SOUTHERN COPPER CORP/
Form 10-K
March 01, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2010

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 1-14066

SOUTHERN COPPER CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**13-3849074**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
11811 North Tatum Blvd. Suite 2500, Phoenix, AZ	**85028**
(Address of principal executive offices)	(Zip code)

Registrant s telephone number, including area code: **(602) 494-5328**

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

Title of each class:	**Name of each exchange on which registered:**
Common stock, par value $0.01 per share	New York Stock Exchange
	Lima Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x

At January 31, 2011, there were of record 850,000,000 shares of common stock, par value $0.01 per share, outstanding.

The aggregate market value of the shares of common stock (based upon the closing price at June 30, 2010 as reported on the New York Stock Exchange - Composite Transactions) of Southern Copper Corporation held by non affiliates was approximately $4,512 million.

PORTIONS OF THE FOLLOWING DOCUMENTS ARE INCORPORATED BY REFERENCE:

Part III:	Proxy statement for 2011 Annual Meeting of Stockholders
Part IV:	Exhibit Index is on Page 188 through 190

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Southern Copper Corporation (SCC)

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PART I.

ITEM 1. BUSINESS

THE COMPANY

Southern Copper Corporation (SCC or the Company) is one of the largest integrated copper producers in the world. We produce 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 Item 2 Properties - Review of Operations for maps of our principal mines, smelting facilities and refineries. Our operations make us one of the largest mining companies in Peru and also in Mexico. We believe we have the largest copper reserves in the world. 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 and Lima Stock Exchanges.

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 anode copper; and the refining of anode copper to produce copper cathodes. As part of this production process, we also produce significant amounts of molybdenum concentrate and refined silver. Additionally, we produce refined copper using SXEW technology. We operate the Toquepala and Cuajone mines high in the Andes Mountains, approximately 860 kilometers southeast of the city of Lima, Peru. We also operate a smelter and refinery west of the Toquepala and Cuajone mines in the coastal city of Ilo, Peru.

Our Mexican operations are conducted through our subsidiary, Minera Mexico S.A. de C.V. (Minera Mexico), which we acquired in 2005. Minera Mexico engages primarily in the mining and processing of copper, molybdenum, zinc, silver, gold and lead. Minera Mexico 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 La Caridad, an open-pit copper mine, a copper ore concentrator, a SXEW plant, a smelter, refinery and a rod plant. Buenavista del Cobre S.A. de C.V., formerly named Mexicana de Cananea S.A. de C.V. through December 11, 2010, (together with its subsidiaries, the Buenavista unit) operates Buenavista, formerly named Cananea, 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 SXEW plants. Industrial Minera Mexico, S.A. de C.V. and Minerales Metalicos del Norte, S.A. (together with its subsidiaries, the IMMSA unit) operate five underground mines that produce zinc, lead, copper, silver and gold, a coal mine and a zinc refinery.

We utilize modern, state of the art 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. Our management, therefore, focuses on cost control and production enhancement to remain profitable. We endeavor to 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. For additional information on the sale prices of the metals we produce, please see Metal prices in this Item 1.

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Currency Information:

Unless stated otherwise, all our financial information is presented in U.S. dollars and any reference 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 Mexic 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 chart describes our organizational structure, starting with our controlling stockholders, as of December 31, 2010. For clarity of presentation, the chart identifies only our main subsidiaries and eliminates intermediate holding companies.

We are a majority-owned, indirect subsidiary of Grupo Mexico S.A.B. de C.V. (Grupo Mexico). Through its wholly-owned subsidiaries, Grupo Mexico as of December 31, 2010 owns 80.0% of our capital stock. Grupo Mexico 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.

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We conduct our operations in Peru through a registered branch (the SPCC Peru Branch , Branch or Peruvian 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, (See Note 14 Non-controlling interest of our consolidated financial statements).

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

Pursuant to the $500 million share repurchase program authorized by our Board of Directors in 2008, through December 31, 2010, we purchased 33.4 million shares of our common stock at a cost of $457.0 million. These shares will be available for general corporate purposes. We may purchase additional shares from time to time, based on market conditions and other factors. This repurchase program has no expiration date and may be modified or discontinued at any time.

On July 22, 2010, we received a non-binding proposal from our parent company, AMC, offering to effect an all-stock business combination of Southern Copper and AMC, the parent company of Asarco, LLC (Asarco), in which all stockholders of Southern Copper would receive 1.237 common shares of AMC in exchange for each share of SCC. Under the proposal presented by AMC the stock of AMC would be registered and listed on the New York, Mexico and the Lima stock exchanges. Once the listing and registration of the AMC shares are completed, SCC s shares would be delisted from the exchanges.

In August 2010, we formed a special committee of independent directors to evaluate AMC s proposal. The special committee has engaged independent legal, financial and technical advisors to assist in the evaluation. There is no specific deadline to complete this evaluation.

REPUBLIC OF PERU AND MEXICO

Our revenues are derived primarily from our operations in Peru and Mexico. Risks related to our operations in both countries include those associated with economic and political conditions, effects of currency fluctuations and inflation, effects of government regulations and the geographic concentration of our 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 100 F Street NE, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for information on the Public Reference Room. The SEC maintains a website 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 website is www.sec.gov.

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Our Internet address is 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 website includes the Corporate Governance guidelines and the charters of our most significant Board Committees. However, the information found on our website is not part of this or any other report.

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, including taxes, as well as projected demand or supply for the Company s products. Actual results could differ materially depending upon certain 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, the 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, after iron and aluminum, and an important component in the world s infrastructure. Copper has unique chemical and physical properties, including high ductility, malleability, and thermal and electrical conductivity, and resistance to corrosion that has made it a superior material for use in electrical and electronic products, including power transmission and generation, which accounts for about three quarters of its global copper use, telecommunications, building construction, transportation and industrial machinery businesses. Copper is also an important metal in non-electrical applications such as plumbing and roofing and, when alloyed with zinc to form brass, in many industrial and consumer applications.

Copper is usually found in nature in association with sulfur. Pure copper metal is generally produced from a multistage process, beginning with the mining and concentrating of low-grade ores containing copper sulfide minerals, and followed by smelting and electrolytic refining to produce a pure copper cathode. An increasing share of copper is produced from acid leaching of oxidized ores. Copper is one of the oldest metals ever used and has been one of the important materials in the development of civilization.

Copper industry fundamentals, including copper demand, price levels and stocks, strengthened in late 2003 and copper prices continued to improve into the third quarter of 2008, from the 15-year price lows set during 2002. Late in the third

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quarter of 2008 the price of copper, as well as the price of other commodities, suffered a brief temporary decline as a consequence of the world financial crisis reaching price lows of $1.30 per pound in the 4th quarter of 2008. However, since 2009 the price of copper has improved, closing at year-end 2010 at $4.42 and $4.44 per pound on the LME and COMEX, respectively, and as of February 15, 2011 the LME and COMEX prices per pound were $4.58 and $4.62, respectively.

BUSINESS REPORTING SEGMENTS:

Our management views Southern Copper as having three reportable segments and manages it on the basis of these segments.

The three segments identified are groups of individual mines, each of which constitutes an operating segment with similar economic characteristics, type of products, processes and support facilities, regulatory environments, employee bargaining contracts and currency risks. In addition, each mine within the individual group earns revenues from similar type of customers for their products and services and each group incurs expenses independently, including commercial transactions between groups.

