



KGHM
POLSKA MIEDŹ S.A.

Company results in the first half of 2010

*Presentation for meeting
on 13 August 2010*

August 2010

- **KGHM Polska Miedź S.A. in the first half of 2010 - synthesis**
 - Summary of results
 - Important investment and research projects

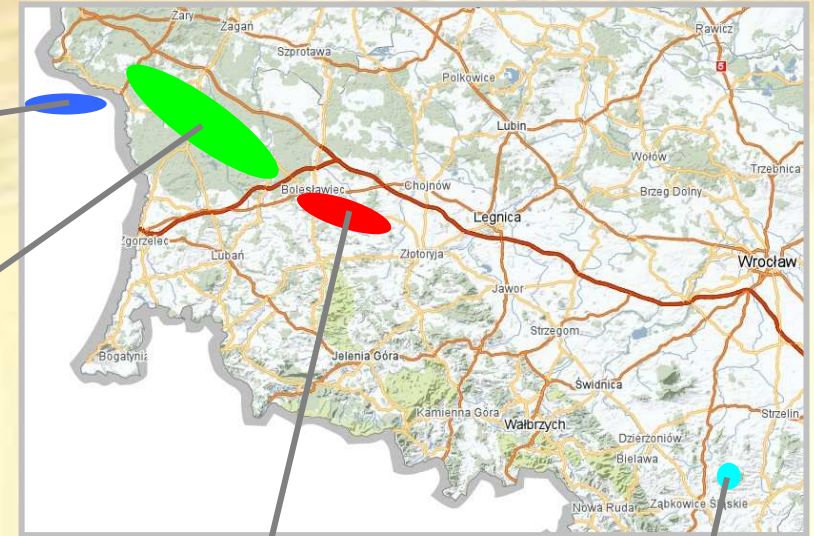
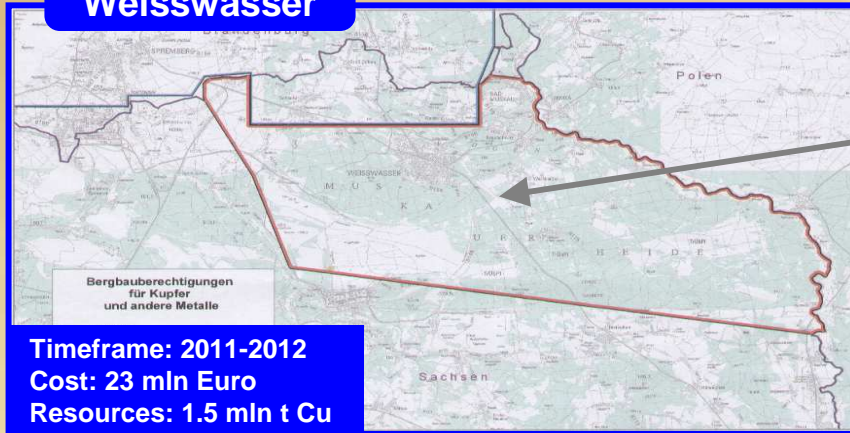
- **Results of KGHM Polska Miedź S.A. in the first half of 2010**
 - Macroeconomic conditions
 - Production results
 - Costs by type, unit cost
 - Sales structure
 - Financial results
 - Cash flow
 - Realisation of Budget for 2010
 - Market risk management
 - Consolidated financial result

KGHM Polska Miedź in the first half of 2010 - synthesis

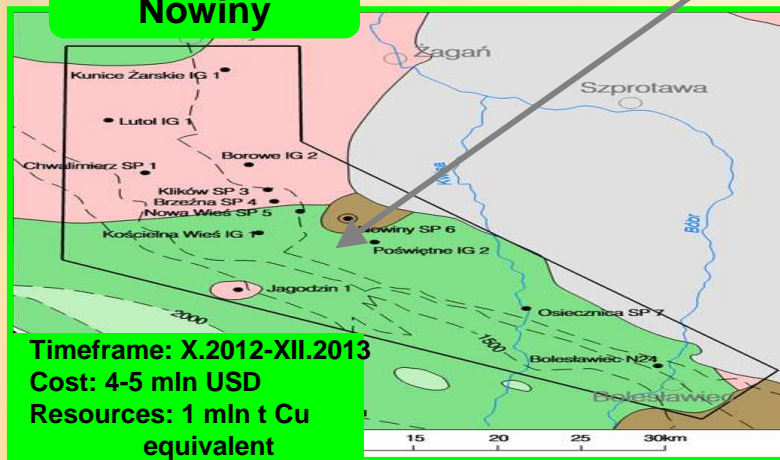
- Net profit earned in the first half of 2010: PLN 2 227 million, representing 77% of the projected result for 2010 *
- Due to the high advancement on realisation of the Budget for 2010, the Company is in the process of preparing an Adjusted Budget, reflecting the results achieved and the updated macroeconomic, production and investment assumptions
- The continued high volatility in the financial markets with respect to the price of copper and the USD/PLN exchange rate means that projections of Company financial results are subject to high uncertainty
- In the first half of 2010 the Company hedged a large volume of copper (approx. 180 '000 t) and a large amount of USD-denominated revenues (USD 1 245 million) with a hedged period to the year 2012
- In the current year the Company commenced realisation of significant investment and research projects :
 - exploratory projects in Poland and Germany
 - an investment agreement was signed on the Afton-Ajax project in Kanada – total planned expenditures in the years 2010-2012 of over USD 600 million – the agreement was approved by the shareholders of Abacus, and in the near future a company Joint Venture agreement is to be signed
 - realisation of the Pyrometallurgy Modernisation Project – construction of a flash furnace and accompanying installations at the Głogów I smelter
 - equity investments: the purchase of shares of Tauron Polska Energia S.A., investment projects of KGHM TFI S.A.
 - a project involving a mechanical ore mining system

Exploration projects

Weisswasser



Nowiny



Synklina Grodziecka



Szklary

Timeframe: 2010-2011
Cost: 1 mln USD
Resources: 13.8 '000 t Ni

Total expenditure on these projects approx. PLN 200 mln*

* At current exchange rates

Equity investments: purchase of shares of Tauron Polska Energia S.A., investment projects of KGHM TFI S.A.

As part of a public offering, KGHM Polska Miedź purchased a block of 4.9% of the shares of Tauron Polska Energia for PLN 400 million, and subsequently increased its share in this company, exceeding the threshold of 5%

- Purchase of the shares of this company is related to realisation of the Strategy of KGHM Polska Miedź S.A. for the years 2009–2018, which foresees a diversification of sources of revenues and entrance into the power sector
- KGHM, as the largest recipient of energy in Poland, with plans to increase its off-take in future, should secure its power supply for its core business, taking into account the threat of future insufficient supply in Poland
- The generation of electricity is, from the point of view of KGHM Polska Miedź S.A., one of the most attractive sectors, unrelated to conditions on the metals markets
- KGHM Polska Miedź S.A. intends to take an active part in the activities of Tauron Polska Energia to increase the company's value

Investments of KGHM TFI S.A.

