

Teleconferencing Tips For Better Transcription

Our goal is to provide a concise and correct transcript of your teleconference. These tips are provided as a reminder of what can be done to improve the quality of your teleconference along with your transcript.

Before You Start...

- State the meeting agenda or an outline of topics at the start of the teleconference.
- Do a roll call stating the name of each participant.
- Provide a list of names to the conference center to ensure correct spelling.
- Provide a list of spelling of unusual terms, acronyms, phrases and industry lingo to the conference center for reference.
- Remind participants to speak one at a time, or use a more formal structure such as queuing.
- Test your speakerphone with the teleconference operator prior to start time to ensure sound quality and volume.

During The Teleconference...

- State your name before speaking. As the host, address each person you are speaking to.
- Enunciate clearly. The b, d, f, m, n, s, t, v sounds are difficult to distinguish.
- Eliminate background noise such as fans, motors, paper shuffling and typing for better clarity.
- Include a closing that will help to determine when the conference and transcription will end.

Operator: Thank you for holding and welcome to your conference call today with your Chairperson Mr. Eduardo Gonzalez. At this time I would like to remind participants that this call is being recorded for playback purposes and transcription. Your lines will be in listen-only mode until the question and answer session. Mr. Gonzalez, I'll turn the call over to you.

Eduardo Gonzalez: Thank you very much Carrie and thank you very much ladies and gentlemen for joining us this morning. The format that we are going to follow today is similar to that of other quarters. We will be comparing quarter to quarter results and when I say quarter to quarter I mean fourth quarter of 2005 with first quarter of 2006 and when I say year on year it means first quarter of 2006 compared to the first quarter of last year. In all instances of course we will discuss all results in full US GAAP. Let me begin first by discussing our mine production during the first quarter of 2006. We had a total mine production of 160,500 metric tons and that compares quarter to quarter as an 11% or an 11.4% decline. That decline is mainly due for one, a partial stoppage or an illegal stoppage at the La Caridad Mine and the difference is due to lower ore grades or I should say temporarily lower ore grades at both the Cuajone and Toquepala mines during the first quarter of 2006. We expect these ore grades to recover during the second quarter of this year and

leading on to the rest of the year. When we compare that mine production to the first quarter of last year that is year on year we show generally a flat mine production, a slight decline of 0.0% and the reasons for that again are the La Caridad Mine strike. As for copper sales volume sold we registered a total amount in the first quarter of 151,000 metric tons and this represents a 22% decline in sales volume when we compare that to the last quarter and represents a 7.3% decline when compared to last year. The reason for the quarter to quarter decline is mentioned primarily because of the strike at La Caridad and the lower mine production but also a considerable amount of copper that is still in the pipeline equivalent to 11,600 metric tons of production, 5000 of which stayed at the ports of Ehlo* because of a strike that the port had there for a few days. That has been resolved and copper is moving along and the difference is finished product that is copper raw that was on its way to the United States and we were not able to register that as sales. So when we compare that number of 151,000 metric tons to last year's number of 163,000 metric tons of copper sold that is a 7.3% decline, however we should take into consideration that 11,600 metric tons that is in the pipeline and should be sold in the second quarter immediately and should recover in terms of sales volume during the second quarter and other quarters.

In terms of molybdenum sold on a quarter to quarter basis we have roughly a 1% decline and when we compare that to the first quarter of last year we have about a 16% decline. The difference on quarter to quarter is really null; it's about flat. But when we compare it to the first quarter of last year we show a considerable decline in molybdenum production sold and that is due as expected to lower molybdenum ore grades at all three of our mines and somewhat of course due to the illegal stoppage at La Caridad Mine. With these numbers and production figures we of course registered still better numbers than the first quarter of last year and somewhat about the same as the fourth quarter of last year. This is primarily due when compared to the first quarter of last year obviously to a considerable increase in metals prices. For instance, year on year copper showed roughly a 53% increase, that is copper prices, zinc prices showed a 70% increase, silver showed almost a 39% increase, gold a 29% or almost 30% increase and molybdenum was the only product that showed a decline of almost 27% year on year. But all of the other metals prices were more than sufficient to mitigate the impact of the lower molybdenum prices and lower production in molybdenum and therefore we registered much better results in the first quarter of this year compared to last year. Quarter to quarter we also showed pretty much a flat performance

