SOUTHERN COPPER CORP/
Form 10-K
February 27, 2012
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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, 2011

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.)
1440 East Missouri Avenue Suite C-175 Phoenix, AZ	**85014**
(Address of principal executive offices)	(Zip code)

Registrant s telephone number, including area code: **(602) 264-1375**

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, 2012, there were of record 840,980,000 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, 2011 as reported on the New York Stock Exchange - Composite Transactions) of Southern Copper Corporation held by non affiliates was approximately $5,438 million.

PORTIONS OF THE FOLLOWING DOCUMENTS ARE INCORPORATED BY REFERENCE:

Part III: Proxy statement for 2012 Annual Meeting of Stockholders

Part IV: Exhibit Index is on Page 170 through 179

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Southern Copper Corporation (SCC)

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PART I.

ITEM 1. BUSINESS

THE COMPANY

Southern Copper Corporation (SCC , Southern Copper 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 Mexico and we conduct exploration activities in those countries and in Argentina, Chile and Ecuador. 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. Operadora de Minas e Instalaciones Mineras S.A de C.V. (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. The Buenavista mine was operated until December 11, 2010 by Mexicana de Cananea S.A. de C.V. and by Buenavista del Cobre S.A. de C.V. from that date until July 2011. Industrial Minera Mexico, S.A. de C.V. (together with its subsidiaries, the IMMSA unit) operates five underground mines that produce zinc, lead, copper, silver and gold, a coal mine and a zinc refinery. Effective February 1, 2012, Minerales Metalicos del Norte S.A was merged with Industrial Minera Mexico S.A. de C.V. (IMMSA). IMMSA absorbed Minerales Metalicos del Norte S.A.

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.

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.

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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, 2011. 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, 2011 owns 80.9% 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.

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 13 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

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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.

In 2011, our Board of Directors increased from $500 million to $1billion the share repurchase program authorized in 2008. Pursuant to this program, we purchased 42.5 million shares of our common stock at a cost of $730.7 million. These shares are 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.

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.

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,

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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 an internationally traded commodity with prices principally determined by the major metal exchanges, the Commodities Exchange, or COMEX , in New York and the London Metal Exchange or LME . 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 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 fourth quarter of 2008. However, since 2009 the price of copper has improved, closing at year-end 2011 at $3.43 per pound on both the LME and COMEX.

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 our 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 20 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, Argentina, Ecuador and Chile. We also conduct exploration in the areas of our current mining operations. We invested $37.5 million in exploration programs in 2011, $34.3 million in 2010 and $24.6 million in 2009 and we expect to spend approximately $44.8 million in exploration programs in 2012.

Currently in Peru, we have direct control of 145,064 hectares of mineral rights. In Mexico, we currently hold 176,250 hectares of exploration concessions. We also currently hold 21,068 hectares, 35,958 hectares and 2,544 hectares of exploration concessions in Argentina, Chile and Ecuador, respectively.

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. During 2011, we completed the pre-feasibility study and we plan to conduct a feasibility study of the project in 2012.

Tantahuatay. The Tantahuatay mine located in the department of Cajamarca in northern Peru, started operations in July 2011. Please see Capital Investment Programs under Item 7 for further information.

Other Peruvian Prospects. As part of the 2011 exploration program, we concluded a program of 1,652 meters of diamond drilling at the Huallas (Chinchinga) project (a skarn of copper-lead-zinc) located in the department of Ayacucho and 6,268 meters of diamond drilling at the Clara project (copper porphyry) located in southern Peru. These prospects are on hold as we evaluate the results of the drilling program.

For 2012 we are considering developing a diamond drilling program of approximately 30,000 meters for some prospects located in the northern and southern parts of Peru, including at El Penon, a copper and gold project, located in the north. We will continue with the regional exploration program at several other Peruvian mineralized zones.

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 tons of mineralized sulfide material with an average copper content of 0.5% and 0.125 grams of gold per ton and 290 million tons of copper oxide with 0.35% copper grade. In 2010, a deep drilling program of 1,214 meters indicated approximately 390 million tons of mineralized material with 0.62% of copper content below the current pit limits. As we have a large mineralized material database for this project, we decided to postpone the deep drilling program to the future, consequently no drilling was done in 2011 and none is planned for 2012.

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. During 2011, all documentation required to obtain a water concession for 300 liters per second was filed. We expect to receive the title for these water rights in the first half of 2012.

The feasibility study performed in 2010 was completed in 2011. During the last year most of our activities were related to infrastructure issues such as land, power and port facilities. We expect to resolve these issues in 2012.

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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 2011, we concluded the feasibility study and in October 2011 an investment of $130.7 million was approved for the development of the Angangueo mine. Please see Capital Investment Programs under Item 7 for further information.

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 labor strike activities at the Buenavista mine no work was performed from 2008 through 2010. In 2011, 11,956 meters of diamond drilling were executed to confirm grade and acquire geotechnical information. In 2012, the Buenavista-Zinc mine plan will be integrated with the overall mine plan of the Buenavista pit. Also we expect to conclude the final metallurgical testing and the feasibility study in 2012.

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 were added to the mineralized material estimates for this open pit project. In 2011, 2,640 meters distributed in 68 drilling holes were executed. This resulted in an increase of 178,000 tons of new mineralized material at the Nueva Rosita pit. For 2012, a 5,000 meters drilling program is planned for the La Conquista pit.

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 1990s, defined 16 million tons of 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 the second quarter 2012. In 2010 and 2011, we added several claims and performed a 9,386 meters drilling program that indicated at least seven million tons of mineralized material containing 979 grams of silver, 0.41% lead, 0.52% copper and 2.53% zinc. During 2012, we plan to continue the drilling program, metallurgical testing and related studies.

Pilares. Located in the state of Sonora, Pilares is ten kilometers from the town of Nacozari de Garcia and six straight line kilometers from our La Caridad mine. In 2008, we acquired 100% ownership of Pilares, with the intention of operating it as an open pit facility. In October 2011, an investment of $136.3 million was approved for the development of the second stage of the Pilares mine. Please see Capital Investment Programs under Item 7 for further information.

Sierra de Lobos. This project is located southwest of the city of Leon, Guanajuato. Drilling in 2008 confirmed 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, 2010 and 2011. We expect to resume drilling activities in the second quarter of 2012.

Chile

Ticnamar. The Ticnamar prospect, located in northern Chile, has been explored as a deposit with copper-molybdenum porphyric veins. In 2011, a diamond drilling program of 1,124 meters was completed. For 2012 we plan to continue exploration with a diamond drilling program of 3,000 meters.

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 during 2011, 2,189 meters of diamond drilling were completed. This prospect has good possibilities and for 2012 we plan to continue exploration with a diamond drilling program of 3,000 meters.

Santa Marta. Located in the Atacama region, Santa Marta is being explored for copper and molybdenum porphyry. During 2011 and 2010, we diamond drilled 2,837 meters and 3,318 meters, respectively, showing promising results. Exploration will continue in 2012, with a diamond drilling program of 4,000 meters.

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San Benito. Located in the Atacama region, San Benito was explored for copper and molybdenum porphyry. In 2010, a diamond drilling program of 3,241 meters was completed. The prospect is currently pending further evaluation.

El Salado. A copper-gold prospect located in the Atacama region, northern Chile. During 2011, we evaluated the information available for the prospect in order to plan the work to be done in the next stage. For 2012, we plan a diamond drilling program of 5,000 meters and metallurgical testing laboratory.

Resguardo de la Costa. A copper-gold prospect located in northern Chile (Atacama area). This prospect is on hold, pending further evaluation.

Other Chilean Prospects. For 2012, we plan to continue with a regional exploration program oriented to locate systems mainly of porphyritics of copper and molybdenum.

Ecuador

In 2011, we started exploration activities in Ecuador. For 2012, we expect to begin exploration work on the Chaucha prospect, located south of Guayaquil. The mineralization is characteristic of a copper-molybdenum porphyry system. In 2012, we plan a program of 10,000 meters of diamond drilling to evaluate the deposit.

Argentina

In the last quarter of 2011, we started exploration activities in Argentina. We plan to carry out explorations in the south of Argentina, where mineralization for porphyry copper, epithermal gold and silver and polymetallic skarns is expected.

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 2011, 2010 and 2009, 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 timely 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 20 Segment and related information of our consolidated financial statements.

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METALS PRICES

Prices for our products are principally a function of supply and demand and, except for molybdenum, are established on COMEX and 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 2011 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:

	Copper (COMEX)			Copper (LME)		
Year	**High**	**Low**	**Average**	**High**	**Low**	**Average**
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	4.44	2.76	3.43	4.42	2.76	3.42
2011-1st Q	4.62	4.13	4.39	4.60	4.07	4.38
2011-2nd Q	4.50	3.90	4.16	4.46	3.87	4.15
2011-3rd Q	4.47	3.15	4.07	4.46	3.16	4.08
2011-4th Q	3.70	3.05	3.41	3.65	3.08	3.40
2011	4.62	3.05	4.01	4.60	3.08	4.00

The per pound COMEX copper price during the last 5, 10 and 15 year periods averaged $3.23, $2.37 and $1.85, respectively. The per pound LME copper price during the last 5, 10 and 15 year periods averaged $3.23, $2.37 and $1.85, respectively.

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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**
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	10.91
2010	1.14	0.72	0.98	30.91	14.82	20.18	18.60	11.75	15.60
2011-1st Q	1.15	1.01	1.09	37.87	26.81	31.74	17.88	16.40	17.17
2011-2nd Q	1.13	0.95	1.02	48.58	33.49	38.42	17.15	15.55	16.50
2011-3rd Q	1.13	0.84	1.01	43.32	29.93	38.76	15.05	14.40	14.44
2011-4th Q	0.93	0.79	0.86	35.27	27.19	31.81	14.10	12.70	13.20
2011	1.15	0.79	0.99	48.58	26.81	35.18	17.88	12.70	15.33

The per pound LME zinc price during the last 5, 10 and 15 year periods averaged $1.01, $0.84 and $0.72, respectively. The per ounce COMEX silver price during the last 5, 10 and 15 year periods averaged $19.68, $13.34 and $10.56, respectively. The per pound Platt s Metals Week Dealer Oxide molybdenum price during the last 5, 10 and 15 year periods averaged $20.09, $18.24 and $13.18, respectively.

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, 2011, we had 12,145 employees, approximately 70.3% of whom are covered by labor agreements with eleven 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 61% of our 4,159 Peruvian workers were unionized at December 31, 2011, represented by eight separate unions. Three of these unions, one at each major production area, represent the majority of the Company s workers. In September 2010, we reached a collective bargaining agreement with these three unions which will expire on August 31, 2012. 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, this agreement provides a productivity bonus program for the departments that reach certain goals.

In addition, there are five smaller unions, representing the balance of workers. Collective bargaining agreements with these unions will expire in November 2012. We expect that negotiations with all eight unions will likely continue throughout the first quarter of 2013.

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There were no strikes during 2011 and 2010.

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 75% of our 7,975 Mexican workers were unionized at December 31, 2011, represented by three separate unions. Under Mexican law, the terms of employment for unionized workers is set forth in collective bargaining agreements. Mexican companies negotiate the salary provisions of collective bargaining agreements with the labor unions annually and negotiate other benefits every two years. We conduct negotiations separately at each mining complex and each processing plant.

In recent years the Buenavista mine experienced several labor stoppages. The latest labor stoppage started in July 2007 and finished in June 2010. We began the rehabilitation of the Buenavista mine during the second half of 2010 and in 2011 we restored full capacity.

Currently, the Buenavista operations have a work force of 2,100 workers that are operating the mine and plants as well as developing the $3.7 billion expansion program, which is expected to increase its production capacity from 180,000 tons of copper per year to 488,000 tons. On June 6, 2011, the Confederation of Mexican Workers (CTM) was awarded the collective bargaining agreement of the Buenavista del Cobre s union by the Federal Board of Conciliation and Arbitration. CTM now represents around 780 workers of this mine.

Additionally, the San Martin and Taxco mines have been on strike since July 2007. On December 10, 2009, a federal court confirmed the legality of the San Martin strike. In order to recover the control of the San Martin mine and resume operations, on January 27, 2011, we filed a court petition requesting that the court establish our responsibility for the strike and that it define the termination payment for each unionized worker. The court denied the petition alleging that according to federal labor law, the union was the legitimate party to file the petition. On appeal by us, on May 13, 2011, the Mexican federal tribunal accepted our petition. In July 2011, the union appealed the favorable court decision before the Supreme Court. At December 31, 2011, resolution of the appeal was pending.

In the case of the Taxco mine, following the workers refusal to allow exploration of new reserves, we commenced litigation seeking to terminate the labor relationship with workers of the Taxco mine (including the related collective bargaining agreement). On September 1, 2010, the federal labor court issued a ruling approving the termination of the collective bargaining agreement and all the individual labor contracts of the workers affiliated with the Mexican mining union at the Taxco mine. The ruling was based upon the resistance of the mining union to allow us 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 appealed the labor court ruling before a federal court. In September 2011, the federal court accepted the union s appeal and requested that the federal labor court review the procedure and to take into account all the evidence to issue a new resolution. On January 3, 2012, the federal labor court again issued a new resolution, approving the termination of the collective bargaining agreement and all the individual labor contracts of the workers affiliated with the Mexican mining union at the Taxco mine. On January 25, 2012, the mining union appealed the resolution before the federal court. The resolution of the appeal is expected to be issued within the next months.

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

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. Through 2007, the Buenavista unit (at that

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time Cananea) provided health care services free of charge to employees and retired unionized employees and their families through its own hospital at the Buenavista unit. In 2011, we signed an agreement with the Secretary of Health of the State of Sonora to continue providing these services to our retired workers and their families. The new workers of the Buenavista unit will receive health services from the Mexican Institute of Social Security as do all Mexican workers.

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 (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 close to the current coal plant, which will provide additional power reserves in the south of Peru. 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. 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 during which Enersur and we must negotiate in good faith to settle certain pending issues, including agreeing on a power purchase agreement for the Tia Maria project. During 2010 and 2011, we continued our negotiation with Enersur but negotiations are currently suspended due to the delay of the Tia Maria project. See Other legal matters -Tia Maria in note 14 Commitment and Contingencies to our consolidated financial statements for further information.

In Peru, we have water rights or licenses for up to 1,950 liters per second from well fields at the 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

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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.

The Mexcobre unit 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.

From time to time we enter into gas swap contracts to protect part of our gas consumption. The gain or losses obtained are included in the production cost. During all of 2010 and 2011 and at December 31, 2011, we did not hold any gas swap contracts. During 2009, we entered into gas swap contracts to protect 306,000 MMBTUs of our gas consumption at a fixed price of $3.6350.

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 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 of 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 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 14 Commitments and Contingencies of the consolidated financial statements.

MINING RIGHTS AND CONCESSIONS

Peru

We have 196,800 hectares in concessions from the Peruvian government for our exploration, exploitation, extraction and/or production operations, distributed among our various sites as follows:

	Toquepala	Cuajone	Ilo	Other	Total
			(hectares)		
Plants	300	456	421		1,177
Operations	24,045	17,111	9,403		50,559
Exploration	4,800		4,600	135,664	145,064
Total	29,145	17,567	14,424	135,664	196,800

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 2011, 2010 and 2009, were approximately $1.2 million, $1.1 million and $1.1 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

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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 were 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 $52.5million, $65.5 million and $43.7 million in 2011, 2010 and 2009, respectively, for this charge.

In September 2011, the Peruvian Congress approved an amendment to the mining royalty charge. The new mining royalty charge is based on operating income margins with graduated rates ranging from 1% to 12%, with a minimum royalty charge assessed at 1% of net sales. If the operating income margin is 10% or less, the royalty charge is 1% and for each 5% increment in the operating income margin, the royalty charge rate increases by 0.75%, up to a maximum of 12%. In the last quarter of 2011, we made provisions of $19.3 million for this charge.

At the same time, the Peruvian Congress enacted a new tax for the mining industry. This tax is also based on operating income with rates ranging from 2% to 8.4%. It begins at 2% for the first 10% of operating income margin and for each additional 5% of operating income margin is increased by an additional rate of 0.4% until 85% of operating income margin is reached. In the last quarter of 2011, we made provisions of $16.4 million for this tax.

Mexico

In Mexico we have approximately 379,103 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	96,588	17,826	176,250	379,103

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 $8.9 per hectare depending on the beginning date of the mining concession. Fees paid during 2011, 2010 and 2009 were approximately $3.5 million, $2.9 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 $4.01 in 2011. In 2011, the COMEX copper price decreased from a quarterly high of $4.39 per pound in the first quarter to a quarterly low of $3.41 per pound in the fourth quarter and closed the year at $4.01 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 $35.18 per ounce high in 2011.

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 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 charges 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.

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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 stockholders.

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 2011, our management set aside $2.0 billion of unremitted earnings of its Mexican subsidiary, Minera Mexico, as appropriated retained earnings. It is our 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.

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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 future consolidation in the industry will not adversely affect us.

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

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 37.0% and 36.0% of our total production cost in 2011 and 2010, respectively. 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. 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

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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 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 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 regularly monitor occupational health and safety performance and compliance through programs, reports and activities at our operations. Accidents are reported to Mexican and Peruvian authorities as required. In 2011, we had one fatality in Mexico, one contractor employee, and two fatalities in Peru, two Company employees. In 2010, we had eight fatalities in Mexico, four Company employees and four contractor employees and two fatalities in Peru, 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. 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 and 2011, we were not subject to material 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 (the General Law) was amended. This amendment, gives an individual or entity 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.

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.

In addition, on August 30, 2011, amendments to the Civil Federal Procedures Code (CFPC) were published in the Official Gazette and will be effective on February 29, 2012. These amendments establish 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 amendments to the CFPC may result in more litigation, with plaintiffs seeking remedies, including suspension of the activities alleged to cause harm.

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On December 5, 2011, the Senate Chamber approved the Environmental Liability Federal Law which establishes general guidelines in order to determine which environmental actions will be considered to cause environmental harm that will give rise to administrative responsibilities (remediation or compensations) and criminal responsibilities. Also economic fines could be established. This initiative has been turned to lower chamber for discussion and voting. The law will be in force once approved by the lower chamber and signed by the president.

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 10 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. This agreement, as well as new international treaties regarding human rights, contains environmental provisions and initiatives. We believe our operations are in material 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 current or 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 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,

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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, 2011, 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 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, 2011, unions represented approximately 70% 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 was finally resolved after a period of three years. The mine property was rehabilitated and production was fully restored in the second quarter of 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.

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Tia Maria: a Peruvian investment project of over $1.0 billion was suspended by governmental action in April 2011 in light of protests and disruptions carried out by a small group of activists who alleged, among other things, that the project would result in severe environmental contamination and the diversion of agricultural water resources. While we continue high level negotiations with the Peruvian government, we have begun the preparation of a new EIA study.

For this purpose, we propose to stop the appeal process of the original EIA submitted to MINEM in 2011 and to expedite the preparation of the new EIA that will address the issues and questions raised during the previous EIA approval process and provide the required technical answers.

We consider that this new EIA process will alleviate all the concerns previously raised by the Tia Maria project s neighboring communities, provide them with an independent source of information and reaffirm the validity of our assessment of the project.

We are confident that this initiative will have a positive effect on our stakeholders and will allow us to obtain the approval for the development of the 120,000 ton annual production copper project. Considering current delays in the project approval process, we are rescheduling the project start-up date to 2015. While a new EIA is pending some of the equipment purchased for Tia Maria is being assigned to our operations at Buenavista, Toquepala, and Cuajone.

Toquepala concentrator expansion: As part of the approval process of the EIA for this project, a public hearing was held on September 21, 2011 at the Toquepala townsite. Over 1,300 people peacefully participated in this public hearing. However, while this meeting was being held, protests and disturbances from some anti-mining groups were taking place at Lake Suches located 80 kilometers from the Toquepala meeting. These groups raised concerns related to water usage and pollution. At the behest of the Tacna regional president, the Peruvian government subsequently declared the townsite meeting invalid. The Peruvian government has started discussions with the local communities and the regional authorities in order to resolve this impasse. The Company is awaiting the outcome of these discussions and expects that the authorities will schedule a new date and place for the public hearing. The project will not use additional fresh water and therefore will not affect the availability of this resource for community or agricultural use. In fact, water currently used by the Company comes from deep wells drilled into the Capulline formation aquifer and does not take water from the population and agricultural communities of Tacna and Moquegua.

We are confident that we will continue with the Tia Maria and the Toquepala projects. However, these projects, 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.

At December 31, 2011, Grupo Mexico owns indirectly 80.9% 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 in 2009 under its reorganization plan for Asarco LLC (Asarco), an indirect subsidiary and a former stockholder of our Company, it had secured financing of $1.5 billion, which at December 31, 2011 had an outstanding balance of $554.6 million.

