

Southern Copper Corp (4Q18 Earnings)

February 12, 2019

Corporate Speakers:

- Raul Jacob Ruisanchez, Southern Copper Corporation, VP of Finance, Treasurer & CFO
- Julian Jorge Lazalde Psihas, Southern Copper Corporation, Secretary

Participants:

- Carlos De Alba, Morgan Stanley, Analyst
- Caio B. Ribeiro, JP Morgan Chase & Co, Analyst
- Thiago K. Lofiego, Banco Bradesco BBI S.A., Analyst
- Andreas Bokkenheuser, UBS Investment Bank, Analyst
- Timna Beth Tanners, BofA Merrill Lynch, Analyst
- Alfonso Salazar, Scotiabank Global Banking and Markets, Analyst
- Petr Grishchenko, Barclays Bank PLC, Analyst
- Marcos Assumpcao, Itau Corretora de Valores S.A., Analyst
- Alexander Nicholas Hacking, Citigroup Inc, Analyst
- Hernan Kisluk, MetLife Investment Management Limited, Analyst

PRESENTATION

Operator: Welcome to the Southern Copper Corporation's Fourth Quarter 2018 Results Conference Call.

With us this morning, we have Southern Copper Corporation's, Mr. Raul Jacob, Vice President of Finance; Treasurer and CFO, who will discuss the results of the Company for the fourth 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 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.

Raul Jacob Ruisanchez: Thank you very much, Victor, and good morning to everyone, and welcome to Southern Copper's Fourth Quarter of 2018 and Full Year Earnings Conference Call. Participating with me in today's conference are Mr. Oscar Gonzalez Rocha, Southern Copper's CEO and Board Member; and some executives of the Company.

In today's call, we will begin with an update on our view of the copper market; we will then 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. While the copper price increased from \$2.80 to \$2.96 that is a 5.7% increase in 2018, during the last quarter of last year, copper price decreased from an average of \$3.09 in the fourth quarter of 2017 to \$2.80 that is a 9.3% reduction in the fourth quarter of 2018.

Even though we see a good physical market for copper, we believe the falling prices of the prior quarter reflected the sentiment of a possible escalation of trade protectionism between the United States and China. We expect a recovery in copper prices in the coming months.

In 2018, refined copper demand growth was approximately 3%. On the supply side, there was no significant disruptions due to labor negotiations or technical difficulties, leading to an unexpected growth in supply of approximately 2.5%, much higher than the 1.5% forecasted by analysts at the beginning of 2018.

Even though the market was in balance with these marks, there was a significant reduction of copper inventories in 2018, reflecting the refined copper scarcity. From its March peak of 1.4 million tons, as of February 11, that is as of yesterday, inventories in the major warehouses decreased to 826,403 tons, a 41% reduction.

For 2019, our base case considers a slowdown in world's economic growth, but not a recession.

Consequently, we believe refined copper demand will grow at about 2.5% and supply at about 1.5%. Yielding a year of market deficit that will put upward pressure on copper prices.

Let me point out that a 2.5 percentage points of world demand growth are approximately 600,000 tons of new copper demand. Given the current market outlook as well as our continuous commitment to increase low cost production, we believe Southern Copper is uniquely positioned to continue delivering enhanced performance, sustainable growth and superior value.

Our best-in-class, low-cost operations coupled with a large high-quality reserve base in investment-grade jurisdictions, continues to offer highly attractive growth opportunities.

In addition, our robust capital structure provides the financial and strategic flexibility required for its execution.

For 2019, we expect to produce 986,700 tons of copper. Given the current market outlook, we are focusing on developing the next phase of our growth program, aiming to

reach a milestone copper production capacity of 1.5 million tons that is a 50% increase in capacity by 2025.

With a very competitive cash cost, we expect to achieve these, while delivering enhanced performance, sustainable growth and superior value as has been and it is the case for Southern Copper.

Let us now focus on Southern Copper's production for the past quarter and year 2018.

Copper represented 79.9% of our sales in the fourth quarter of 2018. Copper production increased 4% to 234,991 tons in the fourth quarter of last year compared with the same period of 2017.

This was principally due to higher production at Toquepala mine, which increased its production by 20.8% in the last quarter as a result of additional copper production of 8,630 tons from the new concentrator at Toquepala.

Continuing with our investment program, we have completed the construction of the Toquepala expansion project in Peru, where the new concentrator has initiated operations in the fourth quarter of last year and is currently operating at 60% of capacity.

Full production is expected by the second quarter of this year.

For 2018, our total copper production increased 0.8% to 883,689 tons compared with 2017 production of 876,979 tons.

For this year, 2019, the new Toquepala concentrator will add 100,000 tons to our annual copper production capacity, allowing us to reach 986,700 tons of annual copper production.

This state-of-the-art unit will bring us to a new production record with even a lower cash cost per pound of copper.

