

SOUTHERN COPPER CORP/
Form 10-Q
August 08, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: June 30, 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**

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 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

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

As of July 30, 2011 there were outstanding 845,432,480 shares of Southern Copper Corporation common stock, par value \$0.01 per share.

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Southern Copper Corporation (SCC)

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Exhibit 101	Financial statements for the three and six months ended June 30, 2011 Formatted in XBRL: (i) the Condensed Consolidated Statement of Earnings, (ii) the Condensed Consolidated Statement of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheet, (iv) the Condensed Consolidated Statement of Cash Flows, and (v) the Notes to Condensed Consolidated Financial Statements, tagged in detail.	Submitted electronically with this report

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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 June 30,		6 Months Ended June 30,	
	2011	2010	2011	2010
	(in thousands, except per share amounts)			
Net sales	\$ 1,801,498	\$ 1,173,240	\$ 3,403,517	\$ 2,392,645
Operating costs and expenses:				
Cost of sales (exclusive of depreciation, amortization and depletion shown separately below)	695,977	531,484	1,432,837	1,042,467
Selling, general and administrative	25,744	21,964	50,316	43,682
Depreciation, amortization and depletion	72,898	69,304	143,542	138,772
Exploration	8,147	10,065	15,365	18,530
Total operating costs and expenses	802,766	632,817	1,642,060	1,243,451
Operating income	998,732	540,423	1,761,457	1,149,194
Interest expense	(48,297)	(45,050)	(95,861)	(68,838)
Capitalized interest	1,357		2,293	
Gain on sale of property	6,410		6,410	
Other income (expense)	318	(6,489)	(262)	(5,056)
Interest income	3,534	1,328	6,245	3,380
Income before income taxes	962,054	490,212	1,680,282	1,078,680
Income taxes	301,935	174,901	540,016	378,142
Net income	660,119	315,311	1,140,266	700,538
Less: Net income attributable to the non-controlling interest	2,082	1,924	3,853	3,907
Net income attributable to SCC	\$ 658,037	\$ 313,387	\$ 1,136,413	\$ 696,631
Per common share amounts attributable to SCC:				
Net income - basic and diluted	\$ 0.78	\$ 0.37	\$ 1.34	\$ 0.82
Dividends paid	\$ 0.56	\$ 0.45	\$ 1.14	\$ 0.88

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Weighted average common shares outstanding - basic and diluted	848,937	850,000	849,465	850,000
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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Southern Copper Corporation

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited)

	3 Months Ended June 30,		6 Months Ended June 30,	
	2011	2010	2011	2010
	(in thousands)			
Net income	\$ 660,119	\$ 315,311	\$ 1,140,266	\$ 700,538
Other comprehensive income (loss) net of tax:				
Derivative instruments classified as cash flow hedge:				
Decrease in accumulated unrealized loss in the period	18,049		61,829	
Add:				
Reclassification adjustment for losses included in net income	5,264		27,211	
Unrealized loss on derivative instruments classified as cash flow hedges	23,313		89,040	
Comprehensive income	\$ 683,432	\$ 315,311	\$ 1,229,306	\$ 700,538
Comprehensive income attributable to the non-controlling interest	\$ 2,155	\$ 1,924	\$ 4,104	\$ 3,907
Comprehensive income attributable to SCC	\$ 681,277	\$ 313,387	\$ 1,225,202	\$ 696,631

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

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Southern Copper Corporation

CONDENSED CONSOLIDATED BALANCE SHEET

(Unaudited)

