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## Conference Call Transcript

**PCU - Q3 2007 Southern Copper Corporation (SCC) Earnings Conference Call**

Event Date/Time: Oct. 25. 2007 / 10:00AM ET

**CORPORATE PARTICIPANTS****Jose Chirinos***Southern Copper Corporation - CFO***Raul Jacob***Southern Copper Corporation - Head of IR***Xavier Garcia de Quevedo***Southern Copper Corporation - EVP and COO***Oscar Gonzalez Rocha***Southern Copper Corporation - Executive President and CEO***CONFERENCE CALL PARTICIPANTS****Jorge Beristain***Deutsche Ixe - Analyst***Felipe Hirai***Merrill Lynch - Analyst***Oscar Cabrera***Goldman Sachs - Analyst***Ved Feebe***Analyst***Alonso Aramburu***Santander - Analyst***Rama Layo***Analyst***Jorge Rodriguez***Analyst***Victoria Santaella***Santander - Analyst***PRESENTATION**

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**Operator**

Good morning and welcome to Southern Copper Corporation's third quarter 2007 results conference call. With us this morning we have Southern Copper Corporation's Mr. Jose Chirinos, Chief Financial Officer, Mr. Raul Jacob, Head of Investor Relations, who will discuss the results of the Company for the third quarter and answer any questions that you might 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 publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All results are expressed in full U.S. GAAP.

Now I will pass the call on to Mr. Jose Chirinos.

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**Jose Chirinos - Southern Copper Corporation - CFO**

Good morning, everybody. Thank you very much, Darlene, and thank you, everyone, again, for joining us for the third quarter 2007 Southern Copper earnings conference call.

Mr. Xavier Garcia de Quevedo, our COO, will also participate in the conference.

We will start with the copper prices, production and sales. The LME average copper price was \$3.50 per pound in the third quarter of 2007, 1% higher than the second quarter and 1% higher than the third quarter of 2006. During the third quarter of 2007, mined copper production was 304 million pounds. That means 2.4% lower than the 312 million pounds of copper production in the third quarter of 2006 and 13% lower than the 351 million pounds of copper produced in the second quarter of 2007.

The year-over-year, three quarters 2007 versus three quarters 2006, production decrease of 8 million pounds was the result of a 54 million pound decrease in the Cananea mine production as a consequence of an illegal strike. This operation has been on strike since July 30th.

As you know, one of the strategic advantages of Southern Copper is to have its copper production distributed between its four major open pit mines. The fiscal status of the Cananea mine strike is one situation where you can clearly see the advantage of the geographic distribution of our operations. In the case of this strike, the dimension of reduction in production has been partially offset by higher production at the La Caridad complex, which has increased production by 43 million pounds year-over-year. In addition, production at our Peruvian properties increased by 6 million pounds or 3%, year-over-year, due to higher ore grades at the Cuajone mine and better SX/EW production at Toquepala.

Since the Cananea labor situation is key to our operating performance in the rest of 2007 and 2008, let me give you some guidance on where are we heading regarding labor issues in this mine and the rest of our operations. In our view, Southern's labor problems in Mexico are caused by the desire of a very problematic national union leaders, who wants to maintain their position as head of the national mining workers union despite the wishes of the workers.

Unfortunately, some of the local chapters of the national union in our operations are following these leaders in what seems like a non-win strategy. At this point, we think that the Cananea, San Martin and Taxco illegal stoppages will not be sustained for a long period of time for the following reasons.

One -- on the legal front, we are expecting a favorable resolution by a second instance of the Mexican federal justice regarding the legality of the strike.

Two -- the second reason is related to the sentiment of the Cananea workers. We have good reasons to believe that a position favoring the formation of a new, independent, national union is gaining ground. We think that the Cananea, Taxco and San Martin workers would free themselves from the national union in the coming months and this will open the door for a healthier relationship between the Company and the workers.

We believe the strike should end during the fourth quarter. However, considering the Cananea union's work stoppages, the Board has decided to postpone indefinitely the Cananea and Guaymas, Sonora, expansion projects.

In Peru, the six-year contract of our eight labor unions expires between March and August 2007. After a period of negotiation, we managed to sign new six-year contracts with five of the unions. With the remaining three unions, the company and these three unions have reached agreement on 39 out of 43 points of discussion and agreed, also, on signing a three-year labor contract. On the four remaining points, the company and these three unions have agreed to accept the decision of a specially nominated Labor Authority representative.

