



KGHM
POLSKA MIEDŹ S.A.

Company results in the first half of 2011

August 2011

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KGHM Polska Miedź S.A. financial results - synthesis

- **Net profit earned in the first half of 2011: PLN 4.3 billion, on revenues of PLN 10.0 billion, meaning achievement of the forecast for 2011 respectively by 52% and 62%**
- **In June 2011 a preliminary agreement was signed for the sale of 100% of the shares of Polkomtel S.A. The required approval by the Polish Office of Competition and Consumer Protection is expected by the end of 2011**
- **Due to the exceptional progress on achieving forecast parameters, and to the better-than-projected macroeconomic conditions, the Company is preparing an adjustment to the Budget for 2011**

➤ **Polkomtel S.A.**

- percentage of share capital held by KGHM – 24.39% (carrying amount PLN 1 160 million)
- 30 June 2011 – signing of a contingent agreement for the sale of 100% of the shares of Polkomtel S.A. between all company shareholders and Spartan Capital Holdings Sp. z o.o., a company from the Zygmunt Solorz-Żak group
 - transaction value PLN 18.1 billion (of which PLN 15.1 billion to be paid in cash)
 - condition to be met – approval by the Polish Office of Competition and Consumer Protection
 - agreement in force until 31 December 2011

➤ **DIALOG S.A.**

- percentage of share capital held by KGHM – 100% (carrying amount PLN 825 million)
- March 2011 – start of process of gathering bids to purchase 100% of company shares
- financial advisor to KGHM for the sale – Rothschild
- current state of sale process – final stage of receiving and evaluating bids, further due diligence
- conclusion of sale contingent on receiving conditions satisfactory to KGHM

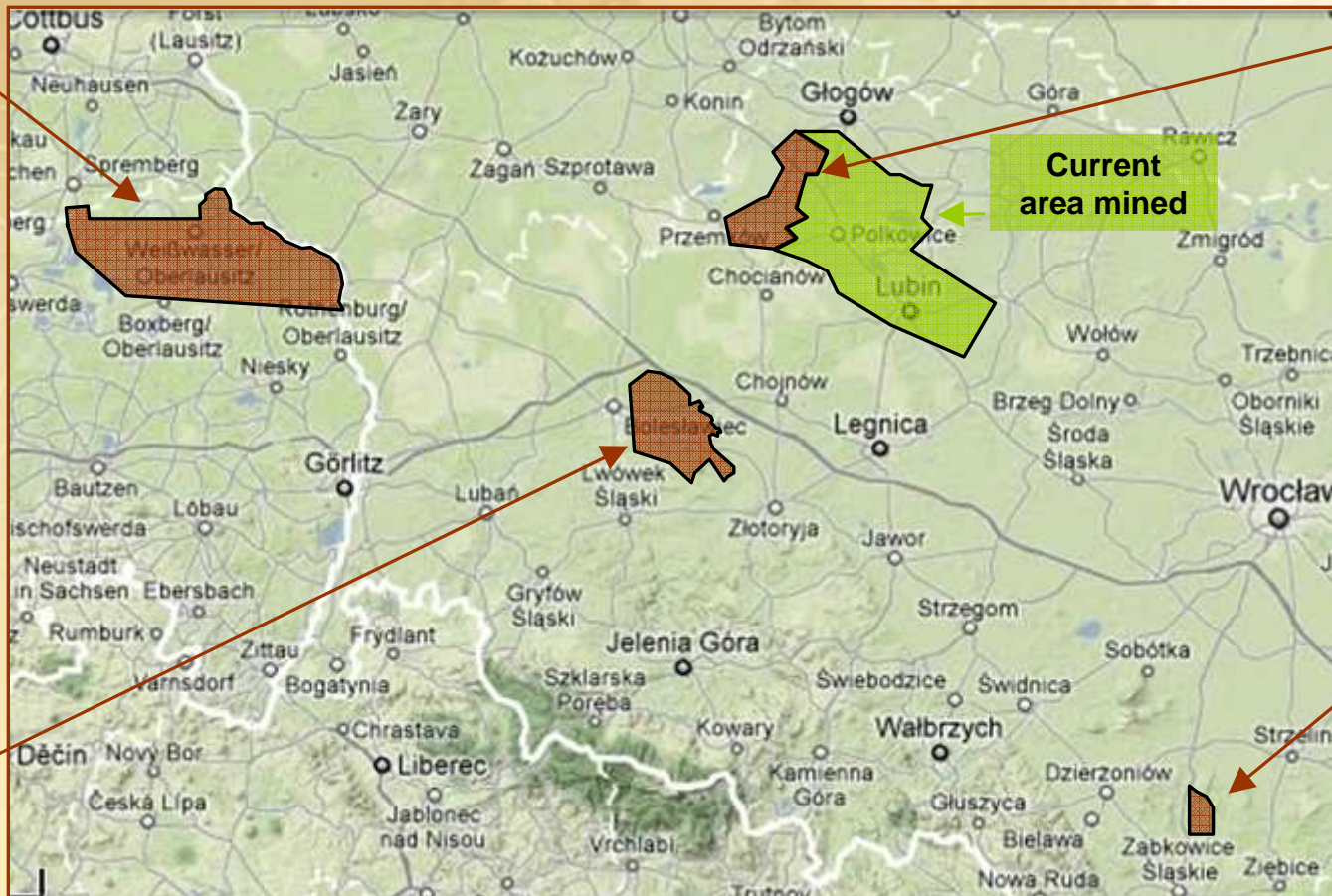
Mining projects of Polska Miedź S.A. locally and abroad (I)

- **In the current year, KGHM commenced exploratory work for two projects:**
 - **Wartowice.** *Drilling begun in the so-called Old Copper Belt. This work is aimed at gaining more precise knowledge of previously-documented copper resources within the Grodziecka Trough. 15 test holes are planned in stage one. Planned project expenditure: PLN 64 million.*
 - **Weisswasser.** *Acting through its German-registered subsidiary KGHM Kupfer AG, KGHM began an exploratory drilling program in May 2011 in the Weisswasser concession, located in the region of Lusatia in Saxony, near the Polish border. 4 test holes will be drilled this year, with a budget of EUR 13 million.*
- **In the current year, KGHM continued work on existing projects:**
 - **Afton-Ajax.** *The Canadian-registered KGHM Ajax Mining Inc. is preparing a Bankable Feasibility Study. This document, forming the basis to determine the parameters of the future mining operations, will be concluded by the end of 2011. Financial advisor for the project: BNP Paribas.*
 - **Szklary.** *On 15 April KGHM completed a program of 54 shallow test holes, at present analysis is being conducted of the mineralogical composition of the ore.*
 - **Gaworzyce-Radwanice.** *In 2011 the Company completed a program of 5 test holes in territory directly adjacent to that currently being mined.*

Mining projects of Polska Miedź S.A. locally and abroad (II)

