

KGHM

POLSKA MIEDŹ S.A.

Company results in the first quarter of 2012

May 2012

Agenda



- Results of KGHM Polska Miedź – synthesis
- Process of gaining licenses for the mining regions currently in operation as well as agreements with local governments (gminas)
- Foreign resource investments by KGHM Polska Miedź
- Financial results of KGHM Polska Miedź in the first quarter of 2012
- Forecast of Company financial results in 2012

Results of KGHM Polska Miedź – synthesis

- ✓ In the first quarter of 2012, KGHM Polska Miedź S.A. earned a net profit of PLN 1.4 billion, which is lower than that earned in the comparable prior period by PLN 0.6 billion
- ✓ During the reporting period the Company produced 134 thousand tonnes of refined copper (a decrease of 5%) and 335 tonnes of silver (an increase of 16%)
- ✓ In March the Company finalised the process of acquiring the shares of Quadra FNX Mining Ltd
- ✓ In accordance with the Budget for 2012, the Company anticipates the achievement of revenues from sales of PLN 19.4 billion and a profit for 2012 of PLN 3.8 billion

Recognition for KGHM Polska Miedź S.A.

According to the World Silver Survey, the Company was the world's Number 1 producer of metallic silver in 2011



In 2011, KGHM was one of the top companies on the Warsaw Stock Exchange in terms of total shareholder returns (TSR)

The Company was named Company of the Year for 2011 and was awarded the „Bull and Bear” statuette in a competition organised by the market newspaper „Parkiet”



KGHM remains a leading company in terms of adherence to the highest standards of corporate social responsibility



Process of gaining licenses for the mining regions currently in operation

Licenses for copper ore extraction in 5 mining regions – valid to December 2013

The Company submitted applications for the granting of licenses for these regions for a period of 50 years

Agreement with the State Treasury (represented by the Minister of the Environment) for the paid use of rights to geological information.

Agreement with local governments related to the scope of required changes to their terrain management plans

Development of appendices to the applications, required by the Act on geology and mining

Submission of these applications is contingent on the prior receipt of positive environmental decisions, and is planned for August 2012. There are presently no delays nor any indications of any threat in the process of receiving the new licenses

Agreement with municipalities (gminas) on the granting of financial support

On 7 March the Company entered into agreements with the municipalities (gminas) of Grębocice, Polkowice and Rudna with respect to financial support for environmental protection – the gminas committed to cooperation, in particular with respect to enabling the planned expansion of the Żelazny Most Mining Waste Treatment Facility

On 7 March 2012, the Company entered into agreements with municipalities (gminas) for the period 2012-2042 in the total amount of PLN 258 million, of which PLN 72 million will be charged to other operating activities in the first quarter of 2012 (execution of these liabilities will occur in the years 2012-2014). The purpose of these actions is to minimise the environmental and social impact of the Company's operations due to the storage of waste.

Afton-Ajax: copper and gold ore mining project

M&I mineral resources	512 Mt ore
M&I copper grade (%)	0.31 %
M&I gold grade (gpt)	0.19 g/t
Strip ratio	2.4:1
Mine life	23 years
P&P mineral reserves (copper)	1.34 Mt
P&P mineral reserves (gold)	2.75 Moz
Recovered gold	2 279 koz
Start of production	2015
Cash cost - \$/lb of copper	1740 - 2 800 USD/t
Average Annual Copper Production	50 000 t Cu
Average Annual Gold Production	100 000 oz Au
Capex	USD 795 M

- ✓ December 2011 – Bankable Feasibility Study completed – the BFS confirmed the justification and attractiveness of the project for the construction and operation of the Afton–Ajax copper/gold mine;
- ✓ 2 April 2012 – decision to exercise the call option to acquire further shares in the JV KGHM Ajax Mining Inc. and increase ownership to 80% (shares purchased from Abacus Mining & Exploration Corporation for USD 29.9 M);
- ✓ 26 April 2012 - KGHM PM SA transferred the shares owned in KGHM Ajax Mining Inc. to 0929260 BC ULC in Canada;
- ✓ KGHM Ajax Mining Inc. currently involved in preparing the project, including gaining environmental permitting to build the mine.
Projected start of Cu-Au concentrate production: 2015



Integration teams at KGHM Polska Miedź S.A. and KGHM International Ltd.

Basic integration-related tasks

Transaction concluded 5 March

2 months

18 teams in KGHM, including:

- Finance
- Governance
- Production
- Communication
- Procurement
- IT



Tight cooperation



Projections of Value Development Plan

Today

3 months+

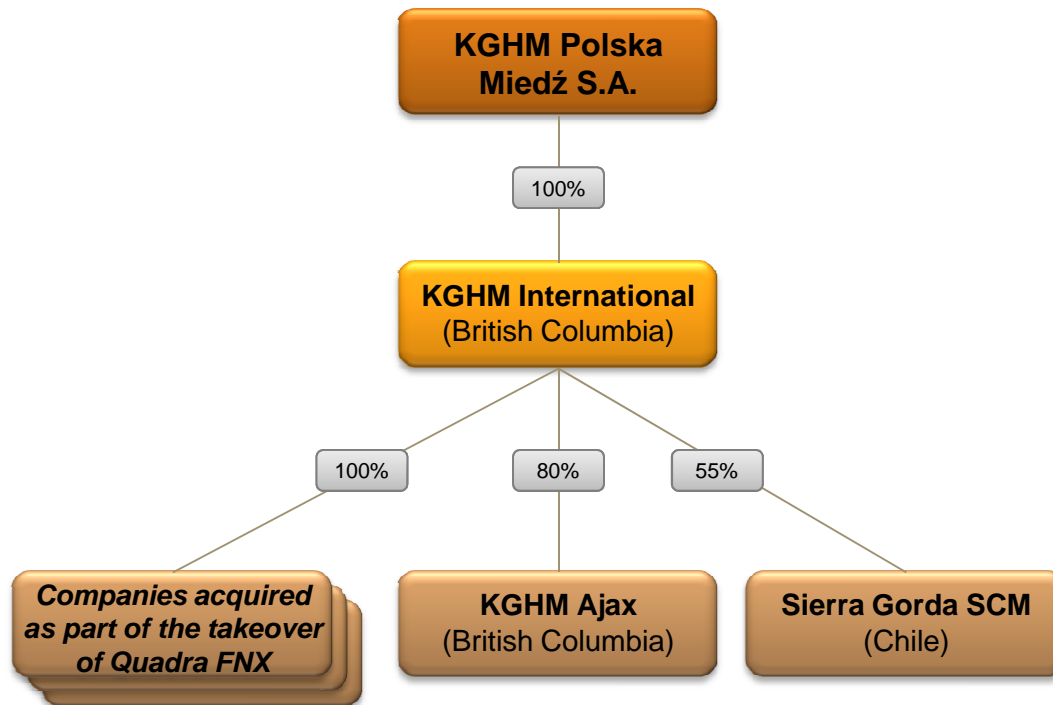
- Integration Management Office team in Canada composed of representatives of KGHM (Management Board members and coordinators)
- Specialists from KGHM supporting the foreign operations

Working arm-in-arm



- **6 representatives of KGHM** in the BoD
- **2 representatives of KGHM** in the Management
- **5 integration team members from KGHM delegated** to work in KGHM International
- **Specialists from KGHM** supporting the mining operations of KGHM International

Target functional model of the foreign resource assets



- ✓ 5 March 2012: KGHM Group acquires 100% of the shares of Quadra FNX Mining Ltd. with registered head office in Vancouver (now KGHM International Ltd.)
- ✓ 2 April: KGHM Polska Miedź exercises call option to acquire a further 29% of the shares of KGHM Ajax Mining Inc., increasing ownership to 80%

