



**KGHM**  
POLSKA MIEDŹ S.A.

## **Company results in 2010**

*Presentation for analysts meeting  
1 March 2011*

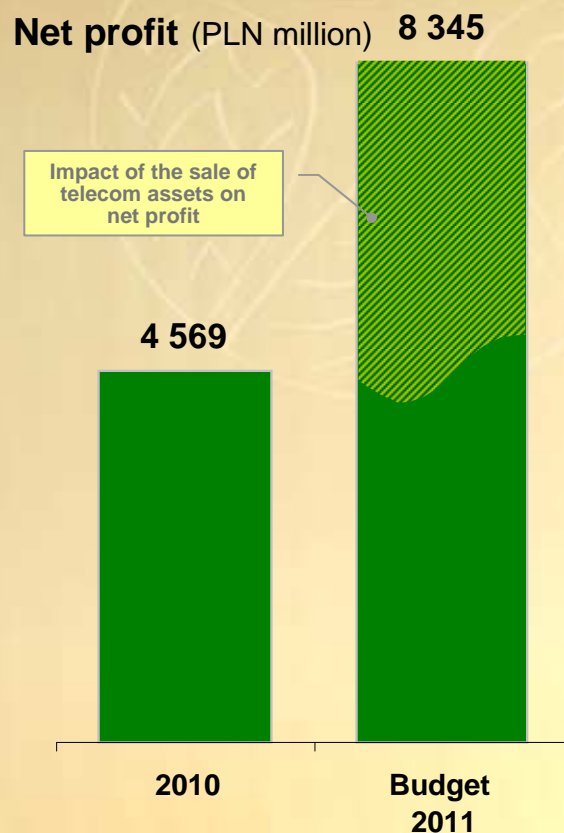
**March 2011**

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## Financial results of KGHM Polska Miedź – synthesis

- **Net profit for 2010 amounted to PLN 4 569 million, which exceeded the forecast result by 2% - this result was earned in the core business of the Company**
  - **Realising its strategy, in 2010 the Company doubled its investment expenditures versus 2009. These investments included foreign resources, entrance into the power sector, the modernisation of pyrometallurgy and continuation of the Głogów Głęboki Przemysłowy project**
  - **In 2010 the Company hedged a large tonnage of copper (approx. 336.4 thousand tonnes) and volume of USD-denominated income (USD 1 785 million) with a hedged period to the first half of 2013**
- 
- **Pursuant to the Budget for 2011 approved by the Supervisory Board, the Company assumes the achievement in the current year of revenues from sales of PLN 16 067 million and net profit of PLN 8 345 million, with the following assumptions:**
    - **Copper at 8 200 USD/t, silver at 25 USD/troz**
    - **An exchange rate of 2.80 USD/PLN**
    - **Electrolytic copper production of 543 thousand tonnes**
    - **A unit cost of electrolytic copper production from internal concentrates of 12 634 PLN/t**
    - **Conclusion of the sale of shares of Polkomtel SA and Telefonía Dialog SA**
    - **Investments of PLN 10.9 billion, incl. PLN 9.0 billion in net equity investments**

# Company Budget for 2011



- The increase in net profit versus 2010 is mainly due to the assumed sale of the telecom assets
- The Company assumes slightly improved macroeconomic conditions in the current year (an increased PLN-denominated copper price by 1%)
- Investment expenditures primarily relate to the acquisition of foreign, low-cost resource assets, in accordance with the strategic assumptions of the Company
- The Company also assumes a 50% increase in spending on tangible investments
- The cost of producing electrolytic copper from internal concentrates versus 2010 will increase by 20%
- Given the high level of hedging of future Company revenues, the high volatility in macroeconomic conditions has a substantial impact on the measurement of derivative instruments

## Development of resource base – mining projects

### Status of resource base development

- The Afton-Ajax project in Canada acquired in 2010 will produce 50 thousand t of copper beginning in 2014, which (assuming a target 80% share of KGHM in the project) represents nearly 10% of current Company production
- Currently being analysed are 5 foreign mining projects for potential acquisition, characterised by low production costs and located in geopolitically stable countries
- Work is also being performed on the expansion project Głogów Głęboki and on 4 other regional exploration projects (in Lower Silesia)

### Benefits from development of the resource base

- A lower discount in the valuation of KGHM versus its mine sector peers
- Resource projects improve the cost competitiveness of KGHM and reduce its position on the global cost curve (e.g. from the present level of around the 90th percentile to around the 70th percentile by 2018)
- Resource projects enable the near-doubling of the total copper production of KGHM by 2018 and the realisation of its strategy (production of over 700 thousand tonnes)
- Development of the resource base moves KGHM up the ranking of the world's top copper producers, from ninth to sixth place (assuming no changes in the production levels of other companies)

### ➤ **Polkomtel S.A.**

- share of KGHM Polska Miedź S.A. in the share capital – 24.39%,
- carrying amount of Polkomtel S.A. in the accounts of KGHM Polska Miedź S.A.: PLN 1 160 million,
- the Shareholders of Polkomtel S.A. decided to jointly sell 100% of the shares of the company in a private placement,
- potential buyers include both sector / strategic investors as well as financial investors / investment funds,
- an Information Memorandum has been distributed, and initial offers are being collected and evaluated.

### ➤ **DIALOG S.A.**

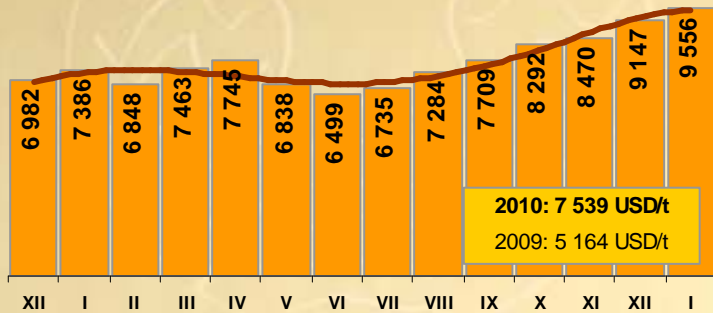
- share of KGHM Polska Miedź S.A. in the share capital – 100%,
- carrying amount of DIALOG S.A. in the accounts of KGHM Polska Miedź S.A. – PLN 825 million,
- the decision was taken to sell 100% of the shares of the company to an external investor,
- financial consultant engaged to carry out the sale – Rothschild investment bank,
- preparations underway; planned date of eventual transaction closure: first half of 2011.