- For KGHM Polska Miedź S.A. the activities of KGHM TFI S.A. represent:
 - An element of diversification of its activities: an expected high rate of return on financial investments, a margin from managing assets
 - A path to increase value and to exit from some of the equity investments of KGHM Polska Miedź S.A.
 - The possibility to gain external investors for projects realised under the auspices of individual closed-end investment funds (strictly defined and supervised investment procedures)
- The operating strategy of KGHM TFI is aimed at long-term growth in company value through the creation and effective management of closed-end investment funds
 - KGHM TFI will aim to achieve an internal rate of return on its investments of 15-20% annually in a 5-10 year period
 - The planned lifetime of each fund is 7-10 years
- In the near future KGHM TFI will focus on three economic sectors:
 - Renewable energy
 - Health services
 - New technologies

Mechanical ore mining system

Project name: „Development by KGHM of mining technology using an ACT combine”

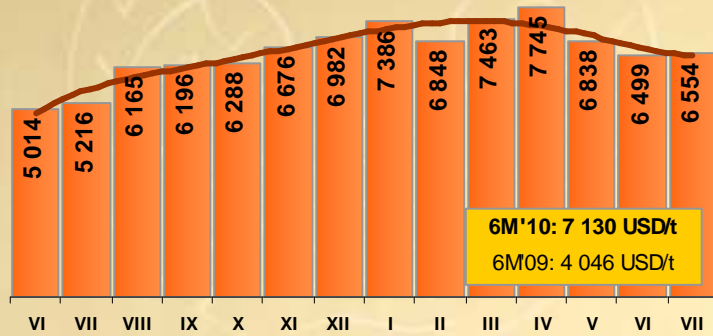
- **Confirmed project cost in contract with PARP is PLN 153 mln, including amount to be financed by the Company of up to PLN 40 mln**
- **Project includes development of:**
 - a prototype, automated wall combine for the mechanical mining of hard rock, which will comprise: mining machinery, an armoured face conveyor, a hydraulic self-moving prop and shield support unit and a power and steering unit
 - the manner of automated mining of thin- and medium-seam copper ore using a prototype combine
- **Expected benefits:**
 - lower production costs
 - potential exploitation of thin ore seams with minimal dilution
 - potential use of other than room-and-pillar mining method
 - lower number of technological operations, better organisation of labour
 - fully automated ore mining and haulage system



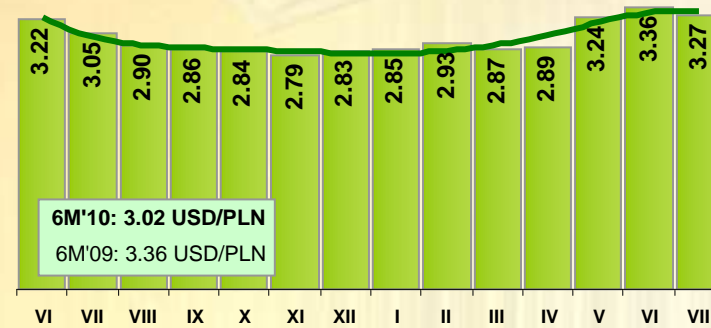
Company financial results in the first half of 2010

Macroeconomic conditions

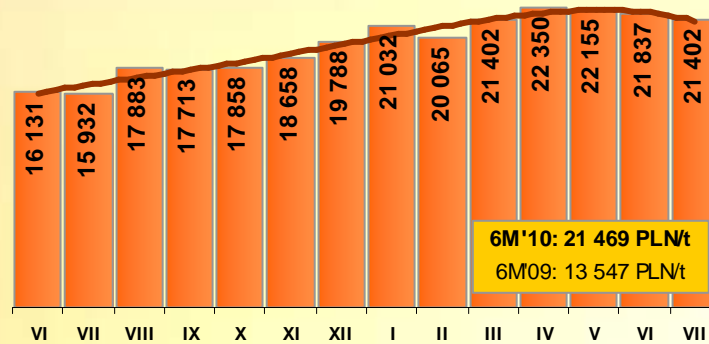
Copper price
USD/t



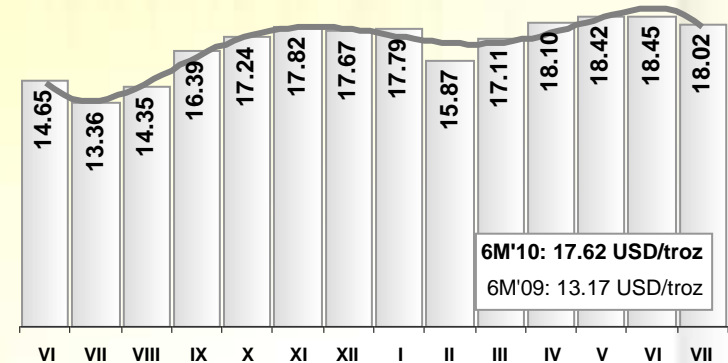
Exchange rate
USD/PLN



Copper price
PLN/t

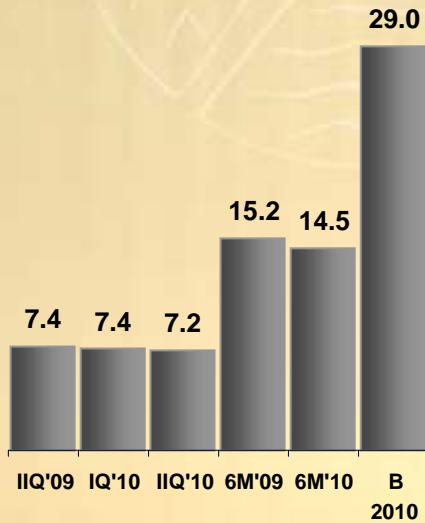


Silver price
USD/troz

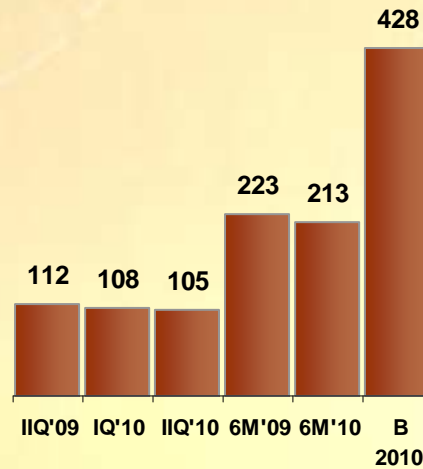


Production results

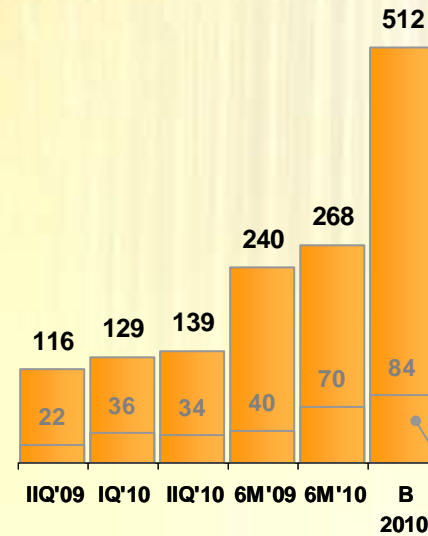
Ore extraction
(million t d.w.)