Weisswasser

- 4 holes (stage I)
- Length: 5.5 thousand meters
- Budget: 13 M €



Gaworzyce-Radwanice

- 5 holes
- Length : 6.5 thousand meters
- Budget: PLN 20 M

Wartowice

- 15 holes
- Length : 16.1 thousand meters
- Budget: PLN 64 M

Szklary

- 54 holes
- Length : 1.3 thousand meters
- Budget: PLN 3.5 M

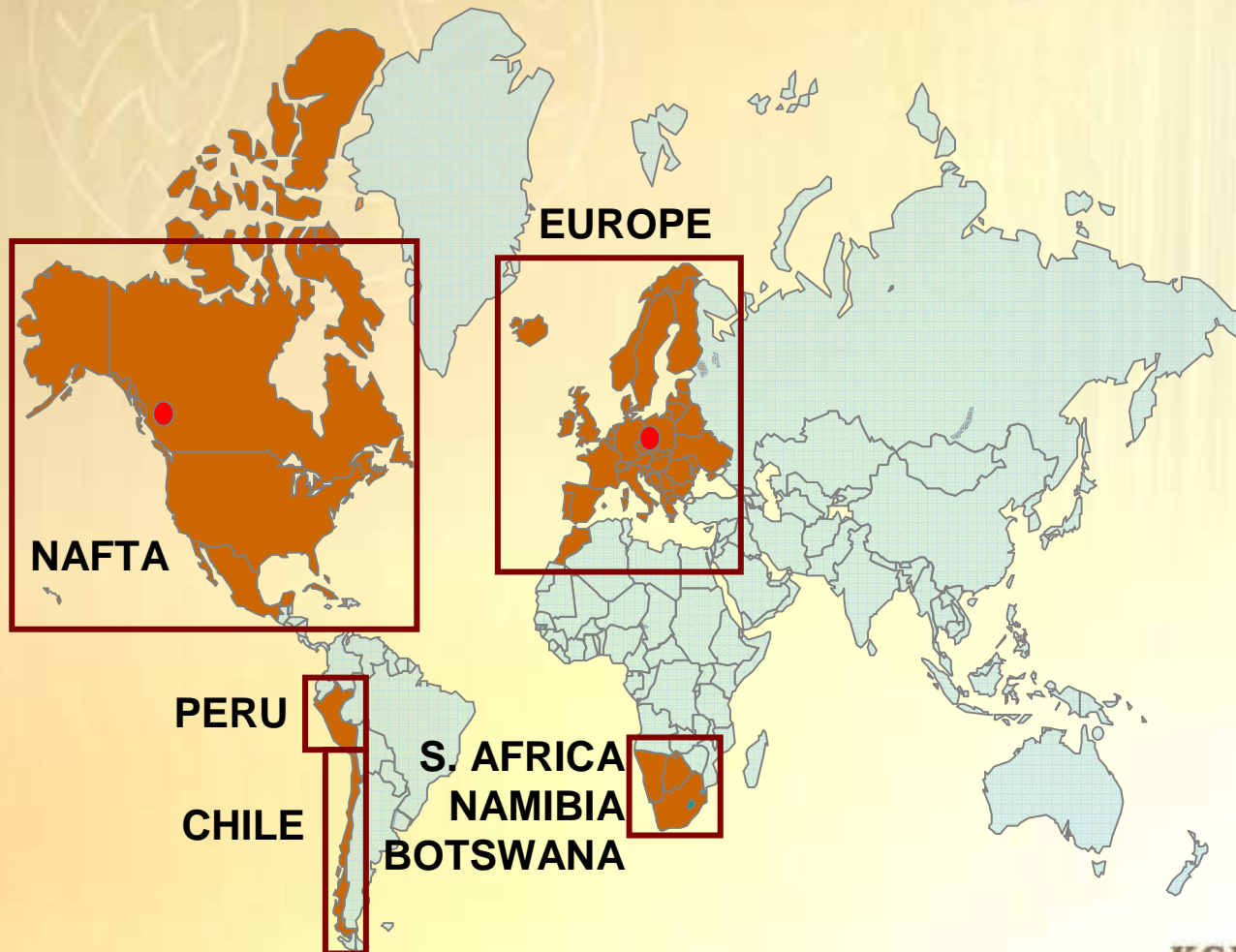
Afton-Ajax

- BFS underway
- Completion in December 2011
- Financial advisor BNP



Foreign mining projects – preferred locations of KGHM Polska Miedź

The Company is searching for mining assets in geopolitically-safe regions – KGHM is interested in politically stable, business-friendly countries, having high potential for rich ore resources



KGHM is negotiating with a number of companies in the countries mentioned, having resource projects which meet the criteria of KGHM

Also underway are technical and economic analyses in cooperation with independent advisors

Copper ore mining licenses after 2013

- In December 2013, 20-year licenses for copper ore mining will expire for 5 concession areas
 - The Company is seeking licenses to cover the maximum period allowed under current law, i.e. 50 years
 - To ensure the licensing process goes smoothly, KGHM Polska Miedź maintains permanent working contact with the appropriate bodies:
 - local municipalities situated above ore deposits,
 - decision-making institutions (supervisory bodies in terms of geology, mining and the environment)
 - influential institutions (from the academic and scientific communities)and also engages the support of two leading law firms, specialising in issues related to geologic and mine law
- In the Company's opinion, the following ensure the licenses will be granted on time:
 - making an early start on license issuance procedures,
 - being ahead of schedule on preparing required licensing documentation,
 - ensuring a positive media image in the region,
 - having appropriate infrastructure and a leading position in the region, as well as the domestic and European markets
- Continuity in terms of the licenses held and sought means that competitors have no „open window” to exploit in the licensing process

Major investments in property, plant and equipment

After the first six months of 2011, PLN 450 million has been spent of the planned PLN 1 892 million capital expenditure budget for 2011

The level of expenditure to date is in line with the schedule, and is due to the accrued expenditures for the second half

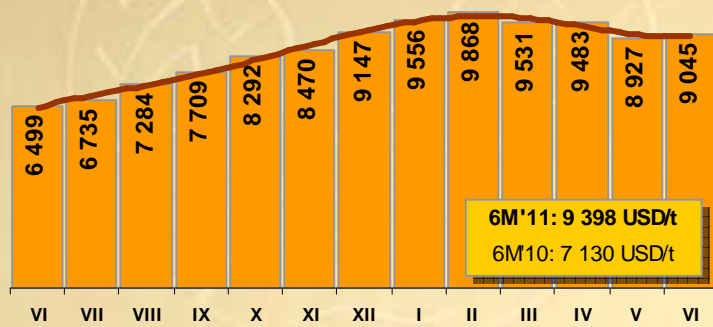
- **Construction of the SW-4 shaft**
- **Głogów Głęboki Przemysłowy**
- **Modernisation and replacement of the mines' machine park**
- **Pyrometallurgy Modernisation Program at the Głogów smelter**
- **Żelazny Most tailings pond**
- **Replacement of floatation machinery**
- **Renovation of the fourth Doerschel furnace**
- **Construction of Gas-Steam blocks at the Głogów and Polkowice power plants**
- **In addition, capital investments in the mines are related among others to: renovation of infrastructure, ventilation and cooling and conveyor belt and pipe transport, as well as investments related to replacement in the smelters**