The main point is the salary increase for the three-year contract. The other three points include a signing bonus for the new three-year labor contract, the percentage adjustment of certain fixed benefits and the weekly work schedule. As I said, we believe that the Labor Authority should issue a decision by tomorrow on these four points and both parties also agreed to accept that decision with no further discussion.

Back to operations, coming back to our operations, the smelted and refined copper production was lower by 9.2% and 17%, respectively, year-over-year. This variance results from the wrapping up of the modernized Ilo smelter in Peru. As we have reported, the modernized smelter reached a daily smelting record on September 30th and is achieved its full designed capacity during the fourth quarter.

Copper sales were 315 million pounds, 1% lower than the 319 million pounds sold in the third quarter of 2006. It should be pointed out that in last year's third quarter, SCC bought 27 million pounds of copper and concentrates. However, market conditions made this uneconomical for the Mexican operations in the third quarter of 2007.

Molybdenum prices and production and sales -- molybdenum prices were \$31.33 per pound. That means 21% higher, year-over-year, and 3% higher, quarter-over-quarter. Molybdenum production increased to 9.7 million pounds in the third quarter of 2007 from 5.1 million pounds in the third quarter of 2006.

This production increase was the result of 2.4 million pounds of higher, strike-free production at La Caridad and an increase of 2.2 million pounds in the production from our Peruvian operations due to higher grades and recoveries in both mines. Quarter-over-quarter, the Company had 13% increment in moly production due to better ore grades and recovery in Toquepala and better recovery in Cuajone.

Due to the better production, sales volume of molybdenum increased from 5.1 million pounds to 9.7 million pounds, a year-over-year positive elevation of 90%, helping significantly our operations' profitability.

Zinc prices, production and sales -- Zinc prices during the third quarter of 2007 averaged \$1.46 per pound, lower by 4.1% year-over-year. The average price for the second quarter of 2007 was \$1.66 per pound.

Mined zinc production decreased 16.5 million pounds in the third quarter of 2007 to 65 million pounds compared with 81 million pounds in the third quarter of 2006. This 30% decrease in production was due to the work stoppages at San Martin and Taxco mines and lower throughput at the Charcas complex due to the temporary stoppage of operations at its Aurora mine because of lower ore grades.

Southern's refined zinc production maintained its positive trend by increasing 23% year-over-year. As you know, the San Luis Potosi zinc refinery resumed operations in October of 2006 after an electrical fire seriously affected it and the beginning of the year-- at the beginning of the year.

Zinc sales, including concentrates and refined material, were 58 million pounds in the third quarter of 2007, lower by 13% year-on-year.

Net sales -- net sales in the third quarter of 2007 increased \$194.2 million to \$1.6 billion from \$1.4 billion in the comparable period in 2006. The increase in net sales in the third quarter was the result of higher molybdenum and silver prices and higher molybdenum sales volume. For the second quarter of 2007, sales were \$1.8 billion. Sales were down by 12% quarter-over-quarter due to the lower copper sales.

Operating costs and expenses -- operating costs and expenses were \$672.6 million in the third quarter of 2007 compared to \$607.7 million in the third quarter of 2006. The increase of \$64.9 million was principally due to higher cost of sales and higher depreciation-- amortization and depreciation.

Cost of sales for the third quarter was \$560 million compared with \$509 million in the comparable 2006 period. The increase in cost of sales of \$51 million year-over-year was mainly due to \$38 million of lower capitalized leachable material, consequence of the strike in Cananea mine, \$18.8 million of higher power and material repair costs and higher workers' participation of \$8.3 million, net of lower metal purchased from third parties.

The company cash cost, known in our industry as C1, was negative \$0.182 per pound in the third quarter of this year. This figure compares with a positive cash cost of \$0.382 per pound for the same period of 2006.

Excluding the effect of the byproducts, revenue cash cost was \$1.55 per pound, higher than \$1.42 per pound of the third quarter of 2006. For the second quarter of 2007, cash cost averaged negative \$0.295 per pound.

Our cash cost, excluding byproduct revenues, was higher by \$0.129 per pound, year-over-year. This increase is mainly due to the lower copper production at Cananea due to the two months of work stoppage.

Operating income and EBITDA -- year-over-year our sales increased by 13.8% and operating costs and expenses by 10.7%, yielding an operating income growth of 16.1%. The company's operating income amounted to \$934 million in the quarter, which compares favorably with last year's third quarter operating income of \$804 million.

EBITDA for the third quarter was \$1 billion, 15% higher than last year's third quarter EBITDA of \$877 million, but lower than our \$1,179 million obtained in the second quarter. The EBITDA margin was 63% of sales, higher than the 62% of sales registered in 2006.

