

KGHM

POLSKA MIEDŹ S.A.

Company results in 2011

February 2012

Agenda

- Results of KGHM Polska Miedź – synthesis
- Sale of telecom assets
- Acquisition of Quadra FNX – status
- Afton Ajax project – Results of Bankable Feasibility Study (BFS)
- Financial results of KGHM Polska Miedź in 2011



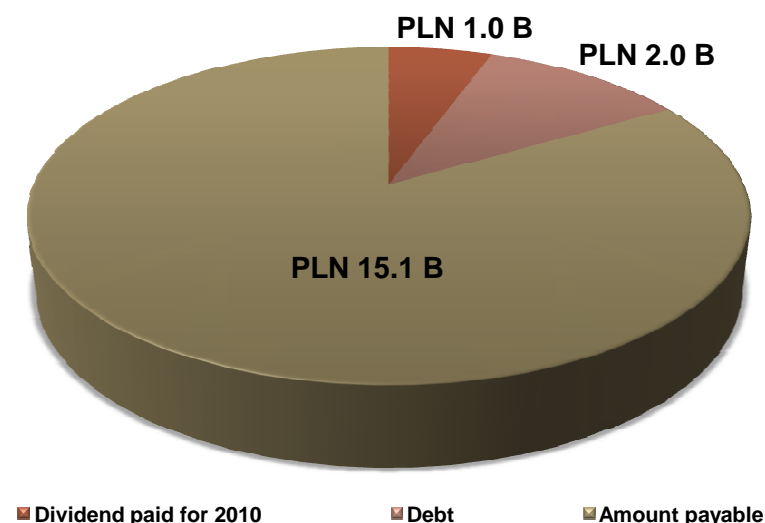
Results of KGHM Polska Miedź – synthesis

- ✓ In 2011 KGHM Polska Miedź S.A. earned a net profit of PLN 11.3 billion, which is higher than in the prior year by PLN 6.8 billion and is the highest profit in the Company's history
- ✓ In 2011 the Company produced 571 thousand tonnes of refined copper and 1 260 tonnes of silver, which is respectively 4.4% and 8.5% more than in 2010
- ✓ In the fourth quarter of 2011 the Company concluded the sale of its telecom assets (pre-tax profit on the sale of Polkomtel and DIALOG: PLN 2.7 billion)
- ✓ In 2011 the Company began the process of acquiring the shares of Quadra FNX Mining Ltd; the transaction is currently being finalised
- ✓ In the fourth quarter of 2011 work was completed on the Bankable Feasibility Study for the Afton-Ajax project, which confirmed the chief geological and mining parameters of the project

Sale of Polkomtel S.A.

- ✓ On 30 June 2011 a preliminary agreement was signed for the sale of 100% of the shares of Polkomtel S.A. with all of the company's shareholders and Spartan Capital Holdings Sp. z o.o., a company from the Zygmunt Solorz-Żak group
- ✓ On 24 October 2011 the Polish Office of Competition and Consumer Protection approved the sale of shares of Polkomtel S.A., which met the condition precedent in the preliminary sales agreement signed on 30 June 2011
- ✓ As a result of this approval, on 9 November 2011 the sale of Polkomtel S.A. was concluded
- ✓ Ownership of the shares was transferred on the transaction closure date
- ✓ Under the agreement, KGHM Polska Miedź S.A. sold its entire block of shares of Polkomtel S.A. (24.39%) for the total price of PLN 3.7 billion

Enterprise Value (PLN 18.1 B)



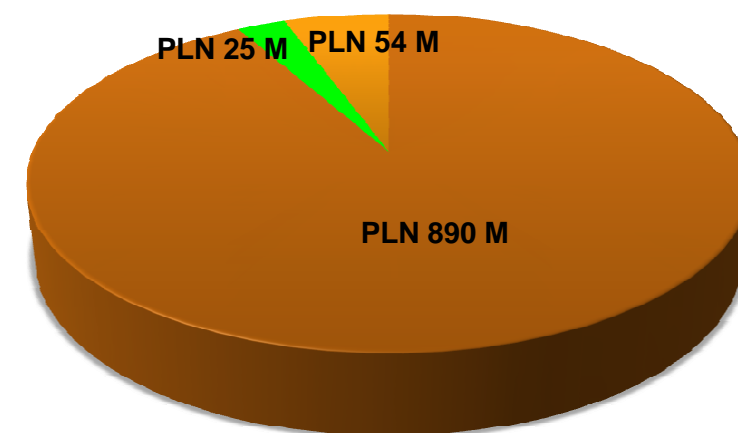
Financial effects (for KGHM):

- **Cash proceeds of +PLN 3 195 million**
 - Sale price +PLN 3 672 million
 - Tax –PLN 477 million
- **Net profit +PLN 2 035 million**
 - Pre-tax profit on sale +PLN 2 512 million
 - Tax –PLN 477 million

Sale of DIALOG S.A.

- ✓ On 29 September 2011 KGHM Polska Miedź S.A. and Netia S.A. signed a contingent binding agreement on the sale of 100% of the shares of Telefonía DIALOG S.A. with its registered head office in Wrocław
- ✓ On 8 December 2011 the President of the Polish Office of Competition and Consumer Protection issued a decision granting unconditional approval to a concentration through the takeover of Telefonía DIALOG S.A. by Netia S.A., which met the condition precedent in the preliminary sales agreement signed on 29 September 2011
- ✓ As a result of this approval, on 16 December 2011 the sale of DIALOG S.A. was concluded
- ✓ Ownership of the shares was transferred on the transaction closure date
- ✓ Under the agreement, KGHM Polska Miedź S.A. sold all of its shares in DIALOG S.A. for the total price of PLN 969 million
- ✓ The sale price of the Shares includes payment of the Enterprise Value in the amount of PLN 890 million and the equivalent of the balance of net cash held by Dialog in the amount of PLN 54 million as at 31 May 2011 (the „locked-box” date). The sale price of the Shares was increased by interest calculated based on the price in the amount of 4.76% annually, calculated from 31 May 2011 to the transaction closure date.

