

SOUTHERN COPPER CORPORATION

Moderator: Raul Jacob
October 31, 2011
12:00 p.m. ET

Operator: Good morning, and welcome to the Southern Copper Corporation's Third Quarter 2011 Results Conference Call.

With us this morning, we have Southern Copper Corporation's Mr. Raul Jacob, CFO of the Peruvian Operations and SCC's Investor Relations, who will discuss the results of the company for the third quarter and answer any questions that you might have.

The information discussed on today's call may include forward-looking statements regarding the company's results and prospects which are subject to risks and uncertainties. Actual results may differ materially, and the company cautions to not place undue reliance on these forward-looking statements.

The Southern Copper Corporation undertakes no obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events or otherwise. All results are expressed in full U.S. GAAP.

Now, I will pass the call on to Mr. Raul Jacob.

Raul Jacob: Thank you very much, (Sarah), and good morning, everyone and welcome to Southern Copper's third quarter's earnings conference call.

On today's conference call, we will begin by an update of our view on the metal markets. We will then talk about Southern Copper's key results related to production, sales, operating costs, financial results and capital spending program. After that, we will open the session for questions.

Speaking about the metal markets and prices, during the third quarter metal markets have been affected by negative macroeconomic events that are delaying the recovery of the metal demand. The most important of which are the following.

- The continuing weakness of the U.S. economic recovery, the high unemployment and the stock market volatility, which created concerns in the rest of the world.
- The evolution of the European debt crisis, Europe represents nowadays 28 percent of the world economy and this is affecting the confidence of investors in the Euro and the economic stability of this region.
- The impact of the mentioned events in the export-oriented emerging economies, particularly China, which according with CRU represents 36 percent of the world's copper demand.

Any concern about the recovery of the world economy affects the basic metals demand and financial investment in them.

Moving to our specific market, the copper market, copper represented in the past quarter 77 percent of Southern Copper sales. Even though we believe copper demand is being affected by the negative macroeconomic outlook, we maintain our positive view on this metal's fundamentals. Several sources, as well as our commercial intelligence, estimate that the copper destocking process is coming to an end in key markets and inventories of copper in process are tight, particularly in Asia. This should support demand growth for the next 12 months. Demand growth now is estimated at 2 percent for the next 12 months by CRU.

On the supply side, production has underperformed badly in the third quarter of 2011 due to labor unrest, adverse weather and ore grade declines. We consider that these events are likely to continue in the fourth quarter of the year and in 2012, maintaining the tight copper market. Currently, CRU estimates a market deficit of 300,000 tons for both this year and 2012.

Regarding silver, which represented 8 percent of our sales in the third quarter of 2011 and is currently our main by-product, its prices average \$38.76 per

ounce in the third quarter 2011, pretty much at the same level as in the second quarter of this year.

We believe that silver prices will have a strong support in the next 12 months due to its industrial uses as well as being perceived as a value shelter for economic concerns.

Speaking about molybdenum, in the third quarter of this year this metal represented 7 percent of company sales. We are currently seeing a surplus in the molybdenum market that has affected molybdenum prices through the third quarter. As a consequence, the average market price decreased from \$16.50 per ton in the second quarter 2011 to \$14.44 in the third quarter of this year, a 12.5 percent decrease in price.

The demand for molybdenum has been affected by lower than expected stainless steel demand in the U.S. and China as well as a weak recovery in Japan's car production. We believe these are short-term events and expect a rebound in this metal demand in 2012.

Moving into copper production for the year and for Southern Copper, copper mine production in the third quarter 2011 increased by 24.4 percent to a 155,689 tons compared to a 125,192 tons in the third quarter of 2010. This increase was mainly the result of 44,876 tons of higher production at our Buenavista mine which restored full capacity production in the second quarter. Anodes, cathodes and rod production increased by 82 percent, 62 percent, and 82.2 percent respectively, in the third quarter of this year compared to the same period of 2010. Rod production increased due to higher demand, allowing the Company to earn copper premiums over the spot prices. Comparing the past quarter with the second quarter of 2011, we had an increase in production of 9,448 tons or 6.5 percent.

