



KGHM
POLSKA MIEDŹ

**KGHM Polska Miedź S.A.
strategy for the years 2015-2020
with the outlook to 2040**

26 January 2015

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Executive Summary

- **KGHM Polska Miedź S.A. successfully implemented its strategy from 2009** delivering exceptional returns to its shareholders
- Continuing its growth strategy KGHM has set a new goal – **mine production of over 1 million tonnes of copper equivalent by 2020**
- KGHM's new strategy will be based on three main pillars:
 - Resource base development (an **extensive exploration program in Poland and worldwide** combined with potential acquisition of pre-production assets)
 - Assets development (an **investment program of PLN 27 billion focused on developing existing assets**)
 - Optimizing production (**reducing C1 production cost for the KGHM Capital Group by ~10% by 2020**)
- KGHM is developing **innovative mining and processing technologies** that will build sustainable competitive advantage and will ensure long-term value growth for shareholders
- **KGHM is an attractive investment** in view of the promising outlook for the copper market, the Company's large resource base, its diversified portfolio of world-class projects, experienced staff and stable dividend policy (up to 1/3 of net profit)

Agenda

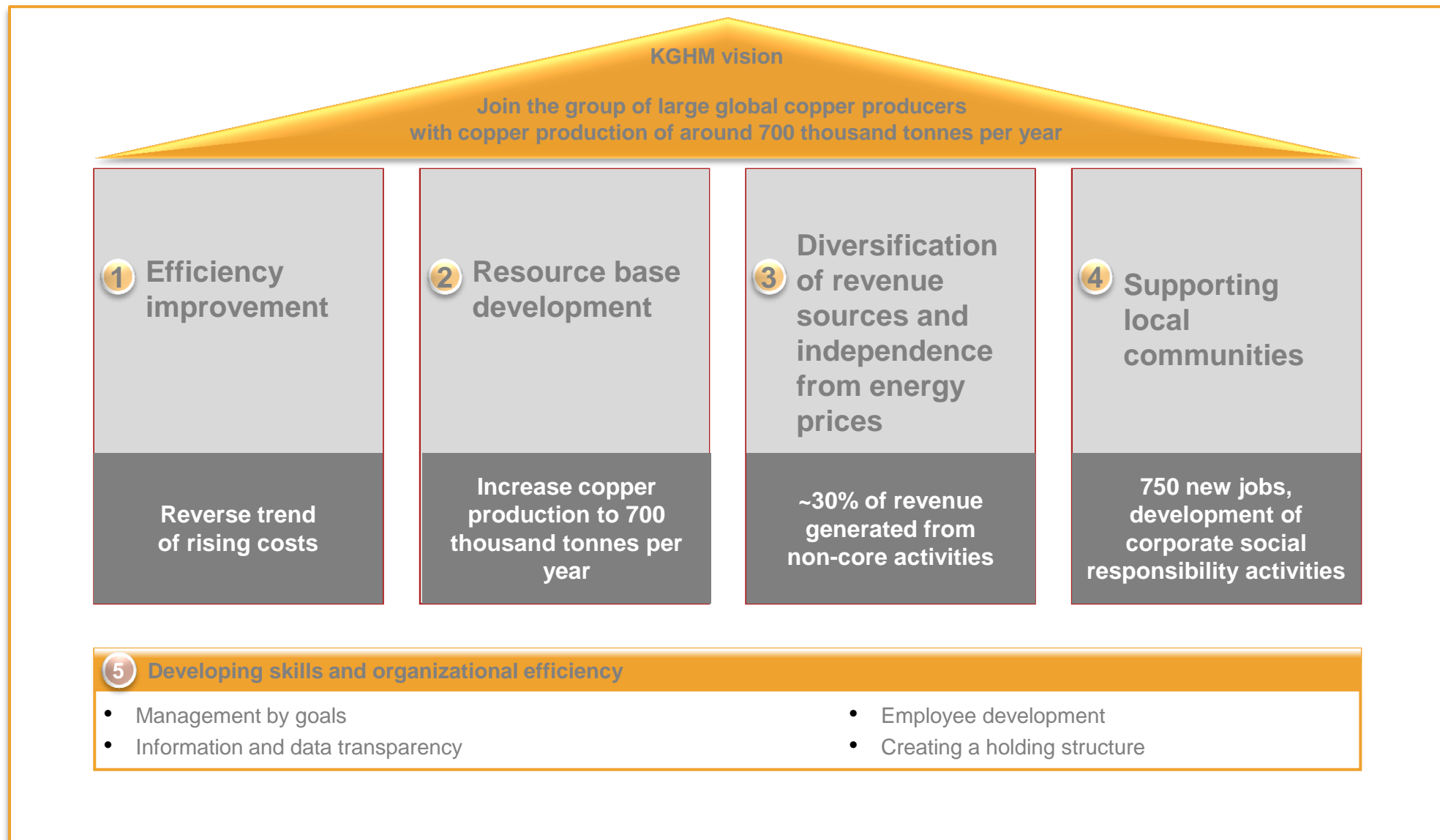
The background of the slide features a close-up, artistic photograph of several large coils of copper wire. The wires are tightly packed and spiral upwards, creating a sense of depth and texture. The lighting is warm, highlighting the metallic sheen and the intricate patterns of the coils.

