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Investor chat with KGHM Polska Miedź S.A.







Link to the original chat (in Polish): Transcript of the chat with the Vice-President of the Management Board of KGHM (Finance): In the first quarter of 2022, we are proud of the highest historical EBITDA in the Group (strefainwestorow.pl)













On Monday, 16 May 2022 r. 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 quarter of 2022. Investors also posed questions about the situation on the commodities market and the impact of the war in Ukraine on the Company's operations.











Over 500 people participated in the chat, and the Vice President responded to over 20 questions.











Please feel free to read through the chat.






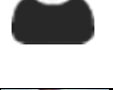


Following is the transcript of the chat.

	<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 follow the discussion and to ask questions!</p>
	<p>Andrzej Kensbok</p> <p>Hello, welcome from Bukowina Tatrzańska.</p>
	<p>Zbigniew</p> <p>Does the Management Board make efforts to keep the government's election promises and to completely eliminate the so called copper tax (MET – minerals extraction tax), which undoubtedly hinders the sustainable development of the company?</p>
	<p>Andrzej Kensbok</p> <p>Amendments to the formula for the minerals extraction tax took place at the beginning of this year. This is a change that has once again lowered this tax burden, and we are pleased about it as it means it will be easier for us to finance our necessary investments without increasing the level of debt. Of course, the current formula change is only valid until November 2022. We are ready for a potential dialogue on a permanent reformulation of this tax, if the moment comes.</p>
	<p>Guest</p> <p>Is the Management Board considering any divestments in the face of the impending recession in terms of international assets?</p>
	<p>Andrzej Kensbok</p> <p>As for our international assets, on 26 April 2022, the subsidiaries of KGHM INTERNATIONAL Ltd., i.e. Franke Holdings and Centenario Holdings, signed an agreement to sell 100% of the shares of SC Minera Franke in Chile to Minera Las Cenizas for a purchase price of USD 25 million. The initial purchase price will be adjusted, among others, by change in net working capital until the date of the transaction. We are managing the sale of the Carlota mine in the USA. Both of these assets were already designated for disposal in the previous strategy and this is not related to the recession risk mentioned by you.</p>

	<p>Guest How do you assess the current situation in terms of the USD/PLN exchange rate? What average level of USD/PLN ratio in 2022 do you expect?</p>
	<p>Andrzej Kensbok In the first quarter of this year we were supported by a more favourable average USD/PLN exchange rate (change from 3.78 to 4.13 USD/PLN). The shift in the exchange rate resulted in an increase in the revenues of the KGHM Group. As for the USD/PLN level assumed by us, we do not provide exchange rate forecasts, in line with our Disclosure Policy.</p>
	<p>Guest How does the Management Board evaluate the results achieved in the first quarter?</p>
	<p>Andrzej Kensbok In the first quarter of this year we are proud of the highest historical EBITDA in the KGHM Group, which increased compared to Q1'21 by 20% and amounted to PLN 3 133 million. The company's revenues reached PLN 8 993 million, i.e. 33% more compared to Q1'21. Our operating and financial results for Q1'22 show the consistency of the Strategy implementation and stable operation in turbulent times.</p>
	<p>Guest What are your expectations and feelings regarding the ongoing second quarter, after the outbreak of the conflict?</p>
	<p>Andrzej Kensbok The ongoing war in Ukraine and the accompanying phenomena in the supply chains do not have a significant impact on the activities of KGHM, nor do they threaten the continuity of production. Like everyone else, we feel the pressure of cost inflation - primarily energy carriers and materials.</p>
	<p>Guest How does an increase in interest rates translate into financial costs? What is the scale with the example of increase by 100bp?</p>
	<p>Andrzej Kensbok Our debt financing is denominated in USD or "swaped" to USD, we do not directly feel the increase in the cost of financing along with the rising NBP base rate.</p>
	<p>paco06 Hello. 1. Does the company intend to pay dividends for 2021, and if so, in what amount?</p>
	<p>Andrzej Kensbok At the moment, we do not have the date of the General Meeting yet, which will make the final decision on the distribution of the profit. Nevertheless, KGHM's dividend policy is still in force, and we want to remain a dividend company. As usual, the General Meeting is held in June. Please keep an eye on our website - we will provide you with all the necessary information immediately.</p>
	<p>paco06 2. Are there any details about investments in the nuclear energy sector already known?</p>
	<p>Andrzej Kensbok KGHM enhances activities related to increasing the production of energy from its own sources, including renewable energy sources: development of solar energy, development of wind energy, including offshore; development of hydrogen technologies and development of nuclear energy (SMR). In February 2022, the Company</p>

