WEISS GARY L
Form 4
July 05, 2012

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
WEISS GARY L

(Last) (First) (Middle)

ONE AMERICAN ROAD

(Street)

CLEVELAND, OH 44144

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
AMERICAN GREETINGS CORP [AM]

3. Date of Earliest Transaction (Month/Day/Year)
07/02/2012

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director __X__ 10% Owner
_____ Officer (give title below) __X__ Other (specify below)
Employee-Non-executive Officer

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Class A Common Shares	07/02/2012		S		7,582	D	$ 14.3486 (1)	8,877	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
WEISS GARY L ONE AMERICAN ROAD CLEVELAND, OH 44144		X		Employee-Non-executive Officer

Signatures

Stephen J. Smith, Power of Attorney for Gary Weiss	07/05/2012
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The price reported in Column 4 is a weighted average price for shares sold on July 2, 2012, with prices ranging from $14.31 to 14.41, inclusive. The reporting person undertakes to provide to American Greetings Corporation, any security holder thereof, or the staff of the Securities and Exchange Commission, upon request, full information regarding the number of shares sold at each separate price within the ranges set forth in this footnote.

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43.9

110.3

Anode

29.9

Concentrates

56.0

14.2

SX/EW

210.9

267.4

Rod

210.5

330.8

Total

1,386.2

1,540.0

Mine copper production was 1,335.2 million pounds in 2006, a decrease of 12.2% from 2005. This decrease of 185.8 million pounds included a decrease of 190.5 million pounds from the Mexican open pit operations, 4.9 million pounds in the Mexican underground mines and an increase of 9.6 million pounds from the Peruvian mines. The decrease of 190.5 million pounds in the Mexican open pit mines was principally the result of the 125 day strike at La Caridad mine and 47 days of strike at the Cananea mine. The decrease of 4.9 million pounds in the Mexican underground mines was due to lower ore grades. The increase of 9.6 million pounds in production from the Peruvian mines was principally due to higher ore grade and recovery in the Cuajone mine.

Molybdenum production decreased 19.9% from 32.6 million pounds in 2005 to 26.1 million pounds in 2006. This decrease in production includes 3.7 million pounds from La

Caridad due to the strike activity and 2.8 million pounds from our Peruvian operations mainly due to lower ore grade and recovery at the Cuajone mine.

Mine zinc production amounted to 301.1 million pounds in 2006, a decrease of 15.5 million pounds or 4.9% from 2005. This decrease was the result of lower production at three of IMMSA s zinc mines. Lower ore grades at Charcas and Santa Barbara and reduced throughput at San Martin were the prime reasons for the lower production. Production increases at two of the other IMMSA mines, Taxco and Santa Eulalia, somewhat reduced the production losses. The decrease in throughput at San Martin was caused by a 77-day strike in the first half of 2006. The increases in throughput at Taxco and Santa Eulalia were caused by increased operating days at Taxco, 15 days were lost due to strike in 2005, and the increase at Santa Eulalia was caused as production ramped up after a prolonged shutdown. Santa Eulalia restarted operations at the end of 2004 after a three-year shutdown.

A fire at the San Luis Potosi zinc refinery in the first quarter of 2006, reduced refined zinc production in 2006; we were, however, able to sell zinc concentrates on favorable terms until the refinery was fully operational, which occurred by the end of the third quarter of 2006.

Copper made up 76.0% of net sales in 2006 compared with 66.4% in 2005. Sales of by-products in 2006 totaled $1,313.1 million compared with $1,373.6 million in 2005, a decrease of 4.4%. The decrease is principally attributable to the decrease in the volume and sales prices for molybdenum. The decrease in molybdenum was to a great extent reduced by the improved prices for zinc and silver, which increased by 136.5% and 57.7%, respectively. The table below provides the sales of our by-products as a percentage of our total net sales.

	Year Ended December 31,	
By-product Sales as a Percentage of Total Net Sales	**2006**	**2005**
Molybdenum	10.5%	22.7%
Zinc	7.1%	4.9
Silver	4.1%	3.6
Other by-products	2.3%	2.4
Total	24.0%	33.6%

Cost of sales (exclusive of depreciation, amortization and depletion)

Our cost of sales (exclusive of depreciation, amortization and depletion) in 2006 was $2,019.8 million, compared with $1,635.4 million in 2005, an increase of $384.4 million, or 23.5%. The principal element of the cost of sales increase is the higher value of copper purchased in 2006 which increased our cost of sales by $280.6 million over 2005. Cost of sales in 2006 also had an increase of $23.9 million in Peruvian mining royalties and an increase of $52.4 million in workers participation. In addition, cost of sales also increased in 2006 due to the requirement of EITF 04-6 which prohibits the capitalization of mine stripping costs at our operating mines. As such, this cost is now included in cost of sales. The practice of capitalizing mine stripping cost in 2005 reduced cost of sales by approximately $35.0 million.

Selling, general and administrative

Our selling, general and administrative expense in 2006 was $88.3 million, compared with $81.1 million in 2005, an increase of $7.2 million, $5.2 million of which was in our Mexican operations. The Mexican increase is principally due to higher labor costs of $4.4 million and higher professional fees of $1.7 million.

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Depreciation, amortization and depletion

Our depreciation, amortization and depletion expense in 2006 was $275.1 million, compared with $277.2 million in 2005, a decrease of $2.1 million. The decrease was due to the change in accounting for mine stripping cost. Depreciation, amortization and depletion in 2005, included amortization of $67.6 million of capitalized mine stripping. A 2006 increase in depreciation related to replacement capital expenditures reduced the impact of the accounting change.

Exploration

Exploration expense in 2006 was $22.7 million, compared with $24.4 million in 2005, a decrease of $1.7 million. The decrease was principally as a result of $2.3 million of lower drilling activities in our Mexican operations, mainly at La Caridad due to strikes, $1.2 million of higher investment at Coimolache and Tantahuatay projects net of a decrease of $0.7 million in drilling cost at the Tia Maria project in Peru.

Interest expense

Interest expense in 2006 was $113.4 million compared with $108.9 million in 2005, an increase of $4.5 million. Our currently paid interest expense increased in 2006 principally as a result of an increase in our debt outstanding. However, included in 2005 there was $15.0 million for the write-off of previously capitalized debt issuance cost for financings prepaid in such years. With respect to our financing programs reference is made to Liquidity and Capital Resources for a further discussion of this matter.

Capitalized interest

Capitalized interest in 2006 was $27.9 million, compared with $22.4 million in 2005, an increase of $5.4 million. This increase is largely due to the Ilo smelter modernization project, on which we capitalized $5.0 million more than in 2005.

Interest income

Interest income in 2006 was $50.2 million, compared with $30.8 million in 2005, an increase of $19.4 million. Our interest income increased principally as a result of higher interest rates on short term securities and significantly higher invested balances.

Loss on debt prepayments

Loss on debt prepayments in 2006 was $1.1 million, compared with $10.6 million in 2005, a decrease of $9.5 million. In 2006 and 2005 we paid a premium of $1.1 million and $8.6 million, respectively to repurchase outstanding Yankee bonds. In addition in 2005 we paid a penalty of $2.0 million for the prepayment of $199 million of Peruvian bonds.

(Loss)Gain on derivative instruments

Loss on derivatives instruments in 2006 was $11.6 million, compared with a gain of $1.2 million in 2005. Gain or losses on copper and other metal derivatives are included in the net sales line and gain or losses on gas derivatives are included in the cost of sales line of the consolidated combined statement of earnings. The loss of $11.6 million in 2006 is a fair value adjustment made on short-term investments made by the Company in 2006.

Other income (expense)

Other expense in 2006 was $0.3 million, compared with $3.6 million in 2005, a decrease of $3.3 million. The major component of other expenses in 2006 is a provision of $16.1 million for our contribution to the Peruvian regional development fund; this program, requested by the president of Peru, will be used for nutritional, health, education and other social benefits in our areas of activities. This amount is reduced by gains from insurance recoveries of $11.2 million principally from a partial payment for a fire at our zinc refinery in Mexico, at the beginning of 2006, $3.2 million due to a Mexican tax benefit on gas imports, $2.4 million for a prior year tax adjustment and other miscellaneous income in our Mexican operations of $3.3 million.

Income taxes

Income taxes in 2006 were $959.1 million, compared with $589.7 million in 2005, an increase of $369.4 million and include $940.3 million and $576.3 million of Peruvian and Mexican income taxes, $18.8 million and $13.4 million for US Federal and state taxes for 2006 and 2005, respectively. US income taxes are primarily attributable to investment income as well as limitations on use of the alternative minimum tax.

The increase of $369.4 million or 62.6% was primarily due to $1,003.7 million of higher pretax income. The effective tax rate for 2006 was 31.9%, compared with 29.4% in 2005. Included in the 2005 tax provision is a refund of $43.4 million received by Minera Mexico for asset-based taxes (minimum income tax) paid in prior years. Without the benefit of this credit the Company s effective tax rate for the 2005 year would have been to 31.6%.

Minority interest

Minority interest in 2006 was $9.3 million compared with $12.5 million in 2005, a decrease of $3.2 million or 25.6%. This decrease is the result of the acquisition in the fourth quarter of 2005 of a minority holding of shares in our Minera Mexico subsidiary.

Net earnings

Our net earnings in 2006 were $2,037.6 million, compared with $1,400.1 million in 2005, an increase of $637.5 million or 45.5%. Net earnings increased as a result of the factors described above.

Segment Operating Income Information 2006 vs.2005:

Peruvian Open-pit Operations

	2006	2005	Change Value	%
Net sales	$ 3,215.4	$ 2,167.7	$ 1,047.7	48.3%
Operating costs and expenses	(1,383.4)	(879.4)	(504.0)	57.3%
Operating income	$ 1,832.0	$ 1,288.3	$ 543.7	42.2%

Net sales at our Peruvian operations in 2006 were $3,215.4 million, compared with $2,167.7 million in 2005, an increase of $1,047.7 million. This increase was principally due to significant increases in the price of copper and silver. Copper sales volume increased by 35.5 million pounds in 2006 in part as a result of the purchase and resale of copper acquired from our Mexican operations. Net sales in 2006 and 2005 include losses on copper derivatives of $162.3 million and $12.2 million, respectively.

Operating costs and expenses at our Peruvian operations in 2006 were $1,383.4 million, compared with $879.4 in 2005, an increase of $504.0 million principally due to higher cost of sales. The increase in cost of sales (exclusive of depreciation, amortization and depletion) of $491.4 million was principally the result of the higher cost of metals purchased from our Mexican operations of $397.5 million. In addition, cost of sales increased in 2006 due to the adoption of the new accounting rule for mine stripping costs. This practice reduced cost of sales by approximately $35.0 million in 2005. In 2006 such costs are charged to the cost of production.

Our cost for workers participation increased $53.4 million in 2006. This cost is calculated based on 8% of our Peruvian operations pre-tax earnings and increased as our profits increase. A Peruvian royalty provision which was instituted in June 2004 added $26.9 million to our cost in 2006.

Operating income in 2006 was $1,832.0 million, compared with $1,288.3 million in 2005, an increase of $543.7 million. The operating income increased as a result of the factors described above.

Mexican Open-pit Operations.

	2006	2005	Change Value	%
Net sales	$ 1,987.1	$ 1,758.3	$ 228.8	13.0%
Operating costs and expenses	(1,067.3)	(1,054.2)	(13.1)	1.2%
Operating income	$ 919.8	$ 704.1	$ 215.7	30.6%

Net sales from our Mexican open-pit operations in 2006 were $1,987.1 million, compared with $1,758.3 million in 2005, an increase of $228.8 million or 13.0%. The increase in net sales was principally a result of significant increases in the price of copper and silver partially reduced by a decrease in sales volume as a consequence of the strike activity at La Caridad and Cananea mines. Net sales in 2006 and 2005 include losses on copper derivatives of $113.9 million and $11.3 million, respectively.

Operating cost and expenses at our Mexican open-pit operations in 2006 was $1,067.3 million compared with $1,054.2 million in 2005, an increase of $13.1 million or 1.2%. This increase was principally the result of higher cost of sales net of lower depreciation, amortization and depletion. The increase in cost of sales (exclusive of depreciation, amortization and depletion) of $31.2 million was principally the result of higher purchased metal from third parties with a cost of $73.8 million partially offset by a decrease of $31.8 million in workers participation and lower sales expenses of $15.3 million. Our cost for workers participation includes an adjustment of $36.3 million in 2005. This cost is calculated based on 10% of pretax earnings and increases as our profits increase. The decrease in depreciation, amortization and depletion of $16.5 million in 2006 was principally due to the amortization of capitalized mine stripping in 2005.

Operating income in 2006 was $919.8 million, compared with $704.1 million in 2005, an increase of $215.7 million or 30.6%. The operating income increased as a result of the factors described above.

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Explanation of Responses:

IMMSA Unit.

	2006	2005	Change Value	%
Net sales	$ 702.5	$ 448.7	$ 253.8	56.6%
Operating costs and expenses	(405.2)	(381.9)	(23.3)	6.1%
Operating income	$ 297.3	$ 66.8	$ 230.5	345.1%

Net sales at our IMMSA unit in 2006 were $702.5 million, compared with $448.7 million in 2005, an increase of $253.8 million or 56.6%. The increase was due to higher sales prices in 2006 for copper, zinc and silver. In addition, an increase in sales volume of copper added to the 2006 sales increase which was reduced by lower zinc and silver sales volumes. Net sales in 2006 include a loss on zinc derivatives of $0.2 million.

Operating costs and expenses at our IMMSA unit were $405.2 million in 2006, compared with $381.9 million in 2005, an increase of $23.3 million or 6.1%. This increase was principally the result of increased cost of sales, administrative expenses and depreciation, amortization and depletion. In 2006, cost of sales (exclusive of depreciation, amortization and depletion) increased $15.1 million, principally as a result of higher purchased metals from third parties and higher workers participation.

Operating income in 2006 was $297.3 million, compared with $66.8 million in 2005, an increase of $230.5 million or 345.1%. The operating income increased as a result of the factors described above.

Intersegment Eliminations and Adjustments

The net sales, operating costs and expenses and operating income discussed above will not be directly equal to amounts in our consolidated combined statement of earnings because the adjustments of intersegment operating revenues and expenses must be taken into account. Please see Note 20 to the financial statements.

Liquidity and Capital Resources

The following discussion relates to our liquidity and capital resources for each of the years in the three year period ended December 31, 2007.

Liquidity

(in millions)	Year Ended December 31, 2007	2006	2005
Net cash provided from operating activities	$ 2,703.5	$ 2,059.4	$ 1,663.5

Net cash used for investing activities	(246.0)	(725.3)	(435.9)
Net cash used for financing activities	(2,088.3)	(1,164.4)	(1,064.4)

Cash Flows from Operating Activities

Net cash provided from operating activities was $2,703.5 million, $2,059.4 million and $1,663.5 million in 2007, 2006 and 2005, respectively. The increases in 2007 and 2006 were primarily the result of higher net earnings in both years, which were the result of improved sales prices for most of our metal products and the change in the balances of operating assets and liabilities. Also in 2007, an increase in molybdenum sales volume contributed to the increase in cash flow.

In 2007, our earnings were $2,216.4 million, approximately 82.0% of the net operating cash flow. Significant items deducted from, or added to arrive to operating cash flow included, depreciation amortization and depletion of $327.9 million, $81.0 million of realized loss on short-term investments and $66.6 million of deferred income tax, which positively increased operating cash flow and $45.9 million of capitalized leachable material, which lowered our cash flow. Additionally, a decrease in working capital needs increased operating cash flow by $35.7 million.

In 2006, our earnings were $2,037.6 million, approximately 98.9% of the net operating cash flow. Significant items deducted from, or added to, our earnings to arrive to operating cash flow included, depreciation, amortization and depletion of $275.1 million, and $11.6 million of unrealized loss on short term investment, which positively increased operating cash flow and capitalized leachable material of $65.9 million, which lowered our cash flow. Additionally, an increase in working capital reduced operating cash flow by $178.5 million. The working capital increase was the result of an increase of $217.9 million of receivables as a result of higher copper prices, this increase was reduced by a buildup of $80.7 million of accounts payable and accrued liabilities, a key component of which was the increase of $104.3 million in the unpaid provision for workers participation, which was paid in the first quarter of 2007. Other increases in working capital amounted to $41.3 million.

In 2005, our earnings were $1,400.1 million, approximately 84.2% of the net operating cash flow. Significant items deducted from, or added to, our earnings to arrive to operating cash flow included, depreciation, amortization and depletion of $277.2 million, which positively increased operating cash flow, and capitalized mine stripping and leachable material of $38.9 million and $77.5 million, respectively, and a deferred tax benefit of $42.3 million, which reduced operating cash flow. Additionally, changes in working capital balances added $110.5 million to our net cash from operating activities.

Cash Flows from Investing Activities

Net cash used for investing activities was $246.0 million in 2007 compared to $725.3 million in 2006. In 2007, investing activities include $315.7 million of capital expenditures, $217.9 million for the purchase of short-term investments, less $287.4 million received on the redemption of short-term investments. The $315.7 million of capital expenditures, includes $21.0 million for the Ilo smelter modernization project, $13.8 million for the Toquepala leach dump project, $10.5 million for the PLS dam project and $270.4 million for equipment replacements and upgrades of which $188.6 million was for our Mexican operations.

Net cash used for investing activities was $725.3 million in 2006 compared to $435.9 million in 2005. We made capital expenditures of $455.8 million in 2006, including $160.9 million for the Ilo smelter modernization project, $15.6 million for the Toquepala leach dump project and $279.3 million principally for equipment replacements and upgrades, of which $202.5 million was for our Mexican operations. In addition, the Company made short-term investments of $280.0 million for 2006.

Net cash used for investing activities was $435.9 million in 2005. We made capital expenditures in an aggregate amount of $470.6 million in 2005, including $234.6 million for the Ilo smelter modernization project, $32.8 million for the Toquepala crushing, conveyor system for leachable material, $9.1 million for the Toquepala leach dump project and $194.1 million principally for equipment replacements and upgrades, of which $148.7 million was for our Mexican operations. Cash flow provided by investing activities in 2005 was from the net sale of short-term investments of $45.3 million.

Cash Flows from Financing Activities

For 2007, cash used for financing activities amounted $2,088.3 million, mainly for a dividend distribution of $2,002.3 million to our shareholders and $7.2 million to our remaining minority interest investors. In 2007, financing activities also include $68.6 million for the repurchase of our Yankee bonds series B and $10.0 million for the amortization of the Mitsui loan.

For 2006, cash used for financing activities amounted to $1,164.4 million, mainly for a dividend distribution of $1,509.1 million to our shareholders and $8.3 million to our remaining minority interest investors. In addition, net debt incurred in 2007 was $356.0 million.

For 2005, cash used for financing activities amounted to $1,064.4 million. New financings undertaken in 2005 resulted not only in improved terms for our debt but also reduced our debt burden by $158.2 million. In addition, we distributed $853.9 million to our shareholders in 2005 and $5.3 million to our remaining minority interest investors. In October 2005, we purchased an additional 6.4 million shares of Minera Mexico, representing 0.8133% of the outstanding shares, for $30.3 million.

Other Liquidity Considerations

On January 29, 2008, the Company announced an up to $300 million share repurchase program authorized by the Board of Directors. Under this program the Company may purchase shares from time to time, based on market conditions and other factors. The repurchase program has no expiration date and may be modified or discontinued at any time. Any shares acquired will be available for general corporate purposes.

On January 24, 2008, the Board of Directors approved a dividend of $1.40 per share, totaling $412.3 million, to be paid on February 29, 2008 to shareholders of record as of February 12, 2008. Our dividend policy continues to be reviewed at Board of Directors meetings, taking into consideration the current intensive capital investment program and expected future cash flow generated from operations.

The Company expects that it will meet its cash requirements for 2008 and beyond from cash on hand, internally generated funds and from additional external financing if required.

In December 2006, our Peruvian Branch signed a contract with the Peruvian government committing our Company to make annual contributions for five years to support the regional development of Peru. The contributions are being used for social benefit programs. In 2007, the Company made a contribution of $16.1 million out of 2006 earnings and has charged 2007 earnings $17.9 million for the 2008 contribution. The following three years contributions could increase or decrease depending on earnings and copper prices. If the copper price drops below $1.79 per pound the contribution will cease.

In June 2004, the Peruvian Congress enacted legislation imposing a royalty charge to be paid by mining companies. Under this law, we are subject to a 1% to 3% charge, based on sales, applicable to the value of the concentrates produced. We made a provision of $62.8 million, $67.2 million and $40.3 million in 2007, 2006 and 2005, respectively, for this charge. During 2007, 2006 and 2005 we made payments of $64.0

million, $67.1 million and $47.4 million, respectively, related to this charge.

Financing

The Company s total debt at December 31, 2007 was $1,466.4 million compared with $1,545.0 million at December 31, 2006 before the unamortized discount of notes issued under par of $16.7 million and $16.9 million at December 31, 2007 and 2006, respectively. The $78.6 million net decrease in total debt during 2007 was due to the repurchase of $68.6 million of Yankee bonds series B and $10.0 million payment on the Mitsui loan.

The Company s ratio of debt to total capitalization was 27.3% at December 31, 2007, compared with 29.3% at December 31, 2006.

The $400 million 7.5% notes due 2035 issued in 2006 are in addition to the $600 million of existing 7.5% notes due 2035 that were issued in July 2005. The 2006 financing was issued at a spread of +240 basis points over the 30-year U.S. Treasury bond. Comparatively, the financing in July 2005 was issued at a spread of +315 basis points over the 30-year U.S. Treasury bond. The notes are rated Baa2 by Moody s, BBB- by Standard & Poor s, and BBB- by Fitch. The 2006 financing was issued at a discount of $10.8 million. Additionally, the Company capitalized in Other assets, net, on the consolidated balance sheet, $3.2 million of costs associated with the 2006 issuance.

Capital Expenditure Programs

A discussion of our capital expenditure programs is an important part of understanding our liquidity and capital resources. The Company expects to meet the cash requirements for these capital expenditures from cash on hand, internally generated funds and from additional external financing if required. For information regarding our capital expenditure programs, please see the discussion under the caption Capital Expansion Program of this section.

