

RESULTS MEETING WITH ANALYSTS AND JOURNALISTS: PRESENTATION OF THE KGHM POLSKA MIEDŹ S.A. GROUP'S RESULTS FOR THE 1ST HALF OF 2019

LIDIA MARCINKOWSKA-BARTKOWIAK, EXECUTIVE DIRECTOR, COMMUNICATIONS: Good morning ladies and gentlemen. Let me welcome you at today's presentation of the KGHM Polska Miedź S.A. Group's results for the 1st half of 2019. Mr. Marcin Chludziński, President of the Management Board, Professor Katarzyna Kreczmańska-Gigol, Vice President of the Management Board (Finance, CFO), Mr. Adam Bugajczuk, Vice President of the Management Board (Development) and Mr. Radosław Stach, Vice President of the Management Board (Production) are at your full disposal. As always, we will start with a short presentation and some comments with regards to both the Group's and KGHM Polska Miedź S.A.'s results. Later on, we will have a Q&A session. I would also like to welcome our online participants. I warmly invite you to ask questions in the course of transmission. They will be read during the Q&A session. If there are any additional questions afterwards, we will answer them all after the conference. Let me give the floor to our President.

MARCIN CHLUDZIŃSKI, PRESIDENT & CEO: Good morning, ladies and gentlemen. From what I see here I can say that the holiday season is already over. In our case, one person is still on leave. This is why Mr. Paweł Gruza is absent today. Today we will discuss our results in the first half of 2019. On the slide you can see some introductory remarks with basic information on 2019. First of all, our production is in line with the plan, which is really important. We can even say that it is inconsistent in a positive way, since actual production levels are even higher than planned in many aspects, which we will underline later. This was possible because of industrial and technological process optimisation. When compared to the corresponding period in 2018, the revenues in the first half of 2019 increased by 19%, up to the level of PLN 11 288 000. Also important was our achievement of a lower C1 cost at the Group level. Next, still in comparison to the corresponding period of 2018, we observed an important increase in the EBIDTA level up to PLN 2 732 000. Obviously, we also observed a significant increase in net profit, where the change was much higher year over year. We are implementing the strategy, both in terms of the bond issuance program as well as regards some other issues to be discussed later on. Above all, we have to bear in mind the circumstances, namely the parameters under which it all took place. What I mean is the lower average annual prices of copper by 11% and of silver by 85%. The same applies to nickel, lower by 11%. In summary, improved financial and production results, improved EBIDTA, improved net profit, all under the given macro parameters, with prices lower by 11% compared to the corresponding period of 2018. Here we are talking about the average annual prices in the context of the first halves of 2018 and 2019.

Being more precise, here you can see a key production indicator, namely the production of payable copper by the Group, which amounted to 352 thousand tonnes, or +19% year-over-year, which is a very significant increase. Beneath that you can see a breakdown of production by KGHM Polska Miedź and by the international projects. Production of payable copper by the parent company was 287 thousand tonnes, which means a 26% increase. In Sierra Gorda we recorded a 19% increase. In KGHM International the situation was somewhat different; due to geological conditions, extraction by the Robinson mine was lower, although this is not such an important volume in the context of the Group's production. We can say that production has significantly increased due to the extended availability of production-related equipment, our

optimisation efforts and greater management discipline (both in our domestic and international projects). This is all reflected in our financial results, and was achieved under the lower price conditions I spoke of. All the above is likewise reflected in the financial indicators for the whole Group, namely, EBIDTA at the level of PLN 2 732 000, which means +7% year-over-year. Revenues are 19% higher and net profit of the Group is 59% higher year-over-year. Those quite positive results are related to the level of production and to everything we assumed in our strategy back in December 2018, namely production and cost effectiveness as well as the production flexibility. As you can see, this had a decidedly positive effect in the first half of 2019, both in production and financial results.

We obviously cannot forget about the macroeconomic environment. The average annual copper price in the first half of 2019 was 11% lower. You all perfectly know our business. The LME price, meaning the London Metal Exchange price, is the basic reference price for trade transactions. The LME price is highly affected by the macroeconomic environment and by what is happening worldwide. Thus, the first half of 2019 was worse than the corresponding period of 2018. The macro and geopolitical situation is still unstable. The China-USA trade war is still volatile. Still, this is nothing new. When planning our strategy back in December 2018 we clearly stated both to you and to ourselves that turbulence and volatility are here to stay, at least for the near future. It is the character of our business. Basically though, every few days we see some changes, from better to worse, from stable to unstable. Additionally, this is all related to the American political cycle. It has to be underlined clearly, that this is not a surprise for us. It only means that even under variable and turbulent circumstances, we are still able to provide you with better and better results, both in production and financially. This volatility was taken into consideration in the context of our management style, development strategy and operational plans.

