

25 March 2022








Investor chat with KGHM Polska Miedź S.A.











Link to the original chat (in Polish): <https://strefainwestorow.pl/artykuly/czaty-inwestorskie/20220325/wyniki-finansowe-kgm-polska-miedz>









On Friday, 25 March 2022 an investor chat was held with the CFO of KGHM Polska Miedź S.A., Mr. Andrzej Kensbok. During the chat we talked about the financial results for the year 2021. Investors also posed questions about the situation on the commodities market and payable copper production.








Over 400 people participated in the chat. Please feel free to read through the chat.

Following is the transcript of the chat.

	<p>Janusz Maruszewski</p> <p>Hello and welcome to our investor chat with the CFO of KGHM, Mr. Andrzej Kensbok. The chat is open, we invite you to participate in the chat and to ask questions!</p>
	<p>Andrzej Kensbok</p> <p>Hello, welcome everybody.</p>
	<p>Guest</p> <p>When will the right to dividends be awarded and will the dividends for 2021 be distributed?</p>
	<p>Andrzej Kensbok</p> <p>At present the date of the Annual General Meeting, which takes a binding decision regarding profit allocation, has not yet been determined. Nevertheless, KGHM's dividend policy is still in force and we wish to remain a dividend-paying company. We shall communicate all relevant information to you. Usually, the General Meeting is held at the beginning of June. The dividend is paid immediately after the General Meeting.</p>
	<p>Shareholder</p> <p>And I would like to ask to what do we owe such good results of the KGHM Group?</p>
	<p>Andrzej Kensbok</p> <p>As regards our key indicators, higher EBITDA vs 2020 (+PLN 3 704 million; +56%), of which by segment: KGHM Polska Miedź S.A. + PLN 1 016 million – due to higher copper prices; in Sierra Gorda (for 55% stake) +PLN 1 821 million – mainly due to a higher sales volume and in KGHM INTERNATIONAL LTD. +PLN 732 million – here, again an increase in copper prices.</p> <p>The impact of metal prices was also important in the case of the KGHM Group's revenue growth. On the other hand, the increase in the Group's net result was mainly thanks to the improvement in EBITDA and the reversal of impairment on loans, which enabled the achievement of a net result 3.4 times higher than in 2020.</p>
	<p>Inwestor33</p> <p>What influenced the increased net result of the KGHM Group?</p>

	<p>Andrzej Kensbok The increase in the KGHM Group's net result to PLN 6 155 million was mainly due to higher sales, the result of involvement in joint ventures (i.e. the reversal of loan impairment write-offs), an improvement in the result on foreign exchange differences on loans granted, and on the other side we recorded a higher Corporate Income Tax (CIT), obviously resulting from higher gross profit.</p>
	<p>Axel I have a question, what was the value of the net debt to EBITDA ratio in the KGHM Group?</p>
	<p>Andrzej Kensbok The net debt/adjusted EBITDA ratio at the end of 2021 amounted to 0.6.</p>
	<p>Axel And the second question about C1 cost changes in segments in the KGHM Group, what they resulted from?</p>
	<p>Andrzej Kensbok As for the increase in C1 cost in the Parent Entity by 40% in relation to 2020, it was mainly the result of an increase in the minerals extraction tax charge (C1 cost excluding this tax increased by only 2.6% yoy). The increase in C1 cost by 5% in KGHM INTERNATIONAL LTD. compared to 2020 was due to a lower volume of copper sales and a decrease in revenues from sales of associated metals. On the other hand, the decrease in the cost of C1 in Sierra Gorda by 35% compared to 2020 is the result of an increase in the volume of copper sales and higher revenues (higher price) from the sale of associated metals, mainly molybdenum.</p>
	<p>Investor Was there any funding for Sierra Gorda last year?</p>
	<p>Andrzej Kensbok We can say with great satisfaction that there was no such funding. The last funding in 2020 amounted to USD 52 million. This is not only due to the fact that last year there was the last payment for the JV's loan to Japanese banks (the so-called project finance), but also to the optimization of the mine's operational activities supported by high metal prices (including molybdenum - a doubling in prices of this metal). Moreover, for the first time Sierra Gorda had begun to pay off liabilities to the Owners.</p>
	<p>Investor And one more question about the copper production results in Sierra Gorda. An increase by 28% can be observed there.</p>
	<p>Andrzej Kensbok Yes, it is true, in 2021 Sierra Gorda significantly increased copper production compared to 2020. The increase in copper production by 28% is mainly the result of two factors - higher copper content in processed ore, the so-called higher grade (+21% vs 2020) and an increase in the amount of processed feed (+4%), resulting from an increase in production capacity to 129 thousand tonnes of ore per day. This is due to the improvement of the production system and the reduction of the breakdown rate of the processing plant.</p>
	<p>Adam I am interested in the AJAX project. Has anything changed in 2021 with regard to obtaining approvals for commissioning?</p>