and that is due to also a decline in molybdenum prices of about 23% largely mitigated by other metals prices increase, mainly copper with an increase of 11%, zinc 37%, silver 20% and gold 14%. With these production figures and metals prices what we show on a quarter to quarter basis is an increase in sales or excuse me, a slight decline in sales of almost 5% although this was largely mitigated quarter to quarter by lower production costs. Thereby we showed an EBITDA number, which is basically equivalent to the fourth quarter of last year and of course a significant increase compared to the first quarter of last year. Again, EBITDA flat quarter to quarter and year on year we show a 30% increase in EBITDA. EBITDA margin remained approximately the same compared to the fourth quarter of last year registering 61% and compares to the 58% that we registered during the fourth quarter of last year and better than the 55% registered during the first quarter of last year. In terms of net income we show a considerable increase from the first quarter of last year. Total net income amounted to approximately \$421 million compared to \$298 million last year; that is a considerable increase of 41% and amounts to approximately \$2.86 per share. On the other hand when we compare that same figure on a quarter to quarter basis net income remains practically flat increasing a little bit over \$1 million; that is a 0.3% increase and again on an earnings per share basis we show

a flat figure quarter to quarter of two point eighty-six cents. Total capital expenditures during the first quarter amounted to \$143 million registering a 43% increase compared to the first quarter of last year and a slight decline compared to the fourth quarter of last year. The increase compared to the first quarter of last year is primarily due to our continuation or continuing expenditures in the ILO* Smelter Modernization Program, which should be up and running and fully completed by October of this year and several of the anote* wheels and so on are already under operation.

I should also mention that we have accumulated a considerable amount of free cash flow throughout the last few months. We had a total cash position at the end of the first quarter of well over \$700 million. We consider that at this stage a dividend of \$2.75 per share is a prudent number to pay out as a dividend distribution to shareholders as we believe that over time we will easily make up that difference in order to continue our expansion program. We are currently reviewing several important projects including Tia Maria in Peru, Los Chonkas in Peru mainly. These are larger-scale projects, each one of which could include production of 50,000 metric tons and the other as much as 150,000 metric tons of additional copper production. We are currently completing pre-feasibility analysis in each one of these projects and hope to

complete these analyses by the end of this year or early next year at which time we will make a decision whether we go ahead with these projects or not but as things look today it is practically obvious that we will at such time. With this in mind, ladies and gentlemen, let me open up the forum for questions and answers and we thank you very much for joining us today.

Operator: At this time we will begin the question and answer session by asking anyone who wishes to ask a question to press star/one on your touch-tone phone. Your name will be automatically placed into queue until your name is announced. If someone else has already asked your question you can remove yourself from queue by pressing the pound sign. If you do have a question please press star/one now. Our first question comes from Jorge Beristain from Deutsche Bank.

Jorge Beristain: Hi, it's Jorge Beristain from Deutsche Bank and I just had two questions. **One is if you could just quantify at the current rate assuming the La Caridad strike continues how much that will actually impact throughput in the second quarter if we were to assume say a worse-case scenario that the strike was not resolved for the full quarter?** I understand La Caridad is about 20% of your overall production but I understand you can mitigate

some of that from concentrate from La Cananea so that's my first question.

Eduardo Gonzalez: Regarding the first question you are almost correct; La Caridad represents about 17% of our total mine production so you could expect from our regular run rate of 165,000 or 170,000 metric tons of copper mine production under normal circumstances you simply subtract 17% away from that and you will get your number if La Caridad remains in the illegal stoppage. I should underline that this is an illegal stoppage and not a strike and that is essentially the impact of the mine.

