

Southern Copper Corp (4Q21 Earnings)

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Corporate Speakers:

- Raul Jacob; Southern Copper Corporation; VP Finance, Treasurer, and CFO

Participants:

- Carlos De Alba; Morgan Stanley; Analyst
- Jonathan Brandt; HSBC Global Banking and Markets; Analyst
- Timna Tanners; Wolfe Research; Analyst
- Alfonso Salazar; Scotiabank; Analyst
- Thiago Lofiego; Bradesco BBI; Analyst
- Grant Sporre; Bloomberg Intelligence; Analyst
- Alex Hacking; Citi; Analyst
- Regina Carrillo; GBM Grupo Bursátil Mexicano; Analyst

PRESENTATION

Operator: Good morning, and welcome to Southern Copper Corporation's fourth quarter 2021 results conference call. With us this morning, we have Southern Copper Corporation, Mr. Raul Jacob, Vice President, Finance, Treasurer, and CFO, who will discuss the results of the Company for the fourth quarter 2021 as well as answer any questions that you might have.

The information discussed on today's call may include forward-looking statements regarding the Company's results and prospectus, which are subject to risks and uncertainties. Actual results may differ materially, and the Company cautions to not place undue reliance on these forward-looking statements. Southern Copper Corporation takes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, further future events, or otherwise. All results are expressed in full US GAAP.

Now I will pass the call over to Mr. Raul Jacob.

Raul Jacob: Thank you very much, Jonathan, and good morning to everyone, and welcome to Southern Copper's fourth quarter of 2021 and full year results conference call. At today's conference, I'm accompanied by Mr. Oscar Gonzalez Rocha, Southern Copper's CEO and Board Member. Before we go of the details of the past quarter and year, let me first express my best wishes for you and your loved ones during these trying times.

In today's call, we will begin with an update on our view of the copper market. We will then review Southern Copper's key results related to production, sales, operating costs, financial results, expansion projects, and ESG. After this, we will open up the forum for questions.

Let me first begin this report by stressing that even though we had a still difficult year due to the pandemic, Southern Copper hit new records in 2021 for sales, adjusted EBITDA, net income, and cash from operations. These results clearly reflect the significant efforts our Corporation has made in the last decade to double our copper production capacity to 1 million tons while maintaining our cost control measures. The positive environment we see for copper prices and our strong pipeline of high-potential projects make us optimistic about our Company's capacity to deliver attractive results to our shareholders in coming years.

Now let us focus on the copper market, the core of our business. In the fourth quarter of last year, the London Metal Exchange copper price increased from an average of \$3.25 per pound in the fourth quarter of 2020 to \$4.40, that is a 35% increase. Currently, we're seeing prices in the range of \$4.40 to \$4.50, which remains higher than the 2021 average of \$4.23 per pound. And this bodes a positive outlook for the Company.

We believe the following factors are influencing the market: we are assuming a growth in demand of 3% for 2022, particularly in terms of cathode consumption in the US and Europe; an economic slowdown is expected in China, with growth estimated by the World Bank at 5.1%. This is due to its real estate troubles and the impact of the Omicron variant. Even though we have this important growth in demand, the most relevant market intelligent houses for the copper markets are expecting a market balance for this year, for 2022.

Another factor that's affecting significantly the market is the uncertainty regarding future production growth in Chile and Peru, which together, represent about 40% of the global supply.

And the third or fourth reason to keep in mind when looking at the copper market is that the combined inventories of the London Metal Exchange, the COMEX, the Shanghai, and bonded warehouses remain at very low levels. The combined sum of these inventories fell from 569,000 tons in September of last year to 369,000 tons at the end of last year; this is a 35% reduction. This is an unusually low inventory that represents about one week of consumption.

Now let's look at Southern Copper's production for the past quarter and the year 2021. Copper represented 80% of our sales in the fourth quarter of 2021. Copper production registered a decrease of 8.5% compared to the fourth quarter of 2020 and reached 237,542 tons in the past quarter. This was attributable to a temporary reduction in production, mainly at the Toquepala and Caridad mines due to lower ore grades and recovery.

For the full year 2021, production totaled 958,200 tons, a reduction of 4.3%. This mark, however, surpassed our annual plan of 943,000 tons by 1.6%. With the exception of the Cujajone operation, where production levels were similar to those registered in 2020, a

decrease in yearly copper production was reported by the remaining operating units due to temporary lower ore grades and recovery.

Let me mention that for the years 2021 and 2022, our optimized mining plan for the Buenavista and Toquepala operations, in particular, directed mining efforts to areas where ore grades and recoveries are lower than long-term averages. In this scenario, we expect to produce this year 922,000 tons of copper. After this year, we believe our 2023 production will bounce back to 1 million tons of copper. By the end of this decade, as our organic growth projects mature, we expect to hit the 1.8 million ton copper production mark.

We're confident that our Company will keep generating value for our shareholders through our organic growth base. In the meantime, we will be open to other possibilities to enhance value creation for our shareholders.

For molybdenum, this metal represented 10.9% of the Company sales value in the fourth quarter of last year and is currently our first by-product. Molybdenum prices averaged \$18.53 per pound in the quarter, compared to \$8.93 in the fourth quarter of 2020. This represents -- well, it doubled its price, but it's a 107% increase in price.

Molybdenum production increased by 5.6% in the fourth quarter of last year, which was mainly driven by an increase in production at both the Toquepala and Buenavista mines due to higher ore grades. These results were partially offset by lower production of molybdenum at La Caridad and Cuajone.

