

Southern Copper (1Q20 Earnings)

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Corporate Speakers:

- Raul Jacob Ruisanchez; Southern Copper Corporation; VP of Finance, Treasurer & CFO
- Oscar Gonzalez Barron; Vice-president Control and Administration of Americas Mining Corporation

Participants:

- Timna Tanners; BofA Securities; MD
- Thiago Lofiego; Banco Bradesco BBI S.A.; Director & Head of the LatAm Pulp & Paper and Metals & Mining Equity Research
- Carlos De Alba; Morgan Stanley; Equity Analyst
- Rodrigo Salazar; AM Advisors; Analyst
- Ivan Fernandez; KINEA; Analyst
- Leopoldo Silva; LarrainVial S.A.; Analyst
- Andreas Bokkenheuser; UBS Investment Bank; Executive Director, Head of LatAm Mining & Basic Materials and Research Analyst
- Fernando Assad; Ashmore; Analyst
- Alfonso Salazar; Scotiabank Global Banking and Markets; Director of Metals and Mining & Analyst
- Jean Bruny; BBVA Corporate and Investment Bank; Chief Analyst

PRESENTATION

Operator: Good morning, and welcome to Southern Copper Corporation's First Quarter 2021 Results Conference Call. With us this morning, we have Southern Copper Corporation, Mr. Raul Jacob, Vice President, Finance, Treasurer and CFO, who will discuss the results of the company for the first quarter 2021 as well as answer any questions that you might have.

The information discussed on today's call may include forward-looking statements regarding the company's results and prospects, which are subject to risks and uncertainties. Actual results may differ materially, and the company cautions, to not place undue reliance on these forward-looking statements. Southern Copper Corporation undertakes no obligation to publicly update or revise any forward-looking statements, whether a result of new information, future events or otherwise. All results are expressed in full U.S. GAAP.

Now I'll pass the call on to Mr. Raul Jacob.

Raul Jacob Ruisanchez: Thank you very much, Jenny. Good morning, everyone, and welcome to Southern Copper's First Quarter 2021 Results Conference Call. At today's

conference, I am accompanied by Mr. Oscar González 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 measures that we have taken to keep COVID-19 at bay. We will then review the copper market and Southern Copper's key results for production, sales, operating costs, financial results and expansion projects. Subsequently, we will open the session for questions.

Let me say first that since the beginning of the pandemic, Southern Copper has faced its challenges with resilience innovation and solidarity. The new normal that the virus has imposed in the world requires government, companies and society to work together to protect citizens as we resume growth, generate value and fuel economic recovery. In this regard, we believe that the vaccination efforts, which have been carried out by the State of Sonora in Mexico, represent a positive development.

Through this endeavor, 100% of the medical personnel at our operations have been vaccinated. Similarly, 98% of the workers over the age of 60 in Cananea, and 100% of those in Nacozari have also received a vaccine. This significant advance gives our personnel needed protection against the COVID-19 virus, provides peace of mind to workers and their families and allows the company to begin normalizing operating levels at our installations. Our company is contributing to this effort by providing logistical support during the vaccination rollout.

Now let us focus on the copper market, the core of our business. For copper, in the first quarter of 2021, the London Metal Exchange copper price increased from an average of \$2.56 per pound in the first quarter of 2020, up to \$3.85 per pound. That is a 50.4% increase in copper prices. As of today, we're seeing prices at about \$4.50 per pound, which bodes a positive outlook for the 2021 copper market. We believe the following factors are influencing the market at this point. The automobile industry global recovery was reflected in an increase in sales of 89% in the first quarter of 2021. The \$2 trillion infrastructure package announced by President Biden will significantly increase the demand for copper, which is a fundamental element at green energy facilities.

The combined inventories of the London Metal Exchange, COMEX, Shanghai and bonded warehouses remain at relatively low levels, particularly given the number of days of consumption considered by this inventory. The most important market intelligent houses for the copper market are expecting a market deficit this year due to a significant recovery in demand, which should be between 3.5% and 5.5%.

Now let us look at Southern Copper's production for the past quarter. Copper represented 83.6% of our sales in the first quarter of this year. Copper production registered a slight decrease of 1.5% compared to the first quarter of last year and situated at 238,402 tons in the first quarter of this year. This was primarily attributable to lower production at our Peruvian mines and La Caridad mine in Mexico. This was driven by a decrease in ore

grades. However, it was partially offset by an increase in production in our IMMSA operations, which was spurred by a recovery in production of 52.8% of additional production at the San Martin mine.

Molybdenum represented 6.7% of the company sales value in the first quarter of 2021 and is currently our first by-product. Molybdenum prices averaged \$11.19 per pound in the quarter compared to \$9.56 in the first quarter of 2020. This represents a 17.1% increase. Molybdenum production increased slightly by 0.2% in the first quarter of this year compared to the same period of 2020. This was mainly due to higher production at our Peruvian mines, an increased production of molybdenum by about 10% due to higher grades and recoveries. And it was also partially offset by a decrease in production at our Buenavista mine due to lower grades.