On this slide you can see polling results for the Presidential election in the United States, both at the opening of the trade war and in the period when the war is being communicated. Certainly, it is correlated with the political cycle and from it we can see the trend for the future. As I said, the primary way that can affect the business is by controlling the scale of production, which of course depends on nature providing us with favourable conditions, i.e. with a lack of extraordinary events and with sufficient geological resources. To be more effective and flexible, we can work on the level of costs, innovations and planned investments, but still, we have no impact on the China-USA relationship. Although we are the 8th largest company in the world in terms of copper output and the second in terms of silver, we are not omnipotent, which should be borne in mind, including in the context of the trends we are facing in the near future.

As I have already mentioned, we are consistently advancing the strategy, which includes deposit management, more selective extraction and intensive optimisation of the production line, including the metallurgical installations. Here I mean the Głogów installation and the copper concentrate roasting installation. We are investing in new projects, such as the Revolving Casting-Refining Furnace for processing copper scrap, as opposed to mining production, where the extraction is expensive compared to what we can find aboveground and recycle on the basis of the closed economy concept. We have begun our first green energy projects, which we will be presenting in Krynica. We also have some environmental projects being implemented. In terms of the deposit access program, I can tell you that in the first quarter of 2019 we built 12 kilometres of new tunnels, which is an on-going process, around 50 kilometres a year. We are

continuing to deepen the GG-1 shaft, where the work was temporarily suspended due to geological issues. We will soon open the L-6 shaft, which is another shaft serving the Lubin mine, where the levels of both extraction and efficiency are increasing. To sum up, much is happening in terms of our strategy, and much is going to happen, with the result being evident in the production and financial results. Now, I would like to give the floor to Radosław, who will provide you with even more details regarding production-related issues.

RADOSŁAW STACH, VICE PRESIDENT OF THE MANAGEMENT BOARD (PRODUCTION): Ladies and gentlemen, in terms of production results in the Group, as was already mentioned, we achieved an increase in payable copper production of 19% when compared to the first half of 2018. Of course, this was thanks to the good work carried out in Poland, but also in Sierra Gorda. Those results obviously impact the results of the KGHM Group. There was a slight decrease in production in KGHM International and I will discuss it on the next slides. Production of silver and associated metals was higher while molybdenum output was lower, which I will discuss when we get to Sierra Gorda.

In terms of the production data in Poland, we have very good production of electrolytic copper. In this case we are well above the level of the first half of 2018. Thanks to hard work, despite slightly lower ore extraction the production of copper was at a comparable level. This situation, as we mentioned during the results meeting for the first quarter, was related to the situation in the Rudna mine, where about 30% of the mine was out of operation. As a result of very good decisions and the solid efforts of our miners, in terms of production we are almost at the level of the first half of 2018. As regards inventories that we have and are presenting, these are successively decreasing. And this in fact is our inventory minimising strategy. As you can see, the level of the second quarter of 2019 is visibly lower than that of the fourth quarter of 2018. All of our declarations are being implemented in full accordance with the adopted strategy. In terms of anode inventories, which you can see on the slide (with reference to the build-up of inventories to cover the smelter downtime), we have one more shutdown in September planned in the budget, so we are not expecting any surprises in this area.

The production results of Sierra Gorda are almost 19% higher compared to the first half of 2018. Work on improving the results is still ongoing, and here we can see substantially better results in the area of throughput. In our strategy we plan to be at the level of 130 thousand tonnes by 2020. This direction is visible in our quarter to quarter results, or in this case half year to half year. In the first half of 2019 we observed a higher production level of silver and a slightly higher production level of the accompanying metals. Molybdenum, as we have already mentioned many times, is a by-product of copper production by the Sierra Gorda mine. The grade we are achieving today in sections 3 and 4 is lower. As a result, molybdenum production is lower. In KGHM International, as you saw in the first slide, the production is also lower. And it will be lower since as you know, one shaft in the Morrison was closed, which means that, as we announced at the end of 2018, production levels in the future won't in fact be comparable. This will be offset by the higher production in Robinson. This is already happening, still, if we compare the first halves of 2018 and 2019, it is slightly lower. However, if you take a look at the production levels of silver, accompanying metals or molybdenum, it is noticeably higher. These are all the factors that highly influence our financial result. Thank you.

MARCIN CHLUDZIŃSKI, PRESIDENT & CEO: The financial results will be discussed in detail by Katarzyna Kreczmańska-Gigol, to whom I pass the mike.