In 2021, we produced 30,262 tons of molybdenum, which was slightly higher than the figure of 2020. This was mainly due to a 6.2% increase in production at the Toquepala mine, which was offset by decreases in production at our Mexican operations. For this year, 2022, we expect to produce 25,100 tons of molybdenum.

For silver, it represented 3.9% of our sales value in the fourth quarter with an average price of \$23.36 per ounce in the quarter, a decrease of 4.7% from the fourth quarter of 2020. Silver is currently our second by-product.

Mined silver production decreased by 16.3% in the fourth quarter of 2021 after production fell at IMMSA, Toquepala, and Buenavista. This was partially offset by an increase in production at the Cuajone mine. Refined silver production decreased 3.8% in the fourth quarter of last year, mainly due to a decrease in production at our IMMSA refinery.

In 2021, we produced 19 million ounces of silver, a decrease of 12% in production from 2020. This was mainly due to a drop in production at IMMSA, Toquepala, and Buenavista, partially offset by an increase in production at the Cuajone mine. Refined silver production decreased by 1.4% in 2021. In 2022, we expect to produce 19 million ounces of silver.

Zinc, it represented 2.6% of our sales value in the fourth quarter of last year, with an average price of \$1.53 per pound in the quarter. This is a 28.6% increase from the fourth quarter of 2020. Zinc mine production decreased 1.6% quarter on quarter and totaled 16,487 tons. This was primarily driven by lower production at our Santa Barbara mine, which was partially offset by an increase in production at the San Martin operation.

Refined zinc production decreased by 20.7% in the fourth quarter of last year due to a scheduled general maintenance at the zinc refinery in Mexico. In 2021, we produced 66,958 tons of zinc, a decrease of 2.9% compared to 2020. That was mainly driven by a drop in production at the Santa Barbara operation. This was partially offset by increases in production at the San Martin and Charcas mines.

Refined zinc production decreased by 9.5% in 2021 compared to 2020 for the reasons that I mentioned before, the maintenance that we had at the refinery of IMMSA. For this year, 2022, we expect to produce 71,200 tons of zinc. This is a 6.3% increase in production when compared to last year.

Financial results, 2021 marked another important year in Southern Copper's history. This year, net sales, net income, adjusted EBITDA, and cash from operations hit record highs. Net sales hit a record high of \$10,934 million, which represented an increase of 36.9% over the figure reported in 2020. This growth was mainly driven by higher market prices for all our main products. Metal prices increased for copper, molybdenum, zinc, and silver.

The copper sales volume decreased 11% for the year due to a drop in sales of copper supply from third parties and shipment delays. The latter was attributable to the COVID-19 pandemic.

For the fourth quarter of 2021, sales were \$2.8 billion. This is \$473 million higher than the sales for the fourth quarter of 2020. Copper sales volume decreased by 11.1%, while value increased by 16.8% in a scenario of better prices.

Regarding our main by-products, we registered higher sales of molybdenum due to better prices and higher volume, lower sales for silver due to lower prices, and a drop in volume. Zinc sales remain unchanged with better prices offsetting a decrease in volume.

Our total operating cost and expenses increased by \$8.8 million when compared to the fourth quarter of 2020. That is the fourth quarter of last year with a similar period of 2020. The main cost increments has been diesel and fuel, labor, operating materials and supply, operations contractors, and leachable material. These cost increases were partially offset by decreases in inventory consumption, workers' participation, and purchased copper.

For the full year, our total operating cost and expenses increased by \$4.8 million or 0.1%, that is negligible, when compared to 2020. The main cost increments were in diesel and fuel, operating and repair materials and supplies, energy, labor, operations contractors

and services, and other factors. These cost increases were partially compensated by lower purchased copper, inventory consumption, and higher capitalized leachable material during the year.

Adjusted EBITDA in 2021 also hit a historic high of \$6,852 million. This is 77.1% above the figure in 2020. The adjusted EBITDA margin in 2021 was 62.7% versus 48.5% in 2020.

The fourth quarter adjusted EBITDA was \$1,726 million, which represented an increase of 37.7% with regard to the \$1,254 million registered in the fourth quarter of 2020. The adjusted EBITDA margin in the last quarter was 61% versus 53% in the same period of 2020.

Cash costs, operating cash cost per pound of copper before by-product credits was \$1.84 per pound in the fourth quarter of 2021. This is \$0.22 higher than the value for the third quarter of 2021. The 13.5% increase in the operating cash cost is the resulting of higher cost per pound from production, treatment and refining, administrative, and lower premiums.

Southern Copper operating cash cost, including the benefit of by-product credits, was \$0.762 per pound in the fourth quarter. This cash cost was \$0.18 higher than the cash cost of \$0.581 in the third quarter of last year.

Regarding by-products, we had a total credit of \$539.4 million or \$1.08 per pound in the fourth quarter of 2021. These figures represent a 3.6% increase compared to the credit of \$543 million or \$1.04 per pound reported in the third quarter of last year. Total credits have increased for molybdenum, silver, sulfuric acid but decreased for zinc.

2021 net income was \$3,387.1 million. This is 116% higher than the net income we have in 2020. This significant improvement also represented historic high for net income, which were driven by an increase in sales and by our strict cost control measures, which allow us to absorb last year's increases in fuel, power, and other operating costs. Net income in the fourth quarter was \$833 million, which represented a 41% increase with regard to the \$590 million registered in the fourth quarter of 2020. The net income margin in the past quarter was 29.5% versus 25.1% in the fourth quarter of 2020.

