

SOUTHERN COPPER CORP/  
Form S-4  
June 20, 2006

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As filed with the Securities and Exchange Commission on June 20, 2006

Registration No. 333-

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM S-4**

REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

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**SOUTHERN COPPER CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**1000**  
(Primary Standard Industrial  
Classification Code Number)

**13-3849074**  
(I.R.S. Employer  
Identification No.)

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**2575 East Camelback Road  
Phoenix, Arizona 85016  
(602) 977-6595**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**Armando Ortega Gómez  
Secretary  
Southern Copper Corporation  
2575 East Camelback Road  
Phoenix, Arizona 85016  
(602) 977-6595**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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*Copies to:*

**Michael L. Fitzgerald, Esq.  
Milbank, Tweed, Hadley & McCloy LLP  
One Chase Manhattan Plaza  
New York, New York 10005**

Approximate date of commencement of proposed exchange offer: As soon as practicable after this Registration Statement becomes effective.

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If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

### CALCULATION OF REGISTRATION FEE

Securities To Be Title Of Each Class Of Registered(1)	Amount To Be Registered(1)	Proposed Maximum Offering Price Per Unit(1)	Proposed Maximum Aggregate Offering Price(1)	Amount Of Registration Fee
7.500% Notes due 2035	\$ 400,000,000	100%	\$ 400,000,000	\$ 42,800.00

(1)

Estimated based on the face value of the 7.500% Notes due 2035 previously sold in transactions exempt from registration under the Securities Act of 1933, solely for the purpose of calculating the registration fee pursuant to Rule 457 under the Securities Act of 1933.

The information in this prospectus is not complete and may be changed. We may not sell these securities or consummate the exchange offer until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell or exchange these securities and it is not soliciting an offer to acquire or exchange these securities in any jurisdiction where the offer, sale or exchange is not permitted.

**SUBJECT TO COMPLETION, DATED JUNE 20, 2006**

**PROSPECTUS**

**Offer to exchange all of our outstanding unregistered  
U.S.\$400,000,000 7.500% Notes due 2035  
for  
U.S.\$400,000,000 7.500% Notes due 2035  
which have been registered under the Securities Act of 1933**

**Material Terms of the Exchange Offer:**

We are offering to exchange the notes that we sold previously in a private offering for new registered notes.

The terms of the new notes are substantially identical to the terms of the old notes, except for the transfer restrictions and registration rights relating to the outstanding old notes.

The exchange offer will expire at 5:00 p.m., New York City time, on \_\_\_\_\_, 2006, unless we extend it.

We will exchange all old notes that are validly tendered and not validly withdrawn.

You may withdraw tenders of old notes at any time before 5:00 p.m., New York City time, on the date of the expiration of the exchange offer.

Application has been made for the notes to be admitted to listing on the EuroMTF section of the Luxembourg Stock Exchange.

We will not receive any proceeds from the exchange offer.

We will pay the expenses of the exchange offer.

**You should carefully review "Risk Factors" beginning on page 23 of this prospectus.**

Neither the Securities and Exchange Commission, any state securities commission nor any other regulatory authority, has approved or disapproved the notes nor have any of the foregoing authorities passed upon or endorsed the merits of this exchange offer or the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is \_\_\_\_\_, 2006.

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In making the decision whether or not to participate in the exchange offer, holders of the old notes must rely on their own examination of the issuer and the terms of the exchange offer, including the merits and risks involved. Holders of the old notes should not construe anything in this prospectus as legal, business or tax advice. Holders of the old notes should consult their own advisors as needed to make the decision to exchange the old notes and to determine whether it is legally permitted to exchange the old notes under applicable investment or similar laws or regulations.

Each broker-dealer that receives new notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of such new notes. The letter of transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act of 1933. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of new notes received in exchange for old notes where such notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. We have agreed that, starting on the expiration date and ending on the close of business one year after the expiration date, we will make this prospectus available to any broker-dealer for use in connection with any such resale. See "Plan of Distribution".

We confirm that, after having made all reasonable inquiries, to the best of our knowledge, this prospectus contains all information with regard to us and the notes which is material to the offering and sale of the notes, that the information contained in this prospectus is true and accurate in all material respects and is not misleading in any material respect and that there are no omissions of any other facts from this prospectus which, by their absence herefrom, make this prospectus misleading in any material respect. We accept responsibility for the information contained in this prospectus regarding Southern Copper Corporation, the notes and the applicable transaction documents.

This prospectus contains summaries believed to be accurate with respect to certain documents, but reference is made to the actual documents for complete information. All such summaries are qualified in their entirety by such reference. Copies of documents referred to herein are available free of charge at the office of the Luxembourg paying agent and will be made available to you upon request to us.

All broker-dealers must comply with the registration and prospectus delivery requirements of the Securities Act. See "Plan of Distribution."

**We are not making an offer to exchange new notes for old notes in any jurisdiction where the offer is not permitted, and will not accept tenders for exchange from holders in any such jurisdiction.**

**ENFORCEMENT OF CIVIL LIABILITIES**

Although we are a corporation organized under the laws of Delaware, substantially all of our assets and operations are located, and a substantial portion of our revenues derive from sources, outside the United States. Almost all of our directors and officers and certain of the experts named in this prospectus reside outside of the United States and all or a significant portion of the assets of these persons are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or to enforce judgments against them obtained in United States courts predicated upon the civil liability provisions of the United States federal securities laws or otherwise. We have been advised by Mexican counsel that no treaty exists between the United States and Mexico for the reciprocal enforcement of judgments and we have been advised by our special Peruvian counsel that no such treaty exists between the United States and Peru. Mexican and Peruvian courts have enforced judgments rendered in the United States by virtue of the legal principles of reciprocity and comity, which include the review in Mexico or Peru of the United States judgment to ascertain whether certain basic principles of due process, public policy and other specific matters have been complied with, without reviewing the merits of the subject matter of the case. Nevertheless, we have been advised that there is doubt as to the enforceability, in original actions in Mexican or Peruvian courts, of liabilities predicated in whole or in part on United States federal securities laws and as to the enforceability in Mexican and Peruvian courts of judgments of United States courts obtained in actions predicated upon the civil liability provisions of United States federal securities laws.

**WHERE YOU CAN FIND MORE INFORMATION**

We have filed with the SEC a registration statement on Form S-4 under the Securities Act of 1933 with respect to the offering of notes. This prospectus, which is part of the registration statement, does not contain all of the information set forth in the registration statement and the exhibits to the registration statement. For further information with respect to us and the notes, you should refer to the registration statement and the exhibits filed as a part of the registration statement. If a document has been filed as an exhibit to the registration statement, we refer you to the copy of the document that has been filed. Each of the statements in this prospectus relating to a document that has been filed as an exhibit is qualified in all respects by the filed exhibit.

We are required to file annual, quarterly and special reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended, or the Exchange Act. You may read and copy information we file at the SEC's Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may obtain information regarding the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website that contains reports, proxy statements and other information about issuers like us that file electronically with the SEC. The SEC's Internet site is *www.sec.gov*.

You may request a copy of our filings or any of the agreements or other documents that constitute exhibits to those filings, at no cost, by telephoning or writing to us at the following:

Investor Relations  
Southern Copper Corporation  
2575 East Camelback Road, Suite 500  
Phoenix, Arizona 85016  
Tel. No.: 602-977-6595

**To obtain timely delivery, any such requests must be made at least five business days before the expiration date of the exchange offer set forth on cover of this prospectus.** Additionally, you can get further information about us on our website: *www.southernperu.com*. Information on our website, however, does not constitute a part of this prospectus.

You should rely only on the information contained in this prospectus. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. The information contained in this prospectus is accurate only as of the date on the front of this prospectus.

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

*Throughout this prospectus, unless the context otherwise requires, the terms "we," "us," "our," and "the Company" refer to the Southern Copper Corporation and its consolidated subsidiaries including our Minera México subsidiary and its consolidated subsidiaries which we acquired on April 1, 2005; the term "Issuer" refers to Southern Copper Corporation as issuer of the notes; the terms "Southern Copper Corporation" and "SCC" refer to the Southern Copper Corporation and its subsidiaries, excluding Minera México and its consolidated subsidiaries but including SCC Peru Branch; SCC Peru Branch refers to a registered branch through which SCC conducts its Peruvian operations; the term "Minera México" refers to our subsidiary Minera México, S.A. de C.V., and its consolidated subsidiaries; and the term "Grupo México" refers to Grupo México, S.A. de C.V., our controlling stockholder. On October 11, 2005, we changed our name from Southern Peru Copper Corporation to Southern Copper Corporation.*

*Many of the terms used in this prospectus are defined in the glossary of mining terms, beginning on page A-1.*

### Financial Information

Our financial statements and other financial information included in this prospectus reflect the combined accounts of Southern Copper Corporation and Minera México. Effective April 1, 2005, SCC acquired substantially all of the outstanding common stock of Minera México. The acquisition was accounted for in a manner similar to a pooling of interests as it involved the reorganization of entities under common control. Under applicable accounting requirements, the financial statements of SCC and Minera México are combined on a historical cost basis for all the periods presented since they were under common control during all of the periods presented. The combined financial results may not be indicative of the results of operations that actually would have been achieved had the acquisition of Minera México taken place at the beginning of the periods presented and do not purport to be indicative of future results.

Our 2005 Form 10-K/A includes audited consolidated combined financial statements as of December 31, 2004 and 2005, and for each of the years in the three-year period ended December 31, 2005. We refer to these statements as the Audited Consolidated Combined Financial Statements. Our 2006 First Quarter Form 10-Q includes unaudited condensed consolidated combined financial statements as of December 31, 2005 and March 31, 2006 and for the three months ended March 31, 2005 and 2006. We refer to these statements as our Unaudited Condensed Consolidated Combined Financial Statements. The financial statements and information as of and for such periods are unaudited. The results of operations for these periods are not necessarily indicative of the results to be expected for the full year. These Unaudited Condensed Consolidated Combined Financial Statements and information should be read in conjunction with our Audited Consolidated Combined Financial Statements.

This prospectus also includes certain audited consolidated combined financial information as of and for the year ended December 31, 2002 and as of the year ended December 31, 2003, and unaudited consolidated combined financial information as of and for the year ended December 31, 2001. The unaudited 2001 consolidated combined financial information has been derived from audited stand-alone financial statements of SCC and Minera México. Management has prepared the unaudited 2001 consolidated combined financial information on a basis believed to be consistent with the basis on which the Audited Consolidated Combined Financial Statements have been prepared.

### Reserves Information

Our mineral reserves are estimates based on a number of assumptions, including production costs and metals prices. Unless otherwise stated, reserves estimates in this offering memorandum are based

on three-year average metal prices as of December 31, 2005. We refer to three-year average metal prices as "current average prices."

In this prospectus, certain financial information is based on reserve estimates based on certain metals price assumptions. These items include the amount of mine stripping that is capitalized, units of production, amortization of capitalized mine stripping and amortization of intangible assets. For SCC, commencing in 2003, we have used reserve estimates based on current average metals prices as of the most recent year then ended to determine these items. For periods prior to 2003 for SCC, we have used reserves estimates based on metals prices intended to approximate average prices over the long term. In calculating such items for periods ended on or prior to December 31, 2005 for Minera México, we have used reserves estimates based on these longer term price assumptions. For periods ended after December 31, 2005, such items for Minera México have been calculated using reserve estimates based on current average prices.

### **Currency Information**

Unless stated otherwise, references herein to "U.S. dollars," "dollars," "U.S.\$" or "\$" are to United States dollars; references to "S/," "nuevo sol" or "nuevos soles" are to Peruvian nuevos soles; and references to "peso," "pesos" or "Ps." are to Mexican pesos.

### **Industry and Market Data**

This prospectus includes market share and industry data and forecasts that we obtained from or are based upon internal company surveys, market research, consultant surveys, publicly available information and industry publications and surveys. Industry publications and surveys, consultant surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but we cannot assure you as to the accuracy and completeness of the information. We have not independently verified any of the information from third-party sources nor have we ascertained the underlying economic assumptions relied upon therein. We believe that this information has been accurately reproduced. Similarly, internal company surveys, industry forecasts and market research, which we believe to be reliable based upon management's knowledge of the industry, have not been verified by any independent sources.

### **Unit Information**

Throughout this prospectus, unless otherwise noted, all tonnages are in metric tons. To convert to short tons, multiply by 1.102. All ounces are troy ounces. All distances are in kilometers. To convert to miles, multiply by 0.621. To convert hectares to acres, multiply by 2.47.

## SUMMARY

*You should read this entire prospectus including the exhibits attached hereto when deciding to participate in this exchange offer. You should also carefully consider the information set forth under "Risk Factors." In addition, certain statements include forward-looking information that involves risks and uncertainties. See "Forward-Looking Statements."*

### Overview

We are the world's second-largest publicly traded copper company as measured by reserves. Based on 2005 sales, we are the world's fifth largest copper mining company, the third largest copper smelting company and the fifth largest copper refining company. We believe that we are also among the world's largest producers of molybdenum, silver and zinc. All of our mining operations are located in Peru and Mexico and we conduct exploration activities in Peru, Mexico and Chile.

With the acquisition of Minera México in the second quarter of 2005, we determined that to best manage our business we needed to focus on three operating segments. These segments are our Peruvian operations, our Mexican open-pit operations and our Mexican underground mining polymetallic operations, known as our IMMSA unit. Our Peruvian operations include the Toquepala and Cuajone mine complexes and the smelting and refining plants, industrial railroad and port facilities which service both facilities. Our Mexican open-pit operations include the La Caridad and Cananea mine complexes and smelting and refining plants and support facilities which service both complexes. Our IMMSA unit includes five underground mines that produce zinc, copper, silver and gold, and several industrial processing facilities for zinc and silver. We own and operate the following mines and metallurgical complexes:

#### *Four Open-Pit Copper Mines*

Our Cuajone and Toquepala mines, located in southern Peru, produced 357,613 tons of copper in 2005 (163,659 tons at Cuajone and 193,954 tons at Toquepala). These mines are part of our Peruvian operations segment.

Our Cananea mine, located in northern Mexico, produced 175,149 tons of copper in 2005. We believe Cananea is among the world's largest copper mines in terms of reserves, and has the longest remaining mine life of any major open-pit copper mine in the world based on current production levels. This mine is part of our Mexican open-pit operations segment.

Our La Caridad mine, located in northern Mexico, produced 144,363 tons of copper in 2005. This mine is part of our Mexican open-pit operations segment.

#### *Three Metallurgical Processing Complexes*

Our Ilo complex, located in southern Peru, includes the world's sixth largest copper smelter and eighth largest copper refinery, a precious metal refinery and a sulfuric acid plant. We are currently modernizing the Ilo smelter facility with Isasmelt technology to reduce emissions. This complex is part of our Peruvian operations segment.

Our La Caridad complex, located in northern Mexico, is a modern metallurgical facility that includes one of the world's largest copper smelters and one of the largest copper refineries, a precious metal refinery, a copper rod manufacturing plant and a sulfuric acid plant. This complex is part of our Mexican open-pit operations segment.

Our San Luis Potosí complex, located in central Mexico, includes an electrolytic zinc refinery, a copper smelter and a sulfuric acid plant. This complex is part of our Mexican open-pit operations segment.

#### *Underground Mines and Related Processing Facilities*



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We own and operate five underground mines that produce various metals such as zinc, copper, silver and gold, all of which are located in Mexico. These underground mines are part of our IMMSA Unit segment.

On April 1, 2005, we acquired Minera México from Americas Mining Corporation, or AMC, a subsidiary of Grupo México, S.A. de C.V., our controlling stockholder. On a stand-alone basis, Minera México, which owns the Cananea and La Caridad mines, among other assets, is the largest mining company in Mexico and the eleventh largest copper producer in the world. On April 1, 2005, we exchanged 67,207,640 newly issued shares of our common stock for the outstanding shares of Minera México, and Minera México became our 99%-owned subsidiary. Upon completion of the merger, Grupo México increased its indirect beneficial ownership of our capital stock from approximately 54.2% to approximately 75.1%. We now own 99.95% of Minera Mexico.

For the year ended December 31, 2005, after giving effect to our acquisition of Minera México, we had net sales of U.S.\$4,112.6 million and EBITDA of U.S.\$2,335.2 million. Over the same period we produced 689,929 tons of copper, 14,803 tons of molybdenum, 18,495 million ounces of silver and 245,132 tons of zinc, approximately 59% of which was sold outside of Latin America. As of December 31, 2005, we had proven and probable reserves of approximately 57.7 million tons of copper.

### Competitive Strengths

*Third largest copper reserves in the world.* We have an estimated 57.7 million tons of proven and probable copper reserves, the third largest copper reserves in the world and the second largest copper reserves of any publicly-traded company.

*Highly integrated copper production.* We are a highly integrated producer of copper which enables us to maintain high smelter utilization, achieve pricing premiums through value-added copper products and reduce our reliance on third parties for treatment and refinery services. For example, our Cananea and La Caridad mines provide a stable and secure source of copper concentrate for our La Caridad complex, our Cuajone and Toquepala mines supply our Ilo complex and our underground mines provide zinc and copper concentrate for our San Luis Potosí complex. Our integrated operations enable us to have significant economies of scale with reduced costs and earnings volatility.

*A portfolio of low-cost operations.* Our copper mines are well positioned from a cost perspective. In addition to our integrated operations, we believe we benefit from other advantages that contribute to making us a low-cost producer of copper and other metals. These advantages include the relatively high quality of our reserves and the proximity of many of our operations to each other.

*Diversified mix of operations.* We operate four copper mines, with no one mine contributing more than 29% of our total mine production during 2005. We also operate three metallurgical complexes. We believe this diversity of operations reduces the impact of a major mine failure or labor disruptions at any one operation. We offer a diverse product mix that includes molybdenum, a byproduct of our copper mining operations, as well as other byproduct metals, such as zinc and silver. We believe we are one of the world's largest producers of molybdenum. Further, our operations and reserves are balanced between Peru and Mexico, countries with a tradition of mining and well-established mining laws.

*Significant organic growth prospects that can be financed with internal funds.* We have identified a number of potential development projects that we believe can be implemented to increase our future production capacity without major investments. These development projects, which include several brownfield projects that together could increase our production capacity by an estimated 73,000 tons (or approximately 11% of our current capacity) of copper per year, can be financed by internally generated funds and can be implemented within two to three years. We also have identified other potential brownfield and greenfield projects at our properties in Peru and Mexico and are currently conducting exploration activities in Peru, Mexico and Chile.

*Management team with a track record of success over our long operating history.* Our senior managers have an average of 20 years of experience with our Company or its predecessors. Our senior managers have successfully led the Company in varied economic conditions and have a track record of improving operating efficiency and reducing costs.

### **Business Strategies**

Our objective is to increase earnings and cash flow growth in varied market conditions. We seek to achieve this objective by focusing on the following strategies:

*Growing and expanding our operations.* We intend to further realize the potential of our existing operations by expanding our production capacity and reserves, as well as exploring and developing promising mineral deposits. We believe that our existing operations have significant growth potential that can be financed principally through internally generated cash flows. We also intend to supplement internal growth by selectively pursuing value-enhancing acquisition opportunities.

*Continuing our focus on copper.* We are primarily a copper producer, with approximately 66.6% of our 2005 revenues derived from copper production. We intend to continue to focus principally on the production of copper. Our earnings and cash flows are highly sensitive to movements in the price of copper, and as of March 31, 2006, we estimate that a U.S.\$0.01 per pound change in the price of copper would create an approximately U.S.\$8.5 million change in net earnings.

*Improving the cost position of our operations.* We are focused on improving our cost structure in order to maintain our profitability throughout the commodity price cycle and to generate cash flow to fund attractive investment opportunities. We seek to lower costs by (i) improving economies of scale through production expansions, (ii) investing selectively in new equipment and advanced production technologies, such as SX/EW, and (iii) fully utilizing our metallurgical facilities to capture processing margins and premiums.

*Maintaining a relatively conservative capital structure.* As of March 31, 2006, we had a cash balance of U.S.\$775.6 million and total debt of U.S.\$1,172.1 million, giving us a net debt position of U.S.\$396.5 million and a ratio of net debt to net debt plus stockholders' equity of 11.1%. On January 27, 2006, we announced a quarterly dividend of U.S.\$2.75 per share, which we paid on March 3, 2006. We intend to use substantially all the net proceeds of this offering for investment in various expansion and modernization projects, with the remainder, if any, to be used for general corporate purposes. We seek to maintain a relatively conservative level of financial leverage with the goal of enabling us to minimize our borrowing costs, to be opportunistic regarding growth projects and strategic investments and acquisitions and to reduce financial risks during market downturns.

### **Copper Market Conditions**

Copper is a fundamental material in the world's infrastructure. Copper has unique chemical and physical properties, including high electrical conductivity and resistance to corrosion, as well as excellent malleability and ductility, that have made it a superior material for use in the electrical energy, telecommunications, building construction, transportation and industrial machinery businesses. Wire and cable products, used principally as energy cable, building wire and magnet wire, account for as much as 71% of copper consumption. Copper is also an important metal in non-electrical applications such as plumbing, roofing and, when alloyed with zinc to form brass, in many industrial and consumer applications. The building and construction industry accounts for approximately 37% of worldwide copper usage. Worldwide copper sales in 2005 were estimated to be approximately U.S.\$62.4 billion based on 2005 worldwide copper sales of 17.0 million tons and the average copper price per pound in 2005 of U.S.\$1.67.

Historically, the price of copper has been both volatile and cyclical, a reflection of current and expected economic conditions and the supply of and demand for copper.

During the 1980s and 1990s, copper prices averaged, on an annual basis, approximately U.S.\$0.84 per pound and U.S.\$1.01 per pound, respectively. The price of copper has increased considerably over the past few years since its 15-year low reached in November 2001, particularly since March 2003, when significant appreciation of the metal commenced. In 2005, the average copper price of U.S.\$1.67 per pound was almost U.S.\$0.37 higher than the previous year's average. We believe factors contributing to the current strength of copper prices include:

*Reduced supply and low inventory levels.* Reduction in new mine developments, declining grades at existing mines and discipline among existing producers in not expanding production, have all contributed to a current supply deficit. This has been aided by the significant restructuring and consolidation in the industry over the past few years. Current inventories of copper held by producers and commodity exchanges are at historically low levels. When copper inventories are low, higher copper prices generally result.

*Increased demand, especially from China.* Increases in worldwide industrial production as well as increased use of copper in developing countries, especially China, have led to recent increases in demand for copper. Excluding China, global market consumption of copper decreased by 0.5% in 2005. China's copper consumption, however, grew 10% in 2005, accounting for an approximate 1.5% increase in global market consumption of copper in 2005. Demand has also benefited from a recovery in the U.S. manufacturing sector. As producers' and commodities exchanges' inventories have decreased and industrial production and consumer confidence have increased, end users have increased their business inventories of copper as they have realized the need to have copper available, particularly on short notice.

*Weakening U.S. dollar.* There has been a strong inverse correlation over time between copper prices and U.S. dollar exchange rates. Approximately 92% of copper production occurs in regions where the local currency is not the U.S. dollar. Production economics for producers and the impact of raw materials costs on consumers in these regions change with movements in the exchange rate of the U.S. dollar against these regions' currencies. The current weakness of the U.S. dollar has had a significant upward impact on the price of copper in U.S. dollars.

These factors, which are all interdependent and impact prices to varying degrees, are reflected in the current market price of copper. Changes to any one of these factors will impact prices in the future.

### **Corporate Information**

We were incorporated in Delaware in 1952. On October 11, 2005, we changed our name from Southern Peru Copper Corporation to Southern Copper Corporation. Our corporate offices in the United States are located at 2575 East Camelback Road, Suite 500, Phoenix, Arizona 85016. Our telephone number in Phoenix, Arizona is (602) 977-6595. Our corporate offices in Mexico are located in Mexico City and our corporate offices in Peru are located in Lima. Our website is [www.southernperu.com](http://www.southernperu.com). The information on our website is not part of this offering memorandum.

**RECENT DEVELOPMENTS**

The following are significant developments since December 31, 2005.

*Mining Accident.* On February 19, 2006, a gas explosion occurred at our Pasta de Conchos coal mine, located in the San Juan Sabinas municipality, in the state of Coahuila, Mexico. The explosion caused a cave-in at three of the main tunnels leading into the mine. Initially 11 of our miners were rescued, some with minor injuries and some unharmed. Regrettably, 65 of our miners remained trapped. Our crews, with assistance from the Mexican army, regional industry and support from the government of Coahuila, worked around the clock to reach and rescue our men. As work progressed, the build up of methane gas made it apparent that any chance of our men remaining alive was hopeless. On February 25, we redefined our efforts as a mission to recover the bodies of our deceased workers; this mission is still in process. The operations at Pasta de Conchos have been suspended and it is uncertain when such operations will resume. See note I to our Unaudited Condensed Consolidated Combined Financial Statements contained in our 2006 First Quarter Form 10-Q attached hereto as Annex C for additional information related to the mining accident.

*Dividends.* On January 27, 2006, we announced a quarterly dividend of U.S.\$2.75 per share, which we paid on March 3, 2006, to our stockholders of record as of February 15, 2006. On April 26, we announced an additional dividend of U.S.\$2.75 per share payable on June 2, 2006 to our shareholders of record as of May 16, 2006.

*Labor Issues and Work Stoppages.* Despite an agreement with the National Union of Mine, Metallurgical and Similar Workers of Mexico, workers at the La Caridad mine have illegally blocked the entrance to the mine and concentrator since March 24, 2006. On June 9, 2006, we closed our copper mine at La Caridad and its lime plant at Agua Prieta as a result of this continued blockage. The La Caridad mine is owned by our subsidiary Mexicana de Cobre, S.A. de C.V., which has commenced appropriate legal actions before Mexican federal authorities. We do not believe this dispute will be resolved in the near future. As a result, we intend to terminate our individual labor agreements and collective bargaining agreements in accordance with Mexican federal labor law. Workers at our San Martín and Taxco underground mines have staged several illegal work stoppages since March 1 and April 23, 2006, respectively, which caused us to cease operations in these underground mines and concentrators during these work stoppages. The San Martín mine resumed its operations as of May 16, 2006 and the Taxco mine resumed operations on April 25, 2006. Additionally, our zinc refinery in San Luis Potosí has not been operating since January 5, 2006 due to technical disruptions. Repair work is being conducted on the zinc refinery which has resumed partial operations on June 2, 2006 and is expected to be fully operation by the end of the third quarter 2006. The San Luis Potosí zinc refinery is owned by Minera México. See note I to our Unaudited Condensed Consolidated Combined Financial Statements contained in our 2006 First Quarter Form 10-Q attached hereto as Annex C for additional information related to labor issues and work stoppages.

On June 1, 2006, workers at the Cananea mine declared a strike and on June 6, 2006, we declared force majeure on our June and July copper contracts. Despite an agreement with the National Union of Mine, Metallurgical and Similar Workers of Mexico, workers at the Cananea mine have illegally blocked the entrance to the facilities since June 14, 2006. The La Cananea mine is owned by our subsidiary Mexicana de Cananea, S.A. de C.V., which has commenced appropriate legal actions before Mexican federal and local authorities. We do not believe this dispute will be resolved in the near future.

*Strategic transactions.* From time to time, we consider various strategic transactions including potential acquisitions and divestitures. In addition, our controlling shareholder has informed us that from time to time it may consider strategic transactions that may include divestitures of all or a part of their interest in us. Any such transaction may result in an increase in our indebtedness or otherwise

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impact the trading prices of our securities. No assurances can be given that any such transaction will occur or the timing thereof.

*Hedging activities.* We have entered into copper swap contracts covering a total of 462 million pounds of our copper production as of June 15, 2006 at prices ranging from \$2.63 per pound through \$3.96 per pound. These contracts are as follows:

Pounds (in millions)	Period	Copper Swap Price(1)
165.3	June 2006	\$ 3.06(2)
121.5	July 2006	\$ 3.33(2)
105.8	August 2006	\$ 3.46(2)
52.9	September 2006	\$ 3.49(2)
11.0	October 2006	\$ 3.53(2)
5.5	November 2006	\$ 3.52(2)

(1) SCC will receive (pay) if the actual average COMEX copper price for period is under (over) swap price on quantity hedged.

(2) The copper swap price is the per pound weighted average for the month. Prices for June 2006 range from \$2.63 to \$3.96 prices for July 2006 range from \$2.95 to \$3.92, prices for August 2006 range from \$3.03 to \$3.90, prices for September 2006 range from \$3.22 to \$3.83, prices for October 2006 range from \$3.52 to \$3.54 and prices for November 2006 are \$3.52.

Transactions under this copper price protection program are not accounted for as hedges under SFAS No. 133 and are adjusted to fair market value based on the copper price as of the last day of the respective reporting period with the gain or loss recorded in total net sales. The actual impact of this protection program on our second and third quarter copper production can not be fully determined until the maturity of each copper swap contract with final adjustments based on the average annual copper price. Based on current copper market prices as of June 16, 2006, we estimate unrealized losses after taxes of approximately U.S.\$107.3 million associated with our second and third quarter copper production. As a result of this copper price protection program, we decided to change our accounting policy to recognize the fair market value of these financial instruments against our net sales. We believe that this income statement classification reflects better the intention of this copper price protection program. Before the second quarter of 2006, the fair market value of our derivative instruments was accounted for in a separate non-operating income statement line item.

*First Quarter Results.* On April 26, 2006, we announced our unaudited results for the three months ended March 31, 2006. The following summarizes certain information regarding our first quarter results. For a more complete discussion, see our 2006 First Quarter Form 10-Q attached hereto as Annex C.

The following tables set forth unaudited selected financial and operating information for the three months ended March 31, 2006 and 2005.

## Selected Financial and Operating Information

	For the three months ended March 31,			
	2006	2005	Variation	%
	(in millions, except per share amounts and %s)			
Copper sold pounds	334.0	360.3	(26.3)	(7.3)%
Net Sales	\$ 1,121.3	\$ 946.1	\$ 175.2	18.5%
Cost of Sales (exclusive of depreciation, amortization and depletion)	406.9	389.6	17.3	4.4%
Operating Income	632.7	471.6	161.1	34.2%
EBITDA(1)	684.8	524.4	160.4	30.6%
EBITDA Margin	61.1%	55.4%	5.7%	10.3%
Net earnings	\$ 421.6	\$ 298.4	\$ 123.2	41.3%
Earnings per share	2.86	2.03	0.83	40.9%
Capital expenditures	143.1	75.3	67.8	90.0%

(1)

For an explanation of EBITDA, see footnote 2 to the Other Financial Information table on page 16. A reconciliation of net earnings computed in accordance with GAAP to EBITDA is presented below:

	For the three months ended March 31,	
	2006	2005
	(in millions)	
Net earnings	\$ 421.6	\$ 298.4
Add:		
Minority interest	1.7	1.4
Income taxes	199.9	146.1
Interest expense	22.9	27.0
Depreciation, amortization and depletion	53.1	61.0
Less:		
Interest income	(9.3)	(5.5)
Interest capitalized	(5.1)	(4.0)
<b>EBITDA</b>	<b>\$ 684.8</b>	<b>\$ 524.4</b>

## Other Information

	For the three months ended March 31,			
	2006	2005	Variation	%
	(in millions, except per share amounts and %s)			
Total debt at end of period	\$ 1,172.1	\$ 1,211.2	\$ (39.1)	(3.2)%
Total debt to capitalization ratio	27.0%	28.6%	(1.6)%	(2.7)%
Total cash and marketable securities at end of period	\$ 775.6	\$ 809.3	\$ (33.7)	(4.2)%
Net Debt (debt minus cash)	396.5	401.9	(5.4)	(1.3)%
Production data:				

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For the three months ended March 31,

Copper mined (lbs)	354.0	356.6	(2.6)	(0.7)%
Molybdenum mined (lbs)	7.6	8.9	(1.3)	(14.6)%
Silver mined (oz)	4.2	4.5	(0.3)	(6.7)%
Zinc mined (lbs)	76.3	76.5	(0.2)	(0.3)%

Our net sales for the three months ended March 31, 2006 were \$1,121.3 million compared with \$946.1 million for the three months ended March 31, 2005, an increase of 18.5%. This increase was the

result of higher sales prices for copper, silver and zinc, offset by a decrease in the sales price for molybdenum and lower production volumes.

The average price for copper for the three months ended March 31, 2006 on the London Metal Exchange (LME) and the New York Commodity Exchange (COMEX) was U.S.\$2.24 and U.S.\$2.25 per pound, respectively, compared with an average of U.S.\$1.48 and U.S.\$1.47 per pound in the three months ended March 31, 2005. Approximately 60% of our first quarter 2006 copper sales were priced based on COMEX and the balance on the LME. The average Metals Week Dealer oxide price for molybdenum, our principal by-product, was \$22.25 per pound in the three months ended March 31, 2006, compared with U.S.\$30.43 per pound in the three months ended March 31, 2005. The average price for zinc on the LME in the three months ended March 31, 2006 was U.S.\$1.02 per pound compared with U.S.\$0.60 per pound in the three months ended March 31, 2005. The average price for silver on COMEX was U.S.\$9.70 per ounce in the three months ended March 31, 2006, compared with U.S.\$6.99 per ounce in the three months ended March 31, 2005.

Mine copper production amounted to 354.0 million pounds in the first quarter of 2006, a decrease of 0.7% compared with the three months ended March 31, 2005. This decrease of 2.6 million pounds included a decrease of 8.6 million pounds from the Mexican open pit operations and a decrease of 2.2 million pounds from the Mexican underground mines which was offset by an increase of 8.2 million pounds from the Peruvian open pit mines.

The decrease of 8.6 million pounds in the production from the Mexican open pit mines was due to a decrease in ore milled, as a result of an illegal work stoppage at the La Caridad mine, lower ore grade and recoveries and a decrease in SX-EW production due to lower quantities of PLS treated. The decrease of 2.2 million pounds in the Mexican underground mines was due to an illegal work stoppage in the San Martín mine which resulted in no production in March. The increase of 8.2 million pounds from the Peruvian open pit mines was the result of higher ore grades and recoveries in both the Cuajone and Toquepala mines, net of a decrease in SX/EW copper production due to lower PLS grade.

Molybdenum production amounted to 7.6 million pounds in the three months ended March 31, 2006, a decrease of 14.6% compared with the three months ended March 31, 2005. This decrease of 1.3 million pounds was the result of a decrease of 0.8 million pounds in the Peruvian production, due to lower ore grades at the Toquepala and Cuajone units and a decrease of 0.4 million pounds in the La Caridad mine.

Mine zinc production amounted to 76.3 million pounds in the three months ended March 31, 2006, a slight decrease from the three months ended March 31, 2005. In January 2006 an electrical fire at a power sub-station of our San Luis Potosí zinc refinery shut down operations. We expect to restore 50% of the production in the second quarter of 2006 and the remaining 50% by the end of the third quarter. In the interim we are selling zinc concentrates. Due to a current shortage of zinc concentrates in the market we have been able to receive favorable terms on these sales.

Our cost of sales for the three months ended March 31, 2006 was U.S.\$406.9 million compared with \$389.6 million for the three months ended March 31, 2005, an increase of 4.4%. This increase was principally the result of higher fuel and power cost, which increased U.S.\$14.9 million during this period and an increase of U.S.\$5.4 million in our selling, general and administrative expenses, as well as a U.S.\$1.4 million increase in mining royalties.

Our operating income for the three months ended March 31, 2006 was U.S.\$632.7 million compared with U.S.\$471.6 million for the three months ended March 31, 2005, an increase of 34.2%, due to the increase in our net sales.

Our net earnings for the three months ended March 31, 2006 were U.S.\$421.6 million, or earnings per share of U.S.\$2.86, compared with U.S.\$298.4 million, or earnings per share of U.S.\$2.03, for the three months ended March 31, 2005, an increase of 41.3%.

On January 1, 2006 we adopted the EITF consensus 04-06 "Accounting for Stripping Costs Incurred During Production in the Mining Industry" which states that stripping costs incurred during the production phase of a mine are variable production costs that should be included in the costs of the inventory produced (extracted) during the period that the stripping costs are incurred. In connection with the adoption of this accounting principle, effective January 1, 2006, we reversed U.S.\$289.4 million of net cumulative capitalized stripping cost as of December 31, 2005 and recorded a net charge of U.S.\$181.3 million to retained earnings after recognition of workers' participation and tax benefit of U.S.\$108.1 million.

These developments and others could have a material adverse effect on our business, financial condition and results of operations, you should carefully consider these developments and other risk factors as set forth in the Section entitled "Item 1A. Risk Factors" in our 2005 Form 10K/A and "Part I Item 1a. Risk Factors" in our 2006 Form 10-Q each included as an annex to this prospectus.

## THE OFFERING

### Terms of the Exchange Offer

*We sometimes refer to the U.S.\$400 million aggregate principal amount of 7.500% Notes due 2035, issued May 9, 2006, as the old notes. We sometimes refer to the U.S.\$400 million aggregate principal amount of 7.500% Notes due 2035, to be issued as part of the proposed exchange offer, as the new notes. We refer to the new notes together with the old notes as the notes. As part of the offering of the old notes, we entered into a registration rights agreement in which we agreed to complete an exchange offer for the old notes. Below is a summary of the exchange offer.*

New Notes	Up to U.S.\$400 million aggregate principal amount of 7.500% Notes due 2035. The terms of these new notes and the old notes are substantially identical in all respects, except that, because the offer of the new notes will have been registered under the Securities Act of 1933, or the Securities Act, the new notes will not be subject to transfer restrictions, registration rights or the related provisions for increased interest if we default under the related registration rights agreement. The new notes are expected to be fungible with our outstanding 7.500% Notes due 2035 which have been registered under the Securities Act.
The Exchange Offer	<p>We are offering to exchange up to U.S.\$400 million aggregate principal amount of new notes for a like aggregate principal amount of old notes. Old notes may be tendered only in minimum denominations of U.S.\$100,000 and integral multiples of U.S.\$1,000 in excess thereof. All old notes that are validly tendered and not withdrawn will be exchanged. We will issue new notes promptly after the expiration of the exchange offer.</p> <p>In connection with the private placement of the old notes on May 9, 2006, we entered into a registration rights agreement, which grants holders of the old notes certain exchange and registration rights. This exchange offer is intended to satisfy our obligations under this registration rights agreement.</p> <p>If the exchange offer is not completed within the time period specified in the registration rights agreement, we will be required to pay additional interest on the old notes covered by the registration rights agreement for which the specified time period was exceeded.</p>
Resale of New Notes	<p>Based on existing interpretations by the staff of the SEC set forth in interpretive letters issued to parties unrelated to us, we believe that the new notes may be offered for resale, resold or otherwise transferred by you without compliance with the registration and prospectus delivery requirements of the Securities Act, provided that:</p> <p>you are acquiring the new notes in the exchange offer in the ordinary course of business;</p>

you are not participating, do not intend to participate, and have no arrangements or understandings with any person to participate in the exchange offer for the purpose of distributing the new notes; and

you are not our "affiliate," within the meaning of Rule 405 under the Securities Act.

If any of the statements above are not true and you transfer any new notes without delivering a prospectus that meets the requirements of the Securities Act or without an exemption from registration of your new notes from those requirements, you may incur liability under the Securities Act. We will not assume or indemnify you against that liability.

Each broker-dealer that receives new notes for its own account in exchange for old notes that were acquired by such broker-dealer as a result of market-making or other trading activities may be a statutory underwriter and must acknowledge that it will comply with the prospectus delivery requirements of the Securities Act in connection with any resale or transfer of the new notes. A broker-dealer may use this prospectus for an offer to resell, resale or other transfer of the new notes. See "Plan of Distribution."

The exchange offer is not being made to, nor will we accept surrenders of old notes for exchange from, holders of old notes in any jurisdiction in which the exchange offer or the acceptance thereof would not be in compliance with the securities or blue sky laws of the jurisdiction.

Consequences of Failure to Exchange

If you do not exchange your old notes for new notes, you will not be able to offer, Old Notes for New Notes sell or otherwise transfer your old notes except:

in compliance with the registration requirements of the Securities Act and any other applicable securities laws;

pursuant to an exemption from the securities laws; or

in a transaction not subject to the securities laws.

Old notes that remain outstanding after the exchange offer is completed will continue to bear a legend reflecting these restrictions on transfer. In addition, when the exchange offer is completed, you will not be entitled to any rights to have resales of old notes registered under the Securities Act, and we currently do not intend to register under the Securities Act the resale of any old notes that remain outstanding after the exchange offer is completed.

Expiration Date

The exchange offer will expire at 5:00 p.m., New York City time, on \_\_\_\_\_, 2006, unless we extend it. We do not currently intend to extend the exchange offer.

**Interest on the New Notes** Interest on the new notes issued in exchange for old notes will accrue at their respective stated rates from the date of the last periodic payment of interest on the old notes or, if no interest has been paid, from May 9, 2006. No additional interest will be paid on old notes tendered and accepted for exchange.

**Conditions to the Exchange Offer** The exchange offer is subject to customary conditions, including that:

- the exchange offer does not violate applicable law or any applicable interpretation of the SEC staff;
- the old notes are validly tendered in accordance with the terms of the exchange offer;
- no action or proceeding would impair our ability to proceed with the exchange offer; and
- any governmental approval that we believe, in our sole discretion, is necessary for the consummation of the exchange offer, as outlined in this prospectus, has been obtained.

The exchange offer is not conditioned upon any minimum principal amount of old notes being tendered for exchange. See "The Exchange Offer Conditions."

**Procedures for Tendering the Old Notes** If you wish to accept the exchange offer, you must follow the procedures for book-entry transfer described in this prospectus, whereby you will agree to be bound by the letter of transmittal and we may enforce the letter of transmittal against you. Questions regarding the tender of old notes or the exchange offer generally should be directed to the exchange agent at one of its addresses specified in "The Exchange Offer Exchange Agent." See "The Exchange Offer Procedures for Tendering" and "The Exchange Offer Guaranteed Delivery Procedures." Letters of transmittal and any other documents required by the letter of transmittal should be sent to the exchange agent and not to us.

**Guaranteed Delivery Procedures** If you wish to tender your old notes and the procedure for book entry transfer cannot be completed on a timely basis, you may tender your old notes according to the guaranteed delivery procedures described under the heading "The Exchange Offer Guaranteed Delivery Procedures."

**Acceptance of Old Notes and Delivery of New Notes** We will accept for exchange any and all old notes that are properly tendered in the exchange offer before 5:00 p.m., New York City time, on the expiration date, as long as all of the terms and conditions of the exchange offer are met. We will deliver the new notes promptly following the expiration date.

Withdrawal Rights

You may withdraw the tender of your old notes at any time before 5:00 p.m., New York City time, on the expiration date of the exchange offer. To withdraw, you must send a written notice of withdrawal to the exchange agent at one of its addresses specified in "The Exchange Offer Exchange Agent" before 5:00 p.m., New York City time, on the expiration date. See "The Exchange Offer Withdrawal of Tenders."

Taxation

We believe that the exchange of old notes for new notes should not be a taxable transaction for U.S. federal income tax purposes. For a discussion of certain other U.S., Mexican and Peruvian federal tax considerations relating to the exchange of the old notes for new notes and the purchase, ownership and disposition of new notes, see "Summary of Certain Tax Considerations."

Exchange Agent

The Bank of New York is the exchange agent. The address, telephone number and facsimile number of the exchange agent are set forth in "The Exchange Offer Exchange Agent".