	June 30, 2011	December 31, 2010
	(in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,453,841	\$ 2,192,677
Short-term investments	225,396	76,209
Accounts receivable trade	767,235	671,745
Accounts receivable other (including related parties 2011 - \$4,390 and 2010 - \$32,700)	112,755	76,284
Inventories	609,436	540,988
Deferred income tax	61,679	63,935
Other current assets	41,191	117,170
Total current assets	3,271,533	3,739,008
Property, net	4,130,116	4,094,993
Long-term leach stockpiles	59,964	29,668
Intangible assets, net	111,328	112,352
Deferred income tax	71,000	43,900
Other assets	150,204	108,098
Total assets	\$ 7,794,145	\$ 8,128,019
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	\$ 10,000	\$ 10,000
Accounts payable	342,124	558,661
Accrued income taxes	120,941	266,241
Due to affiliated companies	5,599	4,665
Accrued workers participation	133,313	222,432
Accrued interest	58,924	60,062
Other accrued liabilities	26,905	16,957
Total current liabilities	697,806	1,139,018
Long-term debt	2,740,438	2,750,401
Deferred income taxes	149,754	113,232
Non-current taxes payable	45,250	77,830
Other liabilities and reserves	79,389	78,070
Asset retirement obligation	60,782	59,059
Total non-current liabilities	3,075,613	3,078,592
Commitments and contingencies (Note 13)		
STOCKHOLDERS EQUITY		
Common stock	8,846	8,846
Additional paid-in capital	1,050,305	1,034,764
Retained earnings	3,763,391	3,595,983

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Accumulated other comprehensive loss	(37,383)	(126,423)
Treasury stock	(784,481)	(622,722)
Total SCC stockholders' equity	4,000,678	3,890,448
Non-controlling interest	20,048	19,961
Total equity	4,020,726	3,910,409
Total liabilities and equity	\$ 7,794,145	\$ 8,128,019

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 June 30,		6 Months Ended June 30,	
	2011	2010	2011	2010
	(in thousands)			
OPERATING ACTIVITIES				
Net income	\$ 660,119	\$ 315,311	\$ 1,140,266	\$ 700,538
Adjustments to reconcile net earnings to net cash provided from operating activities:				
Depreciation, amortization and depletion	72,898	69,304	143,542	138,772
Remeasurement loss (income)	(2,526)	(758)	5,653	7,606
Provision (benefit) for deferred income taxes	21,241	(20,365)	(16,502)	(14,512)
Gain on sale of property	(6,410)		(6,410)	
Cash provided from (used for) operating assets and liabilities:				
Accounts receivable	(206,335)	76,301	(131,961)	18,948
Inventories	19,554	20,565	(68,448)	9,689
Accounts payable and accrued liabilities	(382,981)	53,851	(351,174)	(52,755)
Other operating assets and liabilities	27,154	13,546	2,820	26,708
Net cash provided from operating activities	202,714	527,755	717,786	834,994
INVESTING ACTIVITIES				
Capital expenditures	(110,655)	(92,925)	(183,644)	(168,288)
Purchase of short-term investments, net	(4,877)	(30,131)	(149,506)	(26,744)
Payments to development stage properties accounted for as equity method investments	(4,593)		(15,911)	
Sale of property	8,132	538	8,855	5,347
Other	143		143	
Net cash used for investing activities	(111,850)	(122,518)	(340,063)	(189,685)
FINANCING ACTIVITIES				
Debt incurred		1,489,674		1,489,674
Debt repaid	(5,000)	(5,000)	(10,250)	(5,000)
Capitalized debt issuance cost		(8,155)		(8,155)
Dividends paid to common stockholders	(476,000)	(382,500)	(969,004)	(747,998)
Distributions to non-controlling interest	(1,412)	(1,822)	(3,605)	(2,971)
Repurchase of common shares	(148,068)	(380)	(148,068)	(380)
Other	714	292	(504)	367
Net cash (used for) provided from financing activities	(629,766)	1,092,109	(1,131,431)	725,537
Effect of exchange rate changes on cash and cash equivalents	19,446	(4,687)	14,872	1,471
Increase (decrease) in cash and cash equivalents	(519,456)	1,492,659	(738,836)	1,372,317
Cash and cash equivalents, at beginning of period	1,973,297	651,964	2,192,677	772,306

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Cash and cash equivalents, at end of period	\$	1,453,841	\$	2,144,623	\$	1,453,841	\$	2,144,623
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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)

NOTE 1 DESCRIPTION OF THE BUSINESS:

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 June 30, 2011 and the results of operations, comprehensive income and cash flows for the three and six months ended June 30, 2011 and 2010. The results of operations for the three and six months ended June 30, 2011 and 2010 are not necessarily indicative of the results to be expected for the full year. The December 31, 2010 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 (USGAAP). The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements at December 31, 2010 and notes included in the Company's 2010 annual report on Form 10-K.

