UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended SEPTEMBER 30, 2008

or

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

For the transition period from to

Commission File Number: 1-14066

SOUTHERN COPPER CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

x Yes o No

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

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

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

As of October 31, 2008 there were outstanding 871,000,000 shares of Southern Copper Corporation common stock, par value $0.01 per share.

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Southern Copper Corporation

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Part I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

Southern Copper Corporation

CONDENSED CONSOLIDATED STATEMENT OF EARNINGS

(Unaudited)

	3 Months Ended September 30, 2008	3 Months Ended September 30, 2007	9 Months Ended September 30, 2008	9 Months Ended September 30, 2007
	(in thousands)			
Net sales	$ 1,440,077	$ 1,606,414	$ 4,401,079	$ 4,791,213
Operating costs and expenses:				
Cost of sales (exclusive of depreciation, amortization and depletion shown separately below)	645,798	560,003	1,716,845	1,588,982
Selling, general and administrative	25,937	23,570	77,318	73,276
Depreciation, amortization and depletion	83,944	81,538	248,339	240,102
Exploration	8,452	7,710	25,504	22,681
Total operating costs and expenses	764,131	672,821	2,068,006	1,925,041
Operating income	675,946	933,593	2,333,073	2,866,172
Interest expense	(28,115)	(31,181)	(84,530)	(91,969)
Capitalized interest	2,305	3,703	4,834	10,146
(Loss) gain on derivative instruments	(13,621)	2,993	(12,700)	(73,699)
Other income (expense)	23,779	(5,526)	23,944	20,146
Interest income	9,764	23,528	39,360	63,532
Earnings before income taxes and minority interest	670,058	927,110	2,303,981	2,794,328
Income taxes	249,700	296,109	764,614	881,199
Minority interest	2,556	3,156	8,115	7,640
Net earnings	$ 417,802	$ 627,845	$ 1,531,252	$ 1,905,489
Per common share amounts:				
Net earnings basic and diluted	$ 0.47	$ 0.71	$ 1.73	$ 2.16
Dividends paid	$ 0.57	$ 0.53	$ 1.60	$ 1.60
Weighted average common shares outstanding (basic and diluted)	882,170	883,397	882,989	883,391

The accompanying notes are an integral part of these condensed consolidated financial statements. All the shares and per share amounts for prior periods have been restated to reflect the three-for-one common stock split that occurred on July 10, 2008. See note P.

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Southern Copper Corporation

CONDENSED CONSOLIDATED BALANCE SHEET

(Unaudited)

	September 30, 2008	December 31, 2007
	(in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,175,648	$ 1,409,272
Short-term investments	83,038	117,903
Accounts receivable trade, less allowance for doubtful accounts (2008 - $4,545; 2007 - $4,585)	387,848	385,611
Accounts receivable other (including affiliates 2008 - $839; 2007 - $1,644)	51,313	77,167
Inventories	492,521	448,283
Deferred income tax	67,709	72,303
Other current assets	91,921	124,970
Total current assets	2,349,998	2,635,509
Property, net	3,661,876	3,568,311
Leachable material, net	168,032	220,243
Intangible assets, net	114,510	115,802
Other assets, net	52,295	40,693
Total Assets	$ 6,346,711	$ 6,580,558
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	$ 10,000	$ 160,000
Accounts payable	289,717	255,070
Accrued income taxes	76,940	132,175
Due to affiliated companies	8,738	3,870
Accrued workers participation	219,856	313,251
Interest	11,934	37,325
Other accrued liabilities	36,977	25,499
Total current liabilities	654,162	927,190
Long-term debt	1,284,911	1,289,754
Deferred income taxes	196,855	219,501
Non-current taxes payable	167,474	154,721
Other liabilities and reserves	116,619	111,442
Asset retirement obligation	14,462	13,145
Total non-current liabilities	1,780,321	1,788,563
Commitments and Contingencies (Note M)		
MINORITY INTEREST	15,786	16,685
STOCKHOLDERS EQUITY		
Common stock	8,846	8,846

Additional paid-in capital		868,152		819,646
Retained earnings		3,335,553		3,220,857
Accumulated other comprehensive loss		(26,545)		(26,554)
Treasury stock		(289,564)		(174,675)
Total Stockholders Equity		3,896,442		3,848,120
Total Liabilities, Minority Interest and Stockholders Equity	$	6,346,711	$	6,580,558

