

Layers of possibilities



Group results for 2014

16 March 2015

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2014 Highlights

Key accomplishments

- 1 Strategy adopted** for the years 2015-2020 with an outlook to 2040
 - Target production: over 1 million tonnes CuEq
 - Financing secured for development program
- 2 Production commenced at Sierra Gorda**
- 3 Production commenced at Deep Głogów**
- 4 Documentation of the Gaworzyce-Radwanice deposit** with resources of 4.1 mn tonnes of copper

Commissioning of the Sierra Gorda mine



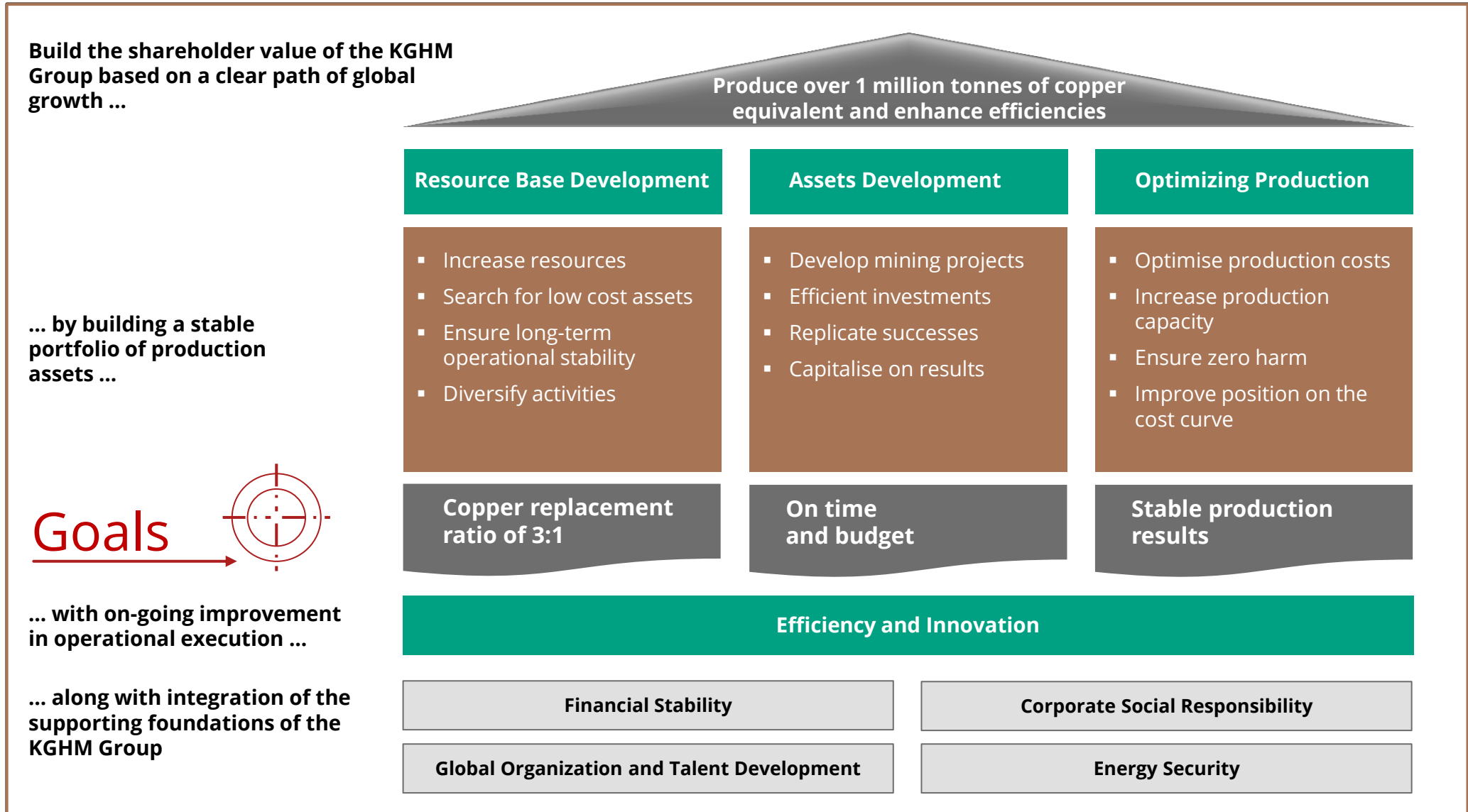
Production highlights

- **Copper** 663 thousand tonnes
- **Metallic silver** 1259 tonnes
- **TPM** 152.9 thousand troy ounces

KGHM Group financial results

- **Sales revenue:** PLN 20.49 billion
- **EBITDA:** PLN 5.31 billion
- **Net profit:** PLN 2.45 billion

1 New Strategy for 2015–2020 with an outlook to 2040



2 Sierra Gorda – full production capacity to be reached by mid-2015

Sierra Gorda

Cu Mo Au

- | | |
|---|--|
| ▪ Average annual production
(Phases I & II) | 220 kt Cu
25 mn lbs Mo*
64 kt Au |
| ▪ Ownership | 55% KGHM
45% Sumitomo |
| ▪ Mine profile | Open-pit |



Sierra Gorda pit

Status

- Average daily ore processing is as planned at approx. 75% of designed phase I capacity.
- In the process of increasing processing capacity, on one day we processed 117 100 tonnes of ore, which is an excellent result as compared to the target phase I processing capacity of 110 000 tonnes of ore per day.
- Construction of the molybdenum plant has been completed. Currently we are in ramp-up and handover phase.
- Sierra Gorda Oxide project: semi-industrial trials are underway, which will enable us to develop a Feasibility Study.

* During the first several years of operations average annual molybdenum production will be around 50 million pounds

2 Sierra Gorda – promising results from near-mine exploration

Pampa Lina



Drilling rig in the Pampa Lina exploration zone

Areas adjacent to the current mine have substantial exploration potential.

3 Deep Głogów – guarantee of stable production

GGP

Cu Ag

▪ Resources	290 Mt @ 2.4% Cu, 79 g/t Ag
▪ Ownership	100% KGHM
▪ Mine profile	Underground



Start of mining from Deep Głogów

Status

- On 1 April 2014 the first mining section in Deep Głogów was opened through the Rudna mine. By the end of Q4 2014 over 348 thousand tonnes of ore had been extracted.
- Work continued on deepening the GG-1 ventilation shaft using tubing technology. At the end of the fourth quarter the shaft had reached a depth of ~410 meters.
- In 2014, 35.6 thousand meters of tunnels were excavated together with technical infrastructure.
- Work continues on constructing a modern surface-based Air Cooling Station, using trigeneration technology.

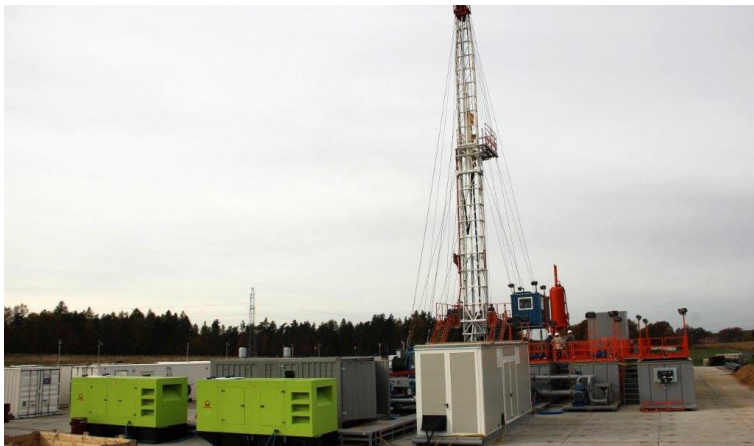
Gaworzyce-Radwanice

4 – another 4 million tonnes of copper in Poland

Gaworzyce-Radwanice



▪ Resources	216 Mt @ 1.89% Cu, 35 g/t Ag
▪ Ownership	100% KGHM
▪ Mine profile	Underground