Sale price (PLN 944 million)



■ Enterprise Value

■ Interest

■ Cash

Financial effects

- **Cash proceeds of +PLN 1 162 million**
 - Sale price +PLN 969 million
 - Tax shield +PLN 193 million
- **Net profit +PLN 337 million**
 - Pre-tax profit on sale +PLN 144 million
 - Tax shield +PLN 193 million

Acquisition of Quadra FNX - status

Transaction structure and financing

- Friendly takeover under a Plan of Arrangement.
- Financing assured from the internal resources of KGHM.

Ownership

- 100% KGHM Polska Miedź S.A.
- 15.00 CAD per share.

Conditions precedent met

- Approved by Quadra FNX shareholders, by a majority 2/3 of the votes cast at their General Meeting on 20 February 2012.
- Acquisition of Quadra FNX approved by the Supreme Court of British Columbia.
- Approved by the Canadian Minister of Industry (*Investment Canada Act*).

Calendar

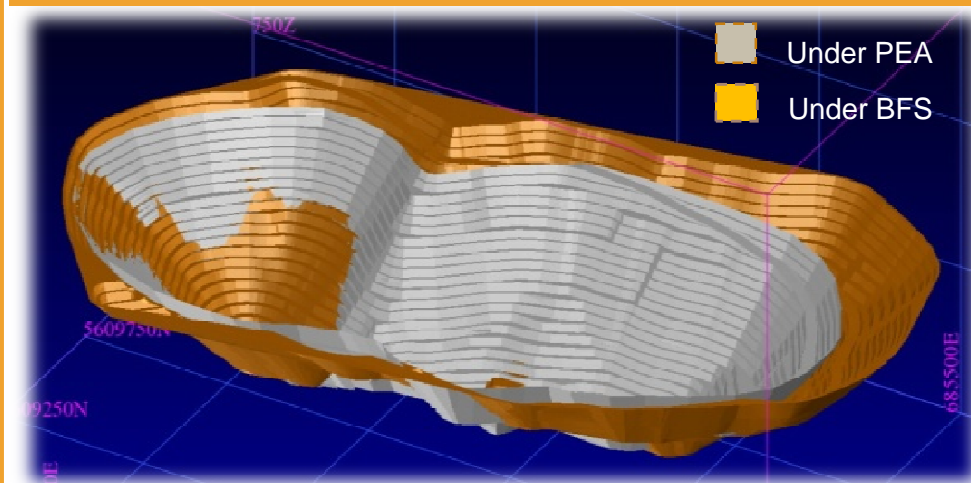
- Closure – March 2012.
- The Company will announce finalisation of the transaction in a current report.

Afton Ajax project– Bankable Feasibility Study (BFS)

Bankable Feasibility Study – 21 December 2011

- Geological resources 512 Mt ore @0.31%Cu
- Life of mine 23 years
- Average annual production 50k t copper, 3 t gold
- Initial CAPEX **US\$ 795 M**
- NPV Pre-tax **USD 416 M**
- C1 cash cost **USD 1740-2800/t**

Projected mine contours



Share of KGHM

There remains time to decide on continuation of the project and execution of the option to increase the Company's share in KGHM Ajax Mining Inc. from 51% to 80%.

The option to acquire a further **29%** in the Afton Ajax project is for an amount not more than **USD 35 million**.





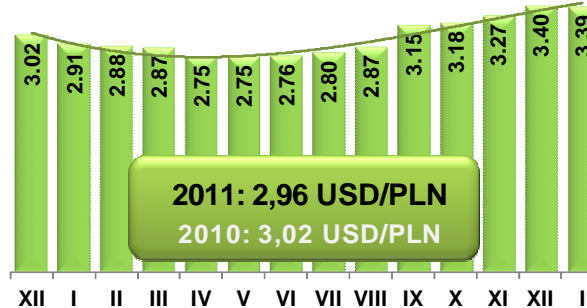
Financial results of KGHM Polska Miedź in 2011

Macroeconomic conditions

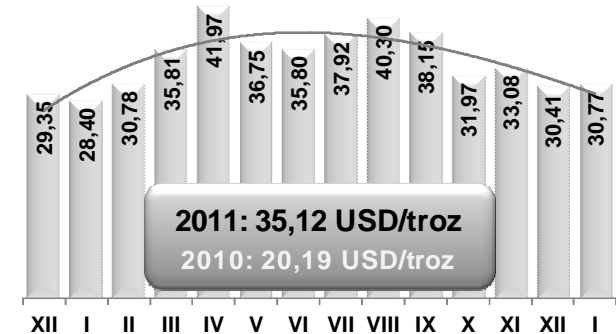
Copper prices (USD/t)



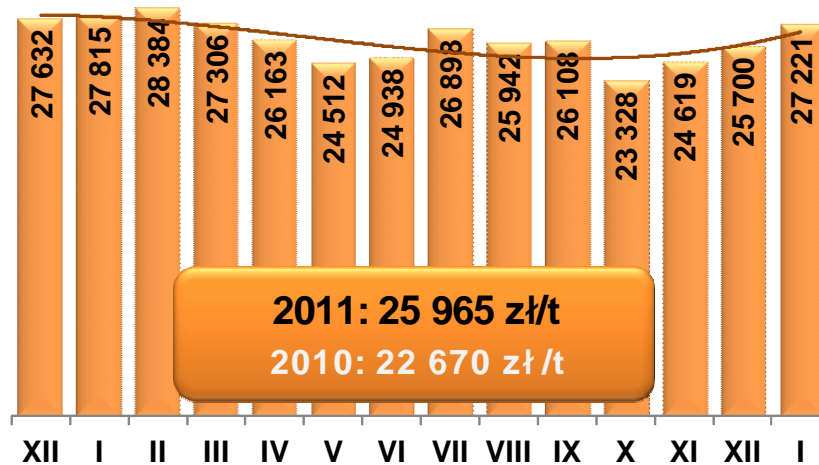
Exchange rate (PLN/USD)



