Corporate Speakers:
- Raul Jacob; Southern Copper Corporation; VP of Finance, Treasurer & CFO

Participants:
- Alfonso Salazar; Scotiabank; Analyst
- Carlos De Alba; Morgan Stanley; Analyst
- Timna Tanners; BofA Merrill Lynch; Analyst
- John Brandt; HSBC Holdings PLC; Analyst
- Herman Kisluk; MetLife, Inc.; Analyst
- Andreas Bokkenheuser; UBS Group AG; Analyst
- Thiago Lofiego; Banco Bradesco S.A.; Analyst
- Sam Epee-Bounya; Wellington Management; Analyst
- Alex Hacking; Citigroup Inc.; Analyst
- John Tumazos; John Tumazos Very Independent Research, LLC; Analyst

PRESENTATION

Operator: Good morning. Welcome to Southern Copper Corporation's First Quarter 2020 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 2020 as well as answer any questions you may 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 not to 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 to Mr. Raul Jacob.

Raul Jacob: Thank you very much, Carmen. Good morning, everyone, and welcome to Southern Copper's first quarter 2020 results conference call. Participating with me in today's conference are Mr. Oscar Gonzalez Rocha, Southern Copper's CEO and Board member; and Mr. Xavier Garcia de Quevedo, also a Board member.
Before we go into the details of the past quarter, let me first express my best wishes for you and your loved ones in these difficult times that we are currently facing. In today's call, we will begin with an update on the fight against the COVID-19 pandemic and its impact on our operations. We will then review the copper market and Southern Copper's key results related to production, sales, operating costs, financial results and expansion projects. After that, we will open the session for questions.

The fight against the COVID-19 pandemic. Taking proper care of our personnel has always been of paramount importance to our company. While confronting the COVID-19 pandemic in the countries where we operate, Southern Copper continues essential operations in compliance with local emergency measures. As soon as COVID-19 was declared a pandemic, Southern Copper implemented rigorous hygiene and sanitation protocols at all of its facilities to protect the health and welfare of its employees, their families and the neighboring communities.

The statements from governmental authorities has made it clear that essential economic activities must continue during the COVID-19 health emergency, and that industrial mining, which is closely linked to chemical and construction industry, is essential to the requirements of electrical, hospital and medical infrastructure, as well as for the manufacturing of health-related supply and technological equipment. These industries are indispensable and strengthen the infrastructure of manufacturing, logistics, and support global supply chains.

The strategic position of industrial mining as a supplier of key materials, such as steel, copper, gold, coal, silver, zinc and cement has been recognized by the U.S., Canada, Mexico and Peru. These countries have confronted COVID-19 through social distancing and stay-at-home measures, and recognize that industrial mining is indispensable to avoid interruption of supply chains of essential products to fight the pandemic.

Copper is indispensable for the manufacturing of specialized cables required to produce high-voltage electrical installations that supply electrical power to local communities, hospitals and supply centers. Indeed, copper is essential for the manufacturing of electrical components required to generate, transmit and distribute electrical power to urban centers. Electrical and electronic copper components are also necessary for medical equipment and appliances, cell phones, computer hardware, digital data transmission, images and voice. Copper is also required in surfaces to remove viruses and bacteria, which make it essential for the production of drinking water and air conditioning systems. Chemical industries, with their metallurgical processes, has proved to be vital in the fight against the COVID-19 pandemic affecting the world.

Given the nature of mining operations, which are highly automated, conducted in remote locations and with mandatory use of personnel safety equipment, it is easier to implement and comply with COVID-19 protective measures such as physical isolation and access control. Industrial mining uses advanced and reliable machinery and does not require high physical concentration of employees. In many cases, workers fulfill their duties, maintaining distances of more than 100 meters from their coworkers.
The company has developed rigorous COVID-19 emergency protocols and only 40% of the labor force in Mexico, or about 6,300 employees, are currently working on-site under strict safety measures. The remaining workforce of 8,751 employees are working from home, including all high-risk individuals due to age or prior medical conditions. For the Peruvian operations, about 3,500 employees, or 39% of the workforce, are working on-site under strict safety measures, while the remaining 5,468 employees are working from home or staying at it.

It should be noted that to date, there has been not known cases of COVID-19 contagion among our employees at our mining facilities in Mexico and Peru. Our COVID-19 emergency protocol has reinforced preventive measures such as disinfecting, clinical monitoring before work, cleaning and sanitizing of work areas and respect for social distancing. We have also restricted access to contractors, suppliers and nonessential personnel and enforced multiple actions to limit workforce exposure to the COVID-19 such as travel, restrictions prohibiting face-to-face meetings and urging frequent hand washing, as well as adherence to other health, safety and social distancing measures issued by governmental authorities.

From the beginning of the COVID-19 pandemic, Southern Copper has been implementing strong prevention measures to protect the health of its workers, their families and their communities. For this purpose, the company has approved a budget of $11.2 million for donations and general support for the population of Peru and Mexico.

