



KGHM

INTERNATIONAL

Company Results for Q2 and H1 2014

August 15, 2014

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For more information about the Company and its parent KGHM Polska Miedź S.A., including financial statements and other reports, go to www.kghminternational.com or www.kghm.pl.

All figures are in US\$ unless otherwise stated or unless the context requires otherwise.

New mine in Chile – copper, gold, molybdenum

**30 July
2014**

**Production of the first copper
concentrate at the Sierra Gorda mine**

64
K OUNCES
of target annual
GOLD production

220
K TONNES
of target annual
COPPER production

25
M POUNDS
of target annual
MOLYBDENUM production

KGHM International Project Highlights

- **Growth pipeline:**
 - **Sierra Gorda Project:**
 - As of June 30, 2014 over 95% of the project complete
 - Design work over the second phase of the project continues
 - On July 30, 2014 the first concentrate was produced by the Sierra Gorda mine
 - First copper concentrate expected to ship in September 2014
 - **Victoria:**
 - Continued to advance project management plan with primary focus on engineering and site preparation
 - Drill and blasting for site levelling at 50% completion
 - **Sierra Gorda Oxide:**
 - Feasibility study 39% complete
 - Column leach testing continues to yield excellent results.

Construction of coarse ore stockpile dome and loading infrastructure completed

Sierra Gorda

Cu Mo Au

Resources	~1463.3 Mt @ 0.40% Cu 0.02% Mo 0.065 g/t Au
Ownership	55% KGHM 45% Sumitomo
Mine type	Open pit



Primary crushing

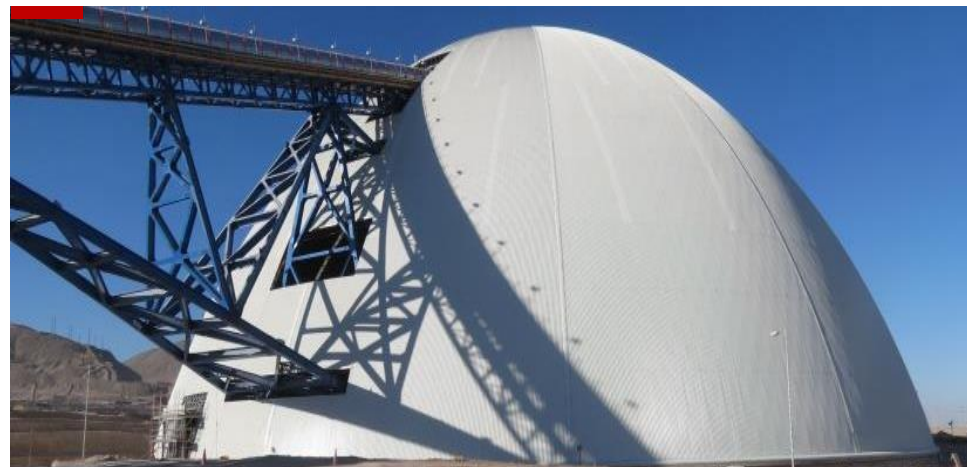
Progress to date

- On 4 August 2014 the Supreme Court of Chile issued a final and favorable judgment in a case concerning compliance with environmental laws to transport copper concentrate from Sierra Gorda to the Port of Antofagasta
- Sierra Gorda is coordinating with the logistics partners, ATI and FCAB, to finalize the construction of a dedicated world-class warehouse and loading facilities at the Port of Antofagasta
- Stage two – work in progress to design and develop processing plant infrastructure
- Total number of employees required for operations is estimated at 2 000

Progress to date



Primary crusher



Coarse ore stockpile dome



Sea water pond



Ball mill #1

Victoria – steady progress in mine development

Victoria		Ni	Cu	Pt	Pd	Au
Resources	~14.5 Mt @	2.5% Cu 2.5% Ni 7.6 g/t TPM				
Ownership	100% KGHM					
Mine type	Underground					



