

Southern Copper Corp (3Q20 Earnings)

October 27, 2021

Corporate Speakers:

- Raul Jacob Ruisanchez; Southern Copper Corporation; VP of Finance, Treasurer & CFO
- Marlene Finny; Company Representative; Southern Copper Corporation

Participants:

- Jens Spiess; Morgan Stanley; Research Associate
- Andreas Bokkenheuser; UBS Investment Bank; Executive Director, Head of LatAm Mining & Basic Materials and Research Analyst
- Alfonso Salazar; Scotiabank Global Banking and Markets; Director of Metals and Mining & Analyst
- Alex Hacking; Citigroup Inc.; Director & Head of Americas Metals and Mining Sector
- John Tumazos; John Tumazos Very Independent Research, LLC; President and CEO

PRESENTATION

Operator: Good morning, and welcome to Southern Copper Corporation Third 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 third quarter 2021 as well as answer any questions that you may 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 not to 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 new information, future events or otherwise. All results are expressed in full U.S. GAAP.

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

Raul Jacob Ruisanchez: Thank you very much, Carmen. Good morning, everyone, and welcome to Southern Copper's Third Quarter of 2021 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 into the details of the past quarter, 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 cost, financial results, expansion projects and ESG. After this, we will open the session for questions.

Now let us focus on the copper market, the core of our business. In the third quarter of this year, the London Metal Exchange copper price increased from an average of \$2.90 per pound in the third quarter of 2020 to \$4.25 per pound, that is a 43.6% increase in price. As of today, we're seeing prices at about \$4.40, which tops the year-to-date price of \$4.17 per pound and bodes a positive outlook for the company.

We believe the following factors are influencing the market. We are seeing a strong demand in the U.S. and Europe, particularly in terms of cathodes, which is refined copper consumption. China, although affected by real estate troubles and power shortages, it's experiencing a reduction in scrap imports, which favors the consumption of refined copper.

The uncertainty regarding future production growth in Chile and Peru, it's another factor, because these 2 countries represent together 40% of the world supply. The combined inventories of the London Metal Exchange, COMEX, Shanghai and bonded warehouses remain at relatively low levels. Combined sum of these inventories fell from 907,000 tons in June of this year down to 569,000 tons at the end of September. This is a 37% reduction.

Fourth factor. It's the expectation of those agencies that do market intelligence in the copper market. They are expecting a market deficit at about 200,000 tons this year due to a recovery in demand, which is estimated to grow at about 5% this year, driven by the economic recovery, as I mentioned, mainly in the developed economies.

Now let's look at Southern Copper's production for the past quarter and 2021. For copper, it represented 78.7% of our sales in the third quarter of this year. Copper production registered a slight decrease of 0.6% compared to the third quarter of 2020, to stand this past quarter at 245,146 tons. This was mainly attributable to a drop in production at our La Caridad and Toquepala mines due to lower ore grades and recoveries. This effect was offset by higher production at our Cuajone mine due to an improvement in ore grades.

On a year-on-year basis, copper production decreased 2.8% and totaled 720,658 tons. This result was driven by a drop in ore grades due to stripping and maintenance work that was rescheduled from last year to 2021 due to the COVID-19 pandemic. Compared to the second quarter of 2021, copper production increased by 3.4%, which was mainly attributable to an increase in production at the Buenavista and Cuajone mines. In both cases, due to an improvement in ore grades. It was partially offset by a decrease in production at the La Caridad mine, where grades and concentrator recovery dropped.

For this year, we expect to produce 958,000 tons of copper. As you know, production is being affected by a slight ore grade and recovery of production at the Peruvian operations.

In 2023, we expect our copper production to bounce back over 1 million tons of production as we get our Peruvian operations back on track and generate new production through our Pilares, El Pilar and Buenavista zinc concentrator project.

Molybdenum production represented 11% of the company's sales value in the first quarter of 2021 and is currently our first by-product. Molybdenum prices averaged \$18.43 per pound in the quarter compared to \$7.57 in the third quarter of 2020. This represents a significant increase of 143.5%.

