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# EDITED TRANSCRIPT

Q1 2022 Southern Copper Corp Earnings Call

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## PRESENTATION

### Operator

Good morning, and welcome to Southern Copper Corporation's First Quarter 2022 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 first quarter of 2022 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 prospects, 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 undertakes no obligation to publicly update or revise any forward-looking statements whether as a result of the information, future events or otherwise. All results are expressed in full U.S. GAAP. Now I'll pass the call on to Mr. Raul Jacob.

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### **Raul Jacob Ruisanchez** *Southern Copper Corporation - VP of Finance, Treasurer & CFO*

Thank you very much, Victor. Good morning, everyone, and welcome to Southern Copper Corporation First Quarter of 2022 Results Conference Call. At today's conference, I'm accompanied by Mr. Oscar Gonzalez Rocha, Southern Copper's CEO and Board member.

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 cost, financial results, expansion projects and ESG. After this, we will open the session for questions.

Now let's focus on the copper market, the core of our business. In the first quarter of this year, the London Metal Exchange copper price increased from an average of \$3.85 per pound in the first quarter of 2021, up to \$4.53 per pound, that is an 18% price increase. Currently, we're seeing prices in the range

of \$4.30 to \$4.40 per pound, which remains higher than the 2021 average of \$4.23 per pound. And bodes a positive outlook for the company.

We believe the following factors are influencing the market. The first place, we are assuming that demand will grow between 2% to 2.5% in this year, particularly in terms of cathode consumption in the U.S. An economic slowdown is expected in China due to recent COVID-19 outbreak.

Regarding supply, we understand that uncertainty regarding future production growth in Chile and Peru, which together represent 40% of the world supply of copper, is affecting the market.

Chile registered a production drop of 7% in the first quarter of this year. While in Peru, 13% of its production is currently at risk due to the social conflicts in Las Bambas. In addition to these supply disturbances, Russia's copper supply, which is about 400,000 tons per year has been shut out of the market due to the invasion of Ukraine. Considering these factors, the most relevant market intelligence houses for the copper market are expecting a market deficit for this year of about 100,000 tons.

Looking at our production profile, copper represented 78% of our sales in the first quarter of this year. Copper production registered a decrease of 10% compared to the first quarter of 2021 and reached 214,480 tons in this quarter.

This was attributable to the effect of the stoppage of the operations at Cuajone, which led production to fall 15,278 tons from the level reported in the same quarter of 2021. In addition to the Cuajone event, we experienced temporary reduction in production at our Toquepala and La Caridad mines due to lower ore grades and recoveries. These results were partially offset by a higher production at Buenavista.

Let me focus on the Cuajone stoppage that affected us during the past quarter. On February 28 of this year, a minority group of approximately 70 individuals from the community of Tumilaca, Pocata, Coscore and Tala. Let me say that it is one community that has four names and comprises 472 members. These protesters seized the facilities at the Viña Blanca water reservoir and cut off the water supply to the homes of approximately 5,000 people that live in Cuajone. These also affected the Cuajone operations.

Prior to this illegal action, in February 18, the railway between Cuajone and Ilo was also blocked by a group of about 20 community members. After several weeks of unsuccessful attempts by the authorities to restore order through dialogue, on April 20, the Peruvian government declared a state of emergency in the Moquegua region.

On April 21, the protesters returned the installations of the Viña Blanca water reservoir and the railway to the company. SCC personnel immediately evaluated the damage caused to the facilities by acts of vandalism and took the necessary steps to resume production at the Cuajone mining unit. As of today, the Industrial railroad and the Cuajone mine concentrator and related facilities are operating at full capacity.

This past Saturday, that is on April 30, the Peruvian government issued a Ministerial Resolution to set up a 3-party-roundtable, including representatives of the state, community and the company to establish a dialogue to better understand all parties' concerns.

The recognition of the fundamental rights of our employees and their families to safe drinking water and the fact that a formal dialogue process with the communities will shortly begin, bodes well for a satisfactory solution for all concerns.

We trust in the goodwill of all the parties to obtain agreements that benefit both the community and the company's employees. Reinitiating work at Cuajone will contribute much needed revenues to the Peruvian government and the Moquegua region and bolster the company's efforts to drive development in Peru.

For 2022, we expect to produce 895,800 tons of copper, which represents a decrease of 2.8% compared to the 2022 plan. Our plan for copper is for this year 922,000 tons. Annual production will continue to be affected by the stoppage at Cuajone and by the temporary reduction in ore grades and recoveries at the Peruvian operations. We expect our copper production to bounce back in 2023 to around 971,000 tons, as we get Peruvian production back on track and generate new production through our projects of Pilares and the Buenavista zinc concentrator.

