



KGHM

INTERNATIONAL

**Company Results for
Q1 2014**

May 16, 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.

KGHM International Q1 2014 Results Highlights

- **Growth pipeline:**
 - **Sierra Gorda highlights:**
 - Project overall 95% complete
 - Project on time for commissioning in mid-2014
 - **Victoria:**
 - Advance project management plan underway
 - Primary focus on engineering and site preparation to facilitate advanced exploration shaft and underground development
 - **Sierra Gorda Oxides:**
 - Preparation for Feasibility Study started March 2014
- **Financial highlights:**
 - **Adjusted EBITDA:**
 - Q1 2014 vs. Q1 2013 decreased to \$2M from \$80M
- **Operations:**
 - **Cu production:**
 - Q1 2014 vs. Q1 2013 decreased to 42Mlbs (19kt) from 65Mlbs (30kt)
 - **Cu sold:**
 - Q1 2014 vs. Q1 2013 decreased to 35Mlbs (16kt) from 50Mlbs (23kt)

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

Sierra Gorda

Cu

Mo

Au

Reserves	~1,463.3 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 March 31 2014)

- Project to be completed on time with commissioning mid-2014
- Project's overall progress is 95%
- Mine operations - successfully completed pre-stripping, 192 million tonnes and 3.3 million man hours without a lost time accident
- ~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 built in Chile

Sierra Gorda – completion of pre-stripping and seawater pipeline



- Sierra Gorda will operate using seawater transported through a 143 kilometre pipeline
- Key infrastructure includes also the coastal station and two inland pump stations, with a total of 24 pumps and pumping rate of 1,500 litres per second
- Sierra Gorda mine will use 250,000 cubic meters of water daily which equals a 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, sulfide ore and oxide ore
- It resulted in over 710,000 tonnes of sulfide ore in stockpiles ready for processing and 33 million tonnes of copper oxide ores for potential use in the future

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



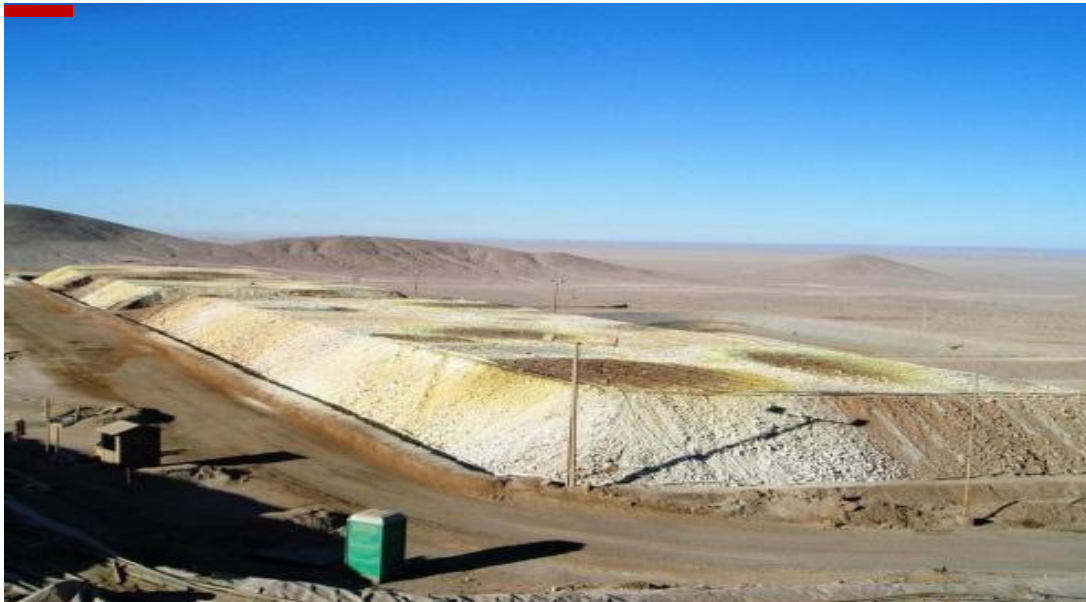
- Progress of adit excavation works

Status

- Limited early works initiated** – including site leveling and shaft sinking preparation
- Finished work related to adit portal preparation, adit excavation work started in March 2014
- Mine Closure Plan filed** for the Advanced Exploration required for the construction of the first shaft
- 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

