Corporate Speakers:
- Raul Jacob; Southern Copper Corporation; VP of Finance, Treasurer & CFO

Participants:
- Jonathan Brandt; HSBC Holdings PLC; Analyst
- Timna Tanners; BofA Merrill Lynch; Analyst
- Andreas Bokkenheuser; UBS Group AG; Analyst
- Jens Spiess; Morgan Stanley; Analyst
- Grant Sporre; Bloomberg Intelligence; Analyst
- John Tumazos; John Tumazos Very Independent Research, LLC; Owner & CEO
- Thiago Ojea; Goldman Sachs Group, Inc.; Analyst
- Álfonso Salazar; Scotiabank; Analyst
- Alex Hacking; Citigroup Inc.; Analyst
- Yuri Maslov; Crake Asset Management; 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's Mr. Raul Jacob, Vice President of Finance, Treasurer and CFO, who will discuss the results of the company for the second quarter of 2020 as well as answer any questions that you might have.

The information discussed on today's call may include forward-looking statements regarding the company's results and prospects, which are subject to risks and uncertainties.

Actual results may differ materially, and the company cautions to not place undue reliance on these forward-looking statements.

Southern Copper Corporation undertakes no obligation to publicly update or revise any forward-looking statement, 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, Victor. Good morning, everyone. Welcome to Southern Copper's Second Quarter 2020 Results Conference Call.
Participating with me in today's conference is 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 the fight against the COVID-19 pandemic and its impact on our operations. We will then review the copper market and Southern Copper's key results related to production, sales, operating costs, financial results and expansion projects. After that, we will open the session for questions.

We continue to fight the COVID-19 pandemic by prioritizing efforts to safeguard the health and well-being of our workforce, their families and nearby communities. Our company is operating in total compliance with the emergency levels required by local, regional and national governments, and we have implemented rigorous hygiene, sanitation and safety protocols at all our facilities. As of June 30, about 83% of our workforce in Mexico and 64% of the workforce in Peru are working at the operations or at home. Recently, we have opened limited access to company premises to our most essential contractors. As part of the protocol followed our contractors must comply with proper COVID-19 testing, clinical monitoring and mandatory quarantine.

We're enforcing multiple actions to limit workforce exposure to the disease by imposing travel restrictions, prohibiting face-to-face meetings, urging frequent hand washing and require adherence to all other health, safety and social distancing measures decreed by government authorities. From the beginning of the COVID-19 pandemic, Southern Copper has been implementing strong prevention measures to protect the health of its workers, their families and their communities.

For this purpose, the company has approved a budget of $11.2 million for donation and general support for the populations of Peru and Mexico. To date, the majority of this budget has been executed, and we are considering a second budget for this purpose. To bolster response to the pandemic, we have donated medical supplies and dozens of medical ventilators for breathing support at hospitals in the communities where we operate. In Mexico, we have set up 135 confined beds in company-owned housing in Sonora, Guanajuato and Campeche to serve as temporary sanitary facilities for people presenting symptoms of respiratory disease who require isolation or primary hospital care.

In Peru, the company is donating 25,000 liters per week of liquid oxygen to national hospitals to treat the population infected with COVID-19 in the regions of Arequipa and Moquegua in Southern Peru. On top of this initiative, we are donating a COVID-19 molecular testing laboratory to the Moquegua region. While for the Tacna region, we are about to donate an oxygen plant with a capacity of 720 cubic meters per day of medicinal oxygen. We have also donated over 63,000 items for personal protection equipment to medical staff and 25,000 personal hygiene kits to our workers and to the population in our areas of influence. These donations include information for the population about COVID-19 disease spread and symptoms. We have also donated cleaning and personal
protection equipment to members of the National Guard of Mexico and of the Peruvian Police and Army.

Additionally, we're helping vulnerable individuals such as the elderly or disabled persons and pregnant women by donating more than 43,000 kits containing food and personal hygiene items. In addition to the aforementioned efforts, we have installed more than 200 portable sinks in strategic areas of the communities to ensure access to preventive hand washing. Moreover, to bolster compliance with stay-at-home measures, the company is offering over 2,000 sports, cultural and educational workshops online. Additionally, throughout our community care service, we offer free medical, psychological and employment counseling 24 hours a day.

Southern Copper is making every effort to keep the pace of production at satisfactory levels while achieving a competitive cash cost. This is reflected in our second quarter 2020 cash cost per pound of $0.67 net of by-product credits. In this past quarter, we managed to maintain our production level by focusing on mineral production and prioritizing high mineral ore grade mining. Operational stripping, particularly at the Peruvian operations, and major maintenance activities were temporarily postponed and will be addressed in the next 9 months. We believe that our strong financial position, cost competitiveness and copper reserves will allow us to overcome these difficult times.

