Table of Contents

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, 2011

or

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

For the transition period from to

Commission File Number: 1-14066

SOUTHERN COPPER CORPORATION

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**13-3849074** (I.R.S. Employer Identification No.)
1440 East Missouri Avenue Suite C-175 Phoenix, AZ (Address of principal executive offices)	**85014** (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 30, 2011 there were outstanding 845,432,480 shares of Southern Copper Corporation common stock, par value $0.01 per share.

Table of Contents

Southern Copper Corporation (SCC)

INDEX TO FORM 10-Q

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

Southern Copper Corporation

CONDENSED CONSOLIDATED STATEMENT OF EARNINGS

(Unaudited)

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

Weighted average common shares outstanding - basic and diluted	848,937	850,000	849,465	850,000

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

Table of Contents

Southern Copper Corporation

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited)

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

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

Table of Contents

Southern Copper Corporation

CONDENSED CONSOLIDATED BALANCE SHEET

(Unaudited)

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

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

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

Table of Contents

Southern Copper Corporation

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

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

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

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

Table of Contents

Southern Copper Corporation

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 DESCRIPTION OF THE BUSINESS:

In the opinion of Southern Copper Corporation, (the Company , Southern Copper or SCC), the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to state fairly the Company s financial position as of June 30, 2011 and the results of operations, comprehensive income and cash flows for the three and six months ended June 30, 2011 and 2010. The results of operations for the three and six months ended June 30, 2011 and 2010 are not necessarily indicative of the results to be expected for the full year. The December 31, 2010 balance sheet data was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles in the United States of America (USGAAP). The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements at December 31, 2010 and notes included in the Company s 2010 annual report on Form 10-K.

NOTE 2 ADOPTION OF NEW ACCOUNTING STANDARDS:

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

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

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

NOTE 3 AMC s BUSINESS COMBINATION PROPOSAL:

On July 22, 2010, the Company received a non-binding proposal from its parent company, Americas Mining Corporation (AMC), offering to effect an all-stock business combination of Southern Copper and AMC, the parent company of ASARCO LLC (Asarco), in which all stockholders of Southern Copper would receive 1.237 common shares of AMC in exchange for each share of SCC. Under the proposal presented by AMC, the stock of AMC would be registered and listed on the New York, Mexico and the Lima Stock Exchanges. Once the listing and registration of the AMC shares are completed, SCC s shares would be delisted from the exchanges.

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

Table of Contents

NOTE 4 SHORT-TERM INVESTMENTS:

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

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

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

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

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

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Trading securities:				
Interest earned	$ 1.0	$ 0.1	$ 1.4	$ 0.1
Available for sale:				
Interest earned	(*)	(*)	(*)	0.1
Investment redeemed	$ 0.4	$ 7.7	$ 0.8	$ 11.2

(*) Less than $0.1 million

NOTE 5 - INVENTORIES:

Inventories were as follows:

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

Table of Contents

LONG-TERM INVENTORY:

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

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

NOTE 6 INCOME TAXES:

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

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

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

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

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.

Table of Contents

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

NOTE 7 PROVISIONALLY PRICED SALES:

At June 30, 2011, the Company has recorded provisionally priced sales of copper at average forward prices per pound, and molybdenum at the June 30, 2011 market price per pound. These sales are subject to final pricing based on the average monthly LME or COMEX copper prices and Dealer Oxide molybdenum prices in the future month of settlement.

Following are the provisionally priced copper and molybdenum sales outstanding at June 30, 2011:

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

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

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

NOTE 8 DERIVATIVE INSTRUMENTS:

As part of its risk management policy, the Company occasionally uses derivative instruments to (i) safeguard the corporate assets, (ii) insure the value of future revenue streams, and (iii) lessen the impact of unforeseen market swings on sales revenues. To comply with these objectives the Company, from time to time, enters into commodity price derivatives, interest rate derivatives, exchange rate derivatives and other instruments. The Company does not enter into derivative contracts unless it anticipates a future activity that is likely to occur that will result in exposing the Company to market risk.

