



24 March 2020

Investor chat

„KGHM’s dividend policy is still valid and we, as the Management Board, are favourably disposed to this mechanism” – from the chat with the CFO



On Tuesday, 24 March 2020 an Investor chat was conducted with the CFO of KGHM Polska Miedź S.A., prof. Katarzyna Kreczmańska-Gigol. During the event we spoke about the financial results for 2019. Investors also asked about the current situation on the commodities markets, the minerals extraction tax and the company’s dividend policy. Nearly 750 people took part in the on-line event, and the CFO responded to more than 20 questions. Please find below the complete transcript of the chat.

Chat with the CFO of @kghm_sa (link is external), prof. Katarzyną Kreczmańską-Gigol. We are speaking about the financial results and the impact of the COVID-19 pandemic on the company’s operations.

Janusz Maruszewski

12:05



Hello,

I am pleased to open the chat with the CFO of KGHM Polska Miedź, prof. Katarzyna Kreczmańska-Gigol.



prof. Katarzyna Kreczmańska-Gigol

12:12

Welcome to our chat. I am ready to take your questions.

Piotr

12:17



Given the drastic falls in the prices of copper and silver, are you considering petitioning the government to reduce the minerals extraction tax, or asking for additional funds for investments?

prof. Katarzyna Kreczmańska-Gigol

12:17



It is true that we are currently witnessing substantial volatility on the commodities markets, which is undoubtedly one of the effects of the pandemic and crisis-related phenomena. The question is how long this volatility will last and what the pricing situation will look like in the long term. KGHM reacts to price volatility mainly through the implementation of a stable hedging policy. At present the Company has substantial positions on the metals markets. Of course every reduction in costs, including potential decreases in the MET, would be a positive impulse and we are prepared to discuss the possibility of changes in the formula for calculating MET.

In terms of funds for investments, we have also secured this area to a certain extent in the 2020 budget by slightly lowering development expenditures and deferring them to a later period, when there will be more favourable investment conditions.

Achim

12:21



Why in the current situation doesn't the Management Board of KGHM fight for a decrease in the MET or even its suspension, instead of only monitoring the situation and passively waiting for things to get worse? Why doesn't the Management Board take decisive action in this regard?

prof. Katarzyna Kreczmańska-Gigol

12:21



Please remember that the level of the MET was only just reduced last year by approx. 15%, and we are satisfied with that. We appreciate that this was a watershed decision, for which KGHM Polska Miedź S.A. had waited many years. Nonetheless, given the current situation, we are cooperating as regards potential support for the company, in terms of the suspension of various types of instruments, but this will only be a question to be considered in a situation where we will actually feel the impact of this crisis, if sales are lower, if this lower price continues for an extended period, meaning we will be inquiring about such possibilities

when and if we in fact experience a strong impact from this situation on the company's results.

iqabo

12:24

Dear CFO, what is the current profit margin on mining a tonne of copper? Let's assume a scenario where the copper price breaks through the lows of 2008 – what would that mean for KGHM?

prof. Katarzyna Kreczmańska-Gigol

12:24



In recent years the EBITDA margin, which is the most important profitability indicator for the Company, has remained above 20%, a level which we could say is quite comfortable for us, and one which guarantees the Company's operations. Of course in the current situation this level could change. In the years 2008-2009, the period of very low copper prices was short-lived and did not have a substantial impact on the Company's situation (consolidated net profit for 2009 versus 2008 was lower by 15%), so a lot depends on what will happen. For our part, we will look hard at the realities of the situation day by day, both in terms of maintaining production as well as cost discipline, and also our plans for the current year. We can review our plans to ensure that the KGHM Group is brought safely through this difficult time. We safely made it through the tough times of 2019 and I think that this experience will aid us in 2020.



Gość

12:28

Will there be a dividend this year?

prof. Katarzyna Kreczmańska-Gigol

12:28



This is not yet the moment when such a declaration can be made. Firstly, we don't know how the situation related to the epidemic and its effects will turn out, and secondly, it's too early for a definite answer to this question. KGHM's dividend policy is still valid and we, as the Management Board, are favourably disposed to this mechanism. For now however, we have to get through this difficult period, we have to carefully observe what is happening around us.

The final decision will in any case belong to the General Shareholders Meeting of KGHM.



Marek

12:31

Will KGHM pay a dividend for 2019?

prof. Katarzyna Kreczmańska-Gigol

12:31



As mentioned earlier, while it's too early for a declaration or recommendation, we aren't ruling out the possibility, the profit allocation policy is still in effect, let's wait awhile for the situation related to the epidemic to clarify and to see the potential effects on our operations. For now we aren't seeing any negative signals as regards manufacturing and commercial conditions.