Use of Proceeds

We will not receive any proceeds from the issuance of the new notes. We are making the exchange offer solely to satisfy our obligations under the registration rights agreement. See "Use of Proceeds" for a description of our use of the net proceeds received in connection with the issuances of the old notes.

### Terms of the New Notes

The new notes will be issued under the same indenture under which the old notes were issued and, as a holder of new notes, you will be entitled to the same rights under the indenture that you had as a holder of old notes. The old notes and the new notes will be treated as a single series of debt securities under the indenture.

Issuer	Southern Copper Corporation.
Notes Offered	Up to U.S.\$400 million aggregate principal amount of 7.500% Notes due 2035, which have been registered under the Securities Act. The new notes are expected to be fungible with our outstanding 7.500% Notes due 2035 which have been registered under the Securities Act.
Interest Rate	The interest on the notes is 7.500% per annum starting from January 27, 2006.
Interest Payment Dates	Interest on the notes is payable on January 27 and July 27 of each year, beginning on July 27, 2006.
Maturity	The notes will mature on July 27, 2035.
Ranking	The notes will constitute SCC's senior unsecured obligations and will rank <i>pari passu</i> in priority of payment with all of SCC's other present and future unsecured and unsubordinated indebtedness. The notes will not be guaranteed by any of our subsidiaries and as a result will be structurally subordinated to all existing and future indebtedness and other obligations of our subsidiaries, including trade payables. See "Description of the Notes General."
Optional Redemption	We may, at our option, at any time, redeem some or all of the notes by paying a make-whole premium plus accrued and unpaid interest, if any, to the date of such redemption. See "Description of the Notes Optional Redemption."
Use of Proceeds	We will not receive any proceeds from the issuance of the new notes. We are making the exchange offer solely to satisfy our obligations under the registration rights agreement. See "Use of Proceeds" for a description of our use of the net proceeds received in connection with the issuances of the old notes.
Certain Covenants	The indenture relating to the notes contains certain covenants, including limitations on liens, limitations on sale and leaseback transactions, rights of the holders of the notes upon the occurrence of a change of control triggering event, limitations on subsidiary indebtedness and limitations on consolidations, mergers, sales or conveyances. All of these limitations and restrictions are subject to a number of significant exceptions, and some of these covenants will cease to be applicable before the notes mature if the notes attain an investment grade rating. See "Description of the Notes Covenants."

Events of Default	For a discussion of certain events of default that will permit acceleration of the principal of the notes plus accrued interest, and any other amounts due in respect of the notes, see "Description of the Notes Events of Default."
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Further Issuances	We may from time to time, without notice to or consent of the holders of the notes, create and issue an unlimited principal amount of additional notes of the same series as the notes offered pursuant to this prospectus.
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Book Entry; Form and Denominations	The notes will be issued in the form of one or more global notes without coupons, registered in the name of a nominee of The Depository Trust Company, or DTC, as depository, for the accounts of its participants including Clearstream Banking, <i>société anonyme</i> ("Clearstream") and Euroclear Bank S.A./N.V. ("Euroclear"). Notes in definitive certificated form will not be issued in exchange for the global notes except under limited circumstances. The notes will be issued in minimum denominations of U.S.\$100,000 and integral multiples of U.S.\$1,000 in excess thereof. See "Description of the Notes Form, Denomination and Title."
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Listing	We have applied to list the notes on the EuroMTF section of the Luxembourg Stock Exchange.
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Directive 2004/109/EC of the European Parliament and Council, dated December 15, 2004, on the harmonization of transparency requirements for information about issuers whose securities are admitted to trading on an European Union regulated market amended Directive 2001/34/EC (the "Transparency Directive") and became effective on January 20, 2005. It requires member states, including Luxembourg, to take measures necessary to comply with the Transparency Directive by January 20, 2007. If, as a result of the Transparency Directive or any legislation implementing the Transparency Directive, we could be required to publish financial information either more regularly than we otherwise would be required to or according to accounting principles which are materially different from the accounting principles which we would otherwise use to prepare our published financial information, we may delist the notes from the Luxembourg Stock Exchange in accordance with the rules of such exchange and seek an alternative admission to listing, trading and/or quotation for the notes on a different section of the Luxembourg Stock Exchange or by such other listing authority, stock exchange and/or quotation system inside or outside the European Union as we may decide.

Risk Factors	Participating in the exchange offer and investing in the notes involves certain risks. See "Risk Factors."
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Governing Law State of New York

Trustee, Registrar and Paying Agent The Bank of New York

Luxembourg Paying Agent and Transfer Agent The Bank of New York (Luxembourg) S.A.

Luxembourg Listing Agent The Bank of New York

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## SELECTED COMBINED FINANCIAL INFORMATION

The following tables present our selected combined financial information and other data for the periods indicated. These tables should be read in conjunction with the Audited Consolidated Combined Financial Statements and the notes thereto included in our 2005 Form 10-K/A and the Unaudited Condensed Consolidated Combined Financial Statements and the notes thereto included in our 2006 First Quarter Form 10-Q, and are qualified in their entirety by the information contained therein. Our Audited Consolidated Combined Financial Statements and the financial information in the tables below reflect our acquisition of Minera México, completed April 1, 2005, as a combination of businesses under common control, on a historical basis in a manner similar to a pooling of interests, reflecting the financial condition and results of operations for SCC and Minera México on a combined basis. See "Presentation of Financial and Other information Financial Information."

Statement of Earnings Data	Year Ended December 31,					For the three months ended March 31,	
	2001(1)	2002	2003	2004	2005	2006	2005
(dollars in thousands, except per share data)							
Net sales	\$ 1,560,028	\$ 1,388,421	\$ 1,576,641	\$ 3,096,697	\$ 4,112,629	\$ 1,121,291	\$ 946,075
Operating costs and expenses:							
Cost of sales (exclusive of depreciation, amortization and depletion)	1,232,764	961,201	992,383	1,334,330	1,635,393	406,944	389,570
Selling, general and administrative	70,174	69,351	63,597	71,778	81,132	24,016	18,598
Depreciation, amortization and depletion	165,901	157,608	177,058	192,586	277,248	53,103	60,967
Exploration	15,939	13,345	17,869	15,610	24,356	4,573	5,347
<b>Total operating costs and expenses</b>	<b>1,484,778</b>	<b>1,201,505</b>	<b>1,250,907</b>	<b>1,614,304</b>	<b>2,018,129</b>	<b>488,636</b>	<b>474,482</b>
Operating income	75,250	186,916	325,734	1,482,393	2,094,500	632,655	471,593
Interest expense	171,242	128,747	117,009	106,491	108,874	(22,907)	(26,998)
Interest capitalized	(9,600)	(8,220)	(5,563)	(10,681)	(22,509)	5,095	3,991
Interest income	(23,194)	(4,097)	(5,198)	(8,348)	(30,765)	9,305	5,452
(Gain) loss on derivative instruments				1,413	22,262		(7,276)
(Gain) loss on debt prepayments	2,159	12,400	5,844	16,500	10,559		(1,690)
Gain on disposal of properties				(53,542)			
Other expense (income)	435	(7,202)	4,174	9,689	3,712	(978)	835
Earnings (loss) before income taxes, minority interest and cumulative effect of change in accounting principle	(65,792)	65,288	209,468	1,420,871	2,002,367	623,170	445,907
Net earnings (loss)	(109,914)	144,929	83,536	982,386	1,400,148	\$ 421,575	\$ 298,361
Earnings (loss) per share	\$ (0.75)	\$ 0.98	\$ 0.57	\$ 6.67	\$ 9.51		
Weighted average shares outstanding basic (in thousands)	147,210	147,213	147,220	147,224	147,228	147,228	147,226
Weighted average shares outstanding diluted (in	147,212	147,217	147,225	147,224	147,228	147,228	147,226

thousands)

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For the three months  
ended March 31,

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(1)

Financial information as of and for the year ended December 31, 2001 is unaudited.

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Combined Balance Sheet Data	As of December 31,					As of
	2001(1)	2002	2003	2004	2005	March 31,
	2006					
(dollars in thousands)						
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 260,499	\$ 175,071	\$ 351,610	\$ 710,707	\$ 876,003	\$ 775,627
Cash retained in collateral accounts		88,048				
Marketable securities				45,267		
Accounts receivable:						
Trade	164,530	117,125	169,279	425,790	342,412	325,224
Affiliates		7,221	6,968	15,353	9,099	5,234
Other	42,133	69,169	20,163	33,081	34,949	29,332
Inventories	357,844	324,453	306,913	352,377	395,845	436,148
Deferred income tax - current portion					5,248	4,292
Other current assets, net	34,906	16,355	51,159	52,966	50,798	63,252
<b>Total current assets</b>	<b>859,912</b>	<b>797,442</b>	<b>906,092</b>	<b>1,635,541</b>	<b>1,714,354</b>	<b>1,639,109</b>
Property, net	2,977,851	3,136,837	3,040,700	3,068,486	3,326,126	3,414,357
Capitalized mine stripping costs, net	182,070	255,449	291,490	318,116	289,369	
Leachable material, net	46,677	77,504	100,014	134,621	210,118	199,612
Intangible assets, net	381,180	129,059	126,049	123,496	120,861	120,157
Other assets, net	32,892	22,739	26,683	38,933	26,746	42,369
<b>Total assets</b>	<b>\$ 4,480,582</b>	<b>\$ 4,419,030</b>	<b>\$ 4,491,028</b>	<b>\$ 5,319,193</b>	<b>\$ 5,687,574</b>	<b>\$ 5,415,604</b>
<b>Liabilities</b>						
Current liabilities:						
Current portion of long-term debt	\$ 1,441,213	\$	\$ 115,307	\$ 152,314	\$ 10,000	\$ 10,000
Trade accounts payable	129,289	198,891	99,735	142,362	284,977	210,180
Income taxes	36,104	54,841	58,704	293,295	275,763	322,875
Other current liabilities	272,409	232,225	208,824	373,947	224,892	252,666
<b>Total current liabilities</b>	<b>1,879,015</b>	<b>485,957</b>	<b>482,570</b>	<b>961,918</b>	<b>795,632</b>	<b>795,721</b>
Due to affiliates - Grupo México	56,216	52,468	52,468			7,378
Long-term debt	273,121	1,621,231	1,555,924	1,177,974	1,162,065	1,162,125
Deferred income taxes	383,800	246,020	185,866	243,600	259,089	181,267
Other liabilities	41,112	46,862	103,790	105,179	120,795	90,317
Asset retirement obligation			5,267	5,643	11,221	11,461
<b>Total non-current liabilities</b>	<b>754,249</b>	<b>1,966,581</b>	<b>1,903,315</b>	<b>1,532,396</b>	<b>1,553,170</b>	<b>1,445,130</b>
Minority interest	95,459	85,040	82,398	11,284	12,695	11,576
Stockholders' equity	1,751,859	1,881,452	2,022,745	2,813,595	3,326,077	3,163,187
<b>Total liabilities, minority interest and stockholders' equity</b>	<b>\$ 4,480,582</b>	<b>\$ 4,419,030</b>	<b>\$ 4,491,028</b>	<b>\$ 5,319,193</b>	<b>\$ 5,687,574</b>	<b>\$ 5,415,604</b>

(1) Financial information as of and for the year ended December 31, 2001 is unaudited.

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Year Ended December 31,

Other Financial Information	2001(1)	2002	2003	2004	2005
(dollars in thousands, except per share data)					
EBITDA(2)	\$ 238,558	\$ 339,326	\$ 492,774	\$ 1,700,919	\$ 2,335,215
Capitalized mine stripping and leachable material	107,861	91,954	79,704	92,797	116,409
Capital expenditure excluding capitalized mine stripping cost and leachable materials	180,921	85,380	64,880	228,299	470,636
Cash dividends paid per share(3)	\$ 0.19	\$ 0.19	\$ 0.31	\$ 1.30	\$ 5.80

Year Ended December 31,

Financial Ratios	2001(1)	2002	2003	2004	2005	
(dollars in thousands, except per share data)						
Gross margin(4)		10.3%	19.4%	25.8%	50.7%	53.5%
Operating income margin(5)		4.8	13.5	20.7	47.9	50.9
Net margin(6)		(7.0)	10.4	5.3	31.7	34.0
Net debt(9)/total capitalization(7)		45.4%	43.4%	39.5%	17.0%	8.2%
Ratio of Earnings to Fixed Charges(8)			1.5x	2.7x	12.6x	17.8x

(1) Financial information as of and for the year ended December 31, 2001 is unaudited.

(2) EBITDA is net earnings; plus cumulative effect of change in accounting principle, minority interest, income taxes, interest expense and depreciation, amortization and depletion; minus interest income and interest capitalized. EBITDA is used as a measure of performance by our management and is not a measure of performance under generally accepted accounting principles, or GAAP. We present EBITDA because we believe it provides management and investors with useful information by which to measure our performance. EBITDA should not be construed as an alternative to (a) net earnings as an indicator of our operating performance or (b) cash flow from our operating activities as a measure of liquidity. EBITDA also does not represent funds available for dividends, reinvestment or other discretionary uses. Because not all companies use identical calculations, our presentation of EBITDA may not be comparable to similarly titled measures presented by other companies.

A reconciliation between EBITDA and net earnings for each of the periods presented in the table is presented below:

As of December 31,

EBITDA Reconciliation	2001	2002	2003	2004	2005
(dollars in thousands)					
Net earning (loss)	\$ (109,914)	\$ 144,929	\$ 83,536	\$ 982,386	\$ 1,400,148
Cumulative effect of change in accounting principle			1,541		
Minority interest	(2,819)	8,855	4,262	4,727	12,475
Income taxes	46,942	(88,496)	120,129	433,758	589,744
Interest expenses	171,242	128,747	117,009	106,491	108,874
Interest capitalized	(9,600)	(8,220)	(5,563)	(10,681)	(22,509)
Interest Income	(23,194)	(4,097)	(5,198)	(8,348)	(30,765)
Depreciation, amortization and depletion	165,901	157,608	177,058	192,586	277,248
EBITDA	238,558	339,326	492,774	1,700,919	2,335,215

- (3) On a historical basis, without giving effect to the acquisition of Minera México, SCC's cash dividends paid per share were U.S.\$0.36, U.S.\$0.36, U.S.\$0.57 and U.S.\$2.39 for the years ended December 31, 2001, 2002, 2003 and 2004, respectively.
- (4) Represents net sales less cost of sales (including depreciation, amortization and depletion), divided by net sales as a percentage.
- (5) Represents operating income divided by sales as a percentage.
- (6) Represents net earnings divided by sales as a percentage.
- (7) Represents net debt divided by net debt plus stockholders' equity.
- (8) Represents earnings divided by fixed charges. Earnings are defined as earnings before income taxes, minority interest and cumulative effect of change in accounting principle, plus fixed charges and amortization of interest capitalized, less interest capitalized. Fixed charges are defined as the sum of interest expensed and interest capitalized, plus amortized premiums, discounts and capitalized expenses related to indebtedness. For the year 2001, the company would have had to have generated additional earnings of U.S.\$75,392,000 to achieve a ratio of earnings to fixed charges of 1:1.
- (9) Net debt is defined as total debt minus cash balance. Since December 31, 2005, the most significant decrease to our cash balance was the payment of a U.S.\$404.9 million dividend.

## SUMMARY OPERATING DATA

The following table sets out certain operating data for each of the periods indicated.

## Year Ended December 31,

Mining Production	2001	2002	2003	2004	2005
Contained copper in concentrate (tons)	533,616	491,828	547,172	603,907	574,976
Electrowon copper metal (tons)	114,989	122,190	118,744	114,100	114,953
Total copper (tons)	648,605	614,018	665,916	718,007	689,929
Contained molybdenum in concentrate (tons)	13,869	11,747	12,521	14,373	14,803
Contained zinc in concentrate (tons)	149,252	135,442	128,760	133,778	143,609

## Year Ended December 31,

Net Metal Sales(1)	2001	2002	2003	2004	2005
Net copper sold (tons)	721,412	645,107	660,485	709,668	698,553
Net molybdenum sold (tons)	13,890	11,695	12,498	14,350	14,585
Net zinc sold (tons)	141,913	126,499	122,217	120,922	133,420
Net silver sold (ounces)	24,924,443	20,371,448	19,498,041	20,212,366	19,755,762

## Year Ended December 31,

Average Market Prices	2001	2002	2003	2004	2005
Copper price (U.S.\$ per pound)	\$ 0.72	\$ 0.71	\$ 0.81	\$ 1.30	\$ 1.67
Molybdenum price (U.S.\$ per pound)	2.31	3.59	5.21	15.95	31.05
Zinc price (U.S.\$ per pound)	0.40	0.35	0.38	0.48	0.63
Silver price (U.S.\$ per ounce)	\$ 4.36	\$ 4.60	\$ 4.89	\$ 6.68	7.32

## Year Ended December 31,

Operating Cash Costs(2)	2001	2002	2003	2004	2005
Cash cost per pound of copper produced	\$ 0.52	\$ 0.43	\$ 0.44	\$ 0.18	\$ 0.03
Cash cost per pound of copper produced (without byproduct revenue)	\$ 0.81	\$ 0.74	\$ 0.74	\$ 0.85	\$ 1.00

(1)

Includes finished metal (including blister, cathode and rod) sales and payable metal in concentrate sales to third parties, less payable metal in third-party concentrate purchases. "Payable metal" refers to the content of metal contained in concentrates that is actually valued and paid for.

(2)

Operating cash costs per pound of copper produced is an overall benchmark we use and a common industry metric to measure performance. Operating cash cost is a non-GAAP measure that does not have a standardized meaning and may not be comparable to similarly titled measures provided by other companies. A reconciliation of our cash cost per pound to the cost of sales (including depreciation, amortization and depletion) as presented in the statement of earnings is presented in our 2005 Form 10-K/A and our 2006 First Quarter Form 10-Q. See "Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures about Market Risk Non-GAAP Information Reconciliation" in our 2005 Form 10-K/A and "Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations Non-GAAP Information Reconciliation" in our 2006 First Quarter Form 10-Q. We have defined operating cash cost per pound as cost of sales (including depreciation, amortization and depletion); plus administrative charges, treatment and refining charges, third party copper purchases; less byproduct revenue, depreciation, amortization and depletion, workers' participation and inventory change. Operating cash costs also exclude the portion of our mine stripping costs that we capitalize.



## SUMMARY RESERVES DATA

The table below details our copper and molybdenum reserves as estimated at December 31, 2005. Pursuant to SEC guidance, the reserves information in this offering memorandum is calculated using average metals prices over the most recent three years, unless otherwise stated. We refer to these three-year average metals prices as "current average prices." Our current average prices for copper are calculated using prices quoted by COMEX, and our current average prices for molybdenum are calculated according to Platts *Metals Week*. Unless otherwise stated, reserves estimates in this offering memorandum use U.S.\$1.261 per pound for copper and U.S.\$17.817 per pound for molybdenum, both current average prices as of December 31, 2005. The current average prices for copper and molybdenum were U.S.\$0.939 and U.S.\$8.425, respectively, as of December 31, 2004 and U.S.\$0.751 and U.S.\$3.81, respectively, as of December 31, 2003. For a further discussion of how we calculate our reserves, see "Presentation of Financial and Other Information Reserves Information."

	<u>Cuajone Mine(1)</u>	<u>Toquepala Mine(1)</u>	<u>Cananea Mine(1)</u>	<u>La Caridad Mine(1)</u>	<u>Total Open-Pit Mines</u>	<u>Immsa(2)</u>
<b>Mineral Reserves</b>						
<b>Metal prices:</b>						
Copper (U.S.\$/lb.)	\$ 1.261	\$ 1.261	\$ 1.261	\$ 1.261	\$ 1.261	\$ 1.261
Molybdenum (U.S.\$/lb.)	\$ 17.817	\$ 17.817	\$ 17.817	\$ 17.817	\$ 17.817	\$ 17.817
Cut-off grade	0.30%	0.30%	0.25%	0.20%	0.26%	
Sulfide ore reserves (thousands of tons)	1,935,407	2,174,479	3,759,426	1,562,184	9,431,496	41,644
<b>Average grade:</b>						
Copper	0.561%	0.580%	0.494%	0.315%	0.498%	0.51%
Molybdenum	0.019%	0.032%		0.028%	0.026%	
Leachable material (thousands of tons)	11,604	2,777,807	1,499,915	1,489,303	5,778,629	
Leachable material grade	0.568%	0.172%	0.226%	0.157%	0.183%	
Waste (thousands of tons)	5,022,010	7,364,671	3,979,732	540,455	16,906,868	
Total material (thousands of tons)	6,969,021	12,316,957	9,239,073	3,591,942	32,116,993	
Stripping ratio	2.60	4.66	1.46	1.30	2.41	
<b>Leachable material</b>						
Reserves in stock (thousands of tons)	23,982	807,154	605,711	467,789	1,904,636	
Average copper grade	0.463%	0.136%	0.139%	0.252%	0.170%	
In-pit reserves (thousands of tons)	11,604	2,777,807	1,499,915	1,489,303	5,778,629	
Average copper grade	0.568%	0.172%	0.226%	0.157%	0.183%	
Total leachable reserves (thousands of tons)	35,586	3,584,961	2,105,626	1,957,092	7,683,265	
Average copper grade	0.497%	0.164%	0.201%	0.180%	0.180%	
Copper contained in ore reserves (thousands of tons)(3)	10,924	17,390	21,961	7,259	57,534	212

- (1) The Cuajone, Toquepala, Cananea and La Caridad concentrator recoveries calculated for these reserves were 83.7%, 87.0%, 81.0% and 82.59%, respectively, obtained by using recovery formulas according to the different milling capacities and geo-metallurgical zones.
- (2) The Immsa Unit includes the Charcas, Santa Bárbara, San Martín, Santa Eulalia and Taxco mines.
- (3) Copper contained in ore reserves for open-pit mines is (i) the product of sulfide ore reserves and the average copper grade plus (ii) the product of in-pit leachable reserves and the average copper grade. Copper contained in ore reserves for underground mines is the product of sulfide ore reserves and the average copper grade.



## RISK FACTORS

### Risks Related to the Notes and the Exchange Offer

*We are the sole obligor under the notes. None of our subsidiaries will guarantee our obligations under the notes and they do not have any other obligations with respect to the notes. The notes will be effectively subordinated to our existing and future secured indebtedness to the extent of the value of the assets securing that indebtedness and structurally subordinated to all indebtedness and other obligations of our subsidiaries.*

The notes are unsecured and are effectively subordinated to all of our existing and future senior secured indebtedness to the extent of the value of the collateral securing such indebtedness. The indenture in certain cases permits us to pledge assets without also securing the notes.

We derive a substantial portion of its revenue and cash flow from its subsidiaries. None of SCC's subsidiaries will guarantee these notes. Our subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due under the notes, or to make any funds available therefore, whether by dividend, distribution, loan or other payments, and the consequent rights of holders of notes to realize proceeds from the sale of any of those subsidiaries' assets will be structurally subordinated to the claims of any subsidiary's creditors, including trade creditors or holders of debt of those subsidiaries. As a result, the notes are structurally subordinated to the prior payment of all of the debts (including trade payables) of our subsidiaries. As of May 31, 2006, after giving effect to repurchases of our Minera México subsidiary's Yankee bonds, the indebtedness of our subsidiaries that is structurally senior to the notes was U.S.\$281.8 million. In addition, the limitations on the incurrence of subsidiary indebtedness provided for in the indenture are subject to significant exceptions and will cease to be applicable entirely if the notes attain an investment grade rating. Any future subsidiary debt or obligation, whether or not secured, will have priority over the notes.

*The absence of a public market for the notes may affect the ability of bondholders to sell the notes in the future and may affect the price they would receive if such sale were to occur.*

Application has been made for the notes to be admitted to listing on the EuroMTF section of the Luxembourg Stock Exchange. The new notes will constitute a new issue of securities for which, prior to the exchange offer, there has been no established trading market, and the new notes may not be widely distributed. The initial purchasers of the old notes are not obligated to make a market in the notes. Accordingly, we cannot assure you as to the development or liquidity of any market for the new notes. If a market for any of the new notes does not develop, purchasers may be unable to resell such new notes for an extended period of time, if at all.

The liquidity of and trading market for the new notes also may be adversely affected by a general decline in the market for similar securities. Such a decline may adversely affect our liquidity and trading markets independent of our prospects of financial performance.

*Failure to tender the old notes in the exchange offer may affect their marketability.*

If the old notes are tendered for exchange and accepted in the exchange offer, the trading market, if any, for the untendered and tendered but not accepted old notes will be adversely affected. The initial purchasers of the old notes are not obligated to make a market in the trading market for the old notes following the exchange offer. In addition, such market-making activity may be limited during the pendency of the exchange offer. Your failure to participate in the exchange offer will substantially limit, and may effectively eliminate, opportunities to sell your old notes in the future.

We issued the old notes in a private placement exempt from the registration requirements of the Securities Act. Accordingly, you may not offer, sell or otherwise transfer your old notes except in compliance with the registration requirements of the Securities Act and any other applicable securities

laws, or pursuant to an exemption from the securities laws, or in a transaction not subject to the securities laws. If you do not exchange your old notes for new notes in the exchange offer, your old notes will continue to be subject to these transfer restrictions after the completion of the exchange offer. In addition, after the completion of the exchange offer, you will no longer be able to obligate us to register the old notes under the Securities Act.

***If you do not properly tender your old notes for new notes, you will continue to hold unregistered notes that are subject to transfer restrictions.***

We will only issue new notes in exchange for old notes that are timely received by the exchange agent together with all required documents. Therefore, you should allow sufficient time to ensure timely delivery of the old notes and you should carefully follow the instructions on how to tender your old notes set forth under "The Exchange Offer Procedures for Tendering" and in the letter of transmittal that you will receive with this prospectus. Neither we nor the exchange agent are required to tell you of any defects or irregularities with respect to your tender of the old notes.

If you do not tender your old notes or if we do not accept your old notes because you did not tender your old notes properly, then you will continue to hold old notes that are subject to the existing transfer restrictions. In addition, if you tender your old notes for the purpose of participating in a distribution of the new notes, you will be required to comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale of the new notes. If you continue to hold any old notes after the exchange offer is completed, you may have difficulty selling them because of the restrictions on transfer and because there will be fewer old notes outstanding. In addition, if a large amount of old notes are not tendered or are tendered improperly, the limited amount of new notes that would be issued and outstanding after we complete the exchange offer could lower the market price of the new notes.

### FORWARD-LOOKING STATEMENTS

Forward-looking statements made in this prospectus are subject to risks and uncertainties. Forward-looking statements include the information concerning possible or assumed future results of our operations, including statements regarding the anticipated effects of our acquisition of Minera México on April 1, 2005. Words such as "will," "believes," "expects," "anticipates," "intends," "plans," "estimates" or similar expressions identify forward-looking statements. These statements are based on the beliefs and assumptions of our management and on information currently available to our management. Such statements are subject to risks relating to, among other things:

cyclical and volatile prices of copper, molybdenum and the other metals that we produce;

prices and availability of commodities and supplies, including fuel, oil and electricity;

political or economic change or instability, either globally or in the countries in which we operate;

our ability to effectively operate a combined company following our recent acquisition of Minera México;

availability, terms, conditions and timing of materials, insurance coverage, equipment, required permits or approvals and financing;

occurrence of unusual weather or operating conditions;

determination of reserves;

lower than expected ore grades;

water and geological problems;

failure of equipment or processes to operate in accordance with specifications;

failure to obtain financial assurance to meet closure and remediation obligations;

local and community impacts and issues; and

labor relations, litigation and environmental risks.

You should not place undue reliance on forward-looking statements, which are based on current expectations. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Our future results may differ materially from those expressed in forward-looking statements. Many of the factors that will determine these results and values are beyond our ability to control or predict. All forward-looking statements and risk factors included in this prospectus are made as of the date on the front cover of this prospectus, based on information available to us as of such date, and we assume no obligation to update any forward-looking statement or risk factor.

## THE EXCHANGE OFFER

### The Exchange Offer

We issued and sold the old notes in a private placement on May 9, 2006. In connection with the issuance and sale, we entered into a registration rights agreement with the initial purchasers of the old notes providing that we would, at our cost, (a) not later than 120 days after the date of original issuance of the old notes, file a registration statement with the SEC with respect to a registered offer to exchange the old notes for new notes having terms substantially identical in all material respects to the old notes (except that the new notes will not contain terms with respect to transfer restrictions and the provisions regarding special interest would be eliminated) and (b) use commercially reasonable efforts to cause the registration statement to be declared effective under the Securities Act not later than 180 days after the date of original issuance of the old notes. Upon the effectiveness of the registration statement, we would offer the new notes in exchange for surrender of the old notes.

In the event that (i) applicable interpretations of the staff of the SEC do not permit us to effect such an exchange offer, (ii) for any other reason the registration statement is not declared effective within 180 days after the date of the original issuance of the old notes or the exchange offer is not consummated within 225 days after the original issuance of the old notes, (iii) the initial purchasers of the old notes so request with respect to old notes not eligible to be exchanged for new notes in the exchange offer or (iv) upon our receiving notice in writing from any holder of notes (other than an initial purchaser of the old notes) that such holder is not eligible to participate in the exchange offer or does not receive freely tradable new notes in the exchange offer other than by reason of such holder being an affiliate of ours (it being understood that the requirement that a participating broker-dealer deliver this prospectus in connection with sales of new notes shall not result in such new notes being not "freely tradable"), we will, at our cost, (a) as promptly as practicable, file a shelf registration statement covering resales of the old notes or the new notes, as the case may be, (b) use commercially reasonable efforts to cause the shelf registration statement to be declared effective under the Securities Act and (c) use commercially reasonable efforts to keep the shelf registration statement effective until two years after its effective date. We will, in the event a shelf registration statement is filed, among other things, provide to each holder for whom such shelf registration statement was filed copies of the prospectus which is a part of the shelf registration statement, notify each such holder when the shelf registration statement has become effective and take certain other actions as are required to permit unrestricted resales of the old notes or the new notes, as the case may be. A holder selling such notes pursuant to the shelf registration statement generally would be required to be named as a selling security holder in the related prospectus and to deliver a prospectus to purchasers, will be subject to certain of the civil liability provisions under the Securities Act in connection with such sales and will be bound by the provisions of the registration rights agreement which are applicable to such holder (including certain indemnification obligations).

If (a) on or prior to the 120<sup>th</sup> day following the date of original issuance of the old notes, the registration statement with respect to the new notes has not been filed with the SEC, (b) on or prior to the 180<sup>th</sup> day following the date of original issuance of the old notes, neither the registration statement nor the shelf registration statement with respect to the new notes or the old notes has been declared effective, (c) on or prior to the 225<sup>th</sup> day following the date of original issuance of the old notes, neither the exchange offer with respect to the new notes has been consummated nor the shelf registration statement with respect to the new notes or the old notes has been declared effective, or (d) after either the registration statement with respect to the new notes or the shelf registration statement with respect to the new notes or the old notes has been declared effective, such registration statement thereafter ceases to be effective or usable (subject to certain exceptions) in connection with resales of the notes in accordance with and during the periods specified in the registration rights agreement (each such event referred to in clauses (a) through (d), a "registration default"), interest ("special interest") will accrue on the principal amount of the old notes and the new notes (in addition

to the stated interest on the applicable old notes and new notes) from and including the date on which any such registration default shall occur to but excluding the date on which all registration defaults have been cured. Special interest will accrue at a rate of 0.25% per annum during the 120-day period immediately following the occurrence of such registration default and will increase by 0.25% per annum at the end of such 120-day period, but in no event shall such rate exceed 0.50% per annum.

The summary herein of certain provisions of the registration rights agreement does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all the provisions of the registration rights agreement, a copy of which has been filed as an exhibit to the registration statement of which this prospectus is a part.

Once the exchange offer is complete, we will have no further obligation to register any of the old notes not tendered to us in the exchange offer. See "Risk Factors Risks Related to the Notes and the Exchange Offer Failure to tender the old notes in the exchange offer may affect their marketability."

### **Effect of the Exchange Offer**

Based on interpretations by the SEC staff set forth in Exxon Capital Holdings Corporation (available May 13, 1988), Morgan Stanley & Co. Incorporated (available June 5, 1991), Shearman & Sterling (available July 2, 1993) and other no-action letters issued to parties unrelated to us, we believe that you may offer for resale, resell and otherwise transfer the new notes issued to you in the exchange offer without compliance with the registration and prospectus delivery requirements of the Securities Act, provided:

you are acquiring the new notes in the ordinary course of your business;

you are not engaging in and do not intend to engage in a distribution of the new notes;

you have no arrangements or understandings with any person to participate in the exchange offer for the purpose of distributing the new notes; and

you are not our "affiliate," within the meaning of Rule 405 under the Securities Act.

If you are not able to make these representations, you are a "restricted holder." As a restricted holder, you will not be able to participate in the exchange offer, you may not rely on the existing interpretations of the SEC staff set forth above and you may only sell your old notes in compliance with the registration and prospectus delivery requirements of the Securities Act or under an exemption from the registration requirements of the Securities Act or in a transaction not subject to the Securities Act.

In addition, each participating broker-dealer that is not a restricted holder that receives new notes for its own account in exchange for old notes that it acquired as a result of market-making activities or other trading activities may be a statutory underwriter and must acknowledge in the letter of transmittal that it will deliver a prospectus meeting the requirements of the Securities Act upon any resale of such new notes. This prospectus may be used by those participating broker-dealers to resell new notes they receive pursuant to the exchange offer. We have agreed that, for a period of one year after the completion of the exchange offer, we will make this prospectus available to any participating broker-dealer for use by the participating broker-dealer in any resale. By acceptance of this exchange offer, each broker-dealer that receives new notes under the exchange offer agrees to notify us prior to using this prospectus in a sale or transfer of new notes. See "Plan of Distribution."

Except as described above, this prospectus may not be used for an offer to resell, resale or other transfer of new notes.

To the extent old notes are tendered and accepted in the exchange offer, the principal amount of old notes that will be outstanding will decrease with a resulting decrease in the liquidity in the market

for the old notes. Old notes that are still outstanding following the completion of the exchange offer will continue to be subject to transfer restrictions.

#### Terms of the Exchange Offer

Upon the terms and subject to the conditions of the exchange offer described in this prospectus and in the accompanying letter of transmittal, we will accept for exchange all old notes validly tendered and not withdrawn before 5:00 p.m., New York City time, on the expiration date. We will issue U.S.\$100,000 principal amount of new notes and integral multiples of U.S.\$1,000 in excess thereof, in exchange for each U.S.\$100,000 principal amount of old notes and integral multiples of U.S.\$1,000 in excess thereof accepted in the exchange offer. You may tender some or all of your old notes pursuant to the exchange offer. However, old notes may be tendered only in a minimum principal amount of U.S.\$100,000 and in integral multiples of U.S.\$1,000 in excess thereof.

The new notes will be substantially identical to the old notes, except that:

the offering of the new notes has been registered under the Securities Act;

the new notes will not be subject to transfer restrictions; and

the new notes will be issued free of any covenants regarding registration rights and free of any provision for special interest.

The new notes will evidence the same debt as the old notes and will be issued under and be entitled to the benefits of the same indenture under which the old notes were issued. The old notes and the new notes will be treated as a single series of debt securities under the indenture. For a description of the terms of the indenture and the new notes, see "Description of the Notes."

The exchange offer is not conditioned upon any minimum aggregate principal amount of old notes being tendered for exchange. As of the date of this prospectus, an aggregate of U.S.\$400,000,000 principal amount of old 7.500% Notes due 2035 is outstanding. This prospectus is being sent to all registered holders of old notes. There will be no fixed record date for determining registered holders of old notes entitled to participate in the exchange offer.

We intend to conduct the exchange offer in accordance with the applicable requirements of the Securities Act and the Exchange Act and the rules and regulations of the SEC. Holders of old notes do not have any appraisal or dissenters' rights under law or under the indenture in connection with the exchange offer. Old notes that are not tendered for exchange in the exchange offer will remain outstanding and continue to accrue interest and will be entitled to the rights and benefits their holders have under the indenture relating to the old notes.

We will be deemed to have accepted for exchange validly tendered old notes when we have given oral or written notice of the acceptance to the exchange agent. The exchange agent will act as agent for the tendering holders of old notes for the purposes of receiving the new notes from us and delivering the new notes to the tendering holders. Subject to the terms of the registration rights agreement, we expressly reserve the right to amend or terminate the exchange offer, and not to accept for exchange any old notes not previously accepted for exchange, upon the occurrence of any of the conditions specified below under " Conditions." All old notes accepted for exchange will be exchanged for new notes promptly following the expiration date. We will deliver to the trustee for cancellation all old notes so accepted for exchange. If we decide for any reason to delay for any period our acceptance of any old notes for exchange, we will extend the expiration date for the same period.

If we do not accept for exchange any tendered old notes because of an invalid tender, the occurrence of certain other events described in this prospectus or otherwise, such unaccepted old notes will be returned, without expense, to the holder tendering them or the appropriate book-entry will be made, in each case, as promptly as practicable after the expiration date.

We are not making, nor is our board of directors making, any recommendation to you as to whether to tender or refrain from tendering all or any portion of your old notes in the exchange offer. No one has been authorized to make any such recommendation. You must make your own decision whether to tender in the exchange offer and, if you decide to do so, you must also make your own decision as to the aggregate amount of old notes to tender after reading this prospectus and the letter of transmittal and consulting with your advisers, if any, based on your own financial position and requirements.

**Expiration Date; Extensions; Amendments**

The term "expiration date" means 5:00 p.m., New York City time, on \_\_\_\_\_, 2006, unless we, in our sole discretion, extend the exchange offer, in which case the term "expiration date" shall mean the latest date and time to which the exchange offer is extended. The exchange offer will be open for not less than 30 days (or longer if required by applicable law) and not more than 45 days after the date notice of the exchange offer is mailed to the holders of the notes.

If we determine to extend the exchange offer, we will notify the exchange agent of any extension by oral or written notice. We will notify the registered holders of old notes of the extension no later than 9:00 a.m., New York City time, on the business day immediately following the previously scheduled expiration date.

We reserve the right, in our sole discretion:

to delay accepting for exchange any old notes;

to extend the exchange offer or to terminate the exchange offer and to refuse to accept old notes not previously accepted if any of the conditions set forth below under " Conditions" have not been satisfied by the expiration date; or

subject to the terms of the registration rights agreement, to amend the terms of the exchange offer in any manner.

Any such delay in acceptance, extension, termination or amendment will be followed as promptly as practicable by oral or written notice to the registered holders of old notes. If we amend the exchange offer in a manner that we determine to constitute a material change, we will promptly disclose the amendment in a manner reasonably calculated to inform the holders of the old notes of the amendment.

Without limiting the manner in which we may choose to make public announcements of any delay in acceptance, extension, termination or amendment of the exchange offer, we will have no obligation to publish, advertise or otherwise communicate any public announcement, other than by making a timely release to a financial news service.

During any extension of the exchange offer, all old notes previously tendered will remain subject to the exchange offer, and we may accept them for exchange. We will return any old notes that we do not accept for exchange for any reason without expense to the tendering holder as promptly as practicable after the expiration or earlier termination of the exchange offer.

**Interest on the New Notes and the Old Notes**

Any old 7.500% Notes due 2035 not tendered or accepted for exchange will continue to accrue interest at the rate of 7.500% per annum in accordance with their terms. The new notes will accrue interest at the rate of 7.500% per annum from the date of the last periodic payment of interest on the applicable old notes or, if no interest has been paid, from the original issue date of the applicable old notes. Interest on the new notes and any old notes not tendered or accepted for exchange will be payable semi-annually in arrears on January 27 and July 27 of each year, commencing on July 27, 2006.

**Procedures for Tendering**

Only a registered holder of old notes may tender those notes in the exchange offer. To tender in the exchange offer, a holder must properly complete, sign and date the letter of transmittal, have the signatures thereon guaranteed if required by the letter of transmittal, and mail or otherwise deliver such letter of transmittal, together with all other documents required by the letter of transmittal, to the exchange agent at one of the addresses set forth below under " Exchange Agent," before 5:00 p.m., New York City time, on the expiration date. In addition, either:

the exchange agent must receive, before the expiration date, a timely confirmation of a book-entry transfer of the tendered old notes into the exchange agent's account at The Depository Trust Company, or DTC, or the depository, according to the procedure for book-entry transfer described below; or

the holder must comply with the guaranteed delivery procedures described below.

A tender of old notes by a holder that is not withdrawn prior to the expiration date will constitute an agreement between that holder and us in accordance with the terms and subject to the conditions set forth in this prospectus and in the letter of transmittal.

The method of delivery of letters of transmittal and all other required documents to the exchange agent, including delivery through DTC, is at the holder's election and risk. Instead of delivery by mail, we recommend that holders use an overnight or hand delivery service. If delivery is by mail, we recommend that holders use certified or registered mail, properly insured, with return receipt requested. In all cases, holders should allow sufficient time to assure delivery to the exchange agent before the expiration date. Holders should not send letters of transmittal or other required documents to us. Holders may request their respective brokers, dealers, commercial banks, trust companies or other nominees to effect the above transactions for them.

Any beneficial owner whose old notes are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and who wishes to tender those notes should contact the registered holder promptly and instruct it to tender on the beneficial owner's behalf.

We will determine, in our sole discretion, all questions as to the validity, form, eligibility (including time of receipt), acceptance of tendered old notes and withdrawal of tendered old notes, and our determination will be final and binding. We reserve the absolute right to reject any and all old notes not properly tendered or any old notes the acceptance of which would, in the opinion of us or our counsel, be unlawful. We also reserve the absolute right to waive any defects or irregularities or conditions of the exchange offer as to any particular old notes either before or after the expiration date. Our interpretation of the terms and conditions of the exchange offer as to any particular old notes either before or after the expiration date, including the instructions in the letter of transmittal, will be final and binding on all parties. Unless waived, any defects or irregularities in connection with tenders of old notes for exchange must be cured within such time as we shall determine. Although we intend to notify holders of any defects or irregularities with respect to tenders of old notes for exchange, neither we nor the exchange agent nor any other person shall be under any duty to give such notification, nor shall any of them incur any liability for failure to give such notification. Tendere of old notes will not be deemed to have been made until all defects or irregularities have been cured or waived. Any old notes delivered by book-entry transfer within DTC, will be credited to the account maintained within DTC by the participant in DTC which delivered such old notes, unless otherwise provided in the letter of transmittal, as soon as practicable following the expiration date.

In addition, we reserve the right in our sole discretion (a) to purchase or make offers for any old notes that remain outstanding after the expiration date, (b) as set forth below under " Conditions," to terminate the exchange offer and (c) to the extent permitted by applicable law, purchase old notes in

the open market, in privately negotiated transactions or otherwise. The terms of any such purchases or offers could differ from the terms of the exchange offer.

By signing, or otherwise becoming bound by, the letter of transmittal, each tendering holder of old notes (other than certain specified holders) will represent to us that it is acquiring the new notes in the ordinary course of its business, that it has no arrangement or understanding with any person to participate in the distribution of the new notes and that it is not an affiliate of us, as such terms are interpreted by the SEC.

