



# MANAGEMENT DISCUSSION AND ANALYSIS: INDIVIDUAL RESULTS

MINSUR S.A.  
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## I. HIGHLIGHTS AND EXECUTIVE SUMMARY

Table N° 1: Operating & Financial Highlights

Highlights	Unit	1Q19	1Q18	Var (%)
<b>Production</b>				
Tin (Sn)	t	3,888	3,483	12%
Gold (Au)	oz	24,270	24,159	0%
<b>Financial Results</b>				
Net Revenue	US\$ M	135.4	124.1	9%
EBITDA	US\$ M	69.2	63.5	9%
EBITDA Margin	%	51%	51%	-
Net Income	US\$ M	46.0	26.9	71%
Adjusted Net Income <sup>1</sup>	US\$ M	36.9	26.6	39%

### Executive Summary:

#### a. Operating Results

During 1Q19, the company registered a higher tin and slightly higher gold production vs. 1Q18 (+12% and +0.4%, respectively). In both cases, the result was in line with the established mining plan. The higher tin production is explained by a different scheduling in the annual programmed maintenance stoppage; it was carried out between March and April in 2019, while in 1Q18 it started in February.

#### b. Financial Results

During 1Q19, the company's financial results were higher than in 1Q18. Sales, EBITDA and Net Income increased by 9%, 9% and 71%, respectively. Sales and EBITDA increased due to the higher sold volumes of tin. Furthermore, Net Income was positively affected by the tax returns and higher results of subsidiaries and associates.

## II. MAIN CONSIDERATIONS:

#### a. Average metal prices

- **Tin:** Average Tin (Sn) Price in 1Q19 was US\$ 21,027 per ton, a decrease of 1% compared to the same period of the previous year.
- **Gold:** Average Gold (Au) Price in 1Q19 was US\$ 1,304 per ounce, 2% below that of the same period of the previous year.

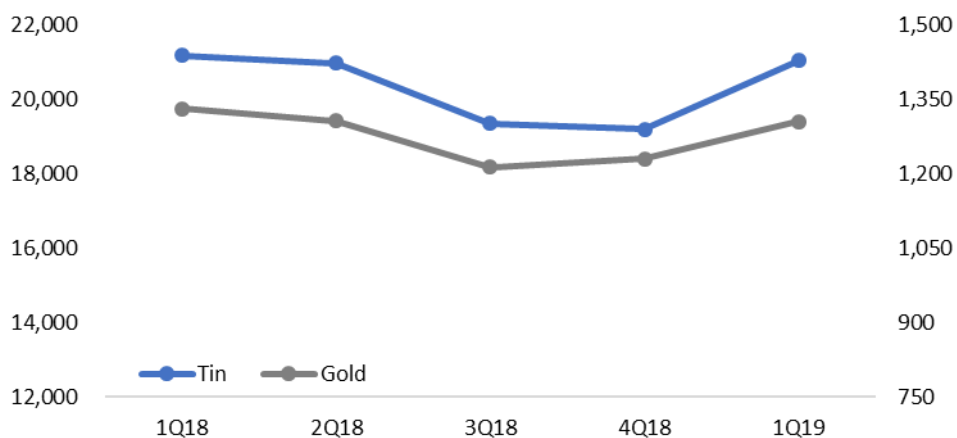
<sup>1</sup> Adjusted net income = Net income excluding Loss from Subsidiaries and Associates and exchange rate difference

**Table N° 2: Average metal prices**

Average Metal Prices	Unit	1Q19	1Q18	Var (%)
Tin	US\$/t	21,027	21,169	-1%
Gold	US\$/oz	1,304	1,330	-2%