The purchase of Quadra FNX Mining was based on optimisation of the holding structure – guaranteeing security of the legal and tax aspects of the transaction

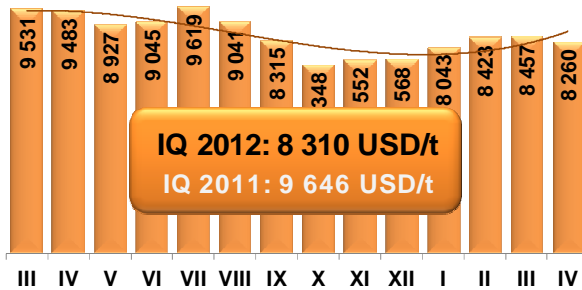




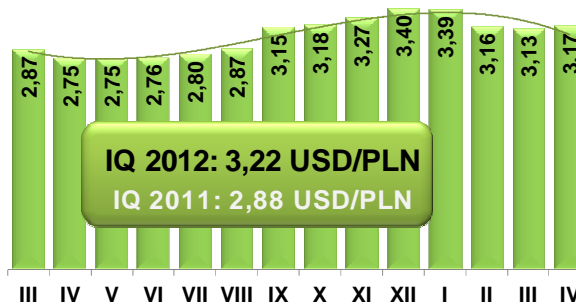
Financial results of KGHM Polska Miedź in the first quarter of 2012

Macroeconomic conditions

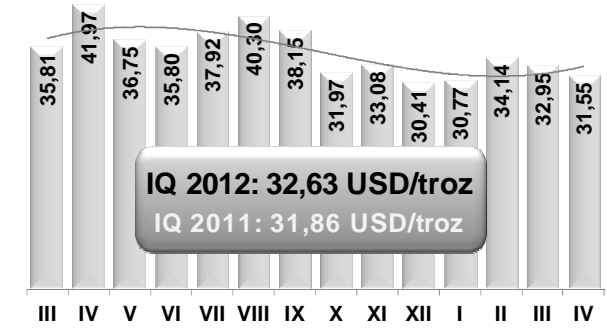
Copper prices (USD/t)



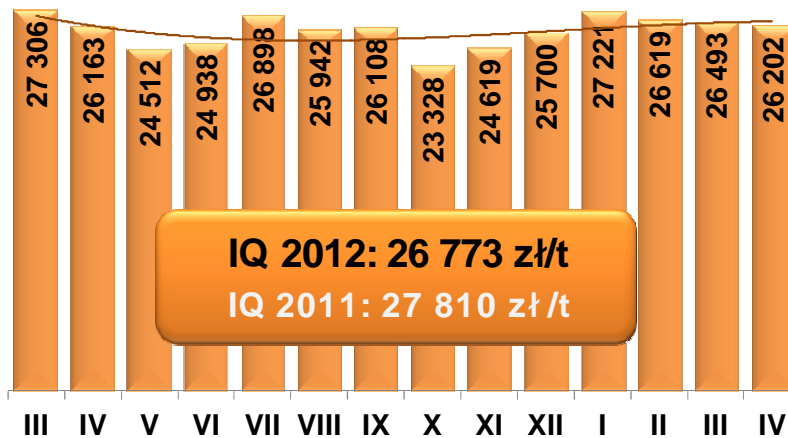
Exchange Rate (USD/PLN)



Silver prices (USD/troz)

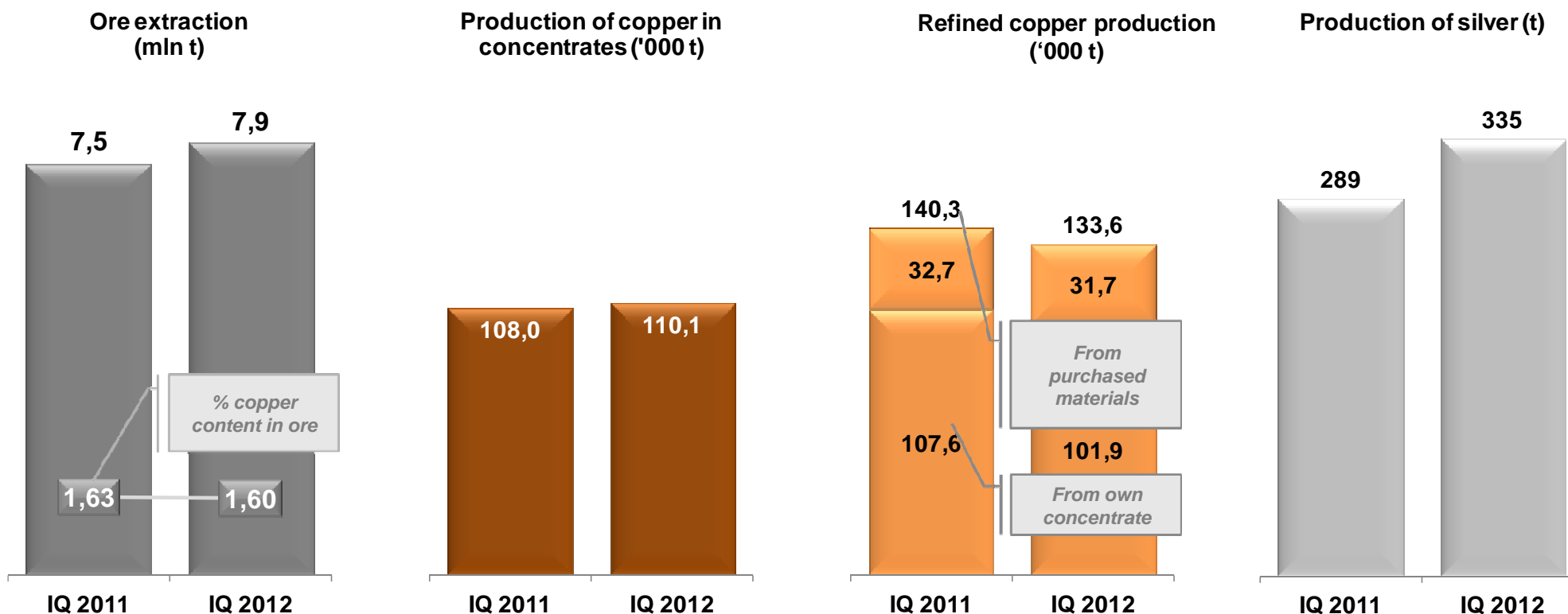


Copper prices (zł/t)



- ✓ After an increase at the start of the year, the copper price stabilised at a level above 8 000 USD/t
- ✓ The USD/PLN exchange rate, maintaining its negative correlation with the copper price, after strengthening in the first weeks of 2012, similarly to other metals, stabilised above 3.10 USD/PLN
- ✓ The silver price continues to reflect the gold market. The average price of silver in the first quarter of 2012 amounted to 32.63 USD/troz

