



**KGHM**

INTERNATIONAL

## **Company Results for Q3 and 9 Months of 2014**

November 20, 2014

## Confidentiality and Disclaimer

These materials have been prepared by KGHM International Ltd. (the “Company”) solely for its own use during its presentation to you and may not be taken away, reproduced, redistributed or passed on, directly or indirectly, to any other person (whether within or outside your organization/firm) or published, in whole or in part, for any purpose. By attending this presentation, you are agreeing to be bound by the restrictions set out in this notice and to maintain absolute confidentiality regarding the information disclosed in these materials.

Neither the Company, nor any of its affiliates, make any representation or warranty express or implied as to, and no reliance should be placed on, the accuracy, completeness or correctness of the information contained herein. It is not the intention to provide, and you may not rely on these materials as providing, a complete or comprehensive analysis of the Company’s financial or business prospects. The information contained in these materials should be considered in the context of the circumstances prevailing at the time and has not been, and will not be, updated to reflect material developments which may occur after the date of the presentation. Neither the Company, nor any of its affiliates, shall have any liability whatsoever (in negligence or otherwise) for any loss or damage howsoever arising from any use of these materials or their contents or otherwise arising in connection with these materials.

These materials include forward-looking statements. Forward-looking statements include, but are not limited to, the Company’s estimates for mineral resources, future production, sales, cash flow, business and financial prospects, production growth profile, mine lives, costs, capital cost expenditures, plans, objectives and expectations, including with respect to future projects, progress in the development of the projects, demand and market outlook for commodities, future commodity prices, and other statements that are not historical facts. When used in this document, the words such as “could,” “plan,” “estimate,” “expect,” “intend,” “may,” “potential,” “should,” and similar expressions are forward-looking statements. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, such statements involve risks and uncertainties and no assurance can be given that actual results will be consistent with these forward-looking statements.

This document does not constitute an offer or invitation to purchase or subscribe for any securities of the Company or any of its affiliates and no part of it shall form the basis of or be relied upon in connection with any contract, commitment or investment decision in relation thereto.

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](http://www.kghminternational.com) or [www.kghm.pl](http://www.kghm.pl).

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

## KGHM International Project Highlights

- **Growth pipeline:**
  - **Sierra Gorda Project:**
    - On July 30, 2014 the first concentrate was produced by the Sierra Gorda mine
    - The first shipment of copper concentrate sailed from the port of Antofagasta on October 25, 2014.
  - **Victoria:**
    - Continued to advance project management plan with primary focus on engineering and site preparation
    - Work continues on the Basic Engineering Framework, which includes a detailed project schedule, budget and operational plan
  - **Sierra Gorda Oxide:**
    - Basic Engineering Study is over 50% complete
    - Column leach testing continues to yield excellent results.

# First shipment of copper concentrate from the Sierra Gorda mine

Sierra Gorda		Cu	Mo	Au
▪ Average annual production		220 kt Cu	25 Mlb Mo	64 koz Au
▪ Ownership		55% KGHM	45% Sumitomo	
▪ Mine type		Open pit		



## Progress

- On July 30, 2014 the Sierra Gorda mine in Chile commenced production.
- The first shipment of copper concentrate was sent from Sierra Gorda to the Toyo smelter in Japan. The ship, with around 6 thousand tonnes of copper concentrate, sailed from the port of Antofagasta on October 25, 2014.
- The increase in resources extended the life of the mine to 23 years.
- Work continues related to phase 2 of the investment. The technical analyses currently underway will show the optimal scenario for developing the plant's processing infrastructure, which will enable a substantial increase in copper production in coming years.

# Official opening ceremony for the Sierra Gorda was held on October 1, 2014



## The mine was given the honorary name of Ignacy Domeyko

- Over 600 guests participated in the mine's inauguration. Chile was represented by President Michelle Bachelet, Ignacio Moreno, Under Secretary of State in the Mining of Mining, and Valentin Volta, Governor of the Antofagasta region.
- The Polish government was represented by Zdzislaw Gawik, the Secretary of State in the Ministry of the State Treasury and Katarzyna Kacperczyk, Under Secretary of State in the Ministry of Foreign Affairs.
- Attending on behalf of the Japanese government was Norihiko Ishiguro, Vice Minister for International Affairs, Ministry of Economy, Trade & Industry.
- During the opening ceremony the mine was named in honor of Ignacy Domeyko, a Polish geologist who spent most of his life in Chile and contributed to the industrial, social and cultural development of the country.