For silver, it represented 5.5% of our sales value in the first quarter of this year with an average price of \$26.29 per ounce of silver in the quarter, up 55.8% from the first quarter of last year. Silver is currently our second by-product. Mined silver production decreased by 6.3% in the first quarter of this year after production fell at Buenavista, IMMSA and Toquepala. This was partially offset by higher production from the Cuajone and Caridad operations. Refined silver production increased by 6% in the first quarter of this year mainly due to higher production at our IMMSA facilities.

Zinc represented 1.4% of our sales value in the first quarter of this year with an average price of \$1.25 per pound in the quarter. This is a 28.9% increase in price from the same period of 2020. Zinc mine production decreased by 14.5% quarter-on-quarter to situate at 16,466 tons. This was primarily attributable to lower ore grades at the Santa Barbara operation and Charcas. And to the shutdown of our Santa Eulalia operation in the first quarter of last year due to a severe flooding. Refined zinc production decreased by 35.7% in the first quarter compared to the same period of 2020 due to a fire at the facility. This has temporarily reduced the capacity of our San Luis Potosi zinc refinery.

For our financial results, in the first quarter of 2021, sales were \$2.5 billion, which is \$812.8 million higher than the sales for the first quarter of 2020. Our sales increased by 47.3% in total. Copper sales volume decreased by 4.5%, while the value increased by 55% due to a scenario of better prices. As I said, copper prices increased by 50.4% during the past quarter.

Regarding our main by-products, we reported higher sales of molybdenum by 34.6% mainly due to better prices. Prices increased by 17.1% for molybdenum. And we had open sales adjustments that complete the 34.6% increase in molybdenum sales.

For silver, sales increased by 57.6%, also due to better prices. In this case, prices increased by 55.8%. These results were partially offset by a decrease in volume of 3.3% and sales of zinc due to lower volumes of refined zinc. This was partially offset by higher zinc price.

Our total operating cost and expenses decreased by \$5.5 million or 0.5% when compared to the same period of 2020. The main cost reductions were driven by a decrease in copper purchases from third parties and an increase in capitalized leachable material. These cost reductions were partially offset by an increase in workers' participation, an uptick in energy cost due to a temporary gas shortage in Northern Mexico, an increase in diesel and fuel cost and higher figures for inventory consumption for the quarter. We also had higher depreciation and other factors for a minor value.

Let me focus on the increase due to temporary gas shortage that we had in the first quarter. That represented an increase in energy cost of about \$30.6 million as a consequence of the temporary scarcity that we had in February of natural gas in the northern part of Mexico.

Our first quarter '21 adjusted EBITDA was \$1,554.5 million, which represented an increase of 116.3% compared to the same period of 2020, where the adjusted EBITDA was \$718.8 million. The EBITDA margin in the first quarter of this year was 61.4%, and that compares with 41.8% in the first quarter of last year. On a quarter-on-quarter basis, adjusted EBITDA was 24% higher than in the fourth quarter of 2020.

For the cash cost, operating cash cost per pound of copper before by-product credits was \$1.51 per pound in the first quarter of 2021. This is \$0.074 higher than the value for the fourth quarter of 2020. This 5.2% increase in operating cash cost is a result of higher cost per pound from production cost and lower premiums, which were partially compensated by lower treatment and refining charges and lower administrative expenses. Southern Copper operating cash cost, including the benefit of by-product credits, was \$0.739 per pound in the first quarter of this year. This cash cost was \$0.067 higher than the cash cost of \$0.672 that we had in the fourth quarter of 2020. That is a 10% increase in cash cost.

Regarding by-products, we had a total credit of \$393.7 million or \$0.771 per pound in the first quarter of this year. These figures represent a 1% increase when compared to a credit of \$0.763 per pound in the fourth quarter of 2020. Total credits have increased for molybdenum, silver, gold and sulfuric acid and decreased for zinc.

Net income attributable to SCC shareholders in the first quarter of this year was \$763.8 million, that is 30.2% of our sales or diluted earnings per share of \$0.99.

Capital investments. As you know, Southern Copper's investment philosophy is not based on the outlook for copper prices but on the quality of the assets that we operate and develop. Throughout the years, our strong financial discipline has consistently allowed us to make ongoing investments in our considerable asset portfolio. The conditions generated by COVID-19 has led us to implement measures to reduce vulnerability at the project execution level.

These measures, which are constantly under review, include enforcing social distance rules, strengthening sanitation efforts and requiring quarantine periods for personnel.

Some activities in the project execution stage, which are located in regions in Peru or Mexico where new cases of infections are on the rise, have experienced delays.

Consequently, we expect some delays, albeit minimal at this point. We expect these delays in the execution of our investment projects. Nevertheless, to date, delays primarily affect construction activities that require personnel to work in close physical proximity. All other engineering, procurement and construction activities that entail limited interaction between personnel are on schedule.

In the first quarter of 2021, we spent \$232.6 million on capital investments, which represented 130% increase with regard to the same period of 2020 and accounted for 30.5% of our net income.

For the Peruvian projects, our portfolio for approved projects in Peru totaled \$2.8 billion, \$1.6 billion of which has already been invested. If we include the up and coming Michiquillay \$2.5 billion budget, and Los Chancas \$2.6 billion budget. These two projects will increase our total investment program in Peru to reflect a commitment of \$7.9 billion.