NOTE 2 ADOPTION OF NEW ACCOUNTING STANDARDS:

In the first six months of 2011 the Company adopted the following Accounting Standard Updates (ASU) to the FASB Accounting Standards Codification (the ASC) issued by the Financial Accounting Standard Board (FASB).

ASU No. 2010-06: In January 2010, the FASB issued ASU No. 2010-06 Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements, an update of ASC Subtopic 820-10 Fair Value Measurements and Disclosures - Overall.

With the adoption of this ASU in 2011, the Company has expanded its financial instruments disclosures to include those related to purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Please see disclosures required in Note 17 Financial instruments.

NOTE 3 AMC's BUSINESS COMBINATION PROPOSAL:

On July 22, 2010, the Company received a non-binding proposal from its parent company, Americas Mining Corporation (AMC), offering to effect an all-stock business combination of Southern Copper and AMC, the parent company of ASARCO LLC (Asarco), in which all stockholders of Southern Copper would receive 1.237 common shares of AMC in exchange for each share of SCC. Under the proposal

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presented by AMC, the stock of AMC would be registered and listed on the New York, Mexico and the Lima Stock Exchanges. Once the listing and registration of the AMC shares are completed, SCC's shares would be delisted from the exchanges.

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

Table of Contents**NOTE 4 SHORT-TERM INVESTMENTS:**

Short-term investments were as follows (\$ in millions):

	At June 30, 2011		At December 31, 2010	
Trading securities	\$	216.4	\$	66.9
Weighted average interest rate		2.02%		1.14%
Available for sale	\$	9.0	\$	9.3
Weighted average interest rate		0.37%		1.01%
Total	\$	225.4	\$	76.2

Trading securities: consist of bonds issued by public companies. Each financial instrument is independent of the others. The Company has the intention to sell these bonds in the short-term.

Available for sale investments consist of securities issued by public companies. Each security is independent of the others and at June 30, 2011 and December 31, 2010, included corporate bonds and asset and mortgage backed obligations. As of June 30, 2011 and December 31, 2010, gross unrealized gains and losses on available for sale securities were not material.

Related to these investments the Company earned interest, which was recorded as interest income in the condensed consolidated statement of earnings. Also the Company redeemed some of these securities and recognized gains (losses) due to changes in fair value, which were recorded as other income (expense) in the condensed consolidated statement of earnings.

The following table summarizes the activity of these investments by category (in millions):

	Three months ended June 30,			Six months ended June 30,		
	2011	2010		2011	2010	
Trading securities:						
Interest earned	\$	1.0	\$	0.1	\$	0.1
Available for sale:						
Interest earned		(*)		(*)		0.1
Investment redeemed	\$	0.4	\$	7.7	\$	11.2

(*) Less than \$0.1 million

NOTE 5 - INVENTORIES:

Inventories were as follows:

(in millions)	At June 30, 2011	At December 31, 2010
Inventory, current:		
Metals at lower of average cost or market:		
Finished goods	\$ 101.3	\$ 67.9
Work-in-process	248.0	227.6
Supplies at average cost	260.1	245.5
Total current inventory	\$ 609.4	\$ 541.0
Inventory, long-term		
Long-term leach stockpiles	\$ 60.0	\$ 29.7

Table of Contents**LONG-TERM INVENTORY:**

In prior years the Company capitalized the production cost of leachable material with low copper content at the Buenavista mine in Mexico. In 2011, the Company extended this practice of recognizing inventories for costs associated with leaching activities at the La Caridad mine in Mexico and the Toquepala and Cuajone mines in Peru in order to conform to evolving mine production plans at these mines. As a result of changing market conditions and mining processes, mineral extraction through leaching has become integral to the mining operations carried out at La Caridad, Toquepala and Cuajone. Accordingly, the process and sale of mineral content in leaching dumps is reasonably assured and the costs associated with leaching activities at such mines are now recognized as inventories. As the production cycle of the leaching process is significantly longer than the conventional process of concentrating, smelting and electrolytic refining, the Company includes on its balance sheet, current leach inventory (included in work-in-process inventories) and long-term leach inventory. The cost attributed to the leach material is charged to cost of sales generally over a five-year period (the average estimated recovery period based on the recovery percentages of each mine).