▪ *Drilling rig in the Gaworzyce-Radwanice exploration zone*

Status

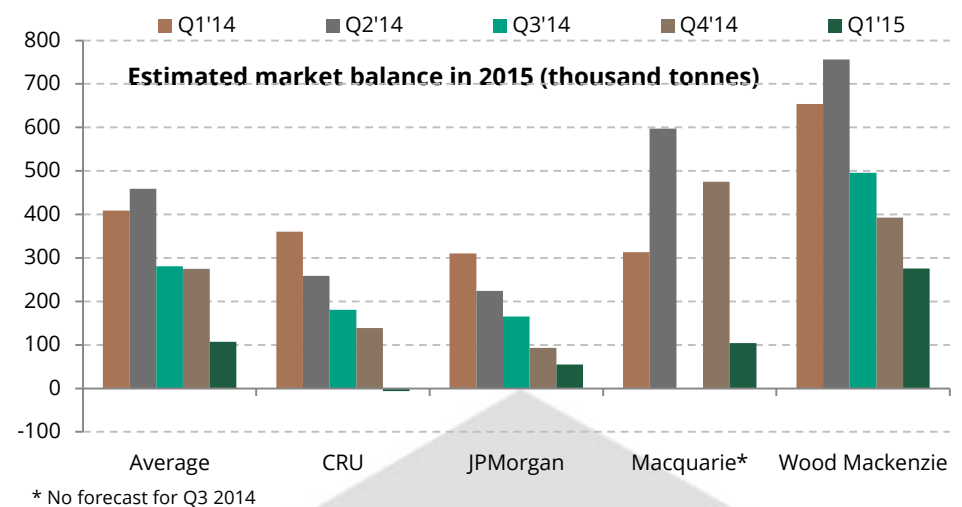
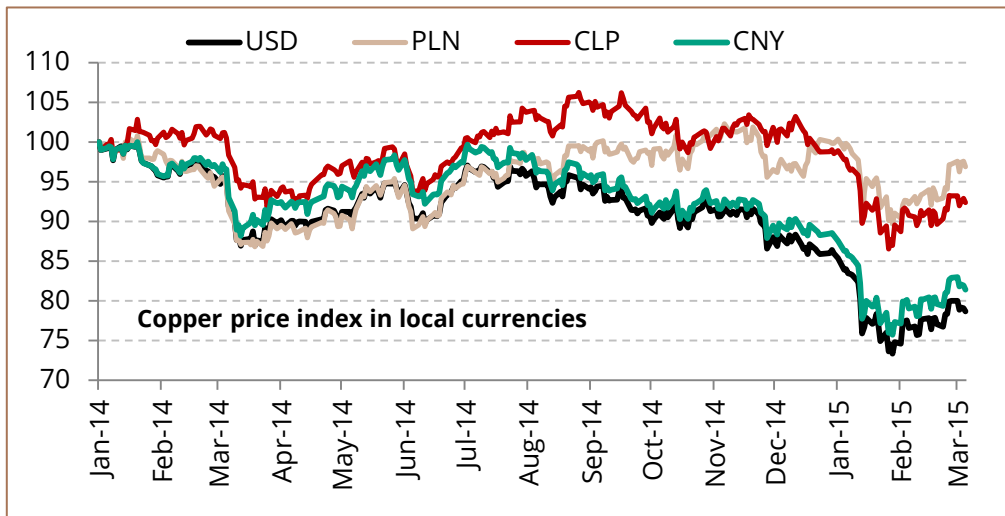
- Completion of 2008-2014 exploratory work in the concessioned areas Gaworzyce and Radwanice.
- 216 million tonnes of copper resources were documented grading 1.89% copper (around 4.1 million tonnes) and 35g/t silver (around 7.5 thousand tonnes).
- The concessions of Gaworzyce and Radwanice together comprise 99 km² and are adjacent to the western border of the areas currently being mined by KGHM.
- In the near term we will continue activities aimed at gaining mining concessions to the copper ore deposits in the new Gaworzyce-Radwanice area.



Macroeconomic outlook

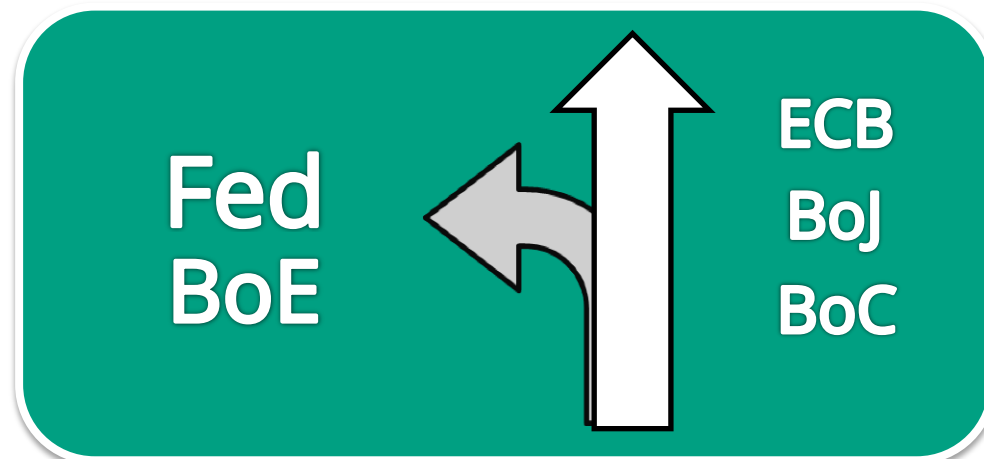
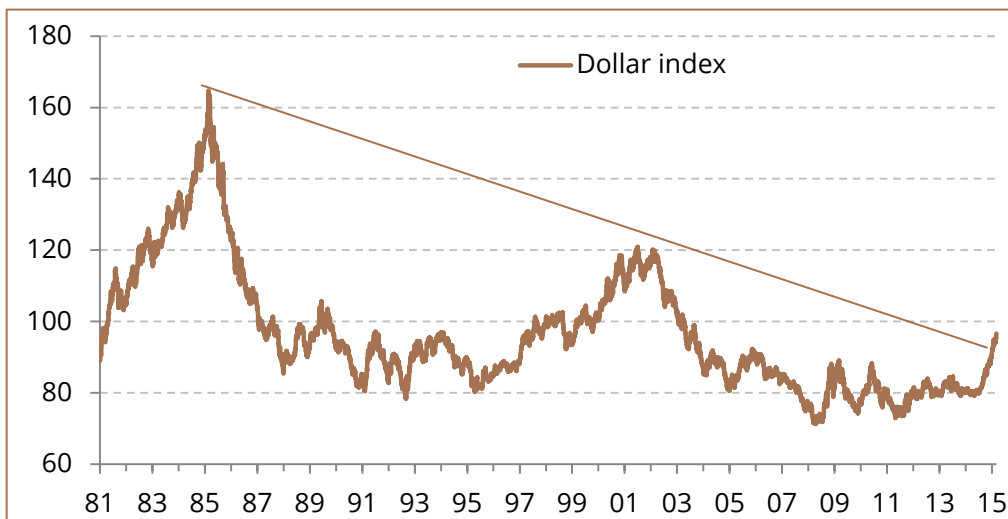
The copper downturn not felt equally everywhere

The copper market balance is steadily improving



- Appreciation of the USD to a broad basket of currencies had a negative impact on the copper price. However, **the price of copper denominated in local currencies (PLN and CLP), remains at the average for 2014.**
- The Chinese currency did not weaken as much with respect to the USD as did the currencies of resource-dependent countries or emerging markets. **The decrease in the copper price denominated in the Chinese renminbi in 2014 was felt to a much larger extent.** According to Platts, China's State Reserve Bureau (SRB) decided to take advantage of the falling prices by purchasing 400-700 thousand tonnes of copper in 2014. **The SRB will remain an active player in the market,** representing potential support for the copper price.
- **Official warehouse inventories (LME, SHFE and COMEX) fell during the year, though since the start of 2015 they have been rising sharply** (211 thousand tonnes to the end of February). Analysts explain this increase as the transfer of some inventory from unofficial (private) warehouses to registered exchange warehouses, as well as a decrease in Chinese copper consumer inventories due to the end of the Chinese year.
- **The oversupply of copper in 2014 turned out to be significantly lower than most institutions analysing this market expected.** The situation may be similar this year.

The US Fed in the spotlight; central banks in various stages of the monetary cycle cause higher currency volatility



- The past year saw a change in monetary policy in the most important global economies. A watershed moment was the decision by the American Federal Reserve (Fed) to normalise interest rates. This goal is being carried out with marked caution, and the **conclusion of the quantitative easing program** in October **and the positive macroeconomic data** coming from the American economy **is bringing us closer to higher interest rates in 2015.**
- Both the European Central Bank (ECB), the Bank of Japan (BoJ) and the Central Bank of Canada (BoC) are in an expansive monetary phase. **The inability to continue using traditional monetary policy tools** and the measured economic growth **convinced the monetary authorities of the ECB and the BoJ to also implement quantitative easing programs.**
- **The rapid strengthening of the US dollar has had a substantial, negative impact on the prices of USD-denominated commodities.**
- **Other factors** which continue to impact the financial markets **are the downturn in the price of oil since mid-2014 and the slowing in Chinese economic growth.**



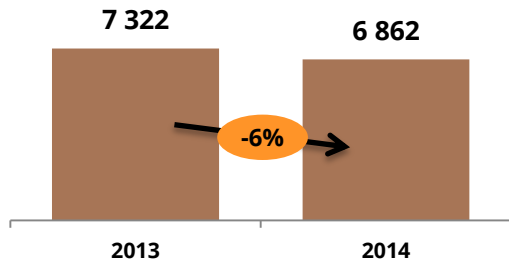
Economic results

KGHM Polska Miedź S.A. Group

Metals prices under pressure from a strengthening USD

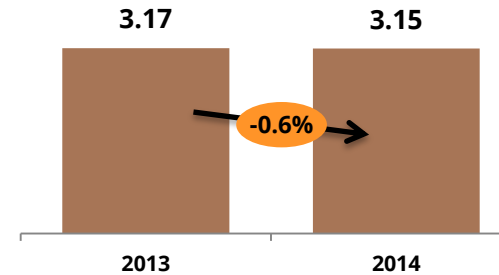
Local currencies partially offsetting volatility

Copper price (USD/t)



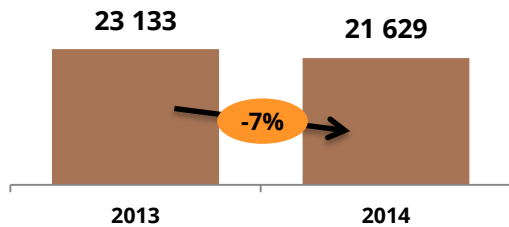
- The main cause of the copper price decrease in 2014 was the steady strengthening of the US dollar. Another factor was the concern regarding the sustainability of economic growth in Europe, the perceptible slowing of the Chinese economy and the expected surplus in copper supply over demand.

