SOUTHERN COPPER CORP/
Form 10-Q
November 05, 2010
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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: September 30, 2010

or

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

For the transition period from to

Commission File Number: 1-14066

SOUTHERN COPPER CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**13-3849074**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

11811 North Tatum Blvd. Suite 2500 Phoenix, AZ	**85028**
(Address of principal executive offices)	(Zip Code)

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

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

Indicate by check mark whether the registrant 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 October 29, 2010 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)

INDEX TO FORM 10-Q

Exhibit 32.2	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	
Exhibit 101	Financial statements for the three and nine months ended September 30, 2010 Formatted in XBRL: (i) the Condensed Consolidated Statement of Earnings, (ii) the Condensed Consolidated Balance Sheet, (iii) the Condensed Consolidated Statement of Cash Flows, and (iv) 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 September 30, 2010	3 Months Ended September 30, 2009	9 Months Ended September 30, 2010	9 Months Ended September 30, 2009
	(in thousands, except per share amounts)			
Net sales	$ 1,257,864	$ 1,151,769	$ 3,650,509	$ 2,598,276
Operating costs and expenses:				
Cost of sales (exclusive of depreciation, amortization and depletion shown separately below)	542,503	529,893	1,563,998	1,324,824
Selling, general and administrative	21,262	23,804	64,944	60,697
Depreciation, amortization and depletion	82,330	82,266	242,074	239,202
Exploration	8,871	7,075	27,401	17,498
Total operating costs and expenses	654,966	643,038	1,898,417	1,642,221
Operating income	602,898	508,731	1,752,092	956,055
Interest expense	(49,816)	(25,126)	(118,654)	(74,402)
Capitalized interest		(3,287)		2,156
Gain on derivative instruments		(37)		4,144
Other income (expense)	(9,180)	760	(14,236)	2,628
Interest income	2,015	845	5,395	6,018
Income before income taxes	545,917	481,886	1,624,597	896,599
Income taxes	178,717	167,661	556,859	327,099
Net income	367,200	314,225	1,067,738	569,500
Less: Net income attributable to the non-controlling interest	2,029	1,774	5,936	3,389
Net income attributable to SCC	$ 365,171	$ 312,451	$ 1,061,802	$ 566,111
Per common share amounts:				
Net income attributable to SCC - basic and diluted	$ 0.43	$ 0.37	$ 1.25	$ 0.67
Dividends paid to SCC common shareholders	$ 0.37	$ 0.10	$ 1.25	$ 0.26
Weighted average common shares outstanding - basic and diluted	850,000	850,009	850,000	850,929

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)

	September 30, 2010	December 31, 2009
	(in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,236,698	$ 772,306
Short-term investments	59,379	22,948
Accounts receivable trade, less allowance for doubtful accounts (2010 - $-; 2009 - $4,614)	391,796	407,979
Accounts receivable other (including related parties 2010 - $3,020; 2009 - $4,598)	46,520	31,971
Inventories	430,397	456,122
Deferred income tax	33,685	19,672
Other current assets	64,592	67,131
Total current assets	3,263,067	1,778,129
Property, net	4,042,592	3,969,558
Leachable material, net	76,105	107,262
Intangible assets, net	115,273	113,840
Deferred income tax	48,124	52,670
Other assets	66,261	41,113
Total assets	$ 7,611,422	$ 6,062,572
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	$ 10,000	$ 10,000
Accounts payable	219,955	283,344
Accrued income taxes	176,019	91,359
Due to related parties	4,145	359
Accrued workers participation	174,708	150,692
Accrued interest	63,334	39,795
Other accrued liabilities	29,070	26,876
Total current liabilities	677,231	602,425
Long-term debt	2,755,263	1,270,252
Deferred income taxes	100,163	143,508
Non-current taxes payable	31,689	26,201
Other liabilities and reserves	91,203	77,607
Asset retirement obligation	60,144	48,925
Total non-current liabilities	3,038,462	1,566,493
Commitments and Contingencies (Note M)		
STOCKHOLDERS EQUITY		
Common stock	8,846	8,846
Additional paid-in capital	1,029,573	1,013,326
Retained earnings	3,469,232	3,469,930

Accumulated other comprehensive loss		(13,060)		(13,061)
Treasury stock		(618,064)		(603,413)
Total SCC stockholders equity		3,876,527		3,875,628
Non-controlling interest		19,202		18,026
Total equity		3,895,729		3,893,654
Total liabilities and equity	$	7,611,422	$	6,062,572

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

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Southern Copper Corporation

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

	3 Months Ended September 30, 2010	2009	9 Months Ended September 30, 2010	2009
		(in thousands)		
OPERATING ACTIVITIES				
Net income	$ 367,200	$ 314,225	$ 1,067,738	$ 569,500
Adjustments to reconcile net earnings to net cash provided from operating activities:				
Depreciation, amortization and depletion	82,330	82,266	242,074	239,202
Loss (gain) on currency translation effect	6,282	(3,786)	13,888	9,599
Provision (benefit) for deferred income taxes	(32,311)	(13,274)	(46,823)	40,116
Gain on sale of short-term investment	(291)	(881)	(743)	(3,200)
Unrealized gain on derivative instruments		(8,319)		(57,037)
Cash provided from (used for) operating assets and liabilities:				
Accounts receivable	(17,314)	(103,312)	1,634	(302,840)
Inventories	16,273	38,872	25,725	33,940
Accounts payable and accrued liabilities	127,561	(9,281)	74,806	(360,446)
Other operating assets and liabilities	(15,865)	84,113	(9,440)	127,895
Net cash provided from operating activities	533,865	380,623	1,368,859	296,729
INVESTING ACTIVITIES				
Capital expenditures	(112,885)	(110,559)	(281,173)	(316,740)
Purchase of short-term investments	(11,946)		(49,726)	
Proceeds from sale of short-term investments	3,002	8,815	14,038	39,620
Other	1,235	858	6,582	2,798
Net cash used for investing activities	(120,594)	(100,886)	(310,279)	(274,322)
FINANCING ACTIVITIES				
Debt incurred			1,489,674	
Debt repaid			(5,000)	(5,000)
Capitalized debt issuance cost	(676)		(8,831)	
Dividends paid to common stockholders	(314,500)	(86,322)	(1,062,498)	(224,128)
Distributions to non-controlling interest	(1,689)	(381)	(4,660)	(570)
Repurchase of common shares		(337)	(380)	(71,903)
Other	116	351	483	990
Net cash provided from (used for) financing activities	(316,749)	(86,689)	408,788	(300,611)
Effect of exchange rate changes on cash and cash equivalents	(4,447)	(15,308)	(2,976)	(25,256)
Increase (decrease) in cash and cash equivalents	92,075	177,740	1,464,392	(303,460)
Cash and cash equivalents, at beginning of period	2,144,623	235,540	772,306	716,740