For Tia Maria, a project that is located in the Peruvian region of Arequipa, Southern Copper has been consistently working to promote the welfare of the Islay province population. 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.

On January 7, 2021, this is the past quarter, the mayor of the Islay province awarded a City Diploma to Southern Copper in recognition of the company's efforts to assist the population of Islay during the COVID-19 pandemic. Southern Copper provided medical assistance, test, oxygen, personal protection equipment and food stuff for the population in the area of influence of the Tia Maria project. We reiterate our view that the initiation of construction activities at Tia Maria will generate significant economic opportunities for the Islay province and the Arequipa region. Given the current Peruvian economic situation, it is crucial to move ahead on projects that will stimulate a sustainable growth cycle.

During the construction and operation phase, we will make it a priority to hire local labor to fill the 9,000 jobs of which 3,600 are direct and 5,400 are indirect jobs that we expect to generate during the Tia Maria construction phase. When operating, we expect Tia Maria to directly employ 600 workers and indirectly provide jobs for another 4,200. Additionally, from day 1 of our operations, we will generate significant contributions to revenues in the Arequipa region via royalties and taxes.

We expect the Peruvian government to acknowledge the significant progress the company has made on the social front for this project and the important contributions that

Tia Maria will generate for Peru's economy and consequently, take the necessary steps to provide Southern Copper with adequate support to initiate construction.

For our Mexican projects. In Buenavista, we have a new concentrator to produce zinc concentrate. Buenavista is our operation at the Sonora state in Mexico. This project 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 basic engineering study and the detailed engineering study is 89% complete. In order to continue with the project, stronger preventive measures to combat COVID-19 has been put in place. Purchase orders have been placed for major equipment.

As part of this process, the mill manufacturing process has been completed and the respective elements are being shipped or are already at the project site. The project has all the necessary permits and the capital budget is \$413 million. We expect to initiate operations in 2023. When completed, this new facility will double the company's zinc production capacity and provide 490 direct jobs and 1,470 indirect.

For the Pilares project, also in the Sonora state of Mexico, this is a project that is located 6 kilometers from La Caridad. It consists of an open-pit mine operation with an annual production capacity of 35,000 tons of copper in concentrate. A new 25-meter wide off-road facility for mining trucks has been built and will be used to transport the ore from the pit to the primary crusher at the La Caridad copper concentrator. This project will significantly improve the overall mineral ore grade, combining 0.78% expected ore from Pilares with the 0.34% ore from La Caridad. The budget for Pilares is \$159 million, and we expect the project to begin production in the first quarter of next year.

El Pilar is a low capital intensity copper greenfield project, which is strategically located in Sonora, Mexico at about 45 kilometers from our Buenavista mine. Its copper oxide mineralization contains estimated proven and probable reserves of 281 million tons of ore with an average copper grade of 0.31%. We anticipate that El Pilar will operate as a conventional open pit mine with an annual production capacity of 36,000 tons of copper cathodes. This operation will use highly cost-efficient and environmentally friendly SX-EW technology. The budget for El Pilar is \$310 million. We expect the project to start production in 2023 and the mine life is expected to be 13 years. The results from the experimental pads in the leaching process have confirmed adequate levels of copper recovery. The company has started the project basic engineering and site species collection.

For El Arco, a project that is located at the Baja California Peninsula. This is a world-class copper deposit, which is located at the central part of the Baja California peninsula. It has ore reserves of over 2.4 billion tons with an ore grade of 0.422% and to that, we add 0.3 billion tons of leach material with an ore grade of 0.288%. And as a by-product, the mineral contains 0.11 grams of gold per ton. The project considers the construction of an open pit mine, combining concentrator and SX-EW operations. The annual production is expected to situate at 190,000 tons of copper and 105,000 ounces of gold with an estimated capital budget of \$2.9 billion. The company has started the baseline study and

is reviewing the basic engineering analysis to request the environmental impact permit. We have had the corresponding mining concessions for several years now. And during 2020, we finished acquiring all the land needed.

You may have noticed that we have added a new section to our press release, which tackles the matters of the issues of environmental, social and governance investments or ESG. Southern Copper is committed to improving its ESG record by adopting best practices and communicating to the investment community and other stakeholders, our progress in this matter. In this regard, the company's sustainable development policies were recently updated. These policies, applicable to SCC and its subsidiaries, formalize the company's vision, commitments and objectives to promote sustainable development and generate shared value for our stakeholders.

In 2020, and for the second consecutive year, Southern Copper was listed on the Dow Jones Sustainability Index or MILA. Additionally, our score on S&P Global Annual Sustainability Assessment increased to 50 points during the same period. This represents a 5-point increase over the 2019 level.

In Peru, Southern Copper is coordinating with the Peruvian government and our main oxygen supplier to adapt, which has already being done, our Ilo oxygen plan #2 in record time to produce 140 tons per week of liquid oxygen.

What we have done is work together with the Peruvian government and our main industrial oxygen supplier to adapt one of our two oxygen plants to produce liquid oxygen. Plant #2. Plant #1 had already been adapted in the past, and it has been producing oxygen, but given the need of this element to fight the COVID pandemic, the company decided to move on with this investment.