Completion of strategy from 2009

New strategy for the years 2015-2020 with the outlook to 2040

KGHM – an attractive investment

In 2009 KGHM Polska Miedź S.A. adopted a growth strategy aimed at ensuring a strong position among global copper producers

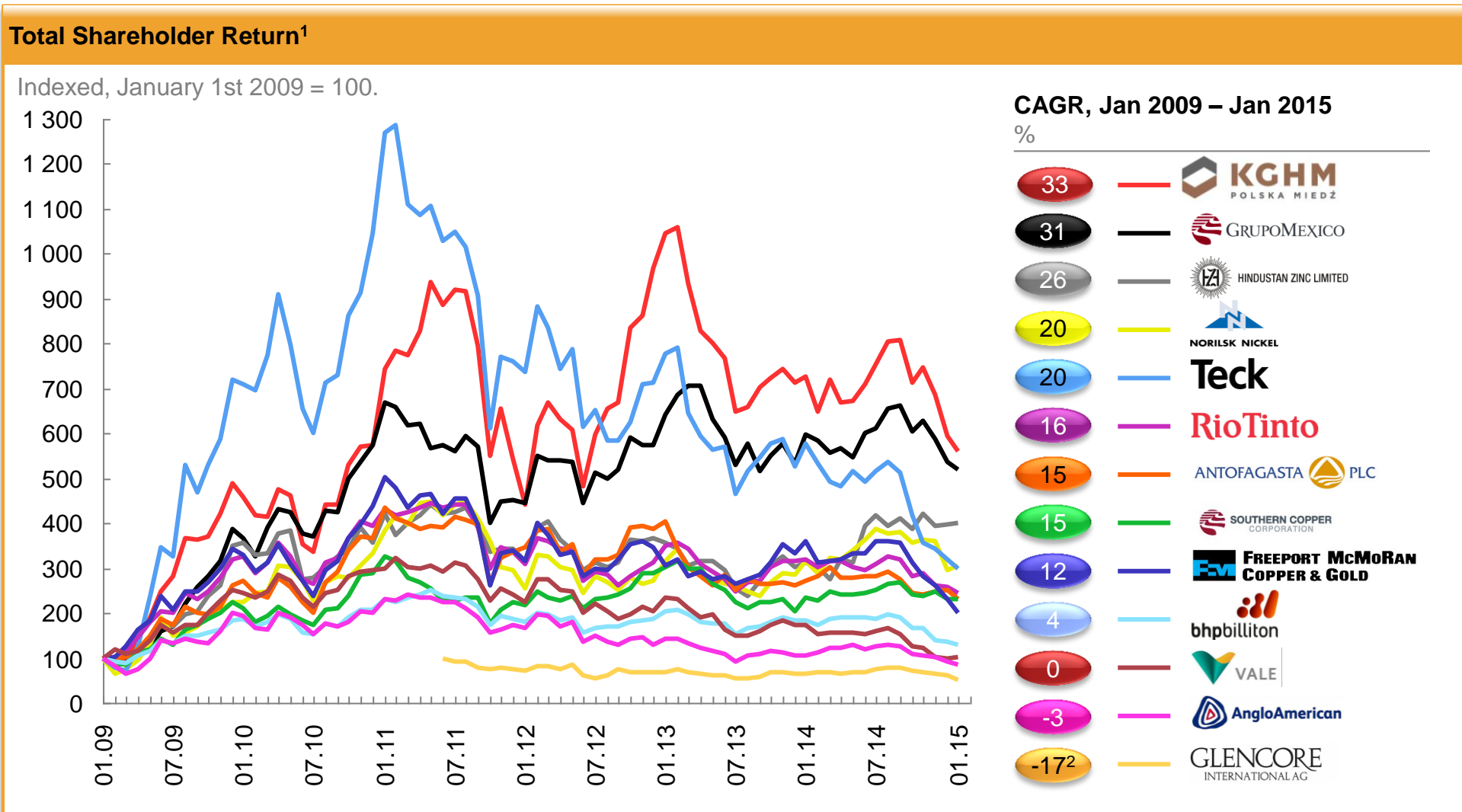


KGHM Polska Miedź S.A. successfully achieved its strategic goals from 2009

- 1** The rising costs trend was reversed
 - From 2012 average yearly **cost of production per tonne dropped 2% per year¹**
- 2** KGHM grew its resource base and **significantly increased copper production**
 - In 2012 Quadra FNX was acquired at a favorable price
 - In 2014 Sierra Gorda, a world-class project, was commissioned
 - The total **resource base grew by 12 million tonnes of copper**, over 40% growth
- 3** By growing its resource base **KGHM's operations were diversified**
 - KGHM owns production assets in Europe, North America and Chile
 - Production was extended to other non-ferrous metals (molybdenum, gold)
- 4** KGHM remains an important partner for the local region **generating 40% of local taxes and directly employing almost 40 thousand people**
- 5** KGHM introduced **management by goals** for key managers and created numerous programs promoting knowledge transfer and **developing talented employees**

¹ The pre-precious metals credit unit cost of electrolytic copper production excluding the metals extraction tax in KGHM Polska Miedź S.A.

Successful implementation of KGHM's strategy provided exceptional returns to its shareholders compared with the mining sector



¹ Total shareholder return – return from share price appreciation plus dividend payout, calculated on a USD basis

