



**KGHM**  
POLSKA MIEDŹ S.A.

# **Company Results**

**January-September 2006**

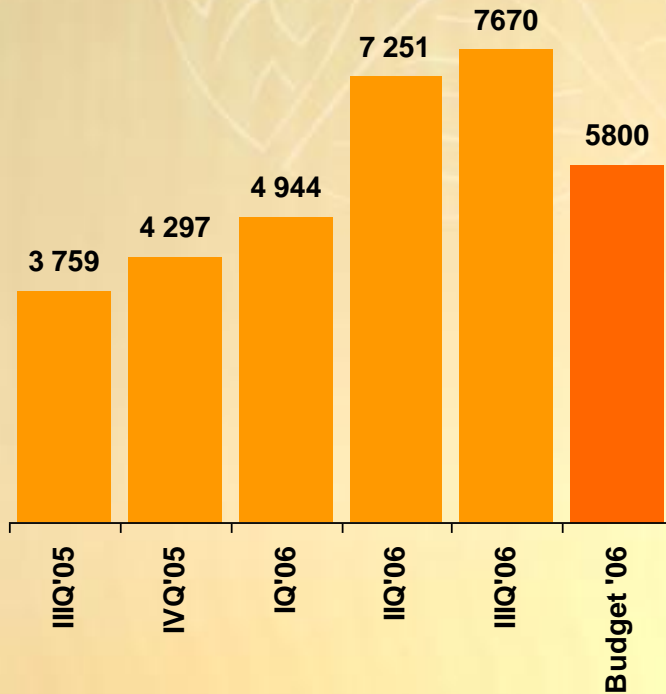
# Contents

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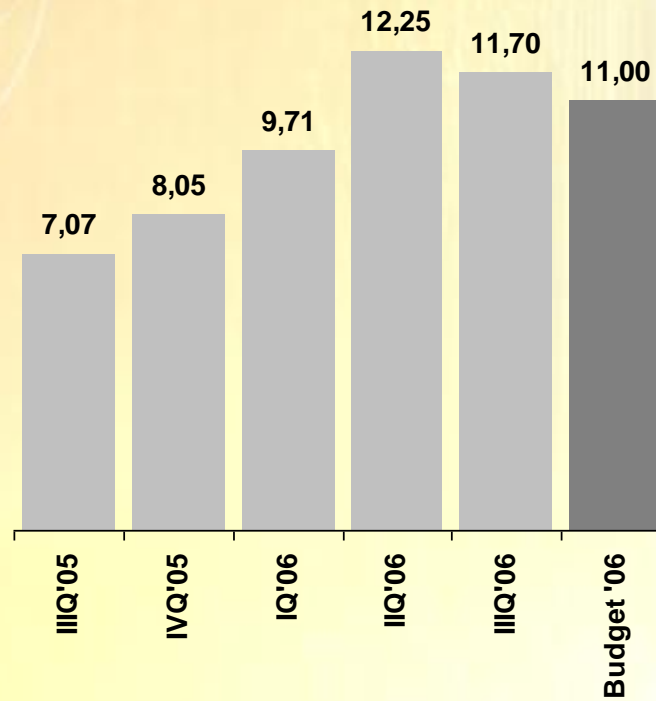
- **Macroeconomic situation**
- **Production results**
- **Financial results**
- **Risk management**
- **Costs by type and unit cost**
- **Profitability ratios and EBITDA**
- **Realisation of Budget for 2006**
- **Balance sheet and Cash flow**
- **Tangible investments**