Net income -- third quarter 2007 net income increased to \$628 million from \$522 million year-over-year, an increase of 20%, and amounted to \$2.13 per fully diluted share compared to \$1.77 per fully diluted share for the year-- for the third quarter of 2006.

Derivative activities -- I would like to comment briefly on the scope of some of our derivative activities. At September 30th, 2007, the Company has copper collar contracts to protect 73.1 million pounds of copper production for the fourth quarter at weighted average minimum and maximum LME prices of \$3.20 per pound and \$4.07 per pound, respectively. We expect these contracts will ensure a positive return for our shareholders.

Commencing in 2006, the Company began making short-term investments, 90 days to one year, in leveraged index instruments. The investments were made to enhance the return on our cash balances. Unfortunately, we have suffered some losses, both realized and unrealized, on these investments.

Related to these marketable securities, the Company has recorded a gain of \$1.6 million and a loss of \$79.9 million in the 2007 third quarter period and the first nine months of 2007, respectively. On October 3, 2007, as part of a financial arrangement, which included the redemption of \$68.6 million of Minero Mexico Series B Yankee bonds, the Company liquidated \$300 million of the marketable securities investment and received \$276.4 million.

The excess paid over the face value of the bonds of \$16.6 million will be recorded in the fourth quarter of 2007 as a loss on repurchase of debt. It should be pointed out that after these transactions, the total exposure of SCC to these leveraged and indexed instruments will be \$20 million.

Capital expenditures -- capital expenditures, including exploration expense, amounted to \$80 million during the third quarter of 2007, a year-over-year decrease when compared to the \$108 million expense in the third quarter of 2006, due principally to the completion of the Ilo smelter modernization in January 2007.

As mentioned before, the Board has decided to postpone indefinitely the Cananea and Guaymas, Sonora, Mexico projects. In the meantime, the Company will focus on developing the following projects -- the Tia Maria SX/EW copper project; the Toquepala concentrator expansion; the Cuajone concentrator expansion crusher conveyor for leach projects; the Ilo smelter expansion; and the Ilo copper refinery expansion.

With the exception of the Tia Maria project, the Company had previously considered to develop these projects at a later date, as the second stage of its investment program.

The go-ahead for the Tia Maria project was approved at our April meeting. This project is a greenfield SX/EW production that will produce 120,000 metric tons of copper cathodes per year. The estimated life of the project is 19 years, with operating costs estimated ranging from \$0.60 to \$0.70 a pound. The estimated capital cost of the project is \$934 million. It is the Company's intention to initiate operations on the project by the fourth quarter of 2010.

On the expansions for the Toquepala and Cuajone mines, as well as the Ilo metallurgical facilities, the Company will start feasibility studies and the environmental impact studies during the fourth quarter. The results of these studies are expected by the end of 2008.

In the-- the internal pre-feasibility studies conducted on these projects indicate that the Toquepala mine expansion could be in operation by 2011, contributing with 100,000 metric tons of copper and 4,100 metric tons of molybdenum per year to Southern Copper's production.

These mineral studies also indicate that the Cuajone expansion will increase its current annual copper production by 50,000 metric tons and the molybdenum by 700 metric tons. The last best estimate for the commencement of operations on these projects is 2012.

The Peruvian smelter and refinery expansions will process the new concentrates production. It should be finished 2012.

These investments will increase the Company's copper production by 270,000 tons per year for the year 2012, which represents 39% of the current production level. The estimated CapEx of the program, including the Tia Maria investment, is \$2.108 billion.

Payment of dividends -- it is 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 target quarterly dividend. Accordingly, the Company declared a quarterly

dividend of \$2.00 per common share to be paid on November 27th, 2007, to common shareholders of record at the close of business on November 7th, 2007.

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

## QUESTION AND ANSWER

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### Operator

(OPERATOR INSTRUCTIONS) Your first question comes from the line of Jorge Beristain.

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### Jorge Beristain - Deutsche Ixe - Analyst

Yes, good morning, gentlemen. I just had two basic questions. One is, if there's any actual updated document that you've published with the specific volume increases related to this capacity expansion U-turn that you're proposing. Obviously, the last guidance that was public was all predicated on Cananea, but I would just like to get an idea of the production curve going forward or if we should basically expect flat production until the year 2012 when you bring on this incremental 270,000? That's my first question.