Jorge Beristain: And it will not be mitigated then in any way by using excess concentrate from Cananea or other mines.

Eduardo Gonzalez: We can certainly buy from third parties but there is little we can do within the mines in terms of all of a sudden increasing ore grades at one mine or the other. It's really going to be as is. If we do not acquire concentrates from third parties we will suffer about a 17% decline from run rate mine production.

Jorge Beristain: **My second question was just related to the capitalized stripping costs. If you could explain that issue again and also**

are we to expect a more normal ratio now or normal depreciation charge of roughly \$50 million per quarter going forward as a result of the change in the capitalized stripping costs?

Eduardo Gonzalez: Let me explain how that works. We had a total amount on the balance sheet accumulated over time of a little bit over \$400 million of capitalized stripping. Now this number in accordance to GAAP is basically taken out of the balance sheet and taken against retained earnings or stockholder's equity. Now I should add that not the entire \$400 million or so is taken as a hit on retained earnings because as we put that number and reverse it and put it into our cost of goods sold that means we also have a considerable tax benefit so the net impact on retained earnings was roughly a little bit over \$300 million; \$317 million was the exact figure that is the hit against retained earnings. For the future you could expect that our costs on a quarterly basis will increase by approximately \$25 million. This has already been shown in the first quarter numbers as opposed to the \$50 million you mentioned and this is because of certain tax benefits and so on. But again the number should be about \$25 million in increased cost. This is generally a wash in terms of free cash flow is not a slight benefit since our cost increase; we do get the tax benefit of that so a slight increase in

free cash flow, not significant and these are generally the changes.

Operator: Our next call comes from Raphael Biderman from Bank of America; go ahead, you now have the floor.

Raphael Biderman: From BBVA (inaudible). Edwardo, congratulations on the results.

My question regards there was news on Reforma saying that you guys are analyzing acquisitions and one of them could be Phelps Dodge. I know these are speculative questions. You have already mentioned that you might use the shares to make acquisitions. Could you just walk us through and give us some light on the size of acquisitions you are thinking, what are the types of assets you are looking for? Secondly, you mentioned that you are putting investments in Peru, Tia Maria and orders*. How does this political situation in Peru impact your investment decision in the region and how do you see the political scenario impacting PCU?

Eduardo Gonzalez: Let me respond to your first question and before I continue on that aspect I should say that we generally follow a no comment policy but we can generally tell you of course some of our thinking. I think we have always been pretty straightforward in saying that we are continually in discussions with several companies and several

opportunities out there. It is our responsibility of course as management to seek the best possible alternative for our shareholders. Now, within this situation the consideration is very simple. We have been thinking acquisitions. We have been thinking our own expansions and we have been thinking seriously an outright sale of Southern Copper. Now when we say a sale it doesn't mean that we would just give the company away. We would only exchange our current shares for shares of another company if there is a very considerable premium for our shareholders there; we would consider it and then let's say remain as a partner to the new entity. If it is a very large company we could remain with 20%, 30%, whatever the number may result of course with us locking in that premium and remaining as partners of the new entity. These are considerations. We have been again in discussions with several companies over time. This is nothing new. But I should also underline that there is absolutely nothing imminent. These discussions are ongoing and there is absolutely no certainty that any of these things will materialize into anything serious. Of course in the future if we do see an opportunity or we sign any sort of agreement this will immediately be informed or disclosed to the market but these are generally the considerations and yes we would consider a dilution so to speak below 50% in Southern Copper if we get the proper premiums and get the proper

returns for our shareholders in terms of locking those in. In terms of Tia Maria I will pass the word over to Oscar Gonzalez Rocha; he is the President and Chief Executive Officer of Southern Copper, Oscar.