Cash and cash equivalents, at end of period	$ 2,236,698	$ 413,280	$ 2,236,698	$ 413,280

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

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Southern Copper Corporation

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

A. In the opinion of Southern Copper Corporation, (the Company , Southern Copper or SCC), the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to state fairly the Company s financial position as of September 30, 2010 and the results of operations and the cash flow for the three and nine months ended September 30, 2010 and 2009. Certain prior period amounts have been reclassified to conform to the current period s presentation. The condensed consolidated financial statements for the three and nine months ended September 30, 2010 and 2009 have been subject to a review by Galaz, Yamazaki, Ruiz Urquiza S.C., a member firm of Deloitte Touche Tohmatsu Limited, the Company s independent registered public accounting firm, whose report dated November 3, 2010 is presented on page 55. The results of operations for the three and nine months ended September 30, 2010 and 2009 are not necessarily indicative of the results to be expected for the full year. The December 31, 2009 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, 2009 and notes included in the Company s 2009 annual report on Form 10-K.

B. Adoption of New Accounting Standards:

In the nine months ended September 30, 2010 the Company adopted the following Accounting Standards Updates (ASU) to the FASB Accounting Standards Codification (the ASC) issued by the Financial Accounting Standard Board (FASB).

ASU No. 2010-09: In February 2010 the FASB issued ASU No. 2010-09 Amendments to Certain Recognition and Disclosure requirements, an amendment of ASC topic 855 Subsequent events. This ASU requires a SEC filer to evaluate subsequent events through the date the financial statements are issued. In addition, public filers are no longer required to disclose the date through which the evaluation of subsequent events was carried out. The Company adopted this ASU on the date it was issued.

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.

This ASU includes the following new disclosure requirements:

1. Significant transfers in and out of Levels 1 and 2 fair value measurements and a description of the reasons for the transfers.

2. The reconciliation of activity in Level 3 fair value measurements should present separately information about purchases, sales, issuances and settlements on a gross basis rather than as one net number.

This ASU also clarifies existing disclosures as follows:

1. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities.

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2. Disclosures about inputs and valuation techniques used to measure fair value for both recurring and nonrecurring fair value measurements. These disclosures are required for fair value measurements that fall in either Level 2 or Level 3.

The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about 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 Q Financial instruments.

ASU 2010-02: In January 2010, the FASB issued ASU 2010-02 Accounting and Reporting for Decreases in Ownership of a Subsidiary a Scope Clarification, an update of Subtopic 810-10 Consolidation-Overall to address implementation issues related to the changes in ownership provisions in Subtopic 810-10, which establishes the accounting and reporting guidance for non-controlling interests and changes in ownership interests of a subsidiary.

The amendments in this ASU are effective beginning in the first interim or annual reporting period ending on or after December 15, 2009 and should be applied retrospectively to the first period that an entity adopted Statement 160. The Company has adopted this ASU and will apply it to future decreases in ownership of subsidiaries.

C. Short-term Investments:

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

	At	
Investments	**September 30, 2010**	**December 31, 2009**
Trading securities	$ 49.7	$
Weighted average interest rate	1.37%	
Available for sale	$ 9.7	$ 22.9
Weighted average interest rate	1.01%	0.63%
Total	$ 59.4	$ 22.9

Trading securities: consist of $50.0 million Petroleos Mexicanos bonds acquired at 99.4% and with original maturity on December 3, 2012. 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 September 30, 2010 includes corporate bonds and asset and mortgage backed obligations. As of September 30, 2010 and December 31, 2009, 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, which were recorded as other income in the condensed consolidated statement of earnings.

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

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Interest earned	$ 0.1	$ 0.1	$ 0.1	$ 0.7
Investment redeemed	$ 3.0	$ 8.8	$ 14.2	$ 39.6
Gain in fair value	$ 0.3	$ 0.9	$ 0.7	$ 3.2

D. Inventories:

Inventories were as follows:

(in millions)	September 30, 2010	December 31, 2009
Metals at lower of average cost or market:		
Finished goods	$ 55.7	$ 55.5
Work-in-process	128.2	150.8
Supplies at average cost	246.5	249.8
Total inventories	$ 430.4	$ 456.1

E. Income taxes:

The income tax provision and the effective income tax rate for the nine months ended September 30, 2010 and 2009 were as follows:

(in millions)	2010	2009
Income tax provision	$ 556.9	$ 327.1
Effective income tax rate	34.3%	36.5%

These provisions include income taxes for Peru, Mexico and the United States. The decrease in the effective tax rate for the nine months ended September 30, 2010 is largely due to the proportionately higher incremental U.S. income tax provided on dividend distributions made by our Mexican subsidiary to the U.S. parent in the nine months ended September 30, 2009. Because the pretax earnings in the nine months period of 2009 were significantly lower than the 2010 pretax earnings, the effect of this incremental tax had a relatively large impact on the effective rate. For the full year 2009 the final effective tax rate was 33.5%. This dividend distribution is taxable in the U.S. at the difference between the 35% U.S. statutory rate and the Mexican statutory tax rate, which is currently 30%.