Considering last year's average prices for our main products, for 2019, we expect our cash cost to set at \$0.80 per pound, an additional reduction of 8% of last year's cash cost of \$0.87, reinforcing Southern Copper's leadership as a low-cost producer.

Looking into our molybdenum production. Molybdenum, as you know, is our main by-product at this point, and it represented 7.8% of the Company's sales value in the fourth quarter of last year.

Molybdenum prices averaged \$11.99 per pound in the quarter, which compares with \$8.72 per pound in the fourth quarter of 2017, that is a 37.5% increase.

Molybdenum mine production increased by 7.5% in the fourth quarter of last year due to higher production at Toquepala, which increased its mark by 30.7%, resulting from better

ore grade and recovery and the Buenavista operation, which improved its production by 21.3% as a result of higher production at the new concentrator.

These results were partially offset by lower production at Cuajone molybdenum plant. In 2018, we produced 21,985 tons of molybdenum, an increase of 3.1% in production compared to 2017, principally due to additional production from the Buenavista plant. In 2019, we expect to produce 25,300 tons of molybdenum, that is a 15% increase in our production, with 2,600 tons coming from the molybdenum plant at the new Toquepala concentrator.

For zinc, which represented 4.5% of our sales value in the fourth quarter of last year, we had an average price of \$1.19 per pound in the quarter, a price reduction of 19% from the fourth quarter of 2017.

Zinc mine production increased by 26.8% to 17,590 tons in the fourth quarter of last year compared to a fourth quarter of 2017.

This was the result of higher production at Santa Barbara and Santa Eulalia.

In the case of the Santa Barbara mine, higher production was the result of higher milling ore grade and recoveries, while for Santa Eulalia, production increased due to higher milling and ore grades. These production increments were partially offset by lower production at Charcas due to lower recoveries.

Refined zinc production decreased by 6.1% in the fourth quarter of last year compared to the same period of 2017.

As previously reported on August of last year, the Company resumed control of the San Martin mine, located in Zacatecas, Mexico. As the San Martin facilities deteriorated during the 11 years of the illegal stoppage, we are undertaking a major renovation in order to restart operations with an estimated capital budget of \$77 million.

Once in operation, we believe San Martin will have an annual production capacity of 20,000 tons of zinc, 2.8 million ounces of silver, 8,000 tons of copper and 1,000 tons of lead per year.

A labor force of approximately 600 contractors is currently working to restore this facility. When in operation, San Martin will generate new labor opportunities for approximately 3,000 direct and indirect jobs as well as revenue for federal, state and local governments.

In 2018, we produced 70,778 tons of zinc, an increase of 3.1%, mainly because of the recovery of the Santa Barbara and Santa Eulalia mines production.

For 2019, we expect to produce 96,400 tons of zinc, that is a 36% increase in zinc production, with a significant contribution of 15,900 tons from the San Martin mine.

Silver production represented 4.4% of our sales value in the fourth quarter of 2018 with an average price of \$14.51 per ounce in the quarter, a 12.9% decrease when compared to the same period of 2017.

Mined silver production increased by 13.9% in the fourth quarter of last year, mainly due to a higher production at our IMMSA operations, resulting from higher grades. In the case of refined silver production, it increased by 17.6% in the fourth quarter when compared to the fourth quarter of 2017.

In 2018, we produced 17.3 million ounces of silver, an increase of 8.7% in production from 2017.

For this year, 2019, we expect to produce 21.4 million ounces of silver, an increase of 24% or 4.1 million ounces when compared to last year's production. This will mainly result from the important contribution of the San Martin mine, Santa Barbara and Toquepala.

Looking into our financial results for the fourth quarter of 2018, sales were \$1.7 billion, that is \$169.7 million lower than sales for the fourth quarter of 2017 or a 9.1% decrease in sales value.

Copper sales volume increased by 2.1% and value decreased by 11.7%.

This is in a scenario of lower copper prices as we reported already.

Regarding our main by-products, we had higher sales of molybdenum, which increased by 28.3% due to better prices and volume, which increased by 9.9%.

In the case of silver, we had better sales for 11.9% due to higher volume, which increased by 32.2% that was partially offset by the mentioned lower prices. In the case of zinc, we had lower sales by 31.7%, due to lower volume, which decreased by 17.4% and prices.

Our total operating cost and expenses increased by \$36.9 million or 3.6% when compared to the fourth quarter of 2017.

The main cost increments have been in higher inventory consumption, sales expenses, diesel, fuel and energy, exchange rate differences, repair materials and other factors that were partially offset by lower copper concentrates purchase.

Adjusted EBITDA for the fourth quarter of 2018 was \$793 million, that is a 46.8% margin compared with \$999.7 million or a 53.6% margin for the fourth quarter of 2017.