Considering the current environment and the impact of the COVID-19 pandemic, we believe that mining production and investment will play an important role in the recovery of both the Mexican and Peruvian economies. As such, we will continue to develop our projects, consistent with our belief that Southern Copper's operations constitute risk control generators of economic resources that provide well-remunerated employment and tax revenues to the countries in which we operate.

Let me now focus on the copper market, the core of our business. In the second quarter of 2020, the London Metal Exchange copper price decreased from an average of $2.77 per pound in the second quarter of 2019 to $2.42 per pound. This is a 12.6% reduction in its price. As of today, we are seeing prices slightly higher than $2.90 per pound, which reflects the impact of the COVID-19 crisis on both the supply and demand for copper. At this point, the copper price seems to be driven basically by 2 factors: expectations of lack of supply in major producing countries such as Chile and Peru due to COVID-19 outbreaks and an increase in China's demand in a scenario of an economic recovery for this country. Since the pandemic is affecting both supply and demand, at this point, it is difficult to assess the long-term effects of this crisis on the copper market balance and consequently on copper prices.

Now let's focus on Southern Copper's production for the past quarter and 2020. Copper represented 82.3% of our sales in the second quarter of this year. Copper production registered a slight decrease of 1.3% compared to the second quarter of 2019 and situated at 243,097 tons in the second quarter of 2020. This was primarily due to lower production at our Buenavista and Toquepala mines because of lower ore grades. This effect was partially offset by higher production at the Cuajone mine due to higher ore grades and
recoveries as well as to higher production at IMMSA after operations resumed at the San Martin mine. In 2020, we expect to produce 997,100 tons of copper, in line with last year's production and slightly lower than our production plan.

For molybdenum, it represented 6% of the company's sales value in the second quarter of 2020 and is currently our first by-product. Molybdenum prices averaged $8.24 per pound in the quarter compared to $12.13 in the second quarter of last year. This is a 32.1% decrease. Molybdenum production increased by 16.3% in the past quarter compared to the same period of 2019 due to significantly higher production at our Toquepala mine. We produced 1,237 tons of molybdenum from our new molybdenum plant of Toquepala. This is a 44.8% increase in this facility, the Toquepala mine facility for molybdenum. Production also rose at Cuajone with an increase of 25.2% due to higher grades and recoveries. In 2020, we expect to produce 28,500 tons of molybdenum, which represents an increase of 5.9% over last year's production level of 26,900 tons and an increase from our plan for this year.

Silver represented 5.6% of our sales value in the second quarter of 2020 with an average price of $16.54 per ounce in the quarter, up 11.4% from the second quarter of 2019. Silver is currently our second by-product. Mined silver production increased by 13.5% in the second quarter as a result of higher production at IMMSA after production resumed at the San Martin mine. In addition, there was higher production at the La Caridad mine as a result of higher grades as well as higher production at the Cuajone mine in Peru due to higher grades and recoveries.

Refined silver production increased by 27.5% in the second quarter from the similar quarter of 2019 as a result of growth in all of our facilities. In 2020, we expect to produce 22.7 million ounces of silver, an increase of 11.7% when compared to 2019. This is mainly attributable to the significant contribution of the San Martin mine and the Santa Barbara mine, both operations at the IMMSA company, our IMMSA subsidiary. Regarding silver, we believe that prices will be supported by the intensive industrial use of this metal and the fact that silver, like gold, is considered a value shelter in times of economic uncertainty.

Zinc represented 2.7% of our sales value in the second quarter of 2020, with an average price of $0.89 per pound in the quarter, a price decrease of 28.8% from the second quarter of 2019. Zinc mine production decreased by 11.5% quarter-on-quarter to situate at 15,706 tons. This was primarily due to lower production in the Charcas mine and to the shutdown of our Santa Eulalia operation due to severe flooding. We're currently evaluating different options to supply the concentrator of Santa Eulalia. These negative variances in zinc production were partially offset by a production increase of 2,821 tons. This is an increase of 249% at the San Martin mine. Refined zinc production decreased by 13% in the second quarter of 2020.

For our financial results in the second quarter of this year, sales were $1.8 billion, which represented a decrease of $32.6 million with regard to the sales reported in the second quarter of 2019. This is a 1.8% reduction in revenues or sales. The sales volume for
copper increased by 11%, and its value was up 1.4% in a scenario of lower copper prices. In this case, due to copper, we mentioned a reduction in sales value of 12.6%. Regarding our main by-products, we registered higher sales of silver that increased by 44.2% due to higher volume and prices. Also, higher sales for gold that increased by 69.4% due to higher volumes and prices.

In contrast, we reported lower sales for molybdenum by 30.7% due to lower prices, partially offset by a higher volume of 15.4%. And also, we had a decrease in sales of zinc by 36% due to both lower volumes and prices.