As of March 27, 2009, Grupo Mexico, S.A.B. de C.V. (Grupo Mexico), through its wholly-owned subsidiary, Americas Mining Corporation (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 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 now holding an 80% interest in SCC, AMC also owns 100% of ASARCO LLC (Asarco) and its subsidiaries. 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.

Income taxes payable on the Company s balance sheet are amounts accrued for income taxes payable to the Peruvian and Mexican government taxing agencies and also include the U.S. tax liability of the Company, which will be paid to AMC for the Company s share of the U.S. tax liability.

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Accounting for Uncertainty in Income Taxes:

There was no material changes in the unrecognized tax benefits in the nine months ended September 30, 2010.

F. Provisionally Priced Sales:

At September 30, 2010, the Company has recorded provisionally priced sales of copper at average forward prices per pound, and molybdenum at the September 30, 2010 market price per pound. These sales are subject to final pricing based on the average monthly London Metal Exchange (LME) or the New York Commodities Exchange (COMEX) copper prices and Dealer Oxide molybdenum prices in the future month of settlement.

Following are the provisionally priced copper and molybdenum sales outstanding at September 30, 2010:

Copper (million lbs.)	Priced at	Month of Settlement
5.4	3.63	October 2010

Molybdenum (million lbs.)	Priced at	Month of Settlement
3.6	15.35	October 2010
2.9	15.35	November 2010
2.9	15.35	December 2010
0.1	15.35	January 2011
9.5		

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

G. Derivative Instruments:

The Company occasionally uses derivative instruments to manage its exposure to market risk from changes in commodity prices and interest rate and exchange rate risk exposures. 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. The Company did not hold any derivative contracts for the nine months ended September 30, 2010, except as disclosed below.

Copper derivatives:

Beginning on September 29, 2010 and through October 26th 2010, the Company entered into copper derivative contracts to protect the sales value of a portion of its fourth quarter of 2010 and 2011 copper production, as follows:

	4th Quarter	Year 2011
Swap contracts (1)		
Pounds in millions	170.9	150.1
Weighted average LME price	$ 3.67	$ 3.73

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Zero Collar Contracts (1)		
Pounds in millions		211.6
Average LME cap price	$	4.54
Average LME floor price	$	3.00

(1) Pounds are proportionally distributed over the periods. Prices are the same for all months in periods

Gas swaps:

During the nine months ended September 30, 2010 and at September 30, 2010 the Company did not hold any gas derivative contracts.

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

During the nine months ended September 30, 2010 and at September 30, 2010 the Company did not hold any exchange rate derivative contracts.

H. 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). The closure cost recognized for this liability consists of the cost as outlined in its closure plans, which includes the dismantling of the Toquepala and Cuajone concentrators, the smelter and refinery in Ilo, and the shops and auxiliary facilities at the three units.

The following table summarizes the asset retirement obligation activity for the nine months ended September 30, 2010 and 2009 (in millions):

		2010		2009
Balance as of January 1	$	48.9	$	18.0
Changes in estimates		7.4		15.9
Additions				
Accretion expense		3.8		0.6
Balance as of September 30,	$	60.1	$	34.5

I. Related Party Transactions:

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

	As of	
	September 30, 2010	December 31, 2009
Accounts receivable:		
Grupo Mexico, S.A.B de C.V. and affiliates	$ 0.8	$ 1.5
Ferrocarril Mexicano, S.A. de C.V.		1.4
Breaker, S.A. de C.V		0.1
Mexico Proyectos y Desarrollos, S.A. de C.V. and affiliates	2.2	1.6
	$ 3.0	$ 4.6

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Accounts payable:				
Grupo Mexico S.A. de C.V. and affiliates	$	3.0	$	
Higher Technology S.A.C.		0.1		0.4
Asarco LLC		0.9		
Ferrocarril Mexicano S.A. de C.V.		0.1		
	$	4.1	$	0.4

The Company has entered into certain transactions in the ordinary course of business with parties that are controlling shareholders or their affiliates. These transactions include the lease of office space, air transportation and construction services and products and services relating to mining and refining. The Company lends and borrows funds among affiliates for acquisitions and other corporate purposes. These financial transactions bear interest and are subject to review and approval by senior management, as are all related party transactions. It is 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 nine months ended September 30, 2010 and 2009 (in millions):

	As of September 30,			
		2010		**2009**
Grupo Mexico and affiliates:				
Grupo Mexico Servicios, S.A de C.V	$	10.3	$	10.3
Ferrocarril Mexicano, S.A de C.V.		2.2		8.4
Mexico Proyectos y Desarrollos, S.A. de C.V. and affiliates		21.5		12.1
Perforadora Mexico S.A. de C.V.		0.2		
Consorcio Tricobre		2.9		
Other Larrea family companies:				
Mexico Compañia de Productos Automotrices, S.A. de C.V.		1.9		0.2
Mexico Transportes Aereos, S.A. de C.V.		2.4		1.6
Companies with relationships to SCC executive officers families:				
Higher Technology S.A.C.		2.3		4.0
Servicios y Fabricaciones Mecanicas S.A.C.		0.2		0.2
Sempertrans France Belting Technology		0.3		0.6
PIGOBA, S.A. de C.V.		0.5		0.1
Breaker, S.A. de C.V.		0.5		0.8
Total purchased	$	45.2	$	38.3

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.