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

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Southern Copper Corporation

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

	3 Months Ended September 30, 2008	3 Months Ended September 30, 2007	9 Months Ended September 30, 2008	9 Months Ended September 30, 2007
	(in thousands)			
OPERATING ACTIVITIES				
Net earnings	$ 417,802	$ 627,845	$ 1,531,252	$ 1,905,489
Adjustments to reconcile net earnings to net cash provided from operating activities:				
Depreciation, amortization and depletion	83,944	81,538	248,339	240,102
Capitalized leachable material		(5,874)	(2,246)	(45,903)
(Gain) loss on currency translation effect	(15,533)	4,205	6,498	4,772
Provision for deferred income taxes	4,440	714	(10,290)	59,054
Gain on sale of property	(26,330)		(28,573)	
Loss on sale of short-term investment	2,661	13,799	4,596	43,187
Unrealized (gain) loss on derivative instruments	(20,543)	(12,835)	(18,444)	46,782
Minority interest	2,556	3,156	8,115	7,640
Cash provided from (used for) operating assets and liabilities:				
Accounts receivable	109,372	(119,386)	23,617	(133,389)
Inventories	(943)	8,494	(44,238)	(49,056)
Accounts payable and accrued liabilities	28,057	70,670	(172,697)	(224,202)
Other operating assets and liabilities	111,391	55,935	60,921	71,546
Net cash provided by operating activities	696,874	728,261	1,606,850	1,926,022
INVESTING ACTIVITIES				
Capital expenditures	(134,161)	(72,086)	(314,931)	(251,078)
Purchase of short-term investments				(100,000)
Net proceeds from sale of short-term investments	11,816	6,201	30,295	16,813
Sale of property	55,447		59,727	
Other	1,101	155	1,101	891
Net cash used for investing activities	(65,797)	(65,730)	(223,808)	(333,374)
FINANCING ACTIVITIES				
Debt repaid			(155,025)	(5,000)
Dividends paid to common stockholders	(503,543)	(471,113)	(1,416,437)	(1,413,380)
Distributions to minority interest	(2,387)	(1,429)	(9,123)	(4,593)
Repurchase of common shares	(68,471)		(68,471)	
Other	61	(881)	855	(604)
Net cash used for financing activities	(574,340)	(473,423)	(1,648,201)	(1,423,577)
Effect of exchange rate changes on cash and cash equivalents	(31,348)	(7,514)	31,535	3,359
Increase (decrease) in cash and cash equivalents	25,389	181,594	(233,624)	172,430

Cash and cash equivalents, at beginning of period		1,150,259		1,013,614		1,409,272		1,022,778
Cash and cash equivalents, at end of period	$	1,175,648	$	1,195,208	$	1,175,648	$	1,195,208

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	3 Months Ended September 30, 2008	3 Months Ended September 30, 2007	9 Months Ended September 30, 2008	9 Months Ended September 30, 2007
	(in thousands)			
Supplemental disclosure of cash flow information				
Cash paid during the period for:				
Interest	$ 50,346	$ 50,346	$ 114,362	$ 115,726
Income taxes	$ 230,847	$ 267,039	$ 779,190	$ 828,373
Workers participation	$ 2,742	$ 1,021	$ 292,781	$ 299,872

Non cash transactions:

Common stock split:

On July 10, 2008 the Company made a three-for-one split of its common shares increasing common shares account by $5,897 thousand and decreasing the additional paid-in capital account by $5,897 thousand.

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

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Southern Copper Corporation

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

A. In the opinion of Southern Copper Corporation, (the Company , Southern Copper or SCC), the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to state fairly the Company s financial position as of September 30, 2008 and the results of operations and cash flows for the three and nine months ended September 30, 2008 and 2007. The condensed consolidated financial statements for the three and nine months ended September 30, 2008 and 2007 have been subject to a review by PricewaterhouseCoopers, the Company s independent registered public accounting firm, whose report dated November 06, 2008, is presented on page 56. The results of operations for the three and nine months ended September 30, 2008 and 2007 are not necessarily indicative of the results to be expected for the full year. The December 31, 2007 balance sheet data was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles in the United States of America. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated combined financial statements at December 31, 2007 and notes included in the Company s 2007 annual report on Form 10-K.

B. Adoption of New Accounting Standards:

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159). SFAS No. 159 permits companies, at their election, to measure specified financial instruments and warranty and insurance contracts at fair value on a contract-by-contract basis, with changes in fair value recognized in earnings each reporting period. The election, called the fair value option, will enable some companies to reduce the volatility in reported earnings caused by measuring related assets and liabilities differently, and it is easier than using the complex hedge-accounting requirements in SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133), to achieve similar results. Subsequent changes in fair value for designated items will be required to be reported in earnings in the current period. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and therefore became effective for the Company as of January 1, 2008. The Company has not elected to measure any eligible items at fair value. Accordingly, the adoption of SFAS No. 159 has not impacted the Company s results of operations and financial position.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157), which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements; rather, it applies under other accounting pronouncements that require or permit fair value measurements. The provisions of SFAS No. 157 are to be applied prospectively as of the beginning of the fiscal year in which it is initially applied, with any transition adjustment recognized as a cumulative-effect adjustment to the opening balance of retained earnings. The provisions of SFAS No. 157 were adopted by the Company on January 1, 2008 and do not have any effect on its overall financial position or results of operations. Fair values as of September 30, 2008 were calculated as follows (in million):