O. Gonzalez Rocha: About Tia Maria like was mentioned before we are in the process of finishing the exploration and drilling and we will start in the month of June the feasibility study. By the end of the year we should finish that and within that time we will know the political situation of the countries depending on the elections at the end of May and the start of the new government at the end of July. Then our purpose is to continue doing investments in Peru but we will need to check the political situation at the end of the year or at the beginning of next year when we will need to decide if the feasibility study is okay. We will start construction if everything works that way.

Raphael Biderman: Just one follow-up for Oscar and for Edwardo as well. **Oscar, is it possible that Alontomala* had made declarations in the past of nationalization of mining in light of what Edwin Morales* is doing in Bolivia and now he has changed his speech. Do you know if it is possible legally for him to pursue a strategy like that? Do you guys consider this as an eventual risk or real**

risk or not?

O. Gonzalez Rocha: No. We are not considering that like a risk because definitely one thing is when they are in campaigns and promising a lot of things to the population in order to get the votes and something else when they are like presidents. Still he will need to win in order to do anything and we do not think it is legal to do the nationalization.

Raphael Biderman: Edwardo, I want to be pretty sure of what you said; it's a very big statement. **When you say that if I understood it correctly that one option that you consider is of having less than 50% of Southern Copper but I mean Southern Copper is the merged entity of the operations in Peru and in Mexico. Did I understand you correctly?**

Eduardo Gonzalez: Yes you did. Let me reemphasize that as management it is our responsibility always to seek to maximize the shareholder value and stakeholder value within this company. If that means diluting the primary shareholder because it makes sense in terms of premiums and so on it is our obligation to consider that.

Raphael Biderman: You would lose the control. **If you had like 30% you accept**

having like 40% in case you have like considerable voting powers even without having 50%; would that be the case more or less? Would you open the control?

Eduardo Gonzalez: I can't give you any details. All I can say is that we are willing or more than willing to consider a dilution of Grupo Mexico's ownership of 75% to below 50% if the premiums are there, if of course it makes strategic sense and if there is risk mitigation in terms of diversifying into other countries, diversifying labor risk and so on. All of these things are considerations.

Operator: Our next call comes from Daniel Altman from Bear Stearns; go ahead.

Daniel Altman: Hi, it's Daniel from Bear, congratulations. I have two questions. **First of all, in terms of the 1Q results again we seem to have this issue of when we try to multiply out the volumes and the prices we get to a pretty large residual amount. I wonder if you can, to the extent you can, break down the revenue between copper, molybdenum, silver etc.? The second question is I was just listening to the Phelps Dodge conference call and they are I guess about 25% hedged to the copper price for this year. I am wondering if that's something**

TCU is considering doing or has already done looking forward?

Eduardo Gonzalez: Let me respond to your first question. Copper sales volume as a percentage of our total sales has increased and this is of course due to less molybdenum produced and of course a decline in molybdenum prices as opposed to exactly the opposite in copper where copper sales volumes have generally over time slightly increased except for that compared to the fourth quarter but the price of copper has increased considerably. Right now the total participation of copper within our revenues is approximately 68%. The rest is mainly molybdenum with about 22% and then we have zinc, which would follow with perhaps about 6% and then it breaks down into the other smaller metals; gold, silver, lead and so on. This relationship, again, has changed in terms of for the benefit of copper. As to your second question on an annualized basis right now during the next four months we have obtained hedges. We have sold basically all of the production of the next four months at an average copper price above \$2.80. After that we really have less than 8% of the production sold and leading up to the fourth quarter we have zero of the production sold. So generally these are the hedges or production that we have sold for the next four months.

Daniel Altman: So this is reflecting results from April through to June?

Eduardo Gonzalez: Yes. When I say four months it is April into July mainly and a little bit of sales that we have done in the month of August as well. Generally what our Risk Management Department deemed prudent is that with these very high metals prices and so on it was prudent to lock in a considerably higher EBITDA than the company had every had in its history. With these prices that we have locked in, in the second quarter, it is pretty much a certainty that EBITDA will be considerably above \$800 million for instance so these are some of the benefits that we have already locked in for our shareholders.