As a way to contend with the pandemic, we have donated medical supplies and dozens of mechanical ventilators for breathing support to hospitals in the communities where we operate. In Sonora, we have established 88 confined beds in company housing property to serve as temporary sanitary facilities for people presenting symptoms of respiratory disease who require isolation or moderate hospital care.

We are also donating over 200,000 items of personal protection equipment to medical staff and 30,000 hygiene kits to our workers and to the population of our areas of influence, including general information materials about the pandemic. We have also donated cleaning and personal protection equipment to the staff members of the National Guard of Mexico and the Peruvian police and army.

Additionally, we're helping vulnerable individuals such as the elderly or disable persons and pregnant women by donating more than 30,000 kits containing food and hygiene items. In addition to the above-mentioned efforts, we have installed more than 200 portable sinks in strategic areas of the community in order to reinforce preventive hand washing.

Moreover, to endorse the stay-at-home measures, we have offered over 350 sports, cultural and educational workshops online, and over 58,000 virtual instructive activities have been watched by 3,700 students from the schools sponsored by our company.
Additionally, throughout our Community Care Service, we offer free medical, psychological and employment counseling 24 hours a day.

Now let us focus on the copper market, the core of our business.

Copper. During the first quarter of this year, the London Metal Exchange copper price decreased from an average of $2.82 per pound in the first quarter of 2018 to $2.56 per pound. That is a 9.2% reduction. As of today, we're seeing prices in the range of $2.20 to $2.30 per pound. Today, it's about $2.33, as a reflection of the impact of the COVID-19 crisis on the demand and on copper supply. The world is currently experiencing the public health, financial and economic impacts of the COVID-19 pandemic. Since it is affecting both supply and demand, at this point, it is difficult to assess the full effect of this crisis on the copper market balance and on copper prices.

Let me say that on a normal year, we expect to have a seasonal copper inventories increase of about 200,000 to 250,000 tons in the first quarter of the year due to the New Year festivities of China and winter impact in demand at the Northern Hemisphere. This year, we have the COVID-19 outbreak as an additional factor affecting copper demand and supply and obviously, copper prices.

At the end of 2019, copper demand for refined copper was estimated at 23.6 million tons. And global inventory, that is the addition of the London Metal Exchange, COMEX, Shanghai warehouses and an estimate on bonded warehouses, were 599,000 tons.

By the end of February of this year, those inventories on warehouses added up to 917,000 tons, or 318,000 tons higher than the inventories at the end of last year. Last Friday, April 24th, global inventories were estimated at 925,000 tons. This is 326,000 tons over the closing of 2019, and a relatively stable mark since they increased at the end of February. We believe this reflects the mentioned seasonal effect of about 250,000 tons due to the Chinese New Year and the winter effect that I mentioned, as well as an additional market surplus created by the COVID-19 pandemic.

In a normal year, we expect the additional inventory to be partially absorbed through the rest of the year. For 2020, it is difficult to estimate when this may happen since we are seeing a much weaker demand than last year.

Let's now focus on Southern Copper's production for the past quarter. Copper represented 79.4% of our sales in the first quarter of 2020. Copper production increased by 5.8% to 241,967 tons in the first quarter compared to 228,629 tons in the first quarter of last year. This was principally due to higher production at our Peruvian mines.

Toquepala mine production increased by 14.5% as a result of additional copper production of 8,574 tons from the new concentrator and Cuajone mine production increased by 23.2% due to higher ore grades and recoveries.
In Mexico, copper production slightly decreased by 1.4% when compared to last year's first quarter, mainly due to lower production at the Buenavista operations as a result of lower ore grades. This effect was partially offset by higher production at our IMMSA unit, that increased its copper production by 30.5% as a result of the restoration of the San Martin mine operations.

For molybdenum, it represented 7.3% of the company's sales value in the first quarter of 2020 and is currently our first by-product. Molybdenum prices averaged $9.56 per pound in the quarter, which compares with $11.70 per pound in the first quarter of 2019, an 18.3% decrease. Molybdenum mine production increased by 39.7% in the first quarter of 2020 compared with the first quarter of last year. This was principally due to significantly higher production at our Toquepala mine. We had a new molybdenum plant starting in the second quarter of 2019, and as a result of that, the Toquepala mine increased its production by 280% in the first quarter of this year. Well, this plant produced 993 tons of new molybdenum production and, as I said, began operation in April of last year. We also have the benefit of a much higher production of molybdenum at Cuajone, which increased its molybdenum production by 42.6% due also to higher grades.

Silver represented 5.1% of our sales value in the first quarter of 2020, with an average price of $16.87 per ounce in the quarter, an 8.7% increase from the first quarter of last year. Silver is currently our second by-product. Mined silver production increased by 21.6% in the first quarter of this year, from the first quarter of 2019, as a result of higher production at all our operations, particularly at IMMSA, the underground complex of mines that we have, which increased its production by 35.7% due to restored production at the San Martin mine. San Martin produced approximately 607,000 ounces of silver in the first quarter of this year. In addition, there was higher production of the Toquepala mine that increased its production by 16.3% in silver. That was 128,000 ounces of silver from the new concentrator, as well as higher production at the Buenavista mine that increased its production by 13.3% due to higher grades and recoveries.