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	Balance at September 30, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant unobservable inputs (Level 3)
Short-term investments	$ 83.0	$ 83.0		
Derivative instruments:				
Exchange rate derivative, dollar/peso	(14.8)		$ (14.8)	
Copper derivative	33.7		33.7	
Gas swap	(0.4)		(0.4)	
Total	$ 101.5	$ 83.0	$ 18.5	

SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under SFAS No. 157 are described below:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 - Inputs that are observable, either directly or indirectly, but do not qualify as Level 1 inputs. (i.e., quoted prices for similar assets or liabilities)

Level 3

Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

C. Short-term Investments:

The balance of short-term investments was as follows (in millions):

	As of	
Investments	**September 30, 2008**	**December 31, 2007**
Short-term investments in securities issued by public companies with a weighted average interest rate of 2.95%	$ 83.0	$ 117.9

Short-term investments in securities consist of trading securities issued by public companies. Each security is independent of the others.

In the third quarter and nine months of 2008, the Company earned interest of $0.8 million and $3.4 million, respectively, related to these investments which were recorded as interest income in the condensed consolidated statement of earnings. In addition, in the third quarter and first nine months of 2008, the Company redeemed $11.8 million and $30.3 million, respectively, of these investments.

At September 30, 2008 the mark to market adjustment of these investments was a loss of $2.7 million which was recorded as interest expense in the condensed consolidated statement of earnings.

Please see note Q Subsequent event .

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D. Inventories were as follows:

(in millions)	September 30, 2008	December 31, 2007
Metals at lower of average cost or market:		
Finished goods	$ 57.1	$ 65.7
Work-in-process	179.8	140.7
Supplies at average cost	255.6	241.9
Total inventories	$ 492.5	$ 448.3

E. Financing

On April 1, 2008, the Company paid $150.0 million of the remaining balance of its series A Yankee bonds. With this payment the series A Yankee bonds were fully repaid. Additionally, in both June 2008 and 2007, the Company paid $5.0 million of its Mitsui loan.

F. Income taxes:

The income tax for the nine months ended September 30, 2008 and 2007 were $764.6 million and $881.2 million, respectively. These provisions include income taxes for Peru, Mexico and the United States. The effective tax rates for the 2008 and 2007 periods are 33.2% and 31.5%, respectively. The estimated annual effective tax rate for 2008 is 33.7%, compared with 34.7% in 2007. The decrease in the estimated annual effective tax rate is largely due to the incremental U.S. tax on dividend income in 2007. The dividend income was eliminated in financial consolidation (book income) but was taxable in the U.S. at the difference between the 35% U.S. statutory rate and the effective rate of 28% on the dividend from the Mexican subsidiary. In addition, the variability in the dollar relative to the Mexican peso and the Peruvian nuevo sol caused a decrease in the estimated effective tax rate. Further, the inclusion of loss carryforwards of some of Minera Mexico s subsidiaries in the Mexican tax calculation also contributed to the rate decrease.

On October 1, 2007, the Mexican government enacted a new tax law, which took effect on January 1, 2008. The law introduced a flat tax, which replaced Mexico s asset tax and applies to taxpaying entities 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; the application of this rule resulted in a provision in the first nine months of 2008 based upon the regular income tax calculation. This tax law change did not have an effect on the Company s first nine months 2008 deferred tax position.

The flat tax is calculated by applying a 16.5% tax rate in 2008, a 17% tax rate in 2009, and a 17.5% tax rate in 2010 and the following years. Although the flat tax is defined as 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.

FIN No. 48 - Accounting for Uncertainty in Income Taxes.

There were no material changes in the unrecognized tax benefits in the first nine months of 2008. The Company believes that it is reasonably possible that changes to the unrecognized tax benefit could occur in the next twelve months due to tax audit settlements with the U.S. Internal Revenue Service (IRS). This settlement is expected to cover the open years 1997 through 2002 inclusive. The Company has not calculated an estimate of the changes that will occur. Once the final settlement has been reached the unrecognized tax benefits will be adjusted. The Company

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believes that the change will not be materially adverse to its results or financial position.

In the third quarter of 2008 the IRS notified the Company that the Company s 2005 and 2006 U.S. federal income tax returns had been selected for examination. The examination of these tax returns will commence during the fourth quarter of 2008.

