

TRANSCRIPTION

Company: MMG Limited
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WELCOME (Ms ANDREA ATELL)

Andrea ATELL:

- Hello and welcome to MMG's quarterly production report teleconference.
 - Today's report and today's discussion cover the operational performance of MMG sites for the second quarter of 2024 and the outlook for the year.
 - Joining us for this presentation are Mr Liang Cao, our CEO, Mr Song Qian, Executive General Manager Finance, and other members of the executive team.
 - I will now hand over to Cao Liang who will take us through the highlights of the report. Following his overview, we will open the line for questions.
 - Thank you.
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QUARTERLY REPORT OVERVIEW (CAO LIANG)

- Thank you. Hello, everyone, and welcome to MMG's second quarter production report teleconference. This is my first as MMG CEO, so I'm very pleased to be heading up our talented team and exciting time for the Company.
- We are committed to growing our global portfolio assets which will produce the materials essential to building a more sustainable world. This is something we are very proud of. MMG's contribution at local, regional, and national levels is significant and it forms a strong part of our identity and purpose.
- As you will know, **at MMG safety is our first value**. Coming to our performance in this critical area, our total recordable injury frequency for the second quarter of this year was 2.28 per million hours worked, a decrease from the first quarter, TRIF of 2.64.
- The TRIF for the month of June was 1.72 per million hours worked. While this was the lowest rate recorded this year with no high potential injuries, we continue to encourage a culture of active reporting and improvement.
- However, our leading indicator, significant events with energy exchange frequency, for the second quarter this year was 1.38 per million hours worked, which is an increase from 1.11 per million hours worked in the first quarter.
- The increase in the number of these events is a matter of concern and is being closely monitored. In response, there is an increased focus from our sites on enhancing the implementation and execution of critical controls, as well as improving contractor management.
- Moving on to an update on our recent completed rights issue, following our acquisition of the important Khoemaçau asset in Botswana, we are committed to debt reduction and prudent balance sheet management. In line with this strategy, **we undertook a rights issue to raise approximately US\$1.2 billion before expenses**.
- Earlier this month, we announced that the **rights issue was approximately 2.8 times oversubscribed** in aggregate.
- The funds raised from the rights issue will be used to repay existing debt and complete our funding plan for the Khoemaçau acquisition. This strategic move, along with the establishment of the joint venture with CNIC

Corporation Limited for Khoemacau, is expected to reduce our gearing level from approximately 60% to 44%. This significant reduction is important as it will support our capacity for future growth initiatives.

- Now let's turn to our operation performance for the second quarter of this year. **During the second quarter of this year, the total copper production, which includes copper cathodes and copper concentrate, was 90,972 tonnes**, representing a 2% decrease from the prior corresponding period, but pleasingly a 36% increase from the first quarter of this year.
- **For zinc, we recorded a total production of 50,300 tonnes in the second quarter**, which was 1% above the prior corresponding period in last year.
- Turning to side-by-side performance, **at Las Bambas, we produced 7,173 tonnes of copper** in the second quarter of this year, representing a 14% decrease compared to the same period in last year. However, this was a 25% increase from the first quarter of this year. During this period, ores from the Chalcobamba pit began being supplied to the processing plant. The average ore mined grade were lower than the previous year at 0.58% versus 0.69%.
- This was primarily due to mining of the low-grade sectors at the Ferrobamba pit, which is the main pit. As the operation progresses in the Chalcobamba pit, ore milled grades are expected to continue to improve from the third quarter onwards.
- During the quarter, both mining activity and milling activity proceeded without interruption. All mined volumes saw an increase of 63% compared to the previous quarter. This was despite adverse weather conditions affecting the previous quarter, which extended until April.
- All mill throughput rose by 12%, reaching 13.5 million tonnes compared to 12.1 million tonnes in the previous quarter when the production was affected by a planned maintenance shutdown.
- While production in the second quarter fell by 35% compared with the same period in the last year, the decline was due to low moly grades in the ore, which was a result of the mining sequence in the current sectors of both the Ferrobamba and Chalcobamba pits. In relation to community and transport logistics, MMG remains committed to working closely with the Government of Peru, local governments, and community members to ensure transparent and constructive dialogue.
- As we have previously shared, the Chalcobamba pit is ramping up production with six Huancuire community companies working alongside the Las Bambas team on development activities. At the same time, extensive and constructive dialogue between Las Bambas, the Huancuire community, and the government of Peru continues to progress.
- At the start of the month, the **Las Bambas team completed a number of the agreements with the Huancuire community**, covering education, local business, and most recently, local employment. This work **further strengthened our relationships with the local community and demonstrates a commitment to mutual success**. Our ongoing discussion will continue to cover topics from the negotiation agenda. The Las Bambas team also continues active dialogue with communities and the local government authorities around the Southern Road Corridor with government support.
- The government-declared state of emergency has been extended for 30 days effective 5 July.
- In further positive news, Las Bambas received a favourable decision from the Tax Court in Peru. The ruling determined that **Las Bambas is not liable to penalty withholding tax at a 30% weight for four years in dispute from 2014 through to 2017 to a sum of US\$557 million**.
- Finally, Las Bambas copper production for this year is expected to remain within the range of 280,000 to 320,000 tonnes.
- Thanks to the uninterrupted production and good progress on the development of Chalcobamba, production is expected to be at the higher end of the guidance. The C1 cost guidance for this year is now improved to US\$1.55 to US\$1.75 per pound. Down from the previous guidance, this was driven by operational efficiencies and by-product credits.
- Now, moving to our operation out at Kinsevere in DRC, **we produced 11,546 tonnes of copper cathode** in the second quarter, an increase of 2% from a prior comparable period. This growth was driven by improved ore milled throughput, with the plant benefiting from enhanced ore stability. The increased ore supply from mining at the Sokoroshe II pit also helped to offset the reduction in third-party ore supply. However, production was negatively impacted by low ore milled grade due to mining sequence at the Sokoroshe II and the Kinsevere pits and a reduced reliance on expensive high grade third-party ore.