² Glencore IPO'd in May of 2011. It is therefore indexed to 100 on May 18, 2011

Agenda

The background of the slide features a close-up, artistic photograph of several large coils of copper wire. The wires are tightly packed and spiral upwards, creating a sense of depth and texture. The lighting is warm, highlighting the metallic sheen and the reddish-orange hue of the copper.

Realization of strategy from 2009

New strategy for the years 2015-2020 with the outlook to 2040

KGHM – an attractive investment

KGHM's new strategy for the years 2015-2020 with an outlook to 2040 focuses on continuing growth and maximizing shareholder value

Build the shareholder value of the KGHM Group based on a clear path of global growth ...

Produce over 1 million tonnes of copper equivalent and enhance efficiencies

... by building a stable portfolio of production assets ...

Resource Base Development

- Increase resources
- Search for low cost assets
- Ensure long-term operational stability
- Diversify activities

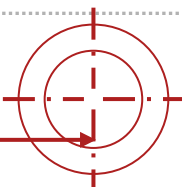
Assets Development

- Develop mining projects
- Efficient investments
- Replicate successes
- Capitalise on results

Optimizing Production

- Optimise production costs
- Increase production capacity
- Ensure zero harm
- Improve position on the cost curve

Goals



Copper replacement ratio of 3:1

On time and budget

Stable production results

... with on-going improvement in operational execution ...

Efficiency and Innovation

... along with integration of the supporting foundations of the KGHM Group.

Financial Stability

Corporate Social Responsibility

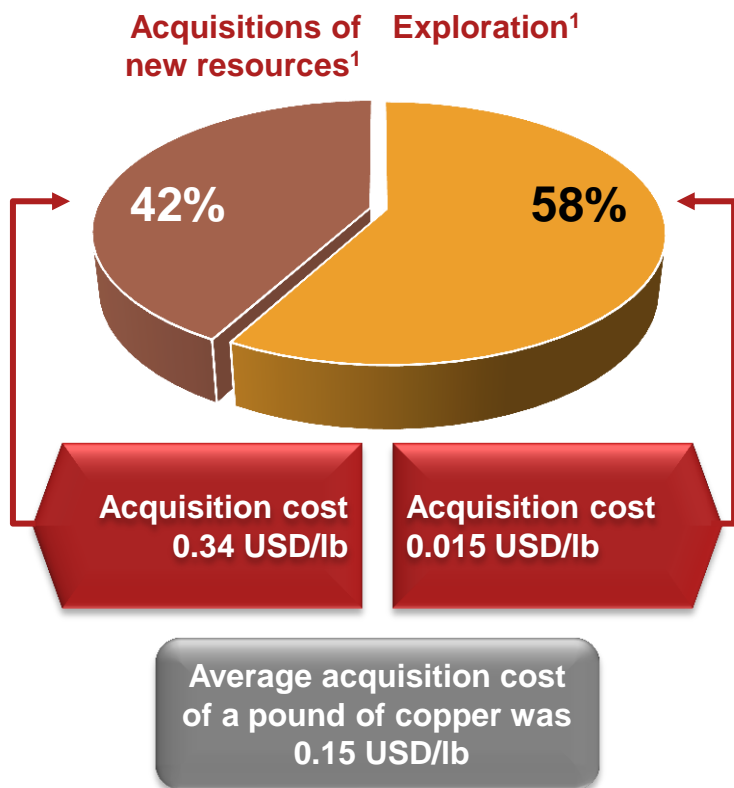
Global Organization and Talent Development

