

Layers of possibilities



**Results for the
first 9 months of 2015**

13 November 2015

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Highlights of the first 9 months of 2015

Key events

Sierra Gorda – production: approx. 60 kt of copper and over 8 mn lbs. of molybdenum in concentrate

Victoria – work continued on preparing shaft infrastructure

Ajax – application submitted to obtain environmental permit for mine construction

Execution of **Savings Program** aimed at cost optimisation of operating assets and investments

Deep Głogów – depth of GG-1 shaft reached 641 meters

Dividend: 2nd instalment paid (PLN 400 mn)

III International Copper Ore Mining Congress

Ore loading at Sierra Gorda



Production highlights

- | | |
|--------------------------|-----------------------|
| ▪ Copper | 539 thousand tonnes |
| ▪ Metallic silver | 917 tonnes |
| ▪ TPM | 140.7 thousand ounces |

KGHM Group financial results

- | | |
|-------------------------|-------------|
| ▪ Sales revenue: | PLN 14.9 bn |
| ▪ EBITDA: | PLN 3.7 bn |
| ▪ Net profit: | PLN 1.2 bn |

Sierra Gorda – steady rise in production during the ramp-up to full design capacity

Sierra Gorda



▪ Average Annual Production (Phase I & II)	>220 kt Cu 25 mn lbs Mo* 64 koz Au
▪ Ownership	55% KGHM 45% Sumitomo
▪ Mine profile	Open-pit



Open pit of the Sierra Gorda mine

Key events update

- Production of copper in concentrate by the Sierra Gorda mine in the first nine months of 2015 around **60 thousand tonnes**.
- Production of molybdenum in concentrate in the first nine months of 2015 of over **8 million pounds**.
- In July 2015 the export of molybdenum began.
- During the work to increase processing capacity, in the course of one day over **131 thousand tonnes of ore** were processed. Work is under way to stabilise the results achieved.
- Basic Engineering work for **Phase II of the project** has been carried, which will be completed in the first quarter of 2016.

Sierra Gorda has made clear progress in stabilizing production

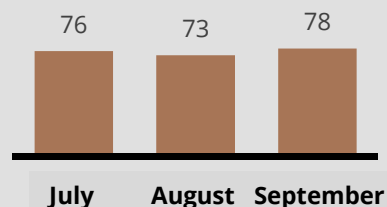
Status

Execution

Cu recovery

- **Average recovery by the processing plant ~80%** in line with the processing plant ramp-up plan.

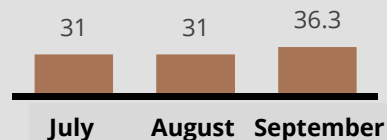
Average Cu recovery (%)



Mo recovery

- **Molybdenum recovery in October reached 46%**.
- Mo in concentrate above 48%.

Average Mo recovery (%)

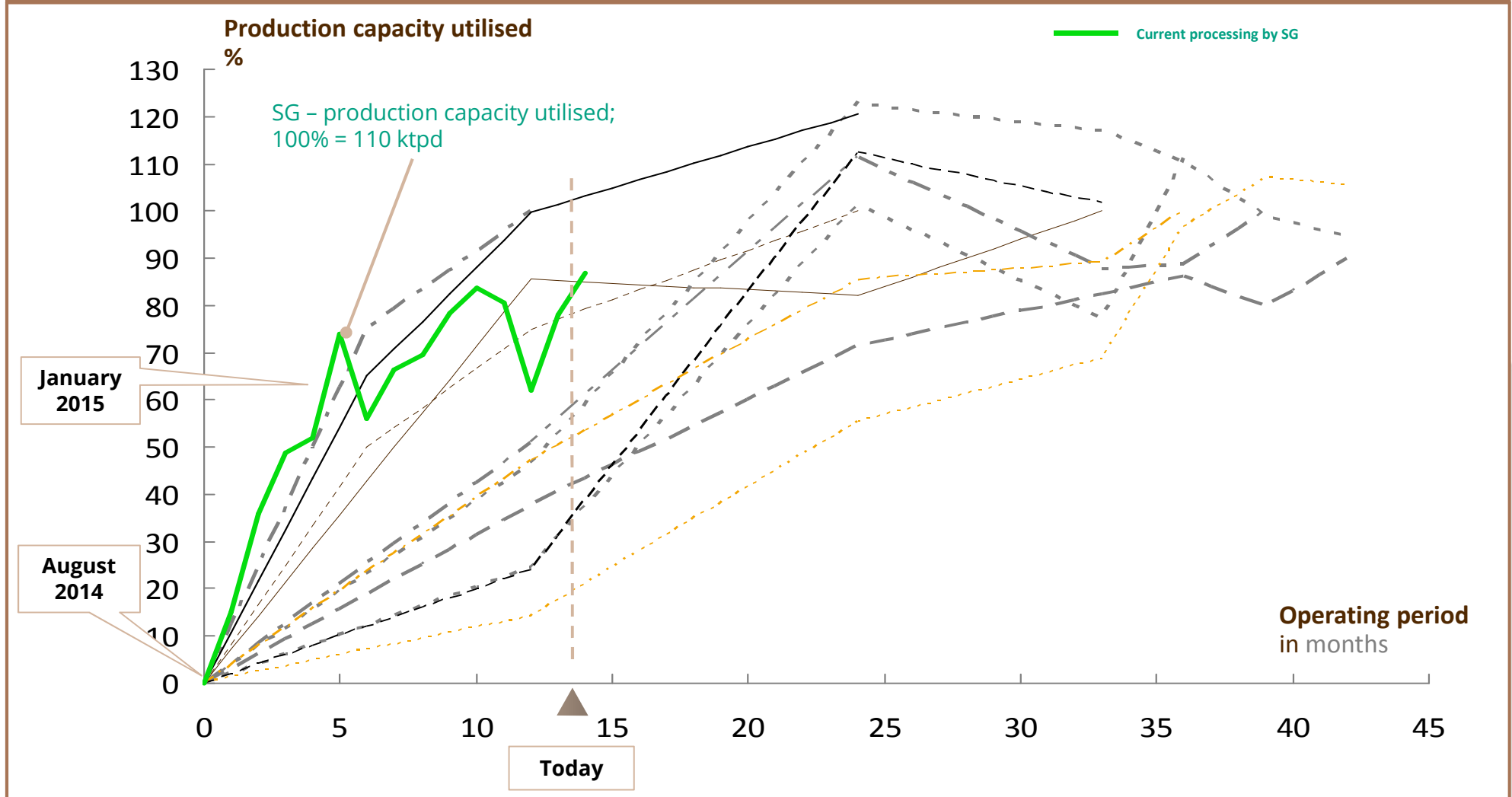


Focus on attaining target processing capacity and maximum cost discipline

- Outlook for production by Sierra Gorda at the end of 2015: approx. **90 thousand tonnes Cu and approx. 20 million pounds Mo.**
- After attaining target processing capacity the plant will produce **120 thousand tonnes Cu and approx. 50 million pounds Mo per annum** (during the first five years).
- Mineral reserves amount to over **5.5 million tonnes of copper**, with substantial potential to increase these reserves through the addition of the adjacent Pampa Lina deposit.
- An aggressive costs optimisation program has begun, aimed at decreasing controllable **operating costs.**

The process of ramping up to full production capacity at Sierra Gorda is within the standard range for the sector

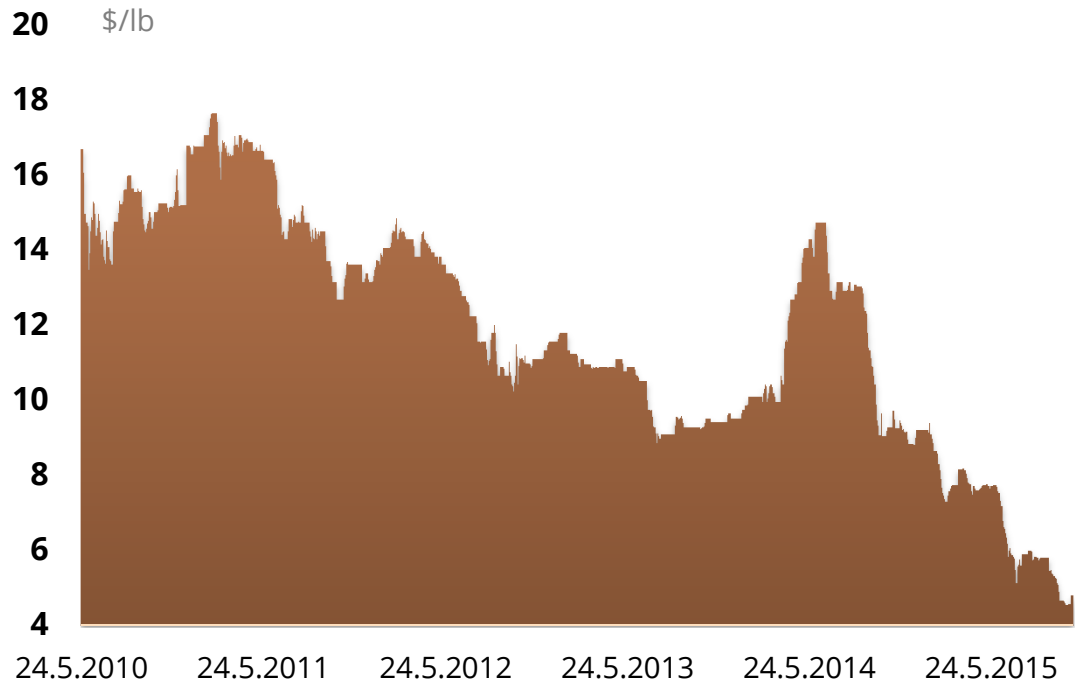
The process of ramping up to full production capacity (% of production capacity utilised) compared to similar¹ copper ore mining projects in the region



¹ Includes the largest greenfield-type projects, with operating parameters similar to those of the Sierra Gorda mine.

Molybdenum prices volatility impacts Sierra Gorda copper production cost

Molybdenum price (LME Spot)



- In the medium and long term it is expected that **molybdenum prices will return to the prior-year's levels**, among others due to the fact that molybdenum production volumes are decreasing in mines that produce the metal as a by-product.
- At current molybdenum prices, most producers for whom molybdenum is the main product are operating below the profitability threshold. This will force **further cutbacks in production and price growth in the long term**.

Further volatility in molybdenum prices, driven among others by expected balancing of supply/demand in the market in subsequent years, will impact the financial condition of mining projects in the future.

