

SOUTHERN COPPER CORP/
Form 10-K
February 27, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended: December 31, 2011

OR

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)

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Delaware

(State or other jurisdiction of incorporation or organization)

13-3849074

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

1440 East Missouri Avenue Suite C-175 Phoenix, AZ

(Address of principal executive offices)

85014

(Zip code)

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

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

Title of each class:
Common stock, par value \$0.01 per share

Name of each exchange on which registered:
New York Stock Exchange

Lima Stock Exchange

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days Yes No

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

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

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

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

At January 31, 2012, there were of record 840,980,000 shares of common stock, par value \$0.01 per share, outstanding.

The aggregate market value of the shares of common stock (based upon the closing price at June 30, 2011 as reported on the New York Stock Exchange - Composite Transactions) of Southern Copper Corporation held by non affiliates was approximately \$5,438 million.

PORTIONS OF THE FOLLOWING DOCUMENTS ARE INCORPORATED BY REFERENCE:

Part III: Proxy statement for 2012 Annual Meeting of Stockholders

Part IV: Exhibit Index is on Page 170 through 179

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Southern Copper Corporation (SCC)

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PART I

ITEM 1. BUSINESS

THE COMPANY

Southern Copper Corporation (SCC , Southern Copper or the Company) is one of the largest integrated copper producers in the world. We produce copper, molybdenum, zinc and silver. All of our mining, smelting and refining facilities are located in Peru and Mexico and we conduct exploration activities in those countries and in Argentina, Chile and Ecuador. See Item 2 Properties - Review of Operations for maps of our principal mines, smelting facilities and refineries. Our operations make us one of the largest mining companies in Peru and also in Mexico. We believe we have the largest copper reserves in the world. We were incorporated in Delaware in 1952 and have conducted copper mining operations since 1960. Since 1996, our common stock has been listed on both the New York and Lima Stock Exchanges.

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

Our Mexican operations are conducted through our subsidiary, Minera Mexico S.A. de C.V. (Minera Mexico), which we acquired in 2005. Minera Mexico engages primarily in the mining and processing of copper, molybdenum, zinc, silver, gold and lead. Minera Mexico operates through subsidiaries that are grouped into three separate units. Mexicana de Cobre S.A. de C.V. (together with its subsidiaries, the Mexcobre unit) operates La Caridad, an open-pit copper mine, a copper ore concentrator, a SXEW plant, a smelter, refinery and a rod plant. Operadora de Minas e Instalaciones Míneras S.A de C.V. (the Buenavista unit) operates Buenavista, formerly named Cananea, an open-pit copper mine, which is located at the site of one of the world's largest copper ore deposits, a copper concentrator and two SXEW plants. The Buenavista mine was operated until December 11, 2010 by Mexicana de Cananea S.A. de C.V. and by Buenavista del Cobre S.A. de C.V. from that date until July 2011. Industrial Minera Mexico, S.A. de C.V. (together with its subsidiaries, the IMMSA unit) operates five underground mines that produce zinc, lead, copper, silver and gold, a coal mine and a zinc refinery. Effective February 1, 2012, Minerales Metalicos del Norte S.A was merged with Industrial Minera Mexico S.A. de C.V. (IMMSA). IMMSA absorbed Minerales Metalicos del Norte S.A.

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

The sales prices for our products are largely determined by market forces outside of our control. Our management, therefore, focuses on cost control and production enhancement to remain profitable. We endeavor to achieve these goals through capital spending programs, exploration efforts and cost reduction programs. Our focus is on seeking to remain profitable during periods of low copper prices and maximizing results in

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periods of high copper prices. For additional information on the sale prices of the metals we produce, please see Metal prices in this Item 1.

Currency Information:

Unless stated otherwise, all our financial information is presented in U.S. dollars and any reference herein to U.S. dollars, dollars, or \$ are to U.S. dollars; references to S/. , nuevo sol or nuevos soles, are to Peruvian nuevos soles; and references to peso, pesos, or Ps., are to Mexican pesos.