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Additionally, AMC, Grupo Mexico s subsidiary, and several directors of our Company are named defendants in the Lemon Bay litigation disclosed in Class actions in note 14 Commitment and Contingencies. We have also been named as a nominal defendant. All defendants have appealed the judgement issued on December 29, 2011. We cannot assure you that increased financial obligations of our parents resulting from the financing, the litigation or other reasons will not result in our parent corporations 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. On October 28, 2011, AMC announced, in light of discussions with a special committee of our independent directors, that it had withdrawn the proposed transaction to combine AMC and Southern Copper.

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 19 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.

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 investments, 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.

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For further discussion of Peruvian legislation imposing a special mining tax and royalty charges on mining companies, see Special Mining Tax in note 8 Income Taxes and Royalty Charge in Note 14 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 June 2011 Peru elected 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 4% and 5% in 2010 and 2011, respectively, and is projected to be at least 3.5% in 2012. 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.

Regarding the political situation in Mexico, security institutions are under significant stress, as a result of drug-related violence. This situation affects, in particular, transportation of minerals and finished products, which affect a small part of our production. However, we do not expect drug-related violence to constitute a significant risk unless it increases and affects our areas of production.

On July 1, 2012, voters will elect a new president and members of the chambers of deputies and senators in Mexico. The forthcoming elections in 2012 will also have a reaching effect on the political and economic conditions, but is expected to be a democratic and political process.

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 years. Inflation in 2011 and 2010 was 4.8% and 2.1%, respectively. The value of the nuevo sol has appreciated against the U.S. dollar, 4.0% in 2011 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. Although the Peruvian government s economic policy reduced inflation and the economy has experienced significant growth in recent years, we cannot assure you that inflation will not increase from its current level or that such growth will continue in the future at similar rates or at all. Additionally, the global financial economic crisis could have a negative affect on the Peruvian economy.

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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, 2011, were a record $48.8 billion as compared with $44.1 billion and $33.1 billion at December 31, 2010 and 2009, respectively. We cannot assure you of similar positions in the future but there does not seem to be an adverse outlook for 2012 or 2013.

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 adversely affected. The annual inflation rate in Mexico was 3.8% in 2011, 4.4% in 2010 and 3.6% in 2009. The Bank of Mexico has publicly announced a target of 4.0% inflation for 2012.

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 decreased by 13.1% in 2011 and increased by 5.4% and 3.5% in 2010 and 2009, respectively.

The Mexican government does not currently restrict the ability of Mexican companies or individuals to convert pesos into dollars or other currencies. While we do not expect the Mexican government to impose any restriction or exchange control policies in the future, it is an area we closely monitor. 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 1440 East Missouri Avenue Suite C-175, Phoenix, Arizona 85014. Our Phoenix telephone number is (602) 264-1375. 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 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.

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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 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.

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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, 2011, 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)	2011 Production	2011 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	80.1 ktpd	92.1%
Toquepala open-pit mine	Toquepala (Peru)	Copper ore milling and recovery, copper and molybdenum concentrate production	60.0 ktpd ore milled	60.1 ktpd	100.0%
Toquepala SXEW plant	Toquepala (Peru)	Leaching, solvent extraction and cathode electrowinning	56.0 ktpy refined	35.3 ktpy	63.1%
Processing Operations					
Ilo copper smelter	Ilo (Peru)	Copper smelting, blister, anodes production	1,200.0 ktpy concentrate feed	1,094.0 ktpy	91.2%
Ilo copper refinery	Ilo (Peru)	Copper refining	280 ktpy refined cathodes	261 ktpy	93.2%
Ilo acid plants	Ilo (Peru)	Sulfuric acid	1,050 ktpy - sulfuric acid	1,061.6 ktpy	101.1%
Ilo precious metals refinery	Ilo (Peru)	Slime recovery & processing, gold & silver refining	320 tpy	347.9 tpy	108.7%
MEXICAN OPEN-PIT UNIT					
Mining Operations					
Buenavista Open-pit mine (2)	Sonora (Mexico)	Copper ore milling & recovery, copper concentrate production	76.7 ktpd milling	60.2 ktpd	78.5%
Buenavista SXEW I, II plants	Sonora (Mexico)	Leaching, solvent extraction & refined cathode electrowinning	54.8 ktpy (combined)	62.3 ktpy	113.7%
La Caridad open-pit mine	Sonora (Mexico)	Copper ore milling & recovery, copper & molybdenum concentrate production	90.0 ktpd milling	91.0 ktpd	101.1%
La Caridad SXEW plant	Sonora (Mexico)	Leaching, solvent extraction & cathode electrowinning	21.9 ktpy refined	23.9 ktpy	109.1%

Processing Operations					
La Caridad copper smelter (3)	Sonora (Mexico)	Concentrate smelting, anode production	1,000 ktpy concentrate feed	845.6	84.6%
La Caridad copper refinery (3)	Sonora (Mexico)	Copper refining	300 ktpy copper cathode	186.9	62.3%
La Caridad copper rod plant (3)	Sonora (Mexico)	Copper rod production	150 ktpy copper rod	107.9	71.9%
La Caridad precious metals refinery (3)	Sonora (Mexico)	Slime recovery & processing, gold & silver refining	2.8 ktpy - slime	0.942	33.6%
La Caridad Sulfuric acid plant (3)	Sonora (Mexico)	Sulfuric acid	1,565.5 ktpy sulfuric acid	819.0	52.3%
IMMSA UNIT					
Underground mines					
Charcas	San Luis Potosi (Mexico)	Copper, zinc, lead milling, recovery & concentrate production	1,460 ktpy ore milled	1,124.0	77.0%
San Martin (4)	Zacatecas (Mexico)	Lead, zinc, copper & silver mining, milling recovery & concentrate production	1,606 ktpy ore milled		0.0%

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Santa Barbara	Chihuahua (Mexico)	Lead, copper and zinc mining & concentrates production	2,190 ktpy ore milled	1,553.0	70.9%
Santa Eulalia	Chihuahua (Mexico)	Lead & zinc mining and milling recovery & concentrate production	547.5 ktpy - ore milled	154.0	28.1%
Taxco (4)	Guerrero (Mexico)	Lead, zinc silver & gold mining recovery & concentrate production	730 ktpy - ore milled		0.0%
Nueva Rosita coal & coke complex(5)	Coahuila (Mexico)	Clean coal production	900 ktpy clean coal 100 ktpy coke	103.9 84.4	11.5% 84.4%
Processing Operations					
San Luis Potosí zinc refinery	San Luis Potosi (Mexico)	Zinc concentrates refining	105.0 ktpy zinc cathode	90.6	86.3%
San Luis Potosi sulfuric acid plant	San Luis Potosi (Mexico)	Sulfuric acid	180.0 ktpy sulfuric acid	158.0	87.8%

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) After the almost three years of strikes the Buenavista concentrator restored full capacity in the second quarter of 2011.

(3) The 2011 capacity utilization at the La Caridad processing facilities was partially reduced by the lack of materials from the Buenavista mine which restored full capacity in the second quarter of 2011.

(4) During 2011, there was no production at the Taxco and San Martin mines due to strikes.

(5) At December 31, 2011, the coal reserves for the Nueva Rosita coal plant were 100.6 million tons with average sulfur content of 1.1% and a BTU content of 8,503 per pound.

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PROPERTY BOOK VALUE

At December 31, 2011, net book values of property are as follows (in millions):

Peruvian operations:		
Cuajone	$	452.2
Toquepala		584.5
Tia Maria project		434.1
Ilo and other support facilities		610.1
Property in progress		145.0
Total	$	2,225.9
Mexican open-pit operations:		
Buenavista	$	772.2
La Caridad		1,005.7
Mexicana del Arco		39.3
Total	$	1,817.2
Mexican IMMSA unit:		
San Luis Potosi	$	33.9
Zinc electrolytic refinery		70.3
Charcas		36.6
San Martin		30.4
Santa Barbara		69.2
Taxco		5.2
Santa Eulalia		31.2
Nueva Rosita		21.0
Property in progress and other facilities		22.3
Total	$	320.1
Mexican administrative offices	$	56.7
Total Southern Copper Corporation	$	4,419.9

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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,		
	2011	**2010**	**2009**
COPPER (thousand pounds):			
Mined			
Peru open-pit			
Toquepala	265,390	289,947	280,263
Cuajone	308,956	363,692	416,562
SXEW Toquepala	77,872	83,640	83,691
Mexico open-pit			
La Caridad	197,927	209,154	225,975
Buenavista	242,832		
SXEW La Caridad	52,587	50,403	51,182
SXEW Buenavista	137,440	45,626	
IMMSA unit	12,189	12,507	12,396
Total Mined	**1,295,193**	**1,054,969**	**1,070,069**
Smelted			
Peru open-pit			
Blister Ilo			19,270
Anodes Ilo	744,747	688,894	742,475
Mexico open-pit			
Anodes La Caridad	510,766	256,913	307,880
IMMSA unit			
Blister IMMSA		1,958	43,903
Total Smelted	**1,255,513**	**947,765**	**1,113,528**
Refined			
Peru Open-pit			
Cathodes Ilo	575,391	563,281	578,096
SXEW Toquepala	77,872	83,640	83,690
Mexico Open-pit			
Cathodes La Caridad	411,933	186,564	258,233
SXEW La Caridad	52,587	50,403	51,182
SXEW Buenavista	137,440	45,626	
Total Refined	**1,255,223**	**929,514**	**971,201**
Rod Mexico Open-pit			
La Caridad	237,933	126,246	132,435
Total Rod	**237,933**	**126,246**	**132,435**
SILVER (thousand ounces)			
Mined			
Peru Open-pit			
Toquepala	1,707	1,801	1,788

Cuajone	1,918	2,451	2,584
Mexico Open-pit			
La Caridad	1,776	1,845	2,052
Buenavista	1,464		
IMMSA unit	5,866	6,549	6,778
Total Mined	**12,731**	**12,646**	**13,202**
Refined			
Peru Open-pit Ilo	3,152	3,466	3,270
Mexico Open-pit La Caridad	6,913	6,097	6,505
IMMSA unit	2,524	3,680	3,314
Total Refined	**12,589**	**13,243**	**13,089**
MOLYBDENUM (thousand pounds)			
Mined			
Toquepala	11,823	10,644	7,932
Cuajone	6,144	11,594	11,669
La Caridad	22,973	22,998	21,597
Total Mined	**40,940**	**45,236**	**41,198**
ZINC (thousand pounds)			
Mined IMMSA	184,763	218,685	243,456
Refined IMMSA	200,332	209,598	217,570

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SLOPE STABILITY:

Peruvian Operations

The Toquepala and Cuajone pits are approximately 825 meters and 900 meters deep, respectively. Under the present mine plan configuration the Toquepala pit will reach a depth of 1,635 meters and the Cuajone pit will reach a depth of 1,200 meters. The deepening pits present us with a number of geotechnical challenges. Perhaps the foremost concern is the possibility of slope failure, a possibility that all open-pit mines face. In order to maintain slope stability, in the past we have decreased pit slope angles, installed additional or duplicate haul road access, and increased stripping requirements. We have also responded to hydrological conditions and removed material displaced by slope failures. To meet the geotechnical challenges relating to slope stability of the open-pit mines, we have taken the following steps:

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

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

The studies were completed in 2000 and we believe we implemented the study recommendations. One of the major changes implemented was slope angle reduction at both mines, Toquepala by an average of five degrees and Cuajone by an average of seven degrees. Although this increased the waste included in the mineable reserve calculation, it also improved the stability of the pits.

In the Toquepala mine in 2007 we installed 20 meter wide geotechnical berms every 10 benches. We believe this will further strengthen the stability of the Toquepala pit.

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

In 2011 a program of oriented and conventional geotechnical drilling was executed at the Toquepala mine, totaling 5,250 meters. At the Cuajone mine, the geotechnical drilling program totaled approximately 5,627 meters.

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

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

Mexican operations

In 2004, our 15-year mine plan study for the La Caridad mine was awarded to an independent consulting firm to conduct a geotechnical evaluation. The purpose of the plan was to develop a program of optimum bench design and inter-ramp slope angles for the open-pit. A number of recommendations and observations were presented by the consultants. These included a recommendation of a maximum average bench face angle of 72 degrees. Additionally, single benching was recommended for the upper sections of the west, south and east walls of the main pit. Likewise, double benching was recommended for the lower levels of the main pit and single benching for the upper slope segments that consist of either alluvial material, mine waste dumps or mineralized stockpile material. Alternatively, slopes in these types of materials, may be designed with an overall 37 degree slope. The geoestructural and geotechnical parameters recommended were applied in the pit design for the new life of the mine plan for La Caridad mine prepared in 2010. This mine plan replaced the 15-year mine plan prepared in 2004. However, since final pit limits have not been yet established at La Caridad, all current pit walls are effectively working slopes. Geostructural and geotechnical data collected at the open-pit mine from cell-mapping and oriented-core drilling databases provided the basis for the geotechnical evaluation and recommendations. We are also continuing collecting new information related to geotechnical data and other geology features in order to ensure the structural security and also to improve the geotechnical data base for future studies

At the Buenavista mine, we are following the recommendations of a geotechnical evaluation of design slope for the 15-year pit plan. This evaluation was prepared by an independent mine consulting firm. This evaluation included the determination of optimum pit slope design angles and bench design parameters for the proposed mine plan. The objective of the study was: 1) to determine optimum inter-ramp slope angles and bench design parameters for the 15-year plan and 2) to identify and analyze any potential major instability that could adversely impact mine operation.

The following recommendations were made for the Buenavista mine: an inter-ramp slope design angles for the 15-year pit plan, for all of the 21 design sectors, defined on a rock-fabric-based catch bench analysis, using double bench, can range from 48° and 55°, and the inter-ramp slope angles are based on geometries that resulted from the back-break analysis using 80% reliability of achieving the required 7.5 meter catch bench width for a single bench configuration and 10.6 meter catch bench width for a double bench configuration. Preliminary observations suggest the 15-year pit walls may be relative free-draining, the back-break analysis assumed depressurized conditions of mine benches, and the inter-ramp stability analysis were performed for both, saturated and depressurized conditions.

A pit dewatering/depressurization plan for the Buenavista mine was also recommended to address the issues of open pit drainage, dewatering plan and future slope depressurization. Phase I of the geohydrological study was completed by an independent consultant. The analysis included a preliminary assessment and work plan implementations.

In 2011, five wells for extraction and monitoring were drilled close to the mine. Also, we began a drilling program to monitor possible water filtration beyond the limits of the open pit mine. All the information obtained from these well drilling programs is being analyzed to be included

in the hydrologic model. The open pit dewatering program from the bottom benches also continued during 2011 in order to allow us to continue with the current mining plan.

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METAL PRODUCTION BY SEGMENTS

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

PERUVIAN OPERATIONS

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

Following is a map indicating the approximate location of, and access to, our Cuajone and Toquepala mine complexes, as well as our Ilo processing facilities:

Cuajone

Our Cuajone operations consist of an open-pit copper mine and a concentrator located in southern Peru, 30 kilometers from the city of Moquegua and 840 kilometers from Lima. Access to the Cuajone property is by plane from Lima to Tacna (1:20 hours) and then by highway to Moquegua and Cuajone (3:30 hours). The concentrator has a milling capacity of 87,000 tons per day. Overburden removal commenced in 1970 and ore production commenced in 1976. Our Cuajone operations utilize a conventional open-pit mining method to collect copper ore for further processing at the concentrator.

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The table below sets forth 2011, 2010 and 2009 production information for our Cuajone operations:

		2011	2010	2009
Mine annual operating days		365	365	365
Mine				
Total ore mined	(kt)	29,073	31,461	32,030
Copper grade	(%)	0.578	0.598	0.677
Leach material mined	(kt)	3,096	10	11
Leach material grade	(%)	0.551	0.519	0.515
Stripping ratio	(x)	3.82	3.01	2.68
Total material mined	(kt)	140,108	126,144	117,939
Concentrator				
Total material milled	(kt)	28,946	31,419	32,049
Copper recovery	(%)	83.69	87.73	87.06
Copper concentrate	(kt)	542.3	620.7	718.9
Copper in concentrate	(kt)	140.1	165.0	188.95
Copper concentrates average grade	(%)	25.84	26.58	26.28
Molybdenum				
Molybdenum grade	(%)	0.013	0.022	0.023
Molybdenum recovery	(%)	73.90	76.78	72.5
Molybdenum concentrate	(kt)	5.2	9.7	9.6
Molybdenum concentrate average grade	(%)	53.71	54.09	55.06
Molybdenum in concentrate	(kt)	2.8	5.3	5.3

Key: kt = thousand tons

x = Stripping ratio obtained dividing waste plus leachable material by ore mined.

Copper and molybdenum grades are referred to as total copper grade and total molybdenum grade, respectively.

Major Cuajone mine equipment includes fifteen 290-ton capacity trucks, nineteen 218-ton capacity trucks, nine 231-ton capacity trucks and one 360-ton capacity truck, three 56-cubic yard capacity shovels, one 73-cubic yard shovel, one 42-cubic yard shovel, one 33-cubic yard capacity front loader, five electric drills and one diesel drill for pre-splitting. Auxiliary equipment includes nine wheel bulldozers, ten Caterpillar bulldozers, two 988 CAT front loaders, three 966 CAT front loader and five motorgraders. This equipment includes a number of trucks and other units transferred from the Tia Maria project in 2011. We continuously improve and renovate our equipment.

Geology

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

The Cuajone deposit is located approximately 28 kilometers from the Toquepala deposit and is part of the Toquepala Group dated 60 to 100 million years (Upper Cretaceous to Lower Tertiary). The Cuajone lithology includes volcanic rocks from Cretaceous to Quaternary. There are 32 rock types including, pre-mineral rocks, basaltic andesite, porphyritic rhyolite, Toquepala dolerite and intrusive rocks, including diorite, porphyritic latite, breccias and dikes. In addition, the following post-mineral rocks are present, the Huaylillas formation which appears in the south-southeast side of the deposit and has been formed by conglomerates, tuffs, traquites and agglomerates. These formations date 17 to 23 million years and are found in the Toquepala Group as discordance. The Chuntacala formation which dates 9 to 14 million years and is formed by conglomerates, flows, tuffs and agglomerates placed gradually in some cases and in discordance in others. Also Quaternary deposits are found in the rivers, creeks and hills. The mineralogy is simple with regular grade distribution and vertically funnel-shaped. Ore minerals include chalcopyrite ($CuFeS_2$), chalcosine (Cu_2S) and molybdenite (MoS_2) with occasional galena, tetraedrite and enargite as non economical ore.

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Mine exploration

Exploration activities during the drill campaign in 2011 are as follows:

Studies	Meters	Holes	Notes
Infill drilling	11,130	52	To obtain additional information to improve confidence in our block model.
Geotechnical holes	5,627	26	To improve geotechnical information
Total	16,757	78	

Concentrator

Our Cuajone operations use state of the art computer monitoring systems at the concentrator, the crushing plant and the flotation circuit in order to coordinate inflows and optimize operations. Material with a copper grade over 0.40% is loaded onto rail cars and sent to the milling circuit, where giant rotating crushers reduce the size of the rocks to approximately one-half of an inch. The ore is then sent to the ball mills, which grind it to the consistency of fine powder. The finely ground powder is agitated in a water and reagents solution and is then transported to flotation cells. Air is pumped into the cells to produce foam for floating the copper and molybdenum minerals, but separating waste material called tailings. This copper-molybdenum bulk concentrate is then treated by inverse flotation where molybdenum is floated and copper is depressed. The copper concentrate is shipped by rail to the smelter at Ilo and the molybdenum concentrate is packaged for shipment to customers. Sulfides under 0.40% copper are considered waste.

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

Major Cuajone concentrator plant equipment includes: one primary crusher, three secondary crushers, seven tertiary crushers, eleven primary ball mills, four ball mills for re-grinding rougher concentrate; one vertical mill for re-grinding rougher concentrate; thirty 100 cubic feet cells for rougher flotation; four 160 cubic feet cells for rougher flotation; five 60 cubic feet cells for cleaner scavenger; six 1350 cubic feet cells for cleaner scavenger; fourteen 300 cubic feet cells for cleaner scavenger; eight column cells; one Larox filter press and one FLS Smith filter press; two thickeners for copper-molybdenum and copper concentrates; three tailings thickeners; one high-rate tailings thickener and six pumps for recycling reclaimed water.

A major mill expansion was completed in 1999 and the eleventh primary mill was put in operation in January 2008. We believe the plant s equipment is in good physical condition and suitable for our operations.

