



MANAGEMENT DISCUSSION AND ANALYSIS: INDIVIDUAL RESULTS

MINSUR S.A.
FOURTH QUARTER 2018

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EXECUTIVE SUMMARY 2018

2018 was a challenging year for Minsur; however, the company managed to achieve several key milestones such as:

- Security: Zero fatal accidents
- Operations: Tin and gold production within guidance
- Projects: Execution of B2 project within guidance and zero fatal accidents
- Explorations: Significant increase of mineral resources in San Rafael with 1.9 Mt of ore and ~47 kt of tin contained
- Costs: Pucamarca remained as one of the lowest cost gold mine operations in the world
- Ore Sorting: Restart the pre-concentration ore sorting plant operations and extension of the life of the project
- Sustainability: Minsur was admitted to the International Council of Mining and Metals (ICMM)

In 2018, Minsur's management had a strong focus on improving productivity and reducing costs and expenses in each of its operating units. As a result, Minsur obtained excellent financial results in line with our mining plans. Furthermore, the prices registered in 2018 improved our bottom line even further and helped us achieve a solid financial position.

Additionally, in 2018, the company executed non-recurrent transactions such as the sale of 40% of Cumbres Andinas to Inversiones Alxar (COPEC), incorporating our strategic partner for the execution of the Mina Justa's Project. Moreover, our results were positively affected by the return of overpaid taxes in 2002.

In terms of revenues, net sales reached US\$ 491.4 M in 2018, slightly above those reported in 2017 (US\$ 489.1 M). As per the EBITDA, the company closed the year with an accumulated result of US\$ 242.5 M, a decline of -6% vs last year. Finally, net income reached US\$ 144.1 M, an increase of 82% vs. last year. This increase is explained by the effects of the return of overpaid taxes in 2002 and tax benefit for the Cumbres Andinas's sale. On the other hand, the EBITDA and the net income reached in 2017 were benefited by the sale of Rimac shares.

I. HIGHLIGHTS AND EXECUTIVE SUMMARY

Table N° 1: Operating & Financial Highlights

Highlights	Unit	4Q18	4Q17	Var (%)	2018	2017	Var (%)
Production							
Tin (Sn)	t	4,886	4,735	3%	18,339	18,033	2%
Gold (Au)	oz	29,251	24,583	19%	103,299	100,010	3%
Financial Results							
Net Revenue	US\$ M	128.9	116.3	11%	491.4	489.1	0%
EBITDA	US\$ M	55.4	51.3	8%	242.5	259.1	-6%
EBITDA Margin	%	43%	44%	-2%	49%	53%	-7%
Net Income	US\$ M	6.8	-5.1	-	144.1	79.1	82%
Adjusted Net Income ¹	US\$ M	17.2	15.2	13%	71.1	97.3	-27%

Executive Summary:

a. Operating Results

In 4Q18, the company registered a higher gold (+19%) and tin (+3%) production vs. 4Q17. In both cases, the result was within the production guidance and in line with the mining plan established for each operating unit. During the year 2018, our tin production reached 18,339 tons (+2%) above the same period last year, while our gold production was 103,299 ounces, (+3%) above last year.

During 2018, higher tin production is explained by an optimization of the volume of ore produced in San Rafael, obtaining higher recovery rates while producing a lower grade concentrate, without affecting our smelting plant recoveries at Pisco. On the other hand, higher gold production was explained by a higher volume of mineral fed to the Pad.

b. Financial Results

The 4Q18 was positively affected by the return of overpaid taxes in 2002 (+\$10.1 M) and the net income reached US\$ 6.8 M. Sales and EBITDA increased by 11% and 8%, respectively. Sales increased due to the higher volumes of tin (+12%) and gold (+15%) sold. The higher EBITDA (+\$4.2M) of the quarter is mainly explained by higher sales.

During 2018, the net income reached US\$ 144.1 M, 82% above that of 2017, mainly explained by the return of overpaid taxes in 2002. Sales were \$491.4M, \$2.4M above 2017, mainly explained by a higher volume of gold sold (+9%). EBITDA was \$242.5M, \$16.6M below last year, also mainly due to the non-recurring income for the sale of Rimac's share (+\$21.3M) in 2017.