	signed an Early Works Agreement with NuScale Power, LLC (a nuclear technology provider), which is the first step in the implementation of SMR technology. The work is in progress, we are in a working dialogue with the National Atomic Energy Agency.
	Guest How do you assess the current level of copper prices on global markets?
	Andrzej Kensbok We are pleased with the current levels of metals prices, although they are currently slightly lower than their historic highs this year. There are two opposing forces in the market - shortage of supply on the one hand, and shaky demand on the other hand related to the situation in China. The policy of the FED is also doing its job.
	JK 2. Can the salary costs continue to rise this year or is it a closed case after the January increase?
	Andrzej Kensbok We signed appropriate agreements with the trade unions in January 2022 on regulating the increase in salaries.
	JK Compared to the first quarter of 2021, revenues increased by +33%, and net profit by approx. +25%. What is the reason for this difference, why didn't the increase in net profit grow at the same rate as revenues?
	Andrzej Kensbok The first quarter of 2022 was under significant pressure from operating costs, which of course had an impact on the net result. The markets for energy carriers and materials are looking for their new balance, although the development of the situation related to the war in Ukraine is dynamic. We focus on operational efficiency, looking for savings in various cost areas.
	Mikołaj What is the reason for the significant increase in C1 cost? Can this trend continue in the coming quarters of 2022?
	Andrzej Kensbok The increase in C1 cost in KGHM Polska Miedź S.A. by 24% in relation to Q1'21 is the result of an increase in costs by nature, a lower valuation of by-products and an increase in the minerals extraction tax (MET). The reduction of C1 cost reduction in KGHM INTERNATIONAL by 4% compared to Q1'21. The Robinson mine had the greatest impact on lowering the C1 cost, mainly as a result of higher gold sales deductions due to higher gold prices. Sierra Gorda C1 cost increase by 45% compared to the previous year as a result of higher costs of energy, fuel and materials (price increase) with a lower volume of molybdenum production (lower value of deductions from sales of associated metals).
	Guest Are there any major repairs or technological stoppages planned for this year?
	Andrzej Kensbok Yes. Currently, the renovation is underway at the Głogów II Copper Smelter and Refinery, which began at the end of April this year and we are planning an approx. 78-day shutdown of the HMG II production line.

	<p>Guest I am asking for a little more information about projects related to energy? Does the Company intend to produce energy for customers outside the Group or only for its own needs?</p>
	<p>Andrzej Kensbok Currently, our main energy projects are related to EPV, offshore wind farms and, above all, nuclear energy. We have already talked a lot about these projects, among others in our report for the first quarter and in the results presentation, hence I invite you to read them in detail. As for EPV and wind projects, all production is to be ultimately delivered to the Company for its own energy needs, the nuclear project with NuScale will in the future allow our electricity needs to be completely covered.</p>
	<p>Jan How does the Management Board assess the current business conditions in Chile in the light of recent political changes?</p>
	<p>Andrzej Kensbok From our point of view, we do not feel any changes. We have very good relations with our Chilean partners and at the moment it does not appear that the situation resulting from political changes may have a major impact on doing business in Chile.</p>
	<p>Mikołaj When and what will the Management Board's recommendation for dividends be? When can we expect the payout?</p>
	<p>Andrzej Kensbok As I mentioned, we are in the process of talks. The final decision will be made by the General Meeting. Feel free to follow our website. We will communicate all decisions.</p>
	<p>JK What is the reason for the next period of increase in inventories?</p>
	<p>Andrzej Kensbok In fact, the process of building up the inventories was completed with the commencement of the renovation at the Głogów II Smelter and Refinery. It is an annual process introduced due to the need for regular overhaul of the production line and it is included in the annual production plans. Besides, as we explained, this was one of the decisions we just made in the face of uncertainty. In view of the fact that we need to maintain maximum continuity of production. Therefore, we build a buffer of stocks at various technological stages and prepare for situations of temporary shortages.</p>
	<p>Andrzej Have you considered introducing new technologies to the company? Such as artificial intelligence?</p>
	<p>Andrzej Kensbok In recent years, i.e. in accordance with the previous and updated Strategy for 2023-2030, the Company has been intensively developing the R&D area, looking for innovative methods to optimize the Company's technological line. Recently we communicated, among others, on the CuBR project, under which research and development projects are carried out with a total value of over PLN 180 million. In total, 25 projects were launched under the four editions of the competition. We can also mention the implementation of the project "Intelligent production management in underground mining SIMS 2 (NEXGEN-SIMS)" or "Development of assumptions for the technology of</p>

	improving the yield of useful metals contained in fine particles in the processing of minerals”, so a lot is happening.
	paco06 What percent is the share of China in the company's total sales?
	Andrzej Kensbok Sales to China generated 12% of KGHM's revenues in 2021.
	JK 1. What is the impact of the current inflation on the company?
	Andrzej Kensbok Inflation, not only in Poland, is mainly visible in the increase in the prices of energy, materials and labour costs. This is obviously a challenge that we face in order to maintain high profitability of the business.
	Guest Why, despite rising commodity prices, has the price of silver been under a lot of pressure lately? Can you explain the reason?
	Andrzej Kensbok The last days on the commodities market were indeed not the easiest ones for market participants hoping for continuing price increases. Silver was not the only metal to experience a sell-off, a similar scale of negative sentiment affected gold and industrial metals. In the case of precious metals, gold plays the most important role, as in the face of the FED's hawkish policy and the marked strengthening of the dollar, it is less popular among investors. It is visible, among others in the outflow of funds from ETFs on the precious metals market. However, since the March peaks, virtually all metals, mainly industrial ones, have been de-rating. The correction in this market is fuelled by the shutdown of the Chinese economy caused by the increase in the number of coronavirus cases and aggressive monetary tightening in the world, as well as the war in Ukraine and the economic sanctions imposed. These factors raise investors' concerns about the growth rate of the global economy in the coming quarters.
	Andrzej Kensbok 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 via https://kgm.com/pl/inwestorzy
	Janusz Maruszewski We would like to thank everyone for participating in the chat and for the questions asked, and to our guest for answering. Greetings and have a nice afternoon!