

SOUTHERN COPPER CORPORATION

Moderator: Raul Jacob
February 2, 2010
5:00 p.m. EST

Operator: Good afternoon and welcome to Southern Copper Corporation's fourth quarter 2009 results conference call. With us this evening, we have Southern Copper Corporation's Mr. Guerrero, Chief Financial Officer, and Raul Jacob Manager of Financial Planning and Investor Relations who will discuss the results of the company for the fourth quarter and 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 uncertainties. Actual results may differ materially and the company cautions to not place undue reliance on these forward-looking statements.

Southern Copper Corporation undertakes no obligation to publicly update or revise any forward looking statements whether as a result of new information, future events or otherwise. All results are expressed in full U.S. GAAP. Now, I'll pass the call onto Mr. Raul Jacob.

Raul Jacob: Thank you very much, (Casey), and good afternoon and thank you, everyone, again for joining us for the fourth quarter and full year 2009 Southern Copper Earnings Conference call.

Participating in today's conference are Mr. Oscar Gonzalez Rocha, Southern Copper's CEO and Mr. Genaro Guerrero, company's CFO. Mr. Guerrero will now lead the conference.

Genaro Guerrero: Thank you, Raul. Good afternoon, everyone, and welcome to Southern Copper Corporation's fourth quarter 2009 earnings conference call. Today, I will discuss Southern Copper's production, sales, operating costs, financial results and capital spending program. After that, we will open the session for questions.

First of all, I would like to mention that even last year started with a very negative market resulted from a deep economic and financial crisis suffered at the end of 2008, through the year, the commodity markets improved significantly on the prices front, simultaneously, our company has been focused in controlling costs, improving productivity and carefully managed cash flow, as a consequence, the 2009 financial results have been higher than expectations.

I'm also glad to mention that Southern Copper Corporation operations have performed soundly during the year exceeding our estimates for 2009.

Southern Copper Corporation has one of the lowest cash costs of the industry, and that advantage has allowed the corporation to generate free cash flow, to continue its investments in capital projects in accordance with the company's organic growth plans, as well as to take full advantage of its copper reserves.

Now, let's start with our today's agenda.

During 2009, we have seen a continuous recovery of metal prices, particularly copper, molybdenum, silver and zinc, which are the most important commodities by Southern Copper.

At this time, we have a positive view on the copper market and it can be summarized as follows:

- London Metal Exchange copper prices averaged \$3.02 per pound in the fourth quarter 2009, 14 percent higher than the third quarter 2009. The year average has been \$2.34 per pound. This compared with the \$3.16 per pound in 2008.

- We are expecting a copper price of \$3.25 per pound for this year. Copper represented 71 percent of our sales in 2009.

Our expectations are based on the following factors:

- We believe that inventories of copper will start to tie up during the year reversing the last months' trend. Our estimates indicate a market relatively balanced for 2010.

-Emerging economies, increasing consumption led by China will give support to current copper prices in 2010.

-Regarding the U.S. and European economies, we expect a higher consumption as well.

-Another factor to consider is that some investor's funds are entering basic materials as a way to protect themselves from inflation.

Southern Copper's first byproduct is molybdenum. It represented 12 percent of total sales in 2009.

As in the case of copper, the molybdenum market has improved through 2009 from \$9.50 per pound at the beginning of the last year to its latest quote of \$14.75 per pound.

It is important to mention that molybdenum will start trading as an LME minor metal this February. We believe that LME trading should improve molybdenum market transparency in the long run. As a reference, we can mention that each year 200,000 tons of molybdenum are traded, yielding business for about \$6 billion annually.

Silver COMEX price has averaged \$17.56 per ounce during the fourth quarter 2009, a significant recovery from the 2008 year and for the 2008 year-end when it was quoted at \$10.79 per ounce. We think that silver prices will be strong in the coming quarter due to inflation concerns and the recovery of industrial demand. Silver represented 7 percent of Southern Copper Corporation sales in 2009.

Regarding zinc, in the fourth quarter 2009 the LME price averaged \$1 per pound, 100 percent higher than the 50 cents quoted at the beginning of the year. Zinc represented 5 percent of our sales in 2009.

In terms of production, we are glad to report that our mine copper production has maintained its good pace during the fourth quarter 2009. Major reasons for these results have been better ore grades and higher recoveries. Southern Copper Corporation operating unit production for the fourth quarter of 2009 was 126,000 tons, 5 percent higher than the third quarter.

- The Toquepala operation increased its production by 7.4 percent.
- The Cuajone mine operations increased production by 6 percent.
- La Caridad maintained its production level in the fourth quarter but increased it by 6 percent during the year.
- And our underground mine increased its copper production by 5.3 percent.
- Regarding our smelting and refining operations, the production increased by 18.8 percent and 0.1 percent respectively when comparing the fourth quarter 2009 with the third quarter 2009.