Our total operating cost and expenses increased by $103.8 million or 9.4% when compared to the second quarter of 2019. The main cost increments are associated with purchased copper, lower capitalized leachable material, higher inventory consumption and other factors. These cost increments were partially compensated by lower diesel and fuel cost, repair materials and operations contractors and operating materials and supplies.

Adjusted EBITDA for the second quarter of 2020 was $770 million, which represented a decrease of 18.3% with regard to the $942.8 million registered in the second quarter of 2019. The adjusted EBITDA margin of the second quarter was situated at 43.1% versus 51.9% in the second quarter of 2019. On a quarter-on-quarter basis, EBITDA was 7.1% higher than in the first quarter of 2020. Operating cash cost per pound of copper before by-product credits was $1.26 per pound in the second quarter of 2020. This is $0.166 lower than the value for the first quarter of 2020.

The 11% decrease in the operating cash cost is a result of lower cost per pound from production that decreased 13.1% that was partially offset by higher treatment and refining charges, administrative expenses and lower premiums. Southern Copper's operating cash cost, including the benefit of by-product credits, was $0.67 per pound in the second quarter of 2020. This cash cost was $0.094 lower than the cash cost of $0.764 that we had in the first quarter of 2020. This is a 12.3% reduction in cash cost quarter-on-quarter.

Regarding by-products, we had a total credit of $321.5 million or $0.593 per pound in the second quarter of 2020. These figures represent a 9.7% decrease when compared with the credit of $340.2 million or $0.657 per pound in the first quarter of 2020. Total credits have increased for silver by 27.2% and gold for 60.4%; but have decreased for molybdenum, zinc and sulfuric acid.

Net earnings or net income attributable to SCC shareholders in the second quarter of 2020 was $259.5 million. This is 14.5% of sales or diluted earnings per share of $0.34. This figure compares with net income attributable to SCC shareholders for the second quarter of 2019 of $402.4 million. This is a 22.1% of sales or diluted earnings per share of $0.52. On a quarter-on-quarter basis, net income was 20.8% higher than in the first quarter of 2020.
Capital expenditures. Southern Copper's investment philosophy is not based on the outlook of 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 second quarter of this year, we spent $113.3 million on capital investments, which reflected a 37.2% decrease with regard to the same period in 2019 and represented a 43.7% of net income this quarter. In the first half of the year, we spent $214.3 million on capital investments, which represented 45.2% of net income.

As a consequence of global COVID-19 conditions, new measures to reduce vulnerability have been introduced in our project execution practices. Sanitary measures include rapid tests, daily temperature checks, mask provision and mandatory use, social distancing on work sites and in the camps and a quarantine period for our own and contractors' personnel. In locations where infections are on the rise, some activities have been pushed back or scaled down, particularly on construction sites where personnel are required to work closely. All other engineering, procurement and construction activities that are not personnel-intensive, or where social distances can be applied, are being executed at a normal pace. At this point, we don't expect a significant delay in project execution.

Our current portfolio for Peruvian projects totals $2.8 billion of approved projects, of which $1.6 billion has been already invested. Considering the up and coming Michiquillay $2.5 billion investment and Los Chancas $2.8 billion investment projects, our total investment program in Peru will increase to $8.1 billion. For Tia Maria, as you know, on July 8, 2019, we were granted the construction permit for an SX-EW copper greenfield project to produce 120,000 tons a year with a capital budget of $1.4 billion. The government awarded the permit after the company completed an exhaustive review process of environmental and social matters and determined that the company had complied with all regulatory requirements after addressing all observations made. The challenges surrounding the construction permit were overcome when on October 30, 2019, the Mining Council of the Peruvian Ministry of Energy and Mines ratified the construction permit for the Tia Maria project.

For the Mexican projects, the Buenavista zinc concentrator in Sonora, as I say, it's a facility located within the Buenavista facility and includes the development of a new concentrator to produce approximately 80,000 tons of zinc and 20,000 tons of copper per year. We have completed the basic engineering study and the detailed engineering analysis is underway. Site preparation has begun and stronger preventive measures to combat COVID-19 have been put in place. Purchase orders have been placed for major equipment and some is already being manufactured. The project has all the necessary permits. The capital budget is $413 million, and we expect to initiate operations in the third quarter of 2022. When completed, this new facility will double the company's zinc production capacity and will provide 490 direct jobs and 1,470 indirect jobs.

The Pilares project in Sonora, it's located 6 kilometers from the La Caridad mine. This project consists of an open pit mine operation with an annual production capacity of 35,000 tons of copper concentrate, a new 25-meter wide off-road facility for mining
trucks is under construction 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 ore grade from Pilares with the 0.34% average ore grade from La Caridad. The budget for Pilares is $159 million, and we expect the project to begin production in the first half of 2022.