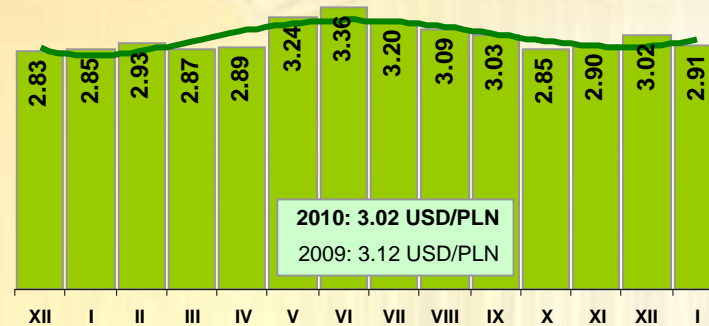
# Company financial results in 2010

# Macroeconomic conditions

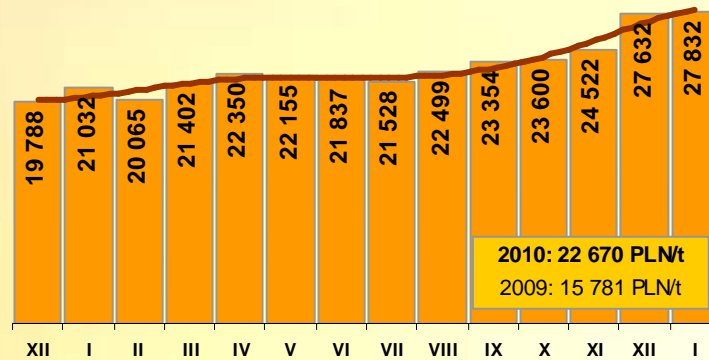
**Copper price**  
USD/t



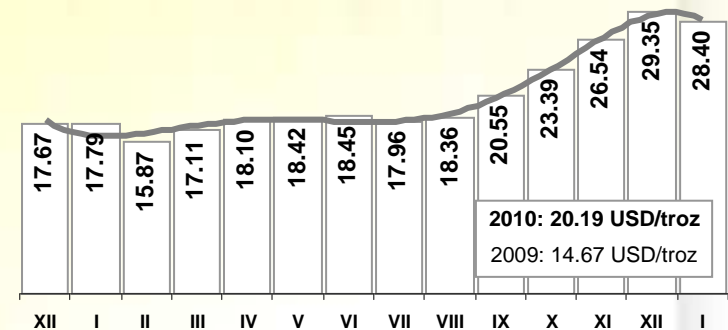
**Exchange rate**  
USD/PLN



**Copper price**  
PLN/t



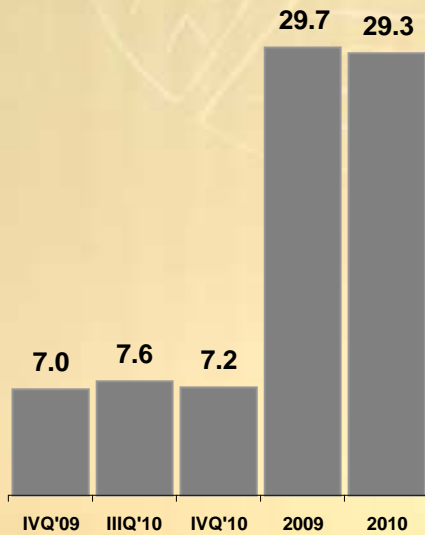
**Silver price**  
USD/troz



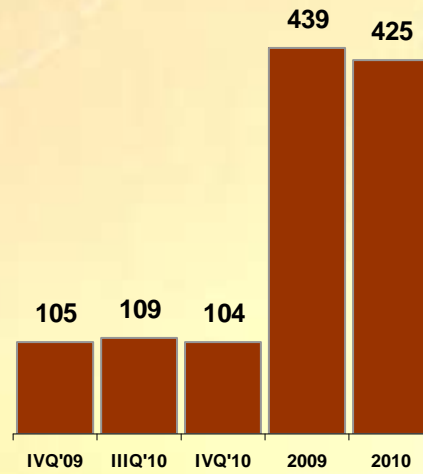


# Production results

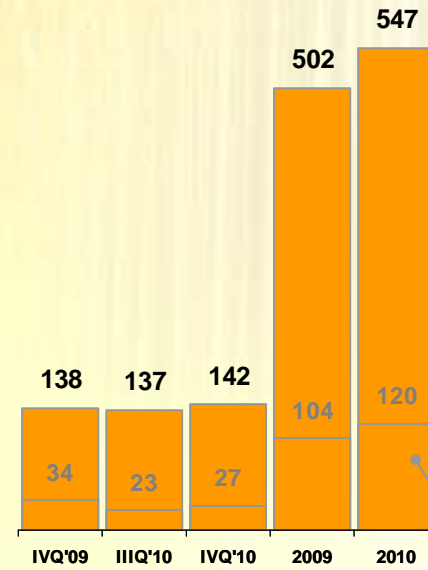
**Ore extraction  
(million t d.w.)**



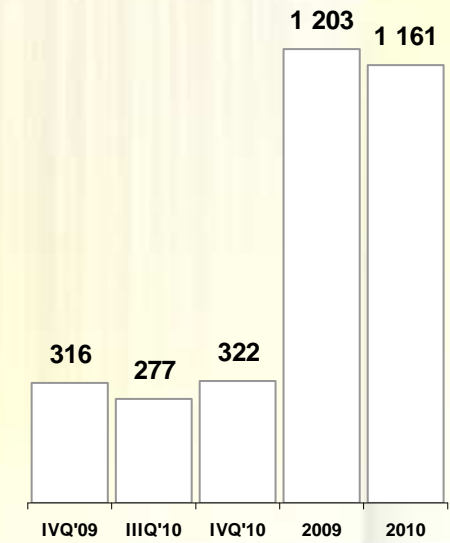
**Copper production  
in concentrate  
(‘000 t)**



