

SOUTHERN COPPER CORP/
Form 10-Q
July 31, 2015
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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, 2015

or

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

For the transition period from to

Commission File Number: 1-14066

SOUTHERN COPPER CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

13-3849074

(I.R.S. Employer Identification No.)

1440 East Missouri Avenue, Suite 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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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 30, 2015 there were outstanding 797,014,243 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 31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	
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, 2015 Formatted in XBRL: (i) the Condensed Consolidated Statements of Earnings, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements 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 STATEMENTS OF EARNINGS

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands, except per share amounts)			
Net sales (including sales to related parties, see note 9)	\$ 1,382,923	\$ 1,487,412	\$ 2,657,730	\$ 2,841,795
Operating costs and expenses:				
Cost of sales (exclusive of depreciation, amortization and depletion shown separately below)	706,868	726,589	1,386,690	1,368,483
Selling, general and administrative	24,963	25,397	49,832	49,895
Depreciation, amortization and depletion	125,302	116,091	242,265	226,544
Exploration	12,111	22,068	22,399	36,679
Environmental remediation	10,532		16,460	
Total operating costs and expenses	879,776	890,145	1,717,646	1,681,601
Operating income	503,147	597,267	940,084	1,160,194
Interest expense	(86,929)	(66,075)	(151,679)	(131,215)
Capitalized interest	33,104	29,162	71,954	53,765
Other income (expense)	(1,605)	(5,779)	(5,369)	(9,985)
Interest income	2,683	3,715	5,530	8,252
Income before income taxes	450,400	558,290	860,520	1,081,011
Income taxes (including royalty taxes see note 5):	157,042	225,769	286,235	429,931
Net income before equity earnings of affiliate	293,358	332,521	574,285	651,080
Equity earnings of affiliate, net of income tax	2,655	5,861	5,415	11,899
Net income	296,013	338,382	579,700	662,979
Less: Net income attributable to the non-controlling interest	1,299	1,129	2,556	2,337
Net income attributable to SCC	\$ 294,714	\$ 337,253	\$ 577,144	\$ 660,642

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Per common share amounts attributable to
SCC:

Net income - basic and diluted	\$	0.37	\$	0.40	\$	0.72	\$	0.79
Dividends paid	\$	0.10	\$	0.10	\$	0.20	\$	0.22
Weighted average common shares outstanding - basic and diluted		798,168		833,353		801,773		833,571

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

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Southern Copper Corporation

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
Net income	\$ 296,013	\$ 338,382	\$ 579,700	\$ 662,979
Other comprehensive income (loss) net of tax:				
- Amortization of actuarial gain net of income tax of (for the three months ended June 30, 2015: \$(*) and 2014: \$43 and for the six months ended June 30, 2015: \$(*) and 2014: \$145)	(*)	(65)	(*)	(217)
Total comprehensive income	\$ 296,013	\$ 338,317	\$ 579,700	\$ 662,762
Comprehensive income attributable to the non-controlling interest	\$ 1,299	\$ 1,129	\$ 2,556	\$ 2,337
Comprehensive income attributable to SCC	\$ 294,714	\$ 337,188	\$ 577,144	\$ 660,425

 (*) amount is lower than \$0.1 million

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

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Southern Copper Corporation

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 2015	December 31, 2014
	(in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,572,343	\$ 363,970
Restricted cash	7,375	19,456
Short-term investments	573,353	338,589
Accounts receivable trade	481,119	540,245
Accounts receivable other (including related parties 2015 - \$29,759 and 2014 - \$32,835)	100,660	81,635
Inventories	826,468	836,464
Deferred income tax	129,080	119,510
Other current assets	173,058	189,920
Total current assets	3,863,456	2,489,789
Property, net	7,691,669	7,436,430
Leachable material	630,674	512,718
Intangible assets, net	125,246	123,554
Related parties receivable	161,244	161,244
Deferred income tax	605,241	553,948
Equity method investment	68,872	66,723
Other assets	202,217	182,336
Total assets	\$ 13,348,619	\$ 11,526,742
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	\$ 200,000	\$ 200,000
Accounts payable (including related parties 2015 -\$31,870 and 2014 - \$69,083)	548,851	549,667
Accrued income taxes	42,511	80,101
Deferred income taxes	13,360	13,360
Accrued workers participation	88,015	198,009
Accrued interest	85,030	70,824
Other accrued liabilities	37,741	38,944
Total current liabilities	1,015,508	1,150,905
Long-term debt	5,952,219	3,980,863
Deferred income taxes	384,606	385,545
Other liabilities and reserves	41,479	56,697
Asset retirement obligation	113,087	116,133
Total non-current liabilities	6,491,391	4,539,238
Commitments and contingencies (Note 11)		
STOCKHOLDERS EQUITY		
Common stock	8,846	8,846