During the six months ended June 30, 2011 total leaching costs capitalized as long-term inventory of leachable material amounted to \$54.1 million. There was no capitalization during the six months ended June 30, 2010. Long-term leaching inventories recognized as cost of sales amounted to \$23.6 million and \$21.0 million for the six months ended June 30, 2011 and 2010, respectively.

NOTE 6 INCOME TAXES:

The income tax provision and the effective income tax rate for the first six months of 2011 and 2010 were as follows (\$ in millions):

	2011		2010	
Income tax provision	\$	540.0	\$	378.1
Effective income tax rate		32.1%		35.1%

These provisions include income taxes for Peru, Mexico and the United States. The provision for income taxes was based on the effective tax rate of 32.1% for the first six months of 2011 as compared to 35.1% in the first six months of 2010. The decrease in the effective tax rate for the first six months of 2011 is due to an increase in earnings from the Mexican operations, as a result of the restart of the Buenavista mine, that are taxed at 30% as compared to the Peruvian earnings that are taxed at 35%.

In March 2009, Grupo Mexico, S.A.B. de C.V. (Grupo Mexico), through its wholly-owned subsidiary, AMC, became the beneficial owner of 80% of SCC's common stock. As a result of this new level of ownership, beginning in March 2009 SCC no longer files a separate U.S. federal income tax return and its operating results are included in the AMC consolidated U.S. federal income tax return. In addition to its interest in SCC, AMC also owns 100% of Asarco and its subsidiaries. In accordance with paragraph 30-27 of ASC 740-10-30, current and deferred taxes are allocated to members of the AMC group as if each were a separate taxpayer. The Company has initiated discussions with AMC to put in place a tax sharing agreement in order to establish this allocation as well as other procedures and policies necessary for an equitable management of U.S. federal income tax matters. SCC provides current and deferred income taxes as if it was a separate filer.

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Accounting for Uncertainty in Income Taxes:

The Company files tax returns in Peru, the United States and in Mexico. These tax returns are examined by the tax authorities of those countries.

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During the second quarter of 2011 the Company and the Internal Revenue Service concluded the United States federal income tax audit of the years 2005, 2006 and 2007. As a result the Company considers all uncertain tax positions from this audit to be effectively settled. The decrease in the unrecognized tax benefit from the amount reported at December 31, 2010, as a result of this event, is approximately \$26.0 million and is recorded in the second quarter of 2011.

NOTE 7 PROVISIONALLY PRICED SALES:

At June 30, 2011, the Company has recorded provisionally priced sales of copper at average forward prices per pound, and molybdenum at the June 30, 2011 market price 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 June 30, 2011:

Copper (million lbs.)		Priced at (per pound)	Month of Settlement
50.1	\$	4.27	July 2011
25.4		4.28	August 2011
75.5	\$	4.27	

Molybdenum (million lbs.)		Priced at (per pound)	Month of Settlement
2.9	\$	15.55	July 2011
3.4		15.55	August 2011
2.4		15.55	September 2011
0.3		15.55	October 2011
9.0	\$	15.55	

Management believes that the final pricing of these sales will not have a material effect on the Company's financial position or results of operations.