Victoria and Ajax – 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

- Work continued on preparing shaft infrastructure.
 - Work continues on the Basic Engineering Report. Planned completion – December 2015. The work is being performed by a Polish-Canadian project team.
 - Work was carried out related to ensuring access to power supply and natural gas.
 - Exploratory drilling is underway, aimed at documenting additional mineralized zones.
 - The Value Improvement Program has identified 51 optimisation initiatives.
- On 10 September 2015, KGHM Ajax Mining Inc. submitted an application for an environmental permit to build the Ajax open pit copper and gold mine.
 - In the third quarter basic engineering work was completed. Over 800 technical drawings were made and a detailed mine technical model was prepared.
 - Work on the final report is currently underway, aimed at updating the feasibility study from 2011.
 - The implemented savings program also entailed a reduction in employment.



Foundations of the 230 kV transformer station



Mine technical model

Strategic projects in the core business

Mining

Deep Głogów



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

- Since the start of the project **68 kilometers of tunnels** together with necessary technical infrastructure have been built.
- Work continues on **stage II of construction of the Surface-based Cooling Station** to increase the production of cooled air to those parts of the mine located deeper than 1200 m. Completion of this work is planned for the second half of 2016.
- Work continues on the sinking of the GG-1 ventilation shaft; by the end of September 2015 the depth had reached **641 meters**. Completion of this work is planned in 2019.



Metallurgy

Pyrometallurgy Modernisation Program

Expected effects

Higher production

Silver, Lead, Rhenium

Costs

Lower unit copper production cost

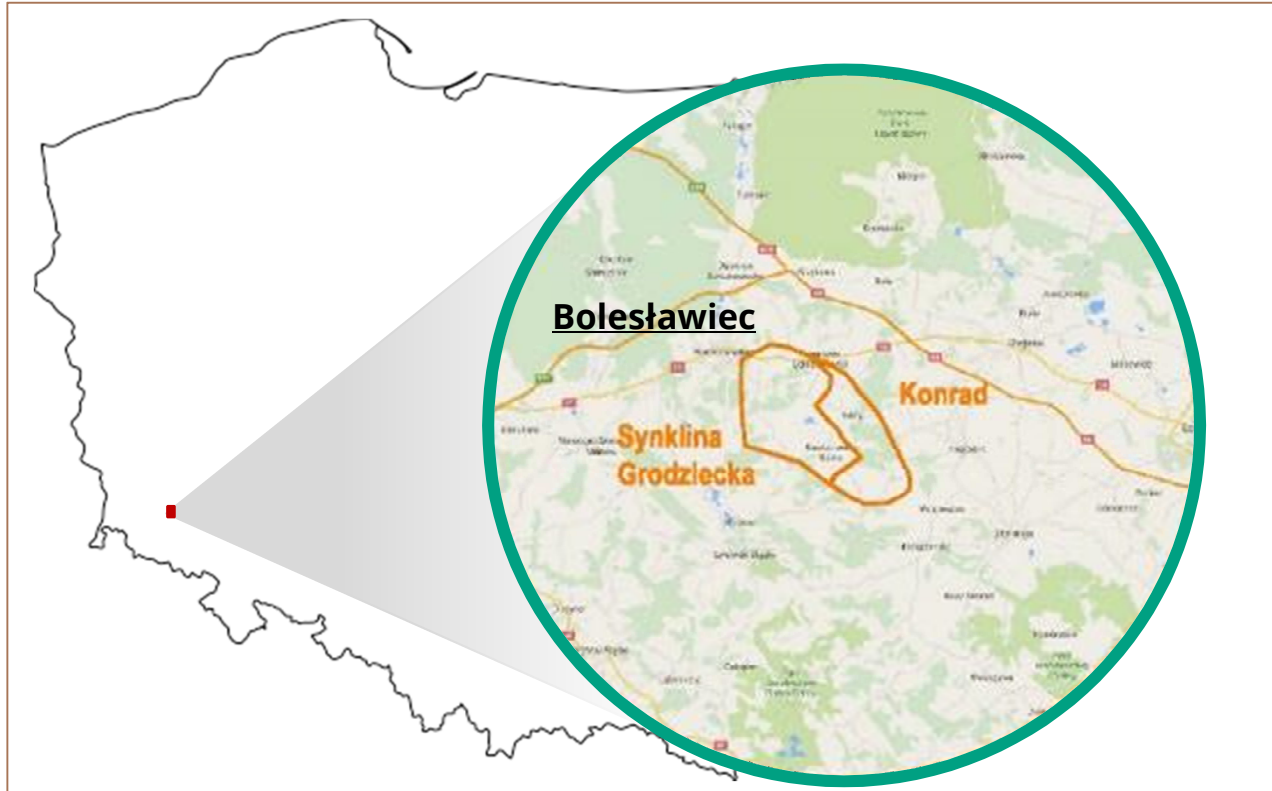
Environmental protection

Lower dust and gas emissions by 50%

- **Construction and assembly work continues** on the main elements of the modernised flash furnace production line at the Głogów I smelter/refinery, including :
 - Flash Furnace,
 - Electrical Furnace,
 - Recovery Boiler, and
 - elements of the Charge Preparation Section.
- The current state of permitting allows **project work to be completed on time.***
- Start-up of the flash furnace installation at the Głogów I smelter/refinery is planned for the fourth quarter of 2016.



Preliminary results of exploration in the Synklina Grodziecka region



- To date 18 drillholes have been completed and the scope of hydrogeological work has been planned.
- In 2015 work began on surface geophysical studies.
- Preliminary assessment of this future mining project indicates a **realistic chance for its implementation, assuming a reduction in the minerals extraction tax.**