Toquepala

Our Toquepala operations consist of an open-pit copper mine and a concentrator. We also refine copper at the SXEW facility through a leaching process. Toquepala is located in southern Peru, 30 kilometers from Cuajone and 870 kilometers from Lima. Access is by plane from Lima to the city of Tacna (1:20 hours) and then by the Pan-American highway to Camiara (1:20 hours) and by road to Toquepala (1 hour). The concentrator has a milling capacity of 60,000 tons per day. The SXEW facility has a production capacity of 56,000 tons per year of LME grade A copper cathodes. Overburden removal commenced in 1957 and ore production commenced in 1960. Our Toquepala operations utilize a conventional open-pit mining method to collect copper ore for further processing in our concentrator.

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The table below sets forth 2011, 2010 and 2009 production information for our Toquepala operations:

		2011	2010	2009
Mine annual operating days		365	365	365
Mine				
Total ore mined	(kt)	21,525	21,634	21,685
Copper grade	(%)	0.619	0.678	0.655
Leach material mined	(kt)	47,142	67,103	86,692
Leach material grade	(%)	0.253	0.252	0.223
Stripping ratio	(x)	7.24	7.29	5.88
Total material mined	(kt)	177,398	179,313	149,287
Concentrator				
Total material milled	(kt)	21,497	21,654	21,700
Copper recovery	(%)	90.46	89.58	89.44
Copper concentrate	(kt)	455.2	481.7	466.4
Copper in concentrate	(kt)	120.4	131.5	127.1
Copper concentrate average grade	(%)	26.45	27.30	27.25
Molybdenum				
Molybdenum grade	(%)	0.035	0.035	0.028
Molybdenum recovery	(%)	70.67	64.48	60.20
Molybdenum concentrate	(kt)	9.8	8.9	6.6
Molybdenum concentrate average grade	(%)	54.69	54.50	54.54
Molybdenum in concentrate	(kt)	5.4	4.8	3.6
SXEW plant				
Estimated leach recovery	(%)	25.33	25.26	25.61
SXEW cathode production	(kt)	35.3	37.9	38.0

Key: kt = thousand tons

x = Stripping ratio obtained dividing waste plus leachable material by ore mined.

Copper and molybdenum grades are referred to as total copper grade and total molybdenum grade, respectively.

Major mine equipment at Toquepala includes twenty-eight 290-ton capacity trucks, thirty-six 218-ton capacity trucks, one 363-ton capacity truck, one 60-cubic yard capacity shovel, three 56 cubic-yard capacity shovels, three 73-cubic yard capacity shovels, one 15- cubic yard capacity shovel, eight electric rotary drills, two Down the Hole (DTH) drills for pre-split and two front-end loaders with capacities of 28 and 23 cubic-yard. This equipment includes a number of trucks and other units transferred from the Tia Maria project in 2011. We continuously improve and renovate our equipment.

Geology

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

The Toquepala deposit is in the southern region of Peru, located on the western slope of the Andes mountain range, approximately 120 kilometers from the border with Chile. This region extends into Chile and is home to many of the world s most significant known copper deposits. The deposit is in a territory with intrusive and eruptive activities of rhyolitic and andesitic rocks which are 70 million years old (Cretaceous-Tertiary) and which created a series of volcanic lava. The lava is composed of rhiolites, andesites and volcanic agglomerates with a western dip and at an altitude of 1,500 meters. These series are known as the Toquepala Group. Subsequently, different intrusive activities occurred which broke and smelted the rocks of the Toquepala Group. These intrusive activities resulted in diorites, granodiorites and dikes of porphyric dacite. Toquepala has a simple mineralogy with regular copper grade distribution. Economic ore is found as disseminated sulfurs throughout the deposit as veinlets, replenishing empty places or as small aggregates. Ore minerals include chalcopyrite (CuFeS2), chalcosine (Cu2S) and molybdenite (MoS2). A secondary enrichment zone is also found with thicknesses between 0 and 150 meters.

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Mine Exploration

Exploration activities during the drill campaign in 2011 are as follows:

Studies	Meters	Holes	Notes
Leach and ore confirmation for phases 4 and 5	3,722	7	To obtain additional information to improve knowledge of east wall of current pit.
To define quality and variability of rock mass in slump XI, XII, XV, and north-east sector.	5,250	21	Drilling was performed to obtain a better understanding of the behavior of the slumps XI, XII, XV, and north-east sector.
Total	8,972	28	

Concentrator

Our Toquepala concentrator operations use state-of-the-art computer monitoring systems in order to coordinate inflows and optimize operations. Material with a copper grade over 0.40% is loaded onto rail cars and sent to the crushing circuit, where rotating crushers reduce the size of the rocks by approximately 85%, to less than one-half of an inch. The ore is then sent to the rod and ball mills, which grind it in a mix with water to the consistency of fine powder. The finely ground powder mixed with water is then transported to flotation cells. Air is pumped into the cells producing a froth, which carries the copper mineral to the surface but not the waste rock, or tailings. The bulk concentrate with sufficient molybdenum content is processed to recover molybdenum by inverse flotation. This final copper concentrate with a content of approximately 26.5% of copper is filtered in order to reduce moisture to 8.5% or less. Concentrates are then shipped by rail to the smelter at Ilo.

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

Major concentrator plant equipment at Toquepala include one primary crusher, three secondary crushers, six tertiary crushers, eight rod mills, twenty-four ball mills, one distributed control system (DCS), one expert grinding system, forty-two collective flotation cells, fifteen column cells, seventy-two Agitair 1.13 cubic meter cells, two Larox pressure filters, five middling thickeners, two conventional tailings thickeners, three high-rate tailings thickeners, one tripper car, one track tractor and a recycled water pipe line.

The expected useful life of the principal equipment is over 20 years due to our equipment maintenance programs.

SXEW Plant

The SXEW facility at Toquepala produces grade A LME electrowon copper cathodes of 99.999% purity from solutions obtained by leaching low-grade ore stored at the Toquepala and Cuajone mines. The leach plant commenced operations in 1995 with a design capacity of 35,629 tons

per year of copper cathodes. In 1999 the capacity was expanded to 56,000 tons per year.

Copper oxides from Cuajone with a copper grade higher than 0.343%, with an acid solubility index higher than 20% and a cyanide solubility index higher than 50% are leached. In Toquepala, the leach material cutoff grade is 0.081% and therefore material with a total copper grade between 0.081% and 0.40% are leached.

Major equipment at the Cuajone crusher plant includes one primary jaw crusher and one secondary cone crusher with a capacity of 390 tons per hour. In addition, the plant has one agglomeration mill, one front end loader and three 109-ton capacity trucks for hauling to the leach dumps. Copper in solution produced in Cuajone is sent to Toquepala through an eight-inch pipe laid alongside the Cuajone-Toquepala railroad track.

Major equipment at the Toquepala plant includes five pregnant solution (PLS) ponds, each with its own pumping system to send the solution to the SXEW plant. The plant also has three lines of SX, each with a nominal capacity of 1,068 cubic meters per hour of pregnant solution and 162 electrowinning cells.

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Plant and equipment are supported by a maintenance plan and a quality management system to assure good physical condition and high availability. The SXEW plant management quality system (including leaching operations) has been audited periodically since 2002 by an external audit company, and found to be in compliance with the requirements of the ISO 9001-2008 standard.

Processing Facilities - Ilo

Our Ilo smelter and refinery complex is located in the southern part of Peru, 17 kilometers north of the city of Ilo, 121 kilometers from Toquepala, 147 kilometers from Cuajone, and 1,240 kilometers from the city of Lima. Access is by plane from Lima to Tacna (1:20 hours) and then by highway to the city of Ilo (two hours). Additionally, we maintain a port facility in Ilo, from which we ship our product and receive supplies. Product shipped and supplies received are moved between Toquepala, Cuajone and Ilo on our industrial railroad.

Smelter

Our Ilo smelter produces copper anodes for the refinery we operate as part of the same facility. Copper produced by the smelter exceeds the refinery s capacity and the excess is sold to other refineries around the world. In 2007 we completed a major modernization of the smelter at a cost of $570 million. The nominal installed capacity of the smelter is 1,200,000 tons of concentrate per year.

Copper concentrates from Toquepala and Cuajone are transported by railroad to the smelter, where they are smelted using an ISASMELT furnace, converters and anode furnaces to produce copper anodes with 99.7% copper. At the smelter, the concentrates are mixed with flux and other material and sent to the ISASMELT furnace producing a mixture of copper matte and slag which is tapped through a taphole to either of two rotary holding furnaces, where these smelted phases will be separated. Copper matte contains approximately 63% copper. Copper matte is then sent to the four Pierce Smith converters, where the material is oxidized in two steps: (1) the iron sulfides in the matte are oxidized with oxygen enriched air and silica is added producing slag that is sent to the slag cleaning furnaces, and (2) the copper contained in the matte sulfides is then oxidized to produce blister copper, containing approximately 99.3% copper. The blister copper is refined in two anode furnaces by oxidation to remove sulfur with compressed air injected into the bath. Finally, the oxygen content of the molten copper is adjusted by reduction with injection of liquefied petroleum gas with steam into the bath. Anodes, containing approximately 99.7% copper are cast in two casting wheels. The Smelter also can produce blister copper bars, especially when an anode furnace is in general repair.

Major equipment at the Ilo smelter includes one Isasmelt furnace, two rotary holding furnaces, four Pierce-Smith converters, two slag cleaning furnaces, two anodes furnaces, one casting twin-wheel, one blister holding furnace, one casting blister wheel, one waste heat boiler, one superheated steam, and three electrostatic precipitators.

The table below sets forth 2011, 2010 and 2009 production and sales information for our Ilo smelter plant:

		2011	2010	2009
Smelter				
Concentrate smelted	(kt)	1,094.2	998	1,127

Average copper recovery	(%)	97.6%	97.8%	97.4%
Blister production	kt			8.8
Average blister grade	(%)			99.41%
Anode production	(kt)	338.7	313.4	337.7
Average anode grade	(%)	99.74%	99.72%	99.72%
Sulfuric acid produced	(kt)	1,061.6	963	1,077
Sales data:				
Blister sales	(kt)			8.7
Anode sales	(kt)	10.4	12.5	15.3
Average blister sales price	($/lb)			2.49
Average anode sales price	($/lb)	3.64	3.34	2.38
Average sulfuric acid price	($/ton)	98.40	55.50	75.96

Key: kt = thousand tons

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The off gases from the smelter are treated to recover over 92% of the incoming sulfur received in the concentrates producing 98.5% sulfuric acid. The gas stream from the smelter with 11.34% SO_2 is split between two plants: The No. 1 acid plant (single absorption/single contact) and the No. 2 plant (double absorption/double contact). Approximately, 16% of the acid produced is used at our facilities with the balance sold to third parties. We anticipate that our internal usage will be over 80% when the Tia Maria project begins operation.

The smelter also has two oxygen plants. Plant No. 1, with 254 tons per day of production capacity and Plant No.2, with 1,045 tons per day of capacity.

In addition, the smelter includes a seawater intake system, two desalinization plants to provide water for the process, an electric substation and a new centralized control using advanced computer technology.

In May 2010, the Ilo smelter marine trestle started operation. This facility allows us to offload directly to offshore ships the sulfuric acid produced, avoiding hauling cargo through the city of Ilo. The 500 meter long marine trestle is the last part of the Ilo smelter modernization project. Currently all overseas shipments of sulfuric acid are being made using the marine trestle.

Refinery

The Ilo refinery consists of a receiving and preparing anode facility, an electrolytic plant, a precious metal plant and a number of ancillary installations. The refinery is producing grade A copper cathode of 99.998% purity. The nominal capacity is 280,000 tons per year. Anodic slimes are recovered from the refining process and then sent to the precious metals facility to produce refined silver, refined gold and commercial grade selenium.

Anodes are suspended in tanks containing an aqueous solution of sulfuric acid and copper sulfate. A low voltage but high amperage electrical current is passed through the anodes**,** chemical solution and cathodes, in order to dissolve copper which is deposited on initially very thin starting sheets increasing its thickness to produce high grade copper cathodes containing at least 99.99% copper. During this process, silver, gold and other metals, including palladium, platinum and selenium, along with other impurities, settle on the bottom of the tank in the form of anodic slime. This anodic slime is processed in a precious metal plant where silver, gold and selenium are recovered.

The table below sets forth 2011, 2010 and 2009 production and sales information for our Ilo refinery and precious metals plants:

		2011	2010	2009
Refinery				
Cathodes produced	(kt)	260.1	255.5	262.2
Average copper grade	(%)	99.998%	99.998%	99.998%
Refined silver produced	(000 Kg)	98.1	107.8	101.7
Refined gold produced	(kg)	363.1	418.2	342.0
Commercial grade selenium produced	(tons)	53.7	59.0	56.0

Sales data:				
Average cathodes sales price	($/lb)	3.92	3.38	2.31
Average silver sales price	($/oz)	35.10	19.69	14.55
Average gold sales price	($/oz)	1,579.97	1,211.14	988.50

Key: kt = thousand tons

Major equipment at the refinery includes one electrolytic plant, with 926 commercial cells, fifty-two starting sheet cells, sixteen primary liberator cells, twenty-four secondary liberator cells, an anodic slime treatment circuit (includes leaching and centrifugation), and an electrolytic bleeding-off system by railroad to Toquepala s leaching plants.

Main equipment at the precious metals plant includes one selenium reactor and system to produce commercial grade selenium powder, one Wenmec anodic slime roaster reactor, one tilting Copella furnace, twenty-six silver electrorefining cells including an induction furnace for shots and silver ingots production and one hydrometallurgical system for gold recovery.

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The refinery also has these facilities:

(1) Production control: Provides sampling and sampling preparation for samples coming from the operating units, as well as SXEW, smelter and external services.

(2) Laboratory: Provides sample analysis services throughout the Company, including the analysis of final products like copper cathodes, electrowon cathodes, copper concentrates and oil analysis.

(3) Maintenance: Responsible for maintenance of all equipment involved in the process.

(4) Auxiliary facilities: Includes one desalinization plant to produce 1,000 cubic meters per day fresh water and a Gonella boiler to produce steam used in the refinery, one Babcock boiler used as spare and two stand-by KMH boilers.

Other facilities in Ilo are a coquina plant with a production capacity of 200,000 tons per year of seashells and a lime plant with a capacity of 80,000 tons per year. We also operate an industrial railroad to haul production and supplies between Toquepala, Cuajone and Ilo.

The industrial railroad s main equipment includes fifteen locomotives of different types including 4000HP EMD s SD70, 3000HP EMD s GP40-3, 2250HP GE U23B and others. The rolling stock has approximately 496 cars of different types and capacities, including ore concentrate cars, gondolas, flat cars, dump cars, boxcars, tank cars and others. The track runs in a single 214 kilometer standard gauge line and supports a 30-ton axle load. The total length of the track system is around 257 kilometers including main yards and sidings.

The infrastructure includes 27 kilometers of track under tunnels and one concrete bridge. The industrial railroad includes a car repair shop which is responsible for maintenance and repair of the car fleet. Annual tonnage transported is approximately 5.1 million tons.

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MEXICAN OPERATIONS

Following is a map indicating the approximate locations of our Mexican mines and processing facilities:

MEXICAN OPEN-PIT SEGMENT

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

Following is a map indicating the approximate location of, and access to, our Mexican open-pit mine complexes, as well as our processing facilities:

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Buenavista

The Buenavista mining unit operates an open-pit copper mine, a concentrator and two SXEW plants. It is located 100 air-kilometers northwest of La Caridad and 40 kilometers south of the Arizona U.S.-Mexican border. It lies on the outskirts of the city of Cananea. Buenavista is connected by paved highways to the border city of Agua Prieta to the northeast, to the town of Nacozari in the southeast, and to the town of Imuris to the west. Buenavista is also connected by railway to Agua Prieta and Nogales. A municipal airport is located approximately 20 kilometers to the northeast of Buenavista.

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Except for very brief periods, Buenavista was on strike from July 2007 through June 2010. Restoration of mine and plants started in the third quarter of 2010, SXEW production was restored to full capacity by the fourth quarter of 2010 and concentrator production reached full capacity in the second quarter of 2011.

The recovery of the Buenavista mine allows us to resume the development of our capital investment projects at the property, which include a new SXEW plant with a planned annual capacity of 120,000 tons of copper, a concentrator expansion with an increase in production capacity of 188,000 tons per year and two molybdenum plants with a combined annual capacity of 4,600 tons. This investment program is underway and we expect to complete it in two phases, the first in 2013 with an increase in annual production of 120,000 tons and the second phase in 2015 with a further increase in annual copper production of 188,000 tons. With these investments, total production capacity at Buenavista will reach 488,000 tons of copper.

The concentrator has a nominal milling capacity of 76,700 tons per day. The SXEW facility has a cathode production capacity of 54,750 tons per year. The Buenavista ore body is considered one of the world s largest porphyry copper deposits. Buenavista is the oldest continuously operated copper mine in North America, with operations dating back to 1899. High grade ore deposits in the district were mined exclusively using underground methods. The Anaconda Company acquired the property in 1917. In the early 1940s Anaconda started developing the first open-pit in Buenavista. In 1990, through a public auction procedure, Minera Mexico acquired 100% of the Buenavista mining assets for $475 million. Buenavista is currently applying conventional open-pit mining methods to extract copper ore for further processing in the concentrator. Two leach ore crushers and the corresponding belt conveying systems are used to convey the leachable material to the heaps. Likewise, run-off mine leachable ore is hauled by trucks to the leach dumps.

The following table shows 2011, 2010 and 2009 production information for Buenavista:

		2011	2010	2009
Mine annual operating days		365	169	
Mine:				
Total ore mined	(kt)	22,444	656	
Copper grade	(%)	0.623	0.587	
Leach material mined	(kt)	47,399	3,860	
Leach material grade	(%)	0.299	0.226	
Stripping ratio	(x)	3.38	8.81	
Total material mined	(kt)	98,306	6,439	
Concentrator:				
Total material milled	(kt)	22.0		
Copper recovery	(%)	80.44		
Copper concentrate	(kt)	410.0		
Copper in concentrate	(kt)	110.1		
Copper concentrate average grade	(%)	26.86		
SXEW plant				
Estimated leach recovery	(%)	55.0	55.0	
SXEW cathode production	(kt)	62.3	20.7	

Key: kt = thousand tons

x = Stripping ratio obtained dividing waste plus leachable material by ore mined.

The copper grade is total grade.

The following table summarizes the estimated production losses at our Buenavista mine due to the strike:

	2011	2010	2009
Days of strike		157	365
Estimated strike production loss (thousand tons):			
Copper in concentrates	19.7	126	120
SXEW cathode production		34.7	56

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Major Buenavista mine equipment includes 50 trucks for ore hauling with individual capacities ranging from 240 to 400 tons, eight shovels with individual capacities ranging from 30 to 70 cubic yards, and mine auxiliary equipment including, seven drillers, five front loaders, five motor graders and twenty-four tractors.

Geology

The Buenavista mining district lies on the southern cordilleran orogen, which extends from southern Mexico to northwestern United States. It also falls within the Basin and Range metallogenic province. Geological and structural features in the district are representative of large, disseminated type, porphyry copper deposits. A calcareous sedimentary sequence of lower Paleozoic age, lithologically correlated with a similar section in southeastern Arizona, uncomformably overlies Precambrian granite basement. The entire section was covered by volcanic rocks of Mesozoic age and later intruded by deep seated granodiorite batholith of Tertiary age, with further quartz monzonite porphyry differentiates of Laramide age.

Mineralization in the district is extensive covering a surface area of approximately 30 square kilometers. An early pegmatitic stage associated with bornite-chalcopyrite-molybdenite assemblage was followed by a widespread flooding of hydrothermal solutions with quartz-pyrite-chalcopyrite. A pervasive quartz-sericite alteration is evident throughout the district s igneous rock fabric.

An extensive and economically important zone of supergene enrichment, with disseminated and stockworks of chalcocite (Cu_2S), developed below the iron oxide capping. This zone coincides with the topography and has an average thickness of 300 meters. A mixed zone of secondary and primary sulfides underlay the chalcocite blanket. The hypogene mineralization, principally chalcopyrite, ($CuFeS_2$), extensively underlies the orebody. Molybdenite occurs throughout the deposit and the content tends to increase with depth.

The Buenavista copper porphyry is considered world-class and unique. The deepest exploration results in the core of the deposit have confirmed significant increase in copper grades. Similar porphyry copper deposits usually contain lower grades at depth. The district is also unique for the occurrence of high-grade breccia pipes, occurring in clusters following the trend of the district.

Current dimensions of the mineralized ore body are 5x3 kilometers, and projects to more than 1 kilometer at depth. Considering the geological and economic potential of the Buenavista porphyry copper deposit, it is expected that the operation can support a sizeable increase in copper production capacity.