Cash flow from operating activities in 2021 was \$4,292.4 million. This marked another historic high and represented an increase of 54% over the \$2,763 million post in 2020. This improvement was attributable to a strong cash generation at our operations, which was driven by an uptick in metal prices and in cost control efficiencies.

Switching gears to capital investments, Southern Copper's investment philosophy is not based on the outlook for copper prices, but on the quality of the assets that we operate and develop. Throughout the years, our strong financial discipline has consistently allowed us to make ongoing investments in our considerable asset portfolio. In 2021, we

spent \$892 million on capital investments, which reflected a 50.7% increase year on year and represented 26.3% of net income in 2021.

Regarding our Peruvian projects, our current portfolio for approved projects in Peru totaled \$2.8 billion. Of those, \$1.6 billion has been already invested. If we include the up and coming Michiquillay \$2.5 billion and Los Chancas \$2.6 billion projects, our total investment program in Peru reflects a commitment of \$7.9 billion. For the Tia Maria project in the Arequipa region of Peru, Southern Copper has been consistently working to promote the welfare of the population of Islay province.

As part of these efforts, we have implemented successful social programs in education, healthcare, and productive development to improve the quality of life in the region. We have also promoted agricultural and livestock activities in the Tambo Valley and supported growth in manufacturing, fishing, and tourism in Islay.

On January 7, 2021, the Mayor of the Islay province in Arequipa awarded a City Diploma to SPCC, Southern Copper's subsidiary in Peru, in recognition of the Company's efforts to assist the population of Islay during the COVID-19 pandemic. Notably, Southern also provided a portable oxygen plant to a local hospital and financed a COVID monitoring unit that aid more than 7,000 people in 2021.

This year, Southern fortified its relationship with the regional government and successfully overcome its opposition to project initiation. This new consensus was reflected in an agreement for works for taxes for projects relative to health facilities and roads. Our efforts to ensure the current and long-term welfare of the population in the area of influence of the Tia Maria project were recognized by several local associations, which sent letters to the national government to request project initiation.

In July of last year, the Ministry of Energy and Mines sent a missive to Southern Copper, recognizing its progress in securing social acceptance of the Tia Maria project. We reiterate our view that the initiation of construction activities at Tia Maria will generate significant economic opportunities for the Islay province and the Arequipa region.

Given the current Peruvian economic situation, it is crucial to move ahead on projects that will stimulate a sustainable growth cycle. We will make it a priority to hire local labor to fill the 9,000 jobs that we expect to generate during Tia Maria's construction.

When operating, we expect Tia Maria to directly employ 600 workers and indirectly provide jobs for another 4,200. Additionally, from day one of our operations, we will generate significant contributions to revenue in the Arequipa region via royalties and taxes.

We expect the Peruvian government to continue to acknowledge the significant progress the project has made on the social front, and the important contributions that Tia Maria will generate for Peru's economy, and consequently, take the necessary steps to provide SCC with adequate support to initiate construction.

Los Chancas in Apurimac is a greenfield project in another region of Peru that is a copper and molybdenum porphyry deposit. Current estimates indicate the presence of 545 million tons of mineralized material with a copper content of 0.59%, a molybdenum content of 0.04%, and golds of 0.03 grams per ton, almost 0.04 grams per ton of gold, as well as 181 million tons of mineralized leachable material with a total copper content of 0.357.

Los Chancas project envisions an open-pit mine with a combined operation of concentrator and SX-EW processes to produce 130,000 tons of copper and 7,500 tons of molybdenum annually. The estimated capital investment is \$2.6 billion and the project is expected to begin operating in 2027. In 2021, we continued to engage in social and environmental improvements for the local communities and worked on the project's environmental impact assessment.

For the Michiquillay project in Cajamarca, in June 2018, Southern Copper signed a contract for the acquisition of the Michiquillay project in Cajamarca in Peru. The Company has created a multidisciplinary management team to plan the development of this project. As part of this plan, the Company has established venues of contact with the local and regional authorities and communities to promote programs for sustainable development in the area.

In 2021, the Company signed a Social Agreement with the Michiquillay and the Encañada communities. And on October 1 of last year, the Peruvian Ministry of Energy and Mines approved the semi-detailed Environmental Impact Study for the project.

The Social Agreements with the Michiquillay and the Encañada communities represent an opportunity to improve the quality of life of area residents via our strong social programs and backed by a solid framework for technical work at the project level. These events are important steps that will allow Southern Copper to initiate an in-depth exploration program in the first quarter of this year.

Michiquillay is a world-class mining project. Its estimated mineralized material stands at 1,150 million tons with an estimated copper grade of 0.63%. It's 1,150 million tons with a copper grade of 0.63%. When developed, we expect Michiquillay to produce 225,000 tons of copper per year along with by-products of molybdenum, gold, and silver.

The initial mine life is estimated at 25 years at a very competitive cash cost. We estimate an investment of approximately \$2.5 billion in Michiquillay and expect production to start by 2028. Michiquillay will become one of Peru's largest copper mines and will create significant business opportunities in the Cajamarca region, generate new jobs for the local communities, and contribute with taxes and royalties to the local, regional, and national governments.

For our projects in Mexico, we have the Buenavista zinc plant in Sonora. This project is located between the Buenavista facility and includes the development of a new

concentrator to produce approximately 100,000 tons of zinc and 20,000 tons of copper per year. We have completed the engineering study.

In order to continue with the project, stronger preventive measures to combat COVID-19 has been put in place. Procurement has progressed 96%, and all the main equipment is on-site. Construction site works are in progress. The project has all the necessary permits, and the capital budget is \$413 million.