Copper swaps:

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

Table of Contents

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

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

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

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

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

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

Table of Contents

NOTE 9 - ASSET RETIREMENT OBLIGATION:

The Company maintains an estimated asset retirement obligation for its mining properties in Peru, as required by the Peruvian Mine Closure Law. In accordance with the requirements of this law the Company s closure plans have been approved by the Peruvian Ministry of Energy and Mines (MINEM). As part of the closure plans, commencing in January 2010 the Company provides annual installments of $2.6 million over a 34 year period to guarantee the availability of funds to meet this obligation. Therefore, as of January 2011 the Company has made installments on the guarantee of $5.2 million, in the form of a lien on its Lima office building. The accepted value of the Lima office building, for this purpose, is $17 million.

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

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

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

NOTE 10 RELATED PARTY TRANSACTIONS:

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

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

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

The Company has entered into certain transactions in the ordinary course of business with parties that are controlling shareholders or their affiliates. These transactions include the lease of office space, air transportation and construction services and products and services relating to mining and refining. The Company lends and borrows funds among affiliates for acquisitions and other corporate purposes. These financial transactions bear interest and are subject to review and approval by

Table of Contents

senior management, as are all related party transactions. It is the Company s policy that the Audit Committee of the Board of Directors shall review all related party transactions. The Company is prohibited from entering or continuing a material related party transaction that has not been reviewed and approved or ratified by the Audit Committee.

Purchase Activity:

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

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

Grupo Mexico, the Company s ultimate parent and the majority indirect stockholder of the Company, and its affiliates provide various services to the Company. These services are primarily related to accounting, legal, tax, financial, treasury, human resources, price risk assessment and hedging, purchasing, procurement and logistics, sales and administrative and other support services. The Company pays Grupo Mexico Servicios S.A de C.V., a subsidiary of Grupo Mexico, for these services. The Company expects to continue to pay for these services in the future.

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

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

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

Table of Contents

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

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

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

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

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

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

The Company purchased industrial material and services from Breaker, S.A. de C.V., a company in which Mr. Jorge Gonzalez, son-in-law of SCC s Chief Executive Officer, has a proprietary interest.

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

Sales Activity:

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

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

Table of Contents

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

NOTE 11 - FINANCING:

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

NOTE 12 BENEFIT PLANS:

SCC Defined Benefit Pension Plans

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

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

(*) amount is lower than $0.1 million

SCC Post-retirement Health Care Plan

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

Minera Mexico Pension Plans

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

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

(*) amount is lower than $0.1 million

Minera Mexico Post-retirement Health Care Plan

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

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

(*) amount is lower than $0.1 million

Table of Contents

NOTE 13 COMMITMENTS AND CONTINGENCIES:

Environmental matters:

The Company s 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, 2011 and 2010 were as follows (in millions):

	2011	2010
Peruvian operations	$ 1.1	$ 3.8
Mexican operations	3.7	5.5
	$ 4.8	$ 9.3

Peruvian operations

The Company s operations are subject to applicable Peruvian environmental laws and regulations. The Peruvian government, through MINEM 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 9, 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.

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.

Mexican environmental regulations have become increasingly stringent in recent years, and this trend is likely to continue and has been influenced by the environmental treaty entered into by Mexico, the United States and Canada in connection with NAFTA in 1999.

Table of Contents

In relation the aforementioned, 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.

As a result of the amendment, more legal actions supported or sponsored by non-governmental groups, interested in halting projects, and not necessarily in protecting the rights of affected communities may be filed against companies operating in all industrial sectors, including the mining sector.

Another initiative that has been approved by the Mexican Congress is the one related to amendments to the Civil Federal Procedures Code (CFPC). These amendments consist of establishing 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. It is expected that these amendments will enter into force six months after the publication in the Official Gazette. The amendments to the CFPC may result in more litigation with plaintiffs seeking remedies, including suspension of the activities alleged to cause harm.

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 initiated a program for plant demolition and soil remediation with a budget of $35.7 million, of which the Company has spent $13.2 million through June 30, 2011. The Company expects to remediate the site and promote an urban development to generate a net gain in the disposal of the property.