For molybdenum, it represented 10% of the company sales in the first quarter of this year and is currently our first by-product. Molybdenum prices average almost \$19 per pound in the quarter compared to the \$11.19 that we had in the same quarter of last year. This represents a significant increase of about 70% in molybdenum prices.

Molybdenum production decreased by 1.5% in the first quarter, which was mainly driven by a decrease in production at both the Cuajone and Caridad mines due to lower grades, and in the case of Cuajone, obviously the impact of the blockage. And these results were partially offset by higher production at our Buenavista and Toquepala operations.

We believe that prices for molybdenum will be supported by the lower exports that we're seeing from China, which is also affected by an uptick in delivery times and port congestion. We believe these factors will help maintaining prices at good levels through 2022. Silver represented 3.8% of our sales value in the first quarter of this year, with an average price of \$24.05 per ounce in the quarter, a decrease of 8.5% from the same period of 2021.

Silver is currently our second by-product. Mined silver production decreased by 13.4% in this past quarter after production fell at Cuajone by 35%. We had also a reduction in silver production from Toquepala, IMMSA and La Caridad. All of these reductions were partially offset by an increase in production at Buenavista mine. Refined silver production increased 7% in the first quarter, mainly due to an increase in production at our La Caridad refinery.

Looking into our zinc sales, they represented 3.6% of our total sales value with an average price of \$1.70 per pound in the quarter. This is a 36% increase in price. Zinc mine production decreased by 10.6% quarter-on-quarter, totaled 14,726 tons. This was primarily driven by lower production at Santa Barbara, San Martin and Charcas.

Refined zinc production increased by 33.2% in the first quarter. This was mainly explained by the bounce back of refinery production after we had last year an incident affecting our refinery, at the beginning of the year, that was solved through 2021. And we're back at full operating capacity at the San Martin and the San Luis Potosi refinery.

Looking at our financial results. For the first quarter of this year, sales were \$2.8 billion. This is \$231 million higher than sales for the first quarter of 2021 or 9.1% increase in sales. Copper sales volume decreased by 13.4%, while value increased 1.8% due to better prices. As I'd say, prices increased by 18%.

Regarding our main by-products, we reported higher sales of molybdenum, which increased by 63% due to better prices and partially offset by a decrease in volume. We have an uptick in zinc sales of 176% due to better prices and volume.

In the case of silver, we have a decrease in sales of 24% due to lower prices and volume. Our total operating cost and expenses increased by \$112.8 million or 9.6%. The main cost increment has been due to local currency appreciation, purchased copper, diesel and fuel, operating and repair material, explosive and exploration costs. These cost increases were partially compensated by lower inventory consumption and workers' participation.

The first quarter of 2022 adjusted EBITDA was \$1,678 million, which represented an increase of 8% with regard to the \$1,554 million registered in the first quarter of 2021. The adjusted EBITDA margin was 60.7%, slightly lower than the 61.4% that we had in the same period of 2021.

For cash cost, operating cash cost per pound of copper before by-product credits was \$1.83 per pound in the first quarter of this year. That is \$0.01 lower than the value for the fourth quarter of last year, which was \$1.84. This decrease in operating cash cost is a result of lower cost per pound from treatment and refining charges, and higher premium; and the aforementioned was partially offset by increases in the production cost and administrative expenses.

Southern Copper operating cash cost, including the benefit of by-product credit was \$0.56 per pound in the first quarter of this year. This cash cost was \$0.20 lower and the cash cost of \$0.76 that we had in the fourth quarter of 2021. Regarding by-products, we had a total credit of \$583.5 million or \$1.27 per pound in the first quarter of this year.

These figures represent an 18% increase when compared with a credit of \$539 million or \$1.08 per pound for the fourth quarter of last year. Total credits have increased for zinc, silver and sulfuric acid, and decreased for molybdenum, when we compare the first quarter of this year with the fourth quarter

of 2021.

Net income in the first quarter of 2022 was \$784.7 million, which represented a 2.7% increase when compared with the \$763.8 million registered in the first quarter of 2021. The net income margin in the first quarter of this year was 28.4% versus 30.2% in the first quarter of last year.

Cash flow from operating activities in the first quarter was \$820.7 million, which represented an increase of 5% over the \$782.6 million posted in the first quarter of 2021. This improvement was attributable to strong cash generation at our operations resulting from higher sales and cost control efficiency.

