SOUTHERN COPPER CORP/
Form 10-Q
August 03, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

2007 Second Quarter

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended **June 30, 2007** 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)
Registrant s telephone number, including area code	**(602) 494-5328**

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

Yes x No o

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Act).

Yes o No x

As of July 31, 2007 there were outstanding 294,465,650 shares of Southern Copper Corporation common stock, par value $0.01 per share.

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 June, 30 2007 (in thousands)	2006	6 Months Ended June 30, 2007	2006
Net sales	$ 1,826,462	$ 1,276,749	$ 3,184,799	$ 2,398,040
Operating costs and expenses:				
Cost of sales (exclusive of depreciation, amortization and depletion shown separately below)	562,334	521,788	1,028,979	928,732
Selling, general and administrative	25,907	23,313	49,706	47,329
Depreciation, amortization and depletion	84,466	77,982	158,564	131,085
Exploration	8,553	4,636	14,971	9,209
Total operating costs and expenses	681,260	627,719	1,252,220	1,116,355
Operating income	1,145,202	649,030	1,932,579	1,281,685
Interest expense	(30,982)	(28,202)	(60,788)	(51,109)
Capitalized interest	1,477	6,511	6,443	11,606
Loss on derivative instruments	(55,512)		(76,692)	
Loss on debt prepayments		(860)		(860)
Other income (expense)	5,010	8,466	25,672	7,488
Interest income	18,076	14,303	40,004	23,608
Earnings before income taxes and minority interest	1,083,271	649,248	1,867,218	1,272,418
Income taxes	354,416	207,864	585,090	407,736
Minority interest	2,893	2,104	4,484	3,827
Net earnings	$ 725,962	$ 439,280	$ 1,277,644	$ 860,855
Per common share amounts:				
Net earnings basic and diluted	$ 2.465	$ 1.492	$ 4.339	$ 2.923
Dividends paid	$ 1.500	$ 1.375	$ 3.200	$ 2.750
Weighted average common shares outstanding (basic and diluted)	294,465	294,461	294,465	294,461

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

Southern Copper Corporation

CONDENSED CONSOLIDATED BALANCE SHEET

(Unaudited)

	June 30, 2007 (in thousands)	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,013,614	$ 1,022,778
Marketable securities	340,000	280,000
Accounts receivable trade (less allowance for doubtful accounts: 2007 - $5,916; 2006 - $5,948)	559,209	560,227
Accounts receivable other	75,445	43,569
Accounts receivable other, from affiliates	4,390	2,630
Inventories	471,202	413,652
Deferred income tax - current portion	33,700	65,638
Prepaid and other current assets	44,493	54,383
Total current assets	2,542,053	2,442,877
Property, net	3,578,464	3,538,295
Leachable material, net	248,791	231,516
Intangible assets, net	116,968	118,107
Deferred income tax- non-current portion		14,549
Other assets, net	43,068	31,070
Total Assets	$ 6,529,344	$ 6,376,414
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	$ 160,000	$ 10,000
Accounts payable	289,709	271,064
Accrued income taxes	112,989	226,047
Due to affiliated companies	3,351	3,581
Accrued workers participation	157,854	299,892
Interest	36,530	37,140
Other accrued liabilities	37,192	11,847
Total current liabilities	797,625	859,571
Long-term debt	1,363,232	1,518,111
Deferred income taxes	258,167	194,759
Non-current taxes payable	50,902	
Other liabilities	57,909	111,196
Asset retirement obligation	12,664	12,183
Total non-current liabilities	1,742,874	1,836,249
Commitments and Contingencies (Note J)		
MINORITY INTEREST	15,196	13,989
STOCKHOLDERS EQUITY		
Common stock	2,949	2,949
Additional paid-in capital	773,502	772,693
Retaining earnings	3,342,200	3,010,307
Other accumulated comprehensive loss	(23,286)	(22,332)
Treasury stock	(121,716)	(97,012)
Total Stockholders Equity	3,973,649	3,666,605
Total Liabilities, Minority Interest and Stockholders Equity	$ 6,529,344	$ 6,376,414

