



19 August 2021

### Investor chat with KGHM Polska Miedź S.A.

Link to the original chat (in Polish): <https://strefainwestorow.pl/artykuly/czaty-inwestorskie/20210819/wyniki-finansowe-kgm-andrzej-kensbok>

On Thursday, 19 August 2021 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 first half of 2021. Investors also posed questions about the situation on the commodities market, payable copper production and the Sierra Gorda mine.

350 people participated in the chat, during which the CFO answered nearly 20 questions.

Please feel free to read through the chat.

Following is the transcript of the chat.

	<p><b>Janusz Maruszewski</b> Hello and welcome to our investor chat with the CFO of KGHM, Mr. Andrzej Kensbok. The chat is open and please feel free to ask questions!</p>
	<p><b>Andrzej Kensbok</b> Hello, welcome to today's chat dedicated to KGHM's results for the first half of 2021.</p>
	<p><b>Piotr Szumilas</b> Will KGHM come out with a profit or loss on investment in Quadra? How do you evaluate this investment? Regards.</p>
	<p><b>Andrzej Kensbok</b> We have already commented on this investment many times, moreover it was audited by the Polish Supreme Audit Office. Our task is to guide it to profitability in order to get a return on our investments. Looking at the improving results of Sierra Gorda in the recent years, it can be said that our actions are working - and I would like to add that we can finally boast of the first investment returns. The current results of this mine and the entire production chain of this investment are the reasons to be proud of and, moreover, give us hope that the process of repatriating Polish money has already begun. However, the former Quadra also includes other, smaller mines, and as you may already know, the process of disposing of the Franke and Carlota mines has already been initiated.</p>
	<p><b>Wojciech</b> Were the metal prices favourable for you in H12021?</p>
	<p><b>Andrzej Kensbok</b> Copper prices reached a historic daily fixing maximum on 10 May of 10 724.5 USD/t. The average copper price amounted to over 9 000 USD/t. The average price of copper in the first half of 2021 was higher by 65%, and molybdenum by nearly 38% compared to the comparable period of 2020. The average price of silver in the first half of 2021 was 59% higher than in the first half of 2020.</p>

	Regrettably, the impact of the USD-denominated copper price increase was partially offset by the appreciation of the USD/PLN exchange rate.
	<b>Wojciech</b> The production of copper in the Group has increased. Could you explain it ?
	<b>Andrzej Kensbok</b> The payable copper production by the KGHM Group was higher by 8.6% and amounted to 381 thousand tonnes. Payable copper production by KGHM Polska Miedź amounted to 293 thousand tonnes +4.4%: higher production from purchased copper-bearing materials (scrap and concentrates) due to higher availability of production lines. Payable copper production in Sierra Gorda: 51 thousand tonnes +31%: higher recovery and higher copper content in ore. Payable copper production in KGHM INTERNATIONAL 36 thousand tonnes +18%: higher production by the Robinson mine. All three segments of the Group contributed to the higher production.
	<b>Investor</b> Good results of Sierra Gorda in terms of copper production (+30%). Are there any benefits for KGHM from this situation?
	<b>Andrzej Kensbok</b> Correct. The level of copper production in Sierra Gorda in H1 2021 was higher than in H1 2020 and amounted to 51.2 thousand tonnes +30%. Good and stable production results, growth dynamics and copper prices enables us to partially reverse the allowances for impairment of loans that KGHM granted to finance SG in the past. Moreover, good results build the mine's value.
	<b>Inwestor33</b> Good afternoon. Could you comment on the increase in EBITDA of the entire Group?
	<b>Andrzej Kensbok</b> In H1 2021 we reported the double increase in adjusted EBITDA of the KGHM Group compared to H1 2020. Higher adjusted EBITDA compared to H1 2020 by +PLN 2.662 million; +100%, of which by segment: KGHM Polska Miedź + PLN 1.226 million – higher copper prices, Sierra Gorda (55% share) +PLN 1.050 million – higher copper prices and higher sales volumes, KGHM INTERNATIONAL +PLN 371 million – higher copper prices and lower basic operating costs.
	<b>Inwestor33</b> And one more question as regards the profit growth by 433%? Could you comment on that?
	<b>Andrzej Kensbok</b> Yes, in the first half of 2021, we reported the increase in net profit of the Group compared to H1 2020, which amounted to PLN 3.723 million, +433%. The improvement in EBITDA and the reversal of the allowances for impairment of loans allowed us to achieve the net profit at the level of PLN 3.024 million (5.3 times) higher than reported in H1 2020.
	<b>Michał</b> I have a question concerning the costs. 18% in the Group scale???
	<b>Andrzej Kensbok</b>