KATARZYNA KRECZMAŃSKA-GIGOL, VICE PRESIDENT OF THE MANAGEMENT BOARD (CFO):

Good morning, ladies and gentlemen. In terms of revenues, as you have already heard, the revenues from the contracts with our clients are higher by 19% when compared to the corresponding period of 2018. In terms of the revenues value, it is higher basically due to the change in the sales volume of the most basic products. This is what pleases us the most. The change in prices of our basic products, when compared to 2018, was negative and it negatively affected our revenues. The sales volume itself was noticeably higher than last year and in consequence, the change in prices did not result in a volume decrease. Additionally, there was a positive effect due to a change in the USD to PLN exchange rate. All the other factors also positively impacted the situation. Please note that we have no affect on the most important factor in our business, namely, the copper price. However, despite it being unfavourable for us, the other factors turned out to be positive from our perspective. And here I mean basically the sales volume, which mainly depends on our actions.

Regarding the unit cost for the whole Group, it is lower by 3%. We observed the biggest decrease in C1 cost in the parent company, namely KGHM Polska Miedź S.A, and it was lower by 5%. In Sierra Gorda the C1 cost increased, mainly due to lower by-product credits, since the current level of molybdenum is much lower than in the past. That is why the C1 cost is higher in Sierra Gorda compared to the first half of 2018. And here I would also like to direct your attention to the character of the C1 cost. Namely, in terms of C1 cost we mean the unit cash cost of producing copper in concentrate. In other words, we adjust the C1 cost by non-cash costs, meaning we adjust for depreciation and so the more associated metals we produce, the lower the C1 unit copper cost is.

With regards to EBIDTA, meaning our operating results, please note that EBIDTA, when compared to the last year, grew by 7% in the Group. This was mainly due to the higher EBIDTA in KGHM Polska Miedź S.A. We also had higher EBIDTA in Sierra Gorda. However, in the other companies and KGHM International, EBIDTA was lower. In terms of KGHM Polska Miedź S.A., the revenues increased by 23% and this turned out to be the most important factor affecting our operational results.

In terms of the Group's net profit, as President Marcin Chludziński has already said, the difference between the first halves of 2018 and 2019 is visibly higher than in the case of EBIDTA. Our net profit is 58% higher than in 2018. This was mainly due to the higher revenues. These in turn are PLN 1 805 000 higher than last year. Of course, the higher revenues correlate with the higher production level and higher costs, as expenses by nature had an obviously negative impact on net profit. What were the elements involved? Firstly, the increased use of purchased metal-bearing materials, and secondly, an increase in energy prices. Obviously, we do not have any influence in these areas. External services, in this case mainly transportation services. The main reason for the increased costs was higher production and the higher sales volume, which is a totally natural mechanism when the sales are rising. In terms of other factors, I would like to call your attention to the item result on involvement in joint ventures. This is mainly due to the lower financing provided to Sierra Gorda compared to the last year. This in turn is again a positive phenomenon which only proves that our international assets-related activities are starting to bear fruit.

In terms of cash flow, I would like to draw your attention to the fact that the level of cash at the end of the first half 2019 was higher than at the beginning of the year. This in turn means that we managed to generate more cash. Of course, that wasn't the only element as, since you can see on the slide, the higher bar (coloured in green) is the result of our bond issuance. We generated cash flow at the level of PLN 2 billion, but also please note that our profit before tax was at the level of PLN 1 452 million. The rest of our operating cash flow was at the level of PLN 307 million.

The next slide presents the debt situation of the Group. This is the issue you always ask about. The basic indicator here is net debt to EBIDTA which we still maintain at the desired level, namely – below 2. At the end of the first half of 2019 this ratio amounted to 1.8. However, had it not been for changes in the accounting rules, the ratio would have been at last year's level, meaning 1.6. Although these accounting changes led to a change in the manner of accounting, the debt level remained the same as it was last year. Please also take a look at the comparison of our debt level at the end of June to that at the end of March, as net debt at the end of the first half of 2019 was lower than at the end of March.

A few words on the issuance that already took place. It was a very important event from our perspective. We issued PLN 2 billion. These are the senior bonds. However, we adopted a bond issuance program under which the maximum issuance level is PLN 4 billion. This is a multi-annual program. Consequently, for this year we issued PLN 2 billion which is fully in line with our strategy. Since we planned to change the funding structure, this proves our consequent implementation of the strategy. We decided on five-year bonds (in the amount of PLN 400 million) and ten-year bonds (in the amount of PLN 600 million). It enabled us to noticeably prolong the maturity dates of our liabilities and consequently, boosted our sense of financial security. This in turn makes us automatically better prepared for the upcoming market changes. Please also bear in mind that, as compared to traditional borrowing sources, namely bank and other loans, the bonds are a form of unsecured debt. One of the entities that have already bought our bonds and in consequence, became our creditors, is the European Bank for Reconstruction and Development. Additionally, a sizeable part of our debt was acquired by stable financial institutions such as banks and insurance companies.