Contractual Obligations

The following table summarizes our significant contractual obligations as of December 31, 2007:

	Payments due by Period						
	Total	**2008**	**2009**	**2010**	**2011**	**2012**	**2013 and Thereafter**
				(dollars in millions)			
Long-term debt	$ 1,466.4	$ 160.0	$ 10.0	$ 10.0	$ 10.0	$ 10.0	$ 1,266.4
Interest on debt	2,286.2	99.6	95.8	95.3	94.6	94.1	1,806.8
FIN No. 48 (a)	154.7						
Purchase obligations:							
Commitment to purchase energy	1,491.0	157.0	157.0	157.0	157.0	157.0	706.0
Contribution to the Peruvian regional development	17.9	17.9					
Total	$ 5,416.2	$ 434.5	$ 262.8	$ 262.3	$ 261.6	$ 261.1	$ 3,779.2

(a) The above table does not include any future payment related to FIN No.48 liabilities because there is often a high degree of uncertainty regarding the timing of future cash outflows. As of December 31, 2007 the liability recognized by the Company was $154.7 million and is included as non-current liability in the consolidated balance sheet.

Interest on debt is calculated at rates in effect at December 31, 2007. Please refer to Note 11 Financing of our Consolidated Financial Statements for a description of our long-term debt arrangements and credit facilities.

We have a commitment to purchase power for our Peruvian operations from Energia del Sur, S.A. until 2017. Amounts indicated on the above table are based on power costs in 2007, which are subject to change as energy generation costs change and our forecasted power requirements through the life of the agreements change.

Pursuant to our agreement with the Peruvian Government signed on December 28, 2006 we have committed to make annual contributions for five years for the regional development of Peru based on Peruvian Branch earnings after income tax. The following three-year contributions could increase or decrease depending on copper prices. The commitment of the Branch is for a total of 1.25% of its annual earnings, after Peruvian income tax. If the copper price drops below $1.79 per pound the contribution will cease.

For an additional discussion on this matter please see Regional development contribution on Note 14 Commitments and Contingencies of the Consolidated Combined Financial Statements.

Non-GAAP Information Reconciliation-

Following is a reconciliation of Operating Cash Cost (see page 79) to GAAP cost of sales in millions of dollars and cents per pound in the table below:

	2007		2006		2005	
	$ million	**$ per unit**	**$ million**	**$ per unit**	**$ million**	**$ per unit**
Cost of sales (including depreciation, amortization and depletion) GAAP	$ 2,450.1	$ 1.898	$ 2,294.9	$ 1.668	$ 1,912.6	$ 1.266
Add:						
Selling, general and administrative expenses	98.0	0.076	88.3	0.064	81.1	0.054
Treatment and refining charges	57.9	0.045	61.0	0.044	34.3	0.023
Less:						
By-product revenue (1)	(2,023.7)	(1.568)	(1,547.1)	(1.124)	(1,478.0)	(0.979)
Depreciation, amortization and depletion	(327.9)	(0.254)	(275.1)	(0.200)	(277.2)	(0.184)
Workers participation	(310.9)	(0.241)	(271.5)	(0.197)	(219.2)	(0.145)
Royalty charge and other, net	(128.0)	(0.099)	(127.1)	(0.093)	(40.8)	(0.027)
Inventory change	(31.5)	(0.024)	(4.4)	(0.003)	33.0	0.022
Operating Cash Cost	**$ (216.0)**	**$ (0.167)**	**$ 219.0**	**$ 0.159**	**$ 45.8**	**$ 0.030**
Add by-product revenue	2,023.7	1.568	1,547.1	1.124	1,478.0	0.979
Operating Cash Cost, without by-product revenue	$ 1,807.7	$ 1.401	$ 1,766.1	$ 1.283	$ 1,523.8	$ 1.009
Total pounds of copper produced and purchased (in millions)	1,291.0		1,375.9		1,510.4	

(1) Includes net by-product sales revenue and premiums on sales of refined products.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

A portion of our outstanding debt bears interest at variable rates and accordingly is sensitive to changes in interest rates. Interest rate changes would also result in gains or losses in the market value of our fixed rate debt portfolio due to differences in market interest rates and the rates at the inception of the debt agreements. Based upon our indebtedness at December 31, 2007, a change in interest rates of one percent (or 100 basis points) would impact net income and cash flows by $0.6 million annually.

We are also exposed to market risk associated with changes in foreign currency exchange rates as certain costs incurred are in currencies other than our functional currency. To manage the volatility related to the risk, we may enter into forward exchange contracts, currency swaps or other currency hedging arrangements.

We are subject to market risks arising from the volatility of copper and other metal 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 estimated change in net earnings resulting from metal price changes in 2008 as provided in the table below.

	Copper	Molybdenum	Zinc	Silver
Change in metal prices (per pound except silver per ounce)	$ 0.01	$ 1.00	$ 0.01	$ 1.00
Change in net earnings (in millions)	$ 7.6	$ 19.5	$ 1.4	$ 8.6

We occasionally use derivative instruments to manage our exposure to market risk from changes in commodity prices, interest rate and exchange rate risk exposures. The Company generally does not enter into derivative contracts unless it anticipates a future activity that is likely to occur that will result in exposing the Company to market risk.

Copper and zinc derivatives:

From time to time we enter into derivative instruments to protect a fixed copper, or zinc price for a portion of our metal sales.

In 2007 and 2006 we entered into copper collar and swaps contracts to protect a portion of our 2007 and 2006 sales of copper production. Related to the settlement of these copper derivative instruments we recorded a gain of $10.9 million and a loss of $276.1 million in the 2007 and 2006, respectively. These gains and losses were recorded in net sales in the consolidated combined statement of earnings.

In the third quarter of 2006 we entered into a zinc swap contract to protect a portion of the sale of zinc concentrates purchased during the recovery from a fire at the San Luis Potosi zinc refinery. Related to the settlement of this contract we recorded in 2006, a loss of $0.2 million which was recorded in net sales in the consolidated combined statement of earnings.

We did not hold any copper or zinc derivative contracts at the end of December 2007.

Transactions under these metal price protection programs are not accounted for as hedges under SFAS No. 133 and are adjusted to fair market value based on the metal prices as of the last day of the respective reporting period with the gain or loss recorded in net sales on the consolidated combined statement of earnings. In 2006, the Company changed its accounting classification policy to recognize gains or losses on metal price derivatives in net sales. The Company believes that this income statement classification reflects better the intention of this price protection program. Before 2006, the change in the fair market value of our derivative instruments was accounted for in a separate non-operating income statement line item. Prior-year gains and losses have been reclassified to conform to the 2006 presentation.

Gas swaps:

In 2006 and 2007 we entered into gas swap contracts to protect part of our gas consumption as follows:

	2007	2006
Gas volume (MMBTUs)	900,000	3,650,000
Fixed price	7.5250	4.2668
Gain (loss) (in million)	$ (0.9)	$ 6.3

The gains (losses) obtained were included in the production cost. At December 31, 2007, we did not hold any open gas swap contracts.

Exchange rate derivatives, U.S. dollar / Mexican peso contracts:

Because more than 85% of our sales collections in Mexico are in US dollars and many of our costs are in Mexican pesos, during 2006 and 2007 we entered into zero-cost derivative contracts with the purpose of protecting, within a range, against an appreciation of the Mexican peso to the US dollar. In these contracts if the exchange rate settles at or below the barrier, we do not sell US dollars, if the exchange rate settles above the barrier price established in the contract we sell US dollars at the strike price established in the contract.

In 2007 and 2006 the exercise of these zero-cost derivative contracts resulted in gains of $8.1 million and $0.9 million, respectively, which were recorded as gain (loss) on derivative instruments in the consolidated combined statement of earnings.

At December 31, 2007 we held the following exchange rate derivative operations:

Notional Amount (millions)	Due Date, Weekly expiration during	Strike Price (Mexican Pesos/U.S. Dollars)	Barrier Price (Mexican Pesos/ U.S. Dollars)
$ 2.0	1st Quarter 2008(*)	11.60	11.28
$ 2.0	1st Quarter 2008(*)	11.28	10.70
$ 60.0	4th Quarter 2008	11.32	10.60

(*) These operations matured on January 3, 2008 and reported a gain of $0.1 million, which was recorded as unrealized gain on derivative instruments in the consolidated combined statement of earnings at December 31, 2007.

At December 31, 2007, the fair value of the above listed exchange rate derivative contracts was a gain of $0.5 million,which was recorded as gain on derivative instruments in the consolidated combined statement of earnings. Each notional amount includes a group of weekly transactions that have the same strike and barrier price.

In addition, at December 31, 2007 the Company held the following exchange rate derivative contract:

Amount	$53.0 million
Valuation date	$1.0 million weekly, through December 31, 2008
Peso/dollar exchange rate	11.2 pesos = $1.00

The above noted contract settles weekly, and if the Mexican peso/US dollar exchange rate is below 11.20 the counterparty to the contract, in this case Merrill Lynch Capital Services, Inc. (MLCS), will pay the Company 11.2 million Mexican pesos and the Company will pay MLCS $1.0 million. If the Mexican peso/US dollar exchange rate is not below 11.20 MLCS will pay the Company 22.4 million Mexican pesos and the Company will pay MLCS $2.0 million.

Dual currency notes:

In 2007 we invested $560.0 million in dual currency notes which provided an above market interest return subject to a barrier range of the Mexican peso/US dollar exchange rates. Related to these investments we realized an exchange loss of $1.3 million, which was recorded as a loss on derivative instruments in the consolidated combined statement of earnings.

We earned interest of $2.1 million in 2007, which was recorded as interest income in the consolidated combined statement of earnings.

Interest Rate Swaps:

During 2005 the Company entered into short interest rate swap contracts to reduce its exposure to interest rate risk on certain of its floating rate bank obligations. As a result of these positions, the Company recorded a net gain of $1.2 million in 2005. This gain was recorded in loss in derivatives instruments on the consolidated combined statement of earnings. The Company did not hold any interest rate swap contracts during 2007 and 2006 and does not hold any open positions as of December 31, 2007.

Short-term investments:

Commencing in 2006 the Company began making short-term investments (90 days to 1 year) in leveraged, indexed instruments. The balances of short-term investments were as follows (in millions):

Investment	As of December 31, 2007		As of December 31, 2006
3-month note, issued December 12, 2006, with extensions every 3 months up to a maximum of 12 months, and with an interest rate of 7% established by a pool of Mexican and Peruvian bond issues.	$	$	100.0
3-month note, issued December 12, 2006, with extensions every 3 months up to a maximum of 13 months and 5 days, with an interest rate of 7% established by a pool of Mexican and Peruvian bond issues.			100.0
180-day note, maturing June 12, 2007 with an interest rate of 6%, with barrier range of $37.669 and $69.957 of SCC stock price, NYSE symbol PCU.			40.0
180-day note, maturing June 28, 2007 with an interest rate of 6%, with barrier range of $38.738 and $71.942 of SCC stock price, NYSE symbol PCU.			20.0
300-day note, maturing December 24, 2007 with an interest rate of 3.6%, with barrier range of $50.00 and $75.00 of SCC stock price, NYSE symbol PCU.			20.0

Short-term investment in securities issued by public companies with a weighted average interest rate of 5.07%.		117.9		
Total	$	117.9	$	280.0

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In addition to the 2006 investments, on January 19, 2007 we invested $100.0 million, in a 3-month note, with extensions every 3 months up to a maximum of 12 months and at an interest rate of 7.25%, established by a pool of Mexican and Peruvian bond issues. This investment was liquidated on October 3, 2007.

Short-term investment in securities held as of December 31, 2007 consists of those investments available for sale and are issued by public companies. Each security is independent of the others. Current value of these investments is deemed to approximate fair value.

Some of the other investment instruments were indexed to SCC common stock prices while others were leveraged and indexed to certain bond pools. Both types of instruments could have caused the principal of the investment to be reduced if the established ranges were breached. Since the notes were not principal protected, the Company risked losing part or all of the initial investment. These instruments had been deemed to contain embedded derivatives and had been subject to valuation using a binomial model.

Related to these short-term investments, the Company recorded losses of $81.0 million and $11.6 million in 2007 and 2006, respectively. The losses on these short-term investments were recorded as loss on derivative instruments in the consolidated combined statement of earnings.

Additionally, the Company earned interest of $18.7 million and $9.3 million on these investments in 2007 and 2006, respectively, which were recorded in interest income in the consolidated combined statement of earnings.

Impact of New Accounting Standards

In December 2007, the FASB published SFAS No. 160 Non Controlling Interests in Consolidated Financial Statements an amendment of ARB No. 51. This statement addresses the reporting of minority interests in the results of the parent and provides direction for the recording of such interests in the financial statements. It also provides guidance for the recording of various transactions related to the minority interests, as well as certain disclosure requirements.

SFAS No. 160 will be effective for fiscal years, and interim periods after December 15, 2008; earlier adoption is prohibited and shall be applied prospectively. The presentation and disclosure requirements shall be applied retrospectively for all periods presented. The Company will adopt this pronouncement on January 1, 2009.

The adoption of this statement will cause some changes to our Company s presentation of financial results and our statement of position. However, these changes are not expected to be of a material nature.

In September 2006 the FASB published SFAS No. 157 Fair Value Measurements , which provides enhanced guidance for using fair value to measure assets and liabilities. SFAS No. 157 establishes a common definition of fair value, provides a framework for measuring fair value under

U.S. GAAP and expands disclosure requirements about fair value measurements. SFAS No. 157 was to be effective for financial statements issued in fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. On February 6, 2008, the FASB issued a position paper that partially defers SFAS No. 157 for one year. The Company is currently evaluating the impact, if any, the adoption of SFAS No. 157 will have on its financial position, results of operations and disclosures.

For a description of the impact of other new accounting standards, see Note 2, Summary of Significant Accounting Policies Impact of new accounting standards, to our consolidated combined financial statements.

Item 8. Financial Statements and Supplementary Data

Southern Copper Corporation
and Subsidiaries

CONSOLIDATED COMBINED STATEMENT OF EARNINGS

For the years ended December 31, **(in thousands, except for per share amounts)**	**2007**	**2006**	**2005**
Net sales (2005 includes sales to affiliates of $28,357)	$ 6,085,672	$ 5,460,221	$ 4,089,145
Operating cost and expenses:			
Cost of sales (exclusive of depreciation, amortization and depletion shown separately below)	2,122,163	2,019,840	1,635,393
Selling, general and administrative	98,047	88,274	81,132
Depreciation, amortization and depletion	327,898	275,062	277,248
Exploration	40,212	22,704	24,356
Total operating costs and expenses	2,588,320	2,405,880	2,018,129
Operating income	3,497,352	3,054,341	2,071,016
Interest expense	(123,204)	(113,422)	(108,874)
Capitalized interest	14,717	27,951	22,509
Gain (loss) on derivative instruments	(73,711)	(11,595)	1,159
Loss on debt prepayments	(16,572)	(1,137)	(10,559)
Other income (expense)	30,759	(326)	(3,649)
Interest income	82,519	50,217	30,765
Earnings before income taxes and minority interest	3,411,860	3,006,029	2,002,367
Income taxes	1,185,261	959,087	589,744
Minority interest	10,229	9,302	12,475
Net earnings	$ 2,216,370	$ 2,037,640	$ 1,400,148
Per common share amounts:			
Net earnings basic and diluted	$ 7.53	$ 6.92	$ 4.76
Dividends paid	$ 6.80	$ 5.13	$ 2.90
Weighted average shares outstanding basic and diluted	294,466	294,461	294,456

The accompanying notes are an integral part of these consolidated combined financial statements.

Southern Copper Corporation

and Subsidiaries

CONSOLIDATED BALANCE SHEET

At December 31, (in thousands)		**2007**		**2006**
ASSETS				
Current assets:				
Cash and cash equivalents	$	1,409,272	$	1,022,778
Short-term investment		117,903		280,000
Accounts receivable trade (less allowance for doubtful accounts (2007 - $4,585 and 2006 - $5,948)		404,598		560,227
Accounts receivable other (including affiliates 2007 - $1,644 and 2006 - $2,630)		58,180		46,199
Inventories		448,283		413,652
Deferred income tax current portion		72,303		65,638
Other current assets		124,970		54,383
Total current assets		2,635,509		2,442,877
Property, net		3,568,311		3,538,295
Leachable material, net		220,243		231,516
Intangible assets, net		115,802		118,107
Deferred income tax non-current				14,549
Other assets		40,693		31,070
Total assets	$	6,580,558	$	6,376,414
LIABILITIES				
Current liabilities:				
Current portion of long-term debt	$	160,000	$	10,000
Accounts payable		255,070		271,064
Accrued income taxes		132,175		226,047
Due to affiliated companies		3,870		3,581
Accrued workers participation		313,251		299,892
Accrued Interest		37,325		37,140
Other accrued liabilities		25,499		11,847
Total current liabilities		927,190		859,571
Long-term debt		1,289,754		1,518,111
Deferred income taxes		219,501		194,759
Non-current taxes payable		154,721		
Other liabilities and reserves		111,442		111,196
Asset retirement obligation		13,145		12,183
Total non-current liabilities		1,788,563		1,836,249
Commitments and contingencies (Note 14)				
MINORITY INTEREST		16,685		13,989
STOCKHOLDERS EQUITY				
Common stock par value $0.01; shares authorized: 2007 and 2006- 320,000,000; shares issued 2007 and 2006- 294,865,362		2,949		2,949
Additional paid-in capital		825,543		772,693
Retained earnings		3,220,857		3,010,307
Accumulated other comprehensive loss		(26,554)		(22,332)
Treasury stock, at cost, common shares		(174,675)		(97,012)
Total stockholders equity		3,848,120		3,666,605
Total liabilities, Minority Interest and Stockholders Equity	$	6,580,558	$	6,376,414

The accompanying notes are an integral part of these consolidated combined financial statements.

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Southern Copper Corporation

and Subsidiaries

CONSOLIDATED COMBINED STATEMENT OF CASH FLOWS

For the years ended December 31, **(in thousands)**	**2007**	**2006**	**2005**
OPERATING ACTIVITIES			
Net earnings	$ 2,216,370	$ 2,037,640	$ 1,400,148
Adjustments to reconcile net earnings to net cash provided from operating activities:			
Depreciation, amortization and depletion	327,898	275,062	277,248
Capitalized leachable material	(45,903)	(65,930)	(77,523)
Capitalized mine stripping			(38,886)
Loss on currency translation effect	12,052	5,758	8,885
Provision for deferred income taxes	66,596	(33,693)	(42,268)
Loss on short-term investments	81,006	11,595	
Unrealized gain on derivative investments	(520)		
Write-off unamortized financial cost			14,965
Minority interest	10,229	9,302	12,475
Cash provided from (used for) operating assets and liabilities:			
Accounts receivable	66,200	(217,991)	59,457
Inventories	(34,632)	(17,807)	(43,468)
Accounts payable and accrued liabilities	(229,189)	80,694	75,269
Other operating assets and liabilities	233,349	(25,317)	17,194
Net cash provided from operating activities	2,703,456	2,059,313	1,663,496
INVESTING ACTIVITIES			
Capital expenditures	(315,741)	(455,818)	(470,636)
Purchase of short-term investments	(217,903)	(280,000)	(74,339)
Net proceeds from short-term investments	287,398		119,606
Other	267	10,532	(10,501)
Net cash used for investing activities	(245,979)	(725,286)	(435,870)
FINANCING ACTIVITIES			
Debt incurred		389,192	993,717
Debt repaid	(78,600)	(33,146)	(1,151,940)
Capitalized debt issuance cost		(3,150)	(8,800)
Capital stock transaction Minera Mexico			(7,438)
Dividends paid to common stockholders	(2,002,312)	(1,509,099)	(853,887)
Distributions to minority interest	(7,211)	(8,282)	(5,297)
Purchase of shares Minera Mexico			(30,276)
Other	(224)	185	(478)
Net cash used for financing activities	(2,088,347)	(1,164,300)	(1,064,399)
Effect of exchange rate changes on cash and cash equivalents	17,364	(22,952)	2,069
Increase in cash and cash equivalents	386,494	146,775	165,296
Cash and cash equivalents, at beginning of year	1,022,778	876,003	710,707
Cash and cash equivalents, at end of year	$ 1,409,272	$ 1,022,778	$ 876,003

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	2007	2006 (in thousands)	2005
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	$ 130,633	$ 116,052	$ 80,286
Income taxes	$ 1,057,931	$ 1,031,511	$ 702,660
Workers Participation	$ 301,056	$ 173,296	$
Supplemental schedule of non-cash operating, investing and financing activities:			
Accounts receivable from affiliate offset by accounts payable	$	$ 3,520	$
(Increase) decrease in pension and other post-retirement benefits	$ (3,266)	$ 1,160	$ (849)
Impact of FASB 158 adoption	$	$ 16,527	$
Non cash transactions:			
Common stock split:			
Increase in Common stock	$	$ 1,472	$
Decrease in Additional paid-in capital	$	$ 1,472	$

The accompanying notes are an integral part of these consolidated combined financial statements.