If the tendering holder is a broker-dealer that will receive new notes for its own account in exchange for old notes that were acquired as a result of market-making activities or other trading activities, it may be deemed to be an "underwriter" within the meaning of the Securities Act. Any such holder will be required to acknowledge in the letter of transmittal that it will deliver a prospectus in connection with any resale or transfer of these new notes. However, by so acknowledging and by delivering a prospectus, the holder will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

### **Book-Entry Transfer**

The exchange agent will establish a new account or utilize an existing account with respect to the old notes at DTC promptly after the date of this prospectus, and any financial institution that is a participant in DTC's systems may make book-entry delivery of old notes by causing DTC to transfer these old notes into the exchange agent's account in accordance with DTC's procedures for transfer. However, the exchange for the old notes so tendered will only be made after timely confirmation of this book-entry transfer of old notes into the exchange agent's account, and timely receipt by the exchange agent of an agent's message and any other documents required by the letter of transmittal. The term "agent's message" means a message transmitted by DTC to, and received by, the exchange agent and forming a part of a book-entry confirmation, that states that DTC has received an express acknowledgment from a participant in DTC tendering old notes that are the subject of the book-entry confirmation stating (1) the aggregate principal amount of old notes that have been tendered by such participant, (2) that such participant has received and agrees to be bound by the terms of the letter of transmittal and (3) that we may enforce such agreement against the participant.

Although delivery of old notes must be effected through book-entry transfer into the exchange agent's account at DTC, the letter of transmittal, properly completely and validly executed, with any required signature guarantees, or an agent's message in lieu of the letter of transmittal, and any other required documents, must be delivered to and received by the exchange agent at one of its addresses listed below under " Exchange Agent," before 5:00 p.m., New York City time, on the expiration date, or the guaranteed delivery procedure described below must be complied with.

Delivery of documents to DTC in accordance with its procedures does not constitute delivery to the exchange agent.

All references in this prospectus to deposit or delivery of old notes shall be deemed to also refer to DTC's book-entry delivery method.

### **Guaranteed Delivery Procedures**

Holders who wish to tender their old notes and (1) who cannot deliver a confirmation of book-entry transfer of old notes into the exchange agent's account at DTC, the letter of transmittal or any other required documents to the exchange agent prior to the expiration date or (2) who cannot complete the procedure for book-entry transfer on a timely basis, may effect a tender if:

the tender is made through an eligible institution;

before the expiration date, the exchange agent receives from the eligible institution a properly completed and duly executed notice of guaranteed delivery, by facsimile transmission, mail or hand delivery, listing the principal amount of old notes tendered, stating that the tender is being made thereby and guaranteeing that, within three New York Stock Exchange, Inc. trading days after the expiration date, a duly executed letter of transmittal together with a confirmation of book-entry transfer of such old notes into the exchange agent's account at DTC, and any other documents required by the letter of transmittal and the instructions thereto, will be deposited by such eligible institution with the exchange agent; and

the properly completed and executed letter of transmittal and a confirmation of book-entry transfer of all tendered old notes into the exchange agent's account at DTC and all other documents required by the letter of transmittal are received by the exchange agent within three New York Stock Exchange, Inc. trading days after the expiration date.

Upon request to the exchange agent, a notice of guaranteed delivery will be sent to holders who wish to tender their old notes according to the guaranteed delivery procedures described above.

### **Withdrawal of Tenders**

Except as otherwise provided in this prospectus, tenders of old notes may be withdrawn at any time prior to 5:00 p.m., New York City time, on the expiration date.

For a withdrawal to be effective, the exchange agent must receive a written or facsimile transmission notice of withdrawal at one of its addresses set forth below under " Exchange Agent." Any notice of withdrawal must:

specify the name of the person who tendered the old notes to be withdrawn;

identify the old notes to be withdrawn, including the principal amount of such old notes;

be signed by the holder in the same manner as the original signature on the letter of transmittal by which the old notes were tendered and include any required signature guarantees; and

specify the name and number of the account at DTC to be credited with the withdrawn old notes and otherwise comply with the procedures of DTC.

We will determine, in our sole discretion, all questions as to the validity, form and eligibility (including time of receipt) of any notice of withdrawal, and our determination shall be final and binding on all parties. Any old notes so withdrawn will be deemed not to have been validly tendered for exchange for purposes of the exchange offer and no new notes will be issued with respect thereto unless the old notes so withdrawn are validly retendered. Properly withdrawn old notes may be retendered by following one of the procedures described above under " Procedures for Tendering" at any time prior to the expiration date.

Any old notes that are tendered for exchange through the facilities of DTC but that are not exchanged for any reason will be credited to an account maintained with DTC for the old notes as soon as practicable after withdrawal, rejection of tender or termination of the exchange offer.

### **Conditions to the Exchange Offer**

Despite any other term of the exchange offer, we will not be required to accept for exchange, or to issue new notes in exchange for, any old notes, and we may terminate the exchange offer as provided in this prospectus prior to the expiration date, if:

the exchange offer, or the making of any exchange by a holder of old notes, would violate applicable law or any applicable interpretation of the SEC staff; or

the old notes are not tendered in accordance with the exchange offer;

you do not represent that (i) you are acquiring the new notes in the ordinary course of your business, (ii) you are not engaging in and do not intend to engage in a distribution of the new notes, (iii) you have no arrangement or understanding with any person to participate in the distribution of the new notes, (iv) you are not an affiliate of us as such term is interpreted by the SEC, and (v) you are not acting on behalf of any person who could not truthfully make these statements;

you do not make any representations as may be reasonably necessary under applicable SEC rules, regulations or interpretations to render available the use of an appropriate form for registration of the new notes under the Securities Act;

any action or proceeding is instituted or threatened in any court or by or before any governmental agency with respect to the exchange offer which, in our judgment, would reasonably be expected to impair our ability to proceed with the exchange offer; or

any governmental approval has not been obtained, which we believe, in our sole discretion, is necessary for the consummation of the exchange offer as outlined in this prospectus.

These conditions are for our sole benefit and may be asserted by us regardless of the circumstances giving rise to any of these conditions or may be waived by us, in whole or in part, at any time and from time to time in our reasonable discretion. Our failure at any time to exercise any of the foregoing rights shall not be deemed a waiver of the right and each right shall be deemed an ongoing right which may be asserted at any time and from time to time.

If we determine in our reasonable judgment that any of the conditions are not satisfied, we may:

refuse to accept and return to the tendering holder any old notes or credit any tendered old notes to the account maintained within DTC by the participant in DTC which delivered the old notes; or

extend the exchange offer and retain all old notes tendered before the expiration date, subject to the rights of holders to withdraw the tenders of old notes (see " Withdrawal of Tenders" above); or

waive the unsatisfied conditions with respect to the exchange offer prior to the expiration date and accept all properly tendered old notes that have not been withdrawn or otherwise amend the terms of the exchange offer in any respect as provided above under " Expiration Date; Extensions; Amendments." If we waive a condition, we may be required, above in order to comply with applicable securities laws, to extend the expiration date of the exchange offer.

In addition, we will not accept for exchange any old notes tendered, and we will not issue new notes in exchange for any of the old notes, if at that time any stop order is threatened or in effect with respect to the registration statement of which this prospectus constitutes a part or the qualification of the indenture under the Trust Indenture Act of 1939.

#### **Exchange Agent**

The Bank of New York has been appointed as the exchange agent for the exchange offer. All signed letters of transmittal and other documents required for a valid tender of your old notes should be directed to the exchange agent at one of the addresses set forth below. Questions and requests for

assistance, requests for additional copies of this prospectus or of the letter of transmittal and requests for notices of guaranteed delivery should be directed to the exchange agent addressed as follows:

***By Hand Delivery:***  
The Bank of New York  
Attn: Corporate Trust Operations  
Reorganization Unit  
101 Barclay Street 7 East  
New York, NY 10286

***By Registered Mail or Overnight Carrier:***  
The Bank of New York  
Attn: Corporate Trust Operations  
Reorganization Unit  
101 Barclay Street 7 East  
New York, NY 10286

***Facsimile Transmission:***

212-815-1915  
Confirm by Telephone:  
212-815-5920

***For information with respect to the exchange offer, call:***  
of the Exchange Agent  
at telephone:

Delivery to other than the above addresses or facsimile number will not constitute a valid delivery.

**Fees and Expenses**

We will bear all expenses of soliciting tenders. We have not retained any dealer-manager in connection with the exchange offer and will not make any payments to brokers, dealers or others soliciting acceptance of the exchange offer. The principal solicitation is being made by mail; however, additional solicitation may be made by facsimile, telephone or in person by our officers and employees.

We will pay the expenses to be incurred in connection with the exchange offer. These expenses include fees and expenses of the exchange agent and the trustee, accounting and legal fees, printing costs, and related fees and expenses.

**Transfer Taxes**

Holders who render their old notes for exchange will not be obligated to pay any transfer taxes in connection with the exchange offer.

**Accounting Treatment**

We will record the new notes in our accounting records at the same carrying values as the old notes on the date of the exchange. Accordingly, we will recognize no gain or loss, for accounting purposes, as a result of the exchange offer. Expenses of the exchange offer will be incurred by us.

**Consequences of Failure to Exchange**

Holders of old notes who do not exchange their old notes for new notes pursuant to the exchange offer will continue to be subject to the restrictions on transfer of the old notes as set forth in the legend printed thereon as a consequence of the issuance of the old notes pursuant to an exemption from the Securities Act and applicable state securities laws. In general, the old notes may not be offered or sold unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. Upon completion of the exchange offer, holders of old notes will not be entitled to any rights to have the resale of old notes registered under the Securities Act, and we currently do not intend to register under the Securities Act the resale of any old notes that remain outstanding after completion of the exchange offer.

Old 7.500% Notes due 2035 not exchanged pursuant to the exchange offer will continue to accrue interest at 7.500% per annum and the old notes will otherwise remain outstanding in accordance with their terms.

Your participation in the exchange offer is voluntary, and you should carefully consider whether to participate. We urge you to consult your financial and tax advisors in making a decision whether or not to tender your old notes. Please refer to the section in this prospectus entitled "Summary of Certain Tax Considerations U.S. Federal Income Tax Considerations."

As a result of the making of, and upon acceptance for exchange of all validly tendered old notes pursuant to the terms of, the exchange offer, we will have fulfilled a covenant contained in the registration rights agreement. If you do not tender your old notes in the exchange offer, you will be entitled to all the rights and limitations applicable to the old notes under the indenture, except for any rights under the registration rights agreement that by their terms end or cease to have further effectiveness as a result of the making of the exchange offer. To the extent that old notes are tendered and accepted in the exchange offer, the trading market for untendered, or tendered but unaccepted, old notes could be adversely affected. Please refer to the section in this prospectus entitled "Risk Factors Risks Related to the Notes and the Exchange Offer If you do not properly tender your old notes for new notes, you will continue to hold unregistered notes that are subject to transfer restrictions."

We may in the future seek to acquire untendered old notes in open market or privately negotiated transactions, through subsequent exchange offers or otherwise. However, we have no present plans to acquire any old notes that are not tendered in the exchange offer or to file a registration statement to permit resales of any untendered old notes.

Holders of the old notes and new notes which remain outstanding after consummation of the exchange offer will vote together as a single class for purposes of determining whether holders of the requisite percentage thereof have taken certain actions or exercised certain rights under the indenture governing the old notes and the new notes.

**USE OF PROCEEDS**

We will not receive any cash proceeds from the exchange offer. We are making this exchange offer solely to satisfy our obligations under the registration rights agreement entered into in connection with the issuance of the old notes. In consideration for issuing the new notes, we will receive old notes in an aggregate principal amount equal to the value of the new notes. The old notes surrendered in exchange for the new notes will be retired and cancelled. Accordingly, the issuance of the new notes will not result in any change in our indebtedness.

We received approximately U.S.\$386 million in net proceeds, after deducting the discounts and commissions to the initial purchasers and offering expenses, from the issuance of the old notes on May 9, 2006. We used and intend to use approximately U.S.\$320 of the net proceeds for capital expenditures and modernization projects of the SCC Peru Branch, at the Ilo Smelter, the Tia Maria project and other projects. The remaining net proceeds of the original offering may be used for capital expenditures and modernization projects at the La Caridad mine in Mexico. For a description of our capital expenditure programs, See "Business Capital Expenditures".

## EXCHANGE RATES

## Exchange Rates in Peru

Since March 1991, there have been no exchange controls in Peru and all foreign exchange transactions are based on free market exchange rates. During the previous two decades, however, the Peruvian currency had experienced a significant number of large devaluations. Therefore, Peru has adopted and operated under various exchange rate control practices and exchange rate determination policies. These policies have ranged from strict control over exchange rates to market-determination of rates. Investors are allowed to purchase foreign currency at free market exchange rates through any member of the Peruvian banking system.

The following table shows, for the periods and dates indicated, the period-end, average, high and low exchange rates for U.S. dollars, as published by the *Banco Central de Reserva del Peru* (Central Reserve Bank of Peru, or BCRP) expressed in nuevos soles per U.S. dollar. The Federal Reserve Bank of New York does not report a noon buying rate for nuevos soles. The information in this table reflects Peruvian nuevos soles at historical values rather than in constant Peruvian nuevos soles. The high and low exchange rates provided in the table are the highest and lowest of the twelve month-end exchange rates for each year based on the BCRP exchange rate. The average rate is in each case the average of month-end exchange rates during such period.

Year Ended December 31,	BCRP Rate(1)			
	Period End	Average	High	Low
2001	3.446	3.510	3.628	3.435
2002	3.515	3.500	3.646	3.434
2003	3.464	3.477	3.496	3.462
2004	3.283	3.413	3.502	3.282
2005	3.419	3.303	3.419	3.253
2006 (through June 15)	3.264	3.303	3.452	3.252

(1)

Source: *Banco Central de Reserva del Peru*

The exchange rate for U.S. dollars as of June 15, 2006 was 3.264 nominal nuevos soles per U.S. dollar.

## Exchange Rates in Mexico

On December 21, 1994, Banco de México implemented a floating foreign exchange rate regime under which the peso is allowed to float freely against the U.S. dollar and other foreign currencies. Banco de México has indicated it will intervene directly in the foreign exchange market only to reduce what it deems to be excessive short-term volatility. Since mid-2003, Banco de México has been conducting auctions of U.S. dollars in an attempt to reduce the levels of its foreign reserves. Banco de México conducts open market operations on a regular basis to determine the size of Mexico's monetary base. Changes in Mexico's monetary base have an impact on the exchange rate. Banco de México may increase or decrease the reserve of funds that financial institutions are required to maintain. If the reserve requirement is increased, financial institutions will be required to allocate more funds to their reserves, which will reduce the amount of funds available for operations. This causes the amount of available funds in the market to decrease and the cost, or interest rate, to obtain funds to increase. The opposite happens if reserve requirements are lowered. This mechanism, known as "corto" or "largo," as the case may be, or more formally "the daily settlement balance target," represents a device used by Banco de México to adjust the level of interest and foreign exchange rates.

We cannot assure you, however, that Banco de México will maintain its current policies with respect to the peso or that the peso will not depreciate significantly in the future. Moreover, we cannot

assure you that the Mexican government will not impose exchange controls or otherwise restrict foreign exchange, including the exchange of pesos into U.S. dollars, in the future, which has been the case in the past.

Banco de México has provided for risk management and hedging mechanisms against fluctuations in the peso to dollar exchange rate. Banco de México allows Mexican banks and brokerage houses to participate in futures markets for the peso and to conduct derivative transactions that are intended to hedge against currency fluctuations. In April 1995, the Chicago Mercantile Exchange introduced peso futures contracts and options on peso futures contracts and started trading these options and futures. On December 18, 1998, trading started at the Mexican Derivatives Exchange, including peso futures contracts.

In the event of shortages of foreign currency, we cannot assure you that foreign currency would continue to be available to private-sector companies in Mexico or that foreign currency needed by us to service foreign currency obligations would continue to be available without substantial additional cost.

The following table sets forth, for the periods indicated, the period-end, average, high and low noon buying rate in New York City for cable transfers in pesos published by the Federal Reserve Bank of New York, expressed in pesos per U.S. dollar. The rates have not been restated in constant currency units and therefore represent nominal historical figures.

Year Ended December 31,	FRBNY Rate(1)			
	Period End	Average	High	Low
2000	9.618	9.458	10.087	9.183
2001	9.156	9.335	9.972	8.946
2002	10.425	9.663	10.425	9.001
2003	11.242	10.795	11.406	10.113
2004	11.154	11.290	11.635	10.805
2005	10.628	10.894	11.411	10.414
2006 (through June 15)	11.417	10.847	11.460	10.432

(1)

Source: *Federal Reserve Bank of New York*

On June 15, 2006 the noon buying rate was 11.417 pesos per U.S. dollar.

## CAPITALIZATION

The following table sets forth our combined cash, cash equivalents and marketable securities and combined capitalization as of March 31, 2006 on a historical basis and on an as adjusted basis, giving effect to (1) the offering of the old notes and the application of the net proceeds thereof and (2) the payment of a \$2.75 per share (\$404.9 million aggregate amount) dividend that was declared on April 25, 2006. This table should be read in conjunction with our Audited Combined Financial Statements included herein and the unaudited condensed combined interim financial statements for the three months ended March 31, 2005 and 2006 in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 which is attached hereto as Annex C and is qualified in its entirety by the information contained therein.

	As of March 31, 2006	
	Actual	As adjusted for the offering
	(dollars in millions)	
<b>Current portion of long-term debt:</b>		
Mitsui credit agreement	\$ 10.0	\$ 10.0
<b>Total current portion of long-term debt</b>	<b>10.0</b>	<b>10.0</b>
<b>Long-term debt</b>		
8.25% Yankee bonds Series A due 2008	173.3	173.3
9.25% Yankee bonds Series B due 2028	125.0	125.0
6.375% Notes due 2015(1)	199.0	199.0
7.500% Notes due 2035(1)	594.8	594.8
7.500% Notes due 2035 offered hereby		400.0
Mitsui credit agreement	70.0	70.0
<b>Total long-term debt</b>	<b>1,162.1</b>	<b>1,562.1</b>
Minority interest	11.5	11.5
Stockholders' equity	3,163.2	2,758.3
<b>Total capitalization</b>	<b>\$ 4,346.8</b>	<b>\$ 4,341.9</b>

(1) Issued July 27, 2005.

## DESCRIPTION OF THE NOTES

The old notes were issued and the new notes will be issued under an indenture, dated July 27, 2005, as amended or supplemented through the expiration date (the "Indenture"), between the Issuer and The Bank of New York, as Trustee (the "Trustee," which term includes any successor as Trustee under the Indenture). The old notes together with the new notes are referred to as the notes. In this description, the term "Issuer" refers only to Southern Copper Corporation and not to any of its subsidiaries.

On July 27, 2005, the Issuer issued U.S.\$600 million aggregate principal amount of its 7.500% notes due 2035 under the Indenture and pursuant to an exchange offer which expired on January 3, 2006, U.S.\$590.5 million in aggregate principal amount of such notes were exchanged for notes registered under the Securities Act. On May 4, 2006, the Issuer issued an additional U.S.\$400 million aggregate principal amount of its 7.500% notes due 2035 under the Indenture. The notes previously issued under the Indenture and the notes offered hereby will be treated as a single series of notes under the Indenture, including for purposes of waivers and amendments. For purposes of this description, unless the context indicates otherwise, references to the "notes" includes the 7.500% notes due 2035 offered on July 27, 2005 and the registered notes exchanged for such notes.

The following summaries of certain provisions of the notes, the Indenture and the Registration Rights Agreement do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all the terms and conditions of the notes, the Indenture and the Registration Rights Agreement, including the definitions therein of certain terms. Copies of the Indenture and Registration Rights Agreement are available at the Issuer's principal executive offices, as well as at the offices of the Trustee, Registrar, Paying Agent and Transfer Agent, and at the offices of the Luxembourg Listing Agent, Paying Agent and Transfer Agent, each as defined in the Indenture. As used herein, the term "Holder" or "Noteholder" means the person in whose name a note of either series is registered in the register (the "Register") which the Issuer shall cause the registrar to maintain for each series of notes.

### General

The old notes and the new notes, which together with the 7.500% notes due 2035 issued on July 27, 2005 and the registered notes exchanged for such notes are referred to in this prospectus as the "notes," will constitute a single series of notes under the Indenture. If the exchange offer described under "The Exchange Offer" is consummated, holders of old notes who do not exchange their old notes for new notes will vote together as a single series of notes with holders of the new notes of the series for all relevant purposes under the Indenture. In that regard, the Indenture requires that certain actions by the holders under the notes (including acceleration following an event of default) must be taken, and certain rights must be exercised, by specified minimum percentages of the aggregate principal amount of the outstanding notes. In determining whether holders of the requisite percentage in principal amount have given any notice, consent or waiver or taken any other action permitted under the Indenture, any old notes which remain outstanding after the exchange offer will be aggregated with the new notes of the relevant series and the holders of the old notes and new notes will vote together as a single series for all purposes. Accordingly, all references in this prospectus to specified percentages in aggregate principal amount of the outstanding notes will be deemed to mean, at any time after the exchange offer is consummated, the percentages in aggregate principal amount of the old notes and the new notes then outstanding.

The terms of the old notes are identical in all material respects to those of the new notes, except that (1) the old notes have not been registered under the Securities Act and are subject to certain restrictions on transfer, (2) are entitled to certain rights under the registration rights agreement (which rights will terminate upon consummation of the exchange offer, except under limited circumstances), and (3) the new notes will not provide for any additional interest as a result of our failure to fulfill certain registration obligations.

The notes are general unsecured and unconditional obligations of the Issuer. The notes, at all times, rank *pari passu* in right of payment among themselves and at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer. The Issuer is entitled, without the consent of the Holders, to issue additional notes of either series under the Indenture on the same terms and conditions and with the same CUSIP number as the notes being offered hereby in an unlimited aggregate principal amount (the "Additional Notes"). The notes and the Additional Notes of each series, if any, will be treated as a single class for all purposes of the Indenture, including waivers and amendments. Unless the context otherwise requires, for all purposes of the Indenture and this "Description of the Notes," references to the notes include any Additional Notes actually issued.

The notes bear interest at the rate per annum shown on the front cover of this prospectus from the later of July 27, 2006 or from the most recent Interest Payment Date on which interest has been paid or provided for, payable semi-annually, in arrears, on January 27 and July 27 of each year, commencing July 27, 2006, to the person in whose name such note (or any predecessor note) is registered at the close of business on the preceding January 15 or July 15, as the case may be. Interest on the notes will be computed on the basis of a 360-day year of twelve 30-day months. The Issuer shall pay interest on overdue principal at the rate borne by the notes plus 1%. The notes will mature on July 27, 2035.

Notwithstanding the foregoing, any interest which is payable, but which is not punctually paid or duly provided for, on any Interest Payment Date ("Defaulted Interest") shall cease to be payable to the Holder registered on such date, and shall be payable, at the election of the Issuer, either (i) to the person in whose name such note is registered at the close of business on a special record date to be fixed by the Trustee not more than 15 nor less than 10 days prior to the date fixed by the Issuer for payment thereof or (ii) in any other lawful manner not inconsistent with the rules of any applicable securities exchange if deemed practicable by the Trustee. You should refer to the description under the heading "The Exchange Offer" for a more detailed description of the circumstances under which the interest rate will increase.

Although the Indenture limits the amount of indebtedness that can be incurred by the Issuer's Subsidiaries, such limitation is subject to significant exceptions. The Indenture does not limit the amount of indebtedness or other obligations that may be incurred by the Issuer.

#### **Methods of Receiving Payments on the Notes**

Payments on the notes may be made, in the case of a Holder of U.S.\$10 million or more in aggregate principal amount of notes, by wire transfer to a U.S. dollar account maintained by the payee with a bank in the United States if such Holder elects payment by wire transfer by giving notice to the Issuer to such effect respecting such account no later than 30 days immediately preceding the relevant due date for payment. All other payments on the notes will be made at the office or agency of the paying agent and registrar within the City and State of New York in the U.S. or at the office of the Paying Agent in Luxembourg unless the Issuer elects to make interest payments by check mailed to the Holders at their address set forth in the Register.

If any payment in respect of a note is due on a day that is not at any place of payment a Business Day then, at each such place of payment, such payment need not be made on such day but may be made on the next succeeding day that is at such place of payment a Business Day, with the same force and effect as if made on the date for such payment, and no interest will accrue for the period from and after such date.

#### **Paying Agent and Registrar for the Notes**

The Trustee will initially act as paying agent and registrar. The Bank of New York (Luxembourg) S.A. will initially act as Paying Agent and Transfer Agent in Luxembourg. The Issuer may change the

paying agent or registrar without prior notice to the holders of the notes, and the Issuer or any of its Subsidiaries may act as paying agent or registrar.

### **Transfer and Exchange**

A Holder may transfer or exchange notes in accordance with the provisions of the Indenture. The Issuer, the registrar and the Trustee may require a Holder, among other things, to furnish appropriate endorsements and transfer documents in connection with a transfer of notes. Any transfer documents will be available at the Issuer's principal executive offices, as well as at the offices of the Trustee, Registrar, Paying Agent and Transfer Agent, and at the offices of the Luxembourg Listing Agent, Paying Agent and Transfer Agent. Holders will be required to pay all taxes due on transfer. The Issuer is not required to transfer or exchange any notes selected for redemption. Also, the Issuer is not required to transfer or exchange any notes for a period of 15 days before a selection of notes to be redeemed.

### **Optional Redemption**

Except as described below, the notes are redeemable at the Issuer's option. The Issuer is not, however, prohibited from acquiring the notes by means other than a redemption, whether pursuant to a tender offer, open market purchase or otherwise, so long as the acquisition does not otherwise violate the terms of the Indenture.

The notes will be redeemable, at any time and from time to time, in whole or in part, at the Issuer's option at a redemption price equal to the greater of (i) 100% of the principal amount of the notes to be redeemed, and (ii) the sum of the present values of the Remaining Scheduled Payments of principal and interest on the notes to be redeemed (exclusive of interest accrued to the redemption date) discounted to that redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 50 basis points; plus, in the case of both clause (i) and clause (ii) above, accrued and unpaid interest on the principal amount of the notes being redeemed to, but not including, the date of redemption. Notwithstanding the foregoing, payments of interest on the notes will be payable to the Holders of those notes registered as such at the close of business on the relevant record dates according to the terms and provisions of the Indenture. In connection with such optional redemption, the following defined terms apply:

"Comparable Treasury Issue" means, with respect to the notes, the United States Treasury security selected by the Independent Investment Banker that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the notes.

"Comparable Treasury Price" means, with respect to any redemption date, (i) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third business day, preceding that redemption date, as set forth in the daily statistical release designated H.15(519) (or any successor release) published by the Federal Reserve Bank of New York and designated "Composite 3:30 p.m. Quotations for US Government Securities" or (ii) if such release (or any successor release) is not published or does not contain such prices on such business day, the average of the Reference Treasury Dealer Quotations for that redemption date.

"Independent Investment Banker" means one of the Reference Treasury Dealers appointed by the Issuer to act as the "Independent Investment Banker."

"Reference Treasury Dealer" means each of Citigroup Global Markets Inc. and UBS Securities LLC and their respective successors and one other nationally recognized investment banking firm that is a Primary Treasury Dealer specified from time to time by the Issuer; *provided, however*, that if any of the foregoing shall cease to be a primary US Government securities dealer in New York City (a

"Primary Treasury Dealer"), the Issuer shall substitute therefor another nationally recognized investment banking firm that is a Primary Treasury Dealer.

"Reference Treasury Dealer Quotation" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third business day preceding that redemption date.

"Remaining Scheduled Payments" means, with respect to each note to be redeemed, the remaining scheduled payments of the principal thereof and interest thereon that would be due after the related redemption date but for such redemption; *provided, however*, that, if that redemption date is not an interest payment date with respect to such notes, the amount of the next succeeding scheduled interest payment thereon will be reduced by the amount of interest accrued thereon to that redemption date.

"Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity (computed as of the third business day immediately preceding that redemption date) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for that redemption date.

Notice of any redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each Holder of the notes to be redeemed. On and after any redemption date, interest will cease to accrue on the notes or any portion thereof called for redemption unless the Issuer defaults in the payment of the redemption price. The Issuer will publish such notices in a leading newspaper of general circulation in Luxembourg, which is expected to be the *d'Wort*, or via an official information dissemination system managed by the Luxembourg Stock Exchange, for so long as the notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require.

Upon presentation of any note redeemed in part only, the Issuer will execute and the Trustee will authenticate and deliver to us on the order of the holder thereof, at the Issuer's expense, a new note or notes, of authorized denominations, in principal amount equal to the unredeemed portion of the note so presented.

The Issuer may at any time purchase notes in the open market or otherwise at any price. Any notes that are redeemed or purchased by the Issuer will be cancelled and may not be reissued or resold. Any redemption and notice thereof pursuant to the Indenture may, in the Issuer's discretion, be subject to the satisfaction of one or more conditions precedent.

#### **Covenants**

The Indenture provides that the following restrictive covenants will be applicable to the Issuer and its Subsidiaries unless the notes issued under such Indenture reach Investment Grade Status. After the series of notes reaches Investment Grade Status, and notwithstanding that such series of notes may later cease to have an Investment Grade Rating from any of the Rating Agencies, the Issuer and its Subsidiaries will be released from their obligations under the applicable Indenture to comply with the restrictive covenants described below, except for the covenants described under the following headings:

- " Limitation on Liens,"
- " Limitation on Sale and Leaseback Transactions,"
- " Consolidation, Merger, Sale or Conveyance" and
- " Reporting Requirements."

In May, 2006, we and our notes issued in July, 2005 reached Investment Grade Status. Accordingly, the covenants mentioned in the preceding paragraph no longer apply.

*Limitation on Liens*

The Issuer will not, nor will it permit any Subsidiary to, issue, assume or suffer to exist any Indebtedness or Guarantee, if such Indebtedness or Guarantee is secured by a Lien upon any Specified Property, unless, concurrently with the issuance or assumption of such Indebtedness or Guarantee or the creation of such Lien, the notes shall be secured equally and ratably with (or prior to) such Indebtedness or Guarantee; *provided, however*, that the foregoing restriction shall not apply to:

(1) any Lien on (A) any Specified Property acquired, constructed, developed, extended or improved by the Issuer or any Subsidiary (singly or together with other Persons) after the date of the Indenture or any property reasonably incidental to the use or operation of such Specified Property (including any real property on which such Specified Property is located), or (B) any shares or other ownership interest in, or any Indebtedness of, any Person which holds, owns or is entitled to such property, products, revenue or profits, in each of cases (A) and (B), to the extent such Lien is created, incurred or assumed (x) during the period such Specified Property was being constructed, developed, extended or improved, or (y) contemporaneously with, or within 360 days after, such acquisition or the completion of such construction, development, extension or improvement in order to secure or provide for the payment of all or any part of the purchase price or other consideration of such Specified Property or the other costs of such acquisition, construction, development, extension or improvement (including costs such as escalation, interest during construction and financing and refinancing costs);

(2) any Lien on any Specified Property existing at the time of acquisition thereof and which (a) is not created as a result of or in connection with or in anticipation of such acquisition and (b) does not attach to any other Specified Property other than the Specified Property so acquired;

(3) any Lien on any Specified Property acquired from a Person which is merged with or into the Issuer or any Subsidiary or any Lien existing on Specified Property of any Person at the time such Person becomes a Subsidiary, in either such case which (a) is not created as a result of or in connection with or in anticipation of any such transaction and (b) does not attach to any other Specified Property other than the Specified Property so acquired;

(4) any Lien which secures Indebtedness or a Guarantee owing by a Subsidiary to the Issuer or any other Subsidiary;

(5) any Lien existing on the date of the Indenture; or

(6) any extension, renewal or replacement (or successive extensions, renewals or replacements) in whole or in part, of any Lien referred to in the foregoing clauses (1) through (5) inclusive; *provided* that the principal amount of Indebtedness or Guarantee secured thereby shall not exceed the principal amount of Indebtedness or Guarantee so secured at the time of such extension, renewal or replacement plus an amount necessary to pay any fees and expenses, including premiums and defeasance costs related to such transaction, and that such extension, renewal or replacement shall be limited to all or a part of the property which secured the Lien so extended, renewed or replaced (plus improvements on such property).

Notwithstanding the foregoing, the Issuer or any Subsidiary may issue or assume Indebtedness or a Guarantee secured by a Lien which would otherwise be prohibited under the provisions of the Indenture described in this section or enter into Sale and Leaseback Transactions that would otherwise be prohibited by the provisions of the Indenture described below under " Limitation on Sale and Leaseback Transactions," *provided* that the amount of such Indebtedness or Guarantee or the Attributable Value of such Sale and Leaseback Transaction, as the case may be, together with the aggregate amount (without duplication) of (x) Indebtedness or Guarantees outstanding at such time, that was previously incurred pursuant to this paragraph by the Issuer and its Subsidiaries, plus (y) the Attributable Value of all such Sale and Leaseback Transactions of the Issuer and its Subsidiaries outstanding at such time that were previously incurred pursuant to this paragraph shall not exceed 20%

of Consolidated Net Tangible Assets at the time any such Indebtedness or Guarantee is issued or assumed by the Issuer or any Subsidiary or at the time any such Sale and Leaseback Transaction is entered into.

For the avoidance of doubt, the sale or other transfer of (i) any minerals in place for a period of time until, or in an amount such that the purchaser will realize therefrom a specified amount of money (however determined) or a specified amount of such minerals or (ii) any other interest in property of the character commonly referred to as a "production payment," shall not constitute the incurrence of Indebtedness or a Guarantee secured by a Lien.

***Limitation on Sale and Leaseback Transactions***

For so long as any of the notes are outstanding, neither the Issuer nor any Subsidiary may enter into any Sale and Leaseback Transaction with respect to any Specified Property, unless either (x) the Issuer or such Subsidiary would be entitled pursuant to the provisions of the Indenture described above under " Limitation on Liens" to issue or assume Indebtedness or a Guarantee (in an amount equal to the Attributable Value with respect to such Sale and Leaseback Transactions) secured by a Lien on such Specified Property without equally and ratably securing the notes, (y) the Issuer or such Subsidiary shall apply or cause to be applied, in the case of a sale or transfer for cash, an amount equal to 85% of the net proceeds thereof and, in the case of a sale or transfer otherwise than for cash, an amount equal to the fair market value (as determined in good faith by the board of directors of the Issuer) of the Specified Property so leased, (A) to the retirement, within 360 days after the effective date of such Sale and Leaseback Transaction, of (i) Indebtedness of the Issuer ranking at least on a parity with the notes or (ii) Indebtedness of any Subsidiary of the Issuer, in each case owing to a Person other than the Issuer or any Affiliate of the Issuer, or (B) to the acquisition, purchase, construction, development, extension or improvement of any property or assets of the Issuer or any Subsidiary used or to be used by or for the benefit of the Issuer or any Subsidiary in the ordinary course of business or (z) the Issuer or such Subsidiary equally and ratably secures the notes.

The foregoing restrictions shall not apply to any transactions providing for a lease for a term of not more than three years.

***Repurchase at the Option of Holders Upon a Change of Control Triggering Event***

Upon the occurrence of a Change of Control Triggering Event, each Holder of notes will have the right to require the Issuer to repurchase all or any part of such Holder's notes pursuant to the offer described below (the "Change of Control Offer") at a purchase price (the "Change of Control Purchase Price") equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the purchase date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

Within 30 days following any Change of Control Triggering Event, the Issuer shall:

- (a) cause a notice of the Change of Control Offer to be sent at least once to the Dow Jones News Service or similar business news service in the United States and
- (b) send, by first-class mail, with a copy to the Trustee, to each Holder of notes, at such Holder's address appearing in the Register, a notice stating:
  - (1) that a Change of Control Triggering Event has occurred and a Change of Control Offer is being made pursuant to the covenant entitled "Repurchase at the Option of Holders Upon a Change of Control Triggering Event" and that all notes timely tendered will be accepted for payment;

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(2) the Change of Control Purchase Price and the purchase date, which shall be, subject to any contrary requirements of applicable law, a business day no earlier than 30 days nor later than 60 days from the date such notice is mailed;

(3) the circumstances and relevant facts regarding the Change of Control Triggering Event; and

(4) the procedures that Holders of notes must follow in order to tender their notes (or portions thereof) for payment, and the procedures that Holders of notes must follow in order to withdraw an election to tender notes (or portions thereof) for payment.

The Issuer will publish such notices in a leading newspaper of general circulation in Luxembourg, which is expected to be the *d'Wort*, or via an official information dissemination system managed by the Luxembourg Stock Exchange, for so long as the notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require.

The Issuer will not be required to make a Change of Control Offer following a Change of Control Triggering Event if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Issuer and purchases all notes validly tendered and not withdrawn under such Change of Control Offer.

The Issuer will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of notes pursuant to a Change of Control Offer. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the covenant described above, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under this covenant by virtue of such compliance.

The Issuer's obligation to make an offer to repurchase the notes as a result of a Change of Control Triggering Event may be waived or modified at any time prior to the occurrence of such Change of Control Triggering Event with the written consent of the holders of a majority in principal amount of the notes. See " Amendments and Waivers."

### ***Limitation on Subsidiary Indebtedness***

The Issuer shall not permit any Subsidiary to incur, directly or indirectly, any Indebtedness or Guarantees (other than Permitted Indebtedness).

### ***Consolidation, Merger, Sale or Conveyance***

For so long as the notes are outstanding, the Issuer may not consolidate with or merge into any other corporation or convey or transfer its properties and assets substantially as an entirety to any Person, unless (i) the successor Person shall be a corporation organized and existing under the laws of the United States (or any State thereof or the District of Columbia) and shall expressly assume, by a supplemental indenture, the due and punctual payment of the principal of and interest on all the outstanding notes and the performance of every covenant in the Indenture on the part of the Issuer to be performed or observed, (ii) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing; and (iii) the Issuer shall have delivered to the Trustee an Officers' Certificate and opinion of counsel stating that such consolidation, merger, conveyance or transfer and such supplemental indenture comply with the foregoing provisions relating to such transaction. In case of any such consolidation, merger conveyance or transfer (other than a lease), such successor corporation will succeed to and be substituted for the Issuer as obligor on the notes, with the same effect as if it had been named in the Indenture as such obligor.

For purposes of this covenant, the conveyance or transfer of all the property of one or more Subsidiaries of the Issuer which property, if held by the Issuer instead of such Subsidiaries, would constitute all or substantially all the property of the Issuer on a consolidated basis, shall be deemed to be the transfer of all or substantially all the property of the Issuer.

***Certain Definitions***

The following terms have the following definitions in the Indenture:

"Affiliate" means, with respect to any specified Person, any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control," when used with respect to any specified Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise.

"Attributable Value" means, as to any particular lease under which the Issuer or any Subsidiary is at any time liable as lessee and any date as of which the amount thereof is to be determined, the total net obligations of the lessee for rental payments during the remaining term of the lease (including any period for which such lease has been extended or may, at the option of the lessor, be extended) discounted from the respective due dates thereof to such date at a rate per annum equivalent to the interest rate inherent in such lease (as determined in good faith by the Issuer in accordance with generally accepted financial practice).

"Change of Control," at any date, means the failure of Mr. German Larrea Mota-Velasco and his immediate family members, including his spouse, parents, siblings, and lineal descendants, estates and heirs, or any trust or other investment vehicle for the primary benefit of any of the foregoing, to possess, directly or indirectly, whether through ownership of Voting Stock, contract or otherwise, the power to elect or designate for election the majority of the board of directors of the Issuer or to direct or cause the direction of the management or policies of the Issuer.

"Change of Control Triggering Event" means the occurrence of both a Change of Control and a Rating Decline.

"Commission" means the Securities and Exchange Commission, as from time to time constituted, created under the Securities Exchange Act of 1934, as amended, or, if at any time after the execution of this Indenture such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties at such time.

"Consolidated Net Tangible Assets" means the total of all assets appearing on a consolidated balance sheet of the Issuer and its Subsidiaries, net of all applicable reserves and deductions, but excluding goodwill, trade names, trademarks, patents, unamortized debt discount and all other like intangible assets, less the aggregate of the current liabilities of the Issuer and its Subsidiaries appearing on such balance sheet as determined in accordance with U.S. GAAP.

"Fitch" means Fitch Ratings, Ltd. or any successor to the rating agency business thereof.

"Guarantee" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person, direct or indirect, contingent or otherwise, or entered into for the purpose of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided, however*, that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning. The term "Guarantee" shall not apply to a guarantee of intercompany indebtedness among the Issuer and the Subsidiaries or among the Subsidiaries.

"Indebtedness" means, with respect to any Person (without duplication) (a) any obligation of such Person (1) for borrowed money, under any reimbursement obligation relating to a letter of credit (other than letters of credit payable to suppliers in the ordinary course of business), under any reimbursement obligation relating to a financial bond or under any reimbursement obligation relating to a similar instrument or agreement, (2) for the payment of money relating to any obligations under any capital lease of real or personal property, or (3) under any agreement or instrument in respect of an interest rate or currency swap, exchange or hedging transaction or other financial derivatives transaction (other than (i) any such agreements or instruments directly related to Indebtedness otherwise incurred in compliance with the Indenture and (ii) any such agreements as are entered into in the ordinary course of business and are not for speculative purposes or the obtaining of credit); and (b) any amendment, supplement, modification, deferral, renewal, extension or refunding of any liability of the types referred to in clause (a) above. For the purpose of determining any particular amount of Indebtedness under this definition, Guarantees of (or obligations with respect to letters of credit) Indebtedness otherwise included in the determination of such amount shall not be included.

"Investment Grade Rating" means a rating equal to or higher than Baa3 (or the equivalent) by Moody's, BBB- (or the equivalent) by S&P and BBB- (or the equivalent) by Fitch.

"Investment Grade Status" shall be deemed to have been reached on the date that the notes have an Investment Grade Rating from at least two Rating Agencies.

"Lien" means any mortgage, pledge, lien or security interest.

"Moody's" means Moody's Investors Service, Inc. or any successor to the rating agency business thereof.

"Permitted Indebtedness" means:

(1) the incurrence by any Subsidiary of additional Indebtedness or Guarantees, which when taken together with the aggregate principal amount (without duplication) of all other Indebtedness and Guarantees of the Subsidiaries then outstanding does not exceed the greater of (x) U.S.\$450 million or (y) 10% of Consolidated Net Tangible Assets;

(2) the incurrence by Subsidiaries of Indebtedness outstanding on the date of the Indenture;

(3) the incurrence by any Subsidiaries of Indebtedness issued in exchange for, or the net proceeds of which are used to extend, refinance, renew, replace, defease or refund other Indebtedness of such Subsidiary that was otherwise permitted to be incurred hereunder, so long as such Indebtedness is in an aggregate principal amount not in excess of the sum of (i) the aggregate principal amount then outstanding of the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded and (ii) an amount necessary to pay any fees and expenses, including premiums and defeasance costs, related to such transaction;

(4) the incurrence by any Subsidiaries of intercompany Indebtedness between or among the Issuer and/or any direct or indirect Subsidiaries of the Issuer;

(5) the incurrence by Subsidiaries of interest rate or currency swaps, exchange or hedging transactions or other hedging or financial derivative transactions designed to protect against fluctuations in energy cost, copper or other commodity prices and entered into in the ordinary course of the financial management of such Subsidiary and not for speculative purposes;

(6) the incurrence by any Subsidiary of Indebtedness in respect of workers' compensation claims, payment obligations in connection with health or other types of social security benefits, unemployment or other insurance or self-insurance obligations, reclamation, statutory obligations, bankers' acceptances, performance, surety or similar bonds and letters of credit or completion or performance guarantees or

equipment leases, or other similar obligations, in each case in the ordinary course of business or consistent with past practice;

(7) the incurrence by Subsidiaries of Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently drawn against insufficient funds; provided, however, that such Indebtedness is extinguished within five Business Days of its incurrence; and

(8) the incurrence of Indebtedness arising from agreements by any Subsidiary providing for indemnification, adjustment of purchase price, earn outs, or similar obligations, in each case, incurred or assumed in connection with the disposition or acquisition of any business, assets or a Subsidiary in accordance with the terms of the Indenture, other than Guarantees of Indebtedness incurred or assumed by any Person acquiring all or any portion of such business, assets or Subsidiary for the purpose of financing such acquisition.