From July 2019 we will pay a lower minerals extraction tax. This is because the act of 12 April 2019 entered into force. The President of Poland signed the act on 1st July, which means that we can now predict the copper tax to be lower by 15%, when compared to previous years. Thank you very much and now I pass the floor to my colleagues.

MARCIN CHLUDZIŃSKI, PRESIDENT & CEO: Adam Bugajczuk will now discuss issues involving development-related investments.

ADAM BUGAJCZUK, VICE PRESIDENT OF THE MANAGEMENT BOARD (DEVELOPMENT): Ladies and gentlemen, in terms of the realisation of our key investments, I can say that they are all being advanced in line with our assumptions. On the slide you can see our key development projects. Firstly, the deposit access program (that has already been mentioned by our President), both tunneling work and further shaft deepening. Secondly, work related to the Surface-based Central Air Conditioning System. This work is progressing without any major interruptions, on schedule, and as such we will be provided with considerable benefits in the future. In terms of the copper concentrate roasting installation, it was handed over for operation to the Głogów Copper Smelter and Refinery on 28th June. This concluded another period of this investment.

In terms of the Revolving Casting-Refining Furnace project, it also commenced operation on 28th June and is now working in full accordance with the assumed parameters. With respect to the tailings storage facility extension, the work on the Southern Quarter and on the tailings thickening unit related to the tailings storage facility is advancing without any major interruptions and fully in line both with the assumed schedule and budget. And the last of the key projects, namely the programs involving the field of compliance with BAT conclusions, comprise several different projects, at different stages of operation and development. The major aim of all these projects is to enable us to comply with the BAT conclusions next year and in consequence, to freely run our business.

On the next slides the matter of our investment expenditures is presented. On a year-over-year basis we can see an increase by 35%, mainly due to the changes in the material and financial schedules. So as we have already mentioned before, all the key investments are being advanced without any interruptions. This is positive information for us. On the next slide you can see a timeline with regards to the start-up of the RCR copper scrap processing furnace at the Legnica Copper Smelter and Refinery. This was the largest investment in the smelter's history, one which demanded an enormous amount of work. It was not an easy investment and in fact it is the only furnace of its type in Poland. The next slide shows a similar timeline concerning the start-up of the copper concentrate roasting installation at the Głogów Copper Smelter and Refinery. Thank you.

MARCIN CHLUDZIŃSKI, PRESIDENT & CEO: Ladies and gentlemen, it seems that we have reached the end of the presentation. To sum up the first half of 2019 I can say that we are confident that our strategy of December 2018 is starting to bear fruit. The strategy itself is the answer to the challenges of change, of the turbulent world full of crises, trade wars and macroeconomic challenges that we have to face. Still, despite this uncertainty, since the perspective is quite long, we are looking forward to a positive future. And this is what should always be underlined: a long perspective is a good and stable perspective for copper. However, we will work even more effectively. We are sure that over the long term, we will take advantage of the opportunities for copper which may arise. Even in times of turbulence and change, we are supported by the natural hedge of silver. This is what we have in our geological resources as an associated metal, and usually, under such circumstances, it has a more beneficial price. In the context of poorer macroeconomic conditions, both the gold and the dollar position act in our favour. Thank you.

LIDIA MARCINKOWSKA-BARTKOWIAK, EXECUTIVE DIRECTOR, COMMUNICATIONS: Ladies and gentlemen, after what I hope has been an interesting and brief commentary, we will now open the floor to your questions. We already have the first question from the online transmission, but first, I would like to hear the questions from the floor. When asking a question, please introduce yourself.

PAWEŁ PUCHALSKI, SANTANDER: Good morning, this is Paweł Puchalski from Santander. I have a few questions. On the first few slides we heard about the strong increase of net profit. Does the Board intend to pay a dividend from this year's profit?

LIDIA MARCINKOWSKA-BARTKOWIAK, EXECUTIVE DIRECTOR, COMMUNICATIONS: I can actually answer the question right now, before the Board starts to answer.

MARCIN CHLUDZIŃSKI, PRESIDENT & CEO: We would be grateful if you could first ask all the questions and then we will answer them. It will be easier.

PAWEŁ PUCHALSKI, SANTANDER: So the dividend is one thing. Secondly, the assets in Poland. Both the labour and energy costs are at a relatively low level. I wonder whether these are the levels to be continued in the next quarters of 2019, or should we expect any increase in the upcoming half year? Then, the parent company. You mentioned the EBIDTA increase in the context of KGHM International and Sierra Gorda. I now wanted to ask about the EBIDTA decrease, because both in KGHM International and in Sierra Gorda there was a significant increase in operational costs. And now the same question: do you expect the cost level in both KGHM International and Sierra Gorda to be continued? Is it the level from which we will observe a further cost increase? Or is it maybe a one-off event? And the last thing. I have heard here about the positive information due to the high capex, at the level of PLN 1.6 billion. I wanted to ask whether we should expect this positive information to continue in the next quarters? Should we multiply the PLN 1.6 billion capex by two to get the level for the whole year? Are there any extraordinary events? I know about one, namely the recapitalisation of Sierra Gorda but still, I would gladly hear what you have to say about the other details.

