KGHM
POLSKA MIEDŹ S.A.

Results of the KGHM Polska Miedź Group in the first quarter of 2014

May 2014

Major Group resource projects

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

Sierra Gorda Cu Mo Au

▪	**Reserves**	**~1463.3 Mt @ 0.4% Cu 0.02% Mo 0.065 g/t Au**
▪	**Ownership**	**55% KGHM 45% Sumitomo**
▪	**Mine type**	**Open pit**

Progress on construction (as at 31 March 2014)

- Project will be completed on time with commissioning mid-2014
- Project's overall progress is around 95%
- Mine operations successfully completed pre-stripping, which for the last two years completed a total of 192 million tonnes removed
- Around 7 500 employees working on site
- Construction of 143 km sea water pipeline complete
- TRIR (Total Recordable Incident Rate) at 0.58 (average for sector is 1.75) – Sierra Gorda is the safest mine under construction in Chile

Sierra Gorda – completion of pre-stripping and seawater pipeline

- Sierra Gorda will operate using seawater transported through a 143 kilometer pipeline
- Key infrastructure also includes the coastal station and two inland pump stations, with a total of 24 pumps and pumping rate of 1,500 liters per second
- Sierra Gorda mine will use 250,000 cubic meters of water daily which equals an annual capacity of 92 million cubic meters

- Removal of overburden is a crucial element of the project that involves preparing the pit for mine production and making the deposit accessible
- During pre-stripping, a total of 192 million tonnes of material was removed, including waste, sulphide ore and oxide ore
- This resulted in over 710,000 tonnes of sulphide ore in stockpiles ready for processing and 33 million tonnes of copper oxide ores for potential use in the future

Sierra Gorda Oxide – potential increase in value

Sierra Gorda Oxide Project

- Preparation for the feasibility study started in March 2014.
- Pilot test heaps started. Tests heaps included ROM (Run of Mine) ore with high (18 000t), medium (8 000 t) and low grade (8 000 t).
- Initial results of these tests indicate the significant potential of the project.

Victoria – stable progress of mining work

Victoria

Ni | Cu | Pt | Pd | Au

Resources	~14.5 mt @ 2.5% Cu, 2.5% Ni, 7.6 g/t TPM
Ownership	100% KGHM International
Mine type	Underground

- Finished portal for adit

- Progress of adit excavation works

Progress

- Advanced work on site leveling
- Engineering work progress 40% complete
- Finished work related to adit portal preparation, adit excavation work started at 7 March 2014
- Integrated Development Study underway – this will describe in detail the mine execution plan
- Steering Committee appointed with representatives from KGHM S.A., KGHM International, PeBeKa and DMC to provide guidance to the Project team.
- TRIR (Total Recordable Incident Rate) – 0.0.

Głogów Głęboki Przemysłowy (Deep Głogów) – guarantee of production stability in KGHM

Głogów Głęboki Przemysłowy

Cu Ag

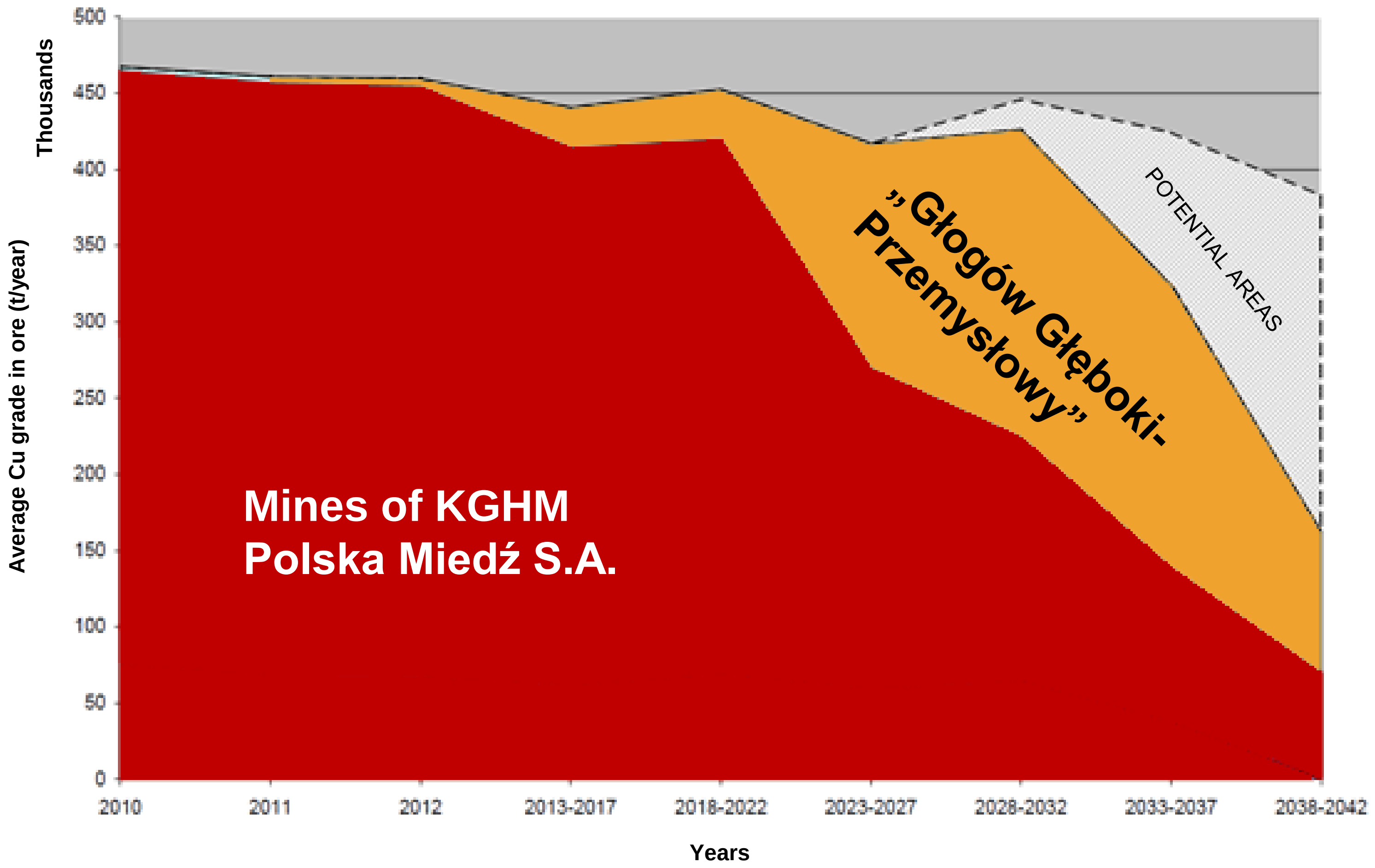
▪ Resources	~290 mt @	2.4% Cu in situ 79g/t Ag
▪ Ownership	100% KGHM	
▪ Mine type	Underground	
▪ Status	Access to G-25 mining section gained	

Progress

- On 1 April the first mining section,G-25, commenced operations. The scope of this work included among others the development of access drifts, the construction of heavy machinery chambers and the development of ventilation and air cooling infrastructure.
- The sinking of the GG-1 ventiliation (inlet) shaft and construction of shaft surface infrastructure is underway. Construction of the shaft, with a target depth of 1340 m and a width of 7.5 m, is being carried out in stages and will be completed in 2019.
- By March 2014 a total of 67 462.7 m of tunnels and mine facilities had been built together with required technical infrastructure.
- Construction began on a modern surface-based ,25 MW (target) central air cooling station near the R-XI shaft using innovative trigeneration technology (i.e. simultaneous generation of electricity, heat and coolant).
- Conclusion of this project is planned in 2026. Consistent progress on accessing work will enable the mines to achieve their target production levels.

Głogów Głęboki Przemysłowy (Deep Głogów) – potential to maintain extraction from the Polish mines of KGHM for another 30–40 years