Looking into our CapEx investments. As we have mentioned before, 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 the first quarter of this year, we spent \$205 million on capital investments, which reflected an 11.8% decrease compared to the same period of 2021. This past quarter's Capex represented 26.1% of our net income for the year.

Looking at our Peruvian projects, our current portfolio of projects approved for Peru totaled \$2.8 billion, of which \$1.6 billion has been already invested. If we include the up-and-coming Michiquillay \$2.5 billion investment 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 located in the Arequipa region in Peru, Southern Copper has been consistently working to promote the welfare of the population of the 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.

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 economic situation in Peru, 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 construction.

When operating, we expect Tia Maria to directly employ 600 workers and indirectly provide jobs to another 4,200. Additionally, from day 1 of our operations, we will generate significant contribution to revenues in the Arequipa region via royalties and taxes.

Los Chancas in Apurimac. This is a greenfield project. It's located in this region of Apurimac in Peru. It's a copper and molybdenum porphyry deposit. Current estimates of indicated copper mineral resources are

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98 million tons of oxides with a copper content of 0.45% and 52 million tons of sulfides with a copper content of 0.59%. The 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 investment for this project is \$2.6 billion, and the project is expected to begin operations in 2027.

In the first quarter, we continued to engage in social and environmental improvements for the local communities and work on the project's environmental impact assessment.

For the Michiquillay project; Michiquillay is a world-class mining project with inferred mineral resources of 2.3 billion tons with an estimated copper grade of 0.43%. When developed, we expect Michiquillay to produce 225,000 tons of copper per year along with by-products of molybdenum, gold and silver for an initial life mine of 25 years and a competitive cash cost. We estimate that an investment of approximately \$2.5 billion will be required for Michiquillay and expect production to start up 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.

The social agreement signed last year with the Michiquillay and the Encañada communities represent an opportunity to improve the quality of life of the residents of these communities via our strong social programs and backed by a social 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 second quarter of this year.

For the Mexican projects, we have the Buenavista zinc concentrator in Sonora. This project is located within 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 and procurement has progressed 99% at all the main equipment, which 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 March of this year, we have invested \$240.5 million in this project. We expect to initiate operations in the second half of next year 2023. When completed, this new facility will double the company's zinc production capacity and provide 490 direct jobs and 1,470 indirect jobs.

The Pilares project is located 6 kilometers from our La Caridad mine, also 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 have been built and will be used to transport the ore from the pit to the primary crushers at the La Caridad copper concentrator.

This project will significantly improve the overall mineral ore grade of the concentrator at La Caridad. We will obtain that by combining the 0.78% expected ore grade from Pilares with the 0.34% from La Caridad.

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The budget for Pilares is \$159 million, of which we have invested \$79.5 million as of March of this year. The project has obtained all permits and licenses required, and we expect to begin production in the last quarter of 2022.

El Pilar, it's a low capital intensity copper greenfield project, which is strategically located in Sonora, Mexico. It's approximately 45 kilometers from our Buenavista mine. Its copper oxide mineralization contains estimated proven and probable reserves of 317 million tons of ore with an average copper grade of 0.25%. We anticipate that El Pilar will operate as an open-pit mine with an annual production capacity of 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 the experimental pads in the leaching process have confirmed adequate levels of copper recovery. Basic engineering study is finished and the company continues developing the project and site environmental activities.

El Arco, which is located in Baja California, is a world-class copper deposit located in the central part of the peninsula of Baja California. It has all reserves of over 1,230 million tons with an average ore grade of 0.40%. It has also 141 million tons of leach material with an ore grade of 0.27%. The project includes an open-pit mine combining concentrator and SX-EW operations. 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 started the baseline study and is reviewing the basic engineering analysis to request environmental impact permit. Several years back, we began to acquire the rights to all relevant mining concessions in the area, completing this process in 2020.

SCC is committed to improving its ESG record; that is environmental, social and governance, by adopting best practices and informing the investment community and other stakeholders about our progress in these matters. In line with our sustainability strategy, we've registered ongoing improvement in our main sustainability indicators.

In terms of safety, we reduced the accident rate of our own personnel and contractors by 22% in the last 3 years. As far as the main environmental indicators are concerned, we reduced our Scope 1 and 2 greenhouse gas emissions by more than 10% and increased the efficiency of the freshwater consumption in the concentrator by 4% over the period.

In social matters, the population served through our community programs has tripled, while we continue to strengthen the mechanisms for listening to and addressing concerns. In order to provide certainty to our investors and stakeholders, we present our progress regarding third-party validation of our environmental and social practices.

