



**KGHM**  
POLSKA MIEDŹ S.A.

**Company results**  
in the first half of 2009

*Presentation for Analysts Meeting*  
*17 August 2009*

**August 2009**

- **Major Management Board decisions in the past year**
- **Continuation of KGHM Polska Miedź S.A. Strategy**
- **KGHM Polska Miedź in the first half of 2009**
- **Macroeconomic conditions**
- **Production results**
- **Financial results**
- **Risk management**
- **Realisation of financial results**
- **Costs by type and unit cost**
- **Realisation of investment plan**
- **Cash flow**
- **Consolidated financial result**

- **Development of Company strategy in the years 2009-2018**
- **Development of crisis procedures and programs to enable the Company to operate in a deep global recession**
- **Commencement of projects to improve the Company's cost effectiveness (Centralization of Purchases, Effectiveness Program)**
- **Improvement in core business productivity (maintain the level of production from internal materials as in past years, passage of decisions on modernization of the Ore Enrichment Plants and the smelters, including modernization of pyrometallurgy at the Głogów smelter)**
- **Increase of the Company's stake in Polkomtel SA**

## Improving productivity

- Investments in new technology
- Modernisation of infrastructure
- Optimalisation of production procedures and organisation

➤ Reversing the trend of rising costs

## Developing the resource base

- Developing the deep deposit mining system
- Searching for new local deposits
- Takeovers in the mining sector
- Intensifying the processing of scrap

Increasing annual copper production to around 700 thousand tonnes

## Diversifying sources of revenues and independence from energy prices

- Continued investment in the telecoms sector
- Entrance into the power sector

~ 30% of revenues from non-core business activities

## Regional support

- Creating jobs by utilising the infrastructure of KGHM Letia
- Supporting regional sport, health, arts, science and the environment

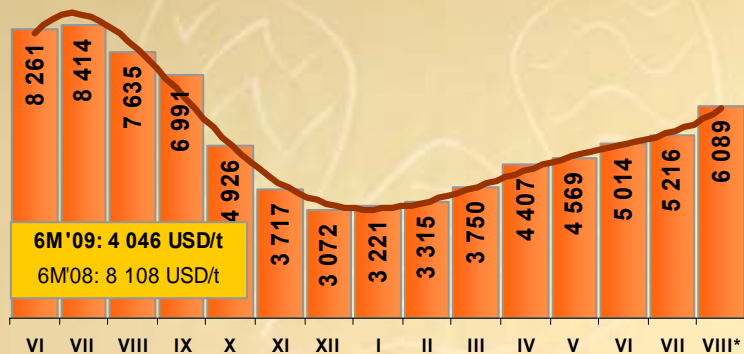
750 new jobs, growth in social activities

# KGHM Polska Miedź in the first half of 2009

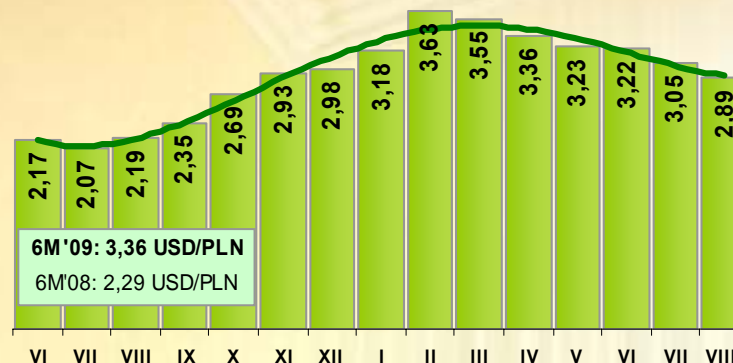
- **Net profit after 6 months PLN 1 473 mln PLN, triple the amount forecast in the 2009 Budget**
  - Due to improved financial results, in May the Company published an updated forecast assuming a net profit of PLN 1 906 million
- **Dynamic increase in price of KGHM Polska Miedź S.A. shares**
  - In the first half of 2009 investment in the Company's shares resulted in one of the highest levels of return on the Warsaw Stock Exchange (with shares increasing 270 percent)
- **Impact of hedging**
  - As a result of its risk management policy the Company achieved a positive result on derivative instruments in the first half of 2009 (PLN 377 million).
  - The hedged position built in the first half of 2009 enabled the Company to alleviate the impact of the drastic fall in copper prices from nearly 9 thousand USD/t to less than 3 thousand USD/t.
  - The purchase of put options on the USD/PLN market while the PLN remained strong enabled the Company to participate in the strong weakening of the PLN versus the USD in the second half of last year.
  - The Company was not exposed to the effects of „toxic currency options”, which Polish companies have to deal with.
- **Central Purchasing Office – continuation**
  - The Central Purchasing Office is responsible for expanding the scope of suppliers and contractors and for carrying out tenders for KGHM Polska Miedź S.A. Currently the CPO is managing tenders for centralised purchases and electronic auctions, as the concluding stage to tenders organized in the Divisions and in the companies of the Group, and as the result of actions taken, 2008 savings versus 2009 amount to PLN 200 million
- **Dividend**
  - The Ordinary GM resolved to pay a dividend from 2008 profit of PLN 2 336 million (the payout ratio at the dividend record date was 13.4%)
- **Effectiveness Program**
  - Sources of improved effectiveness were identified and their potential to improve effectiveness was calculated
  - An implementation team was trained
  - 3 pilot programs are currently being implemented at all stages of production and employment policy is being analysed
  - Completion of the pilot implementation phase will be accomplished by September 2009
- **Increase in provision for annual bonus**
  - Due to improvement in the projected financial results of the Company, it was decided to increase the provision for the annual bonus from the 8.5% assumed in the Budget to 14.5%. The increase in the provision affecting the first two quarters of 2009 was charged to the costs of the second quarter
- **Improvement in ore quality**
  - An increase in copper content in ore from 1.60% in the first half of 2008 to 1.68% during the first 6 months of 2009