MARCIN CHLUDZIŃSKI, PRESIDENT & CEO: Ok, so let's maybe answer step by step. In terms of the dividend, our dividend policy is still valid. As we mentioned before, it is all up to the situation at the close of the financial year, while bearing in mind the interests of the shareholders. At the moment this is all we can say in this respect. In terms of the labour and other costs, I pass the floor to Katarzyna.

KATARZYNA KRECZMAŃSKA-GIGOL, VICE PRESIDENT OF THE MANAGEMENT BOARD (CFO): Ladies and gentlemen, in terms of labour costs, we have some fixed rules regarding increases in remuneration. We have a provision in our collective labour agreement. So please note that the 5.6% increase in labour costs is below the cost increase on the market. But, if the cost of labour in the market rises, labour costs for the industrial sector, then obviously, in accordance with our collective labour agreement, we will also have to increase them proportionately. Nonetheless, in our company they increase more slowly than the average for the sector. In terms of energy costs, we were able to lower them in the first half of the year by the compensations which have already been granted. Apart from these, there are some laws which are still in the legislative process. So the possibility of further compensation for energy costs is even more probable. Thank you.

MARCIN CHLUDZIŃSKI, PRESIDENT & CEO: In terms of the labour costs, as we said, we do not see any indications that we would have to increase our targets. They usually work out well in the context of macro indicators that we take into consideration when planning the budget. In other words, we expect that wage increases will be in line with the collective labour agreement which in turn is correlated with the average remuneration in the industrial sector. In terms of KGHM International and Sierra Gorda, let me pass the mike to Radosław.

RADOSŁAW STACH, VICE PRESIDENT OF THE MANAGEMENT BOARD (PRODUCTION): Yes, let's start with the question of operating costs in Sierra Gorda and KGHM International. We do not see anything negative here. The only thing issue is the copper price which directly impacts our costs. Here we have a lower level of molybdenum production, related to the grade. Last year it was at the level of 0.05 and today it is at the level of 0.03. So the decrease is quite significant, but as I said and as we always explain, this is an associated metal. It has a great impact on costs and for me this is the main reason. This also results in a slightly lower sales volume, but still, we aren't seeing any negative aspects there. On the contrary, I would like to point out that the current average daily throughput in Sierra Gorda is almost 115 thousand tonnes in the first half of the

year, meaning it is very high. The next months which will be presented to you should also prove to be satisfactory. In my opinion we will achieve our strategic assumptions with the average daily throughput at the level of 130 thousand tonnes, and I expect that next year we will achieve nearly 30% more in comparison to the years 2017-2018. So in my opinion these are the direct factors impacting the costs.

LIDIA MARCINKOWSKA-BARTKOWIAK, EXECUTIVE DIRECTOR, COMMUNICATIONS: One more question on capex then. As Mr. Adam Bugajczuk mentioned in the course of the presentation, the increase was mainly due to the deferment of payments and contractual issues. As a result, this also should be taken into consideration. This in fact is a change from the last year and this also is a part of the increase.

PAWEŁ PUCHALSKI, SANTANDER: I would of course be grateful if you could tell us what was the scale of these deferments.

MARCIN CHLUDZIŃSKI, PRESIDENT & CEO: I think Mr. Łukasz Stelmach is the right person to answer this question.

LIDIA MARCINKOWSKA-BARTKOWIAK, EXECUTIVE DIRECTOR, COMMUNICATIONS: Indeed, since these are particular contracts, particular investments, so we will do our best to provide you with the right data to the extent possible.

MARCIN CHLUDZIŃSKI, PRESIDENT & CEO: There is one more thing I would like to clarify. I don't know if I understood you well, but you said that you are aware of additional, extraordinary capex expenditures in Sierra Gorda. I'm afraid we do not know about any of this kind. So that is why I really wonder what are we talking about here, since this year we are even trying to provide less support there. In my opinion things are going quite well, since the financing is really lowered and limited. With regards to plans, we are not expecting any additional expenditures there. Quite the opposite. We expect, or I might say even confident, that we will not execute the planned targets as regards financing for Sierra Gorda, in the context of the current co-financing.

PAWEŁ PUCHALSKI, SANTANDER: That's right. I meant the USD 30 million co-financing for the loan repayment.

MARCIN CHLUDZIŃSKI, PRESIDENT & CEO: But this really is nothing extraordinary. I mean, this is part of the plan. As I said, after the first half of the year we predict this plan will not be fulfilled in the context of the assumed amounts of money. It is also due to the increased production scale and the production parameters being achieved, which in turn improves our EBIDTA.