	<p>Andrzej Kensbok As reported, in June 2018, the British Columbia provincial government issued a negative decision regarding the implementation of the Ajax project due to the projected adverse effects on the environment. Decisions were made through the Environmental Impact Assessment process with significant involvement of provincial and federal government agencies, Indigenous Peoples' groups and a wide range of stakeholders. Due to the non-award of the Environmental Assessment Certificate (EA Certificate), in 2021 work related to monitoring and securing the area were continued in accordance with the regulatory requirements.</p>
	<p>Robert Have you published your budget assumptions for this year yet?</p>
	<p>Andrzej Kensbok Yes, at the beginning of this year, i.e. on 4 January 2022, the Supervisory Board of KGHM Polska Miedź S.A. approved the Budget of KGHM Polska Miedź S.A. and the KGHM Group for 2022. Detailed assumptions can be found in the regulatory filing No. 2/2022, which you can find on our website in the section Investors - Regulatory filings.</p>
	<p>Robert Could you let me know what the average copper price was in 2021 and what are your expectations for it by the end of 2022?</p>
	<p>Andrzej Kensbok The average price of copper on the LME in 2021 was 9,317 USD/t. The highest price was recorded on 10 May - 10,724.50 USD/t, which at the same time set a historical record. The lowest level was recorded on 2 February - 7,755.50 USD/t. Taking into account the cash settlement prices, last year copper rose by 22% (closing on the first vs. last day of the year). It is also worth noting that 2021 was also a record year in terms of copper prices in Polish zlotys. Referring to the second part of the question, in line with the adopted policy, KGHM Polska Miedź S.A. does not publish forecasts.</p>
	<p>Guest A rough calculation shows that last year each employee of the KGHM Group statistically contributed to the Group's profit of approx. PLN 160 thousand. The amount was created after dividing the net profit of PLN 6.15 billion by the number of employees in the entire Group, approx. 34 thousand people. In view of the above, does the Company's management plan to give employees extra (i.e. apart from salaries, annual bonuses, etc.) any piece of amount of the above, e.g. PLN 1,000 or 2,000 in Poland or much more Chilean pesos for employees of Sierra Gorda? Please reply - Mariusz Junik</p>
	<p>Andrzej Kensbok Thank you for this question. As every year, salary negotiations with the trade unions in Poland take place in the first months of the year, as well as this year, when they ended with a record growth - an increase of 10%. The employees of KGHM Polska Miedź S.A. received an additional one-off bonus of as much as PLN 2,000. In the last few years, employees of KGHM Polska Miedź S.A. had also received increases of around 5-6%. We also share the generated profit with employees - the profit award for 2021 payable to all employees was calculated and paid in accordance with the provisions of the Collective Labour Agreement.</p>
	<p>Edward How does the company assess the prospects for changes in the minerals extraction tax and how will this affect the profit?</p>

	<p>Andrzej Kensbok Changes to the formula of the minerals extraction tax charge occurred at the beginning of this year. This is the second change that has once again lowered this tax burden, and we are very happy about this fact because it means that it will be easier for us to finance investments without increasing the level of debt. The current formula amendment is valid until November 2022. We do not know yet whether it will be extended.</p>
	<p>Edward What is the justification for the increase in inventories to over PLN 6 billion, while in recent years they have not exceeded 4.5-5.0?</p>
	<p>Andrzej Kensbok As I mentioned during the conference, until recently there was a popular "just in time" method, i.e. almost zero inventory level, which is a safe method as long as the situation is stable and predictable. In recent years, and now with a war at our borders, we want to increase the level of security, including in feed logistics and production materials for the entire production process. Thus the decision was made to increase slightly the technological stock levels. The increased inventory of semi-finished products (anodes) and finished products results from the maintenance shutdowns planned for 2022 at the flash furnace at the Głogów 1 Copper Smelter and Refinery, at the Revolving-Casting-Refining (RCR) furnace in Legnica and at the Kaldo furnace.</p>
	<p>Shareholder Mr. President, in what perspective can nickel extraction from the Victoria project be expected?</p>
	<p>Andrzej Kensbok Currently, the work on the project is focused on the creation of the technical model of the mine and preparation of the project site, including the above-ground infrastructure - shaft buildings, power substation, storage yard, etc. No decision has yet been made regarding the commencement of the main shaft construction, but looking at favourable scenarios for the demand for nickel and copper, it is one of the most advanced projects in our portfolio.</p>
	<p>Andrzej Kensbok Dear All, thank you for participating in the chat and I cordially invite you to the next ones, and in the meantime to keep in touch with our Investor Relations Department.</p>
	<p>Janusz Maruszewski We would like to thank everyone for participating in the chat and for the questions asked, and to our guest for the replies. Greetings and have a nice day!</p>