Our guidance for 2010 in copper production is approximately 500,000 tons of copper not considering any production from Cananea.

Regarding molybdenum, we have excellent production in 2009 reaching 18,700 tons. During the fourth quarter, production increased by 26 percent compared to the fourth quarter 2008, due to improved recoveries and higher ore grades at La Caridad and Toquepala operations. Molybdenum production increased in 2009 14 percent on a yearly basis.

The company expects to produce and sell 18,500 tons of molybdenum for 2010.

Zinc mine and refine production increased by 3.3 percent in 2009. Our underground operations have obtained better ore grades as well as improved concentrators' recoveries.

Refined zinc production increased also by 3.4 percent at San Luis Potosi zinc refinery.

We produced 110,000 tons of mine zinc and 98,000 of zinc refined in 2009.

The company 2010 plan estimates zinc sales in the line with 2009 production of 110,000 tons.

Silver mine production increased by 1 percent in the fourth quarter of 2009, when compared to prior quarter. On a yearly basis, silver production increased seven percent to 13.2 million ounces. Refined silver production increased 15 percent for the quarter and 21 percent for the year, due to higher production in La Caridad and Ilo precious metal plants.

The company estimates to sell 16 million ounces of silver in 2010.

Now focusing on Southern Copper financial performance, net sales for the fourth quarter were \$1,136 million, 1.4 percent lower than the \$1,152 million in the third quarter 2009 but 153 percent higher than the fourth quarter 2008. This big difference is the result of \$409 million adjustments on sales in the fourth quarter 2008, due to the important metal price reduction at the end of 2008.

Copper sales volume maintained its level in 2009. Molybdenum sales volume increased by 25 percent compared with its fourth quarter 2008 level. Silver volume sold increased by 27 percent and zinc volume sold increased by 2 percent when compared to fourth quarter 2008 volumes.

Talking about operating costs, we would like to mention that our total operating cost and expenses has decreased by \$400 million in 2009.

This cost reduction results mainly from:

- Power cost decreased of \$166 million
- Fuel cost decreased by \$30 million
- Lower labor cost reduction of \$14 million.

-And other costs and expenses reductions explain the remaining difference.

For the fourth quarter 2009, the operating cost was \$607 million. This figure compares favorably with the \$643 million in the third quarter of 2009.

As a result of the mentioned sales and operating cost variances, the fourth quarter 2009 EBITDA was \$616 million or 54 percent of sales. This figure compares with the \$592 million in the third quarter 2009, 51 percent of sales, and a negative \$54 million for the fourth quarter 2008.

In terms of cash costs, let me first mention that our company has changed the methodology applied for cash cost calculation. We are now considering the net effect of third parties' copper production and sales as a credit. In the past, our cash costs only included the cost of copper from third parties, but not the benefits deriving from its marginal transaction. The practical consequence of this change in methodology is that our cash costs will track now more realistically the cost of our own copper production, not being distorted by the effect of market prices from third parties costs.

The company fourth quarter 2009 cash costs per pound of copper produced before byproducts credit was \$1.36 per pound, lower than the \$1.42 per pound of the prior quarter.

Southern Copper operating cash cost, including the benefit of byproduct credits was 37 cents per pound in the fourth quarter 2009. This figure compares to a cash cost of 13 cents per pound for the third quarter 2009.

This 24 cents per pound variance resulted mainly from lower molybdenum prices.

Cash cost before byproduct credits for the full year 2009 was \$1.36 per pound of copper. Cash cost including byproduct credits for the full year 2009 was 36 cents per pound of copper.

The estimated cash costs for 2010 is approximately 38 cents per pound of copper produced.

The effective income tax rate for the quarter was 28 percent, lower than our historical tax rate of 32 to 34 percent. The variance in tax results from a non monetary credit adjustment in our deferred taxes, as well as some other full year tax credit accrued in this quarter. We do not expect our tax rate to differ significantly from our long-term trend in 2010.

As a consequence of the better market prices, higher byproduct volumes sold and the positive cost reductions we reported, net earnings in the fourth quarter 2009 were \$363 million or diluted earnings per share of 43 cents. This figure compares with the net earnings for the third quarter of 2009 of \$312 million or diluted earnings per share of 37 cents, a 16 percent increase.

Capital expenditures, including exploration expense amounted \$105 million during the fourth quarter 2009. A year-over-year decrease when compared to the \$215 million expended in the fourth quarter of 2008. The full year CapEx for 2009 was \$439 million.

