Layers of possibilities

KGHM

Group results for Q1 2015

11 May 2015

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Q1 2015 Highlights

Key events

Strategy announced for the years 2015-2020 with an outlook to 2040

Sierra Gorda – current daily ore processing approx. 80% of target processing capacity

Victoria – advanced work continues on the Integrated Development Study

Deep Głogów – sinking of the GG-1 has reached 489.3 m

Strategy for the years 2015 - 2020

Produce over 1 million tonnes of copper equivalent and enhance efficiencies

Resource Base Development	Assets Development	Optimizing Production
Copper replacement ratio of 3:1	On time and budget	Stable production results

Efficiency and Innovation

Production highlights

- **Copper** 164 thousand tonnes
- **Metallic silver** 298 tonnes
- **TPM** 38.2 thousand troz

KGHM Group financial results

- **Sales revenue:** PLN 4.73 billion
- **EBITDA:** PLN 1.29 billion
- **Net profit:** PLN 0.4 billion

Sierra Gorda
Daily processing reaches nearly 80% of target capacity

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

Loading of molybdenum concentrate

Key events update

- Daily ore processing is currently around 80% of target phase I capacity.
- In the first quarter work involved increasing processing capacity, along with continued ramp-up and technical handover of the molybdenum concentrate production installation.
- Production of copper concentrate in Q1 2015 amounted to 65 thousand tonnes.
- In March the vicinity of the Sierra Gorda mine and processing plant experienced weather conditions of an unusual type for this region – heavy rain and strong winds. The brief shutdown of the Sierra Gorda mine had no substantial impact on operations.
- In 2015 we will undertake work aimed at optimising basic assumptions as well as on basic engineering work on phase II of the project.
- In the second quarter of 2015 work continued on the feasibility study for the Oxides processing project.

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

Victoria and Ajax – key resource projects at the development phase

	Victoria (Ni, Cu, Pt, Pd, Au)	Ajax (Cu, Au)
Average annual production	~16 kt Ni ~15 kt Cu ~150 koz TPM	~50 kt Cu ~100 koz Au
Ownership	100% KGHM	80% KGHM 20% Abacus
Mine profile	Underground	Open-pit

Key events update

Victoria

- Work is underway to prepare for shaft sinking.
- Project resources are estimated at 13.6 Mt with an average grade of 2.6% copper, 2.7% nickel and 8.3 g/t TPM*.
- The project will have a negative cash cost of copper production, i.e. revenues from the sale of associated metals will be higher than production costs.

Ajax

- Three milestones for 2015:
  - Submitting of application for environmental permit
  - Submitting of application for mining permit
  - Completion of a *Basic Engineering Report*
- The Minister of Energy and Mines for British Columbia paid a visit to site of the future Ajax mine, ensuring his support for the project.

Companies engaged in developing the Victoria project

Drilling at the Ajax project

* TPM – Total Precious Metals: gold, platinum and palladium

Strategic projects in the core business

Deep Głogów

Cu Ag

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

Pyrometallurgy Modernisation Program
Flash furnace construction at the Głogów smelter/refinery

Expected effects		
	▪ **Higher production**	- Silver - Lead - Rhenium
	▪ **Costs**	- Lower unit copper production cost
	▪ **Environmental protection**	- Lower dust and gas emissions by 50%

Key events update

- Continued sinking of the GG-1 shaft using tubing construction. At the end of Q1 2015 the shaft had reached a depth of 489.3 m (total shaft depth – 1340m).
- In the first quarter of 2015, 5 331.4 meters of primary and development tunneling were excavated together with necessary technical infrastructure. Since the start of the project 50 370 meters of tunnels have been excavated.
- Work continues on a modern Surface-based Cooling Station using trigeneration technology. Planned commissioning date for phase I (15 MW) is June 2015 (Station target – 25 MW).

- Commissioning of the Flash Furnace installation is planned for Q3/Q4 2016
- Approved project budget of PLN 2.1 billion
- Assembly work continues on the main production line elements, including construction of the Electrical Furnace, Flash Furnace and Recovery Boilers halls.
- Work was carried out on elements of the Charge Preparation Section (conveyor galleries).
- The final stage of design work is underway.
- 90% of contracts signed for construction-assembly work.

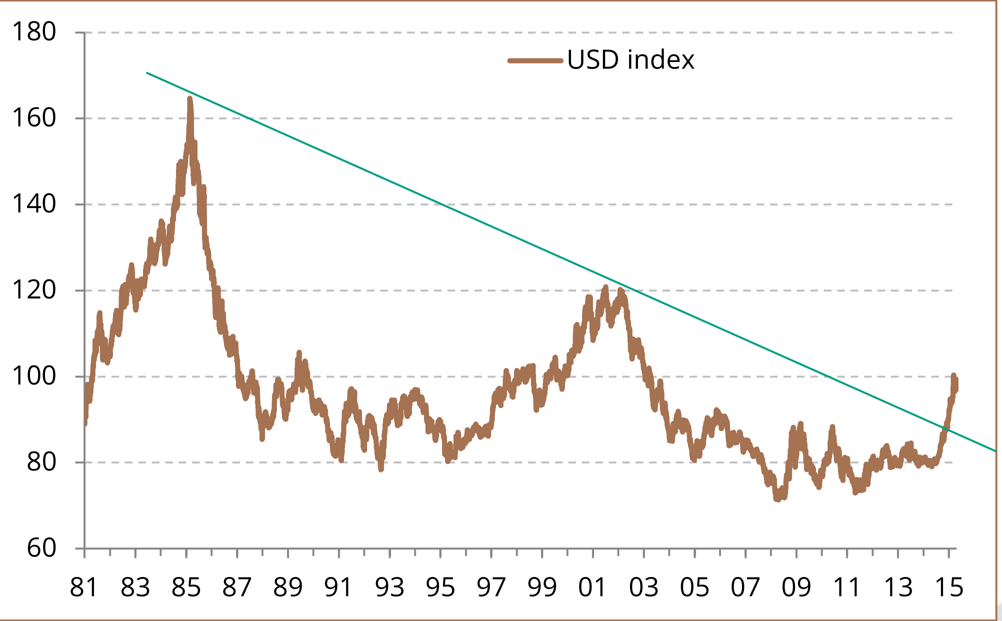
GG-1 shaft

Construction of the Furnaces Hall

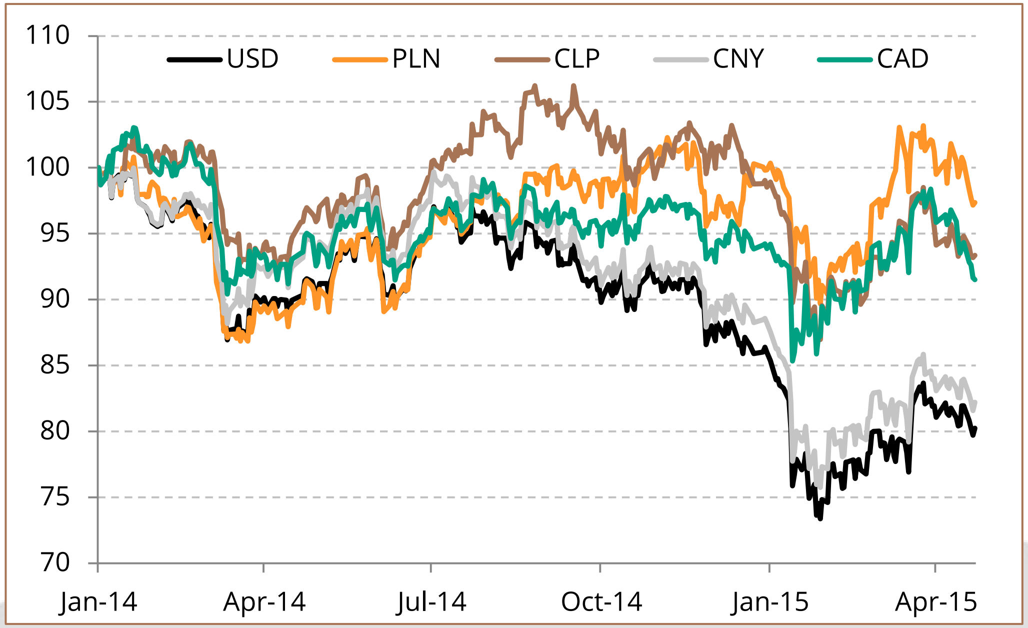
Macroeconomic outlook

The fall in the copper price not felt equally everywhere; differences in monetary policies are of key importance for growth in GDP

