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 with your Chairperson Mr. Eduardo Gonzales, Chief Financial of Southern Copper. I would like to remind everybody that today's conference is being recorded for replay and transcription purposes. During the conference please state your name before speaking and try to avoid speaking at the same time as someone else. Also, all lines will be in a listen-only mode until the Q&A session. I want to thank you for using Conferencing Services. Mr. Gonzales, I will turn the call over to you.*

Eduardo Gonzales: Thank you very much ladies and gentlemen and good morning. Welcome to the Quarterly Southern Copper Corporation Conference Call. Today we will be reviewing results for the full year of 2005 as well as of course the quarter results of the three months ended in December 31st of 2005. In all cases we will first be comparing the fourth quarter results with those of the third quarter in order for you to compare quarter to quarter performance. Then we will review fourth quarter results with the fourth quarter of last year so we can measure the gains or results compared to the fourth quarter of last year. Then we will also compare cumulative results ending December 31st of 2005 compared to those of 2004. In some cases I will further give indication of what we expect in terms of guidance for 2006.

Let me begin ladies and gentlemen by discussing copper production, that is copper mine production for Southern Copper. In the fourth quarter of 2005 copper mine production amounted to a little bit north of 181,000 metric tons and represents a 2% increase compared to the third quarter of 2005. This is quite in line with our estimates as we expect that ore grades at the Cuajone Mine particularly to recover toward the end of the year averaging 0.64% for this year but slightly higher in the fourth quarter. When we look and compare the same 181,000 metric tons of the fourth quarter to the fourth quarter of last year we show also a 2% increase slightly higher than the increase on a quarter to quarter basis. The particular reason for that is that already in the fourth quarter of 2004 the Cuajone Mine was already experiencing declining ore grades, which we experienced throughout the entire year of 2005. On a 12-month basis ending December 31st of 2005 copper mine production was slightly lower than last year by almost 4% and amounted to almost 690,000 metric tons compared to 718,000 metric tons. The reasons for that were just mentioned.

In terms of copper sold we demonstrate the same trend throughout the year, an increasing level of volume sold into the market. That is a result of course of the higher ore grades at the Cuajone Mine, higher mine production throughout the year on a quarter to quarter basis but also de-bottlenecking and sales of certain inventories that we accumulated during the second and third quarter. For the fourth quarter of 2005 total sales of copper amounted to a record 195,000 metric tons for this year for the quarter compared to 175,000 metric tons in the third quarter of 2005. That demonstrates a 12% increase on a quarter to quarter basis. Fourth quarter this year compared to the fourth quarter of last year demonstrated almost a 2.6% increase and amounted again to 195,000 metric tons compared to 190,000 tons last year. For the full year total copper sales amounted to slightly below 700,000 metric tons and in fact registered 698,500 tons, 1.6% less than last year, which amounted to 709,000 metric tons. The other item that I would like to mention here in terms of metals volumes is molybdenum. Molybdenum also demonstrated a rather erratic trend throughout the year. In the first quarter of this year we sold a little bit over 4000 metric tons, the second quarter where we accumulated significant inventories sales amounted to 3600 tons of molybdenum, third quarter a little bit over 3800 metric tons and during the fourth quarter of 2005 we sold a total of 3350 metric tons of molybdenum. The lower volume of molybdenum in the fourth quarter compared to the third quarter of 2005 or to last quarter, that is a 13% decline is primarily due to lower ore grades in the Cuajone Mine in terms of molybdenum.