Source: Bloomberg

**Figure N° 1: Average metal price quarterly evolution**



**b. Exchange Rate:**

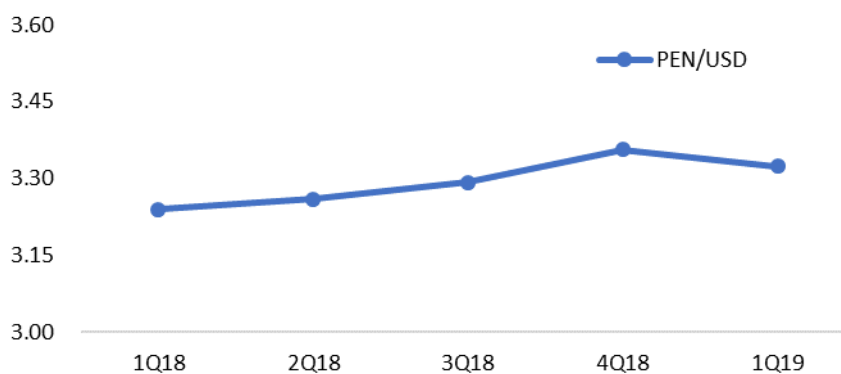
The Peruvian Sol average exchange rate for 1Q19 was S/ 3.32 per US\$ 1, 3% higher compared to S/ 3.24 per US\$ 1 in 1Q18. At the end of 2018, exchange rate was S/ 3.38 per US\$ 1, while at the end of 1Q19 it decreased to S/ 3.32 per US\$ 1.

**Table N°3: Exchange Rate**

Average Exchange Rate	Unit	1Q19	1Q18	Var (%)
PEN/USD	S/.	3.32	3.24	3%

Source: Banco Central de Reserva del Perú

**Figure N° 2: Exchange rate quarterly evolution**



### III. OPERATING MINING RESULTS:

#### a. San Rafael – Pisco (Perú):

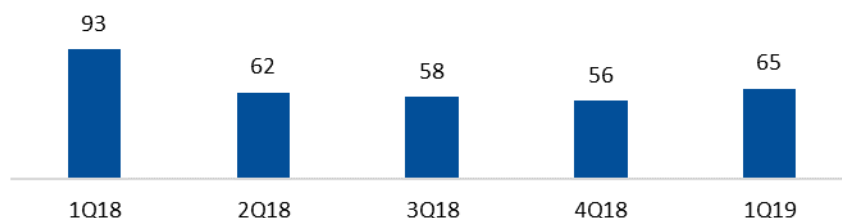
**Table N° 4: San Rafael - Pisco Operating Results**

San Rafael - Pisco	Unit	1Q19	1Q18	Var (%)
Ore Treated	t	464,633	285,579	63%
Head Grade	%	1.90	1.63	17%
Tin production (Sn) - San Rafael	t	5,045	4,062	24%
Tin production (Sn) - Pisco	t	3,888	3,483	12%
Cash Cost per Treated Ton <sup>1</sup> - San Rafael	US\$/t	65	93	-30%
Cash Cost per Ton of Tin <sup>3</sup>	US\$/t Sn	8,614	9,268	-7%

In 1Q19, tin production in San Rafael reached 5,045 tons, a 24% increase compared to the same period of the previous year, mainly explained by the pre-concentration ore sorting plant not operating during 1Q18 due to maintenance. On the other hand, refined tin production at Pisco reached 3,888 tons, 12% higher than in 1Q18, mainly due to more operating days during the first quarter. In 1Q18, the annual programmed maintenance stoppage was in February, while in 1Q19 it started during the second half of March and finished on the first half of April, due to an extension in the Ausmelt's furnace campaign.

Cash cost per treated ton at San Rafael in 1Q19 was \$ 65, -30% below 1Q18, mainly explained by more ore treated (+63%) at the pre-concentration ore sorting plant.

**Figure N°3: Cash Cost per treated ton evolution - San Rafael**



Cash cost per ton of tin<sup>3</sup> in 1Q19 was US\$ 8,614, 7% below 1Q18, mainly explained by higher volume of refined tin production in Pisco (+12%).

#### Pucamarca (Perú):

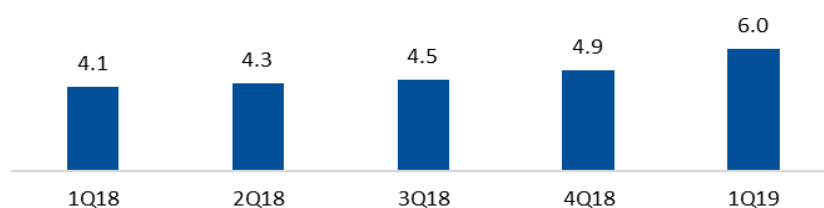
<sup>2</sup> Cash Cost per treated ton = San Rafael production costs / (Tons of Ore treated at Concentration + Tons of Ore treated at Pre-Concentration)

