

Southern Copper Corp. (1Q18 Earnings)

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Corporate Speakers:

- Raul Jacob; Southern Copper Corporation; VP Finance, Treasurer, CFO
- Daniel Muñoz Quintanilla; Southern Copper Corporation; EVP, Director

Participants:

- Carlos De Alba; Morgan Stanley; Analyst
- Thiago Lofiego; Bradesco S.A.; Analyst
- Jon Brandt; HSBC; Analyst
- Andreas Bokkenheuser; UBS Investment Bank; Analyst
- Caio Ribeiro; JPMorgan; Analyst
- Marcos Assumpcao; Itau Corretora de Valores S.A.; Analyst
- Renan Criscio; Credit Suisse; Analyst
- Fawzi Hanano; Berenberg; Analyst
- Rodrigo Garcilazo; GBM Grupo Bursatil Mexicano, S.A. de C.V.; Analyst
- Alfonso Salazar; Scotiabank Global Banking and Markets; Analyst
- Lucas Pipes; B. Riley FBR, Inc.; Analyst
- Roberto Vasquez; LW Investment; Analyst

PRESENTATION

Operator: Welcome to Southern Copper Corporation's First Quarter 2018 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 2018 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 onto Mr. Raul Jacob.

Raul Jacob: Thank you very much, Janina, and good morning, everyone, and welcome to Southern Copper's First Quarter of 2018 Earnings Conference Call. Participating with me in today's conference is Mr. Daniel Muñoz, Executive Vice President and board member of Southern Copper. In today's call, we will begin with an update on our view of the

copper market. We then will review Southern Copper's key results related to production, sales, operating cost, financial results and expansion projects.

After that, we will open the session for questions. Now let's focus on the copper market, the core of our business. During the last quarter, the London Metal Exchange copper price increased significantly from an average of \$2.65 per pound in the first quarter of 2017 to \$3.16, or 19% higher per pound for the first quarter of this year. We are very positive about the current market outlook. As a result of the synchronized economic growth of the major world economies, refined copper demand has outperformed our initial forecast of a 2.1% growth for 2018 and experts are currently forecasting an increase in demand of 2.5% to 3% for the year.

Regarding copper supply. We see a balanced market for this year. However, we expect a weak production response from the industry as a result of the consistent decline in investments that several companies have had in recent years. In addition, labor unrest, an important element in this year, excess government taxation and technical difficulties are further affecting production. As a result, we expect a supply growth of approximately 1.5% in 2018, which will give a strong support for copper prices.

Given the current market outlook as well as our continuous commitment to increasing low-cost production, additional growth and a good financial performance, we believe that Southern Copper is uniquely positioned to continue delivering enhanced performance, sustainable growth and superior value. As part of our review of operating with high-quality assets, in February of this year, the company won the Michiquillay bidding process in Peru, adding this excellent copper deposit to our project pipeline.

We believe this asset not only offers a unique and very appealing opportunity for growth, but also an excellent strategic and operational complement that fits perfectly in our portfolio of mining projects in America, and especially in investment-grade countries. Michiquillay is a world-class mining project with mineral resources of 1,150 million tons and a copper grade of 0.63%. It will produce about 225,000 tons of copper per year, along with such by-products such as molybdenum, gold and silver for an initial mine life of approximately 25 years.

This at a competitive cash cost slightly higher than \$1. On top of the \$400 million and a 3% royalty offered for Michiquillay that will be paid over the next 10 years. We expect to invest approximately \$2.5 billion and start production by 2025. The project will create significant business opportunities in the Cajamarca region, generating new jobs for local communities and contribute with taxes and royalties to the national, regional and local governments. Let's now focus on Southern Copper's production for the past quarter.

Copper production decreased by 4.2% in the first quarter of 2018 when compared with the first quarter of last year. This was principally due to lower production at the Buenavista SX-EW plant. We have been obtaining lower ore grade in the pregnant leaching solution of this plant due to the lower solubility index in our new leach pads and the characteristics of the ore that is being deposited in such pads. The company has

developed a 12-month corrective program, currently under application, to overcome this temporary reduction in production. We're confident on the results of this program.

The program includes depositing the minerals in different leaching pads, depending on the characteristics of the ore. We have also implemented improvements and controls in the ore fragmentation that occurs in the blasting to avoid the fine materials that may cause clogging. While we work on this program, we expect to produce 92,000 tons of copper from our SX-EW plant in Buenavista.

This will reduce our copper production guidance for the year by 30,000 tons to 901,000 tons. It is important to note that this year, we will produce an additional 40,000 tons of copper contained from our new concentrator in Toquepala, which will start to ramp up in the third quarter of this year. Therefore, we're still expecting a 24,000 tons growth in copper production when compared to last year's 877,000 tons.

For molybdenum, that represented 7.4% of the company sales value in the first quarter of this year, prices averaged \$12.14 per pound in the first quarter of 2018. This compares with \$7.74 in the first quarter of last year. That is a 56.8% increase versus a year ago. Molybdenum production decreased by 1.9% to 5,175 tons in the first quarter from 5,276 tons in the first quarter of last year. This was principally due to lower production at the Peruvian operations that was partially offset by the recovery of the Buenavista's molybdenum production, which increased by 86.5%.