Silver prices (USD/troz)

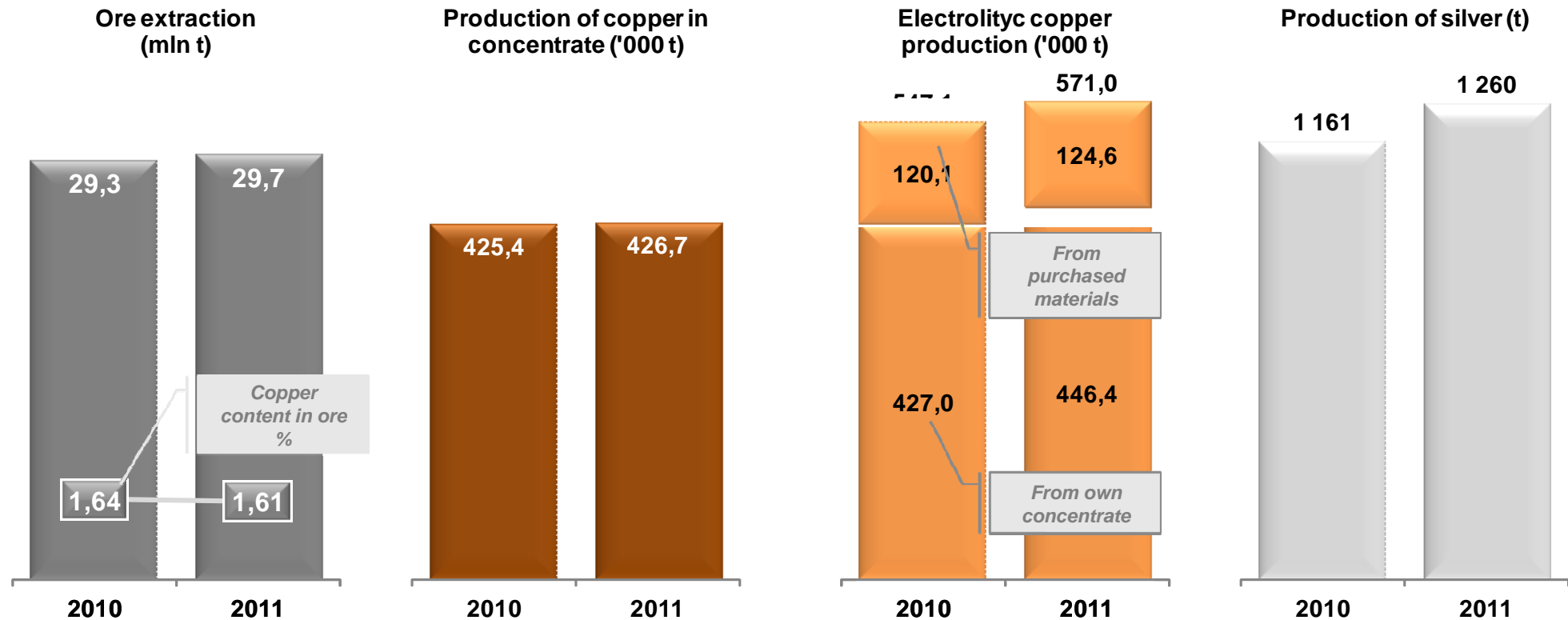


Copper prices (PLN/t)



- ✓ In the first half of 2011 the price of copper reached historic levels, while silver was the most expensive in 30 years.
- ✓ There remains a negative correlation between the price of copper and the USD/PLN exchange rate. Falls in the metal price accompany a weakening of the PLN, which in the second half of the year partially compensated the volatility in the copper price in zloty terms.
- ✓ The average annual price of silver in 2011 was 74 percent higher than in 2010. The weakening of the PLN in the second half of the year also partially compensated the fall in the silver price in this period.

