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## PRESENTATION OF THE FINANCIAL RESULTS OF THE KGHM POLSKA MIEDŹ S.A. GROUP FOR THE FIRST HALF OF 2021 FOR ANALYSTS AND JOURNALISTS

18 AUGUST 2021

**LIDIA MARCINKOWSKA-BARTKOWIAK, EXECUTIVE DIRECTOR, COMMUNICATIONS:** Ladies and Gentlemen, welcome to the conference on the financial results of the KGHM Group and KGHM POLSKA MIEDŹ S.A. for the first half of 2021. We are meeting in person and via videoconference today. I would like to welcome all of our guests who have appeared at the Warsaw Stock Exchange. As always, we will begin by the commentary of the Management Board on the results for the first half of the year, followed by a Q&A session, including questions received via chat. Please submit your questions to the email address [ir@kghm.com](mailto:ir@kghm.com). All the questions from the Q&A session as well as additional questions we would like to address in detail, will be published on our website, so that all of you can have access to them. The results of the KGHM Group for the first half of the year will be presented to you by Members of the Management Board: Mr. Marcin Chludziński, President of the Management Board, Mr. Adam Bugajczuk, Vice-President of the Management Board for Development, Mr. Paweł Gruza, Vice-President of the Management Board for International Assets and Mr. Andrzej Kensbok, Vice-President of the Management Board for Finance. President Dariusz Świdorski is not with us today, but of course we are going to talk about production too, including domestic production. Ladies and Gentlemen, let us begin the conference. I would like our President Marcin Chludziński to take the floor.

**MARCIN CHLUDZIŃSKI, PRESIDENT OF THE MANAGEMENT BOARD:** Good afternoon. We welcome you on this summer day. We have some good news to share related to the company's activity in the first half of 2021. The numbers of today's meeting are 100, 32 and 433. Let me explain this. Adjusted EBITDA higher by 100% y/y, revenue higher by 32%, net profit higher by 433%. This is in comparison to the first half of 2020. What appears in the macroeconomic and the commentary space is that the prices of copper have been favorable for us, I cannot deny that. For the first time in a long time, we have had the wind at our back and not in our face as we moved forward, please be reminded that the first half of 2020 as regards prices was very difficult. With prices even lower than USD 5000 per tonne. In the historical perspective, 2018 and 2019 were not easy either. The price of copper, however, is not the main reason we can share these good numbers with you, there was a range of optimization, production and cost initiatives undertaken that have taken effect. In the context of Sierra Gorda, with more good numbers and good news, this is the first year, which is very important, when money flowed not from Poland to Chile, but from Chile to Poland. Until now, as much as PLN 500 million has returned from Sierra Gorda to Poland. This is not the end. The next amounts are planned for

this year, so we will not stop there, if we maintain the good production and financial parameters. So of course this has happened much later than historically anticipated when making this investment, but the three years of hard work by this Management Board and by the people who are in charge of Sierra on site, both Polish and Chilean, but also from the company Head Office, have proved effective, but please remember that with this project despite lower prices, we have also shown you much better financial results, progress on EBITDA, progress in production and the struggle for this project in terms of cost and production lines efficiencies, which has all brought results. The price has supported us, but even without it we have achieved results, which was clear from the financial results. I can give you an example, maybe a journalistic one, but still an example, and one of many examples, that a few dozen vehicle loads more that take the extracted ore to the mill throughout one shift gives us a very specific cash flow, as it gives us a dozen, several thousand tonnes of extracted ore more, which translates to more concentrate and more copper in the end. This is one of the optimization initiatives in this project that brings such effects. This is also not the end as it comes to continuing these initiatives and undertaking new ones. And most importantly, this is happening without making new investments, extensive new investments. Basically, we are optimizing what had been there and utilising only what had been there, we are trying to unlock value and increase the availability of these assets in a way so as to obtain the best financial result we possibly can. We are attempting to do the same in Poland at the cost level, at the level of production maintenance, as we know very well that the grade is unfavorable, and with time the content of copper is becoming less and less favorable. On the other hand, in Sierra Gorda it is periodic, but sometimes we happen to come across higher grades, although it is still a mining project from the world's mining industry perspective, which has one of the lowest grades, so this is not a top project creating possibilities, but rather one that we are still fighting for. So we are proud to share this good information, and at the same time we are happy that for the first time in a long time the macroeconomic conditions have been very advantageous. They are, however, still uncertain so it needs to be stated clearly that there is a battle on the market with regard to prices. There are moments and points where the price is looking to fall. Sometimes there is a continuous struggle for growth, which is something we are keeping an eye on, and we are prepared for different options. As we saw in 2020, despite the variants of difficulty and crisis, we are also able to show growth and a decent financial result. As regards specific data, as usually during our meetings, they are going to be presented by the Members of the Management Board. I am giving the floor to Andrzej Kensbok, who is going to cover production figures and financial figures.

**ANDRZEJ KENSBOK, VICE-PRESIDENT OF THE MANAGEMENT BOARD FOR FINANCE:** Good afternoon. I would like to welcome those of you present here as well as our online guests. As regards production results and the production of metals, we have an 8.6% increase in payable copper production half-year to half-year. The good news is that the growth is present in all segments in Poland and in KGHM INTERNATIONAL, so mostly in the Robinson mine and, as the President has already mentioned, in the Sierra Gorda mine. In terms of the production of our

other main product, which is silver production, it is a bit lower than last year. This is due to the fact that we process, especially in Poland, more purchased concentrates, of a slightly different type than those which were processed last year, and hence containing higher contents of copper, but not necessarily of silver. So the availability of silver in the purchased concentrates has slightly fallen, while when it comes to our North American mines, we are excavating through areas that contain a little less precious metals, i.e. TPMs. We should also talk about the production results of KGHM Polska Miedź S.A. as the main, leading company. Here I would like to draw your attention to the maintained level of mining extraction. It is important as we know that the conditions for extraction are deteriorating, in a sense that we are encountering worse and worse geological conditions, deeper and more extensive mines, but the level of extraction has remained the same, it was even a bit exceeded compared to the first half of last year. So the initiatives related to developing access to the deposits, extraction works, the functioning of the whole mining complex, transportation, processing etc. are working well and dealing well with the situation. The production of electrolytic copper has increased and it is mostly due to the increased processing of purchased metal-bearing materials, meaning scraps and purchased concentrates. It is worth mentioning that we are expanding the spectrum of purchased metal-bearing materials that we process, adjusting the capacities of smelters to greater availability and a bigger possibility of choice and the optimization of the acquisition of purchased metal-bearing materials and on the other hand, the smelters are also adjusting their technologies to processing larger quantities, we are preparing for that by building or creating warehouse and storage centers as well as transportation logistics of these purchased metal-bearing materials. It is simply becoming an important element of our production and it is helpful as it allows us to make full use of the processing and refining capacities of our smelter/refineries, thereby increasing the possibility of high volume production. The decrease of electrolytic copper production from own concentrates is only on a year on year basis. In the first half of last year we processed the end of the excess concentrate inventories which were created a few years ago and was consistently drawn down. This excess was used up at the beginning of 2020, which explains the increased production of copper from own concentrates compared to this year. This year, we are up to date with the processing, which means we are processing what we are extracting. For the production results of Sierra Gorda, let me pass the floor to my colleague.

**PAWEŁ GRUZA, VICE-PRESIDENT OF THE MANAGEMENT BOARD FOR INTERNATIONAL ASSETS:** Thank you, Andrzej. Ladies and Gentlemen, the results of our international assets, in particular Sierra Gorda and Robinson, are very good. Here are the figures we are proud of. This is the result of not only good management of the mine, and of the processing plant in Sierra Gorda, but also of a good relationship with the trade unions with whom we managed to sign an agreement at a very early stage, which allowed us to work normally and continue production in a rather turbulent moment that Chile and other mining companies working in that jurisdiction encountered. I would also like to mention the financial results and add to what the President has said about the repatriation of cash from Chile to Poland. We practically managed to cease the

financing of the international assets from Poland, and this year thanks to the good production, and for the first time of this Management's term thanks to the support of the macroeconomic situation, we have observed a possibility of turning this financial vector back to Poland, which we are very pleased about. Thanks to the savings in costs, as the President has already mentioned, that we were able to introduce in our international assets and in Sierra Gorda during the hard times of last year when the price dropped to a very low level of below 5000 per tonne, we were also able to maintain these savings this year thanks to a disciplined approach. Thanks to this we are generating a financial surplus that we are bringing to Poland. In terms of KGHM INTERNATIONAL, we are very proud of the production results of the Robinson mine, which is also working on extending the life of the mine and this builds the value of these assets in our books. Thank you.