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

Southern Copper Corporation

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

	3 Months Ended June 30, 2007 (in thousands)	**2006**	**6 Months Ended June 30, 2007**	**2006**
OPERATING ACTIVITIES				
Net earnings	$ 725,962	$ 439,280	$ 1,277,644	$ 860,855
Adjustments to reconcile net earnings to net cash provided from operating activities:				
Depreciation, amortization and depletion	84,466	77,982	158,564	131,085
Capitalized leachable material	(19,568)		(40,029)	
Remeasurement loss(gain)	5,249	(11,954)	567	(11,382)
Provision for deferred income taxes	38,094	(3,477)	58,340	16,235
Loss on marketable securities	29,388		29,388	
Unrealized loss on derivative instruments	39,029	1,818	61,717	1,818
Minority interest	2,892	2,104	4,483	3,827
Cash provided from (used for) operating assets and liabilities:				
Accounts receivable	(95,037)	(159,597)	(14,003)	(135,233)
Inventories	(14,566)	(25,193)	(57,550)	(65,496)
Accounts payable and accrued liabilities	(76,484)	(173,874)	(321,633)	(252,694)
Other operating assets and liabilities	(70,551)	(14,297)	40,273	21,434
Net cash provided by operating activities	648,874	132,792	1,197,761	570,449
INVESTING ACTIVITIES				
Capital expenditures	(93,962)	(87,603)	(178,992)	(230,720)
Purchase of marketable securities			(100,000)	
Sales of marketable securities	40,000		40,000	
Loss on sale of marketable securities	(29,388)		(29,388)	
Other	(145)	3,814	736	2,003
Net cash used for investing activities	(83,495)	(83,789)	(267,644)	(228,717)
FINANCING ACTIVITIES				
Debt repaid	(5,000)	(21,510)	(5,000)	(21,510)
Debt incurred		389,192		389,192
Dividends paid to common stockholders	(441,683)	(404,877)	(942,267)	(809,754)
Distributions to minority interest	(1,405)	(1,886)	(3,164)	(4,871)
Other	216	(7,704)	277	(7,046)
Net cash used for financing activities	(447,872)	(46,785)	(950,154)	(453,989)
Effect of exchange rate changes on cash and cash equivalents	7,257	23,105	10,873	37,204
Increase (decrease) in cash and cash equivalents	124,764	25,323	(9,164)	(75,053)
Cash and cash equivalents, at beginning of period	888,850	775,627	1,022,778	876,003
Cash and cash equivalents, at end of period	$ 1,013,614	$ 800,950	$ 1,013,614	$ 800,950

	3 Months Ended June 30, 2007	2006	6 Months Ended June 30, 2007	2006
	(in thousands)			
Supplemental disclosure of cash flow information:				
Cash paid during the period for:				
Interest	$ 15,019	$ 2,533	$ 21,505	$ 21,948
Income taxes	$ 296,822	$ 420,311	$ 561,333	$ 568,735
Workers participation	$ 127,415	$ 62,063	$ 298,851	$ 158,903

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 present fairly the Company s financial position as of June 30, 2007 and the results of operations and cash flows for the three and six months ended June 30, 2007 and 2006. The condensed consolidated financial statements for the three and six month periods ended June 30, 2007 and 2006 have been subjected to a review by PricewaterhouseCoopers, the Company s independent registered public accounting firm, whose report dated August 2, 2007, is presented on page 52. The results of operations for the three and six months ended June 30, 2007 and 2006 are not necessarily indicative of the results to be expected for the full year. The December 31, 2006 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 financial statements at December 31, 2006 and notes included in the Company s 2006 annual report on Form 10-K.

B. Change in Accounting Principle - Adoption of FIN 48:

Financial Accounting Standards Board (FASB) Interpretation No. 48 Accounting for Uncertainty in Income Taxes , (FIN 48) was issued in July 2006 and interprets FASB Statement of Financial Accounting Standards (SFAS) No. 109. FIN 48 replaces SFAS No.5 with respect to accounting for all tax positions, both certain and uncertain. FIN 48 became effective for the Company on January 1, 2007 and prescribes a comprehensive model for the recognition, measurement, financial statement presentation and disclosure of uncertain tax positions taken or expected to be taken in a tax return. FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

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

The total amount of unrecognized tax benefits as of the January 1, 2007 date of adoption of FIN 48 was $32.0 million. This amount related entirely to U.S. income tax matters. The Company has no unrecognized Peruvian or Mexican tax benefits. The cumulative effect of the implementation of FIN 48 on retained earnings was a net reduction of $3.5 million. There were no material changes to the amount of unrecognized tax benefits during the six months ended June 30, 2007.

The amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was $25.4 million at adoption and did not materially change by June 30, 2007.

As of the January 1, 2007 adoption of FIN 48, the Company s liability for uncertain tax positions included accrued interest of $13.9 million. The liability included no accrued penalties because management expects no penalties to apply to the resolution of any of its uncertain tax positions. The amount of the increase in accrued interest during the six months ended June 30, 2007 was not material.