Southern Copper Corporation

and Subsidiaries

CONSOLIDATED COMBINED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

For years ended December 31, (in thousands)	**2007**	**2006**	**2005**
CAPITAL STOCK:			
Balance at beginning of year:	$ 2,949	$ 2,949	$ 1,631
Issued in exchange for class A common stock			1,318
Balance at end of year	2,949	2,949	2,949
Class A Common Stock:			
Balance at beginning of year			1,318
Exchanged for common stock			(1,318)
Balance at end of year			
ADDITIONAL PAID-IN CAPITAL:			
Balance at beginning of year	772,693	772,693	799,687
Net movement of the period	52,850		(26,994)
Balance at end of year	825,543	772,693	772,693
TREASURY STOCK:			
Southern Copper Common shares			
Balance at beginning of the year	(4,409)	(4,466)	(4,589)
Used for corporate purposes	49	57	123
Balance at end of period	(4,360)	(4,409)	(4,466)
Parent Company Common Shares			
Balance at beginning of year	(92,603)	(80,368)	(72,897)
Purchase of shares	(77,712)	(12,235)	(7,471)
Balance at end of year	(170,315)	(92,603)	(80,368)
Treasury stock balance at end of year	(174,675)	(97,012)	(84,834)
RETAINED EARNINGS:			
Balance at beginning of year	3,010,307	2,648,359	2,102,098
Net earnings	2,216,370	2,037,640	1,400,148
Net effect of change in accounting for Mine stripping cost, net of income tax		(166,593)	
Cumulative effect of FIN No. 48 adoption	(3,508)		
Dividends paid, Common stock, per share, 2007 - $6.80, 2006 $5.13, 2005 - $2.90	(2,002,312)	(1,509,099)	(853,887)
Balance at end of year	3,220,857	3,010,307	2,648,359
ACCUMULATED OTHER COMPREHENSIVE LOSS:			
Balance at beginning of year	(22,332)	(13,090)	(13,653)
(Increase) decrease in pension and other post-retirement benefits	(3,266)	1,160	(849)
Net effect of the adoption of change in accounting for pensions and post retirement benefit obligations, net of income tax (SFAS No. 158)		(16,527)	
Unrealized gain on equity securities	(956)	6,125	1,412
Balance at end of year	(26,554)	(22,332)	(13,090)
TOTAL STOCKHOLDERS EQUITY	$ 3,848,120	$ 3,666,605	$ 3,326,077

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	2007	2006 (in thousands)	2005
RETAINED EARNINGS:			
Unappropriated	$ 1,788,735	$ 3,010,307	$ 2,648,359
Appropriated	1,432,122		
Total retained earnings	$ 3,220,857	$ 3,010,307	$ 2,648,359
COMPREHENSIVE INCOME:			
Net earnings	$ 2,216,370	$ 2,037,640	$ 1,400,148
Pension and post retirement benefits amounts recognized in net earnings	1,500		
Other comprehensive income (loss)	(4,232)	(9,242)	563
Total comprehensive income	$ 2,213,638	$ 2,028,398	$ 1,400,711

The accompanying notes are an integral part of these consolidated combined financial statements.

SOUTHERN COPPER CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED COMBINED FINANCIAL STATEMENTS

NOTE 1-DESCRIPTION OF THE BUSINESS:

The consolidated combined financial statements presented herein consist of the accounts of Southern Copper Corporation (SCC) and its subsidiaries as well as those of Minera Mexico, S.A. de C.V., (Minera Mexico) and its subsidiaries. Effective April 1, 2005, SCC acquired substantially all of the outstanding common stock of Minera Mexico, as further described below. Unless the context otherwise requires, the term Company refers to both SCC and Minera Mexico as consolidated (after March 31, 2005) or combined (prior to April 1, 2005).

Effective April 1, 2005, Grupo Mexico S.A.B. de C.V.(Grupo Mexico), through its subsidiary, Americas Mining Corporation (AMC) sold its approximately 99.15% shareholding in Minera Mexico to SCC in return for the issuance to AMC of 134.4 million new shares of common stock of SCC (see note 15). The transaction resulted in Grupo Mexico increasing its indirect equity ownership in SCC to approximately 75.1% from its prior indirect interest of approximately 54.2%. As part of this transaction, SCC paid a special transaction cash dividend of $100 million on March 1, 2005. On October 20, 2005, the Company s board of directors approved the acquisition of 6.4 million shares of Minera Mexico from Grupo Mexico. The acquired shares represented 0.81833% of the outstanding Minera Mexico shares and were purchased for $30.3 million. This acquisition increased the Company s holding in Minera Mexico to 99.95%.

The acquisition of Minera Mexico by SCC is accounted for in a manner similar to a pooling of interests since it involved the reorganization of entities under common control. Under such accounting, the financial statements of Minera Mexico and SCC are combined on a historical cost basis for all the periods presented since they were under common control during all of these periods.

The Company is an integrated producer of copper and other minerals, and operates mining, smelting and refining facilities in Peru and Mexico. The Company conducts its primary operations in Peru through a registered branch (the Branch). The Branch is not a corporation separate from the Company. The Company s Mexican operations are conducted through subsidiaries.

NOTE 2-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of consolidation and combination

The consolidated combined financial statements include the accounts of subsidiaries of which the Company has voting control, in accordance with FAS No. 94 Consolidation of All Majority-Owned Subsidiaries. Such financial statements are prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). As mentioned above, the financial statements also reflect the combination of

SCC and Minera Mexico on a historical cost basis in a manner similar to a pooling of interests.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying value of ore reserves that are the basis for future cash flow estimates and amortization calculations; environmental, reclamation, closure and retirement obligations; estimates of recoverable copper in mill and leach stockpiles; asset impairments (including estimates of future cash flows); bad debts; inventory obsolescence; deferred and current income tax; valuation allowances for deferred tax assets; reserves for contingencies and litigation; and fair value of financial instruments. Management bases its estimates on the Company s historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

Revenue recognition

Substantially all of the Company s copper is sold under annual or other longer-term contracts.

Revenue is recognized when title passes to the customer. The passing of title is based on terms of the contract, generally upon shipment. Copper revenue is determined based on the monthly average of prevailing commodity prices according to the terms of the contracts. The Company provides allowances for doubtful accounts based upon historical bad debt and claims experience and periodic evaluation of specific customer accounts.

For certain of the Company s sales of copper and molybdenum products, customers are given the option to select a monthly average LME or COMEX price (as is the case for sales of copper products) or the molybdenum oxide proprietary price of Platt s Metal Week (as is the case for sales of molybdenum products), generally ranging between one and six months subsequent to shipment. In such cases, revenue is recorded at a provisional price at the time of shipment. The provisionally priced copper sales are adjusted to reflect forward 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.

These provisional pricing arrangements are accounted as an embedded derivative instrument under Statement of Financial Accounting Standards No. 133 Accounting for Derivative Instruments and Hedging Activities , as amended (SFAS No. 133). The Company sells copper in concentrate, anode, blister and refined form at industry standard commercial terms. Net sales include the invoiced value and corresponding fair value adjustment of the related forward contract of copper, zinc, silver, molybdenum, acid and other metals.

Shipping and handling fees and costs

Amounts billed to customers for shipping and handling, are classified as sales. Amounts incurred for shipping and handling are included in cost of sales (exclusive of depreciation, amortization and depletion).

Cash and cash equivalents

Cash and cash equivalents include bank deposits, certificates of deposit and short term investment funds with original maturities of three months or less at the date of purchase. The carrying value of cash and cash is equivalent to its fair value.

Short-term investments

Short-term investments consist primarily of interest bearing instruments with original maturities greater than 90 days but less than one year. These deposits are held to maturity and carried at cost. Due to the short term nature of the investments, cost is deemed to approximate fair value.

Inventories

Metal inventories, consisting of work-in-process and finished goods, are carried at the lower of average cost or market. Costs incurred in the production of metal inventories exclude selling, general and administrative costs.

Work-in-process inventories represent materials that are in the process of being converted into a saleable product. Conversion processes vary depending on the nature of the copper ore and the specific mining operation. For sulfide ores, processing includes milling and concentrating and the results from the production of copper and molybdenum concentrates. Molybdenum in-process inventory includes the cost of molybdenum concentrates and the costs incurred to convert those concentrates into various high-purity molybdenum chemicals or metallurgical products.

Finished goods include saleable products (e.g., copper concentrates, copper anodes, copper cathodes, copper rod, molybdenum concentrate and other metallurgical products).

Supplies inventories are carried at average cost less a reserve for obsolescence.

Property

Property is recorded at acquisition cost, net of accumulated depreciation and amortization. Cost includes major expenditures for improvements and replacements, which extend useful lives or increase capacity and interest costs associated with significant capital additions. Maintenance, repairs, normal development costs at existing mines, and gains or losses on assets retired or sold are reflected in earnings as incurred.

Buildings and equipment are depreciated on the straight-line method over estimated lives from five to 40 years or the estimated life of the mine if shorter.

Mine development

Mine development includes primarily the cost of acquiring land rights to an exploitable ore body, pre-production stripping costs at new mines that are commercially exploitable, costs associated with bringing new mineral properties into production, and removal of overburden to prepare unique and identifiable areas outside the current mining area for such future production. Mine development costs are amortized on a unit of production basis over the remaining life of the mines.

There is a diversity of practices in the mining industry in the treatment of drilling and other related costs to delineate new ore reserves. The Company follows the practices delineated in the next two paragraphs in its treatment of drilling and related costs.

Drilling and other associated costs incurred in the Company s efforts to delineate new resources, whether near-mine or Greenfield are expensed as incurred. These costs are classified as mineral exploration costs. Once the Company determines through feasibility studies that proven and probable reserves exist and that the drilling and other associated costs embody a probable future benefit that involves a capacity, singly or in combination with other assets, to contribute directly or indirectly to future net

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cash inflow, then the costs are classified as mine development costs. These mine development costs incurred prospectively to develop the property are capitalized as incurred, until the commencement of production, and are amortized using the units of production method over estimated life of the ore body. During the production stage, drilling and other related costs incurred to maintain production are included in production cost in the period in which they are incurred.

Drilling and other related costs incurred in the Company s efforts to delineate a major expansion of reserves at an existing production property are expensed as incurred. Once the Company determines through feasibility studies that proven and probable incremental reserves exist and that the drilling and other associated costs embody a probable future benefit that involves a capacity, singly or in combination with other assets, to contribute directly or indirectly to future net cash inflow, then the costs are classified as mine development costs. These incremental mine development costs are capitalized as incurred, until the commencement of production and amortized using the units of production over the estimated life of the ore body. A major expansion of reserves is one that increases total reserves at a property by approximately 10%.

For the years ended December 31, 2007, 2006 and 2005 the Company did not capitalize any drilling and related costs. The net balance of capitalized mine development costs at December 31, 2007 and 2006 were $48.7 million and $54.4 million, respectively.

Asset retirement obligations (reclamation and remediation costs)

The fair value of a liability for asset retirement obligations is recognized in the period in which the liability is incurred. The liability is measured at fair value and is adjusted to its present value in subsequent periods as accretion expense is recorded. The corresponding asset retirement costs are capitalized as part of the carrying value of the related long-lived assets and depreciated over the asset s useful life.

Intangible assets

Intangible assets include primarily the excess amount paid over the book value for investment shares and mining and engineering development studies. Intangible assets are carried at acquisition costs, net of accumulated amortization and are amortized principally on a unit of production basis over the estimated remaining life of the mines. Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

Debt issuance costs

Debt issuance costs, which are included in other assets, are amortized using the interest method over the term of the related debt.

Ore reserves

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

The Company updates its estimate of ore reserves at the beginning of each year. In this calculation the Company uses current metal prices which are defined as the average metal price over the preceding three years. The current price per pound of copper, as defined, was $2.66, $2.02 and $1.26 at the end of 2007, 2006 and 2005, respectively.

The ore reserve estimates are used to determine the amortization of mine development and intangible assets.

Leachable material

At one of its mines the Company capitalizes the cost of materials with low copper content extracted during the mining process (leachable material), which is collected in areas known as leaching dumps. The amortization of the capitalized costs is determined based on the depletion period of the leaching dumps, which is estimated to be five years (unaudited).

Exploration

Tangible and intangible costs incurred in the search for mineral properties are charged against earnings when incurred.

Income taxes

Provisions for income taxes are based on taxes payable or refundable for the current year and deferred taxes on temporary differences between the amount of taxable income and pretax financial income and between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized and settled as prescribed in SFAS No. 109, Accounting for Income Taxes . As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Deferred income tax assets are reduced by any benefits that, in the opinion of management, are more likely than not to be realized.

The Company classifies income tax-related interest and penalties as income taxes in the financial statements.

In preparing SCC s financial statements, the Company recognizes income taxes in each of the jurisdictions in which it operates. For each jurisdiction, the Company estimates the actual amount of 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 in income 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, the Company considers estimated future taxable income as well as feasible tax planning strategies in each jurisdiction. If the Company determines that it will not realize all or a portion of its deferred tax assets, the Company will increase its valuation allowance with a charge to income tax expense. Conversely, if the Company determines that it 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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Foreign exchange

The Company s functional currency is the U.S. dollar. As required by local law, both the Peruvian Branch and Minera Mexico maintain their books of account in Peruvian nuevos soles and Mexican pesos, respectively.

Foreign currency assets and liabilities are remeasured into U.S. dollars at current exchange rates except for non-monetary items such as inventory, property, intangible assets and other assets which are remeasured at historical exchange rates. Revenues and expenses are generally translated at actual exchange rates in effect during the period, except for those items related to balance sheet amounts that are remeasured at historical exchange rates. Gains and losses from foreign currency remeasurement are included in earnings of the period.

Gains and losses resulting from foreign currency transactions are included in Cost of sales (exclusive of depreciation, amortization and depletion) and amounted to $(12.1) million, $(5.8) million, and $(8.9) million in 2007, 2006 and 2005, respectively.

Derivative instruments

The Company utilizes certain types of derivative financial instruments to enhance its ability to manage risks that exist as part of its ongoing business operations. Derivative contracts are reflected as assets or liabilities in the consolidated 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 the Company has entered into copper and zinc swap contracts to protect a fixed copper and zinc price for portions of its metal sales, hedging contracts to fix power prices for a portion of its production costs, interest rate swap agreements to hedge the interest rate risk exposure on certain of its bank obligations with variable interest rates and currency swap arrangements to ensure Mexican peso/ U.S. dollar conversion rates. Gains and losses related to copper and zinc hedges are included in net sales, gain and losses related to power costs are included in cost of sales, all other gains and losses on derivative contracts are included in Gain (loss) on derivative contracts in the consolidated combined statement of earnings.

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 $1.80 per pound of copper and an average molybdenum price of $12.00 per pound, along with near-term price forecast, for 2008 through 2010, reflective of the current price environment, for our impairment tests. We use an estimate of the future undiscounted net cash flows of the related asset or asset group over the remaining life to measure whether the asses are recoverable and measure any impairment by reference to fair value. Should estimates of future copper and molybdenum prices decrease significantly, impairments could result.

Other comprehensive income

Comprehensive income represents changes in equity during a period, except those resulting from investments by owners and distributions to owners. During the fiscal years ended December 31, 2007, 2006 and 2005, the components of other comprehensive income (loss) were the additional minimum liability for employee benefit obligations, the change in fair value of investments available for sale and the adjustment necessary

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to adopt SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans.

Business segments

Company management views Southern Copper as having three operating segments and manages on the basis of these segments. The significant increase in the price of molybdenum over the past three years has had an important impact on the Company s earnings. Nevertheless, the Company continues to manage its operations on the basis of the three copper segments. The segments identified by the Company are: 1) Peruvian operations, which include the two open pit copper mines in Peru and the plants and services supporting such mines. 2) Mexican open pit mines, which include La Caridad and Cananea mine complexes and their supporting facilities. 3) The Mexican underground mining operations, which include five underground mines that produce zinc, copper, silver and gold, a coal mine, and several industrial processing facilities.

The Chief Operating Officer of the Company focuses on operating income as measure of performance to evaluate different segments, and to make decisions to allocate resources to the reported segments.

Adoption of new accounting principle

Effective January 1, 2006, the Company adopted Emerging Issues Task Force, consensus 04-6, which states that stripping costs incurred during the production phase of a mine are variable production costs that should be included in the costs of the inventory produced. Accordingly, the Company reversed $289.4 million of net cumulative stripping cost as of December 31, 2005 and recorded a net charge of $166.6 million to retained earnings after recognition of workers participation and tax benefits of $122.8 million. Amortization of mine stripping for the year 2005, amounted to $467.5 million and is included in Depreciation, amortization and depletion in the Company s statement of earnings.

Effective January 1, 2007 the Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 48 Accounting for Uncertainty in Income Taxes , (FIN No. 48). See note 8 Income Taxes.

Effective December 31, 2006 the Company adopted SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R) See note 12 Benefit Plans.

New accounting pronouncements

In December 2007, the FASB published SFAS No. 160 Non Controlling Interests in Consolidated Financial Statements an amendment of ARB No. 51. This statement addresses the reporting of minority interests in the results of the parent and provides direction for the recording of such interests in the financial statements. It also provides guidance for the recording of various transactions related to the minority interests, as well as certain disclosure requirements.

SFAS No. 160 will be effective for fiscal years, and interim periods after December 15, 2008, earlier adoption is prohibited and shall be applied prospectively. The presentation and disclosure requirements shall be applied retrospectively for all periods presented. The Company will adopt this pronouncement on January 1, 2009.

The adoption of this statement will have some changes on the Company s presentation of financial results and statement of position. However, these changes are not expected to be of a material nature.

In December 2007, the FASB published SFAS No. 141-R, which replaces SFAS No. 141, Business Combinations. This statement improves the reporting of information about a business combination and its effects. This statement establishes principles and requirements for how the acquirer will recognize and measure the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquisition. Also, the statement determines the recognition and measurement of goodwill acquired in the business combination or a gain from a bargain purchase, and finally, determines the disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

SFAS No 141-R will be effective for all business combinations with an acquisition date on or after the beginning of the first annual reporting period after December 15, 2008, earlier adoption is prohibited. The Company will adopt this pronouncement on January 1, 2009.

In February 2007 the FASB published SFAS No. 159, The Fair Value Option for Financial Assets and Financial liabilities. This statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions.

This Statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. This statement does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. This Statement does not establish requirements for recognizing and measuring dividend income, interest income, or interest expense. This statement does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in SFAS No. 157, Fair Value Measurements, and SFAS No. 107, Disclosures about Fair Value of Financial Instruments.

SFAS No. 159 will be effective for all fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact this statement will have on its financial position, results of operations and disclosures, should the Company elect to measure certain financial instruments at fair value.

In September 2006 the FASB published SFAS No. 157 Fair Value Measurements , which provides enhanced guidance for using fair value to measure assets and liabilities. SFAS No. 157 establishes a common definition of fair value, provides a framework for measuring fair value under U.S. GAAP and expands disclosure requirements about fair value measurements. SFAS No. 157 was to be effective for financial statements issued in fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. On February 6, 2008, the FASB issued a position paper that partially defers SFAS No. 158 for one year. The Company is currently evaluating the impact, if any, the adoption of SFAS No. 157 will have on its financial position, results of operations and disclosures.

NOTE 3- SHORT-TERM INVESTMENTS

Commencing in 2006 the Company began making short term investments (90 days to 1 year) in leveraged, indexed instruments. The balances of short-term investments were as follows (in millions):

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Investment	As of December 31, 2007		As of December 31, 2006	
3-month note, issued December 12, 2006, with extensions every 3 months up to a maximum of 12 months, and with an interest rate of 7% established by a pool of Mexican and Peruvian bond issues.	$		$	100.0
3-month note, issued December 12, 2006, with extensions every 3 months up to a maximum of 13 months and 5 days, with an interest rate of 7% established by a pool of Mexican and Peruvian bond issues.				100.0
180-day note, maturing June 12, 2007 with an interest rate of 6%, with barrier range of $37.669 and $69.957 of SCC stock price, NYSE symbol PCU.				40.0
180-day note, maturing June 28, 2007 with an interest rate of 6%, with barrier range of $38.738 and $71.942 of SCC stock price, NYSE symbol PCU.				20.0
300-day note, maturing December 24, 2007 with an interest rate of 3.6%, with barrier range of $50.00 and $75.00 of SCC stock price, NYSE symbol PCU.				20.0
Short-term investment in securities issued by public companies with a weighted average interest rate of 5.07%.		117.9		
Total	$	117.9	$	280.0

In addition to the 2006 investments, in January 2007 the Company invested $100.0 million in a 3-month note, with extensions every 3 months up to a maximum of 12 months, at an interest rate of 7.25% established by a pool of Mexican and Peruvian bond issues. This investment was liquidated on October 3, 2007.

Short-term investment in securities held as of December 31, 2007 consists of those investments available for sale and issued by public companies. Each security is independent of the others. Current value of these investments is deemed to approximate fair value.

Some of the other investment instruments were indexed to SCC common stock prices while others were leveraged and indexed to certain bond pools. Both types of instruments could have caused the principal of the investment to be reduced if the established ranges were breached. Since the notes were not principal protected the Company risked losing part or all of the initial investment. These instruments had been deemed to contain embedded derivatives and had been subject to valuation using a binomial model.

Related to these investments, the Company recorded losses of $81.0 million and $11.6 million in 2007 and 2006, respectively. The losses on these short-term investments were recorded as loss on derivative instruments in the consolidated combined statement of earnings.

Additionally, the Company earned interest of $18.7 million and $9.3 million on these investments in 2007 and 2006, respectively, which were recorded in interest income in the consolidated combined statement of earnings.

NOTE 4-INVENTORIES:

(in millions)	As of December 31, 2007	2006
Metals:		
Finished goods	$ 65.7	$ 116.1
Work-in-process	140.7	121.9
Supplies	241.9	175.7
Total inventories	$ 448.3	$ 413.7

NOTE 5-PROPERTY:

(in millions)	As of December 31, 2007	2006
Buildings and equipment	$ 6,126.9	$ 5,569.1
Construction in progress	309.8	625.8
Mine development	263.2	261.1
Land, other than mineral	74.2	73.6
Total property	$ 6,774.1	6,529.6
Accumulated depreciation, amortization and depletion	(3,205.8)	(2,991.3)
Total property, net	$ 3,568.3	$ 3,538.3

Depreciation, amortization and depletion expense for the years ended December 31, 2007, 2006 and 2005 amounted to $263.8 million, $221.9 million and $201.1 million, respectively.

NOTE 6-CAPITALIZED LEACHABLE MATERIAL COST:

(in millions)	As of December 31, 2007	2006
Capitalized leachable material	$ 374.4	$ 323.8
Accumulated amortization	(154.1)	(92.3)
Capitalized leachable material, net	$ 220.3	$ 231.5

Amortization of leachable material is included in Depreciation, amortization and depletion and amounted to $61.8 million, $50.4 million and $5.7 million in 2007, 2006 and 2005, respectively.

The Company s policy of deferring leachable material cost increased (decreased) operating costs by $10.1 million, $(19.3) million and $(68.0) million in 2007, 2006, and 2005, respectively, as compared to what such amounts would have been if the Company expensed leachable material costs as incurred.

NOTE 7-INTANGIBLE ASSETS:

(in millions)	As of December 31, 2007	2006
Mining concessions	$ 121.2	$ 121.2
Mine engineering and development studies	6.0	6.0
	127.2	127.2
Accumulated amortization	(28.4)	(26.1)
Goodwill	17.0	17.0
Intangible assets, net	$ 115.8	$ 118.1

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Amortization of intangibles was $2.3 million, $2.7 million and $2.9 million for the years ended December 31, 2007, 2006 and 2005, respectively. The estimated aggregate amortization expense for intangibles is $14.2 million for the years 2008 through 2012, approximately $2.8 million per year.