Exchange rate (USD/PLN)



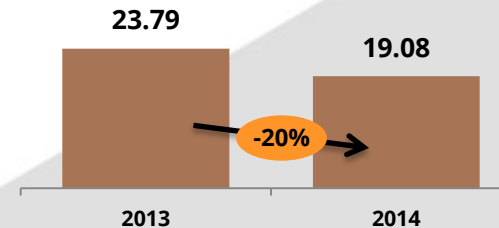
- Positive data on the Polish economy in the first half of the year sustained the USD/PLN rate at just above 3 PLN to the USD. The strong strengthening of the USD observed in the second half of the year and the decrease in interest rates by the Polish Monetary Council led to a rapid weakening in the PLN in the final months of 2014.

Copper price (PLN/t)



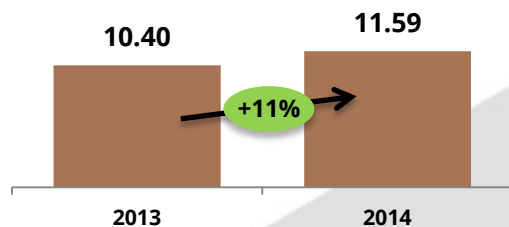
- The strengthening USD decreased the prices of dollar-denominated commodities, but also caused most other currencies to weaken, including the Polish zloty. The change in the USD/PLN rate to a large extent offset the drop in the USD price of the metal.

Silver price (USD/oz t)



- Main factors responsible for the lower silver price in 2014: rapid strengthening of the USD, the ending of quantitative easing (QE) in the USA and inflation which remained below the target level of the US Federal Reserve.

Molybdenum price (USD/lb)

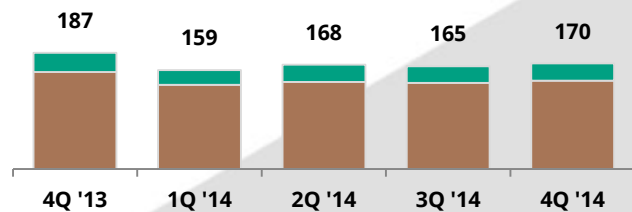
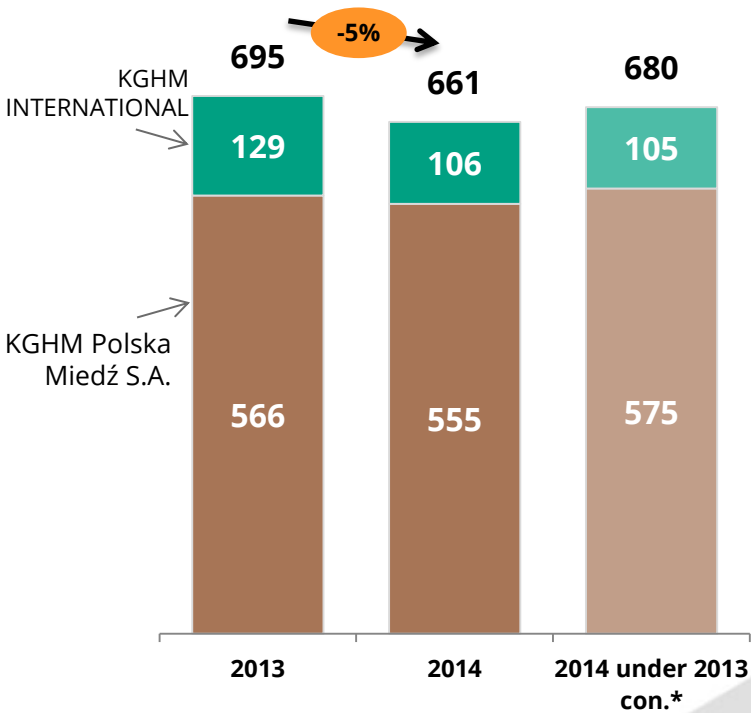


- In 2014 the price of molybdenum was highly volatile. In the second half of the year increased demand by steel producers and the restricting of sales by trading companies led to significant increases in the price of the metal.
- The surprisingly large volume of export by China and data showing higher production by Chile led to an equally rapid fall in prices in the final months of the year.

- The strengthening USD trend was continued in the first weeks of 2015, while dollar volatility will have a substantial impact on the prices of metals in USD terms as well as on currency rates in the coming months.
- Metals prices will be sensitive to information regarding the Chinese economy, changes in expectations regarding metal supply and the potential impact of a different approach to monetary policy in the USA and Europe.
- The geopolitical situation will have a large impact, and in particular the development of the conflict in Ukraine and the related economic sanctions, as well as the situation in the Middle East.

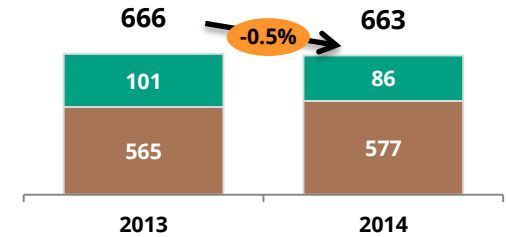
Copper production by the Group in 2014 similar to that in 2013

Production of copper equivalent from mined ore* (kt)

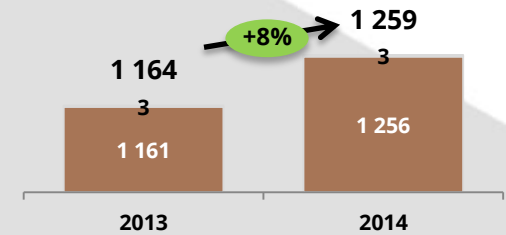


- Total Group production of copper equivalent from mined ore amounted to 661 thousand tonnes. This figure was significantly impacted by the relation of the copper price to other metals – using the metals prices from 2013 would give copper equivalent production of 680 thousand tonnes.
- Parent Entity production accounted for 84%
- The Group recorded a substantial increase in the production of silver and precious metals (TPM). To a large extent this increase was due to the processing of purchased concentrates rich in silver and gold.

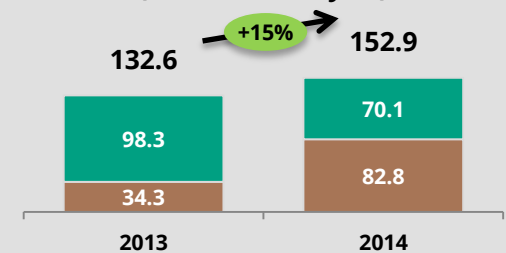
Payable copper production (kt)



Silver production (t)



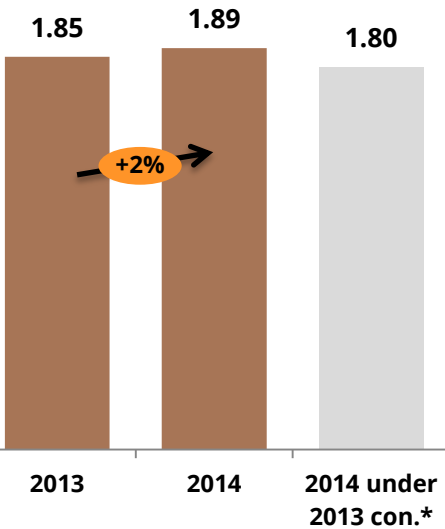
TPM production (thousand troy oz)



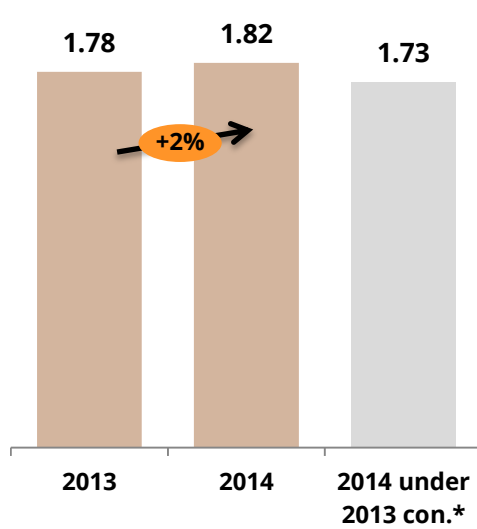
- In subsequent quarters of 2014 the volume of copper equivalent production increased. The highest level of production was in the fourth quarter and amounted to 170 thousand tonnes, or 3% more than in the third quarter.