Various tax positions are currently under review by the U.S. Internal Revenue Service (IRS) Appeals Office. It is not likely that this review will result in a cash payment within twelve months of June 30, 2007.

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

As of the January 1, 2007 adoption of FIN 48, management did not expect that a final resolution of the IRS review would result in a significant change in the Company s liability. The Company s reasonable expectations about future resolutions of uncertain items did not materially change during the six months ended June 30, 2007.

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

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

U.S.: 1997 and all following years

Mexico: 2001 and all following years

In May 2007 the FASB published FASB Staff Position (FSP) FIN 48-1, Definition of Settlement on FASB Interpretation No. 48 This FSP amends FIN 48 to provide a guidance on how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. This FSP makes a number of conforming changes throughout FIN-48 to the term *ultimate settlement* or *ultimately settled* : When the term was used to describe recognition that term is replaced with *effectively settled* and when the term is used to describe measurement that term is replaced with settlement or settled . FSP FIN 48-1 has not had an effect on the Company s financial results.

C. Marketable Securities:

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

Investment	**Face Value June 30, 2007**	**December 31, 2006**
3-month note, issued December 12, 2006, with extensions every 3 months up to a maximum of 12 months, and with an interest rate of 7%; established by a pool of Mexican and Peruvian bond issues.	$ 200.0	$ 200.0
3-month note, issued January 19, 2007, with extensions every 3 months up to a maximum of 12 months, and with an interest rate of 7.25%; established by a pool of Mexican and Peruvian bond issues.	100.0	100.0
180-day note, maturing June 12, 2007 with an interest rate of 6%, with barrier range of $37.669 and $69.957 of SCC stock price, NYSE symbol PCU.		40.0
180-day note, maturing June 28, 2007 with an interest rate of 6%, with barrier range of $38.738 and $71.942 of SCC stock price, NYSE symbol PCU. (1)	20.0	20.0
300-day note, maturing December 24, 2007 with an interest rate of 3.6%, with barrier range of $50.00 and $75.00 of SCC stock price, NYSE symbol PCU.	20.0	20.0
	$ 340.0	$ 380.0

(1) Redeemed on July 3, 2007.

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Some of these investment instruments are indexed to SCC common stock prices while others are leveraged and indexed to certain bond pools. Both types of instruments could cause the principal of the investment to be reduced if the established ranges are breached. Since the notes are not principal protected the Company may lose part or all of the initial investment. These instruments have been deemed to contain embedded derivatives and have been subject to valuation using a binomial model. Through June 30, 2007, the Company has recorded an estimated loss of $93.2 million related to these investments. The amount of the realized loss was $29.4 million on an investment of $40.0 million which matured in June 2007. The unrealized portion of $63.8 million includes $13.8 million realized on an investment, which matured on June 28, 2007 and was redeemed on July 3, 2007, and is recorded in other accounts payable. The loss recorded in the three months and six months ended June 30, 2007 of $58.9 million and $81.6 million, respectively, is included as loss on derivative instruments in the condensed consolidated statement of earnings. A loss on these investments of $11.6 million was recorded in the fourth quarter 2006 results.

In the first three and six months of 2007 the Company earned interest of $6.3 million and $12.4 million on these investments, respectively, which were recorded in interest income in the condensed consolidated statement of earnings.

D. Inventories were as follows:

(in millions)

	June 30, 2007	December 31, 2006
Metals at lower of average cost or market:		
Finished goods	$ 133.3	$ 116.1
Work-in-process	131.0	121.9
Supplies at average cost	206.9	175.7
Total inventories	$ 471.2	$ 413.7

E. Income taxes:

The income tax for the six months ended June 30, 2007 and 2006 was $585.1 million and $407.7 million, respectively. These provisions include income taxes for Peru, Mexico and the United States. The effective tax rates for the 2007 and 2006 periods are 31.3% and 32.0%, respectively. A decrease of 1% in the statutory Mexican tax rate contributed to the decrease in the 2007 effective income tax rate. In addition, a tax inflation adjustment and the effect of currency conversion adjustment in our Mexican operations also contributed to the reduction in the effective tax rate.

