



28 November 2022

Investor chat with KGHM Polska Miedź S.A.







Link to the original chat (in Polish): [Investor chat with the Vice-President of the Management Board of KGHM: In recent years, the Company has returned to paying dividends. We would like this trend to continue \(strefainwestorow.pl\)](https://strefainwestorow.pl)







On Monday, 28 November 2022 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 2022. Investors also posed questions about the situation on the commodities market and SMR technology.












560 people participated in the chat, and the Vice President responded to nearly 20 questions.






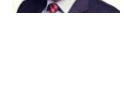



Please feel free to read through the chat.







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 to our investors' chat, please feel free to ask questions.</p>
	<p>Guest</p> <p>Do you, similarly to many experts, predict shortages of copper in the future and an increase in its prices in the long term?</p>
	<p>Andrzej Kensbok</p> <p>Yes. We read the same analyses and reports, moreover, we are in touch with our customers, thus, like other copper producers, we see a great potential for a shortage of this metal in 2024 and beyond. This is due to the green revolution, i.e. the electrification of industry and transport, because of the increase in copper consumption in the energy sector, but also due to the closure of some mines around the world.</p>
	<p>Guest</p> <p>What is the progress in terms of your international mines disposal? Apart from the assets already announced for sale, do you intend to sell anything else?</p>
	<p>Andrzej Kensbok</p> <p>As regards the international companies of the Group a variety of reorganisational actions were undertaken aimed at integration of KGHM INTERNATIONAL LTD. in Canada with the Company's activities in Poland and the transferal of some of the business functions of KGHM INTERNATIONAL LTD. to Poland. In the third quarter of 2022, these actions were continued, mainly in terms of developing uniform internal regulations, procedures and the standardisation of solutions in individual areas of the Company's activities. In addition, internal actions were undertaken aimed at advancing development scenarios for individual international assets in the Company's portfolio. On 26 April 2022 an Agreement to sell the shares of S.C.M. Franke was signed. As at the</p>

	<p>date the agreement was signed, Minera Las Cenizas became the owner and operator of the Franke mine.</p> <p>When it comes to our other assets, as a result of the analysis conducted, the Management Board of the Parent Entity as at 30 June 2022 reclassified the assets and liabilities of the company to continued activities, because currently a sale is not highly probable. The process of selling the mining assets of Carlota Copper Company was not completed.</p> <p>Of course, in connection with the appointment of new Members of the Management Board, we will review our strategy. No sooner than the Management Board is constituted, we will proceed to this process and immediately as soon as it is completed, will inform you about it.</p>
	<p>AM</p> <p>What about the SMR project after the change of CEO? Does the current Management intend to continue the strategy and implement the SMR project?</p>
	<p>Andrzej Kensbok</p> <p>As regards the SMR project, we are currently continuing it together with our partner. Of course, we intend to analyze this project in the context of its profitability upon completing the R&D phase. However, the involvement of KGHM in energy projects is fully reasonable. The current situation strongly justifies the commitment in energy investments. These are long term projects.</p>
	<p>Guest</p> <p>How are you dealing with the spike in energy costs?</p>
	<p>Andrzej Kensbok</p> <p>I would like to emphasize that despite the increase in the prices of energy and materials, the Company recorded a satisfactory level of profit and EBITDA after three quarters. So for the time being, we do not see any greater risk for our financial results for the full year of 2022. Nevertheless, we are optimizing those costs that we are able to control in some way, e.g. electricity costs through for instance saving programs and building RES capacity. We are striving to optimize the use of our machinery and equipment, i.e. extend the service life. We also have flexibility in the choice of energy sources, i.e. when gas prices were high, we simply bought more, slightly cheaper energy from the market, and when gas prices fell, we returned to this source - we are talking about our Steam-Gas Blocks in Głogów and Polkowice. As for the change in the formula of the balancing market, we do not yet know what impact it will have. As I mentioned during the results conference, we balance ourselves mainly on the domestic market, and we assume that it will be beneficial for us - just like every large entity, we use this market and perhaps the share of this market in our purchases will slightly increase and this will result in some flattening of expected (by energy producers) increased energy prices next year towards spot prices.</p>
	<p>Guest</p> <p>What is the share of energy costs in mining costs and what change in this cost component do you anticipate next year?</p>
	<p>Andrzej Kensbok</p> <p>After 9M, the share of energy costs in expenses by nature was approx. 8% compared to approx. 5.8% in the comparable period of 2021. At the moment, it is difficult for us to declare what its level will be in 2023, however, we do not expect any significant deviations in the structure of expenses by nature. Inflation affects not only the costs of energy, but also the costs of labour, materials or external services.</p>

