

31 August 2020

Investor chat with KGHM Polska Miedź S.A.

Link to chat (in Polish): <https://strefainwestorow.pl/artykuly/czaty-inwestorskie/20200831/wyniki-finansowe-kg hm-katarzyna-kreczmanska-gigol>

On Monday, 31 August 2020 an investor chat was held with the CFO of KGHM Polska Miedź S.A., prof. Katarzyną Kreczmańską-Gigol. During the chat we talked about the financial results for the first half of 2020. Investors also posed questions about the dividend policy, the Sierra Gorda mine and the current situation on the commodities market. Around 350 people participated in the chat, during which the CFO answered more than 20 questions. Following is the transcript of the chat.



Janusz Maruszewski

Hello, welcome to a chat with the CFO of KGHM, prof. Katarzyna Kreczmańska-Gigol. We invite you to engage in the discussion and ask questions!



prof. Katarzyna Kreczmańska-Gigol

Hello and welcome to today's chat on the financial results of KGHM for the first half of 2020. I am ready to take your questions.



Iqabo

On 9 July 2020 KGHM announced on its Twitter account the opening of the company KGHM Centrum Analityki (Analysis Center). Is this a new company of KGHM's or is it one resulting from the transformation of an existing one? What's the point of another IT company in the structure of KGHM?



prof. Katarzyna Kreczmańska-Gigol

The new company is a response to the need for our Group to develop new technology. This is a completely new entity, as the challenges are also different. Its task will be to develop solutions using BIG Data technology. Today the development of companies is to a large extent dependent on the application of new technology and access to information which, appropriately processed, is the basis for making business decisions.



Inwestor

Hello, are you planning on revising your Budget targets for 2020?



prof. Katarzyna Kreczmańska-Gigol

At the moment we're working on our Budget assumptions, which we adopted for 2020 prior to the outbreak of the epidemic. We are trying to advance them. For now there is no justification for any change to them. We are of course constantly monitoring the situation.



Inwestor

Another question on the production of payable copper by the Group. Why was there a drop in July of this year compared to a year ago? Thanks

**prof. Katarzyna Kreczmańska-Gigol**

In July 2020 production of payable copper amounted to 57.5 thousand tonnes, or a decrease versus the corresponding month of 2019 by 4%. The decrease in production was in respect of KGHM Polska Miedź S.A. (-3.2 thousand tonnes) due to restricted copper scrap supply and to the maintenance shutdown at the Głogów I Copper Smelter and Refinery, and also due to a small drop in production by KGHM INTERNATIONAL LTD. It is worth noting that improvement was recorded in Sierra Gorda, as a result of a higher volume of processed ore and higher copper grade.

**Gość**

What does the Management Board of KGHM think of Sumitomo's new shareholder?

**prof. Katarzyna Kreczmańska-Gigol**

We do not comment on the investment decisions of our shareholders, and even more so the shareholders of our partner in the project.

**Gość**

What do you think about the current situation on the copper, gold and silver markets? Is there a chance for further price rises?

**prof. Katarzyna Kreczmańska-Gigol**

Copper prices following the outbreak of the COVID-19 pandemic returned to their level at the start of the year, while silver recorded its highest rise since the start of 2013. Among others, the pandemic has caused a decrease in global production, but also problems with commodities supplies. This is why the price of copper initially fell, then recovered. The price of gold usually rises during periods of market turbulence, as it is considered to be a safe investment in times of uncertainty. The price of silver behaves in a similar manner, but silver is a commodity used in manufacturing as well as an investment vehicle. Changes in silver prices are less predictable than in the case of gold. Changes in the prices of these commodities will come about as a result of changes in the global economic situation.

**Gość**

How much of an impact does a weaker USD have on the results?

**prof. Katarzyna Kreczmańska-Gigol**

In general, a weaker USD means that the costs of materials denominated in the USD, for example certain fuels, are lower. But above all changes in the USD exchange rate affect revenues from sales and the measurement of USD-denominated liabilities, including loans. It should however be noted that a weaker USD is usually associated with an increase in metals prices, including copper and silver.

**Inv**

What was the reason for the decrease in C1 cost in the Parent Company?

**prof. Katarzyna Kreczmańska-Gigol**

The decrease in C1 cost in KGHM Polska Miedź S.A. by 12% versus the first half of 2019 was mainly due to a weakening of the PLN vs the USD and to a lower minerals extraction tax.



Gość

Do you think that in subsequent quarters the USD will continue to weaken?



prof. Katarzyna Kreczmańska-Gigol

Unfortunately we neither publish nor comment on forecasts. The strengthening of the USD versus the PLN helps us, though of course only to a certain extent. However, a weaker USD usually also has the positive results I mentioned earlier – lower costs and higher copper and silver prices.