Inter-segment sales are based on arm s-length prices at the time of sale. These may not be reflective of actual prices realized by the Company due to various factors, including additional processing, timing of sales to outside customers and transportation cost. Added to the segment information is information regarding the Company s sales. The segments identified by the Company are:

1. Peruvian operations, which include the Toquepala and Cuajone mine complexes and the smelting and refining plants, industrial railroad and port facilities which service both mines. Sales of its products are recorded as revenue of our Peruvian mines. The Peruvian operations produce copper, with production of by-products of molybdenum, silver and other material.

2. Mexican open-pit operations, which include the La Caridad and Buenavista mine complexes and the smelting and refining plants and support facilities which service both mines. Sales of its products are recorded as revenue of our Mexican mines. The Mexican open-pit operations produce copper, with production of by-products of molybdenum, silver and other material.

3. Mexican underground mining operations, which include five underground mines that produce zinc, copper, silver and gold, a coal mine which produces coal and coke, and a zinc refinery. This group is identified as the IMMSA unit and sales of its products are recorded as revenue of the IMMSA unit.

Financial information is regularly prepared for each of the three segments and the results are reported to the Chief Operating Officer on a segment basis. The Chief Operating Officer focuses on operating income and on total assets as measures of performance to evaluate different segments and to make decisions to allocate resources to the reported segments. These are common measures in the mining industry.

Segment information is included in Item 2 Properties , under the captions Metal production by segments and Ore Reserves. More information on business segment and segment financial information is included in Note 21 Segment and Related Information of our consolidated financial statements.

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CAPITAL INVESTMENT PROGRAM

For a description of our capital investment program see Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Capital Investment Program.

EXPLORATION ACTIVITIES

We are engaged in ongoing extensive exploration to locate additional ore bodies in Peru, Mexico and Chile. We also conduct exploration in the areas of our current mining operations. We invested $34.3 million in exploration programs in 2010, $24.6 million in 2009 and $37.0 million in 2008 and we expect to spend approximately $14.7 million in exploration programs in 2011.

Currently in Peru, we have direct control of 170,846 hectares of mineral rights. In Mexico, we currently hold 174,887 hectares of exploration concessions. We also currently hold 35,958 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. As a result of the pre-feasibility studies and after the preliminary design of the pit, estimates show 355 million tons of mineralized material with a copper content of 0.62%, molybdenum content of 0.05% and 0.039 grams of gold per ton. In 2010, 9,944 meters of diamond drilling were performed thus concluding the complementary studies geared to define the mineral reserves of the deposit. Likewise, as part of the feasibility study, the geotechnical studies were concluded. We plan to continue to conduct the feasibility study of the project in 2011.

Tantahuatay. The Tantahuatay project is located in the department of Cajamarca in northern Peru. In 2010, we began development of this project to exploit the gold cap. The Tantahuatay project contains estimated resources of 27.1 million tons of mineralized material, with an average silver content of 13 grams per ton and 0.89 grams of gold per ton. We expect to start dore gold production by June 2011 and the project is expected to have an annual production of 90,000 ounces of gold and 425,000 ounces of silver for five years. We have a 44.25% participation in this project.

During 2011, we will continue to assess the underlying copper deposits for possible future development.

Other Peruvian Prospects

As part of the 2010 exploration program, we concluded a program of 8,000 meters of diamond drilling in the central coast of Peru and started the drilling work at the Huallas project located in the department of Ayacucho (a skarn of copper-lead-zinc) and at the Clara project (copper porphyry) located in the department of Arequipa, where the Company has a 15,000 meter diamond drilling program.

Additionally, for 2011 we are considering developing a diamond drilling program of approximately 10,000 meters for some prospects located in the northern and southern parts of Peru. We will continue with the regional exploration program of the various mineral deposits in Peru.

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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. The following are some of the more significant exploration projects:

El Arco. The El Arco site is a copper deposit located in the state of Baja California in Mexico. Exploration work at the site indicates approximately 1,207 million of metric tons of mineralized sulfide material with an average copper content of 0.5% and 0.125 grams of gold per ton and 290 million metric tons of copper oxide with 0.35% of copper grade. In 2010, a deep drilling program of 1,214 meters indicates approximately 390 million tons of mineralized material with 0.62% of copper content below the current pit limits. During 2011, we expect to increase the estimated mineralized material with a diamond drilling program of 5,000 meters.

A water source for the leaching operation was identified in 2009 and in 2010 four new production wells were drilled and confirmed an underground water availability of 300 liters per second in the area.

The feasibility study performed in 2010 is concluded and during 2011 we will evaluate the results to define the next steps of the project.

Angangueo. The Angangueo site is located in the state of Michoacan in Mexico. A deposit of 13 million tons of mineralized material has been identified with diamond drilling. Testing indicates that the deposit has mineralized material containing 0.16 grams of gold and 262 grams of silver per ton, with 0.79% lead, 0.97% copper and 3.5% zinc. In 2005, we received the approval for our environmental impact study and we are in the process of obtaining land use approval. During 2009 and 2010, we continued negotiating with the state of Michoacan, Mexico to purchase various properties essential to our operations. We expect to obtain a final agreement with the state government in 2011. A prefeasibility study, commissioned in 2009, indicated that the Angangueo project needs to upgrade the Descubridora vein with more drilling. In 2010 we started the feasibility study that we expect to complete in 2011 to evaluate the construction of the project.

Buenavista-Zinc (formerly named Buenavista). The Buenavista-Zinc site is located in the state of Sonora, Mexico and forms part of the Buenavista ore body. Drilling and metallurgical studies have shown that the zinc-copper deposit contains approximately 36 million tons of mineralized material containing 29 grams of silver per ton, 0.69% copper and 3.3% zinc. A new scoping level study indicates that Buenavista-Zinc may be an economic deposit. Due to the now settled labor strike at the Buenavista mine no work was performed from 2008 through 2010. In 2011 we expect to resume the project, complete the feasibility study and evaluate starting the initial stripping and the construction of the concentrator.

Carbon Coahuila. In Coahuila, an intensive exploration program of diamond drilling has identified two additional areas, Esperanza with a potential for more than 30 million tons of in place mineralized coal and Guayacan with a potential for 15 million tons of in place mineralized coal, that could be used for a future coal-fired power plant. During 2010, 1,213 meters of diamond drilling were completed at the Rosita pit area and with this drilling, 10,100 tons of mineralized coal was added to the mineralized material estimates for this open pit project. In 2011 we plan to continue the exploration of the open pit coal project between the Conquista and La Caballada pits.

The Chalchihuites. The Chalchihuites site is located in the state of Zacatecas. It is a replacement deposit with mixed oxides and sulfides of lead, copper, zinc and silver. A drilling program, in the late 1990 s, defined 16 million tons of

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mineralized material containing 95 grams of silver, 0.36% lead, 0.69% copper and 3.08% zinc per ton. Preliminary metallurgical testing indicates that a leaching precipitating-flotation recovery process can be applied to this ore. In 2009, we started a prefeasibility study which is expected to be completed by the end of 2011. In 2010, we signed an agreement for the Cronos claims and plan to add the Guadalupe de Guantes claim in early 2011. Exploration at these claims will occur in 2011 and is expected to add at least 10 million tons to the current mineralized material estimates.

