KGHM POLSKA MIEDŹ S.A.

Main budgetary assumptions of KGHM Polska Miedź S.A. for 2014

28 March 2014

Why is KGHM Polska Miedź S.A. not publishing a forecast of its financial results?

- High level of volatility on the metals market

  Implied volatility of 20% for copper and 26% for silver

- Company’s high sensitivity to volatility in metal prices and the FX rate

  In present market conditions an increase or decrease in annual average copper prices by 100 USD/t moves the net result by approximately PLN 50 m, while the increase or decrease of the USD/PLN FX rate by 0.05 PLN moves the net result by approximately 80 m PLN.

- Historically the Company has usually revised financial forecasts during the year

  The risk of having to publish a revised forecast grows when financial results are lower (there is an obligation to publish a revision if the deviation from the forecast exceeds 10%)

- Copper industry peers typically do not publish financial performance forecasts

- In its annual report the Company gives guidance on its assumptions regarding the main drivers affecting the Company’s financial results:
  - **drivers under the Company’s control: production level, operating expenses, capital expenditures**
  - **drivers beyond the Company’s control: metal prices, FX rate**

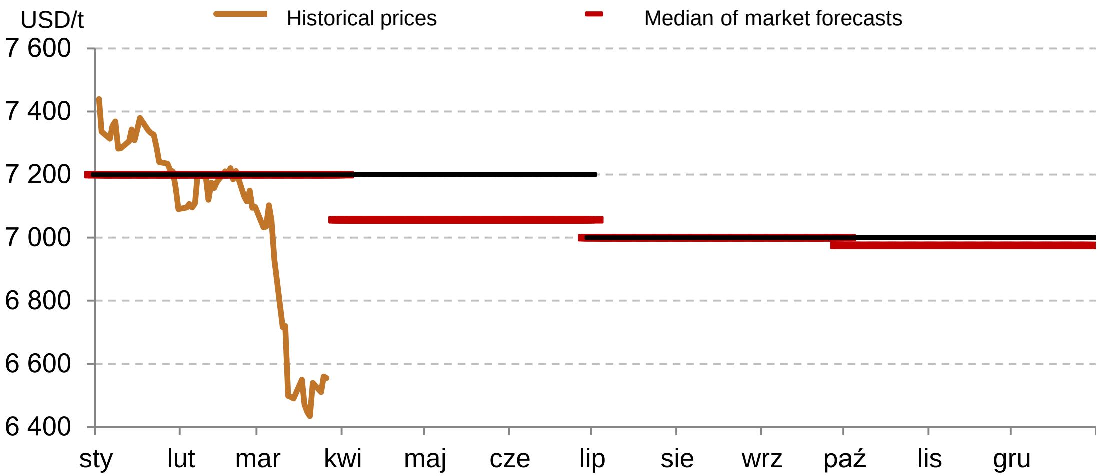
Only a handful of companies in the copper industry publish forecasts as financial performance is strongly linked to commodity prices

- Merely a handful of the 28 copper industry companies analysed by KGHM published forecasts of their financial performance in previous years
- Freeport-McMoRan is the only leading copper producer in this group
- These companies’ forecasts are limited to assumptions regarding production, operating expenses and capital expenditures

Falling copper prices cannot be pinned entirely on the global economy; the cause is rooted in the negative sentiment toward China

