



18 November 2021

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







Link to the original chat (in Polish): <https://strefainwestorow.pl/artykuly/czaty-inwestorskie/20211118/wyniki-finansowe-kgm-polska-miedz>









On Thursday, 18 November 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 third quarter of 2021. Investors also posed questions about the situation on the commodities market and payable copper production.











Over 500 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.






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|    | <p><b>Janusz Maruszewski</b><br/>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><b>Andrzej Kensbok</b><br/>Hello, welcome everybody to today's chat.</p>   |
|  | <p><b>Andrzej Dudko</b><br/>Good afternoon,<br/>- Do you think that a significant shortage of copper on the market is real and whether KGHM can benefit from it (what are the stocks, readiness for such a scenario)?<br/>-How do you evaluate the company's current share price (undervalued/overvalued on a scale of 1 - 10)<br/>Thank you very much for the reply.</p>   |
|  | <p><b>Andrzej Kensbok</b><br/>As regards the copper market, the low inventory levels in LME warehouses have actually been observed for some time, chiefly due to the logistic problems caused by an ongoing pandemic situation, i.e. supply chains. In recent days, it seems that the situation is gradually improving, incl. when it comes to expectations for increased supplies of material from China. These expectations are also reflected in a slight decline in the price of copper, although the price of the red metal remains at a very convenient level for producers, i.e. above 9 000 USD/t. Taking into account that we can see the growing demand for copper, mainly related to the climate policy and the green transformation, as well as the reduction of greenhouse gas emissions, we are convinced that the coming years will bring a stable demand and good economic conditions for copper. However, as regards the valuation of our shares on the stock exchange, we cannot discuss it due to best practice proscriptions.</p> |
|  | <p><b>Robert</b><br/>Why is the cash level so low with such a high net profit?</p>  |
|  | <p><b>Andrzej Kensbok</b><br/>Of course, it is important to remember that these are two incomparable elements: the level of cash is a physical element, i.e. the actual amount of cash, while the net result</p>  |

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|   | <p>may be influenced, for example, by the level of depreciation or fair value valuation of assets and the reversal of write-offs from previous years. Therefore, it can be said that although we recorded a high net profit for the 9M 2021 period, the cash balance as of the last day of this period is an expression of the fact that we rationally use the level of cash to finance trade receivables, which reduces financial costs, or to finance the inventories that are necessary to prepare the Głogów metallurgical plant for a maintenance shutdown in 2022. In the current situation, keeping cash in the bank is subject to bank fees, which means that it has a negative interest rate.</p> |
|    | <p><b>Guest</b><br/>Why are share prices dropping despite the good results of KGHM, is there a chance for the share price to rise and when will be the dividends for 2022 be distributed?</p>  |
|    | <p><b>Andrzej Kensbok</b><br/>As I have already mentioned, for best practice prevents us from commenting on the share price. I can only reiterate that I consider our operating performance to be very good and I see an excellent perspective for the future. On the one hand, due to the optimistic attitude towards the prices of our basic products, i.e. copper and silver, but also due to the good prospects for our mines both in Poland and for the most important mine abroad, Sierra Gorda. As for the distribution of the profit, this year we have returned to the dividend payout and it is the intention of the Management Board to continue this trend as much as possible.</p>            |
|   | <p><b>Inwestor33</b><br/>What is the status of the Kulów-Luboszyce and Bytom Odrzański concessions?</p>  |
|  | <p><b>Andrzej Kensbok</b><br/>In the third quarter of 2021 the work began on the sinking of an exploratory drillhole into the Bytom Odrzański concession. Preparatory work began aimed at commencing the drilling of an exploratory borehole in the Kulów-Luboszyce concession.</p>  |
|  | <p><b>Inwestor33</b><br/>Are the dates of the Annual General Meeting and the dividend payout day set?</p>  |
|  | <p><b>Andrzej Kensbok</b><br/>At present the date of the Annual General Meeting, which decides the question of profit allocation, is not yet established. Of course, such a decision must wait until the end of the year. 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>Investor</b><br/>What is the reason for the increase in C1 cost in the context of the entire KGHM Group? Is it the tax again?</p>  |
|  | <p><b>Andrzej Kensbok</b><br/>The increase in C1 cost in KGHM Polska Miedź by 40% versus 9M 2020 was mainly due to an increase in the minerals extraction tax charge (C1 cost excluding this tax was higher by only 3% mainly due to the increase in the prices of energy carriers). When it comes to the increase in C1 by 3% in KGHM INTERNATIONAL versus 9M 2020 it was due to a lower revenues from sales of associated metals. Meanwhile, the decrease in C1 cost in Sierra Gorda by 35% compared to the prior year was due to a higher copper sales volume and higher revenues from sales of associated metals, mainly molybdenum.</p>   |