For zinc, it represented 5.2% of our sales value in the first quarter of 2018, with an average price of \$1.55 per pound of zinc in the quarter, an improvement of 23% from last year. Zinc mined production decreased by 4.6% to 17,736 tons in the first quarter of 2018 compared to the same period of 2017. This was due to lower production at Charcas and Santa Barbara mines due to lower grades and recoveries at both mines. Refined zinc production increased by 2.3%. It is important to mention that our zinc production is consistently improving.

Past quarter production increased by 27.8% when compared to the last quarter of 2017. On top of this significant production recovery, on February 28 of this year, the workers of the San Martin mine of IMMSA held an election to vote on the union that will hold the collective-bargaining agreement at the San Martin mine, which has been closed for several years. The National Federation of Independent Unions won the vote by an overwhelming majority. This union has worked very efficiently with our company for many years as they hold the collective-bargaining agreements of our other underground operations and our smelting and refining plant at La Caridad.

We see this important result as the first step to the end of the strike that began in 2007, and resume operations at the San Martin mine. Our current estimates indicate that the San Martin mine will require approximately \$77 million in investment to restart operations, which should happen in the first quarter of next year. We are expecting an annual production of 20,000 tons of zinc from San Martin, 7,500 tons of copper and 2.8 million ounces of silver.

For silver, it represented 3.9% of our sales value in the first quarter of this year, with an average price of \$16.68 per ounce in the quarter. This is a 4.4% decrease in price from the same period of 2017. Mined silver production increased by 3.9% in the first quarter, mainly as a result of higher production at our open pit operations in Mexico and the Toquepala mine in Peru. This was partially offset by lower production at our IMMSA and Cuajone mines.

Looking into our financial results. For the first quarter of this year, sales were \$1,841 million. This is \$257.2 million higher than sales of the first quarter of 2017, or a 16.2% increase. Copper sales volume decreased by 3.8%, while value increased by 14.6% in a scenario of better prices.

Regarding by-products, we had higher sales of molybdenum of 46.9% due to better prices. As I said, they increased by about 56.8%. And we maintained the same sales volume for molybdenum. For zinc sales, they increased by 20.1% due to better prices, which compensated for lower volume in the case of zinc. For silver sales, they decreased by 3.7% due to lower prices, partially compensated by slightly higher volume.

Our total operating cost and expenses increased by \$54.3 million or 5.4% compared to the first quarter of last year. The main cost increments has been in purchased copper concentrates, operations contractors, diesel and fuel costs. This cost increments were partially offset by lower inventory consumption, lower energy cost, which decreased by about \$20 million; higher capitalized leachable material and other factors.

Our adjusted EBITDA for the first quarter was \$939.4 million. This is a 51% margin, and compares with \$722.3 million or 45.6% margin for the same quarter of last year.

Our operating cash cost per pound of copper, before by-product credits, was \$1.57 per pound in the first quarter of this year. This is \$0.076 higher than the value for the fourth quarter of last year. This 5.1% increase in operating cash cost is the result of higher cost per pound from production and administrative expenses, partially compensated by higher premium and lower treatment and refining charges. Southern Copper operating cash cost, including the benefit of by-product credits, was \$0.789 per pound in the first quarter of this year.

This cash cost was \$0.098 or 11% lower than the cash cost of \$0.887 that we had in the fourth quarter of last year. Regarding by-products, we had a total credit of \$343 million or \$0.783 per pound in this first quarter of 2018. This figure represents a 28.6% increase when compared with the credit of \$293 million or \$0.609 per pound in the fourth quarter in 2017. Total credits have increased for most of our by-products.

Net income attributable to SCC shareholders in the first quarter of this year was \$470.7 million. This is 25.6% of sales, and represents diluted earnings per share of \$0.61. This figure compares with a net income attributable to shareholders of SCC for the same

period of 2017 of \$314.4 million or diluted earnings per share of \$0.41. So our earnings per share have increased by 49% quarter-on-quarter.

Looking into our capital expenditures. As we have indicated in our press release, 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.

Through the years, our strong financial discipline has consistently allowed us to invest on a continuous basis in our great asset portfolio. Capital investments during 2017 were a little bit north of \$1 billion. For 2018, we're expecting to invest \$1.6 billion. That is about 57% higher. Capital investments in the first quarter were \$295.7 million, including \$75.2 million for the Toquepala expansion, which is on schedule and on budget, and is expected to initiate operations in June of 2018 and produce 40,000 tons of copper in 2018 and 100,000 tons annually thereafter.

For the Peruvian projects, the portfolio of projects that we have in Peru has a total capital budget of \$2.9 billion of which \$1.7 billion have already been invested. Please note that we're not including the Los Chancas and Michiquillay projects in this current projects, which together comprise for \$5.3 billion in our total budget.

For the Toquepala project, this is a \$1.3 billion project that includes a new state-of-the-art concentrator that will increase Toquepala's annual production by 100,000 tons to reach 245,000 tons in 2019. This is a 69% production increase. As of March 31 of this year, we have invested \$968.1 million in this expansion and the project has reached 90% progress and is expected to initiate production in the third quarter of 2018.

