

## Summary of questions raised at the Results Conference for the 1st half of 2022

- 1. Could you please discuss the present situation as regards contracting energy for the coming years? Spot prices are a multiple of the price levels in 2020–2021.**

**Answer:** Ladies and Gentlemen, we made a change as of the beginning of this year. I'll begin with an administrative change we made. Namely, we merged the area hedging the prices of electricity, gas, and ETSs with the Risk Department, which is in charge of hedging prices of metals and currency. So, our approach to all markets is comprehensive now. We appointed a Team, which analyses the energy situation in markets, in exchanges, in Europe and makes decisions on an ongoing basis. The Team works on a weekly basis. Analyses and decisions are weekly. It can be said that we can see now that spot prices are considerably higher than they used to be. I'd give my right arm to whoever tells me what the future will be like, especially as regards gas, because when it comes to electricity, there are no factors indicating that electricity could decrease. So we decided, or the Team decided, to hedge the price for the next year on a rolling basis, in small portions, and, for quite a long time now, apart from the securities we bought earlier for 2023, we've been additionally securing 2023 gradually, while looking at how prices change and by increasing the electricity price security level. As regards natural gas prices, there are more factors that might influence them. Europe is starting to restore its supply sources after the introduction of restrictions, so to speak, because this is not an embargo yet, on Russian natural gas. Other effective directions are beginning to emerge, ideas about the construction of natural gas pipelines or additional natural gas terminals are also beginning to emerge. Inventories or storage sites in France and in Germany are beginning to fill. We assume that those factors were, so to speak, factors that contributed most to the rapid rise in natural gas prices. Also, there was an outage of one of the American LNG export terminals. All these aspects can be said to be in the final phase at the moment. And if natural gas availability improves in Europe, we have a cautiously optimistic vision that the price, the current spot price, will not remain at this level, that it will be a bit lower. We have some hedges made for the next year. But for us, the main factor we take into consideration is the capability to act flexibly when it comes to the consumption level. And this is where we see our response potential. On the other hand, we have, and this needs to be made clear, high coal supplies. And we're talking not only about contracted coal, but also about already stocked coal. And hence, Energetyka, our company that produces heat for local municipalities, has enough coal in storage to meet generation needs, so-called disposable coal that is required for heating in this heating season, as well as secure contracts and ongoing deliveries of coal, so here the situation of, so to speak, equivalence of coal for natural gas is possible for us. We are also considering the possibility of ceasing the consumption of natural gas in Głogów in our combined cycle units in Głogów, in the future. This is still an open question, as I've mentioned, we're also negotiating issues such as take or pay with PSE and will see the effect. With respect to ETS allowances, we can

say that we have them safely hedged for this year and the next year, so we don't expect any major movements here. A few small transactions have also been concluded this year, so we have CO2 emission allowances secured and we are just using them this year.

- 2. KGHM continued to build working capital in Q2 2022 despite the completion of the overhaul of the metallurgical plant in Poland, the total building of the working capital amounted to over PLN 4 billion over the past 18 months. Do you expect a complete reversal of this configuration? What can we expect in H2 2022?**

**Answer:** To answer it briefly, yes, we want to reverse the trend, but I can't declare whether it will be a complete reversal. But the trend will be reversed technologically, because we're going to consume the anode inventory that has been built up. One correction here, the overhaul ended in July and, of course, then there is the start-up and so on, so we can say that the overhaul had not been finished at the end of June, it still continued and the production was based on the inventory. But, of course, we're going to reverse the trend in inventories of materials. I have already mentioned that, even though the war continues, supply chains are starting to look more predictable, I mean they are more predictable, and therefore we can afford to work on smaller inventories of materials.

- 3. What is the percentage of electricity you have hedged for the next year and at what price?**

**Answer:** Currently, the situation continues to be volatile, but we can say that we have a fixed price for between 25% and 30% of the electricity volume for the next year, but the price varies, because some of it was fixed a year ago, some – at the beginning of this year, and some – now in those rolling transactions.