¹ Adjusted net income = Net income excluding Loss from Subsidiaries and Associates, exchange rate difference and extraordinary effects: (i) the return of overpaid taxes, (ii) the sale of Rimac shares in 2017, and (iii) tax benefit by the sale of 40% of Marcobre

II. MAIN CONSIDERATIONS:

a. Average metal prices

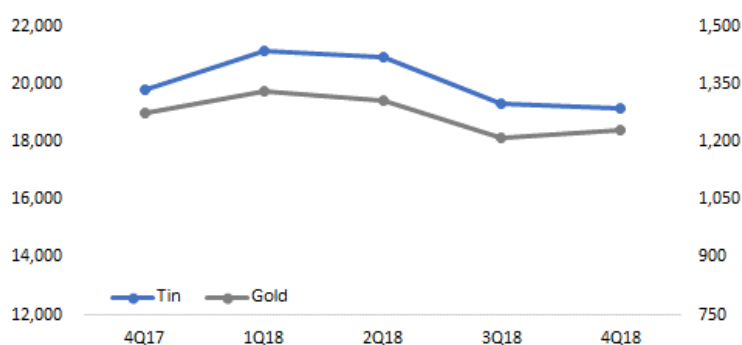
- **Tin:** Average Tin (Sn) Price in 4Q18 was US\$ 19,174 per ton, a decrease of 3% compared to the same period of the previous year. During 2018, average tin price was US\$ 20,156 per ton, in line with 2017.
- **Gold:** Average Gold (Au) Price in 4Q18 was US\$ 1,229 per ounce, 4% below the same period of the previous year. During 2018, average gold price was US\$ 1,269 per ounce, 1% above last year.

Table N° 2: Average metal prices

Average Metal Prices	Unit	4Q18	4Q17	Var (%)	2018	2017	Var (%)
Tin	US\$/t	19,174	19,833	-3%	20,156	20,103	0%
Gold	US\$/oz	1,229	1,277	-4%	1,269	1,258	1%

Source: Bloomberg

Figure N° 1: Average metal price quarterly evolution



Source: Bloomberg

b. Exchange Rate:

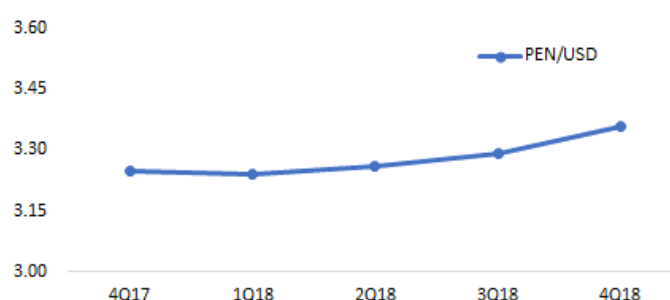
The Peruvian Sol average exchange rate for 4Q18 was S/ 3.36 per US\$ 1, slightly higher compared to S/ 3.25 per US\$ 1 in 4Q17. At the end of 2017, the exchange rate was S/ 3.24 per US\$ 1, while at the end of 2018 it registered S/ 3.38 per US\$ 1.

Table N°3: Exchange Rate

Average Exchange Rate	Unit	4Q18	4Q17	Var (%)	2018	2017	Var (%)
PEN/USD	S/.	3.36	3.25	3%	3.29	3.26	1%

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	4Q18	4Q17	Var (%)	2018	2017	Var (%)
Ore Treated	t	539,299	281,980	91%	1,134,926	1,101,853	3%
Head Grade	%	1.79	1.63	10%	1.75	1.75	0%
Tin production (Sn) - San Rafael	t	4,843	4,136	17%	18,601	17,791	5%
Tin production (Sn) - Pisco	t	4,886	4,735	3%	18,339	18,033	2%
Cash Cost per Treated Ton ¹ - San Rafael	US\$/t	56	97	-43%	64	70	-9%
Cash Cost per Ton of Tin ²	US\$/t Sn	8,312	8,712	-5%	8,662	8,827	-2%