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### Raul Jacob - Southern Copper Corporation - Head of IR

Jorge, at this point we have made the-- I'm sorry, I have to present myself. This is Raul Jacob from Southern Copper. At this point, as I say, we are-- our Board took the decision. We haven't published, so far, anything as a press release regarding these volume increases other than the one that you received on the 23rd.

Well, the numbers that were mentioned by Jose will be available in our website later on today as-- or tomorrow, I'm sorry, as we have the transcript of the conference call.

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### Jorge Beristain - Deutsche Ixe - Analyst

Can you give us any concrete guidance right now as to what your production profile will look like in 2008, 2009 and 2010? Should we be assuming basically 690,000 tons of stable production until you bring on this new project or is there anything else that would drive growth in the near term here?

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### Jose Chirinos - Southern Copper Corporation - CFO

At this point the Company is evaluating its production plans for 2008. We believe at this point that we should be producing, assuming, of course, no strikes on our operations, we should be producing about 700,000 metric tons of copper next year in 2008. 2009 it should be pretty much the same. 2010 we should have the effect of the Tia Maria project. Tia Maria should get in operation by the fourth quarter of 2010, producing, if it operates on a full-quarter basis, 30,000 metric tons of additional copper. So for 2010, you should have about 730,000 metric tons of

copper production as an estimate and from 2010-- 2011 we should have the full Tia Maria production in line, so that should be about 820,000.

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**Jorge Beristain - Deutsche Ixe - Analyst**

Thank you. My second question is more related to the strategy of what you're doing. Part of the rationale for merging with Minero Mexico two years ago was this whole concept of the long life and huge reserves that were untapped in Mexico. You've done a complete U-turn instead, shifting your growth to Peru, where already the mine lives are quite lower and I'm just trying to understand from a strategic rationale what is the point of leaving Mexico undeveloped and moving, instead, to a country where I would argue that arguably it's a tougher legalistic and environmental regime that you're facing now in Peru?

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**Jose Chirinos - Southern Copper Corporation - CFO**

Xavier, would you like to answer this question?

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**Xavier Garcia de Quevedo - Southern Copper Corporation - EVP and COO**

Hello?

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**Jorge Beristain - Deutsche Ixe - Analyst**

Yes?

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**Xavier Garcia de Quevedo - Southern Copper Corporation - EVP and COO**

Well, in Mexico, as we informed you before, we're ready with the projects to increase the capacity of Cananea in the new SX/EW plant with a capacity of 35,000 tons per year, as well as increasing the concentrator capacity by 33,000 tons of copper--

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**Jorge Beristain - Deutsche Ixe - Analyst**

I'm sorry, I can barely hear you because of the background noise.

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**Xavier Garcia de Quevedo - Southern Copper Corporation - EVP and COO**

Sorry. To resume, in Cananea, we-- our plan was to increase production by 33,000 tons, expanding the concentrator, plus 35,000 tons with a new SX/EW operation, as well as a new moly plant. Unfortunately, because of the labor problems, the Company decided to put on hold all these projects. But it doesn't mean that once we resolve the problems of-- the labor problems and we have a very solid and stable relation with the unions, as we have now with eight of our contracts, we will put-- we will start up these projects.

Also, I would like to remember that we are-- we are finishing the feasibility study of El Arco. El Arco is our greenfield project in Mexico, which has over 40 years of life reserves. It's fully

proved. We have made (inaudible) analysis and once we finish with the feasibility study and the environmental impact assessment, this project will be presented to our Board by the middle of 2008 for approval.

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**Jorge Beristain - Deutsche Ixe - Analyst**

Well, I would just like to comment that it is somewhat disappointing that given the magnitude of the change in your CapEx outlook and the strategy, that there's no further corroborating evidence or any kind of guidance that's being provided by the Company at this time to help the analyst community understand the nature of your new production profile. Thank you.

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**Xavier Garcia de Quevedo - Southern Copper Corporation - EVP and COO**

We will-- we will explain to you in writing so we can-- you can-- you will have more comprehensive. But what we are doing this, we are having a plan to increase production by 270,000 tons by the year 2010, 2011, but at the same time and, depending on the labor issues in Mexico, we may be increasing production, starting up the projects in Cananea and El Arco.

I think it's comprehensive, because we cannot really invest if we don't have the conditions to do it in Mexico. And, unfortunately, today we don't have these conditions.

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**Jorge Beristain - Deutsche Ixe - Analyst**

Thank you.

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**Operator**

Your next question comes from the line of Felipe Hirai.

