

SOUTHERN COPPER CORPORATION

Moderator: Raul Jacob
April 30, 2007
10:30 am CT

Operator: Good morning my name is (Janice). And I will be your conference operator today. At this time I would like to welcome everyone to the Southern Copper First Quarter Results Conference Call. All lines have been placed on mute to prevent any background noise.

After the speaker's remarks there will be a question and answer session. If you would like to ask a question during this time, simply press star then the number one on your telephone keypad. If you would like to withdraw your question, press star then the number two on your telephone keypad.

At this time I would like to turn the conference over to Eduardo Gonzalez, Chief Executive Officer. Please go ahead sir.

Eduardo Gonzalez: Thank you very much (Janice) and thank you everyone again for joining us for the first quarter 2007 results for Southern Copper Corporation. Gentlemen I think and ladies I think the first order of the day of course as I'm sure it's on everyone's mind is the situation regarding the strikes in Peru.

I'd like to describe the situation to you in the following way. Unfortunately there is two aspects to these work stoppages, illegal work stoppages in Peru. One is an idiosyncratic situation and one is more of a systematic situation.

In terms of idiosyncratic situation or particular to Southern Copper, on the 28 that is on Saturday our workers at the Ilo smelter went on an illegal work stoppage arguing for higher wages.

They were joined today by the Cuajone and Toquepala unions who argue also increases in salaries but they also argue something that is more systematic and political in nature. And we cannot really resolve that situation on our own. This is regarding no limit to the worker's profit sharing for all of the industry in Peru.

And that is being asked for from the government that they are also requesting free affiliation to pension funds again something that we have no control over and some other minor items.

In any event that is important to also to emphasize that as of right now Ilo is operating normally that is the smelter foundry and refinery are operating normally despite the fact that there are some picket fences about 20 to 30% of the work force is moving in and out of the smelter.

And again we are working under normal circumstances and expect to continue that way in a short – for a short time period. In the case of Toquepala and Cuajone both mines are operating normal. We have taken the proper precautions so that the impact of these illegal work stoppages are not material to the company.

We have a participation of unionized members of about 60% in Toquepala and somewhat less in Cuajone. The remainder of course have decided to walk out.

We expect the authorities on a federal level to declare the strike illegal in a short period of time maximum a couple of weeks by which time we hope that everyone returns to work and disruptions are minimized at that time.

I emphasize again that all of our operations continue to work under normal circumstances or at normal capacities due to the precautions that we have taken. With that in mind ladies and gentlemen, let me move on to the quarterly results.

The quarterly results reflect a quarter where we have lower copper prices that we had during the fourth quarter last year. And again all of our figures today will be based on the first quarter of '07 compared to the fourth quarter of '06 that is quarter to quarter and also comparing the first quarter of '07 to the first quarter of '06 that is year on year.

Now in terms of copper mine production this amounted to 171,600 metric tons during the first quarter of '07 and represents a 4.4% decline on a quarter to quarter basis due primarily to a drop in the ore grades of the Toquepala mine slightly mitigated by an increase in ore grades at our Cananea mine.

On a combined basis ore grades on a quarter to quarter basis dropped by about 2% and thereby explains the 4% decline again on a quarter to quarter basis. On a year on year basis we demonstrated almost a 7% increase in that copper mine production and that is due to exactly the opposite.

We have increasing ore grades compared to the first quarter of last year and thus higher mine production. Total copper sold during the first quarter amounted to 151,000 metric tons. This was about 9% lower than the fourth quarter of last year that is on a quarter to quarter basis.

And this is due primarily to certain disruptions that we experienced in the start up of the Ilos smelter and refinery where we accumulated some significant concentrates.

Ironically this accumulation gives us certain advantages right now as we have a certain amount of inventories at the Ilos smelter and are able to use this during the work stoppage in order to continue operations.

On a year on year basis total production sold increased by almost 10% and this is also a result of de-stocking. Total molybdenum sold during the first quarter of '07 amounted to 3,300 metric tons representing an 8% decline on a quarter to quarter basis also due to slightly lower ore grades particularly at the Toquepala mine and a 9% increase from last year that is on a year on year basis.

And this is also due to increases in ore grades at all of our mines regarding molybdenum but also increased recoveries at the La Caridad mine in Mexico. Copper prices amounted to a total of \$2.70 for the first quarter of '07 representing a 15% decline on a quarter to quarter basis but a 20% increase on a year on year basis.

Zinc was an 18% decline but a 54% increase on a year on year basis. And molybdenum represented a slight 3% gain on a quarter to quarter basis but a 16% gain on a year on year basis.