# Macroeconomic situation

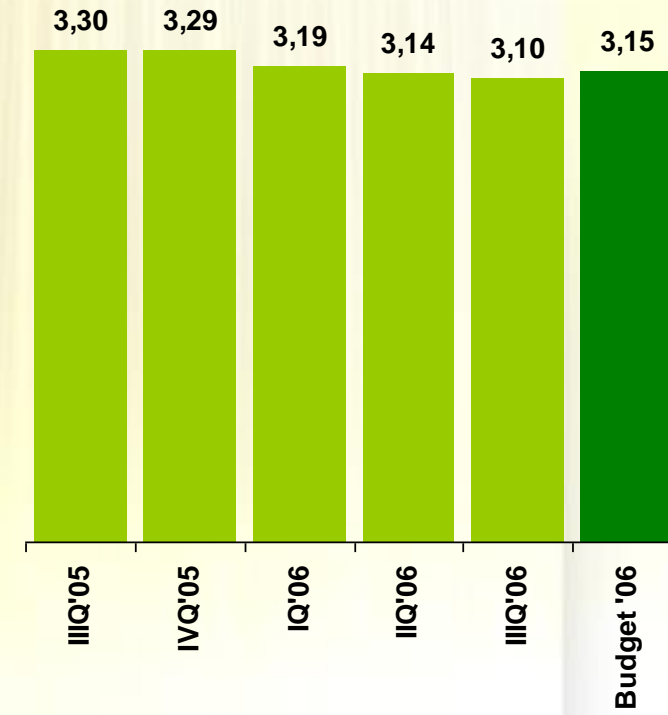
**Copper prices**  
6 612 USD/t



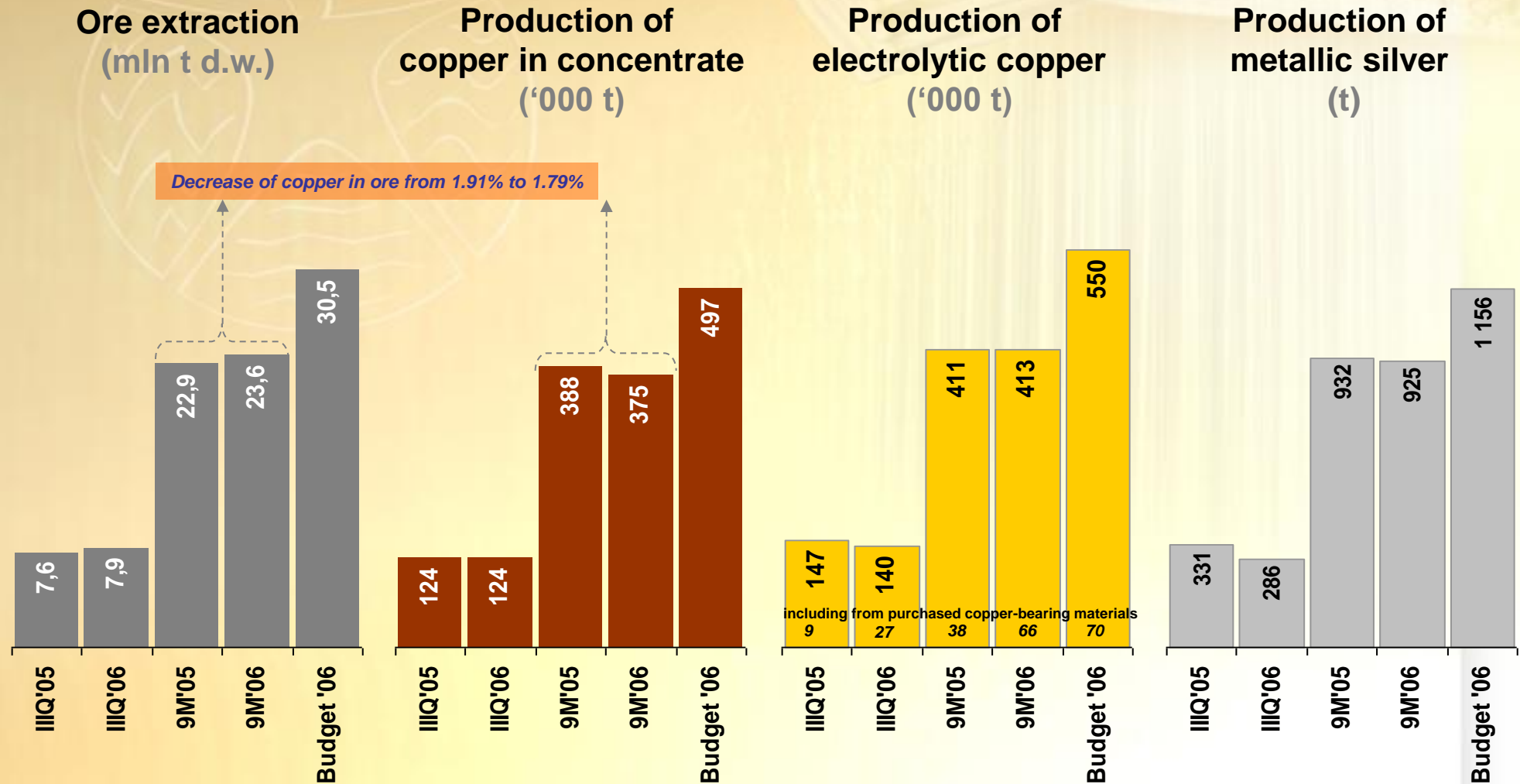
**Silver prices**  
11.21 USD/troz



**Exchange rate**  
3.14 PLN/USD



# Production results



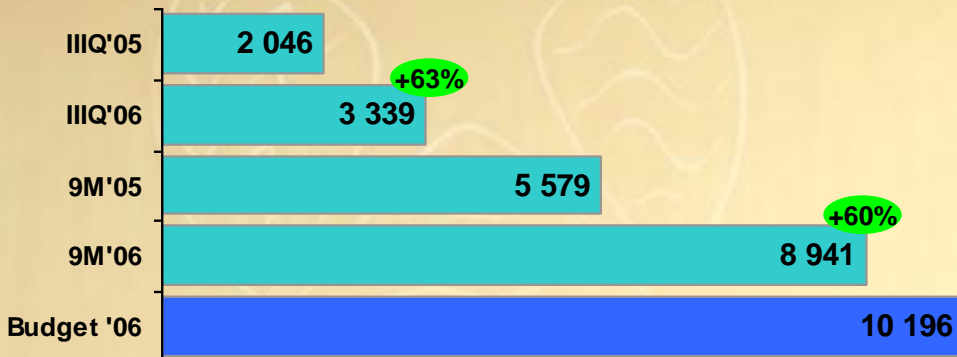


# Financial results (mIn PLN)

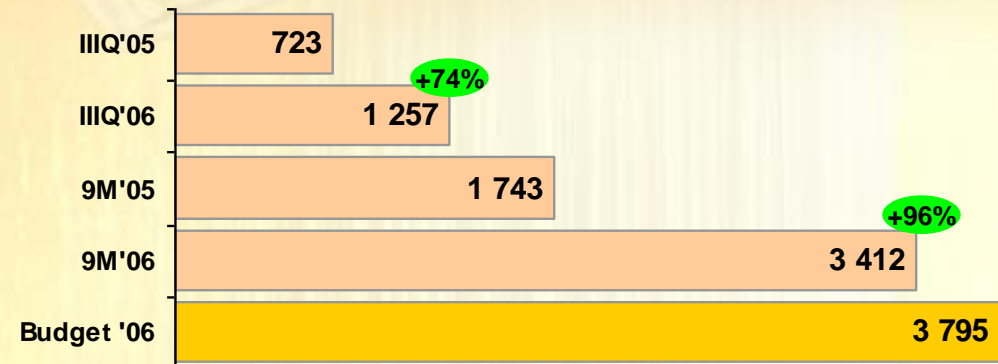
	III Q'05	III Q'06	9M'05	9M'06	Budget '06
<b>Revenues from sales</b> (excluding effects of hedging transactions)	2 135	4 111	5 641	10 646	12 111
<b>Adjustment of revenues by effects of hedging transactions</b>	(89)	(772)	(62)	(1 704)*	(1 915)
<b>Operating costs</b>	1 310	2 156	3 767	5 478	6 349
<b>Result on sales</b>	736	1 183	1 812	3 464	3 847
<b>Profit before tax</b>	752	1 175	1 848	3 391	3 908
<b>Income tax</b>	(144)	(427)	(370)	(795)	(850)
<b>Share in profits (losses) of subordinated entities accounted for by the equity method</b>	82	76	231	225	325
<b>Net profit</b>	691	825	1 710	2 821	3 383

