

SOUTHERN COPPER CORP/
Form 10-Q
August 05, 2014
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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, 2014

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

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(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 160, Phoenix, AZ

(Address of principal executive offices)

85014

(Zip Code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of July 31, 2014 there were outstanding 832,280,423 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 three and six months ended June 30, 2014 Formatted in XBRL: (i) the Condensed Consolidated Statement of Earnings, (ii) the Condensed Consolidated Statement of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheet, (iv) the Condensed Consolidated Statement of Cash Flows, and (v) the Notes to Condensed Consolidated Financial Statements, tagged in detail.	Submitted electronically with this report

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PART I FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

Southern Copper Corporation

CONDENSED CONSOLIDATED STATEMENT OF EARNINGS

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands, except per share amounts)			
Net sales (including sales to related parties, see note 7)	\$ 1,487,412	\$ 1,410,223	\$ 2,841,795	\$ 3,033,225
Operating costs and expenses:				
Cost of sales (exclusive of depreciation, amortization and depletion shown separately below)	726,589	711,231	1,368,483	1,433,980
Selling, general and administrative	25,398	27,452	49,896	52,826
Depreciation, amortization and depletion	116,091	93,516	226,544	184,088
Exploration	22,068	11,651	36,679	21,975
Total operating costs and expenses	890,146	843,850	1,681,602	1,692,869
Operating income	597,266	566,373	1,160,193	1,340,356
Interest expense	(66,075)	(66,487)	(131,215)	(131,777)
Capitalized interest	29,162	15,707	53,765	27,946
Other income (expense)	(5,779)	16,935	(9,985)	17,783
Interest income	3,715	4,306	8,252	10,275
Income before income taxes	558,289	536,834	1,081,010	1,264,583
Income taxes (including royalty taxes see note 4):	225,769	167,870	429,931	406,749
Net income before equity earnings of affiliate	332,520	368,964	651,079	857,834
Equity earnings of affiliate, net of income tax	5,861	5,141	11,899	13,304
Net income	338,381	374,105	662,978	871,138
Less: Net income attributable to the non-controlling interest	1,129	1,368	2,337	3,009
Net income attributable to SCC	\$ 337,252	\$ 372,737	\$ 660,641	\$ 868,129
Per common share amounts attributable to SCC:				

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Net income - basic and diluted	\$	0.40	\$	0.44	\$	0.79	\$	1.03
Dividends paid	\$	0.10	\$	0.20	\$	0.22	\$	0.44
Weighted average common shares outstanding - basic and diluted		833,391		844,986		833,590		845,267

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)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands)			
Net income	\$ 338,381	\$ 374,105	\$ 662,978	\$ 871,138
Other comprehensive income (loss) net of tax: - Amortization of actuarial gain net of income tax of (for the three months ended June 30, 2014: \$43 and 2013: \$126 and for the six months ended June 30, 2014: \$145 and 2013: \$251)	(65)	(189)	(217)	(376)
Total comprehensive income	\$ 338,316	\$ 373,916	\$ 662,761	\$ 870,762
Comprehensive income attributable to the non-controlling interest	\$ 1,129	\$ 1,368	\$ 2,337	\$ 3,009
Comprehensive income attributable to SCC	\$ 337,187	\$ 372,548	\$ 660,424	\$ 867,753

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, 2014	December 31, 2013
	(in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,335,364	\$ 1,672,695
Short-term investments	289,883	208,268
Accounts receivable trade	583,143	533,226
Accounts receivable other (including related parties 2014 - \$10,832 and 2013 - \$38,062)	66,065	64,552
Inventories	754,626	693,942
Deferred income tax	133,289	84,377
Other current assets	150,282	158,990
Total current assets	3,312,652	3,416,050
Property, net	6,933,719	6,476,168
Leachable material	495,238	395,177
Intangible assets, net	110,473	110,219
Related parties receivable	161,244	161,244
Deferred income tax	213,776	180,707
Equity method investment	64,140	57,142
Other assets	216,690	199,322
Total assets	\$ 11,507,932	\$ 10,996,029
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	\$ 200,000	
Accounts payable (including related parties 2014 -\$24,994 and 2013 - \$28,373)	508,898	\$ 493,263
Accrued income taxes	91,789	7,474
Accrued workers participation	120,854	192,371
Accrued interest	69,772	70,787
Other accrued liabilities	34,285	19,689
Total current liabilities	1,025,598	783,584
Long-term debt	4,005,467	4,204,915
Deferred income taxes	271,756	244,875
Other liabilities and reserves	76,760	76,000
Asset retirement obligation	151,497	124,835
Total non-current liabilities	4,505,480	4,650,625
Commitments and contingencies (Note 9)		
STOCKHOLDERS EQUITY		
Common stock	8,846	8,846
Additional paid-in capital	3,350,602	3,340,349
Retained earnings	3,872,096	3,394,827

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Accumulated other comprehensive income	6,022	6,239
Treasury stock, at cost, common shares	(1,290,684)	(1,216,599)
Total Southern Copper Corporation stockholders' equity	5,946,882	5,533,662
Non-controlling interest	29,972	28,158
Total equity	5,976,854	5,561,820
Total liabilities and equity	\$ 11,507,932	\$ 10,996,029

