

## Responses to questions raised at the Results Conference for the first half of 2020

- 1. Do you think that the EBITDA reported by Sierra Gorda in Q2 2020 is repeatable, PLN 324 million, is it pure EBITDA without some kind of one-off events?**

As a rule, the savings program for Sierra Gorda is designed in such a way as to use this market turmoil to amend our contracts and the cost base, so that it is optimal and minimal, including for the future, in subsequent reporting periods. Therefore, we are optimistic about Sierra Gorda's financial results, counting on the possibility of maintaining good cost positions in future periods.

- 2. Can Sierra Gorda's sales volumes in Q2 be repeated?**

Shipments of product by Sierra Gorda are generally large one-offs, which means that their cyclical nature varies and may have a different impact on these periods. On the other hand, as a rule, the production and sales results are, of course, synchronized in the long term and this better production translates into better sales.

- 3. Looking at the behavior of the zloty against the dollar, should we expect that an unfavorable balance on exchange rate differences will also take place in the third quarter?**

This question is on a fairly large speculative scale, because as for the rates, it changes every day, it is difficult to determine at the moment, in this matter.

- 4. Are the budget assumptions for 2020 unchanged? Is there any chance for Sierra Gorda to sustain higher volumes of molybdenum production than assumed in the budget?**

We are currently working on the budget assumptions we have adopted for 2020 and we are trying to implement them. The first half of the battle is won, the first half of the match the second half is underway and of course the topic of epidemic threats and emergency situations is still important to us. If they affect for us, we will of course keep you informed. For now, we are trying to implement the plan that was adopted for 2020 before the epidemic and disease situation occurred. The lower production of molybdenum is mainly due to the lower molybdenum content in the ore. However, we are striving and fighting for good results, for the production of molybdenum by increasing the volume and capacity of our installation, we are also fighting for higher recovery, i.e. the recovery of molybdenum from ore. For now, these figures are not equivalent to those of last year, but we hope to improve this proportion by the end of the year.

**5. How much of the Sierra Gorda financing is still to be repaid? When could Sierra Gorda begin to repay the loans it borrowed from KGHM S.A.?**

The old financing, Sierra Gorda's old debt is practically ending this year. This year, the final, large tranche of this financing is to be repaid, more than a quarter of a billion dollars, on a 100% basis, and next year the rest, the residual amount to be repaid. On the other hand, the plan or financial strategy proposed by KGHM was to make 2020 the first year that did not require financial support for Sierra Gorda by KGHM Polska Miedź S.A., or by our partners in the joint venture, the Japanese. It was supposed to be the first year without financial support from us. Unfortunately, the situation on the markets and the approach of our partners in the Sierra Gorda project, meant that we had to provide Sierra Gorda with a financial contribution, which had an impact on our net result in the first half of this year. Nevertheless, Sierra Gorda, thanks to its good production, thanks to its very good financial position, is able to refinance this old Project Finance debt. We hope that the work on next year's budget will bring such results that it will be the first year in which we will not have to finance the project in Chile from Poland, and perhaps this financial vector will be directed in the other direction. Indeed, the condition of Sierra Gorda is also confirmed by the fact that it is already able to obtain external financing on a larger scale. This was planned and partially implemented, but this uncertainty in the first and second quarters also affected financial institutions. This economic turbulence was unpredictable, especially in the metals market, now the situation is different. It is also worth saying that these transfers, i.e. in 2019 and 2020, were very minimal, in the context of what has been done historically, and what has been provided to Sierra Gorda to fill the funding gap. And we also assume that we will find a common language with our partner when it comes to financing, because here we must have a consensus. For us, a much better way of financing is if the Company and Sierra Gorda confirm their financial condition, usually such financing globally is done through external borrowing, which it has an increasing ability to do.

**6. I would like to ask about the reason for the high increase in the operating results of Sierra Gorda, by nearly 150%?**

Two factors combined here. Firstly, higher throughput which is enabled by higher production and better copper content in the ore. The combination of these two factors gives us an obvious result. The pricing formulas that we have for the sale of Sierra Gorda concentrate also sometimes have a positive effect compared to the average LME price, and this was also the case during this period. We are optimistic about the coming months. For us, it may not be a surprise, it is good news, but it is also the result of a comprehensive program that we have adopted in the Management Board, Paweł Gruza is supervising together with the General Manager, which he is implementing on site in Chile. As you will see, in the last two years, actually year on year, we have improved our production efficiency, month on month. Of course, sometimes we did have weaker months, especially in the context of shutdowns, but this is not a one-off, that is, it is a systemic action that we have been pursuing for the third year already, quite consistently, yielding results every year. Combined with initiatives that save us money, cost initiatives and this sensible trade policy, it gives a total effect.