USD index versus a basket of foreign currencies



Indexed copper price in local currencies (2 January 2014 = 100)

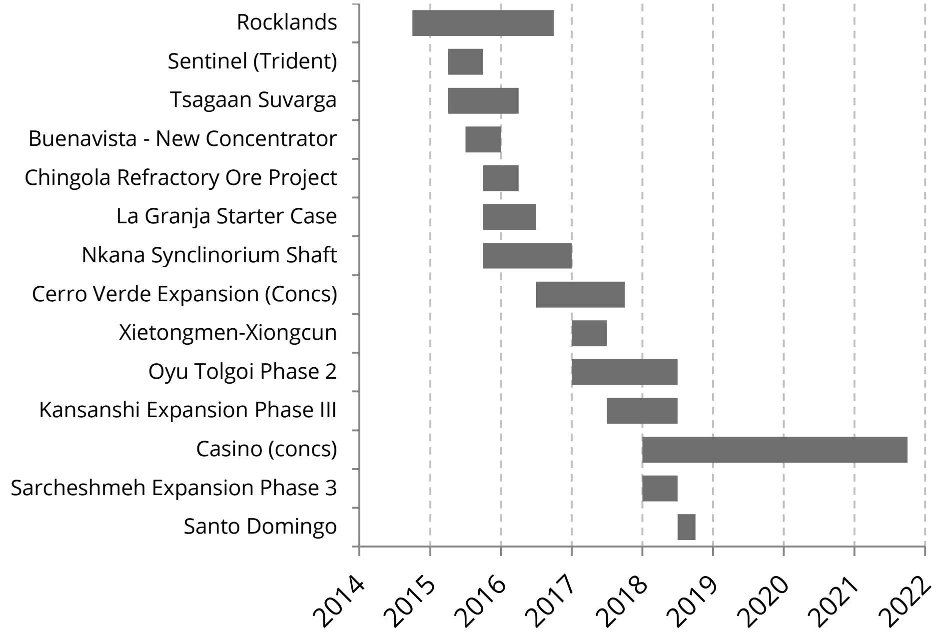


- The dynamic strengthening of the USD has had a substantial, negative impact on the prices of USD-denominated currencies. It is worth pointing out that the **copper price expressed in local currencies** (e.g. PLN and CLP) remain at a **level similar to the average prices from 2014**.
- **The main cause of the strong appreciation of the US dollar is the divergence amongst central banks in their approach to monetary policy**. At the end of 2014 the Fed ended its quantitative easing program and intends to gradually raise interest rates in the coming quarters. The ECB, following recent interest rate decreases, commenced its own policy of quantitative easing in March, while the BoJ recently increased the scale of its QE program. The actions of central banks are aimed at stimulating economic growth by keeping interest rates low and stimulating inflation.
- **Other factors** which continue to impact the financial markets are the **downturn in the oil price since mid-2014 and the slowdown in economic growth in China.**

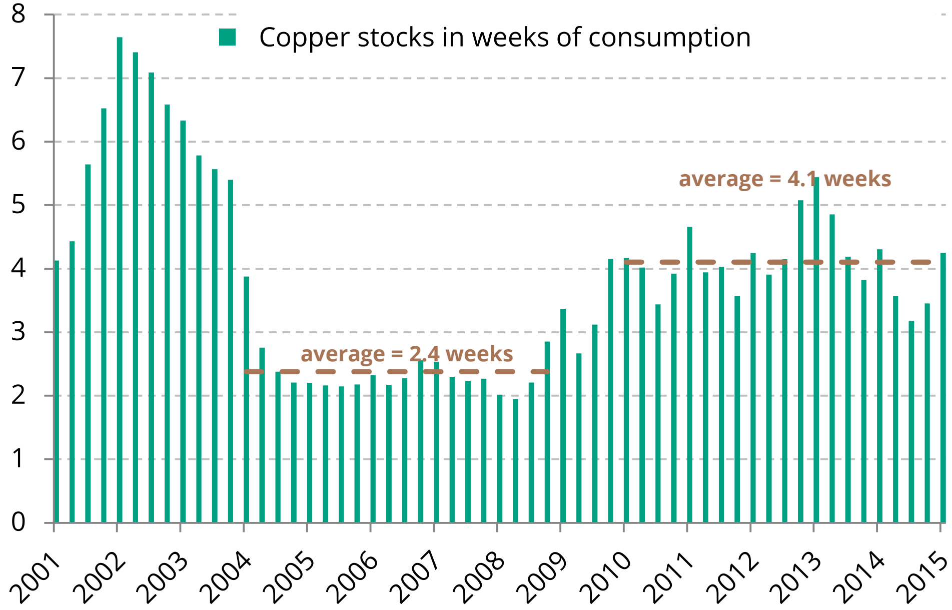
Source: KGHM, Bloomberg

Delayed mining projects

Delays in highly-probable mining projects (>50 thousand tonnes of copper)



Inventories* of refined world copper stocks in weeks of consumption



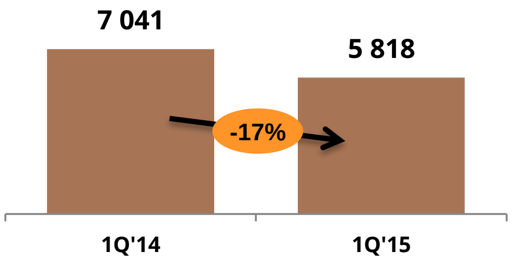
- **The copper surplus in 2014 turned out to be significantly lower** than expected by most institutions analysing this market. The fall in the USD-denominated price of copper to a large degree has led to the delay or even suspension of the most highly-probable mining projects.
- **The price of copper expressed in the Chinese renminbi remains low.** As expected by market participants, **in the first quarter of 2015 the SRB** further increased its strategic reserves of copper** by a further 85 thousand tonnes. According to unofficial information, in the case of additional weakening in the copper price the SRB may engage in further buying, even up to several hundred thousand tonnes.
- **Official warehouse inventories** (LME, SHFE and COMEX) fell throughout 2014, though **since the start of 2015 they have increased dramatically** (by approx. 294 thousand tonnes to the end of March). The relatively high level of inventories to a certain degree reflects movements from duty-free warehouses to official ones. **Total inventories expressed in weeks of consumption do not however differ from the average level of recent years**.

Source: KGHM, Bloomberg, CRU International. *inventories are comprised of warehouse, producer and consumer inventories as well as material stored in Chinese duty-free warehouses ; **SRB = State Reserve Bureau

Economic results
KGHM Polska Miedź S.A. Group

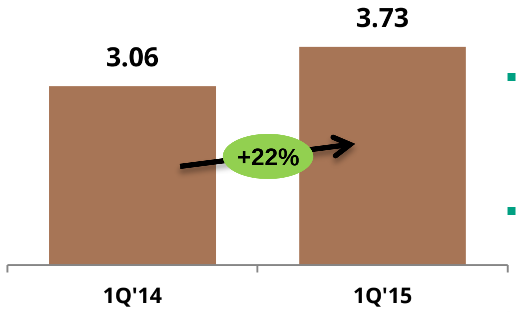
Metals prices under pressure from a strengthening USD
Local currencies partially offsetting volatility

Copper prices (USD/t)



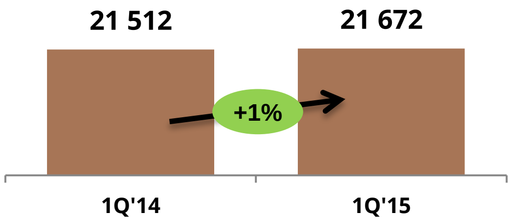
- **The systematic strengthening of the USD**, seen since the second half of 2014, **is the main factor** shaping commodities prices. The fall in the copper price was also due to fears about the stability of demand for copper given the slowdown in China, debt problems in Europe and the tense situation in Ukraine and the Middle East.

