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Q2 2018 Southern Copper Corp Earnings Call

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## PRESENTATION

### Operator

Good morning, and welcome to Southern Copper Corporation's Second Quarter 2018 Conference Call. With us this morning we have Southern Copper Corporation's Mr. Raul Jacob, Vice President of Finance, Treasurer and CFO, who will discuss the results of the company for the second quarter 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 risk 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 as a result of new information, future events or otherwise. All results are expressed in full U.S. GAAP.

Now I will pass the call on to Mr. Raul Jacob.

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### **Raul Jacob Ruisanchez** *Southern Copper Corporation - VP of Finance, Treasurer & CFO*

Thank you very much, Victor, and good morning to everyone, and welcome to Southern Copper Corporation's Second Quarter 2018 Earnings Conference Call. 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 us 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 \$2.57 per pound in the second

quarter of 2017 to \$3.12 per pound, that is a 21% increase in the second quarter of this year.

During July, copper prices have decreased from its peak of \$3.29 per pound on June 8 to as low as \$2.71 per pound on July 19. We view this fall in copper prices as a result of market concerns for a possible escalation of trade protectionisms between the U.S., China, and Europe. However, we strongly believe that the copper market fundamentals are solid, and we expect a recovery in copper prices in the coming months.

As a result of the synchronized economic growth of the major world economies, refined copper demand is currently outperforming our initial forecast and industry experts are forecasting an increase in demand in the range of 2.5% to 3% for the year.

Regarding copper supply, we expect a weak production response from the industry as a result of the lack of investment in Greenfield projects in recent years. For 2018, labor unrest is still an issue, and a significant portion of the world supply is currently negotiating new labor contracts. In addition to this, environmental regulations, government taxation as well as technical difficulties are further adversely affecting production. As a result, we expect a supply growth of approximately 2% for this year, and this will give support for copper prices in the coming quarters.

As you know, Southern Copper has the largest copper reserves in the industry and operates high-quality, world-class assets in investment grade countries, such as Mexico and Peru. Given the current market outlook, we're focusing on developing the next phase of our growth program, aiming to reach a milestone copper production capacity of 1.5 million tons by 2025. This is a 50% percent increase from our expected production base of 1 million tons. We will obtain these with a very competitive cash cost and expect to do this delivering enhanced performance and superior value. Let us focus on Southern Copper's production for the past quarter. Copper production increased 2% to 219,962 tons in the second quarter of this year when compared to the same period of 2017. This was mainly due to higher production at our Peruvian operations of Toquepala, which increased 14.8% its production and Cuajone, which grew its production by 15.8%. In both cases, this was the result of higher ore grades at these mines. This increase was partially offset by lower production at our Mexican operations. For molybdenum, which represented 5.7% of the company's sales value in the second quarter of this year, molybdenum prices averaged \$11.55 per pound in the quarter, which compares to \$8 in the second quarter of last year. This is a 44.4% increase from prior year.

Molybdenum production maintained its level with 5,395 tons in the second quarter of this year, which compares with 5,403 tons in the second quarter of 2017. The lower production at the Peruvian operations was largely offset by the recovery of Buenavista's molybdenum production, which increased by 59.5%.

For zinc, which represented 5.2% of our sales value in the second quarter and had an average price of \$1.41 per pound. We had an improvement of sales of 19.5% from the second quarter of last year.

Zinc mine production increased by 0.9% to 17,993 tons in the second quarter of 2018, due to higher production at Charcas, which increased its production by 10.9%, and Santa Eulalia, which increased also its production by 2.2%. This was due, at both mines, as a result of higher ore milled and better recoveries that partially offset the lower production at the Santa Barbara mine.

