SOUTHERN COPPER CORP/
Form 10-Q
August 03, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: June 30, 2012

or

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

For the transition period from to

Commission File Number: 1-14066

SOUTHERN COPPER CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**13-3849074**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1440 East Missouri Avenue, Suite 160, Phoenix, AZ	**85014**
(Address of principal executive offices)	(Zip Code)

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

1440 East Missouri Avenue, Suite C-175, Phoenix, AZ.

(former name, former address and former fiscal year,
if changed since last report)

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 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 x No o

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

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

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

As of July 31, 2012 there were outstanding 848,844,400 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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PART I FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

Southern Copper Corporation

CONDENSED CONSOLIDATED STATEMENT OF EARNINGS

(Unaudited)

	3 Months Ended June 30, 2012	3 Months Ended June 30, 2011	6 Months Ended June 30, 2012	6 Months Ended June 30, 2011
	(in thousands, except per share amounts)			
Net sales (including sales to related parties, see note 8)	$ 1,659,876	$ 1,801,498	$ 3,465,812	$ 3,403,517
Operating costs and expenses:				
Cost of sales (exclusive of depreciation, amortization and depletion shown separately below)	667,876	695,977	1,389,803	1,432,837
Selling, general and administrative	25,362	25,744	50,793	50,316
Depreciation, amortization and depletion	78,428	72,898	155,372	143,542
Exploration	12,600	8,147	21,325	15,365
Total operating costs and expenses	784,266	802,766	1,617,293	1,642,060
Operating income	875,610	998,732	1,848,519	1,761,457
Interest expense	(47,409)	(48,297)	(94,584)	(95,861)
Capitalized interest	3,201	1,357	6,062	2,293
Gain (loss) on short-term investment	(352)		5,483	
Gain on sale of investment	18,200		18,200	
Other income	476	6,728	1,876	6,148
Interest income	3,563	3,534	7,410	6,245
Income before income taxes	853,289	962,054	1,792,966	1,680,282
Income taxes	309,973	301,935	628,742	540,016
Net income before equity earnings of affiliate	543,316	660,119	1,164,224	1,140,266
Equity earnings of affiliate	22,020		24,674	
Net income	565,336	660,119	1,188,898	1,140,266
Less: Net income attributable to the non-controlling interest	1,789	2,082	3,921	3,853
Net income attributable to SCC	$ 563,547	$ 658,037	$ 1,184,977	$ 1,136,413

Per common share amounts attributable to SCC:								
Net income - basic and diluted	$	0.66	$	0.77	$	1.40	$	1.32
Dividends paid	$	0.53	$	0.55	$	1.07	$	1.13
Weighted average common shares outstanding - basic and diluted		849,461		857,493		849,720		858,241

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, 2012	3 Months Ended June 30, 2011	6 Months Ended June 30, 2012	6 Months Ended June 30, 2011
	(in thousands)			
Net income	$ 565,336	$ 660,119	$ 1,188,898	$ 1,140,266
Other comprehensive income (loss) net of tax:				
Derivative instruments classified as cash flow hedge:				
Decrease in accumulated unrealized loss (gain) in the period		18,049	(5,447)	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	(5 ,447)	89,040
Total comprehensive income	$ 565,336	$ 683,432	$ 1,183,451	$ 1,229,306
Comprehensive income attributable to the non-controlling interest	$ 1,789	$ 2,155	$ 3,964	$ 4,104
Comprehensive income attributable to SCC	$ 563,547	$ 681,277	$ 1,179,487	$ 1,225,202

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, 2012	December 31, 2011
	(in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,079,371	$ 848,118
Short-term investments	373,756	521,955
Accounts receivable trade	618,601	695,104
Accounts receivable other (including related parties 2012 - $2,455 and 2011 - $1,988)	201,920	188,477
Inventories	625,567	651,896
Deferred income tax	89,874	88,797
Other current assets	82,563	107,156
Total current assets	3,071,652	3,101,503
Property, net	4,666,183	4,419,885
Leachable material, net	182,214	122,985
Intangible assets, net	109,852	110,436
Deferred income tax	158,027	145,251
Other assets	185,167	162,641
Total assets	$ 8,373,095	$ 8,062,701
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	$ 10,000	$ 10,000
Accounts payable (including related parties 2012 -$7,557 and 2011 - $4,392)	384,853	443,132
Accrued income taxes	80,161	182,491
Deferred income tax	39,860	39,860
Accrued workers participation	152,746	245,139
Accrued interest	59,130	59,906
Other accrued liabilities	31,627	12,349
Total current liabilities	758,377	992,877
Long-term debt	2,731,040	2,735,732
Deferred income taxes	129,962	125,191
Non-current taxes payable	66,982	66,982
Other liabilities and reserves	46,718	43,665
Asset retirement obligation	63,693	61,971
Total non-current liabilities	3,038,395	3,033,541
Commitments and contingencies (Note 10)		
STOCKHOLDERS EQUITY		
Common stock	8,846	8,846
Additional paid-in capital	1,195,969	1,039,382
Retained earnings	4,130,282	3,852,054

Accumulated other comprehensive income		7,427		12,874
Treasury stock, at cost, common shares		(789,223)		(897,852)
Total Southern Copper Corporation stockholders equity		4,553,301		4,015,304
Non-controlling interest		23,022		20,979
Total equity		4,576,323		4,036,283
Total liabilities and equity	$	8,373,095	$	8,062,701