El Pilar project in Sonora, it's a low capital intensity copper greenfield project, which is located about 45 kilometers from our Buenavista mine. Its copper oxide mineralization contains estimated proven and probable reserves of 325 million tons of ore with an average copper grade of 0.287%. El Pilar will operate as a conventional open pit mine and copper cathodes will be produced using highly cost-efficient and environmentally friendly SX-EW technology. The budget for El Pilar is $310 million, and we expect the project to start production in 2023. Construction at the pilot plant and experimental pads have ended, and tests are being performed. We're glad to report that the first results from experimental pads on leaching process has confirmed adequate levels of copper recovery.

Regarding dividends, as you know, it is the company policy to review at each Board meeting the company's cash position, expected cash flow generation from operations, capital investment plan and other financial needs in order to determine the appropriate quarterly dividend. Accordingly, as announced to the market on July 23, the Board of Directors authorized a cash dividend of $0.40 per share of common stock payable on August 25 to shareholders of record at the close of business on August 12 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)

And our first question will come from the line of Jonathan Brandt from HSBC.

Jonathan Brandt: Congratulations on the results. I first wanted to ask you about the projects. I know you were saying that you don't expect material delay. I'm just wondering why that is. Are you assuming that -- are things sort of getting back to normal now with the project worksite? Are you expecting to make it up? If you could help me sort of understand there isn't more of a delay in the projects, that would be helpful. And then secondly, it'd be great if you could sort of touch upon what you're seeing from your clients in terms of demand for copper. Are you continuing to sell to sort of the traditional clients that you always do? Are you seeing interest from sort of your nontraditional clients given the potential for supply disruptions from other parts of the supply chain? That would be great.

Raul Jacob: On the projects, we have, as I mentioned, we have implemented several COVID-19 combat measures at our operations and at our projects as well. I explained them a few minutes ago. And we have 2 situations here for the projects. Certain activities
are required or are performed at a certain level of isolation. Let me say, for instance, if
you have to operate a shovel or do some land works, most likely, the individuals involved
in this are not in contact. And particularly, we stress the fact that they have to maintain
social distance and use the proper equipment. So even though certain activities have been
postponed, we are still working on all the engineering that we can perform on a safe
mode and operations that are keeping social distance and other COVID-19 precautionary
measures. We expect to catch up, basically. We are seeing now a slight delay. It's
probably a couple of months, and we want to catch up on that.

Regarding our clients, I'd like to remind our audience that our copper production, it's a
very high quality. We offer -- we guarantee four nines. That is 99.99% of our refined
copper. And our concentrate sales are what you will call nowadays a “clean concentrate”,
which is a high-quality concentrate. So we haven't had much trouble with our clients.
Maybe one or two requesting a delay in the shipments that we have programmed, but
nothing significant to note at this point. We are not seeing a change in the way that our
clients operate. They are keeping our contracts. By the way, this is the same pattern that
we observed at the prior crisis in 2008, 2009 in the sense that the quality of our copper
make us to be preferred on top of some other producers. That's a personal assumption.

Jonathan Brandt: Okay. Just to follow-up on the project question. If sort of COVID
lingers for longer and some of these restrictions that are currently in place sort of remain
in place, could we potentially see sort of longer delays to some of the projects if things
sort of don't improve? And sort of at what point do you -- would you start the
construction progress where you would sort of have to delay it? So I understand how with
the engineering and things like that, you're not sort of in close proximity to other people.
But at what point does the constructions have to start in order to meet these time lines
that you've laid out?

Raul Jacob: Well, we don't like to speculate on a different possibility of a worsened
scenario -- in a scenario that's worse vis-a-vis what we have today. What we are reporting
is what we see now. If there is a more difficult environment to operate, then we'll
certainly have to maintain, as a top priority, the safety of our workforce and the health of
our workforce and our contractors as well. That includes, obviously, the capital projects.
So I don't want to speculate on that. What we are seeing now, is that if conditions remain
as they are now, we will be doing some work to catch up later on in the future on these
projects. I believe that a delay of 2 months or so that we may have now for some of the
projects and in some others we have been moving forward, as I explained, should or
could be recuperated over time.

Operator: And our next question will come from the line of Timna Tanners from Bank of
America.

Timna Tanners: I wanted to drill down a little bit more on your cost commentary. So it's
clearly a really impressive result, as you point out. How should we -- I'm trying to drill
down how much of that is sticky? And how much of that was due to the delays in or
suspension of stripping and maintenance? In your commentary, you mentioned that it
could take 9 months for you to do some of that catch up. So will it be like spread out over those 9 months equally? Should we expect more -- if this was a lower cost than normal quarter? Should we expect higher costs than normal for three quarters? If you could just help understand what to expect on cost side.

Raul Jacob: Certainly, Timna. As I said, we have to prioritize, in order to maintain our production levels close to our plans we have to do a very focused work in order to produce the mineral that was required to feed our concentrators and the plants that we have. The cost of that for the future was to postpone certain maintenance and certain stripping, particularly at the Peruvian operations. We believe that this -- the catch-up on the stripping will be spread through the 9 months that I mentioned.

