

EuroRating affirmed 'BBB-' credit rating with a stable outlook assigned to the company KGHM Polska Miedz S.A.

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|----------------------------|--------------------------------|
| Public / Private rating | public |
| Continued / One off rating | continued (monitored rating) |
| Category | rating for the issuer |
| Name of the rated entity | KGHM Polska Miedz S.A. |
| Type of the rated entity | corporation |
| Type of the credit rating | long-term, international scale |
| Date of rating affirmation | 9 May 2024 |
| Rating level | BBB- |
| Rating outlook | stable |

Warsaw, 9 May 2024 – EuroRating credit rating agency has revised the credit rating for the company KGHM Polska Miedz S.A. The rating has been affirmed at 'BBB-' with a stable outlook.

KEY RATING DRIVERS

Relatively secure liabilities structure: Over recent years, the liabilities structure of the KGHM Group has remained stable and relatively secure. The equity share has consistently hovered around 50-60% of the balance sheet total. Additionally, the coverage of long-term assets by long-term capital is satisfactory, maintaining stability within the range of 1.0-1.1.

Moderate level of net financial debt: The value of interest-bearing debt within the KGHM Group has stabilized in recent years at around PLN 5.5-7 billion. The net debt to EBITDA ratio exhibits significant variability due to large fluctuations in EBITDA. Meanwhile, in recent years, the ratio of net debt to equity has remained at a low and secure level, ranging from 0.1 to 0.2.

Satisfactory liquidity position: EuroRating assesses the overall liquidity position of the KGHM Group (taking into account the nature of its operations) as satisfactory. This is attributed to the typically high level of maintained cash reserves and a favourable maturity structure of interest-bearing debt (the majority of debt matures beyond one year). As a result, the coverage of short-term debt with cash has remained at a relatively high level since 2019.

High sensitivity to metal price volatility: The financial performance of companies within the mining and metallurgical sector, where KGHM operates, is significantly impacted by the fluctuations in commodity prices, particularly copper and silver for KGHM. These fluctuations are influenced by numerous factors, including global economic trends and geopolitical dynamics.

High and increasing level of fixed costs: KGHM's operations are characterized by maintaining a high level of fixed costs, which continuously grow dynamically, partly due to strong labour unions within the company. This situation results in KGHM having a high operating leverage, further amplifying the sensitivity of the company's financial results and overall financial position to fluctuations in commodity prices.

Significant deterioration in financial performance in 2023: In 2023 the company experienced a notable decline in gross profit margin (with a margin of only 2% at this level in the income statement), resulting in KGHM generating a negative normalized EBITDA for the first time in over 20 years. Furthermore, both the operating margin (-10%) and the net margin (-8%) were the lowest recorded since 2001.

Consistently positive operating cash flows: EuroRating positively assesses KGHM's consistent generation of positive and relatively high operating cash flows, which amounted to over PLN 6 billion in 2023. However, the Group's high investment expenditures lead to significant fluctuations in normalized free cash flow.

Stabilization of the situation at Sierra Gorda mine: Located in Chile, the Sierra Gorda mine had been unprofitable for many years. However, through KGHM's efforts, the situation at the mine has stabilized and in 2023 it started yielding profits for the first time in years.

Relatively high likelihood of government support: The largest shareholder of KGHM (holding 31.8% of the shares) is the State Treasury. Due to the company's significant scale of operations and its importance to the region, where its facilities are located in Poland, EuroRating evaluates that in the event of a crisis, the government is likely to extend some form of financial assistance to KGHM.

Very large scale of operations, long history and public market listing: KGHM is one of the leading producers of refined copper and silver globally. It ranks among the largest companies listed on the Warsaw Stock Exchange, being part of the WIG20 index.

Mining tax: Among the negative factors, EuroRating includes the mining tax imposed on the company, which consistently represents a significant burden on KGHM's financial results.

Exposure to political influence: Being a state-owned entity, KGHM is subject to political influences, potentially leading to frequent and unsubstantiated changes in personnel within the supervisory board and management, as well as decisions made without regard to the company's economic and long-term welfare.