Pilares. In 2008, we bought Freeport-McMoran s 49% interest in Minera Pilares, S.A. de C.V. (Pilares), giving us 100% ownership of Pilares. Pilares is located in the state of Sonora, ten kilometers from the town of Nacozari de Garcia and six straight line kilometers from our La Caridad mine. The work to clear and prepare the access to the Porvenir tunnel started at the end of 2008, but was suspended the same year due to unexpected difficulties in crossing a fault. It was replaced by superficial drilling. Calculations using Mine-Sight software indicated 52.9 million tons of estimated mineralized material, with 0.92% copper content. Because all previous mineralized material calculations were based on rotary drilling, a diamond drilling program of 13,200 meters was performed in 2010, which confirmed these estimates of mineralized material. A heavy medium metallurgical test was also conducted on core samples from this drilling. Preliminary results indicate that this method may be feasible for the Pilares ore. In 2010 we started a feasibility study, which we expect to complete by the end of the second quarter 2011. As part of the feasibility study, we will perform metallurgical testing in a pilot plant to confirm the laboratory results.

Sierra de Lobos. This project is located southwest of the city of Leon, Guanajuato. Our target is to identify a copper and zinc deposit with mineralized material with average grades between 0.5% and 1.0% copper and between 5% and 7% zinc including a small contribution of gold and silver. In 2008, 1,636 meters were drilled. Results confirm the presence of copper and zinc mineralization, but an economic deposit has not yet been identified. Due to the changes in our investment program priorities no work was performed in 2009 and 2010. We expect to resume the drilling work on this project in the second half of 2011.

Chile

Ticnamar. The Ticnamar prospect, located in northern Chile, has been explored as a deposit with copper-molybdenum porphyric veins. In 2010, 1,431 meters of diamond drilling were completed. For 2011, we have planned geophysical studies geared to locate new drilling targets.

Catanave. Located in northern Chile (Arica), Catanave belongs to a mineralized epithermal system of gold and silver. In 2010, the environmental impact study was approved and for 2011 we have planned a diamond drilling program of 5,500 meters.

Santa Marta. Located in the Atacama region, Santa Marta is being explored for copper and molybdenum porphyry. During 2010, we diamond drilled 3,318 meters. Exploration will continue in 2011.

San Benito. Located in the Atacama region, San Benito is being explored for copper and molybdenum porphyry. In 2010, a diamond drilling program of 3,241 meters was completed. In 2011, we are planning geophysical studies geared towards locating new drilling targets.

El Salado y Resguardo de la Costa. During 2010, we evaluated the results of the exploration stage of these two copper-gold prospects located in northern Chile (Atacama area) and decided to temporarily put these prospects on hold for further evaluation**.**

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Other Chilean Prospects. For 2011, we plan to continue with a regional exploration program oriented to locate systems mainly of porphyritics of copper and molybdenum.

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 80% of our metal production for the years 2010, 2009 and 2008, was sold under annual or longer-term contracts. Sales prices are determined based on prevailing commodity prices for the quotation period 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 please see Revenue recognition in Note 3 Summary of significant accounting policies and Note 21 Segment and related information of our consolidated financial statements.

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. We entered into copper derivative contracts in 2008 and 2010. During 2009 we did not hold any metal derivative contracts. For a further discussion of derivative instruments see Item 7A Quantitative and Qualitative Discussion about Market Risk . For a further discussion of our products market prices, please see Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Metal Prices .

The table below shows the high, low and average COMEX and LME copper prices during the last 15 years:

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	Copper (COMEX)			Copper (LME)		
Year	High	Low	Average	High	Low	Average
1996	1.31	0.86	1.06	1.29	0.83	1.04
1997	1.23	0.76	1.04	1.23	0.77	1.03
1998	0.86	0.64	0.75	0.85	0.65	0.75
1999	0.85	0.61	0.72	0.84	0.61	0.71
2000	0.93	0.74	0.84	0.91	0.73	0.82
2001	0.87	0.60	0.73	0.83	0.60	0.72
2002	0.78	0.65	0.72	0.77	0.64	0.71
2003	1.04	0.71	0.81	1.05	0.70	0.81
2004	1.54	1.06	1.29	1.49	1.06	1.30
2005	2.28	1.40	1.68	2.11	1.39	1.67
2006	4.08	2.13	3.10	3.99	2.06	3.05
2007	3.75	2.40	3.23	3.77	2.37	3.23
2008	4.08	1.25	3.13	4.08	1.26	3.16
2009	3.33	1.38	2.35	3.33	1.38	2.34
2010-1st Q	3.56	2.85	3.28	3.55	2.83	3.28
2010-2nd Q	3.63	2.76	3.19	3.61	2.76	3.19
2010-3rd Q	3.66	2.87	3.30	3.65	2.88	3.29
2010-4th Q	4.44	3.66	3.93	4.42	3.67	3.92
2010	4.44	2.76	3.43	4.42	2.76	3.42

The per pound COMEX copper price during the last 5, 10 and 15 year periods averaged $3.05, $2.05 and $1.66, respectively. The per pound LME copper price during the last 5, 10 and 15 year periods averaged $3.04, $2.04 and $1.65, respectively.

At February 15, 2011, the COMEX and LME copper prices were $4.62 and $4.58 per pound, respectively.

The table below shows the high, low and average market prices for our three principal by-products during the last 15 years:

	Zinc(LME)			Silver (COMEX)			Molybdenum (Dealer Oxide Platt s Metals Week)		
Year	High	Low	Average	High	Low	Average	High	Low	Average
1996	0.48	0.45	0.47	5.82	4.67	5.18	5.25	3.13	3.79
1997	0.80	0.47	0.60	6.31	4.16	4.87	4.75	3.59	4.31
1998	0.52	0.42	0.46	7.26	4.61	5.53	4.48	2.10	3.42
1999	0.56	0.41	0.49	5.76	4.87	5.22	2.80	2.52	2.66
2000	0.58	0.46	0.51	5.55	4.56	4.97	2.92	2.19	2.56
2001	0.48	0.33	0.40	4.81	4.03	4.36	2.58	2.19	2.35
2002	0.38	0.33	0.35	5.11	4.22	4.60	7.90	2.43	3.76
2003	0.46	0.34	0.38	5.98	4.35	4.89	7.60	3.28	5.29
2004	0.58	0.43	0.48	8.21	5.51	6.68	32.38	7.35	16.20
2005	0.87	0.53	0.63	9.00	6.43	7.32	39.25	25.00	31.99
2006	2.10	0.87	1.49	14.85	8.82	11.54	28.20	21.00	24.75
2007	1.93	1.00	1.47	15.50	11.47	13.39	33.75	24.50	30.19
2008	1.28	0.47	0.85	20.69	8.80	14.97	33.88	8.75	28.42
2009	1.17	0.48	0.75	19.30	10.42	14.67	18.00	7.83	11.03

2010-1st Q	1.04	0.90	1.04	18.78	14.82	16.91	18.60	11.75	15.78
2010-2nd Q	1.13	0.72	0.92	19.64	17.29	18.35	17.93	13.75	16.10
2010-3rd Q	1.01	0.95	0.91	21.93	17.42	18.98	16.03	15.35	14.86
2010-4th Q	1.14	0.94	1.05	30.91	22.01	26.47	16.15	15.58	15.69
2010	1.14	0.72	0.98	30.91	14.82	20.18	18.60	11.75	15.60

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The per pound LME zinc price during the last 5, 10 and 15 year periods averaged $1.11, $0.78 and $0.69, respectively. The per ounce COMEX silver price during the last 5, 10 and 15 year periods averaged $14.95, $10.26 and $8.56, respectively. The per pound Platt s Metals Week Dealer Oxide molybdenum price during the last 5, 10 and 15 year periods averaged $22.00, $16.96 and $12.42, respectively.

