

## Southern Copper Corp (2Q22 Earnings)

July 27, 2022

### Corporate Speakers:

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

### Participants:

- Timna Tanners; Wolfe Research; Analyst
- Carlos De Alba; Morgan Stanley; Analyst
- Fernando Assad; Ashmore; Analyst
- Alfonso Salazar; Scotiabank; Analyst
- Isabella Vasconcelos; Bradesco; Analyst
- Enrique Braga; Morgan Stanley; Analyst

## PRESENTATION

Operator^ Good morning. Welcome to Southern Copper Corporation's Second 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 second 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^ Thank you very much, Carmen. Good morning to everyone. Welcome to Southern Copper Corporation's second quarter results conference call. On today's conference, I'm accompanied by Mr. Oscar Gonzalez Rocha, CEO of Southern Copper and Board Member.

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

Before we go into the details of the second quarter of this year, let me mention that our financial results have been impacted by some unusual circumstances. This scenario has been compounded by 3 major factors: increases in cost for fuel, power and some other operating materials due to inflation, a drop in copper prices that affected results for the quarter as well as open sales through a significant mark-to-market adjustments, which led sales to drop \$173.5 million. Mark-to-market is a required accounting method to reflect the fair value of sales that have no final price due to quotational periods in the future time.

In other words, when prices drop, we have to adjust sales that we have not collected. The value of these sales are the ones that are reflected in our financials. And as a consequence, we have this \$173.5 million adjustment. The third factor is that quarterly results were also affected by a 25,624 tons decrease in copper production at our Peruvian operations, attributable to the stoppage at Cuajone and lower ore grades. To avoid a force-majeure event, production losses were temporarily offset with copper purchased from third parties, albeit at a higher cost.

Finally, net sales were affected by lower sales volumes due to an uptick in the finished goods inventory translated into \$105.2 million sales reduction. Now let's focus on the copper market. In the second quarter of this year, the London Metal Exchange copper price decreased 2% from an average of \$4.40 per pound in the second quarter of 2021 to \$4.32 in this quarter. However, during the month of June, we had a significant drop in copper prices down to its current level of between \$3.30 and \$3.40 per pound. A concern for a simultaneous recession in the U.S., Europe and China is dominating the market and consequently affecting copper prices.

These fears are based upon the following factors: the consistent increment in interest rates by the Fed, the ECB and other relevant central banks. The slowdown of the Chinese economy due to Covid-19 lockdowns and a minus 31% reduction in construction activities year-on-year. Even though these are issues that concern us, we should note that the most relevant market intelligence houses for the copper market, are expecting a balance or a small deficit for 2022 in the copper market.

We're assuming that demand will grow between 1% and 2.5% this year, particularly in terms of cathode consumption in the U.S. There is uncertainty regarding future production growth in Chile and Peru, which together represent about 40% of the total copper supply. The major warehouses have not reported a relevant increase in copper inventories.

Just to give you an idea, the sum of the London Metal Exchange, COMEX, Shanghai and bonded warehouses in China, altogether represent as of June 30; 8-days of consumption,

a relatively low level of refined material available. We believe the economic slowdowns 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 should be short-lived.

Now let's look at Southern Copper's production for the past quarter. Copper represented 78% of our sales in the second quarter of 2022. Copper production registered a decrease of 12.1% in the second quarter. In a quarter-on-quarter terms to stand at 208,428 tons. Our quarterly results reflect a 25.3% drop in production in Peru, which was triggered by a production loss of 9,339 tons at the Cuajone mine. This loss was primarily attributable to a 54-day mine stoppage and secondarily to a decrease in ore grades at both Toquepala and La Caridad. On a year-on-year basis, copper production fell 11.1% in 2022 to stand at 422,908 tons.

Regarding the Cuajone stoppage, on April 30 of this year, the Peruvian government issued a ministerial resolution to set up a 3-party roundtable for dialogue with members of the community, government and company officials, to better understand all parties concerned. As of today, 9 roundtable meetings and 3 direct meetings with the community has been held. The company has proposed plans to invest in social programs and address the needs voiced by the communities, and SCC has indicated interest in purchasing land near the Cuajone operations to establish a buffer zone to project installations and production down the line.

The company strongly believes that the program it has proposed will make meaningful and sustainable contributions to the community's progress and well being. This effort will be complemented by a positive impact through the social investment for taxes mechanism, known in Spanish as "Obras por Impuestos", which will allow SPCC to fund public investments in necessary public infrastructure and credit these expenditures against its taxes.