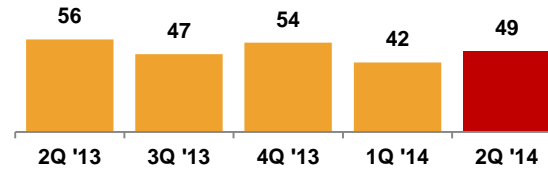
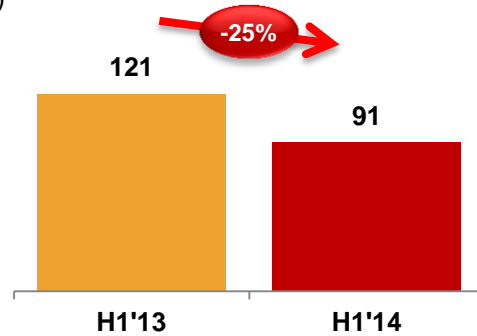
Progress to date

- In the first half of 2014 work was completed on levelling terrain for the construction of mine infrastructure
- Preparations for the hoisting machinery foundations and preliminary drilling for the shaft head in progress
- Work is underway on the Integrated Development Study, whose elements include a detailed project schedule, budget and operational plan.

Production Highlights

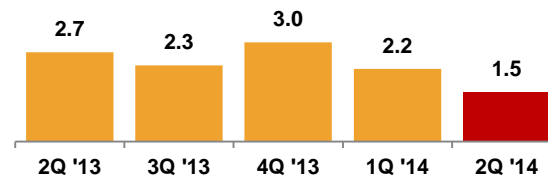
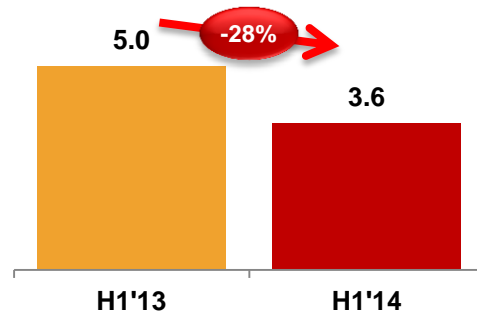
Copper production

(Mlbs)



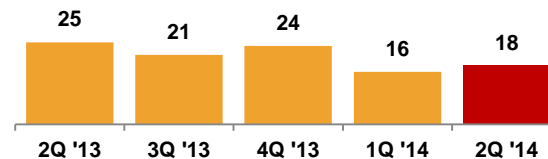
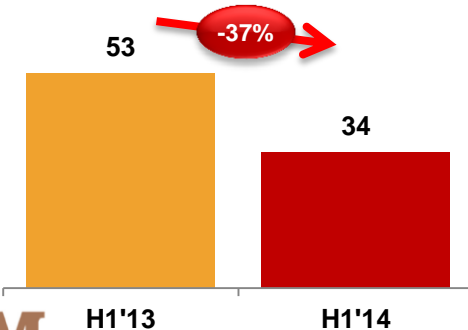
Nickel

(Mlbs)



TPM (gold, platinum, palladium)

(kozs)



- Q2 vs. Q1 2014: Improvement in production by 7 Mlbs due to Robinson production. From an increase in ore mined by 20%, improvement in grades by 11% and improvement in recoveries by 15%.
- Decrease in total copper production for Q2 and H1 2014 compared to the same periods in 2013 due mainly to reduced production at Robinson from poor quality ore milled at the Kimbley pit (resulting in decrease in recovery rates and milled grade) compared to more favourable ores milled from the Ruth pit in 2013.