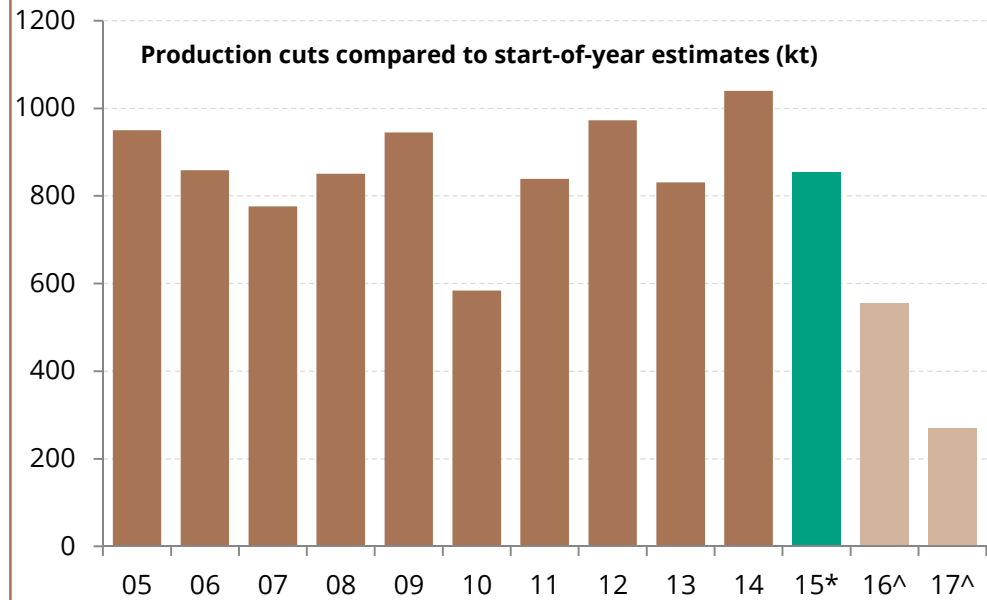


Market conditions

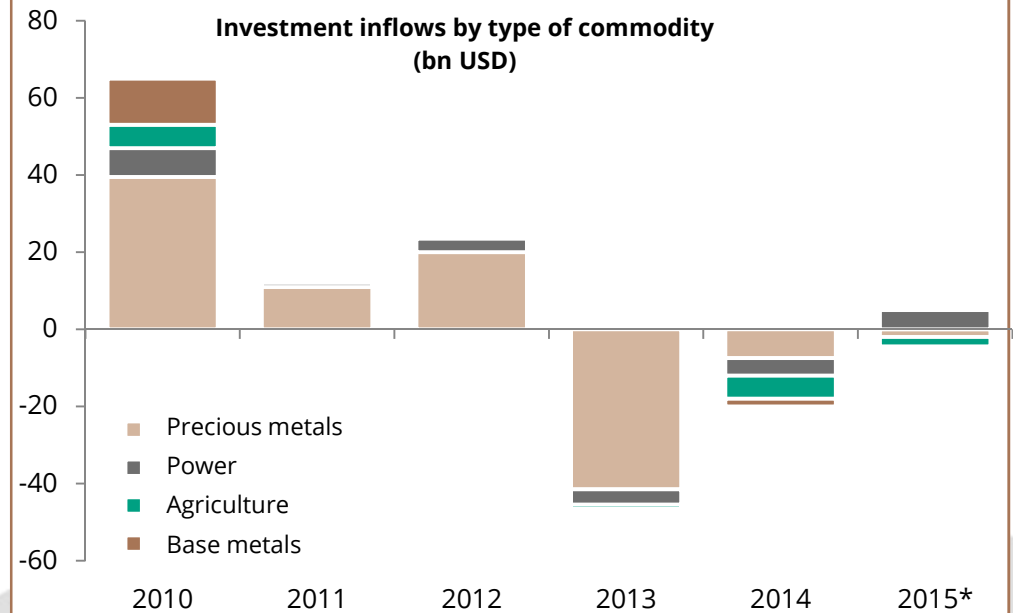
High production cuts this year

Investors favourably disposed towards commodities

Cuts in copper production this year are close to the record level of 2014

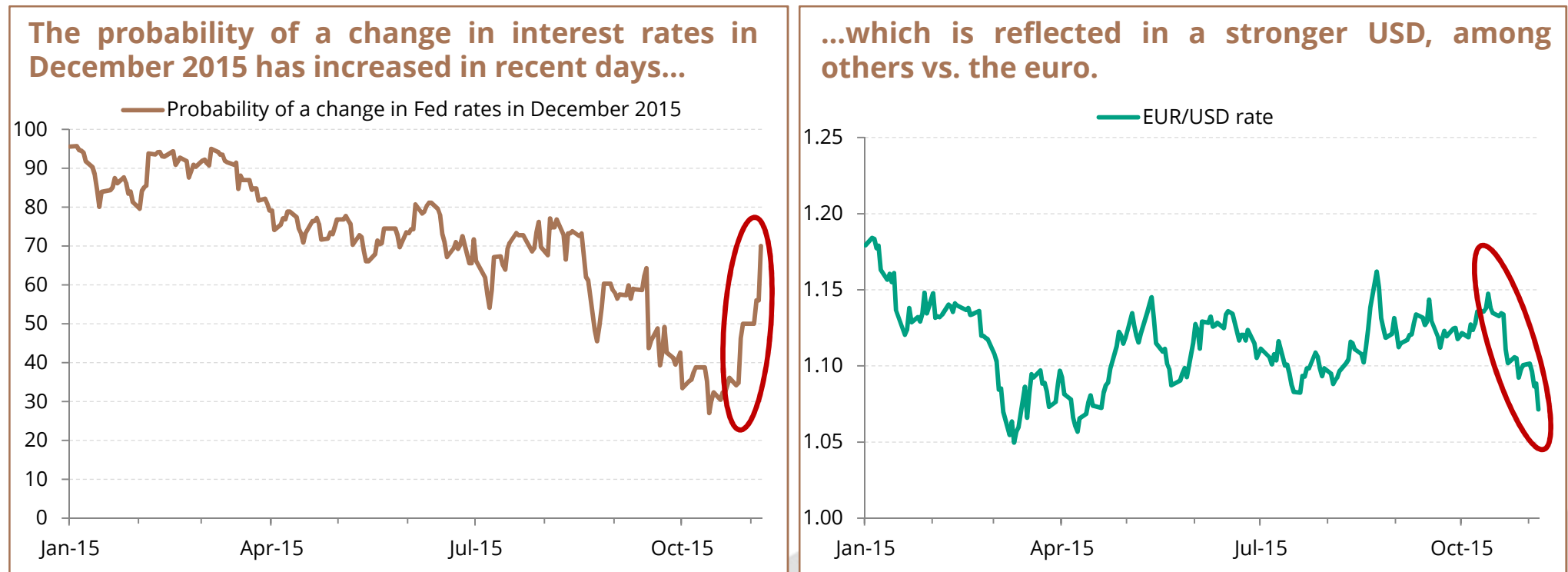


The flight of investors from commodities this year has been halted



- Every year, actual mine production differs from initial estimates due to disturbances to production, such as strikes, technical problems and unfavourable weather conditions. Cutbacks in production observed this year **have already exceeded 800 thousand tonnes. Moreover, due to low prices, mining companies are intentionally reducing output to an ever greater extent, and this will naturally affect subsequent years.**
- The market balance, as well as the price of copper, is also positively impacted by the fact that **these cuts in supply will also be in effect in subsequent years.** This phenomenon **can also be seen in the markets for other metals** (e.g. zinc), which some analysts interpret as **a sign that prices are near a bottom.**
- An important factor shaping commodities prices is the interest being shown in this segment by financial investors. After two years of clear aversion to investing in this sector, **data for 2015 are indicating a slowdown in the trend of capital outflow.** Investors apparently appreciate the improvement in market fundamentals: falling costs, limitations to overproduction and realistic prices.

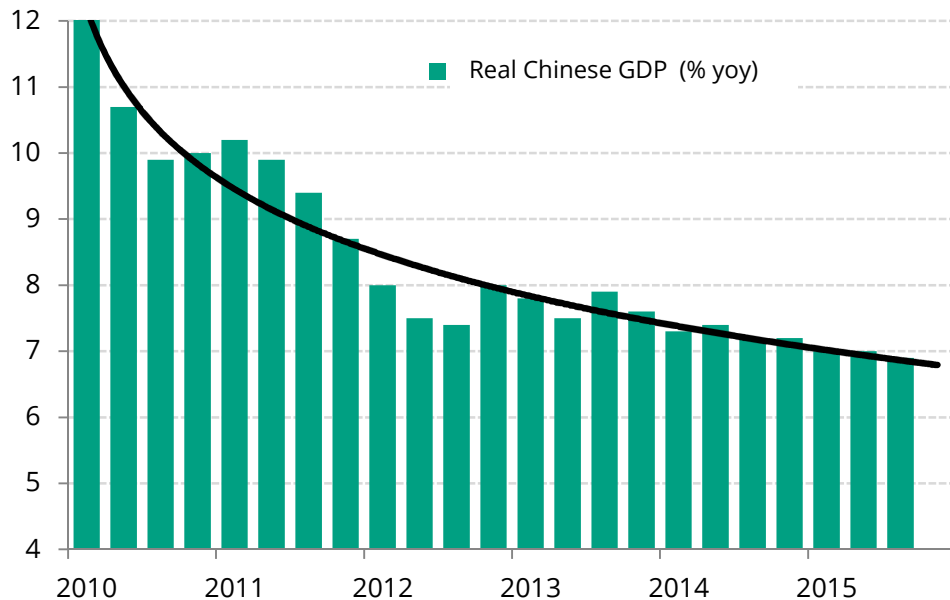
A more „dovish“ Fed leads to a stronger USD, increasing the risk of lower commodity prices



- **The USD remains an important factor in the prices of all commodities.** The past quarter was marked by more dovish language by the Fed, though at the last meeting of the committee, **in the market's opinion the probability had substantially increased of an increase in interest rates** this year. Further signals of a tightened monetary policy or its actual introduction **should strengthen the USD.**
- Apart from the US dollar's strength related to the increased probability of an increase in interest rates, the euro weakened as a result of announcements on extending the quantitative easing program in Europe – the **European Central Bank is prepared to apply these unconventional methods for a period beyond the end of September 2016.**
- As we have already pointed out numerous times, the current market prices for commodities to a large extent reflect the high value of the USD. **Any further increase in the strength of the USD will therefore have a negative impact on commodities prices,** though it should be **relatively neutral from the point of view of mine revenues in local currencies.**

Commodities markets must adapt to a lower GDP in China. One Belt, One Road (OBOR) a chance for growth.

For the first time in this decade, the GDP rate in the third quarter fell below 7% (year on year)



The new growth model is to be based among others on trade under the One Belt, One Road initiative



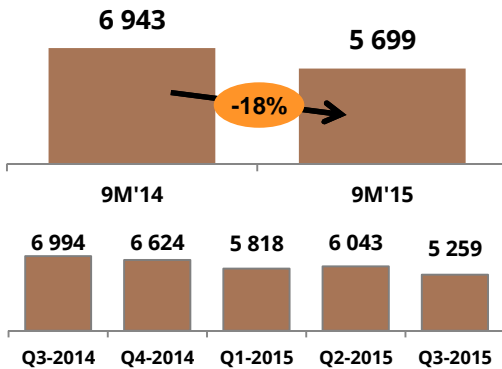
- **The recurrent theme in global markets is the fears on the condition of the Chinese economy** – both commodities and financial markets remain under pressure of the risk of a rapid slowdown in China (this is one of the factors holding back the Fed from commencing a policy of monetary tightening).
- A large variety of data, such as the GDP rate, the rate of growth of industrial production and investments in tangible assets are in a clear falling trend, while deflation in the Producer Price Index (PPI) continues to deepen. These are **certain signs of a slowdown of the Chinese economy, but above all of the transformation of the country towards a new model for growth.**
- **The new economic model is based on a variety of initiatives, amongst which the largest is the One Belt, One Road project** which is aimed at enhancing China's cooperation with the countries of Europe and Asia. China is also planning to **increase innovation and entrepreneurship (Internet+), as well as to develop modern economic ties (Made in China 2025).**
- At the same time **China is continuing to ease monetary policy, attempting to free-float the yuan** and is promoting a green energy program aimed at generating over USD 300 billion per annum in investments, which should **positively impact market sentiment.**



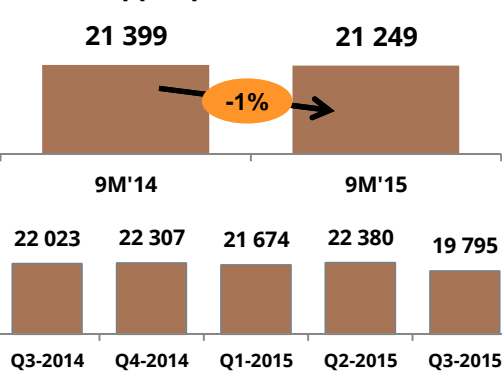
Economic results
KGHM Polska Miedź S.A. Group

Lower commodities prices, due to the strong USD and fears about China, are the cause of increasing production cutbacks

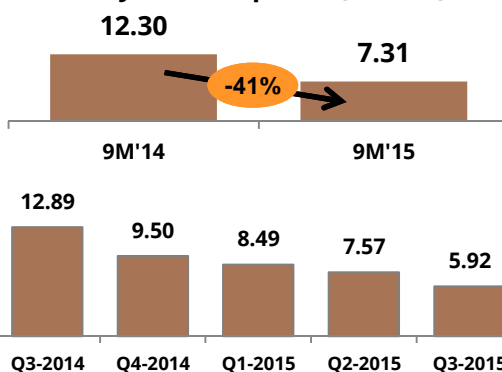
Copper prices (USD/t)



Copper prices (PLN/t)



Molybdenum prices (USD/lb)



- In the third quarter overall global sentiment to the commodities market remained negative, impacted by the strong USD and increasing fears about the slowdown in the Chinese economy.

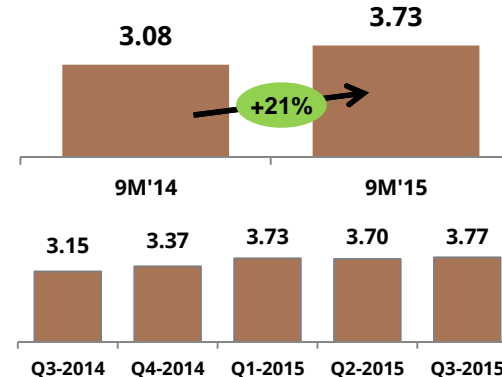
- Information is coming to the market on the problems of key copper producers: cost cutting and reductions in investment spending, halting or restricting output and other stoppages, which supports prices. The market is also positively reacting to decreases in the production of other metals (e.g. zinc by Glencore).

- The average copper price in the first three quarters of 2015 was minimally lower than in the same period of 2014, which confirms the theory of the strong impact of the USD on commodities prices.

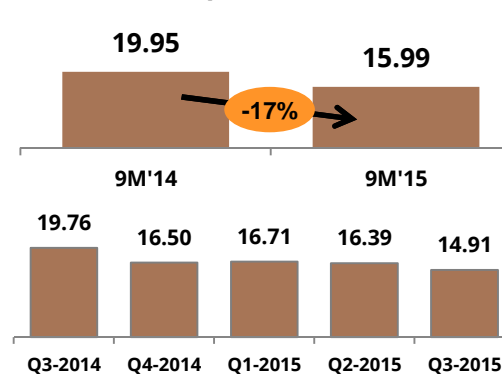
- One of the main reasons for the fall in molybdenum prices is weak demand on the spot market. Moreover, the oil industry is a large consumer of molybdenum, while low oil prices have reduced investments, which has substantially reduced demand for this metal.