- The mine also ramped up cobalt production in the second quarter, reaching 788 tonnes of contained cobalt in cobalt hydroxide. This resulted in our first cobalt sales of 346 tonnes in June.
- I'm pleased to share that the construction of the Kinsevere expansion project remains on track. This project includes the transition to the mining and processing of the sulphide ore and the commencement of cobalt production.
- During the second quarter, the construction of the sulphide circuits in the concentrator was completed and the commissioning commenced. The construction of all major equipment for the Roaster Gas and Acid plant has been completed with the commissioning planned for the third quarter.
- **This next phase of Kinsevere development will extend the mine life to at least 2035, and once fully ramped up, will result in total annual production of approximately 80,000 tonnes of copper cathode and between 4,000 to 6,000 tonnes of cobalt in cobalt hydroxide.**
- **The first copper cathode from sulphide is expected in the second half of this year, and a full ramp-up is expected in 2025.**
- In line with prior guidance, our copper cathode production for this year is expected to be in the range of 39,000 to 44,000 tonnes.
- Our C1 cost in this year is now expected to be in the range of US\$3.00 to US\$3.35 per pound. Reflecting our increase from the previous guidance, this adjustment can be attributed to three factors. The first is lower than expected by-product credit from Cobalt sales largely driven by a decline in price. The second is the increased mining cost due to accelerated mining activity at the Sokoroshe II pit. Finally, the third factor is a change in the mining sequence at the Kinsevere pit to align with the Sulphide plant commissioning, and ramp-up plans. This adjustment in mining operation at Sokoroshe II and the Kinsevere Pit will result in larger than expected ore stockpiles. The costs associated with the mining of this additional ore have been incorporated into the revised C1 costs guidance. However, these ore stockpiles will be processed in the future, which we anticipate will positively impact the future C1 costs.

- Now let's turn our attention to the Khoemacau mine. In the second quarter of this year, **Khoemacau produced 8,907 tonnes of copper** in concentrate. The mining operation during this period was influenced by equipment availability and the high turnover of skilled labour, a situation intensified by a competitive labour market in Botswana due to an increase in underground mining operations in the country. To address this issue, Khoemacau mine has significantly increased the recruitment numbers with training and induction on the way.
- During this period, mining activity was concentrated in low-grade sectors due to the mining sequence which are coupled with dilution, diversely impacted ore grade. Those grades were 1.57% in the second quarter versus 1.68% in the first quarter. The team has taken measures to reduce dilution factors and the expectation of achieving better ore grade in the forthcoming quarters.
- We've also provided the 2024 guidance for Khoemacau in the report. **We're expecting copper production to be between 30,500 and 40,500 tonnes starting from 23 March of this year with the C1 cost in this year expected to be within the range of the US \$2.30 to US\$2.65 per pound.**
- We remain committed to supporting the ramp-up of Khoemacau to achieve annual production of 60,000 tonnes of copper by 2026. This will be facilitated by ongoing mining development efforts to increase mining fronts, operational flexibility, and the mined grades. These efforts will be further enhanced by the completion of the Primary Ventilation Fans, as well as paste fill project.
- In addition, the Company is dedicated to completing the construction of the expansion by 2028, which aims to increase production capacity to 130,000 tonnes of copper with the Khoemacau mine expected to reach full capacity by 2029, further contributing to the reduction of C1 cost.