Exchange rate (USD/PLN)



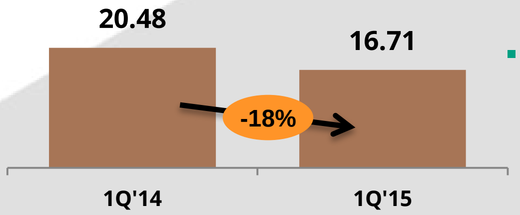
- **Apart from a stronger USD**, the weakening of the USD/PLN rate is also due to the **situation in Ukraine**.
- **The Polish economy** has been relatively **strong as compared to other European countries**, drawing more and more foreign investors.
- The positive attitude towards Poland is helping to stabilize the PLN as compared to the main currencies.

Copper prices (PLN/t)



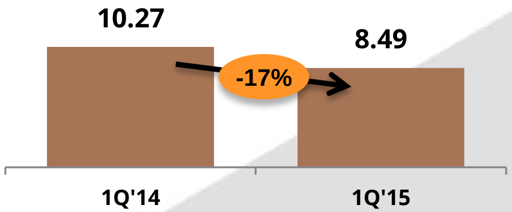
- Copper denominated in the PLN is currently near its 5-year average (a period of high margins for KGHM Polska Miedź S.A.) – **the weakening of the PLN versus the USD offsets the drop in the USD-denominated** price of the metal.

Silver prices (USD/oz t)



- **The silver price** to a large degree **is tied to changes in the gold price.** Precious metals prices also remain sensitive to the actions of central banks, and in particular to the divergent directions of the US Fed and the ECB.
- Similarly as in the case of copper, **the USD-denominated drop in the silver price** is to a large degree **offset by the weakening in the USD/PLN rate.**

Molybdenum prices (USD/lb)

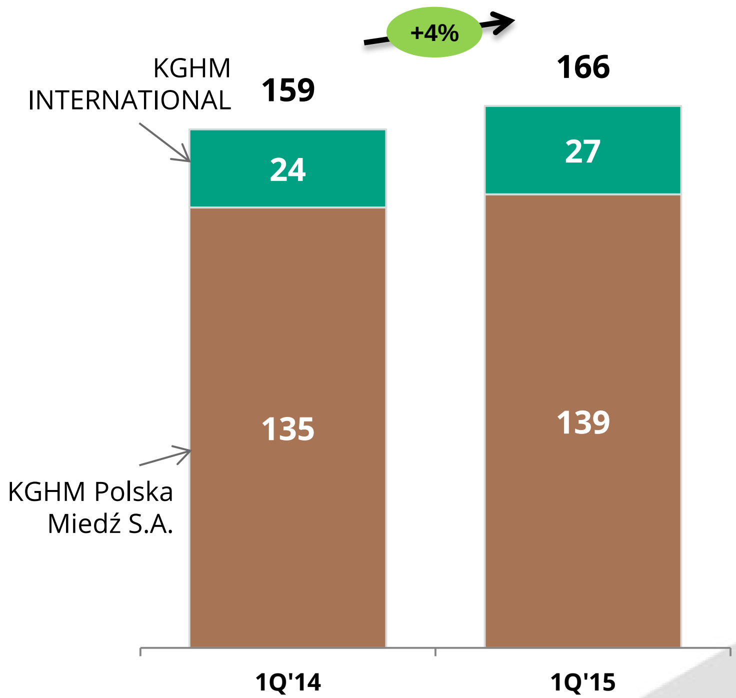


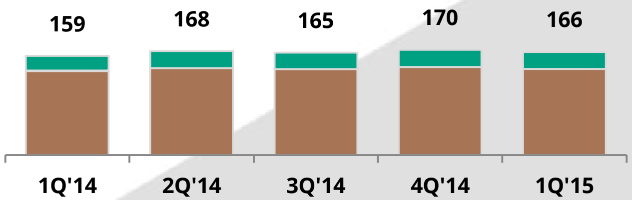
- The lower-than-expected price of molybdenum has led to the **closing of two mines in the USA, one in Canada (a total of 44 mln lbs)** and the potential shutdown of production in several others. This is resulting in lower supply to the market, which **should stabilize the situation** in the coming months.

- **Central banks will play the main role** in economic growth in the coming quarters, as they have taken on the burden of maintaining interest rates at low levels while at the same time stimulating inflation.
- A problem that the global economy will have to deal with is the **desynchronisation of monetary cycles**, as various banks find themselves in various phases of their monetary policy. Some are easing, while others are tightening their monetary policies. From the global point of view, the greatest difference can be seen in the **approach of the Fed (which announced higher interest rates) and the ECB (the start in March of quantitative easing)**.

Higher production by the Group as compared to 2014

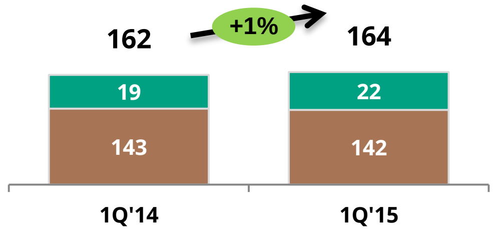
Production of copper equivalent from own concentrate* (kt)



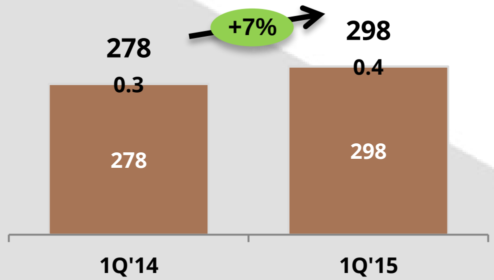


- Copper equivalent production increased as compared to 2014 in both KGHM Polska Miedź S.A. as well as KGHM International
- In KGHM Polska Miedź S.A., there was an increase in silver and gold production
- In KGHM International the increase was related to higher production by the Robinson mine in terms both of copper as well as TPMs thanks to the mining of ore with higher metals content as well as to an improvement in operating parameters

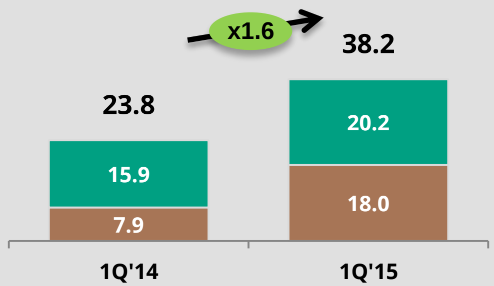
Production of payable copper* (kt)



Silver production (t)