Cash cost. Operating cash cost per pound of copper before by-product credits was \$1.57 per pound in the fourth quarter of 2018, that is \$0.024 higher than the value for the third quarter of 2018. This 1.6% increase in operating cash cost before by-products is the result

of higher cost per pound from production cost, treatment and refining charges and lower premiums. These increases were partially offset by lower administrative expenses.

Southern Copper operating cash cost, including the benefit of by-product credits was \$0.958 per pound in the fourth quarter of last year. This cash cost was \$0.061 higher than the cash cost of \$0.897 for the third quarter of 2018, that is a 6.9% increase.

Regarding by-products, we had a total credit of \$306 million or \$0.612 per pound in the fourth quarter of 2018. These figures represent a 5.7% decrease when compared with the credit of \$310 million or \$0.648 per pound in the third quarter of 2018.

Total credits have decreased for molybdenum by 4.5% for zinc by 10.6% and for gold, and increased for silver by 6.6% and sulfuric acid by 3.6%.

Net income attributable to SCC shareholders in the fourth quarter of 2018 was \$293.2 million, that is 17.3% of sales, or diluted earnings per share of \$0.38.

Looking into capital expenditures, Southern Copper's investment philosophy is not based on the outlook of copper prices, but on the quality of the assets that we operate and develop. Throughout the years, our strong financial discipline has consistently allowed us to invest on a continuous basis in our superior asset portfolio. Capital investments in 2018 were \$1,121.4 million that compares with \$1,023.5 million in 2017.

Capital investments in 2018 includes \$334.3 million for the Toquepala expansion.

Regarding our Peruvian projects, our portfolio of board-approved projects in Peru has a total capital budget of \$2.9 billion of which \$1.8 billion has already been invested.

Considering the Michiquillay, \$2.5 billion project, and the Los Chancas, \$2.8 billion project, our total investment program in Peru increases to \$8.2 billion.

For the Toquepala expansion project located in the Tacna region, this \$1.3 billion project includes a new state-of-the-art concentrator that will increase Toquepala annual production to 258,000 tons of copper in 2019, a 52% production increase for this operation when compared to last year.

Through December of last year, we have invested \$1,243 million in this expansion.

The construction of the project was completed and it initiated production in the fourth quarter of 2018. Full production is expected to be reached by the second quarter of 2019.

For the Tia Maria project located in the Arequipa region of the southern part of Peru, we completed all engineering and environmental requirements, including responding in November 6 of last year the 14 observations received from the Ministry of Energy and Mines.

We expect to receive the construction license for these 120,000 tons annual SX-EW copper greenfield project with a total capital of \$1.4 billion in the first half of 2019.

In addition to our ongoing social work with the community of the Tambo Valley, the Company is currently deploying its successful labor program "Forge Your Future" (Forjando Futuro) to train 700 people from the Islay Province in 2019. After training, the participants will be eligible to apply for one of the estimated 9,000 jobs required during the Tia Maria construction phase. We believe that the initiation of construction activity for Tia Maria will generate significant opportunities for the Islay Province and the Arequipa region.

When in operation, we expect that Tia Maria will produce 120,000 tons of copper and will generate a significant contribution through mining royalties and taxes from day 1 and will directly employ 700 workers and indirectly provide jobs to approximately another 4,200 workers.

Mexican projects. Buenavista zinc concentrator in the state of Sonora is a project, as I said, located in Buenavista, and includes the development of a new concentrator to produce approximately 80,000 tons of zinc and 20,000 tons of copper per year.

Currently, we have completed the basic engineering and are working on the purchasing process for the main project components. Water concessions have been requested.

The project's budget is \$413 million, and we expect to initiate operations in 2021. When completed, this new concentrator will double the capacity of the Company for zinc production.

The Pilares project, located also in the Sonora state, is 6 kilometers away from the La Caridad operation, and this project consists of an open-pit mine operation with an annual production capacity of 35,000 tons of copper in concentrates.

The ore will be transported from the pit to the primary crushers of the La Caridad copper concentrator by a new 25-meter wide off-road facility for mining trucks.

Environmental permit studies were presented to the government's authorities, and additional land is being acquired. This project will significantly improve the overall mineral ore grade by combining the 0.78% ore grade expected from Pilares with the 0.34% ore grade from La Caridad. The budget for Pilares is \$159 million, and we expect it to start producing in early 2021.

Dividend announcement. Regarding dividends, as you know, it is the Company's policy to review at each board meeting the Company cash resources position, expected cash flow generation from operations, capital investment plan and other financial needs in order to determine the appropriate quarterly dividend.

Accordingly, as announced to the market on January 24, the Board of Directors authorized a cash dividend of \$0.40 per share of common stock payable on February 26 to shareholders of record at the close of business on February 12 of this year.