For zinc, it represented 3.8% of our sales value in the first quarter of this year, with an average price of $0.97 per pound in the quarter, a price decrease of 21.1% from the first quarter of last year. Zinc mine production increased by 3.8% to 19,263 tons in the first quarter of 2020, mainly due to 3,851 tons of new production coming from the San Martin mine, as well as increased production in the Charcas mine, that increased its production by 9.5%. And Santa Barbara, that also increased its production by 7.2%. These two operations plus San Martin were partially offset by Santa Eulalia mine production reduction that reduced its production by 90%. Regarding the Santa Eulalia operation, the company has decided to shut down its mine facilities due to several flooding events at the mine. We're currently evaluating different options to supply the concentrator of Santa Eulalia. Refined zinc production increased by 8.5% in the first quarter of 2020 compared to the first quarter of 2019.

Financial results. For the first quarter of 2020, sales were $1.7 billion. This is $33.7 million lower than sales for the first quarter of last year or 1.9% lower. Copper sales
volume increased by 10.6%. The value decreased by 3.5% in a scenario of lower prices. As I mentioned, London Metal Exchange price decreased by 9.2% quarter-on-quarter.

Regarding our main by-products, we had higher sales of molybdenum by 6.6% due to higher volumes of 41.9%, partially offset by lower prices. Silver sales increased by 14.7% due to higher volume and better prices. For sales of zinc, even though we had higher volume of 7.1%, its value was lower by 15.4% due to lower prices.

Our total operating cost and expenses increased by $126.7 million or 12% when compared to the first quarter of 2019. The main cost increments has been in purchased copper, $77.4 million; lower capitalized leachable material, $73.5 million; repair materials $15.8 million; depreciation, $11.3 million and other factors. These cost increments were partially compensated by exchange rate variances that decreased cost by $30 million, and lower inventory consumption by $20.6 million and fuel costs that decreased by $8.7 million in the first quarter.

Regarding EBITDA. For the first quarter of 2020, it was $718.8 million. This is a 41.8% margin compared with $889.9 million or a 50.8% margin in the first quarter of 2019.

Operating cash cost per pound of copper before by-product credits was $1.42 per pound in the first quarter of 2020. That is $0.171 lower than the value for the fourth quarter of last year. This 10.8% decrease in operating cash cost is a result of lower cost per pound from production cost, treatment and refining charges and administrative expenses, partially offset by lower premiums.

Southern Copper operating cash cost, including the benefit of by-product credit, was $0.774 per pound in the first quarter of 2020. This cash cost was $0.204 lower than the cash cost of $0.978 per pound in the fourth quarter of 2019. This is a 20.9% reduction in cash cost.

Regarding by-products, we have a total credit of $332.2 million or $0.641 per pound in the first quarter of 2020. These figures represent a 5.6% increase when compared with the credit of $0.607 per pound in the fourth quarter of 2019. Total credits have increased for molybdenum, zinc and sulfuric acid, and decreased for silver.

Net income attributable to SCC shareholders in the first quarter of 2020 was $214.8 million, that is 12.5% of sales, or diluted earnings per share of $0.28.

Capital expenditures. Southern Copper, as you know, has an investment philosophy of not basing its growth 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 great asset portfolio.

In the first quarter of 2020, we spent $101 million on capital investment. This is 41.7% lower than the same period of 2019 and represented 58.8% of our net income for the quarter.
For the Peruvian projects, we currently have a portfolio of $2.8 billion of approved projects in Peru, of which $1.6 billion have already been invested. Considering the up and coming Michiquillay, $2.5 billion project and Los Chancas, a $2.8 billion project, our total investment program in Peru will increase to $8.1 billion.

For Tia Maria, on July 8, 2019, we received the construction permit for this 120,000 tons annual SX-EW copper greenfield project, with a capital budget of $1.4 billion. The government awarded the permit after completing an exhaustive review process of environmental and social matters, recognizing compliance with all established regulatory requirements and having addressed all observations raised. The challenges to the construction permit were defeated on October 30 of last year and the Mining Council of the Peruvian Ministry of Energy and Mines ratified the construction permit for the Tia Maria project.

For the Mexican projects, in the case of Mexico, as you know, we have three projects. The Buenavista zinc concentrator, which is in Sonora. It's a project that is located within the Buenavista facility 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 the detailed engineering is on process. The site preparation has started and the purchase orders for the new equipment has been placed. The project is fully permitted. The capital budget is $413 million, and we expect to initiate operations in the third quarter of 2022. When completed, this facility will double the company's zinc production capacity and will provide 490 direct jobs and 1,470 indirect jobs.

For the Pilares project, also located in Sonora, it is approximately 6 kilometers away from La Caridad. This project consists of an open-pit mine operation with an annual production capacity of 35,000 tons of copper in concentrates. A new 25-meter wide off-road facility for mining trucks is under construction and will be used to transport the ore from the pit to the primary crushers of the La Caridad copper concentrator. This project will significantly improve the overall mineral ore grade, combining the 0.78% expected ore grade from Pilares, with the 0.34% ore grade from La Caridad. The budget for Pilares is $159 million, and we expect it to start production during the first half of 2022.