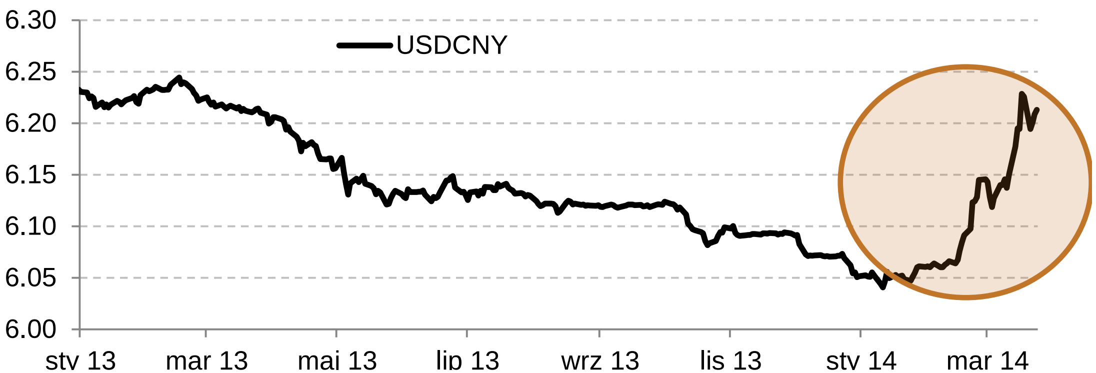
Consensus remains strong despite recent declines (as at 27 March 2014)

Copper prices on the LME, KGHM's forecast and the market consensus*



China's falling renmimbi constrained the profitability of financial transactions

USDCNY* spot FX rate (as at 27 March 2014)



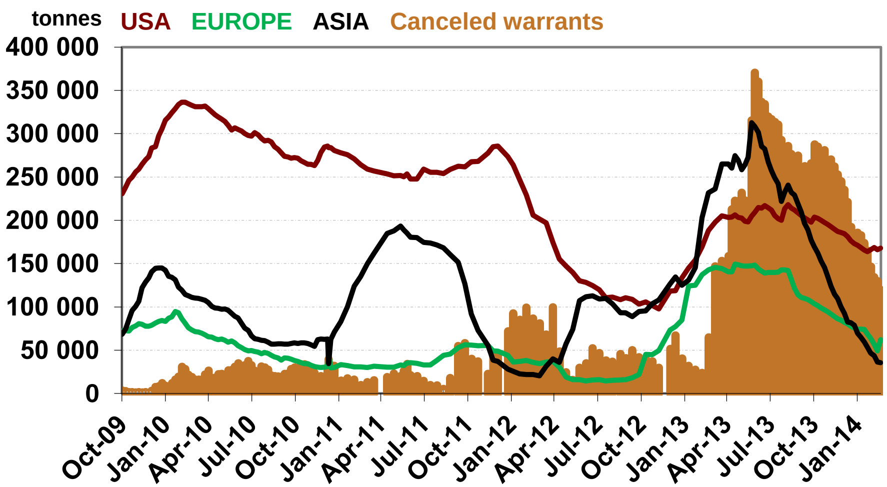
* Source: Bloomberg, KGHM

- Recent weeks have seen a considerable decline in investor sentiment toward the copper market, leading to a reduction in long positions and the opening of new speculative short positions.
- Most analysts highlight the speculative nature of the falling prices observed in recent weeks, which may confirm that additional levels of technical support followed by some financial investors (hedge funds and CTAs) have been exceeded (7000 USD/t and 6600 USD/t).
- Metals-backed loans in China have been a major copper price driver in the past two years. As some of these financial transactions are speculative in nature, the most important drivers of profitability are the shrinking disparity between US and Chinese interest rates, copper market backwardation lasting since December of last year and the yuan's depreciation against the US dollar.
- Copper market volatility is at its year-to-date peak (implied 1-month volatility is 21.9%), which compared to the US T-bond market (4.7%), the equity market (expressed using the VIX index – 14.9%) and the FX market (expressed using the implied EURUSD volatility of 6.4%) continues to be at a relatively very high level.