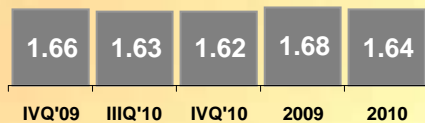
**Electrolytic  
copper production  
(‘000 t)**



**Metallic silver  
production  
(t)**



**Copper content in ore  
(%)**



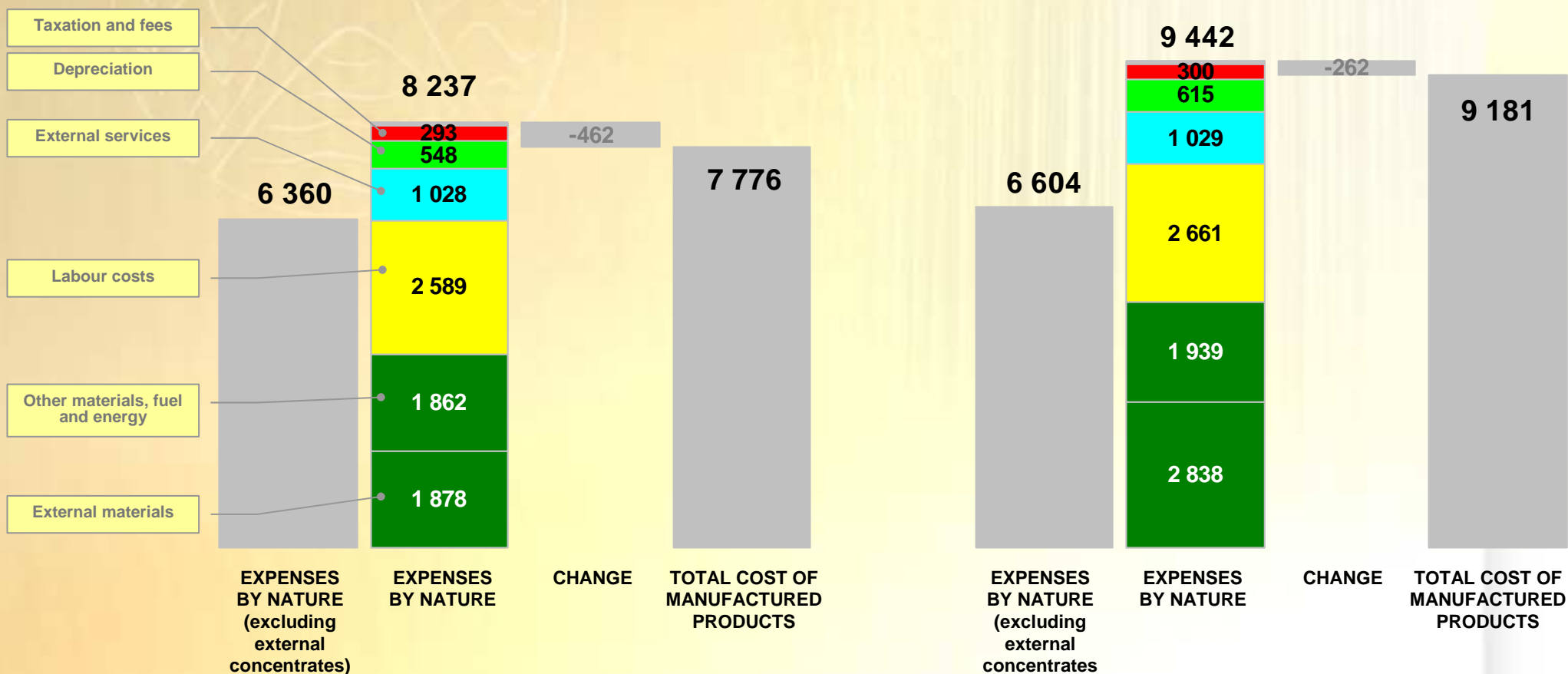
of which from  
purchased copper –  
bearing material