The third project in Mexico that we're undertaking is project El Pilar, also in Sonora. This is a low-capital intensity copper greenfield project, which is approximately 45 kilometers from our Buenavista mine. Its copper oxide mineralization contains estimated proven and probable reserves of 325 million tons of ore with an average copper grade of 0.287%. El Pilar will operate as a conventional open pit mine and copper cathodes will be produced using the highly cost-efficient and environmentally-friendly SX-EW technology. The budget for Pilar is $310 million, and we expect it to start production during 2023. The construction of the pilot plant is finished and the production tests are being developed with encouraging results.

Regarding dividends, as you know, it is the company's policy to review at each Board meeting the company's cash 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 April 23, the Board of Directors authorized a cash dividend of $0.20 per share of common stock payable on May 26 to shareholders of record at the close of business on May 13 of this year. Despite the strong cash position of the company and the reasonably good results for the quarter, due to uncertainty of the metal markets and world economy and important expansions planned by our company, the Board has taken in this occasion a more cautious approach regarding dividends. Consequently, our Board approved a dividend equivalent to 50% of what the company has been paying in the last few quarters. Considering Southern Copper's strong financial condition and competitive cost structure, we have no doubt that Southern will endure the current difficult time and overcome the crisis.

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

**QUESTIONS AND ANSWERS**

Operator: (Operator Instructions)

And our first question is from Alfonso Salazar with Scotiabank.

Alfonso Salazar: The question I have is regarding the operations in Mexico. If you can clarify how -- if you expect any impact from the closure -- temporary closures that the government announced to mining operations. What is this status there? If you can clarify what is expected on operations in Mexico? And if you can provide guidance on production for the full year and the CapEx guidance as well.

Raul Jacob: Thank you very much for your question, Alfonso. Well, as we have mentioned in our report, we're operating with about 40% of our workforce in Mexico and 39% of it in Peru, obviously following and compliant with all regulations that have been established by the authorities in both countries. When you operate with this much lower part of your usual and recommended workforce, what happens is that you are postponing, somehow, certain maintenance works and certain works at the mine operations.

In Peru, our plants are what we call confined at the mine in the sense that we have basically agreed with our workforce over there to shut down the facilities in order to avoid the possibility of contagion. So we're following, as I mentioned, very strict protocols for our operations. That includes the suppliers of our materials that we require to operate.

At the mines, generally speaking, we have, for now, postponed several works related to leachable material and stripping. That's something that is put aside for this time of emergency.
In Peru, we are expecting the authorities to open up certain activities that are concurrent with mine operations and allow us to operate at a much higher activity level than what we are doing now.

In Mexico, we're currently operating, as I said, with 40% of the workforce. On the metallurgical side, this is considered part of chemical industries. And on that, we have more significant dedication to our operations other than having the material available, and that's obviously restricted due to the measures taken by the authorities.

At this point, for the year, it's hard to provide a guidance. We will provide a much certain guidance in July when we have a better handle of where we are in terms of production. And the emergency plans that we can put in place once we have more openness to operate our facilities because of slowing down of the crisis or a change in regulations.

Having said that, we have made some estimates that we may have a smaller production of about between 3% to 4% for 2020 when you compare that with our initial plan. And that's basically our current view on copper.

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

Carlos De Alba: So the question is maybe pressing a little bit on the prior point. Can you tell us specifically if the mines in Mexico are producing or not? My understanding is that the mines in Peru are producing. But given the comments in the press release and what you read earlier, it seems that you are implying or the company is implying that the mining sector in both countries was declared essential, whereas that is not our understanding. So if you could please help us clarify that and exactly whether or not the Southern Copper mines in both countries are producing. That would be very useful.

And then if I understood correctly, it seems that in the Peruvian region, there is some production going with delays or deferred stripping. Could you talk maybe as to how do you see the impact of this deferral of stripping in cost in the second quarter and then beyond as the company needs to catch up with the delayed stripping?

Raul Jacob: Thank you for your questions, Carlos. On the Mexican mines, and let me first mention on the Peruvian mines, where our mines are operating at a very high capacity level, over 90% most of the time, and close to full capacity on some days. As I mentioned, our mines are confined or shut down. You can't go -- if you go out, you will not go in until the quarantine that has been established by the authorities is finished. And that on the metallurgical facilities, we're operating with the production of concentrates where we're smelting them and moving forward with that.

In the case of the Mexican operations, well, there are certain facilities that just cannot be stopped. Let me put as an example the SX-EW operations. We have stopped at the mine site to produce the leachable materials, but the areas where you collect the material for operating the SX-EW plant, it's producing the pregnant liquid solution that you have to
either store or process, and storing has a certain limited capacity. So eventually, you have to keep producing in order to maintain a certain level of operation.

In Mexico, we have diminished at the mine site all the operations related to stripping and leachable material and are producing in a very limited fashion mineral for the concentrators.