The increase in unit C1 cost due to external factors

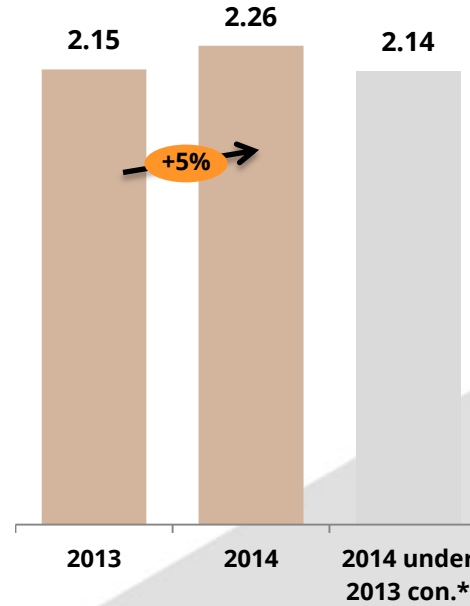
C1 – Group (USD/lb)



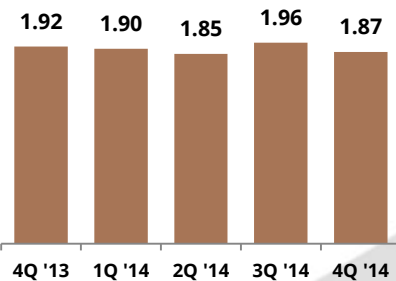
C1 – KGHM Polska Miedź S.A. (USD/lb)



C1 – KGHM INTERNATIONAL (USD/lb)



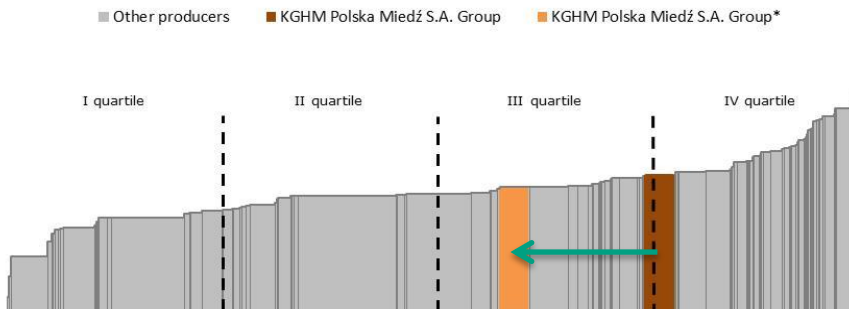
- The increase in C1 concentrate production cost is mainly related to a change in macroeconomic conditions (prices of by-products – silver and TPMs) and in the case of KGHM INTERNATIONAL with lower production as well
- Under the macroeconomic conditions of 2013, C1 cost would be lower than in 2013 for the entire Group



- C1 cost over the last 5 quarters has remained below 2 USD/lb

C1 cost curve (USD/lb)

Source: Wood Mackenzie

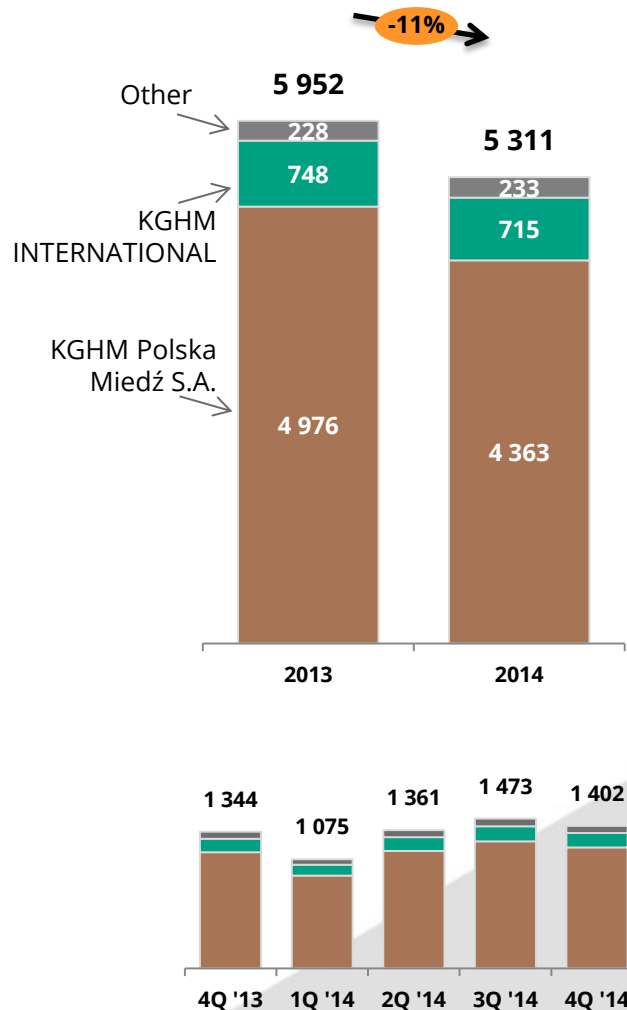


* Estimated position of the KGHM Polska Miedź S.A. Group on the cost curve based on exchange rates from 31 December 2014

The cost curve chart shows the high sensitivity of C1 cost to changes in the USD/PLN rate – KGHM’s position on the cost curve in 2014, applying the end-of-year exchange rate (3.54 USD/PLN), would be much better

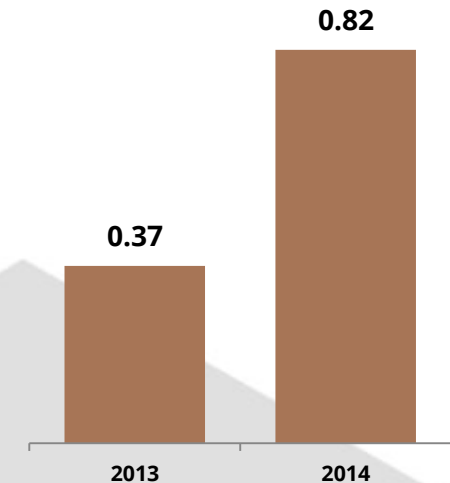
The KGHM Group achieved EBITDA of over PLN 5 billion

EBITDA
(mn PLN)



- The decrease in Group EBITDA by 11% was mainly due to changes in metals prices (Cu -6%, Ag -20%) alongside a decrease in sales of copper products by 6%.
- The decrease in EBITDA in KGHM Polska Miedź S.A. (-12%) was due to the deterioration in macroeconomic conditions, with continued cost discipline.
- The relatively smaller drop in EBITDA in the KGHM INTERNATIONAL Group (-4%) is due to the higher accrued interest (+PLN 93 million) on the loan granted to Sierra Gorda with respect to 2013.
- EBITDA in the remaining Group companies remained at a level similar to the prior year, as their results are not directly linked to metals prices.

Net debt / EBITDA *



- The increase in the Net debt / EBITDA ratio in 2014 to the level 0.82 was due to an increase in loans (PLN 4.8 billion at year's end) with cash held at PLN 0.5 billion.
- In 2014, KGHM arranged financing of up to PLN 14 billion.