Marek

12:33

Could KGHM's share price fall below PLN 30 in 2020?



prof. Katarzyna Kreczmańska-Gigol

12:33

As a listed company we are not allowed to forecast the prices of its instruments or to provide recommendations.



Marek

12:35

Will KGHM in future satisfy all of its demand for electricity from its own generating sources?

prof. Katarzyna Kreczmańska-Gigol

12:35



Pursuant to the Strategy of the KGHM Group for the years 2019-23 published in 2018, it is foreseen that by 2030, 50 percent of demand by KGHM Polska Miedź S.A. for electricity will come from its own generating sources as well as renewable sources of energy.

Consequently, the Company is intensifying actions aimed at improving energy efficiency by investing in its own generating capacity, in particular capacity with zero or low emissions. It is also looking into investment possibilities involving energy projects, at least in terms of photovoltaics.

Paweł

12:43



Will KGHM again this year cheat its employees out of their profits? Bad investments, debt drawn by KGHM is not the fault of the employees only of those persons responsible for it, I know that it is easy to say but "if I can't fly a plane then I won't fly it" meaning the consequences should be borne by the responsible people, and not by the workers who give everything of themselves, and are earning less and less. What's a 6% raise if the company reflects it in the bonus and the employees take a loss in any case. I understand that the cut bonus last year will be made up this year? Several years ago the employees earned decent bonuses, and now it isn't possible? Imagine what you would do if all the employees said enough and went on strike for even one day. Soon you will see that in lidl in peaceful conditions wages will be better than in the smelters where people get sick and risk their lives. A time will come when you will physically have to do the work yourselves because people will quit.



prof. Katarzyna Kreczmańska-Gigol

12:43

From our initial calculations it appears that the annual bonus this year will be higher than last year.

Mateusz

12:45



A warm hello. I am an employee of the company, and I have a question related to the current situation in the world and the company. Given the possibility of a temporary suspension of production, resulting in lower wages, could the Company support employees with mortgages and those seeking housing loans by providing such loans to everyone at the same time waiting in line? Despite the promised help from the banks, meaning the temporary suspension of repayment instalments, such a loan would be the biggest help that the Company could offer its employees at the present moment in this regard, and at the same time would not be such a large burden on the Company. Regards

prof. Katarzyna Kreczmańska-Gigol

12:45



At the moment the priority remains the well-being of our employees throughout the Group and ensuring the continuation of operations.
I assess the risk of a stoppage in production as low.



Mateusz

12:45

Would the Company consider selling its shares to Company employees at preferential prices?



prof. Katarzyna Kreczmańska-Gigol

12:45

At the moment this possibility is not being considered.



Gość

12:49

Is the Company planning to cease dividend payouts over the long term? And is there any consideration of participation in auctions by funds investing in dividend-paying companies?

prof. Katarzyna Kreczmańska-Gigol

12:49



The Company's dividend policy, which says that the Management Board will recommend a dividend payment of up to 1/3 of standalone net profit earned in the prior financial year, while taking into account the current and anticipated financial situation of the Company and the Group, remains unchanged.

The recommendation as to how KGHM's profit for 2019 will be allocated will reflect the operational situation and the capital needs of the Company, while the final decision will be taken by the General Shareholders Meeting.



bemi

12:51

Why doesn't the Company pay dividends to shareholders?, -

prof. Katarzyna Kreczmańska-Gigol

12:51



The final decision as to the amount of the dividend payout is made by the General Meeting of KGHM Polska Miedź S.A., which under a decision taken on 7 June 2019 allocated all of the profit for 2018 to the Company's reserve capital. The recommendation and decision on allocating KGHM's profit for 2019 is still before us.



Gość

12:53

What is the forecast of results for 2020?



prof. Katarzyna Kreczmańska-Gigol

12:53

In accordance with our policy we do not publish forecasts; our Budget for 2020 remains valid, including its elements, which we published in January 2020.



Ptyś

12:57

Is kghm planning to open more copper mines

prof. Katarzyna Kreczmańska-Gigol

12:57



Under the Company's Strategy for the years 2019-2023, KGHM intends to focus on enhancing the value of its existing mining assets in Poland and abroad. To this we can add potential new concessions, which represent a form of guarantee of continuity of production for the coming decades. We are watching the market, and for now we don't see the conditions, in terms of metal prices, which would serve as a foundation for potential investments in new assets, involving the expenditure of millions or billions of zloties.