The deferral of stripping in the second quarter and beyond; this is what we're thinking. We are postponing certain maintenance and certain jobs at the mine as well as the metallurgical facility because we're operating with much less workforce than in normal times. As a consequence, we have -- we are postponing certain repair jobs. Well, we have to undertake that eventually. And obviously, we will have to consider in a certain point in time, if we cannot perform this maintenance and other jobs, to either reduce the operational level or shut down certain equipment that may require a maintenance in the next few weeks or so.

The cost of that, we don't have it, at this point, specifically defined. But we do know that we will have to make a special effort in the second part of the year or in the second quarter, if available, to do a catch up. Our current plan is that a certain point after the emergency has passed, we will consider, for instance, the rental of equipment in order to do a catch-up in what I mentioned, the stripping or leachable material moving at the mine. At the concentrator, it's mainly maintenance that were postponed, in some cases. In some other cases, we have advanced this maintenance in the first quarter because we knew and we realized that we would be having some difficulties in the coming weeks after the initial outbreak of the COVID-19.

So at this point, I can't provide you with a specific figure on that. We do know that it will require an extra effort, and we will provide information in detail on that when we are with a more clear situation, which we believe will be by the end of the second quarter of this year.

Operator: Our next question comes from Timna Tanners with Bank of America.

Timna Tanners: I'm sorry if I missed it. I know last conference call, you provided updated thoughts on your long-term CapEx budget, and I was wondering if you could review any changes to that, near term? And I know you went through the projects, but I don't think I caught if there are any changes to the timing of completion of the projects. Can you remind us, please?

Raul Jacob: Yes, Timna. No, at this point, we haven't done any changes in our goals. As you pointed out, we may have significant adjustments, I say, a reduction in our capital budget when we reported the end of 2019 in February. At this point, we have made a further reduction in our capital expenditures. For this year, 2020, relatively small. We are basically putting in place purchase orders and signing contracts for works related to our projects. And we expect that given the time span that we have we want to maintain the
completion dates for now. For 2020, for instance, we have to reduce our budget in $38.6 million.

For 2021, it's a $132.8 million reduction. And in total, for the next 5 years, it's about $367.5 million. Basically, the cost reduction in CapEx has come from minor projects at the Toquepala operations. We have decreased over there some things that we were considering for the next 5 years. We have postponed them for a little bit longer. And also we were considering the construction of a new smelter in Peru that required certain investments in a short time and we have decided to postpone these investments for a while.

Timna Tanners: Okay. And then I was just wondering if you can provide any framework for how to think about the decision regarding the dividend. So how much does the Board take into consideration the copper price or the -- the importance of sustaining its CapEx levels? Or is it a combination of both? Or is it a given free cash flow level that they consider? Or any other color would be great.

Raul Jacob: Well, if you look at the results for the first quarter, and how the company has been approving dividends through 2019, the Board approved a dividend of $0.40 per share in each of the quarters, even though we had for a certain point in time, prices lower than what we had at the end of 2019. I mentioned already that we were a little bit north of $2.80 and that obviously are not the prices today. In today's prices, we believe that the company could be holding on the $0.40 dividend, but the Board decided to be more cautious in this occasion due to the lack of clarity that we have regarding the supply and demand balance in the next few months for copper, even though we feel very comfortable with our cash cost.

As I mentioned, it will be about $0.77 per pound. And that put us probably at the lowest cost level of the first quartile, even though we believe that this is a very comfortable situation for us. And that we don't have, other than the projects that you know that we're undertaking, other major cash out commitments for the next few years, it was decided to slow down a little bit on dividends until we have some more clarity. This quarter, the second quarter, we have paid one of the debts that we had. It was $400 million on bonds that was paid on April 16. That was paid. And our cash position, even though it is solid, so far right now, we believe that it's better to maintain a prudent view on these matters and to be sure that we're cash flow positive in this difficult times.

Operator: Our next question comes from John Brandt with HSBC.

John Brandt: First, I wanted to ask you about demand. What are your customers saying? Are they -- do they continue to take their contracted volumes? Are you seeing any deferrals of volumes? Or are you still able to sell everything you can produce? And are you having any issues logistically getting it from Peru and Mexico to clients?

And then secondly, you touched a little bit on the supply chain issues for your current operations. I'm hoping you can comment a little bit on any issues you're having on supply
chain from projects. Are you seeing sort of delays in getting equipment, any contract of works? I mean, I'm trying to understand -- I know you said there's no official change in project time lines, but what is the likelihood that because of the COVID outbreak, you potentially pushed those projects back, and there is some delay?

Raul Jacob:  Sure. Well, basically, we're selling all the material that we're producing. Obviously, the transportation has been a little bit more complicated, particularly the first weeks of April and the end of March when we had some logistics issues, not only on our ports, but also on the ports of our clients where operations were restricted or with less workforce, as happens to be the case in the port that we operate in Peru and the one that we use in Mexico, the Guaymas port.

In terms of sales, we haven't had any problems with our customers. We're shipping -- delivery is okay.