Molybdenum production increased in the third quarter of this year by 5.4%. This was mainly driven by a growth in production at both the Toquepala and Buenavista mines due to higher ore grades. These results were partially offset by lower production at La Caridad and Cuajone.

Compared this past quarter with the second quarter of this year, molybdenum production increased by 16.1%, which was mainly attributable to growth in production at our Toquepala and Buenavista mines, driven by an improvement in ore grades in both cases. For 2021, we expect to produce 29,400 tons of molybdenum, which represents a decrease of 3.2% over our 2020 production level.

Silver represented 3.9% of our sales value in the third quarter of 2020, with an average price of \$24.28 per ounce in the quarter. This represented a slight decrease of 1.3% with regard to the production of the third quarter of 2020. Silver is currently our second by-product.

Mined silver production fell 8.8% year-on-year in the third quarter after production fell at Buenavista, Toquepala and IMMISA. This was partially offset by an increase in production at the Cuajone mine. Refined silver production increased 11.9% in the third quarter of this year, mainly due to an increase in production at all of our refineries.

Comparing the third quarter of 2021 with the prior one, the second quarter, mined silver production increased by 4.4%, which was primarily attributable to a higher production at IMMISA and Cuajone. Refined silver production slightly increased by 1.4% in the third quarter versus the second quarter of this year. In 2021, we expect to produce 19.3 million ounces of silver.

For zinc, it represented 3.7% of our sales value in the third quarter with an average price of \$1.36 per pound in the quarter, a 28.3% increase from the same period of 2020. Zinc mine production slightly decreased 1.8% quarter-on-quarter and totaled 16,894 tons. This was primarily driven by lower production at our Santa Barbara and Charcas mines, which was partially offset by an increase in production at the San Martin operation. Refined

zinc production increased by 29.2% in the third quarter of this year compared to the same period of 2020.

Comparing the third quarter of this year with the second one, mined zinc production decreased by 1.3% in the third quarter, mainly due to a drop in production at our San Martin mine, which was partially offset by an increase in production at the Santa Barbara operation. Refined zinc production increased by 23.9% in the third quarter compared to the second one of this year. For this year, 2021, we expect to produce 67,500 tons of zinc, that's a 2% decrease in production when compared to last year.

Financial results. For the third quarter of 2021, sales were \$2.7 billion. This is \$551.8 million higher than sales for the third quarter of last year or 25.9% increase. Of the total amount of this increase, copper sales represented \$360.5 million. This is an increase of 20.6% in the value of copper sales driven by an improvement in prices, which increased by 43.6%, partially offset by a decrease in sales volume of 14.3%, mainly due to lower third parties copper purchases and higher copper concentrate inventories.

As you know, our production declined 0.6%. That's less than 1%, but our sales have declined a little bit more due to the reduction that we have made in the purchases of third parties copper concentrates. Regarding our main by-products, we registered higher sales of molybdenum, which increased by 145.8% due to better prices and higher volumes. For zinc, they increased by 58.7% due to better prices and volumes. And in contrast, we post lower sales of silver that decreased by 21.6%, which was attributable to lower prices and volume.

Our total operating cost and expenses decreased by \$12 million or 1% when compared to the third quarter of 2020. The main cost reductions have been in purchased copper. We reduced our purchases of third parties materials by \$82.5 million, exchange rate variances, workers' participation and leachable material consumption and cost. These cost reductions were partially offset by higher costs for diesel and fuel, operating materials, energy, labor, and repair and operating contractors.

Our adjusted EBITDA for the third quarter of this year was \$1,709.3 million, which represented an increase of 51.8% with regard to the \$1,125.9 million, registered in the third quarter of 2020. The adjusted EBITDA margin in the third quarter was 63.8% versus 52.9% in the third quarter of 2020. Adjusted EBITDA in the 9 months of this year was \$5,126.2 million. This is 96% higher than the one for the same period of 2020, for the 9 months. The adjusted EBITDA margin year-to-date was 63.2% versus 46.4% in the 9 months of 2020.