Throughout the year Cuajone Mine had an average molybdenum grade of roughly 0.028% and during the fourth quarter molybdenum grades declined to roughly 0.0178%. This trend we expect to continue throughout the year 2006 and thereby we expect that total molybdenum sales will be relatively close to what we saw during the fourth quarter of 2005. Mitigating the impact of lower molybdenum of course or lower molybdenum production of course were higher zinc, silver and gold sales as well as production and prices. For the full year of 2005 total molybdenum production was 3% higher than last year and amounted to 14,800 metric tons and compares to 14,373 metric tons for 2004. During 2006 we expect total molybdenum sales to be somewhat closer to multiplying the fourth quarter of this year times four, which amounts to somewhere about 11,000 metric tons for the full year of 2006. Of course metals prices throughout the year demonstrated the same trend as did our mine production as well as copper sales. Copper prices started the year averaging in the first quarter $1.46, $1.53 in the second quarter, $1.70 in the third quarter and as much as $2.03 in the fourth quarter of this year. The $2.03 compares favorably to the $1.70 of the third quarter of this year and added to the higher sales volumes in terms of copper sold helped significantly to mitigate the impact of lower molybdenum prices across the board of course for all companies and lower sales of molybdenum. For the full year copper average $1.68 per pound of copper compared to $1.29 last year and of course total revenues reflect the same trends that we just mentioned. During the fourth quarter of 2005 sales amounted to $1.18 billion during the fourth quarter of 2005 and demonstrates a significant increase of 11% against the third quarter of 2005, this again despite the lower molybdenum sales in terms of both production and prices. When we compare the same trend to the fourth quarter of last year we show a 3% increase in total sales and for the full year 2005 total sales amounted to $4.46 billion and demonstrates a significant increase from the $2.3 billion of 2004. Cost of sales on the other hand amounted during the fourth quarter to $432 million, a little higher than the third quarter of 2005, which was approximately $400 million. This is primarily a result of higher worker’s profit sharing, higher energy prices and a higher volume of copper sold, which of course increases your cost of goods sold. Compared to the fourth quarter of last year total cost of sales declined by about 14%.

When we compare full year 2005 cost of goods sold this figure amounted to $1.65 billion and compares to $1.35 billion for the full year. That is a 22% increase and again that demonstrates the same result increases in terms of worker’s profit sharing, increases in diesel, increases in electricity. However, as we mentioned in the prior conference call of the third quarter total cost of sales is relatively flat at these stages and we do not expect significant increases leading up to 2006. As a result of the significantly higher sales and a continuously lower relative cost of sales to sales operating income during the fourth quarter increased to a record $633 million and compares favorably to the $545 million of the third quarter of 2005; that is a 16% increase quarter to quarter. When we compare the fourth quarter to last year's fourth quarter we also demonstrate exactly a 16% increase, which is exactly the same as we saw toward the third quarter of 2005. For the full year ended 2005 operating income amounted to a little bit below $2.1 billion or amounted to almost $2.1 billion and demonstrates a 41.6% increase compared to the $1.48 billion demonstrated last year. EBITDA shows of course the same trend. We registered an EBITDA margin of 53.7% during the fourth quarter and amounting to $693 million compared to $613 million last quarter. That is a 13% increase quarter to quarter. When we compare the fourth quarter to last year's fourth quarter we demonstrate an 18% increase and on a cumulative basis for the full year 2005 total EBITDA amounted to a little bit north of $2.3 billion. That is a 37% increase compared to the $1.7 billion registered in 2004. Taxes of course demonstrated a significant increase compared to last year. This is primarily due to the fact that in our Mexican Division we have run out of net operating losses that had been accumulated in previous years but also due to the significantly better results that we have registered throughout the year. Total taxes throughout the year amounted to $598 million compared to $433 million in 2004; that is a 38% increase year on year. The total amount of taxes paid was roughly 32% of income, which is what we expected throughout this year and what we expect to register in 2006 and in future years. Net income of course increased significantly during the fourth quarter and amounted to $420 million, which indicates an earnings per share of $2.86. That demonstrates a 14% increase compared to the third quarter of 2005. When we compare to the fourth quarter of last year we registered a 14.5% increase in total net income and amounted to approximately $2.50 in the fourth quarter of 2004. For the full year ended December 31st of 2005 net income increased by 42% and amounted to $1.4 billion and amounts to $9.51 per share compared to $6.67 for the full year ended on December 31st of 2004, again a 42.5% increase. Total capital expenditures in the fourth quarter amounted to a little bit north of $200 million. This is in line with what we expected and quite in line with the completion of the ILO* Smelter Modernization Program, which is where most of the capital expenditures at this stage are going. This compares to a significant 39% increase compared to the third quarter of 2005, which amounted to $146 million. Last year during the fourth quarter of 2004 Capex amounted to $106 million so that means that we have about a 100% increase in the fourth quarter of 2005 compared to the fourth quarter of 2004. On a full year total capital expenditures were quite in line with expectations and amounted to a little bit above $540 million. that is a 70% increase to the $321 million of capital expenditures spent during 2004. For the full year of 2006 we expect capital expenditures to amount to approximately $400 million as we complete the ILO Smelter Modernization Program and several other smaller projects. As we move along through the year we will of course announce what we consider to be the best use of our reserves and future projects. We are currently well into the process of analyzing expansions for new brown field projects as many of you know at Diamaria*, Los Chonkas*, even perhaps Alarco*, certain expansions in Cananea in terms of SXEW and also the possibility of building a new molybdenum circuit in the Cananea Mine. Again, all of these things are being evaluated and are not currently in our capital expenditures program as we will of course analyze and see what is the best approach and the best MPV we can provide for shareholders to utilize these reserves in a prudent way.