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, 2012	3 Months Ended June 30, 2011	6 Months Ended June 30, 2012	6 Months Ended June 30, 2011
	(in thousands)			
OPERATING ACTIVITIES				
Net income	$ 565,336	$ 660,119	$ 1,188,898	$ 1,140,266
Adjustments to reconcile net earnings to net cash provided from operating activities:				
Depreciation, amortization and depletion	78,428	72,898	155,372	143,542
Equity earnings of affiliate, net of dividends received	(16,939)		(16,939)	
Loss (income) on currency translation effect	(14,191)	(2,526)	(6,660)	5,653
Provision (benefit) for deferred income taxes	31,817	21,241	19,308	(16,502)
Gain on sale of investment	(18,200)		(18,200)	
Gain on sale of property	(1,058)	(6,410)	(1,058)	(6,410)
Cash provided from (used for) operating assets and liabilities:				
Accounts receivable	4,013	(206,335)	63,060	(131,961)
Inventories	(44,712)	19,554	(32,900)	(68,448)
Accounts payable and accrued liabilities	(199,645)	(416,958)	(234,500)	(441,212)
Other operating assets and liabilities	(7,782)	61,131	(18,907)	92,858
Net cash provided from operating activities	377,067	202,714	1,097,474	717,786
INVESTING ACTIVITIES				
Capital expenditures	(230,303)	(110,655)	(407,720)	(183,644)
Proceeds from (purchase of) short-term investments, net	(146,495)	(4,734)	148,199	(149,363)
Payments to development stage properties accounted for as equity method investments		(4,593)		(15,911)
Sale of investment	18,200		18,200	
Sale of property	5,182	8,132	5,280	8,855
Net cash used for investing activities	(353,416)	(111,850)	(236,041)	(340,063)
FINANCING ACTIVITIES				
Debt repaid	(5,000)	(5,000)	(5,000)	(10,250)
Dividends paid to common stockholders	(450,349)	(476,000)	(610,160)	(969,004)
Distributions to non-controlling interest	(1,248)	(1,412)	(1,720)	(3,605)
Repurchase of common shares	(33,184)	(148,068)	(33,184)	(148,068)
Other	451	714	604	(504)
Net cash used for financing activities	(489,330)	(629,766)	(649,460)	(1,131,431)
Effect of exchange rate changes on cash and cash equivalents	26,869	19,446	19,280	14,872
Increase (decrease) in cash and cash equivalents	(438,810)	(519,456)	231,253	(738,836)
Cash and cash equivalents, at beginning of period	1,518,181	1,973,297	848,118	2,192,677
Cash and cash equivalents, at end of period	$ 1,079,371	$ 1,453,841	$ 1,079,371	$ 1,453,841

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 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, 2012 and the results of operations, comprehensive income and cash flows for the three and six months ended June 30, 2012 and 2011. The results of operations for the three and six months ended June 30, 2012 and 2011 are not necessarily indicative of the results to be expected for the full year. The December 31, 2011 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 (U.S. GAAP). The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements at December 31, 2011 and notes included in the Company s 2011 annual report on Form 10-K.

NOTE 2 SHORT-TERM INVESTMENTS:

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

	At June 30, 2012	At December 31, 2011
Trading securities	$ 367.3	$ 514.6
Weighted average interest rate	1.01%	1.37%
Available for sale	$ 6.4	$ 7.3
Weighted average interest rate	0.54%	0.58%
Total	$ 373.7	$ 521.9

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, 2012 and December 31, 2011, included corporate bonds and asset and mortgage backed obligations. As of June 30, 2012 and December 31, 2011, 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 gain on short-term investment 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, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Trading securities:				
Interest earned	$ 0.9	$ 1.0	$ 1.6	$ 1.4
Unrealized gain (loss)	0.1	(3.3)	5.1	(0.9)
Available for sale:				
Interest earned	(*)	(*)	(*)	(*)
Investment redeemed	$ 0.9	$ 0.4	$ 1.2	$ 0.8

(*) Less than $0.1 million

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NOTE 3 - INVENTORIES:

Inventories were as follows:

(in millions)	At June 30, 2012	At December 31, 2011
Inventory, current:		
Metals at lower of average cost or market:		
Finished goods	$ 110.8	$ 93.3
Work-in-process	230.5	296.1
Supplies at average cost	284.3	262.5
Total current inventory	$ 625.6	$ 651.9
Inventory, long-term		
Long-term leach stockpiles	$ 182.2	$ 123.0

During the six months ended June 30, 2012 and 2011 total leaching costs capitalized as long-term inventory of leachable material amounted to $101.2 million and $54.1 million, respectively. Long-term leaching inventories recognized as cost of sales amounted to $35.3 million and $23.6 million for the six months ended June 30, 2012 and 2011, respectively.

NOTE 4 INCOME TAXES:

The income tax provision and the effective income tax rate for the first six months of 2012 and 2011 were as follows ($ in millions):

	2012	2011
Income tax provision	$ 628.7	$ 540.0
Effective income tax rate	35.1%	32.1%

These provisions include income taxes for Peru, Mexico and the United States. The increase in the effective tax rate in the first six months of 2012 from the tax rate in the 2011 period is principally caused by the new special mining tax in Peru, see below, and by the increase in dividends remitted from Mexico in 2012, which required a supplemental provision for U.S. income tax.

For United States federal income tax reporting the operating results of SCC are included in the Americas Mining Corporation (AMC) U.S. federal income tax return. 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. SCC provides current and deferred income taxes as if it was a separate filer.

Special Mining Tax

In September 2011, the Peruvian government enacted a new tax for the mining industry. This tax is based on operating income and its rate ranges from 2% to 8.4%. It begins at 2% for the first 10% of operating income and for each additional 5% of operating income is increased by 0.4% until 85% of operating income is reached. The Company has accrued $28.4 million for the special mining tax and is included as part of the income tax provision for the first six months of 2012.

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. It is reasonably possible that during the next 12 months there could be an increase of approximately $30 to $50 million in the Company s unrecognized tax benefits due to expected activity from tax examinations and audits by the tax authorities.

NOTE 5 PROVISIONALLY PRICED SALES:

At June 30, 2012, the Company has recorded provisionally priced sales of copper at average forward prices per pound, and molybdenum at the June 30, 2012 market price per pound. These sales are subject to final pricing based on the average monthly

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London Metal Exchange (LME) or New York Commodities Exchange (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, 2012:

Copper (million lbs.)		Priced at (per pound)	Month of Settlement
26.2	$	3.491	July 2012
21.6		3.490	August 2012
47.8	$	3.491	

Molybdenum (million lbs.)		Priced at (per pound)	Month of Settlement
3.4	$	13.13	July 2012
3.4		13.13	August 2012
2.2		13.13	September 2012
9.0	$	13.13	

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 6 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 its future revenue stream, and (iii) lessen the impact of unforeseen market swings of its 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 hedges:

In 2011, the Company entered into copper swaps and zero cost collar derivative contracts to reduce price volatility and to protect its sales value 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 flow.