In addition, during the nine months ended September 30, 2010 the Company made donations of $0.8 million to Fundacion Grupo Mexico, an organization dedicated to

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promoting social and economic development of the communities close to our Mexican operations.

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, S.A. de C.V. and its affiliates and for drilling services provided by Perforadora Mexico S.A. de C.V.; the 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 Consultec, 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, 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, sale of vehicles and air transportation and construction services. In connection with this, the Company paid fees for maintenance services and sale of vehicles provided by Mexico Compañia de Productos Automotrices, S.A. de C.V., a company controlled by the Larrea family.

Additionally, in 2007, the Company s Mexican subsidiaries provided guaranties for two loans obtained by Mexico Transportes Aereos, S.A. de C.V. (MexTransport), a company controlled by the Larrea family, from Bank of Nova Scotia in Mexico. These loans require semi-annual repayments. Conditions and balance as of September 30, 2010 are as follows:

	Loan 1	**Loan 2**	**Total**
Loans (in millions)	$2.3	$8.5	$10.8
Maturity	August 2010	August 2013	
Interest rate	Libor + 0.65%	Libor + 0.15%	
Remaining balance at September 30, 2010 (in millions)	$	$3.9	$3.9

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 pays fees to MexTransport for aviation services.

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

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.

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Sales activity:

In the second quarter of 2010 the Company recovered from Asarco, a subsidiary of Grupo Mexico, $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. Also, in the nine months ended September 30, 2010 the Company sold $3.4 million of copper anodes and sulfuric acid to Asarco.

In addition, in the third quarter of 2010, the Company received fees of $0.2 million from building rental and maintenance services provided to Perforadora Mexico S.A. de C.V., a subsidiary of Grupo Mexico.

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

J. Financing:

New SCC Notes:

On April 16, 2010 the Company issued $1.5 billion in fixed-rate unsecured notes with a discount of $10.3 million, which is being amortized over the term of the related debt. Net proceeds will be used for general corporate purposes, including the financing of the Company s capital expenditure program.

The $1.5 billion fixed-rate senior unsecured notes were issued in two tranches, $400 million due in 2020 at an annual interest rate of 5.375% and $1.1 billion due in 2040 at an annual interest rate of 6.75%. The Company has registered these notes under the Securities Act of 1933, as amended.

Interest on the notes will be paid semi-annually in arrears. The notes constitute our general unsecured obligations and the series of notes rank pari passu with each other and rank pari passu in right of payment with all of our other existing and future unsecured and unsubordinated indebtedness.

Also, related to these notes the Company has deferred $8.8 million of costs associated with the issuance of this facility, which is included in Other assets non-current in the condensed consolidated balance sheet and is being amortized as interest expense over the life of the loans.

In connection with the transaction, on April 16, 2010 the Company entered into a base indenture with Wells Fargo Bank, National Association, as trustee, as well as a first supplemental indenture and a second supplemental indenture which provide for the issuance, and set forth the terms of, the two tranches of notes described above. The indentures contain covenants that limit the Company s ability to, among other things, incur certain liens securing indebtedness, engage in certain sale and leaseback transactions, and enter into certain consolidations, mergers, conveyances, transfers or leases of all or substantially all the Company s assets. If we experience a Change of Control Triggering Event (as defined in the indentures governing the notes), we must offer to repurchase the notes at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any. A Change of Control Trigger Event also includes a rating decline, that is, if the rating of the notes, by at least one of the rating agencies shall be decreased by one or more gradations.

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Changes in Credit Risk Rating:

In connection with the issuance of the new notes, on April 1, 2010 Moody s investor service upgraded to Baa2 from Baa3 the Company s senior unsecured ratings and the rating on our Yankee bonds. Also on April 5, 2010 Fitch and Standard & Poor s (S&P) ratings services assigned ratings of BBB and BBB- , respectively, to the new notes issued. At the same time, these credit rating agencies confirmed their long-term corporate credit rating on SCC (Baa2 , BBB and BBB- for Moody s, Fitch and S&P, respectively).

K. Benefit Plans:

SCC Defined Benefit Pension Plans

The components of the net periodic benefit costs for the nine months ended September 30, 2010 and 2009 are as follows (in millions):

		2010		2009
Interest cost	$	0.5	$	0.5
Expected return on plan assets		(0.5)		(0.4)
Amortization of net loss (gain)		(*)		0.1
Net periodic benefit costs	$		$	0.2

(*) 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 nine months ended September 30, 2010 and 2009 are individually, and in total, less than $0.1 million.

Minera Mexico Pension Plans

The components of the net periodic benefit costs for the nine months ended September 30, 2010 and 2009 are as follows (in millions):

	2010	2009
Interest cost	$ 1.2	$ 1.2
Service cost	1.5	1.4
Expected return on plan assets	(2.2)	(1.8)
Amortization of transition assets, net	(*)	(0.4)
Amortization of net actuarial loss	(0.7)	(*)
Amortization of prior services cost	0.1	0.1
Net periodic benefit cost	$ (0.1)	$ 0.5

(*) amount is lower than $0.1 million

Minera Mexico Post-retirement Health Care Plan

The components of the net periodic cost for the nine months ended September 30, 2010 and 2009 are as follows (in millions):

	2010	2009
Interest cost	$ 3.2	$ 2.9
Service cost	0.3	0.4
Amortization of net loss (gain)	0.1	0.4
Amortization of transition obligation	1.0	0.9
Net periodic benefit cost	$ 4.6	$ 4.6

(*) amount is lower than $0.1 million

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L. Comprehensive Income (in millions):