NOTE 8-INCOME TAXES:

The components of the provision for income taxes are as follows:

	Year ended December 31,		
(in millions)	**2007**	**2006**	**2005**
U.S. federal and state:			
Current	$ 79.8	$ (4.0)	$ 13.4
Deferred	(48.3)	22.8	
	31.5	18.8	13.4
Foreign (Peru and Mexico):			
Current	1,038.8	996.7	618.6
Deferred	115.1	(56.4)	(42.3)
	1,153.9	940.3	576.3
Total provision for income taxes	$ 1,185.4	$ 959.1	$ 589.7

The source of income tax is as follows:

	For the years ended December 31,		
(in millions)	**2007**	**2006**	**2005**
Earnings by location:			
U.S.	$ 13.5	$ 12.1	$ 5.2
Foreign (Peru and Mexico)	3,398.4	2,993.9	1,997.2
Earnings before taxes on income and minority Interest	$ 3,411.9	$ 3,006.0	$ 2,002.4

The reconciliation of the statutory income tax rate to the effective tax rate is as follows:

	For the years ended December 31,		
	2007	**2006**	**2005**
Expected tax	30.0%	30.0%	30.0%
Effect of income taxed at a rate other than the statutory rate	(1.0)	0.4	1.5

Dividends	2.7		4.1
Permanent differences	1.0	1.8	0.7
Effect of tax rate change in Mexico		(0.1)	(2.5)
Loss of tax benefits upon corporate reorganization			(1.8)
Peru tax on net income deemed distributed	1.4	1.4	1.5
Reduction in valuation allowance		(2.7)	
Adjustment to deferred taxes		2.9	
Other	0.6	(1.8)	(4.1)
Effective income tax rate	34.7%	31.9%	29.4%

The Company files income tax returns in three jurisdictions, Peru, Mexico and the United States, each of which has a different statutory rate for 2007. The statutory income tax rates for Peru are 30% for the three years presented above, for Mexico the statutory rates are 28%, 29% and 30% for the years 2007, 2006 and 2005, respectively, and for the United States 35% for the three years presented. The expected rate used above is the statutory tax rate for Peru.

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The Company has chosen to use this rate for this reconciliation because the Peruvian income tax provision is the largest component of tax expense for each of the three years presented. In addition, it is the rate applicable to Mexico for the year 2005. For all of the years presented, both SCC and Minera Mexico filed separate tax returns in their respective tax jurisdictions. Although the tax rules and regulations imposed in the separate tax jurisdictions may vary significantly, similar permanent items exist, such as the impact of changes in statutory tax rates, and income and expense items, which are nondeductible or nontaxable. Some permanent differences relate specifically to SCC such as the allowance in the U.S for percentage depletion.

A special in depth analysis of Peruvian and U.S. deferred taxes resulted in the above Adjustment to deferred taxes in 2006. The impact of the change in the valuation allowance reflects the change in valuation allowances for the combined companies. See the Out of period adjustment discussion in this note for further details regarding these two adjustments.

Deferred taxes include the U.S., Peruvian and Mexican tax effects of the following types of temporary differences and carryforwards.

	As of December 31,	
(in millions)	**2007**	**2006**
Assets:		
Inventories	$ 14.3	$ 3.2
Capitalized exploration expenses	11.7	
Capitalized mine stripping		40.7
Foreign tax credit carryforwards	2.9	102.4
AMT credit carryforward	27.6	29.2
Unrealized loss on short-term investment	9.9	
Reserves	79.2	
Tax loss carryforward	0.1	
Other accrued expenses		86.0
Other	26.7	31.7
Total deferred tax assets	172.4	293.2
Liabilities:		
Property, plant and equipment	(221.1)	(315.1)
Deferred charges	(83.9)	(77.1)
Other	(14.5)	(15.7)
Total deferred tax liabilities	(319.5)	(407.9)
Total net deferred tax assets / (liabilities)	$ (147.1)	$ (114.7)

U.S. Tax Matters

U.S. income taxes are not accrued for the unremitted earnings of foreign subsidiaries that have been or are intended to be invested indefinitely. The Company has not established a U.S. deferred tax liability for $1.6 billion in unremitted earnings as of December 31, 2007. It is not practicable to estimate an amount of tax that could be payable if there was a remittance of the earnings that are to be permanently reinvested.

At December 31, 2006, the foreign tax credit (FTC) carryforward available to reduce possible future U.S. income tax approximated $102.4 million. Primarily as a result of the $957.0 cash dividend in 2007 from its Minera Mexico subsidiary 100% of the FTC carryforwards at

December 31, 2006 were utilized in 2007.

Without the benefit of these carryovers, in 2007 the Company would have had to pay a U.S. current cash tax of approximately $90.0 million on the dividend income in 2007. The additional U.S. tax on the dividend from Mexico is the result of the rate differential between the U.S. federal tax rate and the Mexican effective tax rate. At December 31, 2007 $2.9 million of FTC s remained available for carryforward. This credit can be carried forward for 10 years. It will expire without benefit, if not utilized by 2018.

At December 31, 2007, the minimum tax credit carryforward available is $27.6 million. The minimum tax credit is not subject to expiration.

Peruvian Tax Matters

The Company obtains income tax credits in Peru for value-added taxes paid in connection with the purchase of capital equipment and other goods and services, employed in its operations and records these credits as a prepaid expense. Under current Peruvian law, the Company is entitled to use the credits against its Peruvian income tax liability or to receive a refund. The carrying value of these Peruvian tax credits approximates their net realizable value.

Mexican Tax Matters

On October 1, 2007, the Mexican government enacted a new law, which generally takes effect on January 1, 2008. The law introduces a flat tax, which replaces Mexico s asset tax and will apply along with Mexico s regular income tax. In general Mexican companies are subject to paying the greater of the flat tax or the income tax. As of December 31, 2007, this tax law change does not have an effect on the Company s deferred tax position.

The flat tax is calculated by applying a 16.5% tax rate in 2008, a 17% tax rate in 2009, and 17.5% in 2010 and the following years. Although the flat tax is defined as a minimum tax it has a wider taxable base as many of the tax deductions allowed for income tax purposes are not allowed for the flat tax.

The Mexican income tax law as amended reduced the income tax rate to 30% in 2005, 29% in 2006 and to 28% in 2007, where it is expected to remain in the foreseeable future.

Out of period adjustment

In 2006, the Company completed a comprehensive deferred tax analysis. This analysis was performed as of December 31, 2005, 2004 and 2003. The result of this analysis was an increase in deferred tax liabilities of $85.4 million and a release of valuation allowance of $81.2 million. The net effect of this analysis was $4.2 million of additional tax expense in 2006.

In this analysis, the Company trued up its Peru and US gross temporary differences and then measured its U.S. deferred taxes by applying the regular statutory tax rate (35%). This recalculation exercise resulted in cumulative additional deferred tax liabilities equaling $85.4 million as of December 31, 2005.

As a second component to the comprehensive deferred tax analysis, the Company undertook a scheduling exercise of certain carryforward credits relating to US minimum tax and foreign tax credits. Prior to this scheduling exercise, the Company had created a valuation allowance related to US minimum tax and foreign tax credits. The scheduling exercise component of the comprehensive analysis resulted in the Company releasing the December 31, 2004 cumulative valuation allowance of $81.2 million.

The combined net effect of the deferred tax analysis was an increase in the total income tax expense of $4.2 million. This adjustment was recorded as part of income tax expense in 2006. The Company accounted for this adjustment as an out of period adjustment as it falls below the materiality levels established in the Company s SAB 108 analysis.

FIN No. 48 Accounting for Uncertainty in Income Taxes

Financial Accounting Standards Board (FASB) Interpretation No. 48 Accounting for Uncertainty in Income Taxes , (FIN 48) was issued in July 2006 and interprets FASB Statement of Financial Accounting Standards (SFAS) No. 109. FIN 48 became effective for the Company on January 1, 2007 and prescribes a comprehensive model for the recognition, measurement, financial statement presentation and disclosure of uncertain tax positions taken or expected to be taken in a tax return. FIN No. 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Company classifies income tax-related interest and penalties as income taxes in the financial statements.

The amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was $42.6 million at December 31, 2007 and $25.4 million at January 1, 2007. These amounts relate entirely to U.S. income tax matters. The Company has no unrecognized Peruvian or Mexican tax benefits.

The total amount of unrecognized tax benefits in 2007 were as follows:

Unrecognized tax benefits, opening balance	$	32.0
Adjustment to unrecognized tax benefits at implementation		84.1
Gross increases tax positions in prior period		11.5
Gross decreases tax positions in prior period		(10.1)
Gross increases current-period tax positions		18.8
Settlements		
Lapse of statute of limitations		
Unrecognized tax benefits, ending balance	$	136.3

The increase in the unrecognized tax benefit of $20.2 million includes individually insignificant increases and decreases in the current and prior year tax positions. The adjustment to unrecognized tax benefits at implementation is necessary because there was an incorrect netting of foreign tax credit carryforwards with the unrecognized tax benefits at implementation.

The Company s tax provision for the year ended December 31, 2007 included interest of $5.2 million. As of December 31, 2007 and January 1, 2007, the Company s liability for uncertain tax positions included accrued interest of $19.1 million and $13.9 million, respectively. The financial statements include no penalties because management expects no penalties to apply to the resolution of any of its uncertain tax positions.

Various tax positions are currently under review by the U.S. Internal Revenue Service (IRS) Appeals and Examination Offices. It is not likely that this review will result in a cash payment within the twelve months preceding December 31, 2008.

Such positions include the determination of appropriate depreciation periods for fixed assets, the capitalization of costs to the copper inventory inherent in leachable dumps, and percentage depletion deductions.

The IRS requests the Company to use longer depreciable lives, resulting in the same expense being spread over a longer period. The IRS also requests the Company to capitalize more interest expense against capital projects, converting current interest expense into future depreciation expense.

The IRS requests the Company capitalize the cost of drilling, blasting, hauling, and dumping leachable material and waste as an inventory item. This will result in a deferral of these expenses for ten to fifteen years, until electrowon copper leached from the dumped material is sold. These three adjustments, if accepted by the Company, will generally not affect the Company s total tax expense, but will accelerate taxes due to earlier years.

The IRS has also questioned the value of services rendered by a subsidiary company of Minera Mexico, Servicios de Apoyo Administrativo, S.A. de C.V., and seeks to disallow a portion of the fees paid.

Lastly, the Company deducts, for U.S. tax purposes, a depletion allowance based on a percentage of its income from mining. The IRS requests the Company report a lower income from mining, and allocate more profit to smelting and refining. These last two adjustments would result in a permanent increase in taxable income and, if accepted by the Company, will result in a greater tax expense. All five adjustments would change the year in which tax is due, and result in interest charges. Any interest paid will be an expense deductible for tax purposes.

As of December 31, 2007, Management did not expect that a final resolution of the IRS review would result in a significant change in the Company s liability. The Company s reasonable expectations about future resolutions of uncertain items did not materially change during the year ended December 31, 2007.

The following tax years remain open to examination and adjustment by the Company s three major tax jurisdictions:

Peru:	2003 and all following years (years 1997 through 2002 have been examined by the Peruvian tax authority and the issues raised are being contested; no new issues can be raised for these years)
U.S.:	1997 and all following years
Mexico:	2002 and all following years

NOTE 9-WORKERS PARTICIPATION:

The Company s operations in Peru and Mexico are subject to statutory workers participation.

In Peru, the provision for workers participation is calculated at 8% of pre-tax earnings. The current portion of this participation, which is accrued during the year, is based on Branch s taxable income and is distributed to workers following determination of final results for the year. In Mexico, workers participation is determined using the guidelines established in the Mexican income tax law at a rate of 10% of pre-tax earnings as adjusted by the tax law.

The provision for workers participation is included in Cost of sales (exclusive of depreciation, amortization and depletion) in the consolidated combined statement of

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earnings. For the years ended December 31, 2007, 2006 and 2005, workers participation expense was $310.9 million, $271.5 million and $219.1 million, respectively.

NOTE 10-ASSET RETIREMENT OBLIGATION

In 2005 the Company added an estimated asset retirement obligation for its mining properties in Peru, as required by the Mine Closure Law, enacted in 2003 and regulated in 2005. In accordance with the law, a conceptual mine closure plan, without costs, was submitted to the Peruvian Ministry of Energy and Mines (MEM) in August 2006. According to regulations, the plan was subject to review by MEM for 45 days. After the MEM review the Company will have 90 days to prepare and resubmit the mine closure plan, including costs, which will then be subject to MEM approval and open to public discussion and comment in the area of the Company operations. The Company is still awaiting MEM s initial review. However, as of December 31, 2007, the Company has made an estimated provision of $6.4 million for this liability in its financial statements, but believes that this estimate should be viewed with caution, pending final approval of the mine closure plan.

The closure cost recognized for this liability includes the estimated cost required at the Peruvian operations, based on the Company s experience, and includes cost at the Ilo smelter, the tailing disposal, and dismantling the Toquepala and Cuajone concentrators, and the shops and auxiliary facilities. Based on this estimated cost, the Company recorded an additional asset retirement liability in 2005 of $5.2 million, which increased its previously recorded asset retirement liability to $11.2 million. This increased net property by $4.6 million.

The following is a reconciliation of the asset retirement obligation for the two years ended December 31, 2006 and 2007 (in millions):

Balance January 1, 2006	$	11.2
Additions, changes in estimates		
Accretion expense		1.0
Balance, December 31, 2006		12.2
Additions, changes in estimates		
Accretion expense		0.9
Balance, December 31, 2007	$	13.1

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NOTE 11-FINANCING:

Long term debt:

(in millions)		As of December 31, 2007	2006
SCC:			
6.375%	Notes due 2015 ($200 million face amount, less unamortized discount of $0.9 million and $0.9 million at December 31, 2007 and 2006, respectively)	$ 199.1	$ 199.1
7.500%	Notes due 2035 ($1,000 million face amount, less unamortized discount of $15.8 million and $16.0 million at December 31,2007 and 2006, respectively)	984.2	984.0
6.08%	Mitsui credit agreement due 2013 (Japanese LIBO rate plus 1.25% (6.60% at December 31, 2006)	60.0	70.0
Minera Mexico:			
8.25%	Yankee bonds Series A due 2008	150.0	150.0
9.25%	Yankee bonds Series B due 2028	56.4	125.0
Total debt		1,449.7	1,528.1
Less, current portion		(160.0)	(10.0)
Total long-term debt		$ 1,289.7	$ 1,518.1

In 1998, Minera Mexico issued $500 million of unsecured debt, which are referred to as Yankee bonds. These bonds were offered in two series: Series A for $375 million, with an interest rate of 8.25% and a 2008 maturity, and Series B for $125 million, with an interest rate of 9.25% and a 2028 maturity date. During 2007, the Company repurchased $68.6 million of the Series B bonds and during 2006 the Company repurchased $23.3 million of the Series A bonds. In connection with these purchases the Company paid premiums of $16.6 million and $1.1 million, in 2007 and 2006, respectively, which are included in the consolidated combined statement of earnings on the line Loss on debt prepayments. The bonds contain a covenant requiring Minera Mexico to maintain a ratio of EBITDA to interest expense of not less than 2.5 to 1.0 as such terms are defined by the facility. At December 31, 2007, Minera Mexico is in compliance with this covenant.

In 1999, SCC entered into a $100 million, 15-year loan agreement with Mitsui. The interest rate for this loan is the Japanese LIBO rate plus 1.25% (Japanese LIBO for this loan at December 31, 2007 was 4.83%). The Mitsui credit agreement is collateralized by pledges of receivables on 31,000 tons of copper per year. The Mitsui agreement requires the Company to maintain a minimum stockholders equity of $750 million and a specific ratio of debt to equity. Reduction of Grupo Mexico s direct or indirect voting interest in the Company to less than a majority would constitute an event of default under the Mitsui agreement. At December 31, 2007, the Company is in compliance with these covenants.

In 2005, the Company prepaid a Minera Mexico $600 million Citibank credit facility. In connection with the prepayment of this facility, the Company wrote off $10.2 million of deferred financing costs which is recorded in the consolidated combined statement of earnings on the line Interest expense.

In January 2005, the Company signed a $200 million credit facility with a group of banks led by Citibank, N.A. Proceeds of this credit facility were used to prepay $199 million of the outstanding bonds of the Company s Peruvian bond program. The Company capitalized $2.8 million of costs associated with this facility. The Company paid a prepayment penalty of 1%, or $2.0 million, to the Peruvian bondholders. Additionally, the Company wrote off $2.3 million of previously capitalized bond issuance cost. The $2.0 million penalty and the $2.3 million amortization of bond issuance costs are included in the earnings statement under Loss on debt prepayments and Interest expense ,

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respectively. On July 28, 2005 this credit facility was repaid and the Company wrote off $2.5 million of deferred financing cost.

On July 27, 2005 the Company issued $200 million 6.375% Notes due 2015 at a discount of $1.1 million and $600 million 7.5% Notes due 2035, at a discount of $5.3 million. The notes are senior unsecured obligations of the Company. The Company capitalized $8.8 million of costs associated with this facility and are included in Other assets , non-current on the consolidated balance sheet. The net proceeds from the issuance and sale of the notes were used to repay outstanding indebtedness of the Company s Peruvian and Mexican operations under its $200 million and $600 million ($480 million outstanding) credit facilities, respectively, and the balance was used for general corporate purposes. The Company filed a Registration Statement on Form S-4 with respect to these notes on October 28, 2005. On January 3, 2006 the Company completed an exchange offer for $200 million, 6.375% Notes due 2015 and $600 million, 7.5% Notes due 2035. In the exchange offer, $197.4 million of the 6.375% old notes due 2015 were tendered in exchange for an equivalent amount of new notes and an aggregate of $590.5 million of the 7.5% old notes due 2035 were tendered in exchange for an equivalent amount of new notes. The indentures relating to the notes contain certain covenants, including limitations on liens, limitations on sale and leaseback transactions, rights of the holders of the notes upon the occurrence of a change of control triggering event, limitations on subsidiary indebtedness and limitations on consolidations, mergers, sales or conveyances. All of these limitations and restrictions are subject to a number of significant exceptions, and some of these covenants will cease to be applicable before the notes mature if the notes attain an investment grade rating. At December 31, 2007 the Company is in compliance with these covenants.

On May 9, 2006, the Company issued an additional $400 million 7.5% notes due 2035. These notes are in addition to the $600 million of existing 7.5% notes due 2035 that were issued in July 2005. The current transaction was issued at a spread of +240 basis points over the 30-year U.S. Treasury bond. The original issue in July 2005 was issued at a spread of +315 basis points over the 30-year U.S. Treasury bond. The notes are rated Baa2 by Moody s, BBB- by Standard & Poor s, and BBB- by Fitch. The notes were issued at a discount of $10.8 million. The Company capitalized $3.2 million of cost associated with this facility and is included in Other assets, net non-current on the consolidated balance sheet. The Company used proceeds from the May 2006 issuance for its expansion programs.

The notes issued in July 2005 and the new notes issued in May 2006 are treated as a single series of notes under the indenture, including for purposes of covenants, waivers and amendments. The Company has registered these notes under the Securities Act of 1933, as amended.

Aggregate maturities of the outstanding borrowings at December 31, 2007, are as follows:

(in millions) **Year**		**Principal Due**
2008	$	160.0
2009		10.0
2010		10.0
2011		10.0
2012		10.0
Thereafter		1,266.4
Total	$	1,466.4

Total debt maturities do not include the debt discount valuation account of $16.7 million.

At December 31, 2007 and 2006, other assets included $6.8 million and $7.3 million, respectively, held in escrow accounts as required by the Company s loan agreements. The funds are released from escrow as scheduled loan repayments are made.

At December 31, 2007 and 2006, the balance of capitalized debt issuance costs was $11.8 million and $12.6 million, respectively. Amortization charged to interest expense was $0.8 million, $1.6 million and $4.1 million in 2007, 2006 and 2005, respectively.

NOTE 12-BENEFIT PLANS:

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R). This standard requires employers to recognize the underfunded or overfunded status of defined benefit pension and postretirement plans as an asset or liability in its statement of financial position, and recognize changes in the funded status in the year in which the changes occur through accumulated other comprehensive income, which is a component of stockholders equity. The Company adopted this standard as of December 31, 2006.

SCC Defined Benefit Pension Plans.

The Company has two noncontributory defined benefit pension plans covering former salaried employees in the United States and certain former employees in Peru. Effective October 31, 2000, the Board of Directors amended the qualified pension plan to suspend the accrual of benefits.

The components of net periodic benefit costs calculated in accordance with SFAS No. 87 Employers Accounting for Pensions , using December 31 as a measurement date, consist of the following:

	Year ended December 31,		
(in millions)	**2007**	**2006**	**2005**
Interest cost	$ 0.6	$ 0.6	$ 0.6
Expected return on plan assets	(0.5)	(0.5)	(0.5)
Amortization of net loss	0.1	0.1	
Net periodic benefit cost	$ 0.2	$ 0.2	$ 0.1

The change in benefit obligation and plan assets and a reconciliation of funded status are as follows:

	As of December 31,	
(in millions)	**2007**	**2006**
Change in benefit obligation:		

Projected benefit obligation at beginning of year	$	12.4	$	11.9
Interest cost		0.6		0.7
Benefits paid		(0.9)		(0.9)
Actuarial gain (loss)		(0.5)		0.7
Projected benefit obligation at end of year	$	11.6	$	12.4
Change in Plan Assets:				
Fair value of plan assets at beginning of year	$	12.0	$	12.4
Actual return on plan assets		0.8		0.5
Employer contributions		0.5		
Benefits paid		(0.9)		(0.9)
Administrative expenses				
Fair value of plan assets at end of year	$	12.4	$	12.0
Funded Status at end of year:	$	0.8	$	(0.4)

SFAS No. 158 amounts recognized in statement of financial position consists of:				
Non current assets	$	0.8		
Current liabilities				
Non current liabilities			$	0.4
Total	$	0.8	$	0.4
SFAS No. 158 amounts recognized in accumulated other comprehensive income consists of:				
Net loss (gain) net of income tax	$	1.8	$	2.4
Prior service cost (credit)				
Transition obligation (asset)				
Total (net of income tax of $1.0 million and $1.3 million, respectively)	$	1.8	$	2.4

The following table summarized the changes in accumulated other comprehensive income for the year ended December 31, 2007 related to our pension and post-retirement plans (net of income tax in million):

	As of December 31,			
(in millions)		**2007**		**2006**
Reconciliation of accumulated other comprehensive income:				
Accumulated other comprehensive income at beginning of plan year	$	2.4	$	
Effect of adopting FAS 158				2.4
Net loss/(gain) amortized during the year		(0.6)		
Net adjustment to acccumulated other comprehensive income		(0.6)		2.4
Accumulated other comprehensive income at end of plan year	$	1.8	$	2.4

The following table summarizes the amounts in accumulative other comprehensive income amortized and recognized as a component of net periodic benefit cost in 2007 (net of income tax, in millions):

	As of December 31,		
(in millions)		**2007**	**2006**
Amortization of prior service cost (credit)			N/A
Amortization of net losses		(0.1)	N/A
Total amortization expenses	$	(0.1)	N/A

The assumptions used to determine the pension obligation and seniority premiums as of year end and net cost in the ensuing year were:

	2007	**2006**	**2005**
Discount rate	6.25%	5.50%	5.50%
Expected long-term rate of return on plan asset	4.50%	4.50%	4.50%
Rate of increase in future compensation level	N/A	N/A	N/A

The scheduled maturities of the benefits expected to be paid in each of the next five years, and thereafter, are as follows:

Year		Expected Benefit Payments (in millions)
2008	$	0.9
2009		0.9
2010		0.9
2011		0.9
2012		0.9
2013 to 2016		4.5
Total	$	9.0

The Company s funding policy is to contribute amounts to the qualified plan sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974, plus such additional amounts as the Company may determine to be appropriate. Plan assets are invested in commingled stock and bond funds.