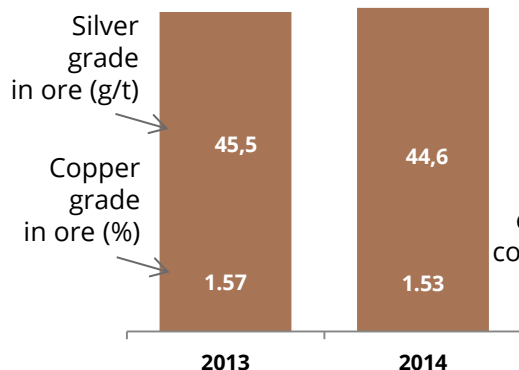
Economic results **KGHM Polska Miedź S.A.**

Stable mined production, higher metallurgical output

Ore extraction
(mn t dry weight)

+1%

30.6 → 31.0



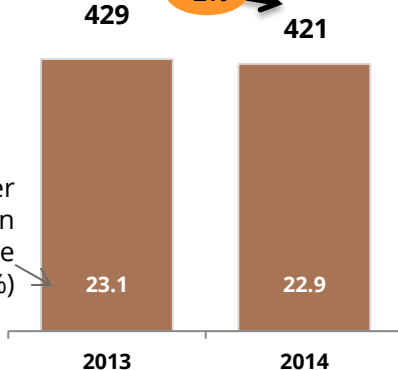
Production of Cu
in concentrate
(kt)

-2%

429 → 421

Copper
content in
concentrate
(%)

23.1 → 22.9



Electrolytic copper
production
(kt)

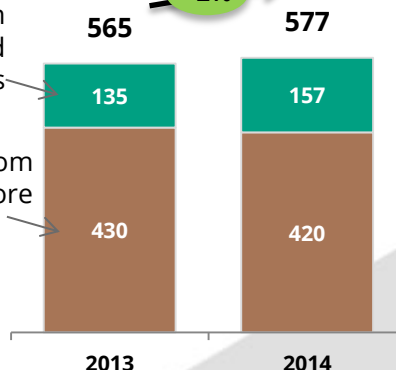
+2%

565 → 577

From
purchased
materials

From
mined
ore

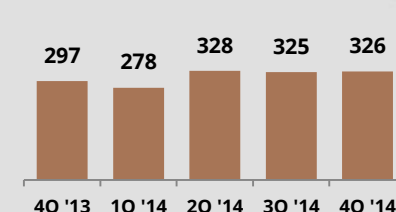
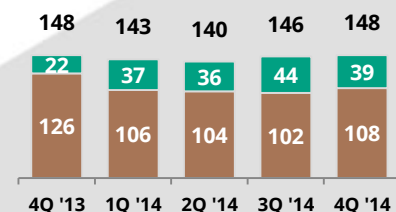
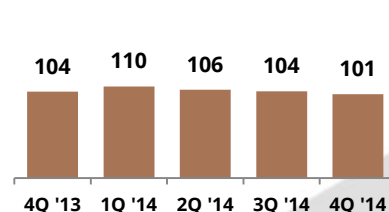
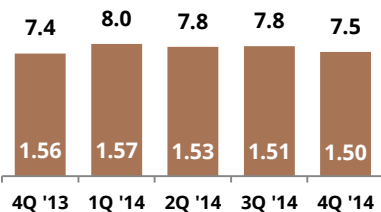
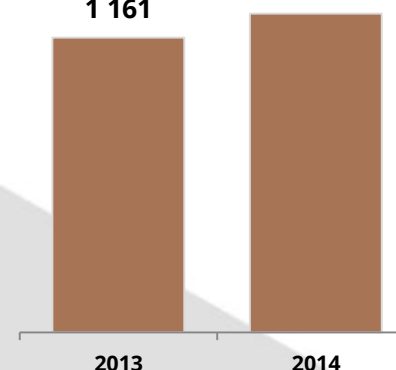
135 → 157



Metallic silver
production
(t)

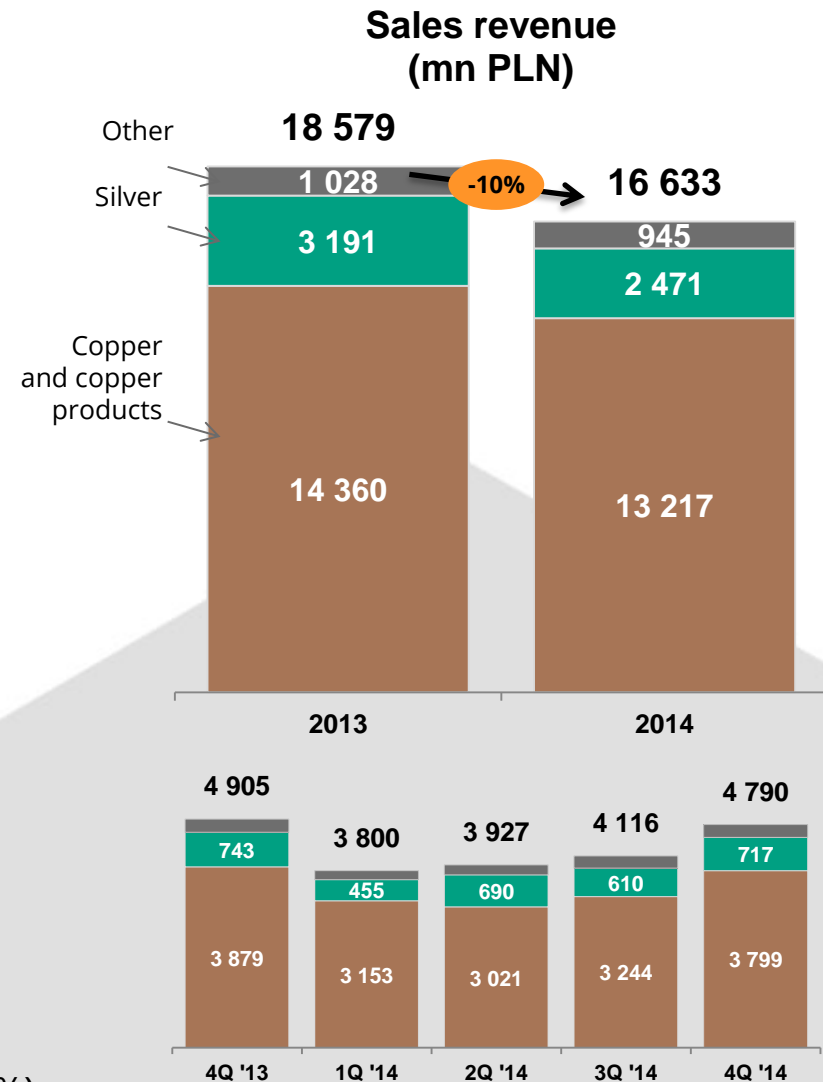
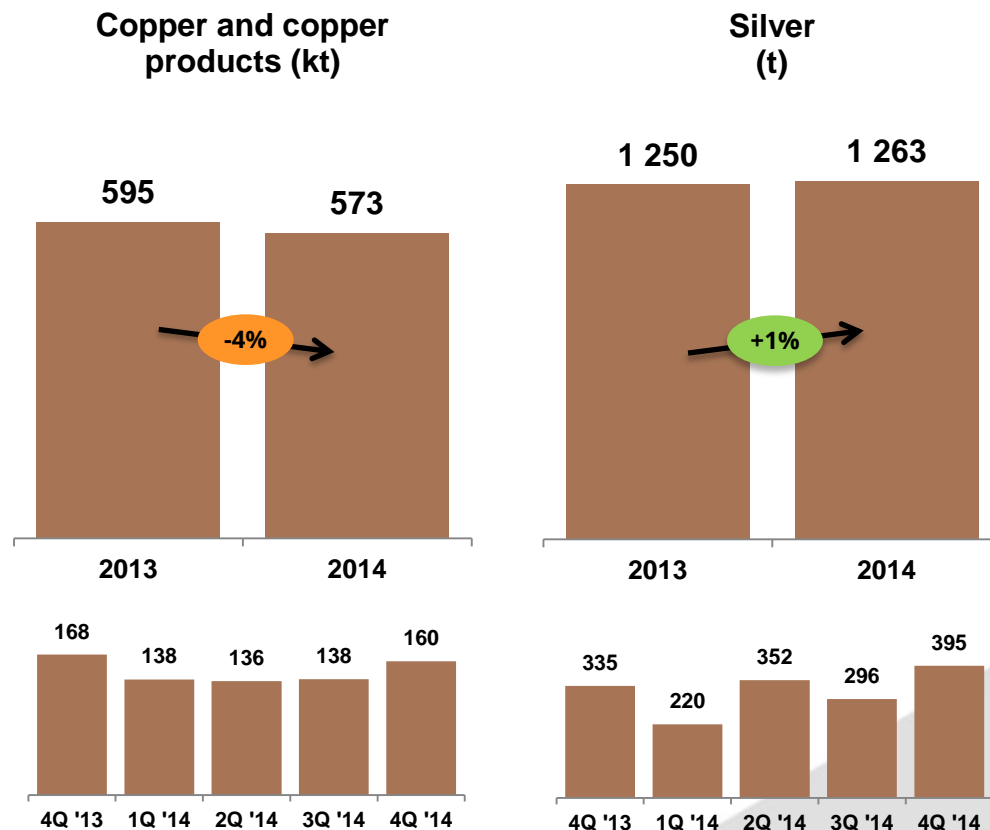
+8%

1 161 → 1 256



- In 2014 there was a drop in copper grade from 1.57% to 1.53% as well as in silver grade from 45.5 g/t to 44.6 g/t
- We expect that in subsequent quarters the copper grade in mined ore will remain at the average for 2014 (1.53%)
- Due to deterioration in geological conditions, production of copper in concentrate in 2014 as compared to the prior year fell by 2%
- The increase in electrolytic copper production as compared to the prior year was due to the processing of purchased Cu-bearing materials, mainly concentrates rich in precious metals
- The lower volume of production from mined ore was due to the lower production of copper in concentrate from mined ore
- The increase in metallic silver production as compared 2013 (up by 8%) despite the decrease in silver grade in mined ore was due to the inventories optimization program at the Głogów smelter/refinery as well as to the processing of purchased materials which contained more silver than in the prior year