- Consequently producers have begun to restrict output of the metal.

Exchange rate (USD/PLN)



Silver prices (USD/ozt)



- Strengthening of the USD versus the euro and other currencies (dollar index) is the main factor shaping the USD/PLN exchange rate. In recent months the PLN exchange rate to the USD has stabilised in the range 3.65-3.85.

- Precious metals prices remain sensitive to the actions of central banks, and in particular to the divergent directions of the US Fed and the ECB.

- While silver prices are tied to a large extent to changes in gold prices, they have not followed the recent rise in the price of gold. The relationship between these two metals (the gold/silver ratio) is rising and approaching the highest levels in the last 20 years.

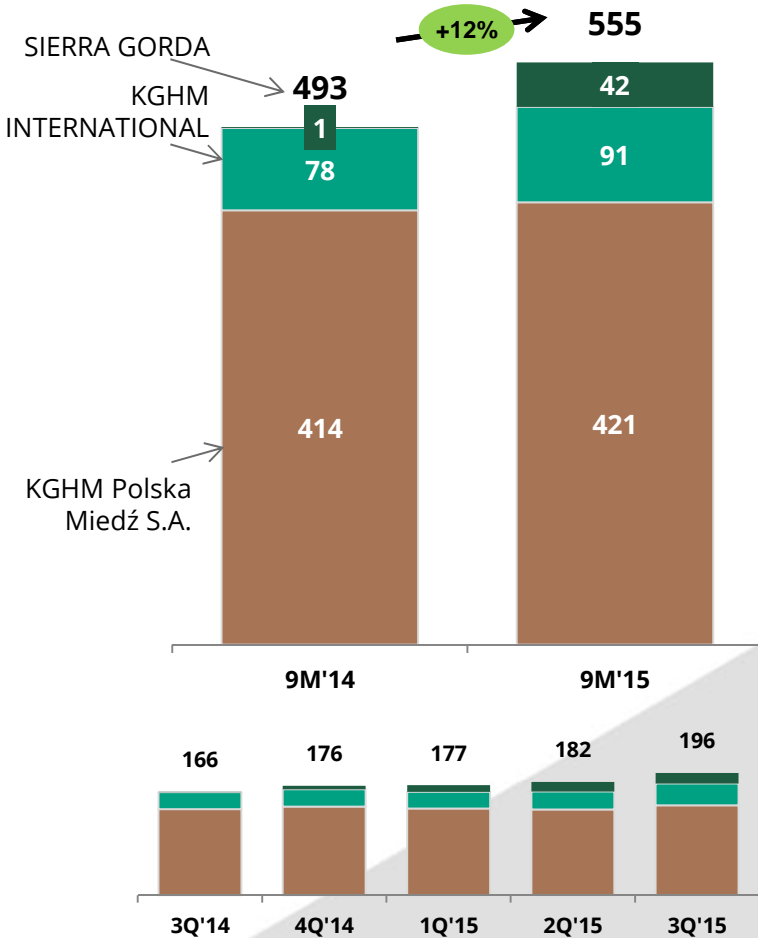
- Central banks continue to play a major role in shaping economies by maintaining low interest rates and stimulating inflation. Their differing phases in the monetary cycle increase uncertainty in the markets as to the future level of the US dollar, as well as to the sustainability of global economic growth.

- Data show a slight slowdown in the USA, a slight improvement in the eurozone and problems in emerging markets countries.

- The global economy continues to be threatened by problems of a geopolitical nature. For Europe the priority is to solve the problem of immigrants from the Middle East. A positive factor may be international trade agreements (e.g. agreements of the USA with east Asia, i.e. the so-called TPP or Trans-Pacific Partnership).

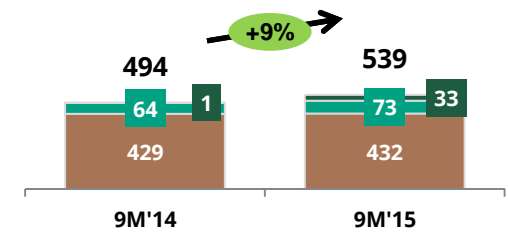
Group production in the first 3 quarters of 2015

Production of copper equivalent from own concentrate (kt)

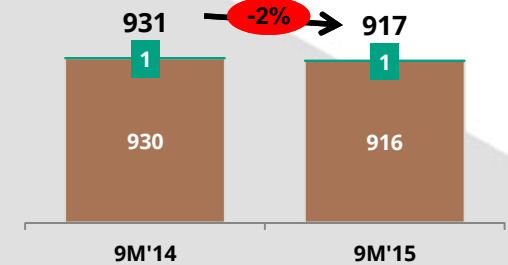


- Copper equivalent production increased as compared to the first three quarters of 2014 in KGHM Polska Miedź S.A., KGHM International and also Sierra Gorda
- In KGHM Polska Miedź S.A., there was an increase in copper and gold production, while silver production was lower due to a planned maintenance shutdown at the Precious Metals Plant
- 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
- KGHM expects a slight decrease in copper equivalent production from own concentrate in the fourth quarter of 2015 as compared to the third quarter

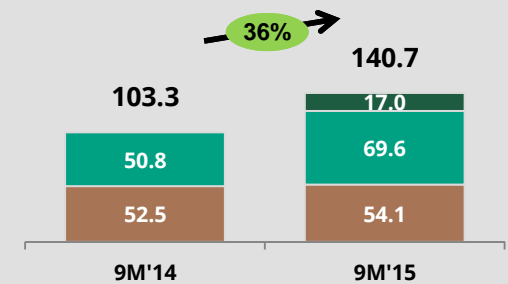
Production of payable copper* (kt)



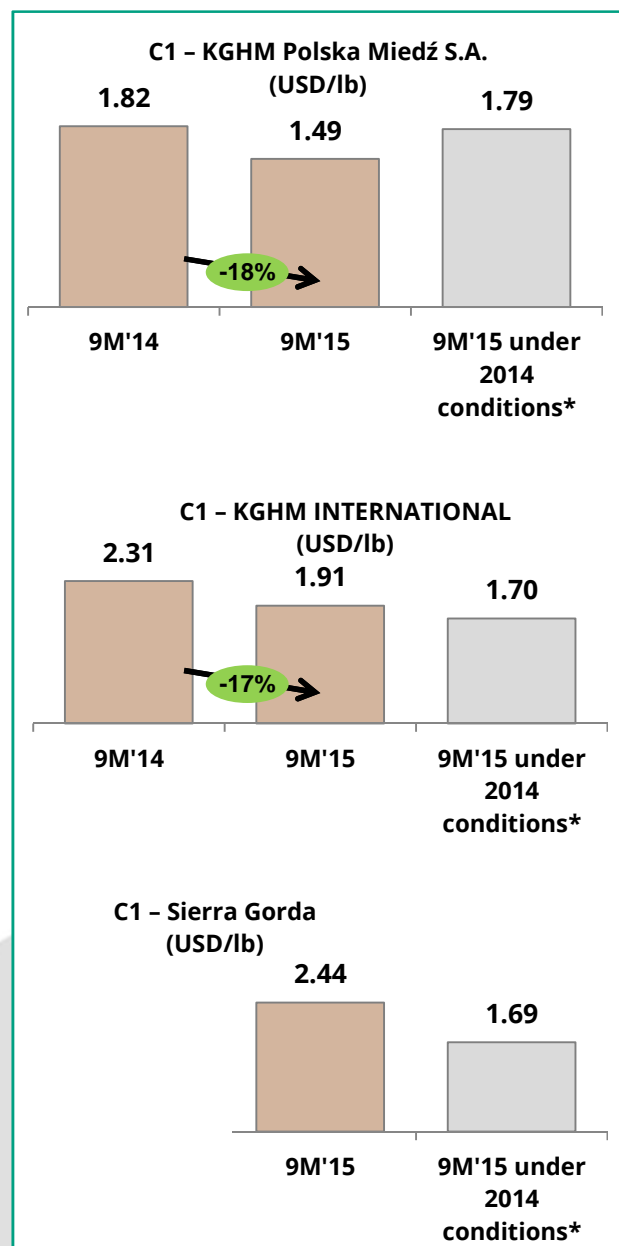
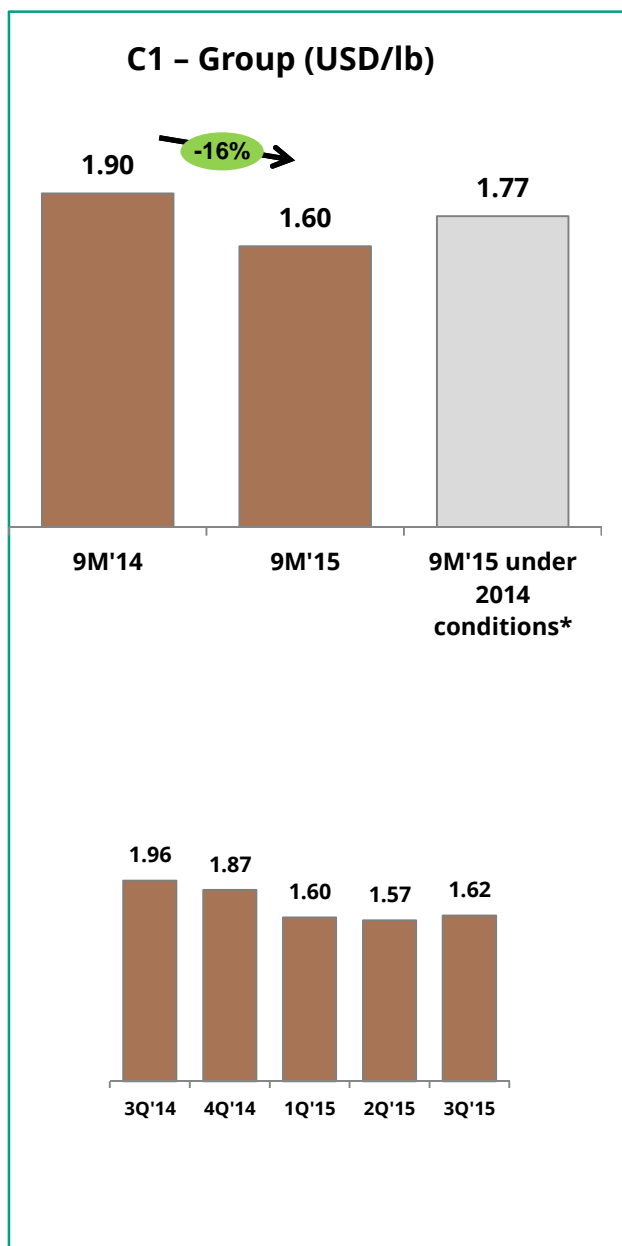
Silver production (t)



