



19 August 2022

### Investor chat with KGHM Polska Miedź S.A.







Link to the original chat (in Polish): <https://strefainwestorow.pl/artykuly/czaty-inwestorskie/20220819/wyniki-finansowe-kgm-polska-miedz>





On Friday, 19 August 2022 an investor chat was held with the Executive Director for Controlling, Mr. Paweł Oleksy and the Investor Relations Director, Mr. Janusz Krystosiak. During the chat we talked about the financial results for the first half of 2022. Investors also posed questions about the situation on the commodities market and SMR technology.










Over 450 people participated in the chat, and 15 questions were answered.










Please feel free to read through the chat.

Following is the transcript of the chat

	<p><b>Janusz Maruszewski</b> Hello and welcome to our investor chat. The meeting has already started, so we invite you to follow the discussion and ask questions!</p>
	<p><b>Janusz Krystosiak</b> Good morning, welcome to the chat. Before we start, I would like to apologize for a small organizational change and inform you that Mr. Andrzej Kensbok, Vice President of the Management Board of KGHM (Finance), cannot participate today in our chat due to other official duties. Please feel free to ask questions, which will be answered by the Executive Director for Controlling, Paweł Oleksy. Of course, it is impossible to replace our CFO, but we will try to maintain a high level :-)</p>
	<p><b>Kropka</b> What are the copper price forecasts in 2023, given the economic slowdown in China and around the world?</p>
	<p><b>Paweł Oleksy</b> Referring to the price forecasts, we can base on futures contracts, which should largely discount the aforementioned risks – i.e. economic slowdown in China. Our perspective on copper prices, which was also emphasized by President Chludziński at the results conference, remains unchanged. In the long term, we see potential for an increase in demand for copper, and thus also an upward trend in prices.</p>
	<p><b>Kropka</b> How will the increase in energy prices affect the cost of C1 in the nearest future?</p>
	<p><b>Paweł Oleksy</b> In terms of electricity prices, this year is largely secured, so fluctuations in electricity quotations will not significantly affect our costs (in relation to what we already see after H1 2022). If the "near future" - mentioned in the question - extends to the next year, then here we would have to refer to a specific price level for 2023, which we do not fully know as of today. We can agree that we should not expect prices to fall next year.</p>

	<p><b>Ignacy</b>          Good Morning, 1. The consolidated semi-annual report shows a significant increase in general and administrative expenses (significantly higher than the inflation reading). What were the components of these expenses and does the Company intend to face this problem in order to improve its competitiveness? 2. It seems that despite the 30% mineral tax reduction, the company <i>de facto</i> pays higher taxes than a year ago. Will the company strive for a permanent elimination of the Minerals Extraction Tax that appeared in the pre-election promises?</p>
	<p><b>Paweł Oleksy</b>          The increase in general and administrative expenses was influenced by 3 factors: valuation of general expenses at a higher USD/PLN exchange rate (the average rate in 2022 was 4.24 vs 3.77 in the previous half-year), higher payroll costs and the reclassification of some operating expenses of a subsidiary of KGHM INTERNATIONAL LTD. from COGS to general costs (following the auditor's recommendations).          Looking at the aspect of improving competitiveness, as the main factor mentioned above is a stronger dollar, the overall balance is significantly at our favour. Regarding the mineral extraction tax, we can say that we will always be ready to discuss the legal regulations regarding this tax, especially if the discussion could result in its reduction.</p>
	<p><b>Inwestor33</b>          Good morning! I would like to ask about the issues related to the Odra River. Press reports suggest that KGHM also contributes to the pollution of the river. Are you conducting any tests?</p>
	<p><b>Paweł Oleksy</b>          In accordance with our statement issued on this matter, I would like to announce that the current situation regarding the water issue in the Odra River is not caused by the extraction and production carried out by KGHM. We conduct our activities in compliance with our issued permits (these include those involving water usage rights), and the situation is continuously monitored by specialist teams, including the Regional Environmental Protection Inspectorate (Wojewódzki Inspektorat Ochrony Środowiska). The testing conducted by the governmental offices, as well as by the environmental specialists in KGHM, is performed on an on-going basis. The water usage rights permits specify, in great detail, the specific amounts, timeframes and contents of the water which may be discharged.          The discharge of water to the Odra, as the final stage in the production process of KGHM, occurs in the vicinity of the city of Głogów. In this case, it should be stressed that the contamination was discovered in the Odra in the vicinity of the town of Oława (which is located more than 100 km upstream from Głogów). It is therefore not physically possible that the discharge of water by KGHM flowed 100 km upstream, against the river's current.          KGHM tests the water in the Odra both prior to discharge as well as following discharge. Data on the discharges in July and August 2022 indicate clearly that there was already a substantially raised, though permissible level of water salinity in the Odra upstream from the site of discharge by KGHM, and that furthermore the water which is discharged by KGHM never has such an impact on the level of water salinity such that permissible levels would ever be exceeded. In practice this means that water discharges take into account the level of salinity as well as the strength of the current in the Odra. Thanks to its retention reservoirs, KGHM is able to regulate its discharges, with full respect for the natural environment.          KGHM Polska Miedź S.A. does not exceed any of the permissible levels of discharge specified in the permits held, as attested to by the reports and analyses of the relevant</p>