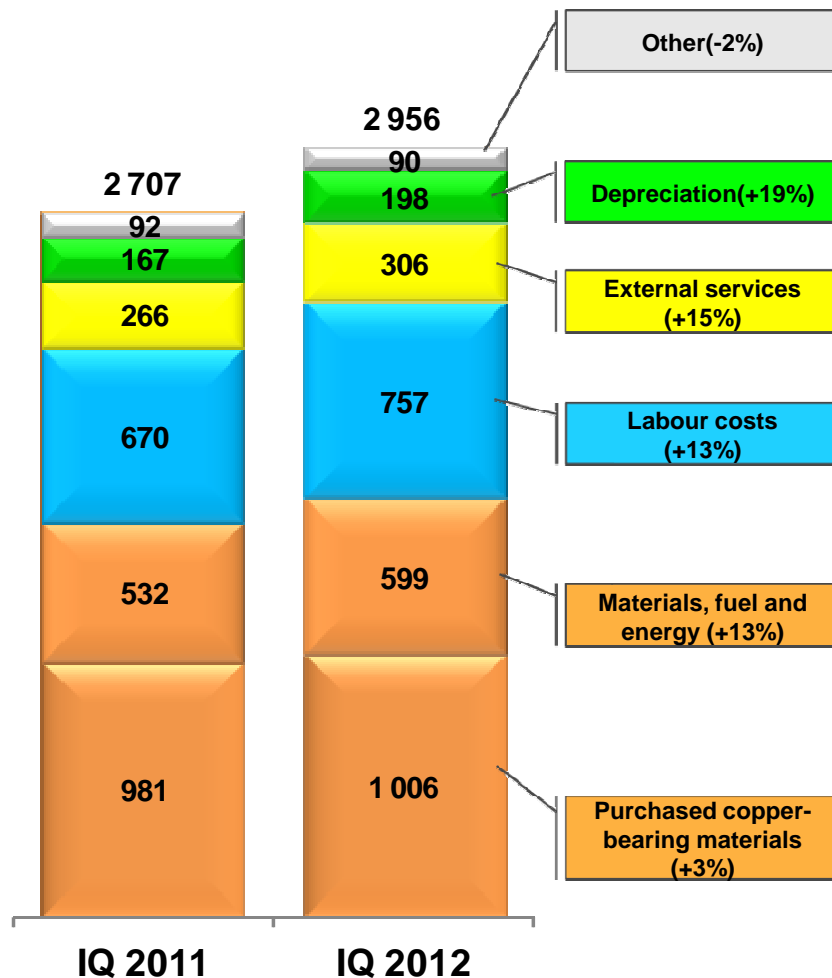
Production results



- ✓ Production of copper in concentrate remained stable alongside a deterioration in ore quality
- ✓ Substantial increase in metallic silver production (+16%), mainly from the processing of purchased materials

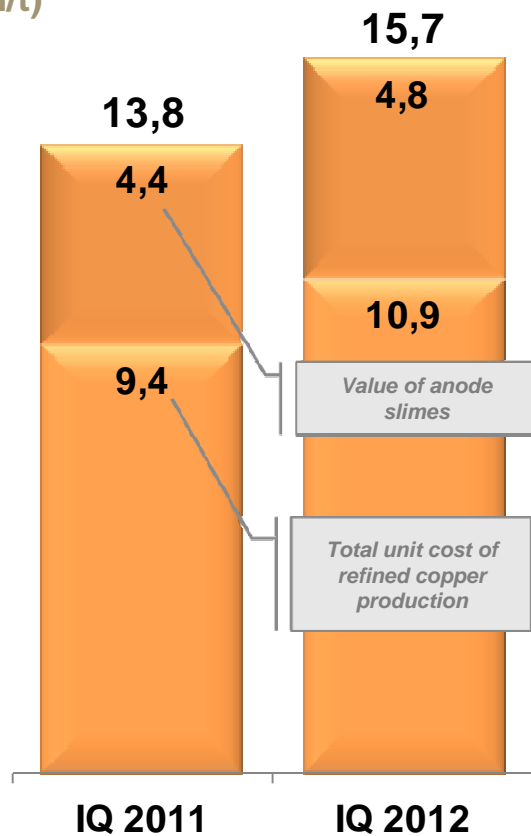
Expenses by nature (PLN million)

Expenses by nature increased by 9% alongside a 5% decrease in copper production volume and a price index of industrial production sold of 6.1%

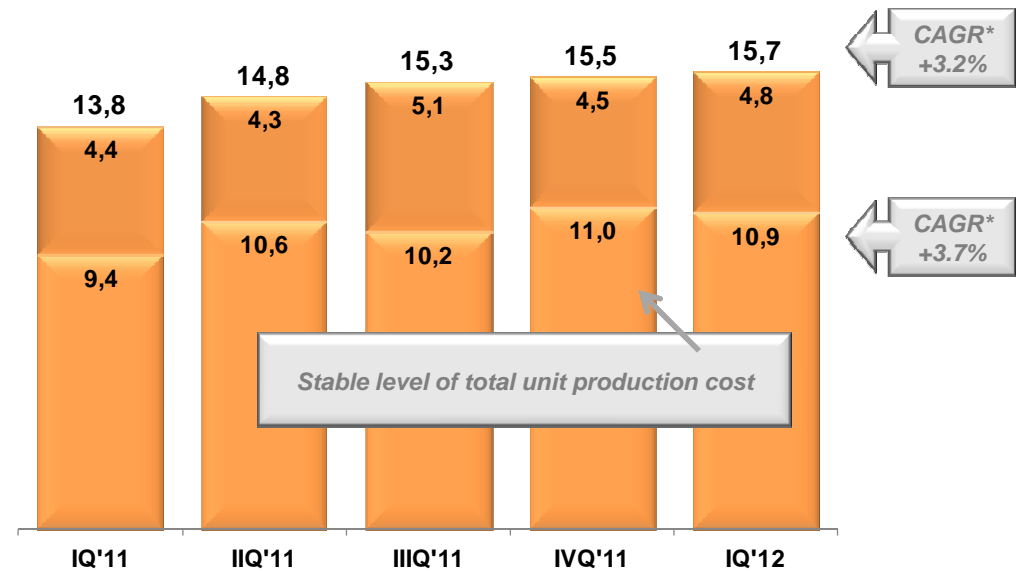
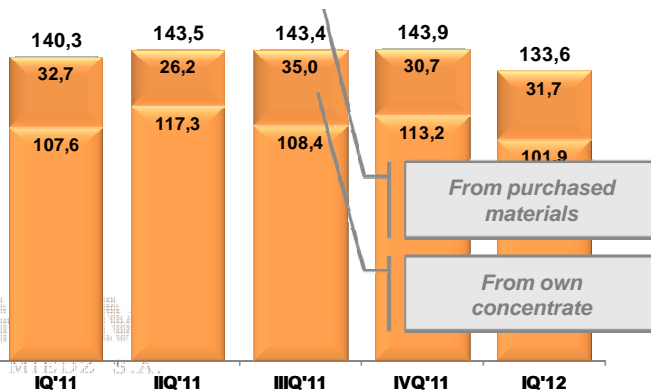


- ✓ Total expenses by nature increased by PLN 248 million, mainly due to the following costs:
 - ✓ labour (PLN 87 million) – mainly due to an increase in employee benefits provisions
 - ✓ materials, fuel and energy (PLN 67 million) – mainly due to an increase in costs of smelter and floatation materials (higher prices), diesel fuel (higher prices by 19% and consumption by 7%) and higher prices by 3% and consumption by 4%)
 - ✓ external services (PLN 40 million) – mainly due to a higher scope of preparatory mine work and maintenance performed (+773 meters)

Pre-precious metals unit cost of refined copper production from own concentrate ('000 PLN/t)



Refined copper production ('000 t)



The total cost of production from own concentrate increased versus the comparable prior period by 15%

The increase was due to the higher production cost of own concentrate (higher prices, energy consumption and preparatory mine work) and a decrease in own production by 5%

*CAGR: Compound Annual Growth Rate

Minerals extraction tax

- ✓ On 18 April the Act on the minerals extraction tax came into force, which will result in a substantial tax charge for KGHM Polska Miedź S.A.
- ✓ The minerals extraction tax is calculated from the amount of copper and silver contained in produced concentrate, and will be recognised under manufacturing costs
- ✓ The tax will impact the valuation of inventories and the unit cost of copper and silver production
- ✓ The tax is **not a deductible expense**, and does not reduce the taxable base
- ✓ Nearly 60% of the increase in the unit cost of refined copper production from own concentrate planned for 2012 is due to the minerals extraction tax