The maximum amount of Indebtedness that Subsidiaries may incur pursuant to this covenant shall not be deemed to be exceeded, with respect to any outstanding Indebtedness, due solely to fluctuations in the exchange rates of currencies.

For purposes of determining compliance with this covenant, in the event that an item of proposed Indebtedness meets the criteria of more than one of the categories of Permitted Indebtedness described in clauses (1) through (8) above as of the date of incurrence thereof, or pursuant to any combination of the foregoing as of the date of incurrence thereof, the Issuer may, in its sole discretion, divide and classify (or later classify, reclassify or re-divide) in whole or in part, in its sole discretion, such item of Indebtedness in any manner that complies with this covenant. Accrual of interest or dividends, the accretion of accreted value or liquidation preference and the payment of interest or dividends in the form of additional Indebtedness will not be deemed to be an incurrence of Indebtedness for purposes of the covenant described under " Limitation on Subsidiary Indebtedness."

"Person" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company or government or other entity.

"Rating Agencies" means Moody's, S&P and Fitch.

"Rating Decline" means if on, or within 90 days after, the earlier of the date of public notice of the occurrence of a Change of Control or of the intention of the Company to effect a Change of Control (which period shall be extended so long as the rating of the notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies), the rating of the notes by at least one of the Rating Agencies shall be decreased by one or more gradations (including gradations within categories as well as between rating categories).

"S&P" means Standard & Poor's Ratings Services or any successor to the rating agency business thereof.

"Sale and Leaseback Transaction" means any transaction or series of related transactions pursuant to which the Issuer or any Subsidiary sells or transfers any property to any Person with the intention of taking back a lease of such property pursuant to which the rental payments are calculated to amortize the purchase price of such property substantially over the useful life thereof and such property is in fact so leased.

"Significant Subsidiary" means a Subsidiary of the Issuer which would be a "significant subsidiary" within the meaning of Rule 1-02 under Regulation S-X promulgated by the Commission as in effect on the date of the Indenture, assuming the Issuer is the registrant referred to in such definition.

"Specified Property" means any mineral property (other than inventory or receivables), concentrator, smelter, refinery or rod plant of the Issuer or any Subsidiary and any capital stock or

Indebtedness of any Subsidiary directly owning any such property, concentrator, smelter, refinery or rod plant. This term excludes any mineral property, concentrator, smelter or refinery or rod plant of the Issuer or any Subsidiary that in the good faith opinion of the Issuer's board of directors is not materially important to the total business conducted by the Issuer and its Subsidiaries, taken as a whole.

"Subsidiary" means any corporation or other business entity of which the Issuer owns or controls (either directly or through one or more other Subsidiaries) more than 50% of the issued share capital or other ownership interests, in each case having ordinary voting power to elect or appoint directors, managers or trustees of such corporation or other business entity (whether or not capital stock or other ownership interests or any other class or classes shall or might have voting power upon the occurrence of any contingency). For the avoidance of doubt, SCC Peru Branch shall not be considered a Subsidiary of the Issuer.

"U.S. GAAP" means generally accepted accounting principles in the United States as in effect from time to time, including those set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as approved by a significant segment of the accounting profession in the United States.

"Voting Stock" means capital stock issued by a corporation, or equivalent interests in any other Person, the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of directors (or persons performing similar functions) of such Person, even if the right to vote has been suspended by the happening of such a contingency.

#### ***Highly Leveraged Transactions***

Other than the limitations discussed under " Limitation on Subsidiary Indebtedness," the Indenture does not include any debt covenants or other provisions which afford holders of the notes protection in the event of a highly leveraged transaction.

#### ***Reporting Requirements***

The Issuer shall provide the Trustee with the following:

(i) within 30 days after the Issuer is required to file the same with the Commission, copies of the annual reports and of the information, documents and other reports (or copies of such portions of any of the foregoing as the Commission may from time to time by rules and regulations prescribe) which the Issuer may be required to file with the Commission pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended; or, if the Issuer is not required to file information, documents or reports pursuant to either of such sections, then to file with the Trustee and the Commission, in accordance with rules and regulations prescribed from time to time by the Commission, such of the supplementary and periodic information, documents and reports which may be required pursuant to Section 13 of the Securities Exchange Act of 1934, as amended, in respect of a security listed and registered on a national securities exchange as may be prescribed from time to time in such rules and regulations; and

(ii) in accordance with the rules and regulations prescribed from time to time by the Commission, such additional information, documents and reports with respect to compliance by the Issuer with the conditions and covenants provided for in the Indenture, as may be required from time to time by such rules and regulations.

**Other Covenants**

The Indenture contains certain other covenants relating to, among other things, the maintenance of corporate existence and maintenance of books and records. Copies of the Indenture are available at the offices of the Issuer, Trustee and the Luxembourg Paying Agent and Transfer Agent.

**Listing**

Application has been made for the notes to be admitted to listing on the EuroMTF section of the Luxembourg Stock Exchange. Any such listing may be discontinued at any time in the Issuer's sole discretion. If, as a result of the Transparency Directive or any legislation implementing the Transparency Directive, the Issuer could be required to publish financial information either more regularly than the Issuer would otherwise be required to or according to accounting principles which are materially different from the accounting principles which the Issuer would otherwise use to prepare its published financial information, the Issuer may delist the notes from the Luxembourg Stock Exchange in accordance with the rules of such exchange and seek an alternative admission to listing, trading and/or quotation for the notes on a different section of the Luxembourg Stock Exchange or by such other listing authority, stock exchange and/or quotation system inside or outside the European Union as the Issuer may decide.

**Events of Default**

The Indenture will provide that each of the following events constitutes an Event of Default with respect to the notes:

- (i) default in the payment of the principal of any note issued pursuant to such Indenture after any such principal becomes due in accordance with the terms thereof, upon redemption or otherwise; or default in the payment of any interest in respect of such notes if such default continues for 30 days after any such interest becomes due in accordance with the terms thereof;
- (ii) failure to observe or perform any other covenant or agreement contained in the notes issued pursuant to such Indenture or such Indenture, and such failure continues for 60 days after notice, by registered or certified mail, to the Issuer by the Trustee or to the Issuer and the Trustee by the Holders of at least 25% in principal amount of the outstanding notes issued pursuant to such Indenture, specifying such failure and requiring it to be remedied and stating that such notice constitutes a notice of default under such Indenture;
- (iii) the Issuer or any of its Significant Subsidiaries shall fail to pay when due (whether at maturity, upon redemption or acceleration or otherwise) the principal of any Indebtedness in excess, individually or in the aggregate of U.S.\$50 million (or the equivalent thereof in other currencies), if such failure shall continue for more than the period of grace, if any, applicable thereto and the period for payment has not been expressly extended;
- (iv) a decree or order by a court having jurisdiction shall have been entered adjudging the Issuer or any of its Significant Subsidiaries as bankrupt or insolvent, or approving as properly filed a petition seeking reorganization or *quiebra* of or by the Issuer or any of its Significant Subsidiaries and such decree or order shall have continued undischarged or unstayed for a period of 120 days; or a decree or order of a court having jurisdiction for the appointment of a receiver or liquidator or *conciliador* or for the liquidation or dissolution of the Issuer or any of its Significant Subsidiaries, shall have been entered, and such decree or order shall have continued undischarged and unstayed for a period of 120 days; *provided, however*, that any Significant Subsidiary may be liquidated or dissolved if, pursuant to such liquidation or dissolution, all or substantially all of its assets are transferred to the Issuer or another Significant Subsidiary of the Issuer; or

(v) the Issuer or any of its Significant Subsidiaries shall institute any proceeding to be adjudicated as voluntary bankrupt, or shall consent to the filing of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking reorganization or *quiebra*, or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver or liquidator or *conciliador* or trustee or assignee in bankruptcy or insolvency of it or its property.

If an Event of Default specified in clause (iv) or (v) above shall occur, the maturity of all outstanding notes shall automatically be accelerated and the principal amount of the notes, together with accrued interest thereon, shall be immediately due and payable. If any other Event of Default shall occur and be continuing, the Trustee or the Holders of not less than 25% of the aggregate principal amount of the notes then outstanding may, by written notice to the Issuer (and to the Trustee if given by Holders), declare the principal amount of the notes, together with accrued interest thereon, immediately due and payable. The right of the Holders to give such acceleration notice shall terminate if the event giving rise to such right shall have been cured before such right is exercised. Any such declaration may be annulled and rescinded by written notice from the Trustee or the Holders of a majority of the aggregate principal amount of the notes then outstanding to the Issuer if all amounts then due with respect to the notes are paid (other than amount due solely because of such declaration) and all other defaults with respect to the notes are cured.

Subject to the provisions of the Indenture relating to the duties of the Trustee, in case the Issuer shall fail to comply with its obligations under the Indenture or the notes and such failure shall be continuing, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request or direction of any of the Holders, unless such Holders shall have offered to the Trustee reasonable indemnity. The Holders of a majority in aggregate principal amount of the outstanding notes will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee, to the extent such action does not conflict with the provisions of the Indenture or applicable law.

No Holder of any note will have any right to institute any proceeding with respect to the Indenture or the notes or for any remedy thereunder, unless such Holder has previously given to the Trustee written notice of a continuing Event of Default and unless also the Holders of at least 25% in aggregate principal amount of the outstanding notes shall have made a written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee, such Holder or Holders have offered to the Trustee reasonable indemnity, the Trustee for 60 days after receipt of such notice has failed to institute any such proceeding and no direction inconsistent with such request shall have been given to the Trustee during such 60-day period by the Holders of a majority in principal amount of the outstanding notes. However, such limitations do not apply to a suit individually instituted by a Holder of a note for enforcement of payment of the principal of, or interest on, such note on or after due dates expressed in such note.

#### **Defeasance**

The Issuer may at any time terminate all of its obligations with respect to the notes ("defeasance"), except for certain obligations, including those regarding any trust established for a defeasance, to replace mutilated, destroyed, lost or stolen notes and to maintain agencies in respect of notes. The Issuer may at any time terminate its obligations under either Indenture under the covenants described above under "Covenants" (other than the covenant described under "Covenants Consolidation, Merger, Sale or Conveyance"), and any omission to comply with such obligations shall not constitute a Default with respect to the notes issued under the Indenture ("covenant defeasance"). In order to exercise either defeasance or covenant defeasance, the Issuer must irrevocably deposit in trust, for the benefit of the Holders of the notes, with the Trustee money or U.S. government obligations, or a combination thereof in such amounts as will be sufficient to pay the principal of, and interest on such notes to the redemption date specified by the Issuer in accordance with the terms of

the Indenture and comply with certain other conditions, including the delivery of an opinion as to certain tax matters.

#### **Notices**

All notices shall be deemed to have been given (i) upon the mailing by first class mail, postage prepaid, of such notices to Holders of the notes at their registered addresses as recorded in the Register and (ii) for so long as the notes are listed on the Luxembourg Stock Exchange, and the rules of the Luxembourg Stock Exchange so require, upon publication in a leading newspaper of general circulation in Luxembourg, which is expected to be the *d'Wort*, or via an official information dissemination system managed by the Luxembourg Stock Exchange, in each case not later than the latest date, and not earlier than the earliest date, prescribed in the notes for the giving of such notice. The Trustee shall upon request forward to each registered Holder of notes the reports received by the Trustee as described above under " Covenants Reporting Requirements."

#### **Amendments and Waivers**

The Indenture may be amended by the Trustee and the Issuer for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained therein, or in any manner which may be deemed necessary or desirable and which shall not adversely affect the interests of any of the Holders of the notes, in any material respect, to all of which each Holder of the notes shall, by acceptance thereof, consent.

Modification and amendments to either Indenture or to the terms and conditions of the notes may also be made, and future compliance therewith or past default by the Issuer (other than a default in the payment of any amount, including in connection with a redemption, due on the notes or in respect of covenant or provision which cannot be modified and amended without the consent of the Holders of all notes so affected) may be waived, either with the written consent (including consents obtained in connection with a tender offer or exchange offer for the notes) of the Holders of at least a majority in aggregate principal amount of outstanding notes or by the adoption of resolutions at a meeting of Holders of the notes by the Holders of at least a majority of the outstanding notes, *provided, however*, that no such modification or amendment to the Indenture or to the terms and conditions of the notes, may, without the consent or the affirmative vote of the Holder of each note so affected, change any installment of interest with respect to any note or reduce the principal amount of or interest with respect to any note, change cash prices at which the notes may be redeemed by the Issuer; reduce the premium payable upon a Change of Control Triggering Event or, at any time after a Change of Control Triggering Event has occurred, change the time at which the Change of Control Offer relating thereto must be made or at which the notes must be repurchased pursuant to such Change of Control Offer; change the currency in which, or change the required place at which, payment with respect to principal of or interest with respect to notes is payable; change the time at which any note may be redeemed; or reduce the above-stated percentage of principal amount outstanding of notes required to modify or amend the Indenture or the terms or conditions of the notes or to waive any future compliance or past default.

#### **Governing Law**

The notes and the Indenture will be governed by, and construed in accordance with, the laws of the State of New York.

#### **Form, Denomination and Title**

The Issuer will initially appoint the Trustee at its office in New York City specified on the inside back cover hereof as Registrar, Principal Paying Agent and Transfer Agent for the new notes. In such

capacities, the Trustee will be responsible for, among other things, (i) maintaining a record of the aggregate holdings of new notes represented by the global notes and accepting new notes for exchange and registration of transfer, (ii) ensuring that payments of principal (including cash in the case of a cash redemption by the Issuer) and interest in respect of the new notes received by the Trustee from the Issuer are duly paid to DTC or its nominee and (iii) transmitting to the Issuer any notices from Noteholders.

The new notes will be issued in book-entry form in minimum denominations of U.S.\$100,000 and integral multiples of U.S.\$1,000 in excess thereof. The new notes will initially be issued in the form of one or more global notes in definitive, fully registered book-entry form, without interest coupons, that will be deposited with, or on behalf of, the depository or its nominee. No service charge will be made for any registration of transfer or exchange of new notes, but the Issuer or Trustee or other agent may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

### *Global Notes*

Upon the issuance of the global notes, DTC or its custodian will credit, on its internal system, the respective principal amount of the individual beneficial interests represented by such global note to the accounts of persons who have accounts with DTC. Such accounts initially were designated by or on behalf of the initial purchasers of the old notes. Ownership of beneficial interests in a global note will be limited to persons who have accounts with DTC ("DTC Participants") or persons who hold interests through DTC Participants. Ownership of beneficial interests in the global notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of DTC Participants) and the records of DTC Participants (with respect to interests of persons other than DTC Participants).

So long as DTC, or its nominee, is the registered owner or Holder of such global note, DTC or such nominee, as the case may be, will be considered the sole owner or Holder of the notes represented by such global note for all purposes under the Indenture and the notes. Unless DTC notifies the Issuer that it is unwilling or unable to continue as depository for a global note or ceases to be a "clearing agency" registered under the Exchange Act, or the Issuer elects to discontinue use of the system of book-entry transfers through DTC or a successor depository, or an Event of Default (as defined above) has occurred and is continuing with respect to such note, owners of beneficial interests in a global note will not be entitled to have any portion of such global note registered in their names, will not receive or be entitled to receive physical delivery of notes in certificated form and will not be considered to be the owners or Holders of any notes under the Indenture or the notes. In addition, no beneficial owner of an interest in a global note will be able to transfer that interest except in accordance with DTC's or its participant's applicable procedures.

Payments of the principal and interest on individual notes represented by a global note registered in the name of DTC or its nominee will be made to DTC or its nominee, as the case may be, as the registered owner of the global note representing such notes. None of the Issuer, the Trustee or any Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the global note or for maintaining, supervising, or reviewing any records relating to such beneficial ownership interests. The Issuer expects that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a global note representing any notes held by it or its nominee, will immediately credit DTC Participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such global note as shown on the records of DTC or its nominee. The Issuer also expects that payments by DTC Participants to owners of beneficial interests in such global note held through such DTC Participants will be governed by standing instructions and customary practices, as is now the

case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC Participants.

Transfers between DTC Participants will be effected in accordance with DTC rules and procedures and will be settled in same-day funds. Transfers between participants in Euroclear and Clearstream will be effected in accordance with their respective rules and procedures.

The laws of some states require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in a global note to such persons may be limited because DTC can only act on behalf of DTC Participants, who in turn act on behalf of indirect participants and certain banks. Accordingly, the ability of a person having a beneficial interest in a global note to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of each interest, may be affected by the lack of a physical certificate for such interest.

Subject to compliance with the transfer restrictions applicable to the old notes, cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream participants, on the other, will be effected in DTC in accordance with DTC rules and procedures on behalf of Euroclear or Clearstream, as the case may be, by its respective depository; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (Brussels, Belgium time). Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf by delivering or receiving interests in the global note in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositories for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a global note from a DTC Participant will be credited during the securities settlement processing day (which must be a business day for Euroclear or Clearstream, as the case may be) immediately following the DTC settlement date, and the credit of any transactions in interests in a global note settled during such processing will be reported to the relevant Euroclear or Clearstream participant on such day. Cash received in Euroclear or Clearstream as a result of sales of interests in a global note by or through a Euroclear or Clearstream participant to a DTC Participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream cash account only as of the business day following settlement in DTC.

In order to insure the availability of Rule 144(k) under the Securities Act, the purchase agreement in connection with the old notes provides that any notes which are purchased or otherwise acquired by the Issuer or any of its subsidiaries may not be resold or otherwise transferred.

DTC has advised the Issuer that it will take any action permitted to be taken by a Holder of notes (including, without limitation, the presentation of notes for transfer, exchange or conversion as described below) only at the direction of one or more DTC Participants to whose account with DTC interests in the global note are credited and only in respect of such portion of the aggregate principal amount of the notes as to which such Participant or Participants has or have given such direction. However, in the limited circumstances described herein, DTC will exchange the global note for certificated notes in definitive form, which it will distribute to DTC Participants. See "Certificated Notes."

DTC has advised the Issuer as follows: DTC will act as the depository for the notes. The notes will be issued as fully registered notes registered in the name of Cede & Co., which is DTC's partnership

nominee. Fully registered global note will be issued for the notes, in the aggregate principal amount of the issue, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that its participants deposit with DTC. DTC also facilitates the settlement among participants of securities transactions, including transfers and pledges, in deposited securities through electronic computerized book-entry changes to participants' accounts, thereby eliminating the need for physical movement of notes certificates. Direct participants of DTC include securities brokers and dealers, including the initial purchasers of the old notes, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its direct participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to DTC's system is also available to indirect participants, which includes securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly. The rules applicable to DTC and its participants are on file with the SEC.

To facilitate subsequent transfers, all global notes representing the notes which are deposited with, or on behalf of, DTC are registered in the name of DTC's nominee, Cede & Co. The deposit of global notes with, or on behalf of, DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the global notes representing the notes; DTC's records reflect only the identity of the direct participants to whose accounts the notes are credited, which may or may not be the beneficial owners. The participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants, and by direct and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. will consent or vote with respect to the global notes representing the notes. Under its usual procedure, DTC mails an omnibus proxy to the Issuer as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those direct participants to whose accounts the notes are credited on the record date (identified in a listing attached to the omnibus proxy).

DTC may discontinue providing its services as securities depository with respect to the notes at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, certificated notes are required to be printed and delivered. See "Certificated Notes."

The Issuer may decide to discontinue use of the system of book-entry transfers through DTC or a successor securities depository. In that event, certificated notes will be printed and delivered. See "Certificated Notes."

Although DTC, Euroclear and Clearstream have agreed to the procedures described above in order to facilitate transfers of interests in the global Notes among participants of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform these procedures, and these procedures may be discontinued at any time. Neither the Trustee nor the Issuer will have any liability or responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

### ***Certificated Notes***

If DTC is at any time unwilling or unable to continue as a depository for the reasons set forth under " Global Notes" above and a successor depository is not appointed by the Issuer within 90 days, the Issuer elects to discontinue use of the system of book-entry transfers through DTC or a successor securities depository, or an Event of Default has occurred and is continuing with respect to the notes, the Issuer will issue individual definitive notes, having the same maturity date and the same terms and conditions and of differing authorized denominations which will have the same aggregate principal amount, in registered form in exchange for the global notes. Upon any exchange for certificated notes, the certificated notes shall be registered in the names of the beneficial owners of the global notes representing the notes, which names shall be provided by DTC's relevant participants (as identified by DTC) to the Trustee.

The Holder of a definitive note may transfer such note by surrendering it at the office or agency maintained by the Issuer for such purpose in the Borough of Manhattan, The City of New York, which initially will be the office of the Trustee or at the office of any Paying Agent including the office of the Luxembourg Paying Agent.

Neither the Trustee nor any Registrar or Transfer Agent shall be required to register the transfer of or exchange definitive notes for a period from the record date to the due date for any payment of principal of, or interest on, the notes or register the transfer of or exchange any notes for 15 days prior to selection for redemption through the date of redemption.

Prior to presentment of a note for registration of transfer (including a global Note), the Issuer, the Trustee and any agent of the Issuer or the Trustee may treat the person in whose name such note is registered as the owner or Holder of such note for the purpose of receiving payment of principal or interest on such note and for all other purposes whatsoever, whether or not such note is overdue, and none of the Issuer, the Trustee or any agent of the Issuer or the Trustee shall be affected by notice to the contrary.

### **Replacement of Notes**

In the event that any note shall become mutilated, defaced, destroyed, lost or stolen, the Issuer will execute and, upon the Issuer's request, the Trustee will authenticate and deliver a new note, of like tenor (including the same date of issuance) and equal principal amount, registered in the same manner, and bearing interest from the date to which interest has been paid on such note, in exchange and substitution for such note (upon surrender and cancellation thereof) or in lieu of and substitution for such note. In the event that such note is destroyed, lost or stolen, the applicant for a substitute note shall furnish to the Issuer and the Trustee such security or indemnity as may be required by them to hold each of them harmless, and, in every case of destruction, loss or theft of such note, the applicant shall also furnish to the Issuer and the Trustee satisfactory evidence of the destruction, loss or theft of such note and of the ownership thereof. Upon the issuance of any substituted note, the Issuer may require the payment by the registered holder thereof of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other fees and expenses (including the fees and expenses of the Trustee) connected therewith.

### **Trustee**

The Bank of New York is the Trustee under the Indenture. The Issuer may have normal banking relationships with the Bank of New York and its affiliates in the ordinary course of business. The address of the Trustee is 101 Barclay Street 21W, New York, New York 10286.

The Indenture contains provisions for the indemnification of the Trustee and for its relief from responsibility. The obligations of the Trustee to any Holder of notes are subject to such immunities and rights as are set forth in the Indenture.

The Trustee and any of its affiliates may hold notes in their own respective names.

## SUMMARY OF CERTAIN TAX CONSIDERATIONS

### U.S. Federal Income Tax Considerations

The following is a summary of the material U.S. federal income tax consequences of the acquisition, ownership and disposition of the new notes and the exchange of old notes for new notes. It deals only with purchasers that acquire and hold the notes as capital assets and does not deal with special situations, such as those of dealers in securities or currencies, real estate investment trusts, regulated investment companies, tax exempt entities, financial institutions, insurance companies, persons holding the notes as a part of a hedging or conversion transaction or a straddle, or investors whose "functional currency" is not the U.S. dollar. This summary is based on the Internal Revenue Code of 1986, as amended (the "Code"), administrative pronouncements, judicial decisions and Treasury Regulations, changes to any of which subsequent to the date of this prospectus may affect the tax consequences described herein, possibly with retroactive effect. Persons considering the purchase or exchange of notes should consult their own tax advisors concerning the federal income tax consequences of holding the notes in light of their particular situations as well as any consequences arising under the laws of any other taxing jurisdiction. The tax consequences of any Additional Notes may differ from the tax consequences described herein.

As used herein, the term "U.S. Holder" means a beneficial owner of the notes who or which is, for U.S. federal income tax purposes, a citizen or resident of the United States, a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), or an estate or trust treated as a U.S. person under section 7701(a)(30) of the Code. The term "Non-U.S. Holder" means any beneficial owner of the notes that is not a U.S. Holder. If an entity treated as a partnership for U.S. federal income tax purposes holds the notes, the tax treatment of such entity and each partner will generally depend upon the status of the partner and the activities of the partnership. Such entities and partners in such entities should consult their tax advisors.

#### *U.S. Holders*

##### *Exchange of Notes*

The exchange of the old notes for the new notes in the exchange offer will not be a taxable exchange for U.S. federal income tax purposes and, accordingly, for such purposes a U.S. holder will not recognize any taxable gain or loss as a result of such exchange and will have the same tax basis and holding period in the new notes as it had in the old notes immediately before the exchange.

##### *Interest*

Interest on the new notes will be taxed to a U.S. Holder as ordinary interest income at the time it accrues or is received, in accordance with the U.S. Holder's regular method of accounting for federal income tax purposes.

##### *Amortizable Note Premium*

If a U.S. Holder purchases a note in a secondary market transaction for an amount in excess of, in general, the bond's principal amount, such U.S. Holder will be considered to have purchased such note with "amortizable note premium" equal in amount to such excess. Generally, a U.S. Holder may elect to amortize such premium as an offset to interest income, using a constant yield method. The premium amortization is calculated assuming that we will exercise redemption rights in a manner that maximizes the U.S. Holder's yield. A U.S. Holder that elects to amortize note premium must reduce its tax basis in the note by the amount of the premium used to offset interest income as set forth above. An election to amortize note premium applies to all taxable debt obligations held during or after the taxable year for which the election is made and may be revoked only with the consent of the IRS.

*Market Discount*

If a U.S. Holder acquires a note in a secondary market transaction for an amount that is less than, in general, the bond's principal amount, the amount of such difference is treated as "market discount" for federal income tax purposes, unless such difference is considered to be *de minimis* as described in section 1278(a)(2)(C) of the Code. Under the market discount rules of the Code, a U.S. Holder is required to treat any principal payment on, or any gain on the sale, exchange, retirement or other disposition of, a note as ordinary income to the extent of the accrued market discount that has not previously been included in income. In general, the amount of market discount that has accrued is determined on a ratable basis although in certain circumstances an election may be made to accrue market discount on a constant interest basis. A U.S. Holder may not be allowed to deduct immediately a portion of the interest expense on any indebtedness incurred or continued to purchase or to carry notes with market discount. A U.S. Holder may elect to include market discount in income currently as it accrues, in which case the interest deferral rule set forth in the preceding sentence will not apply. Such an election will apply to all debt instruments acquired by the U.S. Holder on or after the first day of the first taxable year to which such election applies and is irrevocable without the consent of the IRS. A U.S. Holder's tax basis in a note will be increased by the amount of market discount included in such U.S. Holder's income under such election. U.S. Holders of notes with market discount are urged to consult their tax advisors as to the tax consequences of ownership and disposition of the notes.

*Disposition of Notes*

A U.S. Holder who disposes of a note by sale, exchange for other property (other than the registered notes, as contemplated in "The Exchange Offer") or payment by us, generally will recognize taxable gain or loss equal to the difference between the amount realized on the sale or other disposition (not including any amount attributable to accrued but unpaid interest) and the U.S. Holder's adjusted tax basis in the bond. Any amount attributable to accrued but unpaid interest will be treated as a payment of interest and taxed in the manner described above under " U.S. Holders Interest." Any amount attributable to accrued market discount that has not previously been included in income will be taxed in the manner described above under " U.S. Holders Market Discount." In general, the U.S. Holder's adjusted tax basis in a note will be equal to the purchase price of the note paid by the U.S. Holder (excluding any amount attributable to accrued but unpaid interest) increased by the amount of market discount previously included in the U.S. Holder's income with respect to the note and reduced by any note premium used to offset interest income as described above under " U.S. Holders Amortizable Note Premium."

Gain or loss realized on the sale, exchange or retirement of a note generally will be capital gain or loss (subject to the market discount rules described above under " U.S. Holders Market Discount"), and will be long-term capital gain or loss if at the time of sale, exchange or retirement the note has been held for more than one year. For individuals, the excess of net long-term capital gains over net short-term capital losses generally is taxed at a lower rate than ordinary income. The distinction between capital gain or loss and ordinary income or loss is also relevant for purposes of, among other things, limitations on the deductibility of capital losses.

***Non-U.S. Holders***

*Interest and Disposition of Notes*

In general, interest payments from a domestic corporation deriving at least 80 percent of its gross income from trades or businesses actively carried on outside the United States are treated as foreign source and therefore are exempt from U.S. federal withholding tax. However, for Non-U.S. Holders that also own, actually or constructively, 10 percent or more of the shares of SCC, interest payments

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are exempt from U.S. federal withholding tax only to the extent the interest payments are ratably allocable to the gross income of those trades or businesses. Currently, almost all of our gross income is from trades and or businesses actively carried on outside the United States. There can be no assurance, however, that this will continue to be the case. If we failed to meet the 80 percent requirement, interest payments would be treated as U.S. source, and we or a withholding agent would have to withhold U.S. federal withholding tax from the gross amount of any interest payment paid to a non-U.S. Holder at a rate of 30% subject to the discussion below.

Subject to the discussion below concerning backup withholding, principal payments and interest payments that are treated as U.S. source (as discussed above) (including payments of additional interest, if any) made on, and gains from the sale, exchange or other disposition of, a note will not be subject to the withholding of United States federal income tax, provided that, in the case of interest:

the Non-U.S. Holder does not own, actually or constructively, 10% or more of the total combined voting power of all classes of voting stock of the issuer;

the Non-U.S. Holder is not a controlled foreign corporation related, directly or indirectly, to the issuer through stock ownership;

the Non-U.S. Holder is not a bank receiving interest described in section 881(c)(3)(A) of the Code; and

the certification requirements under section 871(h) or section 881(c) of the Code and the Treasury Regulations thereunder, summarized below, are met.

Sections 871(h) and 881(c) of the Code and Treasury Regulations thereunder require that, in order to obtain the exemption from withholding described above, either:

the beneficial owner of the note must certify, under penalties of perjury, to the withholding agent that such owner is a Non-U.S. Holder and must provide such owner's name, address and U.S. taxpayer identification number, if any, and otherwise satisfy documentary evidence requirements;

a financial institution that holds customers' securities in the ordinary course of business and holds a note must certify to the withholding agent that appropriate certification has been received from the beneficial owner by it or by a financial institution between it and the beneficial owner and generally furnish the withholding agent with a copy thereof; or

the Non-U.S. Holder must provide such certification to a "qualified intermediary" or a "withholding foreign partnership" and certain other conditions must be met.

A Non-U.S. Holder may give the certification described above on IRS Form W-8BEN, which generally is effective (i) for the remainder of the year of signature plus three full calendar years, unless a change in circumstances makes any information on the form incorrect, if the Non-U.S. Holder's taxpayer identification number is not provided or (ii) until a change in circumstances makes any information on the form incorrect if the Non-U.S. Holder's taxpayer identification number is provided. Special rules apply to foreign partnerships. In general, a foreign non-withholding partnership will be required to provide a properly executed IRS Form W-8IMY and attach thereto an appropriate certification from each partner. Partners in foreign partnerships are urged to consult their tax advisors.

Even if a Non-U.S. Holder does not meet the above requirements, interest payments will not be subject to the withholding of federal income tax if the Non-U.S. Holder certifies that either (i) an applicable tax treaty exempts, or provides for a reduction in, withholding or (ii) interest paid on a note is effectively connected with the holder's trade or business in the United States and therefore is not subject to withholding (as described in greater detail below).

If a Non-U.S. Holder is engaged in a trade or business in the United States, and if interest on a note is effectively connected with the conduct of such trade or business, the Non-U.S. Holder, although exempt from withholding of federal income tax, will generally be subject to regular federal income tax on such interest in the same manner as if such holder were a U.S. Holder. In lieu of providing an IRS Form W-8BEN, such a Non-U.S. Holder will be required to provide the withholding agent with a properly executed IRS Form W-8ECI in order to claim an exemption from withholding. In addition, if such Non-U.S. Holder is a foreign corporation, it may be subject to branch profits tax equal to 30%, or such lower rate as may be provided by an applicable treaty, of its effectively connected earnings and profits for the taxable year, subject to certain adjustments.

A Non-U.S. Holder will not be subject to federal income tax on any gain realized on the sale, exchange or disposition of a note (except to the extent that such gain is attributable to accrued but unpaid interest) unless the gain is effectively connected with such holder's trade or business in the United States or, if the holder is an individual, such holder is present in the United States for 183 days or more in the taxable year of the sale, exchange or disposition and certain other conditions are met. The branch profits tax described above may apply to gain effectively connected with a U.S. trade or business of a foreign corporation.

### ***Backup Withholding and Information Reporting***

***U.S. Holders.*** Information reporting requirements apply to interest and principal payments made to, and to the proceeds of sales before maturity by, certain non-corporate U.S. Holders. In addition, backup withholding is required unless a U.S. Holder furnishes a correct taxpayer identification number (which for an individual is the Social Security Number) and certifies, under penalties of perjury, that he or she is not subject to backup withholding on an IRS Form W-9 and otherwise complies with applicable requirements of the backup withholding rules. The current rate of backup withholding is 28% of the amount paid. Backup withholding does not apply with respect to payments made to certain exempt recipients, such as corporations and tax-exempt organizations. Any amounts withheld under the backup withholding rules may be allowed as a credit against the U.S. Holder's federal income tax liability, provided that the required information is furnished to the IRS.

***Non-U.S. Holders.*** Generally, backup withholding tax does not apply to payments of interest and principal made to, and the proceeds of sales before maturity by, a Non-U.S. Holder if such Non-U.S. Holder certifies (on IRS Form W-8BEN or other appropriate form) its Non-U.S. Holder status. However, information reporting on IRS Form 1042-S will generally apply to payments of interest made on the notes. Information reporting will also apply to payments made within the United States on the sale, exchange (other than an exchange of a note for a registered bond), redemption, retirement or other disposition of a bond. Information reporting may apply to payments made outside the United States on the sale, exchange, redemption, retirement or other disposition of a bond, if payment is made by a payor that is, for federal income tax purposes (i) a U.S. person, (ii) a controlled foreign corporation, (iii) a U.S. branch of a foreign bank or foreign insurance company, (iv) a foreign partnership controlled by U.S. persons or engaged in a U.S. trade or business or (v) a foreign person, 50% or more of whose gross income is effectively connected with the conduct of a U.S. trade or business for a specified three-year period, unless such payor has in its records documentary evidence that the beneficial owner is not a U.S. Holder and certain other conditions are met or the beneficial owner otherwise establishes an exemption.

Any amounts withheld under the backup withholding rules may be allowed as a credit against a noteholder's federal income tax liability, provided that the required information is furnished to the IRS.

**The U.S. federal income tax discussion set forth above is included for general information only and may not be applicable depending upon a Holder's particular situation. Prospective purchasers of the notes should consult their own tax advisors with respect to the tax consequences to them of the**

**acquisition, ownership and disposition of the notes, including the tax consequences under state, local, estate, foreign and other tax laws and the possible effects of changes in U.S. or other tax laws.**

**Mexican and Peruvian Withholding Tax Considerations**

The profits from our foreign operations are the sole source of the interest payments made on our notes. We carry on substantial mining activities in Peru through a registered branch. A registered branch is not a separate entity for U.S. federal income tax purposes, but is treated as a separate entity for Peruvian income tax purposes. Our controlling stockholder is a Mexican corporation. Decisions affecting our operations are made in Mexico and Peru. We have received opinions from Peruvian and Mexican counsel that no withholding taxes in either jurisdiction will apply to interest payments we make on the notes. However, we can provide no assurance that the Peruvian and Mexican taxing authorities will not take a different position, or that the withholding tax rules will not change in the future. If a withholding tax were applied by Peruvian or Mexican authorities on payments we made to a Holder of our notes, we would be obligated to withhold the required amount, and we would be under no obligation to pay any additional amounts so that the net amount such Holder received would be the amount specified in the note. The amount of the interest payment received by such Holder would therefore be reduced.

### PLAN OF DISTRIBUTION

The following requirements apply only to participating broker-dealers. If you are not a broker-dealer as defined in Section 3(a)(4) and Section 3(a)(5) of the Exchange Act, these requirements do not affect you.

Each participating broker-dealer that receives new notes for its own account in connection with the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of the new notes. This prospectus, as it may be amended or supplemented from time to time, may be used by a participating broker-dealer in connection with resales of new notes received in exchange for old notes where the old notes were acquired as a result of market-making activities or other trading activities. We have agreed that we will furnish at least one copy of this prospectus, as amended or supplemented, to any participating broker-dealer, and if the participating broker-dealer so requests in writing, all materials incorporated by reference in the prospectus and all exhibits thereto for use in connection with any such resale.

We will not receive any proceeds from any sale of new notes by participating broker-dealers or any other holder of new notes. New notes received by participating broker-dealers for their own account under the exchange offer may be sold from time to time in one or more transactions in the over-the-counter market, in negotiated transactions, through the writing of options on the new notes or a combination of these methods of resale, at market prices prevailing at the time of resale, at prices related to the prevailing market prices or at negotiated prices. Any resale may be made directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from any of these broker-dealers and/or the purchasers of any such new notes. Any participating broker-dealer that resells new notes that were received by it for its own account in the exchange offer or participates in a distribution of the new notes may be deemed to be an "underwriter" within the meaning of the Securities Act and any profit on their resale of new notes and any commissions or concessions received by them may be deemed to be underwriting compensation under the Securities Act. The letter of transmittal states that by acknowledging that it will deliver a prospectus and by delivering a prospectus, a participating broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

The new notes will constitute a new issue of securities with no established trading market. Application has been made to list the new notes on the Luxembourg Stock Exchange. No assurance can be given that an active public or other market will develop for the new notes or as to the liquidity of or the trading market for the new notes. If a trading market does not develop or is not maintained, holders of the new notes may experience difficulty in reselling the new notes or may be unable to sell them at all. If a market for the new notes develops, any such market may cease to continue at any time. In addition, if a market for the new notes develops, the market prices of the new notes may be volatile. Factors such as fluctuations in our earnings and cash flow, the difference between our actual results and results expected by investors and analysts and Mexican, Peruvian and U.S. currency and economic developments could cause the market prices of the new notes to fluctuate substantially.

For a period of one year after the expiration date, we will promptly send additional copies of this prospectus and any amendment or supplement to this prospectus to any participating broker-dealer that requests these documents in the letter of transmittal. We have agreed to pay all expenses incident to the exchange offer, including the reasonable expenses of one counsel for the holders of the old notes, other than commissions or concessions of any brokers or dealers. In addition, we will indemnify the holders of the old notes (including any broker-dealers) against certain liabilities, including liabilities under the Securities Act.

**LEGAL MATTERS**

The validity of the new notes will be passed upon for us by Milbank, Tweed, Hadley & McCloy LLP, our special U.S. counsel.

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The audited consolidated combined financial statements as of December 31, 2004 and 2005 and for each of the three years in the period ended December 31, 2005, included in this prospectus, have been so included in reliance on the report of PricewaterhouseCoopers, S.C., an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting. PricewaterhouseCoopers, S.C. is a member of the Mexican Institute of Public Accountants. With respect to the unaudited consolidated combined financial information for the three month periods ended March 31, 2005 and 2006, attached as an exhibit to this prospectus in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2006, PricewaterhouseCoopers, S.C. reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated May 2, 2005, attached as an exhibit to this prospectus in our Form 10-Q for the quarter ended March 31, 2006, states that they did not audit and they do not express an opinion on that unaudited combined financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers, S.C. is not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their report on the unaudited consolidated financial information because that report is not a "report" or a "part" of the registration statement prepared or certified by PricewaterhouseCoopers, S.C. within the meaning of Sections 7 and 11 of the Act.

Our selected historical financial information for the year ended December 31, 2001, which is attached as an exhibit to this prospectus in our Annual Report on Form 10-K/A for 2005, is derived from our financial statements that were audited by Arthur Andersen (Mexico), independent certified public accountants. Subsequently, Arthur Andersen (Mexico) has ceased to audit publicly-held companies.

**GLOSSARY OF MINING TERMS**

Below we provide definitions of certain mining terms used in this prospectus.

Alloy	A compound of two or more metals.
Aluminum	A light, malleable metal that is a good conductor of electricity. Commonly found in nature in oxidized form, bauxite.
Anode	The positive electrode at which oxidization occurs in an electrolysis reaction.
Anode Copper	In a copper smelter, the blister copper which has undergone further refinement to remove impurities. In an anode furnace, the blister copper is blown with air and natural gas to upgrade its purity to approximately 99.0% for copper. It is then cast into copper slabs that are shipped to an electrolytic refinery.
Anode Furnace	A furnace in which blister copper is refined into anode copper.
Assay	A chemical test performed on a sample of ores or minerals to determine the amount of valuable metals contained.
Bench	The horizontal floor cuttings along which mining progresses in an open-pit mine. As the pit progresses to lower levels, safety benches are left in the walls to catch any rock falling from above.
Blast Furnace	A reaction vessel in which mixed charges of sulfide, fluxes and fuels are blown with a continuous blast of hot air and oxygen-enriched air for the chemical reduction of metals to their metallic state.
Blasthole	A drill hole in a mine that is filled with explosives in order to blast loose a quantity of rock.
Blasting	Technique to break ore in an underground or open-pit mine.
Blister Copper	A crude form of copper (assaying about 99%) produced in a smelter that requires further refining before being used for industrial purposes. The name is derived from the large blisters that form on the cast surface as a result of the liberation of sulfur dioxide and other gases.
Brownfield	Development projects in existing properties.
Cadmium	A metal used in metal-protecting alloys; often produced as a byproduct of zinc refining.
Casting	The act of pouring molten metal into a mold to produce an object of desired shape.
Cathode	In the electrolytic refining process, the refined copper that has been deposited in the cathode, starting from an anode in an acid solution of copper sulfate.
Coal	A carbonaceous rock mined for use as a fuel.
Coke	Fuel source comprised of bituminous coal from which the volatile elements have been eliminated by heat in a coking plant.
Concentrate	A fine, powdery intermediate product of the milling process formed by separating a valuable metal from waste.



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Concentration	The process by which ore is separated into metal concentrates and reject material through processes such as crushing, grinding and flotation. Concentrates are shipped to a smelter.
Concentrator	The facility in which ore is processed to separate minerals from the host rock.
Continuous Miner	A piece of mining equipment that produces a continuous flow of ore from the working face.
Converter	In copper smelting, a furnace used to separate copper metal from matte.
Copper	Very malleable and ductile red metal that is a good conductor of electricity.
Copper Concentrates	A product of the concentrator usually containing 20% to 30% copper. It is the raw material for smelting.
Crusher (primary, secondary, tertiary)	A machine for crushing rock, ore or other material.
Crushing and Grinding	The process by which ore is broken into small pieces to prepare it for further processing.
Cut-and-Fill	A method of excavating ore material in a stope and its replacement with waste material or tailings from a concentrator.
Cut-Off Grade	The lowest grade of mineralized material considered economic. Cut-off grade is used in the calculation of the ore reserves for a given deposit.
Deposit	A mineralized body which has been physically delineated by sufficient drilling, trenching, and/or underground work and found to contain a sufficient average grade of metal or metals to warrant further exploration and/or development expenditures. Such a deposit does not qualify as a commercially mineable ore body, or as containing ore reserves, until final legal, technical and economic factors have been resolved.
Development	Activities related to a mineral deposit commencing at the point economically recoverable reserves can reasonably be estimated to exist and generally continuing until commercial production begins.
Diamond	The hardest known mineral, composed of pure carbon; low-quality diamonds are used to make bits for diamond drilling in rock.
Diamond-Drilling	Rotary rock drilling that cuts a core of rock that is recovered in long cylindrical sections, 2 centimeters or more in diameter.
Die	A tool used to give a shape to material based on the shape of the tool itself.
Dilution (extracting loss)	The process by which the rock removed along with the ore in the mining process lowers the grade of the ore.
Drawing	Reducing the cross section of wire by pulling it through a die.
Dump	A pile of broken rock or ore on the earth's surface.
Electrolysis	Copper that has been refined by electrolytic deposition.