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**Felipe Hirai - Merrill Lynch - Analyst**

Hi, good morning, everyone. Just to-- for me to understand the situation in the Cananea project, my understanding is that you are now postponing the new projects in Cananea, so I just wondered if you could give us an idea of how far in the development of Cananea you were? Like I believe you probably were already in the engineering stages of the project and how fast you could start up the project once you decide to go ahead and develop those projects?

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**Xavier Garcia de Quevedo - Southern Copper Corporation - EVP and COO**

Yes. Well, we-- we have, already, the basic engineering for the SX/EW plant, as well for the expansion and we were working on the mining plan to build a new concentrator in Cananea. So from the three-- from the three projects and, as well, the moly, out of the four projects, we were really ready to start up the detailed engineering and construction.

And we believe that once we have the conditions to start up these projects, we can-- we can do it very rapidly. We have acquired the land. We have the permits to do it. So it's a matter of solving the labor issues.

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**Felipe Hirai - Merrill Lynch - Analyst**

Okay. And I have a second question, which is related to your hedging strategy. Could you just explain-- explain a little bit of what's going to be your hedging strategy going forward? The past few quarters you keep hedging about 25% of your next quarter production, but is there anything that you're already doing for next year?

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**Raul Jacob - Southern Copper Corporation - Head of IR**

Oscar, this is Raul Jacob. The hedging strategy of the Company has been in the past opportunistic in the sense of taking advantage of certain market situations where we as a company found advisable to take-- to lock a certain price or a price range to project our EBITDA for a given quarter.

That has been the case of what we have done in the fourth quarter, as well, and I think that we will probably proceed in the same fashion in the-- during 2008. We don't have a set goal. You may understand that given the volumes that this company produces, it's not that easy to find someone on the other side of the table that wants to take-- that wants to take a protection, a price protection, in the range of prices where we want to have them.

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**Felipe Hirai - Merrill Lynch - Analyst**

Okay, thank you, Raul.

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**Operator**

Your next question comes from Oscar Cabrera.

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**Oscar Cabrera - Goldman Sachs - Analyst**

Good morning, everyone. Just in terms-- there's a couple things I would like to ask. In terms of Tia Maria, I mean, my understanding is that the fundamentals in this project are pretty robust but the end of 2010, that's like two years and a half. What kind of lead times do you think you need for the SX/EW equipment to get it there? Are you retrofitting from a different part of the-- of your operations in Mexico? That's the first one, then I'll follow up with another one.

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**Oscar Gonzalez Rocha - Southern Copper Corporation - Executive President and CEO**

This is Oscar Gonzalez from Peru. I think that we have already the-- (inaudible) the timing for the equipment and it's about 18 to 20 months. Then if we start solicitation for the engineering firm next month, then we will have this starting next year and we can ask after the first basic engineering details, we can start requesting the equipment that has that long period of delivery and we don't see any problem to be ready by the end of 2010 with the plant ready for production.

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**Oscar Cabrera - Goldman Sachs - Analyst**

Gracias, Don Oscar. And if I can just ask one more thing before we go on to the next one, the CapEx that you quoted, \$934 million, is that in-- was that estimate done this year, last year? When did you get that?

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**Oscar Gonzalez Rocha - Southern Copper Corporation - Executive President and CEO**

This-- we just get it two weeks ago and we are going to get the letter confirming that back from Santiago, Chile, at the delivery of feasibility study that they did for us and that is recent figures that we have.

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**Oscar Cabrera - Goldman Sachs - Analyst**

I see. Okay, thank you. Then secondly, in terms of the stoppage in Cananea, from your remarks earlier on, just a ballpark estimate it's about-- you're losing about 15,000 tons of production per month at that mine. It's-- that-- I guess the first question there is, is that-- would that be a fair assessment? And the second one is what kind of grades are you mining in Caridad to make up for this production? And does the 15,000 estimate per month that you're providing, does that include an offset for Cananea and, if so, what's the actual lost production in Cananea?

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**Oscar Gonzalez Rocha - Southern Copper Corporation - Executive President and CEO**

Xavier, could you answer that?

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**Xavier Garcia de Quevedo - Southern Copper Corporation - EVP and COO**

In Cananea, we are losing about 14,000 to 15,000 tons per month. Caridad is working at 100% capacity according with the plans and we have a low-- lower grade as Cananea. The grade at Caridad is about 0.42% copper, but remember that we have a higher grade now of moly. That's the reason we have increased production.