In addition, as part of the settlement of claims brought on behalf of the Company and its shareholders against Grupo Mexico, Americas Mining Corporation, and certain current and former directors, a dividend of \$0.444 per share will be paid on February 21 of this year to shareholders of record at the close of business on February 11, 2019, other than the Defendants. The settlement dividend, totaling \$36.5 million, plus its legal fees of \$13.5 million, have been funded by Grupo Mexico and Americas Mining Corporation.

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

QUESTIONS AND ANSWERS

Operator: (Operator Instructions)

Carlos De Alba from Morgan Stanley.

Carlos De Alba: We read over the weekend that there were very heavy rains in the Cuajone area and in all of the southern part of Peru, could you please give us an update on what is the situation of your mines, Toquepala and Cuajone, and the other logistics operations like the railway and maybe Ilo if that has also been hit by heavy rain? That'll be one question.

The second question has to do with Tia Maria. And I guess, if you could maybe, Raul or Oscar, give us an update as to what makes you believe that the permit will finally come in the first half of 2019. The Governor of Arequipa seems to be anti-mining in his rhetoric and so that could complicate the process.

And then finally, to understand that in Tia Maria, the Company has done a lot of work around the communities and providing incentives for them to accept the project, so why is it taking too long to receive the permit? My understanding is that the federal government is ready to give you the permit whenever you want and is more perhaps the Company not feeling that it is yet the time to go ahead with the project. So any color there will be great.

And then finally, if I may ask, could you share some more details behind the transaction, I guess, related-party transaction that led to the extraordinary dividend paid to the non-controlling shareholders?

Raul Jacob Ruisanchez: Okay. Thank you very much for your questions, Carlos. Let me start with what happened in last few days at the Southern Peru and the Southern Copper, particularly operations.

We had unprecedented rainfall in the southern region of the country. Just as an indication of this, the Peruvian Government declared a state of emergency in the regions of Tacna, Moquegua and Arequipa in Peru on February 8; that is last Friday. The heavy rains caused several massive landslides, engulfing structures in their path, and causing serious damage to the areas of these mentioning regions. One of the landslides occurred near the Company's Quebrada Honda tailings dam on Toquepala and resulted in the disappearance of a Company employee. We're currently making all possible efforts to locate the employee and provide relief and support to his family.

As a result of this unusual situation, the Company implemented its emergency response plan and as a precautionary measure, temporarily stopped production at the Cuajone and Toquepala operations on February 11 until yesterday. Yesterday, we have resumed operations partially, and I will give some details in a minute.

We have followed procedures to ensure the integrity of the Quebrada Honda tailings dam, and we're confident that no tailing spills have occurred. The Peruvian Environmental Agency, OEFA is currently assessing the events arising from the forces of nature with the Company's full cooperation. Additionally, SCC is currently supplying heavy machinery, drinking water and other supplies to regional governments and local municipalities in the most affected areas. As I said, the southern area in Peru has suffered these high levels of rainfall that were the highest in the last 2 decades.

Now, focusing on our operations. As I mentioned, we already initiated production yesterday. Currently, our Toquepala and Cuajone mines are operating at 100% of capacity; so is the SX-EW plant in Toquepala. For the Ilo refinery, it's operating currently at 70% of capacity, and the smelter has initiated its smelting process in the third shift of yesterday, so it's currently also operating at a very good speed. The 2 concentrators, the ones in Toquepala and Cuajone, will initiate production when we finish repairing the railroad lines that were affected by the rain and the landslide. We're looking into the tunnels, if they are okay for initiating the regular transportation of our production. We are looking into certain parts of the line that may need some reinforcement. We believe that in the next 3 days we will be ramping up at full speed our concentrators. And we think that this event will pass on the operational side by this coming Friday.

On Tia Maria, well, as I mentioned, we presented the answer to the 14 observations that we received from the authorities. We're currently waiting for having complied with all their requirements. We're waiting for the issuance of the construction permit, that it's something that we believe we should receive as we speak now. We have been doing some work, very specific and very strong and important social work at the Tambo Valley and the whole Islay Province. We think that the authorities that have been elected and are now in office are, generally speaking, positive about the project.

We believe that this is something that should move on as we speak before the current environmental impact assessment expires in August. So that's our view on the project, and we're expecting, as I say, the permit to be issued in a short timeframe.

Regarding the extraordinary dividends transaction, let me mention that it refers to a transaction between related parties. And that was the reason why some plaintiffs presented a demand to Grupo Mexico, AMC, and some board members of the Company.

And we have, as one of the executive at the call is our secretary Mr. Jorge Lazalde. Jorge, could you comment on the details of the transaction regarding the extraordinary dividend?

Julian Jorge Lazalde Psihas: Thank you, Raul. My name is Jorge Lazalde; I'm the acting secretary for Southern Copper Corporation.