F. Provisionally Priced Sales:

At June 30, 2007, the Company has recorded provisionally priced sales of 141.6 million pounds of copper, at an average forward price of $3.42 per pound. Also the Company has recorded provisionally priced sales of 4.4 million pounds of molybdenum at the June 30, 2007 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 June 30, 2007:

Copper (million lbs.)	**Priced at**	**Month of Settlement**
45.8	3.464149	July 2007
10.9	3.456500	August 2007
12.2	3.435960	September 2007
12.3	3.420090	October 2007
22.4	3.401030	November 2007
33.0	3.379260	December 2007
5.0	3.357040	January 2008
141.6	3.423721	

Molybdenum (million lbs.)	**Priced at**	**Month of Settlement**
1.9	32.25	July 2007
1.6	32.25	August 2007
0.9	32.25	September 2007
4.4	32.25	

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.

G. Derivative Instruments

The Company occasionally uses derivative instruments to manage its exposure to market risk from changes in commodity prices and interest rate risk exposure. 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 and zinc derivatives:

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

In the second quarter of 2007 and 2006 the Company entered into copper collar and swaps contracts to protect a portion of its 2007 and 2006 sales of copper production. Related to the settlement of these copper swap contracts the Company recorded a gain of $3.3 million and a loss of $257.9 million in the second quarter of 2007 and 2006, respectively. These gains and losses were recorded in net sales in the condensed consolidated statement of earnings. The Company did not hold any zinc derivative contracts in the first two quarters of 2007 and 2006.

At June 30, 2007 the Company has copper collar contracts to protect 146.2 million pounds of copper production for the July - December 2007 period at weighted average minimum and maximum LME prices of $3.20 per pound and $4.07 per pound, respectively. If the price falls below the minimum LME price, the Company will be in a gain position. If the price exceeds the maximum LME price, the Company will be in a loss position. In addition, the Company has copper swap contracts to protect 7.9 million pounds of copper production for the July-August 2007 period at an average COMEX price of $3.71 per pound of copper.

Gas swaps:

The Company established long swap contracts for 900,000 MMBTUs with a fixed price of $7.525 in the first six months of 2007 and 900,000 MMBTUs with a fixed price of $4.2668 per MMBTU in the second quarter and first six months of 2006. Related to these contracts, the Company recorded a loss of $0.9 million in the first six months of 2007 and gains of $1.3 million and $3.6 million, in the second quarter and first six months of 2006, respectively, which were included in the production cost. At June 30, 2007, we did not hold any open gas swap contract.

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

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

In the second quarter and first half of 2007 the exercise of these zero-cost derivative contracts resulted in gains of $2.6 million and $4.1 million, respectively, which was recorded as gain on derivative instruments in the condensed consolidated statement of earnings.

At June 30, 2007 the Company held the following exchange rate derivative operations:

Notional Amount (millions)	**Due Date, Weekly expiration during**	**Strike Price (Mexican Pesos/U.S. Dollars)**	**Barrier Price (Mexican Pesos/U.S. Dollars)**
$ 26.0	3rd Quarter 2007	11.15	10.675
$ 26.0	3rd Quarter 2007	11.52	11.15
$ 26.0	3rd Quarter 2007	11.90	11.54
$ 48.0	4th Quarter 2007	11.35	10.65
$ 48.0	4th Quarter 2007	11.65	11.35
$ 54.0	1st Quarter 2008	11.60	11.28
$ 54.0	1st Quarter 2008	11.28	10.70

At June 30, 2007, the fair value of the above listed exchange rate derivative contracts is a gain of $2.1 million which was recorded as gain 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.

Dual currency notes:

In the second quarter and first six months of 2007 the Company invested $440.0 million and $560.0 million, respectively, in dual currency notes which provided an above market interest return subject to a barrier range of the Mexican peso/US dollar exchange rates. These investments matured in the first and second quarters of 2007.

Related to these investments, in the second quarter of 2007 the Company realized an exchange loss of $1.3 million, which was recorded as a loss on derivative instruments in the condensed consolidated statement of earnings.

The Company also earned interest income of $1.7 million and $2.1 million in the second quarter and first half of 2007, respectively, which was recorded as interest income in the condensed consolidated statement of earnings.

There were no open positions at June 30, 2007.

Additionally, the Company holds embedded derivatives which are described in note C Marketable Securities.