Energy Security

To ensure a stable resource base, KGHM plans to launch an exploration program and to set the replacement ratio at 3:1

To ensure balanced resource base growth KGHM plans to augment its plan to acquire low cost assets with an exploration program

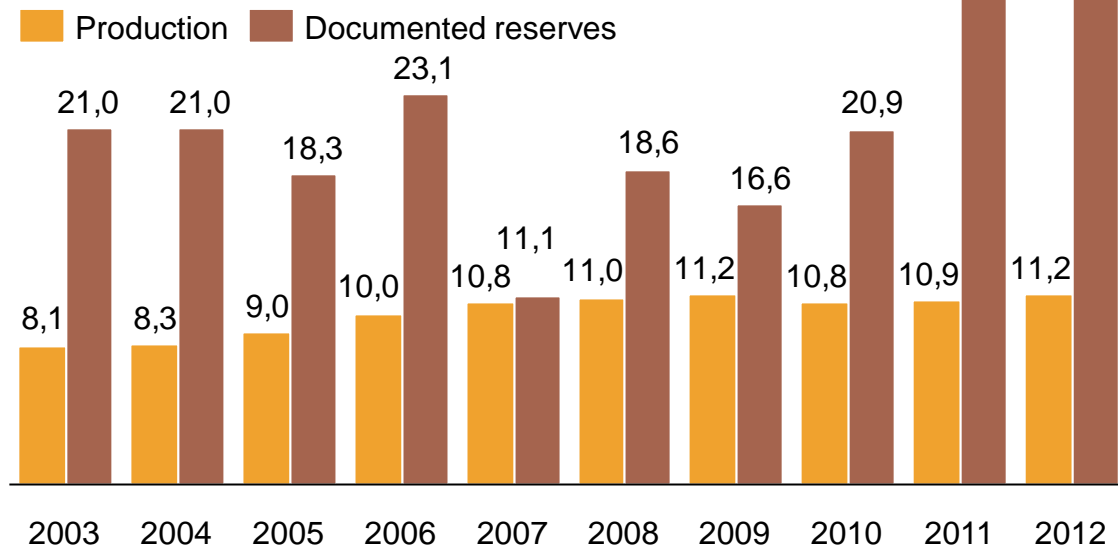
Resource acquisition by the 23 largest copper mining companies¹



Newly documented deposits have tended to exceed copper production by a 3:1 ratio – KGHM plans to follow market standards and set its own replacement ratio at the level of 3:1