Daniel Altman: **In terms of volumes obviously your volumes are constrained right now because of the strike. Did you hedge kind of a full production quarter or did you hedge a strike-affected quarter in terms of volumes?**

Eduardo Gonzalez: A full production quarter.

Daniel Altman: **So you may be over-hedged then for the quarter.**

Eduardo Gonzalez: No because we did accumulate some inventories, almost 12,000

metric tons and so on and we expect to acquire in such case copper from third parties in certain contracts that we may pull at a certain time so we are not short so to speak.

Operator: Our next question comes from Polina Kurdyazko from Bluebay Asset Management, go ahead.

Polina Kurdyazko: Hi gentlemen; I had two questions. **The first one was on the illegal stoppage as you call it in one of your mines in La Caridad. Could you give us a little bit more clarity as to where we stand with that at the moment? You mentioned in the press release that you are working with the Mexican authorities to resolve this illegal stoppage. Is there any indication in terms of timing or what the next step would be and what are your expectations of resolution of the strike?**

Eduardo Gonzalez: This is a situation that unfortunately has become highly politicized between a campaign and parties and presidential campaigns and so on. On the other hand there is a considerable inter-union dispute going on that unfortunately has brought us into the centerpiece of the situation for instance at the stoppage or illegal stoppage at La Caridad. What is going on I will try to succinctly put this in perspective. The old labor union leader was basically

expelled by the union. The federal government recognized this or took note of it. A new labor union leader came in. This was about two and a half or three months ago. The new labor union leader is not recognized by some of the union members and these are generally a minority of union members that are asking the federal government and companies to recognize the old labor union leader. So this huge fight is taking place and the old labor union leader who is outside of Mexico right now because he has basically been charged with several corruption charges and so on. He is directing some of his people to block the entrances, in this case for instance of La Caridad Mine. So there are several miners that are blocking the entrance to La Caridad and not letting the vast majority of the workers that do want to get back to work to come in and work. In the meantime of course this is a difficult situation because there is really nothing you can do in an inter-labor dispute other than sit by and wait for the federal authorities, state authorities and so on to act and of course remove what is illegal, which is people blocking the entrance of a house or a mine or a company. It is hard to say at this time unfortunately how long this strike may last but we do hope and are confident that the authorities will act hopefully soon and we can go on with our work and our business.

Polina Kurdyazko: Thank you. **Also on one of the questions that was asked earlier**

on potential cooperation through merger acquisition with other international partners do you need to get any legal regulatory approvals from Peru in order to change your ownership structure?

Eduardo Gonzalez: No; this is a US company. You will recall that this is a company in Delaware that operates in Peru through a branch and through a subsidiary in Mexico but this is a full US company listed on the New York Stock Exchange with an ADR; it's a US company again. So essentially other than of course local regulations and so on that we must always respect but foresee absolutely no hurdles in such events. Mind you, these events are by no means imminent as I mentioned. But having said that, no, we do not foresee any particular issues either within Mexico, the US or Peru.

Operator: Our next question comes from John Wlodek from Bradford & Marcez.

John Wlodek: I'm sorry; I don't have a question at this time, thank you.

Operator: Our next question comes from Jamie Nicholson from Credit Suisse.

Jamie Nicholson: **Regarding your Capex budget for the year I know you're still**

defining some projects but do you have a current Capex plan, if so how much and what's it divided between Mexico and Peru?

Eduardo Gonzalez: The total Capex budget is approximately \$450 million for full year 2006. That is of course prior to any approvals that the board and management may recommend to the board regarding Tia Maria, Los Chonkas and new projects. But excluding these potential expansion projects, which I just mentioned the budget is \$450 million it is approximately divided up about 65% into Peru and the difference into Mexico. Peru is a little bit more right now because we are still completing the ILO* Smelter modernization. We still have over \$120 million to spend in terms of completing that project and in Mexico we have the expansion of the SXEW plant in Cananea, which is in basic engineering as we speak and there are of course acquisitions of new equipment and so on but these are the major projects going on in the approved capital expenditures budget.