# Financial results (mln PLN)

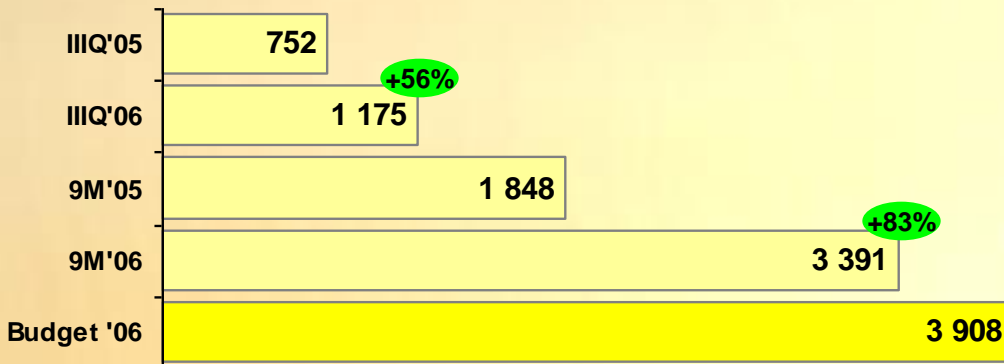
## Revenues from sales



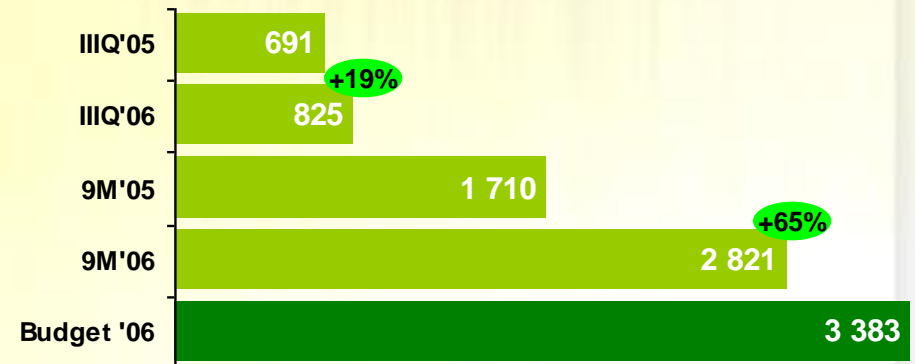
## Operating profit



## Profit before tax

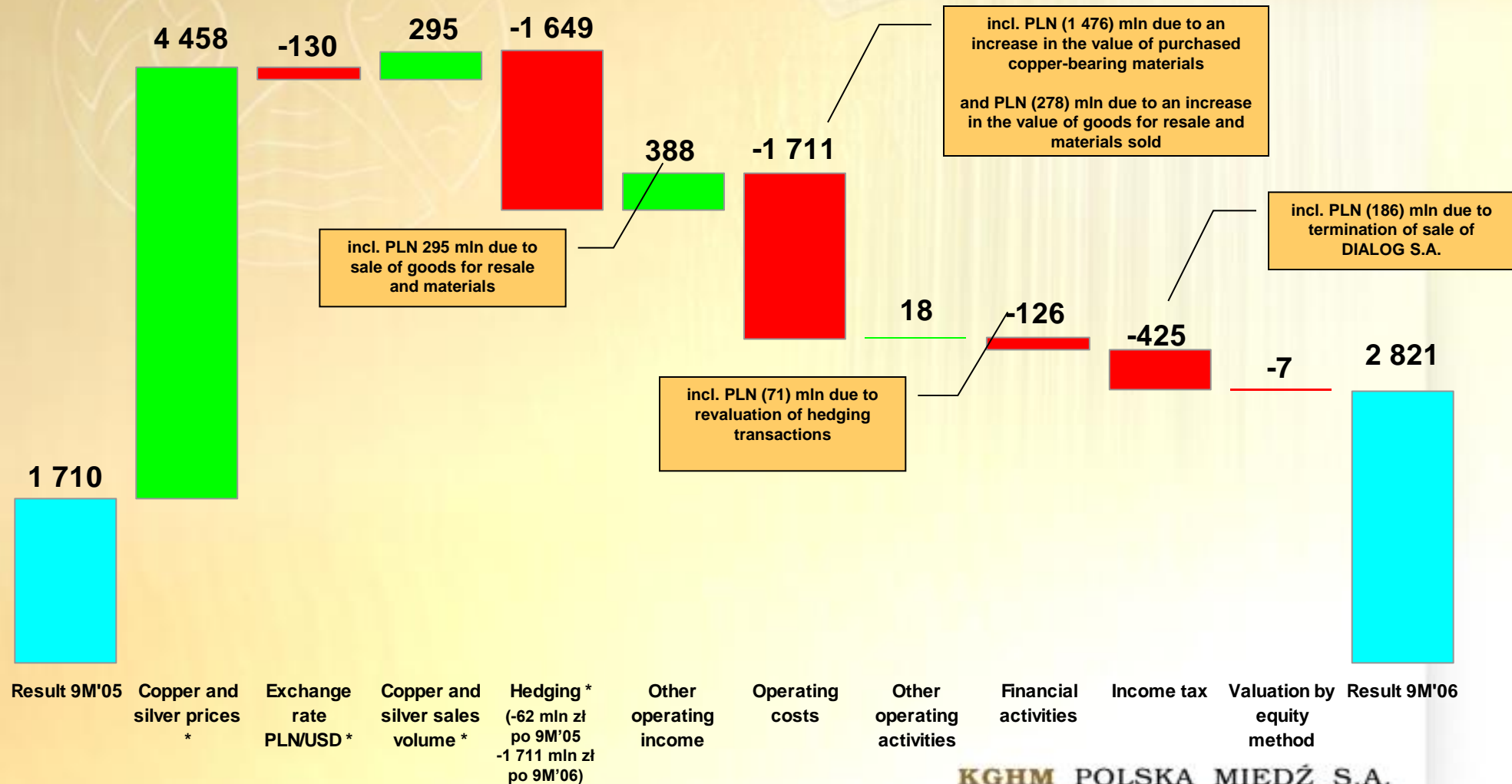


## Net profit



# Change in net result (mIn PLN)

An increase in net profit versus the first 9 months of 2005 by PLN 1 111 mln