The following table summarizes the copper derivative activity related to copper sales transactions realized in the second quarter and first six months of 2012 and 2011, respectively:

	Second quarter		**First six months**	
	2012	**2011**	**2012**	**2011**
Zero cost collar contracts:				
Pounds (in millions)		105.8	46.3	211.6
Average LME cap price		$ 4.84	$ 5.18	$ 4.84
Average LME floor price		$ 3.02	$ 3.50	$ 3.02
Swap contracts:				
Pounds (in millions)		112.4		232.0
Weighted average COMEX price		$ 4.08		$ 4.08
Realized loss on copper derivatives (in millions)		$ 8.6		$ 44.3

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 minimis.

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During the second quarter of 2012 and as of June 30, 2012, the Company did not hold copper derivative contracts.

Transactions under these metal price protection programs are accounted for as cash flow hedges under ASC 815-30 Derivatives and Hedging-Cash Flow Hedges 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.

NOTE 7 - 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 were approved by the Peruvian Ministry of Energy and Mines (MINEM). As part of the closure plans, commencing in January 2010 the Company is required to provide annual guarantees of $2.6 million over a 34 year period to furnish the funds for the asset retirement obligation. In the near-term future the Company has pledged the value of its Lima office complex as support for this obligation. 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, of dismantling the Toquepala and Cuajone concentrators, the smelter and refinery in Ilo, and the shops and auxiliary facilities at the three units, including the Ilo marine trestle.

The following table summarizes the asset retirement obligation activity for the six months ended June 30, 2012 and 2011 (in millions):

	2012	2011
Balance as of January 1	$ 62.0	$ 59.1
Changes in estimates		
Additions		
Accretion expense	1.7	1.7
Balance as of June 30,	$ 63.7	$ 60.8

NOTE 8 RELATED PARTY TRANSACTIONS:

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

	As of June 30, 2012	As of December 31, 2011
Affiliate receivable:		
Grupo Mexico, S.A.B de C.V. (Grupo Mexico) and affiliates	$ 0.8	$ 0.7

Asarco LLC (Asarco)				0.2
Compania Perforadora Mexico, S.A.P.I. de C.V.		0.3		0.1
Mexico Proyectos y Desarrollos, S.A de C.V. and affiliates		1.3		1.0
	$	2.4	$	2.0
Affiliate payable:				
Grupo Mexico and affiliates	$	4.5	$	2.0
Asarco		1.0		
Higher Technology S.A.C.		0.5		0.1
Breaker S.A. de C.V		0.2		0.2
Exploraciones Mineras del Peru S.A.C.				0.3
Mexico Transportes Aereos, S.A. de C.V. (Mextransport)		0.4		0.5
Ferrocarril Mexicano, S.A. de C.V.		1.0		1.3
	$	7.6	$	4.4

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 related 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 the Company s policy that the Audit Committee of the Board of

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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, 2012 and 2011 (in millions):

	Six months ended June 30, 2012	Six months ended June 30, 2011
Grupo Mexico and affiliates:		
Grupo Mexico Servicios, S.A de C.V	$ 6.9	$ 7.0
Asarco	16.4	7.7
Ferrocarril Mexicano, S.A de C.V.	7.4	4.1
Compania Perforadora Mexico, S.A.P.I. de C.V and affiliates	1.1	0.4
Consorcio Tricobre		0.5
Mexico Proyectos y Desarrollos, S.A. de C.V. and affiliates	24.8	15.9
Other Larrea family companies:		
Mexico Compania de Productos Automotrices, S.A. de C.V.		0.2
Mextransport	1.5	1.3
Companies with relationships to SCC executive officers families:		
Higher Technology S.A.C.	1.5	0.9
Servicios y Fabricaciones Mecanicas S.A.C.	0.1	0.2
Sempertrans France Belting Technology		0.2
PIGOBA, S.A. de C.V.	0.1	0.1
Breaker, S.A. de C.V.	1.2	2.9
Total purchased	$ 61.0	$ 41.4

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.

In the first six months of 2012, the Company s Peruvian operations paid fees for engineering and consulting services provided by Exploraciones Mineras del Peru S.A.C., a Peruvian company in which Grupo Mexico Servicios de Ingenieria, S.A. de C.V and Mexico Proyectos y Desarrollos, S.A. de C. V. have a 99.97% and 0.03% participation, respectively. Both companies are subsidiaries of Grupo Mexico.

The Larrea family controls a majority of the capital stock of Grupo Mexico, and has extensive interests in other businesses, including 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 the lease of office space and air transportation. In connection with this, the Company paid fees for maintenance services and sale of vehicles provided by Mexico 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, 2012 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, 2012 (in millions)	$1.9

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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.

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.

Sales Activity:

The Company sold copper cathodes, rod and anodes, as well as sulfuric acid, silver, gold and lime to Asarco. In addition, the Company received fees for building rental and maintenance services provided to Mexico Proyectos y Desarrollos, S.A. de C.V. and its affiliates, a subsidiary of Grupo Mexico, and from Mextransport, a company of the Larrea family.

The following table summarizes the sales and other revenue activity in the three and six months ended June 30, 2012 and 2011 (in millions):

	3 Months Ended June 30,		**6 Months Ended June 30,**	
	2012	**2011**	**2012**	**2011**
Asarco	$ 0.4	$ 34.6	$ 11.4	$ 52.5
Mexico Proyectos y Desarrollos, S.A. de C.V.	0.1		0.2	
Mextransport	0.1		0.8	
Total	$ 0.6	$ 34.6	$ 12.4	$ 52.5

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

NOTE 9- BENEFIT PLANS:

SCC Defined Benefit Pension Plans

The components of the net periodic benefit costs for the six months ended June 30, 2012 and 2011 are as follows (in millions):

	2012	2011
Interest cost	$ 0.3	$ 0.3
Expected return on plan assets	(0.4)	(0.3)
Amortization of net loss (gain)	0.1	(*)
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, 2012 and 2011 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, 2012 and 2011 are as follows (in millions):

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	2012	2011
Interest cost	$ 0.3	$ 0.3
Service cost	0.5	0.5
Expected return on plan assets	(1.4)	(1.7)
Amortization of transition assets, net	(*)	(*)
Amortization of net actuarial loss	(0.4)	(0.8)
Amortization of prior services cost	(*)	(*)
Net periodic benefit cost	$ (1.0)	$ (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, 2012 and 2011 are as follows (in millions):

	2012	2011
Interest cost	$ 0.7	$ 1.9
Service cost	(*)	(*)
Amortization of net loss (gain)	(0.2)	(*)
Amortization of transition obligation	(*)	0.8
Net periodic benefit cost	$ 0.5	$ 2.7

(*) amount is lower than $0.1 million

NOTE 10 COMMITMENTS AND CONTINGENCIES:

Environmental matters:

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

Environmental capital expenditures in the six months ended June 30, 2012 and 2011 were as follows (in millions):

	2012	2011
Peruvian operations	$ 2.1	$ 1.1
Mexican operations	10.7	3.7
	$ 12.8	$ 4.8

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

Peruvian law requires that companies in the mining industry provide for future closure and remediation. In accordance with the requirements of this law the Company s closure plans were approved by MINEM. As part of the closure plans, the Company is providing guarantees to ensure that sufficient funds will be available for the asset retirement obligation. See Note 7, Asset retirement obligation, for further discussion of this matter.