As of December 31 of last year, we had invested \$217 million in this project. We expect to initiate operations in 2023.

When completed, this new facility will double the Company's zinc production capacity and provide 490 direct jobs and about 1,500 indirect jobs.

Located six kilometers from the La Caridad operation, we have another very important project, which is the Pilares operation, the Pilares mine in Sonora. This project consists of an open-pit mine operation with an annual production capacity of 35,000 tons of copper in concentrate. A new 25-meter-wide off-road facility for mining trucks has been built and will be used to transport the ore from the pit to the primary crushers at the La Caridad copper concentrator.

The project will significantly improve the overall mineral ore grade by combining the 0.78% expected ore grade from Pilares with the 0.31% from La Caridad. The budget for Pilares is \$159 million, of which we have invested \$75.9 million. We expect the project to begin production in the second half of this year.

El Pilar in Sonora, this is a low capital intensity copper greenfield project, which is strategically located in Sonora in Mexico, approximately 45 kilometers from our Buenavista mine. Its copper oxide mineralization contains estimated proven and probable reserves of 281 million tons of ore with an average copper grade of 0.30%. Let me comment that these ore grades for leachable material are excellent rates. It's different than the regular concentrator kind of sulfur mineral. In this case, an ore grade over 0.10% is good for processing at the SX-EW plant.

We anticipate that El Pilar will operate as a conventional open-pit mine with an annual production capacity, 36,000 tons of copper cathodes. This operation will use highly cost-efficient and environmentally friendly SX-EW technology.

The budget for El Pilar is \$310 million. We expect production to begin in 2024, and the mine life is estimated at 13 years. The results from experimental pads in the leaching process have confirmed adequate levels of copper recovery. The basic engineering study has been completed, and the Company continues to conduct environmental assessments at the site.

For El Arco in Baja, California, this is another world-class copper deposit of the Company located in the central part of the Baja, California Peninsula with sulfur ore

reserve of over 2.4 billion tons with an ore grade of 0.42%. 0.3 billion tons of leach material with an ore grade of 0.29% and 0.11 grams of gold per ton. The project includes an open-pit mine combining concentrator and SX-EW operations.

Annual growth -- annual production is expected to total 190,000 tons of copper and 105,000 ounces of gold with an estimated capital budget of \$2.9 billion. The Company has completed the baseline study and is reviewing the basic engineering analysis to request the environmental impact permit. Several years back, we began to acquire the rights to all relevant mining concessions in the area. This process was completed in 2020.

Finally, we are considering and including, as part of this report, the Lime plant that the Company is building in Sonora. This is a project that is part of our cost improvement plans. We're building a new lime plant with a production capacity of 600 metric tons per day, which will be the largest lime plant of Mexico. This facility will allow us to reduce our current lime cost by 50% of our Mexican operations. The total budget for the plant is \$63 million, of which we have spent \$43 million so far. We expected this project to initiate operations in the third quarter of 2022.

Going into environmental, social, and governance investments, Southern Copper is committed to improving its ESG record by adopting best practices and informing investment community and other stakeholders about our progress in these matters.

Southern Copper Corporation's rating increased by 22% in the 2021 Corporate Sustainability Assessment of S&P Global. This rating, which reflects a continuous upward trend, earned us a place in the Dow Jones Sustainability Index for the third consecutive year. Our performance was 22% better than in 2020, and situated 79% above the average registered by mining and metal industry.

This result was thanks to the good ratings we obtained for business ethics, labor relations, community development, environmental, social reporting, human rights, water management, and climate change, among others.

Additionally, Southern Copper Corporation is part of Copper Mark, a voluntary assurance framework that promotes responsible production practices in the copper industry that contribute to the UN Sustainable Development Goals.

The La Caridad open-pit mine and the Sonora Metallurgical Complex smelter and refinery has been the first to meet this commitment. Our objective is to assure clients, investors, communities, and other stakeholders that the copper produced in all the Company's units will fulfill Copper Mark's strict criteria, these are 32 in total, for environmental, social, and governance aspects. Fulfillment must be verified by an independent audit.

Responsible production is an essential part of our sustainable development strategy, which is comprised of specific goals and objectives in areas such as water management, climate change, mining waste, human talent, occupational safety and health, labor

relations, community development, among others. Our sustainable development policies can be found on the Grupo Mexico's website.

In the context of the agreement signed by Southern Copper Corporation and the Ministry of Health of Peru, more than 1 million doses of COVID-19 vaccines were applied in five regions of Peru. I'm going to mention them: Apurimac, Arequipa, Cajamarca, Moquegua, and Tacna. In these regions, we have operations or projects. By hitting the 1 million mark, we surpassed our initial goal of administering 850,000 doses, and reached 48% of the target population.

Minera México has invested approximately \$600,000 to purchase and operate a molecular laboratory for PCR tests in the community of Cananea in Sonora. This facility is offering testing to members of the community and beneficiaries of the federal public health system.

Federal sanitary authorities is currently using the Company facilities as vaccination sites, where Minera México's personnel are providing medical support, food, and technical assistance to register vaccination in the official portal of the Mexican federal government.

Dividend announcement, regarding dividends, as you know, it is the Company policy to review our cash position, expected cash flow generation from operations, capital investment plans, and other financial needs in each Board meeting to determine the appropriate quarterly dividend.

Accordingly, as announced to the market on January 27, the Board of Directors authorized a cash dividend of \$1 per share of common stock, payable on March 2 to shareholders of record at the close of business on February 15 of this year.

Ladies and gentlemen, with these comments, we would like to end our presentation today. Thank you very much for joining us, and we would like to open up the forum for questions now.

