



KGHM
POLSKA MIEDŹ S.A.

**Company results
in the first quarter
of 2010**

*Presentation for
Analysts Meeting
14 May 2010*

- **KGHM Polska Miedź S.A. in 2010**
 - Afton-Ajax project
 - Modernization of Pyrometallurgy in KGHM Polska Miedź S.A.

- **Results of KGHM Polska Miedź S.A. in Q1 2010**
 - Macroeconomic conditions
 - Production results
 - Costs by type and unit cost
 - Financial results
 - Risk management
 - Consolidated financial result

KGHM Polska Miedź in 2010

- **A net profit of PLN 725 million was achieved in the first quarter of 2010, representing 25% of projected profit for 2010***
- **Operating profit amounted to PLN 1 209 million and is in line with Budget assumptions**
- **In the first quarter the Company hedged a large volume of copper (approx. 180 thousand tonnes) covering the period to 2012**
- **The negative result on other operating activities of PLN 303 million is mainly due to changes in the measurement of derivative transactions entered into during this period, and to negative exchange differences. The fair value of open positions in derivative instruments was measured in respect of the closing price from 31 March 2010, which amounted to 7 759.25 USD/t**
- **Based on analysis of the current macroeconomic situation, the Company does not foresee significant divergence from the projected assumptions for the 2010 financial result**
- **The continued high volatility in copper prices and the USD/PLN exchange rate means that projections of the financial results of the Company are characterised by high uncertainty**

** Based on the projection published on 1 February 2010*

➤ Realisation of Project „Effectiveness”

- from January 2010 a further 10 programs are being realised: 7 with respect to TOP (Total Operational Performance) cost reduction programs and 3 process transformation programs based on Lean principles

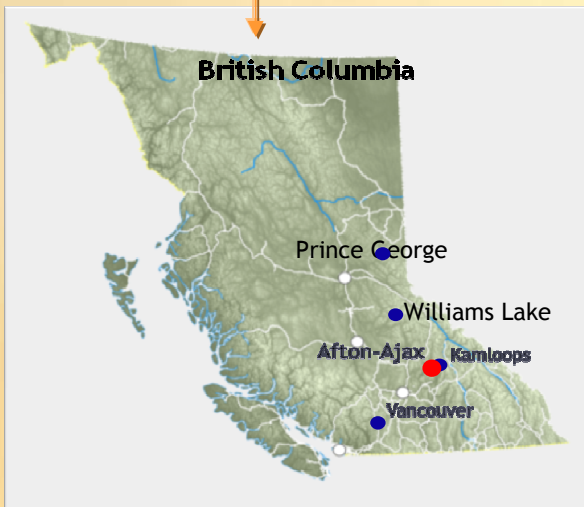
➤ Central Procurement Office

- savings achieved in the first quarter on the order of PLN 150 million in reference to estimated prices
- the Procurement Policy in force in the Group was reviewed and updated

➤ In 2010 the Company commenced realisation of significant investment projects

- an Investment Agreement was signed respecting the Afton-Ajax project – total planned expenditures in the years 2010-2012 of over USD 600 million
- With respect to CAPEX-related investments, the Management Board has decided to realise the Pyrometallurgy Modernization Project – construction of a flash furnace

Afton-Ajax Project – general information



Location	Canada, British Columbia
Ownership structure	100% - Abacus
Resources	442 million t 0.30% Cu, 0.19 g/t Au
Estimated annual mine production	50 '000 t copper 100 '000 ounces gold
Mine life	23 years
Investment outlay	USD 535 million
Start of production	2013
Average cash cost	around 2 000 USD/t copper

- **Transaction type – joint venture (jv)**
- **Stake – 80% KGHM, 20% Abacus**
 - 51% purchased for USD 37 million
 - option to buy an additional 29% for maximum USD 35 million after bankable feasibility study
 - all funds to go to jv (directly to the Afton-Ajax project)
 - organisation of investment financing by KGHM
- **Acquisition of 15 million shares of Abacus in a private placement for CAD 4.5 million**
- **Commitment by KGHM Polska Miedź S.A. to arrange financing for the project capex (USD 535 million) – financing for construction of the mine allocated according to stake held (80% KGHM, 20% Abacus), while KGHM offers to finance the 20% stake of Abacus under arm's length conditions – to be decided by Abacus**

Afton-Ajax Project – Management staff of Abacus Mining

➤ **Tom McKeever – Chairman**

Over 40 years of management experience in mining and metals business, incl. AMAX Inc., MG plc. In the years 2002 - 2006 Chairman of Sempra Metals.

➤ **Douglas Fulcher – President & CEO**

Over 35 years of experience managing exploration companies, incl. Redstar Gold Corp., Skygold Ventures Ltd. and Niblack Mining Corp.

➤ **Andrew Pooler – Executive Vice President & COO**

Over 25 years of experience managing companies and mining projects, incl. as vice president for production in Pan American Silver and Amax Gold.

➤ **James Whittaker – Project Manager**

Over 20 years of experience managing mining projects. Formerly with CRU Strategies and Placer Dome.