Mexican operations: The Company s operations are subject to applicable Mexican federal, state and municipal environmental laws, to Mexican official standards, and to regulations for the protection of the environment, including regulations relating to water supply, water quality, air quality, noise levels and hazardous and solid waste.

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

On January 28, 2011, Article 180 of the General Law was amended. This amendment, gives an individual or entity the ability to contest administrative acts, including environmental authorizations, permits or concessions granted, without the need to demonstrate the actual existence of harm to the environment, natural resources, flora, fauna or human health, because it will be sufficient to argue that the harm may be caused.

In addition, on August 30, 2011, amendments to the Civil Federal Procedures Code (CFPC) were published in the Official Gazette and are now in force. These amendments establish three categories of collective actions, by means of which 30 or more people claiming injury derived from environmental, consumer protection, financial services and economic competition issues will be considered to be sufficient in order to have a legitimate interest to seek through a civil procedure restitution or economic compensation or suspension of the activities from which the alleged injury derived. The amendments to the CFPC may result in more litigation, with plaintiffs seeking remedies, including suspension of the activities alleged to cause harm.

On December 5, 2011, the Mexican Senate Chamber approved the Environmental Liability Federal Law, which establishes general guidelines in order to determine which environmental actions will be considered to cause environmental harm that will give rise to administrative responsibilities (remediation or compensations) and criminal responsibilities. Also economic fines could be established. This initiative has been returned to lower chamber for discussion and voting. The law will be in force once approved by the lower chamber and signed by the President.

In March 2010, the Company announced to the Mexican federal environmental authorities the closure of the copper smelter plant at San Luis Potosi. The Company has initiated a program for plant demolition and soil remediation with a budget of $35.7 million, of which the Company has spent $28.2 million through June 30, 2012. The program is expected to be completed by the end of 2013. The Company expects that once the site is remediated, the Company will be able to promote an urban development to generate a net gain on the disposal of the property.

The Company believes that all of its facilities in Peru and Mexico are in material compliance with applicable environmental, mining and other laws and regulations.

The Company also believes that continued compliance with environmental laws of Mexico and Peru will not have a material adverse effect on the Company s business, properties, result of operations, financial condition or prospects and will not result in material capital expenditures.

Litigation matters:

Peruvian operations

Garcia Ataucuri and Others against SCC s Peruvian Branch:

In April 1996, the Branch was served with a complaint filed in Peru by Mr. Garcia Ataucuri and approximately 900 former employees seeking the delivery of a substantial number of labor shares (acciones laborales) plus dividends on such shares, to be issued to each former employee in proportion to their time of employment with SCC s Peruvian Branch.

The labor share litigation is based on claims of former employees for ownership of a portion of the labor shares that the plaintiffs state that the Branch did not issue during the 1970s until 1979 under a former Peruvian mandated profit sharing system. In 1971, the Peruvian government enacted legislation providing that mining workers would have a 10% participation in the pre-tax profits of their employing enterprises. This participation was distributed 40% in cash and 60% in an equity interest of the enterprise. In 1978, the equity portion, which was originally delivered to a mining industry workers organization, was set at 5.5% of pre-tax profits and was delivered mainly in the form of labor shares to individual workers. The cash portion was set at 4.0% of pre-tax earnings and was delivered to individual employees also in proportion to their time of employment with the Branch. In 1992, the workers participation was set at 8%, with 100% payable in cash and the equity participation was eliminated from the law.

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

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1) Mr. Garcia Ataucuri seeks delivery, to himself and each of the approximately 900 former employees of the Peruvian Branch, of the 3,876,380,679.65 old soles or 38,763,806.80 labor shares (acciones laborales), as required by Decree Law 22333 (a former profit sharing law), to be issued proportionally to each former employee in accordance with the time of employment of such employee with SCC s Branch in Peru, plus dividends on such shares. The 38,763,806.80 labor shares sought in the complaint, with a face value of 100.00 old soles each, represent 100% of the labor shares issued by the Branch during the 1970s until 1979 for all of its employees during that period. The plaintiffs do not represent 100% of the Branch´s eligible employees during that period.

It should be noted that the lawsuit refers to a prior Peruvian currency called sol de oro or old soles, which was later changed to the inti , and then into today´s nuevo sol . One billion of old soles is equivalent to today s one nuevo sol.

After lengthy proceedings before the civil courts in Peru on September 19, 2001, on appeal from the Branch (the 2000 appeal), the Peruvian Supreme Court annulled the proceedings noting that the civil courts lacked jurisdiction and that the matter had to be decided by a labor court.

In October 2007, in a separate proceeding initiated by the plaintiffs, the Peruvian Constitutional Court nullified the September 19, 2001 Peruvian Supreme Court decision and ordered the Supreme Court to decide again on the merits of the case accepting or denying the Branch s 2000 appeal.

In May 2009, the Supreme Court rejected the 2000 appeal of the Branch affirming the adverse decision of the appellate civil court and lower civil court. While the Supreme Court has ordered SCC s Peruvian Branch to deliver the labor shares and dividends, it has clearly stated that SCC s Peruvian Branch may prove, by all legal means, its assertion that the labor shares and dividends were distributed to the former employees in accordance with the profit sharing law then in effect, an assertion which SCC s Peruvian Branch continues to make. None of the court decisions state the manner by which the Branch must comply with the delivery of such labor shares or make a liquidation of the amount to be paid for past dividends and interest, if any.