Operating cash cost per pound of copper before by-product credits was \$1.62 per pound in the third quarter of 2021. That is \$0.01 higher than the value for the second quarter of 2021. This 0.6% increase in operating cash cost is a result of higher cost per pound from production cost, administrative expenses and lower premiums. These higher costs were partially compensated by lower treatment and refining charges.

Regarding by-products, we registered a total credit of \$543.4 million, or \$1.04 per pound in the third quarter of this year. These figures represent a 1.3% increase when compared with the credit of \$521.2 million or \$1.026 per pound in the second quarter of 2021. Total credits increased for molybdenum, zinc and sulfuric acid and decreased for silver.

Consequently, Southern Copper operating cash cost, including the benefit of by-product credit, was \$0.581 per pound in the third quarter of 2021. This cash cost was \$0.004 lower than the cash cost of \$0.585 that we had in the second quarter of 2021.

Net income in the third quarter of 2021 was \$867.6 million, which represented a 71.5% increase with regard to the \$506 million registered in the third quarter of 2020. The net income margin in the third quarter was 32.4% versus 23.8% in the third quarter of 2020. On a year-on-year basis, net income was 161.6% higher than what we had in 2020. This significant improvements were attributable to higher sales and our strict cost control measures.

For capital investments, as you know, 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 third quarter of this year, we spent \$243.1 million in capital investments, which reflected an 80.7% increase with regard to the year 2020 and represented 28% of our net income for this quarter. As of September 30 of this year, we had spent \$695.5 million on capital investments, which represented 27.1% of net income.

Looking at the projects that we are developing, let me start by commenting on the Tia Maria project in the Arequipa region in Peru. As you know, Southern Copper has been consistently working to promote the welfare of the population of the Islay province. As part of these effort, we have implemented successful social programs in education, health care 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 of Arequipa awarded a City Diploma to Southern Copper in recognition of the company's efforts to assist the population of Islay during the COVID-19 pandemic. Southern Copper provided medical beds and assistance, tests, oxygen, personal protection equipment and food stuffs for the population in the area of influence 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 the Tia Maria's construction.

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

We expect the Peruvian government 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 and actions to provide SCC with an adequate support to initiate construction.

We have news on the Michiquillay project as well. On September 3 of this year, the company signed a social agreement with the Michiquillay Community. Additionally, on October 1, the Peruvian Ministry of Energy and Mines approved a semi-detailed environmental impact study for the project.

The social agreement with the Michiquillay Community represents an opportunity to improve the quality of life of the residents of Michiquillay via our strong social programs and backed by a solid framework for technical work at the project level. Talks for signing a similar agreement are being conducted with the La Encañada Community. That's the other community that we have related to the Michiquillay project, and we expect to have positive results shortly. These events are important steps that will allow Southern Copper to initiate an in-depth exploration program in the first quarter of 2022.

For our Mexican projects, we have the Buenavista zinc concentrator, which is part of the Buenavista operation. This is a project that is located, as I say, within the Buenavista facility, and includes the development of a new concentrator, zinc 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 COVID-19 have been put in place.

Procurement has progressed 93%, 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 September of this year, we have invested \$196.8 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 1,470 indirect jobs.

The Pilares project, also in Sonora, is located 6 kilometers from La Caridad operations. This project consists of an open-pit mine 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. This project will significantly improve the overall mineral ore grade by combining the 0.78% expected ore grade from Pilares with the 0.34% ore grade from La Caridad. The budget for Pilares is \$159 million, of which we

have invested \$81.4 million. We expect the project to begin production in the first quarter of 2022.

The third project that we have in the Sonora state is El Pilar. This is a greenfield project, and it's a low capital intensity one, which is using SX-EW technology. The project is 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 0.3%, which is a very good -- a remarkable good ore grade for this kind of technology.

We anticipate that El Pilar will operate as a conventional 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 technology, which is the SX-EW. The budget for El Pilar is \$310 million. We expect production to begin in 2023 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. Basic engineering study is finished, and the company continues developing project and site environmental activities.