**ANDRZEJ KENSBOK, VICE-PRESIDENT OF THE MANAGEMENT BOARD (FINANCE):** As for financial results, let us start from the revenues. The revenues of the Group increased year on year by 32%. It is important to note here that this increase occurred in all the segments of our operations. The main factor behind it was the increase of prices of almost all the metals that we sell. What acted against us was the dollar exchange rate, or the Polish zloty to the US dollar exchange rate. The Polish zloty has strengthened, which has had a negative impact on us, so the transactional exchange rate has affected us in a way. This drop of the sales volume by PLN 388 million is related to the so called sales logistics, which is the accumulation of product before selling it in specific lots. It happens both in the United States and in Poland for silver, so this is a temporary situation. Specifically, this means accumulating reserves of products before 30 June and closing the books. The negative settlement of income from derivatives is the result of the continuation of our hedging transactions. We adjusted these transactions in the first half of this year, as the market allowed us to, but those that were historically agreed, that protected us when the prices of copper were historically the lowest, are still in force and are settling negatively at the moment. This negative impact is more than offset, by both the positive impact of the revenues and by another factor that I will mention shortly. Let me move on to costs. The C1 unit cost, which is the cash cost of payable copper production. We can see an increase from USD 1.6 per pound to USD 1.89 due to the overlapping of several factors. We need to stress the decrease of C1 cost in Poland, which is a decrease of C1 unit cost in the domestic production. There is also a decrease in C1 cost in the Sierra Gorda mine. In Poland the main factor is the increase of prices of associated metals, especially silver. In Sierra Gorda, the increase of production volume. The main unfavorable factor is the increased minerals extraction tax charge, the so-called copper tax, as it is included in the C1 cost, and it is calculated based on the copper price and the extracted copper volume, and as production volume remained at a stable level, this cost was much higher. The amount of this tax is also much higher and this affects the cost of C1 in a negative way. When it comes to the operational result, let us go back to the President's initial comments about the increase in adjusted EBITDA by 100% year-on-year. Let me emphasize this again, the increase appeared in all the segments: in Poland, in North America and in the Sierra

Gorda mine. We also have an EBITDA increase in our other companies, the smaller companies of the Group such as Zanam, PeBeKa etc. They are doing well, but while the increase is not so significant, it allows them to optimize their balance sheets and their financing. This is mostly related to the increase in the revenues, but the EBITDA increase is also due to the stable production and stable costs wherever this is possible. I am going to talk more about the costs later. The effect is that there is a double increase in the operating margin, the operating profit. The net result of the KGHM Group is an increase to PLN 3 723 million. The main driver is the increase of revenues. This is somewhat shown in our case, in the change of expenses by nature, of course related to the fact that we are buying more purchased metal-bearing materials in order to increase the processing volume. Because of that, the change in work in progress and change in inventories is a plus, as it is deducted, and we have an increase. And the important factor that I mentioned a while ago is the result on the involvement in joint ventures, meaning that the stable and predictable production as well as the increase in the copper price, which is critical, enabled us to re-assess the value of the loans granted to Sierra Gorda, and this re-assessment of the loans showed an increase in the value of these loans in our portfolio by PLN 1 866 million. So this is our consolidated profit. If you are noticed our standalone result, it is a little higher, as it also includes reversals of the write-offs on loans that we granted to entities that particip[ated in increases in the share capital of Sierra Gorda, so they are not included in the consolidated statements, but this is more or less the same source of reversal, which is an improvement of the operational functioning of Sierra Gorda and more predictable revenues and profits, as well as an improvement of the macroeconomic situation. When it comes to costs, the main factor here is the increase in the amount of purchased metal-bearing materials, while when it comes to expenses by nature, we are looking at them very carefully, here we have two groups of such costs, the costs that we have under control, i.e. external services, material consumption, consumption of energy factors, while there are also some factors that we all are aware of, like price factors, that make costs increase. These are mainly the increase in the price of energy factors, mainly diesel and natural gas, and the increase in the price of CO<sub>2</sub> emission allowances. We of course secure that, but we all know perfectly well that such security is not of a long term nature and we are not able to protect ourselves for a long term. In the short term, this protection works, but the growth is evident nevertheless. And an increase in the price of steel, and I think this is also generally known, there was an increase in the steel market, we use steel for bolting and in many other mining activities, this increase in the price of steel also affected us negatively. However I also want to once again emphasise that we monitor the utilisation of these materials extremely closely, also the utilisation of energy factors, there are no negative divergences here, we recorded savings. These savings were accounted for in the budget and we are advancing them in line with the budget. The next slide shows cash flows. Here I would like to mention the negative cash flows resulting from changes in working capital. This means an increase in inventories. This increase in inventories is of a short-term nature, and as I mentioned earlier a technical nature. It's mainly an increase in copper anode inventories. We build up this stock, preparing for the maintenance shutdown of the anode furnace at the Głogów II Copper Smelter

and Refinery. The inventory of concentrate at the port was also slightly built up. This is also related to preparing for processing in the second half of the year and the backlog of ships which came into port at the same time, meaning in June. There is also a certain factor related with reducing our reverse factoring position. We repaid this factoring without the need to use it, in order not to incur financial costs. The second factor is acquiring tangible and intangible assets, capex in short. This is the capex both in KGHM Polska Miedź S.A. and in KGHM INTERNATIONAL, mainly in the Robinson mine, in line with the plan, in line with the targets. And the third element is the repayment of our debt. In the second quarter, we repaid a loan of USD 450 million in one of the banks, taking advantage of the fact that we had free cash flow. We do not want to incur the financial costs associated with this loan. We have reduced our debt. Moving smoothly into the topic of debt. This ratio of net debt to adjusted EBITDA was 0.7 at the end of the second quarter, so it was much lower than last year and, of course, in line with our policy. Our net debt remains more or less at the same level. However, as indicated here, we used the surplus cash to repay loans, and the other elements are more or less constant and also in predictable amounts. We do not want to maintain excessive amounts of cash, because nowadays it is not working, it does not bring any income. We also do not want to keep over-incurred debts because it costs money. However, we have open credit lines for the amount of approx. PLN 8 200 million, which are very flexible and secured on favourable terms. We can use them for our current needs or for financing further investments, so our financing structure is optimal at the moment, it is being further optimized, but we avoid those financial costs that are unnecessary. This actually exhausts the financial area. I am giving the floor to President Adam Bugajczuk.

**ADAM BUGAJCZUK, VICE-PRESIDENT OF THE MANAGEMENT BOARD FOR DEVELOPMENT:**

Good morning. Moving on to discussing the implementation of investments and the development projects, for the first half of the year we have the capex execution at PLN 1 036 million. Next to the pie charts, you have a structure according to the areas of our activity, how it is distributed. The level of execution might not be impressive, but I would like to emphasize that our investments are characterized by a very high degree of complexity and are in many cases long term investments, therefore the fourth quarter is always cyclically and historically heavily geared in terms of finances, so here all the investment tasks are executed in accordance with the adopted material-financial schedule. On the next slide you can see the cyclically growing role of the Deep Głogów (GGP) deposit and these figures are already impressive year-on-year, because there are increases of over 40% at each stage of activity. These rates and growth consist of two things. On the one hand, there was an increased amount of development work, but there is also the fact that the forward mine faces have reached this area. Therefore, here the output will constantly grow. When it comes to the key investments, the development of the Żelazny Most Tailings Storage Facility, i.e. the Southern Quarter, is practically completed, as is the Tailings Segregation and Thickening Station. We are currently at the stage of launching individual installations, so here we have no delays or problems with implementation. As for the Deposit Access Program, we are gradually deepening the GG-1 shaft. We are already at the level of 1,231

meters. As for the GG-2 shaft, a local spatial development plan has been published and we are at the stage of sinking holes for the foreshaft. The investment related to the surface air-conditioning station and cooling supply is also practically completed. It is also a very important investment that will allow us to extract deposits from those mining fronts where we cannot operate today, because conditions have not permitted us to work. As for the implementation of investments related to BAT conclusions, here we are also successively implementing individual investments both in Głogów and in Legnica. In terms of replacement of equipment, the modernization of the Tank House at the Głogów I Copper Smelter and Refinery is being carried out, and here practically everything is carried out in accordance with the assumed schedule. When it comes to the Energy Development Program, we are acting on two fronts. On the one hand, we are constantly working on achieving renewable energy sources, but we are also optimizing the main production line in terms of optimizing energy consumption and here we also have the first results of lower energy consumption, while maintaining all production parameters. On the next slide we show, in line with our strategy, that in 2030 we will reach a point where 50% of the power consumed will come from our own sources, including RES, and today it looks like this. We plan that the transition to this 50-50 system will allow us to reach CO<sub>2</sub> reduction of roughly 900 thousand tonnes, so it is also worth mentioning here that in 2023 Sierra Gorda will draw 100% of its power from renewable sources. I can see that President Paweł confirms that we have good data. As for the next slide, we show you the photovoltaic farm that we managed to implement at the Legnica Copper Smelter and Refinery, as well as the first projects of the other two farms at Piaskownia Obora, as well as at the Głogów Copper Smelter and Refinery. The parameters of these investments are next to these photos. Also, when it comes to these investments, they are all implemented as planned. Thank you.