QUESTIONS AND ANSWERS

Operator: (Operator Instructions) Carlos De Alba, Morgan Stanley.

Carlos De Alba: Yeah. Thank you very much, Raul and team. First question is if you can comment about the expected cash costs before by-products for this year and maybe next year. Clearly, a lot of pressures across all industries, and the mining sector has not been isolated from this. So that will be quite important. Any views on CapEx as well, Raul, for the following year?

And then on the target, I think, if I heard correctly, it's around 1.8 million tons of production in a few years later in this decade. What projects are you including in there? And what confidence do you guys have that you can develop all of them almost simultaneously, given the challenges that we're seeing in Peru and also the significant

efforts that you need to put on El Arco in order to ----*unintelligible*---- to be up and running?

Raul Jacob: Thank you for your questions, Carlos. On cash cost, well, for this year, we're expecting cash cost in the range of \$0.80, \$0.85. Before by-products, we're having about \$1.85, and then the difference is coming from the by-product credits to reach about \$0.85.

For CapEx, basically, we are considering -- well, as you know, we are already constructing three projects in Mexico: the Buenavista zinc concentrator, Pilares, and El Pilar. Pilares is about to initiate production this year, in any minute; we are getting the permits already to begin with the mining works and after that, we'll initiate the delivery of mineral to the concentrator of the La Caridad that will process this higher ore grade mineral and get an additional production from that.

The Buenavista zinc facility, it's also in construction right now, and that is providing about 27,000 tons of copper in the next few years. We're more conservative -- on a more conservative pace. We put 20,000 tons in general production, but the initial production will be for copper higher than that, about 27,000 tons, as I said. And then you have, obviously, the zinc, which is the main reason for this facility that will be at 100,000 tons long term, about 120,000 tons in the first years of production.

El Pilar will initiate production in 2024. We are expecting it to be at 36,000 tons of production for the next few years. That's for the Mexican projects.

In Peru, we have the three projects that we're assuming that will be up and running by the end of this decade -- or, let's say, by 2029, we're assuming that we will have Tia Maria giving 123,000 tons for the Company, Los Chancas 120,000 tons, and Michiquillay 234,000 tons.

Let me mention that I skipped El Arco, which will initiate production in our plants by 2028 and contribute with 200,000 tons in 2029. So you have the projects that are being constructed now in Mexico, the three that I mentioned: the Buenavista zinc, El Pilar, and Pilares; and the other four projects that the Company have: El Arco 200,000 tons, and Tia Maria, Los Chancas, and Michiquillay, providing the difference to get to 1.8 million tons in 2029. And your third question, it's --

Carlos De Alba: The total CapEx for this year. The total CapEx, maybe I missed that.

Raul Jacob: Yes. Sure, sure. I forgot to mention that. Thank you, Carlos. For this year, we're expecting \$1.5 billion in CapEx, pretty much the same next year, \$2.9 billion for 2024, \$3.1 billion in 2025, and \$4.4 billion in 2026. That's our current forecast.

Carlos De Alba: All right. Thank you very much, Raul.

Raul Jacob: You're welcome. (multiple speakers) Let me comment on that because we're including in these, two smelters that are not mentioned in general in our projects because

they are still -- I mean, it's in our forecast, but they don't have a go from our Board, and they cost about \$2.2 billion together. So two smelters have this cost of \$2.2 billion. Other than that, the projects that I mentioned are the ones that are being considered.

Operator: Jonathan Brandt, HSBC.

Jonathan Brandt: So in your opening comments, you made some comments about the supply issues in Peru and Chile. And so I guess I'm wondering, are you seeing any projects being canceled or postponed given the political situation in Peru? I mean, it certainly doesn't seem like you are slowing down your investment plans. So I'm hoping you could comment a little bit about that, with what the latest is with the political situation in Peru.

And sort of related to that, what gives you the confidence that with some of your other Peruvian projects, such as Michiquillay, we won't see the same issues that we're seeing with Tia Maria? If you could comment just a little bit on what the difference is between Tia Maria and some of your other projects that you have there.

And my second question is just related to logistics and supply chain issues that we're seeing globally. Is that a concern for you? Is there any issues with your supply chains, either coming into Peru or out, or if there's any impact that you're seeing?

Raul Jacob: Okay. Let me start by the second one. We are not seeing any significant matter regarding supply chain issues. Our vendors are basically providing all the material that we ask for, so we're okay.

Let me remind that for our Peruvian operations we operate, we own and operate our own port. We have a railroad line that connects all our facilities. So generally speaking, we're confident on that network that we have.

For the Mexican operations, we are not seeing any difficulties. As you know, a significant portion of our movement is done by a related company, Ferromex, and we have, generally speaking, no significant problems to report on this on supply chain.

Now, regarding projects being canceled or postponed, there has been some projects older than the ones that we have in some other companies, in other words, that has been put on hold or postponed by other companies that you can -- I mean, if you do the research, you will very quickly find who they are and why.

In our case, in particular, we are not doing that; we are moving forward with our projects. As I report, for Los Chancas, we're working on the environmental impact assessment. Currently, the two communities that we have over there in Apurimac are okay with the project. By the way, the governor of Apurimac is pro-mining, which is a very helpful influence in this case.

And in the case of Michiquillay, well, I report that we already signed -- in the third and the fourth quarter, we signed the Social Agreements that were mandated by our contract with the government. We signed these contracts. We are already initiating several projects for community development with the two communities. We will be initiating our drilling program, our exploration drilling program, for Michiquillay this year, and we have -- actually, we're very positive how things are evolving in this case.

