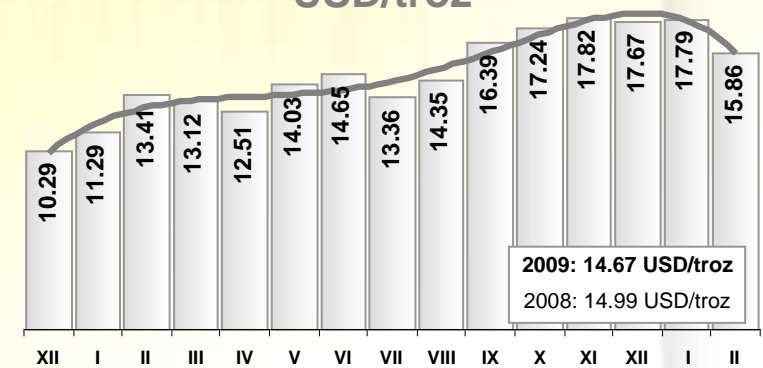
**Exchange rate**  
PLN/USD



**Copper price**  
PLN/t

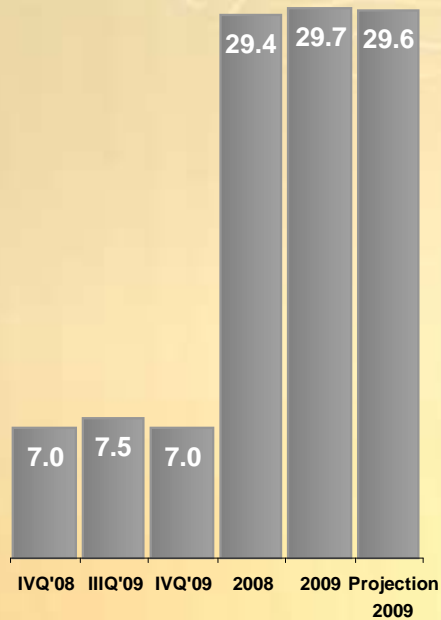


**Silver price**  
USD/troz



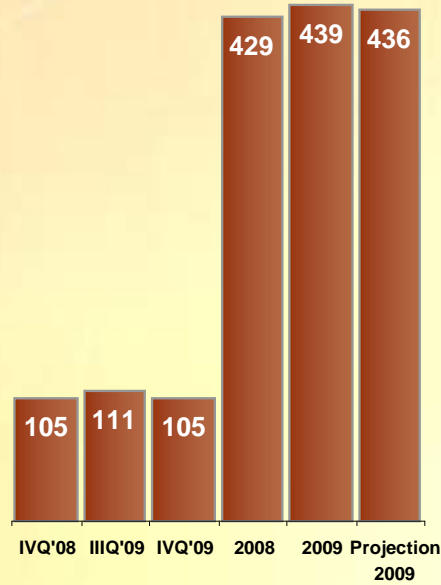
# Production results

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



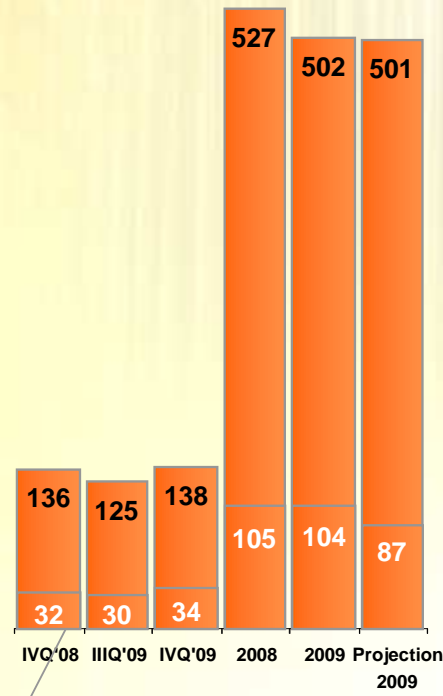
An increase in copper content in ore from 1.64% to 1.68%