At February 15, 2011, the LME zinc price was $1.13 per pound, the COMEX silver price was $30.53 per ounce and the Platt s Metals Week Dealer Oxide molybdenum price was $17.88 per pound.

COMPETITIVE CONDITIONS

Competition in the copper market is primarily on a price and service basis, with price being the most important consideration when supplies of copper are ample. Our products compete with other materials, including aluminum and plastics. For additional information, see Item 1A Risk Factors The copper mining industry is highly competitive.

EMPLOYEES

As of December 31, 2010, we had 11,126 employees, approximately 69% 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. Our Taxco and San Martin mines in Mexico have been on strike since July 2007, our Buenavista mine was on strike from July 2007 through June 6, 2010.

Peru

Approximately 62% of our Peruvian labor force was unionized at December 31, 2010 and was represented by eight separate unions. Three of these unions, one at each major production area, represent the majority of our workers. In September 2010, we reached a new three-year collective bargaining agreement with these three unions. This agreement includes, among other things, a 5% annual salary increase and a signing bonus of approximately $6,700 for each of the workers (approximately 2,000). In addition, the agreement provides for a productivity bonus program for the departments that reach certain parameters. Also, there are five smaller unions, representing the balance of workers. Collective bargaining agreements for these smaller unions are in force through November 2012.

During 2010 and 2009, no strikes occurred. In 2008, strikes in support of a mining federation strike occurred at our operating areas, during which operations were close to normal.

Employees of the Toquepala and Cuajone units reside in townsites, where we have built 3,700 houses and apartments. 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 townsite and housing complexes include schools, medical facilities, churches, social clubs and recreational facilities. We also provide shopping, banking and other services at the townsites.

Mexico

Approximately 73% of the Mexican labor force was unionized at December 31, 2010 and was represented by two separate unions. Under Mexican law, the terms of employment for

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unionized workers are set forth in collective bargaining agreements. Typically 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.

The Buenavista mine experienced several recent labor stoppages. The latest labor stoppage started in July 2007 and finished in June 2010. Additionally, the Taxco and San Martin mines have been on strike since July 2007. In 2009, more than 40% of the workers of the San Martin mine and 50% of the workers of the Taxco mine voluntarily requested severance payments and terminated their labor relationship with us. On December 10, 2009, a federal tribunal confirmed the legality of the San Martin strike.

In the case of the Taxco mine, following the workers refusal to allow exploration of new reserves, the Company commenced litigation seeking to terminate the collective bargaining agreement and all the individual labor contracts of the workers affiliated with the Mexican Mining Union at the Taxco mine, which termination was approved by the federal labor court on September 1, 2010. The ruling was based upon the resistance of the mining union to allow mining experts to search for reserves at the Taxco mine. If sustained, this ruling will also have the effect of terminating the protracted strike at the Taxco unit. The mining union has presented an appeal of the labor court ruling before federal tribunals. At December 31, 2010, the resolution of this case is pending.

It is expected that operations at these mines will remain suspended until these labor issues are resolved.

In the third quarter of 2010 operations at the La Caridad metallurgical complex were disrupted due to access road blockages established by a group of terminated workers and other agitators. In October 2010, with the assistance of the Mexican authorities, order was restored and normal operations were restarted. La Caridad s mining operations continued during the blockage period and as a result we were able to maintain output.

Employees of the Mexcobre and Buenavista units reside in townsites at La Caridad and Buenavista, where we have built approximately 2,000 houses and apartments and 275 houses and apartments, respectively. Most of the employees of the IMMSA unit 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 townsites and housing complexes include educational and, in some units, medical facilities, churches, social clubs, shopping centers, banking and other services. At the Buenavista unit, health care is provided free of charge to employees, retired unionized employees and their families.

FUEL, ELECTRICITY AND WATER SUPPLIES

The principal raw materials used in our operations are fuels, electricity and water. We use natural gas to power boilers and generators and for metallurgical processes at our Mexican operations and diesel fuel for mining equipment. We believe that supplies of fuel, electricity and water are readily available. Although the prices of these raw materials may fluctuate beyond our control, we focus our efforts to reduce these costs through cost and energy saving measures.

Peru

In Peru, electric power for our operating facilities is generated by two thermal electric plants owned and operated by Enersur S.A., an independent power company

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(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. Enersur is building a 400 megawatt power plant, which will provide additional power reserves in the Ilo area. We believe the plant is scheduled to commence operations in 2013.

In addition, we have nine megawatts of power generation capacity from two small hydro-generating installations at Cuajone. Power is distributed over a 224-kilometer closed loop transmission circuit, which is interconnected with the Peruvian network. We obtain fuel in Peru primarily from a local producer.

In 1997, we sold our Ilo power plant to Enersur. In connection with the sale, a power purchase agreement was also completed under which we agreed to purchase all of our power needs for our Peruvian operations from Enersur for twenty years, commencing in 1997. In 2003 the agreement was amended releasing Enersur from its obligation to construct additional capacity to meet our increased electricity requirements and changing the power tariff as called for in the original agreement.

In 2009, we signed a Memorandum of Understanding (MOU) with Enersur regarding its power supply agreement. The MOU contains new economic terms that we believe better reflect current economic conditions in the power industry and in Peru. We expect to obtain savings in our future power costs. The new economic conditions agreed in the MOU have been applied by Enersur to its invoices to us since May 2009. Additionally, the MOU includes an option for providing power for the Tia Maria project. The MOU also established a time frame in which Enersur and the Company must negotiate in good faith to settle certain pending issues, including agreeing on a power purchase agreement for the Tia Maria project. During 2010, we continued our negotiations with Enersur in order to obtain a final agreement for the Tia Maria project.

In Peru, we have water rights or licenses for up to 1,950 liters per second from well fields at Huaitire, Vizcachas and Titijones aquifers and also surface water from the Suches lake and two small water courses, namely Quebrada Honda and Quebrada Tacalaya, which together are sufficient to supply the needs of our two operating units 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

Besides electric energy, the principal raw materials used in our operations are fuels. Natural gas is used for metallurgical processes, to power furnaces, converters, casting wheels, boilers and electric generators. Diesel oil is a backup for all these uses. Also at our operations we use diesel oil for mining equipment. Fuel, electricity and water supplies are readily available. The prices of these materials may fluctuate beyond our control since the only supplier is the Mexican government. We therefore focus our efforts to reduce these costs through cost and energy saving measures.

In Mexico, fuel is purchased directly from Petroleos Mexicanos, (PEMEX), the state oil monopoly. Electricity for our Mexican operations, which is used as the main energy source at our mining complexes, is purchased from the *Comision Federal de Electricidad*, the Federal Electricity Commission, or CFE, the state s electrical power producer. In addition, we recover some energy from waste heat boilers at the La Caridad smelter. 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.

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Mexcobre imports natural gas from the U.S. through its pipeline (between Douglas, Arizona and Nacozari, Sonora). This permits us to import natural gas from the United States at market prices and thereby reduce operating costs. Several contracts with PEMEX and the United States provide us with the option of using a monthly fixed price or daily fixed prices for our natural gas purchases.

During 2008 and 2009, we entered into gas swap contracts to protect part of our gas consumption as follows:

		2009		2008
Gas volume (MMBTUs)		184,000		460,000
Fixed price	$	3.6350	$	8.2175
Loss (in millions)	$		$	0.9

The losses obtained were included in the production cost. During all of 2010 and at December 31, 2010, we did not hold any open gas swap contracts.