In the Baja California state, we have El Arco, which is a world-class copper deposit located in the central part of the Baja California Peninsula with ore reserves of over 2.4 billion tons with an ore grade of 0.422%. And as a by-product, it has 0.11 grams of gold per ton. The project includes an open-pit mine combining a concentrator and an SX-EW operation.

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 the environmental impact permits. Several years back, we began to acquire the rights to all relevant mining concessions in the area. This process was successfully completed in 2020.

For environmental, social and governance investments. Southern Copper, as you know, is committed to improve its ESG record by adopting the best practices and communicating to the investment community and other stakeholders, our progress in these matters.

Several programs and initiatives have been launched by the company to help communities face the COVID-19 pandemic in all regions where we operate. In Peru, a partnership was established with the government in July of this year to help vaccinate 40% of the population in the 5 regions where our operations are located. The company donated over \$2.5 million to help build, modernize, equip and operate vaccination centers.

About 92% of the 850,000 vaccines contemplated in this initiative has been administered by government personnel. To date, 91.4% of Southern Copper workforce has been vaccinated against COVID-19.

The mining chamber of Mexico recognized La Caridad's mine, refinery and metallurgical plants for top safety performance in their respective categories in 2020. La Caridad mine received a Silver Helmet, or Casco de Plata, in the category for open-pit mining operations with more than 500 employees, whereas the refinery and metallurgical plants received the same distinction in the category for metallurgical plants and smelters with up to 500 employees.

Southern Copper Corporation reaffirms its commitment to presenting an improving environment by implementing actions to generate a net positive impact on biodiversity throughout our operations.

To fulfill this commitment, which is outlined in the company's Environmental Policy, we have developed action plans for biodiversity management that are aligned with the guide for Good Practice Guidance for Mining and Biodiversity published by the International Council on Mining and Metals, the ICMM. These plans further improve the company's capacity to implement effective mitigation measures and contribute to the preservation and improvement of the environment in which we operate.

Southern Copper Corporation recognized the importance and urgency of tackling climate change. The company's operational greenhouse gases emissions have decreased significantly over the past 3 years and dropped by 4% in 2020 alone. And this is in spite of an increase in production volumes.

In 2020, we also began to align our disclosure of efforts to manage climate-related risks and opportunities with the recommendations of the Task Force on Climate-related Financial Disclosures. Grupo Mexico Sustainable Development report for 2020 included a section with specific details on our progress in this regard. We're in the process of setting new absolute emission reduction targets to further mitigate our carbon footprint.

The government of Sonora recognized Southern Copper Corporation for being a culturally responsible company for the voluntary initiatives implemented to promote and safeguard the state's history, culture and traditions.

Three of the community programs launched by the company were pinpointed as particularly relevant: The itinerary documentary cinema workshop, which led to the creation of over 200 videos; the support provided for organizing the Festival Alfonso Ortiz Tirado in Nacoziari and Cananea; and the creation of Youth Orchestras. These educational music programs, which are offered by over 2,100 children in the communities surrounding our mining operations in Mexico and Peru, have led to the creation of 6 orchestras and 4 choirs.

Switching gears to dividends. Regarding dividends, as you know, it is the company policy to review our cash position, expected cash flow generation from variations, capital investment plans and other financial needs in each Board meeting to determine the appropriate quarterly dividend.

Accordingly, as announced to the market on October 21st, the company Board of Directors authorized a cash dividend of \$1 per share of common stock payable on November 23 to shareholders of record at the close of business on November 10 of this year.

Well, with this in mind, ladies and gentlemen, thank you very much for joining us, and we would like now to open up the forum for questions.

QUESTIONS AND ANSWERS

Operator: (Operator Instructions). I have a question from Jens Spiess with Morgan Stanley.

Jens Spiess: Yes. I just wanted to ask if you could repeat the guidance for molybdenum in 2021 and silver? And also if you could give a bit more color on the cash cost that you're expecting before by-products, especially for next year and beyond? And also, if you could just remember us which projects are already fully Board approved?