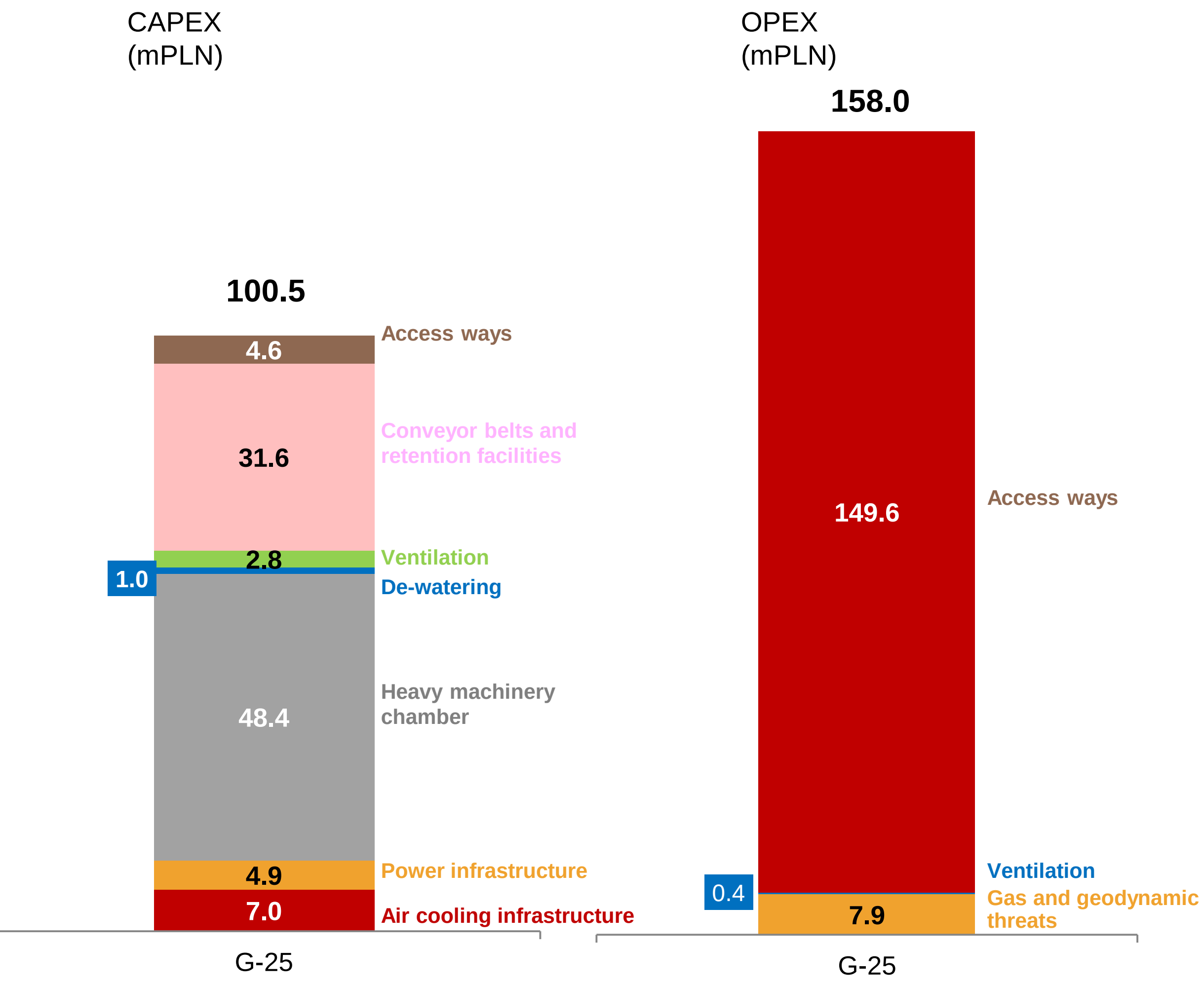
Forecasted extraction of Cu in ore in the mines of KGHM Polska Miedź S.A.
Production plan per ZTE 2008



- To maintain production in its Polish mines, KGHM needs to gain access to and commence operations in new deposit areas.
- Mining of the Deep Głogów deposit ensures continuation, after 2018, of production capacity by the core business - mines, concentrators and smelters - at the current level.

Głogów Głęboki Przemysłowy (Deep Głogów) – potential to maintain extraction from the Polish mines of KGHM for another 30–40 years

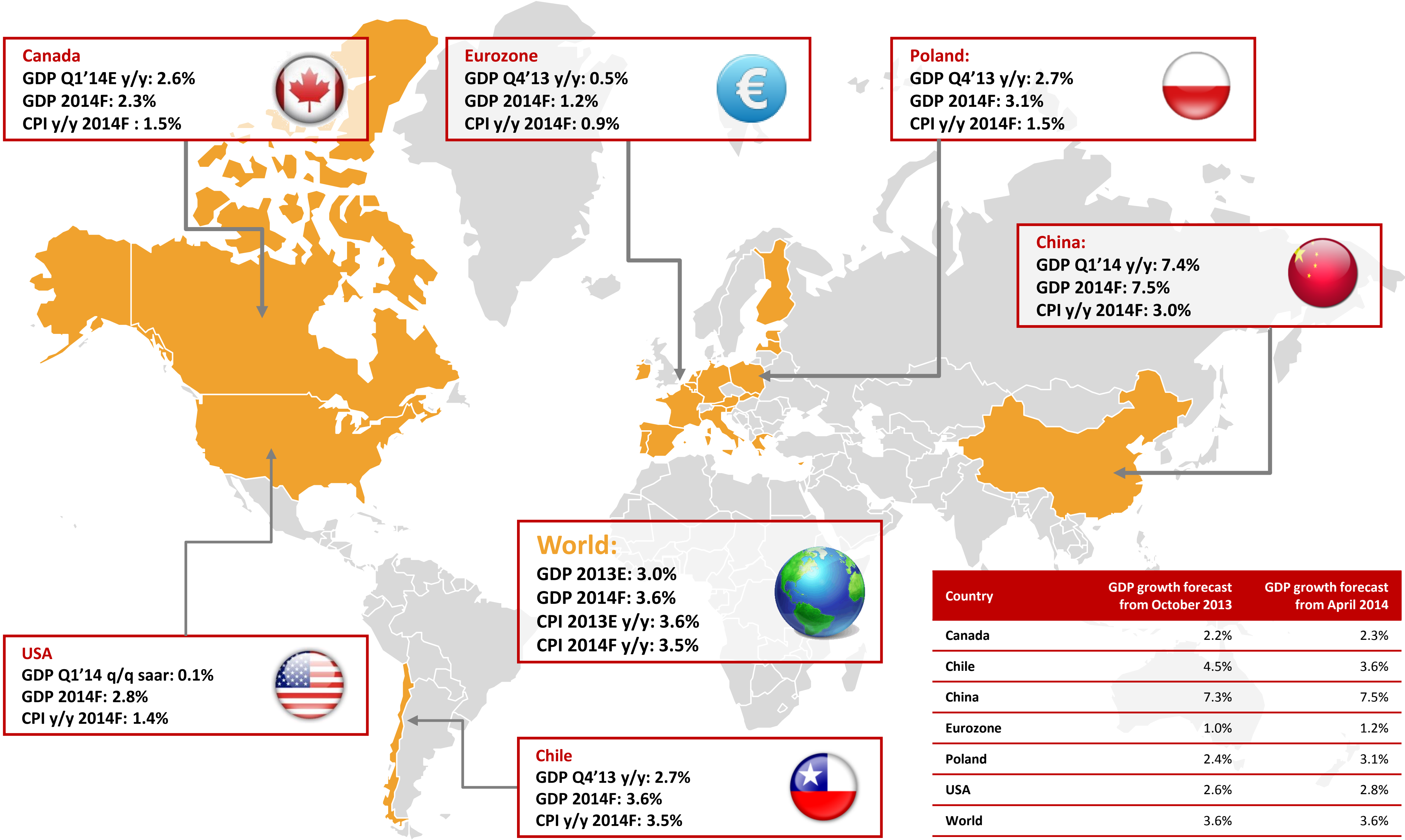
Commissioning of first mining field in section G-25



- In the years 2004–2014 capital expenditures on opening new mining fields in the GG-P area, to replace depleted fields, amounted to PLN 931 million.
- Capital and operating expenditures to prepare the first mining field in section G-25 amounted in the years 2010–2014 to PLN 259 million.
- One-off expenditures at the level of approx. PLN 158 million increased costs of the current period, without providing additional production in this regard.
- Operating at the current mining faces and the opening of new ones in the GG-P area involves increasingly more challenging geological and mining conditions.
- Consistent progress on accessing work will enable the mines to achieve their target production levels.

Macroeconomic perspective

The global economy has begun to recover.
The IMF has increased its growth forecast for the next few years



Country	GDP growth forecast from October 2013	GDP growth forecast from April 2014
Canada	2.2%	2.3%
Chile	4.5%	3.6%
China	7.3%	7.5%
Eurozone	1.0%	1.2%
Poland	2.4%	3.1%
USA	2.6%	2.8%
World	3.6%	3.6%

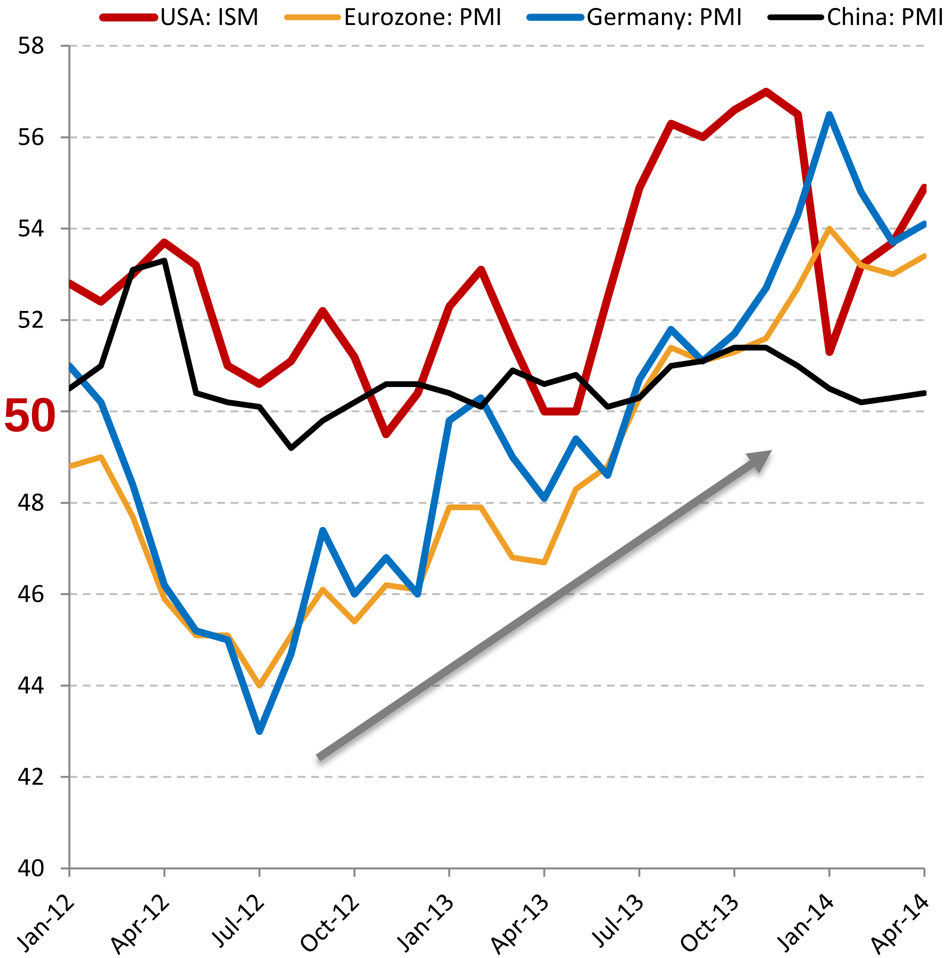
Nota: Forecasts of GDP and CPI growth for 2014 are based on data from IMF, World Economic Outlook (from 8 April 2014)
E – preliminary estimate; **F** – forecast; **y/y** – year to year; **saar** – seasonally adjusted annual rate