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|    | <p><b>Investor</b><br/>And one more question about the KGHM Group's production results - did the international assets help?</p>  |
|    | <p><b>Andrzej Kensbok</b><br/>Payable copper production by the KGHM Group is higher by 10.1% (9M/9M). When looking closely, it can be observed that in KGHM Polska Miedź S.A we have a higher production from purchased copper-bearing materials (mainly scrap), in Sierra Gorda we recorded higher copper content in the ore and higher recovery, whilst in KGHM INTERNATIONAL we recorded higher production by the Robinson mine.</p>  |
|    | <p><b>Adam</b><br/>Were the metal prices favourable for you in the third quarter of 2021?</p>  |
|    | <p><b>Andrzej Kensbok</b><br/>Copper prices in Q3 2021 were very volatile, but remain in the range of 9 300-9 800 USD/t, with an average price of 9.371 USD/t. The Chinese economy, which has slowed down a bit, remained the focus of attention. Going beyond the third quarter, I can assume that the current stimulus package for the Chinese economy will allow for an acceleration of the pace of growth. Across the ocean in the USA, the economy and demand remain strong, albeit under temporary inflationary pressure.</p>  |
|   | <p><b>Adam</b><br/>Again good results - PLN 4 billion of profit?</p>   |
|  | <p><b>Andrzej Kensbok</b><br/>Precisely PLN 4 762 billion. As regards our key financial indicators, the KGHM Group recorded nearly doubled adjusted EBITDA compared to 9M 2020 (PLN +3 312 million; +75%), of which by segment:</p> <ul style="list-style-type: none"> <li>♣ KGHM Polska Miedź +PLN 1 220 million – higher copper prices</li> <li>♣ Sierra Gorda +PLN 1 458 million – higher revenues from copper sales due to higher prices and a higher sales volume</li> <li>♣ KGHM INTERNATIONAL +PLN 598 million – higher copper prices</li> </ul> <p>To sum up - we achieved this increase in the KGHM Group's net profit thanks to the improvement in EBITDA and the reversal of impairment on loans.</p> |
|  | <p><b>Axel</b><br/>Are you going to buy the Sierra Gorda stake from the Japanese?</p>  |
|  | <p><b>Andrzej Kensbok</b><br/>We are in the process of working out the decision. Immediately upon taking it, we will communicate it to the market.</p>   |
|  | <p><b>Axel</b><br/>And one more question about whether there has been any recent work on increasing energy production from own sources?</p>  |
|  | <p><b>Andrzej Kensbok</b><br/>We are in a dialogue regarding the acquisition of onshore wind farms. In the third quarter of 2021, we submitted 2 preliminary offers for the acquisition of wind farms with a total installed capacity of approximately 50MW and we are preparing further initial offers.<br/><br/>In September, we joined a framework agreement for the development of offshore wind energy. We are involved in dialogue with potential partners for the development of</p>  |

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|   | offshore wind farms. Preparatory work for commissioning three solar farm projects on the Company's premises is underway.   |
|    | <b>Karol B.</b><br>Can I ask about a clear-cut assessment of the purchase of Quadra by KGHM PM S.A. in 2011.   |
|    | <b>Andrzej Kensbok</b><br>We have already commented on this investment many times. Our task was and still is to bring it to sustainable profitability so as to obtain a return on the invested funds.  |
|    | <b>Karol B.</b><br>Does KGHM INTERNATIONAL intend to sell any mines in Chile or in the USA to have capital for preparatory works for a new deposit in Poland?  |
|    | <b>Andrzej Kensbok</b><br>The process of disposing of some of KGHM INTERNATIONAL's assets is in a very advanced stage. We cannot comment on this at the moment. Any funds from this transaction would be allocated to strengthening the KGHM Group's investment capabilities. However, I would like to mention that we also have advanced-stage mining projects in Canada (Victoria project) and Chile (Sierra Gorda Oxide) and the investment financing process is not correlated with divestment processes.  |
|   | <b>Karol B.</b><br>Is it realistic to cover 100% of Sierra Gorda's energy needs from photovoltaics?  |
|  | <b>Andrzej Kensbok</b><br>Yes, we have such plans. We will provide more details in the near future, but we assume that in 2023 Sierra Gorda will be energy-independent and based on renewable sources.   |
|  | <b>Karol B.</b><br>By how many years will the capacity to store the post-flotation tailings in the Źelazny Most Tailings Storage Facility increase after its expansion?  |
|  | <b>Andrzej Kensbok</b><br>Due to the smaller area of the Southern Quarter compared to the Main Facility, this part uses an innovative technology of thickened (de-watered) tailings. It is a revolutionary method from the point of view of the development and further operation of the Źelazny Most Tailings Storage Facility. Thanks to this solution, the life of the facility can be counted in decades. It should be also noted that the thickening of tailings and, as a result, limiting the amount of water in the reservoir, significantly increases the safety of the facility. |
|  | <b>Robert</b><br>EBITDA for the third quarter amounts to PLN 7.5 billion - everything indicates exceeding PLN 10 billion for the year 2021 - currently the company is listed below 3xEBITDA, why such an outrageously low valuation? - the competition has at least 2 times higher ratios.   |
|  | <b>Andrzej Kensbok</b><br>It is our duty to ensure the financial stability and operational efficiency of the Company, as well as to think about its development. We cannot be responsible for the moves on the stock market, which is influenced by various factors - nevertheless, we are convinced that sooner or later investors will ascertain our good results and prospects and make rational investment decisions.  |
|  | <b>Robert</b><br>Is the company considering buying back its own shares?  |

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|  | <b>Andrzej Kensbok</b><br>There is no such plan.  |
|  | <b>Guest</b><br>And what is the amount of dividends per share.  |
|  | <b>Andrzej Kensbok</b><br>This year, we allocated and distributed a dividend from the profit for 2020 in the amount of PLN 300 million, i.e. PLN 1.50 per share.                |
|  | <b>Andrzej Kensbok</b><br>Thank you very much for your questions and comments. I also invite you to our next investor chat.   |
|  | <b>Janusz Maruszewski</b><br>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. |