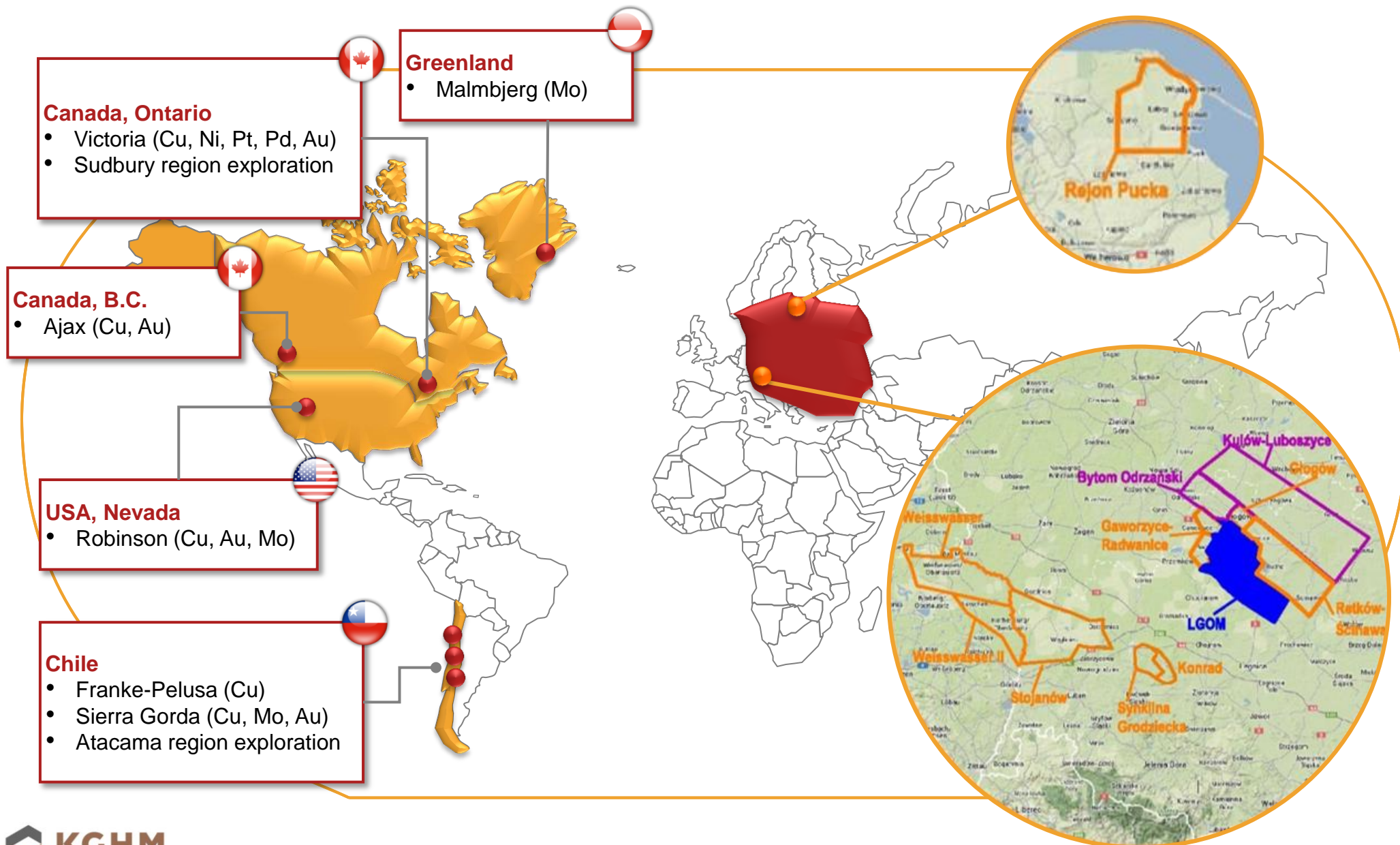
Production and documented reserves of the 23 largest copper mining companies¹