## Sierra Gorda Progress



Open pit



Shovel at work



Secondary crushers and HPGRs

# Victoria – steady progress in mine development

Victoria		Ni	Cu	Pt	Pd	Au
▪ Average annual production		~16 kt Ni ~15 kt Cu ~150 kozs TPM*				
▪ Ownership		100% KGHM				
▪ Mine type		Underground				



## Progress

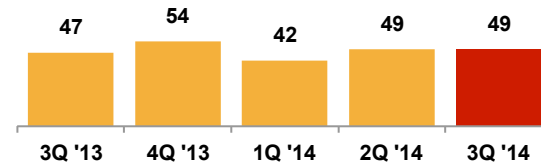
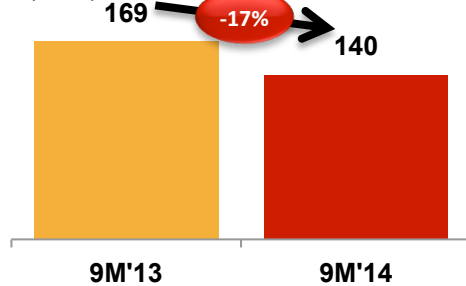
- During the first three quarters of 2014 the initial site levelling for the construction of mine infrastructure was completed.
- Ventilation decline development was completed.
- Earthworks began to prepare the terrain for the head frame foundations.
- Signed advanced exploration IBA Agreements with two First Nations
- Work continues on the Basic Engineering Framework, which includes a detailed project schedule, budget and operational plan.
- Project team continued working on project optimization opportunities

\*TPM – total precious metals (gold, platinum and palladium)

# Production results overview

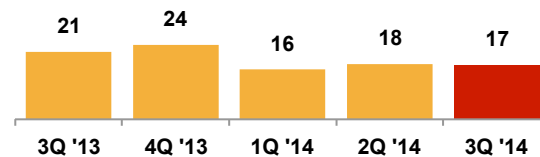
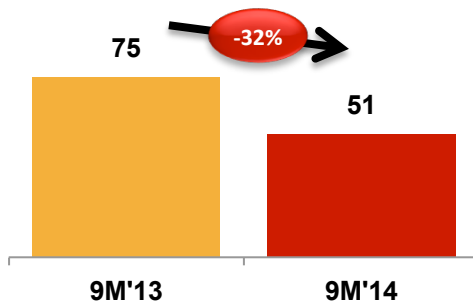
## Copper

(Mlbs)



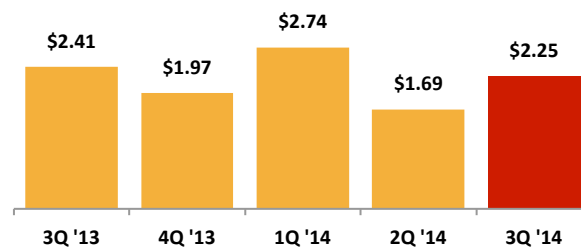
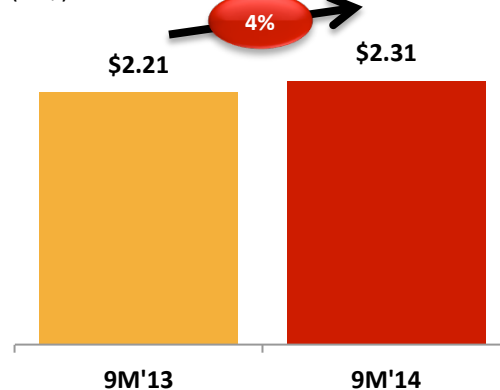
## TPM (gold, platinum palladium)

(koz)



## C1 cash cost

(US\$)