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

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

	Three Months Ended		Six Months Ended	
	2014	June 30, 2013	2014	June 30, 2013
	(in thousands)			
OPERATING ACTIVITIES				
Net income	\$ 338,381	\$ 374,105	\$ 662,978	\$ 871,138
Adjustments to reconcile net earnings to net cash provided from operating activities:				
Depreciation, amortization and depletion	116,091	93,516	226,544	184,088
Equity earnings of affiliate, net of dividends received	(3,583)	2,654	(6,997)	(5,509)
Loss (gain) on currency translation effect	(119)	(2,831)	(5,807)	11,063
Provision (benefit) for deferred income taxes	27,498	16,426	(56,822)	10,681
Cash provided from (used for) operating assets and liabilities:				
Accounts receivable	(39,843)	101,299	(49,917)	180,963
Inventories	(58,684)	(32,512)	(160,745)	(63,627)
Accounts payable and accrued liabilities	(27,234)	(252,402)	42,079	(187,892)
Other operating assets and liabilities	(3,738)	2,184	32,216	(103,994)
Net cash provided from operating activities	348,769	302,439	683,529	896,911
INVESTING ACTIVITIES				
Capital expenditures	(375,635)	(385,454)	(699,361)	(702,252)
Proceeds from (purchase of) short-term investments, net	(16,873)	(188,445)	(81,615)	(258,635)
Loan repaid by related party		2,679		13,252
Sale of property	4,587	803	4,881	1,027
Net cash used in investing activities	(387,921)	(570,417)	(776,095)	(946,608)
FINANCING ACTIVITIES				
Debt repaid		(5,000)		(5,000)
Dividends paid to common stockholders	(83,346)	(169,102)	(183,372)	(372,034)
Distributions to non-controlling interest	(197)	(394)	(499)	(866)
Repurchase of common shares	(13,030)	(64,560)	(65,509)	(64,560)
Other	528	532	801	790
Net cash used in financing activities	(96,045)	(238,524)	(248,579)	(441,670)
Effect of exchange rate changes on cash and cash equivalents	(2,540)	(16,166)	3,814	(28,439)
Increase (decrease) in cash and cash equivalents	(137,737)	(522,668)	(337,331)	(519,806)
Cash and cash equivalents, at beginning of period	1,473,101	2,462,350	1,672,695	2,459,488
Cash and cash equivalents, at end of period	\$ 1,335,364	\$ 1,939,682	\$ 1,335,364	\$ 1,939,682

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:

The Company is a majority-owned, indirect subsidiary of Grupo Mexico S.A.B. de C.V. (Grupo Mexico). At June 30, 2014, Grupo Mexico through its wholly-owned subsidiary Americas Mining Corporation (AMC) owned 82.5% of the Company 's capital stock. The condensed consolidated financial statements presented herein consist of the accounts of Southern Copper Corporation (SCC or the Company), a Delaware corporation, and its subsidiaries. The Company is an integrated producer of copper and other minerals, and operates mining, smelting and refining facilities in Peru and Mexico. The Company conducts its primary operations in Peru through a registered branch (the Peruvian Branch or Branch or SPCC Peru Branch). The Peruvian Branch is not a corporation separate from the Company. The Company 's Mexican operations are conducted through subsidiaries. The Company also conducts exploration activities in Argentina, Chile, Ecuador, Mexico and Peru.

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, 2014 and the results of operations, comprehensive income and cash flows for the three and six months ended June 30, 2014 and 2013. The results of operations for the three and six months ended June 30, 2014 and 2013 are not necessarily indicative of the results to be expected for the full year. The December 31, 2013 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, 2013 and notes included in the Company 's 2013 annual report on Form 10-K.

NOTE 2 SHORT-TERM INVESTMENTS:

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

	At June 30, 2014		At December 31, 2013	
Trading securities	\$	284.4	\$	202.6
Weighted average interest rate		1.80%		3.78%
Available for sale	\$	5.5	\$	5.7
Weighted average interest rate		0.41%		0.42%
Total	\$	289.9	\$	208.3

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Trading securities consist of bonds issued by public companies and are publicly traded. 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, 2014 and December 31, 2013, included corporate bonds and asset and mortgage backed obligations. As of June 30, 2014 and December 31, 2013, 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.

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

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Trading securities:				
Interest earned	\$ 1.1	\$ 1.4	\$ 2.5	\$ 2.0
Unrealized gain (loss) at the end of the period	\$ 1.7	\$ 3.4	\$ 1.7	\$ 3.4
Available for sale:				
Interest earned	(*)	(*)	(*)	(*)
Investment redeemed	\$ 0.2	\$ 0.4	\$ 0.2	\$ 0.4

(*) Less than \$0.1 million

NOTE 3 - INVENTORIES:

Inventories were as follows:

(in millions)	At June 30, 2014	At December 31, 2013
Inventory, current:		
Metals at lower of average cost or market:		
Finished goods	\$ 98.3	\$ 84.2
Work-in-process	346.9	305.4
Supplies at average cost	309.4	304.3
Total current inventory	\$ 754.6	\$ 693.9
Inventory, long-term		
Leach stockpiles	\$ 495.2	\$ 395.2

During the six months ended June 30, 2014 and 2013 total leaching costs capitalized as long-term inventory of leachable material amounted to \$181.2 million and \$142.5 million, respectively. Leachable material inventories recognized in cost of sales amounted to \$79.5 million and \$54.6 million for the six months ended June 30, 2014 and 2013, respectively.