SilverDragon

Hello, have you considered taking measures to abolish VAT on the sale of investment silver? Considering KGHM's position in this market, the market situation and the "clout" of the authorities, it could be an interesting idea to revive this way of investing in Poland. Please, think about it.



prof. Katarzyna Kreczmańska-Gigol

A very good question, but not really one that we can answer. We are interested in any sort of investment instrument that could spur an increase in demand, and more differentiated demand. I would also like to point out that we aren't worried about the stability of demand for silver – all of our production has always historically found buyers. At the same time I would like to point out that we are supportive of every type of investment that improves investing conditions for private persons.



SilverDragon

A few words please about the current situation in Sierra Gorda. It appears that it should be better there than a year ago, since Warren Buffett has indirectly invested in it.



prof. Katarzyna Kreczmańska-Gigol

The actions taken in the last two years have borne fruit. This is mainly the result of initiatives aimed at increasing savings and heightened cost discipline, but is also due to increased production capabilities. In my opinion, the better parameters achieved by Sierra Gorda are the result of the comprehensive management system that we implemented.



SilverDragon

And the last one. What in your opinion is the Company's current value? I'd like to know if it's reasonable, if it properly reflects the Company's value?



prof. Katarzyna Kreczmańska-Gigol

Listed companies are not allowed to comment on the market valuation of their instruments or to provide recommendations. Nonetheless, we are constantly striving to increase the Company's value, while the foundations of our business are very stable, as we emphasize in the four pillars of our strategy. We are fully aware that our value is also built upon the sustainable development of the global economy, in which we are deeply involved. For example, the world's ecological transformation would not be possible without the consumption of copper, which we produce.



SilverDragon

Aha, does Sierra Gorda still need support given the copper price? Has something improved here?

**prof. Katarzyna Kreczmańska-Gigol**

The plan of financing Sierra Gorda has not changed, meaning that we still expect Sierra Gorda to achieve financial independence starting in 2021. This means no financing of the company by the owners after 2020. The price of copper affected the decision to provide financing in the first half of this year. Current copper prices are higher.

**Adrian**

Is the company planning to return to paying out dividends to shareholders? If so, when is this most likely to happen?

**prof. Katarzyna Kreczmańska-Gigol**

The dividend policy of KGHM remains in force. We want to remain a dividend-paying company. Now however we have to look carefully at what is happening around us.

**Akcjonariusz**

In the media there have been reports that you are thinking about establishing a program for individual investors. Could you talk a bit about this? When might we see some details? What would such a program be based on?

**prof. Katarzyna Kreczmańska-Gigol**

Loyalty programs for our shareholders remain an open question. We are searching for attractive offers and proposals, which can be implemented given present conditions. We would like to present some details by year's-end.

**Akcjonariusz**

What factors had a negative impact on adjusted EBITDA, that it came in much lower than market consensus?

**prof. Katarzyna Kreczmańska-Gigol**

Adjusted EBITDA of the KGHM Group in the second quarter of 2020 was higher than market consensus.

**Gość**

Were there any shutdowns in the second quarter related to the pandemic?

**prof. Katarzyna Kreczmańska-Gigol**

The preventive measures that we initiated had the desired effect. There were no shutdowns.

**Adam**

How far advanced are your plans for transforming your sources of energy consumption into renewable ones?

**prof. Katarzyna Kreczmańska-Gigol**

Our recent investments in this regard include the construction of a solar panel farm in the vicinity of Legnica. We are also finalising agreements for the construction of a further two solar power plants in the Copper Basin. We own over 200 hectares of land which could be used for projects related with RES. We are also considering sourcing energy from wind farms, for example.



acq

Which countries are the main importers of Polish copper, and has there been any significant change in their structure in recent years?



prof. Katarzyna Kreczmańska-Gigol

The main customers for our copper are Poland, China and Germany. These are followed by Czechia, Italy, France and Hungary. In the last three years there has not been any significant change in their structure.



Gość

Have strategic plans been deferred or have there been any other changes caused by the pandemic?



prof. Katarzyna Kreczmańska-Gigol

We are advancing the Budget according to plan. We do not expect any deferrals or changes in our strategic plans.



Gość

Hello, what was the reason for the net loss y/y in Q2 2020?



prof. Katarzyna Kreczmańska-Gigol

The net loss was mainly due to exchange rate differences and to the share in the losses of JVs (during the reporting period we increased the capital of Sierra Gorda and, in accordance with accounting using the equity method, our share was decreased by the loss generated by Sierra Gorda to the level of the increase in capital).



Gość

In what year do you expect to make a return on the investment in Sierra Gorda?



prof. Katarzyna Kreczmańska-Gigol

The operating results have substantially improved, a fact that we are quite pleased with. But the question of a return on the investment depends to a large degree on the macroeconomic situation. The COVID-19 crisis led to tremendous uncertainty and turbulence on the market, which means that at the moment it is very hard to predict how the situation will develop.



Janusz Maruszewski

Thank you very much for your participation in our chat and for all of your questions. We also invite you to follow information about the Company and to directly contact them (at the website address: <https://kgmh.com/en/investors> (link is external)). Have a good afternoon!



prof. Katarzyna Kreczmańska-Gigol

Please accept my sincerest thanks for all of your questions, and feel free to send us your questions.