Raul Jacob Ruisanchez: Okay. Thank you very much for your question, Jens. Okay. For cash cost, next year, we're expecting a slightly lower production than this year. The reason for that is that we are getting into some patches of the Peruvian operations where ore grades are lower.

This is a consequence also of the work that we have been doing to catch up with certain activities that we postponed in 2020 due to the COVID-19. So we will reduce slightly our production for next year. We're still looking into the figure to see and we would like to report on this for the next quarter when we review the full year 2021 and give us our view on 2022.

Considering that, we are expecting to have a cash cost before by-product credits in the range of \$1.70 per pound. By-products will be -- well, as you know, you have to consider by-product prices, and that's sometimes a difficult task because they may vary significantly. But using relatively conservative prices and what I mean by this is, for instance, molybdenum instead of \$19 per pound, \$16 per pound, zinc instead of \$1.50, \$1.20 and so on. We have expecting credits in the range of slightly under \$0.80 per pound for next year.

And the guidance -- you want the guidance for molybdenum for 2021?

Jens Spiess: Molybdenum and silver.

Raul Jacob Ruisanchez: Yes. For this year, it's 29.4 thousand metric tons. For next year, it goes a little bit lower, 24.9 thousand metric tons. And for silver, this year is 19.3 million ounces. Next year, it increases a little bit, 19.8 million ounces. And then in 2023, when we expect to have our production back on track, we will have the benefit of Pilares,

the Buenavista zinc production and copper production of Buenavista and El Pilar. With that, we will bounce back to 1 million tons of copper production.

And we will increase quite significantly our production for zinc. We will pass from a mark, which is about 70,000 tons nowadays, up to 149,000 tons. That's for 2023 for zinc. So we're more than doubling our production of zinc in 2023. That's our current forecast. And with that, obviously, our cash cost will decrease due to the much higher contribution of zinc as a by-product.

Projects that are fully Board approved. Well, we're working on the 3 projects that I mentioned for Mexico that are underway right now, which are in Pilares, El Pilar and Buenavista zinc. In Peru, we have Tia Maria, fully approved. We'll keep doing some efforts in order to move on with the construction, but that's fully approved. And we have El Arco, where we are working to have a full view on the project. And once we have that, we will present that to the Board. The same is the case for Michiquillay.

In the case of Michiquillay, it will be coming later on in time. We are about to initiate a drilling campaign in 2022 and '23. And with the results of this campaign, we will propose to the Board of the company, the approval of an investment -- we're expecting for an operation that may produce 225,000 tons of copper per year.

Jens Spiess: Okay. And when do you expect to bring that to the Board, the Michiquillay position?

Raul Jacob Ruisanchez: Well, it will be at least 3 more years because you have to do the drilling campaign, then you have to do the feasibility study and then we'll present the results of that to the board, asking for permission on that. It should be at least by 2024, where we will know the size of the project that we want to do and have all the work related to knowing exactly what we want to build.

The very important thing that I'd like to mention on Michiquillay is that this is a very good prospect in terms of ore grade, quality of the mineral, for instance, it's a mineral that has no traces of arsenic in it in -- well, not significant traces, obviously. And so it's a very interesting project for us.

It's projects that correspond to a prior generation. It was not developed by the company that has had it before, and we won the auction that the Peruvian government did in 2018, and that's how we have this project as part of our pipeline of future developments.

Operator: Our next question comes from Andreas Bokkenheuser with UBS.

Andreas Bokkenheuser: Just 2 quick questions from me. One is on costs. Obviously, we saw some cost inflation there in Q3 for you guys. Congratulations, I think, higher by-product revenues. Can you just kind of talk about what do you think costs are going to look like disregarding the by-product revenues over the next 12 months? Obviously, you don't know for sure where the by-product revenues are going to go. So just kind of

operationally, where do you see cost or unit cost going over the next 12 months? And why?