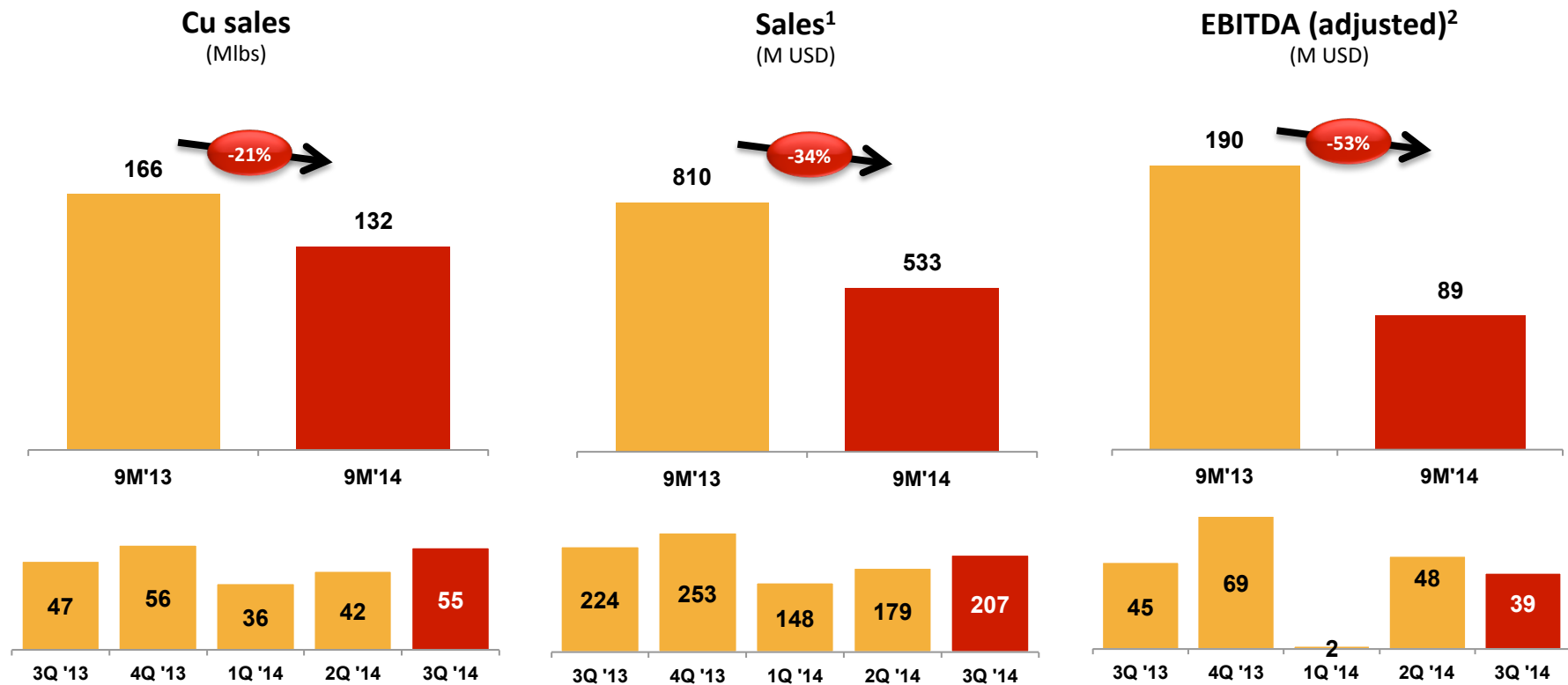
- The decrease in production of copper (-29 million pounds) and TPM (-24 thousand ounces) was mainly due to lower ore quality encountered at the Robinson mine at the start of the year (in Q1 the Robinson mine processed ore from the Kimbley pit, versus unusually high ore extracted from the Ruth pit in H1 2013).

- Robinson production improved in the second and third quarters.

- Slight increase in C1 cost in comparison to the first 9 months of 2013 mainly due to lower production parameters at the Robinson mine at the beginning of the year. In Q2 and Q3 2014 Robinson improved results and decreased cash cost.



# Financial Results: First Nine Months and Q3 of 2014



- In the second and third quarters of 2014 there was a improvement in production results (mainly at the Robinson mine), which in turn let to better financial results.
- KGHM International continues its program of cost management in the following areas: general management and administrative costs, sustaining Capex and Opex, expenditure on projects, exploration and new business.
- The company is taking actions to optimize the production process which will enable volumes to be maintained in Q4.