Let me mention that the Peruvian President was, a little bit more than a month ago, in the area, and he had 12 tractors for agricultural purposes to the communities, the Company, Southern Copper, financed partially with the government program, these tractors. So we don't see any major problems in the case of Michiquillay. And as I say, it's a very good project. 0.63% ore grade is not as common nowadays in our industry.

And in the case of Tia Maria, we are seeing -- I mean, a few years ago, we did a review on the total strategy that the Company has been following in all the projects that we have, not only in Peru but also in Mexico and some other countries where we have exploration activities. And as a consequence of that, we introduced some changes that has been very helpful in creating a good environment for project development.

We're playing the same strategy in Tia Maria. And as a consequence, we're seeing positive results as the ones that I reported, which is that the governor of Arequipa, which was an opposition person to the project, now is supporting it, and so on with the local authorities. The regional Mayor of Islay is also working with the Company in several programs. So we're seeing this with confidence that we will be able to unlock the problems that this project has.

At the end of the past administration in Peru, the Minister of Energy and Mines, as I said, sent our Company a letter indicating and giving faith of the progress that the Company has done in the social front for the Tia Maria project. I think that that's a very positive development as well as what we're seeing in terms of social work.

And let me add that COVID, even though it's a certainly unfortunate situation for our countries -- I mean, for the whole world, has provided us the opportunity to show that the Company really does care for the communities that are in the areas of influence of our projects. And I believe that that is also helping the Company to be much more recognized, generally speaking, in Peru.

Jonathan Brandt: Okay. Perfect. So maybe a follow-up on Tia Maria. Would your expectations be that construction starts at some point this year? Or is it still too uncertain in fact?

Raul Jacob: We will see. Let me say something, let me add something. Yesterday, we had a new Prime Minister in Peru. And as a consequence of overhaul at the Cabinet, we also have a new Energy and Mines Minister. This person, who is a lady, is key for the project to initiate construction in the short term. So we'll see what's her view on this

matter. And hopefully, we can concur and find a way to unlock the current situation for Tia Maria.

Operator: Timna Tanners, Wolfe Research.

Timna Tanners: Raul, I wanted to ask particularly, I know you've just talked about Peru in detail on Tia Maria and other projects. But, in particular, on the potential for higher royalties, if you could address that issue? And then my second question is just to the extent that you could comment on this high-quality problem, you have a very high cash on the balance sheet. And obviously, dividends will be big and the CapEx is lighter than you had said in the past going for the next several years. So any updated thoughts on using that cash or the attractiveness of M&A in particular?

Raul Jacob: Sure. Thank you for your question, Timna. Okay. Royalties, higher royalties, well, it used to be a part of the agenda of the Finance Minister that was removed yesterday. So we have a new person in the Ministry of Economy and Finance of Peru; we'll see what he's thinking about this.

But just for the information of all the audience, royalties and taxes has to be approved by Congress. Congress denied, with a very high majority, giving the government special legislative capabilities for changing these royalties and other mining taxes.

My personal view is that this is not a matter for the new Finance Minister, but we have to see what he's considering and thinking about this. That's my personal take on the royalties.

In terms of the use of excess cash, well, the usual, the Company will approve dividends where the Board decided to hold the \$1 dividend that we pay on the fourth quarter of last year. And this year, we will be paying the same dollar per share.

With that, given the current price of our share, it's a little bit more than 6.5% as dividend yield. I think it's an attractive compensation to shareholders. And the excess cash will -- the Company, as I mentioned in some part of my report, we are always open to review any opportunities that may arise. The responsible thing from us as management is looking into these matters, make a recommendation, and it's up to the Board to make a decision if we want to go into some acquisition of an asset or a merger, etc. For now, we have nothing specific in our pipeline on that regard, Timna.

Timna Tanners: Can you characterize any types of initiatives that would be of interest? So you're expanding into smelters, a lot of greenfield opportunities, but are there other regions or other opportunities that you can give us a flavor of?

Raul Jacob: Sure. Generally speaking, we would like to maintain the characteristics of the Company, being low cost, operates at Americas or some locations where we feel that mining is welcomed, and we have a good opportunity of developing our business

correctly. So I would say that those are the -- and we are focusing mainly on copper at this point.

So two things: maintaining the cost competitiveness of the Company, operating in areas where we believe mining is welcomed, and cash cost. And obviously, the size is also relevant. I mean, it has to be something that adds to the volume of the Company in a relevant way.

Operator: Alfonso Salazar, Scotiabank.

Alfonso Salazar: Hi Raul, I want to go back to Carlos' question about the 1.8 million ton production capacity by the end of the decade and focus not in the new projects, but in the expected decline of ore grades or lower production at operating mines. So because this is a problem which has driven the outlook for copper, the fact that we are facing mine depletion and aging mines. What do you include in your estimates for the end of this decade in terms of production at La Caridad, Cuajone, Toquepala, and Buenavista? What are the expectations in terms of ore grade by the end of the decade?

Raul Jacob: Okay. Thank you for your question, Alfonso. I think it will be very helpful for what I want to explain now. For Toquepala, for instance, that have had a low ore grade last year -- a lower ore grade last year, and it's having gained slightly lower ore grade given it's long-term one, what we're doing now this year -- last year, we did a catch-up on certain works that were postponed because of the COVID pandemic. We already are finishing the catching up on that now as we speak. And also, we are opening up a new phase of the mine, Phase No. 9, which requires us to go into areas of the pit where ore grades are relatively low. And this is like one year and so of matter.