Mine Exploration

Due to Buenavista s illegal work stoppage, there were no exploration programs developed in 2010 and 2009. In 2011, we resumed exploration activities. In-fill core drilling was conducted at the Buenavista zinc-copper-silver deposit, including directional drilling for geotechnical purpose. A deep drilling campaign was initiated to explore the extent of the deposit at depth. Likewise, a condemnation drilling program was initiated to define areas for future infrastructure as well as areas where leach and waste dumps will be deposited. A total of 28,369 meters of core drilling was completed. A geohydrology program was initiated to explore the possibility of groundwater sources within the mine limits. A total of 756

meters was drilled with a down-the-hammer ring in four holes. The reverse circulation in-fill drilling campaign for short term mine planning totaled 4,737 meters during 2011.

Concentrator

Buenavista uses state-of-the-art computer monitoring systems at the concentrator, the crushing plant and the flotation circuit in order to coordinate inflows and optimize operations. Material with a copper grade over 0.38% is loaded onto trucks and sent to the milling circuit, where giant rotating crushers reduce the size of the ore to approximately one-half of an inch. The ore is then sent to the ball and bar mills, which grind it to the consistency of fine powder. The finely ground powder is agitated in a water and reagents solution and is then transported to flotation cells. Air is pumped into the cells producing a froth, which carries the copper mineral to the surface but not the waste rock, or tailings. Recovered copper, with the consistency of froth, is filtered and dried to produce copper concentrates with an average copper content of approximately 28%. Concentrates are then shipped by rail to the smelter at La Caridad.

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The Buenavista concentrator plant, with a milling capacity of 76,700 tons per day, consists of two primary crushers, four secondary crushers, ten tertiary crushers, ten primary mills, one expert control system, five mills for re-grinding, 103 primary flotation cells, ten column cells, seventy exhaustion flotation cells, seven thickeners and three ceramic filters. In addition, the facility has 48 wells and a pumping station for fresh water supply, a tailings dam and a reclaimed water pumping station.

SXEW Plant

The Buenavista unit operates a leaching facility and two SXEW plants. All copper ore with a grade lower than the mill cut-off grade of 0.38%, but higher than 0.25% copper, is delivered to the leach dumps. A cycle of leaching and resting occurs for approximately five years to achieve a 62.5% recovery in the run-of-mine dumps and three years for the crushed leach material to achieve a 73% recovery.

The Buenavista unit currently maintains 21.8 million cubic meters of pregnant leach solution in inventory with a concentration of approximately 1.95 grams of copper per liter.

Major equipment at the number I and II SXEW plants includes two crushing systems (No.1 and No.2). Crushing system No. 1 has a capacity of 32,000 tons per day and includes an apron feeder, a conveyor belt feeder, eight conveyor belt systems and a distributing bar. Crushing system No. 2 has a capacity of 48,000 tons per day and includes one crusher, a conveyor belt feeder, four conveyor belts and a distributing bar. There are three irrigation systems for the dumps and eleven dams for the pregnant leach solution (PLS). Plant I has four solvent extraction tanks with a nominal capacity of 16,000 liters per minute of PLS and 52 electrowinning cells and has a daily production capacity of 30 tons of copper cathodes with 99.999% purity. Plant II has five trains of solvent extraction with a nominal capacity of 55,000 liters per minute of PLS and 216 cells distributed in two bays and has a daily production capacity of 120 tons of copper cathodes with 99.9% purity.

As mentioned above we intend to increase the Buenavista unit s production of copper cathodes with a new SXEW plant, (SXEW III) with an annual capacity of 120,000 tons. The plant would produce copper cathodes of ASTM grade 1 or LME grade A. Please see Item 7 - Capital Investment Program for further information.

La Caridad

The La Caridad complex includes an open-pit mine, concentrator, smelter, copper refinery, precious metals refinery, rod plant, SXEW plant, lime plant and two sulfuric acid plants.

La Caridad mine and mill are located about 23 kilometers southeast of the town of Nacozari de Garcia in northeastern Sonora. Nacozari is about 264 kilometers northeast of the Sonora state capital of Hermosillo and 121 kilometers south of the U.S.-Mexico border. Nacozari is connected by paved highway with Hermosillo and Agua Prieta and by rail with the international port of Guaymas, and the Mexican and United States rail systems. An airstrip with a reported runway length of 2,500 meters is located 36 kilometers north of Nacozari, less than one kilometer away from the La Caridad copper smelter and refinery. The smelter and the sulfuric acid plants, as well as the refineries and rod plant, are located approximately 24 kilometers from the mine. Access is by paved highway and by railroad.

The concentrator began operations in 1979, the molybdenum plant was added in 1982, the smelter in 1986, the first sulfuric acid plant in 1988, the SXEW plant in 1995, the second sulfuric acid plant in 1997, the copper refinery in 1997, the rod plant in 1998, and the precious metals refinery in 1999.

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The table below sets forth 2011, 2010 and 2009 production information for La Caridad:

		2011	2010	2009
Mine annual operating days		365	365	365
Mine				
Total ore mined	(kt)	33,185	33,344	32,952
Copper grade	(%)	0.329	0.350	0.378
Leach material mined	(kt)	32,333	29,463	35,093
Leach material grade	(%)	0.235	0.208	0.234
Stripping ratio	(x)	1.54	1.52	1.59
Total material mined	(kt)	84,266	84,163	85,491
Concentrator				
Total material milled	(kt)	33,201	33,196	33,099
Copper recovery	(%)	82.19	81.59	82.02
Copper concentrate	(kt)	458.8	431.2	453.7
Copper in concentrate	(kt)	89.8	94.9	102.5
Copper concentrate average grade	(%)	19.57	22.00	22.59
Molybdenum				
Molybdenum grade	(%)	0.046	0.045	0.0460
Molybdenum recovery	(%)	68.81	70.20	65.87
Molybdenum concentrate	(kt)	19.5	19.2	18.0
Molybdenum concentrate average grade	(%)	53.49	54.27	54.51
Molybdenum in concentrate	(kt)	10.4	10.4	9.8
SXEW plant				
Estimated leach recovery	(%)	55.00	55.00	46.18
SXEW cathode production	(kt)	23.9	22.9	23.2

Key: kt = thousand tons

x = Stripping ratio obtained dividing waste plus leachable material by ore mined

The copper and molybdenum grade are total grade. The molybdenum grade value corresponds to molybdenum disulfide (molybdenite); molybdenum recovery is at present 68.81%.

Major mine equipment includes twenty-seven trucks for ore hauling: twenty-four with a capacity of 240 tons capacity and three with a capacity of 360 tons, six shovels with a capacity of 43 cubic yards. Loading and auxiliary equipment includes six drillers, five front loaders, three motorgraders and eighteen tractors.

Geology

The La Caridad deposit is a typical porphyry copper and molybdenum deposit as seen also in the southwestern basin of United States. The La Caridad mine uses a conventional open-pit mining method. The ore body is at the top of a mountain, which gives La Caridad the advantage of a relative low waste-stripping ratio, natural pit drainage and relative short haul for both ore and waste. The mining method involves drilling, blasting, loading and haulage of ore mill and waste to the primary crushers and the leach materials and waste to dumps, respectively.

La Caridad deposit is located in northeastern Sonora, Mexico. The deposit is situated near the crest of the Sierra Juriquipa, about 23 kilometers southeast of the town of Nacozari, Sonora, Mexico. The Sierra Juriquipa rises to elevations of around 2,000 meters in the vicinity of La Caridad and is one of the many north-trending mountain ranges in Sonora that form a southern extension of the basin and range province.

The La Caridad porphyry copper-molybdenum deposit occurs exclusively in felsic to intermediate intrusive igneous rocks and associated breccias. Host rocks include diorite and granodiorite. These rocks are intruded by a quartz monzonite porphyry stock and by numerous breccia masses, which contain fragments of all the older rock types.

Supergene enrichment, consisting of completes to partial chalcosite (Cu_2S) replacement of chalcopyrite ($CuFeS_2$). The zone of supergene enrichment occurs as a flat and tabular blanket with an average diameter of 1,700 meters and thickness generally between 0 and 90 meters.

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Economic ore is found as disseminated sulfurs within the central part of the deposit. Sulfide-filled breccia cavities are most abundant in the intrusive breccia. This breccia-cavity mineralization occurs as sulfide aggregates which have crystallized in the spaces separating breccia clasts. Near the margins of the deposit, mineralization occurs almost exclusively in veinlets. Ore minerals include chalcopyrite ($CuFeS_2$), chalcosite (Cu_2S) and molybdenite (MoS_2).

Mine Exploration

The La Caridad ore body has been mined for over 30 years. The extent of the model area is approximately 6,000 meters by 4,000 meters with elevation ranging from 750 to 1,800 meters.

Sixteen drilling campaigns have been conducted on the property since 1968. These campaigns drilled a total of 3,317 drill holes: 1,154 were diamond drill holes and 2,163 were reverse circulation. We have also drilled some hammer and percussion drill holes. A total of 634,080 meters have been drilled through December 2011.

In 2008, La Caridad finished a large exploration program of 50,000 meters. The target was to reach to the 900 level in order to reduce the drilling space and to define the copper and molybdenum mineralization continuity and also carry out metallurgical testing for the flotation and leaching processes. There was no exploration program between 2009 and 2011. In 2012, we will be developing an exploration program of 10,000 meters with the objective of further defining the copper and molybdenum mineralization continuity.

Concentrator

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

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

La Caridad concentrator plant consists of two primary crushers, six secondary crushers, twelve tertiary crushers, twelve ball mills, a master milling control system, 100 primary flotation cells, four re-grinding mills, 96 cleaning flotation cells, twelve thickeners and six drum filters.

SXEW Plant

Approximately 637.4 million tons of leaching ore with an average grade of approximately 0.235% copper have been extracted from the La Caridad open-pit mine and deposited in leaching dumps from May 1995 to December 31, 2011. All copper ore with a grade lower than the mill cut-off grade 0.30%, but higher than 0.15% copper, is delivered to the leaching dumps. In 1995, we completed the construction of a SXEW facility at La Caridad that has allowed processing of this ore and certain leach ore reserves that were not mined and has resulted in a reduction in our copper production costs. The SXEW facility has an annual capacity of 21,900 tons of copper cathodes.

The La Caridad SX-EW plant has nine irrigation systems for the dumps, two PLS dams and a container of heads that permits the combination of the solutions of both dams and which feeds the SXEW plant with a more homogenous concentration. The plant has three trains of solvent extraction with a nominal capacity of 2,070 cubic meters per hour and 94 electrowinning cells distributed in one single electrolytic bay. The plant has a daily production capacity of 62 tons of copper cathodes with 99.999% purity.

Processing Facilities La Caridad

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

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Smelter

Copper concentrates from Buenavista, Santa Barbara, Charcas and La Caridad are transported by rail and truck, respectively, to the La Caridad smelter where they are processed and cast into copper anodes of 99.2% purity. Sulfur dioxide off-gases collected from the flash furnace, the El Teniente converter and conventional converters are processed into sulfuric acid, at two sulfuric acid plants. Approximately 2% to 3% of this acid is used by our SXEW plants and the balance is sold to third parties.

Almost all of the anodes produced in the smelter are sent to the La Caridad copper refinery. The actual installed capacity of the smelter is 1,000,000 tons per year, a capacity that is sufficient to treat all the concentrates of La Caridad and Buenavista, and starting in 2010, the concentrates from the IMMSA mines, as we closed the San Luis Potosi smelter. The smelter includes a flash type concentrates drier, a steam drier, a flash furnace, one El Teniente modified converter furnace, two electric slag-cleaning furnaces, three Pierce-Smith converters, three rafinnate furnaces and two casting wheels. The anode production capacity is 300,000 tons per year.

Refinery

La Caridad includes an electrolytic copper refinery that uses permanent cathode technology. The installed capacity of the refinery is 300,000 tons per year. The refinery consists of an anode plant with a preparation area, an electrolytic plant with an electrolytic cell house with 1,115 cells and 32 liberator cells, two cathode stripping machines, an anode washing machine, a slime treatment plant and a number of ancillary installations. The refinery is producing grade A copper cathode of 99.99% purity. Anodic slimes are recovered from the refining process and sent to the slimes treatment plant where additional copper is extracted. The slimes are then filtered, packed and shipped to the La Caridad precious metals refinery to produce silver and gold.

The operations of the precious metal refinery are divided into two stages: (i) the antimony is eliminated from the slime, and (ii) the slime is dried in a steam dryer. After this the dried slime is smelted and a gold and silver alloy is obtained, which is known as dore. The precious metal refinery plant has a hydrometallurgical stage and a pyrometallurgical stage, besides a steam dryer, dore casting system, Kaldo furnace, 20 electrolytic cells in the silver refinery, one induction furnace for fine silver, one silver ingot casting system and two reactors for obtaining fine gold. The process ends with the refining of the gold and silver alloy.

Copper Rod Plant

A rod plant at the La Caridad complex was completed in 1998 and reached its full annual operating capacity of 150,000 tons in 1999. The plant is producing eight millimeter copper rods with a purity of 99.99%. The rod plant includes a vertical furnace, one retention furnace, one molding machine, one laminating machine, one coiling machine and one coil compacter.

Other facilities include a lime plant with a capacity of 132,000 tons per year; two sulfuric acid plants, one with a capacity of 2,625 tons per day and the second with a capacity of 2,135 tons per day; three oxygen plants, each with a production capacity of 275 tons per day; and two power turbo generators, one of them uses residual heat from the flash furnace, the first with a 11.5 megawatt capacity and the second with a 25

megawatt capacity.

The table below sets forth 2011, 2010 and 2009 production information for the La Caridad processing facilities:

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		2011	2010	2009
Smelter				
Total copper concentrate smelted	(kt)	832.3	416.7	466.0
Anode copper production	(kt)	233.8	117.6	140.8
Average copper content in anode	(%)	99.09	99.06	99.19
Average smelter recovery	(%)	97.0	98.7	98.5
Sulfuric acid production	(kt)	819.0	441.5	485.7
Refinery				
Refined cathode production	(kt)	186.9	84.6	117.1
Refined silver production	(000 kg)	215.0	189.6	202.3
Refined gold production	(Kg)	996.1	845.7	950.1
Rod Plant				
Copper rod production	(kt)	107.9	57.3	60.1
Sales data:				
Average realized price copper rod	($ per lb)	3.98	3.45	2.49
Average premium copper rod	($ per lb)	0.11	0.12	0.11
Average realized price gold	($ per ounce)	1,584.71	1,220.07	976.30
Average realized price silver	($ per ounce)	34.94	20.11	14.93
Average realized price sulfuric acid	($ per ton)	90.60	29.16	25.70

Key: kt = thousand tons

Kg = kilograms

MEXICAN IMMSA UNIT

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

The table below sets forth 2011, 2010 and 2009 production information for our Mexican IMMSA unit:

		2011	2010	2009
Average annual operating days(*)		318	313	325
Total material mined and milled	(kt)	2,831	2,894	3,010
Zinc average ore grade	(%)	3.59	3.77	4.07
Zinc concentrate produced	(kt)	151.5	179.8	199.1
Zinc concentrate average grade	(%)	55.32	55.16	55.47
Zinc average recovery	(%)	84.51	90.86	90.22

Lead average ore grade	(%)	0.86	0.86	0.91
Lead concentrate produced	(kt)	34.7	36.5	40.4
Lead concentrate average grade	(%)	54.20	55.44	55.67
Lead average recovery	(%)	75.35	81.65	82.34
Copper average ore grade	(%)	0.40	0.39	0.37
Copper concentrate produced	(kt)	18.2	18.4	18.7
Copper concentrate average grade	(%)	30.35	30.77	30.06
Copper average recovery	(%)	51.50	49.80	50.74

kt = thousand tons

(*) Weighted average annual operating days based on total material mined and milled in the five mines: Charcas, San Martin, Taxco, Santa Barbara, and Santa Eulalia.

Charcas

The Charcas mining complex is located 111 kilometers north of the city of San Luis Potosi in the State of San Luis Potosi, Mexico. Charcas is connected to the state capital by a paved highway of 130 kilometers. 14 kilometers from the southeast of the Charcas complex is the Los Charcos railroad station which connects with the Mexico-Laredo railway. Also, a paved road connects Charcas to the city of Matehuala via a federal highway and begins at the northeast of the Charcas

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townsite. The complex includes three underground mines (San Bartolo, Rey-Reina and La Aurora) and one flotation plant that produces zinc, lead and copper concentrates, with significant amounts of silver. The Charcas mining district was discovered in 1573 and operations in the 20th century began in 1911. The Charcas mine is characterized by low operating costs and good quality ores and is situated near the zinc refinery. The Charcas mine is now Mexico s largest producer of zinc.

The Charcas complex s equipment includes eighteen jumbo drilling tools, nineteen scoop trams for mucking and loading, ten trucks and three locomotives for internal ore haulage and four hoists. In addition, the mill has one primary crusher, one secondary crusher and two tertiary crushers, four mills and three flotation circuits.

Geology

The Charcas mining district occupies the east-central part of the Mexican Central Mesa and is part of the Sierra Madre metallogenic province. Geological history starts in the Superior Triasic, where sandy clay sediments were deposited argilloarenaceous. Due to emersion in the beginning of the Jurassic Superior, the sediments suffered intense erosion, settling on continental sediments. This sequence was affected by tectonic effort, which folded and failed on this rock package. Later the positioning of intrusive rocks originated fractures, which gave way to positioning of mineral deposits. The site s paragenesis suggests two stages of mineralization. First minerals are rich in silver, lead and zinc, with abundant calcite and small quantities of quartz chalcopyrite. Second, there is a link of copper and silver, where the characteristic minerals are chalcopyrite, lead ore with silver content, pyrite and scarce sphalerite. Economic ore is found as replacement sulfurs in carbonates host rock. The ore mineralogy is comprised predominantly of calcopyrite ($CuFeS_2$), sphalerite (ZnS), galena (PbS) and silver minerals as diaphorite ($Pb_2Ag_3Sb_3S_8$).

Mine exploration

At Charcas, 15,905 meters of diamond drilling were executed from underground stations and 36,528 meters from surface. With this drilling, 3,359,530 tons were added to the reserve base in 2011.

The table below sets forth 2011, 2010 and 2009 production information for our Charcas mine:

		2011	2010	2009
Annual operating days		324	324	322
Total material mined and milled	(kt)	1,124	1,165	1,162
Zinc average ore grade	(%)	4.9	5.1	5.50
Zinc concentrate produced	(kt)	93.6	101.8	108.9
Zinc concentrate average grade	(%)	56.25	56.78	56.98
Zinc average recovery	(%)	97.23	97.29	97.08
Lead average ore grade	(%)	0.4	0.4	0.47
Lead concentrate produced	(kt)	5.4	6.8	7.9
Lead concentrate average grade	(%)	50.10	48.15	52.81
Lead average recovery	(%)	62.93	69.55	76.58

Copper average ore grade	(%)	0.26	0.23	0.22
Copper concentrate produced	(kt)	3.7	3.1	3.2
Copper concentrate average grade	(%)	29.70	30.26	29.56
Copper average recovery	(%)	37.49	35.09	37.02

kt = thousand tons

The Charcas mine uses the hydraulic cut-and-fill method and the room-and-pillar mining method with descending benches. The broken ore is hauled to the underground crusher station. The crushed ore is then hoisted to the surface for processing in the flotation plant to produce lead, zinc and copper concentrates. The capacity of the flotation plant is 4,100 tons of ore per day. The lead concentrate produced at Charcas is treated at a third party refinery in Mexico. The zinc and copper concentrates are treated at our San Luis Potosi zinc refinery and the copper concentrates were treated at the San Luis Potosi copper smelter until 2010. They are now treated at our La Caridad smelter.

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Santa Barbara

The Santa Barbara mining complex is located approximately 26 kilometers southwest of the city of Hidalgo del Parral in southern Chihuahua, Mexico. The area can be reached via paved road from Hidalgo del Parral, a city on a federal highway. Chihuahua, the state capital is located 250 kilometers north of the Santa Barbara complex. Additionally, El Paso on the Texas border is located 600 kilometers north of Santa Barbara. Santa Barbara includes three main underground mines (San Diego, Segovedad and Tecolotes) and a flotation plant and produces lead, copper and zinc concentrates, with significant amounts of silver. Gold-bearing veins were discovered in the Santa Barbara district as early as 1536. Mining activities in the 20th century began in 1913.

The mining operations at Santa Barbara are more diverse and complex than any of the other mines in our Mexican operations, with veins that aggregate approximately 21 kilometers in length. Each of the three underground mines has several shafts and crushers. Due to the variable characteristics of the ore bodies, four types of mining methods are used: shrinkage stoping, long-hole drilled open stoping, cut-and-fill stoping and horizontal bench stoping. The ore, once crushed, is processed in the flotation plant to produce concentrates. The flotation plant has a capacity of 5,700 tons of ore per day. The lead concentrate produced is treated at a third party refinery in Mexico. The copper concentrates were treated at our San Luis Potosi copper smelter, and the zinc concentrates are either treated at the San Luis Potosi zinc refinery or exported. The copper concentrates are now treated at our La Caridad smelter.