<sup>1</sup> Revenues from sales net of treatment and refining charges

<sup>2</sup> Profit on mining operations plus depreciation and the Sierra Gorda JV management fee, less general administrative costs and impairment losses

## Main reasons for lower EBITDA:

- Lower effective copper sales price, which decreased revenues by approximately USD 20 million
- Lower copper and gold production volume and DMC contract revenues by approximately USD 254 million
- Lower costs, due to lower production levels and contract mining activities, implemented cost initiatives and inventory management, which resulted in lower cost of sales by approximately USD 186 million

# Morrison Mine: Current Status and Outlook



Cu

Ni

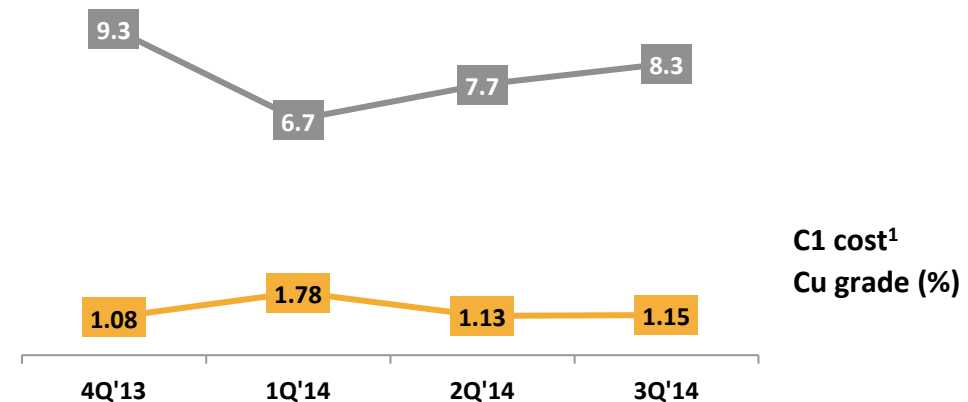
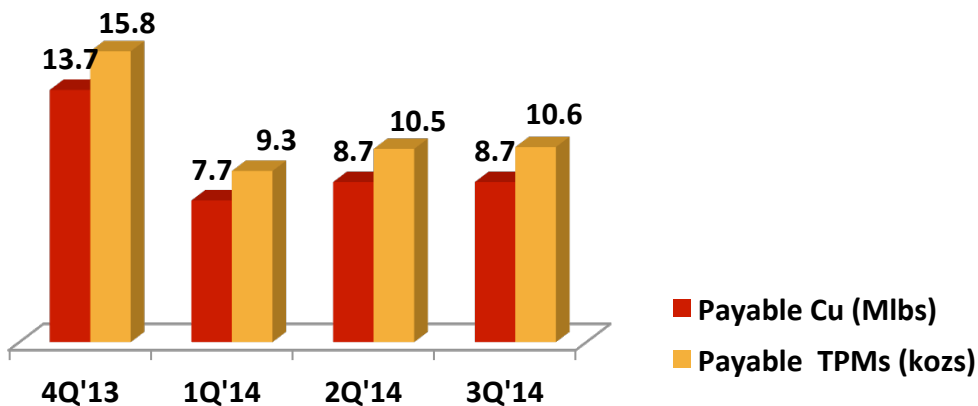
TPMs

## Improved results in Q3 2014:

- Improvement in copper metal grade mined by 8% over Q2 2014
- Consistent copper and TPM production in 3Q 2014 compared to Q2 2014
- Stable C1 cost compared to Q2 2014
- Improvement in operating income for the site due to favourable Nickel prices and a decrease in depreciation and amortization

## Outlook

- Craig pillar stoping area remains on track for Q4 2014, which is expected to increase copper output compared to 3Q 2014.
- Operation continues to focus their efforts towards planning around the geotechnical challenges and becoming proactive in anticipating problem areas
- Diamond drilling in the 5040 drift to quantify the extents of the lower part of the Morrison deposit will continue through to the end of H1 2015.



<sup>1</sup> cash cost per pound of copper sold (US\$/lb)