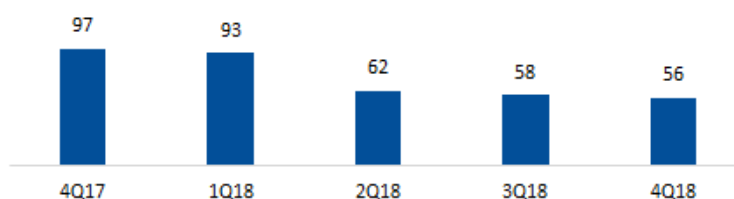
In 4Q18, tin production reached 4,886 tons, a 3% increase compared to the same period of the previous year. Mine production was 17% higher than the last year, mainly because the pre-concentration ore sorting plant did not operate during 4Q17 due to maintenance. Cash cost per treated ton at San Rafael in 4Q18 was \$ 56, -43% below 4Q17 (historical low), mainly explained by more ore treated (+91%) at the pre-concentration ore sorting plant, partially offset by an increase in production cost of +10%.

During 2018, production of refined tin was 2% higher than that of the previous year, mainly due to an optimization of the volume of concentrate. As a result of the reduction of concentrate grade, we managed to increase the recovery of the San Rafael mine, without affecting the recovery of Pisco Smelter. Cash cost per treated ton during 2018 was \$64/t, 9% below 2017, mainly explained by higher volume of mineral fed. These results remained in line with our production and cost annual guidance.

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

³ 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)

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



Cash cost per ton of tin³ in 4Q18 was US\$ 8,312, 5% below 4Q17, mainly explained by higher volume of refined tin production in Pisco (+3%).

Finally, it is important to highlight the drilling campaign in 4Q18, which allowed us to identify 0.8Mt of ore containing 26.5 kt of tin including the mineral at San Germán. In 2018, we added 1.9 Mt of ore and 47.1 kt of tin contained.

Pucamarca (Perú):

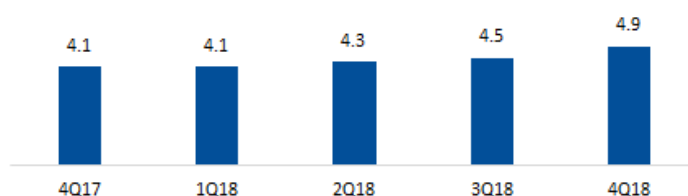
Table N°5. Pucamarca Operating Results

Pucamarca	Unit	4Q18	4Q17	Var (%)	2018	2017	Var (%)
Ore Treated	t	2,214,407	2,026,040	9%	8,168,163	7,801,777	5%
Head Grade	g/t	0.61	0.51	20%	0.57	0.50	15%
Gold production (Au)	oz	29,251	24,583	19%	103,299	100,010	3%
Cash Cost per Treated Ton	US\$/t	4.9	4.1	21%	4.4	4.3	3%
Cash Cost per Ounce of Gold ⁴	US\$/oz Au	375	337	11%	352	338	4%

In 4Q18, gold production reached 29,251 ounces, a 19% increase compared to the same period of the previous year. This increase in gold production is mainly due to the higher gold head grade placed on the Leaching PAD (+9%). Cash cost per treated ton was US\$ 4.9, 21% increase compared to 4Q17, mainly explained by higher production costs (+9%) related to tests to treat Morrenas's mineral, which will begin to mine partially in 2019.

During 2018, production was 103,299 ounces of gold, 3% above last year, mainly due to higher volume of ore placed on the PAD (+5%). Cash cost per treated ton for 2018 was US\$ 4.4, 3% above the previous year. These results remain in line with the annual production guidance.

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



Cash cost per ounce of gold⁴ in 4Q18 was US\$ 357, 11% above the same period of last year, mainly explained by higher production cost.