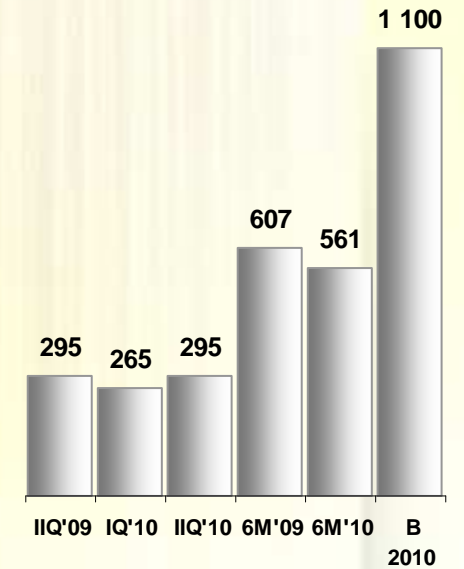
Production of copper in concentrate
(‘000 t)



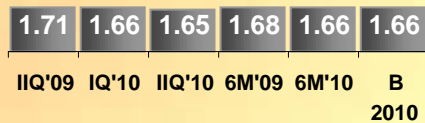
Electrolytic copper production
(‘000 t)



Metallic silver production
(t)



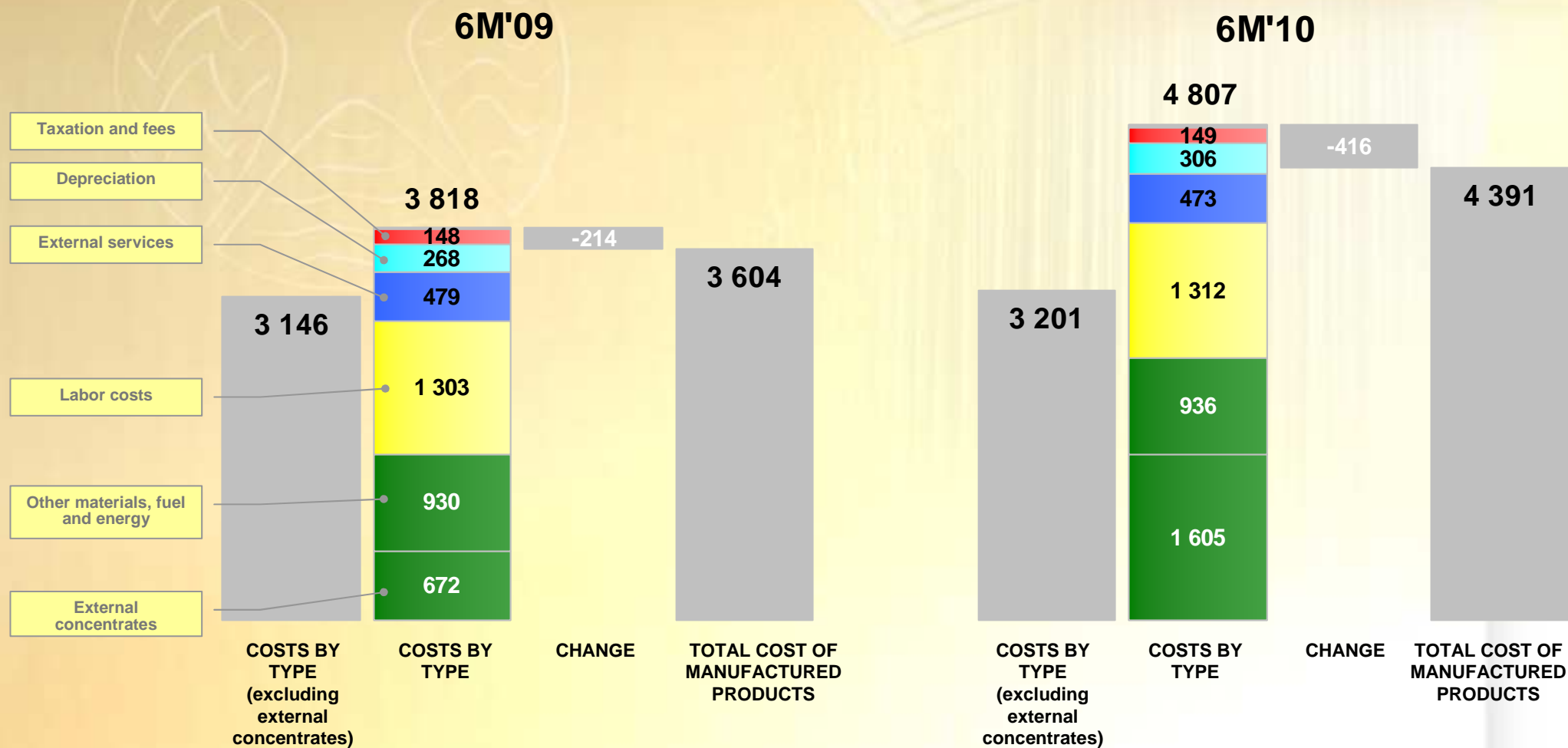
Copper content in ore
(%)