In millions of tonnes

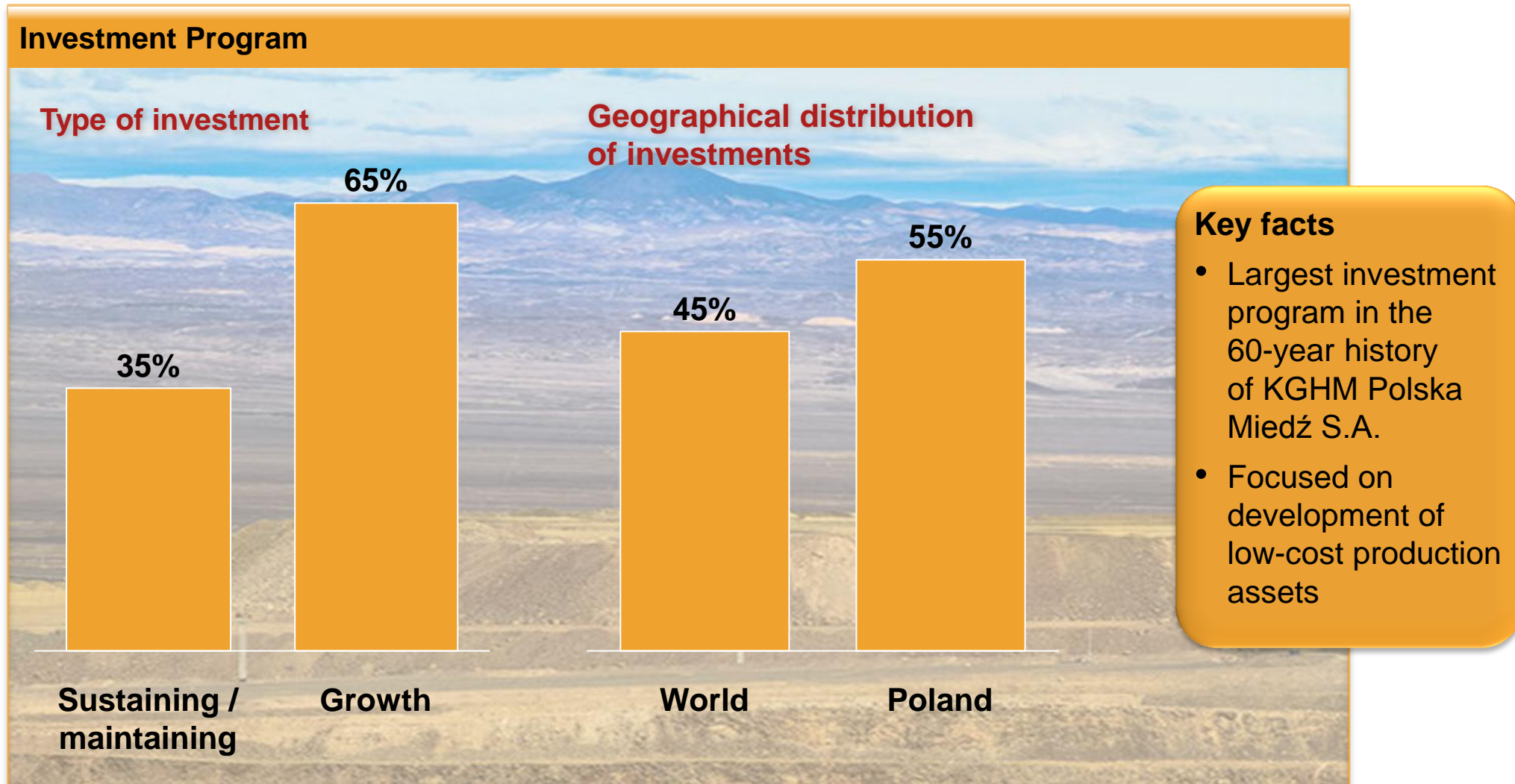


In the years 2003-2012 every extracted tonne of copper was replaced on average by almost 3 tonnes of copper in documented reserves (~3:1 ratio)

KGHM will carry out an exploration program both in Poland and world-wide for optimal resource base diversification



KGHM plans within 6 years to invest around PLN 27 billion in the development of its existing assets



Under its investment program KGHM will supplement its portfolio with world-class mining and smelting projects

Main investments



Deep Głogów

Ensuring continuity of production



Pyrometallurgy Modernization Program

Improving global smelting competitiveness



Sierra Gorda

Commencement of phase II and processing of the oxide ore



Victoria

Building an underground mine (copper, nickel and platinum group metals)



Afton Ajax

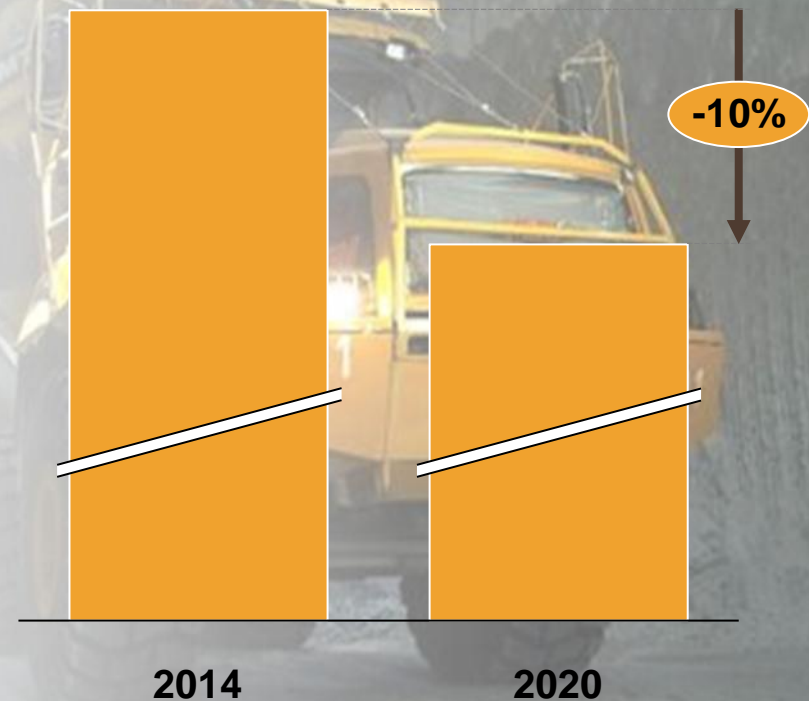
Open pit mine (copper and gold)