**7. How did the pandemic affect the global copper market?**

We saw a price imbalance in Q1, Q2. These prices dropped significantly. It was a time of great uncertainty, it was not known what would happen. Nobody knew what would happen. We can currently see that, especially in this third quarter, prices have not only returned, but increased, they are better, more favorable, especially in terms of copper, but also of silver, and these are two factors that we identify as influencing this situation. First, the situation in the Chinese economy, i.e. greater optimism and maintaining industrial production. Even conservative banks are currently revising their forecasts for China and say that in the whole of 2020, this may be as much as 2.5% growth. This is one factor. The second factor is relative calm in the context of trade wars. I say relative calm, because something is always happening, such as various types of talks and potential assessments of this first six months of the trade agreement between the US and China. But also that we are seeing positive signals from the US economy that I was talking about, for example in the context of the construction industry. This is holding up the good sentiment when it comes to demand. In addition, the epidemic in many places reduced investment capacity and the ability to work on new projects, as well as the supply capacity. Therefore, we are trying to be optimistic in the short and long term. Of course, we are hoping for even higher prices, which is possible, but not so obvious. And at the same time, we cannot say that it is a certain time, because all the time, it must be emphasized, we are living through a time of epidemic, and both the opinions and statements of analysts, investment banks and analytical centers echo this uncertainty, all the time it is with us and active.

**8. I would like to ask you about the q/q increase in C1 cost in SG. Please explain the C1 increase from USD 1.15/lb in Q1'20 to USD 1.34/lb in Q2'20, i.e. +17% q/q with the reported q/q increase in production volumes and a comparable average USD/CLP exchange rate in these quarters?**

Increase in SG's C1 (2Q vs 1Q 2020):

- increase in costs (an increase in the volume of copper sales translated into higher transport and TC / RC costs, additionally lower capitalization of stripping costs and the impact of changes in inventories);
- lower revenues from sales of associated metals, which reduce C1.

**9. Please tell me why the loss related to the JV in P&L amounted to PLN 210 million while Sierra Gorda's loss shown in Table 21 on a 55% basis was PLN 82 million?**

The result on joint ventures includes the consolidated net result of SG according to the equity method and accrued interest on loans granted. The higher consolidated loss recorded by SG results from higher financial support (USD 52 million provided by KGHM in Q2 2020) by the owners in Q2 2020. So the item "share in JV losses" takes into account the fact that during the reporting period we increased our share in SG (capital increase) and in accordance with accounting using the equity method, the share was reduced by the loss generated by SG to the level of the capital increase.

As for the item interest income on the loans granted to the JV, the increase in accrued interest in the first half of 2020 compared to the first half of 2019 results from the reversal

of the impairment write-down on loans in the amount of PLN 106 million as at December 31, 2019. In accordance with the method of valuation of loans at amortized cost, interest is charged at the rate determined at the moment of granting the loan on the net value, i.e. after the write-down.

**10. What do you expect - in terms of production and financial results - in the second half of the year?**

The Company and the KGHM Group are focused on implementation of the budget assumptions for the current year, both in terms of the production and efficiency parameters achieved. We do not publish or comment on financial results forecasts.

**11. The presented results may lead to the conclusion that Sierra Gorda has turned the corner. What are the future plans for this project?**

The Sierra Gorda project is invariably treated as a key and long-term project, and all activities are aimed at achieving the production and efficiency parameters assumed in the strategy until 2023. Sierra Gorda is currently focusing on the preparation of an Integrated Plan, which will include a new scope of work, schedule and costs related to the optimization of the production line and increasing the processing of sulphide ore.

**12. What are the Group's prospects for the second half of 2020?**

The Management Board of KGHM is focused on the implementation of budgetary and strategic assumptions, the macroeconomic conditions are currently favorable, both in terms of price and demand, and we should be glad about this. In line with our policy, we do not publish internal forecasts.

**13. What investment activities has the Group planned for the second half of 2020?**

In 2020, the Company will continue the implementation of key investments in the area of mining and metallurgy, including:

- The Deposit Access Program (Deep Głogów along with access and development tunnels);
- Development of the Żelazny Most Tailings Storage Facility;
- Investment projects aiding in de-watering in the Polkowice-Sieroszowice mine;
- The program to adapt to the requirements of BAT Conclusions for the non-ferrous metals industry and to restrict emissions of arsenic (BATAs);
- Optimal utilisation of the production capacity of the Legnica Copper Smelter and Refinery by the processing of scrap;
- Investment projects related to replacing equipment and optimisation at the Głogów I Copper Smelter/Refinery.

**14. What are the planned activities related to entities from the Group not directly related to the core business of KGHM, such as health resorts, hotels, Centrozłom Wrocław, WPEC?**

The Management Board is obliged to inform the market about each decision concerning the Group's companies, which is significant from the point of view of the Issuer's operations, in the appropriate reporting mode.