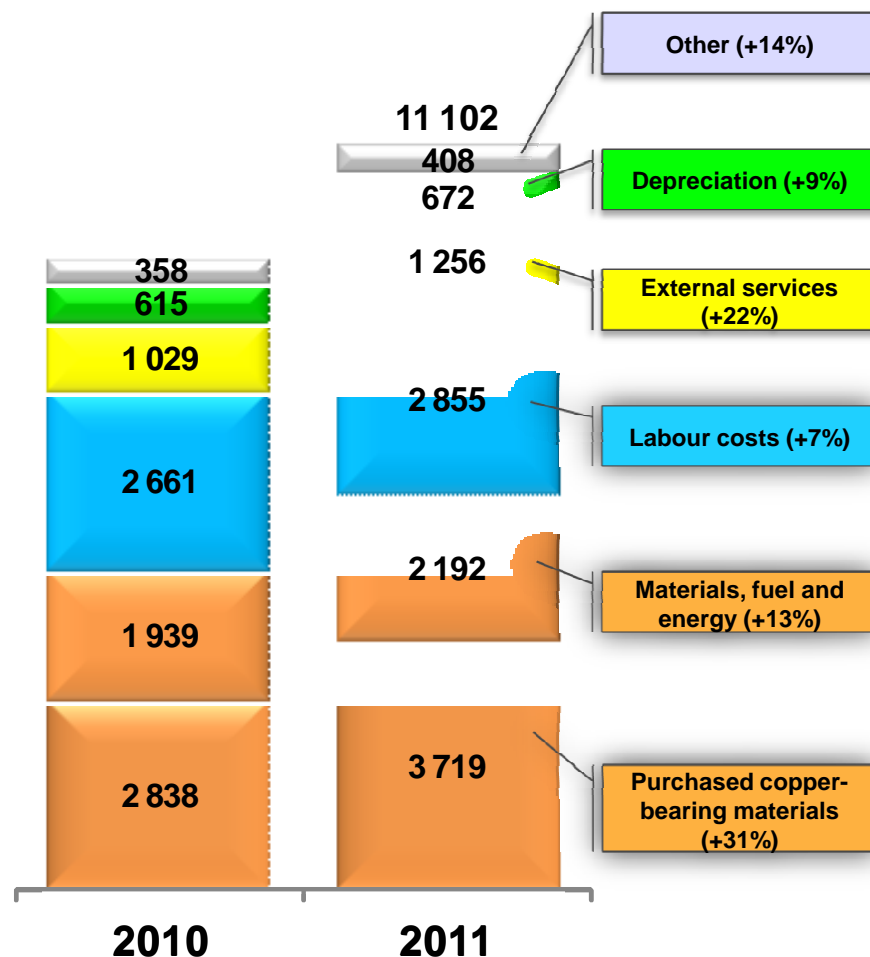
Production results



- ✓ Production of refined copper versus 2010 was higher by 23.9 thousand t, i.e. by 4.4%, and achieved the highest level in the Company's history, i.e. 571 000 t
- ✓ The increase in production was due to higher processing of own concentrate and of scrap, copper blister and imported concentrate
- ✓ Production of copper in concentrate remained at a similar level despite the decrease in copper content in ore

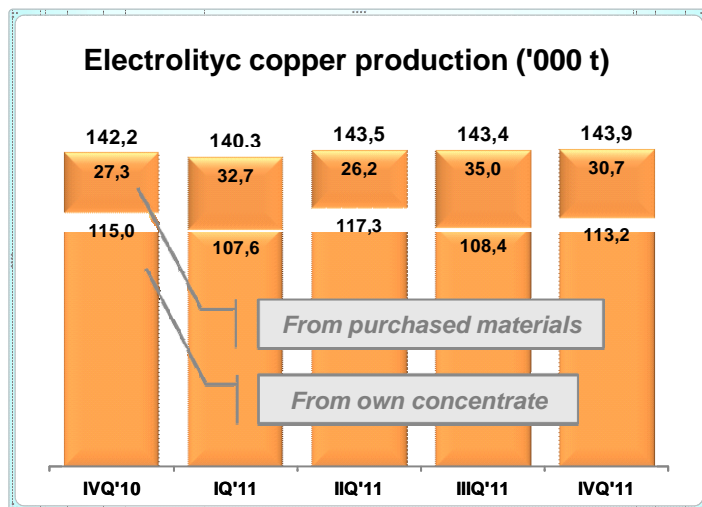
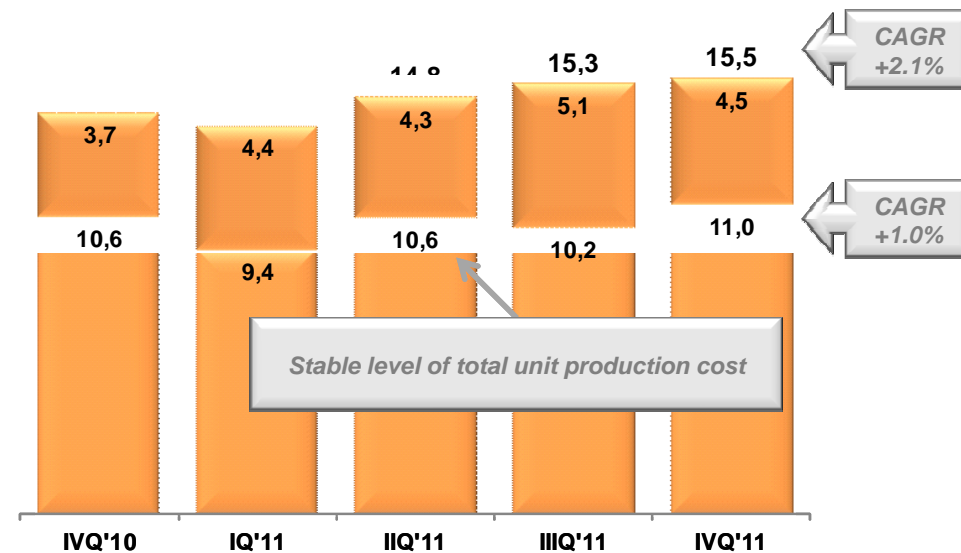
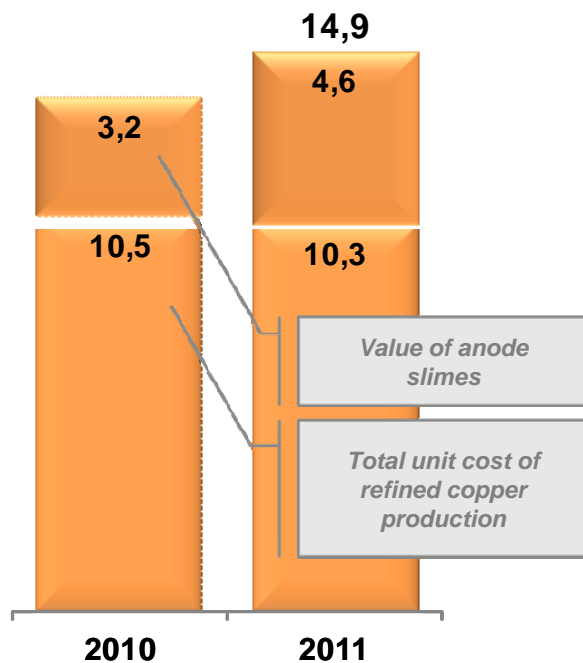
Expenses by nature (PLN million)