In copper terms, yes, we will continue losing this. However, we expect to solve this labor problem. Let's say, that the court may be ruling by the end of November. That's what we are expecting. We cannot assume, of course, that. Not depending on the Company, but we are expecting, let's say, to resolve very soon this problem.

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**Oscar Cabrera - Goldman Sachs - Analyst**

Right. But, I mean, if one wanted to take a conservative approach and just assume that the labor unions in Mexico will take and the courts will take time to resolve this, would it be fair to say that we should see a similar molybdenum production as long as the-- as long as the strikes remain? Is that what you're targeting?

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**Xavier Garcia de Quevedo - Southern Copper Corporation - EVP and COO**

Well, we don't have any strike at La Caridad. La Caridad, as a matter of fact, the workers decided to move to another union. So it's very stable now, the-- the ambient-- the atmosphere, the labor atmosphere at La Caridad.

So we are-- what we are expecting is even to increase by 5% or 10% the moly production by the next year at La Caridad.

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**Oscar Cabrera - Goldman Sachs - Analyst**

No, no. Just to clarify, I'm not saying that you have a-- I understand that the labor issues at La Caridad are much, much better than after the strike last year or the year before. No, I was just saying, if the Cananea strike continues, would you continue to focus on higher-grade molybdenum or despite-- in spite of the strike or if operations return in Cananea, you would still continue to target higher-grade molybdenum?

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**Xavier Garcia de Quevedo - Southern Copper Corporation - EVP and COO**

No, we-- we-- at Caridad we are looking not to produce as much copper as we can, but also trying to upgrade moly to offset the economic effects from the Cananea strike. Is clear?

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**Oscar Cabrera - Goldman Sachs - Analyst**

Yes. No, it is. Thank you very much.

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**Xavier Garcia de Quevedo - Southern Copper Corporation - EVP and COO**

Thank you.

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**Operator**

(OPERATOR INSTRUCTIONS) Your next question comes from the line of [Ved Feebe].

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**Ved Feebe Analyst**

Hi. I have a question regarding expansion plans. Like, you gave a guidance of 2011 that is 820,000 tons of copper, including the 120,000 tons from the Tia Maria project. So I just wanted to know about these three new projects, which you have approved in the third quarter. Like, I guess they'd be adding 150,000 tons per annum. So I just wanted to know like when would these productions add up later on? Is it fair to estimate that this production would start around 2011, 2012?

And my second question is regarding your third generation projects, about greenfield projects, the El Arco and Los Chancas. Do you have any timeline or volume estimates for those projects? Thank you.

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**Jose Chirinos - Southern Copper Corporation - CFO**

Okay on the production guidelines, guidance is as follows -- 2008, 700,000; 2009, 700,000; 2010, 730,000; 2011, 820,000; 2012, 820,000; 2013, where we will have the expansions already in line, 970,000.

Regarding Los Chancas and El Arco, could you, Xavier, comment on El Arco, please?

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**Xavier Garcia de Quevedo - Southern Copper Corporation - EVP and COO**

Yes. For El Arco, we will have ready the feasibility study by June next year, as well as the environmental impact assessment and the permits. So we will present to our board for approval this project. The schedule to complete this project, because of the infrastructure and so forth, is about four and a half years to build this project and start up.

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**Jose Chirinos - Southern Copper Corporation - CFO**

I guess in the case of Los Chancas, we are expecting-- we will go ahead with the feasibility study through 2008 and we will determine a date for coming this operation in line when we receive it.

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**Ved Feebe Analyst**

Okay, so do we have any-- do you have any estimates like how much production would these two projects add up, when they are implemented?

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**Xavier Garcia de Quevedo - Southern Copper Corporation - EVP and COO**

Yes. For El Arco-- for El Arco, we-- the capacity would be 190,000 tons per year for El Arco.

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**Ved Feebe Analyst**

And for Los Chancas?

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**Xavier Garcia de Quevedo - Southern Copper Corporation - EVP and COO**

And for Los Chancas, we are estimating 100,000 tons per year, 25,000 tons in copper cathodes and 75,000 tons in copper contained in concentrates. Los Chancas, as well, will produce about 10 million pounds of moly and El Arco will produce about 81,000 ounces of gold per year.

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**Ved Feebe Analyst**

Okay. And just the last question, like since you have postponed the projects from Cananea this year, so do we have any guidance, CapEx guidance, for this year? Because I guess on these projects must have already spent some money, so do we any CapEx guidance for the whole year, considering that these projects are now postponed?