And maybe as a second question, are you seeing anything in China, just given all the energy issues and there's been some talk about shutdown of smelters and this kind of thing. I mean any latest read-throughs from China as to what's happening there given the concentrate you're sending there? Those are my 2 questions.

Raul Jacob Ruisanchez: Thank you very much for your questions, Andreas. Let me start by China. For us, we haven't seen any changes in our sales of concentrates to Chinese smelters. We have no concerns so far. We know about what has happened on the power shortages in China. But so far, we haven't had any impact in our concentrate sales to that market.

Looking at the cost for the next 12 months, well, the obvious cost increases I already mentioned them at the at the presentation of the call. We're seeing higher fuel costs, power cost in Mexico, a little bit due to the gas crisis that we had at the beginning of this year, but nothing relevant forward-looking other than having some concerns on fuel basically.

The other thing is -- for the Mexican operations is the exchange rate appreciation, the Mexican peso vis-a-vis where it was a year ago, is now stronger, We're at about MXN 20 per dollar, and we used to be at the MXN 23 or so. So that has created some dollar inflation in our cost of Mexico. In Peru, we have a depreciation of the Peruvian currency vis-a-vis the dollar of about 15%. That has helped our dollars cost.

And in both Mexico and Peru, we had to do a catch-up work for certain maintenance. We had to do a catch-up work for certain maintenance and stripping works that we couldn't tackle in 2020, and we passed them to 2021. So the fact that we are finishing this works will make us to be in better shape in 2022, where we will only have to work at our program for that year specifically.

So that will be -- that plus the exchange depreciation in Peru will be some cost control issues. While we have higher fuel cost and some cost inflation, obviously, in steel and some other materials, but so far, if you see our cost, generally speaking, we have managed to control them by replacing in this year third parties concentrate by our own.

As you may imagine, when we buy third parties material, we pay a market price less discounts. While when we produce and process our own copper that has only the cost that we have to incur in order to produce that metal. So that has helped us this year, and we are expecting next year to have a slightly higher cost before by-product credits, but somehow it will be tempered by a reduction in stripping and some other maintenance work that we had to catch up on them in 2021.

Andreas Bokkenheuser: Got it. That's very clear.

Operator: Our next question comes from Alfonso Salazar with Scotiabank.

Alfonso Salazar: A couple of questions from me. The first one is regarding production. You mentioned that for the year, you are projecting copper production of 958,000 tons. I think this is on production, on mine production, but correct me if I'm wrong. And then for next year, you didn't provide a guidance at this point on the level of production, but you mentioned that it's going to be lower than in '21. And then you're going back to 1 million tons in 2023. Just want to clarify if this is correct.

Raul Jacob Ruisanchez: That's correct, Alfonso. Our guidance is, as you have mentioned, 958,000 tons. For next year, we're expecting a reduction. Right now, we're looking at the number in the range of 950,000 tons, but still to be confirmed. So I think that we need to wait for a final forecast on this, which we will provide on the next quarter's call.

Alfonso Salazar: Okay. And the second question I have...

Raul Jacob Ruisanchez: The 1 million ton for 2023 is correct. That's what I said.

Alfonso Salazar: Okay. Excellent. The second question I have is regarding the labor reform. If you anticipate -- other miners have flagged this as a risk for costs, but I don't know if that is your case or not. And the second is that you mentioned that you are seeing inflationary pressure in case of fuel and a little bit in the power cost because of the price of gas, but nothing forward-looking.

This is provided that there is no change in the electric law that applies in Mexico, if I'm not mistaken or if that's your base case because you have right now contracts with MGE with El Retiro and Fenicias in Mexico. But based on that, the fact that this could change, then you might change that -- is this correct?

Raul Jacob Ruisanchez: Okay. Let me comment on the power reform first. We need to see what finally is approved -- the power reform in Mexico. We need to see what is finally approved. And on that base, we will evaluate the consequence for Southern Copper. Obviously, we have some concerns as has been expressed in different forms by other economic agents as well.