Energy is the principal cost in mining, therefore the concern for its conservation and efficient usage is very relevant. We have an energy management committee at most of our mines. The committees meet periodically to discuss consumptions and to develop measures directed at saving energy. Also, alternative sources are being analyzed at the corporate level, both from traditional and renewable energy sources. This has helped us develop a culture of energy conservation directed at the sustainability of our operations.

In prior years we announced plans to build a coal power generation plant in the state of Sonora, Mexico. In 2010, after studying the cost and feasibility, we decided not to move forward with this project.

In Mexico, water is a national property and industries not connected to a public services water supply must obtain a water concession from *Comision Nacional del Agua* (the National Water Commission , or CNA). Water usage fees are established in the *Ley Federal de Derechos (the Federal Law on Water Rights),* 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 Buenavista 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 15 Commitments and contingencies of the consolidated financial statements.

MINING RIGHTS AND CONCESSIONS

Peru

We have 224,995 hectares in concessions from the Peruvian government for our exploration, exploitation, extraction and/or production operations, distributed among our various sites as follows:

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	Toquepala	Cuajone	Ilo	Other	Total
			(hectares)		
Plants	300	456	421		1,177
Operations	25,846	17,423	9,703		52,972
Exploration	2,099	6,700	4,600	157,447	170,846
Total	28,245	24,579	14,724	157,447	224,995

We believe that our Peruvian concessions are in full force and in 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 2010, 2009 and 2008 were approximately $1.1 million, $1.1 million and $1.8 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.

In 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 this law, we are subject to a 1% to 3% charge, based on sales, and calculated on the value of the concentrates produced at our Toquepala and Cuajone mines. We made provisions of $65.5 million, $43.7 million and $53.9 million in 2010, 2009 and 2008, respectively, for this charge. These provisions are included in cost of sales (exclusive of depreciation, amortization and depletion) in the consolidated statement of earnings.

Mexico

In Mexico we have approximately 375,045 hectares in concessions from the Mexican government for our exploration and exploitation activities as outlined in the table below.

	Underground Mines	La Caridad	Buenavista	Projects	Total
		(hectares)			
Mine concessions	88,439	93,893	17,826	174,887	375,045

We believe that our Mexican concessions are in full force and in 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 or mine mineral reserves. Mining concessions have a 50-year term that can be renewed for another 50 years. Holding fees for mining concessions can be from $0.4 to $8.8 per hectare depending on the beginning date of the mining concession. Fees paid during 2010, 2009 and 2008 were approximately $2.9 million, $2.5 million and $2.5 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.

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ITEM 1A. RISK FACTORS:

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

General Risks Relating to Our Business

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, molybdenum, zinc and silver. 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.

During the last 15-year period the yearly average price of copper per pound on the COMEX ranged from a low $0.72 in 1999 and 2002, to a high $3.43 in 2010. In 2010 the COMEX copper price increased from a quarterly low of $3.19 per pound in the second quarter to a quarterly high of $3.93 per pound in the fourth quarter and closed the year at $4.44 per pound. The LME copper prices during these periods, while slightly different, closely paralleled the COMEX prices. Molybdenum, zinc and silver during the same 15-year period showed average highs and lows as follows: molybdenum $2.35 per pound, low in 2001 and $31.99 per pound, high in 2005; zinc $0.35 per pound, low in 2002 and $1.49 per pound, high in 2006; and silver $4.36 per ounce, low in 2001 and $20.18 per ounce high in 2010.

We cannot predict whether metals prices will rise or fall in the future. Future declines in metals prices and, in particular, copper or molybdenum prices, will 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, including any change resulting from economic slow-downs or recessions, could impact our results of operations and financial condition.

Our actual reserves may not conform to our current estimates of our ore deposits and we depend on our ability to replenish ore reserves for our long-term viability.

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. We may be required in the future to revise our reserves estimates based on our actual production. We cannot assure you that our actual

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reserves conform to geological, metallurgical or other expectations or that the estimated volume and grade of ore will be recovered. Market prices of our metals, 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. Our reserves are depleted as we mine. We depend on our ability to replenish our ore reserves for our long-term viability. We use several strategies to replenish and increase our ore reserves, including exploration and investment in properties located near our existing mine sites and investing in technology that could extend the life of a mine by allowing us to cost-effectively process ore types that were previously considered uneconomic. Acquisitions may also contribute to increased ore reserves and we review potential acquisition opportunities on a regular basis. However, we cannot assure you that we will be able to continue with our strategy to replenish reserves indefinitely.

Our business requires levels of 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 significant 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 you 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.

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

Our financing instruments and those of our Minera Mexico 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 Mexico 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 Mexico 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 our incurrence of additional debt and liens, on our ability to dispose of assets, or on our ability to pay dividends to our common stock holders.

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

Our subsidiary, Minera Mexico, 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 Minera Mexico to pay dividends to us, which in turn, may have an impact on our ability to pay stockholder dividends or to service debt.

Through 2010, our management set aside $1.8 billion of unremitted earnings of its Mexican subsidiary, Minera Mexico, as appropriated retained earnings. It is our

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intention to indefinitely invest these funds in Mexico. These amounts are earmarked for the Company s Mexican expansion program.

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

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, including 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 damage or hazards as a result of exploration and production, is not generally available to us or other companies within the mining industry. Nevertheless recent environmental legal initiatives have considered future regulations regarding environmental damage insurance. In case such regulations come into force, we will have to analyze the need to obtain such insurance. 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.

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

Under our 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 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. 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

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or other factors with companies that in the future may benefit from favorable trading or other arrangements.

Interruptions of energy supply or increases in energy costs and other production costs 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 constituted approximately 36% of our total production cost in 2010 and 2009. 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. In recent years the price of oil has risen dramatically due to a variety of factors. Disruptions in energy supply or increases in costs of energy resources or increases of other production costs could have a material adverse effect on our financial condition and results of operations.

Shortages of water supply, critical parts, equipment and skilled labor may adversely affect our operations and development projects.

Our mining operations require significant quantities of water for mining, ore processing and related support facilities. Although each operation currently has sufficient water rights to cover its operational demands, the loss of some or all water rights for any of our mines or operations, in whole or in part, or shortages of water to which we have rights could require us to curtail or shut down mining production and could prevent us from pursuing expansion opportunities. Additionally, we have not yet secured adequate water rights to support all of our announced expansion projects, and our inability to secure those rights could prevent us from pursuing some of those opportunities. In addition, future shortages of critical parts, equipment and skilled labor could adversely affect our operations and development projects.

Our results and financial condition are affected by global and local market conditions.

We are subject to the risks arising from adverse changes in domestic and global economic and political conditions. Our industry is cyclical by nature and fluctuates with economic cycles, including the current global economic instability.

The weakness in the global economy has been marked by, among other adverse factors, lower levels of consumer and corporate confidence, decreased business investment and consumer spending, increased unemployment, reduced income and asset values in many areas, currency volatility and limited availability of credit and access to capital.