For Tia Maria, we have completed the engineering and after having complied with all environmental requirements, we have obtained the approval of the Environmental Impact Assessment. We're working currently with the Peruvian government to obtain the construction permit for this 120,000 tons of SX-EW refined copper per year production. This is a greenfield project with a total capital investment of \$1.4 billion, and we expect the construction license to be issued in 2018.

Looking at our Mexican projects. We have in Buenavista the zinc concentrator. This is a project that is located between the Buenavista facility and contemplates the development of a new concentrator to produce approximately 80,000 tons of zinc and 20,000 tons of additional copper per year. As of today, we have concluded the basic engineering and are working on the purchasing process for the project's main component. The project investment budget is \$413 million, and we expect to initiate operations in 2020. When completed, this new zinc concentrator will double the company's zinc production capacity.

For the project of Pilares, which is in the Sonora state of Mexico, this is a project that is located 6 kilometers away from La Caridad. It consists of an open pit mine operation with an annual production capacity of 35,000 tons of copper in concentrate. The ore will be transported from the pit to the primary crushers of the La Caridad copper concentrator by

our current mine truck fleet. This project will significantly improve the overall mineral ore grade. Pilares has an ore grade of 0.78%, and that compares with 0.34% from La Caridad. Currently, we continue with the mine plan preparation, including the final outline design for the road thru which the ore will be transported to the La Caridad mine. Investment budget for Pilares is \$159 million, and we expect it to start producing in 2019.

Regarding dividends. As you know, it is the company's policy to review at each board meeting cash resources, 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 April 19, the Board of Directors authorized a cash dividend of \$0.30 per share of common stock payable on May 23 to shareholders of record at the close of business on May 9 of this year.

With this in mind, ladies and gentlemen, thank you very much for joining us, and we will like now to open up the Q&A session.

QUESTIONS AND ANSWERS

Operator: (Operator Instructions)

Carlos De Alba of Morgan Stanley.

Carlos De Alba: On Tia Maria, what is delaying the granting of the construction license, if I may ask? And given the changed – the recent change in government in Peru, can you give us an update specifically as to what is ahead between now and getting the construction license? I understand there's still some people in the community, maybe politically influenced -- that have opposed recently to any advancement in Tia Maria. And also, if you don't get the construction license in the next few quarters, is there an expiration date for the environmental permit that has already been granted? And then finally, moving on to Mexico. Can you comment on the risk or the potential risk that a MORENA presidency would mean for the company? And has Southern Copper management approached the AMLO and MORENA people trying to understand what is the agenda for the mining industry if they were to win?

Daniel Muñoz: Sure. Thank you. I mean, thank you, Carlos for the question. I'll probably start off with the last question. As you know, we are a private company; private in the sense that we don't belong to the government or anything like that. Like any other company, we invest to keep on working. We fully comply with all requirements in Mexico.

We believe in the institutions and the rule of law in this country. And clearly, we are not in the business of predicting political or influences. I know you guys are mostly outside of Mexico, but Grupo Mexico and us, we have clearly defined that we are not a party, and we are not participating or influencing any kind of candidates or anything that's not a role because of we have been very clear on that. So I think that's what we have to say here. I'm sure, as with new President Vizcarra in Peru and with whoever becomes President

here, I mean, this is a very old company that has been mining and operating very good assets, quality assets, at the lowest cost possible throughout political and new governments for many, many, many years.

So we anticipate that's going to be exactly the same going forward here and in Peru. And regarding Tia Maria, Raul, do you want to expand on that a little bit on that? Just on the opening remarks, I should say that we view as well very positive and we've been doing a lot of work with communities of which the majority approve the project. And with the current and prior government in order to obtain the construction license. And it is the only issue pending there.

We've got resolved this quarter a couple of legal issues that were pending regarding ownership of a concession there by a third party. So we are ready, and we look forward to start constructing the project, to start developing it. And I mean it's clear but the fact that we won Michiquillay project that we feel very strongly about Peru and about Mexico. And we keep on investing. And we will be happy to keep on doing that. I mean, we believe again the rule of law and institutions. So that's pretty much. I don't know Raul, do you want to add a couple of details on the work there and the communities feeling down there?

Raul Jacob: Yes. Thank you very much, Daniel. Well, Carlos, thank you very much for your questions. In the case of Tia Maria, we're currently emphasizing our work with the communities, transmitting or clarifying certain misunderstandings regarding the project. For instance, some people believed that the mine was going to be in the valley, which is not correct. Through a very patient work we have currently changed that view. Currently, most of the people at the valley understand that the operation will be in a desert.

The plant will be 11 kilometers north of the valley. And the mine -- the closest one will be at 3 kilometers north of the valley, which is a very safe distance in order to have a sound operation. And also, a very careful environmental management and care. We are contacting the new authorities. President Vizcarra, who has made very specific and positive comments on the mining industry, has inaugurated a new government, a new administration. And he has appointed a new team at the Mining and Energy Ministry. We have -- we are getting in touch with this new administration, and we're very positive on their view regarding our Tia Maria project and all the projects we have in Peru. Daniel indicated Michiquillay. We also have Los Chancas which is a very positive and very interesting asset for the company for the future.

Operator: Thiago Lofiego from Bradesco.