**MARCIN CHLUDZIŃSKI, PRESIDENT OF THE MANAGEMENT BOARD:** It looks like we are reaching the end of our presentation. To sum up, I think it is worth saying that we have not stopped there, on the good news that we are sharing with you, but also, as we announced, we are working on updating the strategy and in September we should be able to get back to you and share our works and analyses. Generally if nothing fundamental in the world happens, we assume that the following years will be the years of copper and silver. If this is the case, then we must produce as much as possible, optimally in terms of costs and sell as much as possible to maximise profits, while watching costs. We are looking to do this, the company has to transform. The company has to transform both in the context of increasingly restrictive regulations related to energy, for cost and environmental reasons, as well as in the context of processes and process optimization cost-wise, using new technologies, technologies related to automation and also in the context of securing new deposits, for further exploration, operations and simply the functioning of the business. What we are currently analyzing and looking at with great hope are both issues related to green energy (we are already doing this and this is a well-known topic), but also to new energy sources, i.e. with small nuclear reactors as an energy source, with hydrogen, which is potentially very interesting for use in metallurgy. We are also looking at and

analyzing offshore topics. Of course, there is the great project for us, which is the new concessions in Bytom Odrzański, it is actually a new mine, in a new technology, in a new regulatory environment. This is a priority topic. As part of the concession in Puck, when it comes to potassium salts, also very promising, looking at the topics of the market situation that appeared in this market segment, so all of this is the subject of our analysis. We have not fundamentally changed our assumptions. The year 2018, December, which was the moment when our original strategy was created, with a motto that unfortunately turned out to be true, namely that uncertainty is the only certainty, you have to be ready for all variants, but at the same time the company must transform in the context of opportunities that lie ahead of it. And this is what this update is about and we will come back to you in detail in September. Thank you.

**LIDIA MARCINKOWSKA-BARTKOWIAK, EXECUTIVE DIRECTOR, COMMUNICATIONS:** A big thank you to the Management Board for your comments. Ladies and Gentlemen, we are moving to the Q&A session. This time we are taking questions from the conference room and from the online chat room. You can send your questions to [ir@kgm.com](mailto:ir@kgm.com) during the session. The session will be led traditionally by Janusz Krystosiak, Head of Investor Relations. I can already see the first volunteer.

**JANUSZ KRYSOŚIAK, DIRECTOR, INVESTOR RELATIONS DEPARTMENT:** Good afternoon. I can see Mr Paweł Puchalski. Hello.

**PAWEŁ PUCHALSKI, SANTANDER:** Good afternoon. Paweł Puchalski, Santander. I have in total 6 questions. Shall I break them down into sections? A few questions are short. Number one: Does the Company intend to change or correct its volume guidance in any of the projects or in any of the metals for the full year 2021?

**MARCIN CHLUDZIŃSKI, PRESIDENT OF THE MANAGEMENT BOARD:** We're talking about production here, right?

**PAWEŁ PUCHALSKI, SANTANDER:** About production. This is the first question. Number two: you mentioned lower mineralization, in KGHM INTERNATIONAL I believe. I would like to know if and when a change in the mineralization can be expected, if I remember correctly that you were talking about KGHM INTERNATIONAL. Perhaps you were talking about other deposits. Another simple question: are we going to have these big one-offs next year, is the Company going to keep the dividend payout at the same level as this year, i.e. will the one-offs be included in next year's dividend or not? One more question, because here was shown a beautiful 3 MW photovoltaics project, but I have a general question, because a few years ago you showed the strategy and, to my understanding, very little has changed when it comes to renewable sources. I would also like to ask not for a plan for 2030, because it is easy to provide, but for a plan for the next 2-3 years: how many megawatts in onshore solar farms are you intending to develop? One more question. How's your asset sale progressing? Has anything moved forward? And lastly, something that affects the results. I would like to ask the Management Board for a short but substantive

discussion about this cost component, i.e. inventories. There were minus about 700 in Q1, a cost adjustment by inventories -700 million in Q1, -300 in Q2 and I would like to know how the Management Board perceives what these values may be in the third quarter or in the entire second half of the year? And that's about it from me.

**MARCIN CHLUDZIŃSKI, PRESIDENT OF THE MANAGEMENT BOARD:** Alright, we'll try to answer your questions quickly. As for the changes to our production plans, excluding unforeseen events related to nature and fate, we are not planning such changes at the moment as far as production plans are concerned. As for the issue of the lower metal content in KGHM INTERNATIONAL LTD., I give the floor to Paweł.

**PAWEŁ GRUZA, VICE-PRESIDENT OF THE MANAGEMENT BOARD (INTERNATIONAL ASSETS):** Ladies and Gentlemen, the topic you raised concerns one of the assets that are currently being sold. It is inconvenient for us to talk about it at this point. This is due to this and no other geology. We are transparent in these matters to the participants of the sales process and this case is subject to the evaluation of our potential buyers for these assets. Addressing the second question right away, I would like to inform you that the process of selling assets follows a very precisely developed procedure and we are entering a sensitive phase, hence my restraint at this point in giving you more details about it. I think we will be able to provide a lot more information at the end of the year. Thank you.

**MARCIN CHLUDZIŃSKI, PRESIDENT OF THE MANAGEMENT BOARD:** As for our approach to the dividend next year, it doesn't change. The dividend policy is still valid. As you know, the Company has not paid dividends for several years. 2020 was the first year for which the dividend was paid in a long time. Maintaining the trend, keeping the results in the trend we have, allows us to be optimistic about it. Our dividend policy has not changed. This is also what I can say at this point. When it comes to photovoltaic projects, and not only photovoltaics because here we are talking about broadly understood energy optimization, we did not get certain packages of ready-made projects, therefore, they need to be prepared essentially from scratch. You know what's involved in municipal planning, changes to spatial development plans, environmental impact assessments and so on. Unfortunately, I'm afraid that this won't happen in a month, on the contrary, it takes several months or even years. Therefore, this process of launching an investment on our land is ongoing when it comes to formal issues. This year we will start several investments: one eight-megawatt, we will start the second six-megawatt and two smaller ones, so it will be the beginning of the investment process, after getting through the administration issues. This is one topic, because we also optimized our gas-steam blocks, from which we have a few percent additional energy. We optimize when it comes to consumption. Andrzej said that the production process is simply more intensive, and we are using less energy, so we are also doing a lot to save it. For the next ones, we will soon be entering the acquisition market, which means that we will not only set up projects at home, we want to buy projects that are either in the phase of investment and sale, or preparation for construction and sale. We are also looking

for PPI (Private Participation in Infrastructure)-type acquisitions, so apart from our own investments, it is a matter of days and weeks rather than months for us to go out to the market for other projects. And these are also the strategic directions I was talking about, which we are working on at the moment, because if you calculate quickly, you know perfectly well that if we were to rely only on photovoltaics, we would have to cover an area of approx. three voivodeships with panels, so this is not the only source that we can use in the context of meeting our "greenness". When it comes to energy, this is how it looks. So the machine is accelerated to the point to which reality allows us to go. And there are also issues, here Paweł referred to the sale, a related question with the shaping of inventories in the future, I give Andrzej the thread.

**ANDRZEJ KENSBOK, VICE-PRESIDENT OF THE MANAGEMENT BOARD (FINANCE):** As for inventories, their growth is primarily of a technical nature. We build up these stocks, knowing that we are continuing and next year we will for sure, and maybe even the next two years, continue the modernization and expansion cycle, especially at the Głogów Copper Smelter and Refinery. Also, I think that these inventories may not be in this form, maybe in a different structure, but they will be kept. And it also has to do with the fact that we are processing more and more purchased metal-bearing materials, and when processing purchased metal-bearing materials, we must accumulate these inventories so that they are ready for the smelters. It is also rather technical. From this point of view, it doesn't affect the result because it repeats itself. But on the other hand, there is also an element called sales logistics. And here it is rather temporary, i.e. it builds up, then reduces in the next quarter. Also here, I would not like to declare whether it will be larger or smaller, because it results rather from shipping cycles, whether concentrate, silver or wire rod. Because also when it comes to wire rod, here we are also planning some modernizations at the Cedynia Wire Rod Plant. At the moment, we have a slightly larger supply of ready-made wire rod, preparing for a several weeks' stoppage of the plant.