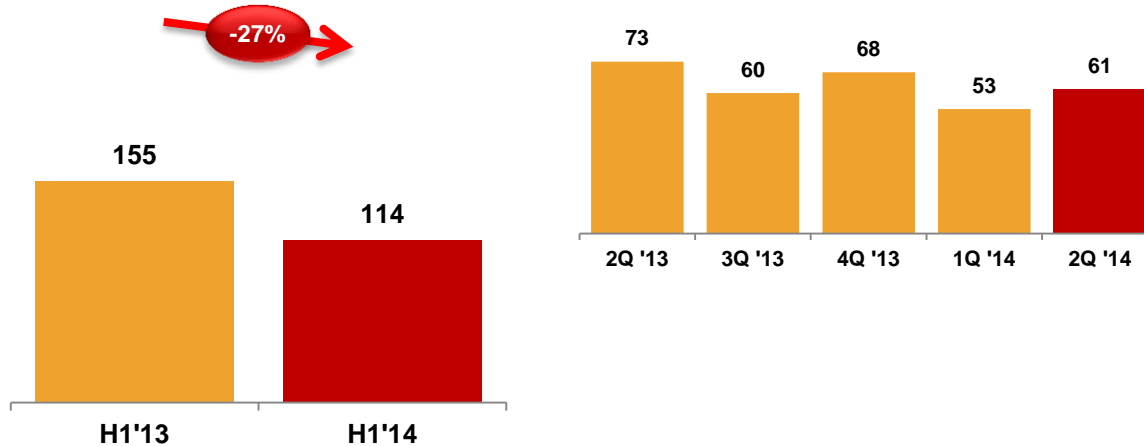
- Reduction in Nickel production primarily due to suspension of nickel ore mining at McCreedy West in Q1 2014.

- Improvement in TPM production in Q2 2014 compared to Q2 2013 primarily due to higher grades and contained metal at Morrison.
- Decrease in TPM (total precious metal) production for Q2 and H1 2014 compared to the same periods in 2013 was mainly due to decrease gold production by the Robinson mine as a result of lower recovery rates and grades.

Production Highlights continued

Copper equivalent production¹

(Mlbs)



C1 cost per pound of copper sold

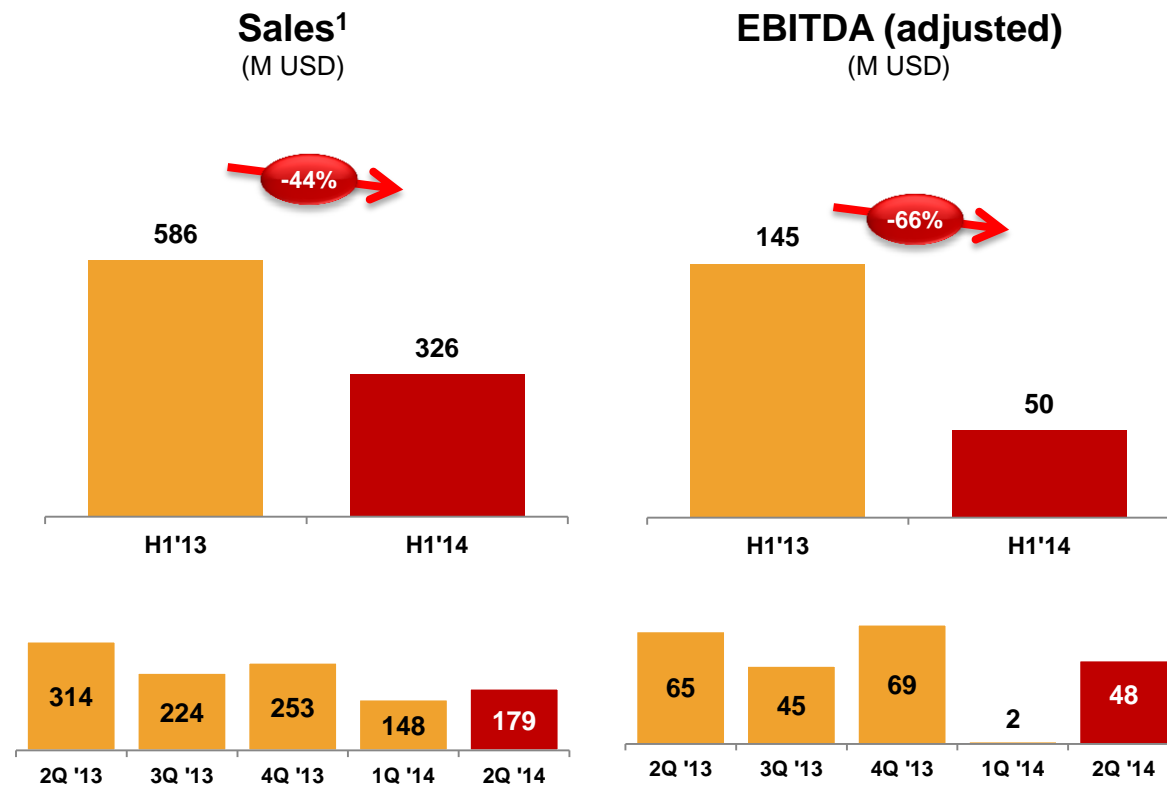
(US\$)