Excluding purchased copper-bearing materials, costs increased by 12% alongside a 4% higher volume of copper production and a price index of industrial production sold of 7.6%



- ✓ Total expenses by nature increased by PLN 1 660 million, i.e. by 17.6%, mainly due to:
 - ✓ a higher value of purchased copper-bearing materials (PLN 881 million) due to higher purchase prices and volume consumed of 10.7 kt Cu (of which 4.6 kt relates to refined Cu production)
 - ✓ materials, fuel and energy (PLN 252 million) – mainly due to higher prices
 - ✓ external services (PLN 227 million) – mainly due to a higher scope of preparatory mine work performed (+9 km) (PLN 118 million)
 - ✓ labour costs (PLN 193 million) – mainly due to an increase in employee benefits provisions by PLN 73 million
 - ✓ depreciation (PLN 57 million) – due to an increase in the value of realised capital expenditures (+20%)

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

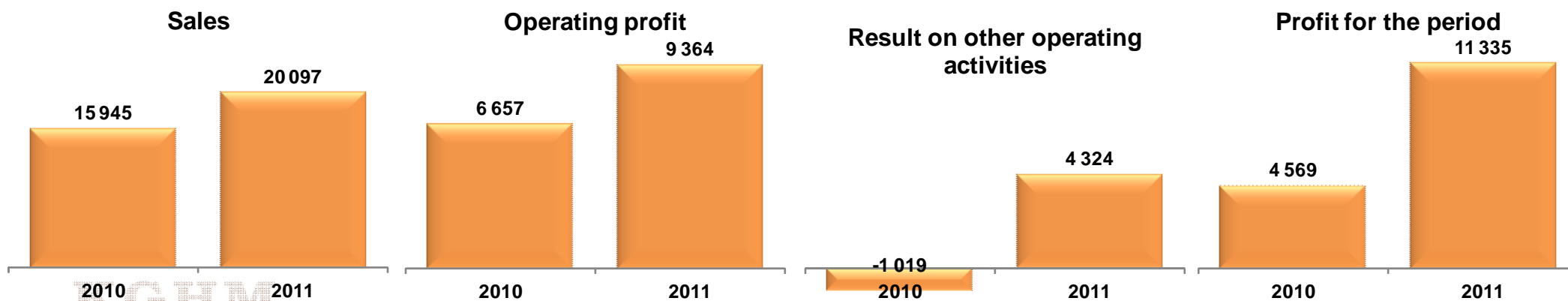


Total cost of production from own concentrate remained at a stable level of around 10 thousand PLN/t

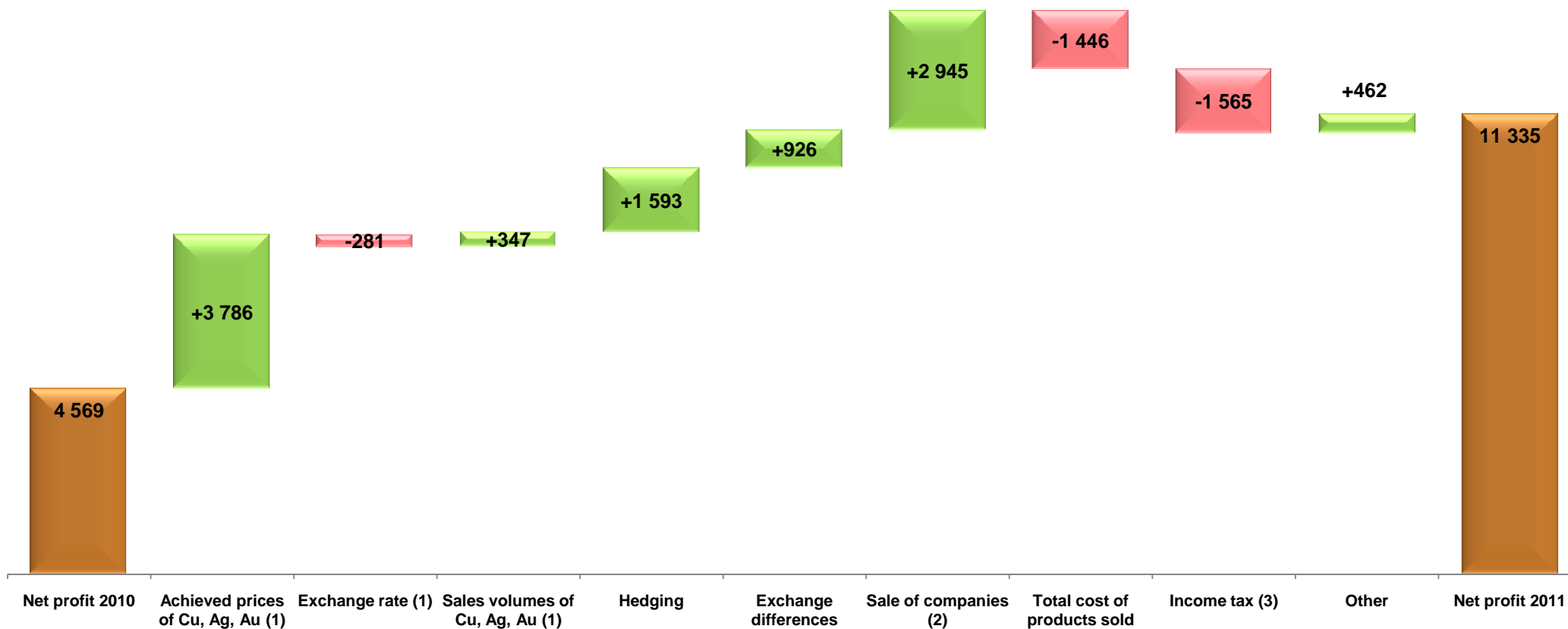
The accrued rate of increase of total cost during the last 5 quarters amounted to 1%, and for the pre-precious metals unit cost, 2.1%