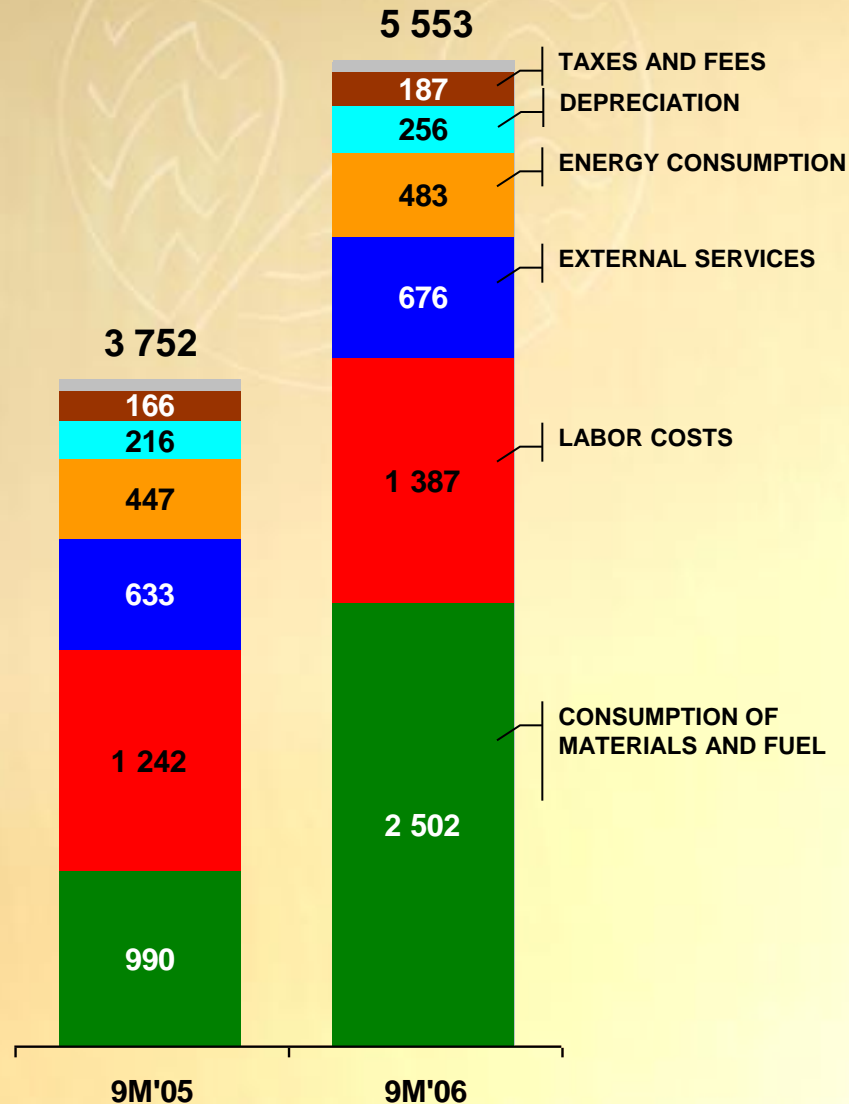


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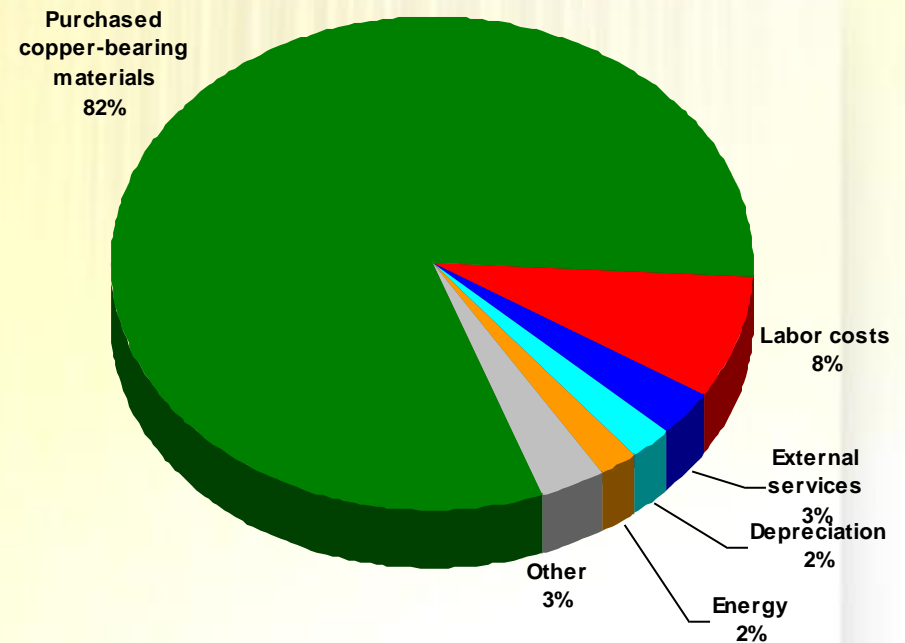
\* Impact on revenues from product sales

# Costs by type (mIn PLN)

An increase in costs by type versus the first 9 months of 2005 by PLN 1 801 mln, i.e. by 48%