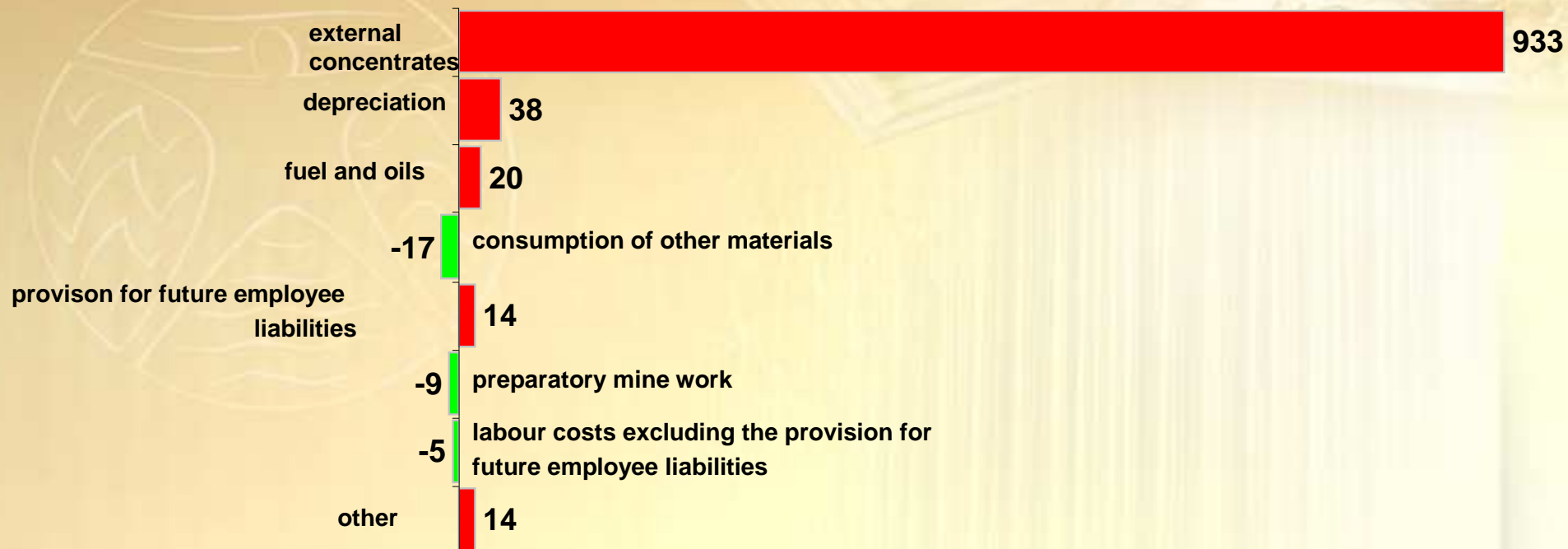


of which from purchased copper – bearing material

Costs by type (million PLN)

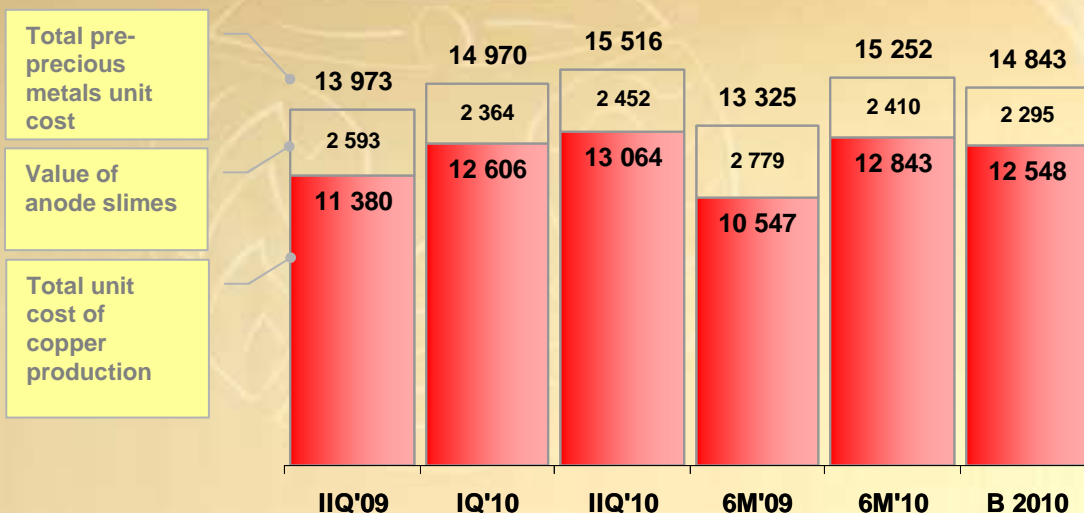
An increase in costs by type of PLN 988 million i.e. by 26% versus the first half of 2009
 Excluding external concentrates the increase amounts to PLN 55 million, i.e. 2%





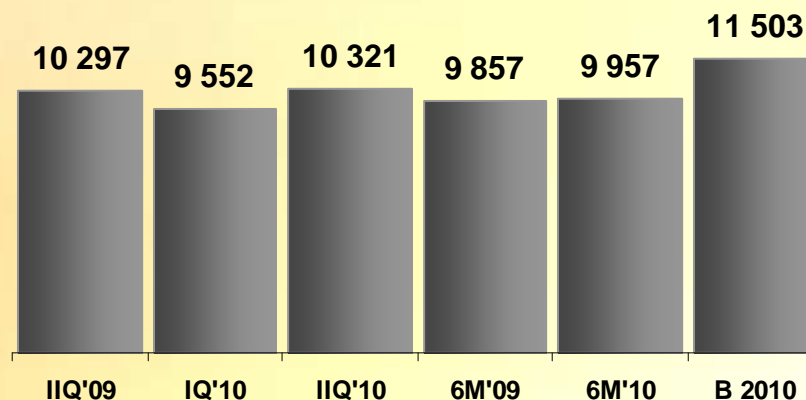
- The increase in value of external copper-bearing materials is due to the near-doubling of purchase volume, with an increase in prices by 53%
- The higher cost of depreciation is due to the increased scope of tangible investment realised in the second half of 2009

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



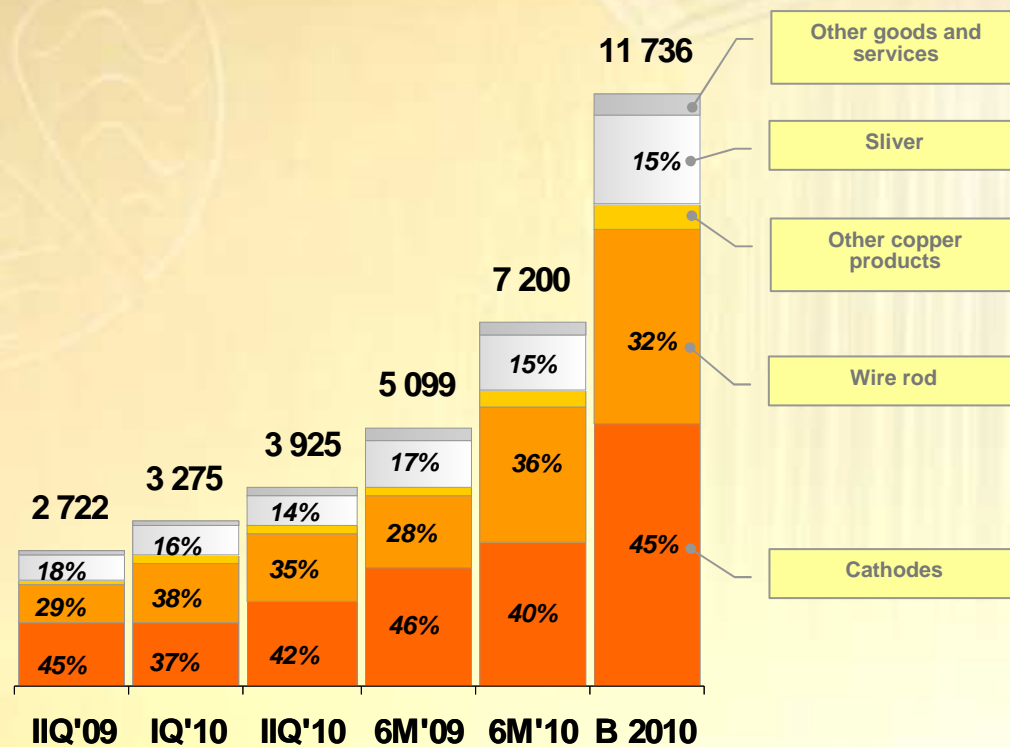
➤ The pre-precious metals credit unit cost of copper production in the first half of 2010 increased versus the comparable period by 14% due to the higher share of external copper-bearing materials in the production structure, with simultaneous increase in purchase prices (+53%)