The major mine equipment at Santa Barbara includes twenty-one jumbo drilling tools, one Simba drilling tool, forty-three scoop trams, fourteen trucks and eleven locomotives for internal ore haulage, four locomotives for surface haulage, seven trucks for external haulage and six hoists. For treating the ore, there are six primary jaw crushers, one secondary crusher and two tertiary crushers, three mills and three flotation circuits. The concentrator plant has a milling capacity of 5,800 tons of ore per day.

Geology

The majority of production from the district comes from quartz veins within faults and fractures. The north to northwestern trending veins is up to several kilometers long, dips steeply to the west and is 0.5 to 30 meters wide. Ore shoots up to several hundred meters in length, extends to at least 900 meters below the surface and is separated from other ore by 0.5 to 1 meter of barren quartz vein. Metal zoning occurs in some veins, with zinc and lead content generally decreasing with depth and copper increasing with depth. Three main systems of veins exist inside the district, represented by the veins Coyote, Segovedad Novedad and Coyote Seca Palmar. In addition to the main veins, there are many smaller sub-parallels to branching ore bearing veins. Economic ore minerals include sphalerite (ZnS), marmatite (ZnFeS), galena (PbS), chalcopyrite ($CuFeS_2$) and tetrahedrite ($CuFe_{12}Sb_4S_{13}$). Gangue minerals include quartz (SiO_2), pyrite (FeS_2), magnetite (Fe_2O_4), pirrotite ($Fe_{2+}S$), arsenopyrite (FeAsS) and fluorite (CaF_2).

The Santa Barbara district has mineralization to indicate that it will continue to be a significant producer of lead, copper and zinc for decades. The full potential of the district has not yet been defined, but the area seems to justify an increase in exploration.

Mine Exploration:

At Santa Barbara, 12,131 meters were drilled from underground stations and 41,104 meters from the surface in 2011. With this drilling 2,362,248 tons were added to the reserve base in 2011.

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The table below sets forth 2011, 2010 and 2009 production information for our Santa Barbara mines:

		2011	2010	2009
Annual operating days		321	321	328
Total material mined and milled	(kt)	1,553	1,578	1,542
Zinc average ore grade	(%)	2.36	2.53	2.49
Zinc concentrate produced	(kt)	57.7	63.7	59.4
Zinc concentrate average grade	(%)	53.85	53.99	55.44
Zinc average recovery	(%)	86.1	86.1	85.72
Lead average ore grade	(%)	1.05	1.02	0.95
Lead concentrate produced	(kt)	24.3	24.3	22.7
Lead concentrate average grade	(%)	58.91	56.53	54.34
Lead average recovery	(%)	85.83	85.29	84.07
Copper average ore grade	(%)	0.52	0.54	0.53
Copper concentrate produced	(kt)	14.6	15.3	15.5
Copper concentrate average grade	(%)	30.51	30.87	30.16
Copper average recovery	(%)	57.49	55.57	57.31

kt = thousand tons

San Martin

San Martin has been on strike since July 2007. Please see Note 14 Commitments and Contingencies to our consolidated financial statements.

The San Martin mining complex is located in the municipality of Sombrerete in the western part of the state of Zacatecas, Mexico, approximately 101 kilometers southeast of the city of Durango and nine kilometers east of the Durango State boundary. Access to the property is via a federal highway between the cities of Durango and Zacatecas. A paved six kilometer road connects the mine and town of San Martin with the highway. The city of Sombrerete is about 16 kilometers east of the property. The complex includes an underground mine and a flotation plant and produces lead, copper and zinc concentrates, with significant amounts of silver. The mining district in which the San Martin mine is located was discovered in 1555. Mining operations in the 20th century began in 1949. San Martin lies in the Mesa Central between the Sierra Madre Occidental and the Sierra Madre Oriental.

The horizontal cut-and-fill mining method is used at the San Martin mine. The broken ore is hauled to the underground crusher station. The ore is then brought to the surface and fed to the flotation plant to produce concentrates. The flotation plant has a total capacity of 4,400 tons of ore per day. The lead concentrate is treated at a third party refinery in Mexico. Copper concentrate is treated at the La Caridad smelter and zinc concentrate is treated at the San Luis Potosi zinc refinery or zinc concentrate is sold to third parties.

The major mine equipment at San Martin includes eight jumbo drilling tools, thirteen scoop trams, nine trucks and three hoists. For treating the ore, there are two primary jaw crushers, two secondary crushers and one tertiary crusher, two mills and three flotation circuits. The concentrator plant has a mill capacity of 4,400 tons of ore per day.

Geology

San Martin lies in the Central Mesa between two major geologic provinces, Sierra Madre Occidental and Sierra Madre Oriental. The main sedimentary rock-formation in the San Martin district is the Upper Cretaceous Age Cuesta del Cura limestone. The formation is an interlayered sequence of shallow marine limestone and black chert, and it is overlain by Indura formation which outcrops at the foot of the topographic heights of the Cuesta del Cura formation. It consists mainly of alternating shales and fine-grained clayed limestones in ten to thirty centimeter thick layers.

The district s most important mineral deposits are replacement veins and bodies generated in the skarn by Cerro de la Gloria granodiorite intrusion. An extensive zone of skarn west of the intrusive hosts, the San Marcial, Ibarra and Gallo-Gallina main ore veins, which appear at the surface for distances of up to 1,000 meters, with thicknesses of 40 centimeters

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to four meters, paralleling the intrusive contact. In the central part of the deposit there is a horizontal zoning with respect to the contact of the intrusive with high values of silver and copper. In the top of the deposit there is mostly lead and zinc. In the northeast/east over concentric structures to the intrusive there is an increment of lead, zinc and silver in the skarn. Economic ore is found as replacement ore bodies between the main veins as massive and disseminated sulfides with widths from eight meters up to 200 meters. These bodies consist mostly of chalcopyrite ($CuFeS_2$), sphalerite (ZnS), galena (PbS), bornite (Cu_5FeS_4), tetrahedrite ($CuFe_{12}Sb_4S_{13}$), native silver (Ag), pyrrite (FeS), arsenopyrite (FeAsS) and stibnite (Sb_2S_3). Molybdenum and tungsten are found in little portions in the skarn near the contact associated with the calcite.

Mine Exploration

There was no mine exploration drilling in the three years ending December 31, 2011 because the San Martin mine was on strike.

There was no production at the San Martin mine in the three years ending December 31, 2011. The following table summarizes the estimated production losses at our San Martin mine due to the strike:

	2011	2010	2009
Days of strike	365	365	365
Estimated strike production loss (tons):			
Zinc in concentrates	10,264	10,264	10,264
Lead in concentrates	500	500	500
Copper in concentrates	4,360	4,360	4,360

Santa Eulalia

The mining district of Santa Eulalia is located in the central part of the state of Chihuahua, Mexico, approximately 26 kilometers east of the city of Chihuahua. This district covers approximately 48 square kilometers and is divided into three fields: east field, central field and west field. The west field and the east field, in which the principal mines of the complex are found, are separated by six kilometers. The Buena Tierra mine is located in the west field and the San Antonio mine is located in the east field. The mining district was discovered in 1590, although exploitation did not formally begin until 1870.

The district of Santa Eulalia is connected to the city of Chihuahua by a paved road (highway no. 45), at a distance of ten kilometers there is a paved detour to Aquiles Serdan and Francisco Portillo (also known as Santo Domingo) where the Company s offices and the Buena Tierra mine are located. Access to the Buena Tierra mine and San Antonio mine is via an 11 kilometer unpaved road.

The Santa Eulalia mine suspended operations from October 2000 to December 2004, during which time rehabilitation work was completed at the San Antonio shaft and pipes were installed to expand the pumping capacity to 10,500 gallons per minute. In January 2005, operations were restarted. In May 2010, the Santa Eulalia mine suspended operations due to a flooding in the area brought on by the failure of a dyke caused by excess water pressure. In 2011, the rehabilitation work was interrupted by a second flooding which required to us to extend the pumping work.

At December 31, 2011, the rehabilitation work continues the pumping system was completed and the drain plug is under construction and we expect to restore mine production by May 2012. Total spent at December 31, 2011 is $21.5 million.

The flotation plant, at which lead and zinc concentrates are produced, has a capacity of 1,500 tons of ore per day. The lead concentrate is treated at a third party refinery, and the zinc concentrate is treated at our San Luis Potosi refinery.

Major mine equipment at the Santa Eulalia mine include five Jumbo drilling tools, eleven scoop trams for mucking and loading, two trucks and two hoists. For treating the ore, there are two primary crushers, one secondary crusher and one tertiary crusher, two mill crushers, one mill and two flotation circuits. The concentrator plant has a milling capacity of 1,450 tons of ore per day.

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Geology

Santa Eulalia is the largest of a number of similar districts that lie along the intersection of the Laramide-aged Mexican Thrust Belt and the Tertiary volcanic plateau of the Sierra Madre Occidental. Deposits throughout the belt occur in a thick Jurassic-Cretaceous carbonate succession that overlies Paleozoic or older crust.

The main sedimentary rock in the Santa Eulalia district is the Lower Cretaceous Limestone. These are irregularly covered by volcanic sedimentary conglomerates that are overlaid by volcanic rocks of the tertiary and alluvial material of the Quaternary Age.

In the Santa Eulalia mining district a thickness of 500 meters of sedimentary rocks is known to exist which consists of the following formations: 1) Formation Lagrima (limestone fossils); 2) Formation Glen Rose (limestone blue and at its base a black limestone appears); and 3) Formation Cuchillo (limestone with shale). Dikes and sills of riolite composition and sills of diabase also exist.

In the district there are several systems of fractures and faults associated with the emplacement of felsitic and maphic intrusives. The most important controller of the ore bodies are the north-south fractures.

The mineralization corresponds in its majority to ore skarns silicoaluminates of calcium, iron and manganese with variable quantities of lead, zinc, copper and iron sulfides, located in the planes of crossings in the interstices of the silicates. Economic ore is found as replacement in the Limestone Glen Rose in the contact with dikes and sills and replacements in diabase sills. The mineralogy is comprised predominantly of sphalerite (ZnS), galena (PbS) and small quantities of pyrargyrite (Ag_3SbS_3).

Mine Exploration

At Santa Eulalia, in 2011, 7,138 meters were drilled from underground stations and 13,722 meters from the surface. With this drilling, 31,104 tons were added to the reserve base in 2011.

The table below sets forth 2011, 2010 and 2009 production information for our Santa Eulalia mine:

		2011	2010	2009
Annual operating days		217	150	326
Total material mined and milled	(kt)	154.3	150.3	306.2
Zinc average ore grade	(%)	7.28	6.54	6.57
Zinc concentrate produced	(kt)	0.1	14.3	30.8
Zinc concentrate average grade	(%)	35.03	48.86	50.20

Zinc average recovery	(%)	1.24	71.28	77.01
Lead average ore grade	(%)	2.73	2.64	2.35
Lead concentrate produced	(kt)	5.0	5.4	9.8
Lead concentrate average grade	(%)	35.80	56.70	61.05
Lead average recovery	(%)	41.24	81.26	83.23

kt = thousand tons

Taxco

Taxco has been on strike since July 2007. Please see Note 15 Commitments and contingencies to our consolidated financial statements.

The Taxco mining complex is located on the outskirts of the city of Taxco in the northern part of the state of Guerrero, Mexico, approximately 71 kilometers from the city of Cuernavaca, Morelos, where access through the highway to the complex is possible. The complex includes several underground mines (San Antonio, Guerrero and Remedios) and a flotation plant and produces lead and zinc concentrates, with some amounts of gold and silver. The mining district in

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which the Taxco mines are located was discovered in 1519. Mining activities in the 20th century commenced in 1918. The Taxco district lies in the northern part of the Balsas-Mexcala basin adjacent to the Paleozoic Taxco-Zitacuaro Massif.

We employ shrinkage, cut-and-fill and the room and pillar mining methods at the Taxco mines. The flotation plant has a capacity of 2,000 tons of ore per day. The lead concentrate is treated at a third party refinery in Mexico. The zinc concentrate is either treated at the San Luis Potosi zinc refinery or exported.

The major mine equipment at the Taxco complex include four Jumbo drilling tools, ten scoop trams for mucking and loading, five trucks and three locomotives for internal ore haulage and three hoists. For treating the ore, there are two primary crushers, one secondary crusher and two tertiary crushers, three mills and two flotation circuits. The concentrator plant has a milling capacity of 2,000 tons of ore per day.

Geology

The Taxco district is stratigraphically formed of rocks from Jurassic to recent periods, which are described below, with emphasis on the mineralization control characteristics. The Taxco schist is composed of a series of schists and fylites, most likely from a volcanic-sedimentary sequence of tufa and limonites. They represent a sequence of metamorphological arch and its age has been defined as Jurassic Medium. The Morelos formation from the Upper Cretaceous age (Apian-Turonian) lies on a discordant form over Taxco schist and its contact is several times marked by a clay zone (mylonites) and breccia, which implies a shifting of this unit over the schist (packs). The Mezcala formation is constituted by a sequence of shale and sandstone with some inter-stratified layers of limestone. Its base is calcarean. Its top tends to be rich in clay with thin limestone layers. The Balsas group is constituted by conglomerates and is sandy on its base, rests in discordance form on an erosioned surface from the Mexcala formation. The Tilzapotla Ryolite is the newest rock, which emerged in the district before the alluvial deposit. It is formed of flux, breccia, tuffaceous, ignimbrites and vitrophyrre of ryolite composition.

There are four types of ore deposits found in Taxco district. In order of importance they are as follows: fissure-filling veins, replacement veins, blanket-like replacement bodies (so called mantos), stock works and brecciate chimneys. The three first ones are intimately related and they were formed in the same era, although in different stages.

The veins reach up to two kilometers in length with a variable potency of thirty centimeters up to eight meters, which is the case of copper veins at the mines of Guerrero, Hueyapa and Palo Amarillo at the San Antonio mine; the Remedios mine has among other veins, El Muerto and El Cristo one kilometer long and five meters in average potency.

Economic ore is found in the deposit in veins. Ore mineral include argentiferous galena (PbS), sphalerite (ZnS), pyrargyrite (Ag_3SbS_3), and other sulfosalts, and replacement mantos. The most mineralized zones are in the vicinity of the veins with the limestone. The mineralization is more intensive in the base of the limestone and consists of sphalerite (ZnS), galena (PbS), pyrite (FeS) and magnetite ($FeOFe_2O_3$).

Mine Exploration

There was no mine exploration drilling in the three years ending December 31, 2011 because the Taxco mine was on strike.

There was no production at the Taxco mine in the three years ending December 31, 2011. The following table summarizes the estimated production losses at our Taxco mine due to the strike:

	2011	2010	2009
Days of strike	365	365	366
Estimated strike production loss (tons):			
Zinc in concentrates	13,270	13,270	13,270
Lead in concentrates	2,225	2,225	2,225

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Processing Facilities - San Luis Potosi

Our San Luis Potosi electrolytic zinc refinery is located in the city of San Luis Potosi, in the state of San Luis Potosi, Mexico. The San Luis Potosi copper smelter is adjacent to the refinery. The city of San Luis Potosi is connected to our refinery and smelter by a major highway.

Smelter

Our San Luis copper smelter was closed in 2010, and copper concentrates previously smelted at this plant are now sent to La Caridad for smelting. We have initiated a program for plant demolition and soil remediation with a budget of $35.7 million, of which we have spent $22.5 million at December 31, 2011. We expect to complete the program by the end of 2013 after which we expect to generate a net gain on the disposal of this property.

The table below sets forth 2011, 2010 and 2009 production information for our San Luis Potosi copper smelter:

		2011	2010(*)	2009
Total copper concentrate smelted	(kt)		2.7	44.1
Blister copper production	(kt)		0.9	20.0
Silver in blister	(oz. per ton)		558	416
Gold in blister	(oz. per ton)		3.3	2.2
Copper average grade in blister	(%)		95.8	95.7
Average smelter recovery	(%)		92.18	97.52
Average realized price copper blister	($ per pound)		3.35	2.43

kt = thousand tons

(*) Through March 16, 2010.

Zinc Refinery

The San Luis Potosi electrolytic zinc refinery was built in 1982. It was designed to produce 105,000 tons of refined zinc per year by treating up to 200,000 tons of zinc concentrate from our own mines, principally Charcas, which is located 113 kilometers from the refinery. The refinery produces special high grade zinc (99.995% zinc), high grade zinc (over 99.9% zinc) and zinc-based alloys with aluminum, lead, copper or magnesium in varying quantities and sizes depending on market demand. Refined silver and gold production is obtained from tolling services provided by Industrias Penoles, a Mexican mining company.

The electrolytic zinc refinery s major equipment includes a roaster with 85 square meters of roasting area, a steam recovery boiler and an acid plant. There is a calcine processing area with five leaching stages: neutral, hot acid, intermediate acid, acid, purified fourth and jarosite, as well as two stages for solution purifying. Additionally, the equipment includes a cell house with two electrowinning circuits to finally obtain metallic zinc; an alloy and molding area with two induction furnaces and four molding systems, two of them with chains to produce 25 kilogram ingots; and two casting wheels to manufacture one ton jumbo pieces.

The table below sets forth 2011, 2010 and 2009 production information for our San Luis Potosi zinc refinery:

		2011	2010	2009
Total zinc concentrate treated	(kt)	174.8	184.0	193.7
Refined zinc produced	(kt)	90.9	95.7	98.7
Sulfuric acid produced	(kt)	158.0	166.7	174.6
Refined silver produced	(kt)	13.7	10.2	12.8
Refined gold produced	(k)	14.2	6.8	7.0
Refined cadmium produced	(kt)	0.6	0.6	0.6
Average refinery recovery	(%)	95.2	95.7	95.5
Average realized price refined zinc	($ per lb)	1.05	1.03	0.78
Average realized price zinc concentrate	($ per lb)			0.82
Average realized price silver	($ per oz)	35.08	22.4	16.10

kt = thousand tons

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Nueva Rosita Coal and Coke Complex

The Nueva Rosita coal and coke complex, began operations in 1924 and is located in the state of Coahuila, Mexico on the outskirts of the city of Nueva Rosita near the Texas border. It includes a) an underground coal mine, which has been closed as a result of an accident in 2006; b) an open-pit mine with a yearly capacity of approximately 350,000 tons of coal; c) a coal washing plant completed in 1998 with a capacity of 900,000 tons per year that produces clean coal of a higher quality; and d) a re-engineered and modernized 21 ovens coke facility capable of producing 100,000 tons of coke per year (metallurgical, nut and fine) of which, 95,000 tons are metallurgical coke. There is also a by-product plant to clean the coke gas oven in which tar, ammonium sulfate and light crude oil are recovered. There are also two boilers to produce 80,000 steam pounds that are used in the by-products plant. The re-engineering and modernization of 21 ovens was completed in April 2006 and are presently operating with no problems to report.

The coke oven installation supplied the San Luis Potosi copper smelter with low-cost coke, resulting in significant cost savings to the smelter. The production is now sold to Peñoles and other Mexican consumers in northern Mexico. We expect to sell 72,117 tons of metallurgical coke in 2012.

Mine Exploration:

During 2011 at Nueva Rosita, 2,640 meters of diamond drilling were performed at the Esperanzas and Nueva Rosita open pits. Through this drilling we identified approximately 0.18 million tons of coal reserves.

The table below sets forth 2011, 2010 and 2009 production information for our Nueva Rosita coal and coke complex:

		2011	2010	2009
Coal mined open-pit	(kt)	238.5	240.5	238.2
Average BTU content	BTU/Lb	9,400	9,200	9,080
Average percent sulfur	%	1.00	1.80	1.80
Clean coal produced	(kt)	103.9	125.6	106.2
Coke tonnage produced	(kt)	84.4	72.9	72.0
Average realized price - Coal	($ per ton)	29.8	39.0	38.5
Average realized price - Arsenic clean coal	($ per ton)	56.14	165	
Average realized price - Coke	($ per ton)	292.6	262.8	279.0

kt = thousand tons

ORE RESERVES

Ore reserves are those estimated quantities of proven and probable material that may be economically mined and processed for extraction of their mineral content, at the time of the reserve determination. Proven (measured) reserves are reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; (b) grade and/or quality are computed from the results of detailed samplings; and (c) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well-established. Probable (indicated) reserves are reserves for which quantity and grade and/or quality are computed from information similar to that used for proven (measured) reserves, but the sites for inspection, sampling, and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven (measured) reserves, is high enough to assume continuity between points of observation. Mineralized material, on the other hand, is a mineralized body that has been delineated by appropriately spaced drilling and/or underground sampling to support the reported tonnage and average grade of metal(s). Such a deposit does not qualify as a reserve until legal and economic feasibility are concluded based upon a comprehensive evaluation of unit costs, grade, recoveries and other material factors.