Thiago Lofiego: I have 2 questions on the Buenavista cost impact, is that likely to impact 2018 numbers and beyond? And if you could give us cash cost guidance for 2018, '19 and '20, that will be appreciated. And also, the second question. Regarding Michiquillay, when will be the exploration study concluded? You think you can accelerate or are you willing to accelerate this project? And also not regarding Michiquillay, but just general

strategy. Are you looking at other potential acquisitions on copper either in Peru or Mexico or other geographies?

Raul Jacob: Okay. Let me start by the cash cost guidance. Using current prices. You've seen our report for the year has been \$0.79 per pound of copper. We're expecting that to be the cost for 2018. And as we get the new production from the new Toquepala concentrator, we expect that to be hold or even improve, depending or contingent to molybdenum prices for next year. We're looking at this point, with this price and cost environment, at a cash cost trending towards \$0.75 over the long run, let's say in the next 5 years, we should be slightly getting to those \$0.75 per pound. Now regarding the acquisitions of new assets, would you like to comment on that, Daniel?

Daniel Muñoz Quintanilla: Yes. Thank you, Raul. I mean, obviously in Michiquillay, and I want to be very clear about this. This is a long-term project. The same thing with Los Chancas. It doesn't mean that we're going to be deploying capital in either this or next year on this project. And this is part of having the largest reserves in the world, so to speak and having the greatest pipeline and assets to be able to develop.

So that's -- I'm putting Michiquillay here because I think it is kind of like the way you pose the question. We're always open to look at other assets. Unfortunately, the reason we bid for Michiquillay and won is because there aren't many world-class assets out there in the world for sale by the people that have them. Thankfully the industry is doing great and nobody is going to sell them. So anything we can find we will certainly look at, but it's tough to look at that and we are now fully concentrating on developing our greenfields and as well as our brownfields. That is thankfully coming on-time and on-budget, the Toquepala expansion, which is really a new concentrator.

Raul Jacob: As we get into 2019 and having finished in this year the Toquepala concentrator expansion we will get into better areas, ore-grade-wise, in the Toquepala deposit. So that will be an extra, let's say, benefit of initiating this year the Toquepala expansion. So we're expecting a much better production outlook once we can operate Toquepala as a regular mine and not having a construction in the middle of the operation as it is now, and it has been like that for the last 3 years.

So this is a positive development that we have in our own operations at Peru. And I think that's basically it. On the SX-EW for Buenavista, the impact of the plan that we're developing it's already embedded in the cost guidance that I provided to you.

Thiago Lofiego: And just not sure if you've -- I don't think you've answered about the acquisition. I mean, is there any other geographies you will be looking at? Or any other potential M&A that Southern Copper would be considering? Or just focusing on the current medium to long-term investment plan, given the reserves that you guys have?

Daniel Muñoz Quintanilla: Sorry, I wasn't clear. I'll take the opportunity to answer, or attempt to answer again. We obviously are focused on investment grade countries. As you know we are focused in the Americas. And that's clearly our core, particularly

copper, of course. And we had good leads M&A wise that there was something to explore or to look at Michiquillay. As we did with Michiquillay, so to speak, we'd be happy to look at it. I don't see any opportunities out there. So the core of our strategy is to develop a mix of brown and green fields that we currently have. And that includes, of course, Michiquillay.

But for instance, we acquired the Pilares mine that will enable us to increase the production of Caridad. We're going to have this deposit, which is more compared to Caridad, but which has a much larger ore grade at 8 kilometers only from Caridad. So therefore, we are in the mix increasing the ore grade in general of Caridad, which is a more mature asset, from this other asset with a very high ore grade. So this kind of acquisitions we are certainly looking at it all the time. A major acquisition, we have nothing on the pipeline, but we're happy to look at if any asset arise. Thanks. I hope it was clear now.

Operator: Jon Brandt from HSBC.

Jon Brandt: First, Raul, I wanted to ask you about the Buenavista SX-EW and the issues there. Could you just help me understand, it's not real clear to me if the issue is with the ore grade itself? Or if it's the leach pads where the issue is? And I think it was last year, you had some grade issues with some of your other mines. So I'm wondering if those have normalized? And sort of what's the mining plan looks like from the grade standpoint, at least at your existing operations over the next couple of years? And then just a follow up on the political question. I certainly appreciate that you're a private company and you don't endorse any candidate. But is there are risk to an increase in royalties in Mexico given some of the spending plans that some candidates have outlined? Do you see a risk that royalty rates will -- could potentially be increasing at the next year or two?

Daniel Muñoz Quintanilla: Thank you. Let me start off with the last one and we'll get into ore grade and production, given that they are very different 2 topics. I mean, we believe - - we expect and hope that we get not an increase in royalties, but a decrease in royalties. Because we certainly have devoted a lot of time understanding and comparing with other countries in the world, how they look at royalties and how -- when you have all this, let's say, taxes, duties, rights. Any way you want to call this kind of taxes and royalties, when you add them all up, Mexico is very expensive and that is not the greatest, let's say. So we certainly expect that the new government here and in Peru are able to pass a legislation that is just comparable with international standards. So for us, it really doesn't matter who wins, it's a matter of doing and incentivizing investments, new development of mines, exploration and that's what we certainly expect from a new government.