NOTE 8 DERIVATIVE INSTRUMENTS:

As part of its risk management policy, the Company occasionally uses derivative instruments to (i) safeguard the corporate assets, (ii) insure the value of future revenue streams, and (iii) lessen the impact of unforeseen market swings on sales revenues. To comply with these objectives the Company, from time to time, enters into commodity price derivatives, interest rate derivatives, exchange rate derivatives and other instruments. 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 swaps:

In the last quarter of 2010 and in 2011, the Company entered into copper swaps and zero cost collar derivative contracts to reduce price volatility and to protect the sales value of a portion of its 2011 and first quarter 2012 copper sales as shown below. These transactions meet the requirements of hedge accounting. The realized gains and losses from these derivatives were recorded in net sales on the condensed consolidated statement of earnings and included in operating activities on the condensed consolidated statement of cash flows. The unrealized gains and losses are recorded in other comprehensive income on the condensed consolidated financial statements until settlement.

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The hedge instruments are based on LME copper prices. The Company performed statistical analysis on the difference between the average monthly copper price on the LME and the COMEX exchanges and determined that the correlation coefficient is greater than 0.999. Based on this analysis the Company considers that the LME underlying price matches its sales priced at COMEX prices. These cash flow hedge relationships qualify as critical matched terms hedge relationships and as a result have no ineffectiveness. The Company performs periodic quantitative assessments to confirm that the relationship was highly effective and that the ineffectiveness was *de minimus*.

The following table summarizes the copper derivative activity related to copper sales transactions realized in the second quarter and in the first six months of 2011 (the Company held no copper derivatives in the first six months of 2010):

	Second quarter 2011	First six months of 2011
Zero cost collar contracts:		
Pounds (in millions)	105.8	211.6
Average LME cap price	\$ 4.84	\$ 4.84
Average LME floor price	\$ 3.02	\$ 3.02
Swap contracts:		
Pounds (in millions)	112.4	232.0
Weighted average COMEX price	\$ 4.08	\$ 4.08
Realized loss on copper derivatives (pre-tax)(in millions)	\$ 8.6	\$ 44.3

As of June 30, 2011 the Company held copper derivative contracts to protect a portion of its copper sales for the remaining six months of 2011 and the first quarter 2012, as follows:

	2011	1st Quarter 2012
Zero cost collar contracts:		
Pounds (in millions)	211.6	46.3
Average LME cap price	\$ 4.84	\$ 5.18
Average LME floor price	\$ 3.02	\$ 3.50
Estimated % of copper sales covered	30%	13%
Accumulated unrealized loss recognized in other comprehensive income (net of taxes of \$5.4 million and \$- million, respectively) (in millions)	\$ 8.5	\$
Swap contracts:		
Pounds (in millions)	224.9	
Weighted average COMEX price	4.08	
Estimated % of copper sales covered	32%	
Accumulated unrealized loss recognized in other comprehensive income net of taxes of \$17.6 million (in millions)	\$ 28.0	\$

Transactions under these metal price protection programs are accounted for as cash flow hedges under ASC 815-30 Derivatives and Hedging-Cash Flow Hedges (formerly SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities) as they meet the requirements for this treatment and are adjusted to fair market value based on the metal prices as of the last day of the respective reporting period with the gain or loss recorded in other comprehensive income until settlement, at which time the gain or loss, if realized, is reclassified to net sales in the condensed consolidated statements of earnings.

Table of Contents**NOTE 9 - 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 requirements of this law the Company's closure plans have been approved by the Peruvian Ministry of Energy and Mines (MINEM). As part of the closure plans, commencing in January 2010 the Company provides annual installments of \$2.6 million over a 34 year period to guarantee the availability of funds to meet this obligation. Therefore, as of January 2011 the Company has made installments on the guarantee of \$5.2 million, in the form of a lien on its Lima office building. The accepted value of the Lima office building, for this purpose, is \$17 million.

The closure cost recognized for this liability includes the cost as outlined in its closure plans, which includes the physical, geochemical and hydrological stabilization of the mine pits and dumps as well as the tailings facility, the dismantling and demolition of the Toquepala and Cujajone concentrators, the smelter and refinery in Ilo, and the shops and auxiliary facilities at the three operating areas.