Our proven and probable ore reserve estimates are based on engineering evaluations of assay values derived from the sampling of drill holes and other openings. We believe that the samplings taken are spaced at intervals sufficiently close enough and the geological characteristics of the deposits are sufficiently well defined to render the estimates reliable. The ore reserves estimates include assessments of the resource, mining and metallurgy, as well as economic, marketing, legal, environmental, governmental, social and other necessary considerations.

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Our Peruvian operations, including the Toquepala and Cuajone reserves, are classified into proven (measured), probable (indicated) and possible (inferred) categories based on a RCB Index (Relative Confidence Bound Index) that measures our level of geologic knowledge and confidence in each block. The RCB index is a measure of relative confidence in the block grade estimate. This approach combines the local variability of the composites used to krig a block with the Kriging variance and incorporates the use of confidence intervals in measuring uncertainty of the block estimates relative to each other. The final resource classification is then based on the distribution of these RCB values for blocks above 0.05% copper. It is the distribution that is used to find the breaks between proven/probable and probable/possible.

Our Mexican operations, including the Buenavista and La Caridad reserves, are calculated using a mathematical block model and applying the MineSight software system. The estimated grades per block are classified as proven and probable. These grades are calculated applying a three-dimensional interpolation procedure and the inverse distance squared. Likewise, the quadrant method or spherical search is implemented in order to limit the number of composites that will affect the block s interpolated value. The composites data is derived from the geological exploration of the ore body. In order to classify the individual blocks in the model, a thorough geostatistical variogram analysis is conducted, taking into consideration the principal characteristics of the deposit. Based on this block model classification, and with the implementation of the Lerch-Grossman algorithm, and the MineSight Pit Optimizer procedure, mineable reserves are determined. The calculated proven and probable reserves include those blocks that are economically feasible to mine by open-pit method within a particular mine design.

For the IMMSA unit, the basis for reserve estimations are sampling of mining operations and drilling exploration, geographical and topographic surveys, tracking down all the foregoing in the corresponding maps, measurement, calculations and interpretation based on the maps and reports from the mines, the mills and/or smelters. Mineral reserves are mineral stock which is estimated for extraction, to exploit if necessary, to sell or utilize economically, all or in part, taking into consideration the quotations, subsidies, costs, availability of treatment plants and other conditions which we estimate will prevail in the period for which reserves are being calculated. The reserves are divided into proven (85% reliable or more according to statistical studies) and probable (70-80% reliable or more according to statistical studies) categories according to their level of reliability and availability. In order to comply with SEC regulations, proven reserves is a classification that can only be used for such mineral found on top of the last level of the mine (either mineral up to 15 meters below the last level or below the first 15 meters only with sufficient drilling (25 or 30 meters between each drill)).

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

Pursuant to SEC guidance, the reserves information in this report are calculated using average metals prices over the most recent three years unless otherwise stated. We refer to these three-year average metals prices as current prices. Our current prices for copper are calculated using prices quoted by COMEX, and our current prices for molybdenum are calculated according to Platt s Metals Week. Unless otherwise stated, reserves estimates in this report use $3.26 per pound for copper and $13.95 per pound for molybdenum, both current prices as of December 31, 2011. The current prices for copper and molybdenum were $2.97 and $18.59 as of December 31, 2010 and $2.90 and $23.44 as of December 31, 2009.

For internal ore reserve estimation, our management uses long-term metal price assumptions for copper and molybdenum, which are intended to approximate average prices over the long term. At December 31, 2009 and 2010, these price assumptions were $1.80 per pound for copper and $11.00 per pound for molybdenum. At December 31, 2011, we changed our price assumption to reflect the changes in market trends. These new prices are $2.00 per pound of copper and $12.00 per pound of molybdenum. The average metal prices over the last 10 and 15 years periods and the continued positive outlook for these metals have led us to use these prices. For other forecast and planning purposes, particularly related to merger and acquisition activities, our management considers other price scenarios. These changes, however, do not affect the preparation of our financial statements.

For the years 2011, 2010 and 2009, we have used reserves estimates based on current average prices as of the most recent year then ended to determine amortization of mine development and intangible assets.

We periodically reevaluate estimates of our ore reserves, which represent our estimate as to the amount of unmined copper remaining in our existing mine locations that can be produced and sold at a profit. These estimates are based on

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engineering evaluations derived from samples of drill holes and other openings, combined with assumptions about copper market prices and production costs at each of our mines.

The persons responsible for ore reserve calculations are as follows:

Peruvian open-pit:

Cuajone mine Joel Pena, Senior Mine Engineer

Toquepala mine Anthony Flores, Senior Mine Engineer

Mexican open-pit:

La Caridad Mine - Marco A. Figueroa, Engineering and Mine Planning Superintendent

Buenavista mine Jesus Molinares, Engineering and Mine Planning Superintendent

IMMSA unit:

Santa Barbara - Jorge M. Espinosa, Planning and Control Superintendent

Charcas - Jose P. Guerrero, Planning and Control Superintendent

Santa Eulalia Mario Ramirez Oviedo, Chief of Geology

Taxco - Marco A. Gonzalez, Chief of Geology

San Martin - Maria I. Carrillo, Chief Engineer

For more information regarding our reserve estimates, please see Item 7 Management s Discussion and Analysis of Financial Conditions and Results of Operations Critical Accounting Policies and Estimates Ore Reserves.

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The table below details our proven and probable copper and molybdenum reserves as estimated at December 31, 2011.

	PERUVIAN OPEN-PIT UNIT		MEXICAN OPEN-PIT UNIT		TOTAL	MEXICAN	Sensitivity to Change in metals prices (3)	
	Cuajone Mine (1)	Toquepala Mine (1)	Buenavista Mine (1)	La Caridad Mine (1)	OPEN-PIT MINES	IMMSA UNIT (2)	Increase 20%	Decrease 20%
Mineral Reserves								
Metal prices:								
Copper ($/lb.)	3.26	3.26	3.26	3.26	3.26	3.26	3.91	2.61
Molybdenum ($/lb.)	13.95	13.95	13.95	13.95	13.95	13.95	16.74	11.16
Cut-off grade	0.140%	0.159%	0.155%	0.106%	0.139%		0.120%	0.175%
Proven								
Sulfide ore reserves (kt)	1,085,229	2,731,381	3,713,440	3,413,673	10,943,723	17,095	11,686,330	9,708,215
Average grade:								
Copper	0.567%	0.511%	0.444%	0.228%	0.405%	0.470%	0.394%	0.425%
Molybdenum	0.019%	0.027%		0.028%	0.017%		0.016%	0.019%
Lead						1.170%		
Zinc						2.840%		
Leachable material (kt)	8,930	444,035	1,971,999	190,924	2,615,888		2,176,006	3,222,038
Leachable material grade	0.556%	0.147%	0.169%	0.211%	0.170%		0.151%	0.196%
Probable								
Sulfide ore reserves (kt)	1,269,374	646,479	1,542,693	888,403	4,346,949	30,395	4,880,577	3,582,727
Average grade:								
Copper	0.398%	0.316%	0.393%	0.195%	0.343%	0.500%	0.329%	0.368%
Molybdenum	0.016%	0.009%		0.027%	0.011%		0.011%	0.012%
Lead						0.810%		
Zinc						3.030%		
Leachable material (kt)	6,194	1,197,700	686,799	32,444	1,923,137		1,794,576	2,011,553
Leachable material grade	0.359%	0.104%	0.144%	0.181%	0.120%		0.105%	0.143%
Total								
Sulfide ore reserves (kt)	2,354,603	3,377,860	5,256,133	4,302,076	15,290,672	47,490	16,566,907	13,290,942
Average grade:								
Copper	0.476%	0.473%	0.429%	0.221%	0.388%	0.489%	0.375%	0.410%
Molybdenum	0.017%	0.024%		0.028%	0.016%		0.015%	0.017%
Lead						0.940%		
Zinc						2.962%		
Leachable material (kt)	15,124	1,641,735	2,658,798	223,368	4,539,025		3,970,583	5,233,591
Leachable material grade	0.475%	0.116%	0.163%	0.207%	0.149%		0.130%	0.176%
Waste (kt) (5)	5,481,087	11,155,726	6,736,038	2,556,117	25,928,968		27,497,661	24,146,378
Total material (kt)	7,850,813	16,175,321	14,650,969	7,081,561	45,758,664	47,490	48,035,151	42,670,910
Stripping ratio	2.33	3.79	1.79	0.65	1.99		1.90	2.21
Leachable material								
Reserves in stock (kt)	19,273	1,215,726	758,810	630,311	2,624,120		2,624,120	2,624,120
Average copper grade	0.495%	0.153%	0.127%	0.245%	0.170%		0.170%	0.170%
In pit reserves:								

Proven (kt)	8,930	444,035	1,971,999	190,924	2,615,888		2,176,006	3,222,038
Average copper grade	0.556%	0.147%	0.169%	0.211%	0.170%		0.151%	0.196%
Probable (kt)	6,194	1,197,700	686,799	32,444	1,923,137		1,794,576	2,011,553
Average copper grade	0.359%	0.104%	0.144%	0.181%	0.120%		0.105%	0.143%
Total leachable reserves (kt)	34,397	2,857,461	3,417,608	853,679	7,163,145		6,594,702	7,857,710
Average copper grade	0.486%	0.132%	0.155%	0.235%	0.157%		0.146%	0.174%
Copper contained in ore reserves in pit(kt) (4)	11,280	17,882	26,883	9,970	66,014	232	67,233	63,625

kt = Thousand tons

(1) The Cuajone, Toquepala, Buenavista and La Caridad concentrator recoveries calculated for these reserves were 85.7%, 85.7%, 81.0% and81.1%, respectively, obtained by using recovery formulas according to the different milling capacity and geo-metallurgical zones.

(2) The IMMSA unit includes the Charcas, Santa Barbara, San Martin, Santa Eulalia and Taxco mines. Zinc and lead contained in ore reserves are as follows:

(in thousand tons)	**Proven**	**Probable**	**Total**
Zinc	485.5	921.0	1,406.5
Lead	200.0	246.2	446.2

(3) In preparing the sensitivity analysis, we recalculated our reserves based on the assumption that current average metal prices were 20% higher and 20% lower, respectively, than the actual current average prices for year-end 2011. Reserve results of this sensitivity analysis are not proportional to

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the increase or decrease in metal price assumptions. The analysis above does not include our IMMSA unit s underground mines, for which the sensitivity analysis is as follows:

Sensitivity to 20% Change in Metals Prices

	Increase 20%	Decrease 20%
Sulfide ore reserves:		
Proven(thousands of tons)	17,249	16,464
Average grade copper	0.480%	0.490%
Copper contained (thousands of tons)	83	80
Probable (thousands of tons)	30,797	28,783
Average grade copper	0.500%	0.520%
Copper contained (thousands of tons)	154	150
Total (thousands of tons)	48,046	45,247
Average grade copper	0.493%	0.509%
Copper contained (thousands of tons)	237	230

(4) Copper contained in ore reserves for open-pit mines is (i) the product of sulfide ore reserves and the average copper grade proven plus (ii) the product of sulfide ore reserves and the average copper grade probable plus (iii) the product of in-pit leachable reserves and the average copper grade. Copper contained in ore reserves for underground mines is the product of sulfide ore reserves and the average copper grade.

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The table below details our proven and probable copper and molybdenum reserves as of December 31, 2011, calculated based on long-term price assumptions of $2.00 for copper and $12.00 for molybdenum.

	Cuajone Mine	Toquepala Mine	Buenavista Mine	La Caridad Mine	Total Open-Pit Mines	IMMSA (1)
Mineral Reserves						
Metal prices:						
Copper ($/lb.)	2.00	2.00	2.00	2.00	2.00	2.00
Molybdenum ($/lb.)	12.00	12.00	12.00	12.00	12.00	12.00
Cut-off grade	0.187%	0.223%	0.266%	0.186%	0.219%	
Proven						
Sulfide ore reserves(kt)	939,478	2,150,837	2,227,413	2,508,542	7,826,270	15,184
Average grade:						
Copper	0.588%	0.562%	0.557%	0.257%	0.466%	0.500%
Molybdenum	0.020%	0.033%		0.028%	0.020%	
Lead						1.240%
Zinc						3.000%
Leachable material (kt)	8,328	887,412	2,523,407	627,659	4,046,806	
Leachable material grade	0.578%	0.200%	0.224%	0.161%	0.210%	
Probable						
Sulfide ore reserves(kt)	969,542	242,012	826,554	508,313	2,546,421	27,443
Average grade:						
Copper	0.418%	0.368%	0.507%	0.226%	0.404%	0.530%
Molybdenum	0.016%	0.012%		0.028%	0.013%	
Lead						0.840%
Zinc						3.140%
Leachable material (kt)	4,947	1,324,292	713,624	119,420	2,162,283	
Leachable material grade	0.386%	0.135%	0.199%	0.150%	0.158%	
Total						
Sulfide ore reserves(kt)	1,909,020	2,392,849	3,053,967	3,016,855	10,372,691	42,627
Average grade:						
Copper	0.502%	0.542%	0.543%	0.251%	0.451%	0.519%
Molybdenum	0.018%	0.030%		0.028%	0.018%	
Lead						0.982%
Zinc						3.090%
Leachable material (kt)	13,275	2,211,704	3,237,031	747,079	6,209,089	
Leachable material grade	0.506%	0.161%	0.219%	0.160%	0.192%	
Waste (kt)	4,996,194	9,249,765	5,174,071	1,884,510	21,304,540	
Total material (kt)	6,918,489	13,854,318	11,465,069	5,648,444	37,886,320	42,627
Stripping ratio	2.62	4.79	2.75	0.87	2.65	
Leachable material						
Reserves in stock (kt)	19,273	1,215,726	758,810	630,311	2,624,120	
Average copper grade	0.495%	0.153%	0.127%	0.245%	0.170%	
In-pit reserves:						
Proven (kt)	8,328	887,412	2,523,407	627,659	4,046,806	
Average copper grade	0.578%	0.200%	0.224%	0.161%	0.210%	
Probable(kt)	4,947	1,324,292	713,624	119,420	2,162,283	
Average copper grade	0.386%	0.135%	0.199%	0.150%	0.158%	

Total leachable reserves	32,548	3,427,430	3,995,841	1,377,390	8,833,209	
Average copper grade	0.499%	0.158%	0.202%	0.199%	0.185%	
Copper contained in ore reserves (kt) (2)	**9,650**	**16,530**	**23,672**	**8,768**	**58,620**	**221**

(kt) = Thousand tons

(1) The IMMSA unit includes the Charcas, Santa Barbara, San Martin, Santa Eulalia and Taxco mines. Zinc and lead contained in ore reserves are as follows:

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(in thousand tons)	Proven	Probable	Total
Zinc	455.5	861.7	1,317.2
Lead	188.3	230.5	418.8

(2) Copper contained in ore reserves for open-pit mines is (i) the product of sulfide ore reserves and the average copper grade plus (ii) the product of in-pit leachable reserves and the average grade of copper. Copper contained in ore reserves for underground mines is the product of sulfide ore reserves and the average copper grade.

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OVERVIEW OF BLOCK MODEL RECONCILIATION PROCESS

We apply the following block model to mill reconciliation procedure.

The following stages are identified at the Cuajone, Toquepala, Buenavista and La Caridad mines:

1. The mine geologists gather the necessary monthly statistical data from our information system (SRP), which provides ore tons milled and ore grades in the concentrator.

2. Mined areas are topographically determined and related boundaries are built.

3. Using the interactive planner option in our mining software (Minesight), ore tons and grades are calculated inside mined areas over the block model. At this point the current cut-off grade is considered.

4. In the final stage, accumulated tons mined, weighted average grade for ore material and leach is compared with data coming from our SRP system.

Tonnage and grade reconciliation for 2011 are as follows:

	Long Range Model		Mill		Variance	
Mine	Tons (thousands)	% Copper	Tons (thousands)	% Copper	Tons (thousands)	% Copper
Cuajone	29,204	0.594	29,073	0.578	131	0.016
Toquepala	20,072	0.614	21,497	0.619	(1,425)	(0.005)
Buenavista	24,339	0.650	23,934	0.630	405	0.028
La Caridad	33,947	0.335	33,185	0.329	762	0.006

If the estimation error appears greater than 3%, a detailed evaluation is done to review the differences, which normally could result in more in-fill drilling, in order to better understand the geological characteristics (grade, rock type, mineralization and alteration) and the spacing of drill holes which are considered in the ore body zone.

AVERAGE DRILL-HOLE SPACING

The following is the average drill-hole spacing for proven and probable sulfide reserves as of December 31, 2011:

	Proven	Probable
	(average spacing in meters)	
Cuajone	84.94	117.54
Toquepala	78.10	116.23
Buenavista	51.96	100.94
La Caridad	44.73	102.28

ITEM 3. LEGAL PROCEEDINGS

Reference is made to the information under the caption Litigation Matters in the consolidated financial statement Note 14 Commitments and Contingencies.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

SCC COMMON STOCK:

SCC s common stock is traded on the New York Stock Exchange (NYSE) and the Lima Stock Exchange (BVL). Effective February 17, 2010, SCC s common stock symbol changed from PCU to SCCO on both the NYSE and the BVL. At December 31, 2011, there were 1,119 holders of record of our common stock. The Company s common stock commenced trading on NYSE and BVL on January 5, 1996.

DIVIDEND AND STOCK MARKET PRICES:

The table below sets forth the cash dividends paid per share of capital stock and the high and low stock prices on both the NYSE and the BVL for the periods indicated.

	2011					2010				
Quarters	**1st**	**2nd**	**3rd**	**4th**	**Year**	**1st**	**2nd**	**3rd**	**4th**	**Year**
Dividend per Share	$ 0.58	$ 0.56	$ 0.62	$ 0.70	$ 2.46	$ 0.43	$ 0.45	$ 0.37	$ 0.43	$ 1.68
Stock market Price										
NYSE:										
High	$ 49.59	$ 40.49	$ 36.59	$ 32.77	$ 49.59	$ 36.30	$ 35.11	$ 35.17	$ 48.84	$ 48.84
Low	$ 38.65	$ 30.72	$ 24.99	$ 23.99	$ 23.99	$ 26.63	$ 26.19	$ 26.44	$ 35.42	$ 26.19
BVL:										
High	$ 49.80	$ 40.50	$ 36.50	$ 32.85	$ 49.80	$ 36.20	$ 35.00	$ 35.00	$ 49.13	$ 49.13
Low	$ 38.70	$ 30.80	$ 24.96	$ 23.81	$ 23.81	$ 26.71	$ 26.30	$ 26.60	$ 35.40	$ 26.30

On January 26, 2012, the Board of Directors authorized a cash dividend of $0.19 per share of common stock and a stock dividend of 0.0107 shares of common stock per share of SCC common stock. The stock dividend will be paid with shares of common stock held in treasury by SCC and shares held in treasury on the record date will not be entitled to either the cash or stock dividend. The cash and stock dividends are payable on February 28, 2012, to shareholders of record at the close of business on February 15, 2012.

For a description of limitations on our ability to make dividend distributions, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources and Note 11 Financing to our consolidated financial statements.

DIRECTORS STOCK AWARD PLAN

The following table sets forth certain information related to our shares held as treasury stock for the Directors stock award plan at December 31, 2011:

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options (a)	Weighted-average exercise price of outstanding options (b)	Number of securities remaining available for future issuance (c)
Directors stock award plan	N/A	N/A	328,800

For additional information see Note 15 Stockholders Equity Directors Stock Award Plan.

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SCC COMMON STOCK REPURCHASE PLAN:

In 2008, the Company´s Board of Directors authorized a $500 million share repurchase program. On July 28, 2011, the Board of Directors approved an increase of the SCC share repurchase program, from $500 million to $1.0 billion. Pursuant to this program, the Company purchased common stock as shown in the table below. These shares are available for general corporate purposes. The Company may purchase additional shares of its common stock 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.

2008:						
08/11/08	12/31/08	28,510,150	13.49	28,510,150	$	384.7
2009:						
01/12/09	09/30/09	4,912,000	14.64	33,422,150		71.9
2010:						
05/05/10	10/14/10	15,600	29.69	33,437,750		0.5
2011:						
05/01/11	05/31/11	14,400	37.06	33,452,150		0.5
06/01/11	06/30/11	4,567,520	32.30	38,019,670		147.5
08/03/11	08/22/11	2,762,811	29.63	40,782,481		81.9
09/22/11	09/30/11	1,069,669	26.59	41,852,150		28.4
10/03/11	10/21/11	620,000	24.73	42,472,150		15.3
		9,034,400	30.29			273.7
Total purchased		42,472,150	17.20	8,922,746	$	730.7

(1) NYSE price at December 31, 2011

As a result of the repurchase of shares of SCC s common stock and purchases by AMC of shares of SCC s common stock, Grupo Mexico s direct and indirect ownership was 80% as of December 31,2010 and increased to 80.9% at December 31, 2011.