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Unit Information:

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

ORGANIZATIONAL STRUCTURE

The following chart describes our organizational structure, starting with our controlling stockholders, as of December 31, 2011. For clarity of presentation, the chart identifies only our main subsidiaries and eliminates intermediate holding companies.

We are a majority-owned, indirect subsidiary of Grupo Mexico S.A.B. de C.V. (Grupo Mexico). Through its wholly-owned subsidiaries, Grupo Mexico as of December 31, 2011 owns 80.9% of our capital stock. Grupo Mexico 's principal business is to act as a holding company for shares of other corporations engaged in the mining, processing, purchase and sale of minerals and other products and railway and other related services.

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We conduct our operations in Peru through a registered branch (the SPCC Peru Branch, Branch or Peruvian Branch). The SPCC Peru Branch comprises substantially all of our assets and liabilities associated with our copper operations in Peru. The SPCC Peru Branch is not a corporation separate from us and, therefore, obligations of SPCC Peru Branch are direct obligations of SCC and vice-versa. It is, however, an establishment, registered pursuant to Peruvian law, through which we hold assets, incur liabilities and conduct operations in Peru. Although it has neither its own capital nor liability separate from us, it is deemed to have equity capital for purposes of determining the economic interests of holders of our investment shares, (See Note 13 Non-controlling interest of our consolidated financial statements).

On April 1, 2005, we acquired Minera Mexico, the largest mining company in Mexico on a stand-alone basis, from Americas Mining Corporation (AMC), a subsidiary of Grupo Mexico, our controlling stockholder. Minera Mexico is a

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holding company and all of its operations are conducted through subsidiaries that are grouped into three units: (i) the Mexcobre unit (ii) the Buenavista unit and (iii) the IMMSA unit. We own 99.95% of Minera Mexico.

In 2011, our Board of Directors increased from \$500 million to \$1 billion the share repurchase program authorized in 2008. Pursuant to this program, we purchased 42.5 million shares of our common stock at a cost of \$730.7 million. These shares are available for general corporate purposes. We may purchase additional shares from time to time, based on market conditions and other factors. This repurchase program has no expiration date and may be modified or discontinued at any time.

REPUBLIC OF PERU AND MEXICO

Our revenues are derived primarily from our operations in Peru and Mexico. Risks related to our operations in both countries include those associated with economic and political conditions, effects of currency fluctuations and inflation, effects of government regulations and the geographic concentration of our operations.

AVAILABLE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the U.S. Securities and Exchange Commission (SEC). You may read and copy any document we file at the SEC's Public Reference Room at 100 F Street NE, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for information on the Public Reference Room. The SEC maintains a website that contains annual, quarterly and current reports, proxy statements and other information that issuers (including Southern Copper Corporation) file electronically with the SEC. The SEC's website is www.sec.gov.

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

CAUTIONARY STATEMENT

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

economic risk associated with foreign operations. Results of operations are directly affected by metals prices on commodity exchanges, which can be volatile.

Additional business information follows:

COPPER BUSINESS

Copper is the world's third most widely used metal, after iron and aluminum, and an important component in the world's infrastructure. Copper has unique chemical and physical properties, including high ductility, malleability, and thermal and electrical conductivity, and resistance to corrosion that has made it a superior material for use in electrical and electronic products, including power transmission and generation, which accounts for about three quarters of its global copper use,

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telecommunications, building construction, transportation and industrial machinery businesses. Copper is also an important metal in non-electrical applications such as plumbing and roofing and, when alloyed with zinc to form brass, in many industrial and consumer applications.

Copper is an internationally traded commodity with prices principally determined by the major metal exchanges, the Commodities Exchange, or COMEX, in New York and the London Metal Exchange or LME. Copper is usually found in nature in association with sulfur. Pure copper metal is generally produced from a multistage process, beginning with the mining and concentrating of low-grade ores containing copper sulfide minerals, and followed by smelting and electrolytic refining to produce a pure copper cathode. An increasing share of copper is produced from acid leaching of oxidized ores. Copper is one of the oldest metals ever used and has been one of the important materials in the development of civilization.