NOTE 4 INCOME TAXES:

The income tax provision and the effective income tax rate for the first six months of 2014 and 2013 were as follows (\$ in millions):

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	2014		2013	
Income tax provision	\$	429.9	\$	406.8
Effective income tax rate		39.8%		32.2%

These provisions include income taxes for Peru, Mexico and the United States. The increase in the effective tax rate for the first half of 2014 from the same period in the prior year is primarily due to a new Mexican royalty tax instituted for 2014, which added 4.7% to the first six months effective tax rate. Other items that added to the increase in the effective tax rate are taxes allocable to dividends from Mexico which are taxed at a higher rate, the effect of capitalization of interest expense and the effect of the deduction for percentage depletion for U.S. tax purposes.

Components of the income tax provision for the six month periods of 2014 and 2013 include the following (\$ in millions):

	2014		2013	
Statutory income tax provision	\$	361.6	\$	380.7
Peruvian royalty		2.1		5.0
Mexican royalty		46.6		
Peruvian special mining tax		19.6		21.1
Total income tax provision	\$	429.9	\$	406.8

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Royalty mining charge:

Peruvian operations: In 2011, the Peruvian congress approved an amendment to the mining royalty charge. The new mining royalty charge is based on operating income margins with graduated rates ranging from 1% to 12% of operating profits, with a minimum royalty charge assessed at 1% of net sales. If the operating income margin is 10% or less, the royalty charge is 1% and for each 5% increment in the operating income margin, the royalty charge rate increases by 0.75%, up to a maximum of 12%. The minimum royalty charge assessed at 1% of net sales is recorded as cost of sales and those amounts assessed against operating income are included in the income tax provision. The Company has accrued \$14.4 million and \$17.7 million of royalty charge in the first six months of 2014 and 2013, respectively, of which \$2.1 million and \$5.0 million, respectively, were included in income taxes.

Mexican operations: In December 2013, the Mexican government enacted a new law which, among other things, established a mining royalty charge of 7.5% on taxable EBITDA and an additional royalty charge of 0.5% on the net sales value of gold, silver and platinum. These charges became effective January 2014 and the Company has accrued \$46.6 million of royalty taxes as part of the income tax provision for the first six months of 2014.

Special Mining Tax:

In 2011, the Peruvian government enacted a 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 operating income margin up to 10% and increases by 0.4% of operating income for each additional 5% of operating income until 85% of operating income is reached. The Company has accrued \$19.6 million and \$21.0 million of special mining tax in the income tax provision for the first six months of 2014 and 2013, respectively.

Accounting for uncertainty in income taxes:

In the second quarter and first six months of 2014, there were no changes in the Company's uncertain tax positions.

In July 2013, the Financial Accounting Standards Board, or FASB, issued Accounting Standard Update No. 2013-11 on the presentation of unrecognized tax benefits. The update clarifies that unrecognized tax benefits related to a net operating loss carryforward, or similar tax loss, or tax credit carryforward, should generally be presented in the financial statements as a reduction to a deferred tax asset. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Accordingly the Company is presenting applicable uncertain tax positions as reductions to deferred income tax assets in the Condensed Consolidated Balance Sheet as of December 31, 2013 and June 30, 2014.

NOTE 5 PROVISIONALLY PRICED SALES:

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At June 30, 2014, the Company has recorded provisionally priced sales of copper at average forward prices per pound, and molybdenum at the June 30, 2014 market price per pound. These sales are subject to final pricing based on the average monthly copper prices on the London Metal Exchange (LME) or New York Commodities Exchange (COMEX) and Dealer Oxide molybdenum prices in the future month of settlement.

Following are the provisionally priced copper and molybdenum sales outstanding at June 30, 2014:

Copper (million lbs.)		Priced at	Month of Settlement
31.3	\$	3.19	July and August 2014

Molybdenum (million lbs.)		Priced at	Month of Settlement
8.5	\$	13.3	July to September 2014

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.

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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, the Company is required to provide annual guarantees over the estimated life of the mines, based on a present value approach, and to furnish the funds for the asset retirement obligation. This law requires reviews of closing plans every five years. Currently and for 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 \$27.8 million. Through June 2014, the Company has provided guarantees of \$14.2 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. In the last quarter of 2012, the Company submitted updates to the closure plans for Toquepala, Cuajone and Ilo in accordance with the law. As a result of these revised plans, the Company adjusted its asset retirement obligation.

In 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. In January 2014, the Company approved an increase in the budget for this program to \$62.4 million, of which the Company has spent \$39.3 million through June 30, 2014. Plant demolition and construction of a confinement area at the south of the property were completed in 2012 and the Company expects to complete soil remediation and the construction of a second confinement by the end of 2014. The Company expects that once the site is remediated, a decision will be made on whether sell or develop the property.

In 2012, the Company recognized an estimated asset retirement obligation for its mining properties in Mexico as part of its environmental commitment. Even though, there is currently no enacted law, statute, ordinance, or written or oral contract requiring the Company to carry out mine closure and environmental remediation activities, the Company believes that a constructive obligation presently exists based on, among other things, the remediation caused by the closure of the San Luis Potosi smelter in 2010. Consequently, according to ASC- 410-20 on December 31, 2012 the Company recorded an asset retirement obligation of \$25.1 million and increased net property by \$20.3 million. The overall cost recognized for mining closure includes the estimated costs of dismantling concentrators, smelter and refinery plants, shops and other facilities.