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Net income	$ 367.2	$ 314.2	$ 1,067.7	$ 569.5
Other comprehensive income (loss) net of tax:				
Decrease in liability for employee benefit obligation		0.3		0.3
Comprehensive income	367.2	314.5	1,067.7	569.8
Comprehensive income attributable to the non-controlling interest	2.0	1.8	5.9	3.4
Comprehensive income attributable to SCC	$ 365.2	$ 312.7	$ 1,061.8	$ 566.4

M. Commitments and Contingencies:

Environmental matters:

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

Environmental capital expenditures in the nine months ended September 30, 2010 and 2009 were as follows (in millions):

	2010	2009
Peruvian operations	$ 3.2	$ 1.4
Mexican operations	7.5	18.5
Total	$ 10.7	$ 19.9

Peruvian operations

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

In 2003 the Peruvian congress published a law announcing future closure and remediation obligations for the mining industry. In accordance with the requirements of this law the Company s closure plans were approved by the 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 H, Asset retirement obligation , for further discussion of this matter.

Mexican operations

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

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The principal legislation applicable to the Company s Mexican operations is the Federal General Law of Ecological Balance and Environmental Protection, 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. 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, results of operations, financial condition or prospects or will result in material capital expenditures. Although the Company believes that all of its facilities are in material compliance with applicable environmental, mining and other laws and regulations, the Company cannot assure that future laws and regulations would not have a material adverse effect on the Company s business, properties, results of operations, financial condition or prospects.

On March 16, 2010, the Company announced to the Mexican Federal Environmental authorities the closure of the copper smelter plant at San Luis Potosi. There is a general obligation to remediate the site, and we are currently performing an analysis and evaluation of the property in order to establish the cost of such remediation. We expect to determine it in the fourth quarter of this year and to submit it for approval by the Mexican environmental authorities.

Litigation matters:

Peruvian operations

Garcia Ataucuri and Others against SCC s Peruvian Branch (SCC s Peruvian Branch , Branch, or 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 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

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0.71% is included on the 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) The May 10, 2006 Cornejo Flores and others vs. SCC s Peruvian Branch litigation, seeks the same number of labor shares as in the Garcia Ataucuri case, plus interest, labor shares resulting from capital increases made by the Branch in 1980 for the amount of the workers participation of S/.17,246,009,907.20, equivalent to 172,460,099.72 labor shares, and dividends. On May 23, 2006, the Branch answered this new complaint denying the validity of the claim. As of September 30, 2010 the case remains open with no new developments.

3) The June 27, 2008 Alejandro Zapata Mamani and others vs. SCC s Peruvian Branch litigation seeks the same number of labor shares as in the Garcia Ataucuri case, plus interest, labor shares resulting from capital increases and dividends. The Branch answered this new complaint, denying the validity of the claim. As of September 30, 2010 the case remains open with no new developments.

4) The January 2009 Arenas Rodriguez and others represented by Mr. Cornejo Flores- vs. SCC s Peruvian Branch litigation seeks the same number of labor shares as in the Garcia Ataucuri case, plus interest, labor shares resulting from capital increases and dividends. The Branch answered this complaint, denying the validity of the claim. In August 2010 the Civil Court dismissed the case due to procedural defects. The plaintiffs appealed the Civil Court s resolution before the Superior Court. This appeal is pending resolution.

5) The June 2010 Macedo Condori vs. SCC s Peruvian Branch litigation seeks the delivery of 8,012 labor shares plus dividends in the amount of S/.496,744 (as of

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May 2010) and interest. The Branch answered this new complaint, denying the validity of the claim. In July, 2010 the Civil Court dismissed the case due to procedural defects. This case is now closed.

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

Exploraciones de Concesiones Metalicas S.A.C.:

In August 2009 a lawsuit was filed against SCC s Branch by the former stockholders of Exploraciones de Concesiones Metalicas S.A.C. (Excomet). The plaintiffs allege that the acquisition of their shares in Excomet 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

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).

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

Mexican Operations

Pasta de Conchos Accident:

On February 19, 2010 three widows of miners, who perished in the 2006 Pasta de Conchos accident, filed a complaint for damages in the United States District Court for the District of Arizona against the defendants, Grupo México, Americas Mining Corporation and Southern Copper Corporation. The plaintiffs allege that the defendants purported failure to maintain a safe working environment at the mine amounted to a violation of several laws and treaties. The Company considers that the court does not have subject-matter jurisdiction over the plaintiffs claims and will defend itself vigorously. On June 25, 2010 the Company filed a motion to dismiss the plaintiffs complaint. At September 30, 2010 this motion 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.

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Peruvian Operations

Approximately 60% of the Company s Peruvian labor force was unionized at September 30, 2010, represented by eight separate unions. Three of these unions, one at each major production area, represent the majority of the Company s workers. On September 30, 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, the agreement provides for productivity savings and includes no-strike clauses. Additionally, there are five smaller unions, representing the balance of workers. Collective bargaining agreements for this group are in force through November 2012.

During 2010 and 2009 there were no strikes at the Company s Peruvian operations.

Mexican operations

Approximately 74% of the Mexican labor force was unionized at September 30, 2010, represented by two 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.

On March 20, 2009 the Company notified the Mexican federal labor court of the termination of all the individual labor contracts of the Cananea workers, including the collective bargaining agreement with the union. This decision was based upon a finding by the Mexican mining authorities that confirmed that the Cananea mine was in a force majeure situation since it was unable to operate due to severe damages caused by striking workers. On April 14, 2009, the Mexican federal labor court issued a resolution approving the termination of Cananea s labor relationships with individual and unionized employees, as well as the termination of its collective bargaining agreement with its employees and with the National Mining and Metal Workers Union. This ruling was challenged before federal tribunals. Most of the individual challenges by unionized workers have been resolved by a federal judge who dismissed their complaints.