During this fourth quarter we also announced a few days ago a significant dividend. The dividend is a result of significant free cash flow that has been generated by Southern during the year. We believe we had accumulated a significant amount of cash. We did not believe it prudent to hold and keep a significant negative carry that we incur on by not investing this money quickly. We believe that Southern Copper has significant flexibility to fund future expansions vis-à-vis its very strong balance sheet, its very strong share price and the like. So again, we thought that it was prudent to give this money back to shareholders at this stage and provide them with a nice dividend yield rather than hold on to a negative carry and incur on a higher cost of capital for the company. Ladies and gentlemen, with this in mind I would like to open up the forum for questions and answers and we thank you very much for joining us today.

Operator: *We will begin the Q&A session by asking anyone who wishes to ask a question to press star/one on your touch-tone phone. You will be automatically placed into queue until your name is announced. If someone else has already asked your question you may remove yourself from queue by pressing the pound sign. If you have a question please press star/one now. The first question comes from Alberto Arias*; you now have the floor.*

Alberto Arias: Good morning Eduardo and congratulations on the strong results. I have a couple of questions with regards to production figures for 2006 and forward. **You mentioned on the molybdenum guidance that we should be using pretty much the same level of quarterly production that you had in the fourth quarter in the quarters of 2006. Could you please elaborate in terms of copper production and perhaps some of the other metals like zinc as well?**

Eduardo Gonzales: Absolutely Alberto. We expect total copper production, mine production that is to be slightly higher than 2005 but only slightly. That is to say we should still be a little bit under 700,000 metric tons in total mine production, copper mine production. This is a result of a little bit slower increases in ore grades in Cananea but Cuajone ore grades should start recovering toward the middle of this year and we expect a little bit higher mine production there. In terms of zinc we expect a slight increase there as well. We should be experiencing about a 5% increase compared to 2005 and this should help mitigate the somewhat lower molybdenum production. We also of course expect zinc prices to be very attractive this year, which ought to help the balance overall.

Alberto Arias: **The second question; on the press release you talk about**

operating costs of ninety-eight point six cents per pound and that is without byproduct credits. If you could tell us about the cost pressures that we are seeing for 2006 should the recovery in the ore grades in Cuajone be enough to offset some of the higher energy costs and could you give us some guidance in terms of cost for 2006?

Eduardo Gonzales: Yes. We believe that the total cost of goods sold for 2006 will actually be just about the same as we experienced on an all in basis as what we saw in 2005. The reason for this, Alberto, is that although we have seen considerable cost pressures throughout the year most of these have sort of flattened out. We also expect to purchase zero copper from third parties, which should help the balance in terms of cost of goods sold this year as well. Mitigating the fact that we should not be buying from third parties and this may change from time to time is the fact that we will not be capitalizing stripping in 2006. As you will recall, this is a change in GAAP rules. Last year and in prior years Southern Copper was capitalizing approximately $80 million to $100 million in total stripping costs. This will no longer occur. So when we compare apples to apples we do expect that we should have a little bit stronger EBITDA in performance everything else equal. Does that answer your question Alberto?

Alberto Arias: Yes it does, thank you.