Although 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 cannot assure that the above mentioned or future laws and regulations would not have a material adverse effect on the Company s business, properties, result of operations, financial condition or prospects. However, the Company s management does not believe that continued compliance with the federal environmental law or Mexican state environmental laws will have a material adverse effect on the Company s business, properties, result of operations, financial condition or prospects or will 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 approximately 800 former employees seeking the delivery of a substantial number of its labor shares (acciones laborales) plus dividends on such shares, to be issued in a proportional way to each former employee in accordance with their time of employment with SCC s Peruvian Branch.

The labor share litigation is based on claims of former employees for ownership of labor shares issued 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

Table of Contents

to the mining industry organization, was set at 5.5% of pre-tax profits and was delivered in the form of labor shares to individual workers. The cash portion was set at 4.0% of pre-tax earnings and continued to be delivered to individual employees. In 1992 the workers participation was set at 8%, with 100% payable in cash and the equity participation was eliminated from the law.

In 1995, the labor shares were exchanged for common stock of the Company and approximately 80.8% of the issued labor shares were exchanged. After that, from time to time the Company has purchased labor shares on the open market. The remaining net 0.71% is included in the condensed consolidated balance sheet under the caption Non-controlling interest.

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

1) The Garcia Ataucuri litigation seeks the delivery of 38,763,806.80 labor shares (acciones laborales), now investment shares (acciones de inversion) (or nuevos soles (S/.) 3,876,380,679.56), plus dividends on such shares. After lengthy proceedings before the civil courts in Peru on September 19, 2001, on appeal from the Branch, 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.

On June 9, 2009, SCC s Peruvian Branch filed an extraordinary appeal before a civil court in Peru seeking the nullity of the 2009 Supreme Court decision and other protective measures. The civil court has now rendered a favorable decision suspending the enforcement of the Supreme Court decision, for the reasons indicated above and other reasons. 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 which seek the same number of labor shares as in the Garcia Ataucuri case, plus interest, labor shares resulting from capital increases and dividends: 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 García Ataucuri, in representation of 216 SCC s Peruvian Branch former workers, v. SCC s Peruvian Branch (filed May 2011); and Silvestre Macedo Condori v. SCC s Peruvian Branch (filed June 2011). SCC s 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.

Table of Contents

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 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. As of June 30, 2011, this case remained open with no new developments.

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). As of June 30, 2011, the case remained open with no new developments.

Omar Nunez Melgar:

In May 2011, Mr. Omar Nunez Melgar commenced a lawsuit against the Peruvian Mining and Metallurgical Institute 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.

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 the Conchos accident, filed a complaint for damages in the United States District Court for the District of Arizona against the defendants, Grupo México, AMC and SCC. Plaintiffs allege that 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 June 25, 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. As of June 30, 2011, the decision of the appeal is 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.

Table of Contents

Peruvian Operations

Approximately 79% of the Company s Peruvian labor force was unionized at June 30, 2011, represented by eight separate unions. Three of these unions, one at each major production area, represent the majority of the Company s workers. In September 2010, the Company reached a new three-year collective bargaining agreement with these three unions. This agreement includes, among other things, a 5% annual salary increase and a signing bonus of approximately $6,700 for each of the workers (approximately 2,000). In addition, this agreement provides for a productivity bonus program for the departments that reach certain goals. Also, there are five smaller unions, representing the balance of workers. Collective bargaining agreements for these smaller unions are in force through November 2012.

There were no strikes during the first six months of 2011 and 2010.

Mexican operations

Approximately 73% of the Mexican labor force was unionized at June 30, 2011, represented by three separate unions. Under Mexican law, the terms of employment for unionized workers is set forth in collective bargaining agreements. Mexican companies negotiate the salary provisions of collective bargaining agreements with the labor unions annually and negotiate other benefits every two years. The Company conducts negotiations separately at each mining complex and each processing plant.

In recent years the Buenavista mine experienced several labor stoppages. The latest labor stoppage started in July 2007 and finished in June 2010. The Company began the rehabilitation of the Buenavista mine during the second half of 2010 and is now operating the facility at full capacity. Through June 30, 2011, the Company has spent $135.3 million on repairs, of this $78.7 million were capitalized and $56.6 million were charged to operating cost. At June 30, 2011 the total estimated cost of repairs is $174.0 million, including amounts already spent. The additional $38.7 million are related to major mechanical and electrical maintenance to be performed through the rest of 2011.