G. Provisionally Priced Sales:

At September 30, 2008, the Company has recorded provisionally priced sales of 120.5 million pounds of copper, at an average forward price of $2.89 per pound. Also the Company has recorded provisionally priced sales of 4.6 million pounds of molybdenum at the September 30, 2008 market price of $32.25 per pound. These sales are subject to final pricing based on the average monthly LME or 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 September 30, 2008:

Copper (million lbs.)	**Priced at**	**Month of Settlement**
37.5	2.90	October 2008
33.5	2.89	November 2008
3.7	2.88	December 2008
2.0	2.89	January 2009
16.7	2.89	February 2009
26.1	2.89	March 2009
1.0	2.89	April 2009
120.5	2.89	

Molybdenum (million lbs.)	**Priced at**	**Month of Settlement**
1.1	32.25	October 2008
2.3	32.25	November 2008
1.2	32.25	December 2008
4.6	32.25	

Please see note Q Subsequent event .

H. 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 and to enhance return on assets. The Company 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 derivatives:

From time to time the Company has entered into derivative instruments to protect a fixed copper, or zinc price for a portion of its metal sales.

In the first nine months of 2008, the Company entered into copper collar and swap contracts to protect a portion of its 2008 sales of copper production. As a result, the Company recorded a realized gain of $18.5 million and $29.2 million in the third quarter and first nine months of 2008, respectively, compared with a loss of $0.3 million in the third quarter and a gain of $3.0 million in the first nine months of 2007, respectively. These gains (losses) were recorded in net sales in the

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condensed consolidated statement of earnings and in accounts receivable other in the condensed consolidated balance sheet.

At September 30, 2008 the Company has copper collar contracts to protect 66.1 million pounds of copper production for the October-December 2008 period at weighted average minimum and maximum LME prices of $3.40 per pound and $4.23 per pound, respectively. If the LME price falls below the minimum price, the Company will be paid the difference between the minimum price and the actual price. If the LME price exceeds the maximum price, the Company will pay the difference between the maximum price and the actual price. Related to the fair value of these copper derivative contracts the Company recorded an unrealized gain of $33.7 million at the end of September 2008. This gain was recorded in net sales in the condensed consolidated statement of earnings and in accounts receivable other in the condensed consolidated balance sheet.

Gas swaps:

In 2008 and 2007 the Company entered into gas swap contracts to protect part of its gas consumptions as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2008	**2007**	**2008**	**2007**
Gas volume (MMBTUs)	305,000		305,000	900,000
Fixed price	8.2175		8.2175	7.5250
Gain (loss) (in million)	$ (0.7)		$ (0.7)	$ (0.9)

The gains (losses) obtained were charged to production cost. As of September 30, 2008 the Company held a gas swap contract to protect 155,000 MMBTUs of our gas consumption with a fixed price of $8.2175 per MMBTU for the month of October 2008. Related to the settlement of this gas swap contract the Company recorded an unrealized loss of $0.4 million in the third quarter of 2008 which was included in the $0.7 million reported in the table above.

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

Because more than 85% of the Company s sales collections in Mexico are in US dollars and many of its costs are in Mexican pesos, the Company 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.

At September 30, 2008 the Company held two types of exchange rate derivative contracts:

In the first type of exchange rate derivative contract, if the exchange rate settles at or below the barrier price, the Company does not sell US dollars, if the exchange rate settles above the barrier price and below the strike price established in the contract, the Company sells the notional amount of US dollars settling in the week at the strike price. If the exchange rate settles above the strike price established in the contract, the Company sells double the underlying amount of US dollars settling in the week at the strike price established in the contract. At September 30, 2008, the Company held the following contracts of this type:

Notional Amount (millions)	Underlying amount (millions)	Due Date, Weekly expiration during	Strike Price (Mexican Pesos/U.S. Dollars)	Barrier Price (Mexican Pesos/ U.S. Dollars)
$ 15.0	$ 1.25	4th Quarter 2008	11.32	10.60
$ 30.0	$ 1.25	1st Quarter 2009	11.25	10.60

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In the second type of exchange rate derivative contract, if the exchange rate is less than or equal to the strike price, the Company sells US dollars in an amount equal to the underlying amount for the expiration period at the strike price. The difference between the strike price and the market exchange rate is considered a gain to the Company. The total accumulated gain over the life of the contract cannot exceed 200 cents per dollar transacted in the first contract and 500 cents per dollar transacted in the second and third contract. If the exchange rate is above the strike price, the Company sells dollars in an amount equal to 2 times the underlying amount for the expiration period at the strike price and the loss does not reduce the accumulated gain. At September 30, 2008, the Company held the following contracts of this type:

Notional Amount (millions)		Underlying amount (millions)		Expiration Period	Due Date	Strike Price (Mexican Pesos/ U.S. Dollars)
$	7.5	$	2.5	Monthly	October 10, 2008 through December 11, 2008	10.80
$	15.0	$	2.5	Monthly	January 13, 2009 through June 11, 2009	10.59
$	10.0	$	2.5	Weekly	October 03, 2008 through October 24, 2008	10.80
$	107.5	$	2.5	Weekly	October 31, 2008 through August 21, 2009	10.53

In the third quarter and first nine months of 2008 the exercise of some of these zero-cost derivative contracts resulted in gains of $1.1 million and $2.1 million, respectively, compared with gains of $1.9 million and $6.0 million in the third quarter and first nine months of 2007, respectively, which were recorded as gain on derivative instruments in the condensed consolidated statement of earnings.