Copper industry fundamentals, including copper demand, price levels and stocks, strengthened in late 2003 and copper prices continued to improve into the third quarter of 2008, from the 15-year price lows set during 2002. Late in the third quarter of 2008 the price of copper, as well as the price of other commodities, suffered a brief temporary decline as a consequence of the world financial crisis reaching price lows of \$1.30 per pound in the fourth quarter of 2008. However, since 2009 the price of copper has improved, closing at year-end 2011 at \$3.43 per pound on both the LME and COMEX.

BUSINESS REPORTING SEGMENTS:

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

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

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

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

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

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

Segment information is included in Item 2 Properties , under the captions Metal production by segments and Ore Reserves. More information on business segment and segment financial information is included in Note 20 Segment and Related Information of our consolidated financial statements.

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CAPITAL INVESTMENT PROGRAM

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

EXPLORATION ACTIVITIES

We are engaged in ongoing extensive exploration to locate additional ore bodies in Peru, Mexico, Argentina, Ecuador and Chile. We also conduct exploration in the areas of our current mining operations. We invested \$37.5 million in exploration programs in 2011, \$34.3 million in 2010 and \$24.6 million in 2009 and we expect to spend approximately \$44.8 million in exploration programs in 2012.

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

Peru

Los Chancas. The Los Chancas project, located in the department of Apurimac in southern Peru, is a copper and molybdenum porphyry deposit. As a result of the pre-feasibility studies and after the preliminary design of the pit, estimates show 355 million tons of mineralized material with a copper content of 0.62%, molybdenum content of 0.05% and 0.039 grams of gold per ton. During 2011, we completed the pre-feasibility study and we plan to conduct a feasibility study of the project in 2012.

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

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

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

Mexico

In addition to exploratory drilling programs at existing mines, we are currently conducting exploration to locate mineral deposits at various other sites in Mexico. The following are some of the more significant exploration projects:

El Arco. The El Arco site is a copper deposit located in the state of Baja California in Mexico. Exploration work at the site indicates approximately 1,207 million tons of mineralized sulfide material with an average copper content of 0.5% and 0.125 grams of gold per ton and 290 million tons of copper oxide with 0.35% copper grade. In 2010, a deep drilling program of 1,214 meters indicated approximately 390 million tons of mineralized material with 0.62% of copper content below the current pit limits. As we have a large mineralized material database for this project, we decided to postpone the deep drilling program to the future, consequently no drilling was done in 2011 and none is planned for 2012.

A water source for the leaching operation was identified in 2009 and in 2010 four new production wells were drilled and confirmed an underground water availability of 300 liters per second in the area. During 2011, all documentation required to obtain a water concession for 300 liters per second was filed. We expect to receive the title for these water rights in the first half of 2012.

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

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Angangueo. The Angangueo site is located in the state of Michoacan in Mexico. A deposit of 13 million tons of mineralized material has been identified with diamond drilling. Testing indicates that the deposit has mineralized material containing 0.16 grams of gold and 262 grams of silver per ton, with 0.79% lead, 0.97% copper and 3.5% zinc. In 2011, we concluded the feasibility study and in October 2011 an investment of \$130.7 million was approved for the development of the Angangueo mine. Please see *Capital Investment Programs* under Item 7 for further information.

Buenavista-Zinc (formerly named Buenavista). The Buenavista-Zinc site is located in the state of Sonora, Mexico and forms part of the Buenavista ore body. Drilling and metallurgical studies have shown that the zinc-copper deposit contains approximately 36 million tons of mineralized material containing 29 grams of silver per ton, 0.69% copper and 3.3% zinc. A new scoping level study indicates that Buenavista-Zinc may be an economic deposit. Due to labor strike activities at the Buenavista mine no work was performed from 2008 through 2010. In 2011, 11,956 meters of diamond drilling were executed to confirm grade and acquire geotechnical information. In 2012, the Buenavista-Zinc mine plan will be integrated with the overall mine plan of the Buenavista pit. Also we expect to conclude the final metallurgical testing and the feasibility study in 2012.