- 4. My second question also refers to what was said about natural gas, because you're saying that you've refrained from production from natural gas and shifted to producing heat from coal. So, the question, because I understand that you have stored coal: For how long will you have enough of this coal? I'm not asking about the contracted coal, because it can cost any price. I'm asking for how long you will have enough coal if the delivery doesn't come.**

**Answer:** I can't give a precise answer, but the inventory will be enough for this heating season.

- 5. I understand that you're in line with the budget, in general terms. And now, more specifically, I'm not asking about volumes this time. This time, I'd like to know whether you're also in line with the cost of PLN 26.5 thousand, because, I don't know, I don't think there was an adjustment in the semi-annual report, so I'd like to know what you think about your cost of 26.5, which was declared for this year in January.**

**Answer:** We're in line with the budget, we're not preparing a new budget, but the total cost will be higher this year. So, the price factor is still at play here, and the factor related to the exchange rate of the Polish zloty, which offsets costs. So, we're obviously taking these two factors into account. But there has been no decision to prepare a new budget.

6. **Alright, I have also a question about cash flow in Q2, questions about the working capital have already been asked, and I have a question about tax, because a high tax has been paid there. And I'd like to make sure whether it was a tax paid for the past or it is a tax paid in the present and it will be set off against a much lower tax paid, for example, in H2 2022. I want to know whether it is the current situation and that we're calculating from that point.**

**Answer:** It is a tax related to our last year's profit. And we're establishing a current provision for this year's profit. So the cash out of Q2 was associated with the payment of CIT for the previous year.

7. **The last question, because I know you're establishing, you've increased the provision, you have higher net profit, so the provision for employee bonuses is higher. I understand that all stakeholders, it is the right word, will be treated equally and you, as we're sitting here, looking at each other, can declare that you will propose 30% of net profit to be distributed as a dividend.**

**Answer:** Our Collective Labour Agreement remains unchanged and I think many people are familiar with it, so our conduct is compliant here with the Collective Labour Agreement and we're also remaining compliant with our dividend policy.

8. **Could I ask for a comment on the results of the inspection performed by Piotr Borys from the Civic Coalition, who found that the salt water went to the Oder River from the KGHM Tailings Division in Głogów.**

**Answer:** Ladies and Gentlemen, inspections are carried out in various manners, that one was, I would say, very cautious and superficial, I mean, there were not too many data there. Perhaps I'll just refer to several facts in my comments. Our water discharge, any water discharge, takes place in Głogów. It is over 100 km downstream from Oława, where the contamination was discovered. This is the first thing. Unfortunately, despite our innovations, we cannot pump water so far up a river. The second thing, in July and in August this year, that is from 1 July to 10 August, our water discharge was exceptionally low. In July, it was approx. 12% of what was discharged in July last year. In August, it was also not much. It was also considerably less than the maximum provided for in our water permit. We, of course, comply with all standards. Also, for your information, every discharge, literally every single discharge is examined every day both at the point of discharge and 500 meters down the river. So we, so to speak, cannot respond to what Mr Borys says, but this is certainly a bit inaccurate.

9. **I have two questions. One is about what was said over a year ago, that there were some signals sent that KGHM is going to dispose of international assets. Is anything still going on about that or not? And the other issue is obviously the minerals extraction tax. At one moment, signals were sent that, due to the planned investments, for example in energy transition, something positive might happen here, to benefit KGHM of course, and is anything known about this area, is anything going on.**

**Answer:** As regards the minerals extraction tax, it has been significantly reduced this year. I need to make a reservation here that it is a minerals extraction tax and not a copper tax, as

it's sometimes interpreted. And this is naturally a question to the Minister of Finance and the budget law that is to be drawn up soon, but we're presenting arguments that a reduced minerals extraction tax would have a positive effect on KGHM's cash flow, and it would make it easier for us to push through the energy transition, and I think that this argument is being acknowledged by many people. But we don't know whether it will be reflected in the budget law, we're trying to raise this argument, of course.

International assets. We sold the Franke mine, the sale was effectively carried out, it was quite a complex transaction. But it was successful. We have also one other asset, actually, a group of assets of mines in the Sudbury Basin, which are being reclassified to the "held for sale" category. And because the so-called legacy system, the system we inherited, of ownership and corporate structure, is extremely complex when it comes to who owns whom and where various historical assets that KGHM purchased along with the purchase of Quadra are parked. We're organising the ownership structure, when it becomes organised, the asset will also, as a group of small mines in the Sudbury Basin, be held for sale, because the market as if expects that it wouldn't want to focus on each small mining company, but would prefer to look at it as a whole. This might arouse interest in large mining players located in the neighbourhood. We also announced the commencement of the process of selling the Carlota mine in the United States, the process ended without the submission of binding proposals by bidders. We're wondering whether we should repeat the process, whether the situation has changed enough to enable us to repeat the process of selling the Carlota mine. The decision has not been made yet, but it is an asset that is held for sale in the medium term. And in Poland, we sold our hotel assets, we don't have much in common with hotel activities, entities specialised in this area are able to estimate the potential better and make more accurate investments and manage more effectively in terms of operation, so we decided to sell here.