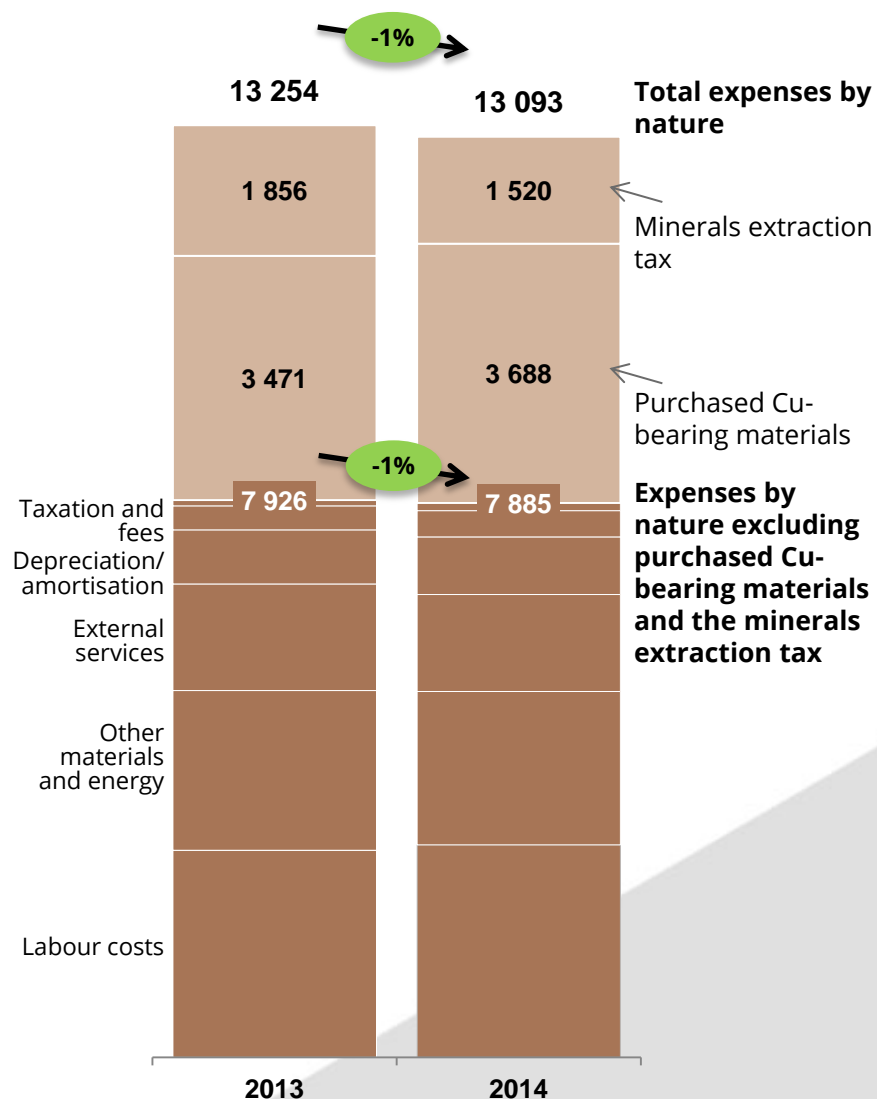
Lower metals prices and lower copper sales led to lower sales revenue by 10%



- The decrease in copper sales volume by 4% alongside lower achieved copper and silver prices (respectively by 5% and 23%) led to lower sales revenue by 10% as compared to 2013
- In 2013 the Company sold 7 thousand tonnes of copper concentrate and reduced inventories of finished copper products from 31 to 15 thousand tonnes. At the end of 2014 the level of inventories was maintained

- The sales revenue earned in the fourth quarter was the highest during 2014, mainly due to the high volume of sales of both copper and silver products

Cost discipline maintained in every quarter of 2014

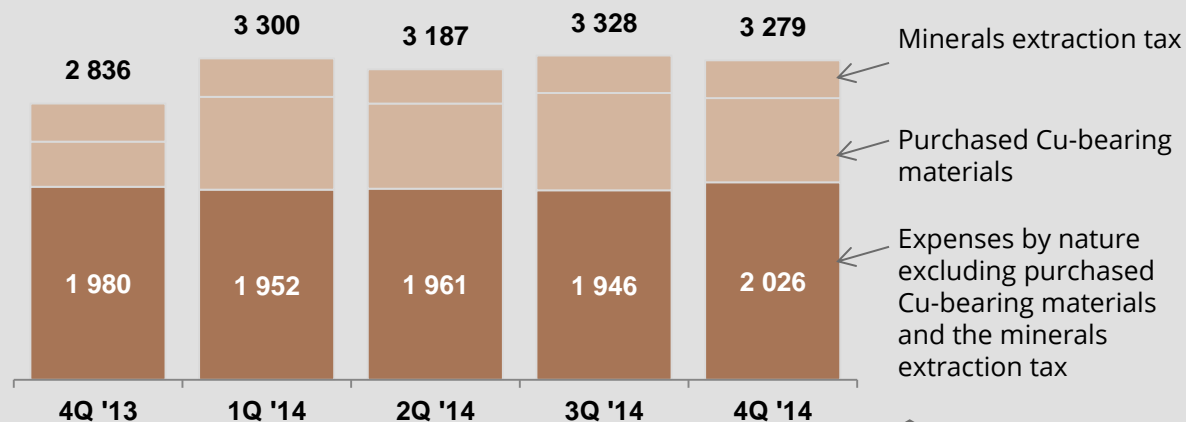


- After excluding the minerals extraction tax and purchased Cu-bearing materials, expenses by nature were lower by 1% than in 2013 (-PLN 42 million)
- The following factors impacted the level of costs as compared to 2013:

- lower cost of heat energy (-PLN 11 million) and a 3% drop in the price of purchased electricity (-PLN 42 million)
- the planned restriction in the scale of mine development work (- PLN 115 million); a decrease of 27%, or 11 kilometers

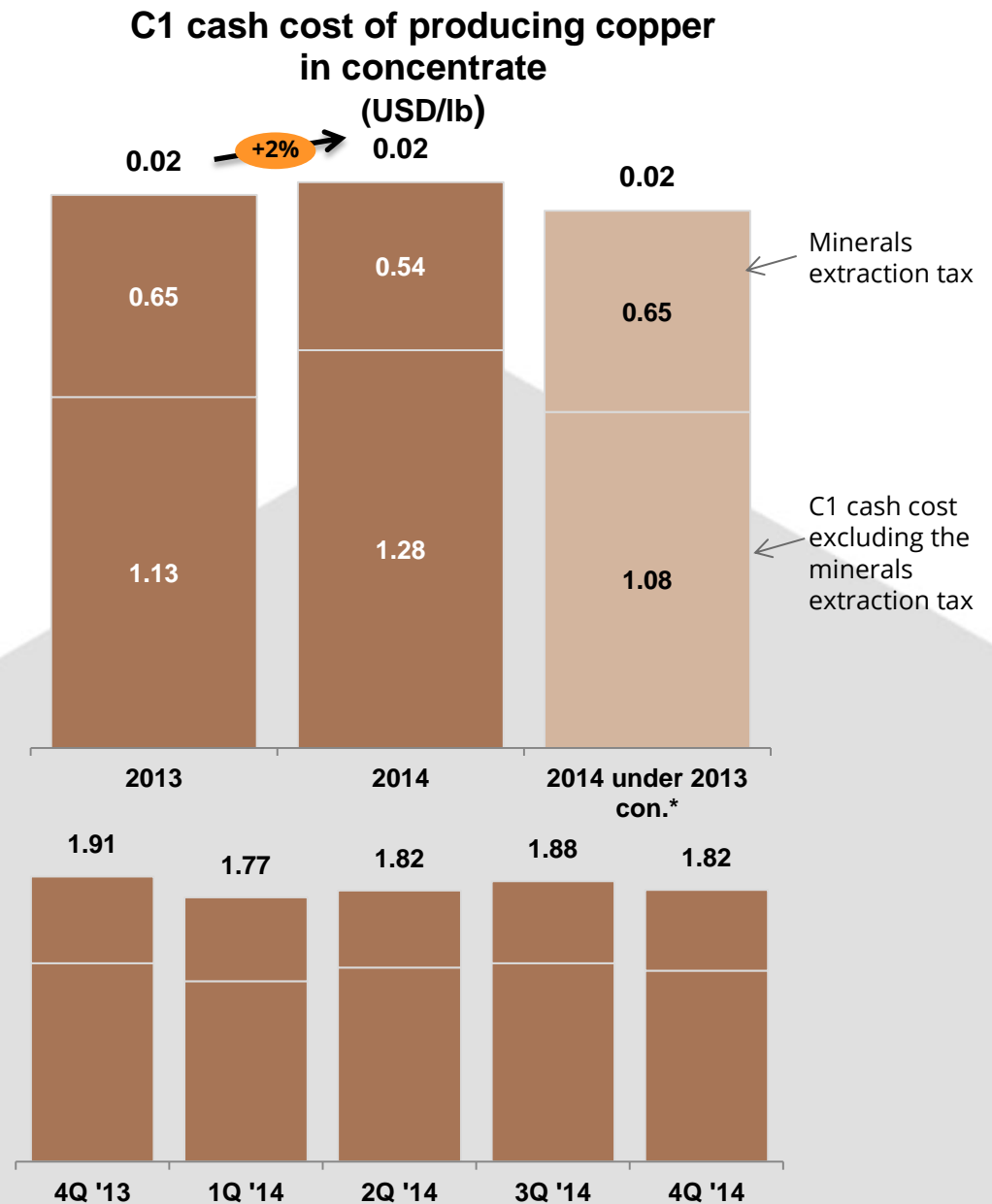
alongside an increase in:

- labour costs (+PLN 76 million) - a higher allowance for future employee benefits (+PLN 53 million) and higher remuneration by 2.4% alongside a lower annual bonus by 1.5 percentage points (2013: 20%, 2014: 18.5%)
- taxation, including mining usufruct fees (+PLN 30 million) and mining charges (+PLN 4 million)

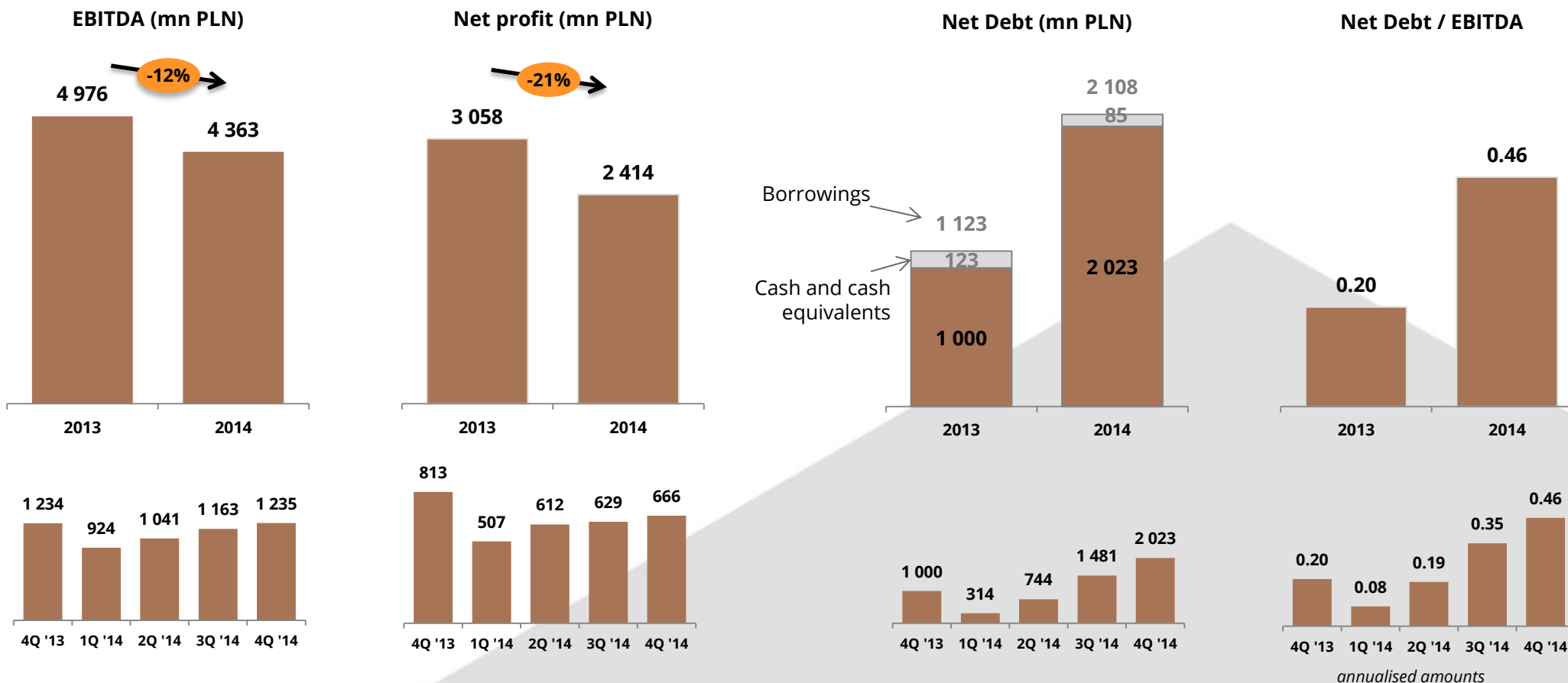


Higher C1 cost due to external factors

- The decrease in silver and gold prices as compared to 2013 led to a lower valuation of by-products, which resulted in a higher C1 cash cost.
- Under the macroeconomic conditions in 2013, the C1 cash cost would have been 1.73 USD/lb, or 3% lower than in the prior year.
- The share of the minerals extraction tax in C1 cost in 2013 and 2014 amounted respectively to 36% and 30%.
- C1 cash cost over the last 5 quarters remained below 2 USD/lb.



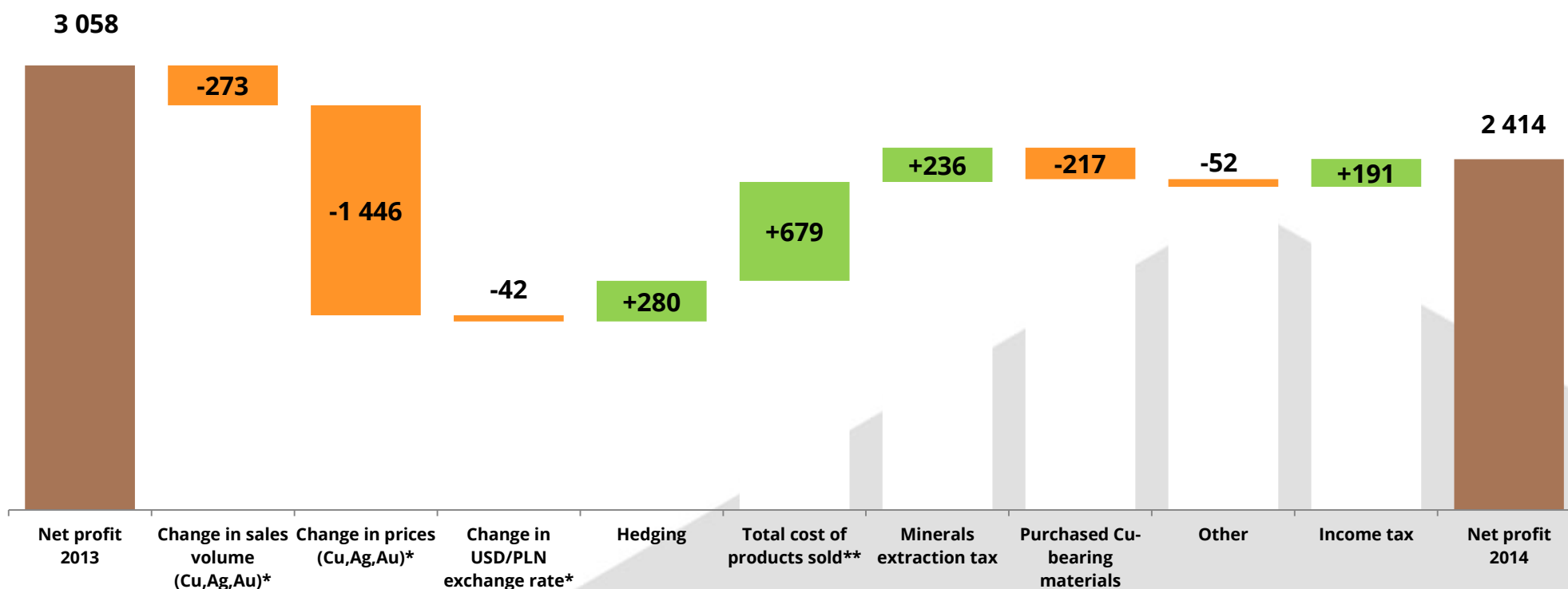
Financial results of KGHM in line with market consensus



- EBITDA and net profit are respectively 12% and 21% lower than in 2013
- The highest EBITDA and net profit were achieved by the Company in the fourth quarter of 2014 mainly due to a higher volume of sales

- Company debt remains at a safe level
- In 2014 the Company secured financing for its development program