The economic recovery has become a fact; the greatest restriction to growth may be the tense geopolitical situation in Ukraine

WORLD

PMI indicates a switch of economies to a growth phase

Indicators: ISM for the USA and PMI for Europe and China (official)



- The IMF, in its April revision of the global economic perspective, maintained the expected rate of global growth at the level of 3.6%.
- Weather problems in the USA put a substantial break on economic activity in the first quarter. Subsequently it became evident that this was only a temporary situation, while the most recent data confirmed stabilisation on the labour market, recovery in the industrial sector and an increase in sales growth of durable goods.
- Due to the improved economic perspective for subsequent quarters the US Federal Reserve (Fed) continued to restrict the policy of quantitative easing, reducing in April the scale of monthly asset purchases to USD 45 billion.
- The slowdown in economic growth in China to 7.4% year to year in relation to the last quarter of 2013 (7.7%) and further fears on the sustainability of growth convinced the Chinese government to implement a package of economic stimulation by investing in infrastructure (mainly railways) and housing.
- A factor attracting the attention not only of financial investors is the situation in eastern Europe. Any further escalation of the situation in this region, and in particular placing more stringent economic sanctions on Russia, would have a negative impact on the freedom of trade and consequently the potential for global economic growth.

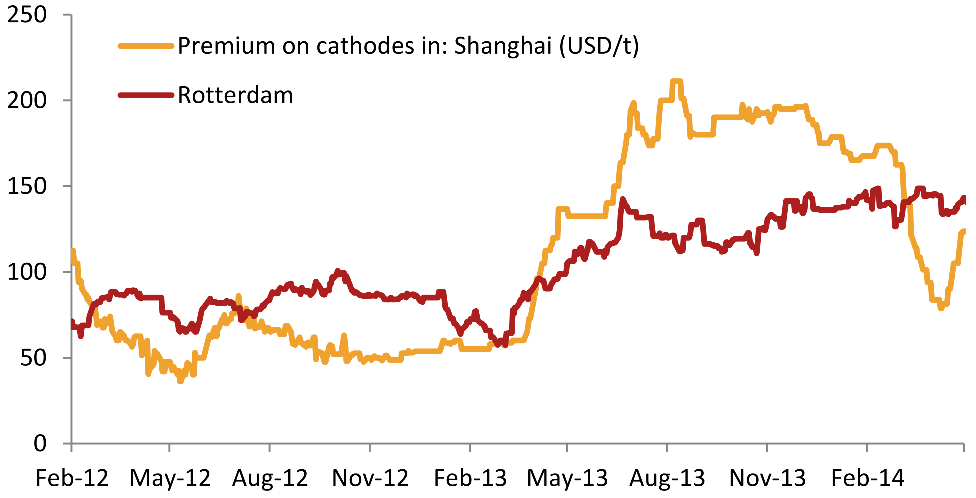
Source: Bloomberg, KGHM

After losses in March the price of copper has stabilised, mainly due to the intervention of the SRB* and to improved global macroeconomic perspectives

COPPER

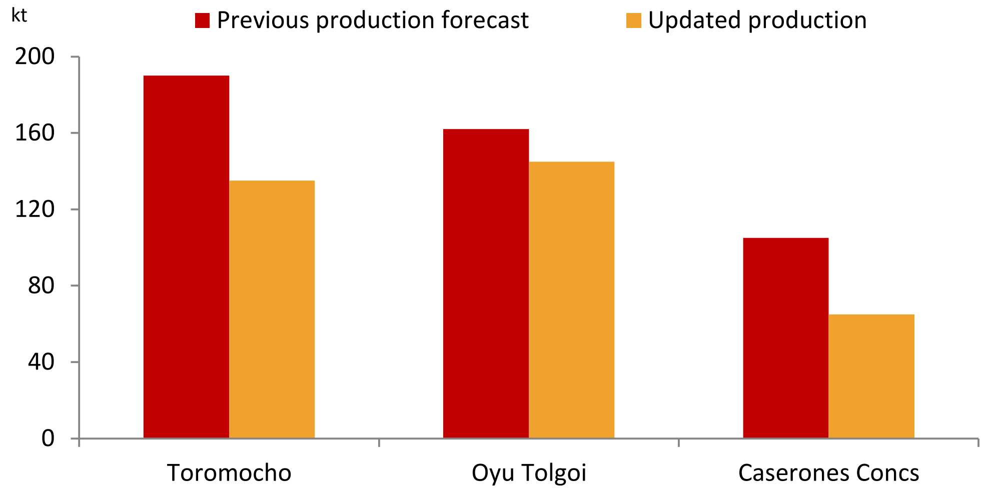
The increase in the physical premium on cathodes in China suggests stabilisation of demand

Premium on cathodes in Shanghai and Rotterdam** [USD/t]



Estimated supply from new projects has been revised downwards

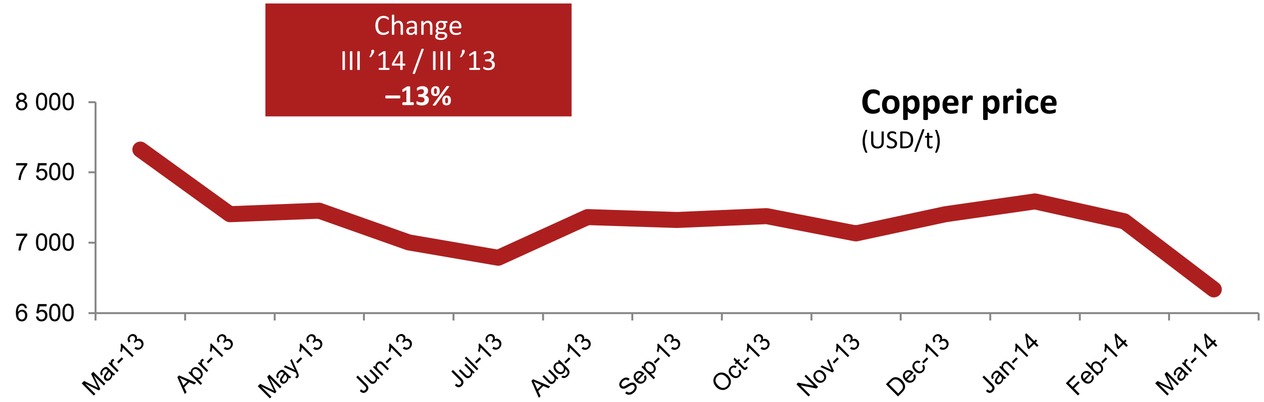
Production in 2014*** [kt]