Cost of production of electrolytic copper from internal concentrates



➤ The total unit cost of production from internal materials in the first half of 2010 was similar to that achieved in the first half of 2009 with the same volume of production

Sales structure (million PLN)

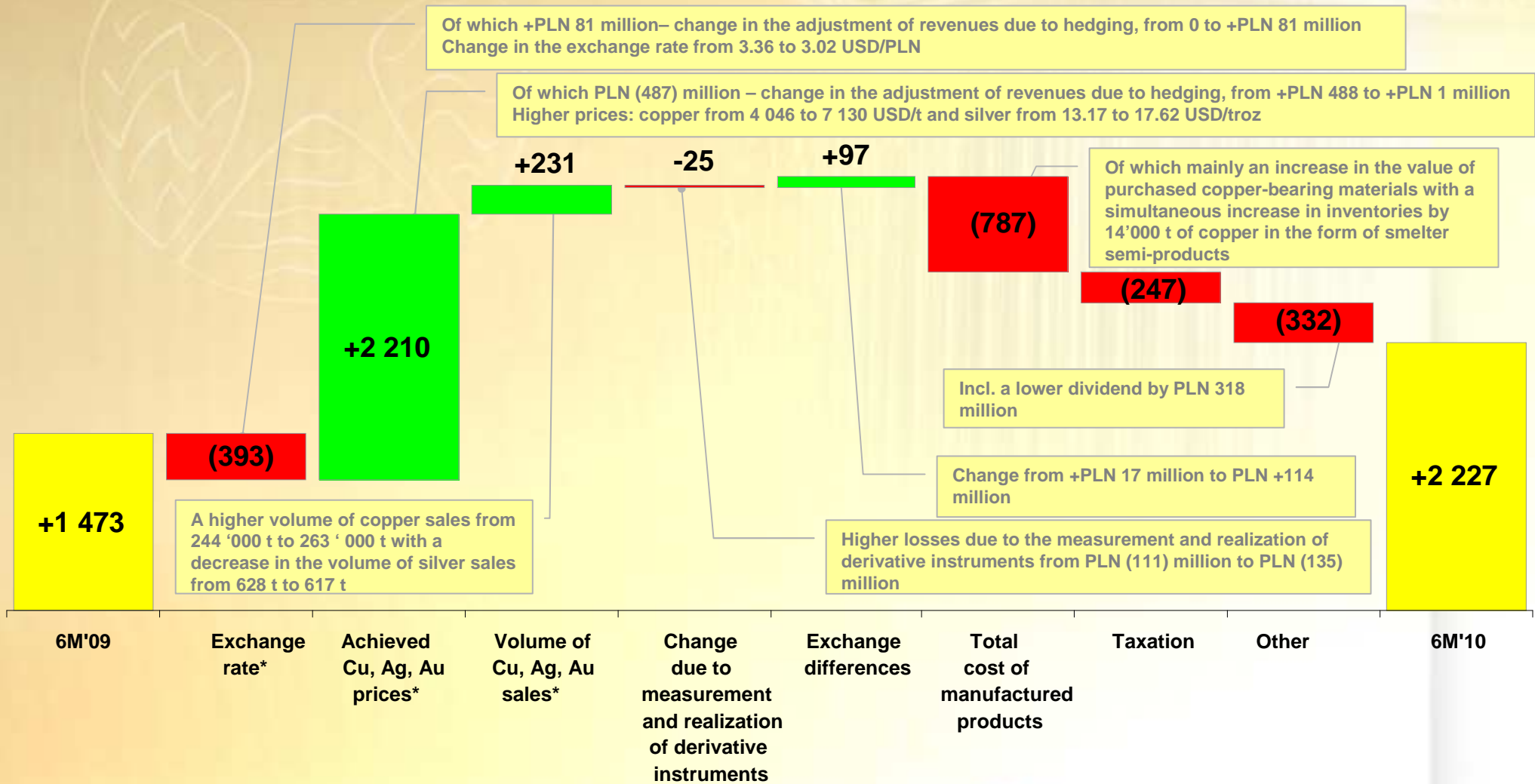


- An increase in sales versus first half of 2009 by PLN 2 100 mln (41%)

Financial results (million PLN)