PAWEŁ PUCHALSKI, SANTANDER: One last question from my side, with regards to the slide that should be in your presentation, namely the annual budget. To be honest, I do not remember what was the exact copper production level planned in the concentrate.

MARCIN CHLUDZIŃSKI, PRESIDENT & CEO: In terms of this year, is that right?

PAWEŁ PUCHALSKI, SANTANDER: Yes, of course, in terms of this year. In the parent company, since you rather do not disclose it elsewhere.

MARCIN CHLUDZIŃSKI, PRESIDENT & CEO: For this year it is 397 thousand tonnes.

PAWEŁ PUCHALSKI, SANTANDER: And I understand that the results for the first half of the year...

MARCIN CHLUDZIŃSKI, PRESIDENT & CEO: ...indicate, that we will be in line with the budget. Of course, we are working hard to exceed the budget, as was the case in 2018.

PAWEŁ PUCHALSKI, SANTANDER: Thank you very much.

PIOTR STĘPIŃSKI, BIZNESALERT.PL: Good morning, this is Piotr Stępiński from biznesalert.pl. I would like to ask about the energy prices. In my understanding, you made use of the compensations you were entitled to on the basis of the energy prices act and not on the basis of the energy intensive industry act. If so, how do you assess the regulations which are planned to enter into force, namely those relating to the energy intensive industry? In this respect, how do you then project the energy prices and their impact on functioning costs in the next half year as well as in 2020?

MARCIN CHLUDZIŃSKI, PRESIDENT & CEO: As we already said during past conferences, with regard to this year, the situation with energy prices does not affect us negatively. This is due to the high volume of long-term purchases. In terms of next year, part of the volume is in long-term contracts. Of course, we are glad to benefit from, so to speak, external incentives, but also from some trends in the market. That is why we have assumed in our strategy to be in 50% energy independent, mainly thanks to the renewable and other sources. This will enable us to be both more energy independent in context of the security of energy supplies and more effective financially.

LIDIA MARCINKOWSKA-BARTKOWIAK, EXECUTIVE DIRECTOR, COMMUNICATIONS: And maybe let's make things clear, because you asked about the legal act or the source we used

JANUSZ KRYSOŚIAK, DIRECTOR, INVESTOR RELATIONS DEPARTMENT: We have not decided yet. We still have the opportunity of making a precise declaration, namely whether we want to use either the support related to the change of the Energy Law, or the compensation system. We have obviously already assumed a certain asset in this respect, but we still have time to make the final decision. As was said, this will take place after a thorough analysis of the conditions and our situation, and once this is done we will make a choice and declare which form of support we are willing to make use of. However, we have already made that asset probable and this is clearly reflected in our reports.

ROBERT MAJ, IPOPEMA SECURITIES: Good morning, this is Robert Maj from Ipopema Securities. I have a question regarding costs in the parent company. The unit cost in the second quarter was at the level of 18,606 and it is higher by 10% quarter-over-quarter. You mentioned that from the 1ST of July the minerals extraction tax will be lower, and that you might pay less for electricity. So in general, will the rate of cost growth quarter to quarter, in the third and fourth quarters be comparable to about 10%, given the lower tax and probably lower energy price?

LIDIA MARCINKOWSKA-BARTKOWIAK, EXECUTIVE DIRECTOR, COMMUNICATIONS: We still have to consult whether we can break down the costs in such details. It is not so easy and in general, we do not do it. We do not break these costs down so precisely and that is why we prefer not to discuss the data that have not been presented this way before.

JANUSZ KRYSOŚIAK, DIRECTOR, INVESTOR RELATIONS DEPARTMENT: I think we have already discussed the trends in the quarter and some potential factors that positively affect our

level of costs. It is really hard to say whether the current or the next quarter will be characterised by the significant support of the support systems related to the regulatory changes. It is really hard to estimate for now. What we can talk about is the cost dynamics related to production and natural cost inflation. We will all monitor the situation with the regulatory issues. This in turn will help us to flatten or restrain the cost dynamics.

MARCIN CHLUDZIŃSKI, PRESIDENT & CEO: Additionally, we are implementing a variety of initiatives (for example in sales or in logistics) which are starting to provide us with definite cost savings. What I mean here is the logistics management in the Divisions, where we are conducting pilot testing, and after the first quarter, we recorded external savings of around 2% in external purchases. Still, this is only a pilot program. Moreover, in our strategy we are targeting even higher savings on purchases under a different procurement system, its centralisation and digitisation, but also with the implementation of a procurement system throughout the Group, based on an IT project purchased on the market that should enable us to institute the electronic circulation of documents, thereby avoiding paper. This is also starting to produce results. So for sure, in the context of procurement and logistics, a cost decrease should be expected. Radosław can now provide details.

