

Southern Copper Corporation (3Q18 Earnings)

October 24, 2018

Corporate Speakers:

- Raul Jacob; Southern Copper Corporation; Vice President, Finance, Treasurer, CFO
- Xavier Gardia de Quevedo; Southern Copper Corporation; Board Member
- Victor Pedraglio; Southern Copper Corporation; Manager Financial Planning, IR

Participants:

- Alfonso Salazar; Scotiabank; Analyst
- Thiago Lofiego; Bradesco; Analyst
- Carlos de Alba; Morgan Stanley; Analyst
- Petr Grishchenko; Barclays; Analyst
- Marcos Assumpcao; Itaú BBA; Analyst
- Lucas Pipes; B. Riley FBR, Inc.; Analyst
- Renan Criscio; Credit Suisse; Analyst
- John Tumazos; John Tumazos Very Independent Research, LLC; Analyst

PRESENTATION

Operator: Welcome to the Southern Copper Corporation's third quarter and nine months 2018 results conference call.

With us this morning, we have Southern Copper Corporation's Mr. Raul Jacob, vice president finance, treasurer and CFO, who will discuss the results of the company for the third quarter and nine months 2018, as well as answer any questions that 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 uncertainty. 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 publically 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 turn the call onto Mr. Raul Jacob.

Raul Jacob: Welcome to Southern Copper's Third Quarter 2018 Earnings Conference call. Participating with me in today's conference is Mr. Xavier Garcia de Quevedo, a board member of Southern Copper.

Let me first say that as a result of the startup of the new Toquepala concentrator and the recovery of the San Martin mine, 2019 will mark another inflection point for our company, in which we will significantly increase the production of our main metals.

When compared to our 2017 annual production, we're expecting an increase of 13% in production of copper, 38% in production of zinc, 31% in silver and 21% in molybdenum. At the average prices of the third quarter of this year, these production enhancements would represent an increase in sales of over \$800 million.

Now I will pass the call to Mr. Victor Pedraglio, Southern Copper's manager of financial planning and investor relations.

Victor Pedraglio: In today's call, we will begin with an update of our view of the copper market. We then will review 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.

Now let us focus on the copper market, the core of our business. During the last quarter, the LME per pound copper price decreased from an average of \$2.88 in the third quarter of 2017, to \$2.77 in the third quarter of 2018. That is a 3.8% decrease. We view this fall in copper prices as the reflection of market sentiment for a possible escalation of trade protectionism between the United States and China. However, we strongly believe copper markets fundamentals are solid and that these disputes will not be a long term detriment to the copper market. We expect a recovery in copper prices in the coming months.

As a result of the economic performance of the world major economies, refined copper demand is currently growing at about 2.9% worldwide with China's consumption growing at 4.9%. Demand growth is outperforming our initial forecast and industry experts are currently forecasting an increase in demand of about 2.5% to 3% for the year. In 2018, we have not had significant supply disruptions, leading to a balanced market for the year. However, due to price volatility, the required investments to provide new production in coming years have not materialized, giving support to better future prices.

As you know, Southern Copper has the largest copper reserves in the industry, operating high quality world-class assets in investment grade countries such as Mexico and Peru. 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 by 2025. That is a 50% increase with a very competitive cash cost. We expect to do this, delivering enhanced performance, sustainable growth and superior value.

Let us now focus on Southern Copper's production for the past quarter. Copper represented 80.7% of our sales in the third quarter of 2018. Copper production increased 1.1% to 223,921 tons in the third quarter of this year, compared with third quarter of last year, principally due to higher production at our Peruvian operations of Toquepala, which increased by 16.6% and Cuajone, which increased by 9.8%, resulting from higher ore grades at both mines.

These increases were partially offset by lower production at our Buenavista operations, due to lower grade and throughput at its SX-EW facilities. The operating plan to improve Buenavista's SX-EW production to its design capacity is showing positive results and we

expect this facility's production to increase by 18% in the fourth quarter of this year compared with the third quarter.

Continuing with our investment program, we have started the ramping up process of the Toquepala expansion project in Peru, where the new concentrator has initiated operations in this quarter, the fourth quarter. Our current forecast is to produce 14,000 tons of copper in 2018 at this new facility. For this year, our total copper production is expected at 885,000 tons.