Sales

Cost of sales

including the minerals extraction tax

Gross profit

Selling costs

Administrative expenses

Other operating income

Other operating costs

Operating profit

Finance costs

Profit before income tax

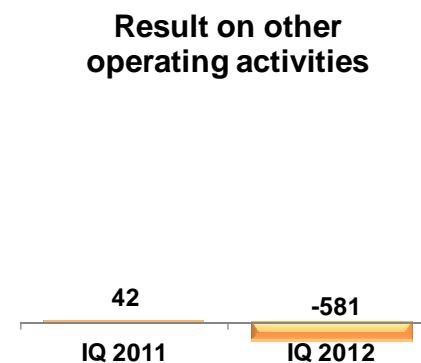
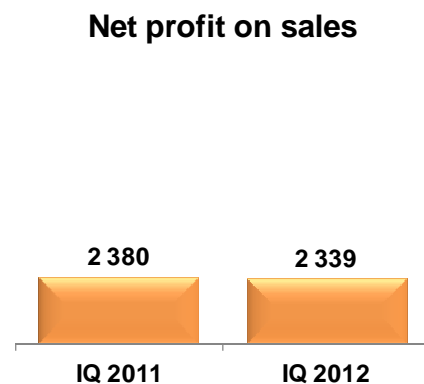
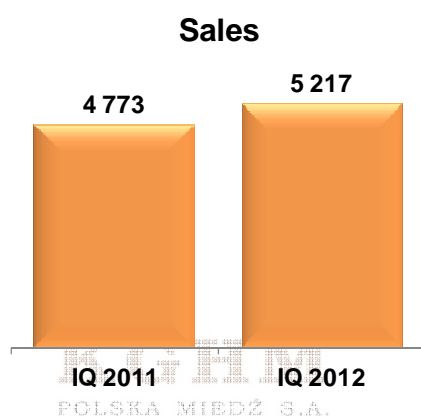
Income tax expense

Profit for the period

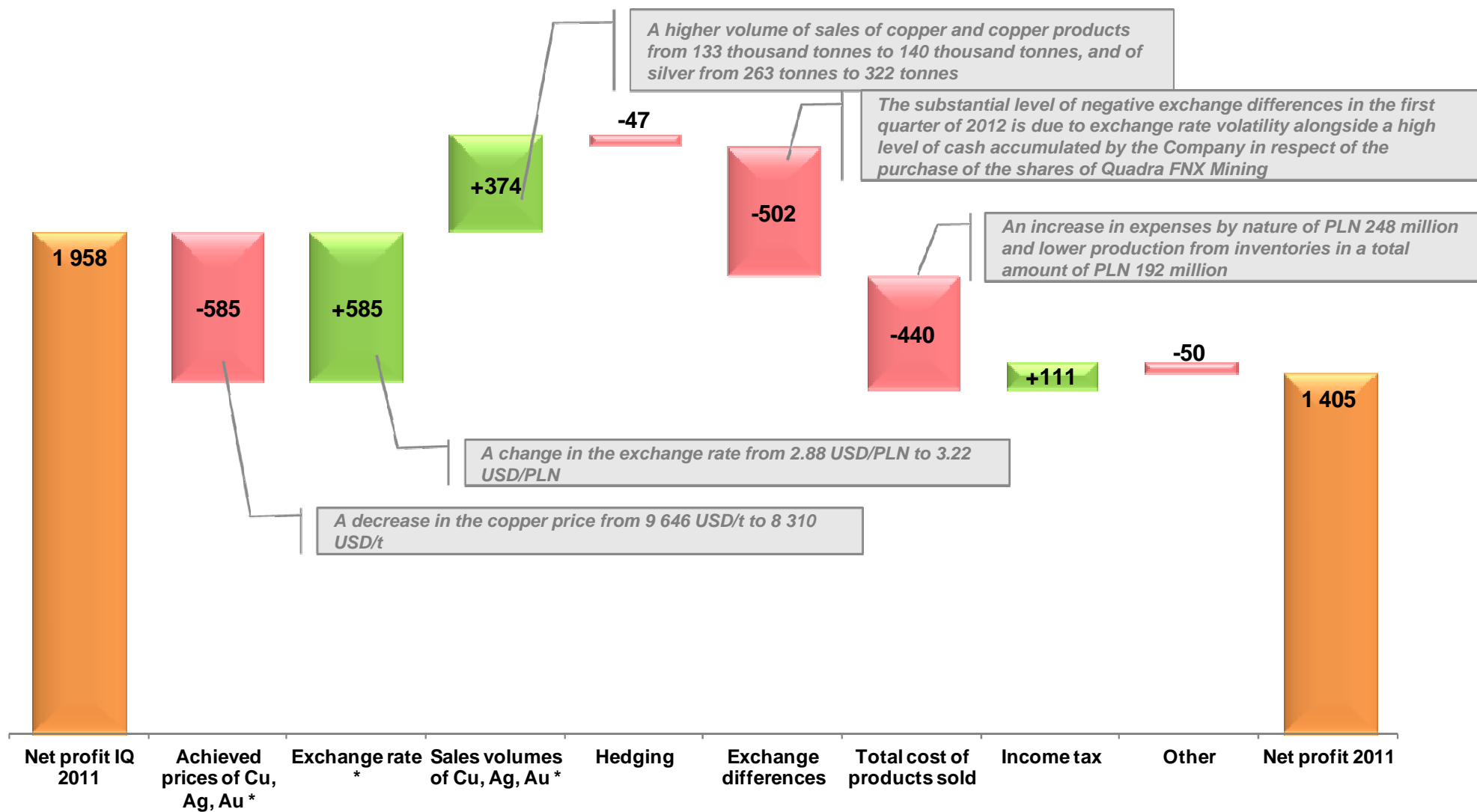
- ✓ **According to the 2012 Budget, the amount of this tax due for this year will amount to PLN 1.3 billion**

Financial results (PLN million)

	IQ 2011	IQ 2012	Change	Realisation
Sales	4 773	5 217	443	109
Operating costs	2 394	2 878	484	120
Net profit on sales	2 380	2 339	-41	98
Result on other operating activities	42	-581	-623	x
Realisation and measurement of derivative inst	32	-47	-79	x
Exchange differences	-21	-523	-502	x 25
Other	31	-12	-42	x
Operating profit	2 422	1 757	-664	73
Net finance costs	-8	-8	0	103
Income tax	-455	-344	111	76
Profit for the period	1 958	1 405	-553	72
EBITDA	2 588	1 955	-633	76



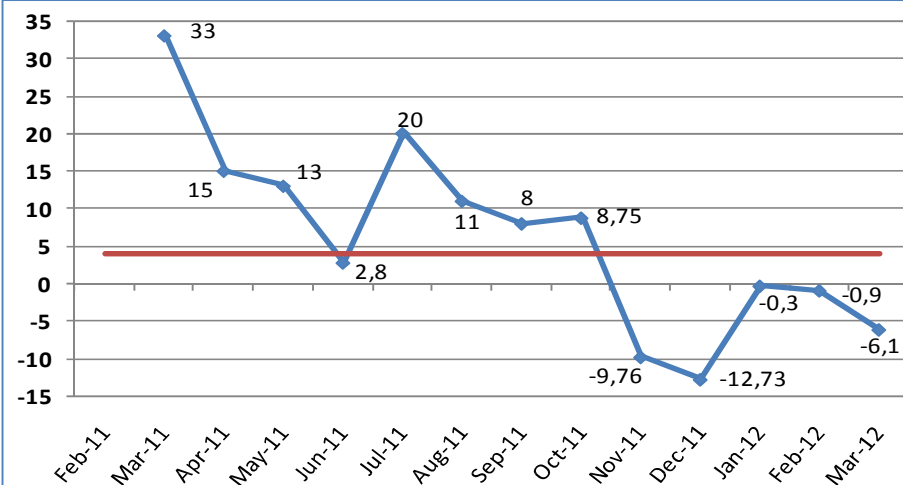
Change in the financial result (PLN million)