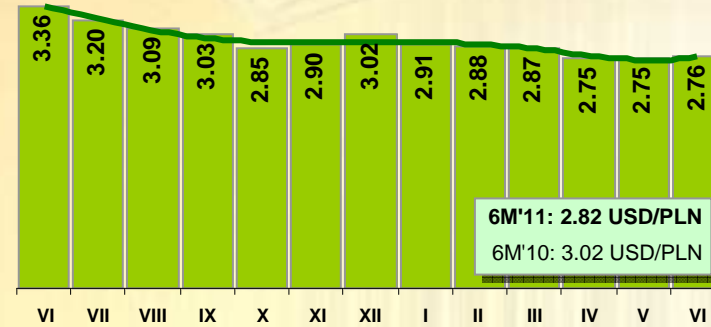
Company financial results in the first half of 2011

Macroeconomic conditions

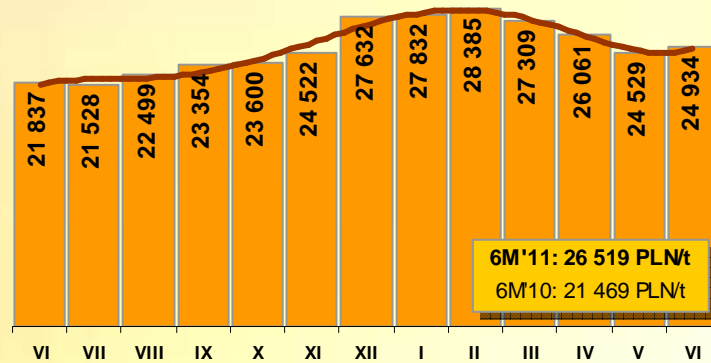
Copper price
USD/t



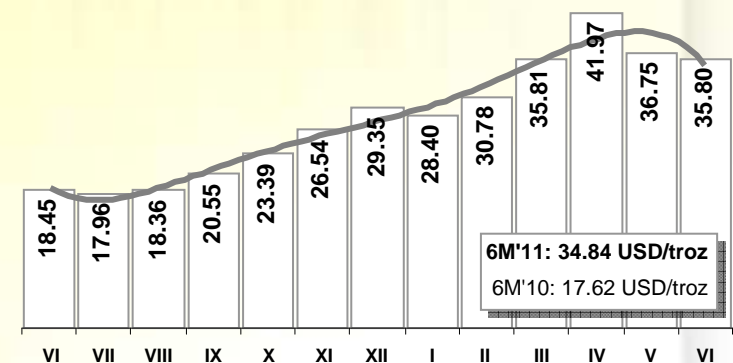
Exchange rate
USD/PLN



Copper price
PLN/t

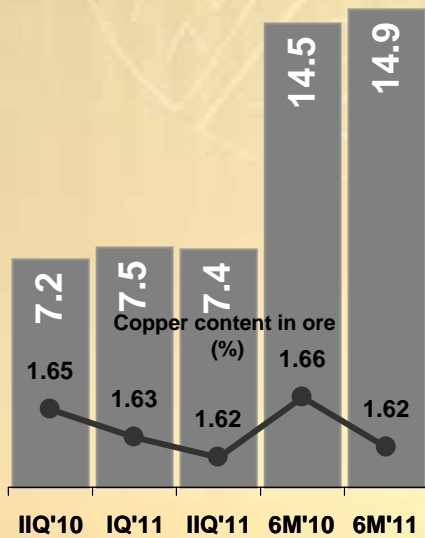


Silver price
USD/troz

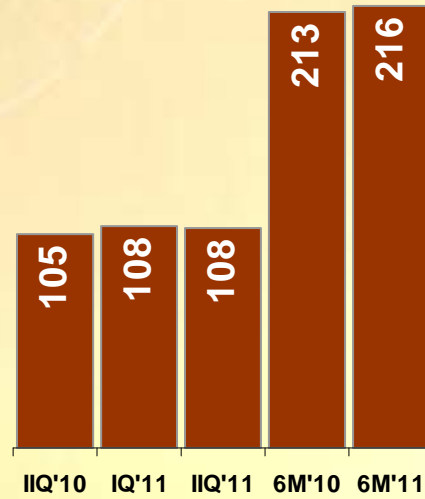


Production results

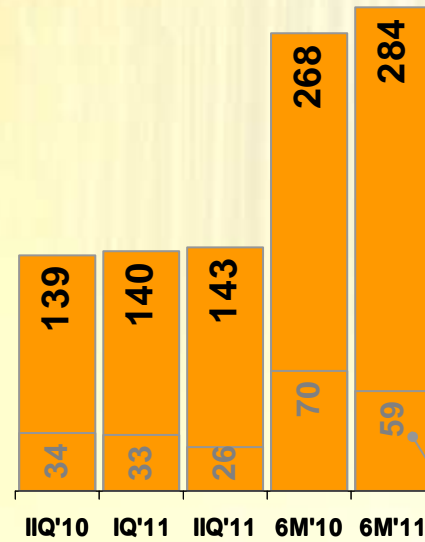
Ore extraction urobku (million t d.w.)



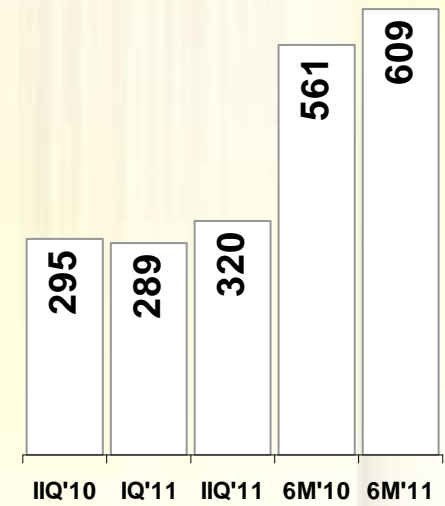
Production of copper in concentrate ('000 t)



Electrolytic copper production ('000 t)