For the year, we're expecting a cash cost before by-product credits of $1.37 per pound. Currently, for the 6 months that we have had already, it's $1.34. So it's a $0.03 of additional cost that we will incur. It's about $170 million that should be spread through time in the next few months. As I say, it's 9 months for the most important -- certain maintenances were scheduled for the past 2 months or 3 months, and we have reprogrammed them as proper, depending on the condition of the equipment, for this quarter and the next ones.

Timna Tanners: Okay. Just to clarify then, the $1.37 is the forecast for the year from $1.34 year-to-date. That's across all operations, not just Peru so the Peru impact...

Raul Jacob: For the whole corporation, yes.

Timna Tanners: Okay. Perfect. So just wanted to ask maybe a basic question, taking a step back. It's been remarkable how little your operations seem to have been affected by COVID-19. You've been -- despite some of the pretty severe actions taken in Peru and Mexico. So do you think that that's sustainable? Is it possible that there's not really any further lockdown and you're able to continue to produce in both those geographies? And then if while you're at it, if you could give us any update on Tia Maria that it's been a year, as you point out, since the license was granted.

Raul Jacob: Certainly. Well, in our mining operations, in some cases, as is the case of the Peruvian mines and some of the Mexican operations as well, we have had the possibility of isolating our operations because of the nature of where they are located. Let me put as an example what happened with the Toquepala mine in Peru. It's 150 kilometers away from the nearest city.

So we agreed, and we certainly appreciate the help of our unions on this, we agreed to have a strict lockdown, defined as if you go out, you can't get back until the quarantine ends. That was what we did. And we took several measures to control the supply chain that we have to feed this operation and provide all the services, food, et cetera, et cetera, et cetera, that is required by our workforce. And we have operated through the lockdown with these characteristics, and we haven't had any cases during -- at the operations of
these facilities for quite a while. That allows us to maintain a proper production environment.

And by the way, in the Peruvian operations, the workers have their families living at the premises in the townsite, nearby the mines and the metallurgical facilities. In the case of Tia Maria, well, we have expressed several times that the company has all the permits that are required for initiating the production of the construction of the project.

We believe that the pandemic has made much more clear for the local population of the importance of this project, and we are expecting the national government to work with us in order to move on with the project in a time where this kind of investment that will create about 9,000 jobs while in construction will be a good possibility of improving the economic environment in both the Islay province and the Arequipa region. We're expecting, in this case, to move on with the project at any time. We're ready for that. We want the Peruvian government to concur with this view and then move forward with the operation.

Operator: Our next question will come from the line of Andreas Bokkenheuser from UBS.

Andreas Bokkenheuser: Just one question from me. So just one clarification on your sales strategy versus your production strategy in the second quarter and first half as a whole. I mean we obviously saw sales volumes up more than production was obviously down a bit. Was that purely just buying more concentrate from third-party operators and selling that onwards? Or did you do any destocking as well of any of your inventories on site? And maybe related to that, if there was any destocking, would you expect any restocking on your behalf in the second half of the year and maybe for sales volumes to slow down a bit? So that's basically a second half kind of sales volume outlook question.

Raul Jacob: You're welcome Andreas, well, at the end of the first quarter, we had some inventory buildup of production in process that was finished through the quarter. And we, at the very beginning of the pandemic, had some difficulties in shipping some of our production, but that was very quickly solved. And we could deliver our shipments as scheduled. So that allowed us to sell this excess inventories of production that we had through the second quarter. That explains the difference in sales vis-a-vis productions.

In the case of the concentrate purchases, we have -- for technical reasons, we're buying some concentrates that have certain characteristics that allow us to mix with our own concentrate, use our smelting and refining facilities at a much higher capacity or almost at full capacity nowadays because of the quality of the concentrates that we buy. These concentrates mix very well with our own, and that creates certain synergies that allow us to reduce the smelting and refining costs, which, by the way, our smelters have -- has had a record in cash cost at the Peruvian operations.

Operator: Our next question come from the line of Jens Spiess from Morgan Stanley.
Jens Spiess:  Congrats on the results. Just -- I just want to know if your $1.37 cash cost guidance includes the impact of improved sanitary standards and testing of your workforce. And also, if you could give us an updated guidance for production, cash cost and CapEx for other years.

Raul Jacob:  Certainly Jens. Yes, it does. The $1.37 includes all the expenditures that we have had at the operational side of our facilities in both Mexico and Peru. In total, we have spent a little bit less than $12 million in this past quarter for sanitary standards, et cetera. This includes -- let me explain what I mean. This money is just for purposes of maintaining proper working conditions for our workforce. It does not include the donations that we're doing that are included in the administrative expenses for the company. And in the case of cash cost and production guidance, certainly -- for production, I mentioned already our forecast for the year, but I'm repeating it now.