On February 11, 2010, a Mexican federal district court confirmed that the damages caused to the Cananea mine by the neglect and sabotage of striking workers since the commencement of labor stoppages and strikes in July 2007 resulted in force majeure providing legal basis for the termination of individual and unionized employees by the Company s subsidiary, Mexicana de Cananea, S.A. de C.V. A workers appeal was dismissed on April 21, 2010 by the Mexican Supreme Court. Local and federal authorities in Mexico regained access to, and control of, the Cananea mine. On June 6, 2010 the Company commenced the necessary evaluations to assess the magnitude of the significant damages to the plant, machinery and equipment caused by the strike that commenced in July 2007. The Company has already started the rehabilitation and reconstruction of the Cananea mine, with a team of approximately 3,400 individuals, composed of Company workers and contractors personnel. The estimated cost of repairing the damages to the property is $114 million. Losses arising from damages to the fixed assets, net of estimated insurance recoveries, are not material.

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

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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 mining experts 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.

In 2009, more than 40% of the workers of the San Martin mine and 50% of the workers of the Taxco mine voluntarily requested severance payments and terminated their labor relationship with the Company.

In the third quarter of 2010 operations at the La Caridad metallurgical complex were disrupted due to access road blockages established by a group of terminated workers and other agitators. However, in October 2010, with the assistance of the Mexican authorities, order was restored and normal operations were restarted. La Caridad s mining operations continued during the blockage period and as a result the Company was able to maintain output.

Other legal matters:

Class actions:

Three purported class action derivative lawsuits have been filed in the Delaware Court of Chancery (New Castle County) late in December 2004 and early January 2005 relating to the acquisition of Minera Mexico by SCC. On January 31, 2005, the three actions Lemon Bay, LLP v. Americas Mining Corporation, et al., Civil Action No. 961-N, Therault Trust v. Luis Palomino Bonilla, et al., and Southern Copper Corporation, et al., Civil Action No. 969-N, and James Sousa v. Southern Copper Corporation, et al., Civil Action No. 978-N were consolidated into one action titled, In re Southern Copper Corporation Shareholder Derivative Litigation, Consol. Civil Action No. 961-N and the complaint filed in Lemon Bay was designated as the operative complaint in the consolidated lawsuit. The consolidated action purports to be brought on behalf of the Company s common stockholders.

The consolidated complaint alleges, among other things, that the acquisition of Minera Mexico is the result of breaches of fiduciary duties by the Company s directors and is not entirely fair to the Company and its minority stockholders. The consolidated complaint seeks, among other things, a preliminary and permanent injunction to enjoin the acquisition, the award of damages to the class, the award of damages to the Company and such other relief that the court deems equitable, including interest, attorneys and experts fees and costs. The defendants believe that this 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.*) and one in the Superior Court of Arizona, in and for the County of Maricopa, (*The City of North Miami Beach Police Officers and Firefighters Retirement Plan et al. v. SCC et al.*) from August 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.

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

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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. 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.

Other commitments:

Regional development contribution:

In 2006, the Company s Peruvian Branch signed a contract with the Peruvian government committing the Company to make annual contributions for five years, through 2010, to support the regional development of Peru based on prior year s net earnings. This was in response to an appeal by the president of Peru to the mining industry. The contributions are being used for social benefit programs. This agreement requires a final contribution against 2010 profits. The Company believes that this contribution could be extended to continue the flow of funds to the government.

These contributions were deposited with a separate entity, Asociacion Civil Ayuda del Cobre, which will make disbursements for approved investments in accordance with the agreement until the five year contributions are fully used. The commitment of the Branch is for a total of 1.25% of its annual earnings, after Peruvian income tax. If the average annual LME copper price is below $1.79 per pound the contribution will cease.

The Company made provisions for this contribution in the nine months ended September 30, 2010 and 2009, as follows (in millions):

	2010	2009
Regional development contribution	$ 9.4	$ 5.0

These provisions are included in Other income (expense) in the condensed consolidated statement of earnings.

Royalty charge

In June 2004, the Peruvian Congress enacted legislation imposing a royalty charge to be paid by mining companies. Under this law, the Company is subject to a 1% to 3% royalty, based on sales, applicable to the value of the concentrates produced at the Toquepala and Cuajone mines. The Company made provisions for this charge in the nine months ended September 30, 2010 and 2009, as follows (in millions):

	2010	2009
Royalty charge	$ 44.1	$ 28.6

These provisions are included in Cost of sales (exclusive of depreciation, amortization and depletion) in the condensed consolidated statement of earnings.

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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 Company expects to obtain savings in its future power costs. 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.

Tax contingency matters:

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

N. 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.

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.

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

Three Months Ended September 30, 2010

(in millions)

	Mexican Open Pit	Mexican IMMSA Unit	Peruvian Operations	Corporate, other and eliminations	Consolidated
Net sales outside of segments	$ 430.6	$ 77.7	$ 749.6	$	$ 1,257.9
Intersegment sales		22.7		(22.7)	
Cost of sales (exclusive of depreciation, amortization and depletion)	204.6	64.0	295.3	(21.4)	542.5
Selling, general and administrative	7.6	3.2	9.8	0.7	21.3
Depreciation, amortization and depletion	40.7	5.6	34.4	1.6	82.3
Exploration	1.5	3.8	3.6		8.9
Operating income	$ 176.2	$ 23.8	$ 406.5	$ (3.6)	602.9
Less:					
Interest, net					(47.8)
Other income (expense)					(9.2)
Income taxes					(178.7)
Non-controlling interest					(2.0)
Net income attributable to SCC					$ 365.2
Capital expenditure	$ 29.8	$ 9.2	$ 66.6	$ 7.3	$ 112.9
Property, net	$ 1,565.3	$ 280.0	$ 2,140.5	$ 56.8	$ 4,042.6
Total assets	$ 2,351.6	$ 647.3	$ 3,013.9	$ 1,598.6	$ 7,611.4