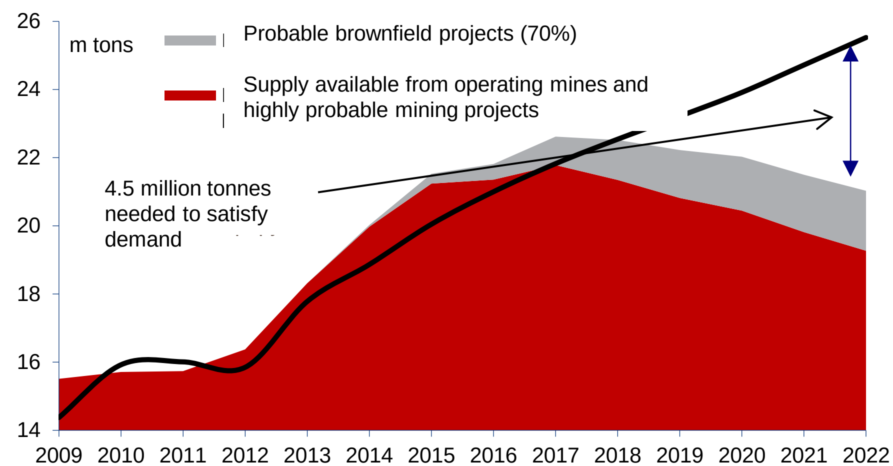
The low level of copper stocks confirms stable demand; the lower number of new mining investments suggests a shortfall on the copper market in the longer term

COPPER

The official LME stocks level has clearly fallen in recent months



Refined copper supply might not keep pace with prospective demand



- In the short run the expected incremental supply due to new mining projects or the expansion of existing ones (including Grasberg, Escondida, Toromocho) may stifle price movements on the copper market while the shortage of global smelting capacity means that this surplus is not fully visible on the market for refined copper and copper products.
- The red metal stocks in LME warehouses are steadily declining chiefly on account of the bottleneck in smelting operations and the LME's revised approach to releasing stocks from warehouses.
- Copper consumption in developed nations in upcoming years will maintain the same pace of growth as in recent years. China and other developing nations - Brazil, Russia, Turkey, India, Mexico and Indonesia - will continue to be the major driver of incremental demand.
- Reduced capital expenditures and the absence of incentives to launch new investments will contribute to a smaller number of new mining projects, which points to demand exceeding supply on the copper market in the longer run.

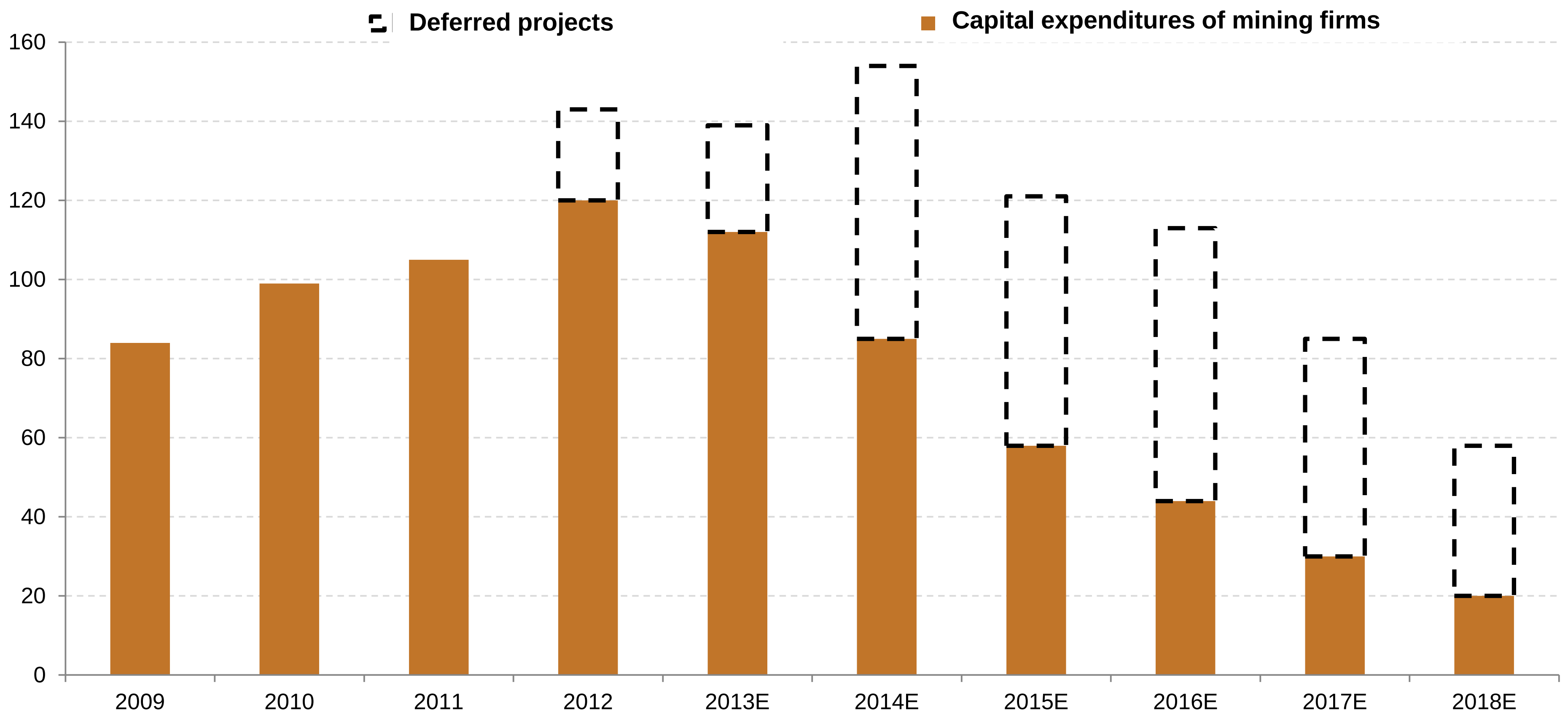
* Source: Bloomberg
** Source: Wood Mackenzie, KGHM