Sierra Gorda Oxide – potential increase in value

Sierra Gorda Oxide Project

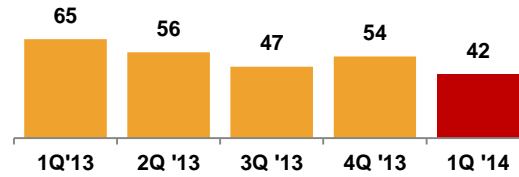
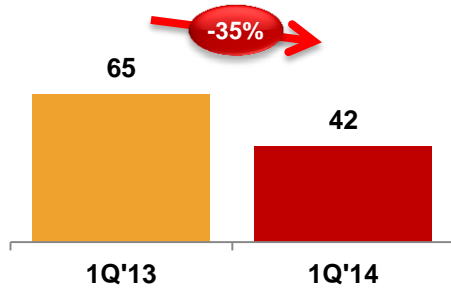


- Preparation for the feasibility study started March 2014
- Pilot test heaps started. Tests heaps included ROM (Run of Mine) ore with high (18,000 t), medium (8,000 t) and low grade (8,000 t)
- Initial results of these tests indicate the significant potential of the project

Production Highlights

Copper production

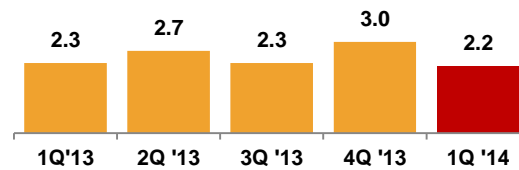
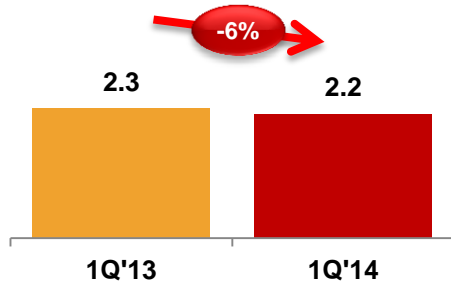
(Mlbs)



- Decrease in total copper production in Q1 2014 due mainly to reduced production at Robinson (-19 Mlbs) from challenging ore milled from the Kimbley pit in Q1 2014 compared to more favourable ores milled from the Ruth pit in Q1 2013. This resulted in a decrease in recovery rates and milling grade.

Nickel production

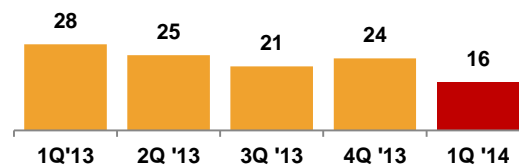
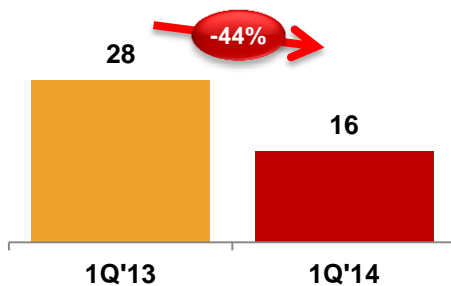
(Mlbs)



- Nickel production slightly decreased primarily due to cessation of Podolsky mine in Q1 2013.

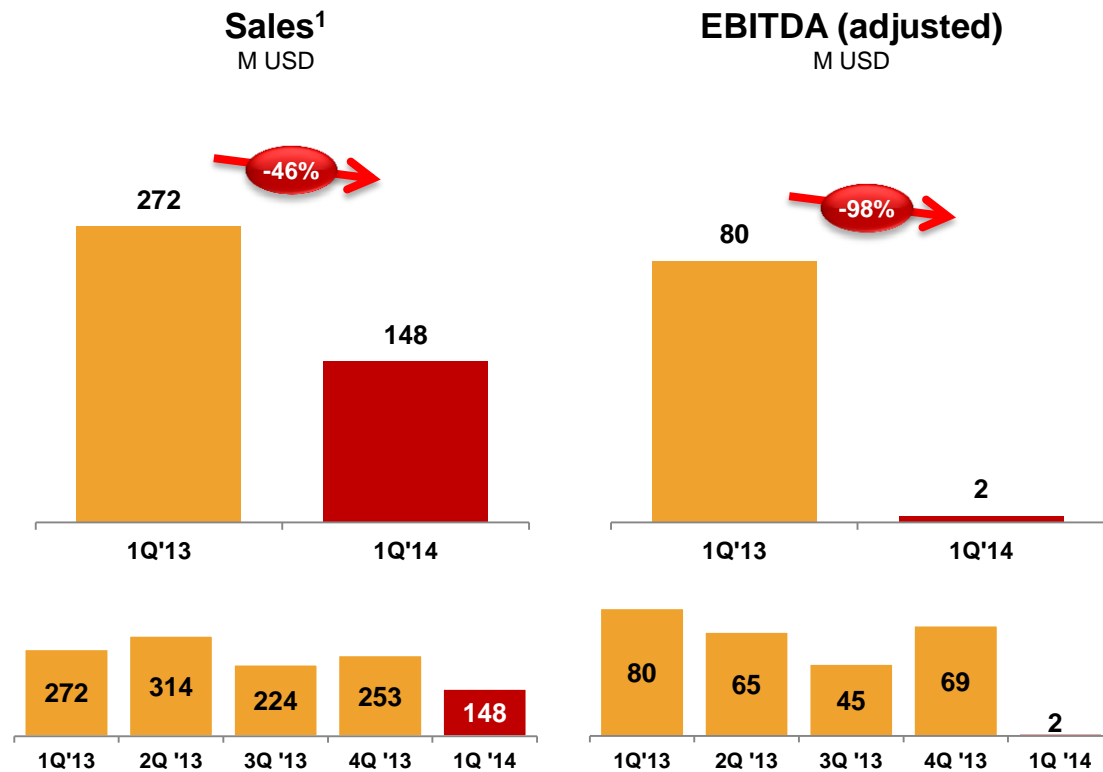
TPM (gold, platinum, palladium)