Regarding cost inflation, well, we talked about a little bit on fuel. Let me give you some news on this. We have acquired price protection for gas for these next few months. We'll go into the hardest part of the winter, where we have acquired some price protection for that part of the season. And we believe -- well, currently, the gas price is higher than our facility. So we're okay with that.

In labor, we are also addressing the impact of the new labor costs or new labor legislation in Mexico. At the same time, we are pretty much finishing negotiations with our labor force in Peru, and we have signed contracts that range from 4 years to 6 years with the different unions, the 6 unions that we have down there.

So we believe that our labor costs will be under control in the next few years for the Peruvian operations. In Mexico, we have to fully review what's the impact of the labor reform -- the impact that it may have on our cost.

Marlene Finny: So in Mexico, we now have currently the combined cycle power plant in Mexico that is part of Grupo Mexico. So that means that the electric power generated in the combined cycle is considered to be authentic own supply since it is exclusively supplied with a related company with the (inaudible).

So the current government has been very impacted in (inaudible), the two unrelated parties agreed on (inaudible), but not outside (inaudible). We will comment further on that, but just to give you that sense in the same case for the other (inaudible). Just to comment on that, sorry.

Operator: Our next question comes from Alex Hacking with Citi.

Alex Hacking: Just following up on Michiquillay. You mentioned you have an agreement with the Michiquillay Community and discussions with La Encañada Community. Are those -- are those the only 2 communities that you're dealing with? Or are there others? And then...

Raul Jacob Ruisanchez: No, those are -- go ahead, go ahead, please. Sorry.

Alex Hacking: No, you go ahead, please.

Raul Jacob Ruisanchez: Well, yes, the 2 -- the area of influence of the project has these 2 communities. Michiquillay, we already mentioned the agreement that we have signed with them very successfully, and we're all very happy on that. And the other one La Encañada. We are working with them, and we expect to have an agreement shortly.

Alex Hacking: Okay. And then are there specific critical issues such as water rights or relocating families? Or is it more of a general concern about disrupting their way of life? I guess what are the critical concerns that these communities have? And how do you plan to address them?

Raul Jacob Ruisanchez: I think that the critical issue for them is to clearly benefit from the project. That's why we're working. We're working with them in several initiatives to improve their development as communities. And well, there should be some relocation of certain number of families.

But most of the community lives in the surrounding areas of the project footprint. So we don't need to relocate many, many, many families. But there are some that will need to move to a different place. But if I can summarize their major concern is how can they benefit from the economic impulse that this project will bring to this area.

Alex Hacking: Okay. And then just a very quick follow-up on something else. Shipments lagging production a little bit this year. Is that something -- is that just inventory build? Do you sort of rebuild from last year normal? Or should we expect a little bit of catch-up in the fourth quarter?

Raul Jacob Ruisanchez: Well, we are expecting to have some catch-up. And the reason for this inventory buildup is that we replaced third parties concentrates by our own concentrate, and that has to pass through the whole production process. So that's mainly the reason. We're working in order to catch up on sales for the fourth quarter.

Operator: Our next question comes from John Tumazos with John Tumazos Very Independent Research.

John Tumazos: My question is in terms of capital management priorities. Does the many projects come first? And the projects, of course, are of a high quality of scheduling and sequence issues where you would borrow if you need to, depending on the copper price, et cetera? The reason I'm asking the question, yesterday the World Steel Association described September output, Chinese steel output fell another 10% in December.

It's fallen by 25% since April, 15% of world steel output magnitude. It's 90x bigger than the largest blast furnace in North America, (inaudible). So it's an epic size. It appears the property sector, whatever they're doing to fight inflation. They're winning that war. They're really killing their economy. So given the variations that might occur in copper demand or prices, should we assume the projects come first?

Raul Jacob Ruisanchez: Well, we -- what we're seeing it's -- my personal belief is that the Chinese authorities have the right instruments to deal with the circumstances that they are facing now, generally speaking. But looking into your concern, John, and thank you very much for your question.