At September 30, 2008, the fair value of the above listed exchange rate derivative contracts is a loss of $14.8 million which was recorded as a loss on derivative instruments in the condensed consolidated statement of earnings. Each notional amount includes a group of weekly transactions that have the same strike and barrier price.

The two exchange derivative contracts of the second type held at June 30, 2008 were cancelled in the third quarter of 2008 and the Company recognized a gain of $0.7 million, which is included in the $1.1 million and $2.1 million noted above.

The $53.0 million exchange derivative contract held at December 31, 2007 was cancelled in the first quarter 2008 and the Company recognized a gain of $0.3 million, which is included in the $2.1 million noted above.

Please see note Q Subsequent event .

I. Asset Retirement Obligation:

The Company maintains an estimated asset retirement obligation for its mining properties in Peru, as required by the Peruvian Mine Closure Law. 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. The Company received MEM s response in November 2007 and responded to MEM s review in March 2008. In June 2008, the MEM requested additional information regarding the closure plan. The Company complied with this request in July 2008. Since the end of September 2008, public discussion of the Company s closure plan has begun in the areas of the Company s operations. In addition, this closure plan is being reviewed with INRENA and DIGESA, the Peruvian government agencies for the preservation of natural resources and for environmental and water resources, respectively.

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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.

As of September 30, 2008, the Company has made an estimated provision of $7.4 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 following table summarizes the asset retirement obligation activity for the first nine months of 2008 and 2007 (in millions):

	2008	2007
Balance as of January 1	$ 13.1	$ 12.2
Additions, changes in estimates	0.7	
Accretion expense	0.7	0.7
Balance as of September 30,	$ 14.5	$ 12.9

J. Related Party Transactions:

Receivable and payable balances with affiliated companies are shown below (in millions):

	As of September 30, 2008	December 31, 2007
Affiliate receivable:		
Grupo Mexico S.A.B de C.V. and affiliates	$ 0.8	$ 1.5
Other		0.1
	$ 0.8	$ 1.6
Affiliate payable:		
Grupo Mexico S.A.B. de C.V. and affiliates	$ 8.7	$ 3.9

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.

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 for such services in the first nine months of 2008 and 2007 was $9.6 million and $10.3 million, respectively. The Company expects to continue to pay for these services in the future.

The Company s Mexican operations paid fees of $7.9 million and $10.4 million in the first nine months of 2008 and 2007, respectively, primarily for freight services provided by Ferrocarril Mexicano, S.A. de C.V., a subsidiary of Grupo Mexico.

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In addition, the Company s Mexican operations paid $16.0 million and $10.3 mi1lion in the first nine months of 2008 and 2007, 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, sale of vehicles and air transportation and construction services. In connection with this, the Company paid fees of $1.7 million and $1.9 million in the first nine months of 2008 and 2007, 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. Additionally, our Mexican subsidiaries have provided a guaranty for a $10.8 million loan obtained by Mexico Transportes Aereos, S.A. de C.V. (MexTransport). MexTransport, a company controlled by the Larrea family, provides aviation services to our Mexican operations. 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 $2.2 million and $0.8 million in the first nine months of 2008 and 2007, respectively, to MexTransport for aviation services.

The Company purchased $3.4 million and $4.2 million in the first nine months of 2008 and 2007, respectively of industrial materials from Higher Technology S.A.C in which Mr. Carlos Gonzalez, son of SCC s Chief Executive Officer, is the principal owner. The Company paid fees of $0.6 million and $0.5 million in the first nine months of 2008 and 2007, respectively, for maintenance services provided by Servicios y Fabricaciones Mecanicas S.A.C., a company in which Mr. Carlos Gonzalez is the principal owner.

The Company purchased $0.7 million and $0.5 million in the first nine months of 2008 and 2007, respectively, of industrial material from Sempertrans France Belting Technology, in which Mr. Alejandro Gonzalez, son of SCC s Chief Executive Officer, is employed as a sales representative. Also, the Company purchased $0.5 million and $0.3 million in the first nine months of 2008 and 2007, respectively, of industrial material from PIGOBA, S.A. de C.V., a company in which Mr. Alejandro Gonzalez is the principal owner.

The Company purchased $1.7 million and $3.4 million in the first nine months of 2008 and 2007, respectively, of industrial material and services from Breaker, S.A. de C.V., a company in which Mr. Jorge Gonzalez, son-in-law of SCC s Chief Executive Officer, is the principal owner.

