

Southern Copper Corp (3Q22 Earnings)

October 28, 2022

Corporate Speaker:

- Raul Jacob; Southern Copper Corp.; VP Finance, Treasurer & CFO

PRESENTATION

Operator: Good morning. Welcome to Southern Copper Corporation's Third Quarter 2020 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 2022 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: In today's call, we will begin with an update on our view of the copper market and then we will 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.

Looking into the copper market. In 3Q22, the LME copper price decreased 17.4% from an average of \$4.25 per pound in the 3Q21 to \$3.51, reflecting concerns about a simultaneous recession in the US, Europe and China due to the following factors: On-going interest rate hikes by the FED, the ECB and other relevant central banks to control inflation. A slowdown in the Chinese economy due to Covid-19 restrictions and a weak real estate market. The impact of energy prices on consumer's demand; energy and inflation, as well.

However, we should note that the most relevant market intelligence houses for the copper market are expecting a market in balance or with a small deficit for 2022. This assumes a growth in demand of about 2.0% this year.

Even though we expect the supply will grow between 3.5-4.0% next year, mainly due to new projects, such as the Quellaveco one in Peru, there is uncertainty regarding future production growth in Chile and Peru, which together represent about 40% of the global supply.

The major warehouses have reported a reduction in copper inventories. If we add the inventories at the London Metal Exchange, COMEX, Shanghai and the bonded warehouses in China, the sum of that is 247,000 tons as of September 30th. These inventories are very low, since they represent less than four days of consumption.

We believe that the economic slowdown in the U.S., China and Europe have temporarily weakened the demand for copper and are driving reductions in current prices. It is important to emphasize that copper plays a leading role in the global shift to clean energy, which correlates positively with our assertion that the underlying demand for copper will be strong in the long-term. In this scenario, we believe the current cycle of low prices will be short-lived.

Now let's look at Southern Copper's production for the past quarter.

Copper represented 74.6% of our sales in the 3Q22.

Copper production registered a decrease of 6.0% in 3Q22 in a quarter-on-quarter terms to stand at 230,522 tons. Our quarterly result reflects an 11.8% drop in production in Peru and an 11.3% decline at the La Caridad mine. This loss was mainly attributable to a decrease in ore grades at Toquepala, La Caridad and Cuajone. On a YoY basis, copper production fell 9.3% in 2022 to stand at 653,430 tons.

Compared to 2Q22, copper production increased by 10.6%, which was mainly due to an increase in production at Cuajone (35.0%), Toquepala (11.4%), IMMSA (6.5%), Buenavista (4.7%) and La Caridad (3.8%) mines.

After the Company recovered the Cuajone facilities in April, we implemented a plan to gradually scale up production to recuperate volume losses at this operation. At this point, we estimate that our Peruvian operations will reach 94% of the 2022 production plan of 360,900 tons. For Southern Copper we expect production to reach approximately 900,000 tons this year, this represents a decrease of 3% compared to our 2022 plan of 922,000 tons.

We expect our copper production to bounce back in 2023, reaching 926,100 tons of production as we get Peruvian production back on track and generate new production through our Pilares and Buenavista Zinc Concentrator projects.

Molybdenum represented 9.9% of the Company's sales value in 3Q22 and is currently our first by-product. Molybdenum prices averaged \$16.0 per pound in the quarter, compared to \$18.43 in 3Q21, which represents a price decrease of 13.2%.

Molybdenum production decreased by 24.8% in 3Q22 compared to 3Q21. This was mainly driven by a decrease in production at Toquepala, La Caridad and Buenavista mines due to

lower ore grades; these results were partially offset by higher production at Cuajone, that increased its molybdenum production by 2.4%.

Molybdenum production fell 12.5% YoY in 2022 after production fell at Cuajone by 21.4%, Toquepala and La Caridad. This was partially offset by an increase in Buenavista molybdenum production.

For this year we expect to produce 25,400 tons of molybdenum.

Silver represented 4.1% of our sales value in 3Q22 with an average price of \$19.10 per ounce in the quarter, a decrease of 21.3% from 3Q21. Silver is currently our second by-product.