If the United States and the world-wide economic recovery continues to be weak or deteriorates or if Chinese economic growth weakens, it could have an impact on our business and our financial condition. We cannot predict if the administrative and legislative actions taken in the United States and elsewhere in the world to address this situation will be successful in reducing the severity or duration of the economic instability. The continuation or intensification of the slow global economic recovery and the sovereign debt crisis in Europe or elsewhere may prompt banks to limit or deny lending to us or to our customers, which may have an adverse effect on our liquidity and on our ability to carry out our announced capital investment programs. Additionally, concerns over the slow recovery in the United States and elsewhere in the world may prompt our customers to slow down or reduce the purchase of our products. We may experience longer sales cycles, difficulty in collecting

sales

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proceeds, and lower prices for our products. A change in the demand of our products could impact our results of operations and financial condition. We cannot provide any assurance that any of these events will not have a material adverse effect on market conditions, prices of our securities, our ability to obtain financing, and our results of operations and financial condition.

Environmental, health and safety laws, regulatory response to climate change, 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.

We are required to comply with occupational health and safety laws and regulations in Peru and Mexico where our operations are subject to periodic inspections by the relevant governmental authorities. These laws and regulations govern, among others: health and safety work place conditions including with respect to high risk labor and the handling, storage and disposal of chemical and other hazardous substances. We believe our operations are in compliance in all material respects with applicable health and safety laws and regulations in the countries in which we operate. Compliance with these laws and regulations and new or existing regulations that may be applicable to us in the future could increase our operating costs and adversely affect our financial results of operations and cash flows.

We monitor occupational health and safety performance and compliance regularly through programs, reports and activities at our operations. Accidents are reported to Mexican and Peruvian authorities as required. In 2010, we had eight fatalities in Mexico, four Company employees and four contractor employees, also in Peru, we had two fatalities one company employee and one contractor employee. The amounts paid to the Mexican and Peruvian authorities for reportable accidents did not have a material impact on our results. In addition, in January 2011, there was a fatal accident at our Toquepala mine. Under Mexican and Peruvian law penalties and fines for safety violations are generally monetary, but in certain cases may lead to the temporary or permanent shutdown of the affected facility or the suspension or revocation of permits or licenses. In 2010, we were not subject to penalties or sanctions and we did not experience any shutdowns of our work areas.

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.

On January 28, 2011, Article 180 of the Mexican Federal General Law of Ecological Balance and Environmental Protection was amended. This amendment gives an individual or entity having a legitimate interest the ability to contest administrative acts, including environmental authorizations, permits or concessions granted, without the need to demonstrate the actual existence of harm to the environment, natural resources, flora, fauna or human health, because it will be sufficient to argue that the harm may be caused.

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As a result of the amendment, more legal actions supported or sponsored by non-governmental groups, interested in halting projects, and not necessarily in protecting the rights of affected communities may be filed against companies operating in all industrial sectors, including the mining sector.

Another initiative that has not entered into force, but is being analyzed by the Chamber of Deputies is the one related to amendments to the Civil Federal Procedures Code (CFPC). This initiative consists of establishing three categories of collective actions, by means of which 30 or more people claiming injury derived from environmental, consumer protection, financial services and economic competition issues will be considered to be sufficient in order to have a legitimate interest to seek through a civil procedure restitution or economic compensation or suspension of the activities from which the alleged injury derived. The initiative is expected to be approved by the Chamber of Deputies this year and the related provisions to enter into force six months afterward. If approved, the amendments to the CFPC may result in more litigation with plaintiffs seeking remedies, including suspension of the activities alleged to cause harm.

In 2003 and 2005, Peruvian environmental laws imposing closure and remediation obligations on the mining industry were enacted. 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 these obligations in our Note 11 Asset Retirement Obligation to our consolidated financial statements. Moreover, 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. We believe our operations are in compliance with all environmental laws and regulations within the areas we operate.

Regulatory response to climate change, restrictions, caps, taxes, or other controls on emissions of greenhouse gasses, including on emissions from the combustion of carbon-based fuels, could significantly increase our operating costs. Restrictions on emissions could also affect our customers. A number of governments or governmental bodies have introduced or are contemplating regulatory changes in response to the potential impacts of climate change. These regulatory initiatives will be either voluntary or mandatory and may impact our operations directly or through our suppliers or customers.

The potential physical impacts of climate change on our operations are highly uncertain, and would be particular to the geographic circumstances of our facilities. These may include changes in rainfall patterns, water shortages, changing sea levels, changing storm patterns and intensities, and changing temperatures. These effects may adversely impact the cost, production and financial performance of our operations.

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, operating results, 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

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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.

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 the Mexican 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.

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, local contractors and fuel. For the year ended December 31, 2010, a substantial portion of our costs were denominated in a currency other than U.S. dollars. 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 currencies which most influence our costs.

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

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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.

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. As of December 31, 2010, unions represented approximately 69% of our workforce. Currently, we have labor agreements in effect for all of our operations.

In June 2010, a work stoppage at our Buenavista mine (formerly named Cananea) was finally resolved after a period of three years. The mine property is being rehabilitated and production is being restored. Full production is expected by February 2011.

Additionally, our Taxco and San Martin mines have been on strike since July 2007. It is expected that operations at these mines will remain suspended until these labor issues are resolved.

We cannot assure you when these strikes will be settled, or 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.

Our new mining or metal production projects may be subject to additional costs due to community actions and other factors.

Our exploration, mining, milling, smelting and refining activities are subject to Peruvian and Mexican laws and regulations, including environmental laws and regulations, as well as certain industry technical standards. As in any other country, environmental regulations in Peru and Mexico have become increasingly stringent over the last decades. In accordance with mining regulations in the countries where we operate, we have to submit an environmental impact assessment (EIA) for all our new mining projects or expansions of existing mining operations and/or facilities. The EIA is then discussed at various open hearings with the local communities, where they have the opportunity to voice their opinion and/or concerns. In Peru, the Ministry of Energy and Mines (MINEM) usually requires the mining companies to address the questions of the communities. MINEM is the entity that approves the EIA and the execution of mining projects.

The Tia Maria project located in the Peruvian region of Arequipa, is expected to produce about 260 million pounds of SXEW copper cathodes per year. The approved budget for the project is $934 million. Through December 31, 2010, $432.5 million have been invested in this project.

In 2009, we submitted the EIA for the project to MINEM. In April 2010, after social unrest in the Islay province of Arequipa that obstructed the public hearing for the EIA, Peruvian ministerial resolutions created a technical agency to analyze and respond to comments on the environmental impact of the Tia Maria project and temporarily suspended work at the project. Because of the continued social unrest the technical agency never became operational. Certain members of the local communities in the surrounding area of the Tia Maria project have opposed the project for various reasons, including for the purported use of underground water for the project alleging that it could cause a shortage of water supply for the farmers in the local communities and cause other potential

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impacts. In connection with the EIA, we submitted to the government additional information, including the building of a desalinization plant to use sea water exclusively for the project.

On December 1, 2010, MINEM approved a communication plan with new options to use to inform the details of EIA to the local communities. We completed the communication plan in January 2011, which included the opening of three information offices in the communities that would be mostly impacted by the project, four informative meetings with local communities members and media advertizing regarding the project in local newspapers, as well as on local television and radio stations. On February 1, 2011, we filed a report with MINEM indicating full completion of the program. The observations and comment period for the local communities members and other stakeholders, including environmentalist and non-governmental organizations, expires on March 2, 2011 and we expect to receive the EIA approval during the second quarter of 2011.

We are confident that we will continue with the Tia Maria project. However, this project, or any other project which we may undertake in the future, may be subject to additional costs or delays due to actions by members of the local community or other factors.

We are controlled by Grupo Mexico, which exercises control over our affairs and policies and whose interests may be different from yours.