We're expecting to produce 997,100 tons of copper for 2020. Our production will be pretty much flat all the way to 2023. For 2021, we're expecting to produce 986,300 tons; for 2022, 950,000 tons and in 2023, where we will have the beginning impact of Pilares, Buenavista zinc and El Pilar, we're expecting to increase our production to 1,066,000 tons. For 2024, we're expecting to produce 1,104,000 tons, and this is basically the result of having Pilares, Buenavista zinc, El Pilar and a partial production of Tia Maria.

In the case of cash cost for this year, I already mentioned that we are expecting an overall for the whole corporation cash cost before by-product credits of $1.37. In credits, we're expecting $0.60 per pound of copper. That gives us $0.77 per pound for the year, slightly higher than what we're expecting now. As you know, cash cost is one of the most difficult things to predict because it has not only the cost impact of several supplies, such as fuel, power, et cetera, and labor -- but also the impact of prices of our by-products.

I mentioned already silver price, an average silver price for the quarter of about $16.54 per ounce of silver. And as you know, now it's over $20. It's much higher than that even today. So it will vary, but that's our forecast at this point, $0.77 per lb. For the next few years, well, we're assuming an increase in our cash cost due to the price deck that we're considering for the next years and certain ore grades variances that we have in different operations. Overall, we will have -- we're expecting a cash cost of about $0.93 for 2021, $0.96 for 2022, $0.88 for 2023 and $0.87 for 2024.

Jens Spiess:  Okay. And just to be clear, you said $12 million per quarter spend on increased sanitary standards and testing?

Raul Jacob:  No. I'd say that so far, $12 million.

Jens Spiess:  So far?

Raul Jacob:  Yes, that includes like a onetime expenditure for different items that are at inventories right now, let's say, medical supplies. We have several medical supplies that are at disposal for our -- are ready-to-use by our workforce, and that will be consumed
through the year. So let me add a little bit on your question. The COVID-19 requires a big effort on our site and our workforce and everybody to contain it.

But we haven't had a major damage to any of our facilities or anything that requires a significant expenditure. We're basically focusing on having the proper medical supplies, the social distancing. Several measures to maintain social distance has been undertaken. For instance, the capacity of the shuttles that transport our personnel has been reduced. So you have to spend a little bit more money renting some additional buses, for instance. But that -- those are relatively speaking, minor expenditures given the size of our operations.

Jens Spiess:  Okay. So you're not required to test your workforce?

Raul Jacob:  No, we do. We do. And we are including the testing in what I just said.

Operator:  Our next question will come from the line of Grant Sporre from Bloomberg Intelligence.

Grant Sporre:  I guess it's a follow-up question from my side. You've obviously given guidance for production for this year. But given the delays in maintenance and stripping, at what point does that start to impact your production going forward? If for some reason, you can't achieve the schedule that you would like. So that's my first question. And the second one is, I guess, just to complete on the CapEx guidance and following up from the last question, you gave production and cash cost. Just if you could give us CapEx guidance as well, that would be great.

Raul Jacob:  Certainly, Grant. Well, we have been operating our facilities not at full capacity in the past quarter for a while. Then we were able to increase the capacity as we moved on into having less restrictions, generally speaking, in both Mexico and Peru. We don't want to find out when this is going to impact our production delay and maintenance and such. We're focusing on scheduling them as we come with the proper workforce in our facilities and the contractors that, in some cases, perform this maintenance of major equipment. We are in that process. We expect to have, by the end of this quarter, most of our workforce at the operations already.

So we are basically focusing on being sure that the way that we're operating won't be affected by any major maintenance. We were relatively lucky in the sense that we did significant maintenance of our smelter facilities in Peru last year. We have to do each 2 years a major maintenance to the smelter. Well, it was scheduled for 2019, we performed it and this facility and the refineries are in good shape. The same happened in some of our operations at the mining site in Mexico. And we focus quite a bit on having all of our production line with proper maintenance, which is preventive maintenance in most of the cases. And that is certainly useful to situations like this.

On CapEx, our current guidance is as follows: for this year, we're reducing our CapEx guidance from $1.10 billion to $800 million. We're expecting a reduction of about a little
bit more than $300 million in capital expenditures in 2020. That money will be reallocated to 2021, most of it. For next year, we're expecting $1.7 billion of capital expenditures. For 2022, $2 billion. For 2023, $2.9 billion and for 2024, $2.7 billion. This is to have the three projects that we have in Mexico, the Buenavista zinc, the Pilares project and the El Pilar project.

These three projects, up and running by the end of 2023 and at full capacity in 2024 and also to accommodate the Tia Maria investment that we should initiate, if not this year, next one and the Michiquillay project and the Los Chancas project. In this case, for Michiquillay and Los Chancas, they will not be in operation by 2024. We will be on the investing part of those projects at that time.