Mined silver production slightly increased by 0.6% in 3Q22 from 3Q21 after production grew at the Buenavista and IMMSA mines. This was partially offset by a reduction in Toquepala, Cuajone and La Caridad. Refined silver production increased 10.2% in the 3Q22 from 3Q21, mainly due to an increase in production at our La Caridad refinery.

For 2022, we expect to produce 18.9 million ounces of silver, in line with our 2021 production level.

Zinc represented 4.7% of our sales value in 3Q22 with an average price of \$1.48 per pound in the quarter, an 8.8% increase from 3Q21. Zinc is currently our third by-product.

Zinc mined production decreased 11.9% QoQ and totaled 14,881 tons. This was primarily driven by lower production at Charcas and Santa Barbara mines. Refined zinc production decreased by 2.9% in 3Q22 compared to 3Q21.

For 2022, we expect to produce 63,300 tons of zinc.

Financial results.

For the third quarter of 2022 sales were \$2,157 million; \$524.0 million lower than sales of the 3Q21. Copper sales volume increased by 2.4% while value decreased by 23.7%, in a scenario of lower copper prices.

Regarding our main by-products, we had lower sales of molybdenum by 27.8% due to a decrease in volumes and prices. For silver, sales decreased by 15.9% due to lower prices which were partially offset by higher volumes. Zinc sales increased 2.3% due to higher prices, which was partially offset by lower volumes.

Our Total Operating Cost and Expenses increased by \$196.6 million or 16.8% when compared to the 3Q21. The main cost increments have been in inventory consumption, diesel and fuel, translation difference, repair materials, energy, explosives and other factors.

These cost increases were partially compensated by lower purchased copper and depreciation.

3Q22 adjusted EBITDA was \$1,017.9 million, which represented a decrease of 40.4% with regard to the \$1,709.3 million registered in 3Q21. The 3Q22 adjusted EBITDA mark was similar to the \$1,021.4 million registered in 2Q22.

The adjusted EBITDA margin in 3Q22 stood at 47.2% versus 44.3% in 2Q22 and 63.8% in 3Q21.

The operating cash cost per pound of copper before by-product credits was \$2.06 per pound in the 3Q22, meaning 9 cents lower than the value for 2Q22, that was \$2.15. This 4.0% decrease in operating cash cost is the result of lower costs per pound from production cost and administrative expenses; this evolution was partially offset by higher treatment and refining charges and a decrease in the premium that we receive for selling our copper cathodes.

Southern Copper's Operating Cash Cost, including the benefit of by-product credits, was 103.4 cents per pound in the 3Q22. This cash cost was 6.3 cents lower than the cash cost of 109.7 cents for 2Q22.

Regarding by-products, we had a total credit of \$501.1 million or 102.7 cents per pound in 3Q22. These figures compare with a credit of \$465.3 million or 105.1 cents per pound in 2Q22. Total credits have decreased for silver by 17.1% and increased for molybdenum, zinc and sulfuric acid.

Net income in 3Q22 was \$519.0 million, which represented a 40.2% decrease with regard to the \$867.6 million registered in 3Q21. However, net income in 3Q22 represented a 20.1% increase when compared to the \$432.3 million registered in 2Q22.

The net income margin in 3Q22 stood at 24.1%, versus 18.7% in 2Q22, and 32.4% in 3Q21.

Cash flow from operating activities in 3Q22 was \$590.1 million, which represented an increase of 90.4% over the \$309.8 million posted in 2Q22, and a decrease of 51.7% over the \$1,220.6 million posted in 3Q21.

Capital Investments

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

In 3Q22, we spent \$227.9 million on capital investments, which reflected a 6.3% decrease with regard to 2021 and represented 43.9% of net income this quarter. We continue to advance our projects, including the Buenavista Zinc, El Pilar and Pilares projects, which have registered good progress.