# Expenses by nature (PLN million)

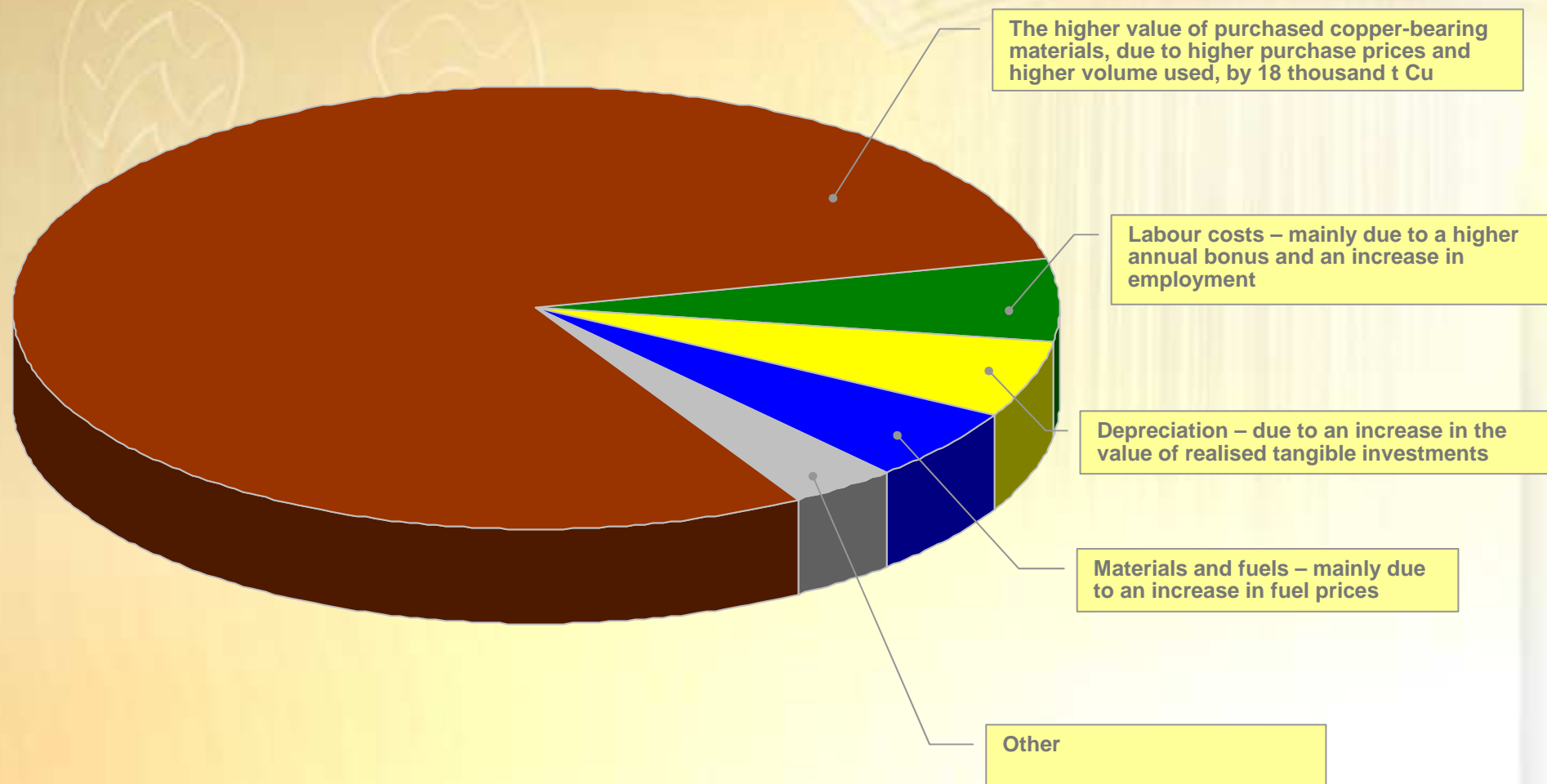
An increase in expenses by nature of PLN 1 205 million, i.e. by 15% versus 2009  
 Excluding external materials the increase amounts to PLN 244 million, i.e. 4%

2009

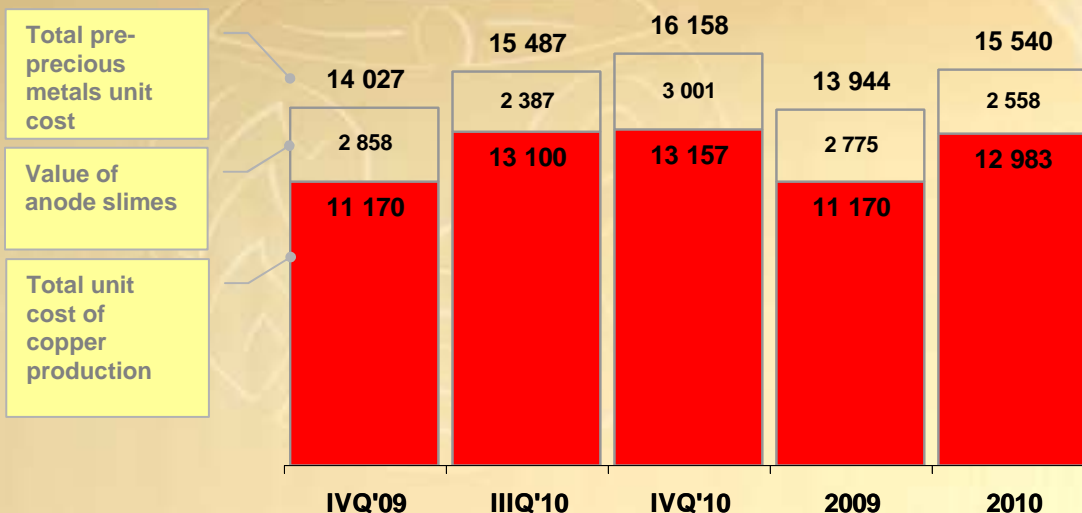
2010



The increase in total expenses by nature by 15% was due to the following factors:



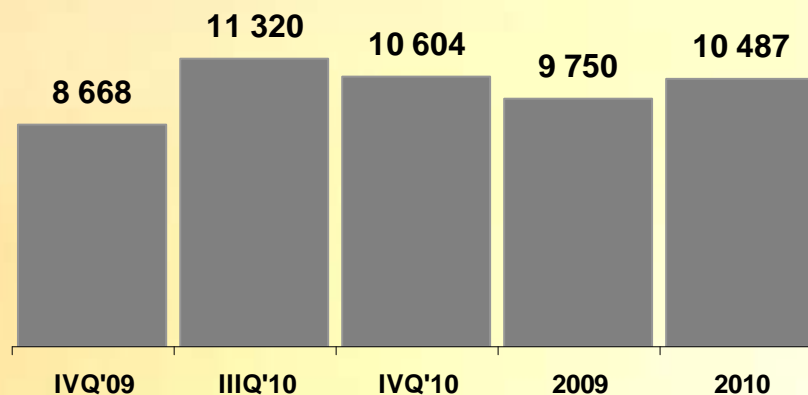
Total and pre-precious metals credit unit cost of electrolytic copper production



➤ The pre-precious metals credit unit cost of copper production in 2010 increased by 11%, mainly due to the higher value of external copper-bearing materials due to a higher volume of use (+16%) and higher purchase prices (+30%)