Electrolytic Refining	Copper anodes are placed alternatively with refined copper sheets in a tank through which a copper sulfate solution and sulfuric acid are circulated. A low voltage current is then introduced, causing copper to transfer from anodes to the pure copper sheets, producing 99.9% copper cathodes. Impurities, often containing precious metals, settle to the bottom of the tank.
Electrowinning	The process of removal of copper from solution by the action of electric currents.
Environmental Impact Study (EIS)	A written report, compiled prior to a production decision, that examines the effects proposed mining activities will have on the natural surroundings.
Exploration	Prospecting, sampling, mapping, diamond-drilling and other work involved in searching for ore.
Flotation	A process for concentrating materials based on the selective adhesion of certain minerals to air bubbles in a mixture of water and ground-up ore. When the right chemicals are added to a frothy water bath of ore that has been ground to a fine powder, the minerals will float to the surface. The metal-rich flotation concentrate is then skimmed off the surface.
Flotation Cell	Appliance in which froth flotation of ores is performed.
Geology	The science concerned with the study of the rocks which compose the earth.
Gold	A very ductile and malleable, brilliant yellow precious metal that is resistant to air and water corrosion.
Grade	The percentage of metal content in ore.
Greenfield	New development or "grass roots" projects.
Grinding	Means of reducing ore into very small particles by means of pressure or impact. Different types of grinders are used in the processing plant to obtain the desired dimension.
Gyratory Crusher	A machine that crushes ore between an eccentrically mounted crushing cone and fixed crushing throat. Typically has a higher capacity than a jaw crusher.
Hectare	An area of land equivalent to 10,000 square meters or 2.471 acres.
High Grade	Rich ore. As a verb, it refers to selective mining of the best ore in a deposit.
Hoist	The machine used for raising and lowering the cage or other conveyance in a shaft.
Host Rock	The rock surrounding an ore deposit.

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Isasmelt	Technology for smelting non-ferrous metals, applications of which for copper are practiced at ISA's plant, based on plant and equipment of Xstrata and ISA's design including that for feed preparation, the smelting vessel, lance burner system, equipment for metal and slag lapping and handling, the specifications for refractories, and for flues and gas cooling and gas cleaning.
Leachable	Extractable by chemical solvents.
Leaching	A chemical process by which a soluble metallic compound is extracted from ore by dissolving the metals in a solvent.
Lead	A heavy, soft, malleable, ductile but inelastic bluish-white metallic element found mostly in combination and used in pipes, cable sheaths, batteries, solder, type metal, and shields against radioactivity.
London Metal Exchange (LME)	A major bidding market for base metals that operates daily in London.
Magnesium	A malleable and ductile silvery-white metal that is used in alloys.
Matte	The product produced in smelting sulfide ores of copper and lead or the smelting of copper bearing materials, usually in a reverberatory.
Mill	A plant in which ore is treated and metals are recovered or prepared for smelting; also a revolving drum used for the grinding of ores in preparation for treatment.
Milling	A treatment process involving fine grinding of ore followed by extraction of minerals.
Mine	Mines are the source of mineral-bearing material found near the surface or deep in the ground.
Mineral	A naturally occurring homogeneous substance having definite physical properties and chemical composition and, if formed under favorable conditions, a definite crystal form.
Mineral Deposit or Mineralized Material	A mineralized underground body that has been intersected by a sufficient number of closely-spaced drill holes and/or underground sampling to support sufficient tonnage and ore grade to warrant further exploration or development. Mineral deposits or mineralized materials do not qualify as a commercially mineable ore reserves (e.g., probable reserves or proven reserves), as prescribed under standards of the Commission, until a final and comprehensive economic, technical, and legal feasibility study based upon the test results has been concluded.
Mineralization	A deposit of rock containing one or more minerals for which the economics of recovery have not yet been established.
Molybdenum	An element often found in copper porphyry deposits. It is used extensively in steels particularly grinding steels and as a filament material.
Nickel	A silvery-white metal that is very resistant and stable at ambient temperatures.

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Open-Pit Mine	A mine that is entirely on the surface. Also referred to as an open-cut or open-cast mine.
Ore	A mineral or aggregate of minerals from which metal can be economically mined or extracted.
Ore Body	A natural concentration of valuable material that can be extracted and sold at a profit.
Ore Reserves	The calculated tonnage and grade of mineralization that can be extracted profitably; classified as possible, probable and proven according to the level of confidence that can be placed in the data.
Ounce	A unit of mass. In the precious metals industry, an ounce means a troy ounce equal to 31.1035 grams.
Overburden	Waste material overlying ore in an open-pit mine.
Oxide	That portion of a mineral deposit within which sulfide minerals have been oxidized, usually by surface weathering processes.
Pillar	A block of solid ore or other rock left in place to structurally support the shaft, walls or roof of a mine.
Porphyry	Any igneous rock in which relatively large crystals, called phenocrysts, are set in a fine-grained groundmass.
Porphyry Copper Deposit	A disseminated large-tonnage, low-grade deposit in which the copper minerals occur as discrete grains and veinlets throughout a large volume of rock.
Precious Metals	High value metals including gold, silver, platinum and palladium.
Probable Reserves	Reserves for which quantity and grade are computed from information similar to that used for proven reserves, but the sites for inspection, sampling, and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven reserves, is high enough to assume continuity between points of observation.
Project	A project is a prospect that after the initial drilling program indicates the existence of a possible ore deposit that requires further evaluation through an extensive drilling program to continue with the evaluation.
Prospect	A prospect is the initial stage of a geological evaluation of a possible project that requires drilling to evaluate.
Proven Reserves	Reserves for which (a) quantities are computed from dimensions revealed in outcrops, trenches, workings or drill holes; (b) grade and/or quality are computed from the results of detailed sampling; and (c) sites for inspection, sampling and measurement are spaced so closely and the geologic character is sufficiently defined that the size, shape, depth and mineral content of the reserves are well established.
Reclamation	The restoration of a site after mining or exploration activity is completed.
Recovery	The percentage of valuable metal in the ore that is recovered by metallurgical treatment.



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Refinery	A metallurgical plant in which the refining of metals takes place.
Refining	Purifying the matte or impure metal undertaken to obtain a pure metal or mixture with specific properties.
Refining Charge	The fees charged by a refinery for purifying crude metallic products.
Reserves	That part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination.
Rock	A mass containing a combination of minerals.
Room-and-Pillar Mining	A method of mining flat-lying ore deposits in which the mined-out area, or rooms, are separated by pillars of approximately the same size.
Royalty	An amount of money paid at regular intervals by the lessee or operator of an exploration or mining property to the owner of the ground. Generally based on a certain amount per ton or a percentage of the total production or profits. Also, the fee paid for the right to use a patented process.
Sample	A small portion of rock or a mineral deposit taken so that the metal content can be determined by assaying.
Sampling	Selecting a fractional but representative part of a mineral deposit for analysis.
Shaft	A vertical or inclined excavation in rock for the purpose of providing access to an ore body. Usually equipped with a hoist at the top that lowers and raises a conveyance for handling workers and materials.
Shrinkage Stopping	A stopeing method which uses part of the broken ore as a working platform and as support for the walls of the stope.
Silver	A very malleable metal found naturally in an uncombined state or with other metals.
Slag	The vitreous mass separated from the fused metals in the smelting process.
Slimes	Material discharged from a refinery after the primary valuable minerals have been recovered. Slimes may contain quantities of gold and silver.
Smelter	A metallurgical plant in which the smelting of the concentrates and ore takes place.
Smelting	A pyro-metallurgical process of separating metal by fusion from those impurities with which it may be chemically combined or physically mixed.
Solvent Extraction	A method of separating one or more metals from ore by treating a solution containing the ore with a solvent that dissolves the required substances.
Solvent Extraction/Electrowinning	A metallurgical technique, so far applied only to copper ores, in which metal is (SX/EW) dissolved from rock using organic solvents and recovered from the resulting solution by electrolysis. (A combination of solvent extraction and electrowinning.)
Sphalerite	A zinc sulfide mineral; the most common ore mineral of zinc.

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Station	An enlargement of a shaft made for the storage and handling of equipment and for driving drifts at that elevation.
Stope	The working area in a mine from which ore is extracted.
Stripping	The process of removing overburden to expose ore.
Stripping Ratio	The ratio of waste materials plus leaching ore to ore mined in the material moved in an open-pit operation.
Sulfide Ore	Ore characterized by the inclusion of metal in the crystal structure of a sulfide mineral.
Tailings	Material rejected from a mill after the valuable minerals have been recovered. Changes in metal prices and improvements in technology can sometimes make the tailings economical to reprocess at a later date.
Tailings Dam (pond)	A low-lying depression used to confine tailings, the prime function of which is to allow enough time for heavy metals to settle out or for cyanide to be destroyed before water is discharged into the local watershed.
Toll Arrangement	A contractual arrangement for the treatment of any material in a smelter or refinery under which metal content of the smelted or refined product is returned or credited to the account of the customer of such smelter or refinery.
Ton (metric ton)	A unit of mass equivalent to 1,000 kilograms or 2,204.6 pounds.
Treatment and Refining Charges	Charges levied by smelter/refineries for the treatment of concentrate from mines. Particularly applicable to copper, lead and zinc.
Troy ounce	Universal unit measure of mass for precious metals equal to 31.1035 grams. One troy ounce equals 1.09714 avoirdupois, or normal, ounces.
Vein	A fissure, fault or crack in a rock filled by minerals that have traveled upwards from some deep source.
Waste	Rock lacking sufficient grade and/or other characteristics of ore to be economically mined.
Wire Rod	A continuous length of metal for subsequent drawing into wire.
Zinc	Bluish-white hard metal, occurring in various minerals, such as sphalerite.

**Annex B: 2005 Form 10-K/A**

B-1

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# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## 2005 FORM 10-K/A

Amendment No. 1

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005

Commission File Number: 1-14066

## SOUTHERN COPPER CORPORATION

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**13-3849074**

(I.R.S. Employer Identification No.)

**2575 East Camelback Rd. Phoenix, AZ**

(Address of principal executive offices)

**85016**

(Zip code)

Registrant's telephone number, including area code: **(602) 977-6595**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class			Name of each exchange on which registered
Stock, par value \$0.01 per share			New York Stock Exchange
\$200,000,000	6.375	Notes due	Lima Stock Exchange
	%	2015	Luxembourg Stock Exchange
\$600,000,000	7.500	Notes due	Luxembourg Stock Exchange
	%	2035	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

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Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15d of the Act.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. (See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act).

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Act).

Yes  No

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As of January 31, 2006, there were of record 147,228,025 shares of Common Stock, par value \$0.01 per share, outstanding, and the aggregate market value of the shares of Common Stock (based upon the closing price on such date as reported on the New York Stock Exchange - Composite Transactions) of Southern Copper Corporation held by non affiliates was approximately \$3,194.1 million.

PORTIONS OF THE FOLLOWING DOCUMENTS ARE INCORPORATED BY REFERENCE:

Part III: Proxy statement in connection with the 2006 Annual Meeting of Stockholders

Part IV: Exhibit index is on Page B1 through B2.

EXPLANATORY NOTE

Southern Copper Corporation ( SCC ) is filing this Amendment No. 1 on Form 10-K/A to correct several typographical or computational errors in our Annual Report on Form 10-K for the year ended December 31, 2005 (the Annual Report ) filed on March 13, 2006 ( Original Filing ) with the Securities and Exchange Commission. For the convenience of the reader, SCC has determined to re-file the entire Annual Report as corrected.

The most important corrections are as follows:

On page A24, the National Water Commission was incorrectly abbreviated as CAN and has been corrected to CNA .

On page A43, the average drill-hole spacing for proven sulfide reserves in Cuajone and Toquepala as of December 31, 2005 were incorrectly stated as 71.45 meters and 78.72 meters, respectively and have been corrected to 80.32 meters and 88.68 meters, respectively. The average drill-hole spacing for probable sulfide reserves in Cuajone and Toquepala as of December 31, 2005 were incorrectly stated as 111.09 meters and 110.63 meters, respectively and have been corrected to 120.48 meters and 120.92 meters, respectively.

On page A73, under *Cash Flows from Investing Activities*, the amount of capital expenditures used for equipment replacements and upgrades for the Mexican operations for 2005 was incorrectly stated as \$140.5 million and has been corrected to \$148.7 million. Under *Cash Flows from Financing Activities*, the amount of distribution to our shareholders in 2005 was incorrectly stated as \$853.6 million and has been corrected to \$853.9 million.

On page A74, under *Financing* the aggregate amount of the 7.5% old notes due 2035 was incorrectly stated as \$595.5 million and has been corrected to \$590.5 million.

On page A82, on the Consolidated Combined Statement of Changes in Stockholder s Equity, under *Additional Paid-in Capital*, the balance at the beginning of the year of 2003 was incorrectly stated as 365,865 and has been corrected to 635,865.

On page A87, under *Foreign exchange*, the amount of gains and (losses) resulting from foreign currency transactions, excluding depreciation, amortization and depletion was incorrectly stated as \$9.9 million for 2005, and has been corrected to \$(12.1) million.

On page A114, under Note 17 - Concentration of Risk, the percentage that one customer represented of our trade receivable balances at December 31, 2005 was incorrectly stated as 6.9% and has been corrected to 14.6%.

On page A129, under Schedule II, the balance of supplies at the end of period of December 31, 2005 was incorrectly stated as \$23.6 million and has been corrected to \$23.4 million.

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On page B3, Exhibit 10.4 (Directors' Stock Award Plan), the number of shares that have been awarded under the Directors' Stock Award Plan at December 31, 2005 were incorrectly stated as 32,200 shares and have been corrected to 31,200 shares.

Additionally, SCC has corrected several minor typographical errors in the Original Filing.

Except for the matters described above, this amendment does not modify or update disclosures in the Original Filing. Furthermore, except for the matters described above, this amendment does not change any previously reported financial results, nor does it reflect events occurring after the date of the Original Filing. This amendment does not affect the timeliness of the original filing to which this amendment relates.

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PART I

Item 1. Business

MINE ACCIDENT

On Sunday, February 19, 2006, at about 2:00 am, a gas explosion occurred at our Pasta de Conchos coal mine, located in the San Juan Sabinas municipality, in the state of Coahuila, Mexico. The explosion caused a cave-in at three of the main tunnels leading into the mine. Initially 11 of our miners were rescued, some with minor injuries and some unharmed. Regrettably, 65 of our miners remained trapped. Our crews, with assistance from the Mexican army, regional industry and support from the government of Coahuila, worked around the clock to reach and rescue our men. As work progressed, the build up of methane gas made it apparent that any chance of our men remaining alive was hopeless. Commencing on Saturday, February 25 our efforts have been redefined as a mission to recover the bodies of our men so that their families can have the solace of proper burial. We honor the memory of these men

Javier Perez Aguilar  
Amado Rosales Hernandez  
Jesus Morales Boone  
Lauro Olacio Zarazu  
Guillermo Iglesias Ramos  
Adrian Barboza Alvarez  
Jose Luis Calvillo H.  
Oscar Javier Cerda Espinoza  
Jose Angel Guzman Franco  
Roberto Zapata Gonzalez  
Mario Alberto Ruiz Ramos  
Pedro Doñez Posada  
Ricardo Hernandez Rocha  
Jesus Armando Rodriguez T.  
Jesus Alberto de Leon C.  
Fermin Tavares Garza  
Jose Guadalupe Garcia M.  
Rolando Alcocer Soria  
Roberto Guerrero Ramirez  
Gil Rico Montelongo  
Isidoro Briseño Rios  
Jesus Viera Armendariz

Ignacio Hernandez Lopez  
Jorge Antonio Moreno Tovar  
Juan Manuel Rosas Hernandez  
Jesus Alvarez Flota  
Agustin Botello Hernandez  
Jorge Bladimir Muñoz D.  
Ignacio Campos Rosales  
Juan Antonio Cruz Garcia  
Juan Fernando Garcia M.  
Jesus Cortez Ibarra  
Tomas Patlan Martinez  
Juan Arturo Salazar Olvera  
Felipe de Jesus Torres R.  
Feliciano Vazquez Posada  
Pablo Soto Nieto  
Hugo Ramirez Garcia  
Jose Alfredo Ordoñez M.  
Margarito Cruz Rios  
Gregorio Rangel Ocura  
Margarito Zamarron Alfaro  
Jose Manuel Peña Saucedo  
Jose Eduardo Martinez B.

Julian Martinez Ojeda  
Raul Villasana Cantu  
Eliud Valero Valero  
Juan Antonio Cardenas Limon  
Gilberto Rios Salazar  
Guillermo Ortiz Mora  
Mario de Jesus Cordero A.  
Jose Porfirio Cibrian M.  
Jose Ramon Hernandez Ramos  
Juan Raul Artega Garcia  
Luis Jorge de Hoyos Marquez  
Mauro Antonio Sanchez Rocha  
Ernesto de la Cruz Sanchez  
Jose Alfredo Silva C.  
Jorge Arturo Ortega Jimenez  
Juan Ramon Barrientos G.  
Arturo Garcia Diaz  
Juan Martin Gomez Martinez  
Reyes Cuevas Silva  
Jose Armando Castillo M.  
Jose Isabel Mijares Yañez

THE COMPANY

We are a leading integrated producer of copper, molybdenum, zinc and silver. All of our mining, smelting and refining facilities are located in Peru and in Mexico and we conduct exploration activities in those countries and Chile. See Review of Operations for maps of our principal mines, smelting facilities and refineries. Our operations make us the largest mining company in Peru and also in Mexico. We are the largest publicly traded copper mining company in the world based on reserves and the fifth largest copper mining company in the world based on 2004 sales. We were incorporated in Delaware in 1952 and have conducted copper mining operations since 1960. Since 1996, our common stock has been listed on both the New York Stock Exchange and the Lima Stock Exchange.

Our Peruvian copper operations involve mining, milling and flotation of copper ore to produce copper concentrates and molybdenum concentrates; the smelting of copper concentrates to produce blister copper and beginning in the first quarter of 2006 copper anodes; and the refining of blister copper/anode copper to produce copper cathodes. As part of this production process, we also produce significant amounts of molybdenum and silver. We also produce refined copper using SX/EW technology. We operate the Toquepala

and Cuajone mines high in the Andes mountains, approximately 984 kilometers southeast of the city of Lima, Peru. We also operate a smelter and refinery west of the Toquepala and Cuajone mines in the city of Ilo, Peru.

Our Mexican operations are conducted through our subsidiary, Minera México S.A. de C.V. ( Minera Mexico ), which we acquired on April 1, 2005. Minera México engages principally in the mining and processing of copper, zinc, silver, gold, lead and molybdenum. Minera México operates through subsidiaries that are grouped into three separate units. Mexicana de Cobre S.A. de C.V. (together with its subsidiaries, the Mexcobre Unit ) operates an open-pit copper mine, a copper ore concentrator, a SX/EW plant, a smelter, refinery and rod plant. Mexicana de Cananea S.A. de C.V. (together with its subsidiaries, the Cananea Unit ) operates an open-pit copper mine, which is located at the site of one of the world's largest copper ore deposits, a copper concentrator and two SX/EW plants. Industrial Minera México, S.A. de C.V. ( Immsa ) and Minerales Metálicos del Norte, S.A. (together with Immsa and its subsidiaries, the Immsa Unit ) operate five underground mines that produce zinc, lead, copper, silver and gold, a coal and coke mine and several industrial processing facilities for zinc and copper.

We utilize many up-to-date mining and processing methods, including global positioning systems and computerized mining operations. Our operations have a high level of vertical integration that allows us to manage the entire production process, from the mining of the ore to the production of refined copper and other products and most related transport and logistics functions, using our own facilities, employees and equipment.

The sales prices for our products are largely determined by market forces outside of our control. For additional information on the pricing of the metals we produce, please see Metal prices . Our management, therefore, focuses on cost control and production enhancement to improve profitability. We achieve these goals through capital spending programs, exploration efforts and cost reduction programs. Our focus is on seeking to remain profitable during periods of low copper prices and maximizing results in periods of high copper prices.

#### Currency Information:

Unless stated otherwise, references herein to U.S. dollars , dollars , or \$ are to U.S. dollars; references to S/ , nuevo sol or nuevos soles , are to Peruvian Nuevos Soles; and references to peso , pesos , or Ps. , are to Mexican pesos.

#### Unit Information:

Unless otherwise noted, all tonnages are in metric tons. To convert to short tons, multiply by 1.102. All ounces are troy ounces. All distances are in kilometers. To convert to miles, multiply by 0.621. To convert hectares to acres, multiply by 2.47.

## ORGANIZATIONAL STRUCTURE

The following is a chart describing Grupo México S.A. de C.V. ( Grupo Mexico ), its ownership of us and our ownership of our recently acquired Minera México subsidiary. For clarity of presentation, the chart identifies only principal subsidiaries and eliminates intermediate holding companies.

We are a majority-owned, indirect subsidiary of Grupo México. Through its wholly-owned subsidiaries, Grupo México currently owns approximately 75.1% of our capital stock. Grupo México's principal business is to act as a holding company for shares of other corporations engaged in the mining, processing, purchase and sale of minerals and other products and railway and other related services.

We conduct our operations in Peru through a registered branch (the SPCC Peru Branch ). The SPCC Peru Branch comprises substantially all of our assets and liabilities associated with our copper operations in Peru. The SPCC Peru Branch is not a corporation separate from us and, therefore, obligations of SPCC Peru Branch are direct obligations of SCC and vice-versa. It is, however, an establishment, registered pursuant to Peruvian law, through which we hold assets, incur liabilities and conduct operations in Peru. Although it has neither its own capital nor liability separate from us, it is deemed to have equity capital for purposes of determining the economic interests of holders of our investment shares.

On April 1, 2005, we acquired Minera México, the largest mining company in Mexico on a stand-alone basis, from Americas Mining Corporation ( AMC ), a subsidiary of Grupo México, our controlling stockholder. Minera México is a holding company and all of its operations are conducted through subsidiaries that are grouped into three separate units: (i) the Mexcobre Unit, (ii) the Cananea Unit and (iii) the Immsa Unit. We now own 99.95% of Minera Mexico.



## CAUTIONARY STATEMENT

Forward-looking statements in this report and in other Company statements include statements regarding expected commencement dates of mining or metal production operations, projected quantities of future metal production, anticipated production rates, operating efficiencies, costs and expenditures as well as projected demand or supply for the Company's products. Actual results could differ materially depending upon factors including the risks and uncertainties relating to general U.S. and international economic and political conditions, the cyclical and volatile prices of copper, other commodities and supplies, including fuel and electricity, availability of materials, insurance coverage, equipment, required permits or approvals and financing, the occurrence of unusual weather or operating conditions, lower than expected ore grades, water and geological problems, the failure of equipment or processes to operate in accordance with specifications, failure to obtain financial assurance to meet closure and remediation obligations, labor relations, litigation and environmental risks, as well as political and economic risk associated with foreign operations. Results of operations are directly affected by metals prices on commodity exchanges, which can be volatile.

Additional business information follows:

## COPPER BUSINESS

Copper is the world's third most widely used metal and an important component in the world's infrastructure. Copper has unique chemical and physical properties, including high electrical conductivity and resistance to corrosion, as well as excellent malleability and ductility that has made it a superior material for use in the electrical energy, telecommunications, building construction, transportation and industrial machinery businesses. Copper is also an important metal in non-electrical applications such as plumbing, roofing and, when alloyed with zinc to form brass, in many industrial and consumer applications.

Copper industry fundamentals, including copper demand, price levels and stocks, strengthened in late 2003 and copper prices have continued to improve in 2004 and 2005 from the 15-year price lows set during 2002.

## BUSINESS REPORTING SEGMENTS:

Our Company operates in a single industry, the copper industry. With the acquisition of Minera Mexico in April 2005, we determined that to effectively manage our business we needed to focus on three operating components or segments. These segments are our Peruvian operations, our Mexican open-pit operations and our Mexican underground operations, known as our IMMSA unit. Our Peruvian operations include the Toquepala and Cuajone mine complexes and the smelting and refining plants, industrial railroad and port facilities which service both facilities. Our Mexican open-pit operations combined two units of Minera Mexico, Mexcobre and Mexcananea, which includes La Caridad and Cananea mine complexes and smelting and refining plants and support facilities which service both complexes. Our IMMSA unit includes five underground mines that produce zinc, lead, copper, silver and gold, a coal and coke mine, and several industrial processing facilities for copper, zinc and silver. Segment information is included under the captions "Overview-Metal production" and "Ore reserves", as well as in Note 19 of our Consolidated Combined Financial Statements.

## REVIEW OF OPERATIONS

The following maps set forth the locations of our principal mines, smelting facilities and refineries. We operate open-pit copper mines in the southern part of Peru at Toquepala and Cuajone and in Mexico, principally at La Caridad and Cananea. We also operate five underground mines that produce zinc, copper, silver and gold, as well as a coal mine and a coke oven.

## COPPER AND MOLYBDENUM EXTRACTION PROCESSES

Our operations include open-pit and underground mining, concentrating, copper smelting, copper refining, copper rod production, solvent extraction/electrowinning (SX/EW), zinc refining, sulfuric acid production, molybdenum concentrate production and silver and gold refining. The copper and molybdenum extraction process is outlined below, followed by a description of each principal component process.

### OPEN-PIT MINING

In an open-pit mine, the production process begins at the mine pit, where waste rock, leaching ore and copper ore are drilled and blasted and then loaded onto diesel-electric trucks by electric shovels. Waste is hauled to dump areas and leaching ore is hauled to leaching dumps. The ore to be milled is transported to the primary crushers. Crushed ore is then sent to the concentrator.

UNDERGROUND MINING

In an underground mine, the production process begins at the stopes, where copper, zinc and lead veins are drilled and blasted and the ore is hauled to the underground crusher station. The crushed ore is then hoisted to the surface for processing.

### CONCENTRATING

The copper ore with a copper grade over 0.4% from the open-pit primary crusher or the copper, zinc and lead-bearing ore from the underground mines is transported to a concentrator plant where gyratory crushers break the ore into sizes no larger than three-quarters of an inch. The ore is then sent to a mill section where it is ground to the consistency of fine powder. The finely ground ore is mixed with water and chemical reagents and pumped as a slurry to the flotation separator where it is mixed with certain chemicals. In the flotation separator, reagents solution and air pumped into the flotation cells cause the minerals to separate from the waste rock and bubble to the surface where they are collected and dried.

If the bulk concentrated copper contains molybdenum it is first processed in a molybdenum plant as described below under Molybdenum Production.

### COPPER SMELTING

Copper concentrates are transported to a smelter, where they are smelted using a furnace, converter and anode furnace to produce either copper blister (which is in the form of cakes with air pockets) or copper anodes (which are cleaned of air pockets). At the smelter, the concentrates are mixed with flux (a chemical substance intentionally included for high temperature processing) and then sent to reverberatory furnaces producing copper matte and slag (a mixture of iron and other impurities). Copper matte contains approximately 65% copper. Copper matte is then sent to the converters, where the material is oxidized in two steps: (i) the iron sulfides in the matte are oxidized with silica, producing slag that is returned to the reverberatory furnaces; and (ii) the copper contained in the matte sulfides is then oxidized to produce copper that, after casting, is called blister copper, containing approximately 98% to 99% copper, or anodes, containing approximately 99.7% copper. Some of the blister production is sold to customers and the remainder is sent to the refinery.

### COPPER REFINING

Anodes are suspended in tanks containing sulfuric acid and copper sulfate. A weak electrical current is passed through the anodes and chemical solution and the dissolved copper is deposited on very thin starting sheets to produce copper cathodes containing approximately 99.99% copper. During this process, silver, gold and other metals (for example, palladium, platinum and selenium), along with other impurities, settle on the bottom of the tank. This anodic mud (slime) is processed at a precious metal plant where silver and gold are recovered.

### COPPER ROD PLANT

To produce copper rods, copper cathodes are first melted in a furnace and then dosified in a casting machine. The dosified copper is then extruded and passed through a cooling system that begins solidification of copper into a 60×50 millimeter copper bar. The resulting copper bar is gradually stretched in a rolling mill to achieve the desired diameter. The rolled bar is then cooled and sprayed with wax as a preservation agent and collected into a rod coil that is compacted and sent to market.

SOLVENT EXTRACTION/ELECTROWINNING (SX/EW)

An alternative to the conventional concentrator/smelter/refinery process is the leaching and SX/EW process. During the SX/EW process, certain types of low-grade ore with a copper grade under 0.4% are leached with sulfuric acid to allow copper content recovery. The acid and copper solution is then agitated with a solvent that contains chemical additives that attract copper ions. As the solvent is lighter than water, it floats to the surface carrying with it the copper content. The solvent is then separated using an acid solution, freeing the copper. The acid solution containing the copper is then moved to electrolytic extraction tanks to produce copper cathodes. Refined copper can be produced more economically (though over a longer period) and from lower grade ore using the SX/EW process instead of the traditional concentrating, smelting and refining process.

#### MOLYBDENUM PRODUCTION

Molybdenum is recovered from copper-molybdenum concentrates produced at the concentrator. The copper-molybdenum concentrate is first treated with a thickener until it becomes slurry with 60% solids. The slurry is then agitated in a chemical and water solution and pumped to the flotation separator. The separator creates a froth that carries molybdenum to the surface but not the copper mineral (which is later filtered to produce copper concentrates containing approximately 27% copper). The molybdenum froth is skimmed off, filtered and dried to produce molybdenum concentrates of approximately 58% contained molybdenum.

#### ZINC REFINING

Metallic zinc is produced through electrolysis using zinc concentrates and zinc oxides. Sulfur is eliminated from the concentrates by roasting and the zinc oxide is dissolved in sulfuric acid solution to eliminate solid impurities. The purified zinc sulfide solution is treated by electrolysis to produce refined zinc and to separate silver and gold, which are recovered as concentrates.

#### SULFURIC ACID PRODUCTION

Sulfur dioxide gases are produced in the copper smelting and zinc roasting processes. As a part of our environmental preservation program, we treat the sulfur dioxide emissions at two of our Mexican plants and at Peruvian processing facilities to produce sulfuric acid, some of which is, in turn, used for the copper leaching process, with the rest sold to mining and fertilizer companies located in Mexico, Peru, the United States, Chile, Australia and other countries.

#### SILVER AND GOLD REFINING

Silver and gold are recovered from copper, zinc and lead concentrates in the smelters and refineries, and from slimes through electrolytic refining.

#### SLOPE STABILITY:

##### Peruvian Operations

Both the Toquepala and Cuajone pits are approximately 700 meters deep and under the present mine plan configuration will reach a depth of 1,200 meters. The deepening pit presents us with a number of geotechnical challenges. Perhaps the foremost concern is the possibility of slope failure, a possibility that all open pit mines face. In order to maintain slope stability, in the past we have decreased pit slope angles, installed additional or duplicate haul road access, and increased stripping requirements. We have also responded to hydrological conditions and removed

material displaced by a slope failure. There is no assurance that we will not have to take these or other actions in the future, any of which may negatively affect our results of operations and financial condition, as well as have the effect of diminishing our stated ore reserves. To meet the geotechnical challenges relating to slope stability of the open pit mines, we have taken the following steps:

In the late 1990 s we hosted round table meetings in Vancouver, B.C. with a group of recognized slope stability and open pit mining specialists. The agenda for these meetings was principally a review of pit design for mines with greater than 700 meter depth. The discussions included practices for monitoring, data collection and blasting processes.

Based on the concepts defined at the Vancouver meetings, we initiated slope stability studies to define the mining of reserves by optimum design. These studies were performed by outside consultants and included slope stability appraisals, evaluation of the numerical modeling, slope performance and inter-ramp angle design and evaluation of hydrological conditions.

The studies were completed in 2000 and we believe we implemented the study recommendations. One of the major changes implemented was slope angle reduction at both

mines, Toquepala by 5 degrees average and Cuajone by 7 degrees average. Although this increased the waste included in the mineable reserve calculation, it also improved the stability of the pits.

Since 1998, a wall depressurization program has been in place in both pits. This consists of a horizontal drilling program, which improves drainage thereby reducing saturation and increasing wall stability. Additionally, a new blasting control program was put in place, implementing vibration monitoring and blasting designs of low punctual energy. Also a new slope monitoring system was implemented using reflection prisms, deformation inclinometers and piezometers for water level control, as well as real-time robotic monitoring equipment.

To increase the possibility of mining in the event of a slide, we have provided for two ramps of extraction for each open pit mine.

While these measures cannot guarantee that a slope failure will not occur, we believe that our mining practices are sound and that the steps taken and the ongoing reviews performed are a prudent methodology for open pit mining.

#### OVERVIEW METAL PRODUCTION

The table below sets forth 2005, 2004 and 2003 mine production data by metal.

(million pounds)	2005	2004	2003
Copper contained in concentrates	1,268	1,331	1,206
Copper in SX/EW cathodes	253	252	262
Total copper	1,521	1,583	1,468
Zinc contained in concentrate	317	295	284
Molybdenum contained in concentrate	33	32	28
Silver contained in concentrate (million ounces)	18	19	18
Gold contained in concentrate (thousands ounces)	32	34	31

#### METAL PRODUCTION BY SEGMENTS

Set forth below are descriptions of the operations and other information relating to the operations included in each of our three segments.

#### PERUVIAN OPERATIONS

Our Peruvian segment operations include the Cuajone and Toquepala mine complexes and the smelting and refining plants, industrial railroad and port facilities which service both facilities.

Cuajone

Our Cuajone operations consist of an open-pit copper mine and a concentrator located in southern Peru, 30 kilometers from the city of Moquegua and 840 kilometers from Lima. The concentrator has a milling capacity of 87,000 tons per day. Overburden removal commenced in 1970 and ore production commenced in 1976. Our Cuajone operations utilize a conventional open-pit mining method to collect copper ore for further processing in our concentrator.

The table below sets forth 2005, 2004 and 2003 production information for our Cuajone operations.

		2005	2004	2003
Average ore mined per day	(kt)	80.9	80.3	81.5
Stripping ratio	(x)	2.72	2.45	2.28
Copper grade	(%)	0.643	0.792	0.745
Molybdenum grade	(%)	0.026	0.025	0.026
Copper concentrate	(kt)	619.2	752.9	710.0
Molybdenum concentrate	(kt)	9.5	8.7	9.0
Copper concentrate average grade	(%)	26.43	25.82	25.99
Molybdenum concentrate average grade	(%)	55.576	53.742	53.881
Copper in concentrate	(kt)	163.7	194.4	184.5
Molybdenum in concentrate	(kt)	5.3	4.7	4.9
Average copper ore processed by concentrator per day	(kt)	81.9	80.8	83.3
Copper recovery	(%)	85.96	83.64	83.13
Molybdenum recovery	(%)	69.7	64.5	63.5

Key: kt = thousands of tons  
x = ratio obtained dividing waste plus leachable material by ore mined

## Geology

The Cuajone porphyry copper deposit is located on the western slopes of Cordillera Occidental, in the southern-most Andes Mountains of Peru. The deposit is part of a mineral district that contains two additional known deposits, Toquepala and Quellaveco. The copper mineralization at Cuajone is typical of porphyry copper deposits.

## Concentrator

Our Cuajone operations use state-of-the-art computer monitoring systems at the concentrator, the crushing plant and the flotation circuit in order to coordinate inflows and optimize operations. Material with a copper grade over 0.40% is loaded onto rail cars and sent to the milling circuit, where giant rotating crushers reduce the size of the rocks to approximately one-half of an inch. The ore is then sent to the ball mills, which grind it to the consistency of fine powder. The finely ground powder is agitated in a water and reagents solution and is then transported to flotation cells. Air is pumped into the cells producing a froth that carries the copper mineral to the surface but not the waste rock, or tailings. Recovered copper, with the consistency of froth, is filtered and dried to produce copper concentrates with an average copper content of 26.4%. Concentrates are then shipped by rail to the smelter at Ilo.

Tailings are sent to thickeners where water is recovered. The remaining tailings are sent to the Quebrada Honda dam, our Peruvian tailings storage facility.

## Toquepala

Our Toquepala operations consist of an open-pit copper mine and a concentrator. We also refine copper at the SX/EW facility through a leaching process. Toquepala is located in southern Peru, 30 kilometers from Cuajone and 870 kilometers from Lima. The concentrator has a milling capacity of 60,000 tons per day, which has been expanded from 45,000 tons per day in 2002. The SX/EW facility has a refining capacity of

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56,000 tons per year. Overburden removal commenced in 1957 and ore production commenced in 1960. Our Toquepala operations utilize a conventional open-pit mining method to collect copper ore for further processing in our concentrator.

The table below sets forth 2005, 2004 and 2003 production information for our Toquepala operations.

		2005	2004	2003
Average ore mined per day	(kt)	58.1	59.6	58.1
Stripping ratio	(x)	5.34	4.28	3.96
Copper grade	(%)	0.812	0.817	0.749
Molybdenum grade	(%)	0.039	0.044	0.029
Copper concentrate	(kt)	576.4	580.1	505.2
Molybdenum concentrate	(kt)	9.7	11.2	7.8
Copper concentrate average grade	(%)	27.32	27.73	28.18
Molybdenum concentrate average grade	(%)	54.7	53.7	53.2
Copper in concentrate	(kt)	157.5	160.9	142.4
SX/EW cathode production	(kt)	36.5	42.1	47.8
Molybdenum in concentrate	(kt)	5.3	6.0	4.2
Average copper ore processed by concentrator per day	(kt)	59.5	60.6	60.0
Copper recovery	(%)	91.47	90.28	89.63
Molybdenum recovery	(%)	64.6	62.2	66.4

Key: kt = thousands of tons  
x = ratio obtained dividing waste plus leachable material by ore mined

## Geology

The Toquepala porphyry copper deposit is located on the western slopes of Cordillera Occidental, in the southern-most Andes Mountains of Peru. The deposit is part of a mineral district that contains two additional known deposits, Cuajone and Quellaveco.

## Concentrator

Our Toquepala operations use state-of-the-art computer monitoring systems at the concentrator, the crushing plant and the flotation circuit in order to coordinate inflows and optimize operations. Material with a copper grade over 0.40% is loaded onto rail cars and sent to the milling circuit, where giant rotating crushers reduce the size of the rocks to approximately one-half of an inch. The ore is then sent to the ball and bar mills, which grind it to the consistency of fine powder. The finely ground powder is agitated in a water and reagents solution and is then transported to flotation cells. Air is pumped into the cells producing a froth, which carries the copper mineral to the surface but not the waste rock, or tailings. Recovered copper, with the consistency of froth, is filtered and dried to produce copper concentrates with an average copper content of 27.3%. Concentrates are then shipped by rail to the smelter at Ilo.

Tailings are sent to thickeners where water is recovered. The remaining tailings are sent to the Quebrada Honda dam, our Peruvian tailings storage facility.

## SX/EW Plant

The SX/EW facility at Toquepala produces refined copper from solutions obtained by leaching low-grade ore stored at the Toquepala and Cuajone mines. The leach plant commenced operations in October 1995 with a design capacity of 35,629 tons per year of copper cathodes. In August 1999 the capacity was expanded to 56,000 tons per year.

Processing Facilities - Ilo

Our Ilo smelter and refinery complex is located in the southern part of Peru, 17 kilometers north of the city of Ilo, 121 kilometers from Toquepala, 147 kilometers from Cuajone, and 1,240 kilometers from the city of Lima.

## Smelter

Our Ilo smelter provides blister copper for the refinery we operate as part of the same facility. Blister copper produced by the smelter exceeds the refinery's capacity and the excess is sold to other refineries around the world. The nominal installed capacity of the smelter is 1,131,500 tons per year. We are in the process of modernizing the Ilo smelter to comply with Peruvian government requirements. The project is part of our Environmental Compliance and Management Program, or PAMA, which was approved by the Peruvian government in 1997. The project will modernize the smelter and is targeted to capture no less than 92% of the sulfur dioxide emissions, in compliance with PAMA requirements. The modernization program is progressing on schedule and expected to be completed by the end of 2006. As part of this project an anode casting wheel was completed in January 2006 and blister production was replaced with anode production, enabling us to eliminate a costly re-melting step in our production process.

During 2005, 2004 and 2003, 325,623, 320,722 and 314,920 tons, respectively, of copper blister were produced, with average grades of 99.35%, 99.37% and 99.31%, respectively. The copper recovery was 97.57% for 2005, 97.23% for 2004 and 96.80% for 2003.

## Refinery

The refinery consists of an anode plant, an electrolytic plant, a precious metals plant and a number of ancillary installations. The refinery is producing grade A copper cathode of 99.99% purity. The nominal capacity is 280,000 tons per year. Anodic slimes are recovered from the refining process and are sent to the precious metals facility to produce silver, gold and selenium.

During 2005, 2004 and 2003, 285,205, 280,679 and 284,006 tons, respectively, of copper cathodes were produced, with an average grade of 99.998% for the three years.

The precious metals plant produced 109,894 kilograms of refined silver and 184 kilograms of gold in 2005, 118,906 kilograms of refined silver and 174 kilograms of gold in 2004 and 111,951 kilograms of refined silver and 265 kilograms of gold in 2003. Selenium production was, 48.7 tons, 51.9 tons and 47.8 tons in 2005, 2004 and 2003, respectively.

## MEXICAN OPEN PIT UNIT

Our Mexican open-pit segment operations combines two units of Minera Mexico, Mexcobre and Mexcananea, which includes La Caridad and Cananea mine complexes and smelting and refining plants and support facilities which service both complexes.

### Cananea

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We operate an open-pit copper mine, a concentrator and two SX/EW plants at our Cananea mining complex, located 71 kilometers from La Caridad, Mexico and 61 kilometers south of the Arizona border on the outskirts of the town of Cananea. The concentrator has a milling capacity of 76,700 tons per day. The SX/EW facility has a refining capacity of 54,750 tons per year. The Cananea site is one of the world's largest porphyry copper deposits. The Cananea mine is the oldest continuously operating copper mine in North America, with operations tracing back to 1899. Cananea uses a conventional open-pit mining method to collect copper ore for further refining in our concentrator.

The table below sets forth 2005, 2004 and 2003 production information for Cananea.

		2005	2004	2003
Average ore mined per day	(kt)	70.2	73.1	58.4
Stripping ratio	(x)	3.00	2.55	2.73
Copper grade	(%)	0.572	0.583	0.576
Copper concentrate	(kt)	436.5	469.3	337.9
Copper concentrate average grade	(%)	27.21	26.26	27.85
Copper in concentrate	(kt)	118.7	123.2	94.1
SX/EW cathode production	(kt)	56.4	50.2	49.5
Average copper ore processed by concentrator per day	(kt)	70.2	73.1	58.4
Copper recovery	(%)	81.03	80.53	80.63

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Key: kt = thousands of tons  
x = ratio obtained dividing waste plus leachable material by ore mined

## Geology

The Cananea mine is unusual in that the ore explored and sampled at the mine has been of consistent quality, unlike most copper deposits which evidence a decline in grades at deeper strata. The Cananea region is within the southern Cordilleran region, extending from southern Mexico to the northwestern United States.