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

IV. CAPEX:

Table N°6. Executed CAPEX

CAPEX	Unit	4Q18	4Q17	Var (%)	2018	2017	Var (%)
San Rafael	US\$ M	8.6	15.0	-43%	17.5	32.8	-47%
B2	US\$ M	37.2	15.3	144%	78.2	21.4	265%
Pisco	US\$ M	0.5	0.8	-34%	0.9	2.2	-60%
Pucamarca	US\$ M	12.4	4.2	193%	30.2	25.8	17%
Others	US\$ M	0.3	0.0	-	8.7	0.1	-
Total Capex	US\$ M	59.0	35.4	67%	135.4	82.4	64%

In 4Q18, capex was US\$ 59.0 M, an increase of 67% compared to the same period of the previous year. It is important to note that the main increase between the two periods corresponds to project B2, which required an investment of US\$ 37.2 M during 4Q18. The major investment in our operating units was the expansion of Pucamarca's leeching Pad. In 2018, we registered US\$ 8.2 M in fixed assets associated to the implementation IFRS 16.

V. FINANCIAL RESULTS:

Table N°7. Financial Statements

Financial Statements	Unit	4Q18	4Q17	Var (%)	2018	2017	Var (%)
Net Revenue	US\$ M	128.9	116.3	11%	491.4	489.1	0%
Cost of Sales	US\$ M	-68.3	-59.1	16%	-244.3	-235.5	4%
Gross Profit	US\$ M	60.6	57.3	6%	247.1	253.5	-3%
Selling Expenses	US\$ M	-0.3	-2.2	-86%	-3.8	-4.1	-7%
Administrative Expenses	US\$ M	-10.6	-8.9	19%	-34.9	-31.7	10%
Exploration & Project Expenses	US\$ M	-6.8	-6.3	8%	-27.4	-26.8	2%
Other Operating Expenses, net	US\$ M	-5.6	-4.0	40%	-6.0	11.6	-
Operating Income	US\$ M	37.2	35.9	4%	175.0	202.5	-14%
Financial Income (Expenses) and Others, net	US\$ M	9.4	-3.4	-	37.1	-19.7	-
Results from Subsidiaries and Associates	US\$ M	-17.1	-21.3	-20%	-44.1	-38.7	14%
Exchange Difference, net	US\$ M	-3.3	1.0	-	-3.6	-0.8	346%
Profit before Income Tax	US\$ M	26.2	12.2	115%	164.4	143.2	15%
Income Tax Expense	US\$ M	-19.4	-17.3	-	-20.2	-64.1	-68%
Net Income	US\$ M	6.8	-5.1	-	144.1	79.1	82%
Net Income Margin	%	5%	-4%	-	29%	16%	81%
EBITDA	US\$ M	55.4	51.3	8%	242.5	259.1	-6%
EBITDA Margin	%	43%	44%	-2%	49%	53%	-7%
Adjusted Net Income	US\$ M	17.2	15.2	13%	71.1	97.3	-27%
Sunat	US\$ M	10.0	0.0	0%	80.9	0.0	0%
Rimac	US\$ M	0.0	0.0	0%	0.0	21.3	0%
Venta Marcobre	US\$ M	0.0	0.0	0%	39.8	0.0	0%
Adjusted Net Income	US\$ M	17.2	15.2	13%	110.9	118.6	-6%

a. Net Revenue:

In 4Q18, net sales reached US\$ 128.9 M, an increase of 11% (+US\$ 12.5 M) compared to 4Q17. This increase is mainly explained by the higher volumes of tin (+12%) and gold (+25%) sold, partially offset by lower tin and gold prices (-3% and -4%, respectively).

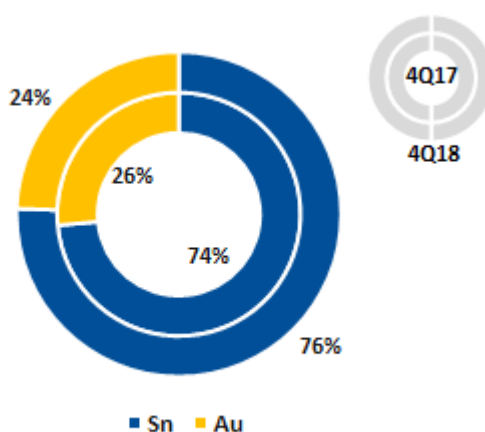
Table N°8. Net revenue Volume by product