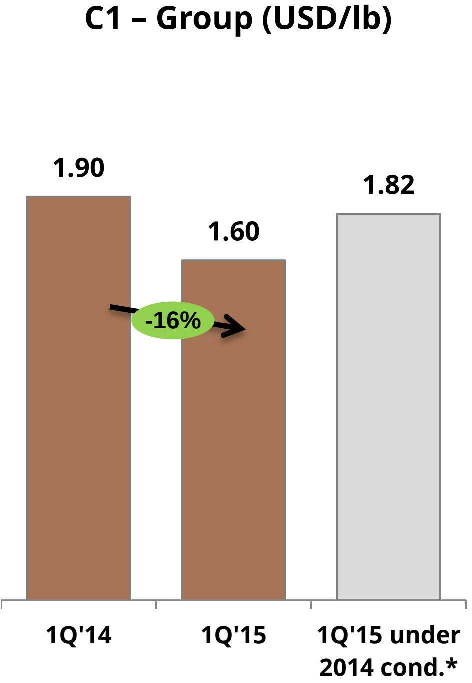


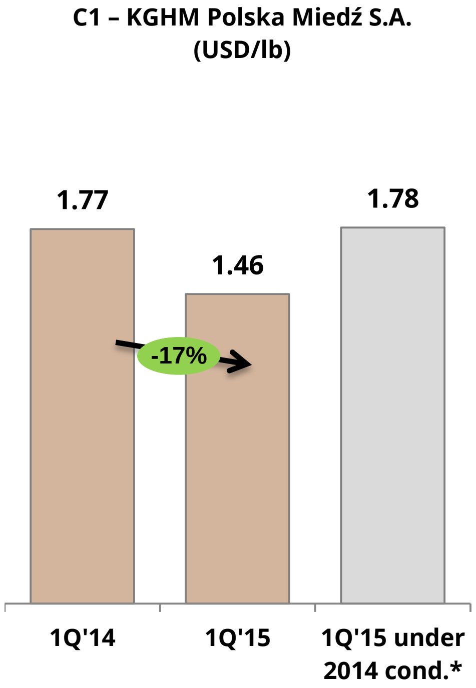
TPM production (koz troy)

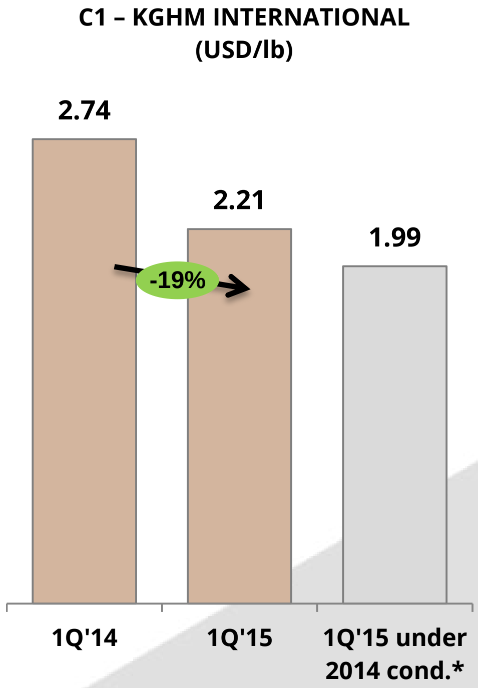


* In addition in the first quarter of 2015 Sierra Gorda produced 17 thousand tonnes of payable copper

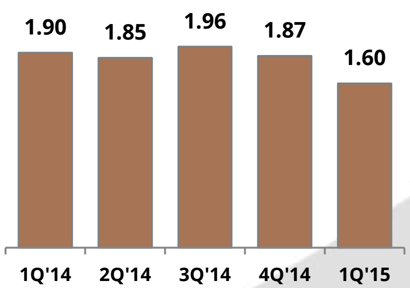
Lower C1 unit cost in the Group







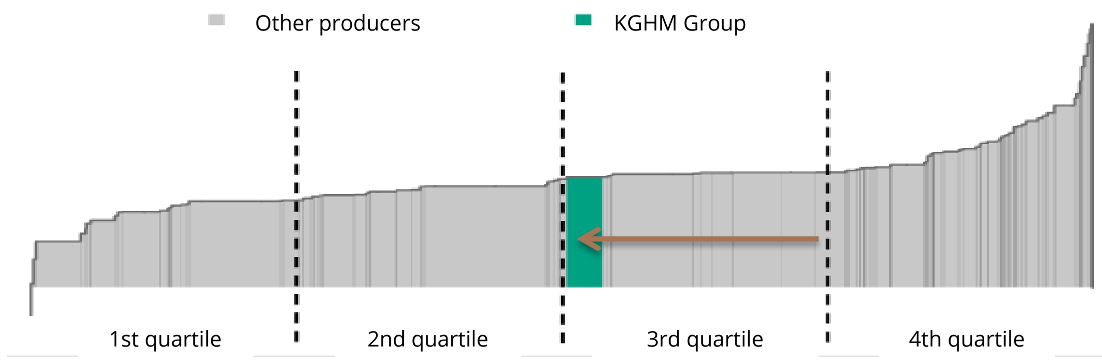
- C1 cost in the Group in the first quarter of 2015 was lower by 16% mainly as a result of external factors, but even under the metals prices and exchange rates of the first quarter of 2014, the C1 cost would be lower (by 4%)
- The drop in C1 cash cost in KGHM Polska Miedź S.A. was mainly due to the weaker PLN as compared to the USD. Under 2014 conditions, C1 cost would have been at last year's level
- The lower C1 cost in KGHM International was due to the higher production of payable copper sold by 44%, mainly in the Robinson mine, alongside a lower valuation of by-products due to the decrease in precious metals prices



- Stabilized C1 cost

* Under the macroeconomic conditions of 2014

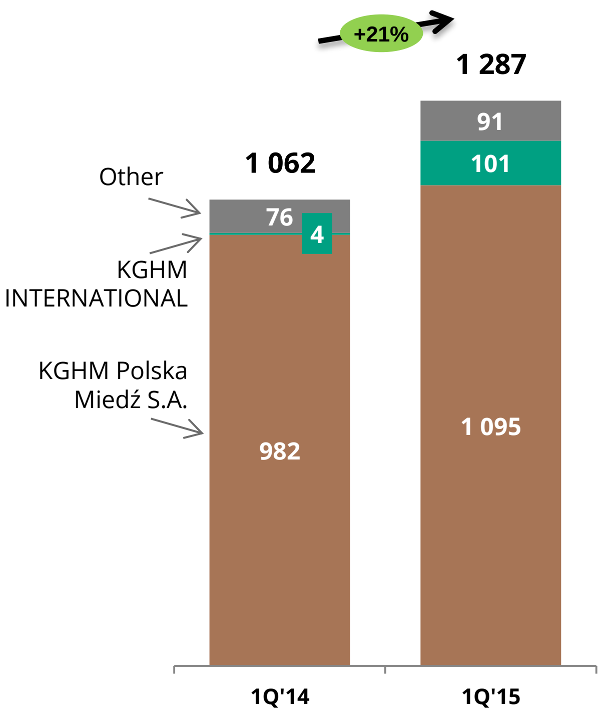
C1 cost curve (USD/lb)
Source: Wood Mackenzie



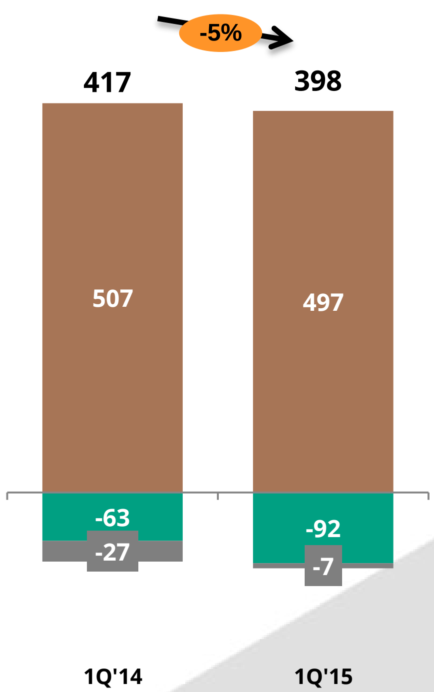
The KGHM Group moved from the fourth quartile in 2014 to the boundary of the 2nd and 3rd quartiles in the first quarter of 2015

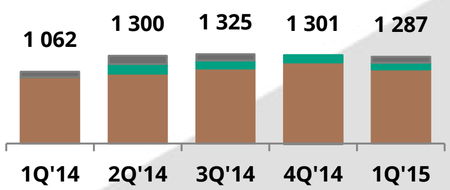
Improved operating results by the Group despite deterioration in the metals markets

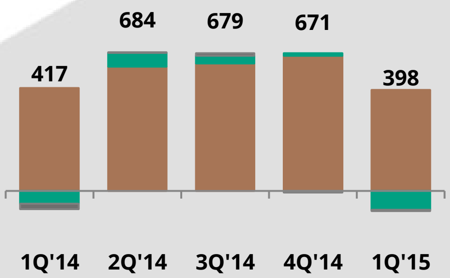
EBITDA* (mn PLN)