Operator: The next question comes from Daniel Offerman; you now have the floor.*

Daniel Offerman; Hi; congratulations on the results. I have two questions. **First, you mentioned in the press release not wanting to hedge copper, which looks like a very good move. I was just wondering on molybdenum; I do not know if there is a way to hedge molybdenum but are you at all concerned that molybdenum prices are going to kind of drop out this year? Also if you have so far a feel for what one 1Q molybdenum prices will be for PCU? The second question is on the dividend. Nearly a 100% payout ratio in the fourth quarter; is this kind of a run rate that we could expect in 2006, something close to this, thanks?**

Eduardo Gonzales: Thank you for your questions Daniel. Let me get to your first question in terms of molybdenum. We have consistently mentioned that we see molybdenum as a relative market to copper, that is we have not been able to hedge molybdenum in medium to long-term situations and in fact short-term makes no sense due to the high volatility. We have budgeted $22 for molybdenum in 2006. I expect that should probably hang in there at about the $22 range and perhaps even a little bit higher but again this is what we have budgeted. We cannot hedge anything significant in terms of molybdenum. It is a rather volatile metal as we have discussed at other times. In terms of our dividend practice we have also consistently mentioned that we do not have a specific payout ratio. We generally review at board meetings the amount of cash that has been generated throughout the several months leading up to the board meeting what sort of a cumulative cash position we have. We review of course the budget and what we consider to be performance in the next few months, capital expenditures so on and so forth. The name of the game here is really to avoid negative carries. We believe that it is more prudent to avoid negative carries and at the time that we decide in the future to fund any particular project we have a lot of good access to low-cost debt and low-cost funds that can be more productive to our shareholders than just keeping the cash around for no purpose at all. So this should not be an indication of a specific payout ratio. It is just an indication I think 100% of the philosophy that we have dictated throughout several quarters and years at Southern Copper that the name of the game here is to avoid negative carries and add value to shareholders.

Daniel Offerman: **But in terms of the visibility for 2006 you have already mentioned what you think Capex will be and we have a pretty fair idea on EBITDA. Is there anything that would change your view in the dividend from the fourth quarter rationale I guess in 2006? Could there be a change in your vision on the dividend over the next 12 months?**

Eduardo Gonzales: No. There should not be a change in the dividend unless of course we decide to invest excess free cash flow in projects, which we are currently seriously reviewing and these things may change throughout the next few months. But as long as these things do not change and we do not have a prudent use for these resources then you can expect a significant payout ratio.

Operator: *The next question comes from George Bernstein; you now have the floor.*

George Bernstein: I have two questions. **One is in the fourth quarter if you could just discuss a little bit what was going on with the revenue top line. We saw that the copper price was up 20% year on year in the quarter, unit volumes were up about 2% across the board but your revenue was up 14%. I was wondering if there were**

any hedges there or it was just strictly the lower molybdenum sales there if you could explain why that happened in the fourth quarter there?

Eduardo Gonzales: Absolutely. This is a good observation on your behalf but the effect really is due to provisionally priced molybdenum contracts. This is the same question you asked in the fourth quarter of last year if you will recall where you asked how can you have a higher molybdenum average price than what was actually in the market? The reason was the provisionally priced contract. Now let us compare apples to apples. In the fourth quarter of last year we had a significant amount of higher volume of molybdenum sold but also molybdenum averaged higher than this year, significantly higher in terms of price. I believe the price last year in fact for molybdenum was $29. So when you compare that average what you had is provisionally priced contracts that were greater and increased the sales for the fourth quarter of last year by roughly $300 million just by provisionally priced contracts. What you have in the fourth quarter of this year is exactly the opposite. We do not only have lower molybdenum mine production and sales but we also have a significantly lower price compared to the third quarter of this year and to last year. That leads to a loss in terms of molybdenum sales of $60 million and this is just provisionally priced contracts. When you compare the net effect you are talking about roughly $400 million and change that is non-cash and just an effect of provisionally priced contracts and really leads to the essence of only a 16% increase or what have you in terms of total sales in terms of dollars. I do not know if this answers your question.

George Bernstein: What provisional price were you using in the fourth quarter?

Eduardo Gonzales: We are using $25 I believe on average in the fourth quarter of this year.

George Bernstein; My second question and I am sorry; you have already mentioned this twice. **What was the molybdenum guidance that you are giving for 2006? I heard 11,000 tons earlier and then 13,000; what is the tonnage number for 2006?**

Eduardo Gonzales: The tonnage number should be a little bit north of 11,000 metric tons in terms of sales.

George Bernstein; Right but then that is what strikes me as a little low because if we take I think the 3200 that you produced in the fourth quarter and annualize that you should be getting over 12,000.