TPM production (k ozt)



Group C1 cash cost

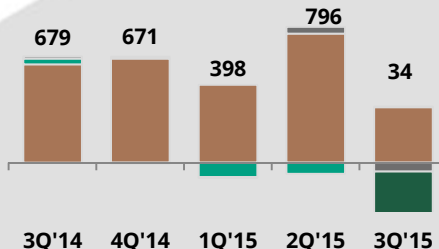
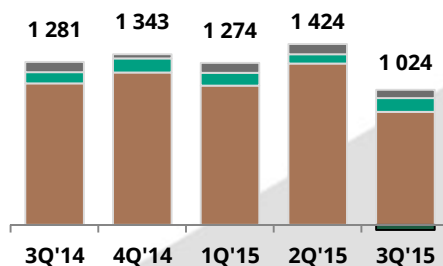
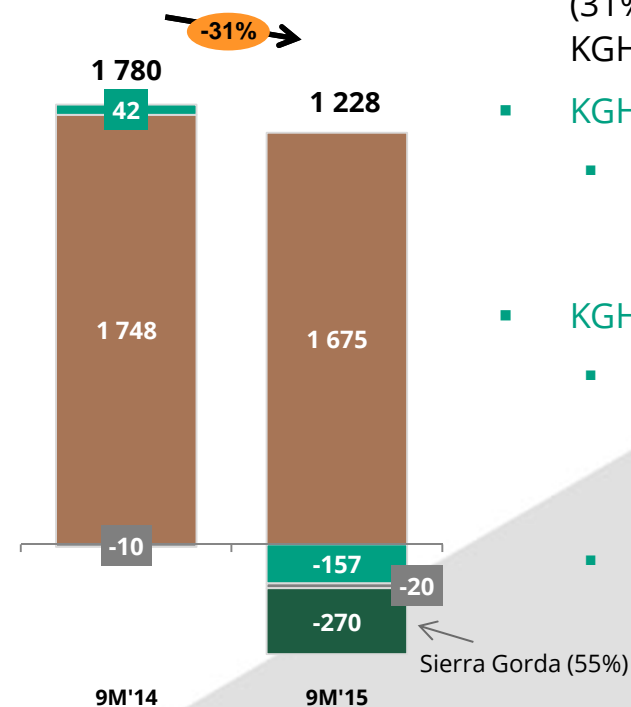
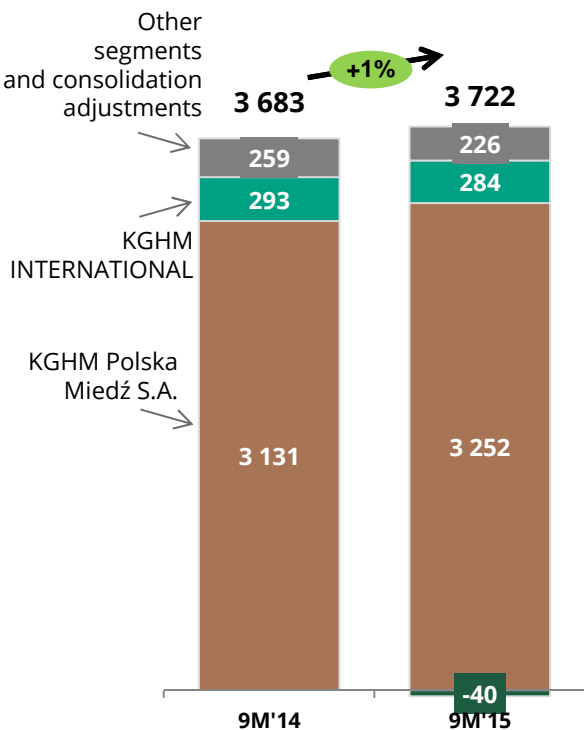


- C1 cost in the Group in the first 9 months of 2015 was lower by 16% mainly as a result of external factors, but even under the metals prices and exchange rates of the same period of 2014, the C1 cost would be lower by 7%
- The drop in C1 cash cost in KGHM Polska Miedź S.A. was mainly due to the weaker PLN as compared to the USD. Under 2014 conditions, C1 would amount to 1.79 USD/lb and would have been slightly below last year's level
- The lower C1 cost in KGHM International was due to the higher production of payable copper sold by 25%, mainly in the Robinson mine
- In Sierra Gorda the mine's ongoing ramp-up impacted the cash cost of copper production, which in the third quarter amounted to 2.44 USD/lb. The valuation of by-products also had a detrimental impact, including primarily molybdenum, the price of which fell by 22% compared to the prior quarter and by 41% compared to the average price in the first 9 months of 2014.

Group financial results

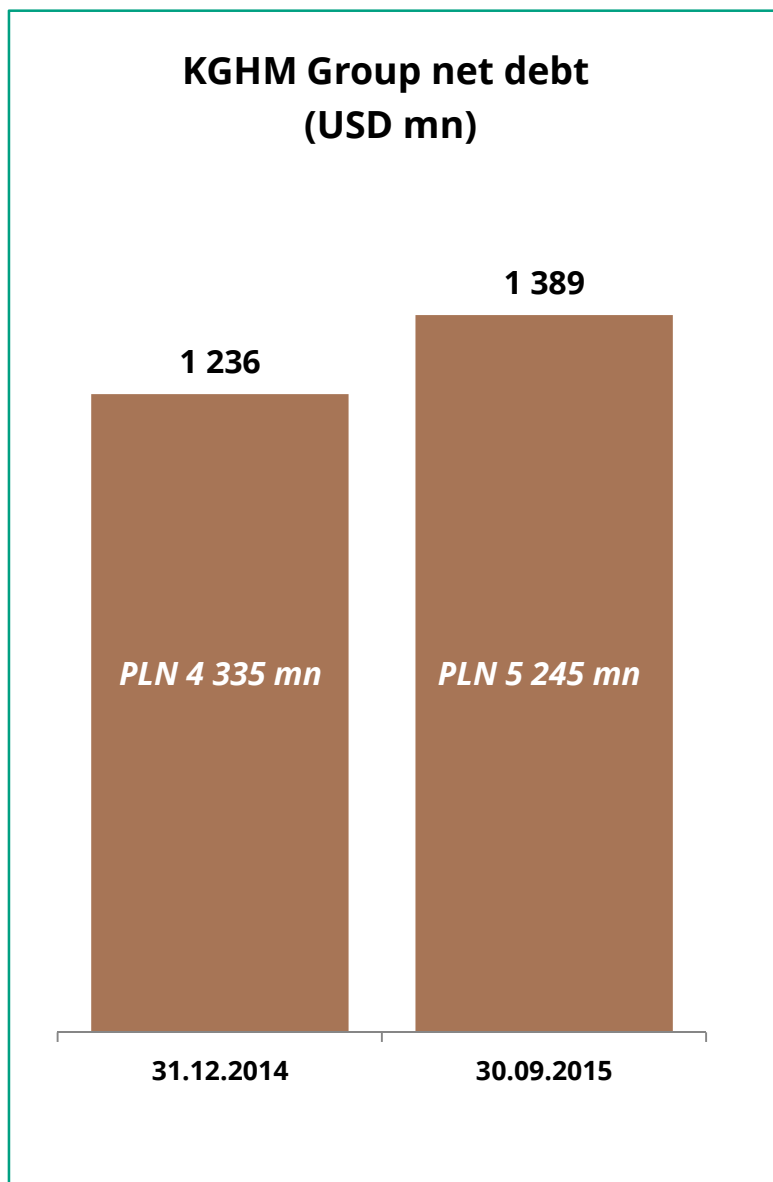
**EBITDA *
(PLN mn)**

**Net result
(PLN mn)**

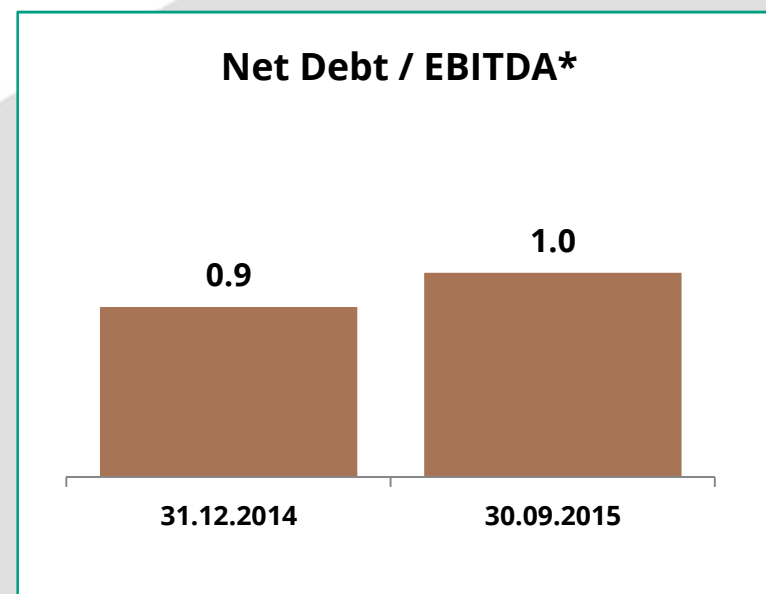


- EBITDA for the Group remained at last year's level.
- The decrease in consolidated net profit by PLN 552 million (31%) was primarily due to the results of Sierra Gorda and KGHM International
- KGHM Polska Miedź S.A.**
 - The main factor responsible for the decrease in net profit of KGHM Polska Miedź S.A. was the impairment loss recognised in the third quarter of 2015 in the amount of PLN 194 million
- KGHM International**
 - EBITDA was lower by PLN 9 million due to lower metals prices, which were partially offset by an increase in production and sales volumes and by continued cost discipline
 - Net profit was also negatively impacted by the increase in depreciation/amortisation by PLN 287 million (mainly due to higher production by the Robinson mine and to capitalised expenditures related to gaining access to new mining areas) as well as by a one-off premium related to the early redemption of bonds by the company in the amount of PLN 70 million
- Sierra Gorda (55%)**
 - Both the net loss and the negative EBITDA are due to the lower metals prices and to the mine's on-going ramp-up. The net loss was also increased by financing costs in the amount of PLN 171 million, mainly related to debt financing.

KGHM Group net debt as at end-September 2015



- 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 January 2015 – September 2015 was mainly due to:
 - payment of the first instalment for the 2014 dividend, and
 - investments in development projects.