On June 9, 2009, SCC s Peruvian Branch filed a proceeding of relief before a civil court in Peru seeking the nullity of the 2009 Supreme Court decision and, in a separate proceeding, a request for a precautionary measure. The civil court rendered a favorable decision on the nullity and the precautionary measure, suspending the enforcement of the Supreme Court decision, for the reasons indicated above and other reasons. In February 2012, the Branch was notified that the civil court had reversed its decision regarding the nullity. The precautionary measure is still in effect. The Peruvian Branch has appealed the unfavorable decision before the superior court. In view of this, and the recent civil court decision, SCC´s Peruvian Branch continues to analyze the manner in which the Supreme Court decision may be enforced and what financial impact, if any, said decision may have.

2) In addition, there are filed against SCC s Branch the following lawsuits, involving approximately 800 plaintiffs, which seek the same number of labor shares as in the Garcia Ataucuri case, plus interest, labor shares resulting from capital increases and dividends: Armando Cornejo Flores and others v. SCC s Peruvian Branch (filed May 10, 2006); Alejandro Zapata Mamani and others v. SCC s Peruvian Branch (filed June 27, 2008); Arenas Rodriguez and others, represented by Mr. Cornejo Flores, v. SCC s Peruvian Branch (filed January 2009); Eduardo Chujutalli v. SCC s Peruvian Branch (filed May 2011); Edgardo Garcia Ataucuri, in representation of 216 of SCC s Peruvian Branch former workers, v. SCC s Peruvian Branch (filed May 2011); Silvestre Macedo Condori v. SCC s Peruvian Branch (filed June 2011); Juan Guillermo Oporto Carpio v. SCC s Peruvian Branch (filed August 2011); Rene Mercado Caballero v. SCC s Peruvian Branch (filed November 2011); Enrique Salazar Alvarez and others v. SCC s Peruvian Branch (filed December 2011); Indalecio Carlos Perez Cano and others v. SCC Peruvian Branch (filed March 2012); Jesús Mamani Chura and others v. SCC s Peruvian Branch (filed March, 2012) and Armando Cornejo Flores, in representation of 37 of SCC s Peruvian Branch former workers v. SCC s Peruvian Branch (filed March, 2012). SCC s Peruvian Branch has

answered the complaints and denied the validity of the claims.

SCC s Peruvian Branch asserts that the labor shares were distributed to the former employees in accordance with the profit sharing law then in effect. The Peruvian Branch has not made a provision for these lawsuits because it believes that it has meritorious defenses to the claims asserted in the complaints. Additionally, the amount of this contingency cannot be reasonably estimated by management at this time.

Exploraciones de Concesiones Metalicas S.A.C. (Excomet):

In August 2009, a lawsuit was filed against SCC s Branch by the former stockholders of Excomet. The plaintiffs allege that the acquisition of Excomet s shares by the Branch is null and void because the $2 million purchase price paid by the Branch for the shares of Excomet was not fairly negotiated by the plaintiffs and the Branch. In 2005, the Branch acquired the shares of Excomet

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after lengthy negotiations with the plaintiffs, and after the plaintiffs, which were all of the stockholders of Excomet, approved the transaction in a general stockholders meeting. Excomet was at the time owner of a mining concession which forms part of the Tia Maria project. In October 2011, the civil court dismissed the case on the grounds that the claim had been barred by the statute of limitations. The plaintiff has appealed this decision before the superior court. At June 30, 2012, resolution of the appeal was pending.

Sociedad Minera de Responsabilidad Limitada Virgen Maria de Arequipa (SMRL Virgen Maria):

In August 2010, a lawsuit was filed against SCC s Branch and others by SMRL Virgen Maria, a company which until July 2003 owned the mining concession Virgen Maria, which forms part of the Tia Maria project. SMRL Virgen Maria sold this mining concession in July 2003 to Excomet (see above noted case).

The plaintiff alleges that the sale of the mining concession Virgen Maria to Excomet is null and void because the persons who attended the shareholders meeting of SMRL Virgen Maria, at which the purchase was agreed upon, were not the real owners of the shares. The plaintiff is also pursuing the nullity of all the subsequent acts regarding the mining property (acquisition of the shares of Excomet by SCC s Branch, noted above, and the sale of the concession to SCC s Branch by Excomet). On October, 2011, the civil court dismissed the case on the grounds that the claim had been barred by the statute of limitations. The plaintiff has appealed this decision before the superior court. At June 30, 2012, resolution of the appeal was pending.

Omar Nunez Melgar:

In May 2011, Mr. Omar Nunez Melgar commenced a lawsuit against the Peruvian Mining and Metallurgical Institute (INGEMMET) and the MINEM challenging the denial of Mr. Nunez s concession request that conflicted with SCC s Branch s Virgen Maria concession, which forms part of the Tia Maria concession. SCC s Branch has been made a party to the proceedings as the owner of the Virgen Maria concession. SCC s Branch has answered the complaint and denied the validity of the claim. As of June 30, 2012, this case remains open with no further developments.

The Company asserts that the lawsuits are without merit and is vigorously defending against these lawsuits.

Mexican Operations

Pasta de Conchos Accident:

On February 19, 2010, three widows of miners, who perished in the 2006 Pasta de Conchos accident, filed a complaint for damages in the United States District Court for the District of Arizona against the defendants, Grupo Mexico, AMC and SCC. The plaintiffs allege that the defendants purported failure to maintain a safe working environment at the mine amounted to a violation of several laws and treaties. The Company considers that the court does not have subject-matter jurisdiction over the plaintiffs claims and will defend itself vigorously. On April 13, 2010, the Company filed a motion to dismiss the plaintiffs complaint. On March 29, 2011, the District Court for the District of Arizona dismissed the case for lack of subject-matter jurisdiction. On April 5, 2011, the plaintiffs filed a notice of appeal in this case. At June 30, 2012, resolution of the appeal was pending.

Labor matters:

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

The San Martin and Taxco mines in Mexico have been on strike since July 2007. On December 10, 2009, a federal court confirmed the legality of the San Martin strike. In order to recover the control of the San Martin mine and resume operations, on January 27, 2011, the Company filed a court petition requesting that the court establish the Company s responsibility for the strike and that it define the termination payment for each unionized worker. The court denied the petition alleging that according to Federal labor law, the union was the legitimate party to file the petition. On appeal by the Company, on May 13, 2011, the Mexican federal tribunal accepted the petition of the Company. In July 2011, the union appealed the favorable court decision before the Supreme Court. At June 30, 2012, resolution of the appeal was pending.