For 2022, we expect to produce 898,200 tons of copper, a decrease of 3% compared to our 2022 plan of 922,000 tons. We expect our copper production to bounce back in 2023, reaching 971,000 tons of production as we get the Peruvian production back on track and generate new production through our Pilares and Buenavista zinc concentrator project.

For molybdenum, it represented 8.6% of the company's sales value in the second quarter of 2022, and is currently our first byproduct. Molybdenum prices averaged \$18.30 per pound in the quarter compared to \$13.89 in the second quarter of 2021. This represents an increase of 31.7% in price. Molybdenum production decreased by 9.4% in the second quarter of 2022 compared to the same period of 2021. This was mainly driven by a decrease in production at the Cuajone operation. La Caridad and Toquepala mines also decreased their production due to lower ore grades mainly; in the case of Cuajone it was

the Cuajone stoppage. These results were partially offset by higher production at Buenavista.

On a year-on-year basis, molybdenum production fell 5.4% in 2022 after production fell at Cuajone and Caridad, and was partially offset by an increase in Buenavista and Toquepala mines production. For this year, 2022, we expect to produce 25,700 tons of molybdenum. We believe that for the molybdenum market, prices will be supported by lower exports from China and Russia that are maintaining this market in a deficit. For silver, it represented 4.3% of our sales value in the second quarter of 2022, with an average price of \$22.65 per ounce in the quarter, a decrease of 15.4% from the second quarter of 2021 price.

Silver is currently our second byproduct. Mined silver production decreased by 4.3% in the second quarter of this year compared vis-a-vis the same period of 2021, after production fell at Toquepala, Cuajone and La Caridad. This was partially offset by an increase in production at the IMMSA and Buenavista mines. Refined silver production increased 1.1% in the second quarter of this year, mainly due to an increase in production at our La Caridad and IMMSA refineries.

In 2022, we expect to produce 18.9 million ounces of silver, in line with our 2021 production level. Zinc represented 3.5% of our sales value in the second quarter of 2022, with an average price of \$1.78 per pound in the quarter, a 34.8% increase from the same period of 2021. Zinc mined production decreased by 11.5% quarter-on-quarter and totaled 15,141 tons. This was primarily driven by lower production at Charcas and San Martin mines. Refined zinc production decreased by 14.8% in the second quarter compared to the second quarter of 2021.

For this year, 2022, we expect to produce 66,900 tons of zinc in line with 2021 production. Looking at our financial results. For the second quarter of 2022, sales were \$2.3 billion. This is \$590 million lower than sales for the second quarter of 2021 or 20.4% lower sales. Of this amount, \$173.5 million are explained by the mark-to-market adjustments, 89.3% by the 9,339 tons of Cuajone production loss in the quarter, \$117.8 million by lower sales due to lower ore grade at the Peruvian operations and \$105.2 million for 11,000 tons of finished products in inventory.

Copper sales volume decreased by 16.3%, while value decreased by 23.4%, in a scenario of lower prices, mainly as a result of the adjustment that I already mentioned and the reduction in volumes indicated. Regarding our main by-products, we had lower sales of molybdenum due to lower volume, partially compensated by better prices. In the case of silver, sales decreased due to lower prices and volume. For zinc sales remained stable with the lower volume compensated by better prices. Our total operating cost and expenses increased by \$276.5 million or 22.6% when compared to the second quarter of 2021.

Main cost increments have been in Mexican workers' participation, purchased copper, diesel and fuel, and operating and repair materials. Energy has also increased somehow.

These cost increases were partially compensated by lower Peruvian workers' participation, translation difference and other factors. The second quarter of this year, adjusted EBITDA was \$1,021.4 million, which represented a decrease of 45.2% regarding the \$1,862.4 million registered in the second quarter of 2021.

The adjusted EBITDA margin in the second quarter stood at 44.3% versus 64.3% in the same period of 2021. Adjusted EBITDA in the 6 months was \$2.7 billion, 21% lower than the same mark for the first half of 2021. The adjusted EBITDA margin for the 6 months of 2022 stood at 53.2%, versus 62.9% in the same period of 2021.

Cash cost. Operating cash cost per pound of copper before byproduct credits was \$2.15 per pound in the second quarter of 2022. That is \$0.32 higher than the value for the first quarter of 2022. This 17.4% increase in operating cash cost is a result of higher cost per pound from production cost, treatment and refining charges and administrative expenses. This was partially compensated by higher premium on refined copper. Southern Copper operating cash cost, including the benefit of byproduct credits, was \$1.10 per pound in the second quarter of this year.