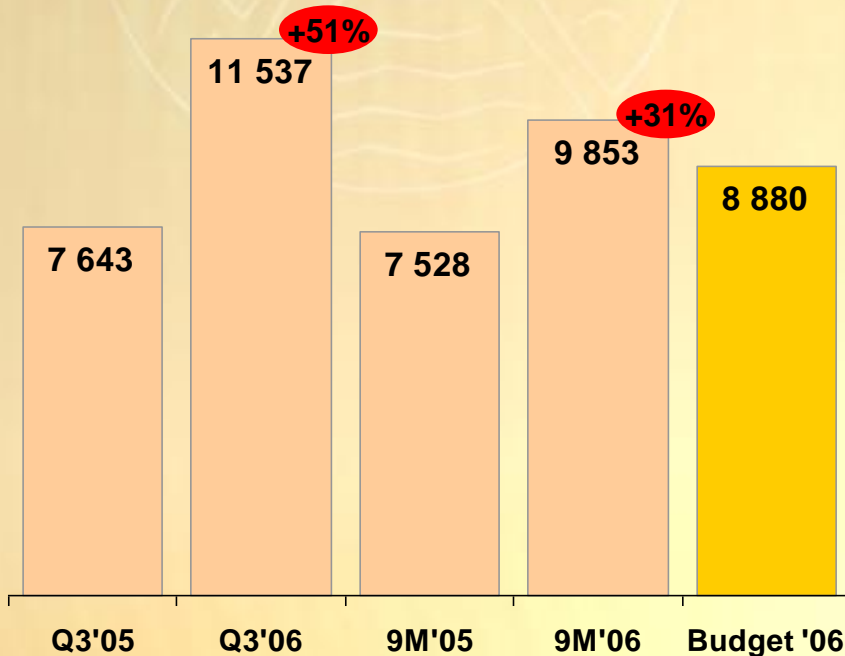
Structure of increase in costs by type





# Unit cost (PLN/t)

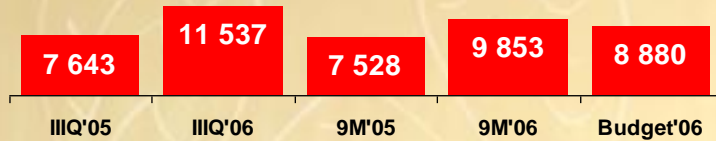
Unit cost of electrolytic copper production (PLN/t)



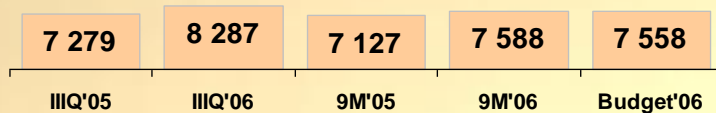
- The increase in the unit cost by 2 326 PLN/t, i.e. by 31% after the first 9M'06 versus 9M'05 was caused by:
  - an increase in the combined cost (prior to decrease by the value of Ag and Au) by 2 845 PLN/t mainly due to:
    - processing of purchased copper-bearing materials,
    - payment of a one-off bonus in the month of July,
    - an increase in the cost of preparatory mining work,
    - the tax on underground mining works
  - a decrease in costs due to advantageous prices of silver and gold in suspended anode slimes (520 PLN/t)

# Unit cost (PLN/t) and sales profitability (%)

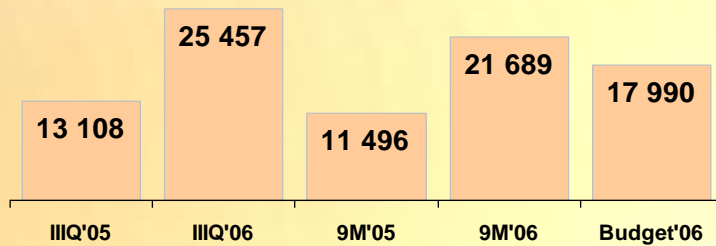
Unit cost of electrolytic copper production (PLN/t)



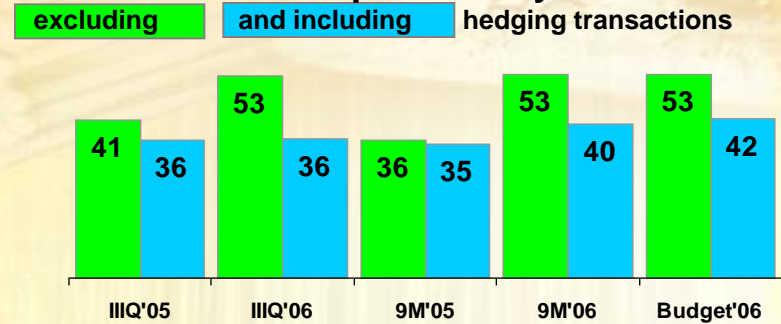
... from internal charges



... from purchased copper-bearing materials

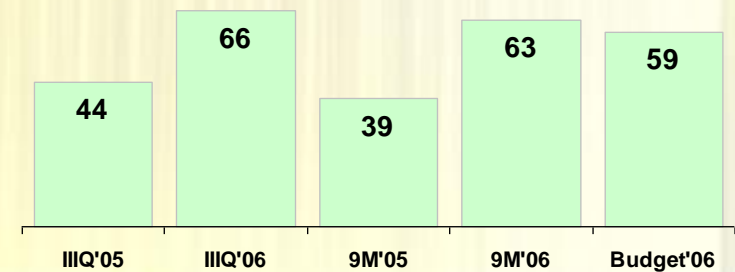


Unit sales profitability (%)