**15. The question concerns the production of copper in concentrate by KGHM Polska Miedź S.A. In the last 5 years, the production of copper in concentrate has decreased from approx. 430 kt to the present 400 kt. What is the Company doing, what operating measures is it undertaking to increase the production of copper in concentrate in the medium term?**

In the Budget for 2020, the Company assumed the production of copper in concentrate, from domestic assets at the level of 399 thousand tonnes. One of the main strategic goals in the area of production, until 2023, is to maintain cost-effective domestic and foreign production.

**16. Polish Capex in 2020 appears to be on track to achieve your budget of PLN2.25bn - > can you provide any initial guidance on the trajectory of Polish capex in 2021? Is it still fair to assume average Polish capex of PLN2.0-2.5bn pa medium-term?**

Yes, the implementation of the Budget in the area of capital expenditures is proceeding as planned and similarly to the previous year. Investment activities included the implementation of replacement, maintenance and development projects in the areas of mining, metallurgy and other activities. As of today, we do not expect changes to the Budget implementation schedule, including capital expenditure. Nevertheless, we are monitoring the situation and are trying to implement all projects as planned. As we said earlier, we are prepared for all kinds of scenarios, with a flexible approach to modeling the capex plan in the future. When it comes to plans for 2021, we traditionally publish selected assumptions at the beginning of the financial year.

**17. Sierra Gorda raised \$200m of debt in 2Q -> does this mean you are less likely to have to inject more cash into the JV in the rest of 2020?**

According to the financing plan, the owners of project should support Sierra Gorda as regards repayment of the Project Finance with USD 250 million this year, and USD 50 million in 2021. In the first half of 2020, the main source of financing Sierra Gorda's investments were the funds generated by its operating activities and loans, including a loan granted by Bank Gospodarstwa Krajowego (USD 100 million in the first half of 2020). Due to the uncertain situation on the copper market in the first months of 2020, Sierra Gorda S.C.M. also required co-financing by the owners, which amounted to USD 95 million (USD 30 million in the first half of 2019, on a 100% share). The amount is slightly lower than assumed in the regulatory filing of May 15 this year (USD 100 million).

Co-financing of the Sierra Gorda mine by KGHM (in the form of a capital increase) amounted to USD 52 million (55% share) and was related to, among others, the repayment of the mine's financial liabilities due to Project Finance.

**18. Do you expect to inject more cash into Sierra Gorda in 2021?**

The Sierra Gorda subsidy plan is not subject to changes, therefore, it is assumed that Sierra Gorda will achieve financial independence from 2021, which means that the Company will not be financed from the owner's funds after 2020.

**19. What was the reason for the high loss on an associate this quarter, despite the record-high EBITDA of Sierra Gorda?**

The higher consolidated JV loss resulted from higher financial support (USD 52 million provided by KGHM in Q2 2020) by the owners in Q2 2020.

During the reporting period, we increased our financing stake in Sierra Gorda (capital increase) and, in accordance with the equity method, the share was reduced by the loss generated by SG to the level of the capital increase.

**20. I would like to ask about funding Sierra Gorda in 2Q20 - PLN 208m. Should we also expect such funding in the coming quarters?**

According to the financing plan, the owners of the project finance project should support Sierra Gorda with USD 250 million this year, and USD 50 million in 2021, i.e. it is assumed that Sierra Gorda will achieve financial independence from 2021.

The last cash call this year was USD 100 million.

In May this year, Sierra Gorda S.C.M signed a loan agreement with BGK, secured by a corporate guarantee issued by the owners of Sierra Gorda. The value of the guarantee provided by KGHM results from its stake in Sierra Gorda (55% of shares) and the total loan amount (USD 200 million) and amounts to USD 110 million.

**21. Sales in 3Q20 at Sierra Gorda - what can we expect?**

At the moment, we do not see any symptoms of a change or deterioration in Sierra Gorda's sales parameters related to the operations conducted. Of course, questions remain about the macroeconomic conditions that are currently favorable to us.

**22. Please remind us how much of KGHM's copper output goes into its own copper wire manufacturing now and after an expansion of wire production capacity. Does the de-globalisation movement, particularly anti-China rhetoric from the US create more downstream opportunities for KGHM?**

The production of wire rod (including CuOFE wire) currently amounts to approx. 266 thousand tonnes per year. The ongoing expansion of the UPCAST line at the Cedynia Wire Rod Plant has the potential to increase production by an additional approximately 15,000 tonnes of wire. Moreover, the risk of interrupting the continuity of deliveries to customers

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due to production based on a single production line will be minimized. The project complies with KGHM's Strategy for 2019-2023.

The deglobalization change may create opportunities for producers who want to transfer production assets from China, but from the perspective of KGHM, it is crucial to maintain good contacts and contractual conditions with our Chinese partners with whom we trade, e.g. the contract with China Minmetals.