This cash cost was 54.2 cents higher than the cash cost of 55.5 cents that we had in the first quarter of this year. Regarding by-products, we had a total credit of \$465.3 million or \$1.05 per pound in the second quarter of 2022. These figures represent a 17.6% decrease when compared with the credit of \$583.5 million or 127.5 cents per pound in the first quarter of this year. Net income in the second quarter of 2022 was \$432.3 million, which represent a 53.7% decrease regarding the \$932.7 million registered in the second quarter of 2021.

Net income margin stood at 18.7% versus 32.2% in the same period of 2021. This is for the second quarter. As mentioned before, our financial results this quarter has been impacted by unusual circumstances. Nonetheless, we believe Southern Copper is well positioned to leverage our strengths in a challenging environment. Our strong financial position, low cash cost, operating cost efficiency programs and our significant copper reserves will let us weather both current and eventual circumstances. We remain fully committed to creating added value and positive impact for our shareholders and for all the communities where we operate.

Cash flow from operating activities in the 6 months of 2022 was \$1,130.5 million, which represented a decrease of 38.7% over the \$1,844.2 million posted in the 6 months of 2021. This effect was attributable to lower sales value and to the mark-to-market adjustment already indicated. Let me add to that, that in the first 2 quarters of the year, we have a structurally higher, an increase in working capital that reduced our cash flow available during the first half of the year. Capital investments, Southern Copper's investment philosophy is not based on the outlook for copper prices but on the quality of the assets that we operate and develop.

Throughout the years, our strong financial discipline has consistently allowed us to make ongoing investments in our considerable asset portfolio. In 2022, we spent \$224.6 million

on capital investments, which reflected a 2.2% increase over the figure reported in 2021 and represented a 51.9% of net income this quarter. In the first half of the year, we spent \$429.7 million on capital investments, which represented 35.3% of net income. Our current portfolio for approved projects in Peru totaled \$2.8 billion, \$1.6 billion of which has already been invested. If we include the Michiquillay \$2.5 billion project and Los Chancas a \$2.6 billion project, our total investment program in Peru reflects a commitment of \$7.9 billion.

For Tia Maria, in Arequipa, 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.

In 2021, Southern Copper fortified its relationship with the regional government and successfully overcome its opposition to project initiation. This new consensus was reflected in an agreement for social investment for taxes for projects relative to health facilities and roads. Our efforts to ensure the current and long-term welfare of the population in the area of influence of the Tia Maria project were recognized by several local associations, which send letters to the national government to request project imitation.

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 construction. Additionally, from day 1 of our operations, we will generate significant contribution to revenue in the Arequipa region. The company has made an offer to the Peruvian government to build the Paltiture dam, instead of a desalinization plant originally proposed to provide water to both, the project and the community.

The dam will have a total capacity of 73 million cubic meters of which the company will use a maximum of 10 million cubic meters. The remaining 63 million will be for community use. The dam, if built, will require a much higher investment than the \$100 million budget planned for the desalinization plan. Nevertheless, the company believes that by increasing the water supply, it will generate more palpable benefits for local communities. We expect the Peruvian government to continue to acknowledge the significant progress the project has made on the social front and the important contributions that Tia Maria will generate for Peru's economy and consequently, take the necessary steps to provide SCC with adequate support to initiate construction.

Los Chancas; it's a greenfield project located in Apurimac, Peru. It's a copper and molybdenum porphyry deposit. Current estimates of indicated copper mineral resources are 98 million tons of oxide with a copper content of 0.45% and 52 million tons of sulfide with a copper content of 0.59%. Los Chancas project envisions an open pit mine with a combined operation of concentrator and SXEW processes to produce 130,000 tons of copper and 7,500 tons of molybdenum, annually. The estimated capital investment is \$2.6 billion, and the project is estimated to begin operating in 2027.

In February of this year, a group of illegal miners occupied parts of the land of the project and started to produce copper with a low-scale artisan process. On May 31st of this year, a group of people attacked the project mining camp causing a fire and completely destroyed the installations. There were no fatalities to regret. As of today, these illegal miners are working in the zone. The company expects strong action from the authorities to restore the land to the company so that it can continue to develop the project.