- Now, our performance at our zinc operations. At Dugald River, **we produced 34,524 tonnes of zinc in zinc concentrate and 4,618 tonnes of lead in lead concentrate** during the second quarter of 2024. This represents a decrease of 5% and an increase of 8% for zinc and lead, respectively, compared to the same period of last year. The low production was primarily due to 24% in ore milled throughput compared to the previous quarter, impacted by maintenance of the SAG mill in June, which I will discuss further later.
- However, on a positive note, the processing plant achieved a record high lead recovery of 70.8% in the second quarter and the continued high zinc recovery, followed by continuous operational improvement initiatives.
- During our recent inspection of the SAG mill, we identified an issue with the bearing pads – necessary unplanned maintenance shutting down at the Dugald River processing plant. **Plant operations have**

resumed this week, and we are planning additional maintenance works in August to ensure the SAG mills operational integrity. Our Dugald River team is supported by internal and external specialists for these works. Our primary goal is to recover any production deferred due to this shutdown.

- Consequently, now we anticipate Dugald River zinc production for this year to be toward the lower end of the previous issued guidance of 175,000 to 190,000 tonnes of zinc in the zinc concentrate. We expect C1 costs to remain within the range of US\$0.70 to US\$0.85 per pound.
- Finally, to Rosebery, which had a strong quarter, **producing 15,776 tonnes of zinc in zinc concentrate**, an 18% increase compared to the prior corresponding period of last year, and a 9% increase compared to the previous quarter.
- In a significant milestone, all mined and milled volume achieved the second highest quarter in the past 20 years. This result can be attributed to workforce stability, development focus to increase the number of available mining fronts, and a lower proportion of ore being sourced from deeper areas of the mine.
- In addition, continuous operational improvement initiatives supported strong plant performance in achieving **the highest zinc recovery of 88.6% since 2017**.
- In line with the prior guidance, Rosebery production for this year is expected to be in the range of 50,000 to 60,000 tonnes of zinc in the concentrate, including the contribution of by-product metals. Zinc equivalent production for this year is expected to be in the range of 115,000 to 130,000 tonnes.
- Finally, C1 is now expected to be in the range of US\$0.05 to US\$0.10 per pound with the improvement mainly driven by strong by-product credits and the lower zinc concentrate treatment charge.
- This concludes the results part of our call.
- Now I'm happy to take your questions together with my team, and I will hand back to you, the moderator. Thank you.

<QUESTIONS AND ANSWERS>

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you're on a speakerphone, please pick up the handset to ask your question.

Your first question comes from Jimmy Feng with Citi. Please go ahead.

Jimmy Feng (Citi, Analyst) Hi, thanks management for the presentation. I have several questions and let me ask one by one. I saw that – the first question is that I saw Chalcobamba has already contributed to copper output during the second quarter. Does that mean Chalcobamba is ramping up? When do you expect it will be fully ramped up?

The question also related to Las Bambas is that the full year output may reach the upper side of the production guidance at 320 kt, so for the second half, roughly, it would be 200 kt output. So, considering the ramp-up, the first quarter may be even higher than 100 kt, is that correct? If so, the output in 2025 would be very good. So how about the production level for 2025? Thanks.

Cao Liang: Thank you for your question. Nan and Ivo, could you help to answer this question? Thank you.

Ivo Zhao: Hi, this is Ivo from Peru. I'm happy to answer the question. First of all, I'd like to say that Las Bambas' first half-year projection aligns with our plan, or even the second quarter production is a little better than our plan. As you may notice, actually, we have a lower production, below the annual guidance, because we have the mining of the low-grade sectors from the Ferrobamba pit. However, we have more ores from the Chalcobamba pit – begin being supplied to the processing plant in the second quarter.

So, with the ramp-up of Chalcobamba pit, we expect the production will continue to improve in the third quarter. Of course, right now, we have a plan just to improve our productions, and I think we – as we move into 2025, we are so optimistic about the future. We have been going well with the negotiation with the community Huanquire, and also, where Chalcobamba has ramped up, we expect our annual production to reach a capacity of 350,000 tonnes to 400,000 tonnes for Las Bambas. We think of the production as the combined – the Ferrobamba pit and the Chalcobamba pit contribution in the future.

We probably think the Chalcobamba pit will contribute higher grade ores, leading to a notable rise in metal production in 2025 and further increase in 2026. I believe I have already answered your question. Thank you.

Jimmy Feng: (Citi, Analyst) Yes, sure. Thanks. That's very clear. My second question is for Dugald River mine. I saw that there will be additional maintenance work expected in August. Will that result in additional operation expansion? If so, by how long? That's my second question. Thanks.

Nan Wang: Thank you. Yes, thanks, Jimmy. This is Nan here. I'll take your question on this one. Yes, we have further maintenance work for that SAG mill, but we will do it in a plant shutdown period. We anticipate around two weeks to complete that task, but the team is continuing to work on to see if we can optimise that timeframe at this stage.