The following table summarizes the asset retirement obligation activity for the six months ended June 30, 2011 and 2010 (in millions):

	2011		2010	
Balance as of January 1	\$	59.1	\$	48.9
Changes in estimates				8.7
Additions				
Accretion expense		1.7		1.6
Balance as of June 30,	\$	60.8	\$	59.2

NOTE 10 RELATED PARTY TRANSACTIONS:

Receivable and payable balances with related parties are shown below (in millions):

	As of	
	June 30, 2011	December 31, 2010
Affiliate receivable:		
Grupo Mexico, S.A.B de C.V. and affiliates	\$ 0.8	\$ 32.7
Mexico Proyectos y Desarrollos S.A de C.V. and affiliates	3.3	
Asarco LLC	0.3	
	\$ 4.4	\$ 32.7
Affiliate payable:		
Grupo Mexico S.A.B. de C.V. and affiliates	\$ 2.6	\$ 2.3
Ferrocarril Mexicano S.A. de C.V.	1.3	0.1
Mexico Transportes Aereos S.A de C.V. (Mextransport)	0.5	0.4
Mexico Productos Automotrices S.A. de C.V.	0.3	
Mexico Proyectos y Desarrollos S.A de C.V. and affiliates		0.9
Consorcio Tricobre		0.5

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Higher Technology S.A.C.			0.1
Breaker S.A. de C.V		0.9	0.3
Pigoba S.A. de C.V			0.1
Other			
	\$	5.6	\$ 4.7

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

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senior management, as are all related party transactions. It is the Company's 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.

Purchase Activity:

The following table summarizes the purchase activity with related parties in the six months ended June 30, 2011 and 2010 (in millions):

	Six months ended June 30,	
	2011	2010
Grupo Mexico and affiliates:		
Grupo Mexico Servicios, S.A de C.V	\$ 7.0	\$ 6.9
Asarco LLC	7.7	
Ferrocarril Mexicano, S.A de C.V.	4.1	1.6
Mexico Constructora Industrial S.A. de C.V.	14.1	
Compania Perforadora Mexico S.A.P.I. de C.V and affiliates	0.4	
Consorcio Tricobre	0.5	1.4
Mexico Proyectos y Desarrollos, S.A. de C.V. and affiliates	1.8	8.8
Other Larrea family companies:		
Mexico Compania de Productos Automotrices, S.A. de C.V.	0.2	1.1
Mextranport	1.3	1.0
Companies with relationships to SCC executive officers families:		
Higher Technology S.A.C.	0.9	1.5
Servicios y Fabricaciones Mecanicas S.A.C.	0.2	0.2
Sempertrans France Belting Technology	0.2	0.4
PIGOBA, S.A. de C.V.	0.1	0.1
Breaker, S.A. de C.V.	2.9	0.3
Total purchased	\$ 41.4	\$ 23.3

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 primarily 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 Grupo Mexico Servicios S.A de C.V., a subsidiary of Grupo Mexico, for these services. The Company expects to continue to pay for these services in the future.

The Company's Mexican operations paid fees for freight services provided by Ferrocarril Mexicano S.A de C.V., for construction services provided by Mexico Constructora Industrial and its affiliates and for drilling services provided by Compania Perforadora Mexico S.A.P.I. de C.V., these three companies are subsidiaries of Grupo Mexico.

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The Company's Peruvian operations paid fees for engineering and consulting services provided by Consorcio Tricobre, a Peruvian company in which Servicios de Ingenieria Consutec, S.A. de C. V., an indirect subsidiary of Grupo Mexico, has 42.7% participation.

The Larrea family controls a majority of the capital stock of Grupo Mexico, and has extensive interests in other businesses, including oil drilling services,

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construction, aviation and real estate. The Company engages in certain transactions in the ordinary course of business with other entities controlled by the Larrea family relating to mining and refining services, the lease of office space and air transportation and construction services. In connection with this, the Company paid fees for maintenance services and sale of vehicles provided by México Compania de Productos Automotrices, S.A. de C.V., a company controlled by the Larrea family, and which is currently in liquidation.