Financial results (PLN million)

	2010	2011	Change	Realisation
Sales	15 945	20 097	4 152	126
Operating costs	9 288	10 734	1 446	116
Net profit on sales	6 657	9 364	2 706	141
Result on other operating activities	-1 019	4 324	5 343	x
Realisation and measurement of derivative instruments	-1 172	321	1 493	-27
Pre-tax profit on sale of companies	0	2 662	2 662	x
Exchange differences	-30	895	926	x
Dividends	147	277	131	x1.9
Other	37	168	132	x4.6
Operating profit	5 638	13 688	8 049	x2.4
Net finance costs	-33	-34	-1	104
Income tax	-1 037	-2 319	-1 282	x2.2
Profit for the period	4 569	11 335	6 766	x2.5
EBITDA	6 254	14 360	8 106	x2.3



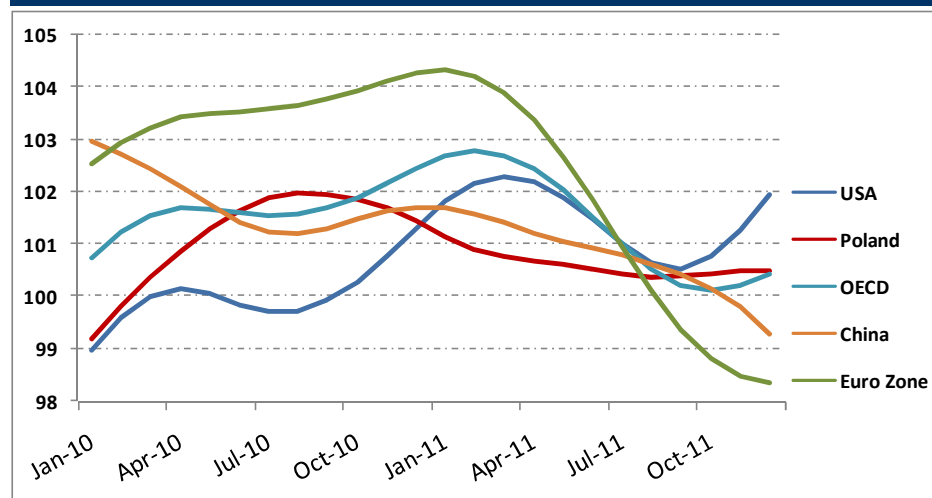
Change in financial results (PLN million)



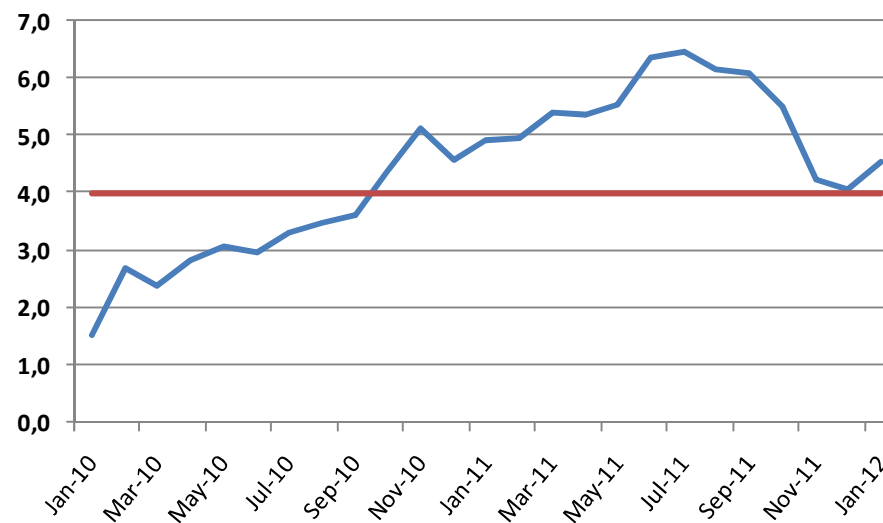
Market risk management –macroeconomic situation

- In the opinion of the OECD, leading economic indicators signal the potential slowdown of negative tendencies of recent months, mainly due to improvements in the USA and Japan
- However, worrying signals are coming from tightening in the Euro zone, as well as from China, which has been the engine of economic growth in recent years. Apart from the low composite leading indicators (OECD), China's Purchasing Managers Index has also remained for several months below the barrier of 50 percentage points. These two regions are responsible for over half of global copper demand
- Inflation in China, despite a clear drop, remains above the inflationary target, which has clearly restrained the Chinese government from any rapid decrease of interest rates
- Investors are increasingly less enthusiastic about positive agreements on new aid packages for highly-indebted countries (Greece), discounting the beneficial impact of these actions and continuing to lose hope for a rapid and permanent improvement in the situation