**PAWEŁ PUCHALSKI, SANTANDER:** Thank you very much for the answers, but the first of my questions was about the volumes for the whole year. As far as I can remember, you are far above the plan as far as molybdenum in Sierra Gorda is concerned, and you say you are not going to change your assumptions. Does this mean that I should assume a sharp drop in molybdenum extraction or are you just cautious and prefer to have a surplus? How should this be approached? Are these volumes for the whole year, do you expect them to be realized, or do you just prefer to stay safe?

**PAWEŁ GRUZA, VICE-PRESIDENT OF THE MANAGEMENT BOARD (INTERNATIONAL ASSETS):** Thank you. The budget of Sierra Gorda is subject to slightly different rules than the budget of KGHM or KGHM INTERNATIONAL. This is the result of arrangements with our partners in a joint venture. At this point, there is no discussion, so to speak, about any corrections to Sierra Gorda's budget, including the production budget. And at the moment we are not going to formalize our views on future production in the second half of the year.

**MARCIN CHLUDZIŃSKI, PRESIDENT OF THE MANAGEMENT BOARD:** Also, to keep things clear and unambiguous, it will certainly not be less than we plan. If nothing unforeseen happens, and we always try to be very careful, because you know that we work in such a business where not everything depends on us when it comes to threats related to reality, like nature, but we also try to exceed these plans wherever possible, and do much more, when there appear technological opportunities.

**ANDRZEJ KENSBOK, VICE-PRESIDENT OF THE MANAGEMENT BOARD (FINANCE):** To be specific, when it comes to the extraction of molybdenum in Sierra Gorda, the first half of this year is slightly lower than the first half of last year in terms of volume. On the other hand, the revenues from the sale of molybdenum are higher due to the higher price. On the other hand, there is a slight decrease in terms of volume.

**JANUSZ KRYSOŚIAK, DIRECTOR, INVESTOR RELATIONS DEPARTMENT:** Thank you very much. Do we have questions from the audience?

**WOJCIECH JAKUBIK, BIZNES ALERT:** I wanted to ask if the President was referring to offshore or onshore topics.

**MARCIN CHLUDZIŃSKI, PRESIDENT OF THE MANAGEMENT BOARD:** Are we talking about updating the strategy?

**WOJCIECH JAKUBIK, BIZNES ALERT:** The President said that you are looking at various energy sources.

**MARCIN CHLUDZIŃSKI, PRESIDENT OF THE MANAGEMENT BOARD:** We are also looking at offshore topics.

**WOJCIECH JAKUBIK, BIZNES ALERT:** Meaning marine topics.

**MARCIN CHLUDZIŃSKI, PRESIDENT OF THE MANAGEMENT BOARD:** Yes.

**WOJCIECH JAKUBIK, BIZNES ALERT:** I wanted to ask about that. I would like to ask about the impact of energy prices in Poland on your result in the past period, as well as on the price of natural gas, because President Kensbok said that natural gas prices have a negative impact on the results, because natural gas is becoming more and more expensive. And in this context, are you looking at investments in natural gas blocks, as natural gas is becoming more and more problematical in the European Union? And it was in this context that I wanted to ask about the new strategy or information about these new deposits. Should we expect them in the conference season that awaits us?

**MARCIN CHLUDZIŃSKI, PRESIDENT OF THE MANAGEMENT BOARD:** Well, I have addressed the first question, the first doubt. When it comes to energy and natural gas price issues, in terms

of their impact on us. Andrzej will address this in a moment, but in general it is necessary to realize that what you can talk about is the question of transformation and this is a complex answer. And I don't think there is a long-term solution at the moment apart from the one about the rising prices of certificates, which in fact shape the price of energy. And this thread is posed this way. We are trying to respond to it with some kind of change and transformation of the company, plus of course our lower consumption profile and using, where possible, technologies that will simply be less energy-consuming. Still in the context of the current impact, I will give the floor to Andrzej.

**ANDRZEJ KENSBOK, VICE-PRESIDENT OF THE MANAGEMENT BOARD (FINANCE):** To answer your question, I don't know if I have all the numbers here, if not, we'll prepare a reply and post it. In the first half of the year, I am talking about KGHM Polska Miedź S.A., because I think this is the subject of the question, there was an increase in the cost of electricity by PLN 102 million due to the power capacity fee, by PLN 77 million due to an increase in the price of CO<sub>2</sub> certificates and approx. PLN 90 million due to the increase in natural gas and diesel prices. This is how you can more or less distribute the impact of energy prices.

**MARCIN CHLUDZIŃSKI, PRESIDENT OF THE MANAGEMENT BOARD:** As for the issue of subsequent natural gas blocks, the price dynamics are not encouraging at the moment to make such a decision, but we are looking at this, because of course the dynamics may also have some volatility. On the other hand, greater regulatory certainty in the context of the European Union would be very helpful here, when it comes to natural gas and investment decisions. Thank you.

**ANDRZEJ KENSBOK, VICE-PRESIDENT OF THE MANAGEMENT BOARD (FINANCE):** I would just like to augment my statement, because of course we expect that the power capacity fee will be reduced. We have the assumption that this increase in costs due to the power capacity fee is not permanent.

**JANUSZ KRYSOŚIAK, DIRECTOR, INVESTOR RELATIONS DEPARTMENT:** Thank you very much. The President has already answered the question of Mr Tomasz Brzeziński about energy costs, including Editor Brzeziński, so let me say that we also have an answer to that question. Is there a question from the audience?

**JAKUB SZKOPEK, MBANK:** Jakub Szkopek, mBank's Brokerage House. I have a question about your RES target in Sierra Gorda 2020 – 300%, If you could provide such information, how much is it now and how is it done? Is it like you are the owners of photovoltaic farms there? I do not know what the sources of renewable energy are and how will they be developed? Will the capex be covered by Sierra Gorda or by some external partners? And I also have a question about surpluses in Sierra Gorda that are showing now, whether you will continue to be interested in transferring these surpluses to Poland, or are you thinking about the next stages of development there, e.g. Sierra Gorda Phase 2, a past project, or Sierra Gorda Oxide that was also planned in the past.

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**PAWEŁ GRUZA, VICE-PRESIDENT OF THE MANAGEMENT BOARD (INTERNATIONAL ASSETS):**

Sierra Gorda already has some of its energy from RES, while this target value of 100% results from very favorable and future-oriented contracts that we have signed and they are simply waiting to be executed by the energy supplier. Therefore, it is somewhat secured and we are pleased with it, with this transformation towards RES in Sierra Gorda. As for cash flow, Sierra Gorda does not currently assume this second phase. There is no discussion on this and there is no such type of investment plan being considered. We are continuing the methodology of investing in Sierra Gorda, which we adopted at the very beginning of our presence here in the Management Board, i.e. simply achieving production optimization using the least possible means. And at this point, this method is continued, i.e. we have reserved capex expenses for individual improvements, it is not a program like doubling the value of capex for Sierra Gorda or doubling its potential, but we move forward in small steps. And despite the assumption of the expenses for these improvements, we are talking about significant financial flows back to Poland.

**JAKUB SZKOPEK, MBANK:** I just have one last question. Recently, there has been a lot of talking about this trend in electromobility in deep mines. More and more equipment suppliers are boasting that more and more of these devices are being sold. Have you analyzed this direction? Could it potentially significantly reduce the costs of energy consumption in mines, simply by reducing the costs involved with temperature reduction ventilation? I know that one of your companies also has such a vehicle in its portfolio, so if I could have a word of comment here.

