

23 November 2020

Investor chat with KGHM Polska Miedź S.A.

Link to chat (in Polish): <https://strefainwestorow.pl/artykuly/czaty-inwestorskie/20201125/wyniki-finansowe-kg hm-polska-miedz>

Link to article (in Polish): <https://strefainwestorow.pl/artykuly/dywidendy/20201125/kg hm-dywidenda-kurs-akcji>

„The increase in Group EBITDA both in the third quarter as well as in the entire first 9 months of 2020 is the result of consistent, flexible and good decisions” – transcript of a chat with the Vice President of the Management Board (Finance) of KGHM.

On Monday, 23 November 2020 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 the third quarter of 2020. Investors also posed questions about the dividend policy, the copper market and the situation at the Sierra Gorda mine.

More than 600 people participated in the chat, during which the CFO answered more than 20 questions. Following is the transcript of the chat.

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|  | <p>Janusz Maruszewski Hello and welcome to our investor chat with the CFO of KGHM Polska Miedź, prof. Katarzyną Kreczmańską-Gigol</p> |
|  | <p>prof. Katarzyna Kreczmańska-Gigol Hello, welcome to this chat on the results of KGHM PM SA for the first three quarters of 2020, please ask your questions.</p> |
|  | <p>Inwestor Hello, do you expect to pay a dividend for this year?</p> |
|  | <p>prof. Katarzyna Kreczmańska-Gigol The Dividend Policy of KGHM remains in effect. The Company wants to share its earned profit with our shareholders. At the moment however we have to focus on actions being taken under pandemic conditions. Our local and extended environment this year is extremely unpredictable. After the close of the year and the final assessment of the condition of the Group and environment at the start of next year, we will determine our detailed capital needs and will commence a dialogue with the market as to the possibility of paying dividends. The final decision as to the manner of allocating earnings will of course be made by the General Meeting.</p> |
|  | <p>Inwestor And another question about revenues – why were they lower in the Group? Thanks!</p> |
|  | <p>prof. Katarzyna Kreczmańska-Gigol In the third quarter the KGHM Group’s revenues were lower by PLN 289 million (-2%) versus the corresponding period of 2019. An important reason was the drop in revenues in KGHM INTERNATIONAL by PLN 285 million, due to the suspension of work on the Woodsmith (formerly Sirius) project of DMC, which was partially offset by higher revenues from metals sales versus the corresponding period of 2019.</p> |

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|  | <p>Gordon Is there any news about the sale of Sierra Gorda by Sumitomo? What are your plans regarding this project?</p> |
|  | <p>prof. Katarzyna Kreczmańska-Gigol Sierra Gorda is a strategic asset in the KGHM portfolio. To date our operations and investments have brought expected results, which have a measurable impact on the financial results of Sierra Gorda as well as on those of the KGHM Group. That is why we will continue to advance all of our operational and investment programs, the goal of which is to enhance the project's value, because they are bringing results. Any potential change in owner will not have an impact on our perception of the project. We still see further room for improving its efficiency. Therefore, at the current stage we expect no changes in the manner of managing the project and are continuing optimisation programs under a proven management formula. Moreover, the existing strategy of KGHM does not foresee any change in the scale of commitment by KGHM in Sierra Gorda.</p> |
|  | <p>Gordon And another question. What will happen at the Extraordinary General Meeting on Thursday?</p> |
|  | <p>prof. Katarzyna Kreczmańska-Gigol Point 5 of the adopted agenda calls for the appointment of an employee-elected Member of the Supervisory Board of KGHM Polska Miedź S.A. for the tenth term who was elected in supplementary elections by the Employees of the KGHM Polska Miedź S.A. Group. You can see the complete agenda in the announcement on the convening of the General Meeting of the EGM along with draft resolutions at https://kghm.com/en/investors/corporate-governance/general-meeting. I encourage you to watch the EGM – the link to the webcast will be available at https://kghm.com/en/investors/investor-calendar.</p> |
|  | <p>artur What actions have you taken related to covid? Are you adequately protecting your employees?</p> |
|  | <p>prof. Katarzyna Kreczmańska-Gigol KGHM is continuously taking actions aimed at ensuring the safety of its employees. The discipline exercised by the staff and the consistent monitoring of threats along with the implementation of procedures to prevent infections has enabled KGHM to maintain the full capacity to continue its operations. The Company has instituted numerous educational and informational campaigns, has provided employees with access to special infolines as well as psychological support for persons in isolation, with the cooperation of medical staff from the hospital MCZ. The Company is supporting the fight against COVID-19 in cooperation with state institutions. KGHM has joined the government program Solidarnościowy Korpus Pomocy Seniorom (Senior Citizens Solidarity Corps). The Company, with the support of volunteers, regional Social Welfare Centers, Caritas and local NGOs, has prepared action plans to enhance the safety of senior citizens. KGHM among others is providing packages with safety materials, including disinfectants, to persons in need. Additionally, KGHM is also assisting in the organisation of additional beds in temporary hospitals for patients ill with the coronavirus in Lower Silesia. The regional base is increasing by more than 200 beds in Lubin, Legnica and Wałbrzych. Every day we are fighting to ensure the safety and health of our employees. Thanks to our joint efforts and the commitment of all of our employees we can act normally in these challenging times. By maintaining discipline, following procedures, and</p> |