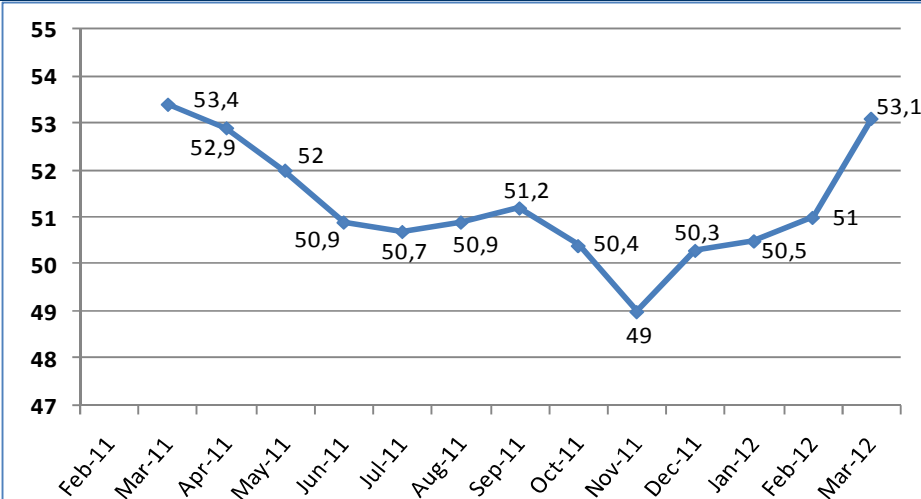
Market risk management – macroeconomic situation

- In the opinion of the OECD, leading economic indicators signal a halt to negative tendencies in the world economy, although individual regions will continue to experience problems in the coming months.
- The most worrying situation is in the Euro zone, whose indicators have ceased falling, but remain below 100 points, which signals a difficult situation for at least the next several months. There is also great uncertainty as to the Chinese market, which is putting out conflicting signals. Although official PMI has returned above 50 points, signalling economic recovery, the HSBC Flash PMI indicator signals an opposite trend. The drop in foreign direct investment is also no cause for optimism.
- The results of the May elections in Europe have raised investor concerns. There are still no solutions aimed at improving the economic situation in Europe. Stagnation in Europe will certainly impact the remaining largest global economies – China and the United States.

Foreign direct investment in China

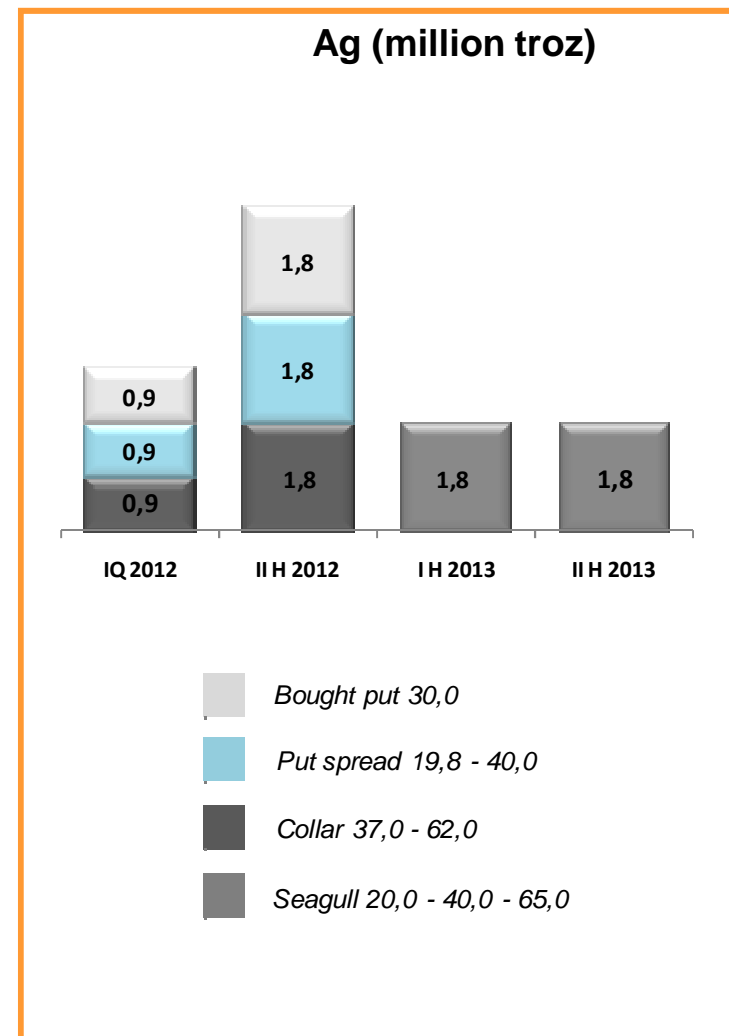
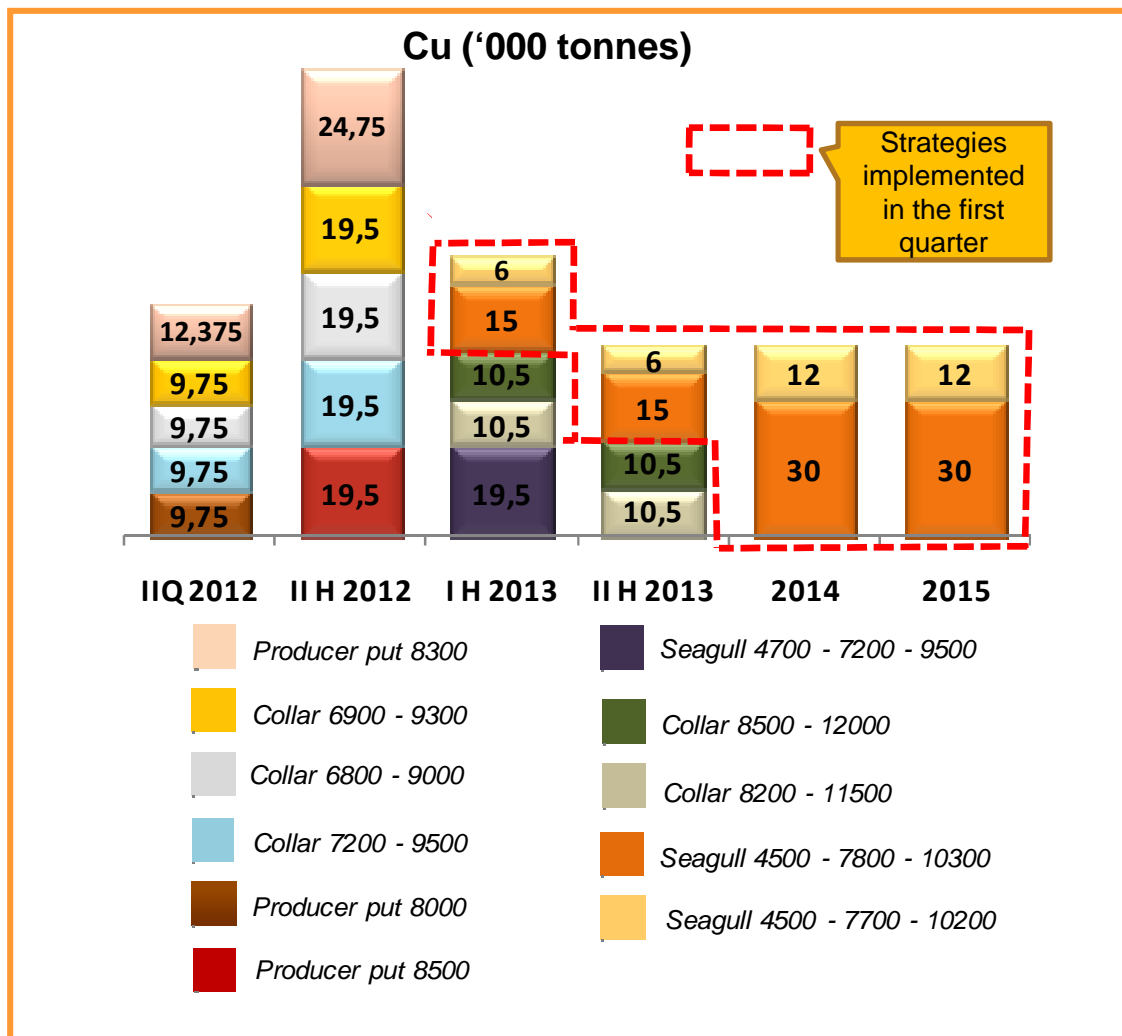