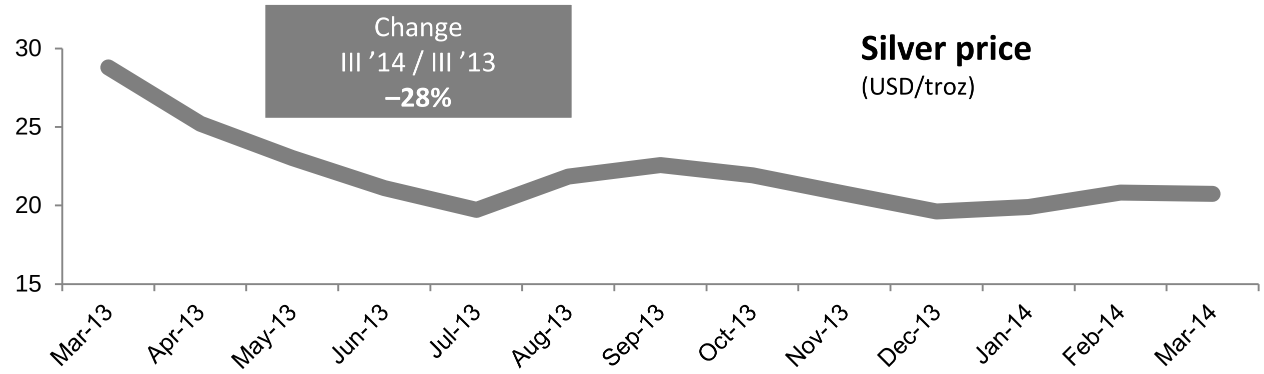


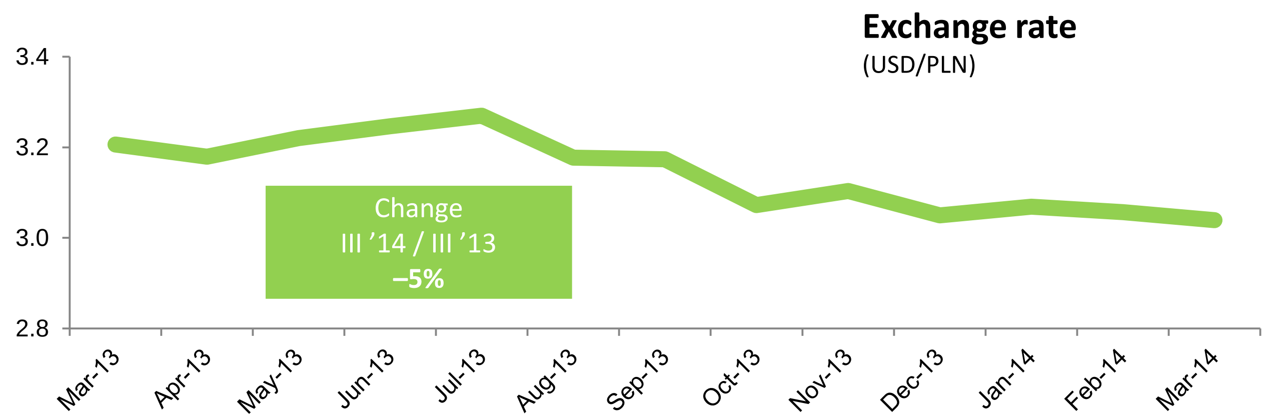
- After losses in March caused mainly by pressure from sellers in China and by fears about the sustainability of economic growth, the price of copper stabilised in the range 6 500 – 6 800 USD/t. Information announced by Reuters on the purchase by the SRB* – China's State Reserves Bureau – of approx. 200 thousand tonnes of copper may attest to its desire to ensure future, growing demand in that country. This is a factor supporting the price of copper, due to the potential for further interest by the SRB* to rebuild its strategic reserves in case of any eventual decreases in the metal's price.
- This stabilisation of the copper price was also accompanied by an easing of the situation in terms of the physical premium in China. After a drop towards its several-months average, the physical premium on cathodes again began to rise. In Europe the physical premium remains at a relatively high level, which confirms the continued interest in copper from the industrial sector.
- Based on information announced in recent months it appears that there continue to be problems in current investment projects resulting in delays. Expectations regarding production which is supposed to come online this year from new projects have been systematically revised downwards, affecting the near-term copper market balance.

Source: * State Reserves Bureau ** Bloomberg, Metal Bulletin, KGHM; *** Macquarie

A substantial deterioration of macroeconomic conditions versus 2013



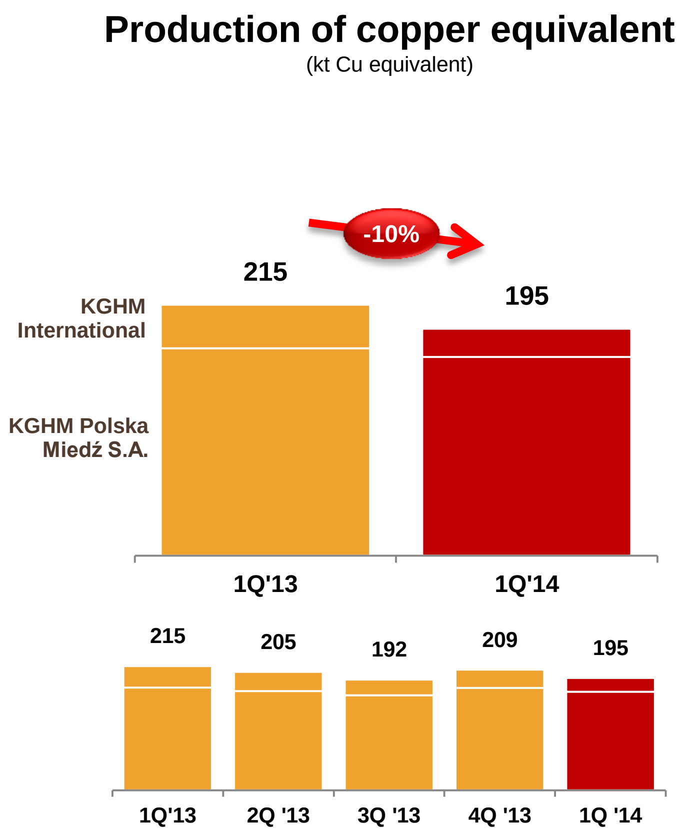


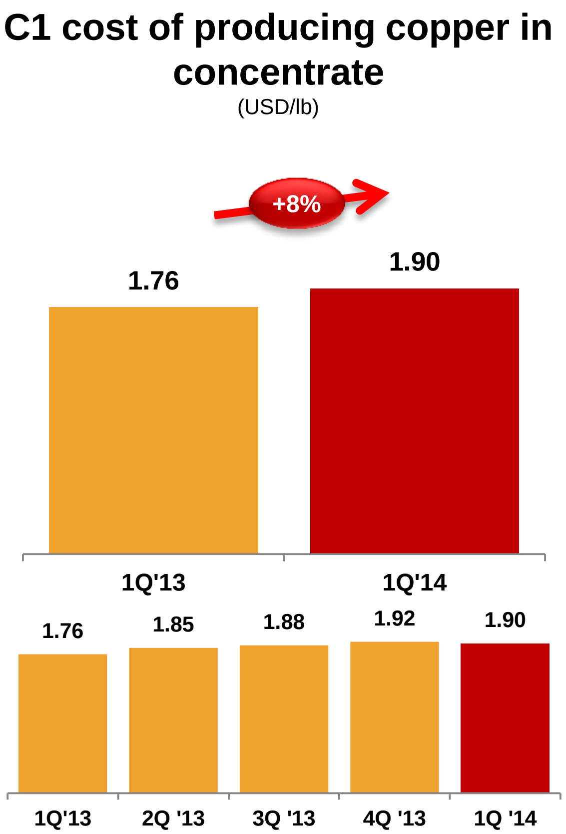


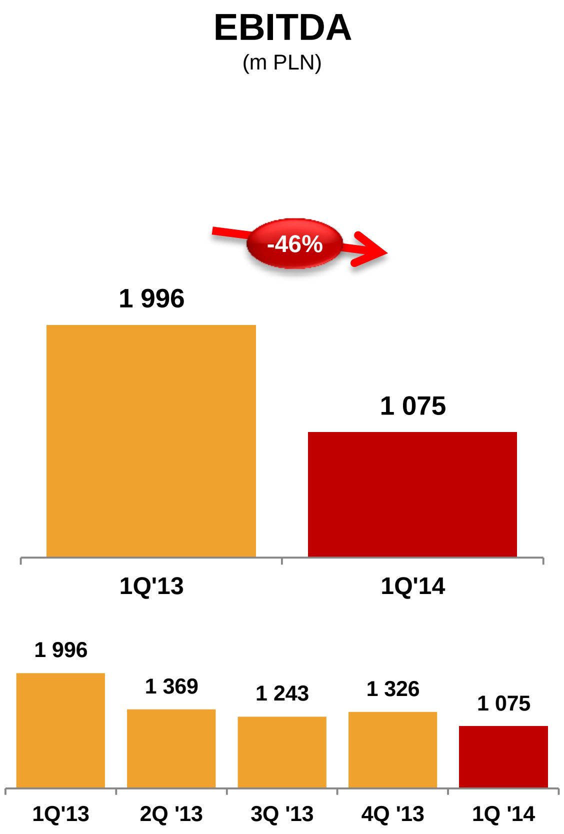
- **The decrease in the copper price** was due to fears about economic growth in China, and therefore to the level of demand for base metals and the reduction of positions in financial transactions secured by metals, as well as to expectations of a potential supply surplus for the metal in the years 2014-2016.
- After least year's price falls, mainly caused by the start of restriction of the quantitative easing policy and expectations of tighter monetary policy in the USA in 2015, **the price of silver has stabilised.** Events related to the political crisis in Ukraine are resulting in a short term increase in uncertainty on the markets, and potentially may generate increased interest in the precious metals segment.
- The probable prolongation of the period of stable interest rates in Poland, positive macroeconomic data, including stronger growth in GDP in a situation of low inflation, has led to **the continued strength of the Polish zloty versus the USD** despite ongoing geopolitical uncertainty.