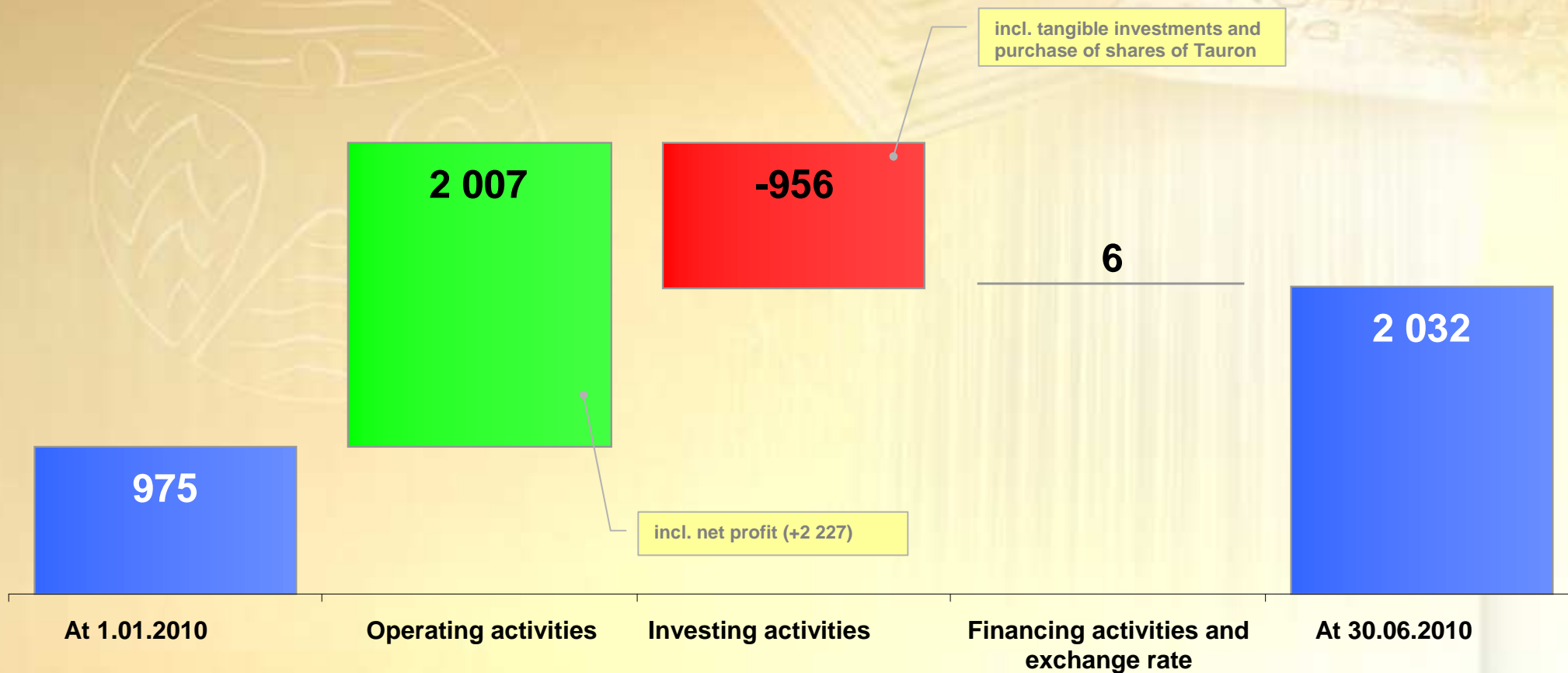
	IIQ'09	IQ'10	IIQ'10	6M'09	6M'10	Change	Realisation 6M'09=100
Sales	2 722	3 275	3 925	5 099	7 200	2 100	141
<i>Incl. adjustment of revenues due to hedging transactions</i>	148	42	40	488	82	(405)	17
Operating costs	2 047	2 065	2 370	3 642	4 435	793	122
Net profit on sales	675	1 209	1 555	1 457	2 765	1 307	190
Result of other operating activities, of which:	295	(303)	303	309	0	(309)	x
Dividends received	342	0	24	342	24	(318)	7
Realisation and measurement of derivative instruments	(17)	(245)	110	(111)	(135)	(25)	122
Exchange differences	(58)	(50)	164	17	114	97	x 6,8
Other	28	(8)	5	61	(3)	(64)	x
Operating profit	970	906	1 858	1 766	2 764	998	157
Net financing cost	6	7	9	19	17	(2)	88
Profit before tax	964	899	1 849	1 747	2 748	1 001	157
Taxation	119	173	348	275	521	247	190
Profit for the period	845	725	1 501	1 473	2 227	754	151
EBITDA	1 105	1 061	2 010	2 034	3 071	1 036	151

In the first half of 2010 net profit was higher by PLN 754 million than in the first half of 2009



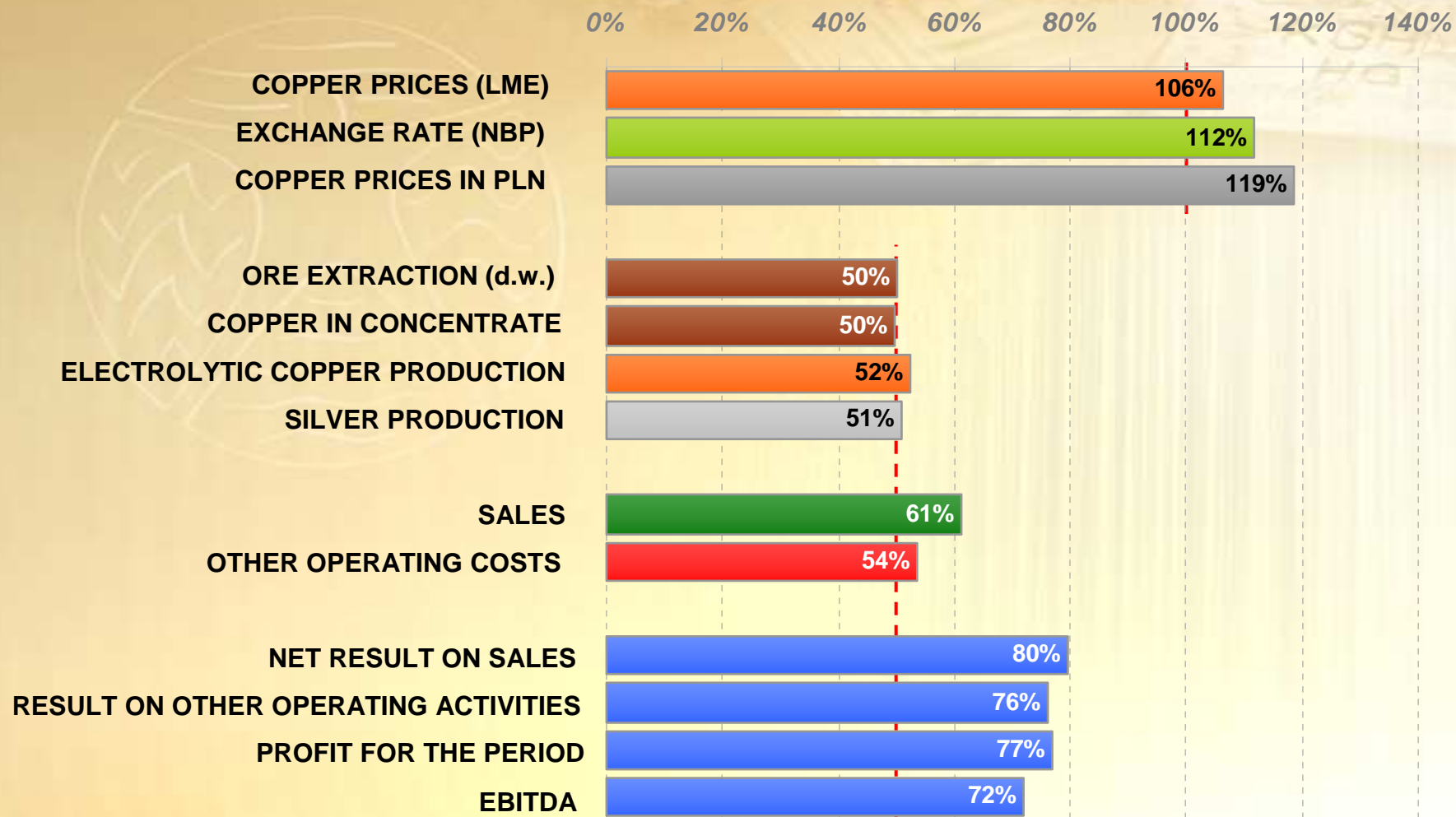
* Impact on sales

Cash flow (million PLN)



Cash flow in the first half of 2010 increased by PLN 1 057 mln, i.e. more than double

Realisation of Budget for 2010*



The Company is preparing an Adjusted Budget for 2010, reflecting the results of the first half and the verified macroeconomic, production and investment assumptions

