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Investor chat with KGHM Polska Miedź S.A.

Link to chat (in Polish): <https://strefainwestorow.pl/artykuly/czaty-inwestorskie/20200519/wyniki-finansowe-kghm-wiceprezes-zarzadu>

The KGHM Group in Q1 2020: stable production, employee safety, available sources of financing as a liquidity reserve – transcript of the chat with the CFO

On Tuesday, 19 May 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 first quarter of 2020. Investors also posed questions about the dividend policy, the actions taken by the company in the struggle against the coronavirus, the situation in the Sierra Gorda mine and the minerals extraction tax. Over 800 people participated in the chat, during which the CFO answered nearly 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. Welcome to our chat, I am ready to take your questions.



Investor

Are you planning further diversification of your financing sources despite the current situation?



prof. Katarzyna Kreczmańska-Gigol

In accordance with our strategy we have changed our financing structure, basing it on long-term sources, and additionally have reached out to the capital market (bonds program). We took these actions long before the situation with the coronavirus impact. We have in fact already accomplished our most important plans in this regard. At the moment we are continuing to increase the significance of factoring, which we began to apply more intensively last year. This provides us with greater financial security and stability by reducing the need for additional borrowings.



Achim

If KGHM engages in the fight with the coronavirus, will it receive a specific tax relief? Another question, will KGHM request assistance from the anti-crisis shield, and will it also ask for a further reduction in the minerals extraction tax?



prof. Katarzyna Kreczmańska-Gigol

KGHM is engaged in the fight with the coronavirus, because "fighting the enemy" on distant ground is the best solution. In this way we are reducing the risk of a negative impact from the pandemic on our business. These are appropriate management actions. The issue of

the anti-crisis shield and our potential utilisation of it is not contingent on these actions. If the need arises, if KGHM begins to suffer from the pandemic, then we will make use of the shield. As regards the minerals extraction tax, its reduction last year by 15% made us quite satisfied. This was a watershed decision, which the Company had awaited for many years.

Wojciech

Hello, KGHM is one of the world's largest producers of silver. Can an individual investor buy silver directly from KGHM? What is the minimum order amount? Is KGHM considering creating a silver fund or something similar for investors?

prof. Katarzyna Kreczmańska-Gigol

In order to ensure stable sales and steady revenues, KGHM sells silver mainly to its business partners, based on long-term cooperation and annual contracts. At the present time KGHM does not produce smaller bars, for example of 1 kg, those which are most often sought after by investors around the world. It is worth noting that in Poland, physical sales of silver are subject to VAT. This means that silver products are not the best way to invest for individual customers. If investment silver were free from VAT, as in the case of investment gold, this would open the way for KGHM to offer silver to individual investors as well.

Wojciech

KGHM is the main owner of the company Interferie, which is listed on the Warsaw Stock Exchange. Given the closure of this company's hotels and the coronavirus epidemic, is there a risk of bankruptcy? What is KGHM's strategy for this company (there has been news in the press about the possible consolidation of the hotel-related companies belonging to State Treasury companies under the Polish Hotel Holding)?

prof. Katarzyna Kreczmańska-Gigol

The good news is that the situation has begun to improve. From Monday hotels will be allowed to re-open their operations, though taking into consideration the restrictions imposed by COVID. Our hope is that in the near future we will be able to say that the situation has returned to normal. We have the anti-crisis shield and diversified sources of financing, which means that we, as the Parent Company, are able to support the companies in our Group engaged in the hotel-spa sector during this difficult time. For many years we have been engaged in intensifying the development of our Group by pursuing a policy of optimising our assets, including the creation of the hotel-spa group Grupa PGU. At the present time we are analysing the impact of the situation on these companies. We will continue to aim at enhancing the value of these assets. By being part of our Group these companies enjoy a certain level of comfort, one which other hotels and spas do not have.



Lubinianin

Will the head office of KGHM be moved from Lubin to Warsaw or Wrocław?

prof. Katarzyna Kreczmańska-Gigol

There are no such plans. Companies which operate outside of the capital have a very positive impact on the development of their respective regions. This is a desirable effect. We have the results of research which shows the key role of KGHM in developing the region and the Lower Silesia voivodeship.

Gość



Hello, what's the situation in Sierra Gorda and what has been the impact of the pandemic on the mine?

prof. Katarzyna Kreczmańska-Gigol



At Sierra Gorda you are continuing to improve results from implementation of the Debottlenecking program. The results of this program may be seen in the production results and in the level of costs. Production of payable copper increased by 29% compared to Q1 2019, and it's just this kind of trend that we want to continue. In the case of production costs, the greatest impact comes from the lower level of production of molybdenum, but this was a planned trend, and despite this Sierra Gorda can claim a solid, low level of C1 cash costs – lower by 14% year on year and the lowest in the entire KGHM Group (1.15 USD/lb).