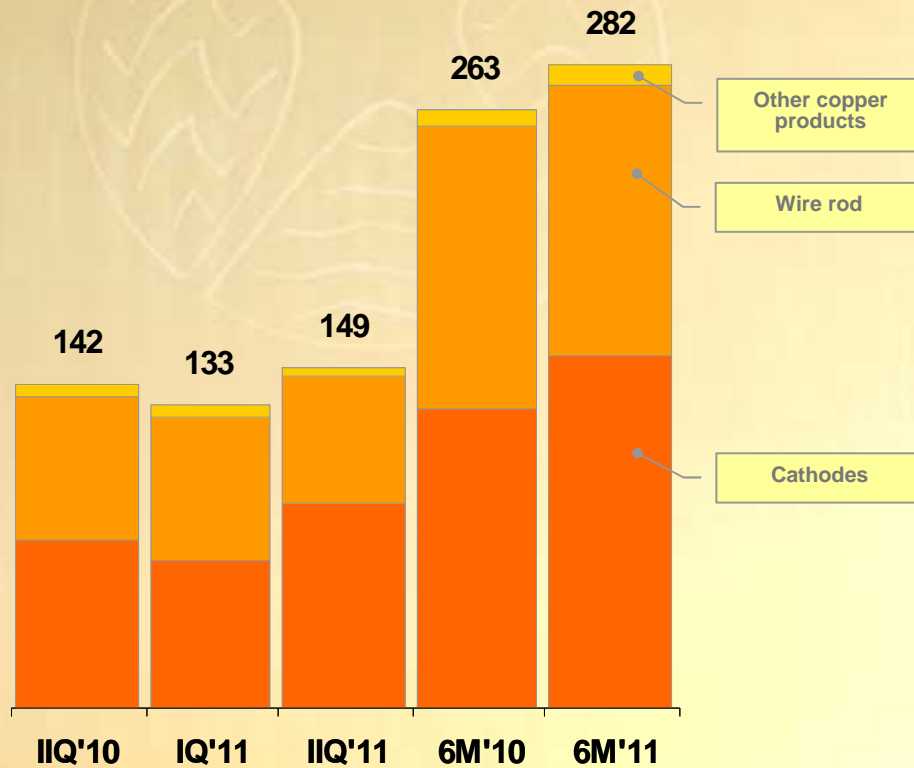
Metallic silver production (t)



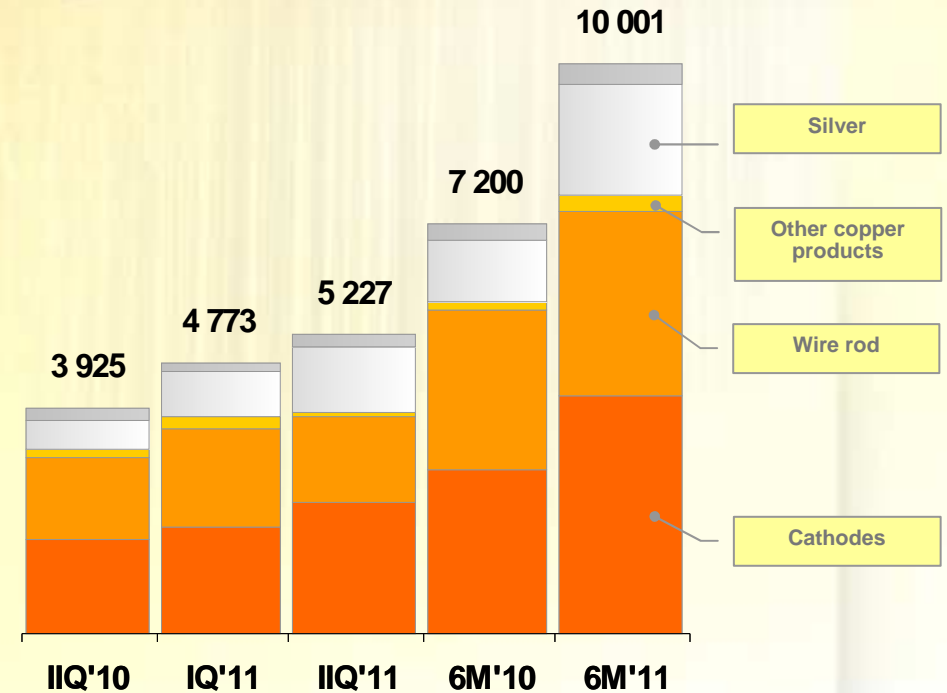
of which from purchased copper-bearing material

Sales structure

Sales volume of copper and copper products ('000 t)



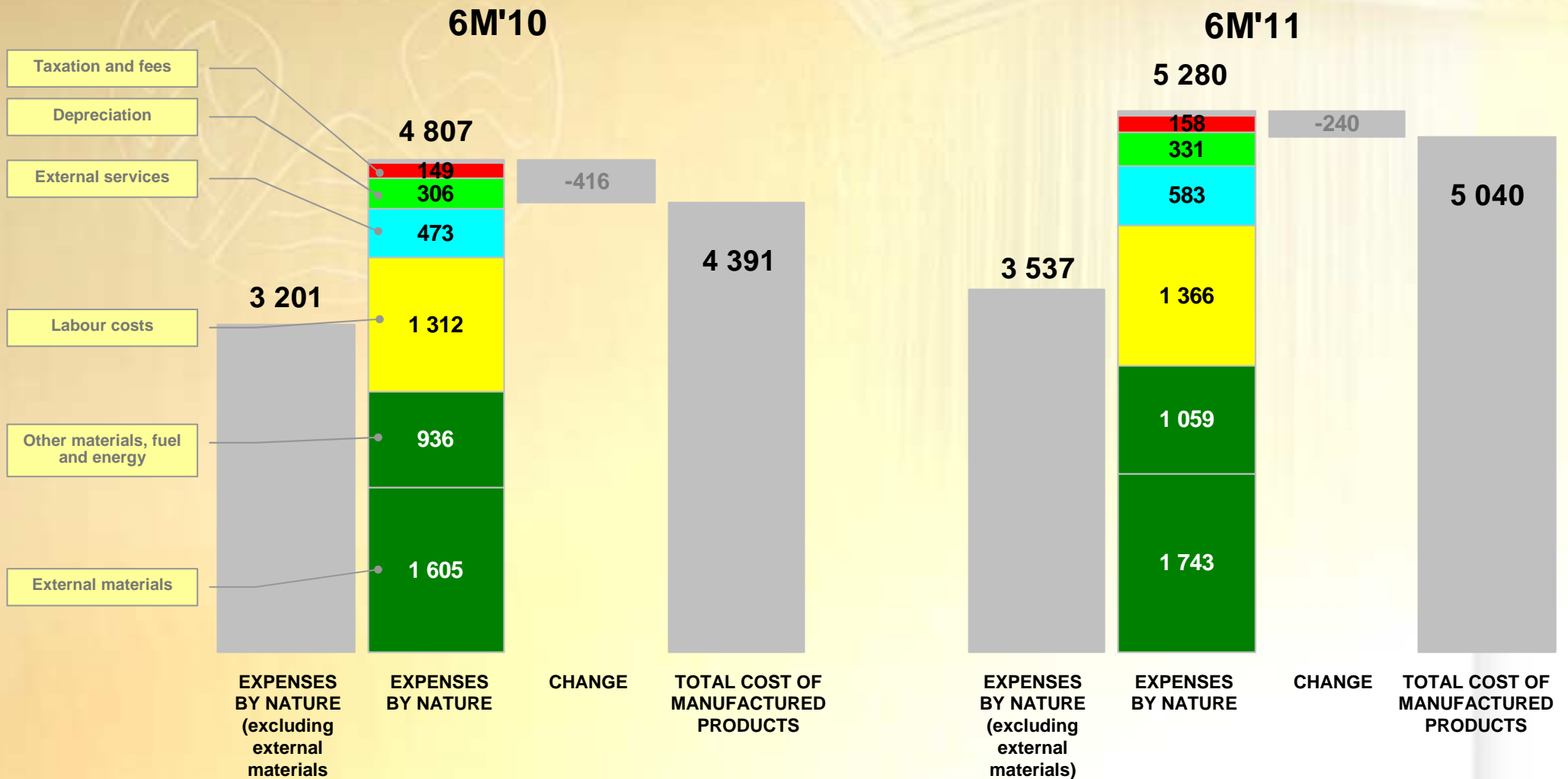
Sales structure (million PLN)



- An increase in sales in the first half 2011 by PLN 2.8 billion, mainly due to an increase in copper products sales by PLN 1.8 billion (*with higher volume by 19 thousand tonnes*) and silver by PLN 0.9 billion (*with lower volume by 17 tonnes*).