# Macroeconomic conditions

## Copper price USD/t



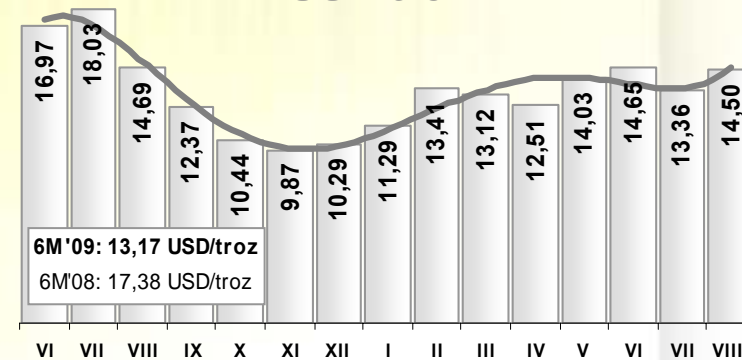
## Exchange rate PLN/USD



## Copper price PLN/t

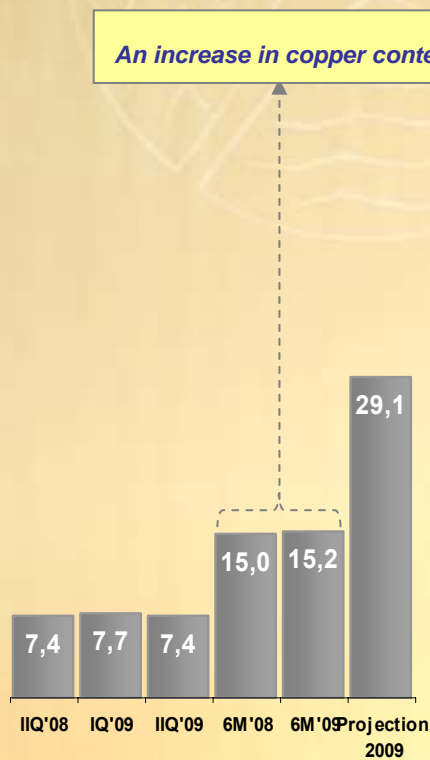


## Silver price USD/troz

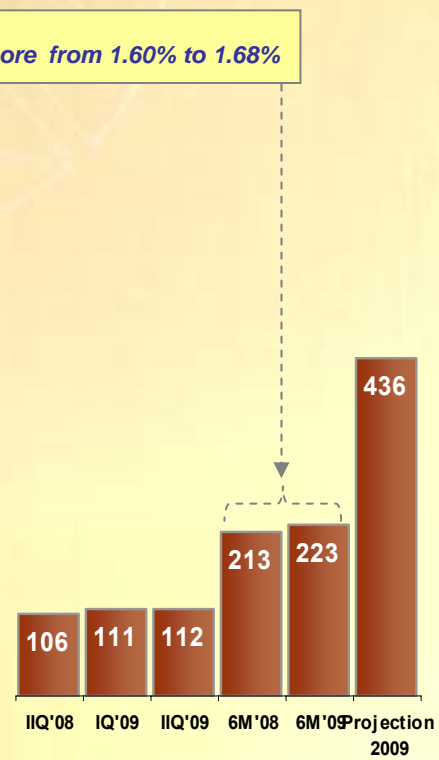


# Production results

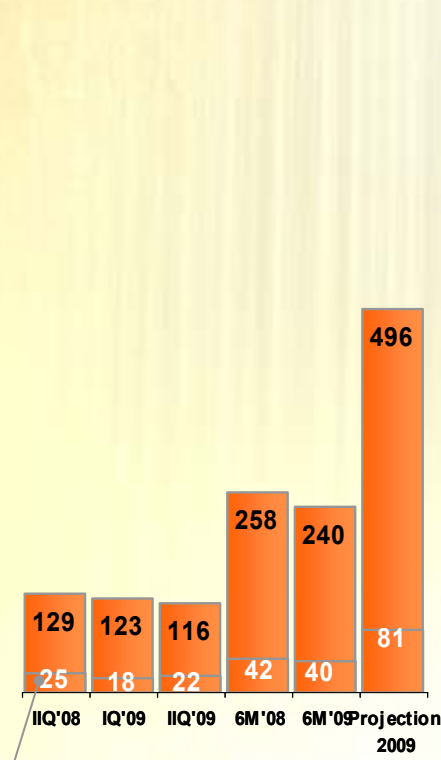
**Ore extraction**  
(mln t d.w.)



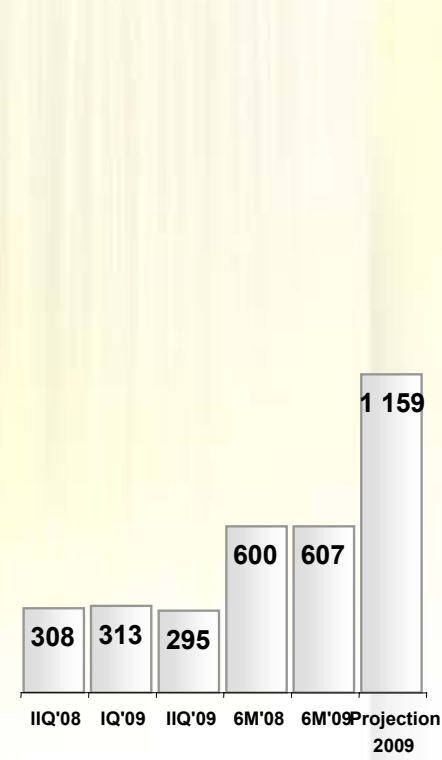
**Copper production in concentrate**  
(‘000 t)