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

K. Employee Benefit Plan:

SCC Defined Benefit Pension Plan-

The components of the net periodic benefit costs for the nine months ended September 30, are as follows ($ in millions):

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	2008	2007
Interest cost	$ 0.5	$ 0.5
Amortization of net loss (gain)	0.1	0.1
Expected return on plan assets	(0.4)	(0.4)
Net periodic benefit cost	$ 0.2	$ 0.2

SCC Post-retirement Health Care Plan-

The components of the net periodic benefit costs for the post-retirement health care plan for the nine months ended September 30, 2008 and 2007 are individually, and in total, less than $0.1 million.

Minera Mexico Pension Plans-

The components of the net periodic benefit costs for the nine months ended September 30, 2008 and 2007 are as follows ($ in millions):

	2008	2007
Interest cost	$ 1.5	$ 1.4
Service cost	1.9	1.5
Expected return on plan assets	(2.3)	(1.5)
Net periodic benefit cost	$ 1.1	$ 1.4

Minera Mexico Post-retirement Health Care Plan-

The components of the net periodic cost for the nine months ended September 30, 2008 and 2007 are as follows ($ in millions):

	2008	2007
Interest cost	$ 2.3	$ 1.7
Service cost	0.5	0.4
Net periodic benefit cost	$ 2.8	$ 2.1

L. Comprehensive Income (in millions):

	Three months ended September 30,	Nine months ended September 30,

	2008	2007	2008	2007
Net income	$ 417.8	$ 627.8	$ 1,531.3	$ 1,905.5
Other comprehensive income (loss) net of tax:				
Unrealized gain (loss) on investments				(1.0)
Comprehensive income	$ 417.8	$ 627.8	$ 1,531.3	$ 1,904.5

The unrealized loss on investment activity in the 2007 period was related to an investment in a Mexican construction company which was sold in 2007. This investment was accounted for as an available for-sale investment.

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M. 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 features, 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 the 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 and March 2008, in accordance with this law and its amendments the Company prepared and submitted to MEM a closure plan. In June 2008, the MEM requested additional information regarding the closure plan. Since the end of September 2008, public discussion the Company s closure plan has begun in the areas of the Company s operations. In addition, this closure plan is being reviewed by Peruvian government agencies. See note I Asset Retirement Obligation for further discussion of this matter.

Also, the Company has initiated environmental impact assessments for the expansion of its concentrators at Toquepala and Cuajone, and for the Tia Maria project, located in the Department of Arequipa, which will have mining and leaching operations.

For the Company s Peruvian operations, environmental capital expenditures were $5.1 million and $21.6 million in the first nine months of 2008, and 2007, respectively.

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). 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 extreme 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, 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 1999. However, the Company s management does not believe that continued compliance with the federal 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 $6.7 million and $20.4 million in the first nine months of 2008 and 2007, respectively.

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

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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 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 September 30, 2008, 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.

2) On May 10, 2006, the Company was served with a second 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

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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 September 30, 2008 the case remains open with no new developments.

3) Additionally, on June 27, 2008, the Company was served with a new complaint filed in Peru, this time by 82 former employees, (Alejandro Zapata Mamani and others vs. SPCC), seeking delivery of 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 two previous labor share lawsuits), that should have been issued in accordance with Law # 22333, plus interest, and labor shares resulting from capital increases, plus dividends. The Company answered this new complaint, denying the validity of the claim. As of September 30, 2008 the case remains open with no new developments.

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. The Company does 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 alleged that the Company had trespassed on certain mining rights of the plaintiff, in Ilo, Department of Moquegua, and sought that the Company desist from the trespass and pay compensation in the amount of $49.1 million. In September 2008, the Regional Direction of Moquegua ruled in favor of SPCC denying the plaintiff s claim. The plaintiff has not appealed this decision and therefore the case is closed.

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 (La Caridad) 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 Ninth collegiate Civil Tribunal which rendered a negative ruling on August 27, 2008. The Company will enter into the judicial process to determine the final amount to be paid to MGS. 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 some residential projects like Villa Magna and other new residential projects are being developed within, an area, designated as a buffer zone due to IMMSA s use of anhydrous ammonia gas. This designation as a buffer zone was granted by the risk area

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of SEMARNAT (the federal environmental authority) within its approval of the IMMSA s Risk Analysis.

Regarding this situation, a number of actions occurred, including the following:

1) Against the municipality of San Luis Potosi, requesting the annulment of Desarrolladora Intersaba s authorizations and licenses granted within the zinc plant s buffer zone.

In August 2006, the action regarding the annulment of Villa Magna licenses was decided by a federal appeals 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 even though the outcome was adverse to its interest, the construction of the Villa Magna housing and commercial development will not affect the operations of IMMSA s zinc plant by itself.

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 has vigorously taken all necessary steps to defend against this lawsuit. A decision is expected in the near future.

2) 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.