➤ The increase in the unit cost of copper production from internal concentrates by 7% is due to a higher level of expenses by nature (*labour costs, materials and energy, depreciation*) alongside the positive impact of a higher volume of production from internal concentrates (+7% versus 2009)

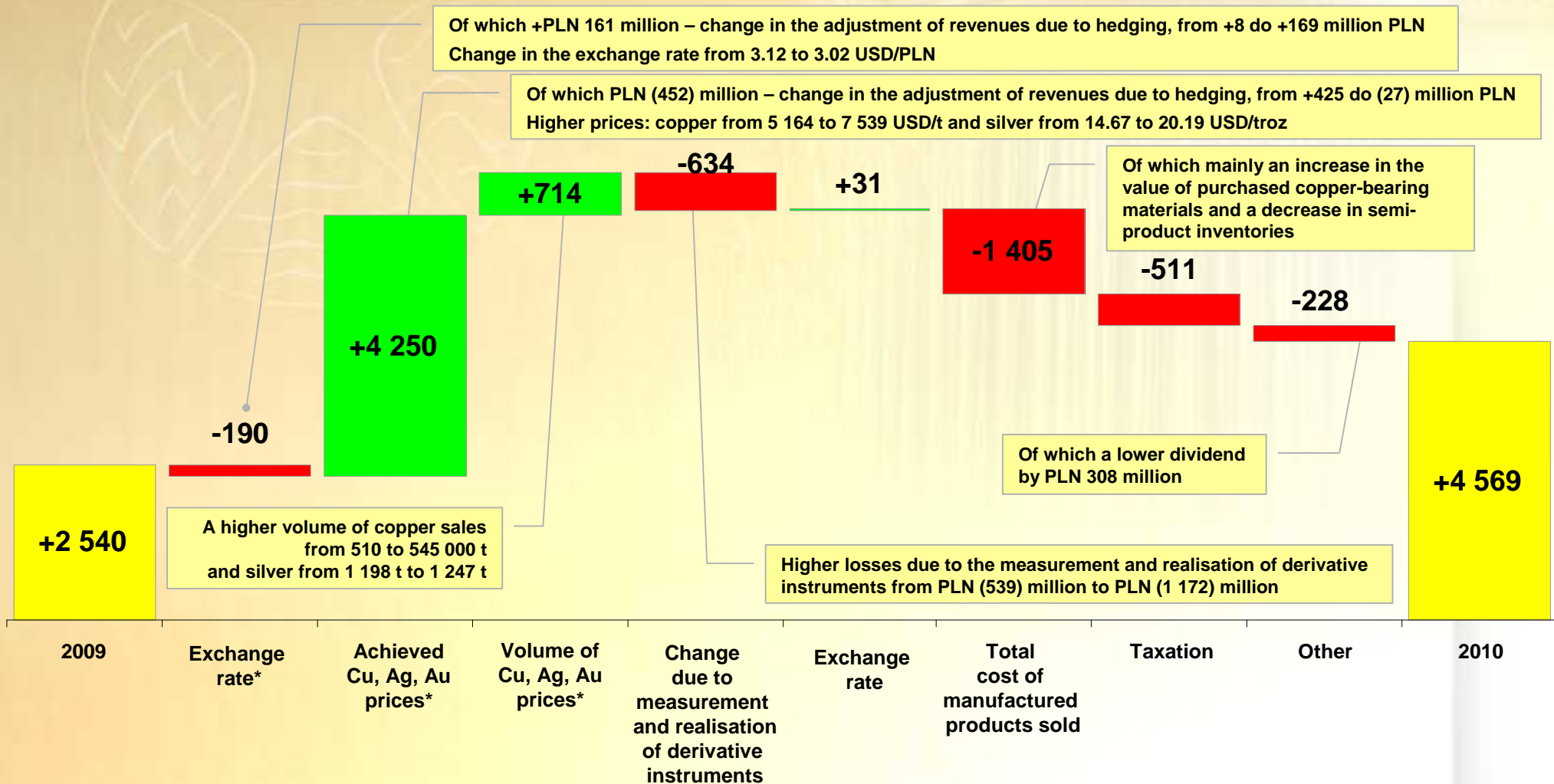
Cost of production of electrolytic copper from internal concentrates



## Financial results (PLN million)

	IVQ'09	IIIQ'10	IVQ'10	2009	2010	Change	Exec. 2009=100
<b>Sales</b>	<b>3 325</b>	<b>3 992</b>	<b>4 753</b>	<b>11 061</b>	<b>15 945</b>	<b>4 884</b>	<b>144</b>
<i>incl. adjustment of revenues due to hedging transactions</i>	<i>(41)</i>	<i>47</i>	<i>13</i>	<i>433</i>	<i>142</i>	<i>(291)</i>	<i>33</i>
<b>Operating costs</b>	<b>2 357</b>	<b>2 368</b>	<b>2 485</b>	<b>7 864</b>	<b>9 288</b>	<b>1 424</b>	<b>118</b>
<b>Net profit on sales</b>	<b>968</b>	<b>1 624</b>	<b>2 268</b>	<b>3 197</b>	<b>6 657</b>	<b>3 460</b>	<b>x 2.1</b>
<b>Result of other operating activities, of which:</b>	<b>(113)</b>	<b>(377)</b>	<b>(642)</b>	<b>(99)</b>	<b>(1 019)</b>	<b>(920)</b>	<b>x 10.3</b>
Dividends received	113	77	45	455	147	(308)	32
Realisation and measurement of derivative instruments	(195)	(351)	(686)	(539)	(1 172)	(634)	x 2.2
Exchange differences	(5)	(114)	(30)	(62)	(30)	31	49
Other	(26)	11	28	47	37	(10)	79
<b>Operating profit</b>	<b>854</b>	<b>1 247</b>	<b>1 626</b>	<b>3 098</b>	<b>5 638</b>	<b>2 540</b>	<b>182</b>
<b>Net financing cost</b>	<b>7</b>	<b>8</b>	<b>8</b>	<b>32</b>	<b>33</b>	<b>1</b>	<b>103</b>
<b>Profit before tax</b>	<b>848</b>	<b>1 240</b>	<b>1 618</b>	<b>3 067</b>	<b>5 606</b>	<b>2 539</b>	<b>183</b>
<b>Taxation</b>	<b>163</b>	<b>222</b>	<b>294</b>	<b>526</b>	<b>1 037</b>	<b>511</b>	<b>197</b>
<b>Profit for the period</b>	<b>685</b>	<b>1 018</b>	<b>1 324</b>	<b>2 540</b>	<b>4 569</b>	<b>2 028</b>	<b>180</b>
<b>EBITDA</b>	<b>998</b>	<b>1 401</b>	<b>1 782</b>	<b>3 646</b>	<b>6 254</b>	<b>2 608</b>	<b>172</b>