# Robinson Mine: Current Status and Outlook



Cu

Au

Mo

## Improved results in Q3 2014:

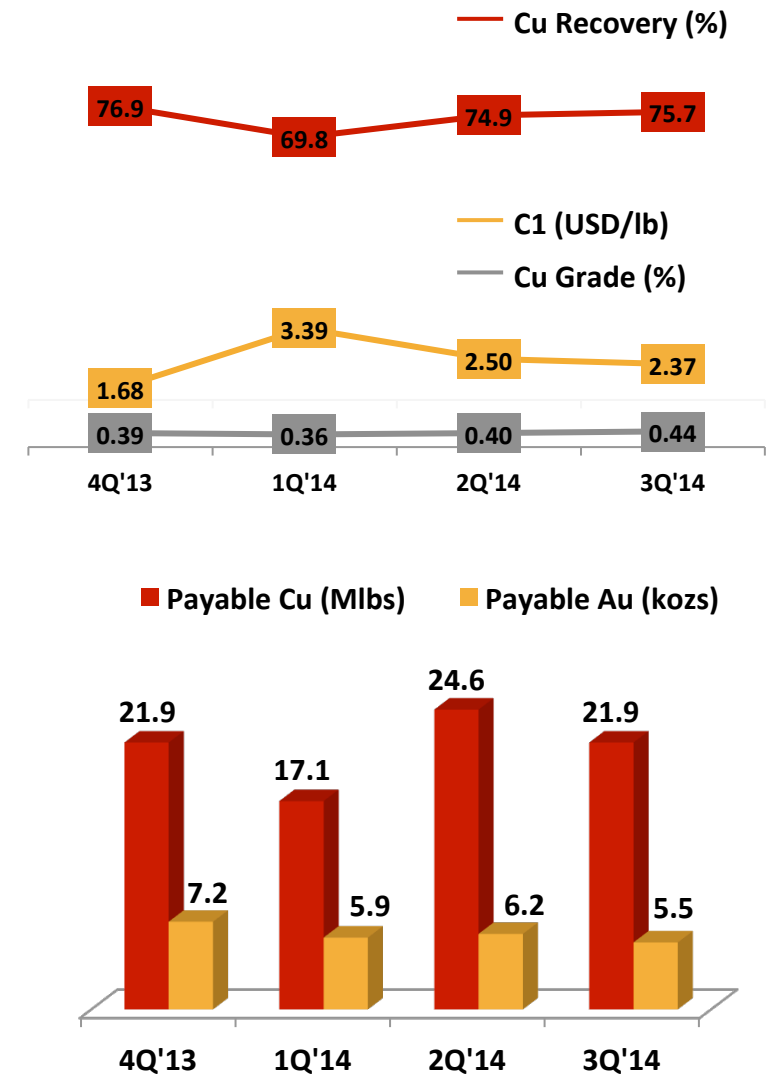
- Increase in copper ore grade and recovery compared to Q2 2014 due to blending synergies realized from higher grade material mined from the bottom of the Ruth East pit in September
- Improved C1 cost for the quarter compared to Q2 2014 due to increased production from improved head grade and cost management initiatives

## Current plan

- **Mine Sequence:** Ruth pre-stripping to access higher grade ore was concluded in Q3 (mining in Kimbley concluded in October). For the remainder of the year all ore will come from Ruth 2 East or the ore stockpile.
- **Cost Management:** Continuing aggressive cost cutting measures. All non-critical capital expenditures have been reduced or deferred for remainder of 2014.
- **Mill Operating time:** All scheduled major repairs completed during mill downtime in early Q3 2014.

## Expected results

- Ore from the Ruth pit can be blended or sent directly as mill feed, which improves processing results. The mine continues to analyze blending opportunities and process modification to improve performance. As a result, Q4 production is expected to be slightly higher than Q3.
- Management of cash flow and C1 cost for the remainder of the year.
- Mill is expected to operate at a rate of 95% or above for the remainder of the year.



## KGHM International Q3 2014 Financing Update

### Equity Funding from KGHM SA

- \$66M in Q3 2014

### Corporate Facility

- \$168M drawn as at September 30, 2014

### Cash Pooling with KGHM SA

- \$53M drawn as at September 30, 2014

### KGHM SA Revolving Credit Facility \$2.5B

- Part of the proceeds will be used to refinance KGHMI \$200M corporate facility and \$500M of senior unsecured notes. Timing of these repayments are subject to KGHM SA approval.

## KGHM International Q3 2014 Summary

### Growth pipeline:

- **Sierra Gorda:** First concentrate produced in July and shipment made in October.
- **Victoria:** Continued to advance project management plan with work completed on sinking of the ventilation adit shaft
- **Sierra Gorda Oxide:** Feasibility study over 50% complete

### Financing for 2014:

- \$168M drawn from the Corporate Facility and \$53M drawn from cash pooling with KGHM SA as at September 30, 2014
- Equity funding of \$66M in Q3 2014

### Operations

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