Currently, the Buenavista operations have a work force of 4,800 workers that are operating the mine and plants as well as developing the $3.7 billion growth program, which is expected to increase its production capacity from 180,000 tons of copper per year to over 450,000 tons. On June 6, 2011, the Confederation of Mexican Workers (CTM) was awarded the collective bargaining agreement of the Buenavista del Cobre s union by the Federal Board of Conciliation and Arbitration. CTM now represents around 780 workers of this mine.

Additionally, the San Martin and Taxco mines have been on strike since July 2007. On December 10, 2009, a federal tribunal confirmed the legality of the San Martin strike. 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 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 has presented an appeal of the labor court ruling before federal tribunals. As of June 30, 2011 the resolution of this appeal was pending.

20

Table of Contents

Other legal matters:

Class actions:

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. American Mining-Corporation, 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. Fact discovery closed in early 2010 and expert discovery closed on June 18, 2010. On June 30, 2010, the plaintiff moved for partial summary judgment. On August 10, 2010, the AMC Defendants and the Special Committee Defendants filed separate cross-motions for summary judgment. On December 21, 2010, the Court denied the plaintiff s motion and the AMC Defendants cross-motion, but granted the Special Committee Defendants motion, dismissing the Special Committee Defendants from the action. A four day trial was held on June 21-24, 2011. Post-trial argument took place on July 12, 2011. A decision by the Court is pending.

Plaintiff seeks, among other things, an award of damages to the Company´s stockholders, and such other relief that the court deems equitable, including interest, attorneys and experts fees and costs. The defendants believe that the lawsuit is without merit and are vigorously defending against the action.

Four purported class action derivative lawsuits have been 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. The complaints name SCC, its current and certain former directors, AMC and Grupo Mexico as defendants. Two of the actions also name Asarco as a defendant. The actions purport to be brought on behalf of the Company s common stockholders. A previously reported complaint filed in the Superior Court of Arizona, City of North Miami Beach Police Officers and Firefighters Retirement Plan et al. v. SCC et al., has been voluntarily dismissed.

The complaints allege, among other things, that the proposed transaction would result in breaches of fiduciary duties by the defendants and is not entirely fair to the Company and its minority stockholders. The complaints seek, among other things, a preliminary and permanent injunction to enjoin the transaction, the award of damages to the plaintiffs and the class, and such other relief that the court deems equitable, including interest, attorneys and experts fees and costs. On January 25, 2011, the Oklahoma Firefighters and Sheet Metal Workers plaintiffs filed an amended and joint motion to consolidate and have Firefighters counsel appointed lead counsel. Plaintiffs also moved to stay the Martin and Griffin actions. The Sheet Metal plaintiffs have withdrawn their prior motion to consolidate in connection with the new motion. Oral argument on all plaintiffs motions and cross-motions to stay or consolidate and appoint lead counsel is pending.

21

Table of Contents

The Firefighters plaintiffs also moved for leave to file an amended complaint to add or supplement factual allegations concerning the summary judgment ruling in the Lemon Bay action described above. On April 1, 2011, the plaintiffs motion was granted.

The defendants believe that these lawsuits are without merit and are vigorously defending against the actions.

The Company is involved in various other legal proceedings incidental to its operations, but the Company does not believe that decisions adverse to it in any such proceedings, individually or in the aggregate, would have a material adverse effect on its financial position or results of operations. 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, 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:

In 2009, the Company submitted to MINEM its Tia Maria Environmental Impact Assessment (EIA) for evaluation and approval. On March 28, 2011, according to the regular procedure, remarks and observations to the EIA were submitted by some concerned parties as part of the EIA approval process, and were delivered to the Company, in order to be addressed. On April 5, 2011, in light of protests and disruptions carried out by a small group of activists who allege, among other things, that the Tia Maria project will result in severe environmental contamination and the diversion of water resources that are for agricultural use, MINEM issued a resolution suspending the approval process of the Tia Maria EIA for a period of 180 days. Later, on April 8, 2011, in light of further protests MINEM issued a new resolution annulling such decision, and declaring the EIA inadmissible. This resolution was appealed by the Company to the Mining Council, a government appointed board that resolves mining administrative disputes. Even though the EIA process is suspended, the Company has provided to MINEM its answers to all the observations submitted by the concerned parties as part of the EIA approval process. The Company believes that the government s action is without legal merit and was motivated to a large extent by political considerations, as the presidential election process was taking place at that time in Peru. The Company is willing to readdress the status of the Tia Maria project with the new government as soon as practical. The new president-elect took office on July 28, 2011.

