

SOUTHERN COPPER CORPORATION

**Moderator: Raul Jacob
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11:00 am CT**

J. Eduardo González Félix: ...increased quarter on quarter. And, of course, that's primarily due to the normalization of operations at both the Cananea and La Caridad units in our Mexican division.

Both Cuajone and Toquepala operated slightly above expectation during the fourth quarter and in fact throughout the year.

On a year-on-year basis, total mine production was a little bit lower than last year by about 1%, but again almost normalized to the 180,000 run rate that we hit in the fourth quarter of '05.

On a cumulative basis, total mine production amounted to 605,000 metric tons and was 12% lower than the 690,000 metric tons registered during 2005.

Total production sold during the fourth quarter amounted to 183,000 metric tons. That's a 27% increase quarter on quarter and a 6% decline on a year-on-year basis due to a slight accumulation of inventories.

On a cumulative basis – that is on a 12-month basis – total copper sold amounted to 629,000 metric tons and is – and represents a 10% decline.

The reason mine – total production solid is not as low as mine production is due to third-party purchases that we acquired during the end of the second quarter and beginning of the third quarter in order to replace that production that was not produced by both Cananea and La Caridad, albeit at a much higher cost than producing our own production.

Copper prices during the fourth quarter amounted to approximately \$3.20, registering a approximate 10% decline quarter on quarter and a 57% increase year on year.

Despite the lower copper prices during the fourth quarter, on a quarter-on-quarter basis, we were able to deliver a record level of EBITDA due to the recovery of both La Caridad and Cananea.

EBITDA during the fourth quarter, for instance, amounted to \$1.019 billion and represents a 16% increase on a quarter-on-quarter basis, again despite a 10% decline in copper prices quarter on quarter.

On a year-to-year basis, total EBITDA increased by 50%. And that is primarily due to the increase in metals prices, as most of you knew – know.

On an annualized basis, total EBITDA amounted to a record \$3.3 billion. That is 41.6% higher than the (\$2.034) billion generated during the full year of 2005.

Total cost of sales came relatively under control during the fourth quarter of this year. That is mainly due again to the fact that we stopped acquiring so

much copper concentrate from third parties and started depending (our) own internal production, which is, of course, of significantly lower costs.

We did experience significant other cost pressures during the year. Particularly we can refer to electricity. We can refer to reagents, steel (ball), tires, et cetera. But none of these aspects caused any disruptions during the year. And we do not expect these prices to continue their increase during 2007.

Let me touch upon also total taxes paid during the fourth quarter amounted to \$300 million. And that is, of course, a significant increase quarter on quarter of 10%, an increase of 63% year on year. And on an annualized basis, total taxes amounted to \$980 million. That is a 66% increase.

These taxes are quite in line with our approximate 32% marginal tax rate and are, of course, a result of a profitable company and certainly due to the increases in metal prices and so on.

Total net income for the quarter amounted to \$630 million. That is a 21% increase quarter on quarter and a 50% increase year on year. On a fully annualized basis, total net income amounted to a little bit over \$2 billion and represented a 44% increase from the \$1.4 billion generated during 2005.

Earnings per share during the fourth quarter amounted to a record \$2.15, up 21% quarter on quarter and up 50.7% on a year-on-year basis.

For the full year ended on December 31, 2006, total earnings per share amounted to \$6.85, up 44% from the \$4.75 generated during 2005.

Total dividends paid during the fourth quarter amounted to \$1.70. That is also a record level and represents an increase of 23% on a quarter-on-quarter basis, 19% year on year.

For the full year ended December 31, total dividends paid amounted to \$5.13 out of a total earnings per share of \$6.85. And that compares to a total dividend of \$2.90 per share for 2005 compared to total earnings per share of \$4.75.

Total capital expenditures for the fourth quarter amounted to \$145 million. That is almost in line with the last quarter's and on a year-on-year basis represented a decline due to the completion of the Ilo smelter modernization program primarily.

On an annualized basis, total capital expenditures amounted to \$520 million, a slight decline from the \$600 million that (were) spent in 2005, again mainly due to the completion of the Ilo smelter modernization program.

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

Operator: At this time I would like to remind everyone if you would like to ask a question, press star then the number 1 on your telephone keypad.