**Production of copper in concentrate**  
(‘000 t)

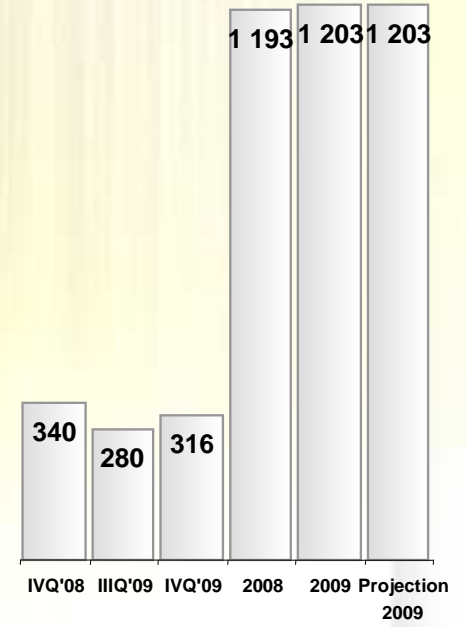


including purchased copper-bearing materials

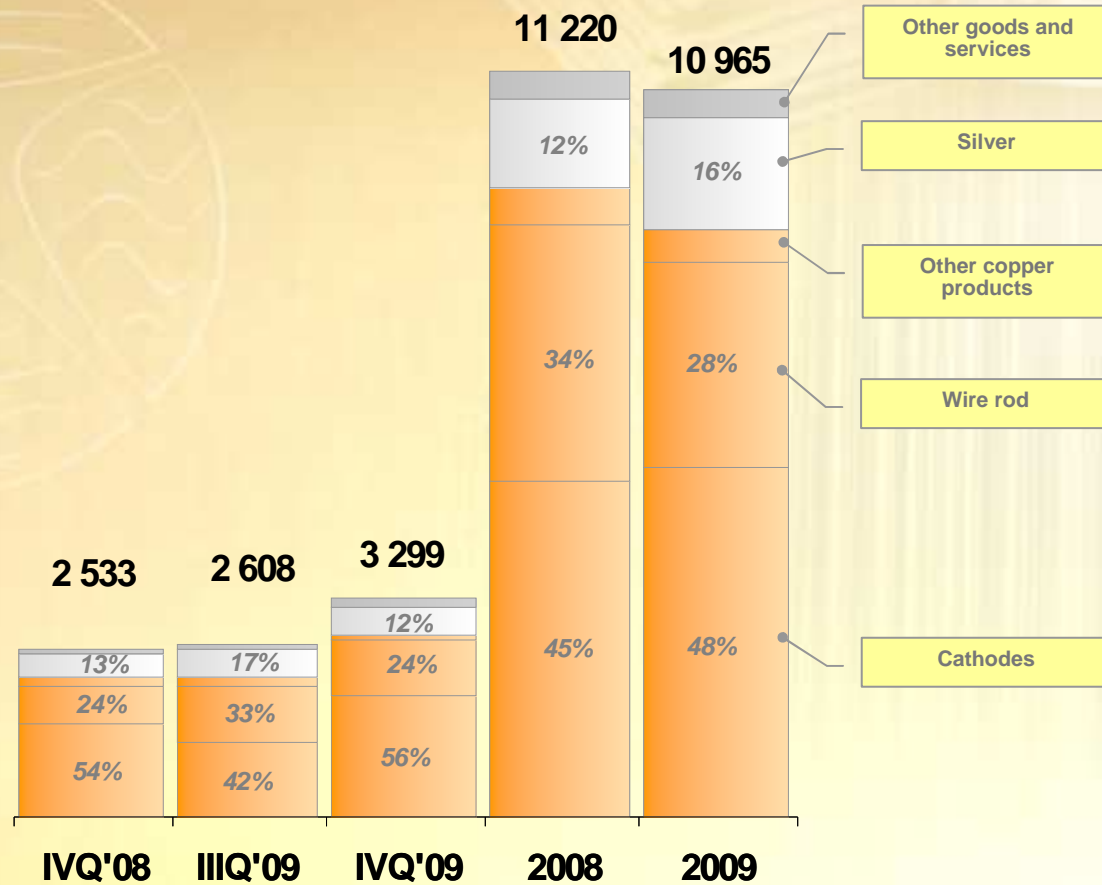
**Electrolytic copper production**  
(‘000 t)