* In accordance with projection published on 1 February 2010

Risk management - justification

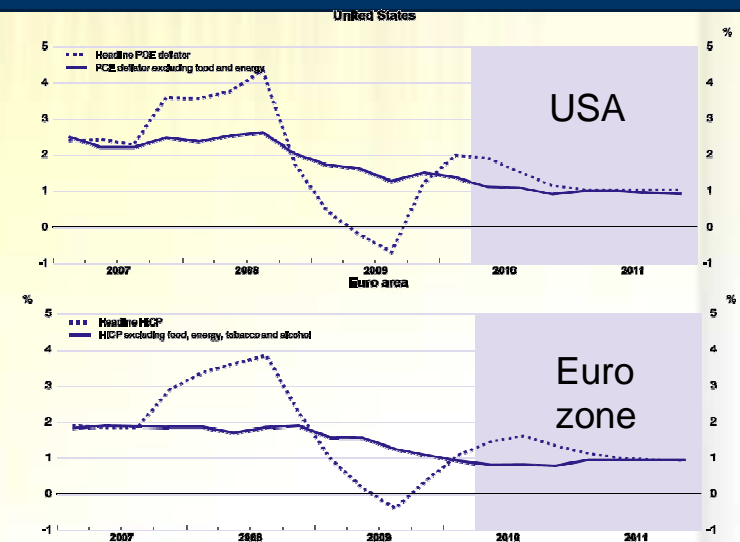
Uncertain economic outlook

- In the opinion of KGHM, the global economic outlook remains heavily uncertain, in particular fears are rising about the deteriorating economic condition of two of the largest economies: the USA and China. The risk of financial crises remain in certain Euro-zone countries.
- The global economic recovery which began in the first half of 2009 has still not reached a decisive pace. Over the next several quarters the condition of the global economy may deteriorate, due to the weakening impact of stimulus packages and slower restocking. A significant risk factor remains the property market in the USA, as well as in China.
- The labour surplus in the developed markets has significantly reduced inflationary pressure. Though to a lower extent than a year before, fears remain of a return of deflation, which could restrict economic growth. The reaction of monetary authorities to the threat of deflation will be very limited, due to the lack of possibilities to further reduce interest rates.

A significant risk factor for economic growth remains the labour market. Prior to the global crisis, employment in OECD countries was higher by 15 million. Due to the smaller impact of stimulus packages and the cycle of inventories restocking, consumption and investment will have to become the main drivers of global growth.



Inflation in the USA and Euro zone is set to remain subdued-OECD.

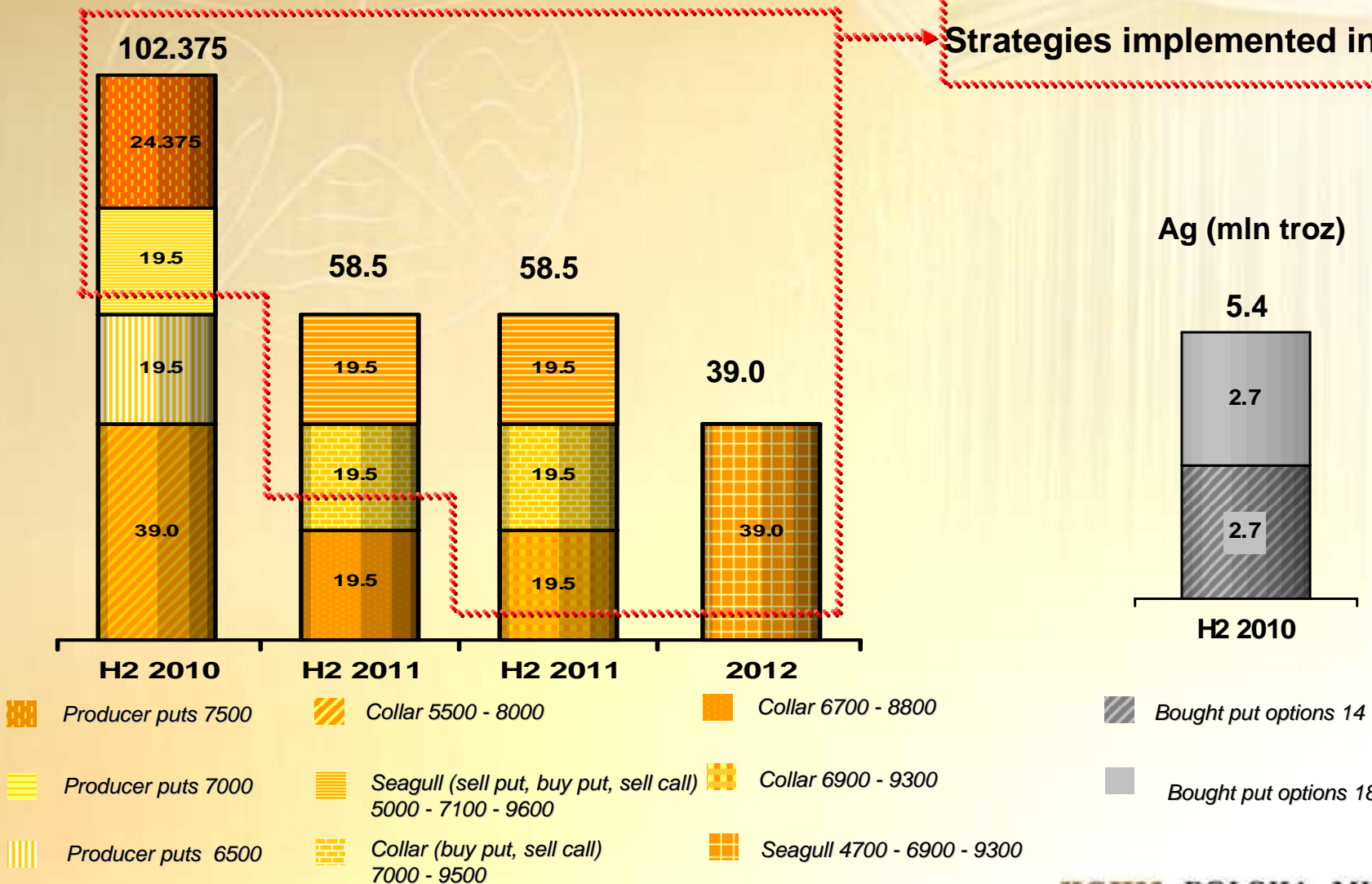


Market risk management – hedged position (at 30 June 2010)