Leading economic indicators, OECD

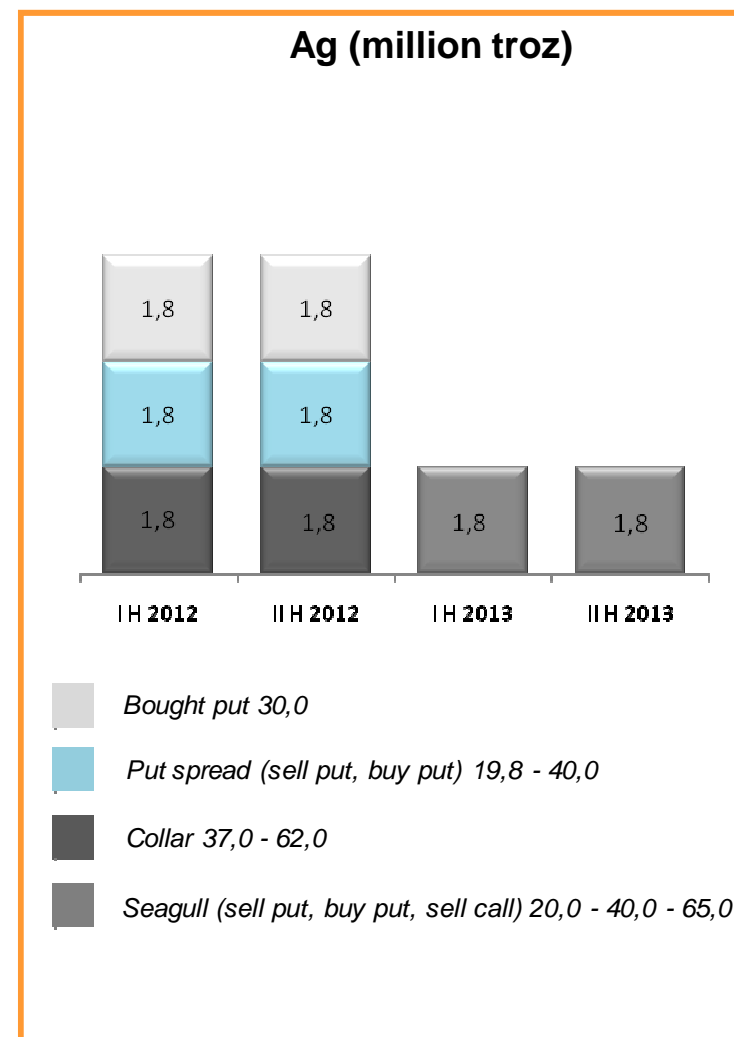
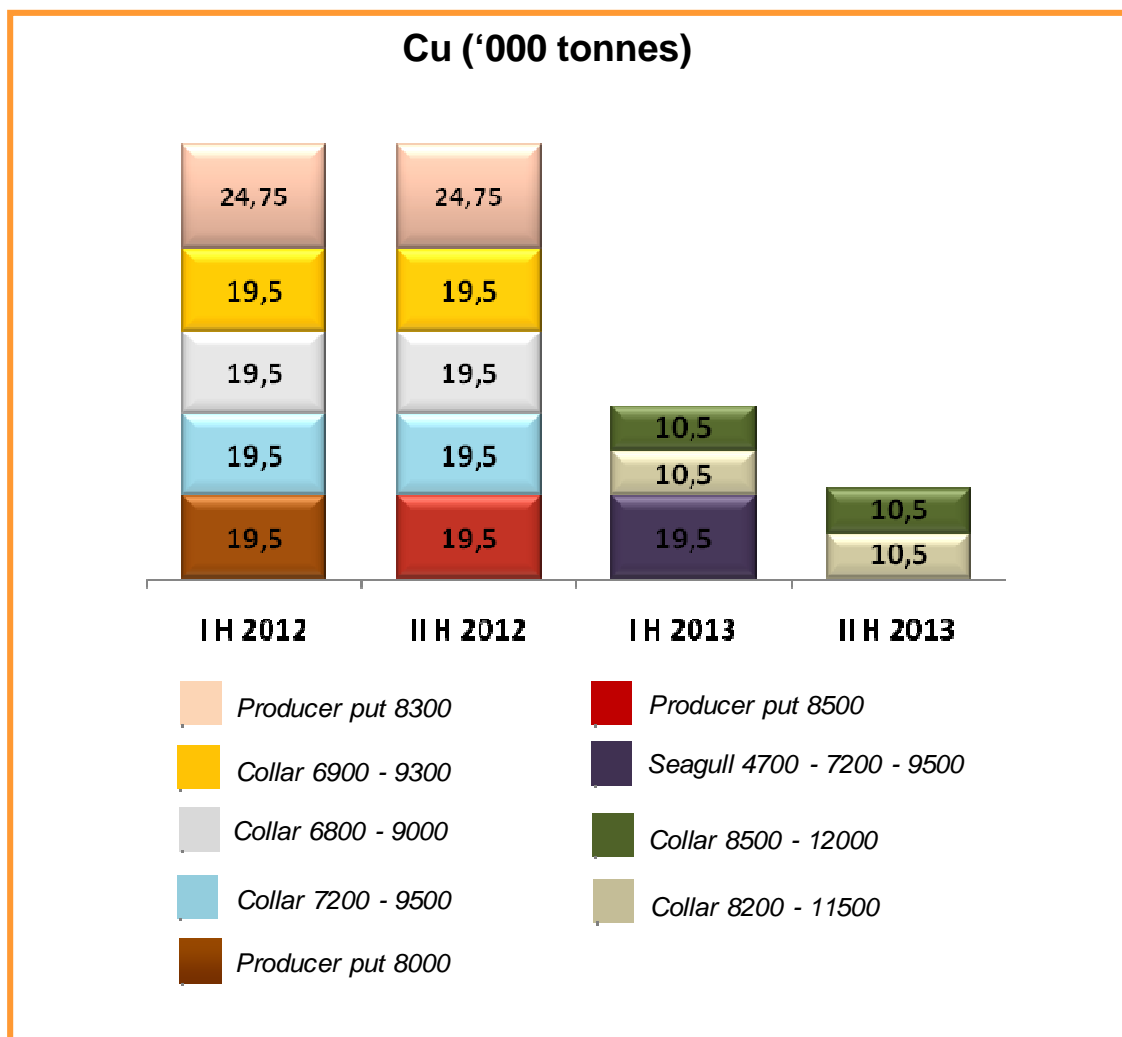


Rise in Chinese CPI (y/y)