For 2019, the Toquepala expansion is adding 100,000 tons to our annual copper production capacity, allowing us to reach 1 million tons of annual copper production next year with an even lower cash cost per pound of copper. Our current expectation is to increase our 2019 production by 13% next year.

Regarding molybdenum, it represented 8% of the Company's sales value in the third quarter of 2018. Molybdenum prices average \$11.74 per pound in the quarter, which compares to \$8.05 in the third quarter of last year, a 45.8% increase from the prior year. Molybdenum mine production increased by 6.9% in the third quarter of 2018, compared with third quarter of the previous year, due to higher production at Buenavista, which increased by 24.7%, resulting from higher production at the new concentrator, and also at Toquepala, which increased by 9.5% as a result of better ore grade.

For 2018, we expect to produce 21,900 tons of molybdenum, an increase of 2.7% in production due to additional production coming from Buenavista and the partial recovery of our Peruvian operations. In 2019, we expect to produce 25,900 tons of molybdenum with a significant contribution from the molybdenum plant at the new Toquepala concentrator.

Regarding Zinc, it represented 3.7% of our sales value in the third quarter with an average price of \$1.15 per pound in the quarter, a price reduction of 14.2% from the third quarter of last year. Zinc mine production decreased by 4.9% to 17,469 tons in the third quarter of this year, compared with the third quarter of last year due to lower production at Santa Eulalia, which decreased by 26.6% due to lower grades and recoveries and at Santa Barbara, which decreased by 3% due to lower grades. This was partially offset by higher production at Charcas, increasing by 4.1% due to higher recoveries. Refined zinc production increased by 18.9%.

On August 22 of this 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 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 revenues for federal, state and local governments.

For 2018, we expect to produce 73,200 tons of zinc, an increase of 7%, largely as a result of the recovery of the Santa Eulalia and Santa Barbara mines production. In 2019, we expect to produce 94,500 tons of zinc with an important contribution from the San Martin mine.

Regarding silver production, it represented 4.2% of our sales value in the third quarter with an average price of \$14.92 per ounce in the quarter, an 11.2% decrease from the third quarter of last year. Mine silver production increased by 1.4% in the third quarter of the year with comparison with the same period last year, mainly as result of higher production at our Toquepala and IMMSA operations resulting from higher grades.

Refined silver production increased by 2.6% in the third quarter of this year from the third quarter of last year. For 2018, we expect to produce 17.1 million ounces of silver, an increase of 7% in production from 2017. In 2019, we expect to produce 20.9 million ounces of silver, mainly as a result of the important contribution of the San Martin mine.

Let us go now to financial results. For the third quarter of 2018, sales were \$1.72 billion, \$47.2 million higher than sales of the third quarter of last year; that's a 2.8% increase. Copper sales volume increased by 3% while value decreased slightly by 0.7% as a result of lower prices for this metal, which decreased by 3.8%.

Regarding our main byproducts, we had higher sales of molybdenum, increasing 50.9% due to better prices and volume. Prices improved by 45.8% and volume by 5%. Also, zinc sales were 5.3% higher due to higher volume partially offset by lower prices. In the case of zinc, volume increased by 21.3% and prices decreased by 14.2%. And silver sales were up 1.4% due to higher volume, which was partially offset by lower prices. In the case of silver, volume was higher by 14.2% and prices were lower by 11.2%.

Operating costs. Our total operating costs and expenses in the third quarter of 2018 increased by \$43.1 million, or 4.4% when compared to the third quarter of last year. The main cost increments have been in inventory consumption, operation contractors and services, diesel and fuel costs and other factors. These cost increments were partially offset mainly by lower purchased copper.

Adjusted EBITDA for the third quarter or 2018 was \$868.1 million with a 50.4% margin, compared with \$863.1 million and a 51.5% margin for the third quarter of last year. Operating cash cost per pound of copper before byproduct credits was \$1.55 per pound in the third quarter of this year. That is \$0.076 higher than the value of the second quarter of this year. This 5.2% increase in operating cash cost is the result of higher cost per pound from production cost, partially offset by lower treatment and refining charges, administrative expenses and higher premiums.

Southern Copper operating cash cost, including the benefit of byproduct credits was \$0.897 per pound in the third quarter of this year. This cash cost was \$0.084 higher than the cash cost of \$0.813 for the second quarter of this year, which is a 10.3% increase.