Moving into silver production, it increased by 3.4% in the third quarter of this year to 3.3 million ounces from 3.1 million ounces in the third quarter of 2010 and by 1.7 percent from the 3.2 million ounces in the second quarter 2011. These increases were, principally, the result of higher production at the Buenavista mine, partially offset by lower production at the Cuajone mine.

In the case of molybdenum production, it increased by 6.3 percent to 4,787 tons in the third quarter of 2011 compared to 4,502 tons in the second quarter of this year. This was due to higher production at the Toquepala and Cuajone mines, which was partially offset by lower production at La Caridad, basically due to changes in ore grade.

Focusing on our financial performance, in the third quarter of 2011 sales were \$1.7 billion, 38 percent higher than the \$1.3 billion we had in the third quarter of 2010. This increase was mainly the result of higher metal prices as well as higher copper sales volumes which increased 19 percent.

When comparing 3Q11 sales volume to the prior quarter volume, copper sales volume increased by 3 percent, molybdenum by 5 percent, silver by 13 percent. However zinc sales volume decreased by 3 percent.

During the third quarter we had \$77.8 million negative adjustment related to provisionally priced sales. Every cent of increase in the future copper price average represents approximately \$0.8 million of positive open sales adjustment.

Considering the current price quotations for provisionally priced sales, we expect to have a positive adjustment on this matter for the fourth quarter of 2011.

Going into operating cost, our total operating cost and expenses has decreased by second consecutive quarter. For the third quarter of 2011, we had a cost reduction of 2 percent or \$19 million when compared to the second quarter of 2011. The important productivity of our operations allowed us to offset some cost inflation through the quarter.

- We had some cost inflation in fuel, power and labor which together increased by \$3.7 million.
- Purchased concentrates cost increased by \$5.8 million.
- Mining royalties and workers participation augmented together by \$15 million.

- These higher costs were more than offset by higher capitalized leachable material of \$11.7 million and an inventory built-up, net of other cost, of \$31.8 million.

As a result of the previously mentioned sales and operating costs, EBITDA for the third quarter 2011 was \$1 billion. This amount is 55 percent higher than the \$666 million that we had for EBITDA in the third quarter of 2010.

Regarding cash costs, Southern Copper's operating cash cost including the benefit of byproduct credits was 48.4 cents per pound in the third quarter of this year. This cash cost was 11.7 cents higher than the 36.7 cents of cash costs we had in the second quarter of 2011.

Operating cash cost per pound of copper before byproduct credits was \$1.65 per pound in the third quarter of 2011 compared with \$1.68 per pound in the second quarter of 2011.

The 3 cents per pound decrease in the operating cost is a result of the positive production increase from our Buenavista operation that managed to absorb the cost inflation coming from higher fuel, power and labor.

Regarding by-products, we had a total credit of \$392 million or \$1.17 per pound in the third quarter of this year. This figure compares with a credit of \$410 million or \$1.31 per pound in the second quarter of 2011. The 14 cents reduction in by-product credits were principally the result of lower revenues from molybdenum and zinc partially, offset by higher precious metal sales.

As a result of the better copper prices and higher volume from Buenavista, the net income attributable to Southern Copper shareholders in the third quarter was \$663 million or diluted earnings per share of 79 cents. This figure compares with net earnings for the third quarter of 2010 of \$365.2 million or diluted earnings per share of 43 cents, an 83 percent increase.

Going to our expansion projects, the company capital expenditures in the third quarter of 2011 were \$153.4 million compared to \$112.9 million in the same period of 2010.

Regarding our Mexican projects, the SXEW III plant of the Buenavista mine obtained the environmental permits necessary to begin construction. Basic engineering was completed and we are moving forward with the detailed engineering. Contracts have been signed for the earthworks and other preliminary activities which will begin shortly. This plant will increase production by 88,000 tons per year and should begin operations in 2013.

Associated with this SX/EW III project, we are also building a Quebalix facility at Buenavista. This investment consists of a crushing, conveying and spreading system that improves the SXEW copper production by increasing recovery and reducing the required time to extract copper from mineral. The Quebalix project is moving forward with the construction of the crusher building and earthwork for conveyor platforms. Overall progress is 80 percent and this facility is expected to begin operating in the second quarter of 2012.