Lower metals prices were mainly responsible for the lower profit

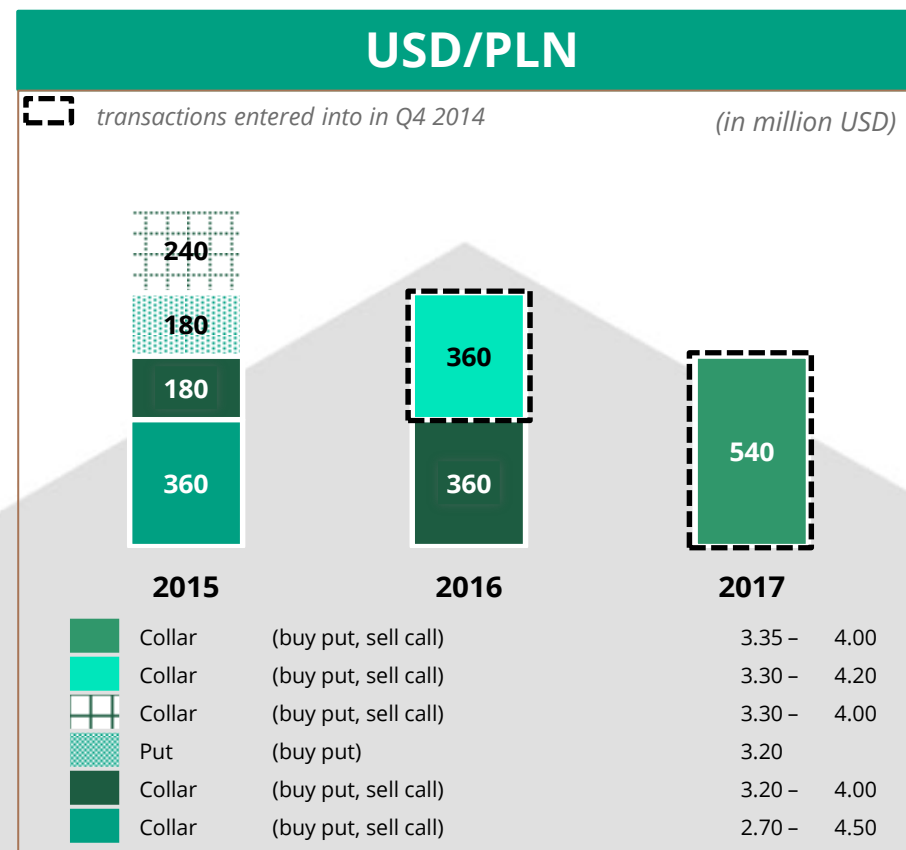
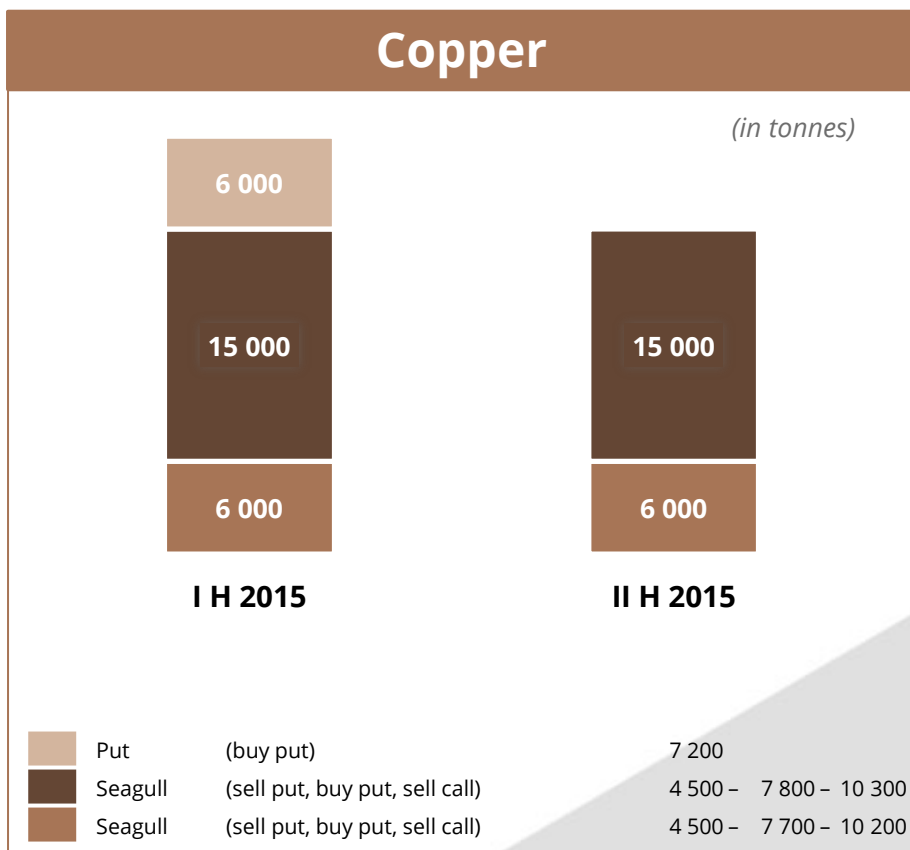


- The lower result as compared to the profit earned in 2013 by PLN 644 million (-21%) was mainly due to market factors (metals prices)

The accrued result on derivatives achieved by KGHM Polska Miedź S.A. as at 31 December 2014 amounted to PLN 352 million

Market risk management – hedging position (as at 31 December 2014)

Position in derivatives on the commodities and currencies markets



- The low USD/PLN exchange rate in the first half of the year was used to close a portion of the hedged position, as a result of which we guaranteed a positive adjustment to sales revenue in the period Q2-Q4 2014 and for the full year 2015, in the total amount of PLN 297 million.
- The sharp weakening of the Polish złoty in the second half of 2014 allowed us to gradually build a position hedging expected USD-denominated revenue in the years 2015–2017.



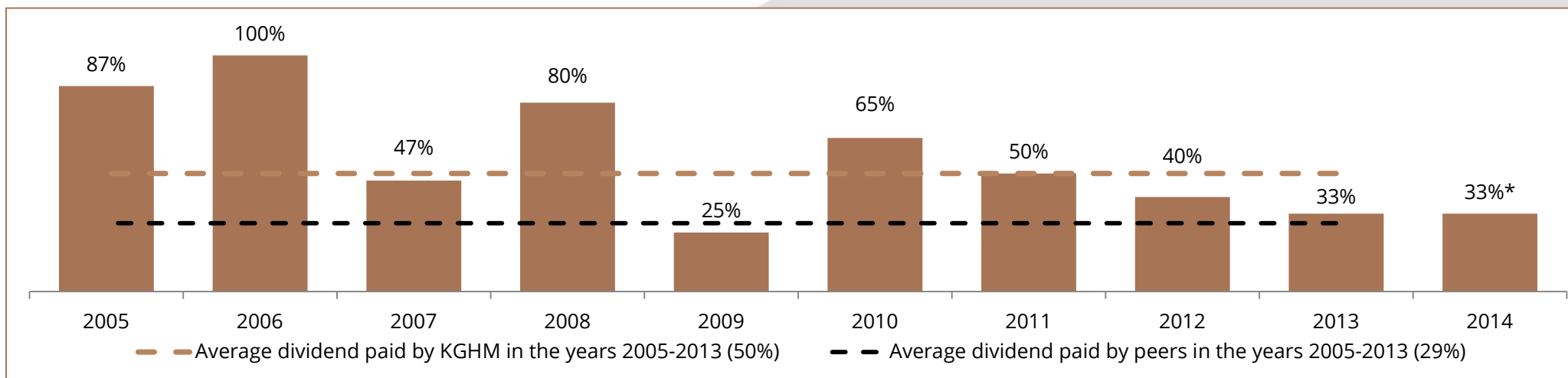
Dividend for 2014

Results-oriented Dividend Policy

KGHM Dividend Policy

- **The Dividend Policy of KGHM Polska Miedź S.A. is part of its on-going efforts to ensure a balance between dividends paid out to shareholders and opportunities to efficiently invest the Company's funds**
- The Dividend Policy of KGHM Polska Miedź S.A. assumes that the **Management Board will recommend allocation of up to one-third of the Company's net profit for the previous financial year as a dividend**
- In particular, in making its recommendation the Management Board took into account the Company's anticipated requirements for capital to complete the Company's development program as well as a safe debt level for the Group

Sector Leading Dividend Payout



Recommended profit allocation for 2014

Taking into consideration:

- the adopted Dividend Policy
- the assumptions and goals of the Company's Strategy, including necessary expenditures by the Group to accomplish its development program and
- a safe level of debt

The Management Board proposes payment of a dividend of PLN 800 million (PLN 4.00 per share), representing 33% of net profit earned in 2014

The remainder of the profit in the amount of PLN 1 613.7 million will be allocated to Company reserve capital



- 27 May 2015 was chosen as the day on which the right to the dividend is set
- The dividend will be paid in two equal instalments: 18 June and 19 October 2015

Goals and priorities for 2015



- Maintain a stable level of copper production



- Achieve full phase I production capacity at the Sierra Gorda mine (110,000 tonnes of ore throughput per day) and commence molybdenum production



- Maintain the rate of progress in the Victoria and Ajax projects



- Continue work related to expansion of the Želazny Most tailings storage facility



- Build a global organisation



Thank you!

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