Efforts to certify our occupational health and safety management systems and in the international standard, ISO 45001 and our environmental management systems under ISO 14001 are underway at all

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our mining units.

In the first quarter of this year, the Santa Barbara and San Martin mines obtained ISO 45001 certification. And the Caridad mine and the Lime Plant in Sonora, ISO 14001 certification.

Regarding our climate change management in 2021, Grupo Mexico rose 2 levels in the evaluation of the carbon disclosure project, going from Level C to Level B, which positions the company above the average for the sector and region. The communities surrounding our operations in Peru comprise dozens of small towns that live between the high Andean desert region and the coast. We continue to address the needs and challenges relative to the water supply, education and employment.

Investments in infrastructure for water supply stand out, representing 70% of the \$93.6 million invested in the last 10 years. In the first quarter of this year, we completed the construction of the Cularjahuira dam located in the province of Candarave. This is in the area of influence of our Toquepala mine. This facility will store up to 2.6 million cubic meters of water to irrigate 500 hectares of agricultural land and will directly benefit 585 families of local farmers.

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 at each Board meeting to determine the appropriate quarterly dividend.

Accordingly, as announced to the market on April 28, the Board of Directors authorized a cash dividend of \$1.25 per share of common stock. This is payable on May 31 to shareholders of record at the close of business on May 17, 2022.

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 now to open up the forum for questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question will come from Carlos De Alba from Morgan Stanley.

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### **Carlos De Alba Morgan Stanley, Research Division - Equity Analyst**

My first question has to do with Cujone. And if you could clarify what the communities that stopped the operation really want? And is it likely that we can find a sustainable solution to the conflict, given obviously what we have seen in Las Bambas, a very painful and recurrent situation.

Also related to the topic, the cost performance was quite good, so positively surprising given what happened there in the last month of the quarter. But what are the prospects for cost and the potential impact from the Cujone stoppage in the second quarter? And how do you see cost in the remaining

year?

And then finally, still in Peru on -- my last question, sorry for asking 3 that is sort of related. From a long-term perspective, how is the company seeing the development of Los Chancas and Michiquillay projects in light of the Tia Maria negative experience and the challenges that the company has seen in Cuajone, which obviously is a big question mark on overall in Peru?

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**Raul Jacob Ruisanchez *Southern Copper Corporation - VP of Finance, Treasurer & CFO***

Thank you very much for your questions, Carlos. On the Cuajone conflict, the community indicated that the company has been operating lands that were property of the community, and they want a compensation for that. What they are requesting, it's a compensation of \$5 billion U.S. dollars. For the use of this land, they claim that it goes through the second half of last century up to this one as well.

As far as we understand, and we have all the titles in order to prove it, they are wrong; the company has been operating in land -- let me explain -- just for a well understanding of this matter to all the listeners at this call. The Cuajone mine was developed in the second half of the last century.

In 1969, the company signed a contract with the Peruvian government at that time. And the Peruvian government gave a concession to operate and open up the Cuajone mine using state-owned lands. All the lands that we received at that time were state lands. It was not community land, and we have all the titles in order to prove that. So we believe that we will explain this to the local community.

I'd like to add that at the beginning of this century, about 2006, members from this community sued the company for the same reason and the Peruvian Supreme Court, after a legal process, indicated that we were right and fixed the limits of the areas of the old land that the company received at the beginning of the Cuajone mine operations.

Looking at your second question, cost performance or the impact of the Cuajone stoppage, we already mentioned it in our press release. We mentioned that during the first quarter, we have lost some copper production due to the Cuajone stoppage.

As you know, this started on February 28 and went all the way down to April 21. We are estimating that about 30,000 tons of additional production of Cuajone was lost in the second quarter of this year. That will certainly affect our production profile in the second quarter. We have been using copper concentrate from a local supplier and our Buenavista copper production. As you all know, Southern Copper is long in concentrates both in Mexico and Peru.

In the case of Peru, well, the Cuajone stoppage made us consume certain reserves that we have at the Ilo smelter as well as the Cuajone operation, of copper concentrate inventories. And once we finish with that, we acquired or we sent copper concentrates from Buenavista to supply the Ilo requirement for production.

Currently, we're expecting a cash cost in the range of where we are now. We have a very strong -- as you know, very strong response from by-products. And we expect to maintain our cash cost where it is at this point. We may have an impact in the total cost of sales due to the purchases of copper concentrate that we have made from our Buenavista production, but that will be an intercompany transaction. So at the end of the day, we expect to maintain our cash costs, as I say, where it is nowadays.