Net Revenue Volume	Unit	4Q18	4Q17	Var (%)	2018	2017	Var (%)
Tin	t	4,780	4,257	12%	17,483	17,946	-3%
Gold	oz	27,189	21,815	25%	101,177	93,118	9%

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

Net Revenue by Metal	Unit	4Q18	4Q17	Var (%)	2018	2017	Var (%)
Tin	US\$ M	94.8	87.9	8%	360.6	370.0	-3%
Gold	US\$ M	34.1	28.4	20%	130.9	119.1	10%
TOTAL	US\$ M	128.9	116.3	11%	491.5	489.1	0%

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	4Q18	4Q17	Var (%)	2018	2017	Var (%)
Production Cost	US\$ M	49.0	43.2	14%	187.7	182.1	3%
Depreciation	US\$ M	17.9	12.4	45%	61.0	47.0	30%
Workers profit share	US\$ M	5.7	3.0	86%	8.0	11.7	-32%
Stocks Variation and Others	US\$ M	-4.3	1.4	-	-12.4	-4.0	208%
TOTAL	US\$ M	68.3	60.0	14%	244.3	236.5	3%

Cost of sales in 4Q18 reached US\$ 68.3 M, an increase of 15% compared to the same period of last year. This is mainly due to: (i) higher production cost in San Rafael because the pre-concentration ore sorting plant did not operate in 4Q17 due to maintenance work, (ii) depreciation of the expansion of Pucamarca's leaching Pad and (iii) the higher workers profit share.

During 2018, cost of sales was US\$ 244.3 M, an increase of 3% compared to last year, mainly explained by higher depreciation, which was US\$ 61.0 M this period vs US\$ 47.0 M last year, partially offset by lower workers profit share and higher variation of inventories.

c. Gross Profit:

Gross profit during 4Q18 reached US\$ 60.6 M, a US\$4.2 M increase compared to the same period of the previous year mainly because of the higher sales (US\$ 12.5 M) partially offset by higher cost of sales associated to higher volume sold. Gross margin of the quarter was 47% vs 48% during 4Q17.

d. Selling expenses:

Selling expenses in 4Q18 were US\$ 0.3 M, US\$ 1.2M below the previous year, mainly explained by IFRS 15 implementation.

e. Administrative expenses:

Administrative expenses in 4Q18 were US\$ 10.6 M, US\$ 1.7 M higher than the same period of last year. This increase is mainly due to higher payroll cost (+US\$ 1.1 M), partially offset by lower expenses in consulting services (US\$ 0.6 M)

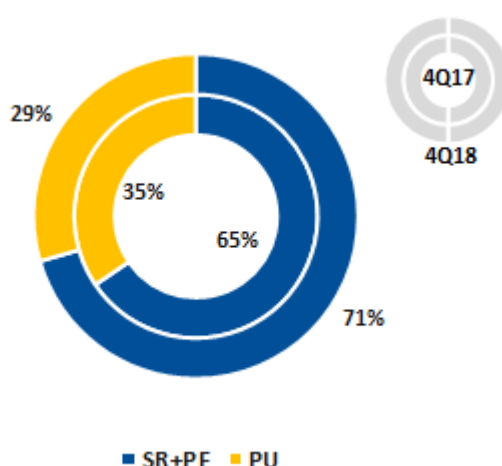
f. Exploration and Project Expenses:

In 4Q18, exploration & project expenses totaled US\$ 6.8 M, US\$ 0.5 M higher than 4Q17. In 2018 we invested US\$ 27.4 M, slightly above last year's figure, mainly in exploration programs at San Rafael and Pucamarca surrounding areas, to extend the life of our mines.

g. EBITDA:

EBITDA in 4Q18 amounted to US\$ 55.4 M, an increase of US\$ 4.2 M compared to 4Q17, due to higher tin and gold volumes sold, offset by lower prices. EBITDA margin in the period reached 43%, slightly below that of the same period of last year, mainly due to the lower tin and gold prices. In 2018, EBITDA reached US\$ 242.5 M, US\$ 16.6 M lower than 2017, mainly explained by non-recurrent income for the sale of Rimac's share in 2017.