The production is being used to supply hospital and medical facilities in Peru central and southern regions, where medicinal oxygen is extremely scarce. The company has committed to donate 2,500 tons of liquid oxygen, which is equivalent of 194,000 oxygen tanks of 10 cubic meters each. As of March 31, we have delivered 1,346 tons of liquid oxygen or 53% of the committed donation. In addition to this effort, in March, we donated two mobile oxygen plants each with a capacity of 720 cubic meters per day of medical oxygen. These plants will be transported to towns that lack sufficient oxygen supply to fight against COVID-19.

Last year, 3,667 students from 11 educational centers sponsored by the company in Mexico and Peru, we're able to continue their school programs remotely. To cope with the global pandemic, the company's programs, which are developed under the community development model, migrated to virtual platforms. Last year, 4,634 online workshops were held, consolidating a community of over 290,000 users on social networks, which represents an increase of 63% compared to 2019. In the first quarter of this year, we continue to roll out remote school programs to provide education to 3,756 school age children. Alongside these efforts, Southern Copper offered virtual workshops to the

community, which have been reproduced more than 10 million times since the beginning of the pandemic.

Last year was marked by a good performance in terms of occupational safety since no fatalities were registered and accident rates and loss days in the mining division dropped by 44% and 78%, respectively. This compared to 2019.

Minera Mexico obtained for the second consecutive year, 3 of the 6 distinctions or “Cascos de Plata” awarded by the Mining Chamber of Mexico for occupational, health and safety performance. The survey conducted by the Mining Chamber of Mexico, which determines award recipients, includes approximately 120 mining companies of different sizes that are grouped into diverse categories such as open and underground mining, smelting and refining.

Regarding dividends, as you know, it is the company policy to review the company's cash position, expected cash flow generation from operations, capital investment plans and other financial needs at each Board meeting to determine the appropriate quarterly dividend. Accordingly, as announced to the market on April 22, the Board of Directors authorized a cash dividend of \$0.70 per share of common stock payable on May 25 to shareholders of record at the close of business on May 11, 2021.

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 comes from Timna Tanners from Bank of America.

Timna Tanners: I wanted to ask a little bit more about how to think about the upcoming quarters. In particular, if we look at the run rate in the first quarter for copper volumes are ahead of your annual guidance, but silver below. And in CapEx, you're below your run rate. So just any update on how you're thinking about the progress for the year would be great.

Raul Jacob Ruisanchez: Thank you very much for your question, Timna. Basically, we're maintaining our forecast. Even though we believe that in production, it may be a little bit higher than what we forecast at the beginning of the year, we mentioned that we're expecting to produce 943,000 tons of copper. At this point, the number looks more like 950,000 tons, but we're still keeping our initial forecast to see how we evolve in that regard through the year.

Regarding our CapEx, we're also maintaining our budget. Please keep in mind that we will be doing some catch-up of work that we couldn't do through 2020, and that will certainly require some more activity in that regard. Our current forecast is the same that

we have at the beginning of the year, which considers \$1.4 billion of capital expenditures for this year for 2021.

Timna Tanners: Okay. So CapEx can ramp up, it sounds like and some catch-up is implied in there. Is that right?

Raul Jacob Ruisanchez: Yes. Let me comment on why CapEx is relatively slower than the run rate, as you well mentioned, in your question. The reason for that is that usually, you initiate the process of certain new projects at the beginning of the year once the budget has been approved. And you usually catch up and have a higher run rate, say, the second half of the year. That's why we're relatively comfortable with maintaining our current capital budget for this year.

Timna Tanners: Okay. And if I could, one more. On the cost side, we've been hearing from many of the miners that higher prices lead to higher costs, which makes a lot of sense. You talked a little bit about factors to think about from Q4 to Q1. But if you could help also talk to us about what to expect in coming quarters. Freight costs are higher, higher copper prices, higher costs. But are there other factors that we should be mindful of? Like any change in COVID measures may be coming off or other inflationary measures that we should follow?

Raul Jacob Ruisanchez: Obviously, fuel prices are higher now than what we had last year at this time. We had that in the first quarter, we had a onetime event, which is the scarcity and much higher price for gas, natural gas. That has already passed. We're not seeing that. We are not seeing exchange rate appreciations, both in Mexico and Peru at this point, at least an exchange rate that may impact on our cost at this point, we're not seeing that. And obviously, higher prices that you mentioned may reflect in the future on higher prices for certain materials. But at this point, we are not, other than fuel, as I mentioned, we're not seeing anything significant at this point.

Let me add something else to your question, Timna. We increased our cash cost before by product credits a little bit. It was \$0.074 from what we had at the fourth quarter last year. And that's basically because of the catch-up that the company is doing in certain maintenance and stripping and some other jobs that were postponed at the beginning of 2020 at our operations due to the COVID pandemic. At the beginning, we were operating with about 40% of the workforce. That is not the case now.

We're very close to 90% in total workforce operation at the corporation in average. And that's basically what we're doing now is catching up in certain maintenance and certain stripping and some other works that were part of 2020 and are being done now. That explains the increase that you are seeing in cash cost before by-product credits. Now we have a much more attractive wind tail coming from the prices of our by-products as well as the price of copper, which is certainly helping our cash cost this year.