Let me mention something. When we had the financial crisis back in 2008, 2009, we sold all the copper that we produced, even though we knew, at the time, that demand dropped by 7%, demand for refined copper, dropped by 7% during those years. So it seems that the quality of the material that we provide to our customers is appreciated and that is helping us to maintain our sales -- physical sales with no significant issues.

About supply chains. Well, we had some problems at the beginning because certain important suppliers of us decided to shut down their facilities. For instance, an explosives factory in Peru that was key for us shut down its facilities and that was a problem. Also getting lime, which is a basic material for our concentrator and smelting operations was somehow difficult in Peru at certain point in time. But these problems were fixed, and we are currently being supplied on a reasonable level. Obviously, we're working with slightly less days of inventories in much of our key inputs, but well, that's the sign of the current times.

On the projects, certainly, certain activities related to projects cannot be provided at this point because they require traveling or site visits that are not allowed at this point. That's the downside of the project activity. On the upside, I should say that all the movement equipment, meaning by these, tractors, trucks, drilling, drillers, etc. well, some other companies are canceling their purchases, and that has made us to move ahead in the waiting line for this moving equipment. So in a way, it has different effects. That's why we want to wait a little bit, to pause and see, specifically what we're seeing towards a more clearer tendency in this matter.

Operator: Our next question is from Hernan Kislik with MetLife.

Hernan Kislik: I have two quick questions. The first one is, if you could provide a breakdown of variable versus fixed costs included in your cash cost?

And the second one, if you have available, any kind of committed credit facilities?
Raul Jacob: The second one, please?

Hernan Kislik: If you have any kind of committed credit facilities?

Raul Jacob: Okay. Sure. No. We don't. Last year, we -- I'm starting by your second question. Last year, we issued $1 billion at 30-year; $1 billion bond that is paying a base interest rate of 4.5%. We think that we have no problem if we required to go to the financial markets. But even at these prices or lower, we are cash flow positive. So we don't see the reason for having any specific facilities that are related to revolving, for instance, or this type of facility.

On the question on variable versus fixed cost, about 30% of our costs are fixed and the rest of it is variable. If you look at the mines, where there's probably more like a 25% fixed, while the metallurgical facilities are a little bit more than 30%. So we have some extra room if we were to reduce our production.

But please keep in mind that -- and this is an important point for all of our listeners. Keep in mind that all of our facilities are very competitive, cost-wise. We don't have a high cost facility at Southern Copper. The cash cost reflects that condition, and it's relatively similar, if you look at the four major operations that we have.

Operator: Our next question is from Andreas Bokkenheuser with UBS.

Andreas Bokkenheuser: Just a quick question from me. How do you think about the current oil price, not so much the outlook, but is there anything we're missing other than presumably, it would benefit your fuel cost in terms of lower fuel costs going into the second quarter, maybe, partly offsetting the lower copper price we're seeing at the moment. But is there any other place in your operation where we should think about what the current low oil price, how it's affecting your -- either your results or your overall operations? That is the question.

Raul Jacob: Sure. Well, oil represented a while ago, last year, for instance, about 14% of our operating costs. The last quarter it was 12.7% of our operating costs. So obviously -- and at the end of the first quarter we didn't have the significant price reduction that oil has had in the last few -- the same week or 1.5 week ago. Mainly, we use diesel for moving our truck force. We use some diesel for our smelting operations and that's basically it.

So it's an important material. It will reduce its impact on total cost, that's for sure. And we believe that, that's somehow an offset any time that we have a reduction in copper price, it's usually joined by a reduction in oil prices, as well as FX impact. In the case of FX, I reported on our review in cost that we are, in the first quarter, we had a reduction of about $35 million in our operating cost due to foreign exchange adjustment. That has been much more important in Mexico where the Mexican peso devaluation or depreciation has been slightly lower than 25% than in Peru. In Peru, the depreciation of the Peruvian sol has been about 4%. So you see there that it's different in terms of the impact from the two countries.
By the way, I'd like to mention now that our net earns were impacted by a higher effective tax rate in the first quarter of 2020, this year, due to the impact on our local financial tax payments, Mexico and Peru, related to exchange gain variances that according to Mexican and Peruvian tax laws, generate certain tax profits, and that has been reflected in our first quarter effective tax rate that is unusually much higher than the average, 38% that we have on a normal year basis. It's a little bit almost 12 points over that -- 12 percentage points over that.

That's how we're seeing a much higher tax rate in the first quarter than what we expect in the normal course of operations.

Operator: Andreas does that answer your question?

Andreas Bokkenheuser: It does, actually. Actually, maybe one quick follow-up. Just to clarify, so we can assume that you're not hedging your oil exposure or your fuel exposure in any material way. Is that fair to assume?

Raul Jacob: We don't have any hedging right now, and we are looking into the matter. But no, we haven't made any decision on that.

Operator: And our next question is from Thiago Lofiego with Bradesco BBI.

Thiago Lofiego: Okay. So just two quick questions here. One is on the average capacity utilization you're running right now. You mentioned you're running at around 90% in Peru, if I'm not mistaken. Did you provide that number for Mexico as well?