(kozs)



- The decrease in TPM (total precious metal) production was mainly due to decreased gold production by the Robinson mine (-9.5Kozs) as a result of grades mined and lower recovery rates.

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



The main causes of a decrease in EBITDA were:

- Decline in effective metal price (-USD 35 million), impacting sales, including \$10M negative price adjustments related to prior quarter shipments at Robinson
- Decrease in sales volumes (-USD 52 million), impacting sales
- Other, mainly decrease in operating costs due to lower production (+USD 9 million)

- Management cost saving plans continue to be implemented:
 - G&A, Sustaining Capex and Opex
 - Project capital, Exploration and New Business
 - Forex due to the weaker CAD
- These cash expenditure savings position the company not to require extra funding for operations at current copper prices
- The Company anticipates significant improvement in results in Q2 2014

Main assets of KGHM in North America

Production assets



Morrison

Cu

Ni

TPMs

Underground mine, Canada

- Copper ore sold in Q1 2014 increased by 24% compared to Q1 2013 as the site experienced improved infrastructure reliability, resulting in increase throughput. Higher copper ore sold was partially offset by a 21% decrease in copper grade.
- Development of the lower access from Craig, down to the 5,000' elevation at Morrison continued during the quarter and is expected to be completed in Q4 2014



Robinson

Cu

Au

Mo

Open-pit mine, USA

- Copper production in Q1 2014 faced challenges due to lower tonnage, 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% but ore tonnes reduced by 50% compared to Q1 2013 due to development activities at the Kimbley and Ruth Pits in order to access higher quality ores to improve the ore blend and production for 2014
- \$25 million in one off items: stockpile inventory and prior sales price adjustment



Robinson open-pit mine – Kimbley Pit Nevada, USA

Robinson 2014 Outlook

Current plan (for remainder of 2014)

- **Blending Strategy:** In Q2 2014, the Robinson mine will under take a drop cut into Ruth 3rd West to access 1.4 M tons of higher grade ores
- **Cost Reductions Initiatives:** Throughout the year, the Robinson mine plans to implement aggressive cost cutting 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 Pit Lake 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 great 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.

KGHM International Q1 2014 Financing Update

- **Operating cash flow and cash management**
- **\$200M Line of Credit**
 - **\$95M cash drawings at March 31**
 - **Actively working to remove requirement to maintain minimum \$100M cash balance in North America**
- **Project spending to be funded by parent KGHM SA**
 - **Letter of Credit (“LC”) 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 will replace LC’s existing at March 31, 2014
 - **Repayment of note receivable in Q1**
 - Received \$105M in March as repayment of upstream loan
 - **Other financing mechanisms being prepared**

KGHM International Q1 2014 Summary

- **Growth pipeline:**
 - **Sierra Gorda** - 95% complete and on time for commissioning mid-2014
 - **Victoria developing** on schedule with site preparation to facilitate advanced exploration shaft and underground development
 - **Sierra Gorda Oxides** Feasibility Study started March 2014
- **Operations:**
 - **Copper price**
 - **Robinson Operations**
 - **Other Operations**
 - **Cost saving, currency savings and efficiencies**
- **Financing for 2014:**
 - **Line of credit, operations and KGHM SA support**