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**Carlos De Alba *Morgan Stanley, Research Division - Equity Analyst***

And that also applies to before by-products, cash cost, stable.

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**Raul Jacob Ruisanchez *Southern Copper Corporation - VP of Finance, Treasurer & CFO***

Yes, yes. Well, actually, it should improve as we get all the volumes. Keep in mind that we have lost the material that I mentioned in the 2 quarters. But we will be recuperating our production level this month. Actually, since about April 24, we were operating at full speed in Cuajone. So a few days of April and then back to normal in May and June.

Now looking into your last concern, Carlos, the impact that this may have on Los Chancas and Michiquillay. Well, we believe that so far, we don't see -- we see no connection between these -- the Tia Maria matters on issues and what is happening in Los Chancas and Michiquillay.

In Michiquillay, as you know, we have signed social agreements with the 2 communities that are over there. Cajamarca is a mining region. They understand mining. They have a very well-trained workforce for mining activities. And we believe that so far, we have no concerns about that. In the case of Los Chancas, we are working on the environmental study that corresponds for this property. And we believe that we will be on time to develop them.

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**Operator**

Our next question comes from Thiago Lofiego from Bradesco BBI.

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**Thiago K. Lofiego *Banco Bradesco BBI S.A., Research Division - Director & Head of the LatAm Pulp & Paper and Metals & Mining Equity Research***

Raul, two maybe different questions here. Just on the capital allocation side, would you consider any M&A on zinc in Peru? Or any other potential opportunities on copper M&A maybe to accelerate growth in copper rather than executing those big projects?

And then the second question is just on the volume outlook for the second quarter. Just -- I'm sorry if you already mentioned, but just to make sure here, should we expect lower sequential volumes in the second quarter due to Cuajone or you think you'll be able to make it up for the quarter?

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**Raul Jacob Ruisanchez *Southern Copper Corporation - VP of Finance, Treasurer & CFO***

Okay. For the second quarter, let me start by your last question, Thiago. For the second quarter, we are expecting a loss in production of 13,000 tons. That's our current estimate. However, we will hopefully catch up at least partially on that.

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As I mentioned before, our plan for the year was 922,000 tons and currently we're expecting to produce 895,000 tons for 2022. So well, that's the total impact that we have for the Cuajone event, and that's basically it.

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**Thiago K. Lofiego Banco Bradesco BBI S.A., Research Division - Director & Head of the LatAm Pulp & Paper and Metals & Mining Equity Research**

So Raul, taking the opportunity -- yes, go ahead, sorry.

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**Raul Jacob Ruisanchez Southern Copper Corporation - VP of Finance, Treasurer & CFO**

So a portion of that was absorbed in the first quarter. For the second quarter, we're expecting 13,000 tons in total to be absorbed. And that's basically it. Do you like to comment on this before I go to the M&A part of your questions?

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**Thiago K. Lofiego Banco Bradesco BBI S.A., Research Division - Director & Head of the LatAm Pulp & Paper and Metals & Mining Equity Research**

Yes, very quickly. Regarding ore grades and recovery rates, how should we think about the coming quarters? Any improvement on that front?

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**Raul Jacob Ruisanchez Southern Copper Corporation - VP of Finance, Treasurer & CFO**

Well, regarding ore grades, we're doing a little bit better in Mexico, in particular at Buenavista. The Peruvian operations, we knew from a few years back that we were expecting an ore-grade -- temporary lower ore grade for Cuajone and Toquepala. That's basically it -- that's in the mine plan where we're doing, this year, some stripping on certain areas of both Cuajone and Toquepala that have lower ore grades, and that's why we do know that for the year, it's going to be, as I said, slightly lower than last year for Toquepala and lower -- well, excluding the impact of the stoppage in Cuajone, we will be pretty much at the same level that we had last year. But well, we have to consider that as part of our current situation.

If I go to your M&A question for zinc or copper, the straight answer is, no, we are not looking into anything specific in these two metals in Peru. So -- but obviously, if there is a good opportunity, we will certainly review it and make a recommendation to our Board, if there is a good chance that we see a good opportunity on this.

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**Thiago K. Lofiego Banco Bradesco BBI S.A., Research Division - Director & Head of the LatAm Pulp & Paper and Metals & Mining Equity Research**

If I may, a very quick follow-up here from the numbers you mentioned. You said 895,000 tons production for the year. I thought I had heard 922,000 before. What's the...