<sup>3</sup> Cash Cost per ton of tin = (San Rafael and Pisco production costs + selling expenses + change in tin concentrates inventory, excluding employee profit sharing, depreciation and amortization) / (Tin Production, in tons)

**Table N°5. Pucamarca Operating Results**

Pucamarca	Unit	1Q19	1Q18	Var (%)
Ore Treated	t	1,906,121	1,916,488	-1%
Head Grade	g/t	0.61	0.49	24%
Gold production (Au)	oz	24,270	24,159	0%
Cash Cost per Treated Ton	US\$/t	6.0	4.1	48%
Cash Cost per Ounce of Gold <sup>4</sup>	US\$/oz Au	470	322	46%

In 1Q19, gold production reached 24,270 ounces, in line with the production of the same period of the previous year. The gold head grade placed on the Leaching Pad was higher than in 1Q18 (+24%) and the benefit will be reflected in the production of the following periods. Cash cost per treated ton at Pucamarca was US\$ 6.0 in 1Q19, 48% higher than 1Q18, mainly due to the fact to this year we are partially processing the ore from Morrenas, which requires a greater consumption of additives. It's important to mention that production and costs remain in line with the established mining plan.

**Figure N°4: Cash Cost per treated ton evolution – Pucamarca**

Cash cost per ounce of gold<sup>4</sup> in 1Q19 was US\$ 470, an increase of 46% compared to 1Q18, mainly explained by higher production cost.

## IV. CAPEX:

**Table N°6. Executed CAPEX**

Capex	Unit	1Q19	1Q18	Var (%)
San Rafael	US\$ M	1.2	4.4	-72%
B2	US\$ M	22.1	8.1	172%
Pisco	US\$ M	0.2	0.0	-
Pucamarca	US\$ M	1.3	3.8	-65%
Others	US\$ M	0.3	0.1	544%
<b>Total Capex</b>	<b>US\$ M</b>	<b>25.2</b>	<b>16.3</b>	<b>54%</b>

<sup>4</sup> Cash Cost per ounce of gold = (Pucamarca production cost + selling expenses, excluding employee profit sharing, depreciation and amortization) / (Gold production in ounces)

In 1Q19, Capex was US\$ 25.2 M, an increase of 54% compared to the same period of the previous year. The major investment in the quarter was the B2 project (which required an investment of US\$ 22.1 M during the quarter). The major investment in our operating units was in sustaining Capex.

## V. FINANCIAL RESULTS:

Table N°7. Financial Statements

Financial Statements	Unit	1Q19	1Q18	Var (%)
Net Revenue	US\$ M	135.4	124.1	9%
Cost of Sales	US\$ M	-66.2	-59.0	12%
<b>Gross Profit</b>	<b>US\$ M</b>	<b>69.2</b>	<b>65.2</b>	<b>6%</b>
Selling Expenses	US\$ M	-1.2	-1.0	21%
Administrative Expenses	US\$ M	-9.6	-8.5	13%
Exploration & Project Expenses	US\$ M	-4.6	-6.4	-29%
Other Operating Expenses, net	US\$ M	0.2	-0.6	-
Impairment of assets	US\$ M	0.0	0.0	0%
<b>Operating Income</b>	<b>US\$ M</b>	<b>54.1</b>	<b>48.7</b>	<b>11%</b>
Financial Income (Expenses) and Others, net	US\$ M	1.3	-5.8	-
Results from Subsidiaries and Associates	US\$ M	5.9	0.8	609%
Exchange Difference, net	US\$ M	3.2	-0.5	-
<b>Profit before Income Tax</b>	<b>US\$ M</b>	<b>64.4</b>	<b>43.2</b>	<b>49%</b>
Income Tax Expense	US\$ M	-18.4	-16.3	13%
<b>Net Income</b>	<b>US\$ M</b>	<b>46.0</b>	<b>26.9</b>	<b>71%</b>
Net Income Margin	%	34%	22%	57%
<b>EBITDA</b>	<b>US\$ M</b>	<b>69.2</b>	<b>63.5</b>	<b>9%</b>
EBITDA Margin	%	51%	51%	-
<b>Adjusted Net Income<sup>5</sup></b>	<b>US\$ M</b>	<b>36.9</b>	<b>26.6</b>	<b>39%</b>

### a. Net Revenue:

In 1Q19, net sales reached US\$ 135.4 M, an increase of 9% (+US\$ 11.2 M) compared to 1Q18. This increase is mainly explained by the higher sold volumes of tin (+13%), partially offset by lower tin and gold prices (-1% and -2%, respectively).