RADOSŁAW STACH, VICE PRESIDENT OF THE MANAGEMENT BOARD (PRODUCTION): Yes, we are constantly searching for new solutions across the whole production line that could help us to find the trend, whether it's downward or fixed. Still, we are talking about intelligent mine systems, systems throughout the whole production line. It is progressing and in my opinion the whole range of these things has a strong impact on costs. Finally, I agree with what our President said, we would like to show you some data as a summary towards the end of the year. You will see that we have achieved what was planned in the strategy.

ROBERT MAJ, IPOPEMA SECURITIES: And if I may, a couple more questions from my side. In terms of energy costs, do you have a certain volume of energy contracted for 2020? Or is it something you have to do? And a question regarding Sierra Gorda. There was quite a significant expenditure on stripping. And the question is: is it related to the fact that this year's throughput will be at the level of 130 thousand tonnes per day? Or since there was quite a significant increase of capex in this matter, should we expect it to be even more next year? And a question about the partial reversal of the loan impairment. If I remember correctly, on a standalone basis it was about 100 million for Sierra Gorda. Should we then expect any noticeable reversals of impairment allowances that were made in 2016 with regards to the international assets? Or is it too early to discuss this?

JANUSZ KRYSOŚIAK, DIRECTOR, INVESTOR RELATIONS DEPARTMENT: I am really sorry for nodding my head for 'no'. It does not mean 'no', only that we will report such information. Of course, the President can provide you with our opinion about the potential impairment allowances.

RADOSŁAW STACH, VICE PRESIDENT OF THE MANAGEMENT BOARD (PRODUCTION): Right, so let me quickly answer point number three. It is too early to discuss the impairment allowances. With regards to the stripping, that is taking place within section five of the mine's pit, and is something planned for in the budget, so I can say that there are no additional circumstances we would have to plan for. It is all proceeding in line with both the budget and the plan. In terms of the energy prices, naturally the volume for 2020 is partially contracted. Still,

we buy a certain amount through the so-called energy exchange. So similarly to 2019 we can say we generally have it under control.

ROBERT MAJ, IPOPEMA SECURITIES: So one more question about the budget and capex. In the budget the figure is 2 516, whereas after the first half of the year it looks possible that capex in Poland for the year may be exceeded. So the question is: what was the amount of last year's capex payment? To what amount will the budget be exceeded?

ADAM BUGAJCZUK, VICE PRESIDENT OF THE MANAGEMENT BOARD (DEVELOPMENT): In terms of the budget, it will not be exceeded. We will be fully in line with the targeted plan. We are increasing our effectiveness. Last year you said that the level of 80% was low. That is why we have raised the execution, and as a result we will fully use the budget planned for this year. There will not be any capex budget increases.

ROBERT MAJ, IPOPEMA SECURITIES: Thank you.

LIDIA MARCINKOWSKA-BARTKOWIAK, EXECUTIVE DIRECTOR, COMMUNICATIONS: We have an online question being repeated a few times. The Supreme Audit Office ("NIK") published a report on the Quadra purchase and the deposit exploration in the Sierra Gorda mine in Chile saying that these investments were a mistake. I would be grateful if you could comment on that.

MARCIN CHLUDZIŃSKI, PRESIDENT & CEO: I really do not know how to comment on the report. It is an independent institution with, I believe, the highest standards in the country which is appropriate to assess the situation. So it is hard for me to understand the intention behind this question but I can still express my opinion on the situation. I understand that the former President Wirth has presented his arguments regarding the decision-making process. What else can he do? I mean, in his position he just has to do it. We are looking at what NIK has written, looking at its independence, its standards, and are drawing conclusions and implementing the recommendations. Still, we do not do journalism. We engage in real management and show its effects. So given the difficult situation, the difficult investment process we have the first year when we have shown real production increases and real decreases in financing for Sierra Gorda from the parent company. We are showing higher production without the large capex expenditures that were historically planned on the basis of technological and internal optimisation. We are increasing the number of Polish engineers in Sierra Gorda, increasing Polish supervision and we are really seeing results. Ladies and gentlemen, there was a movie called 'Sami Swoi'. As they said there, the courts are the courts, but justice has to be on our side. We are focused on looking forward and what I intend for us to do is to work on enhancing the value of the investment. The history is past. For now, let the history be judged not by God, but by NIK. Thank you.

LIDIA MARCINKOWSKA-BARTKOWIAK, EXECUTIVE DIRECTOR, COMMUNICATIONS: Do we have any other questions from the floor?