In summary, the transaction that was questioned by one of our minority shareholders was a related party transaction between a Grupo Mexico subsidiary and Southern Copper, regarding the project of the construction of power plants that are in Sonora. The alleged complaint was based on the fact that the shareholder considered that we didn't comply with the form or the internal procedures we were supposed to follow. And then, on the other hand, the Company always sustained that perhaps without considering the fact that we didn't comply with the form, that there was never, never, damage to the minority shareholders.

Having explained that to the plaintiffs, the defendants and the plaintiffs got together through counsel and before reaching court or trial, we decided to settle this case. And the results are what Raul already explained.

Carlos De Alba: And just a follow-up there. And if there was no wrongdoing, why settle?

Julian Jorge Lazalde Psihas: The decision that the Company made was to avoid a confrontation or litigation. I cannot reveal all the terms that were discussed between counsel and the Company. But the fact that we have been involved in these types of situations before, we consider that the best course of action was to settle despite the fact that we will always sustain that there was no damage at all. I think it's exactly the opposite; the result of the project that was questioned by the shareholders at the end of the day has been translated into an economic benefit for Southern Copper Corporation and its shareholders.

Carlos De Alba: Understood. Thank you. And Raul if I may, just coming back quickly to Tia Maria. So if in the event that Tia Maria doesn't receive the construction permit by August, and then it has to be put on hold until the Company files again or redoes the environmental impact study, what are the implications of that scenario in terms of dividends? Because CapEx will be lower, and presumably, the free cash flow generation will be greater this year and otherwise. Will the Company consider paying that excess free cash flow as dividends or would the Company accelerate exploration or works in the Michiquillay project, and use the CapEx that otherwise would have gone into Tia Maria to do these accelerated works in Michiquillay?

Raul Jacob Ruisanchez: Well, I think, that our base case, Carlos, is that we will receive the construction permit before the end of the environmental impact study period. We think that we have made all the work proper to receive this. Legally speaking, our position is very strong, I should say, in that regard.

But this year's budget for Tia Maria is \$300 million; we expect to spend this money in the project. And we will not consider any other options until we have something to analyze. I usually don't like to speculate on what-ifs because we are very confident that we will get the permit on this case.

Operator: Thiago Lofiego from Bradesco BBI.

Thiago K. Lofiego: I have 2 questions. The first one, Raul, if you could give us some color on your Ilo smelting capacity expansion, when are you planning to approve it? And what could be the total capacity and CapEx? And the second one, the revised cash cost guidance for 2019, 2020 and 2021, if you could give it, looking forward on that as well?

Raul Jacob Ruisanchez: Sure. Well, we have been looking into different scenarios for having new smelting operations, but no decision has been made for the board. So I can't comment on the details of that at this point, Thiago. On the cash cost guidance, as I said, we're expecting \$0.80 per pound for 2019, this year. Should remain at that level until 2022, where given the initiation of the projects that we mentioned, the Buenavista zinc operation as well as the Tia Maria project, we should have a drop in cash cost of approximately another \$0.10 down to \$0.70 per pound, obviously, at these current price scenario. So I guess that I covered your concern.

Thiago K. Lofiego: Yes. Raul just back on the smelting question. Do you have any timing for the announcement at least? I mean, is it going to happen in the first half of this year, second half or maybe next year? Just for us to understand what the time line can be.

Raul Jacob Ruisanchez: We think that we could do an announcement through this year. But we're still working on -- looking at the different options. And in that regard, we believe that we still have some work to do.

Operator: Andreas Bokkenheuser from UBS.

Andreas Bokkenheuser: Just 2 questions from me. One follow-up on Tia Maria. Let's assume worst-case scenario, we get to August and the environmental license effectively lapses and gets canceled, would you effectively go ahead and apply for a new one, or would you reevaluate the entire project based on that potentially happening? That's the first question. And second question, what have been your most recent conversations with the Mexican government? Obviously, there have been different headlines out in the recent months to -- pertaining to royalty changes, pertaining to concession lives, pertaining to a bunch of things. I think you were earlier saying that you had a constructive conversation or a constructive dialogue with the Mexican government. But

any updates there what you have been talking to them over the last couple of months? Thank you very much. Those are my 2 questions.

Raul Jacob Ruisanchez: Okay, Andreas. Thank you very much for your questions. Well, we don't want to get into a scenario that is outside our base case. Our base case is that Tia Maria, and all the projects in Peru will move on, with Tia Maria being the leader of the new growth for Southern Copper in Peru. We have as you -- has been mentioned Tia Maria, which is 120,000 tons of new production. We have Michiquillay, 225,000 tons of new production for Peru as well, and we have Los Chancas with 120,000 tons of new production as well. So we believe that this project should move on in the next few years and that's our base case. We don't want to speculate on what if, because given the current outlook that we have, and the way that we see our talks with the government officials as well as the regional authorities, we believe that the project should go on, Tia Maria.