**MARCIN CHLUDZIŃSKI, PRESIDENT OF THE MANAGEMENT BOARD:** Let me refer to it before I give the floor to Adam Bugajczuk, who is responsible for the development topic. Of course, there is such a trend. This trend probably still needs time to develop technology. And, of course, it is often the case that manufacturers and suppliers boast faster than they are able to prove the parameters. Please remember, to picture this, a loader lifts 12 tonnes, so in order to lift these 12 tonnes within an hour and place them somewhere, it needs a lot of battery power for example. And it would have to be recharged several times over a six-hour duty cycle to be able to do the job that a diesel engine can do at the moment. We are looking for what will really help us, i.e. what is functional, what is possible, what will not impede the production cycle or extend it. There are such solutions, we are analysing them, but not all machines can be replaced with electric machines at the moment. When it comes to transporting people, yes we are testing it. Drilling machines, it is probably possible, but loaders, cars that carry several tonnes, probably not yet. If battery technology develops substantially, then yes. We use electric machines in Sierra Gorda. These are large excavators that have around 150 tonnes in one bucket, so they will turn the bucket twice and load our car, which then has 250 tonnes, the charger works on a cable, to put it briefly. Of course, it is electric, but the power supply is through cable, there is no battery power. By the way, referring to the energy thread, to what you asked about energy in Sierra Gorda, it is very interesting, because it is much easier for Chileans, because as we talked about those areas that can be covered with photovoltaic panels, they have the entire Atacama Desert. As you know,

the Atacama Desert is one of the sunniest places in the world, first of all. Second, it's empty. Mines such as ours are a rather small area of this desert, so it is simply easy to build up photovoltaic panels and obtain this energy in a short time. The availability of space is crucial. Their plans go further, because they want to produce hydrogen through electrolysis and be one of the largest producers in the world, and also transport hydrogen by ships. Of course, not in the hydrogen phase, but by converting to ammonia, because the transport of pure hydrogen is still something very risky, because there's a threat of loss of life in a quick explosion, ironically speaking. But this is just a digression in the context of these Chilean energy threads. I give the floor to the issue of electric machines in Poland.

**ADAM BUGAJCZUK, VICE-PRESIDENT OF THE MANAGEMENT BOARD (DEVELOPMENT):** Yes, I confirm what President Marcin has said. In two cases, we checked and these companies were not able to provide us with machines that fit our profile. We also research and talk to all the largest producers in the world. It is better, but in fact there are no such solutions as they say, and when it comes to lowering the temperature, it is unfortunately only by one degree. So if we change diesel to electric, we will lower the temperature at the bottom by one degree, which does not completely solve the problem of cooling the rock mass. Of course, we are thinking about it, this is the future and we are open to it as much as possible, but in addition to that, we have to further optimize and think about how to deal with these difficult conditions.

**JANUSZ KRYSOŚIAK, DIRECTOR, INVESTOR RELATIONS DEPARTMENT:** Thank you very much. For a moment, I would like to go back to the topic of operations, Sierra Gorda's results, and I would ask President Paweł Gruza to answer the question of Mr Tomasz Brzeziński: What activities resulted in higher copper yield in the January–June 2021 period in Sierra Gorda? In your opinion, will the 30% increase in the Chilean company's production be maintained?

**PAWEŁ GRUZA, VICE-PRESIDENT OF THE MANAGEMENT BOARD (INTERNATIONAL ASSETS):** As a rule, yields are a function of metal content in the ore, but also of the simple optimization of the process itself and the parameterization of the process. I would like to remind you that in recent quarters we have also completed some investments, and thanks to the fact that they were small, low-cost, low-capital-intensive steps, we simply improved the parameters of this installation. A number of components can be replaced, for example hydrocyclones and other components. Therefore, all these activities translate, on the one hand, into an increase in the processing capacity, but also an increase in yields and an increase in recovery, which is what geology gives us. If we ask about the second half of the year, as I said, we do not expect a significant collapse in production that could jeopardize these good results, but at this point we cannot provide clear guidance, a clear quantified plan for the second half of the year.

**JANUSZ KRYSOŚIAK, DIRECTOR, INVESTOR RELATIONS DEPARTMENT:** Thank you very much. The President's comments and earlier statements exhaust the answer to the question, but I feel obliged to read it. There is a request directly to President Marcin Chłodziński from Mr Jakub

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Kajmowicz: What contributed most to the improvement of the situation at the Sierra Gorda mine? What factors were key in this process?

**MARCIN CHLUDZIŃSKI, PRESIDENT OF THE MANAGEMENT BOARD:** I tried to refer to it at the beginning of my speech and in the introduction, but I will refer to it in more detail. When we came to the Company, we had a full plate, just as in some threads these plates were not full, so in the context of Sierra Gorda we had full plates for the next big capex projects, which would make production increase by investing billions more. We made a decision, many said it was a risky one, to invest in the form of purchase price plus loans for development. Launching this project cost billions of PLN and these were considerable amounts, so maybe it's time to simply use the usual industrial optimization, maintenance organization and operation with an industrial asset, just like working with an industrial asset in the commissioning phase, to squeeze as much as possible out of it. And if this gives as much as possible, then you can think about subsequent capex and the next investment phases, which will give an even better financial result. So in a nutshell, through a series of organizational initiatives, I have given you the example of cars. If we manage to load one more car within five minutes by organizing the excavator's work and the incentive system that allows this operator, motivates him to load more cars, and at the same time motivates the driver, we have several dozen more cars during the shift. This is already a high yield. If somewhere in the maintenance policy, the maintenance of a large production line, as it is a huge industrial processing installation, with mills, with a flotation process, we will be able to organize repairs and inspections in such a way that we will react in advance and at the same time remove all potential risks that may threaten us later, but if they occur at different times, they will do the 60% availability of the asset, not what is standard in the mining industry, 85 or 90, that's what we did. And a number of others, dozens of small initiatives that make it possible for us to produce more. But this is the work of our Management Board, Paweł here and the managers on site, the team in Poland. We are working on it all the time. People know that there is Polish money here, from a Polish company, that we have to fight to run this investment in such a way that it pays off and brings results. Results at the cost level and a number of initiatives. A lot of services and purchases you can do cheaper and we try to get things cheaper wherever we can, get energy cheaper, as in the case of the photovoltaic project, which in the long run will give us 100% of renewable energy to power the entire project. Or not shutting down and fighting for the company's work during the COVID period, or during riots that happened in Chile. That was not easy either. Chile is still a country with a high COVID risk. It is closed. It is impossible to enter and leave. There is a high rate of infections. We have frequent state inspections that give us permission to work and we pass them, which means that we protect our employees well. We are not paralyzed by that. Besides, relations with the trade unions are a difficult thing in Chile and we are able to communicate in such a way so as to ensure the continuity of the company's operations. I am not talking about riots anymore. There were moments when some mines stopped for 2, 3, 4 weeks, as you know, with a certain scale of production. It is easy to calculate how many millions of dollars that is. When we were able to

ensure the transportation of employees and the safety of their transportation and business continuity. There is a number of different factors, but I would simply call it attention, relevance and good management. And that's it. Even without capex we have these results. And you can think about capex as this trend will be permanent, as we expect, you can think about the development of this project in the next capex outlays.

**JANUSZ KRYSOŚIAK, DIRECTOR, INVESTOR RELATIONS DEPARTMENT:** Thank you very much. I still have questions from several people, I give the floor to President Andrzej Kęsbok. There is a question from Mr Łukasz Rudnik and a question from UBS: Why was there a significant increase in the cost of remuneration in KGHM Polska Miedź S.A. in Q2'21 versus Q1'21. Should the current level be treated as a starting point for subsequent quarters? The President has already mentioned that, but please elaborate as this question keeps coming up.

**ANDRZEJ KĘSBOK, VICE-PRESIDENT OF THE MANAGEMENT BOARD (FINANCE):** The cost of wages is a derivative of the Collective Agreement concluded. The Collective Agreement quite precisely indicates the algorithm that determines the wages, and it derives from this. On the other hand, we also have a profit bonus inscribed in the Collective Agreement, and if all the factors we discussed today continue in this positive trend, we forecast a record high profit. We have also been obliged to create a reserve for the increased profit bonus for employees. This has its dimension, I would say financially that we pay out more, but on the other hand, we also have the feeling that this Collective Agreement and our actions allow us to simply share this favorable financial situation of the company in this way, also with a wide group of stakeholders, i.e. our employees.

**JANUSZ KRYSOŚIAK, DIRECTOR, INVESTOR RELATIONS DEPARTMENT:** Thank you very much. I have another financial question. Let me answer quickly, reminding you of the impact of hedging on our results. Mr Rafał Wiatr asks: How much hedging was introduced in terms of sales and how much was in other operating activities? So the first half of this year was encumbered with the amounts of PLN 742 million due to hedging, i.e. revenue adjustment, PLN 173 million as a reduction in the result on other operating activities and over PLN 20 million reduced the result on finance activities. This is in the report, we have it in the presentation in the full version, but it is worth recalling because it makes modeling easier for us. Thank you very much. Do we have a question from the audience? If not, let me check if we have any new questions, because I have the impression that we have already answered at least a vast majority of them. Yes, please.

**PAWEŁ PUCHARSKI, SANTANDER:** I wanted to comment because one of my colleagues asked about electricity and the President replied that you are probably expecting a reduction in the power capacity fee. And why do you expect a reduction in the power capacity fee? Does it result from any regulations?

