

29 March 2021







Investor chat with KGHM Polska Miedź S.A.











Link to chat (in Polish): <https://strefainwestorow.pl/artykuly/czaty-inwestorskie/20210329/wyniki-finansowe-kghm-polska-miedz>











„Adjusted EBITDA of the KGHM Group for 2020 was at a record high level” - transcript of a chat with the Vice President of the Management Board (Finance) of KGHM, prof. Katarzyna Kreczmańska-Gigol.









On Monday, 29 March 2021 an investor chat was held with the CFO of KGHM Polska Miedź S.A., prof. Katarzyna Kreczmańska-Gigol. During the chat we talked about the financial results for 2020. Investors also posed questions about investments, actions taken during the COVID-19 pandemic and about the copper market.

More than 500 people participated in the chat. Following is the transcript of the chat.

	<p>Janusz Maruszewski Hello and welcome to our investor chat with the CFO of KGHM, prof. Katarzyna Kreczmańska-Gigol. Let's start, and please ask your questions!</p>
	<p>prof. Katarzyna Kreczmańska-Gigol Hello, welcome to our chat to discuss the results for 2020, please ask your questions.</p>
	<p>Michał Hello. Is KGHM planning to mine for lithium? As I recall, there was some research done.</p>
	<p>prof. Katarzyna Kreczmańska-Gigol We aren't involved in direct exploration for lithium deposits, but it is an element in the construction of some types of batteries for electric vehicles, and so given the fact that we have projects involving the replacement of our transportation fleet with non-emitting electric vehicles, this is an interesting subject for us. At the moment KGHM Polska Miedź S.A. is involved in exploration projects in Poland, for example in the Puck region (a potassium-magnesium salt deposit concession) and in Nowe Miasteczko (concessions to explore for and assess deposits of oil and natural gas).</p>
	<p>Inwestor 33 I wanted to ask about the good result in terms of safety – why such a change?</p>
	<p>prof. Katarzyna Kreczmańska-Gigol Yes, in 2020 the KGHM Group recorded a record low level of accidents as shown by the LTIRF_{KGHM} ratio (Lost Time Injury Frequency Rate KGHM), which we achieved thanks to the behaviour and commitment of all of the company's employees. To a large extent this success is attributable to Vice President Stach and to the actions initiated by him. The ratio decreased by 29 percent compared to 2019 and by 61 percent compared to 2010. So too, KGHM INTERNATIONAL LTD. in 2020, despite the exceptionally tough conditions imposed by the pandemic, recorded its best result in history in terms of occupational health and safety.</p>

	<p>Inwestor 33 And another question – I'm interested in C1 cost in the Group – could you please comment on this question? Thank you!</p>
	<p>prof. Katarzyna Kreczmańska-Gigol The decrease in C1 cost in KGHM Polska Miedź compared to 2019 was due to the weakening of the PLN vs the USD and to higher silver and gold prices, meaning a higher valuation of by-products. Another important factor was cost discipline, which we focused on intensively in our operations. The decrease in C1 cost in Sierra Gorda by 16% was due to a higher copper sales volume, lower fuel prices, lower labour costs and lower costs of external services, materials and other costs categories. The increase in C1 by 10% in KGHM International was due to higher mine operating costs and to a lower copper sales volume, which was partially offset by higher revenues from sales of associated metals (+5%). It's worth noting that the decrease in C1 was achieved alongside a decrease in revenues from sales of associated metals.</p>
	<p>Michał Hello, are you advancing your planned investments despite covid?</p>
	<p>prof. Katarzyna Kreczmańska-Gigol Yes, the company is continuing to advance its Deposit Access Program, including work on deepening the GG-1 shaft. The strategic investment in building the Southern Quarter of the Żelazny Most Tailings Storage Facility is on schedule. In terms of metallurgy the company is advancing projects involving the modernisation and optimisation of the Głogów I Copper Smelter/Refinery. An extremely important place is held in KGHM by projects connected with protecting the environment. We are also advancing projects related with energy generation, including RES. Our investment and development plans for 2021 are in line with the existing and consistently advanced Strategy. These projects are described in the published, ambitious budget of KGHM.</p>
	<p>Michał Why did KGHM international in 2020 have lower metals production than in 2019?</p>
	<p>prof. Katarzyna Kreczmańska-Gigol The lower production was mainly due to the Franke mine as a result of its extracting a lower-quality ore with high carbonates content; in the Sudbury Basin both extraction and copper content in ore were lower, while the Robinson mine extracted a lower copper-grade ore. In terms of other metals, the lower production of silver and gold was due to extracting ore with lower content of these metals.</p>
	<p>obserwator rynku Could you explain the increase in net profit in the KGHM Group?</p>
	<p>prof. Katarzyna Kreczmańska-Gigol The increase in Group profit by PLN 376 million, or by 26%, in 2020 vs 2019 was mainly due to a higher net result on sales due to higher copper and silver prices, and to a higher result on the involvement in joint ventures. I would emphasize that our efforts to optimise costs brought the expected effect.</p>
	<p>Inwestor How are you dealing with the pandemic?</p>
	<p>prof. Katarzyna Kreczmańska-Gigol KGHM is continuously taking actions to ensure the safety of our employees. The Company introduced rigorous procedures related to the sanitary regime, and is</p>