Eduardo Gonzales: That is correct. What I mentioned is that we expect the trend of the fourth quarter to continue in 2006. What that means is that we have experienced declining molybdenum ore grades particularly at Cuajone and in 2006 we should still have a relatively low ore grade, molybdenum ore grade at Cuajone and a little bit lower at Toquepala, a little bit higher in La Caridad but the all in effect is somewhere above 11,000. Mind you, we usually beat our molybdenum sales expectations and I do expect that we should be significantly higher than the 11,000 but this is what we have budgeted thus far. One of the other aspects that we are currently looking at and I mentioned is building a molybdenum circuit in the Cananea Mine, which would add to that production if we initiate that plant very, very early on next year, that is 2007.

Operator: *The next question comes from Francisco Martin; you now have the floor.*

Francisco Martin: Good morning. **I was wondering if you could give us any guidance on whether you have any tentative plans to retire any of your debt with your significant cash flow?**

Francisco Martin: Yes. As you noticed in the fourth quarter we did opportunistically purchase back some of the Mexican Division Yankee Bonds. We do not expect this to be a practice. In fact, this is not a practice. But when we do see opportunities out there then we of course capitalize upon them in order to reduce our all in average cost of capital. We do not expect to reduce any material amounts of debt going forward. We consider that our debt profile is considerably long-term, has the right profile and the right cost at this stage. So no; you should not expect any material decreases or increases in debt.

Operator: *The next question comes from Raphael Alias: you now have the floor.*

Raphael Alias: Good morning Eduardo, congratulations. **I just have a couple of questions on the Peru situation. I want to ask you what are the royalties that you are paying right now and if you have like a worse case scenario regarding a possible negative outcome of the elections how high could these royalties go and what effect would it have in your operations in Peru?**

Eduardo Gonzales: In the case of the Peruvian Division and, Raul, if you feel you should elaborate on this please feel free. But in the case of the Peruvian Division we are paying 3% royalty in terms of revenues after certain deductions, which for the company on a combined basis ends up being a little bit above 1% of revenues. In the case of Mexico we are paying also a slight royalty, which is 1% of Mexican Division revenues and that is one mine and that is only La Caridad and that is an agreement that goes far back in history. So on an all in basis and on a consolidated basis you could expect total royalties to amount to perhaps 1.5% based on the revenues of the consolidated company. We do not expect, albeit there has been volatility in terms of who may be the president in the future but we do not expect any material changes to the royalty loss today. We believe that the results in Peru at the end of the day will be favorable to our companies in terms of who ends up being the leader. Today Ms. Flores has about a 30% rating in terms of the electoral count and we expect that to consolidate to perhaps above 50% once the second round takes place. Again, we feel very comfortable with the situation in Peru. We do not believe that any further royalties should be imposed or will be imposed on either the Peruvian Division or the Mexican Division.

Raphael Alias: **So you do not think that at this point it would be reasonable to have a contingency plan or anything like that?**

Eduardo Gonzales: We do not believe so. In the past we have of course had contingencies and we have in the past also reserved for certain royalties because we considered those with such a high probability to go through that we just reserved them in our balance sheet. In this case we are not doing that because again we believe it is not prudent to do so. We do not believe there are going to be any material changes. We feel comfortable with the situation.

Operator: *The next question comes from Anna Merlano*; you now have the floor.*

Anna Merlano: Good morning. **I was wondering if you could give me a break down of cash costs between your Peruvian operations (inaudible) Mexico.**

Eduardo Gonzales: Certainly so. We mentioned a total net cash break even point for Southern Copper of 2.6 cents per pound in the fourth quarter and that compares to 18.3 cents for last year; this was mentioned in the press release.

Anna Merlano; Are these numbers accumulated or for the quarter?

Eduardo Gonzales: Those are accumulated, cumulative. In the case of the Mexican Division we have a cash cost of roughly…for the fourth quarter the total cash break even cost is 35.6 cents or that is cumulative for the year compared to about the same number last year, $0.35. In terms of the Peruvian Division we demonstrate a negative 10.6 cents cumulative compared to 4.7 cents last year.

Anna Merlano: Thank you. **Also, can you please give me a breakdown of your debt after you re-purchased?**

Eduardo Gonzales: We have a total amount of debt right now that amounts to $800 million in long-term bonds, $200 million are 2015 notes and $600 million are 2035's. Then we have approximately $125 million of 2028 Yankees and then we have a total of $173 million of 2008 Yankees. We have originally a little bit over $220 million of these 2008 Yankees so that means that during the fourth quarter we have re-purchased approximately $47 million, $48 million that is. We also have a small Matui* loan and this facility amounts to $80 million and we amortize about $10 million per year so that constitutes 100% of the outstanding debt of Southern Copper today.