Jamie Nicholson: **How much debt do you have at Menara* Mexico at this point?**

Eduardo Gonzalez: There is no particular debt at Menara Mexico other than the Yankee bonds. We have two Yankee bonds, one that expires in 2008.

That is about two years from now, April of 2008 and that is approximately \$160 million right now. We also have at Menara Mexico a Yankee bond, a 2025 Yankee bond in the amount of \$125 million. This is debt that Menara Mexico or the Mexican Division had prior to us acquiring that division so those bonds remained as part of the debt of the Mexican Division. All of the rest of the bonds that we have and so on are at the Southern Copper level.

Jamie Nicholson: **And you don't anticipate buying back any...did you buy back a little bit of the Menara Mexico bonds in the quarter to reduce it down to \$160 million?**

Eduardo Gonzalez: Yes. We opportunistically sometimes do buy and we bought a few during the first quarter of this year. If I recall correctly it was approximately \$8 million that we bought and opportunistically we do pick some of these up but only if it makes sense from the yield point of view of course.

Jamie Nicholson: **One last question regarding your cash production cost. I guess the accounting change and the increase in your operating cost to like 122 as you reported that's mostly non-cash. What are your cash production costs?**

Eduardo Gonzalez: Let me mention that the 122 is a cash cost and that is before any byproduct credits from the sales of the zinc, silver, molybdenum so on and so forth. The reason we make that figure public is because it is very confusing to follow the net cash break even cost because of course of variations in byproduct prices and volumes and so on and so forth. The increase to 122 cents is partially due as you well pointed out to us no longer capitalizing stripping. It now goes in the directly to cost of goods sold. But also I should mention that as metals prices increase we also pay considerable amount of additional worker's profit sharing and this goes into the cost of goods sold line. This is also an impact in that level. Thirdly, we have not experienced increases in electricity and in fuel charges across the board and we are of course no exception as the entire world I should say is experiencing the same so these are the effects. All of these effects that have increased costs have been entirely mitigated of course by higher metals prices and higher byproduct credits.

Jamie Nicholson: **Do you still publish the after byproduct offset costs?**

Eduardo Gonzalez: Yes. We did not make the figure. I don't believe it's in our press release but the figure is disclosed in the 10Q's. I believe the first quarter was about \$0.27 positive compared to a negative cash cost

in the first quarter of last year, minus 16 in the first quarter of last year. The difference there is molybdenum showed a \$0.40 decline in terms of byproduct credit per pound of copper. That is due mainly to price and somewhat to less volume so most of the increase on a net basis from the minus 16 to the positive 27 is due primarily to that change in molybdenum byproduct credit.

Jamie Nicholson: Thank you very much; I appreciate the clarification.

Eduardo Gonzalez: No problem.

Operator: Our next question comes from Jorge Beristain, go ahead.

Jorge Beristain: **If I could just have a follow-up because I do believe that what you are talking about now, this potential of selling down your control stake in Southern Copper is in my view new news. I just wanted to understand is there something that's changed in management's mind or the owners mind specifically of G. Mexico in the past few months in terms of some of these things you mentioned maybe having more of a diversification of country risk, labor risk and things like this? Is the owner changing their mind towards having their eggs in one copper basket at this point?**

Eduardo Gonzalez: No. There is absolutely no change from the past except perhaps the world has changed in certain situations and it may be more convenient at this stage to be larger, to diversify risk further into different countries and to of course increase returns to shareholders by capturing considerable synergies. There is really no change from the past. We have always been open to such circumstances except again the world has changed and sometimes it may be less expensive outright to do this than to go by in a net present value situation. We have continually or consistently mentioned in prior conference calls that we view the world in net present value per share. What yields the highest net present value per share for our shareholders is what our board of directors and of course management will recommend to pursue.