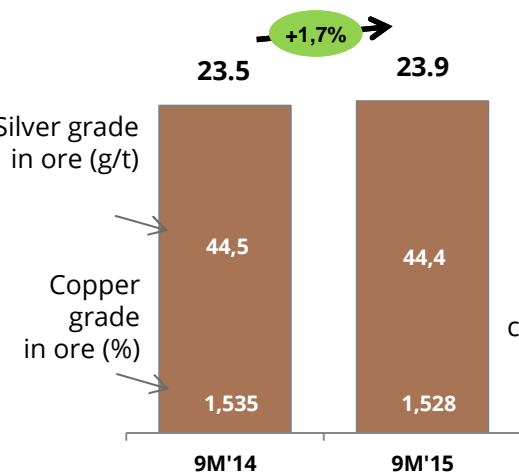




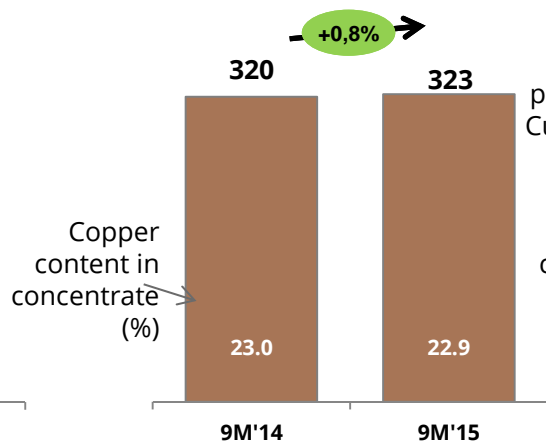
Economic results of KGHM Polska Miedź S.A.

Stable level of production

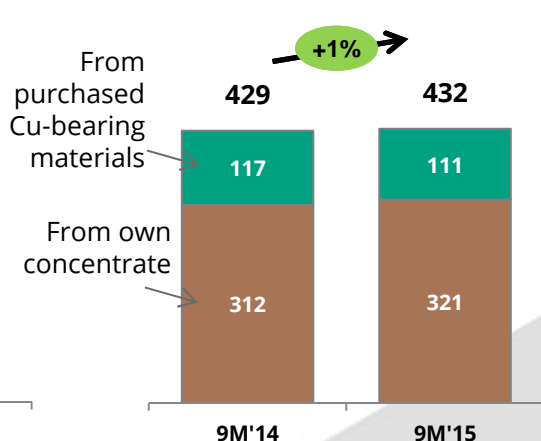
Ore extraction
(mn t dry weight)



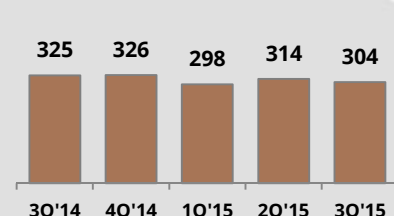
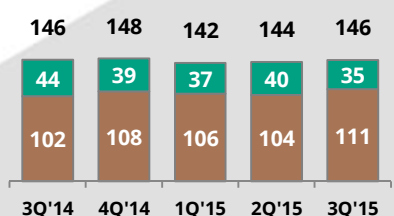
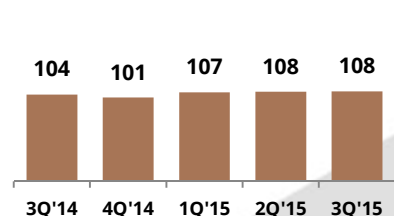
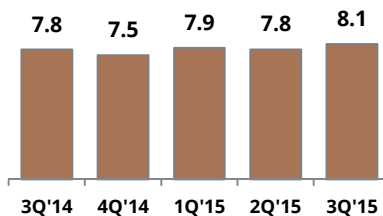
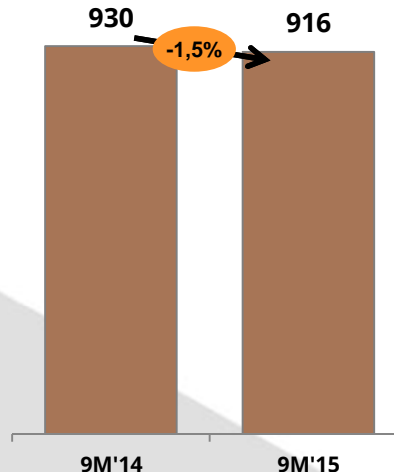
Production of Cu
in concentrate
(kt)



Electrolytic copper
production
(kt)

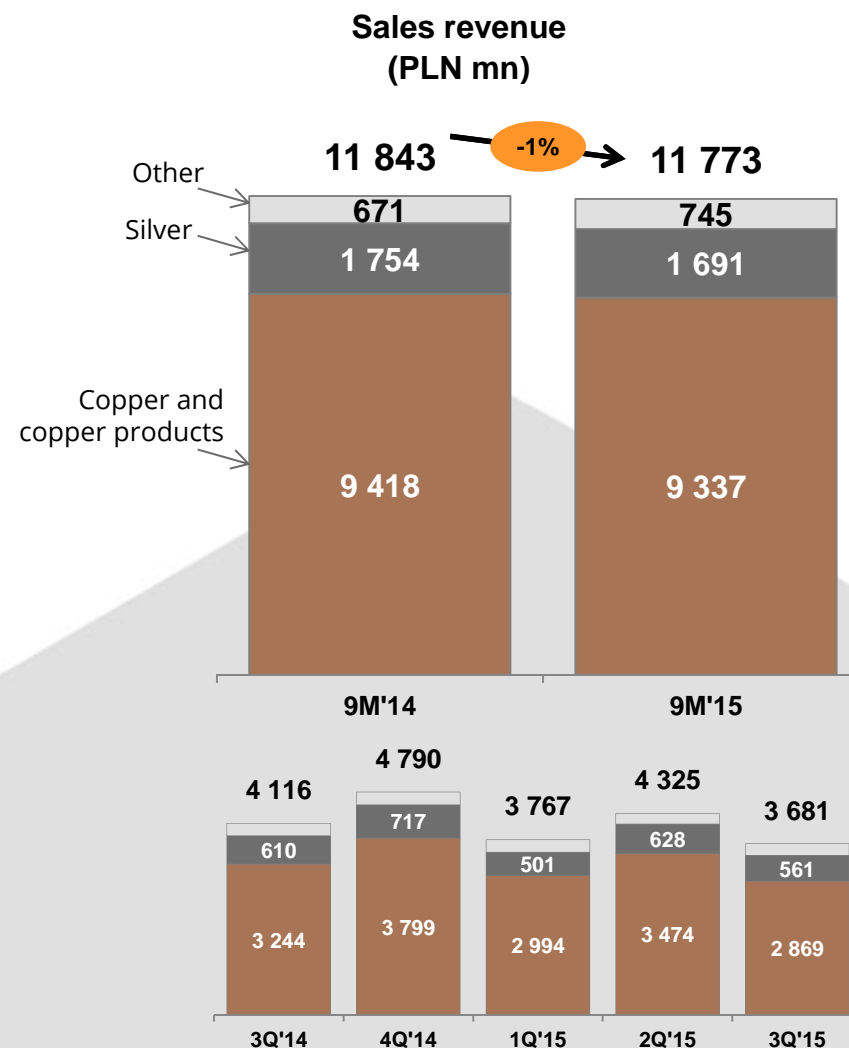
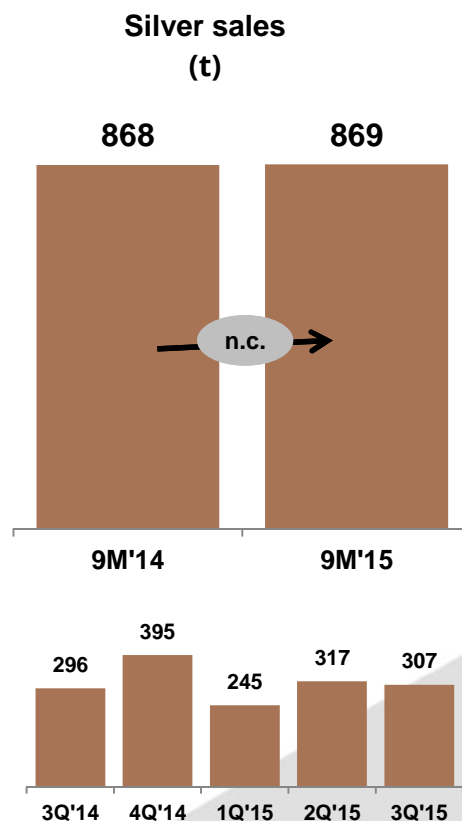
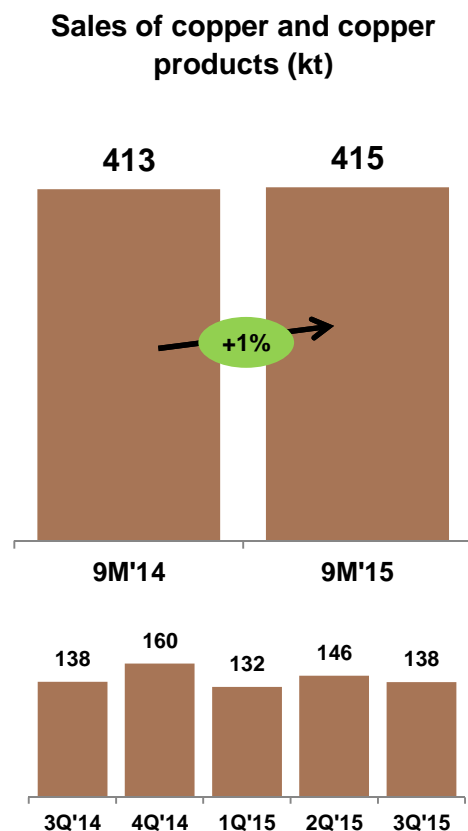


Metallic silver production
(t)



- In 2015 copper grade in ore decreased from 1.535% to 1.528%
- The company expects that the copper grade in the fourth quarter will be maintained at a similar level
- The higher amount of Cu in concentrate was due to the processing of a greater amount of ore as compared to 2014
- The production of electrolytic copper from own concentrate as compared to the same period of 2014 is higher by 9 thousand tonnes, while the production of cathodes from purchased materials decreased by 5.7 thousand tonnes.
- The decrease in metallic silver production as compared to 2014 was due to maintenance at the Precious Metals Plant in the month of August.
- In the fourth quarter production will be at the level of the second quarter.