CAPEX in upcoming years might not suffice to satisfy the demand for metals

COPPER

Many miners are paying for overinvestment in recent years and cutting planned capital expenditures

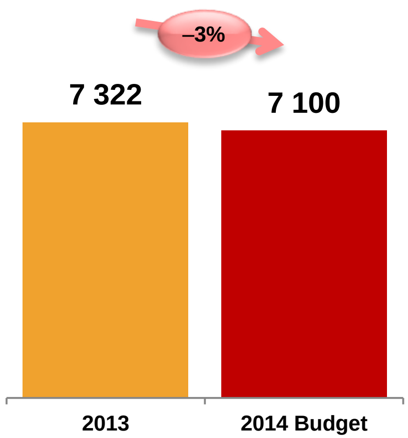
CAPEX curtailment forecasts on the metals market* [bn USD]



* Includes capital expenditures for copper, iron ore, coal, aluminium, zinc / lead, nickel and gold.
Source: Citi, WoodMackenzie, KGHM

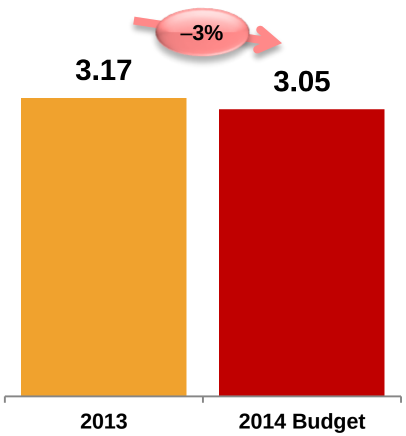
KGHM expects the macroeconomic situation to improve in the subsequent months of 2014

Copper prices
(USD/t)



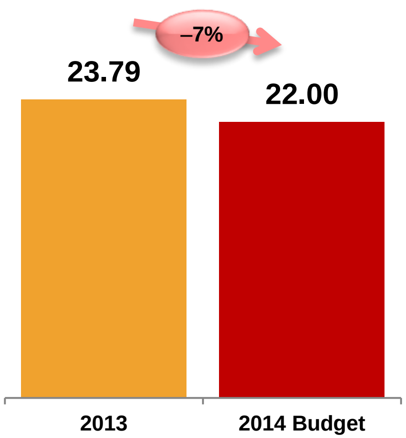
- Despite recent concerns regarding China's demand for base metals, the physical demand for copper has held steady. Research institutes predict a metal surplus on the market in 2014, though the availability of cathodes, especially in Europe, remains limited. Any sudden supply-side problems will support the copper price.