Regarding the conversations with the Mexican government, again, we don't think that this is -- that it is a good idea to comment on rumors or certain talks at the media level. We want to analyze concrete government resolutions, if any. So far there are no specific legal initiatives that have been approved. And so we believe that whenever there is something specific, we will comment on that. At this point, we have no indication that a significant change will affect, legally speaking, our operations in Mexico.

Operator: Timna Tanners from Bank of America.

Timna Beth Tanners: I wanted to ask a little bit more detail on the rains and our sympathies with the disappearance of your employee. If you were to summarize the impact that you would expect at this point on Q1, you're not changing your volume guidance, so this probably could just be a more of a cost issue in near term? And then secondly, on the reduced cost that you anticipate for next year -- for this year, I should say, what's the cadence of that? Is that just really as production ramps up, we see the costs per pound slip, is that how we should think about it?

Raul Jacob Ruisanchez: Yes. Let me start with your first question on the heavy rains, or the rainfall that we had. We're currently assessing the cost of this situation for the Company. Usually, when this kind of situations arise, and now it's rain, it may have been an earthquake as it happened a few years back in 2007, we have a contingency emergency plan that initiates activities at the minute that we realize we're in a difficult situation, as has been the case. As part of that, we consider the activation of certain accounts for registering all the expenses. But currently, we're evaluating the total damage. As I mentioned, we do have some production losses due to stopping our facilities. Even though the mines and the concentrators were not significantly affected by the heavy rain, we stopped them for safety reasons mainly. And that's why we can come back to operating them as quick as we can, and with no significant difficulties. We will assess also the impact in total production by the event. And we'll -- that's basically it.

Now, focusing on your comment on cost improvement through the year. Well, through the first quarter, we will be ramping up the Toquepala new concentrator. As I mentioned,

we expect it to be at full speed and capacity by the second quarter of this year. That will certainly -- these new units of copper will come in with -- at a very low cost, very low operating cost. At the end of this quarter, we will be ramping up the molybdenum plant, the new molybdenum plant in Toquepala, which will add to our by-product credit base a new production of molybdenum. So in quarters, I would say, in quarters 1 and 2, you should see some improvements in our cash cost based on the expansion of Toquepala. In quarter 2, we will get the benefit of the additional production for zinc, copper and silver coming from San Martin, which will be -- we expect it to initiate production at certain point in the second quarter of this year. So as we move on into the second half of this 2019, we should be improving our total cost position, given the new additions of very low-cost production of copper, additional production of molybdenum and zinc and silver coming from both San Martin and Toquepala.

On top of this, as we mentioned before, we have been working very hard to improve the production of our SX-EW Plant III in Buenavista. We have been successful in increasing production, and we are moving forward with this process. So we think that when you add all of this, that's how we will be increasing our production of copper and improving our cash cost position. I will say that the first half of the year, it's where we will slowly improve our production profile. And in the second half, we'll be capturing the full value of these improvements in production and costs.

Timna Beth Tanners: Okay. That's super helpful. Just to clarify on the commentary on the heavy rains, it's not -- is the fact that you haven't changed any guidance for production or cost, doesn't necessarily mean that they won't change? It's just you're still assessing or do you think that this one that being small in the scheme of the full year guidance?

Raul Jacob Ruisanchez: We're still assessing. We are at the beginning of the year, so I'm sure that our operational team will focus on capturing or trying to catch up on the production profile vis-a-vis our plans. So our view is that we should try to maintain our production guidance, as I said.

Operator: Alfonso Salazar from Scotiabank.

Alfonso Salazar: The question is regarding your investment program in Peru and Mexico. I think it could be very useful if you can tell us, when do you foresee operations to start in each of the new mines that you have in your pipeline to reach the 1.5 million tons by 2025? So that if you can relate the production estimate for each year and which mines will be starting that year. And the second question is regarding, whether you see any positive impact from the free zone that is being created in Mexico's northern border that could be affecting, I believe, the operations at Buenavista. So if that is something that you think is going to be of any positive impact from that? And also what is the FX that you're assuming for this year in Mexico and in Peru?

Raul Jacob Ruisanchez: Okay. Thank you for your questions, Alfonso. Well, the first one which is a little bit more complicated than usual. I'm going to answer that right now. For this year, as I said, we're expecting to produce 986,700 tons of copper. For 2020 and

2021, it's going to be relatively flat, slightly improving to almost close to 1 million tons in this 2020 and 2021.

In 2022, we will have the beginning of the Buenavista zinc operation that will improve our zinc profile, doubling our production or adding 100,000 tons of new zinc production in 2022. And that will reflect also the beginning of new copper production at Buenavista zinc. We will have Tia Maria's production that year, with 120,000 tons. That will be flat through 2025 at that level, 120,000 tons.