For the Michiquillay project; in June of 2018, Southern Copper signed a contract for the acquisition of the Michiquillay project in Cajamarca, Peru. The company has created a multi-disciplinary management team to plan the development of these projects. As part of this plan, the company has established venues of contact with the local and regional authorities and communities to promote programs for sustainable development in the area. In 2021, the company signed a social agreement with the Michiquillay and the Encañada communities. And on October 1, 2021, the Peruvian Ministry of Energy and Mines approved the semi-detailed environmental impact study for the project. Social agreements with the Michiquillay and the Encañada communities represent an opportunity to improve the quality of life of the residents of those communities via our strong social program and backed by a solid framework for technical work at the project level.

At the end of June, the project has all the required permits for exploration activities. These events are important steps that will allow Southern Copper to initiate an in-depth exploration program in this quarter, the third quarter of 2022. 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 byproducts 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 to start by 2028. Michiquillay will become one of Peru's largest copper mines and will create significant business opportunities in the Cajamarca region, generate new jobs for the local communities and contribute with taxes and royalties to the local, regional and national governments.

For our Mexican projects, we have the Buenavista zinc project, which is located within the Buenavista facility in Sonora 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 in order to continue with the project, stronger

preventive measures to combat Covid-19 has been put in place. Procurement has progressed 99%, and all 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 June of this year, we had invested \$264.9 million in this project. We expect to initiate operations in the second half of 2023. When completed, this new facility will double the company's zinc production capacity and provide 490 direct jobs and 1,470 indirect jobs.

For the Pilares project, also in Sonora, this is a project located 6 kilometers from La Caridad and consists of an open pit mine operation with an annual production capacity of 35,000 tons of copper in concentrate. A 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, combining the 0.78% expected from Pilares with the 0.34% from La Caridad. The budget for Pilares is \$159 million, of which we have invested \$80.9 million as of June 30, 2022. The project has obtained all permits and licenses required, and we expect to begin production in the last quarter of 2022.

El Pilar is a low capital intensity copper greenfield project strategically located in Sonora, also in Mexico. It is 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 0.249%. 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 SXEW 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 is finished and the company continues developing the project and site environmental activities.

El Arco; it's 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 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 SXEW operations. Annual production is expected to total 190,000 tons of copper and 105,000 ounces of gold. The company has started the baseline study and is reviewing the basic engineering analysis to request the environmental impact permit. Several years back, we began to acquire the rights to all relevant mining concessions in the area. This process was completed in 2020.

As you all know, Southern Copper is committed to improving its ESG record by adopting best practices and informing the investment community and other stakeholders about our progress in this matters. In line with best practice, on July 21, our Board of Directors approved the formation of a new sustainability committee, chaired by an independent



director, actually composed by independent directors. 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 environment, health and safety, communities, human rights and corporate governance.

This is a significant step in our pledge to a robust and strong environmental, social and government performance. Quoting the Chairman of our Board of Directors in the letter that accompanies the 2021 sustainable development report of our holding Grupo Mexico: “A business model focused on responsible and transparent management in the social, economic and environmental spheres are essential to guarantee sustainable development”

S&P Global has recognized SCC sustainability efforts by including it in a new index, the S&P/BVL Peru General ESG. As of April of this year, this index is the first of its kind in the Peruvian market and recognizes a total of 17 companies that meet high standards for environmental, social and governance management. In light of its improvement in the realm of ESG, S&P and also upgraded the company's sustainability assessment, which rose from 50 over 100 points in 2020 to 61 over 100 points in 2021. This is a 22% increase. These results led to our inclusion in the Dow Jones Sustainability Index for the MILA region in 2019, and we have also been included in the 2022 sustainability yearbook.

We aim to improve our sustainability management and performance to ensure that we maintain and continuously improve our sustainability ratings. Certification of our environmental and occupational health and safety management systems allows the company to reinforce a preventive culture that is aligned with best international practices. We continue to make progress in our quest to achieve ISO 45001 and 14001 certifications.

During the second quarter of 2022, the Maritime Terminal of Guaymas, Mexico, received ISO 45001 certification, and the Charcas unit in Mexico became the first of our underground mines to obtain ISO 14001 certification. Given the importance of water for our operations and the broader perspective of climate change, the company recently appointed a Water Resources Director at the executive level. Whose main function will be to coordinate the actions needed to promote water management at all our operations and ensure our place as a responsible partner in the regional management of these valuable resource.

SCC seeks sustainability by managing different fronts, the metallurgical complex in Sonora, where we smelt and refine material mined from the region, was recognized in the ranking of the 10 best places to work for women. With this recognition, this plant has consolidated its position as the employer of choice for the best professionals in the country and has strengthened an organizational culture based on safety, predictability and employee trust.