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**Raul Jacob Ruisanchez Southern Copper Corporation - VP of Finance, Treasurer & CFO**

Yes, that's the plan. That's the plan, Thiago.

**Thiago K. Lofiego Banco Bradesco BBI S.A., Research Division - Director & Head of the LatAm Pulp & Paper and Metals & Mining Equity Research**

922,000?

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**Raul Jacob Ruisanchez Southern Copper Corporation - VP of Finance, Treasurer & CFO**

So at the beginning of the year -- yes, at the beginning of the year, we mentioned that our goal for this year, given the ore grade reductions and recoveries that we are expecting, of what we were expecting at that time, it was 922,000 tons of copper production for the year.

Well, if we include what happened in the first quarter, that number has decreased to 895,000 tons. We expect to be better than that -- but that is something that will be shown through the second quarter and the rest of the year.

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**Operator**

Next question on the line is Timna Tanners from Wolfe Research.

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**Timna Beth Tanners Wolfe Research, LLC - Analyst**

I wanted to just ask a little bit about the project pipeline. Correct me if I'm wrong, but I think we noticed that Pilares has moved out to the fourth quarter from kind of more second half guidance. And Buenavista was guided to second half of 2023. So just wanted to know what was causing some of those delays?

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**Raul Jacob Ruisanchez Southern Copper Corporation - VP of Finance, Treasurer & CFO**

In the case of Pilares, as you may imagine, well, we're currently acquiring some mining equipment, and there has been some delays in delivery times mainly related to COVID, for Pilares. And so that's basically it. In the case of Buenavista, it's a better understanding of all the work that has to be done made us move slightly to the end of the year. In that case, for the second half of next year, the Buenavista zinc start up. That's basically it, Timna.

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**Timna Beth Tanners Wolfe Research, LLC - Analyst**

Okay. That makes a lot of sense. And then just kind of asking a little more generically on the cost side, a lot of the miners have been talking about higher cost and challenges there. And I just was wondering, you've been able to keep it lower. But aside from obviously by-product credits, is there anything you're doing or that you could highlight for us that gives us confidence in keeping a lid on cost going forward? And can you talk about that a little?

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**Raul Jacob Ruisanchez Southern Copper Corporation - VP of Finance, Treasurer & CFO**

Sure. Well, there are two major comments. First, where are we seeing higher cost? And that's basically, well, fuels in general and materials that are related to the steel industry. That's where we're seeing significant price increases. Where we are not seeing that, it's in labor cost, I mean there are some cost increases, but not in the same range that we were seeing in, say, fuel. Labor costs or power, meaning by this electricity, which are not increasing as the inflationary trend that we see in some of the materials. So

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that's a general comment on where are we in this regard.

Now, we have been for many, many years, doing different programs to reduce our cost -- the cost impact of our operations. For instance, we have been replacing truck haulage by conveyor belt transportation of our mineral. And in that, we're basically replacing, well, the much higher cost that has to move a ton of mineral from the mine to the concentrator or to the dumps areas of the operations. We're replacing a much higher cost by truck haulage, not only in operating costs, but also on Capex, by the most efficient one of conveyor belts. That's just to mention one way to control cost.

The other one is the ones that we're using in some of our operations, which are the high-pressure grinding rolls, where we have installed these facilities in the Peruvian operations, particularly. The high-pressure grinding rolls are as the name says, two rolls that somehow break the mineral before it goes into the concentrator mills. And by doing that, we get a much faster milling process.

We maintain the concentrators milling the material that they were designed to and rock hardness is not affecting the milling process by using these facilities. And we're -- in general, we're acquiring new technologies that has been proved to work. This is very important. We are sure that what we are introducing, for instance, conveyor belt haulage or grinding rolls -- high-pressure grinding rolls are technologies that has been working, that are known that will produce a cost saving impact in our operations.

By doing that, we are somehow containing costs. In this past quarter, in particular, we have better premiums coming in our smelting and refining process. And that has somehow helped us to maintain our cash cost in line or decrease at least the production cost -- the total cost of operations for cash cost purposes. Now, over the long term, the goal is to be as efficient as we can, developing projects that are very, very good in terms of their characteristics.

And I'd like to stress here that all the ore grades that we have for our SX-EW projects, for instance, are very high for this kind of projects. What I mean by that is that the cash cost that will result from, say, El Pilar and some other project that has SX-EW facilities will be very competitive because we are starting with a very good mineral base for development of this type of projects. So, over the long term, we're expecting our cash cost to maintain its current characteristics of being, say, where we are today or slightly higher if by-product prices decrease a little bit.