## Concentrator

Cananea uses state-of-the-art computer monitoring systems at the concentrator, the crushing plant and the flotation circuit in order to coordinate inflows and optimize operations. Material with a copper grade over 0.38% is loaded onto trucks and sent to the milling circuit, where giant rotating crushers reduce the size of the rocks to approximately one-half of an inch. The ore is then sent to the ball and bar mills, which grind it to the consistency of fine powder. The finely ground powder is agitated in a water and reagents solution and is then transported to flotation cells. Air is pumped into the cells producing a froth, which carries the copper mineral to the surface but not the waste rock, or tailings. Recovered copper, with the consistency of froth, is filtered and dried to produce copper concentrates with an average copper content of 27.21%. Concentrates are then shipped by rail to the smelter at La Caridad.

## SX/EW Plant

The Cananea Unit operates a leaching facility and two SX/EW plants. All copper ore with a grade lower than the mill cut-off grade 0.25%, but higher than 0.15% copper, is delivered to the leaching dumps. A cycle of leaching and resting occurs for approximately five years to achieve a 56% recovery.

The Cananea Unit currently maintains 16.5 million cubic meters of pregnant leach solution in inventory with a concentration of approximately 1.79 grams of copper per liter.

La Caridad

Mexcobre operates the La Caridad mining complex, located in the State of Sonora, Mexico 23 kilometers southeast of the town of Nacozari de García and 121 kilometers south of the U.S.-Mexico border. It includes an open-pit mine concentrator, smelter, copper refinery, precious metals refinery, rod plant, SX/EW plant, lime plant and two sulfuric acid plants. The smelter and the sulfuric acid plants, as well as the refineries and rod plant, are located approximately 24 kilometers from the mine, and the lime plant is situated 18 kilometers from the U.S. border. Access is by paved highway and by railroad.

The concentrator began operations in June 1979, the molybdenum plant in June 1982, the smelter in June 1986, the first sulfuric acid plant in July 1988, the SX/EW plant in July

1995, the second sulfuric acid plant in January 1997, the copper refinery in July 1997, the rod plant in April 1998 and the precious metals refinery in July 1999.

The table below sets forth 2005, 2004 and 2003 production information for La Caridad.

		2005	2004	2003
Average ore mined per day	(kt)	86.4	75.5	74.9
Stripping ratio	(x)	1.39	1.63	1.70
Copper grade	(%)	0.483	0.504	0.508
Molybdenum grade	(%)	0.0324	0.0341	0.0345
Copper concentrate	(kt)	449.6	401.6	410.5
Molybdenum concentrate	(kt)	7.4	6.5	6.1
Copper concentrate average grade	(%)	27.20	27.49	26.12
Molybdenum concentrate average grade	(%)	56.88	56.69	57.33
Copper in concentrate	(kt)	122.3	110.4	107.2
SX/EW cathode production	(kt)	22.0	21.8	21.5
Molybdenum in concentrate	(kt)	4.2	3.7	3.5
Average copper ore processed by concentrator per day	(kt)	87.0	75.3	75.0
Copper recovery	(%)	79.95	79.62	77.36

Key: kt = thousands of tons  
x = ratio obtained dividing waste plus leachable material by ore mined

## Geology

The La Caridad deposit is a porphyry copper deposit typical of those in the southern basin and range province in the southwestern United States. The Mexcobre Unit uses a conventional open-pit mining method. The ore body is situated within a mountain top, which gives La Caridad the advantage of a relatively low waste-stripping ratio, natural pit drainage and relatively short haul distances for both ore and waste. The mining method involves drilling, blasting, loading and haulage of waste, leach and ore to waste and leaching dumps and to the primary crushers.

## Concentrator

Mexcobre uses state-of-the-art computer monitoring systems at the concentrator, the crushing plant and the flotation circuit in order to coordinate inflows and optimize operations. The concentrator has a current capacity of 90,000 metric tons of ore per day.

Ore extracted from the mine with a copper grade over 0.30% is processed at the concentrator and is processed into copper concentrates and molybdenum concentrates. The copper concentrates are sent to the smelter and the molybdenum concentrate is exported. The molybdenum recovery plant has a capacity of 2,000 tons per day of copper-molybdenum concentrates. The lime plant has a capacity of 340 tons of finished product per day.

SX/EW Plant

Approximately 463.6 million tons of leaching ore with an average grade of approximately 0.25% copper have been extracted from the La Caridad open-pit mine and deposited in leaching dumps from May 1995 to December 31, 2005. In 1995, Mexcobre completed the construction of a new SX/EW facility at La Caridad that has allowed processing of this ore and certain leach ore reserves that are unmined and has resulted in a reduction in Mexcobre's production costs of copper. The SX/EW facility has a total capacity of 21,900 tons of copper cathodes per year.

Processing Facilities - La Caridad

Our La Caridad complex includes a smelter, an electrolytic copper refinery, a precious metal refinery and a copper rod plant. The distance between this complex and the La Caridad mining unit is approximately 24 kilometers.

## Smelter

Copper concentrates are carried to the La Caridad smelter where they are processed and cast into copper anodes of 99.2% purity to be sold to refineries. Sulfur dioxide off-gases collected from the flash furnaces and converters are processed into sulfuric acid at two sulfuric acid plants and sold to third parties.

Almost all of the anodes produced in the smelter are sent to the La Caridad copper refinery in order to increase the copper purity. The actual installed capacity of the smelter is 1,000,000 tons per year, capacity that is sufficient to receive the concentrates of the Mexicana de Cobre (La Caridad) and Mexicana de Cananea Mining Units. The amount of smelted copper concentrates was 894,735, 820,459 and 629,505 tons for 2005, 2004 and 2003, respectively. The anode production capacity is 300,000 tons per year and the production for 2005, 2004 and 2003 was 282,412, 250,890 and 199,033 tons, respectively.

Sulfuric acid production was 833,380, 778,350 and 603,300 tons for 2005, 2004 and 2003, respectively.

## Refinery

Mexcobre includes an electrolytic copper refinery at La Caridad that uses permanent cathode technology. The actual installed capacity of the refinery is 300,000 tons per year. The refinery consists of an anode plant with a preparation area, an electrolytic plant, a slime treatment plant and a number of ancillary installations. The refinery is producing grade A copper cathode of 99.99% purity. Anodic slimes are recovered from the refining process and sent to the slimes treatment plant where additional copper is extracted. The slimes are then filtered, packed and shipped to the La Caridad precious metals refinery to produce silver and gold. The refined cathode production for 2005, 2004 and 2003 was 233,685, 202,146 and 163,967 tons, respectively.

The operations of the precious metal refinery are divided into two stages: (i) the antimony is eliminated from the slime; and (ii) the slime is dried in a steam dryer. After this the dried slime is smelted and a gold and silver alloy is obtained, which is known as dore. The process ends with the refining of the gold and silver alloy. The production of gold for 2005, 2004 and 2003 was 817, 575 and 594 kilograms, respectively. The production of silver for 2005, 2004 and 2003 was 142,534, 90,914 and 136,117 kilograms, respectively.

## Copper Rod Plant

A rod plant at the Mexcobre Unit was completed in April 1998 and reached its maximum annual operating capacity of 150,000 tons in May 1999. The plant is producing 8 millimeter copper rods with a purity of 99.99%. Copper rod production for 2005, 2004 and 2003 was 113,167, 69,529 and 53,822 tons, respectively.

## MEXICAN IMMSA UNIT

Our IMMSA unit (underground mining poly-metallic division) produces zinc, lead, copper, silver and gold, a coal and coke mine, and several industrial processing facilities for zinc, lead, copper and silver and operates five underground mining complexes situated in central and northern Mexico. All of IMMSA's mining facilities employ exploitation systems and conventional equipment. We believe that all the plants and equipment are in satisfactory operating condition. IMMSA's principal mining facilities include Charcas, Santa Barbara, San Martin, Santa Eulalia and Taxco.

The Charcas mining complex is located 111 kilometers north of the city of San Luis Potosi in the State of San Luis Potosi, Mexico. The complex includes three underground mines and one flotation plant and produces zinc, lead and copper concentrates, with significant

amounts of silver. The Charcas mining district was discovered in 1573 and operations in the 20th century began in 1911. The Charcas mine is characterized by low operating costs and good quality ores and is situated near the zinc refinery. We have expanded production capacity of the mine by 32% since 1993, and the Charcas mine is now Mexico's largest producer of zinc.

The Charcas mining district occupies the east-central part of the Central Mesa and is part of the Sierra Madre Metallogenic Province.

The Charcas mine uses the hydraulic cut-and-fill method and the room-and-pillar mining method with descending benches. The broken ore is hauled to the underground crusher station. The crushed ore is then hoisted to the surface for processing in the flotation plant to produce lead, zinc and copper concentrates. The capacity of the flotation plant is 4,000 tons of ore per day; 1,327,990, 1,317,288 and 1,212,938 tons of ore were mined at Charcas during 2005, 2004 and 2003, respectively. The lead concentrate produced at Charcas is treated at a third party refinery in Mexico. The zinc and copper concentrates are treated at our San Luis Potosi zinc refinery and copper smelter.

The Santa Barbara mining complex is located approximately 26 kilometers southwest of the city of Hidalgo del Parral in southern Chihuahua, Mexico. It includes three main underground mines and a flotation plant and produces lead, copper and zinc concentrates, with significant amounts of silver. Gold-bearing veins were discovered in the Santa Barbara district as early as 1536. Mining activities in the 20th century began in 1913.

The mining operations at Santa Barbara are more diverse and complex than at any of the other mines in our Mexican operations, with veins that aggregate approximately 21 kilometers in length. Each of the three underground mines has several shafts and crushers. Due to the variable characteristics of the ore bodies, four types of mining methods are used: shrinkage stoping, long-hole drilled open stoping, cut-and-fill stoping and horizontal bench stoping. The ore, once crushed, is processed in the flotation plant to produce concentrates. The flotation plant has a capacity of 6,000 tons of ore per day; 1,486,622, 1,453,793 and 1,450,124 tons of ore were mined at the Santa Barbara mine during 2005, 2004 and 2003, respectively. The lead concentrate produced is treated at a third party refinery in Mexico. The copper concentrates are treated at our San Luis Potosi copper smelter, and the zinc concentrates are either treated at the San Luis Potosi zinc refinery or exported.

The San Martin mining complex is located in the municipality of Sombrerete in the western part of the state of Zacatecas, Mexico, approximately 101 kilometers southeast of the city of Durango. The complex includes an underground mine and a flotation plant and produces lead, copper and zinc concentrates, with significant amounts of silver. The mining district in which the San Martin mine is located was discovered in 1555. Mining operations in the 20th century began in 1949. San Martin lies in the Mesa Central between the Sierra Madre Occidental and the Sierra Madre Oriental.

The horizontal cut-and-fill mining method is used at the San Martin mine. The broken ore is hauled to the underground crusher station. The ore is then brought to the surface and fed to the flotation plant to produce concentrates. The flotation plant has a total capacity of 4,400 tons of ore per day; 1,231,476, 1,259,220 and 1,287,239 tons of ore were mined at San Martin in 2005, 2004 and 2003, respectively. The lead concentrate is treated at a third party refinery in Mexico. The copper concentrate is treated at our San Luis Potosi copper smelter and zinc concentrate is either treated at the San Luis Potosi zinc refinery or exported.

The mining district of Santa Eulalia is located in the central part of the state of Chihuahua, Mexico, approximately 26 kilometers east of the city of Chihuahua. This district covers approximately 48 square kilometers and is divided into three fields: east field, central field and west field. The west field and the east field, in which the principal mines of the unit are found, are separated by 6 kilometers. The Buena Tierra mine is located in the west field and the San Antonio mine is located in the east field.



The mining district was discovered in 1590, although exploitation did not formally begin until 1870.

The Santa Eulalia unit suspended operations totally from October 2000 to December 2004, during which time rehabilitation work was completed at the Tiro San Antonio and pipes were installed to expand the pumping capacity to 10,500 gallons per minute. In January 2005, operations began at the Santa Eulalia unit, with a production plan for 230,900 tons. The flotation plant, at which lead concentrate and zinc concentrate are produced, has a capacity of 1,500 tons of ore per day. 209,658 tons of ore were mined at Santa Eulalia in 2005. The lead concentrate is treated at a third party refinery, and the zinc concentrate is treated at our San Luis Potosi zinc refinery. The production plan for 2006 is estimated to be 260,800 tons.

The Taxco mining complex is located on the outskirts of the city of Taxco in the northern part of Guerrero State, Mexico, approximately 71 kilometers from the city of Cuernavaca. The complex includes several underground mines and a flotation plant and produces lead and zinc concentrates, with some amounts of gold and silver. The mining district in which the Taxco mines are located was discovered in 1519. Mining activities in the 20th century commenced in 1918.

The Taxco district lies in the northern part of the Balsas-Mexcala basin adjacent to the Paleozoic Taxco-Zitacuaro Massif.

IMMSA employs shrinkage, cut-and-fill and the room and pillar mining methods at the Taxco mines. The flotation plant has a capacity of 2,000 tons of ore per day; 362,550, 352,174 and 328,243 tons of ore were mined at Taxco in 2005, 2004 and 2003, respectively. The lead concentrate is sold in Mexico. The zinc concentrates is either treated at the San Luis Potosi zinc refinery or exported.

#### Processing Facilities - San Luis Potosi

Our San Luis Potosi electrolytic zinc refinery is located in the city of San Luis Potosi, in the state of San Luis Potosi, Mexico. Our San Luis Potosi copper smelter is adjacent to the San Luis Potosi zinc refinery.

#### Smelter

The San Luis Potosi copper smelter has been in operation since 1925 and has gone through several phases of modernization, principally over the last ten years. The smelter presently has the capacity to process 230,000 tons of copper concentrate per year.

The plant operates one blast furnace (with a second on stand-by) that smelts incoming materials, mainly copper concentrates and copper byproducts from lead plants, to produce a copper matte. The copper matte is then treated in one of the two Pierce Smith converters, producing copper blister (97.4% copper), which in 2005 contained approximately one ounce of gold and 400 ounces of silver per ton of copper blister produced. Of a total copper concentrate intake of 50,243 tons in 2005, approximately 90% was supplied by the Immsa Unit's mines and the remaining amount was smelted under toll arrangements with third parties. Copper blister production in 2005, 2004 and 2003 amounted to 21,318, 22,666, and 23,548 tons, respectively.

As the materials treated at the smelter contain various impurities (especially lead and arsenic), the facility has been equipped with an arsenic recovery plant for treatment of the flue dust produced in the blast furnace section. This material contains approximately 35% lead and 18% arsenic which, when treated, produces approximately 1,800 tons per year of high purity arsenic trioxide which is, in turn, sold in the United States principally to the wood preserving industry. Approximately 15,000 tons per year of lead bearing calcines (approximately 32% lead) are sold annually to Industrias Peñoles, S.A. de C.V. ( Peñoles ).

## Zinc Refinery

The San Luis Potosi electrolytic zinc refinery was built in 1982. It was designed to produce 105,000 tons of refined zinc per year by treating up to 200,000 tons of zinc concentrate from our own mines, principally Charcas, located only 113 kilometers from the refinery. Refined zinc production in 2005, 2004 and 2003 amounted to 101,523, 102,556 and 101,069 tons, respectively. The refinery produces special high grade zinc (99.995% zinc), high grade zinc (over 99.9% zinc) and zinc-based alloys with aluminum, lead, copper or magnesium in varying quantities and sizes depending on market demand. In 2005, the plant produced as byproducts 176,295 tons of sulfuric acid, 706 tons of refined cadmium, 14,566 kilograms of silver and 4 kilograms of gold.

## Nueva Rosita Coal and Coke Complex

The Nueva Rosita coal and coke complex, which began operations in 1924, is located in the state of Coahuila, Mexico on the outskirts of the city of Nueva Rosita near the Texas border. It comprises an underground coal mine, with a present yearly capacity of approximately 280,000 tons of coal, and a 21-coke oven facility capable of producing 104,000 tons of metallurgical coke per year. At present the 21 ovens are being re-engineered and modernized, with an investment of \$12 million, to service the operations of the facility for the next 25 years.

The room-and-pillar mining method is employed at the underground Nueva Rosita coal mine with continuous miners. At present, the coke oven installation supplies the San Luis Potosi copper smelter with low-cost coke, resulting in significant cost savings to the smelter. The surplus production (approximately 21,608 tons per year) is sold to Peñoles and other Mexican consumers in northern Mexico. The complex includes a coal washing plant completed in 1998 that has a capacity of 900,000 tons per year and produces cleaner coal of a higher quality. The 2005, 2004 and 2003 production of clean coal was 257,016, 238,336 and 260,966 tons, respectively.

## EXPANSION AND MODERNIZATION PROGRAM

For a description of our Expansion and Modernization Program see Management's Discussion and Analysis of Financial Condition and Results of Operations-Expansion and Modernization Program .

## EXPLORATION ACTIVITIES

We are engaged in ongoing extensive exploration to locate additional ore bodies in Peru, Mexico and Chile. We spent \$24.4 million on exploration programs in 2005, \$15.6 million in 2004 and \$17.9 million in 2003, and have budgeted \$33.4 million for 2006.

Currently in Peru, we have direct control of 99,537 hectares of mineral rights. In Mexico, we hold 295,367 hectares of exploration concessions. We also hold 38,200 hectares of exploration concessions in Chile.

Peru

*Los Chancas.* The Los Chancas project, located in the department of Apurimac in southern Peru, is a copper and molybdenum porphyry deposit. In 2004 we completed the final phase of the diamond drilling program the second and final phase of metallurgical testing. At the end of 2005 several companies have been invited to present proposals for the execution of the pre-feasibility studies that will begin in 2006. Once completed, we will be able to make a determination if more exploration is needed or if the project contains commercially mineable reserves, which would warrant future development after comprehensive economic, technical and legal feasibility studies are completed. Testing to date indicates a mineral deposit of 200 million tons with a copper grade of 1.0%, 0.07% molybdenum and 0.12 grams of gold per ton.

*Tantahuatay.* The Tantahuatay project is located in the department of Cajamarca in northern Peru. We have performed exploration work in the upper part of the deposit principally for gold recovery. Work to date indicates mineralization of 27.1 million tons, with an average gold content of 0.89 grams per ton and 13.0 grams of silver per ton. This project, in which we have a 44.25% share, continues in the exploratory stage. During 2004 and 2005 we concentrated our efforts on dealing with social and environmental concerns of communities near the project.

*Tia Maria.* The Tia Maria project, located in the department of Arequipa in southern Peru, is a copper porphyritic system. In 2005 a total of 29,000 meters of diamond drilling was completed out of the 15,000 meters projected. The drilling is continuing into 2006 to complete the program. This project is in the exploratory stage.

*Other Peruvian Prospects.* As part of our 2005 exploration and development program, we drilled at the Gloria Cristina prospect located in northern Peru, in the department of La Libertad, and at the El Fiscal prospect in southern Peru, in the department of Arequipa. The El Fiscal prospect shows evidence of copper-gold mineralization and we are scheduling additional drilling as part of 2006 exploration and development program. Both prospects show evidence of copper-gold mineralization.

#### Mexico

In addition to exploratory drilling programs at existing mines, we are currently conducting exploration to locate mineral deposits at various other sites in Mexico. In particular, we have identified significant copper and gold deposits at El Arco site.

*El Arco.* The El Arco site is located in the state of Baja California in Mexico. Preliminary investigations of the El Arco site indicate a deposit of 846 million tons of sulfide ore with average copper grades of 0.51% and 0.14 grams of gold per ton, and 170 million tons of leaching ore with average copper grades of 0.56%. Currently we are in the process of identifying water sources for a leaching operation.

*Angangueo.* The Angangueo site is located in the state of Michoacán in Mexico. A mineral deposit of 13 million tons of ore has been identified with diamond drilling. The mineral deposit contains 0.16 grams of gold and 262 grams of silver per ton, and is comprised of 0.79% lead, 0.97% copper and 3.5% zinc. During 2005, we received the approval for our environmental impact study and we are in the process of obtaining land use approval.

*Buenavista.* The Buenavista project site is located in the state of Sonora in Mexico, adjacent to the Cananea ore body. Drilling and metallurgical studies have shown that the site contains a mineral deposit of 36 million tons of ore containing 29 grams of silver, 0.69% of copper and 3.3% of zinc per ton.

Chile

In 2003 we acquired several exploration properties in Chile with over 35,000 hectares of mining rights. In 2004 we started exploration work on certain of these Chilean properties with diamond drilling on El Salado prospects.

*El Salado.* The El Salado prospect, located in the Atacama Region, stretches over 2,700 hectares and is also being explored for copper-gold. Through 2005, 11,079 meters of diamond drilling was completed. We are currently doing a geological evaluation of Sierra Aspera, a copper-gold prospect, located in the north of Chile.

*Other Chilean Prospects.* Other prospects like Catanave and Esperanza, located in the Tarapaca and Atacama regions, respectively, in northern Chile, are scheduled for future exploration.

## PRINCIPAL PRODUCTS AND MARKETS

The principal uses of copper are in the building and construction industry, electrical and electronic products and, to a lesser extent, industrial machinery and equipment, consumer products and the automotive and transportation industries. Molybdenum is used to toughen alloy steels and soften tungsten alloy and is also used in fertilizers, dyes, enamels and reagents. Silver is used for photographic, electrical and electronic products and, to a lesser extent, brazing alloys and solder, jewelry, coinage, silverware and catalysts. Zinc is primarily used as a coating on iron and steel to protect against corrosion. It is also used to make die cast parts, in the manufacturing of batteries and in the form of sheets for architectural purposes.

Our marketing strategy and annual sales planning emphasize developing and maintaining long-term customer relationships, and thus acquiring annual or other long-term contracts for the sale of our products is a high priority. Approximately 90% of our metal production for the year 2005, 2004 and 2003, was sold under annual or longer-term contracts. Sales prices are determined based on prevailing commodity prices for the quotation period, generally being the month of, the month prior to or the months following the actual or contractual month of shipment or delivery, according to the terms of the contract.

We focus on the ultimate end-user customers as opposed to selling on the spot market or to trading companies. In addition, we devote significant marketing effort to diversifying our sales both by region and by customer base. We strive to provide superior customer service, including just-in-time deliveries of our products. Our ability to consistently fulfill customer demand is supported by our substantial production capacity.

For additional information on sales by segment, see Management's Discussion and Analysis of Financial Condition and Results of Operations Segment Sales Information .

## METALS PRICES

Prices for our products are principally a function of supply and demand and, except for molybdenum, are established on the Commodities Exchange, or COMEX, in New York and the London Metal Exchange or LME the two most important metal exchanges in the world. Prices for our molybdenum products are established by reference to the publication Platt's Metals Week. Our contract prices also reflect any negotiated premiums and the costs of freight and other factors. From time to time, we have entered into hedging transactions to provide partial protection against future decreases in the market price of metals and we may do so under certain market conditions. In 2003 and 2004, however, we did not enter into any material hedging transactions. We have, however, entered into copper swap contracts in 2005. At December 31, 2005 we do not have any copper swap contracts. See Management's Discussion and Analysis of Financial Condition and Results of Operations-Quantitative and Qualitative Disclosure about Market Risk . For a further discussion of prices for our products, please see Management's Discussion and Analysis of Financial Condition and Result of Operations Metal Prices .

## COMPETITIVE CONDITIONS

Competition in the copper market is principally on a price and service basis, with price being the most important consideration when supplies of copper are ample. The Company's products compete with other materials, including aluminum and plastics.

EMPLOYEES

As of December 31, 2005, we employed 12,877 persons, approximately 71% of whom are covered by labor agreements with ten different labor unions. During the last several years, we have experienced strikes or other labor disruptions that have had an adverse impact on our operations and operating results. We cannot assure you that in the future we will not experience strikes or other labor-related work stoppages that could have a material adverse effect on our financial condition and results of operations.

Peru

Approximately 59% of our Peruvian labor force was unionized at December 31, 2005, represented by nine separate unions. Collective bargaining agreements are in effect with each of these unions. These agreements are in force through 2007.

In Peru on August 31, 2004, unionized workers at our mining units in Toquepala and Cuajone stopped work and asked for additional wage increases based on high metals prices. The strike ended after twelve days. The union demands included salary increases, benefits and different application of certain aspects of their labor agreements and it also expressed opposition to our acquisition of Minera México. The Peruvian labor ministry declared the strike illegal and the workers returned to work but asserted their right to return to strike. In early 2005, the workers removed the strike threat, indicating they would pursue their grievances through the labor ministry. There were no labor strikes in 2005 or 2003.

Employees of the Toquepala and Cuajone units reside in town sites, where we have built 2,513 houses and apartments and 1,186 houses and apartments respectively. In 1998, Company housing, at our Ilo unit, was sold to workers at nominal prices. We still hold 90 houses at Ilo for staff personnel. Housing, together with maintenance and utility services, is provided at minimal cost to most of our employees. Our town site and housing complexes include schools, medical facilities, churches, social clubs, shopping, banking and other services.

Mexico

Approximately 76% of our Mexican labor force at December 31, 2005 were members of the *Sindicato Nacional de Trabajadores Minera Metalúrgicos y Similares de la República Mexicana, A.C.* (the National Mine Workers Union, or the Union). Under Mexican law, the terms of employment for unionized workers is set forth in collective bargaining agreements. Mexican companies negotiate the salary provisions of collective bargaining agreements with the labor unions annually and negotiate other benefits every two years. We conduct negotiations separately at each mining complex and each processing plant.

On October 26, 2005, the workers at our La Caridad mining complex went on strike claiming that the Company still owed them profit sharing from 2003. The strike was declared illegal and the workers returned to work two days later after the Company agreed to pay each worker approximately \$900.00. The total paid was \$3.1 million.

On July 12, 2004, the workers of Mexicana de Cobre went on strike, asking for the review of certain contractual clauses; workers were satisfied with the review and returned to work 18 days later. On October 15, 2004, the workers of Mexicana de Cananea went on strike, followed by the Mexicana de Cobre workers. The strike lasted for 6 days at Mexicana de Cobre and 9 days at Mexicana de Cananea. The strike was resolved by the acquisition by Minera México of the 5% of the stock of Mexicana de Cananea and Mexicana de Cobre that was owned by the Union.

On January 20, 2003, approximately 1,117 members of the Union went on strike at the Cananea mine in the state of Sonora, alleging a violation of their collective bargaining agreement. This strike was resolved on February 5, 2003.

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Employees of the Mexcobre and Cananea Units reside in town sites at La Caridad and Cananea, where we have built approximately 2,000 houses and apartments and 275 houses and apartments, respectively. Employees of the Immsa Unit principally reside on the grounds of the mining or processing complexes in which they work and where we have built approximately 900 houses and apartments. Housing, together with maintenance and utility services, is provided at minimal cost to most of our employees. Our town sites and housing complexes include educational and, in some units, medical facilities, churches, social clubs, shopping, banking and other services. At the Cananea Unit, health care is provided free of charge to employees and retired unionized employees and their families.

## FUEL, ELECTRICITY AND WATER SUPPLIES

Aside from ore, the principal raw materials for our operations are fuels (including fuel oil to power boilers and generators, natural gas for metallurgical processes at our Mexican operations and diesel fuel for mining equipment), electricity and water. We believe that supplies of fuel, electricity and water are readily available. Although the prices of these raw materials may fluctuate, we have generally been able to offset all or a portion of our increased costs through cost and energy saving measures. However, during the period from 2003 through 2005 we have experienced increases in energy prices that have surpassed levels we can effectively control through cost savings.

### Peru

In Peru, electric power for our operating facilities is generated by two thermal electric plants owned and operated by Energía del Sur, S.A. ( Enersur ), a diesel and waste heat boilers plant located adjacent to the Ilo smelter and a coal plant located south of Ilo. Power generation capacity for Peruvian operations is currently 344 megawatts. In addition, we have 9 megawatts of power generation capacity from two small hydro-generating installations at Cuajone. Power is distributed over a 224-kilometer closed loop transmission circuit. We obtain fuel in Peru principally from the Exxon Mobil Corporation.

In 1997, we sold our Ilo power plant to Enersur and entered into a power purchase agreement. We and Enersur also entered into an agreement for the sharing of certain services between the power plant and our smelter at Ilo. These arrangements were amended in 2003, and we made a one-time contractual payment to Enersur of \$4.0 million associated with the termination of the original power purchase agreement. We believe we can satisfy the need for increased electricity requirements for our Peru operations from other sources, including local power providers.

In Peru, we have water concessions for well fields at Huaitire, Vizcachas and Titijones and surface water rights from the Suches lake, which together are sufficient to supply the needs of our two operating mine sites at Toquepala and Cuajone. At Ilo, we have desalinization plants that produce water for industrial and domestic use that we believe are sufficient for our current and projected needs.

### Mexico

In Mexico, fuel is purchased directly or indirectly from Petróleos Mexicanos, ( PEMEX ), the state oil monopoly. Electricity for our Mexican operations, which is used as the main energy source at each mining complex we operate, is either purchased from the *Comisión Federal de Electricidad* (the Federal Electricity Commission, or CFE), the state electrical power producer, or steam-generated at Mexcobre 's smelter by recovering energy from the flash furnace through a waste heat boiler. Accordingly, a significant portion of our operating costs in Mexico are dependent upon the pricing policies of Pemex and CFE, which reflect government policy as well as international market prices for crude oil, natural gas and conditions in the refinery markets. Mexcobre 's natural gas pipeline (between Douglas, Arizona and Nacozari, Sonora) that began operating in May 1999, permits us to import natural gas from the United States into Mexico at market prices and thereby reduce operational costs. A contract with PEMEX, provides us with the option of using a fixed price for a portion of our natural gas purchases.

In December we announced our plans for a 450 Megawatt power generation plant in Mexico to supply our own facilities. We anticipate that the project, which is currently out for bids, will be built and managed by an independent power company and our obligation will be the supply of coal from our reserves and an agreement to use the power output. We expect this plant will give us the ability to better control the cost of our

energy requirements, which are a major element of our operating costs. The project is expected

to be finished in 2008, is expected to create nearly 900 permanent jobs, 3,000 jobs during the construction stage and will exceed Mexican and international environmental standards

In Mexico, water is a national property and industries not connected to a public services water supply must obtain a water concession from *Comisión Nacional del Agua* (the National Water Commission, or CNA). Water usage fees are established in the *Ley Federal Derechos*, which distinguishes several availability zones with different fees per unit of volume according to each zone. All of our operations have one or several water concessions and, with the exception of Mexicana de Cobre, pump out the required water from one or several wells. Mexicana de Cobre pumps water from the La Angostura dam, which is close to the mine and plants. At our Cananea facility, we maintain our own wells and pay the CNA for water measured by usage. Water conservation committees have been established in each plant in order to conserve and recycle water. Water usage fees are updated on a yearly basis and have been increasing in recent years.

## ENVIRONMENTAL MATTERS

For a discussion of environmental matters reference is made to the information contained under the caption "Environmental matters" in Note 13 Commitments and Contingencies of the Consolidated Combined Financial Statements.

## MINING RIGHTS AND CONCESSIONS

### Peru

We have 177,387 hectares in concessions from the Peruvian Government for our exploration, exploitation, extraction and/or production operations, distributed among our various sites as follows:

	Toquepala	Cuajone	Ilo (hectares)	Other	Total
Plants	300	456	421		1,177
Operations	40,699	22,663	13,311		76,673
Exploration				99,537	99,537
Total	40,999	23,119	13,732	99,537	177,387

We believe that our Peruvian concessions are in full force and effect under applicable Peruvian laws and that we are in compliance with all material terms and requirements applicable to these concessions. The concessions have indefinite terms, subject to our payment of concession fees of up to \$3.00 per hectare annually for the mining concessions and a fee based on nominal capacity for the processing concessions. Fees paid during 2005, 2004 and 2003 were approximately \$0.8, \$1.1 and \$1.0 million, respectively. We have two types of mining concessions in Peru: metallic and non-metallic concessions. We also have water concessions for well fields at Huaitire, Titijones and Vizcachas and surface water rights from the Suches Lake, which together are sufficient to supply the needs of our Toquepala and Cuajone operating units.

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In June 2004, the Peruvian Congress enacted legislation imposing a royalty charge to be paid by mining companies in favor of the regional governments and communities where mining resources are located. Under the new law, we are subject to a 1% to 3% tax, based on sales, applicable to the value of the concentrates produced in our Toquepala and Cuajone mines. We made provisions of \$40.3 million and \$17.6 million in 2005 and 2004 respectively, for this new tax which went into effect as of June 25, 2004. These provisions are included in cost of sales (exclusive of depreciation, amortization and depletion) on the Consolidated Combined Statement of Earnings.

In a ruling, the Peruvian Constitutional Tribunal stated that the royalty charge applies to all concessions held in the mining industry, implying that those entities with tax

stability contracts are subject to this charge. In 1996, we entered into a tax stability contract with the Peruvian government (a Guaranty and Promotional Measures for Investment Contract ) relating to our own SX/EW production, which, among other things, fixes tax rates and other contributions relating to such production. We believe that the Constitutional Tribunal's interpretation relating to entities with tax stability contracts is incorrect and we intend to protest the imposition of the royalty charge on our SX/EW production, when and if assessed. Provision made by us for the royalty charge does not include approximately \$5.9 million of additional potential liability relating to our SX/EW production from June 30, 2004 through December 31, 2005.

#### Mexico

In Mexico we have approximately 505,127 hectares in concessions from the Mexican Government for our exploration and exploitation activities as outlined in the table below.

	Underground Mines	La Caridad	Cananea (hectares)	Projects	Total
Exploration	25,250	91,084	5,492	173,541	295,367
Exploitation	29,835	44,257	7,790	127,878	209,760
Total	55,085	135,341	13,282	301,419	505,127

We believe that our Mexican concessions are in full force and effect under applicable Mexican laws and that we are in compliance with all material terms and requirements applicable to these concessions. Under Mexican law, mineral resources belong to the Mexican nation and a concession from the Mexican federal government is required to explore (exploration concession) or mine mineral reserves (exploitation concession). Exploration concessions have a six-year term, at the end of which they have to be changed to exploitation concessions, which have a 50-year term that can be renewed for another 50 years. Exploration concessions have holding fees of up to \$3 per hectare. Holding fees for exploitation concessions can be up to \$15 per hectare. Fees paid during 2005, 2004, and 2003 were approximately \$2.1 million, \$1.8 million and \$2.1 million, respectively. In addition, all of our operating units in Mexico have water concessions that are in full force and effect. We generally own the land to which our Mexican concessions relate, although ownership is not required in order to explore or mine a concession. We also own all of the processing facilities of our Mexican operations and the land on which they are constructed.

#### REPUBLIC OF PERU AND MEXICO

All of our revenues are derived principally from our operations in Peru and Mexico. Risks attendant to the Company's operations in both countries include our operations in those countries associated with economic and political conditions, effects of currency fluctuations and inflation, effects of government regulations and the geographic concentration of the Company's operations.

#### AVAILABLE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the U.S. Securities and Exchange Commission (SEC). You may read and copy any document we file at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for information on the Public Reference Room. The SEC maintains a web-site that contains annual, quarterly and current reports, proxy statements and other information that issuers (including Southern Copper Corporation) file electronically with the SEC.

The SEC's web-site is [www.sec.gov](http://www.sec.gov).

Our Internet address is [www.southerncoppercorp.com](http://www.southerncoppercorp.com). Commencing with the Form 8-K dated March 14, 2003, we have made available free of charge on this internet address our annual, quarterly and current reports, as soon as reasonably practical after we electronically file such material with, or furnish it to, the SEC. Our web page includes the Corporate Governance guidelines and the charters of its most important Board Committees. However, the information found on our website is not part of this or any other report.

Item 1A. Risk Factors

Every investor or potential investor in Southern Copper Corporation should carefully consider the following risk factors.

**Risks Relating to Our Business Generally**

*Our financial performance is highly dependent on the price of copper and the other metals we produce.*

Our financial performance is significantly affected by the market prices of the metals that we produce, particularly the market prices of copper and molybdenum. Historically, prices of the metals we produce have been subject to wide fluctuations and are affected by numerous factors beyond our control, including international economic and political conditions, levels of supply and demand, the availability and costs of substitutes, inventory levels maintained by users, actions of participants in the commodities markets and currency exchange rates. In addition, the market prices of copper and certain other metals have on occasion been subject to rapid short-term changes.

In 2005, an approximately 29% increase in copper prices on the LME, and the COMEX, and a 95% increase in molybdenum prices, contributed to an increase of approximately 33% in our total sales in 2005 as compared with 2004, this after an increase of approximately 96% in 2004. While the price of copper dropped to a 15-year low of \$0.61 per pound in 2001, it has since increased by approximately 213.0% to \$2.26 per pound as of February 28, 2006. The price of molybdenum has also recently increased significantly and is currently at historically high levels. The average annual price of molybdenum over the five-year period ended December 31, 2005 was \$11.54 per pound, with a price per pound as of February 28, 2006 of \$22.25 per pound. Over the past three years, as a result of this increase in molybdenum prices, molybdenum has become a significant contributor to our sales.

We cannot predict whether metals prices will rise or fall in the future. A decline in metals prices and, in particular, copper or molybdenum prices, could have an adverse impact on our results of operations and financial condition, and we might, in very adverse market conditions, consider curtailing or modifying certain of our mining and processing operations.

*Changes in the level of demand for our products could adversely affect our product sales.*

Our revenue is dependent on the level of industrial and consumer demand for the concentrates and refined and semi-refined metal products we sell. Changes in technology, industrial processes and consumer habits may affect the level of that demand to the extent that changes increase or decrease the need for our metal products. A change in demand could impact our results of operations and financial condition.

*Our actual reserves may not conform to our current estimates of our ore deposits.*

There is a degree of uncertainty attributable to the calculation of reserves. Until reserves are actually mined and processed, the quantity of ore and grades must be considered as estimates only. The proven and probable ore reserves data included in this report are estimates prepared by us based on evaluation methods generally used in the mining industry. Independent engineers have not verified these reserves estimates. We may be required in the future to revise our reserves estimates based on our actual production. We cannot assure you that our actual reserves conform to geological, metallurgical or other expectations or that the estimated volume and grade of ore will be recovered. Market prices, increased production costs, reduced recovery rates, short-term operating factors, royalty taxes and other factors may render proven and probable reserves uneconomic to exploit and may result in revisions of reserves data from time to time. Reserves data are not indicative of future results of operations. See [Ore Reserves](#) .

***Our business requires capital expenditures which we may not be able to maintain.***

Our business is capital intensive. Specifically, the exploration and exploitation of copper and other metal reserves, mining, smelting and refining costs, the maintenance of machinery and equipment and compliance with laws and regulations require capital expenditures. We must continue to invest capital to maintain or to increase the amount of copper reserves that we exploit and the amount of copper and other metals we produce. We cannot assure that we will be able to maintain our production levels to generate sufficient cash, or that we have access to sufficient financing to continue our exploration, exploitation and refining activities at or above present levels.

***The expected benefits of our recent acquisition of Minera México, including expected synergies, may not be realized.***

On April 1, 2005, we completed our acquisition of Minera México from AMC, a subsidiary of Grupo México, our controlling stockholder. We are now in the process of integrating two companies that previously had been affiliated but operated independently. We acquired Minera México based on a number of factors, including trends we believe may favor consolidation in the copper mining industry, potential improvement in production and our relative cost position, geographic diversification of our operations and potential operating synergies. We also considered potential negative effects in evaluating the transaction, including lower than expected mineral production from Minera México, diversion of management's attention and the risk that potential operating synergies may not be realized. We cannot assure you that the benefits we expect from the acquisition will be achieved or that potential negative effects will not be realized and adversely affect us.

***Restrictive covenants in the agreements governing our indebtedness and the indebtedness of our Minera México subsidiary may restrict our ability to pursue our business strategies.***

Our financing instruments and those of our Minera México subsidiary include financial and other restrictive covenants that, among other things, limit our and Minera Mexico's abilities to incur additional debt and sell assets. If either we or our Minera México subsidiary do not comply with these obligations, we could be in default under the applicable agreements which, if not addressed or waived, could require repayment of the indebtedness immediately. Our Minera México subsidiary is further limited by the terms of its outstanding notes, which also restrict the Company's applicable incurrence of debt and liens. In addition, future credit facilities may contain limitations on its incurrence of additional debt and liens and on its ability to dispose of assets. See [Management's Discussion and of Financial Condition and Results of Operations](#) [Liquidity and Capital Resources](#) [Financing](#).

*Applicable law restricts the payment of dividends from our Minera México subsidiary to us.*

Minera México is a Mexican company and, as such, may pay dividends only out of net income that has been approved by the shareholders. Shareholders must also approve the actual dividend payment, after mandatory legal reserves have been created and losses for prior fiscal years have been satisfied. As a result, these legal constraints may limit the ability of our Minera México subsidiary to pay dividends to us, which in turn, may have an impact on our ability to service debt.

*Our operations are subject to risks, some of which are not insurable.*

As shown by our recent tragic mining accident in Mexico, the business of mining, smelting and refining copper, zinc and other metals is subject to a number of risks and hazards, including industrial accidents, labor disputes, unusual or unexpected geological conditions, changes in the regulatory environment, environmental hazards and weather and other natural phenomena, such as earthquakes. Such occurrences could result

in damage to, or destruction of, mining operations resulting in monetary losses and possible legal liability. In particular, surface and underground mining and related processing activities present inherent risks of injury to personnel and damage to equipment. We maintain insurance against many of these and other risks, which may not provide adequate coverage in certain circumstances. Insurance against certain risks, including certain liabilities for environmental pollution or hazards as a result of exploration and production, is not generally available to us or other companies within the mining industry. We do not have, and do not intend to obtain, political risk insurance. These or other uninsured events may adversely affect our financial condition and results of operations.

***The loss of one of our large customers could have a negative impact on our results of operations.***

The loss of one or more of our significant customers could adversely affect our financial condition and results of operations. In 2005, 2004 and 2003, our largest customer accounted for approximately 11.7%, 10.7% and 6.7%, respectively, of our sales. Additionally, our five largest customers in each of 2005, 2004 and 2003 collectively accounted for approximately 40.8%, 33.7% and 26.5%, respectively, of our sales.

***Deliveries under our copper sales agreements can be suspended or cancelled by our customers in certain cases.***

Under each of our copper sales agreements, we or our customers may suspend or cancel delivery of copper during a period of force majeure. Events of force majeure under these agreements include acts of nature, labor strikes, fires, floods, wars, transportation delays, government actions or other events that are beyond the control of the parties. Any suspension or cancellation by our customers of deliveries under our copper or other sales contracts that are not replaced by deliveries under new contracts or sales on the spot market would reduce our cash flow and could adversely affect our financial condition and results of operations.

***The copper mining industry is highly competitive.***

We face competition from other copper mining and producing companies around the world. Although we are currently among the lowest cost copper producers in our region, we cannot assure you that competition from lower cost producers will not adversely affect us in the future.

In addition, mines have limited lives and, as a result, we must periodically seek to replace and expand our reserves by acquiring new properties. Significant competition exists to acquire properties producing or capable of producing copper and other metals.