And the second question is, are there any specific rules for different operations or regions within Mexico and Peru in regards to the shutdown or reduction in operations, reduction in utilization rates for the mining operation? And if you see risks of further reductions on production in any regions or mines within those two countries? And also, when do you expect to be back to 100% utilization in both countries?

Raul Jacob: Okay. Let me start by the last part of your question. Well, once we are able to operate with all the usual activities that we have at the mining as well as the metallurgical operations, we'll have -- certainly, have to look into how we're going to do the catch-up in certain maintenance expenditures or certain activities that have been postponed due to the operational as well as the maintenance activity that has been postponed due to the emergency. That will take a while. We believe that we will be able to pass through this situation during the second quarter of this year. If possible, we will certainly try to do it the quickest as possible. So we are operating at full capacity.

Now in Peru. As I said, we're operating over 90% of capacity in terms of production. In Mexico, we are not at that high level. We're operating the SX-EW facilities that are important at the Mexican operations, using what we have available in terms of PLS. At the mining operations, we're doing also as much as we can on the mineral production
side, but obviously, you have to have certain limits because of the way that we are operating, using -- what we're doing is we're focusing what we call critical activities. We're covering those. These are very important. For instance, these activities are curtailing that certain -- the waste or the tailings are under control. We're using water for some of the facilities. So we don't have any environmental issues in our facilities. So these are critical things that we're doing and we're doing that in order to maintain our operations down and waiting for the proper time to increase at full capacity, our Mexican as well Peruvian facilities.

Thiago Lofiego: So you would assume that you're going to be back to 100%, most likely in the third quarter, is that fair to assume?

Raul Jacob: That's fair. That's a fair assumption.

Thiago Lofiego: And regarding at least a ballpark number of where your -- where is your capacity utilization in Mexico right now, is it 60%, 50%, 70%?

Raul Jacob: Well, on the SX-EW facilities, we're operating using all the capacity that we have. For the mining operations, it's slightly lower than what we have. We're concentrating on producing mineral. So with that, we're maintaining our production levels as expected in the original plan. Less 5% to 6% in there.

Operator: Our next question comes from Sam Epee-Bounya with Wellington Management.

Sam Epee-Bounya: Just to -- it wasn't clear on the gentlemen's pre-discussion what the capacity utilization was in Mexico compared to Peru, if you can clarify this.

And then my second question is on liquidity. It seems like subsequently, to the end of the third quarter, you paid the $400 million bonds. So I'm curious what your cash position is pro forma the payment of that debt? And if you're comfortable with your liquidity position after paying this debt?

Raul Jacob: Yes. We already paid. You see in our cash position at the end of March was a little bit close to $2.1 billion in cash. Well, we paid $400 million of debt in April. So just a simple arithmetic, we have not affected our cash position significantly after -- I mean, other than this statement.

Sam Epee-Bounya: Okay. So it's just fair to assume that you had, after doing this payment, it's like you're running at $1.7 billion in cash. Is that kind of the way you have to assume ...

Raul Jacob: About -- yes, about that level. About that level.
Sam Epee-Bounya: And then on the liquidity, I mean, going forward, you're okay with this?

Raul Jacob: I'm sorry, I couldn't get what you said.

Sam Epee-Bounya: No, just, no. The liquidity and then the capacity utilization in Mexico. Just to recap.

Raul Jacob: Yes. Okay. Yes. It's important to mention that the first quarter of the year, usually we have to pay much -- we have much more cash out expenses than say, on the second quarter and the rest of the year. And the reason for that is that we usually pay -- we do a final payment of income taxes that has been the case in the first quarter for the Peruvian operations.

For Mexico, it's on the second quarter that if there is any catch-up at the end of the year that you have to pay on taxes, it's coming for Peru in the first quarter, for Mexico, in the second quarter. So this first quarter, we had to pay that. Also, a $0.40 dividend was declared for the fourth quarter of 2019, that was paid on the first quarter as well. And some other taxes as the special mining tax that are paid in Peru. So all of these, plus the workers' participation affected the cash position of the company in the first quarter. And it's usually the case. So it's more like a seasonal situation.

So ending the first quarter with a little bit north of $2 billion shows the capacity of cash generation that the company has, even though we pay certain amounts for taxes and the workers' profit sharing.

Now that means much more cash positive. Well, subtracting the impact of lower prices, obviously, on second quarters and -- in the second quarter and the second half of the year. So at this point, we're very comfortable with our cash position. We don't see a reason for moving or going to the financial market. This is something that we are obviously evaluating on an ongoing basis, and that's how we see it right now.

Sam Epee-Bounya: And on the Mexico capacity utilization, sorry, I didn't catch that.

Raul Jacob: Well, we're operating at the SX-EW plants with a much higher capacity than the traditional mining operations because of the complexities of these two different technologies. So that's where we are.

Operator: Our next question comes from Alex Hacking with Citi. .

Alex Hacking: Yes, I hope you're doing well. Just a couple of follow-ups. Firstly, on net debt. The company has been holding net debt around $5 billion for the last few years. Are you still overall, comfortable with that level?