Analityk

13:02



Has the current situation related to Covid-19 led to a change in the Budget targets for 2020, published in the annual report for 2019? If so, in what way?

prof. Katarzyna Kreczmańska-Gigol

13:02



No, it has not affected the Budget and we are not changing our targets. We are continuously monitoring the situation, which as you can see is highly volatile, difficult and unpredictable. Production and sales, as announced in our report for February 2020, remain at very good levels, we are not feeling the impact of the new situation on these parameters. As required by law, if the need arises for a change to any of the Budget's elements, we will announce this to the market.

iqabo

13:08

Today in Lubin four new cases of the 2019-nCoV virus were announced. Several days earlier there was a case in one of KGHM's subsidiaries of an infected worker – is the Management Board considering the risk of a "shutdown" of certain mines?

prof. Katarzyna Kreczmańska-Gigol

13:08



For several weeks KGHM has been undertaking broad and intensive actions aimed at reducing the risk of infection of our employees as well as of persons with whom they have contact (family, colleagues, counterparties etc.). Their safety is our priority. As of today all of our production assets are operating without interruption. We are endeavouring to ensure that this policy is continued, though naturally we need to analyse and prepare for various scenarios, the potential occurrence of which we are required to promptly announce to the market.

Rafał

13:14



Hello, what are your forecasts for global copper demand in the coming years? What sort of strategic actions are you taking with respect to the coronavirus?

prof. Katarzyna Kreczmańska-Gigol

13:14



In terms of the long-term outlook for copper (demand/supply) we remain optimistic, as the fundamentals of the market indicate increasing demand for the red metal and growing problems in terms of the mining of new deposits around the world. The current situation is certainly serious and at least in the short and medium terms it will have an impact on metals prices. Nevertheless, fundamentally speaking, copper remains one of the world's key commodities, one which is indispensable in many sectors.

Maciej

13:15



Copper also has properties which help in counteracting the spread of bacteria and viruses. Do you therefore see increased demand for copper for this particular application? What is its potential in terms of future sales?



prof. Katarzyna Kreczmańska-Gigol

13:15

Very much so. We have long been cooperating with our partners in the non-ferrous metals sector precisely to promote the anti-bacterial properties of copper.

Dawid

13:25



Is there a risk that, in connection with the fight against the epidemic, KGHM will be forced by the government to provide financial assistance, e.g. to hospitals, and what sort of impact could this have on the Company's financial results? Is the disinfectant liquid being produced now by KGHM a profitable product?

prof. Katarzyna Kreczmańska-Gigol

13:25



In the current situation, one which is extremely difficult for all of us, our priority is to provide assistance in any way we can. No-one is forcing us to do this apart from the challenge, which we are all facing, of fighting the epidemic. Nitrosept, the decontamination liquid which we are producing, will be sold at a minimal margin.

The companies Mercus and Zanam are already producing surgical masks.

Some of the excess product, in terms of protective products and masks, has already been sent to the Ministry of Health and the District Offices. We are in the process of supplying hospitals which have been designated as priority recipients in the fight with the coronavirus.

Tomek

13:26



How is the cooperation with the Japanese co-owner of the Sierra Gorda mine going? What are the plans and expectations as regards increasing the efficiency of mining this deposit?

prof. Katarzyna Kreczmańska-Gigol

13:26



We are quite satisfied with the cooperation with our Japanese partner, Sumitomo. This can be seen especially in the results of Sierra Gorda, which have been improving now for many months. In 2019 production of payable copper by the Sierra Gorda mine increased by 12 percent, and the budget for this year calls for an even greater jump compared to the target for 2019, by more than 38% (from 57 kt to 79 kt of copper).

Ekolog

13:29



Do you intend to take pro-active environmental actions regarding the Żelazny Most Tailings Storgae Facility? Are you planning to utilise the tailings, or will you continue to pour this waste to the open reservoir as you have done to date.

prof. Katarzyna Kreczmańska-Gigol

13:29



I'm a bit surprised by the question, as our Żelazny Most Division is one of the most highly monitored and inspected facilities of its type in the world. Complete data on its operations and its environmental footprint are available on KGHM's website in the section Tailings and waste management, <https://kghm.com/en/sustainable-development/environment/tailings->

[and-waste-management.](#)

At each of its plants the Company employs advanced waste treatment technology. In addition, actions are undertaken to prevent water from the production processes to flow into surface water or to pollute ground water.

prof. Katarzyna Kreczmańska-Gigol

13:31



I wish to sincerely thank you for taking part in this chat and for all of the questions asked. I also invite you to follow information about the Company and to contact us through our website at <https://kghm.com/en/investors>.