Our refined zinc production increased by 2.1% during the quarter. 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, and the results of the voting has been ratified by the courts. This union has worked efficiently with our company for many years as they hold the collective bargaining agreements for our other underground operations and our smelting and refining plant at La Caridad Mine. We see this result as an important first step to end the strike that began in 2007 and resume operations at the San Martin mine. Our initial estimates indicate that the San Martin mine would require approximately \$77 million of investment to restart operations, which we expect to have it in the first part of 2019. San Martin is expected to produce about 20,000 tons of zinc, 7,500 tons of copper, and 2.8 million ounces of silver. Speaking about silver, it represented 4.5% of our sales value in the second quarter, with an average price of \$16.50 per ounce in the quarter. This is a 4% decrease from last year.

Mined silver production increased by 16.1% in the second quarter of 2018, mainly as a result of higher production at all of our operations. However, refined silver production decreased by 2.6% in the second quarter, principally as a result of a lower production at our IMMSA refinery.

For our financial results. In the second quarter of 2018, sales were \$1,837 million. This is \$307 million higher than sales for the second quarter of last year, or 20.1%.

Copper sales volume decreased by 2.5%, while value increased by 18.5% in a scenario of better copper prices which, as I mentioned, increased by 21.4% at the London Metal Exchange [copper price].

Regarding by-products, we have higher sales of molybdenum, which increased by 55.7% due to better prices that were partially offset by slightly lower volume. Zinc sales increased by 23.6% due to higher volume and better prices. Silver sales increased by 10.3% due to higher volume, partially offset by the lower prices. As I mentioned, silver prices were 4% lower quarter-on-quarter.

Our total operating costs and expenses increased by \$45.7 million or 4.6% when compared to the second quarter of 2017. Main cost increments have been in purchased copper; workers participation; operating and repair materials; inventory consumption; diesel and fuel costs; and labor costs. These cost increments were partially offset by lower energy cost; FX variance effects; depreciation; and other factors. Our adjusted EBITDA for the second quarter of this year was \$955.2 million. This represents an EBITDA margin of 52%, and this compares with \$707.4 million for the second quarter of last year. Adjusted EBITDA has increased by 35% when compared to the same period of 2017.

Operating cash cost per pound of copper before by-product credits was \$1.47 per pound in the second quarter of 2018. That is \$0.057 lower than the value for the second quarter of 2017. This 3.7% decrease in operating cash cost before credits is a result of lower cost per pound from production, treatment and refining charges, and higher premiums that were partially offset by higher administrative expenses. Southern Copper operating cash cost, including the benefit of by-product credit, was \$0.813 per pound in the second quarter of 2018. This cash cost was \$0.164 lower than the cash cost of \$0.977 that we had in the second quarter of 2017. Regarding by-products, we had a total credit of \$308 million or \$0.656 per pound in the second quarter of 2018.

These figures represent a 19.4% increase when compared to a credit of \$254 million or \$0.55 per pound in the second quarter of last year.

Total credits have increased for molybdenum, zinc, sulfuric acid and gold, and have decreased only for silver. Copper production volumes have increased 2% between this year and last year. Regarding by-products, production volumes have increased for zinc, silver, gold and sulfuric acid and has slightly decreased for molybdenum. Regarding prices, they have increased for molybdenum, zinc and gold, and have decreased only for silver.

Net income attributable to SCC shareholders in the second quarter of this year was \$409.6 million, which is 22.3% of sales. Diluted earnings per share were \$0.53 per share.

Looking into capital expenditure. Southern Copper's investment philosophy is not based on the outlook of copper prices but on the quality of the assets that we operate and develop. Throughout the years, our strong financial discipline has consistently allow us to invest on a continuous basis in our superior asset portfolio. Capital investments for the 6 months of this year, 2018, were \$562.1 million. This includes \$168 million for the Toquepala expansion, which is on schedule and on budget. For 2018, we're reducing our capital expenditure forecast from \$1,643 million to \$1,341 million. About \$302 million less as a result of rescheduling our capital expenditures to 2019.