**MARCIN CHŁUDZIŃSKI, PRESIDENT OF THE MANAGEMENT BOARD:** Yes, it results from the regulations, because in the regulatory policy of the European Commission we are on the list of

those who may be exempt from the power capacity fee, as a metallurgical industry, along with many other industries, the copper smelting industry. So it is possible. There is a law underway which provides for such an exemption in relation to the production of copper and copper metallurgy.

**PAWEŁ PUCHALSKI, SANTANDER:** And please remind me how much of the power capacity fee was there in the first half of 2021?

**ANDRZEJ KENSBOK, VICE-PRESIDENT OF THE MANAGEMENT BOARD (FINANCE):** About PLN 100 million.

**PAWEŁ PUCHALSKI, SANTANDER:** And will it continue until the end of 2021?

**ANDRZEJ KENSBOK, VICE-PRESIDENT OF THE MANAGEMENT BOARD (FINANCE):** It depends on when the act mentioned by the President will be introduced.

**PAWEŁ PUCHALSKI, SANTANDER:** Thank you very much.

**JANUSZ KRYSOŚIAK, DIRECTOR, INVESTOR RELATIONS DEPARTMENT:** Thank you very much. I have two questions about whether we can expand on the topic of interest in SMRs and hydrogen? I would like to say, as we mentioned here, that these issues are being analyzed as one of the elements of a broader discussion, broader thinking, the results of which we will try to present to you when discussing changes in directions or updating certain elements of our strategy. For my part, we have exhausted the questions we received via e-mail. Thank you very much.

**LIDIA MARCINKOWSKA-BARTKOWIAK, EXECUTIVE DIRECTOR, COMMUNICATIONS:** I would like to remind you that all questions and answers, those from today and those that we might still receive by e-mail, will appear on our website. We will prepare answers and provide you with details for those that may come up. We are also at your disposal after the conference. And see you next quarter, I hope in a large group, directly. Thank you very much, thank you to the Management Board.

## Summary of questions raised at the Results Conference for the first half of 2021

### 1. Does the Company intend to change or correct its volume guidance in any of the projects or in any of the metals for the full year 2021?

**Answer** As for the changes to our production plans, excluding unforeseen events related to nature and fate, we are not planning such changes at the moment as far as production plans are concerned.

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2. **You mentioned lower mineralization, in KGHM INTERNATIONAL I believe. I would like to know if and when a change in the mineralization can be expected, if I remember correctly that you were talking about KGHM INTERNATIONAL. Perhaps you were talking about other deposits. How's your asset sale progressing? Has anything moved forward?**

**Answer** The topic you raised concerns one of the assets that are currently being sold. It is inconvenient for us to talk about it at this point. This is due to this and no other geology. We are transparent in these matters to the participants of the sales process and this case is subject to the evaluation of our potential buyers for these assets.

3. **Are we going to have these big one-offs next year, is the Company going to keep the dividend payout at the same level as this year, i.e. will the one-offs be included in next year's dividend or not?**

**Answer** As for our approach to the dividend next year, it doesn't change. The dividend policy is still valid. As you know, the Company has not paid dividends for several years. 2020 was the first year for which the dividend was paid in a long time. Maintaining the trend, keeping the results in the trend we have, allows us to be optimistic about it. Our dividend policy has not changed.

4. **One more question, because here was shown a beautiful 3 MW photovoltaics project, but I have a general question, because a few years ago you showed the strategy and, to my understanding, very little has changed when it comes to renewable sources. I would also like to ask not for a plan for 2030, because it is easy to provide, but for a plan for the next 2-3 years: how many megawatts in onshore solar farms are you intending to develop?**

**Answer** When it comes to photovoltaic projects, and not only photovoltaics because here we are talking about broadly understood energy optimization, we did not get certain packages of ready-made projects, therefore, they need to be prepared essentially from scratch. You know what's involved in municipal planning, changes to spatial development plans, environmental impact assessments and so on. Unfortunately, I'm afraid that this won't happen in a month, on the contrary, it takes several months or even years. Therefore, this process of launching an investment on our land is ongoing when it comes to formal issues. This year we will start several investments: one eight-megawatt, we will start the second six-megawatt and two smaller ones, so it will be the beginning of the investment process, after getting through the administration issues. This is one topic, because we also optimized our gas-steam blocks, from which we have a few percent additional energy. We optimize when it comes to consumption. Andrzej said that the production process is simply more intensive, and we are using less energy, so we are also doing a lot to save it. For the next ones, we will soon be entering the acquisition market, which means that we will not only set up projects at home, we want to buy projects that are either in the phase of investment and sale, or preparation for construction and sale.

We are also looking for PPI (Private Participation in Infrastructure)-type acquisitions, so apart from our own investments, it is a matter of days and weeks rather than months for us to go out to the market for other projects. And these are also the strategic directions I was talking about, which we are working on at the moment, because if you calculate quickly, you know perfectly well that if we were to rely only on photovoltaics, we would have to cover an area of approx. three voivodeships with panels, so this is not the only source that we can use in the context of meeting our "greenness". When it comes to energy, this is how it looks. So the machine is accelerated to the point to which reality allows us to go.

- 5. I would like to ask the Management Board for a short but substantive discussion about this cost component, i.e. inventories. There were minus about 700 in Q1, a cost adjustment by inventories -700 million in Q1, -300 in Q2 and I would like to know how the Management Board perceives what these values may be in the third quarter or in the entire second half of the year?**

**Answer** As for inventories, their growth is primarily of a technical nature. We build up these stocks, knowing that we are continuing and next year we will for sure, and maybe even the next two years, continue the modernization and expansion cycle, especially at the Głogów Copper Smelter and Refinery. Also, I think that these inventories may not be in this form, maybe in a different structure, but they will be kept. And it also has to do with the fact that we are processing more and more purchased metal-bearing materials, and when processing purchased metal-bearing materials, we must accumulate these inventories so that they are ready for the smelters. It is also rather technical. From this point of view, it doesn't affect the result because it repeats itself. But on the other hand, there is also an element called sales logistics. And here it is rather temporary, i.e. it builds up, then reduces in the next quarter. Also here, I would not like to declare whether it will be larger or smaller, because it results rather from shipping cycles, whether concentrate, silver or wire rod. Because also when it comes to wire rod, here we are also planning some modernizations at the Cedynia Wire Rod Plant. At the moment, we have a slightly larger supply of ready-made wire rod, preparing for a several weeks' stoppage of the plant.

- 6. As far as I can remember, you are far above the plan as far as molybdenum in Sierra Gorda is concerned, and you say you are not going to change your assumptions. Does this mean that I should assume a sharp drop in molybdenum extraction or are you just cautious and prefer to have a surplus? How should this be approached? Are these volumes for the whole year, do you expect them to be realized, or do you just prefer to stay safe?**

**Answer** The budget of Sierra Gorda is subject to slightly different rules than the budget of KGHM or KGHM INTERNATIONAL. This is the result of arrangements with our partners

in a joint venture. At this point, there is no discussion, so to speak, about any corrections to Sierra Gorda's budget, including the production budget. And at the moment we are not going to formalize our views on future production in the second half of the year. Also, to keep things clear and unambiguous, it will certainly not be less than we plan. If nothing unforeseen happens, and we always try to be very careful, because you know that we work in such a business where not everything depends on us when it comes to threats related to reality, like nature, but we also try to exceed these plans wherever possible, and do much more, when there appear technological opportunities.

- 7. I would like to ask about the impact of energy prices in Poland on your result in the past period, as well as on the price of natural gas, because President Kensbok said that natural gas prices have a negative impact on the results, because natural gas is becoming more and more expensive. And in this context, are you looking at investments in natural gas blocks, as natural gas is becoming more and more problematical in the European Union? And it was in this context that I wanted to ask about the new strategy or information about these new deposits. Should we expect them in the conference season that awaits us?**

**Answer** When it comes to energy and natural gas price issues, in terms of their impact on us. Andrzej will address this in a moment, but in general it is necessary to realize that what you can talk about is the question of transformation and this is a complex answer. And I don't think there is a long-term solution at the moment apart from the one about the rising prices of certificates, which in fact shape the price of energy. And this thread is posed this way. We are trying to respond to it with some kind of change and transformation of the company, plus of course our lower consumption profile and using, where possible, technologies that will simply be less energy-consuming. In the first half of the year, I am talking about KGHM Polska Miedź S.A., because I think this is the subject of the question, there was an increase in the cost of electricity by PLN 102 million due to the power fee, by PLN 77 million due to an increase in the price of CO<sub>2</sub> certificates and approx. PLN 90 million due to the increase in natural gas and diesel prices. This is how you can more or less distribute the impact of energy prices. As for the issue of subsequent natural gas blocks, the price dynamics are not encouraging at the moment to make such a decision, but we are looking at this, because of course the dynamics may also have some volatility. On the other hand, greater regulatory certainty in the context of the European Union would be very helpful here, when it comes to natural gas and investment decisions. of course we expect that the power capacity fee will be reduced. We have the assumption that this increase in costs due to the power capacity fee is not permanent.