We'll pause for just a moment to compile the Q&A roster...

Your first question comes from (Rafael Biderman).

(Rafael Biderman): Good morning, Eduardo. Congratulations for the results.

Eduardo, I have two questions. One is regarding on the press release, you mentioned that you still had some impact of the concentrates you acquired on the previous quarter. This had some impact on there on the cost of goods sold. And I would like to know the size of it, if I understood correctly.

And also if you could comment a little in terms of the outlook of copper prices? Basically my doubts is regarding how are you guys seeing demand in the United States, if it's already rebounding, demand in Asia, the restocking process, and also in particularly the new capacities, which are expected for this year, they are not – if they are coming onstream as expected.

And the big – and there are some big increases in inventories in the LME, like the – last Friday there was an increase, an inflow of 7000 tons. And if you guys have an idea where is this coming from, if this could be producers or the Chinese – if the Chinese government could be trying to manipulate the market again and because I suspect producers wouldn't want to scare the market, putting so much tonnage on the LME.

This is more or less my doubts, Eduardo.

J. Eduardo González Félix: Well, thank you very much for both of your questions. And let me try and tackle the first question.

In terms of third party production acquired, most of that copper concentrates was acquired during the second quarter. Total amount for the year acquired from third parties amounted to approximately \$180 million.

I don't know exactly how much of that is relevant in the fourth quarter. But it is safe to assume that a significant amount of production that was acquired from third parties during the quarter was sold during the fourth quarter rather

than our own copper production. So that did affect the cost of goods sold during the fourth quarter, but mainly during the third.

Again, I can not venture and tell you the exact number. But yes, the fourth quarter was affected still by third party purchases.

On the other hand, both Cananea and La Caridad, mostly Cananea reached almost 100% production during the fourth quarter. But Caridad is still struggling at about the 93% as we speak today and as people are being retrained and so on. And we expect to reach capacity in the next few weeks or months.

In 2007, we do not expect the material third party purchases, although we will continue to do this from time to time given the fact that we like to manage our smelters and refineries at close or 100% of capacity.

On a relative basis, total mine production should reach the run rate that we reached in '05, a little higher. In other words, during 2007, for your information, we should be producing approximately 200 million pounds of additional copper production compared to 2006, which is about 90,000 metric tons. So that means that we should be reaching about 700,000 metric tons and thereby decline our third party purchases materially.

Now your second question regarding copper prices, we have taken a statistic that is based on several dozen analysts, including CRU, the banks and so on. It appears that the average for 2006 – (oh), I'm sorry, for 2007 is estimated by this average at about \$2.80.

At this stage, we believe that China in the short term has switched their consumption machine so to speak into internal consumption rather than importing. They have demonstrated a 19% decline in imports into China.

But we have also seen a very, very dramatic drop in Chinese inventories of well over 50% in the last few weeks, which means that in a few months, it is likely that China will not have inventories to consume from its own inventories and thereby switch back to importing from other parties or from outside of China.

We believe that the fundamentals continue to be very strong as we see the average of analysts or take particular sources – credible sources that I would not like to mention which sources these are, but they are credible sources – we can see that in 2007, we will be on a balance and we will still hit a decline or let's say an imbalance in 2008 where production may outstrip a little bit – by a little bit the consumption.

Now when we look at the statistics of the projects that are in line to consume or to produce in the next 24 months, we find it difficult to believe that some of these projects will come in on time or that some of these projects will come in at all during that time period.

And I – again, here I would not like to mention any particular names. But it seems to us that it will be difficult for the supply/demand situation or for the demand situation to considerably outstrip supply or for supply to considerably outstrip demand.

So we think that we will generally be in balance and fundamentals look very strong going into 2007 and certainly thereafter.

And I don't know if – when you asked your question about new capacities whether you referred to these capacities that I just mentioned or our own capacities.

(Rafael Biderman): No, no, these capacities you just mentioned, yes.

J. Eduardo González Félix: Okay. Well, thank you.

(Rafael Biderman): (Okay).

Operator: Your next question comes from (Andre Cilar).

(Andre Cilar): (Oh) yes, good morning. Congrats again on the results.

Could you also give us an outlook for the – for molybdenum prices please?...