Afton-Ajax Project – Q&A

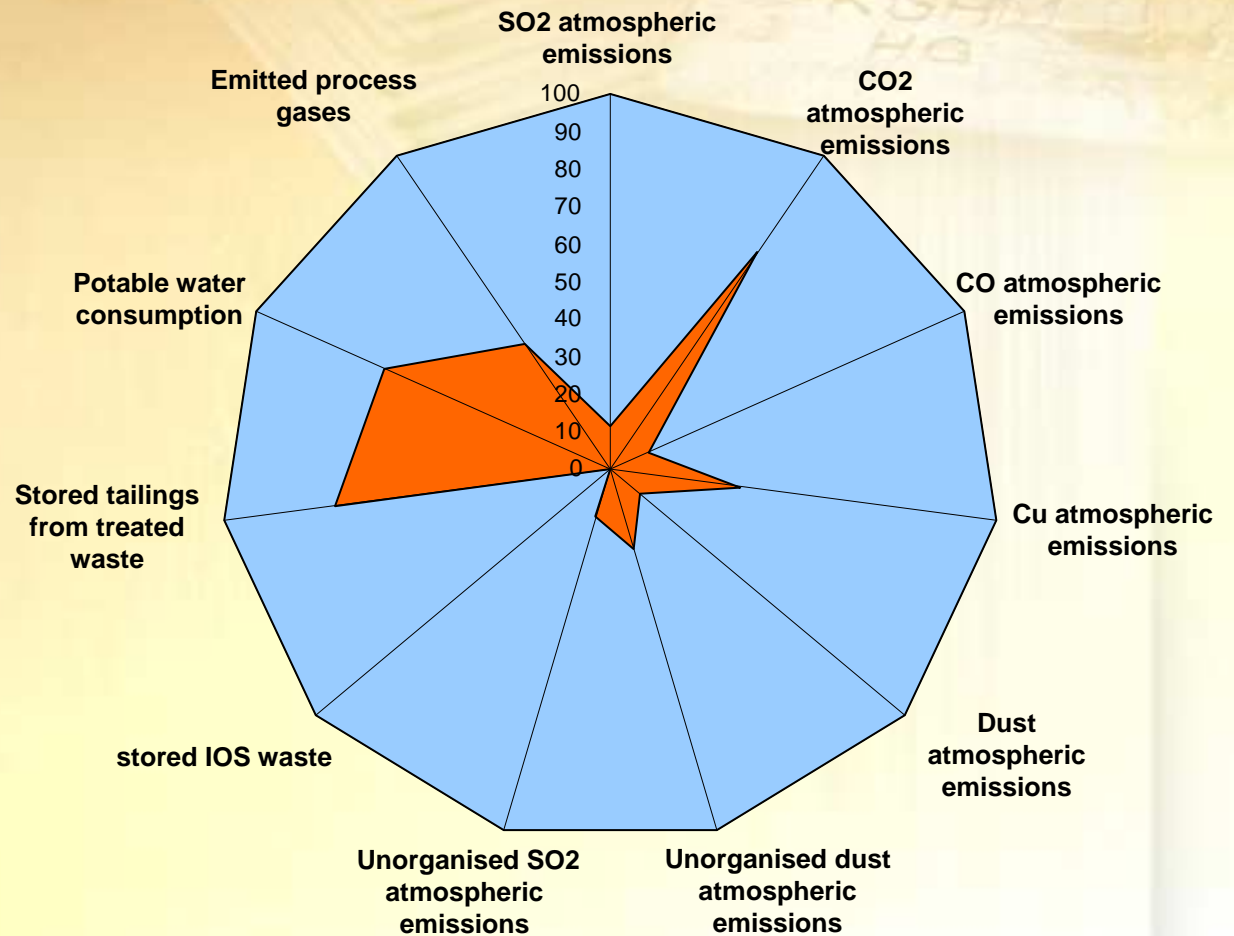
- **Amount of investment expenditures**
- **Why has no-one else invested in this project?**
- **Why were operations halted?**
- **Will production begin in 2013?**
- **Will knowledge of what the deposit contains only be available following the BFS?**
- **Why is Abacus selling such a good project so cheaply?**
- **Lack of experience by KGHM in foreign investments**
- **KGHM has purchased a deposit during a period of high copper prices**

The Company has decided to modernise the concentrate smelting technology in the Głogów smelter

- **Investment expenditure for Modernization of Pyrometallurgy is estimated at PLN 1.7 billion in the years 2010-2015**
- **NPV (based on replacement analysis methodology) amounts to PLN 245 million, with IRR of 17.1%, return period of 10.2 years**
- **Flash furnace technology is significantly more efficient in terms of technology and economics in all analysed aspects as compared to shaft furnace technology**
- **The target solution for KGHM Polska Miedź S.A. is the processing of internal concentrates using two-stage flash furnace technology at the Głogów I and Głogów II smelters**
- **Until completion of the pyrometallurgy modernisation investment, the processing of concentrate from the Lubin mine and of scrap will be done at the Legnica smelter**

PMP – Modernization of Pyrometallurgy in KGHM Polska Miedź S.A.

Characteristic ecological parameters of the converter/blister copper production process of Głogów I and Głogów II in 2008 (%)



Głogów I
(shaft technology)

Głogów II
(flash technology)

Strengths / Opportunities

- **More environmentally-friendly technology**
- **Higher recovery of associated metals**
- **Well-known and tested flash furnace technology**
- **Greater technological flexibility to eventual higher supply of concentrate**
- **Improved working conditions**
- **Cost effective**
- **Improved competitiveness for KGHM**

Weaknesses / Threats

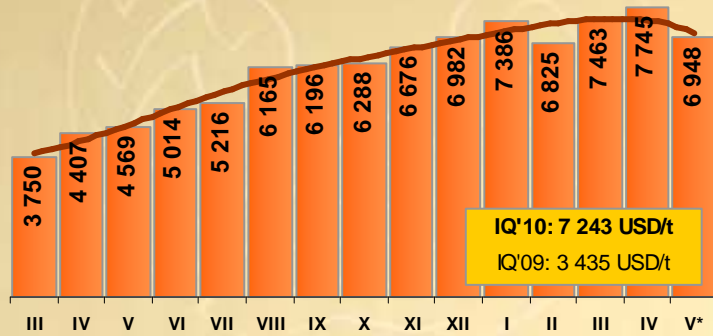
- **High organic carbon content in concentrates**
- **Process less flexible in terms of chemical composition of concentrate**
- **Limited scrap processing capability**
- **High cost of investment**
- **Risk of increase in price of electricity**



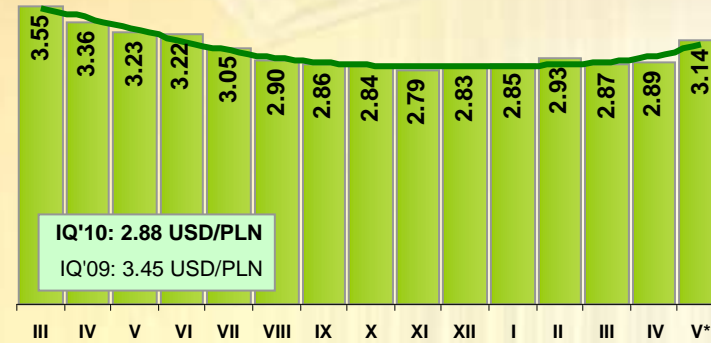
Financial results of the Company in the first quarter of 2010