The 2,000 tons per year molybdenum circuit for the existing concentrator of Buenavista is in the equipment purchasing stage, under an engineering procurement construction and management contract. Environmental permits are expected to be awarded shortly and we expect to begin construction in the next quarter (that means the first quarter of 2012) and production in the second quarter of 2013.

The new Buenavista concentrator, with a milling capacity of 100,000 tons per day is in process, as scheduled. Basic engineering is 95 percent complete and detailed engineering is moving forward. Environmental permits are expected to be awarded in the following weeks. We are evaluating several supplier proposals for the purchase of the main equipment. As previously disclosed, the new concentrator will have an estimated annual capacity of 188,000 tons of copper and 2,600 tons of molybdenum. It is expected to begin operations by 2015.

Required infrastructure for these projects, including power, water, roads, shops, laboratories, townsites, etc., are contemplated in the master plan. A preliminary study has been delivered and is being evaluated in order to define our immediate course of action.

The Pilares deposit, close to the La Caridad mine, is being evaluated. Prefeasibility studies are complete and an open-pit mining alternative has been defined. We are expecting to increase copper production by 40,000 tons per year with this facility, which should begin operations by third quarter of 2013.

Focusing on the Peruvian projects; through September 30, 2011, we have spent \$142.4 million on the Toquepala expansion, mainly on mine equipment which is being used for the initial stripping of the project. The scope of this project has been defined as an increase in milling capacity to 60,000 tons per day that should increase production by 120,000 tons of copper and 3,100 tons of molybdenum.

The Environmental Impact Assessment was presented to the Peruvian Ministry of Energy and Mines in July 2011 and project completion is scheduled for the second half of 2013.

Through September 30, 2011, the company has spent \$48.5 million on the Cuajone expansion project. The purchase of mine and auxiliary equipment to support the work to optimize the Cuajone mine is in process. As part of the expansion plans, the project contemplates a variable cut-off grade methodology, which started to increase copper and molybdenum production at the end of the third quarter of this year. When finished, the project will increase copper production by 22,000 tons per year for approximately 10 years. Project completion is scheduled for the third quarter of 2012.

Regarding the Tia Maria project in Peru, we have readdressed the 120,000 copper tons per year project with the new government and are confident that good investment conditions, stability, social inclusion, and economic growth will prevail in Peru.

The Tantahuatay mine located in Cajamarca, in the northern region of Peru will start producing this year. As you know in 2010, we began the development of this property to exploit its gold cap, but production actually started in August of this year with 17,700 ounces of gold and 98,800 ounces of silver in the third quarter of 2011. Tantahuatay is expected to have an

average annual production of 90,000 ounces of gold and 425,000 ounces of silver for five years. We have a 44.2 percent participation in this project and the remaining balance is owned by Compañía de Minas Buenaventura S.A.A. and others.

The company's year-to-date capital spending were \$337 million. For the full year, we are currently estimating a capital spending of approximately \$600 million.

New mine royalty and special mining tax approval.

On September 29 of this year, the new Peruvian government enacted three new tax laws which apply to the mining industry. The first is a change in the mining royalty. The old mining royalty charge was based on sales value and the rate ranged from 1 percent to 3 percent, while the new one is based on operating income margin, basically EBIT margin, and the rate ranges from 1 percent to 12 percent with a minimum royalty tax assessed at 1 percent of net sales.

The second tax that will affect the Company is a special mining tax. It is also based on operating income and its rate ranges from 2 percent to 8.4 percent based on the level of operating income margin. This new tax replaces the voluntary contribution for regional development which expired in December of 2010.

Both, the mining royalty and a special mining tax are deductible for income tax purposes and are paid on a quarterly basis starting in the fourth quarter of 2011.

The third tax is a special mining levy which applies to companies with legal tax stability agreements and does not apply to Southern Copper.

On October 14th of this year, the Court of Chancery of the State of Delaware issued an opinion on a lawsuit challenging the 2005 merger between Southern Copper and the Minera México S. A. de C. V. which was a subsidiary of Americas Mining Corporation, the parent of Southern Copper. Specifically

the court found that Southern Copper paid AMC in excess for the transaction. Grupo Mexico, who owns 100 percent of AMC, has indicated that it will appeal the decision.