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



**Metallic silver production**  
(t)

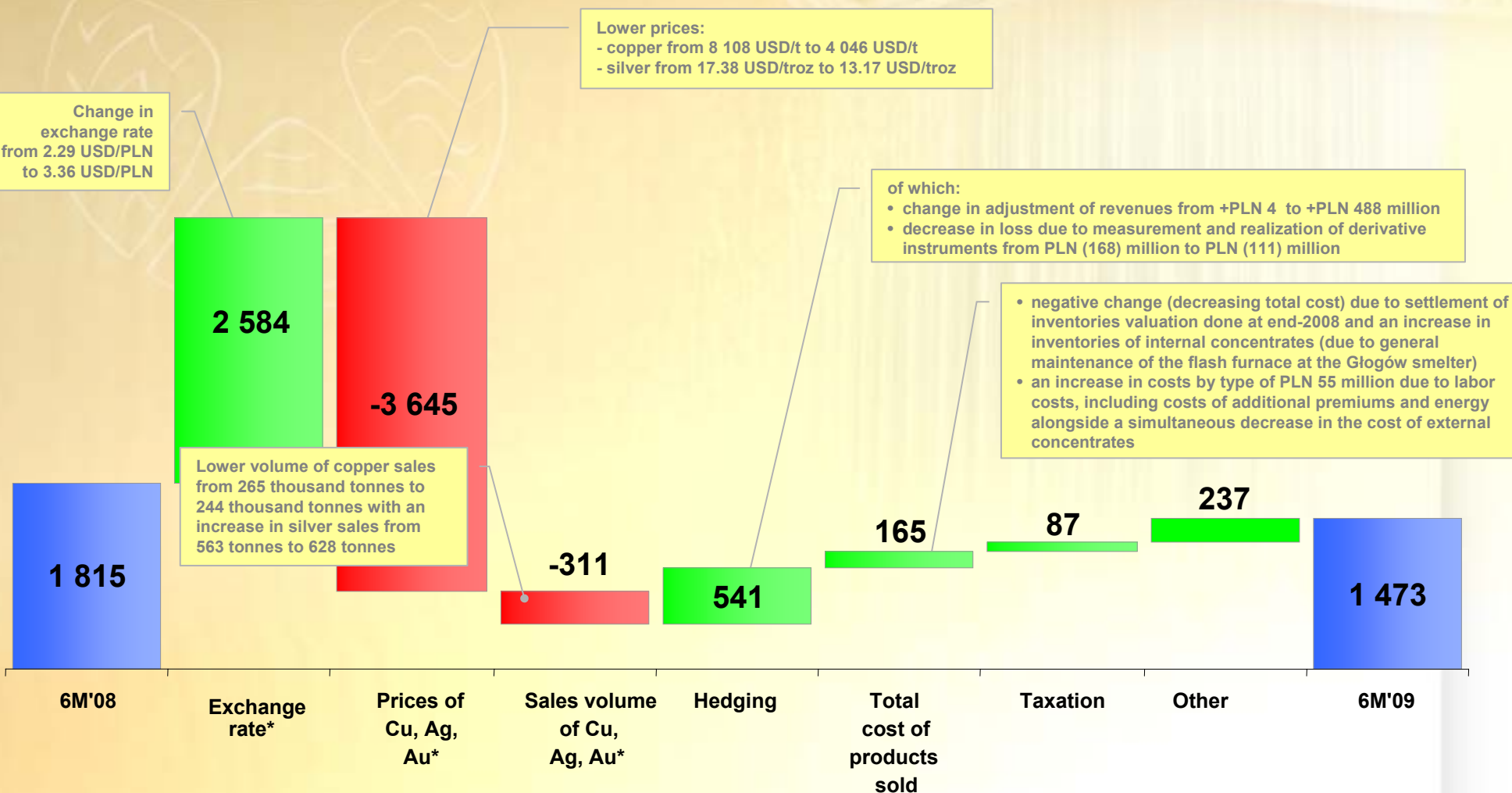


# Financial results (million PLN)

	6M'08	6M'09	Nominal change	%change 6M'08=100	Projection 2009	Realiz. (%)
<b>Sales</b>	6 031	5 099	(932)	85	9 065	56
<i>Incl. adjustment of revenues due to hedging transactions</i>	4	488	483	x 115.7	639	76
<b>Operating costs</b>	3 811	3 642	(169)	96	7 130	51
<b>Net profit on sales</b>	2 220	1 457	(763)	66	1 935	75
<b>Result of other operating activities</b>	(26)	309	335	x	356	x 9.4
<b>Operating profit</b>	2 195	1 766	(428)	80	2 291	77
<b>Result on financing activities</b>	(18)	-19	(1)	106	(34)	56
<b>Profit before tax</b>	2 177	1 747	(429)	80	2 257	77
<b>Taxation</b>	362	275	(87)	76	351	78
<b>Profit for the period</b>	1 815	1 473	(342)	81	1 906	77
<b>EBITDA</b>	2 426	2 034	(392)	84	2 843	72

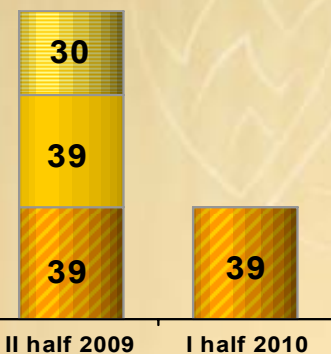


## H1 2009 net profit lower by PLN 342 million than for H1 2008

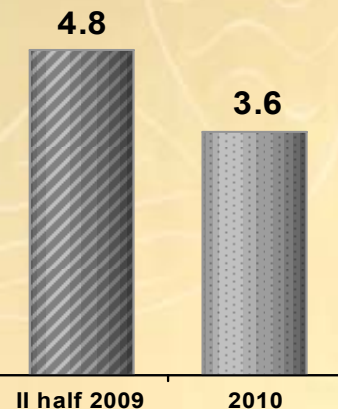


## Hedging by segment (at 30 June 2009)

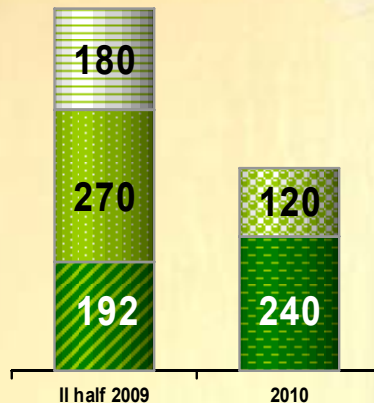
**Cu** ('000 t)