Expenses by nature (million PLN)

An increase in expenses by nature of PLN 473 million, i.e. by 10% versus H1 2010
 Excluding external materials the increase amounts to PLN 336 million, i.e. 10%

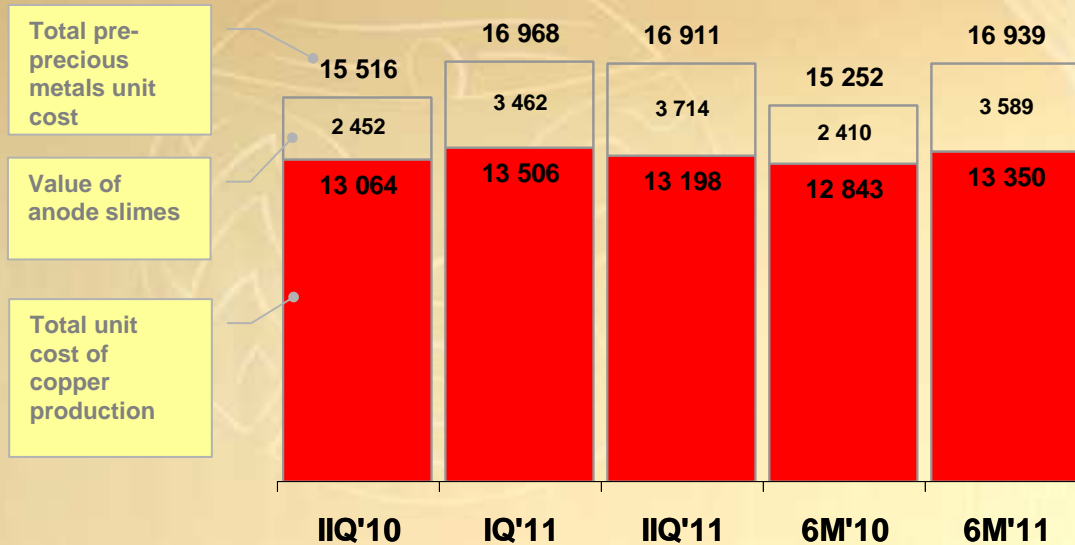


The increase in expenses by nature by PLN 473 million was due to an increase in the following:

- **The value of external copper-bearing materials by PLN 137 million** – due to an increase in the purchase price of external copper-bearing materials by 26% with a decrease in volume consumed by 14% (10 thousand t Cu)
- **Consumed materials, fuel and energy by PLN 123 million** – mainly due to higher production from own concentrate by 13% (27 thousand t Cu) and to an increase in energy and fuel prices.
- **The value of external services by PLN 109 million** – mainly due to an increase in costs of preparatory mine work by PLN 60 million (an increase in work by 4.6 km), an increase in transport costs by PLN 15 million (due to an increase in shipping rates) and higher repair costs by PLN 16 million
- **Labour costs by PLN 54 million** – due to a higher annual bonus from 19% in 2010 to 24% in 2011

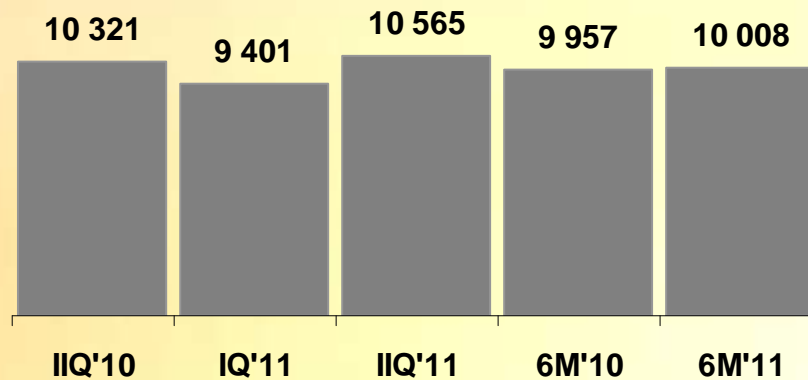
Unit cost of electrolytic copper production (PLN/t)

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



➤ The increase in the pre-precious metals credit unit cost of copper production versus the comparable prior period by 11% (+1 687 PLN/t) was due to the higher cost of own concentrate production, related to an increase in expenses by nature, of which mainly preparatory mine work, fuels (higher prices) and labour costs due to a higher annual bonus