Table N°8. Net revenue Volume by product

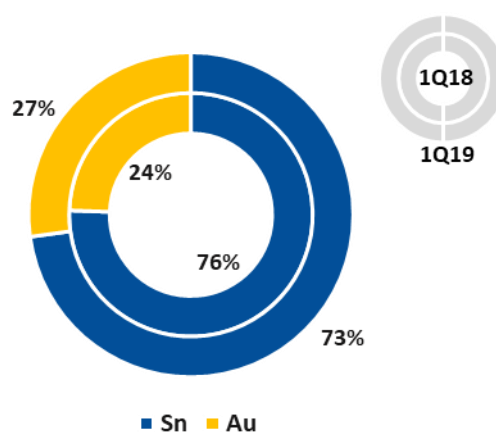
Net Revenue Volume	Unit	1Q19	1Q18	Var (%)
Tin	t	4,631	4,168	11%
Gold	oz	24,973	24,875	0%

<sup>5</sup> Adjusted net income = Net income excluding Loss from Subsidiaries and Associates and exchange rate difference

**Table N°9. Net revenue in US\$ by product**

Net Revenue by Metal	Unit	1Q19	1Q18	Var (%)
Tin	US\$ M	102.3	90.4	13%
Gold	US\$ M	33.1	33.7	-2%
<b>TOTAL</b>	<b>US\$ M</b>	<b>135.4</b>	<b>124.1</b>	<b>9%</b>

**Figure N°5: Net revenue breakdown in US\$ by metal**



**b. Cost of Sales:**

**Table N°10. Cost of sales detail**

Cost of Sales	Unit	1Q19	1Q18	Var (%)
Production Cost	US\$ M	49.6	41.8	19%
Depreciation	US\$ M	14.1	11.4	23%
Workers profit share	US\$ M	4.0	3.2	27%
Stocks Variation and Others	US\$ M	-1.5	2.6	-
<b>TOTAL</b>	<b>US\$ M</b>	<b>66.2</b>	<b>58.9</b>	<b>12%</b>

Cost of sales in 1Q19 reached US\$ 66.2 M, an increase of 12% compared to the same period of last year. This effect is due to: (i) higher production cost in San Rafael mainly because the pre-concentration ore sorting plant did not operate during 1Q18, (ii) depreciation of the expansion of Pucamarca's leaching Pad and (iii) the higher workers profit share.

**c. Gross Profit:**

Gross profit during 1Q19 reached US\$ 69.2 M, a US\$4.0 M increase compared to the same period of the previous year mainly because of the higher sales (+US\$ 11.2 M). Gross margin of the quarter was 51% vs 53% during 1Q18.

**d. Selling expenses:**

Selling expenses in 1Q19 were US\$ -1.2 M, US\$ 0.2M higher than the previous year, mainly explained by higher sold volumes of tin.

**e. Administrative expenses:**

Administrative expenses in 1Q19 were US\$ 9.6 M, 13% higher than the same period of last year. This increase is mainly due to higher payroll cost (+ US\$ 0.3 M) and consulting services (+US\$ 0.3 M)

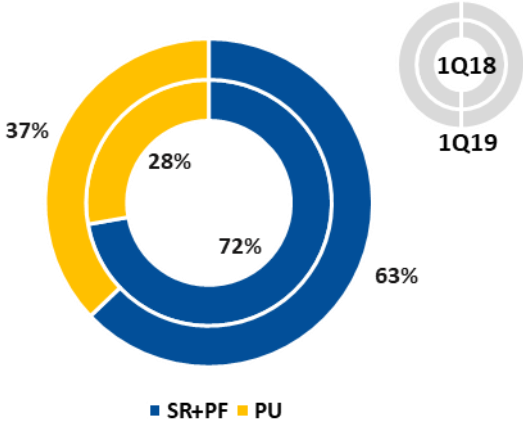
**f. Exploration and Project Expenses:**

In 1Q19, exploration & project expenses totaled US\$ 4.6 M, US\$ 1.9 lower than 1Q18, mainly explained by a delay in the beginning of the exploration program.