AMC's proposal to effect an all-stock business combination.

On July 22 of 2010, the company received a non-binding proposal from its parent company, Americas Mining Corporation, offering to effect an all-stock business combination of Southern Copper and AMC, the parent company of Asarco.

Grupo Mexico's Board of Directors, after recent communications with the Southern Copper's independent committee, has decided to withdraw the proposed transaction to combine Southern Copper operations with Asarco.

Focusing on our share repurchase program, on July 28 of this year, the Board of Directors authorized an increase in the share repurchase program from \$500 million to \$1 billion. Pursuant to the SCC common share repurchase program, in 2011 we have purchased 9 million shares at a total cost of \$273.7 million.

The average price paid per share was \$30.25. The company undertook this action to protect the share price considering the relatively low valuation of Southern Copper stock due to recently share price market volatility.

Regarding dividends, as you know, it is the company policy to review, at each Board meeting, the capital investment plan, cash resources and expected future cash flow generation from operations, in order to determine the appropriate quarterly dividend. Accordingly, as disclosed to the market on October 27, of 2011, the Board of Directors authorized a dividend of 70 cents per share. This dividend will be paid on November 29, 2011 to shareholders of record at the close of business on November 16, of this year.

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

Operator: At this time, I would like to remind everyone, in order to ask a question, please press star then the number one on your telephone keypad.

And your first question comes from the line of Santiago Perez Teuffer from GBN. Your line is open.

Santiago Perez
Teuffer

:Hi, Raul. Thanks for your time and congratulations on these outstanding results. I wanted to see if you could please shed some light regarding any developments of your Peruvian project permit situations specially Tia Maria, the Toquepala expansion? And also if you could give us, if possible, your 2012 CapEx and production guidance? Thank you.

Raul Jacob:

OK. Regarding the projects for Tia Maria, basically we are readdressing the talks with the government. We think that there is a very positive attitude from the government to move on with the project that we still need to, we are moving slower than what we thought on this matter.

Regarding the Toquepala expansion, as part of the environmental impact assessment process, we had a public hearing on September of this year in Toquepala, about 1,300 people participated in the public hearing with no events, meaning by this that there were no disturbances or anything like that.

The authority accepted the meeting. However, while the meeting was taking place, protests and disturbances from some anti-mining groups were taking place at Lake Suches. Lake Suches is a company facility, located 80 kilometers away from the Toquepala meeting in this case.

These protests raised concerns related to water usage and pollution. Even though, we have repeatedly stated that our Toquepala project will not use any additional fresh water and therefore will not affect availability of this resource for agriculture, human or other uses. At the behalf of the Tacna regional President, the Peruvian government subsequently declared the public meeting invalid.

The Peruvian government has started conversations with local communities and the regional authorities in order to solve these problems. The company is

waiting for the outcome on these discussions and expects that the authorities will schedule a new date and place for public hearing.

Regarding the production for 2011, we are maintaining our guidance of 630,000 tons of copper production. Of those 7 percent will be composed by third parties copper concentrates.

For 2012, we are currently looking at our production plans. We are expecting an increase of our own production for this year. We're producing about 585,000 tons of our own copper production and the rest to some 630,000 tons are coming from third party's copper concentrates.

Well next year, we believe that our share on the total production should increase, meaning by this that we will consume less copper from third parties and use our own mine production as a base for copper production. We will either produce, basically, the same level that we have for 2011 or higher for the next year, but this is something that we're currently reviewing and adjusting for our final plans for 2012.

Santiago Perez

Teuffer: : Thanks a lot.

Operator: Your next question comes from the line of Luiz Ranieri from Barclays Capital. Your line is open.

Lewis Ranieri: Hi, Raul, thanks for taking my question. My first question is regarding hedges strategy. I do not see any changes on the release. I just want to be sure that that was any changes from the second quarter and if you have anything to say about your future hedges for 2012.

And also relating to the lawsuit against the Grupo Mexico on the merger of Minera Mexico and SSC, could you comment on that. And just to clarify, just looking back of the current shareholders of Southern Copper are just the ones that hold the stock during the merger. So these would be my two questions. Thank you.