Cost of production of electrolytic copper from own concentrate

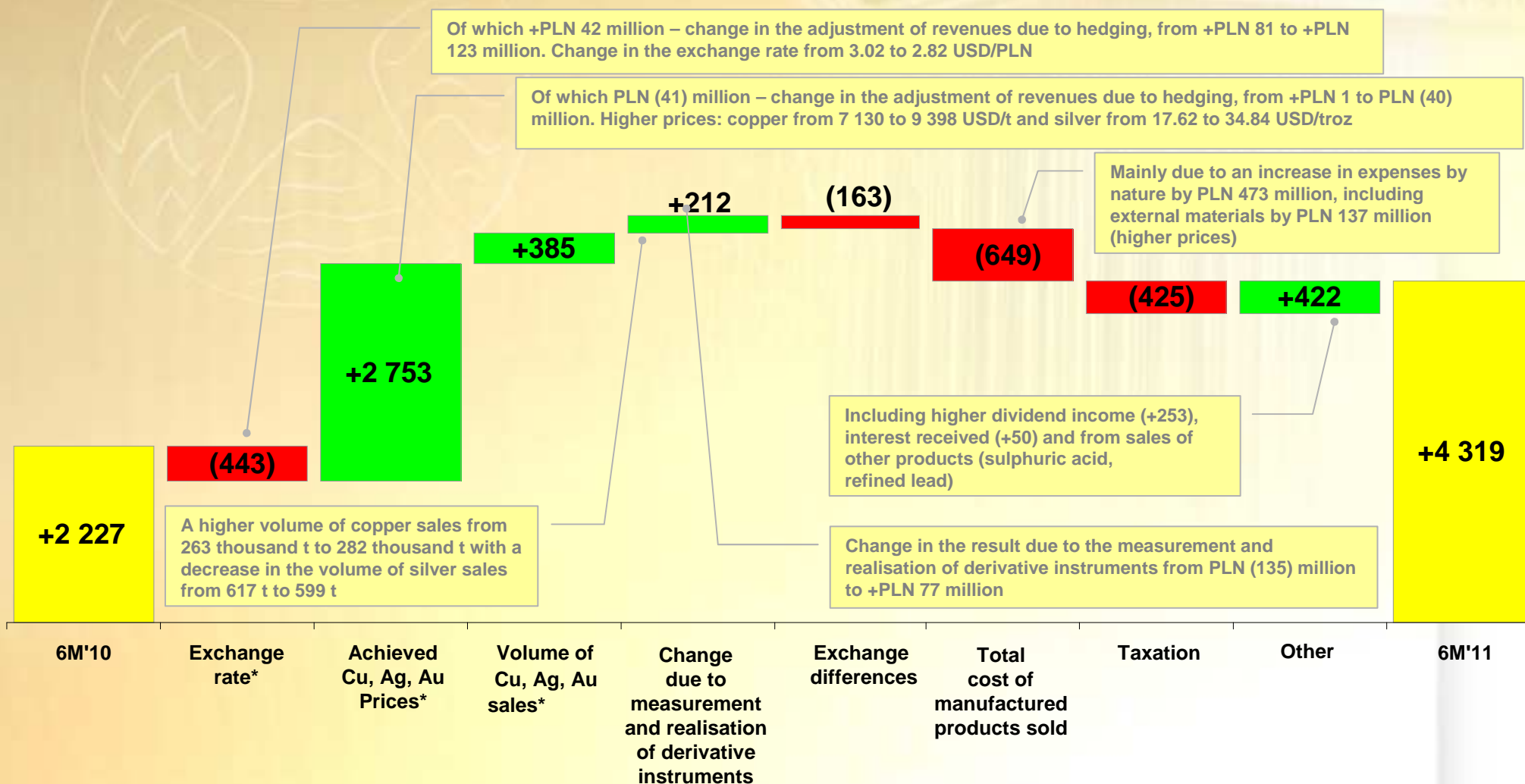


➤ The total unit cost of copper production from own concentrates remains at a stable level of around PLN 10 thousand per tonne of electrolytic copper

Financial results (million PLN)

| | IIQ'10 | IQ'11 | IIQ'11 | 6M'10 | 6M'11 | Change 6M'10 | Realisation 6M'10=100 |
|---|--------------|--------------|--------------|--------------|---------------|-----------------|--------------------------|
| Sales | 3 925 | 4 773 | 5 227 | 7 200 | 10 001 | 2 801 | 139 |
| <i>incl. adjustment of revenues due to hedging transactions</i> | <i>40</i> | <i>21</i> | <i>62</i> | <i>82</i> | <i>84</i> | <i>1</i> | <i>102</i> |
| Operating costs | 2 370 | 2 394 | 2 698 | 4 435 | 5 092 | 657 | 115 |
| Net profit on sales | 1 555 | 2 380 | 2 529 | 2 765 | 4 909 | 2 144 | 178 |
| Result of other operating activities, of which: | 303 | 42 | 331 | 0 | 372 | 373 | x |
| Realisation and measurement of derivative instruments | 110 | 32 | 45 | (135) | 77 | 212 | x |
| Exchange differences | 164 | (21) | (29) | 114 | (50) | (163) | x |
| Dividends received | 24 | 0 | 277 | 24 | 277 | 253 | x 11.5 |
| Other | 5 | 31 | 37 | (2) | 68 | 71 | x |
| Operating profit | 1 858 | 2 422 | 2 860 | 2 764 | 5 281 | 2 517 | 191 |
| Net financing cost | 9 | 8 | 8 | 17 | 16 | (1) | 97 |
| Profit before tax | 1 849 | 2 414 | 2 852 | 2 748 | 5 265 | 2 518 | 192 |
| Taxation | 348 | 455 | 491 | 521 | 946 | 425 | 182 |
| Profit for the period | 1 501 | 1 958 | 2 361 | 2 227 | 4 319 | 2 092 | 194 |
| EBITDA | 2 010 | 2 588 | 2 999 | 3 071 | 5 613 | 2 542 | 183 |

In the first half of 2011 net profit was higher by PLN 2 092 million, i.e. nearly double that of the first half of 2010

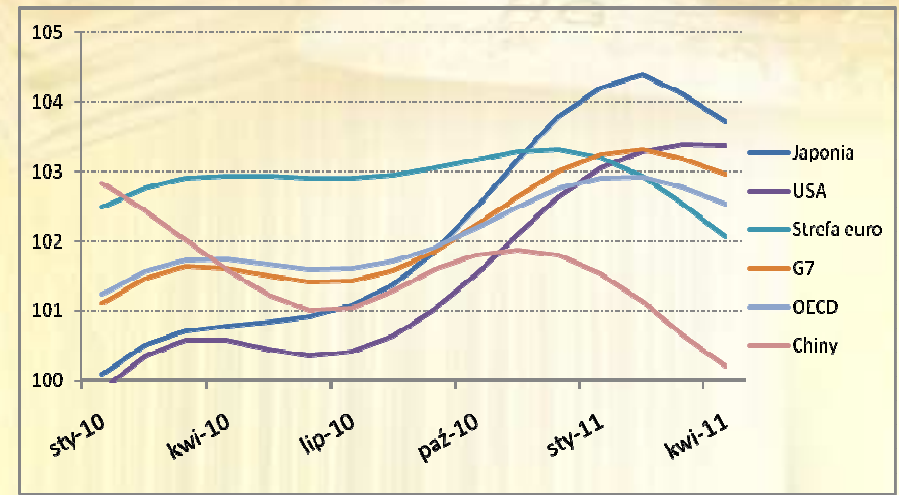


* Impact on sales

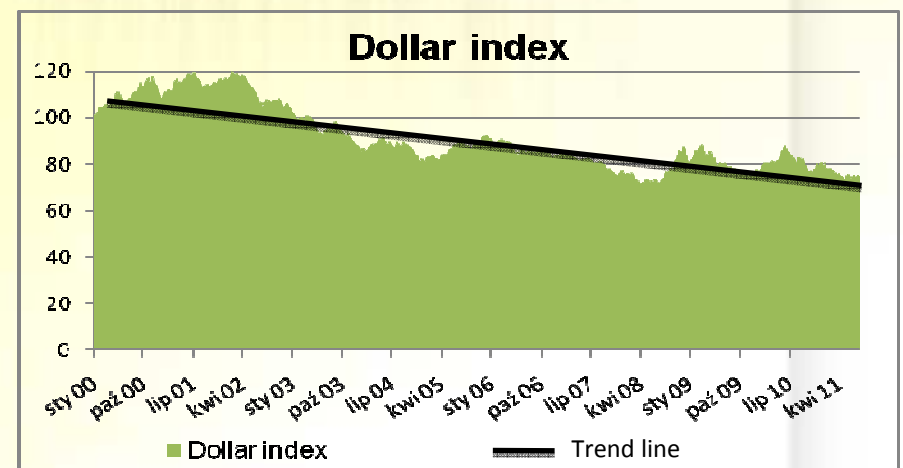
Market risk management – macroeconomic situation