Macroeconomic conditions

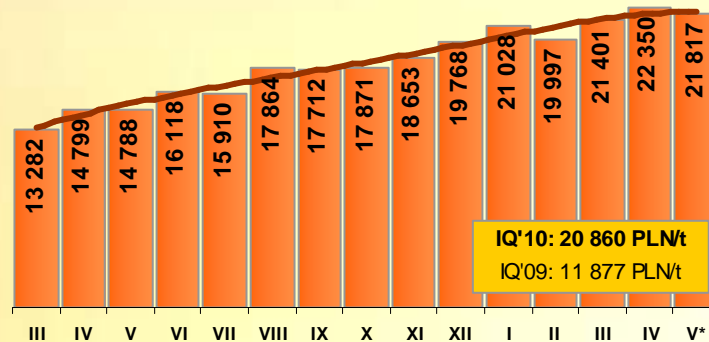
Copper price
USD/t



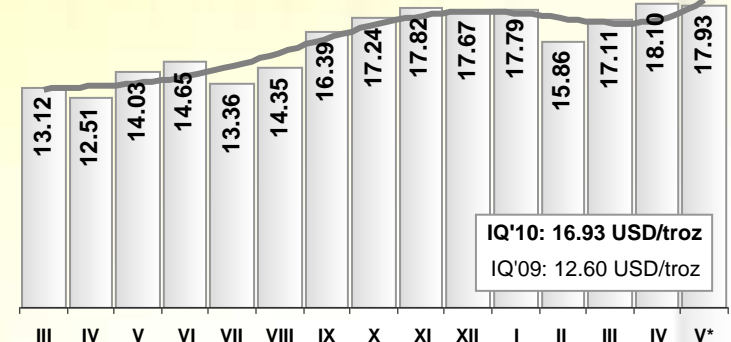
Exchange rate
USD/PLN



Copper price
PLN/t



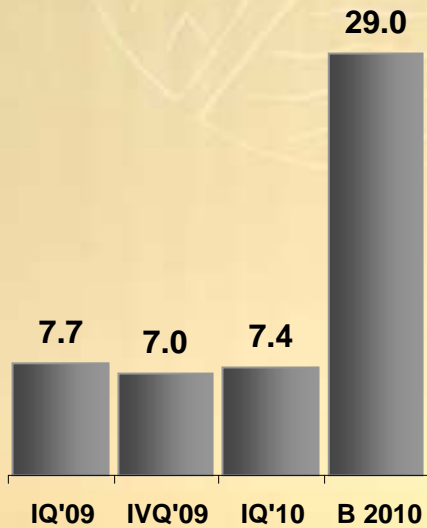
Silver price
USD/troz



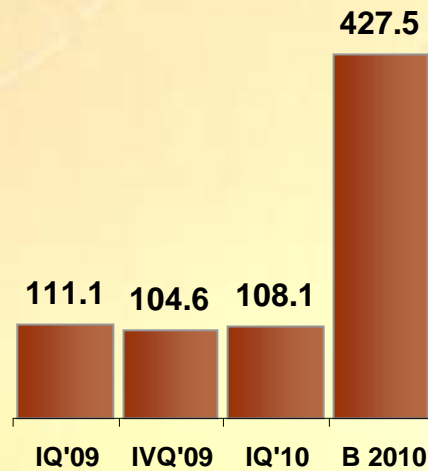
* To 13 May 2010

Production results

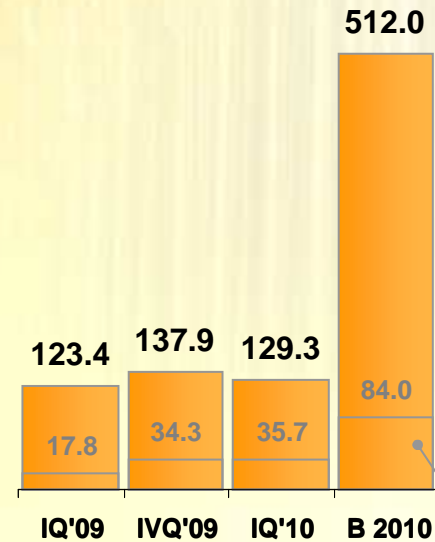
Ore extraction
(million t d.w.)



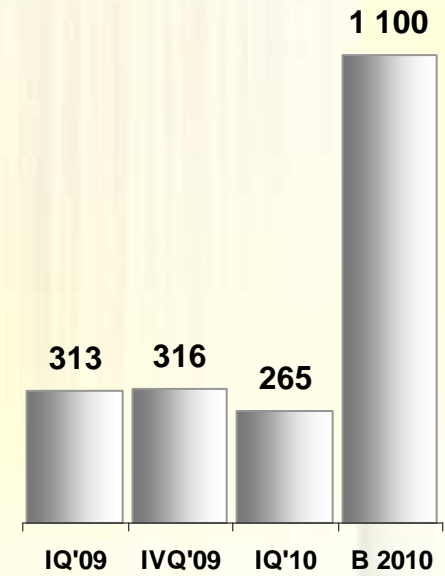
Production of copper in concentrate
(‘000 t)



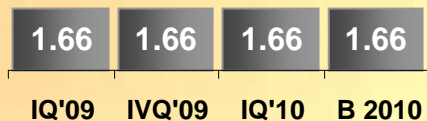
Electrolytic copper production
(‘000 t)



Metallic silver production
(t)



Copper content in ore
(%)



Of which from purchased copper – bearing material

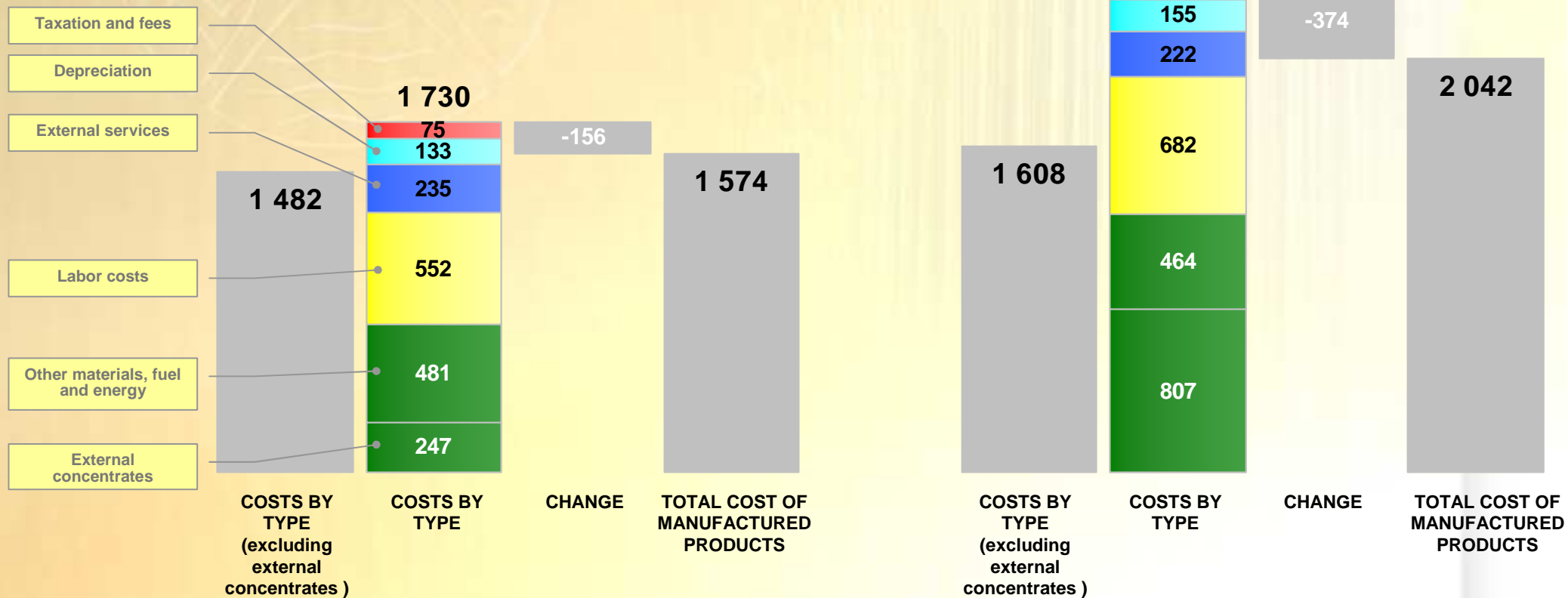
Costs by type (million PLN)