Grupo Mexico owns indirectly 80% of our capital stock. Certain of our and Minera Mexico s officers and directors are also directors and/or officers of Grupo Mexico and/or of its affiliates. We cannot assure you that the interests of Grupo Mexico will not conflict with ours.

Grupo Mexico 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.

Grupo Mexico reported that under its reorganization plan for Asarco, it had secured financing of $1.5 billion. Currently $837.0 million is outstanding under the financing. We cannot assure you that this increased financial obligation of our parent will not result in our parent corporation attempting to obtain increased dividends or other funding from us.

On July 22, 2010, we received a non-binding proposal from our parent company, AMC, offering to effect an all-stock business combination of Southern Copper and AMC, the parent company of Asarco, in which all stockholders of Southern Copper would receive 1.237 common shares of AMC in exchange for each share of SCC. Under the proposal presented by AMC, the stock of AMC would be registered and listed on the New York, Mexican and Lima stock exchanges.

On August 10, 2010, we formed a special committee of independent directors to evaluate AMC s proposal. The special committee has engaged independent legal, financial and mining advisors to assist in this transaction. The group is currently working on the

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evaluation of this proposal; however, there is not a set deadline for completion of the evaluation.

The proposed transaction is subject to risks. Such risks and uncertainties include, but are not limited to: SCC s ability to enter into definitive agreements with respect to the proposed transaction; the results of SCC s due diligence review of Asarco; SCC s ability to achieve the benefits contemplated by the proposed transaction; SCC s ability to promptly and effectively integrate with the businesses of AMC and Asarco; the costs associated with the proposed transaction; the timing to consummate the proposed transaction; any necessary actions to obtain required regulatory approvals; the ability to obtain existing lender and other required third-party consents; increased costs; metal prices; unfavorable economic conditions; changes in the legal and regulatory environment; litigation; and unstable political conditions, civil unrest or other developments.

In addition, we have in the past engaged in, and expect to continue to engage in, transactions with Grupo Mexico and its other affiliates which are related party transactions and may present conflicts of interest. For additional information regarding the share ownership of, and our relationships with, Grupo Mexico and its affiliates, see Note 20 Related Party Transactions.

We may not continue to 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. In light of our capital investment program and the current global economic conditions, it is possible that future dividend distributions will be reduced from the levels of recent years.

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 Mexico, our mineral rights derive from concessions granted, on a discretionary basis, by the Ministry of Economy, pursuant to the Mexican 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.

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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.

For further discussion of contributions that the Company agreed to make to support the development of Peru and Peruvian legislation imposing royalty charges on mining companies, see Regional Development Contribution and Royalty Charge in Note 15 Commitments and Contingencies to our consolidated financial statements.

Terrorism in Peru was a risk in the 1980s and 1990s due to the presence of significant active terrorist groups. However, in the past decade (2000s) terrorist activities have largely disappeared from Peru s environment.

In the last 10 years Peru has had political and social stability. The Peruvian government s economic policies reduced inflation and the Peruvian economy has experienced significant growth in recent years.

In October 2010, Peru had regional and mayoral elections and in April 2011 Peru will elect a new president.

Because we have significant operations in Peru, we cannot provide any assurance that political developments and economic conditions in Peru and/or a resurgence of terrorist activity will not have a material adverse effect on market conditions, prices of our securities, our ability to obtain financing, and our results of operations and financial condition.

Mexican economic and political conditions, as well as drug-related violence, may have an adverse impact on our business.

The Mexican economy is highly sensitive to economic developments in the United States mainly because of its high level of exports to the United States market. The global financial crisis, and the subsequent downturn in the United States economy, caused real gross domestic product in Mexico to fall 6.6% in 2009. Mexico s policy measures in response to the crisis and its prior economic performance have helped the economy begin a recovery. Gross domestic product was about 5% in 2010 and is projected to be at least 4% in 2011. Unless, new downside signals from the U.S. market or a significant increase in oil prices, which may endanger economic growth in the world, copper prices should remain strong. Other possible risks with apparently smaller consequences are increases in taxes on the mining sector or higher royalties. Like in many metal producing countries, the mining industry is perceived as a place where there is money to correct fiscal pressures.

On the political side, certain institutions are under significant stress, in particular police departments at the federal and local levels and the Army. Mexican drug and organized crime problems stem from the successful blockage of the Caribbean Sea and the change in strategy by South American and U.S. criminal organizations to use Mexico as a stepping stone to the U.S. market. Corruption and drug-related violence grew among police forces, while at the same time well equipped Special Forces captured more than 18 kingpins of the drug cartels, thus sending traditional arrangements in disarray. The result has been an increase in violence among drug aspiring cartels in some states of Mexico. Naturally, other forms of organized crime began to flourish in the shadow of the larger cartel fights. That type of crime affects, in particular transportation of minerals and finished products which affect a small part of our production, however we do not expect it to constitute a significant risk. However, it should be mentioned as a potential risk.

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Because we have significant operations in Mexico, we cannot provide any assurance that political developments and economic conditions, as well as drug-related violence, in Mexico will not have a material adverse effect on market conditions, prices of 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 years, Peru has experienced one of its best economic periods. In Peru economic conditions have improved significantly in the last 7 years. Inflation in 2009 was ok, the value of the neuvo sol has appreciated against the U.S. dollar, 8.0% in 2009 and 2.8% in 2010. 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. The Peruvian government s economic policy reduced inflation and the Peruvian economy has experienced significant growth in recent years, we do not expect high inflation 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. However, Peru s foreign reserves at December 31, 2010, were a record $44.1 billion as compared with $33.1 billion and $31.2 billion at December 31, 2009 and 2008, respectively. We cannot assure you of similar positions in the future but there doesn t seem to be an adverse outlook for 2011 or 2012.

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, the net income generated by our Mexican operations is in adversely affected. The annual inflation rate in Mexico was 4.4% in 2010, 3.6% in 2009 and 6.5% in 2008. The Bank of Mexico has publicly announced a target of 3% inflation for 2011.

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 increased by 5.4% and 3.5% in 2010 and 2009, respectively, and decreased by 24.5% in 2008.

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While the Mexican government does not currently restrict the ability of Mexican companies or individuals to convert pesos into dollars or others currencies, in the future, we do not expect the Mexican government to impose any restriction or exchange control policies, it is an area we closely monitor, but is not a concern at this time. We cannot assure you 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 exchange control policies could impair Minera Mexico 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 common stock or 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 1B. UNRESOLVED STAFF COMMENTS

None

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ITEM 2. PROPERTIES

We were incorporated in Delaware in 1952. Our corporate offices in the United States are located at 11811 North Tatum Blvd. Suite 2500, Phoenix, Arizona 85028. Our Phoenix telephone number is (602) 494-5328. 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. We believe that our existing properties are in good condition and suitable for the conduct of our business.

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 Buenavista. We also operate five underground mines that produce zinc, copper, silver and gold, as well as a coal mine and a coke oven.

EXTRACTION, SMELTING AND REFINING PROCESSES

Our operations include open-pit and underground mining, concentrating, copper smelting, copper refining, copper rod production, solvent extraction/electrowinning (SXEW), zinc refining, sulfuric acid production, molybdenum concentrate production and silver and gold refining. The extraction and production process are summarized below.

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

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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.

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 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-quarter 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, reagent solutions 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 blister copper (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 and anode 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 (anodic slime). This anodic slime is processed at a precious metal plant where selenium, silver and gold are recovered.