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**renewable energy are and how will they be developed? Will the capex be covered by Sierra Gorda or by some external partners? And I also have a question about surpluses in Sierra Gorda that are showing now, whether you will continue to be interested in transferring these surpluses to Poland, or are you thinking about the next stages of development there, e.g. Sierra Gorda Phase 2, a past project, or Sierra Gorda Oxide that was also planned in the past.**

**Answer** Sierra Gorda already has some of its energy from RES, while this target value of 100% results from very favorable and future-oriented contracts that we have signed and they are simply waiting to be executed by the energy supplier. Therefore, it is somewhat secured and we are pleased with it, with this transformation towards RES in Sierra Gorda. As for cash flow, Sierra Gorda does not currently assume this second phase. There is no discussion on this and there is no such type of investment plan being considered. We are continuing the methodology of investing in Sierra Gorda, which we adopted at the very beginning of our presence here in the Management Board, i.e. simply achieving production optimization using the least possible means. And at this point, this method is continued, i.e. we have reserved capex expenses for individual improvements, it is not a program like doubling the value of capex for Sierra Gorda or doubling its potential, but we move forward in small steps. And despite the assumption of the expenses for these improvements, we are talking about significant financial flows back to Poland.

- 9. Recently, there has been a lot of talking about this trend in electromobility in deep mines. More and more equipment suppliers are boasting that more and more of these devices are being sold. Have you analyzed this direction? Could it potentially significantly reduce the costs of energy consumption in mines, simply by reducing the costs involved with temperature reduction ventilation? I know that one of your companies also has such a vehicle in its portfolio, so if I could have a word of comment here.**

**Answer** Let me refer to it before I give the floor to Adam Bugajczuk, who is responsible for the development topic. Of course, there is such a trend. This trend probably still needs time to develop technology. And, of course, it is often the case that manufacturers and suppliers boast faster than they are able to prove the parameters. Please remember, to picture this, a loader lifts 12 tonnes, so in order to lift these 12 tonnes within an hour and place them somewhere, it needs a lot of battery power for example. And it would have to be recharged several times over a six-hour duty cycle to be able to do the job that a diesel engine can do at the moment. We are looking for what will really help us, i.e. what is functional, what is possible, what will not impede the production cycle or extend it. There are such solutions, we are analysing them, but not all machines can be replaced with electric machines at the moment. When it comes to transporting people, yes we are testing it. Drilling machines, it is probably possible, but loaders, cars that carry several tonnes, probably not yet. If battery technology develops substantially, then yes. We use

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Yes, I confirm what President Marcin has said. In two cases, we checked and these companies were not able to provide us with machines that fit our profile. We also research and talk to all the largest producers in the world. It is better, but in fact there are no such solutions as they say, and when it comes to lowering the temperature, it is unfortunately only by one degree. So if we change diesel to electric, we will lower the temperature at the bottom by one degree, which does not completely solve the problem of cooling the rock mass. Of course, we are thinking about it, this is the future and we are open to it as much as possible, but in addition to that, we have to further optimize and think about how to deal with these difficult conditions.

**10. one of my colleagues asked about electricity and the President replied that you are probably expecting a reduction in the power capacity fee. And why do you expect a reduction in the power capacity fee? Does it result from any regulations?**

**Answer** Yes, it results from the regulations, because in the regulatory policy of the European Commission we are on the list of those who may be exempt from the power capacity fee, as a metallurgical industry, along with many other industries, the copper smelting industry. So it is possible. There is a law underway which provides for such an exemption in relation to the production of copper and copper metallurgy.

**11. And please remind me how much of the power capacity fee was there in the first half of 2021?**

**Answer** About PLN 100 million.

**12. And will it continue until the end of 2021?**

**Answer** It depends on when the act mentioned by the President will be introduced.

**13. What is the reason for such a significant increase in the cost of remuneration in KGHM Polska Miedź in Q2'21 vs Q1'21? Should the current level be treated as a starting point for subsequent quarters?**

**Answer** The cost of wages is a derivative of the Collective Agreement concluded. The Collective Agreement quite precisely indicates the algorithm that determines the wages, and it derives from this. On the other hand, we also have a profit bonus inscribed in the Collective Agreement, and if all the factors we discussed today continue in this positive trend, we forecast a record high profit. We have also been obliged to create a reserve for the increased profit bonus for employees. This has its dimension, I would say financially that we pay out more, but on the other hand, we also have the feeling that this Collective Agreement and our actions allow us to simply share this favorable financial situation of the company in this way, also with a wide group of stakeholders, i.e. our employees.

**14. Management mentioned PLN 500m flow of cash from Chile to Poland? Where does this show in the financial statements? Was this an actual payment of cash from Sierra Gorda to KGHM or non-cash change in intercompany loans?**

**Answer** The amount of PLN 500 million was recognised on 17 August, i.e. on the date of publication of the periodic report, as the gross amount of cash flow to KGHM Polska Miedź S.A. from the international operating segments of the KGHM Group.

**15. Employee benefits expenses increased by ~20% q/q. I understand this reflects provisions for profit related payments to employees, if the copper price remains at current levels would you expect Employee benefits expenses to remain at similar levels in the future?**

**Answer** The answer to the first part of the question is "yes", the determinant of an almost 20% increase in employee benefits costs in KGHM Polska Miedź S.A. in the second quarter of 2021 in relation to the second quarter of the previous year, it was necessary to create a provision for an additional annual bonus, the amount of which is related to the forecasted net result of the Parent Company for the current year.

In the second part of the question, we have a thesis about the direct link between the amount of employee benefits and the price of the main raw material, i.e. copper, and the extrapolation of these benefits at a level close to the current level. Of course, this is too far-reaching a simplification, because first of all, attention should be paid to the one-off nature of the provision created in the second quarter of this year, related to the financially strong effect of making the loans real and therefore, apart from the obviously positive operating performance and favorable macro environment, the forecast of a high net result.

The Collective Agreement precisely indicates the algorithm that determines the dynamics of the increase in remuneration and the method of calculating the level of the bonus from the Company's profit for a given financial year.

**16. Can you give any indication of potential capex on new energy sources, particularly small nuclear reactors to provide energy?**

**Answer** Due to the fact that a review is currently underway and an update of certain elements of our Strategy is being prepared, it is too early to forecast the potential amounts for such projects.

**17. A question about Sierra Gorda and molybdenum inventories. In Q2'21 production was higher than the sales, what is the molybdenum inventory now and can sales be expected to be higher than the production in Q3'21? And does Sierra Gorda sell molybdenum at spot prices or will it be sold in Q3'21 based e.g. on the average price in Q2'21? How do you explain the strong increase in molybdenum prices in the last 3 months?**

**Answer** We currently do not sell on the spot market. Sales are most often based on average quotations from a given contractual month (M, M+1, M+2, M+3). The high prices of molybdenum in the last three months are due to the following factors:

- consumption in China - in the case of permanent demand from the Chinese market, we notice a tendency towards stabilisation of molybdenum prices on the market in Europe and Asia. Recently, consumption increased significantly (from 8-9 kt to 11-12 kt). This resulted in disturbances in the availability of the product on other markets;
- underevaluation of market demand – a large percentage of end users assumed there would be low demand for molybdenum in 2021. Molybdenum demand however turned out to be substantially greater. This fact, combined with interruptions to the transport chain and lower availability of product on the market led to higher prices.

**18. How do you see C1 costs evolving at Polska Miedź in 2H21, especially labor costs/wage indexation and additional COVID-related costs?**

**Answer** The greatest impact on C1 currently is from the minerals extraction tax and the USD exchange rate. If metals prices remain at high levels, then the resulting level of this tax in the second half of 2021 should not be lower. The dynamic of employee costs in the second half of this year, compared to the second half of 2021, will be free of this one-off impact from the provision for the annual bonus from the first quarter of 2021. Consequently this element of C1 will not impact the value of this parameter. When forecasting and comparing employee costs to appropriate periods of the corresponding prior year you should take into account this one-off as well as natural wage inflation and the impact of their adjustments resulting from the Collective Agreement. In terms of costs related to protecting employees and the organisation from the impact and effects of the pandemic, naturally we optimistically assume that there won't be a need to recognise additional provisions due to the effectiveness of

the preventative and mitigating actions taken by us, though of course there remains uncertainty as to the further development of the pandemic.