Operator: Our next question comes from Thiago Lofiego from Bradesco BBI.

Thiago Lofiego: Two questions. Raul, if you could talk a little bit more about Tia Maria. Are conversations completely stalled ahead of the elections here? And also, what could be the timing for the other large projects, Michiquillay, Los Chancas, is there any way you can accelerate those? And what could be the earliest start-up times, for years for those projects? And the second question is just about the regulatory risk in Mexico. How do you perceive that risk at this point? Any potential for higher royalties, changes in concessions or any other regulatory risks that you're seeing? Or is this more and more on the quiet side now?

Raul Jacob Ruisanchez: Let me start by the second part of your question. We don't see a risk at this point on the regulatory front. You and all the audience have seen in Mexico at the beginning of the current administration were some concerns about, well, increasing taxation or regulatory matters. We don't see that that has materialized specifically affecting our industry, and we are comfortable with the things as they are now.

Regarding for the large projects that we have. Well, for Tia Maria first, that was the beginning of your question. We are working actually in a very good way with both the civil society, the population and the authorities. And that is reflected, as I mentioned, in a recognition that the company has received from the mayor of the province of Islay, which is the area where the project is; due to the contribution of the company to fight the pandemic. That was a recognition that we received at the beginning of the year. And I think it reflects the improvement that we have been obtaining regarding Tia Maria.

On the case of the other projects, they take their time. For Michiquillay we're currently very close to signing an agreement with the local communities to initiate the exploration for the project. We need to comply also with a first environmental study that it's presented to the Peruvian authorities. We already did that.

We already presented it in February of this year. And we're expecting the approval that usually takes about a little bit more than 2 months. So we're close to the time where we will get their feedback and hopefully, the approval of this first environmental study. We may accelerate the project a little bit. If we can, we will do that. But at this point, we are holding to our current forecast for Michiquillay.

In the case of Los Chancas, we're working currently on the final environmental impact assessment. Good progress has been obtained in that regard. So we're relatively comfortable to how things are moving forward for Los Chancas.

I think that I covered the three major projects that we have already. And we're not moving the start-up date for these projects. For the case of Tia Maria, it is expected to initiate production by 2024. For Los Chancas, it will be in 2027. And Michiquillay, next year 2028. If we see an opportunity for moving faster with these projects, we'll take it. But first, we will be keen on getting the best project design to have a very competitive operation, which we believe is one of the key elements of the company success in delivering good results to the investment community and obviously to our shareholders.

Thiago Lofiego: And just a quick follow-up. El Arco would be then after those three, right?

Raul Jacob Ruisanchez: El Arco will be, yes. El Arco is expected for 2028 as well with Michiquillay. I haven't commented on the Mexican project. Let me do that. I thought that you referred to Peruvian ones, but...

Thiago Lofiego: Yes, no, just in general. Yes, sorry. Yes.

Raul Jacob Ruisanchez: For El Arco, it is expected to initiate production by 2028. As we reported, we already have all the necessary land. We finished that process. We have all the concessions. So we can move on with the project now with a much more comfortable position than we were in the past. For Pilares, we are expecting, as I said, to initiate it in 2022. And for El Pilar in 2023.

Thiago Lofiego: Yes. And very final question here. When you think about Los Chancas, for example, which is the first project this considering Tia Maria to start up in the future, the first big project, right, which you mentioned 2027 start-up. What's holding you back from really accelerating that project, for example, I understand you mentioned you guys are studying and making sure you have the best project. But it's 6 years from here into 2027, right? I would imagine that there is room for you guys. If you want to accelerate maybe a couple of years, you could, right? Or is there something really that would make this impossible to happen?

Raul Jacob Ruisanchez: Certain work that has to be done in order to have ready the land where the plants and some other facilities will be built will take a while, and that's why we are not moving this. As you well mentioned, it looks like an unusual longer time frame for that.

Now there are certain things that we can do and depend also on how the industry is performing, which is, for instance, accelerating the delivery of key critical equipment that could be done or requesting to build the equipment and deliver it to us on advance. So we have, say, the mills for the concentrator ready to install. And that could save us some lead time. But at this point, that's the forecast that we have is, as I mentioned, and we want to maintain it. We will report if there is a catch-up in that regard that allow us to reduce the time as we move on with it.

Please keep in mind that the company has been very, very careful in developing these capital budgets, not only in the fact that they have to be accurate cost wise, capital cost wise, but also in the time line that they should follow. So when we initiate a project, we want to be very, very sure that we will comply with both the time line that we have for the project and the capital budget. That's why if you see our track record, you won't see that the company has failed with the budgets for the project that we have indicated at the construction time.

Operator: Our next question comes from Carlos De Alba from Morgan Stanley.

Carlos De Alba: I have several questions. So the first one, if I may, is on cash cost before by products, when you mentioned why it increased quarter-on-quarter, it was certainly better, I think, than at least I expected and maybe better than the guidance for the year. So could you maybe elaborate how sustainable this level of cash costs are? And is there any divisions to the guidance for the year in terms of cash cost before byproducts?

Raul Jacob Ruisanchez: Well, we expect to have our cash cost. That's about where we are now. We think that, as I say, we're catching up with certain works, and we have an unexpected event regarding the gas prices and cost and availability in the first quarter. So that should be removed from now on, that spike in gas prices.