	<p>environmental services. In July 2022 the levels of water discharge were minimal – amounting to barely 12 percent of the levels of water discharged in July 2021. In August the levels discharged were likewise lower by nearly a half. Since 10th August 2022, KGHM has not conducted any discharges.</p>
	<p><b>Rafał Irzyński</b> Is the increase in net debt by PLN 0.8 bn on a q/q basis an incident, or will it be a constant trend in the light of falling copper prices?</p>
	<p><b>Paweł Oleksy</b> In the second quarter, there were large income tax payments for the previous year, which was reflected in an increase in the net debt ratio (through a decline in cash level). We did not incur any additional debt.</p>
	<p><b>Rafał Irzyński</b> What is the reason for the high sensitivity of the financial result of Sierra Gorda (the mine has recorded large fluctuations in the result compared to the result of KGHM Polska Miedź in the last few quarters)?</p>
	<p><b>Paweł Oleksy</b> Sierra Gorda's business model is largely based on the sale of concentrate to China, which is associated with properly agreed terms of sale (the so-called QP is sales with settlement M plus 3/M plus 4 months), while in KGHM Polska Miedź S.A. the contracting model is mainly based on M or M+1 settlements. Such a model affects the shape of the results generated by Sierra Gorda, where the downward trend in copper prices, through value adjustments (so-called mark-to-market), was visible throughout the entire second quarter (negatively contributing to the result). The fact of the planned, lower production for this year is also not without significance, due to the lower copper content in the currently exploited deposit.</p>
	<p><b>Rafał Irzyński</b> At the results conference, the Management highlighted a strong increase in the prices of materials for production (blasting materials, steel, etc.). Is there any increase in capital expenditure and if so what? If so, can CAPEX for this year increase?</p>
	<p><b>Paweł Oleksy</b> We are not planning to adjust the CAPEX budget, which according to today's forecasts should be executed in terms of value.</p>
	<p><b>Jan</b> When will the advance payment of profit for the first half of 2022 be disbursed to employees?</p>
	<p><b>Paweł Oleksy</b> We have 15 days to make an advance payment from the current year's profit from the announcement of the financial results for the first half of the year, so the relevant payments should be made by the end of August.</p>
	<p><b>Guest</b> What are the causes of large exchange rate differences?</p>

	<p><b>Paweł Oleksy</b> Mainly due to the impact of the strengthened dollar against the Polish zloty, which with our positive USD/PLN currency exposure results in a solid increase in exchange rate differences, with a positive impact on the financial result.</p>
	<p><b>Arek</b> What is the share of production with the hedged copper prices this and next year?</p>
	<p><b>Paweł Oleksy</b> As for the second half of this year, copper price hedges as at June 30 covered approximately one quarter of electrolytic copper production (79.5 thousand tonnes), and for 2023 - 99 thousand tonnes, so the percentage is at a similar level.</p>
	<p><b>Artur</b> Hello, what is the predictable profit for the whole year 2022?</p>
	<p><b>Paweł Oleksy</b> We do not publish forecasts of financial results, therefore I cannot address this question.</p>
	<p><b>Bernard</b> Is there a chance to reduce personnel costs in the next 2-3 years - e.g. through greater automation? - and the second question is whether the company is able to become independent of the increase in "energy" prices also in a 2-3 years perspective. Does the company secure such costs?</p>
	<p><b>Paweł Oleksy</b> KGHM Polska Miedź S.A. constantly invests in modern technologies related with the automation of production lines of KGHM's Mining Divisions aimed at both increasing employee safety and reducing costs; in the first half of 2022, this work included:</p> <ul style="list-style-type: none"> <li>- continued work related to the electromobility of mining machinery. Work continued connected with testing electric battery-powered mining machinery.</li> <li>- The anti-collision system was integrated as well as the system for locating and identifying machinery and people in the underground mines.</li> <li>- Robotisation of production and auxiliary processes was continued. Work is underway on building a CuXRF robot to scan for copper content at the working faces.</li> <li>- The acquisition of equipment and elements of the dewatering monitoring system, which was built and brought into operation at the Polkowice-Sieroszowice mine with visualisation in the dispatcher's office, was completed.</li> <li>- An Energy Review for 2021 was conducted under the Energy Management System.</li> </ul> <p>When it comes to electricity, as I have already mentioned, this year is largely secured, while the next 2-3 years are the subject of analyses carried out by the newly appointed Team for Electricity and Natural Gas Purchases with the support of the Risk Management Department, which analyses the current trends. Unfortunately, in such a short time horizon, it is not possible to be fully independent of price increases, but in the long term we are making efforts to alter the structure of electricity supply with the target model of satisfying our needs with 50% of energy self-production.</p>
	<p><b>Guest</b> What will be the sources of financing for SMR technology projects?</p>
	<p><b>Paweł Oleksy</b> We are analysing assorted variants and models of financing in order to identify the optimum one with the lowest overall cost of capital.</p>

	<p><b>Guest</b> What will be the expected capital expenditures on SMR technology projects?</p>
	<p><b>Paweł Oleksy</b> As of today, we are not able to precisely answer this question because various price and cost scenarios are being analysed. We can only talk about the potential cost, which is currently valued on the market at a level of around USD 1.5-2.0 billion.</p>
	<p><b>Guest</b> What are the most important one-off events in 1H2022?</p>
	<p><b>Paweł Oleksy</b> We can consider the sale of the subsidiaries Interferie and the Franke Mine as one-off events in the first half of the year.</p>
	<p><b>Paweł Oleksy</b> Thank you very much for participating in the chat and for all questions asked.</p>
	<p><b>Janusz Maruszewski</b> We would like to thank everyone for participating in the chat and for the questions asked, and to our guests for answering. Cheers and have a nice afternoon!</p>
	<p><b>Janusz Krystosiak</b> Thank you very much and I invite you to follow the Company's information and contact us – <a href="https://kgm.com/en/investors">https://kgm.com/en/investors</a></p>