J. Eduardo González Félix: Molybdenum prices we believe will slightly recover, although we have budgeted a very conservative price, as we generally do. But we think that it'll recover from today's prices within the next few weeks and months.

To which levels, it's hard to say. But we estimate that it should be in the mid 20s.

(Andre Cilar): Okay, great. Thanks...

Operator: And your next question comes from (George Bernstein).

(Jorge Bernstein): Hi, good morning, Eduardo. (Jorge Bernstein) from Deutsche Bank.

I just wanted to follow up again on that question regarding how much concentrate or what was the value of third party concentrate embedded in the cost of goods sold in the fourth quarter because as I – as far as I understand, that's a pretty critical metric.

Just to throw a number out for every \$100 million difference, it would seem to impact your cost of goods sold per pound of cash cost production by about 25 cents. So I just wanted to understand when you said that the bulk of that 180, did it fall in the third quarter or in the fourth quarter?

J. Eduardo González Félix: The bulk fell in the third quarter, although again, a – I'd say about 30% fell during the fourth quarter. But yes, it does impact the fourth quarter results.

Now there's also something important to mention here, that as copper prices drop, you also know that there are provisionally priced contracts, which impacted fourth quarter results.

And I did, (Jorge), see your numbers estimates for fourth quarter. We should have been actually quite in line with those numbers if it would've – wouldn't have been for the provisionally priced contracts.

(Jorge Bernstein): Yeah, that was going to be my second question, was could you give us what you believe was your average realized price of copper per pound in the fourth quarter?

J. Eduardo González Félix: I believe it was about \$3.20, \$3.21. But the provisionally priced contracts cost us approximately \$75 million to \$80 million on copper alone.

(Jorge Bernstein): Okay, so sorry. Well, the quote that you're giving us is basically the market price. So you have not stripped out this \$80 million impact?

J. Eduardo González Félix: No. The realization price is usually above the average metals price. But in any event, the – what the provisionally priced contracts refer to is those contracts that were still open on December 31 on a 30-day basis.

(Jorge Bernstein): Okay.

So sorry, just to clarify, the \$3.21, that's your average realized price including provisional pricing? Or...

J. Eduardo González Félix: Correct.

(Jorge Bernstein): ...(unintelligible).

J. Eduardo González Félix: (Including).

(Jorge Bernstein): Okay.

And sorry, my last question was just on the volume guidance. It has – it does seem that there's been a little bit of a creep up. I understood your company was operating at about a 650,000 ton annualized rate. Obviously what we saw in the fourth quarter would put you much closer to the 700,000 ton that you now said is – could be the new guidance.

Is this a change in your public stance on your guidance? Or was there something anomalous in the fourth quarter that perhaps you (hit better)? Or could you just discuss why you're now seeing a 700,000 ton production rate?

J. Eduardo González Félix: Well, it's simply – if you look at the run rate in 2005, we had already produced about 690,000 metric tons of copper production, our own mine production.

So it's really back to normal is what it is and maybe a little higher ore grade here and a little lower here. But in general, we believe that the run rate capacity of the company is approximately 700,000 metric tons of our own mine production, of course, absent any disruptions that we had during 2006.

(Jorge Bernstein): Okay. Thanks very much.

J. Eduardo González Félix: You're welcome.

Operator: Your next question comes from (Carlos Dialba).

(Carlos Dialba): Yes, good morning, Eduardo.

Two questions – the first one is could you give us an estimate of the savings you will generate from the Ilo smelter modernization project that has just been completed?

And question number two is any guidance in terms of CAPEX and if you have any hedges in 2007.

Thank you...

Man: Yes, about the smelter in Ilo, we are tomorrow or Wednesday starting the operation of the new furnace and we are shutting down the reverberatory furnaces, one tomorrow and one Wednesday in order that the first of February that is the compromise that we have with the Peruvian government, we are not

going to have any (unintelligible). That is what we have scheduled. And we are a little late (of what) we think, but we are going to accomplish (unintelligible) in the last days of the agreement.

(Carlos Dialba): And is there any savings estimates...

Man: Yes.

(Carlos Dialba): ...coming out of the prior...

Man: ...(unintelligible) concentrates because definitely the consumption is not going to be like running the capacity – full capacity of the plan, but is only meanwhile the new furnace will reach the full production.