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



h. Net financial expenses

The net financial expenses in 4Q18 were US\$ 9.4 M vs - US\$ 3.4 M registered in the previous year. This difference is explained by the return of overpaid taxes during 2002.

i. Income tax expenses:

In 4Q18, Minsur registered a positive provision of US\$ 19.4 M in tax expenses vs US\$ 17.3 M of income tax expenses in the previous year. During 2018 we registered US\$ 20.2 M of tax expense compared to US\$ 64.1 M in 2017. The difference is explained by the return of overpaid taxes during 2002 for the sale of Backus shares and the tax benefit for the sale of Cumbres Andinas's shares.

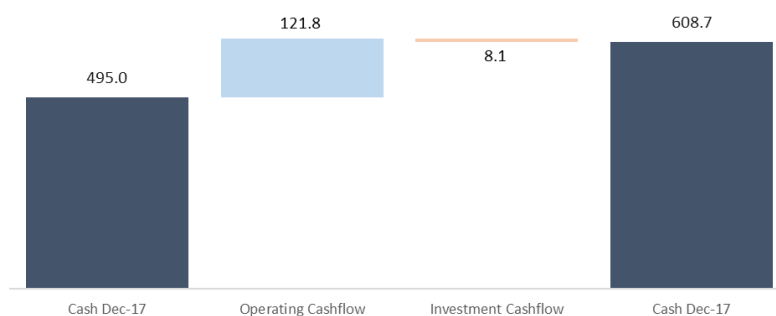
j. Net income and Adjusted net income:

In 4Q18, the company registered a net income of US\$ 6.8 M, an increase of US\$ 11.9 M vs. 4Q17. This increase is explained because in 4Q17 the net income was impacted by the impairment made in our subsidiary Taboca and for the upgrading of our project Marcobre.

Excluding (i) the results of subsidiaries and associates, (ii) the FX effect, (iii) the return of overpaid taxes, and (iv) the sale of shares in 2017, adjusted net income reached US\$ 17.2 M in the 4Q18 (US\$ 2.0 M higher than 4Q17).

VI. LIQUIDITY:

As of December 31, 2018, the company's cash balance reached US\$ 608.7 M, 23% higher than the closing balance of 2017 (US\$ 495.0 M). The increase is explained by an operating cash flow of US\$ 121.8 M, partially offset by a financing cash flow of US\$ 8.1 M. The financing cash flow considers the income for the sale of 40% of Cumbres Andinas stocks for US\$ 182.4 M, expenses of capital investments for US\$ 124.6 M, capital contributions to our subsidiaries for US\$ 154.0 M, divided in US\$ 143.0 M to Marcobre and US\$ 11.1 M to Barbastro and Sillustani, and the return of overpaid taxes.



As of December 31, 2018, the company's financial liabilities reached US\$ 442.1 M, slightly above the level shown in 2017 (US\$ 440.8 M). The financial debt is explained by the corporate bond, with expiration date of 2024. The net leverage ratio reached -0.7x by December 31, 2018 vs. -0.2x by the end of 2017.

Table N°12. Debt Summary

Financial Ratios	Unit	Dec-18	Dec-17	Var (%)
Total Debt	US\$ M	442.1	440.8	0%
Long Term - Minsur 2024 Bond	US\$ M	442.1	440.8	0%
Cash	US\$ M	608.7	495.0	23%
Cash and Equivalents	US\$ M	198.8	202.9	-2%
Fixed term deposits	US\$ M	309.7	160.4	93%
Financial assets at fair value with changes in results	US\$ M	0.0	131.7	-100%
Certificates without public quotation	US\$ M	40.6	0.0	-
Comercial papers	US\$ M	59.6	0.0	-
Net Debt	US\$ M	-166.6	-54.2	-207%
Total Debt / EBITDA	x	1.8x	1.8x	3%
Net Debt / EBITDA	x	-0.7x	-0.2x	-217%