Profit (mn PLN)







- Both KGHM Polska Miedź S.A. and KGHM International contributed to the increase in Group EBITDA by PLN 225 million (21%)
- KGHM Polska Miedź S.A.
  - The higher operating profit by PLN 113 million is mainly due to lower costs, and therefore an increase in operating margin from 20% to 23%
  - The lower result on other operating activities, with a resulting impact on net profit, was due to the measurement of hedging instruments (details on subsequent slides)
- KGHM International
  - The higher EBITDA by PLN 97 million is due to an increase in sales revenue by PLN 153 million, mainly due to a higher volume of sales. At the same time the Robinson mine recorded an improvement in operating parameters, with a positive impact on production costs in KGHM International
  - Net profit was significantly impacted by an increase in depreciation by PLN 166 million, mainly due to higher production by the Robinson mine and to expenditures related to gaining access to new mining areas

* EBITDA = profit/(loss) on sales + depreciation/amortization

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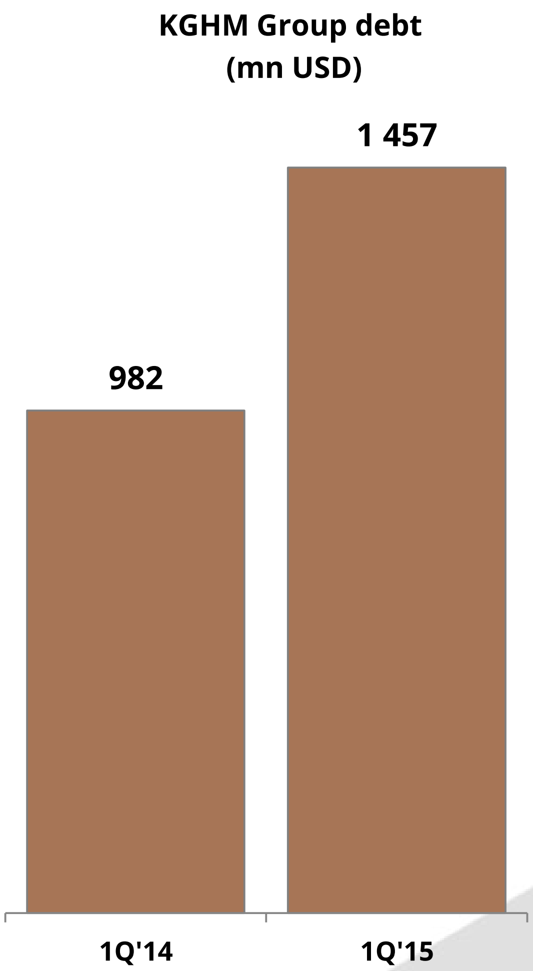
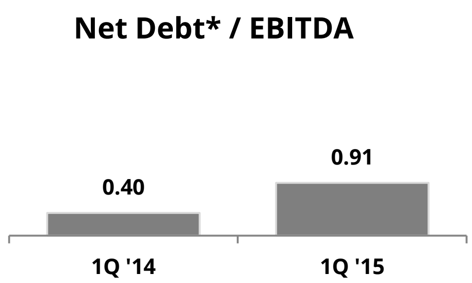
Group debt at a safe level



- Pursuant to the financial strategy adopted by the Group, the basic currency in which debt is incurred is the USD (natural hedging)
- The increase in Group debt in the period March 2014 – March 2015 was mainly due to the drawing of a USD 300 million tranche from the EBI loan
- In the first quarter of 2015, the USD 200 million credit facility in KGHM International was refinanced, thereby reducing the cost of debt servicing in the Group
- In the second quarter of 2015 we plan to refinance the USD 500 million senior notes of KGHM International

- Despite the increase in debt, borrowing by the Group remains at a safe level

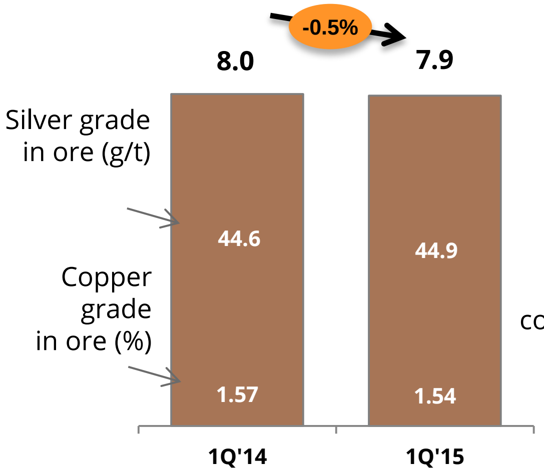


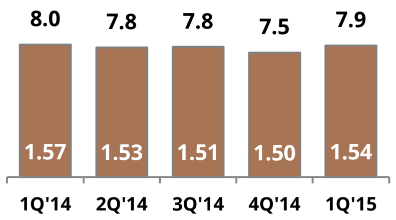
* The ratio of Net Debt/EBITDA is calculated as the relation of borrowings and finance lease liabilities minus free cash and cash equivalents to EBITDA (profit/(loss) on sales + depreciation/amortization).

Economic results
KGHM Polska Miedź S.A.

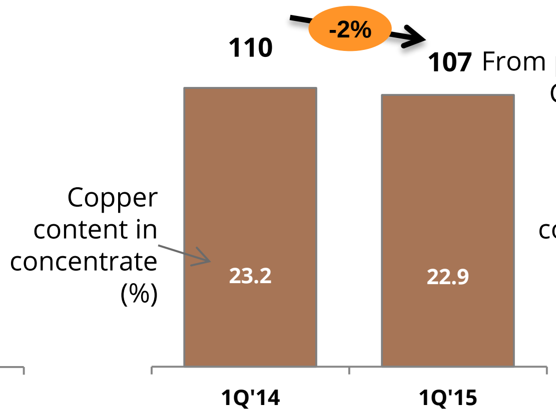
Stable level of production

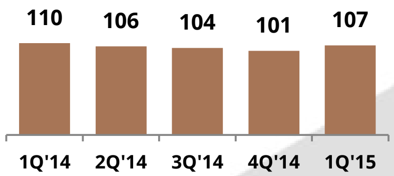
Ore extraction (mn t dry weight)



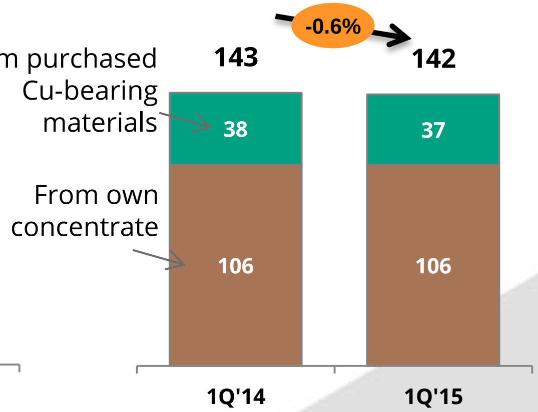


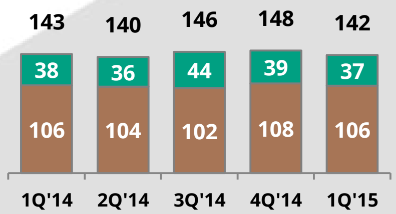
Production of Cu in concentrate (kt)



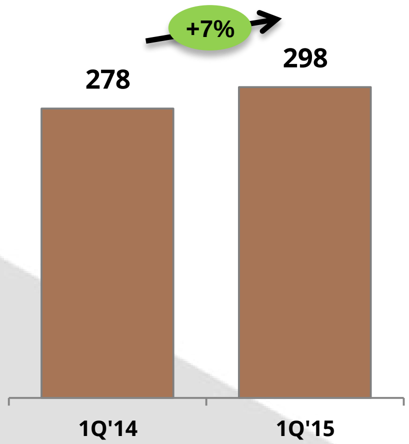


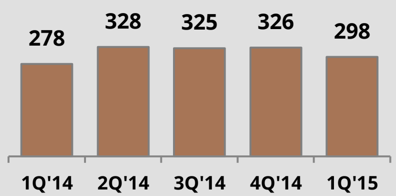
Electrolytic copper production (kt)