Economic results
KGHM Group

The decrease in metals prices was the cause of weaker Group results







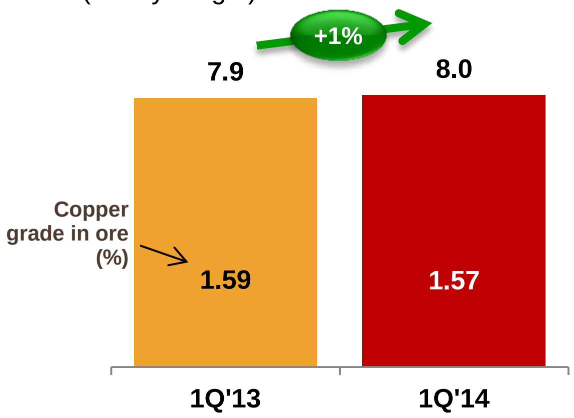
- The main cause of the deterioration of the Group's results was the decrease in metals prices, which impacted both the level of production of copper equivalent and unit costs as well as the financial results
- In the macroeconomic conditions of Q1 2013, EBITDA in the first quarter of 2014 would have decreased by 19%, copper equivalent by 6%, with a lower C1 cost (-3%)

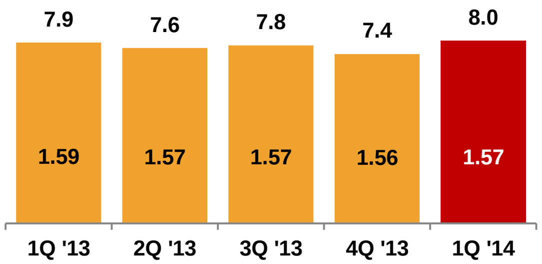
Economic results
KGHM Polska Miedź S.A.

Stable production despite a lower copper grade in ore

- Despite the deterioration in ore quality, thanks to an increase in output by 1%, the amount of copper in extracted ore is at a similar level
- The decrease in copper grade in ore was due to mining in regions of lower copper mineralisation – the current level conforms to Budget assumptions

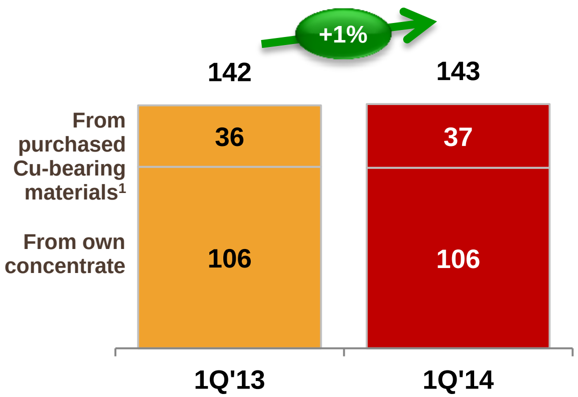
Ore extraction
(mt dry weight)

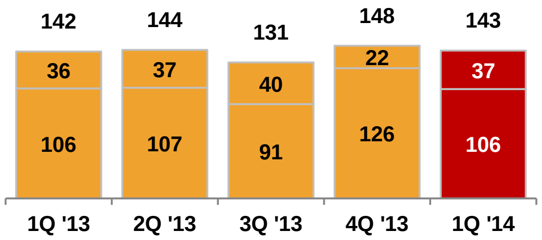




- The high level of smelter production, at a similar level to the prior year, was achieved alongside higher copper recovery
- Production from own concentrate is at the same level as in the comparable prior year period

Electrolytic copper production
(kt)



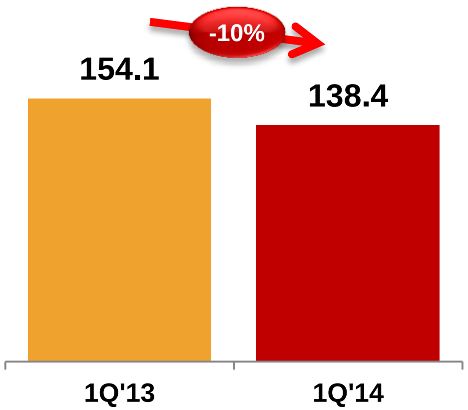


1) incl. production from processed material

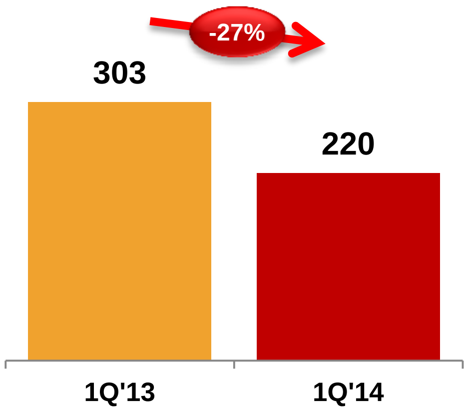
Lower prices responsible for lower revenues vs the first quarter of 2013

Sales

Copper and copper products
(kt)

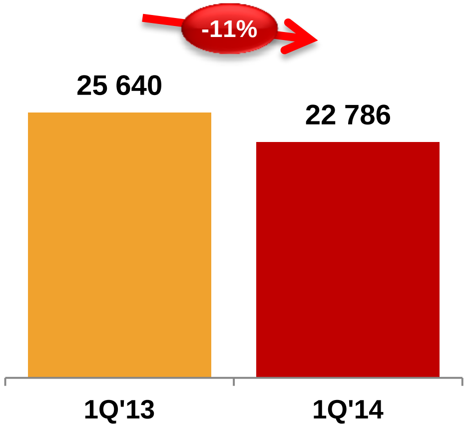


Silver
(t)

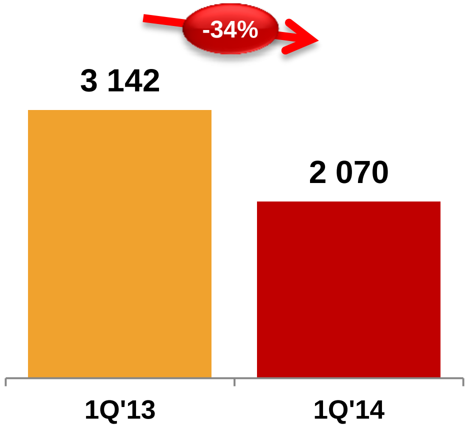


Realised prices

Copper and copper products
(PLN/t)

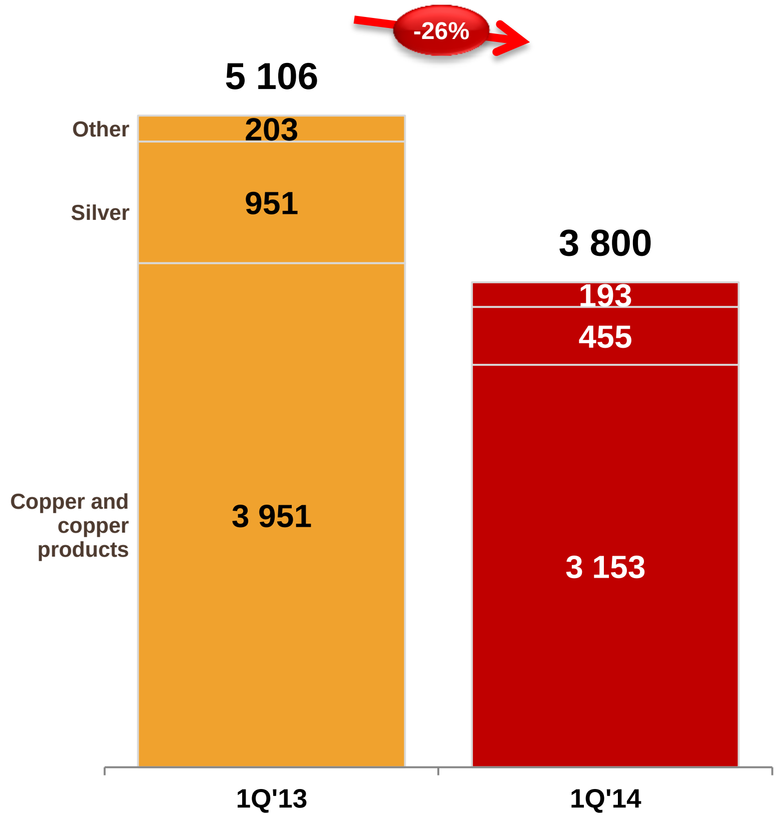


Silver
(PLN/kg)