SHAREHOLDER RETURN PERFORMANCE PRESENTATION

Set forth below is a line graph comparing the yearly change in the cumulative total returns on the Company s common stock against cumulative total return on the S&P 500 Stock Index and the S&P Metals and Mining Select Industry Index, for the five year period ending December 31, 2011. The chart below analyzes the total return on SCC s common stock for the period commencing December 31, 2006 and ending December 31, 2011, compared with the total return of the S&P 500 and the S&P Metals and Mining Select Industry Index for the same five-year period. In 2007, SCC s stock provided a positive return of 115.34%, compared with 3.53% for S&P 500 and 41.71% for S&P Metals and Mining Select Industry Index. In 2008, SCC´s stock had a negative return of 50.65%, compared with negative returns of 38.49% and 60.02% for the

S&P 500 and for S&P Metals and Mining Select Industry Index. In 2009, SCC´s stock had a positive return of 108.54%, compared with positive returns of 23.45% and 85.59% for the S&P 500 and for S&P Metals and Mining Select Industry Index, respectively. In 2010, SCC s stock had a positive return of 55.85% compared, with positive returns of 12.78% and 33.20% for the S&P 500 and the S&P Metals and Mining Industry Index, respectively. In 2011, SCC´s stock had a negative return of 33.12%, compared to a 0.00% return for the S&P 500 and a negative return of 28.81% for the S&P Metals and Mining Industry Index.

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Comparison of Five Year Cumulative Total Return *

SCC Stock, S&P 500 Index and S&P Metals and Mining Select Industry Index **

* Total return assumes reinvestment of dividends

** The comparison assumes $100 invested on December 31, 2006

The foregoing Performance Graph and related information shall not be deemed soliciting material or filed with the SEC or subject to Section 18 of the Securities Exchange Act of 1934, as amended, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that the Company specifically incorporates it by reference into such filing.

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ITEM 6. SELECTED FINANCIAL DATA

FIVE-YEAR SELECTED FINANCIAL AND STATISTICAL DATA

The selected historical financial data presented below as of and for the five years ended December 31, 2011, includes certain information that has been derived from our consolidated financial statements. The selected financial data should be read in conjunction with Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto.

(In millions, except per share amounts, stock and financial ratios) Statement of Earnings Data	Years Ended December 31, 2011	2010	2009	2008	2007
Net sales	$ 6,818.7	$ 5,149.5	$ 3,734.3	$ 4,850.8	$ 6,085.7
Operating income	3,625.4	2,604.2	1,485.1	2,201.9	3,497.4
Net income	2,344.3	1,562.7	934.6	1,414.5	2,226.6
Net income attributable to:					
Non-controlling interest	7.9	8.7	5.2	7.9	10.2
Southern Copper Corporation	$ 2,336.4	$ 1,554.0	$ 929.4	$ 1,406.6	$ 2,216.4
Per share amounts: (1)					
Earnings basic and diluted	$ 2.76	$ 1.83	$ 1.09	$ 1.60	$ 2.51
Dividends paid	$ 2.46	$ 1.68	$ 0.44	$ 1.94	$ 2.27

Balance Sheet Data	As of December 31, 2011	2010	2009	2008	2007
Cash and cash equivalents	$ 848.1	$ 2,192.7	$ 772.3	$ 716.7	$ 1,409.3
Total assets	8,062.7	8,128.0	6,058.2	5,764.3	6,580.6
Total long-term debt, including current portion	2,745.7	2,760.4	1,280.3	1,290.0	1,449.8
Total liabilities	4,026.4	4,217.6	2,164.6	2,368.9	2,715.8
Total equity	$ 4,036.3	$ 3,910.4	$ 3,893.7	$ 3,395.4	$ 3,864.8

Statement of Cash Flows	Years Ended December 31, 2011	2010	2009	2008	2007
Cash provided from operating activities	$ 2,070.2	$ 1,920.7	$ 963.2	$ 1,728.3	$ 2,703.5
Depreciation, amortization and depletion	288.1	281.7	273.6	260.9	266.0
Cash used for investing activities	(1,083.1)	(473.8)	(359.3)	(418.6)	(246.0)
Capital expenditures	(612.9)	(408.7)	(414.8)	(524.4)	(315.7)
Cash provided from (used for) financing activities	(2,375.0)	36.6	(458.0)	(2,048.0)	(2,088.3)
Dividends paid	(2,080.4)	(1,428.0)	(376.0)	(1,710.8)	(2,002.3)

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	Years Ended December 31,				
Capital Stock (1)	**2011**	**2010**	**2009**	**2008**	**2007**
Common shares outstanding basic and diluted (in thousands)	840,980	850,000	850,000	854,900	883,397
NYSE Price high	$ 49.59	$ 48.84	$ 36.40	$ 41.34	$ 47.12
NYSE Price low	$ 23.99	$ 26.19	$ 12.74	$ 9.19	$ 16.84
Book value per share	4.77	4.58	4.56	3.96	4.36
P/E ratio	10.93	26.66	30.12	10.03	14.05

	Years Ended December 31,				
Financial Ratios	**2011**	**2010**	**2009**	**2008**	**2007**
Gross margin(2)	55.30%	53.20%	42.70%	48.00%	57.20%
Operating income margin(3)	53.20%	50.60%	39.80%	45.40%	57.50%
Net margin(4)	34.30%	30.20%	24.90%	29.00%	36.40%
Current assets to current liabilities	3.12	3.28	3.04	2.17	2.91
Net debt(5)/total capitalization(6)	32.00%	12.70%	11.50%	14.40%	1.00%
Ratio of earnings to fixed charges(7)	18.8x	15.5x	15.1x	20.8x	25.4x

(1) Per share amounts reflect earnings and dividends of Southern Copper Corporation. Numbers of shares and values per share have been adjusted to reflect the 2008 stock split.

(2) Represents net sales less cost of sales (including depreciation, amortization and depletion), divided by net sales as a percentage.

(3) Represents operating income divided by sales as a percentage.

(4) Represents net income divided by net sales as a percentage.

(5) Net debt is defined as total debt minus cash and cash equivalents balance. Please see Item 7. Management Discussion and Analysis of Financial Condition and Results of Operations, Financing Section.

(6) Represents net debt divided by net debt plus equity.

(7) Represents earnings divided by fixed charges. Earnings are defined as earnings before income taxes, non-controlling interest and cumulative effect of change in accounting principle, plus fixed charges and amortization of interest capitalized, less interest capitalized. Fixed charges are defined as the sum of interest expense and interest capitalized, plus amortized premiums, discounts and capitalized expenses related to indebtedness.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

EXECUTIVE SUMMARY

This Management s Discussion and Analysis of Financial Condition and Results of Operations relates to and should be read together with our Audited Consolidated Financial Statements as of and for each of the years in the three-year period ended December 31, 2011. Therefore, unless otherwise noted, the discussion below of our financial condition and results of operations is for Southern Copper Corporation and its subsidiaries (collectively, SCC , the Company , our , and we) on a consolidated basis for all periods. Our financial results may not be indicative of our future results.

This discussion contains forward-looking statements that are based on management s current expectations, estimates and projections about our business and operations. Our actual results may differ materially from those currently anticipated and expressed in the forward-looking statements as a result of a number of factors. See Item 1 Business - Cautionary Statement.

EXECUTIVE OVERVIEW

Business: Our business is primarily the production and sale of copper. In the process of producing copper, a number of valuable metallurgical by-products are recovered, which we also produce and sell. Market forces outside of our control largely determine the sale prices for our products. Our management, therefore, focuses on value creation through copper production, cost control, production enhancement and maintaining a prudent capital structure to remain profitable. We endeavor to achieve these goals through capital spending programs, exploration efforts and cost reduction programs. Our aim is to remain profitable during periods of low copper prices and to maximize financial performance in periods of high copper prices.

We are one of the world s largest copper mining companies in terms of production and sales with our principal operations in Peru and Mexico. We also have an active ongoing exploration program in Chile and in 2011 we have started exploration activities in Argentina and Ecuador. In addition to copper we produce significant amounts of other metals, either as a by-product of the copper process or in a number of dedicated mining facilities in Mexico.

Net sales value and net income in 2011 were the highest of our Company s history and we look forward to obtaining even better results in the future. Our strong reserve base and attractive projects will enable us to increase production, enhance asset value and provide strong returns to our shareholders.

We believe we hold the world s largest copper reserve position. Our copper ore reserves, at December 31, 2011, totaled 58.8 million tons of contained copper, calculated at a copper price of $2.00 per pound (as of December 31, 2011, the LME and COMEX copper price was $3.43).

Outlook: Various key factors will affect our outcome. These include, but are not limited to, some of the following:

- Changes in copper and molybdenum prices: The average LME and COMEX copper price was $4.00 per pound in 2011, about 17% higher than in 2010. Average silver and zinc prices in 2011 increased about 74% and 1%, while molybdenum decreased about 2%. We believe that in 2011 macroeconomic concerns significantly affected copper market conditions. However, the market fundamentals appear sound and, considering our cost structure, we anticipate a year with improved results. We expect a more stable situation in 2012 that will provide support to copper prices. In addition, we are expecting a balanced market for molybdenum.

- Sales structure: In the last three years approximately 74% of our revenues came from the sale of copper, 11% from molybdenum, 7% from silver and 8% from various other products, including zinc, gold and other materials.

- Metal markets: During the fourth quarter of 2011, metal markets have continued to be affected by negative macroeconomic events, such as the European recession and debt crisis. Even though we believe copper demand is

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negatively influenced by these events, fundamentals for this metal have improved in recent months due to the end of European destocking, the rebound in Chinese consumption and the structural underperformance of supply.

Several sources, as well as our own commercial sources, estimate that the copper destocking process finished in both Europe and Asia. The recent growth in Chinese copper imports to about one million tons for the past quarter shows the recovery of visible consumption in this country. Demand from emerging economies is also growing at a good pace, offsetting lower consumption from the European and U.S. markets. According to the same sources, demand growth is estimated at 2.2% for 2012. If we consider global copper demand at about 19.6 million tons, this represents approximately 430,000 tons of additional copper demand in 2012.

On the supply side, production has underperformed badly in 2011 and, particularly, in the last quarter due to labor unrest, power shortages, adverse weather conditions and ore grade declines. We consider that these events are likely to continue in 2012, maintaining tightness in the copper market. Currently, market analysts estimate a market deficit of 400,000 tons for the year.

- Production: For 2012, we are currently expecting copper production of 640,000 tons including approximately 5% which would be from third party copper. We expect molybdenum production in 2012 to be about 17,200 tons.

- Capital Expenditures: In 2012, we will continue with our capital investment program. We have budgeted $1.5 billion in spending for the year. Spending in Peru is estimated to be $0.5 billion and in Mexico $1.0 billion. This investment is part of our five year program to increase production of copper, molybdenum and other by-products and also to replace obsolete equipment.

Peru Achieves International Recognition: The Board of the Extractive Industries Transparency Initiative (EITI) decided, at its February 17, 2012 London meeting, to award Peru the status of EITI Compliant as per the requirements set forth by this international initiative. The EITI is the global standard that ensures accountability and transparency of the revenues from a country s extractives sector (mining and hydrocarbons). SCC had an active and leading participation in accomplishing this crucial milestone for Peru as representative of mining companies within the EITI National Work Group Commission. Peru is the only country in the Americas to have achieved such recognition.

AMC´s exchange offer proposal: In July 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 October 2011, AMC announced, in light of discussions with a committee of our independent directors, that it had withdrawn the proposed transaction to combine AMC and Southern Copper.

Earnings: The table below highlights key financial and operational data of our Company for the three years ended December 31, 2011:

	2011	2010	2009
Net sales (in millions)	$ 6,819	$ 5,150	$ 3,734
Net income attributable to SCC (in millions)	$ 2,336	$ 1,554	$ 929

Earnings per share	$ 2.76	$ 1.83	$ 1.09
Dividends per share	$ 2.46	$ 1.68	$ 0.44
Average LME copper price	$ 4.00	$ 3.42	$ 2.34
Pounds of copper sold (in millions)	1,320	1,106	1,118

Prices of copper and our principal by-products, except molybdenum, were all higher in 2011 but were trending lower at year end. The 2011 copper sales volume was 19.3% higher due to the restoration of the Buenavista mine production. However, sales volumes for most of our by-products were generally lower; molybdenum, silver and zinc were lower by 9.1%, 8.3% and 3.6%, respectively. Earnings increased by 50.3% in 2011 principally as a result of the full restoration of Buenavista production and higher average copper prices and the prices for many of our major by-products.

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Production: The table below highlight, key mine production data of our Company for the three years ended December 31, 2011:

	2011	2010	2009
Copper (in million pounds)	1,295	1,055	1,070
Molybdenum (in million pounds)	41	45	41
Zinc (in million pounds)	185	219	243
Silver (in million ounces)	13	13	13

2011 compared with 2010:

Mined copper in 2011 increased 240 million pounds or 22.8% over the 2010 production principally due to higher production at our Buenavista mine. The Buenavista mine restored full capacity in the second quarter of 2011 and increased production by 335 million pounds. Decreases at our Peruvian mines of 85 million pounds, largely from lower ore grade at the Cuajone mine and a decrease of 10 million pounds at La Caridad mine, due to lower grades and recoveries, partially offset the increase from Buenavista.

Molybdenum production decreased by approximately 4 million pounds in 2011, 9.5% lower than in 2010, due primarily to 5.5 million pounds of lower production at the Cuajone mine partially offset by 1.2 million of higher production at the Toquepala mine both due to changes in recoveries, and lower ore grades at Cuajone mine.

Zinc mine production, which comes from our IMMSA unit in Mexico decreased by 34 million pounds in 2011, 15.5% lower than in 2010, principally due to no production at the Santa Eulalia mine and decreases in production at the Santa Barbara and Charcas mines of 19 million pounds mainly due to lower ore grades. In May 2010, the Santa Eulalia mine suspended operations due to a flooding in the area brought on by the failure of a dyke caused by excess water pressure. In 2011, rehabilitation work was interrupted by a second flooding which required to us to extend the pumping work. At December 31, 2011, the rehabilitation work continues and we expect to restore mine production by May 2012.

Our silver production increased slightly in 2011, principally due to higher production at the Buenavista mine mostly offset by lower production at some of our other mines.

2010 compared with 2009:

Mined copper in 2010 was 15 million pounds under the 2009 mined copper production. A net decrease at our Peruvian mines of 43 million pounds, largely from lower grade at the Cuajone mine and a decrease of 17 million pounds from La Caridad mine, due to lower grades and recoveries, were partially offset by 46 million pounds of SXEW production from the Buenavista mine, which began restoring operations in the second half of 2010. In 2009, Buenavista was completely shutdown.

Molybdenum production reached a record level in 2010. Production increased by approximately 4 million pounds in 2010 due primarily to ore grade and recovery increases at the La Caridad and Toquepala mines. Zinc production decreased by 24 million pounds in 2010 due principally to the lower production at the Santa Eulalia mine due to the flooding above mentioned. Silver production decreased 4.2% in 2010, due to decreases at our operations in Mexico and Peru.

Buenavista mine: The Buenavista facility is working at full capacity and focused on its expansion program, which include a new SXEW plant with a planned annual capacity of 120,000 tons of copper, a concentrator expansion with an increase in production capacity of 188,000 tons per year and two molybdenum plants with a combined annual capacity of 4,600 tons. This investment program is underway and we expect to complete it in two phases, the first in 2013 with the new SXEW plant and the second phase in 2015 with the concentrator expansion. With these investments, total production capacity at Buenavista will reach 488,000 tons.

The rehabilitation of the Buenavista facility was completed in 2011 at a total cost of $212.8 million, of this $131.7 million were capitalized and $81.1 million were charged to operating cost.

Tantahuatay mine: The Tantahuatay mine is located in Cajamarca, in northern Peru. Production started in August 2011 and we have produced 46,200 ounces of gold and 260,100 ounces of silver in 2011.Tantahuatay is expected to have an

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average annual production of 90,000 ounces of gold and 425,000 ounces of silver for five years. We have a 44.2% participation in this project.

Tia Maria project: We have begun the preparation of a new EIA study that will address recent government guidance, as well as the concerns expressed by the neighboring communities. We are confident that this initiative will allow us to obtain approval for the development of the 120,000 ton annual production copper project. Considering current delays in the project approval process, we are rescheduling the project start-up date to 2015. Some of the equipment already purchased for Tia Maria is being assigned to our operations at Buenavista, Toquepala, and Cuajone.

KEY MATTERS

We discuss below several matters that we believe are important to understand our results of operations and financial condition. These include, (i) our operating cash costs as a measure of our performance, (ii) metal prices, (iii) business segments, (iv) the effect of inflation and other local currency issues and (v) our capital expansion and exploration programs.

Operating Cash Costs: An overall benchmark used by us and a common industry metric to measure performance is operating cash costs per pound of copper produced. Operating cash cost is a non-GAAP measure that does not have a standardized meaning and may not be comparable to similarly titled measures provided by other companies. A reconciliation of our operating cash cost per pound to the cost of sales (exclusive of depreciation, amortization and depletion) as presented in the consolidated statement of earnings is presented under the subheading, Non-GAAP Information Reconciliation, on page 97.

We have defined operating cash cost per pound as cost of sales (exclusive of depreciation, amortization and depletion), less the cost of purchased concentrates, plus selling, general and administrative charges, treatment and refining charges, net revenue (loss) on sale of metal purchased from third parties and by-product revenues, and sales premiums; less workers participation and other miscellaneous charges, including the Peruvian royalty charge, the special mining tax and the change in inventory levels; divided by total pounds of copper produced by our own mines. In our calculation of operating cash cost per pound of copper produced, we credit against our costs the revenues from the sale of by-products: molybdenum, zinc, silver, gold and other minor by- products and the premium over market price that we receive on copper sales. We account for the by-product revenues in this way because we consider our principal business to be the production and sale of copper. We believe that our Company is viewed by the investment community as a copper company, and is valued, in large part, by the investment community s view of the copper market and our ability to produce copper at a reasonable cost. We also include copper sales premiums as a credit, as these amounts are in excess of published copper prices. The increase in recent years in the price of molybdenum, as well as increases in the prices of silver and zinc, have had a significant effect on our traditional calculation of cash cost and its comparability between periods. Accordingly, we present cash costs with and without crediting the by-product revenues against our costs.

We exclude the cost of purchases of third party copper material. From time to time we purchase copper concentrates on the open market in order to maximize the use of our metallurgical facilities or to take advantage of an attractive market situation. We view these purchases on an incremental basis and measure the results incrementally. We find that the inclusion of these purchases with our own production often creates a distortion in our unit cost. Accordingly, we include only the net effect of these purchases as a by-product credit, so that only the net revenue or loss from the transaction is included in the calculation. We believe this will allow others to see a truer presentation of our cash cost, which we consider is one of the lowest of copper producing companies of similar size.

We exclude from our calculation of operating cash cost depreciation, amortization and depletion, which are considered non-cash expenses. Exploration is considered a discretionary expenditure and is also excluded. Workers participation provisions are determined on the basis of pre-tax earnings and are also excluded. Additionally excluded from operating cash costs are items of a non-recurring nature and the mining royalty charge and special mining tax.

Our operating cash costs per pound, as defined, are presented in the table below for the three years ended December 31, 2011.

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	Year			Positive (negative) Variance	
(Cents per pound)	**2011**	**2010**	**2009**	**2011-2010**	**2010-2009**
Operating cash cost per pound of copper produced without by-products revenue	165.7	152.0	141.1	(13.7)	(10.9)
Add: by-product revenues	(124.2)	(134.0)	(100.0)	(9.8)	34.0
Operating cash cost per pound of copper produced	41.5	18.0	41.1	(23.5)	23.1

2011 compared with 2010:

As seen on the chart above, our per pound cash cost, excluding by-product revenues, was higher by 13.7 cents per pound in 2011, compared with 2010 principally due to higher production cost, mainly power and fuel cost due to increased market prices, labor due to salary increases and repair costs, partially offset by the higher production from the Buenavista mine.

Our cash cost per pound for 2011 when calculated with by-product revenues is 41.5 cents per pound, compared with 18.0 cents per pound in 2010. The increase was due to some cost inflation, mainly fuel and power and lower by-product credit largely due to lower molybdenum sales volume and price.