3) Additionally, Ejido Capulines, an agricultural community, filed a protective action against IMMSA s Risk Analysis approved by SEMARNAT. As previously noted, this approval determines a buffer zone around the San Luis facilities. IMMSA has taken all necessary steps to defend against the action.

4) Also, new lawsuits were filed by IMMSA against the Municipality of San Luis Potosi challenging other licenses granted in the safeguard area.

5) IMMSA filed on October 7, 2008 a lawsuit against SEMARNAT before the Federal Tax and Administrative Justice Court seeking the nullity of a July 24, 2008 denial of the Company s request for a safeguard declaration.

The Ejidal Commissariat of the Ejido Pilares de Nacozari , initiated a protective action (Amparo) against the second expropriation decree (by means of which 2.322 hectares were expropriated for public use), ignoring the judicial settlement reached with the Company on this matter. The judicial settlement had been ratified in January 2006. The Company will defend the settlement reached with the Ejido and seek the dismissal of the case.

Mrs. Martinez, the wife of a miner, who died in the Pasta de Conchos accident, initiated a protective action against the negative ruling issued by the Ministry of Economy denying her request to launch a procedure to cancel Industrial Minera México s coal concessions, which she argued the accident should trigger.

The First District Administrative Judge flatly dismissed the case, but this ruling was later revised by an appeals court. Mrs. Martinez filed a new protective action against a new ruling issued by the Ministry of Economy. The Company is certain that an accident cannot trigger a procedure of cancellation of the coal concessions. Although the Company cannot predict the outcome of the procedures filed by Mrs. Martinez, the Company asserts that the claims of Mrs. Martinez are without merit and is vigorously defending against the actions.

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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 early 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 by the end of third quarter 2007 with all of the Company s Peruvian unions.

Mexican operations -

In the last seven years the Cananea mine has experienced more than nine labor stoppages totaling more than 542 days of inactivity. Beginning on July 30, 2007, our Cananea mine in Mexico started a work stoppage. 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. The workers partially returned to work and the Company resumed operations. However, on April 11, 2008 the workers restarted the labor stoppage and shut down production, based upon a new federal ruling. On September 4, 2008, the Fourth Labor District Judge granted the Company s motion for reconsideration of a ruling by the Federal Labor court, which will issue a new decision. The Company has tried unsuccessfully to resolve the current labor stoppage that obstructs production at Cananea, hence in the second quarter 2008, the Board of Directors decided to offer all employees a severance payment in accordance with the collective bargaining agreement and applicable law. This was offered in order to award the employees a significant severance payment that allows them to choose the labor alternative that is best for each of them. During the second and third quarters of 2008, a group of employees was liquidated at a cost to the Company of $14.4 million, which was recorded in cost of sales on the condensed consolidated statement of earnings. In accordance with SFAS No. 112, the Company has estimated a liability of $48.4 million which has been recorded on the condensed consolidated balance sheet. It is expected that production at Cananea will remain suspended until these labor issues are resolved.

Additionally, our Taxco and San Martin mines have been on strike since July 2007. It is expected that operations at these mines will remain suspended until these labor issues are resolved. However, the Company believes that the strike activity will not result in an impairment of assets.

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 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 themselves against 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.

The Company s direct and indirect parent corporations, including AMC and Grupo Mexico, have from time to time been named parties in various litigation 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 to 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 s creditors, as described below. On February 2, 2007 a complaint was filed by Asarco on behalf of Asarco s creditors, , 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 June 2008 the lawsuit was concluded in Brownsville, Texas. The constructive fraudulent conveyance claim was dismissed; however the actual fraud and the aiding and abetting the breach of fiduciary duties counts were favorable to plaintiffs. The court s decision did not determine the damage amount. Grupo Mexico will appeal the ruling. While Grupo Mexico and its affiliates believe that these claims are without merit, the Company 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.

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Other:

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 2008 and 2007, the Company made a contribution of $17.9 million and $16.1 million, calculated based on 2007 and 2006 Peruvian earnings after income tax, respectively. These contributions were deposited with a separate entity, Copper Assistance Civil Association (Asociación 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 average annual LME copper price is below $1.79 per pound the contribution will cease. In the first nine months of 2008 the Company made a provision of $12.0 million 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 $50.6 million and $46.7 million in the first nine months of 2008 and 2007, respectively, for this royalty. These provisions are included in Cost of sales (exclusive of depreciation, amortization and depletion) in the condensed consolidated 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 F Income Taxes.)