COPPER ROD PLANT

To produce copper rod, copper cathodes are first smelted 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 (SXEW)

An alternative to the conventional concentrator/smelter/refinery process is the leaching and SXEW process. During the SXEW process, certain types of low-grade ore with a copper

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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 SXEW 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 principally in Mexico, Peru, United States, Chile 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.

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KEY PRODUCTION CAPACITY DATA:

All production facilities are owned by us. The following table sets forth as of December 31, 2010, the locations of production facilities by reportable segment, the processes used, as well as the key production and capacity data for each location:

Facility Name	Location	Process	Nominal Capacity (1)	2010 Production	2010 Capacity Use
PERUVIAN OPEN-PIT UNIT					
Mining Operations					
Cuajone open-pit mine	Cuajone (Peru)	Copper ore milling and recovery, copper and molybdenum concentrate production	87.0 ktpd - ore milled	87.0 ktpd	100.0%
Toquepala open-pit mine	Toquepala (Peru)	Copper ore milling and recovery, copper and molybdenum concentrate production	60.0 ktpd - ore milled	60.6 ktpd	101.1%
Toquepala SXEW plant	Toquepala (Peru)	Leaching, solvent extraction and cathode electrowinning	56.0 ktpy - refined	37.9 ktpy	67.7%
Processing Operations					
Ilo copper smelter	Ilo (Peru)	Copper smelting, blister, anodes production	1,200.0 ktpy - concentrate feed	997.9 ktpy	83.2%
Ilo copper refinery	Ilo (Peru)	Copper refining	280 ktpy - refined cathodes	255.5 ktpy	91.3%
Ilo acid plants	Ilo (Peru)	Sulfuric acid	1,050 ktpy - sulfuric acid	963.0 ktpy	91.7%
Ilo precious metals refinery	Ilo (Peru)	Slime recovery & processing, gold & silver refining	320 tpy	382.3 tpy	119.5%
MEXICAN OPEN-PIT UNIT					
Mining Operations					
Buenavista Open-pit mine (2)	Sonora (Mexico)	Copper ore milling & recovery, copper concentrate production	76.7 ktpd - milling	-	-
Buenavista SXEW I, II plants (2)	Sonora (Mexico)	Leaching, solvent extraction & refined cathode electrowinning	54.8 ktpy (combined)	20.7 ktpd	37.8
La Caridad open-pit mine	Sonora (Mexico)	Copper ore milling & recovery, copper & molybdenum concentrate production	90.0 ktpd - milling	90.9 ktpd	101.0%
La Caridad SXEW plant	Sonora (Mexico)	Leaching, solvent extraction & cathode electrowinning	21.9 ktpy - refined	22.9 ktpy	104.6%
Processing Operations					
La Caridad copper smelter (3)	Sonora (Mexico)	Concentrate smelting, anode production	1,000 ktpy - concentrate feed	433.7 ktpy	43.4%
	Sonora (Mexico)	Copper refining		84.6 ktpy	28.2%

La Caridad copper refinery (3)			300 ktpy copper cathode		
La Caridad copper rod plant (3)	Sonora (Mexico)	Copper rod production	150 ktpy copper rod	57.3 ktpy	38.2%
La Caridad	Sonora	Slime recovery &	2.8 ktpy - slime	0.6 ktpy	21.4%

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precious metals refinery (3)	(Mexico)	processing, gold & silver refining			
La Caridad Sulfuric acid plant (3)	Sonora (Mexico)	Sulfuric acid	1,565.5 ktpy - sulfuric acid	441.5 ktpy	28.2%
IMMSA UNIT					
Underground mines					
Charcas	San Luis Potosi (Mexico)	Copper, zinc, lead milling, recovery & concentrate production	1,460 ktpy - ore milled	1,165.3 ktpy	79.8%
San Martin (4)	Zacatecas (Mexico)	Lead, zinc, copper & silver mining, milling recovery & concentrate production	1,606 ktpy - ore milled	-	-
Santa Barbara	Chihuahua (Mexico)	Lead, copper and zinc mining & concentrates production	2,190 ktpy - ore milled	1,578.3 ktpy	72.1%
Santa Eulalia	Chihuahua (Mexico)	Lead & zinc mining and milling recovery & concentrate production	547.5 ktpy - ore milled	150.3 ktpy	27.5%
Taxco (4)	Guerrero (Mexico)	Lead, zinc silver & gold mining recovery & concentrate production	730 ktpy - ore milled	-	-
Nueva Rosita coal & coke complex(5)	Coahuila (Mexico)	Clean coal production	900 ktpy clean coal 100 ktpy coke	240.5 ktpy 72.9 ktpy	26.7% 70.1%
Processing Operations					
San Luis Potosi copper smelter (6)	San Luis Potosi (Mexico)	Concentrate smelting, blíster production	230 ktpy concentrate feed 24.0 Ktpy blíster production	33.1 ktpy 0.9 ktpy	14.3% 3.8%
San Luis Potosi zinc refinery	San Luis Potosi (Mexico)	Zinc concentrates refining	105.0 ktpy zinc cathode	92.1 ktpy	90.5%
San Luis Potosi sulfuric acid plant	San Luis Potosi (Mexico)	Sulfuric acid	180.0 ktpy sulfuric acid	166.7 ktpy	92.6%

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) During 2010, the Buenavista facilities were on strike into the second half of the year.

(3) The 2010 capacity utilization at the La Caridad processing facilities was reduced by the lack of materials from the Buenavista mine, which was on strike.

(4) During 2010, there was no production at the Taxco and San Martin mines due to strikes.

(5) As of December 31, 2010, the coal reserves for the Nueva Rosita coal plant were 100.7 million tons with average sulfur content of 1.1% and a BTU content of 8,503 per pound.

(6) In March 2010, the San Luis Potosi copper smelter was closed. Since then copper concentrates are sent to La Caridad copper smelter for processing.

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PROPERTY BOOK VALUE

At December 31, 2010, net book values of property are as follows (in millions):

Peruvian operations:		
Cuajone	$	413.1
Toquepala		586.7
Tia Maria project		432.5
Ilo and other support facilities		681.7
Property in progress		50.7
Total	$	2,164.7
Mexican open-pit operations:		
Buenavista	$	541.2
La Caridad		1,006.6
Mexicana del Arco		31.5
Property in progress and other facilities		4.2
Total	$	1,583.5
Mexican IMMSA unit:		
San Luis Potosi	$	35.8
Zinc electrolytic refinery		69.6
Charcas		21.1
San Martin		32.4
Santa Barbara		69.7
Taxco		6.0
Santa Eulalia		23.1
Nueva Rosita		20.5
Property in progress and other facilities		18.1
Total	$	296.3
Mexican administrative offices	$	50.5
Total Southern Copper Corporation	$	4,095.0

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SUMMARY OPERATING DATA

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

	Year Ended December 31,		
	2010	**2009**	**2008**
COPPER (thousand pounds):			
Mined			
Peru open-pit			
Toquepala	289,947	280,263	251,651
Cuajone	363,692	416,562	432,249
SXEW Toquepala	83,640	83,691	85,537
Mexico open-pit			
La Caridad	209,154	225,975	213,691
Buenavista			13,591
SXEW La Caridad	50,403	51,182	48,422
SXEW Buenavista	45,626		20,811
IMMSA unit	12,507	12,396	11,949
Total Mined	**1,054,969**	**1,070,069**	