**In 2010 net profit was higher by PLN 2 028 million than in 2009**



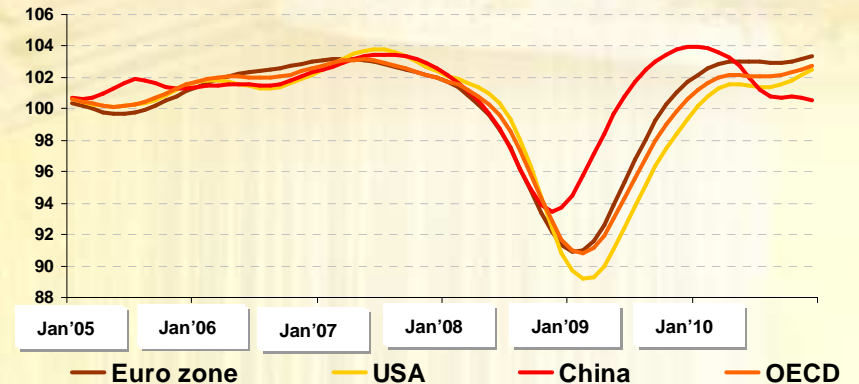
\* Impact on sales

# Market risk management - justification

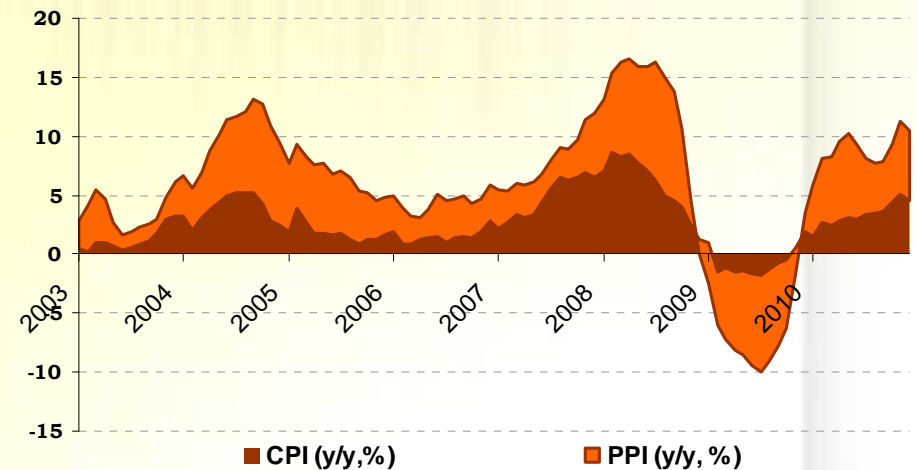
## Rate of recovery slowing

- In the opinion of KGHM, while the current global economic situation improved versus the prior year, the observed rate of recovery is beginning to weaken. At the moment it is difficult to say if the efforts of governments and central banks will lead to long-term economic results. Economic indicators signal a slow-down in growth rates for leading global economies.
- Concern is being raised by the growth in inflationary indicators in China. The economy of this country is being transformed from a model based on external demand (export) to one based on internal consumption. Over the long term this is a more stable model for growth, although in the short term overly-rapid transformation may lead to a lower rate of growth and higher inflation.
- Also of concern is the ultra-easy monetary policy of the USA and the Euro zone, which threatens the emergence of bubbles in financial assets. To stimulate their economies, some governments have begun to implement protectionist policies and have taken steps to weaken their currencies.

Composite leading indicators (CLI) indicate a slow-down in growth of the leading economies, in particular China.