The Company s policy for determining asset mix-targets includes periodic consultation with recognized third party investment consultants. The expected long-term rate of return on plan assets is updated periodically, taking into consideration asset allocations, historical returns and the current economic environment. Based on these factors we expect our assets will earn an average of 4.5% per annum assuming our long-term mix will be consistent with our current mix and an assumed discount rate of 6.25%. The fair value of plan assets is impacted by general market conditions. If actual returns on plan assets vary from the expected returns, actual results could differ.

SCC Post-retirement Health Care Plan

The Company adopted the post-retirement health care plan for retired salaried employees eligible for Medicare on May 1, 1996. The plan is unfunded.

Effective October 31, 2000, the health care plan for retirees was terminated and the Company informed retirees that they would be covered by the then in effect post-retirement health care plan of Asarco, a former shareholder of the Company and a subsidiary of Grupo Mexico, which offered substantially the same benefits and required the same contributions. As a result of the Chapter 11 proceedings, Asarco is no longer managing the plan. The Company has assumed management of the plan and is currently providing health benefits to retirees. The plan is accounted for in accordance with SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions , as amended by SFAS No. 158.

The components of net period benefit costs are as follows:

	Year ended December 31,					
(in millions)		2007		2006		2005
Service cost	$		$		$	
Interest cost		0.1		0.1		0.1

Net periodic benefit cost	$	0.1	$	0.1	$	0.1

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The change in benefit obligation and a reconciliation of funded status are as follows:

(in millions)	As of December 31, 2007		2006	
Change in Benefit Obligation:				
Benefit obligation at beginning of year	$	1.4	$	1.4
Interest cost		0.1		0.1
Plan Amendments				
Benefits paid		(0.1)		(0.1)
Actuarial (gain) or loss		(0.1)		
Benefit obligation at end of year	$	1.3	$	1.4
Change in Plan Assets:				
Fair value of plan assets at beginning of year	$		$	
Employer contributions		0.1		0.1
Benefits paid		(0.1)		(0.1)
Fair value of plan assets at end of year	$		$	
Funded status at end of year	$	(1.3)	$	(1.4)
SFAS No. 158 amounts recognized in statement of financial position consists of:				
Non current assets				
Current liabilities		(0.1)		(0.1)
Non current liabilities		(1.2)		(1.3)
Total	$	(1.3)	$	(1.4)
SFAS No. 158 amounts recognized in accumulated other comprehensive income consists of:				
Net loss (gain)	$	0.4	$	0.4
Prior service cost (credit)		(0.3)		(0.3)
Total (net of income tax)	$	0.1	$	0.1

The following table summarized the changes in accumulated other comprehensive income for the year ended December 31, 2007 related to our pension and post-retirement plans (pre-tax in million):

(in millions)	As of December 31, 2007		2006	
Reconciliation of accumulated other comprehensive income:				
Accumulated other comprehensive income at beginning of plan year:	$	0.1	$	
Effect of adopting FAS 158				0.1
Net loss/gain amortized during the year		(*)		
Net adjustment to accumulated other comprehensive income		(*)		0.1
Accumulated other comprehensive income at end of plan year	$	0.1	$	0.1

(*) less than $0.1 million

The following table summarizes the amounts in accumulative other comprehensive income amortized and recognized as a component of net periodic benefit cost in 2007 (net of income tax, in millions):

(in millions)		As of December 31, 2007	2006
Amortization of prior service cost (credit)	$	0.1	N/A
Amortization of net losses		(0.1)	N/A
Total amortization expenses	$		N/A

The discount rate used in the calculation of other post-retirement benefits and cost as of December 31, 2007 and 2006 was 6.25% and 5.5%, respectively.

The benefits expected to be paid in each of the next five years, and thereafter, are as follows:

(in millions) Year		**Expected Benefit Payments**
2008	$	0.1
2009		0.1
2010		0.1
2011		0.1
2012		0.1
2013 to 2016		0.3
Total	$	0.8

For measurement purposes, a 8.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2007. The rate is assumed to decrease gradually to 5% for 2013 and remain at that level thereafter.

Assumed health care cost trend rates can have a significant effect on the amount reported for the health care plan. A one percentage-point change in assumed health care trend rate would not have a significant effect.

Minera Mexico Defined Benefit Pension Plans

Minera Mexico has established for its salaried employees a defined contribution benefit pension plan. This plan is in addition to benefits granted by the Instituto Mexicano de Seguro Social (IMSS). Under this plan, the Company will make yearly matching contributions equaling 3% of participating employee s base salary. Related to this, the Company recorded a contribution expense of $0.7 million and $1.1 million in 2007 and 2006, respectively. The defined contribution plan liability was $3.4 million and $4.1 million in 2007 and 2006, respectively.

The benefits earned in the Company s defined benefit plan are based on salaries adjusted by inflation. As Mexico has experienced a period of low inflation in recent years, the benefits earned from the IMSS have exceeded those earned from the Company s non-contributory defined benefit plan. Due to this fact, and due to the fact that the Company wants to assure the economic well being of its retired employees, the Company decided in 2006 to create a new defined contribution plan. Certain groups of salaried employees agreed to transfer from the non-contributory defined benefit plan to the new defined contribution plan. Benefits earned by participating employees as of January 1, 2006 were transferred into the new defined contribution plan. The initial transfer of benefits from the non-contributory defined benefit plan to the new defined contribution plan equaled $13.7 million.

In 2006 the change in plan was accounted for as a settlement under SFAS88, Employee s Accounting for Settlements and Curtailments of Deferred Benefit Pension Plans and for Termination Benefits . The Company recorded a $1.7 million settlement gain in relation to the change in plan.

Minera Mexico has established for its union employees a non-contributory defined benefit pension plan. This plan is in addition to benefits granted by IMSS.

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The components of net periodic benefit costs calculated in accordance with SFAS No. 87 Employers Accounting for Pensions , using December 31 as a measurement date, consist of the following:

	For the years ended December 31,		
(in millions)	**2007**	**2006**	**2005**
Interest cost	$ 2.2	$ 1.8	$ 2.9
Service cost	2.2	2.1	2.6
Expected return on plan assets	(3.1)	(2.0)	3.1
Amortization of transition assets, net	(0.1)		(0.2)
Recognized net actuarial loss	(0.2)		0.2
Settlement (Gain)		(1.7)	
Amortization of prior services cost	0.2		
Net period benefit cost	$ 1.2	$ 0.2	$ 8.6

The change in benefit obligation and plan assets are as follows:

	December 31,	
(in millions)	**2007**	**2006**
Change in benefit obligation:		
Projected benefit obligation at beginning of year	$ 36.1	$ 42.1
Service cost	2.2	2.1
Interest cost	2.2	1.8
Actuarial (loss) gain, net		3.9
Amendments		3.2
Settlements		(14.7)
Benefits paid	(0.7)	(1.7)
Inflation adjustment		(0.6)
Projected benefit obligation at end of year	$ 39.8	$ 36.1
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 33.6	$ 36.6
Actuarial return on plan assets	7.5	11.9
Employer contribution		(0.7)
Benefits paid	(0.5)	(0.5)
Other transfer	(0.4)	(13.7)
Fair value of plan assets at end of year	$ 40.2	$ 33.6
Funded status	$ 0.4	$ (2.5)
SFAS No. 158 amounts recognized in statement of financial position consists of:		
Non current assets	$ 0.4	
Current liabilities		
Non current liabilities		(2.5)
Total	$ 0.4	$ (2.5)
SFAS No. 158 amounts recognized in accumulated other comprehensive income consists of:		
Net loss (gain)	$ (4.8)	$ (2.1)
Prior service cost (credit)	1.2	1.3
Transition Obligation (asset)	(0.2)	(0.2)
Total (net of income tax of $2.3 million and $4.0 million, respectively)	$ (3.8)	$ (1.0)

Explanation of Responses:

The following table summarizes the changes in accumulated other comprehensive income for the year ended December 31, 2007 related to our pension and post-retirement plans (net of income tax in millions):

(in millions)	As of December 31, 2007	2006
Reconciliation of accumulated other comprehensive income:		
Accumulated other comprehensive income at beginning of plan year:	$ (1.0)	$
Effect of adopting FAS 158		(1.0)
Amortization of transition obligation (asset)	(*)	
Prior services cost amortized during the year	0.1	
Net loss/gain amortized during the year	(0.1)	
Net gains occurring during the year.	(2.7)	
Currency exchange rate changes	(0.1)	
Net adjustment to accumulated other comprehensive income	(2.8)	(1.0)
Accumulated other comprehensive income at end of plan year	$ (3.8)	$ (1.0)

(*) Amount less than $0.1 million

The following table summarizes the amounts in accumulative other comprehensive income amortized and recognized as a component of net periodic benefit cost in 2007 (net of income tax, in millions):

(in millions)	As of December 31, 2007	2006
Amortization of transition asset	(0.1)	N/A
Amortization of net losses	(0.2)	N/A
Amortization of prior services cost	0.2	N/A
Total amortization expenses	(0.1)	N/A

The assumptions used to determine the pension obligation and seniority premiums as of year-end and net cost in the ensuing year were:

	2007	2006	2005
Weighted average discount rate	8.0%	10.0%	10.0%
Expected long-term rate of return on plan asset	8.0%	12.0%	12.0%
Rate of increase in future compensation level	4.5%	6.0%	6.0%

These rates are based on Mexican pesos as pension plan payments will be paid in Mexico.

The benefits expected to be paid in each of the next five years, and thereafter, are as follows:

(in millions) **Year**		**Expected** **Benefit Payments**
2008	$	29.4
2009		0.8
2010		0.8
2011		0.9
2012		0.9
2013 to 2016		5.7
Total		38.5

Minera Mexico s policy for determining asset mix targets includes periodic consultation with recognized third party investment consultants. The expected long-term rate of return on plan assets is updated periodically, taking into consideration assets allocations, historical returns and the current economic environment. The fair value of plan assets is impacted by general market conditions. If actual returns on plan assets vary from the expected returns, actual results could differ.

These plans accounted for approximately 30% of benefit obligations. The following table represents the asset mix of the investment portfolio as of December 31:

	2007	**2006**
Asset category:		
Equity securities	70%	79%
Treasury bills	30%	21
	100%	100%

The amount of contributions that the Company expects to be paid to the plan during 2007 is not material.

Minera Mexico Post-retirement health care plan

The components of net period benefit costs are as follows:

	For the year ended December 31,		
(in millions)	**2007**	**2006**	**2005**
Interest cost	$ 2.4	$ 2.3	$ 2.2
Service cost	0.5	0.5	0.4
Amortization of net loss (gain)	0.1		
Amortization of transition obligation	1.6		1.6
Inflation adjustment	0.2		
Net periodic post-retirement benefit costs	$ 4.6	$ 2.8	$ 4.2

The change in benefit obligation and a reconciliation of funded status are as follows:

	As of December 31	
(in millions)	**2007**	**2006**
Change in benefit obligation:		
Projected benefit obligation at beginning of year	$ 50.7	$ 48.8
Service cost	0.5	0.5
Interest costs	2.4	2.3
Actuarial (loss) gain, net	10.9	0.9
Benefits paid	(3.3)	(3.0)
Settlements		
Inflation adjustment	2.1	1.2
Projected benefit obligation at end of year	$ 63.3	$ 50.7

Funded status	$	(63.3)	$	(50.7)
SFAS No. 158 amounts recognized in statement of financial position consists of:				
Non current assets	$		$	
Current liabilities				
Non current liabilities		(63.3)		(50.7)
Total	$	(63.3)	$	(50.7)
SFAS No. 158 amounts recognized in accumulated other comprehensive income consists of:				
Net loss (gain)	$	11.7	$	4.9
Prior service cost (credit)				
Transition Obligation (asset)		15.5		15.8
Total (net of income tax of $16.7 million and $12.5 million, respectively)	$	27.2	$	20.7

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The following table summarized the changes in accumulated other comprehensive income for the year ended December 31, 2007 related to our pension and post-retirement plans (net of income tax in million):

	As of December 31,	
(in millions)	**2007**	**2006**
Reconciliation of accumulated other comprehensive income:		
Accumulated other comprehensive income at beginning of plan year:	20.7	
Effect of adopting FAS 158		20.7
Amortization of transition obligation	(1.0)	
Net loss/ (gain) occuring during the year.	6.8	
Currency exchange rate changes	0.7	
Net adjustment to accumulated other comprehensive income	6.5	20.7
Accumulated other comprehensive income at end of plan year	27.2	20.7

The following table summarizes the amounts in accumulative other comprehensive income amortized and recognized as a component of net periodic benefit cost in 2007 (net of income tax, in millions):

	As of December 31,	
(in millions)	**2007**	**2006**
Amortization of prior service cost (credit)	1.6	N/A
Amortization of net losses	0.1	N/A
Total amortization expenses	1.7	N/A

Discount rates used in the calculation of other post-retirement benefits and costs as of December 31, 2007 and 2006 were 4.0% and 5.0%, respectively.

The benefits expected to be paid in each of the next five years, and thereafter, are as follows:

(in millions) **Year**	**Expected** **Benefit Payments**
2008	4.4
2009	4.7
2010	5.0
2011	5.3
2012	5.6
2013 to 2016	32.5
Total	57.5

For measurement purposes, a 2.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2008 and remains at that level thereafter.

An increase in other benefit cost trend rates have a significant effect on the amount of the reported obligations as well as component cost of the other benefit plan. One

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percentage-point change in assumed other benefits cost trend rates would have the following effects:

	One Percentage Point	
(in millions)	Increase	Decrease
Effect on total service and interest cost components	$ 4.0	$ 3.1
Effect on the post-retirement benefit obligation	$ 71.7	$ 56.4

NOTE 13-MINORITY INTEREST:

For all the years presented, in the consolidated combined statement of earnings the minority interest is based on the earnings of the Company s Peruvian Branch, and through October 2005 it also included the interest of minority shareholders in Minera Mexico. In October 2005, the Company acquired an additional 0.81833% of the outstanding shares of Minera Mexico for $30.3 million. This acquisition increased the Company s holding in Minera Mexico to 99.95%.

The minority interest of the Company s Peruvian Branch is for investment shares, formerly called labor shares. These shares were generated by legislation in place in Peru from the 1970s through 1989; such legislation provided for the participation of mining workers in the profits of the enterprises for which they worked. This participation was divided between equity and cash. The investment shares included in the minority interest on the balance sheet are the still outstanding equity distributions made to the Peruvian Branch s employees.

In prior years the Company acquired some Peruvian investment shares at market value. These acquisitions have been accounted for as purchases of minority interests. The excess paid over the carrying value was assigned to intangible assets and is being amortized based on production. As a result of these acquisitions, the remaining investment shareholders hold a 0.71% interest in the Peruvian Branch and are entitled to a pro rata participation in the cash distributions made by the Branch. The shares are recorded as a minority interest in the Company s financial statements.

NOTE 14-COMMITMENTS AND CONTINGENCIES:

Environmental matters:

The Company has instituted extensive environmental conservation programs at its mining facilities in Peru and Mexico. The Company s environmental programs include, among other things, water recovery systems to conserve water and minimize impact on nearby streams, reforestation programs to stabilize the surfaces of the tailings dams, and the implementation of scrubbing technology in the mines to reduce dust emissions.

Peruvian operations

The Company s operations are subject to applicable Peruvian environmental laws and regulations. The Peruvian government, through its Ministry of Energy and Mines (MEM) conducts annual audits of the Company s Peruvian mining and metallurgical operations. Through these environmental audits, matters related to environmental commitments, compliance with legal requirements, atmospheric emissions, and effluent monitoring are reviewed. The Company believes that it is in material compliance with applicable Peruvian environmental laws and regulations.

In the first quarter of 2007, with the completion of the Ilo smelter modernization, the Company completed a 10-year environmental program agreed to with the Peruvian government in 1997. This program applied to all of the Company s Peruvian operations and contained 34 mitigation measures and projects necessary to (1) bring the existing operations into compliance with the environmental standards established by the MEM and (2) identify areas impacted by operations that were no longer active and needed to be reclaimed.

In 2003 the Peruvian congress published a new law announcing future closure and remediation obligations for the mining industry. In August 2006, in accordance with this law and its amendments the Company prepared and submitted to MEM a closure plan. The Company is awaiting MEM s review of this plan. See note 10 Asset Retirement Obligation for further disclosure of this matter.

For the Company s Peruvian operations, environmental capital expenditures were $21.6 million, $161.0 million and $235.1 million in 2007, 2006 and 2005, respectively. The Company expects to spend approximately $14.1 million for environmental capital expenditures in 2008.

Mexican operations

The Company s operations are subject to applicable Mexican federal, state and municipal environmental laws, to Mexican official standards, and to regulations for the protection of the environment, including regulations relating to water supply, water quality, air quality, noise levels and hazardous and solid waste. Some of these laws and regulations are relevant to legal proceedings pertaining to the Company s San Luis Potosi copper facilities.

The principal legislation applicable to the Company s Mexican operations is the federal General Law of Ecological Balance and Environmental Protection, which is enforced by the Federal Bureau of Environmental Protection (PROFEPA). The PROFEPA monitors compliance with environmental legislation and enforces Mexican environmental laws, regulations and official standards. PROFEPA may initiate administrative proceedings against companies that violate environmental laws, which in the most egregious cases may result in the temporary or permanent closing of non-complying facilities, the revocation of operating licenses and/or other sanctions or fines. Also, according to the Federal Criminal Code, the PROFEPA must inform corresponding authorities regarding environmental non-compliance.

Mexican environmental regulations have become increasingly stringent over the last decade, and this trend is likely to continue and has been influenced by the environmental treaty entered into by Mexico, United States and Canada in connection with NAFTA in February 1999. However, the Company s management does not believe that continued compliance with the Environmental Law or Mexican State environmental laws will have a material adverse effect on the Company s business, properties, results of operations, financial condition or prospects or will result in material capital expenditures. Although the Company believes that all of its facilities are in material compliance with applicable environmental, mining and other laws and regulations, the Company cannot assure that future laws and regulations would not have a material adverse effect on the Company s business, properties, results of operations, financial condition or prospects.

Due to the proximity of certain facilities of Minera Mexico to urban centers, the authorities may implement certain measures that may impact or restrain the operation of such facilities.

For the Company s Mexican operations, environmental capital expenditures were $25.8 million, $5.3 million and $7.5 million in 2007, 2006 and 2005, respectively. Approximately, $45.2 million has been budgeted for environmental capital expenditures in 2008.

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Litigation matters:

Peruvian operations

Garcia-Ataucuri and Others against SCC: In April 1996, the Company was served with a complaint filed in Peru by approximately 800 former employees seeking the delivery of a substantial number of labor shares (acciones laborales) of its Peruvian Branch plus dividends on such shares, to be issued in a proportional way to each former employee in accordance with their time of work with SCC s Peruvian Branch.

The Company conducts its operations in Peru through a registered Branch. Although the Peruvian Branch has neither capital nor liability separate from that of the Company, under Peruvian law it is deemed to have an equity capital for purposes of determining the economic interest of the holders of the labor shares. The labor share litigation is based on claims of former employees for ownership of labor shares issued during the 1970s until 1989 under a former Peruvian mandated profit sharing system. In 1971, the Peruvian government enacted legislation providing that workers in the mining industry would participate in the pre-tax profits of the enterprises for which they worked at a rate of 10%. This participation was distributed 40% in cash and 60% as an equity interest in the enterprise. Under the law, the equity participation was originally delivered to the Mining Community , an organization representing all workers. The cash portion was distributed to the workers after the close of the year. The accrual for this participation was (and continues to be) a current liability of the Company, until paid. In 1978, the law was amended and the equity distribution was calculated at 5.5% of pre-tax profits and was made to individual workers of the enterprise in the form of labor shares to be issued in Peru by the Peruvian Branch of SCC. These labor shares represented an equity interest in the enterprise. In addition, according to the 1978 law, the equity participations previously distributed to the Mining Community were returned to the Company and redistributed in the form of labor shares to the individual employees or former employees. The cash participation was adjusted to 4.0% of pre-tax earnings and continued to be distributed to employees following the close of the year. Effective in 1992, the law was amended to its present status, and the workers participation in pre-tax profits was set at 8%, with 100% payable in cash. The equity participation component was eliminated from the law.

In 1995, the Company offered to exchange new common shares of the Company for the labor shares issued under the prior Peruvian law. Approximately 80.8% of the issued labor shares were exchanged for the Company s common shares, greatly reducing the minority interest on the Company s balance sheet. What remains of the workers equity participation is now included on the consolidated balance sheet under the caption Minority interest.