And then the second question, just on the supply chain, just to follow-up a little bit. I guess when do you start to reach critical levels of key supplies in Peru, if the restrictions
aren't lifted? I mean, are you at a point where you're down to a few days or weeks here? Or you could continue for longer?

Raul Jacob: On net debt, well, we believe that we're okay where we are now. This is, as I say, something that we evaluate at an ongoing basis. And we see no reason after, as I'd said, we issued $1 billion in debt over last year for financing the projects that we have in Mexico. I think that that's fine for now.

Now on the supply chains and supply issues. Well, we -- I think we are doing better now than, say, two weeks ago in Peru. Two weeks ago, certain suppliers of us, I mentioned lime and explosives as an example, had their plants shut down at that time. So it was very difficult for us to get these materials, and we were basically running out of inventories of them. We -- after certain talks with the government and the companies, they both agreed that they were necessary for our supply chains and opened up their operations.

And we're being reasonably well supplied now of those materials as well as others. And what we're seeing here in Peru is that the Peruvian government is now moving to a second stage in this emergency, and the second stage means also that certain economic activities, and we believe that mining will be among them. Will be considered for smart open up. So we will -- are expecting some regulations for us to improve our operational level at this point but we have to wait for that. The government has announced that as of next week, we should have some regulations on that. So we're expecting them and we believe that, that will even allow us to operate at a much higher level of activity.

Operator: Our next question is from John Tumazos with John Tumazos Very Independent Research.

John Tumazos: In the first quarter, the mine output averaged 80,000 to 81,000 tons a month. In the current month of April, which is almost over, do you think the mine output will be closer to 50,000 tons or 60,000 tons or 70,000 tons?

Raul Jacob: Well, it depends on how are we doing in terms of our different plants. At this point, we expect it to be slightly higher than 70,000 tons, a significant contribution from the Peruvian operations.

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

Carlos De Alba: So I know there is -- these are uncertain times, but maybe could you comment on -- as to how you see production -- copper production and the CapEx in the next few years, if that has changed based on what we are going through regarding the virus?

Raul Jacob: You mean for us?

Carlos De Alba: Yes, for you. Yes, for Southern Copper.
Raul Jacob: Okay. So basically, we're maintaining our view on the production, where we are -- the fact that the Peruvian operations are allowed to operate and we're almost at full capacity is encouraging because we're meeting production at the Mexican facilities at certain point. And we believe that we will be able to overcome this matter, as possible, through the quarter.

In terms of our production, it's basically what we have been saying, I'll refresh the forecast. For this year, in our plan, as mentioned at the beginning of the year, was 995,600 tons. For 2021, 986,300 tons. For 2022, 950,000; 2023, 1,066,000; 2024, 1,100,000 tons of copper.

We think that what is happening is affecting both supply and demand for copper. And the net effect on prices is not as hard as you may imagine at the very beginning. At the very beginning, we have reports from the companies that do market intelligence that demand was falling down by about 700,000 tons per year in a market that has 23.5 million tons of copper produced and consumed of refined copper. But what we're seeing now is that it's not only demand, and supply is also decreasing.

Let me mention this as an example. We have right now three major mines in Peru that are -- two of them are shut down. Their capacity is about 400,000 tons per year of copper in each of the cases. So that's 800,000 tons of world capacity of supply, copper production that is off. And another one, that has a capacity of about 450,000 tons, operating at 50% of capacity. So you have just in three significant players, about 1 million tons of annual capacity put aside. And that is somehow leveling the demand drop that we're seeing, which is significant as well.

As I mentioned before, our client base has not been affected so far. We are hoping that this is going to be the case. We're seeing as a very encouraging sign, the fact that China is moving forward with different smelting facilities as well as economic activities inside China. And we are expecting the other areas where we sell our copper, which is Europe and the U.S. to be also moving forward with the open up of their economic activities as a more significant move. That's our expectation. We believe that this should be an event that takes effect this year, but not necessarily in the next months.

Carlos De Alba: Right. So can you clarify, you don't expect the current deferral of stripping in Peru and perhaps in Mexico to affect this year's production, at least not materially. So we just like to catch up during the year and remain relatively flat versus prior production guidance, right?

Raul Jacob: We expect to do a catch-up plan. We're considering doing a catch-up plan. That will mean, for instance, renting certain equipment for a few months and doing the additional stripping that we require. So at this point, we are not expecting to have an impact due to stripping in our operations.

Let me say something else, Carlos, and to all of our audience. We will provide -- we think that we're currently in a very unstable environment. We need to have some more
clarity, and we believe that in the next few weeks, we will have that, and we'll report on a more complete base on our July call, looking at our second quarter's results.

Operator: Raul, I'm showing any further questions from the queue. I'll pass it back to you for any final remarks or thoughts.

Raul Jacob: Thank you very much, Carmen. Well with this, we conclude our conference call for Southern Copper First Quarter of 2020.

We certainly appreciate your participation and hope to have you back with us when we report the second quarter. Thank you very much, and have a nice day.

Operator: With that, ladies and gentlemen, we thank you for participating in today's program, and you may now disconnect. Have a wonderful day.