Carbon Coahuila. In Coahuila, an intensive exploration program of diamond drilling has identified two additional areas, Esperanza with a potential for more than 30 million tons of in place mineralized coal and Guayacan with a potential for 15 million tons of in place mineralized coal, that could be used for a future coal-fired power plant. During 2010, 1,213 meters of diamond drilling were completed at the Rosita pit area and with this drilling, 10,100 tons of mineralized coal were added to the mineralized material estimates for this open pit project. In 2011, 2,640 meters distributed in 68 drilling holes were executed. This resulted in an increase of 178,000 tons of new mineralized material at the Nueva Rosita pit. For 2012, a 5,000 meters drilling program is planned for the La Conquista pit.

The Chalchihuites. The Chalchihuites site is located in the state of Zacatecas. It is a replacement deposit with mixed oxides and sulfides of lead, copper, zinc and silver. A drilling program, in the late 1990s, defined 16 million tons of mineralized material containing 95 grams of silver, 0.36% lead, 0.69% copper and 3.08% zinc per ton. Preliminary metallurgical testing indicates that a leaching precipitating-flotation recovery process can be applied to this ore. In 2009, we started a prefeasibility study which is expected to be completed by the end of the second quarter 2012. In 2010 and 2011, we added several claims and performed a 9,386 meters drilling program that indicated at least seven million tons of mineralized material containing 979 grams of silver, 0.41% lead, 0.52% copper and 2.53% zinc. During 2012, we plan to continue the drilling program, metallurgical testing and related studies.

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

Sierra de Lobos. This project is located southwest of the city of Leon, Guanajuato. Drilling in 2008 confirmed the presence of copper and zinc mineralization, but an economic deposit has not yet been identified. Due to the changes in our investment program priorities, no work was performed in 2009, 2010 and 2011. We expect to resume drilling activities in the second quarter of 2012.

Chile

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

Catanave. Located in northern Chile (Arica), Catanave belongs to a mineralized epithermal system of gold and silver. In 2010, the environmental impact study was approved and during 2011, 2,189 meters of diamond drilling were completed. This prospect has good possibilities and for 2012 we plan to continue exploration with a diamond drilling program of 3,000 meters.

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

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

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

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

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

Ecuador

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

Argentina

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

PRINCIPAL PRODUCTS AND MARKETS

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

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Our marketing strategy and annual sales planning emphasize developing and maintaining long-term customer relationships, and thus acquiring annual or other long-term contracts for the sale of our products is a high priority. Approximately 80% of our metal production for the years 2011, 2010 and 2009, was sold under annual or longer-term contracts. Sales prices are determined based on prevailing commodity prices for the quotation period according to the terms of the contract.

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

For additional information on sales please see Revenue recognition in Note 3 Summary of significant accounting policies and Note 20 Segment and related information of our consolidated financial statements.

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METALS PRICES

Prices for our products are principally a function of supply and demand and, except for molybdenum, are established on COMEX and LME, the two most important metal exchanges in the world. Prices for our molybdenum products are established by reference to the publication Platt's Metals Week. Our contract prices also reflect any negotiated premiums and the costs of freight and other factors. From time to time, we have entered into hedging transactions to provide partial protection against future decreases in the market price of metals and we may do so under certain market conditions. We entered into copper derivative contracts in 2011 and 2010. During 2009, we did not hold any metal derivative contracts. For a further discussion of derivative instruments, see Item 7A Quantitative and Qualitative Discussion about Market Risk. For a further discussion of our products market prices, please see Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Metal Prices.

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

Year	High	Copper (COMEX)			High	Copper (LME)	
		Low	Average	Low		Average	
1997	1.23	0.76	1.04	1.23	0.77	1.03	
1998	0.86	0.64	0.75	0.85	0.65	0.75	