**Metallic silver production**  
(t)



# Product sales structure (million PLN)

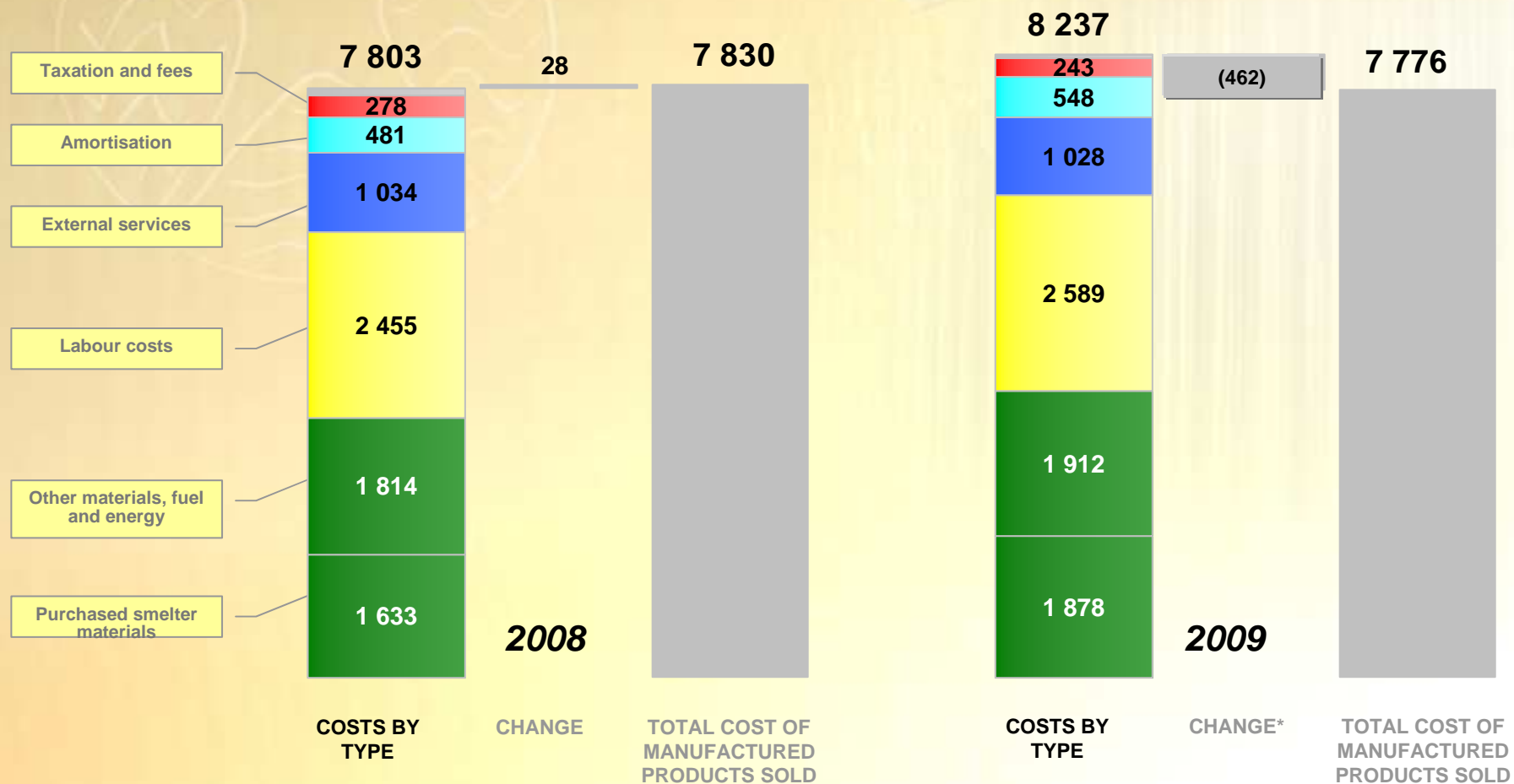


A decrease in revenues from the sale of products by PLN 255 million (2%)

# Costs by type (million PLN)

An increase in costs by type by PLN 435 million, i.e. by 6% versus 2008

A decrease in the total cost of products sold excluding the value of external smelter materials by PLN 299 million, i.e. by 5%



\* Storage of 31 '000 t of copper in concentrate

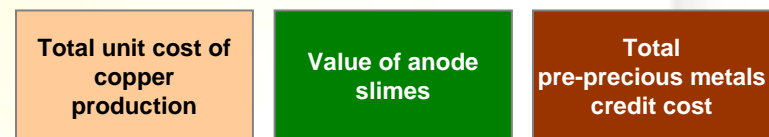
# Unit cost of electrolytic copper production (PLN/t)