Additionally, in 2007, the Company's Mexican subsidiaries provided guaranties for two loans obtained by MexTransport, a company controlled by the Larrea family, from Bank of Nova Scotia in Mexico. One of these loans has been repaid and the remaining loan requires semi-annual repayments. Conditions and balance as of June 30, 2011 are as follows:

	Loan Open	
Original loan balance (in millions)	\$	8.5
Maturity		August 2013
Interest rate		Libor + 0.15%
Remaining balance at June 30, 2011 (in millions)	\$	3.2

MexTransport provides aviation services to the Company's Mexican operations. The guaranty provided to MexTransport is backed up by the transport services provided by MexTransport to the Company's Mexican subsidiaries. If MexTransport defaults on the loan, SCC's subsidiaries would have to satisfy the guaranty and repay to the bank the remaining balances, plus interest. The Company paid fees to MexTransport for aviation services.

The Company purchased industrial materials from Higher Technology S.A.C. and paid fees for maintenance services provided by Servicios y Fabricaciones Mecanicas S.A.C. Mr. Carlos Gonzalez, the son of SCC's Chief Executive Officer, has a proprietary interest in these companies.

The Company purchased industrial material from Sempertrans France Belting Technology, in which Mr. Alejandro Gonzalez is employed as a sales representative. Also, the Company purchased industrial material from PIGOBA, S.A. de C.V., a company in which Mr. Alejandro Gonzalez has a proprietary interest. Mr. Alejandro Gonzalez is the son of SCC's Chief Executive Officer.

The Company purchased 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, has a proprietary interest.

In 2011, the Company paid fees to Asarco, a subsidiary of Grupo Mexico, for tolling services provided to the Company's Mexican operations. Also, in the second quarter of 2010 the Company recovered from Asarco \$7.7 million related to a previously written-off net accounts receivable position. This recovery was recorded in the condensed consolidated statement of earnings as follows: \$5.0 million in cost of sales, \$1.6 million in other income and \$1.1 million as interest income.

Sales Activity:

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The Company sold copper cathodes, rod and anodes, as well as sulfuric acid and lime to Asarco. The following table summarizes the sales activity in the three and six months ended June 30, 2011 (in millions):

	2011		2010	
First quarter	\$	17.9	\$	
Second quarter		34.6		5.1
Total	\$	52.5	\$	5.1

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

NOTE 11 - FINANCING:

In February 2011, the Company repurchased \$5.2 million of the Series B Yankee bonds and paid a premium of \$1.4 million which is included in the condensed consolidated statement of earnings in other income (expense).

NOTE 12 BENEFIT PLANS:

SCC Defined Benefit Pension Plans

The components of the net periodic benefit costs for the six months ended June 30, 2011 and 2010 are as follows (in millions):

	2011		2010	
Interest cost	\$	0.3	\$	0.3
Expected return on plan assets		(0.3)		(0.3)
Amortization of net loss (gain)		*		*
Net periodic benefit costs	\$		\$	

(*) amount is lower than \$0.1 million

SCC Post-retirement Health Care Plan

The components of the net periodic benefit costs for the post-retirement health care plan for the six months ended June 30, 2011 and 2010 are individually, and in total, less than \$0.1 million.

Minera Mexico Pension Plans

The components of the net periodic benefit costs for the six months ended June 30, 2011 and 2010 are as follows (in millions):

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	2011		2010	
Interest cost	\$	0.3	\$	0.8
Service cost		0.5		1.0
Expected return on plan assets		(1.7)		(1.4)
Amortization of transition assets, net		(*)		(*)
Amortization of net actuarial loss		(0.8)		(0.5)
Amortization of prior services cost		(*)		0.1
Net periodic benefit cost	\$	(1.7)	\$	

(*) amount is lower than \$0.1 million

Minera Mexico Post-retirement Health Care Plan

The components of the net periodic cost for the six months ended June 30, 2011 and 2010 are as follows (in millions):

	2011		2010	
Interest cost	\$	1.9	\$	2.1
Service cost		(*)		0.2
Amortization of net loss (gain)		(*)		(*)
Amortization of transition obligation		0.8		(0.7)
Net periodic benefit cost	\$	2.7	\$	1.6