Three Months Ended September 30, 2009

(in millions)

	Mexican Open Pit	Mexican IMMSA Unit	Peruvian Operations	Corporate, other and eliminations	Consolidated
Net sales outside of segments	$ 315.7	$ 111.9	$ 710.8	$ 13.4	$ 1,151.8
Intersegment sales	12.6	38.3		(50.9)	
Cost of sales (exclusive of depreciation, amortization and depletion)	145.5	105.1	322.0	(42.7)	529.9
Selling, general and administrative	7.2	3.1	12.6	0.9	23.8
Depreciation, amortization and depletion	43.3	5.9	32.7	0.4	82.3
Exploration	0.9	2.9	3.3		7.1
Operating income	$ 131.4	$ 33.2	$ 340.2	$ 3.9	508.7
Less:					
Interest, net					(27.5)
Loss on derivative instruments					

Other income (expense)										0.8
Income taxes										(167.7)
Non-controlling interest										(1.8)
Net income attributable to SCC									$	312.5
Capital expenditure	$	13.7	$	3.3	$	82.7	$	10.9	$	110.6
Property, net	$	1,630.0	$	268.7	$	1,988.9	$	55.3	$	3,942.9
Total assets	$	2,598.9	$	568.5	$	2,343.1	$	166.0	$	5,676.5

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Nine months Ended September 30, 2010

(in millions)

	Mexican Open Pit	Mexican IMMSA Unit	Peruvian Operations	Corporate, other and eliminations	Consolidated
Net sales outside of segments	$ 1,146.3	$ 256.4	$ 2,209.6	$ 38.2	$ 3,650.5
Intersegment sales	29.1	110.2		(139.3)	
Cost of sales (exclusive of depreciation, amortization and depletion)	547.9	234.1	881.7	(99.7)	1,564.0
Selling, general and administrative	22.8	9.8	29.7	2.7	65.0
Depreciation, amortization and depletion	121.7	16.9	99.9	3.5	242.0
Exploration	3.8	10.9	12.7		27.4
Operating income	$ 479.2	$ 94.9	$ 1,185.6	$ (7.6)	1,752.1
Less:					
Interest, net					(113.3)
Other income (expense)					(14.2)
Income taxes					(556.9)
Non-controlling interest					(5.9)
Net income attributable to SCC					$ 1,061.8
Capital expenditure	$ 52.7	$ 19.4	$ 201.1	$ 8.0	$ 281.2
Property, net	$ 1,565.3	$ 280.0	$ 2,140.5	$ 56.8	$ 4,042.6
Total assets	$ 2,351.6	$ 647.3	$ 3,013.9	$ 1,598.6	$ 7,611.4

Nine months Ended September 30, 2009

(in millions)

	Mexican Open Pit	Mexican IMMSA Unit	Peruvian Operations	Corporate, other and eliminations	Consolidated
Net sales outside of segments	$ 737.0	$ 289.6	$ 1,532.9	$ 38.8	$ 2,598.3
Intersegment sales	26.8	99.0		(125.8)	
Cost of sales (exclusive of depreciation, amortization and depletion)	397.7	281.5	738.4	(92.7)	1,324.9
Selling, general and administrative	21.3	9.3	27.0	3.1	60.7
Depreciation, amortization and depletion	126.4	17.8	93.8	1.2	239.2
Exploration	1.7	5.2	10.6		17.5
Operating income	$ 216.7	$ 74.8	$ 663.1	$ 1.4	956.0
Less:					
Interest, net					(66.2)
Gain on derivative instruments					4.2
Other income (expense)					2.6
Income taxes					(327.1)
Non-controlling interest					(3.4)
Net income attributable to SCC					$ 566.1

Capital expenditure	$	55.8	$	17.9	$	220.9	$	22.1	$	316.7
Property, net	$	1,630.0	$	268.7	$	1,988.9	$	55.3	$	3,942.9
Total assets	$	2,598.9	$	568.5	$	2,343.1	$	166.0	$	5,676.5

O. Impact of New Accounting Standards:

Please see impact of the adoption of new accounting standards on note B Adoption of New Accounting Standards

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P. Stockholders Equity:

Treasury Stock:

Activity in treasury stock in the nine-month period ended September 30, 2010 and 2009 is as follows (in millions):

	2010	2009
Southern Copper common shares		
Balance as of January 1,	$ 460.7	$ 389.0
Purchase of shares	0.4	71.9
Used for corporate purposes	(0.2)	(0.2)
Balance as of September 30,	460.9	460.7
Parent Company (Grupo Mexico) common shares		
Balance as of January 1,	142.7	125.5
Other activity, including dividend, interest and currency translation effect	14.4	11.0
Balance as of September 30,	157.1	136.5
Treasury stock balance as of September 30,	$ 618.0	$ 597.2

The following table summarizes share distributions in the nine months ended September 30, 2010 and 2009:

	2010	2009
Southern Copper common shares		
Directors Stock Award Plan	14,400	12,000
Parent Company (Grupo Mexico) common shares		
Employee stock purchase plan (shares in millions)	10.9	11.8

SCC share repurchase program:

In 2008 the Company s Board of Directors authorized a $500 million share repurchase program. Under this program the Company may purchase additional shares 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. These shares will be available for general corporate purposes.