STABLE RATING OUTLOOK

The stable rating outlook means that, according to the current EuroRating's estimates, the rating assigned to the company should most likely remain unchanged in the horizon of the next 12 months.

MAIN FACTORS THAT COULD LEAD TO A RATING CHANGE

The most significant potential factors that could (individually or collectively) lead to a positive rating action (change of the rating outlook to positive and/or rating upgrade), EuroRating includes: potential significant increase in global commodity prices (such as copper, silver and molybdenum) and the medium-term generation of consistently high positive financial results by the KGHM Group; significant reduction in debt levels and sustained improvement in financing structure; as well as strengthening of the company's liquidity position.

The most significant potential factors that could (individually or collectively) lead to a downgrade of current credit rating (and/or to a change of the rating outlook to negative): decline in commodity prices and their persistence below the average extraction costs for the KGHM Group, resulting in a sharp deterioration of financial results and cash flows; further rapid increase in fixed costs; growth of financial debt; deterioration of liquidity position; significant decrease in the value of generated operating cash flows and/or generating negative free cash flows; as well as potential excessive dividend payouts beyond the company's capabilities.

BEST/WORST RATING SCENARIO

The full range of best- and worst-case scenarios for all rating categories spans from 'AAA' to 'D'. Historical long-term statistics on rating migrations (changes between individual rating classes) for entities rated by EuroRating are published in the report on rating statistics, available at: <https://www.eurorating.com/en/ratings/statistics> (annexes No. 6-9).

REGULATORY DISCLOSURES

Information on the EuroRating credit rating agency

EuroRating is a fully independent international credit rating agency operating since 2007, specializing in assessing the credit risk of enterprises and financial institutions. EuroRating Sp. z o.o. is formally registered by the European Securities and Markets Authority (ESMA) as a credit rating agency authorized to issue public credit ratings throughout the European Union (in accordance with the Regulation of the European Parliament and of the Council No. 1060/2009 on credit rating agencies) and is under direct supervision of ESMA.

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Methodology

The presented credit rating for the company KGHM Polska Miedz S.A. is an issuer credit rating – it is a general assessment of the creditworthiness of the assessed entity and concerns the credit risk of its senior, unsecured and unsubordinated financial obligations.

The presented credit rating has been assigned in accordance with the Regulation (EC) No. 1060/2009 of the European Parliament and of the Council on credit rating agencies.

The methodology used in this rating was "Credit rating methodology for non-financial corporations" published in June 2023 and available at: <https://www.eurorating.com/en/ratings/methodology/credit-risk-assessment-methodology>

The rating scale of the EuroRating credit rating agency as well as detailed rating definitions are published at: <https://www.eurorating.com/en/ratings/rating-scale>

Historical default statistics for entities assessed by EuroRating are published in the report on rating statistics, available at: <https://www.eurorating.com/en/ratings/statistics>

EuroRating's definition of default as well as definitions of rating notations can be found in the agency's website at: <https://www.eurorating.com/en/ratings/methodology/definition-of-default>

Credit ratings assigned by the EuroRating credit rating agency are not solely estimates of the probability of default of a rated entity, but represent a total estimated assessment of a risk of loss (i.e. the ultimate loss of part or all of the receivables along with any interest) by the creditors of the rated entity in the event of its default. Ratings assigned by EuroRating therefore express a combination of the estimated probability of default of the rated entity and the estimated level of loss of receivables by its creditors in the event of an actual default (Loss Given Default).

Public status of the credit rating / terms of use

The presented credit rating for the company KGHM Polska Miedz S.A. is a public rating. The date of the first publication of the rating, the current rating level and the full rating history are published on the EuroRating's website in the section "Credit ratings", in the relevant tab on the rated entity/security.

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Solicitation status

The rating assigned to the company KGHM Polska Miedz S.A. was not solicited by the rated entity or any related third parties. The rated entity did not participate in the rating process, the agency had no access to internal documents or the management of the rated entity, and the analytical process was based on publicly available information. The main sources of information used in the rating process were: interim financial statements, presentations and reports of the rated entity, as well as publications in the media about the economy, the industries in which the company operates and about the rated entity itself. The information on the assigned credit rating was presented to the rated entity in advance. The rating was issued without any changes resulting from this disclosure.

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