Positions in derivative instruments on the commodities market

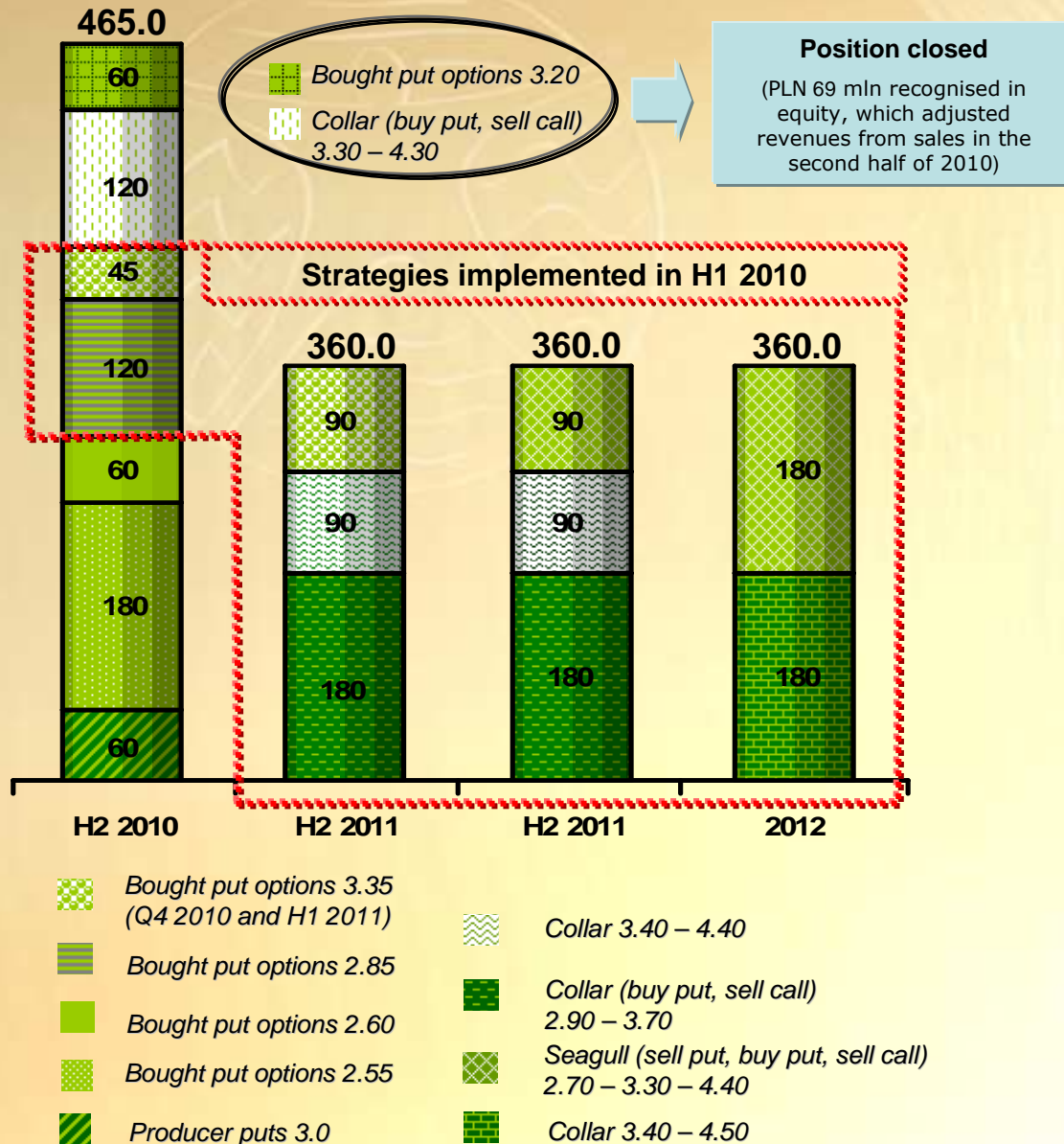
Cu ('000 tonnes)

Strategies implemented in H1 2010

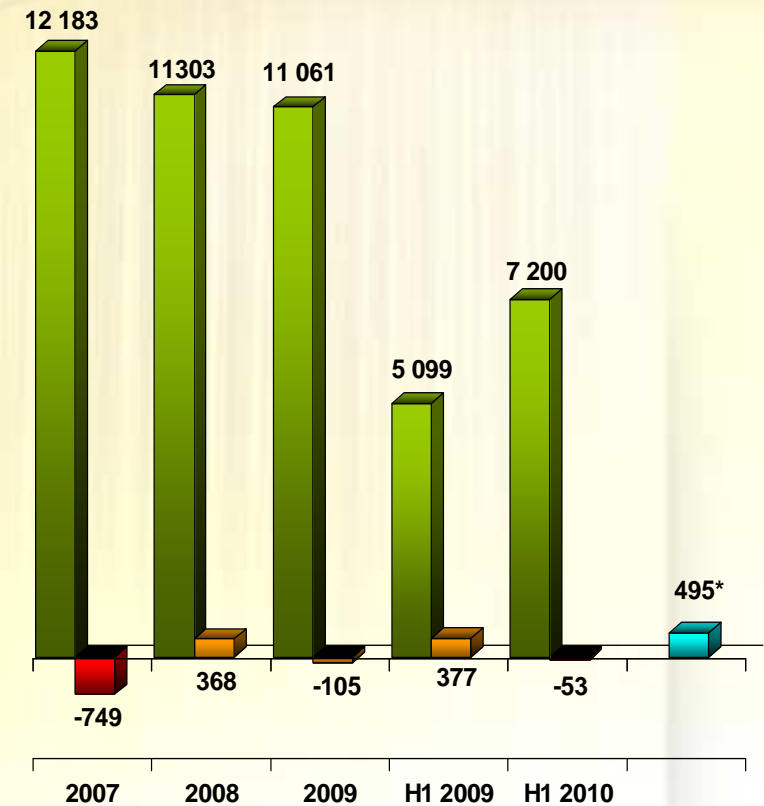


Risk management – hedging position (as at 30 June 2010)

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



Results on hedging and Company revenues (million PLN)



* fair value of open positions in derivative instruments at 30 June 2010

Market risk management – comments on results

Relatively large hedged position

- Over the last year the copper price, counting from the minimum, has increased by nearly 200%, which KGHM used to build a substantial hedged position – intensifying its activities on the market given high price levels.
- The weakening of the Polish zloty versus the USD observed in the second quarter of 2010 was used to substantially increase the hedged currency position of the Company.
- The Company's consistently-built hedge position, is significantly higher than in prior years and comprises the longest time horizon – to the end of 2012.
- The hedging instruments applied by KGHM allow for partial participation in price rises. Thanks to this, despite the continued relatively high price of copper, the loss of benefits was minimal.

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

- The negative result on derivative instruments is due to changes in the valuation of open positions (total result from measurement PLN (112) million).
- For transactions settled in H1 2010 the result is positive (PLN 59 million, including an adjustment to sales: PLN 82 million, result from realisation of derivative instruments: PLN (23) million).

Consolidated financial result (PLN million)

	Consolidated result		Parent result	
	6M'09	6M'10	6M'10	
Sales	5 612	7 812	7 200	92%
Operating costs	4 146	5 019	4 435	
Net profit on sales	1 466	2 793	2 765	
Result of other operating activities	(8)	5	0	
Operating profit	1 459	2 797	2 764	99%
Net financing costs	26	24	17	
Share in profits of associates valued by the equity method	145	155	x	
Profit before tax	1 577	2 928	2 748	
Taxation	286	525	521	
Profit for the period	1 291	2 403	2 227	93%
EBITDA	1 821	3 210	3 071	96%

Share of Parent in consolidated result



Thank you ...

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