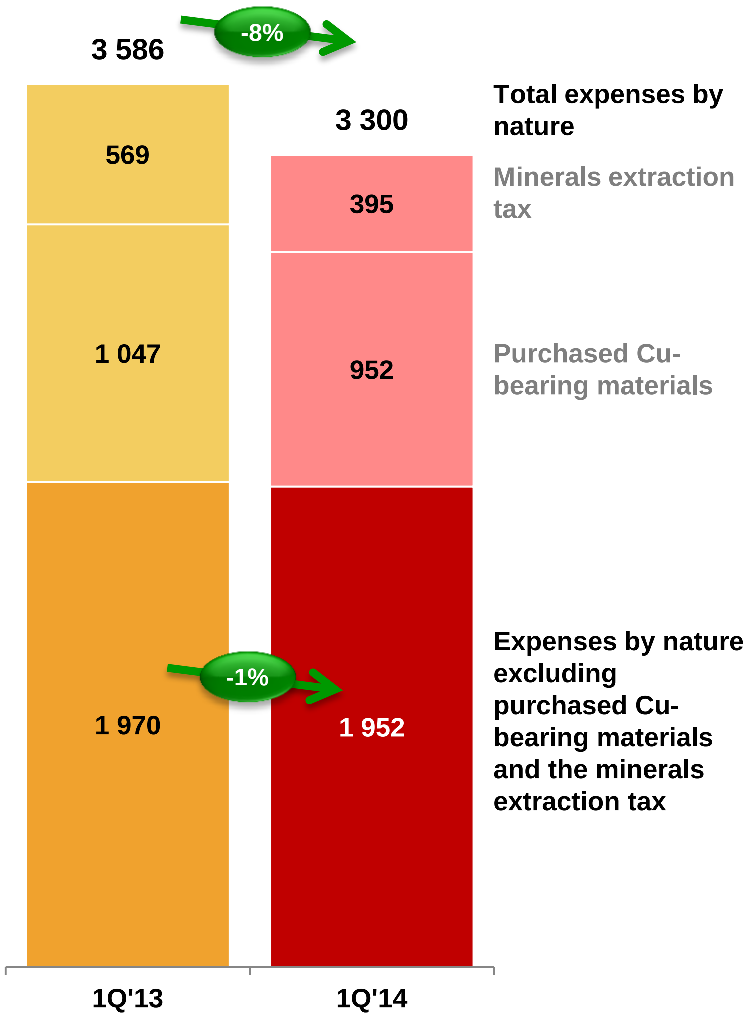
- The simultaneous decrease in realised copper and silver prices and the decrease in volumes sold led to lower sales revenues by 26% vs the first quarter of 2013
- The decrease in volumes sold was due to the need to rebuild inventories in the first quarter of 2014 (4 kt Cu and 57 t Ag) alongside sales from inventories of finished products in the first quarter of 2013 (10 kt Cu and 23 t Ag).

Sales
(mln PLN)



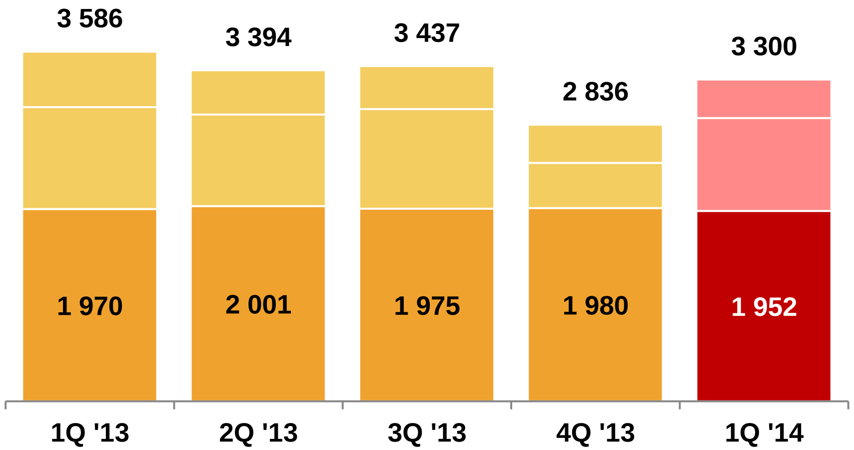
Cost discipline maintained

Expenses by nature
(m PLN)



- After excluding the minerals extraction tax and purchased Cu-bearing materials, expenses by nature were lower by 1% than in the first quarter of 2013 (by PLN 18 million)
- The following factors impacted costs versus the first quarter of 2013:
  - the lower cost of heat energy and the decrease in the price and level of consumption of electricity
  - a planned restriction in the scope of mine development work

  alongside an increase in:
  - labour costs (higher provisions for future employee benefits)
  - taxation, the mining fee and the mining usufruct fee

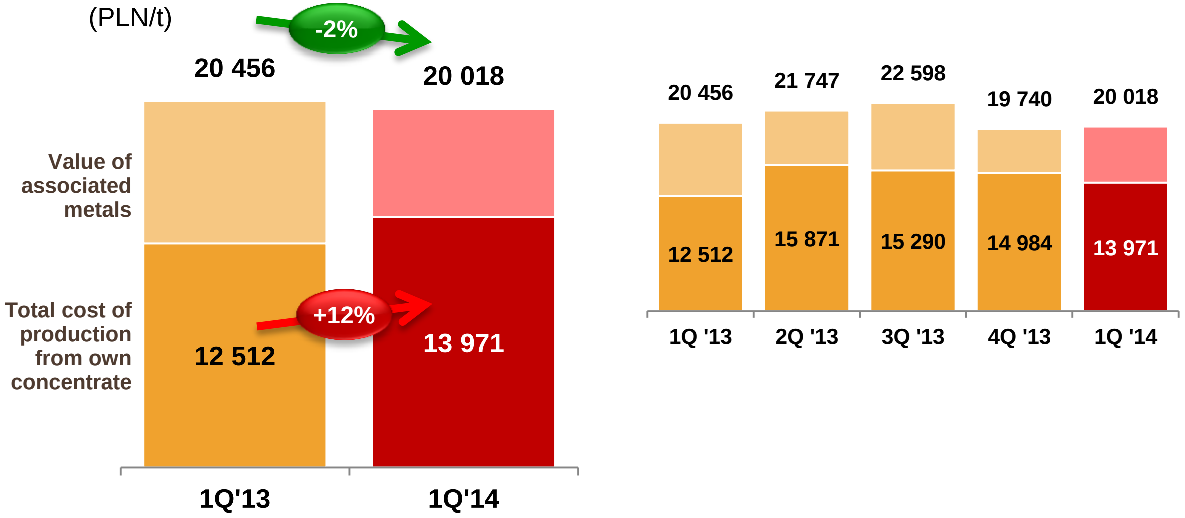


The pre-precious metals credit unit cost[1] of production from own concentrate was 2% lower than in the prior year

- The pre-precious metals credit unit cost of production from own concentrate was lower by 2% vs the first quarter of 2013 at a similar level of production
- The decrease in silver and gold prices versus the prior year led to a lower valuation of associated metals, which in turn led to an increase in the total unit cost of copper production from own concentrate and in the C1 cost respectively by 12% and 3%

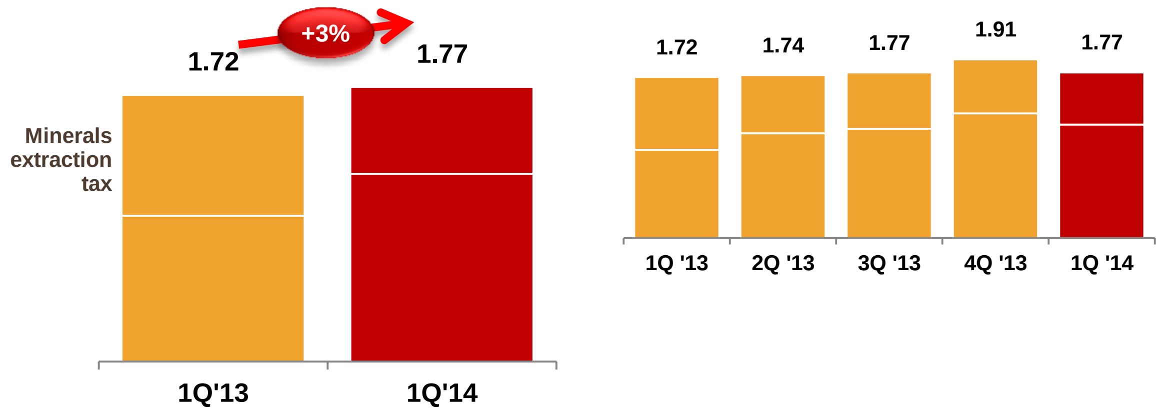
Pre-precious metals credit unit cost of electrolytic copper production from own concentrate

(PLN/t)



C1 cash cost of producing copper in concentrate

(USD/lb)



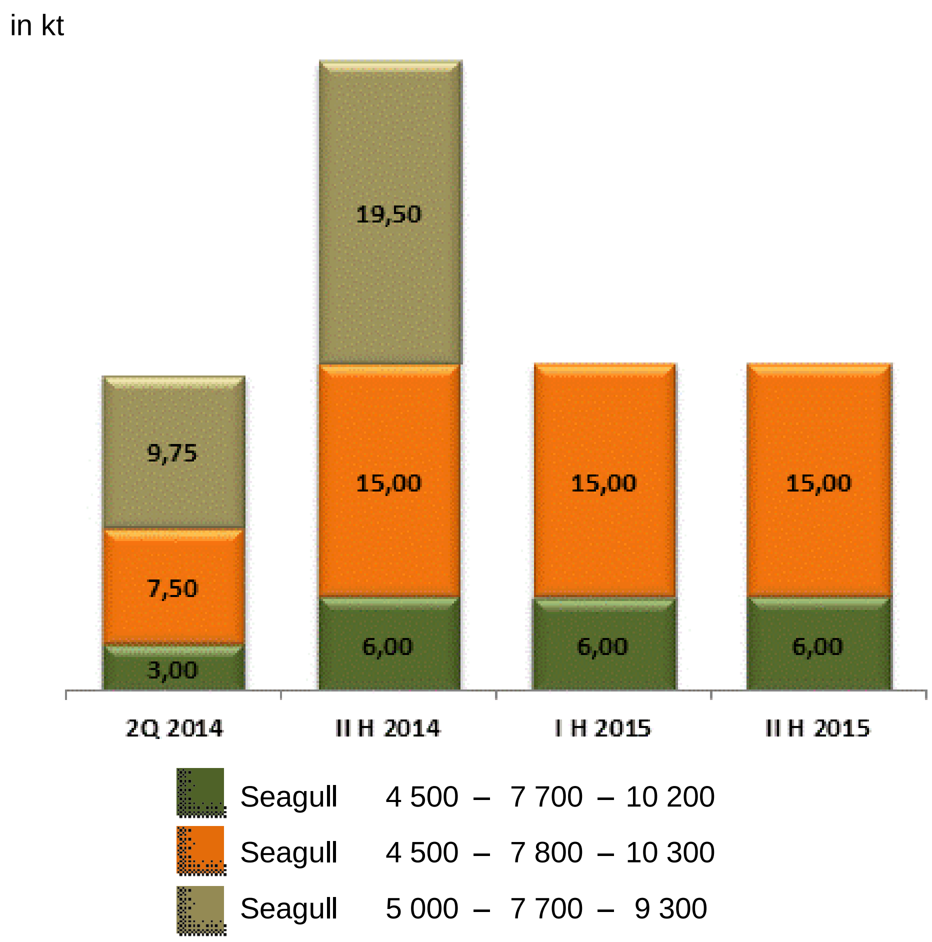
1) Pre-precious metals credit unit cost - Total unit cost prior to decrease by the value of associated metals