Official PMI for China



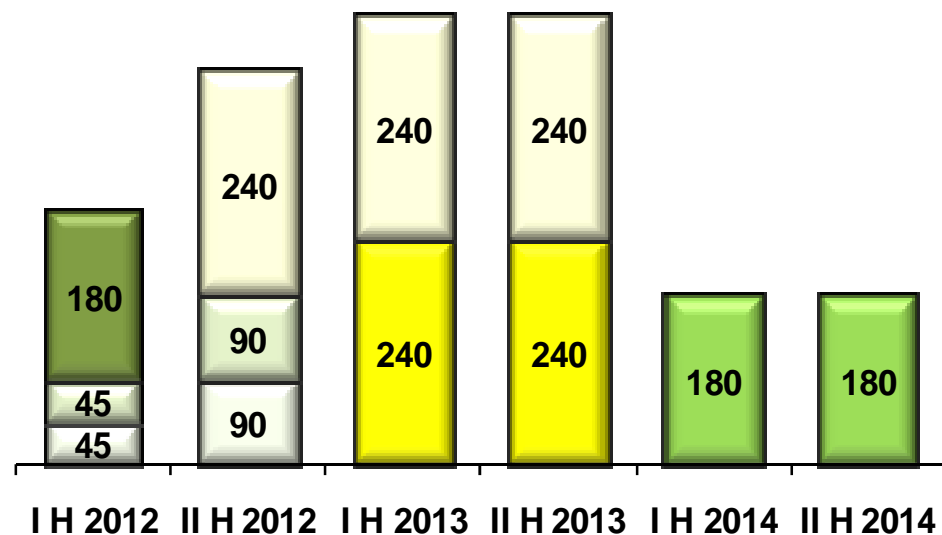
Market risk management – hedged position (at 31 March 2012)

Position in derivatives on the commodities market

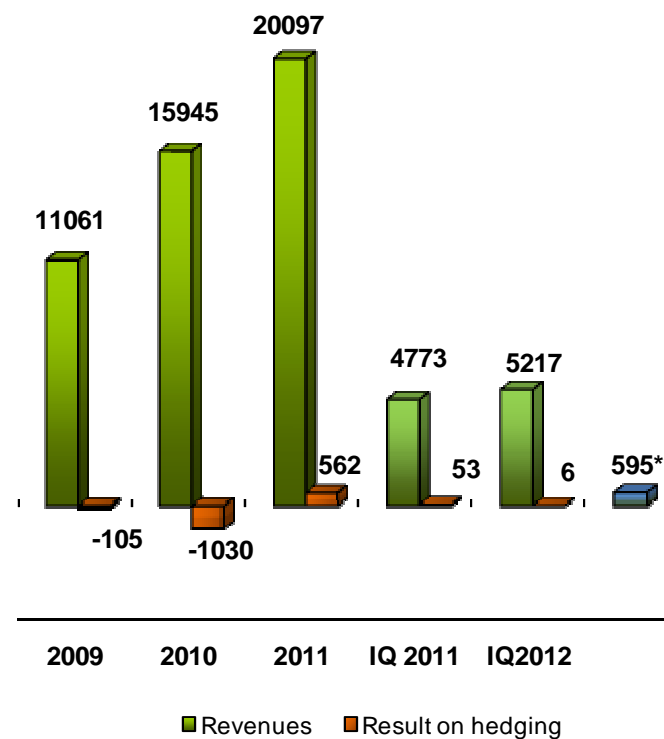


Market risk management – hedged position (at 31 March 2012)

Position in derivatives on the currency market (USD million)



Results on hedging and Company revenues (PLN million)



* Fair value of open positions in derivatives at 31 March 2012

Market risk management – comments

Continued development of hedged position

- After a clear increase in January, in the remaining two months of the first quarter the copper price was exceptionally stable, and held to a range of 8100 – 8800 USD/t.
- The increase in price was used to increase the hedged position on the copper market by 126 thousand tonnes, and to simultaneously extend the hedged horizon to the end of 2015.
- In the first quarter there were no new hedging transactions implemented on the silver and currency market.

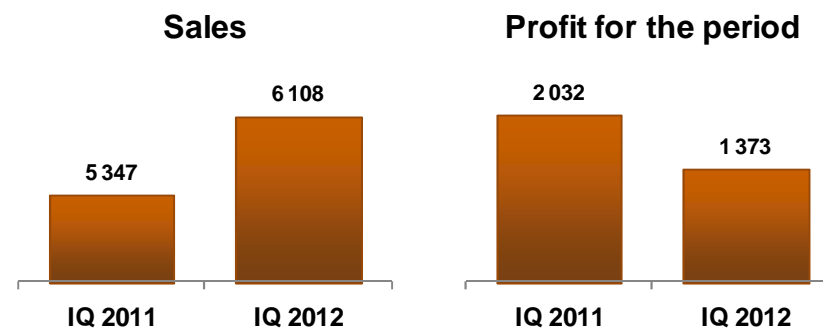
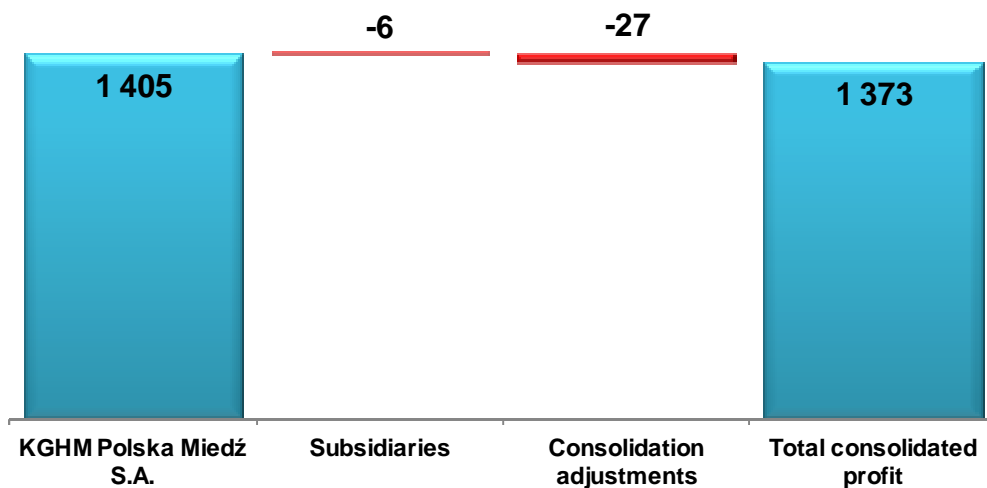
A positive result on derivatives in the first quarter of 2012

- In the first quarter of 2012 the Company recorded a positive result on derivatives in the amount of PLN 6.5 million, of which PLN 53.3 million adjusted sales, and PLN 46.8 million reduced the result on other operating activities