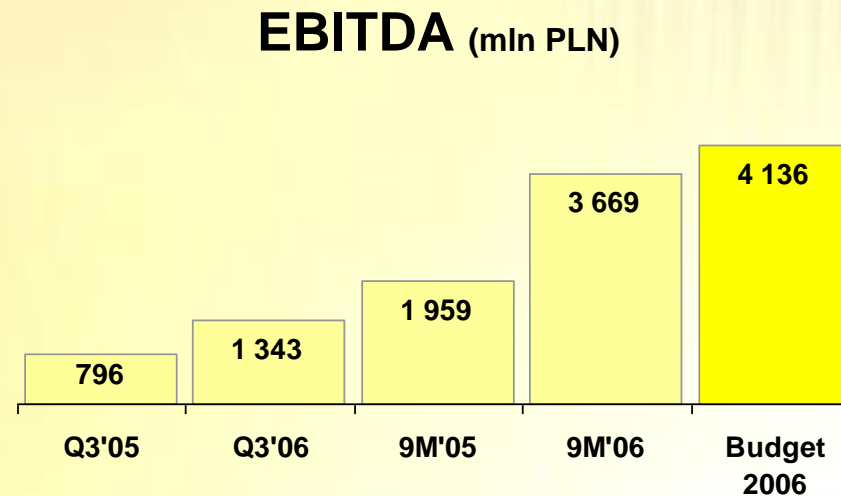
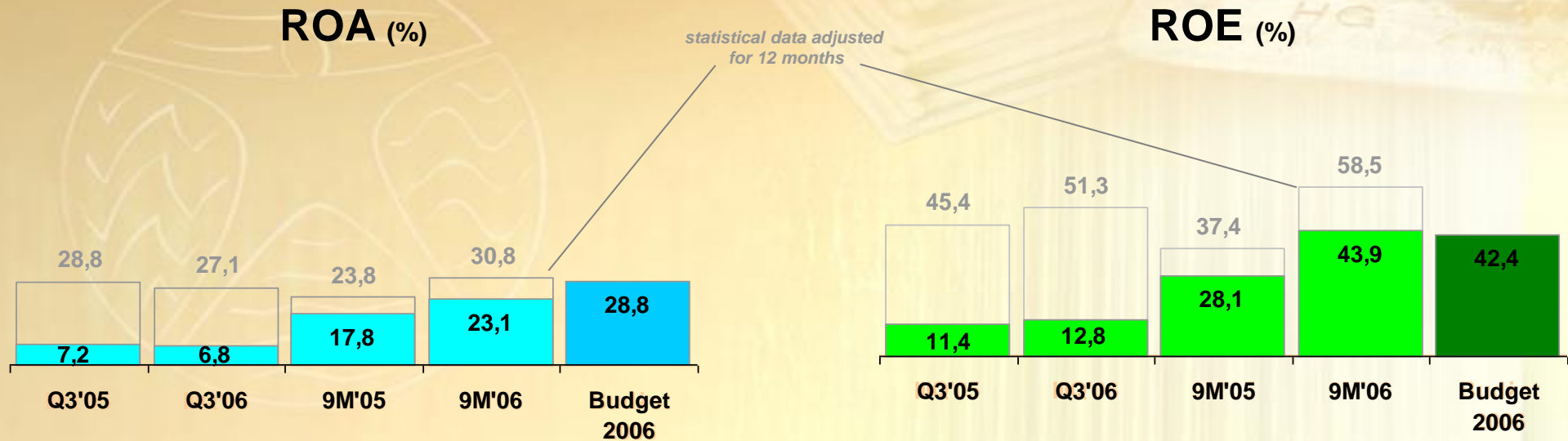