So we're expecting, for instance, for Toquepala this year to have a reduction in production. But then in 2023 and on, it will basically recover its production levels. So it's a matter of preparing the mine for the future that we're taking this year ahead in ore grade at Toquepala. In the case of Buenavista, we're doing some similar works. I mean, in all our operations, we're obviously doing a catch-up or finishing a catch-up for what happened last year.

But in the case of Buenavista, we're building a new facility inside the mine premises, which is the Buenavista zinc facility. And that is creating us some -- we need to do certain works to prepare the areas of the mine where we are going to build the plant that we're already working on that with a very good pace and also prepare the mine for future development. We have found very good areas that will require certain work in the future, but with much higher ore grade than what we have had in our initial mining plants. So this is a very interesting development for us. These are for the two main mines that we have.

In the case of Caridad, Caridad is a mine that has a production in the range of -- last year, it was 128,000 tons. It's a good property. But over time, Caridad will tend to be more at 100,000 tons of production, but with a very significant by-product of molybdenum.

Caridad will increase its molybdenum ore grade as we move on into time in the next few years. So that operation will decrease its production, as I say, trending towards more like 100,000 tons in the future.

Cuajone in Peru, it's also a facility that will have a reduction in ore grade in the next few years. By the end of the decade, it may be at about 110,000 tons. Currently, it is 150,000 tons.

So for Cuajone, where this is not included in our CapEx, but we're considering a new expansion of the Cuajone operation, just to maintain the volume that we have currently on these operations. So by doing these investments in new projects plus the Cuajone possible expansion and some other -- well, the very important greenfield investments, I mentioned already Michiquillay, Los Chancas, Tia Maria, and El Arco, which are key for our growth, we believe that the Company will reach the 1.8 million tons goal that we have as a long-term target.

Alfonso Salazar: Okay, that's very helpful, Raul. Let me ask the following. So we should expect some decline in ore grades toward the reserve rate, which is lower than the mining rate today, that's something that is typical and we should expect that, but it's going to be gradual. And then after the decade, do you think that this trend of lower grade is going to increase, or I don't know if you can provide some sense on ore grades over the following years?

Raul Jacob: I couldn't get all what you said, but let me be very clear on this, Toquepala and Buenavista will not have -- we are not seeing ore grade decreases for these two operations. We're not. In the case of Caridad, it's a small ore grade decay by the end of this decade, very small. In the case of Cuajone, it is relevant, and we're considering an expansion for this operation. As I say, it's about 40,000 tons of production by the end of the decade that we're currently looking into ways for processing ore minerals, so we will maintain the Cuajone mine production long term.

Alfonso Salazar: Okay. So for Toquepala and Buenavista, you should continue mining above the reserve grade for the coming years?

Raul Jacob: Yes. I mean, in line with our history of production has shown in the last few years.

Operator: Thiago Lofiego, Bradesco.

Thiago Lofiego: Raul, two questions here on my side. The first one, how do you feel about copper supply and demand for the next couple of years? I understand you mentioned there has been some delays here and there globally. But when we look at the pipeline of projects that are supposed to start up in 2022, and I do understand that there might be some delays slipping towards 2023, but that lineup is like 1.2 million tons, give or take. So how do you see the supply and demand situation evolving in the next 18 months or so?

And then the second question, back to your long-term growth plan, are there any chances of you accelerating Michiquillay, for example, maybe the exploration campaign shows positive surprises, or any other factors that might make you accelerate the start-up of that project? And actually, I would say that this question goes also to the other projects. Any chances that you basically start up the big ones, Michiquillay, Los Chancas, or El Arco earlier than what you are saying now?

Raul Jacob: Okay. Well, just with the disclaimer that I'm not an expert on the copper market, even though I work as a finance officer of a copper company. My personal view is that we have several projects in Peru and Chile and some other parts of the world that are being constructed and about to initiate operations or already initiating operations.

In the case of Peru, we have Quellaveco, which will add about 250,000 tons of production in this year, by the end of the year, in capacity in the full year will be 2023. And we have some other projects in Peru as well as in Chile and some other locations worldwide.

I see that inventories for refined material at the warehouses, it's getting to a very low level. I mentioned already that we have about a week of consumption worldwide in the sum of all these relevant warehouses, that is the London Metal Exchange, COMEX, Shanghai warehouse, as well as bonded warehouses in different places. So it's getting to a critical level, but still there is some material.

I mean, the supply chain problems that were mentioned at the beginning, not ours, but worldwide supply, problems are certainly creating some illusion of much lower inventories than what we may believe, or we believe, there are in some other parts of the world. Just to say, at a port, we may have some concentrate and some refined materials that will be processed in the next few months.

So for this year, I'm not seeing -- that's why we believe that the 3% increase in demand this year will end up with the marketing balance. That is our current view right now.

Now in terms of accelerating the Michiquillay, Los Chancas, and Tia Maria, well for Tia Maria, we can accelerate it right now. I mean, if we get to initiate construction, that will be it, we're ready for that.

For Los Chancas and Michiquillay, they have their times. These talks with the communities as it is the case for Los Chancas now that is working on its environmental impact assessment, take a while.

In the case of Michiquillay, we just signed the contract. There are some possibilities of accelerating a little bit the construction in the case of Michiquillay, but we have to be sure that we do with the proper diligence our work.

The worst thing that we could have is having later on in time to do a correction in our plans because we overlooked a certain aspect of the project. That is not something that we want to do. And in the case of El Arco, well, I mentioned that we have already acquired all the land that is required for the project. We're working -- we have a new baseline study, which is very helpful. This is going to be a base for what we want to do.