The mining industry has experienced significant consolidation in recent years, including consolidation among some of our main competitors, as a result of which an increased percentage of copper production is from companies that also produce other products and may, consequently, be more diversified than we are. We cannot assure you that the result of current or further consolidation in the industry will not adversely affect us.

Potential changes to international trade agreements, trade concessions or other political and economic arrangements may benefit copper producers operating in countries other than Peru and Mexico, where our mining operations are currently located. We cannot assure you that we will be able to compete on the basis of price or other factors with companies that in the future may benefit from favorable trading or other

arrangements.

*Increases in energy costs, accounting policy changes and other matters may adversely affect our results of operations.*

We require substantial amounts of fuel oil, electricity and other resources for our operations. Fuel, gas and power costs constitute approximately 43.4% of our production

cost. We rely upon third parties for our supply of the energy resources consumed in our operations. The prices for and availability of energy resources may be subject to change or curtailment, respectively, due to, among other things, new laws or regulations, imposition of new taxes or tariffs, interruptions in production by suppliers, worldwide price levels and market conditions. For example, during the 1970s and 1980s, our ability to import fuel oil was restricted by Peruvian government policies that required us to purchase fuel oil domestically from a government-owned oil producer at prices substantially above those prevailing on the world market. In addition, in recent years the price of oil has risen dramatically due to a variety of factors. Disruptions in supply or increases in costs of energy resources could have a material adverse effect on our financial condition and results of operations.

We believe our results of operations can, from time to time, be affected by accounting policy changes, including the March 17, 2005 Emerging Issues Task Force, or EITF, consensus ratified by the Financial Accounting Standards Board, or FASB, on March 30, 2005 and the subsequent modification to the transition provisions approved by the EITF in its June 15-16, 2005 meeting. The consensus states that stripping costs incurred during the production phase of a mine are variable production costs that should be included in the cost of the inventory produced (extracted) during the period that the stripping costs are incurred. On January 1, 2006 the Company adopted this consensus by reversing \$499.5 million of net cumulative capitalized stripping cost and capitalized leach inventory cost as of December 31, 2005 and recording a net charge of \$322.9 million to retained earnings after the recognition of a workers participation and tax benefit of \$176.6 million. In addition, near-term future years operating income could be negatively impacted to the extent that costs previously capitalized are expensed. For further discussions see Notes to consolidated combined financial statements Impact of new accounting standards .

A 2005 Mexican Supreme Court decision reduced our results by requiring increased workers profit sharing payments by our Minera México subsidiary. In May 2005, the court rendered a decision that changed the method of computing the amount of statutory workers profit-sharing required to be paid by certain Mexican companies, including Minera México. The court's ruling in effect prohibited applying net operating loss carryforwards in computing the income used as the base for determining the workers profit sharing amounts, as further described under Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Other Liquidity Considerations .

Additionally, we expect our future results will continue to be affected by the recently-enacted Peruvian mining royalty charge, which has reduced our earnings in the second half of 2004 and the year 2005, as further described under Business Mining Rights and Concessions Peru.

***We may be adversely affected by labor disputes.***

In the last several years we have experienced a number of strikes or other labor disruptions that have had an adverse impact on our operations and operating results. See Business Employees. For example, in Peru, on August 31, 2004, unionized workers at our mining units in Toquepala and Cuajone initiated work stoppages and sought additional wage increases based on high metals prices. The strike was resolved on September 13, 2004. Additionally, in February 2006 construction workers at the Ilo Smelter modernization project went on strike and blocked access to our Ilo production facilities. Our Ilo refinery and smelter production was interrupted for a short period before the matter was resolved. This disruption did not significantly affect our production.

In Mexico, on October 26, 2005 the workers at our La Caridad mining complex went on strike claiming that the Company still owed them profit sharing from 2003. The strike was declared illegal and the workers returned to work two days later after the Company agreed to pay each worker approximately \$900.00. The total paid was \$3.1 million. On July 12, 2004, the workers of Mexcobre went on strike asking for the review of certain



contractual clauses. Such a review was performed and the workers returned to work 18 days later. On October 15, 2004, the workers of Mexicana went on strike, followed by the Mexicana de Cobre workers. The strike lasted for 6 days at Mexicana de Cobre and 9 days at Mexicana de Cananea. In each case, our operations at the particular mine ceased until the strike was resolved. In Mexico, collective bargaining agreements are negotiated every year in respect of salaries and every two years for other benefits. We cannot assure you that we will not experience strikes or other labor-related work stoppages that could have a material adverse effect on our financial condition and results of operations.

***Environmental, health and safety laws and other regulations may increase our costs of doing business, restrict our operations or result in operational delays.***

Our exploration, mining, milling, smelting and refining activities are subject to a number of Peruvian and Mexican laws and regulations, including environmental laws and regulations, as well as certain industry technical standards. Additional matters subject to regulation include, but are not limited to, concession fees, transportation, production, water use and discharge, power use and generation, use and storage of explosives, surface rights, housing and other facilities for workers, reclamation, taxation, labor standards, mine safety and occupational health.

Environmental regulations in Peru and Mexico have become increasingly stringent over the last decade and we have been required to dedicate more time and money to compliance and remediation activities. Furthermore, Mexican authorities have become more rigorous and strict in enforcing Mexican environmental laws. We expect additional laws and regulations will be enacted over time with respect to environmental matters. Recently, Peruvian environmental laws have been enacted imposing closure and remediation obligations on the mining industry. Our Mexican operations are also subject to the environmental agreement entered into by Mexico, the United States and Canada in connection with the North American Free Trade Agreement. The development of more stringent environmental protection programs in Peru and Mexico and in relevant trade agreements could impose constraints and additional costs on our operations and require us to make significant capital expenditures in the future. We cannot assure you that future legislative, regulatory or trade developments will not have an adverse effect on our business, properties, results of operations, financial condition or prospects.

***Our metals exploration efforts are highly speculative in nature and may be unsuccessful.***

Metals exploration is highly speculative in nature, involves many risks and is frequently unsuccessful. Once mineralization is discovered, it may take a number of years from the initial phases of drilling before production is possible, during which time the economic feasibility of production may change. Substantial expenditures are required to establish proven and probable ore reserves through drilling, to determine metallurgical processes to extract the metals from the ore and, in the case of new properties, to construct mining and processing facilities. We cannot assure you that our exploration programs will result in the expansion or replacement of current production with new proven and probable ore reserves.

Development projects have no operating history upon which to base estimates of proven and probable ore reserves and estimates of future cash operating costs. Estimates are, to a large extent, based upon the interpretation of geological data obtained from drill holes and other sampling techniques, and feasibility studies that derive estimates of cash operating costs based upon anticipated tonnage and grades of ore to be mined and processed, the configuration of the ore body, expected recovery rates of the mineral from the ore, comparable facility and equipment operating costs, anticipated climatic conditions and other factors. As a result, actual cash operating costs and economic returns based upon development of proven and probable ore reserves may differ significantly from those originally estimated. Moreover, significant decreases in actual or expected prices may mean reserves, once found, will be uneconomical to produce.



***Our profits may be negatively affected by currency exchange rate fluctuations.***

Our assets, earnings and cash flows are influenced by various currencies due to the geographic diversity of our sales and the countries in which we operate. As some of our costs are incurred in currencies other than our functional currency, the U.S. dollar, fluctuations in currency exchange rates may have a significant impact on our financial results. These costs principally include electricity, labor, maintenance, operation contractors and fuel. For the year ended December 31, 2005, a substantial portion of our costs were denominated in a currency other than U.S. dollar. Operating costs are influenced by the currencies of the countries where our mines and processing plants are located and also by those currencies in which the costs of equipment and services are determined. The Peruvian nuevo sol, the Mexican peso and the U.S. dollar are the most important currencies influencing costs.

The U.S. dollar is our functional currency and our revenues are primarily denominated in U.S. dollars. However, portions of our operating costs are denominated in Peruvian nuevos soles and Mexican pesos. Accordingly, when inflation in Peru or Mexico increases without a corresponding devaluation of the nuevo sol or peso, our financial position, results of operations and cash flows could be adversely affected. To manage the volatility related to the risk of currency rate fluctuations, we may enter into forward exchange contracts. We cannot assure you, however, that currency fluctuations will not have an impact on our financial condition and results of operations.

Further, in the past there has been a strong correlation between copper prices and the exchange rate of the U.S. dollar. A strengthening of the U.S. dollar may therefore be accompanied by lower copper prices, which would negatively affect our financial condition and results of operations.

***We may be adversely affected by challenges relating to slope stability.***

Our open-pit mines get deeper as we mine them, presenting certain geotechnical challenges including the possibility of slope failure. If we are required to decrease pit slope angles or provide additional road access to prevent such a failure, our stated reserves could be negatively affected. Further, hydrological conditions relating to pit slopes, renewal of material displaced by slope failures and increased stripping requirements could also negatively affect our stated reserves. We have taken actions in order to maintain slope stability, but we cannot assure you that we will not have to take additional action in the future or that our actions taken to date will be sufficient. Unexpected failure or additional requirements to prevent slope failure may negatively affect our results of operations and financial condition, as well as have the effect of diminishing our stated ore reserves.

***Litigation involving Asarco may adversely affect us.***

Our direct and indirect parent corporations, including AMC and Grupo México, have from time to time been named parties in various litigations involving ASARCO LLC ( Asarco ). Asarco, a mining company, is indirectly wholly owned by Grupo México. In March 2003, AMC purchased its interest in SCC from Asarco. In August 2002 the U.S. Department of Justice brought a claim alleging fraudulent conveyance in connection with Asarco's environmental liabilities and AMC's then-proposed purchase of SCC from Asarco. That action was settled pursuant to a Consent Decree dated February 2, 2003. The consent decree is binding solely on the U.S. government. In October 2004, AMC, Grupo México, Mexicana de Cobre and other parties, not including SCC, were named in a lawsuit filed in New York State court in connection with alleged asbestos liabilities, which lawsuit claims, among other matters, that AMC's purchase of SCC from Asarco should be voided as a fraudulent conveyance. While Grupo México and its affiliates believe that these claims are without merit, we cannot assure you that these or future claims, if successful, will not have an adverse effect on our parent corporations or us. Any increase in the financial obligations of our parent corporations, as a result of matters related to Asarco or otherwise could, among other matters result in our parent corporations attempting to obtain increased dividends

or other funding from us. In

2005, certain subsidiaries of Asarco filed bankruptcy petitions in connection with alleged asbestos liabilities. In July 2005, the unionized workers of Asarco commenced a work stoppage. The work stoppage was settled in November 2005 with the extension of the existing contract for an additional thirteen month period until December 31, 2006. A further deterioration of the financial condition of Asarco could result in additional claims being filed against Grupo México and its subsidiaries, including SCC, Minera México or its subsidiaries. As a result of various factors, including the above mentioned work stoppage, in August 2005, Asarco LLC entered into bankruptcy proceedings under Chapter 11 of the U.S. Bankruptcy Code before the U.S. Bankruptcy Court of Corpus Christi, Texas. Asarco's bankruptcy case is being joined with the bankruptcy cases of its subsidiaries. Asarco is in continuing possession of its properties and is operating and managing its businesses as a debtor in possession. Asarco believes that by utilizing the Chapter 11 process it can achieve an orderly restructuring of its business and finally resolve, among other contingencies, its environmental and asbestos claims. However, it is impossible to predict how the bankruptcy court will ultimately rule with respect to such petitions and the impact such rulings will have on Asarco and its subsidiaries and ultimately upon us.

***We are controlled by Grupo México, which exercises significant influence over our affairs and policies and whose interests may be different from yours.***

Grupo México owns indirectly approximately 75.1% of our capital stock. We own substantially all of Minera México's capital stock. In addition, certain of our and Minera México's officers and directors are also officers of Grupo México. We cannot assure you that the interests of Grupo México will not conflict with yours.

Grupo México has the ability to determine the outcome of substantially all matters submitted for a vote to our stockholders and thus exercises control over our business policies and affairs, including the following:

the composition of our board of directors and, as a result, any determinations of our board with respect to our business direction and policy, including the appointment and removal of our officers;

determinations with respect to mergers and other business combinations, including those that may result in a change of control;

whether dividends are paid or other distributions are made and the amount of any dividends or other distributions;

sales and dispositions of our assets; and

the amount of debt financing that we incur.

In addition, we and Minera México have in the past engaged in, and expect to continue to engage in, transactions with Grupo México and its other affiliates that may present conflicts of interest. For additional information regarding the share ownership of, and our relationships with, Grupo México and its affiliates, see Related Party Transactions.

***We may pay a significant amount of our net income as cash dividends on our common stock in the future.***

We have distributed a significant amount of our net income as dividends since 1996. Our dividend practice is subject to change at the discretion of our board of directors at any time. The amount that we pay in dividends is subject to a number of factors, including our results of operations, financial condition, cash requirements, tax considerations, future prospects, legal restrictions, contractual restrictions in credit agreements, limitations imposed by the government of Peru, Mexico or other countries where we have significant operations and other factors that our board of directors may deem relevant. We anticipate paying a significant amount of our net income as cash dividends on our common stock in the foreseeable future. Such payments would reduce cash available to meet our debt service obligations.

## **Risks Associated with Doing Business in Peru and Mexico**

### *There is uncertainty as to the termination and renewal of our mining concessions.*

Under the laws of Peru and Mexico, mineral resources belong to the state and government concessions are required in both countries to explore for or exploit mineral reserves. In Peru, our mineral rights derive from concessions from the Peruvian Ministry of Energy and Mines for our exploration, exploitation, extraction and/or production operations. In June 2004, the Peruvian Congress enacted legislation imposing a royalty to be paid by mining companies in favor of the regional governments and communities where mining resources are located. Under the new law, we are subject to a 1% to 3% tax, based on sales, applicable to the value of the concentrates produced in our Toquepala and Cuajone mines. See Business Mining Rights and Concessions Peru. In Mexico, our mineral rights derive from concessions granted, on a discretionary basis, by the *Secretaría de Economía* (Ministry of Economy), pursuant to the *Ley Minera* (the Mining Law) and regulations thereunder.

Mining concessions in both Peru and Mexico may be terminated if the obligations of the concessionaire are not satisfied. In Peru, we are obligated to pay certain fees for our mining concession. In Mexico, we are obligated, among other things, to explore or exploit the relevant concession, to pay any relevant fees, to comply with all environmental and safety standards, to provide information to the Ministry of Economy and to allow inspections by the Ministry of Economy. Any termination or unfavorable modification of the terms of one or more of our concessions, or failure to obtain renewals of such concessions subject to renewal or extensions, could have a material adverse effect on our financial condition and prospects.

### *Peruvian economic and political conditions may have an adverse impact on our business.*

A significant part of our operations are conducted in Peru. Accordingly, our business, financial condition or results of operations could be affected by changes in economic or other policies of the Peruvian government or other political, regulatory or economic developments in Peru. During the past several decades, Peru has had a history of political instability that has included military coups and a succession of regimes with differing policies and programs. Past governments have frequently intervened in the nation's economy and social structure. Among other actions, past governments have imposed controls on prices, exchange rates and local and foreign investment as well as limitations on imports, have restricted the ability of companies to dismiss employees, have expropriated private sector assets (including mining companies) and have prohibited the remittance of profits to foreign investors.

From 1985 through 1990, during the Alan García administration, government policies restricted our ability, among other things, to repatriate funds and import products from abroad. In addition, currency exchange rates were strictly controlled and all exports sales were required to be deposited in Peru's *Banco Central de Reserva*, where they were exchanged from U.S. dollars to the Peruvian currency at less-than-favorable rates of exchange. These policies generally had an adverse effect on our results of operations. Controls on repatriation of funds limited the ability of our stockholders to receive dividends outside of Peru but did not limit the ability of our stockholders to receive distributions of earnings in Peru.

In July 1990, Alberto Fujimori was elected president, and his administration implemented a broad-based reform of Peru's economic and social conditions aimed at stabilizing the economy, restructuring the national government by reducing bureaucracy, privatizing state-owned companies, promoting private investment, developing and strengthening free markets and enacting programs for the strengthening of basic services related to education, health, housing and infrastructure. After taking office for his third term in July 2000 under extreme protest, President Fujimori was forced to call for general elections due to the outbreak of corruption scandals, and later resigned in favor of a transitory government headed by the president of Congress, Valentín Paniagua.



Mr. Paniagua took office in November 2000 and in July 2001 handed over the presidency to Alejandro Toledo, the winner of the elections decided in the second round held on June 3, 2001, ending two years of political turmoil. Since his election, President Toledo has retained, for the most part, the economic policies of the previous government, focusing on promoting private investment, eliminating tax exemptions, reducing underemployment and unemployment and privatizing state-owned companies in various sectors including energy, mining and public services. President Toledo also implemented fiscal austerity programs, among other proposals, in order to stimulate the economy. Despite Peru's moderate economic growth, the Toledo administration has at times faced public unrest spurred by the high rates of unemployment, underemployment and poverty. President Toledo has been forced to restructure his cabinet on several occasions to quell public unrest and to maintain his political alliances.

Given that the Toledo administration continues to face a fragmented Congress and continuing public unrest, we cannot assure you that the government will continue its current economic policies or that Peru's recent economic growth will be sustained. In addition, presidential elections are expected to be held in Peru in the second quarter of 2006, which may mean a change in Peru's economic policies. Because we have significant operations in Peru, future Peruvian governmental actions could have an adverse effect on market conditions, prices and returns on our securities, and on our business, results of operations, financial condition, ability to obtain financing and prospects.

There is a risk of terrorism in Peru relating to *Sendero Luminoso* and the *Movimiento Revolucionario Tupac Amaru*, which were particularly active in the 1980s and early 1990s. We cannot guarantee that acts by these or other terrorist organizations will not adversely affect our operations in the future.

***Mexican economic and political conditions may have an adverse impact on our business.***

A significant part of our operations are based in Mexico. In the past, Mexico has experienced both prolonged periods of weak economic conditions and dramatic deterioration in economic conditions, characterized by exchange rate instability and significant devaluation of the peso, increased inflation, high domestic interest rates, a substantial outflow of capital, negative economic growth, reduced consumer purchasing power and high unemployment. An economic crisis occurred in 1995 in the context of a series of internal disruptions and political events including a large current account deficit, civil unrest in the southern state of Chiapas, the assassination of two prominent political figures, a substantial outflow of capital and a significant devaluation of the peso. We cannot assure you that such conditions will not recur, that other unforeseen negative political or social conditions will not arise or that such conditions will not have a material adverse effect on our financial condition and results of operations.

On July 2, 2000, Vicente Fox of the *Partido Acción Nacional* (the National Action Party), or PAN, was elected president. Although his election ended more than 70 years of presidential rule by the *Partido Revolucionario Institucional* (the Institutional Revolutionary Party), or PRI, neither the PAN nor the PRI succeeded in securing a majority in the Mexican congress. In elections in 2003 and 2004, the PAN lost additional seats in the Mexican Congress and state governorships. The lack of a majority party in the legislature and the lack of alignment between the legislature and the executive branch have resulted in legislative gridlock, which is expected to continue at least until the Mexican presidential elections in 2006. Such legislative gridlock has impeded the progress of structural reforms in Mexico, which may have a material adverse effect on the Mexican economy and cause disruptions to our operations. Furthermore, economic plans of the Mexican government in the past have not, in certain respects, fully achieved their objectives, and we cannot assure you that any reforms that are undertaken will achieve their stated goals. Because we have significant operations in Mexico, we cannot provide any assurance that current legislative gridlock and/or future political developments in Mexico, including the 2006 presidential and

congressional elections, will not have a material adverse effect on market conditions, prices and returns on our securities, our ability to obtain financing, and our results of operations and financial condition.

***Peruvian inflation, reduced economic growth and fluctuations in the nuevo sol exchange rate may adversely affect our financial condition and results of operations.***

Over the past several decades, Peru has experienced periods of high inflation, slow or negative economic growth and substantial currency devaluation. The inflation rate in Peru, as measured by the *Indice de Precios al Consumidor* and published by the *Instituto Nacional de Estadística e Informática*, the National Institute of Statistics, has fallen from a high of 7,649.7% in 1990 to 1.5% in 2005. The Peruvian currency has been devalued numerous times during the last 20 years. The devaluation rate has decreased from a high of 4,019.3% in 1990 to 4.5% in 2005. Our revenues are primarily denominated in U.S. dollars and our operating expenses are partly denominated in U.S. dollars. If inflation in Peru were to increase without a corresponding devaluation of the nuevo sol relative to the U.S. dollar, our financial position and results of operations, and the market price of our common stock, could be affected. Although the Peruvian government's stabilization plan has significantly reduced inflation and the Peruvian economy has experienced moderate growth in recent years, we cannot assure you that inflation will not increase from its current level or that such growth will continue in the future at similar rates or at all.

Among the economic circumstances that could lead to a devaluation of the nuevo sol is the decline of Peruvian foreign reserves to inadequate levels. Peru's foreign reserves at February 28, 2006, were \$14.0 billion as compared to \$12.6 billion at December 31, 2004. We cannot assure you that Peru will be able to maintain adequate foreign reserves to meet its foreign currency denominated obligations or that Peru will not devalue its currency should its foreign reserves decline.

***Mexican inflation, restrictive exchange control policies and fluctuations in the peso exchange rate may adversely affect our financial condition and results of operations.***

Although all of our Mexican operations' sales of metals are priced and invoiced in U.S. dollars, a substantial portion of our Mexican operations' cost of sales are denominated in pesos. Accordingly, when inflation in Mexico increases without a corresponding devaluation of the peso, as it did in 2000, 2001 and 2002, the net income generated by our Mexican operations is adversely affected.

The annual inflation rate in Mexico was 3.3% in 2005, 5.2% in 2004 and 4.0% in 2003. The Mexican government has publicly announced that it does not expect inflation to exceed 3.0% in 2006. At the same time, the peso has been subject in the past to significant devaluation, which may not have been proportionate to the inflation rate and may not be proportionate to the inflation rate in the future. The value of the peso declined by 4.9% in 2005 and increased by 0.3% in 2004 and 9.0% in 2003.

While the Mexican government does not currently restrict the ability of Mexican companies or individuals to convert pesos into dollars or other currencies, in the future, the Mexican government could impose a restrictive exchange control policy, as it has done in the past. We cannot assure you that the Mexican government will maintain its current policies with regard to the peso or that the peso's value will not fluctuate significantly in the future. The imposition of such exchange control policies could impair Minera México's ability to obtain imported goods and to meet its U.S. dollar-denominated obligations and could have an adverse effect on our business and financial condition.

*Developments in other emerging market countries and in the United States may adversely affect the prices of our common stock and our debt securities.*

The market value of securities of companies with significant operations in Peru and Mexico is, to varying degrees, affected by economic and market conditions in other

emerging market countries. Although economic conditions in such countries may differ significantly from economic conditions in Peru or Mexico, as the case may be, investors' reactions to developments in any of these other countries may have an adverse effect on the market value or trading price of the securities, including debt securities, of issuers that have significant operations in Peru or Mexico.

In addition, in recent years economic conditions in Mexico have increasingly become correlated to U.S. economic conditions. Therefore, adverse economic conditions in the United States could also have a significant adverse effect on Mexican economic conditions including the price of our debt securities. We cannot assure you that the market value or trading prices of our common stock and debt securities, will not be adversely affected by events in the United States or elsewhere, including in emerging market countries.

## Item 2. Properties

We were incorporated in Delaware in 1952. Our corporate offices in the United States are located at 2575 East Camelback Road, Suite 500, Phoenix, Arizona 85016. Our telephone number in Phoenix, Arizona is (602) 977-6595. Our corporate offices in Mexico are located in Mexico City and our corporate offices in Peru are located in Lima. Our website is [www.southerncoppercorp.com](http://www.southerncoppercorp.com) We believe that our existing properties are in good condition and suitable for the conduct of its business.

The following table sets forth as of December 31, 2005, the locations of production facilities by reportable segment, the processes used, as well as the key production and capacity data for each location:

<i>Facility Name</i>	<i>Location</i>	<i>Process</i>	<i>Nominal Capacity (1)</i>	<i>2005 Production</i>	<i>2005 Capacity Utilization</i>
<b>PERUVIAN OPEN PIT UNIT</b>					
<b>Mining Operations</b>					
<i>Cuajone Open-pit Mine</i>	<i>Cuajone (Peru)</i>	<i>Copper ore milling and recovery, copper and molybdenum concentrate production</i>	<i>87.0 ktpd - Milling</i>	<i>81.9 ktpd</i>	<i>94.1 %</i>
<i>Toquepala Open-pit Mine</i>	<i>Toquepala (Peru)</i>	<i>Copper ore milling and recovery, copper and molybdenum concentrate production</i>	<i>60.0 ktpd - Milling</i>	<i>59.5 ktpd</i>	<i>99.1 %</i>
<i>Toquepala SX-EW Plant</i>	<i>Toquepala (Peru)</i>	<i>Leaching, solvent extraction and cathode electro winning</i>	<i>56.0 ktpy - Refined</i>	<i>36.5 ktpy</i>	<i>65.2 %</i>
<b>Processing Operations</b>					
<i>Ilo Copper Smelter</i>	<i>Ilo (Peru)</i>	<i>Copper smelting, blister production</i>	<i>1,131.5 ktpy - Concentrate feed</i>	<i>1,206.3 ktpy</i>	<i>106.6 %</i>
<i>Ilo Copper Refinery</i>	<i>Ilo (Peru)</i>	<i>Copper refining</i>	<i>280 ktpy - Refined cathodes</i>	<i>285.2 ktpy</i>	<i>101.9 %</i>
<i>Ilo Acid Plant</i>	<i>Ilo (Peru)</i>	<i>Sulfuric Acid</i>	<i>300 ktpy - Sulfuric acid</i>	<i>369.7 ktpy</i>	<i>123.2 %</i>
<i>Ilo Precious Metals Refinery</i>	<i>Ilo (Peru)</i>	<i>Slime recovery &amp; processing, gold &amp; silver refining</i>	<i>365 tpy</i>	<i>311.4 tpy</i>	<i>85.3 %</i>
<b>MEXICAN OPEN PIT UNIT</b>					
<i>Cananea Open-Pit Mine</i>	<i>Sonora (Mexico)</i>	<i>Copper Ore milling &amp; recovery, copper concentrate production</i>	<i>76.7 ktpd - Milling</i>	<i>70.2 ktpd</i>	<i>91.5 %</i>
<i>Cananea SX-EW I, II Plants</i>	<i>Sonora (Mexico)</i>	<i>Leaching, solvent extraction &amp; refined cathode electrowinning</i>	<i>54.8 ktpy (combined)</i>	<i>56.4ktpy</i>	<i>103.0 %</i>
<i>La Caridad Open-Pit Mine</i>	<i>Sonora (Mexico)</i>	<i>Copper ore milling &amp; recovery, copper &amp; molybdenum concentrate production</i>	<i>90.0 ktpd - Milling</i>	<i>87.0 ktpd</i>	<i>96.7 %</i>
<i>La Caridad SX-EW Plant</i>	<i>Sonora (Mexico)</i>	<i>Leaching, solvent extraction &amp; cathode electro winning</i>	<i>21.9 ktpy - Refined</i>	<i>22.0 ktpy</i>	<i>100.5 %</i>
<b>Processing Operations</b>					
<i>La Caridad Copper Smelter</i>	<i>Sonora (Mexico)</i>	<i>Concentrate smelting, anode production</i>	<i>1,000 ktpy - Concentrate feed</i>	<i>894.7 ktpy</i>	<i>89.5 %</i>
<i>La Caridad Copper Refinery</i>	<i>Sonora (Mexico)</i>	<i>Copper refining</i>	<i>300 ktpy Copper cathode</i>	<i>233.7 ktpy</i>	<i>77.9 %</i>
<i>La Caridad Copper Rod Plant</i>	<i>Sonora (Mexico)</i>	<i>Copper rod production</i>	<i>150 ktpy Copper rod</i>	<i>113.2 ktpy</i>	<i>75.4 %</i>



<i>La Caridad Precious Metals Refinery</i>	<i>Sonora (Mexico)</i>	<i>Slime recovery &amp; processing, gold &amp; silver refining</i>	<i>2.8 ktpy - Slime</i>	<i>0.7 ktpy</i>	<i>26.6%</i>
<i>La Caridad Sulfuric Acid Plant</i>	<i>Sonora (Mexico)</i>	<i>Sulfuric acid</i>	<i>1,565.5 ktpy - Sulfuric acid</i>	<i>833.4 ktpy</i>	<i>53.2%</i>
<b>IMMSA UNIT</b>					
<b>Underground Mines</b>					
<i>Charcas</i>	<i>San Luis Potosi (Mexico)</i>	<i>Copper, zinc, lead milling, recovery &amp; concentrate production</i>	<i>4.0 ktpd - Milled ore</i>	<i>3.6 ktpd</i>	<i>91.0%</i>
<i>San Martin</i>	<i>Zacatecas (Mexico)</i>	<i>Lead, zinc, copper &amp; silver mining, milling recovery &amp; concentrate production</i>	<i>4.4 ktpd Milled ore</i>	<i>3.4 ktpd</i>	<i>76.7%</i>
<i>Santa Barbara</i>	<i>Chihuahua (Mexico)</i>	<i>Lead, copper and zinc mining &amp; concentrates production</i>	<i>6.0 ktpd Milled ore</i>	<i>4.1 ktpd</i>	<i>67.9%</i>
<i>Santa Eulalia</i>	<i>Chihuahua (Mexico)</i>	<i>Lead &amp; zinc mining and milling recovery &amp; concentrate production</i>	<i>1.5 ktpd Milled ore</i>	<i>0.6 ktpd</i>	<i>38.3%</i>
<i>Taxco</i>	<i>Guerrero (Mexico)</i>	<i>Lead, zinc silver &amp; gold mining recovery &amp; concentrate production</i>	<i>2.0 ktpd Milled ore</i>	<i>1.0 ktpd</i>	<i>49.7%</i>
<i>Nueva Rosita Coal &amp; Coke Complex(2)</i>	<i>Coahuila (Mexico)</i>	<i>Clean coal production</i>	<i>900 ktpy clean coal</i>	<i>181 ktpy</i>	<i>20.1%</i>
<b>Processing Operations</b>					
<i>San Luis Potosi Copper Smelter</i>	<i>San Luis Potosi (Mexico)</i>	<i>Concentrate smelting, blister production</i>	<i>230 ktpy Concentrate feed</i>	<i>103.1 ktpy</i>	<i>44.8%</i>
<i>San Luis Potosi Zinc Refinery</i>	<i>San Luis Potosi (Mexico)</i>	<i>Zinc concentrates refining</i>	<i>105 ktpy Zinc cathode</i>	<i>101.5% ktpy</i>	<i>96.7%</i>
<i>San Luis Potosi Sulfuric Acid Plant</i>	<i>San Luis Potosi (Mexico)</i>	<i>Sulfuric acid</i>	<i>180.0 ktpy Sulfuric acid</i>	<i>176.3 ktpy</i>	<i>97.9%</i>

Key:

koz = thousands of ounces

ktpd = thousands of tons per day

ktpy = thousands of tons per year

tpy = tons per year

(1) Our estimates of actual capacity contemplating normal operating conditions with allowance for normal downtime for repairs and maintenance and based on the average metal content for the relevant period.

(2) At December 31, 2005, the coal reserves for the Nueva Rosita coal were 66,981,498 tons with average sulfur content of 1.0% and a BTU content of 8800 per pound.



## SUMMARY OPERATING DATA

The following table sets out certain operating data underlying our combined financial and operating information for each of the periods indicated.

	Year Ended December 31,		
	2005	2004	2003
<b><u>COPPER (thousand pounds):</u></b>			
<b><u>Mined</u></b>			
<b><u>Peru open pit</u></b>			
Toquepala	347,130	354,618	313,878
Cuajone	360,805	428,553	406,814
SX-EW Toquepala	80,464	92,869	105,283
<b><u>Mexico open pit</u></b>			
La Caridad	269,662	243,358	236,414
Cananea	261,778	271,670	207,461
SX-EW La Caridad	48,603	48,005	47,334
SX-EW Cananea	124,359	110,671	109,169
<b><u>IMMSA Unit</u></b>	28,228	33,186	41,738
<b>Total Mined</b>	<b>1,521,029</b>	<b>1,582,930</b>	<b>1,468,091</b>
<b><u>Smelted</u></b>			
Blister Ilo	713,200	702,646	689,513
Anodes La Caridad	617,953	548,763	435,168
Blister IMMSA	46,998	49,970	51,914
<b>Total Smelted</b>	<b>1,378,151</b>	<b>1,301,379</b>	<b>1,176,595</b>
<b><u>Refined</u></b>			
<b><u>Peru Open Pit</u></b>			
Cathodes Ilo	628,769	618,790	626,126
SX-EW Toquepala	80,464	92,869	105,283
<b><u>Mexico Open Pit</u></b>			
Cathodes La Caridad	515,179	445,649	361,480
SX-EW La Caridad	48,603	48,005	47,334
SX-EW Cananea	124,359	110,671	109,169
<b>Total Refined</b>	<b>1,397,374</b>	<b>1,315,984</b>	<b>1,249,392</b>
<b><u>Rod Mexico Open Pit</u></b>			
La Caridad	249,485	153,282	118,654
<b>Total Rod</b>	<b>249,485</b>	<b>153,282</b>	<b>118,654</b>
<b><u>SILVER (thousand ounces)</u></b>			
<b><u>Mined</u></b>			
<b><u>Peru Open Pit</u></b>			
Toquepala	2,230	2,048	1,822
Cuajone	2,261	2,712	2,490
<b><u>Mexico Open Pit</u></b>			
La Caridad	2,123	1,777	1,846
Cananea	1,698	1,523	1,075
<b><u>IMMSA Unit</u></b>	10,183	10,470	10,770

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<b>Total Mined</b>	<b>18,495</b>	<b>18,530</b>	<b>18,003</b>
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**Refined**

Peru Open Pit - Ilo	3,533	3,823	3,599
Mexico Open Pit - La Caridad	4,583	2,923	4,376
IMMSA Unit	4,371	4,050	4,171
<b>Total Refined</b>	<b>12,487</b>	<b>10,796</b>	<b>12,146</b>

**MOLYBDENUM** (thousand pounds)

**Mined**

Toquepala	11,737	13,236	9,156
Cuajone	11,638	10,267	10,730
La Caridad	9,260	8,184	8,184
<b>Total Mined</b>	<b>32,635</b>	<b>31,687</b>	<b>28,070</b>

**ZINC** (thousand pounds)

Mined IMMSA	316,603	294,930	283,867
Refined IMMSA	223,820	226,097	222,819

Average Market Prices	Year Ended December 31,		
	2005	2004	2003
Copper price (\$ per pound - LME)	\$ 1.67	\$ 1.30	\$ 0.81
Copper price (\$ per pound - COMEX)	\$ 1.68	\$ 1.29	\$ 0.81
Molybdenum price (\$ per pound) (1)	\$ 31.05	\$ 15.95	\$ 5.21
Zinc price (\$ per pound - LME)	\$ 0.63	\$ 0.48	\$ 0.38
Silver price (\$ per ounce - COMEX)	\$ 7.32	\$ 6.68	\$ 4.89

(1) Platt's Metals Week Dealer Oxide

#### ORE RESERVES:

Ore reserves are those estimated quantities of proven and probable material that may be economically mined and processed for extraction of their mineral content. Ore reserve estimates are based on engineering evaluations of assay values derived from the sampling of drill holes and other openings. We believe that the samplings taken are spaced at intervals close enough to render the estimates reliable. The ore reserves estimates include assessments of the metallurgy to determine copper recovery by flotation process and column leaching, as well as economic, marketing, legal, environmental, governmental, and other necessary considerations.

Annually our engineering department reviews in detail the reserve computations. In addition, the engineering department reviews the computation when changes in assumptions occur. Changes can occur for price or cost assumptions, results in field drilling or new geotechnical parameters. We also engage third party consultants to review mine planning procedures.

Pursuant to SEC guidance, the reserves information in this report are calculated using average metals prices over the most recent three years unless otherwise stated. We refer to these three-year average metals prices as current prices. Our current prices for copper are calculated using prices quoted by COMEX, and our current prices for molybdenum are calculated according to Platt's *Metals Week*. Unless otherwise stated, reserves estimates in this report use \$1.261 per pound for copper and \$17.817 per pound for molybdenum, both current prices as of December 31, 2005. The current prices for copper and molybdenum were \$0.939 and \$8.425 as of December 31, 2004 and \$0.751 and \$3.81 as of December 31, 2003.

For purposes of our long-term planning, our management uses metals price assumptions of \$0.90 per pound for copper and \$4.50 per pound for molybdenum. These prices are intended to approximate average prices over the long term. Our management uses these price assumptions, as it believes these prices reflect the full price cycle of the metals market.

For Peruvian operations, commencing in 2003, we have used reserves estimates based on current average prices as of the most recent year then ended to determine the amount of mine stripping that is capitalized, units of production amortization of capitalized mine stripping and amortization of intangible assets. In calculating such items in the case of our Minera Mexico subsidiary for periods prior to 2005, we have used reserves estimates based on the longer-term price assumptions discussed above.

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We periodically reevaluate estimates of our ore reserves, which represent our estimate as to the amount of unmined copper remaining in our existing mine locations that can be produced and sold at a profit. These estimates are based on engineering evaluations derived from samples of drill holes and other openings, combined with assumptions about copper market prices and production costs at each of our mines.

For more information regarding our reserve estimates, see Management's Discussion and Analysis of Financial Conditions and Results of Operations Critical Accounting Policies and Estimates Ore Reserves

COPPER AND MOLYBDENUM RESERVES BY SITE:

The table below details our copper and molybdenum reserves as estimated at December 31, 2005.

	PERUVIAN OPEN-PIT UNIT		MEXICAN OPEN-PIT UNIT		TOTAL OPEN-PIT MINES	MEXICAN IMMSA UNIT IMMSA (2)	Sensitivity to Change in metals prices (3)	
	Cuajone Mine (1)	Toquepala Mine (2)	Cananea Mine (1)	La Caridad Mine (1)			Increase 20%	Decrease 20%
<b>Mineral Reserves</b>								
Metal prices:								
Copper (\$/lb.)	1.261	1.261	1.261	1.261	1.261	1.261	1.513	1.009
Molybdenum (\$/lb.)	17.817	17.817	17.817	17.817	17,817	17.817	21.381	14.254
Cut-off grade	0.30%	0.30%	0.25%	0.20%	0.26%		0.21%	0.36%
Sulfide ore reserves (thousands of tons)								
	1,935,407	2,174,479	3,759,426	1,562,184	9,431,496	41,644	12,481,624	6,111,769
Average grade:								
Copper	0.561%	0.580%	0.494%	0.315%	0.498%	0.51%	0.450%	0.577%
Molybdenum	0.019%	0.032%		0.028%	0.026%		0.025%	0.029%
Leachable material (thousands of tons)								
	11,604	2,777,807	1,499,915	1,489,303	5,778,629		5,383,676	5,466,250
Leachable material grade								
	0.568%	0.172%	0.226%	0.157%	0.183%		0.159%	0.216%
Waste (thousands of tons)								
	5,022,010	7,364,671	3,979,732	540,455	16,906,868		20,813,111	13,510,787
Total material (thousands of tons)								
	6,969,021	12,316,957	9,239,073	3,591,942	32,116,993		38,678,411	25,088,806
Stripping ratio								
	2.60	4.66	1.46	1.30	2.41		2.10	3.10
<b>Leachable material</b>								
Reserves in stock (thousands of tons)								
	23,982	807,154	605,711	467,789	1,904,636		1,904,636	1,904,636
Average copper grade								
	0.463%	0.136%	0.139%	0.252%	0.170%		0.170%	0.170%
	11,604	2,777,807	1,499,915	1,489,303	5,778,629		5,383,676	5,466,250

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In pit reserves (thousands of tons)								
Average copper grade	0.568%	0.172%	0.226%	0.157%	0.183%	0.159%	0.216%	
Total leachable reserves (thousands of tons)	35,586	3,584,961	2,105,626	1,957,092	7,683,265	7,288,312	7,370,886	
Average copper grade	0.497%	0.164%	0.201%	0.180%	0.180%	0.162%	0.204%	
<b>Copper contained in ore reserves (thousand of tons) (4)</b>	<b>10,924</b>	<b>17,390</b>	<b>21,961</b>	<b>7,259</b>	<b>57,534</b>	<b>212</b>	<b>64,707</b>	<b>47,040</b>

(1) The Cuajone, Toquepala, Cananea and La Caridad concentrator recoveries calculated for these reserves were 83.7%, 87.0%, 81.0% and 82.59%, respectively, obtained by using recovery formulas according to the different milling capacity and geo-metallurgical zones.

(2) The Immsa Unit includes the Charcas, Santa Bárbara, San Martin, Santa Eulalia and Taxco mines.

(3) In preparing the sensitivity analysis, we recalculated our reserves based on the assumption that current average metal prices were 20% higher and 20% lower, respectively, than the actual current average prices for year-end 2005. Reserve results of this sensitivity analysis are not proportional to the increase or decrease in metal price assumptions. The analysis above does not include our Immsa Unit's underground mines, for which the sensitivity analysis is as follows:

	Sensitivity to 20% Change in Metals Prices	
	Increase 20%	Decrease 20%
Sulfide ore reserves (thousands of tons)	45,337	32,638
Average grade copper	0.49%	0.58%
Copper contained (thousands of tons)	222	189

(4) Copper contained in ore reserves for open-pit mines is (i) the product of sulfide ore reserves and the average copper grade plus (ii) the product of in-pit leachable reserves and the average copper grade. Copper contained in ore reserves for underground mines is the product of sulfide ore reserves and the average copper grade

The following is the average drill-hole spacing for proven and probable sulfide reserves:

As of December 31, 2005

	Proven	Probable
	(average spacing in meters)	
Cuajone	80.32	120.48
Toquepala	88.68	120.92
Cananea	51.96	100.94
La Caridad	38.52	105.90

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The table below details our copper and molybdenum reserves as of December 31, 2005 calculated based on long-term price assumptions of, \$0.90 for copper and \$4.50 for molybdenum.

	Cuajone Mine	Toquepala Mine	Cananea Mine	La Caridad Mine	Total Open-Pit Mines	Immsa (1)
<b>Mineral Reserves</b>						
Metal prices:						
Copper (\$/lb.)	\$ 0.90	\$ 0.90	\$ 0.90	\$ 0.90	\$ 0.90	\$ 0.90
Molybdenum (\$/lb.)	\$ 4.50	\$ 4.50	\$ 4.50	\$ 4.50	\$ 4.50	\$ 4.50
Sulfide ore reserves (thousands of tons)	1,064,339	576,593	2,102,432	480,477	4,223,841	51,647
Average grade:						
Copper	0.636%	0.731%	0.597%	0.400%	0.603%	0.48%
Molybdenum	0.020%	0.042%		0.028%	0.028%	
Leachable material (thousands of tons)	32,211	925,075	1,378,185	826,505	3,161,976	
Leachable material grade	0.344%	0.218%	0.301%	0.206%	0.252%	
Waste (thousands of tons)	1,233,031	681,828	3,011,209	205,863	5,131,931	
Total material (thousands of tons)	2,329,581	2,183,496	6,491,826	1,512,845	12,517,748	
Stripping ratio	1.19	2.79	2.09	2.15	1.96	
<b>Leachable material</b>						
Reserves in stock						
(thousands of tons)	23,982	807,154	605,711	467,789	1,904,636	
Average copper grade	0.463%	0.136%	0.139%	0.252%	0.169%	
In-pit reserves (thousands of tons)						
(thousands of tons)	32,211	925,075	1,378,185	826,505	3,161,976	
Average copper grade	0.344%	0.218%	0.301%	0.206%	0.252%	
Total Leachable reserves						
(thousands of tons)	56,193	1,732,229	1,983,896	1,294,294	5,066,612	
Average copper grade	0.395%	0.180%	0.251%	0.223%	0.221%	
Copper contained in ore reserves (thousands of tons) (2)						
(thousands of tons)	6,880	6,232	16,700	3,625	33,437	248

(1) The Immsa Unit includes the Charcas, Santa Barbara, San Martin, Santa Eulalia and Taxco mines.