We have announced in our press release that the Board of Directors has improved an investment program of \$2.8 billion for the next three years to develop 342,000 tons of copper and 6,600 tons of molybdenum of new production capacity when this program is completed. The program also aims to improve cost competitiveness and efficiency.

The approved program considers some ongoing projects as well as new initiatives. The ongoing projects are:

- The Tia Maria project, which will increase production by 120,000 tons of copper.
- The Toquepala unit expansion, which will contribute to copper production with 100,000 tons and 3,100 tons of molybdenum.
- And the Cuajone concentrator expansion to increase production by 50,000 tons of copper.

To that, we are adding the following new projects.

-At Cuajone: mine and concentrator equipment investments to increase copper production by 22,000 tons of copper and 500 tons of molybdenum with approximately CapEx of \$50 million.

-For La Caridad operations, we are planning a concentrator expansion that should add 50,000 tons of copper and 3,000 of molybdenum per year with CapEx of around \$300 million.

The company intends to allocate approximately \$1.8 billion to Peru and \$1 billion to Mexico, of which approximately \$600 million and \$200 million are intended to be invested in Peru and Mexico respectively in the fiscal year of 2010.

The board has authorized with the commencement of the investments in Peru. However, the investments in Mexico will commence depending on developments in the Mexican labor and legal environments.

In our press release, we have reported the advancement in our projects, so let me move to some other issues.

As we have mentioned before, on April 14 last year, the Mexican Federal Labor Court issued a resolution based on force majeure confirming the termination of Cananea's labor relationship with individual and unionized employees, as well as the termination of its collective agreement with its employees and with the National Mining and Metal Workers' Union. Such resolutions were challenged by most of the unionized workers, individuals and the National Mining and Metal Workers' Union. At this point, the Federal Labor Court has dismissed almost all individual cases filed by the workers. The ruling on the case filed by the union remains unresolved. We are positive that the situation will be resolved and operations will be fully restored thereafter.

Regarding dividends, I would like to state again that it's the company policy to review at each board meeting the capital investment plan, cash resources and expected future cash flow generation from operations, in order to determine the appropriate quarterly dividends. Accordingly, on January 28, 2010 the

Board of Directors authorized a dividend of 43 cents per share. This dividend will pay on March 4, 2010 to shareholders of records as of February 19, 2010.

Additionally, we have announced that in an effort to enhance the recognition of Southern Copper Corporation's common stock in the market and better reflect the company's global presence, the Board of Directors approved the change of the ticker symbol under which Southern Copper Corporation's common share are listed in New York Stock Exchange from PCU to SCCO. Such change of ticker symbol is expected to be implemented at the start of trading on Wednesday, February 17.

Thank you very much ladies and gentlemen. And now we would like to open up the phone for questions.

Operator: At this time, I would like to remind everyone, if you have a question, please press star then the number one on your telephone keypad. We will pause for just a moment to compile the Q&A roster. And again, I would like to remind everyone, if you have a question, please press star then the number one on your telephone keypad. And at this time, there are no questions.

Genaro Guerrero: (Inaudible).

And again, I would like to remind everyone if you have a question, please press star then the number one on your telephone keypad. Your first question will come from (Rodrigo Heredia).

(Rodrigo Heredia): Hi, everybody. Thank you for the call. Just a quick question. I don't know if you are going to give some kind of guidance in terms of sales volume for this year for copper and molybdenum.

Genaro Guerrero: Thank you (Rodrigo). Well, we already have some guidance for production in copper and molybdenum, but I'm glad to give you the numbers again about our guidance. In terms of copper, we are expecting to produce 500,000 tons of copper and in molybdenum 18,500 tons for 2010. In terms of copper, we are not considering a production, any production from Cananea.

(Rodrigo Heredia): OK, OK. And one more, if I may, when do you think that Tia Maria will start to start producing some copper?

Genaro Guerrero: Tia Maria, we are expecting to start operations at the end of 2011.

(Rodrigo Heredia): OK, great, thank you.

Genaro Guerrero: Thank You, Rodrigo.

Operator: Your next question will come from (Rene Kleyweg).

(Rene Kleyweg): Good evening, gentlemen. Just two things, really. One is if you can give – there was a ruling expected in January as regards to the situation with the unions and if there's any uptake on timeframe for that.

And then secondly, we're seeing signs from other players in global commodity industries in terms of customers restocking or ending their destocking. I was just curious to see what you guys were seeing in terms of demand from your clients and how much tightness you see near term in the copper market.

Genaro Guerrero: Yes, well in respect of the – of the timing for the Cananea resolution, unfortunately we don't have any date that we can mention at this point of time. This is, as I mentioned, in the side of a tribunal decision and we – well is very difficult to control and to exactly know when they are to release the resolution.

(Rene Kleyweg): And in terms of demand from clients?