4thQ'09 versus 3rdQ'09

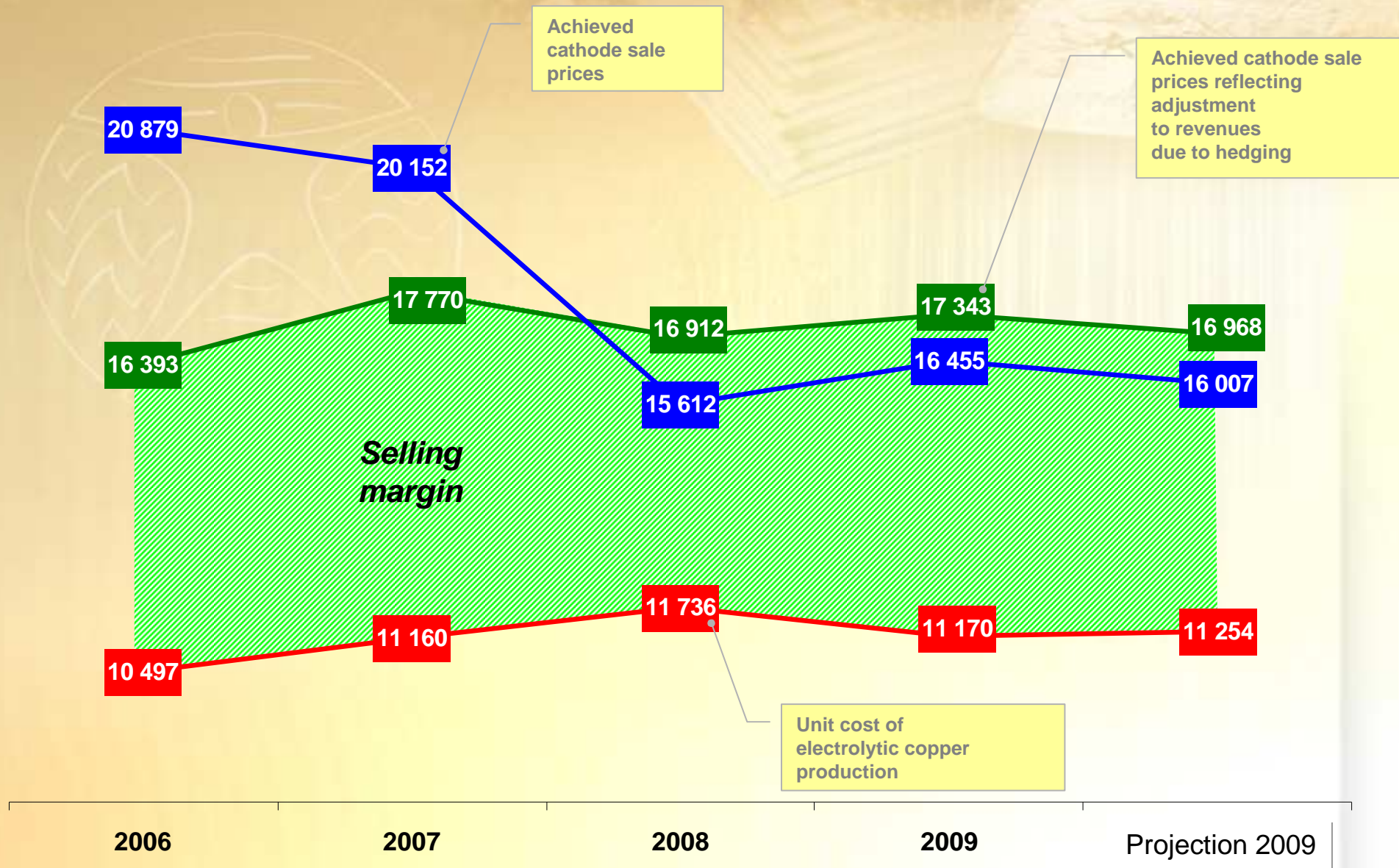
## Total cost



## Cost from internal concentrates



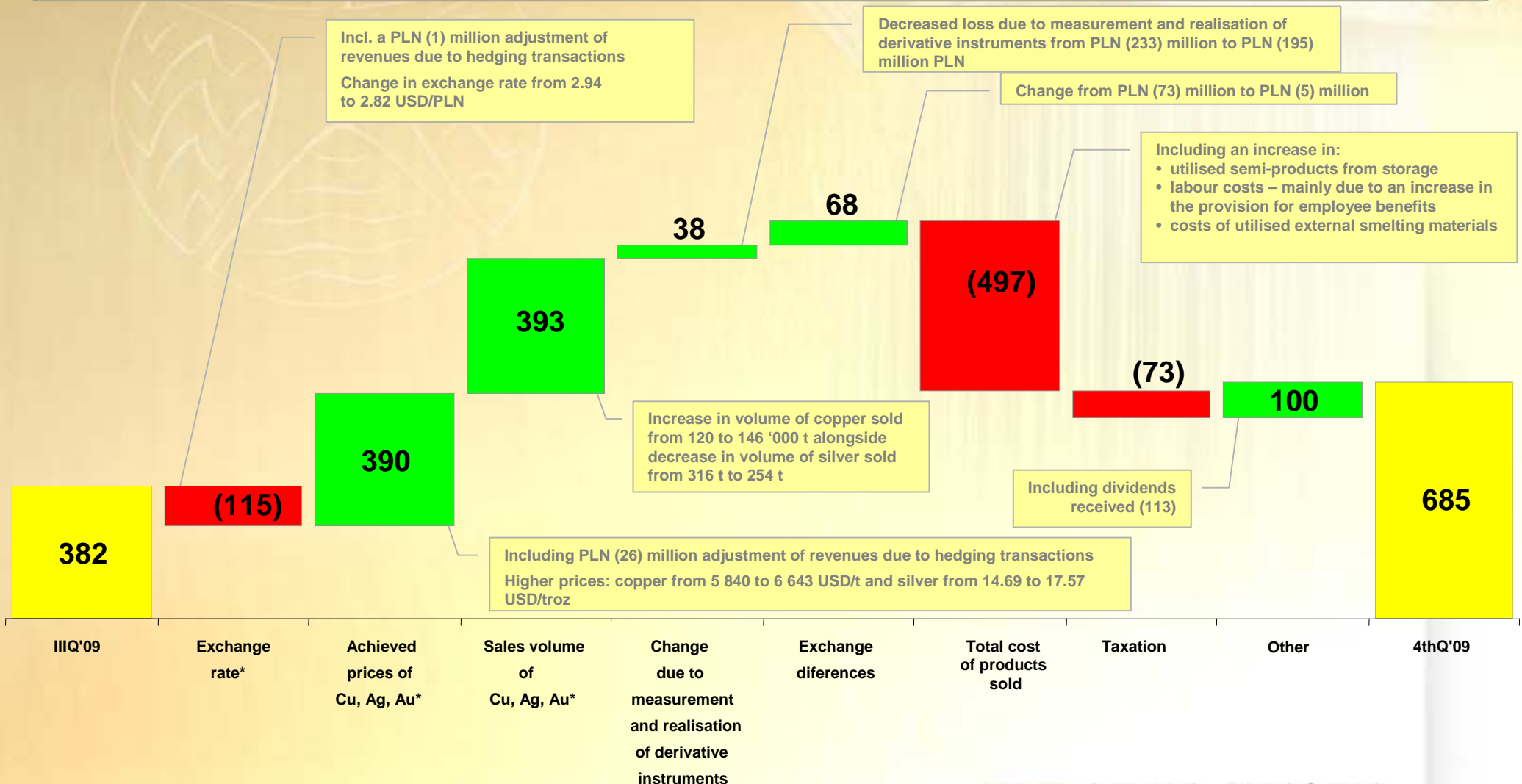
# Selling margin (PLN/t)



## Financial results (million PLN)

	Q4'08	Q3'09	Q4'09	2008	2009	Change	Change 2008=100
<b>Sales</b>	2 552	2 636	3 325	11 303	11 061	(242)	98
<i>including adjustment of revenues due to hedging</i>	569	(14)	(41)	580	433	(147)	75
<b>Operating costs</b>	2 117	1 865	2 357	7 911	7 864	(47)	99
<b>Net profit on sales</b>	435	772	968	3 392	3 197	(195)	94
<b>Result of other operating activities, of which:</b>	71	(294)	(113)	204	(99)	(303)	x
Dividends received	9	0	113	237	455	218	192
Realisation and measurement of derivative instruments	(126)	(233)	(195)	(212)	(539)	(327)	x 2.5
Exchange rate differences	228	(73)	(5)	122	(62)	(184)	x
<b>Operating profit</b>	506	477	854	3 596	3 098	(498)	86
<b>Net financing cost</b>	(14)	(6)	(7)	(43)	(32)	11	74
<b>Profit before tax</b>	492	471	848	3 554	3 067	(487)	86
<b>Taxation</b>	104	89	163	633	526	(107)	83
<b>Profit for the period</b>	388	382	685	2 920	2 540	(380)	87
<b>EBITDA</b>	638	613	998	4 078	3 646	(432)	89