Gość

Will KGHM take advantage of any government support – financial shield etc.?



prof. Katarzyna Kreczmańska-Gigol

As I mentioned, the government's package of reliefs and suspensions for companies is a good, comprehensive program. If the current situation on the market is prolonged, and KGHM begins to feel an impact, then we will ask for help.



Adam

Have there been any shutdowns caused by the pandemic and if so, to what extent can they affect the results?



prof. Katarzyna Kreczmańska-Gigol

Up to now there have been no shutdowns in production. Our employees' safety is our priority, which is why we have implemented precautionary measures which, as can be seen, are working. The only challenge for us is the copper price, which we have to deal with.



Gość

Are you doing anything to reduce or eliminate the minerals extraction tax, which in Poland is probably the highest in the world?



prof. Katarzyna Kreczmańska-Gigol

In accordance with the law, KGHM complies with all of its tax liabilities. Including due to the minerals extraction tax. Any easing in the amount of such liabilities would have a positive impact on our business, as the mining-metallurgical sector is very capital intensive.



Gość

How do you assess the company's current market valuation, do you feel that it's close to the real value, or does it remain relatively undervalued?



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. It should be noted that our business has solid foundations and is a long-distance runner. In terms of the impact of the crisis on our valuation, we can

say that most listed companies on all of the world's markets have seen drops in their prices. This is a normal phenomenon.

Gość



Maybe now, when a lot of companies have announced a suspension of dividends, a question in this regard sounds strange, but here it is. Is the company sticking to its dividend policy and is there any chance at all for a return to payouts over the next few years?

prof. Katarzyna Kreczmańska-Gigol



The purpose of listed companies is to provide returns of invested capital to their investors. The AGM is approaching. Let's wait a bit for the Management Board's recommendation. The situation on the market is highly volatile. The later we provide a Board recommendation, the more assured I will be that it is a good one both for the Company and for Investors.

Gość



Is the Budget announced in January for this year still valid?

prof. Katarzyna Kreczmańska-Gigol



Yes, it is still valid. The only element which has been amended is the financing for Sierra Gorda, which needs support due to the copper price. We are monitoring the situation and we are able to react flexibly.

Gość



Hello, in reading about your investments abroad I'm not able to determine if they are bringing you the expected returns, real income. Could you please comment on this.

prof. Katarzyna Kreczmańska-Gigol



We have the results of good management decisions – lower mining and processing costs, and consequently lower cash costs in Sierra Gorda. In KGHMI this cost is, in fact, higher, but this was due to a draw-down in inventories and a revaluation of their value given the decrease in copper prices.

Gość



Could you please provide some insight into the exact costs incurred by the Company as a result of the actions taken to counteract COVID-19 and what part of these costs was aid provided to you?

prof. Katarzyna Kreczmańska-Gigol



KGHM purchased equipment needed in the fight with the effects of the pandemic for its own use, as well as at the request of the government. The financial impact in the first quarter of 2020 was immaterial from the point of view of the profit and loss statement.

Adam



Given the fact that in 2030 half of your energy needs are to be supplied by your own and renewable sources, how much energy at present, percentage wise, comes from these sources. What percentage will come from them by the end of this year?

prof. Katarzyna Kreczmańska-Gigol



At the moment we have two gas-steam blocks, which are able to provide us with around 20-25% of our needs for electricity. Pursuant to the Strategy, to achieve the goal you mentioned, the Company needs 10 years. We are therefore at the early stage of this process. Most likely within the next two years we will be in a position to share with the market some details regarding this process.



Gość

At what stage is the Victoria project?

prof. Katarzyna Kreczmańska-Gigol



In the first quarter of this year we continued to engage in exploration. Thanks to this we are getting a better comprehension of the deposit. Apart from this we are striving to maintain good relations with the key stakeholders in this project.



Gość

Last year the Company spent PLN 71 million on representation and marketing costs, which might be a record in the history of KGHM. Is KGHM planning to change its financial policy in this regard, will these costs be maintained at this level?

prof. Katarzyna Kreczmańska-Gigol



The higher amount was due to the decision to centralise these types of expenditures in the Group at the level of the Parent Entity. Thanks to this we are better able to advance the goals of the entire Group, and not only those of individual entities.

prof. Katarzyna Kreczmańska-Gigol



Thank you very much for your participation in our chat and for all of your questions. I warmly invite you to follow our Company's activities and to stay in contact with us at <https://kgm.com/en/investors>. Stay healthy.