Metallic silver production (t)





- In Q1 2015 copper content in mined ore decreased from 1.57% to 1.54%
- In coming quarters the Company expects that copper content in mined ore will remain at a similar level

- The lower amount of Cu in concentrate is due to the lower quality feed as compared to 2014

- Electrolytic copper production is at a similar level to that of the prior year

- The increase in metallic silver production as compared to 2014 (+7%) is related to the production cycle of the Precious Metals Plant as well as to the availability of semi-products and purchased Ag-bearing materials

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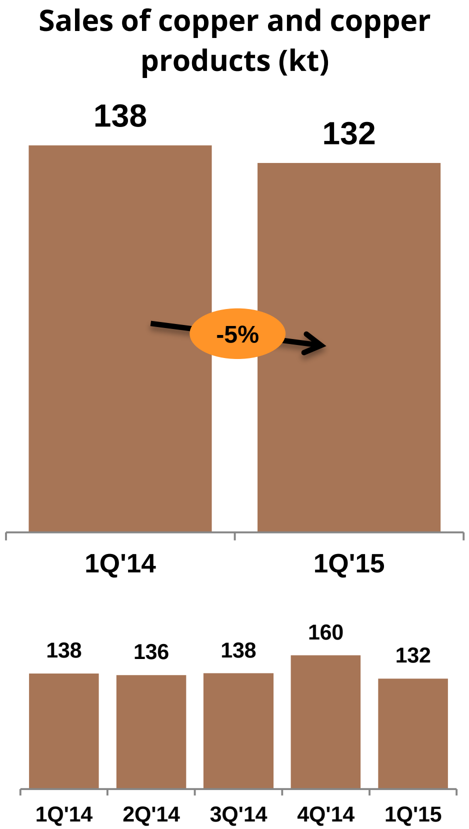
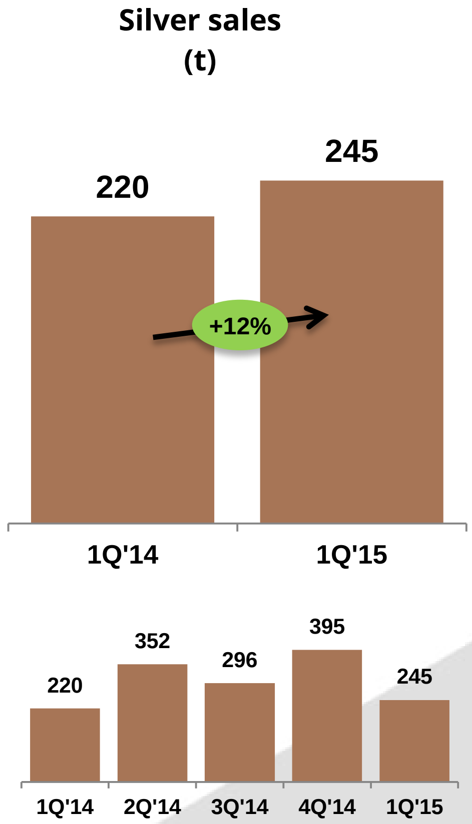
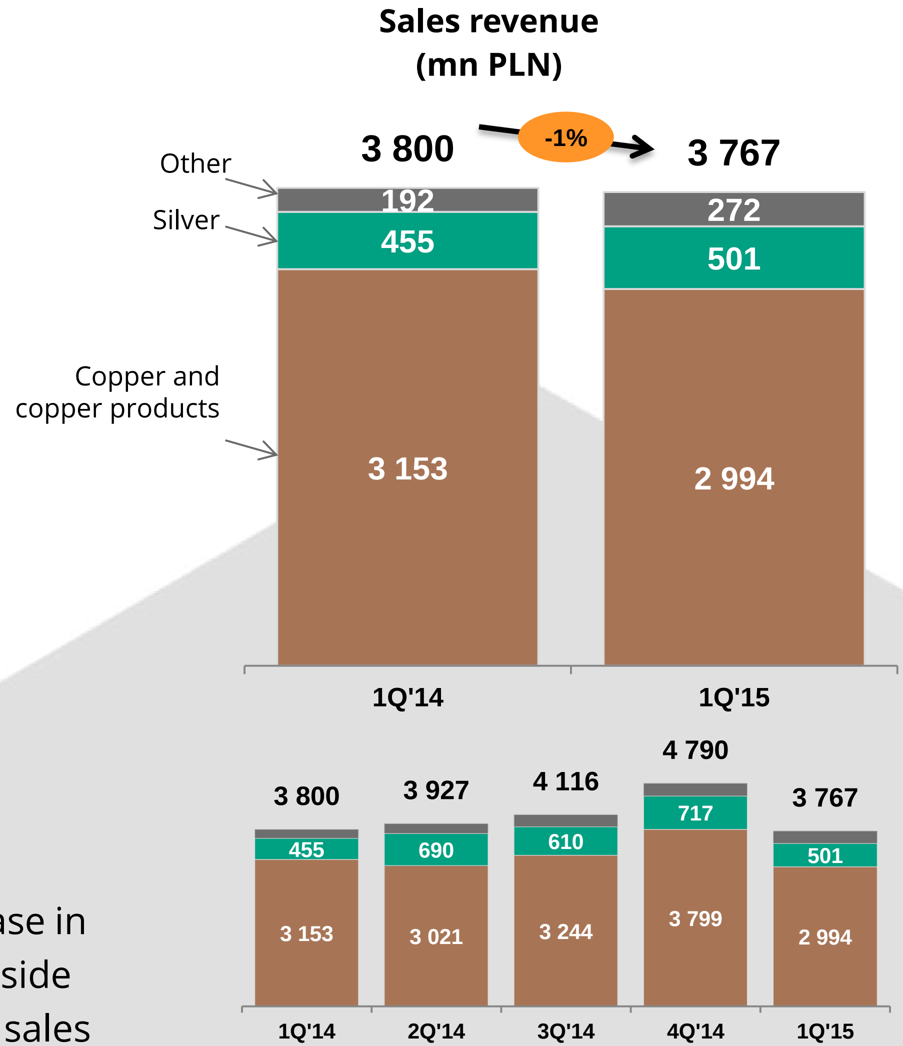
Sales revenue remains at the level of Q1 2014