Exchange rate
(USD/PLN)



- Acceleration in Poland's rate of economic growth, stable export and industrial production growth in Germany coupled with Poland being perceived better than other countries in the Emerging Markets basket will support the Polish zloty.

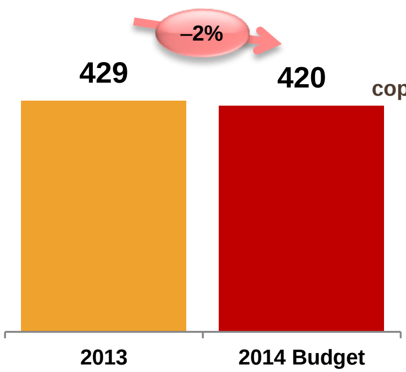
Silver prices
(USD/troy ounce)



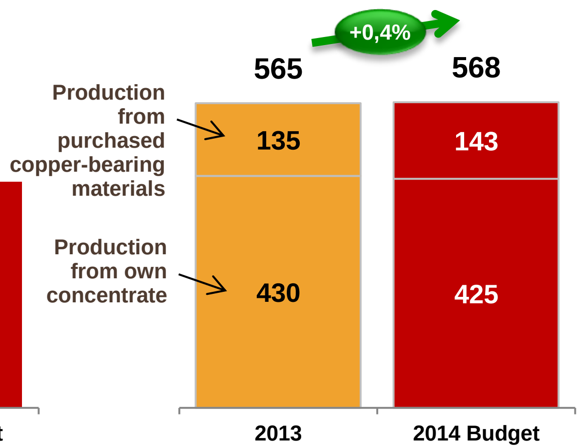
- The FED's gradual step-down of the bond purchase program has adversely affected the prices of precious metals – mostly gold but also silver. Even so, the relatively low silver prices contribute to elevated interest in this metal in China and India where it is used in the jewelry and collectibles industries.

Similar final production level despite deterioration in the quality of ore

Production of copper in concentrate
(kt)

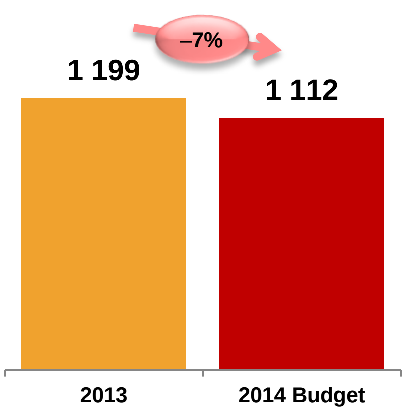


Electrolytic copper production
(kt)

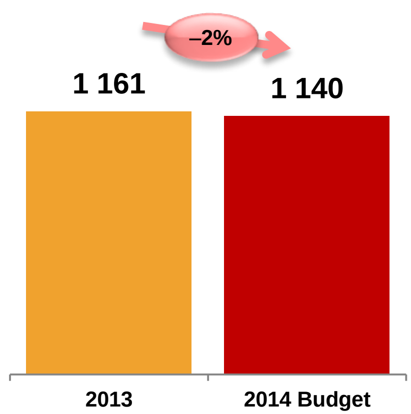


- Lower copper concentrate production due to deterioration in the quality of ore while maintaining the level of flotation efficiency
- Higher production from purchased copper-bearing materials to optimize the utilisation of production capacities in smelting plants

Production of silver in concentrate
(t)