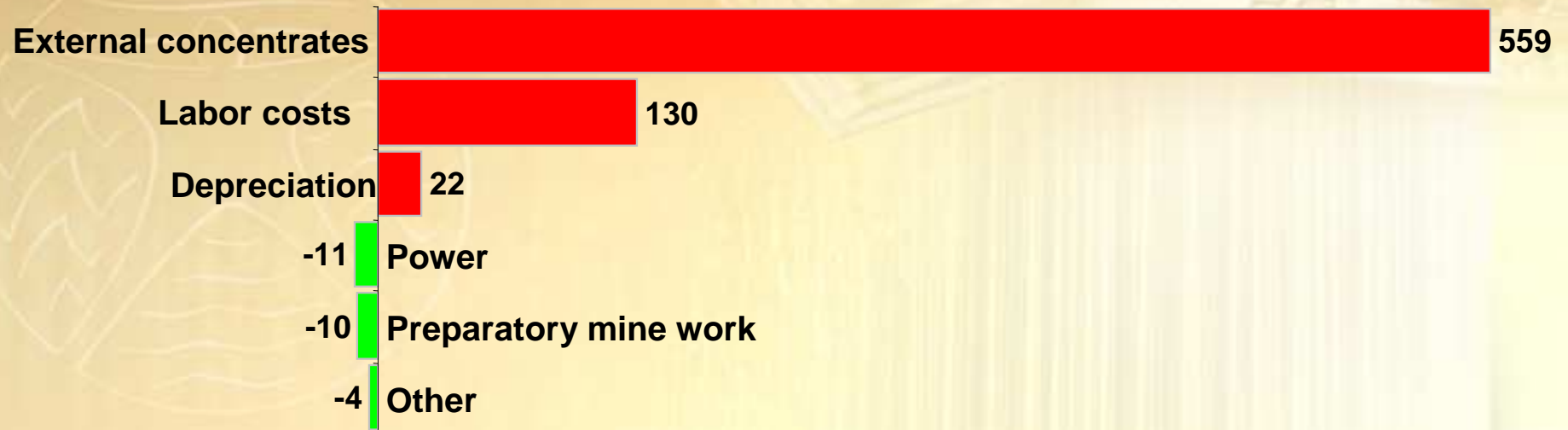
An increase in costs by type of PLN 686 million, i.e. by 40% versus the first quarter of 2009

Excluding external concentrates increase amounts to PLN 126 million, i.e. 9%

IQ'09

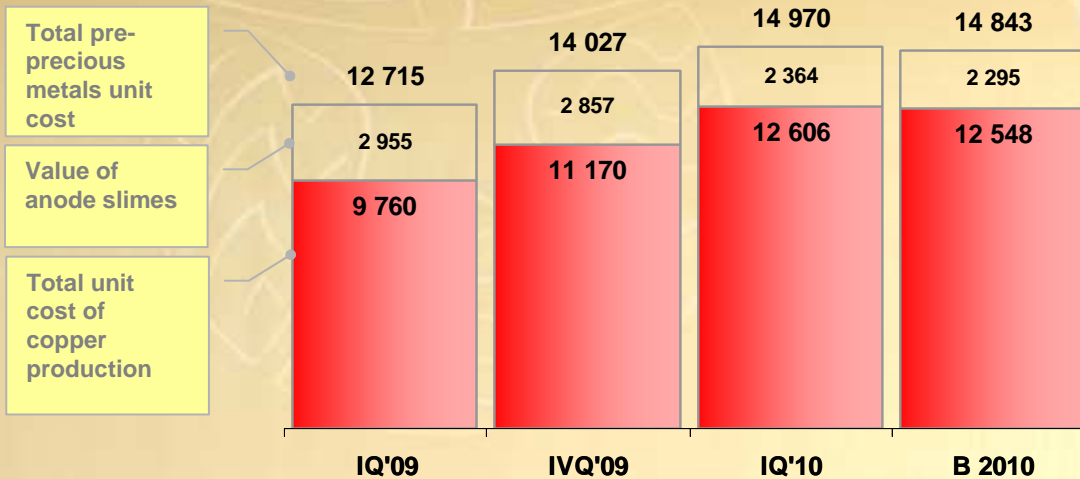
IQ'10





- The higher value of external concentrates is due to the near-doubling of prices and purchase volume,
- The high cost of labor is mainly due to an increase in allowances for:
 - the annual bonus (higher forecast Company profit)
 - the provision for future employee benefits (change in discount rate)
 - the Employee Retirement Program (an increase from 3% to 5%)

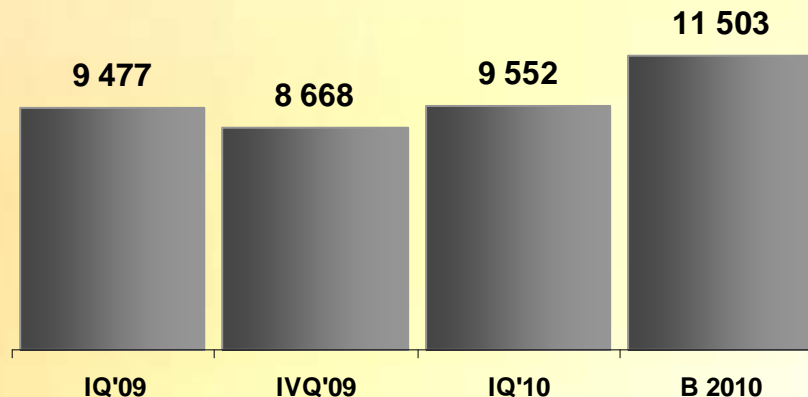
Total and pre-precious metals unit cost of electrolytic copper production



➤ The pre-precious metals credit unit cost of electrolytic copper production in the first quarter of 2010 was higher versus the comparable prior period by 18% due to the higher share of purchased concentrates in the structure of production, with a doubling of purchase prices

➤ The total unit cost of production from internal concentrates in the first quarter of 2010 was at a similar level to that achieved in the first quarter of 2009, despite an 11% decrease in the volume of production from internal concentrates