Jimmy Feng: (Citi, Analyst) Thanks. That's very clear. That's good. My final question is regarding the hedging. I saw in the announcement there are 37 kt hedged through collar and 84 kt copper hedged through fixed price swap. So, totally, it will be around 120 kt copper being hedged, comparatively around 90 kt quarterly output is a large number. At current spot price, the hedging would be profitable, I'm not sure whether I understand that's right. Could you explain more on the hedging volume and also its impact on the profit for the third quarter and fourth quarter? Thanks. That's my final question.

Song Qian: Thank you for asking this. The volume, I can update you. I can ask Sherry to update you the exact numbers after this call. But whatever we have disclosed are the true numbers. The impact, yes, we do have a hedging policy approved by the board and reviewed from time to time. Why we do this is because, firstly, with doing that, we could secure our cash flow for our debt repayment. As you all know, currently MMG still held certain levels of external debt.

Secondly, we thought we could secure our capital to support our major expansion projects in Las Bambas, in Khoemacau, and in Kinsevere. We believe that those expansion projects could maximise our investors' value the most. Thirdly, with the hedging program, we could optimise our financial performance and cash flows for the two – especially the two mines, like Kinsevere and Khoemacau, because they are either on the ramp-up stage or on the transferring stage. Their financials would be vulnerable at the moment.

So far, at the current market, our strategy of hedging has proved to be very effective. For the financial data, I'm not recommended to disclose more detailed numbers at this call, but you will have more information in the interim report. Thank you, Jimmy.

Jimmy Feng: (Citi, Analyst) Sure. Thanks for the answer. I have no more questions. I'm looking forward to the first half result. Thanks.

Operator: Thank you. Once again, if you wish to ask a question, please press star one. Your next question comes from Chris Hsu with Balyasny Asset Management. Please go ahead.

Chris Hsu: (Balyasny Asset Management, Analyst) Hi, thank you very much. I've got two questions. The first one is, so overall, what does the management expect for copper production in 2025 and 2026? Thank you.

Cao Liang: Thank you. Nan, do you got the number?

Nan Wang: Yes. Hi, Chris. Overall, in terms of 2025, the copper production outlook, we expect a notable rise in 2025, bolstered by contributions from Chalcobamba. Then in terms of Khoemacau – so we probably extend around a similar production level to 2024. Then in terms of Kinsevere, we'll start the ramp up in the sulphide plant and then obviously the copper production will be expected to be higher than 2024. So those are the copper production range.

Chris Hsu: (Balyasny Asset Management, Analyst) Got it. How about 2026?

Nan Wang: 2026 we're still working through our planning process, so we can update that in due course.

Chris Hsu: (Balyasny Asset Management, Analyst) Got it. Thank you very much. The second question is, with the reduced gearing, thanks to the ongoing free cash flow generation, the rights issue, and also the sell-down of the Khoemacau stake, is there any update to your thoughts on potential shareholder returns, like dividends going forward? Thank you. What's the pathway to that?

Song Qian: Yes, you actually asked many questions. The first one, regarding the gearing ratio, and secondly, the dividend policy. So, the gearing ratio, while we do that gearing ratio, we have disclosed that before. By the end of last year, our gearing ratio is roughly 50%, or not that low, it's 4.3 billion. After this Khoemacau transaction, we raised two more billion of that. With that last issue, we successfully reduced part of that debt. Hopefully by the year end of 2024, our gearing ratio will reduce to 44%. The net debt level will reduce to 4.7 billion.

Regarding the dividend policy, we do review all dividend policy from time to time as well. The board will approve this policy. So currently, we are thinking that what's the best approach to maximise the investor's value is again, firstly to support – keep reducing our debt level given the current – so far interest rate is very high, and our actual debt cost is still at a high level. So, keep reducing the debt would help maximise our investors' value. For example, with this rights issue, repay the debt would effectively reduce our annual interest costs by US\$80 million.

Secondly, we think to keep focused on expansion projects. Delivery will also increase our copper capacity quickly and at a low cost. With that, we will prioritise our capital to locate. Also, at the moment, according to Hong Kong listing rule – because we have the negative number of accumulated earnings, so we are not allowed to distribute any dividends at the moment. Does that answer your question?

Chris Hsu: (Balyasny Asset Management, Analyst) Got it. Thank you very much. Thank you.

Operator: Thank you. There are no further questions at this time. I'll now hand back to Mr Cao for closing remarks.

Cao Liang: Okay, thank you everyone for the questions and for your time to participate in today's conference. If you have further or additional questions, please reach out to our Investor Relations or Corporate Affairs. Thank you very much.

[END OF TRANSCRIPT]