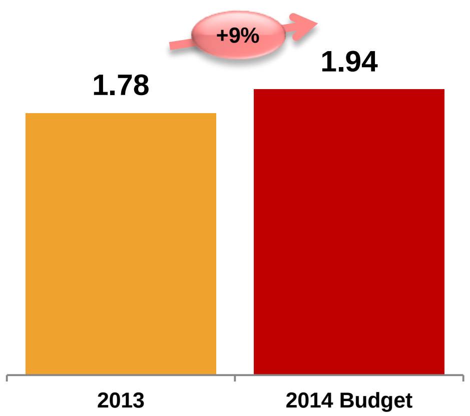
Metallic silver production
(t)



- Lower metallic silver production stems from the lower silver content in own concentrates planned to be processed (due to lower metal content in the ore)

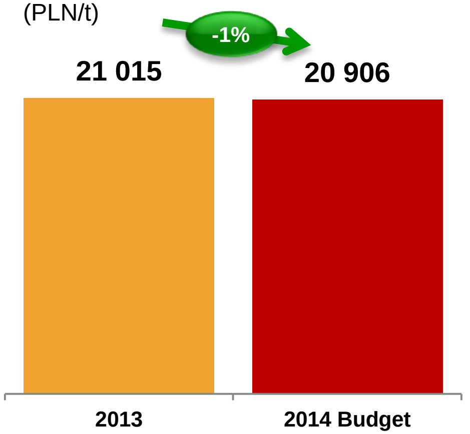
Higher expenses driven mostly by the lower valuation of by-products

Cash cost of copper concentrate output – C1
(USD/lb)



- The higher C1 cost stems above all from the lower value of by-products (silver and gold), and reflects the expected price decline and appreciation of the PLN versus the USD
- The C1 cost in 2013 macroeconomic conditions would be 1.87 USD/lb

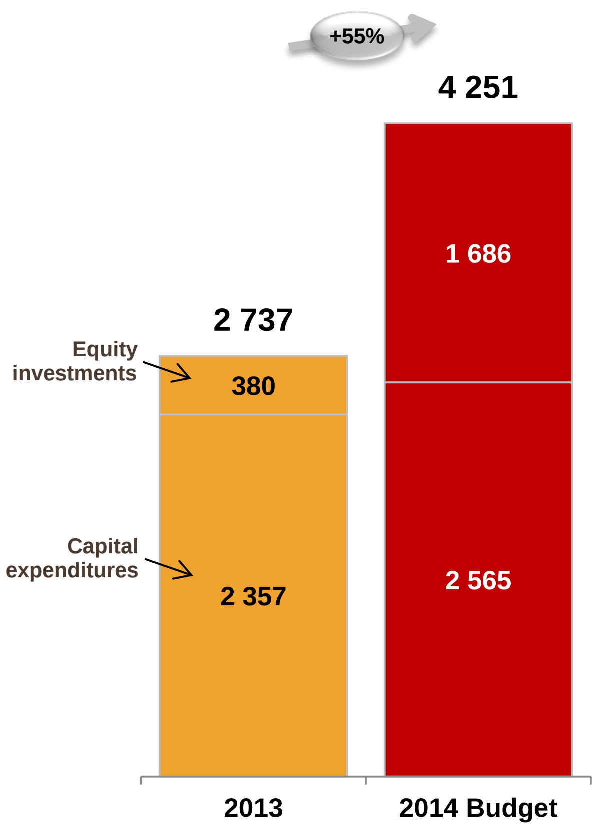
Pre-precious metals credit unit cost of electrolytic copper production from own concentrate
(PLN/t)



- Pre-precious metals credit unit cost of electrolytic copper production from own concentrate (prior to subtracting the value of silver and gold) is slightly below last year's result despite lower production from own concentrate by 3%

The 2014 investment program of KGHM Polska Miedź S.A. calls for investment expenditures of PLN 4.5 billion

Investment expenditures
(PLN M)



The investment program aims at asset replacement and continuation of the strategic projects launched by the Group, mainly:

- completing construction and proceeding to operate the Sierra Gorda mine
  - commencing extraction and commissioning installations
  - procuring the target processing capacities within 6 months
- opening up the Deep Głogów area
  - building accessing drifts to open up the area in 2014
  - continued sinking of the GG1 shaft
  - building a centralized ventilation system

  Opening up the Deep Głogów area will make it possible to mine deposits with estimated recoverable reserves of 6.7 million tonnes of copper. The planned extraction of ore in 2014 is 1.8 million tonnes (dry weight)
- continuing the Pyrometallurgy Modernisation Program in the Głogów I smelter (modifying the technology for smelting concentrates) and modernizing pyrometallurgy in the Głogów II smelter
- continuing preparatory work for the Afton-Ajax mine construction project and commencing work to prepare for the construction of the Victoria mine in Sudbury, Canada

Sierra Gorda – project on time, commissioning in mid-2014

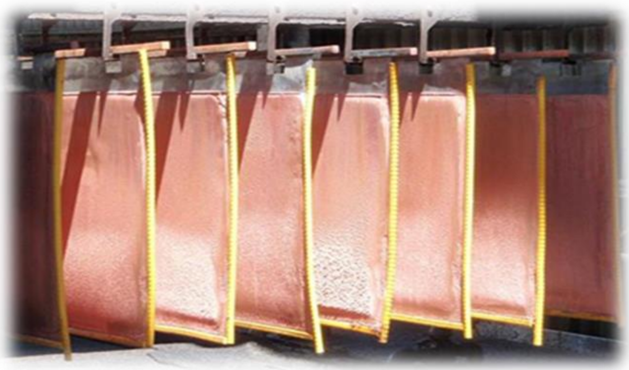
Sierra Gorda Cu Mo Au

Construction progress (as of 28 February 2014)

- Project will be completed on time, planned completion of construction and commissioning in mid-2014
- Over 91% project progress
- Completion of seawater pipeline
- Pre-stripping at 92% of the amount required before commissioning
- First sulphide ore stockpiled near the primary crusher
- 110 kV power line completed

Sierra Gorda – project on time, commissioning in mid-2014

First cathodes from Sierra Gorda



Oxide ore processing

- Testing in progress with pilot heap scale of 44 000 t of oxide ore
- Heap leaching tests include processing of high, medium and low grade copper ore (total 34 000 t) and 10 000 t of high grade copper ore, to be crushed prior to leaching
- Pilot heap tests have produced the first copper cathodes

2014 Budget Summary

	Unit	2013 Actuals	2014 Budget	Change 2013=100
Average annual copper price	USD/t	7 322	7 100	97.0
Average annual silver price	USD/troz	23.79	22.00	92.5
Exchange rate	USD/PLN	3.17	3.05	96.2
Production of copper in concentrate	kt	428.9	420.0	97.9
Production of silver in concentrate	t	1 199	1 112	92.7
Production of electrolytic copper	kt	565.2	567.5	100.4
of which from purchased copper-bearing materials	kt	134.8	142.6	105.8
Metallic silver production	t	1 161	1 140	98.2
Sales volume of copper products	kt	595	563	94.7
Sales volume of silver products	t	1 250	1 115	89.2
Pre-precious metals credit unit cost of electrolytic copper production from own concentrate	PLN/t	21 015	20 906	99.5
Total unit cost of electrolytic copper production from own concentrate*	PLN/t	14 657	15 435	105.3
C1 cash cost of producing copper in concentrate	USD/lb	1.78	1.94	109.0
Capital expenditure	M PLN	2 357	2 565	108.8
Equity investments**	M PLN	380	1 686	x 4.4

* From 2014 there has been a change in the method of measuring by-products in the unit cost of electrolytic copper production – analogously to the methodology for C1 cost – the value of Ag and Au is equivalent to the revenues from the sales of these metals (controlling presentation). Until now the measurement included a sales profitability factor (accounting presentation).

** Total expenditure on equity investments as well as loans.