**Ag** (mln troz)



**USD** (mln)



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



- Bought put options average weighted hedge 2.62
- Collar (buy put, sell call), 2.91 – 3.80
- Collar (buy put, sell call), 2.94 – 3.60
- Collar (buy put, sell call), 3.20 – 4.40
- Collar (buy put, sell call), 3.30 – 4.30

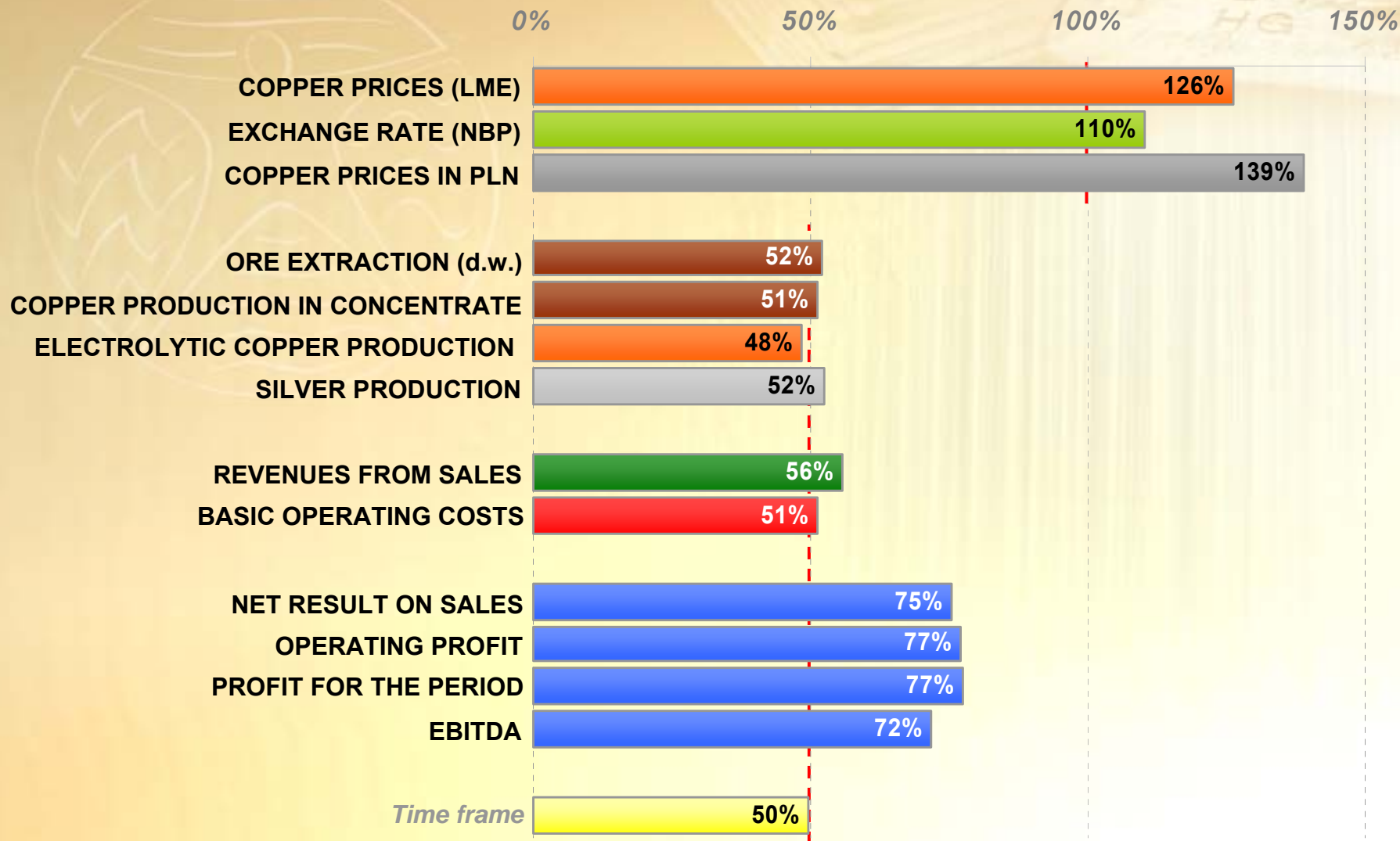
\*avg. USD/troz strike price

Seagull (sell put, buy put, sell call)  
3 500 – 4 700 – 6 500

\*avg. USD/t strike price

In the first half of 2009 the result on derivative instruments amounted to **PLN 377 million**