KGHM will continuously improve asset productivity

The productivity improvement initiatives of the Value Creation Plan will improve the cost position of the KGHM Group

- **OEE (Overall Equipment Effectiveness) improvement** – program to optimize underground equipment management
- **Reduction of underground equipment**
- **Maintenance optimization** by implementing IT tools to track utilization of machines and equipment along with usage costs
- **Production line automation**
- Production of high quality concentrate while maximizing recovery of copper and associated metals and optimising costs
- **Sierra Gorda mine: geotechnical optimization and increasing output beyond initial design capacity**
- Energy efficiency program in the KGHM Group

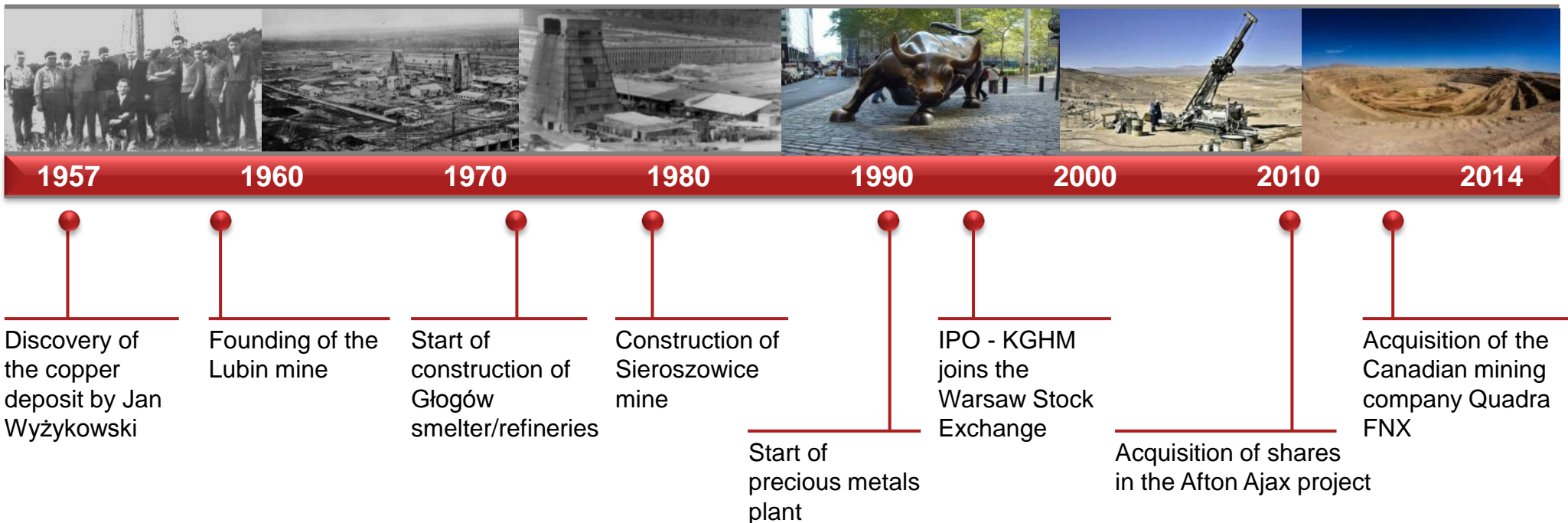
KGHM Group C1 costs



KGHM's operations are based on a 60-year-long mining tradition

Discovery of the copper deposit brought about a fundamental change in the region's economy thanks to the growth of KGHM Polska Miedź S.A.