(2) Copper contained in ore reserves for open-pit mines is (i) the product of sulfide ore reserves and the average copper grade plus (ii) the product of in-pit leachable reserves and the average grade of copper. Copper contained in ore reserves for underground mines is the product of sulfide ore reserves and the average copper grade.

OVERVIEW OF BLOCK MODEL RECONCILIATION PROCESS

We apply the following block model to mill reconciliation procedure.

The following stages are identified in the Cuajone, Toquepala, Cananea and La Caridad mines:

1. The mine geologists gather the necessary monthly statistical data from our information system ( SRP ), which provides ore tons milled and ore grades in the concentrator.
2. Mined areas are topographically determined and related boundaries are built.
3. Using the interactive planner option in our mining software (Minesight), ore metric tons and grades are calculated inside mined areas over the block model. At this point the current cut-off grade is considered.
4. In the final stage, accumulated tons mined, weighted average grade for ore material and leach is compared with data coming from our SRP system.

Tonnage and grade reconciliation for 2005 are as follows:

Mine	Long Range Model		Tons (thousands)	Mill % Copper	Variance	
	Tons (thousands)	% Copper			Tons (thousands)	% Copper
Cuajone	29,616	0.650	29,544	0.643	72	0.007
Toquepala	21,144	0.849	21,224	0.812	(80)	0.037
Cananea	28,080	0.567	26,449	0.573	1,631	0.006
La Caridad	33,539	0.492	31,551	0.483	1,988	0.009

If the estimation error appears greater than 3%, a detailed evaluation is done to review the differences, which normally could result in more in-fill drilling, in order to better know the geological characteristics (grade, rock type, mineralization and alteration) and the spacing of drill holes which are considered in the ore body zone.

Item 3. Legal Proceedings

Reference is made to the information under the caption "Litigation Matters" in Financial Statement Note 13 "Commitments and Contingencies" on Page A-105.

Item 4. Submission of Matters to a Vote of Security Holders

None.

## Executive Officers of the Registrant

Set forth below are the executive officers of the Company, their ages as of February 6, 2006 and their positions.

Name	Age	Position
German Larrea Mota-Velasco	52	Chairman of the Board and Director
Oscar Gonzalez Rocha	67	President, Chief Executive Officer and Director
Xavier Garcia de Quevedo Topete	59	Executive Vice President, Chief Operating Officer and Director
J. Eduardo Gonzalez Felix	37	Vice President Finance, Chief Financial Officer and Director
Armando Ortega Gomez	45	Vice President, Legal, General Counsel, Secretary and Director
Jose N. Chirinos Fano	64	Comptroller
Mario Vinageras Barroso	50	Vice President, Commercial
Vidal Muhech Dip	65	Vice President, Projects

**German Larrea Mota-Velasco** has served as our Chairman of the Board since December 1999 Chief Executive Officer from December 1999 to October 2004 and as a member of the Board of Directors since November 1999. He has been Chairman of the Board of Directors, President and Chief Executive Officer of Grupo México (holding) since 1994. Mr. Larrea has been Chairman and Chief Executive Officer of Americas Mining Corporation (mining division) since 2003. Mr. Larrea has been Chairman of the Board and Chief Executive Officer of Grupo Minera México (mining division) since 1994 and of Grupo Ferroviario Mexicano (railroad division) since 1997. Mr. Larrea was previously Executive Vice Chairman of Grupo México and has been a member of the Board of Directors since 1981. He is also a director of Grupo Financiero Banamex, (Citigroup) S.A. de C.V., Banco Nacional de Mexico, S.A., Consejo Mexicano de Hombres de Negocios, and Grupo Televisa, S.A. de C.V.

**Oscar Gonzalez Rocha** has served as our Chief Executive Officer since October 21, 2004 and our President since December 1999. He has been our Director since November 1999. Previously, he was our General Director and Chief Operating Officer from December 1999 to October 20, 2004. He has been a Director of Grupo México since 2002 and Managing Director of Mexicana de Cobre, S.A. de C.V. from 1986 to 1999 and of Mexicana de Cananea S.A. de C.V. from 1990 to 1999. He was an Alternate Director of Grupo Mexico from 1988 to April 2002.

**Xavier Garcia de Quevedo Topete** has served as Executive Vice President and Chief Operating Officer since April 12, 2005 and as a member of our Board of Directors from November 1999 to the present. He has been the President and Chief Executive Officer of Minera México from September 2001 to April 2005. He was Managing Director of Grupo Ferroviario Mexicano S.A. de C.V., and of Ferrocarril Mexicano, S.A. de C.V. from December 1997 to December 1999, and Director General of Exploration and Development of Grupo Mexico from 1994 to 1997. He has been a director of Grupo México since April 2002.

**J. Eduardo Gonzalez Felix** has served as our Director and Vice President, Finance, and Chief Financial Officer since March 11, 2005. He has been the President and Chief Financial Officer of Grupo Mexico's Mining Division (Americas Mining Corporation) from January 2004 to March 2005 and its Chief Financial Officer from 1999 to March 2003.

Mr. Gonzalez has been the Chief Financial Officer of Minera Mexico from mid-2001 to December 2003. He had also headed Grupo Mexico's Treasury and Investor Relations departments from 1999 to 2001. Prior to joining Grupo Mexico, Mr. Gonzalez was a Senior Associate at McKinsey & Company, Inc., heading work for clients in various countries and industry sectors. Mr. Gonzalez has also worked at the Kimberley-Clark Corporation and the Chicago Board Trade.

**Armando Ortega Gomez** has served as a member of our Board of Directors since August 2002. Mr. Ortega has been our General Counsel since October 23, 2003, and has served as our Vice President, Legal and Secretary since April 25, 2002. Previously, he was our Assistant

Secretary from July 25, 2001 to April 25, 2002. He has been General Counsel of Grupo México since May 2001. He is also Assistant Secretary of Grupo México. Previously, he headed the Unit on International Trade Practices of the Ministry of Economy of Mexico with the rank of Deputy Vice Minister from January 1998 to mid-May 2001, and was a negotiator for international matters for said Ministry from 1988 to May 2001.

**Jose N. Chirinos Fano** has served as our Comptroller since April 2005 and as our Treasurer from April 2004 to April 2005. He has been Director of Comptroller and Finance since December 1999. From January 1994 until April 2005 he was our Assistant Comptroller. Since January 2004, Mr. Chirinos has been Vice President of Finance and Chief Financial Officer of Southern Peru Limited, one of our subsidiaries. He has held various positions in Accounting, Administration and Finance during his 39 years at our Company.

**Mario Vinageras Barroso** has served as our Vice President, Commercial since April 25, 2002. He has been Commercial Director of Grupo México since September 1994 and Corporate Director of Sales of Grupo México since June 1, 2000.

**Vidal Muhech Dip** has served as our Vice President, Projects since April 25, 2002. He has been Corporate Director of Engineering and Construction of Grupo México since April 1995. Previously, he was Director of Engineering and Construction of Industrial Minera México from 1985 to 1995.

## PART II

Item 5. Market For Registrant's Common Equity and Related Stockholder Matters

At December 31, 2005, there were 2,116 holders of record of our Common Stock. SCC's Common Stock is traded on the New York Stock Exchange ( NYSE ) and the Lima Stock Exchange( BVL ). The SCC Common Stock symbol is PCU on the NYSE and PCU1 on the BVL.

The table below sets forth the cash dividends paid per share of capital stock and the high and low stock prices on both the NYSE, and the BVL for the periods indicated.

Quarters	1st	2nd	2005 3rd	4th	Year	1st	2nd	2004 3rd	4th	Year
Dividend per Share (Note 1)	\$ 0.6792	\$ 2.3776	\$ 1.0430	\$ 1.7000	\$ 5.7998	\$ 0.1467	\$ 0.2946	\$ 0.4103	\$ 0.4481	\$ 1.2998
Stock market Price										
NYSE:										
High	\$ 64.20	\$ 59.20	\$ 55.96	\$ 70.60	\$ 70.60	\$ 50.50	\$ 41.85	\$ 51.66	\$ 54.10	\$ 54.10
Low	\$ 43.17	\$ 41.63	\$ 42.88	\$ 50.20	\$ 41.63	\$ 36.16	\$ 26.53	\$ 36.16	\$ 42.15	\$ 26.53
BVL:										
High	\$ 64.00	\$ 59.20	\$ 55.98	\$ 70.75	\$ 70.75	\$ 50.80	\$ 41.70	\$ 52.00	\$ 55.00	\$ 55.00
Low	\$ 43.39	\$ 41.75	\$ 42.55	\$ 50.35	\$ 41.75	\$ 36.00	\$ 26.50	\$ 36.40	\$ 42.20	\$ 26.50

Note (1) Dividends per share based on the consolidated/combined results of SCC. Actual dividends per share prior to the April 1, 2005 acquisition of Minera Mexico were \$1.2497 in the first quarter of 2005; and \$0.27, \$0.542, \$0.755, \$0.8245 and \$2.3915 for the first, second, third and fourth quarters of 2004 and the year 2004, respectively.

On January 26, 2006, a dividend of \$2.75 per share was announced payable March 3, 2006 to shareholders of record as of February 15, 2006. Our dividend policy continues to be reviewed at Board of Directors' meetings, taking into consideration the current intensive capital investment program and expected future cash flow generated from operations.

For a description of limitations on our ability of the Company to make dividend distributions, see Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures about Market Risk - Liquidity and Capital Resources and Note 10 - Financings to our Consolidated Combined Financial Statements.

Equity Compensation Plan Information at December 31, 2005:

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<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options (a)</b>	<b>Weighted-average exercise price of outstanding options (b)</b>	<b>Number of securities remaining available for future issuance (c)</b>
Stock incentive plan			645,060
Directors' stock award plan	N/A	N/A	68,800

For further information on the Company's equity compensation plans see Note 14 - Stockholders' Equity to the Company's Consolidated Combined Financial Statements.

Item 6. Selected Financial Data

## FIVE-YEAR SELECTED FINANCIAL AND STATISTICAL DATA

The selected historical financial data presented below as of and for the five years ended December 31, 2005, includes certain information that has been derived from our consolidated combined financial statements. The selected financial data should be read in conjunction with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures about Market Risk and the consolidated combined financial statements and notes thereto.

(In millions, except Capital Stock and Financial Data, except where noted)

Statement of Earnings Data	Year Ended December 31,				
	2005	2004	2003	2002	2001(1)
Net sales	\$ 4,112.6	\$ 3,096.7	\$ 1,576.6	\$ 1,388.4	\$ 1,560.0
Operating income	2,094.5	1,482.4	325.7	186.9	75.2
Minority interest	(12.5)	(4.7)	(4.3)	(8.9)	2.8
Cumulative effect of change in accounting principle, net of income tax			(1.5)		
Net earnings (loss)	\$ 1,400.1	\$ 982.4	\$ 83.5	\$ 144.9	\$ (109.9)
Per share amounts:					
Earnings (loss) basic and diluted	\$ 9.51	\$ 6.67	\$ 0.57	\$ 0.98	\$ (0.75)
Dividends paid	\$ 5.80	\$ 1.30	\$ 0.31	\$ 0.19	\$ 0.19

Balance Sheet Data	As of December 31,				
	2005	2004	2003	2002	2001 (1)
Cash, cash equivalents and marketable securities	\$ 876.0	\$ 756.0	\$ 351.6	\$ 175.1	\$ 260.5
Total assets	5,687.6	5,319.2	4,491.0	4,419.0	4,480.6
Total long-term debt, including current portion	1,172.1	1,330.3	1,671.2	1,621.2	1,714.3
Total liabilities	2,348.8	2,494.3	2,385.9	2,452.5	2,633.3
Total stockholders' equity	\$ 3,326.1	\$ 2,813.6	\$ 2,022.7	\$ 1,881.5	\$ 1,751.9

Statement of Cash Flows	Year Ended December 31,				
	2005	2004	2003	2002	2001(1)
Cash provided from operating activities	\$ 1,644.2	\$ 1,172.4	\$ 64.8	\$ 181.9	N/A(2)
Depreciation, amortization and depletion	277.2	192.6	177.1	157.6	165.9
Cash(used for) investing activities	(425.4)	(219.5)	(59.7)	(85.2)	N/A(2)

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Capital expenditures	(470.6)	(228.3)	(64.9)	(85.4)	(180.9)
Cash (used for) provided from financing activities	(1,055.6)	(540.6)	185.6	(145.9)	N/A(2)
Dividends paid	(853.9)	(191.4)	(45.4)	(21.5)	(28.8)

Capital Stock	Year Ended December 31,				
	2005	2004	2003	2002	2001(1)
Common shares outstanding - basic (in thousands)	147,228	147,224	147,220	147,213	147,210
Common shares outstanding - diluted (in thousands)	147,228	147,224	147,225	147,217	147,212
NYSE Price - High	\$ 70.60	\$ 54.10	\$ 48.85	\$ 15.54	\$ 15.10
NYSE Price - Low	\$ 41.63	\$ 26.53	\$ 14.42	\$ 10.82	\$ 8.42
Book value per share	22.59	19.11	13.74	12.78	11.90
P/E ratio	7.04	7.08	83.11	15.41	(20.25)

Financial Ratios	Year Ended December 31,				
	2005	2004	2003	2002	2001(1)
Gross margin(3)	53.5%	50.7%	25.8%	19.4%	10.3%
Operating income margin(4)	50.9%	47.9%	20.7%	13.5%	4.8%
Net margin(5)	34.0%	31.7%	5.3%	10.4%	(7.0)%
Current assets to current liabilities	2.15	1.70	1.88	1.64	0.46
Net debt(6)/total capitalization(7)	8.2%	17.0%	39.5%	43.4%	45.4%
Ratio of Earnings to Fixed charges(8)	17.8x	12.6x	2.7x	1.5x	

- 
- (1) Financial information as of and for the year ended December 31, 2001 is unaudited.
- (2) Information not available
- (3) Represents net sales less cost of sales (including depreciation, amortization and depletion), divided by net sales as a percentage.
- (4) Represents operating income divided by sales as a percentage.
- (5) Represents net earnings divided by sales as a percentage.
- (6) Net debt is defined as total debt minus cash balance.
- (7) Represents net debt divided by net debt plus stockholders' equity.
- (8) Represents earnings divided by fixed charges. Earnings are defined as earnings before income taxes, minority interest and cumulative effect of change in accounting principle, plus fixed charges and amortization of interest capitalized, less interest capitalized. Fixed charges are defined as the sum of interest expense and interest capitalized, plus amortized premiums, discounts and capitalized expenses related to indebtedness. For the year 2001, the company would have had to generate additional earnings of \$75,392,000 to achieve a ratio of earnings to fixed charges of 1:1.

Item 7 and 7.A Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures about Market Risk

**EXECUTIVE SUMMARY**

*This Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures about Market Risk relates to and should be read together with our Audited Consolidated Combined Financial Statements as of and for each of the years in the three-year period ended December 31, 2005. Effective April 1, 2005, Southern Copper Corporation acquired substantially all of the outstanding common stock of Minera México. The acquisition was accounted for in a manner similar to a pooling of interests as it involved the reorganization of entities under common control. Under such accounting, the financial statements of SCC and Minera México are combined on a historical cost basis for all the periods presented since they were under the indirect common control of Grupo México during such periods. Therefore, unless otherwise noted, the discussion below of our financial condition and results of operations is for us, including our Minera México subsidiary, on a consolidated or combined basis for all periods. Our combined financial results may not be indicative of the results of operations that actually would have been achieved had the acquisition of Minera México taken place at the beginning of the periods presented and do not purport to be indicative of our future results.*

*This discussion contains forward-looking statements that are based on management's current expectations, estimates and projections about our business and operations. Our actual results may differ materially from those currently anticipated and expressed in the forward-looking statements as a result of a number of factors. See Cautionary Statements.*

## OVERVIEW

Our business is primarily the production and sale of copper. In the process of producing copper, a number of valuable metallurgical byproducts are recovered, such as molybdenum, zinc, silver, lead and gold, which we also produce and sell. The sales prices for our products are largely determined by market forces outside of our control. Our management, therefore, focuses on production enhancement and cost control to improve profitability. We believe we achieve these goals through capital spending programs, exploration efforts and cost reduction programs. Our aim is to remain profitable during periods of low copper prices and to maximize financial performance in periods of high copper prices.

We discuss below several matters that our management believes are important to understand our results of operations and financial condition. These matters include (i) our operating cash costs as a measure of our performance, (ii) metals prices, (iii) our recent acquisition of Minera México, (iv) our business segments and (v) the effects of inflation and other local currency issues.

Since our inception, we have principally maintained operations in Peru. However, in recent years, we have refocused our plans and began steps to internationalize our business and broaden our market exposure. In 2003, we acquired exploration properties in Chile, which are being evaluated for potential exploitation. Beginning in 2004, we began tolling copper into rod in Amarillo, Texas. The biggest step, in the new focus, however, is the acquisition of Minera Mexico, see Minera Mexico acquisition below.

### Operating Cash Costs

An overall benchmark used by us and a common industry metric to measure performance is operating cash costs per pound of copper produced. Operating cash cost is a non-GAAP measure that does not have a standardized meaning and may not be comparable to similarly titled measures provided by other companies. A reconciliation of our cash cost per pound to the cost of sales (including depreciation, amortization and depletion) as presented in the statement of earnings is presented under the subheading, Non-GAAP Information Reconciliation, below. We have defined operating cash cost per pound as cost of sales



(including depreciation, amortization and depletion); plus selling, general and administrative charges, treatment and refining charges; less byproducts revenue, depreciation, amortization and depletion, workers' participation and other miscellaneous charges, the Peruvian royalty charge and the change in inventory levels; divided by total pounds of copper produced and purchased by us. In our calculation of operating cash cost per pound of copper produced, and purchased, we credit against our costs, the revenues from the sale of byproducts, principally molybdenum, zinc and silver. We account for this byproduct revenue because we consider our principal business to be the production and sale of copper. We believe that our company is viewed by the investment community as a copper company, and is valued, in large part, by the investment community's view of the copper market and our ability to produce copper at a reasonable cost. The increase over the last three years in the price of molybdenum, however, has had a significant effect on our traditional calculation of cash cost and its comparability between periods. Accordingly, we present cash costs below with and without crediting the byproduct revenues against our costs.

We exclude from our calculation of operating cash cost depreciation, amortization and depletion, which are considered non-cash expenses. Exploration is considered a discretionary expenditure and is also excluded. Workers' participation provisions are determined on the basis of pre-tax earnings and are also excluded. Additionally excluded from operating cash costs are inventory changes, items of a non-recurring nature, and the portion of our mine stripping costs that we capitalize.

Our operating cash costs per pound, as defined, are presented in the table below for the three years ended December 31, 2005. We present cash costs with and without the inclusion of byproduct revenues below.

	2005	2004	2003
		(dollars per pound)	
Operating cash cost per pound of copper produced and purchased	\$ 0.026	\$ 0.182	\$ 0.435
Operating cash cost per pound of copper produced and purchased (without byproduct revenue)	\$ 1.005	\$ 0.852	\$ 0.743

A reconciliation of our operating cash costs per pound to our GAAP cost of sales is presented on page A-77 under the subheading Non-GAAP Information Reconciliation.

The reduction in the cash costs per pound of copper produced and purchased (including byproduct revenue) in 2005 and 2004 is to a large extent attributable to the increase in the molybdenum sales price. The credit to the above costs for molybdenum sales amounted to \$0.617 per pound, \$0.412 per pound and \$0.102 per pound, in 2005, 2004 and 2003, respectively. The cash cost without byproduct revenue increased in 2005 and 2004 as a result of cost increases, including the cost of petroleum products, purchased electricity, maintenance expenses and the cost of replacement parts. In addition, the higher copper prices in 2005 and 2004 also increased our computation of cash cost, as we include in our calculation the cost of purchased metal. The higher value and accordingly the higher cost of copper in these years, increased our cash cost by \$0.017 in 2004 and by a further \$0.053 in 2005. Additionally, we believe our operating cash costs will increase in 2006 and the near-term years as a result of the EITF consensus, which we adopted on January 1, 2006 and is described below under Critical Accounting Policies and Estimates Capitalized Mine Stripping Costs and Leachable Material. If we had applied this consensus in 2005, 2004 and 2003 our pound operating cash cost would have increased by \$0.075, \$0.056 and \$0.052, respectively.

#### Metals Prices

The profitability of our operations is dependent on, and our financial performance is significantly affected by, the international market prices for the products we produce, especially for copper, molybdenum, zinc and silver. Metals prices historically have been



subject to wide fluctuations and are affected by numerous factors beyond our control. These factors, which affect each commodity to varying degrees, include international economic and political conditions, levels of supply and demand, the availability and cost of substitutes, inventory levels maintained by producers and others and, to a lesser degree, inventory carrying costs and currency exchange rates. In addition, the market prices of certain metals have on occasion been subject to rapid short-term changes due to speculative activities.

We are subject to market risks arising from the volatility of copper and other metals prices. Assuming that expected metal production and sales are achieved, that tax rates are unchanged and giving no effects to potential hedging programs, metal price sensitivity factors would indicate the estimated change in net earnings resulting from metal price changes in 2006 as provided in the table below.

	Copper		Molybdenum		Zinc		Silver	
Change in metal prices (per pound except silver - per ounce)	\$	0.01	\$	1.00	\$	0.01	\$	1.00
Change in net earnings (in millions)	\$	8.7	\$	14.4	\$	1.8	\$	11.4

#### Minera México Acquisition

On April 1, 2005, we acquired Minera México from Americas Mining Corporation, a subsidiary of Grupo México, our controlling stockholder. Minera México is the largest mining company in Mexico and the eleventh largest copper producer in the world on a stand-alone basis. On April 1, 2005, we exchanged 67,207,640 newly-issued shares of our common stock for the outstanding shares of Minera México's direct majority stockholder, and Minera México became our 99.1% owned subsidiary. As a part of this transaction, on March 1, 2005, we paid a special transaction dividend of \$100 million to all of our stockholders. Upon completion of the merger, Grupo México increased its indirect beneficial ownership of our capital stock from approximately 54.2% to approximately 75.1%. On October 20, 2005, our board of directors approved the acquisition of 6,386,521 shares of Minera Mexico from Grupo Mexico. The acquired shares represent 0.81833% of the outstanding shares of Minera Mexico and were purchased for \$30.3 million.

We are now in the process of integrating two companies that had previously been affiliated but operated independently. With this acquisition, we have increased our total copper reserves by 107%, or 23,199 million tons, based on year-end 2004 reserves, and have increased our annual copper production by 81%, equivalent to 320,000 tons of copper, based on 2004 production.

#### Business segments

Our Company operates in a single industry, the copper industry. With the acquisition of Minera Mexico in April 2005, we determined that to effectively manage our business we needed to focus on three operating segments. These segments are our Peruvian operations, our Mexican open-pit operations and our Mexican underground operations, known as our IMMSA unit. Our Peruvian operations include the Toquepala and Cuajone mine complexes and the smelting and refining plants, industrial railroad and port facilities which service both mines. Our Mexican open-pit operations include La Caridad and Cananea mine complexes, the smelting and refining plants and support facilities which service both mines. Our IMMSA unit includes five underground mines that produce zinc, lead, copper, silver and gold, a coal and coke mine, and several industrial processing facilities for zinc, copper and silver.

Segment information is included in our review of Results of Operations and also in Note 19 of our Consolidated Combined Financial Statements.

#### Inflation and Devaluation of the Peruvian Nuevo Sol and the Mexican Peso

Our functional currency is the U.S. dollar. Portions of our operating costs are denominated in Peruvian nuevos soles and Mexican pesos. Since our revenues are primarily denominated in U.S. dollars, when inflation/deflation in Peru or Mexico is not offset by a change in the exchange rate of the nuevo sol or the peso, respectively, to the dollar, our financial position, results of operations and cash flows could be adversely affected to the extent that the inflation/devaluation effects are passed onto us by our suppliers or reflected in our wage adjustments. In addition, the dollar value of our net monetary assets denominated in nuevos soles or pesos can be affected by devaluation of the nuevo sol or the peso, resulting in a remeasurement loss in our financial statements. Recent inflation and devaluation rates are provided in the table below.

	2005	Year Ended December 31, 2004	2003
<b>Peru</b>			
Peruvian inflation rate	1.5%	3.5%	2.5%
Nuevo sol/dollar (change in exchange rate year to year)	4.5%	(5.2)%	(1.5)%
<b>Mexico</b>			
Mexican inflation rate	3.3%	5.2%	4.0%
Peso/dollar (change in exchange rate year to year)	(4.9)%	0.3%	9.0%

#### Expansion and Modernization Program

Excluding capitalized stripping, we made capital expenditures of \$470.6 million, \$228.3 million and \$64.9 million in 2005, 2004 and 2003, respectively, and we expect to make capital expenditures, of approximately \$412.0 million in 2006 excluding capitalized interest. In general, the capital expenditures and projects described below are intended to contribute to further vertical integration of our operations by increasing the capacity for production of refined metal products.

During 2004 and 2003, Minera México's capital expenditures were curtailed due to liquidity constraints imposed by Minera México's lenders. In late 2004 and during 2005, Minera México's rate of capital expenditures increased significantly.

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The table below sets forth our capital expenditures for the years ended December 31, 2005, 2004 and 2003:

	2005	Year Ended December 31, 2004		2003
		(dollars in millions)		
<b>Projects</b>				
Ilo smelter modernization	\$ 234.6	\$ 65.6	\$ 6.3	
La Caridad SX/EW plant	8.1			
Toquepala crushing, conveying system for leachable material	32.8	40.4		2.2
San Martín Unit, Santa Bárbara Unit, Charcas Unit and Nueva Rosita Unit	27.8	1.3		0.8
La Caridad copper smelter, sulfuric acid plant and copper refinery	10.2	4.1		1.8
Toquepala concentrator expansion	0.6	0.7		1.7
Cananea SX/EW plant	2.3	2.5		0.8
New copper filter at Toquepala	2.2	1.5		
PLS dams at Huanaquera	9.1	1.5		
<b>Total project expenditures</b>	<b>327.7</b>	<b>117.6</b>		<b>13.6</b>
<b>Replacement capital expenditures:</b>				
Mexico	100.3	48.7		11.7
Peru	42.6	62.0		39.6
<b>Total replacement expenditures</b>	<b>142.9</b>	<b>110.7</b>		<b>51.3</b>
<b>Total capital expenditures</b>	<b>\$ 470.6</b>	<b>\$ 228.3</b>	<b>\$ 64.9</b>	

The above table does not include capitalized stripping of \$116.4 million, \$92.8 million and \$79.7 million for the years 2005, 2004 and 2003, respectively. Set forth below are descriptions of some of our current projects and expected capital expenditures.

**Ilo Smelter Modernization:** Our largest outstanding short-term capital investment project is the Ilo smelter modernization. The project is part of our Environmental Compliance and Management Program (known by its Spanish acronym, PAMA), which was approved by the Peruvian government in 1997. The project will modernize the smelter and is targeted to capture no less than 92% of sulfur dioxide emissions, in compliance with Peru's environmental requirements. The project is moving ahead on schedule with detailed engineering completed and construction work in process in order to be completed by the end of 2006. The anode casting wheel part of this project is being hot tested and starting in the first quarter of 2006 we will replace Ilo blister production with anodes. This will allow us to directly feed the refinery and eliminate the current cost of re-melting blister into anode form. The budget approved for this project is \$500 million, including \$389.0 million expended through December 31, 2005. We have budgeted \$87.5 million for this project in 2006 excluding capitalized interest.

**Toquepala Leach Dump Project:** To improve cost containment and production efficiency, in 2003 we started a project at Toquepala to install a crushing, conveying and spreading system at the leach dumps. The approved budget for this project is \$81 million, with \$75.5 million expended through December 31, 2005. The new system is expected to improve recovery at our leaching facilities and will largely eliminate costly truck haulage in the process. The project is 94% complete at December 31, 2005. The primary crusher was placed in operation in August 2005. The overland conveyors 1, 2 and 3, and the grasshoppers 30 and 31 were put in the production line. The conveying reached its rated capacity of 6,500 ton/hr. in September 2005. The construction of the ramp will continue until final completion of the project, expected in August 2006.

**Cananea SX/EW Plant:** We intend to increase our Cananea unit's production of electrolytic copper by building a new SX/EW plant, (SXEW III). The plant will produce electrolytic copper cathodes of ASTM grade 1 or LME grade A. The project includes the installation of storage for deliverables required for operation of the plant and the installation of an emergency power plant and a fire protection system. The project is currently underway. In its first stage, it is expected to produce 10,500 tons of additional copper by the end of 2007. Studies for a 22,900 ton subsequent expansion of the SX/EW plant are also underway. As the Cananea mine has the largest quantity of our copper reserves we are studying several possibilities for expanding it to a scale that fully maximizes its potential. The approved budget for this project, including the subsequent 22,900 tons expansion, is \$90 million, of which \$2.3 million has been expended through December 2005.

**Nueva Rosita Coal Plant:** We commenced projects to increase the production at our Nueva Rosita unit in Coahuila, Mexico. These projects include an upgrade of our Pasta de Conchos mine and re-engineering and modernization of our coking plant.

The Pasta de Conchos mine's project includes the open pit development in the east and west zones to increase coal production from 250,000 to 1,000,000 tons per year and has a capital budget of \$40.1 million of which \$15.2 million was expended through 2005.

The coking plant project includes the re-engineering and modernization of 21 ovens, with this re-engineering we expect to increase efficiency in the system to control emissions during the discharging of the ovens and provide for continuous operation. This project has a capital budget of \$12 million of which \$8.7 million was expended through 2005. The expected completion date of the re-engineering part of this project is March 2006. The modernization is forecast to be completed in 2009.

**Other Expenditures:** Increasing the height of dams at Quebrada Honda for tailings impoundment is now under engineering study. The auxiliary dams constructed before will serve as initial dams to increase the impoundment volume at Quebrada Honda. The capital



cost budget for this project will be ready after completion of the engineering studies, which is expected in the third quarter 2006.

The new PLS dams project at Huanaquera is for construction of new pregnant solution collection dams for the Toquepala leaching facility. At year end 2005 this project has reached approximately 47% progress. The budget for this project is \$32.5 million, \$10.6 million of which was expended as of December 31, 2005.

In order to reduce operation and maintenance costs and comply with environmental requirements, we replaced the disc filters at the Toquepala concentrator with a new vertical press filter. The project was completed in 2005 at a cost of \$3.7 million.

Proposed Projects: We have a number of projects that we believe may develop in the future. We evaluate new projects on the basis of expected return, environmental needs, required investment and estimated production, among other considerations.

Brownfield projects are development projects on existing properties, generally taking two to three years to complete. Below is a brief description of each of the brownfield projects that we believe we may pursue in the future. Information in the table below, including descriptions and investments are estimates only. The estimated completion time for each of these projects is approximately two years, once started. We cannot assure that it will undertake any of these projects or that the information in the table below will be accurate for any project we undertake.

Projects	Description	Location	Estimated Investment (in millions)(1)
Concentrator	Additional 7,000,000 tons per year of sulfide ore processed	Cananea (Mexico)	\$ 80 - \$100
SX/EW Plant	Additional 22,000 tons per year of copper cathode	La Caridad (Mexico)	\$ 110 - \$130
Rod Plant	Additional 150,000 tons per year of copper rod	La Caridad (Mexico)	\$ 25 - \$35
Zinc Refinery	Additional 50,000 tons per year of refined zinc	San Luis Potosí (Mexico)	\$ 100 - \$120

(1) Excluding capitalized interest.

In addition, in December 2005 we announced our plans for a 450 Megawatt power generation plant in Mexico to supply our own facilities. We anticipate that the project, which is currently out for bids, will be built and managed by an independent power company and our obligation will be the supply of coal from our reserves and an agreement to use the power output. We expect this plant will give us the ability to substantially reduce and control our power cost, as we will supply coal from our mines. We believe we will be able to reduce the swings caused by the variation in the international price of energy, a major element of our operating cost. The project, expected to be finished in 2008, will create nearly 900 permanent jobs, 3,000 jobs during the construction stage, and will exceed Mexican and international environmental standards. We also have additional projects that we are considering and may pursue.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our combined financial condition and results of operations, as well as quantitative and qualitative disclosures about market risks, are based upon our consolidated combined financial statements, which have been prepared in accordance with U.S. GAAP. Preparation of these consolidated combined financial statements requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management makes its best estimate of the ultimate outcome for these items based on historical trends and other information available when the financial

statements are prepared. Changes in estimates are recognized in accordance with the accounting rules for the estimate, which is typically in the period when new information becomes available to management. Areas where the nature of the estimate makes it reasonably possible that actual results could materially differ from amounts estimated include: carrying value of the ore reserves that are the basis for future cash flows estimates and units-of-production depreciation and amortization calculations; revenue recognition; capitalized mine stripping costs and leachable material; and asset retirement obligations. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

Ore Reserves: For purposes of our long-term planning, our management uses metal price assumptions of \$0.90 per pound for copper and \$4.50 per pound for molybdenum. These prices are intended to approximate average prices over the long term. Ore reserves based on these prices are the basis for our internal planning, including the preparation of the mine plans for our mines. Our management uses these price assumptions, as it believes these prices reflect the full price cycle of the metals market.

However, pursuant to SEC guidance, the reserves information in this report is calculated using average metals prices over the most recent three years, except as otherwise stated. We refer to these three-year average metals prices as current average prices. Our current average prices for copper are calculated using prices quoted by COMEX, and our current average prices for molybdenum are calculated according to *Platt's Metals Week*. Unless otherwise stated, reserves estimates in this report use \$1.261 per pound for copper and \$17.817 per pound for molybdenum, both current average prices as of December 31, 2005. The current average prices for copper and molybdenum were \$0.939 and \$8.425, respectively, as of December 31, 2004 and \$0.751 and \$3.81, respectively, as of December 31, 2003.

Certain financial information is based on reserve estimates calculated on the basis of current average prices. These items include the amount of mine stripping that is capitalized, units of production amortization of capitalized mine stripping and amortization of intangible assets. For our Peruvian mines, commencing in 2003, and for our Mexican operations commencing in 2005 we have used reserve estimates based on current average metals prices as of the most recent year then ended to determine these items. In the case of prior periods we have used reserves estimates based on a price assumption of \$ 0.90 per pound of copper and \$ 4.50 per pound of molybdenum.

Capitalized Mine Stripping Costs and Leachable Material: In carrying out our mining operations, we are required to remove waste material to access mineral deposits. Because the concentration of mineral deposits is not evenly distributed throughout the ore body, there are periods during the life of the mine in which we mine more waste as compared to ore produced, and periods during which we mine less waste as compared to ore produced. These mining costs are commonly referred to as stripping costs.

For each of our existing mines in the production stage, our mine engineers have calculated a life-of-mine stripping ratio that represents our estimate of the total amount of waste to be removed at each mine divided by the estimated total proven and probable reserves at such mine. The mine stripping ratios are used to determine the amount of mine production costs to be charged against earnings. In periods when the actual ratio of waste to mineral ore extracted exceeds the life-of-mine stripping ratios, we capitalize production costs associated with mining operations in proportion to the excess waste mined. Such capitalized costs are included in net capitalized mine stripping, and are amortized to operations using the units of production method. This charge to operations for the amortization of deferred stripping costs could differ materially between reporting periods to the extent that there were material changes in the value of proven and probable reserves. Copper resources contained in piles of leachable materials that have been extracted from the mines are not included in the determination of units of production amortization. Conversely, in periods when the actual ratio of waste to mineral ore mined is less than the life-of-mine stripping ratio, we reduce the net capitalized mine stripping asset proportionally with a charge to amortization expense. During periods we are stripping at the higher rates, increased mining costs associated with the higher



tonnages are incurred. Costs of this nature are necessary in a mining operation to ensure the availability of mineable ore in future periods. The deferred stripping accounting method has been generally accepted in the mining industry where mining operations have diverse grades and waste-to-mineral ore ratios; however, industry practice does vary.

At the March 17, 2005 meeting of the Emerging Issues Task Force (EITF), the EITF reached a consensus that stripping costs incurred during the production phase of a mine are variable production costs that should be included in the costs of the inventory produced (extracted) during the period that the stripping costs are incurred. The EITF noted that the consensus does not address the accounting for stripping costs incurred during the pre-production phase of a mine. The consensus with respect to this issue was ratified by the FASB on March 30, 2005, and will be effective for the first reporting period in fiscal years beginning after December 15, 2005, with early adoption permitted. In its June 15-16, 2005 meeting, the EITF also approved a modification to the transition provisions. On January 1, 2006 we adopted this consensus by reversing \$499.5 million of net cumulative capitalized stripping cost and capitalized leach inventory as of December 31, 2005 and recording a net charge of \$322.9 million to retained earnings after recognition of workers' participation and tax benefit of \$176.6 million. In addition, near-term future operating income could be negatively impacted on the extent that costs previously capitalized are expensed.

If we were to have expensed all production stripping costs and capitalized leaching costs associated with our mining operations as incurred, net operating cost would have increased by \$43.0 million, \$56.3 million and \$53.9 million for the years ended December 31, 2005, 2004 and 2003, respectively.

We further discuss capitalized mine stripping costs and leachable material in Notes 2 and 5 to our Consolidated Combined Financial Statements included herein.

Asset Retirement Obligation: Our mining and exploration activities are subject to various laws and regulations governing the protection of the environment. Accounting for reclamation and remediation obligations requires management to make estimates unique to each mining operation of the future costs we will incur to complete the reclamation and remediation work required to comply with existing laws and regulations. These estimates are based on inflation assumptions using the U.S. Consumer Price Index and using our risk-free credit rate (which is based on our credit status). Actual costs incurred in future periods could differ from amounts estimated. Additionally, future changes to environmental laws and regulations could increase the extent of reclamation and remediation work required to be performed by us. Any such increases in future costs could materially impact the amounts charged to operations for reclamation and remediation.

We further discuss Asset Retirement Obligation in Note 9 to our consolidated combined financial statements included herein.

Revenue Recognition: For certain of our sales of copper and molybdenum products, customers are given the option to select a monthly average LME or COMEX price (as is the case for sales of copper products) or the molybdenum oxide proprietary market price estimate of Platt's *Metals Week* (as is the case for sales of molybdenum products), generally ranging between one and three months subsequent to shipment. In such cases, revenue is recorded at a provisional price at the time of shipment. The provisionally priced copper sales are adjusted to reflect forward copper prices based on LME or COMEX prices at the end of each month until a final adjustment is made to the price of the shipments upon settlement with customers pursuant to the terms of the contract. In the case of molybdenum sales, for which

there are no published forward prices, the provisionally priced sales are adjusted to reflect the market prices at the end of each month until a final adjustment is made to the price of the shipments upon settlement with customers pursuant to the terms of the contract.

The following are the provisionally priced copper and molybdenum sales outstanding at December 31, 2005, 2004 and 2003:

Provisionally Priced Sales	Year Ended December 31,		
	2005	2004	2003
<b>Copper</b>			
Millions of pounds	163.7	179.7	51.1
Priced at (per pound)	\$ 2.04	\$ 1.46	\$ 1.08
<b>Molybdenum</b>			
Millions of pounds	6.1	6.3	3.7
Priced at (per pound)	\$ 25.00	\$ 32.38	\$ 7.60

Provisional sales adjustments included in accounts receivable and net sales were as follows at December 31, 2005, 2004 and 2003:

Provisional Sales Adjustments	Year Ended December 31,		
	2005	2004	2003
		(dollars in millions)	
Copper	\$ 7.9	\$ 15.9	\$ 8.4
Molybdenum	(39.2)	69.2	6.9
<b>Total</b>	\$ (31.3)	\$ 85.1	\$ 15.3

Management believes that the final pricing of these sales will not have a material effect on the Company's financial position or results of operations.

### Results of Operations

The following table highlights key combined financial and operating results for each of the years in the three-year period ended December 31, 2005.

Statement of Earnings Data	Year Ended December 31,		
	2005	2004	2003
		(dollars in millions)	
Net sales	\$ 4,112.6	\$ 3,096.7	\$ 1,576.6
Cost of sales (exclusive of depreciation, amortization and depletion)	(1,635.4)	(1,334.3)	(992.4)
Selling, general and administrative	(81.1)	(71.8)	(63.5)
Depreciation, amortization and depletion	(277.2)	(192.6)	(177.1)
Exploration	(24.4)	(15.6)	(17.9)
<b>Operating income</b>	<b>2,094.5</b>	<b>1,482.4</b>	<b>325.7</b>
Interest expense	(108.9)	(106.5)	(117.0)
Interest capitalized	22.5	10.7	5.6
Interest income	30.8	8.3	5.2
Loss on debt prepayments	(10.6)	(16.5)	(5.8)
Loss on derivative instruments	(22.3)	(1.4)	
Gain on disposal of properties		53.5	
Other income (expense)	(3.7)	(9.7)	(4.2)
Income taxes	(589.7)	(433.7)	(120.1)

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Minority interest	(12.5)	(4.7)	(4.3)
Cumulative effect of change in accounting Principle, net of income tax			(1.5)
Net earnings	\$ 1,400.1	\$ 982.4	\$ 83.5

The table below outlines the average published market metals prices (rounded to the nearest cent) for our metals for each of the years ended December 31, 2005, 2004 and 2003.

**Average Market Metals Prices**

	Year Ended December 31,			% Change	
	2005	2004	2003	2004 to 2005	2003 to 2004
Copper price (\$ per pound - LME)	\$ 1.67	\$ 1.30	\$ 0.81	28.5%	60.5%
Copper price (\$ per pound - COMEX)	\$ 1.68	\$ 1.29	\$ 0.81	30.2%	59.3%
Molybdenum price (\$ per pound)(1)	\$ 31.05	\$ 15.95	\$ 5.21	94.7%	206.1%
Zinc price (\$ per pound - LME)	\$ 0.63	\$ 0.48	\$ 0.38	31.3%	26.3%
Silver price (\$ per ounce - COMEX)	\$ 7.32	\$ 6.68	\$ 4.89	9.6%	36.6%

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(1) Platt's Metals Week Dealer Oxide.

**Segment Sales Information**

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The following table presents the volume of sales by segment of copper and our significant byproducts, for each of the three years ended December 31, 2005.

Copper sales (million pounds)	Year Ended December 31,		
	2005	2004	2003
Peruvian operations	825.3	864.4	827.1
Mexican open-pit	768.8	680.6	625.5
Mexican IMMSA unit	93.1	53.9	49.1
Intersegment elimination	(147.2)	(34.4)	(45.6)
Total copper sales	1,540.0	1,564.5	1,456.1

Byproduct sales (million pounds, except silver - million ounces)	Year Ended December 31,		
	2005	2004	2003
Peruvian operations:			
Molybdenum contained in concentrate	23.4	23.5	20.0
Silver	4.2	4.6	4.2