And we will have the beginning of 2 projects in Peru: Los Chancas, we're expecting it to initiate production in 2025 with 150,000 tons; Michiquillay, 238,000 tons; and by next year, by 2026, we are considering the beginning of El Arco. In 2025, El Arco should add a small amount of production. So basically, what we are considering in our case for going up to 1.5 million tons, it's the initiation of Tia Maria, Michiquillay, and Los Chancas in Peru, and El Arco in Mexico will contribute with some production in 2025 and full speed in 2026.

On the border new legislation, we're still evaluating the possibility that this new legislation provides. And we haven't finished it. So even though we see some positive points in it, at the same time, there are certain other considerations that we're looking into. And so we don't have a definite answer on that. We're still evaluating it. And for exchange, basically, we're assuming the current exchange rate for the Mexican operations and for the Peruvian, the Peruvian sol at about \$3.30 for the year.

Operator: Petr Grishchenko from Barclays.

Petr Grishchenko: This is Petr Grishchenko with Barclays. I wanted to follow up on your cost guidance. You suggested \$0.80 per pound for this year, and you also said something like once Tia Maria is online, your costs drops to \$0.70. Is that accurate or I got it wrong?

Raul Jacob Ruisanchez: No, that's accurate; that's correct.

Petr Grishchenko: And so...

Raul Jacob Ruisanchez: Let me elaborate on that, Petr. For 2022, we're expecting 120,000 tons for Tia Maria and that should reduce our cash cost before credits and giving us a drop in cash cost. I forgot to mention also that on the byproducts, we will have the Buenavista zinc concentrator at full speed in that year as well.

Petr Grishchenko: Right. What's your view on the cost for Tia Maria as a standalone entity, given \$0.70 is your consolidated guidance?

Raul Jacob Ruisanchez: Certainly. Well, Tia Maria, it's a deposit where we don't have any byproducts, it's just refined copper, very high-quality copper that will receive a premium on top of the copper market price for the quality of the material that we will be getting out of the SX-EW plant. No byproducts but a very competitive cash cost. In

average, it should be at about \$1 in the life of the project, but in the first years, it will be slightly lower than that, at about \$0.90 per pound.

Petr Grishchenko: Got it. And the second question, you did say you cannot comment on the media reports we heard from mining related to potential changes in the mining code and tax regimes. But may be broadly, can you tell us if you were in any discussions with the government? And basically, do you think there's any substance to those reports suggesting potential higher taxes and environmental regulation in Mexico?

Raul Jacob Ruisanchez: Let me ask Jorge Lalalde to answer your question, please.

Julian Jorge Lalalde Psihas: Hi, this is Jorge Lalalde, again.

We have been in contact with several officers from the government. And what we have heard so far is that they are not expecting any major change or anything at least for now in the short future about any economic reform that will have an impact in our operations. However, many things are said within the public opinion at the media, but we have a very close relationship with the key officers from the government. And well, as far as we can tell for official purposes is that we do not expect any major change in the short-term.

Operator: Marcos Assumpcao from Itau.

Marcos Assumpcao: First question is regarding buyback. We just saw Grupo Mexico announcing the buyback program. And we remember that a couple of years ago Southern Copper also initiated an aggressive buyback plan when the stock was closed to today's levels. So the question is, if you would consider doing a buyback at this point? We know that the liquidity today is also an issue, but if you consider doing that going forward? And the second question is on the copper market. We have seen prices remaining close or below \$2.80 per pound. If you could comment your views for prices in the short term, and also if you have changed your mind regarding long-term prices.

Raul Jacob Ruisanchez: Okay. Thank you very much for your questions, Marcos. Well, buyback, the answer is simple, it has not been considered so far. No specific plans on that matter, for Southern Copper, you mentioned that Grupo has made some announcements on that.

On the copper market, well, we were expecting prices to head over \$3 per pound last year, considering the price scenario we had at the beginning of 2018. But then the concerns about mainly the commercial talks between the U.S. and China, being China a significant copper consumer, created some instability in the copper market and prices decreased as we have reported through 2018 and this call.

But for this year, well, we're expecting the market to head towards deficit. We think that refined copper, which is our main copper product, over 80% of our sales of copper are in the form of refined copper or further processed. So, for that market, what we're seeing is some tightness reflected in the drop that I reported of 41% in current inventories from its

peak in March of last year. And that we believe it should be putting some upward pressure to prices. Obviously, if this current environment for the negotiations between U.S. and China deteriorates, that will affect prices, but so far, our base case is that we're heading towards a world where growth will be lower than what we have in 2018, but positive, no recession, as I said, as a base case. And in that regard, we believe that copper prices will evolve positively through this year.

Marcos Assumpcao: Well, any changes on your long-term views in prices? Incentive price have changed? Did you see anything -- have you changed your mind on that?

Raul Jacob Ruisanchez: No, no, actually. No, we think that the incentive prices are in the range of \$3.25 to \$3.50, but has to be a consistent price. So even though we may see prices getting close to say \$3.25, it can't be just a month, it has to be something that the outlook looks good for all producers. That will certainly move on -- make the board's to move on with approving projects for new copper production. But so far, at this price level, we're not seeing much news on that regard.