The Company has legal and valid title to the Tía 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.

The Tia Maria project comprises an investment of over $1,000 million, which will generate 4,000 new jobs during the construction phase and 4,100 direct and indirect permanent jobs. The estimated annual production of the project is 120,000 tons of copper cathodes, all obtained through a leaching process (SXEW). The project would significantly increase Peruvian exports and generate important contributions to the Peruvian economy through income taxes and mining royalties, as well as payroll taxes, custom duties, mining rights and other levies. In addition, the Company plans to invest in social responsibility programs in the Arequipa region similar to those established in the communities nearby the current Peruvian operations of Toquepala, Cuajone and Ilo.

Table of Contents

The Company is confident that it will complete the Tia Maria project and will begin copper mining and production activities at Tia Maria once the necessary approvals are received. The SXEW leaching technologies and processes to be employed at the Tia Maria facility have been widely developed in Peru and other countries and have been demonstrated to comply with environmental regulations with no adverse impact on the air, soil or water.

However, 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, 2011, is $442 million. As the project is currently suspended much of the equipment is being used at the Company s mining operations in Toquepala and Cuajone. Should the Tia Maria project not restart, the Company is confident that the project equipment will continue to be used in this manner. While the Company may incur additional costs due to the delay, it believes that an impairment loss, if any, will not be material.

Other commitments:

Royalty charge

The Company s Peruvian operations are subject to a 1% to 3% royalty charge based on sales and calculated on the value of the concentrates and SXEW copper produced at the Toquepala and Cuajone mines. The Company made provisions for this charge in the first six months of 2011 and 2010 of $31.8 million and $27.6 million, respectively. These provisions are included in Cost of sales (exclusive of depreciation, amortization and depletion) in the condensed consolidated statement of earnings.

Power purchase agreement

In 1997, SCC sold its Ilo power plant to an independent power company, Enersur S.A. (Enersur). In connection with the sale, a power purchase agreement was also completed under which SCC agreed to purchase all of its power needs for its Peruvian operations from Enersur for twenty years, commencing in 1997. In 2003 the agreement was amended, releasing Enersur from its obligation to construct additional capacity to meet the Company s increased electricity requirements and changing the power tariff as called for in the original agreement.

The Company has recently signed a Memorandum of Understanding (MOU) with Enersur regarding its power supply agreement. The MOU contains new economic terms that the Company believes better reflect current economic conditions in the power industry and 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. During 2011, the Company continued its negotiations with Enersur in order to obtain a final agreement for the Tia Maria project, see caption Tia Maria above.

Tax contingency matters:

Tax contingencies are provided for under ASC 740-10-50-15 Uncertain tax position (see Note 6, Income taxes).

NOTE 14 SEGMENT AND RELATED INFORMATION:

Company management views Southern Copper as having three operating segments and manages on the basis of these segments. The 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.

Table of Contents

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, 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)	
Cost of sales (exclusive of depreciation, amortization and depletion)	296.5	76.0	362.8	(39.3)	696.0
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)
Gain on sale of property					6.4
Other income (expense)					0.3
Income taxes					(301.9)
Non-controlling interest					(2.1)
Net income attributable to SCC					$ 658.0
Capital expenditure	$ 61.5	$ 8.5	$ 41.1	$ (0.4)	$ 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