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### **Operator**

Our next question comes from the line of John Tumazos from John Tumazos.

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### **John Charles Tumazos *John Tumazos Very Independent Research, LLC - President and CEO***

In Mexico and Peru in your communities, is there a significant increase in the last months in the poverty level, not among your employees, but the other people in the towns with the rise in energy and food prices? And I know you're not the government, but can government address those issues when some of the population has an economic shock like this?

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**Raul Jacob Ruisanchez *Southern Copper Corporation - VP of Finance, Treasurer & CFO***

Thank you for your question, John. And the straight answer to it is, yes. They could do -- because at the same time, we're seeing -- I mean, let me make a general comment. The COVID-19 impact in both Mexico and Peru and worldwide has been not -- I mean we are not better off after COVID. It's exactly the contrary. And if you add to that, that a few related materials that are consumed are impacting in terms of inflation.

That's where you have the -- well, the upsetness of many people in these two countries and worldwide as well. Now, the government can do something to reduce that? Oh, certainly, they can, and we expect the government of both Mexico and Peru to address these matters.

In the case of our Cuajone operation, we are initiating a dialogue process in the next few days. We expect to clarify the concerns that the communities have. But at the same time, we believe that these are our door-to-door neighbors, and we have to be in good shape with them. So, we hopefully expect to have -- to return to what has been a good relationship with these communities in the last few years.

And we think that the current moment for a mining country as Peru and for the mining industry in Mexico as well, are very positive. And the government will have the resources to put in place programs that should help to reduce the concern that local communities and families have about their current situation.

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**John Charles Tumazos *John Tumazos Very Independent Research, LLC – President and CEO***

We know it's a very challenging time to manage any business today, just survive and we congratulate you on your good work.

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**Operator**

Our next question comes from the line of Alfonso Salazar from Scotiabank.

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**Alfonso Salazar *Scotiabank Global Banking and Markets, Research Division - Director of Metals and Mining & Analyst***

The question that I have is regarding the labor situation in La Caridad. There was a press article in Mexico saying that in the union, the CTM, wanted to secure workers' participation in line with past levels -- past year levels and not be capped by the new labor reform. And they wanted to not only for this year but for future years as well. So, I just wonder if you can comment on that, give us an update...

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**Raul Jacob Ruisanchez *Southern Copper Corporation - VP of Finance, Treasurer & CFO***

Alfonso, please, I can't copy you. Could you repeat your question, please?

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**Alfonso Salazar *Scotiabank Global Banking and Markets, Research Division - Director of Metals and Mining & Analyst***

Sure. Can you hear me better now?

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**Raul Jacob Ruisanchez Southern Copper Corporation - VP of Finance, Treasurer & CFO**

Yes, I do.

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**Alfonso Salazar Scotiabank Global Banking and Markets, Research Division - Director of Metals and Mining & Analyst**

Okay. Good. So the question that I have is regarding the labor situation in La Caridad. And I understand that the union, the CTM, wanted to get a workers' participation in line with what the workers were getting before the labor reform. I don't know if -- and they wanted not only for this year but to secure that it will continue over the coming years. Just wanted to know what's the situation there. If you can provide an update and whether it was a similar situation at the Buenavista mine?

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**Raul Jacob Ruisanchez Southern Copper Corporation - VP of Finance, Treasurer & CFO**

Well, as far as we understand there is some concerns on -- I mean, generally speaking, all mining operations are having -- all the workforce not only in Mexico or specifically in our Buenavista and Caridad are having some concerns that -- this is a general thing. We don't have nothing in particular to report about this Alfonso.

As you know, we have a biannual review of salaries and working conditions in our Mexican operations. And we believe that this process will move on as usual, in good terms. We haven't had any strikes in Mexico since we solved the problems that we had with another union that is no longer in our operations nowadays.

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**Alfonso Salazar Scotiabank Global Banking and Markets, Research Division - Director of Metals and Mining & Analyst**

Okay. Fair enough. The second question that I have is regarding a follow-up on cost and the spend on Capex because, yes, you have done a great job controlling cost increases. What about Capex for the future projects? Because it has been pretty much the same Capex figures that you provide for these projects over several years, and we see Capex inflation as well. So it is likely that at the end, there could be some inflationary pressures on Capex?