Anna Merlano: Thank you very much for your help.

Eduardo Gonzales: You are welcome.

Operator: *The next question comes from Paulina Kerdazako*.*

Paulina Kerdazako: **My question has been partially answered; it also related to Peru. But if you do not mind I would like to take it a step further and ask do you see any potential risks of let us say in the worse case scenario difficulties with renegotiating your licenses? Actually if you could update me as well when your licenses have to be renegotiated that would be very helpful, thank you.**

Eduardo Gonzales: In the case of Peru these are really for the life of the mine so there is no renegotiation going on in terms of any contracts again in the case of Peru. In the case of Mexico we have 50-year concessions and these are renewable for another 50 years and so on. I do not recall when the next one is due but I am sure it is a few decades away so at this stage again we are not worried about renewing any of these contracts or concessions is really what they are referred to as.

Paulina Kerdazako: **So effectively for you the worse case scenario could be potential review of the taxes for foreign companies but that would be it?**

Eduardo Gonzales: Correct.

Operator: *The next question comes from Raphael Urquia*; you now have the floor.*

Raphael Urquia: Thank you and good morning. I have one question. I would like to know if there is any portion of the ILO revamping costs are being capitalized instead of expense?

Eduardo Gonzales: There is only certain interest expense associated with the ILO expansion that is being capitalized. Of course, all of the capital expenditures associated directly with the new smelter is capitalized, that is capital expenditure but none of the costs so to speak of operating the smelter is currently being capitalized.

Operator: *The next question comes from Alberto Arias; you now have the floor.*

Alberto Arias: **I have a follow-up question and it is more of a philosophical question. Eduardo, you have mentioned always and it is a fact that Southern Copper has the world's second largest copper reserves. The market is telling us that there is a deficit in the copper market and prices are saying that producers should**

come up with a supply response. However, looking at how you are using your cash flows and the speed at which you are developing your project development pipeline it seems that there is a lag in terms of your response to these high prices. My question is specifically what needs to change for you to accelerate some of the growth opportunities that you have in Cananea or in Southern Peru, which in any case will take some time to materialize?

Eduardo Gonzales: I do not believe anything in particular has to change Alberto. We have been analyzing what is the best way to use those reserves. I think that we will be announcing something in the future but the best way is not necessarily to just go out and expand like crazy. We have to always compare what is the most prudent way to increase value to shareholders and that may include several factors. Right now we are of course already in the process of expanding the SXEW plants in the Cananea Mine. We are already in the process of developing a new molybdenum circuit in Cananea but these are relatively small increases and this is what probably you refer to ask really utilizing our resources. Our resources will be utilized one way or another but again we always have to compare the net present value of developing our own reserves, which may come in at a considerable amount of production in four, five or six years from now. Compared to acquiring existing and producing assets where we are able to capture the MPV of the present copper price cost curve and even in fact the possibility of selling or combining with somebody else to take full advantage of all of these resources. Again, we always compare all of these in MPV. What makes the most sense is what we will pursue. I think we will be proven to have added value to shareholders when everything is looked back upon a year or two from now, more prudently perhaps than people think today. Again, this is what we continuously compare. We will use our resources but what makes more sense for our shareholders in MPV is what we will pursue.

Alberto Arias: I think that is a pretty good answer in terms of the commercial discipline that you are showing at this time, which is great but doing M&A transactions are not going to solve the problem in the industry of getting more supply. Really my concern is more from the point of view of the corporate market potentially suffering a permanent loss of market share because of material substitution, which historically never comes back once you lose it. **In your analysis of adding shareholder value are you considering also the potential downside that some of the demand that copper has will permanently be lost?**

Eduardo Gonzales: We are concerned about that particular aspect, Alberto, but we believe we can mitigate that. Again, I cannot sit here and dictate exactly what our plans are. We do not go about doing strategy publicly as no other company does but I can mention that we are seriously in the process of considering something that will add significant value for shareholders pretty much immediately. In the grand scheme of things I do not believe you ought to be concerned. I think you ought to trust our management view and I think you are going to be surprised in several months from now of what these decisions may entail but we do not believe we are going to lose that leadership.