Raul Jacob: OK, Luiz, thank you very much for your question. Our copper hedges represented a positive adjustment to our sales in the third quarter of \$20.7 million and for next year we're maintaining our hedge position, approximately 13 percent of the first quarter copper production, with zero-cost collars with an average floor price of \$3.50 per pound and the average cap price of \$5.18 per pound. So that's basically what we are doing.

We are maintaining our current position. We are not considering any more hedge activity at this point. However, as has been the case in the past, there is significant market volatility that indicates for us that we have a possibility of protecting our production as we have done in the past; we will proceed – or no specific action been still at this point. And the second question was about what's the ruling on the AMC.

I think that these questions should be made to our Grupo Mexico's guys because they know all the details.

We are a part of this ruling but not the specific parts involved.

Luiz Ranieri: OK, thank you.

Operator: Your next question comes from the line of Rene Kleyweg from UBS. Your line is open.

Rene Kleyweg: Good morning, Raul. Thanks for the call. I was just wondering if you could expand a little bit on the level of third-party concentrates for the quarter and in terms of the share buyback program you spent \$110 million for the quarter, but given where we saw trade, this year's trade times here and the size of the buyback is there any particular reason that you weren't more aggressive in terms of share buybacks during the quarter. Thank you.

Raul Jacob: I couldn't get your first question, Rene. Could you repeat it, please?

Rene Kleyweg: Just in terms of the third-party concentrates purchased and consumed during the quarter, could you just give us a little bit more color on what the tonnage wasn't that you processed into your third parties – within your sales number, how much comes from third party concentrates?

Raul Jacob: On the third quarter we had relatively small consumption of third parties copper concentrate, about 9,000 tons in total. That's basically where we are. Well, we have some contract that we've signed in advance and we're basically finishing them for 2011.

I would like to mention that the company does not consider to buy this concentrates unless we see an excess capacity in smelting and refining operations. When we have some excess capacity and the commercial conditions are reasonable for buying these kind of materials, third-party's copper concentrates, we do that and proceed then through our facility vis-à-vis two things.

First, we have an additional benefit using that full capacity of our metallurgical facilities and second, to absorb some of the fixed cost of these facilities through the processing of copper from third parties.

Rene Kleyweg: And in the fourth quarter, sorry, will we see any volumes from third parties or any third-party concentrates fourth quarter or is it now finished?

Raul Jacob: We have about 10,000 tons that would be processed through the fourth quarter of third-party copper concentrates. And your second question we're referring to, unless you have anything else on this matter, Rene?

Rene Kleyweg: No. That's it. Thank you. Sorry to interrupt you.

Raul Jacob: OK. And your second question was on the share buyback program. Well for reasons that you may understand, we don't want to disclose what our strategy is on this. The program is opened up to a \$1 billion. As I indicated, we have spent about a little bit north of \$700 million on these and we are – we have this as a way to protect the share price.

Rene Kleyweg: Thank you.

Raul Jacob: Yes.

Operator: Your next question comes from the line of Sergio Matsumoto from Santander. Your line is open.

Sergio Matsumoto: I think my question has been answered, thank you.

Operator: Again, if you would like to ask a question, please press star then the number one on your telephone keypad.

And your next question comes from the line of Martin Pradier from AGF.
Your line is open.

Martin Pradier: Thanks. Hi, Raul. My question is how many tons of concentrates have been bought in the first nine-month of this year?

Raul Jacob: I need to – I can tell you the contained copper in those tonnages and then an approximate number for the concentrates, because we have about – for the full year, we have about 48,000 tons contained copper.

Martin Pradier: For the full year, OK.

Raul Jacob: So that's contained copper, OK. Now the number of concentrate tons depend on the copper grade of those 48,000 tons and that's difficult to say. So I would like to stick to the 48,000 tons of copper contained in this third party's copper concentrates.

Martin Pradier: And looking at the production and I see 426,000 it's for our number of 426 you are saying you are going to get 630 and out of that 40,000 would be concentrate. So it's more or less how it works? So it's 590 of real production?

Raul Jacob: I'm sorry could you repeat your question, please?