So that's one. And regarding the production, I will let Raul get into the details of the pads, but I want to remember you guys that, in 2013 in Buenavista, our SX-EW facilities only produced 66,000 tons of copper per year. What we're looking at and seeing here is a dramatic increase, given that we built a new 120,000-ton SX-EW facility, which is I believe one of the largest of America and in order to feed a plant that size we need to

build new leach pads, we need to build new ponds, we need to build the whole -- a new system that transports the liquid solutions around a huge size of land. So the reason why we're seeing this -- I mean, the effect of how this is evolving over time, is because we are putting into the system a huge new plant. And as Raul pointed out, we are developing a corrective program to avoid clogging, to better blast, and we're working on this continuously, but, of course, this is mining. When you build a plant this size there are lots of things that you have to do in the mine and in the ponds and in the leach pads, it's a lot of work. And we are working on this. And that's why we've lowered the guidance, of course. But we certainly are looking forward to get back to an improved production for the rest of the year in those facilities. Raul, you want to add?

Raul Jacob: Well, basically, that we have the pads producing a liquid that has copper on a lower grade than what we were expecting, given the kind of copper oxides and sulfur oxides that we are depositing in our Buenavista plant. And what we're doing is dealing with this process, with this matter, that's one of the things. The other one is that we found that at certain point in the pads, we have clogging and the clogging impedes the water with sulfuric acid to pass through the copper ore and produce copper. That's why we mentioned that the blasting has been adjusted to produce the proper size of run-rate or run-of-mine copper oxides that will be deposited and are being deposited at the pads. So basically, with these actions and some others that are much more detailed, we're expecting to overcome this problem and create and generate the copper that this plant has the capacity to provide.

Operator: Andreas Bokkenheuser from UBS.

Andreas Bokkenheuser: Just 2 questions from me. One was just an operational clarification. So the tailings issue, you obviously had in Buenavista this year. You downgraded your guidance there. Any risk of how much of that could basically roll into 2019, 2020 as potential downside risk for your production guidance? Just one clarification there, please? And secondly, you obviously -- sorry, yes, go ahead. I can take the second question after.

Raul Jacob: No, no, no. Go ahead, please.

Andreas Bokkenheuser: The second question was just on capital allocation. You're obviously quite cash generative at the moment. You've got a lot of projects coming up, but hopefully Tia Maria won't get delayed any further. But if it is, has there been any talks about potentially raising dividend payments or anything of that nature? Buying back shares for the usage of some of these cash if some of these projects are delayed effectively by new reasons. Those are the 2 questions.

Daniel Muñoz Quintanilla: Andreas, I think you were referring not to tailings as you mentioned in the operational part, but you are referring to pregnant leaching solution, correct?

Andreas Bokkenheuser: Yes. Yes, leaching. Yes, you're right.

Daniel Muñoz Quintanilla: Well, we are clearly seeing the 12-month program that we're working on in order to get this to full capacity. And that's what Raul explained by changing blasting, by not clogging, by lower height leach pads, etcetera. And I don't know, Raul, you want to add to this?

Raul Jacob: Well, yes. Andreas asked for the production guidance. Basically, our view is that we should be overcoming this problem through 2018. So we're not changing our production guidance, at this point it has very little variance. I'm going to mention what we're looking at right now. We've mentioned already for 2018, 901,000 tons; for 2019, 1,023,000 tons; 2020, 1,067,000 tons; for 2021, 1.2 million tons, and that should hold for 2022 as well.

Andreas Bokkenheuser: Right. The 30,000 we lost on 2018, think we'll get them back in 2019 basically?

Raul Jacob: Basically, yes. That's our aim is to get that. As I said, a portion of the better production or more production will come from the new concentrator at Toquepala. By the way, I'd like to mention that this -- the concentrator that we have in Buenavista is helping us because it's producing over its expected goals each year. So this is a very positive development for us. We have this difficulty that has been explained through the call on the SX-EW plant that we are expecting to overcome shortly. And your second question?

Daniel Muñoz Quintanilla: Yes, the other question was dividends and how do we see them going forward? And I just want to again, point you to the track record that we have. And in the last -- I'm looking at the 5 quarters -- the 5 last quarters, you could see that as net income has increased because of the increase of prices as well, that dividends have increased from \$0.12 per share to \$0.30 per share. So clearly -- I mean, we are very aligned with the fact, with the net income and the copper prices that we're seeing out there when we look at dividends. So it's done. And we should expect that if things stay where they are, we can probably carry on with the same kind of dividend payment but if things get better because of more production we can certainly increase. I just pointed out what happened in this price increase in the last 4 to 5 quarters.

Operator: Caio Ribeiro from JPMorgan.

Caio Ribeiro: So the first question that I have is regarding labor contract renegotiations, which as you mentioned in the beginning of the call, has been an important factor this year for copper market. I just wanted to get a sense from you whether you have any upcoming labor contract or negotiations this year? And whether you see any risks of disruptions resulting from them? And secondly, on molybdenum. If you could discuss this market a little bit where there has been quite a significant surge in prices recently? And I just wanted to see if you could share with us your views on what is driving this? And whether you think that these prices are sustainable going forward? That would be very helpful.