Alberto Arias: Great, looking forward to that and you adding shareholder value too; I just wanted to make sure, thank you.

Operator: *The next question comes from Justin Bergner*; you now have the floor.*

Justin Bergner: Good morning Eduardo; this is Justin Bergner from Gabelli and Company. I wanted to ask you a question about the tire situation. I appreciate the candid disclosure in your press release about the types of steps you are taking to remedy the situation. **Do we have to be concerned that there is a risk that wear and tear on tires**

could create a bottleneck in your production processes in 2006 or is the situation pretty well under control?

Eduardo Gonzales: Raul, would you mind tackling that question and then I will finish up with a couple of comments?

Raul Jacob: Certainly Eduardo. Basically we are balanced in terms of tires. We have our current supply in adequate numbers to fulfill our tire needs. We have been helped by the fact that the Toquepala crusher and conveyor belt system is already in operation and that has reduced somehow our tire demand. We have never had a problem with tire supply in our corporation but since we know that this has been an issue for the industry we have taken some measures to reduce a little bit our tire consumption during this year until the tire suppliers are back in supply to fulfill the industry needs.

Eduardo Gonzales: We have also implemented several programs and we have actually demonstrated to have reduced the cost of tires during the fourth quarter of this year in Southern on a consolidated basis. This is a program that we implemented toward the middle of the year and we have had a lot of success and surprisingly again we have actually shown savings in terms of tires. In addition and in order not to incur on any tire shortages in the future our President and Chief

Executive Officer will be flying to Japan to meet with Bridgestone in March. We have always kept a strong bond and relationship with these companies and we expect that these continued strong bonds will help us mitigate any effect of tire shortages in the future and avoid of course any issues with our particular mines.

Justin Bergner: Good job on the tire front. **I do have one quick follow-up question on that. You mentioned that you expect the supply deficit to be resolved by mid 2007. Can you tell me I guess what that is based on, what is that projection based on?**

Eduardo Gonzales: That is based on a couple of new plants that are currently being built. My understanding is that the issue in the past was not necessarily just the plants. It was the issue of where these plants were going to get the rubber from. As you know, rubber comes particularly from Indonesia and Brazil. We believe that these plantations and so on have been expanded several months ago and the plants to process this new rubber will be coming online in mid 2007 and this should resolve the situation going forward.

Operator: *Again, if you have a question please press star/one. The next question comes from George Bernstein; you now have the floor.*

George Bernstein: **Eduardo, just a follow-up; if you could just give us again the up to date guidance on where you are seeing the 2006 copper sales volumes based on your current run rate.**

Eduardo Gonzales: Copper sales volume will be lower than this year although mine production will be a little higher. The result of that is that this year we do not expect to buy any third party concentrates, blister and so on. So again, copper sales volumes should be lower than what we expected this year.

George Bernstein: Six eighty?

Eduardo Gonzales: Approximately; that is correct.

Operator: Again, if you have a question please press star/one. The next question comes from Matthew Lerner; you now have the floor.*

Matthew Lerner: Good morning gentlemen. **I was wondering if you could give us any additional information on the status of the San Luis Patosi zinc refinery and how this might impact the production of refined zinc for the year. I know you said you expected zinc production to be up by 5%. I am assuming that is mine production.**

Eduardo Gonzales: Yes it is mine production that I was referring to and I think in this particular situation we are actually rather lucky in the sense that treatment and refining charges for zinc concentrates are actually pretty much zero right now, which of course zero means that that is lower than our cost of production at the zinc smelter and refinery. So at the end of the day the net result is really perhaps even a slight benefit in terms of economic value to the company, nothing major but a slight economic benefit. Really what concerns us at this stage and what we have been trying to comply with is our client. We have a significant client base that consumes refined zinc products that over time have become of course loyal to us. Right now we are trying to use some of those profits that we make by selling these concentrates with zero TCRC's and buying or trading zinc, refined zinc in order to deliver these products to our clients. Again, the net effect is about zero if not rather positive in terms of economic value to the company and the refinery should be up and running in about five or six month's time.

Operator: There are no more questions in queue.

Eduardo Gonzales: Thank you ladies and gentlemen for joining us today. We expect to see you in the next quarterly conference call. We hope you have a good day.

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