In relation to the issuance of labor shares by the Branch in Peru, the Company is a defendant in the following lawsuits:

1) As stated above, in April 1996, the Company was served with a complaint filed in Peru by approximately 800 former employees, (Garcia Ataucuri and others vs. SCC), seeking the delivery of 38,763,806.80 labor shares (acciones laborales), now investment shares (acciones de inversion) (or S/. 3,876,380,679.56), as required by Law # 22333, to be issued in a proportional way to each former employee or worker in accordance with their time of work with SCC s Branch in Peru, plus dividends on such shares. In 2000 SCC appealed an adverse decision of an appellate civil court, affirming a decision of a lower civil court, to the Peruvian Supreme Court. On September 19, 2001, the Peruvian Supreme Court annulled the proceedings noting that the civil courts lacked jurisdiction and that the matter had to be decided by a labor court. On March 8, 2002, Mr. García Ataucuri restated the claim to comply with Peruvian labor law and procedural requirements, and increased the number of

Explanation of Responses:

plaintiffs to approximately 958 ex-workers. In January 2005, the lower labor judge dismissed the lawsuit on procedural grounds without deciding on the merits of the case. In March 2005, the plaintiffs appealed this decision but the appellate court dismissed the appeal due to procedural defects and remanded the case to the lower labor court for further proceedings. The lower labor court, on motions from the plaintiffs, reinstated the appeal of the dismissal of the case of seven plaintiffs that had cured the procedural defects. As of December 31, 2007, the case remains open with no further new developments. The labor court has temporarily lost jurisdiction over this case until the Supreme Court decides on the Constitutional Tribunal s decision described below.

In October 2007, in a separate proceeding initiated by Mr. García Ataucuri against the justices of the Peruvian Supreme Court, the Peruvian Constitutional Court nullified the Peruvian Supreme Court decision issued on September 19, 2001 because it had violated Mr. Garcia-Ataucuri s constitutional due process rights by obliging him and the other plaintiffs to commence a new proceeding before the labor courts when they had litigated against the Company in civil courts for over 10 years. The Peruvian Constitutional Court ordered the Supreme Court to decide again on the merits of the case accepting or denying the Company s 2000 appeal.

Although the Company was not formally a party to the Garcia Ataucuri proceedings before the Peruvian Constitutional Court, the nullity of the favorable decision of the Supreme Court, issued on September 19, 2001, is final and cannot be appealed by the Company.

It is uncertain how the Peruvian Supreme Court will decide on the Company s 2000 appeal and the merits of the case in view of the decision of the Peruvian Constitutional Court.

In October 2007, a Peruvian prosecuting attorney investigating an accusation made by Mr. Garcia Ataucuri against various officers of the Company s Peruvian Branch agreed with Mr. Ataucuri that the non issuance of shares in the Ataucuri case constituted an illegal appropriation of same. The Company filed an action against the prosecuting attorney before a criminal judge, who decided in favor of the Company annulling the accusation of Mr. Ataucuri. In November 2007 a criminal appeals court affirmed the decision of the lower court. This decision is final and cannot be appealed.

2) Additionally, on May 10, 2006, the Company was served with a new complaint filed in Peru, this time by 44 former employees, (Cornejo Flores and others vs. SCC), seeking delivery of (1) labor shares (or shares of whatever other current legal denomination)corresponding to years 1971 to December 31, 1977 (the plaintiffs are seeking the same 38,763,806.80 labor shares mentioned in the prior lawsuit), that should have been issued in accordance with Law # 22333, plus interest and (2) labor shares resulting from capital increases made by the Branch in 1980 for the amount of the workers participation of S/.17,246,009,907.20, equivalent to 172,460,099.72 labor shares , plus dividends. On May 23, 2006, the Company answered this new complaint, denying the validity of the claim. As of December 31, 2007 the case remains in the discovery stage.

The Company asserts that the claims are without merit and that the labor shares were distributed to the former employees in accordance with the profit sharing law then in effect. We do not believe that an unfavorable outcome is reasonably possible. The Company has not made a provision for these lawsuits because it believes that it has meritorious defenses to the claims asserted in the complaints.

Mineria Integral S.A.C.: In January 2007, the Company was served with three claims filed

in Peru by Mineria Integral S.A.C. The claims allege that the Company has trespassed on certain mining rights of the plaintiff, in Ilo, Department of Moquegua, and seek that the Company desist from the trespass and pay compensation in the amount of $49.1 million. The Company believes that these administrative procedures are without merit and is vigorously defending itself against these actions.

Mexican operations

The Mexican Geological Services (MGS) Royalties: In August 2002, MGS (formerly named Council of Mineral Resources (COREMI)) filed with the Third Federal District Judge in Civil Matters, an action demanding from Mexcobre the payment of royalties since 1997. In December 2005, Mexcobre signed an agreement with MGS. Under the terms of this agreement the parties established a new procedure to calculate the royalty payments applicable for 2005 and the following years, and the Company paid in January 2006, $6.9 million of royalties for 2005 and $8.5 million as payment on account of royalties from the third quarter 1997 through the last quarter of 2004. The Company estimates that the payment made on January 11, 2006 will cover 100% of the royalty payments required for 2004 and prior periods. On January 22, 2007 the Third Federal District Judge issued a ruling regarding the payment related to the period from the third quarter of 1997 through the fourth quarter of 2004. This ruling was appealed by both parties in February 2007. The appeal was lost by the Company in October 2007. The Company filed a protective action (Amparo) before the First Unitary Tribunal of the First Circuit, which resolution is pending. The Company believes that the payment made on account for this period is correct.

On an ongoing basis the Company is required to pay a 1% royalty on La Caridad s copper production value after deduction of treatment and refining charges and certain other carrying costs.

San Luis Potosi Facilities: The municipality of San Luis Potosi has granted Desarrolladora Intersaba, S.A. de C.V. (Intersaba), licenses for use of land and construction of housing and/or commercial zones in the former Ejido Capulines zone, where the residential project Villa Magna is expected to be developed in the near future.

The Villa Magna residential project is being developed within an area that IMMSA s Risk Analysis approved by SEMARNAT (the federal environmental authority), has secured as a safeguard and buffer zone due to the use by IMMSA of anhydrous ammonia gas.

Based on the foregoing, IMMSA has initiated two different actions regarding this matter. First, against the municipality of San Luis Potosi, requesting the annulment of the authorization and licenses granted to Intersaba to develop Villa Magna within the zinc plant s safeguard and buffer zone, and second, filed before SEMARNAT for the declaration of a safeguard and buffer zone surrounding IMMSA s zinc plant.

In August 2006, the first action was resolved by a Federal Court, which denied IMMSA s request. In September 2006, IMMSA submitted its final appeal to the Supreme Court of Justice and in February 2007, the court ruled against IMMSA.

IMMSA believes that while this outcome was adverse to its interests, the construction of the Villa Magna housing and commercial development will not, in itself, affect the operations of IMMSA s zinc plant.

Intersaba has filed a lawsuit against IMMSA, requesting payment of damages in the amount of approximately $11.0 million supposedly caused by IMMSA during these proceedings. IMMSA intends to vigorously defend against this lawsuit.

In addition to the foregoing, IMMSA has initiated a series of legal and administrative procedures against the Municipality of San Luis Potosi due to its refusal to issue IMMSA s use of land permit (*licencia de uso de suelo*) in respect to its zinc plant. A federal judge ruled that IMMSA s use of land permit should be granted. The municipal authorities are evaluating how to comply with the ruling.

Labor matters:

In recent years the Company has experienced a number of strikes or other labor disruptions that have had an adverse impact on its operations and operating results.

Peruvian Operations

Collective bargaining agreements with the Company s Peruvian labor unions expired in 2007. A number of strikes were initiated by the Company s labor unions, demanding wage increases and better benefits. In addition, some of the unions went on strike in support of national union strikes. These strikes were generally of a brief nature and the Company was able to continue normal operations with the support of staff and administrative personnel and contractors. New collective bargaining agreements, for periods ranging from three to six years were signed with all of the Company s Peruvian unions.

Mexican operations

Beginning July 2007, our mines at Cananea, Taxco and San Martin went on strike. On January 11, 2008 the Mexican federal labor court declared the Cananea strike illegal and ordered the workers to return to work within 24 hours. This ruling was challenged before a federal judge who upheld the union s case on February 14, 2008. The Company will appeal this unfavorable ruling. The Company expects that it will take about three months to return to full production at Cananea. At Taxco, operations have been put on standby due to the strike. Resuming operations at San Martin remains dependant upon the results of litigation. Additionally, the Company estimates that 178.4 million pounds and 25.6 million pounds of copper and zinc production, respectively, were lost in these strikes, as well as $487.5 million in operating income.

During 2006, there were a number of work stoppages at some of the Company s Mexican operations. While some of these work stoppages were of a short-term nature with little or no production loss, others have been more disruptive. A strike at the La Caridad copper mine in Sonora began in the first quarter of 2006 and ended in July 2006. As a result of these strikes, the Company declared force majeure on certain of its June and July copper contracts. In 2006, we also experienced strikes at our Cananea and San Martin mines.

Other legal matters

Class actions: Three purported class action derivative lawsuits have been filed in the Delaware Court of Chancery (New Castle County) late in December 2004 and early January 2005 relating to the acquisition of Minera Mexico by SCC. On January 31, 2005, the three actions Lemon Bay, LLP v. Americas Mining Corporation, et al., Civil Action No. 961-N, Therault Trust v. Luis Palomino Bonilla, et al., and Southern Copper Corporation, et al., Civil Action No. 969-N, and James Sousa v. Southern Copper Corporation, et al., Civil Action No. 978-N were consolidated into one action titled, In re Southern Copper Corporation Shareholder Derivative Litigation, Consol. C. A. No. 961-N and the complaint filed in Lemon Bay was designated as the operative complaint in the consolidated lawsuit. The consolidated action purports to be brought on behalf of the Company s common stockholders.

The consolidated complaint alleges, among other things, that the acquisition of Minera

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Mexico is the result of breaches of fiduciary duties by the Company s directors and is not entirely fair to the Company and its minority stockholders. The consolidated complaint seeks, among other things, a preliminary and permanent injunction to enjoin the acquisition, the award of damages to the class, the award of damages to the Company and such other relief that the court deems equitable, including interest, attorneys and experts fees and costs. The defendants believe that this lawsuit is without merit and are vigorously defending the action.

The Company s management believes that the outcome of the aforementioned legal proceeding will not have a material adverse effect on the Company s financial position or results of operations.

The Company is involved in various other legal proceedings incidental to its operations, but the Company does not believe that decisions adverse to it in any such proceedings individually or in the aggregate would have a material adverse effect on its financial position or results of operations.

Our direct and indirect parent corporations, including AMC and Grupo Mexico, have from time to time been named parties in various litigations involving Asarco LLC (Asarco). In August 2002 the U.S. Department of Justice brought a claim alleging fraudulent conveyance in connection with AMC s then-proposed purchase of SCC from a subsidiary of Asarco. That action was settled pursuant to a Consent Decree dated February 2, 2003. In March 2003, AMC purchased its interest in SCC from Asarco. In October 2004, AMC, Grupo Mexico, Mexicana de Cobre and other parties, not including SCC, were named in a lawsuit filed in New York State court in connection with alleged asbestos liabilities, which lawsuit claims, among other matters, that AMC s purchase of SCC from Asarco should be voided as a fraudulent conveyance. The lawsuit filed in New York State court was stayed as a result of the August 2005 Chapter 11 bankruptcy filing by Asarco, as described below. However, on November 16, 2007, this lawsuit, after being removed from Federal Court, was transferred to the United States District Court for the Southern District of Texas in Brownsville, Texas, for resolution in conjunction with a new lawsuit filed by Asarco, the debtor in possession, as described below. On February 2, 2007 a complaint was filed by Asarco, the debtor in possession, alleging many of the matters previously claimed in the New York State lawsuit, including that AMC s purchase of SCC from Asarco should be voided as a fraudulent conveyance. In late December 2004 and early January 2005, three purported class action derivative lawsuits were filed in the Delaware Court of Chancery (New Castle County) relating to the merger transaction between SCC and Minera Mexico. On January 31, 2005, the three actions were consolidated. The consolidated complaint alleges, among other things, that the merger was the result of breaches of fiduciary duties by SCC s directors and was not entirely fair to SCC and its minority stockholders. The case is currently in the early stages of discovery. The defendants believe that the lawsuit is without merit and are vigorously defending the action. While Grupo Mexico and its affiliates believe that these claims are without merit, we cannot assure you that these or future claims, if successful, will not have an adverse effect on the Company s parent corporation or the Company. Any increase in the financial obligations of the Company s parent corporation, as a result of matters related to Asarco or otherwise could, among other effects, result in the Company s parent corporation attempting to obtain increased dividends or other funding from the Company. In 2005, certain subsidiaries of Asarco filed bankruptcy petitions in connection with alleged asbestos liabilities. In July 2005, the unionized workers of Asarco commenced a work stoppage. As a result of various factors, including the above-mentioned work stoppage, in August 2005 Asarco filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code before the U.S. Bankruptcy Court in Corpus Christi, Texas. Asarco s bankruptcy case is being joined with the bankruptcy cases of its subsidiaries. Asarco s bankruptcy could result in additional claims being filed against Grupo Mexico and its subsidiaries, including SCC, Minera Mexico or its subsidiaries.

Other:

Mine accident

On February 19, 2006 an explosion occurred at the IMMSA unit s Pasta de Conchos coal mine, located in San Juan de Sabinas, Coahuila, Mexico. Immediately thereafter and for 14 months, IMMSA conducted a comprehensive rescue effort. Federal and local

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Explanation of Responses:

governmental help and support was received. As a result of the accident eight miners were injured and 65 perished.

Both the Coahuila Public District Attorney (Procuraduria de Justicia) and the Federal Attorney s Office (Procuraduria Federal de la Republica) initiated investigations to establish the causes of the accident and the responsible party. A local judge at San Juan de Sabinas ordered five mine representatives to stand trial for the accident. On April 16, 2007 the judge terminated the case due to the indemnification for damages to the families of the victims, which was paid by the Company s insurance company. In January 2008, two families of the victims were granted additional indemnification by virtue of a federal ruling. Recovery efforts have stopped due to increased hazards and potential health risks for the recovery workers. On November 30, 2007, Federal labor officials have ordered the permanent closure of the mine.

Regional development contribution

In December 2006, the Company s Peruvian Branch signed a contract with the Peruvian government committing the Company to annual contributions for five years to support the regional development of Peru. This was in response to an appeal by the president of Peru to the mining industry. The contributions are being used for social benefit programs. In 2007, the Company made a contribution of $16.1 million, calculated based on 2006 Peruvian earnings after income tax. In accordance with the agreement in April 2007, this contribution was deposited with a separate entity, the Asociacion Civil Ayuda del Cobre which will make disbursements for approved investments in accordance with the agreement. The following years contributions could increase or decrease depending on copper prices. The commitment of the Branch is for a total of 1.25% of its annual earnings, after Peruvian income tax. If the copper price drops below $1.79 per pound the contribution will cease. The Company made a provision of $17.9 million for 2007 based on Peruvian Branch earnings.

Royalty charge

In June 2004, the Peruvian Congress enacted legislation imposing a royalty charge to be paid by mining companies. Under this law, the Company is subject to a 1% to 3% royalty, based on sales, applicable to the value of the concentrates produced in our Toquepala and Cuajone mines. The Company made provisions of $62.8 million, $67.2 million and $40.3 million in 2007, 2006 and 2005, respectively, for this royalty. These provisions are included in Cost of sales (exclusive of depreciation, amortization and depletion) in the consolidated combined statement of earnings.

Power purchase agreement

In 1997, SCC sold its Ilo power plant to an independent power company, Enersur S.A. (Enersur). In connection with the sale, a power purchase agreement was also completed under which SCC agreed to purchase all of its power needs for its 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 the Company s increased electricity requirements. SCC believes it can satisfy the need for increased electricity requirements from other sources, including local power providers.

Tax contingency matters:

Tax contingencies are provided for under FIN No 48 (see Note 8 Income Tax).

NOTE 15-STOCKHOLDERS EQUITY:

Merger adjustments:

Pursuant to U.S. GAAP, since both SCC and Minera Mexico are under common control for all the periods presented, the acquisition of Minera Mexico by SCC has been reflected at the historical carrying value of Minera Mexico s assets and liabilities in a manner similar to a pooling of interests. The difference in the value of the 134.4 million shares of SCC issued and the net carrying value of Minera Mexico has been recognized in equity as a reduction in additional paid-in capital. In addition, Minera Mexico s historical common stock, treasury stock and additional paid in capital accounts were eliminated and classified within SCC s additional paid-in capital. Minera Mexico s retained earnings were carried forward as reported to be combined with retained earnings of SCC. For the purpose of these financial statements, the issuing of 134.4 million shares has been reflected as if they had been outstanding as of January 1, 2005. Therefore, historical common stock and per share data presented herein differs from that previously reported by SCC on a stand-alone basis.

Common stock:

The Company had two classes of common shares outstanding. Class A common stockholders were entitled to five votes per share. Common share stockholders are entitled to one vote per share.

In connection with the acquisition of Minera Mexico, the Company s Class A common stock was converted into common stock and preferential voting rights were eliminated. On June 9, 2005, Cerro Trading Company, Inc., SPC Investors L.L.C., Phelps Dodge Overseas Capital Corporation and Climax Molybdenum B.V., subsidiaries of two of SCC s founding shareholder s and affiliates, sold their equity holdings in SCC.

Stock split:

On August 30, 2006 the Executive Committee of the Board of Directors declared a two-for-one split of the Company s outstanding common stock. On October 2, 2006 common shareholders of record at the close of business on September 15, 2006, received one additional share of common stock for every share owned. The Company s common stock began trading at its post-split price on October 3, 2006. The split increased the number of shares outstanding to 294,460,850 from 147,230,425. The stock split was recorded in our 2006 financial statements. All share and per share amounts were retroactively adjusted to reflect the stock split.

Appropriated Retained Earnings:

In 2007, Company management set aside $1.4 billion of unremitted earnings of its Mexican subsidiary, Minera Mexico, as appropriated retained earnings. It is Company s intention to indefinitely invest these funds in Mexico. These amounts are earmarked for the Company s Mexican expansion program. See also Note 8 of these financial statements.

Directors Stock Award Plan:

The Company established a stock award compensation plan for certain directors who are not compensated as employees of the Company. Under this plan, participants will receive 400 shares of common stock upon election and 400 additional shares following each annual meeting of stockholders thereafter. 200,000 shares of Southern Copper common stock have been reserved for this plan. At December 31, 2007 and 2006, 72,000 and 67,600 shares, respectively, have been awarded under this plan.

Employee Stock Purchase Plan:

In January 2007, the Company offered to eligible employees a stock purchase plan (the Employee Stock Purchase Plan) through a trust that acquires shares of Grupo Mexico stock for sale to its employees, and employees of subsidiaries, and certain affiliated companies. The purchase price is established at the approximate fair market value on the grant date. Every two years employees will be able to acquire title to 50% of the shares paid in the previous two years. The employees will pay for shares purchased through monthly payroll deductions over the eight year period of the plan. At the end of the eight year period, the Company will grant the participant a bonus of 1 share for every 10 shares purchased by the employee.

If Grupo Mexico pays dividends on shares during the eight year period, the participants will be entitled to receive the dividend in cash for all shares that have been fully purchased and paid as of the date that the dividend is paid. If the participant has only partially paid for shares, the entitled dividends will be used to reduce the remaining liability owed for purchased shares.

In the case of voluntary resignation of the employee, the Company will pay to the employee the purchase price applying a deduction based on the following schedule:

If the resignation occurs during:	**% Deducted**
1st year after the grant date	90%
2nd year after the grant date	80%
3rd year after the grant date	70%
4th year after the grant date	60%
5th year after the grant date	50%
6th year after the grant date	40%
7th year after the grant date	20%

In the case of involuntary termination of the employee, the Company will pay to the employee the difference between the fair market value of the shares at the date of termination of employment, and the purchase price. When the fair market value of the shares is higher than the purchase price, the Company will apply a deduction over the amount to be paid to the employee based on the following schedule.

If the termination occurs during:	**% Deducted**
1st year after the grant date	100%
2nd year after the grant date	95%
3rd year after the grant date	90%
4th year after the grant date	80%
5th year after the grant date	70%
6th year after the grant date	60%
7th year after the grant date	50%

In case of retirement or death of the employee, the Company will render the buyer or his legal beneficiary, the shares effectively paid as of the date of retirement or death.

For 2007, the stock based compensation expenses under this plan was $2.1 million. As of December 31, 2007, there was $14.9 million of unrecognized compensation expenses under this plan, which is expected to be recognized over a period of 8 years.

The following table presents the stock award activity for the year ended December 31, 2007:

	Shares		Unit Weighted Average Grant Date Fair Value
Outstanding shares at January 1, 2007			
Granted	4,834,717	$	3.50
Exercised			
Forfeited			
Outstanding shares at December 31, 2007	4,834,717	$	3.50

Executive Stock Purchase Plan:

Grupo Mexico also offers a stock purchase plan for certain members of its executive management and the executive management of its subsidiaries and certain affiliated companies. Under this plan, participants will receive incentive cash bonuses which are used to purchase up to 750,000 shares of Grupo Mexico over an eight year period. The fair value of the award is estimated on the date of grant and is recognized as compensation expense over a weighted average requisite service period of eight years. The Company recorded $0.5 million net of tax, in compensation expense in 2007. As of December 31, 2007, there was $3.2 million of unrecognized compensation cost, related to this plan, which is expected to be recognized over a weighted average period of eight years.

The following table presents the stock award activity for the year ended December 31, 2007:

	Shares		Unit Weighted Average Grant Date Fair Value
Outstanding shares at January 1, 2007	750,000	$	2.30
Granted			
Exercised	(292,500)		2.30
Forfeited			
Outstanding shares at December 31, 2007	457,500	$	2.30

Treasury Stock:

Included in treasury stock are shares of the Company s common stock carried at cost. In addition, included in treasury stock are shares of the Company s principal shareholder, Grupo Mexico. At December 31, 2007 and 2006 treasury stock held 399,712 shares and 404,112 shares of Southern Copper Corporation common stock with a cost of $4.4 million and $4.5 million, respectively. At December 31, 2007 and 2006 treasury stock held 144,783,673 Grupo Mexico shares and 145,289,025 Grupo Mexico shares with a cost of $82.4 million and $82.8 million, respectively.