Our portfolio of board-approved projects in Peru has a total capital budget of \$2.9 billion, of which \$1.7 billion has been already invested. Considering the Michiquillay investment, which is a \$2.5 billion project and Los Chancas project, which is at \$2.8 billion project, our current investment commitment to Peru would increase to \$8.2 billion. The Toquepala expansion is a \$1.3 billion project, which includes a new state-of-the-art concentrator that will increase Toquepala's annual copper production by 100,000 tons to reach 245,000 tons in 2019. This is a 69% production increase. As of June of this year, we have invested \$1,042 million in this expansion. The project has reached 95% progress and is expected to initiate production in the third quarter of 2018.

Regarding the Tia Maria project in the Arequipa region of Peru, we have completed engineering and after having complied with all environmental requirements, we have obtained approval of the Environmental Impact Assessment. We're working jointly with the Peruvian government to obtain the

construction license for these 120,000-ton annual SX-EW copper greenfield project that has a total capital budget of \$1.4 billion. We expect the license to be issued in 2018. This is, this year.

For the Mexican projects. We have the Buenavista zinc plant in Sonora. This project 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 main projects' components. 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.

Located 6 kilometers away from La Caridad is the Pilares project in Sonora. This project 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 through a new off-road truck route 25 meters wide. Environmental permit studies are completed and will be presented to the environmental authorities. This project will significantly improve the overall mineral ore grade by combining the 0.78% expected ore grade from Pilares with the current 0.34% ore grade of La Caridad.

As of today, we continue with the mine plant preparation, including the final outline design of the road through which the ore will be transported to the La Caridad mill. The investment budget for Pilares is \$159 million, and we expect it to start producing next year, probably at the end of 2019.

Dividend announcement. Regarding dividends, as you know, it is the company 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 July 19, the Board of Directors authorized a cash dividend of \$0.40 per share of common stock payable on August 21 to shareholders of record at the close of business on August 8 of this year.

With this in mind, ladies and gentlemen, thank you very much for joining us, and we will like now to open the forum for questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) And our first question come from the line of Thiago Lofiego from Bradesco.

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### **Thiago K. Lofiego *Bradesco S.A. Corretora de Títulos e Valores Mobiliários, Research Division - Research Analyst***

Could you please give us an update on the labor negotiations in Peru? You mentioned you concluded 1 out of 5 or 1 out of 6, sorry. So there's more to come in the second half of this year. Can you please tell us how this is evolving? Do you see any strike risks at this point? And the second question is on Tia

Maria, how likely do you think it can still happen this year? And I think we've talked about this before, but is there a point in time in which if you don't get the permits for Tia Maria or if you don't go ahead -- if you don't get the go-ahead for Tia Maria, would you switch it to other projects you have in the pipeline like El Arco, Michiquillay or Los Chancas?

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**Raul Jacob Ruisanchez *Southern Copper Corporation - VP of Finance, Treasurer & CFO***

Okay. Thank you very much for your questions, Thiago. Okay, on the labor negotiation, well, basically, as you will mention, we have signed a new labor -- a new 3-year labor agreement with one of the most important unions in Toquepala. The other 5 unions are -- we're initiating -- actually, we're in a very good path of having new labor contracts with 4 other labor unions. We expect to arrive to an agreement with them, which will be probably the fifth or sixth in the row -- in a row that we signed these labor agreements with our unions for 3 or 5 years, a few years back in time. So basically, we're seeing a very good progress with 4 of the 5 unions. At this point, we don't see any labor stoppage. We don't believe that this is going to be the case where we are now. So we're very positive on how this process is evolving. Regarding Tia Maria, well, we are currently committed to work, as I mentioned, with the Peruvian government to clarify many concerns about the environmental impact of this project to the local communities. We believe that we have made very good progress on this matter, and we are expecting to receive the construction permit this year. We don't have an specific deadline for that. The company will keep moving forward with this project. At the same time, I mentioned the other 2 projects that the company has as mining projects in Peru. Michiquillay, which we won the auction this year in February, and we're very enthusiastic about this deposit. We're having our initial contacts with the local communities of La Encañada and Michiquillay in Cajamarca. We're seeing this as a very positive first step. The Peruvian government is joining us in this effort and will be participating in the Michiquillay process as one of the members of certain committees that exist for this project.