	<p>Yes, but it ought to be viewed in relation to the profit. The increase in the result for the first half of 2021 is even greater and we absolutely cannot complain about that. Obviously, one of the main goals is to manage in such a manner as to minimise the increase in costs that we can influence. There are costs that cannot be controlled, such as the minerals extraction tax or energy prices, where we have to deal with a capacity fee and an increase in the prices of CO2 emission allowances.</p> <p>Referring to the cost level for H1:</p> <ul style="list-style-type: none"> <li>• C1 cost (cash cost of payable copper production) for the KGHM Group for 6 months of 2021 amounted to 1.89 USD/lb and was higher than in the corresponding period of the previous year by 18%. This increase was mainly influenced by the C1 cost of KGHM Polska Miedź S.A. - an increase of 33% and KGHM International an increase of 5%. The C1 cost in Sierra Gorda is 31% lower.</li> <li>• The increase in C1 cost of KGHM Polska Miedź by 33% versus H1 2020 was mainly due to an increase in the minerals extraction tax charge (C1 cost excluding this tax was lower by 9% mainly due to higher valuation of by-products, i.e. silver and gold)</li> <li>• The increase in C1 by 5% of KGHM INTERNATIONAL versus H1 2020 was due to lower revenues from sales of associated metals.</li> <li>• The decrease in C1 cost of Sierra Gorda by 31% compared to the prior year was due to higher revenues from sales of associated metals, as well as higher production and sales of copper.</li> </ul>
	<p><b>Nick\$</b> As far I can see the company's expenses by nature have increased. What is the reason for that?</p>
	<p><b>Andrzej Kensbok</b> Expenses by nature in KGHM Polska Miedź S.A. in the first 6 months of 2021 amounted to PLN 10.7 billion and compared to H1 of previous year were higher by 49% i.e. PLN 3.5 billion, higher costs of consumption of purchased metal-bearing materials by PLN 2 billion (due to a higher volume of consumption by 35 thousand tonnes of copper and a higher purchase price by 43%) alongside a higher minerals extraction tax charge by PLN 957 million due to the increase in copper and silver prices.</p> <p>Expenses by nature in 6 months of 2021, after excluding purchased metal-bearing materials and the tax, were higher by PLN 645 million as compared to the corresponding period of 2020, i.e. 13.6%:</p> <ul style="list-style-type: none"> <li>• higher labour costs by 13.6% - PLN 247 million, mainly due to higher remuneration and a higher provision for the annual bonus – both factors arise directly from the Collective Labour Agreement),</li> <li>• higher costs of electrical and other energy by 20.7% i.e. PLN 102 million, mainly due to introduction of a capacity fee from 1 January 2021;</li> <li>• higher costs of materials and technological fuels consumed by 13.3% i.e. PLN 90 million - mainly due to higher gas and steel prices.</li> <li>• higher costs of other taxes and charges by 37.4% i.e. PLN 77 million, mainly due to increase in CO2 charges - the lack of settlement of free CO2 emission allowances (last year they have been settled in the first half of the year).</li> </ul>
	<p><b>Nick\$</b> What are your forecasted results for the end of this year?</p>
	<p><b>Andrzej Kensbok</b> In line with the adopted policy, KGHM Polska Miedź S.A. does not publish forecasts of the financial results.</p>