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**Raul Jacob Ruisanchez Southern Copper Corporation - VP of Finance, Treasurer & CFO**

Well, obviously, if there are higher steel costs, that should affect our cost of equipment, generally speaking. And in an inflationary environment, that is also something that we may expect. We haven't updated -- I mean, let me explain, the projects that are being under development we believe that Capex cost will remain as reported.

For instance, in the Buenavista zinc, we already acquired 99% of the equipment that we will be using in these projects. So that's basically it. In the case of Pilares, we are acquiring some trucks and shovels and so on for operating the mine. On those, we are seeing some cost increases, but still under the budget that we put in place for this project.



In the case of El Pilar, where we are still doing -- well, we're looking at the quality of the mineral and how it works, and we are thinking about the form of the plant that the quality or the size of the plan that we're going to use for this project. We may have some inflation impact. But so far, we haven't run the numbers again.

Now for the long-term greenfield projects that we have in Peru, we will be updating cost as we move on in time. But so far, if you see what happened this quarter, the company, or the Board decided to increase the company's dividend to \$1.25. That's -- it was formerly \$1 in the prior quarters. The Board increased by \$0.25. And the reason for that -- one of the reasons was that we made a review on the expected cost of -- for the next 5 years in our projects.

And as a consequence, there was room for increasing our dividend to \$1.25, and that's why the Board proceed in that direction. So, obviously, as we have explained, we don't have any specific number for a dividend quarterly or given the rate for profits, for instance.

But we do have a track record of not hoarding cash, which certainly means that we will send any cash that is perceived as extra cash to our shareholders. And that's how we have proceeded. So even though we may have some higher costs in the future, we believe that so far, at this point, we are controlling Capex expenditures, and we are seeing some opportunities to reward a little bit more our shareholders through the dividends.

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#### **Operator**

Our next question comes from Grant Sporre, Blomberg.

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#### **Grant Sporre *Bloomberg Intelligence - Senior Analyst of Metals & Mining***

It's actually a follow-up on a comment you made in the last question. Have you -- are you downgrading perhaps your Capex expectations or your spend for this year? I think you previously guided to just around \$1.5 billion. And in light of the higher dividend, is that still going to be \$1.5 billion for this year?

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#### **Raul Jacob Ruisanchez *Southern Copper Corporation - VP of Finance, Treasurer & CFO***

We decreased slightly our budget. As you've mentioned, we mentioned at the beginning of the year, our expectation was to spend \$1,542 million. And currently, our expectation is \$1,481 million. So that is a \$61 million reduction in our Capex for the year. But keep in mind that we don't only have higher copper prices, but our main by-product, which is molybdenum, it has almost doubled.

I mean, it increased its price by 70% when you compare this quarter from, say, a year ago. So, we are getting significant revenues -- higher revenues in by-products as well as in copper. And we are seeing this year's balance to have slightly higher cash from operations generation.

Let me explain also that in the first quarter of this year, we have some once-a-year payments, mainly taxes in Peru and Mexico. We have been paying the special mining tax in Mexico, which is on a yearly basis. In Peru, a portion of the income tax, a catch-up in the income tax for 2021 is paid in the first

quarter of the year as well as the dividend tax. So, we have a once in a year payments in the first quarter and the workers' participation in Peru as well, that won't be there in the rest of the year.

So, when you do that, you see that you get a good cash flow for the remaining of 2022. And given the forecast for Capex and so on, the market view, et cetera, the Board decided to increase the dividend from \$1 to \$1.25.

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**Grant Sporre *Bloomberg Intelligence - Senior Analyst of Metals & Mining***

Just a quick follow-up then. In terms of the profile of the Capex spend, should we expect it to be second half weighted or weighted towards the fourth quarter?

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**Raul Jacob Ruisanchez *Southern Copper Corporation - VP of Finance, Treasurer & CFO***

No, it's on the projects that are currently under construction where we're at full speed. For instance, on the Buenavista zinc concentrator and in Pilares, we're spending at full speed. While some other projects that are related to the yearly projects such as acquisition of replacement of some equipment and so on, usually, those ones are getting a higher expense at the second half of the year, but that's something that it's like the common trend that we have had in some other years as well.

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**Operator**

I turn the call back over to your speakers for the closing remarks.

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**Raul Jacob Ruisanchez *Southern Copper Corporation - VP of Finance, Treasurer & CFO***

Thank you very much, Victor. Well, with this, we conclude our conference call for the first quarter of 2022 results. We certainly appreciate your participation and hope to have you back with us when we report the second quarter of this year. Thank you very much and have a very good day today.

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**Operator**

And this concludes today's conference call. Thank you for participating. You may now disconnect. Everyone, good day.

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