	Three Months Ended June 30, 2010 (in millions)				
	Mexican Open-pit	Mexican IMMSA Unit	Peruvian Operations	Corporate, other and eliminations	Consolidated
Net sales outside of segments	$ 337.3	$ 87.5	$ 738.2	$ 10.2	$ 1,173.2
Intersegment sales	7.9	35.8		(43.7)	
Cost of sales (exclusive of depreciation, amortization and depletion)	186.4	78.8	303.0	(36.7)	531.5
Selling, general and administrative	7.7	3.4	9.4	1.4	21.9
Depreciation, amortization and depletion	30.2	5.4	32.6	1.1	69.3
Exploration	1.2	3.5	5.4		10.1
Operating income	$ 119.7	$ 32.2	$ 387.8	$ 0.7	540.4

Less:					
Interest, net					(43.7)
Other income (expense)					(6.5)
Income taxes					(174.9)
Non-controlling interest					(1.9)
Net income attributable to SCC					$ 313.4
Capital expenditure	$ 10.7	$ 4.3	$ 77.3	$ 0.6	$ 92.9
Property, net	$ 1,567.4	$ 274.5	$ 2,108.2	$ 61.2	$ 4,011.3
Total assets	$ 2,295.8	$ 626.6	$ 2,912.3	$ 1,614.8	$ 7,449.5

Table of Contents

	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)
Gain on sale property					6.4
Other income (expense)					(0.3)
Income taxes					(540.0)
Non-controlling interest					(3.9)
Net income attributable to SCC					$ 1,136.4
Capital expenditure	$ 106.3	$ 16.3	$ 60.0	$ 1.0	$ 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

	Six Months Ended June 30, 2010 (in millions)				
	Mexican Open-pit	Mexican IMMSA Unit	Peruvian Operations	Corporate, other and eliminations	Consolidated
Net sales outside of segments	$ 715.7	$ 178.7	$ 1,460.0	$ 38.2	$ 2,392.6
Intersegment sales	29.1	87.5		(116.6)	
Cost of sales (exclusive of depreciation, amortization and depletion)	364.3	170.1	586.4	(78.3)	1,042.5
Selling, general and administrative	15.2	6.6	19.9	2.0	43.7
Depreciation, amortization and depletion	60.0	11.3	65.5	1.9	138.7
Exploration	2.3	7.1	9.1		18.5
Operating income	$ 303.0	$ 71.1	$ 779.1	$ (4.0)	1,149.2
Less:					
Interest, net					(65.5)
Other income (expense)					(5.1)
Income taxes					(378.1)
Non-controlling interest					(3.9)
Net income attributable to SCC					$ 696.6
Capital expenditure	$ 22.9	$ 10.2	$ 134.5	$ 0.7	$ 168.3
Property, net	$ 1,567.4	$ 274.5	$ 2,108.2	$ 61.2	$ 4,011.3
Total assets	$ 2,295.8	$ 626.6	$ 2,912.3	$ 1,614.8	$ 7,449.5

Table of Contents

NOTE 15 STOCKHOLDERS´EQUITY:

Treasury Stock:

Activity in treasury stock in the six-month period ended June 30, 2011 and 2010 is as follows (in millions):

	2011	2010
Southern Copper common shares		
Balance as of January 1,	$ 461.0	$ 460.7
Purchase of shares	148.0	0.4
Used for corporate purposes	(0.5)	(0.2)
Balance as of June 30,	608.5	460.9
Parent Company (Grupo Mexico) common shares		
Balance as of January 1,	161.7	142.7
Other activity, including dividend, interest and currency translation effect	14.3	9.7
Balance as of June 30,	176.0	152.4
Treasury stock balance as of June 30,	$ 784.5	$ 613.3

The following table summarizes share distributions in the first six months of 2011 and 2010:

	2011	2010
Southern Copper common shares		
Directors Stock Award Plan	14,400	13,200
Parent Company (Grupo Mexico) common shares		
Employee stock purchase plan (shares in millions)	3.5	0.6

Southern Copper Common Shares:

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. The Board of directors also confirmed the Company s purchase of 4.6 million shares of its common shares at a cost of $148.0 million in the second quarter of 2011. Pursuant to this program, the Company purchased common stock as shown in the table below. These shares will be 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.

Table of Contents

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 @ $32.87	Total Cost ($ in millions)
2008:						
08/11/08	12/31/08	28,510,150	$ 13.49	28,510,150		$ 384.7
2009:						
01/12/09						