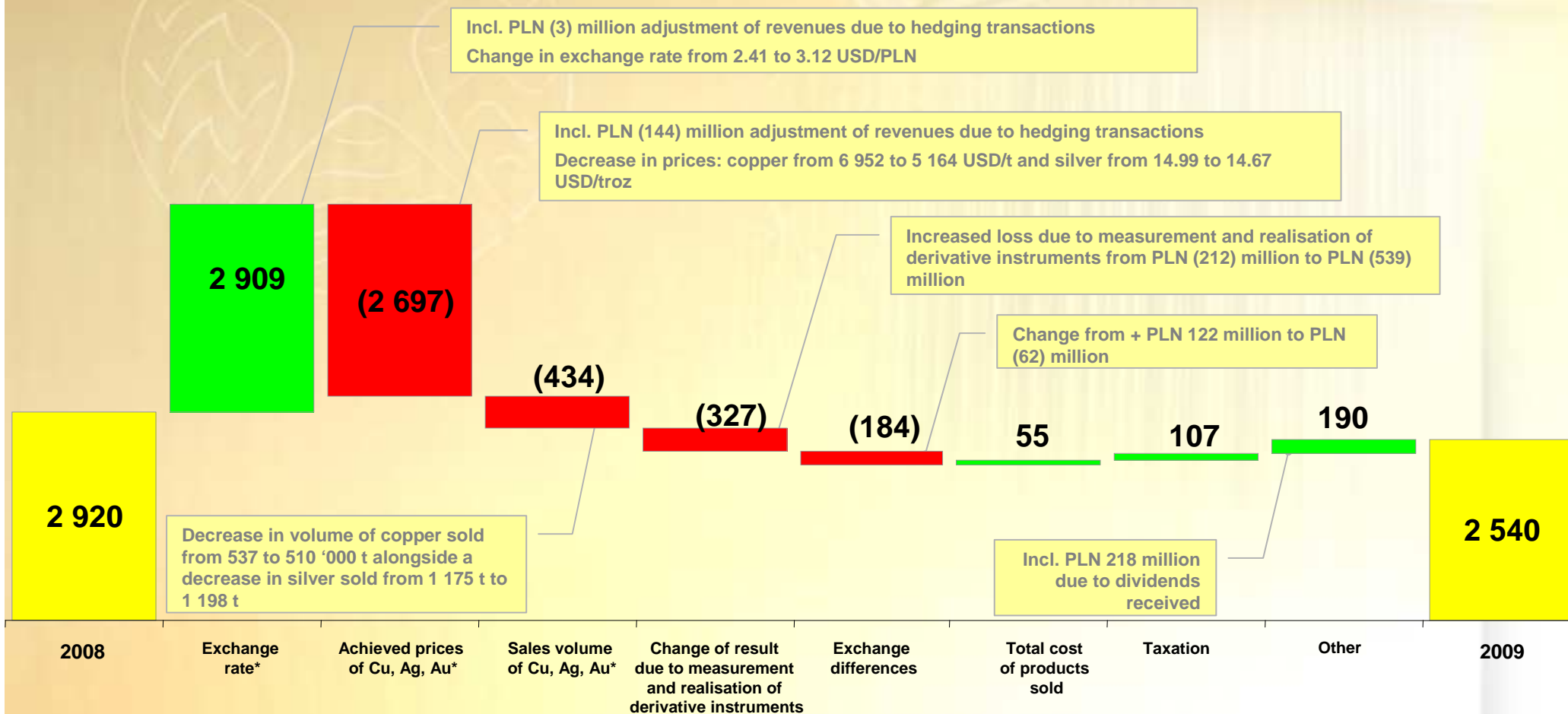
## Net profit in Q4 2009 higher by PLN 303 million than in the third quarter