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Additional paid-in capital	3,342,515	3,344,669
Retained earnings	4,763,671	4,346,818
Accumulated other comprehensive income	4,813	4,813
Treasury stock, at cost, common shares	(2,312,401)	(1,900,686)
Total Southern Copper Corporation stockholders' equity	5,807,444	5,804,460
Non-controlling interest	34,276	32,139
Total equity	5,841,720	5,836,599
Total liabilities and equity	\$ 13,348,619	\$ 11,526,742

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

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Southern Copper Corporation

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
(in thousands)				
OPERATING ACTIVITIES				
Net income	\$ 296,013	\$ 338,382	\$ 579,700	\$ 662,979
Adjustments to reconcile net income to net cash provided from operating activities:				
Depreciation, amortization and depletion	125,302	116,091	242,265	226,544
Equity earnings of affiliate, net of dividends received	(1,658)	(3,583)	(2,148)	(6,997)
Loss (gain) on currency translation effect	(8,285)	(119)	(19,238)	(5,807)
(Benefit) provision for deferred income taxes	(40,212)	27,498	(64,910)	(56,822)
Other, net	723	279	1,295	552
Change in operating assets and liabilities:				
Decrease (increase) in accounts receivable	20,076	(39,843)	59,126	(49,917)
Decrease (increase) in inventories	(53,261)	(58,684)	(107,960)	(160,745)
(Decrease) increase in accounts payable and accrued liabilities	53,343	(27,234)	(149,304)	42,079
Decrease (increase) in other operating assets and liabilities	(57,291)	(19,268)	(5,637)	29,888
Net cash provided by operating activities	334,750	333,519	533,189	681,754
INVESTING ACTIVITIES				
Capital investments	(284,937)	(360,106)	(507,740)	(697,034)
Proceeds from (purchase of) short-term investments, net	(489,533)	(16,873)	(234,764)	(81,615)
Sale of property	2,956	4,587	2,956	4,881
Net cash used in investing activities	(771,514)	(372,392)	(739,548)	(773,768)
FINANCING ACTIVITIES				
Proceeds from issuance of debt	1,995,790		2,045,790	
Repayments of debt	(66,000)		(66,000)	
Payments of debt issuance costs	(9,729)		(9,729)	
Cash dividends paid to common stockholders	(79,804)	(83,346)	(160,290)	(183,372)
Distributions to non-controlling interest	(217)	(197)	(412)	(499)
Repurchase of common shares	(44,461)	(13,030)	(414,565)	(65,509)
Other	322	249	322	249
Net cash provided by (used in) financing activities	1,795,901	(96,324)	1,395,116	(249,131)
Effect of exchange rate changes on cash and cash equivalents	21,068	(2,540)	19,616	3,814
Increase (decrease) in cash and cash equivalents	1,380,205	(137,737)	1,208,373	(337,331)

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Cash and cash equivalents, at beginning of period		192,138		1,473,101		363,970		1,672,695
Cash and cash equivalents, at end of period	\$	1,572,343	\$	1,335,364	\$	1,572,343	\$	1,335,364

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, 2015, Grupo Mexico through its wholly-owned subsidiary Americas Mining Corporation (AMC) owned 86.1% 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 the Company, 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, 2015 and the results of operations, comprehensive income and cash flows for the three and six months ended June 30, 2015 and 2014. The results of operations for the three and six months ended June 30, 2015 and 2014 are not necessarily indicative of the results to be expected for the full year. The December 31, 2014 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 (GAAP). The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements at December 31, 2014 and notes included in the Company 's 2014 annual report on Form 10-K.

NOTE 2 CHANGE IN ACCOUNTING PRINCIPLE:

In April 2015, the FASB (Financial Accounting Standards Board) issued ASU 2015-03: *Interest Imputation of interest* as an amendment of ASC 835-30, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with the treatment of a debt discount. The Company implemented this ASU in the second quarter of 2015 as permitted via early adoption and it is applied on a retrospective basis. As a consequence, the December 31, 2014 balance sheet has been modified to reflect this presentation.

This change in accounting principle will result in a more transparent presentation of debt since debt issuance costs are similar to debt discounts and in effect reduce the proceeds of borrowings as well as impact the effective interest rate on the related debt.

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	Face amount	Issuance discount	Issuance costs	Carrying value as of June 30, 2015
6.375% Senior unsecured notes due 2015	\$ 200	\$ (0.1)	(*)	\$ 199.9
7.500% Senior unsecured notes due 2035	1,000	(14.0)		