The following table summarizes the asset retirement obligation activity for the six months ended June 30, 2014 and 2013 (in millions):

	2014		2013	
Balance as of January 1	\$	124.8	\$	122.3
Changes in estimates		26.7		
Closure payments		(3.6)		(0.9)
Accretion expense		3.6		4.2
Balance as of June 30,	\$	151.5	\$	125.6

NOTE 7 RELATED PARTY TRANSACTIONS:

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, construction services and products and services related to

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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 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.

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

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	June 30, 2014	As of	December 31, 2013
<u>Related parties receivable current:</u>			
Grupo Mexico and affiliates	\$ 0.9	\$	0.8
Mexico Generadora de Energia S. de R.L. (MGE)			18.8
Compania Perforadora Mexico, S.A.P.I. de C.V. and affiliates	1.0		0.7
Compania Minera Coimolache S.A.	5.6		17.2
Mexico Proyectos y Desarrollos, S.A. de C.V. and affiliates	3.3		0.6
	\$ 10.8	\$	38.1
<u>Related parties receivable non-current:</u>			
MGE	\$ 161.2	\$	161.2
<u>Related parties payable:</u>			
Grupo Mexico and affiliates	\$ 6.1	\$	3.3
MGE	9.9		14.4
Asarco LLC	6.1		6.2
Higher Technology S.A.C.	0.1		0.1
Breaker S.A. de C.V and affiliates (Breaker)	1.1		0.3
Sempertrans and affiliates	0.1		0.1
Mexico Transportes Aereos, S.A. de C.V. (Mextransport)	0.3		0.6
Mexico Proyectos y Desarrollos, S.A. de C.V. and affiliates	0.1		
Ferrocarril Mexicano, S.A. de C.V.	1.2		3.3
	\$ 25.0	\$	28.3

Purchase and sale activities:**Grupo Mexico and its affiliates:**

The following table summarizes the purchase and sale activities with Grupo Mexico and its affiliates in the six months ended June 30, 2014 and 2013 (in millions):

	2014	As of June 30,	2013
<u>Purchases activity</u>			
Grupo Mexico and affiliates	\$ 6.9	\$	6.9
Asarco LLC.	24.6		70.7
Ferrocarril Mexicano S.A de C.V.	11.6		11.1
Mexico Proyectos y Desarrollos, S.A. de C.V. and affiliates	55.9		26.6
MGE	91.7		
Cia Perforadora Mexico S.A.P.I. de C.V and affiliates	1.9		2.6
Total purchases	\$ 192.6	\$	117.9
<u>Sales activity</u>			
Asarco LLC	\$ 21.7	\$	71.8
Mexico Proyectos y Desarrollos, S.A. de C.V. and affiliates	0.4		0.4

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Cia Perforadora Mexico S.A.P.I. de C.V and affiliates	0.3	0.3
MGE	48.8	0.7
Total sales	\$ 71.2	\$ 73.2

Grupo Mexico, the 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 for these services and expects to continue paying 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 Proyectos y Desarrollos S.A. de C.V. and its affiliates, and for drilling services provided by Compania Perforadora Mexico S.A.P.I. de C.V. All of these companies are subsidiaries of Grupo Mexico.

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The Company's Mexican operations purchased scrap and other residual copper mineral from Asarco, and from MGE, power. Both companies are subsidiaries of Grupo Mexico.

The Company paid fees for engineering, construction and consulting services provided by subsidiaries of Mexico Proyectos y Desarrollos, S.A. de C. V., a subsidiary of Grupo Mexico.

In 2005, the Company organized MGE, as a subsidiary of Minera Mexico, for the construction of two power plants to supply power to the Company's Mexican operations. In May 2010, the Company's Mexican operations granted a \$350 million line of credit to MGE for the construction of these power plants. The line of credit was due on December 31, 2012 and carried an interest rate of 4.4%. In the first quarter of 2012, Controladora de Infraestructura Energetica Mexico, S. A. de C. V., an indirect subsidiary of Grupo Mexico, acquired 99.999% of MGE through a capital subscription of 1,928.6 million of Mexican pesos (approximately \$150 million), reducing Minera Mexico's participation to less than 0.001%. As consequence of this change in control, MGE became an indirect subsidiary of Grupo Mexico. Additionally, at the same time, MGE paid \$150 million to the Company's Mexican operations partially reducing the total debt. At December 31, 2012, the outstanding balance of \$184.0 million was restructured as subordinated debt of MGE with an interest rate of 5.75%. MGE will repay its debt to the Company using a percentage of its profits until such time as the debt is satisfied. At June 30, 2014 the remaining balance of the debt was \$161.2 million and was recorded as non-current related party receivable on the condensed consolidated balance sheet. Related to this loan, the Company received interest income of \$4.7 million and \$5.0 million in the first six months of 2014 and 2013, respectively.