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| | <p>applying the principles of DDM (disinfection, distancing and masks) we have substantially reduced the risk of infection.</p> |
|  | <p>Inwestor How would you describe copper prices in the third quarter of 2020?</p> |
|  | <p>prof. Katarzyna Kreczmańska-Gigol The price of copper began a substantial growth spurt in the third quarter, approaching its highs from 2018, while silver prices remained at a high level.</p> <p>In the fourth quarter copper is continuing to appreciate, and recently these increases have among others driven an appetite for risk amongst global investors following information on the effectiveness of vaccines for COVID-19. The relatively low level of physical premiums and the high net long positions of entities investing on COMEX and the LME suggest that current prices are also supported by investment demand.</p> |
|  | <p>Inwestor And one more question – where does the EBITDA come from at the Group level?</p> |
|  | <p>prof. Katarzyna Kreczmańska-Gigol The increase in Group EBITDA both in the third quarter as well as in the entire first 9 months of 2020 is the result of consistent, flexible and good decisions, while maintaining cost discipline. The strongest increases in operating results in the Group were from the Parent Entity and Sierra Gorda. In the third quarter the Parent Entity was aided both by the adjustment to revenues from hedging, a more favourable exchange rate and higher silver and gold prices.</p> |
|  | <p>Guest A basic question – when will KGHM return to regular (annual) dividend payouts. Since the invention of the stock exchange this is the simplest way to demonstrate the reliability of a company's financial results.</p> |
|  | <p>prof. Katarzyna Kreczmańska-Gigol As I have already mentioned in question 2, our dividend policy remains in effect. We will come back to the discussion of profit allocation at the start of next year.</p> |
|  | <p>Antoni Why has copper production decreased in KGHM Polska Miedz S.A.?</p> |
|  | <p>prof. Katarzyna Kreczmańska-Gigol The lower production of copper by KGHM Polska Miedź S.A. was due to the restricted supply of copper scrap in the first half of 2020 and to the maintenance shutdown at the Głogów I Smelter/Refinery. Production of payable copper by the Group was slightly lower than in the first three quarters of 2019 and amounted to 521 kt.</p> |
|  | <p>Antoni And another question about the 14 percent drop in copper production in KGHMI - why?</p> |
|  | <p>prof. Katarzyna Kreczmańska-Gigol The decrease in copper production in KGHM INTERNATIONAL was due to limited production in the Sudbury Basin mainly due to the suspension of the Morrison mine after the first quarter of 2019, and to lower production by the Robinson and Franke mines, due to the processing of lower-quality ore (a transition zone in Robinson, higher carbonates content in Franke).</p> |