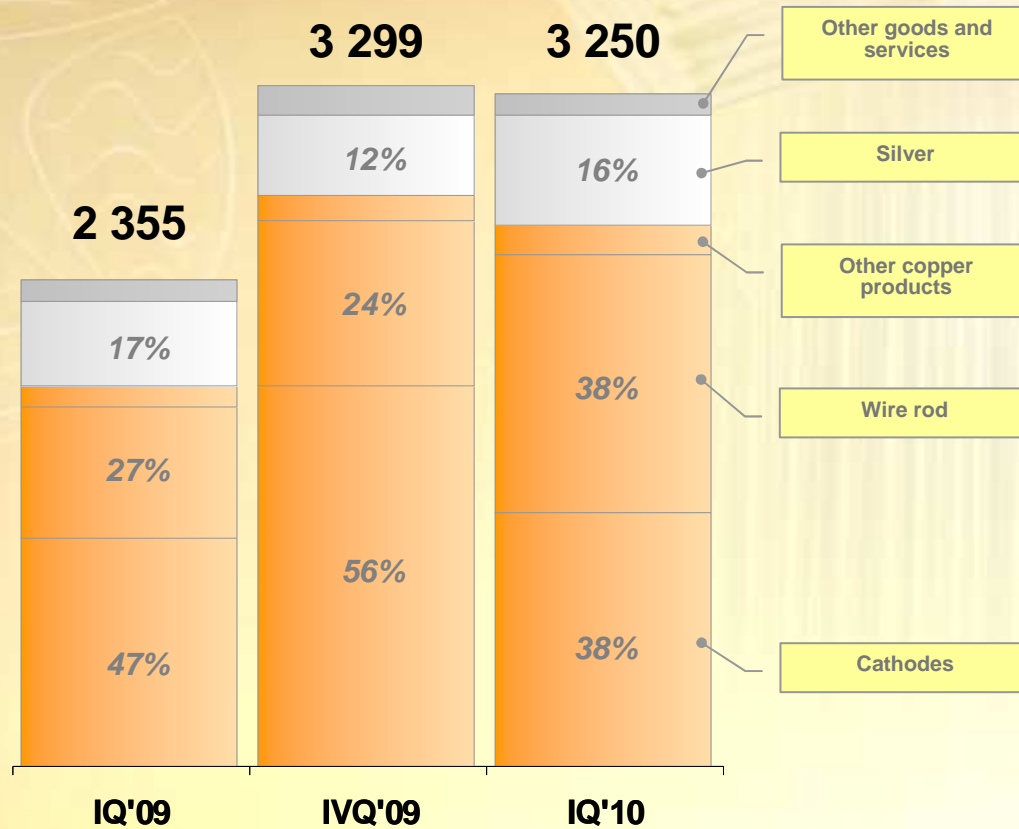
Cost of production of electrolytic copper from internal concentrates



Financial results (PLN million)

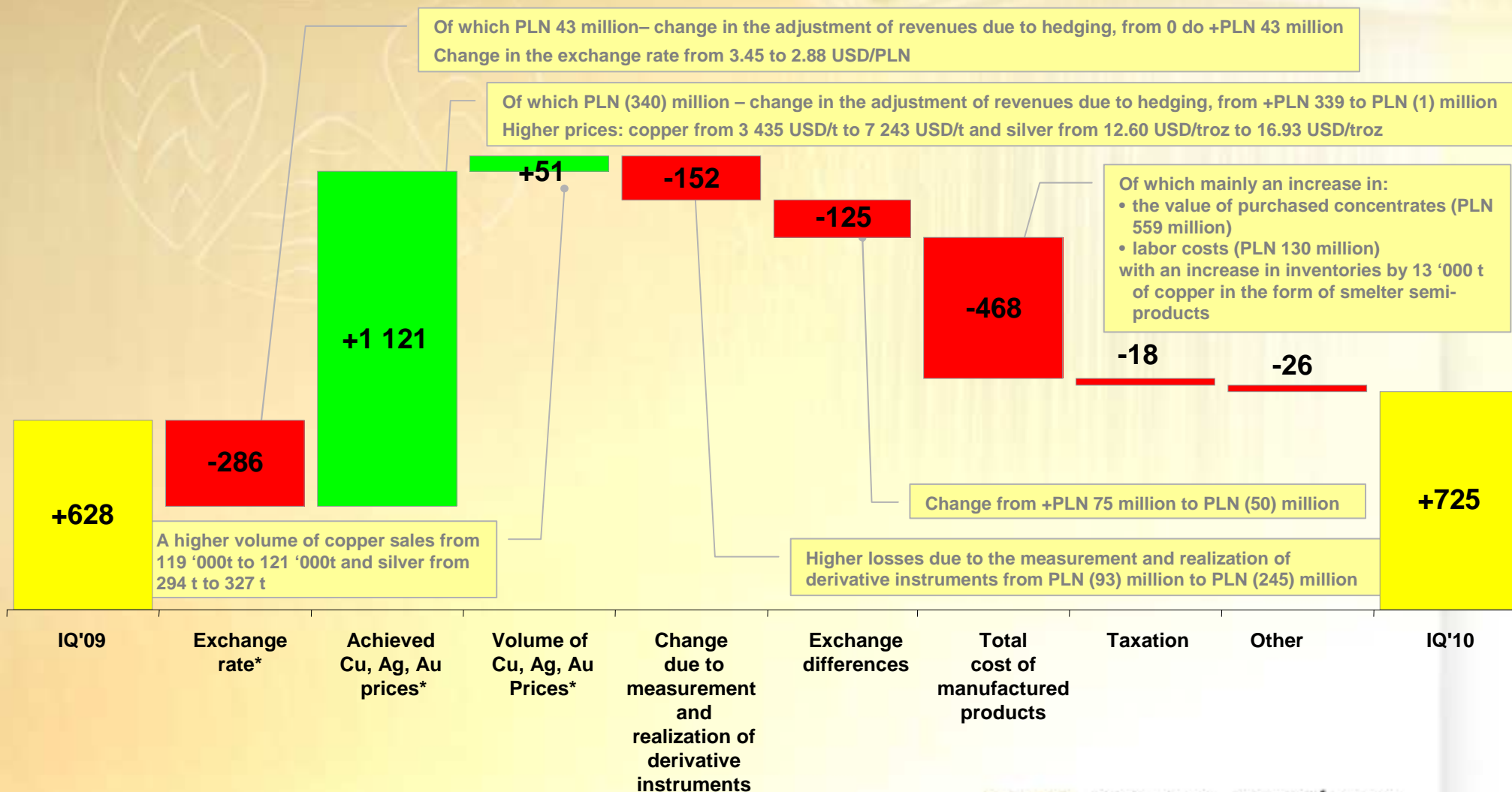
	IQ'09	IVQ'09	IQ'10	Change	Realization IQ'09=100
Sales	2 377	3 325	3 275	897	138
<i>Incl. adjustment of revenues due to hedging transactions</i>	<i>339</i>	<i>(41)</i>	<i>42</i>	<i>(297)</i>	<i>12</i>
Operating costs	1 595	2 357	2 065	470	129
Net profit on sales	782	968	1 209	427	155
Result of other operating activities, of which:	14	(113)	(303)	(317)	x
Dividends received	0	113	0	0	x
Realisation and measurement of derivative instruments	(93)	(195)	(245)	(152)	x 2.6
Exchange differences	75	(5)	(50)	(125)	x
Other	33	(26)	(8)	(40)	x
Operating profit	796	854	906	110	114
Net financing cost	13	7	7	(5)	58
Profit before tax	784	848	899	115	115
Taxation	156	163	173	18	111
Profit for the period	628	685	725	98	116
EBITDA	929	998	1 061	132	114