... from internal charges

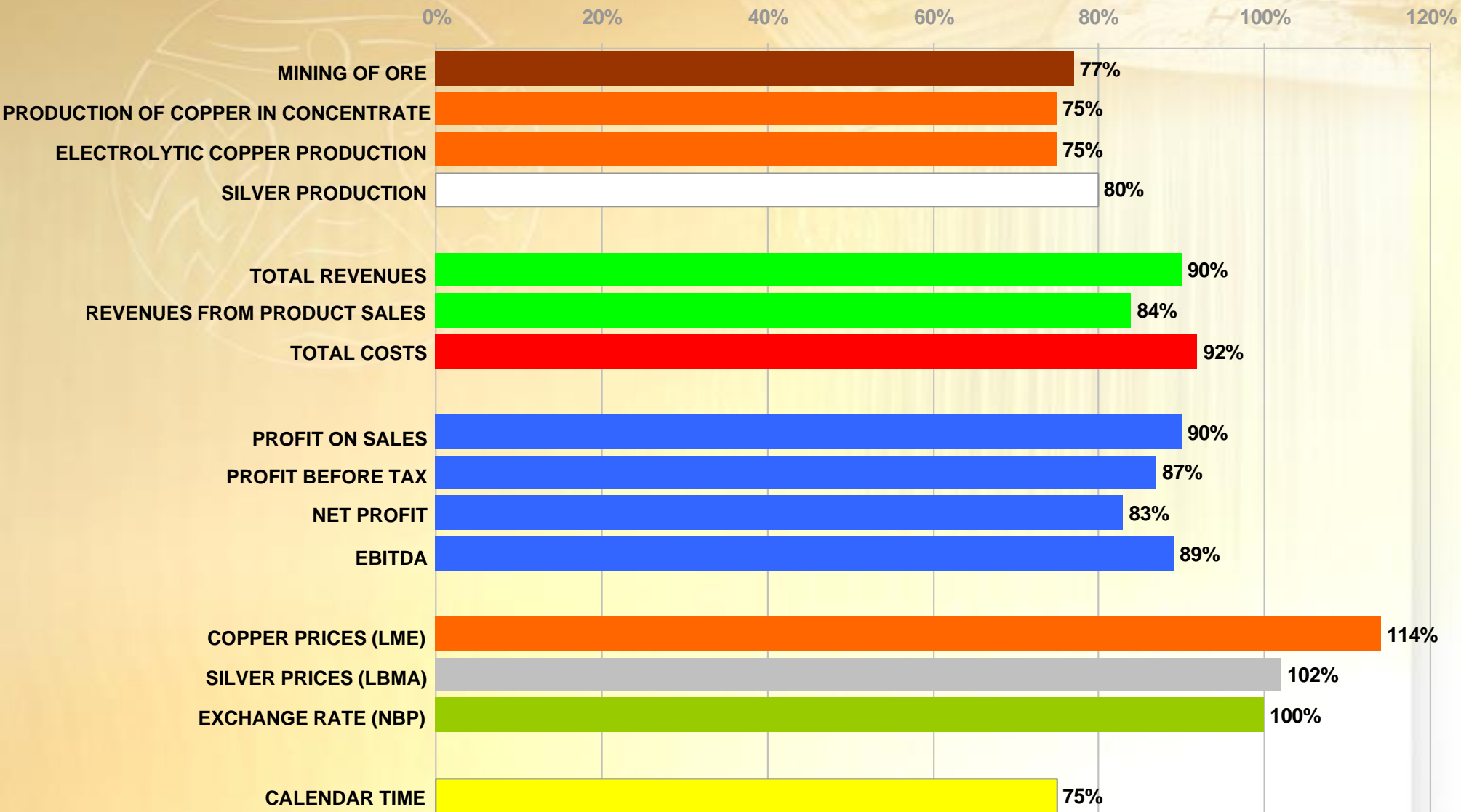
excluding hedging transactions



# Profitability ratios (%) and EBITDA (mIn PLN)



# Advance on execution of the Budget





# Balance sheet (mIn PLN)

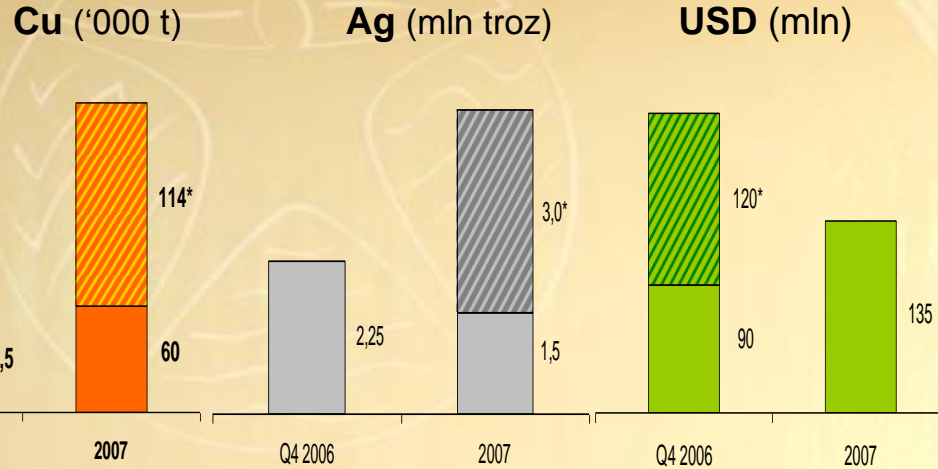
	30.09.2005	31.12.2005	30.09.2006
<b><u>ASSETS</u></b>			
Non-current assets	6 949	7 079	7 035
Current assets	2 643	3 899	5 160
<b><u>EQUITY AND LIABILITIES</u></b>			
Equity	6 088	6 214	6 430
Liabilities and provisions for liabilities	3 504	4 763	5 765
<b>BALANCE SHEET TOTAL</b>	<b>9 592</b>	<b>10 977</b>	<b>12 195</b>

# Cash flow (mIn PLN)

	2005	IIIQ'05	IIIQ'06	9M'05	9M'06
Net cash generated from operating activities	2 504	759	735	1 429	1 698
Net cash used in investing activities	(552)	(129)	347	(425)	222
Net cash used in financing activities	(631)	(658)	(2 029)	(638)	(2 041)
<b>Total net cash flow</b>	<b>1 321</b>	<b>(28)</b>	<b>(948)</b>	<b>367</b>	<b>(121)</b>
Cash and cash equivalents at end-of-period	1 644	689	1 523	689	1 523

# Risk management

## Hedging by Segment



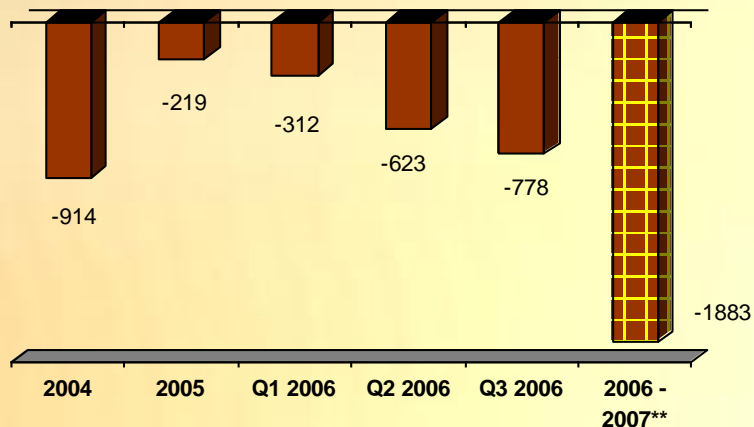
In the third quarter no hedging was initiated for copper or silver prices, nor of the exchange rate.

In Q2 2006 the following was hedged:

- 84 '000 t of copper (put and synthetic put options\*\*\*) – for 2007
- 3 mln troz of silver (put options) – for 2007
- the USD/PLN exchange rate covering 90 mln USD, (synthetic put options \*\*\*) – for Q4 2006

\* Instruments enabling participation in price rises

## Results on hedging transactions (mln PLN)



\*\*\* Synthetic put options: forward sales + call options

\*\* Fair value of open positions in derivative instruments at 30 September 2006

# Actions taken to optimise costs

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## 1. Change in management model

- in production process
- optimisation or resource allocation

## 2. Modernisation of production assets

- investments

## 3. More effective human resource management

- linkage of wages to productivity

## 4. Other

- improvement in supply logistics and tendering processes
- improvement in operation of Group companies
- IT support of management processes
- continued development of system for enhancing the value of the Company