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**Xavier Garcia de Quevedo - Southern Copper Corporation - EVP and COO**

You mean for Mexico or for--

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**Ved Feebe Analyst**

For the whole-- for Southern Copper, as a whole, do you have any CapEx guidance considering now these two projects won't be implemented going forward? So for this-- for the year 2007, whole, do you have any CapEx guidance?

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**Xavier Garcia de Quevedo - Southern Copper Corporation - EVP and COO**

Well, we will leave that the total projects will amount close to \$400 million, Southern Copper.

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**Ved Feebe Analyst**

Okay, thank you.

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**Operator**

Your next question comes from the line of Alonso--

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**Unidentified Speaker**

May I comment--? May I--

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**Jose Chirinos - Southern Copper Corporation - CFO**

Alonso?

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**Alonso Aramburu - Santander - Analyst**

Yes, yes, good morning. Good morning. I wasn't sure if the other person was going to ask another question. I just wanted to follow up on the molybdenum question. Do you think the run rate of production that you got this quarter is that sustainable for next year? That's number one.

And number two, can you comment a little bit on cost? Obviously, your costs have been going up quarter after quarter. I just wanted to get a sense of what you think your cost, your cash cost, may be, excluding byproducts, for next year?

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**Raúl Jacob – Southern Copper Corporation – Head of IR**

On the molybdenum production, we should have on the fourth quarter pretty much the same-- the same production that we had for the third. For the 2008, this year we have the benefit of

having a better ore grade for the Toquepala molybdenum production. That has helped somehow our Peruvian molybdenum production. We are, at this point, reviewing our production plan for 2008 so I cannot confirm that we will have the same molybdenum production coming from Toquepala.

However, as Xavier Garcia Quevedo mentioned, we are expecting to have about a 10% increase in production coming from La Caridad for 2008.

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**Alonso Aramburu - Santander - Analyst**

Okay and--

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**Raúl Jacob – Southern Copper Corporation – Head of IR**

And you had a question-- a question on costs?

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**Alonso Aramburu - Santander - Analyst**

Yes. I know your costs have been, obviously, affected by the lower production in some of your mines, but under normal conditions, what do you think your costs would be for the next coming quarters, excluding byproducts?

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**Raúl Jacob – Southern Copper Corporation – Head of IR**

No-- not-- extracting the byproducts from the total cost base, it should be about \$1.26 per pound.

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**Alonso Aramburu - Santander - Analyst**

Okay, great. Thank you.

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**Operator**

Your next question comes from the line of [Rama Layo].

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**Rama Layo Analyst**

Good morning, guys, and thank you for taking the call. I would like to ask some bigger picture questions at the shareholder point of view.

Number one, how do you characterize the macroeconomic environment in regard to the demand of copper worldwide, both specifically in China, India and U.S.?

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**Raúl Jacob – Southern Copper Corporation – Head of IR**

Well, for the U.S. market, we're expecting a weak market. That's obviously very known at this point. Let me comment on the effect that the U.S. demand has on the world demand for copper. The U.S. right now represents about 15% of the total world demand for copper and about half of that goes to residential construction.

So-- but it's badly affected by the cooldown of the residential industry in the U.S. It's about 7.5% of the total world demand.

On the case of China, India and, let's say, emerging economies that are growing at a fast pace, the fact is that the demand for copper is higher than the growth in the national production or the national product of these countries. Let me-- let me point, as an example, the case of China.

China is growing at about 10% to 11% for 2010 -- I'm sorry, 2007 -- and, at this point, that converts into an increase in demand for industries where copper is an important supply in the range of 22% per year. So the China demand, we think, is going to be strong as long as it has proved in the past two years that even though having an important export base to the U.S., they are also exporting significantly to other areas of the world, particularly among themselves, I mean, among Asian countries that are also having a very strong copper demand.

I think that that covers your concern.

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**Rama Layo Analyst**

Thank you. And the next one, are you more constrained by the supply of copper rather than the demand?

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**Raúl Jacob – Southern Copper Corporation – Head of IR**

I think that supply is, at this point, not responding, obviously, to what demand is requesting. Otherwise, we shouldn't have these price levels.

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**Rama Layo Analyst**

I see. Okay, my last question, if I look at your financial performance for the last three, five years, you have very consistently grown 30% to 40%, both sales and the EPS. It's a remarkable achievement. But if I look at the most recent quarter, you are growing at a 20% to 25% level. Are you slowing down or is there a little hiccup in there for the short run or you expect to maintain the past growth in the future also?