And it has -- El Arco has some challenges regarding infrastructure that the Company is looking into different possibilities to undertake them. And we are very optimistic on that because we're seeing the possibility of having important savings on what was the beginning budget for some of these possibilities for El Arco.

So the answer is that we don't want to overlook any important factor, that's why we better take our time. But at the same time, we may find some opportunities to accelerate a little bit the construction of the project. If we see that, make sure that we will take them.

Operator: Grant Sporre, Bloomberg.

Grant Sporre: I have two questions. The first one is just on your budget guidance for 2022. Can you give us an idea of how much you have earmarked in that for Tia Maria? And then just secondly, on your sort of loose guidance for 2023 in terms of production, the bounce back to 1 million tons, can you give us a bit of a steer or a breakdown on how much of that is grade recovery at Toquepala and Buenavista? And how much of that bounce back of, let's say, 80,000 tons will come from your new projects or the contribution from the new projects like Pilar and Buenavista zinc.

Raul Jacob: The second question is for next year? Okay.

Grant Sporre: For 2023, yes.

Raul Jacob: Sure, sure, sure. On Tia Maria, we expect to spend about \$8 million this year with construction taking some traction next year. We're considering an investment for Tia Maria for the actual construction of the project initiating in 2023.

For this year, we believe that we still need to work on the social front. It will be very nice if we can do that with the Peruvian government; that will be certainly welcome. That is, right now, in my view, is the only factor that we need to align. I mean, we need to do some work at the province of Islay, obviously, but the only -- the missed piece on this is that the national government is not committed to move on with the project. That will be very helpful because the Arequipa region is ready for the Tia Maria investment. That's my personal view.

Regarding the production guidance for next year, we are considering for ore grade recovery next year, we do have Toquepala that passes from this year 210,000 to 235,000. We have also Buenavista that goes from 428,000 tons to 443,000 tons. And then we have the initial contribution of the Pilares, Buenavista zinc, and El Pilar productions in 2023 that fill the difference.

Operator: Alex Hacking, Citi.

Alex Hacking: So can you just remind us, are the potential smelter project tied to the development of the new mines? So do you need to build Los Chancas, Michiquillay in order to build a new smelter in Peru and El Arco in Mexico?

Raul Jacob: Not really because we're long in copper concentrate nowadays, and we can fill up the smelting and refining facilities with third parties' concentrates for a period of time. And then as we get our own material, start processing in our facilities.

So, no, the straight answer is that in the case of Toquepala, Peru, for instance, the refinery will have a little bit more than 50% of its capacity covered by the excess concentrate that we have or the long concentrate that we have in Peru. In the case of Buenavista, Mexico, same thing; Buenavista is quite long now in terms of production. So we will be able to fill up a significant portion of the smelters.

So we are still doing some technical work. The economics are fine, but we do have to do more technical work on these two projects. And also, we need to run with the permits, etc., for announcing them and presenting to our Board for final approval.

Alex Hacking: Okay. Thanks. And then can you maybe give a little bit more color on the \$1.5 billion of CapEx for this year? If I look at Pilares, Zinc, and El Pilar, it looks like maybe that would be \$400 million or \$500 million. Where is the other \$1 billion going?

Raul Jacob: Sure, okay. In Mexico, we are spending about \$977 million. Of those, we have about \$200 million in maintenance and components. Our Buenavista facilities have about \$183 million.

We have a significant amount of investments in the different operations of IMMSA. That's about \$225 million. IMMSA, is an underground mines and a metallurgical complex that processes zinc, silver production that we have in underground mines in Mexico.

Pilares, we have \$35 million, Buenavista zinc \$154 million, El Pilar \$83 million, and El Arco \$37 million. In the case of Peru, for maintenance and components, the total investment is \$565 million. Of those, maintenance will be \$200 million.

And then we have, for the Toquepala, investments in the range of \$118 million, where as I say, we're opening up a new phase, and we're moving certain facilities that will need to be relocated, given the size of the open pit that we are envisioning right now.

For Cuajone, we have \$133 million in investments in different projects. And then in Michiquillay and Los Chancas, about \$80 million together. That's basically it, Alex.

Alex Hacking: Okay. And are you thinking of new shops in IMMSA? That's a lot of money.

Raul Jacob: Yes. We're locating certain areas, new shops are also part of the expenditures. The maintenance CapEx is just renewing equipment, such as trucks and some other parts of the facility.

In the case of Toquepala, we're considering building a new crusher for leachable material because the one that we have, it's in a part of the operation where we need it to pass to another place. So that kind of things.

Operator: Regina Carrillo, GBM.

Regina Carrillo: I was wondering about your new Lime plant. You mentioned you will reduce your lime cost by 50%. But how much is that of your cash costs in Mexico? Or how much will it boost your cash costs?

Raul Jacob: I'm sorry, I don't have the current cash savings. I know that this will reduce our cash. Our lime consumption will be cut by half -- I'm sorry, our lime cost will be cut by half, and there is a significant consumption of these material at concentrators, particularly the Mexican concentrators. That's why the Company decided to move on with this investment.

Operator: This does conclude the question-and-answer session of today's program. I'd like to hand the program back to Raul Jacob for any further remarks.

Raul Jacob: Thank you, Jonathan. Well, with this, we conclude our conference call for Southern Copper's fourth quarter and full 2021 results. We certainly appreciate your participation and hope to have you back with us when we report the first quarter of this year's results. Thank you very much, and have a nice day to all.

Operator: Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.