Consolidated financial result (PLN million)

Share of Parent in consolidated result

	IQ 2011	IQ 2012	KGHM Polska Miedz S.A.	
Sales	5 347	6 108	5 217	85%
Operating costs	-2 932	-3 756	2 878	
Net profit on sales	2 415	2 352	2 339	99%
Result on other operating activities	43	-595	-581	
Operating profit	2 458	1 757	1 757	100%
Net finance costs	-11	-20	-8	
Share of profits of associates valued using the equity method	65	0	x	
Income tax	-480	-364	-344	
Profit for the period	2 032	1 373	1 405	102%
EBITDA	2 691	1 999	1 955	98%



Forecast of Company results in 2012

- ✓ The Company assumed the realisation in 2012 of a profit for the year of PLN 3.8 billion, on sales of PLN 19.4 billion

		Execution 2011	Budget 2012	Change 2011=100
Sales	PLN M	20 097	19 418	96.6
Profit for the period	PLN M	11 335	3 804	33.6
Average annual copper price	USD/t	8 811	8 000	90.8
Average annual silver price	USD/troz	35,12	30,00	85.4
Exchange rate	USD/PLN	2.96	3.09	104.4
Unit cost of refined copper production from own concentrate	PLN/t	10 299	15 729	152.7
Refined copper production	'000 t	571.0	562.0	98.4
- of which from own concentrate	'000 t	124.6	147.3	118.2
Silver production	t	1 260	1 098	87.1
Capital expenditure	PLN M	1 514	2 100	138.7
Equity investments*	PLN M	642	10 671	× 16.7

The main reason for the decrease in profit by PLN 7.5 billion was the sale of the telecom assets in 2011, lower metals prices, the change in exchange rates and the reflection of the minerals extraction tax in 2012

Nearly 60% of the increase in the unit cost of refined copper production from own concentrate planned for 2012 is due to the minerals extraction tax

The increase in equity investments is mainly due to the conclusion in March 2012 of the purchase of the shares of Quadra FNX Mining Ltd (PLN 9.1 billion)



KGHM

INTERNATIONAL

**Results of KGHM
International
in the first quarter of 2012**

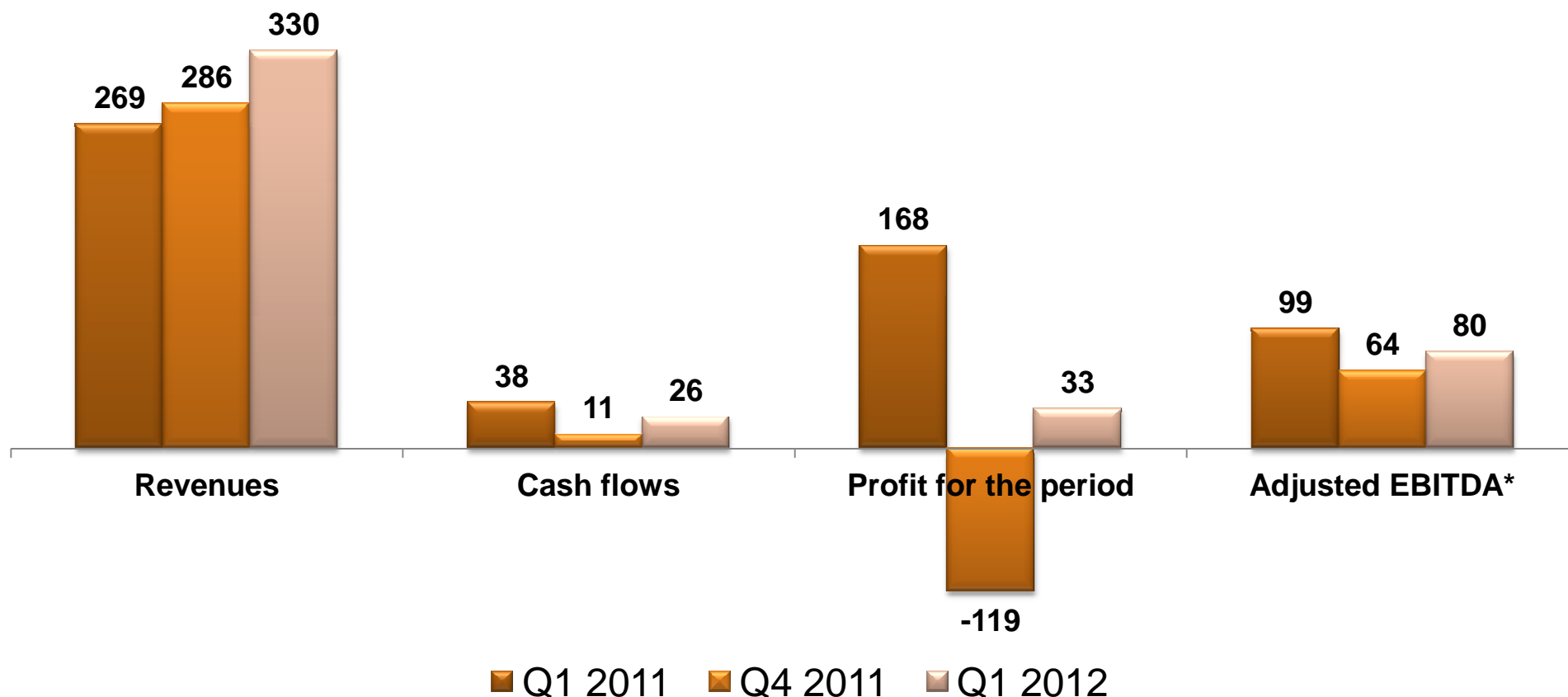
May 2012

Results of KGHM International - Synthesis

- ✓ Completion of transaction with KGHM on 5 March and change of name.
- ✓ Profit for the period of USD 33 million, representing a substantial increase versus the fourth quarter of 2011 – a loss of USD108 million
 - The restated result excluding one-off events amounted to USD 48 million versus USD 8 million in the fourth quarter of 2011
- ✓ A strong balance sheet: USD 900 million cash*; working capital of USD 1.3 billion*
- ✓ Sierra Gorda:
 - On time & on budget
 - Project Financing of USD 1 billion arranged
 - Utilisation of financing commenced
- ✓ Victoria:
 - Exploration
 - Stakeholder consultations
 - Permits & discussion with Vale

* Excludes cash in Sierra Gorda JV

Financial results of KGHM International Ltd. (USD million)