**10. A question for President Kensbok about ETSS. How much in advance does KGHM buy emission allowances and until when exactly are they secured for the moment.**

**Answer:** My conservative answer is that we concluded our basic ETS purchase transactions last year and they cover virtually two years, this and the next one. We've concluded certain adjustment transactions this year taking advantage of the temporary ETS price drops. And now we're actually looking at the developments, we're also looking at the political dialogue on ETSS, on whether speculation will be permitted in that market or not, and how this will influence ETS prices. But this year, we're simply redeeming the ones we have. We, as an energy-intensive enterprise, had and still have an allocation of free ETSS, which we also use. But we'll send you a precise answer when, at what price, all we can tell you.

**11. I have a question about nuclear reactors. As regards the CAPEX budget of USD 1.5-2 billion on nuclear reactors: when do you expect to start spending high amounts and for how many years? Are you planning to finance it with your own financial capacity, your own balance, or are you looking for prospective JVs.**

**Answer:** We've already answered this question multiple times. The situation is that this year we're spending funds only on so-called early work, the preparatory activities, on the preparation, in the first place, of the document we're submitting to the National Atomic Energy Agency. It's a very extensive, comprehensive, very specific document and its

preparation, together with other accompanying elements, costs money. So, this is what we're focusing on in the first place. Successive stages are provided for in the Nuclear Law, which will require location determination decisions and so on. When we have it, we can start thinking of financing some preparatory work or primary financing. It's much too soon to talk about that, but we've commenced a dialogue with financial institutions, we've commenced a dialogue with consultants, also with market regulators in Poland. In a few weeks, there will be the first meeting of an initiative group, which will commence a dialogue on how small modular reactors can be most efficiently financed in Poland compared to how they are financed in other European countries, non-European countries, how this should look from the viewpoint of risk appetite or balance sheet risk of a company like ours. What are the possibilities to receive State Treasury aid, guarantees, other sources of financing? This dialogue is just beginning, but we're certainly approaching it with due diligence and want to benchmark with other countries and other businesses, but also understand the financial institutions's appetite for financing nuclear reactors and the approach of consulting companies and market regulators, such as KNF or NBP.

- 12. A question about KGHM INTERNATIONAL. What is INTERNATIONAL's share in the entire Group's extraction? And a question specifically about Sierra Gorda. Is mining in Sierra Gorda profitable, what are the results, the net result, revenues, possibly outlook for the successive quarters of the half year.**

**Answer:** KGHM INTERNATIONAL's production is around 10% of the Group's production. Both INTERNATIONAL and Sierra Gorda are profitable and have positive cash flows. As I've mentioned, historically, things were changeable as regards profitability. We know that Sierra Gorda was unprofitable, a return to the past a bit. We made significant investments there in the so-called bottlenecking program, of increasing daily and annual capacities. After the full parameters adopted in the bottlenecking program were achieved, in accordance with the assumptions, Sierra Gorda became profitable. The profitability continues, but, as I've mentioned, it's lower than expected from various operational and non-operational factors, but it is still a profitable and promising entity, which manifested itself, among others, in the valuation and readiness to buy 45% of the entity by South32, an Australian mining group, which completed the transaction at the turn of this year and is our new JV partner.

- 13. At yesterday's conference there was some information given that the Company has secured around 25-30 percent of its energy needs for 2023 in terms of pricing. Does that 25-30 percent include 12.95 percent of general consumption from own sources?**

**Answer:** No. That 25-30% of secured electricity needs is in respect of power purchased to meet the Company's internal needs and only refers to the percentage amount of energy for KGHM's internal purposes purchased from the market. If KGHM consumes 100% of its energy, and internal generation is for example 13% of consumption, then that 25-30% secured refers to the difference in the aforementioned percentages (meaning only purchases).