Operator: Carlos De Alba from Morgan Stanley.

Carlos De Alba: Thank you. Just a follow-up, Raul. What was the provision of pricing impact in the fourth quarter, if you have a number or a ballpark figure?

Raul Jacob Ruisanchez: I do, I do. Hold on a second. We had a provision of \$28 million for open sales in the sense of not having a defined or a definitive price. That was about \$28 million.

Carlos De Alba: Sorry, the \$28 million was open sales at the end of the fourth quarter?

Raul Jacob Ruisanchez: Yes. That's correct.

Carlos De Alba: And what was that amount at the end of the third quarter?

Raul Jacob Ruisanchez: About \$9 million. So you have \$19 million of net variance in open sales.

Operator: Alex Hacking from Citi.

Alexander Nicholas Hacking: Just one follow-up. How much copper did Buenavista mine produced in 2018? And if you could break that out between the concentrator and the SX-EW? And then what is -- how does that compare to theoretical capacity of the operation, because I remember that, the SX-EW had a few issues with ramping to full capacity, I just wanted to remember exactly where we're at there in terms of progressing towards that capacity?

Raul Jacob Ruisanchez: Yes, it will take me a little bit to find the numbers, hold on a sec, please. Okay, okay. For the concentrator production in Buenavista, we had in total

324,881 tons of copper produced. Being the leader, the new concentrator, which is actually operating at a very good capacity level, almost 100%, and sometimes slightly higher than its plate capacity. The SX-EW plants provided 89,261 tons of copper last year. Important thing is that production has been increasing through the different quarters. If we see what we produced in the fourth quarter of last year, it was 19% higher than the prior quarter, the third quarter for the SX-EW facilities. On that base we have made a forecast that we'll increase our SX-EW production for Buenavista in this year, and that's why we're adding a little bit more than 100,000 tons of production for 2019.

Alexander Nicholas Hacking: Okay. So in total Buenavista produced about 415,000 tons last year. Is that correct? And then...

Raul Jacob Ruisanchez: Yes, that's correct. That's correct.

Alexander Nicholas Hacking: Okay. And then capacity -- and total capacity is going to be how much higher than that? Maybe 15,000, 20,000 higher, is that fair?

Raul Jacob Ruisanchez: For this year, we're expecting to produce almost 430,000 tons in Buenavista, most of that will come from SX-EW recovery.

Alexander Nicholas Hacking: Okay. And then that would be close to the full capacity of the mine, like 430,000 tons?

Raul Jacob Ruisanchez: Well, we could go a little bit further on that. But we're very close to full capacity. The concentrator's are at full speed. The SX-EW have some room to improve, and we're working very hard to move on, on that direction.

Operator: Caio Ribeiro from Credit Suisse.

Caio B. Ribeiro: I just have one question. I wanted to see if you could give us a general overview of what licenses are still pending for Los Chancas, El Arco and Michiquillay? And what your timing is right now on obtaining these licenses to move ahead with these projects?

Raul Jacob Ruisanchez: Los Chancas, well, in the case of Los Chancas, we finished the feasibility study last year. We are currently working on the Environmental Impact Assessment. And that is a process that may take about a year to be completed or slightly more than that. In the case of Michiquillay, we're working with the Peruvian authorities to -- well; the first thing is that we received the asset last year at the beginning of the second half of the year. We have been working with the local communities. Very recently, we're initiating the project work on the technical side as well as the social side with the local communities of Michiquillay. For this, we have a time span of 5 years at this point. We will love to reduce that current time span, but that's what we have as the base case at this point.

Operator: (Operator Instructions)

Hernan Kisluk from MetLife.

Hernan Kisluk: It's regarding the guidance for CapEx for the next 2 years, if you could provide an update on that?

Raul Jacob Ruisanchez: Certainly. For this year, we're expecting to spend \$1.8 billion in CapEx. For next year, \$2 billion. That should add up to \$2.9 billion by 2021. \$2.5 billion in 2022. That will be pretty much flat up to 2024, where we have \$2.8 billion. As I mentioned, the projects will kick in, in 2022 Tia Maria. And then, well, El Pilar, which I had not mentioned before, that will initiate operations in 2023, and we have the new zinc concentrator by 2022. So the outlook for CapEx includes investments in El Arco, Michiquillay, Los Chancas and some other minor investments are considered as well.

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

I'd like to turn the call back to Raul for closing remarks, please.

Raul Jacob Ruisanchez: Well, thank you very much. With this, we conclude our conference call for the fourth quarter and the full year 2018 results. We certainly appreciate your participation and hope to have you back with us when we report the first quarter of 2019. Thank you very much, and have a very good day.

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.

Raul Jacob Ruisanchez: Thank you very much.