As a result of M&A activities, capped by the acquisition of Quadra FNX, KGHM became one of the world's global copper producers



Development of new technologies combined with optimal assets management will grant KGHM a leading position in the industry

International expansion enables the company to grow in value based on know-how and skills

Development and implementation of new technologies positions KGHM as a global leader setting new trends in the industry



2015

2025

2035

2045

2057+

Development of Sierra Gorda phase II and processing of oxide ore

Integrated mine monitoring system

Longwall mining system

Intelligent mines based on neural networks

Commencement of Afton Ajax and Victoria mine operations

100 years of KGHM's continuous growth

KGHM participates in a wide variety of research programs

KIC Raw Materials



- **KGHM has a leading role in this international consortium** of over 100 organizations from 22 EU countries
- **Winner of Knowledge and Innovation Community** competition (EU program)
- The program's goal is to develop new solutions for the sustainable exploration for and extraction, processing, and recycling of natural resources
- **Establishing in Wrocław of one of the program's 6 main locations**
- Close cooperation between companies, universities and scientific institutions

Joint Venture CuBR



- **Joint Venture with The National Center for Research and Development (NCBiR)**
- Research and development for the non-ferrous metals industry
- Main areas of support:
 - Geology and Mining
 - Ore processing
 - Metallurgy, processing, new materials
 - Environmental protection, risk management, efficiency in business
- **Project budget of PLN 200 million**

KGHM also supports numerous R&D projects focused on innovative technologies for natural resources extraction

Development of an intelligent production line based on artificial intelligence, artificial neural networks and Big Data

- Innovative systems to access and explore deposits – automated technologies, biometallurgy and hydrometallurgy that will allow previously unmined deposits to be reached
- Minimizing human presence in hazardous areas
- Automation of production processes. Usage of artificial intelligence and Big Data
- Online mineralogical and chemical analysis in production processes



Financial outlook in 2015-2020

Base production and macroeconomic assumption for the Group (with a 55% share in the Sierra Gorda project) for the years 2015 – 2020¹:

- **Production** – mined production of over 1 million tonnes of copper equivalent by 2020
- **Share in copper equivalent production from international assets** – an increase from 17% to 40% in 2020
- **CAPEX** – a total of PLN 27 billion in total capital expenditures, of which around 70% will be allocated for development projects, and over half of the capital expenditures will be invested in Poland
- **EBITDA** – expected increase by 2020 of 70% as compared to 2014
- **C1 cost** – planned decrease by 2020 of C1 cash cost of around 10% as compared to 2014
- **Net Debt/EBITDA** will be maintained at a safe level in the range of 1-2

¹The Strategy was developed under the following macroeconomic assumptions:

- average copper price in 2015 – 2020 of 7 600 USD/t (2015 - 6 800 USD/t);
- average silver and molybdenum prices in 2015 – 2020 respectively: 21 USD/troz (2015 – 18 USD/troz) and 12 USD/lb (2015 – 12 USD/lb)
- average USD exchange rate in 2015 – 2020: 1 USD = 3 PLN (2015 – 1 USD = 3.30 PLN)

Key milestones to 2020



If appropriate financing is available and market conditions are favorable, KGHM expects further involvement in new mining projects

Key themes of KGHM's new strategy for the years 2015-2020 with an outlook to 2040

- Production of over **1 million tonnes of copper equivalent – TOP 7** among global mining companies
- **Investment of PLN 27 billion in the development of existing assets** – largest investment program in KGHM's 60-year history
- Securing **some of the largest copper deposits in the world** – the largest exploration program in Polish history
- A world-class innovation program in the mining sector – **a longwall mining system in the next 5-10 years** and the creation of **intelligent mines in the next 10-15 years**
- Cost reduction thanks to innovation and efficiency improvement programs – **a 10% decrease in the KGHM Group's C1 cash cost by 2020**
- Further development of **geological, mining and technological skills** that are necessary to achieve sustainable competitive advantage based on innovation
- Actions aimed at **redefining the minerals extraction tax formula in Poland**

Agenda

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Realization of strategy from 2009

New strategy for the years 2015-2020 with the outlook to 2040

KGHM – an attractive investment

KGHM is an excellent choice for investors looking for stable returns with a mid- and long-term upside potential

- 1 Good copper market outlook** in the mid- and long-term
 - Forecasted global copper balance indicates a trend toward higher prices
- 2 Diversified projects portfolio** and **stable resource base**
 - Mining projects in politically and economically stable countries (Poland, Canada, USA, Chile)
 - The current resource base enables continuous production for the next 40 years
- 3 Reverse of tendency towards growing production costs** (a 2%¹ yearly decrease in 2012-2014) combined with further focus on cost efficiency
- 4 Stable dividend policy** – up to 1/3 of the Company's net profit
- 5 Experienced team** who successfully commenced new mining projects
- 6 Stable organization with strong values** acting responsibly