\* Impact on revenues from sales

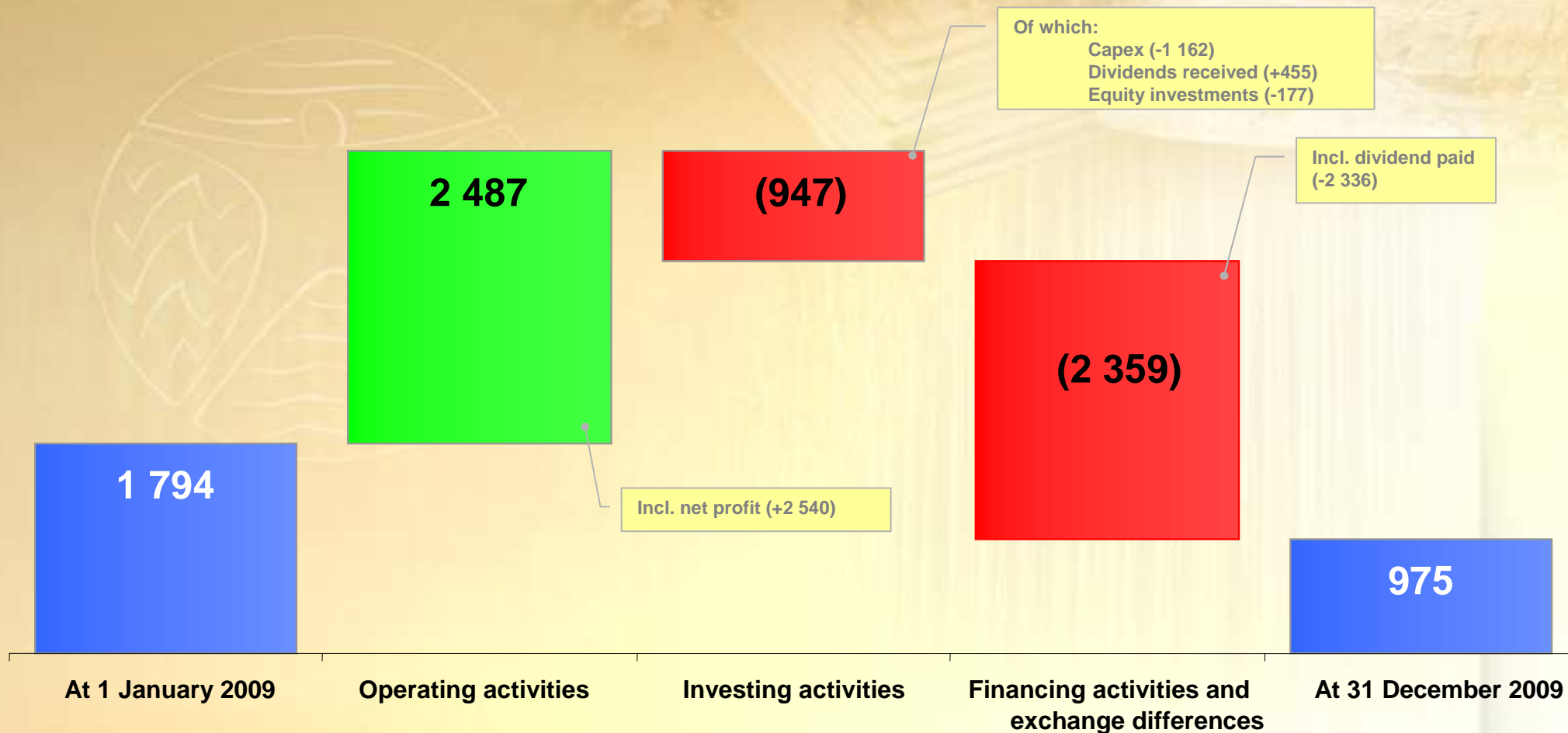


## Net profit lower by PLN 380 mln than in 2008



\* Impact on revenues from sales

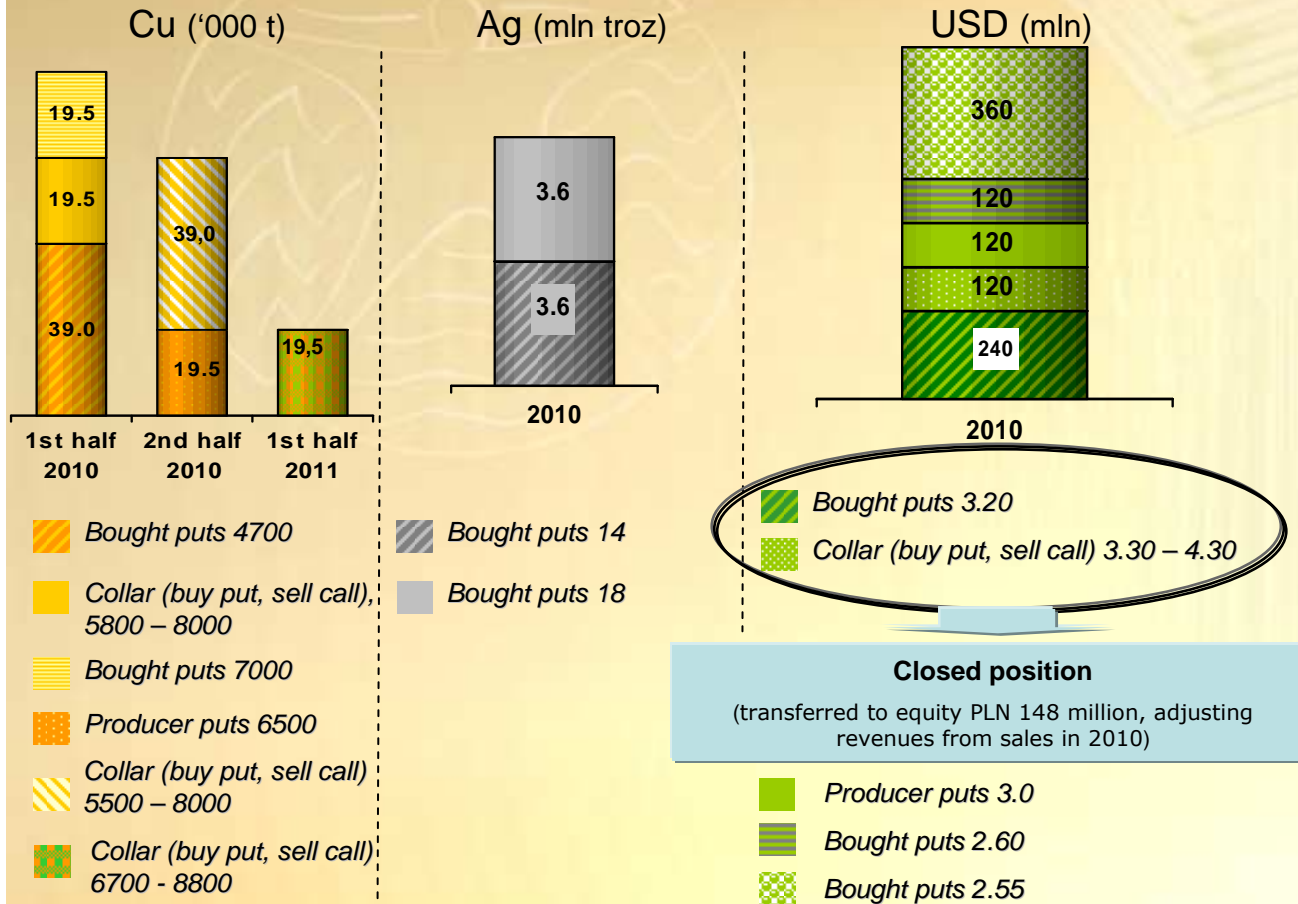
# Cash flow (million PLN)