This industrial complex was also given the 2021 National Export award in the category of large industrial exporting companies for its contribution to foreign trade and international

business in the country. This distinction recognizes SCC's responsible production of essential raw materials, environmental preservation efforts and the economic benefits and support it provides to bolster the well-being of workers and their families.

In Peru, a couple of weeks ago, the Prime Minister joined us for the inauguration of the Cularjahuira dam at a cost of \$11.5 million, which was the fruit of a joint investment between the company and government authorities and the highland community of Camilaca. This project will help us strengthen agricultural activities in the province of Candarave, near our Toquepala operations, and will be complemented by work on a new Callazas dam at an estimated cost of \$35 million, which SCC hopes to finance through the "Social Investments for Taxes" or "Obras por Impuestos", in Spanish. This is a mechanism that allows us to credit to our taxes, investments in social infrastructure.

This process and these efforts are evolving in a context marked by record highs for the company's tax contributions to the regional governments of Moquegua and Tacna in 2021.

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 July 21<sup>st</sup>, the Board of Directors authorized a cash dividend of \$0.75 per share of common stock, payable on August 25 to shareholders of record at the close of business on August 11, 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.

## QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question is from Timna Tanners with Wolfe Research.

Timna Tanners^ Thanks for the overview. I wanted to explore a little bit more the cost guidance, if you could. Obviously, some of the cost pressures in the second quarter would be attributable to Cuajone being down. So I was just wondering if you could help us think about the cadence into the second -- the third quarter and the fourth quarter from what you know today, energy price is probably up on average, but certainly those onetime items coming out. So can you talk a little bit more about costs, please?

Raul Jacob^ Yes. Thank you for your question, Tina. Well, as you well mentioned, we were impacted by a reduction in production in the second quarter, resulting in among other reasons, but mainly for 2, it was driven by 2 factors: the Cuajone stoppage that affected the first 23 days of April. And the second factor was the ore grades that were -- are lower, particularly at the Peruvian operations and also at a La Caridad a little bit in

Mexico. The ore grade, it's a factor that we indicated to the market a while ago. This year, we were expecting to produce less than last year due to ore grade decay for a temporary base in the case of our operations.

The unexpected factor was the Cuajone stoppage. Now Cuajone is currently working at full capacity. We have reviewed our program for the year, our production program for the year. And we have made an adjustment, as I mentioned in the production profile that we have, we are expecting now to produce 898,000 tons of copper for the full year, and we have produced already 423,000 round numbers. So we're expecting to produce for the remaining of 2022, 475,000 tons of copper. This will come from different sources, but mainly, we will be recuperating the production at the Cuajone operation. We have reviewed our operating plans, particularly at the Toquepala mine, and we're improving a little bit our production for this year.

And with that, we are expecting to get to our expectation of 898,000 tons. Now, cost guidance for the third and fourth quarter, well, I think we're all seeing that fuel prices are decreasing slowly a little bit when compared to what we had in the first and particularly the second quarter. More production will allow us to distribute the fixed cost on a much lower weight per ton of copper. So we are expecting to have a better cost per pound for the second part of the year. Overall, we're expecting to have a cash cost by year-end of \$0.86 per pound for the full year.

And this is based on the improvement in production plus better byproducts production because they have been also affected by -- in the case of Cuajone, molybdenum and silver were affected by that.

Since we had to stop some days in the second quarter, the Ilo smelter, we had a reduction in sulfuric acid production as well as some other material that was passed to our refineries. So we're expecting for quarters 3 and 4 of this year having a much better performance as what we have seen for the second quarter.

Timna Tanners^ Okay. That's helpful. If I could, one more and I'll pass it off. On the lower dividend understandable given the changes in commodity prices and dynamics. But -- if you look at the second quarter, your total cash position fell by, what, \$900 million, and a lot of that was the payout. So just trying to think going forward, can you help us with like the right position -- the amount of cash that you'd like to have on your balance sheet? And can you help us with how to think about the dividend policy relative to the copper price going forward?

Raul Jacob^ Yes. We have -- I mentioned that while during the presentation that in the first and second quarter of the year, the company usually has an increase in working capital, consequently reducing our cash flow from operations. If I look at the second quarter, of this year, and you can see that as well, cash from operations was \$641.9 million. The expenses that we have in the second quarter are usually the payment of the profit sharing for the Mexican workforce. And some taxes that are paid in Peru.