The fair value of derivatives as at 31 March 2014 amounted to PLN 483 million

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

Position in derivatives on the commodities market

Cu



Comments

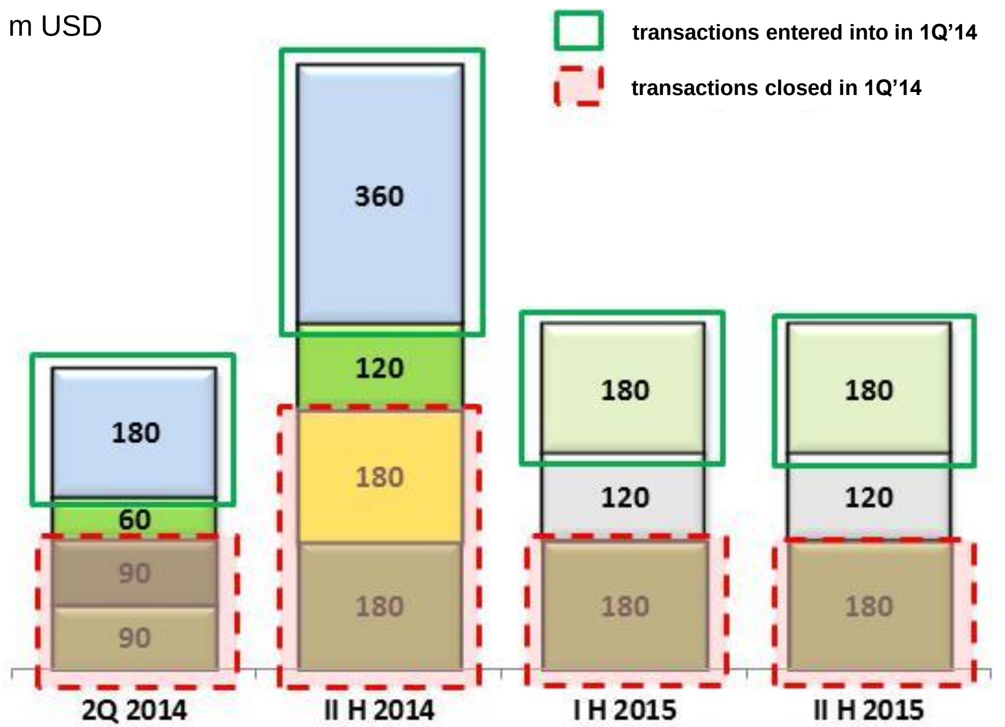
- In the first quarter of 2014 volatility increased on the copper market, with the copper price in a range of 6 400-7 450 USD/t.
- In the first quarter of 2014 there were no new transactions hedging the price of copper and silver. On the currency market, the Company took advantage of good conditions to restructure (i.e. close) existing hedged positions and to rebuild a lower-level position (described on the next slide).
- In the first quarter of 2014 the Company recorded a positive result on derivatives of PLN 54 million, of which +PLN 124.3 million increased revenues from sales and -PLN 70 million decreased the result on other operating activities.
- The fair value of derivatives as at 31 March 2014 amounted to PLN 483 million.

Restructurisation of a hedging position on the currency market

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

Position in derivatives on the currency market

USDPLN



Seagull	2.70 – 3.50 – 4.50		Collar	3.40 – 4.50
Collar	3.30 – 4.00		Collar	3.50 – 4.50
Collar	3.20 – 4.00		Put option	2.70
Put option	2.85			

2014

The closure of the position and un-designation of the hedging transaction was reflected in the *Revaluation reserve from the measurement of financial instruments* in the amount of:

- PLN 72 million, which will increase *Revenues from sales* for the period from April to June 2014
- PLN 132 million, which will increase *Revenues from sales* for the period from July to December 2014

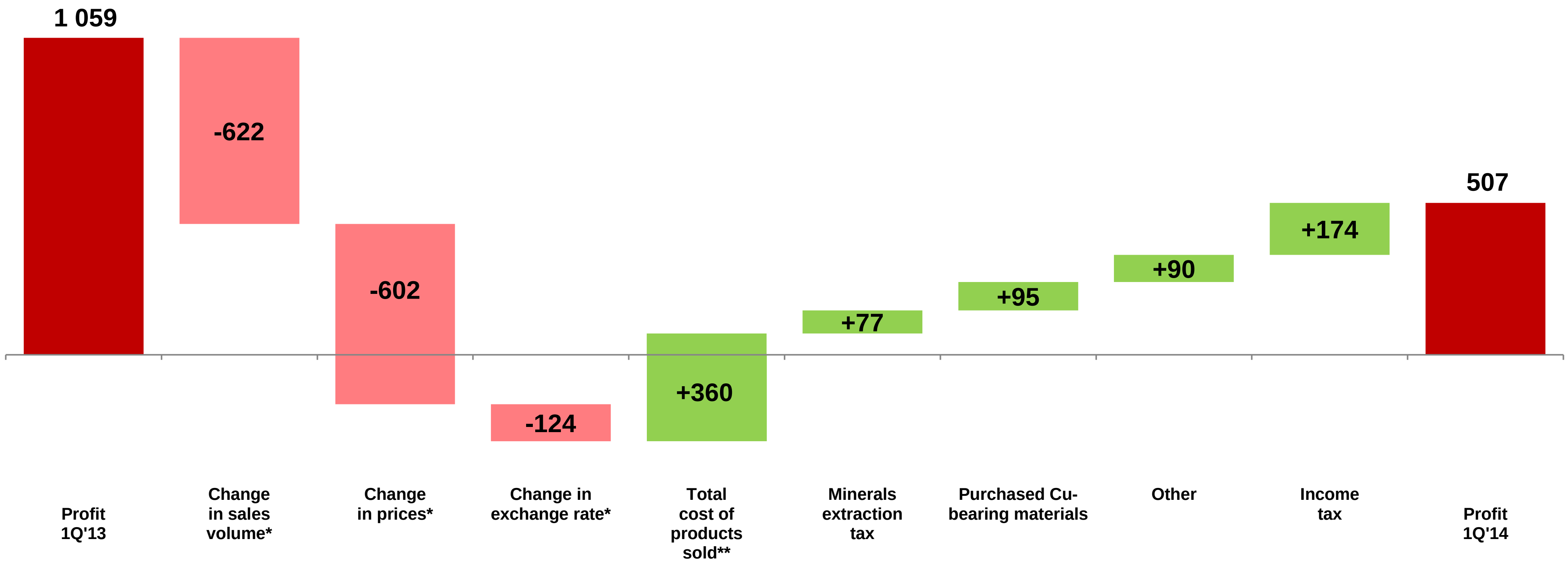
2015

The closure of the purchased put option at USDPLN 3.40 and un-designation of the hedging transaction was reflected in the *Revaluation reserve from the measurement of financial instruments* in the amount of:

- PLN 51 million, which will increase *Revenues from sales* for the period from January to June 2015
- PLN 43 million, which will increase *Revenues from sales* for the period from July to December 2015

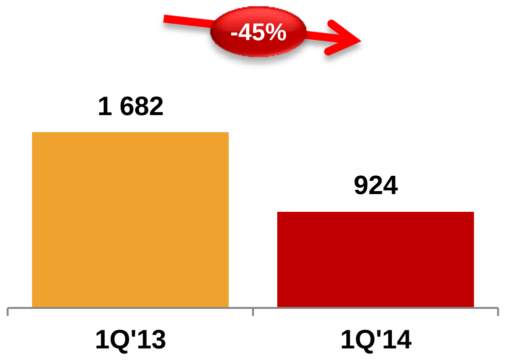
Impact of deteriorated macroeconomic conditions on profit

Change in profit
(m PLN)



- The deterioration of profit versus the first quarter of the prior year was mainly due to:
  - a lower sales volume
  - lower metals prices
  - a lower exchange rate
- The decrease in profit was partially offset by decreases in the following:
  - costs of purchased Cu-bearing materials consumed
  - the value of the minerals extraction tax
  - other costs, mainly due to higher production of semi- and finished products for inventory purposes
  - income tax

EBITDA
(m PLN)