- Leading economic indicators point to a potential slowdown in the economic growth of leading global economies
- Financial markets remain under pressure from the debt problems of Euro zone countries. Problems with servicing debt are being deferred, while their resolution will be a long-term process, which will negatively impact the level of economic growth
- A further threat to growth in the leading economies are the accelerating rates of inflation. Higher prices are already apparent not only in the most rapidly-developing countries (China), but also in developed regions (USA, Euro zone)
- Other concerns are related to the continuation of ultra-easy monetary policy in the United States, threatening the generation of bubbles in financial assets markets, such as the commodities market
- In order to stimulate their economies, some countries are actively pursuing policies to weaken their currencies. Over the last decade, the USD has lost over 30 per cent of its value versus a basket of currencies

Leading economic indicators



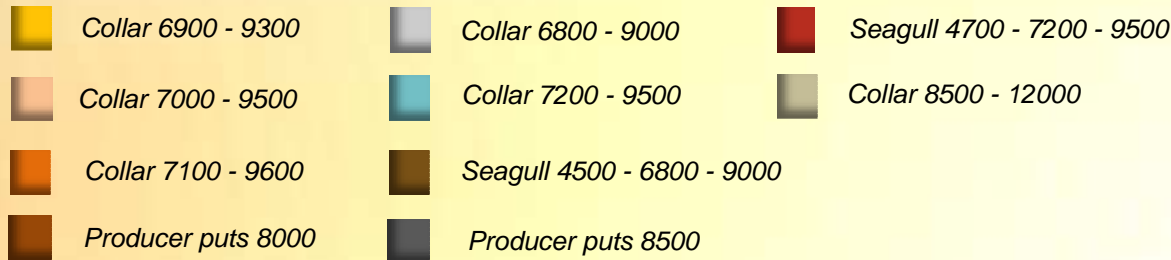
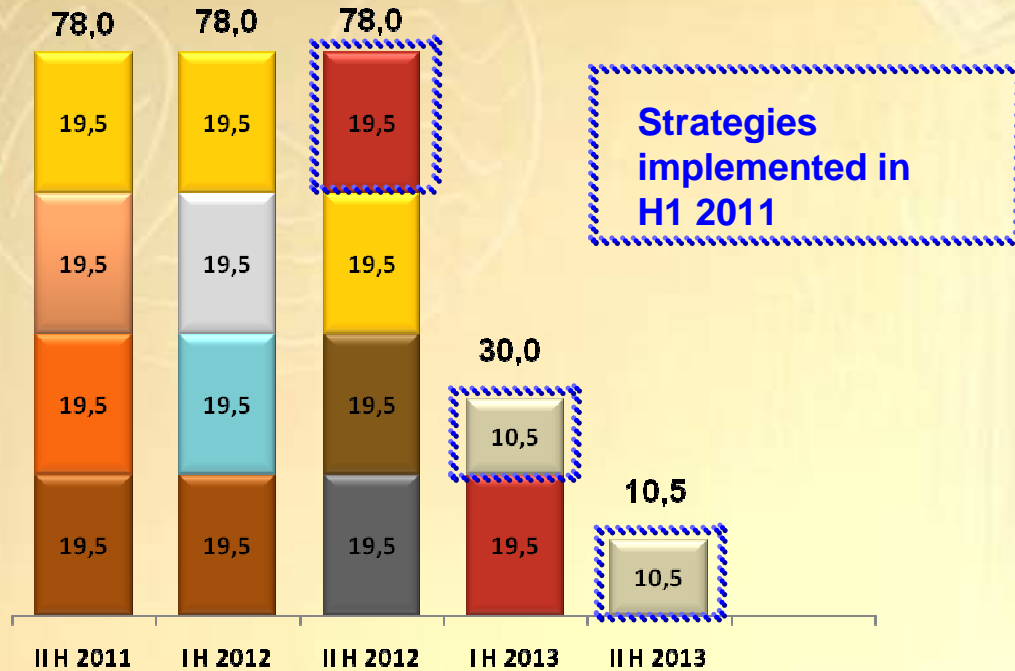
Dollar index



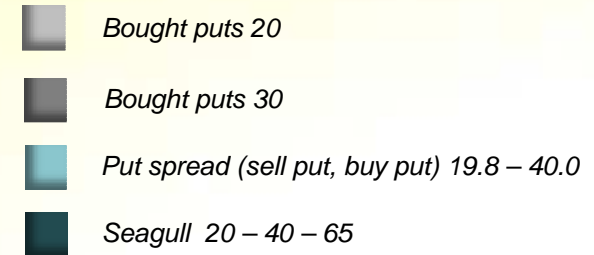
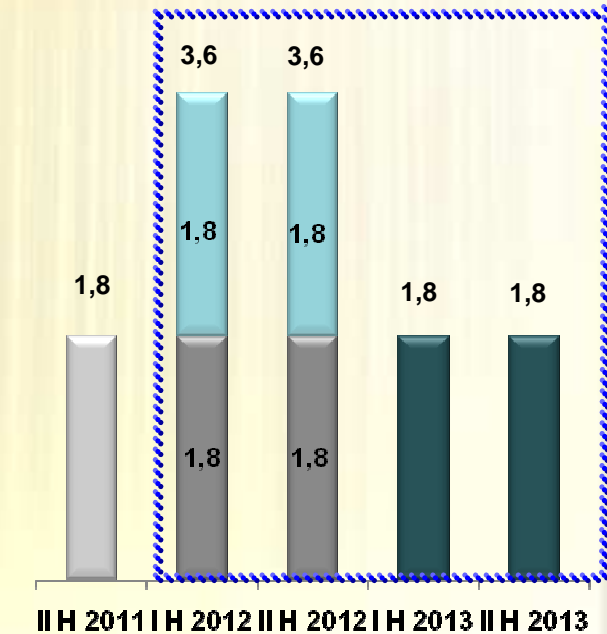
Market risk management - hedged position (at 30 June 2011)

Position in derivative instruments on the commodities market

Cu ('000 t)

