

SOUTHERN COPPER CORP/  
Form 10-Q  
May 06, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

**For the quarterly period ended: March 31, 2011**

**or**

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

**For the transition period from                      to**

**Commission File Number: 1-14066**

**SOUTHERN COPPER CORPORATION**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of incorporation or organization)

**13-3849074**  
(I.R.S. Employer Identification No.)

**11811 North Tatum Blvd. Suite 2500 Phoenix, AZ**  
(Address of principal executive offices)

**85028**  
(Zip Code)

Registrant's telephone number, including area code: **(602) 494-5328**

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of April 30, 2011 there were outstanding 850,000,000 shares of Southern Copper Corporation common stock, par value \$0.01 per share.

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Southern Copper Corporation ( SCC )

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Exhibit 32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	
Exhibit 32.2	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	
Exhibit 101	Financial statements for the quarter ended March 31, 2011 Formatted in XBRL: (i) the Condensed Consolidated Statement of Earnings, (ii) the Condensed Consolidated Statement of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheet, (iv) the Condensed Consolidated Statement of Cash Flows, and (v) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.	Submitted electronically with this report

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## PART I FINANCIAL INFORMATION

## Item 1. Condensed Consolidated Financial Statements

## Southern Copper Corporation

CONDENSED CONSOLIDATED STATEMENT OF EARNINGS

(Unaudited)

	3 Months Ended March 31,	
	2011	2010
	(in thousands, except per share amounts)	
Net sales	\$ 1,602,019	\$ 1,219,405
Operating costs and expenses:		
Cost of sales (exclusive of depreciation, amortization and depletion shown separately below)	736,860	510,983
Selling, general and administrative	24,572	21,718
Depreciation, amortization and depletion	70,644	69,468
Exploration	7,218	8,465
Total operating costs and expenses	839,294	610,634
Operating income	762,725	608,771
Interest expense	(47,564)	(23,788)
Capitalized interest	936	
Loss on debt prepayment	(1,360)	
Other income (expense)	780	1,433
Interest income	2,711	2,052
Income before income taxes	718,228	588,468
Income taxes	238,081	203,241
Net income	480,147	385,227
Less: Net income attributable to the non-controlling interest	1,771	1,983
Net income attributable to SCC	\$ 478,376	\$ 383,244
Per common share amounts attributable to SCC:		
Net earnings - basic and diluted	\$ 0.56	\$ 0.45
Dividends paid to SCC common shareholders	\$ 0.58	\$ 0.43
Weighted average shares outstanding - basic and diluted	850,000	850,000

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 March 31,		
	2011	(in thousands)	2010
Net income	\$	480,147	\$ 385,227
Other comprehensive income (loss) net of tax:			
Derivative instruments classified as cash flow hedge:			
Unrealized gain for the period		43,779	
Less:			
Reclassification adjustment for losses included in net income		21,948	
Unrealized loss on derivative instruments classified as cash flow hedges		65,727	
Comprehensive income	\$	545,874	\$ 385,227
Comprehensive income attributable to the non-controlling interest	\$	1,949	\$ 1,983
Comprehensive income attributable to SCC	\$	543,925	\$ 383,244

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)