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|  | <p>Inwestor 43 Question: how much of your planned capex have you spent?</p> |
|  | <p>prof. Katarzyna Kreczmańska-Gigol In accordance with plans, KGHM is advancing its budget for capital expenditures. By the end of the third quarter of 2020 we had incurred 71% of planned expenditures. The largest share in the structure of incurred expenditures was on the Deposit Access Program and on the expansion of the Southern Quarter of the Żelazny Most Tailings Storage Facility. Other goals comprised among others the outfitting of the mines, adapting technologic installations to BAT Conclusions, exploration of the deposits in Poland and the modernisation of IT systems under the KGHM 4.0. Program.</p> |
|  | <p>Inwestor 43 And one more question, are you expecting to exceed this year's budget?</p> |
|  | <p>prof. Katarzyna Kreczmańska-Gigol At the moment we do not expect any substantially deviation from budget targets, and as can be seen by the results after the third quarter, we are advancing the budget according to plan.</p> |
|  | <p>InwestorPRL Given the inability for KGHM to take on further debt, could you please explain what level of capex is planned for 2021 versus prior years.</p> |
|  | <p>prof. Katarzyna Kreczmańska-Gigol As we have indicated, we feel quite comfortable in the range of 2.25-2.5 billion PLN for the Parent Company.</p> |
|  | <p>Adam Please comment on the gold and copper markets.</p> |
|  | <p>prof. Katarzyna Kreczmańska-Gigol In the third quarter the price of copper rose substantially, approaching its highs from 2018, while silver remained at a high level. Precious metals prices rose sharply as a result of the return towards safer investments, reaching historic (in the case of gold) or multi-year (in the case of silver) maximums. The gold/silver ratio, after reaching record levels in March and April, returned to the average from recent years. There are numerous optimistic factors indicating increased demand. If this continues, this will be good information for us.</p> |
|  | <p>Guest How were the results compared to consensus numbers?</p> |
|  | <p>prof. Katarzyna Kreczmańska-Gigol In the case of consolidated adjusted EBITDA we exceeded PAP consensus by 5%, which – in the opinion of analysts – was due to the higher-than-expected results of KGHM International, while the Polish operations showed lower costs. A positive surprise was the lower debt both at the level of the Parent Entity and the Group. In the case of revenues (lower in the case of KGHM INTERNATIONAL) and net profit (the impact of exchange differences and the measurement of derivatives) – the results were below expectations.</p> |

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|  | <p>Guest In your forecasts for the 4Q and 2021 do you expect a strengthening of the PLN versus the USD? It looks as though that could happen. To what extent will this be important for the entire result, assuming appropriate hedging?</p> |
|  | <p>prof. Katarzyna Kreczmańska-Gigol We do not publish forecasts of results or macroeconomic targets. In terms of the impact of volatility on our revenues and profit, it should be remembered that not only do we have so-called natural hedging due to the fact that most of our borrowings are in the same currency as our revenues (i.e the USD), but in addition we have a hedging policy which means that volatility in the currency market is further „flattened”.</p> |
|  | <p>Guest Could you explain, after three quarters of the pandemic, which sectors have suffered the most and to what extent?</p> |
|  | <p>prof. Katarzyna Kreczmańska-Gigol The pandemic continues, but as we have so often repeated, thanks to our preparations and intensive preventative actions we have not experienced any substantial impact on our production. On the other hand we can say that the pandemic has impacted metals prices, in our case copper and silver, and to a lesser extent gold. Now we have a situation where there is hope for a vaccine and the market has reacted strongly to this news, but taking into consideration the on-going COVID-19 pandemic there remains uncertainty as to how the epidemic and the economic and social situation will develop both in Poland and abroad.</p> |
|  | <p>Adam Do you expect any change in strategy in 2021?</p> |
|  | <p>prof. Katarzyna Kreczmańska-Gigol The Company is consistently advancing the Strategy of KGHM for the years 2019-2023 KGHM, and at the moment we see no need for any adjustment or change.</p> |
|  | <p>iqabo The pandemic on the one hand is additional operating costs (gloves, masks, disinfectants etc.) – but on the other hand there are immense savings from lack of training, conferences, restricted business travel and cancelled group events such as Barbórka – what is the level of savings y/y (%) on this group of expenses?</p> |
|  | <p>prof. Katarzyna Kreczmańska-Gigol We see savings not only at the analytical level, but additionally we are advancing a program to optimise costs at the operational level, such as in the area of procurement policy (materials). On the other hand, as you noted in your question, the Group has recorded higher costs in terms of, generally speaking, adaptation of workplaces. I think that it will be easier for us at the start of next year to look at changing the structure of costs once the financial year has closed.</p> |
|  | <p>iqabo What is going on with the disputed concessions of Białoleka and Luboszyce? Is there any chance of buying back the concession from the company Zielona Góra Copper?</p> |
|  | <p>prof. Katarzyna Kreczmańska-Gigol Given the fact that this is an on-going legal process, we cannot comment on this question.</p> |
|  | <p>prof. Katarzyna Kreczmańska-Gigol Thank you to everyone who asked a question. I invite you to follow information about our Company and to contact us – https://kghm.com/en/investors</p> |