Regarding byproducts, we have a total credit of \$310 million, or \$0.648 per pound, in the third quarter of this year. These figures represent a 1.2% decrease when compared with a credit of \$308 million, or \$0.656 per pound in the second quarter of this year.

Total credits have increased for molybdenum by 31.7% and sulfuric acid by 6%; while decreased for zinc by 19.8%, silver by 6.4% and gold by 29.3%. Net income attributable to SCC shareholders, in the third quarter of this year, was \$369.4 million, which is 21.4% of sales, or diluted earnings per share of \$0.48.

This figure compares with net income attributable to SCC shareholders for the third quarter of last year, of \$401.8 million; that is 24% of sales or diluted earnings per share of \$0.52. The decrease was mainly the result of lower metal prices and a higher non-cash tax provision for the quarter, to recognize our annual tax liability.

Regarding capital expenditures, Southern Copper's investing 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 investment, in the first nine months of the year, were \$831.8 million, compared with \$710.4 million in the first nine months of last year. Capital investments, in the first nine months, include \$329 million for the Toquepala expansion. For 2018, we are reducing our capital expenditure forecast to \$1.1 billion, as a result of rescheduling our capital expenses to 2019 and onwards.

Regarding Peruvian projects, our portfolio of board-approved projects in this country has had total capital budget of \$2.9 billion, of which \$1.9 billion has already been invested. Considering the Michiquillay, \$2.5 billion, and Los Chancas, \$2.8 billion, projects, our total investment program in Peru increases to \$8.2 billion.

Regarding the Toquepala expansion project, this 1,255 million project includes a new state of the art concentrator that will increase Toquepala annual copper production by 100,000 tons, to reach 258,000 tons by next year; a 74% production increase when compared to 2017.

As of September 30, 2018, we have invested \$1,192.4 million in this expansion. The project has reached 98% progress and is expected to initiate production in the fourth quarter of this year. Regarding Tia Maria, we have completed engineering, and after having complied with all environmental requirements, we have obtained the approval of the environmental impact assessment.

We are working jointly with the Peruvian Government to obtain the construction license for this 120,000 ton annual SX-EW copper greenfield project with a total capital budget of \$1,400 million. We expect the license to be issued during the fourth quarter of this year. The company expects the project to generate 3,600 jobs during the construction phase.

When in operation, Tia Maria will directly employ 600 workers and indirectly provide jobs to another 4,200. Through its expected 20 years life, the project related services will create significant business opportunities in the Arequipa region.

Regarding Mexican projects, we have the Buenavista zinc project in Sonora, which 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 additional copper per year.

Currently, we have completed the basic engineering and are working on the purchasing process for the main project components. The project's budget is \$413 million, and we expect to initiate operations in 2021. When completed, this new zinc concentrator will double the Company's zinc production capacity.

Regarding the Pilares Sonora project located six kilometers from La Caridad, it consists of an open pit mine operation with an annual production capacity of 35,000 tons of copper in concentrate. The ore will be transported from the pit to the primary crushers of the La Caridad copper concentrator through a new 25 meter wide off-road facility for mining trucks.

Environmental permit studies were presented to the government's environmental authorities. This project will significantly improve the overall mineral ore grade by combining the 0.78% ore grade expected from Pilares with the current 0.34% ore grade at La Caridad. The budget for Pilares is \$159 million, and we expect it to start producing in early 2020.

Regarding dividends, as you know, it is the company policy to review, at each board meeting, cash resources, expected cash flow generation from operations, capital investment plan and other financial needs, in order to determine the appropriate quarter dividend. Accordingly, as announced to the market, on the 18 of October, the board of directors authorized a cash dividend of \$0.40 per share of common stock, payable on November 21, to shareholders on record, at the close of business on November 7, 2018.

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

QUESTIONS AND ANSWERS

Operator: (Operator Instructions)

Thiago Lofiego from Bradesco.

Thiago Lofiego: Two questions. First one on Tia Maria. What's in your view the likelihood of the project being approved in the fourth quarter?

I know you mentioned, in the press release, that that's your expectation, but how realistic is the assumption, considering regional election will take place on December 9, if I'm not mistaken? The window, until the end of the year, is going to be very tight. And what's the rationale behind your assumption for the fourth quarter 2018 approval of Tia Maria?

And then the second question on cash cost, considering the full ramp up of Toquepala and also the improvement in Buenavista next year, what could we expect in terms of cash cost before byproducts for 2019?