In 2012, the Company signed a power purchase agreement with MGE, whereby MGE will supply some of the Company's Mexican operations with power through 2032. MGE completed construction of its first power plant in June 2013 and the second plant, in the first quarter of 2014. MGE is currently awaiting the authorization for interconnection with the Mexican electrical system to start operations at the second plant. MGE began supplying power to the Company in December 2013. It is expected that MGE will supply a portion of its power output to third-party energy users. See also Note 9 - Commitments and Contingencies, Other commitments.

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 and to Perforadora Mexico S.A.P.I de C.V., and for natural gas and services provided to MGE, all subsidiaries of Grupo Mexico.

Companies with relationships with the controlling group:

The following tables summarize the purchase and sales activities with other Larrea family companies in the six months ended June 30, 2014 and 2013 (in millions):

		As of June 30,	
	2014	2013	
Mextranport:			
Purchase activity	\$	1.1	\$ 1.5
Sales activity	\$	0.1	\$ 0.2

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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.

Companies with relationships with SCC executive officers:

The following table summarizes the purchase activities with companies with relationships with SCC executive officers in the six months ended June 30, 2014 and 2013 (in millions):

	2014	As of June 30,		2013
Higher Technology S.A.C.	\$	0.8	\$	1.0
Servicios y Fabricaciones Mecanicas S.A.C.		0.7		0.1
Sempertrans and affiliates		0.8		0.5
Breaker		3.6		2.0
Pigoba S.A. de C.V.		0.1		0.1
Total purchases	\$	6.0	\$	3.7

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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 and Sempertrans Belchatow SP Z.O.O. 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, and from Breaker Peru S.A.C., a company in which Mr. Jorge Gonzalez, son-in-law of SCC's Chief Executive Officer and Mr. Carlos Gonzalez, son of SCC's Chief Executive Officer have a proprietary interest.

Equity Investment in Affiliate: The Company has a 44.2% participation in Coimolache S.A. (Coimolache), which it accounts for on the equity method. Coimolache owns Tantauatay, a gold mine located in the northern part of Peru. To support the cost of the development of Tantauatay, the Company loaned \$56.6 million to Coimolache. Conditions and balance of the loan as of June 30, 2014 are as follows (\$ in millions):

	Loan
Total loan granted	\$56.6
Interest rate	6 months Libor + 3% (approximately 3.35%)
Remaining balance at June 30, 2014	\$5.6

Interest:

	Three months ended			Six months ended		
	June 30,			June 30,		
	2014	2013		2014	2013	
Interest earned	\$ 0.1	\$ 0.2	\$ 0.2	\$ 0.6		

Additionally, on April 2, 2013, Coimolache paid to the Company \$16.5 million as a return of funds expensed during the exploration stage of the Tantauatay mine. This amount was recorded as other income in our condensed consolidated statement of income.

NOTE 8- BENEFIT PLANS:

Post retirement defined benefit plans

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The Company has two noncontributory defined benefit pension plans covering former salaried employees in the United States and certain former employees in Peru. Effective October 31, 2000, the Board of Directors amended the qualified pension plan to suspend the accrual of benefits.

In addition, our Mexican subsidiaries have a defined contribution pension plan for salaried employees and a noncontributory defined benefit pension plan for union employees.

The components of the net periodic benefit costs for the six months ended June 30, 2014 and 2013 are as follows (in millions):

	2014		2013	
Service cost	\$	0.6	\$	0.7
Interest cost		0.7		0.5
Expected return on plan assets		(1.8)		(1.8)
Amortization of net actuarial loss		(0.2)		(0.4)
Amortization of net loss (gain)		(*)		0.1
Net periodic benefit costs	\$	(0.7)	\$	(0.9)

(*) amount is lower than \$0.1 million

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Post-retirement Health care plan

Peru: The Company adopted a post-retirement health care plan for retired salaried employees eligible for Medicare in 1996. The plan is unfunded. The Company manages the plan and is currently providing health benefits to retirees. The plan is accounted for in accordance with ASC 715 Compensation retirement benefits.

Mexico: Through 2007, the Buenavista unit provided health care services free of charge to employees and retired unionized employees and their families through its own hospital at the Buenavista unit. In 2011, the Company signed an agreement with the Secretary of Health of the State of Sonora to provide these services to its retired workers and their families.

The components of the net periodic benefit cost for the six months ended June 30, 2014 and 2013 are as follows (in millions):

	2014		2013	
Interest cost	\$	0.7	\$	0.8
Amortization of net loss (gain)		(0.2)		(*)
Amortization of prior service cost (credit)		(*)		(*)
Net periodic benefit cost	\$	0.5	\$	0.8

(*) amount is lower than \$0.1 million

NOTE 9 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 others, 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, 2014 and 2013 were as follows (in millions):

	2014		2013	
Peruvian operations	\$	57.6	\$	32.4
Mexican operations		7.7		21.2

\$	65.3	\$	53.6
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Peruvian operations: The Company's operations are subject to applicable Peruvian environmental laws and regulations. The Peruvian government, through the Ministry of Environment (MINAM) conducts annual audits of the Company's Peruvian mining and metallurgical operations. Through these environmental audits, matters related to environmental obligation, compliance with legal requirements, atmospheric emissions, effluent monitoring and waste management 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 assurances for future closure and reclamation. 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 6, Asset retirement obligation, for further discussion of this matter.