Raul Jacob: Okay. Let me start by labor negotiations. This is something that we're undertaking right now. Currently, we have 6 unions in Peru that their 3-year contract is ending this year. We already initiated talks with them. Talks are moving forward very positively. At this point, we don't see any labor stoppage coming from the talks. Actually, we believe that we'll arrive to a much better contract for the company and the labor of the corporation through these negotiations.

And on top of that, as we have explained in some other circumstances, the company has an emergency plan that is deployed any time that we have a labor disruption. And through this plan, we have pretty much almost eliminated the production losses that are coming from any labor disruption. So we're very confident that we will be operating as usual through these conversations for the new labor contracts in Peru.

Daniel Muñiz Quintanilla: Let me just add on the labor question. Of course we were just referring to Peru and we don't expect any disturbances. We view future negotiation this year to be very successful. And in Mexico, just real quick. We have pointed out that we are reopening the zinc mine that was closed and on strike. Just to give -- as an example, is the fact that we have a very good relationship with the two unions that we operate in Mexico and these guys are the guys that voted and decided to reopen this mine, kicking out the old unions, which were troublesome.

So this is a token of the good relationship that we have currently in Mexico and we expect that to continue. As you know, we review collective bargaining agreements in Mexico every year. So we are positive on that. But go ahead Raul with molybdenum.

Raul Jacob: Yes. On molybdenum, what we have is a -- well, last year, we had a surplus in the molybdenum market, that has been closed. So right now, the market is in balance. And very important for the world supply, China has been decreasing their production basically through environmental restrictions that have shut down certain operations of molybdenum in China. So that has provided the balance, and we see no new sources of supply for the coming quarters. So our expectation is that molybdenum prices will have a good performance in the next few quarters.

Operator: Marcos Assumpcao from Itau.

Marcos Assumpcao: First question here on the supply/demand for copper. If you could elaborate a little bit on that? We have seen prices a bit above the marginal cost. We haven't seen any shutdowns of capacity at this point, I would guess. And if you see that this is sustainable over the longer term? Also, if you could comment a bit on the incentive price for new projects, which was also an interesting variable that we watch -- that we monitor when looking at copper long-term prices? Speaking on the copper side, if you can comment your views on the potential demand increase coming from electric vehicles and also clean energy investments? And last question on Michiquillay. If you anticipate any difficulties on obtaining licenses for this project?

Raul Jacob: Okay. Well, Michiquillay, we're currently working with the government to officially receive or take control of the asset. If we offer the winning -- the bidding winning price, it's because we trust that we will be able to deal with any concerns that the project may have. So we're certainly very, very positive about that. And we think that there shouldn't be any problems. On the copper market, well, we see the market with very strong support. I mentioned that labor may be a problem for some operations this year. That's a possibility, not necessarily something that should happen.

The very positive thing that has happened in the first quarter is that demand has come back very strongly, particularly in Asia. And that includes China and some other Asian countries, such as India. For the long term, I think that prices are, at this point, at the level or very close to the level for producing or making Boards to go ahead with projects. However, we're still not at the level that it's required to most likely close the gap in the future. So we think -- we see this market as a very positive one. We don't like to comment on the price forecast but in terms of the support that the demand has and the current production has, we are very confident that the market will follow.

Marcos Assumpcao: Okay. And just again on the licenses. What differentiates Michiquillay project from Toquepala or Tia Maria, for example? What -- how can we -- like looking from outside and see, what are the main difficulties on Tia Maria and on Toquepala? It was easier and maybe in Michiquillay, you're also not forecasting any difficulty on obtaining license. Why is that, the communities are easier? Are there more or already acquainted with other projects?

Raul Jacob: We think that we have some positive points regarding Michiquillay. The communities that are close by the deposit are in favor of the project. They have signed an agreement with the national government for moving forward with the project, so that's a positive thing. On top of that, we believe that we have the tools that will be for us easier to develop this project on the social side as well as the technical side. On the technical side, we are very confident that this is a great deposit as was mentioned by Daniel a while ago.

This is one of the few big deposits with very good copper. For instance, very little or known arsenic in its mineral, which is a very good thing for the future. And I believe that makes us very enthusiastic about Michiquillay. In the case of Toquepala that you indicated, it's a brownfield project. It's much easier usually to develop brownfield expansions than a greenfield one. Greenfield one, there are some concerns usually by the nearby populations.

Daniel Muñiz Quintanilla: And just to conclude, first of all Michiquillay is a greenfield project that will take many years to develop. We need to start with the Environmental Impact Assessment. There is a long way already with the community because of Anglo-American, as you know, had that project just not very long ago. And there was a social fund with the communities already established, etcetera. There has been some work there. But I mean, permitting, licensing, community development, strong development, bonding

development with the community, this is essential for any project in mining and we'll be working on that.

But also, each project has their own issues. In Tia Maria, as you asked, sometimes the issue has been the communities or anti-mining groups with the water issue, so to speak. And Michiquillay, we are working and we're going to start working full speed, but it's a longer-term project. Hence, the government gave us all those 10 years to pay the acquisition price in order to assess what we need to do there. So it's in a very early stage, very different one, but we are, as Raul pointed out, positive on obtaining all this. Otherwise we would not have updated everyone on this project.

Operator: Renan Criscio from Credit Suisse.