In the case of the Taxco mine, following the workers refusal to allow exploration of new reserves, the Company commenced litigation seeking to terminate the labor relationship with workers of the Taxco mine (including the related collective bargaining agreement). On September 1, 2010, the federal labor court issued a ruling approving the termination of the collective bargaining agreement and all the individual labor contracts of the workers affiliated with the Mexican mining union at the Taxco mine. The

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ruling was based upon the resistance of the mining union to allow the Company to search for reserves at the Taxco mine. If sustained, this ruling will also have the effect of terminating the protracted strike at the Taxco unit. The mining union appealed the labor court ruling before a federal court. In September 2011, the federal court accepted the union s appeal and requested that the federal labor court review the procedure and to take into account all the evidence to issue a new resolution. On January 3, 2012, the federal labor court again issued a new resolution, approving the termination of the collective bargaining agreement and all the individual labor contracts of the workers affiliated with the Mexican mining union at the Taxco mine. On January 25, 2012, the mining union appealed the resolution before the federal court. On June 14, 2012, the federal court accepted the union s appeal and requested the federal labor court to issue a new resolution, taking into account all evidence submitted by the parties.

Other legal matters:

Class actions:

Lemon Bay, LLP v. Americas Mining Corporation (AMC), et al.:

Three purported class action derivative lawsuits were filed in the Delaware Court of Chancery (New Castle County) late in December 2004 and early January 2005 relating to the proposed merger transaction between the Company and Minera Mexico, S.A. de C.V. (the Transaction), which was completed effective April 1, 2005. On January 31, 2005, the three actions - Lemon Bay, LLP v. AMC, et al., Civil Action No. 961-N, Therault Trust v. Luis Palomino Bonilla, et al., and Southern Peru Copper Corporation et al., Civil Action No. 969-N, and James Sousa v. Southern Peru Copper Corporation, et al., Civil Action No. 978-N were consolidated into one action, captioned, In re Southern Peru Copper Corporation Shareholder Derivative Litigation, Consol. Civil Action No. 961-N; the complaint filed by Lemon Bay was designated as the operative complaint in the consolidated lawsuit. The consolidated action purports to be brought on behalf of the Company and its common stockholders; the defendants in the consolidated action are AMC, German Larrea Mota-Velasco, Genaro Larrea Mota-Velasco, Oscar Gonzalez Rocha, Emilio Carrillo Gamboa, Jaime Fernando Collazo Gonzalez, Xavier Garcia de Quevedo Topete, Armando Ortega Gomez and Juan Rebolledo Gout (together, the AMC Defendants), Carlos Ruiz Sacristan, Harold S. Handelsman, Gilberto Perezalonso Cifuentes, and Luis Miguel Palomino Bonilla (together, the Special Committee Defendants).

The consolidated complaint alleges, among other things, that the Transaction was the result of breaches of fiduciary duties by the Company s directors and was not entirely fair to the Company and its minority stockholders. On December 21, 2010, the Court dismissed the Special Committee Defendants from the action.

On October 14, 2011, the Court issued an opinion on this action finding that SCC had paid AMC too much stock consideration in the Transaction. The Court issued a revised final order and judgment on December 29, 2011. The Court decided that the AMC Defendants were jointly and severally liable for damages in the amount of $1,347 million plus $684.6 million of pre-judgment interest. Post-judgment interest continues to accrue from October 15, 2011. The Court decided that the award is payable by AMC with cash, or with the return of a number of shares of SCC equal in value to award, or by SCC cancelling an equivalent number of shares owned by AMC, or by any combination thereof, so long as the total is equivalent to the amount of the judgment plus accrued post-judgment interest. The Court also awarded attorneys fees and expenses in the amount of $304.7 million, or 15% of the judgment, plus post-judgment interest, payable by SCC out of the award and not from existing SCC s cash.

On January 20, 2012, the AMC defendants appealed the Court s decisions. On the same date, SCC appealed the Court s decision related to the award of attorneys fees and expenses. On May 3, 2012, the Court accepted the security provided by AMC and granted a stay of the judgment pending final resolution of the appeal.

Oklahoma Firefighters Pension & Retirement System et al. v. SCC:

Four purported class action derivative lawsuits filed in the Delaware Court of Chancery (Oklahoma Firefighters Pension & Retirement System et al. v. SCC et al., Gary Martin et al. v. SCC et al., Thomas Griffin et al. v. SCC et al., and Sheet Metal Workers Pension Plan of Northern California et al. v. SCC et al.) from August 2010 to October 2010 relating to the proposed combination of the Company with AMC, the parent company of Asarco, have been dismissed in light of AMC s October 28, 2011 announcement that it had withdrawn the proposed transaction to combine the Company with AMC.

The Company is involved in various other legal proceedings incidental to its operations, but the Company does not believe that decisions adverse to it in any such proceedings, individually or in the aggregate, would have a material effect on its financial position or results of operations. Additionally, the Company does not believe that the outcome of the purported class action derivative lawsuits would have a material adverse effect on its financial position or results of operations. While the defendants, including Grupo Mexico and its affiliates, believe that the claims in the purported class action derivative lawsuits are without merit,

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the Company cannot assure you that these or future claims, if successful, will not have an adverse effect on Grupo Mexico, AMC or the Company.

Other Contingencies:

Tia Maria:

Tia Maria, an over $1.0 billion Peruvian investment project, was suspended by governmental action in April 2011 in light of protests and disruptions carried out by a small group of activists who alleged, among other things, that the project would result in severe environmental contamination and the diversion of agricultural water resources.

The Company has decided to prepare a new environmental impact assessment (EIA) study that we believe will take into account local community concerns, new government guidance and observations from the United Nations Organism hired by MINEM for this purpose. The Company considers that this new EIA process will alleviate all the concerns previously raised by the Tia Maria project s neighboring communities, provide them with an independent source of information and reaffirm the validity of the Company s assessment of the project. The Company is confident that this initiative will have a positive effect on its stakeholders and will allow the Company to obtain the approval for the development of the 120,000 ton annual production copper project. As a consequence, and contingent upon receiving all required governmental approvals in the time frame provided for in the law, the mining operations for the project have been rescheduled to start-up in 2015. No assurances can be given as to the specific timing of each such approval.