Los Chancas is another very interesting project for us. It's in the Apurimac region. This is where Las Bambas project operation nowadays is located. Apurimac is enjoying a significant improvement in life quality coming from Las Bambas, and we believe that with Los Chancas, we can certainly improve the life of the inhabitants of this area as well. So we are fully committed to this project. They have their own timelines, and we are working on them. For us, Tia Maria is the project ready to go. So we're expecting to do some progress and receive the construction permit through this year and initiate construction sometime in 2019.

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**Operator**

And our next question come from the line of Jon Brandt from HSBC.

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**Jonathan L. Brandt *HSBC, Research Division - Head of LatAm Cement, Construction & Real Estate Equity Research Team***

Just a follow-up to the first question on Tia Maria. Assuming it goes to plan, and you start construction in 2019, how long until you actually start producing there? And with the addition of some other projects and the fall of copper prices, I know you think it's temporary but assuming that copper stays around the \$2.80, \$2.90 level, do you think that you'll need to tap the debt markets? Or do you still think you can

fund a lot of this expansion with internal free cash flow. And then my second question has to do with the production this quarter. So, the Peruvian operations seem like they were up quite a bit, which leads me to believe that the Mexican operations' production fell. Is that a great issue? Is it temporary? Is it something else? Is it specific to a certain mine there? If you could clarify that, that would be great.

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**Raul Jacob Ruisanchez *Southern Copper Corporation - VP of Finance, Treasurer & CFO***

Sure, thank you very much for your questions. On the production profile for Tia Maria, well, we expect to have some production in 2021, at the second half of 2021 we should be initiating our refined copper production coming from Tia Maria. Tia Maria, it's an SX-EW project, so all the production is refined copper, which is a very interesting product for us because it gets a premium on top of the copper price that we're seeing in the market. That premium can be as high as \$0.05 or \$0.07 per pound. So it's something that we believe it's very interesting, and it's one of the assets that this project has for the company. Focusing on the Peruvian, on the question of production, well, we have mentioned -- I'm sorry, you asked a question on the debt as well, if we may require any debt at this prices. Well, we don't think so. We think that we have a very strong cash flow. Our internal runs using different copper prices forecasts allow us to move on with these projects with our own cash resources. Obviously, for reasons of capital structure, we like the idea of going into the debt markets after a certain point in time. But at this point, we have no concrete plans at all regarding that. On the production that you mentioned, we indicated on the last conference call that we have had some trouble with our SX-EW III plant recovery in Buenavista. The plant is working -- the refinery, I should say, is working very well, but the ore of the pregnant liquid solution as well as the quantity of this material has been lower than we estimated when we developed this project. So in order to solve this, we have put in place a 12-month corrective program to overcome this temporary reduction in production of SX-EW copper from the Buenavista plant. The project -- this program includes deposit in the minerals in different leaching pads, depending on the different characteristics of the ore. We have also implemented improvements and controls in ore fragmentation that occurs in the blasting process because we found that some fine materials are creating some clogging and in order to solve that, we had to do some changes in the way that we handle the mineral.

We are seeing some of the results of this program at this point, so we're very optimistic about it. But it's, as I said, a 12-month program. Considering it, we made an adjustment in our forecast for this year. We reduced our forecast on the past quarter, and we're still holding to that goal. It's to produce 901,000 tons in this year, and the guidance was reduced by about 30,000 tons on the first quarter. So we're keeping this production goal of a little bit more than 900,000 tons for 2018.