Raul Jacob: On the Tia Maria question, well, we're very optimistic on the way that the circumstances have evolved at the area of the project. We expect the new authorities that have been elected, locally, for the five districts that are in the province of Islay as well as the Islay Provincial mayor, these are new people that we believe we can work with them on a very positive way for the progress of Islay and Arequipa.

And we see that the resistance to the project that it had in the past has been diminished significantly. And that encourages us for expecting the approval of the construction license or permit before yearend. That's our expectation at this point.

Regarding cash cost, well, we announced the recovery of the San Martin Mine. We mentioned, in the press release, the possibility for production that San Martin has and what we expect from it.

Just to give you an idea, if we convert the silver production, the copper production, etcetera, of San Martin into zinc tons, it's equivalent to 75,000 tons of zinc of new production.

So, being copper or zinc or silver or lead, it will certainly contribute with a very good cost structure to our cash cost, and that, plus the new Toquepala concentrator that has an annual capacity in copper production of 100,000 tons of copper and 3,100 tons of molybdenum, makes us to believe our cash cost will keep decreasing as has been the case through 2018.

And our expectation, at this point, given the current price deck for energy, fuel, etcetera, labor cost, it's that we should have a cash cost in the range of \$0.75 per pound for 2019.

Operator: Carlos de Alba from Morgan Stanley.

Carlos de Alba: Finishing probably or completing the response from the last question, what is the cash cost before byproducts for 2019?

And then, continue with San Martin, IMMSA mines are not particularly that profitable from what I recall. The company has not released information on that unit for some time. But could you give us a sense of guidance of how much EBITDA contribution would San Martin bring to the operations?

Or what is the cash cost of zinc or zinc equivalent that the company is expecting for these operation?

And then finally, if I may, what are the third-party concentrate purchases that you believe the company would make or would do in the fourth quarter of this year?

Raul Jacob: Okay. Let me focus, first, on your question on cash cost. We're expecting our cash cost before credits to decrease from what it is right now to \$1.48 per pound next year. And total cash cost is about \$0.75 per pound, so the difference is the contribution of byproduct credits.

In the case of San Martin, I don't have with me the EBITDA contribution of this operation. However, regarding IMMSA; IMMSA, for us, it's a very profitable unit. Its contribution, it's mainly on the byproduct side of our business.

Cash cost in zinc units, it's very, very low, close to zero if you subtract the byproducts that the IMMSA operation has when you measure it as zinc being the main metal and silver, lead, etcetera, all are the byproducts in the case of IMMSA.

If you want to look at the operating profit of this unit, you can see in our 10-Q, where we divide our segments for the Peruvian operations, the Mexican open pit operations and the IMMSA operations as well.

And regarding third-party's concentrate purchases for the fourth quarter, we are large in copper concentrates in Mexico. We expect to be large in copper concentrates as well in Peru. We are expecting for now, not to buy any additional purchase concentrates. And that will be the case for next year, because we will be large in concentrate vis-a-vis our smelting capacity in both Mexico and Peru.

Carlos de Alba: Why did the company buy third party concentrates in the third quarter? Was the company short or was it more strategic or what happened?

Raul Jacob: It's driven by technical reasons. Basically we acquire some more concentrate for having our smelting circuit running at full speed and capacity. In some cases it was appropriate to sell concentrate given the very advantage commercial terms that we got from them. And as you move on through the year, you may need to buy some third party concentrate just to fill in the operations. From now on, we're not expecting to do that next year.

Carlos de Alba: But also not in the fourth quarter?

Raul Jacob: Yes.

Operator: Alfonso Salazar from Scotiabank.

Alfonso Salazar: I have two questions. The first one is pretty much the same I always ask, regarding the expansion projects in Mexico and if there's any news about the Empalme or any other projects that have been approved by the Board?

And the second is more related to legal risks, do you have a social impact study for each of your operations in Mexico? And what's the status there?

Raul Jacob: No news to report regarding any investments on smelting, such as Empalme or some other facilities in Mexico, and that applies as well to the other operations of the company. We are obviously looking at different possibilities to invest in different locations, and not only Mexico and Peru, but at this point it's what we presented in the press release. Basically, we're focusing on two projects, the Buenavista zinc concentrator and the Pilares project; those are the ones that are being developed.

Regarding some other projects, we're moving forward with them, but we don't have a specific Board approval for them.