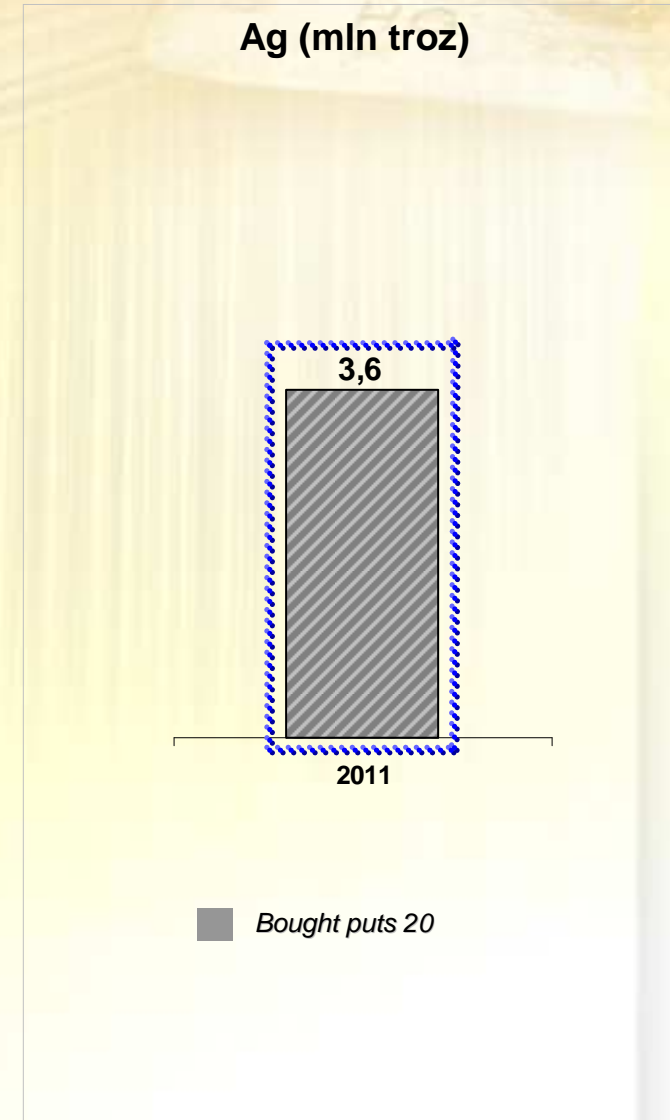
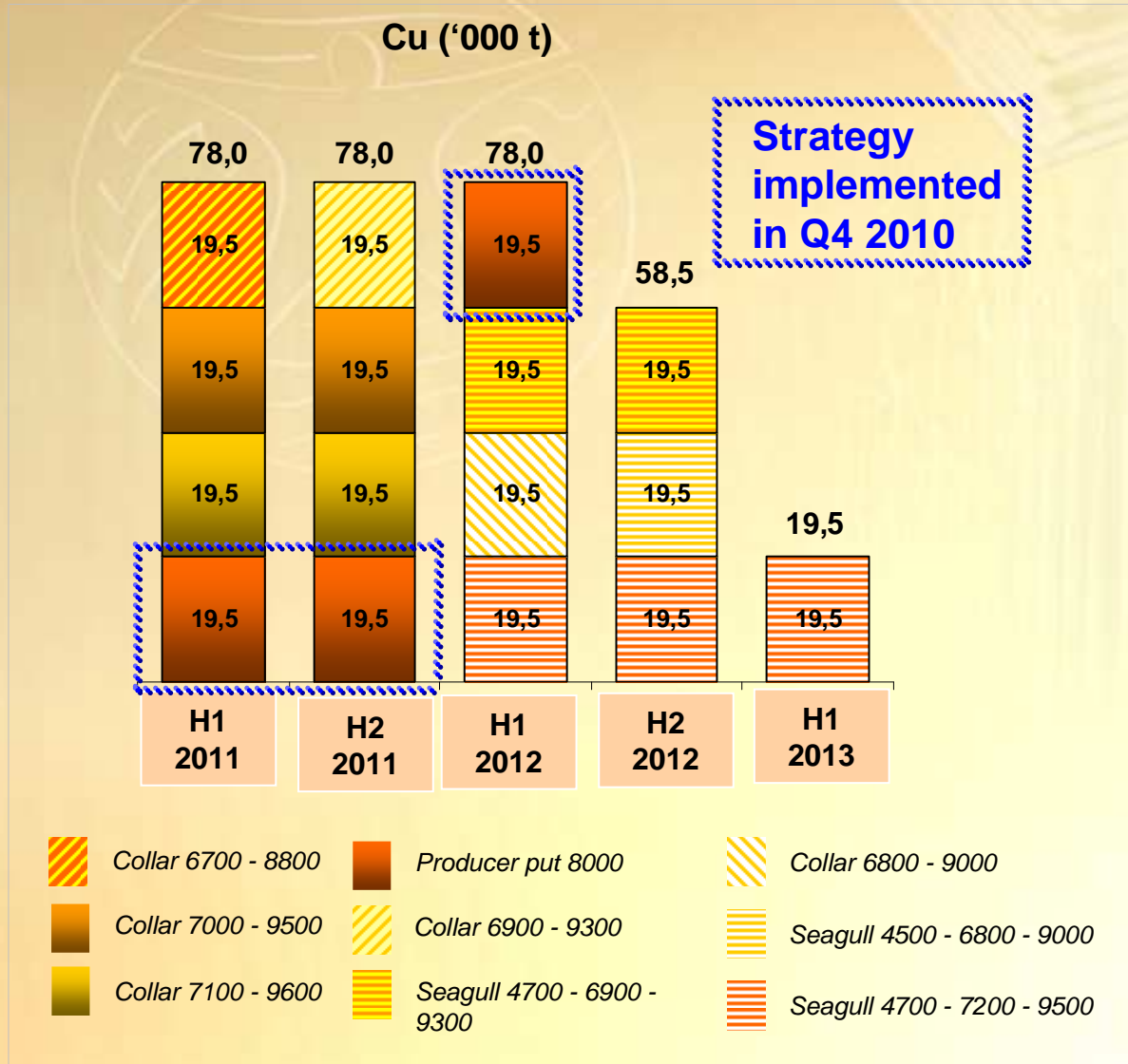


The period of low inflation in China has ended. Currently the Chinese Central Bank is attempting to control inflation by gradually tightening monetary policy.