- In 2014 significant improvements were seen in Q2 results compared with Q1 due to increased grades and recoveries realized at Robinson.
- Q2 2014 and H1 2014 decrease in copper equivalent production compared to Q2 2013 and H1 2013 primarily due to decrease in copper and gold production at the Robinson mine as a result of lower recovery and a decline in grades milled.

- C1 costs In Q2 2014 at \$2.03/lb were significantly lower than Q1 2014 at \$2.74/lb primarily due to improved grades at Morrison, improved cost of goods sold relating to the adjustment to Carlota's leach pad inventory in Q2 2014 at Carlota.
- C1 costs increased primarily due to a decrease in production at Robinson from lower concentrate grade and head grades. All other operations saw lower C1 cost due to expenditure reduction initiatives, changes in inventory, favourable blending synergies at Franke and reduction in cost of goods sold at Carlota.

The deterioration in macroeconomic conditions and reduction in sales volume influenced the financial results



EBITDA improved to \$48M in Q2 2014 from \$2M in Q1 2014.

- Substantial improvement in results by the Robinson, Morrison and Carlota mines in Q2 2014 compared to Q1 2014

The main causes of a decrease in Q2 2014 and H1 2014 EBITDA compared to the same periods in 2013 were:

- Lower effective copper sales price
- Lower sales volume of copper, gold and DMC contract revenues
- Offset by, lower costs, due to lower production levels and contract mining activities, cost management and inventories management

- Improvements in Q2 2014 results over Q1 2014 positively impacted cash flow and EBITDA
- Management expenditure saving plans continue to be implemented:
 - General management and administrative costs, sustaining Capex and Opex
 - Expenditures on projects, exploration and new business
- Results positively impacted by exchange rate changes – weakening of the CAD and CLP versus the USD

Morrison Update and Outlook



Morrison

Cu Ni TPMs

Q2 2014 improvements included:

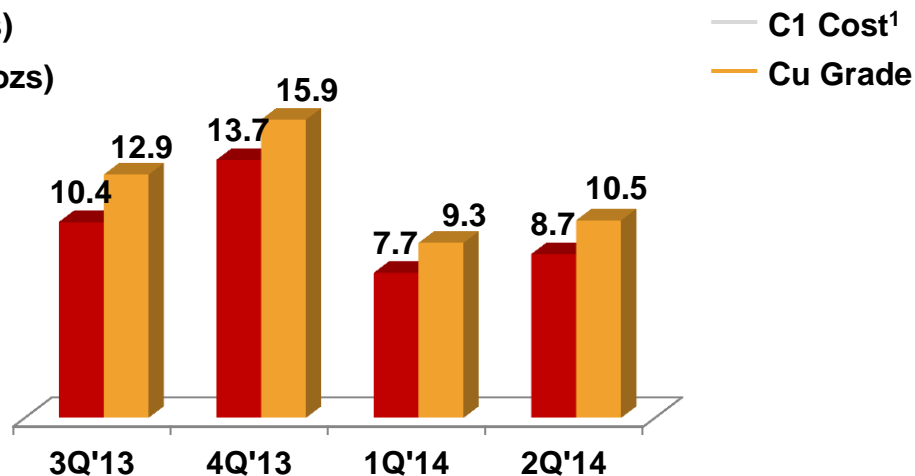
- Improvement in grade from Q2 2013 by 6% as a result of additional high grade trunk vein mining
- Payable total precious metals (TPMs) was 28% higher in Q2 2014 compared to Q2 2013 due to higher grades mined in lower Morrison Deposit Zone 3
- Decrease in C1 Cost per pound of copper sold due to less ore mined, with higher metals grade and lower operating costs