Sales structure (PLN million)



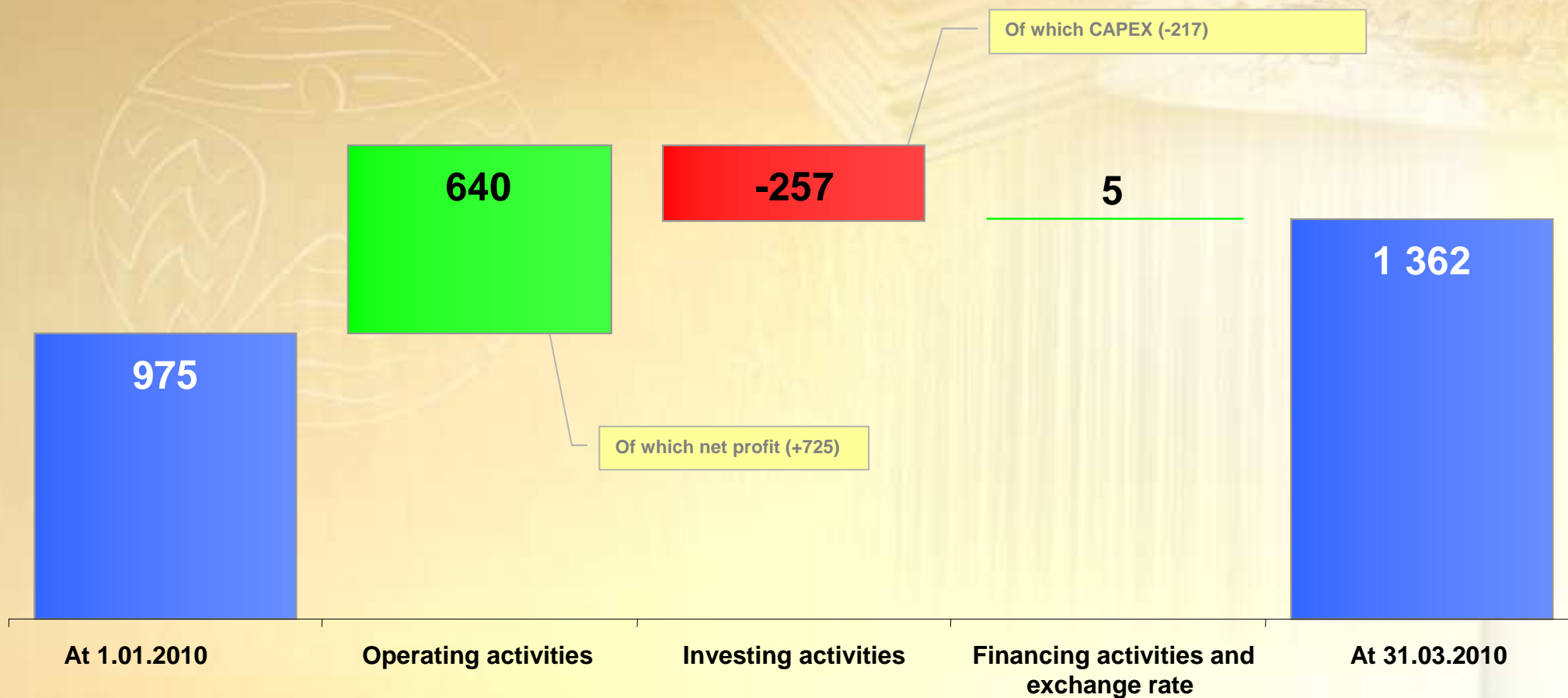
- An increase in revenues from sales versus the first quarter of 2009 by PLN 895 million (38%)
- An increase in the share of wire rod in sales versus the prior year