We – with the training that we give in Australia and in Arizona to our people, we think that we are going to reach that maybe two months at (100) capacity of the furnace. And then (during) February and maybe part of March, we are going to sell some concentrates.

We already sold some in January. But at the same time, we are going later on maybe to buy some concentrates when the furnace will have full capacity in the last part of the year.

And the savings, definitely we are going to have savings. We already have the savings of the casting (wheel) that we running since February in the order of about 2 cents. And we think that we are going to be in about 10 cents for this full year in the smelter. That is about 3 cents less than what we have in the last months.

(Carlos Dialba): Thanks.

J. Eduardo González Félix: You're welcome.

(Carlos Dialba): What about CAPEX, Eduardo? Any guidance for '07?

J. Eduardo González Félix: Yes. (Our) total budget amounts to approximately \$500 million. Most of it is in replacement of equipment and so on. But we have budgeted the construction of the SX/EW plant in Cananea, which should bring about 33,000 metric tons.

And as we move through the year, we will, of course, announce whether we bring about any new projects approved by the board. And we will add the capital expenditures at that time.

Importantly, however, we think that the company will still be able to generate a very significant free cash flow. Thereby we think we can continue to match a – with a combination of strong dividends while still continuing to develop our own project pipeline, which is of relatively low capital expenditures, but still deliver value to our shareholders.

(Carlos Dialba): So is it – just to confirm, the \$500 million budget number includes the SX/EW plant at Cananea?

Man: (Mm-hm).

J. Eduardo González Félix: Yes it does.

(Carlos Dialba): Okay.

Man: (Unintelligible).

(Carlos Dialba): Thank you.

J. Eduardo González Félix: You're welcome.

Operator: Your next question comes from (Rongu Kai).

(Rongu Kai): (Oh) hi, good morning. This is (Rongu Kai) from Goldman Sachs.

My question, actually to follow up on (Carlos)' question, did you sell any copper production in forward contracts? Or in other words (do you) hedge anything in 2007?

And secondly in terms of provisional price adjustments, do you have all your covered sales (sold) in provision price terms? Or is just a certain percentage of your total volume that is sold in the provisional terms?

J. Eduardo González Félix: Sure.

We have no forward sales right now, no swaps in place for 2007.

Now the way provisionally priced contracts work is we sell our copper on a 30-day moving average on – more or less. Sometimes on a 60 day, but on average it's about a 30, maybe 35-day moving average.

Now those contracts that have not been priced at the end of a particular quarter or period – and that's usually about 30, 35, maybe 40 days average – are the provisional pricing of the – of December 31 towards a difference of the average of the last quarter.

And that gives you the provisionally priced amount, which in this case when copper prices decline is a negative number; when copper prices increase is a positive number. That number amounted to approximately \$80 million during the fourth quarter of negative price contracts.

(Rongu Kai): Thank you.

So as a follow up, basically the – that amount that is un-priced is just because you price on a 30-day average basis.

J. Eduardo González Félix: Correct.

(Rongu Kai): So pretty much it's 1/3 of your fourth quarter production is open.

J. Eduardo González Félix: Relatively speaking, yes.

(Rongu Kai): Okay. Thank you very much.

J. Eduardo González Félix: You're welcome.

Operator: Your next question comes from (Daniel Altman).

(Daniel Altman): Hi. It's (Daniel) from Bear.

Just a couple of questions, Eduardo – first the – on working capital for the fourth quarter, can you talk about – it looks like you had a pretty big surplus. Can you talk about how you got there in the quarter, if that was a one-off or whether that was something actively managed?

Secondly is if you could provide a base cost, kind of a mining cost for copper in the fourth quarter (before) byproduct credits.

And thirdly, I know Oscar was quoted in the media predicting a \$3 copper price for this year. I wonder if you could talk about whether that's, you know, let's say an official company forecast and maybe how you guys got to the \$3.

Thanks.

J. Eduardo González Félix: Well, let me begin backwards. Mr. Oscar González Rocha did mention that our expectation is roughly about \$3.

I believe that reflects our own estimate rather than the company's estimate. I should say, however, that I am more in line with Oscar than the average of the market.

I believe that copper prices will recover and will average higher than the \$2.80, which is the company's official number. And it is an official number due to the fact that that is the average that we have come up with when we consider all of the analysts and CRU and so on and so forth.