N. 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 in recent 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 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

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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 the 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

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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 Southern Copper s segments is as follows:

	Three Months Ended September 30, 2008 (in millions)				
	Mexican Open Pit	Mexican IMMSA Unit	Peruvian Operations	Corporate and other Eliminations	Consolidated
Net sales outside of segments	$ 465.3	$ 109.8	$ 865.0		$ 1,440.1
Intersegment sales	36.4	16.9		$ (53.3)	
Cost of sales (exclusive of depreciation, amortization and depletion)	207.8	116.7	372.8	(51.5)	645.8
Selling, general and administrative	9.6	5.4	9.8	1.2	26.0
Depreciation, amortization and depletion	47.3	8.4	28.8	(0.5)	84.0
Exploration	1.2	3.1	4.1		8.4
Operating income	$ 235.8	$ (6.9)	$ 449.5	$ (2.5)	675.9
Less:					
Interest, net					(16.0)
Loss on derivative instruments					(13.6)
Other income (expense)					23.8
Income taxes					(249.7)
Minority interest					(2.6)
Net earnings					$ 417.8
Capital expenditure	$ 29.9	$ 11.6	$ 86.5	$ 6.2	$ 134.2
Property, net	$ 1,625.3	$ 263.2	$ 1,737.3	$ 36.1	$ 3,661.9
Total assets	$ 2,789.9	$ 683.3	$ 2,909.6	$ (36.1)	$ 6,346.7

	Three Months Ended September 30, 2007 (in millions)				
	Mexican Open Pit	Mexican IMMSA Unit	Peruvian Operations	Corporate and other Eliminations	Consolidated
Net sales outside of segments	$ 418.9	$ 158.7	$ 1,028.8		$ 1,606.4
Intersegment sales	62.4	19.8		$ (82.2)	
Cost of sales (exclusive of depreciation, amortization and depletion)	171.3	96.4	374.0	(81.7)	560.0
Selling, general and administrative expense	8.3	5.5	9.0	0.8	23.6
Depreciation, amortization and depletion	43.7	9.9	27.4	0.5	81.5
Exploration	0.7	_2.9	4.1		7.7
Operating income	$ 257.3	$ 63.8	$ 614.3	$ (1.8)	933.6
Less:					
Interest, net					(4.0)
Gain on derivative instruments					3.0
Other income (expense)					(5.5)
Income taxes					(296.1)

Minority interest										(3.2)
Net earnings									$	627.8
Capital expenditure	$	39.8	$	7.3	$	24.5	$	0.5	$	72.1
Property, net	$	1,604.2	$	245.7	$	1,662.4	$	70.2	$	3,582.5
Total assets	$	3,400.7	$	647.4	$	3,383.7	$	(682.5)	$	6,749.3

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Nine Months Ended September 30, 2008 (in millions)	Mexican Open Pit	Mexican IMMSA Unit	Peruvian Operations	Corporate and other Eliminations	Consolidated
Net sales outside of segments	$ 1,343.0	$ 369.0	$ 2,689.1		$ 4,401.1
Intersegment sales	96.5	82.9		$ (179.4)	
Cost of sales (exclusive of depreciation, amortization and depletion)	591.8	311.3	992.0	(178.2)	1,716.9
Selling, general and administrative	28.1	16.6	31.2	1.4	77.3
Depreciation, amortization and depletion	139.9	24.4	85.2	(1.2)	248.3
Exploration	4.1	7.2	14.2		25.5
Operating income	$ 675.6	$ 92.4	$ 1,566.5	$ (1.4)	2,333.1
Less:					
Interest, net					(40.3)
Loss on derivative instruments					(12.7)
Other income (expense)					23.9
Income taxes					(764.6)
Minority interest					(8.1)
Net earnings					$ 1,531.3
Capital expenditure	$ 107.9	$ 30.9	$ 167.9	$ 8.3	$ 315.0
Property, net	$ 1,625.3	$ 263.2	$ 1,737.3	$ 36.1	$ 3,661.9
Total assets	$ 2,789.9	$ 683.3	$ 2,909.6	$ (36.1)	$ 6,346.7

Nine Months Ended September 30, 2007 (in millions)	Mexican Open Pit	Mexican IMMSA Unit	Peruvian Operations	Corporate and other Eliminations	Consolidated
Net sales outside of segments	$ 1,620.9	$ 471.5	$ 2,698.8		$ 4,791.2
Intersegment sales	210.3	71.3		$ (281.6)	
Cost of sales (exclusive of depreciation, amortization and depletion)	569.0	268.5	1,036.4	(284.9)	1,589.0
Selling, general and administrative expense	29.2	18.3	29.1	(3.4)	73.2
Depreciation, amortization and depletion	130.7	27.6	80.7	1.1	240.1
Exploration	3.3	6.9	12.5		22.7
Operating income	$ 1,099.0	$ 221.5	$ 1,540.1	$ 5.6	2,866.2
Less:					
Interest, net					(18.4)
Loss on derivative instruments					(73.7)
Other income (expense)					20.2
Income taxes					(881.2)
Minority interest					(7.6)
Net earnings					$ 1,905.5
Capital expenditure	$ 102.1	$ 16.8	$ 104.9	$ 27.3	$ 251.1
Property, net	$ 1,604.2	$ 245.7			