Renan Criscio: So my first question is on San Martin. What are the next steps that you need to take to restart the operations? I understand that you had a first major like milestone to end the strike. But just thinking about the risks of the project not being up and running by the first quarter '19 that you mentioned. And the next question is a follow up on costs. You mentioned the -- like the target to keep. The \$0.79 per pound cash cost net of by-products. But just thinking about the cost before by-products. Obviously, the price of molybdenum, for instance, has been helping a lot, the price performance recently, so just thinking about what do you expect or any targets or guidance that can provide on the cash cost -- production cash cost before the by-products credits?

Raul Jacob: Let me start by the last question. On cash cost before by-product credits, well we have this year a reduction in production in the first quarter. That's why we had \$0.79 as cash cost and \$1.57 before by-product credits as cash cost. For the year, we're expecting it to decrease to \$1.52. That should come once we have the additional production from Toquepala kicking in. And for 2019 and '20, about \$1.45 per pound before credits. And then trending towards \$1.40. That's basically it.

Daniel Muñiz Quintanilla: And just turning in to San Martin, and thank you for the question. This is a relevant asset. It will increase 25% our current zinc production, because as you know we are developing Buenavista Zinc as well. On this mine, what do we need to do? Thankfully no more permitting or licensing, we already have that. I mean, speaking of the last question. So what we need to do is we're looking at a 6 months program at the most where we're going to start production. And the CapEx is very low because it's just making sure that everything there works. And it will generate for us at this prices, at this zinc prices, EBITDA of around \$75 million just only by this underground mine. So we're positive with this, we are working on installing -- as I said, it's a maximum of 6 months.

Operator: Fawzi Hanano from Berenberg.

Fawzi Hanano: I just want to go back to the Buenavista SX-EW issues. Really quickly, do you see a potential technical risk that could maybe delay the corrective plan or mean that you don't get back to the production levels that you had in mind previously. And

also, could you tell us what is the level of production you expect Buenavista SX-EW to get to once everything is fixed? My second question is really with regards to CapEx. Your 2018 CapEx is down by about \$100 million compared to the previous guidance. What is this related to? Is it related to Tia Maria or slight construction delays for Buenavista Zinc or to Pilares. If you could give us a bit of light on that and maybe even your near-term CapEx or guidance.

Daniel Muñiz Quintanilla: Regarding technical, if we expect some issues in Buenavista, the answer will be no. I mean, the reason we are putting in place this SWAT-Team, so to speak, and move the focus and strategy of all our management, including the Board, and the reason we are correcting the guidance so early in the year is because we were able to develop this program to make sure that we solve this technical issue. So it's something -- these issues have already happened and this is what we're working on for solving them. So that's why we came up with this plan. The question regarding -- Raul do you have there the production going forward, I think?

Raul Jacob: Yes. For the SX-EW plant this year, we're forecasting about 92,000 tons of copper production. And for next year, that should go up to 164,000 tons, which is having all of our SX-EW plant's running at full speed.

Raul Jacob: The CapEx guidance?

Daniel Muñiz Quintanilla: Yes, the question was, Raul, that we've lowered the CapEx guidance. And essentially, we are not lowering. We were increasing the CapEx, no? So I don't remember what the guidance was but -- that's the question, Raul. Can you just clarify?

Raul Jacob: Sure. Sure. You're right, Daniel, we're increasing the guidance when compared to our prior quarter. But generally speaking, there is a trend in the CapEx expenses of the company. At this point, we're finishing the Toquepala expansion. That's the major project that we have still moving forward and we expect it to be finished this year as we mentioned. For the other projects and other capital expenditures, usually the first quarter is slightly lower or slightly slow, I should say, than the rest of the quarters of the year. So we're expecting to have a catch up through this year.

Operator: Rodrigo Garcilazo from GBM.

Rodrigo Garcilazo: Just a couple of questions, one in Peru and one in Mexico. Starting with Peru, it appears that you recently won a legal dispute regarding something about Tia Maria. Could you elaborate in that legal battle to just won? The other question about Peru is, when will you have ready the feasibility study of Michiquillay in order to get more detail about the project? These are my questions regarding Peru.

Raul Jacob: The feasibility study should be finished through the next 3 to 4 years, which is the initial time period that we have to work with the local communities and do the technical studies for Michiquillay. Regarding the Tia Maria legal concern that you

mentioned, it's basically that we agreed with some concession that was overlapping with our Tia Maria concession. We have agreed on a settlement, and it's finished already.

Rodrigo Garcilazo: Okay, perfect. And regarding Mexico, could you mention when your current collective contracts are due at each of your Mexican mines and also if you could mention the average salary of a typical mine at your Mexico mines, please?

Daniel Muñiz Quintanilla: As you know, Rodrigo, under Mexican law you review every single year salaries and every two years you review the collective bargaining agreement in their entirety; so that we do every year. We haven't had any issues. We've been very successful in building this strong relationship with both the unions that we work with in Mexico. So we don't anticipate any issues. And it's been in line with industry and let's say 5% to 6% increase per year. That's also in line with inflation standards here, so no particular issue here. We firmly believe we have a very strong labor relationship -- I mean, now within Mexico. Salaries depend; you have truck drivers, shovel guys, we have many different people that are working on the mine. I don't know if you have the numbers there, Raul. Could you show them? Or we'll be happy to send you the exact detail by kind of category as soon as we end up.