And then for the rest of the year, let's say that we're going to focus to have before by-product credits between \$1.50 and \$1.55. And well, by-products will certainly help given the better prices that we're seeing in that regard and the stronger production that we're getting from our molybdenum plants. And also, we expect to have a better zinc production for the rest of the year as we recuperate our zinc refinery and initiate sales of refined zinc for the rest of 2021.

Carlos De Alba: Yes. That was my second question. How do you see that recovery? Do you expect refining production and shipments sales to recover already in the second quarter after the fire. I mean what is the progress that you have made in operating the damage on the refinery?

Raul Jacob Ruisanchez: During the first quarter, we had this fire that affected our facilities. We pretty much repaired most of the damage. But we couldn't produce the forms, the shapes that are required for selling the refined zinc. And that's what we have been working on through this quarter. So we're expecting it to initiate production. And as you may recall, Carlos, we are long in refining capacity at our zinc operations. So we do have some zinc concentrate that will be process through the second quarter and the rest of the year, and that will allow us to catch up on refined zinc sales for this year.

Carlos De Alba: All right. Excellent. And then 2 more, if I may. Just one, on capital allocation. I mean, clearly, the quality of the assets that Southern Copper has in copper specifically are very good, and the cash generation is impressive. And the company pays the current dividends. But there is not a capital allocation policy in place as we are seeing in other companies, other mining companies incorporate it in aluminum, in iron ore, that have been developed recently. Can we ever expect Southern Copper to maybe have a more formal allocation policy for the excess cash generation that it has? And the second question, my last question, do you have any specific number or the company has done an analysis on how much copper demand could come from the U.S. infrastructure package that you mentioned earlier in the call?

Raul Jacob Ruisanchez: Okay. Thank you for your questions, Carlos. Well, on capital allocation policy, well, that is something that we may consider. But so far, I think that the company track record is quite clear what we want to do. We basically are developing

projects that will maintain the company characteristic of being a low cost copper producer, probably the lowest cost copper producer given the size of the company, I mean, among our peers, we believe that we have the lowest cash cost of copper at this point.

Regarding dividends, as you see, the company is basically not hoarding cash. Our Board has been increasing our quarterly dividend as we are moving towards a different part of the price cycle and as we have increased our production. Just as a reference for our audience, about 10 years ago, we were producing less than 500,000 tons of copper. Now we are producing about one million tons. We have doubled our capacity. Our goal is to go up to 1.8 million tons of copper production in this decade. And by doing that, we will keep our characteristic of being a low-cost producer.

And your last question, well, we have not -- we don't have a formal internal estimate to how much is the green revolution or the infrastructure package that is going to be discussed for infrastructure in the U.S. We don't have that information yet. Our commercial team is very positive about this. And I've seen some studies that are doing a forecast that will be extremely favorable for copper producers in the next few years if this materialize. But at this point, we don't have a formal estimate ourselves.

Operator: Our next question comes from Rodrigo Salazar from AM Advisors.

Rodrigo Salazar: My question has been answered.

Operator: Our next question comes from Ivan Fernandez from KINEA.

Ivan Fernandez: I have a question about the political risk in Peru. I wonder how you're seeing the kind of Castillo and his proposals, particularly on risks related to the nationalization or expropriation of mining operations or excessive taxation of mining operations or even potentially less government protection against protests that could affect operations. If you could comment on kind of defenses you might have against that in case it pushes forward with that kind of proposition or even more useful would be to hear your views on what he's actually likely to try to do if you win, whether it's just campaign rhetoric or you really believe he would push for these kind of things. It would be very helpful to understand the risks you see for the company around that.

Raul Jacob Ruisanchez: Thank you for your question, Ivan. I think that at this point, we don't want to comment on the proposals that the candidates, both of them are doing regarding the mining industry, in particular, because we have seen that as the campaigns proceed, the positions not necessarily hold. We have seen that in the past. We believe that once the elected president starts looking at the matters regarding our industry, he or she will see that we're a partner for the Peruvian development and one of the very strong locomotives that the country could use to go out of the very hard recession that COVID-19 has created in Peru. So at this point, we're not making any specific comment on that. Once we have a definition, we will comment on specific measures that will be announced, if any, by the elected president.

Operator: Our next question comes from Leopoldo Silva from Larrain Vial.

Leopoldo Silva: So my question is regarding your smelters, smelter projects. Here, could you please share with us some of the recent developments you have had on these projects in Ilo Peru and Empalme Mexico? On what stage are they currently?

Raul Jacob Ruisanchez: Yes. As we have indicated to the market. We have two smelting projects. One is in Peru and the other one is in Mexico. Let me comment on the Mexican first. We are expecting to initiate these investments later on in this decade. For now, we're considering this project to require certain studies that are being developed, but we don't have this as a specific priority in our expenditures for the future.

Regarding the Peruvian project, we do have all the economics of the project already reviewed. There is a very interesting concentrate market at the northern part of Chile and the southern part of Peru. And as such, we are considering an investment for a new smelter for the future. Now, on the economic side, we have finished the review of the technology to use and the economic results of it.