When we combined the higher relative production too on a year on year basis with the higher metals prices, we demonstrated a pretty good quarter.

Total sales amounted to \$1.1 billion that is 21% higher on a year on year basis. But excuse me, \$1.3 billion and that represents a 21% increase on a year on year basis and a 17% decline on a quarter to quarter basis due primarily to the lower copper prices.

Total cost of sales amounted to \$473 million a 15% increase year on year but a 21% decline quarter to quarter. Here I'd like to emphasize that we've seen a flattening of these pressures and expect that there will no longer be significant up pressures in terms of costs but copper prices are significantly stronger leading into the second quarter and expect results to be very strong during the second quarter and going forward.

As a result of the relatively lower cost of sales and increased sales all in all operating income amounted to a total of \$787 million up 24% from last year and up 17 – down 17% quarter on quarter due to the lower copper prices.

Total EBITDA for the quarter amounted to \$878 million up 28% from last year and down 14% on a quarter to quarter basis.

Total net income for the quarter amounted to \$563 million up 33% from a year ago and down 11% from last quarter that is the fourth quarter of last year.

That translates into a net income of earnings per share of \$1.91 for the first quarter of '07 also of course a 33% increase on a year on year basis and an 11% decline on a quarter to quarter basis.

Total capital expenditures for the quarter amounted to \$105 million that is down 26% year on year and down 27% quarter on quarter primarily due to the completion of the Ilos smelter modernization program and expect again the Ilos smelter to be operating normally toward the end of this quarter that is the second quarter.

Capital expenditures in the expansions of the Cananea SX/EW plant number three is under way and expect that plant to be operating some time in 2009.

We're also aggressively working on pre-feasibility studies or completing feasibility studies and basic engineering studies on several projects that includes Tia Maria.

It includes Los Chancas in Peru. It includes El Arco in Mexico. It includes two projects at the Cananea mine. One is a concentrated expansion and another one is a molybdenum plant construction. With this in mind ladies and gentlemen, thank you very much for joining us. And we'd like to open up the forum for questions.

Operator: At this time I would like to remind everyone if you would like to ask a question, press star then the number one on your telephone keypad. We'll pause for just a moment to compile the Q&A roster. Your first question is from Carlos De Alba of Morgan Stanley.

Carlos De Alba: Yes good morning Eduardo and just how are you?

Eduardo Gonzalez: Very good thank you.

Carlos De Alba: The first question is regarding the hedging funds that you put in place in the first quarter. What was the rationale behind it?

Eduardo Gonzalez: Well we will be very cautious in terms of hedging going forward. Of course what we would ultimately like to achieve is some sort of protection on the balance side without limiting the upside for our shareholders.

And if you look at the small amount of callers that we had placed during the first quarter of this year they do exactly that. These are callers that guarantee a floor of \$3.18 for a pound of copper and a ceiling of approximately \$4.04 per pound of copper.

I emphasize this as only based on 6% of our production and would like to achieve more placements in this nature but again we will be very cautious. We will not limit the upside but will try to protect ourselves in the down side.

Carlos De Alba: Thank you. And just a follow up – not a follow up but a follow up question regarding the cycle situation. Recently Cycle LLC filed a law suit against AMC or Grupo Mexico in which it argues that the transaction took place when a Grupo Mexico bought PCU from Cycle in following conveyance.

Is there any – what is the risk in case this law suit, you know, comes? Or is – it's proved to be correct or – the argument to be correct in the (unintelligible)? What are the risks to PCU?

Eduardo Gonzalez: That's a good question Carlos and let me emphasize again that we believe that there is no indirect or direct impact in Southern Copper's integrity regarding this lawsuit that is an issue between Grupo Mexico AMC parent companies of course of Southern Copper and their subsidiary ASARCO.

I would much rather that you ask that same question to Grupo Mexico on their conference call on Wednesday regarding what possibilities they see that may or may not impact Grupo Mexico.

But again from the Southern Copper point of view there is no reasonable scenario where this may affect the integrity or ongoing operations of Southern Copper.

Carlos De Alba: Thank you Eduardo.

Eduardo Gonzalez: You're welcome.

Operator: Your next question is from Veband Budbey of International. Veband Budbey, your line is open.

Veband Budbey: Hello good morning. I've got two questions basically one is on the provisional pricing and another is on the cost of sales. My first question is regarding this provision pricing.