The following table summarizes the repurchase program activity since its inception in 2008:

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 @ $35.12	Total Cost ($ in millions)
2008:						
08/11/08	12/31/08	28,510,150	$ 13.49	28,510,150		$ 384.6
2009:						71.9
01/12/09	09/30/09	4,912,000	14.64	33,422,150		
2010:						
05/05/10	05/05/10	13,200	28.75	33,435,350		0.4
08/12/10	08/12/10	1,200	29.33	33,436,500		0.1
Total Purchased		33,436,550	$ 13.67		1,225,120	$ 457.0

At September 30, 2010, as a result of the purchases of SCC common shares and AMC s purchases of SCC shares, Grupo Mexico s direct and indirect ownership of SCC is 80%.

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Directors Stock Award Plan:

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

The activity of the plan in the nine-month period ended September 30, 2010 and 2009 is as follows:

	2010	2009
Total SCC shares reserved for the plan	600,000	600,000
Total shares granted at January 1,	(241,200)	(229,200)
Granted in the period	(14,400)	(12,000)
Total shares granted at September 30,	(255,600)	(241,200)
Remaining shares reserved	344,400	358,800

Employee Stock Purchase Plan:

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

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

In the case of voluntary resignation of the employee, the Company will pay to the employee the purchase price applying a deduction over the amount to be paid to the employee based on the following schedule.

If the resignation occurs during:	% Deducted
1st year after the grant date	90%
2nd year after the grant date	80%

3rd year after the grant date	70%
4th year after the grant date	60%
5th year after the grant date	50%
6th year after the grant date	40%
7th year after the grant date	20%

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

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

In case of retirement or death of the employee, the Company will render the buyer or his legal beneficiary, the shares effectively paid as of the date of retirement or death.

For the nine months ended September 30, 2010 and 2009, the stock based compensation expense under this plan was as follows (in millions)

		2010		2009
Stock based compensation expense	$	1.6	$	1.6
Unrecognized compensation expense	$	9.0	$	11.2

The unrecognized compensation expense under this plan is expected to be recognized over the remaining five year period.

The following table presents the stock award activity for the nine months ended September 30, 2010 and 2009:

	2010			2009		
	Shares		Unit Value	Shares		Unit Value
Outstanding shares at January 1,	11,556,625	$	1.16	14,577,011	$	1.16
Granted						
Exercised				(2,700,588)		1.16
Forfeited	(609,892)		1.16	(267,230)		1.16
Outstanding shares at September 30,	10,946,733	$	1.16	11,609,193	$	1.16

New Employee Stock Purchase Plan:

In September 2010, the Company offered to eligible employees a new stock purchase plan (the New Employee Stock Purchase Plan) through a trust that acquires series B of shares of Grupo Mexico stock for sale to its employees, and employees of subsidiaries, and certain affiliated companies.

The purchase price, retroactive as of January 29, 2010, was established at 26.51 Mexican pesos (approximately $2.05) for the initial subscription, which expires on November 30, 2010. Every two years employees will be able to acquire title to 50% of the shares paid in the previous two years. The employees will pay for shares purchased through monthly payroll deductions over the eight year period of the plan. At the end of the eight year period, the Company will grant the participant a bonus of 1 share for every 10 shares purchased by the employee. Any future subscription will be at the average market price at the date of acquisition or the grant date.

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

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

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

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

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

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

For the nine months ended September 30, 2010 and 2009, there was no stock based compensation under this plan.

Executive Stock Purchase Plan:

Grupo Mexico also offers a stock purchase plan for certain members of its executive management and the executive management of its subsidiaries and certain affiliated companies. Under this plan, participants will receive incentive cash bonuses which are used to purchase up to 2,250,000 shares of Grupo Mexico over an eight year period. The fair value of the award is estimated on the date of grant and is recognized as compensation expense over a weighted average requisite service period of eight years.

For the nine months ended September 30, 2010 and 2009, the stock based compensation expense under this plan was as follows (in millions)

	2010	2009
Stock based compensation expense	$ 0.3	$ 0.1
Unrecognized compensation expense at September 30,	$ 1.6	$ 1.9

The unrecognized compensation expense under this plan is expected to be recognized over the remaining five year period.

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Q. Financial instruments:

Subtopic 810-10 of ASC Fair value measurement and disclosures Overall establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under Subtopic 810-10 are described below:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 - Inputs that are observable, either directly or indirectly, but do not qualify as Level 1 inputs. (i.e., quoted prices for similar assets or liabilities)

Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

The carrying amounts of certain financial instruments, including cash and cash equivalents, accounts receivable (other than accounts receivable associated with provisionally priced sales) and accounts payable approximate fair value due to their short maturities. Consequently, such financial instruments are not included in the following table that provides information about the carrying amounts and estimated fair values of other financial instruments that are not measured at fair value in the condensed consolidated balance sheet as of September 30, 2010 and December 31, 2009 (in millions):

	As of September 30, 2010		As of December 31, 2009	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Liabilities:				
Long-term debt	$ 2,765.3	$ 3,152.1	$ 1,280.3	$ 1,292.3

Fair value for long term debt is based on quoted market prices classified as Level 1 in the fair value hierarchy. The Mitsui loan is based on the present value of the cash flow discounted at 11.3%, which is the Company s weighted average cost of capital.

Fair values of assets and liabilities measured at fair value on a recurring basis were calculated as follows as of September 30, 2010 and December 31, 2009 (in millions):

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Description	Fair Value at Measurement Date Using:				Fair Value at Measurement Date Using:			
	Fair Value as of September 30, 2010	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair Value as of December 31, 2009	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:								
Short term investment:								
Trading securities	$ 49.7	$ 49.7						
Available for sale debt securities:								
Foreign bonds					$ 1.9		$ 1.9	
Corporate bonds	0.5		$ 0.4	$ 0.1				