	<p>AM Do you expect that in the current quarter, the year-on-year increase in the C1 cost will be maintained at a similar level as in Q3? Can this dynamic accelerate even further?</p>
	<p>Andrzej Kensbok As in the case of energy costs, our goal is to optimize operating costs. Taking into account the impact of elements that cannot be controlled, such as the war in Ukraine and the energy crisis, which take various forms in different parts of the world, it is hard to say unequivocally how the C1 cost components will develop in the coming months.</p>
	<p>AM What is the current share of copper sales in USD in relation to total copper sales? What was the average share historically?</p>
	<p>Andrzej Kensbok Our copper sales are denominated in USD, partly in Euro, and our costs in Poland are mostly in PLN. The PLN-USD and PLN-EUR exchange rates have a significant impact and are an important element for the Company, and in the first three quarters of 2022 their impact was clearly positive. I would like to mention that we also use exchange rate hedging instruments on the currency market for the future periods.</p>
	<p>Guest To what extent do exchange rates differences impact the net profit and what might this impact be in this quarter?</p>
	<p>Andrzej Kensbok In the period 01-09.2022, the net impact of exchange rate differences on the result amounted to approximately PLN 1.3 billion, which is a combination of positive transaction (cash) deviations and negative translation deviations on the balance of loans.</p>
	<p>Marek What is the current situation in Sierra Gorda, is the decrease in production temporary or should such levels be expected to be maintained? Please also comment on the political situation in Chile.</p>
	<p>Andrzej Kensbok The lower copper production in Sierra Gorda in 9M 2022 is the result of the exploitation of ore with a lower copper content. Similarly, it has a negative impact on the mining and recovery of molybdenum and silver. The production budget for 2023 has not yet been adopted. As regards the political and tax issues: the draft amendment to the Chilean constitution was rejected, as well as the draft, radically unfavorable tax burden for copper producers. Currently, expectations are that this project will return, but in a less radical form, or in other budget-related acts, but it is difficult to say when such changes may occur.</p>
	<p>Adam Is the cooperation with TotalEnergies in the construction of an offshore wind farm primarily aimed at reducing energy costs at KGHM?</p>
	<p>Andrzej Kensbok Absolutely. In addition, KGHM is in a unique position, as a large electricity consumer, that can be an independent recipient of such energy that guarantees both stable energy supplies and stable revenues for the project in the long term.</p>
	<p>Adam When does the Company estimate the commencement and completion of the project with TotalEnergies?</p>

	<p>Andrzej Kensbok We will start activities as soon as the decision on granting the concession by the Minister of Infrastructure is taken.</p>
	<p>Marek What CAPEX does the company anticipate for 2023?</p>
	<p>Andrzej Kensbok We certainly are not planning for capital expenditures to be lower than this year's performance, and not lower than technically required for development of the mining and metallurgical areas.</p>
	<p>AM Do you have many contacts from international investors interested in KGHM?</p>
	<p>Andrzej Kensbok We are constantly in touch with international as well as domestic investors. The interest in our Company's shares is comparable from both directions. We use various ways of communication with individual and institutional investors – <i>inter alia</i> direct contact, as well as results conferences, thematic conferences, and organized visits, such as the Individual Investor's Day, that enjoyed exceptional interest this year. During the year, we conduct over 100 conferences or talks with investors, whose prevailing majority are investors from outside Poland.</p>
	<p>Tomasz What are your predictions for the silver market? It seems that currently its price is low and there are already shortages on the market. What percentage of the Company's income is this segment at the current valuation.</p>
	<p>Andrzej Kensbok As the second largest producer of silver in the world, we are pleased that silver is a solid support for our financial results. The share of silver in the Company's revenues in 2021 was approx. 26%, and on the Group scale - 13%. Consensus on the price of silver does not indicate significant deviations in subsequent quarters.</p>
	<p>AM What is the general overview of the 3Q and 9M of 2022 results? Are you satisfied or highly satisfied with them?</p>
	<p>Andrzej Kensbok In our opinion, the results are good, we consider them strong, against a volatile macro environment in which our results were affected by decreases in the prices of copper and silver and increases in the prices of energy carriers. We managed to maintain the production of payable copper comparable to the previous year's level, we recorded higher silver production, higher KGHM Group revenues and strong Group operating results. The continuing demand on the metals market led in turn to higher revenues earned by the KGHM Group (+18%) compared to the corresponding prior-year period, to PLN 25.7 bn. KGHM maintained stable copper production from its Polish assets (mined production (copper in ore) 334.4 kt; metallurgical production 442.5 kt). The Company is continuing its key projects, such as the Deposit Access Program (sinking of the GG-1 shaft was completed). The maintenance shutdown at the Głogów Copper Smelter and Refinery did not affect the Company's operations. Work continued on advancing development of the Tailings Segregation and Compacting Station at the Źelazny Most Tailings Storage Facility.</p>

	<p>bww236 Does the Management Board of KGHM anticipate any more drastic government actions in the coming months to increase the tax burden (surcharges, etc.) imposed on large companies?</p>
	<p>Andrzej Kensbok According to our analyses, the latest draft of legal changes, which has not entered into force, had not been recognized as additionally burdening for KGHM. We did not hear about other proposals for changes in income taxes.</p>
	<p>Gomens When will KGHM return to its former glory, when the dividend amounted to PLN 28 per share. Back then, copper was trading well below 8 000.</p>
	<p>Andrzej Kensbok In recent years, the Company has returned to disbursing dividends. We would like this trend to continue in line with the current dividend policy. It assumes that the Management Board will recommend allocation of up to one-third of the Company's net profit for the previous financial year as a dividend, while taking into account the current and anticipated financial and investment situation of the Company and the Group. The final decision regarding the amount of dividends paid is made by the General Meeting of KGHM Polska Miedź S.A.</p>
	<p>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 – Investors KGHM Corporate Website</p>
	<p>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.</p>