**19. What impact do you see from your current hedging programs on the earnings and do you plan to adjust/close existing hedges in 2022 given that global commodities markets remain very strong?**

**Answer** The future impact of hedging is dependent on the final copper, silver and USDPLN prices which are uncertain, subject to market forces and could change either in favour or against the Company. As of 30th Jun 2021 the mark-to-market of open positions was -1.5 bn PLN (total open derivatives, page 46 in our financial statement), whereas the revaluation reserve on cash flow hedging instruments amounted to -2.2 bn PLN. The current derivatives portfolio mix serves all Market Risk Policy goals, which includes, among others, financial stability of the Group regardless of high volatility of market risk factors in short and middle term.

For many years the Company's attitude towards hedging has been consistent and aimed at stabilization of the company revenues. Such approach doesn't exclude potential adjustment of existing portfolio if market volatile conditions enable to optimize it in a way to better reflect current macroeconomic situation and price regimes.

**20. Can you tell me the adjusted net income number you will be using from 1H21 from the Polish parent company to form the basis of the dividend in 2022 (i.e. which one-offs are deducted from Poland net income)?**

**Answer** Deductions from net profit are accounted for when calculating the annual employee bonus under the detailed algorithm provided for in the Collective Agreement. In terms of profit allocation, including potentially in the form of shareholder dividends, the base is always reported for the year in which the allocation of net profit of the Parent Entity, i.e., KGHM Polska Miedź S.A., is made, here there are no exclusions. Please remember however that the dividend policy of KGHM provides for a dividend of a maximum of 1/3 of standalone net profit for the financial year ended.

**21. In the last production and sales report, you announced that in the first half of 2021, the production and sales of all major metals in the Group were above the level provided for in the budget for this period. How much has the budget been exceeded for copper, the production and sales of which increased y/y, and silver, the production and sales of which decreased? Thanks to what activities was it possible to achieve better results than assumed? Do you expect this trend to continue in the second half of 2021?**

**Answer** In the first half of 2021 the KGHM Group recorded a substantial increase in key production parameters. In the first half of 2021 the production and sales of all of the Group's main metals were higher than targeted in the budget for this period. It is difficult to say by how much individual targets were exceeded as according to

Company policy, we only disclose the annual targets for individual products. The same goes for forecasting their execution to the end of the year. Certainly, the continuation of the positive impact of improvements to the availability of production lines, higher production from purchased metal-bearing materials, improved ore quality and recovery parameters, allows us to think optimistically about achieving, or even exceeding the budgeted production volumes.

**22. Which activities contributed to achieving a higher copper yield in the period January-June 2021 in Sierra Gorda? Will it be possible, in your opinion, to maintain the 30% increase in the production of the Chilean company?**

**Answer** As a rule, yields are a function of metal content in the ore, but also of the simple optimization of the process itself and the parameterization of the process. I would like to remind you that in recent quarters we have also completed some investments, and thanks to the fact that they were small, low-cost, low-capital-intensive steps, we simply improved the parameters of this installation. A number of components can be replaced, for example hydrocyclones and other components. Therefore, all these activities translate, on the one hand, into an increase in the processing capacity, but also an increase in yields and an increase in recovery, which is what geology gives us. If we ask about the second half of the year, as I said, we do not expect a significant collapse in production that could jeopardize these good results, but at this point we cannot provide clear guidance, a clear quantified plan for the second half of the year.

**23. The company allocates its financial surpluses for loan repayments, e.g. the USD 350 million in BGK. Due to the unused PLN 8bn of credit and loan limits, positive cash flows generated from operating activities, current and flexible access to external financing sources, wouldn't it be better to invest in new deposits or buy back shares in Sierra Gorda?**

**Answer** We have open lines of credit in the amount of approx. PLN 8 200 million, which are very flexible and agreed on very favorable terms. We can use them in case of current needs or financing further investments, so our financing structure is optimal at the moment. In the event of making specific investment decisions, we will inform you.

**24. In the first half of the year, the costs of purchasing materials and energy amounted to PLN 5 832 million, which means that they increased by 57.7% y/y. What portion of this was the cost of purchasing energy?**

**Answer** There was an increase in the cost of electricity by PLN 102 million due to the power capacity fee, by PLN 77 million due to an increase in the price of CO2 certificates and approx. PLN 90 million due to the increase in natural gas and diesel prices.

**25. Is the KGHM Group feeling the increase in energy prices? Are you planning to accelerate the construction of renewable energy sources or the purchase of such assets due to the constantly growing price of CO2 emission allowances?**

**Answer** It is worth noting that thanks to optimizations, we ourselves use less energy per production unit than a year ago. The increasingly cost of electricity in Poland and the ever higher fees for CO<sub>2</sub> certificates are to some extent a speculative game, but this trend cannot be reversed in the long term. Already in 2018, in the then-adopted Strategy, we declared that we would reach the level of 50% of consumed energy generated by our own resources, including renewable energy sources, within a decade. The transformation we are engaged in includes an element of energy transformation in it. We have already built some of the photovoltaic projects. More will follow soon. And photovoltaics are only part of the planned investments.

**26. What contributed most to the improvement of the situation at the Sierra Gorda mine? What factors were key in this process?**

**Answer** I tried to refer to it at the beginning of my speech and in the introduction, but I will refer to it in more detail. When we came to the Company, we had a full plate, just as in some threads these plates were not full, so in the context of Sierra Gorda we had full plates for the next big capex projects, which would make production increase by investing billions more. We made a decision, many said it was a risky one, to invest in the form of purchase price plus loans for development. Launching this project cost billions of PLN and these were considerable amounts, so maybe it's time to simply use the usual industrial optimization, maintenance organization and operation with an industrial asset, just like working with an industrial asset in the commissioning phase, to squeeze as much as possible out of it. And if this gives as much as possible, then you can think about subsequent capex and the next investment phases, which will give an even better financial result. So in a nutshell, through a series of organizational initiatives, I have given you the example of cars. If we manage to load one more car within five minutes by organizing the excavator's work and the incentive system that allows this operator, motivates him to load more cars, and at the same time motivates the driver, we have several dozen more cars during the shift. This is already a high yield. If somewhere in the maintenance policy, the maintenance of a large production line, as it is a huge industrial processing installation, with mills, with a flotation process, we will be able to organize repairs and inspections in such a way that we will react in advance and at the same time remove all potential risks that may threaten us later, but if they occur at different times, they will do the 60% availability of the asset, not what is standard in the mining industry, 85 or 90, that's what we did. And a number of others, dozens of small initiatives that make it possible for us to produce more. But this is the work of our Management Board, Paweł here and the managers on site, the team in Poland. We are working on it all the time. People know that there is Polish money here, from a Polish company, that we have to fight to run this investment in such a way that it pays off and brings results. Results at the cost level and a number of initiatives. A lot of services and purchases you can do cheaper and we try to get things cheaper wherever we can, get energy cheaper, as in the case of the photovoltaic project, which in the long run will give us 100% of renewable energy to power the entire project. Or not shutting down and fighting for the company's work during the COVID period, or during riots that happened in Chile. That was not easy either. Chile is still a country with a high COVID risk. It is closed. It is impossible to enter and leave. There is a high rate of infections. We have frequent state inspections that give us permission to

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work and we pass them, which means that we protect our employees well. We are not paralyzed by that. Besides, relations with the trade unions are a difficult thing in Chile and we are able to communicate in such a way so as to ensure the continuity of the company's operations. I am not talking about riots anymore. There were moments when some mines stopped for 2, 3, 4 weeks, as you know, with a certain scale of production. It is easy to calculate how many millions of dollars that is. When we were able to ensure the transportation of employees and the safety of their transportation and business continuity. There is a number of different factors, but I would simply call it attention, relevance and good management. And that's it. Even without capex we have these results. And you can think about capex as this trend will be permanent, as we expect, you can think about the development of this project in the next capex outlays.

**27. Can you please elaborate on the topic of interest in SMRs (small modular reactors) and hydrogen?**

**Answer** These issues are being analyzed as one of the elements of a broader discussion, broader thinking, the results of which we will try to present to you when discussing changes in directions or updating certain elements of our strategy.

**28. How much hedging was introduced in terms of sales and how much was in other operating activities for 2Q?**

**Answer** The first half of this year was encumbered with the amounts of PLN 742 million due to hedging, i.e. revenue adjustment, PLN 173 million as a reduction in the result on other operating activities and over PLN 20 million reduced the result on finance activities. This is in the report, we have it in the presentation in the full version, but it is worth recalling because it makes modeling easier for us.