In 2008, the Peruvian government enacted environmental regulations establishing more stringent air quality standards (AQS) for daily sulfur dioxide (SO₂) emissions for the Peruvian territory. These regulations, as amended in 2013, recognize distinct zones/areas, such as atmospheric basins. As part of these regulations, MINAM was required to carry-out a 12 month ambient air monitoring period, prior to January 1, 2014, to establish SO₂ levels. Those areas with a mean 24-hour SO₂ concentration equal to less than 20 micrograms per cubic meter (ug/m³) are required to develop programs to maintain this level of compliance. Those areas or cities exceeding the mean 24-hour SO₂ concentration of 20 ug/m³ will be required to establish an Action Plan to address this problem and are required to achieve the 20 ug/m³ AQS in the future. Meanwhile they are required to achieve mean 24-hour AQS equal to 80 ug/m³ of SO₂. However, MINAM has established three atmospheric basins that require further attention to comply with 80ug/m³ of SO₂. The Ilo basin is one of these three areas and the Company's smelter and refinery are part of the area. A supreme decree issued on April 8, 2014, provides that the Company should review its compliance with these regulations and develop a modification plan to reach compliance. The plan must be reported to the government within one year, or by April 8, 2015.

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In 2013, the Peruvian government enacted new soil environmental quality standards (SQS) applicable to any existing facility or project that generates or could generate risk of soil contamination in its area of operation or influence. In March 2014, MINAM issued a supreme decree which establishes additional provisions for the gradual implementation of SQS. Under this rule the Company has twelve months to identify contaminated sites in and around its facilities and present a report of identified contaminated sites. If such sites exist, the Company must submit a decontamination plan for approval within 24 months from the date it is notified by the authority. This decontamination plan shall include remediation actions, a schedule and compliance deadlines. Also, under this rule, if deemed necessary, the Company may request a one year extension, given sound justification. Soil confirmation tests must be carried out after completion of decontamination actions (within the approved schedule) and results must be presented to the authorities within 30 days after receiving said results. Non-compliance with this obligation or with decontamination goals will carry penalties according to an existing sanction scale. However, companies cannot be penalized for non-compliance with the soil SQS during the compliance schedule. In the second quarter of 2014, the Company began the process of seeking bids from third-party testing consultants to prepare the necessary studies, as well as any other requirements of the rules.

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.

In January 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 in 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.

In June 2013, the Environmental Liability Federal Law was published in the Official Gazette and became effective one month thereafter. The law 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), criminal responsibilities as well as monetary fines.

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:

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, pursuant to a former Peruvian mandated profit sharing law.

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The labor share litigation is based on claims of former employees for ownership of labor shares that the plaintiffs state that the Branch did not issue during the 1970s until 1979 under the said former Peruvian mandated profit sharing law. 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:

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. Due to a past period of high inflation between 1985 and 1990, 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 by 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 (the 2000 appeal).

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 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 prior decisions. On appeal by the Peruvian Branch the Superior Court

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affirmed the lower court's decisions regarding the nullity of the 2009 Supreme Court decision and the precautionary measure. As a result, the nullity of the precautionary measure became final and is not appealable. However, the nullity of the 2009 Supreme Court decision was appealed by the Branch before the Constitutional Court. On April 10, 2014, the Constitutional Court denied the Company's appeal and affirmed the lower court's decision. In view of this, SCC's Peruvian Branch continues to analyze the manner in which the competent lower court will enforce the Supreme Court's decision and its financial impact.

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); Edgardo Garcia Ataucuri, in representation of 216 of SCC's Peruvian Branch former workers, v. SCC's Peruvian Branch (filed May 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); Jesus Mamani Chura and others v. SCC's Peruvian Branch (filed March 2012); Armando Cornejo Flores, in representation of 37 of SCC's Peruvian Branch former workers v. SCC's Peruvian Branch (filed March 2012), Porfirio Ochochoque Mamani and others v. SCC's Peruvian Branch (filed July 2012); Alfonso Flores Jimenez and

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others v. SCC's Peruvian Branch (filed July 2013) and Micaela Laura Alvarez de Vargas and others v. SCC's Peruvian Branch (filed August 2013). 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.

The Virgen Maria Mining Concessions of the Tia Maria Mining Project

The Tia Maria project includes various mining concessions, totaling 32,989.64 hectares. One of the concessions is the Virgen Maria mining concession totaling 943.72 hectares or 2.9% of the total mining concessions.

Related to the Virgen Maria mining concessions, the Company is party to the following lawsuits:

a) 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 the stockholders of Excomet, approved the transaction in a general stockholders' meeting. Excomet was at the time owner of the Virgen Maria mining concession. In October 2011, the civil court dismissed the case on the grounds that the claim had been barred by the statute of limitations. On appeal by the plaintiffs, the superior court reversed the lower court's decision and remanded it to the lower court for further proceedings. As of June 30, 2014, the case remains in the discovery stage.

b) 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. SMRL Virgen Maria sold this mining concession in July 2003 to Excomet (see a) above). 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 this concession to SCC's Branch by Excomet). In October 2011, the civil court dismissed the case on the grounds that the claim had been barred by the statute of limitations. Upon appeal by the plaintiffs, the superior court remanded the proceedings to the lower court, ordering the issuance of a new decision. On June 25, 2013, the lower court dismissed the case due to procedural defects. Upon appeal by the plaintiff, on December 2, 2013 the Superior Court reversed the lower court's decision due to procedural defects and ordered the issuance of a new resolution. As of June 30, 2014, the case remains pending without further developments.

c) Omar Nunez Melgar: In May 2011, Mr. Omar Nunez Melgar commenced a lawsuit against the Peruvian Mining and Metallurgical Institute and MINEM challenging the denial of his request of a new mining concession that conflicted with SCC's Branch's Virgen Maria mining 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, 2014, the case remains pending without further developments.