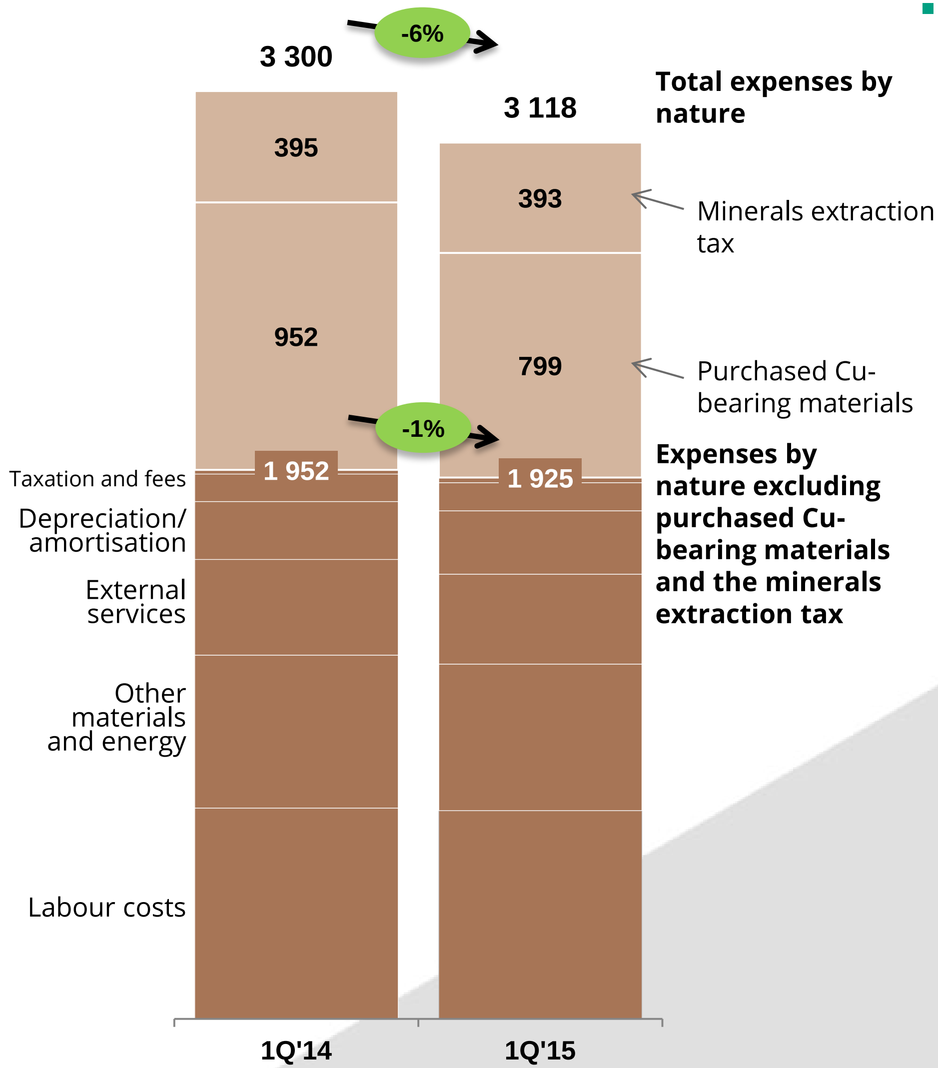




- The decrease in copper sales volume by 5% and the increase in silver and gold sales (respectively by 12% and 100%) alongside similar achieved prices (in PLN) of copper and silver led to sales revenue which was only 1% lower than in the comparable period of 2014

- Sales revenue in the first quarter of 2015 was at a similar level as in the prior year despite the decrease in copper and silver prices, mainly due to a more favourable exchange rate

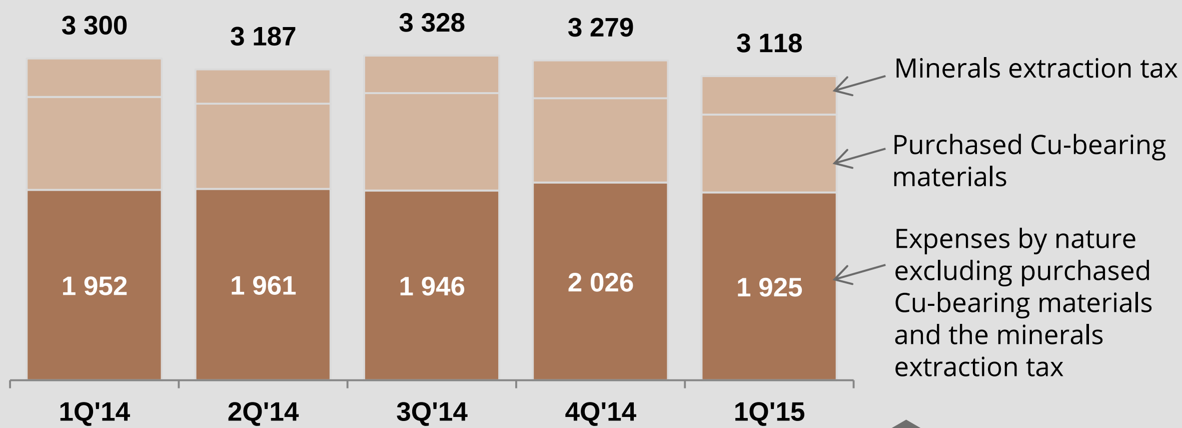
Cost discipline maintained



- After excluding the minerals extraction tax and purchased Cu-bearing materials, expenses by nature were lower by 1% (-PLN 27 million).
- Costs as compared to the first quarter of 2014 were lower due to the lower costs of:
  - purchased electricity (-PLN 22 million) due to the commencement of power generation by our own Gas-Steam Blocks
  - mine development work (-PLN 12 million) due to the lower scope of work by 15%, or by 1.4 km; mine development work is expected to increase by the end of the year – the scope of work in 2015 will be greater than in 2014
  - other services (-PLN 9 million)

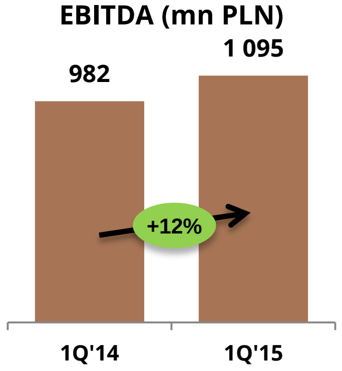
alongside an increase in :

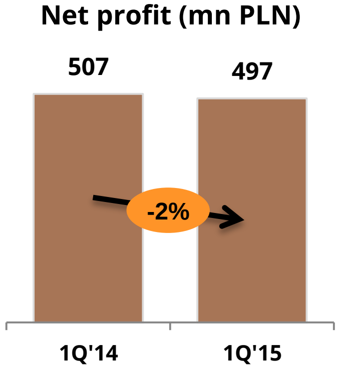
  - depreciation (+PLN 20 million), due to an increase in the value of Company assets as a result of tangible investments

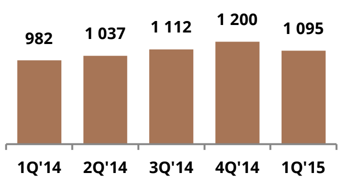


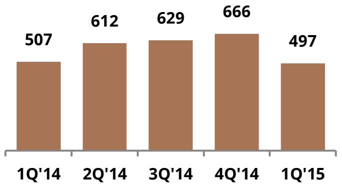
KGHM

Improved result on operating activities

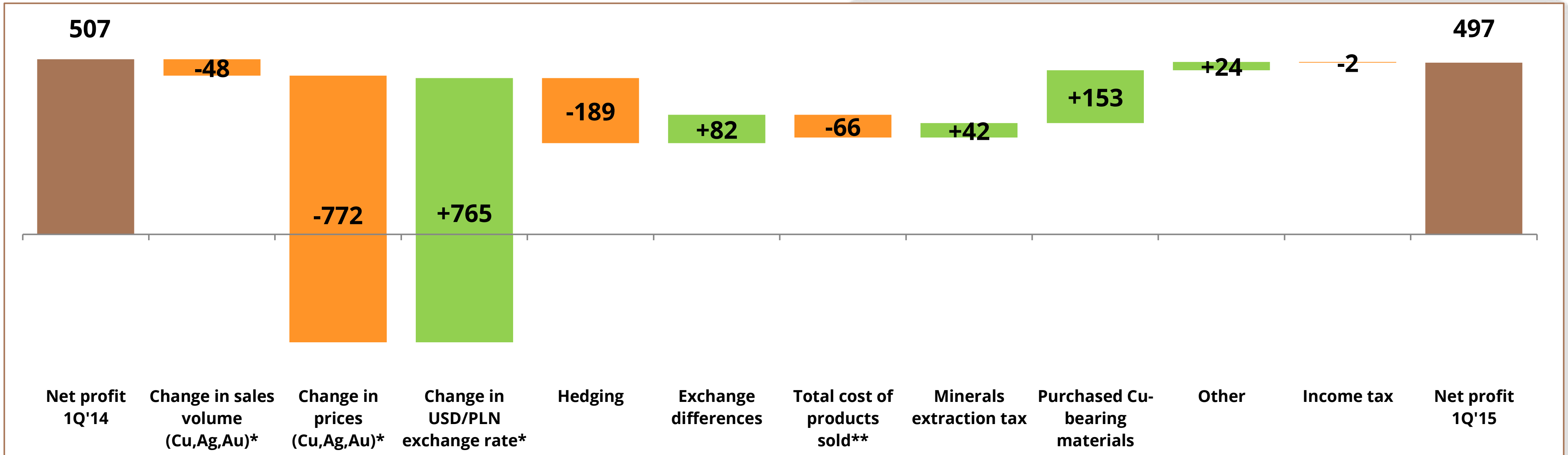








- The increase in EBITDA by PLN 113 million is mainly due to lower costs (an improved operating margin from 20% to 23%)
- Net profit is slightly lower (-2%) as compared to the prior year due to a change in the measured value of derivatives (the Company implemented a hedge of the USD/PLN rate with a nominal value of USD 2.5 billion for the following three years)
- The decrease in the total cost of products sold by PLN 129 million was mainly due to a decrease in the value of consumed purchased Cu-bearing materials