Raul Jacob: Yes, I don't have the information with us.

Operator: Alfonso Salazar with Scotia.

Alfonso Salazar: I think most of my questions have been answered and it was also regarding labor contracts in Mexico. But let me ask you one more thing. Because not everyone seems -- tends to see all the positive of the mining industry and sometimes they focus more on the negatives like the environment impact. Is the company considering a program to promote a campaign to show all the positives that the company brings in terms of social programs, labor creation, community development in Mexico at this time?

Daniel Muñiz Quintanilla: Sure. First of all, we continually do that through our social development, sustainability, environmental and health and safety departments. One of the things that we've done recently is put all of these areas with one single head for the whole company. So that is working very good. But also -- and this is a job that not only us have to do -- the act of promoting mining in our country where we operate or in the world, I mean, that's why we belong also to two mining chambers. We do a lot of work with international copper associations. We have a very active participation in all these, let's say, groups or associations. But I agree with you, we are in an industry that needs to keep doing this every single day. Because everything comes out of mining, every single job creates ten additional jobs out there, given that this is the primary industry. So I agree with you we have to take that very seriously.

Operator: Lucas Pipes from B. Riley FBR Inc.

Lucas Pipes: I also want to ask on the cost side. So, a number of your peers have reported and it appears to be a little bit of a theme that cost inflation across the mining sectors is

picking up. And I wondered, do you see particular areas where those pressures are maybe a little more severe at this point? I would appreciate your perspective on cost inflation across the portfolio.

Raul Jacob: Yes. Let me mention first that we're having a cash cost reduction of 11% this quarter, which is a key point to keep in mind. And we are getting that through different sources, not only the better prices of by-products are helping, but also our cost controls, some programs that we have put in place, such as the renegotiation of new energy contracts in Peru that has helped us to decrease our operating cost. It's helping us. And we're consistently looking into different ways of reducing our cost.

Among them, for instance, we have formed internally a strategic purchasing team that is doing the buying of key materials and getting very important savings on operating materials through last year and this year as well. Having said that...

Daniel Muñoz Quintanilla: Sorry to interject. I was just going to comment on the power or electricity in Peru. I mean, it has gone down 40%. And that was even in an oil increase environment, we are lowering 40% compared to last year and this is something we have mentioned before, due to the efforts that we have undertaken years ago to change the way we supplied electricity to Peru for instance. And this is Peru particularly with the 40% decrease. We changed providers, we changed completely with all the steam that we have there and this is of course really helping us offset this price inflation or cost inflation that you're referring.

Raul Jacob: There risk that we see is for instance in fuel cost, emerging markets currencies appreciation. In the case of our operations the Peruvian sol has appreciated as well as the Mexican peso. That created some pressure on local costs. But now as I said, there are different ways to handle and to control cost, one of the things that I like to comment is that we are, for instance, replacing rail haulage by conveyor belt haulage in our Peruvian operations that required this kind of investment and that is certainly helping us to maintain costs under control. And the savings that we're getting there are absorbing some other cost increases that we're seeing due to prices or some other elements.

Lucas Pipes: And maybe to parlay this conversation into incentive prices on the copper side. When you -- I know you're price agnostic, and you have great low-cost projects out there that you can develop in pretty much any price environment. But when you think about kind of the global picture and where copper prices ought to be from an incentive price perspective, what's your most recent thought process on that? Would appreciate your thoughts.

Raul Jacob: Well, I like your definition of us as price agnostic. Because that's quite correct. We look into cost, we look into the assets that we run. We try to get these assets to be run at the most efficient way. And we look into cost. Usually, our projects are evaluated with prices that are much lower as incentive price than the market is expecting. As I recall, the prices -- incentive prices are at about \$3.50 per pound. At this point, \$3.50 per pound. But that's the view of certain company that do market research and follow

what will be the price that copper projects need to move on to get approvals by Boards, etcetera, and a decent return, obviously. Recently, one investment Bank has been talking about copper going to a much higher price to where it is right now, but that's their view of the market, not ours.

Operator: Roberto Vasquez from LW Investment.

Roberto Vasquez: I have one question regarding the problems that you are facing with leaching at Buenavista. Besides the lower production, do you expect to have some impact on your cash generation? I mean, some increase in working capital, need to increase the inventory of leachable material or something like that? Or the only impact will be just related to production?

Raul Jacob: It's just production. We have been shifting certain -- the way that we are doing certain processes, changing the -- for instance we still need to move the trucks with the ore, but the ore that each truck will carry will be bigger in size, so that will prevent us to have clogging, that kind of things. So it doesn't have a material cost impact. That's why we haven't reported that as part of the matter related to this SX-EW production problems.

Operator: We have no further questions at this time.

Raul Jacob: Okay. Well, with this we conclude our Conference Call for Southern Copper's first quarter results. We certainly appreciate your participation and hope to have you back with us when we report the second quarter of this year. Thank you very much, and have a nice day.

Operator: Thank you, ladies and gentlemen, point this concludes today's conference. Thank you for participating. You may now disconnect.