	<p><b>Alex</b> What influenced the Group's debt in H1 2021?</p>
	<p><b>Andrzej Kensbok</b> The Group's net debt decreased compared to 31.12.2020 by approximately PLN 140 million. We utilised the part of the excess cash to repay one of the loans, and therefore we lowered the financing costs.</p>
	<p><b>Alex</b> Was there any funding provided to Sierra Gorda in H1 2021?</p>
	<p><b>Andrzej Kensbok</b> In the first half of 2021, there was no funding provided to the Sierra Gorda mine.</p>
	<p><b>Marcin</b> Why are share prices falling despite the good results of KGHM?</p>
	<p><b>Andrzej Kensbok</b> It is difficult for an issuer to comment on the stock price.</p>
	<p><b>Marcin</b> Why, despite the high copper prices, are KGHM shares in a downward trend?</p>
	<p><b>Andrzej Kensbok</b> The same answer as above. However, I would like to draw your attention to what is currently going on with commodity prices.</p>
	<p><b>Miron</b> Good afternoon. Why are there no new shafts being built for the Deep Głogów area? Isn't it the fact that the greater the distance from the mining area to the shaft, the higher the extraction costs?</p>
	<p><b>Andrzej Kensbok</b> For several years now, we have been informing in our reports that currently one shaft is under construction - the GG-1 shaft, and the other GG-2 "Odra" shaft is being planned. Specific activities in the first half of this year include:</p> <ul style="list-style-type: none"> <li>• the GG-1 shaft remains at the depth of 1231.2 meters reached at the end of 2020. Work on Stage VI: Sinking of the shaft using concrete and tubing construction in the rock salt interval, was completed. Stage VII commenced involving sinking of the shaft in the 1226-1299.6 meters interval;</li> <li>• a notary act was signed for the purchase of land for the GG-2 „Odra” shaft. A Municipal Spatial Management Plan was published.</li> </ul>
	<p><b>Marcin</b> In relation to such excellent results, is the Management Board already planning a dividend payout in the next year? In what amount, if I may ask?</p>
	<p><b>Andrzej Kensbok</b> As the CEO mentioned during yesterday's conference, if this current positive trend in metals prices continues, we can be optimistic about the next year's potential dividend. Of course, such a decision must wait until the end of the year with an analysis of the Company's capital possibilities and needs in 2022. Nevertheless, KGHM's dividend policy is still in force. We wish to remain a dividend company. Currently, however, we need to closely observe what is happening around us.</p>

	<p><b>Piotr</b> The Company's good situation favours the repayment of the debt, including the international debt. What are the further plans to reduce the debt?</p>
	<p><b>Andrzej Kensbok</b> We consistently reduce the debt by repaying some of the loans when it is economically justified. We are also lowering the level of reverse factoring. We continue our policy of safe financing of the Group, while optimising it in terms of financial costs, flexibility of access and balancing between long-term and short-term financing. We have shortened the cash conversion cycle, which reduced our need for working capital financing.</p>
	<p><b>Krzysztof</b> Does China's policy significantly affects copper prices?</p>
	<p><b>Andrzej Kensbok</b> Considering that China is responsible for approx. 50% of the global demand for copper, it can be concluded that China has a huge impact on the price of the red metal.</p>
	<p><b>Karol</b> Why are you considering new energy sources and why nuclear energy in particular ?</p>
	<p><b>Andrzej Kensbok</b> For three main reasons: secure supply, prices and environmental impact. As one of the largest energy consumers in Poland and a very large underground mining plant, we are exposed to the risk of interruptions in electricity supply, due to that we want to have diversified sources, including our own. Currently, most of our own energy comes from our gas-steam blocks. Currently, we are also building PV power plants, and our future plans also include wind farms. As was already mentioned at the results conference, we are also considering related scenarios with SMR nuclear technology. In response to the high prices of energy and the need to have an energy source with a lower climate impact, small nuclear reactors should be considered as an option. Energy-intensive industries should take them into account. Today, there are no ready-made and readily available technologies in this area that we could utilise soon.</p>
	<p><b>Investor</b> What are your goals for the next year?</p>
	<p><b>Andrzej Kensbok</b> The work on the next year's budget have just started. We implement the current strategy, and simultaneously we review whether it requires an update.</p>
	<p><b>Andrzej Kensbok</b> Thank you very much for participating in the chat and for all questions asked. I also invite you to follow the Company's information and contact us – <a href="https://kgm.com/en/investors">https://kgm.com/en/investors</a></p>
	<p><b>Janusz Maruszewski</b> Thank you for participating in the chat and your questions, and Mr. Vice President for answering them. Best regards, we wish you a good afternoon.</p>