Operator: Our next question will come from line of John Tumazos from John Tumazos.

John Tumazos: There were earlier questions about your costs I don't want to duplicate, but the questioners might have stressed deferring maintenance or deferring stripping or COVID costs. But how much of the $0.67 cash cost simply was the decline in crude oil prices or weaker currencies? And now crude is back over $40, that's an upward pressure?

Raul Jacob: Okay. Thank you very much for your question, John. Let me comment on that. We had -- for diesel and fuel, we have savings of $38.5 million. That's on the average price that we had in the second quarter. We have, for labor cost, a reduction of about $10 million, mainly due to exchange rate. That's for the second quarter. We expect -- well, exchange rates seems to be for a while where they are, so we should be having some savings on that regard. On fuel, yes, there is a recovery. We're still not back to where we were before the COVID-19 crisis initiated, so we will be capturing a portion of these savings through the year.

Operator: Our next question will come from the line of Thiago Ojea from Goldman Sachs.

Thiago Ojea: What I would like to understand a little bit better is, it seems that your volumes comparing to peers were better. Do you expect -- although your volumes increase, that for the entire industry, especially in the country that you operate in, Peru and Mexico, that you're going to outpace your peers in terms of volume output?

And the second question is, do you see the supply globally being weaker that this could be a favor in terms of demand? It seems that now the COVID-19 is starting to ease. So thinking more 6 months, 12 months, do you see an important difference on the supply and demand stabilization?

Raul Jacob: Sure. Well, I think that we have certain conditions in our operations that allow us with a very detailed and thoughtful plan to maintain -- or to catch up on our production level once we have the possibility.
As I mentioned before, some of our facilities are relatively isolated. And the workers are performing -- being this a very high capital-intensive industry, you may have a facility that is huge, where maybe 40 workers are there on a daily basis, and they are spread through a big area, so they have no contact between them. And particularly, if you stress that they can't relate as they used to with their fellow workers, that has helped us. As I mentioned, we focus specifically on prioritizing mineral production. So you have with this combination of two factors that has been in our favor.

As I mentioned before, as an example, Toquepala mine, due to the fact that it was constructed in the 1960s of the past century, and at that time, you had to provide the housing facilities to the workforce and their families. And so what we have in some of our operations are little towns actually, where you have a bank agency, a hospital, a market, churches, et cetera, et cetera, et cetera.

So that plus a very mature attitude of our workforce allow us to maintain operations, keeping social distance and operating at the very beginning of the pandemic with very little personnel, basically maintaining our operations at a lower than the usual rate. And then, as conditions were understood by the authorities, we could improve and increase our production and operation. And by focusing on better areas of the mine, we were able to produce the copper that has been reported.

Now regarding the supply and demand balance for this current situation, it's hard to say. This is an unusual market circumstance. Usually, when you have a slowdown in the world economy, what you have in the copper and other metals markets is a reduction in demand, not necessarily in supply. The major difference of this COVID-19 pandemic is that not only demand, but supply is also affected.

So we have had supply reductions in different countries. Peru and Chile together produce about 40% of the world supply of copper. And as you know, both countries have had, in different operations, at different levels depending on each company, a significant impact or a reduced impact depending on the company, on the production. That's a major difference to some other circumstances.

As I say, if we talk about the 2008-2009 crisis, that was basically a big drop in demand. What we saw at that time, supply was fine. I mean, well, obviously, after a while, you had shutting downs of certain premises, high-cost premises by different companies, and that helped to balance the market. But in this case, that process, well, we are not seeing that as of now because as I said, supply has been affected as well as demand.

Where are we going? Well, I expect the supply to catch up eventually. For now, we're seeing different countries and companies struggling with supply issues due to COVID-19 outbreaks. Hopefully, that will cease, and we'll see a recovery. But at this point, it's very hard to either predict or confirm where supply and demand balance will be in the future.

Thiago Ojea: Just a final question. The Latin American countries are suffering a lot with the pandemic. Mexico is one of the most affected, and the economies are being affected,
and therefore, your tax collection is also being affected. Late last year, there were a few congressmen in Mexico proposing different mining deals and an increase on royalties and taxes. Do you see this as a potential source of concern for the mining industry in Mexico? Do you think that this could be now, given the economic situation, proposed again or something towards that line?

Raul Jacob: No. At this point, we don't see anything related to that. Nobody is talking about specific new taxation for mining companies or operations at Mexico or Peru.

Operator: Our next question will come from the line of Alfonso Salazar from Scotiabank.

Alfonso Salazar: I have one clarification, if I may. You mentioned that production was not at full capacity, is that right? Because I see, actually, in the quarter was above 250,000 tons that if you analyze that, it's more than a million tons a year. So that is correct or not?