* Impact on revenue from the sale of copper, silver and gold
** Excluding the minerals extraction tax and the consumed amount of purchased copper-bearing materials

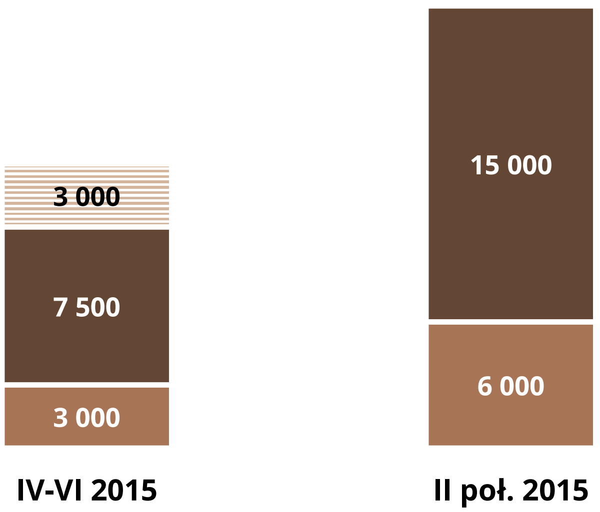
The accrued result on derivatives achieved by KGHM Polska Miedź S.A. as at 31 March 2015 amounted to -PLN 134 million

Market risk management – hedging position (as at 31 March 2015)

Position in derivatives on the commodities and currencies markets

Copper

in tonnes

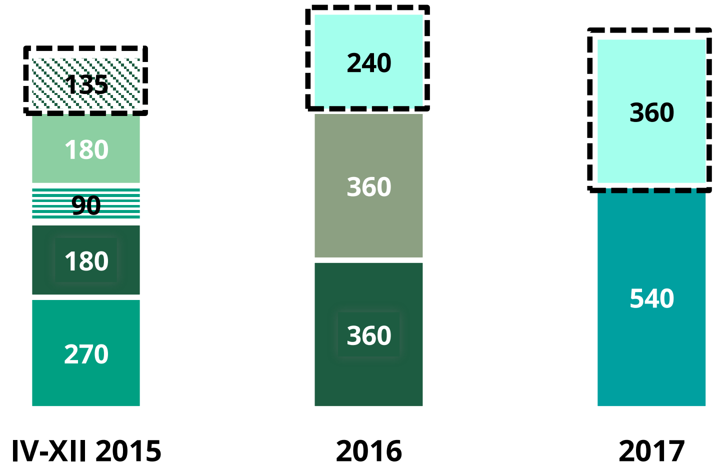


	Put	(buy put)	7 200
	Seagull	(sell put, buy put, sell call)	4 500 – 7 800 – 10 300
	Seagull	(sell put, buy put, sell call)	4 500 – 7 700 – 10 200

USD/PLN

transactions entered into in Q1 2015

in million USD



	Put	(buy put)	3.55
	Collar	(buy put, sell call)	3.55 – 4.40
	Collar	(buy put, sell call)	3.35 – 4.00
	Collar	(buy put, sell call)	3.30 – 4.20
	Collar	(buy put, sell call)	3.30 – 4.00
	Put	(buy put)	3.20
	Collar	(buy put, sell call)	3.20 – 4.00
	Collar	(buy put, sell call)	2.70 – 4.50

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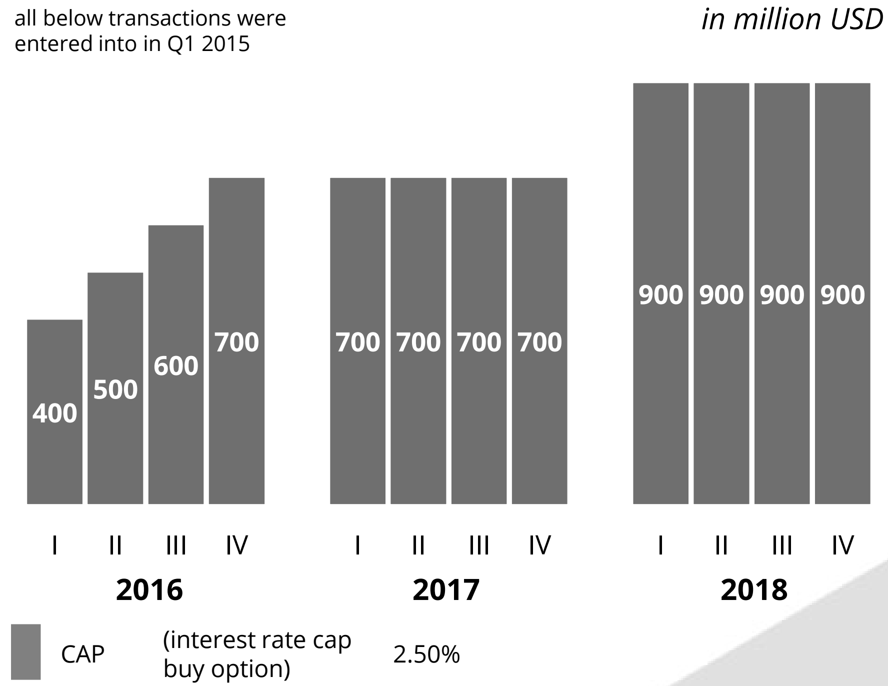
KGHM in the first quarter of 2015 implemented instruments hedging against the risk of an increase in interest rates

Market risk management – hedging position (as at 31 March 2015)

Position in interest rate derivatives

Interest rate



- Taking into consideration the exposure to interest rate risk, the fact that 3M USD LIBOR remains at historically low levels and market consensus which indicates that interest rates may rise in the future, the Management Board of the Company decided to implement a strategy of hedging a portion of the Company's exposure in the indicated periods.

Result on derivatives

- In the period January-March 2015, KGHM Polska Miedź S.A. recorded a negative result on derivatives in the amount of PLN 134 million, of which:
  - PLN 118 million increased sales revenue (transactions settled in the first quarter),
  - PLN 252 million decreased the result on other operating activities (a change in the measurement of open transactions as at 31 March hedging the period to the end of 2018).
- The fair value of derivatives (MtM) in KGHM Polska Miedź S.A. as at 31 March 2015 amounted to PLN 89 million.
- The revaluation reserve on cash flow hedging instruments as at 31 March 2015 amounted to PLN 289 million.

Profit allocation for 2014

On 29 April 2015 the Ordinary General Meeting of KGHM Polska Miedź S.A. allocated PLN 800 000 000.00 (PLN 4.00 per share) as a shareholder dividend, representing 33% of net profit earned in 2014

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

Profit for 2014
PLN 2,413,709,451.22

Dividend
PLN 800,000,000.00

To reserve capital
PLN 1,613,709,451.22

The allocation of profit reflects the principles of the adopted Dividend Policy, the assumptions and goals of the Company Strategy, including necessary expenditures by the Group to accomplish its development program and a safe level of debt.

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

KGHM

Thank you!

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