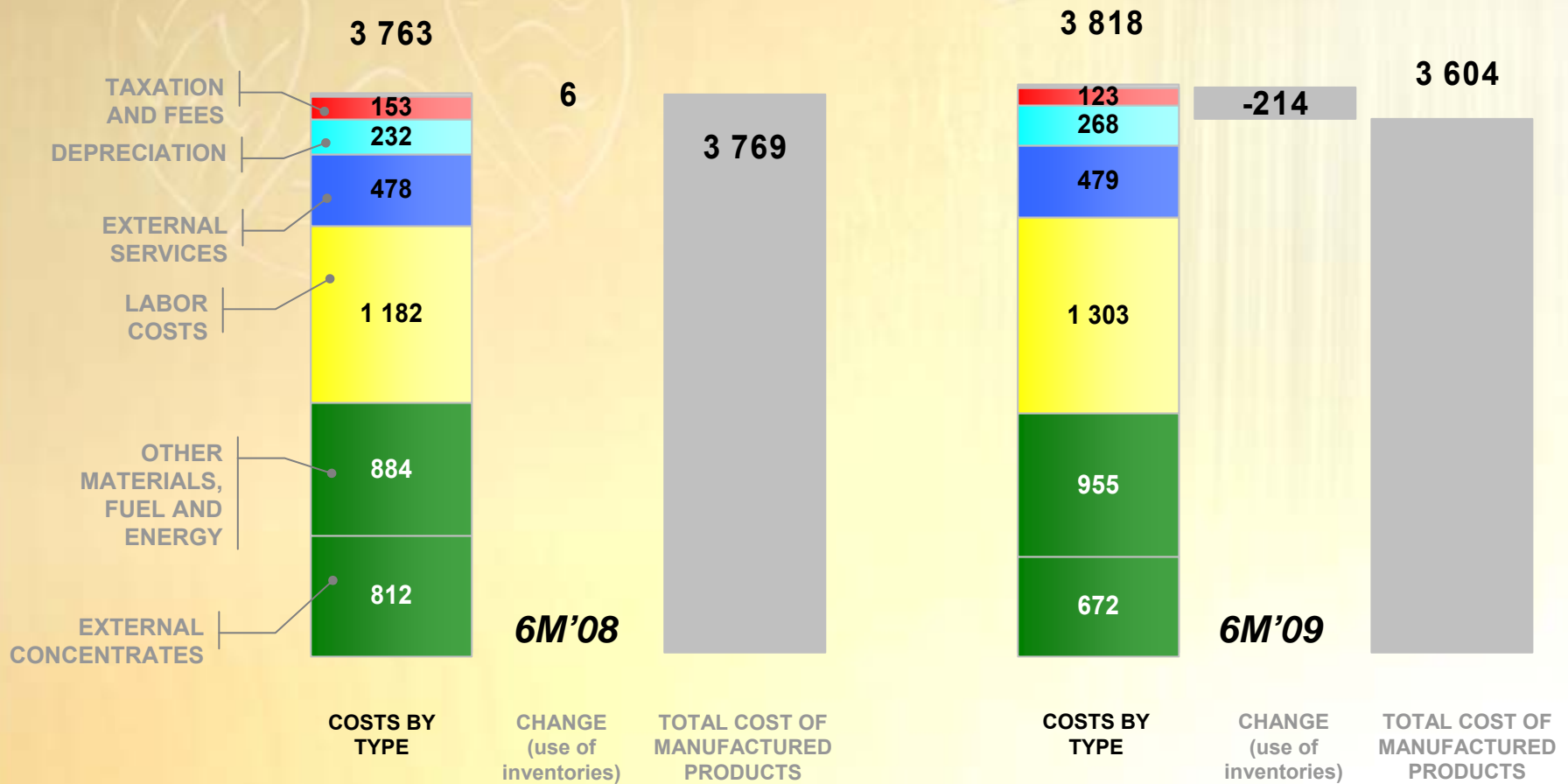
Open derivative positions amount to **PLN 240 million**



- **The Company has achieved 56% of its planned revenues from sales for 2009. This high realisation of revenues is in line with projections, reflecting the positive impact of hedging on revenues in the first half and the prudent assumptions with respect to macroeconomic conditions in the second half of 2009.**
- **The Company is currently working on an adjusted Budget for 2009, reflecting:**
  - **the results of the first half,**
  - **the impact of the decision of the General Meeting to pay out a dividend for 2008, and**
  - **updated macroeconomic, production and investment assumptions .**
- **The adjusted Budget will reflect the improvement in macroeconomic conditions and an increase in production from purchased copper-bearing materials in the second half, with an unchanged level of production from internal concentrates.**