In total, this year, for instance, that amount was \$255 million. On top of that, we had lower revenues due to the inventory buildup of final products that we already mentioned. So if you think about, we have about \$400 million that were added to working capital in the second quarter and that obviously, that affected our cash position. We don't expect that to be as strong as it has been the case in the second quarter for quarters 3 and 4, but at the same time, we're currently in a different price environment.

So we believe that we will have a much higher cash generation but aligned with the new price set that we're seeing now as we speak.

Operator^ (Operator Instructions) Our next question comes from Carlos De Alba with Morgan Stanley.

Carlos De Alba^ So just one clarification on the information you gave on cash cost, \$0.86 per pound. That is after byproducts, can you give us the number before by-products? And then I have a few others.

Raul Jacob^ We expect to close the year with \$1.92 per pound of cash cost before byproduct credits.

Carlos De Alba^ Right. And then some of the questions I have on the projects and one question is on the projects and the other is on third-party concentrate. On the projects, I saw there was basically no progress in Buenavista Zinc and the last quarter remains at 99% procurement progress for this operation. Can you give us a little bit more color? You were about a year or more before the operation ramps up.

Can you give us more color on any delays or anything that may be slowing down the progress that we have seen in that project? And then on Tia Maria, very, very interesting move to offer the community to build a dam given obviously the history of the project. What would be the steps? Why do you -- what do you expect to hear from the community or from the government that will really solve the impasse in which we have been for quite some time at that operation.

And then just finally, on the third-party concentrate, you had to potentially because of the impact of Cuajone that we saw in Q1 -- in Q2. Do you expect the third-party concentrate purchase to come down significantly in the second half of the year? If you can give us a little bit of a -- if you can give us a guidance, that would be great.

Raul Jacob^ Okay. Thank you very much for your questions, Carlos. Okay. I don't agree with your first statement of no progress on Buenavista Zinc in the last quarter because we're currently working, I mean, building the plant, once a month, we review at the management level, we review the advancement in the project. And quite clearly, we are on the civil works of the project, we already have all the equipment pretty much all the equipment, as you mentioned, 99% and some of the total engineering and the equipment, the procurement is also well advanced. So what we are seeing is that the project is moving forward at a good pace.

We had a delay in the middle of the Covid-19 pandemic, but now it's moving forward at a very good pace. We're expecting it to initiate production in the second half of next year. And we will be giving a more specific period once we approach to the end of the construction phase of the project. For Tia Maria, well, this is a proposal that the company is making to the authorities and the community to build a dam that would provide water for the communities as well as water for the project will take a minor portion of the water and the remaining will be available for the community and the particularly Tambo Valley population.

We believe that circumstances are evolving in a very positive fashion for Tia Maria in Arequipa and in the Islay area. That's where we're seeing a very significant progress. We think that the national government can do its part by joining this process, but we're not seeing that so far.

And regarding your final point on purchased concentrates. Well, we don't expect to buy it as we have done through the second quarter and the first quarter of this year. It was just -- as I mentioned, during the presentation of results, it was more -- we didn't want to have to call for a force majeure. That's why we -- in order to comply with our contracts, we acquired copper concentrates from third parties, particularly from Peru. And we used that material for feeding our Ilo smelter and refinery so we can back our contracts. That allowed us to continue our flow of revenues and so, at the cost of higher cost because, as you know, purchase concentrates are paid at market prices in certain discounts, while our production is at cost.

For the next quarters, we will be -- let me mention also that we are long both in Mexico and Peru in copper concentrates. So we produce much more copper concentrates than our smelting and refining capacities, both in Mexico and Peru. So generally speaking, we are not buying significant amounts, or not buying copper from third parties at all. And that's what we expect to do in the second half of the year. And that will be one of the factors that will help our cost control in the second half of 2022.

Carlos De Alba^ All right. And just for modeling purposes then, in the first quarter of 2022 the company purchased less than 3,000 tons -- last year, second quarter was around 3,500, 3,600 tons. So is that a number that we should consider that you do on the regular course of business?

Raul Jacob^ Yes. And some of these -- if you look at what we have acquired last year in the first half was 4,300 tons of copper from third parties. It's a very small amount. I mean, it's about 1% of our total production. It's a very small amount. So we don't have to -- we will most likely come back to that regarding copper concentrates and copper from third parties.

Operator^ (Operator Instructions) Our next question is from Fernando Assad with Ashmore.

Fernando Assad^ Raul, just three clarifications, if I may. Again, continue from Carlos. The cash costs that you highlighted, \$0.86 and \$1.98 is that by year-end or for the full year of '22? And do you have a figure again for 2023?