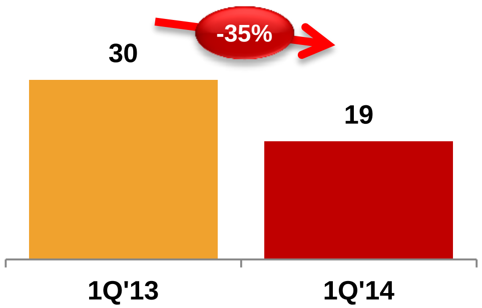
* Impact on sales of copper, silver and gold

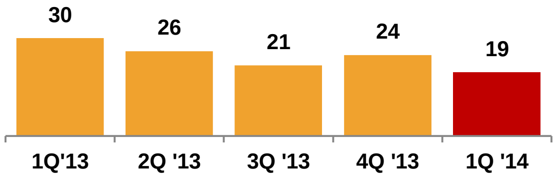
** Excluding minerals extraction tax and consumed Cu-bearing materials

Economic results
KGHM INTERNATIONAL

Production

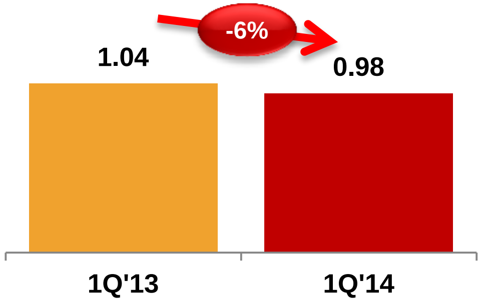
Copper production
(kt)

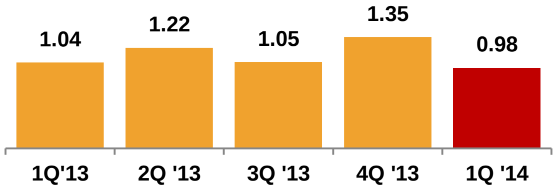




- The decrease in total copper production in the first quarter of 2014 was mainly due to lower production in the Robinson mine (-9 kt), due to processing of ore from the Kimbley pit, with parameters significantly lower than in the first quarter of 2013. As a result there was a significant deterioration in recovery and in metal content in concentrate.

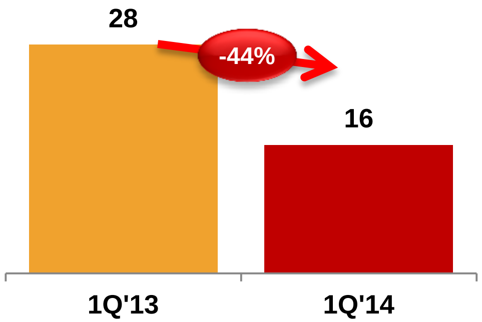
Nickel
(kt)

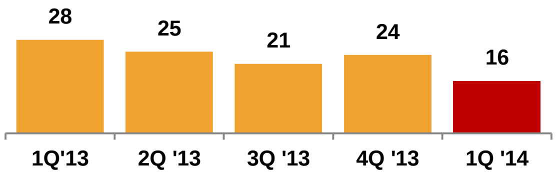




- Nickel production decreased slightly due to the closure of the Podolsky mine in the first quarter of 2013.

Precious metals (gold, platinum, palladium)
(ktroz)

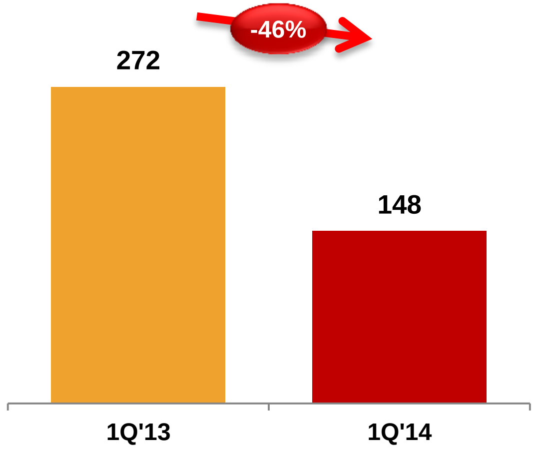


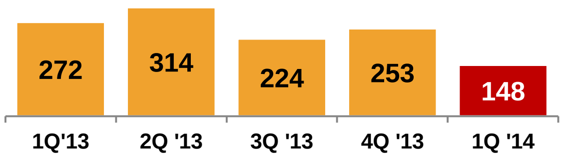


- The decrease in precious metals production was mainly due to lower production of gold by the Robinson mine (-9.5 k oz) – lower ore grade and lower recovery.

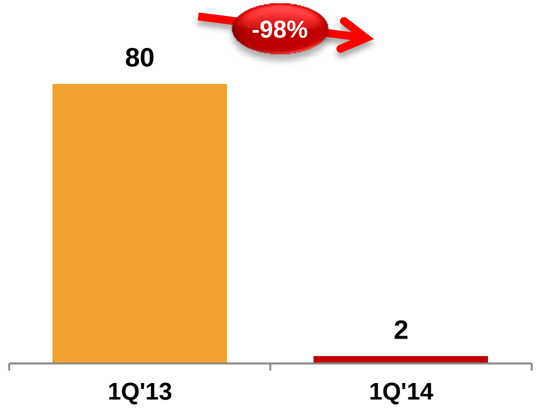
The deterioration in the macroeconomic situation and the decrease in the volume of sales impacted the financial results

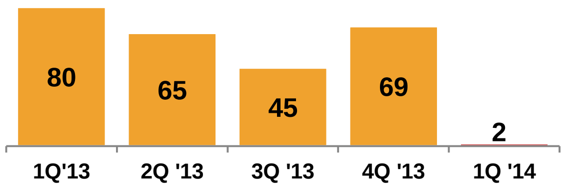
Sales[1]
(m USD)





EBITDA (adjusted)
(m USD)





The main causes of the decrease in EBITDA were:

- the decline in effective metals prices, impact on sales (-USD 35 million),
- the decrease in sales volumes, impact on sales (-USD 52 million),
- other, mainly a decrease in operating costs due to lower production (+USD 9 million)

The deterioration in the financial situation formed the basis for implementing a savings program at the Robinson mine as well as across the company, comprising:

- operating and general administrative costs,
- sustaining capex,
- project capital and exploration

alongside a planned, favourable for the Company, weakening of the Canadian dollar

- The company anticipates significant improvement in results in Q2 2014.
- **Implementation of the spending restriction program assumes that at current copper prices the company will not require extra funding for its operations**

1) Sales revenues are presented net of treatment and refining charges

Robinson Q1 2014 results

Robinson Cu Au Mo

Q1 2014 results were impacted by the following:

- Permitting Delays
- Lower copper prices
- Geotechnical issues
- Lower copper recovery

- Robinson open-pit mine – Kimbley Pit Nevada, USA

- Copper production in Q1 2014 faced challenges due to lower tonnage excavated, grades and metal recovery from the new Kimbley pit as a result of permitting delays and geotechnical issues
- Ore processed in Q1 2014 originated from the upper Kimbley pit yielding lower grades, higher oxidation and clay content, negatively impacting mill performance compared to higher quality ore generated from the Ruth pit in Q1 2013
- Total tonnes mined in Q1 2014 increased by 23% compared to Q1 2013 , mainly due to development activities aimed at accessing better quality ore, which in subsequent months of 2014 will be available for blending with lower quality ore

Plan for the Robinson mine in 2014

Current plan (for remainder of 2014)

- **Blending Strategy:** In Q2 2014, the Robinson mine will build an access road into Ruth 3rd West to access 1.4 M tons of higher grade ores
- **Cost Reductions Initiatives**
- **Geotechnical issues:** In Q3 2014, the mine will de-water the Kimbley pit and install a horizontal drainage system to reduce water pressure in the northern walls
- **Permitting:** The Company plans to work with the State of Nevada to accelerate the approval of the Waste Rock Management plan and other permits by the end of June

Expected results

- The ore can be blended or sent directly as mill feed to improve recoveries and production
- Reduction of both OPEX and CAPEX
- Improvement of slope stability and mitigation of the risks associated with mining Ruth pit ores in 2015 – 2016
- Efforts will be taken to reduce haulage distances so that stripping of Ruth North can be accelerated and costs can be reduced in the first half of 2015

- For the remainder of Q2 2014, the Robinson mine will finalize its long-term mine plan for the Ruth pit and position the mine for **better ore quality and greater flexibility for mining in 2015, 2016 and beyond.**
- Investment in capital stripping of the Ruth pit will have a **significant positive impact on future production and costs** as soon as the Ruth pit ore is accessed.

Proposed profit distribution

Proposed profit distribution

Taking into account:

- the situation on the metals market and the volatility of prices
- the high sensitivity of the Company's results to macroeconomic conditions
- a safe level of debt
- the nature of the investment program (the long term investment process)
- critical expenditures in the Group to realise the development program

The Management Board proposes the payment of a dividend in the amount of PLN 1 000 million (PLN 5.00 per share), representing 33% of the profit for 2013

The remainder of the profit, i.e. PLN 2 058 million, will be appropriated to Company reserve capital

The Management Board proposes payment of the dividend in two equal instalments: 18 August and 18 November 2014

Profit for 2013
PLN 3 058 280 469.87

Dividend payment
PLN 1 000 000 000.00

Appropriation to reserve capital
PLN 2 058 280 469.87

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