Outlook

- Diamond drilling was focused on in Q2 2014 in order to develop mining areas for H2 2014
- Site backfilling progress has been strong in H1 2014, which will allow for improved execution of the mine plan for H2 2014
- Capital development in the access to the 5000' elevation will continue with diamond drilling commencing in mid Q3 2014

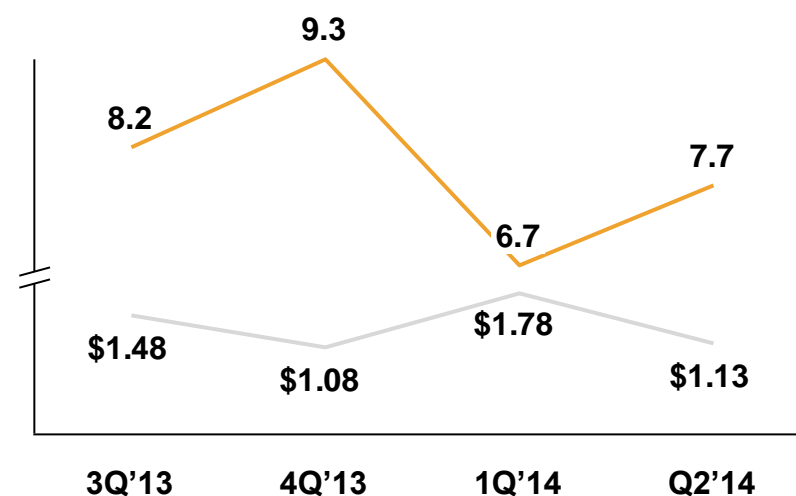
■ Payable Cu (Mlbs)

■ Payable TPMs (koz)



— C1 Cost¹

— Cu Grade



¹ Cash cost per pound of copper sold (US\$/lb)

Robinson Update and Outlook



Robinson

Cu

Au

Mo

Q2 2014 improvements included:

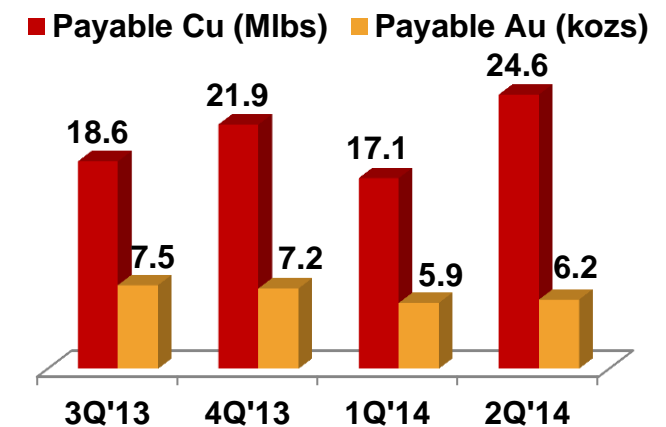
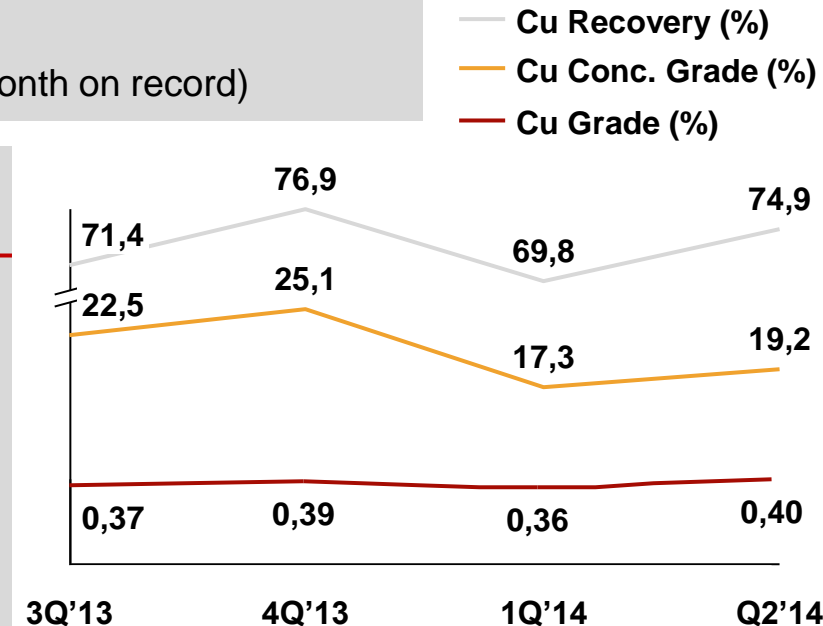
- Blending synergies from higher grade Ruth ores
- Improved milling rates and mill utilization (99.5% in June - second highest month on record)

Current plan (for H2 2014)

- Blending Strategy:** For the second half of the year, the Robinson mine will undertake a deep dive from lower Ruth East to access higher grade ores, resulting in improved recovery rates in September and October.
- Mill Improvements:** Testing of a new reagent MX-525 in the mill in order to improve recoveries
- Block Model Update:** Potential risks exist over the mining of the remainder of the Kimbley ore reserve in Q3 2014.

Expected results

- Ore can be blended or sent directly as mill feed to improve recoveries and production
- Potential to improve copper (~0-3%), gold (~0-2%), and moly recovery (~0-10%); increasing payable metal
- Kimbley ore predictability continues to be a short term risk



KGHM International Q2 2014 Financing Update

Line of Credit

- \$120M drawn as at June 30, 2014
- Requirement to maintain minimum \$100M cash balance in North America removed August 1, 2014

Project spending to be funded by parent KGHM SA

- **Letter of Credit Support from KGHM SA**
 - January 2014 \$137.5M - New LC from KGHM SA, released \$137.5M of capacity from Line of Credit
 - Q2 2014 – KGHM SA replaced \$72M LC's and provided a new LC in the amount of \$5M
- **Cash Pooling Arrangement:** \$100M of cash pooling arrangement with KGHM SA
- **KGHM SA funding:** July 11, 2014 KGHM SA signed an agreement for unsecured revolving credit facility in the amount of \$2.5B. Part of the proceeds will be used to refinance \$200M line of credit and \$500M of senior unsecured notes. Timing of these repayments are subject to KGHM SA approval.

KGHM International Q2 2014 Summary

Growth pipeline:

- **Sierra Gorda:** Over 95% complete with commissioning commencing in Q2 2014
- **Victoria:** Continued project management plan with drill and blasting for site levelling at 50% completion
- **Sierra Gorda Oxide:** Feasibility study 39% complete

Operations

- Improvement over Q1 2014 results at all mine operations
- Cost savings, currency savings and efficiencies continue

Financing for 2014:

- Line of credit and removal of minimum cash balance
- KGHM SA signed an Agreement for an **unsecured, revolving credit facility in the amount of \$2.5B**. Proceeds to be used to refinance \$200M line of credit and \$500M of senior unsecured notes