Genaro Guerrero: Yes, in that model I will pass the question to Raul Jacob that I could give you information about that.

Raul Jacob: Hello, Rene, and good evening to everybody. Regarding our client days, well we had a very good campaign last – at the end of last year regarding our production sales. In general, what we're seeing is the recovery on demand from the – from our major clients in the U.S. and Europe.

This is not a very strong recovery, but it's – there are steps in the right direction regarding the copper consumption in the U.S. and Europe. On the emerging market front, they have been very strong in 2009.

And we believe that some restocking has occurred already there in emerging economies, but we believe that now we will have reasonable demand. Probably a portion of that is not noticeable right now due to the Chinese New Year's Eve, but I think that as soon as that passes, we should have some good news coming from emerging economies and China particularly.

(Rene Kleyweg): Thank you gentlemen.

Operator: Your next question will come from (Alejandra Luciano).

(Alejandra Luciano): At Credit Suisse. I just have two questions. I was wondering – I might have missed this if you talked about any hedging strategy or forward sales you plan for this year. Can you give an update if there's any strategy there?

Genaro Guerrero: Yes of course, (Alejandra). Well, as always, we used to follow the markets and we were very, very careful with opportunities, but I can tell you that at this point of time we don't have any hedging strategy decided for 2010.

(Alejandra Luciano): OK great. And then my next, yes. My next question is regarding your financing plans for your CapEx, if you plan to finance the \$800 million expected this year out of cash flow or if you expect to tap any financings and then further out long term for the full \$2.8 billion CapEx plan, if you expect to need any financing on that. Thank you.

Genaro Guerrero: Thank you, (Alejandra). In principle we are – we are expecting to finance our capital expenditure program for this year through our own cash generation. But at the same time we are analyzing our capital structure, and based on that, probably it is favorable for the company's results and the analysis is giving us more information, then probably we will decide to finance a portion of the capital expenditure program.

(Alejandra Luciano): Great, thanks for the update.

Genaro Guerrero: Thank you.

Operator: Your next question will come from (Gioni Avonetti).

(Brenomo Pinale): Hi, this is actually (Brenomo Pinale) with Morgan Stanley. Thanks for taking the questions. I have – first question is do you have a guidance for the estimated topics to ramp up Cananea again when that takes place?

Genaro Guerrero: Sure, well we are estimating. Of course, this number is going to be defined as soon as we reach or as soon as we get the facility again. When we enter to the – to the mine and to the operations, we will evaluate what has been the damage, and at this point of time, we are going to have a number. But even that today or currently, we are estimating between \$50 million and \$60 million.

(Brenomo Pinale): Thank you, my second question is you touched about the production start at Tia Maria. I was wondering if there were any comments as to which Toquepala and then the Cuajone concentration expansion to take place.

Genaro Guerrero: Yes, Raul Jacob has information about Toquepala and Cuajone and he will give the information. Please, Raul?

Raul Jacob: Yes, in the case of Toquepala we're expecting it to be starting production by mid-2012. In the Case of the Cuajone project, probably by 2013 that should be moving forward.
Regarding the Cuajone, I like to point out that the new projects that we add to the Cuajone pipeline of projects are – will be in operation by next year.

(Brenomo Pinale): Two thousand eleven.

Genaro Guerrero: Yes, so that ...

(Brenomo Pinale): So that – that's the 20,000 ton that you were mentioning.

Genaro Guerrero: Twenty-two thousand tons that comes from the new set of projects in Cuajone and 50,000 tons that will kick in 2013.

(Brenomo Pinale): OK, and there was also some volumes of molybdenum within Cuajone, right?

Genaro Guerrero: That's correct, about 500.

(Brenomo Pinale): OK, thank you very much.

Operator: Next question will come from (Carlos Sapher).

(Carlos Sapher): Hi, good afternoon. I want to know if you have an estimate price for molybdenum in 2010.

Genaro Guerrero: Well, our estimation for molybdenum for 2010 is \$13. I don't know if – well, it compares a little bit low against the current market but molybdenum has been very, very difficult to predict. The market is very – well we have been seeing a lot of volatility and drastic changes.

Then for that reason, we (inaudible) our self and we will – and we are being as conservative and we are estimating \$13 for the rest – for – as an average for 2010.

(Carlos Sapher): OK, thank you so much.

Genaro Guerrero: Thank you.

Operator: And at this time there are no further questions. And again I would like to remind everyone, if you have a question, please press star then the number one on your telephone keypad.

Genaro Guerrero: Well, we don't have any further question. Thanks again for joining us for this conference call and we hope that you rejoin us again in the – in the – for the first quarter of 2010. Thank you. Good evening, gentlemen.

Operator: And this concludes the conference call. You may disconnect.

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