I think that what we are doing is focusing in developing these very good projects that we have. They are, generally speaking, much lower in capital intensity per ton of copper capacity installed than the average worldwide. Also, when they be in operation, their cash cost will be well aligned with our current cash cost. So we think that these are projects that will be required to go on in the next few years.

You mentioned some of the troubles that the Chinese economy is facing. We also see on the flip side for this what were -- the Green Energy's revolution and their impact on copper, on long-term copper demand that it's basically increasing or moving upward the estimates for copper consumption for the next decade.

So I think that hopefully, the Chinese will be able to deal with their current matters, their current problems. And this new green energy revolution that will require significant amounts of copper and some other basic metals will give support to our operations and to the copper market price, particularly.

John Tumazos: So to summarize your reply, not concerning copper demand, but your capital management. Your projects are high quality, they come first, yes. And if necessary, you would borrow to complete them.

Raul Jacob Ruisanchez: Usually, we are taking some debt when we are tackling new projects. You have seen that we issued in 2019 \$1 billion bond in order to fund the 3 projects that we are currently developing in Mexico. And we did that as well with the Buenavista expansion. So once we have some certainty of future increase in, say, EBITDA, we usually consider going to the debt markets to assure a healthy share of debt in our balance sheet for this new undertaking.

So in this case, for instance, if we move on with some new project of the ones that we have been talking about, we'll probably consider and that's always up to the Board, but we'll propose as management to look into the debt market. And if conditions are fine, we may consider going on for new debt.

John Tumazos: May I ask a different question?

Raul Jacob Ruisanchez: Go ahead, please.

John Tumazos: I meticulously read the World Bureau of Metal Statistics copper data, and I ignore all the popular consultants. In 2019, '20 and '21, rest of world copper demand, ex China, is lower than 2009 recession. So that confuses me about copper demand growth because it appears to be decay. Chinese demand since 2014, only had 1 good year, last year, which may have been stockpiled building. Maybe the compound growth rate is 2%, except for last year's gain and this year's decline.

So I believe that all these new applications exist. I don't believe they're fantasies, they're real. But I interpret that there's a 4% decay rate in the base level of mature demand due to wireless controls, smartphones complying -- applying, combining 10 or 20 appliances, downsizing my new air conditioner for the outside of my house is 1/3 as big as the one it replaced. Could you talk to why copper demand is not bigger when we have all these applications? And excuse me, I'm cynical, I think that the leading consultants, they tell the CEOs what they want to hear. And I'm just looking at the WBMS data, which I respect.

Raul Jacob Ruisanchez: Okay. What we're seeing is that new technologies are using much more copper, and we're seeing a clear path towards the development of that. And this will -- I mean, well, first, let me mention that we're currently in a much different market than what we expected before the pandemic.

So everything is tainted by these major breakdown that we have had due to the pandemic. We have to see -- we believe that new uses of copper will replace and surpass lower demand due to substitution or some recession in certain parts of the world. What we're seeing now is the world economy growing for this year and expecting to grow for next year, and that will certainly propel new copper demand.

On China, I mentioned already, my personal view is that they will be able to deal with these as they have done with some other even more problematic matters in the past. But that's my view as an officer of a copper-producing company. That's it.

Operator: And we have a question from the line of Alfonso Salazar with Scotiabank.

Alfonso Salazar: Just a quick follow-up, a very easy one. Just wondering why Southern Copper is lower in third-party purchases? Is this because there are less concentrates available? Is this a strategic move of the company? So what is behind the decision?

Raul Jacob Ruisanchez: A simple answer to that, Alfonso, is that market conditions changed a little bit, and we decided to move on with our own material. As you know, we are long on copper concentrates. We have been selling our own concentrates and buying some other different qualities and copper concentrates.

We made a review vis-a-vis the new market conditions that we have had through 2021 and decided to stop buying third parties copper concentrates. No market shortages just to be very straight in answer to what you expressed as a concern.

Operator: And I'm not showing any further questions in the queue, sir. You may continue with any final remarks.

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

Operator: Thank you. And this concludes today's conference call. Thank you for participating, and you may now disconnect.