There was (unintelligible) provisionally priced contracts on (unintelligible). I just wanted to know like what was the impact on this quarter's revenue due to those provisional pricing contracts.

And my second question is on the cost of sales. I would like to know out of this total cost of sales how much is due to the (unintelligible) of external copper concentrates. Thank you.

Eduardo Gonzalez: In terms of your first question we have a lower average copper price during the first quarter of '07 than we did during the fourth quarter of last year

so the provisionally priced contracts are actually negative. They impact negatively on the results.

I believe the number for Southern Copper was somewhere around \$45 million negative but Raul if you're listening could you clarify if you have better information regarding the provisionally priced contract?

Raul Jacob: Yes thank you very much Eduardo. Basically we support this adjustment using the forward curve for open sales adjustments. In this quarter we are doing it with an average price of \$ 3.11 per pound for 83 million pounds.

That was a different price than what we had at the end of '06. We don't have the detail on the impacts of this on current sales.

Eduardo Gonzalez: And for your second question could you repeat what that was?

Veband Budbey: Yes it was regarding the cost of sales like in some of the previous quarters last year and the cost of sales was higher because of some external (unintelligible) purchases of copper concentrate. So I just wanted to know how much of this total cost of sales how much is due to purchase of external third party copper concentrates.

Eduardo Gonzalez: Okay the number for the first quarter of '07 was approximately \$48 million of costs in terms of concentrate purchased from third parties. This is in the first quarter of '07 and that compares to \$34.6 million in the first quarter of '06. On a cash cost or a per pound basis that's about 13 cents per pound of copper.

Veband Budbey: And (unintelligible) can I just ask more one question. I'd just like to know like the effective tax rate in this particular quarter has been just 29% compared to

32% in each of the previous quarters last year. So is there any particular thing or should we should assume 32% going forward.

Eduardo Gonzalez: We do have a slightly lower tax rate leading up to the 2007 rather than that of '06. The effect here is twofold. Number one in Mexico the tax rate dropped from 29% to 28% but also the relative weights in terms of what Mexico contributes to Southern Copper is different.

The prior quarters due to the disruptions in Mexico Southern Copper's Peruvian operations were contributing about 60% or over 60% of the Inca.

This year it is approximately or almost exactly 50/50 in fact a little bit more skewed toward Mexico now which is about 54% in the first quarter contributed by Mexico and less the difference of course by Peru.

And again Mexico also taxed at a lower tax rate. So you should expect the all in tax rate to drop somewhere around the 31% range of 30% range going forward.

Veband Budbey: Thanks a lot.

Operator: The next question is from Victoria Sasntaella of Sander.

Victoria Sasntaella: Hi good morning Eduardo. I have a brief question regarding your expectations in terms of the uses of all the cash that the company's accumulating. So you guys going to pay down debt, increase CAPEX?

Can you give us an idea what is management planning to do with that? And the second question is if you can give us an idea of how has been global demand for especially copper and molley lately?

Eduardo Gonzalez: Yes in terms of our accumulation of cash we are actually paying all of the excess cash or everything that has been accumulated from the fourth quarter to the first quarter which was approximately \$450 million of net cash accumulation.

We almost paid that entire amount in dividend which amounted to \$430 some odd million. So in essence we are paying all of our excess cash in terms of dividends and trying to avoid a negative carries. Nevertheless we still have approximately \$1.3 billion net in terms of cash at the end of the first quarter minus of course the dividend.

Some of that cash is being kept for certain capital expenditures that we hope to approve and fund going forward in the next few months and quarters. And the remainder is what we consider to be a relatively sound based in terms of minimum cash.

Of course this will vary because we have to pay taxes and so on and so forth. And the number you see is not necessarily the free cash flow that we have accumulated.

But in any event the main idea here is to avoid the negative carries, you know, to keep only the amount of cash that we deem necessary for capital expenditures and operating purposes and pay the rest in dividends.

Victoria Sasntaella: Thank you. And a brief comment on demand, global demand for copper and molley.

Eduardo Gonzalez: Well as we all know we've seen a pretty sup to 360 or so and back down to about 350 and molybdenum has also somewhat increased although

molybdenum has been far from it's high levels two years ago well almost two years ago and is rather stable staying at about the \$27 range and some times going down to \$22 and back up to \$25 and so on and so forth.

But in general I'm sure you're all aware of the Chinese factor here. Consumption in China increased during the first quarter substantially and that led to significant draw downs in terms of inventory but also there is a significant amount of hedge fund activity that drives these metals prices up and down and a lot of volatility in the medium and short term

However I also would like to emphasize and this is the same thing we said in the fourth quarter conference call that we expect copper prices to remain very strong. It is difficult to give you a precise number in that sense.