	March 31, 2011	December 31, 2010
	(in thousands)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,973,297	\$ 2,192,677
Short-term investments	220,710	76,209
Accounts receivable trade	597,403	671,745
Accounts receivable other (including affiliates 2011 - \$4,606 and 2010 - \$32,700)	76,252	76,284
Inventories	628,990	540,988
Deferred income tax	77,067	63,935
Other current assets	95,125	117,170
Total current assets	3,668,844	3,739,008
Property, net	4,095,098	4,094,993
Long-term leach stockpiles	43,327	29,668
Intangible assets, net	111,835	112,352
Deferred income tax	78,755	43,900
Other assets	126,769	108,098
Total assets	\$ 8,124,628	\$ 8,128,019
<b>LIABILITIES</b>		
Current liabilities:		
Current portion of long-term debt	\$ 10,000	\$ 10,000
Accounts payable	591,076	558,661
Accrued income taxes	204,760	266,241
Due to affiliated companies	4,893	4,665
Accrued workers participation	166,948	222,432
Accrued interest	62,554	60,062
Other accrued liabilities	24,678	16,957
Total current liabilities	1,064,909	1,139,018
Long-term debt	2,745,293	2,750,401
Deferred income taxes	139,416	113,232
Non-current taxes payable	77,830	77,830
Other liabilities and reserves	75,598	78,070
Asset retirement obligation	59,921	59,059
Total non-current liabilities	3,098,058	3,078,592
Commitments and contingencies (Note 12)		
<b>STOCKHOLDERS EQUITY</b>		
Common stock	8,846	8,846
Additional paid-in capital	1,043,351	1,034,764
Retained earnings	3,581,354	3,595,983

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Accumulated other comprehensive loss	(60,696)	(126,423)
Treasury stock	(630,644)	(622,722)
Total SCC stockholders' equity	3,942,211	3,890,448
Non-controlling interest	19,450	19,961
Total equity	3,961,661	3,910,409
Total liabilities and equity	\$ 8,124,628	\$ 8,128,019

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

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## Southern Copper Corporation

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

	2011	3 Months Ended March 31, (in thousands)	2010
<b>OPERATING ACTIVITIES</b>			
Net income	\$ 480,147		\$ 385,227
Adjustments to reconcile net earnings to net cash provided from operating activities:			
Depreciation, amortization and depletion	70,644		69,468
Remeasurement loss (income)	8,179		8,364
Provision (benefit) for deferred income taxes	(37,743)		5,853
Gain on sale of property	(718)		(1,603)
Gain on sale of short-term investment	(275)		(519)
Cash provided from (used for) operating assets and liabilities:			
Accounts receivable	74,374		(57,353)
Inventories	(88,002)		(10,876)
Accounts payable and accrued liabilities	(24,254)		(106,606)
Other operating assets and liabilities	32,720		15,284
Net cash provided from operating activities	515,072		307,239
<b>INVESTING ACTIVITIES</b>			
Capital expenditures	(72,989)		(75,363)
(Purchase of) proceeds from short-term investments, net	(144,629)		3,387
Payments to development stage properties accounted for as equity method investments	(11,318)		
Sale of property	723		4,809
Net cash used for investing activities	(228,213)		(67,167)
<b>FINANCING ACTIVITIES</b>			
Debt repaid	(5,250)		
Loss on debt prepayment	(1,360)		
Dividends paid to common stockholders	(493,004)		(365,498)
Distributions to non-controlling interest	(2,193)		(1,149)
Other	142		75
Net cash used for financing activities	(501,665)		(366,572)
Effect of exchange rate changes on cash and cash equivalents	(4,574)		6,158
Decrease in cash and cash equivalents	(219,380)		(120,342)
Cash and cash equivalents, at beginning of period	2,192,677		772,306
Cash and cash equivalents, at end of period	\$ 1,973,297		\$ 651,964

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



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Southern Copper Corporation

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**NOTE 1 DESCRIPTION OF THE BUSINESS:**

In the opinion of Southern Copper Corporation, (the Company, Southern Copper or SCC), the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to state fairly the Company's financial position as of March 31, 2011 and the results of operations, comprehensive income and cash flows for the three months ended March 31, 2011 and 2010. The results of operations for the three months ended March 31, 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. 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 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.