H. Asset Retirement Obligation:

In 2005 the Company added an estimated asset retirement obligation for its mining properties in Peru, as required by the Mine Closure Law, enacted in 2003 and regulated in 2005. In accordance with the law a conceptual mine closure plan, without costs, was submitted to the Peruvian Ministry of Energy and Mines (MEM) in August 2006. According to regulations, the plan is subject to review by MEM for 45 days. After the MEM review the Company will have 90 days to prepare and resubmit the mine closure plan, including costs, which will then be subject to MEM approval and open to public discussion and comment in the area of the Company operations. The Company is still awaiting MEM s initial review. However, as of June 30, 2007, the Company has made an estimated provision of $6.1 million for this liability in its financial statements, but believes that this estimate should be viewed with caution, pending final approval of the mine closure plan.

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

The following table summarizes the asset retirement obligation activity for the first six months of 2007 and 2006 (in millions):

	2007	**2006**
Balance as of January 1,	$ 12.2	$ 11.2
Additions, changes in estimates		
Accretion expense	0.5	0.5
Balance as of June 30,	$ 12.7	$ 11.7

I. Related Party Transactions:

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

	As of June 30, 2007	**December 31, 2006**
Affiliate receivable:		
Mexico Proyectos y Desarrollos S.A. de C. V. and affiliates	$ 4.2	$ 2.6
Other	0.2	
Total	$ 4.4	$ 2.6
Affiliate payable:		
Grupo Mexico S.A.B. de C.V.	$ 2.1	$ 0.4
Ferrocarril Mexicano S.A. de C. V.	0.7	3.2
Sempertrans France Belting Tech	0.3	
Other	0.3	
Total	$ 3.4	$ 3.6

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

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 activities were 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. Grupo Mexico is paid for these support services by the Company. The total amount paid by the Company to Grupo Mexico for such services in the first six months of 2007 and 2006 was $6.9 million. The Company expects to continue to pay $ 13.8 million per year for these services in future years.

The Company s Mexican operations paid fees of $7.0 million and $8.9 million in the first six months of 2007 and 2006, respectively, primarily for freight services provided by Ferrocarril Mexicano, S.A. de C.V., a subsidiary of Grupo Mexico.

In addition, the Company s Mexican operations paid fees of $7.1 million and $14.6 million in the first six months of 2007 and 2006, 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, and real estate. The Company engages in certain transactions in the ordinary course of business with other entities controlled by the Larrea family relating to mining and refining services, the lease of office space, and air transportation and construction services. In connection with this, the Company paid fees of $1.4 million and $0.9 million in the first six months of 2007 and 2006, respectively, for maintenance services provided by Mexico Compañia de Productos Automotrices S.A. de C.V., a company controlled by the Larrea family. Additionally, in the third quarter of 2006, one of our Mexican subsidiaries provided a short-term interest bearing loan of $10.6 million to Mexico Transportes Aereos, S.A. de C.V. (MexTransport) for the purchase of an airplane, which was paid in the first quarter of 2007, Mextransport, a company controlled by the Larrea family, provides aviation services to our Mexican operations. Our Mexican subsidiaries have provided a guaranty for a new $10.8 million loan secured by MexTransport. The guaranty provided to MexTransport is backed up by the transport services provided by MexTransport to the Company s Mexican subsidiaries. The Company also paid fees of $0.4 million in the first six months of 2007 to MexTransport.

The Company purchased $2.9 million and $2.5 million in the first six months of 2007 and 2006, respectively, of industrial materials from companies in which Mr. Carlos Gonzalez has a proprietary interest. Mr. Carlos Gonzalez is the son of SCC s Chief Executive Officer. In addition, the Company purchased $0.5 million and $0.3 million in the first six months of 2007 and 2006, respectively, of industrial material from companies in which Mr. Alejandro Gonzalez is employed as a sales representative. Mr. Alejandro Gonzalez is the son of SCC s Chief Executive Officer

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

J. Employee Benefit Plan:

SCC Defined Benefit Pension Plan-

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

	2007	2006(1)
Interest cost	$ 0.3	$ 0.3
Expected return on plan assets	(0.3)	(0.3)
Amortization of net loss		
Net periodic benefit cost	$	$

(1) 2006 quarter based on average of annual amount.

SCC Post-retirement Health Care Plan-

The components of the net period benefit costs for the post-retirement health care plan for the six months ended June 30, 2007 and 2006 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 month ended June 30 are as follows ($ in millions):

	2007	2006
Interest cost	$ 0.9	$ 0.9
Service cost	1.0	1.0
Expected return of plan assets	(1.0)	(1.0)
Net periodic benefit cost	$ 0.9	$ 0.9

Minera Mexico Post-retirement Health Care Plan-

The components of the net periodic cost for the six months ended June 30, 2007 and 2006 are as follows ($ in millions):

	2007	2006
Interest cost		