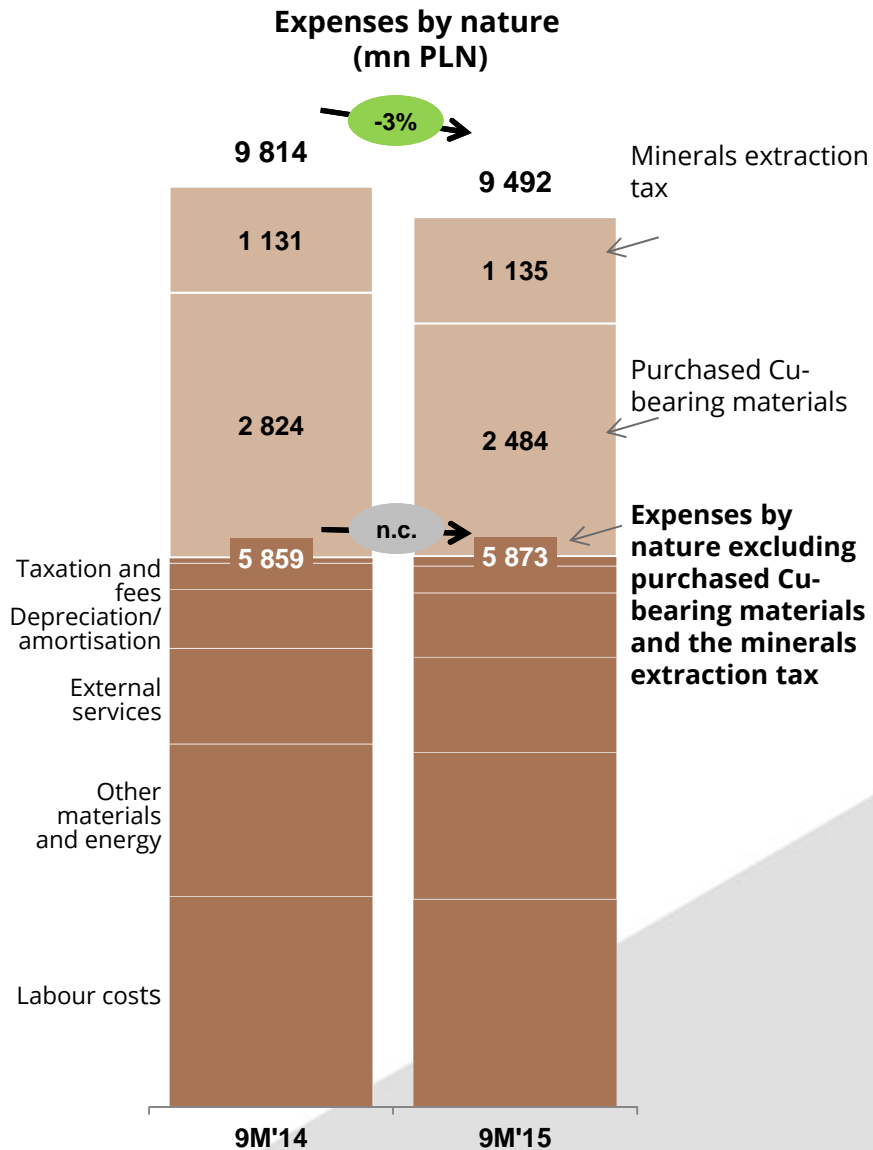
Sales revenue in the first 3 quarters of 2015



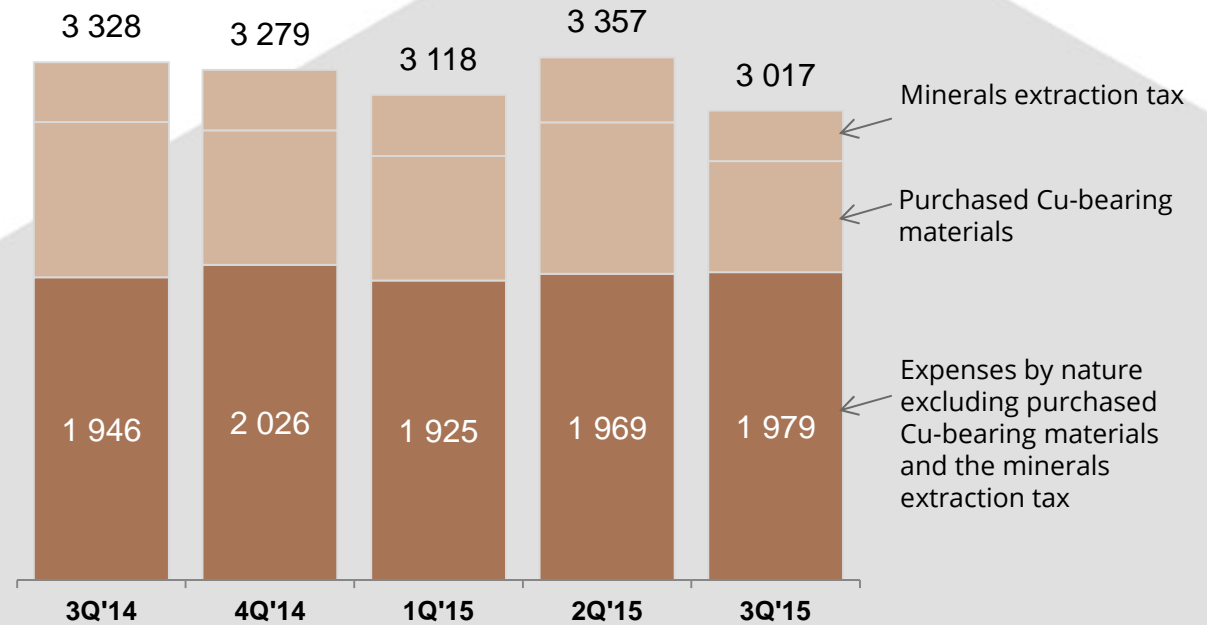
- The deterioration in macroeconomic conditions led to a decrease in sales revenue by 1% despite a higher volume of copper sales by 1% with the same amount of silver sales.
- The company expects that sales volumes for copper and silver in the fourth quarter will be the highest in the year.

- Revenue in the third quarter of 2015 was lower by 15% than in the prior quarter, due to lower metals prices (Cu -13%, Ag -9%) as well as lower sales volumes for copper (-5%) and silver (-3%) alongside a slightly better exchange rate (+2%)

Costs structure in the first 9 months of 2015



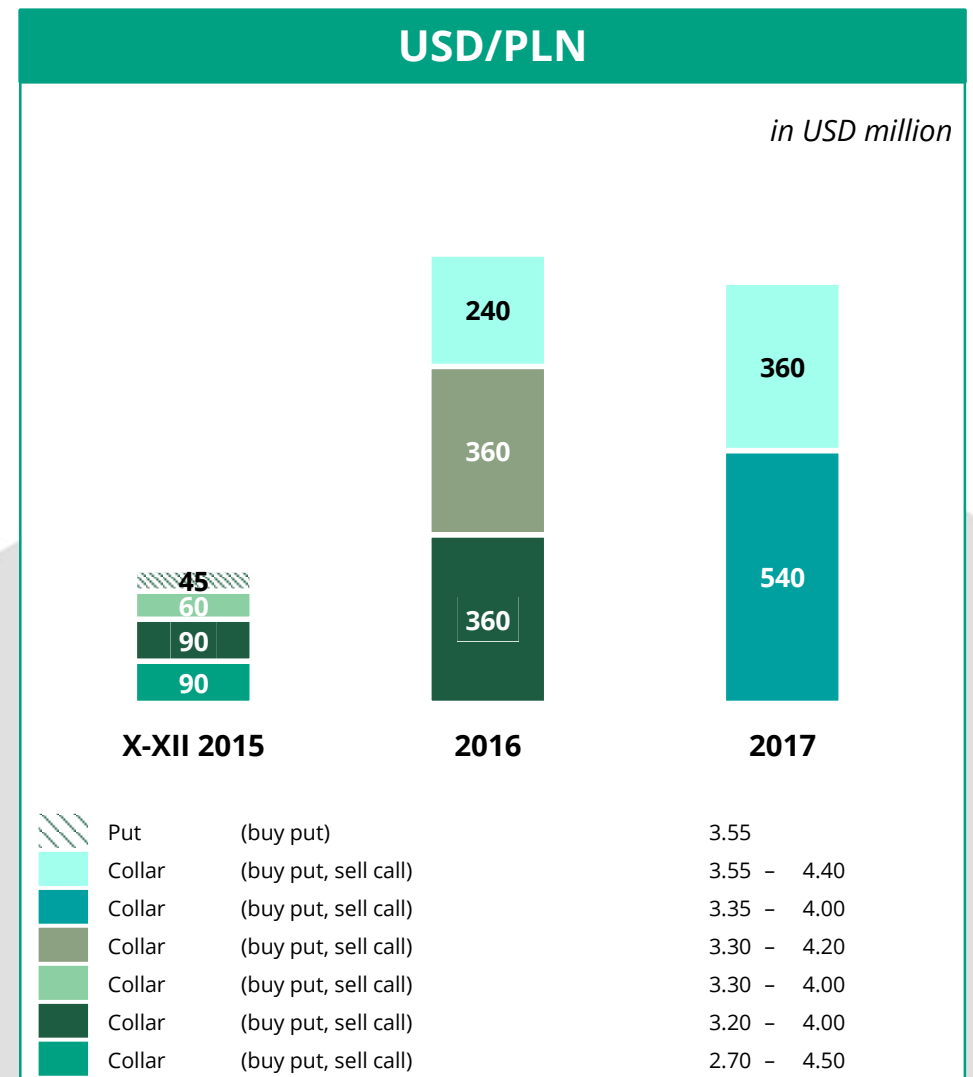
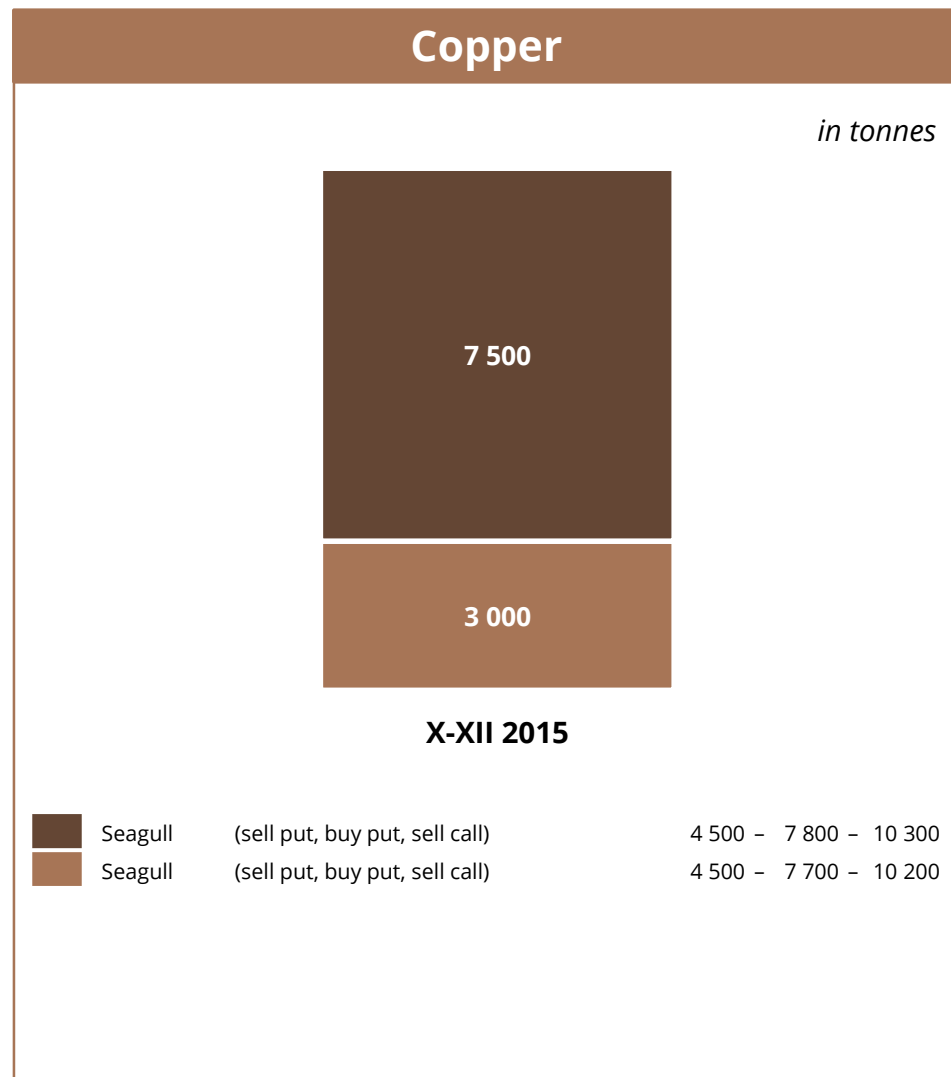
- After excluding the minerals extraction tax and the cost of purchased Cu-bearing materials, expenses by nature are at a comparable level to that of the prior year and have a similar structure.
- Expenses by nature in the first 9 months of 2015 were lower as compared to 2014 due to the lower value of purchased Cu-bearing materials (-PLN 340 mn), due to the lower volume (-11 kt Cu) and lower price (-4%).