Jorge Beristain: **Theoretically if you were to sell a majority control does this involve forcibly also making the same offer to the minority shareholders? I would assume under US law there would be tag-alongs and I just would like to understand if theoretically if this company was to be sold if the entire company would have to be sold or if you could actually just sell a small portion of it?**

Eduardo Gonzalez: We have never even contemplated...the minority shareholders are a different group. You are talking to Southern Copper management here and we consider our company one. I don't know if that's clear but it includes every single shareholder to whom we're responsible to whether they have 100 shares or millions of shares.

Jorge Beristain: **I will give you an example; G. Mexico owns 75%. If tomorrow they wanted to swap a 30 percentage point stake of that for shares of the large global mining company would the rest of the Southern Copper shareholders be equal on those same terms? Would they be offered the same kind of package or could they remain as a distinct free float of PCU and not be affected by that kind of share swap?**

Eduardo Gonzalez: Let me reemphasize that. We make no distinction between the major shareholder and the small shareholders. We are not negotiating different packages here. It is one shareholder, includes every single one of 147.2 million shares that we currently have outstanding; that is 100% of the shares of Southern. Everyone gets the exact same treatment in our management's mind.

Operator: Our next question comes from Edmo Chagas from UBS, go ahead.

Edmo Chagas: **My question is a follow-up on your cost comments and the impact that the stripping had in the first quarter results. Looking to the remainder of 2006 what kind of cost evolution do you expect given the cost pressures that you have seen so far?**

Eduardo Gonzalez: We have seen about the same cost pressures; there is really no change. We obviously know the natural ones, which are gas, diesel fuel, gasoline and electricity, which has been the main components. On a second basis we have seen cost pressures of course in steel ball for the mills and reagents and so on but this is pretty much the same. There is no change from last year although the huge increases have generally flattened with the exception of electricity and diesel fuels but all the rest let us say the slope is not as inclined today as it was back in the first and second quarter of last year.

Edmo Chagas: **But do you expect that this (inaudible) is likely to flatten out in the coming quarters or to come down given that you restart product at La Caridad after the strike etc.?**

Eduardo Gonzalez: No. We expect things to remain about the same as they are right now. It is very hard to foretell if they are going to continue to

increase but generally speaking what we see is that if some of these costs increase we also see copper and other metals increase as well, which largely mitigates or entirely mitigates these impacts. That has been our experience thus far.

Operator: Our next question comes from Felipe Hirari from Merrill Lynch, go ahead, you have the floor.

Felipe Hirari: Hello Edwardo. I have two questions. **The first one is a follow-up about hedge. I just would like to understand if I got this correctly are you fully hedging your copper production or your copper sold for the second quarter?**

Eduardo Gonzalez: Yes we have sold our copper production for approximately the next four months as we mentioned at the prices a little bit above \$2.80.

Felipe Hirari: **My second question is if you could give us the (inaudible) of your production going forward for the next year in terms of grade, (inaudible) lower and if you also take into account all the (inaudible)...how much can we expect copper production (inaudible)...?**

Eduardo Gonzalez: Excluding any expansions, some of which are currently underway

and some of which may be of course approved in the future such as Tia Maria and Los Chonkas we should expect slight increases in production. Ore grades at three of our four mines should increase within the next few months and years. That includes Cananea, it includes Cuajone and Toquepala and you will notice that I excluded La Caridad. La Caridad is the only mine that in general we are experiencing decreasing ore grades of copper so generally speaking on a flat basis you should expect mine production to inch upwards going forward excluding of course the expansion of Cananea and so on and so forth.

Operator: I show no other questions in the queue at this time. Again, if you do have a question press star/one on your touch-tone phone. Our next question comes from Raphael with Bank of America; your line is open.