The shares of Southern Copper Corporation are used to make awards under the Directors Stock Award plan.

The shares of Grupo Mexico are used to make awards under both the Employee Stock Purchase Plan and the Executive Stock Purchase Plan.

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Activity in treasury stock in the years 2007 and 2006 was as follows (in millions):

	2007	2006
Southern Copper Corporation common shares		
Balance as of January 1	$ 4.4	$ 4.5
Purchase of shares		
Used for corporate purposes	(*)	(0.1)
Balance as of December 31	4.4	4.4
Parent Company (Grupo Mexico) common shares		
Balance as of January 1	92.6	80.4
Other activity, including received dividends, interest and currency translation effect	77.7	12.2
Balance as of December 31	170.3	92.6
Treasury stock balance as of December 31	$ 174.7	$ 97.0

(*)Year 2007 is lower than $0.1 million.

In 2007 and 2006, the Company distributed 4,400 shares and 5,200 shares, respectively, of Southern Copper Corporation shares to directors under the Directors Stock Award Plan.

In 2007 the Company awarded 4.8 million shares of Grupo Mexico under the Employee Stock Purchase Plan.

NOTE 16-DERIVATIVE INSTRUMENTS:

The Company occasionally uses derivative instruments to manage its exposure to market risk from changes in commodity prices, interest rate and exchange rate risk exposures. The Company generally does not enter into derivative contracts unless it anticipates a future activity that is likely to occur that will result in exposing the Company to market risk.

Copper and zinc swaps:

During 2007, 2006 and 2005 the Company entered into copper collar and swaps contracts to protect a portion of its sales of copper production. In 2007 the Company entered into collar contracts for 77,350 metric tons of its copper production at weighted average minimum and maximum LME prices of $3.20 per pound and $4.07 per pound, respectively. Also in 2007 the Company entered into swap contracts for 5,400 metric tons of its copper production at a weighted average COMEX price of $3.71 per pound. In 2006 the Company entered into swap contracts for 384,500 metric tons of its copper production for future sales at a weighted average price of $3.17 per pound and during 2005 the Company entered into swap contracts for 299,457 metric tons of copper at a weighted average price of $1.63 per pound. Related to the settlement of these copper collar and swap contracts the Company recorded a gain of $10.9 million in 2007 and losses of $276.1 million and $23.5 million in 2006 and 2005, respectively. These gains and losses were recorded in net sales on the consolidated combined statement of earnings. Also, these gains and losses were recorded in net earnings in operating activities of the consolidated statement of cash flow.

In addition, in 2006 the Company entered into a zinc swap contract to protect the cost of a portion of the zinc concentrates purchases during the recovery from a fire at the San Luis Potosi zinc refinery. Related to the settlement of this zinc swap contract the Company recorded a loss of $0.2 million in 2006. This loss was recorded in net sales on the consolidated combined statement of earnings. Also, this loss was recorded in net earnings in operating activities of the consolidated statement of cash flow.

The Company did not enter into any zinc derivative contracts in 2007 and 2005 and at

December 31, 2007 the Company did not hold any open copper or zinc futures positions.

Transactions under these metal price protection programs are not accounted for as hedges under SFAS No. 133 and are adjusted to fair market value based on the metal prices as of the last day of the respective reporting period with the gain or loss recorded in net sales on the consolidated combined statement of earnings.

Gas swaps:

In 2007 and 2006, the Company entered into gas swap contracts to protect part of its gas consumption as follows:

		2007		2006
Gas volume (MMBTUs)		900,000		3,650,000
Fixed price	$	7.5250	$	4.2668
Gain (loss) (in million)	$	(0.9)	$	6.3

The gains and losses obtained were included in the production cost. At December 31, 2007, the Company did not hold any open gas swap contracts.

Interest Rate Swaps:

During 2005 the Company entered into a short interest rate swap contract to reduce its exposure to interest rate risk on certain of its floating rate bank obligations. As a result of these positions, the Company recorded a net gain of $1.2 million in 2005. This gain was recorded in Gain (loss) on derivative instruments on the consolidated combined statement of earnings. The Company did not hold any interest rate swap contracts during 2007 and 2006 and does not hold any open position as of December 31, 2007.

Exchange Rate Derivatives, U.S. dollar / Mexican peso contracts:

Because more than 85% of our sales collections in Mexico are in US dollars and many of our costs are in Mexican pesos, during 2006 the Company entered into zero-cost derivatives contracts with the purpose of protecting, within a range, against an appreciation of the Mexican peso to the US dollar. In these contracts if the exchange rate settles at or below the barrier, the Company does not sell dollars, if the exchange rate settles above the barrier price established in the contract the Company sells dollars at the strike price established in the contract.

In 2007 and 2006 the exercise of these zero-cost derivative contracts resulted in gains of $8.1 million and $0.9 million, respectively, which were recorded as Gain (loss) on derivative instruments in the consolidated combined statement of earnings.

At December 31, 2007 we held the following exchange rate derivative operations:

Notional Amount (millions)		Due Date, Weekly expiration during	Strike Price (Mexican Pesos/U.S. Dollars)	Barrier Price (Mexican Pesos/ U.S. Dollars)
$	2.0	1st Quarter 2008(*)	11.60	11.28
$	2.0	1st Quarter 2008(*)	11.28	10.70
$	60.0	4th Quarter 2008	11.32	10.60

(*) These operations matured on January 3, 2008 and reported a gain of $0.1 million which was recorded as unrealized gain on derivative instruments in the consolidated combined statement of earnings at December 31, 2007.

At December 31, 2007, the fair value of the above listed exchange rate derivative

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contracts is a gain of $0.5 million which was recorded as Gain (loss) on derivative instruments in the consolidated combined statement of earnings. Each notional amount includes a group of weekly transactions that have the same strike and barrier price.

In addition, at December 31, 2007 the Company held the following exchange rate derivative contract:

Amount	$53.0 million
Valuation date	$1.0 million weekly, through December 31, 2008
Peso/dollar exchange rate	11.2 pesos = $1.00

The above noted contract settles weekly. If the Mexican peso/US dollar exchange rate is below 11.20 the counterparty to the contract, in this case Merrill Lynch Capital Services, Inc. (MLCS), will pay the Company 11.2 million Mexican pesos and the Company will pay MLCS $1.0 million. If the Mexican peso/US dollar exchange rate is not below 11.20, MLCS will pay the Company 22.4 million Mexican pesos and the company will pay MLCS $2.0 million.

Additionally, the Company held embedded derivatives which are described in note 3 Short-term investments.

NOTE 17-FINANCIAL INSTRUMENTS:

For certain of the Company s financial instruments, including cash and cash equivalents, accounts receivable (other than accounts receivable associated with provisionally priced sales) and accounts payable, the carrying amounts approximate fair value due to their short maturities. Consequently, such financial instruments are not included in the following table that provides information about the carrying amounts and estimated fair values of other financial instruments:

	As of December 31,							
	2007				2006			
		Carrying value		Fair value		Carrying value		Fair value
Assets:								
Accounts receivable associated with provisionally priced sales:								
Copper	$	(42.0)	$	(42.0)	$	(47.3)	$	(47.3)
Molybdenum					$	(11.5)	$	(11.5)
Short-term investments	$	117.9	$	117.9	$	280.0	$	280.0
Liabilities:								
Long-term debt	$	1,466.4	$	1,531.7	$	1,525.0	$	1,681.1

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Accounts receivable associated with provisionally priced sales: Fair value of copper is based on published forward prices and fair value of molybdenum is based on year-end market prices.

Short-term investments: Due to the short term nature of the investments, current value is deemed to approximate fair value.

Long-term debt: Fair value is based on quoted market prices except for the Mitsui loan which is based on the present value of the cash flow discounted at 9% which is the Company s weighted average capital cost.

NOTE 18-CONCENTRATION OF RISK:

The Company operates four copper open-pit mines, five underground poly metal mines, three smelters and eight refineries in Peru and Mexico and substantially all of its assets are located in these countries. There can be no assurances that the Company s operations and assets that are subject to the jurisdiction of the governments of Peru and Mexico will not be adversely affected by future actions of such governments. Much of the Company s products are exported from Peru and Mexico to customers principally in United States, Europe, Asia and South America.

Financial instruments, which potentially subject the Company to a concentration of credit risk, consist primarily of cash and cash equivalents, short-term investments and trade accounts receivable.

The Company invests or maintains available cash with various banks, principally in the United States, Mexico, Europe and Peru, or in commercial papers of highly-rated companies. As part of its cash management process, the Company regularly monitors the relative credit standing of these institutions. At December 31, 2007, SCC had invested its cash equivalents as follows:

Country	% of total cash	% invested in one institution
Abroad	64.7%	60.8%
Peru	32.4%	31.7%
Mexico	2.9%	51.5%

During the normal course of business, the Company provides credit to its customers. Although the receivables resulting from these transactions are not collateralized, the Company has not experienced significant problems with the collection of receivables.

The Company is exposed to credit loss in cases where the financial institutions with which it has entered into derivative transactions (commodity, foreign exchange and currency/interest rate swaps) are unable to pay when they owe funds as a result of protection agreements with them. To minimize the risk of such losses, the Company only uses highly-rated financial institutions that meet certain requirements. The Company also periodically reviews the creditworthiness of these institutions to ensure that they are maintaining their ratings. The Company does not anticipate that any of the financial institutions will default on their obligations.

The Company s five largest trade receivable balances accounted for 45.4%, 39.5% and 40.9% of the trade accounts receivable at December 31, 2007, 2006 and 2005, respectively, of which one customer represented approximately 22.4%, 10.9% and 14.6%, respectively, of our trade accounts receivable.

NOTE 19-RELATED PARTY TRANSACTIONS:

Balances receivable and payable with affiliated companies are shown below (in millions):

	As of December 31,			
	2007		2006	
Affiliate receivable:				
Grupo Mexico S.A.B de C.V. and affiliates	$	1.5	$	
Mexico Proyectos y Desarrollos S.A. de C.V. and affiliates				2.6
Other		0.1		
	$	1.6	$	2.6
Affiliate payable:				
Grupo Mexico S.A.B. de C.V. and affiliates	$	3.0	$	0.4
Ferrocarril Mexicano, S.A. de C.V.		0.9		3.2
Other				
	$	3.9	$	3.6

The Company has entered into certain transactions in the ordinary course of business with parties that are controlling shareholders or their affiliates. These transactions include the lease of office space, air transportation and construction services and products and services relating to mining and refining. The Company lends and borrows funds among affiliates for acquisitions and other corporate purposes. These financial transactions bear interest and are subject to review and approval by senior management, as are all related party transactions. It is our policy that the Audit Committee of the Board of Directors shall review all related party transactions. The Company is prohibited from entering or continuing a material related party transaction that has not been reviewed and approved or ratified by the Audit Committee.

The Company sold to Asarco LLC (Asarco), an affiliate of Grupo Mexico, $0.3 million and $11.6 million of metal products in 2006 and 2005, respectively, and purchased metal products from Asarco for $1.1 million in 2005. In addition, the Company paid $2.5 million to Asarco in 2005 for tolling services. There were no sales in 2007 or purchases of metal products and tolling services from Asarco in 2007 and 2006.

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Explanation of Responses:

Grupo Mexico, the Company s ultimate parent and the majority indirect stockholder of the Company, and its affiliates provide various services to the Company. These services are principally related to accounting, legal, tax, financial, treasury, human resources, price risk assessment and hedging, purchasing, procurement and logistics, sales and administrative and other support services. The Company pays to Grupo Mexico Servicios S.A de C.V., a subsidiary of Grupo Mexico for these services. The total amount paid by the Company to Grupo Mexico Servicios S.A. de C.V. for such services in each of the years 2007, 2006 and 2005 was $13.8 million. The Company expects to continue to pay for these services in the future.

The Company paid $0.5 million in 2005 in interest expenses related to borrowings from Grupo Mexico. There were no borrowings from Grupo Mexico in 2007 and 2006.

The Company s Mexican operations paid fees of $11.0 million, $17.2 million and $21.0 million in 2007, 2006 and 2005, respectively, primarily for freight services provided by Ferrocarril Mexicano, S.A. de C.V., a subsidiary of Grupo Mexico.

In addition, the Company s Mexican operations paid $14.5 million, $29.8 million and $29.8 mi1lion in 2007, 2006 and 2005, respectively, for construction services provided by Mexico Constructora Industrial S.A. de C.V., an indirect subsidiary of Grupo Mexico.

The Larrea family controls a majority of the capital stock of Grupo Mexico, and has extensive interests in other businesses, including oil drilling services, construction, aviation, and real estate. The Company engages in certain transactions in the ordinary course of business with other entities controlled by the Larrea family relating to mining and refining services, the lease of office space, and air transportation and construction services. In connection with this, the Company paid fees of $2.5 million, $5.5 million and $3.7 million in 2007, 2006 and 2005, respectively, for maintenance services and sale of vehicles provided by Mexico Compañia de Productos Automotrices, S.A. de C.V., a company controlled by the Larrea family. Also, in 2007, the Company paid fees of $0.8 million for drilling services provided by Perforadora Mexico, S.A de C.V, a company controlled by the Larrea family. Additionally, in the third quarter of 2006, one of our Mexican subsidiaries provided a short-term interest bearing loan of $10.6 million to Mexico Transportes Aereos, S.A. de C.V. (MexTransport) for the purchase of an airplane, which was paid in the first quarter of 2007. MexTransport, a company controlled by the Larrea family, provides aviation services to our Mexican operations. Our Mexican subsidiaries have provided a guaranty for a new $10.8 million loan obtained by MexTransport. The guaranty provided to MexTransport is backed up by the transport services provided by MexTransport to the Company s Mexican subsidiaries. The Company paid fees of $1.2 million in 2007 to MexTransport for aviation services.

The Company purchased $6.3 million, $4.9 million and $3.3 million in 2007, 2006 and 2005, respectively, of industrial materials from Higher Technology S.A.C in which Mr. Carlos Gonzalez has a proprietary interest. The Company paid fees of $0.7 million, $0.6 million and $0.7 million in 2007, 2006 and 2005, respectively, for maintenance services provided by Servicios y Fabricaciones Mecanicas S.A.C., a company in which Mr. Carlos Gonzalez has a proprietary interest. The Company also paid fees of $0.1 million in 2005 for contractor services provided by GPC Ingenieria S.A. de C.V., a company in which Mr. Carlos Gonzalez has a proprietary interest. Mr. Carlos Gonzalez is the son of SCC s Chief Executive Officer.

The Company purchased $0.7 million, $0.5 million and $0.2 million in 2007, 2006 and 2005, respectively, of industrial material from Sempertrans France Belting Technology, in which Mr. Alejandro Gonzalez is employed as a sales representative. Also, the Company purchased $0.3 million in 2007 of industrial material from PIGOBA, S.A. de C.V., a company in which Mr. Alejandro Gonzalez has a proprietary interest. Mr. Alejandro Gonzalez is the son of SCC s Chief Executive Officer.

The Company purchased $3.6 million, $4.6 million and $3.0 million in 2007, 2006 and 2005, respectively, of industrial material and services from Breaker, S.A. de C.V., a company in which Mr. Jorge Gonzalez has a proprietary interest. Mr. Jorge Gonzalez is the son-in-law of SCC s Chief Executive Officer.

The former holders of the Company s Class A common stock until June 2005 and their affiliates purchased copper and other products from the Company from time to time at prices determined by reference to the LME and COMEX market price for copper and published prices for other products, if available. These purchases were $15.2 million in 2005.

See also the disclosure on the acquisition of Minera Mexico in Note 1.

It is anticipated that in the future the Company will enter into similar transactions with the same parties.

NOTE 20-SEGMENT AND RELATED INFORMATION:

Company management views Southern Copper as having three operating segments and manages on the basis of these segments. The significant increase in the price of molybdenum over the past three years has had an important impact on the Company s earnings. Nevertheless, the Company continues to manage its operations on the basis of the three copper segments. Each of its segments report independently to the Chief Operating Officer and he focuses on operating income as a measure of performance to evaluate different segments, and to make decisions to allocate resources to the reported segments.

The three segments identified are groups of mines with the similar economic characteristics, type of products, processes and support facilities, similar regulatory environments, similar employee bargaining contracts and similar 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.

Intersegment sales are based on arms-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 molybdenum sales. The segments identified by the Company are:

1. Peruvian operations, which includes the Toquepala and Cuajone mine complexes and the smelting and refining plants, industrial railroad and port facilities which service both mines.

2. Mexican open pit operations, which includes La Caridad and Cananea mine complexes and the smelting and refining plants and support facilities which service both mines.

3. Mexican underground mining operations, which includes five underground mines that produce zinc, copper, silver and gold, a coal mine, which produces coal and coke, and several industrial processing facilities for zinc and copper. This group is identified as the IMMSA unit.

The Peruvian operations include two open pit copper mines whose mineral output is transported by rail to Ilo, Peru where it is processed at the Company s Ilo smelter and refinery, without distinguishing between the products of the two mines. The resulting product, anodes and refined copper, are then shipped to customers throughout the world. These shipments are recorded as revenue of the Company s Peruvian mines. The Mexican open pit segment includes two copper mines whose mineral output is processed in the same smelter and refinery without distinguishing between the products of the two mines. The resultant product, anodes and refined copper, are then shipped to customers throughout the world. These shipments are recorded as revenues of the Company s Mexican open pit mines.

The Company has determined that it is necessary to classify the Peruvian Open Pit operations as a separate operating segment from the Mexican Open Pit operations due to the very distinct regulatory and political environments in which they operate. The Company s Chief Operating Officer must consider the operations in each country separately when analyzing results of the Company and making key decisions. The open pit mines in Peru must comply with stricter environmental rules and must continually deal with a political climate that has a very distinct vision of the mining industry as compared to Mexico. In addition, the collective bargaining agreement contracts are negotiated very distinctly in each of the two countries. These key differences result in the Company taking varying decisions with regards to the two countries.

The IMMSA segment includes five mines whose minerals are processed in the same smelter and refinery. This segment also includes a coal underground mine. Sales of product from this segment are recorded as revenues of the Company s IMMSA unit. While the Mexican underground mines are subject to a very similar regulatory environment of the Mexican open pit mines, the nature of the products and processes of two Mexican operations vary distinctly. These differences cause the Company s Chief Operating Officer to take a very different approach when analyzing results and making decisions regarding the two Mexican operations.

Financial information is regularly prepared for each of the three segments and the results of the Company s operations are regularly reported to the Chief Operating Officer on the segment basis. The Chief Operating Officer of the Company 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.

Financial information relating to Company s segments is as follows:

	Year Ended, December 31, 2007 (in millions)				
	Mexican Open Pit	Mexican IMMSA Unit	Peruvian Operations	Corporate and other eliminations	Total Consolidated
Net sales outside of segments	$ 1,981.1	$ 591.7	$ 3,512.9	$	$ 6,085.7
Intersegment sales	244.0	89.0		(333.0)	
Cost of sales (exclusive of depreciation, amortization and depletion)	735.9	361.7	1,365.2	(340.6)	2,122.2
Selling, general and administrative	37.0	25.2	39.8	(4.0)	98.0
Depreciation, amortization and depletion	176.8	37.3	110.8	3.0	327.9
Exploration	4.7	10.1	25.4		40.2
Operating income	$ 1,270.7	$ 246.4	$ 1,971.7	$ 8.6	3,497.4
Less:					(26.0)
Interest, net					(16.6)
Loss on debt prepayment					(73.7)
Loss on derivative instruments					30.8
Other income (expense)					(1,185.3)
Income taxes					(10.2)
Minority interest					$ 2,216.4
Net earnings					
Capital expenditures	$ 132.4	$ 26.5	$ 127.2	$ 29.6	$ 315.7
Property, net	$ 1,605.2	$ 248.5	$ 1,654.8	$ 59.8	$ 3,568.3
Total assets	$ 2,841.4	$ 590.2	$ 3,306.2	$ (157.2)	$ 6,580.6

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	Mexican Open Pit	Mexican IMMSA Unit	Peruvian Operations	Corporate and other eliminations	Total Consolidated
	Year Ended, December 31, 2006 (in millions)				
Net sales outside of segments	$ 1,679.1	$ 598.3	$ 3,182.8	$	$ 5,460.2
Intersegment sales	308.0	104.2	32.6	(444.8)	
Cost of sales (exclusive of depreciation, amortization and depletion)	867.8	345.9	1,247.4	(441.3)	2,019.8
Selling, general and administrative	37.5	23.8	36.0	(9.0)	88.3
Depreciation, amortization and depletion	160.2	28.2	86.4	0.3	275.1
Exploration	1.8	7.3	13.6		22.7
Operating income	$ 919.8	$ 297.3	$ 1,832.0	$ 5.2	3,054.3
Less:					
Interest, net					(35.3)
Loss on derivative instruments					(11.6)
Loss on debt prepayment					(1.1)
Other income (expense)					(0.3)
Income taxes					(959.1)
Minority interest					(9.3)
Net earnings					$ 2,037.6
Capital expenditures	$ 157.2	$ 45.3	$ 253.3	$	$ 455.8
Property, net	$ 1,587.5	$ 268.9	$ 1,637.1	$ 44.8	$ 3,538.3
Total assets	$ 2,624.8	$ 658.7	$ 3,224.9	$ (132.0)	$ 6,376.4

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	Year Ended, December 31, 2005 (in millions)				
	Mexican Open Pit	Mexican IMMSA Unit	Peruvian Operations	Corporate and other eliminations	Total Combined
Net sales outside of segments	$ 1,667.4	$ 261.8	$ 2,159.9	$	$ 4,089.1
Intersegment sales	90.9	186.9	7.8	(285.6)	
Cost of sales (exclusive of depreciation, amortization and depletion)	836.6	330.8	756.0	(288.0)	1,635.4
Selling, general and administrative	37.1	19.4	34.0	(9.4)	81.1
Depreciation, amortization and depletion	176.7	24.0	76.5		277.2
Exploration	3.8	7.7	12.9		24.4
Operating income	$ 704.1	$ 66.8	$ 1,288.3	$ 11.8	2,071.0
Less:					
Interest, net					(55.6)
Gain on derivative instruments					1.1
Loss on debt prepayment					(10.6)
Other income (expense)					(3.6)
Taxes on income					(589.7)
Minority interest					(12.5)
Net earnings					$ 1,400.1
Capital expenditures	$ 104.5	$ 44.2	$ 321.9	$	$ 470.6
Property, net	$ 1,559.3	$ 270.1	$ 1,468.7	$ 28.0	$ 3,326.1
Total assets	$ 2,538.3	$ 518.9	$ 3,333.6	$ (703.2)	$ 5,687.6

Sales value per segment:

	Year Ended, December 31, 2007				
(in millions)	Mexican Open Pit	Mexican IMMSA Unit	Peruvian Operations	Intersegment Elimination	Total Consolidated
Copper	$ 1,696.0	$ 104.0	$ 2,677.8	$ (249.0)	$ 4,228.8
Molybdenum	435.2		650.5		1,085.7
Other	93.9	576.6	184.6	(83.9)	771.2
Total	$ 2,225.1	$ 680.6	$ 3,512.9	$ (332.9)	$ 6,085.7

	Year Ended, December 31, 2006				
(in millions)	Mexican Open Pit	Mexican IMMSA Unit	Peruvian Operations	Intersegment Elimination	Total Consolidated
Copper	$ 1,748.9	$ 124.7	$ 2,595.0	$ (321.4)	$ 4,147.2
Molybdenum	125.3		449.7		575.0
Other	112.9	577.8	170.7	(123.4)	738.0
Total	$ 1,987.1	$ 702.5	$ 3,215.4	$ (444.8)	$ 5,460.2

Explanation of Responses:

(in millions)	Year Ended, December 31, 2005 Mexican Open Pit	Mexican IMMSA Unit	Peruvian Operations	Intersegment Elimination	Total Combined
Copper	$ 1,310.3	$ 134.2	$ 1,467.5	$ (196.5)	$ 2,715.5
Molybdenum	271.0		655.5		926.5
Other	177.0	314.5	44.7	(89.1)	447.1
Total	$ 1,758.3	$ 448.7	$ 2,167.7	$ (285.6)	$ 4,089.1

NET SALES AND GEOGRAPHICAL INFORMATION:

Net sales to respective countries were as follows:

	Year ended December 31,		
(in millions)	2007	2006	2005
United States	$ 1,553.2	$ 1,747.5	$ 1,394.2
Europe	1,491.7	1,711.6	823.7
Mexico	1,189.3	1,094.7	930.9
Peru	152.1	155.2	72.0
Latin America, excluding Mexico and Peru	1,133.7	659.4	671.7
Australia			3.3
Asia	554.8	368.1	216.8
Derivative instruments	10.9	(276.3)	(23.5)
Total	$ 6,085.7	$ 5,460.2	$ 4,089.1

PROVISIONAL SALES PRICE:

At December 31, 2007, the Company has recorded provisionally priced sales of 165.9 million pounds of copper, at a forward average price of $3.03 per pound. Also, the Company has recorded provisionally priced sales of 4.7 million pounds of molybdenum at the year-end market price of $32.38 per pound. These sales are subject to final pricing based on the average monthly LME and COMEX copper prices and Dealer Oxide molybdenum prices in the future month of settlement.