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**Raúl Jacob – Southern Copper Corporation – Head of IR**

Well, our growth in sales and byproduct revenue has mainly driven by prices, sir. So I think that prices are right now at a very good level, from our side, and as long as they maintain them, gains on our sales and other metrics of the Company will come from-- will come from the increasing productions and we already gave some guidance on what are we going to do on that.

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**Rama Layo Analyst**

Thank you.

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**Operator**

Your next question comes from [Jorge Rodriguez].

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**Jorge Rodriguez Analyst**

My question was regarding cash cost. It has already been answered. Thank you.

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**Operator**

Your next question comes from Victoria Santaella.

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**Victoria Santaella - Santander - Analyst**

Good morning, gentlemen. I have two questions. The first one is if you can elaborate on freight costs, freight. We've seen other mining companies and commodity companies suffering significantly because they have to go to the spot market to move material and I want to see if you have long-term agreements or if this something that is a concern for you.

The second question is your CapEx plan, even though it's very, very interesting, I see that you have resources to invest much more. I don't know if you still have the other options of investment in Mexico, once that labor problem is solved, if you are going to change your dividend policy. If you can, give us more light on that, because the capability of the company is to invest much more than that.

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**Jose Chirinos - Southern Copper Corporation - CFO**

Xavier, can you comment on the first-- on the question on the third parties concentrates, please?

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**Xavier Garcia de Quevedo - Southern Copper Corporation - EVP and COO**

Yes. Well, regarding-- regarding freight, we are not-- we have long-term agreements with some-- with some lines. And basically, as you know, we move-- we don't move too much concentrates. What we move is our cathodes. And our cathodes going into Asia, even from Mexico, we are getting very good rates because vessels are coming back from Mexico to Asia empty, so that's one of the reasons we can be very competitive. Actually moving cathodes from Mexico to Asia, we are paying about only \$25 per metric ton.

Our rates for moving the cathodes into the United States market, well, they have increased probably 3%, 4% each year. That's something that we expected because of the diesel increase.

So in freight, except for sulfuric acid, we don't see too much increases.

Regarding our capability for projects in Mexico, well, Cananea has (inaudible) is more than 2.5 billion tons of reserves and that's the reason we are planning to build a new concentrator with a

throughput of 100,000 tons per day, year four, to produce 160,000 tons of copper in concentrate.

With the production of-- the new production of Cananea, as well as the new production of El Arco, we also are planning to build a new smelter and a new refinery in the coast of Sonora, Mexico, in the northern part of Mexico, south of the port of Guaymas. That's something we have planned.

If we move to other projects, not copper projects, but zinc projects, we have the Buenavista mine. We have made a recent feasibility study and this is an underground mine with a grade of zinc around 4%, having also copper 1%, and 3 ounces of silver per ton. This is another important project.

Another project that we have is to expand our zinc refinery for 100,000 tons per year of refined zinc to 160,000 tons. Actually, we are doing the basic engineering and we are doing some tests in Finland for our concentrates.

We have another greenfield project, an underground mine, in the central part of Mexico, Michoacan, that is Angangueo. We have fully explored this mine and we are waiting for the final environmental permits and we have still to solve some problems with communities and once we do this, we will present to the Board for approval.

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**Victoria Santaella - Santander - Analyst**

Thank you so much. In the summary, a ballpark, how do you expect, in an optimistic scenario, that your investments in Mexico will account for the next five years, let's say?

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**Xavier Garcia de Quevedo - Southern Copper Corporation - EVP and COO**

Well, for the next five years, we are confident that the labor problems will be solved and then, just to summarize, for the construction of the-- and expansion of the first phase of the Cananea projects, we are estimating \$250 million. And then the new concentrator at Cananea, additionally we are talking of \$850 million. So \$1.1 billion.

Most of the other expansions of the zinc refineries and the Angangueo mine and the construction of the Guaymas smelter and refinery, we are-- roughly we are talking about \$1.5 billion, additional \$1.5 billion.

So to give you an idea, we are planning that for the next seven, eight years, the Company might produce 1.5 million tons of copper, growing from 700,000 to 1.5 million. And in terms of zinc, to increase our mined production by 30% and the zinc refinery, 60% to increase the capacity.

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**Victoria Santaella - Santander - Analyst**

Thank you so much.

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**Operator**

(OPERATOR INSTRUCTIONS) And there are no questions at this time.

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**Jose Chirinos - Southern Copper Corporation - CFO**

Well, thank you, ladies and gentlemen, for joining us today and we'll be in touch soon.

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**Operator**

This concludes today's conference call. You may now disconnect.

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