On the Peruvian projects, our current portfolio for approved projects in Peru totals \$2.8 billion, \$1.6 billion of which has already been invested. If we include the up-and-coming Michiquillay (\$2.5 billion) and Los Chancas (\$2.6 billion) projects, our total investment program in Peru reflects a commitment of \$7.9 billion.

In the case of Tia Maria. This greenfield project, located in Arequipa, Peru, will use state-of-the-art SX-EW technology with the highest international environmental standards to produce 120,000 tons of SX-EW copper cathodes per year. The estimated capital budget for the project is \$1.4 billion.

Southern Copper has been consistently working to promote the welfare of the population of the Islay province, where the project is located. 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 Peruvian economic situation, it is crucial to move ahead on projects that will stimulate a sustainable growth cycle. We will make it a priority to hire local labor to fill the 9,000 jobs that we expect to generate during Tia Maria's construction. Additionally, from day one of our operations, we will generate significant contributions to revenues in the Arequipa region.

In the case of Los Chancas. This greenfield project, located in Apurimac, Peru, is a copper and molybdenum porphyry deposit. Current estimates of indicated copper mineral resources are 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 capital investment is \$2,600 million and the project is expected to begin operating in 2027. In February of this year, some illegal miners occupied a portion of the project's land and began to produce copper through a small-scale artisanal process. This action was followed by an attack on the project mining camp on May 31, which caused a fire that completely destroyed the installations. As of September of this year, part of the project's land continues to be occupied by illegal miners, some of whom have irregularly registered their stakes in the "Integral Registry of Mining Formalization" (REINFO). The Company has filed criminal complaints and other legal remedies, which have annulled the claims of 43 illegal miners while 32 cases remain open.

In Cajamarca, where we have the Michiquillay project. As you know, in June 2018 Southern Copper signed a contract for the acquisition of the Michiquillay project in Cajamarca, Peru. Michiquillay is a world-class mining project with inferred mineral resources of 2,288 million 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 mine life of more than 25 years and at a competitive cash-cost. We estimate an investment of approximately \$2.5 billion will be required and expect production start-up by 2029. 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. Last year, in 2021, the Company signed a Social Agreement with the Michiquillay and the Encañada Communities. In addition to this, on October 1, 2021, the Peruvian Ministry of Energy and Mines approved the semi-detailed Environmental Impact Study for the project. These events will allow Southern Copper to initiate an in-depth exploration program in November 2022.

On the Mexican Projects. In the case of Buenavista concentrator for zinc, 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. All the main equipment is on-site and construction site works are in progress. The project has all the necessary permits and the capital budget is \$413 million. When completed, this new facility will double the Company's zinc production capacity and provide 490 direct jobs and 1,470 indirect jobs. As of September 30, 2022, we had invested \$292.4 million in this project, where physical completion is at 83%. We expect to initiate operations in 2H23.

For Pilares, located also in Sonora, at 6 kilometers from La Caridad, this project consists of an open-pit mine operation with an annual production capacity of 35,000 tons of copper in concentrate. A new 25-meter-wide off-road facility for mining trucks has been built and will be used to transport the ore from the pit to the primary crushers at the La Caridad copper concentrator. This project will significantly improve the overall mineral ore grade of La Caridad by combining the 0.78% expected from Pilares with the 0.29% from La Caridad. The budget for Pilares is \$159 million. As of September of this year the project is 95% complete and has obtained all permits and licenses required. Pilares has initiated operations and is currently mining copper oxides and mineral to be processed.

In the case of El Pilar, also in Sonora. This is a low-capital intensity copper greenfield project, located approximately 45 kilometers north-east of 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 0.249%. 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 SX-EW technology. The budget for El Pilar is \$310 million. We expect production to begin in 2024 and the mine life is estimated at 13 years. The results from experimental pads in the leaching process have confirmed adequate levels of copper recovery. Basic engineering study has been completed. The Company continues to develop the project and is engaging in onsite environmental activities. The SX-EW plant EPCM project has been awarded to a contractor and has started.