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**Operator**

And our next question comes from the line of Carlos De Alba from Morgan Stanley

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**Carlos De Alba *Morgan Stanley, Research Division - Equity Analyst***

Just on Tia Maria, coming back. So what exactly -- could you give us like more details because it has been quite some time since the outlook hasn't changed, but yet we haven't -- the company hasn't received the license -- the construction license? What is the issue, I mean, is the government really committed to help

you guys there? And what does the company need to do if anything in order to secure the license, or is this completely now on the government's court and maybe the communities? You can -- Can you give us some guidance there? And then also, any changes on production outlook for 2019, the production guidance in 2019 on the back of the problems that the company is facing in -- at Buenavista? And there is also any changes to the capital guidance for 2019? And then finally, and maybe we can do this off-line if you prefer to do so, but in the second bullet of the press release, there is a comment regarding a net -- a tax effect of \$57 million due to deferred tax adjustment and FX gain, but there was -- first, I didn't know if this was related to this quarter or the second quarter of 2017. There is really nothing on last year's release, either. So if you could clarify when these impacts took place, if this is this year or last year? And if you could explain a little bit more on what is behind these adjustments?

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**Raul Jacob Ruisanchez Southern Copper Corporation - VP of Finance, Treasurer & CFO**

Okay. Thank you very much for your questions, Carlos. On Tia Maria, let me maintain the work that we're doing, which is very positive with the Peruvian government, still on a more private area for this point. We think that we're doing very good progress. We think the communities are responding very well to our efforts to explain how this project will benefit them as well as not having any major environmental concern for the Tambo River valley. Regarding the guidance on 2019, no, we're keeping the guidance on production basically. As I mentioned, it's 901,000 tons of copper for this year; for next year, it's 1 million tons of copper; for 2020, 1.1 million tons of copper; 2021, 1.2 million tons of copper; and same thing for 2022. That's our current guidance. We're not changing it at this point. For CapEx, we have made an adjustment on our CapEx guidance. As I said, we are reducing our guidance for this year to \$1.3 billion of expenses. Most of them has been rescheduled to 2019. So for 2019, we're -- at this point, we're expecting to spend \$1.8 billion; for 2020, \$1.9 billion; for 2021, \$1.7 billion; and 2022, \$2 billion.

And your last question, and I certainly appreciate your comment, Carlos because it -- let us clarify that we have to do an adjustment on the tax provision for the second quarter of this year, and this had a net effect of \$56.9 million. This is -- so your question is that the \$56.9 million refers to an adjustment in the second quarter of this year tax provision. It was the confluence of 2 issues: a tax adjustment on deferred taxes, an FX gain resulting from local currency depreciation in Mexico, depreciation of the peso generates in dollars a profit that has to be -- that some tax has to be provisioned for that. And if you see our financials, and this is something that I like to point out, if you see our financials and compare the second quarter of this year with the first quarter of 2018, you'll see that our operating income has basically -- has actually increased very slightly from \$773 million in the first quarter of 2018 to \$788 million in this quarter. So most of our financials were slightly better, but we had a significant adjustment on income taxes. I like to mention also that as we had -- as the U.S. had a very important tax reform in 2017, the company is still looking into the full impact of this tax reform. At this point, we believe that we're having a tax -- an effective tax rate that reflects the company profile, given the new tax environment, where we operate in the U.S. and both in Mexico and Peru.

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**Carlos De Alba Morgan Stanley, Research Division - Equity Analyst**

Thank you, Raul. If I may, just a follow-up very quickly on the Mexican copper output. You mentioned the issues on the SX-EW III at Buenavista, but the concentrator and the SX-EW I and II as well as La Caridad,

are they all running according to your budget and prior guidance? And the issue is only really affecting the SX-EW III there? Or what can you tell us about the other operations?

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**Raul Jacob Ruisanchez *Southern Copper Corporation - VP of Finance, Treasurer & CFO***

The simple answer to your question is, yes. We are doing even better than our plan for the concentrators 1 and 2 of Buenavista. The new concentrator at Buenavista is actually doing very nice, where we're sometimes getting a 10% on top of the plate number or plate capacity of the facility, so that's very encouraging for us. In the case of the concentrator 1 as well as the Caridad concentrator or the facilities that are not as new as concentrator 2, we're doing actually very well and over the plan. For the concentrator number 2 in Buenavista is the one that is exceeding our own expectations, which is very nice.

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**Operator**

And our next question comes from the line of Renan Criscio from Crédit Suisse.