**NOTE 3 SHORT-TERM INVESTMENTS:**

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

March 31,  
2011

December 31,  
2010

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Trading securities	\$	211.7	\$	66.9
Weighted average interest rate		1.00%		1.14%
Available for sale		9.0		9.3
Weighted average interest rate		1.06%		1.01%
Total	\$	220.7	\$	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, as of March 31, 2011, included corporate bonds and asset and mortgage backed obligations. As of March 31, 2011 and December 31,

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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):

	First quarter ended	
	2011	2010
<b>Trading:</b>		
Interest earned	\$ 0.9	\$
<b>Available for sale:</b>		
Interest earned	(*)	(*)
Investment redeemed	\$ 0.4	\$ 3.3

(\*) Less than \$0.1 million.

**NOTE 4 - INVENTORIES:**

Inventories were as follows:

(in millions)	March 31, 2011	December 31, 2010
<b>Inventory, current:</b>		
Metals at lower of average cost or market:		
Finished goods	\$ 103.3	\$ 67.9
Work-in-process	280.1	227.6
Supplies at average cost	245.6	245.5
Total current inventory	\$ 629.0	\$ 541.0
<b>Inventory, long-term</b>		
Long-term leach stockpiles	\$ 43.3	\$ 29.7

**LONG-TERM INVENTORY:**

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In prior years the Company capitalized the production cost of materials with low copper content, or leachable material, at the Buenavista mine in Mexico. In the first quarter of 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 standard mine production, 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).

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The Company has recognized long-term inventory of leachable material of \$25.2 million in the first quarter 2011, which is recorded in Long-term leach stockpiles on the condensed consolidated balance sheet. Also the current portion of the leachable material at March 31, 2011 and at December 31, 2010 has been reclassified to inventory (current assets) on the condensed consolidated balance sheet.

**NOTE 5 INCOME TAXES:**

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

	2011		2010
Income tax provision	\$ 238.1	\$	203.2
Effective income tax rate	33.1%		34.5%

These provisions include income taxes for Peru, Mexico and the United States. The provision for income taxes was based on our effective tax rate of 33.1% for the first quarter of 2011 as compared to 34.5% in the first quarter 2010. The decrease in the effective tax rate for the first quarter of 2011 is due to an increase in earnings from our Mexican operations that are taxed at 30% as compared to the Peruvian earnings that are taxed at 35%.

As of March 27, 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 March 27, 2009 SCC's operating results are included in the AMC consolidated U.S federal income tax return. In addition to now holding an 80% interest in SCC, AMC also owns 100% of Asarco and its subsidiaries. In accordance with paragraph 30-27 of ASC 740-10-30, it is expected that current and deferred taxes will be 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 were 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.

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

**NOTE 6 PROVISIONALLY PRICED SALES:**

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At March 31, 2011, the Company has recorded provisionally priced sales of copper at average forward prices per pound, and molybdenum at the March 31, 2011 market price per pound. These sales are subject to final pricing based on the average monthly London Metal Exchange, or LME, or New York Commodities Exchange, 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 March 31, 2011:

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Copper (million lbs.)		Priced at	Month of Settlement
50.0	\$	4.28	April 2011
33.4		4.28	May 2011
0.5		4.28	June 2011
83.9	\$	4.28	

Molybdenum (million lbs.)		Priced at	Month of Settlement
2.9	\$	16.65	April 2011
2.9		16.65	May 2011
2.3		16.65	June 2011
8.1	\$	16.65	

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 7 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 commodities prices 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 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 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 first quarter 2011 (the Company held no copper derivatives for the first quarter of 2010):



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	<b>2011</b>	
<b>Zero cost collar contracts:</b>		
Pounds (in millions)		105.8
Average LME cap price	\$	4.84
Average LME floor price	\$	3.02
<b>Swap contracts:</b>		
Pounds (in millions)		119.6
Weighted average COMEX price	\$	4.08
Realized loss on copper derivatives (gross)(in millions)	\$	(35.8)

As of March 31, 2011 the Company held copper derivative contracts to protect a portion of its copper sales for the remaining nine months of 2011 and the first quarter 2012, as follows:

	<b>2011</b>	<b>1st Quarter 2012</b>
<b>Zero cost collar contracts:</b>		