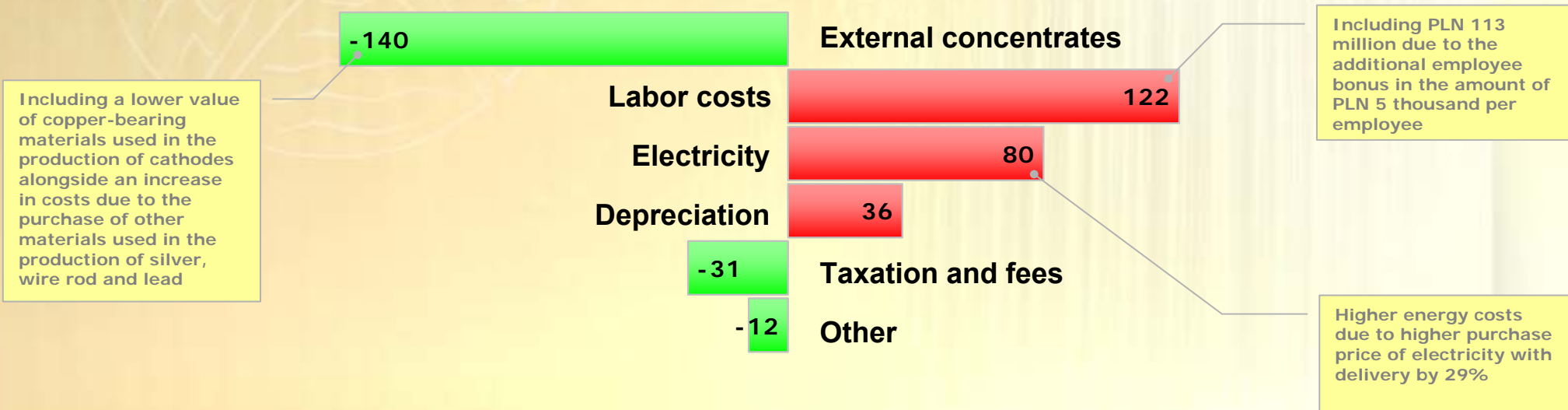
# Costs by type (million PLN)

An increase in costs by type versus the first six months of 2008 by PLN 55 million, i.e. by 1%  
 A decrease in total cost of products sold by PLN 165 million, i.e. by 4%



An increase in costs by type versus the first six months of 2008 by PLN 55 million, i.e. by 1%