In the first quarter of 2010 net profit was higher by PLN 98 million vs. Q1 2009



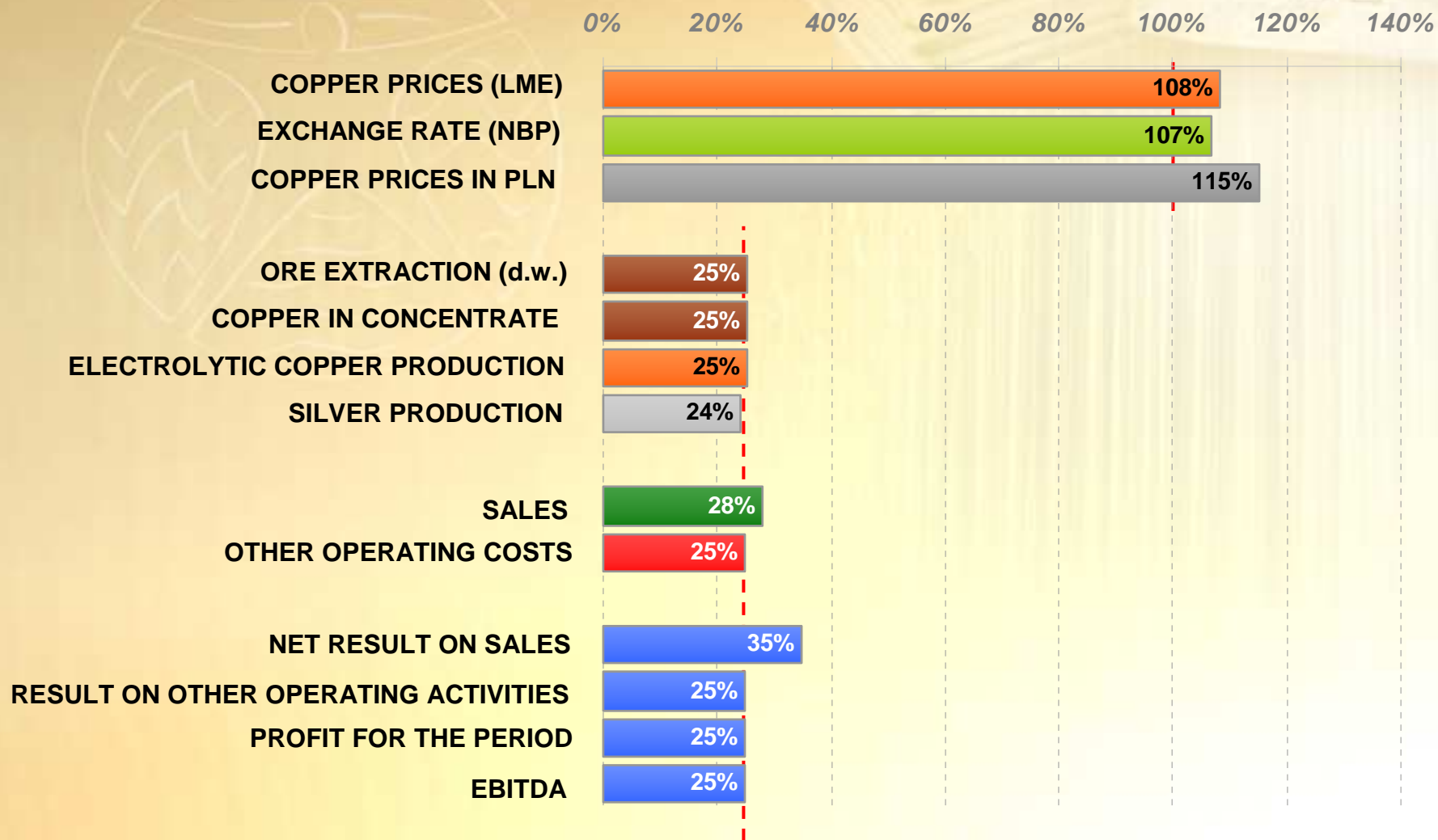
* Impact on sales

Cash flow (PLN million)



 **An increase of cash and cash equivalents in the first quarter of 2010 of PLN 387 million, i.e. by 40%** 

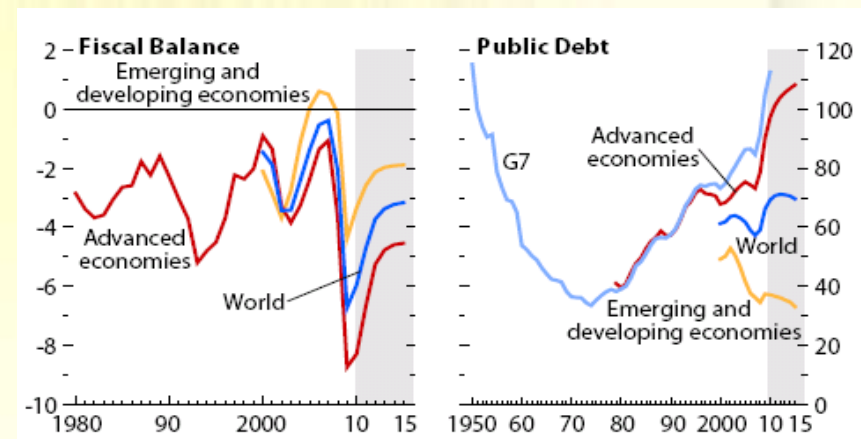
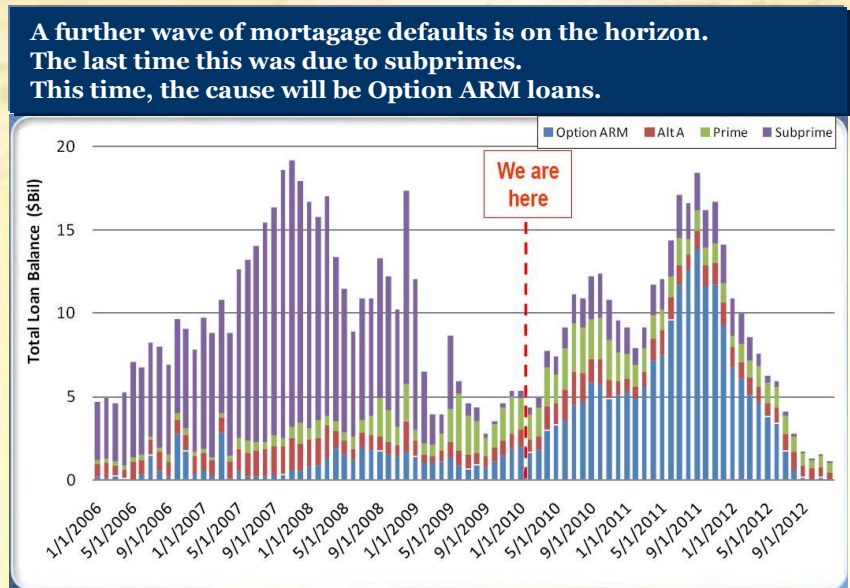
Realization of Budget for 2010*