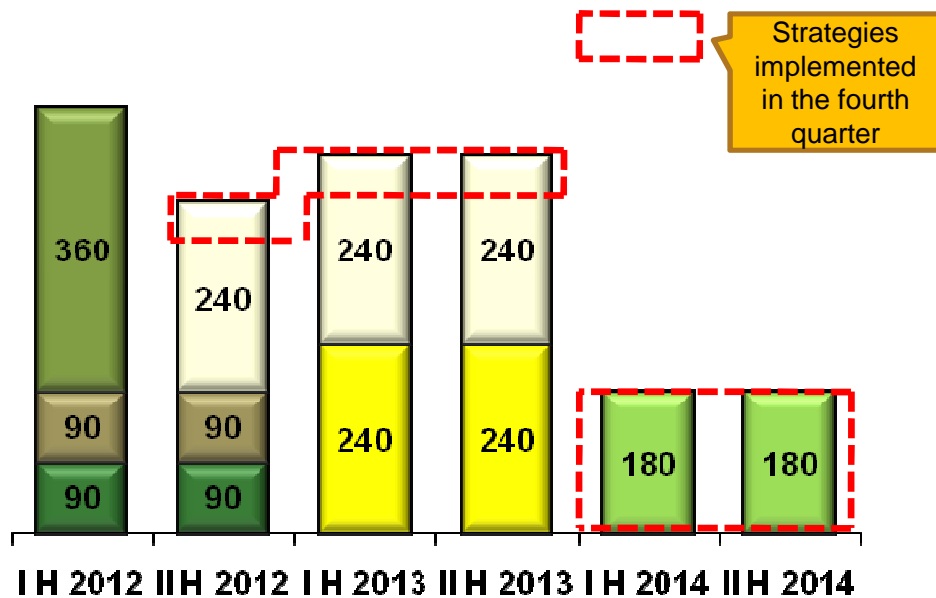
Market risk management – hedged position (at 30 December 2011)

Position in derivatives on the commodities market

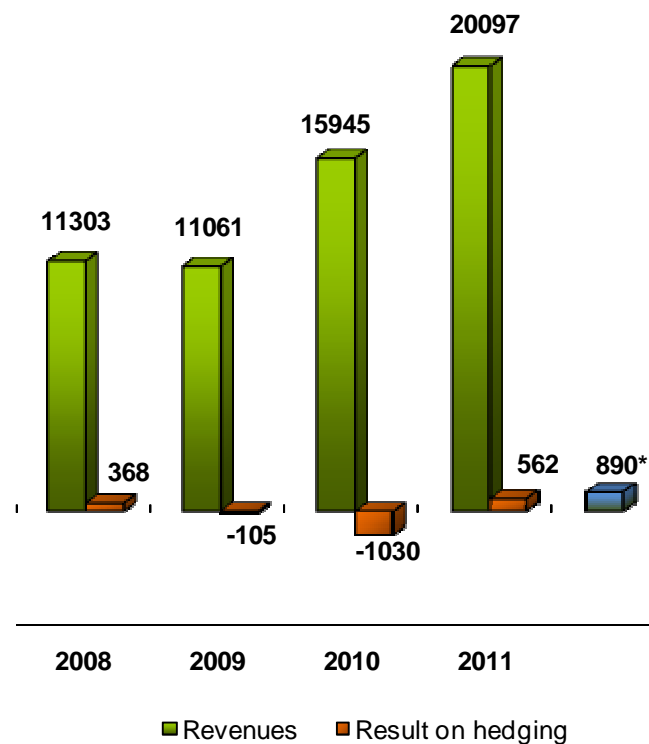


Market risk management – hedged position (at 30 December 2011)

Position in derivatives on the currencies market (USD million)



Results on hedging and Company revenues (PLN million)



* Fair value of open positions in derivatives at 30 December 2011

Market risk management – comments

Continued development of hedged position

- In February 2011 the copper price reached a new historic maximum at the level 10 190 USD/t, while in April silver reached its highest value in thirty years. KGHM took advantage of the high metals prices last year to continue development of its hedged position, with a time horizon to the end of 2013 and a total volume of 151 thousand tonnes of copper and 14.4 million ounces of silver.
- In the fourth quarter there were no new transactions opened to hedge metals prices.
- The dynamic weakening of the PLN versus the USD seen in the second half of 2011 was used to substantially increase the hedged currency position of the Company, with a time horizon falling in the years 2012 – 2014 and a nominal amount of USD 1.92 billion.
- In the fourth quarter sales hedging transactions were realised with a total volume of USD 540 million and a time horizon from the second half of 2012 to the end of 2014

A positive result on derivatives in 2011

- In 2011 the Company recorded a positive result on derivatives in the amount of PLN 562.4 million, of which PLN 241.6 million adjusted sales, PLN 257.5 million was related to a positive change in the measurement of derivatives, and PLN 63.3 million was due to the realisation of derivatives.
- In the fourth quarter a negative result was recorded on derivatives in the amount of PLN 266.6 million, mainly due to the negative change in the measurement of derivatives in the amount of PLN 390.7 million and to the positive adjustment of sales in the amount of PLN 117.7 million.

Consolidated financial result (PLN million)

	2010	2011	KGHM Polska Miedź S.A.	Share of Parent in consolidated result
Sales	16 767	22 129	20 097	91%
Operating costs	-10 121	-12 707	10 734	
Net profit on sales	6 645	9 422	9 364	99%
Result on other operating activities	-1 155	3 747	4 324	
Operating profit	5 491	13 169	13 688	104%
Net finance costs	-44	-51	-34	
Share of profits of associates valued using the equity method	281	188	x	
Income tax	-1 097	-2 289	-2 319	
Profit from discontinued activities	85	62	x	
Profit for the period	4 715	11 078	11 335	102%
EBITDA	6 335	14 075	14 360	102%