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**Renan Criscio *Crédit Suisse AG, Research Division - Research Analyst***

Just one follow-up on this correction program in Buenavista. Can you clarify if we are seeing any impact on your costs because of this correction program? Just trying to understand if there is like a nonrecurring factor in this cash cost that you're reporting right now that we should see normalizing after this correction program is done. And also, on the same line, can you provide a guidance for a cash cost before the by-products for this year, for the next year? And if I may, one last question, if you can confirm the guidance for your by-product for this year, that will be helpful.

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**Raul Jacob Ruisanchez *Southern Copper Corporation - VP of Finance, Treasurer & CFO***

Sure. Thank you very much for your question, Renan. Okay, on the correction program in Buenavista, basically, it's a -- the net cost of the correction program is very -- is negligible. We are -- for instance, we want to reduce the size of the ore that is deposit at the leaching pads. Well, that actually save us in explosives because we don't need to use as much explosive as formerly. But you have to use more, for instance, more material movement, some more drilling, so net -- it's a small impact. So we're not concerned about that. We believe that as we move on with this program, and as soon as we see the benefits of the program, we will be getting some more production, and that will have an impact on our -- in our cash cost by reducing it. So the program is aiming to recuperate or to generate all the production that we can obtain in copper from these deposits. As we've seen -- we are seeing some of the benefits in this past quarter, but actually, we'll see much more as we move on in time. And the net impact on cost is very low. The production should increase as we move on through the year and that should benefit the total cash cost. Cash cost guidance for this year. We're expecting to have cash cost in where it is right now, about \$1.47, maybe a little bit less when we have the Toquepala expansion in the next quarters. For by-products, it's the most difficult thing to predict. We are considering current prices, we should have credits ranging between \$0.65 and \$0.70 per pound of copper. Our cash cost for the year should be at about \$0.81, \$0.82 for 2018. For next year, we're expecting it to decrease as we put in place the new concentrator of Toquepala at full capacity, that should make us -- our cash cost to decrease another \$0.03 or \$0.04 per pound before credits. With credits, it should go down to \$0.80 or slightly lower than

that.

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**Operator**

And our next question come from the line of Marcos Assumpção from Itaú BBA.

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**Marcos Assumpção Itaú Corretora de Valores S.A., Research Division - Sector Head**

First question is regarding dividends. Could we expect -- should we expect dividends to continue going up in the coming quarters? Second question on copper premiums, if you could tell us how the copper premiums have behaved recently? And how do you expect them to behave in the future? And just a clarification on Buenavista operating problem. It should have an impact only on copper production, right? Not on zinc? Given that it is an SX-EW, right? Just to confirm that.

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**Raul Jacob Ruisanchez Southern Copper Corporation - VP of Finance, Treasurer & CFO**

Yes. Let me -- Marcos, let me go -- let me tackle your last question. Yes, the matters in Buenavista are only related to copper production. Zinc, where we're currently working on the new zinc concentrator. This is a project that has another production profile for the future. It's part of the deposit, the mineralized deposit that we have in Buenavista. It's actually very good news because we have an area where there's zinc, and we're focusing on getting that zinc out as I reported previously in the call. Now dividends, well, the board, as I mentioned, discussed the matter. The look of the board, it's a forward-looking view that considers, as I said, the cash flow generation, the copper market or the metals where we operate and their prices. As I mentioned, we have a very positive view on copper, very constructive. And given that and keep in mind that we're increasing our production base from about 900,000 tons this year to over 1 million tons next year. So that should be -- that should produce more profits at the end of the day, that's what we expect for next year. And the board, considering these elements, have decided to increase the current dividend to \$0.40. If they are going to maintain that over time, it's always up to them to make a decision on that. I usually recommend to look at the company track record regarding dividends, that will give you a guidance on how the company see the dividend to pay regarding copper prices and the way that the company production and profits are evolving.