For El Arco, in Baja California: This is a world-class copper deposit located in the central part of the Baja California peninsula with ore reserves of over 1,230 million tons with an average ore grade of 0.40% and 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. The Company has completed the environmental impact assessment, which will be filed with the authorities shortly.

For ESG Investment: Environmental, Social and Governance; SCC is committed to improving its ESG record by adopting best practices and informing the investment community and other stakeholders about our progress in these matters.

In line with best practice, the Board of Directors has approved the formation of a new Sustainability Committee chaired by an independent director. The purpose of this Committee is to support the Board of Directors of Southern Copper Corporation in developing and monitoring the Company's compliance with ongoing commitments to the environment, health and safety, communities, human rights, and corporate governance. This is a significant step in our pledge to a robust and strong ESG performance.

The Sustainable Development Committee held its first session on October 14th, 2022. During this encounter, our counselors reviewed our advances in terms of our main performance indicators and gave us recommendations for the climate change strategy we are building.

As you know, our holding corporation, AMC, has adhered to the UN Global Compact. With this affiliation, we reaffirm our commitment to align our policies, strategies, and operations with the Ten Principles of the Global Compact, which address issues such as human rights, labor rights, the environment and anti-corruption. This adherence to the Global Compact will also position us to further our contributions to the 2030 Agenda for Sustainable Development Goals and the Paris Agreement.

We are actively collaborating with the International Copper Association (ICA) to define a Global Copper Decarbonization Roadmap, which is aligned with the Paris Agreement. The results of this exercise have nurtured our medium and long-term objectives and will be published in the first quarter of 2023.

Occupational safety is a priority for the Company. The Mexican Government awarded our Caridad metallurgical operation, located in Sonora, Mexico, the distinction of "Safe and Healthy Workplace." The Company was recognized for its voluntary program to implement strategies and actions to improve the safety, health and well-being of our workers while bolstering the productivity and quality of the workplace. The precious metals plant, which is part of the aforementioned complex, received the "Casco de Plata" distinction (Silver Helmet) in the category "Smelters with less than 500 workers," which was awarded by the Mining Chamber of Mexico in recognition of the fact that the plant was the best performer on the occupational accident index for 2021.

A reduction in accident rates and a renewed drive to safeguard the lives and health of our workers led MAPFRE-Peru to award our SCC Toquepala unit with an “Award for Safety Excellence in 2021.” This distinction recognizes the effectiveness of the Comprehensive System for Occupational Safety and Health Management that has been implemented at this mine and throughout the organization.

Thanks to our commitment to adequately use and preserve water resources, we have begun building a wastewater treatment plant in the province of Ilo, in Moquegua, Peru. This project will require an investment of \$27 million dollars and will benefit more than 77,000 people. SCC will operate and maintain the plant for the next 30 years to prevent wastewater from being discharged into the ocean, which will protect the marine ecosystem and public health. The President of the Council of Ministers of Peru, Anibal Torres, inaugurated this facility accompanied by the minister of Energy and Mines and the minister of Housing, Construction and Sanitation.

In the framework of the 14^o International Mining Congress, which was held in Hermosillo, Sonora, Mexico, the Association of Mining Engineers, Metallurgists and Geologists of Mexico A.C. bestowed Grupo México, the holding company of AMC, with an award, in recognition of the corporation’s efforts to generate more social impact in this state of the Mexican Republic.

More than 300 outstanding students will benefit from the construction of modern infrastructure for the High-Performance School of Moquegua, which SCC will build through the Taxes for Works mechanism, in conjunction with the Ministry of Education. At a well-attended ceremony, the project’s first stone was laid. The facility will be completed over a period of 18 months and will require an investment of \$25 million dollars.

Regarding dividends, as you know, it is the Company’s 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 October 20, the Board of Directors authorized a cash dividend of fifty cents per share of common stock payable on November 23, to shareholders of record at the close of business on November 9, 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 to now open the forum for questions.

With this we conclude our conference call for SCC’s 3Q22 results. We certainly appreciate your participation and hope to have you back with us when we report the 4Q22 and year 2022 results. Thank you very much and have a nice day.