I don't know if that answers that question.

(Daniel Altman): Yeah, (it does)...

J. Eduardo González Félix: In terms of the net change in working capital, you mention a surplus. And the surplus is mainly due to a decline in third party purchases. And as we, of course, take that out of our balance sheet, the – you will see a decline from those metals that were acquired at much higher cost than our own production. That's the main event in that respect.

And your second question was, (Daniel)?

(Daniel Altman): Yeah, the other question is if you strip out all of the byproduct credits, what do you see as your base cost now for copper mining?

J. Eduardo González Félix: If you give me one second, I can tell you...

(Daniel Altman): Take your time...

((Crosstalk))

Raul Jacob: ...let me comment on the working capital variance. This is Raul Jacob.

We have – if you compare the fourth quarter with the fifth – I’m sorry, with the – the fourth quarter of this year with the one of 2005, we have a variance due to the higher workers’ participation and income tax to be paid in the first quarter of 2005.

That add to what you just mentioned and make this a significant variance that we’re showing in our press release.

(Daniel Altman): So that would be deferred taxes to the first quarter?

Raul Jacob: It’s – we have to make a provision for the total income tax and the profit sharing that we have. And that has to be paid on the first quarter, at the end of the first quarter or at the beginning of the second quarter of next year.

So as you know, (Dan), the number of profit sharing has increased significantly in 2006 due to the higher copper prices that the company have

had. So that's one of the things that are making that significant difference that you have seen in working capital.

(Daniel Altman): Okay.

J. Eduardo González Félix: Thank you, Raul.

Man: (Unintelligible).

J. Eduardo González Félix: And to answer your question about cash costs without byproduct credits, the total number was 82 cents for 2006 compared to 80 cents for '05, per pound of course.

(Daniel Altman): Okay. I seem to get to a much higher number.

Just – maybe you could just share the zinc and molybdenum byproduct credit for the quarter if you could.

J. Eduardo González Félix: Yes, I believe the zinc number was about – well, the molybdenum number was about 25 cents – a little higher. It was about 35 cents. And zinc was about 18 cents.

Now this does not include third party purchases, by the way, in the 82 cents. You will have to add about 25 cents additional for the third party purchases, which would be about \$1...

(Daniel Altman): Okay. Okay, thanks very much.

Man: Thank you.

Man: (Unintelligible).

Operator: And you have a follow-up question from (Rafael Biderman).

(Rafael Biderman): Eduardo, when you mentioned that you expect the market to be in balance this year, are you already considering these projects that will not come onstream? Or are you – you are considering that some of these capacity expansions will come onstream?

And also another question, Eduardo, is if I wanted to adjust your EBITDA for non-recurring events, would it be correct to add to the EBITDA the \$75 million of provisional price contract – the losses you've had in provisional price contracts plus some losses, like (40%) of the \$180 million from the concentrates acquisition?

Man: (Unintelligible).

J. Eduardo González Félix: Well, I'd like to rephrase both of those. These are not losses. We didn't lose \$140 million from third party purchases. What it is is it's more expensive to acquire from third parties than it is to acquire from our own mine.

Usually, of course, we pay market prices for third party purchases minus a TCRC, a treatment and refining charge. And that's where we make the profit in the foundries and refineries.

In the provisionally priced contracts, this is just a number. That is a non-cash number that is netted out of sales because it is what again is provisionally priced and is not a final number yet. And that could vary upwards or downwards. And it's really that simple.

In terms of the future projects, when I said balance, I said that in a sense by reading what we see from the average of analysts and several other sources.

Again, our personal belief – this is not the company’s outlook, by the way – is that the – there will continue to be a deficit of supply during this year. Many of the projects that we see that are supposed to come online in the next 12 months or 24 months, we do not see it happening. And in some of these cases, we know for a fact that it’s quite an exaggeration to think that they will.

So again, we see fundamentals very strong. We do not see supply outstripping demand during the near future. And we see China coming back into the consumption fray of things in the next few months. And we look forward to strong copper prices going forward.

(Rafael Biderman): Okay.

Eduardo, but I mean, in terms of the adjusted EBITDA, I mean, not – I mean, what would be the normal run rate of EBITDA if it wasn’t for non-recurring events?