Finally, on copper premiums. Well, generally speaking, and this is for the refined copper market, that is about 80% of our sales of copper. We're seeing that premiums are very reasonably maintaining their levels in Asia and Europe and having slightly better performance in the U.S. So that's basically what we see at this point. They reflect somehow the copper scarcity and the freight cost, both things are usually reflected at the premiums. And at this point, as I say, Europe and Asia are fine. The U.S. is paying a little bit more on the spot market, and that is a benefit for us as producers.

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**Marcos Assumpção Itaú Corretora de Valores S.A., Research Division - Sector Head**

Okay. Perfect. If I may, just a follow-up here, you mentioned in the board that you're expecting a rebound in copper prices in the second half. Can you comment a bit on what are the drivers for the price recovery? What were you expecting?

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**Raul Jacob Ruisanchez Southern Copper Corporation - VP of Finance, Treasurer & CFO**

I think that prices have been influenced by the concerns or the sentiment about a possible trade war between the U.S., China, and Europe. We don't see -- we, at this point, where we are today, we don't see a fundamental change in international trade that creates a concern to us. We think that this is an element that should either vanish, which is what we expect or becoming a certain fundamental concern for the next few years. At this point, we believe that is going to be the first of what I say, it's something that will reduce its impact and as such become a limited issue. The other element is the strong -- the position or the relative value of the U.S. dollar. As you all know, when the U.S. dollar is appreciating, the commodity prices tend to decrease, and I think that, that has been a portion of what happened in this last reduction in metal prices, generally speaking. So -- and we believe that the dollar should eventually initiate a reduction. But on top of these 2 more macro appreciations, we look at what happened with the supply and demand balance. And, as I said, very few new projects are in place to produce the new copper units that will be required in the next 5 years. For 2025, the experts that follow the market are estimating that we will require about 5 million tons of new copper production. So where is this coming from? It has to have an incentive price, and we believe that, that price should be reflected in the market in the next -- through the next quarters.

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**Operator**

And our next call comes from the line of Guillermo Estrada from GBM.

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**Guillermo Estrada Madrazo *GBM Grupo Bursátil Mexicano, S.A. de C.V. Casa de Bolsa, Research Division - Research Analyst***

I have just 2 questions. The first one is regarding silver production, where we saw a 16% year-over-year increase. Could you explain the effect? And what do you expect in volumes of silver going forward? And secondly, regarding in Peru, there have been a lot of political changes recently, and from your point of view, Raul, what do you expect from the new President, Martin Vizcarra his team, for the mining industry in Peru?

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**Raul Jacob Ruisanchez *Southern Copper Corporation - VP of Finance, Treasurer & CFO***

Okay. On silver, well, we reported that we have -- we're seeing a bounce back in silver production in all of our operations. This is very positive for us. IMMSA as well as -- IMMSA, which is the underground zinc-silver mines that the company own in Mexico, plus the open pit operations are all increasing their silver production. We think that this is a positive trend that should remain. That is very encouraging for us. And besides that, we have -- I also reported on the recovery of the San Martin mine. Well, we're not producing in San Martin at this point, but I mentioned that we are expecting some production coming from this operation once we have it up and running. So our view is certainly very positive regarding our silver production. On prices, as I said, they are slightly lower, about 4% lower now than what they were a year ago. We think that, that is also something that should change in the next few years, but we're not experts on precious metals' prices, so let me stop there. On the political changes in Peru, well, we are positive on the way that the new administration has been referring to mining. We are working with them in several fronts. As I mentioned, we have 3 projects that are important for us in Peru, and we are seeing a very positive response and work from the local authorities and the new Peruvian authorities regarding our business.

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**Operator**

And I'm showing no further questions at this time.

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**Raul Jacob Ruisanchez *Southern Copper Corporation - VP of Finance, Treasurer & CFO***

Okay. Well, with these, we conclude our conference call for the second quarter of 2018 results for Southern Copper. We certainly appreciate your participation and hope to have you back with us when we report the third quarter of 2018.

Thank you very much, and have a very good day today.

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**Operator**

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone, have a great day.

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