Raul Jacob^ Yes. I do Fernando. Thank you for your question.

Let me be very specific. For the year -- for the full year, we expect to close the year with a cash cost of \$0.86, composed by \$1.92 cash cost before credits and credits for \$1.06. For next year, we're expecting to have \$1.82, keep in mind that we will have more production coming from Pilares and Buenavista Zinc next year. And our cash cost at the end of the of the year will be \$0.89 per pound. And it will be at about that level up to the beginning of -- up to 2026 when we will have a slightly higher cash cost of close to \$1.00. And then come back to about that, the \$0.86, \$0.90 per pound range when we will get the benefit of the new projects that -- particularly the greenfield projects such as El Arco, Los Chancas, Tia Maria and Michiquillay.

Fernando Assad^ Great. And just following on from that, now that the first half is completed, do you continue to expect this lower grades temporary issue on the copper side to be a 2022 issue and you're back to steady state in 2023?

Raul Jacob^ Yes. The straight answer to your question is yes. we expect to have lower grades because we're moving into areas of the mine, particularly the Peruvian operations, where ore grades are lower and this will allow us to get to areas where the ore grades will be higher next year. That's -- it's part of our mining plan, which we're following through this year. And we advised on this -- well, 2 years ago, actually, we indicated that we will have a slowdown in our copper production due to lower grades. And that's -- the bounce back is expected for next year. I really -- let me mention what we're expecting is that for 2023, we should be producing 971,000 tons of copper for 2024, 1,047,000 tons for 2025, 1,100,000 tons.

Fernando Assad^ Okay. And final bit of clarification. In Cuajone, we're back to full capacity, the only downtime that we had in the second quarter was actually during April and since then, there was a ramp up back to full capacity, no other stoppages in May and June, correct?

Raul Jacob^ That's quite correct. At the very beginning of the stoppage because the stoppage was a result of the community taking the water facilities that supply water for Cuajone. So the concentrator and the plant generally speaking, the mine were not affected directly. But not having water, it was impossible to operate the concentrator and the other facilities. So we did some advanced maintenance in our Cuajone facilities at the first days of the stoppage. And we believe that, that will be helpful for producing a little bit more than what we expect in our original plans for quarters 3 and 4 of this year.

In total, in the second quarter, the Cuajone mine was stopped by 20 days, and we received the water facilities and the railroad line on April 21<sup>st</sup> and 3 days after that, we were operating at full capacity.

Operator^ (Operator Instructions) Our next question is from Alfonso Salazar with Scotiabank.

Alfonso Salazar^ I have a couple of questions. The first one is a very simple one. The second one, probably not that much. The one is regarding water. And if I -- as I'm not mistaken, the Tia Maria project, something that you mentioned before is that it was really not a problem with water there is plenty of water in the region. And if you check the World Resources Institute, that's what they say that it's not a region with any water stress problem. So what is the benefit? If there is no real water problem, what is the real benefit of having this dam, how does this impact the sentiment of people?

The second question is regarding water in Sonora -- that's a problem where waters is really is a big problem. So I was just wondering if you have any comments on how are your operations? If you have any contingency plan in case that the situation gets even worse in terms of water use in the state of Sonora. And just a follow-up on the production that you just mentioned for '23 to 2025. There is an increase in production of 130,000 tons, which projects are you including in this period from your pipeline?

Raul Jacob^ Let me start by the last question. We're considering Pilares, Buenavista Zinc and El Pilar as well as a partial -- as well as a partial production of Tia Maria, that's for 2025.

Alfonso Salazar^ Correct.

Raul Jacob^ Okay. Now regarding your first question, let me clarify this. We, in Peru, are operating now at the northern part of the Atacama Desert. So we are in an area where water generally speaking, is relatively scarce. We have water scarcity, generally speaking. That's why we are focusing in our operations, in trying to improve our water recycling and water savings. Now having said that, what I mentioned a while ago in some other conference calls is that there is enough water in the area for providing the Tia Maria project with water.

However, given the pattern of agriculture crops that are produced in this area, in the Islay province, it's a strong in very good quality of rice production. Well, as you now rice is a water-intensive crop. So considering that, there is -- there are some months of the year where there is some stress, water stress, given the pattern of agricultural production of the area. That's where a dam as the one that we are proposing to the government could be of help.

On top of that, there are desertic areas that may be irrigated with the extra water that the dam will provide. And that is where the opportunity it's therefore, the population of this area. Regarding Sonora, well we are doing a very -- as I mentioned before, the company has appointed a high-level Water Management Director in order to review the water supply for the company.