Yes, we do have a social impact study for each of our operations in Mexico as well as in Peru. Well, this is something that is key as part of doing business in, generally speaking, our industry, we are complying with the most advanced techniques regarding environmental and community relations at this point.

Operator: Petr Grishchenko from Barclays.

Petr Grishchenko: Good afternoon and thanks a lot for taking my questions. Can you please provide maybe a guidance for CapEx for next year and beyond and kind of break it up into expansion and maintenance. And staying with CapEx for a second, I think you're estimating 1.7 billion for full year '18, and maybe you're now rating it at around, call it, 1.1 billion. So in addition to Tia Maria delay, what was the reason for lower CapEx so far?

Raul Jacob: Okay. First let me mention that our guidance at this point for 2018 is \$1.1 billion. Maintenance, it's slightly higher than \$400 million, at this point about \$450 million, that's how our current guidance on maintenance CapEx.

Now on the reasons why we have been decreasing our initial expectations on capital, well you have -- you mentioned Tia Maria. Besides that we have our other projects that are moving at a good pace, but not as strong as we expected them to be at the beginning of the year.

Nothing specific to mention, just Tia Maria where we had some money budgeted for this year, we are not being able to spend this money so far, but we're looking forward for

getting the construction permit in this case and moving forward with the project as soon as we can.

Petr Grishchenko: Got it. And that's very helpful. And maybe, can you comment on your pipeline and specifically the largest projects you have, Michiquillay, El Arco, Los Chancas, what's specifically the timeline you think you could start ramping those up and how long would it take.

Raul Jacob: Sure. Certainly. Well, in Michiquillay, we're expecting to do exploration as well as community work for now, from next year all the way to 2021, 2022. That's where we believe that we should be finishing the exploration, the feasibility study and work on the Environmental Impact Assessment. Michiquillay should initiate much more important investments in 2023, should be up and running by the end of 2025 and initiating production in 2026, that's our view at this point. It may accelerate if we have better results on the exploration side and that will allow us to accelerate the Environmental Impact Assessment as well as the feasibility study.

In the case of Los Chancas, this is a project that we're expecting to develop once we finish with Tia Maria. Tia Maria should be up and running by 2021. If we initiate the construction of the project next year as we expect.

In the case of Los Chancas, we're expecting to initiate the investments by 2022 and having it finished by 2025, in production. Los Chancas, it's 110,000 tons of copper production. With significant by products over 7,000 tons molybdenum as well as gold. And in the case of Michiquillay, it's a project aiming to 225,000 tons of copper and byproducts of molybdenum, mainly, in the case of Michiquillay.

Petr Grishchenko: Got it. That's very helpful. And I guess, switching gears to dividends, I understand the Board frequently revisits the payments, but given your run rating around the bill end for full year, what's sort of anticipation for next year assuming copper prices stay here on average? Do you expect dividends to be around the same level as this year?

Raul Jacob: It's up to the Board. It's not for us, as management, to comment on that. However, you can see that this Board has been very keen about rewarding shareholders when prices of copper and our cash flow forecast allow us to that. So we're currently at \$0.40 per share, per quarter. That's how it has been approved for two quarters in a row, but I can't comment on a decision that is outside the management reach.

Operator: Marcos Assumpcao from Itaú BBA.

Marcos Assumpcao: Hi. Good afternoon everyone. First question, Raul if you could provide please an update on your Peruvian and also Mexican labor contracts. And second question on copper prices, how do you see them at current levels? Historically you had been -- you guys had been a bit more bullish on copper prices and if you could comment a bit on your long term or incentive price forecast as well, it would be helpful. Thank you.

Raul Jacob: Certainly. Thank you very much for your questions Marcos. Mexico and Peru, let me start with Peru, we're negotiating currently three year labor contracts with our workforce here in Peru. We already signed contracts for three years with four of the six unions that the company has. We're negotiating with the two that are remaining and expecting to finish this before year-end. These -- the contracts that we have already signed call for a 5% increase per year on the three years, each of the years of the three year contract. And basically that's for the Peruvian operations. We're very optimistic and positive that we may arrive to a final negotiation with the Peruvian unions shortly.

In the case of Mexico, we had a review on salaries. They were increased, I think, at 6% this year and that's the case in Mexico. You have to discuss salaries one year and the next year you discuss benefits. So this year was salaries and it was 6% as I mentioned already.