And regarding the situation in Cananea, because some of the Peruvian mines seem to be more far away from the city's own towns. It's not the case of Cananea, which is very close to the town. So what's the situation there? What's the COVID situation in Cananea? Do you have any cases in that mine? If you can comment anything on that.

Also one year ago, if you remember, there were some protests that where going to take place precisely one year because it was the anniversary of the strike that started in 2007. But I haven't heard anything for this year. Apparently, there are no protests there taking place this time. If you can just mention anything about it.

Raul Jacob: Hold on a second please, Alfonso. Okay. Well, at the beginning of the pandemic, we were not able to operate at full capacity. We were operating with about 40% of the workforce in Mexico and a similar number in Peru. So we were not reaching full capacity at that time. Then we have been operating -- if you see our concentrators, they were not milling as much mineral as they could on a daily basis.

But they were milling much higher ore grade minerals, so that allowed us to catch up on the production side. When you add a higher ore grade mineral, you have not only the benefit of that higher ore grade, but also the possibility of recuperating a slightly higher percentage of copper per ton of mineral. So those two factors have helped us to produce as we have reported this past quarter.

Now regarding the Cananea, as you well mentioned, Alfonso, the Cananea town is nearby or almost side-by-side with the Buenavista mine that we have. We had about 18 cases of COVID at the Cananea. It's a relatively small number. If you consider the size of our workforce over there is, well, less than 1% of our workforce. And so far, we haven't had any major or any deceased to regret in this case. That's basically it.
We haven't had any impact on what you say about the strike. I think that the workforce is acting in a very mature way in our operations, as I stressed in different parts of this presentation.

Alfonso Salazar: Very good, Raul. Just one follow-up. If you are or were using high-grade ore at the beginning of the pandemic, should we expect lower grades going forward or at some point?

Raul Jacob: We have to mine certain parts of the operations where you have not as good ore grades as we have mined before. That will have an impact in cost, but we're expecting to fulfill our forecast for the year, as I indicated before.

Operator: And our next question will come from the line of Alex Hacking from Citi.

Alex Hacking: I just have two quick clarifications, if that's okay. Did you say that the target for copper production next year is 949,000 tons? Did I hear that correctly?

Raul Jacob: Hold on a second please, Alex. For this year, we're expecting 997,100. And for next year, it's 986,300. Yes.

Alex Hacking: Oh, 996,000? Okay.

Raul Jacob: 9-8-6.

Alex Hacking: Okay, 9-8-6. And then the other clarification was just on the CapEx. Did you said $800 million for this year? Is that correct?

Raul Jacob: Yes, that's correct.

Alex Hacking: But you only spent $200 million and less than $250 million in the first half. I guess why are we going to see such a huge ramp-up in the second half of the year?

Raul Jacob: Well, one of the reasons for that is that we will be paying the bills that we have put as purchase orders at the first half of this year for, say, the Buenavista concentrator, the Pilares, some of the expenditures that we have to do in order to initiate the mine operation of Pilares in the next year or so. So that's basically it. It's basically paying bills on purchase orders that we have put in the first part of the year.

Alex Hacking: Okay. But I mean, I guess, not the -- I mean the total budget for those two projects combined is less than $600 million. So it seems aggressive, but fair enough.

Raul Jacob: Well, that's what our project team has indicated -- they don't see their expenditures going through the initial budget that was $1.1 billion. They are expecting $800 million. That's the information that we have from them.
Operator: And our next question comes from the line of Yuri Maslov from Crake Asset Management.

Yuri Maslov: Yes. Just a quick clarification. You've given the guidance for cash cost, but you gave it for cash cost, after by-products. Do you mind giving the cash cost guidance before the by-products throughout the year as well? So it's $1.37 for this year. What about the other years, please?

Raul Jacob: Certainly Yuri. Well, for next year, we're expecting $1.53. For 2022, $1.66. And for 2023, $1.54. And for 2024, $1.51. Let me comment, Yuri, let me comment on that. We're expecting and we're assuming that certain prices that we're seeing much more positive now will change over time and come back to where they were. That's -- that put us on a very conservative pattern in certain cases, but we operate our assumptions on that base.

Yuri Maslov: When you talk about the price, do you mean the prices for supplies, raw materials, this kind of stuff?

Raul Jacob: A recovery or, let's say, a recovery of the Mexican peso or a recovery of the Peruvian sol that will make -- or a weaker dollar to put it differently, will make local cost a little bit more expensive in U.S. dollars; fuel oil coming back to where they were. That's -- those are general assumptions. We, on this case, rather be on the more conservative side to do our planning for the other years.

Operator: Thank you. Now I'm not showing any further questions at this time.

Raul Jacob: Thank you very much, Victor. Well, with this, we conclude our conference call for Southern Copper's Second Quarter of 2020 Results. We certainly appreciate your participation.

I hope to have you back with us when we report the third quarter of this year.

Thank you very much. Have a nice day.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating.

You may now disconnect.