The Company has legal and valid title to the Tia Maria mining concessions and the over-lapping surface land in the area. None of above noted activities have in any way challenged, revoked, impaired or annulled the Company´s legal rights to the Tia Maria mining concessions and/or the over-lapping surface land titles acquired in the past. All the Company s property rights on these areas are in full force.

In view of the suspension of this project, the Company has reviewed the carrying value of this asset to ascertain whether impairment exists. Total spending on the project, through June 30, 2012, is $485.8 million. As the project is currently on hold, some of the equipment has been transferred to other Company operations in Mexico and Peru. Should the Tia Maria project not be restarted, the Company is confident that most of the project equipment will continue to be used productively, through reassignment to other mine locations operated by the Company. At June 30, 2012, equipment transferred to other Company operations totaled $175.8 million. The Company believes that an impairment loss, if any, will not be material.

Other commitments:

Power purchase agreement

In 1997, SCC sold its Ilo power plant to an independent power company, Enersur S.A. (Enersur). In connection with the sale, a power purchase agreement (PPA) was also completed under which SCC agreed to purchase all of its power needs for its current Peruvian operations from Enersur for twenty years, commencing in 1997.

The Company signed in 2009 a Memorandum of Understanding (MOU) with Enersur regarding its PPA. The MOU contains new economic terms that the Company believes better reflects current economic conditions of the power industry in Peru. The new economic conditions agreed to in the MOU have been applied by Enersur to its invoices to the Company since May 2009. Additionally, the MOU includes an option for providing power for the Tia Maria project. However, due to the delay at the Tia Maria project the final agreement was put on hold, see caption Tia Maria above.

Tax contingency matters:

Tax contingencies are provided for under ASC 740-10-50-15 Uncertain tax position (see Note 4, Income taxes).

NOTE 11 SEGMENT AND RELATED INFORMATION:

Company management views Southern Copper as having three reportable segments and manages on the basis of these segments. The reportable segments identified by the Company are: the Peruvian operations, the Mexican open-pit operations and the Mexican underground mining operations segment identified as the IMMSA unit.

The three reportable segments identified are groups of mines, each of which constitute an operating segment, with similar economic characteristics, type of products, processes and support facilities, similar regulatory environments, similar employee

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bargaining contracts and similar currency risks. In addition, each mine within the individual group earns revenues from similar type of customers for their products and services and each group incurs expenses independently, including commercial transactions between groups.

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

Financial information relating to Southern Copper s segments is as follows:

	Three Months Ended June 30, 2012 (in millions)				
	Mexican Open-pit	Mexican IMMSA Unit	Peruvian Operations	Corporate, other and eliminations	Consolidated
Net sales outside of segments	$ 819.8	$ 94.1	$ 746.0		$ 1,659.9
Intersegment sales		37.7		$ (37.7)	
Cost of sales (exclusive of depreciation, amortization and depletion)	312.1	69.8	332.7	(46.7)	667.9
Selling, general and administrative	8.4	3.6	12.1	1.3	25.4
Depreciation, amortization and depletion	35.7	6.3	39.0	(2.6)	78.4
Exploration	2.5	6.7	3.4		12.6
Operating income	$ 461.1	$ 45.4	$ 358.8	$ 10.3	875.6
Less:					
Interest, net					(40.6)
Loss on short term investment					(0.4)
Gain on sale of investment					18.2
Other income (expense)					0.5
Income taxes					(310.0)
Equity earnings of affiliate					22.0
Non-controlling interest					(1.8)
Net income attributable to SCC					$ 563.5
Capital expenditure	$ 268.2	$ 13.7	$ 60.2	$ (111.8)	$ 230.3
Property, net	$ 2,049.5	$ 334.4	$ 2,118.8	$ 163.5	$ 4,666.2
Total assets	$ 3,704.0	$ 770.8	$ 3,116.1	$ 782.2	$ 8,373.1

	Three Months Ended June 30, 2011 (in millions)				
	Mexican Open-pit	Mexican IMMSA Unit	Peruvian Operations	Corporate, other and eliminations	Consolidated
Net sales outside of segments	$ 900.8	$ 108.0	$ 792.7		$ 1,801.5
Intersegment sales		35.5		$ (35.5)	
	296.5	76.0	362.8	(39.3)	696.0

Cost of sales (exclusive of depreciation, amortization and depletion)					
Selling, general and administrative	8.6	3.7	11.8	1.7	25.8
Depreciation, amortization and depletion	32.8	5.9	34.8	(0.6)	72.9
Exploration	0.8	4.8	2.5		8.1
Operating income	$ 562.1	$ 53.1	$ 380.8	$ 2.7	998.7
Less:					
Interest, net					(43.4)
Other income (expense)					6.7
Income taxes					(301.9)
Non-controlling interest					(2.1)
Net income attributable to SCC					$ 658.0
Capital expenditure	$ 61.5	$ 8.5	$ 40.7	$	$ 110.7
Property, net	$ 1,627.8	$ 301.6	$ 2,150.3	$ 50.4	$ 4,130.1
Total assets	$ 2,892.8	$ 744.0	$ 2,844.7	$ 1,312.6	$ 7,794.1

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	Six Months Ended June 30, 2012 (in millions)				
	Mexican Open-pit	Mexican IMMSA Unit	Peruvian Operations	Corporate, other and eliminations	Consolidated
Net sales outside of segments	$ 1,698.6	$ 194.7	$ 1,572.5		$ 3,465.8
Intersegment sales		75.4		$ (75.4)	
Cost of sales (exclusive of depreciation, amortization and depletion)	631.7	145.4	691.9	(79.2)	1,389.8
Selling, general and administrative	17.1	7.2	24.6	2.0	50.9
Depreciation, amortization and depletion	69.3	12.6	78.0	(4.6)	155.3
Exploration	3.2	12.9	5.2		21.3
Operating income	$ 977.3	$ 92.0	$ 772.8	$ 6.4	1,848.5
Less:					
Interest, net					(81.1)
Gain on short term investment					5.4
Gain on sale of investment					18.2
Other income (expense)					1.9
Income taxes					(628.7)
Equity earnings of affiliate					24.7
Non-controlling interest					(3.9)
Net income attributable to SCC					$ 1,185.0
Capital expenditure	$ 403.3	$ 28.1	$ 88.1	$ (111.8)	$ 407.7
Property, net	$ 2,049.5	$ 334.4	$ 2,118.8	$ 163.5	$ 4,666.2
Total assets	$ 3,704.0	$ 770.8	$ 3,116.1	$ 782.2	$ 8,373.1