Martin Pradier: So you produced already 426,000 in the first nine months; let me precise on that one; let me precise on that remarking that's our own copper production that does not have third party's copper concentrate?

Raul Jacob: Yes.

Martin Pradier: And the 630 includes third party right; that's your guiding?

Raul Jacob: About 7percent of the total production for this year has the third party's copper concentrate.

Martin Pradier: So your number would be 585 – OK, fair enough.

Raul Jacob: Yes, I think you reminded me to do a comment on this Martin, I think that our own copper production for 2011 should be at about 585,000 tons.

On top of that, we will have a little bit more than or about 480,000 tons of copper from third parties. You have those numbers we're very close to 630,000 tons of that.

Martin Pradier: Perfect, yes, thank you for clearing that. And in terms of the tax rate, as you know the tax rate this quarter was lower than the third quarter of last year, any particular reason because I see now it's about 28 percent and it was like 33 percent same quarter last year?

Raul Jacob: Yes, our tax team has reviewed our tax position and we have included some tax credits in our third quarter's tax provision.

Martin Pradier: And this is a one-time?

Raul Jacob: We're not sure yet. We will clarify this in our 10-Q filing.

Martin Pradier: OK, great. Thank you.

Raul Jacob: You're welcome.

Operator: And there are no further questions in queue.

Raul Jacob: Well, if we don't have any additional questions, I will certainly thank you all of you for attending up. I'm seeing Rene Kleyweg coming back. Is that correct, operator?

Operator: Yes, it is. And Rene Kleyweg, your line is open.

Rene Kleyweg: Hi, sorry. Thanks, Raul. I thought I registered earlier. I was just wondering if you could explain a little bit more ...

Raul Jacob: It's always nice to start with you, Rene. So don't worry.

Rene Kleyweg: Just on the hedging; you mentioned there is \$21 million of gains for the quarter and could you expand on that a little bit given that the range on the callers would not – it would not appear obvious that the range on the callers would have been breached.

So I'm just trying to understand the structure of those instruments a little bit better than in terms of where those gains came from?

Raul Jacob: Certainly, according with the U.S. GAAP, we have to register as part of our sales the actual charges or benefits that we get from our hedges. That is what originates the figure that I mentioned... \$20 million figure benefits from the hedges. But we have an open position which is also recorded in other comprehensive income of the balance sheet.

Rene Kleyweg: So the \$20 million you referred to is not a realized gain, but it's a mark-to-market of those hedges; is that correct?

Raul Jacob: No, no, it's the realized gain for the quarter and it's recorded on sales, the 20 million. The open position is kept as an account in the balance sheet that reflects the difference on where we are and the mark-to-market position of the company.

So in U.S. GAAP, you have to reflect in your sales whatever final loss or gain you have from the hedges while the position, and all your positions for the future, for instance in this case the fourth quarter position and the first quarter of 2012 positions that we have, it's in the balance sheet in the mark-to-market analysis and charges or benefits depending on where do you stand on this matter.

Rene Kleyweg: OK. So sorry to continue on this point, but in terms of the public disclosures, you have an average swap at 408 and you have a range of 302 to 484 on the callers. So it's just a reflection of the fact that the range is – and the information that's publicly available is the average as opposed to the products which are structured at various different levels?

Daniel Muñíz: That is correct and the profit and the profit comes out of the ...

Raul Jacob: I'm not sure I follow you. Daniel, would you like to add something to ...

Daniel Muñíz: Yes. I mean that is correct; I mean that is the average on the swap that we had. As you know we built the position on a very small amount of tonnage by tonnage that just we obviously had on that the benefit realized already for the quarter on this loss.

As you just pointed out, on the put level, they were not breached and that's really, really they realized gain on the swaps on a variety of different – I mean swap level that we have which comprises our average.

Rene Kleyweg: Thank you.

Daniel Muñíz: Thank you.

Raul Jacob: And if there are no other questions ...

Operator: There are no further questions.

Raul Jacob: Well, thank you very much to everybody to participate in today's conference call. We expect to have you with us when we report on the full 2011 results in January.

Thank you very much for today's participation. Bye-bye.

Operator: And this concludes today's conference call. You may now disconnect.

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