## Change in costs by type

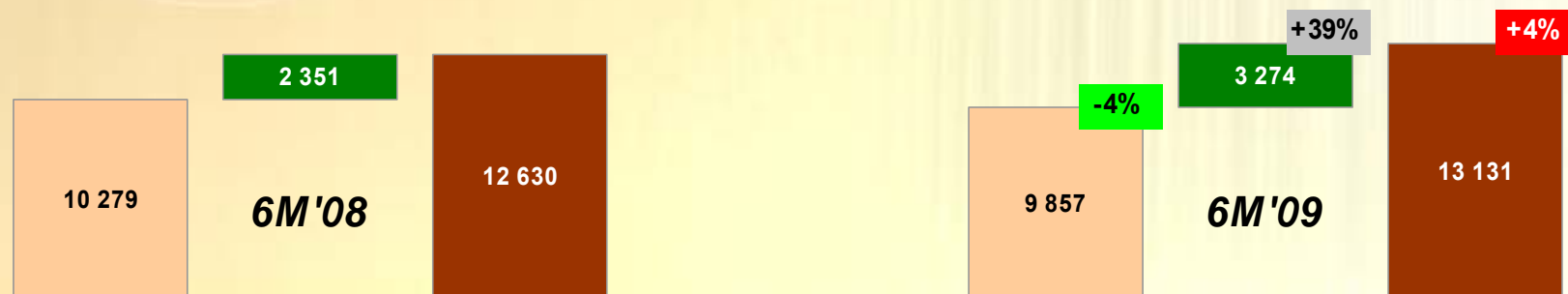


# Unit cost of electrolytic copper production (PLN/t)

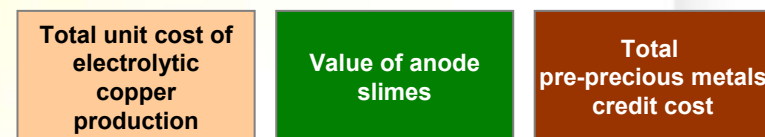
## Total cost



## Cost of internal concentrates



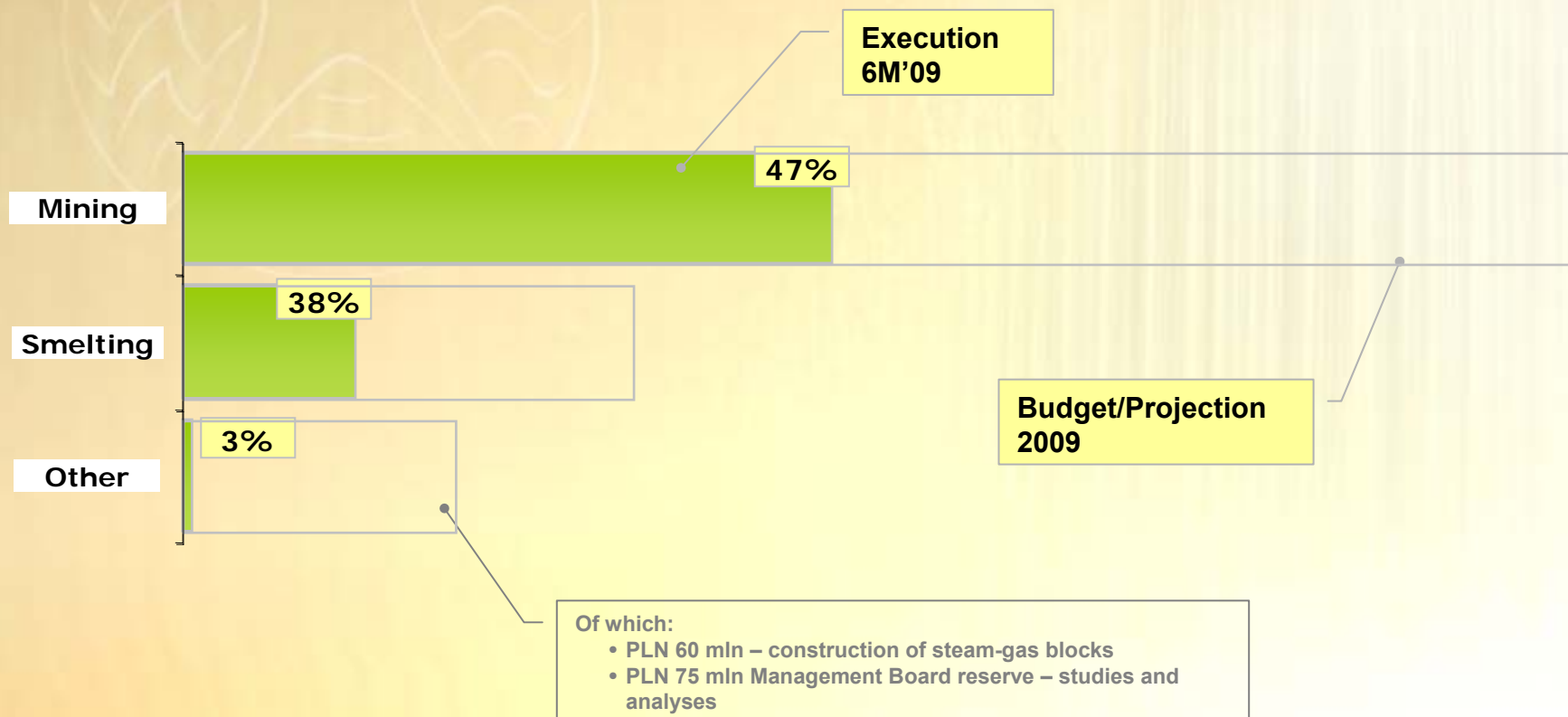
Due to the stages involved in the electrolytic copper production process and to the methodology of mutual settlement between the Divisions of KGHM Polska Miedz S.A., the effects of wage decisions which were accounted for in operating costs in the second quarter of 2009 were not fully charged to unit copper production costs. Recognition of the entire amount of costs in the "cost of sales" (costs by function) format will be made in the third quarter.







**In the first half 39% of the investment plan for 2009  
for tangible investments was achieved**



# Consolidated financial result (million PLN)

	Consolidated result		Parent result	
	6M'08	6M'09	6M'09	
Sales	6 751	5 612	5 099	91%
Operating costs	4 515	4 146	3 642	
Net profit on sales	2 236	1 466	1 457	
Result of other operating activities	(272)	(8)	309	
Operating profit	1 964	1 459	1 766	121%
Net financing cost	(25)	(26)	(19)	
Share in profits of Associates valued by the equity method	153	145	x	
Profit before tax	2 091	1 577	1 747	
Taxation	372	286	275	
Profit for the period	1 719	1 291	1 473	114%
<i>EBITDA</i>	2 294	1 821	2 034	112%

Share of Parent in consolidated results



***Thank you . . .***