Following are the provisionally priced copper and molybdenum sales outstanding at December 31, 2007:

Pounds of copper (millions)	Priced at	Month of settlement
63.6	3.019313	January 2008
24.5	3.027922	February 2008
15.2	3.028247	March 2008
14.2	3.031464	April 2008
22.6	3.032160	May 2008
20.1	3.034080	June 2008
5.7	3.034990	July 2008

165.9	3.026520	Total
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Pounds of molybdenum (millions)	Market price	Month of settlement
1.9	32.375	January 2008
1.7	32.375	February 2008
1.1	32.375	March 2008
4.7	32.375	Total

Provisional sales price adjustments included in accounts receivable and net sales were as follows at December 31 (in millions):

	As of December 31, 2007		2006	
Copper	$	(40.2)	$	(47.3)
Molybdenum				(11.5)
Total	$	(40.2)	$	(58.8)

During the month of January 2008, the market price of copper and molybdenum increased. The effect of these changes on 2007 sales settling in January 2008 was an increase of $3.3 million in sales. Additionally, forward prices for copper as of January 31, 2008 also increased; the effect of this increase on 2007 open sales settling after January 2008 would be an increase of $33.2 million in sales.

LONG-TERM SALES CONTRACTS:

The following are the significant outstanding long-term contracts:

Under the terms of a forward sales contract with Cumerio Belgium, formerly Union Minière, as amended, the Company is required to supply Cumerio Belgium, through its agent, S.A. SOGEM N.V., with 18,000 tons of blister copper during 2008 and 13,800 tons of blister during 2009. The price of the copper contained in blister supplied under the contract is determined based on the LME monthly average settlement price, less a refining allowance, which is negotiated annually.

Under the terms of a sales contract with Mitsui Bussan Metals Sales Co., an affiliate of Mitsui & Co. Ltd. (Mitsui), the Company is required to supply Mitsui with 48,000 tons of copper cathodes annually through 2013. If the shipment destination is Asia, the pricing of the cathodes is based upon the LME monthly average settlement price. However, if the destination of shipments is the United States, the pricing of the cathodes is based upon the COMEX monthly average settlement price plus a producer premium, which is agreed upon annually based on world market terms. 90,000 tons related to a prior contract (period 1994-2000) will be supplied as follows: 48,000 in 2014 and 42,000 in 2015.

NOTE 21-QUARTERLY DATA (unaudited)

(in millions, except per share data)

	2007									
	1st		2nd		3rd		4th		Year	
Net sales	$	1,358.3	$	1,826.5	$	1,606.4	$	1,294.5	$	6,085.7
Gross Profit	$	891.6	$	1,264.2	$	1,046.6	$	761.1	$	3,963.5
Operating income	$	787.4	$	1,145.2	$	933.8	$	631.0	$	3,497.4
Net earnings	$	551.7	$	726.0	$	627.8	$	310.9	$	2,216.4
Net earnings per share:										
Basic and diluted	$	1.87	$	2.47	$	2.13	$	1.06	$	7.53
Dividend per share	$	1.70	$	1.50	$	1.60	$	2.00	$	6.80

	2006									
	1st		2nd		3rd		4th		Year	
Net sales	$	1,121.3	$	1,276.7	$	1,412.2	$	1,650.0	$	5,460.2
Gross Profit	$	714.4	$	754.9	$	902.9	$	1,068.2	$	3,440.4
Operating income	$	632.7	$	649.0	$	804.5	$	968.1	$	3,054.3
Net earnings	$	421.6	$	439.3	$	521.6	$	655.1	$	2,037.6
Net earnings per share:										
Basic and diluted	$	1.43	$	1.49	$	1.77	$	2.23	$	6.92
Dividend per share	$	1.38	$	1.38	$	1.00	$	1.37	$	5.13

All the per share amounts prior to 3rd quarter 2006 had been restated to reflect the common stock split.

NOTE 22 SUBSEQUENT EVENTS

On January 24, 2008, a dividend of $1.40 per share was announced, totaling $412.3 million and to be paid on February 29, 2008 to shareholders of record as of February 12, 2008. Our dividend policy continues to be reviewed at Board of Directors meetings, taking into consideration the cash position, the current capital investment program and expected future cash flow generated from operations.

On January 29, 2008, the Company announced an up to $300 million share repurchase program authorized by the Board of Directors. Under this program the Company may purchase shares from time to time, based on market conditions and other factors. The repurchased program has no expiration date and may be modified or discontinued at any time. Any shares acquired will be available for general corporate purposes.

OTHER COMPANY INFORMATION:

ANNUAL MEETING

The annual stockholders meeting of Southern Copper Corporation will be held on Thursday, April 24, 2008 at 9:00 am, Mexico City time, at Edificio Parque Reforma, Campos Eliseos No. 400, 12th Floor, Colonia Lomas de Chapultepec, Mexico City, Mexico.

TRANSFER AGENT, REGISTRAR AND STOCKHOLDERS SERVICES

The Bank of New York Mellon Corporation (BONY)

Shareowner Services

480 Washington Boulevard

Jersey City, NJ 07310-1900-0286

Phone: (800)524-4458

DIVIDEND REINVESTMENT PROGRAM

SCC stockholders can have their dividends automatically reinvested in SCC common shares. SCC pays all administrative and brokerage fees. This plan is administered by The Bank of New York Mellon Corporation. For more information, contact The Bank of New York Mellon Corporation at (800)524-4458.

STOCK EXCHANGE LISTING

The principal markets for SCC s Common Stock are the NYSE and the Lima Stock Exchange. SCC s Common Stock symbol is PCU on both the NYSE and the Lima Stock Exchange.

OTHER SECURITIES

The Branch in Peru has issued, in accordance with Peruvian Law, investment shares (formerly named labor shares) that are quoted on the Lima Stock Exchange under symbols S-1 and S-2. Transfer Agent, registrar and stockholders services are provided by Banco de Credito del Peru, Avenida Centenario 156, La Molina, Lima 12, Peru.

Telephone (51-1) 348-5999, Fax (51-1)349-0592.

OTHER CORPORATE INFORMATION

For other information on the Company or to obtain, free of charge, additional copies of the Annual Report on Form 10-K, contact the Investor Relations Department at:

11811 North Tatum Blvd. Suite 2500, Phoenix, Az. 85028, USA

Telephone: (602)494-5328

SOUTHERN COPPER CORPORATION

11811 North Tatum Blvd. Suite 2500, Phoenix, Az. 85028, USA

Telephone: (602)494-5328, Fax: (602)494-5317

NYSE Symbol: PCU

Avenida Caminos del Inca 171, Chacarilla del Estanque, Santiago de Surco, Lima 33 Peru.

Telephone: (51-1)512-0440, Ext. 3354

Lima Stock Exchange Symbol: PCU

Edificio Parque Reforma, Campos Eliseos No. 400, 12th Floor, Col. Lomas de Chapultepec, Mexico City, Mexico

Telephone: (52-55) 1103-5320

Web Page: www.southerncoppercorp.com

Email address: southerncopper@southernperu.com.pe

CERTIFICATION REQUIRED BY THE NEW YORK STOCK EXCHANGE

The Company has filed with the New York Stock Exchange (NYSE) the 2007 certification that the Chief Executive Officer is unaware of any violation of the corporate governance standards of the NYSE. The Company has also filed with the Securities and Exchange Commission (SEC) the certifications required under Section 302 of the Sarbanes-Oxley Act of 2002, as exhibits to the 2006 Annual Report on Form 10-K. The Company anticipates filing, on a timely basis, the 2008 NYSE certification and is filing the Section 302 certifications as exhibits to this Annual Report on Form 10-K.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Southern Copper Corporation:

In our opinion, the consolidated combined financial statements listed in the index appearing under Item 15(a)(1), present fairly, in all material respects, the financial position of Southern Copper Corporation and its subsidiaries at December 31, 2007 and December 31, 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule appearing under Item 15 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, Management s Report on Internal Control over Financial Reporting appearing on Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers S.C.

Mexico, D.F.

February 29, 2008

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

As of December 31, 2007, the Company conducted an evaluation under the supervision and with the participation of the Company s Disclosure Committee and the Company s management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness and the design and operation of the Company s disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company s disclosure controls and procedures are effective as of December 31, 2007, to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is:

1. recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and

2. accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in the Company s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) that occurred during the quarter ended December 31, 2007 that has materially affected, or is reasonably likely to materially affect, the Company s internal controls over financial reporting.

MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company. Under the supervision and with the participation of management, including the Company s principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organization of the Treadway Commission. Based on the evaluation made under this framework, management concluded that as of December 31, 2007 such internal control over financial reporting is effective.

Because of its inherent limitations, internal control over financial reporting, may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness for future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Our management s assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2007 has been audited by PricewaterhouseCoopers, an independent registered public accounting firm, as stated in their report which appears herein.

Item 9B. Other Information

None

PART III

Item 10, 11, 12, 13 and 14.

Reference is made to the Section captioned Executive Officers of the Registrant on pages 71 to 72. Information in response to the disclosure requirements specified by Part III, Items 10, 11, 12, 13, and 14 will be included in a definitive proxy statement, which will be filed pursuant to Regulation 14A of the 1934 Securities Exchange Act, as amended, prior to April 24, 2008 or will be provided by amendment to this Form 10-K, also to be filed no later than April 30, 2008.

The information contained in such definitive proxy statement is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(A) The following documents are filed as part of this report:

1. Financial Statements

The following financial statements of Southern Copper Corporation and its subsidiaries are included at the indicated pages of the document as stated below:

	Form 10-K Pages
Consolidated combined statement of earnings for the years ended December 31, 2007, 2006 and 2005	109
Consolidated balance sheet at December 31, 2007 and 2006	110
Consolidated combined statement of cash flows for the years ended December 31, 2007, 2006 and 2005	111-112
Consolidated combined statement of changes in stockholders equity for the years ended December 31, 2007, 2006 and 2005	113-114
Notes to the consolidated combined financial statements	115-168
Reports of Independent Registered Public Accounting Firm	169-170

2. Exhibits:

3.1 (a) Amended and Restated Certificate of Incorporation, filed on October 11, 2005.
(b) Certificate of Amendment of Amended and Restated Certificate of Incorporation (dated May 2, 2006).

3.2 By-Laws, (as amended on April 26, 2007).

4.1 (a) Registration Rights Agreement, dated as of July 27, 2005, by and between Southern Copper Corporation, Citigroup Global Markets Inc. and UBS Securities LLC.
(b) Registration Rights Agreement, dated as of May 9, 2006, by and between Southern Copper Corporation and Citigroup Global Markets, Inc. as Representatives of the Initial Purchasers.

4.2 Indenture governing U.S.$200,000,000 6.375% Notes due 2015, by and between Southern Copper Corporation, The Bank of New York and The Bank of New York (Luxembourg) S.A.

4.3 (a) Indenture governing U.S.$600,000,000 7.500% Notes due 2035, by and between Southern Copper Corporation, The Bank of New York and The Bank of New York (Luxembourg) S.A.
(b) Indenture governing U.S.$400,000,000 7.500% Notes due 2035, by and between Southern Copper Corporation, The Bank of New York and the Bank of New York (Luxembourg) S. A.

4.4 Form of 6.375% Note (included in Exhibit 4.2).

4.5 Form of New 7.500% Note (included in Exhibit 4.3 (a)).

4.6 Form of New 7.500% Note (included in Exhibit 4.3 (b)).

10.1 Tax Stability Agreement, dated August 8, 1994, between the Government of Peru and the Company regarding SX/EW facility (and English translation).

10.2 Incentive Compensation Plan of the Company.

10.3 Form of Directors Stock Award Plan of the Company.

10.4 Service Agreement entered into by the Company with a subsidiary of Grupo Mexico S.A.B. de C.V., assigned upon the same terms and conditions to Grupo Mexico S.A.B. de C.V. in February 2004.

10.5 Agreement and Plan of Merger, dated as of October 21, 2004, by and among Southern Copper Corporation, SCC Merger Sub, Inc., Americas Sales Company, Inc., Americas Mining Corporation and Minera Mexico S.A. de C.V.

12.1 Computation of financial ratios.

14 Code of Business Conduct and Ethics adopted by the Board of Directors on May 8, 2003 and amended by the Board of Directors on October 21, 2004.

21.1 Subsidiaries of the Company.

31.1 Certification required by Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification required by Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification required by Section 906 of the Sarbanes-Oxley Act of 2002. This document is being furnished in accordance with SEC Release No. 33-8328.

32.2 Certification required by Section 906 of the Sarbanes-Oxley Act of 2002. This document is being furnished in accordance with SEC Release No. 33-8328.

The exhibits listed as 10.2 through 10.5 above are the management contracts or compensatory plans or arrangements required to be filed pursuant to Item 15(c) of Form 10-K.

Schedule II

Valuation and Qualifying Accounts and Reserves

(in millions)

		Additions			
	Balance at beginning of period	Charged to costs and expenses	Other	Deduction	Balance at end of period
Reserve deducted in balance sheet to which applicable:					
Accounts Receivable:					
2007	6.0			1.4	4.6
2006	5.7	0.3			6.0
2005	8.4	0.4		3.1	5.7
Supplies:					
2007	27.7	3.0		0.3	30.4
2006	23.4	4.6		0.3	27.7
2005	21.5	3.3		1.4	23.4
Notes issued under par:					
2007	16.9			0.2	16.7
2006	6.2	10.8		0.2	16.9
2005		6.3		0.1	6.2
Deferred Tax Assets:					
2007					
2006	81.2			81.2	
2005	33.4	47.8			81.2

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused his Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

SOUTHERN COPPER CORPORATION
(Registrant)

By: /s/ Oscar Gonzalez Rocha
Oscar Gonzalez Rocha
President and Chief Executive Officer

Date: February 26, 2008

Pursuant to requirements of the Securities Exchange Act of 1934, this Report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/	German Larrea Mota-Velasco German Larrea Mota-Velasco	Chairman of the Board, and Director
/s/	Oscar Gonzalez Rocha Oscar Gonzalez Rocha	President, Chief Executive Officer and Director
/s/	Genaro Guerrero Genaro Guerrero	Vice President, Finance, Chief Financial Officer (principal financial officer)
/s/	Jose N. Chirinos Fano Jose N. Chirinos Fano	Comptroller (principal Accounting Officer)

DIRECTORS

/s/	German Larrea Mota-Velasco German Larrea Mota-Velasco	/s/	Harold S. Handelsman Harold S. Handelsman
/s/	Emilio Carrillo Gamboa Emilio Carrillo Gamboa	/s/	Genaro Larrea Mota-Velasco Genaro Larrea Mota-Velasco
/s/	Alfredo Casar Perez Alfredo Casar Perez	/s/	Armando Ortega Gomez Armando Ortega Gomez
/s/	Jaime Collazo Gonzalez Jaime Collazo Gonzalez	/s/	L. Miguel Palomino Bonilla L. Miguel Palomino Bonilla
/s/	Xavier Garcia de Quevedo Xavier Garcia de Quevedo	/s/	Gilberto Perezalonso Cifuentes Gilberto Perezalonso Cifuentes
/s/	Alberto De la Parra Zavala	/s/	Juan Rebolledo Gout

	Alberto De la Parra Zavala		Juan Rebolledo Gout
/s/	Oscar Gonzalez Rocha	/s/	Carlos Ruiz Sacristan
	Oscar Gonzalez Rocha		Carlos Ruiz Sacristan

Date: February 26, 2008

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Southern Copper Corporation

Exhibit Index

Sequential Exhibit Number	Document Description	Page Number
3.1	(a) Amended and Restated Certificate of Incorporation, filed on October 11, 2005. (Filed as Exhibit 3.1 to the Company s 2005 3rd quarter Quarterly Report on Form 10-Q and incorporated herein by reference) (b) Certificate of Amendment of Amended and Restated Certificate of Incorporation (dated May 2, 2006). (Filed as Exhibit 3.1 to Registration Statement on Form S-4, File No. 333-135170) filed on June 20, 2006 and incorporated herein by reference)	
3.2	By-Laws, as amended on April 26, 2007. (Filed as Exhibit 3.2 to Quarterly Report on Form 10-Q for the first quarter of 2007 and incorporated herein by reference)	
4.1	(a) Registration Rights Agreement, dated as of July 27, 2005, by and between Southern Copper Corporation, Citigroup Global Markets Inc. and UBS Securities LLC (Filed as Exhibit 4.1 to Registration Statement on Form S-4, File No. 33-129287 filed on October 28, 2005 and incorporated herein by reference) (b) Registration Rights Agreement, dated as of May 9, 2006, by and between Southern Copper Corporation and Citigroup Global Markets Inc. as Representative of the Initial Purchasers. Filed as Exhibit 4.1 to Registration Statement on Form S-4, File No. 333-135170 filed on June 20, 2006 and incorporated herein by reference)	
4.2	Indenture governing U.S.$200,000,000 6.375% Notes due 2015, by and between Southern Copper Corporation, The Bank of New York and The Bank of New York (Luxembourg) S.A. (Filed as Exhibit 4.1 to the Company s Current Report on Form 8-K, filed on August 1, 2005 and incorporated by reference)	
4.3	(a) Indenture governing U.S.$600,000,000 7.500% Notes due 2035, by and between Southern Copper Corporation, The Bank of New York and The Bank of New York (Luxembourg) S.A. (Filed as Exhibit 4.2 to the Company s Current Report on Form 8-K, filed on August 1, 2005 and incorporated herein by reference) (b) Indenture governing $400,000,000 7.500% Notes due 2035, by and between Southern Copper Corporation, The Bank of new York, The Bank of New York (Luxembourg) S.A. (Filed as Exhibit 4.1 to the Company s Current Report on Form 8-K, filed on August 1, 2005 and incorporated herein by reference)	
4.4	Form of 6.375% Note (included in exhibit 4.2)	
4.5	Form of New 7.500% Note (included in Exhibit 4.3(a))	

4.6	Form of New 7.500% Note (included in Exhibit 4.3(b))
10.1	Tax Stability Agreement, dated August 8, 1994, between the Government of Peru and the Company regarding SX/EW facility (and English translation) (incorporated by reference to Exhibit 10.3 to the Company s Registration Statement on Form S-4, as amended by Amendments No. 1 and 2 thereto, File No. 33-97790)
10.2	Incentive Compensation Plan of the Company (Filed as Exhibit 10.11 to the Company s Form S-4 and incorporated herein by reference)
10.3	Form of Directors Stock Award Plan of the Company (Filed as exhibit 10.4 to the Company s 2005 Annual Report on Form 10-K incorporated herein by reference)
10.5	Service Agreement entered into by the Company with a subsidiary of Grupo Mexico S.A.B. de C.V., assigned upon the same terms and conditions to Grupo Mexico S.A.B. de C.V. in February 2004 (Filed as Exhibit 10.10 to the Company s 2002 Annual Report on Form 10-K and incorporated herein by reference)
12.1	Computation of financial ratios
14.0	Code of Business Conduct and Ethics adopted by the Board of Directors on May 8, 2003 and amended on October 21, 2004 (Filed as Exhibit 14 to the Company s Current Report on Form 8-K dated October 22, 2004 and incorporated herein by reference)
21.1	Subsidiaries of the Company (filed herewith)
31.1	Certification required by Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification required by Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification required by Section 906 of the Sarbanes-Oxley Act of 2002. This document is being furnished in accordance with SEC Release No. 33-8238 (filed herewith)
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