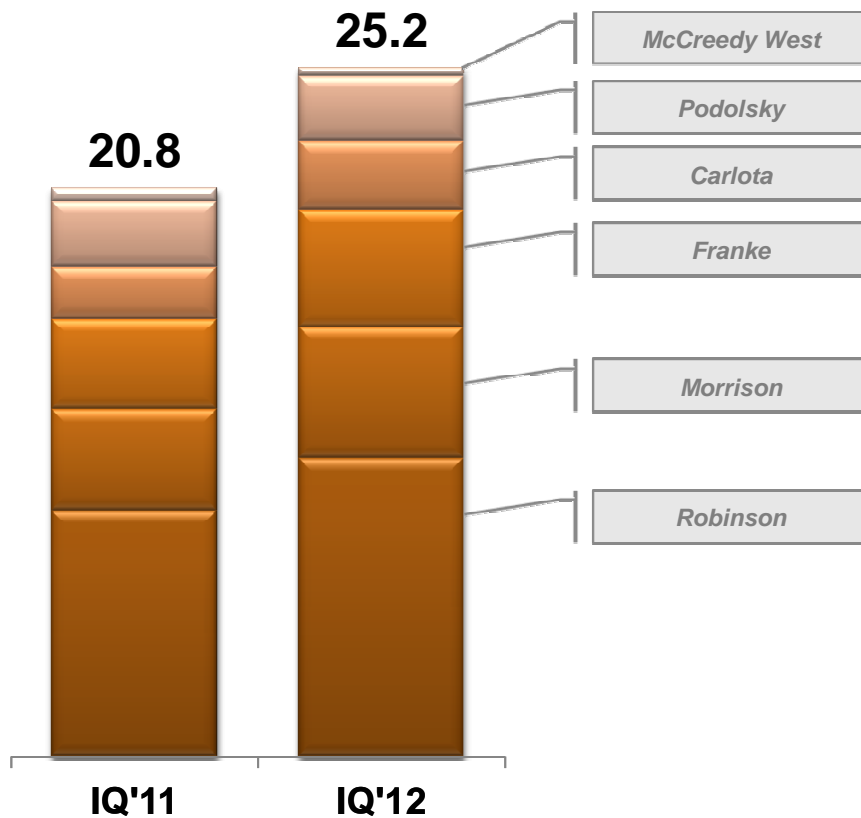


* Adjusted EBITDA is a non-IFRS measure which is calculated as income from mining operations plus amortization, depreciation and depletion, inventory write down and stock-based compensation, minus general and administrative and exploration and evaluation costs

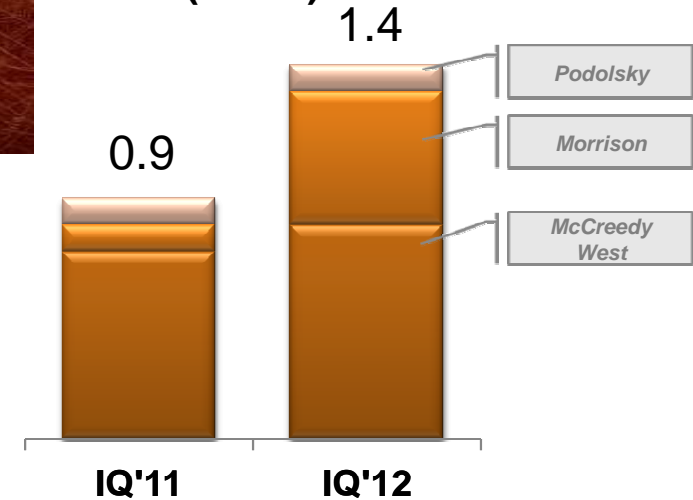
Production results – foreign assets

The production results of Q1 2012 versus Q1 2011 show a 20% increase in copper production and a 50% increase in nickel production

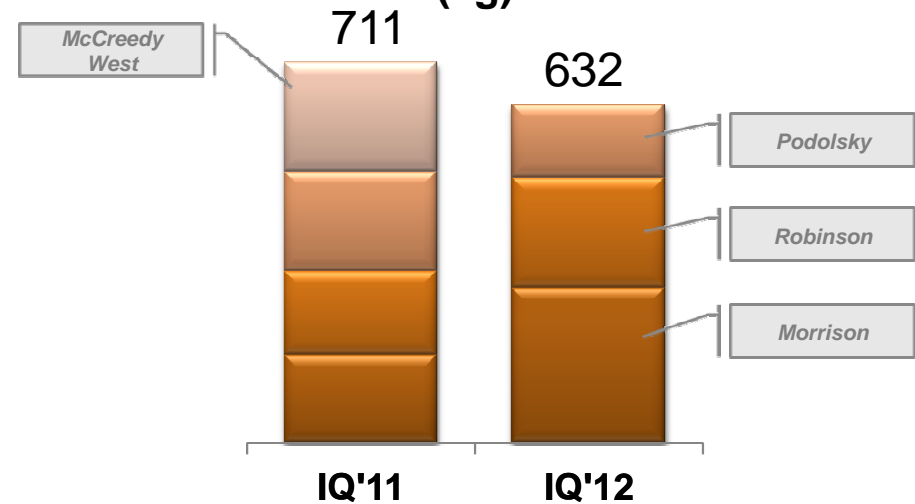
Copper production ('000 t)



Nickel production ('000 t)



Precious metals (kg)



Main producing assets

Robinson



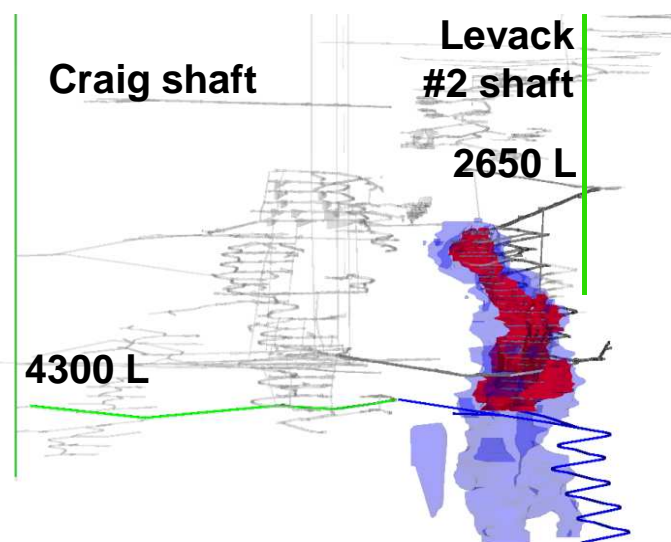
Q1 2012

- Cu grade profile continues to improve
- Re-sequencing in Q4 2011 due to slope stability increasing strip ratio, impacted C1 costs

Outlook

- Operating flexibility & grades continue to improve
- New mine plan finalized at the end of Q2 2012

Morrison



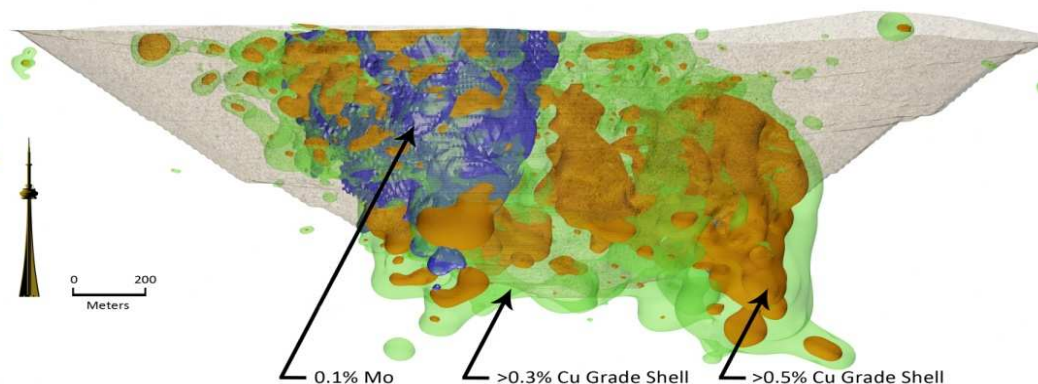
Q1 2012

- Strong operating performance continues
- Transition to Craig on time & budget (Q2 2012)

Outlook

- De-activation of Levack infrastructure
- Development activities & delineation of lower portion of orebody (i.e., MD4)
- Improvement in efficiencies & cost structure

Sierra Gorda project



Key Operating Parameters

- **LOM Annual Average Production:** 230 thousand tonnes Cu & 11 thousand tonnes Mo
- **Mine Life:** 20 years
- **Capex:** \$3.1 B
- **Years 1 - 5 C1 Costs*:** \$0.56/lb
- **LOM C1 Costs*:** \$1.15/lb Cu

Q1 2012 Summary

- First draw-down of USD 140 M on \$1.0 B non-recourse Project Facility
- Pre-strip commenced in March 2012
- Negotiating key contracts
- Site activity building rapidly

*Assuming US\$2.50/lb Cu, US\$12.00/lb Mo and US\$1,000/oz Au