On the long-term price view of the company, well, we are in the business, this business, we like it. We think that copper has a very, very positive long-term profile. And what is happening in our view has been summarized in the presentation that Victor Pedraglio did. I'm going to mention it, the key things here for us is that we have had, after the super cycle of prices, we had five years in which copper prices were each year lower than the prior year. That ended in 2016. In 2017, we believe we have initiated a new upside cycle for prices, copper prices, and we think that we're not seeing yet the incentive price for the new production that will be required in the next few years being approved, as projects.

We believe that that incentive price is in the range of \$3.25 to \$3.50 per pound and we think that eventually the market will reflect the scarcity of copper that we will face given the current trends in demand as well as supply. For this year, as we mentioned, the market -- we see the market in balance, but that is not the case for the next few years and we believe that prices will start reflecting that reality or this outlook in the next few quarters.

Operator: Renan Criscio from Credit Suisse.

Renan Criscio: Hi everyone. Thanks for the questions. My first question is on if you can provide an update on Buenavista, the correction program. So can we, based on what you have been seeing, can we see the plans or the operation back to normalized levels as of next year or whenever you see that? And also, on Toquepala, if you can comment if the new concentrator is already operating and how is the ramp up evolving? And if it's not operating, when do you expect that to happen? And finally, my last question is on, if you can combine all this information and provide what you expect for copper production next year?

Raul Jacob: Certainly. Thank you for your questions Renan. On the Buenavista SX-EW correction program, well, we have been working very hard. The SX-EW operations had two main problems that we need to correct. One was on the ore grade or the grade of the pregnant liquid solution that goes into these facilities, we have been -- we are seeing a better ore grade of copper content on these pregnant liquid solutions. That's why we are

mentioning that we are expecting an increase of about 18% in SX-EW production. Vis-a-vis the prior quarter or the third quarter of this year, and the other thing is the throughput of pregnant liquid solution.

For this second factor we have -- we are using at full capacity our new SX-EW number three plant in Buenavista, the solvent extraction plant in Buenavista as well as the SX-EW 2 which is a relatively older -- or the one that we had in operation at Buenavista. So the -- we are trying to reduce the impact of the lower grade in the pregnant liquid solution by having more throughput in the different plants that we have.

This is working and we're doing some other actions in order to restore the full capacity of these facilities. We think that we're in the right direction and that's our view and our expectation that we will get these normalized -- through 2018 we are doing very good progress and we expect to be finishing these through 2019 and getting full capacity on these plants.

On the new concentrator at Toquepala where we had -- we had a small delay in the total project. It's about a little more than a quarter. The concentrator line one -- it has two lines. Line one is already with charge of mineral and it's producing concentrate; small amounts at this point but we're -- we believe that we can do the ramp up of this facility through the fourth quarter of this year and into the first quarter of next year.

So, getting the new concentrator at full speed will most likely be by the end of the first quarter or by April of next year.

In terms of copper production, our view is that next year we will be producing slightly less than one million tons. Our current forecast is 990,000 tons. We want to - that's the forecast, that's what has been provided by our engineers. Our view is that we -- we want to increase this production to over the million tons that we believe it's a landmark for the company.

For 2020, it's 1.011 million tons; for 2021 it's 1.145 million tons; 2022, 1.126 million tons -- that's basically it and then in 2024 -- 25 we will get the benefit of Michiquillay, Los Chancas and some other projects and that will increase our production arriving to over 1.5 million tons by 2025.

Renan Criscio: That's very helpful, thank you.

Raul Jacob: You're welcome.

Operator: Thank you and our next question from the line of Lucas Pipes from B. Riley FBR. You may begin.

Lucas Pipes: Thank you very much and good afternoon everybody. I wanted to first follow up a little bit on the copper market itself. Raul, you mentioned kind of the outlook in one of the prior questions over the next few years but can you elaborate on what

exactly happened here over the summer and what you think has been driving prices lower? Is it supply/demand and if so how much on the supply side, how much on the demand side? I would really appreciate your perspective. Thank you.

Raul Jacob: Yes, well let me say that even though we certainly follow the copper market, we're more focused in cost control, in cost improvement in the different parts of our operations and that's where we believe the value is generated for our shareholders. Obviously being in copper and believing that copper has a good outlook is certainly something that is helping us to generate the value that our shareholders deserve as a return to their investment.