But – as important as it is to be sure that we have the water that we require for our operations. It is also extremely important to be a partner in developing new water sources and water conservation for the whole areas where we operate. And that's the idea behind pointing a high-level a high-rank position in water management at the company that is certainly looking at the Sonora water situation where there is some water stress.

We're currently securing water sources for our operations, but we will lead as I say, we can be a cooperative partner for other efforts on a regional level, both in Sonora where we have our open pit operations as well as some other parts in the Mexican Republic as well as at the southern part of Peru, where we have the Toquepala and Cuajone operations currently.

Alfonso Salazar^ I think this is a great decision to have appointed this person. Hopefully, we can have a conversation with him or invite him for a conference call sometime because I think he can add a lot to the water problem and how the company is facing it.

Raul Jacob^ Yes. That's a very good thing. Thank you very much for your comment Alfonso. That high rank position. It's also, as I mentioned. Joined by a high-level ESG committee formed at the Board -- by our Board and composed by two independent board members. One of them is the chair of the committee, as I indicated.

Operator^ (Operator Instructions) We have a question from Isabella Vasconcelos with Bradesco.

Isabella Vasconcelos^ I just have a couple of questions on my end. Most of have been answered. But the first one on the pricing adjustment mechanisms that generated a negative impact in the second quarter. If you could comment how much of the volumes were exposed to the pricing adjustments and the expectations looking ahead into the third quarter, if we should expect another hit to result given volatility has remained high in commodity prices? And the second question, a quick one on those smelters if they have already been Board approved or not.

Raul Jacob^ Okay. On the pricing adjustment, let me explain what is -- what -- this is what we do. And this is an accounting process that we have to follow. It is a US-GAAP mandate. We look at the future prices curve, and we see some of our sales, particularly from concentrates such as copper concentrates, molybdenum concentrates, are done with collection terms in 3 to 4 months ahead on time. So if we sell now that we are in July, we will be having a final price for that specific shipment 4 months from now, let's say, in October or November.

Consequently, we have to do adjustments on the final price. By the way, we collect most of the money relatively in a short period of time, but the final price is something that we have to get once we have the final payment on the material. So we look at the future prices curve, and we adjust the sales that are not with final prices that are for, as I say, for future prices for whatever is the position at the end of the month.



Generally speaking, this affects our copper concentrate sales that have terms of 3 or 4 months ahead in time. for the later part of the year and the molybdenum sales that have also -- that kind of sales conditions. Now, concentrate sales are about 25% of our total sales for copper; and molybdenum it's all sold as a concentrate. So this is affecting mainly molybdenum and a portion of our copper sales. However, when we have a significant variance in prices as was the case in the second quarter, we initiated the quarter with prices over \$4.00 per pound, and we closed it very close to \$3.50 or so. That's where you have to make an adjustment that is as strong as I mentioned.

I think we already passed the worst part of it -- but that's my personal view, and it doesn't mean that it will be like that. It depends on how the market evolves in the next few months. On the news smelters for Peru and Mexico, no, they have not been Board approved. The company has made a very detailed review, on the technology, on the cost we believe that there is good economic value for the company in moving forward with these two investments. But so far, they have not been Board approved.

Isabella Vasconcelos^ Great. That's very clear. And in terms of timing for Board approval, is there any view there or not?

Raul Jacob^ No. We are going to do during this part of the second part of the year, we'll do a full thorough review on the CapEx projects that we have and make some adjustments, we'll most likely report on that on the next conference call. But so far, nothing has been set on specific dates for these kind of investments.

Isabella Vasconcelos^ Okay. Great. And in terms of the review of the CapEx, is it just for the smelters or for all of the projects that are created contract.

Raul Jacob^ All the projects, all the projects. We will report on that on the next conference call.

Operator^ (Operator Instructions) Our next question is from Enrique Braga with Morgan Stanley.

Enrique Braga^ I just have a quick one. If you could repeat your production guidance estimate your new estimates for the year?

Raul Jacob^ Sure. For production is 898,000 tons, for cash cost is \$0.86 per pound by year-end. \$1.92 will be before credits and credits will be for \$1.06.

Enrique Braga^ I think you also mentioned silver, zinc and molybdenum during the presentation. Is that correct?

Raul Jacob^ Yes. For molybdenum, will be 25,700 tons for zinc, 67,000 tons and for silver, 19 million ounces.

Operator^ I'm not showing any further questions in the queue, sir.

Operator^ Thank you for joining everybody. You may now disconnect.