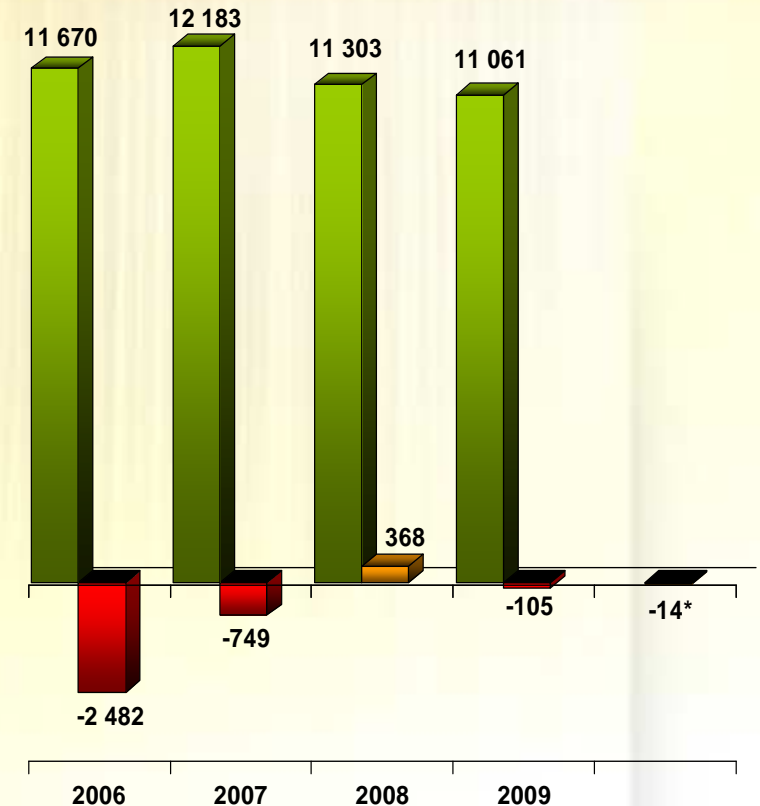
**↓ A decrease of cash and cash equivalents in 2009 by PLN 818 million, i.e. by 46% ↓**

# Market risk management

## Hedging by segment (at 31 December 2009)



## Results on hedging and company revenues (million PLN)



\* fair value of open derivatives at 31 December 2009.

- The result on derivative instruments in 2009 amounted to PLN (105) million
- Measurement of open positions in derivative instruments at 31 December 2009: PLN (14) million

## Consolidated financial result (million PLN)

	Consolidated result		Parent result	
	2008	2009	2009	
Sales	12 655	12 113	11 061	91%
Operating costs	9 493	8 928	7 864	
Net profit on sales	3 162	3 185	3 197	
Result of other operating activities	25	(507)	(99)	
Operating profit	3 186	2 677	3 098	116%
Net financing cost	(57)	(45)	(32)	
Share of profits of associates accounted for using the equity method	268	270	x	
Profit before tax	3 396	2 902	3 067	
Taxation	631	545	526	
Profit for the period	2 766	2 357	2 540	108%
<i>EBITDA</i>	3 868	3 420	3 646	107%

Share of Parent in consolidated results

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***Thank you***

**KGHM POLSKA MIEDŹ S.A.**

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