And it's very interesting, actually a very good investment for the company. It has not been approved by our Board. We need to present it to the Board for a formal approval. And also, we need to initiate all the environmental permits for this project. We are considering some investment for this year, but it's related to a cogeneration of power at the Ilo smelter. That's what we're considering this year. And for 2022 and on, we will consider investing the total budget for this project.

In the case of Mexico, for the smelter, we're doing technical studies this year, and we will consider certain investments on the project for 2022. There is also a very good and very interesting market for concentrates at the northern part of Mexico, not only because we are long in concentrate in Mexico as well as in Peru. But as I said, there are good opportunities to capture value for smelting in both Mexico and Peru.

Leopoldo Silva: Great. And regarding your answer, could you perhaps guide us through breaking down the strategic value of this investment on first and or meaning how much do you see the weight, the returns of the stand-alone business? And how does that fit with being the lowest cost producer? That's on the one hand. And on the other, how much does it weight in the eyes of miners the value of having smelting capacity in this side of the Pacific and also securing sulfuric acid supply coming from the smelters. I mean, is there like a hidden value of having the smelters on this side of the Pacific?

Raul Jacob Ruisanchez: Well, certainly, there is always the possibility of saving all the freight that will take to send, say, concentrates from the northern part of Chile, the southern part of Peru to China and the same applies to Mexico. There are U.S. copper concentrates that could go to these smelters as well as our own long production that we have from the Buenavista operation at this point.

On the budget, the smelter in Mexico has an estimated budget of \$864 million. And for the Peruvian one, it's \$1,357 million. Those are the budgets. But please keep in mind that those projects have not been approved by our Board. So they are still under review, technical studies and we don't have a specific go for them, but it's in our current outlook for the future.

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

Andreas Bokkenheuser: Just two quick questions for me, a follow-up and a question on volumes last year. So one of the things we noticed, obviously, last year out of Peru on a national level, is that copper production fell on the back of COVID-19 and all the mining shutdowns and whatnot. You didn't really experience that.

You bucked the trend and you actually saw production volume up on a year-on-year basis. Can you just spend a little bit of time talking about how you were able to grow your production in an otherwise somewhat pressured market? And how do you see yourself setting yourself apart from the guys that -- or the producers that have been under pressure production-wise? That's the first question.

And I guess the second question, just a follow-up on the Peruvian risk. I get the point that you don't want to comment on the current candidates. But if we talk about it like hypothetically, what would it actually take if you wanted to start nationalizing mining assets in Peru? I mean, my understanding based on conversations over the past month is that it would require constitutional changes. Is that something you could confirm? Any visibility on what would be required? Those are my two questions.

Raul Jacob Ruisanchez: Sure. Thank you very much for your questions, Andreas. Well, on the -- how -- please keep in mind that in 2019, in May, we initiated the production of the second concentrator of Toquepala. So in 2019, we had 8 months of production of a new facility that has a capacity of 100,000 tons of copper per year. And in 2020, we had that facility running at full speed through the whole year, 12 months. Now as I mentioned a while ago, we, at the beginning of the pandemic, we cut everything that we could in order to maintain only the concentrators, the smelter, the refinery and the SX-EW operations moving forward.

In the case of Peru, we were authorized, given that our operations are isolated, and we had no cases of COVID at that point, at the beginning of the pandemic. We had for quite a few months, for most of the year, I would say, we didn't have any outbreaks of COVID inside the premises where our workers and their families live. We had some cases of people that were not staying at the premises, but living say in their houses in Moquegua or Ilo or Tacna. So we managed to produce the mineral that our concentrators required. We didn't do any stripping -- any specific stripping works for Toquepala.

Very little, just the necessary to extract the mineral. And that allow us to maintain our production level while having no cases inside our premises, and having our production to hold. And as I say, we had at the beginning of 2019 in May, in the second quarter of

2019, we initiated production with the new concentrator of Toquepala. And we had a full year of production, and that explains why we increased our production in 2020 of copper concentrate and copper contained in concentrate in last year.

Now, regarding your question on possible expropriation of mining operations. Well, the candidate that expressed that has indicated recently that he is considering more a change in taxation than a change for an expropriation of operations. So we actually don't think that this is going to be a thing that will be materialized. But as I say, we will see as we have a new president and this person takes the measures that he or she believes are the appropriate ones for the country.

Operator: Our next question comes from Fernando Assad from Ashmore.

Fernando Assad: Congrats on the results and still a very challenging environment. My question as well as hypothetical in nature. If the Peruvian political situation, whoever is in power, continues to be as much of a headwind and mixed as it has been over the last 12 months. What can you do to reallocate priorities in terms of investments and perhaps production from Peru to Mexico? Or are the growth projects in Mexico totally unrelated in terms of the Peruvian projects, in particular Tia Maria. Is there any way you can put the Mexican growth projects ahead of Tia Maria?

Raul Jacob Ruisanchez: Okay. Thank you for your question, Fernando. Well, we have three projects that are under development in Mexico. They have a combined budget of a little bit north of \$900 million. These projects are okay, generally speaking, particularly Pilares, it's pretty much finished. We are looking into some details to initiate production. And we expect to have it -- there is a good possibility that we advance a little bit production this year for Pilares. That's one of the comments that I think it's important to share.