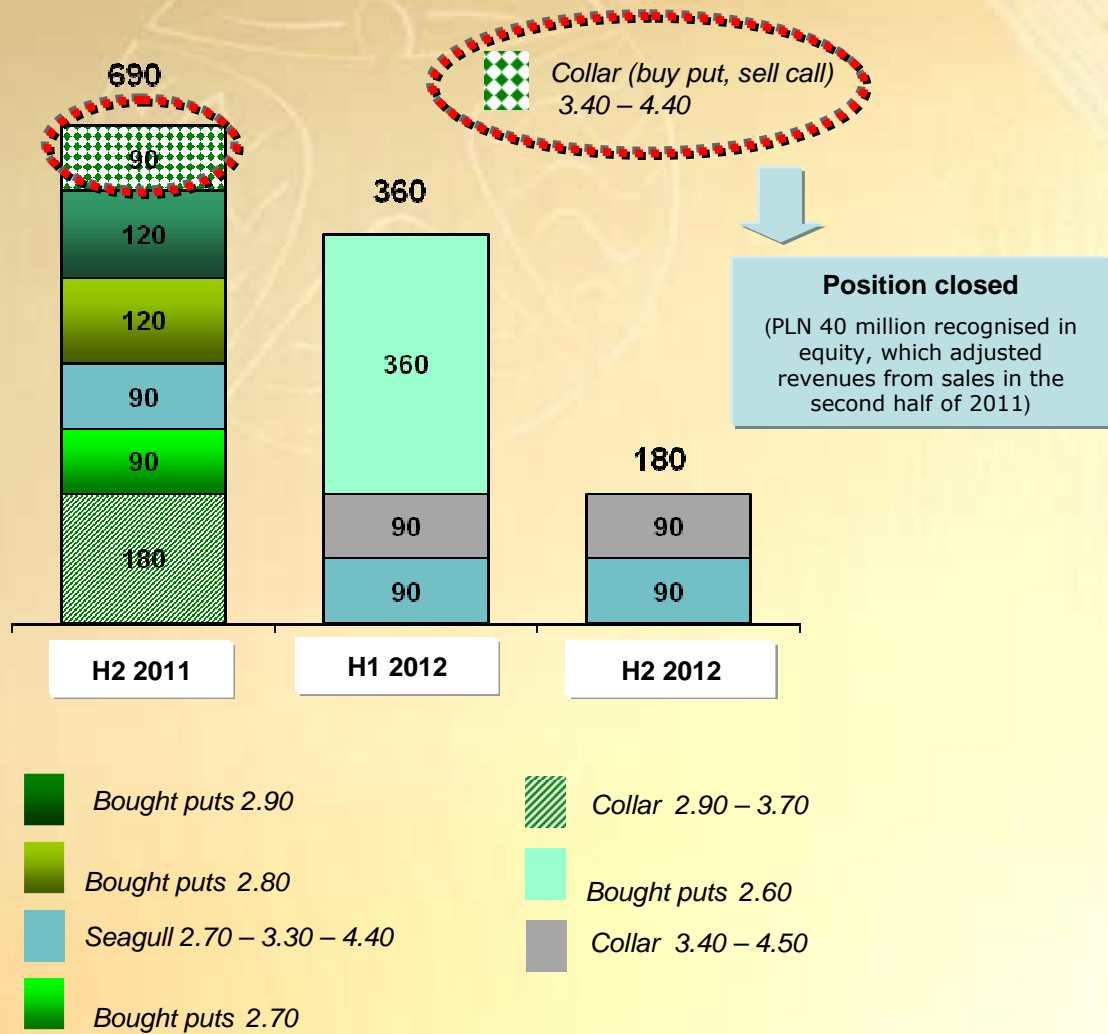


Ag (mln troz)

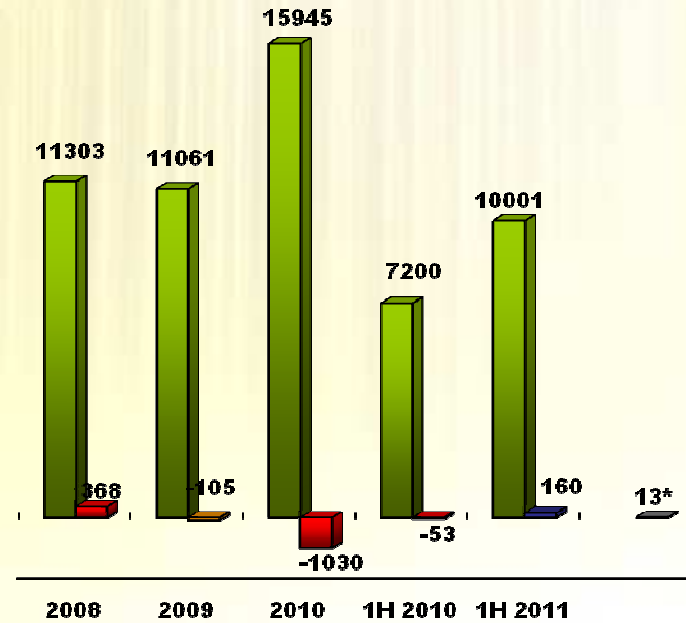


Market risk management - hedged position (at 30 June 2011)

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



Results on hedging and Company revenues (PLN million)



* fair value of open positions in derivative instruments at 30 June 2011

Market risk management – comments

Relatively large hedged position

- In the first half of 2011 the Company hedged copper and silver prices with a time horizon to the end of 2013. With respect to the currency market, the hedged time horizon is to the end of 2012
- The hedging instruments applied by KGHM enable the partial participation in price rises. The favourable conditions on the commodity market enabled the achievement of relatively high hedged levels in structures implemented in the first half of 2011

A positive result on derivative instruments in the first half of 2011

- The result on derivative instruments in the first half of 2011 amounted to PLN 160.5 million (versus PLN (53) million in the half of 2010). PLN 83.6 million was taken to revenues from sales, PLN 25.3 million represented profit from the realisation of derivative instruments, while PLN 51.6 million represented profit from the measurement of derivative instruments.

Consolidated financial result (PLN million)

| | Consolidated result | | | | Parent result 6M'11 | |
|---|---------------------|--------|-----------------|-----------------------|------------------------|------|
| | 6M'10 | 6M'11 | Change 6M'10 | % Change 6M'10=100 | | |
| Sales | 7 812 | 11 221 | 3 409 | 144 | 10 001 | 89% |
| Operating costs | 5 019 | 6 255 | 1 236 | 125 | 5 092 | |
| Net profit on sales | 2 793 | 4 966 | 2 173 | 178 | 4 909 | |
| Result of other operating activities | 5 | 135 | 130 | 2 923 | 372 | |
| Operating profit | 2 797 | 5 101 | 2 304 | 182 | 5 281 | 104% |
| Net finance costs | 24 | 22 | (2) | 93 | 16 | |
| Share in profits of associates valued by the equity method | 155 | 188 | 33 | 121 | x | |
| Profit before tax | 2 928 | 5 266 | 2 338 | 180 | 5 265 | |
| Taxation | 525 | 951 | 426 | 181 | 946 | |
| Profit for the period | 2 403 | 4 316 | 1 912 | 180 | 4 319 | 100% |
| EBITDA | 3 210 | 5 563 | 2 353 | 173 | 5 613 | 101% |

Share of Parent in consolidated result



Thank you...

KGHM POLSKA MIEDŹ S.A.

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