	Six Months Ended June 30, 2011 (in millions)				
	Mexican Open-pit	Mexican IMMSA Unit	Peruvian Operations	Corporate, other and eliminations	Consolidated
Net sales outside of segments	$ 1,570.6	$ 219.1	$ 1,613.8		$ 3,403.5
Intersegment sales		66.9		$ (66.9)	
Cost of sales (exclusive of depreciation, amortization and depletion)	527.6	143.6	800.3	(38.7)	1,432.8
Selling, general and administrative	16.8	7.2	24.1	2.2	50.3
Depreciation, amortization and depletion	63.5	12.2	69.0	(1.2)	143.5
Exploration	1.4	8.6	5.3	0.1	15.4
Operating income	$ 961.3	$ 114.4	$ 715.1	$ (29.3)	1,761.5
Less:					
Interest, net					(87.3)
Other income (expense)					6.1
Income taxes					(540.0)
Non-controlling interest					(3.9)
Net income attributable to SCC					$ 1,136.4
Capital expenditure	$ 106.3	$ 16.4	$ 60.0	$ 0.9	$ 183.6
Property, net	$ 1,627.8	$ 301.6	$ 2,150.3	$ 50.4	$ 4,130.1
Total assets	$ 2,892.8	$ 744.0	$ 2,844.7	$ 1,312.6	$ 7,794.1

NOTE 12 STOCKHOLDERS´EQUITY:

Treasury Stock:

Activity in treasury stock in the six-month period ended June 30, 2012 and 2011 is as follows (in millions):

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		2012		2011
Southern Copper common shares				
Balance as of January 1,	$	734.1	$	461.0
Purchase of shares		33.2		148.0
Stock dividend		(151.4)		
Used for corporate purposes		(0.3)		(0.5)
Balance as of June 30,		615.6		608.5
Parent Company (Grupo Mexico) common shares				
Balance as of January 1,		163.7		161.7
Other activity, including dividend, interest and currency translation effect		9.9		14.3
Balance as of June 30,		173.6		176.0
Treasury stock balance as of June 30,	$	789.2	$	784.5

The following table summarizes share distributions in the first six months of 2012 and 2011:

	2012	2011
Southern Copper common shares		
Directors Stock Award Plan	14,400	14,400
Parent Company (Grupo Mexico) common shares		
Employee stock purchase plan (shares in millions)	0.1	3.5

Southern Copper Common Shares:

At June 30, 2012 and 2011, there were in treasury 35,751,686 and 39,163,606 SCC s common shares, respectively.

SCC share repurchase program:

In 2008, the Company´s Board of Directors authorized a $500 million share repurchase program. On July 28, 2011, the Company´s Board of Directors approved an increase of the SCC share repurchase program from $500 million to $1.0 billion. Pursuant to this program, the Company purchased common stock as shown in the table below. These shares are available for general corporate purposes. The Company may purchase additional shares of its common stock 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.

Period From	To	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares that May Yet Be Purchased Under the Plan @ $31.51	Total Cost ($ in millions)
2008:						

08/11/08	12/31/08	28,510,150	$ 13.49	28,510,150		$ 384.7
2009:						
01/12/09	09/30/09	4,912,000	14.64	33,422,150		71.9
2010:						
05/05/10	10/14/10	15,600	29.69	33,437,750		0.5
2011:						
05/02/11	12/31/11	9,034,400	30.29	42,472,150		273.7
2012:						
04/10/12	04/23/12	278,486	30.23	42,750,636		8.4
05/30/12	05/31/12	500,000	28.57	43,250,636		14.3
06/01/12	06/30/12	370,000	28.33	43,620,636		10.5
Total second quarter		1,148,486	28.89			33.2
Total purchased		43,620,636	$ 17.51		7,493,007	$ 764.0

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As a result of this repurchase of shares of SCC s common stock, Grupo Mexico s direct and indirect ownership is 81% as of June 30, 2012.

Directors Stock Award Plan:

The Company established a stock award compensation plan for certain directors who are not compensated as employees of the Company. Under this plan, participants will receive 1,200 shares of common stock upon election and 1,200 additional shares following each annual meeting of stockholders thereafter. 600,000 shares of Southern Copper common stock have been reserved for this plan. The fair value of the award is measured each year at the date of the grant.

The activity of the plan in the six-month period ended June 30, 2012 and 2011 is as follows:

	2012	**2011**
Total SCC shares reserved for the plan	600,000	600,000
Total shares granted at January 1,	(271,200)	(256,800)
Granted in the period	(14,400)	(14,400)
Total shares granted at June 30,	(285,600)	(271,200)
Remaining shares reserved	314,400	328,800

Parent Company common shares:

Employee Stock Purchase Plan:

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

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

In the case of voluntary resignation of the employee, the Company will pay to the employee the fair market sales price at the date of resignation of the fully paid shares, net of costs and taxes. When the fair market sales value of the shares is higher than the purchase price, the Company will apply a deduction over the amount to be paid to the employee based on the following schedule:

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

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

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

In case of retirement or death of the employee, the Company will render the buyer or his legal beneficiary, the fair market sales value as of the date of retirement or death of the shares effectively paid, net of costs and taxes.

The stock based compensation expense for the six months ended June 30, 2012 and 2011 and the unrecognized compensation expense as of June 30, 2012 and 2011 under this plan were as follows (in millions):

	2012	**2011**
Stock based compensation expense	$ 1.1	$ 1.1
Unrecognized compensation expense	$ 5.3	$ 7.4

The unrecognized compensation expense under this plan is expected to be recognized over the remaining two and one-half year period. The following table presents the stock award activity of the Employee Stock Purchase Plan for the six months ended June 30, 2012 and 2011:

	Shares	**Unit Weighted Average Grant Date Fair Value**
Outstanding shares at January 1, 2012	7,270,341	$ 1.16
Granted		
Exercised	(36,303)	1.16
Forfeited	(90,204)	1.16
Outstanding shares at June 30, 2012	7,143,834	$ 1.16
Outstanding shares at January 1, 2011	10,920,693	