	<p>working under the assumption of a gradual return to normalcy in line with progress in the vaccination program. KGHM is engaged in numerous educational and informational campaigns for employees, and complies with the guidance of the Ministry of Health. We are aware that the actions taken on behalf of our employees are not enough. That is why we are supporting the fight against COVID-19 in our region and throughout the country. Only such broad-based efforts can restrict the spread of the virus, which in the end is in the interests of KGHM.</p>
	<p>Mikołaj Why did EBITDA go up in the Group?</p>
	<p>prof. Katarzyna Kreczmańska-Gigol Adjusted EBITDA of the KGHM Group for 2020 was at a record high level. Despite the challenging conditions we recorded an increase of approx. PLN 1.4 billion compared to 2019, or by 27%. In KGHM Polska Miedź there was an increase of 23% due to a higher volume of sales, higher copper prices and cost discipline. In Sierra Gorda the mine's operating parameters increased by more than double, meaning processing and recovery, the implementation of optimisation and savings programs, the better quality of the ore mined and higher copper prices.</p>
	<p>Mikołaj Is there a date for the General Meeting?</p>
	<p>prof. Katarzyna Kreczmańska-Gigol At the moment there is no announced date for the General Meeting. We will announce the date in a regulatory filing.</p>
	<p>Borys Why the increase in copper production by Sierra Gorda in 2020?</p>
	<p>prof. Katarzyna Kreczmańska-Gigol Production of payable copper by Sierra Gorda was mainly due to the higher volume of ore processed, better recovery, and also the higher copper grade of the ore.</p>
	<p>Borys What was the copper price in 2020?</p>
	<p>prof. Katarzyna Kreczmańska-Gigol The average price of copper in 2020 was 6 181 USD/t, or 3% more than in 2019, while the average price in PLN was PLN 23 975 per tonne.</p>
	<p>Gość Hello, I have 2 questions. How did the Company secure itself, in terms of margins for the contracts signed in 4q 2019 and 1 and 2q 2020, for copper supplies, e.g. to China? How does the Company maintain profitability on contracts signed earlier when the market situation has turned up in terms of selling price and extraction costs? Regards Paweł</p>
	<p>prof. Katarzyna Kreczmańska-Gigol Metals sales are based on their exchange prices, and likewise the standard for KGHM's physical sales contracts is to base them on the average price for the month of delivery. Physical contracts for the supply of copper cathodes are tied therefore to a greater</p>

	<p>degree to the volume and schedule of deliveries than to the level of margins. An important element of these contracts is also the physical premium, which partially covers costs related with supply logistics, and also represents an additional, if small, benefit for the producer above and beyond the metal's market price (on the order of several dozen USD/t).</p> <p>The company applies a Market Risk Management Policy and utilizes derivatives to partially hedge against the risk of volatility in metals prices and exchange rates.</p>
	<p>Karol What's your assessment of the copper market balance this year?</p>
	<p>prof. Katarzyna Kreczmańska-Gigol Experts' opinions on the copper balance this year are mixed. In general, it seems that in response to high prices there is a chance to launch new projects in the industry and intensify production, i.e. increase supply, but much depends on the pandemic situation and progress in vaccination programs, i.e. on avoiding further production cuts due to the pandemic. At the same time, it is worth remembering that the Green Deal will generate a higher demand for copper. It can be said that supply and demand should be in balance this year.</p>
	<p>Karol How much copper remains to be extracted by the Robinson mine during its remaining mine life?</p>
	<p>prof. Katarzyna Kreczmańska-Gigol The current expected life of the Robinson mine is 9 years. Work is currently underway to determine the possibilities to prolong the economic life of this mine.</p>
	<p>Gość Is the increase in production of electric cars a positive trend for KGHM?</p>
	<p>prof. Katarzyna Kreczmańska-Gigol Considering the fact that electric cars require the use of approx. 40% more copper than in traditional fossil fuel-powered cars, then I can certainly confirm that the increase in the importance of electromobility has a positive impact on demand for copper.</p>
	<p>wera Will KGHM pay a dividend for 2020, if not then why?</p>
	<p>prof. Katarzyna Kreczmańska-Gigol I really understand the feeling behind this question, because recently KGHM has not paid dividends. We are getting close to regulatory reporting periods, during which we will announce our recommendation.</p>
	<p>prof. Katarzyna Kreczmańska-Gigol Thank you sincerely for taking part in our chat and for all of your questions. I invite you to follow information about our Company and to contact us – https://kgmh.com/en/investors</p>