But we expect and continue to believe that there will be very strong copper prices going forward and thereby allowing Southern Copper to continue to deliver very strong value to our shareholder visa via dividends and share price increases.

Victoria Sasntaella: Thank you very much.

Eduardo Gonzalez: Thank you.

Operator: Your next question is from Rafel Urquia of Citigroup.

(Gabriel Gonzales): Yes good morning. My name is (Gabriel Gonzales). I work with Rafel Urquia and I was wondering if you'd be able to provide us with a little bit more – well a little bit more color with regards to the length of the strike that is to say how long you expect this going to be a lingering problem especially

in the light of the fact that the out sourcing issue seems to be coming from that.

It seems that you had to settle then it doesn't want to go away. Whether or not these strikes will be resolved quickly but we could see further problems going down the road again because of the problem with out sourcing.

Eduardo Gonzalez: Good question and we honestly feel that this strike should not last too long given the very, very high probability and the government has already indicated the nature of these strikes which are illegal. As soon as they are declared illegal it is usually the case that workers return within 48 hours to work.

So the key here is to have the government move to declare these strikes illegal. We expect that will happen at the longest within the next two weeks and if that is the case we expect disruptions to be relatively small.

Of course this is all I can give you at this stage but we are confident that things will be resolved accordingly and the workers will return within that timeframe.

Raul Jacob: And perhaps even sooner.

(Gabriel Gonzales): Thank you.

Eduardo Gonzalez: You're welcome.

Operator: Your next question is from Andres Cuellar of GBM.

Andres Cuellar: Yes good morning. I was wondering if you can give us a little bit more color in terms of your improvement in EBITDA margin. Clearly pricing has something to do with it. But is there a little bit more to it?

Eduardo Gonzalez: Yes there's a couple of effects. Number one of course the higher metals prices of – I emphasize that we had higher buy products that we compared to the first quarter of last year across the board. All prices were higher but also all productions were higher and this reduced the amount of third party purchases in terms of concentrates.

And you will recall that when we purchased from third parties we buy these at a higher cost than it is to produce our own concentrates. So this switch and mix also helped the margins going up to the first quarter of '07. And finally I'd like to say that cost pressures have somewhat flattened.

Of course there's an increase from the first quarter of last year but they have flattened and in fact come down slightly from the fourth quarter of last year. So these are the three effects again higher prices, higher provisionally priced contracts, cost controls, and a reduction in third party purchases.

Andres Cuellar: Okay great. Thanks.

Operator: Your next question is from Alonso Arambeiru from Santander.

Alonso Arambeiru: Yes good morning. I was wondering if you can give us a little more color. You mentioned that you don't expect a more pressures on the cost side for the rest of the year. And I was just wondering if you're going to give us a little more color on that?

Eduardo Gonzalez: It's of course very difficult to give you a prediction of where costs are going to go but again our feeling is that these cost pressures have somewhat flattened out.

We do not expect any significant cost pressures going forward. But we do expect copper prices to remain relatively strong so margins ought to remain very strong going into the next few quarters.

Alonso Arambeuru: What were your cash costs this quarter?

Eduardo Gonzalez: The total or the net cash cost was 4.7 cents per pound of copper approximately.

Alonso Arambeuru: Sorry, excluding by products.

Eduardo Gonzalez: But before by product credits \$1.27.

Alonso Arambeuru: Thanks. Just one last question a follow up on the strike. I understand that the Ilo's smelter workers had started a strike on Saturday. Is that because they have different demands than the rest of the mining workers or not?

Eduardo Gonzalez: Well these are different unions. And one of the demands is that the dates in terms of where they can negotiate contracts be tied to all across the unions. And this is one of the particularities that some of the unions are asking for.

Also the Ilo smelter wanted to perhaps to make some sort of point regarding that they were asking for wage increases which is something rather typical in this market situation.

And they wanted to strike right before everyone else did to make it some sort of a point that make them unique. But the basic and the fundamentals of all of these strikes are the same.

Alonso Arambeuru: Okay thank you.

Eduardo Gonzalez: You're welcome.

Operator: There are no further questions.

Eduardo Gonzalez: Okay ladies and gentlemen well thank you very much for joining us again in the first quarter '07 results for Southern Copper. We hope to see you in the Grupo Mexico conference call 48 hours from now. Thank you very much.

Operator: This concludes today's conference. You may now disconnect.

END