2010 compared with 2009:

As seen on the chart above, our per pound cash cost, excluding by-product revenues, was higher by 10.9 cents per pound in 2010, compared with 2009 principally due to an increase in production cost, mainly power and fuel cost due to increased market prices, labor cost due to salary increases, local currency appreciation and repair costs.

Our cash cost per pound for 2010 when calculated with by-product revenues was 18.0 cents per pound, compared with 41.1 cents per pound in 2009. The increase in the by-product credit in the 2010 period was largely due to higher sales prices for molybdenum, silver and zinc and a record molybdenum production in 2010. The increase in the credit for molybdenum was 26.6 cents per pound in 2010, of which 19.0 cents was due to higher prices.

Metal Prices: The profitability of our operations is dependent on, and our financial performance is influenced by, the international market prices for the products we produce, especially for copper, molybdenum, zinc and silver. Metal prices historically have been subject to wide fluctuations and are affected by numerous factors beyond our control. These factors, which affect each commodity to varying degrees, include international economic and political conditions, levels of supply and demand, the availability and cost of substitutes, inventory levels maintained by producers and others and, to a lesser degree, inventory carrying costs and currency exchange rates. In addition, the market prices of certain metals have on occasion been subject to rapid short-term changes due to financial investments.

We are subject to market risks arising from the volatility of copper and other metals prices. Assuming that expected metal production and sales are achieved, that tax rates are unchanged and giving no effects to potential hedging programs, metal price sensitivity factors would indicate the following change in estimated 2012 net income attributable to SCC resulting from metal price changes:

	Copper	Molybdenum	Zinc	Silver
Change in metal prices (per pound except silver per ounce)	$ 0.01	$ 1.00	$ 0.01	$ 1.00
Change in net earnings (in millions)	$ 7.7	$ 22.4	$ 1.1	$ 8.2

Business Segments: We view our Company as having three operating segments and manage it on the basis of these segments. These segments are (1) our Peruvian operations, (2) our Mexican open-pit operations and (3) our Mexican underground operations, known as our IMMSA unit. Our Peruvian operations include the Toquepala and Cuajone mine complexes and the smelting and refining plants, industrial railroad and port facilities which service both mines. The Peruvian operations produce copper, with significant by-product production of molybdenum, silver and other material. Our Mexican open-pit operations include La Caridad and the Buenavista mine complexes and the smelting and refining plants and support facilities, which service both mines. The Mexican open-pit operations produce copper, with significant by-product production of molybdenum, silver and other material. Our IMMSA unit includes five underground mines that produce zinc, lead, copper, silver and gold, a coal mine which produces coal and coke, and several industrial processing facilities for zinc, copper and silver.

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Segment information is included in our review of Results of Operations and also in Note 20 Segment and related information of our consolidated financial statements.

Inflation and Exchange Rate Effect of the Peruvian Nuevo Sol and the Mexican Peso: Our functional currency is the U.S. dollar. Portions of our operating costs are denominated in Peruvian nuevos soles and Mexican pesos. Since our revenues are primarily denominated in U.S. dollars, when inflation/deflation in Peru or Mexico is not offset by a change in the exchange rate of the nuevo sol or the peso, respectively, to the dollar, our financial position, results of operations and cash flows could be adversely affected to the extent that the inflation/exchange rate effects are passed onto us by our suppliers or reflected in our wage adjustments. In addition, the dollar value of our net monetary assets denominated in nuevos soles or pesos can be affected by exchange rate variances of the nuevo sol or the peso, resulting in a re-measurement gain or loss in our financial statements. Recent inflation and exchange rate variances are provided in the table below:

	Years Ended December 31,		
	2011	2010	2009
Peru			
Peruvian inflation rate	4.8%	2.1%	0.2%
Nuevo sol/dollar devaluation/(appreciation) rate	(4.0)%	(2.8)%	(8.0)%
Mexico			
Mexican inflation rate	3.8%	4.4%	3.6%
Peso/dollar devaluation/(appreciation) rate	13.1%	(5.4)%	(3.5)%

Capital Investment Program

We made capital expenditures of $612.9 million, $408.7 million and $414.8 million in 2011, 2010 and 2009, respectively. In general, the capital expenditures and investment projects described below are intended to increase production and/or decrease costs.

The table below sets forth our capital expenditures for the three years ended December 31, 2011 (in millions):

	2011	2010	2009
Peruvian projects:			
Tia Maria Arequipa	$ 1.6	$ 152.5	$ 162.0
Toquepala concentrator expansion	76.0	32.8	52.6
Cuajone concentrator expansion	38.9	18.8	4.3
Tailings disposal Quebrada Honda dam	0.7	3.3	5.6
Ilo smelter modernization (including marine trestle)		1.6	10.2
Ilo power transmission substation	9.8		
Sub-total projects	127.0	209.0	234.7
Maintenance and replacement	78.7	55.2	49.7
Total Peruvian expenditures	205.7	264.2	284.4
Mexican projects:			
Buenavista mine rehabilitation and benefit plant	96.7	35.0	
Buenavista mine expansion	97.4		

New Buenavista concentrator	7.7		
El Arco feasibility study, land and water rights	9.4	14.1	10.4
La Caridad tailings dam Internal dikes		4.3	2.2
Santa Eulalia pumping system	9.6	3.2	0.6
La Caridad concentrator plant expansión	1.5	0.3	0.2
Pilares mine (including land acquisition)		0.2	0.7
Buenavista SXEW plant III	6.5		
Buenavista crusher and conveyors system for leach material, phase III	13.6		
San Luis Potosi effluent plant			4.9
Sub-total projects	242.4	57.1	19.0
Maintenance and replacement	164..8	87.4	111.4
Total Mexican expenditures	407.2	144.5	130.4
Total capital expenditures	**$ 612.9**	**$ 408.7**	**$ 414.8**

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We are committed to continuing the growth of our Company. In 2012, we will continue with our capital investment program. We have budgeted $1.5 billion in spending for the year. Spending in Peru is estimated to be $0.5 billion and in Mexico $1.0 billion including approximately $0.7 billion for our Buenavista investment program. This investment is part of our five year capital investment program to increase production of copper and molybdenum. Capital spending plans will continue to be reviewed and adjusted in response to changes in the economy or market conditions.

We expect to meet the cash requirements for these projects from cash on hand, internally generated funds and from additional external financing if required.

Peruvian operations:

Toquepala concentrator expansion: Through December 31, 2011, we have spent $199 million on the Toquepala expansion, mainly on mine equipment which is being used for the initial stripping of the project. The scope of the project has been defined as an increase in milling capacity to 120,000 tons per day which should increase annual production by 100,000 tons of copper and 3,100 tons of molybdenum. The EIA for the project was presented to MINEM in July 2011. As part of the approval process for the EIA a public hearing was held at Toquepala in September 2011, but as a result of off-site protests the Peruvian government declared the hearing invalid. We are awaiting direction from the Peruvian government to move forward with the process of approval of the EIA. Assuming we receive approval of the EIA on a timely basis, project completion is scheduled for the first quarter of 2014.

Cuajone concentrator expansion: Through December 31, 2011, we have spent $80.2 million on the Cuajone expansion project. As a first stage of the expansion plans, the project includes a variable cut-off grade methodology which will allow us to increase copper and molybdenum production. When finished, the project will increase copper production by 22,000 tons per year. Project completion of this stage is scheduled for the third quarter of 2012.

Tailings disposal at Quebrada Honda: This project increases the height of the existing Quebrada Honda dam to impound future tailings from the Toquepala and Cuajone mills and will extend the expected life of this tailings facility by 25 years. The first stage of the tailings disposal project was completed. Construction of the drainage system for the lateral dam, started in June 2010, was finished. The project has a total budgeted cost of $66.0 million with $47.7 million expended through December 31, 2011.

Tantahuatay: The Tantahuatay mine is located in Cajamarca, in northern Peru. Production started in August 2011 and the mine produced 46,200 ounces of gold and 260,100 ounces of silver in 2011. Tantahuatay is expected to have an average annual production of 90,000 ounces of gold and 425,000 ounces of silver for five years. We have a 44.2% participation in this project.

Tia Maria project: We have initiated a bidding process to prepare a new EIA study for the project. We are confident that this initiative will convey a positive effect to our stakeholders and will allow us to obtain approval for the development of the 120,000 ton annual production copper project. As a consequence, we are rescheduling the project start up to the beginning of 2015. Additionally, some of the equipment already purchased is being assigned to our operations at Buenavista, Toquepala, and Cuajone.

Mexican operations:

SXEW III plant at the Buenavista mine: After obtaining the necessary environmental permits, the construction of the plant has started. Some of the equipment originally purchased for the Tia Maria project will be used for this SXEW plant. This will allow us to increase the annual SXEW plant capacity from 88,000 tons to 120,000 tons. The new plant should begin operating in the second half of 2013. The project has a total budget cost of $444 million, with $8.6 million spent through December 31, 2011.

Crushing, conveying and spreading system at Buenavista: Associated with the SXEW III project, we are also building a Quebalix facility at Buenavista. This investment consists in a crushing, conveying and spreading system that improves the SXEW copper production by increasing recovery and reducing the required time to extract copper from mineral. Overall

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progress is 88% and this facility is expected to begin operating in the second quarter of 2012. The project has a total budgeted cost of $70 million, with $48.7 million expended through December 31, 2011.

Molybdenum plant at Buenavista: Buenavista s new 2,000 ton per year molybdenum circuit is in the equipment purchasing stage, under an engineering, procurement, construction and management contract. Environmental permits will be obtained shortly and we expect to begin construction in the first quarter of 2012, with production beginning in the second quarter of 2013. The project has a total budget cost of $38.2 million with $1.2 million expended through December 31, 2011.

New Buenavista concentrator: The new Buenavista concentrator, with a milling capacity of 100,000 tons per day, is in process. Basic and detailed engineering are moving forward as scheduled. Environmental permits have been obtained. We are evaluating several supplier proposals for the main equipment. Purchase orders for crushers, primary and secondary ball mills and motors have been placed. The new concentrator will have an estimated annual production of 188,000 tons of copper and 2,600 tons of molybdenum. It is expected to begin operation by 2015. Total budget cost of this project is $1.4 billion.

Required infrastructure for these projects, including power, water, roads, shops, laboratories, townsites, etc., is included in the master plan. A preliminary study has been delivered and we are working to have these projects aligned.

Pilares project: On October 27, 2011, the Board of Directors approved the development of the second stage of the Pilares mine, with a budget of $136.3 million. In 2008, we acquired 100% ownership of Pilares, with the intention of operating it as an open pit facility. Current mineralized resources are estimated at 43.4 million tons with 0.789% of copper sulfide content and 0.077% copper oxide. We expect to increase copper production by 40,000 tons per year by sending mineral from the Pilares site to our La Caridad concentrator. Pilares should begin operations by the third quarter of 2013.

Angangueo: Also, in October 2011, the Board of Directors approved an expenditure of $131 million for the development of the Angangueo mine. This site in Michoacan, Mexico, is a polymetallic deposit with an annual production potential of 36,000 tons of copper, 4.5 million ounces of silver and 41,000 tons of zinc. In 2012, we expect to start the underground development and the construction of a 2,000 tons per day concentrator will begin. The project is scheduled to begin production in the second half of 2014.

Potential projects:

El Arco: El Arco is a world class copper deposit in the central part of the Baja California peninsula, with estimated mineralized material of over 1.0 billion tons with an ore grade of 0.51% and 14 grams of gold per ton. This project is expected to produce 190,000 tons of copper and 105,000 ounces of gold annually. We continue to invest in land acquisition required for the project. In 2010, the project feasibility study was completed at a cost of $15.0 million.

We have a number of projects that we may develop in the future. We evaluate new projects on the basis of our long-term corporate objectives, expected return on investment, environmental concerns, required investment and estimated production, among other considerations. All capital

spending plans will continue to be reviewed and adjusted to respond to changes in the economy or market conditions.

The above information is based on estimates only. We cannot make any assurance that we will undertake any of these projects or that the information noted is accurate.

Exploration:

In 2011, we begin exploration activities in Ecuador and Argentina. Besides these new efforts, we continue with our exploration activities in Mexico, Peru and Chile.

Ecuador

In 2011, we started exploration activities in Ecuador. For 2012, we expect to begin exploration work on the project Chaucha, located south of Guayaquil. The mineralization is characteristic of a copper-molybdenum porphyry system. In 2012, we plan to execute a program of 10,000 meters of diamond drilling to evaluate the deposit.

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Argentina

In the last quarter of 2011, we started exploration activities in Argentina. We plan to carry out exploration in the south of Argentina, where mineralization for porphyry copper, epithermal gold and silver and polymetallic skarn is expected.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our significant accounting policies are discussed in Note 3 Summary of Significant Accounting Policies , of the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data of this Annual Report.

Our discussion and analysis of financial condition and results of operations, as well as quantitative and qualitative disclosures about market risks, are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. Preparation of these consolidated financial statements requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We make our best estimate of the ultimate outcome for these items based on historical trends and other information available when the financial statements are prepared. Changes in estimates are recognized in accordance with the accounting rules for the estimate, which is typically in the period when new information becomes available to management. Areas where the nature of the estimate makes it reasonably possible that actual results could materially differ from amounts estimated include: ore reserves, revenue recognition, estimated mine stripping ratios, leachable material and related amortization, the estimated useful lives of fixed assets, asset retirement obligations, litigation and contingencies, valuation allowances for deferred tax assets, tax positions, fair value of financial instruments, and inventory obsolescence. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

Ore Reserves: For internal ore reserve estimation, we use metal price assumptions of $2.00 per pound for copper and $12.00 per pound for molybdenum. These prices are intended to conservatively approximate average prices over the long term.

However, pursuant to SEC guidance, the reserve information in this report is calculated using average metals prices over the most recent three years, except as otherwise stated. We refer to these three-year average metals prices as current average prices. Our current average prices for copper are calculated using prices quoted by COMEX, and our current average prices for molybdenum are calculated using prices published in *Platt s Metals Week*. Unless otherwise stated, reserves estimates in this report use $3.26 per pound for copper and $13.95 per pound for molybdenum, both current average prices as of December 31, 2011. The prices for copper and molybdenum were $2.97 and $18.59, respectively, as of December 31, 2010 and $2.90 and $23.44, respectively, as of December 31, 2009.

Certain financial information is based on reserve estimates calculated on the basis of current average prices. These include amortization of intangible assets and mine development. Variations in ore reserve calculations from changes in metal price assumptions generally do not create material changes to our financial results. However, significant decreases in metal prices could adversely affect our earnings by causing, among other things, asset impairment charges, please see Assets impairment below. A 20% increase or decrease in three-year average copper prices, which is a reasonable possibility, would not affect our statement of earnings.

Long-term inventory - Leachable Material:

In prior years we capitalized the production cost of leachable material with low copper content at the Buenavista mine in Mexico. In 2011, we extended this practice of recognizing inventories for costs associated with leaching activities at the La Caridad mine in Mexico and at the Toquepala mine in Peru in order to conform to evolving mine production plans at these mines. As a result of changing market conditions and mining processes, mineral extraction through leaching has become integral to the mining operations carried out at La Caridad, Toquepala and Cuajone. Accordingly, the process and sale of mineral content in leaching dumps is reasonably assured and the costs associated with leaching activities at such mines are now recognized as inventories. As the production cycle of the leaching process is significantly longer than the conventional process of concentrating, smelting and electrolytic refining, we

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include on our balance sheet, current leach inventory (included in work-in-process inventories) and long-term leach inventory. The cost attributed to the leach material is charged to cost of sales generally over a five-year period (the average estimated recovery period based on the recovery percentages of each mine). However, change in the five year-cycle generally would not have a material impact on our financial results as our production is largely from non-leach material.

Asset Retirement Obligation: Our mining and exploration activities are subject to various laws and regulations governing the protection of the environment. Accounting for reclamation and remediation obligations requires management to make estimates unique to each mining operation of the future costs we will incur to complete the reclamation and remediation work required to comply with existing laws and regulations. These estimates are based in part on our inflation and credit rate assumptions. Actual costs incurred in future periods could differ from amounts estimated. Additionally, future changes to environmental laws and regulations could increase the extent of reclamation and remediation work required to be performed by us. Any such increases in future costs could materially impact the amounts charged to operations for reclamation and remediation.

Asset retirement obligations are further discussed in Note 10 Asset Retirement Obligation to our consolidated financial statements included herein.

Revenue Recognition: For certain of our sales of copper and molybdenum products, customer contracts allow for pricing based on a month subsequent to shipping, in most cases within the following three months and in few cases perhaps a few further months. In such cases, revenue is recorded at a provisional price at the time of shipment. The provisionally priced copper sales are adjusted to reflect forward LME or COMEX copper prices at the end of each month until a final adjustment is made to the price of the shipments upon settlement with customers pursuant to the terms of the contract. In the case of molybdenum sales, for which there are no published forward prices, the provisionally priced sales are adjusted to reflect the market prices at the end of each month until a final adjustment is made to the price of the shipments upon settlement with customers pursuant to the terms of the contract. (See details in Provisionally Priced Sales under this Item 7).

Derivative Instruments: We utilize certain types of derivative financial instruments to enhance our ability to manage risks that exist as part of our ongoing business operations and to enhance our return on Company assets. Derivative contracts are reflected as assets or liabilities in the balance sheet at their fair value. The estimated fair value of the derivatives is based on market and/or dealer quotations and in certain cases valuation modeling. From time to time we have entered into copper and zinc swap contracts to protect a fixed copper and zinc price for portions of our metal sales, hedging contracts to fix fuel prices for a portion of our production costs, interest rate swap agreements to hedge the interest rate risk exposure on certain of our bank obligations with variable interest rates and currency swap arrangements to ensure Mexican peso/ U.S. dollar conversion rates. Realized and unrealized gains and losses related to economic hedges that do not qualify for hedge accounting are recognized in the consolidated statement of earnings as follows: copper and zinc derivatives are included in net sales, gain and losses related to fuel costs are included in cost of sales and all other are included in Gain (loss) on derivative instruments. Changes in the fair value of copper derivatives that are designated as a cash flow hedges are deferred in accumulated other comprehensive income and are recognized in sales as the hedged copper sales occur.

Income Taxes: In preparing our consolidated financial statements, we recognize income taxes in each of the jurisdictions in which we operate. For each jurisdiction, we calculate the actual amount currently payable or receivable, as well as deferred tax assets and liabilities attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in rate is recognized through the income tax provision in the period that the change is enacted.

A valuation allowance is provided for those deferred tax assets for which it is more likely than not that the related benefits will not be realized. In determining the amount of the valuation allowance, we consider estimated future taxable income, as well as feasible tax planning strategies in each jurisdiction. If we determine that we will not realize all or a portion of our deferred tax assets, we will increase our valuation allowance with a charge to income tax expense. Conversely, if we determine that we will ultimately be able to realize all or a portion of the related benefits for which a valuation allowance has been provided, all or a portion of the related valuation allowance will be reduced with a credit to income tax expense.

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Our Company s operations involve dealing with uncertainties and judgments in the application of complex tax regulations in multiple jurisdictions. The final taxes paid are dependent upon many factors, including negotiations with taxing authorities in various jurisdictions and resolution of disputes arising from federal, state, and international tax audits. We recognize potential liabilities and record tax liabilities for anticipated tax audit issues in the U.S. and other tax jurisdictions based on our estimate of whether, and the extent to which, additional taxes will be due. We follow the guidance of ASC 740 Income Tax to record these liabilities. (See Note 8 Income taxes of the consolidated financial statements for additional information). We adjust these reserves in light of changing facts and circumstances; however, due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the tax liabilities. If our estimate of tax liabilities proves to be less than the ultimate assessment, an additional charge to expense would result. If payment of these amounts ultimately proves to be less than the recorded amounts, the reversal of the liabilities would result in tax benefits being recognized in the period when we determine the liabilities are no longer necessary. We recognize interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

Asset Impairments: We evaluate our long-term assets when events or changes in economic circumstances indicate that the carrying amount of such assets may not be recoverable. Our evaluations are based on business plans that are prepared using a time horizon that is reflective of our expectations of metal prices over our business cycle. We are currently using a long-term average copper price of $3.00 per pound of copper and an average molybdenum price of $14.74 per pound, along with near-term price forecast, for 2011, reflective of the current price environment, for our impairment tests. The results of our impairment sensitivity analysis, which included a stress test using a copper price assumption of $1.50 per pound and a molybdenum price assumption of $10.00 per pound showed projected undiscounted cash flows in excess of the carrying amounts of long-lived assets by margins ranging from 3.04 to 9.39 times such carrying amount.

In recent years our assumptions for long-term average prices resulted in stricter evaluations for impairment analysis than using the three year average prices for copper and molybdenum prices. Should this situation reverse in the future with three year average prices below t