PIOTR STĘPIŃSKI, BIZNESALERT.PL: I have one more question in terms of KGHM's shares in the company PGE EJ 1. How are the negotiations going? As I recall back in November 2018 PGE offered to buy your shares in this company. I would like to know more in this respect. Thank you.

MARCIN CHLUDZIŃSKI, PRESIDENT & CEO: PGE itself terminated the negotiations at a certain point. We were ready to sell the shares, but it was PGE who concluded the process. This is all I can say in this respect.

LIDIA MARCINKOWSKA-BARTKOWIAK, EXECUTIVE DIRECTOR, COMMUNICATIONS: Do we have any other questions from the floor? If not, I would like to thank you very much. If there are any additional online questions, we will answer them out loud. Let me invite you for lunch and continued talks. We as well as the management staff of KGHM are at your full disposal. Thank you very much.

JANUSZ KRYSOSIAK, DIRECTOR, INVESTOR RELATIONS DEPARTMENT: There is also the investment relation team. As Ms Director said, all the questions will be answered in the direct communication. Later on, it will be published on our website. Thank you.

Questions asked on-line:

- **Polish capex budget is 2516m this year, implying 1496m in 2H vs only 1020 in 1H19. Is this still valid? I.e. will capex accelerate in 2H?**

You should remember that cash spending is not the same as the planned budget. That budget remains valid. In the first half we settled spending on projects that had been deferred (i.e. capex was lower than planned last year, so part of the difference is being made up this year), but we still expect to achieve the planned target announced in January.

- **What will capex be at SG on a 100% basis? We talked about \$350m earlier in the year, but it is trending lower than that and the debottlenecking should be close to completion...**

While we don't provide specific guidance for capex spending by Sierra Gorda or the other international operations, given the fact that Sierra Gorda continues to improve its performance, in H2 you shouldn't expect any major difference from the capex numbers reported in the first half. This can also be seen in the lower amount of financing provided in the first half, i.e. improved operational performance.

- **Capex at KGHM International?**

Same situation as for SG, we don't announce the numbers. The major spending is by Robinson on pre-stripping.

- **What sort of working capital release do you expect in 2H19?**

We haven't announced any hard numbers but you can expect that, given the good results in H1, inventories of copper concentrate will continue to come down.

- **I didn't fully follow the discussion on power prices. Could you please recap the key points? I know power was PLN700m last year for 2.7GWh and you planned to use 3GWh this year, so I assumed 778m assuming a flat tariff. Is this still valid? What sort of increases have you agreed for 2020?**

We are still reviewing the options available to the company to determine which is more beneficial for us. One involves holding prices to the level of 2018, the other involves compensation for price rises related to indirect CO2 costs. Once this review has been completed and a decision made we will be able to provide a more complete answer. In the meantime we can say that we do not expect our real electricity cost to be substantially different from the one we are incurring in 2019.

Considering the fact that in the first half of 2019 only the updated price act came into force (the act on CO2 costs will come into force on 29 August 2019), we booked an asset for recompensation related to the energy prices regulation in the approximate amount of PLN 34. It's important to remember that KGHM is not only an end recipient but also a seller of electricity, and that needs to be taken into account when calculating potential estimated recompensation.

- **Are you still comfortable with your production guidance in each division? Or do you expect SG to disappoint relative to guidance?**

Our production targets for the year haven't changed.

- **Is the roaster working fully now? How much concentrate and anode inventory do you expect to destock in 2H19 with this being operational? What is the risk if it isn't working properly?**

The roaster is performing as planned, as can be seen from the increase in refined copper output. We therefore see no risk to achieving the production targets announced in January 2019. Inventories should continue to gradually come down, including anode inventories after the maintenance at Legnica in 3Q.

- **Is Legnica now just processing 100% scrap? How much will it produce in 2H and how much annually going forward? What sort of mix do you expect in 2H and 2020 between electrolytic copper from own concentrate and 3rd party?**

Legnica is still producing around 110 kt of refined copper through its shaft furnace, so the new scrap processing furnace is an add-on, with total output from both production lines to produce around 160kt refined copper annually.

- **There was a plan to sell 41kt of copper in concentrate in Poland. Did you sell any in 1H or is that all due in 2H? Is that still the plan?**

No copper concentrate was sold in 1H 2019, and there will probably be no sales in 2H either.

- **Any guidance you can give on cash costs at SG and KGHM I in 2H/2020?**

At Sierra Gorda cash costs should improve as copper production continues to rise, but obviously much depends on the by-product credits (metals prices and volumes).

- **What's the situation with the SG JV debt? How much has been repaid in 1H and how much is left to be paid this year and next?**

17 mn USD (30 mn USD on a 100% basis) was injected by KGHM in 1H 2019 vs 72 mn USD (55%) in 1H 2018. Less was injected due to the enhanced ability of the JV to finance itself. As we have stated previously, we expect financing to end in 2021.