I mean, I understand that this deposition of concentrate was a cash outflow that actually happened. But I believe this is not sustainable for the foreseeable future.

I mean, if I want to adjust to see what I the sustainable...

J. Eduardo González Félix: I see (unintelligible)...

(Rafael Biderman): ...level for EBITDA...

J. Eduardo González Félix: I see (unintelligible)...

(Rafael Biderman): ...I would have to strip off...

J. Eduardo González Félix: I see (your point).

Let me mention the following – obviously I can not give you exact numbers or forward-looking statements to the extent that the – these things are – will cause liability for the company.

In any event, however, we did mention during the conference call that we expect more or less during 2007 to produce an additional 200 million pounds of our own mine production.

That – as you know, your own mine production is considerably less expensive than buying from third parties. If you run through those numbers, that – it means that – and if you run through the numbers of how much the illegal work stoppage has cost us in both Cananea (and)Caridad, it is safe to assume that we will be posting very strong numbers going forward on a quarterly basis.

And we have a very good advantage when we compare to 2006 due to the fact that we will have that additional 90,000 metric tons of our own mine production – a huge advantage.

How – what exactly that turns out to be, I can not say. But again, it is an advantage. And we should be delivering very strong quarters going forward this year in 2007.

(Rafael Biderman): Okay, thank you, Eduardo.

J. Eduardo González Félix: You're welcome...

Operator: And your next question comes from (Jamie Nicholson).

(Jamie Nicholson): Hi.

I'm just wondering if you could provide the cash cost breakdown for the Peruvian operations and for Minera Mexico. In other words, how does the 82 cents look when you just look at Peru and just Minera Mexico?

And then secondly if you could give us the year-end debt and cash position of Minera Mexico please...

J. Eduardo González Félix: Absolutely.

The year-end cash position of Minera Mexico is approximately \$500 million. In terms of cash costs, they are very similar.

I should say, however, that the Mexican operations do count on byproduct (write-offs) from zinc whereas the Peruvian operations have no zinc, but have a lot more molybdenum.

So on average, we're about the same.

(Jamie Nicholson): Okay.

And the debt position at Minera Mexico at the end of the year?

J. Eduardo González Félix: The debt position, we had a total amount of Yankee bonds of \$350 million for '08 and \$125 million – I'm sorry, \$150 million of '08s, excuse me and \$125 million of (28s). And that's all the debt that Minera Mexico currently has outstanding.

(Jamie Nicholson): Okay, thank you very much.

J. Eduardo González Félix: You're welcome.

Operator: And your next question comes from (Carlos Dialba).

(Carlos Dialba): Yeah, just a follow-up in terms of the income statement.

If I see (at the) fourth quarter results, SG&A came down about 20% from what you guys presented in the third quarter. And depreciation increased about 12%, again quarter over quarter.

I just (want an understanding), if you we should consider the fourth quarter results on an annualized basis as the current run rate for '07?

J. Eduardo González Félix: In terms of depreciation, you should expect that is the relative run rate. In terms of administrative costs, we do expect savings during 2007. We expect a total number in absolute terms of a reduction of approximately \$5 million in administrative costs when we compare it to the full year of '06.

Much of these administrative costs were strong during '06 due to, or course, Sarbanes-Oxley, the implementation of new systems and information systems and so on. And we do not expect these to be reoccurring.

(Carlos Dialba): Excellent. Thank you.

And just another question if I may – I saw that you guys have booked now \$280 million – sorry, no, it was only \$280,000 of marketable securities.

Is there any rationale of, you know, why doing this as opposed to just having in cash, (or)?

J. Eduardo González Félix: Yeah, it's – these are investments that are locked in over 90 days. And when we lock those in, we have to register these as marketable securities rather than cash...

(Carlos Dialba): Okay.

J. Eduardo González Félix: ...in cash. But...

(Carlos Dialba): Okay. But it's only 90 days. Thank you very much.

J. Eduardo González Félix: Thank you....

Operator: Again, I would like to remind everyone if you would like to ask a question, press star then the number 1 on your telephone keypad...

There are no further questions at this time.

Man: Okay, ladies and gentlemen, thank you very much for joining us today. And we hope to see you again in the first quarter conference call in about three months...

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

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