**g. EBITDA:**

EBITDA in 1Q19 amounted to US\$ 46.0 M, an increase of US\$ 5.7 M compared to 1Q18 due to higher tin volumes sold, offset by lower prices of gold and tin. EBITDA margin in the period reached 51%, in line with the same period of last year.

**Figure N°6: EBITDA share in US\$ by Operating Unit**



**h. Net financial expenses**

The net financial expenses in 1Q19 were + US\$ 1.3 M compared to - US\$ 5.8 M registered in the previous year. This difference is explained by tax returns of the 2004/2005 period received in 1Q19.

**i. Income tax expense:**

In 1Q19, Minsur accrued US\$ 18.4 M, US\$ 2.1 M above 1Q18, mainly as a result of the higher operating income during the quarter.

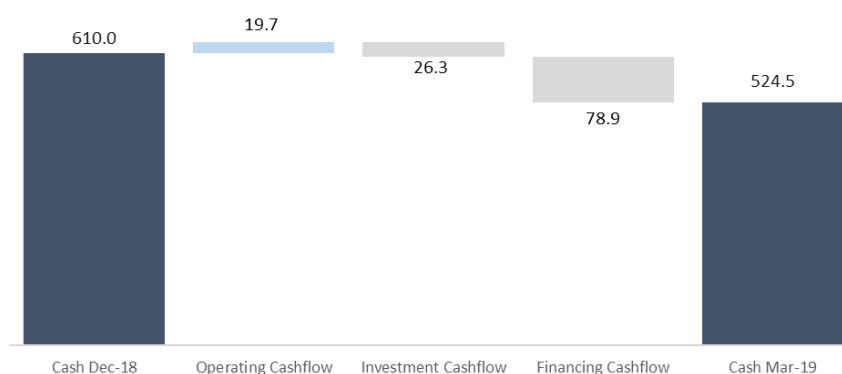


**j. Net income and Adjusted net income:**

In 1Q19, the company registered a net income of US\$ 46.0 M, an increase of US\$ 19.1 M vs. 1Q18. This increase is explained by a higher EBITDA, higher net financial expenses and higher results of subsidiaries. Excluding (i) the results of subsidiaries and associates and (ii) the FX effect, adjusted net income reached US\$ 36.9 M in 1Q19, US\$ 10.3 M above that of 1Q18.

**VI. LIQUIDITY:**

As of March 31, 2019, the company's cash balance reached US\$ 524.5 M, 14% lower than the closing balance of 2018 (US\$ 610.0 M). This decrease is explained by an operating cash flow of US\$ 19.7 M, offset by a financing cash flow of US\$ 78.9 M and investment cash flow of US\$ 26.3M. The financing cash flow considers the dividends payment for US\$ 66.0 M and capital contributions to our subsidiaries for US\$ 12.9 M: US\$ 10.9 to Barbastro and Sillustani, and US\$ 2.0 M to Marcobre.



As of March 31, 2019, the company's financial liabilities reached US\$ 442.4 M, slightly above the level shown in 2018 (US\$ 442.1 M). The financial debt is explained by the corporate bond, with expiration date of 2024. The net leverage ratio reached -0.3x as of March 31, 2019.

**Table N°12. Debt Summary**

Financial Ratios	Unit	Mar-19	Dec-18	Var (%)
Total Debt	US\$ M	442.4	442.1	0%
Long Term - Minsur 2024 Bond	US\$ M	442.4	442.1	0%
Cash	US\$ M	524.5	610.0	-14%
Cash and Equivalents	US\$ M	47.7	200.1	-76%
Fixed term deposits	US\$ M	314.0	309.7	1%
Certificates without public quotation	US\$ M	40.8	40.6	1%
Comercial papers	US\$ M	122.0	59.6	105%
Net Debt	US\$ M	-82.1	-167.9	51%
Total Debt / EBITDA	x	1.7x	1.8x	-2%
Net Debt / EBITDA	x	-0.3x	-0.7x	52%