Risk management - justification

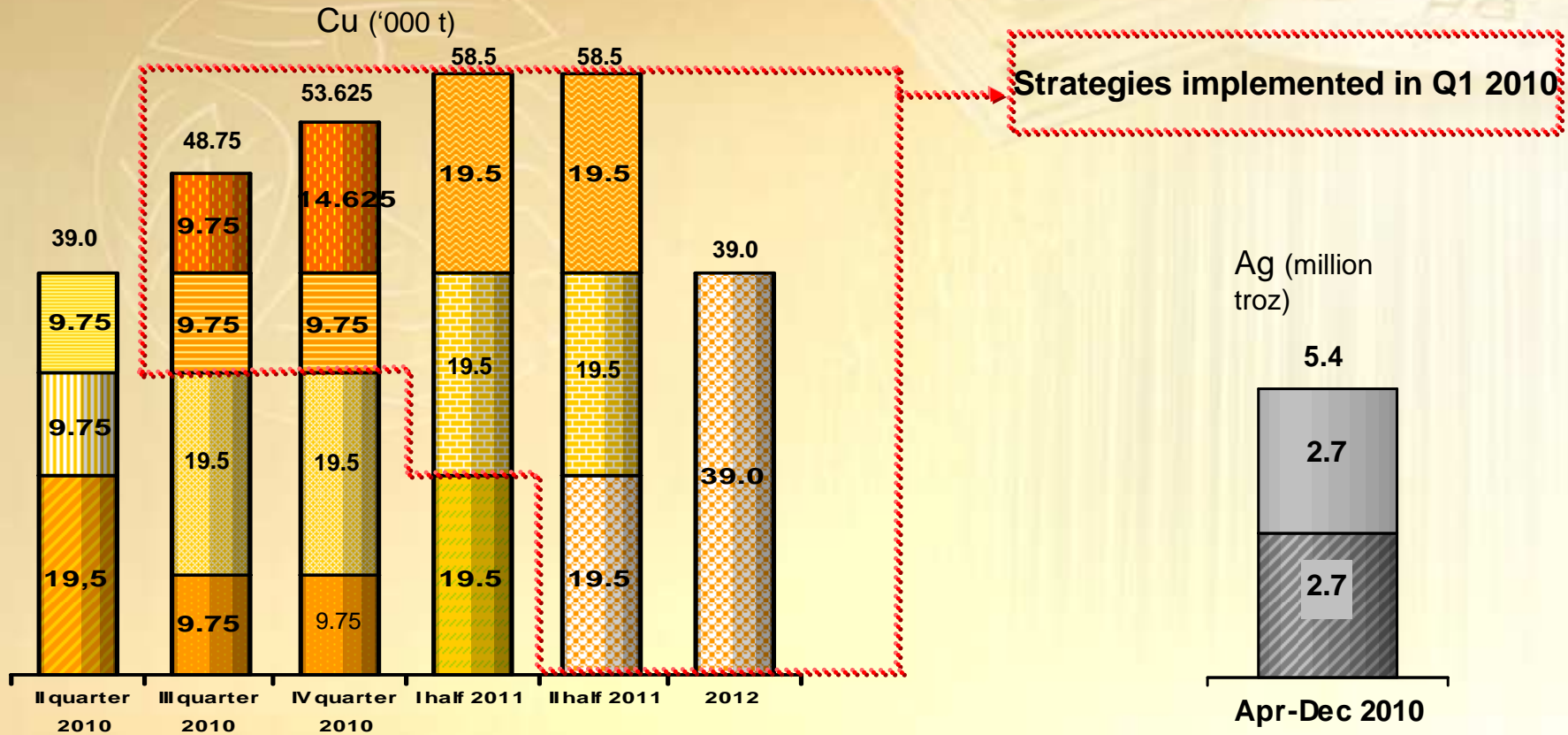
Uncertain economic situation

- In the opinion of KGHM, the global economic situation remains heavily uncertain and far from the real conclusion of the crisis. A real threat exists that, before world economies can extract themselves from the financial crisis, another will arise, this time fiscal (e.g. Greece, Ireland, Portugal).
- Banks continue to hold toxic assets connected with the mortgage market, and loans to assist in repaying debt are ending – soon, some Americans may again face bankruptcy (creating the risk of a second wave of defaults).
- Should further volatility affect the market and heavily-indebted countries have further financial problems, it appears impossible this time for another reaction in the form of interest rate cuts and a further increase of deficits from the funding of new stimulus packages.



Risk management – hedging position (as at 31 March 2010)

Positions in derivative instruments on the commodities market



- | | | |
|--|--------------------|---|
| Bought put options 4700 | Collar 5500 – 8000 | Seagull (sell put, buy put, sell call) 4500 – 7000 - 9500 |
| Collar (buy put, sell call), 5800 – 8000 | Producer puts 7000 | Seagull 5000 – 7100 - 9600 |
| Bought put options 7000 | Producer puts 7500 | Seagull 4700 – 6900 - 9300 |
| Producer puts 6500 | Collar 6700 - 8800 | |

- | |
|-----------------------|
| Bought put options 14 |
| Bought put options 18 |

Risk management – hedging position (as at 31 March 2010)

Position in derivative instruments on the currency market (million USD)



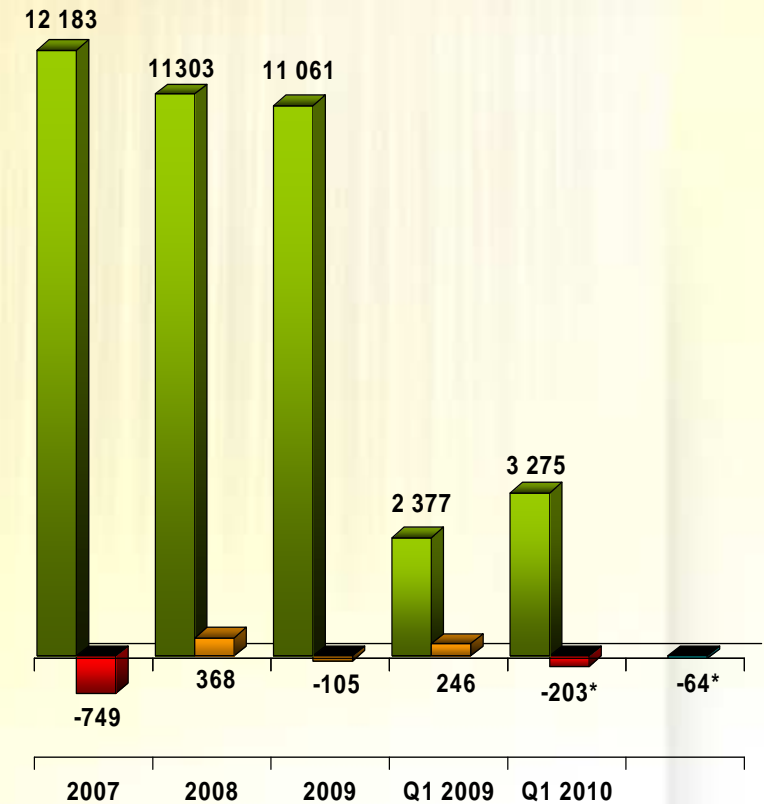
- Bought put options 3.20
- Collar (buy put, sell call) 3.30 – 4.30

Seagull (sell put, buy put, sell call)
2.40 – 2.90 – 3.60

Position closed
(PLN 107 million charged to equity, adjusting sales in Q2, Q3 and Q4 of 2010)

- Producer puts 3.0
- Bought put options 2.60
- Bought put options 2.55
- Bought put options 2.85

Results on hedging and Company revenues (million PLN)



* fair value of open positions in derivative instruments at 31 March 2010.

Risk management – position and results

Relatively large hedged position

- Over the past year the copper price, counting from the minimum, increased by nearly 200%, which KGHM used to build a significant hedged position – intensifying its market activity alongside high price levels.
- The Company's consistently-built hedge position, especially on the copper market, is significantly higher than in prior years and comprises the longest time horizon – to the end of 2012.
- The levels of hedged prices, implemented in the first quarter of 2010, are higher than assumed in budgetary and financial plans.
- The hedging instruments applied by KGHM allow for partial participation in price rises, which accounts for the lack of spectacular losses due to lost benefits after such dynamic movements in the copper price (historically the highest increase in the copper price, both nominally and in percentage terms over such a short time span).

The results of the first quarter are mainly due to changes in valuation

- The negative result on derivative instruments involves changes in the valuation of open positions, hedging the period to the end of 2012 (total result from measurement PLN (242) million).
- The major part of this result is due to a change in the value of the position for transactions entered into in the first quarter of 2010:
PLN (166) million (the copper price at 31 March 2010 was high and amounted to 7 759 USD/t).
- For transactions settled in the first quarter of 2010 the result is positive (PLN 39 million, including an adjustment to sales: PLN 42 million, result from realization: PLN (3) million).

Consolidated financial result (PLN million)

	Consolidated result		Parent result	
	IQ'09	IQ'10	IQ'10	
Sales	2 620	3 600	3 275	91%
Operating costs	1 825	2 360	2 065	
Net profit on sales	795	1 240	1 209	
Result of other operating activities	39	(293)	(303)	
Operating profit	834	947	906	96%
Net financing costs	16	11	7	
Share in profits of associates valued by the equity method	52	70	x	
Profit before tax	870	1 006	899	
Taxation	165	177	173	
Profit for the period	705	829	725	87%
EBITDA	1 013	1 154	1 061	92%

Share of Parent in consolidated result



Thank you

KGHM POLSKA MIEDŹ S.A.

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