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

Special Regional Pasto Grande Project (Pasto Grande Project)

In the last quarter of 2012, the Pasto Grande Project, an entity of the Regional Government of Moquegua, filed a lawsuit against SCC's Peruvian Branch alleging property rights over a certain area used by the Peruvian Branch and seeking the demolition of the tailings dam where SCC's Peruvian Branch has deposited its tailings from the Toquepala and Cuajone operations since 1995. The Peruvian Branch has had title to use the area in question since 1960 and has constructed and operated the tailing dams also with proper governmental authorization, since 1995. SCC's Peruvian Branch asserts that the lawsuit is without merit and is vigorously defending against the lawsuit. Upon a motion filed by the Peruvian Branch, the lower court has included the MINEM as a defendant in this lawsuit. MINEM has answered the complaint and denied the validity of the claim. As of June 30, 2014, the case remains pending without further developments.

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Labor matters:

In recent years the Company has experienced a positive labor environment in its operations in Mexico and Peru which is allowing an increase in productivity as well as helping to achieve the goals of its capital expansion program.

Peruvian operations: Approximately 67% of the Company's 4,500 Peruvian employees were unionized at June 30, 2014, represented by seven separate unions. Three of these unions, one at each major production area, represent the majority of the Company's workers. There are also four smaller unions, representing the balance of workers. The Company conducted negotiations with the unions whose collective bargaining agreements expired in 2012. In 2013, the Company signed three-year agreements with all the unions. The agreements included, among other things, annual salary increases of 6.5%, 5% and 5% for each of the three years.

Mexican operations: In recent years, the Mexican operations have experienced a positive improvement of their labor environment, as its workers, opted to change their affiliation from the Sindicato Nacional de Trabajadores Mineros, Metalurgicos y Similares de la Republica Mexicana (the National Mining Union) led by Napoleon Gomez Urrutia to other less politicized unions.

However, the workers of the San Martin and Taxco mines, who are still under the National Mining Union, 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, the Company filed a court petition on January 27, 2011 requesting that the court, among other things, define the termination payment for each unionized worker. The court denied the petition alleging that, according to federal labor law, the union was the only legitimate party to file such petition. On appeal by the Company, on May 13, 2011, the Mexican federal tribunal accepted the petition. In July 2011, the National Mining Union appealed the favorable court decision before the Supreme Court. On November 7, 2012, the Supreme Court affirmed the decision of the federal tribunal. The Company filed a new proceeding before the labor court on the basis of the Supreme Court decision, which recognized the right of the labor court to define responsibility for the strike and the termination payment for each unionized worker. A favorable decision of the labor court in this new proceeding would have the effect of terminating the protracted strike at San Martin. As of June 30, 2014, the resolution of this case is still pending.

On August 1, 2013, the National Union of Workers Engaged in Exploration, Exploitation and Processing of Mines in the Mexican Republic, which is the union operating at Mexicana del Cobre and IMMSA, filed a new petition before the labor authorities to replace the National Mining Union at the San Martin mine, because it believes that it represents more workers at the San Martin mine than the National Mining Union. As of June 30, 2014, the resolution of this case is still 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 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. After several legal proceedings on January 25, 2013, the Company filed a new proceeding before the labor court on the basis of the Supreme Court decision in the San Martin case, which recognized the right of the labor court to define responsibility for the strike and the termination payment for each unionized worker. On June 16, 2014, the labor court denied the petition of the Company. The resolution issued by the labor court will be vigorously challenged by the Company before a federal court, by considering that it was issued against the Supreme Court decision. A favorable decision would have the effect of terminating the protracted strike at Taxco.

It is expected that operations at these mines will remain suspended until these labor issues are resolved.

In view of these length strikes, the Company has reviewed the carrying value of the San Martin and Taxco mines to ascertain whether impairment exists. The Company concluded that the assets located at these mines are not impaired.

Other legal matters:

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.

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Other Contingencies:

Tia Maria:

Tia Maria, a 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 prepared a new Environmental Impact Assessment (EIA) study taking into account local community concerns and new government guidance. The Company considers that this new EIA will alleviate 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.

In the fourth quarter of 2013, the Company successfully held the two workshops and the public hearing required as part of the EIA approval process and also submitted the new EIA for the Tia Maria project to MINEM. The Company responded to comments received from the governmental authorities and other stakeholders on May 26, 2014. The Company expects to receive approval of this study during the third quarter of 2014 and move forward with this project, with the goal of production start-up in the first quarter of 2017. However, no assurances can be given as to the specific timing of such approval. For further developments please see Note 14.

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 delay in 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, 2014, was \$537.0 million of which \$189.5 million has been reassigned to other Company operations. The Company does not believe that an impairment exists.