The accrued result of derivatives achieved by KGHM Polska Miedź S.A. as at 30 September 2015 amounted to PLN 164 million

Market risk management – hedging position (as at 30 September 2015)

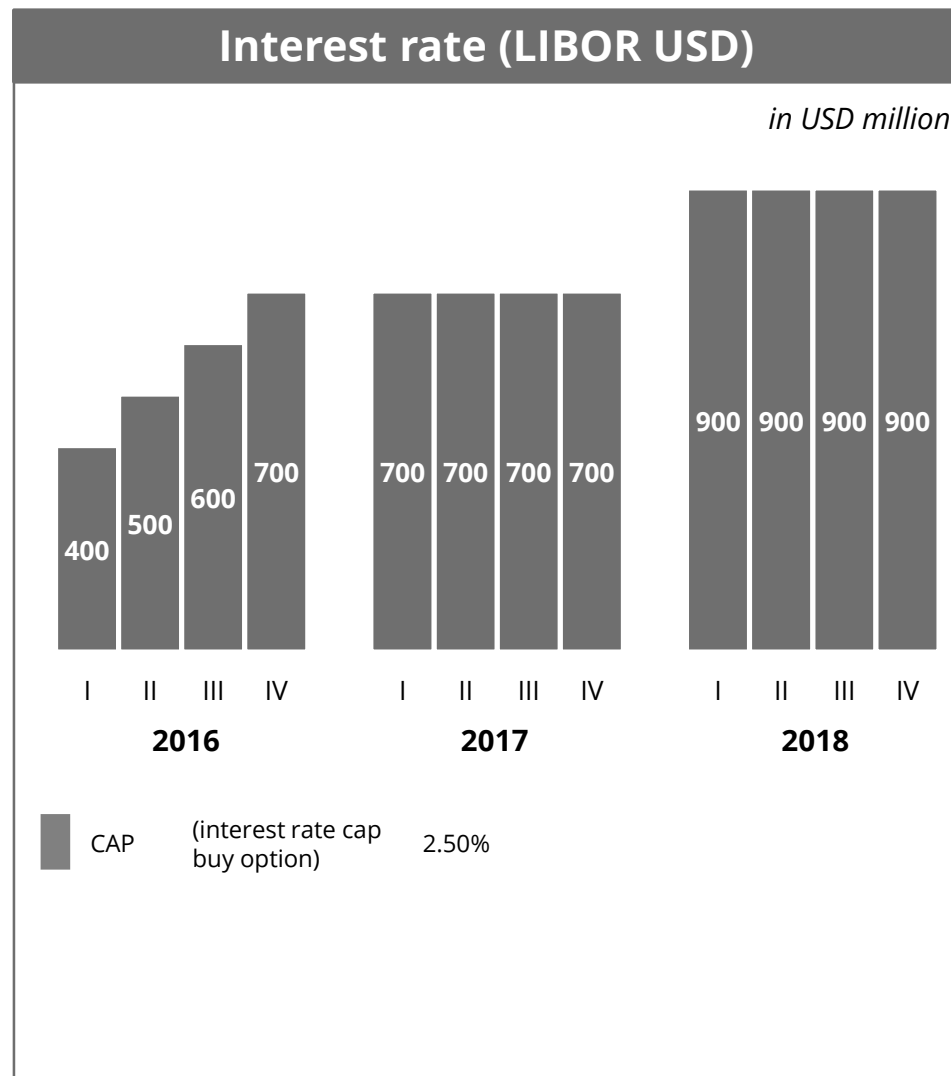
Position in derivatives on the commodities and currencies markets



The accrued result of derivatives achieved by KGHM Polska Miedź S.A. as at 30 September 2015 amounted to PLN 164 million

Market risk management – hedging position (as at 30 September 2015)

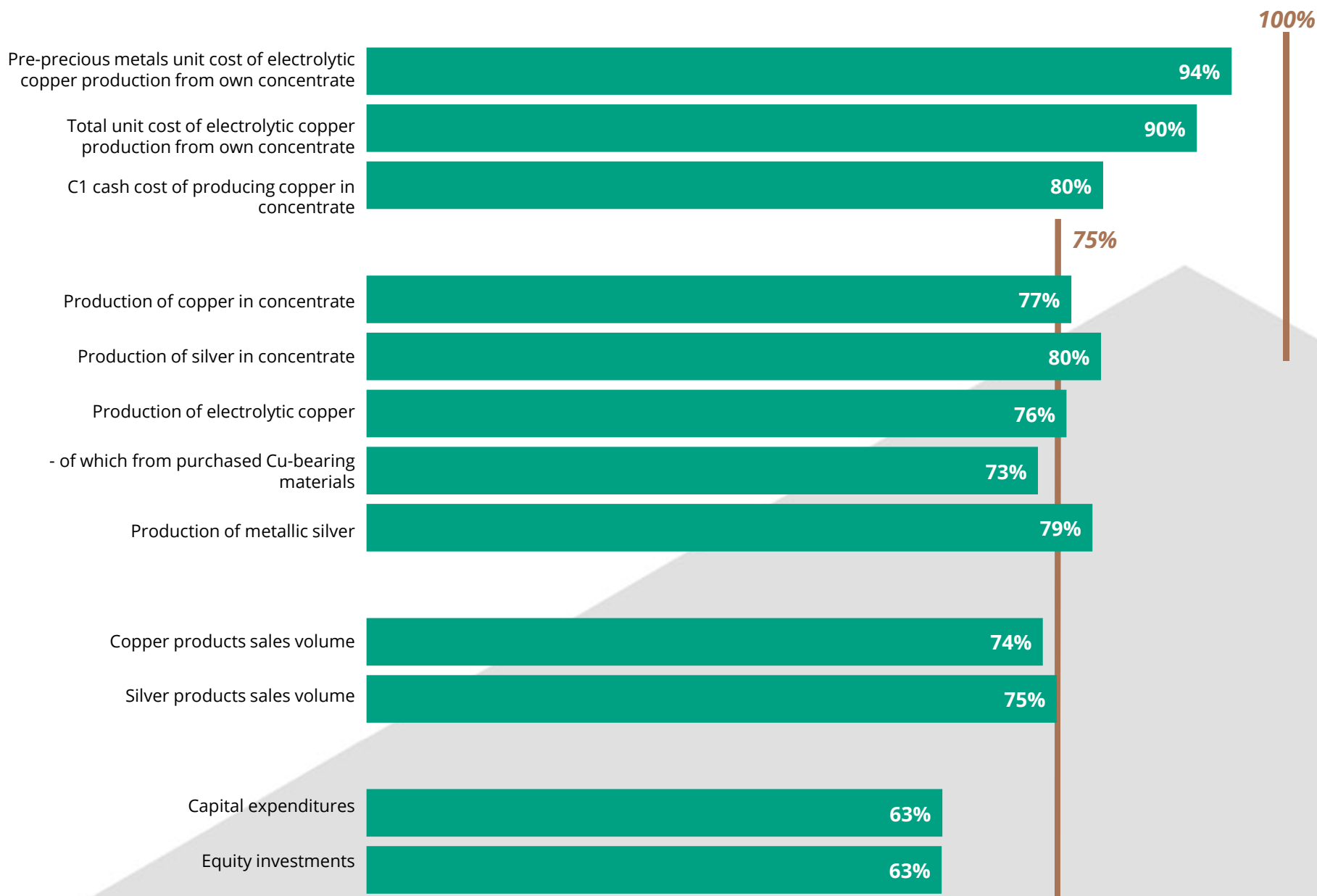
Position in interest rate derivatives



Result on derivatives

- In the period January-September 2015, KGHM Polska Miedź S.A. recorded a positive result on derivatives in the amount of PLN 164 mln PLN, million, of which:
 - PLN 343 million increased sales revenue (transactions settled in the January-September period),
 - PLN 179 million decreased the result on other operating activities (mainly a change in the measurement of open transactions as at 30 September hedging the period to the end of 2018).
- The fair value of derivatives (MtM) in KGHM Polska Miedź S.A. as at 30 September 2015 amounted to PLN 44 million.
- The revaluation reserve on cash flow hedging instruments as at 30 September 2015 amounted to PLN 123 million.

Execution of KGHM Polska Miedź S.A. targets after the first three quarters of 2015





Thank you!

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