# Market risk management – hedged position (at 31 December 2010)

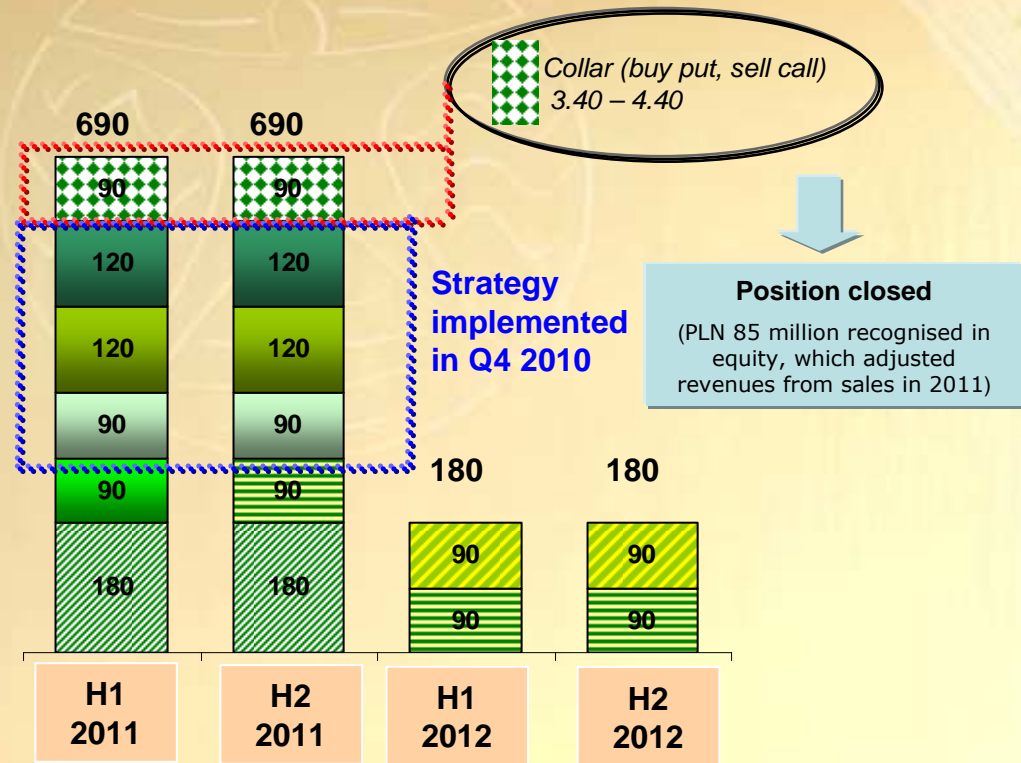
## Position in derivative instruments on the commodities market





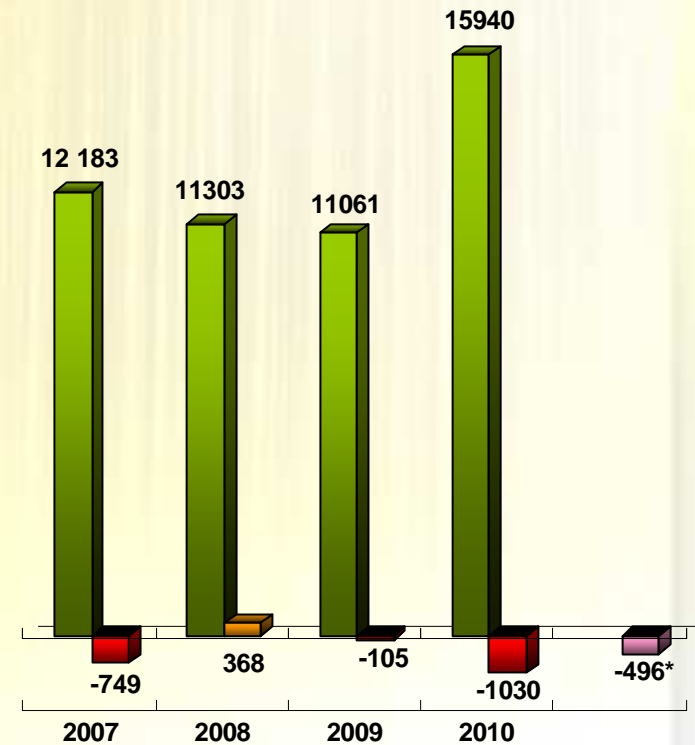
# Market risk management – hedged position (at 31 December 2010)

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



- Bought puts 2.90
- Bought puts 2.80
- Bought puts 2.70
- Bought puts 3.35
- Collar (buy put, sell call) 3.40 – 4.50
- Collar 2.90 – 3.70
- Collar 3.40 – 4.50
- Seagull (sell put, buy put, sell call) 2.70 – 3.30 – 4.40

Results on hedging and Company revenues (PLN million)



\* fair value of open positions in derivative instruments at 31 December 2010

# Market risk management – comments

## Relatively large hedged position

- Since December 2008 the price of copper, counting from its minimum, has risen over 250%, which fact KGHM has utilised to build up a substantial hedged position on the copper market, intensifying its activity at high price levels.
- The weakening of the PLN versus the USD observed in the second quarter of 2010 was used to substantially increase the hedged currency position of the Company.
- The consistently built hedged position of the Company is significantly larger than in prior years, and encompasses a longer time horizon – to the end of the first half of 2013.
- The hedging instruments applied by KGHM enable partial participation in price rises. Thanks to this, despite the continued very high copper prices, lost benefits were minimal.

## The results for 2010 are mainly changes in measurement

- The negative result on hedging instruments in 2010 (PLN (1 030) million), is mainly due to changes in the measurement of open hedged positions. The total result from measurement for 2010 amounted to PLN (1 036) million (in the fourth quarter, PLN (612) million) mainly due to changes in the time value of financial instruments comprising 10 subsequent quarters, accumulated on one balance sheet date. Hedge accounting policies do not allow the Company to transfer these changes to equity, and therefore are entirely charged to the current period result.
- On settled transactions in 2010 the result is positive (PLN 6.7 million, including the adjustment to revenues from sales: PLN 142 million, and the result on the realisation of derivative instruments: PLN (135) million).

# Consolidated financial result (PLN million)

	Consolidated result		Parent result	
	2009	2010	2010	
Sales	12 120	17 293	15 945	92%
Operating costs	8 937	10 599	9 288	
Net profit on sales	3 183	6 693	6 657	
Result of other operating activities	(504)	(1 146)	(1 019)	
Operating profit	2 679	5 547	5 638	102%
Net finance costs	45	47	33	
Share in profits of associates valued by the equity method	239	281	x	
Profit before tax	2 874	5 781	5 606	
Taxation	545	1 062	1 037	
Profit for the period	2 329	4 719	4 569	97%
EBITDA	3 422	6 391	6 254	98%

Share of Parent in consolidated result



***Thank you***

**KGHM POLSKA MIEDŹ S.A.**

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