Raphael Biderman: Edwardo, this is Raphael again. **Could you give us an update on the expansion projects in Mexico at La Caridad and La Cananea how they are evolving? I remember when there was the merger of both one of the benefits of the merger of (inaudible) Mexico (inaudible) was to unlock the expansion potential of La Caridad and La Cananea. Could you give us some color on that?**

Eduardo Gonzalez: Obviously there have been several changes since then, some for the good and some for not so good. For instance, we have of course now approved and are currently underway in an expansion in Cananea of (inaudible) XEW* Plant in the amount of 33,000 metric tons per annum. We are reviewing an expansion of the concentrator plant. This has not been approved yet because we are looking at the best way and quickly moving into pre-feasibility and feasibility analysis and we have been reviewing other projects as well. But this is going to take us some time for us to finish the proper drilling and the proper analysis and then we can approve these projects. As we mentioned, two of these are Los Chonkas and Tia Maria. Let me also emphasize that the labor situation has not been the best in the last few months. This has put let us say sort of a damper in the short-term in terms of aggressive expansions in Northern Mexico and this is part of the benefit of being a global company that we can easily switch between let's say a project in Mexico to a project in Peru and vice versa depending on how we view the current environment and so on. At this stage again without being too blunt these are the considerations we are taking into account. There are some expansions going on in particular in Cananea as I mentioned but we are reviewing other possibilities. I think it is safe to say that the next projects that

should or may go ahead are perhaps Tia Maria first and then Los Chonkas and then we will consider the rest as things look right now.

Raphael Biderman: **La Cananea; do you have any date on when it would come on stream?**

Eduardo Gonzalez: We don't have a specific date yet. Part of the reason for that is that equipment and so on is not as easy to get as it was a few years back. Generally speaking, a plant of this size we could build and start operations in 24 months. Nowadays this may actually take a little longer due to the scarcity of equipment and so on in the industry. It could take as much as three years. We don't know yet and of course we are in discussions with several of the suppliers and we will be able to give you better timing once all of the engineering phase is completed, which as I mentioned is currently underway. But we are also considering a potential expansion of the ILO Smelter and Refinery, which we have a lot of the equipment already in place and that could be a huge benefit to our shareholders. There are several alternatives right now.

Operator: Our next question comes from Alberto Arias from Goldman Sachs; go ahead, you have the floor.

Alberto Arias: **I have a question regarding this potential transaction that you are talking about. After the previous conference call Southern Copper was talking about a potential acquisition and it seems that the level of discussion has shifted to a selling of a stake of the company, a controlling stake. Typically companies are not buyers and sellers at the same time. Should we interpret this shift as a view that perhaps we are past this or at the peak of the cycle and should we disregard completely any potential acquisition from Southern Copper as a consequence of this new approach?**

Eduardo Gonzalez: No. I don't think you should disregard acquisitions at all. I think, Alberto, I encourage you to look at the playbacks or listen to the playbacks in other quarters. We have said that we are willing to acquire the companies and so on and so forth considering certain circumstances. But we also always said that we look at things in a present value basis and what yields the best value we will pursue, whether that meant acquisitions, whether that meant our own expansions or something else and I think we were very clear about that. No change from the past in that sense. We will do what yields the most value for our company. Acquisitions have by no means been disregarded at this stage. We are reviewing both of

these possibilities and we will continue to do so. Again, what makes the most sense we will pursue. In terms of when people say sale I would like to emphasize that we are not just talking selling and leaving. This is an exchange of shares where we are seeking to remain as part of a partnership with a new entity where we might be minority shareholders of course but it would not generally matter because we would be a more efficient, bigger company that has captured a premium and still have enhanced returns for our shareholders with less risk but that is basically it Alberto.

Operator: At this time, Mr. Gonzalez, there are no further questions in queue.

Eduardo Gonzalez: Thank you very much ladies and gentlemen for joining us today and we hope to see you at the next quarter conference call.

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*Please Note: Proper names/organizations spelling not verified.