Now, El Pilar, it's moving forward. We are on a technical studies part of the project. So on that, we can move on with no problems at all. The one that was affected a little bit by the pandemic is the zinc concentrator at Buenavista. We are expecting the final vaccination of people over 60 years in the area where the project is, and we expect that to be a starting point for coming back into operation at the zinc concentrator, meaning by this construction of the zinc concentrator will take some speed as the Mexican government finishes distributing the shots of vaccines in Cananea. We reported on that, on a very promising activity conducted by the Sonora government, which we certainly see as a very positive development.

The company is constantly looking into different opportunities to acquire assets that fit the company characteristic of being a low-cost operation. And we are looking basically on copper, which is -- we believe it's a metal that has an excellent forecast for the next few years. So we're focusing on that. Obviously, if conditions are better in some other country that will be attractive for us to get in. And there is a good project to develop in there. We will certainly -- the first thing will be that us as management will have to study it in detail. And give a recommendation to our Board, which will, at the end of the day,

will take the decision of moving into this kind of acquisitions or some other activities in places where we see opportunities

Operator: And our next question comes from Alfonso Salazar from Scotiabank.

Alfonso Salazar: So the question that I have is regarding the growth beyond the projects that you have announced and after what you did in Toquepala and Buenavista. And let's leave aside the increase in risk, for example, in Peru because of the elections. But come that upside, is it possible that Southern Copper increases capacity at say Caridad and Cuajone. I remember that you mentioned a Cuajone expansion many years ago. Is that something that is feasible or not really? And that's my first question.

And the second one is regarding the mining reform in Mexico. I was disconnected right when you were talking about that. But let me deal a little bit note. What we have seen is a lot of reforms in Mexico, of strategic nature. Many of them in natural resources like the energy reform, hydrocarbons reform. So why do you think that the mining industry would be excluded?

Raul Jacob Ruisanchez: I couldn't get your -- the final part of your second question, Alfonso.

Alfonso Salazar: Yes, just trying to understand why you think that a mining reform is not likely to be materialized in Mexico. I got disconnected when you were talking about that.

Raul Jacob Ruisanchez: Well, let me first answer your first question on the increased capacity in Toquepala, I will say that we are at the optimal capacity level for this operation nowadays. Keep in mind that we pretty much doubled the concentrating capacity of Toquepala in 2019. So it's a fresh investment, so we feel happy and comfortable with that.

In the case of Cuajone, we have now a lower milling rate on a daily basis for the Cuajone mine, and we're currently looking into a possible expansion of the Cuajone operation to put it at the same milling level of the Toquepala operation also in Peru. That is a project that resources has been assigned to review this expansion. We're looking into ways to increase our water recovery, which will be an important step in order to go on with the Cuajone expansion. So with that, we may increase our production capacity in Peru a little bit more.

Regarding the mining reform in Mexico, well, I think that we need to see how political circumstances evolve in Mexico as well. But at this point and for what we have seen through -- since the beginning of the new administration, we haven't seen any specific actions other than...

Oscar Gonzalez Barron: Raul.

Raul Jacob Ruisanchez: Yes?

Oscar Gonzalez Barron: This is Oscar. Can I mention that there was some. There was some reform last year to the special mining tax, some changes where there was a reduction on the concession suite that could be credited to the special mining tax. And also some adjustments that the government did to the concessions and how that special tax was paid. So there was some reform last year addressing some issues that the government felt, the mining industry wasn't managing well with the special mining tax. So there was some, and it's having its effect this year an increased special mining tax.

Operator: Our next question comes from Jean Bruny from BBVA.

Jean Bruny: Yes. Just on ESG that you're using a full page on ESG in the communicate. So I would like to know if it's something we can see now every quarter? What kind of metrics you will be using in that part of the communicate? And are you analyzing the issuance of the bond or sustainable bond in the future, green or sustainable bond in the future?

Raul Jacob Ruisanchez: Okay. Yes. Thank you for your question. As you have seen, we have a section on ESG at our press release, and we will keep it as we move on. We believe that one of the -- there are two things that we have been doing lately in the last few years, actually. One is, well, we did a gap analysis on what we need to do in order to improve our ESG metrics for now and the future.

And that is a corporate effort that we're moving forward with. And we believe that part of this effort should be on the communication side to express and to show the different progress that we're getting on this matter as we move on. You will see these metrics as we report them in the next few quarters.

Now regarding the -- well, green bonds are obviously an interesting source of funds for the future, and we will be considering them if we go to the capital market as an option, and that's part of what we're doing is communicating what we are doing and catching up in whatever we feel that there is an opportunity to improve on ESG metrics.

Operator: Thank you. And I am showing no further questions at this time. I'd now like to turn the conference back over to management for any closing remarks.

Raul Jacob Ruisanchez: Thank you very much, Jenny. Well, with this, we conclude our conference call for Southern Copper's First Quarter 2021 Results. We certainly appreciate your participation and hope you -- and hope to have you back with us when we report the second quarter of this year. Thank you very much and stay well, all of you. Thank you very much again.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for your participation and you may now disconnect. Everyone, have a wonderful day.