Other commitments:

Peruvian Operations

Power purchase agreements

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- *Enersur:* In 1997, SCC signed a power purchase agreement with an independent power company, Enersur S.A. under which SCC agreed to purchase all of its power needs for its current Peruvian operations from Enersur for twenty years, through April 2017.
- *Electroperu S.A.:* In June 2014, the Company signed a power purchase agreement for 120MWh with the state company Electroperu S.A., under which Electroperu S.A. will supply energy for the Peruvian operations for twenty years starting on April 17, 2017 and ending on April 30, 2037.
- *Kallpa Generacion S.A. (Kallpa):* In July 2014, the Company signed a power purchase agreement for 120MWh with Kallpa, an independent Israeli owned power company, under which Kallpa will supply energy for the Peruvian operations for ten years starting on April 17, 2017 and ending on April 30, 2027.

Toquepala Concentrator Expansion

In connection with the EIA for the Toquepala expansion project, some community groups raised concerns related to water usage and pollution. As a result of these issues the Peruvian government started discussions with the local communities and the regional authorities to resolve this impasse. In February 2013, the Company reached a final agreement with the province of Candarave, one of the provinces neighboring the Toquepala unit, which commits the Company to funding S/.255 million (approximately \$100 million) for development projects in the province. In the second quarter of 2013, the Company made a first contribution of S/.45 million (approximately \$17 million) to the development fund of the Candarave province. The Company continued working with the authorities of the Candarave province and in June 2013 signed an agreement with the National Water Authority, local authorities and the Candarave Board of Water Users for the hydrogeological study of the Locumba river basin in order to improve the water utilization in the province.

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In November 2013, the Company reached a final agreement with the Jorge Basadre province which commits the Company to fund S/.100 million (approximately \$36 million) for social development projects in the province. In addition, the Company has agreed to fund various other social programs with the use of advance income tax payments.

The contributions to Candarave and Jorge Basadre provinces are contingent upon receiving approval for the project and will be expended through the life of the Toquepala expansion project. With these agreements the Company is close to establishing accords with the principal communities and interested parties in the area.

On April 16, 2014, the Company successfully held the public hearing required as a pre-condition for approval of the project's EIA. On July 1, 2014, the Company received comments and observations from the authorities and stakeholders, related to the EIA for the Toquepala concentrator expansion and expects to answer them during the third quarter of 2014. The Company expects to continue the development of this project which will increase annual production by 100,000 tons of copper and 3,100 tons of molybdenum.

Mexican operations

Power purchase agreement - MGE

MGE, a subsidiary of Grupo Mexico, has completed the construction of the two power plants in Mexico designed to supply power to some of the Company's Mexican operations. It is expected that MGE will supply approximately 12% of its power output to third-party energy users. In 2012, the Company signed a power purchase agreement with MGE, whereby MGE will supply the Company with power through 2032. The first plant was completed in June 2013 and the second in the first quarter of 2014. MGE is currently waiting the authorization for the interconnection with the Mexican electrical system to start operations at the second plant. The first plant began to supply power to the Company in December 2013.

Commitment for Capital projects:

As of June 30, 2014, the Company has committed \$368.3 million for the expansion programs at the Mexican operations. These funds are scheduled to be expended in the next twelve months.

Tax contingency matters:

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

NOTE 10 SEGMENT AND RELATED INFORMATION:

Company management views Southern Copper as having three reportable segments and manages it 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 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 Senior Management Officers on the segment basis. The Senior Management Officers of the Company focus 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.

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

	Three Months Ended June 30, 2014 (in millions)				
	Mexican Open-pit	Mexican IMMSA Unit	Peruvian Operations	Corporate, other and eliminations	Consolidated
Net sales outside of segments	\$ 772.3	\$ 87.5	\$ 627.6		\$ 1,487.4
Intersegment sales		22.4		\$ (22.4)	
Cost of sales (exclusive of depreciation, amortization and depletion)	312.0	83.1	347.1	(15.6)	726.6
Selling, general and administrative	9.1	3.9	11.2	1.2	25.4
Depreciation, amortization and depletion	54.9	7.8	48.4	5.0	116.1
Exploration	0.8	7.4	5.8	8.1	22.1
Operating income	\$ 395.5	\$ 7.7	\$ 215.1	\$ (21.1)	\$ 597.2
Less:					
Interest, net					(33.2)
Other income (expense)					(5.7)
Income taxes					(225.8)
Equity earnings of affiliate					5.9
Non-controlling interest					(1.1)
Net income attributable to SCC					\$ 337.3
Capital expenditure	\$ 267.8	\$ 9.2	\$ 97.6	\$ 1.0	\$ 375.6
Property, net	\$ 3,918.8	\$ 379.8	\$ 2,503.8	\$ 131.3	\$ 6,933.7
Total assets	\$ 5,976.8	\$ 896.6	\$ 3,431.3	\$ 1,203.2	\$ 11,507.9

	Three Months Ended June 30, 2013 (in millions)				
	Mexican Open-pit	Mexican IMMSA Unit	Peruvian Operations	Corporate, other and eliminations	Consolidated
Net sales outside of segments	\$ 724.1	\$ 90.0	\$ 596.1		\$ 1,410.2
Intersegment sales		25.4		\$ (25.4)	
Cost of sales (exclusive of depreciation, amortization and depletion)	336.9	88.4	317.6	(31.7)	711.2
Selling, general and administrative	9.1	3.9	13.2	1.3	27.5
Depreciation, amortization and depletion	43.2	7.1			