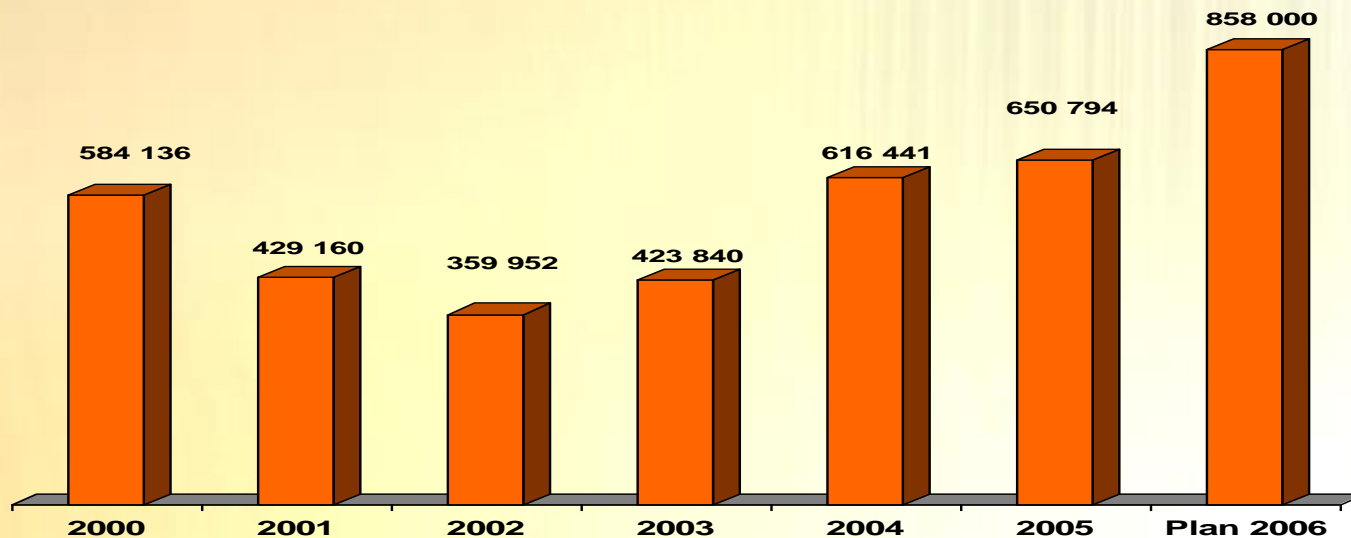
# Investment plans

The Company plans to invest PLN 5 bln in the period 2006 – 2010 in modernising mining and smelting, mainly through:

- Replacing mining machinery and equipment
- Preparatory work
- Drilling new shafts
- Modernising the OEPs

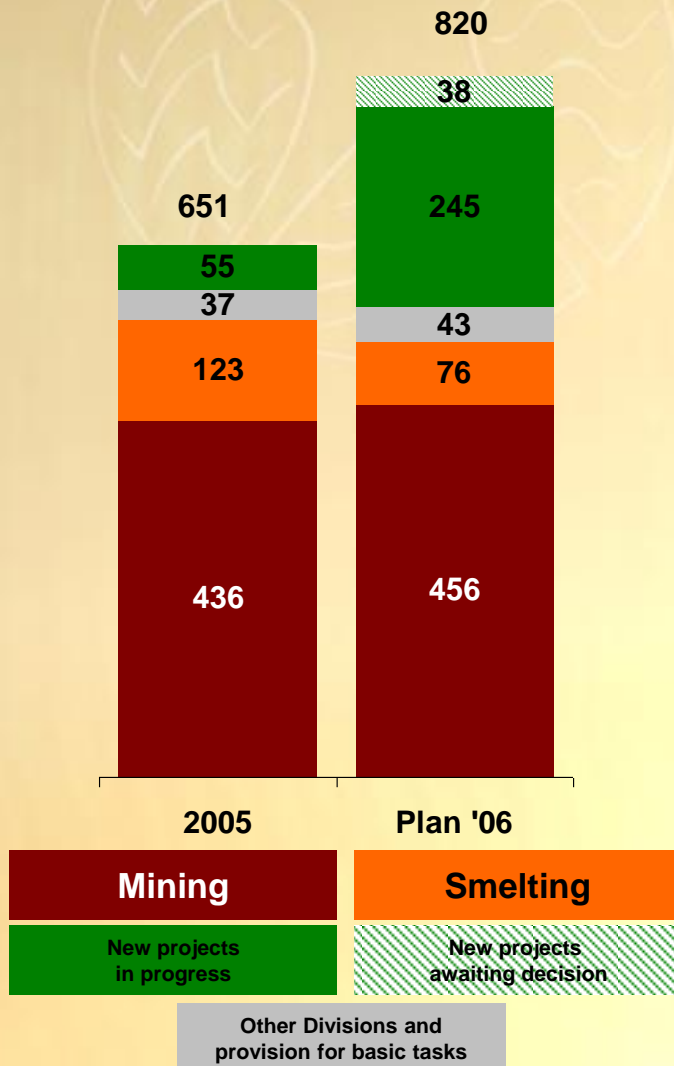
Simultaneously the Company intends to commit appx. PLN 1 bln in equity investments.

Tangible investments ('000 PLN)



# Tangible investments (mln PLN)

An increase in tangible investments by PLN 169 mln



## Selected investment projects (by 2010):

- Concentrate hydrotransport (PLN 200 mln)
- Modernisation of shaft furnaces (PLN 577 mln)
- Construction of SW-4 shaft (358 mln)
- Głogów Głęboki Przemysłowy (PLN 409 mln)
- Installation for chemigypsum production (PLN 47 mln)
- Energetyka – expansion of power generation capacity (PLN 400 mln)

## The plan for basic tasks in 2006 includes expenditures on:

- investments in new facilities and equipment (PLN 436 mln)
- Replacements (PLN 260 mln), incl. purchase of underground machinery (PLN 140 mln)
- shaft complexes R-XI, R-IX, SG-1 and SG-2 (PLN 41 mln)



***Thank you***

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