Now, what has happened though 2018 is that we have had -- we were expecting at the beginning of the year that about 1/3 of the total supply worldwide were possibly affected by labor negotiations, but generally speaking, labor talks ended up very positively with no strikes, no interferences, even in the operations that has been in past years very conflicting ones.

We -- I mean -- this is for the industry not for us. We had a very good outlook regarding supply and demand has gone even better that what we expected worldwide. At the beginning of the year we were expecting demand growth of 2.1% while now we're looking at demand growth for copper between 2.5 and 2.9% for the year -- or 3%. So the market has been much better than expected in both sides of the equilibrium that it may have.

An important fact for us is that we're looking at two things that are important here, commercial terms for next year are very positive, higher than what we had before, which is an indication of a strong market, and also inventories have been decreasing consistently in the last few weeks.

So, we believe that we have very encouraging signs in the market; the market is in balance. It's a balanced market but at the same time we see positive developments and as I said before, no significant new projects have been approved -- that we could see a market with an extra supply or balance for years, say, 2020 and on. What we're seeing is a deficit and that's our view at this point.

Lucas Pipes: Very helpful, I appreciate all that color. Switching over to maybe something more on the regulatory side, can you remind us if -- to what extent there are changes in the Mexican mining laws and to what extent they would be affecting you specifically?

Raul Jacob: Well, so far we haven't seen any significant changes that affect us at this point.

Lucas Pipes: Anything that has a high likelihood of coming through over the next year or so?

Raul Jacob: No, we don't want to speculate on different changes in laws. We want to -- we will make an opinion when we have specific information.

Lucas Pipes: Got it, okay. Can you -- there's been some press around the court decision regarding Buenavista. Can you remind us on your update on the situation? I would appreciate your thoughts. Thank you.

Raul Jacob: Certainly. Well, this was a decision by the Supreme Court of Mexico that was not related directly to us, it was related to the environmental agency of the Mexican government. The ruling said that the environmental agency should have consulted the Bacanuchi community and has asked for different actions to be taken regarding that.

We, as a third party involved in this process, are taking the actions that has been requested by the Supreme Court, and we are doing that, and we don't see at this point any risk for the company of having an extra cost or disruption in production related to this ruling. So, we're operating and we're seeing this with no interference in our current business.

Lucas Pipes: That's good to hear and best of luck. Thank you very much.

Raul Jacob: You're welcome.

Operator: Thank you. And our next question comes from the line of John Tumazos from John Tumazos Very Independent Research. You may begin.

John Tumazos: Could you elaborate a little more on the dividend policy? The \$0.40 in the current quarter is a relatively high payout in relation to the \$0.48 of earnings.

Raul Jacob: Well, as I said, it's up to the Board to decide on the dividend to pay. The way that this decision is done is by a review on the copper market, review of any specific loans that the company has to pay or capital investments.

We have been, as you know and the market recognized, the company has been growing significantly in the last few years with very solid investments, very low cash cost investments. And we are -- we already finished a big growth cycle in Mexico by the expansion of our Buenavista operation. In Peru, we are finishing the Toquepala expansion and we're looking forward to initiate the Tia Maria project.

As I said, during the years of low prices, the company has been investing significant amounts of funds in projects that are ready to go. We are facing a new, better price copper cycle at this point. So we believe that this positive outlook is being reflected in our dividend. But as I mentioned before, it is a decision that is entirely in the hands of the Board.

But the company has no specific pick to pay a ratio or a specific cents per share as a policy. The policy is that at each Board meeting, the Board will review, as I said, the cash

position of the company, the cash flow generation, projects that we have to fund, any payments related to loans etcetera, and on that base a dividend will be considered.

Carlos de Alba from Morgan Stanley.

Carlos de Alba: Thank you. Raul, just to -- maybe I missed this but when does the company expect San Martin to actually restart production, and when do you think the operation will reach full capacity? And also, could you repeat the expected production -- copper production in 2018?

Raul Jacob: Yes, we are expecting to have San Martin initiating production of concentrate by the second quarter of next year. In the first quarter we will be already producing mineral and storing it, but for the second quarter we're expecting to have the concentrator already fixed and initiating production.

For 2018 our production guidance, it's 885,000 tons of copper.

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

Raul Jacob: So thank you very much. With this we conclude our Conference Call for Southern Copper's Third Quarter Results. We certainly appreciate your participation and hope to have you back with us when we report the year 2018 in January. Thank you very much and have a nice 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.